AS A BANK WE ARE GOOD WITH **money**

BUT IT'S BIGGER THAN THAT. WE ARE MORE INTERESTED IN THE GOOD THAT MONEY CAN DO.

WE CARE ABOUT PEOPLE AND WHAT THEY CARE ABOUT.

PEOPLE SHOULD BE TREATED FAIRLY AND DECENTLY NO MATTER THEIR CIRCUMSTANCES.

WE KNOW PEOPLE WITH A **PURPOSE** MAKE GREAT THINGS HAPPEN

COMMUNITY

IS AS IMPORTANT TO US AS IT IS TO ITS MEMBERS.

WE STRIVE TO CREATE AND **SHARE VALUE**

WITH EVERYONE CONNECTED WITH OUR BUSINESS.

WE WEIGH ALL OF OUR DECISIONS BECAUSE THEY AFFECT THE **FUTURE** WE HELP TO CREATE.

OUR ACTIONS DEFINE US MORE THAN OUR WORDS WILL.

Bendigo and Adelaide Bank

ANNUAL FINANCIAL REPORT 2015

Bendigo and Adelaide Bank Group
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Directors' Report

The Directors of Bendigo and Adelaide Bank Limited present their report together with the financial report of Bendigo and Adelaide Bank Limited (the "Bank") and the Consolidated Entity (the "Group") for the year ended 30 June 2015.

Directors' Information

The names and details of the Directors in office during the financial year and as at the date of this report are as follows.

Robert Johanson, Chair, Independent
BA, LLM (Melb), MBA (Harvard), 64 years

Term of office: Robert has been a Director of the Bank for 27 years. He was appointed Chairman in 2006.

Skills, experience and expertise: Robert has experience in banking and financial services and expertise in corporate strategy, capital management, risk management and mergers and acquisitions. He has over 30 years' experience in providing corporate advice on capital market transactions to a wide range of public and private companies.

Board committees: Governance & HR, Risk (from January 2015) and Technology & Change

Group and joint venture directorships: Rural Bank Ltd and Homesafe Solutions Pty Ltd (Chair)

Other director and memberships (including directorships of other listed companies for the previous 3 years):
Deputy Chancellor, University of Melbourne
Chairman, Australia India Institute and Chairman of The Conversation
Director, Robert Salzer Foundation Ltd, Grant Samuel Group Pty Ltd.

Mike Hirst, Managing Director, not independent
BCom (Melb), SFin, 57 years

Term of office: Mike was appointed as Managing Director and Chief Executive Officer of the Bank in 2009.

Skills, experience and expertise: Mike joined the Group when he was appointed as a Director of Sandhurst Trustees Limited (a wealth management subsidiary of the Bank) in 2001 and he became an employee of the Bank later in 2001. Mike has extensive experience in banking, treasury, funds management and financial markets, including previous senior executive and management positions with Colonial Ltd, Chase AMP Bank Ltd and Westpac Banking Corporation.

Board committees: Mike has a standing invitation to attend meetings of all Board committees. He is not a member of these Board committees.

Group and joint venture directorships: Rural Bank Ltd

Other director and memberships (including directorships of other listed companies for the previous 3 years):
Member, Business Council of Australia
Deputy Chairman, Australian Bankers' Association Council
Member, Centre for Workplace Leadership Advisory Board, Skilling the Bay and GROW21 Advisory Boards.

Jim Hazel, Independent
BEc, SFFin, FAICD, 64 years

Term of office: Jim joined the Board in March 2010.

Skills, experience and expertise: Jim is a professional public company Director who has had an extensive career in banking and finance, including in the regional banking industry. Jim was Chief General Manager at Adelaide Bank (his employment ended in 1999).

Board committees: Risk (Chair), Credit, Technology & Change (from January 2015), and Governance & HR (ceased January 2015)

Group and joint venture directorships: Rural Bank Ltd

Other director and memberships (including directorships of other listed companies for the previous 3 years):
Chairman, Ingenia Communities Group Ltd (ASX listed, period: June 2012 to present)
Director, Centrex Metals Ltd (ASX listed, period: 2010 to present), Impedimed Ltd (ASX listed, period: 2007 to present), Adelaide Football Club Limited, Motor Accident Commission, Coopers Brewery Ltd and
Council Member of the University of South Australia.

Jacqueline Hey, Independent
BCom (Melb), Graduate Certificate in Management (Southern Cross University), GAICD, 49 years

Term of office: Jacquie joined the Board in July 2011.

Skills, experience and expertise: Jacquie has experience in information technology, telecommunications and marketing, including as CEO/Managing Director of Ericsson in the UK and in Australia. Jacquie worked with Ericsson for more than 20 years in finance, marketing and sales and in leadership roles in Australia, Sweden, the UK and the Middle East.

Board committees: Audit, Risk (ceased January 2015), Governance & HR (from January 2015) and Technology & Change (Chair)

Group and joint venture directorships: n/a

Other director and memberships (including directorships of other listed companies for the previous 3 years):
Director, Qantas Airways Limited (ASX listed, period: August 2013 to present), Australian Foundation Investment Company Limited (ASX listed, period: July 2013 to present), Special Broadcasting Service (SBS), Cricket Australia, Melbourne Business School and Honorary Consul of Sweden for Victoria.

Robert Hubbard, Independent
BA(Hons) Accy, FCA, MAICD, 56 years

Term of Office: Rob joined the Board in April 2013.

Skills, experience and expertise: Rob is an accountant and auditor based in Brisbane. He retired as a Partner of PricewaterhouseCoopers in March 2013 after 22 years practising in the areas of corporate advice and audit, where he was the auditor of some of Australia's largest listed companies. Rob also provided accounting and due diligence services for acquisitions, divestments, capital raisings and public takeovers. Rob is now a professional Non-executive Director.

Board committees: Audit (Chair), Risk

Group and joint venture directorships: n/a

Other director and memberships (including directorships of other listed companies for the previous 3 years):
Director, Orocobre Ltd (ASX and TSX listed, period: November 2012 to present), Central Petroleum Ltd (ASX listed, period: December 2013 to present), Primary Health Care Ltd (ASX listed, period: December 2014 to present).
Chairman of Opera Queensland, Director of JK Tech Pty Ltd, MS Research Australia and Council member of the University of the Sunshine Coast.

David Matthews, Independent
Dip BIT, GAICD, 57 years

Term of office: David joined the Board in March 2010.

Skills, experience and expertise: David has experience in small business and agribusiness. David has involvement in a number of agricultural industry bodies including as a Director and Vice Chairman of Pulse Australia and as a former Director of Australian Field Crops Association. David has a strong connection to regional communities and is an advocate and supporter of the **Community Bank®** model. He chaired the first **Community Bank®** company in Rupanyup and Minyip when it was first established in 1998.

Board committees: Credit, Audit

Group and joint venture directorships: Rural Bank Ltd
Former Co-Chair and current member of the **Community Bank®** Strategic Advisory Board.

Other director and memberships (including directorships of other listed companies for the previous 3 years):
Director, Pulse Australia, Rupanyup/Minyip Finance Group Ltd.

Deb Radford, Independent
B.Ec, Graduate Diploma Finance & Investment, 59 years
Note: Standing for re-election at the 2015 AGM

Term of office: Deb joined the Board in February 2006.

Skills, experience and expertise: Deb has over 20 years' experience in the banking industry with both international and local banks. Deb also worked in the Victorian State Treasury, and ran her own consulting business between 2001 and 2007 advising the government on commercial transactions.

Board committees: Credit (Chair), Technology & Change, Governance & HR

Group and joint venture directorships: n/a

Other director and memberships (including directorships of other listed companies for the previous 3 years):
Director, SMS Management & Technology Ltd (ASX listed, period: September 2013 to present)
Council Member of La Trobe University.

Tony Robinson, Independent
B Com (Melb), ASA, MBA (Melb), 57 years
Note: Standing for re-election at the 2015 AGM

Term of office: Tony joined the Board in April 2006.

Skills, experience and expertise: Tony has many years' experience in financial services, particularly wealth management and insurance. Tony's previous roles include Managing Director of Centrepoint Alliance Limited, Chief Executive Officer of IOOF Holdings Ltd, Managing Director of OAMPS Limited, joint Managing Director of Falkiners Stockbroking, Managing Director of WealthPoint, and senior executive positions at Link Telecommunications and Mayne Nickless.

Board committees: Risk, Governance & HR (Chair) and Audit (from January 2015)

Group and joint venture directorships: Sandhurst Trustees Limited

Other director and memberships (including directorships of other listed companies for the previous 3 years):
Executive Director, Oncard International Limited (ASX listed, period: June 2014 to present)
Director, Treasury Group Limited (ASX listed, period: August 2015 to present) and Investors Mutual Limited
Former Director, Centrepoint Alliance Limited (ASX listed, period: 2009 to 2013).

Former Director
Jenny Dawson, Independent
B Bus (Acc), FCA, MAICD, 50 years

Term of office: Jenny joined the Board in 1999 and retired from the Board in October 2014.

Skills, experience and expertise: Jenny has experience in financial reporting and audit, IT internal control reviews, internal audit and risk management. Jenny worked with Arthur Andersen for ten years in the audit and IT controls division, and also worked for the Bank (her employment ended in 1999).

Board committees: Audit (Chair), Credit

Group and joint venture directorships: Sandhurst Trustees Ltd (Chair), Community Sector Banking Pty Ltd, Community Sector Enterprises Pty Ltd

Other director and memberships (including directorships of other listed companies for the previous 3 years):
Member, Victorian Regional Policy Advisory Committee
Chair, Regional Development Australia Committee for the Loddon Mallee Region
Independent Chair, Audit Committee - Goulburn-Murray Water.

Principal activities

The principal activities of the Group during the financial year were the provision of a broad range of banking and other financial services including consumer, residential, business and commercial lending, deposit-taking, payments services, wealth management, funds management and superannuation, treasury and foreign exchange services. The Group conducts its activities predominantly in Australia. There was no significant change in the nature of the activities during the year.

Operating results

The consolidated profit after providing for income tax of the Group amounted to $423.9 million, an increase of 13.9% on the 2014 result of $372.3 million.

The Group maintained its approach to disciplined margin management and balance sheet growth which was evident in the profit result and overall credit performance.

The Group's operating income grew by $106.3 million (7.4%) which includes a $59.4 million increase in net interest income and a $46.9 million increase in non-interest income, $13.1 million of which came from Homesafe. The increase in net interest income was mainly due to a 7.2% increase in average interest earning assets. This was offset to a degree by a 4 basis point decrease in net interest margin for the year.

The underlying cash earnings were $432.4 million, a 13.1% increase on the previous financial year. Cash earnings per share were 95.1 cents, a 3.9% increase on the previous year.

Operating expenses increased by $66.9 million (8.1%). The main increases related to staff costs ($29.1 million), occupancy costs ($9.7 million), information and technology costs ($3.4 million) and other administrative expenses ($6.7 million).

The increases were largely driven by contractual wage and salary adjustments, the acquisition of Rural Finance, the rental for the new Adelaide premises and increases in software maintenance and information technology leasing costs.

The bad and doubtful debt expense decreased by $13.6 million (16.6%) to $68.3 million for the financial year.

Balance sheet growth was stable with total assets increasing by $965.9 million (1.5%) and total liabilities increasing by $990.7 million (1.6%).

Gross loans and other receivables increased by $2.6 billion (4.9%) primarily driven by growth in residential lending of $1.4 billion (4.0%) and growth in commercial and business lending of $1.4 billion (11.6%). This growth was offset by declines in the consumer and margin lending portfolios.

The provisions for credit impairment increased by $27.2 million (9.2%), mainly driven by an increase in the collective provision for the Great Southern loan portfolio and General Reserve for Credit Losses.

Growth in customer deposits of $1.2 billion (2.2%) comprised growth in retail deposits of $1.4 billion (3.1%) and a decrease of $233.8 million in wholesale deposits.

During the year the Group also took a number of significant steps to strengthen its capital base and funding capacity. This included two successful preference share issues which raised a total of approximately $574 million of new Tier 1 hybrid capital under the Australian Prudential Regulation Authority (APRA) Basel III capital adequacy framework.

Information on dividends paid and declared is presented on the following page. Further details on the Group's operating results are contained in the Operating and Financial Review section of this report.

Dividends

The Directors announced on 10 August 2015 a fully franked final dividend of 33 cents per fully paid ordinary share. The final dividend is payable 30 September 2015. The proposed payment is expected to amount to $148.3 million.

The following fully franked dividends were paid by the Bank during the year on fully paid ordinary shares:

- A final dividend for the 2014 financial year of 33 cents per share, paid on 30 September 2014 (amount paid: $146.5 million); and
- An interim dividend for the 2015 financial year of 33 cents per share, paid on 31 March 2015 (amount paid: $147.6 million).

Further details on the dividends provided for or paid during the 2015 financial year on the Bank's ordinary and preference shares are provided at Note 7 Dividends of the Financial Statements.

Review of operations

An analysis of the Group's operations for the financial year and the results of those operations, including the financial position, business priorities and prospects, is presented in the Operating and Financial Review section of this report.

State of affairs

In the opinion of the Directors there have been no significant changes in the state of affairs of the Group during the financial year. Information on events and matters that affected the Group's state of affairs is presented in the Operating and Financial Review section of this report.

After balance date events

The Bank declared a final dividend of 33 cents per ordinary share on 10 August 2015.

The Directors are not aware of any other matter or circumstance which arose since the end of the financial year to the date of this report 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 subsequent financial years.

Future developments

Disclosure of information relating to major developments in the operations of the Group and the expected results of those operations in future financial years, which, in the opinion of the Directors, will not unreasonably prejudice the interests of the Group, is included in the Operating and Financial Review section of this report.

Rounding of amounts

Pursuant to Australian Securities & Investments Commission Class Order 98/100 (as amended) and pursuant to section 341 (1) of the *Corporations Act 2001*, the amounts in this report, unless otherwise indicated, have been rounded to the nearest million dollars. The Bank is an entity to which the Class Order applies.

Meetings of Directors

Information on Board and committee meeting attendance for the year is presented in the following table:

Director	Board		Committees: Audit		Committees: Credit		Committees: Risk		Committees: Governance & HR		Committees: Technology & Change	
	A	B	A	B	A	B	A	B	A	B	A	B
Robert Johanson	16	15					3	3	5	4	5	5
Jenny Dawson [1]	6	6	3	3	1	1						
Jim Hazel	16	15			4	4	6	6	3	3	2	2
Jacquie Hey	16	16	8	8			3	3	2	2	5	5
Mike Hirst	16	16										
Robert Hubbard	16	16	8	8			6	6				
David Matthews	16	16	8	8	4	4						
Deb Radford	16	16			4	4			5	5	5	5
Tony Robinson	16	16	2	2			6	6	5	5		

A = Number eligible to attend **B** = Number attended [1] Ms Dawson retired from the Board in October 2014.

Also, during the year there were seven additional meetings relating to the Basel II Advanced Accreditation project.

Directors' Interests in Equity

The relevant interest of each Director in shares in the Bank and in units of registered schemes made available by a related body corporate at the date of this report is as follows:

Director	Ordinary shares No.	Preference Shares No.	Performance Rights No.	Sandhurst IML Industrial Share Fund (Units) [2]	Bendigo Growth Wholesale / Index Fund (Units) [2]
Robert Johanson	217,405	-	-	85,949	135,250
Mike Hirst [1]	740,970	-	152,438	-	-
Jim Hazel	17,922	-	-	-	-
Jacquie Hey	9,450	250	-	-	-
Robert Hubbard	5,192	-	-	-	-
David Matthews	22,114	-	-	-	-
Deb Radford	1,900	3,190	-	-	-
Tony Robinson	23,192	-	-	-	-

[1] Ordinary shares includes 50,000 shares issued under the Bendigo Employee Share Ownership Plan and deferred shares issued under the Salary Sacrifice, Deferred Share and Performance Share Plan.

[2] Relevant interests in managed investment schemes made available by Sandhurst Trustees Ltd, a subsidiary of the Bank.

Except for the interests disclosed in the above table, there are no contracts to which the Director is a party, or under which they are entitled to a benefit, or which confer a right to call for or deliver shares in, debentures of, or interests in, any registered managed investment scheme made available by the Group.

The Directors have disclosed interests in organisations not related to the Group and accordingly are regarded as having an interest in any contract or proposed contract that may be made between the Bank and any of the specified external organisations.

Share Options and Rights

Details of rights issued over ordinary shares and shares allocated as a result of the exercise of rights granted during the financial year and to the date of this report are detailed in the 2015 Remuneration Report.

Performance rights ("rights") to ordinary shares in the Bank are issued by the Bank under the salary sacrifice, deferred share and performance share plan ("Plan"). Each right represents an entitlement to one fully paid ordinary share in the Bank.

During or since the end of the financial year the Bank granted 311,222 rights (2014: 148,090). This includes 258,298 rights granted to key management personnel.

There have been no grants of rights to Non-executive Directors.

As at the date of this report there are 641,867 rights that are exercisable or may become exercisable at a future date under the Plan. The last date for the exercise of the rights ranges between 30 June 2016 and 30 June 2018.

During or since the end of the financial year 5,278 rights vested (2014: 228,955) and no new fully paid ordinary shares have been issued by the Bank during or since the end of the financial year as a result of rights being exercised.

For the period 1 July 2015 to the date of this report, no rights have lapsed.

There were no options over unissued ordinary shares at the start of the financial year and no options to acquire ordinary shares in the Bank were issued during or since the end of the financial year.

Corporate Governance

An overview of the Bank's corporate governance structures and practices is presented in the 2015 Corporate Governance Statement.

The Bank has adopted the 3rd edition of the ASX Corporate Governance Council's Principles and Recommendations and elected to publish the Corporate Governance Statement on the Bank's website at www.bendigoadelaide.com.au/public/corporate_governance/index.asp

Environmental Regulation

The Group endeavours to conduct its operations in a manner that minimises its impact on the environment. Information on the Group's environmental performance and activities to manage the Group's environmental impact are provided in the 2015 Annual Review which is available from the Group's website.

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements.

The Group is not subject to the Federal Government's National Greenhouse and Energy Reporting (NGER) Scheme which requires controlling corporations to report annually on greenhouse gas emissions, energy production and energy consumption, if they exceed certain threshold levels. Whilst not required to report under the Scheme, the Group does measure and monitor all greenhouse gas emissions relevant to the NGER Act and voluntarily reports on these emissions.

Indemnification of Officers

The Bank's Constitution (Rule 105) provides that the Bank is to indemnify, to the extent permitted by law, each officer of the Bank against liabilities (including costs, charges, losses, damages, expenses, penalties and liabilities of any kind including, in particular, legal costs incurred in defending any proceedings or appearing before any court, tribunal, government authority or other body) incurred by an officer in or arising out of the conduct of the business of the Bank or arising out of the discharge of the officer's duties.

As provided under the Bank's Constitution, the Bank has entered into deeds providing for indemnity, insurance and access to documents for each of its current Directors and former Directors. The Bank has also entered into deeds providing for indemnity and insurance for each Executive Committee member and the Company Secretary as well as deeds providing for indemnity, insurance and access to documents for each Director who held office of a subsidiary company during the year.

The deeds require the Bank to indemnify, to the extent permitted by law, the officers for all liabilities (including costs, charges, losses, damages, expenses, penalties and liabilities of any kind) incurred in their capacity as an officer of the relevant company.

Indemnification of Auditor

To the extent permitted by law and professional regulations, the Bank has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against all claims by third parties and resulting liabilities, losses, damages, costs and expenses (including reasonable external legal costs) arising from the audit engagement including any negligent, wrongful or wilful act or omission by the Bank. The indemnity does not apply to any loss resulting from Ernst & Young's negligent, wrongful or wilful acts or omissions. No payment has been made to indemnify Ernst & Young during or since the financial year end.

Insurance of Directors and Officers

During or since the financial year end, the Bank has paid premiums to insure certain officers of the Bank and its related bodies corporate. The officers of the Bank covered by the insurance policy include the Directors, the Company Secretary and Directors or Company Secretaries of controlled entities who are not also Directors or Company Secretaries of the Bank. The insurance does not provide cover for the external auditor of the Bank or related bodies corporate of the Bank. Disclosure of the nature of the liability and the amount of the premium is prohibited by the confidentiality clause of the contract of insurance.

Company Secretary

William Conlan, LL.B (Melb), GradDip Applied Finance and Investment

Mr Conlan was appointed as Company Secretary of the Bank in 2011, having worked with the Bank for almost 10 years in strategy, capital management and compliance. Mr Conlan is a practising lawyer and, prior to commencing employment with the Bank, worked as a lawyer in Melbourne.

Declaration by Chief Executive Officer and Chief Financial Officer

The Managing Director and Chief Financial Officer have provided the required declarations to the Board in accordance with section 295A of the *Corporations Act 2001* and recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations in relation to the financial records and financial statements.

The Managing Director and Chief Financial Officer also provided declarations to the Board, consistent with the declarations under section 295A of the *Corporations Act 2001* and recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations, in relation to the financial statements for the half year ended 31 December 2014.

To support the declaration a formal due diligence and verification process, including attestations from senior management, is conducted. This assurance is provided each six months in conjunction with the Bank's half year and full year financial reporting obligations. The statements are made on the basis that they provide a reasonable but not absolute level of assurance and do not imply a guarantee against adverse circumstances that may arise in future periods.

Auditor Independence and Non-audit Services

The Audit Committee has conducted an assessment of the independence of the external auditor for the year ended 30 June 2015.

The assessment was conducted on the basis of the Bank's audit independence policy and the requirements of the *Corporations Act 2001*. The assessment included a review of non-audit services provided by the auditor and an assessment of the independence declaration issued by the external auditor for the year ended 30 June 2015. A copy of the auditor's independence declaration is presented on the following page.

Non-Audit Services

Non-audit services are those services paid or payable to the Group's external auditor, Ernst & Young (Australia), which do not relate to Group statutory audit engagements.

In its capacity as the Group's external auditor, Ernst & Young is periodically engaged to provide assurance services to the Group in accordance with Australian Auditing Standards.

All assignments are subject to engagement letters in accordance with Australian Auditing Standards. They include audit services required for regulatory and prudential purposes and the amounts shown are GST exclusive.

Details of all non-audit services for the year ended 30 June 2015:

a. Audit related fees (Regulatory)

Service Category	Fees $	Entity
AFSL audits, APS 310 and APS 910 audits	210,655	Bendigo and Adelaide Bank Limited
Comfort Letter – Euro Medium Term Note Program	30,702	Bendigo and Adelaide Bank Limited
AFSL audit, APS 310 and APS 910 audits	72,348	Rural Bank Limited
Sub-total: Audit related fees (Regulatory)	**313,705**	

b. Audit related fees (Non-regulatory)

In its capacity as the Group's external auditor, Ernst & Young is periodically engaged to provide assurance and related services not required by statute or regulation but are reasonably related to the performance of the audit or review of the Group's financial statements which are traditionally performed by the external auditor. The amounts shown are GST exclusive.

Service Category	Fees $	Entity
Basel II advanced accreditation program	367,200	Bendigo and Adelaide Bank Limited
Convertible Preference Shares	163,200	Bendigo and Adelaide Bank Limited
Securitisation Trusts	164,433	Securitisation Trusts
Sub-total: Audit related fees (Non-regulatory)	**694,833**	

c. Non-audit related fees

Service Category	Fees $	Entity
Tax advice	2,000	Bendigo and Adelaide Bank Limited
Sub-total: Non-audit related fees	**2,000**	
Total: Non-audit services	**1,010,538**	

The Audit Committee has reviewed the nature and scope of the above non-audit services provided by the external auditor. In doing so, the Audit Committee has confirmed that the provision of those services is consistent with the audit independence policy and compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. This confirmation was provided to, and accepted by, the full Board.

This assessment was made on the basis that the non-audit services performed did not represent the performance of management functions or the making of management decisions, nor were the dollar amounts of the non-audit fees considered sufficient to impair the external auditor's independence.

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Building a better working world

Auditor's Independence Declaration to the Directors of Bendigo and Adelaide Bank Limited

In relation to our audit of the financial report of Bendigo and Adelaide Bank Limited for the financial year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

J W MacDonald
Partner
Melbourne
1 September 2015

Operating and Financial Review

Overview

The Group operates predominantly in Australia and is a community focused retail bank that commenced operations in 1858. Our major headquarters are in Bendigo, Adelaide and Melbourne. We have in the order of 7,200 staff and operate a national network of more than 520 branches (Company-owned, **Community Bank®** and Alliance Bank) and 105 customer service agencies. Our customers also have access to a network of more than 1,700 ATMs.

Our Business Model

We provide our broad range of banking and financial products and services primarily to retail customers and small to medium sized businesses through four specific customer-facing divisions comprising Retail Banking, Third Party Banking, Wealth and Rural Banking.

Our major business activity is raising funds through customer deposits and wholesale funding markets and lending those funds to our customers. We also earn revenue through our wealth management business.

This drives net interest income (i.e. interest received from residential, commercial, consumer and business lending less interest paid on deposits and other funding sources) from our Retail, Third Party and Rural Banking businesses. We also receive fee income for the provision of banking and other financial services.

Retail Banking

Retail Banking, operating under the 'Bendigo Bank' and 'Delphi Bank' brands, provides a full suite of traditional retail banking, wealth and risk management services to retail customers via our national branch network, including the **Community Bank®** network, call centres, agencies and on-line banking services.

Community Bank® is a franchise model with a locally owned public company owning the rights to operate a Bendigo Bank branch. The Bank supplies all banking and back office services while the community company operates the retail outlet.

The Bank shares the revenue with the **Community Bank®** branch network, enabling communities to earn revenue from their own banking and channel this revenue back into community enterprise and development.

Third Party Banking

Third Party Banking, operating under the 'Adelaide Bank' and 'Alliance Bank' brands distributes residential mortgages, commercial and consumer finance through intermediaries, including mortgage managers and brokers. It also includes Homesafe and our portfolio funding business which provides wholesale funding to third party financiers in the commercial and consumer finance sector.

Rural Banking

Rural Banking comprises Rural Bank and Rural Finance. Rural Bank is a wholly-owned subsidiary with a separate banking licence. Rural Bank and Rural Finance provide specialised banking products and services to primary producers and agribusiness participants. The products and services are available at regional locations nationally including Bendigo Bank branches, Rural Finance offices across Victoria, Elders Rural Services branches and a metropolitan investment centre based in Adelaide.

Wealth

Bendigo Wealth is our wealth management division that provides margin lending, superannuation, managed investment schemes, traditional trustee and financial planning products and services through our subsidiary companies Sandhurst Trustees, Leveraged Equities and Bendigo Financial Planning.

Our vision, strategy, purpose and values

Our vision is to be Australia's most customer connected bank and our strategy is focused on the success of our customers, people, partners and communities. We do this by:

a. Taking a 100 year view of the business - by making decisions to generate long term value;
b. Listening and responding - listening to what it is our customers and partners want to achieve helps us to tailor products and services to meet their needs;
c. Respecting every customer's choice, needs and objectives – we look to put our customers in control of how they want to deal with us;
d. Partnering for shared success - we believe our success comes from our focus on the success of others; and
e. Having a clear purpose that is supported by our values - we have described our Purpose (which appears on the front cover) which defines why we are here, what we believe in as an organisation and why we do and say the things we do.

Our Purpose underpins our strategy and day to day operations.

Supporting our vision, strategy and purpose are our corporate values. The values form part of our Code of Conduct and guide our behaviour and interactions with customers, suppliers, shareholders and communities. Information on our Purpose and Values is available from our website.

Key highlights and developments

The 2015 financial year was a challenging year with high levels of competition, subdued consumer and business confidence coupled with a low interest rate and low growth environment.

The Bank announced an after tax statutory profit of $423.9 million for the year ending 30 June 2015 which represents an increase of 13.9% on the previous year. The underlying cash earnings were $432.4 million, a 13.1% increase on the previous financial year. Cash earnings per share were 95.1 cents, a 3.9% increase on the previous year.

A final fully franked dividend of 33 cents per share was declared, which lifted the full-year dividend by 2 cents to 66 cents per share. Further information regarding our financial performance is presented in the Group Performance Highlights section of this report.

We maintained our disciplined approach to margin and cost management and our balance sheet growth. Whilst demand for housing lending has been solid, our customers have taken advantage of the low interest rate environment by repaying their loans ahead of schedule which has impacted the overall growth in our loan portfolios.

Unequal capital rules that favoured the major banks also held back our ability to grow our loan portfolios, particularly residential mortgages. In July 2015, however, APRA introduced new capital rules which are aimed at addressing the unequal capital treatment for residential mortgages, which is a good outcome for customers seeking greater choice in banking service providers.

Net interest margin contracted slightly, by four basis points, reflecting the impact of the cash rate reductions throughout the year, combined with the highly competitive, low interest rate environment.

We have strengthened our balance sheet with a strong Basel III compliant liquidity position and capital raising activities. Our Basel III Common Equity Tier 1 ratio increased by 15 basis points to 8.17% for the year and our total capital ratio increased 118 basis points to 12.57%.

We are committed to investing for the future by expanding the organisation's overall capacity, delivering innovative solutions as well as improving the skills and knowledge of our staff.

The operating environment is evolving at a rapid pace. During the year, we introduced new business and partner models, most notably Rural Finance and the Alliance Bank model.

We continue to invest in information technology and digital systems to better connect with our customers and to respond to their changing behaviours and requirements. In particular, we have invested in systems and models to meet the requirements of advanced accreditation. We also announced a number of market-leading technologies during the year.

These include a new mobile banking platform, some new customer payments platforms as well as improvements to our risk management and data management systems which have come online and which will help us to connect in a more targeted and relevant way with our customers. Much of this development is being undertaken through partnering models with technology companies rather than through developing the new technologies ourselves.

Enhancing our unique and valued customer proposition

The Group's unique value proposition is well recognised by our customers. We maintained our leading position, ahead of the major banks, in customer satisfaction and advocacy.

This year we were ranked the number one ASX listed bank for retail and business customer satisfaction and our Bendigo SmartStart Super® has been awarded a 5-star rating for outstanding value for two consecutive years.

In July 2014, the Bank was named one of Australia's Most Trusted Brands in the annual Reader's Digest awards. The Bank was highly commended in the finance category, following up its wins of 2010 and 2011. The recognition reflects on the quality of our staff and their focus on producing the best outcomes for customers.

The Bank was also named Australia's most recommended by its customers who participated in the latest Roy Morgan research. Almost two-thirds of the Bank's customers (63.2%) said they would recommend the Bank to friends and colleagues. The results indicate the Bank's customers are 'High Advocates' which means they rated Bendigo Bank an 8, 9 or 10 out of 10.

In October 2014, the Bank was recognised with inclusion in the 2014 BRW Innovative Company list. The Bank's subsidiary Community Telco Australia (CTA) was cited for its unique **redy** mobile payment system that enables users to donate loyalty credits to community causes.

The **redy** mobile payments system also notched up an international award for mobile innovation. It was named the "most innovative and creative way to benefit its customers" by leading enterprise mobility management provider AirWatch.

In February 2015, the Bank was named Business Bank of the Year at the Roy Morgan Research's Customer Satisfaction Awards for the fourth year in a row. This accolade follows the Bank taking out the inaugural award in 2011, being named top Business Bank for 2012, 2013 and now 2014. The award is a reflection of our investment in our people, services and digital innovations, including our brand new real-time banking advice app, 'miBanker'.

In April 2015, the Bank took top spot among Australia's financial institutions on the Corporate Reputation Index. The Bank ranked seventh overall out of 60 companies, ahead of our financial services competitors. The index measured reputation across seven dimensions; products and services, innovation, leadership, performance, governance, citizenship and workplace.

Investing in our staff and culture

Staff wellbeing, safety, development and training is a key focus for the Bank as our staff are our most valuable resource. The investment in our staff is substantial and we are committed to supporting our staff with opportunities and tools to develop and improve their skills.

We believe this support contributes greatly to our staff engagement levels which are above the Australian high-performance benchmark. There are significant advantages for an organisation that has engaged staff and the organisation will use these strengths to the best advantage.

This year we commenced a three year investment to partner with the South Australian Health and Medical Research Institute's Wellbeing and Resilience Centre to develop a national resilience program for our staff, their families and communities. The resilience and wellbeing program will help staff build their capacity to withstand, recover and grow in the face of increasing personal and professional challenges.

Enhancing our risk and compliance capability

We increased our investment in our risk management capability as part of the Basel II advanced accreditation program. This has included the development and implementation of new risk management models and systems, changes to business systems and platforms, policy improvements and staff training.

The development of these systems and models is now largely complete and our focus has moved to fully implementing and realising the benefits of this investment. This is a major investment that has significantly increased our risk management capability, and is improving how we can best meet our customers' needs.

Investing in innovation, systems and new technology

During the year we released more leading-edge customer focused technologies that make it easier for customers to do business with us and which directly respond to the needs of our customers. Improvements to our online banking platform have been well received by customers, and our newly-launched relationship tool for business banking customers, miBanker, has been nationally recognised for its innovation.

In September 2014, we launched a new mobile banking app which gives customers a unique take on anywhere - anytime banking. New fast-track functions include a four-digit PIN and the ability to make payments from the home screen, reducing logon times and making banking simple. An "activity" feed provides a clear list of all transactions, including credit transactions yet to hit the account, and secure messages, which can now be sent and received via a customer's smart phone.

In February 2015, we announced that business customers will have access to an Australian first in banking, a 24/7 business banking advice service that can be operated from the palm of their hands. The free miBanker app is a mobile relationship management tool designed to help the Bank's business customers grow and better manage their business. Some of the unique features of miBanker include:

- Daily updates from Australian and overseas stock markets;
- Latest business news throughout the day;
- Weekly economic updates from Bendigo Bank with information that matters to their business;
- Regular video tips on business strategies and marketing tools to help their business become more efficient and profitable;
- Invitations to events and seminars that are relevant to their business; and
- Access to their relationship manager and real time feedback on issues they say are important.

We have delivered the first phase of 'Opening Accounts Online'. Customers can now open accounts on their desktop, tablet and mobile devices. Our new 'Easy Saver' account was included in the online service in November 2014 with credit cards available from August 2015.

We will continue to focus on developing the strategies, platforms, tools and capabilities that will enable us to turn our customers' feedback, actions and behaviour into insights, information and new and innovative solutions.

Balance sheet strength

In October 2014, we completed a second issue of convertible preference shares which raised a total of approximately $292 million of new additional Tier 1 hybrid capital under APRA's Basel III capital adequacy framework. The proceeds were used to support balance sheet growth, to maintain strong capital levels and to fund the redemption of the Step-Up Preference Shares.

In December 2014, we announced the issue of $600 million of residential mortgage-backed securities under the Torrens Series securitisation program.

In June 2015, we successfully completed the latest issue of $500 million residential mortgage-backed securities under the Torrens securitisation program.

The transactions received strong support from investors and provided us with funding and capital benefits.

In June 2015, we also completed a further issue of convertible preference shares which raised a total of approximately $282 million of new additional Tier 1 hybrid capital under APRA's Basel III capital adequacy framework. The proceeds were again used to support balance sheet growth, maintain strong capital levels and to fund the redemption of Bendigo Preference Shares.

Other

In October 2014, the Bank announced it would become a shareholder in one of Australia's largest payments providers, Cuscal, as part of Cuscal's proposed acquisition of Strategic Payments Services Pty Ltd (SPS).

As part of the transaction the two former owners of SPS, Bendigo and Adelaide Bank and Mastercard, each acquired a ten percent stake in the new-look Cuscal. The merger affirmed Cuscal's standing as the only independent Authorised Deposit-Taking Institution (ADI) licensed wholesale payments company delivering banking capabilities and payments solutions across the entire spectrum of payments services.

In November 2014, the Bank announced the launch of a new banking model involving an alliance between a number of former credit unions (Alliance Partners) and the Bank. Under the model, the loans and deposits of the participating Alliance Partners were transferred to the Bank, while reserves remain 100% member-owned, and the Alliance members continue to be serviced by their local branch staff. The business transfer was successfully implemented on 2 March 2015 and resulted in $550 million of loans and $620 million in deposits being transferred to the Bank.

Alliance Partner members have access to new products and technology from the Bank, while the Alliance Partners retain pricing and loan approval discretions (within parameters approved by the Bank). The Bank also became the ADI, saving significant costs for its partners as the Bank assumes responsibility for compliance, systems and balance sheet management.

In December 2014, the Bank welcomed the decision of the Supreme Court of Victoria to approve the settlement reached with borrowers who invested in certain agricultural managed investment schemes run by Great Southern. The Supreme Court's approval of the Deed of Settlement brought the class actions involving the Bank to a close and in doing so described the case against the Bank as "fanciful".

Students starting their first year of undergraduate study in 2015 were eligible to apply for financial support under our university scholarship program to help ease the rising costs of university education. This support amounted to $1.4 million.

Scholarships are awarded based on academic achievement, community involvement and financial need. With the help of its subsidiaries and partners, the **Community Bank®** network, Rural Bank, Rural Finance, the University of Melbourne and La Trobe University, more than 90 students accepted a scholarship to support their first year of study and 90 returning students received a Bank scholarship for a second year.

Strategic goals and outlook

We anticipate that the operating environment for the coming year will again be very challenging given continued volatility in global economies and markets, subdued consumer and business sentiment and high level of market competition.

We expect that system growth and demand for credit will be below the levels experienced for the 2015 year and that customers will continue to deleverage by making additional principal repayments given the low interest rate environment and potential further tightening of credit standards driven by the regulatory authorities.

Low credit demand will again make growth in interest revenue challenging. Our loan approvals for the year were relatively solid and we believe we are well positioned for growth given our distinctive offering and unique market positioning, our investment in systems, customer service improvement, digital technologies and distribution network and our long history of trusted service.

An important focus will be to further understand the needs and aspirations of customers by developing our customer information and management platforms and by connecting with customers through social media forums and emerging technologies.

The level of uncertainty in wholesale funding markets should see competition for retail deposits remain high. This demand, combined with continued low absolute interest rates, is again expected to place pressure on interest margins, including our own.

We commenced the new financial year with a strong funding profile and capital position. Our retail deposit funding, in the order of 79% of our overall funding mix, places us in a sound position and we will access wholesale funding markets where it is economically sensible.

Opportunities

Our core focus on understanding the needs and objectives of our customers is unchanged. Customer behaviour and insight drives most of what we do and our Customer Voice division will coordinate our response to changing customer behaviour and expectations.

Increasing the level of business activity and engagement with customers will also be a major focus. This opportunity goes directly to our point of difference.

Our community and partner-based activities increase awareness of the benefits of our banking model and deepen our relationships with customers.

Making it easier for customers to do business with us will continue to be a key priority for the business. Through our Customer Service Improvement division we will continue to identify system and process changes to help address frustrations experienced by customers and make it simpler and easier for customers to bank with us.

We have introduced a new collaboration forum called 'miVoice' which we use to engage directly with customers on new ideas.

We are undertaking more surveys and analysis of our customer activity and behaviour to understand their financial needs, their motivation for dealing with us and the values that they are trying to support so that we can better reflect what our customers are trying to achieve.

We have the usual feedback channels in respect to complaints, compliments and suggestions, although we are applying a more rigorous data analysis approach to understanding this feedback and the real underlying issues to ensure we are improving our customer experience.

Other opportunities include:

Systems and efficiency gains

We are working to upgrade our core lending platforms with the first of these relating to our Third Party Mortgage business. This will eventually deliver a single consolidated consumer lending system right across the Bank with significant efficiencies and savings, and just as importantly, a more seamless and improved customer experience.

In addition, a new Business Process Management tool has been purchased to streamline and automate business processes and workflows.

Our Enterprise Architecture group is making inroads into developing future state roadmaps for our technology platforms. By reducing the complexity within our business systems and technology platforms we will become more agile and responsive to change.

Consolidation opportunities

The organisation has a good record of successfully acquiring businesses that add shareholder value. Over recent years we have completed a number of strategic transactions including the acquisition of Bank of Cyprus Australia (now called Delphi Bank), Community Telco Australia, Rural Bank, Rural Finance and the introduction of the Alliance Bank model. We will continue to assess opportunities that are presented during the coming year.

Looking forward

We believe we have a strong value proposition particularly given our balance sheet strength and the introduction of a more level playing field.

We will continue our investment phase focusing on our Basel II advanced accreditation program, consolidation opportunities and information technology. We will maintain our disciplined approach to margin management and look to realise the benefits from our risk management and information system investments.

More specifically we will:

- Further develop our understanding of the needs, aspirations and behaviours of customers by tapping into their 'Customer Voice' and translating this into increased business from a more engaged and connected customer base.
- Aim to achieve stronger growth in residential, business and agribusiness lending whilst maintaining our disciplined approach to balance sheet growth.
- Identify and invest in system and process improvements that improve our operational efficiency and the customer experience.
- Continue to realise the opportunities and benefits from our 'convergence strategy' that involves the amalgamation of banking, telecommunications and payment services.
- Further develop our wealth proposition with a specific emphasis on lifting our presence in the growing superannuation market.

Prudential requirements and developments

The Australian Prudential Regulation Authority (APRA) is the prudential regulator of the Australian financial services industry. APRA's Prudential Standards aim to ensure that ADIs (including the Bank) remain adequately capitalised to support the risks associated with their activities and to generally protect Australian depositors.

APRA's risk-based capital adequacy guidelines are generally consistent with the International Regulatory Framework for Banks, also known as Basel III, issued by the Basel Committee on Banking Supervision (BCBS), except where APRA has exercised certain discretions.

APRA applies a tiered approach to measuring the Bank's capital adequacy by assessing its financial strength at two levels:

a. Level 1 includes Bendigo and Adelaide Bank Limited and certain controlled entities that meet the APRA definition of extended licensed entities; and

b. Level 2 consists of the consolidated Group, excluding non-controlled subsidiaries and subsidiaries involved in insurance, funds management, non-financial operations and securitisation special purpose vehicles.

The Bank remains on the Standardised approach for credit and operational risk under Basel II and, as outlined below, has implemented a major project to become accredited under APRA's advanced capital measurement model.

We publish the information required under APRA's Prudential Standard APS 330 on our website at: www.bendigoadelaide.com.au/public/shareholders/announcements/aps_330.asp

Basel II advanced accreditation project

The project to become accredited under APRA's advanced capital measurement model (Basel II) is one of the most significant projects undertaken by the Bank.

Under the current prudential framework there are two methodologies for measuring capital requirements. The first methodology, currently adopted by the Bank and a number of other banks, is referred to as the Standardised Approach.

Under this approach, capital requirements are calculated based on certain fixed formulae and risk assessments determined by APRA. The advantage of this approach is that it is a relatively straightforward way of assessing capital requirements but it is a far less risk-sensitive approach to capital management.

The second methodology, referred to as the Advanced Approach, allows banks to calculate their own capital requirements, subject to certain strict conditions and requirements set by APRA. This approach aims to encourage banks to invest heavily in sophisticated and contemporary risk management techniques to enable a more accurate measurement of risk at a far more detailed level when compared to the Standardised Approach.

Broadly, under the Advanced Approach, capital requirements are based on a bank's internal assessment of its risks. This requires various risk models to be built and implemented across the business supported by system, process and policy disciplines.

The project to move to the Advanced Approach is about improving the way we do business, by improving the way we identify and manage risk and service our customers. Importantly this is an initiative that we, as an organisation, have elected to pursue. The key benefits of achieving the advanced accreditation status include:

- Further improving our banking systems and processes and consequently the customers' experience;
- Further improving our business and risk management processes and practices and building on our strong risk culture;
- Strengthening our market profile amongst shareholders, ratings agencies and regulators; and
- Operating a more capital efficient business which will benefit our customers, communities and shareholders.

The project is progressing well. We have made solid progress on developing and implementing the required models as well as enhancing our systems, processes and policies which are either complete or nearing completion.

We have implemented a range of new risk adjusted performance measurement and capital allocation methodologies and we are consulting with APRA in relation to our application.

Basel III

The aim of the Basel III proposal is to strengthen global capital and liquidity frameworks and to improve the banking sector's ability to absorb shocks arising from financial and economic stress.

On 1 January 2013, APRA's Basel III prudential capital standards came into effect requiring Australian banks to maintain minimum ratios of capital to risk weighted assets of at least 4.5% Common Equity Tier 1 Capital, 6% Tier 1 Capital and 8% Total Capital. APRA may also require ADIs to maintain minimum prudential capital ratios above the prescribed minimum ratios which may not be disclosed.

From 1 January 2016, APRA will require Australian banks to hold capital buffers above minimum capital requirements. The capital buffers include a capital conservation buffer (CCB) of 2.5%, and a higher loss absorbency (HLA) requirement of 1% for Domestic Systemically Important Banks. The Bank is not designated as a Domestic Systemically Important Bank.

Restrictions on the distribution of earnings, including payment of dividends, discretionary bonuses and Additional Tier 1 Capital distributions apply when capital ratios fall within the CCB. At APRA's discretion, a further countercyclical buffer of between 0% and 2.5% may be applied which would require banks to hold additional capital where APRA determines excess credit growth is associated with a build-up of system-wide risk. The countercyclical buffer in Australia is currently 0%.

The Basel Committee on Banking Supervision (BCBS) has introduced a simple, non-risk based leverage ratio requirement which will act as a supplementary measure to risk-based capital requirements. The leverage ratio is expected to be determined by the ratio of Tier 1 Capital to the sum of certain on and off-balance sheet exposures. APRA has proposed to introduce this measure broadly in line with the BCBS requirements.

In January 2014, APRA issued its updated standard on liquidity management to implement the Basel III liquidity reforms, Prudential Standard APS 210 *Liquidity*. The standard governs the regulatory requirements of prudent liquidity risk management and contains a number of qualitative requirements that came into effect on 1 January 2014 with the exception of a new liquidity coverage ratio (LCR) that became effective on 1 January 2015.

Under the LCR requirements the Bank must hold sufficient high-quality liquid assets as defined under the liquidity Prudential Standard. As there is insufficient volume of eligible government securities in the domestic market to enable banks to meet the LCR requirements, the Reserve Bank made available to Australian banks a Committed Liquidity Facility (CLF) that will support compliance with the LCR requirements.

The Bank is designated as a LCR scenario bank and as with all such regulated banks in Australia, has successfully made application to APRA for use of this CLF for 2015, to ensure compliance with the LCR requirement.

Bendigo and Adelaide Bank will apply annually to APRA for use of the CLF and the amount applied for is likely to vary from year to year.

Financial System Inquiry

In 2013, the Australian Federal Government appointed Mr David Murray AO as head of an inquiry into Australia's financial system ("FSI" and "Inquiry") and the Government announced the terms of reference for the Inquiry saying that "The Inquiry is charged with examining how the financial system could be positioned to best meet Australia's evolving needs and support Australia's economic growth".

On 7 December 2014, the final report of the FSI was released which contained a number of recommendations on a wide range of issues including recommendations relating to increasing the capital levels for the major banks. In particular, raising internal ratings-based (IRB) mortgage risk weights for housing loans to address competition issues.

The FSI also proposed a range of other measures relating to superannuation, regulation and consumer protection. The FSI also identified a number of taxation issues that should be considered as part of the Tax White Paper process.

The Bank welcomed the FSI and believes the Inquiry recognises the environment has changed for many reasons and has taken a balanced approach in identifying the key issues, including the uneven playing field tilted in favour of larger banks accredited to adopt the Advanced Approach to capital and we look forward to working towards an appropriate resolution of these issues.

The Federal Government announced that several of the Inquiry's recommendations, including those on bank capital and the payments system, are for APRA and the RBA to consider as independent regulators.

In July 2015, APRA announced, as an interim measure, an increase in the amount of capital required for Australian residential mortgage exposures by advanced accredited ADIs. This change will mean, for ADIs accredited to use the IRB approach, the average risk weight on Australian residential mortgage exposures will increase from approximately 16% to at least 25%.

The higher risk weights come into effect on 1 July 2016.

Credit ratings

The Bank's credit ratings at the date of this report are:

	Short Term	Long Term	Outlook	Review Date
Standard & Poor's	A-2	A-	Stable	29.7.15
Fitch Ratings	F2	A-	Stable	20.11.14
Moody's	P-1	A2	Stable	6.3.14

Group performance highlights

We achieved an after tax statutory profit of $423.9 million for the year ended 30 June 2015, a 13.9% increase on the prior corresponding period.

The statutory earnings per ordinary share was 92.5 cents (FY2014: 87.7 cents), an increase of 5.5%, and the statutory return on average ordinary equity was 8.84% (FY2014: 8.59%).

The underlying cash earnings were $432.4 million, a 13.1% increase on the previous financial year. Cash earnings per share were 95.1 cents, a 3.9% increase from the previous year.

The result reflects our approach of disciplined margin management and balance sheet growth. There was improvement in a range of profitability and efficiency measures including net profit, cash earnings, dividend, earnings per share and cost to income ratio.

Having to operate on an uneven playing field impacted our mortgage growth and this was compounded by higher loan repayments by customers. The recent APRA announcements regarding changes to risk weights on mortgages is a positive step toward levelling the playing field and a good outcome for our customers.

Business performance

Net interest income increased by 5.3% to $1,177.6 million (FY2014: $1,118.2 million).

Our net interest margin contracted slightly by 4 basis points to 2.20% for the year and our non-interest income before specific items was $365.9 million (FY2014: $323.1 million), an increase of 13.2%.

The operating expenses before specific items increased by 6.6% to $878.0 million (FY2014: $823.7 million) and the cost to income ratio was 55.2% compared to 55.6% for 2014.

Our expenses were impacted by the inclusion of operating costs for Rural Finance, ordinary annual salary and wage increases and our investment in a range of customer technologies and new product and service offerings.

Credit quality

The bad and doubtful debts expense was $68.3 million (FY2014: $81.9 million), a decrease of 16.6%.

This result reflects an improvement in the underlying credit quality of our loan portfolios and the low interest rate environment.

The Rural Finance acquisition resulted in $8.6 million increase in the General Reserve for Credit Losses and a $3.2 million increase in collective provision. The full-year expense also includes an additional $15.9 million collective provision overlay for the Great Southern portfolio.

The 90+ day arrears rates for our residential, business, consumer and agribusiness portfolios all performed better than at the same time last year.

Capital

We maintain a conservative and prudent capital base that adequately supports the risks associated with our normal business activities.

Our capital management strategy also plans and manages for changes in business conditions, including economic cycles, regulatory and legislative change and to support any acquisition opportunities. Our capital base is structured to ensure that minimum capital standards are always met and management is afforded the greatest flexibility in pursuing its business objectives.

Our capital position continues to strengthen. Our total capital ratio is above 12.5% following the two Tier 1 capital issues undertaken during the year and the Common Equity Tier 1 ratio increased to 8.17%.

Liquidity and funding

Domestic retail deposits remain central to our funding strategy and this complements the overall strategy. Wholesale markets are also utilised to achieve our funding objectives.

Our principal source of funding is, and is expected to continue to be, our retail deposit base. The internal target for retail funding remains at 75% to 80% of total funding. These deposits are traditional term and savings deposits sourced predominantly through the retail network and provide a stable source of funding.

The balance of required funding is sourced from wholesale debt capital markets. The retail/wholesale funding split is set with the aim of maintaining a strong market profile consistent with an "A" credit rating band. The wholesale funding strategy supports the core retail deposit funding strategy by maintaining access to wholesale debt capital markets that provide diversification and the benefits of longer term borrowings.

We aim to maintain a stable and prudent maturity profile by regular benchmark issuance in markets that are sustainable and cost effective. The majority of wholesale funding is sourced from the domestic AUD market. However we recognise that at times additional diversity can be achieved by geography and currency. Securitisation also forms an important part of our funding strategy and we will continue to monitor this market and participate where pricing is appropriate.

An average liquidity coverage ratio in excess of 120% has been maintained since 1 January 2015.

Dividends

The Board announced a final dividend of 33 cents per share. This takes the full-year dividend to 66 cents per share which represents an increase of 3.1% on the prior year.

Outlook

We expect the extended period of absolute low interest rates to continue for the foreseeable future.

We have a conservative funding base and balance sheet structure and we have highly engaged staff. These factors place us in a solid position to benefit from market opportunities that arise as well as any improvement in market sentiment and general operating environment.

Our customer base continues to improve its personal balance sheet position as reflected by our borrowers making repayments ahead of schedule. The low interest rate environment coupled with rising house prices and equity market growth has translated into an overall improvement in household wealth. We are confident that our unique, customer-focused banking model will continue to be relevant and underpin continued growth and improved performance.

We have maintained a strong value proposition over a long period of time and our balance sheet strength provides us with good growth capacity. This should enable us to grow at a rate that is generally better than system, provided we can be competitive in respect to product pricing.

Customer needs and behaviours are driving a lot of change throughout the industry. Most of our investment in meeting changes in customer requirements over the last few years has focused on customer-driven system investments.

Our success comes from the success of our customers and communities and we will continue to align our investments with these strategic aims, and not simply to grow for growth's sake.

Financial highlights

Financial performance metrics	Jun-15 Total	Jun-14 Total	FY2014 to FY2015	
	$m	$m	$m	%
Profit after tax attributable to Owners of the Company	**423.9**	**372.3**	51.6	13.9
Profit after tax and before specific items	**420.6**	**372.8**	47.8	12.8
Cash earnings	**432.4**	**382.3**	50.1	13.1
Net interest income (before specific items)	**1,184.1**	**1,118.2**	65.9	5.9
Non-interest income (before specific items)	**365.9**	**323.1**	42.8	13.2
Bad and doubtful debts	**68.3**	**81.9**	(13.6)	(16.6)
Expenses (before specific items)	**878.0**	**823.7**	54.3	6.6
Financial performance ratios				**% change**
Cost to income ratio	**55.2%**	**55.6%**		(0.7)
Net interest margin before profit share arrangements	**2.20%**	**2.24%**		(1.8)
Net interest margin after profit share arrangements	**1.89%**	**1.92%**		(1.6)

Financial position metrics	Jun-15 Total	Jun-14 Total	FY2014 to FY2015	
	$m	$m	$m	%
Ordinary equity	**4,858.5**	**4,693.1**	165.4	3.5
Retail deposits	**46,222.7**	**44,843.0**	1,379.7	3.1
Funds under management	**4,165.8**	**3,390.5**	775.3	22.9
Loans under management	**56,540.6**	**53,980.7**	2,559.9	4.7
New loan approvals	**15,210.5**	**16,357.4**	(1,146.9)	(7.0)
> Residential	**9,813.0**	**10,522.3**	(709.3)	(6.7)
> Non-residential	**5,397.5**	**5,835.1**	(437.6)	(7.5)
Total provisions and reserves for doubtful debts	**322.7**	**295.5**	27.2	9.2

Financial position ratios			% change
Return on average ordinary equity (after tax)	**8.84%**	**8.59%**	2.9
Return on average ordinary equity (cash basis)	**9.09%**	**8.96%**	1.5
Return on average tangible equity (cash basis)	**13.28%**	**13.34%**	(0.5)

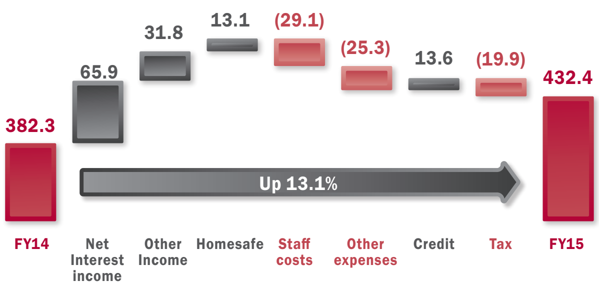
Key shareholder ratios			% change
	¢	¢	
Earnings per ordinary share (statutory basis)	**92.5**	**87.7**	5.5
Earnings per ordinary share (cash basis)	**95.1**	**91.5**	3.9
Dividend per share - fully franked	**66.0**	**64.0**	3.1

Financial performance and business review

The 2015 financial year performance reflected the continuing improvement in our operating businesses. We maintained our focus on growth at profitable prices and achieved a reasonable level of balance sheet growth supported by the acquisition of Rural Finance and the new Alliance Bank model.

The cash earnings result for the year was $432.4 million, representing a 13.1% improvement on the previous financial year ($382.3 million). The cash earnings per ordinary share was 95.1 cents, an increase of 3.9% on the previous financial year (91.5 cents). The components of the cash earnings performance are set out below:

Cash earnings FY14 - FY15 ($m)



Our net interest margin remained relatively steady having recorded a 4 basis points decrease. Our net interest income increased by $65.9 million (5.9%) compared to the previous year.

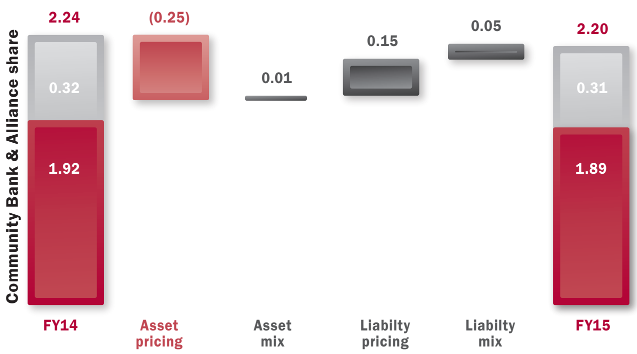
Non-interest income increased to $365.9 million. This represents a 13.2% increase on the prior year's performance of $323.1 million. The improvement was mainly due to an increase of $13.1 million in the contribution from Homesafe, reflecting stronger residential real estate prices in Sydney and Melbourne. The increase also included an improvement in asset product fees and other income.

Cost containment and efficiency continued to be a major focus over the reporting period, enabling us to all but achieve our long term cost-to-income target of 55%. The most significant increases related to occupancy, staff and information technology costs.

Our provisions for credit losses increased, however overall arrears and charges for bad and doubtful debts were lower when compared to the previous reporting period. Our overall credit quality continues to be very healthy.

Analysis of net interest margin

Net interest margin movement (%)



The margin performance resulted from our disciplined approach to product pricing and growth. An easing in deposit competition and a shift from term to at-call deposits enabled us to improve the margin on the liability side of our balance sheet.

We carefully managed the pricing of our term deposit book and experienced a change in the deposit mix with an increase in deposits flowing into lower cost at-call deposits rather than term deposits.

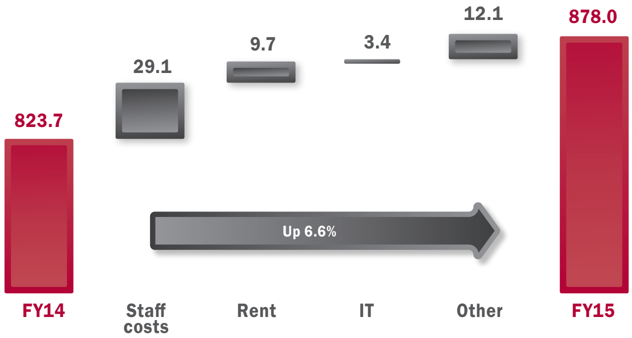
This benefit was offset by the competitive lending environment, a trend towards fixed rate lending and the impact of RBA cash rate cuts during the year.

We experienced strong pricing competition on the lending side of our balance sheet as well as a customer propensity to move to fixed rate mortgages which tend to have a lower margin when compared to variable rate mortgages.

The second half also included an additional $3 million expense relating the committed liquidity facility.

Analysis of operating expenses

Operating expenses ($m)



The increase in salaries and staff related expense was mainly due to ordinary annual salary and wage increases plus staff increases and our continued investment in strategic projects.

The increase in staff numbers was mainly attributable to the Rural Finance acquisition and additional staff deployed in the Information Technology and Change divisions to support the development of new products and services.

The increase in information technology costs was mainly due to increased software maintenance costs and information technology leasing costs.

The occupancy cost increase was largely due to the inclusion of twelve months of rental on the Adelaide headquarters and annual rental increases on other premises.

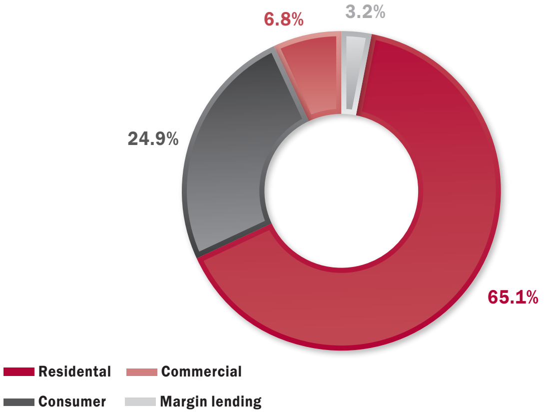
In a period where revenue growth has been challenging, a key positive has been the way the business has carefully managed the cost base and continued to drive savings and efficiencies.

Analysis of loan impairment expense

The bad and doubtful debt expense for the year totalled $68.3 million. This represents a $13.6 million (16.6%) decrease compared to the previous year. The decrease reflects the overall soundness of the loan portfolios with net impaired assets decreasing to $209.5 million compared to $298.2 million as at the end of the prior year.

Overview of loan portfolios

Loan composition



The loan portfolio grew over the year by 4.9%, compared to system growth of 7.5%. The majority of the growth was reflected in our residential and commercial portfolios. This included the impact of the Rural Finance acquisition and loans originated through the new Alliance Bank model.

Residential loan approvals for the year remained solid at $9.8 billion. However, this represented a 6.7% decrease on the previous year. Non-residential loan approvals for the year totaled $5.4 billion, representing a 7.5% decrease on the previous year.

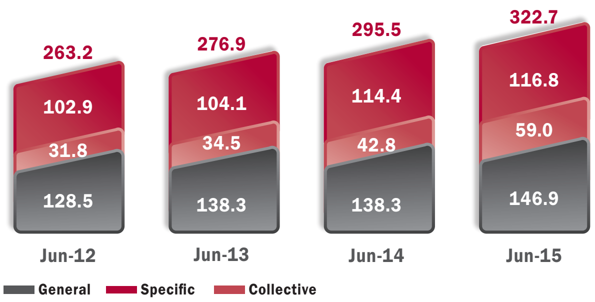
Market competition for both fixed and variable rate lending has been a key challenge for the business during the year. We aim to provide competitive loan pricing however occasions do arise where we purposefully decide not to match competing rates. This challenge has impacted our growth rate for the year.

Our overall net growth performance continues to be offset by higher rates of principal repayments with a 20% increase in excess loan repayments being recorded year-on-year.

Our retail customers continue to strengthen their own personal balance sheets with excess repayments for the year totalling $2.3 billion which is a significant increase on the two previous financial years.

The loan portfolio remains well secured. In total, 98.4% of the portfolio is secured, with 97.8% secured by mortgages and listed securities. The average loan to valuation ratio for the residential mortgage portfolio is 58.8% and 65% of the portfolio is represented by owner-occupied loans.

Provisions for doubtful debts ($m)



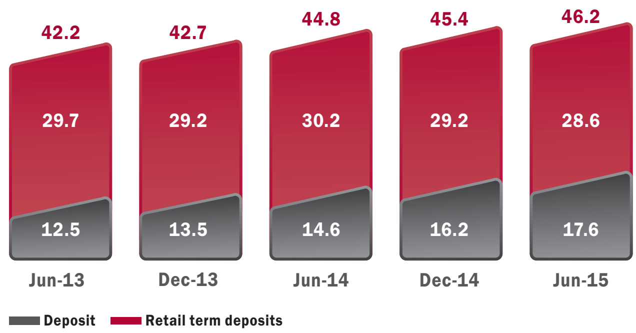
The total provision and reserve for bad and doubtful debts at year end was $322.7 million. This represents an increase of $27.2 million (9.2%) compared to the previous year.

The increase is mainly driven by a $15.9 million collective provision overlay for the Great Southern loan portfolio and increases in the general reserve for credit losses ($8.6 million) and collective provision ($3.2 million) relating to the Rural Finance acquisition.

The arrears position for the major portfolios is very strong which is consistent with the continued period of low interest rates.

Deposit Portfolio

Retail deposit balances ($bn)



Total deposits grew by 1.4% during the year, compared to system growth of 6.7%. This relatively low deposit growth reflects the pre-funding of the Rural Finance business in the prior year. Our deposit ratios in respect to funding mix and total liabilities continue to be very strong.

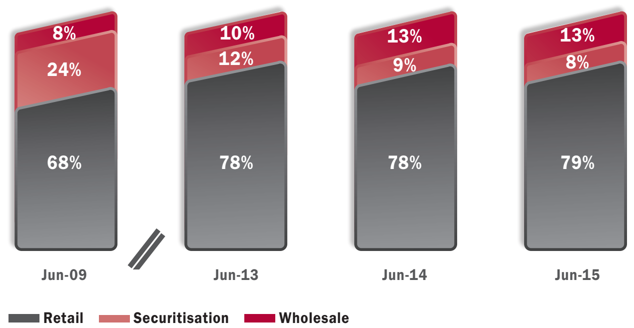
The growth in liabilities also reflects the shift in pricing competition from deposits and towards loans. In recent reporting periods, when there was extremely strong competition for deposits, our deposit growth was generally below system. During this period we tended to outperform system growth in relation to loan growth. This year, the pricing focus has moved to the lending market and we were able to grow our deposit base at profitable prices.

We remained active in the wholesale funding markets over the year. However, deposits as a percentage of the total funding remains within our target range of 75% to 80%.

We expect to actively participate in wholesale markets, including the residential mortgage-backed securities market, but the funding mix is expected to remain in, or around, our target range.

Funding and liquidity

Historical funding mix



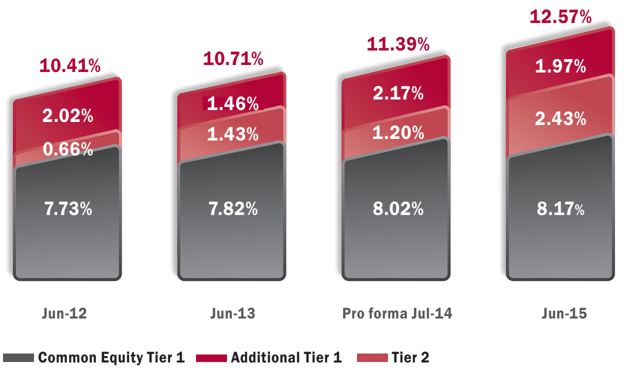
We maintain a flexible funding structure. Our wholesale and retail funding mix has remained stable over a number of years. But we saw a shift from term deposits to at-call at very low interest rates.

We completed two residential mortgage-backed securities issues ($600 million and $500 million) during the year under the Torrens securitisation program.

We successfully transitioned to the new Basel III Liquidity Coverage Ratio regime at 1 January 2015 and maintained an average Liquidity Coverage Ratio of more than 120% from that date.

Capital adequacy

Total capital (%)



The Bank seeks to maintain a conservative and prudent capital base that adequately supports the risks arising from the normal operation of the business. This includes providing for effective and efficient capital buffers to protect depositors and investors, and allowing the business to grow.

The capital management strategy also plans and manages for changes in business conditions, through normal business cycles, regulatory and legislative change and through mergers and acquisitions. The capital management strategy is designed to ensure that minimum capital standards are met, and that management is afforded the greatest flexibility in pursuing its business objectives.

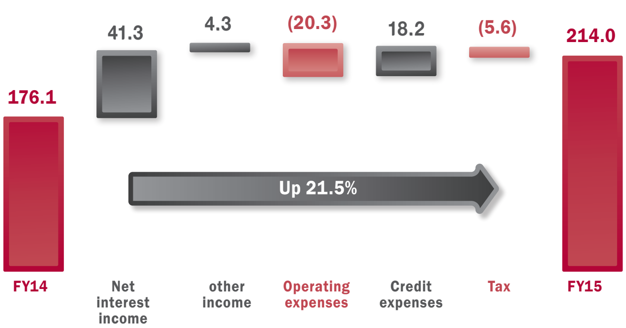
During the year we successfully completed two issues of new convertible preference shares which raised $574 million of new additional Tier 1 hybrid capital. This helps place us in a strong capital position going into FY2016 and we have capacity for additional capital efficiency through the issuance of further Tier 1 hybrid capital and Tier 2 subordinated debt.

Our Common Equity Tier 1 capital ratio as at 30 June 2015 was 8.17%, an increase of 15 basis points on the previous year.

Divisional performance

Retail Banking

Retail Banking ($m)



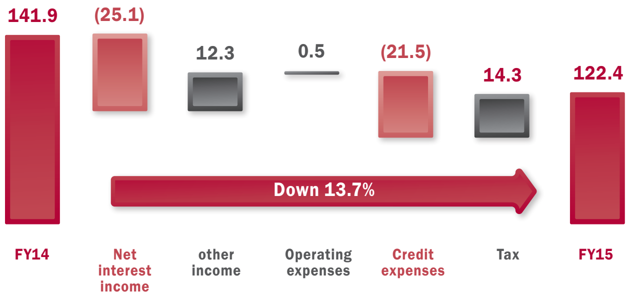
The contribution from our largest business segment, Retail Banking, increased from $176.1 million to $214.0 million. The division has maintained its leading consumer and business satisfaction ratings and a strong focus on customer strategy execution.

The key driver for the increase was the improvement in net interest income. This reflects the benefits of the easing in term deposit pricing and an increase in deposit flows to lower cost at-call accounts.

The performance was also positively impacted by the new internal Funds Transfer Pricing methodology and a significant decrease in the bad and doubtful debt expense for the year.

Third Party Banking

Third Party Banking ($m)



The contribution from the Third Party Banking segment decreased from $141.9 million to $122.4 million.

Third Party Banking is the segment that has been most challenged by the highly competitive mortgage lending environment during the year.

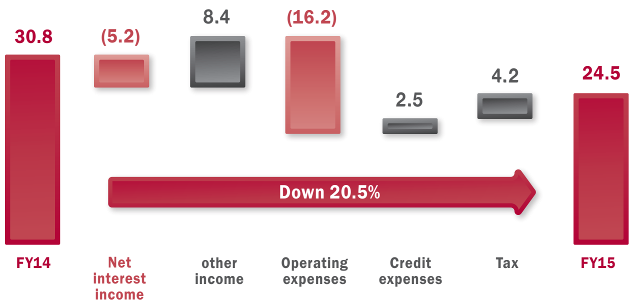
The segment contribution for the year includes a $25.1 million reduction in net interest income. However, approximately half of the decrease was attributable to the new internal Funds Transfer Pricing methodology.

The movement in other income is largely driven by the increase in the Homesafe contribution and the credit expense increase mainly reflects the collective provision overlay and additional specific provisions for the Great Southern loan portfolio. Aside from this portfolio, the underlying credit performance of the Third Party mortgage portfolio has been strong.

Homesafe continues to steadily improve its contribution in line with very strong residential property price increases in Sydney and Melbourne. The other contributor to the improved performance has been the ongoing maturity of the portfolio.

Wealth

Wealth ($m)



The contribution from the Wealth business segment decreased from $30.8 million to $24.5 million.

We are starting to see the benefits from our Wealth investments over recent years with funds under management and administration now recording strong growth.

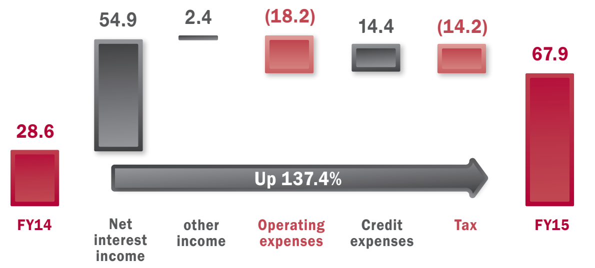
The division grew its total funds under management by 22% and acquired an 11% interest in Future Super (the first fossil fuel-free superannuation fund) in September 2014. The margin lending portfolio remained relatively stable for the year and the new SmartStart Super® continues to perform well, recording growth of 70% for the year.

The decrease in net interest income was mainly due to the reduction in the contribution from the margin lending business and wealth deposits.

Non-interest income increased as the Wealth business builds on the investment made in past years to develop a broader product range for our customer base, and we expect this trend to continue into the future.

Rural Banking

Rural ($m)



The contribution from the Rural Banking segment increased from $28.6 million to $67.9 million.

The key factor impacting this year's performance was the Rural Finance acquisition resulting in a significant increase to net interest income and operating expenses. The underlying business performed well and returned to a more normalised credit performance with several of the previously reported exposures in the Queensland market having been worked through, reducing the volume of non-performing loans and associated credit losses.

The Rural Finance contribution was slightly ahead of expectation, driven primarily by the integration of the business progressing faster than expected, allowing us to generate additional efficiencies and savings. The revenue performance was in line with expectations and the sound credit performance has continued. A focus on customer engagement also enabled a strong retention of customers through the integration of this business.

Risk management framework, business uncertainties and significant business risks

The Board is responsible for the risk management strategy which includes approving changes to the risk appetite and risk management framework and monitoring the operation and effectiveness of the risk management framework.

The Board Risk Committee and Board Credit Committee assist the Board by providing objective oversight of the risk profile and its alignment with the risk appetite and risk management framework.

Further information on our risk governance and risk management framework is presented in the 2015 Corporate Governance Statement available from the Bank's website and Note 30 Risk management of the 2015 Annual Report.

Risk dependencies and uncertainties

Our business is subject to a number of dependencies and uncertainties that could adversely impact the achievement of business strategies and earnings performance. The timing and extent of these uncertainties is difficult to predict and managing their impact is, to some extent, outside of our control. A summary of the key dependencies and uncertainties is presented below.

Dependence on prevailing macro-economic conditions

Our business is highly dependent on the general state of domestic and global economies and financial markets. Our performance can be significantly impacted by economic and political events, both domestic and international, as well as by natural disasters.

This includes the level of economic activity and demand for financial services by our customers. In particular, lending is dependent on customer and investor confidence, the overall state of the economy including employment levels, the residential lending market and the prevailing interest rate environment.

Environmental factors

The Group and its customers operate businesses and hold assets in a diverse range of domestic geographical locations.

A significant environmental change or external event (including fire, storm, drought, flood, earthquake or pandemic) in any of these locations has the potential to disrupt business activities, impact on our operations, damage property and otherwise affect the value of assets held in the affected locations and our ability to recover amounts owing to us.

We also have an exposure to the rural sector. The performance of this sector is impacted by national weather patterns and commodity price movements which in-turn may impact our overall earnings performance.

Market Competition

The markets in which we operate continue to be highly competitive and may become even more so.

Factors that contribute to competition risk include industry regulation, mergers and acquisitions, changes in customers' needs and preferences, entry of new participants, the development of new distribution and service methods as well as regulatory change.

Increasing competition could potentially lead to reduced business volumes, a compression in our net interest margins as well as increased advertising and related expenses to attract and retain customers.

A weakening in the Australian real estate market

Residential, commercial and rural property lending, together with property finance, constitute important businesses to us. A significant slowdown in Australian property markets, including a decrease in Australian property valuations, could decrease the amount of new lending the Bank is able to write and/or increase the value of the credit losses that the Bank may experience from existing loans and impact on the valuation of the Homesafe portfolio.

Changes in monetary policy

The Reserve Bank of Australia (RBA) sets official interest rates so as to affect the demand for money and credit in Australia. The cash rate influences other interest rates in the economy which then affects the level of economic activity.

Movements in the cash rate impact our cost of funds for lending and investing and the return earned on these loans and investments, which directly impacts our net interest margin.

Changes in monetary policy can also affect the behaviour of borrowers and depositors. In the case of borrowers, potentially increasing the risk that they may fail to repay loans, and in the case of depositors, potentially increasing the risk that they may seek returns in other asset classes. The changes can also impact the value of financial instruments held such as debt securities.

Regulatory Change

As a financial institution, we are subject to a range of laws, regulations, policies and industry codes. In particular, our banking and wealth management activities are subject to extensive regulation, mainly relating to liquidity, capital, solvency, provisioning and licensing conditions.

The Australian Government and its agencies, including APRA, the RBA and other financial industry regulatory bodies including ASIC, are the main authorities that have supervisory oversight of the Bank. Changes to laws, regulations, codes of practice or policies could affect the Bank in substantial and unpredictable ways. Potential changes include increasing required levels of liquidity and capital, limiting the types of financial services and products the Bank can offer or increasing the ability of non-banks to offer competing financial services or products. These potential changes may also require substantial investment in staff, systems and procedures to comply with the regulatory changes.

Credit Ratings

Our credit ratings have a significant impact on both our access to, and the cost of, capital and wholesale funding. Credit ratings may be withdrawn, made subject to qualifications, revised, or suspended by the relevant credit rating agency at any time. Also, the methodologies by which they are determined may be revised.

A downgrade or potential downgrade to our rating may reduce access to capital and wholesale debt markets, potentially leading to an increase in funding costs, as well as affecting the willingness of counterparties to transact with the Bank.

Capital Base

The capital base is critical to the management of our businesses and our ability to access funding. We are required to maintain adequate capital and reserves to comply with prudential requirements. In addition, we need to maintain appropriate capital levels to support our business priorities and to protect against unexpected losses. There can be no certainty that future additional capital required will be available or will be able to be raised on reasonable terms.

Material business risks

The material business risks that the Group actively manages are credit risk, market risk, liquidity risk and operational risk.

Credit Risk

Credit risk is the risk of loss of principal and/or interest resulting from a borrower failing to meet a scheduled repayment or otherwise failing to repay a loan. The majority of our credit risk exposure arises from general lending activities and the funding, trading and risk management activities of Group Treasury.

Business or economic conditions, whether generally or in specific industry sectors or geographic regions, could cause customers or counterparties to experience an adverse financial situation, thereby exposing us to the increased risk of customers failing to repay their loans or counterparties failing to meet their obligations in accordance with agreed terms and conditions.

Credit risk is primarily monitored by the Board Credit Committee and the Management Credit Committee. The Bank's credit risk framework and supporting policies are managed by our independent credit risk unit. Further information on our approach to managing credit risk is presented at Note 30 Risk Management of the 2015 Annual Financial Report.

Market Risk

Market risk is the risk of loss arising from changes and fluctuations in the general level of market prices or interest rates (Traded Market Risk). It also includes Non-Traded Market Risk (Interest Rate Risk in the Banking Book) which is the risk of a loss in earnings or in the economic value on banking book items as a consequence of movements in interest rates.

Changes in financial markets, including changes in interest rates, foreign currency exchange rates and returns from equity, property and other investments, will affect our financial performance due to the nature of our business activities.

Market risk is monitored through the Board Risk Committee and the Asset and Liability Management Committee (ALMAC) and is managed by Group Treasury.

Further information on our approach to managing market risk is presented at Note 30 Risk Management of the 2015 Annual Financial Report.

Liquidity Risk

Liquidity risk is the inability to access funds, both anticipated and unforeseen, which may lead to the Group being unable to meet its obligations in an orderly manner as they arise or forgoing investment opportunities.

Reduced liquidity could lead to an increase in the cost of our borrowings and possibly constrain the volume of new lending, which could adversely affect our profitability. A significant deterioration in investor confidence could materially impact our cost of borrowings and our ongoing operations.

Group Treasury is responsible for implementing liquidity risk management strategies in accordance with approved risk appetite and policies. Compliance with the liquidity strategies and policies is monitored by the ALMAC and Board Risk Committee.

Further information on our approach to managing liquidity risk is presented at Note 30 Risk Management of the 2015 Annual Financial Report.

Operational Risk

Operational risk is defined as the risk of impact on objectives or risk of loss resulting from inadequate or failed internal processes, activities and systems or from external events.

Operational risk can directly impact our reputation and result in financial losses which could adversely affect our financial performance and/or financial condition.

Operational risk (other than financial reporting risk) is primarily monitored by the Operational Risk Committee and Board Risk Committee. The Audit Committee has responsibility for the oversight of financial reporting risk.

Further information on our approach to managing operational risk is contained in the 2015 Corporate Governance Statement available from the Bank's website.

The following is an overview of specific operational risk themes directly associated with our activities.

Compliance Risk

The Group's operations in Australia are highly regulated as are other jurisdictions in which we trade or raise funds.

Failure to comply with the laws, regulations, codes, principles and industry standards applicable to our operations could result in sanctions being imposed by regulatory authorities, the exercise of discretionary powers that the regulatory authority holds or compensatory action by affected persons, which may in turn directly or indirectly impact our reputation, business and financial performance and prospects.

We have established a framework of systems, policies and procedures to monitor regulatory change and manage compliance risk. The regulatory compliance function, within our operational risk unit, monitors changes to, and compliance with, regulatory requirements applicable to our business operations. This includes codes of conduct and approved policies and procedures.

Fraud Risk

We are exposed to the risk of fraud, both internal and external. Financial crime is an inherent risk within financial services, given the ability for employees and external parties to obtain advantage for themselves or others.

An inherent risk also exists due to systems and internal controls failing to prevent or detect all instances of fraud, particularly if fraud is committed by persons in collusion or people in positions of trust, who intentionally over-ride control systems in order to misappropriate funds.

We have established a control framework of systems, policies and procedures to monitor and manage fraud risk and continue to invest in new techniques and capabilities to detect and prevent fraud.

All actual or alleged fraud is investigated under the authority of our financial crimes unit to:

a. Identify and take action against the perpetrator/s of fraud;
b. Minimise the impact of any losses and where possible recover funds;
c. Identify and rectify deficiencies in processes and controls as well as analyse trends that enable us to minimise losses; and
d. Utilise the information obtained to assist in analysis and training.

Risk of disruption of information technology systems or failure to successfully implement new technology systems

Our business is highly dependent on information systems and technology and there is a risk that these, or related services the business uses or is dependent upon, might fail.

Most of our daily operations are computer-based and information technology systems are essential to the day-to-day provision of banking services.

The exposure to systems risks includes the complete or partial failure of information technology systems or data centre infrastructure, the inadequacy of internal and third-party information technology systems due to, among other things, failure to keep pace with industry developments and the capacity of the existing systems to effectively accommodate growth and integrate existing and future acquisitions and alliances.

To manage these risks, we have robust business continuity and information technology governance structures in place.

In addition, we constantly need to update and implement new information technology systems, in part to assist us to satisfy regulatory demands, ensure data security, improve our computer-based banking services and to integrate the various segments of our business.

There is a risk we may not implement these projects effectively or execute them efficiently, which could lead to increased project costs, delays in the ability to comply with regulatory requirements, failure in our information security controls or a decrease in our ability to service customers.

We have implemented a risk control framework to manage this risk. The framework includes our enterprise change process, business impact analysis and prioritisation processes, technology infrastructure monitoring, application software maintenance and business system portfolio management structures.

Data and Information Security Risk

Information security means protecting our information (and that of our customers) and information systems from unauthorised access, use, disclosure, disruption, modification, perusal, inspection, recording or destruction.

We have a team of information security specialists who are responsible for the development and implementation of information security systems, policies and procedures. We are conscious that threats to information security are continuously evolving due to the increasing use of the internet and other devices to communicate data and conduct financial transactions.

The risk of security breaches, external attacks and unauthorised access to our systems has increased with the growing sophistication of fraud and other criminal activities. We have established a range of measures to detect and respond to cyber-attacks and we closely monitor and conduct regular reviews to ensure new or potential threats are identified, evolving risks are mitigated, policies and procedures are updated and good practice is maintained.

Vendor failure or non-performance risk

We source a number of key services from external suppliers and service providers. The failure of a key service provider, or the inability of a key service provider to meet their contractual obligations, including key service standards, could disrupt our operations and ability to comply with regulatory requirements.

This risk is managed by the relevant business divisions who are responsible for the service provider relationship. The business divisions are supported by our corporate sourcing function to ensure the contracted services comply, where applicable, with prudential requirements and the Group's sourcing framework and policies.

Inability to manage demand for, and impacts of, business change initiatives

We continue to undertake an increasing number of significant change projects. The projects are driven by various factors including regulatory reforms, business demand, strategic projects and rapid advancements in information technology.

The size and complexity of the projects require substantial resource allocations and time commitment from management. The projects may also involve significant amounts of information technology, system, process and policy change as well as impacting day-to-day operational activities.

This may divert management and staff attention from business as usual responsibilities and could adversely affect our day-to-day operations including the delivery of banking services and compliance with operational and regulatory requirements.

This risk is managed through a framework of change management structures, policies and systems including the enterprise change process which is overseen by the Executive Committee.

Community Bank®

We have **Community Bank®** branches operating in all States and Territories. The branches are operated by companies that have entered into franchise and management agreements with the Bank to manage and operate a **Community Bank®** branch.

Franchisee staff are trained by the Bank and, in some cases, are seconded from the Bank. Whilst we carefully assess the suitability of potential franchisees there can be no guarantee of the success of a **Community Bank®** branch.

A material portion of this network is still relatively immature and there are risks that may develop over time. For example, it is possible that branches may not be able to sustain the level of revenue or profitability that they currently achieve (or that it is forecasted that they will achieve).

We have established a number of support and oversight structures for this network including:

Our Community Engagement team provides support to the State Offices and **Community Bank®** Boards through a range of activities including community company network communications, co-ordinating the State and National Conference program, franchise renewals and Director education.

The **Community Bank®** branches are integrated into the company-owned retail network once they commence trading. As a result the branches are included in the day–to-day operational support and administration structures of the Retail Banking division which include monitoring compliance with internal policies and procedures, staffing requirements and reporting.

The **Community Bank®** Strategic Advisory Board, comprising representatives from the Bank and representatives elected by the **Community Bank®** network, is the forum established to initiate, lead and respond to strategic issues and opportunities that enhance the sustainability, resilience and prospects of the **Community Bank®** model.

Litigation risk

From time to time, the Group may be subject to material litigation, regulatory actions, legal or arbitration proceedings and other contingent liabilities which, if they crystallise, may adversely affect the Group's results.

There is a risk that these contingent liabilities may be larger than anticipated or that additional litigation or other contingent liabilities may arise.

Other Risks

Other risks applicable to the Group's activities that are monitored and managed by the Board and Executive Committee include:

Reputation Risk

Reputation risk is defined as the risk of potential loss to the Group due to damage to the Group's reputation. Reputation risk may arise as a result of an external event or our own actions, and adversely affect perceptions about us held by the public (including customers), shareholders, investors, regulators or rating agencies.

The impact of a risk event on our reputation may exceed any direct cost of the risk event itself and may adversely impact our earnings, capital adequacy or market value. Accordingly, damage to our reputation may have wide-ranging impacts, including adverse effects on our profitability, capacity and cost of sourcing funding, and availability of new business opportunities.

Strategic Risk

There is a risk that adverse business decisions, ineffective or inappropriate business plans or a failure to respond to changes in the operating environment will impact our ability to deliver our strategy and business objectives.

Also, the Bank regularly examines new initiatives and market opportunities, including acquisitions and disposals, with a view to determining whether the opportunities will enhance shareholder value.

The risks associated with these strategic and business decisions could, for a variety of reasons, have a material adverse effect on our current and future financial position or performance.

Contagion Risk

We have a number of subsidiaries that are trading entities. These subsidiaries are also holders of Australian Financial Services Licences and/or Australian Credit Licences regulated by the Australian Securities and Investment Commission. There are two subsidiaries that are also subject to prudential regulatory requirements of the Australian Prudential Regulation Authority.

Subsidiary dealings and exposures principally arise from the provision of administrative, corporate, distribution and general banking services by the Bank. The majority of subsidiary resourcing and infrastructure is provided by the Bank's centralised back office functions. Other dealings arise from the provision of funding, guarantees and equity contributions.

The Bank has established a framework of policies and supporting systems, limits and controls to mitigate the risks associated with dealings and exposures between the Bank and its subsidiary companies.

This includes systems and controls relating to intra-group exposures, badging and branding arrangements as well as the distribution of financial products issued by these subsidiaries. Dealings between the Bank and its related entities that are not conducted on an arms-length basis must be approved by the Board.

The Board monitors the activities and performance of these subsidiaries.

Remuneration Report

This Remuneration Report is for the Bank and the Group for the financial year ended 30 June 2015. The Report has been prepared in accordance with section 300A of the *Corporations Act 2001* and the *Corporations Regulations 2001* and has been audited.

The Remuneration Report explains the Group's approach to the remuneration of key management personnel (KMP).

Key Management Personnel

The KMP comprise the Non-executive Directors, the Managing Director and other members of the Executive Committee. The table below lists the Bank's KMPs[3].

Name	Position	Term as KMP
Non-executive Directors		
Robert Johanson	Chairman	Full Year
Jenny Dawson [1]	Director	Part Year
Jim Hazel	Director	Full Year
Jacqueline Hey	Director	Full Year
Robert Hubbard	Director	Full Year
David Matthews	Director	Full Year
Deb Radford	Director	Full Year
Tony Robinson	Director	Full Year
Executives		
Mike Hirst	Managing Director & Chief Executive Officer	Full Year
Marnie Baker	Executive: Customer Voice	Full Year
Dennis Bice	Executive: Retail Banking	Full Year
John Billington	Executive: Bendigo Wealth	Full Year
Richard Fennell	Executive: Finance, Treasury & Change	Full Year
Robert Musgrove	Executive: Community Engagement	Full Year
Tim Piper	Executive: Risk	Full Year
Stella Thredgold	Executive: Corporate Resources	Full Year
Alexandra Tullio [2]	Executive: Head of State Distribution (Retail)	Full Year
Andrew Watts	Executive: Customer Service Improvement	Full Year

[1]Ms Dawson retired from the Board on 27 October 2014.

[2]Ms Tullio was the Executive - Geared Solutions until being appointed to the role of Head of State Distribution (Retail) effective from 4 May 2015.

[3]The KMPs are the persons with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

Contents

Section 1: Remuneration overview

1.1 Remuneration framework and components

The remuneration framework is designed to support the Group's strategy including our long term outlook for the business, partnering for sustainable long term outcomes and realisation of major investments designed to generate future shareholder value. The framework is described in our Remuneration Policy. A review of the Remuneration Policy was completed during the year and some minor changes to the policy were made. The remuneration framework is based on the following key principles:

- Remuneration should facilitate the delivery of superior long term results for the business and shareholders and promote sound risk management principles.
- Remuneration should support the corporate values and desired culture.
- Remuneration should promote behaviour that meets customers' reasonable expectations and protects their interests.
- Remuneration should support the attraction, retention, motivation and alignment of the talent we need to achieve our business goals.
- Remuneration should reinforce leadership, accountability, teamwork and innovation.
- Remuneration should be aligned to the contribution and performance of the businesses, teams and individuals.

The link between these principles and our approach to executive remuneration is represented by the following diagram:

TOTAL TARGET REWARD			
Base Remuneration		**Short Term Incentive (STI)**	**Long Term Incentive (LTI)**
Fixed Base Cash	**Deferred Base Equity**	**Cash & Equity**	**Equity**
• Base salary plus salary sacrifice and superannuation contributions. • Set by reference to the role and responsibilities, market and internal relativities and Group performance outlook. • Recognises an individual's performance, skills, competencies and value.	• Annual grants of deferred shares. • Deferred shares (fully paid ordinary shares) issued at no cost and beneficially owned from grant date. • Subject to two-year continued employment condition. • Subject to performance and risk adjustment. • Shares held on trust for two years by Plan Trustee. • An additional one-year dealing restriction applies to the Managing Director. • No additional dealing restriction for other executives beyond the two-year employment condition period.	• Cash, or a combination of cash and deferred equity. • STI target for each executive is set by the Board at the start of each year. • Awards subject to achievement of Group financial and business goals, individual performance as well as risk and compliance conditions. • If award exceeds $50,000, one third of the award is deferred into equity (deferred shares) issued on substantially the same terms as deferred base remuneration.	• Annual grant of performance rights ("rights"). • Each right represents an entitlement to one ordinary share. • Maximum number of ordinary shares that can be acquired is equal to the number of rights granted. • Rights are granted at no cost and have no exercise price. • Vesting is subject to achievement of cash EPS and relative TSR performance measures. • There is no retesting. • An additional one-year dealing restriction applies to the Managing Director.

Fixed (not linked to Performance)	**Variable**			
Attract, retain and motivate senior management	Promote sound risk management, values, desired culture and behaviours	Aligned with individual and team contribution and performance	Reinforce leadership, accountability, teamwork and innovation	Drive longer term performance and shareholder value

1.2 Remuneration approach and mix

The Board has adopted a relatively conservative approach to setting executive remuneration, with the total target reward for all executives tending towards the median of market levels.

The mix of the executives' remuneration is weighted more towards base remuneration than incentive based pay. In particular, the weighting of the STI component of each executive's remuneration is well below the weightings generally adopted by the banking sector and other Australian listed companies.

The Board has also sought to ensure that executives' total target reward includes a significant portion of equity-based remuneration and is therefore directly linked to the Bank's share price performance over a sustained period. The executives' base remuneration and STI both include a deferred equity component and the LTI is also paid in equity and subject to a multiple year performance period comprising both Earnings per Share (EPS) and Total Shareholder Return (TSR) measures. The remuneration mix also reflects differences in executive responsibilities, such as potential risk and compliance conflicts, and the executive's ability to influence business outcomes.

The Board considers that this approach creates the right balance between the achievement of the Group's near term financial targets and growth in shareholder value over the medium and longer term.

The remuneration mix for the Managing Director is more highly weighted toward base remuneration with more than half of the total target remuneration payable in equity that is deferred over two or three years and at-risk until either the vesting date or completion of the applicable restriction period. This mix is designed to reflect his overall responsibility for leading the organisation as well as fostering a longer term outlook.

The remuneration mix for the Executive Risk is more highly weighted to base remuneration and includes a lower STI component compared to other executives. This mix recognises the Executive's risk and compliance responsibilities.

The remuneration mix for other executives varies depending on the nature of the Executive's role with 60% to 70% of total target reward paid in cash and the remaining percentage paid in equity deferred over two to four years and remaining at risk until vested.

Executive remuneration arrangements are reviewed annually, first by the Governance & HR Committee, and then the Board, to ensure the mix and level of remuneration continues to be fair and appropriate. The Board also ensures that the incentive components of executive remuneration (i.e. STI and LTI) are linked to performance measures that support the Group's strategy and business priorities.

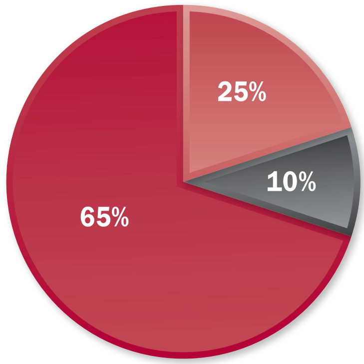
The annual review incorporates survey and market data, market trends, individual performance and the Group's financial outlook for the coming year.

There were no changes to the remuneration framework during the year and changes to individual levels of remuneration were mainly due to changes in an individual's responsibilities or to re-align an individual's remuneration with market or internal relativities.

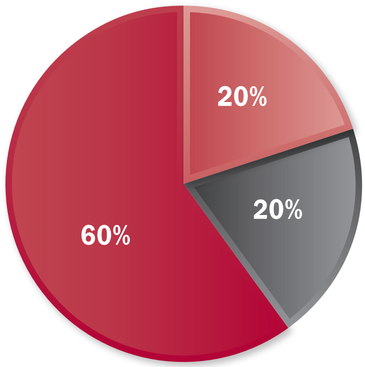
The below graph sets out the targeted remuneration mix for executives based on annual total target reward.

Base remuneration STI LTI

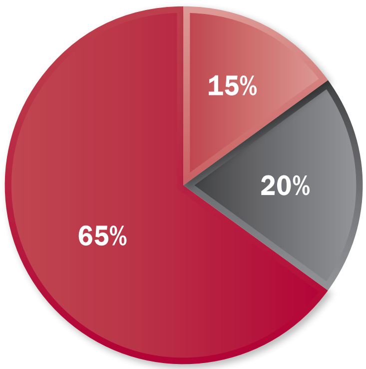
Managing Director



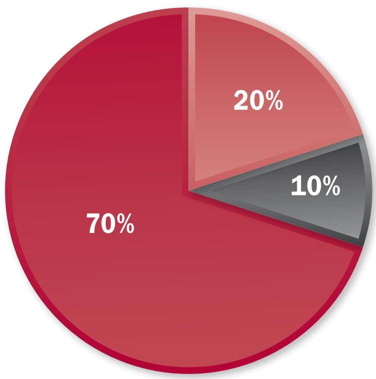
CFO and Executive Customer Voice



Other Executives



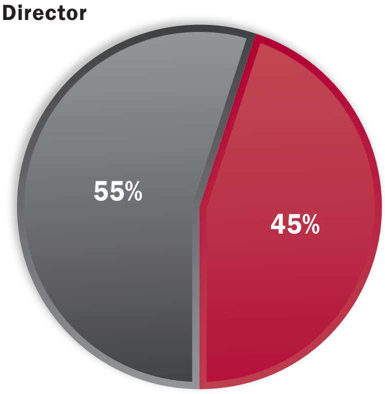
Executive Risk



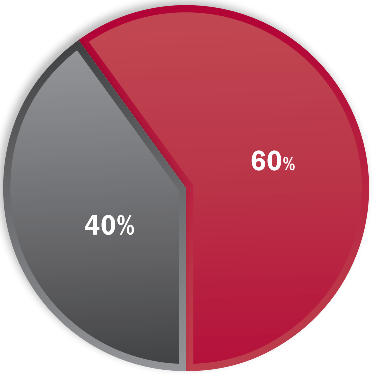
The below graph sets out percentages of executive remuneration awarded in cash and equity based on annual total target reward.

Cash remuneration Equity remuneration

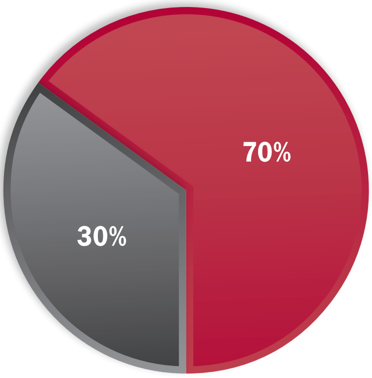
Managing Director



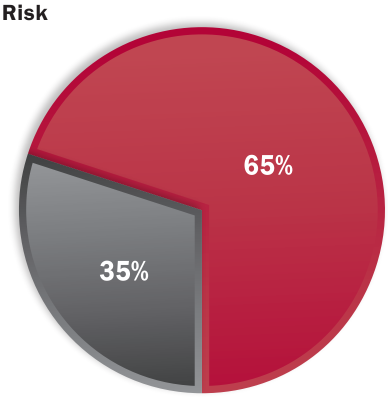
CFO and Executive Customer Voice



Other Executives



Executive Risk



Section 2: Executive remuneration

2.1 Base Remuneration

Executive base remuneration comprises both a fixed base and deferred base component.

Fixed base

Fixed base remuneration comprises cash salary, salary sacrifice and employer superannuation contributions.

Deferred base

Deferred base remuneration involves annual grants of deferred shares under the terms of the Employee Salary Sacrifice, Deferred Share and Performance Share Plan.

The deferred shares are fully paid ordinary shares granted at no cost. They have no exercise price and are held by the plan trustee on trust for two years for the executive. The grants are subject to a two-year continued service condition and a risk adjustment at the discretion of the Board.

The number of deferred shares granted to the executives is determined by dividing the remuneration value of the deferred base component by the volume weighted average closing price of the Bank's shares for the last five trading days of the financial year prior to year of the grant.

Executives are entitled to vote and to receive any dividend, bonus issue, return of capital or other distribution made in respect of deferred shares during the deferral period. They are not entitled to deal in the deferred shares until they vest and the Board may treat shares as forfeited before vesting. Deferred shares that do not vest at the end of the deferral period will be forfeited.

If an executive ends their employment with the Bank or were to act fraudulently, dishonestly or, in the Board's opinion, in breach of his or her legal duties before the conditions have been met, the deferred shares will be forfeited on the executive's last day of employment, unless exceptional circumstances apply and the Board decides to vest some or all of the deferred shares.

If an executive's employment ends because of death, disability, redundancy, or any other reason approved by the Board, the deferred shares will continue to be held as if the executive's employment has not ended, and the service condition will be treated as waived, unless the Board decides otherwise. If the Board does decide otherwise, it may determine that some or all of the deferred shares are forfeited, which would occur on the last day of employment.

If there is a takeover or change of control of the Bank, the Board has discretion to decide that the dealing restriction will end at a date decided by the Board.

Deferred base pay was introduced by the Board at the start of the 2013 financial year. For the Managing Director, the percentage of deferred base to total base remuneration is 40%. For other executives the percentage of deferred base to total base remuneration ranges between 10% and 20%.

Setting base remuneration

In setting executive base remuneration the Board considers the nature and complexity of the role including the particular responsibilities and the individual's sustained contribution to the Group's performance. The Board also considers the skills and experience needed to successfully fulfil the role in the context of the external market including comparable roles in the banking sector and other companies of a similar size and complexity.

The Managing Director received a 3.8% increase in fixed base remuneration for the year. Other executives also received increases in fixed base remuneration for the year to recognise changes in responsibilities or to align with market or internal relativities.

Awards of deferred base remuneration are at the discretion of the Board. The Managing Director's deferred base pay was approved by shareholders in 2013 and remained unchanged during 2015. A number of other executives received increases to their deferred base remuneration for the year.

Further details of the base pay deferred share grants are presented at Section 6.

Table of Base Pay Deferred Share grants at 30 June 2015

Grant Date	Grant Year	Participants	Deferral Period	Vesting Date
17.12.2013	FY2014	Other executives (excluding Managing Director)	01.07.2013 – 30.06.2015	30.06.2015
01.07.2014	FY2015 & FY2016	Managing Director	01.07.2014 – 30.06.2016	30.06.2016 [1]
10.12.2014	FY2015	Other executives (excluding Managing Director)	01.07.2014 – 30.06.2016	30.06.2016

[1] An additional one-year dealing restriction applies to the Managing Director's grant.

2.2 Short term incentive (STI) plan

Executive remuneration includes an annual incentive component. The incentive is designed to reward the achievement of annual financial and business goals, the executive's contribution to the financial performance and longer term growth and is subject to risk management and compliance conditions.

The target STI award for each executive is set by the Board at the start of each financial year, taking into account market data and the executive's role and responsibilities. The objective is to provide an appropriate reward to staff for the achievement of annual financial performance targets. The STI is set at a moderate level to avoid encouraging short-term, risk-taking behaviour at the expense of longer term, sustainable growth. Three executives received increases in their target STI award. There was no change to the Managing Director's target STI award. The actual STI awards are subject to the amount of bonus pool established by the Board for the payment of STIs and staff bonuses. Where the bonus pool is less than the maximum potential pool, the STI award for each executive will be proportionately adjusted downwards to reduce the STI opportunity for each executive. This is explained on the following page.

The objectives that attach to the Managing Director's STI are set each year by the Board on recommendation from the Governance & HR Committee. The objectives for the 2015 financial year comprised of financial and non-financial targets, as detailed on the following page.

The Managing Director sets the individual objectives that attach to the STI for other executives. The objectives are based on the executive's particular role and expected contributions to the achievement of annual financial goals and business objectives. Further details of the executives' STI objectives are also detailed below.

Group bonus pool

STI awards (and general staff bonuses) are only paid if the Board establishes a group bonus pool. The conditions for the establishment of a group bonus pool are determined by the Board at the start of each year.

The conditions typically require the achievement of a minimum level of financial performance before a bonus pool will be established, above which the pool will increase in line with the level of outperformance over the minimum level.

For the 2015 financial year the bonus pool allocation was again based on the cash earnings performance and consisted of:

a. A threshold hurdle requiring the achievement of cash earnings equal to the previous financial year (adjusted for the impact of the Rural Finance acquisition);
b. A targeted cash earnings result for the financial year; and
c. A maximum potential bonus pool allocation based on 110% of the targeted cash earnings result.

The bonus pool accrues at a predetermined percentage of cash earnings above the threshold hurdle. For performance above the targeted cash earnings hurdle, the bonus pool also accrues, but at a higher rate. The bonus pool stops accruing for financial performance in excess of 110% of the targeted cash earnings result. In setting the predetermined percentages the Board gives careful consideration as to how to best apportion the earnings between shareholders and staff.

The Board also sets financial and risk measures that it uses to adjust, at its sole discretion, the bonus pool determined by the formula described above. These measures are designed to ensure the bonus pool achieves an appropriate balance between shareholder returns, employee reward and the financial soundness of the Group.

Following is a summary of the bonus pool measures and outcomes for the financial year:

Bonus Pool Calculation	Performance Outcomes
Achieve prior year cash earnings (threshold hurdle)	• The Group's cash earnings result for the year (adjusted for the impact of the Rural Finance acquisition) exceeded the previous year's result of $382.3 million.
Group cash earnings performance	• The Group's cash earnings result of $432.4 million represented an increase of 13.1% compared to the previous financial year. The Group did not achieve its targeted cash earnings performance for the year.
Bonus Pool Adjustment	**Risk and Performance Outcomes**
Cash earnings per share	• The Group recorded a cash earnings per share result for the year of 95.1 cents per share. This represented an improvement of 3.9% on the previous financial year but was slightly below the targeted cash earnings per share performance.
Return on Equity (cash basis)	• The return on equity ratio for the year was 9.09%. This was in line with the targeted performance.
Return on Tangible Equity	• The return on tangible equity ratio for the year was 13.28%. This exceeded the targeted performance.
Core Tier 1 Equity	• The Core Tier 1 ratio at year end was 8.2%. This exceeded the targeted performance.
Cost to Income Ratio	• The cost to income ratio for the year was 55.2%. This was better than the targeted performance.
Liquidity Ratio	• The liquidity coverage ratio at year end was 122.2%. The liquidity ratio was also maintained in accordance with approved internal and regulatory limits during the year. This met the targeted performance.
90+ day Loan Arrears (excluding Great Southern)	• The 90+ day loan arrears ratio as at year end was 1.21%. This was better than the targeted performance.
Risk Weighted Assets / Total Assets	• The risk weighted asset to total asset ratio at year end was 52.6%. This was better than the targeted performance.

The Board assessed the achievement of the bonus pool measures for the year and established a bonus pool. The Board determined that there would be no adjustment to the bonus pool for risk and performance outcomes and the bonus pool established represented approximately 33% of the maximum capped amount (FY2014: 57%).

STI performance assessments and payments

The payment of STI awards to executives is at the discretion of the Board and takes into account the Group's capacity to pay incentive awards to all staff. The target maximum STI awards set for each executive at the start of the year are adjusted to reflect the size of the bonus pool allocation.

Where the bonus pool is less than the maximum potential pool, the STI award for each executive will be proportionately adjusted downwards to reduce the STI opportunity for each executive. For example, if an executive has an approved target maximum STI award of $100,000 and the actual bonus pool allocation represents 50% of the maximum potential bonus pool, the STI award is adjusted to $50,000.

From there, each executive's performance is assessed against their specific performance measures and objectives set for the year. The outcome of the assessment is then used to determine any further adjustment (upward or downward) to the adjusted STI amount (i.e. $50,000) to determine the actual STI payment for the year.

Any further adjustment would be solely at the discretion of the Board to allow for any risk or compliance issues that were not contemplated at the time the goals were set, such as unforeseen regulatory changes, market developments or changes in strategic priorities or new business developments.

Managing Director's STI arrangement

The Board maintained the Managing Director's maximum STI award at $400,000. This was set taking into account the remuneration objectives discussed earlier and the Managing Director's target remuneration mix.

The following objectives were chosen at the start of the 2015 financial year for the Managing Director's STI assessment.

Measure	Description
1. Risk and Compliance	a. The level of risk associated with the Group's performance was within the Group's risk appetite; and b. An effective risk culture is promoted. This will be demonstrated through enhanced risk management practices, awareness, understanding and outcomes as well as proactive Board discussions and monitoring of risk across the Group.
2. Medium term targets	Significant progress being made towards achieving the following medium term targets: a. Shareholder Targets: focusing on improved and sustainable shareholder value; b. Customer Targets: focusing on customer satisfaction, advocacy rankings and growth in the customer base and products per customer ratio; c. Financial Targets: focusing on improving economic performance including balance sheet and earnings growth; d. Partner Targets: focusing on the performance of the partner network including community and partner satisfaction rankings; and e. People Targets: focusing on employee engagement, diversity and organisational effectiveness.
3. Strategic projects	a. The progress made during the year towards achieving Basel II advanced accreditation by the target date; and b. The successful integration of the Rural Finance business and the ongoing growth and development of the agribusiness division.
4. Public representation	The Group continues to be represented effectively to government (state and federal) and in industry and public forums.

After making any required proportionate adjustment for the size of the bonus pool, the Governance & HR Committee then assesses the Managing Director's performance based on the above performance measures and objectives and applies any upward or downward adjustment considered appropriate to determine the Managing Director's actual STI award for the year. The Governance & HR Committee then recommends the Managing Director's STI award to the Board for approval.

This method of assessment was chosen to enable unforeseen developments during the year to be factored into the assessment of the Managing Director's STI award and to ensure any necessary risk and compliance adjustments occur at the Board's discretion. The assessment is completed after the end of each financial year.

Other Executive STI arrangements

Following the end of the financial year, the Managing Director assesses the performance of the other executives based on the financial and non-financial goals set at the start of the year. The Board considers that the Managing Director is best placed to make an informed assessment of each executive's performance and overall contribution.

The financial and non-financial goals for other executives will typically include:

a. Group financial and strategic performance including achievement of targeted statutory and cash earnings performance;

b. Business unit (team) financial and strategic performance taking into account the achievement of division or business unit growth and financial performance targets, implementation of specific business initiatives and projects in line with project targets and timeframes, independent industry focused customer satisfaction and advocacy rankings and customer and community engagement initiatives;

c. Individual contribution to team performance taking into account the achievement of overall division or business unit targets and business and risk objectives, assessment of extent to which a "one-team" culture has been promoted, assessment of continuous improvement in processes and procedures;

d. Individual performance, including alignment with corporate values and meeting performance objectives, based on an assessment of leadership, management of business unit resourcing and compliance with corporate values and code of conduct; and

e. Contribution to meeting risk and compliance requirements at a Group, team and individual level.

The risk and compliance conditions also represent a gateway to whether a payment is made and the size of the payment. Notwithstanding financial performance and the individual's contribution and performance, if the individual, team or Group does not meet or only partially meets risk and compliance requirements, no award or a reduced award will be made. The risk and compliance requirements include compliance with risk management and operational policies and procedures.

Taking all of the above into account, the Managing Director then considers whether any further adjustment to an executive's STI award is necessary and makes a recommendation to the Governance & HR Committee. The assessment is completed after the end of the financial year.

The Board retains absolute authority over STI awards, including any risk and compliance adjustments, for all executives.

STI Deferral

If the actual STI award exceeds $50,000 one third of the award is deferred into equity as grants of deferred shares. The deferred shares are issued under the terms of the Employee Salary Sacrifice, Deferred Share and Performance Share Plan.

The deferral period is for two years commencing from the end of the financial year for which the STI was granted.

The recipient is entitled to vote and receive dividends on the deferred shares. The executive cannot deal in the shares during the restriction period.

Forfeiture of the STI deferred component occurs if an executive's employment with the Group ends, if an executive acts fraudulently or dishonestly and in other cases decided at the discretion of the Board (for example, due to an adjustment for risk). Deferred shares that do not vest at the end of the deferral period will be forfeited.

Table of STI Deferred Share grants at 30 June 2015

Grant Date	STI Award Year	Participants	Deferral Period	Vesting Date
18.10.2013	FY2013	All executives	01.07.2013 – 30.06.2015	30.06.2015
07.10.2014	FY2014	All executives	01.07.2014 – 30.06.2016	30.06.2016

It is anticipated that the grant relating to the deferral of STI awards for the 2015 financial year will be made in October 2015. Further details of the STI deferred share grants are presented at Section 6.

2.3 Long term incentive (LTI) plan

LTI is equity based remuneration that is subject to long-term performance and service conditions. At the Board's discretion, executives may be invited to participate in LTI plans involving grants of performance rights under the terms of the Employee Salary Sacrifice, Deferred Share and Performance Share Plan.

The number of performance rights granted is determined by dividing the remuneration value of the LTI component by the volume weighted average closing price of the Bank's shares for the last five trading days of the financial year prior to the year of the grant.

The performance right grants include cash EPS and TSR performance conditions. An EPS hurdle was chosen because EPS is a fundamental indicator of financial performance and capital efficiency. As the performance rights are issued annually, the LTI component for executives is conditional upon achieving an improvement in EPS performance year-on-year.

The TSR hurdle measures the Bank's shareholder return performance relative to the TSR performance of other ASX 100 companies (excluding property trusts and resources stocks) using the ASX 100 Accumulation Index. This group was chosen because it is broadly used by Australian listed companies and there are insufficient companies of comparable size in the banking or financial services sector to enable benchmarking against an industry-specific group. The TSR is independently calculated by an external provider.

The number of performance rights that vest and convert into ordinary shares in the Bank at the end of the applicable performance period is determined as follows:

a. **EPS hurdle:** The grant is reduced by 50% if the Bank's cash earnings per share for the applicable financial year is less than the cash earnings per share for the previous financial year.

b. **TSR hurdle:** The TSR performance period is three years. Vesting of the performance rights (as adjusted for the EPS performance outcome) will be conditional on achieving the following TSR performance against the peer group:

Company's relative TSR ranking	Percentage of performance rights that vest
TSR below 50th percentile	Nil
TSR between 50th percentile and 75th percentile	65%
TSR above 75th percentile	100%

A hurdle approach to vesting above the 50th percentile has been adopted, rather than a straight line vesting approach, to take into account certain shortcomings with the TSR measure. TSR performance represents a relative outcome that can be impacted by factors outside the control of management including the choice of peer group and the performance of the peer group, which may include companies in industries with different business cycles to banks.

Other factors that impact TSR which are not performance related include movements in price-earnings ratios of peer group companies due to developments such as changes to sector or industry sentiment and outlook or market views on potential corporate activities. The performance rights are subject to the executive's continued employment for the performance period and notification from the Board whether, and to what extent, the performance conditions have been met including any risk adjustment made by the Board.

Before vesting, the performance rights do not carry any dividend or voting rights or the right to participate in the issue of new shares, such as a bonus share issue. If performance rights vest, the Board instructs the Plan Trustee to subscribe for or acquire the required number of ordinary shares. For the Managing Director, the shares will be held by the Plan Trustee on the Managing Director's behalf until the end of the restriction period. Any dividend accruing on the shares during the restriction period will be paid to the Managing Director by the Plan Trustee.

Performance rights do not vest until the participant has been advised by the Board the extent to which the performance rights have vested. The Board will test the performance condition as soon as practical after year end. Any performance rights that do not vest will lapse at 5.00pm on the date the Board makes its decision on what performance rights vest or lapse. There is no retesting of unvested performance rights.

An additional one-year dealing restriction applies to ordinary shares allocated to the Managing Director for vested performance rights. However, a similar dealing restriction does not apply to other executives. Also, none of the current LTI grants were eligible to vest during or since the end of the financial year.

If an executive ends their employment with the Bank or were to act fraudulently, dishonestly or, in the Board's opinion, in breach of his or her legal duties before the conditions have been met, the unvested performance rights will be forfeited on the executive's last day of employment, unless there are exceptional circumstances and the Board decides otherwise to vest some or all of the performance rights.

If an executive's employment ends because of death, disability, redundancy, or any other reason approved by the Board, the unvested performance rights will continue to be held as if the executive's employment has not ended, and the service condition will be treated as waived, unless the Board decides otherwise. If the Board does decide otherwise, it may determine that some or all of the performance rights are forfeited, which would occur on the last day of employment. If there is a takeover or change of control of the Bank, the Board has discretion to decide that the dealing restriction will end at a date decided by the Board.

Managing Director's grants

At the 2013 annual general meeting, the Bank's shareholders approved a grant of 152,438 performance rights in two parcels which relate to the two year contract extension announced on 26 March 2013. Each parcel is subject to a twelve month performance period for cash EPS testing and a three year performance period for TSR testing as summarised below:

	Number of Performance Rights	1st Performance Period (EPS Measure)	2nd Performance Period (TSR Measure)	Service Condition	Dealing Restriction
Tranche 1	76,219	30.06.2014 – 30.06.2015	01.07.2013 – 30.06.2016	01.07.2013 – 30.06.2016	01.07.2016 -30.06.2017
Tranche 2	76,219	30.06.2015 – 30.06.2016	01.07.2013 – 30.06.2016	01.07.2013 – 30.06.2016	01.07.2016 -30.06.2017

Other executive grants

The Board implemented a new performance right plan for other executives in 2013. There have now been three grants under the plan and each grant was made as a single tranche with a four year performance period, consisting of an initial twelve month performance period for EPS testing followed by a three year performance period for TSR testing. A number of other executives received increases to their LTI opportunity for the year.

Table of current performance right grants

Grant Date	Grant Year	Participants	Performance Period	Vesting / Exercise Date	Lapse Date
31.08.2012	FY2013	Other Executives	1.07.2012 – 30.06.2016	30.06.2016	30.06.2016
17.12.2013	FY2014	Other Executives	1.07.2013 – 30.06.2017	30.06.2017	30.06.2017
01.07.2014	FY2015	Managing Director - Tranche 1	1.07.2013 – 30.06.2016	30.06.2016	30.06.2016
01.07.2014	FY2015	Managing Director - Tranche 2	1.07.2013 – 30.06.2016	30.06.2016	30.06.2016
10.12.2014	FY2015	Other Executives	1.07.2014 – 30.06.2018	30.06.2018	30.06.2018

Further details of the performance right grants are presented at Section 6.

2.4 Risk adjustment

The Board may adjust the number of deferred shares and performance rights that vest to take into account any unforseen or unexpected circumstances and risk developments. The Board has absolute discretion to adjust variable remuneration (deferred base pay, deferred STI and LTI) to reflect the following:

a. The outcomes of business activities;

b. The risks related to the business activities taking into account, where relevant, the cost of the associated capital; and

c. The time necessary for the outcome of those business activities to be reliably measured.

This includes adjusting performance-based components of remuneration downwards, to zero if appropriate. On an annual basis the Governance & HR Committee reviews the appropriateness of releasing deferred equity components taking into account the Group's performance outlook and any other matter that might impact the financial soundness of the Group.

2.5 Other Remuneration Policies

Hedging

An executive or their closely related parties may not enter into a transaction designed to remove the at-risk element of equity based pay before it has vested, or while it is subject to a trading restriction. These restrictions are in the Staff Trading Policy and Remuneration Policy.

The Bank treats compliance with these policies as important. At the end of each financial year each executive is required to confirm that they have complied with these restrictions. If an executive breaches either of these restrictions the executive forfeits all variable remuneration in the form of equity that is subject to the prohibition at the time of the breach.

Margin loan facility restriction

The Staff Trading Policy also prohibits KMPs from using the Bank's securities as collateral in any margin loan arrangements.

Vested deferred shares and performance rights

Under the terms of the Employee Salary Sacrifice, Deferred Share and Performance Share Plan the Board has discretion to satisfy deferred share grants (Deferred Base Remuneration and Deferred STI) and vested performance right grants by either issuing new shares or acquiring shares on-market.

Section 3: Company performance and remuneration outcomes

3.1 Overview of company performance

The following is an overview of the Group's key performance indicators on a year-on-year basis for the past five years. The remuneration outcomes for the year were in line with the performance across these measures and also recognise the progress made in respect to longer term strategic priorities.

This has been a challenging year for several parts of the business, with strong market competition, lower consumer and business confidence and a low interest rate environment combining to impact our result. The Group performed soundly overall and recorded continued improvement in most key financial performance measures including a 13.1% improvement in cash earnings, a 5.5% improvement in earnings per share and a total shareholder return of 5.9%.

The result follows strong improvement in shareholder returns for the two previous years and was again underpinned by the net interest margin performance, continued efficiency gains and prudent cost management. The Group also maintained its focus on key strategic objectives and implementing new business initiatives.

Company performance measure	Financial year ending				
	June 2015	June 2014	June 2013	June 2012	June 2011
Basic earnings per share (cents)	92.5	87.7	84.9	48.6	91.5
Cash earnings per share (cents)	95.1	91.5	85.4	84.2	92.3
NPAT ($m)	423.9	372.3	352.3	195.0	342.1
Cash earnings ($m)	432.4	382.3	348.0	323.0	336.2
Dividends paid and payable (cents per share)	66.0	64.0	61.0	60.0	60.0
Share price at start of financial year	$12.20	$10.07	$7.41	$8.86	$8.18
Share price at end of financial year	$12.26	$12.20	$10.07	$7.41	$8.86
Total shareholder return	**5.9%**	**28%**	**44%**	**(9.6%)**	**16%**

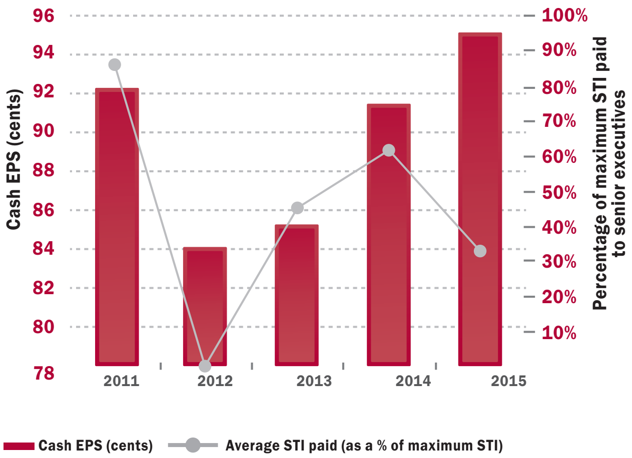
3.2 Remuneration outcomes

Short-term incentive outcomes

The measures used to determine the Group bonus pool allocation and individual STI awards are broadly annual cash earnings performance and business and risk management objectives.

The Board determined that the criteria for establishing a performance bonus pool for the 2015 financial year had been met and a bonus pool was established for the year. The performance assessments for individual executives were completed for the year in accordance with the process described earlier and STI awards have been made in line with those assessments.

The following graph shows the cash earnings over the past year and four previous years, with the average STI payment (as a percentage of the target STI awards) paid to executives, which demonstrates the relationship between the Group's financial performance and STI payments to executives over the past five years.



The Board assessed the achievement of the Managing Director's goals and taking into account the size of the bonus pool established by the Board awarded an STI payment of $132,646 for the year. The Board assessed that the Managing Director had achieved his performance goals and decided not to make any further adjustment to the STI award. Accordingly, the actual STI payment represents 33% of the target STI opportunity which corresponds with the proportion of the maximum bonus pool established for STI and bonus payments.

The Managing Director assessed the achievement of the financial, business and risk management objectives, as well as individual performance for the other executives and determined the proposed STI awards for other executive members. The proposed awards were considered by the Governance and HR Committee and approved by the Board.

There was a general decrease in the percentage of STI awards paid to other executives when compared to the previous year. There was no adjustment to the individual STI awards for the risk or compliance conditions. On average the actual STI payments represent 33% of the target STI awards which is also consistent with the bonus pool allocation for the year.

Long term incentive outcomes

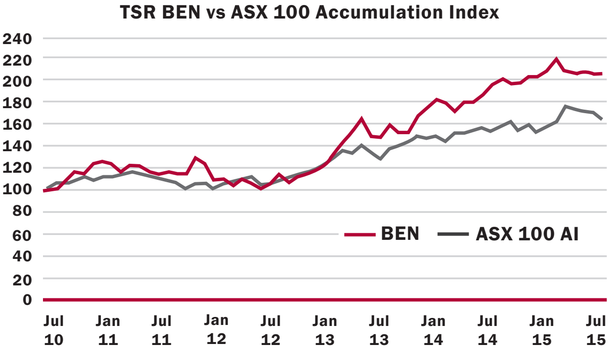
The two measures used to determine the vesting of performance rights are the Group's EPS performance and total shareholder return. The below table summarises the current LTI performance right grants and performance testing outcomes applicable to the grants:

Grant	Grant Date	EPS Test Date	TSR Test Date	EPS Test Met	Previously Vested %	Previously Lapsed %	Vested for 2015 %	Lapsed for 2015 %	Remaining %
2013 LTI Other Senior Executives	31.08.12	30.06.13	30.06.16	✓	0%	0%	0%	0%	100%
2014 LTI Other Senior Executives	17.12.13	30.06.14	30.06.17	✓	0%	0%	0%	0%	100%
2015 LTI Managing Director	01.07.14	30.06.15	30.06.16	✓	0%	0%	0%	0%	100%
2015 LTI Managing Director	01.07.14	30.06.16	30.06.16	Still to be tested	0%	0%	0%	0%	100%
2015 LTI Other Senior Executives	10.12.14	30.06.15	30.06.18	✓	0%	0%	0%	0%	100%

In relation to the Managing Director's LTI grant, the EPS test for the parcel tested on 30 June 2015 was met and accordingly 100% of the performance rights have been carried forward for testing over the three year TSR performance period. None of the performance rights have vested or lapsed.

In relation to LTI grants for other executives, the EPS test for the parcel tested on 30 June 2015 was met and accordingly 100% of the performance rights have been carried forward for testing over the three year TSR performance period. None of the performance rights have vested or lapsed.

The graph on the following page compares the Group's TSR against the ASX 100 Accumulation Index for the past five years. The ASX 100 is the comparator group against which the Group's TSR performance is measured for the current long term incentive plan.



Total return basis index 1 July 2010 = 100 (source: Bloomberg)

Deferred share grants

The current grants of deferred shares comprise the FY2014 base pay deferred share grant, the FY2015 base pay deferred share grant, the FY2013 and FY2014 STI deferred share grants and the Managing Director's base pay deferred share grant. The grants are subject to continued employment and risk adjustment conditions.

The FY2014 deferred base pay grant and the deferred component of the FY2013 STI were tested and having regard to the financial soundness of the organisation it was decided by the Board to vest the deferred shares.

The FY2015 base pay deferred grant and Managing Director's base pay deferred grant have not vested as the grants will be tested in future financial periods. The deferred component of the FY2014 and FY2015 STI awards have not vested as they will also be tested in future financial periods.

Section 4: Non-executive Director remuneration

The remuneration of Non-executive Directors is based on the following principles and arrangements. There is no direct link between Non-executive Director fees and the annual results of the Group. Non-executive Directors do not receive bonuses or incentive payments, nor receive any equity based pay.

Shareholders approved an aggregate fee pool for Non-executive Directors of $2,500,000 at the 2011 Annual General Meeting. This fee pool covers payments (including superannuation) for the main Board and payments to the Bank's Non-executive Directors appointed to subsidiary boards and the **Community Bank**® Strategic Advisory Board. The Governance & HR Committee (the "Committee") recommends to the Board the remuneration policy and remuneration for Non-executive Directors. The base fee is reviewed annually by the Committee and the following considerations are taken into account in setting the base fee:

a. The scope of responsibilities of Non-executive Directors and time commitments. This includes consideration of significant changes to the Group's operations and industry developments which impact Director responsibilities, at both the Board and committee level.

b. Fees paid by peer companies and companies of similar market capitalisation and complexity, including survey data and peer analysis to understand the level of Director fees paid in the market, particularly in the banking and finance sector.

Non-executive Directors receive a fixed annual fee plus superannuation contributions at 9.50% (FY2014: 9.25%) of the base fee. In relation to superannuation contributions, Non-executive Directors can elect to receive amounts above the maximum contributions limit as cash or additional superannuation contributions. The Chairman receives a higher base fee in recognition of the additional time commitment and responsibilities. No additional fees are paid for serving on Board Committees. Additional fees were paid to Non-executive Directors who are also members of the Rural Bank or Sandhurst Trustees or **Community Bank**® Strategic Advisory Boards. There was no change to the subsidiary fee payments for the year.

The base fee effective from 29 July 2014 was:

a. $190,748 for Directors (inclusive of company superannuation contributions)

b. $476,869 for the Chairman (two and a half times the base fee and inclusive of company superannuation contributions).

The Board increased the base fee by 3.0% in line with general market movements in Director fees. The increase commenced from 29 July 2014. The Board also decided to implement a fixed fee model inclusive of company superannuation contributions. The change was made to accommodate amendments to superannuation legislation.

The Directors contribute $5,000 each to the Bank's scholarship program. The program was established to assist disadvantaged students meet tertiary education accommodation and direct study costs. The contributions are deducted from base fee payments.

Section 5: Remuneration governance

The Committee provides assistance to the Board in relation to the Group's remuneration arrangements. The Board makes all final decisions in relation to those arrangements. The current members of the Committee are all independent Non-executive Directors:

a. Tony Robinson (Chairman)

b. Jacquie Hey

c. Robert Johanson

d. Deb Radford

The Committee has responsibility for providing input into the Group's risk management framework in relation to remuneration risk, in particular, recommending to the Board the remuneration arrangements for the Executives. A summary of the Committee's remuneration responsibilities is presented below and the Committee Charter is available from the Corporate Governance section of the Bank's website at www.bendigoadelaide.com.au.

The Committee's remuneration responsibilities include conducting regular reviews of, and making recommendations to the Board on, the remuneration strategy and policy taking into account the Group's objectives, risk profile, shareholder interests, regulatory requirements and market developments. The Committee is also responsible for making recommendations to the Board on:

a. The remuneration arrangements for executives, including the terms on which performance-based remuneration will be provided;

b. The performance-based remuneration outcomes for the executives; and

c. The annual bonus pool.

The Committee makes recommendations to the Board on the exercise of the Board's discretion to adjust incentive and performance-based remuneration to reflect the outcomes of business activities and the risks relating to those activities.

The Committee is also responsible for recommending to the Board the remuneration matters specified by the Australian Prudential Regulation Authority under Prudential Standard CPS 510 *Governance* relating to other designated responsible persons, risk and financial control personnel and material risk takers.

The Committee may consult a professional adviser or expert, at the cost of the Bank, if the Committee considers it necessary to carry out its duties and responsibilities. No remuneration recommendations were obtained from external consultants in relation to any of the KMP during the reporting period.

Section 6: KMP remuneration, equity and loan tables

Table 1: Non-executive Director remuneration

The following payments were made to Non-executive Directors in the 2015 and 2014 financial years.

Non-executive Director		Short-term benefits	Post-employment benefits	Total
	Fees [1]	Non-monetary benefits [2]	Superannuation contributions [3]	
R Johanson (Chairman) [4]				
2015	$529,325	$4,550	$18,784	$552,659
2014	$514,976	$4,550	$17,775	$537,301
J Dawson [5]				
2015	$85,000	-	$7,395	$92,395
2014	$253,649	-	$23,463	$277,112
J Hazel [6]				
2015	$253,998	-	$24,130	$278,128
2014	$248,836	-	$23,017	$271,853
J Hey				
2015	$173,811	-	$16,512	$190,323
2014	$168,649	-	$15,600	$184,249
R Hubbard				
2015	$173,811	-	$16,512	$190,323
2014	$168,649	-	$15,600	$184,249
D Matthews [7]				
2015	$248,620	$4,757	$18,600	$271,977
2014	$191,264	-	$17,692	$208,956
D Radford				
2015	$173,811	-	$16,512	$190,323
2014	$168,649	-	$15,600	$184,249
T Robinson [8]				
2015	$198,400	$4,384	$17,304	$220,088
2014	$145,855	$22,794	$15,600	$184,249
Aggregate totals				
2015	**$1,836,776**	**$13,691**	**$135,749**	**$1,986,216**
2014	**$1,860,527**	**$27,344**	**$144,347**	**$2,032,218**

[1]Fee amounts include the $5,000 Director contribution to the Board scholarship program for FY2014 and FY2015.

[2]Represents fee sacrifice component of the base Director fee amount paid as superannuation.

[3]Company superannuation contributions.

[4]Fees paid to Mr Johanson include the fee paid by Rural Bank Limited of $76,854 inclusive of company superannuation (FY2014: $76,854 including company superannuation at 9.25%).

[5]Ms Dawson retired from the Board on 27 October 2014. The fees paid to Ms Dawson include, on a pro-rata basis, an additional fee of $93,075 inclusive of company superannuation at 9.5% as Chairman of Sandhurst Trustees Ltd (FY2014: $93,075 including company superannuation at 9.25%).

[6]Fees paid to Mr Hazel include the fee paid by Rural Bank Limited of $87,804 inclusive of company superannuation (FY2014: $87,804 inclusive of company superannuation at 9.25%).

[7]The fees paid to Mr Matthews include $15,330 inclusive of company superannuation as a member of the **Community Bank**® Strategic Advisory Board (CBSAB). They also include, on a pro-rata basis, a fee of $76,854 inclusive of company superannuation as a Director of Rural Bank Limited which commenced from 20 August 2014. The fees paid to Mr Matthews for FY2014 include $24,707 for his role as Co-Chairman of the CBSAB which ceased in January 2014.

[8]The fees paid to Mr Robinson include, on a pro-rata basis, a fee of $89,790 inclusive of company superannuation as a Director of Sandhurst Trustees Ltd which commenced on 10 March 2015.

Table 2: Non-executive Director equity holdings

The details of shareholdings in the Bank held (directly or nominally) by Non-executive Directors (including their close family members or any entity they, or their close family members, control, jointly control or significantly influence) are set out below.

Name	Number at start of year		Net Change [1]		Number at end of year [2]	
	Ordinary shares	Preference shares	Ordinary shares	Preference shares	Ordinary shares	Preference shares
Non-executive Directors						
R Johanson	236,723	500	20,530	(500)	257,253	-
J Dawson [3]	29,718	100	(29,718)	(100)	-	-
J Hazel	17,024	-	898	-	17,922	-
J Hey	4,227	250	2,223	-	6,450	250
R Hubbard	5,192	-	-	-	5,192	-
D Matthews	16,594	-	620	-	17,214	-
D Radford	1,900	1,390	-	1,800	1,900	3,190
T Robinson	10,692	-	7,500	-	18,192	-

[1]No equity instruments were granted as compensation to Non-executive Directors during the reporting period.

[2]None of the shares are held nominally.

[3]Ms Dawson retired from the Board on 27 October 2014.

Table 3: Executive remuneration

The statutory executive remuneration disclosures for the 2015 and 2014 financial years are set out in the table below. The following remuneration disclosures have been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards.

	Short-term employee benefits					Share-based payments [6]			
Executive	Cash salary[1]	Cash bonuses (STI)[2]	Non-monetary benefits[3]	Super-annuation benefits[4]	Other long-term benefits[5]	Performance rights[7]	Deferred shares[8]	Total	Performance related
M Hirst									
2015	$1,307,115	$88,431	$73,869	$18,784	$31,362	$358,737	$1,003,283	$2,881,581	18%
2014 [9]	$1,286,057	$152,000	$31,308	$17,775	($11,548)	$1,287,847	$29,329	$2,792,768	53%
M Baker									
2015	$550,811	$44,215	$10,132	$18,784	$20,705	$70,294	$171,767	$886,708	17%
2014	$506,441	$87,500	$9,731	$17,091	$10,094	$42,149	$121,184	$794,190	18%
D Bice									
2015	$395,326	$30,000	$26,393	$18,784	$14,352	$33,729	$90,733	$609,317	15%
2014	$404,514	$57,000	$5,100	$17,775	$25,588	$22,471	$64,755	$597,203	15%
J Billington									
2015	$399,068	$48,000	-	$18,784	-	$39,002	$93,494	$598,348	17%
2014	$399,446	$56,667	-	$17,775	-	$27,745	$76,644	$578,277	15%
R Fennell									
2015	$556,409	$55,269	$4,500	$18,784	$26,838	$73,086	$178,019	$912,905	19%
2014	$510,278	$112,500	$4,841	$17,775	$91,887	$44,942	$121,184	$903,407	19%
R Jenkins [10]									
2014	$62,245	$6,712	$3,204	$2,386	($3,125)	$3,034	$16,000	$90,456	13%
R Musgrove [10]									
2015	$279,248	$44,000	$37,960	$32,588	$10,541	$19,635	$68,234	$492,206	15%
2014	$255,963	$32,899	$20,778	$26,402	$1,743	$7,252	$23,600	$368,637	11%
T Piper									
2015	$520,878	$30,000	$15,770	$18,784	$30,663	$56,222	$143,610	$815,927	13%
2014	$490,229	$50,000	$7,111	$17,775	$13,532	$33,706	$103,015	$715,368	13%
S Thredgold									
2015	$322,430	$49,742	$5,000	$18,784	$5,226	$33,729	$80,483	$515,394	20%
2014	$316,025	$57,000	$5,340	$17,775	$8,581	$22,471	$59,757	$486,949	18%

Table 3: Executive remuneration (continued)

Executive	Short-term employee benefits: Cash salary[1]	Short-term employee benefits: Cash bonuses (STI)[2]	Short-term employee benefits: Non-monetary benefits[3]	Super-annuation benefits[4]	Other long-term benefits[5]	Share-based payments [6]: Performance rights[7]	Share-based payments [6]: Deferred shares[8]	Total	Performance related
A Tullio [10]									
2015	$301,761	$33,334	$5,896	$18,784	-	$19,635	$80,275	$459,685	16%
2014	$294,790	$37,584	$1,327	$17,580	-	$8,285	$38,868	$398,434	15%
A Watts									
2015	$405,956	$36,667	$5,447	$18,784	($420)	$39,379	$78,568	$584,381	17%
2014	$379,552	$57,000	$11,830	$17,775	($18,289)	$28,122	$75,590	$551,580	17%
Totals									
2015	**$5,039,002**	**$459,658**	**$184,967**	**$201,644**	**$139,267**	**$743,448**	**$1,988,466**	**$8,756,452**	
2014	**$4,905,540**	**$706,862**	**$100,570**	**$187,884**	**$118,463**	**$1,528,024**	**$729,926**	**$8,277,269**	

[1]Cash salary amounts include the net movement in the executive's annual leave accrual for the year.

[2]These amounts represent STI cash awards to executives for the financial year. The cash component is expected to be paid in September 2015. Refer also to footnote 8 below for discussion on the deferral of STI components.

[3]"Non-monetary" relates to sacrifice components of executive salary such as superannuation contributions and motor vehicle costs.

[4]Represents company superannuation contributions made on behalf of executives. Company superannuation contributions form part of the executive's fixed base remuneration and are paid up to the statutory maximum contributions base.

[5]The amounts disclosed relate to movements in long service leave entitlement accruals.

[6]In accordance with the requirements of Australian Accounting Standards, remuneration includes a proportion of the fair value of equity compensation granted or outstanding during the year. The fair value of equity instruments is calculated as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual executives may ultimately realise should the equity instruments vest. The fair value of performance rights as at the grant date has been calculated under AASB 2 *Share-based Payments* applying a Black-Scholes-Merton valuation method incorporating a Monte Carlo simulation option pricing model to estimate the probability of achieving the total shareholder return hurdle and the number of performance rights that vest. The assumptions underpinning these valuations are set out in Table 6.

[7]The amounts included in the performance rights column comprise the amortised value of annual performance right grants to executives (excluding the Managing Director) amortised over a four year period and the amortised value of the single performance right grant to the Managing Director made on 1 July 2014 amortised over a three year period. As the performance right grants for other executives commenced in the 2013 financial year, the comparative figures only include the amortised value for two performance right grants and the current year's value includes the amortised value for three performance right grants. As there is only one current performance right grant to the Managing Director the amortised value for the current and comparative year are the same noting that the comparative value also includes an amount of $935,969 being the annual amortised value of the performance right grant made in 2009 that involved a five year performance period that concluded on 30 June 2014.

[8]The amounts included in the deferred share column comprise:

The fair value of deferred STI components amortised over a two-year deferral period. The deferred STI component for the 2013 financial year is amortised over the 2014 and 2015 financial years and the deferred STI component for the 2014 financial year is amortised over 2015 and 2016 financial years. There were no STI awards for the 2012 financial year. Accordingly, the comparative amount only includes the amortised value for one deferred STI grant and the current year amount includes the amortised value for two deferred STI grants.

The fair value of the deferred share base pay grants amortised over a two-year deferral period. The deferred base pay grant made during the 2013 financial year is amortised over the 2013 and 2014 financial years, the deferred base pay grant made during the 2014 financial year is amortised over the 2014 and 2015 financial years and the deferred base pay grant made during the 2015 financial year is amortised over the 2015 and 2016 financial years.

[9]The comparative cash salary for Mr Hirst has been reduced by $54,285 for a salary underpayment relating to FY2013 that was paid in FY2014.

[10]Mr Jenkins ceased as a KMP on 19 August 2013, Mr Musgrove commenced as a KMP on 19 August 2013 and Ms Tullio commenced as a KMP on 5 July 2013. The remuneration details for these KMP are presented on a pro-rata basis for the 2014 financial year.

Table 4: Executive STI payments

The following short-term incentives were awarded to executives for FY2015. The short-term incentives forfeited are also set out in the table below.

Executive	Target STI award [2]	STI payment			
		Paid as cash	Deferred into shares [1]	STI payment as % of Target STI Award	% of Target STI Award forfeited
M Hirst	$400,000	$88,431	$ 44,215	33%	67%
M Baker	$200,000	$44,215	$ 22,108	33%	67%
D Bice	$150,000	$30,000	-	20%	80%
J Billington	$160,000	$48,000	-	30%	70%
R Fennell	$250,000	$55,269	$ 27,634	33%	67%
T Piper	$100,000	$30,000	-	30%	70%
R Musgrove	$100,000	$44,000	-	44%	56%
S Thredgold	$150,000	$49,742	-	33%	67%
A Tullio	$100,000	$33,334	$16,666	50%	50%
A Watts	$180,000	$36,667	$18,333	31%	69%

[1]One-third of STI awards that exceed the $50,000 threshold set by the Board are subject to deferral for two years into shares in the Bank. The allocation of deferred shares relating to STI deferral for FY2015 is expected to be completed in October 2015.
[2]The STI award is subject to the achievement of financial and non-financial measures. Accordingly, the minimum potential STI award is nil.

Table 5: Executive employment agreements

The remuneration and other terms of employment for executives are contained in formal employment contracts. The material terms of the executive contracts at the date of this report are set out below.

Issue	Description	Applies to
What is the duration of the contracts?	Fixed term to 2016, subject to the termination provisions summarised below, and then on-going until notice is given by either party.	Managing Director
	On-going until notice is given by either party.	Other Executives
What notice must be provided by a Senior Executive to end the contract without cause?	Up to 12 months' notice. No notice period required if material change in duties or responsibilities.	All Executives
What notice must be provided by the Bank to end the contract without cause? [1]	12 months' notice or payment in lieu.	All Executives
What payments must be made by the Bank for ending the contract without cause? [1]	Payment of gross salary in lieu of period of notice (including payment of accrued/unused leave entitlements calculated to end of relevant notice period).	All Executives
What are notice and payment requirements if the Bank ends the contract for cause?	Termination for cause does not require a notice period. Payment of pro-rata gross salary and benefits (including payment of accrued/unused leave entitlements) is required to date of termination.	All Executives
Are there any post-employment restraints?	12 month non-competition and non-solicitation (employees, customers and suppliers) restriction.	Managing Director
	12 month non-solicitation (employees, customers and suppliers) restriction.	Other Executives

[1]In certain circumstances, such as a substantial diminution of responsibility, the Bank may be deemed to have ended the employment of an executive and will be liable to pay a termination benefit as outlined at the row titled "What payments must be made by the Bank for ending the contract without cause".

Table 6: All equity plans – equity valuation inputs

The following tables summarise the valuation inputs for current equity instruments issued by the Bank.

a. Deferred Shares

		Terms & Conditions for each Grant			
Equity Instrument	Grant date	Issue price / Fair value [1]	Share price at grant date	Restriction period end / test date	Expiry date
Deferred Shares Base Pay	17.12.2013	$10.86	$10.98	30.06.2015	30.06.2015
Deferred Shares Base Pay	10.12.2014	$12.89	$12.62	30.06.2016	30.06.2016
Deferred Shares Base Pay [2]	01.07.2014	$12.28	$12.30	30.06.2016	30.06.2016
Deferred Shares STI	18.10.2013	$10.38	$10.47	30.06.2015	30.06.2015
Deferred Shares STI	07.10.2014	$11.74	$11.81	30.06.2016	30.06.2016

[1]The fair value of deferred share grants (for STI deferral and deferred base pay) is calculated using the volume weighted average closing price of the Bank's shares for the five days prior to and period ending on the grant date.

[2]A further 12 month dealing restriction applies to the Managing Director's grant.

b. Performance rights

				Terms & Conditions for each Grant					
Equity Instrument	Grant date	Fair value [1]	Share price $	Exercise price	Risk-free interest rate	Dividend yield	Expected volatility	Expected life	Performance period end / expiry date [2]
Performance Rights	31.08.2012	$3.30	$7.58	-	2.49%	6.5%	25%	4 years	30.06.2016
Performance Rights	17.12.2013	$4.45	$10.98	-	2.91%	7.5%	22%	4 years	30.06.2017
Performance Rights [3]	01.07.2014	$7.06	$12.30	-	2.57%	6.5%	22%	3 years	30.06.2016
Performance Rights	10.12.2014	$5.53	$12.62	-	2.31%	6.0%	18%	4 years	30.06.2018

[1]The fair value is calculated as at grant date in accordance with AASB 2 *Share-based Payments* using an independent valuation.

[2]The Board will test the performance condition as soon as practical after year end. Any performance rights that do not vest will lapse at 5.00pm on the date the Board makes its decision on what performance rights vest or lapse.

[3]The terms and conditions relate to the grant to the Managing Director which has a three year performance period. As the performance rights will lapse at the end of the performance period if the performance measures are not met, the expected life of the grant is three years. A further 12 month dealing restriction applies to the Managing Director's grant.

Table 7: All equity plans - number of instruments

The table below sets out the number and value of equity instruments granted by the Bank during FY2015. It also includes details of instruments granted in prior years that vested or were forfeited or lapsed during the year.

Executive	Equity Instrument	Grant Date	Granted Units [1]	Granted [2] $	Prior years' awards vested [3] Units	Prior years' awards vested [4, 7] $	Forfeited / Lapsed [2, 5, 6] Units	Forfeited / Lapsed [5, 6] $
M Hirst	Performance Rights	01.07.2014	152,438	$1,076,212	-	-	-	-
	Deferred Shares Base Pay	01.07.2014	152,438	$1,871,939	-	-	-	-
	Deferred Shares STI	07.10.2014	6,471	$75,970	-	-	-	-
	Deferred Shares STI	18.10.2013	-	-	5,651	$58,657	-	-
M Baker	Performance Rights	10.12.2014	20,358	$112,580	-	-	-	-
	Deferred Shares Base Pay	10.12.2014	12,214	$157,438	-	-	-	-
	Deferred Shares Base Pay	17.12.2013	-	-	10,040	$109,034	-	-
	Deferred Shares STI	07.10.2014	3,725	$43,732	-	-	-	-
	Deferred Shares STI	18.10.2013	-	-	3,211	$33,330	-	-
D Bice	Performance Rights	10.12.2014	8,143	$45,031	-	-	-	-
	Deferred Shares Base Pay	10.12.2014	5,700	$73,473	-	-	-	-
	Deferred Shares Base Pay	17.12.2013	-	-	5,020	$54,517	-	-
	Deferred Shares STI	07.10.2014	2,426	$28,481	-	-	-	-
	Deferred Shares STI	18.10.2013	-	-	2,408	$24,995	-	-
J Billington	Performance Rights	10.12.2014	8,143	$45,031	-	-	-	-
	Deferred Shares Base Pay	10.12.2014	6,107	$78,719	-	-	-	-
	Deferred Shares Base Pay	17.12.2013	-	-	7,362	$79,951	-	-
	Deferred Shares STI	07.10.2014	2,412	$28,317	-	-	-	-
	Deferred Shares STI	18.10.2013	-	-	-	-	-	-
R Fennell	Performance Rights	10.12.2014	20,358	$112,580	-	-	-	-
	Deferred Shares Base Pay	10.12.2014	12,214	$157,438	-	-	-	-
	Deferred Shares Base Pay	17.12.2013	-	-	10,040	$109,034	-	-
	Deferred Shares STI	07.10.2014	4,790	$56,235	-	-	-	-
	Deferred Shares STI	18.10.2013	-	-	3,211	$33,330	-	-
R Musgrove	Performance Rights	10.12.2014	8,143	$45,031	-	-	-	-
	Deferred Shares Base Pay	10.12.2014	4,885	$62,968	-	-	-	-
	Deferred Shares Base Pay	17.12.2013	-	-	5,020	$54,517	-	-
	Deferred Shares STI	07.10.2014	1,617	$18,984	-	-	-	-
	Deferred Shares STI	18.10.2013	-	-	-	-	-	-
T Piper	Performance Rights	10.12.2014	16,286	$90,062	-	-	-	-
	Deferred Shares Base Pay	10.12.2014	10,179	$131,207	-	-	-	-
	Deferred Shares Base Pay	17.12.2013	-	-	10,040	$109,034	-	-
	Deferred Shares STI	07.10.2014	2,128	$24,983	-	-	-	-
	Deferred Shares STI	18.10.2013	-	-	2,119	$21,995	-	-
S Thredgold	Performance Rights	10.12.2014	8,143	$45,031	-	-	-	-
	Deferred Shares Base Pay	10.12.2014	4,885	$62,968	-	-	-	-
	Deferred Shares Base Pay	17.12.2013	-	-	5,020	$54,517	-	-
	Deferred Shares STI	07.10.2014	2,426	$28,481	-	-	-	-
	Deferred Shares STI	18.10.2013	-	-	1,445	$14,999	-	-

Table 7: All equity plans - number of instruments (continued)

Executive	Equity Instrument	Grant Date	Granted Units [1]	Granted [2] $	Prior years' awards vested [3] Units	Prior years' awards vested [4, 7] $	Forfeited / Lapsed [2, 5, 6] Units	Forfeited / Lapsed [5, 6] $
A Tullio	Performance Rights	10.12.2014	8,143	$45,031	-	-	-	-
	Deferred Shares Base Pay	10.12.2014	4,885	$62,968	-	-	-	-
	Deferred Shares Base Pay	17.12.2013	-	-	5,020	$54,517	-	-
	Deferred Shares STI	07.10.2014	1,617	$18,984	-	-	-	-
	Deferred Shares STI	18.10.2013	-	-	2,320	$24,082	-	-
A Watts	Performance Rights	10.12.2014	8,143	$45,031	-	-	-	-
	Deferred Shares Base Pay	10.12.2014	4,071	$52,475	-	-	-	-
	Deferred Shares Base Pay	17.12.2013	-	-	5,020	$54,517	-	-
	Deferred Shares STI	07.10.2014	2,426	$28,481	-	-	-	-
	Deferred Shares STI	18.10.2013	-	-	2,087	$21,663	-	-

[1]The grants to executives in FY2015 constituted 100% of the grants available for the year and were made on the terms described at Section 2. The number of base pay deferred shares and performance rights allocated to executives is calculated by dividing the remuneration value by the volume weighted average closing price of the Bank's shares for the last five trading days of the financial year prior to year of the grant. The number of STI deferred shares allocated to executives is calculated by dividing the deferred STI remuneration value by the volume weighted average closing price of the Bank's shares for the five trading days ending on the grant date.

[2]The value of the performance right grants and deferred share grants is the fair value (refer Table 6). The minimum total value of the grants, if the applicable performance and service conditions are not met, is nil and an estimate of the maximum possible total value in future financial years is the fair value shown above.

[3]The percentage of performance rights that vested, or were forfeited, during the year was nil as the TSR measure for performance rights will be tested over future periods. The percentage of base pay deferred share grants and STI deferred share grants made in FY2014 that vested during the year was 100%. The percentage of the deferred share base pay grant and deferred STI grant made in FY2015 that vested during the year was nil as the grants will be tested over future periods.

[4]The value of vested deferred shares is measured using the fair values applicable to the grant of deferred shares that vested. The applicable fair values are presented at Table 6. As each deferred share represents one ordinary share in the Bank, the number of ordinary shares that will be allocated is the same as the number of vested deferred shares.

[5]The value of each instrument on the date it lapses or is forfeited is calculated using the fair value of the instrument. Performance rights and deferred shares lapse where the applicable performance and service conditions are not satisfied. As the performance rights only vest on satisfaction of performance and service conditions which are to be tested in future financial periods, none of the executives forfeited performance rights during the 2015 financial year. The 2014 deferred base pay grant and deferred component of the 2013 STI were tested and all deferred shares vested. The remaining deferred share grants will be tested in future financial periods.

[6]The performance rights vest subject to performance and continued service over the applicable performance period. The exercise price for the performance rights and deferred shares is nil. If performance rights do not vest at the end of the performance period, they lapse.

[7]The Bank acquired the following securities on-market for the purpose of, and to satisfy the entitlements of holders of rights to acquire securities granted under, the Bank's Employee Salary Sacrifice, Deferred Share and Performance Share Plan:

a. Total number of ordinary shares purchased during the financial year: 225,519 ordinary shares; and

b. Average price per ordinary share at which the securities were purchased: $12.54 per security.

Table 8: Movements in other equity holdings

All equity transactions with executives have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length other than shares issued under the Employee Share Ownership Plan. Issues of shares under the Employee Share Plan are made under conditions disclosed in the 2015 Annual Financial Report at Note 37 Share-based payment plans.

Performance rights and deferred shares are granted as equity compensation under the Employee Salary Sacrifice, Deferred Share and Performance Share Plan ("Plan") to executives as long term incentive, deferred base and deferred STI remuneration components. The movements in executive (including their related parties) equity holdings for FY2015 are below. No performance rights held by Executives were vested but not exercisable at year end.

Executive	Equity Instrument [1]	Number at start of year	Number granted during the year as remuneration	Number Received on exercise or exercised / released during the year	Number Lapsed / expired during the year	Net change other	Number at end of year [2]	Vested and exercisable at year end
M Hirst	Deferred shares	5,651	158,909	(5,651)	-	-	158,909	-
	Ordinary shares	853,309	-	-	-	(271,248)	582,061	-
	Preference shares	-	-	-	-	-	-	-
	Performance rights	-	152,438	-	-	-	152,438	-
M Baker	Deferred shares	13,251	15,939	(13,251)	-	-	15,939	-
	Ordinary shares	234,091	-	-	-	22,718	256,809	-
	Preference shares	550	-	-	-	50	600	-
	Performance rights	44,967	20,358	-	-	-	65,325	-
D Bice	Deferred shares	7,428	8,126	(7,428)	-	-	8,126	-
	Ordinary shares	92,030	-	-	-	(14,162)	77,868	-
	Preference shares	-	-	-	-	-	-	-
	Performance rights	23,739	8,143	-	-	-	31,882	-
J Billington	Deferred shares	7,362	8,519	(7,362)	-	-	8,519	-
	Ordinary shares	53,831	-	-	-	(7,638)	46,193	-
	Preference shares	-	-	-	-	-	-	-
	Performance rights	30,131	8,143	-	-	-	38,274	-
R Fennell	Deferred shares	13,251	17,004	(13,251)	-	-	17,004	-
	Ordinary shares	114,857	-	-	-	(42,823)	72,034	-
	Preference shares	-	-	-	-	-	-	-
	Performance rights	47,477	20,358	-	-	-	67,835	-
R Musgrove	Deferred shares	5,020	6,502	(5,020)	-	-	6,502	-
	Ordinary shares	22,056	-	-	-	820	22,876	-
	Preference shares	-	-	-	-	-	-	-

Table 8: Movements in other equity holdings (continued)

Executive	Equity Instrument [1]	Number at start of year	Number granted during the year as remuneration	Number Received on exercise or exercised / released during the year	Number Lapsed / expired during the year	Net change other	Number at end of year [2]	Vested and exercisable at year end
	Performance rights	7,530	8,143	-	-	-	15,673	-
T Piper	Deferred shares	12,159	12,307	(12,159)	-	-	12,307	-
	Ordinary shares	76,342	-	-	-	(25,332)	51,010	-
	Preference shares	-	-	-	-	-	-	-
	Performance rights	35,608	16,286	-	-	-	51,894	-
S Thredgold	Deferred shares	6,465	7,311	(6,465)	-	-	7,311	-
	Ordinary shares	41,275	-	-	-	(11,835)	29,440	-
	Preference shares	-	-	-	-	-	-	-
	Performance rights	23,739	8,143	-	-	-	31,882	-
A Tullio	Deferred shares	7,340	6,502	(7,340)	-	-	6,502	-
	Ordinary shares	71	-	-	-	7,340	7,411	-
	Preference shares	-	-	-	-	-	-	-
	Performance rights	7,530	8,143	-	-	-	15,673	-
A Watts	Deferred shares	7,107	6,497	(7,107)	-	-	6,497	-
	Ordinary shares	77,912	-	-	-	7,107	85,019	-
	Preference shares	-	-	-	-	-	-	-
	Performance rights	30,588	8,143	-	-	-	38,731	-

[1] Ordinary share amounts include ordinary shares issued under the Employee Share Ownership Plan.
[2] None of the equity holdings are held nominally.

Table 9: Loans to Non-executive Directors and Executives

Details of aggregate of loans to KMP and their related parties are as follows:

	Balance at beginning of year [1]	Interest charged	Interest not charged	Write-off	Balance at end of year	Number at year end
	$'000	$'000	$'000	$'000	$'000	
Non-executive Directors						
2015	1,636	67	-	-	853	5
Executives						
2015	4,034	206	-	-	4,036	10
Total Directors and Executives						
2015	5,670	273	-	-	4,889	15

Details of KMP (including their related parties) with an aggregate of loans above $100,000 in the reporting period are as follows:

2015	Balance at beginning of year	Interest charged	Interest not charged	Write-off	Balance at end of year	Highest owing in period [2]
	$'000	$'000	$'000	$'000	$'000	$'000
Non-executive Directors						
R Johanson	1,118	44	-	-	762	1,215
D Matthews	445	22	-	-	65	448
Executives						
M Hirst	103	4	-	-	58	114
D Bice	517	26	-	-	461	523
J Billington	872	47	-	-	841	876
R Fennell	481	27	-	-	509	509
R Musgrove	403	19	-	-	338	404
T Piper	-	15	-	-	506	-
S Thredgold	969	24	-	-	415	978
A Tullio	590	39	-	-	869	878

[1] The opening balances for the 2015 financial year have been adjusted to exclude loan balances applicable to Mr Jenkins who ceased as a KMP on 19 August 2013. They also exclude loans provided to Executives under the Employee Share Ownership Plan. The Corporations Regulations do not require the disclosure of these loans.

[2] Represents aggregate highest indebtedness of the KMP during the financial year. All other items in this table relate to the KMP and their related parties.

Terms and conditions of Director and Executive loans

The loans to Non-executive Directors and executives occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those that it is reasonable to expect the Bank would have adopted if dealing at arms-length with an unrelated person.

This Directors' Report is signed in accordance with a resolution of the Board of Directors.

Robert Johanson

Chairman

Mike Hirst

Managing Director

1 September 2015

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Primary statements

Income statement
for the year ended 30 June 2015

	Note	Group 2015 $m	Group 2014 $m	Bank 2015 $m	Bank 2014 $m
Net interest income					
Interest income		2,938.7	2,928.2	2,518.3	2,456.9
Interest expense		(1,761.1)	(1,810.0)	(1,483.8)	(1,480.8)
Total net interest income	3	**1,177.6**	**1,118.2**	**1,034.5**	**976.1**
Other revenue					
Dividends		1.3	0.8	23.8	0.2
Fees		165.6	160.2	147.7	140.7
Commissions		63.2	58.4	18.1	16.5
Other		136.3	104.3	66.7	59.4
Total other revenue	3	**366.4**	**323.7**	**256.3**	**216.8**
Share of net profit accounted for using the equity method	23	4.4	0.2	1.7	1.1
Total income		**1,548.4**	**1,442.1**	**1,292.5**	**1,194.0**
Expenses					
Bad and doubtful debts		(71.2)	(85.6)	(55.7)	(57.1)
Bad and doubtful debts recovered		2.9	3.7	2.8	3.6
Total bad and doubtful debts	3	**(68.3)**	**(81.9)**	**(52.9)**	**(53.5)**
Operating expenses					
Staff and related costs		(464.2)	(435.1)	(406.5)	(385.1)
Occupancy costs		(96.5)	(86.8)	(92.8)	(83.0)
Amortisation and depreciation costs		(47.2)	(46.5)	(35.0)	(34.8)
Fees and commissions		(35.9)	(33.9)	(8.1)	(8.2)
Other		(246.8)	(221.4)	(237.4)	(222.7)
Total other expenses	3	**(890.6)**	**(823.7)**	**(779.8)**	**(733.8)**
Profit before income tax expense		**589.5**	**536.5**	**459.8**	**406.7**
Income tax expense	4	(165.6)	(164.2)	(119.3)	(124.0)
Net profit for the year		**423.9**	**372.3**	**340.5**	**282.7**
Earnings per share (cents)					
Basic	6	92.5	87.7		
Diluted	6	87.3	83.6		

Statement of comprehensive income
for the year ended 30 June 2015

	Note	Group		Bank	
		2015 $m	2014 $m	2015 $m	2014 $m
Profit for the year		**423.9**	**372.3**	**340.5**	**282.7**
Items which may be reclassified subsequently to the profit & loss:					
Net gain on available for sale - equity investments	17	1.0	1.4	0.4	0.6
Transfer to income on sale of available for sale assets	17	(2.6)	-	-	-
Net loss on cash flow hedges taken to equity	17	(17.3)	(5.9)	(26.3)	(18.4)
Net (loss)/gain on reclassification from cash flow hedge reserve to income	17	(0.6)	0.1	(0.6)	0.1
Net unrealised (loss)/gain on available for sale debt securities	17	(0.6)	0.2	(5.0)	37.0
Transfer to income on sale of available for sale assets	17	(0.1)	(0.2)	(0.1)	(0.2)
Tax effect on items taken directly to or transferred from equity	17	6.1	1.3	9.5	(5.8)
Total items that may be reclassified to profit & loss		**(14.1)**	**(3.1)**	**(22.1)**	**13.3**
Items which will not be reclassified subsequently to the profit & loss:					
Actuarial (loss)/gain on superannuation defined benefits plan	17	(1.6)	1.6	(1.6)	1.6
Revaluation of land and buildings	17	-	0.9	-	0.3
Tax effect on items taken directly to or transferred from equity	17	0.5	(0.8)	0.5	(0.6)
Total items that will not be reclassified to profit & loss		**(1.1)**	**1.7**	**(1.1)**	**1.3**
Total comprehensive income for the year		**408.7**	**370.9**	**317.3**	**297.3**
Total comprehensive income for the year attributable to: Owners of the Company		408.7	370.9	317.3	297.3

Balance sheet
as at 30 June 2015

	Note	Group 2015 $m	Group 2014 $m	Bank 2015 $m	Bank 2014 $m
Assets					
Cash and cash equivalents	26	981.6	716.1	870.4	610.5
Due from other financial institutions	26	215.7	242.5	215.7	242.4
Amounts receivable from controlled entities		-	-	188.1	283.8
Financial assets held for trading	18	5,562.9	7,265.4	5,563.3	7,265.8
Financial assets available for sale	19	601.3	643.6	1,260.4	1,297.5
Financial assets held to maturity	20	300.7	286.6	2.0	2.0
Derivatives	21	63.8	22.3	211.7	203.0
Net loans and other receivables	8	55,531.6	52,932.8	50,464.6	47,674.6
Investments accounted for using the equity method	23	3.6	15.7	3.3	15.1
Shares in controlled entities		-	-	564.8	575.4
Property, plant & equipment	38	98.8	96.8	93.8	92.4
Deferred tax assets	4	146.4	130.5	128.6	109.0
Investment property	24	482.0	404.9	-	-
Assets held for sale		-	3.3	-	-
Goodwill and other intangible assets	27	1,580.5	1,504.4	1,464.6	1,380.3
Other assets	28	459.9	798.0	1,164.2	1,538.5
Total Assets		**66,028.8**	**65,062.9**	**62,195.5**	**61,290.3**
Liabilities					
Due to other financial institutions	26	202.7	363.5	202.4	363.0
Deposits	10	53,505.3	52,359.4	50,258.4	48,975.3
Notes payable	10	4,925.9	5,256.4	330.6	310.4
Derivatives	21	108.0	79.2	117.4	77.7
Loans payable to securitisation trusts		-	-	4,306.6	4,760.4
Income tax payable	4	18.2	17.5	18.2	17.5
Provisions	36	114.7	105.0	110.2	100.8
Deferred tax liabilities	4	111.8	79.8	106.9	101.7
Other payables	29	688.4	918.7	773.1	1,023.5
Convertible preference shares	11	819.5	261.4	819.5	261.4
Subordinated debt	12	592.6	655.5	573.1	603.3
Total Liabilities		**61,087.1**	**60,096.4**	**57,616.4**	**56,595.0**
Net Assets		**4,941.7**	**4,966.5**	**4,579.1**	**4,695.3**
Equity					
Share capital	16	4,223.6	4,355.6	4,223.6	4,355.6
Reserves	17	95.0	101.1	118.8	134.7
Retained earnings	17	623.1	509.8	236.7	205.0
Total Equity		**4,941.7**	**4,966.5**	**4,579.1**	**4,695.3**

Statement of changes in equity
For the year ended 30 June 2015

Group	Attributable to owners of Bendigo and Adelaide Bank Limited				
	Issued ordinary capital $m	Other Issued capital [1] $m	Retained earnings $m	Reserves [2] $m	Total equity $m
At 1 July 2014					
Opening balance b/fwd	**4,183.3**	**172.3**	**509.8**	**101.1**	**4,966.5**
Comprehensive income					
Profit for the year	-	-	423.9	-	423.9
Other comprehensive income	-	-	(1.1)	(14.1)	(15.2)
Total comprehensive income for the year	**-**	**-**	**422.8**	**(14.1)**	**408.7**
Transactions with owners in their capacity as owners					
Shares issued	52.4	(190.0)	-	-	(137.6)
Share issue expenses	(0.3)	1.5	(1.5)	-	(0.3)
Reduction in employee share ownership plan (ESOP) shares	-	4.4	-	-	4.4
Movement in general reserve for credit losses (GRCL)	-	-	(8.6)	8.6	-
Establish operational risk reserve	-	-	(1.8)	1.8	-
Share based payment	-	-	-	(2.4)	(2.4)
Equity dividends	-	-	(297.6)	-	(297.6)
At 30 June 2015	**4,235.4**	**(11.8)**	**623.1**	**95.0**	**4,941.7**

[1]Refer to note 16 Share capital for further details

[2]Refer to note 17 Retained earnings and reserves for further details

For the year ended 30 June 2014

	Attributable to owners of Bendigo and Adelaide Bank Limited				
	Issued ordinary capital $m	Other Issued capital [1] $m	Retained earnings $m	Reserves [2] $m	Total equity $m
At 1 July 2013					
Opening balance b/fwd	**3,758.0**	**169.8**	**398.1**	**108.1**	**4,434.0**
Comprehensive income					
Profit for the year	-	-	372.3	-	372.3
Other comprehensive income	-	-	1.1	(2.5)	(1.4)
Total comprehensive income for the year	**-**	**-**	**373.4**	**(2.5)**	**370.9**
Transactions with owners in their capacity as owners					
Shares issued	427.8	-	-	-	427.8
Share issue expenses	(2.5)	-	-	-	(2.5)
Prior years' restatement	-	-	(7.7)	-	(7.7)
Reduction in employee share ownership plan (ESOP) shares	-	2.5	-	-	2.5
Share based payment	-	-	-	(1.7)	(1.7)
Transfer from asset revaluation reserve	-	-	2.8	(2.8)	-
Equity dividends	-	-	(256.8)	-	(256.8)
At 30 June 2014	**4,183.3**	**172.3**	**509.8**	**101.1**	**4,966.5**

[1]Refer to note 16 Share capital for further details
[2]Refer to note 17 Retained earnings and reserves for further details

Statement of changes in equity (continued)
For the year ended 30 June 2015

Bank	Attributable to owners of Bendigo and Adelaide Bank Limited				
	Issued ordinary capital $m	Other Issued capital [1] $m	Retained earnings $m	Reserves [2] $m	Total equity $m
At 1 July 2014					
Opening balance b/fwd	**4,183.3**	**172.3**	**205.0**	**134.7**	**4,695.3**
Comprehensive income					
Profit for the year	-	-	340.5	-	340.5
Other comprehensive income	-	-	(1.1)	(22.1)	(23.2)
Total comprehensive income for the year	**-**	**-**	**339.4**	**(22.1)**	**317.3**
Transactions with owners in their capacity as owners					
Shares issued	52.4	(190.0)	-	-	(137.6)
Share issue expenses	(0.3)	1.5	(1.5)	-	(0.3)
Reduction in employee share ownership plan (ESOP) shares	-	4.4	-	-	4.4
Movement in general reserve for credit losses (GRCL)	-	-	(8.6)	8.6	-
Share based payment	-	-	-	(2.4)	(2.4)
Equity dividends	-	-	(297.6)	-	(297.6)
At 30 June 2015	**4,235.4**	**(11.8)**	**236.7**	**118.8**	**4,579.1**

[1]Refer to note 16 Share capital for further details
[2]Refer to note 17 Retained earnings and reserves for further details

For the year ended 30 June 2014

	Attributable to owners of Bendigo and Adelaide Bank Limited				
	Issued ordinary capital $m	Other Issued capital [1] $m	Retained earnings $m	Reserves [2] $m	Total equity $m
At 1 July 2013					
Opening balance b/fwd	**3,758.0**	**169.8**	**186.1**	**122.9**	**4,236.8**
De-registered subsidiary company	-	-	(0.4)	-	(0.4)
Comprehensive income					
Profit for the year	-	-	282.7	-	282.7
Other comprehensive income	-	-	1.1	13.5	14.6
Total comprehensive income for the year	**-**	**-**	**283.8**	**13.5**	**297.3**
Transactions with owners in their capacity as owners					
Shares issued	427.8	-	-	-	427.8
Share issue expenses	(2.5)	-	-	-	(2.5)
Prior years' restatement	-	-	(7.7)	-	(7.7)
Reduction in employee share ownership plan (ESOP) shares	-	2.5	-	-	2.5
Share based payment	-	-	-	(1.7)	(1.7)
Equity dividends	-	-	(256.8)	-	(256.8)
At 30 June 2014	**4,183.3**	**172.3**	**205.0**	**134.7**	**4,695.3**

[1]Refer to note 16 Share capital for further details
[2]Refer to note 17 Retained earnings and reserves for further details

Cash flow statement
for the year ended 30 June 2015

	Note	Group 2015 $m	Group 2014 $m	Bank 2015 $m	Bank 2014 $m
Cash flows from operating activities					
Interest and other items of a similar nature received		2,868.4	2,856.1	2,454.2	2,392.7
Interest and other costs of finance paid		(1,713.3)	(1,793.8)	(1,434.7)	(1,462.6)
Receipts from customers (excluding effective interest)		292.2	269.7	242.6	233.0
Payments to suppliers and employees		(756.1)	(751.6)	(689.4)	(703.6)
Dividends received		1.3	0.8	23.8	0.2
Income taxes paid		(144.3)	(185.8)	(112.9)	(151.0)
Net cash flows from operating activities	25	**548.2**	**395.4**	**483.6**	**308.7**
Cash flows from investing activities					
Cash paid for purchases of property, plant and equipment		(26.3)	(53.3)	(25.0)	(52.6)
Cash proceeds from sale of property, plant and equipment		1.9	1.9	1.7	1.5
Cash paid for purchases of investment property		(41.4)	(28.2)	-	-
Cash proceeds from sale of investment property		27.8	22.8	-	5.6
Cash paid for purchases of equity investments		(2.9)	(5.8)	(2.7)	(10.8)
Cash proceeds from sale of equity investments		16.5	-	-	-
Net increase of loans and other receivables outstanding		(433.4)	(2,503.1)	(1,350.1)	(4,613.1)
Net decrease/(increase) in balance of investment securities		1,737.9	(1,773.9)	2,194.6	(611.3)
Net cash paid on acquisition of businesses/assets		(1,678.5)	(4.4)	(1,678.5)	-
Net cash flows used in investing activities		**(398.4)**	**(4,344.0)**	**(860.0)**	**(5,280.7)**
Cash flows from financing activities					
Proceeds from issue of shares		-	379.6	-	379.6
Proceeds from issue of convertible preference shares		486.2	-	486.2	-
Repayment of preference shares		(102.1)	-	(102.1)	-
Net increase in balance of retail deposits		756.2	2,597.2	688.8	2,514.1
Net (decrease)/increase in balance of wholesale deposits		(233.8)	2,323.2	(29.1)	2,339.5
(Payments to)/proceeds from subordinated debt holders		(62.9)	301.2	(30.3)	301.2
Dividends paid		(247.8)	(211.5)	(247.8)	(211.5)
Net (decrease)/increase in balance of notes payable		(330.4)	(1,144.2)	20.2	(39.9)
Repayment of ESOP shares		4.4	2.5	4.4	2.5
Payment of share issue costs		(20.1)	(2.5)	(20.1)	(2.5)
Net cash flows from financing activities		**249.7**	**4,245.5**	**770.2**	**5,283.0**
Net increase in cash and cash equivalents		399.5	296.9	393.8	311.0
Cash and cash equivalents at the beginning of period		595.1	298.2	489.9	178.9
Cash and cash equivalents at the end of period	26	**994.6**	**595.1**	**883.7**	**489.9**

Basis of Preparation

This section describes the Group's significant accounting policies that relate to the financial statements and notes of the accounts. If an accounting policy relates to a particular note, the applicable policy is contained within the relevant note. This section also shows new accounting standards, amendments and interpretations, and whether they are effective in 2015 or later years. We explain how these changes are expected to impact the financial position and performance of the Group.

1. Corporate information

The financial report of Bendigo and Adelaide Bank Limited (the Bank) and its controlled entities (the Group) for the year ended 30 June 2015 was authorised for issue in accordance with a resolution of the directors on 1 September 2015.

Bendigo and Adelaide Bank Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The domicile of the company is Australia.

The registered office of the company is:
The Bendigo Centre, 22 – 44 Bath Lane Bendigo, Victoria

2. Summary of significant accounting policies

Basis of preparation

Bendigo and Adelaide Bank Limited is a prescribed corporation in terms of the *Corporations Act 2001*. Financial reports prepared in compliance with the Banking Act are deemed to comply with the accounts provisions of the *Corporations Act 2001*.

The financial report is a general purpose financial report which has been prepared in accordance with the Banking Act, Australian Accounting Standards, *Corporations Act 2001* and the requirements of law so far as they are applicable to Australian banking corporations, including the application of ASIC Class Order 10/654 allowing the disclosure of parent entity financial statements due to Australian Financial Services Licensing obligations.

The financial report has been prepared in accordance with the historical cost convention, except for certain assets and liabilities where the application of fair value measurement is required or allowed by relevant accounting standards.

The amounts contained in the financial statements have been rounded off under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies. The Class Order allows for rounding to the nearest one hundred thousand dollars ($00,000).

Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS).

Significant accounting policies

The Group's significant accounting policies that relate to a specific note are summarised within that note. Accounting policies that affect the financial statements as a whole are set out below.

Significant judgements and estimates

In the process of applying the Group's accounting policies, management has made a number of judgements, apart from those involving estimations, which have significant effect on the amounts recognised in the financial statements. These judgements and estimates that affect the financial statements as a whole are within the relevant note.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Bendigo and Adelaide Bank Limited and all of its controlled entities (the Group). Interests in joint arrangements and associates are equity accounted and are not part of the consolidated Group.

A controlled entity is any entity (including special purpose entities) over which Bendigo and Adelaide Bank Limited has the power to govern, directly or indirectly, decision-making in relation to financial and operating policies, so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Controlled entities prepare financial reports for consolidation in accordance with Group accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The financial statements of controlled entities are prepared for the same reporting period as the parent company.

All inter-company balances and transactions between entities in the Group have been eliminated on consolidation. Where a controlled entity has been sold or acquired during the year its operating results have been included to the date control ceased or from the date control was obtained.

Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

Foreign currency transactions and balances

Both the functional and presentation currency of Bendigo and Adelaide Bank Limited and each of its subsidiaries is Australian dollars (AUD). Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling on the date of the transaction.

All amounts are expressed in Australian currency and all references to "$" are to Australian dollars unless otherwise stated. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date. Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the income statement in the financial year in which the exchange rates change.

Changes in accounting policies

The accounting policies are consistent with those applied in the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as at 1 July 2014:

- AASB 2012-3 *Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities*
- AASB 2013-3 *Amendments to AASB 136 - Recoverable amount disclosures for Non-financial assets*
- AASB 2013-4 *Amendments to Australian Accounting Standards - Novation of Derivatives and continuation of Hedge Accounting*
- AASB 2013-5 *Amendments to Australian Accounting Standards - Investment Entities*
- AASB 1031 - *Materiality*
- AASB 2013-9 *Amendments to Australian Accounting Standards - Conceptual Framework, Materiality, and Financial Instruments*
- AASB 2014-1 *Amendments to Australian Accounting Standards arising from Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle*

There has been no material impacts to the Group's result as a result of the accounting standards adopted above.

Compliance with IFRS

Recently issued or amended standards not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2015.

AASB 9 *Financial Instruments* introduces changes to the classification and measurement of financial assets and financial liabilities, impairment of financial assets and new rules for hedge accounting. This standard is mandatory for the 30 June 2019 financial statements. The potential effects of adoption of the standard are currently being assessed. The Group has not elected whether to early adopt this standard at this point in time.

AASB 15 *Revenue from contracts with customers* establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cashflows arising from customer contracts. This standard is effective for the 30 June 2018 financial statements. AASB 15 is not mandatory until 1 July 2017, however the IASB has deferred adoption to 1 July 2018. The AASB is also expected to make a similar amendment. The potential financial impact of the above to the Group is not yet possible to determine.

The following amendments to existing standards are not expected to result in significant changes to the Group's accounting policies:

- 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11]*
- 2014-4 *Clarification of Acceptable Methods of Depreciation and Amortisation;*
- 2014-9 *Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements;*
- 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;*
- 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle;*
- 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101;*
- 2015-3 *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality; and*
- 2015-5 *Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception.*

Results for the year

This section outlines the results and performance of the Group in more detail. Further analysis has been provided for the following key areas: revenue and expenses, income tax, segment results, earnings per share and dividends.

3. Profit

	Group		Bank	
Net interest income	**2015 $m**	**2014 $m**	**2015 $m**	**2014 $m**
Interest income				
Cash and cash equivalents	3.1	2.4	2.8	1.9
Financial assets held for trading	153.4	147.7	153.4	147.7
Financial assets available for sale	18.2	20.9	14.3	17.6
Financial assets held to maturity	12.0	15.4	-	-
Loans and other receivables	2,752.0	2,741.8	2,347.8	2,289.7
Total interest income	**2,938.7**	**2,928.2**	**2,518.3**	**2,456.9**
Interest expense				
Deposits				
Retail	(1,291.6)	(1,369.1)	(1,178.3)	(1,241.3)
Wholesale - domestic	(225.6)	(180.5)	(223.4)	(174.2)
Wholesale - offshore	(16.0)	(16.6)	(16.0)	(16.6)
Other borrowings				
Notes payable	(166.5)	(199.3)	(7.5)	(8.0)
Convertible preference shares	(23.9)	(14.5)	(23.9)	(14.5)
Subordinated debt	(37.5)	(30.0)	(34.7)	(26.2)
Total interest expense	**(1,761.1)**	**(1,810.0)**	**(1,483.8)**	**(1,480.8)**
Total net interest income	**1,177.6**	**1,118.2**	**1,034.5**	**976.1**
Other revenue				
Dividends				
Other	0.3	0.2	23.8	0.2
Distribution from unit trusts	1.0	0.6	-	-
Total dividends	**1.3**	**0.8**	**23.8**	**0.2**
Fees				
Assets	67.8	62.4	56.7	50.1
Liabilities & other products	92.4	92.8	90.7	90.2
Trustee, management & other services	5.4	5.0	0.3	0.4
Total fees	**165.6**	**160.2**	**147.7**	**140.7**
Commissions				
Wealth solutions	44.6	41.8	2.4	1.7
Insurance	18.6	16.6	15.7	14.8
Total commissions	**63.2**	**58.4**	**18.1**	**16.5**
Other				
Income from property	3.8	2.2	3.8	2.2
Foreign exchange income	19.4	18.3	19.4	18.3
Factoring products income	9.2	12.0	9.2	12.0
Trading profit - held for trading securities	8.0	1.5	8.0	1.5
Homesafe revaluation income	63.4	50.3	-	-
Other	32.5	20.0	26.3	25.4
Total other income	**136.3**	**104.3**	**66.7**	**59.4**
Share of net profit accounted for using the equity method	**4.4**	**0.2**	**1.7**	**1.1**

3. Profit (continued)

Recognition and measurement

Revenue is recognised at the fair value of the consideration received or receivable, and meets the criteria below:

- it is probable that the economic benefits will flow to the entity and
- the revenue can be reliably measured.

Interest income and expense are calculated on an accruals basis using the effective interest method. The effective interest method, is the interest rate that exactly discounts estimated future cash receipts through, the expected life of the financial instrument.

Loan origination and application fees are recognised as components of the calculation of the effective interest method, and affect the interest recognised, in relation to the originated loans. The average life of originated loans is reviewed annually, to ensure the amortisation methodology for loan origination fees is appropriate.

Dividend income is recognised by the Group when the right to receive payment is established.

Fees and commissions charged for services provided or received by the Group are recognised as they are provided.

Homesafe revaluation income are the gains or losses arising from changes in the fair value of investment property and are recognised in the year in which they arise.

	Group		Bank	
Expenses	**2015 $m**	**2014 $m**	**2015 $m**	**2014 $m**
Bad and doubtful debts				
Specific provision	(53.9)	(74.0)	(39.2)	(48.7)
Collective provision	(13.0)	(8.3)	(13.0)	(5.8)
Bad debts written off	(4.3)	(3.3)	(3.5)	(2.6)
Bad debts recovered	2.9	3.7	2.8	3.6
Total bad and doubtful debts	**(68.3)**	**(81.9)**	**(52.9)**	**(53.5)**
Operating expenses				
Staff and related costs				
Salaries, wages and incentives	(349.9)	(326.6)	(305.5)	(288.0)
Superannuation contributions	(34.6)	(32.8)	(30.1)	(28.9)
Payroll tax	(22.1)	(20.6)	(19.3)	(18.0)
Other	(57.6)	(55.1)	(51.6)	(50.2)
Total staff and related costs	**(464.2)**	**(435.1)**	**(406.5)**	**(385.1)**
Occupancy costs				
Operating lease rentals	(55.9)	(48.5)	(55.5)	(48.1)
Depreciation of leasehold improvements	(11.3)	(9.2)	(11.2)	(9.1)
Other	(29.3)	(29.1)	(26.1)	(25.8)
Total occupancy costs	**(96.5)**	**(86.8)**	**(92.8)**	**(83.0)**
Amortisation and depreciation				
Amortisation of intangible assets	(36.1)	(36.8)	(24.3)	(25.6)
Depreciation of property, plant & equipment	(11.1)	(9.7)	(10.7)	(9.2)
Total amortisation and depreciation costs	**(47.2)**	**(46.5)**	**(35.0)**	**(34.8)**
Fees and commissions	(35.9)	(33.9)	(8.1)	(8.2)
Other operating expenses				
Communications, postage and stationery	(34.4)	(32.6)	(36.4)	(38.1)
Computer systems and software costs	(73.4)	(70.0)	(68.6)	(59.1)
Advertising and promotion	(33.1)	(32.6)	(30.5)	(30.0)
Other product and services delivery costs	(32.9)	(32.5)	(32.5)	(32.2)
Other expenses	(73.0)	(53.7)	(69.4)	(63.3)
Total other operating expenses	**(246.8)**	**(221.4)**	**(237.4)**	**(222.7)**

Recognition and measurement

Operating expenses are recognised as the relevant service is rendered, or once a liability is incurred.

Bad and doubtful debts are measured as the difference between the carrying amount and the value of the estimated future cash flows, discounted at the financial instruments original effective interest rate.

Refer to Note 9 Impairment of loans and advances for more information on loan impairment.

Staff and related costs

Wage and salary costs are recognised over the period in which the employees provide the service. Refer to Note 36 Provisions for more information relating to staff provisions.

Incentive payments are recognised to the extent that the Group has a present obligation over the period that the employees are required to work to qualify for the scheme. Refer to Note 37 Share based payment plans for further information on share based payments.

Super contributions are made to an employee accumulation fund and expensed when they become payable. The Group operates a defined benefits scheme, the membership of which is now closed. Refer to Note 39 Commitments and contingencies for further details of the defined benefits scheme.

Occupancy costs

Operating lease payments are recognised as an expense on a straight line basis over the lease term.

Depreciation and amortisation - refer to Note 38 Property, plant and equipment for further information on depreciation and Note 27 Goodwill and other intangibles for amortisation on intangibles.

Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from or payable to the taxation authority is included as part of receivables or payables in the balance sheet. Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities, which are recoverable from or payable to the taxation authority, are classified as operating cash flows.

4. Income tax expense

Major components of income tax expense are:

	Group		Bank	
	2015 $m	2014 $m	2015 $m	2014 $m
Income statement				
Current income tax				
Current income tax charge	174.4	161.5	152.7	129.5
Imputation credits	(0.1)	(0.2)	(0.1)	(0.1)
Adjustments in respect of current income tax of previous years	(29.3)	(5.4)	(29.3)	(5.0)
Deferred income tax				
De-recognition of temporary differences	1.2	-	1.2	-
Adjustments in respect of deferred income tax of previous years	9.1	4.0	9.4	4.1
Relating to origination and reversal of temporary differences	10.3	4.3	(14.6)	(4.5)
Income tax expense reported in the income statement	**165.6**	**164.2**	**119.3**	**124.0**
Statement of changes in equity				
Deferred income tax related to items charged or credited directly in equity				
Net loss on cash flow hedge	(5.4)	(1.7)	(8.1)	(5.5)
Net (loss)/gain on available for sale investments	(0.7)	0.4	(1.4)	11.3
Net (loss)/gain on revaluation of land and buildings	-	(0.9)	-	0.1
Actuarial (loss)/gain on superannuation defined benefits plan	(0.5)	0.5	(0.5)	0.5
Income tax expense reported in equity	**(6.6)**	**(1.7)**	**(10.0)**	**6.4**

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Income tax expense attributable to:				
Accounting profit before income tax	589.5	536.5	459.8	406.7
The income tax expense comprises amounts set aside as:				
Provision attributable to current year at statutory rate, being:				
Prima facie tax on accounting profit before tax	176.9	161.0	138.0	122.0
Over provision in prior years	(20.2)	(1.4)	(19.9)	(0.9)
Tax credits and adjustments	(0.1)	(0.2)	(0.1)	(0.1)
Expenditure not allowable for income tax purposes	8.5	4.9	8.5	5.4
Other non assessable income	(1.3)	(0.1)	(9.0)	(1.8)
Tax effect of tax credits and adjustments	-	0.1	-	-
De-recognition of temporary differences	1.2	-	1.2	-
Other	0.6	(0.1)	0.6	(0.6)
Income tax expense reported in the income statement	**165.6**	**164.2**	**119.3**	**124.0**

Deferred income tax
Deferred income tax at 30 June relates to the following:

	Group		Bank	
Gross deferred tax liabilities	2015 $m	2014 $m	2015 $m	2014 $m
Available for sale financial assets	0.9	1.1	10.5	11.6
Deferred expenses	9.4	4.0	9.4	4.0
Derivatives	15.5	5.5	59.9	59.7
Intangible assets on acquisition	18.8	19.7	11.3	11.7
Investment property	50.0	34.1	-	-
Other	17.2	15.4	15.8	14.7
	111.8	**79.8**	**106.9**	**101.7**

4. Income tax expense (continued)

Deferred income tax (continued)

	Group		Bank	
Gross deferred tax assets	**2015 $m**	**2014 $m**	**2015 $m**	**2014 $m**
Derivatives	30.6	22.0	33.4	21.6
Employee benefits	28.8	27.4	27.5	26.1
Intangible liabilities on acquisition	-	0.1	-	0.1
Available for sale financial assets	1.4	1.1	1.4	1.1
Provisions	60.6	53.1	47.5	39.6
Other	25.0	26.8	18.8	20.5
	146.4	**130.5**	**128.6**	**109.0**
Tax payable attributable to members of the tax consolidated group	18.2	17.5	18.2	17.5
	18.2	**17.5**	**18.2**	**17.5**

At 30 June 2015, there is no unrecognised deferred income tax liability (2014: Nil) for taxes that would be payable on the earnings of certain Group subsidiaries or joint ventures, as the Group has no liability for additional taxation should such amounts be remitted.

At 30 June 2015, there are no unused tax losses (capital in nature) (2014: $91.5m). The unused balance reported at 30 June 2014 was cleared during the current year following resolution of historic matters with the Australian Taxation Office. No deferred tax asset had previously been recognised on the losses.

Recognition and measurement

Current taxes

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

Deferred taxes

The Group has adopted the balance sheet liability method of tax effect accounting, which focuses on the tax effects of transactions and other events that affect amounts recognised in either the balance sheet or a tax-based balance sheet.

Deferred tax assets and liabilities are recognised for temporary differences, except where the deferred tax asset/liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax balances are reviewed annually to determine whether they should be recognised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Tax consolidation

Bendigo and Adelaide Bank Limited and its 100% owned subsidiaries form the tax consolidated Group. Members of the Group entered into a tax sharing agreement to allocate income tax liabilities to the wholly-owned subsidiaries should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated Group is Bendigo and Adelaide Bank Limited.

Members of the tax consolidated Group have entered into a tax funding agreement. This agreement provides for the allocation of current taxes to members of the tax consolidated Group on a group allocation method based on a notional stand alone calculation, while deferred taxes are calculated by members of the tax consolidated Group in accordance with AASB 112 *Income Taxes.*

5. Segment results

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. These operating results are regularly reviewed by the Managing Director, to make decisions about the resourcing for each segment, and to assess its performance.

The operating segments are identified according to the nature of the products and services they provide. All reporting segments represent an individual strategic business unit. Each unit offers a different method of delivery, and/or different products and services.

Segment assets and liabilities reflect the value of loans and deposits directly managed by each operating segment. All other assets and liabilities of the Group are managed centrally.

Segment reporting is consistent with the internal reporting provided to the Managing Director, and the executive management team.

Changes to the internal organisational structure of the Group, can cause the Group's operating segment results to change. Where this occurs the corresponding segment information for the previous financial year is restated.

Types of products and services

Retail banking

Major sources of net interest income are derived from banking services, along with fee income for the provision of services. Income is generated through the company owned branch network and its share of the revenue generated through the **Community Bank®** branch network. Delphi Bank and Community Telco Australia are included within the retail banking operating segment.

Third party banking

Major revenue sources are net interest income and the fees derived from the provision of residential, commercial, consumer and business services, along with the contribution from Homesafe Trust. Third party banking comprises of the 'Adelaide Bank' branded services, portfolio funding, Alliance Partners and Homesafe Trust.

Wealth

Major revenue sources are net interest income, along with the fees and commissions derived from the provision of margin lending, wealth management, wealth deposit, cash management and financial planning products and services.

Sandhurst Trustees, Leveraged Equities and Bendigo Financial Planning are included within the wealth segment.

Rural

Major revenue sources are net interest income and fees from the provision of banking services to agribusinesses in rural and regional Australia. Rural Bank and Rural Finance are included within the rural segment.

Central functions

Functions not relating directly to a reportable operating segment.

Accounting policies and inter-segment transactions

Measurement of segmental assets, liabilities, income and expenses is in accordance with the Group's accounting policies. Segment results are determined by including all revenue and expenses associated with each business segment. Transactions between business segments are conducted at arm's length and are eliminated on consolidation.

Segment net interest income is recognised based on an internally set transfer pricing policy based on pre-determined market rates of return on the assets and liabilities of the segment.

Major customers

Revenues from no individual customer amount to greater than 10% of the Group's revenue.

Geographic Information

The allocation of revenue and assets is based on the geographic location of the customer. The Group operates in all Australian states and territories, providing banking and other financial services.

5. Segment results (continued)

For the year ended 30 June 2015

	Operating segments						
	Retail banking $m	Third party banking $m	Wealth $m	Rural $m	Total operating segments $m	Central functions $m	Total $m
Net interest income	736.7	205.6	66.8	168.5	**1,177.6**	-	**1,177.6**
Other income	193.4	78.1	56.9	8.5	**336.9**	29.5	**366.4**
Share of net profit accounted for using the equity method	-	-	-	-	**-**	4.4	**4.4**
Total segment income	**930.1**	**283.7**	**123.7**	**177.0**	**1,514.5**	**33.9**	**1,548.4**
Operating expenses	(618.6)	(89.7)	(97.0)	(85.3)	**(890.6)**	-	**(890.6)**
Credit expenses	(22.1)	(34.1)	1.3	(13.4)	**(68.3)**	-	**(68.3)**
Segment result (before tax expense)	**289.4**	**159.9**	**28.0**	**78.3**	**555.6**	**33.9**	**589.5**
Tax expense	(81.3)	(44.9)	(7.9)	(22.0)	**(156.1)**	(9.5)	**(165.6)**
Segment result (statutory basis)	**208.1**	**115.0**	**20.1**	**56.3**	**399.5**	**24.4**	**423.9**
Add: cash basis adjustments [1]							
Specific income & expense items	1.5	5.7	-	6.8	**14.0**	(17.3)	**(3.3)**
Distributions accrued and/or paid on preference shares	-	-	-	-	**-**	(3.5)	**(3.5)**
Amortisation of intangibles	4.4	1.7	4.4	4.8	**15.3**	-	**15.3**
Segment result (cash basis)	**214.0**	**122.4**	**24.5**	**67.9**	**428.8**	**3.6**	**432.4**

For the year ended 30 June 2014

	Operating segments						
	Retail banking $m	Third party banking $m	Wealth $m	Rural $m	Total operating segments $m	Central functions $m	Total $m
Net interest income	695.4	230.7	72.0	120.1	**1,118.2**	-	**1,118.2**
Other income	189.1	65.8	48.5	6.1	**309.5**	14.2	**323.7**
Share of net profit accounted for using the equity method	-	-	-	-	**-**	0.2	**0.2**
Total segment income	**884.5**	**296.5**	**120.5**	**126.2**	**1,427.7**	**14.4**	**1,442.1**
Operating expenses	(597.0)	(82.6)	(79.9)	(64.2)	**(823.7)**	-	**(823.7)**
Credit expenses	(40.3)	(12.6)	(1.2)	(27.8)	**(81.9)**	-	**(81.9)**
Segment result (before tax expense)	**247.2**	**201.3**	**39.4**	**34.2**	**522.1**	**14.4**	**536.5**
Tax expense	(75.7)	(61.6)	(12.1)	(10.5)	**(159.9)**	(4.3)	**(164.2)**
Segment result (statutory basis)	**171.5**	**139.7**	**27.3**	**23.7**	**362.2**	**10.1**	**372.3**
Add: cash basis adjustments [1]							
Specific income & expense items	-	-	-	-	**-**	0.5	**0.5**
Distributions accrued and/or paid on preference shares	-	-	-	-	**-**	(5.7)	**(5.7)**
Amortisation of intangibles	4.6	2.2	3.5	4.9	**15.2**	-	**15.2**
Segment result (cash basis)	**176.1**	**141.9**	**30.8**	**28.6**	**377.4**	**4.9**	**382.3**

[1]refer to Note 6 Earnings per ordinary share for further details.

5. Segment results (continued)

	Operating segments						
	Retail banking $m	Third party banking $m	Wealth $m	Rural $m	Total operating segments $m	Central functions $m	Total $m
For the year ended 30 June 2015							
Reportable segment assets	30,590.5	17,791.7	1,834.5	5,979.5	**56,196.2**	9,832.6	**66,028.8**
Reportable segment liabilities	38,056.2	1,643.4	3,092.5	3,538.0	**46,330.1**	9,831.1	**56,161.2**
For the year ended 30 June 2014							
Reportable segment assets	29,527.5	17,767.1	1,853.8	4,398.6	**53,547.0**	11,515.9	**65,062.9**
Reportable segment liabilities	35,841.4	1,111.5	4,524.8	3,700.4	**45,178.1**	9,661.9	**54,840.0**

	Group	
Reportable segment assets and liabilities	**As at June 2015**	**As at June 2014**
Total assets for operating segments	66,028.8	65,062.9
Total assets	**66,028.8**	**65,062.9**
Total liabilities for operating segments	56,161.2	54,840.0
Securitisation funding	4,925.9	5,256.4
Total liabilities	**61,087.1**	**60,096.4**

6. Earnings per ordinary share

	Group	
	2015 Cents per share	2014 Cents per share
Basic	92.5	87.7
Diluted	87.3	83.6
Cash basis	95.1	91.5

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

Reconciliation of earnings used in the calculation of earnings per ordinary share	$m	$m
Profit after tax	423.9	372.3
Distributions accrued on preference shares	(2.6)	(2.6)
Distributions accrued on step up preference shares	(0.9)	(3.1)
Total basic earnings	**420.4**	**366.6**
Earnings used in calculating basic earnings per ordinary share	420.4	366.6
Add back: dividends accrued on dilutive preference shares	20.2	15.9
Total diluted earnings	**440.6**	**382.5**
Earnings used in calculating basic earnings per ordinary share	420.4	366.6
Add back: after tax intangibles amortisation (excluding software amortisation)	15.3	15.2
Add back: after tax specific income and expense items	(3.3)	0.5
Total cash earnings	**432.4**	**382.3**
Specific income and expense items after tax comprise:		
Items included in interest income		
Fair value adjustments	(4.6)	-
Total specific net interest income items	**(4.6)**	**-**
Items included in non interest income		
Hedge ineffectiveness	-	0.1
Profit on sale of investment in joint venture	3.4	-
Total specific non interest income items	**3.4**	**0.1**
Items included in operating expenses		
Employee shares gain	-	0.5
Integration costs	(6.0)	-
Impairment of investment in associate	(1.5)	-
Litigation costs	(1.9)	-
Total specific operating expense items	**(9.4)**	**0.5**
Items included in income tax expense		
Income tax benefit relating to mergers and acquisitions	16.7	(1.1)
Tax impacts relating to prior year impairment losses	(2.8)	-
Total specific income tax benefit/(expense)	**13.9**	**(1.1)**
Total specific items attributable to the Group	**3.3**	**(0.5)**

Weighted average number of ordinary shares	No. of shares	No. of shares
Weighted average number of ordinary shares (basic)	**454,457,127**	**417,934,373**
Effect of dilution - executive performance rights	930,926	1,018,919
Effect of dilution - preference shares	49,387,341	38,799,357
Weighted average number of ordinary shares (diluted)	**504,775,394**	**457,752,649**

Potentially dilutive instruments

The following instruments are potentially dilutive during the reporting period:

	Dilutive	
	2015	2014
Preference shares	Yes	Yes
Step up preference shares	Yes	Yes
Convertible preference shares	Yes	Yes
Executive performance rights	Yes	Yes
Subordinated Note (with non viability clause)	No	No

Recognition and measurement

Basic EPS is calculated as net profit after tax, adjusted for distributions on preference shares and step up preference shares, divided by the weighted average number of ordinary shares.

Diluted EPS is calculated as net profit after tax, adjusted for distributions for preference, step up and convertible preference shares, add back dividends on dilutive preference shares, divided by the weighted average number of ordinary shares, and potential dilutive ordinary shares.

Cash basis EPS is calculated as net profit after tax, adjusted for after tax intangibles amortisation (except intangible software amortisation), after tax specific income and expense items, and distributions for preference shares and step up preference shares, divided by the weighted average number of ordinary shares.

Executive performance rights - classification of securities

Executive performance rights are treated as dilutive from the date of issue and remain dilutive, so long as the performance conditions are satisfied. In the event of a performance condition not being satisfied, the number of dilutive rights would be reduced to the number that would have been issued if the end of the period was the end of the contingency period.

Significant accounting judgments, estimates and assumptions

Cash earnings

Cash earnings is an unaudited, non-IFRS financial measure. It is considered by management to be a key indicator of the underlying performance of the core business activities of the Group.

The basis for determining cash earnings is the net profit after tax, adjusted for specific items after tax, acquired intangibles amortisation after tax, and distributions for preference share/ step up preference shares.

Specific items

Specific items are those items that are deemed to be outside of the Group's core activities and hence these items are not considered to be representative of the Group's ongoing financial performance.

7. Dividends

Dividends paid or proposed

	Group						Bank					
	2015			2014			2015			2014		
	Date paid	Cents per share ¢	Total amount $m	Date paid	Cents per share ¢	Total amount $m	Date paid	Cents per share ¢	Total amount $m	Date paid	Cents per share ¢	Total amount $m
Ordinary shares (ASX:BEN)												
Dividends paid during the year:												
Interim dividend	Mar 15	33.0	147.6	Mar 14	31.0	126.0	Mar 15	33.0	147.6	Mar 14	31.0	126.0
Final dividend	Sept 14	33.0	146.5	Sept 13	31.0	125.1	Sept 14	33.0	146.5	Sept 13	31.0	125.1
		66.0	**294.1**		**62.0**	**251.1**		**66.0**	**294.1**		**62.0**	**251.1**
Dividends proposed since the reporting date, but not recognised as a liability:												
Final dividend	30 Sept 15	33.0	148.3				30 Sept 15	33.0	148.3			

All dividends paid were fully franked at 30% (2014: 30%). Proposed dividends will be fully franked at 30% (2014: 30%) out of existing franking credits or out of franking credits arising from payment of income tax provided for in the financial statements for the year ended 30 June 2015.

	Group						Bank					
	2015			2014			2015			2014		
	Date paid	Cents per share ¢	Total amount $m	Date paid	Cents per share ¢	Total amount $m	Date paid	Cents per share ¢	Total amount $m	Date paid	Cents per share ¢	Total amount $m
Preference shares (ASX:BENPB)												
Dividends paid during the year:												
	Sept 2014	73.04	0.7	Sept 2013	74.71	0.7	Sept 2014	73.04	0.7	Sept 2013	74.71	0.7
	Dec 2014	72.37	0.7	Dec 2013	71.20	0.6	Dec 2014	72.37	0.7	Dec 2013	71.20	0.6
	Mar 2015	74.17	0.7	Mar 2014	71.35	0.6	Mar 2015	74.17	0.7	Mar 2014	71.35	0.6
	Jun 2015	66.67	0.6	Jun 2014	72.34	0.7	Jun 2015	66.67	0.6	Jun 2014	72.34	0.7
		286.25	**2.7**		**289.60**	**2.6**		**286.25**	**2.7**		**289.60**	**2.6**

Preference shares were redeemed in June 2015.

Step up preference shares (ASX:BENPC)

Dividends paid during the year:												
	Jul 2014	78.00	0.8	Jul 2013	85.00	0.8	Jul 2014	78.00	0.8	Jul 2013	85.00	0.8
	Oct 2014	78.00	0.8	Oct 2013	81.00	0.8	Oct 2014	78.00	0.8	Oct 2013	81.00	0.8
				Jan 2014	77.00	0.8				Jan 2014	77.00	0.8
				Apr 2014	76.00	0.7				Apr 2014	76.00	0.7
		156.00	**1.6**		**319.00**	**3.1**		**156.00**	**1.6**		**319.00**	**3.1**

Step up preference shares were redeemed in October 2014.

Convertible preference shares (recorded as debt instruments) (ASX:BENPD)

Dividends paid during the year:												
	Dec 2014	273.90	7.4	Dec 2013	273.62	7.3	Dec 2014	273.90	7.4	Dec 2013	273.62	7.3
	Jun 2015	271.20	7.3	Jun 2014	266.49	7.2	Jun 2015	271.20	7.3	Jun 2014	266.49	7.2
		545.10	**14.7**		**540.11**	**14.5**		**545.10**	**14.7**		**540.11**	**14.5**

Convertible preference shares (CPS2) (recorded as debt instruments) (ASX:BENPE)

Dividends paid during the year:												
	Dec 2014	59.29	1.7	-	-	-	Dec 2014	59.29	1.7	-	-	-
	Jun 2015	209.60	6.1	-	-	-	Jun 2015	209.60	6.1	-	-	-
		268.89	**7.8**		-	-		**268.89**	**7.8**		-	-

Convertible preference shares (CPS2) were issued in October 2014.

Convertible preference shares (CPS 3, ASX:BENPF) were issued in June 2015 and as such no dividend has been paid during the June 2015 financial year.

7. Dividends (continued)

Dividend franking account

	Group	
	2015 $m	**2014 $m**
Balance of franking account as at the end of the financial year	334.1	327.1
Franking credits that will arise from the payment of income tax provided for in the financial report	18.2	17.5
Impact of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution of equity holders during the period	(64.6)	(63.1)
Closing balance at 30 June 2015	**287.7**	**281.5**

Dividend paid

Dividends paid by cash or satisfied by the issue of shares under the dividend reinvestment plan during the year were as follows:

	Group		Bank	
	2015 $m	**2014 $m**	**2015 $m**	**2014 $m**
Paid in cash [1]	247.8	211.5	247.8	211.5
Satisfied by issue of shares [2]	50.6	45.3	50.6	45.3
	298.4	**256.8**	**298.4**	**256.8**

[1]Refers to cash paid to shareholders who did not elect to participate in the dividend reinvestment plan.
[2]Includes share issued to participating shareholders under the dividend reinvestment plan.

Dividend policies

Preference share dividends are non-cumulative and are payable quarterly in arrears, at the discretion of the directors, based on a dividend rate equal to the sum of the 90 day Bank Bill Rate, plus the initial margin multiplied by one minus the company tax rate. It is expected that dividends paid, will be fully franked. For the payment of dividends, the preference shares will rank in priority to the ordinary shares. These shares were redeemed in June 2015.

Step up preference share dividends are non-cumulative and are payable quarterly in arrears, at the discretion of the directors, based on a dividend rate equal to the sum of the 90 day Bank Bill Rate plus the initial margin, multiplied by one minus the company tax rate. It is expected that dividends paid will be fully franked. For the payment of dividends, the step up preference shares will rank equally with the preference shares and in priority to the ordinary shares. These shares were redeemed in October 2014.

Dividend Reinvestment Plan

The Dividend Reinvestment Plan provides shareholders with the opportunity of converting their entitlement from a dividend into new shares. The issue price of the shares is equal to the volume weighted average share price of Bendigo and Adelaide Bank shares traded on the Australian Securities Exchange over the seven trading days commencing 24 August 2015. Shares issued under this Plan rank equally with all other ordinary shares.

Bonus Share Scheme

The Bonus Share Scheme provides shareholders with the opportunity to elect to receive a number of bonus shares issued for no consideration instead of receiving a dividend. The issue price of the shares is equal to the volume weighted average share price of Bendigo and Adelaide Bank shares traded on the Australian Securities Exchange over the seven trading days commencing 24 August 2015. Shares issued under this scheme rank equally with all other ordinary shares.

The last date for the receipt of an election notice for participation in either the Dividend Reinvestment Plan or Bonus Share Scheme for the 2015 final dividend was 21 August 2015.

Lending

In this section the focus is on the lending assets of the Group. Further information is provided on the loans and other receivables, and impairment relating to these financial assets.

8. Loans and other receivables

		Group		Bank	
	Note	2015 $m	2014 $m	2015 $m	2014 $m
Loans and other receivables - investments		185.1	397.1	185.1	397.1
Overdrafts		3,851.5	4,096.9	3,837.3	4,070.4
Credit cards		287.7	280.4	287.7	280.4
Term loans		48,978.3	45,902.4	45,699.8	42,457.2
Margin lending		1,792.2	1,822.7	-	-
Lease receivables		453.1	460.9	376.6	404.6
Factoring receivables		76.6	67.5	76.6	67.5
Other		106.0	85.9	106.0	85.9
Gross loans and other receivables		**55,730.5**	**53,113.8**	**50,569.1**	**47,763.1**
Specific provision	9	(116.8)	(114.4)	(79.3)	(74.2)
Collective provision	9	(59.0)	(42.8)	(52.8)	(36.6)
Unearned income		(101.7)	(106.9)	(51.0)	(56.1)
Total provisions and unearned income		**(277.5)**	**(264.1)**	**(183.1)**	**(166.9)**
Deferred costs paid		78.6	83.1	78.6	78.4
Net loans and other receivables		**55,531.6**	**52,932.8**	**50,464.6**	**47,674.6**
Maturity analysis [1]					
At call / overdrafts		7,598.8	9,179.2	5,437.6	6,769.9
Not longer than 3 months		1,175.4	1,047.4	924.6	921.0
Longer than 3 and not longer than 12 months		1,936.3	1,865.9	1,536.9	1,596.8
Longer than 1 and not longer than 5 years		7,540.9	6,951.8	5,378.3	5,239.8
Longer than 5 years		37,479.1	34,069.5	37,291.7	33,235.6
		55,730.5	**53,113.8**	**50,569.1**	**47,763.1**

[1] Balances exclude specific and collective provisions, unearned revenue, and deferred costs and are categorised by the contracted maturity date of each loan facility.

Recognition and measurement

Loans and receivables are measured at amortised cost using the effective interest method. The effective interest method calculation includes the contractual terms of the loan, together with all fees, transaction costs and other premiums or discounts.

Loans with renegotiated terms are accounted for in the same manner taking account of any change to the terms of the loan.

Deferred costs include costs associated with the acquisition, origination or securitisation of loan portfolios. These costs are amortised through the income statement over the average life of the loans in these portfolios.

All loans are subject to continuous management review, to assess whether there is any objective evidence that any loan or group of loans is impaired.

Unearned income on the Group's personal lending and leasing portfolios is brought to account over the life of the contracts on an actuarial basis.

9. Impairment of loans and advances

Summary of impaired financial assets	Group 2015 $m	Group 2014 $m	Bank 2015 $m	Bank 2014 $m
Impaired loans				
Loans - without provisions	80.3	120.3	24.5	21.8
Loans - with provisions	241.9	276.8	141.8	153.4
Restructured loans	3.4	14.7	-	12.5
Less: specific provisions	(116.1)	(113.6)	(78.6)	(73.4)
Net impaired loans	**209.5**	**298.2**	**87.7**	**114.3**
Net impaired loans % of net loans and other receivables	0.38%	0.56%	0.17%	0.24%
Portfolios facilities - past due 90 days, not well secured	4.2	4.0	3.7	4.0
Less: specific provisions	(0.7)	(0.8)	(0.7)	(0.8)
Net portfolio facilities	**3.5**	**3.2**	**3.0**	**3.2**
Loans past due 90 days				
Accruing loans past due 90 days, with adequate security balance	610.1	635.5	538.8	590.1
Net fair value of properties acquired through the enforcement of security	114.5	97.1	95.3	82.4

Summary of provisions	Group 2015 $m	Group 2014 $m	Bank 2015 $m	Bank 2014 $m
Specific provision				
Opening balance	114.4	104.1	74.2	51.3
Provision acquired in business combination	2.1	-	2.1	-
Charged to income statement	53.9	74.0	39.2	48.7
Impaired debts written off applied to specific provision	(53.6)	(63.7)	(36.2)	(25.8)
Closing balance	**116.8**	**114.4**	**79.3**	**74.2**
Collective provision				
Opening balance	42.8	34.5	36.6	30.8
Provision acquired in business combination	3.2	-	3.2	-
Charged to income statement	13.0	8.3	13.0	5.8
Closing balance	**59.0**	**42.8**	**52.8**	**36.6**
General reserve for credit losses (GRCL)				
Opening balance	138.3	138.3	119.7	119.7
Provision acquired in business combination	8.6	-	8.6	-
Closing balance	**146.9**	**138.3**	**128.3**	**119.7**
Total provisions and reserve	**322.7**	**295.5**	**260.4**	**230.5**
Ratios				
Specific provision as % of gross loans	0.21%	0.22%		
Total provisions and reserve as % of gross loans	0.58%	0.56%		
Collective provision and general reserve for credit losses as a % of risk-weighted assets	0.59%	0.56%		
Provision coverage ratio[1]	99.10%	71.80%		

[1]Provision coverage is calculated as total provisions and reserve divided by total impaired assets

9. Impairment of loans and advances (continued)

Recognition and measurement

A facility is classified as impaired regardless of whether it is 90 days or more past due (arrears) when there is doubt as to whether the full amounts due (interest and principal) will be achieved in a timely manner. This is the case even if the full extent of the loss cannot be clearly determined.

Losses for impaired loans are recognised when there is objective evidence that impairment of a loan, or portfolio of loans, has occurred. Impairment losses that are calculated on individual loans, or on groups of loans assessed collectively are recorded in the income statement.

Impairment losses are calculated by discounting the expected future cash flows of a loan, which includes expected future receipts of contractual interest, at the loan's original effective interest rate, and comparing the resultant present value with the loan's current carrying amount.

Restructured loans

Restructured loans are facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer. Restructuring may consist of reduction of interest, principal or other payments legally due, or an extension in maturity.

Specific provision

A specific provision is recognised for all impaired loans when there is reasonable doubt over the collectibility of principal and interest, in accordance with the loan agreement. All bad debts are written off against the specific provision in the period in which they are classified as not recoverable.

The provision is determined by specific identification or by estimation of expected losses in relation to loan portfolios, where specific identification is impractical, based on historical impairment experience for these portfolios. These portfolios include unsecured credit cards, overdrawn accounts and personal loans, where provisions are calculated based on historical loss experience.

Collective provision

Individual loans which are not subject to specific provisioning are grouped together according to their risk characteristics, and are then assessed for impairment. This assessment is based on historical loss data and available information for assets with similar credit risk characteristics (e.g. by industry sector, loan grade or product). Adjustments to the collective provision are recognised in the income statement.

General reserve for credit losses

The Australian Prudential Regulation Authority (APRA) requires that banks maintain a general reserve for credit losses to cover risks inherent in loan portfolios. In certain circumstances the collective provision can be included in this assessment. Movements in the general reserve for credit losses are recognised as an appropriation from retained earnings.

Funding and capital management

This section covers the funding and capital structure of the Group. Further information is provided for the following key areas: Deposits and note payables, convertible preference shares, subordinated debt, securitisation, share capital, retained earnings and reserves. The Group's capital management objectives are outlined in this section.

10. Deposits and notes payable

	Group		Bank	
Deposits	**2015 $m**	**2014 $m**	**2015 $m**	**2014 $m**
Retail				
At call	18,942.0	16,175.5	16,992.4	14,345.9
Term	19,866.4	21,206.4	19,866.4	21,206.4
Treasury	7,414.3	7,461.1	6,118.0	6,112.2
Total retail deposits	**46,222.7**	**44,843.0**	**42,976.8**	**41,664.5**
Wholesale				
Domestic	6,936.3	6,612.9	6,935.3	6,407.3
Offshore	346.3	903.5	346.3	903.5
Total wholesale deposits	**7,282.6**	**7,516.4**	**7,281.6**	**7,310.8**
Total deposits	**53,505.3**	**52,359.4**	**50,258.4**	**48,975.3**
Deposits by geographic location				
Victoria	22,987.6	22,505.4	22,303.8	21,777.7
New South Wales	13,979.2	12,528.2	12,747.3	11,366.2
Australian Capital Territory	1,030.9	1,089.6	977.7	1,001.8
Queensland	5,326.3	5,329.3	5,026.3	4,912.8
South Australia/Northern Territory	5,381.6	5,332.6	4,896.7	4,800.7
Western Australia	3,254.7	3,388.6	2,879.5	3,011.3
Tasmania	1,038.2	938.3	926.2	863.5
Overseas	506.8	1,247.4	500.9	1,241.3
Total deposits	**53,505.3**	**52,359.4**	**50,258.4**	**48,975.3**
Total notes payable	**4,925.9**	**5,256.4**	**330.6**	**310.4**

Recognition and measurement

Deposits
All deposits are initially recognised at cost, being the fair value of the consideration received net of issue costs. Subsequent to initial recognition, interest-bearing borrowings are measured at amortised cost using the effective interest method. Amortised cost includes any issue costs and any discount or premium on settlement. For liabilities carried at amortised cost, gains and losses are recognised in the income statement when the liabilities are de-recognised.

Notes payable
The Group conducts an asset securitisation program through which it packages and sells asset backed securities to investors. Notes payable are predominately interest-bearing financial instruments issued through these securitisation programs. The notes are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost, using the effective interest method. Interest is recognised in the income statement.

11. Convertible preference shares

	Group		Bank	
	2015 $m	2014 $m	2015 $m	2014 $m
CPS (ASX Code:BENPD)				
Nov 12: 2,688,703 fully paid $100 Convertible preference shares	268.9	268.9	268.9	268.9
Unamortised issue costs	(5.2)	(7.5)	(5.2)	(7.5)
	263.7	**261.4**	**263.7**	**261.4**
CPS2 (ASX Code:BENPE)				
Oct 14: 2,921,188 fully paid $100 Convertible preference shares	292.1	-	292.1	-
Unamortised issue costs	(9.4)	-	(9.4)	-
	282.7	**-**	**282.7**	**-**
CPS3 (ASX Code:BENPF)				
June 15: 2,822,108 fully paid $100 Convertible preference shares	282.2	-	282.2	-
Unamortised issue costs	(9.1)	-	(9.1)	-
	273.1	**-**	**273.1**	**-**
Total convertible preference shares	**819.5**	**261.4**	**819.5**	**261.4**

Nature of shares

Convertible preference shares are long term in nature, are perpetual and hence do not have a fixed maturity date. However the shares may be redeemed at the discretion of the Bank for a price per share on the redemption date. Any preference shares not already converted will be converted into ordinary shares on the mandatory conversion date specified in the issue's prospectus located at www.bendigoadelaide.com.au/public/shareholders/prospectus.asp

If the Bank is unable to pay a dividend because of insufficient profits, the dividend is non-cumulative. The convertible preference shares rank ahead of the ordinary shares in the event of liquidation. Under certain circumstances ranking may be affected resulting in shares being converted or written off.

In accordance with Australian Prudential Regulation Authority's Basel III capital adequacy framework, these convertible preference shares form part of the Bank's Additional Tier 1 capital.

Recognition and measurement

These instruments are classified as debt within the balance sheet and dividends to the holders are treated as interest expense in the income statement.

Convertible preference shares are initially recognised at cost, being the fair value of the consideration received, less charges associated with the issue of the instrument. They are subsequently measured at amortised cost using the effective interest method.

The shares carry a dividend which will be determined semi-annually and payable half yearly in arrears. The dividend rate will be the floating Bank Bill Rate plus the initial fixed margin, adjusted for franking credits.

12. Subordinated debt

	Group		Bank	
	2015 $m	**2014 $m**	**2015 $m**	**2014 $m**
Subordinated debt	**592.6**	**655.5**	**573.1**	**603.3**
Maturity analysis				
Not longer than 3 months	9.5	-	-	-
Longer than 3 and not longer than 12 months	-	63.0	-	30.4
Longer than 1 and not longer than 5 years	-	9.5	-	-
Over 5 years	583.1	583.0	573.1	572.9
	592.6	**655.5**	**573.1**	**603.3**

Recognition and measurement

These instruments are classified as debt within the balance sheet and the interest expense is recorded in the income statement.

Subordinated debt instruments are initially recognised at cost, being the fair value of the consideration received, less charges associated with the issue of the instrument. They are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

13. Securitisation and transferred assets

Group	Repurchase agreements 2015 $m	Repurchase agreements 2014 $m	Securitisation 2015 $m	Securitisation 2014 $m
Carrying amount of transferred assets [1]	330.5	310.3	4,292.6	4,743.8
Carrying amount of associated liabilities [2]	330.5	310.3	4,567.0	4,910.3
Fair value of transferred assets			4,285.4	4,724.1
Fair value of associated liabilities			4,538.4	4,978.5
Net Position			**(253.0)**	**(254.4)**

Bank	Repurchase agreements 2015 $m	Repurchase agreements 2014 $m	Securitisation 2015 $m	Securitisation 2014 $m
Carrying amount of transferred assets	330.5	310.3	8,310.7	9,194.2
Carrying amount of associated liabilities [3]	330.5	310.3	8,837.3	9,600.8
Fair value of transferred assets			8,326.7	9,228.0
Fair value of associated liabilities			8,839.6	9,703.6
Net Position			**(512.9)**	**(475.6)**

[1]Represents the carrying value of the loans transferred to the trust.
[2]Securitisation liabilities of the Group include RMBS notes issued by the SPE's and held by external parties.
[3]Securitisation liabilities of the Bank include borrowings from SPE's including the SPE's that issue internally held notes for repurchase with central banks, recognised on transfer of residential mortgages by the Bank.

Securitisation programs

The Group uses special purpose entities (SPE's) to securitise customer loans and advances that it has originated, in order to source funding, and/or capital efficiency purposes. The loans are transferred by the Group to the SPE's, which in turn issue debt to investors. This transfer does not give rise to de-recognition of those financial assets for the Group. The Group holds income and capital units in the trusts which entitle the Group to any residual income of the SPE after all payments to investors and costs of the program have been met. Trust investors have no recourse against the Group, if cash flows from the securitised loans are inadequate to service the trust obligations. Liabilities associated with the SPE's are accounted for on an amortised basis using the effective interest method.

Repurchase agreements

Securities sold under agreement to repurchase, are retained on the balance sheet when the majority of the risks and rewards of ownership remain with the Group. The counterparty liability is included separately on the balance sheet when cash consideration is received.

Consolidation

SPE's are consolidated by the Group where the Group has the power to govern directly or indirectly decision making in relation to financial and operational policies, and receives the majority of the residual income or is exposed to the majority of the residual risks associated with the SPE's.

The Group enters into interest rate swaps and liquidity facilities with the trusts, which are all at arm's length to the SPE's.

Securitised and sold loans

The Bank securitised loans totalling $1,462.1 million (2014: $498.4 million) during the financial year.

The Group invests in some of its own securitisation programs by holding A and B class notes equivalent to $4,809.5 million as at 30 June 2015 (2014: $5,265.9 million).

14. Standby arrangements and uncommitted credit facilities

	Group		Bank	
	2015 $m	2014 $m	2015 $m	2014 $m
Amount available:				
Offshore borrowing facility	10,417.3	8,502.0	10,417.3	8,502.0
Domestic note program	6,000.0	5,750.0	5,000.0	5,000.0
Amount utilised:				
Offshore borrowing facility	340.9	900.0	340.9	900.0
Domestic note program	3,600.9	2,943.0	3,580.0	2,890.0
Amount not utilised:				
Offshore borrowing facility	10,076.4	7,602.0	10,076.4	7,602.0
Domestic note program	2,399.1	2,807.0	1,420.0	2,110.0

Nature and Purpose

The Group utilises debt facilities which include both domestic and offshore and both short and long term arrangements.

The domestic funding facilities include floating rate notes. The notes are unsubordinated and unsecured. The coupon payable on the notes are both fixed and floating. The floating rate notes are issued at BBSW plus a margin with coupon payments made quarterly.

The offshore funding facilities include Euro medium term notes and Euro commercial paper.

The Euro commercial paper programmes are utilised to satisfy short term funding requirements. They represent unsubordinated and unsecured obligations. The funding is issued in both Australian and foreign denominations. The instruments may be issued at a discount, or bear interest on a fixed or floating rate basis.

Recognition and measurement

Funding instruments that are issued in currencies other than AUD are accounted for at amortised cost. These transactions are restated to AUD equivalents each month with adjustments taken directly to income. Funding instruments that have been utilised appear in Note 10 Deposits and notes payable.

15. Capital management

Bendigo and Adelaide Bank Limited's key capital management objectives are to:

- Maintain a sufficient level of capital above the regulatory minimum to provide a buffer against loss arising from unanticipated events, and allow the Group to continue as a going concern;
- Optimise the level and use of capital resources to enhance shareholder value through maximising financial performance;
- Ensure that capital management is closely aligned with the Group's business and strategic objectives; and
- Achieve progressive improvement to short and long term credit ratings.

The Group manages capital adequacy according to the framework provided by the Australian Prudential Regulation Authority (APRA) Standards.

Capital adequacy is measured at two levels:

- Level 1 includes Bendigo and Adelaide Bank Limited and certain controlled entities that meet the APRA definition of extended licensed entities; and
- Level 2 consists of the consolidated Group, excluding non-controlled subsidiaries and subsidiaries involved in insurance, funds management, non-financial operations and special purpose vehicles.

APRA determines minimum prudential capital ratios (eligible capital as a percentage of total risk-weighted assets) that must be held by all authorised deposit-taking institutions. Accordingly, Bendigo and Adelaide Bank Limited is required to maintain a minimum prudential capital ratio at both Level 1 and Level 2 as determined by APRA. As part of the Group's capital management process, the Board considers the Group's strategy, financial performance objectives, credit ratings and other factors relating to the efficient management of capital in setting target ratios of capital above the regulatory required levels. These processes are formalised within the Group's Internal Capital Adequacy Assessment Process (ICAAP).

Regulatory capital is divided into Common Equity Tier 1, Tier 1 and Tier 2 capital.

Common Equity Tier 1 capital primarily consists of shareholders equity less goodwill and other prescribed adjustments. Tier 1 capital is comprised of Common Equity Tier 1 plus other highly rated capital instruments acceptable to APRA. Tier 2 capital is comprised primarily of lower rated hybrid and debt instruments acceptable to APRA.

Total capital is the aggregate of Tier 1 and Tier 2 capital. The Group has adopted the Prudential Capital Adequacy Standardised Approach to credit risk, operational risk and market risk, which requires the Group to determine capital requirements based on standards set by APRA. The Group has satisfied the minimum capital requirements at Levels 1 and 2 throughout the 2014/15 financial year.

16. Share capital

Issued and paid up capital	Group 2015 $m	Group 2014 $m	Bank 2015 $m	Bank 2014 $m
Ordinary shares (ASX Code: BEN) fully paid - 456,566,225 (2014: 452,006,957)	4,235.4	4,183.3	4,235.4	4,183.3
Preference shares (ASX Code: BENPB) $100 face value fully paid - Nil (2014: 900,000)	-	88.5	-	88.5
Step up preference shares (ASX Code: BENPC) $100 face value fully paid - Nil (2014: 1,000,000)	-	100.0	-	100.0
Employee Share Ownership Plan	(11.8)	(16.2)	(11.8)	(16.2)
	4,223.6	**4,355.6**	**4,223.6**	**4,355.6**
Movements in ordinary shares on issue				
Opening balance 1 July - 452,006,957 (2014: 412,007,864)	4,183.3	3,758.0	4,183.3	3,758.0
Shares issued under:				
Bonus share scheme - 191,372 @ $12.73; 205,584 @ $12.62 (2014: 259,797 @ $10.17; 226,848 @ $11.14)	-	-	-	-
Dividend reinvestment plan - 1,813,234 @ $12.73; 2,184,643 @ 12.62 (2014: 2,105,049 @ $10.17; 2,145,304 @ $11.14)	50.6	45.3	50.6	45.3
Institutional placement and entitlement offer - nil (2014: 21,198,157 @ $10.85)	-	230.0	-	230.0
Retail entitlement offer - 164,435 @ $10.85 (2014: 13,789,655 @ $10.85)	1.8	149.6	1.8	149.6
Employee share plan - nil (2014: 274,283 @ $10.47)	-	2.9	-	2.9
Share issue costs	(0.3)	(2.5)	(0.3)	(2.5)
Closing balance 30 June - 456,566,225 (2014: 452,006,957)	**4,235.4**	**4,183.3**	**4,235.4**	**4,183.3**
Movements in preference shares on issue				
Opening balance 1 July - 900,000 fully paid (2014: 900,000 fully paid)	88.5	88.5	88.5	88.5
Redemption 900,000 fully paid shares	(88.5)	-	(88.5)	-
Closing balance 30 June - redeemed 900,000 in June 2015 (2014: 900,000 fully paid)	**-**	**88.5**	**-**	**88.5**
Movements in step up preference shares on issue				
Opening balance 1 July - 1,000,000 (2014: 1,000,000)	100.0	100.0	100.0	100.0
Redemption 1,000,000 fully paid shares	(100.0)	-	(100.0)	-
Closing balance 30 June - redeemed 1,000,000 in October 2014 (2014: 1,000,000)	**-**	**100.0**	**-**	**100.0**
Movements in Employee Share Ownership Plan				
Opening balance	(16.2)	(18.7)	(16.2)	(18.7)
Reduction in Employee Share Ownership Plan	4.4	2.5	4.4	2.5
Closing balance	**(11.8)**	**(16.2)**	**(11.8)**	**(16.2)**
Total issued and paid up capital	**4,223.6**	**4,355.6**	**4,223.6**	**4,355.6**

16. Share capital (continued)

Nature of issued capital

Ordinary shares (ASX code: BEN)
Ordinary shares are fully-paid and have no par value. They carry one vote per share and the right to dividends.

Preference shares (ASX code: BENPB)
Preference shares are perpetual, redeemable and convertible.

These shares rank equally among themselves and are subordinated to all depositors and creditors of the Bank.

These shares rank in priority to ordinary shares with respect to the payment of dividends and a return of capital on winding up. These shares do not carry a right to vote at general meetings of the Group, except in limited circumstances.

In accordance with the issue's prospectus dated April 2005 these shares were redeemed in June 2015.

Step up preference shares (ASX code: BENPC)
Step up preference shares are perpetual, redeemable and convertible.

These shares rank in priority to ordinary shares and rank equally with preference shares with respect to the payment of dividends and a return of capital on winding up or liquidation.

These shares do not carry a right to vote at general meetings of the Group, except in limited circumstances.

In accordance with the issue's prospectus dated August 2004 these shares were redeemed in October 2014.

Recognition and measurement

Ordinary shares, preference shares and step up preference shares are classified as equity. Issued ordinary capital, preference and step up preference shares are recognised at the fair value of the consideration received net of transaction costs (net of any tax benefit).

Dividends are recognised as a distribution from equity in the year that they are declared.

Employee Share Ownership Plan is the value of loans outstanding in relation to shares issued to employees under this plan and effectively represents the unpaid portion of the issued shares.

17. Retained earnings and reserves

Retained earnings

Movements	Group 2015 $m	Group 2014 $m	Bank 2015 $m	Bank 2014 $m
Opening balance	509.8	398.1	205.0	186.1
Profit for the year	423.9	372.3	340.5	282.7
Prior years' restatement	-	(7.7)	-	(7.7)
Transfer from asset revaluation reserve	-	2.8	-	-
Movements in general reserve for credit losses	(8.6)	-	(8.6)	-
Establish operational risk reserve	(1.8)	-	-	-
Share issue expense	(1.5)	-	(1.5)	-
Dividends	(297.6)	(256.8)	(297.6)	(256.8)
Deregistration of subsidiary company	-	-	-	(0.4)
Defined benefits actuarial adjustment	(1.6)	1.6	(1.6)	1.6
Tax effect of defined benefits actuarial adjustment	0.5	(0.5)	0.5	(0.5)
Closing balance	**623.1**	**509.8**	**236.7**	**205.0**

Reserves

Movements	Group 2015 $m	Group 2014 $m	Bank 2015 $m	Bank 2014 $m
Employee benefits reserve				
Opening balance	16.8	18.5	16.8	18.5
Net decrease in reserve	(2.4)	(1.7)	(2.4)	(1.7)
Closing balance	**14.4**	**16.8**	**14.4**	**16.8**
Asset revaluation reserve - property				
Opening balance	1.3	3.5	0.4	0.2
Transfer asset revaluation reserve to retained earnings	-	(4.0)	-	-
Tax effect of movement in asset revaluation reserve	-	1.2	-	-
Net revaluation increments	-	0.9	-	0.3
Tax effect of net revaluation increments	-	(0.3)	-	(0.1)
Closing balance	**1.3**	**1.3**	**0.4**	**0.4**
Asset revaluation reserve - available for sale equity securities				
Opening balance	2.7	1.7	0.9	0.5
Transfer to income on sale of available for sale assets	(2.6)	-	-	-
Revaluation increments	1.0	1.4	0.4	0.6
Tax effect of revaluation increments/(decrements)	0.5	(0.4)	(0.1)	(0.2)
Closing balance	**1.6**	**2.7**	**1.2**	**0.9**

17. Retained earnings and reserves (continued)

Reserves (continued)

Movements (continued)	Group 2015 $m	Group 2014 $m	Bank 2015 $m	Bank 2014 $m
Asset revaluation reserve - available for sale debt securities				
Opening balance	1.1	1.1	26.9	1.2
Net unrealised (losses)/gains	(0.6)	0.2	(5.0)	37.0
Transfer to income on sale of available for sale assets	(0.1)	(0.2)	(0.1)	(0.2)
Tax effect of net unrealised gains/(losses)	0.2	-	1.5	(11.1)
Closing balance	**0.6**	**1.1**	**23.3**	**26.9**
Operational risk reserve				
Opening balance	-	-	-	-
Establish operational risk reserve	1.8	-	-	-
Closing balance	**1.8**	**-**	**-**	**-**
Cash flow hedge reserve				
Opening balance	(38.7)	(34.6)	(30.0)	(17.2)
Changes due to mark to market	(17.3)	(5.9)	(26.3)	(18.4)
Tax effect of changes due to mark to market	5.2	1.7	7.9	5.5
Changes due to transfer to the income statement	(0.6)	0.1	(0.6)	0.1
Tax effect of changes due to transfer to the income statement	0.2	-	0.2	-
Closing balance	**(51.2)**	**(38.7)**	**(48.8)**	**(30.0)**
General reserve for credit losses (GRCL)				
Opening balance	138.3	138.3	119.7	119.7
Establishment of GRCL on transfer of business	8.6	-	8.6	-
Closing balance	**146.9**	**138.3**	**128.3**	**119.7**
Acquisition reserve				
Opening balance	(20.4)	(20.4)	-	-
Closing balance	**(20.4)**	**(20.4)**	**-**	**-**
Total reserves	**95.0**	**101.1**	**118.8**	**134.7**

Nature and purpose of reserves

Employee benefits reserve
The reserve records the value of equities issued to Non-executive employees under the Employee Share Plan and the value of deferred shares and rights granted to Executive employees under the Executive Incentive Plan.

Further details regarding these employee equity plans are disclosed within Note 37 Share based payment plans.

Asset revaluation reserve - property
The reserve records revaluation adjustments on the Group's property assets.

Asset revaluation reserve - available for sale - equity investments and debt securities
The reserve records fair value changes on available for sale assets.

Operational risk reserve
The reserve is required to meet Sandhurst Trustees Limited licence requirements.

Cash flow hedge reserve
The reserve records the portion of gain or loss on the derivatives that are determined to be in an effective cash flow hedge relationship.

General reserve for credit losses
APRA Prudential standard, APS 220 *Credit Quality*, requires a reserve to be held to recognise estimated future credit losses which may arise over the life of the Group's lending portfolio.

Acquisition reserve
The reserve records the difference between the carrying value of the non-controlling interest and the consideration paid to acquire the remaining interest of the non-controlling interest.

Treasury and investments

This section covers the financial instruments held by the Group including: financial instruments, derivatives, investments accounted for using the equity method (joint arrangements and associates) and investment property. This section outlines how the fair value of financial instruments is determined and the associated methodology.

Classification of Financial Instruments

Financial instruments are classified into one of five categories, which determine the accounting treatment.

The classification depends on the purpose for which the instruments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

The classifications are:

- Loans and receivables (refer Lending Section)
- Held to maturity
- Held for trading
- Available for sale
- Non-trading liabilities (refer Treasury and Funding Section)

18. Financial assets held for trading

	Group		Bank	
	2015 $m	2014 $m	2015 $m	2014 $m
Discount securities	1,754.8	3,348.1	1,755.2	3,348.5
Floating rate notes	322.1	980.0	322.1	980.0
Government securities	3,486.0	2,937.3	3,486.0	2,937.3
Total financial assets held for trading	**5,562.9**	**7,265.4**	**5,563.3**	**7,265.8**
Maturity analysis				
Not longer than 3 months	937.4	3,705.6	937.4	3,705.6
Longer than 3 and not longer than 12 months	2,947.5	2,314.4	2,947.5	2,314.4
Longer than 1 and not longer than 5 years	1,678.0	1,245.4	1,678.0	1,245.4
Over 5 years	-	-	0.4	0.4
	5,562.9	**7,265.4**	**5,563.3**	**7,265.8**

Recognition and measurement

Financial instruments are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. These financial instruments are measured at fair value with gains and losses recognised in the income statement.

Fair value measurement is outlined in Note 22 Financial instruments.

19. Financial assets available for sale

	Group		Bank	
	2015 $m	2014 $m	2015 $m	2014 $m
Debt securities				
Negotiable certificates of deposit	109.5	104.5	-	-
Mortgage backed securities	387.2	455.8	387.2	455.8
Security deposits	24.9	-	24.9	-
Securitisation notes	-	-	811.3	836.8
Liquidity collateral	48.3	59.0	12.4	-
Total financial assets available for sale - debt	**569.9**	**619.3**	**1,235.8**	**1,292.6**
Equity investments				
Listed share investments	2.4	2.0	2.3	1.9
Unlisted share investments	29.0	22.3	22.3	3.0
Total financial assets available for sale - equity	**31.4**	**24.3**	**24.6**	**4.9**
Total financial assets available for sale	**601.3**	**643.6**	**1,260.4**	**1,297.5**
Maturity analysis				
Not longer than 3 months	81.7	105.5	503.3	537.6
Longer than 3 and not longer than 12 months	60.8	20.0	25.6	20.0
Longer than 1 and not longer than 5 years	419.0	473.3	386.5	434.8
Over 5 years	8.4	20.5	320.4	300.2
Non-maturing	31.4	24.3	24.6	4.9
	601.3	**643.6**	**1,260.4**	**1,297.5**
Recognised gains/(losses) before tax:				
Gain/(loss) recognised directly in equity	0.4	1.6	(4.6)	37.6
Amount removed from equity and recognised in (profit)/loss	(2.7)	(0.2)	(0.1)	(0.2)

Recognition and measurement

Available for sale investments are non-derivative financial assets that are designated as available for sale or are not categorised into any of the categories under AASB 139 *Financial Instruments: Recognition and Measurement*.

Available for sale investments are measured at fair value and recorded in a reserve within equity. Upon disposal or impairment, the accumulated gains or losses recorded in equity are transferred to the income statement.

Fair value measurement is outlined in Note 22 Financial instruments.

20. Financial assets held to maturity

	Group		Bank	
	2015 $m	**2014 $m**	**2015 $m**	**2014 $m**
Negotiable certificates of deposit	197.1	197.3	-	-
Deposits - other	102.1	87.8	0.5	0.5
Other	1.5	1.5	1.5	1.5
Total financial assets held to maturity	**300.7**	**286.6**	**2.0**	**2.0**
Maturity analysis				
Not longer than 3 months	135.6	179.4	-	-
Longer than 3 and not longer than 12 months	61.4	17.8	-	-
Longer than 1 and not longer than 5 years	87.9	81.8	-	-
Over 5 years	15.8	7.6	2.0	2.0
	300.7	**286.6**	**2.0**	**2.0**

Classification and measurement

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity where the Group has the positive intention and ability to hold to maturity.

Investments that are held to maturity are measured at amortised cost using the effective interest method. Any discount or premium on acquisition is taken over the period to maturity.

Gains and losses are recognised in the income statement when the investments are sold or impaired.

21. Derivative financial instruments

	Group 2015				Group 2014			
	Notional amount $m	Fair value assets $m	Fair value liabilities $m	Net fair value $m	Notional amount $m	Fair value assets $m	Fair value liabilities $m	Net fair value $m
Included in derivatives category								
Derivatives held for trading								
Futures	1,239.7	10.4	-	10.4	431.1	3.4	-	3.4
Interest rate swaps	844.2	10.5	(24.0)	(13.5)	1,036.7	10.1	(18.9)	(8.8)
Foreign exchange contracts	54.1	1.0	(0.7)	0.3	46.0	0.5	(0.3)	0.2
	2,138.0	**21.9**	**(24.7)**	**(2.8)**	**1,513.8**	**14.0**	**(19.2)**	**(5.2)**
Derivatives held as fair value hedges								
Interest rate swaps	23.3	-	(2.0)	(2.0)	50.9	-	(2.5)	(2.5)
Cross currency swaps	156.8	24.9	-	24.9	-	-	-	-
Embedded derivatives	0.1	-	-	-	0.1	-	-	-
	180.2	**24.9**	**(2.0)**	**22.9**	**51.0**	**-**	**(2.5)**	**(2.5)**
Derivatives held as cash flow hedges								
Cross currency swaps	-	-	-	-	195.6	-	(16.8)	(16.8)
Interest rate swaps	24,877.7	17.0	(81.3)	(64.3)	17,694.1	8.3	(40.7)	(32.4)
	24,877.7	**17.0**	**(81.3)**	**(64.3)**	**17,889.7**	**8.3**	**(57.5)**	**(49.2)**
Total derivatives	**27,195.9**	**63.8**	**(108.0)**	**(44.2)**	**19,454.5**	**22.3**	**(79.2)**	**(56.9)**

	Bank 2015				Bank 2014			
	Notional amount $m	Fair value assets $m	Fair value liabilities $m	Net fair value $m	Notional amount $m	Fair value assets $m	Fair value liabilities $m	Net fair value $m
Included in derivatives category								
Derivatives held for trading								
Futures	1,239.7	10.4	-	10.4	431.1	3.4	-	3.4
Interest rate swaps	9,472.9	158.5	(36.8)	121.7	10,419.0	191.0	(30.0)	161.0
Foreign exchange contracts	54.1	1.0	(0.7)	0.3	92.1	0.5	(0.3)	0.2
	10,766.7	**169.9**	**(37.5)**	**132.4**	**10,942.2**	**194.9**	**(30.3)**	**164.6**
Derivatives held as fair value hedges								
Interest rate swaps	23.3	-	(2.0)	(2.0)	50.9	-	(2.5)	(2.5)
Cross currency swaps	156.8	24.9	-	24.9	-	-	-	-
	180.1	**24.9**	**(2.0)**	**22.9**	**50.9**	**-**	**(2.5)**	**(2.5)**
Derivatives held as cash flow hedges								
Cross currency swaps	-	-	-	-	140.9	-	(7.8)	(7.8)
Interest rate swaps	24,254.0	16.9	(77.9)	(61.0)	17,395.2	8.1	(37.1)	(29.0)
	24,254.0	**16.9**	**(77.9)**	**(61.0)**	**17,536.1**	**8.1**	**(44.9)**	**(36.8)**
Total derivatives	**35,200.8**	**211.7**	**(117.4)**	**94.3**	**28,529.2**	**203.0**	**(77.7)**	**125.3**

21. Derivative financial instruments (continued)

As at 30 June, hedged cash flows are expected to occur and affect the income statement as follows:

Group

2015	Within 1 year $m	1 to 2 years $m	2 to 3 years $m	3 to 4 years $m	4 to 5 years $m	Greater than 5 years $m
Forecast cash inflows (Assets)	405.2	85.9	39.0	175.5	9.5	32.3
Forecast cash outflows (Liabilities)	(479.8)	(126.7)	(65.8)	(185.1)	(10.6)	(32.5)
Forecast net cash outflows	(74.6)	(40.8)	(26.8)	(9.6)	(1.1)	(0.2)
Income statement	(50.7)	(31.5)	(15.8)	(6.3)	(0.9)	(0.2)
2014						
Forecast cash inflows (Assets)	269.7	207.0	53.3	27.0	170.6	39.7
Forecast cash outflows (Liabilities)	(302.9)	(233.2)	(66.5)	(32.8)	(173.9)	(40.2)
Forecast net cash outflows	(33.2)	(26.2)	(13.2)	(5.8)	(3.3)	(0.5)
Income statement	(26.2)	(21.7)	(13.2)	(8.9)	(4.5)	(0.3)

Bank

2015	Within 1 year $m	1 to 2 years $m	2 to 3 years $m	3 to 4 years $m	4 to 5 years $m	Greater than 5 years $m
Forecast cash inflows (Assets)	394.0	83.5	38.2	175.5	9.5	32.3
Forecast cash outflows (Liabilities)	(464.2)	(121.7)	(64.1)	(185.1)	(10.6)	(32.5)
Forecast net cash outflows	(70.2)	(38.2)	(25.9)	(9.6)	(1.1)	(0.2)
Income statement	(48.1)	(30.1)	(15.4)	(6.3)	(0.9)	(0.2)
2014						
Forecast cash inflows (Assets)	263.2	135.8	52.0	26.9	170.6	39.7
Forecast cash outflows (Liabilities)	(292.0)	(159.1)	(64.2)	(32.6)	(173.9)	(40.2)
Forecast net cash outflows	(28.8)	(23.3)	(12.2)	(5.7)	(3.3)	(0.5)
Income statement	(21.9)	(19.9)	(12.6)	(8.8)	(4.5)	(0.3)

	Group		Bank	
Net gains /(losses) arising from hedge ineffectiveness	**2015 $m**	**2014 $m**	**2015 $m**	**2014 $m**
Gains/(losses) arising from fair value hedges				
Gains on hedging instruments	6.2	1.0	6.2	1.0
Losses on the hedged items attributable to the hedged risk	(6.7)	(1.1)	(6.7)	(1.1)
Gains arising from cash flow hedges				
Gains on hedge ineffectiveness	0.6	0.2	0.6	0.2
	0.1	**0.1**	**0.1**	**0.1**

Nature and purpose

The Group uses derivative financial instruments primarily to manage risk, including interest rate risk and foreign currency rate risk. Note 30 Risk management outlines the risk management framework that the Group applies.

Recognition and measurement

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured on a monthly basis. Any gains and losses arising from a change in fair value of the derivative, except for those that qualify as cash flow hedges, are taken directly to the income statement. All derivatives are classified as Level 2 Investments and the valuation methodology is outlined in Note 22 Financial instruments.

Recognition and measurement (continued)

Hedge accounting

A hedge relationship is established whereby a hedging instrument (derivative) is identified as offsetting changes in the fair value or cash flows of a hedged item (asset or liability). The Group formally designates and documents the hedge relationship, including the risk management strategy for undertaking the hedge. This includes the identification of the hedge instrument, hedge item, the nature of the risk and how effectiveness will be tested. Testing is completed on a monthly basis both retrospectively and prospectively.

Derivatives that meet the hedge accounting criteria are able to be accounted for as either a fair value hedge or a cashflow hedge.

Fair value hedges

Fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed rate long term financial instruments due to movements in interest rates. Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, along with changes in the fair value of the hedged item. If a hedge relationship no longer meets the criteria for hedge accounting, then hedge accounting is discontinued. The cumulative adjustment to the hedge item is amortised to the income statement over the remaining period until maturity.

Cashflow hedges

Cashflow hedges consist principally of interest rate swaps and cross currency swaps that are used to protect against exposures to movements in future interest cash flows on assets and liabilities which bear interest at variable rates.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts in the cash flow hedge reserve are recognised in the income statement in the periods when the hedged item is recognised in profit or loss.

Offsetting financial assets and financial liabilities

The Group presents its derivative assets and liabilities on a gross basis.

Derivative financial instruments entered into by the Group are subject to International Swaps and Derivatives Association (ISDA) master netting agreements and other similar master netting arrangements. These arrangements do not meet the criteria for offsetting in the balance sheet. This is because they create for the parties to the agreement a right of set-off, of recognised amounts that are only enforceable following an event of default, insolvency or bankruptcy of the Group, or the counterparties, or following other predetermined events. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The following table sets out the effect of netting arrangements on derivative financial assets and derivative financial liabilities if they were to be applied:

	Group			
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
	2015		2014	
	$m	$m	$m	$m
Amounts subject to enforceable master netting or similar agreements				
Amounts of recognised financial assets/liabilities reported on the balance sheet	53.3	101.9	18.2	76.1
Related amounts not set-off on the balance sheet				
Financial collateral (received)/pledged	(16.3)	(80.5)	-	(22.1)
Net amount	**37.0**	**21.4**	**18.2**	**54.0**
Financial assets/liabilities not subject to enforceable master netting or similar agreements	10.5	6.1	4.1	3.1
Total financial assets/liabilities recognised on the balance sheet	**63.8**	**108.0**	**22.3**	**79.2**

21. Derivative financial instruments (continued)

Offsetting financial assets and financial liabilities (continued)

	Bank			
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
	2015		2014	
	$m	$m	$m	$m
Amounts subject to enforceable master netting or similar agreements				
Amounts of recognised financial assets/liabilities reported on the balance sheet	**201.2**	**111.3**	**198.9**	**74.7**
Related amounts not set-off on the balance sheet				
Financial collateral (received)/pledged	(16.3)	(80.5)	-	(22.1)
Net amount	**184.9**	**30.8**	**198.9**	**52.6**
Financial assets/liabilities not subject to enforceable master netting or similar agreements	10.5	6.1	4.1	3.0
Total financial assets/liabilities recognised on the balance sheet	**211.7**	**117.4**	**203.0**	**77.7**

For the purpose of this disclosure, financial collateral not set off on the balance sheet have been capped by relevant netting agreements so as not to exceed the net amounts of financial assets/(liabilities) reported on the balance sheet (ie over-collateralisation, where it exists, is not reflected in the tables).

22. Financial instruments

All financial instruments are initially recognised at fair value on the date of initial recognition depending on the classification of the asset and liability. Details of these classifications are included in the introduction to this section (Treasury and Investments).

(a) Measurement basis of financial assets and liabilities

The following table details the carrying amount of the financial assets and liabilities by classification on the balance sheet.

Group

	Held at fair value	At fair value through profit & loss	At fair value through reserves	Held at amortised cost		
2015	**Derivatives $m**	**Held for trading $m**	**Available for sale $m**	**Loans and receivables $m**	**Other financial instruments $m**	**Total $m**
Financial assets						
Cash and cash equivalents	-	-	-	-	981.6	981.6
Due from other financial institutions	-	-	-	-	215.7	215.7
Financial assets held to maturity	-	-	-	-	300.7	300.7
Financial assets held for trading	-	5,562.9	-	-	-	5,562.9
Financial assets available for sale	-	-	601.3	-	-	601.3
Loans and other receivables	-	-	-	55,531.6	-	55,531.6
Derivatives	63.8	-	-	-	-	63.8
Total financial assets	**63.8**	**5,562.9**	**601.3**	**55,531.6**	**1,498.0**	**63,257.6**
Financial liabilities						
Due to other financial institutions	-	-	-	-	202.7	202.7
Deposits	-	-	-	-	53,505.3	53,505.3
Notes payable	-	-	-	-	4,925.9	4,925.9
Derivatives	108.0	-	-	-	-	108.0
Convertible preference shares	-	-	-	-	819.5	819.5
Subordinated debt	-	-	-	-	592.6	592.6
Total financial liabilities	**108.0**	**-**	**-**	**-**	**60,046.0**	**60,154.0**
2014						
Financial assets						
Cash and cash equivalents	-	-	-	-	716.1	716.1
Due from other financial institutions	-	-	-	-	242.5	242.5
Financial assets held to maturity	-	-	-	-	286.6	286.6
Financial assets held for trading	-	7,265.4	-	-	-	7,265.4
Financial assets available for sale	-	-	643.6			643.6
Loans and other receivables	-	-	-	52,932.8	-	52,932.8
Derivatives	22.3	-	-	-	-	22.3
Total financial assets	**22.3**	**7,265.4**	**643.6**	**52,932.8**	**1,245.2**	**62,109.3**
Financial liabilities						
Due to other financial institutions	-	-	-	-	363.5	363.5
Deposits	-	-	-	-	52,359.4	52,359.4
Notes payable	-	-	-	-	5,256.4	5,256.4
Derivatives	79.2	-	-	-	-	79.2
Convertible preference shares	-	-	-	-	261.4	261.4
Subordinated debt	-	-	-	-	655.5	655.5
Total financial liabilities	**79.2**	**-**	**-**	**-**	**58,896.2**	**58,975.4**

22. Financial instruments (continued)

Bank	Held at fair value	At fair value through profit & loss	At fair value through reserves	Held at amortised cost		
2015	**Derivatives $m**	**Held for trading $m**	**Available for sale $m**	**Loans and receivables $m**	**Other financial instruments $m**	**Total $m**
Financial assets						
Cash and cash equivalents	-	-	-	-	870.4	870.4
Due from other financial institutions	-	-	-	-	215.7	215.7
Financial assets held to maturity	-	-	-	-	2.0	2.0
Financial assets held for trading	-	5,563.3	-	-	-	5,563.3
Financial assets available for sale	-	-	1,260.4	-	-	1,260.4
Loans and other receivables	-	-	-	50,464.6	-	50,464.6
Derivatives	211.7	-	-	-	-	211.7
Total financial assets	**211.7**	**5,563.3**	**1,260.4**	**50,464.6**	**1,088.1**	**58,588.1**
Financial liabilities						
Due to other financial institutions	-	-	-	-	202.4	202.4
Deposits	-	-	-	-	50,258.4	50,258.4
Notes payable	-	-	-	-	330.6	330.6
Derivatives	117.4	-	-	-	-	117.4
Convertible preference shares	-	-	-	-	819.5	819.5
Subordinated debt	-	-	-	-	573.1	573.1
Total financial liabilities	**117.4**	**-**	**-**	**-**	**52,184.0**	**52,301.4**
2014						
Financial assets						
Cash and cash equivalents	-	-	-	-	610.5	610.5
Due from other financial institutions	-	-	-	-	242.4	242.4
Financial assets held to maturity	-	-	-	-	2.0	2.0
Financial assets held for trading	-	7,265.8	-	-	-	7,265.8
Financial assets available for sale	-	-	1,297.5	-	-	1,297.5
Loans and other receivables	-	-	-	47,674.6	-	47,674.6
Derivatives	203.0	-	-	-	-	203.0
Total financial assets	**203.0**	**7,265.8**	**1,297.5**	**47,674.6**	**854.9**	**57,295.8**
Financial liabilities						
Due to other financial institutions	-	-	-	-	363.0	363.0
Deposits	-	-	-	-	48,975.3	48,975.3
Notes payable	-	-	-	-	310.4	310.4
Derivatives	77.7	-	-	-	-	77.7
Convertible preference shares	-	-	-	-	261.4	261.4
Subordinated debt	-	-	-	-	603.3	603.3
Total financial liabilities	**77.7**	**-**	**-**	**-**	**50,513.4**	**50,591.1**

(b) Fair Value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Wherever possible, fair values have been calculated using unadjusted quoted market prices in active markets for identical instruments. A quoted market price in an active market provides the most reliable evidence of fair value. For all other financial instruments, the fair value is determined by using other valuation techniques.

Valuation of financial assets and liabilities

Various valuation techniques are used to measure the fair value of financial instruments. The technique adopted is dependent upon the inputs available.

As part of the fair value measurement, the Group classifies its assets and liabilities according to a hierarchy that reflects the observability of significant market inputs.

The three levels of the hierarchy are defined below:

Level 1 - Quoted market prices
The fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - Valuation technique using observable inputs
The fair value is determined using models whose inputs are observable in an active market.

Level 3 - Valuation technique using significant unobservable inputs
The fair value is calculated using significant inputs that are not based on observable market data.

Financial assets and liabilities carried at fair value

The table below details financial instruments carried at fair value, by balance sheet classification and hierarchy level:

Group

2015	Level 1 $m	Level 2 $m	Level 3 $m	Total fair value $m	Total carrying value $m
Financial assets					
Financial assets held for trading	-	5,562.9	-	5,562.9	5,562.9
Financial assets available for sale	2.4	576.7	22.2	601.3	601.3
Derivatives	-	63.8	-	63.8	63.8
Financial liabilities					
Derivatives	-	108.0	-	108.0	108.0
2014					
Financial assets					
Financial assets held for trading	-	7,265.4	-	7,265.4	7,265.4
Financial assets available for sale	2.0	638.7	2.9	643.6	643.6
Derivatives	-	22.3	-	22.3	22.3
Financial liabilities					
Derivatives	-	79.2	-	79.2	79.2

Bank

2015	Level 1 $m	Level 2 $m	Level 3 $m	Total fair value $m	Total carrying value $m
Financial assets					
Financial assets held for trading	-	5,563.3	-	5,563.3	5,563.3
Financial assets available for sale	2.3	1,235.8	22.3	1,260.4	1,260.4
Derivatives	-	211.7	-	211.7	211.7
Financial liabilities					
Derivatives	-	117.4	-	117.4	117.4

22. Financial instruments (continued)

Bank

2014	Level 1 $m	Level 2 $m	Level 3 $m	Total fair value $m	Total carrying value $m
Financial assets					
Financial assets held for trading	-	7,265.8	-	7,265.8	7,265.8
Financial assets available for sale	1.9	1,292.6	3.0	1,297.5	1,297.5
Derivatives	-	203.0	-	203.0	203.0
Financial liabilities					
Derivatives	-	77.7	-	77.7	77.7

Transfers between levels are deemed to have occurred at the beginning of the reporting period in which instruments are transferred. There were no transfers between levels during the year for the Group or Bank.

Valuation methodology

Financial instruments - debt securities

Each month, independent valuations are determined by the Middle Office department of the Group's Finance and Treasury division. This involves an analysis of independently sourced data that is deemed most representative of the market.

From this independent data which is made available by other financial institutions, market average valuations are calculated, and the value of debt securities are updated.

Financial instruments - equity investments

Level 1 - Listed investments relates to equities held that are on listed exchanges.

Level 2 - Unlisted investments are equity holdings in unlisted managed investment schemes. For managed scheme investments the most recent prices provided by the fund manager are used.

Level 3 - Unlisted investments are equity holdings in small unlisted entities. Given there are no quoted market prices and fair value cannot be reliably measured, investments are held at cost less impairment.

Derivatives

Where the Group's derivative assets and liabilities are not traded on an exchange, they are valued using valuation methodologies, including discounted cash flow and option pricing models as appropriate. The most significant inputs into the valuations are interest rate yields which are developed from publicly quoted rates.

Movements in level 3 portfolio

The following table provides a reconciliation from the beginning balances to the ending balances for financial instruments which are classified as level 3:

Financial assets - equity investments

	Group		Bank	
	2015 $m	2014 $m	2015 $m	2014 $m
As at 30 June 2014	2.9	3.1	3.0	3.1
Purchases	19.3	-	19.3	-
Transfers out	-	(0.2)	-	(0.1)
As at 30 June 2015	**22.2**	**2.9**	**22.3**	**3.0**

22. Financial instruments (continued)

Financial assets and liabilities carried at amortised cost

Valuation Hierarchy

The table below details financial instruments carried at amortised cost, by balance sheet classification and hierarchy level:

Group

2015	Level 1 $m	Level 2 $m	Level 3 $m	Total fair value $m	Total carrying amount $m
Financial assets					
Cash and cash equivalents	981.6	-	-	981.6	981.6
Due from other financial institutions	215.7	-	-	215.7	215.7
Financial assets held to maturity	-	300.7	-	300.7	300.7
Loans and other receivables	-	-	55,721.4	55,721.4	55,531.6
Financial liabilities					
Due to other financial institutions	202.7	-	-	202.7	202.7
Deposits	-	53,578.7	-	53,578.7	53,505.3
Notes payable	-	4,896.5	-	4,896.5	4,925.9
Convertible preference shares	803.0	-	-	803.0	819.5
Subordinated debt	-	587.4	-	587.4	592.6

2014	Level 1 $m	Level 2 $m	Level 3 $m	Total fair value $m	Total carrying amount $m
Financial assets					
Cash and cash equivalents	716.1	-	-	716.1	716.1
Due from other financial institutions	242.5	-	-	242.5	242.5
Financial assets held to maturity	-	286.6	-	286.6	286.6
Loans and other receivables	-	-	53,125.2	53,125.2	52,932.8
Financial liabilities					
Due to other financial institutions	363.5	-	-	363.5	363.5
Deposits	-	52,453.4	-	52,453.4	52,359.4
Notes payable	-	5,323.6	-	5,323.6	5,256.4
Convertible preference shares	279.8	-	-	279.8	261.4
Subordinated debt	-	654.1	-	654.1	655.5

Bank

2015	Level 1 $m	Level 2 $m	Level 3 $m	Total fair value $m	Total carrying amount $m
Financial assets					
Cash and cash equivalents	870.4	-	-	870.4	870.4
Due from other financial institutions	215.7	-	-	215.7	215.7
Financial assets held to maturity	-	2.0	-	2.0	2.0
Loans and other receivables	-	-	50,636.4	50,636.4	50,464.6
Financial liabilities					
Due to other financial institutions	202.4	-	-	202.4	202.4
Deposits	-	50,324.1	-	50,324.1	50,258.4
Notes payable	-	330.6	-	330.6	330.6
Convertible preference shares	803.0	-	-	803.0	819.5
Subordinated debt	-	567.9	-	567.9	573.1

22. Financial instruments (continued)

Bank

2014	Level 1 $m	Level 2 $m	Level 3 $m	Total fair value $m	Total carrying amount $m
Financial assets					
Cash and cash equivalents	610.5	-	-	610.5	610.5
Due from other financial institutions	242.4	-	-	242.4	242.4
Financial assets held to maturity	-	2.0	-	2.0	2.0
Loans and other receivables	-	-	47,848.7	47,848.7	47,674.6
Financial liabilities					
Due to other financial institutions	363.0	-	-	363.0	363.0
Deposits	-	49,060.7	-	49,060.7	48,975.3
Notes payable	-	310.4	-	310.4	310.4
Convertible preference shares	279.8	-	-	279.8	261.4
Subordinated debt	-	598.2	-	598.2	603.3

Transfers between levels are deemed to have occurred at the beginning of the reporting period in which instruments are transferred. There were no significant transfers between levels during the year for the Group or Parent.

Valuation Methodology

Cash and cash equivalents, due from/to other financial institutions
The carrying value for these assets and liabilities are a reasonable approximation of fair value.

Financial instruments - held to maturity
The fair values of financial assets held to maturity are measured at amortised cost which approximates their fair value given they are predominantly short-term in nature or have interest rates which reprice frequently.

Loans & other receivables
The carrying value of loans and other receivables is net of specific and collective provisions.

For variable rate loans, excluding impaired loans, the carrying amount is a reasonable estimate of fair value.

The fair value for fixed loans is calculated by utilising discounted cash flow models, based on the maturity of the loans.

The discount rates used represent the rate the market is willing to offer at arms-length for customers of similar credit quality. The net fair value of impaired loans is calculated by discounting expected cash flows using these rates.

Deposits
The carrying value of deposits at call is considered to represent fair value given they are short term in nature. The fair value for all term deposits is calculated using a discounted cash flow model applying market rates, or current rates for deposits of similar maturities.

Notes payable
The fair value for all notes payable is calculated using a discounted cash flow model applying independent market rates and margins for similar financial instruments.

Convertible preference shares
The fair value for convertible preference shares is based on quoted market rates for the issue concerned as at 30 June.

Subordinated debt
The fair value of subordinated debt is calculated based on quoted market prices. For those debt issues where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instrument is used.

23. Investments accounted for using the equity method

	Ownership interest held by consolidated entity		Balance date	Profit/(loss) after tax		Carrying amount of investments	
				Group	Bank	Group	Bank
	2015 %	2014 %		2015 $m	2015 $m	2015 $m	2015 $m
Joint Arrangements							
Community Sector Enterprises Pty Ltd	50.0	50.0	30 June	(0.3)	(0.3)	1.3	1.3
Homesafe Solutions Pty Ltd	50.0	50.0	30 June	0.7	0.7	0.4	0.4
Silver Body Corporate Financial Services Pty Ltd	50.0	50.0	30 June	-	-	0.3	-
				0.4	**0.4**	**2.0**	**1.7**
Associates							
Aegis Correctional Partnership Pty Ltd	49.5	49.5	30 June	-	-	-	-
Aegis Securitisation Nominees Pty Ltd	49.5	49.5	30 June	-	-	-	-
Aegis Correctional Partnership Trust	49.5	49.5	30 June	-	-	-	-
Aegis Securitisation Trust	49.5	49.5	30 June	-	-	-	-
Dancoor Community Finances Ltd	49.0	49.0	30 June	-	-	0.8	0.8
Homebush Financial Services Ltd	49.0	49.0	30 June	-	-	0.8	0.8
Linear Financial Holdings Pty Ltd [1]	-	36.0	30 June	2.7	-	-	-
Strategic Payments Services Pty Ltd [2]	-	47.5	31 Dec	1.4	1.4	-	-
Vic West Community Enterprise Pty Ltd [3]	50.0	50.0	30 June	(0.1)	(0.1)	-	-
				4.0	**1.3**	**1.6**	**1.6**

[1] Sold in December 2014.
[2] Sold in November 2014.
[3] Fully impaired in December 2014.

	Profit/(loss) after tax		Carrying amount of investments	
	Group	Bank	Group	Bank
	2014 $m	2014 $m	2014 $m	2014 $m
Joint Arrangements				
Community Sector Enterprises Pty Ltd	0.3	0.3	1.2	1.2
Homesafe Solutions Pty Ltd	0.4	0.4	0.2	0.2
Silver Body Corporate Financial Services Pty Ltd	0.1	-	0.2	-
	0.8	**0.7**	**1.6**	**1.4**
Associates				
Aegis Correctional Partnership Pty Ltd	-	-	-	-
Aegis Securitisation Nominees Pty Ltd	-	-	-	-
Aegis Correctional Partnership Trust	-	-	-	-
Aegis Securitisation Trust	-	-	-	-
Dancoor Community Finances Ltd [1]	-	-	0.8	0.8
Homebush Financial Services Ltd	-	-	0.8	0.8
Linear Financial Holdings Pty Ltd	(1.0)	-	0.4	-
Strategic Payments Services Pty Ltd	0.3	0.3	10.5	10.5
Vic West Community Enterprise Pty Ltd	0.1	0.1	1.6	1.6
	(0.6)	**0.4**	**14.1**	**13.7**

[1] Dancoor Community Finances Ltd (effective January 2014)

All joint arrangements and associates are incorporated in Australia.

Movements in carrying amount of investment

	Group		Bank	
	2015 $m	2014 $m	2015 $m	2014 $m
Joint Arrangements				
Balance at the beginning of financial year	1.6	1.7	1.4	1.3
Return of capital investment	(0.5)	(0.6)	(0.5)	(0.6)
Increase in capital investment	0.6	-	0.5	-
Dividends received from joint arrangements	(0.1)	(0.3)	(0.1)	-
Share of total comprehensive income	0.4	0.8	0.4	0.7
Total investment held in joint arrangements	**2.0**	**1.6**	**1.7**	**1.4**

23. Investments accounted for using the equity method (continued)

Movements in carrying amount of investment (continued)

	Group		Bank	
Total comprehensive income from joint arrangements	**2015 $m**	**2014 $m**	**2015 $m**	**2014 $m**
Profit or loss from continuing operations	0.4	0.8	0.4	0.7
Total comprehensive income	**0.4**	**0.8**	**0.4**	**0.7**

	Group 2015 $m	Group 2014 $m	Bank 2015 $m	Bank 2014 $m
Associates				
Balance at the beginning of financial year	14.1	13.9	13.7	12.5
Carrying amount of investment (disposed)/acquired during the year	(15.0)	0.8	(11.9)	0.8
Impairment of investment	(1.5)	-	(1.5)	-
Share of total comprehensive income	4.0	(0.6)	1.3	0.4
Total investment held in associates	**1.6**	**14.1**	**1.6**	**13.7**

Total comprehensive income from associates	Group 2015 $m	Group 2014 $m	Bank 2015 $m	Bank 2014 $m
Profit or loss from continuing operations	4.0	(0.6)	1.3	0.4
Total comprehensive income	**4.0**	**(0.6)**	**1.3**	**0.4**

Subsequent events affecting joint arrangements and associates for the ensuing year (if any) are disclosed in Note 41 Events after balance sheet date.

The consolidated entity's share of joint arrangements and associates commitments and contingent liabilities (if any) are disclosed in Note 39 Commitments and contingencies.

Significant restrictions

There are no significant restrictions on the ability of joint arrangements or associates to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the entity.

Recognition and measurement

The Group's investment in joint arrangements and associates are accounted for under the equity method of accounting in the consolidated financial statements. Entities in which the Group holds a 50% interest and have joint control are classified as joint arrangements. Where the Group holds 20% but less than 50% interest in an entity, and has significant influence but not control over these, the investments are treated as associates.

Investments in joint arrangement and associates are initially recorded at cost and increased/decreased each year by the Group's share of post acquisition profits/losses. The Group ceases to recognise its share of the losses when its share of the net assets and amounts due from the entity have been fully written off, unless it has incurred further obligations.

24. Investment property

Investment property values reflect the Group's investment in residential real estate through the Homesafe trust. The investments represent shared equity interest alongside the original homeowners in Sydney and Melbourne residential properties.

	Group		Bank	
	2015 $m	2014 $m	2015 $m	2014 $m
Opening balance	404.9	348.9	-	5.9
Additions	41.4	28.2	-	-
Disposals	(26.5)	(20.5)	-	(5.9)
Net gain from fair value adjustments through the income statement	62.2	48.3	-	-
Total investment property	**482.0**	**404.9**	**-**	**-**

Recognition and measurement

Investment properties are measured initially at cost, including transaction costs and then stated at fair value.

Gains or losses arising from changes in the fair values of investment properties are recognised in the income statement in the year in which they arise.

Valuation methodology

Subsequent to initial recognition, fair value is determined by discounting the expected future cash flows of the portfolio, taking into account the restrictions on the ability to realise the investment property due to contractual obligations.

Assumptions used in the modelling of future cashflows are sourced from market indices of property values (Residex) and long term growth/discount rates appropriate to residential property and historical experience of contracts that have been closed out. The discounted cash flow model is prepared on a monthly basis. Inputs that form part of the discounted cash flow model include rates of property appreciation, discount rates, selling costs, mortality rates and future CPI increases.

Fair Value measurement

There are different levels of fair value measurement. When fair value is calculated using inputs that are not based on observable market data, then assets will be considered as Level 3 fair value. Investment property has been categorised as a Level 3 fair value based on the inputs outlined above.

Sensitivity of Level 3 fair value measurements to reasonably possible alternative assumptions

					Effect of reasonably possible alternative assumptions	
Valuation technique	Significant unobservable inputs	$m	Range of estimates (weighted -average) for unobservable input	Fair value measurement sensitivity to unobservable inputs	Favourable change $m	Unfavourable change $m
Discounted cash flow	Rates of property appreciation - 6%	482.0	4%-8%	Significant increases in these inputs would result in higher fair values.	144.2	(101.0)
	Discount rates - 7.75%	482.0	5.75%-9.75%	Significant increases in these inputs would result in lower fair values.	148.7	(103.3)

Where valuation techniques use non-observable inputs that are significant to a fair value measurement in its entirety, changing these inputs will change the resultant fair value measurement.

The most significant inputs impacting the carrying value of the investment property are the long term growth rates and the discount rates. There are interdependencies between a number of the assumptions made which mean that no single factor is likely to move independent of others, however the sensitivities disclosed above assume all other assumptions remain unchanged.

Operating assets and liabilities

This section outlines the operating assets and liabilities of the Group and associated information. Included in this section is information on the following: cash flow statement reconciliation, cash & cash equivalents, goodwill, other assets and other payables.

25. Cash flow statement reconciliation

	Group		Bank	
	2015 $m	2014 $m	2015 $m	2014 $m
Profit after tax	423.9	372.3	340.5	282.7
Non-cash items				
Bad debts expense	71.2	85.6	55.7	57.1
Amortisation	36.1	36.8	24.3	25.6
Depreciation (including leasehold improvements)	22.4	18.9	21.9	18.3
Revaluation (increments)/decrements	(61.9)	(48.3)	0.7	0.6
Equity settled transactions	1.5	2.0	1.4	2.0
Share of net (profit)/loss from joint arrangements and associates	(4.4)	(0.2)	(1.7)	(1.1)
Impairment write down	1.5	-	1.5	-
Fair value acquisition adjustments	6.5	-	6.5	-
Hedge gains in relation to ineffectiveness	(0.1)	(0.1)	(0.1)	(0.1)
Changes in assets and liabilities				
Increase/(decrease) in tax provision	0.7	(29.6)	0.7	(29.6)
Increase/(decrease) in deferred tax assets & liabilities	13.3	6.5	(14.4)	4.6
(Increase)/decrease in derivatives	(12.7)	(9.6)	31.0	(28.4)
Decrease in accrued interest	(6.9)	(39.6)	(14.9)	(41.2)
Increase in accrued employee entitlements	4.0	7.2	4.3	6.3
Decrease/(increase) in other accruals, receivables and provisions	53.1	(6.5)	26.2	11.9
Net cash flows from operating activities	**548.2**	**395.4**	**483.6**	**308.7**

Cash flows presented on a net basis

Cash flows arising from the following activities are presented on a net basis in the cash flow statement: Loans and other receivables, investment securities, retail deposits and wholesale deposits.

26. Cash and cash equivalents

	Group		Bank	
	2015 $m	2014 $m	2015 $m	2014 $m
Notes and coins	183.9	177.6	183.9	177.6
Cash at bank	567.2	392.7	441.0	327.2
Investments at call	230.5	145.8	245.5	105.7
Total cash and cash equivalents	**981.6**	**716.1**	**870.4**	**610.5**

Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes:

Cash and cash equivalents	981.6	716.1	870.4	610.5
Due from other financial institutions	215.7	242.5	215.7	242.4
Due to other financial institutions	(202.7)	(363.5)	(202.4)	(363.0)
	994.6	**595.1**	**883.7**	**489.9**

Recognition and measurement

Cash and cash equivalents include cash on hand, deposits held at call with banks, bank overdrafts and other short term investments that have an original maturity of three months or less. Cash at bank earns interest at variable rates based on daily bank and short term deposit rates.

Interest is recognised in the income statement using the effective interest method.

27. Goodwill and other intangible assets

Group

	Goodwill $m	Computer software $m	Deposits $m	Customer relationship $m	Other acquired intangibles [1] $m	Trustee licence $m	Total $m
Carrying amount as at 1 July 2014	1,368.4	53.1	28.5	24.1	21.9	8.4	1,504.4
Acquisition through business combination	73.9	-	-	-	2.5	-	76.4
Additions	-	35.8	-	-	-	-	35.8
Amortisation charge	-	(14.2)	(8.5)	(7.9)	(5.5)	-	(36.1)
Closing balance as at 30 June 2015	**1,442.3**	**74.7**	**20.0**	**16.2**	**18.9**	**8.4**	**1,580.5**
Carrying amount as at 1 July 2013	1,368.4	50.9	37.3	32.7	20.5	8.4	1,518.2
Acquisition through business combination	-	-	-	-	6.2	-	6.2
Additions	-	17.3	-	-	-	-	17.3
Adjustment due to sale	-	-	-	-	(0.5)	-	(0.5)
Amortisation charge	-	(15.1)	(8.8)	(8.6)	(4.3)	-	(36.8)
Closing balance as at 30 June 2014	**1,368.4**	**53.1**	**28.5**	**24.1**	**21.9**	**8.4**	**1,504.4**
Bank							
Carrying amount as at 1 July 2014	1,288.9	51.1	22.0	5.7	12.6	-	1,380.3
Acquisition through business combination	73.9	-	-	-	-	-	73.9
Additions	-	34.7	-	-	-	-	34.7
Amortisation charge	-	(12.9)	(6.4)	(2.9)	(2.1)	-	(24.3)
Closing balance as at 30 June 2015	**1,362.8**	**72.9**	**15.6**	**2.8**	**10.5**	**-**	**1,464.6**
Carrying amount as at 1 July 2013	1,288.9	48.1	28.5	9.3	15.2	-	1,390.0
Additions	-	16.4	-	-	-	-	16.4
Adjustment due to sale	-	-	-	-	(0.5)	-	(0.5)
Amortisation charge	-	(13.4)	(6.5)	(3.6)	(2.1)	-	(25.6)
Closing balance as at 30 June 2014	**1,288.9**	**51.1**	**22.0**	**5.7**	**12.6**	**-**	**1,380.3**

[1] These assets include customer lists, management rights and trade names.

Recognition and measurement

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured at cost on initial recognition. Intangible assets acquired in a business combination are measured at fair value at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less accumulated amortisation and impairment losses. Intangible assets with a finite life are amortised over a straight line basis over their useful life and tested at least annually for impairment or when there is an indicator that impairment may exists. Intangible assets with indefinite lives are tested for impairment in the same way as goodwill. The amortisation period and method are reviewed at each financial year end for all intangible assets.

Computer software includes both purchased and internally generated software. The cost of internally generated software comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management. Costs incurred in the ongoing maintenance of software are expensed as incurred.

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the sale proceeds and the carrying amount of the asset and are included in the income statement in the year of disposal.

27. Goodwill and other intangible assets (continued)

A summary of the policies applied to the Group's intangible assets (excluding goodwill) are as follows:

	Trustee Licence	Computer software/ development costs	Intangible assets acquired in a business combination
Useful lives	Indefinite	Finite	Finite
Method used	Not amortised or revalued	Straight line over 2.5 to 10 years	Straight line over life of asset (2 - 15yrs)
Internally generated/acquired	Acquired	Internally generated or acquired	Acquired
Impairment test/recoverable amount testing	Annually and when an indicator of impairment exists	Annually and when an indicator of impairment exists	Annually and when an indicator of impairment exists

Recognition and measurement

Goodwill

Goodwill acquired in a business combination is initially measured at cost. Cost is measured as the cost of the business combination minus the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. Following initial recognition goodwill is measured at cost less accumulated impairment losses.

Goodwill is allocated to cash generating units (CGU) for the purposes of impairment testing, which is undertaken at the lowest level at which Goodwill is monitored for internal management purposes. Impairment testing is performed at least annually, or whenever there is an indication of impairment, by comparing the recoverable amount of a CGU with its carrying amount. The carrying amount of a CGU is based on its assets, liabilities and allocated goodwill. The recoverable amount of a CGU is the higher of its fair value less cost to sell and its value in use. If the recoverable amount is less than the carrying value, an impairment loss is charged to the income statement.

At the date of disposal of a business, attributable goodwill is measured on the basis of the value of the operation disposed of and the portion of the CGU retained.

Goodwill has been allocated to the following CGUs:

	2015 $m	2014 $m
Retail banking	677.5	677.5
Third party banking	464.4	464.4
Wealth	209.7	209.7
Rural	90.7	16.8
	1,442.3	**1,368.4**

Key assumptions used in value in use calculations

In determining value in use the estimated future (pre-tax) cash flows are discounted to their present value using a discount rate. The estimated future cash flows are obtained from the Group's forecast which is developed annually and approved by management. Growth rates are applied to the approved forecast data to extrapolate for a further four years.

The discount rate used is based on the weighted average cost of capital for each CGU and reflects current market assessments of the risks specific to the CGU for which future estimates of cash flows have not been adjusted.

A terminal growth rate of 3.0% is representative of long term growth rates, including inflation, in Australia. It is used to extrapolate cash flows beyond the forecast period for each CGU.

The table below contains discount rates used in the calculation of the recoverable amount for each CGU:

	Discount rate
Retail banking	10.41%
Third party banking	10.71%
Wealth	11.01%
Rural	11.31%

28. Other assets

	Group		Bank	
	2015 $m	2014 $m	2015 $m	2014 $m
Accrued income	23.9	24.2	17.9	17.9
Prepayments	26.0	26.0	20.6	20.7
Sundry debtors	144.6	499.4	892.3	1,285.5
Accrued interest	163.1	175.5	131.4	141.9
Deferred expenditure	102.3	72.9	102.0	72.5
Total other assets	**459.9**	**798.0**	**1,164.2**	**1,538.5**

Recognition and measurement

Prepayments and sundry debtors
Prepayments and sundry debtors are recognised initially at fair value and then subsequently measured at amortised cost using the effective interest method. Collectability of sundry debtors is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off when identified.

Accrued interest
Accrued interest is interest that has been recognised as income on an accrual basis using the effective interest method, but is yet to be charged to the loan or receivable.

Deferred expenditure
Deferred expenditure relating to projects is capitalised to the Balance Sheet when it is probable the future economic benefits attributable to the asset will flow to the Group. The cost model is applied which requires the asset to be carried at cost less any impairment losses. When the project has been completed these items are transferred to capitalised software (refer to Note 27 Goodwill and other intangible assets for further information). The carrying value of deferred expenditure is reviewed for impairment annually when the asset is not in use, or more frequently when an indicator of impairment arises.

29. Other payables

	Group		Bank	
	2015 $m	2014 $m	2015 $m	2014 $m
Sundry creditors	14.9	35.0	9.9	24.6
Accrued expenses and outstanding claims	402.4	590.4	537.7	753.9
Accrued interest	241.6	260.9	225.5	245.0
Prepaid interest	29.5	32.4	-	-
Total other payables	**688.4**	**918.7**	**773.1**	**1,023.5**

Recognition and measurement

Sundry creditors and accrued expenses
Sundry creditors and accrued expenses are carried at amortised cost, which is the fair value of the consideration to be paid in the future for goods and services received. Sundry creditors are generally settled within 30 days.

Accrued interest
Accrued interest is the interest that is recognised as an expense in the income statement but has yet to be paid to the customers liability account. Interest is recognised using the effective interest method.

Prepaid interest
Prepaid interest is the interest received from customers in advance. This interest is recognised as income in the income statement using the effective interest method.

Other disclosure matters

The following section outlines all other disclosure matters including: risk management, business combinations, subsidiaries and controlled entities, related party disclosures, provisions, commitments and contingencies and other required disclosures.

The risk management note outlines the key financial risks that the Group manages.

30. Risk management

Nature of Risk

The Group is exposed to a range of risks which have the potential to adversely impact its financial performance and financial position. The Group actively manages those risks it assesses to be material including key financial risks (i.e. credit risk, liquidity risk and market risk) and operational risks.

The Board is ultimately responsible for the management of risk which is achieved by establishing, reviewing and overseeing the Group's Risk management framework (the framework) including its risk profile, risk appetite and risk strategy.

The framework provides a high level description of the material risks faced by the Group together with the policies and procedures implemented to measure, monitor and manage those risks.

The Board's role is supported by committees namely the Asset and Liability Management Committee (ALMAC), Management and Board Credit committees, Operational Risk committee and the Board Risk Committee who facilitate in monitoring adherence to policies, limits and procedures.

Further details regarding the Group's material risks including our strategic approach to its management is contained within the Directors' Report and the Corporate Governance statement. Our committee charters are available on our website.

Financial risk management

The Group's exposure to financial risks are considered significant given financial instruments held by the Group constitute the core contributors of financial performance and position. An overview of the Group's key financial risks is presented below.

Credit risk

Credit risk is risk of the Group suffering a financial loss if any of its customers or counterparties fail to fulfil their contractual obligations.

The Group is predominantly exposed to credit risk as a result of its lending activities as well as counterparty exposures arising from the funding activities of Group Treasury due to the use of derivative contracts.

The table below presents the maximum exposure to credit risk arising from balance sheet and off-balance sheet financial instruments. The exposure is shown gross before taking into account any master netting, collateral agreements or other credit enhancements.

	Group		Bank	
Gross maximum exposure	**2015 $m**	**2014 $m**	**2015 $m**	**2014 $m**
Cash and cash equivalents	797.7	538.5	686.5	432.9
Due from other financial institutions	215.7	242.5	215.7	242.4
Financial assets held for trading	5,562.9	7,265.4	5,563.3	7,265.8
Financial assets available for sale	601.3	643.6	1,260.4	1,297.5
Financial assets held to maturity	300.7	286.6	2.0	2.0
Other assets	307.7	674.9	1,023.7	1,427.4
Derivatives	63.8	22.3	211.7	203.0
Shares in controlled entities	-	-	564.8	575.4
Amounts receivable from controlled entities	-	-	188.1	283.8
Gross loans and other receivables	55,730.5	53,113.8	50,569.1	47,763.1
	63,580.3	**62,787.6**	**60,285.3**	**59,493.3**
Contingent liabilities	238.0	266.9	235.3	264.2
Commitments	5,644.6	5,320.1	5,445.6	5,122.9
	5,882.6	5,587.0	5,680.9	5,387.1
Total credit risk exposure	**69,462.9**	**68,374.6**	**65,966.2**	**64,880.4**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount.

For contingent liabilities including financial guarantees granted, it is the maximum amount that the Group would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments, it is generally the full amount of the committed facilities.

30. Risk management (continued)

Credit risk (continued)

Concentrations of the maximum exposure to credit risk

Concentration risk is managed by client or counterparty, by geographical region and by industry sector. The Group implements certain exposure and concentration limits in order to mitigate the risk.

The maximum credit exposure to any client or counterparty as at 30 June 2015 was $672.1 million (2014: $803.5 million) before taking account of collateral or other credit enhancements and $672.1 million (2014: $803.5 million) net of such protection.

Geographic - based on the location of the counterparty or customer

The table below presents the maximum exposure to credit risk categorised by geographical region.

The exposures are shown gross before taking into account any collateral held or other credit enhancements.

	Group		Bank	
Gross maximum exposure	**2015 $m**	**2014 $m**	**2015 $m**	**2014 $m**
Victoria	28,092.7	25,252.8	28,119.9	25,522.5
New South Wales	11,702.7	14,897.7	12,531.2	14,310.4
Australian Capital Territory	3,446.9	944.7	2,407.0	914.3
Queensland	9,397.6	10,406.1	9,044.0	9,365.7
South Australia/Northern Territory	7,800.8	7,404.3	6,895.0	6,903.4
Western Australia	5,970.5	7,663.3	5,338.1	6,259.3
Tasmania	2,203.1	1,425.8	1,340.0	1,241.8
Overseas	848.6	379.9	291.0	363.0
Total credit risk exposure	**69,462.9**	**68,374.6**	**65,966.2**	**64,880.4**

Industry Sector - is based on the industry in which the customer or counterparty are engaged

The table below presents the maximum exposure to credit risk categorised by industry sector.
The exposures are shown gross before taking into account any collateral held or other credit enhancements.

Industry concentration	Group		Bank	
	Gross maximum exposure 2015 $m	**Gross maximum exposure 2014 $m**	**Gross maximum exposure 2015 $m**	**Gross maximum exposure 2014 $m**
Accommodation and food services	749.3	725.0	747.8	723.4
Administrative and support services	286.2	294.6	286.2	294.2
Agriculture, forestry and fishing	6,597.1	5,229.8	2,899.0	1,410.8
Arts and recreation services	226.3	213.9	226.1	213.6
Construction	2,628.2	2,677.9	2,581.1	2,631.9
Education and training	383.4	402.9	383.4	402.9
Electricity, gas, water and waste services	191.8	201.2	191.8	201.2
Financial and insurance services	1,177.0	1,400.5	1,175.7	1,395.5
Financial services	7,890.8	9,405.6	9,785.0	11,492.7
Health care and social assistance	920.3	956.8	920.3	956.8
Information media and telecommunications	164.7	174.5	164.7	174.5
Manufacturing	878.9	920.8	873.1	919.0
Margin lending	1,792.2	1,822.7	-	-
Mining	205.6	216.9	205.6	216.9
Other	24.2	351.7	30.7	356.8
Other services	687.1	690.3	686.3	690.1
Professional, scientific and technical services	882.5	880.0	882.2	879.5
Public administration and safety	501.8	573.4	501.4	575.3
Rental, hiring and real estate services	5,116.9	4,763.4	5,104.3	4,750.2
Residential/consumer	35,745.3	33,883.2	35,911.5	34,009.0
Retail trade	1,318.9	1,412.8	1,318.8	1,412.5
Transport, postal and warehousing	687.0	742.5	684.0	739.6
Wholesale trade	407.4	434.2	407.2	434.0
	69,462.9	**68,374.6**	**65,966.2**	**64,880.4**

30. Risk management (continued)

Credit quality

The credit quality of financial assets is managed by the Group using internal credit ratings.

The table below presents the credit quality of financial assets, based on the Group's credit rating system and are gross of any impairment allowances.

Group	Neither past due or impaired						
2015	High grade $m	Standard grade $m	Sub-standard grade $m	Unrated $m	Consumer loans [1] $m	Past due or impaired $m	Total $m
Cash and cash equivalents	797.7	-	-	-	-	-	797.7
Due from other financial institutions	215.7	-	-	-	-	-	215.7
Financial assets held for trading	5,562.9	-	-	-	-	-	5,562.9
Financial assets available for sale	569.9	-	-	31.4	-	-	601.3
Financial assets held to maturity	300.7	-	-	-	-	-	300.7
Other assets	-	-	-	307.7	-	-	307.7
Derivatives	63.8	-	-	-	-	-	63.8
Loans and other receivables	3,949.8	9,931.7	1,311.8	675.8	37,425.3	2,436.1	55,730.5
	11,460.5	**9,931.7**	**1,311.8**	**1,014.9**	**37,425.3**	**2,436.1**	**63,580.3**
2014							
Cash and cash equivalents	538.5	-	-	-	-	-	538.5
Due from other financial institutions	242.5	-	-	-	-	-	242.5
Financial assets held for trading	7,265.4	-	-	-	-	-	7,265.4
Financial assets available for sale	619.3	-	-	24.3	-	-	643.6
Financial assets held to maturity	286.6	-	-	-	-	-	286.6
Other assets	-	-	-	674.9	-	-	674.9
Derivatives	22.3	-	-	-	-	-	22.3
Loans and other receivables	3,806.3	8,883.8	928.2	534.4	36,166.4	2,794.7	53,113.8
	12,780.9	**8,883.8**	**928.2**	**1,233.6**	**36,166.4**	**2,794.7**	**62,787.6**

[1] Consumer loans are predominantly mortgage secured residential loans not rated on an individual basis.

Bank							
2015							
Cash and cash equivalents	686.5	-	-	-	-	-	686.5
Due from other financial institutions	215.7	-	-	-	-	-	215.7
Financial assets held for trading	5,563.3	-	-	-	-	-	5,563.3
Financial assets available for sale	1,235.8	-	-	24.6	-	-	1,260.4
Financial assets held to maturity	2.0	-	-	-	-	-	2.0
Other assets	-	-	-	1,023.7	-	-	1,023.7
Derivatives	211.7	-	-	-	-	-	211.7
Loans and other receivables	649.9	8,312.1	1,029.9	649.4	37,872.8	2,055.0	50,569.1
Amounts receivable from controlled entities	-	-	-	188.1	-	-	188.1
Shares in controlled entities	-	-	-	564.8	-	-	564.8
	8,564.9	**8,312.1**	**1,029.9**	**2,450.6**	**37,872.8**	**2,055.0**	**60,285.3**
2014							
Cash and cash equivalents	432.9	-	-	-	-	-	432.9
Due from other financial institutions	242.4	-	-	-	-	-	242.4
Financial assets held for trading	7,265.8	-	-	-	-	-	7,265.8
Financial assets available for sale	1,292.6	-	-	4.9	-	-	1,297.5
Financial assets held to maturity	2.0	-	-	-	-	-	2.0
Other assets	-	-	-	1,427.4	-	-	1,427.4
Derivatives	203.0	-	-	-	-	-	203.0
Loans and other receivables	349.0	7,302.4	687.0	521.6	36,565.7	2,337.4	47,763.1
Amounts receivable from controlled entities	-	-	-	283.8	-	-	283.8
Shares in controlled entities	-	-	-	575.4	-	-	575.4
	9,787.7	**7,302.4**	**687.0**	**2,813.1**	**36,565.7**	**2,337.4**	**59,493.3**

[1] Consumer loans are predominantly mortgage secured residential loans not rated on an individual basis.

Credit Quality (continued)
The credit ratings range from high grade where there is a very high likelihood of the asset being recovered in full to sub-standard grade where there is concern over the obligor's ability to make payments when due.

Credit risk stress testing is regularly performed to assess the likelihood of loan default, to examine the financial strength of borrowers and counterparties including their ability to meet commitments under changing scenarios and to assess the exposure and extent of loss should default actually occur.

Ageing
The following table presents the ageing analysis of past due but not impaired loans and other receivables.

Loans and receivables which are 90 or more days past due are not classified as impaired assets where the estimated net realisable value of the collateral/security is sufficient to cover the repayment of all principal and interest amounts due.

The exposures are shown net after taking into account any collateral held or other credit enhancements.

		Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 91 days $m	Total $m	Fair value of collateral $m
Group							
	2015	1,109.2	257.0	138.0	606.3	2,110.5	5,896.5
	2014	1,310.3	315.2	122.5	634.9	2,382.9	6,063.8
Bank							
	2015	1,045.8	211.0	96.5	535.2	1,888.5	4,699.3
	2014	1,214.4	258.4	87.4	589.4	2,149.6	4,673.7

Liquidity risk
Liquidity risk is defined as the risk that the Group is unable to meet its payment obligations as they fall due. The principal objectives are to ensure that all cash flow commitments are met in a timely manner and prudential requirements are satisfied.

As at January 2015, the Group commenced measurement and reporting of liquidity under the revised APRA Prudential Standard APS210, using the scenario based Liquidity Coverage Ratio (LCR). This new regime requires the Group to maintain a ratio of High Quality Liquid Assets (HQLA) to cover defined projected cash outflows over a 30 day period. The Group supplements the LCR with scenario analysis and stress testing which will continue to be developed and refined over 2015.

The Group continues to manage the liquidity holdings in line with the Board approved funding strategy and funding plan, ensuring adequate levels of HQLA, other liquid assets and diversified sources of funding. In meeting our liquidity requirement the Group makes use of the Reserve Bank of Australia, Committed Liquidity Facility.

The Group also maintains a significant amount of contingent liquidity in the form of internal securitisation whereby the collateral can be presented to the Reserve Bank of Australia for cash in extraordinary circumstances such as systemic liquidity issues.

Liquidity risk is managed in line with the Board approved Risk Appetite, Framework and Policy. The framework incorporates limits, monitoring and escalation processes to ensure sufficient liquidity is maintained.

The Group has established a set of early warning indicators to support the liquidity risk management process, in particular, to alert management of emerging or increased risk or vulnerability in its liquidity position. The liquidity risk management framework is also supported by liquidity standards and policies which are regularly reviewed and updated to reflect prevailing market conditions, changes in operational requirements and regulatory obligations.

30. Risk management (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below analyses the Group's financial liabilities into relevant maturity periods based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table represent all cash flows, on an undiscounted basis, including all future coupon payments, both principal and interest, and therefore may not reconcile with the amounts disclosed on the balance sheet.

For foreign exchange derivatives and cross currency interest rate swaps, the amounts disclosed are the gross contractual cash flows to be paid. For interest rate swaps, the cash flows are the net amounts to be paid, and have been estimated using forward interest rates applicable at the reporting date.

Group

2015	At call $m	Not longer than 3 months $m	3 to 12 months $m	1 to 5 years $m	Longer than 5 years $m	Total $m
Due to other financial institutions	202.7	-	-	-	-	202.7
Deposits	17,712.6	18,779.3	13,634.5	3,619.0	13.5	53,758.9
Notes payable	40.6	459.8	132.3	3,261.6	1,031.7	4,926.0
Derivatives	-	120.9	358.9	388.3	32.5	900.6
Other payables	673.2	-	-	-	-	673.2
Income tax payable	-	-	18.2	-	-	18.2
Convertible preference shares	-	-	39.6	415.0	625.0	1,079.6
Subordinated debt	-	8.2	24.4	130.0	636.0	798.6
Total financial liabilities	**18,629.1**	**19,368.2**	**14,207.9**	**7,813.9**	**2,338.7**	**62,357.8**
Contingent liabilities	238.0	-	-	-	-	238.0
Commitments	5,644.6	17.9	53.7	213.1	157.7	6,087.0
Total contingent liabilities and commitments	**5,882.6**	**17.9**	**53.7**	**213.1**	**157.7**	**6,325.0**
2014						
Due to other financial institutions	363.5	-	-	-	-	363.5
Deposits	14,235.8	21,696.3	13,309.6	3,477.8	1.0	52,720.5
Notes payable	8.5	441.3	345.3	2,745.3	1,721.6	5,262.0
Derivatives	-	94.0	208.9	506.4	40.2	849.5
Other payables	837.0	-	-	-	-	837.0
Income tax payable	-	-	17.5	-	-	17.5
Convertible preference shares	-	-	14.3	297.2	-	311.5
Subordinated debt	-	10.0	58.6	150.8	729.1	948.5
Total financial liabilities	**15,444.8**	**22,241.6**	**13,954.2**	**7,177.5**	**2,491.9**	**61,310.0**
Contingent liabilities	266.9	-	-	-	-	266.9
Commitments	5,320.1	18.9	56.5	187.5	172.3	5,755.3
Total contingent liabilities and commitments	**5,587.0**	**18.9**	**56.5**	**187.5**	**172.3**	**6,022.2**

Bank

2015	At call $m	Not longer than 3 months $m	3 to 12 months $m	1 to 5 years $m	Longer than 5 years $m	Total $m
Due to other financial institutions	202.4	-	-	-	-	202.4
Deposits	17,420.0	17,179.2	12,311.7	3,555.4	13.5	50,479.8
Notes payable	-	330.6	-	-	-	330.6
Derivatives	-	116.6	347.6	381.5	32.5	878.2
Other payables	764.6	-	-	-	-	764.6
Loans payable to securitisation trusts	-	-	-	-	4,306.6	4,306.6
Income tax payable	-	-	36.8	-	-	36.8
Convertible preference shares	-	-	39.6	415.0	625.0	1,079.6
Subordinated debt	-	7.9	23.5	125.1	635.9	792.4
Total financial liabilities	**18,387.0**	**17,634.3**	**12,759.2**	**4,477.0**	**5,613.5**	**58,871.0**
Contingent liabilities	235.3	-	-	-	-	235.3
Commitments	5,445.6	17.9	53.6	213.0	157.7	5,887.8
Total contingent liabilities and commitments	**5,680.9**	**17.9**	**53.6**	**213.0**	**157.7**	**6,123.1**

30. Risk management (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

Bank

2014	At call $m	Not longer than 3 months $m	3 to 12 months $m	1 to 5 years $m	Longer than 5 years $m	Total $m
Due to other financial institutions	363.0	-	-	-	-	363.0
Deposits	14,050.2	20,420.5	11,345.1	3,414.8	0.3	49,230.9
Notes payable	-	328.5	-	-	-	328.5
Derivatives	-	90.8	201.2	429.9	40.2	762.1
Other payables	975.3	-	-	-	-	975.3
Loans payable to securitisation trusts	-	-	-	-	4,760.4	4,760.4
Income tax payable	-	-	17.5	-	-	17.5
Convertible preference shares	-	-	14.3	297.2	-	311.5
Subordinated debt	-	9.0	55.7	135.6	674.6	874.9
Total financial liabilities	**15,388.5**	**20,848.8**	**11,633.8**	**4,277.5**	**5,475.5**	**57,624.1**
Contingent liabilities	264.2	-	-	-	-	264.2
Commitments	5,122.9	18.4	55.0	180.2	163.4	5,539.9
Total contingent liabilities and commitments	**5,387.1**	**18.4**	**55.0**	**180.2**	**163.4**	**5,804.1**

Market risk (including interest rate and currency risk)

Market risk is the risk that changes in market rates and prices including: interest rates, foreign currency exchange rates, equity prices, will affect the Group's financial performance and financial position. Market risk is referred to as either traded or non-traded risk.

Traded market risk primarily represents interest rate risk in the trading book which operates as an integral part of its liquidity risk management function. The trading book portfolio consists of securities held for trading and liquidity purposes.

This risk is represented by the potential adverse impact to net interest income (NII) and other income resulting from positions held in traded interest rate securities such as government bonds and traded interest rate swaps.

Non-traded market risk primarily represents interest rate risk in the banking book (IRRBB). This risk is represented by the potential adverse impact to NII resulting from a mismatch between the maturity and repricing dates of its assets and liabilities that arises in the normal course of its business activities. The banking book activities that give rise to market risk include general lending activities, balance sheet funding and capital management.

The Group currently uses both a static and dynamic approach to model the effect of interest rate movements on NII and market value of equity (MVE). The primary interest rate monitoring tools used are simulation models and gap analysis The interest rate simulation model is a dynamic technique that allows the performance of risk management strategies to be tested under a variety of rate environments over a range of timeframes extending out to five years. The results of this testing are then compared to the risk appetite limits for NII.

30. Risk management (continued)

Interest Rate risk (continued)

Group

2015	Floating interest rate $m	Fixed interest rate repricing: Less than 3 months $m	Between 3 and 6 months $m	Between 6 and 12 months $m	Between 1 and 5 years $m	After 5 years $m	Non interest earning/ bearing $m	Total carrying value per Balance sheet $m	Weighted average effective interest rate %
Assets									
Cash & cash equivalents	797.7	-	-	-	-	-	183.9	981.6	1.32
Due from other financial institutions	-	-	-	-	-	-	215.7	215.7	-
Financial assets held for trading	-	1,259.2	2,894.1	-	1,409.6	-	-	5,562.9	2.30
Financial assets available for sale	-	492.3	29.2	-	-	-	48.4	569.9	2.83
Financial assets held to maturity	-	238.4	62.3	-	-	-	-	300.7	2.70
Loans & other receivables	33,169.4	7,662.2	2,125.3	4,280.5	8,237.5	29.7	27.0	55,531.6	5.18
Derivatives	-	-	-	-	-	-	63.8	63.8	-
Total financial assets	**33,967.1**	**9,652.1**	**5,110.9**	**4,280.5**	**9,647.1**	**29.7**	**538.8**	**63,226.2**	
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	202.7	202.7	-
Deposits	17,598.7	21,457.1	9,432.9	3,833.3	1,180.2	3.1	-	53,505.3	2.44
Notes payable	348.1	4,577.8	-	-	-	-	-	4,925.9	3.16
Derivatives	-	-	-	-	-	-	108.0	108.0	-
Convertible preference shares	-	-	819.5	-	-	-	-	819.5	4.53
Subordinated debt	-	592.6	-	-	-	-	-	592.6	5.47
Total financial liabilities	**17,946.8**	**26,627.5**	**10,252.4**	**3,833.3**	**1,180.2**	**3.1**	**310.7**	**60,154.0**	
2014									
Assets									
Cash & cash equivalents	520.4	18.1	-	-	-	-	177.6	716.1	1.58
Due from other financial institutions	-	-	-	-	-	-	242.5	242.5	-
Financial assets held for trading	656.3	3,990.0	1,886.7	226.7	505.7	-	-	7,265.4	3.02
Financial assets available for sale	59.0	560.3	-	-	-	-	-	619.3	3.48
Financial assets held to maturity	-	268.7	17.9	-	-	-	-	286.6	3.17
Loans & other receivables	33,538.2	6,885.5	1,231.2	2,754.5	8,494.1	29.3	-	52,932.8	5.65
Derivatives	-	-	-	-	-	-	22.3	22.3	-
Total financial assets	**34,773.9**	**11,722.6**	**3,135.8**	**2,981.2**	**8,999.8**	**29.3**	**442.4**	**62,085.0**	

30. Risk management (continued)

Interest Rate risk (continued)

Group (continued)

2014	Floating interest rate $m	Fixed interest rate repricing: Less than 3 months $m	Between 3 and 6 months $m	Between 6 and 12 months $m	Between 1 and 5 years $m	After 5 years $m	Non interest earning/ bearing $m	Total carrying value per Balance sheet $m	Weighted average effective interest rate %
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	363.5	363.5	-
Deposits	14,678.6	24,167.5	8,787.1	3,559.5	1,166.4	0.3	-	52,359.4	2.92
Notes payable	356.1	4,900.3	-	-	-	-	-	5,256.4	3.81
Derivatives	-	-	-	-	-	-	79.2	79.2	-
Convertible preference shares	-	-	261.4	-	-	-	-	261.4	5.56
Subordinated debt	-	643.5	-	12.0	-	-	-	655.5	6.06
Total financial liabilities	**15,034.7**	**29,711.3**	**9,048.5**	**3,571.5**	**1,166.4**	**0.3**	**442.7**	**58,975.4**	

Bank

2015	Floating interest rate $m	Less than 3 months $m	Between 3 and 6 months $m	Between 6 and 12 months $m	Between 1 and 5 years $m	After 5 years $m	Non interest earning/ bearing $m	Total carrying value per Balance sheet $m	Weighted average effective interest rate %
Assets									
Cash & cash equivalents	686.5	-	-	-	-	-	183.9	870.4	1.29
Due from other financial institutions	-	-	-	-	-	-	215.7	215.7	-
Financial assets held for trading	-	1,259.3	2,894.1	-	1,409.9	-	-	5,563.3	2.32
Financial assets available for sale	38.3	1,197.5	-	-	-	-	-	1,235.8	3.20
Financial assets held to maturity	-	2.0	-	-	-	-	-	2.0	2.98
Loans & other receivables	25,928.6	11,520.8	1,951.2	3,624.6	7,410.6	28.8	-	50,464.6	5.14
Derivatives	-	-	-	-	-	-	211.7	211.7	-
Total financial assets	**26,653.4**	**13,979.6**	**4,845.3**	**3,624.6**	**8,820.5**	**28.8**	**611.3**	**58,563.5**	
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	202.4	202.4	-
Deposits	17,032.4	19,959.5	8,715.5	3,263.3	1,284.6	3.1	-	50,258.4	2.47
Notes payable	330.6	-	-	-	-	-	-	330.6	-
Loans payable to securitisation trusts	2,981.3	234.3	229.2	327.7	519.2	-	14.9	4,306.6	5.01
Derivatives	-	-	-	-	-	-	117.4	117.4	-
Convertible preference shares	-	-	819.5	-	-	-	-	819.5	4.53
Subordinated debt	-	573.1	-	-	-	-	-	573.1	5.47
Total financial liabilities	**20,344.3**	**20,766.9**	**9,764.2**	**3,591.0**	**1,803.8**	**3.1**	**334.7**	**56,608.0**	

30. Risk management (continued)

Interest Rate risk (continued)

Bank (continued)

2014	Floating interest rate $m	Fixed interest rate repricing: Less than 3 months $m	Between 3 and 6 months $m	Between 6 and 12 months $m	Between 1 and 5 years $m	After 5 years $m	Non interest earning/ bearing $m	Total carrying value per Balance sheet $m	Weighted average effective interest rate %
Assets									
Cash & cash equivalents	432.9	-	-	-	-	-	177.6	610.5	1.75
Due from other financial institutions	-	-	-	-	-	-	242.4	242.4	-
Financial assets held for trading	656.3	3,990.3	1,886.8	226.7	505.7	-	-	7,265.8	3.02
Financial assets available for sale	-	1,292.5	-	-	-	-	-	1,292.5	3.82
Financial assets held to maturity	-	2.0	-	-	-	-	-	2.0	3.43
Loans & other receivables	28,856.3	6,812.1	1,184.5	2,281.1	8,149.2	27.0	364.4	47,674.6	5.62
Derivatives	-	-	-	-	-	-	203.0	203.0	-
Total financial assets	**29,945.5**	**12,096.9**	**3,071.3**	**2,507.8**	**8,654.9**	**27.0**	**987.4**	**57,290.8**	
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	363.0	363.0	-
Deposits	14,281.2	22,356.0	7,946.0	3,045.7	1,112.4	0.3	233.7	48,975.3	2.87
Notes payable	310.4	-	-	-	-	-	-	310.4	-
Loans payable to securitisation trusts	3,422.2	138.0	139.5	290.2	770.5	-	-	4,760.4	5.54
Derivatives	-	-	-	-	-	-	77.7	77.7	-
Convertible preference shares	-	-	261.4	-	-	-	-	261.4	5.56
Subordinated debt	-	603.3	-	-	-	-	-	603.3	5.98
Total financial liabilities	**18,013.8**	**23,097.3**	**8,346.9**	**3,335.9**	**1,882.9**	**0.3**	**674.4**	**55,351.5**	

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Group's income statement and equity.

The sensitivity of the income statement is the effect of assumed changes in interest rates on the net interest for one year, based on the floating rate financial assets and financial liabilities held at 30 June 2015, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate available for sale financial assets (including the effect of any associated hedges), and swaps designated as cash flow hedges, at 30 June 2015 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by the maturity of the asset or swap, with sensitivity based on the assumption that there are parallel shifts in the yield curve.

Group

	+100 basis points	-100 basis points	+100 basis points	-100 basis points
	2015 $m	2015 $m	2014 $m	2014 $m
Net interest income	0.4	(8.7)	34.8	(38.4)
Ineffectiveness in derivatives	12.4	(12.4)	4.3	(4.3)
Income tax effect at 30%	(3.8)	6.3	(11.7)	12.8
Effect on profit	**9.0**	**(14.8)**	**27.4**	**(29.9)**
Effect on profit (per above)	9.0	(14.8)	27.4	(29.9)
Cash flow hedge reserve	(37.1)	37.1	(11.7)	11.7
Income tax effect on reserves at 30%	11.1	(11.1)	3.5	(3.5)
Effect on equity	**(17.0)**	**11.2**	**19.2**	**(21.7)**
Bank				
Net interest income	(8.6)	(0.3)	28.9	(35.3)
Ineffectiveness in derivatives	12.4	(12.4)	4.3	(4.3)
Income tax effect at 30%	(1.1)	3.8	(9.9)	11.9
Effect on profit	**2.7**	**(8.9)**	**23.3**	**(27.7)**
Effect on profit (per above)	2.7	(8.9)	23.3	(27.7)
Cash flow hedge reserve	(36.9)	36.9	(13.9)	13.9
Income tax effect on reserves at 30%	11.1	(11.1)	4.2	(4.2)
Effect on equity	**(23.1)**	**16.9**	**13.6**	**(18.0)**

The movements in profit are due to higher/lower interest costs from variable rate debt and cash balances. The movement in equity is also affected by the increase/decrease in the fair value of derivative instruments designated as cash flow hedges, where these derivatives are deemed effective.

This analysis reflects a scenario where no management actions are taken to counter movements in rates.

Foreign currency risk
The Group does not have any significant exposure to foreign currency risk, as all borrowings through the Company's Euro Medium Term Note program (EMTN) and Euro Commercial Paper program (ECP) are fully hedged. At balance date the principal of foreign currency denominated borrowings under these programs was AUD $340.9 million (2014: AUD $900.0 million) with all borrowings fully hedged by cross currency swaps, and foreign exchange swaps. Retail and business banking FX transactions are managed by the Group's Financial Markets unit, with resulting risk constrained by Board approved spot and forward limits. Adherence to limits is independently monitored by the Middle Office function.

The Group conducts discretionary interest rate and foreign exchange trading. This trading forms part of the trading book activity within the liquidity management function. The trading book positions include approved financial instruments, both physical and derivative.

31. Business combinations

Acquisitions in the 2015 financial year

Rural Finance

On 1 July 2014 Bendigo and Adelaide Bank Group acquired 100% of the business activities and selected assets of Rural Finance Corporation of Victoria. The acquisition has strengthened the Group's commitment to rural and regional customers.

The consideration for the acquisition of net assets was $1.76 billion cash.

Rural Finance is based in Bendigo with 11 branches located across regional Victoria. Rural Finance is a leading lender to Victorian primary producers. The activities and responsibilities of Rural Finance include commercial activities as a speciality financier in the Victorian agricultural sector.

The following table shows the effect on the Group's assets:

Assets	Fair value on acquisition $m
Loans	1,685.4
Motor vehicles and office equipment	2.3
Deferred tax assets	0.6
Total assets	**1,688.3**
Liabilities	
Employee provisions	1.9
Total liabilities	**1.9**
Net identifiable assets attributable to Bendigo and Adelaide Bank Limited	**1,686.4**
Cost of acquisition	1,760.3
Fair value of net assets acquired	1,686.4
Goodwill on acquisition	**73.9**

The acquisition accounting method for a business combination has been completed and as such the fair value of the net assets acquired on 1 July 2014 has been finalised. It is expected that the full contractual amounts will be collected.

From the date of acquisition, Rural Finance has contributed $50 million of revenue and $26.3 million to the net profit before tax from the continuing operations to the Group. The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of Rural Finance with those of the Group.

Transaction and integration costs of $2.9 million have been expensed and are included in the income statement and are part of operating cashflows in the cash flow statement.

The goodwill recognised is not expected to be deductible for income tax purposes.

Recognition and measurement

The Group accounts for a business combination using the acquisition accounting method when control is transferred. The consideration transferred for the acquisition is measured at fair value, including contingent consideration, given at the date of exchange. The acquired identifiable net assets are generally measured at fair value. Goodwill will be recorded on the balance sheet where the purchase price exceeds the value of the identifiable net assets. Any gain on a bargain purchase is recognised in the income statement immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity.

32. Subsidiaries and other controlled entities

Subsidiaries

The following table presents the material subsidiaries of the Group. A subsidiary has been considered to be material if it has more than 0.5% of the total Group assets.

Chief entity and Ultimate parent	Principal activities
Bendigo and Adelaide Bank Limited	Banking

Other entities	Principal activities
Homesafe Trust	Homesafe product financier
Leveraged Equities Ltd	Margin lending
Rural Bank Ltd	Banking

All entities are 100% owned and incorporated in Australia.

	Group		Bank	
Investments in controlled entities	**2015 $m**	**2014 $m**	**2015 $m**	**2014 $m**
At cost	-	-	564.8	575.4
	-	**-**	**564.8**	**575.4**

Significant restrictions

The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory framework require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. The carrying amounts of banking subsidiaries' assets and liabilities are $4.2 billion and $3.6 billion, respectively (2014: $4.3 billion and $3.7 billion, respectively).

Recognition and measurement

The Group classify all entities where it owns 100% of the shares and in which it controls as subsidiaries. The basis of consolidation is presented in Note 2 Summary of significant accounting policies. Investments in subsidiaries are stated at cost.

Special Purpose Vehicles (SPE's)

The following table presents a list of the material SPE's. A SPE has been considered to be material where the assets are more than 0.5% of net assets. For further information relating to SPE's refer to Note 13 Securitisation and transferred assets.

Entity	Principal activities	Entity	Principal activities
Leveraged Equities 2009 Trust	Securitisation	Torrens Series 2013-1 Trust	Securitisation
Torrens Series 2008-1 Trust	Securitisation	Torrens Series 2014-1 Trust	Securitisation
Torrens Series 2008-4 Trust	Securitisation	Torrens Series 2014-2 Trust	Securitisation
Torrens Series 2010-2 Trust	Securitisation	Torrens Series 2015-1 Trust	Securitisation
Torrens Series 2011-1 Trust	Securitisation		

33. Related party disclosures

Subsidiary transactions

Transactions undertaken with subsidiaries are eliminated in the Group's financial reports. Transactions between the parent and the subsidiary are funded through intercompany loans with no fixed repayment date and are repayable upon demand.

A summary of material transactions excluding dividends between the Bank and its subsidiaries during the period were:

	2015 $m	2014 $m
Opening balance at beginning of financial year	(215.9)	(379.6)
Net receipts and fees received from subsidiaries	170.1	263.0
Supplies, fixed assets and services charged to subsidiaries	(119.0)	(99.3)
Net amount owing from subsidiaries at 30 June 2015	**(164.8)**	**(215.9)**

Bendigo and Adelaide Bank provides funding and guarantee facilities to several subsidiary companies. These facilities are provided on normal commercial terms and conditions.

Subsidiary	Facility	Limit $m	Drawn/issued at 30 June 2015 $m
Sandhurst Trustees Limited	Guarantee	0.5	-

Dividends paid by the subsidiaries	2015 $m	2014 $m
Sandhurst Trustees Limited	20.0	-
Leveraged Equities	3.5	-

Other related party transactions

Joint arrangement entities and associates

Bendigo and Adelaide Bank Limited has investments in joint arrangement entities and associates as disclosed in Note 23 Investments accounted for using the equity method.

Transactions entered into with these related entities principally include commissions received and paid, services and supplies procured and fees charged in relation to the provision of banking, administrative and corporate services. These revenue and expense items are included in the Group's income statement. The transactions are conducted on the same terms as other third party transactions.

A summary of material transactions excluding dividends between the Bank and joint arrangements and associates during the period were:

	2015 $m	2014 $m
Commissions and fees paid to joint arrangements and associates	21.7	23.4
Supplies and services provided to joint arrangements and associates	10.5	11.1
Amount owing to/(from) joint arrangements and associates	(0.9)	(1.2)

Dividends received and receivable from joint arrangements and associates are disclosed in the Group's income statement.

Bendigo and Adelaide Bank Limited provides loans, guarantees and/or overdraft facilities to joint arrangements and associates. The loans have agreed repayment terms which vary according to the nature of the facility. These loans are included in the net amount owing from joint arrangements and associates in the above table.

Other related party transactions

Key management personnel

Key management personnel (KMP) are those persons with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

The Group's KMP are those members of the Bendigo and Adelaide Bank Group Executive Committee together with its Non-executive Directors. Further details relating to KMP are located in the Remuneration Report.

33. Related party disclosures (continued)

Other related party transactions (continued)

Key management personnel (continued)

The table below details, on an aggregated basis, KMP compensation:

Compensation	30 June 2015 $'000's	30 June 2014 $'000's
Salaries and other short term benefits	7,534.1	7,600.8
Post-employment benefits	337.4	332.3
Other long term benefits	139.3	118.5
Share-based payments	2,731.9	2,257.9
Closing balance	**10,742.7**	**10,309.5**

The table below details, on an aggregate basis, KMP equity holdings. The holdings comprise ordinary shares, preference shares, performance shares and deferred shares:

Equity holdings	30 June 2015 No.	30 June 2014 No.
Ordinary shares (includes deferred shares)	1,802,460	1,972,878
Preference shares	4,040	2,790
Performance Shares	509,607	251,309
Closing balance	**2,316,107**	**2,226,977**

The table below details, on an aggregated basis, loan balances outstanding at the end of the year between the Group and its KMP:

Loans [1, 2]	30 June 2015 $'000's	30 June 2014 $'000's
Loans outstanding at the beginning of the year [3]	5,670.4	7,728.7
Loans outstanding at the end of the year	4,888.5	7,746.9
Interest paid or payable	273.0	371.3
Interest not charged	-	-

[1]The balances relate to KMP who were in office as at the end of the financial year.
[2]The balance of loans outstanding includes the provision of a guarantee to the value of $20,000 which was provided to a KMP in the ordinary course of the Group's business and on an arm's length basis.
[3]The opening balance for the 2015 financial year has been adjusted to exclude loan balances applicable to Russell Jenkins who ceased as a KMP on 19 August 2013. They also exclude loans provided to Executives under the Employee Share Ownership Plan.

Loans to directors and senior executives are made in the ordinary course of the Group's business and on an arm's length basis. The loans are processed and approved in accordance with the Bank's standard lending terms and conditions.

34. Involvement with unconsolidated entities

The table below describes the types of structured entities that the Group does not consolidate but in which it holds an interest.

Type of structured entity	Nature and purpose	Interest held by the Group
Securitisation vehicles - for loans and advances originated by third parties	To generate: ▸ external funding for third parties; and ▸ investment opportunities for the Group. These vehicles are financed through the issue of notes to investors.	▸ Investments in notes issued by the vehicles
Managed investment funds	To generate: ▸ a range of investment opportunities for external investors; and ▸ fees from managing assets on behalf of third party investors for the Group.	▸ Investment in units issued by the funds ▸ Management fees

34. Involvement with unconsolidated entities (continued)

Risks associated with unconsolidated structured entities

The following table summarises the carrying values recognised in the balance sheet in relation to unconsolidated structured entities:

Balance sheet	2015 $m	2014 $m
Cash and cash equivalents	0.1	0.1
Loans and other receivables	184.9	396.8
Financial assets available for sale	6.8	19.4
Derivatives	0.1	0.8
Total	**191.9**	**417.1**

Maximum exposure to loss

Loans and other receivables, the maximum exposure to loss is the current carrying value of these interests representing the amortised cost at reporting date.

The maximum loss exposure for the interest rate swaps is unlimited and unquantifiable as these swaps pay a floating rate of interest which is uncapped.

The following table summarises the Group's maximum exposure to loss from its involvement at 30 June 2015 and 2014 with structured entities.

	Carrying amount 2015 $m	Maximum loss exposure 2015 $m	Carrying amount 2014 $m	Maximum loss exposure 2014 $m
Cash and cash equivalents	0.1	0.1	0.1	0.1
Senior notes	184.9	184.9	396.8	396.8
Investment	6.8	6.8	19.4	19.4
Interest rate swap	0.1	**	0.8	**

** Maximum loss exposure not disclosed as it is deemed to be potentially unlimited and not quantifiable.

Significant restrictions

There are no significant restrictions imposed by any unconsolidated structured entity on the Group's ability to access or use its assets or settle its liabilities.

Recognition and measurement

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Involvement with structured entities varies and includes debt financing of these entities as well as other relationships. A review is undertaken to determine the involvement the Group has and whether the involvement with these entities results in significant influence, joint control or control over the structured entity. The structured entities over which control can be exercised are consolidated. These entities are outlined in Note 32 Subsidiaries and other controlled entities.

The Group has no contractual arrangements that would require it to provide financial or other support to a consolidated or unconsolidated entity. The Group has not previously provided financial support, and has no intention to provide such support to these entities.

Managed Investment funds

Sandhurst Trustees Limited (STL), a subsidiary of the Group, acts as a responsible entity for certain managed investment funds. The decision-making rights of the fund are restricted to the Product Disclosure Statements. The fees received by STL are not variable, are commensurate with the services provided and are consistent with similar funds in the market. Where STL holds investments in the funds, and is exposed to variability of returns, the magnitude is determined. As long as the aggregate economic interest by STL represents less than 37% of the total units in the fund, it is concluded that STL is an agent and consolidation is not required. This percentage may change depending on certain factors, such as dilution of unit ownership and duration of operation.

Community Banks

Community Banks are not consolidated by the Group as the Group does not have power to govern decision making in those companies, and while the Group's returns are variable they are calculated as a percentage of the gross margin. In some cases the Group holds shares in Community Bank branches and has representation on the Board, refer to Note 23 Investment accounted for using the equity method. Consolidation of a Community Bank Branch would occur when the Group has power to affect returns through the majority representation on the Board.

Alliance partners

Alliance partners are not consolidated by the Group as the Group does not have power to govern decision making, and while the Group's returns are variable they are calculated as a percentage of the gross margin. The Group has no representation on the board of these entities.

35. Fiduciary activities

The Group conducts investment management and other fiduciary activities as responsible entity, trustee, custodian or manager for a number of funds and trusts, including superannuation, unit trusts and mortgage pools.

The amounts of the funds concerned are:

	Group	
	2015 $m	2014 $m
Funds under trusteeship	4,366.3	3,616.2
Assets under management	1,919.2	1,703.9
Funds under management	2,246.6	1,686.6

Recognition and measurement

The assets and liabilities of these trusts and funds are not included in the consolidated financial statements as the Group does not have direct or indirect control of the trusts and funds. Commissions and fees earned in respect of the activities are included in the income statement of the Group.

As an obligation arises under each type of duty, the amount of funds has been included where that duty arises. This may lead to the same funds being shown more than once where the Group acts in more than one capacity in relation to those funds (e.g. manager and trustee). Where controlled entities, as trustees, custodian or manager incur liabilities in the normal course of their duties, a right of indemnity exists against the assets of the applicable trusts. As these assets are sufficient to cover liabilities, and it is therefore not probable that the Group will be required to settle them, the liabilities are not included in the financial statements.

36. Provisions

	Employee Benefits		Property Rent		Other		Total	
Group	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m	2015 $m	2014 $m
Opening balance	91.5	83.8	7.3	1.1	6.2	8.6	105.0	93.5
Provision acquired in business combination	1.9	0.3	-	-	-	-	1.9	0.3
Additional provision recognised	48.3	48.1	6.9	7.2	296.2	256.6	351.4	311.9
Movement due to change in discount rate	(0.4)	-	-	-	-	-	(0.4)	-
Amounts utilised during the year	(45.2)	(40.7)	(1.5)	(1.0)	(296.5)	(259.0)	(343.2)	(300.7)
Closing balance	**96.1**	**91.5**	**12.7**	**7.3**	**5.9**	**6.2**	**114.7**	**105.0**
Bank								
Opening balance	87.3	80.6	7.3	1.1	6.2	8.6	100.8	90.3
Provision acquired in business combination	1.9	-	-	-	-	-	1.9	-
Additional provision recognised	46.0	45.5	6.9	7.2	296.2	256.6	349.1	309.3
Movement due to change in discount rate	(0.3)	-	-	-	-	-	(0.3)	-
Amounts utilised during the year	(43.3)	(38.8)	(1.5)	(1.0)	(296.5)	(259.0)	(341.3)	(298.8)
Closing balance	**91.6**	**87.3**	**12.7**	**7.3**	**5.9**	**6.2**	**110.2**	**100.8**

36. Provisions (continued)

Recognition and measurement

Employee benefits
The table below shows the individual balances for employee benefits:

	Group		Bank	
	2015 $m	2014 $m	2015 $m	2014 $m
Annual leave	26.7	25.2	24.9	23.3
Other employee payments	6.5	11.2	5.8	10.7
Long service leave	55.8	48.8	53.8	47.0
Sick leave bonus	7.1	6.3	7.1	6.3
Closing balance	**96.1**	**91.5**	**91.6**	**87.3**

Annual leave and long service leave are measured as the present value of expected future payments for the services provided by employees up to the reporting date. The provision is measured at the amounts that are expected to be paid when the liabilities are settled. Expected future payments are discounted using corporate bond rates.

Annual leave is accrued on the basis of full pro rata entitlement and amounts are estimated to apply when the leave is paid.

It is anticipated that annual leave will be paid in the ensuing twelve months.

Long service leave has been assessed at full pro rata entitlement in respect of all employees with more than one year's service. The assessment considers the likely number of employees that will ultimately be entitled to long service leave, estimated future salary rates and on-costs.

Sick leave bonus provides an entitlement dependent on an employee's years of service and unused sick leave and is paid on termination.

Other employee payments include short term incentives and are expected to be paid in the ensuing twelve months.

Property rent
The provision for property rent is to recognise the difference between actual property rent paid and the property rent expense recognised in the income statement. The lease expense is recognised on a straight line basis over the period of the lease. The provision is expected to be utilised over the period of the respective leases, typically a period between three and ten years. However, it is expected that a balance will continue as old leases expire and are replaced by new leases.

Other
The provision for dividends represents the residual carried forward balance in relation to ordinary shareholders that participate in the dividend reinvestment plan. It is expected that the current balance will be utilised within a twelve month period. However, an ongoing balance will continue unless all outstanding balances are paid to shareholders upon ceasing participation in the dividend reinvestment plan. The provision also includes accrued dividends relating to preference shares. The provision of rewards program is to recognise the liability to customers in relation to points earned by them under the program. Reward points expire after three years. The balance will be utilised or forfeited during that period.

Recognition and measurement

Provisions are recognised when the Group has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, and it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used the increase in the provision due to the passage of time is recognised as a finance cost.

A provision for dividend is not recognised as a liability unless the dividend is declared, determined or publicly recommended on or before the reporting date.

37. Share based payment plans

The Group provides benefits to employees by offering share-based compensation whereby employees render services in exchange for shares or rights over shares.

These share based incentive plans form an integral part of the Group's remuneration package with the objective of aligning the interests of executives and general employees to the interests of shareholders.

Further detailed information including terms and conditions associated with each plan is included in the Remuneration Report.

Details of current plans

Performance rights

The Plan provides for grants of performance rights to the Managing Director, Senior Executives and key senior management (the Participants) as determined by the Board. Participants are invited to receive grants of performance rights (called performance shares) that are subject to performance conditions set by the Board.

The performance rights are subject to the following performance conditions:

- increase in cash earnings per share from previous financial year, followed by a total shareholder return (TSR) performance hurdle; and
- continuing service with the Group.

The number of performance rights granted to Participants is determined by dividing the remuneration value of the proposed grant by the volume weighted average closing price of the Company's shares for the last five trading days of the financial year prior to the year of grant.

The Participants are entitled to vote and to receive any dividend, bonus issue, return of capital or distribution made in respect of shares they are allocated on vesting and exercise of their performance rights. The grants to the Managing Director are subject to a further one year dealing restriction. There are no other restrictions for other participants.

The outstanding balance as at 30 June 2015 is represented by 662,051 rights over ordinary shares with an exercise price of nil, each exercisable upon meeting the required conditions, and until 2017.

Deferred shares

Under the Plan, Participants are granted deferred shares as part of their base remuneration and short term incentive payments. The deferred shares are beneficially owned by the Participant from the grant date and are held on trust for a two-year period.

The deferred shares issued are granted subject to certain Board imposed conditions being satisfied as follows:

- two-year continued service condition; and
- risk conditions

If the service condition is satisfied, the deferred shares will vest subject to any risk conditions.

The number of shares awarded as part of the plan are calculated by dividing the deferred remuneration value by the volume weighted average closing price of the Company's shares for the last five trading days of the financial year prior to the year of grant. The Participants are entitled to vote and to receive any dividend, bonus issue, return of capital or distribution made in respect of shares they are allocated on vesting and exercise of their performance rights.

The outstanding balance as at 30 June 2015 is represented by 263,877 deferred shares over ordinary shares with an exercise price of nil, each being exercisable upon meeting the required conditions, and until 2016.

Employee Share Grant Scheme (ESGS)

The Company has established a share based incentive plan for full time and permanent part time employees of the Group (excluding Directors and Senior Executives).

The shares will be held in trust for a period of three years after which time they will be transferred to the employee. During the restricted period employees will be entitled to receive dividends and to vote at general meetings.

As at 30 June 2015 there were 246,018 fully paid ordinary shares held by the Plan Trustee.

Employee Share Plan

The Company established a loan based limited recourse Employee Share plan in 2006. The Plan is only available to full time and part time employees of the Group (excluding Senior Executives and the Managing Director).

The Plan provides employees with a limited recourse interest free loan for the sole purpose of acquiring fully paid ordinary shares in the Company. The shares must be paid for by the employee with cash dividends after personal income tax being applied to repay the loans. Employees cannot exercise, dispose or transfer the shares until the loan has been fully repaid.

The first issue to staff under this plan was completed in September 2006 with a further grant made in December 2007. There have been no further issues under this Plan.

Employee Share Ownership Plan (discontinued)

In 2006 the Company discontinued the existing loan based Employee Share Ownership Plan that was open to all employees of the Group. The Plan will continue as a legacy plan until such time as the loans provided to fund share purchases under the Plan have been repaid. There have been no issues of the shares under this Plan since November 2004. Information on the number, weighted average exercise price, loan balances and movements in the Employee Share Ownership Plan during the year have been aggregated into the Employee Share Plan. The terms of the Plan are consistent with the Employee Share Plan described above.

The outstanding balance as at 30 June 2015 is represented by 1,994,420 ordinary shares with a market value of $24,451,589 at 30 June 2015 (30 June 2015 share price $12.26), exercisable upon repayment of the employee loan.

37. Share based payment plans (continued)

Summary of details under the various plans

The current grants under the Plans are as follows:

Grant date	Share plan Category	Number granted	Weighted average fair value
Jan-09	ESGS	764,504	$10.78
Mar-10	ESGS	340,039	$10.03
Feb-11	ESGS	327,233	$9.78
Sep-11	Performance rights	23,201	$5.45
Aug-12	Performance rights	202,739	$3.30
Oct-13	ESGS	274,251	$10.47
Oct-13	Deferred STI shares	30,397	$10.38
Dec-13	Deferred Base shares	80,152	$10.86
Dec-13	Performance rights	148,090	$4.45
Jul-14	Deferred Base shares	152,438	$12.28
Jul-14	Performance rights	152,438	$7.06
Oct-14	Deferred STI shares	35,714	$11.74
Dec-14	Deferred Base shares	75,725	$12.89
Dec-14	Performance rights	158,784	$5.53

The following table details the number (No.), weighted average exercise price (WAEP) and movements in the various plans during the year:

	Performance rights				Deferred shares			
	2015 No. [2]	2015 WAEP [1]	2014 No.	2014 WAEP [1]	2015 No. [2]	2015 WAEP [1]	2014 No.	2014 WAEP [1]
Outstanding at the beginning of the year	358,950	$ -	531,337	$ -	110,549	$ -	94,521	$ -
Granted during the year	311,222	$ -	148,090	$ -	263,877	$ -	110,549	$ -
Forfeited/lapsed during the year	(2,843)	$ -	(91,522)	$ -	-	$ -	-	$ -
Vested/exercised during the year	(5,278)	$ -	(228,955)	$ -	(110,549)	$ -	(94,521)	$ -
Outstanding at the end of the year	662,051	$ -	358,950	$ -	263,877	$ -	110,549	$ -

[1] The performance rights and deferred shares are granted at no cost and have no exercise price.
[2] Closing balance of performance rights and deferred shares are exercisable until 30 June 2017 and 30 June 2015 respectively.

	Share Grant Scheme				Employee Share Plan			
	2015 No.	2015 WAEP	2014 No.	2014 WAEP	2015 No.	2015 WAEP	2014 No.	2014 WAEP
Outstanding at the beginning of the year	262,555	$ -	278,310	$ -	3,147,589	$ 5.16	3,313,037	$ 5.65
Granted during the year	-	$ -	274,251	$ -	-	$ -	-	$ -
Forfeited during the year	-	$ -	-	$ -	-	$ -	-	$ -
Vested/exercised during the year	(16,537)	$ -	(290,006)	$ -	(1,153,169)	$ 2.50	(165,448)	$ 5.67
Outstanding at the end of the year	246,018	$ -	262,555	$ -	1,994,420	$ 5.93	3,147,589	$ 5.16
Exercisable at the end of the year					1,994,420	$ 5.93	3,147,589	$ 5.16

37. Share based payment plans (continued)

Recognition and measurement

The cost of the employee services received in respect of shares or rights granted is recognised in the income statement over the period the employee provides the services, generally the period between the grant date and the vesting date of the shares or rights.

The overall cost of the award is calculated using the number of shares or rights expected to vest and the fair value of the shares or rights at the grant date.

Fair value methodology

The fair value of shares or rights granted under the various Plans takes into account the terms and conditions upon which the shares or rights were granted.

Performance rights

The fair value is determined using Black Scholes Merton Option pricing model incorporating a Monte Carlo Simulation option pricing model taking into account the terms and conditions upon which the rights were granted.

The following inputs are used in the models:

	Managing Director 2015	Other executives 2015	2014
Dividend yield (%)	6.50%	6.00%	7.50%
Expected volatility (%)	22.00%	18.00%	22.00%
Risk-free interest rate (%)	2.57%	2.31%	2.91%
Expected life of performance rights (years)	3	4	4
Exercise price ($)	Nil	Nil	Nil

The expected life of the performance rights are based on historical data, and are not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of shares granted were incorporated into the measurement of fair value. The fair value is determined by an independent valuation.

Deferred Shares

The fair value is measured as at the date of the grant using the volume weighted average closing price of the Company's shares traded on the ASX for five trading days ending on the grant date.

Employee Share Grant Scheme

The fair value is the issue price and is calculated using the volume weighted average closing price of the Company's shares traded on the ASX for five trading days ending on the issue date.

Employee Share Plan

The fair value of the shares granted under the Plan is estimated at the date of each grant using the Black Scholes Merton Option pricing model incorporating a Monte Carlo Simulation option pricing model. The fair value is determined by an independent valuation.

38. Property, plant and equipment

Group	Freehold land $m	Freehold buildings $m	Leasehold improvements $m	Office equipment & vehicles [1] $m	Total $m
Carrying amount as at 1 July 2014	1.3	1.7	64.2	29.6	96.8
Additions	-	-	8.7	15.3	24.0
Additions through business acquisitions	-	-	0.3	2.0	2.3
Disposals	-	-	(0.5)	(1.4)	(1.9)
Depreciation expense	-	-	(11.3)	(11.1)	(22.4)
Closing balance as at 30 June 2015	**1.3**	**1.7**	**61.4**	**34.4**	**98.8**
Carrying amount as at 1 July 2013	1.0	1.0	38.4	23.0	63.4
Additions	-	-	35.7	17.6	53.3
Disposals	-	-	(0.7)	(1.3)	(2.0)
Revaluations	0.3	0.7	-	-	1.0
Depreciation expense	-	-	(9.2)	(9.7)	(18.9)
Closing balance as at 30 June 2014	**1.3**	**1.7**	**64.2**	**29.6**	**96.8**

Bank	Freehold land $m	Freehold buildings $m	Leasehold improvements $m	Office equipment & vehicles [1] $m	Total $m
Carrying amount as at 1 July 2014	0.3	0.4	63.6	28.1	92.4
Additions	-	-	8.2	14.5	22.7
Additions through business acquisitions	-	-	0.3	2.0	2.3
Disposals	-	-	(0.5)	(1.2)	(1.7)
Depreciation expense	-	-	(11.2)	(10.7)	(21.9)
Closing balance as at 30 June 2015	**0.3**	**0.4**	**60.4**	**32.7**	**93.8**
Carrying amount as at 1 July 2013	0.3	0.2	37.5	21.5	59.5
Additions	-	-	35.7	16.9	52.6
Disposals	-	-	(0.5)	(1.0)	(1.5)
Revaluations	-	0.2	-	-	0.2
Depreciation expense	-	-	(9.1)	(9.2)	(18.3)
Transfer assets from subsidiary to parent	-	-	-	(0.1)	(0.1)
Closing balance as at 30 June 2014	**0.3**	**0.4**	**63.6**	**28.1**	**92.4**

[1] includes office equipment, furniture and fittings.

If land and buildings were measured using the cost model the carrying amounts would be as follows:

	Group		Bank	
	2015	2014	2015	2014
Land	0.4	0.4	0.1	0.1
Buildings	0.6	0.6	0.1	0.1
Accumulated depreciation and impairment	(0.4)	(0.4)	(0.1)	(0.1)
Net carrying amount	**0.6**	**0.6**	**0.1**	**0.1**

38. Property, plant and equipment (continued)

Recognition and measurement

Cost and valuation

Plant and equipment is measured at cost less accumulated depreciation and/or impairment. Land is measured at fair value and buildings are measured at fair value less accumulated depreciation.

All assets having limited useful lives, except land, are depreciated from the date of acquisition using the straight line method over their estimated useful lives as follows:

Asset category	2015	2014
Freehold buildings	40	40
Leasehold improvements	10-12	10-12
Plant & equipment	4-10	4-10
Furniture, fixtures and fittings	4-5	4-5
Motor vehicles	5	5

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least annually. Where an asset's carrying value is assessed to be more than the recoverable amount, an impairment loss is recognised.

Revaluations

Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the income statement in the year the item is derecognised.

39. Commitments and contingencies

(a) Commitments

The following are outstanding expenditure and credit related commitments as at 30 June 2015. Except where specified, all commitments are payable within one year.

	Group		Bank	
Operating lease commitments (as lessee)	**2015 $m**	**2014 $m**	**2015 $m**	**2014 $m**
Not later than 1 year	68.6	70.3	68.5	68.3
Later than 1 year but not later than 5 years	199.4	187.5	199.3	180.2
Later than 5 years	157.7	172.3	157.7	163.4
	425.7	**430.1**	**425.5**	**411.9**
Operating lease commitments (as lessor)				
Not later than 1 year	3.0	1.2	3.0	1.2
Later than 1 year but not later than 5 years	13.7	2.5	13.7	2.5
	16.7	**3.7**	**16.7**	**3.7**
Credit related commitments				
Gross loans approved, but not advanced to borrowers	1,610.2	1,506.3	1,569.3	1,457.9
Credit limits granted to clients for overdrafts and credit cards [1]				
Total amount of facilities provided	9,979.6	10,095.6	9,107.0	9,180.3
Amount undrawn at balance date	4,034.4	3,813.8	3,876.3	3,665.0

[1] Normal commercial restrictions apply as to use and withdrawal of the facilities.

Recognition and measurement

Operating leases

An operating lease is a lease where substantially all of the risks and rewards of the leased assets remain with the lessor. The Group has entered into commercial property leases and commercial leases on certain motor vehicles and items of office equipment. The leases have various terms and some property leases include optional renewal periods in the contracts.

There are no restrictions placed upon the lessee by entering these leases. Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the lease expense, over the term of the lease.

The Group has entered into commercial property leases on the Group's surplus office space. These non-cancellable leases have various terms. All leases have a clause to enable upward revision of the rental charge on a regular basis according to prevailing market conditions. Rentals received are recognised in the income statement on a straight line basis over the lease term.

Future minimum rentals payable and receivable under non-cancellable operating leases as at 30 June 2015 are outlined in the table above.

(b) Superannuation commitments

Defined Benefits Plan

The Bendigo and Adelaide Bank Group has a legally enforceable obligation to contribute to a superannuation plan for employees either on an accumulation basis (including the Superannuation Guarantee Charge) or on a defined benefits basis (Adelaide Bank staff superannuation plan) which provides benefits on retirement, disability or death based on years of service and final average salary. Employees contribute to the plan at a fixed percentage of remuneration.

The Group's contribution to the defined benefit plan is determined by the Trustee after consideration of actuarial advice. At balance date, the Directors believe that funds available were adequate to satisfy all vested benefits under the plan. Contributions are reviewed annually.

39. Commitments and contingencies (continued)

(b) Superannuation commitments (continued)

Recognition and measurement

The asset or liability recognised on the balance sheet in respect of the defined benefit plan is the present value of the defined obligation at the balance date less the fair value of the plan assets. An actuarial valuation is performed on an annual basis.

Any actuarial gains and losses are applied to other comprehensive income. Interest and servicing costs are expensed through the income statement.

	Group	
Balance of Defined benefit plan	**2015 $m**	**2014 $m**
Defined Benefit Obligation ^	5.9	7.0
Less Fair value of Plan assets	9.1	11.9
Net defined benefit (asset)/liability	**(3.2)**	**(4.9)**

^ includes defined benefit contributions tax provision

Actuarial gains and (losses) recorded in other comprehensive income were ($1.1 million) (June 14: $1.1 million) and expenses recorded in the income statement were $0.1 million (June 14: $0.2 million).

Plan Information

Defined benefit members receive lump sum benefits on retirement, death, disablement and withdrawal. The defined benefit section of the Plan is closed to new members. All new members are entitled to become members of the accumulation categories of the fund. The Superannuation Industry Supervision (SIS) legislation governs the superannuation industry and provides the framework within which superannuation plans operate.

The Plan's Trustee is responsible for the governance of the Plan. The Trustee has a legal obligation to act solely in the best interests of Plan beneficiaries.

Plan Assets

The percentage invested in each asset class at the balance sheet date:

	Group	
	2015	**2014**
Australian Equity	46%	36%
International Equity	20%	31%
Fixed Income	17%	16%
Property	5%	5%
Alternatives	2%	6%
Cash	10%	6%

Risk Exposures

There are a number of risks to which the Plan exposes the Company. The more significant risks relating to the defined benefits are:

Investment Risk - The risk that investment returns will be lower than assumed and the Company will need to increase contributions to offset this shortfall.

Salary Growth Risk - The risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.

Legislative Risk - The risk is that legislative changes could be made which increase the cost of providing the defined benefits.

Timing of members leaving service - As the Plan has only a small number of members, if members, with large benefits or groups of members leave this may have an impact on the financial position of the Plan, depending on the financial position of the Plan at the time they leave. The impact may be positive or negative, depending upon the circumstances and timing of the withdrawal.

(b) Superannuation commitments (continued)

The defined benefit assets are invested in the Mercer Growth Option, a Mercer Superannuation Investment Trust investment product, and Bendigo and Adelaide Bank Limited Shares (referred to as Bank Shares). The assets have a 66% weighting to equities and therefore the Plan has a significant concentration of equity market risk. However, within the equity investments, the allocation both globally and across the sectors is diversified.

(c) Contingent liabilities and contingent assets

Contingent liabilities

	Group		Bank	
	2015 $m	2014 $m	2015 $m	2014 $m
Guarantees				
The economic entity has issued guarantees on behalf of clients	231.0	255.2	228.3	252.7
Other				
Documentary letters of credit & performance related obligations	7.0	11.7	7.0	11.5

As the probability and value of guarantees, letters of credit and performance related obligations that may be called on is unpredictable, it is not practical to state the timing of any potential payment.

Recognition and measurement

Financial guarantees

Bank guarantees have been issued by the bank on behalf of customers whereby the bank is required to make specified payments to reimburse the holders for a loss they may incur because the customer fails to make a payment.

Contingent liabilities are not recognised on the balance sheet. The contractual term of the guarantee matches the underlying obligations to which it relates. The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The guarantees issued by the bank are fully secured and the bank has never incurred a loss in relation to the financial guarantees it has provided.

Legal claims

The Group is engaged in a range of litigation and court proceedings at any point in time. However, no current proceedings or claims are expected to have a material effect on the business, financial condition or operating results of the Group. For all litigation exposures where loss is probable and can be reliably estimated an appropriate provision is made. The Group has no provisions raised for any current legal proceedings.

Contingent assets

As at 30 June 2015, the economic entity does not have any contingent assets.

40. Auditors' remuneration

	Group		Bank	
	2015 $	2014 $	2015 $	2014 $
Total fees paid or due and payable to Ernst & Young (Australia) [1] Audit and review of financial statements [2]	1,829,042	2,062,943	1,422,670	1,618,026
Audit related fees				
Regulatory [3]	313,705	312,057	241,358	240,678
Non-regulatory [4]	694,833	1,010,536	530,400	798,109
Total audit related fees	**1,008,538**	**1,322,593**	**771,758**	**1,038,787**
All other fees [5]				
Taxation services	2,000	800	-	800
Other services	-	4,429	-	-
Total other fees	**2,000**	**5,229**	**-**	**800**
Total remuneration of Ernst & Young (Australia)	**2,839,580**	**3,390,765**	**2,194,428**	**2,657,613**

[1] Fees exclude goods and services tax.

[2] Audit and review of financial statements includes payments for the audit of the financial statements of the Group and Bank, including controlled entities that are required to prepare financial statements.

[3] Audit related fees (Regulatory) consist of fees for services required by statute or regulation that are reasonably related to the performance of the audit of the Group's financial statements and are traditionally performed by the external auditor. These services include assurance of the Group's compliance with APRA and Australian Financial Services Licensing reporting and compliance requirements.

[4] Audit related fees (Non-regulatory) consist of fees for assurance and related services not required by statute or regulation but are reasonably related to the performance of the audit or review of the Group's financial statements which are traditionally performed by the external auditor. These services include assurance of funding and capital raising and data and model validation for Basel II advanced accreditation.

[5] All other fees, including taxation services and other advice are incurred under the audit committee's pre-approval policies and procedures, having regard to the auditor's independence requirements of applicable laws, rules and regulations, and assessment that each of the non-audit services provided would not impair the independence of Ernst & Young.

41. Events after balance sheet date

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in subsequent financial years.

Directors' Declaration

In accordance with a resolution of the directors of Bendigo and Adelaide Bank Limited, we state that:

In the opinion of the directors:

a. the financial statements and notes of the Company and the Bendigo and Adelaide Bank Group are in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the Company's and the Bendigo and Adelaide Bank Group's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

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

b. the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2 and

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

d. this declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2015.

On behalf of the board

Robert Johanson
Chairman

Mike Hirst
Managing Director

1 September 2015

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Independent auditor's report to the members of Bendigo and Adelaide Bank Limited

Report on the financial report

We have audited the accompanying financial report of Bendigo and Adelaide Bank Limited, which comprises the consolidated balance sheet as at 30 June 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Building a better working world

Opinion

In our opinion:

a. the financial report of Bendigo and Adelaide Bank Limited is in accordance with the *Corporations Act 2001*, including:

  i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

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

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 24 to 48 of the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Bendigo and Adelaide Bank Limited for the year ended 30 June 2015, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

J W MacDonald

Partner

Melbourne

1 September 2015

1. Material differences

There are no material differences between the information supplied in this report and the information in the preliminary final report supplied by Bendigo and Adelaide Bank Limited to the Australian Securities Exchange on 10 August 2015.

2. Audit Committee

As at the date of the Directors' Report the Group had an Audit Committee of the Board of Directors.

3. Corporate governance practices

The corporate governance practices adopted by Bendigo and Adelaide Bank Limited are as detailed in the Corporate Governance statement. Please refer to www.bendigoadelaide.com.au/public/corporate_governance for further details.

4. Substantial shareholders

As at 11 August 2015 there were no substantial shareholders in Bendigo and Adelaide Bank Limited as detailed in substantial holdings notices given to the Company.

5. Distribution of shareholders

Range of Securities as at 11 August 2015 in the following categories:

Category	Fully Paid Ordinary Shares	Fully Paid Employee Shares	Convertible Preference Shares	Convertible Preference Shares 2	Convertible Preference Shares 3
1 - 1,000	35,757	3,970	5,231	4,136	5,152
1,001 - 5,000	40,407	593	274	373	361
5,001 - 10,000	8,343	24	29	30	18
10,001 - 100,000	4,502	8	12	18	10
100,001 and over	101	1	1	1	-
Number of Holders	**89,110**	**4,596**	**5,547**	**4,558**	**5,541**
Securities on Issue	**454,037,495**	**2,528,730**	**2,688,703**	**2,921,188**	**2,822,108**

6. Marketable parcel

Based on a closing price of $12.07 on 11 August 2015 the number of holders with less than a marketable parcel of the Company's main class of securities (Ordinary Shares), as at 11 August 2015 was 3,014.

7. Unquoted securities

The number of unquoted equity securities that are on issue and the number of holders of those securities are shown in the above table under the heading of Fully Paid Employee shares.

8. Major shareholders

Names of the 20 largest holders of Fully Paid Ordinary shares, including the number of shares each holds and the percentage of capital that number represents as at 11 August 2015 are:

Fully paid ordinary shares

Rank	Name	Number of shares	% of shares
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	64,624,270	14.15%
2	J P MORGAN NOMINEES AUSTRALIA LIMITED	38,105,999	8.35%
3	NATIONAL NOMINEES LIMITED	26,549,255	5.81%
4	CITICORP NOMINEES PTY LIMITED	23,185,170	5.08%
5	BNP PARIBAS NOMS PTY LTD <DRP>	6,497,688	1.42%
6	MILTON CORPORATION LIMITED	5,709,708	1.25%
7	AMP LIFE LIMITED	2,910,722	0.64%
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	2,269,619	0.50%
9	NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	1,267,336	0.28%
10	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	1,152,121	0.25%
11	CARLTON HOTEL LIMITED	1,117,147	0.24%
12	WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C>	997,059	0.22%
13	BKI INVESTMENT COMPANY LIMITED	838,000	0.18%
14	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	776,470	0.17%
15	ROBERT G HUNT	700,000	0.15%
16	LEESVILLE EQUITY PTY LTD	678,757	0.15%
17	NATIONAL NOMINEES LIMITED <DB A/C>	673,831	0.15%
18	NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	626,674	0.14%
19	YARABIE ESTATES PTY LTD <YARABIE SUPER FUND A/C>	510,000	0.11%
20	PACIFIC CUSTODIANS PTY LIMITED <EMPLOYEE SHARE PLAN TST A/C>	500,456	0.11%
		179,690,282	**39.35%**

BBS Nominees Pty Ltd, trustee for the Bendigo and Adelaide Employee Share Plan and Pacific Custodians Pty Limited, trustee for the Employee Share Grant Scheme, held a combined total of 2,528,730 unquoted shares as at the date of this report.

These shares have not been included in the above table, but are included in total of issued ordinary share capital.

8. Major shareholders (continued)

Names of the 20 largest holders of Bendigo and Adelaide Convertible Preference shares, including the number of shares each holds and the percentage of convertible preference share capital that number represents as at 11 August 2015 are:

Fully paid Convertible Preference Shares (CPS)

Rank	Name	Number of securities	% of securities
1	BNP PARIBAS NOMS PTY LTD <DRP>	101,200	3.76%
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	77,714	2.89%
3	NATIONAL NOMINEES LIMITED	52,092	1.94%
4	J P MORGAN NOMINEES AUSTRALIA LIMITED	46,984	1.75%
5	NORTHERN METROPOLITAN CEMETERIES T/A MACQUARIE PARK CEMETERY	40,000	1.49%
6	QUESTOR FINANCIAL SERVICES LIMITED <TPS RF A/C>	32,001	1.19%
7	WORONORA GENERAL CEMETERY & CREMATORIUM	15,000	0.56%
8	SANDHURST TRUSTEES LTD <DMP ASSET MANAGEMENT A/C>	13,693	0.51%
9	PCI PTY LTD	12,915	0.48%
10	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	11,112	0.41%
11	AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	10,383	0.39%
12	G E MALLAN INVESTMENTS PTY LTD <MALLAN SUPER FUND A/C>	10,300	0.38%
13	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	10,294	0.38%
14	BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED	10,000	0.37%
15	JOHN E GILL TRADING PTY LTD	10,000	0.37%
16	MARENTO PTY LTD	10,000	0.37%
17	NOILLY PTY LTD <WALMSLEY FAMILY FUND A/C>	10,000	0.37%
18	TRISTAR METALS PTY LTD	10,000	0.37%
19	WALMSLEY DEVELOPMENTS PTY LTD	10,000	0.37%
20	THE TRUST COMPANY SUPERANNUATION LIMITED <GPMSF2 - FUTURE SUPER A/C>	9,898	0.37%
		503,586	**18.72%**

8. Major shareholders (continued)

Names of the 20 largest holders of Bendigo and Adelaide Convertible Preference shares 2, including the number of shares each holds and the percentage of convertible preference share 2 capital that number represents as at 11 August 2015 are:

Fully paid Convertible Preference Shares 2 (CPS2)

Rank	Name	Number of securities	% of securities
1	NATIONAL NOMINEES LIMITED	154,552	5.29%
2	J P MORGAN NOMINEES AUSTRALIA LIMITED	74,433	2.55%
3	BNP PARIBAS NOMS PTY LTD <DRP>	60,000	2.05%
4	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <MULTIPORT A/C>	37,043	1.27%
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	28,279	0.97%
6	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	26,288	0.90%
7	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	24,347	0.83%
8	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	21,517	0.74%
9	QUESTOR FINANCIAL SERVICES LIMITED <TPS RF A/C>	21,125	0.72%
10	AUST EXECUTOR TRUSTEES LTD <DDH PREFERRED INCOME FUND>	17,667	0.60%
11	BOND STREET CUSTODIANS LIMITED <MPPMIM - V16636 A/C>	17,389	0.60%
12	JOHN E GILL TRADING PTY LTD	17,130	0.59%
13	WINCHELADA PTY LIMITED	16,290	0.56%
14	TREND EQUITIES PTY LTD	16,176	0.55%
15	UNIVERSITY OF TASMANIA <LISTED INCOME SECURITIES AC>	14,685	0.50%
16	NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	14,262	0.49%
17	FOREST RIGHTS PTY LTD	11,000	0.38%
18	MBF INVESTMENTS PTY LTD	11,000	0.38%
19	JGW INVESTMENTS PTY LTD	10,130	0.35%
20	C ROBERTSON PTY LTD <ROBERTSON SUPER FUND A/C>	10,000	0.34%
		603,313	**20.66%**

8. Major shareholders (continued)

Names of the 20 largest holders of Bendigo and Adelaide Convertible Preference shares 3, including the number of shares each holds and the percentage of convertible preference share 3 capital that number represents as at 11 August 2015 are:

Fully paid Convertible Preference Shares 3 (CPS3)

Rank	Name	Number of securities	% of securities
1	NATIONAL NOMINEES LIMITED	96,183	3.41%
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	66,044	2.34%
3	NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	57,116	2.02%
4	J P MORGAN NOMINEES AUSTRALIA LIMITED	44,736	1.59%
5	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	39,620	1.40%
6	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	37,470	1.33%
7	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	28,400	1.01%
8	NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	23,210	0.82%
9	BNP PARIBAS NOMS PTY LTD <DRP>	17,744	0.63%
10	NETWEALTH INVESTMENTS LIMITED <SUPER SERVICES A/C>	12,848	0.46%
11	AUST EXECUTOR TRUSTEES LTD <DDH PREFERRED INCOME FUND>	10,000	0.35%
12	BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED	10,000	0.35%
13	BRIPAT MANAGEMENT PTY LTD	10,000	0.35%
14	NARRA HOLDINGS PTY LTD <LAWRENCE NARRA FAMILY A/C>	10,000	0.35%
15	MRS JULIE MICHELLE BENNETT	7,720	0.27%
16	KLANE INVESTMENTS PTY LTD	7,670	0.27%
17	AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	7,580	0.27%
18	VESADE PTY LTD	7,150	0.25%
19	SOUTHERN CROSS CARE (SA & NT) INCORPORATED <SCC PRUDENTIAL RES FUND A/C>	7,055	0.25%
20	EQUITAS NOMINEES PTY LIMITED<PB-600329 A/C>	6,765	0.24%
		507,311	**17.96%**

9. Voting rights

Under the Bank's Constitution, each person who is a voting Shareholder and who is present at a general meeting of the Bank in person or by proxy, attorney or official representative is entitled to one vote on a show of hands or, on a poll, one vote for each fully paid ordinary share held.

In the case of an equality of votes the Chairman has, on both a show of hands and at a poll, a casting vote in addition to the vote to which the Chairman may be entitled as a shareholder, proxy, attorney or duly appointed representative of a shareholder.

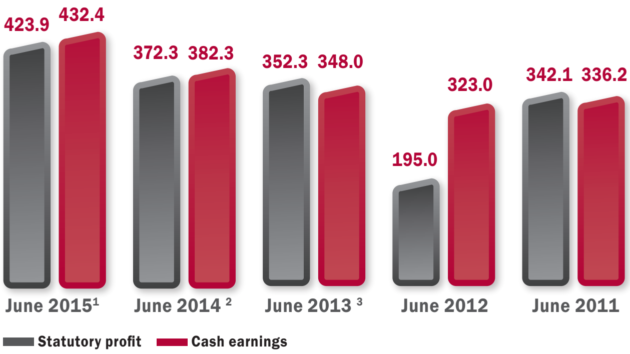
Key performance indicators

The following tables provide a summary of the last five years key metrics.

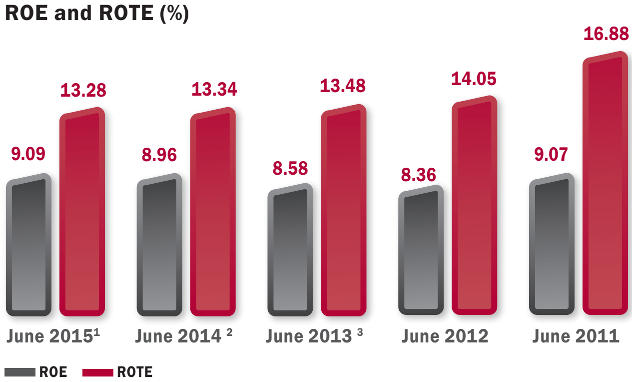
Bendigo and Adelaide Bank Group
Five year history
For the year ended 30 June

		2015[1]	2014	2013[2]	2012[3]	2011
Financial Performance						
Net interest income	($m)	1,177.6	1,118.2	1,027.5	950.1	935.2
Bad & doubtful debts expense (net of bad debts recovered)	($m)	68.3	81.9	69.9	32.4	44.2
Profit after income tax attributable to Owners of the Company	($m)	423.9	372.3	352.3	195.0	342.1
Cash earnings adjustments	($m)	8.5	10.0	(4.3)	128.0	(5.9)
Cash earnings after income tax	($m)	432.4	382.3	348.0	323.0	336.2
Financial Position						
Total assets	($m)	66,028.8	65,062.9	60,272.5	57,237.8	55,004.5
Net loans and other receivables	($m)	55,531.6	52,932.8	50,511.5	48,670.0	46,409.8
Total equity	($m)	4,941.7	4,966.5	4,434.0	4,217.7	3,960.1
Deposits and notes payable	($m)	58,431.2	57,615.8	53,839.6	50,983.7	48,975.0
Risk weighted assets	($m)	34,712.9	32,618.4	30,530.2	28,310.1	26,043.3
Additional tier 1 capital ratio	(%)	2.43	1.26	1.43	0.66	7.85
Common equity tier 1 capital ratio	(%)	8.17	8.73	7.82	7.73	n/a
Tier 2 capital ratio	(%)	1.97	2.26	1.46	2.02	2.74
Share information (per ordinary share)						
Net tangible assets	($)	7.36	7.24	6.62	6.16	5.76
Earnings (statutory basis)	(¢)	92.5	87.7	84.9	48.6	91.5
Earnings (cash basis)	(¢)	95.1	91.5	85.4	84.2	92.3
Dividends - fully franked						
Interim	(¢)	33.0	31.0	30.0	30.0	30.0
Final	(¢)	33.0	33.0	31.0	30.0	30.0
Total	(¢)	66.0	64.0	61.0	60.0	60.0
Shareholder ratios						
Return on average tangible equity (cash basis)	(%)	13.28	13.34	13.48	14.05	16.88
Return on average assets (cash basis)	(%)	0.66	0.63	0.60	0.57	0.63
Return on average ordinary equity (cash basis)	(%)	9.09	8.96	8.58	8.36	9.07
Return on average ordinary equity (after tax)	(%)	8.84	8.59	8.52	4.84	8.99

Statutory profit and cash earnings ($m)



ROE and ROTE (%)

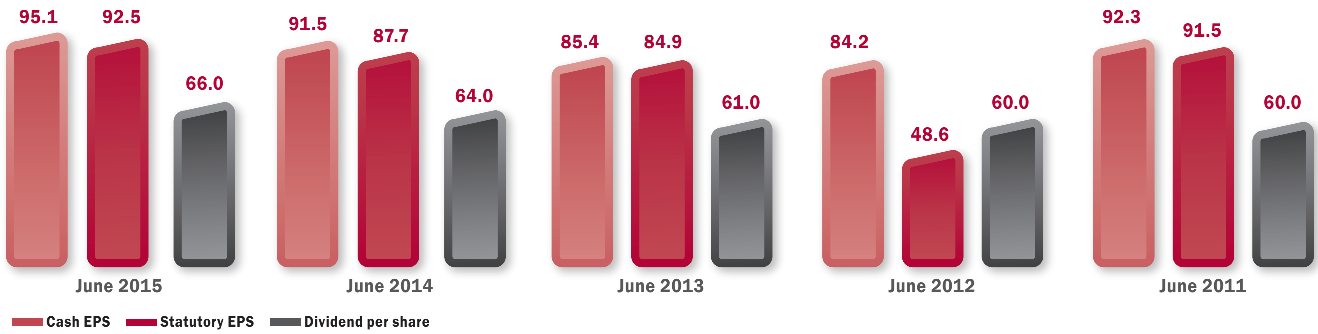


[1] Figures for 2015 includes Rural Finance from 1 July 2014.
[2] Figures for 2013 includes Community Telco Australia from December 2012 as a wholly owned subsidiary.
[3] Figures for 2012 include Delphi Bank from 1 March 2012.

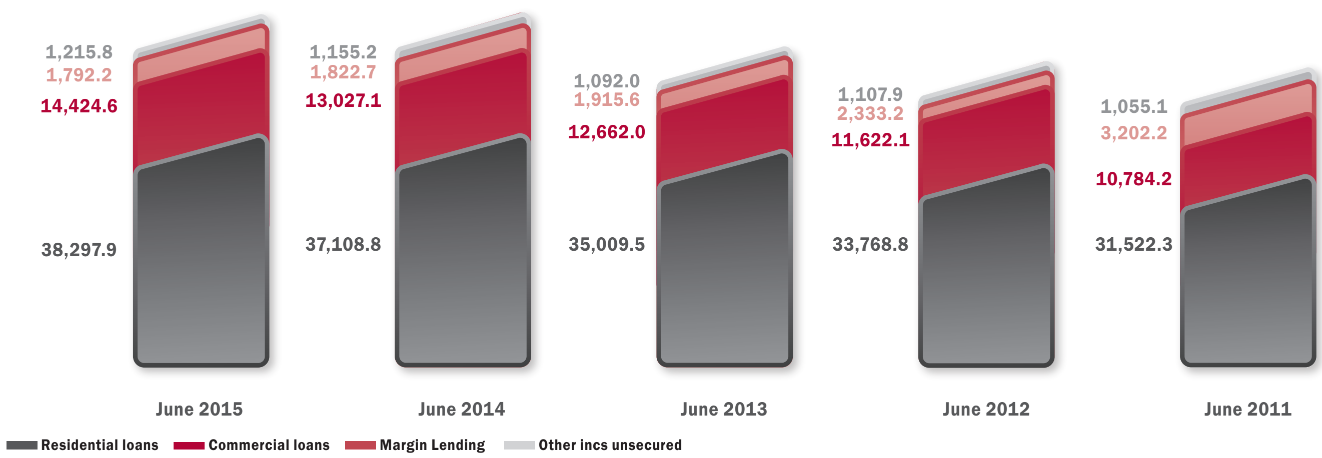
Bendigo and Adelaide Bank Group
Five year comparison
For the year ended 30 June

		2015[1]	2014	2013[2]	2012[3]	2011
Key Trading Indicators						
Number of branches [4]		527	512	489	486	466
Number of staff (excluding Community Banks)	(FTE)	4,628	4,387	4,251	4,189	4,019
Assets per staff member	($m)	14.3	14.8	14.2	13.7	13.7
Asset Quality						
Impaired loans	($m)	325.6	411.8	390.1	358.5	358.7
Specific provisions	($m)	(116.1)	(113.6)	(103.3)	(102.1)	(90.6)
Net impaired loans		**209.5**	**298.2**	**286.8**	**256.4**	**268.1**
Net impaired loans % of gross loans	(%)	0.38	0.56	0.57	0.53	0.58
Specific provision for impairment	($m)	116.8	114.4	104.1	102.9	91.4
Specific provision % of gross loans	(%)	0.21	0.22	0.21	0.21	0.20
Collective provision	($m)	59.0	42.8	34.5	31.8	41.9
General reserve for credit losses (GRCL) (general provision)	($m)	146.9	138.3	138.3	128.5	110.9
Collective provision & GRCL as a % of risk-weighted assets	(%)	0.59	0.56	0.57	0.53	0.54
Write-offs as % of average total assets	(%)	0.09	0.11	0.12	0.06	0.07

Earnings per share and dividend per share (cents)



Dissection of Loans by Security [5]



[1] Figures for 2015 includes Rural Finance from 1 July 2014.
[2] Figures for 2013 includes Community Telco Australia from December 2012 as a wholly owned subsidiary.
[3] Figures for 2012 include Delphi Bank from 1 March 2012.
[4] Includes Retail and Community Bank® branches (June 15 includes 11 Rural Finance branches).
[5] For the purposes of this dissection, overdrafts and personal loans secured by residential and commercial property mortgages are included in residential and commercial loan categories respectively.

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Bendigo and Adelaide Bank

Bigger than a bank.

Bendigo and Adelaide Bank Limited
ABN 11 068 049 178