Annual Financial Report 2018

Bendigo and Adelaide Bank

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Table of **contents**

Section 1

Section 2

Section 3

Message from the **Chairman**

This year we announced a solid full year result. Total cash earnings were $445.1 million, up 6.4%, cash earnings per share were 92 cents per share, up by 4.1%, and dividends totalled 70 cents, up by 2 cents. In a very difficult year for the banking industry, it was a strong performance by your Bank.

There have been a number of significant milestones celebrated this year.

On 9 July, we celebrated the 160th anniversary of the founding of the first Bendigo Building Society. In a year when the Royal Commission into misconduct in the financial services industry has revealed some appalling behaviours, it has been useful to remind ourselves why the business was founded and what is its purpose. Bendigo and Adelaide Bank exists to help our customers and their communities prosper. And if they prosper, so will we.

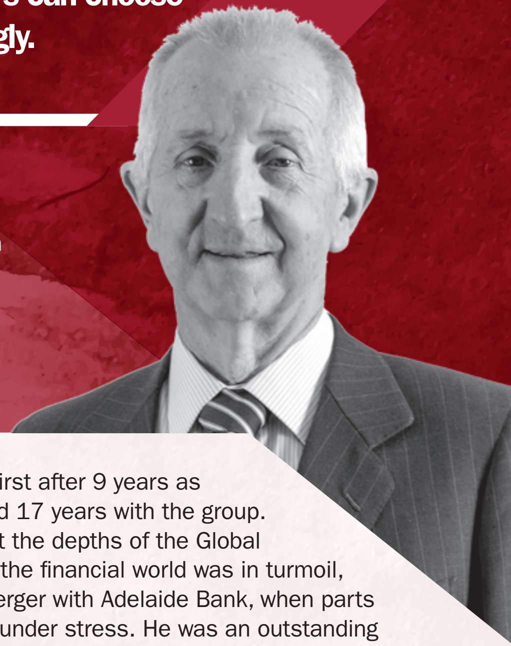
The Royal Commission has been a very demanding and rigorous process and a timely reminder of the need always to act with integrity and fairness and in the interests of our customers.

The report by the Productivity Commission into competition in financial services has not attracted the same headlines as the Royal Commission, but its analysis of the harm to the Australian economy as a result of the competitive disadvantage suffered by non-major banks and service providers is, we think, very important. If trust in banking is to be restored, it is crucial that organisations with different objectives and standards are able to compete on a level playing field and customers can choose accordingly.

Another milestone we celebrated was the 20th anniversary of the opening of the first **Community Bank**® . Rupanyup and Minyip, small towns in the farming area of the Wimmera in Victoria, had lost their banks and their economies suffered. We partnered with those communities to restore banking there. Now more than 320 communities from all over Australia have joined forces with us. $200 million in surpluses has been reinvested in supporting community activities and infrastructure which has in turn, generated other investment and activities and so supported their economic prosperity. That is, after all, our purpose.

We appointed a new Managing Director in the year. Marnie Baker took over on 2 July. She is a life time employee with deep experience in most parts of the organisation. Her task is to build on the great strengths and values of the company and to equip it to thrive amidst the deep changes that new digital technologies are bringing and that customers are demanding.

If trust in banking is to be restored, it is crucial that organisations with different objectives and standards are able to compete on a level playing field and customers can choose accordingly.



Robert Johanson
Chairman

We farewelled Mike Hirst after 9 years as Managing Director and 17 years with the group. Mike took over amidst the depths of the Global Financial Crisis when the financial world was in turmoil, and soon after the merger with Adelaide Bank, when parts of the business were under stress. He was an outstanding chief executive and made a great contribution to the industry through his involvement with the ABA and other advisory bodies. The Bank is now stronger and more capable, and everyone thanks him for his great service.

Deb Radford will be standing down as a non-executive director at the annual general meeting after 12 years. She has made a huge contribution in that time, in particular as chair of the Credit Committee, and we will miss her counsel and support.

We are delighted to welcome Vicki Carter to the Board. She has deep experience in banking and communications, which will be valuable as we work towards our vision of becoming Australia's bank of choice.

There has been a huge amount of change in our industry and in our bank over the past 10 years, but I think there will be more change over the next 10 years than ever before. Customers now expect to be able to transact with us instantly, from wherever in the world they are, with trust and confidence. We need to invest in our capacity and provide fair and growing returns to all our stakeholders.

Thank you to all our shareholders, employees, partners and customers for your work and support, and for your commitment for the future. There is a lot to do.

Message from the **Managing Director**

The business has performed well over the year in a very competitive and challenging environment.

Margin performance was strong, up 14 basis points for the financial year, with a margin of 2.36%, driven in part by a disciplined approach to asset and liability pricing.

We continue to consistently lead the industry with a strong funding position which provides flexibility to fund organic and inorganic asset growth. With 80.2% of funding sourced from retail customers, this further indicates the strength of our business in an environment where volatility and disruption will continue.

Our current capital position, with Common Equity Tier 1 Capital growing 35 basis points since June 2017, has us well placed to meet APRA's unquestionably strong capital benchmarks. Our organic capital growth reflects strong profitability, stable balance sheet and a move to lower risk exposures.

Although the second half was influenced by negative income growth, our continued focus on prudent cost management has seen our cost to income ratio continue to decrease to 55.6% for the financial year. Looking forward, we don't anticipate a material change in our cost to income ratio, as we focus on accelerating revenue growth.

So although there is no doubt Australian banks are faced with a challenging environment, it's in this environment that we find ourselves well positioned.

Strategic partnering is a strength of ours, allowing us the capability to increase distribution, product manufacturing and technology. The success of many partnerships to date has given us access to new markets and financial innovation. Partnerships with fintech companies on initiatives such as Up, our new digital bank, TIC:TOC, the world's first instant home loan, and Bcause, a digital platform supporting participants of the NDIS, are setting us up for long term success.

We have made some recent changes to our Executive structure, welcoming Travis Crouch and Louise Tebbutt to the team. The new structure is organised around our three customer groups who present significant opportunity for growth: consumer, business and agribusiness. These divisions are underpinned by business support areas designed to optimise performance, reduce complexity, and deliver on our shared customer focus.

So although there is no doubt Australian banks are faced with a challenging environment, it's in this environment that we find ourselves well positioned.

Marnie Baker
Managing Director

The future is an exciting time for an organisation like ours. Our proven business model is resonating with our customers and this is strongly reflected in the awards and recognition we receive not only for our products and services, but for how we conduct ourselves and for our unique style of banking.

For 160 years, we have focused on feeding into the prosperity of our customers and their communities, not off it – and it is this focus that will help us succeed in our future. Our business is ready to take advantage of the opportunities ahead, and our customer focus, high trust ratings, and customer advocacy provides the perfect platform for business growth.

This year's results are a testament to the hard work and dedication of our staff, and the commitment and support of our customers, partners, communities and shareholders. For this, I thank you all.

The time for us is now – Australia's bank of choice.

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 2018.

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, MBA (Harvard), 67 years

Term of office: Robert has been a Director of the Bank for 30 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, finance and risk management and mergers and acquisitions. He has over 35 years' experience in providing corporate advice on capital market transactions to a wide range of public and private companies.

Board committees: Governance & HR and Technology & Change.

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

Other director and memberships (including directorships of other listed companies for the previous three years):

Chairman, Australia India Institute

Director, Robert Salzer Foundation Limited, NeuClone Limited, Melbourne Business School and Grant Samuel Group Pty Limited.

Marnie Baker
Managing Director, Non-independent
BCom, CPA, MAICD and SFFin, 50 years

Term of office: Marnie was appointed Managing Director and Chief Executive Officer commencing 2 July 2018.

Skills, experience and expertise: Marnie has 29 years of experience in the banking and financial services sector. This includes experience in retail and wholesale banking, treasury and financial markets (including securitisation), trustee services and funds management. She has been a member of the executive team for nearly two decades and held senior leadership positions including Chief Customer Officer, Executive Customer Voice, Executive Banking and Wealth and Chief General Manager Products and Solutions. Her experience also includes senior roles in treasury, capital markets, technology, digital banking and funds management.

Board committees: Marnie is not a member of any Board committees.

Group and joint venture directorships: Rural Bank Limited, Community Sector Enterprises Pty Ltd and Community Sector Banking Pty Ltd.

Other director and memberships (including directorships of other listed companies for the previous three years):

Member of the Advisory Board of the Australian Centre for Financial Studies, Australian Banking Association, Business Council of Australia, Mastercard Asia Pacific Advisory Board, NPP Australia Limited and Deputy Chair of the Loddon Campaspe Regional Partnership.

Directors' information continued

Vicki Carter
Independent
BA (Science), Dip Mgt, Certificate in Executive Coaching, GAICD,
54 years

Term of office: Vicki joined the Board on 4 September 2018.

Skills, experience and expertise:
Vicki has over 30 years' experience in the financial services sector including retail banking and more recently in business technology. Vicki is currently employed as Executive Director, Strategy and Business Services at Telstra. Prior to this Vicki held a number of executive roles at NAB including Executive General Manager - Retail Bank, Executive General Manager - Business Operations and General Manager - People and Organisational Development.

Vicki has also held various senior leadership roles at MLC, ING and Prudential.

Board committees: Member of Credit, Technology and Governance & HR.

Group and joint venture directorships:
Rural Bank Limited.

Other director and memberships (including directorships of other listed companies for the previous three years):
Nil

Jan Harris
Independent
BEc (Hons), 59 years

Term of office: Jan joined the Board in February 2016.

Skills, experience and expertise:
Jan has had a distinguished career in the Australian public service with broad experience in public and regulatory policy development, economics and governance. Jan has had senior roles in the Department of the Treasury and the Department of the Prime Minister and Cabinet, including as Deputy Secretary of the Treasury.

Board committees:
Member of Risk and Audit.

Group and joint venture directorships:
Rural Bank Limited

Other director and memberships (including directorships of other listed companies for the previous three years):
External Member, Audit and Risk Committee of the Australian Security Intelligence Organisation, Member, Australian Office of Financial Management Audit Committee and Member (part time) International Air Services Commission.

Jim Hazel
Independent
BEc, SFFin, FAICD,
67 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, finance and risk management, including in the regional banking industry.

Board committees: Chair of Risk and member of Credit and Technology.

Group and joint venture directorships:

Rural Bank Limited

Other director and memberships (including directorships of other listed companies for the previous three years):
Chairman, Ingenia Communities Group Limited (ASX listed, period: March 2012 to present)

Director, Centrex Metals Limited (ASX listed, period: July 2010 to present), Impedimed Limited (ASX listed, period November 2006 to March 2016), Adelaide Football Club Limited, Coopers Brewery Limited, Trustee for Adelaide Festival Centre Trust and Council Member of the University of South Australia.

Jacqueline Hey,
Independent
BCom, Graduate Certificate in Management,
GAICD,
52 years

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

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

Board committees: Chair of Technology and member of Governance & HR and Credit.

Group and joint venture directorships:
Rural Bank Limited

Other director and memberships (including directorships of other listed companies for the previous three years):
Director, Qantas Airways Limited (ASX listed, period: August 2013 to present), Australian Foundation Investment Company Limited (ASX listed, period: July 2013 to present), AGL Energy Limited (ASX listed, period, March 2016 to present) and Cricket Australia.

Directors' information continued

Robert Hubbard,
Independent
BA (Hons) Accy, FCA,
59 years

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

Skills, experience and expertise: Rob is an accountant with finance, audit and risk management experience and is based in Queensland. He was as a partner of PricewaterhouseCoopers for 22 years practising in the areas of corporate advice and audit. Rob is now a professional Non-executive Director.

Board committees: Chair of Audit and member of Risk.

Group and joint venture directorships: Rural Bank Limited

Other director and memberships (including directorships of other listed companies for the previous three years):

Chairman, Orocobre Limited (ASX and TSX listed, period: November 2012 to present), Chairman, Primary Health Care Limited (ASX listed, period: December 2014 to present) and former Chairman, Central Petroleum Limited (ASX listed, period: December 2013 to May 2018).

David Matthews
Independent
Dip BIT, GAICD,
60 years

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

Skills, experience and expertise: David operates a farm and grain export business based in the Wimmera region of Victoria and is involved in a number of agricultural industry bodies. David also chaired the first Community Bank® company in Rupanyup and Minyip.

Board committees: Member of Credit and Audit

Group and joint venture directorships: Rural Bank Limited and Member of the Community Bank® National Council.

Other director and memberships (including directorships of other listed companies for the previous three years):

Director, Pulse Australia, Australian Grain Technologies Pty Limited, Farm Trade Australia Pty limited and Rupanyup/Minyip Finance Group Limited.

Deb Radford
Independent
BEc, Graduate Diploma
Finance & Investment,
62 years

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

Skills, experience and expertise: Deb has over 25 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 advising the government on commercial transactions.

Board committees: Chair of Credit and member of Technology and Governance & HR.

Group and joint venture directorships: Rural Bank Limited

Other director and memberships (including directorships of other listed companies for the previous three years):

Director, SMS Management & Technology Limited (ASX listed, period: September 2013 to November 2016)

Deputy Chancellor of La Trobe University.

Tony Robinson
Independent
BCom, ASA, MBA (Melb),
60 years

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 CEO of Centrepoint Alliance Limited, IOOF Holdings Limited and OAMPS Limited.

Board committees: Chair of Governance & HR and member of Risk and Audit

Group and joint venture directorships: Rural Bank Limited and Sandhurst Trustees Limited.

Other director and memberships (including directorships of other listed companies for the previous three years):

Chairman, Longtable Group Limited (ASX listed, period: November 2015 to present) and former Chairman, Tasfoods limited (ASX listed, period: June 2014 to March 2018.

Director, Pacific Current Group Limited (ASX listed, period: August 2015 to present) and PSC Insurance Group Limited (ASX listed, period: September 2015 to present).

Former Managing Director and Chief Executive Officer

Mike Hirst
Managing Director, non-independent
BCom, SFFin, MAICD,
60 years

Term of office: Mike was appointed as Managing Director of the Bank in 2009 and retired from the role effective 1 July 2018.

Skills, experience and expertise: Mike joined the Group in 2001. Mike has extensive experience in banking, treasury, funds management and financial markets, including previous senior executive and management positions with Colonial Limited, Chase AMP Bank Limited and Westpac Banking Corporation Limited.

Board committees: Mike was not a member of any Board committees.

Group and joint venture directorships: Rural Bank Limited

Other director and memberships (including directorships of other listed companies for the previous three years):

Former member, Business Council of Australia and Financial Sector Advisory Council, former Deputy Chairman, Australian Bankers' Association Council, Deputy Chairman, Racing Victoria Limited and former Member, MasterCard (Asia Pacific) Advisory Board.

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, rural and commercial lending, deposit-taking, payments services, wealth management and superannuation, treasury and foreign exchange services. There were no significant changes in the nature of the activities during the year.

Operating results

Information on the Group's operating results for the financial year are contained in the Operating and Financial Review section of this report.

Dividends

The Directors announced on 13 August 2018 a fully franked final dividend of 35 cents per fully paid ordinary share. The final dividend is payable on 28 September 2018. The proposed payment is expected to amount to $166 million.

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

- A final dividend for the 2017 financial year of 34 cents per share, paid on 29 September 2017 (amount paid: $159.9 million); and
- An interim dividend for the 2018 financial year of 35 cents per share, paid on 29 March 2018 (amount paid: $165.1 million).

Further details on dividends provided for or paid during the 2018 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 Chairman's and Managing Director's Messages and the Operating and Financial Review section of this report.

After balance date events

The Bank declared a final dividend of 35 cents per ordinary share on 13 August 2018.

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 Chairman's and Managing Director's Messages and the Operating and Financial Review section of this report.

Rounding of amounts

The Bank is a company of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, amounts in this report have been rounded to the nearest million dollars, unless otherwise stated.

Meetings of Directors

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

Director	Board		Audit Committee		Credit Committee		Risk Committee		Governance & HR Committee		Technology & Change Committee	
Meetings during the year	A	B	A	B	A	B	A	B	A	B	A	B
Robert Johanson	14	12							5	3	5	3
Jan Harris	14	13	7	7			9	8				
Jim Hazel	14	14			4	4	9	9			5	4
Jacquie Hey	14	14			4	4			5	5	5	5
Mike Hirst	14	14										
Robert Hubbard	14	13	7	7			9	9				
David Matthews	14	14	7	7	4	4						
Deb Radford	14	14			4	4			5	5	5	5
Tony Robinson	14	14	7	7			9	9	5	5		

A = Number eligible to attend B = Number attended

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 are as follows:

Director	Ordinary Shares No.	Preference Shares No.	Performance Rights No.	Sandhurst Cash Common Fund $ [1]
Robert Johanson	230,679	-	-	481
Marnie Baker	339,676	-	69,704	151,022
Vicki Carter	504	-	-	-
Jan Harris	1,000	-	-	-
Jim Hazel	27,470	-	-	-
Jacquie Hey	15,199	250	-	-
Robert Hubbard	16,655	-	-	-
David Matthews	32,244	-	-	-
Deb Radford	1,900	3,190	-	-
Tony Robinson	33,140	-	-	-

[1] Being a relevant interest in a managed investment scheme made available by Sandhurst Trustees Limited, a subsidiary of the Bank.

Share Options and Rights

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.

Performance rights ("rights") to ordinary shares in the Bank are issued by the Bank under the Employee Salary Sacrifice, Deferred Share and Performance Share Plan ("Plan"). Each right represents an entitlement to one fully paid ordinary share in the Bank, subject to certain conditions.

During or since the end of the financial year the Bank granted 309,349 rights (2017: 378,759). This included 190,057 rights granted to key management personnel.

As at the date of this report there are 833,725 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 2019 and 30 June 2021.

During or since the end of the financial year no rights vested (2017: nil), 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 2018 to the date of this report, no rights have lapsed.

Further details of Key Management Personnel equity holdings during the financial year are detailed in the 2018 Remuneration Report.

Corporate Governance

An overview of the Bank's corporate governance structures and practices is presented in the 2018 Corporate Governance Statement available from the Bank's website at www.bendigoadelaide.com.au/public/corporate_governance/index.asp

The Bank confirms it has followed the ASX Corporate Governance Council's Principles and Recommendations (3rd edition) during the 2018 financial year.

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 2018 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 any environmental requirement.

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 its greenhouse gas emissions and has voluntarily reported these emissions since 2011 to the Carbon Disclosure Project.

Indemnification of Officers

The Bank's Constitution 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.

A similar indemnity is also provided to the officers of Rural Bank Limited.

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 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 of a subsidiary.

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 under this indemnity to 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 and Company Secretaries of controlled entities who are not Directors or Company Secretaries of the Bank. The policy also covers officers who accept external directorships as part of their responsibilities with 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 and General Counsel

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 2017.

To support the declaration, formal risk management and financial statement due diligence and verification processes, including attestations from senior management, are 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 2018.

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 2018. A copy of the auditor's independence declaration is presented at the end of this section.

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 2018:

(a) Assurance related fees (Regulatory)

Service Category	Fees $	Entity
AFSL audits and APS 310 audit	273,940	Bendigo and Adelaide Bank Limited
AFSL audits and APS 310 audit	30,437	Rural Bank Limited
Euro Medium Term Note Program	31,110	Bendigo and Adelaide Bank Limited
APS 117 review (IRRBB)	85,000	Bendigo and Adelaide Bank Limited
Prudential Targeted Review	317,000	Bendigo and Adelaide Bank Limited
Sub-total: Assurance related fees (Regulatory)	**737,487**	

(b) Assurance 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
Converting Preference Share Offer (CPS4)	80,000	Bendigo and Adelaide Bank Limited
Alliance Bank Revenue Share Model	17,000	Bendigo and Adelaide Bank Limited
Community Bank Revenue Share Model	95,000	Bendigo and Adelaide Bank Limited
AASB 9 Model Validation	100,000	Bendigo and Adelaide Bank Limited
Sustainability reporting	7,500	Bendigo and Adelaide Bank Limited
Torrens Series Securitisation Trust Custody Audit	65,400	Torrens Series Securitisation Trusts
Sub-total: Assurance related fees (Non-regulatory)	**364,900**	
Total: non-audit services	**1,102,387**	

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.

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

As lead auditor for the audit of Bendigo and Adelaide Bank Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

This declaration is in respect of Bendigo and Adelaide Bank Limited and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

Graeme McKenzie
Partner
Melbourne

4 September 2018

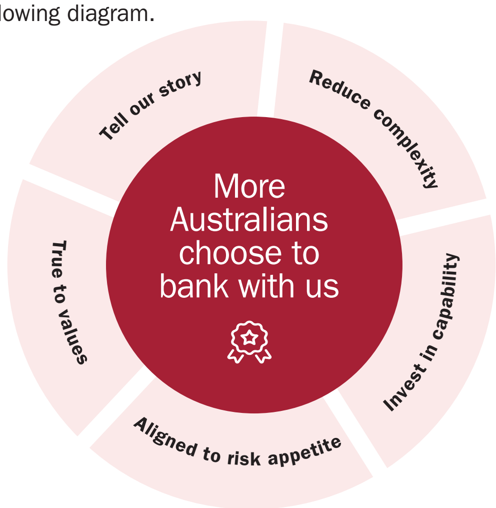
Operating and Financial Review

Our Vision, Values and Point of Difference

Our Vision is to be Australia's bank of choice.

Our strategy is to be Australia's bank of choice by focussing on the success of our customers, people, partners and communities. We believe this sets us apart from other financial institutions.

The key focus areas to support the strategy are depicted in the following diagram.



Principal business divisions and activities

The Group provides a broad range of banking and other financial services primarily to retail customers and small to medium sized businesses throughout Australia.

Our main business activity is raising funds through customer deposits and wholesale funding markets and lending those funds to our customers. The major lending activities are consumer (especially residentially secured), business and agribusiness. We generate the majority of our revenue from:

- Net interest income - which is the interest earned from our lending activities and liquidity portfolio, less interest paid on deposits and other funding sources; and
- Fee and commission revenue from the provision of banking, investment, insurance and superannuation services.

For the financial year our business was structured and managed around the three customer-facing divisions described below.

Local Connection

Local Connection incorporates retail and business banking using the brands Bendigo Bank, Community Bank® and Delphi Bank. The services are available from our national branch and agency network, business bankers, call centres, on-line and phone banking services and ATM network. Bendigo Bank is one of the leading banking brands for customer and business satisfaction and advocacy.

Partner Connection

Partner Connection incorporates Third Party Banking, Wealth and Leveraged businesses. Third Party Banking comprises commercial, residential and consumer finance which is provided through intermediaries including mortgage managers and brokers. It also includes our Portfolio Funding business which provides funding to finance companies. Wealth is the provider of superannuation, investment and financial planning services and Leveraged is our margin lending business. The Partner Connection division also includes Alliance Bank and Homesafe.

Agribusiness

The division operates under the Rural Bank brand and provides specialist financial products and services to primary producers and agribusiness participants through a network of outlets and agribusiness lending specialists throughout rural and regional Australia.

Organisational restructure

On 2 July 2018, Marnie Baker replaced Mike Hirst as Group Managing Director. On 10 August 2018, Marnie restructured the business around our Consumer, Business and Agribusiness customer groups. Details on the business structure are available at https://www.bendigoadelaide.com.au/public/media_centre/index.asp#storyTitle1.

Summary of group performance (statutory)

	Full year ending				Six months ending			
	Jun 18	Jun 17	Change		Jun 18	Dec 17	Change	
	$m	$m	$m	%	$m	$m	$m	%
Net interest income	1,305.2	1,213.6	91.6	7.5	647.5	657.7	(10.2)	(1.6)
Other operating income	338.3	395.9	(57.6)	(14.5)	153.1	185.2	(32.1)	(17.3)
Total income	**1,643.5**	**1,609.5**	**34.0**	**2.1**	**800.6**	**842.9**	**(42.3)**	**(5.0)**
Credit expenses	(70.6)	(71.8)	1.2	1.7	(24.3)	(46.3)	22.0	47.5
Operating expenses	(938.4)	(909.4)	(29.0)	(3.2)	(480.9)	(457.5)	(23.4)	(5.1)
Total expenses	**(1,009.0)**	**(981.2)**	**(27.8)**	**(2.8)**	**(505.2)**	**(503.8)**	**(1.4)**	**(0.3)**
Profit before income tax expense	**634.5**	**628.3**	**6.2**	**1.0**	**295.4**	**339.1**	**(43.7)**	**(12.9)**
Income tax expense	(200.0)	(198.7)	(1.3)	(0.7)	(92.6)	(107.4)	14.8	13.8
Profit after income tax expense	**434.5**	**429.6**	**4.9**	**1.1**	**202.8**	**231.7**	**(28.9)**	**(12.5)**
Earnings per ordinary share	cents	cents	cents	%	cents	cents	cents	%
Statutory earning per ordinary share (weighted average)	89.9	90.9	(1.0)	(1.1)	41.8	48.1	(6.3)	(13.1)
Cash earnings per ordinary share (weighted average)	92.1	88.5	3.6	4.1	45.3	46.8	(1.5)	(3.2)
Diluted earnings per ordinary share (weighted average)	81.2	82.9	(1.7)	(2.1)	37.6	43.7	(6.1)	(14.0)

The Bank's statutory net profit was $434.5 million, a 1.1 percent increase on the prior year's result. The statutory earnings per ordinary share was 89.9 cents (FY2017: 90.9 cents).

Throughout the year, business conditions were characterised by high levels of competition and relatively subdued asset growth. Despite this, we recorded good levels of activity in the second half of the financial year, especially in the home loan market, which translated into loan growth only slightly below system and solid earnings growth for the two largest divisions.

Our disciplined approach to asset and liability pricing resulted in a strong lift in the net interest margin for the year.

The cost to income ratio fell to 55.6 percent (FY2017: 56.1 percent), notwithstanding increased compliance and regulatory requirements and our continued investment in technology and our staff.

Credit quality is sound with loan arrears substantially flat year on year. The total bad and doubtful debt charges for the year were marginally below the previous financial year.

Our ability to attract retail deposits is a real strength of the business. The majority of our funding requirements is provided by our retail customers which means we are well positioned to withstand future wholesale funding market stresses.

Our capital position is strong, particularly given the relatively low level of risk in the balance sheet. Importantly, we are extremely well-placed to meet APRA's new unquestionably strong capital benchmarks well within the required timeframe. This benchmark is explained in the Capital Adequacy section of this report.

Dividends	Full year ending				Six months ending			
	Jun 18	Jun 17	Change		Jun 18	Dec 17	Change	
				%				%
Dividend per share - cents	70.0	68.0	2.0	2.9	35.0	35.0	-	-
Dividend amount payable/paid - $m	331.1	316.1	15.0	4.7	166.0	165.1	0.9	0.5
Payout ratio - earnings per ordinary share[1]	77.9%	74.8%	3.1%	4.1	83.7%	72.8%	10.9%	15.0
Payout ratio - cash basis per ordinary share[1]	76.0%	76.8%	(0.8%)	(1.0)	77.3%	74.8%	2.5%	3.3

The Bank declared a final fully franked dividend of 35 cents per share, taking the full-year dividend to 70 cents per share (FY2017: 68 cents). The final dividend will be paid on 28 September 2018 and the dividend payout ratio was 77.9 percent (FY2017: 83.7 percent).

Summary of cash earnings result

Cash earnings is a measure used across the banking industry to measure the maintainable level of earnings by excluding specific items of revenue and expenditure that are non-recurring and therefore not representative of ongoing financial performance. The cash earnings measure better enables comparison with the financial performance of other banking and financial services institutions. The cash earnings adjustments are not subject to review or audit by the External Auditor.

	Full year ending				Six months ending			
	Jun 18	Jun 17	Change		Jun 18	Dec 17	Change	
	$m	$m	$m	%	$m	$m	$m	%
Net interest income	1,323.6	1,232.0	91.6	7.4	655.6	668.0	(12.4)	(1.9)
Other operating income	281.2	309.7	(28.5)	(9.2)	136.7	144.5	(7.8)	(5.4)
Total income	**1,604.8**	**1,541.7**	**63.1**	**4.1**	**792.3**	**812.5**	**(20.2)**	**(2.5)**
Credit expenses	(70.6)	(71.8)	1.2	1.7	(24.3)	(46.3)	22.0	47.5
Operating expenses	(900.9)	(873.0)	(27.9)	(3.2)	(455.4)	(445.5)	(9.9)	(2.2)
Total expenses	**(971.5)**	**(944.8)**	**(26.7)**	**(2.8)**	**(479.7)**	**(491.8)**	**12.1**	**2.5**
Income tax expense	(199.5)	(189.7)	(9.8)	(5.2)	(97.8)	(101.7)	3.9	3.8
Cash earnings before Homesafe realised income	**433.8**	**407.2**	**26.6**	**6.5**	**214.8**	**219.0**	**(4.2)**	**(1.9)**
Net Homesafe realised income (after tax)	11.3	11.1	0.2	1.8	5.0	6.3	(1.3)	(20.6)
Cash earnings after income tax expense	**445.1**	**418.3**	**26.8**	**6.4**	**219.8**	**225.3**	**(5.5)**	**(2.4)**

The Bank's annual cash earnings result was $445.1 million, a 6.4 percent improvement on the previous year's result. Cash earnings per ordinary share was 92.1 cents, a 3.6 cent increase on the previous year. The analysis of the Bank's annual financial result is presented in the following sections of this report.

	Half year		Total	Half year		**Total**	**Year on year change**
	Jun 18	Dec 17		Jun 17	Dec 16		
Financial position ratios (cash basis)	%	%	%	%	%	%	**bps**
Return on average ordinary equity	8.13%	8.33%	**8.23%**	8.27%	7.94%	**8.10%**	13
Return on average tangible equity	11.33%	11.71%	**11.52%**	11.80%	11.43%	**11.61%**	(9)
Return on average assets	0.64%	0.65%	**0.65%**	0.63%	0.60%	**0.61%**	4

The adjustments between the statutory profit and cash earnings result are summarised below.

	Statutory profit	Cash earnings adjustments: Fair value adjustments	Homesafe unrealised adjustments	Hedging income/ (costs)	(Profit)/ loss on sale of business	Integration costs	Impairment change/ (reversal)	Operating expenses	Amortisation of intangibles	Cash earnings sub-total	Homesafe realised income	Cash earnings
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Net interest income	1,305.2	1.2	17.2	-	-	-	-	-	-	1,323.6	(7.5)	1,316.1
Other operating income	338.3	-	(55.4)	(1.7)	-	-	-	-	-	281.2	23.7	304.9
Total income	**1,643.5**	**1.2**	**(38.2)**	**(1.7)**	**-**	**-**	**-**	**-**	**-**	**1,604.8**	**16.2**	**1,621.0**
Credit expenses	(70.6)	-	-	-	-	-	-	-	-	(70.6)	-	(70.6)
Operating expenses	(938.4)	-	-	-	1.6	7.6	0.4	19.7	8.2	(900.9)	-	(900.9)
Net profit after tax	**634.5**	**1.2**	**(38.2)**	**(1.7)**	**1.6**	**7.6**	**0.4**	**19.7**	**8.2**	**633.3**	**16.2**	**649.5**
Tax expense	(200.0)	(0.4)	11.4	0.5	(0.4)	(2.3)	-	(5.9)	(2.4)	(199.5)	(4.9)	(204.4)
Net profit after tax	**434.5**	**0.8**	**(26.8)**	**(1.2)**	**1.2**	**5.3**	**0.4**	**13.8**	**5.8**	**433.8**	**11.3**	**445.1**

Fair value adjustments: The acquisition of Rural Finance resulted in the recognition of fair value adjustments for the loans acquired which are amortised over the life of the underlying transaction.

Homesafe unrealised adjustments: Homesafe Trust revaluation income ($55.4 million) represents the valuation movements of the investment property held, and unrealised funding costs ($17.2 million) represents the interest expense incurred on existing contracts for the year.

Hedging income / (costs): Hedge ineffectiveness (ineffectiveness due to hedge accounting requirements).

Profit / (loss) on sale of business: The loss on the sale of a Telco business.

Integration costs: Costs associated with the integration of Alliance Partners and Rural Finance.

Impairment charge: Impairment for a small equity investment.

Operating expenses: Legal costs associated with the Royal Commission, litigation and compensation costs.

Intangibles: Completion of the amortisation period for business acquisitions and the associated intangible assets.

Homesafe realised income: Realised revaluation gains ($23.7 million) represents the net funds received on completion of contracts (cash received on completion less the initial funds advanced) and realised funding costs ($7.5 million) represents the accumulated interest expense on completed contracts.

Analysis of financial performance

Income

	Full year ending				Six months ending			
	Jun 18	Jun 17	Change		Jun 18	Dec 17	Change	
	$m	$m	$m	%	$m	$m	$m	%
Net interest income	1,323.6	1,232.0	91.6	7.4	655.6	668.0	(12.4)	(1.9)
Homesafe funding costs - unrealised	(17.2)	(15.8)	(1.4)	(8.9)	(7.6)	(9.6)	2.0	20.8
Fair value adjustments - interest expense	(1.2)	(2.6)	1.4	53.8	(0.5)	(0.7)	0.2	28.6
Total net interest income including specific items	**1,305.2**	**1,213.6**	**91.6**	**7.5**	**647.5**	**657.7**	**(10.2)**	**(1.6)**
Other income								
Fee income	167.9	172.2	(4.3)	(2.5)	83.2	84.7	(1.5)	(1.8)
Commissions	71.7	72.7	(1.0)	(1.4)	36.5	35.2	1.3	3.7
Foreign exchange income	18.8	18.0	0.8	4.4	9.6	9.2	0.4	4.3
Trading book income	0.8	19.8	(19.0)	(96.0)	(2.4)	3.2	(5.6)	(175.0)
Other	22.0	27.0	(5.0)	(18.5)	9.8	12.2	(2.4)	(19.7)
Total other income	**281.2**	**309.7**	**(28.5)**	**(9.2)**	**136.7**	**144.5**	**(7.8)**	**(5.4)**
Specific other income items								
Homesafe Trust - income	55.4	90.4	(35.0)	(38.7)	15.8	39.6	(23.8)	(60.1)
Other income	1.7	(4.2)	5.9	140.5	0.6	1.1	(0.5)	(45.5)
Total other specific income	**57.1**	**86.2**	**(29.1)**	**(33.8)**	**16.4**	**40.7**	**(24.3)**	**(59.7)**
Total other income including specific items	**338.3**	**395.9**	**(57.6)**	**(14.5)**	**153.1**	**185.2**	**(32.1)**	**(17.3)**
Total income	**1,643.5**	**1,609.5**	**34.0**	**2.1**	**800.6**	**842.9**	**(42.3)**	**(5.0)**

	Half year		Total	Half year		Total	Year on year change
	Jun 18	Dec 17		Jun 17	Dec 16		
Financial performance ratios	%	%	%	%	%	%	bps change
Net interest margin before revenue share arrangements	2.37%	2.36%	2.36%	2.26%	2.17%	2.22%	14
Net interest margin after revenue share arrangements	1.98%	1.98%	1.98%	1.89%	1.82%	1.86%	12

Specific analysis of the key income components for the year is presented in the following section.

Analysis of net interest income	Full year		Half year	
	Jun 18	Jun 17	Jun 18	Dec 17
	$m	$m	$m	$m
Net interest income including specific items (statutory)	1,305.2	1,213.6	647.5	657.7
Fair value adjustments	1.2	2.6	0.5	0.7
Net interest income after fair value adjustments	**1,306.4**	**1,216.2**	**648.0**	**658.4**
Average interest earning assets	66,007.3	65,418.7	65,868.6	66,109.9
Average interest earning liabilities	62,326.1	61,900.9	62,150.6	62,483.6
Net interest margin	1.98%	1.86%	1.98%	1.98%
Net interest margin before revenue share arrangement	2.36%	2.22%	2.37%	2.36%

The increase in net interest income for the year was primarily driven by the improved net interest margin, which increased by 14 basis points.

The margin increase was due to term deposit and mortgage repricing, and to a lesser degree growth in lower cost at-call deposits and lower liquidity requirements compared to the previous year (when higher liquidity was maintained to fund the Keystart loan portfolio acquisition).

These improvements were offset to a degree by higher wholesale funding costs in the second half of the year, which were attributable to an increase in BBSW rates, that eventually flowed through to higher term deposit rates in the final quarter.

Analysis of other income

Other income decreased by $28.5 million, or 9.2 percent, mostly due to a $19 million decrease in trading book income caused by higher domestic funding costs and a deterioration in credit spreads after stress in US funding markets in the second half.

In addition, we continued to experience the impact of the overall decline in banking transaction fees across the industry, including the changes to ATM fees introduced during the year.

The 'other income' statutory result also included a contribution from the Homesafe Trust of $55.4 million, which decreased by $35.0 million compared to last year, reflecting the stronger growth in residential real estate prices in Sydney and Melbourne during FY2017.

Analysis of operating expenses	Full year ending				Six months ending			
	Jun 18	Jun 17	Change		Jun 18	Dec 17	Change	
	$m	$m	$m	%	$m	$m	$m	%
Staff and related costs	497.3	480.5	16.8	3.5	252.3	245.0	7.3	3.0
Occupancy costs	91.0	92.0	(1.0)	(1.1)	46.1	44.9	1.2	2.7
Information technology costs	77.0	71.6	5.4	7.5	39.2	37.8	1.4	3.7
Amortisation of acquired intangibles	8.2	17.7	(9.5)	(53.7)	1.9	6.3	(4.4)	(69.8)
Amortisation of software intangibles	28.0	20.8	7.2	34.6	14.5	13.5	1.0	7.4
Property, plant and equipment costs	11.5	11.7	(0.2)	(1.7)	5.7	5.8	(0.1)	(1.7)
Fees and commissions	35.2	33.6	1.6	4.8	17.6	17.6	-	-
Communication, postage, stationery	29.8	33.0	(3.2)	(9.7)	14.2	15.6	(1.4)	(9.0)
Advertising and promotion	28.0	28.3	(0.3)	(1.1)	14.0	14.0	-	-
Other product and services delivery costs	30.2	33.0	(2.8)	(8.5)	14.2	16.0	(1.8)	(11.3)
Other administration expenses	72.9	68.5	4.4	6.4	37.6	35.3	2.3	6.5
Total operating expenses	**909.1**	**890.7**	**18.4**	**2.1**	**457.3**	**451.8**	**5.5**	**1.2**
Specific items	29.3	18.7	10.6	56.7	23.6	5.7	17.9	314.0
Total expenses	**938.4**	**909.4**	**29.0**	**3.2**	**480.9**	**457.5**	**23.4**	**5.1**

			Change				Change	
	Jun 18	Jun 17	bps	%	Jun 18	Dec 17	bps	%
Cost to income	55.6%	56.1%	(0.5)	(0.9)	57.0%	54.2%	2.8	5.2
Expenses to average assets	1.31%	1.28%	0.03	2.30	1.34%	1.28%	0.1	4.7
Number of staff (full-time equivalent)	4,426	4,413	13	0.3	4,426	4,387	39	0.9
Staff and related costs to income	30.5%	30.6%	(0.1)	(0.3)	31.5%	29.6%	1.9	6.4

In a period where revenue growth was challenging, the business carefully managed the cost base and continued to drive savings and operational efficiencies. Total expenses increased by $29 million or 3.2 percent year on year. This resulted in the cost to income ratio of 55.6 percent, a 50 basis point improvement on the previous year.

The main movements for the year related to staff costs, technology related costs and other administrative expenses.

The increase in staff costs was due to general wage and salary increases implemented towards the end of the first half along with lower capitalisation of project costs. The increase in technology-related costs also included an increase in amortisation costs as a number of larger technology investments were implemented during the year.

The increase in other administration expenses of $4.4 million was mainly due to an increase in external consultancy and legal fees.

Bad and doubtful debt charges and loan impairment provisions	Full year ending				Six months ending			
	Jun 18	Jun 17	Change		Jun 18	Dec 17	Change	
Credit expense	$m	$m	$m	%	$m	$m	$m	%
Bad debts written off	3.6	15.2	(11.6)	(76.3)	1.8	1.8	-	-
Provision doubtful debts - expense	75.3	71.4	3.9	5.5	25.3	50.0	(24.7)	(49.4)
Less: Bad debts recovered	(8.3)	(14.8)	6.5	(43.9)	(2.8)	(5.5)	2.7	(49.1)
Credit expense	**70.6**	**71.8**	**(1.2)**	**(1.7)**	**24.3**	**46.3**	**(22.0)**	**(47.5)**

	As at Jun 18	As at Jun 17	Change		As at Jun 18	As at Dec 17	Change	
Provisions and reserves	$m	$m	$m	%	$m	$m	$m	%
Provision for doubtful debts - specific	119.3	89.5	29.8	33.3	119.3	113.2	6.1	5.4
Provision for doubtful debts - collective	48.2	52.7	(4.5)	(8.5)	48.2	52.7	(4.5)	(8.5)
General reserve for credit losses	140.3	140.3	-	-	140.3	140.3	-	-
Total provisions and reserve for doubtful debts	**307.8**	**282.5**	**25.3**	**9.0**	**307.8**	**306.2**	**1.6**	**0.5**

Ratios	%	%		bps	%	%		bps
Credit expenses to gross loans	0.11%	0.12%		(1)	0.08%	0.15%		(7)
Credit expenses (excluding Great Southern) to gross loans	0.10%	0.08%		2	0.07%	0.13%		(6)
Total provision/reserve for doubtful debts to gross loans	0.50%	0.46%		4	0.50%	0.51%		(1)
Collective provision and GRCL to risk-weighted assets	0.49%	0.51%		(2)	0.49%	0.51%		(2)

The provisions and reserve for bad and doubtful debts increased from $282.5 million to $307.8 million for the year. This movement mainly relates to a specific provision for a single commercial exposure that was raised in the first half. The $4.5 million decrease in the collective provision primarily relates to the $3 million reduction in the collective provision for the Great Southern portfolio.

The overall credit expense for the year was $70.6 million, $1.2 million lower than last year. The credit expense represents 11 basis points of the gross loan portfolio and is consistent with the average credit expense for the past four years.

The credit expense for the second half was 47.5 percent lower than the first half for the reason discussed earlier.

The credit expense for the Great Southern portfolio continues to decrease in line with the reduction in the loan portfolio. The collective provision for the portfolio was $13.5 million and, when combined with the specific provision balance of $9.9 million, represents 46.3 percent of all non-performing loans.

Analysis of financial position

Financial position metrics	Half year Jun 18	Half year Dec 17	Total FY18	Half year Jun 17	Half year Dec 16	Total FY16	Year on year change	
	$m	$m	$m	$m	$m	$m	$m	%
Ordinary equity	5,505.8	5,444.9	5,505.8	5,321.3	5,206.4	5,321.3	184.5	3.5
Retail deposits	50,614.5	50,308.9	50,614.5	50,743.1	50,579.9	50,743.1	(128.6)	(0.3)
Funds under management	5,833.2	5,630.3	5,833.2	5,322.5	4,979.7	5,322.5	510.7	9.6
Loans under management	62,926.9	61,614.8	62,926.9	61,924.1	60,975.7	61,924.1	1,002.8	1.6
New loan approvals	8,089.3	8,110.7	16,200.0	8,330.7	11,724.9	20,055.6	(3,855.6)	(19.2)
> Residential	5,437.7	5,881.2	11,318.9	5,419.3	8,710.5	14,129.8	(2,810.9)	(19.9)
> Non-residential	2,651.6	2,229.5	4,881.1	2,911.4	3,014.4	5,925.8	(1,044.7)	(17.6)
Total provisions and reserves for doubtful debts	307.8	306.2	**307.8**	282.5	303.3	**282.5**	25.3	9.0

Total gross loan growth of 1.4 percent for the year was below system, however this increased to 4.2 percent over the second half.

Residential lending growth in the second half reached 4.7%, with strong new lending flows through both the branch network and third-party mortgage business.

Competition for owner-occupied, principal and interest residential lending is extremely high, as the industry focussed on this sector for growth in response to the APRA-imposed limits on investor and interest-only lending.

Pleasingly, however, the business performed well in this market during the second half with settlements in the third-party mortgages business increasing for the third consecutive half and settlements from the retail business also increasing from where they were 12 months ago. We have also seen improvements in the volume of residential investment lending as we continued to refine our offering given the headroom we have under the prudential cap.

Business lending for the second half comprised a combination of strong seasonal growth in agribusiness lending offset by a decline in the commercial lending portfolio. During the year we reviewed our risk appetite in the commercial lending portfolio using the risk-return modelling that we have developed through our advanced accreditation project. This has seen us reposition the commercial lending portfolio by reducing our exposure to some segments within the commercial real estate sector.

This year we maintained retail deposit funding in excess of 80 percent of our total funding requirements. We have been able to manage our deposit growth in line with our funding requirements, as demonstrated by the deposit growth in the second half to support the lift in asset growth.

The capital position is also very strong. The ability to organically generate capital along with a reduction in credit risk weightings resulted in a 35 basis point increase to the Common Equity Tier 1 ratio. Total capital increased by 39 basis points over the year.

Loan portfolio	Full year ending Jun 18	Full year ending Jun 17	Change		Six months ending Jun 18	Six months ending Dec 17	Change	
	$m	$m	$m	%	$m	$m	$m	%
Approvals by security								
Residential	11,318.9	14,129.8	(2,810.9)	(19.9)	5,437.7	5,881.2	(443.5)	(7.5)
Non-residential	4,881.1	5,925.8	(1,044.7)	(17.6)	2,651.6	2,229.5	422.1	18.9
Total approvals	**16,200.0**	**20,055.6**	**(3,855.6)**	**(19.2)**	**8,089.3**	**8,110.7**	**(21.4)**	**(0.3)**
Gross loan balance - by purpose								
Residential	42,365.9	41,261.8	1,104.1	2.7	42,365.9	41,421.2	944.7	2.3
Consumer	2,559.8	2,571.4	(11.6)	(0.5)	2,559.8	2,451.4	108.4	4.4
Margin lending	1,694.7	1,726.1	(31.4)	(1.8)	1,694.7	1,684.0	10.7	0.6
Commercial	15,173.1	15,368.8	(195.7)	(1.3)	15,173.1	15,022.5	150.6	1.0
Total gross loan balance	**61,793.5**	**60,928.1**	**865.4**	**1.4**	**61,793.5**	**60,579.1**	**1,214.4**	**2.0**
Loans under management (gross balance)								
On-balance sheet	61,793.5	60,928.1	865.4	1.4	61,793.5	60,579.1	1,214.4	2.0
Off-balance sheet loans under management	1,133.4	996.0	137.4	13.8	1,133.4	1,035.7	97.7	9.4
Total Group loans under management	**62,926.9**	**61,924.1**	**1,002.8**	**1.6**	**62,926.9**	**61,614.8**	**1,312.1**	**2.1**

Total gross loans increased over the year by $865.4 million or 1.4 percent.

Housing loan growth in the second half was slightly under system and business lending growth was in line with system. This was driven by the strong seasonal growth in the agribusiness portfolio, growing 11.3 percent for the second half.

Residential loan approvals for the year amounted to $11.32 billion, representing a 19.9 percent decrease on the previous year which was helped by the acquisition of the Keystart portfolio in FY2017.

Non-residential loan approvals also reduced over the year partly reflecting the decision to reposition the commercial lending portfolio, discussed above.

The loan portfolio is very well secured. In total, 97.9 percent is secured by real estate mortgages or listed securities. The average loan to valuation ratio, based on the valuation at the date of origination, for the residential mortgage portfolio is 59 percent and 63 percent of the residential mortgage portfolio is secured by owner-occupied residences.

The proportion of the portfolio with an LVR greater than 80 percent is 23 percent.

Asset quality	As at Jun 18	As at Jun 17	Change		As at Jun 18	As at Dec 17	Change	
Impaired loans	$m	$m	$m	%	$m	$m	$m	%
Full performing	13.9	0.3	13.6	4,533.3	13.9	0.1	13.8	13,800.0
Part performing	56.6	33.5	23.1	69.0	56.6	33.3	23.3	70.0
Non-performing	261.3	201.6	59.7	29.6	261.3	250.9	10.4	4.1
Restructured loans	4.0	47.2	(43.2)	(91.5)	4.0	4.5	(0.5)	(11.1)
Total impaired assets	**335.8**	**282.6**	**53.2**	**18.8**	**335.8**	**288.8**	**47.0**	**16.3**
Less: specific impairment provisions	(118.3)	(88.5)	(29.8)	33.7	(118.3)	(112.5)	(5.8)	5.2
Net impaired assets	**217.5**	**194.1**	**23.4**	**12.1**	**217.5**	**176.3**	**41.2**	**23.4**
Portfolio facilities - past due 90 days, not well secured	4.8	5.8	(1.0)	(17.2)	5.8	3.6	2.2	61.1
Less specific impairment provisions	(1.0)	(1.0)	-	0.0	(1.0)	(0.7)	(0.3)	42.9
Net portfolio facilities	**3.8**	**4.8**	**(1.0)**	**(20.8)**	**4.8**	**2.9**	**1.9**	**65.5**
Past due 90 days								
Well secured (excluding commercial arrangement loans)	414.0	431.6	(17.6)	(4.1)	414.0	414.4	(0.4)	(0.1)
Great southern portfolio	50.5	79.0	(28.5)	(36.1)	50.5	62.7	(12.2)	(19.5)
Ratios	%	%	%		%	%	%	
Total impaired loans to gross loans	0.54%	0.46%	0.08%		0.54%	0.48%	0.06%	
Total impaired loans to total assets	0.47%	0.40%	0.07%		0.47%	0.41%	0.06%	
Net impaired loans to gross loans	0.35%	0.32%	0.03%		0.35%	0.29%	0.06%	
Provision coverage	91.7%	100.0%	(8.3%)		91.7%	106.0%	(14.3%)	

Total impaired assets increased by $53.2 million for the year, mostly due to a small number of commercial exposures in the business lending portfolio.

The loan provisioning and reserve coverage was sitting at 91.7 percent of total impaired assets as at year end.

Past due 90 day accounts decreased by $17.6 million which was mainly attributable to the business lending portfolio with arrears for the residential and consumer portfolios remaining relatively stable. On an absolute basis, our arrears as a percentage of the lending portfolio remain low and compare favourably with available industry data.

Consistent with the broader industry we experienced an elevation in the level of arrears within the Western Australian residential mortgage portfolio. The Bank's exposure to Western Australian real estate market represents less than 10% of our total residential mortgage portfolio.

The arrears for the agribusiness portfolio were slightly elevated when compared to the previous year. The business has completed customer analysis and stress testing to assess the likely impacts of the prevailing severe drought conditions, particularly in New South Wales. The analysis revealed that the percentage of impacted customers is relatively small and there is a reasonable level of resilience with the customer base given deposit holdings and undrawn loan capacity. The business has a proven track record of working with customers to help them manage through these difficult periods.

Great Southern past due 90 days has reduced to $50.5 million. This decrease is again in line with the overall run-off in the portfolio.

Deposits and managed funds	As at Jun 18	As at Jun 17	Change		As at Jun 18	As at Dec 17	Change	
	$m	$m	$m	%	$m	$m	$m	%
Deposits and funds under management								
Deposits	59,529.5	59,294.1	235.4	0.4	59,529.5	59,022.7	506.8	0.9
Securitisation	3,544.8	3,958.4	(413.6)	(10.4)	3,544.8	4,169.6	(624.8)	(15.0)
Managed funds	5,833.2	5,322.5	510.7	9.6	5,833.2	5,630.3	202.9	3.6
Total deposits and funds under management	**68,907.5**	**68,575.0**	**332.5**	**0.5**	**68,907.5**	**68,822.6**	**84.9**	**0.1**
Deposits dissection - $m								
Retail	50,614.5	50,743.1	(128.6)	(0.3)	50,614.5	50,308.9	305.6	0.6
Wholesale	8,915.0	8,551.0	364.0	4.3	8,915.0	8,713.8	201.2	2.3
Securitisation	3,544.8	3,958.4	(413.6)	(10.4)	3,544.8	4,169.6	(624.8)	(15.0)
Total deposits	**63,074.3**	**63,252.5**	**(178.2)**	**(0.3)**	**63,074.3**	**63,192.3**	**(118.0)**	**(0.2)**
Deposits dissection - %								
Retail	80.2%	80.2%			80.2%	79.6%		
Wholesale	14.1%	13.5%			14.1%	13.8%		
Securitisation	5.7%	6.3%			5.7%	6.6%		
Total deposits	**100.0%**	**100.0%**			**100.0%**	**100.0%**		
Managed funds dissection								
Assets under management	2,200.0	2,152.1	47.9	2.2	2,200.0	2,153.4	46.6	2.2
Other managed funds	3,633.2	3,170.4	462.8	14.6	3,633.2	3,476.9	156.3	4.5
Total managed funds	**5,833.2**	**5,322.5**	**510.7**	**9.6**	**5,833.2**	**5,630.3**	**202.9**	**3.6**

The retail deposit base decreased slightly year on year in line with the Bank's funding requirements. As at year-end the retail deposits comprised $24.58 billion of at-call deposits and $26.03 billion of term deposits. The proportion of at-call deposits to term deposits increased slightly over the year.

As at 30 June 2018, retail deposits, as a percentage of total funding, was 80.2 percent. Wholesale funding represented 14.1 percent and securitisation represented 5.7 percent of total funding at year end. Refer also to the Funding and Liquidity section of this report. The majority (88 percent) of wholesale funding is sourced from the domestic market.

Analysis of segment performance

	Operating segments			Total operating segments	Central functions	Total
	Local connection	Partner connection	Agri-business			
	$m	$m	$m	$m	$m	$m
Net interest income	823.9	317.6	163.7	1,305.2	-	1,305.2
Other income	172.4	144.8	8.8	326.0	12.3	338.3
Total segment income	**996.3**	**462.4**	**172.5**	**1,631.2**	**12.3**	**1,643.5**
Operating expenses	(639.3)	(210.5)	(76.1)	(925.9)	(12.5)	(938.4)
Credit expenses	(49.9)	(17.9)	(2.8)	(70.6)	-	(70.6)
Segment result (before tax)	**307.1**	**234.0**	**93.6**	**634.7**	**(0.2)**	**634.5**
Tax expense	(96.8)	(73.8)	(29.5)	(200.1)	0.1	(200.0)
Segment result (statutory basis)	**210.3**	**160.2**	**64.1**	**434.6**	**(0.1)**	**434.5**
Cash basis adjustments						
Specific income & expense items	1.2	(11.1)	3.5	(6.4)	(0.1)	(6.5)
Homesafe net realised income	-	11.3	-	11.3	-	11.3
Amortisation of intangibles	2.0	2.6	1.2	5.8	-	5.8
Segment result (cash basis)	**213.5**	**163.0**	**68.8**	**445.3**	**(0.2)**	**445.1**

Both Local Connection and Partner Connection improved their cash earnings contribution which was driven by strong improvement in the net interest margin. The major difference between the Local Connection and the Partner Connection results were the different credit expense outcomes. Local Connection recording additional provisions for some commercial exposures during the first half whereas the Partner Connection result benefited from a reduction in the credit expense mainly relating to the Great Southern portfolio.

Local Connection

The cash earnings contribution from our largest business segment, Local Connection, increased from $200.7 million to $213.5 million.

The improvement was mainly driven by an increase in net interest income of $57.5 million. This reflects the growth in residential loans of just over $900 million and active margin management. In an extremely competitive environment, the business continued its disciplined approach to pricing and leveraging the strength of the customer value proposition.

Other income decreased by $8.3 million, with lower ATM and transaction fee income being the main contributor.

The result included an increase in operating expenses of $13.5 million. This was mainly due to wage and salary increases totalling $8.3 million and higher allocated costs of $5.8 million.

The result was also impacted by a $16.9 million increase in credit expenses, which was mainly due to a provision on a single exposure in the commercial lending portfolio.

Partner Connection

The cash earnings contribution from the Partner Connection division increased from $133.8 million to $163.0 million.

The improvement was mainly due to a 21.8 percent increase in net interest income of $35.8 million. This was attributable to a stronger net interest margin as a result of repricing activity during the year. The result included an increase in operating expenses of $12.8 million which was mainly due to litigation costs and higher allocated costs.

Credit expenses decreased by $16.7 million. As mentioned earlier, the reduction in credit expenses in the Great Southern loan portfolio, which totalled $14.1 million, had the biggest impact on the division's improved credit performance.

The Wealth business increased its contribution for the year. The Bendigo Smart Start Super product grew strongly again this year and now represents in excess of $1.2 billion in funds under administration.

The Leveraged margin lending business maintained its contribution year on year in a market where demand is subdued. The business continues to be recognised for its market-leading customer service.

Agribusiness

The cash earnings contribution from our Agribusiness segment decreased marginally from $69.7 million to $68.8 million for the year. This was achieved in a market dominated by high levels of pricing competition. Lending activity was solid with the business achieving loan settlements ahead of the annual target, however competition for new lending was fierce.

The division's margin was impacted by the full year impact of the introduction of the new farm management deposit 100% offset product.

Capital adequacy

Prudential requirements

The Bank is regulated by APRA due to its status as an Authorised Deposit-taking Institution ("ADI"). APRA is the prudential regulator of the Australian financial services industry which includes ADIs. APRA's Prudential Standards aim to ensure that ADIs remain adequately capitalised to support the risks associated with their activities and to generally protect Australian depositors.

The Bank currently remains on the Standardised approach for calculating its regulatory capital requirements under Basel II but is undertaking a project to become accredited by APRA to use the Advanced Internal Ratings-based ("IRB") approach.

Earlier in the year APRA announced proposed changes to the risk weightings on assets for both standardised and advanced banks and we await APRA's release of the updated standards given the significant nature of the proposed changes.

APRA's risk-based capital adequacy guidelines are generally consistent with the Basel III standards 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 financial strength at two levels:

1. Level 1 includes the Bank and certain controlled entities that meet the APRA definition of extended licensed entities; and
2. 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.

In 2016, APRA released the non-capital components of the framework for the supervision of conglomerate groups (also known as Level 3) which came into effect on 1 July 2017. APRA has deferred the capital components of the Level 3 framework, with implementation of any new requirements expected no earlier than 2019. The supervision of conglomerate groups is unlikely to impact the Bank given its current group structure and operations.

Prudential capital classification

APRA measures regulatory capital using three regulatory measures, being Common Equity Tier 1 Capital, Tier 1 Capital and Total Capital.

Common Equity Tier 1 Capital comprises the highest quality components of capital that consist of paid-up share capital, retained profits and certain reserves, less the deduction of certain intangible assets, capitalised expenses and software, and investments and retained profits in insurance and funds management subsidiaries that are not consolidated for capital adequacy purposes and certain other adjustments.

Tier 1 Capital is comprised of Common Equity Tier 1 Capital and Additional Tier 1 Capital. Additional Tier 1 Capital comprises high quality components of capital that consists of certain securities not included in Common Equity Tier 1

Capital, but which include loss absorbing characteristics. An example of such securities is the Converting Preference Shares issued by the Bank.

Total Capital is comprised of Tier 1 Capital and Tier 2 Capital. Tier 2 Capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 Capital, but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses.

APRA's adoption of Basel III prudential capital standards

APRA's Basel III prudential capital standards require 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.

APRA also requires Australian banks to hold capital buffers above minimum capital requirements for Common Equity Tier 1 Capital. The capital buffers include a capital conservation buffer ("CCB") of 2.5%, unless APRA determines otherwise, and a higher loss absorbency requirement of 1% for Domestic Systemically Important Banks ("D-SIB"). The Bank is not designated as a D-SIB.

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. The capital buffers also include a countercyclical buffer, which must be calculated specific to each ADI and will depend on the jurisdictions in which an ADI operates. APRA determines the countercyclical buffer for the Australian jurisdiction, which from 1 January 2016 was set at 0%, although it may vary up to 2.5% depending on market conditions. As at 30 June 2018 the countercyclical buffer applicable to the Bank was 0%.

The BCBS also introduced a simple, non-risk based leverage ratio requirement which would act as a supplementary measure to risk-based capital requirements. From 1 July 2015, APRA has required ADIs that use the IRB approach to credit risk to disclose their leverage ratios (being the ratio of Tier 1 Capital to an exposure measure comprised of certain on and off-balance sheet exposures) on a quarterly basis. The Bank is not subject to these disclosure requirements.

Earlier in the year APRA released two discussion papers for consultation with authorised deposit-taking institutions (ADIs) on proposed revisions to the capital framework. The papers include proposed revisions to the capital framework resulting from the BCBS finalising the Basel III reforms in December 2017, as well as other changes to better align the framework to risks, including in relation to housing lending. APRA noted it is not seeking to increase capital requirements beyond the 'unquestionable strong' benchmarks announced last year, which are discussed below.

APRA expects to release draft revised prudential standards and IRB approaches to credit risk and operational risk later this calendar year. Other draft prudential standards incorporating the remaining Basel III revisions will be released for consultation in mid-2019. APRA has proposed an implementation date of 1 January 2021 for all revised measures.

The second discussion paper proposes to apply a differential minimum leverage ratio requirement for ADIs which use the standardised approach and those which use the internal ratings-based approach in determining capital adequacy. To recognise that measuring the leverage for IRB ADIs is inherently more difficult, APRA is proposing a minimum leverage ratio of 4 per cent for IRB ADIs and 3 per cent for standardised ADIs. APRA has proposed that the minimum leverage ratio requirement will be deferred until 1 July 2019.

Financial System Inquiry and APRA announcement of 'unquestionably strong' capital benchmarks

In 2013 the Australian Federal Government commissioned an inquiry into Australia's financial system ("FSI" and "Inquiry") and on 7 December 2014, the final report of the FSI was released. The report contained a number of recommendations on a wide range of issues including recommendations relating to increasing the capital levels for the Australian banking sector so that ADI capital ratios are 'unquestionably strong', raising internal ratings-based mortgage risk weights for housing loans and implementing a framework for minimum loss absorbing and recapitalisation capacity in line with evolving global practice.

From 1 July 2016, banks accredited to use the IRB approach were required to hold additional capital for their domestic residential mortgage portfolios. Standardised banks, including us, were already required to hold more capital against their residential mortgage portfolios.

In July 2017 APRA released an Information Paper outlining its assessment of the additional capital required for the Australian banking sector to have capital ratios that are considered 'unquestionably strong'. The Information Paper provides details of the quantum and timing of capital increases that will be required on average for Australian ADIs to achieve unquestionably strong capital ratios.

For the Bank, and other standardised ADIs, APRA has concluded that an increase in CET1 capital of approximately 50 basis points would be required to produce capital standards for standardised ADIs that are consistent with the concept of 'unquestionably strong'. APRA's expectation is for ADIs to meet these new capital benchmarks by no later than 1 January 2020.

With the Bank's Common Equity Tier 1 up 35 basis points to 8.62 percent between June 2017 and June 2018, the Bank is confident it will be able to meet the new 'unquestionably strong' requirements within the required timeframe.

APRA recently announced proposed changes to the risk weightings on assets although the proposals are not seeking to increase capital requirements beyond what was already announced in July 2017.

Capital management strategy

The last 12 months has seen very strong organic capital generation supported by strong profitability and moves to lower risk weighted exposures. We've also managed to maintain our Common Equity Tier 1 ratio during the second half following stronger asset growth and in the absence of any residential mortgage backed securities (RMBS) transactions.

The Bank maintains a conservative and prudent capital base that adequately supports our business, allows the business to grow as well as providing an effective and efficient capital buffer to protect depositors and investors.

Our capital management strategy also plans for changes in business conditions, including economic cycles, regulatory and legislative change and potential acquisition opportunities. The capital management strategy is designed to ensure that minimum capital standards are always met, and that management is afforded the greatest flexibility to pursue its business objectives.

The Bank maintained a strong capital position with the capital levels being above APRA minimum requirements at all times throughout the financial year. The Bank improved its capital position with the Common Equity Tier 1 ratio increasing over the year from 8.27 percent to 8.62 percent at 30 June 2018. The Tier 1 and Total Capital ratios were 10.96 percent and 12.85 percent respectively at year end.

Assets and capital	As at Jun 18	As at Jun 17	Change		As at Jun 18	As at Dec 17	Change	
	$m	$m	$m	%	$m	$m	$m	%
Group assets	71,439.8	71,415.5	24.3	-	71,439.8	71,261.9	177.9	0.2
Capital adequacy								
Total regulatory capital	4,916.0	4,743.4	172.6	3.6	4,916.0	4,891.7	24.3	0.5
Risk-weighted assets	38,256.4	38,062.3	194.1	0.5	38,256.4	37,689.6	566.8	1.5
	%	%	%	%	%	%	%	%
Risk-weighted capital adequacy	12.85%	12.46%	0.39%	3.1	12.85%	12.98%	(0.13%)	(1.0)
- Tier 1	10.96%	10.49%	0.47%	4.5	10.96%	10.98%	(0.02%)	(0.2)
- Tier 2	1.89%	1.97%	(0.08%)	(4.1)	1.89%	2.00%	(0.11%)	(5.5)
- Common Equity Tier 1	8.62%	8.27%	0.35%	4.2	8.62%	8.61%	0.01%	0.1
Risk - weighted assets	$m	$m	$m	%	$m	$m	$m	%
Credit risk	34,367.6	34,263.5	104.1	0.3	34,367.6	33,754.6	613.0	1.8
Market risk	212.4	231.8	(19.4)	(8.4)	212.4	293.6	(81.2)	(27.7)
Operational risk	3,676.4	3,567.0	109.4	3.1	3,676.4	3,641.4	35.0	1.0
Total risk-weighted assets	**38,256.4**	**38,062.3**	**194.1**	**0.5**	**38,256.4**	**37,689.6**	**566.8**	**1.5**

The following are the more significant capital initiatives undertaken during the year:

a. During the year we successfully completed an issuance of RMBS totalling $750 million under the Torrens Series securitisation program which provided both funding and capital benefits.

b. Shareholder participation in the dividend reinvestment plan and bonus share scheme for the year contributed an additional $73.2 million of capital.

c. The Bank successfully completed its Converting Preference Share 4 Offer (CPS4) which raised approximately $321.6 million of new capital. At the same time the Bank successfully completed the redemption of its Convertible Preference Shares (CPS). Pleasingly, a large portion of the CPS shareholders elected to continue their support by reinvesting in CPS4.

Funding and liquidity

Our principal source of funding is the retail deposit base. Management's target for retail funding remains at 75% to 80% of total funding. These deposits are traditional term and savings deposits and transaction accounts sourced predominantly through the retail network. Retail deposits provide a stable source of funding and the business is committed to maintaining a strong retail liability base.

The funding strategy is to maintain the existing high levels of retail funding on balance sheet. In addition, we have set the following funding objectives:

1. lengthening the duration of our liabilities;
2. continuing to diversify our funding opportunities across a range of markets; and
3. being an active participant in markets where funding opportunities exist, and pricing is appropriate.

Securitisation has also formed an important part of the Group's funding and capital management strategies and we will continue to monitor this market and participate where pricing and risk is appropriate.

Wholesale funding activities managed by Group Treasury support the core retail deposit funding strategy and provide additional diversification and benefits from longer term borrowings.

Group Treasury aims to maintain a stable and prudent maturity profile by regular benchmark issuances in markets that are sustainable and viably priced. Whilst the majority of our wholesale funding is sourced from the domestic financial markets, we recognise that at times additional diversity can be achieved by issuances in overseas markets and currencies.

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

Group Treasury is responsible for implementing liquidity risk management strategies in accordance with approved policies and adherence is monitored by the Asset and Liability Management Committee and the Board Risk Committee. This includes maintaining prudent levels of liquid reserves and a diverse range of funding options to meet daily, short-term and long-term liquidity requirements.

Liquidity scenarios are calculated under stressed and normal operating conditions to assist in anticipating cash flow needs and providing adequate reserves.

The Bank maintains a diverse portfolio of marketable securities that can be easily liquidated in the event of an unforeseen interruption of cash flow. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. Net liquid assets consist of cash, Australian Commonwealth government securities, State government securities, short term bank bills and certificates of deposit, and other securities that are highly rated, liquid and are repo-eligible as collateral with the Reserve Bank.

The Bank is subject to Prudential Standard APS 210 which sets out the regulatory requirements for prudent liquidity risk management. From 1 January 2015, APRA adopted the Basel III liquidity requirement of compliance with a liquidity coverage ratio ("LCR"). 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 a Committed Liquidity Facility ("CLF"), to ensure compliance with the LCR requirement. The Bank applies annually to APRA for use of the CLF and the amount applied for is likely to vary from year to year. The Bank is also required to maintain a Net Stable Funding Ratio ("NSFR"), which is designed to encourage longer-term funding resilience, of at least 100%, which came into effect on 1 January 2018.

The Group manages liquidity holdings in line with the Board approved funding strategy and funding plan, ensuring adequate levels of High Quality Liquid Assets (HQLA), other liquid assets and diversified sources of funding. The Group also has a significant amount of contingent liquidity in the form of internal securitisation whereby the collateral can be presented to the Reserve Bank of Australia (RBA) for cash in extraordinary circumstances such as systemic liquidity issues.

Our funding position continues to be a strength for the organisation. It provides flexibility to fund asset growth through our retail customer base as well as being able to access demand from wholesale markets to senior, unsecured or securitisation transactions.

As at 30 June 2018 our Liquidity Coverage Ratio (LCR) stood at 125.6 percent. The LCR was maintained within internal targets throughout the year and exceeded the minimum prudential requirement at all times. The NSFR was approximately 109 percent at year end which exceeds the 100 percent prudential requirement.

Credit ratings

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

	Short Term	Long Term	Outlook	Date last affirmed
Standard & Poor's	A-2	BBB+	Stable	December 2017
Moody's	P-2	A3	Stable	December 2017
Fitch Ratings	F2	A-	Stable	November 2017

On 21 December 2017 Standard & Poor's affirmed its long-term counterparty credit rating at 'BBB+' and affirmed the short-term rating at 'A-2', with a stable outlook. Standard and Poor's commented that the issuer credit ratings reflect the high degree of business stability, as shown by its upward-trending business growth in both lending and deposits. The ratings also reflect the strong capitalisation and very low credit losses, both of which benefit from the Bank's focus on relatively lower risk residential mortgage lending and a good geographic spread of loans throughout Australia.

On 4 December 2017, Moody's affirmed its long-term issuer rating at 'A3' and short-term rating at 'P-2', with a stable outlook. Moody's commented that the ratings reflect the well-developed franchise centred on community banking that supports its deposit gathering abilities. The Bank has conservative management that has historically focused on low-risk lending, which has contributed to greater asset quality stability over time.

On 1 November 2017, Fitch Ratings affirmed its long-term rating at 'A-' and the short-term rating of 'F2', and its support rating of '3' and the viability rating of 'A-'. The outlook remains stable. Fitch commented that the ratings reflect the Bank's conservative risk appetite, which supports its consistently strong asset quality, while maintaining solid profitability.

Looking forward

Australia's bank of choice

The operating environment is extremely competitive, and we expect this to continue. This means we need to maintain our focus on achieving our vision to be Australia's bank of choice. Our customer focus, high trust ratings and customer advocacy makes us well placed to generate sustainable returns for our stakeholders.

Our aim is to grow the number of customers that choose to bank with us as we look to focus on accelerating revenue growth. Our ability to respond has improved by driving simplicity and increasing productivity, along with our ability to get to market faster. But in achieving this aim we'll stay true to our values and purpose.

Investing in our people has never been more important. We have a responsibility to ensure they continue to upskill and evolve and build the capability and resilience needed to navigate the challenges of the financial services industry. Our employees drive our customers' success, and these investments will invariably underpin our organisation's success into the future.

Our strategy, combined with our passionate culture and innovative mindset, drives the highest trust and advocacy in the industry. We're Australia's most trusted bank and third most trusted brand according to the Roy Morgan Net Trust Index. We are consistently ranked top 2 for customer satisfaction and our customers are most likely to recommend us to others. For the third year running we were rated number one in the Forrester's Australian Customer Experience Index across all industries and our products are consistently recognised for good value, features and benefits.

The proposition for communities also remains strong. Our Community Bank® model is delivering tangible benefits for many communities and our business, returning more than $200 million in community contributions since inception, and about $17 million in the last financial year. The impact of this funding will support the sustainability of hundreds of Australian communities for the long-term.

Advanced accreditation

Achieving advanced accreditation is one of the most significant projects undertaken by the organisation. It has involved the development and implementation of new and contemporary risk management techniques and models, upgrades to our technology capability including business systems and platforms, policy improvements and staff training. Achieving advanced accreditation is about improving the way we do business.

This investment is now largely complete and in day-to-day use across our various business divisions and providing us with greater insights into our customers and the risks we manage. In particular, the investments have provided us with a stronger insight into the risks within our portfolios and how we price for that risk.

The progress towards Advanced Accreditation is continuing, however we await APRA's release of the updated credit risk capital proposals given the significant nature of the proposed changes. We are, however, satisfied with our progress towards Advanced Accreditation for both interest rate risk in the banking book and credit risk and we have met APRA's expectations for an entity with an advanced approach to risk and capital management for operational risk. Regardless, this investment has vastly improved our risk management capability and is an important step in ensuring we can operate on a level playing field with the major banks.

Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

In December 2017, the federal government established the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. The former High Court Judge, the Honourable Kenneth Hayne AC QC, was appointed as the Commissioner. The purpose of the Royal Commission is to inquire into the conduct of banks and other financial services institutions, and to assess the effectiveness of existing regulatory frameworks and mechanisms for customer redress.

Throughout 2018 the Royal Commission has been conducting rounds of public hearings, focusing on key elements of the financial services industry, including consumer lending, financial advice, lending to small and medium enterprises, superannuation, general and life insurance, and experiences with financial services entities in regional and remote communities.

A final report is due by 1 February 2019, with an interim report due by 30 September 2018. The Commissioner's report is expected to outline his findings and recommendations, which may form the basis for regulatory changes. More information on the Royal Commission is available at

https://financialservices.royalcommission.gov.au.

Risk Management Framework and significant business risks

The Board is responsible for the risk management strategy which includes establishing and overseeing the risk management framework and risk appetite within which the business is expected to operate. Information on our risk management framework and approach to managing risk is presented in the 2018 Corporate Governance Statement and Note 29 to the 2018 Annual Financial Report.

Business risks and uncertainties

The financial prospects of any company are sensitive to the underlying characteristics of its business and the nature and extent of the commercial risks to which the company is exposed. There are a number of risks faced by the Bank, including those which encompass a broad range of economic and commercial risks. However, the most common risks that the Bank actively manages are credit risk, liquidity risk, market risk (including interest rate and currency risk) and operational risk.

The Directors have adopted policies and procedures to control exposures to, and limit the extent of, these risks. In addition, the Bank has an independent internal audit function that oversees all functions across the Bank. Whilst there are inherent limitations in any risk management control system, including control breakdowns and system failures, the development and maintenance of effective control systems should provide a solid foundation for risk management. A summary of the more significant uncertainties and risks is presented below.

Dependence on prevailing macro-economic and financial market conditions

The business is highly dependent on the general state of the domestic economy and global 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 are based in and operate across a diverse range of domestic geographical locations. A significant environmental change or external event (such as a fire, storm, drought or flood) has the potential to disrupt business activities, impact on our operations, damage property and affect the value of assets held in affected locations and our ability to recover amounts owing to us. Through our agribusiness division we also have a large exposure to the domestic 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 are highly competitive and may become even more so. Factors that contribute to competition include mergers and acquisitions, changes in customer behaviour, entry of new participants, the development of new sales methods and regulatory change. Increasing competition could potentially lead to reduced business volumes and revenue, a compression in our net interest margins as well as additional costs to retain market share. The Group is also dependent on its ability to offer products and services that meet changing customer preferences.

A weakening in the Australian real estate market

Residential, commercial and rural 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 amount of credit losses from existing loans, as well as impact the valuation of the Homesafe portfolio.

Changes in monetary policy

The 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 can impact our net interest margin.

Changes in monetary policy can also affect the behaviour of borrowers and depositors, such as potentially increasing the risk that borrowers may fail to repay their loans, or repay their loans in advance, and in the case of depositors, potentially increasing the risk that they may seek returns in other asset classes.

Regulatory change

As a financial institution, we are subject to a range of laws, regulations, policies, standards and industry codes. In particular, our banking and wealth management activities are subject to extensive regulation including in relation to liquidity, capital, solvency, provisioning and licensing conditions. Changes to laws, regulations, codes or standards could affect the Bank in substantial and unpredictable ways including the need to significantly increase our investment in staff, systems and procedures to comply with the regulatory requirements.

Credit ratings

External 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 a 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 a level of capital by APRA and other key stakeholders to support our business operations and risk appetite. There can be no certainty that additional capital required in the future will be available or able to be raised on acceptable terms.

Business risks

There are a number of business risks that we manage including credit risk, market risk, liquidity risk and operational risk. To manage these risks we have established a framework of systems, policies, standards and procedures which are overseen by the Board Risk Committee and Board Credit Committee, with support from senior management committees and our independent risk management functions.

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.

Market risk

Market risk comprises Traded Market Risk and Non-Traded Market Risk (Interest Rate Risk in the Banking Book (IRRBB)).

IRRBB is the risk of loss in earnings or in the economic value in the banking book as a consequence of movements in interest rates. Non-traded market risk arises predominantly from the Group's general lending activities as well as balance sheet funding activities.

Traded Market Risk is defined as the risk of loss owing to changes in the general level of market prices or interest rates from trading positions in interest rates, equities, foreign exchange and commodities. It arises from positions held in the Trading Book which consists of securities held for both trading and liquidity purposes.

Liquidity risk

Liquidity risk is defined as 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. Liquidity Risk is inherent in all banking operations due to the timing mismatch between cash inflows and cash outflows.

Operational risk

Operational risk is defined as the risk of an adverse impact on our objectives or the 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.

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. The Bank also regularly examines new initiatives and market opportunities, including acquisitions and disposals, with a view to growing shareholder value.

Compliance risk

The Group's operations are highly regulated. A failure to comply with the laws, regulations, licence conditions, codes, principles and industry standards applicable to our operations could result in a range of actions against the Group including sanctions being imposed by regulatory authorities, the exercise of discretionary powers by regulatory authorities or compensatory action by affected persons.

Fraud risk

The Group is 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. We have established robust techniques and capabilities to detect and prevent fraud. All actual or alleged fraud is investigated under the authority of our financial crimes unit.

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

Most of our daily operations are highly dependent on information technology and there is a risk that these systems or technologies might fail or not be available. The exposure to systems risks includes the complete or partial failure of information technology or data centre infrastructure and using internal or third-party information technology systems that do not adequately support the requirements of the business.

Data and Information security risk

The risk of security breaches, external attacks and unauthorised access to our systems continues to increase with the growing sophistication of fraud and other criminal activities. We are conscious that threats to information security are continuously evolving due to the increasing use of the internet and other digital devices to communicate data and conduct financial transactions.

Vendor failure or non-performance risk

The Group sources 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.

Conduct risk

The business is exposed to risks relating to product flaws, processing errors and mis-selling. These risks can arise from product design or disclosure flaws or errors in transaction processing. It can also include mis-selling of products to our customers in a manner that is not aligned to the customer's risk appetite, needs or objectives.

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.

Partner risk

We have **Community Bank**® branches operating in all States and Territories, along with our Alliance Bank network. The branches are operated by companies that have entered into franchise and management agreements with the Bank to manage and operate a **Community Bank**® or Alliance Bank branch. We carefully assess and monitor the progress of the franchisees but there can be no guarantee of the success of a **Community Bank**® or Alliance Bank branch. Whilst this network continues to mature, there are still risks that may develop over time.

Additional risks associated with the organisations activities, which are assessed as part of the internal capital adequacy assessment process, include the following:

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, our own actions or the actions of a partner, and adversely affect perceptions about us held by the public including customers, shareholders, investors, regulators or rating agencies.

Contagion risk

The Group includes a number of subsidiaries that are trading entities and holders of Australian Financial Services Licences and/or Australian Credit Licences. Dealings and exposures between the Bank and its subsidiaries principally arise from the provision of administrative, corporate, distribution and general banking services. 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 and equity contributions.

Remuneration Report

Contents

This Remuneration Report is for the financial year ended 30 June 2018. 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 sets out our remuneration framework, the remuneration arrangements applicable to the Key Management Personnel (KMP), and the link between performance and remuneration outcomes for the year.

Section 1: **Overview of remuneration outcomes**

The Bank was pleased to announce a positive earnings result with the annual cash earnings increasing by 6.4 percent and the statutory profit improving by 0.9 percent on the previous year. The result was in line with targeted performance and reflected a continued focus on customer outcomes and a disciplined approach to net interest margin and expense management. In this context the below remuneration arrangements were approved for the year.

Remuneration component	Remuneration outcomes
Fixed base remuneration	Mike Hirst received an increase to his fixed base of 2.5 percent effective from November 2017. The fixed remuneration for other executives, excluding executives appointed during the year, increased on average by 2.1 percent effective from November 2017. The increases were in line with increases awarded to salaried staff across the Group.
Deferred base remuneration	Mike Hirst received a grant of deferred shares in accordance with the terms approved by shareholders at the 2016 AGM. Grants of deferred shares were also made to the other executives in accordance with their target remuneration mix. The vesting criteria for the deferred base pay grants made in 2016 were satisfied and the Board approved the vesting of the shares without adjustment. Details of the vested shares are provided at Section 4 of this report.
Short-term incentive (STI)	A bonus pool was established for the year. The size of the pool reflects the overall quality of the result, the progress made in respect to business objectives and the Group's risk profile. Mike Hirst received an STI award of $250,000 which represents 63 percent of the maximum opportunity. The other executives also received partial STI awards which, on average, represented 62.5 percent of the maximum opportunity. The awards to other executives were consistent with the relative size of the bonus pool and performance at a divisional and individual level. A third of any bonus to an individual that exceeds $100,000 is deferred for two years. Details of individual STI awards for the year are provided at Section 4 of this report.

Remuneration component	Remuneration outcomes
Long-term incentive (LTI)	Mike Hirst received a grant of performance rights in December 2017 in accordance with the terms approved by shareholders at the 2016 AGM. The grant is subject to a four year performance period. Performance right grants were made to other executives in accordance with their remuneration mix. The grants are subject to a three year performance period and the share allocations are determined using a market value. The TSR performance measure for performance rights granted to other executives in 2014 was not satisfied and as a result all the rights lapsed. The results of performance right testing are provided at Section 4 of this report. The Board has initiated a review of the LTI plan. Information on the review is presented at Section 3.
Non-executive director fees	The annual fee payment for non-executive directors was increased by 2.5 percent for the 2018 year. The aggregate non-executive director fees paid for the year was $1,951,310 which represents 78 percent of the $2.5 million fee cap approved by shareholders. No additional fees were paid to the non-executive directors for their committee memberships. The annual base fee has been increased by 2.0 percent for the 2019 financial year.

Section 2: **Key Management Personnel**

KMPs are the persons with authority and responsibility for planning, directing and controlling the activities of the Group. The KMP for the financial year comprise the Directors and Executives listed below.

On 26 March 2018 the Board announced the appointment of Marnie Baker as Managing Director commencing 2 July 2018. Mike Hirst retired from the role of Managing Director on 1 July 2018. The new Managing Director's remuneration arrangements are presented at Section 5.

Name	Position	Term as KMP
Non-executive directors		
Robert Johanson	Chairman	Full Year
Jan Harris	Non-executive Director	Full Year
Jim Hazel	Non-executive Director	Full Year
Jacqueline Hey	Non-executive Director	Full Year
Robert Hubbard	Non-executive Director	Full Year
David Matthews	Non-executive Director	Full Year
Deb Radford	Non-executive Director	Full Year
Tony Robinson	Non-executive Director	Full Year
Executives		
Mike Hirst	Managing Director & Chief Executive Officer	Full Year
Marnie Baker	Chief Customer Officer (CCO)	Full Year
Taso Corolis[1]	Chief Risk Officer (CRO)	Part Year
Richard Fennell	Corporate and Chief Financial Officer (CFO)	Full Year
Alexandra Gartmann	Chief Executive Officer, Rural Bank	Full Year
Robert Musgrove	Engagement Innovation	Full Year
Tim Piper[2]	Chief Risk Officer (CRO)	Part Year
Bruce Speirs	Partner Connection	Full Year
Stella Thredgold	Business Enablement	Full Year
Andrew Twaits[1]	Chief Engagement Officer	Part Year
Alexandra Tullio[2]	Local Connection	Part Year
Andrew Watts	Customer Service Improvement	Part Year

[1] Taso Corolis and Andrew Twaits commenced as KMP on 31 January 2018.

[2] Tim Piper and Alexandra Tullio ceased as KMP on 31 January 2018.

[3] Andrew Watts ceased as a KMP on 6 December 2017.

Section 3: **Remuneration framework**

3.1 Remuneration principles

The remuneration framework is designed to support the achievement of our financial and business objectives and ensure remuneration outcomes are aligned with sustainable financial performance, growth in shareholder value and the interests of other stakeholders.

The framework is documented in our remuneration policy which was reviewed during the year. The changes included extending the bonus pool risk adjustment measures and amending the threshold for deferral of one third of STI awards from $50,000 to $100,000. The remaining changes are considered to be not material.

Our remuneration framework is based on the following principles:

- **Simplicity** – The link between performance, value created and reward should be clear and the framework easy for all employees to understand so that it effectively attracts, retains and motivates the talent the organisation needs to deliver long term sustainable success;
- **Transparency and procedural fairness** – The Bank commits to providing employees with visibility wherever possible of the considerations made in making reward decisions and fairly undertaking all performance and reward processes to support the objective of fair remuneration, including gender pay equity;
- **Alignment with values** – Remuneration should reinforce the corporate values of teamwork, integrity, performance, engagement, leadership and passion. Individual reward outcomes are first dependent on the success of the Bank, division and team;
- **Appropriate risk behaviour** – Remuneration should encourage innovation and risk-taking that supports the achievement of superior long-term results for shareholders and customers within the parameters of the Bank's risk management framework; and
- **Supports good customer outcomes** – Reward structures and practices will be designed to minimise the risk of incentivising behaviours that may lead to poor customer outcomes.

3.2 Remuneration components, approach and mix

The Executive remuneration arrangements are summarised below:

Total Reward Framework			
Fixed	**Variable**		
Base Remuneration		**Short Term Incentive** (STI)	**Long Term Incentive** (LTI)
Fixed Base - Cash	Deferred Base - Equity	Cash & Equity	Equity
• Comprise base salary and superannuation contributions. • Together with deferred base, is set by reference to the size and complexity of role and individual responsibilities. • Amount is determined in the context of the external market including comparable roles in the banking sector and companies of a similar size and complexity, and the performance outlook. • Recognises an individual's experience, skills, competencies and value.	• Annual grants of deferred shares. • Deferred shares (fully paid ordinary shares) issued at no cost and beneficially owned by the executives from grant date. • Executives do not receive cash if they decide not to accept the grant offer, unless the Board decides otherwise. • Grants are subject to continued employment ("service condition") over the deferral period. • Subject to risk adjustment at Board discretion. • Shares are held on trust for the deferral period.	• Cash, or a combination of cash and deferred equity. • The maximum STI opportunity is set for individual executives at the start of the year. • The maximum STI opportunity is a fixed dollar amount. • STI awards are capped at 100% of target with no opportunity to increase the payments for 'above target' performance. • Awards are subject to Group and individual performance and passing risk, compliance and values gateways. • If award exceeds $100,000, one third is deferred into equity (deferred shares), issued on substantially the same terms as deferred base remuneration.	• Annual grants of Performance rights. Each right represents an entitlement to one ordinary share in the Bank. • Rights are granted at no cost and have no exercise price. • Vesting is subject to Cash EPS, Customer Advocacy and TSR performance measures, and service condition. • Performance measures are tested over four years for Managing Director and three years for other Executives. • Vesting is also subject to continued employment and risk adjustment. There is no retesting.

The total target reward for executives is set by the Board at the start of each year. The arrangements are reviewed by the Governance & HR Committee to ensure the mix and total target reward continues to be fair and balancing the interests of stakeholders.

The mix includes three equity components designed to build executives' personal exposure to the Bank's share price performance, with a link to risk management outcomes. The STI component links a modest percentage of remuneration to annual performance and is typically set substantially below industry relativities. This reflects our long-held view that remuneration which is highly leveraged towards short-term performance can create a disconnect between executive reward and longer-term shareholder interests, customer outcomes and broader community and regulatory expectations.

Accordingly, Mike Hirst's remuneration mix included a sizeable deferred equity component that is subject to risk adjustment at the discretion of the Board. The mix includes a relatively small proportion of variable remuneration linked to annual performance and a larger proportion linked to longer term performance and shareholder outcomes. This structure recognises the unique role of the Managing Director in driving the strategic direction and delivering longer-term and sustainable improvement in shareholder value. A similar remuneration mix applies to the new Managing Director and is summarised at Section 5.

In relation to other Executives, excluding the Chief Risk Officer (CRO), the mix is evenly split between fixed base and variable remuneration linked to risk outcomes. The mix represents a moderate, but still meaningful, percentage of equity-based remuneration linked to shareholder interests. In addition, the maximum STI opportunity is limited to 20 percent of the total mix.

The mix for the CRO includes a larger fixed base and lower STI component when compared to the other executives. This recognises the independence and critical nature of the role.

The below table sets out the target remuneration mix, and split between cash and equity, for each executive. The actual remuneration mix will vary depending on performance outcomes. The percentages also represent the maximum opportunity for each component.

KMP	Position	Fixed base	Deferred Base	Cash STI	Deferred STI	LTI	Awarded as Cash	Awarded as Equity
M Hirst	Managing Director	40%	25%	7%	3%	25%	47%	53%
M Baker	Chief Customer Officer	50%	10%	12%	8%	20%	62%	38%
T Corolis	Chief Risk Officer	60%	10%	7%	3%	20%	67%	33%
R Fennell	Chief Financial Officer	50%	10%	12%	8%	20%	62%	38%
A Gartmann	CEO Rural Bank	50%	10%	12%	8%	20%	62%	38%
R Musgrove	Engagement Innovation	50%	10%	12%	8%	20%	62%	38%
B Speirs	Partner Connection	50%	10%	12%	8%	20%	62%	38%
S Thredgold	Business Enablement	50%	10%	12%	8%	20%	62%	38%
A Twaits	Chief Engagement Officer	50%	10%	12%	8%	20%	62%	38%

[1] The remuneration details for Mr Twaits presented at Section 4 vary to above. As Mr Twaits started midway through the year it was agreed that he would remain on the previous base salary arrangement until 1 July 2018.

Remuneration settings FY2018

The total base remuneration (i.e. fixed and deferred base) for Executives continues to sit at around the market median and includes a component directly linked to shareholder interests and the organisation's risk profile. The portion of incentive-based pay (STI and LTI) is conservative and markedly below other listed companies in Australia, especially in the banking sector.

Mike Hirst's remuneration was positioned slightly below the median of ASX 51 to 100 companies in respect to fixed base remuneration but slightly above in respect to aggregate reward. Mike's STI component was again set at $400,000 and has remained unchanged since 2012. He received 76,219 deferred shares and 76,219 performance rights on 12 December 2017. Each grant had a face value of $844,507 based on the Bank's closing share price on 1 July 2017. Mike's annual equity grants have remained unchanged since his appointment in 2009, being annual grants of 76,219 deferred shares and 76,219 rights.

Most of the other executives received modest increases to their fixed base remuneration and a number of executives also received small increases to their deferred base remuneration. There were no increases to the STI and LTI components for the individuals holding other executive roles at the start of the year. The remuneration arrangements for Taso Corolis and Andrew Twaits were set by the Board following their appointments on 31 January 2018. The mix and settings are consistent with the pay arrangements for the other executives.

For many years the increases in executive aggregate reward have been broadly in line with general increases across the Group. Since 2012 the annual cost of executive remuneration, based on statutory disclosures, has increased on average by 2.6 percent per annum.

3.3 Remuneration components, terms and policies

Base remuneration

Base remuneration comprises the fixed base and deferred base components.

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

Deferred base is represented by annual grants of deferred shares that are held on trust for a two-year deferral period. Deferred shares are fully paid ordinary shares granted at no cost and are beneficially owned by the recipient from grant date. The grants are subject to a two-year service condition and risk adjustment at the discretion of the Board. If the service condition is not met the deferred shares will not vest and are forfeited, unless the Board decides otherwise.

The remuneration value of deferred share grants is determined by the individual's targeted remuneration mix. The number of deferred shares allocated to KMP is calculated by dividing the face 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 the year of grant.

Short term incentive (STI)

The annual incentive component is designed to provide an appropriate level of reward for the achievement of annual financial targets and business objectives and is set based on the executive's responsibilities and target remuneration mix.

The performance measures for the Managing Director's STI component are set by the Board on recommendation from the Governance & HR Committee and focus on the achievement of the targeted annual financial performance and a range of medium term targets and risk management outcomes. The performance measures for other executives are set by the Managing Director on a similar basis as well as the individual's responsibilities and expected contribution at a divisional and individual level.

The establishment of an annual bonus pool is dependent upon the organisation achieving a minimum annual result which is approved by the Board at the start of the year. If the minimum level of cash earnings is not achieved, a bonus pool will not be established and no STI awards will be made.

The bonus pool will increase with cash earnings performance above the threshold performance level, subject to the achievement of key financial and risk adjustment measures and is capped at 110 percent of the cash earnings target. The Board also applies a discretionary overlay to take into account the underlying quality of the result and shareholder outcomes.

The Board decides the bonus pool after financial year-end, on recommendation from the Governance & HR Committee. If the pool is less than the maximum potential pool, the maximum STI opportunity for each executive is proportionately adjusted downwards. This reflects the executive committee's collective responsibility for the annual financial performance.

The Governance & HR Committee assesses the Managing Director's performance after financial year-end and applies any upward or downward adjustment based on the achievement of the measures to determine the STI award for recommendation to the Board. This approach was chosen to enable unforeseen developments to be factored into the assessment and ensure any necessary risk and compliance adjustments occur at the Board's discretion.

The Managing Director assesses the performance of the other executives shortly after financial year-end based on the achievement of the individual's financial and non-financial measures. The Managing Director then applies any upward or downward adjustment to determine the proposed STI awards for recommendation to the Governance & HR Committee and Board.

The Governance & HR Committee and Board then reviews the Managing Director's recommendations based on the observed performance and contribution for the other executives and makes any appropriate adjustment to ensure the awards reflect performance at an organisational, divisional and individual level. The Board considers the Managing Director is best placed to assess the individual performance and overall contribution of the other executives.

STI deferral

Starting from 2018 financial year, if an STI award exceeds $100,000 one third of the award is deferred into equity as grants of deferred shares. The deferred shares are typically acquired on-market and held by the Plan Trustee for a two-year deferral period commencing from the end of the financial year for which the STI was granted. They are also subject to a two-year service condition and risk adjustment. For previous financial years the deferral threshold was set at $50,000.

If the service condition is not met the deferred shares do not vest and are forfeited, unless the Board decides otherwise. The number of deferred shares is calculated by dividing the face value of the deferred STI component by the volume weighted average closing price of the Bank's shares for the five trading days prior to the grant date.

Long term incentive (LTI)

At the Board's discretion, executives may be invited to participate in annual grants of performance rights. The rights are granted at no cost, have no exercise price and each right represents an entitlement to one ordinary share.

The remuneration value of the grants is determined by the individual's targeted remuneration mix and the number of rights granted is determined by dividing the face value of the LTI 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 made during the year used a three 'sleeve' approach. An overview of the grant design is presented below:

	First Sleeve	Second Sleeve	Third Sleeve	Service Condition
Allocation and Measures (all grants)	30% of performance rights granted Subject to a 'Customer Hurdle'	35% of performance rights granted Subject to EPS and TSR measures	35% of performance rights granted Subject to TSR measure	
Performance period: Mike Hirst [1]	Customer Hurdle performance period: 1.7.17 to 30.6.21	EPS performance period: 1.7.17 to 30.6.18 TSR performance period: 1.7.17 to 30.6.21	TSR performance period: 1.7.17 to 30.6.21	1.7.17 to 30.6.21
Performance period: Other Executives	Customer Hurdle performance period: 1.7.17 to 30.6.20	EPS performance period: 1.7.17 to 30.6.18 TSR performance period: 1.7.17 to 30.6.20	TSR performance period: 1.7.17 to 30.6.20	1.7.17 to 30.6.20

[1] The performance period for the grant is four years. If Mike Hirst's employment with the Bank ends prior to July 2019, the Board may exercise a discretion to shorten the Customer Hurdle performance period, the TSR performance period and the service condition to a period of three years.

First sleeve - customer hurdle

To satisfy the Customer Hurdle, the Bank's net promotor score (NPS) over the performance period (measured using a six-month rolling average) must be 20 percent greater than the median performance of a peer group of Australian banks. If the Customer Hurdle is met, all the rights under this sleeve will vest. If the Customer Hurdle is not met, the rights will not vest and lapse.

NPS was chosen as it represents a global industry standard used to measure customer advocacy. The NPS hurdle is directly linked to good customer outcomes and is a consistent response to public concern about conduct and culture concerns in the Australian banking sector.

Second sleeve - EPS and TSR hurdle

For the rights to vest the Bank's cash EPS performance for the EPS performance period must be equal to or better than the cash EPS performance for the financial year before the EPS performance period. If the EPS performance measure is not met, the rights will not vest and lapse. If the EPS performance measure is met, the performance rights will vest subject to the Bank's TSR performance in accordance with the below vesting schedule.

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 comparator group was chosen, in the absence of a sufficient number of comparable institutions, as it is frequently used in the market and requires the Bank to outperform the majority of companies in the peer group before the individuals receive any value from the grants.

The EPS hurdle was chosen because it provides a direct link between executive reward and shareholder interests and is an important and well understood measure of financial performance. The TSR measure was chosen as it is aligned with shareholder interests and represents a widely used and understood means of measuring performance linked to shareholder value. The TSR measure is independently calculated.

Third sleeve- TSR hurdle

The performance rights will vest subject to the Bank's TSR performance in accordance with the below vesting schedule.

Vesting schedule

The following vesting schedule applies to the TSR testing for both the second sleeve and the third sleeve.

TSR performance against peer Group	Percentage of performance rights that vest
At or below the 50%	0%
At 50.1%	60%
Between the 50.1% and 75%	Straight-line vesting: • starting at 60%; and • reaching 100% at the 75th percentile.
Above the 75th percentile	100%

Prior year grants

Grants of rights were made to executives (excluding Mike Hirst) for the 2014, 2015 and 2016 financial years on different terms to the grants made in the 2017 and 2018 financial years. The main distinction between the terms of these grants are as follows.

The legacy grants have a four-year performance period consisting of a twelve-month initial performance period for cash EPS testing followed by a three-year performance period for relative TSR testing. The grants are also subject to a four-year continued service condition.

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

a. EPS hurdle: The grant is reduced by 50 percent 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. There is no retesting and any rights that do not vest will lapse.

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%

Common equity grant terms

All deferred share and performance right grants are made in accordance with the rules of the Bank's Employee Salary Sacrifice, Deferred Share and Performance Right Plan ("Plan").

Deferred shares are beneficially owned by the executive from grant date and the executive is entitled to vote, receive notices issued to ordinary shareholders and receive dividends during the deferral period. The recipients are not entitled to deal in the deferred shares until they vest and the Board may treat deferred shares as forfeited before vesting.

Performance rights do not carry any dividend or other shareholder rights such as voting. The executives are prohibited from dealing in the performance rights until they have been advised that the performance rights have vested.

If an executive ends their employment or their employment ends because of an act which constitutes serious misconduct, the deferred shares or performance rights will be forfeited on the executive's last day of employment unless, in the case of resignation, exceptional circumstances apply, and the Board decides to vest some or all the shares or rights.

If an executive's employment ends because of death, disability, redundancy, or any other reason approved by the Board, the deferred shares or 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 shares or rights are forfeited, which would occur on the last day of employment.

The Board has discretion under the Plan rules to vest all or a specified number of deferred shares or performance rights if there is a takeover, compromise, scheme of arrangement or merger. Matters the Board may take into account include the Group's pro-rata performance against the performance conditions and the individual's performance.

Under the rules of the Plan the Board has discretion to satisfy deferred share grants and vested performance right grants by either issuing new shares or acquiring shares on-market. The shares are typically acquired on-market.

Review of LTI plan

The Board has initiated a review of the LTI plan to ensure the plan design remains contemporary and acts as an effective incentive for executives. More specifically, the grants are designed to reward executives for delivering shareholder returns which are in line with, of ahead of, broader market performance over the longer term.

The first grant of rights under the Employee Salary Sacrifice, Deferred Share and Performance Right Plan was made to executives in the 2013 financial year. There have been a number of grants under the plan which have completed their performance period, and in each case the TSR performance measure was not met and the rights lapsed.

The number of rights that vest is largely determined by the Bank's TSR performance relative to the TSR performance of other ASX 100 companies (excluding property trusts and resources stocks). The Bank adopted a peer group of other ASX 100 companies given the limited number of comparable institutions.

An internal review of the Bank's TSR performance over previous periods confirmed that the Bank has generally out-performed the ASX 100 Accumulation Index (which is a weighted index) and Australian banks. The review highlights the arbitrary nature of the measure.

TSR represents a relative outcome that can be impacted by factors outside the control of management including the choice of 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 outcomes of the review, including any changes to the design of the LTI plan, will be disclosed in next year's Remuneration Report.

Risk adjustment

The Board may adjust the number of deferred shares and performance rights that vest to take into account any unforeseen 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, risk profile and any other matter that might impact the reputation or financial soundness of the Group.

Hedging and margin loan restrictions

The remuneration policy mandates that executives, and 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.

The restriction is contained in the Remuneration Policy. The Bank treats compliance with the requirement as important and at the end of each year requires the individuals to confirm they have complied with the restriction. If the restriction is breached the individual will forfeit all equity-based remuneration that is subject to the prohibition at the time of the breach.

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

Section 4: **Linking remuneration to performance**

4.1 Overview of company performance

The following table provides an overview of the key performance indicators for the past five years.

Company performance measure	Financial year ending				
	2018	2017	2016	2015	2014
Statutory net profit after tax ($m)	434.5	429.6	415.6	423.9	372.3
Statutory earnings per share (cents)	89.9	90.9	90.4	92.5	87.7
Cash earnings ($m)	445.1	418.3	401.4	402.8	359.5
Cash earnings per share (cents)	92.1	88.5	87.3	88.6	86.0
Dividends paid and payable (cents per share)	70.0	68.0	68.0	66.0	64.0
Share price at start of financial year	$11.08	$9.60	$12.26	$12.20	$10.07
Share price at end of financial year	$10.84	$11.08	$9.60	$12.26	$12.20
Total shareholder return	**4.2%**	**22.5%**	**(16.2%)**	**5.9%**	**28%**
Relative TSR Performance (percentile)[1]	**41st**	**41st**	**28th**	[2]	**69th**
Average STI received as a % of maximum opportunity	63%	54.4%	0%	33.7%	61%
Percentage of executive LTI which vested	0%	0%	0%	0%	65% [3]

[1] The relative TSR performance (percentile) is included in line with the TSR performance hurdle period for the grant tested in that year.
[2] The measure was not obtained as no performance right grants were due to be tested.
[3] The vesting percentage relates to the testing of Mike Hirst's performance right grant made on 11 December 2009. No other grants were due to be tested.

4.2 Remuneration outcomes

STI outcomes - Bonus pool allocation

Following are the bonus pool measures and outcomes for the financial year. The Board determined that the criteria to establish a performance bonus pool had been met and a bonus pool representing 62.5 percent of the maximum capped amount was established.

Primary Measure	Performance Outcomes
Achieve 95% of target cash earnings (threshold hurdle)	The cash earnings threshold was achieved.

Secondary Measures	Risk and Performance Outcomes
Cash earnings per share	The Group outperformed the cash earnings per share target.
Return on Equity (cash basis)	The ROE exceeded targeted performance.
Return on Tangible Equity (cash basis)	The ROTE exceeded the targeted performance.
Common Equity Tier 1 Equity	The CET1 ratio was above targeted performance.
Cost to Income Ratio	The cost to income ratio was ahead of the targeted performance.
Liquidity Coverage Ratio (LCR)	The LCR was maintained within approved internal and regulatory limits for the year.
Risk Weight Assets / Total Assets	The risk weighted asset measure was achieved.
Risk Adjusted Return on Capital (RAROC)	The RAROC exceeded the targeted performance.

Mike Hirst's STI award

Following are the performance measures for Mike Hirst's STI component and the level of achievement as assessed by the Board.

Criteria	Measure	Assessment
1. Medium term targets	Significant progress is made towards achieving the following medium-term targets: a. Improved and sustainable shareholder value; b. Improved customer satisfaction, advocacy rankings and growth in the customer base; c. Improved economic performance including balance sheet and earnings growth; d. Improved performance of the partner network including community, Alliance Bank and partner satisfaction rankings; and e. Maintained strong employee advocacy, improved organisational effectiveness, increase in teams operating in an agile manner and progress towards diversity and inclusion objectives.	Targets met
2. Strategic focus areas	Significant progress is made towards the Bank's key strategic focus areas: a. Strengthening and asserting the distinctiveness of the Bank and its objective to be the most customer connected bank; b. Improving the competitiveness of the Bank by using and promoting the new risk management systems, progressing towards Advanced Accreditation and pursuing other initiatives with regulators and markets; c. Successfully delivering and maturing growth opportunities, including the Digital Bank, University model, Alliance Bank and the NDIS platform; d. Identifying and incubating other customer and balance sheet growth opportunities; e. Transitioning the Bank towards an agile way of working to ensure critical change is effectively and efficiently delivered; and f. Identifying and developing talented people in the Bank and facilitating succession at all levels.	Material progress was made towards the key initiatives
3. Risk and compliance	a. The level of risk associated with the Group's performance is within the Board approved risk appetite; and b. An effective risk culture is promoted and there is evidence of enhanced risk practice across the organisation.	Within appetite An effective risk culture was maintained
4. Public representation	The Group continues to be represented effectively to government (state and federal) and in industry and public forums.	Target met

The Board awarded an STI payment of $250,000 which corresponds with the proportion of the maximum bonus pool. The Board assessed that the Mike Hirst had achieved his performance goals and decided not to make any further adjustment to the STI award.

Other executive STI awards

The STI components for the other executives were subject to the achievement of the following financial and non-financial performance objectives:

a. Group financial and strategic performance goals including achievement of targeted statutory and cash earnings performance;
b. Business unit/divisional performance; and
c. Individual performance, including alignment with the Group's corporate values and code of conduct.

Risk and compliance requirements represent a gateway for the STI payments. If the individual, team or Group does not meet or only partially meets risk and compliance requirements or the individual does not demonstrate behaviour in-line with the corporate values, no award or a reduced award will be made.

Mike Hirst assessed the performance of the other executives against their goals set at the start of the year and determined the proposed individual STI awards for consideration by the Governance and HR Committee and Board. There were no adjustments to individual STI awards for the risk, compliance and values gateway.

The following short-term incentives were awarded for FY2018.

Executive	STI maximum opportunity[1]	STI payment		STI payment as % of STI maximum opportunity	% of STI Award forfeited
		Paid as cash	Deferred [2]		
M Hirst	$400,000	$166,667	$83,333	63%	37%
M Baker	$225,000	$93,750	$46,875	63%	37%
T Corolis	$100,000	$62,500	-	63%	37%
R Fennell	$250,000	$104,167	$52,083	63%	37%
A Gartmann	$100,000	$80,000	-	80%	20%
R Musgrove	$100,000	$50,000	-	50%	50%
T Piper	$100,000	-	-	0%	100%
B Speirs	$135,000	$84,375	-	63%	37%
S Thredgold	$200,000	$73,333	$36,667	55%	45%
A Tullio	$100,000	-	-	0%	100%
A Twaits	$100,000	$62,500	-	63%	37%
A Watts	$180,000	-	-	0%	100%

[1] The STI is subject to a financial gateway and the achievement of financial and non-financial measures. Accordingly, the minimum potential STI award is nil.
[2] One-third of STI awards that exceed the $100,000 threshold set by the Board are subject to deferral for two years into shares in the Bank. The allocation of deferred shares for the deferred STI components is expected to be completed before the end of 2018.

Deferred base outcomes

The deferred base pay grant made on 16 December 2016 was scheduled to be tested and having regard to the financial soundness and risk profile of the organisation, it was decided by the Board to vest the deferred shares. The number of deferred shares granted to each executive are presented in the table headed ‘Executive equity instrument grants’ at Section 9.

LTI outcomes

The following table summarises the current LTI performance right grants and testing outcomes for the year.

Grant	Grant Date	NPS Test Date	EPS Test Date	EPS Test Met	TSR Test Date	TSR Test Met	NPS Test Met	Vested for 2018	Lapsed for 2018	Remaining
2015 LTI Senior Executives	10.12.14	n/a	30.06.15	Met	30.06.18	Not met	n/a	0%	100%	0%
2016 LTI Senior Executives	17.12.15	n/a	30.06.16	Met	30.06.19	Not yet tested	n/a	0%	0%	100%
2017 LTI Senior Executives	16.12.16	30.06.19	30.06.17	Met	30.06.19	Not yet tested	Not yet tested	0%	0%	100%
2018 LTI Senior Executives	12.12.17	30.06.20	30.06.18	Met	30.06.20	Not yet tested	Not yet tested	0%	0%	100%
2017 LTI Managing Director	16.12.16	30.06.20	30.06.17	Met	30.06.20	Not yet tested	Not yet tested	0%	0%	100%
2018 LTI Managing Director	12.12.17	30.06.21	30.06.18	Met	30.06.21	Not yet tested	Not yet tested	0%	0%	100%

As shown above, the LTI grant made to other executives in 2015 reached the end of the four-year performance period and was tested against the TSR performance measure. The relative TSR performance was rated below the median of the peer group, and as the measure was not met the performance rights did not vest.

In relation to the 2018 LTI grants, the EPS performance hurdle relating to the second sleeve was tested and was met. Accordingly, 100 percent of the performance rights have been carried forward for testing over the TSR performance period.

Executive remuneration paid and vested (unaudited)

The following table is a voluntary non-statutory summary of the actual remuneration paid or which vested to the executives for the 2018 and 2017 financial years. The information differs to the statutory remuneration disclosures presented at Section 9 which has been prepared in accordance with Australian Accounting Standards.

The disclosures include prior year equity grants that vested to individual executives. The value for the vested grants has been calculated by multiplying the number of equity instruments by the closing share price at the end of the deferral or performance period.

Name		Fixed Base[1]	Prior years' deferred base vested[2]	Cash STI[3]	Prior years' deferred STI vested[4]	Prior years' deferred LTI vested[5]	Total remuneration realised
M Hirst	2018	$1,483,439	$826,214	$166,667	-	-	$2,476,320
	2017	$1,407,124	-	$160,000	$48,885	-	$1,616,009
M Baker	2018	$565,360	$174,459	$93,750	-	-	$833,569
	2017	$566,491	$133,702	$80,000	$24,442	-	$804,635
T Corolis[6]	2018	$187,465	-	$62,500	-	-	$249,965
R Fennell	2018	$620,432	$174,459	$104,167	-	-	$899,058
	2017	$609,201	$133,702	$100,000	$30,548	-	$873,451
A Gartmann	2018	$329,374	$69,777	$80,000	-	-	$479,151
	2017	$331,427	$53,483	$40,000	-	-	$424,910
R Musgrove	2018	$327,758	$69,777	$50,000	-	-	$447,535
	2017	$335,675	$53,483	$40,000	-	-	$429,910
T Piper[6]	2018	$367,580	$145,386	-	–	-	$512,966
	2017	$572,702	$111,420	$40,000	-	-	$724,122
B Speirs	2018	$385,735	$69,777	$84,375	-	-	$539,887
	2017	$357,578	$53,483	$50,000	-	-	$461,061
S Thredgold	2018	$379,559	$69,777	$73,333	-	-	$522,669
	2017	$365,344	$53,483	$80,000	-	-	$498,927
A Tullio[6]	2018	$234,264	$81,408	-	-	-	$315,672
	2017	$384,706	$62,391	$50,000	$18,426	-	$515,523
A Twaits[6]	2018	$181,364	-	$62,000	-	-	$243,864
A Watts[6]	2018	$170,182	$58,146	-	-	-	$228,328
	2017	$421,632	$44,564	$33,333	$20,265	-	$519,794

[1] Fixed base includes cash salary, non-monetary benefits, superannuation and movements in accrued annual and long service leave consistent with the statutory remuneration table presented at Section 9.

[2] The prior years' deferred base amounts represent the grants made on 17 December 2015 and 16 December 2016 which completed their two-year deferral period and vested. The grant made for the 2018 financial year will be tested in a future period and has therefore been excluded from the table.

[3] The cash component of the 2018 STI is expected to be paid in October 2018. A third of STI awards which exceed $100,000 are deferred into equity which will be tested in a future period and have therefore been excluded from the table.

[4] No STI awards were made for the 2016 financial year and accordingly no deferred STI grants reached the end of their deferral period in 2018. The comparative amounts represent the grant made in respect to the 2015 financial year which had completed the two-year deferral period and vested.

[5] The prior years' LTI amounts represent the grants made on 17 December 2013 and 10 December 2014. The grants did not meet their respective performance measures and accordingly did not vest and were forfeited. The LTI grants made in subsequent financial years will be tested in future periods and have therefore been excluded from the table.

[6] Mr Corolis and Mr Twaits commenced as KMP on 31 January 2018 and Mr Piper and Ms Tullio ceased as KMP on 31 January 2018. Mr Watts ceased as a KMP on 6 December 2017.

Section 5: **Remuneration arrangements for the new Managing Director**

Marnie Baker commenced as Group Managing Director effective 2 July 2018. The employment agreement is ongoing with no fixed term. Marnie's remuneration arrangements for the 2019 financial year are as follows:

a. Fixed base pay: $1,200,000 (including superannuation) per annum;

b. Deferred base pay: an annual grant of 50,000 deferred shares, subject to shareholder approval at the 2018 AGM. Vesting will be subject to satisfaction of the service condition set by the Board and Board discretions.

c. Eligibility for a short-term incentive award of up to $400,000 (awarded at the discretion of the Board and subject to meeting performance targets).

   If the STI award exceeds $100,000, one-third of the award will be in the form of deferred shares, held on trust for two years. Vesting will also be subject to satisfaction of the service conditions set by the Board and Board discretions.

d. Long term Incentive: an annual grant of 50,000 performance rights, subject to shareholder approval at the 2018 AGM. Vesting will be subject to the satisfaction of performance and service conditions to be set by the Board and Board discretions.

Further information on the terms of the deferred base and long-term incentive grants will be included in the 2018 Notice of AGM.

Section 6: **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 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®** National Council.

The Governance & HR Committee (the "Committee") recommends to the Board the remuneration arrangements 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 workloads and responsibilities at 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 inclusive of superannuation contributions at 9.5 percent. In relation to the superannuation contributions, Non-executive Directors can elect to receive amounts above the maximum contributions limit as cash. The Chairman receives a higher base fee in recognition of the additional time commitment and responsibilities.

The base fee for Non-executive Directors increased by 2.5 percent for the year. The base fee in effect from 1 August 2017 for the remainder of FY2018 was:

a) $197,825 for Directors (inclusive of company superannuation contributions); and

b) $494,550 for the Chairman (inclusive of company superannuation contributions).

No additional fees are paid for serving on Board Committees. Additional fees were paid to Non-executive Directors appointed to the Boards of Sandhurst Trustees and the **Community Bank®** National Council.

A review of the Non-executive Director fees has also been completed since the end of the financial year. The Board has approved a 2.0 percent increase to the annual base fee taking the annual fee amount to $201,780 for the Directors and $504,450 for the Chairman. The increase was effective from August 2018. The annual fee paid to Tony Robinson as a Director of Sandhurst Trustees was reduced from $60,000 to $40,000.

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

Non-executive Director remuneration details

The following payments were made to Non-executive Directors in the 2018 and 2017 financial years.

Non-executive Director	Short-term benefits		Post-employment benefits	Total
	Fees [1]	Non-monetary benefits [2]	Superannuation contributions [3]	
R Johanson (Chairman)				
2018	$469,033	$4,550	$20,049	$493,632
2017	$458,334	$4,550	$19,616	$482,500
J Harris				
2018	$180,739	-	$16,715	$197,454
2017	$176,689	-	$16,311	$193,000
J Hazel				
2018	$180,739	-	$16,715	$197,454
2017	$176,689	-	$16,311	$193,000
J Hey				
2018	$180,739	-	$16,715	$197,454
2017	$176,689	-	$16,311	$193,000
R Hubbard				
2018	$180,739	-	$16,715	$197,454
2017	$176,689	-	$16,311	$193,000
D Matthews [4]				
2018	$189,636	$5,674	$17,644	$212,954
2017	$184,488	$5,674	$18,338	$208,500
D Radford				
2018	$180,739	-	$16,715	$197,454
2017	$176,689	-	$16,311	$193,000
T Robinson [5]				
2018	$237,405	-	$20,049	$257,454
2017	$233,384	-	$19,616	$253,000
Aggregate totals				
2018	**$1,799,769**	**$10,224**	**$141,317**	**$1,951,310**
2017	**$1,759,651**	**$10,224**	**$139,125**	**$1,909,000**

[1] Fee amounts include the $5,000 Director contribution to the Board scholarship program.
[2] Represents fee sacrifice component of the base Director fee paid as superannuation.
[3] Represents company superannuation contributions.
[4] The fees paid to Mr Matthews include $15,500 inclusive of company superannuation as a member of the Community Bank® National Council.
[5] The fees paid to Mr Robinson include a fee of $60,000 inclusive of company superannuation as a Director of Sandhurst Trustees Limited (FY2017: $60,000).

Non-executive Director equity holdings

The following payments were made to Non-executive Directors in the 2018 and 2017 financial years.

Name	Number at the 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	255,815	-	12,510	-	268,325	-
J Harris	1,000	-	-	-	1,000	-
J Hazel	26,128	-	1,342	-	27,470	-
J Hey	11,378	250	3,821	-	15,199	250
R Hubbard	11,775	-	4,880	-	16,655	-
D Matthews	30,959	-	1,285	-	32,244	-
D Radford	1,900	3,190	-	-	1,900	3,190
T Robinson	33,140	-	-	-	33,140	-

[1] No equity instruments were granted as compensation to Non-executive Directors during the reporting period.
[2] None of the shares are held nominally.

Section 7: **Remuneration governance**

The Governance & HR Committee assists 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/public/corporate_governance/.

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 8: **Regulatory and industry remuneration developments**

8.1 Sedgwick Report

An independent review was commissioned by the Australian Bankers' Association ("ABA") to examine the way banks pay staff or third parties for selling retail banking products like mortgages, credit cards and deposits, including whether commissions, bonuses or other incentives promoted behaviour that aligned interests of bank staff with the interests of their customers. The report was released last year and has prompted broad scale changes to remuneration practices in the industry.

The report outlined 21 recommendations designed to ensure remuneration practices achieve better customer outcomes, and in part, address community concerns about industry conduct and culture.

Prior to the commissioning of the Sedgwick Report, the Bank had already implemented many changes consistent with the Sedgwick recommendations. For example, we had already;

- Removed incentives that are directly linked to products and the achievement of sales targets in 2002.
- Established a modest bonus scheme where payments make up a relatively small proportion of total individual employee pay. Satisfactory assessment of values-based behaviour (including risk and compliance) has always been a gateway to eligibility for any bonus payments.

In addition, the Bank does not operate variable reward schemes that include "accelerators" i.e. significantly increased incentive payments as certain sales or other financial thresholds are achieved.

Our approach to reward and remuneration has traditionally been different from the industry standard and pleasingly, the changes required by the organisation were minimal, showing we already broadly operated in a manner consistent with driving the right outcomes for customers.

While we are confident that we are starting from a solid base, there is always room for improvement and we're committed to fully implementing all recommendations as soon as possible. The Bank has already achieved a high level of alignment with most of the recommendations across the customer-facing channels. We expect the remaining work will be completed well in advance of the 2020 industry deadline.

8.2 Banking Executive Accountability Regime

The Government has introduced a new Banking Executive Accountability Regime (BEAR) to make Authorised Deposit-Taking Institutions (ADIs) and their most senior executives and directors accountable for meeting heightened standards of behaviour in line with community expectations. The legislation was passed by the Senate early in the year and imposes accountability, remuneration, key personnel and notification obligations on ADIs and persons in director and senior executive roles (Accountable Persons). The commencement of the measures for small and medium-sized banks is 1 July 2019.

A key requirement is that all ADIs must have a remuneration policy that complies with the BEAR's requirements. The policy must include the ability for the variable remuneration of an Accountable Person to be reduced if the ADI determines that an executive has not met their conduct-related obligations under BEAR. The reduction must be proportionate to the severity of the breach, and the ADI must notify APRA of the reduction in variable remuneration.

Unless the variable remuneration is awarded under a contract entered into before the BEAR legislation takes effect, a portion of the variable remuneration paid to Accountable Persons must be deferred for at least four years. In respect to the Bank, the amount of variable remuneration which must be deferred for four years is the lesser of 40 percent of variable remuneration, or 20 percent of total remuneration.

The Bank will make any remuneration framework adjustments required to comply with BEAR and the related implementation timeframes. The Governance & HR Committee is overseeing the implementation of the changes needed to comply with these requirements.

8.3 APRA review of executive remuneration practices

Earlier this year APRA released an information paper documenting the results of a review of industry remuneration practices. The review focussed on whether policies and practices for a sample of large institutions across the banking, insurance and superannuation sectors were meeting prudential framework objectives of encouraging behaviour that promotes sound risk management and the long-term financial stability of the institution. We did not participate in the review.

The review found that remuneration frameworks and practices across the sample did not consistently and effectively meet the above objectives. Although the institutions had remuneration structures that met minimum prudential requirements, the frameworks and practices often fell short of the sound practices set out in prudential guidance and there is considerable room for improvement in both the design and implementation of executive remuneration structures.

APRA encourages boards and senior executives to consider the review findings and take action to better align their remuneration arrangements with the above objectives. APRA has also advised it intends to strengthen the prudential requirements relating to remuneration taking into account the introduction of the BEAR as well as insights from international practice.

The information paper outlined a range of findings across three key themes, being the design of risk management performance measures, remuneration outcomes and remuneration committee oversight. The Bank is reviewing of its remuneration framework to identify any required changes needed to align with APRA's requirements. The review will also incorporate changes to the prudential requirements once they have been published by APRA.

Pleasingly, our remuneration framework already meets a number of the expectations published by APRA. Some examples are:

1. Past practice has shown that individual STI awards have been adjusted to reflect divisional and individual performance, along with risk outcomes.
2. The maximum STI opportunity for the CRO is very modest when compared to industry practice. Also, the CRO's STI component stands at 10 percent of total remuneration compared to 20 percent for other executives.
3. While executive scorecards have an element of collective accountability for the achievement of key financial measures, they also include individual accountability for performance at a business unit and individual level, as well as meeting risk and compliance gateways.
4. The Board has absolute discretion under the remuneration policy and current incentive plan rules, subject to compliance with the law, to adjust the number of deferred shares and performance rights, to zero where appropriate. This discretion can be exercised at any time during the vesting period or at the time vesting is due to occur.
5. Annual bonus pool allocations are determined on the basis of annual financial performance and risk measures. The risk measures include risk adjusted return on capital and have now been expanded to explicitly consider performance against risk, compliance and audit matters and material adverse customer outcomes.
6. The Group does not have a practice of providing sign-on payments. If such payments were to be contemplated, the remuneration policy requires the payment to be approved by the Board on recommendation by the Governance & HR Committee. Also, the remuneration policy does not provide for guaranteed bonuses.

There are still aspects of the remuneration framework which can be more closely aligned with APRA's expectations. For example, the framework will be reviewed to introduce LTI performance measures linked to the long-term financial soundness or risk adjusted performance and to formally engage the risk and audit committees, and Chief Risk Officer, as part of the executive performance assessment process. The deferral periods of variable remuneration will be reviewed having regard to the objectives of these remuneration components and the time horizon of risk.

The progress of the review, including proposed amendments to the current remuneration policy and practices, is being overseen by the Governance & HR Committee. The outcomes of the review along with any necessary changes to the framework will be disclosed in next year's remuneration report.

Section 9: **KMP statutory remuneration, equity and loan tables**

9.1 Senior Executive statutory remuneration details

The following table sets out the statutory executive remuneration disclosures which have been prepared in accordance with the Corporations Act 2001 and Australian Accounting Standards. No termination benefits were paid during the 2017 or 2018 financial years.

Executive	**Short-term employee benefits**			**Superannuation benefits** [4]	**Other long-term benefits** [5]	**Share-based payments** [6]		**Total**	**Performance related** [11]
	Cash Salary [1]	STI [2]	Non-monetary [3]			Performance rights [7]	Deferred shares [8]		
M Hirst									
2018	$1,433,284	$250,000	$285	$20,049	$29,821	$281,121	$948,877	$2,963,437	19%
2017	$1,395,084	$160,000	$520	$19,616	($8,096)	$150,559	$488,945	$2,206,628	15%
M Baker									
2018	$576,079	$140,625	$17,043	$20,049	($47,811)	$180,863	$203,423	$1,090,271	31%
2017	$545,945	$80,000	$16,038	$19,652	($15,144)	$146,572	$184,624	$977,687	24%
T Corolis									
2018 (part year)[10]	$177,016	$62,500	-	$7,224	$3,225	$21,129	$19,428	$290,522	29%
R Fennell									
2018	$586,197	$156,250	$34,020	$20,049	($19,834)	$180,863	$208,560	$1,166,105	31%
2017	$570,558	$100,000	$4,500	$19,616	$14,527	$149,364	$187,385	$1,045,950	25%
A Gartmann									
2018	$303,641	$80,000	$111	$20,049	$5,573	$59,108	$86,580	$555,062	18%
2017	$306,332	$40,000	$720	$19,616	$4,759	$37,572	$69,426	$478,425	16%

Executive	Short-term employee benefits			Superannuation benefits [4]	Other long-term benefits [5]	Share-based payments [6]		Total	Performance related [11]
	Cash Salary [1]	STI [2]	Non-monetary [3]			Performance rights [7]	Deferred shares [8]		
R Musgrove									
2018	$276,402	$50,000	$41,520	$30,865	($21,029)	$72,345	$71,036	$521,139	23%
2017	$295,489	$40,000	$24,252	$29,722	($13,788)	$59,185	$69,426	$504,286	20%
T Piper									
2018 (part year)[9]	$339,182	-	$8,798	$11,567	$8,033	$59,277	$47,920	$474,777	12%
2017	$523,845	$40,000	$15,250	$19,616	$13,991	$118,372	$144,647	$875,721	18%
B Speirs									
2018	$350,229	$84,375	$6,500	$20,049	$8,957	$66,715	$89,149	$625,974	26%
2017	$322,931	$50,000	$6,500	$19,652	$8,495	$50,764	$69,426	$527,768	19%
S Thredgold									
2018	$357,794	$110,000	$5,000	$20,049	($3,284)	$72,345	$102,124	$664,028	31%
2017	$347,509	$80,000	$5,000	$19,652	($6,817)	$61,978	$69,426	$576,748	25%
A Tullio									
2018 (part year)[9]	$202,664	-	$14,449	$13,081	$4,070	$29,638	$47,387	$311,289	14%
2017	$340,228	$50,000	$18,939	$19,616	$5,923	$59,185	$89,327	$583,218	20%
A Twaits									
2018 (part year)[10]	$171,035	$ 62,500	-	$8,275	$2,054	$7,803	-	$251,667	28%
A Watts									
2018 (part year)[9]	$151,454	-	$7,882	$7,711	$3,135	$21,170	$13,689	$205,041	10%
2017	$363,348	$33,333	$31,828	$19,616	$6,840	$61,978	$67,015	$583,958	18%
2018	**$4,924,977**	**$996,250**	**$135,608**	**$199,017**	**($27,090)**	**$1,052,377**	**$1,838,173**	**$9,119,312**	
2017	**$5,011,269**	**$673,333**	**$123,547**	**$206,374**	**$10,690**	**$895,529**	**$1,439,647**	**$8,360,389**	

[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 respective financial year. The cash component is expected to be paid in October 2018. 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 motor vehicle costs.
[4] Company superannuation contributions form part of the executive's fixed base remuneration and are paid up to the statutory maximum contributions base. Mr Musgrove also receives an additional contribution as part of an arrangement with former members of a defined benefit fund that was amalgamated with an accumulation fund in 1994.
[5] The amounts disclosed relate to movements in long service leave 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 Section 9.4.
[7] The amounts included in the performance rights column represent the fair value of performance right grants to executives amortised over the applicable vesting period. The current year amount for Mike Hirst represents the amortised fair value allocation for the performance right grants made during the 2017 and 2018 financial years. The comparative amount represents the final amortised fair value allocation for the previous performance right grant made in the 2017 financial year. The current year amounts for other executives represent the amortised fair value allocation for the 2015, 2016, 2017 and 2018 performance right grants. The comparative amounts represent the amortised fair value allocation for the 2014, 2015, 2016 and 2017 performance right grants.
[8] The amounts included in the deferred share column comprise:
a. The fair value of deferred STI is amortised over a two-year deferral period. The deferred STI amounts for the 2018 financial year represent the amortised fair value of the deferred STI grant for the 2017 financial year. There was no deferred STI grant for the 2016 financial year. The deferred STI amounts for the comparative period represent the amortised fair value of the deferred STI grant made for the 2015 financial year.
b. The fair value of the deferred base pay grants amortised over a two-year deferral period. The deferred base pay amounts for the 2018 financial year comprise the amortised fair value of the deferred base pay grants made in the 2017 and 2018 financial years. The comparative amounts represent the amortised fair value of the deferred base pay grants made in the 2016 and 2017 financial years.
[9] Mr Tim Piper and Ms Alexandra Tullio ceased as a KMP on 31 January 2018 and Mr Andrew Watts ceased as a KMP on 6 December 2017. The remuneration details for these KMP have been pro-rated for the period as a KMP during the year.
[10] The remuneration details for Mr Taso Corolis and Mr Andrew Twaits, who commenced as a KMP on 31 January 2018, reflect the period as a KMP.
[11] The performance related percentage comprises cash bonus (STI) payments, the amortised fair value of performance right grants and the amortised fair value of deferred STI components (which form part of the amount disclosed under the 'Deferred shares' column).

9.2 Executive equity instrument grants

The following table sets out the number and value of deferred share and performance right grants to executives for the year. It also includes details of grants made in prior years that vested or were forfeited or lapsed. The remuneration amounts presented in the below table have been calculated using the fair value of the equity instruments.

Executive	Equity Instrument	Grant Date	Granted [1] Units	Granted [2] $	Prior years' awards vested [3] Units	Prior years' awards vested [4,7] $	Forfeited / Lapsed [2,6] Units	Forfeited /Lapsed [5, 6] $
M Hirst	Deferred Shares Base Pay	16.12.2016	-	-	76,219	933,683	-	-
	Deferred Shares STI	12.12.2017	7,106	82,216	-	-	-	-
	Deferred Shares Base Pay	12.12.2017	76,219	881,854	-	-	-	-
	Performance Rights	12.12.2017	76,219	522,250	-	-	-	-
M Baker	Performance Rights	10.12.2014	-	-	-	-	20,358	112,580
	Deferred Shares Base Pay	16.12.2016	-	-	16,094	197,152	-	-
	Deferred Shares STI	12.12.2017	3,553	41,108	-	-	-	-
	Deferred Shares Base Pay	12.12.2017	14,571	168,586	-	-	-	-
	Performance Rights	12.12.2017	22,768	161,515	-	-	-	-
T Corolis	Performance Rights	10.12.2014	-	-	-	-	4,071	22,513
	Deferred Shares Base Pay	24.04.2018	9,107	93,256	-	-	-	-
	Performance Rights	12.12.2017	4,553	32,295	-	-	-	-
	Performance Rights	24.04.2018	9,107	43,629	-	-	-	-
R Fennell	Performance Rights	10.12.2014	-	-	-	-	20,358	112,580
	Deferred Shares Base Pay	16.12.2016	-	-	16,094	197,152	-	-
	Deferred Shares STI	12.12.2017	4,441	51,383	-	-	-	-
	Deferred Shares Base Pay	12.12.2017	14,571	168,586	-	-	-	-
	Performance Rights	12.12.2017	22,768	161,515	-	-	-	-
A Gartmann	Deferred Shares Base Pay	16.12.2016	-	-	6,437	78,853	-	-
	Deferred Shares STI	12.12.2017	1,776	20,548	-	-	-	-
	Deferred Shares Base Pay	12.12.2017	6,375	73,759	-	-	-	-
	Performance Rights	12.12.2017	9,107	64,608	-	-	-	-
R Musgrove	Performance Rights	10.12.2014	-	-	-	-	8,143	45,031
	Deferred Shares Base Pay	16.12.2016	-	-	6,437	78,853	-	-
	Deferred Shares Base Pay	12.12.2017	5,464	63,218	-	-	-	-
	Performance Rights	12.12.2017	9,107	64,608	-	-	-	-
T Piper	Performance Rights	10.12.2014	-	-	-	-	16,286	90,062
	Deferred Shares Base Pay	16.12.2016	-	-	13,412	164,297	-	-

Executive	Equity Instrument	Grant Date	Granted [1] Units	Granted [2] $	Prior years' awards vested [3] Units	Prior years' awards vested [4,7] $	Forfeited / Lapsed [2,6] Units	Forfeited /Lapsed [5,6] $
B Speirs	Performance Rights	10.12.2014	-	-	-	-	4,071	22,513
	Deferred Shares Base Pay	16.12.2016	-	-	6,437	78,853	-	-
	Deferred Shares STI	12.12.2017	2,220	25,685	-	-	-	-
	Deferred Shares Base Pay	12.12.2017	6,375	73,759	-	-	-	-
	Performance Rights	12.12.2017	9,107	64,608	-	-	-	-
S Thredgold	Performance Rights	10.12.2014	-	-	-	-	8,143	45,031
	Deferred Shares Base Pay	16.12.2016	-	-	6,437	78,853	-	-
	Deferred Shares STI	12.12.2017	3,553	41,108	-	-	-	-
	Deferred Shares Base Pay	12.12.2017	7,285	84,287	-	-	-	-
	Performance Rights	12.12.2017	9,107	64,608	-	-	-	-
A Tullio	Performance Rights	10.12.2014	-	-	-	-	8,143	45,031
	Performance Rights	12.12.2017	-	-	-	-	9,107	64,608
	Deferred Shares Base Pay	16.12.2016	-	-	7,510	91,998	-	-
	Deferred Shares STI	12.12.2017	2,220	25,685	-	-	-	-
	Deferred Shares Base Pay	12.12.2017	7,741	89,563	-	-	3,870	44,776
	Performance Rights	12.12.2017	9,107	64,608	-	-	-	-
A Twaits	Performance Rights	24.04.2018	9,107	43,629	-	-	-	-
A Watts	Performance Rights	10.12.2014	-	-	-	-	8,143	45,031
	Deferred Shares Base Pay	16.12.2016	-	-	5,364	65,709	-	-

1 The grants to Executives in FY2018 constituted 100% of the grants available for the year and were made on the terms described at Section 3.

2 The value of the performance right grants and deferred share grants is the fair value (refer Table 5). The minimum total value of the grants, if the applicable performance and service conditions are not met, is nil. The future value of the rights is dependent on the achievement of the performance hurdles and the share price at the time the performance rights vest. 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 during the year was nil as the TSR measure for these performance rights was either not met or will be tested over future periods. The percentage of base pay deferred share grants and STI deferred share grants made in FY2016 that vested during the year was 100%. The percentage of the deferred share base pay grant made in FY2017 that vested during the year was nil as the grant will be tested in a future period.

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 Section 9.4. 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 deferred shares that were granted.

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.

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: 171,439 ordinary shares (FY2017: 163,659 ordinary shares); and

b. Average price per ordinary share at which the securities were purchased: $11.25 per security (FY2017: $12.25 per security).

9.3 Movements in Senior Executive equity holdings

The details of equity holdings in the Bank held by executives (including their close family members or any entity they, or their close family members, control, jointly control or significantly influence) are set out below.

Executive	Equity Instrument	Number at start of year	Number granted during the year as remuneration	Vested or released	Lapsed or expired	Net change other	Number at end of year [1, 2]
M Hirst	Deferred shares	76,219	83,325	-76,219	-	-	83,325
	Ordinary shares	639,470	-	76,219	-	-96,471	619,218
	Performance rights	76,219	76,219	-	-	-	152,438
M Baker	Deferred shares	16,094	18,124	-16,094	-	-	18,124
	Ordinary shares	319,540	-	16,094	-	17,745	353,379
	Preference shares	800	-	-	-	-	800
	Performance rights	67,294	22,768	-	-20,358	-	69,704
T Corolis	Deferred shares	-	9,107	-	-	-	9,107
	Ordinary shares	11,361	-	-	-	369	11,730
	Performance rights	13,457	13,660	-	-4,071	-	23,046
R Fennell	Deferred shares	16,094	19,012	-16,094	-	-	19,012
	Ordinary shares	86,862	-	16,094	-	48	103,004
	Performance rights	67,294	22,768	-	-20,358	-	69,704
A Gartmann	Deferred shares	6,437	8,151	-6,437	-	-	8,151
	Ordinary shares	4,827	-	6,437	-	-	11,264
	Performance rights	17,165	9,107	-	-	-	26,272
R Musgrove	Deferred shares	6,437	5,464	-6,437	-	-	5,464
	Ordinary shares	32,205	-	6,437	-	-2,300	36,342
	Performance rights	26,917	9,107	-	-8,143	-	27,881
T Piper	Deferred shares	13,412	-	-13,412	-	-	-
	Ordinary shares	52,558	-	13,412	-	-	63,970
	Performance rights	53,835	-	-	-16,286	-	37,549
B Speirs	Deferred shares	6,437	8,595	-6,437	-	-	8,595
	Ordinary shares	4,827	-	6,437	-	-4,827	6,437
	Performance rights	22,845	9,107	-	-4,071	-	27,881
S Thredgold	Deferred shares	6,437	10,838	-6,437	-	-	10,838
	Ordinary shares	31,578	-	6,437	-	-12,000	26,015
	Performance rights	26,917	9,107	-	-8,143	-	27,881
A Tullio	Deferred shares	7,510	9,961	-7,510	-3,870	-	6,091
	Ordinary shares	7,365	-	7,510	-	-7,365	7,510
	Performance rights	26,917	9,107	-	-17,250	-	18,774
A Twaits	Deferred shares	-	-	-	-	-	-
	Ordinary shares	1,810	-	-	-	-	1,810
	Performance rights	-	9,107	-	-	-	9,107
A Watts	Deferred shares	5,364	-	-5,364	-	-	-
	Ordinary shares	52,020	-	5,364	-	-	57,384
	Performance rights	26,917	-	-	-8,143	-	18,774

[1] None of the equity holdings are held nominally.
[2] None of the deferred shares or performance rights had vested and were exercisable at year-end.

9.4 Equity plan valuation inputs

Performance rights

The assumptions underlying the fair value of current performance right grants are as follows.

Equity Instrument	Grant date	Fair value [1]	Share price $	Terms & Conditions for each Grant					
				Exercise price	Risk free interest rate	Dividend yield	Expected volatility	Expected life	Performance period end / expiry date [2]
Performance Rights	10.12.2014	$5.53	$12.62	-	2.31%	6.00%	18%	4 years	30.06.2018
Performance Rights	17.12.2015	$4.92	$11.24	-	2.18%	6.00%	20%	4 years	30.06.2019
Performance Rights – Sleeve 1	16.12.2016	$10.63	$12.25	-	1.93%	5.75%	20%	3 years	30.06.2019
Performance Rights – Sleeve 2	16.12.2016	$7.29	$12.25	-	1.93%	5.75%	20%	3 years	30.06.2019
Performance Rights – Sleeve 3	16.12.2016	$7.29	$12.25	-	1.93%	5.75%	20%	3 years	30.06.2019
Performance Rights – Sleeve 1 (MD)	16.12.2016	$10.05	$12.25	-	2.10%	5.75%	20%	4 years	30.06.2020
Performance Rights – Sleeve 2 (MD)	16.12.2016	$6.98	$12.25	-	2.10%	5.75%	20%	4 years	30.06.2020
Performance Rights – Sleeve 3 (MD)	16.12.2016	$6.98	$12.25	-	2.10%	5.75%	20%	4 years	30.06.2020
Performance Rights – Sleeve 1	12.12.2017	$10.09	$11.64	-	1.97%	5.75%	22.50%	3 years	30.06.2020
Performance Rights – Sleeve 2	12.12.2017	$5.81	$11.64	-	1.97%	5.75%	22.50%	3 years	30.06.2020
Performance Rights – Sleeve 3	12.12.2017	$5.81	$11.64	-	1.97%	5.75%	22.50%	3 years	30.06.2020
Performance Rights – Sleeve 1 (MD)	12.12.2017	$9.54	$11.64	-	2.09%	5.75%	22.50%	4 years	30.06.2021
Performance Rights – Sleeve 2 (MD)	12.12.2017	$5.70	$11.64	-	2.09%	5.75%	22.50%	4 years	30.06.2021
Performance Rights – Sleeve 3 (MD)	12.12.2017	$5.70	$11.64	-	2.09%	5.75%	22.50%	4 years	30.06.2021
Performance Rights – Sleeve 1	24.04.2018	$9.06	$10.59	-	2.28%	6.42%	24.70%	3 years	30.06.2020
Performance Rights – Sleeve 2	24.04.2018	$2.96	$10.59	-	2.28%	6.42%	24.70%	3 years	30.06.2020
Performance Rights – Sleeve 3	24.04.2018	$2.96	$10.59	-	2.28%	6.42%	24.70%	3 years	30.06.2020

[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.

Deferred Shares

The assumptions underlying the fair value of current deferred share grants are as follows.

Equity Instrument	Grant date	Terms & Conditions for each Grant			
		Issue price / Fair value [1]	Share price at grant date	Restriction period end / test date	Vest / Expiry date
Deferred Shares Base Pay	16.12.2016	$12.25	$12.25	30.06.2018	30.06.2018
Deferred Shares Base Pay	12.12.2017	$11.57	$11.64	30.06.2019	30.06.2019
Deferred Shares STI	12.12.2017	$11.57	$11.64	30.06.2019	30.06.2019
Deferred Shares Base Pay	24.04.2018	$10.24	$10.59	30.06.2019	30.06.2019

[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-day period ending on the grant date.

9.5 Senior Executive employment terms

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?	On-going until notice is given by either party.	All Executives
What notice must be provided by a Executive to end the contract without cause? [2]	Between 6 and 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]	6 months' notice or payment in lieu.[2]	M Baker, T Corolis and A Twaits
	12 months' notice or payment in lieu.[2]	All other 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 material 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".

[2] A review of the executive employment contract was completed during the year having regard to market practice. Changes to the contract included reducing the relevant notice period from 12 months to 6 months. The 12 month notice period for existing KMP's has been grandfathered.

9.6 KMP loans and other transactions

Details on the aggregate loans provided to KMP and their related parties are as follows. The loans 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.

	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						
2018	6,589	318	-	-	6,447	5
Executives						
2018	3,867	182	-	-	5,728	9
Total Directors and Executives						
2018	10,456	500	-	-	12,174	14

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

2018	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	1,227	58	-	-	1,179	1,286
D Matthews	4,313	215	-	-	4,247	4,392
T Robinson	1,000	44	-	-	1,009	1,005
Executives						
M Hirst	993	31	-	-	94	1,402
R Fennell	566	29	-	-	595	595
A Gartmann	-	16	-	-	1,506	1,519
R Musgrove	334	14	-	-	279	357
T Piper	485	24	-	-	475	485
S Thredgold	745	17	-	-	709	754
A Tullio	694	27	-	-	706	738
A Twaits	-	18	-	-	1,324	1,305

[1] 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.

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

Robert Johanson
Chairman
4 September 2018

Marnie Baker
Managing Director

Financial Statements

Primary statements

Income statement for the year ended 30 June 2018

	Note	Group 2018 $m	Group 2017 $m	Bank 2018 $m	Bank 2017 $m
Net interest income					
Interest income		2,659.6	2,645.8	2,327.6	2,325.4
Interest expense		(1,354.4)	(1,432.2)	(1,149.9)	(1,241.6)
Total net interest income	3	**1,305.2**	**1,213.6**	**1,177.7**	**1,083.8**
Other revenue					
Fees		167.9	172.2	152.7	157.1
Commissions		71.7	72.7	18.4	21.4
Other revenue		98.7	151.0	47.8	59.1
Total other revenue	3	**338.3**	**395.9**	**218.9**	**237.6**
Total income		**1,643.5**	**1,609.5**	**1,396.6**	**1,321.4**
Expenses					
Credit expenses		(78.9)	(86.6)	(72.5)	(68.5)
Bad and doubtful debts recovered		8.3	14.8	6.4	6.0
Total credit expenses	3	**(70.6)**	**(71.8)**	**(66.1)**	**(62.5)**
Operating expenses					
Staff and related costs		(497.3)	(480.5)	(446.4)	(428.7)
Occupancy costs		(91.0)	(92.0)	(90.1)	(91.2)
Amortisation and depreciation costs		(47.7)	(50.2)	(42.5)	(39.2)
Fees and commissions		(35.2)	(33.6)	(8.2)	(7.8)
Other operating expenses		(267.2)	(253.1)	(230.7)	(231.6)
Total other expenses	3	**(938.4)**	**(909.4)**	**(817.9)**	**(798.5)**
Profit before income tax expense		**634.5**	**628.3**	**512.6**	**460.4**
Income tax expense	4	(200.0)	(198.7)	(162.9)	(148.0)
Net profit for the year		**434.5**	**429.6**	**349.7**	**312.4**
Earnings per share (cents)					
Basic	6	89.9	90.9		
Diluted	6	81.2	82.9		

Statement of comprehensive income for the year ended 30 June 2018

		Group		Bank	
		2018	2017	2018	2017
	Note	$m	$m	$m	$m
Profit for the year		**434.5**	**429.6**	**349.7**	**312.4**
Items which may be reclassified subsequently to the profit & loss:					
Net gain/(loss) on available for sale - equity securities	17	0.2	(1.6)	-	(1.7)
Net gain on cash flow hedges taken to equity	17	10.9	45.6	10.0	44.3
Net unrealised (loss)/gain on available for sale - debt securities	17	(0.1)	0.9	7.9	62.4
Transfer loss on sale of available for sale debt securities	17	-	0.3	-	0.3
Tax effect on items taken directly to or transferred from equity	17	(3.3)	(13.6)	(5.4)	(31.6)
Total items that may be reclassified to profit & loss		**7.7**	**31.6**	**12.5**	**73.7**
Items which will not be reclassified subsequently to the profit & loss:					
Actuarial gain on superannuation defined benefits plan	17	0.4	0.3	0.4	0.3
Revaluation of land and buildings	17	-	0.3	-	0.1
Tax effect on items taken directly to or transferred from equity	17	(0.1)	(0.2)	(0.1)	(0.1)
Total items that will not be reclassified to profit & loss		**0.3**	**0.4**	**0.3**	**0.3**
Total comprehensive income for the year		**442.5**	**461.6**	**362.5**	**386.4**
Total comprehensive income for the year attributable to:					
Owners of the Company		442.5	461.6	362.5	386.4

Balance sheet
as at 30 June 2018

		Group		Bank	
		2018	2017	2018	2017
	Note	$m	$m	$m	$m
Assets					
Cash and cash equivalents	25	1,137.4	996.6	836.8	822.2
Due from other financial institutions	25	283.0	277.8	295.8	278.1
Amounts receivable from controlled entities		-	-	21.1	5.8
Financial assets held for trading	18	4,499.5	5,657.6	4,499.5	5,657.9
Financial assets available for sale	19	469.0	382.0	5,490.6	5,178.4
Financial assets held to maturity	20	413.2	378.7	49.5	65.8
Derivatives	21	29.7	37.8	220.2	142.0
Net loans and other receivables	8	61,601.8	60,776.6	56,148.7	55,611.2
Investments accounted for using the equity method		8.9	8.5	7.8	7.5
Shares in controlled entities		-	-	585.2	570.2
Property, plant & equipment		69.9	77.8	65.8	73.0
Deferred tax assets	4	117.0	110.8	112.4	108.0
Investment property	23	735.7	666.3	-	-
Goodwill and other intangible assets	26	1,650.0	1,663.8	1,558.3	1,567.4
Other assets	27	424.7	381.2	1,481.1	1,329.5
Total Assets		**71,439.8**	**71,415.5**	**71,372.8**	**71,417.0**
Liabilities					
Due to other financial institutions	25	352.5	328.4	346.7	328.0
Deposits	10	59,529.5	59,294.1	55,528.9	55,738.6
Notes payable	10	3,544.8	3,958.4	-	-
Derivatives	21	34.8	59.0	54.1	77.6
Loans payable to securitisation trusts		-	-	8,097.9	8,134.5
Income tax payable	4	51.5	21.5	51.5	21.5
Provisions	34	136.6	130.8	132.1	127.2
Deferred tax liabilities	4	130.9	126.6	90.3	65.9
Other payables	28	448.8	532.3	563.6	582.1
Preference shares	11	880.9	830.1	880.9	830.1
Subordinated debt	12	709.2	708.7	699.2	698.7
Total Liabilities		**65,819.5**	**65,989.9**	**66,445.2**	**66,604.2**
Net Assets		**5,620.3**	**5,425.6**	**4,927.6**	**4,812.8**
Equity					
Share capital	16	4,523.3	4,448.7	4,523.3	4,448.7
Reserves	17	121.1	112.3	122.2	110.1
Retained earnings	17	975.9	864.6	282.1	254.0
Total Equity		**5,620.3**	**5,425.6**	**4,927.6**	**4,812.8**

Statement of changes in equity for the year ended 30 June 2018

	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 2017					
Opening balance b/fwd	**4,456.7**	**(8.0)**	**864.6**	**112.3**	**5,425.6**
Comprehensive income					
Profit for the year	-	-	434.5	-	434.5
Other comprehensive income	-	-	0.3	7.7	8.0
Total comprehensive income for the year	**-**	**-**	**434.8**	**7.7**	**442.5**
Transactions with owners in their capacity as owners					
Shares issued	73.2	-	-	-	73.2
Reduction in employee share ownership plan (ESOP) shares	-	1.4	-	-	1.4
Movement in operational risk reserve	-	-	(1.5)	1.4	(0.1)
Share based payment	-	-	2.6	0.1	2.7
Transfer from asset revaluation reserve	-	-	0.4	(0.4)	-
Equity dividends	-	-	(325.0)	-	(325.0)
At 30 June 2018	**4,529.9**	**(6.6)**	**975.9**	**121.1**	**5,620.3**

[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 2017

	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 2016					
Opening balance b/fwd	**4,298.4**	**(10.2)**	**739.2**	**87.9**	**5,115.3**
Comprehensive income					
Profit for the year	-	-	429.6	-	429.6
Other comprehensive income	-	-	0.2	31.8	32.0
Total comprehensive income for the year	**-**	**-**	**429.8**	**31.8**	**461.6**
Transactions with owners in their capacity as owners					
Shares issued	158.6	-	-	-	158.6
Share issue expenses	(0.3)	-	-	-	(0.3)
Reduction in employee share ownership plan (ESOP) shares	-	2.2	-	-	2.2
Movement in general reserve for credit losses (GRCL)	-	-	6.6	(6.6)	-
Share based payment	-	-	0.4	(0.8)	(0.4)
Equity dividends	-	-	(311.4)	-	(311.4)
At 30 June 2017	**4,456.7**	**(8.0)**	**864.6**	**112.3**	**5,425.6**

[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 2018

	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 2017					
Opening balance b/fwd	**4,456.7**	**(8.0)**	**254.0**	**110.1**	**4,812.8**
Comprehensive income					
Profit for the year	-	-	349.7	-	349.7
Other comprehensive income	-	-	0.3	12.5	12.8
Total comprehensive income for the year	**-**	**-**	**350.0**	**12.5**	**362.5**
Transactions with owners in their capacity as owners					
Shares issued	73.2	-	-	-	73.2
Reduction in employee share ownership plan (ESOP) shares	-	1.4	-	-	1.4
Share based payment	-	-	2.6	0.1	2.7
Transfer from asset revaluation reserve	-	-	0.5	(0.5)	-
Equity dividends	-	-	(325.0)	-	(325.0)
At 30 June 2018	**4,529.9**	**(6.6)**	**282.1**	**122.2**	**4,927.6**

[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 2017

	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 2016					
Opening balance b/fwd	**4,298.4**	**(10.2)**	**240.8**	**43.7**	**4,572.7**
De-registered subsidiary company	-	-	5.0	-	5.0
Comprehensive income					
Profit for the year	-	-	312.4	-	312.4
Other comprehensive income	-	-	0.2	73.8	74.0
Total comprehensive income for the year	**-**	**-**	**312.6**	**73.8**	**386.4**
Transactions with owners in their capacity as owners					
Shares issued	158.6	-	-	-	158.6
Reduction in employee share ownership plan (ESOP) shares	(0.3)	-	-	-	(0.3)
Reduction in employee share ownership plan (ESOP) shares	-	2.2	-	-	2.2
Movement in general reserve for credit losses (GRCL)	-	-	6.6	(6.6)	-
Share based payment	-	-	0.4	(0.8)	(0.4)
Equity dividends	-	-	(311.4)	-	(311.4)
At 30 June 2017	**4,456.7**	**(8.0)**	**254.0**	**110.1**	**4,812.8**

[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 2018

	Note	Group 2018 $m	Group 2017 $m	Bank 2018 $m	Bank 2017 $m
Cash flows from operating activities					
Interest and other items of a similar nature received		2,661.9	2,722.9	2,294.4	2,405.2
Interest and other costs of finance paid		(1,379.9)	(1,444.8)	(1,173.4)	(1,252.1)
Receipts from customers (excluding effective interest)		284.8	305.9	232.5	242.7
Payments to suppliers and employees		(998.4)	(841.2)	(1,023.9)	(610.4)
Dividends received		1.3	2.0	1.0	1.7
Income taxes paid		(175.2)	(196.4)	(192.9)	(155.4)
Cash flows from operating activities before changes in operating assets and liabilities		**394.5**	**548.4**	**137.7**	**631.7**
(Increase)/decrease in operating assets					
Net increase in balance of loans and other receivables		(904.1)	(3,606.4)	(549.8)	(4,609.0)
Net decrease in balance of investment securities		1,039.4	680.4	865.3	2,462.1
Increase/(decrease) in operating liabilities					
Net increase/(decrease) in balance of deposits		235.4	1,719.2	(209.8)	1,450.1
Net (decrease)/increase in balance of notes payable		(413.6)	656.1	-	-
Net cash flows from/(used in) operating activities	24	**351.6**	**(2.3)**	**243.4**	**(65.1)**
Cash flows related to investing activities					
Cash paid for purchases of property, plant and equipment		(15.4)	(11.6)	(14.6)	(9.9)
Cash proceeds from sale of property, plant and equipment		1.3	0.9	1.3	1.8
Cash paid for purchases of investment property		(59.0)	(50.2)	-	-
Cash proceeds from sale of investment property		45.0	47.7	-	-
Cash paid for purchases of intangible assets		(2.9)	(1.3)	(2.9)	-
Cash proceeds from sale of equity investments		-	0.5	-	-
Cash paid for purchases of equity investments		(0.1)	(4.4)	(15.0)	(2.4)
Proceeds from return of capital/dividend from JV partners		2.0	0.1	2.0	0.5
Net cash flows used in investing activities		**(29.1)**	**(18.3)**	**(29.2)**	**(10.0)**
Cash flows from financing activities					
Proceeds from issue of ordinary/preference shares		55.8	64.4	55.8	64.4
Proceeds from issue of subordinated debt		0.5	125.3	0.5	125.3
Dividends paid		(251.8)	(217.2)	(251.8)	(217.2)
Repayment of ESOP shares		1.4	2.2	1.4	2.2
Payment of share issue costs		(6.5)	(0.3)	(6.5)	(0.3)
Net cash flows used in financing activities		**(200.6)**	**(25.6)**	**(200.6)**	**(25.6)**
Net increase/(decrease) in cash and cash equivalents		121.9	(46.2)	13.6	(100.7)
Cash and cash equivalents at the beginning of period		946.0	992.2	772.3	873.0
Cash and cash equivalents at the end of period	25	**1,067.9**	**946.0**	**785.9**	**772.3**

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 2018 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 2018 was authorised for issue in accordance with a resolution of the directors on 4 September 2018.

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 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.

2 **Summary of significant accounting policies** (continued)

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.

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 2018.

In December 2014, the AASB issued the final version of AASB 9 *Financial Instruments* that replaces AASB 139 *Financial Instruments: Recognition and Measurement* and all previous versions of AASB 9. AASB 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. AASB 9 is effective from 1 July 2018. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group adopts the new standard from 1 July 2018 and will not restate comparative information. Any financial impacts as a result of adopting AASB 9 will be recognised in the opening 1 July 2018 retained earnings balance.

During 2017, the Group has managed an AASB 9 program that brings together the subject matter experts on methodology, data, modelling, risk and reporting. The Group has performed an assessment of all financial instruments impacted by the standard and developed appropriate impairment models to support the calculation of the expected credit loss allowance.

Classification and Measurement

AASB 9 introduces a principles-based approach to the classification of financial assets which is based on the Group's business model for managing the assets and the contractual cash flow characteristics of the asset. Investments in debt securities are measured at fair value through profit and loss (FVTPL) unless certain conditions are met, and if met will then be recorded at fair value through other comprehensive income (FVOCI) or amortised cost. Gains and losses recorded in other comprehensive income in relation to investments in debt securities will be recognised in the profit and loss statement on disposal or reclassification. The Group classifies its financial assets into the following categories:

- Those to be measured at fair value (either through other comprehensive income, or through profit and loss); and
- Those to be measured at amortised cost.

The classification depends on the Group's business model for managing the assets and the contractual cash flows associated with the asset. All equity instruments are required to be measured at FVTPL unless an election is made to measure them at FVOCI. The Group has elected to measure equity instruments which are not held for trading at FVOCI and as such any gains and losses will be recognised through OCI and there will be no recycling through the profit and loss statement.

The classification and measurement of financial liabilities is unchanged from the current treatment under AASB 139.

As a result of the application of the classification and measurement requirements of AASB 9, we expect to make the following reclassifications:

- Debt securities in the current available for sale (AFS) portfolio of $203.0m will be reclassified to FVOCI and $239.0m will be reclassified as amortised cost,
- Equity securities in the current AFS portfolio of $28.0m will be reclassified to FVOCI,
- Debt securities in the current held to maturity (HTM) portfolio of $358.0m will be reclassified to FVOCI and $55.0m will be reclassified as amortised cost.

Impairment

AASB 9 introduces an expected credit loss (ECL) impairment model that differs significantly from the incurred loss model under AASB 139 and is expected to result in earlier recognition of credit losses.

Expected credit loss impairment model

All financial assets, except for financial assets classified or designated as FVTPL and equity securities designated as FVOCI are assessed for impairment using the credit loss models.

Under AASB 9, the ECL allowance will be measured on each reporting date according to a three stage expected credit loss impairment model.

- Stage 1: 12 month ECL, if the credit risk of the asset at the reporting date has not increased significantly since initial recognition;
- Stage 2: lifetime ECL of assets which are considered to have experienced a significant increase in credit risk. Interest is accrued on the gross carrying value;
- Stage 3: lifetime ECL of assets which are considered impaired. Interest is calculated on the net carrying value which takes into account any impairment.

The determination of a significant increase in credit risk takes into account many different factors and will vary by product and business segment. The main factors considered in making this determination are relative and absolute changes in the 12-month probability of default since origination and other criteria such as 30 days past due, hardship and watch-

2 **Summary of significant accounting policies** (continued)

list status. The Group uses reasonable and supportable information that is relevant and available without undue cost.

Model concepts applied by the Group in measuring ECL

ECL is a function of the probability of default (PD), exposure at default (EAD), and loss given default (LGD), with the timing of the loss also considered, and is estimated by incorporating forward looking economic information and experienced credit judgement to reflect factors not captured in the models.

PD – represents the likelihood that a loan will not be repaid and will go into default either in a 12 month horizon for stage 1 or lifetime for stage 2 and stage 3.

EAD – based on historical data and represents an estimate of the outstanding credit exposure at the time when default may occur.

LGD – the amount that may not be recovered in the event of default and is modelled using historic data and reasonable and supportable information on future economic conditions, where appropriate. LGD takes into account the amount of collateral held and the probability of a cure.

For a small percentage of our portfolio that lacks detailed historical information and/or loss experience, a simplified measurement approach will be used that may differ to what is described above. These approaches have been designed to maximise the available information that is reliable and supportable for each portfolio.

Forward looking information

AASB 9 requires the consideration of past events, current market conditions and reasonable forward–looking information about future economic conditions in calculating the ECL. In assessing information about possible future economic conditions the Group utilises multiple economic scenarios representing a base case; mild deterioration, harsh, benign and improved. The scenarios will be probability weighted according to a best estimate of their relative likelihood based on historical frequency and current trends and conditions. The various economic scenarios and the modelled output will be reviewed by management and assessed for completeness. Management adjustments may be required where known or expected risks and information have not been considered within the models.

The impact of moving between 12 month and lifetime ECL and the application of forward looking information has the potential for provisions to be more volatile under AASB 9 than AASB 139.

Changes in the required ECL allowance, including the movements between Stage 1, Stage 2 and Stage 3, will be recorded in the profit or loss.

As a result of the application of the new ECL approach under AASB 9, the following impacts are expected to the Group's provisions and retained earnings:

- The collective provision will increase by $112.8m with a corresponding entry to retained earnings. As a result of this impact an associated deferred tax adjustment will be made for $33.8m along with a corresponding entry to retained earnings.
- The general reserve for credit losses will decrease to $57.3m with a corresponding entry to retained earnings.
- Common Tier 1 Equity will reduce by 8bps, given the movement in retained earnings associated with the above changes.

Hedge Accounting

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under AASB 9. As AASB 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of AASB 9 will not have a significant impact on the Group's financial statements.

AASB 15 *Revenue from Contracts with Customers* replaces AASB 118 *Revenue* and is effective for annual reporting periods beginning on or after 1 January 2018. The core principle of AASB 15 is that revenue is recognised in line with the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group will adopt the standard on its mandatory effective date, being 1 July 2018. The impacts of AASB 15 have been assessed and it is not expected that the standard will have a significant impact to the Group's recognition of revenue.

AASB 16 *Leases* replaces AASB 117 *Leases* and is effective for annual reporting periods beginning on or after 1 January 2019, hence the Group will adopt the standard from 1 July 2019. The new standard requires all leases to be recognised on-balance sheet, except for leases with a term of less than 12 months and leases of low-value assets. Under the requirements of the new standard, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset along with a lease liability representing its obligation to make lease payments. The Group can choose either a full retrospective or a modified retrospective transition approach with the standard providing practical options and exemptions to ease the costs of transition. Lessor accounting remains substantially unchanged. The Group is currently assessing the impacts of the adoption of this standard, however, the main impacts are expected to be in relation to the properties the Group currently accounts for as operating leases.

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

- 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions [AASB 2];*
- 2016-6 *Amendments to Australian Accounting Standards - Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts;*
- 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments [AASB 1, AASB 12, AASB 128 and AASB 140];*

2 **Summary of significant accounting policies** (continued)

- 2017-2 *Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle [AASB 12 and AASB 5]*;
- 2017-3 *Amendments to Australian Accounting Standards - Clarifications to AASB 4*;
- 2017-6 *Amendments to Australian Accounting Standards - Prepayment Features of Negative Compensation*;
- 2017-7 *Amendments to Australia Accounting Standards - long term interests in Associates and Joint Ventures*;
- 2018-1 *Annual improvements to IFRS Standards 2015-2017 Cycle*;
- 2018-2 *Amendments to Australian Accounting Standards - Plan amendment, Curtailment or Settlement*; and
- *AASB Interpretation 23, and relevant amending standards - Uncertainty over Income Tax Treatments*.

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	
	2018	2017	2018	2017
	$m	$m	$m	$m
Net interest income				
Interest income				
Cash and cash equivalents	1.1	2.1	0.9	2.0
Financial assets held for trading	122.6	127.5	122.6	127.5
Financial assets available for sale	4.9	4.5	150.0	170.3
Financial assets held to maturity	9.6	9.6	1.3	0.8
Reverse repurchase agreements	0.2	-	0.2	-
Loans and other receivables	2,521.2	2,502.1	2,052.6	2,024.8
Total interest income	**2,659.6**	**2,645.8**	**2,327.6**	**2,325.4**
Interest expense				
Deposits				
Retail	(951.7)	(1,032.0)	(870.6)	(950.9)
Wholesale - domestic	(191.8)	(204.3)	(191.8)	(204.7)
Wholesale - offshore	(10.5)	(10.1)	(10.5)	(10.1)
Other borrowings				
Notes payable	(122.4)	(109.1)	-	-
Repurchase agreements	(7.9)	(7.9)	(7.5)	(7.7)
Preference shares	(34.9)	(36.0)	(34.9)	(36.0)
Subordinated debt	(35.2)	(32.8)	(34.6)	(32.2)
Total interest expense	**(1,354.4)**	**(1,432.2)**	**(1,149.9)**	**(1,241.6)**
Total net interest income	**1,305.2**	**1,213.6**	**1,177.7**	**1,083.8**
Other revenue				
Fees				
Assets	79.8	80.4	69.8	70.6
Liabilities & other products	85.1	88.1	82.3	86.1
Trustee, management & other services	3.0	3.7	0.6	0.4
Total fee income	**167.9**	**172.2**	**152.7**	**157.1**
Commissions				
Wealth solutions	71.7	72.7	18.4	21.4
Total commissions	**71.7**	**72.7**	**18.4**	**21.4**
Other				
Foreign exchange income	18.8	18.0	18.8	18.0
Factoring products income	5.9	6.4	5.9	6.4
Trading book revaluation income	0.8	19.8	0.9	19.8
Homesafe Trust income	55.4	90.4	-	-
Other	17.8	16.4	22.2	14.9
Total other income	**98.7**	**151.0**	**47.8**	**59.1**
Total other revenue	**338.3**	**395.9**	**218.9**	**237.6**

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 is calculated on an accruals basis using the effective interest method. The effective interest rate 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 a payment is established.

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

Homesafe Trust income reflects 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	
	2018	2017	2018	2017
	$m	$m	$m	$m
Expenses				
Credit expenses				
Specific provision	(79.8)	(72.1)	(74.1)	(64.6)
Collective provision	4.5	0.7	3.3	0.4
Bad debts written off	(3.6)	(15.2)	(1.7)	(4.3)
Bad debts recovered	8.3	14.8	6.4	6.0
Total credit expenses	**(70.6)**	**(71.8)**	**(66.1)**	**(62.5)**
Operating expenses				
Staff and related costs				
Salaries, wages and incentives	(427.1)	(411.8)	(383.7)	(367.6)
Superannuation contributions	(39.5)	(37.4)	(35.5)	(33.3)
Payroll tax	(25.8)	(26.4)	(23.0)	(23.3)
Other	(4.9)	(4.9)	(4.2)	(4.5)
Total staff and related costs	**(497.3)**	**(480.5)**	**(446.4)**	**(428.7)**
Occupancy costs				
Operating lease rentals	(55.8)	(57.2)	(55.6)	(57.0)
Depreciation of leasehold improvements	(8.9)	(10.1)	(8.7)	(10.0)
Other	(26.3)	(24.7)	(25.8)	(24.2)
Total occupancy costs	**(91.0)**	**(92.0)**	**(90.1)**	**(91.2)**
Amortisation and depreciation				
Amortisation of acquired intangibles	(8.2)	(17.7)	(4.6)	(8.5)
Amortisation of software intangibles	(28.0)	(20.8)	(26.9)	(19.4)
Depreciation of property, plant & equipment	(11.5)	(11.7)	(11.0)	(11.3)
Total amortisation and depreciation costs	**(47.7)**	**(50.2)**	**(42.5)**	**(39.2)**
Fees and commissions	**(35.2)**	**(33.6)**	**(8.2)**	**(7.8)**
Other operating expenses				
Communications, postage and stationery	(29.8)	(33.0)	(29.4)	(33.0)
Computer systems and software costs	(77.0)	(71.6)	(73.9)	(68.2)
Advertising and promotion	(28.0)	(28.3)	(25.5)	(25.5)
Other product and services delivery costs	(30.2)	(33.0)	(30.0)	(32.8)
Other expenses	(102.2)	(87.2)	(71.9)	(72.1)
Total other operating expenses	**(267.2)**	**(253.1)**	**(230.7)**	**(231.6)**
Total other expenses	**(938.4)**	**(909.4)**	**(817.9)**	**(798.5)**

3 **Profit** (continued)

Recognition and measurement

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

Credit expenses 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 34 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 35 Share based payment plans for further information on share based payments.

Superannuation contributions are made to an employee accumulation fund and expensed when they become payable. The Group also operates a defined benefits scheme, the membership of which is now closed.

Occupancy costs

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

Amortisation - refer to Note 26 Goodwill and other intangibles for information on the amortisation of 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	
	2018	2017	2018	2017
	$m	$m	$m	$m
Income statement				
Current income tax				
Current income tax charge	(217.6)	(182.3)	(161.0)	(195.6)
Franking credits	1.2	1.2	1.2	1.2
Adjustments in respect of current income tax of previous years	11.3	1.5	11.4	1.5
Deferred income tax				
De-recognition of temporary differences	-	(0.1)	-	(0.1)
Adjustments in respect of deferred income tax of previous years	(10.0)	(1.8)	(10.1)	(1.7)
Relating to origination and reversal of temporary differences	15.1	(17.2)	(4.4)	46.7
Income tax expense reported in the income statement	**(200.0)**	**(198.7)**	**(162.9)**	**(148.0)**
Statement of changes in equity				
Deferred income tax related to items charged or credited directly in equity				
Net gain on cash flow hedge	(3.3)	(13.7)	(3.0)	(13.3)
Net loss/(gain) on available for sale investments	-	0.1	(2.4)	(18.3)
Net gain on revaluation of land and buildings	-	(0.1)	-	-
Actuarial gain on superannuation defined benefits plan	(0.1)	(0.1)	(0.1)	(0.1)
Income tax charged or credited in equity	**(3.4)**	**(13.8)**	**(5.5)**	**(31.7)**
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:				
Accounting profit before income tax	**634.5**	**628.3**	**512.6**	**460.4**
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	(190.3)	(188.5)	(153.8)	(138.1)
Under/(over) provision in prior years	1.3	(0.3)	1.3	(0.2)
Tax credits and adjustments	1.2	1.2	1.2	1.2
Expenditure not allowable for income tax purposes	(11.3)	(11.6)	(10.8)	(11.1)
Other non assessable income	0.1	1.1	0.2	1.0
Tax effect of tax credits and adjustments	(0.4)	(0.4)	(0.4)	(0.4)
De-recognition of temporary differences	-	(0.1)	-	(0.1)
Other	(0.6)	(0.1)	(0.6)	(0.3)
Income tax expense reported in the income statement	**(200.0)**	**(198.7)**	**(162.9)**	**(148.0)**

Deferred income tax

Deferred income tax at 30 June relates to the following:

	Group		Bank	
	2018	2017	2018	2017
Gross deferred tax liabilities	$m	$m	$m	$m
Available for sale financial assets	0.2	0.2	1.7	(0.6)
Deferred expenses	4.2	2.4	4.2	2.4
Derivatives	8.6	11.0	65.7	42.3
Intangible assets on acquisition	2.7	5.1	2.0	3.4
Investment property	98.2	88.7	-	-
Other	17.0	19.2	16.7	18.4
	130.9	**126.6**	**90.3**	**65.9**

4 **Income tax expense** (continued)

Deferred income tax (continued)	Group		Bank	
	2018	2017	2018	2017
Gross deferred tax assets	$m	$m	$m	$m
Derivatives	9.5	15.4	15.3	21.0
Employee benefits	33.2	32.6	32.2	31.6
Provisions	57.1	48.2	53.8	44.8
Other	17.2	14.6	11.1	10.6
	117.0	**110.8**	**112.4**	**108.0**
Tax payable attributable to members of the tax consolidated group	51.5	21.5	51.5	21.5
	51.5	**21.5**	**51.5**	**21.5**

At 30 June 2018, there is no unrecognised deferred income tax liability (2017: Nil) for taxes that would be payable on the unremitted earnings of certain Group's subsidiaries or joint ventures, as the Group has no liability for additional taxation should such amounts be remitted.

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 national 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 credits 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 credits 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. The tax funding 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

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. On 10 August 2018, the Group announced an organisation restructure around our Consumer, Business and Agribusiness customer groups. As such during the 2019 financial year the operating segments will be revised.

Types of products and services

Local connection
Contains all local distribution channels including branch & community banking, business banking, Delphi Bank and financial markets.

Partner connection
Contains all partner distribution channels including mortgage brokers, mortgage managers, mortgage originators, Alliance Partners, Homesafe, Leveraged, portfolio funding, financial planning, wealth management, responsible entity activities, other trustee and custodial services.

The partner connection segment is a combination of the third party and wealth cash generating units.

Agribusiness
Includes the provision of banking services to agribusinesses in rural and regional Australia. Rural Bank and Rural Finance are included within the agribusiness 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. 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 funds 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.

For the year ended 30 June 2018	Operating segments			Total operating segments	Central functions	Total
	Local connection	Partner connection	Agri-business			
	$m	$m	$m	$m	$m	$m
Net interest income	823.9	317.6	163.7	1,305.2	-	1,305.2
Other income	172.4	144.8	8.8	326.0	12.3	338.3
Total segment income	**996.3**	**462.4**	**172.5**	**1,631.2**	**12.3**	**1,643.5**
Operating expenses	(639.3)	(210.5)	(76.1)	(925.9)	(12.5)	(938.4)
Credit expenses	(49.9)	(17.9)	(2.8)	(70.6)	-	(70.6)
Segment result (before tax expense)	**307.1**	**234.0**	**93.6**	**634.7**	**(0.2)**	**634.5**
Tax expense	(96.8)	(73.8)	(29.5)	(200.1)	0.1	(200.0)
Segment result (statutory basis)	**210.3**	**160.2**	**64.1**	**434.6**	**(0.1)**	**434.5**
Cash basis adjustments:						
Specific income & expense items	1.2	(11.1)	3.5	(6.4)	(0.1)	(6.5)
Other specific items	-	11.3	-	11.3	-	11.3
Amortisation of intangibles	2.0	2.6	1.2	5.8	-	5.8
Segment result (cash basis)	**213.5**	**163.0**	**68.8**	**445.3**	**(0.2)**	**445.1**

5 **Segment results** (continued)

For the year ended 30 June 2017	Operating segments			Total operating segments	Central functions	Total
	Local connection	Partner connection	Agri-business			
	$m	$m	$m	$m	$m	$m
Net interest income	766.4	283.2	164.0	1,213.6	-	1,213.6
Other income	180.7	182.7	8.4	371.8	24.1	395.9
Total segment income	**947.1**	**465.9**	**172.4**	**1,585.4**	**24.1**	**1,609.5**
Operating expenses	(628.7)	(190.8)	(79.1)	(898.6)	(10.8)	(909.4)
Credit expenses	(33.0)	(34.6)	(4.2)	(71.8)	-	(71.8)
Segment result (before tax expense)	**285.4**	**240.5**	**89.1**	**615.0**	**13.3**	**628.3**
Tax expense	(90.0)	(75.8)	(28.1)	(193.9)	(4.8)	(198.7)
Segment result (statutory basis)	**195.4**	**164.7**	**61.0**	**421.1**	**8.5**	**429.6**
Cash basis adjustments:						
Specific income & expense items	0.5	(45.0)	4.1	(40.4)	5.6	(34.8)
Other specific items	-	11.1	-	11.1	-	11.1
Amortisation of intangibles	4.8	3.0	4.6	12.4	-	12.4
Segment result (cash basis)	**200.7**	**133.8**	**69.7**	**404.2**	**14.1**	**418.3**

Reportable segment assets and liabilities	Operating segments			Total operating segments	Central functions	Total
	Local connection	Partner connection	Agri-business			
	$m	$m	$m	$m	$m	$m
For the year ended 30 June 2018						
Reportable segment assets	33,960.3	21,789.2	6,542.3	**62,291.8**	9,148.0	**71,439.8**
Reportable segment liabilities	43,041.7	5,025.9	4,235.5	**52,303.1**	9,971.6	**62,274.7**
For the year ended 30 June 2017						
Reportable segment assets	33,433.5	21,526.4	6,295.4	**61,255.3**	10,160.2	**71,415.5**
Reportable segment liabilities	42,821.5	5,598.3	3,906.8	**52,326.6**	9,704.9	**62,031.5**

	As at June 2018	As at June 2017
Total assets for operating segments	71,439.8	71,415.5
Total assets	**71,439.8**	**71,415.5**
Total liabilities for operating segments	62,274.7	62,031.5
Notes payable[1]	3,544.8	3,958.4
Total liabilities	**65,819.5**	**65,989.9**

[1] Refer to Note 10 Deposits and notes payable for further details.

6 Earnings per ordinary share

	Group	
	2018	2017
	Cents per share	Cents per share
Basic	89.9	90.9
Diluted	81.2	82.9
Cash basis	92.1	88.5

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
Net profit after tax	434.5	429.6
Total basic earnings	**434.5**	**429.6**
Earnings used in calculating basic earnings per ordinary share	434.5	429.6
Add back: dividends accrued and/or paid on dilutive preference shares	24.4	25.2
Total diluted earnings	**458.9**	**454.8**
Earnings used in calculating basic earnings per ordinary share	434.5	429.6
Add back: amortisation of acquired intangibles (after tax)	5.8	12.4
Add back: specific income and expense items (after tax)	(6.5)	(34.8)
Add back: Homesafe net realised income	11.3	11.1
Total cash earnings	**445.1**	**418.3**
Specific income and expense items after tax comprise:		
Items included in interest income		
Fair value adjustments - interest expense	(0.8)	(1.8)
Homesafe funding costs - unrealised	(12.0)	(11.1)
Total specific net interest income items	**(12.8)**	**(12.9)**
Items included in non interest income		
Hedge ineffectiveness	1.2	(5.6)
Profit on sale of Estates business	-	2.7
Homesafe Trust - revaluation income	38.8	63.3
Total specific non interest income items	**40.0**	**60.4**
Items included in operating expenses		
Integration costs	(5.3)	(9.2)
Loss on sale of Telco business	(1.2)	-
Impairment (charge)/reversal	(0.4)	1.0
Compensation costs	(0.9)	-
Legal costs	(1.1)	-
Litigation costs	(11.8)	(4.4)
Total specific operating expense items	**(20.7)**	**(12.6)**
Items included in income tax expense		
Tax impacts relating to prior year impairment losses	-	(0.1)
Total specific income tax expense	**-**	**(0.1)**
Total specific items attributable to the Group	**6.5**	**34.8**
Homesafe realised income		
Homesafe revaluation gain	16.6	16.8
Homesafe funding costs	(5.3)	(5.7)
Homesafe net realised income	**11.3**	**11.1**

6 **Earnings per ordinary share** (continued)

Weighted average number of ordinary shares	Group 2018 No. of shares	Group 2017 No. of shares
Weighted average number of ordinary shares (basic)	483,352,983	472,415,559
Effect of dilution - executive performance rights	1,202,975	841,381
Effect of dilution - preference shares	80,399,710	75,639,421
Weighted average number of ordinary shares (diluted)	**564,955,668**	**548,896,361**

Potentially dilutive instruments
The following instruments are potentially dilutive during the reporting period:

	Dilutive 2018	Dilutive 2017
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, divided by the weighted average number of ordinary shares.

Diluted EPS is calculated as net profit after tax, 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 acquired intangibles amortisation, specific income and expense items and Homesafe net realised income, divided by the weighted average number of ordinary shares. All adjustments are net of tax.

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 net profit after tax, adjusted for specific items, acquired intangibles amortisation and Homesafe net realised income. All adjustments are net of tax.

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					
	2018			2017			2018			2017		
Ordinary shares (ASX:BEN)	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
Dividends paid during the year:												
Final dividend	Sept 2017	34.0	159.9	Sept 2016	34.0	155.1	Sept 2017	34.0	159.9	Sept 2016	34.0	155.1
Interim dividend	Mar 2018	35.0	165.1	Mar 2017	34.0	156.3	Mar 2018	35.0	165.1	Mar 2017	34.0	156.3
		69.0	**325.0**		**68.0**	**311.4**		**69.0**	**325.0**		**68.0**	**311.4**
Dividends proposed since the reporting date, but not recognised as a liability:												
Final dividend	Sept 2018	35.0	166.0				Sept 2018	35.0	166.0			

All dividends paid were fully franked at 30% (2017: 30%). Proposed dividends will be fully franked at 30% (2017: 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 2018.

	Group						Bank					
	2018			2017			2018			2017		
	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
Convertible preference shares (recorded as debt instruments) (ASX:BENPD) [1]												
Dividends paid during the year:												
	Dec 2017	240.41	6.5	Dec 2016	249.56	6.7	Dec 2017	240.41	6.5	Dec 2016	249.56	6.7
				Jun 2017	244.33	6.6				Jun 2017	244.33	6.6
		240.41	**6.5**		**493.89**	**13.3**		**240.41**	**6.5**		**493.89**	**13.3**
Convertible preference shares (CPS2) (recorded as debt instruments) (ASX:BENPE)												
Dividends paid during the year:												
	Nov 2017	178.91	5.2	Nov 2016	187.73	5.5	Nov 2017	178.91	5.2	Nov 2016	187.73	5.5
	May 2018	177.73	5.2	May 2017	180.85	5.3	May 2018	177.73	5.2	May 2017	180.85	5.3
		356.64	**10.4**		**368.58**	**10.8**		**356.64**	**10.4**		**368.58**	**10.8**
Convertible preference shares (CPS3) (recorded as debt instruments) (ASX:BENPF)												
Dividends paid during the year:												
	Dec 2017	205.31	5.8	Dec 2016	215.84	6.1	Dec 2017	205.31	5.8	Dec 2016	215.84	6.1
	Jun 2018	207.68	5.9	Jun 2017	209.42	5.9	Jun 2018	207.68	5.9	Jun 2017	209.42	5.9
		412.99	**11.7**		**425.26**	**12.0**		**412.99**	**11.7**		**425.26**	**12.0**
Converting preference shares (CPS4) (recorded as debt instruments) (ASX:BENPG) [2]												
Dividends paid during the year:												
	Mar 2018	95.10	3.1				Mar 2018	95.10	3.1			
	Jun 2018	100.13	3.2				Jun 2018	100.13	3.2			
		195.23	**6.3**					**195.23**	**6.3**			

[1] Convertible preference shares (CPS, ASX:BENPD) were redeemed in December 2017.
[2] Converting preference shares (CPS 4, ASX:BENPG) were issued in December 2017. First dividend payment was made in March 2018.

7 **Dividends** (continued)

Dividend franking account	Group	
	June 2018	June 2017
	$m	$m
Balance of franking account as at the end of the financial year	415.0	392.7
Franking credits that will arise from the payment of income tax provided for in the financial report	51.5	18.8
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	(72.1)	(68.7)
Closing balance	**394.4**	**342.8**

Ordinary Share dividends 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	
	June 2018	June 2017	June 2018	June 2017
	$m	$m	$m	$m
Paid in cash [1]	251.8	217.2	251.8	217.2
Satisfied by issue of shares [2]	73.2	94.2	73.2	94.2
	325.0	**311.4**	**325.0**	**311.4**

[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 Reinvestment Plan

The Dividend Reinvestment Plan provides shareholders with the opportunity to convert their entitlement to a dividend to 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 6 September 2018. 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 6 September 2018. 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 2018 final dividend is 5 September 2018.

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	
		2018	2017	2018	2017
	Note	$m	$m	$m	$m
Loans and other receivables - investments		93.1	76.6	103.2	92.2
Overdrafts		2,732.7	3,125.0	2,726.1	3,114.4
Credit cards		346.0	339.8	346.0	339.8
Term loans		56,123.0	54,901.1	52,433.7	51,527.9
Margin lending		1,694.7	1,726.1	-	-
Lease receivables		597.4	549.2	484.2	438.0
Factoring receivables		63.0	91.1	63.0	91.1
Other		143.6	119.2	143.6	119.2
Gross loans and other receivables		**61,793.5**	**60,928.1**	**56,299.8**	**55,722.6**
Specific provision	9	(119.3)	(89.5)	(105.4)	(75.8)
Collective provision	9	(48.2)	(52.7)	(45.7)	(49.0)
Unearned income		(88.1)	(79.3)	(59.3)	(52.6)
Total provisions and unearned income		**(255.6)**	**(221.5)**	**(210.4)**	**(177.4)**
Deferred costs paid		63.9	70.0	59.3	66.0
Net loans and other receivables		**61,601.8**	**60,776.6**	**56,148.7**	**55,611.2**
Maturity analysis[1]					
At call / overdrafts		6,445.8	6,585.5	4,454.4	4,709.2
Not longer than 3 months		1,298.6	1,208.8	1,204.2	1,008.3
Longer than 3 and not longer than 12 months		2,255.7	2,085.9	1,852.1	1,737.7
Longer than 1 and not longer than 5 years		8,737.8	9,086.0	6,026.5	6,587.2
Longer than 5 years		43,055.6	41,961.9	42,762.6	41,680.2
		61,793.5	**60,928.1**	**56,299.8**	**55,722.6**

[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 rate 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		Bank	
	2018	2017	2018	2017
	$m	$m	$m	$m
Impaired loans				
Loans - without provisions	70.9	79.7	18.5	28.7
Loans - with provisions	260.9	155.7	233.4	134.4
Restructured loans	4.0	47.2	-	42.1
Less: specific provisions	(118.3)	(88.5)	(104.4)	(74.8)
Net impaired loans	**217.5**	**194.1**	**147.5**	**130.4**
Net impaired loans % of net loans and other receivables	0.35%	0.32%	0.26%	0.23%
Portfolio facilities - past due 90 days, not well secured	4.8	5.8	4.8	5.0
Less: specific provisions	(1.0)	(1.0)	(1.0)	(1.0)
Net portfolio facilities	**3.8**	**4.8**	**3.8**	**4.0**
Loans past due 90 days				
Accruing loans past due 90 days, with adequate security balance	493.0	519.0	387.8	439.6
Net fair value of properties acquired through the enforcement of security	84.7	75.2	83.4	69.6

Summary of provisions	Group		Bank	
	2018	2017	2018	2017
	$m	$m	$m	$m
Specific provision				
Opening balance	89.5	125.3	75.8	87.0
Charged to income statement	79.8	72.1	74.2	64.6
Impaired debts written off applied to specific provision	(50.0)	(107.9)	(44.6)	(75.8)
Closing balance	**119.3**	**89.5**	**105.4**	**75.8**
Collective provision				
Opening balance	52.7	53.4	49.0	49.4
Released to income statement	(4.5)	(0.7)	(3.3)	(0.4)
Closing balance	**48.2**	**52.7**	**45.7**	**49.0**
General reserve for credit losses (GRCL)				
Opening balance	140.3	146.9	121.7	128.3
Released to equity	-	(6.6)	-	(6.6)
Closing balance	**140.3**	**140.3**	**121.7**	**121.7**
Total provisions and reserve	**307.8**	**282.5**	**272.8**	**246.5**
Ratios				
Specific provision as % of gross loans	0.19%	0.15%		
Total provisions and reserve as % of gross loans	0.50%	0.46%		
Collective provision and general reserve for credit losses as a % of risk-weighted assets	0.49%	0.51%		
Provision coverage [1]	91.66%	99.96%		

[1] Provision coverage is calculated as total provisions and reserve divided by total gross 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 thefinancial 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 collectability 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 unrecoverable.

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 (eg 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, 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	
	2018	2017	2018	2017
	$m	$m	$m	$m
Retail				
At call	24,050.7	23,100.6	22,372.2	21,595.1
Term	20,066.9	20,441.3	19,390.9	19,884.2
Financial Markets	6,496.9	7,201.2	4,868.7	5,727.9
Total retail deposits	**50,614.5**	**50,743.1**	**46,631.8**	**47,207.2**
Wholesale				
Domestic	8,696.7	7,968.6	8,678.8	7,949.0
Offshore	218.3	582.4	218.3	582.4
Total wholesale deposits	**8,915.0**	**8,551.0**	**8,897.1**	**8,531.4**
Total deposits	**59,529.5**	**59,294.1**	**55,528.9**	**55,738.6**
Deposits by geographic location				
Victoria	26,478.3	25,724.7	25,499.0	25,032.9
New South Wales	15,191.3	15,252.4	13,867.6	13,963.3
Queensland	5,449.1	5,425.8	5,028.8	5,088.7
South Australia/Northern Territory	5,361.6	5,940.5	4,777.2	5,286.9
Western Australia	3,696.0	3,552.9	3,218.0	3,124.0
Australian Capital Territory	1,790.4	1,810.6	1,728.0	1,745.6
Tasmania	1,179.6	1,080.9	1,029.1	994.3
Overseas	383.2	506.3	381.2	502.9
Total deposits	**59,529.5**	**59,294.1**	**55,528.9**	**55,738.6**
Total notes payable	**3,544.8**	**3,958.4**	-	-

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 **Preference shares**

	Group		Bank	
	2018	2017	2018	2017
	$m	$m	$m	$m
CPS (ASX Code:BENPD)[1]				
Nov 2012: 2,688,703 fully paid $100 Convertible preference shares	-	268.9	-	268.9
Unamortised issue costs	-	(0.7)	-	(0.7)
	-	**268.2**	**-**	**268.2**
CPS2 (ASX Code:BENPE)				
Oct 2014: 2,921,188 fully paid $100 Convertible preference shares	292.1	292.1	292.1	292.1
Unamortised issue costs	(4.1)	(5.9)	(4.1)	(5.9)
	288.0	**286.2**	**288.0**	**286.2**
CPS3 (ASX Code:BENPF)				
June 2015: 2,822,108 fully paid $100 Convertible preference shares	282.2	282.2	282.2	282.2
Unamortised issue costs	(4.9)	(6.5)	(4.9)	(6.5)
	277.3	**275.7**	**277.3**	**275.7**
CPS4 (ASX Code:BENPB)[2]				
December 2017: 3,216,145 fully paid $100 Converting preference shares	321.6	-	321.6	-
Unamortised issue costs	(6.0)	-	(6.0)	-
	315.6	**-**	**315.6**	**-**
Total preference shares	**880.9**	**830.1**	**880.9**	**830.1**

[1] BENPD - ASX code - Convertible Non-Cumulative Preference Shares (CPS). These shares were redeemed in December 2017.

[2] Converting preference shares (CPS 4, ASX:BENPG) were issued in December 2017 and as such the first dividend payment occurred in March 2018.

Nature of shares

Preference shares are long term in nature and are perpetual, hence they do not have a fixed maturity date. However the shares may be redeemed at the discretion of the Group 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 http://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 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 preference shares form part of the Group'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.

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	
	2018	2017	2018	2017
	$m	$m	$m	$m
Subordinated debt	**709.2**	**708.7**	**699.2**	**698.7**
Maturity analysis				
Longer than 1 and not longer than 5 years	563.1	260.6	553.1	250.6
Over 5 years	146.1	448.1	146.1	448.1
	709.2	**708.7**	**699.2**	**698.7**

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 2018 $m	Repurchase agreements 2017 $m	Securitisation 2018 $m	Securitisation 2017 $m
Carrying amount of transferred assets [1]	523.1	521.8	3,493.2	3,902.1
Carrying amount of associated liabilities [2]	523.1	521.8	3,521.3	3,934.5
Fair value of transferred assets			3,488.0	3,896.4
Fair value of associated liabilities			3,537.9	3,946.9
Net Position			**(49.9)**	**(50.5)**

Bank	Repurchase agreements 2018 $m	Repurchase agreements 2017 $m	Securitisation 2018 $m	Securitisation 2017 $m
Carrying amount of transferred assets	505.1	503.5	8,097.9	8,134.5
Carrying amount of associated liabilities [3]	505.1	503.5	8,390.5	8,397.5
Fair value of transferred assets			8,086.8	8,113.5
Fair value of associated liabilities			8,410.2	8,407.1
Net Position			**(323.4)**	**(293.6)**

[1] Represents the carrying value of the loans transferred to the trust.
[2] Securitisation liabilities of the Group include RMBS notes issued by the SPEs and held by external parties.
[3] Securitisation liabilities of the Bank include borrowings from SPEs including the SPEs 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 (SPEs) to securitise customer loans and advances that it has originated, in order to source funding, and/or for 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 the 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

SPEs 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 SPEs.

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

Securitised and sold loans

The Group securitised loans totalling $746.6 million (2017: $1,939.4 million) during the financial year. The Group invests in some of its own securitisation programs by holding A and B class notes equivalent to $5,338.2 million as at 30 June 2018 (2017: $4,960.1 million).

14 **Standby arrangements and uncommitted credit facilities**

	Group		Bank	
	2018	2017	2018	2017
	$m	$m	$m	$m
Amount available:				
Offshore borrowing facility	10,887.5	10,866.2	10,887.5	10,866.2
Domestic note program	6,000.0	6,000.0	5,000.0	5,000.0
Amount utilised:				
Offshore borrowing facility	216.2	583.2	216.2	583.2
Domestic note program	3,795.0	3,416.4	3,785.0	3,405.0
Amount not utilised:				
Offshore borrowing facility	10,671.3	10,283.0	10,671.3	10,283.0
Domestic note program	2,205.0	2,583.6	1,215.0	1,595.0

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; and
- Ensure that capital management is closely aligned with the Group's business and strategic objectives.

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 ranked capital instruments acceptable to APRA.

Tier 2 capital is comprised primarily of subordinated debt instruments acceptable to APRA.

Total capital is the aggregate of Tier 1 and Tier 2 capital. The Group has adopted the 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 current financial year.

16 Share capital

	Group		Bank	
	2018	2017	2018	2017
Issued and paid up capital	$m	$m	$m	$m
Ordinary shares (ASX Code: BEN) fully paid - 486,418,481 (2017: 479,206,464)	4,529.9	4,456.7	4,529.9	4,456.7
Employee Share Ownership Plan	(6.6)	(8.0)	(6.6)	(8.0)
	4,523.3	**4,448.7**	**4,523.3**	**4,448.7**
Movements in ordinary shares on issue				
Opening balance 1 July - 479,206,464 (2017: 463,762,656)	4,456.7	4,298.4	4,456.7	4,298.4
Shares issued under:				
Bonus share scheme - 266,098 @ $11.39, 396,330 @ $10.70 (2017: 436,024 @ 11.46; 253,203 @ $10.04)	-	-	-	-
Dividend reinvestment plan - 4,390,045 @ $11.39; 2,159,544 @ $10.70 (2017: 4,212,626 @ $11.46; 4,568,195 @ $10.04)	73.2	94.2	73.2	94.2
Share purchase plan - Nil (2017: 5,769,074 @ $10.75)	-	62.0	-	62.0
Employee share plan - Nil (2017: 204,686 @ $11.94)	-	2.4	-	2.4
Share issue costs	-	(0.3)	-	(0.3)
Closing balance 30 June - 486,418,481 (2017: 479,206,464)	**4,529.9**	**4,456.7**	**4,529.9**	**4,456.7**
Movements in Employee Share Ownership Plan				
Opening balance	(8.0)	(10.2)	(8.0)	(10.2)
Reduction in Employee Share Ownership Plan	1.4	2.2	1.4	2.2
Closing balance	**(6.6)**	**(8.0)**	**(6.6)**	**(8.0)**
Total issued and paid up capital	**4,523.3**	**4,448.7**	**4,523.3**	**4,448.7**

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.

Recognition and measurement

Ordinary shares are classified as equity. Issued ordinary capital is 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 earning and reserves

Retained earnings	Group		Bank	
	2018	2017	2018	2017
Movements	$m	$m	$m	$m
Opening balance	864.6	739.2	254.0	240.8
Profit for the year	434.5	429.6	349.7	312.4
Share based payment	2.6	0.4	2.6	0.4
Operational risk reserve	(1.5)	-	-	-
Movements in general reserve for credit losses	-	6.6	-	6.6
Transfer from asset revaluation reserve	0.4	-	0.5	-
Dividends	(325.0)	(311.4)	(325.0)	(311.4)
Deregistration of subsidiary company	-	-	-	5.0
Defined benefits actuarial adjustment	0.4	0.3	0.4	0.3
Tax effect of defined benefits actuarial adjustment	(0.1)	(0.1)	(0.1)	(0.1)
Closing balance	**975.9**	**864.6**	**282.1**	**254.0**
Reserve movements				
Employee benefits reserve				
Opening balance	9.5	10.3	9.5	10.3
Net decrease in reserve	0.1	(0.8)	0.1	(0.8)
Closing balance	**9.6**	**9.5**	**9.6**	**9.5**
Asset revaluation reserve - property				
Opening balance	1.5	1.3	0.5	0.4
Transfer asset revaluation reserve to retained earnings	(0.6)	-	(0.6)	-
Tax effect of movement in asset revaluation reserve	0.2	-	0.1	-
Net revaluation increments	-	0.3	-	0.1
Tax effect of net revaluation increments	-	(0.1)	-	-
Closing balance	**1.1**	**1.5**	**-**	**0.5**
Asset revaluation reserve - available for sale equity securities				
Opening balance	0.4	1.5	-	1.2
Revaluation increments/(decrements)	0.2	(1.6)	-	(1.7)
Tax effect of revaluation increments/(decrements)	(0.1)	0.5	-	0.5
Closing balance	**0.5**	**0.4**	**-**	**-**
Asset revaluation reserve - available for sale debt securities				
Opening balance	(0.1)	(0.9)	(1.5)	(45.4)
Net unrealised gain/(loss)	(0.1)	0.9	7.9	62.4
Transfer to income on sale	-	0.3	-	0.3
Tax effect of net unrealised gains/(losses)	0.1	(0.4)	(2.4)	(18.8)
Closing balance	**(0.1)**	**(0.1)**	**4.0**	**(1.5)**
Operational risk reserve				
Opening balance	1.8	1.8	-	-
Movement operational risk reserve	1.5	-	-	-
Operational risk event applied to reserve	(0.1)	-	-	-
Closing balance	**3.2**	**1.8**	**-**	**-**

17 **Retained earning and reserves** (continued)

	Group		Bank	
	2018	2017	2018	2017
Reserve movements (continued)	$m	$m	$m	$m
Cash flow hedge reserve				
Opening balance	(20.7)	(52.6)	(20.1)	(51.1)
Changes due to mark to market	10.9	45.6	10.0	44.3
Tax effect of changes due to mark to market	(3.3)	(13.7)	(3.0)	(13.3)
Closing balance	**(13.1)**	**(20.7)**	**(13.1)**	**(20.1)**
General reserve for credit losses (GRCL)				
Opening balance	140.3	146.9	121.7	128.3
Increase/(decrease) in GRCL	-	(6.6)	-	(6.6)
Closing balance	**140.3**	**140.3**	**121.7**	**121.7**
Acquisition reserve				
Opening balance	(20.4)	(20.4)	-	-
Closing balance	**(20.4)**	**(20.4)**	**-**	**-**
Total reserves	**121.1**	**112.3**	**122.2**	**110.1**

Nature and purpose of reserves

Employee benefits reserve

The reserve records the value of equities issued to non-executive employees under the Employee Share Ownership Plan and the value of deferred shares and rights granted to Executive employees under the Employee Salary Sacrifice, Deferred Share and Performance Share Plan. Further details regarding these employee equity plans are disclosed within Note 35 Share based payment plans.

Asset revaluation reserve - property

The reserve records revaluation adjustments to 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 for trading
- Available for sale
- Held to maturity
- Non-trading liabilities (refer Treasury and Funding Section)

18 Financial assets held for trading

	Group		Bank	
	2018	2017	2018	2017
	$m	$m	$m	$m
Discount securities	1,347.5	2,126.0	1,347.5	2,126.3
Floating rate notes	709.5	232.3	709.5	232.3
Government securities	2,442.5	3,299.3	2,442.5	3,299.3
Total financial assets held for trading	**4,499.5**	**5,657.6**	**4,499.5**	**5,657.9**
Maturity analysis				
Not longer than 3 months	1,768.3	2,092.7	1,768.3	2,092.7
Longer than 3 and not longer than 12 months	545.8	496.7	545.8	496.7
Longer than 1 and not longer than 5 years	1,798.4	2,398.2	1,798.4	2,398.2
Over 5 years	387.0	670.0	387.0	670.3
	4,499.5	**5,657.6**	**4,499.5**	**5,657.9**

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	
	2018	2017	2018	2017
	$m	$m	$m	$m
Debt securities				
Negotiable certificates of deposit	159.5	151.1	-	-
Mortgage backed securities	43.2	60.6	43.2	60.6
Security deposits	67.0	120.3	67.0	120.3
Securitisation notes	-	-	5,343.9	4,957.9
Liquidity collateral	171.6	18.0	17.7	16.5
Total financial assets available for sale - debt	**441.3**	**350.0**	**5,471.8**	**5,155.3**
Equity investments				
Listed share investments	0.1	0.1	0.1	0.1
Unlisted share investments	27.6	31.9	18.7	23.0
Total financial assets available for sale - equity	**27.7**	**32.0**	**18.8**	**23.1**
Total financial assets available for sale	**469.0**	**382.0**	**5,490.6**	**5,178.4**
Maturity analysis				
Not longer than 3 months	119.8	35.0	-	-
Longer than 3 and not longer than 12 months	51.2	127.2	11.5	11.2
Longer than 1 and not longer than 5 years	31.7	49.4	31.7	49.4
Over 5 years	171.6	18.1	5,361.7	4,957.9
Non-maturing	94.7	152.3	85.7	159.9
	469.0	**382.0**	**5,490.6**	**5,178.4**
Recognised gains/(losses) before tax:				
Gain/(loss) recognised directly in equity	0.1	(0.7)	7.9	60.7
Amount removed from equity and recognised in (profit)/loss	-	0.3	-	0.3

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 with gains and losses 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	
	2018	2017	2018	2017
	$m	$m	$m	$m
Negotiable certificates of deposit	209.5	185.0	-	-
Floating rate notes	148.4	122.5	-	-
Other deposits	55.3	71.2	49.5	65.8
Total financial assets held to maturity	**413.2**	**378.7**	**49.5**	**65.8**
Maturity analysis				
Not longer than 3 months	112.8	195.5	49.0	63.7
Longer than 3 and not longer than 12 months	170.9	107.9	-	-
Longer than 1 and not longer than 5 years	123.2	67.9	-	-
Over 5 years	6.3	7.4	0.5	2.1
	413.2	**378.7**	**49.5**	**65.8**

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 2018				Group 2017			
	Notional amount	Fair value assets	Fair value liabilities	Net fair value	Notional amount	Fair value assets	Fair value liabilities	Net fair value
	$m	$m	$m	$m	$m	$m	$m	$m
Included in derivatives category								
Derivatives held for trading								
Futures	2,128.5	-	-	-	3,334.7	-	-	-
Interest rate swaps	24,923.6	11.9	(10.1)	1.8	20,305.0	16.0	(17.1)	(1.1)
Foreign exchange contracts	71.8	0.5	(0.3)	0.2	79.4	0.6	(0.4)	0.2
	27,123.9	**12.4**	**(10.4)**	**2.0**	**23,719.1**	**16.6**	**(17.5)**	**(0.9)**
Derivatives held as fair value hedges								
Interest rate swaps	7.1	-	(0.5)	(0.5)	13.9	-	(0.9)	(0.9)
Cross currency swaps	156.8	15.2	-	15.2	156.8	16.3	-	16.3
	163.9	**15.2**	**(0.5)**	**14.7**	**170.7**	**16.3**	**(0.9)**	**15.4**
Derivatives held as cash flow hedges								
Interest rate swaps	20,828.4	2.1	(23.9)	(21.8)	14,734.0	4.9	(40.6)	(35.7)
	20,828.4	**2.1**	**(23.9)**	**(21.8)**	**14,734.0**	**4.9**	**(40.6)**	**(35.7)**
Total derivatives	**48,116.2**	**29.7**	**(34.8)**	**(5.1)**	**38,623.8**	**37.8**	**(59.0)**	**(21.2)**

	Bank 2018				Bank 2017			
	Notional amount	Fair value assets	Fair value liabilities	Net fair value	Notional amount	Fair value assets	Fair value liabilities	Net fair value
	$m	$m	$m	$m	$m	$m	$m	$m
Included in derivatives category								
Derivatives held for trading								
Futures	2,128.5	-	-	-	3,334.7	-	-	-
Interest rate swaps	37,209.2	202.4	(29.4)	173.0	29,943.0	120.2	(36.7)	83.5
Foreign exchange contracts	71.8	0.5	(0.3)	0.2	79.4	0.6	(0.4)	0.2
	39,409.5	**202.9**	**(29.7)**	**173.2**	**33,357.1**	**120.8**	**(37.1)**	**83.7**
Derivatives held as fair value hedges								
Interest rate swaps	7.1	-	(0.5)	(0.5)	13.9	-	(0.9)	(0.9)
Cross currency swaps	156.8	15.2	-	15.2	156.8	16.3	-	16.3
	163.9	**15.2**	**(0.5)**	**14.7**	**170.7**	**16.3**	**(0.9)**	**15.4**
Derivatives held as cash flow hedges								
Interest rate swaps	20,781.9	2.1	(23.9)	(21.8)	13,402.1	4.9	(39.6)	(34.7)
	20,781.9	**2.1**	**(23.9)**	**(21.8)**	**13,402.1**	**4.9**	**(39.6)**	**(34.7)**
Total derivatives	**60,355.3**	**220.2**	**(54.1)**	**166.1**	**46,929.9**	**142.0**	**(77.6)**	**64.4**

21 **Derivative financial instruments** (continued)

As at 30 June 2018 hedged cash flows are expected to occur and affect the income statement as follows:

Group	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Greater than 5 years
2018	$m	$m	$m	$m	$m	$m
Forecast cash inflows	571.6	100.9	33.9	14.3	9.4	16.7
Forecast cash outflows	(578.5)	(105.6)	(35.4)	(14.7)	(8.7)	(16.7)
Forecast net cash outflows	**(6.9)**	**(4.7)**	**(1.5)**	**(0.4)**	**0.7**	**-**
2017						
Forecast cash inflows	388.1	229.5	33.9	16.8	7.5	21.4
Forecast cash outflows	(425.7)	(244.8)	(39.5)	(18.5)	(8.0)	(21.1)
Forecast net cash outflows	**(37.6)**	**(15.3)**	**(5.6)**	**(1.7)**	**(0.5)**	**0.3**
Bank						
2018						
Forecast cash inflows	594.5	102.5	33.9	14.3	9.4	16.7
Forecast cash outflows	(600.6)	(107.1)	(35.4)	(14.7)	(8.7)	(16.7)
Forecast net cash outflows	**(6.1)**	**(4.6)**	**(1.5)**	**(0.4)**	**0.7**	**-**
2017						
Forecast cash inflows	359.3	227.7	33.2	16.6	7.5	21.4
Forecast cash outflows	(396.1)	(242.6)	(38.5)	(18.2)	(8.0)	(21.1)
Forecast net cash outflows	**(36.8)**	**(14.9)**	**(5.3)**	**(1.6)**	**(0.5)**	**0.3**

	Group		Bank	
	2018	2017	2018	2017
Net gains /(losses) arising from hedge ineffectiveness	$m	$m	$m	$m
Gains/ (losses) arising from fair value hedges				
Losses on hedging instruments	(0.7)	(5.9)	(0.7)	(5.9)
Gains on the hedged items attributable to the hedged risk	0.9	3.8	0.9	3.8
Gains on hedges, (not in a hedge accounting relationship)				
Gains/(losses) on hedges	1.5	(6.0)	2.1	(6.0)
	1.7	**(8.1)**	**2.3**	**(8.1)**

Nature and purpose

The Group uses derivative financial instruments primarily to manage risk, including interest rate risk and foreign currency rate risk.

Note 29 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 remeasured 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.

21 **Derivative financial instruments** (continued)

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 and cross currency 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 and exchange 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 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 the 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 the right of set-off is only enforceable by the parties to the agreement 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
	2018		2017	
	$m	$m	$m	$m
Amounts subject to enforceable master netting or similar agreements				
Amounts of recognised financial assets/liabilities reported on the balance sheet	27.5	(34.2)	32.6	(58.6)
Related amounts not set-off on the balance sheet				
Financial collateral (received)/pledged	(10.7)	32.6	(15.5)	58.4
Net amount	**16.8**	**(1.6)**	**17.1**	**(0.2)**
Financial assets/liabilities not subject to enforceable master netting or similar agreements	2.2	(0.6)	5.2	(0.4)
Total financial assets/liabilities recognised on the balance sheet	**29.7**	**(34.8)**	**37.8**	**(59.0)**

21 **Derivative financial instruments** (continued)

Offsetting financial assets and financial liabilities (continued)

	Bank			
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
	2018		2017	
	$m	$m	$m	$m
Amounts subject to enforceable master netting or similar agreements				
Amounts of recognised financial assets/liabilities reported on the balance sheet	218.0	(53.5)	136.8	(77.2)
Related amounts not set-off on the balance sheet				
Financial collateral (received)/pledged	(10.7)	32.6	(15.5)	58.4
Net amount	**207.3**	**(20.9)**	**121.3**	**(18.8)**
Financial assets/liabilities not subject to enforceable master netting or similar agreements	2.2	(0.6)	5.2	(0.4)
Total financial assets/liabilities recognised on the balance sheet	**220.2**	**(54.1)**	**142.0**	**(77.6)**

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 and loss	At fair value through reserves	Held at amortised cost		Total
	Derivatives	Held for trading	Available for sale	Loans and receivables	Other financial instruments	
2018	$m	$m	$m	$m	$m	$m
Financial assets						
Cash and cash equivalents	-	-	-	-	1,137.4	1,137.4
Due from other financial institutions	-	-	-	-	283.0	283.0
Financial assets held to maturity	-	-	-	-	413.2	413.2
Financial assets held for trading	-	4,499.5	-	-	-	4,499.5
Financial assets available for sale	-	-	469.0	-	-	469.0
Loans and other receivables	-	-	-	61,601.8	-	61,601.8
Derivatives	29.7	-	-	-	-	29.7
Total financial assets	**29.7**	**4,499.5**	**469.0**	**61,601.8**	**1,833.6**	**68,433.6**
Financial liabilities						
Due to other financial institutions	-	-	-	-	352.5	352.5
Deposits	-	-	-	-	59,529.5	59,529.5
Notes payable	-	-	-	-	3,544.8	3,544.8
Derivatives	34.8	-	-	-	-	34.8
Preference shares	-	-	-	-	880.9	880.9
Subordinated debt	-	-	-	-	709.2	709.2
Total financial liabilities	**34.8**	**-**	**-**	**-**	**65,016.9**	**65,051.7**
2017						
Financial assets						
Cash and cash equivalents	-	-	-	-	996.6	996.6
Due from other financial institutions	-	-	-	-	277.8	277.8
Financial assets held to maturity	-	-	-	-	378.7	378.7
Financial assets held for trading	-	5,657.6	-	-	-	5,657.6
Financial assets available for sale	-	-	382.0	-	-	382.0
Loans and other receivables	-	-	-	60,776.6	-	60,776.6
Derivatives	37.8	-	-	-	-	37.8
Total financial assets	**37.8**	**5,657.6**	**382.0**	**60,776.6**	**1,653.1**	**68,507.1**
Financial liabilities						
Due to other financial institutions	-	-	-	-	328.4	328.4
Deposits	-	-	-	-	59,294.1	59,294.1
Notes payable	-	-	-	-	3,958.4	3,958.4
Derivatives	59.0	-	-	-	-	59.0
Preference shares	-	-	-	-	830.1	830.1
Subordinated debt	-	-	-	-	708.7	708.7
Total financial liabilities	**59.0**	**-**	**-**	**-**	**65,119.7**	**65,178.7**

22 **Financial instruments** (continued)

a) Measurement basis of financial assets and liabilities (continued)

Bank	Held at fair value	At fair value through profit and loss	At fair value through reserves	Held at amortised cost		Total
	Derivatives	Held for trading	Available for sale	Loans and receivables	Other financial instruments	
2018	$m	$m	$m	$m	$m	$m
Financial assets						
Cash and cash equivalents	-	-	-	-	836.8	836.8
Due from other financial institutions	-	-	-	-	295.8	295.8
Financial assets held to maturity	-	-	-	-	49.5	49.5
Financial assets held for trading	-	4,499.5	-	-	-	4,499.5
Financial assets available for sale	-	-	5,490.6	-	-	5,490.6
Loans and other receivables	-	-	-	56,148.7	-	56,148.7
Derivatives	220.2	-	-	-	-	220.2
Total financial assets	**220.2**	**4,499.5**	**5,490.6**	**56,148.7**	**1,182.1**	**67,541.1**
Financial liabilities						
Due to other financial institutions	-	-	-	-	346.7	346.7
Deposits	-	-	-	-	55,528.9	55,528.9
Derivatives	54.1	-	-	-	-	54.1
Preference shares	-	-	-	-	880.9	880.9
Subordinated debt	-	-	-	-	699.2	699.2
Total financial liabilities	**54.1**	**-**	**-**	**-**	**57,455.7**	**57,509.8**
2017						
Financial assets						
Cash and cash equivalents	-	-	-	-	822.2	822.2
Due from other financial institutions	-	-	-	-	278.1	278.1
Financial assets held to maturity	-	-	-	-	65.8	65.8
Financial assets held for trading	-	5,657.9	-	-	-	5,657.9
Financial assets available for sale	-	-	5,178.4	-	-	5,178.4
Loans and other receivables	-	-	-	55,611.2	-	55,611.2
Derivatives	142.0	-	-	-	-	142.0
Total financial assets	**142.0**	**5,657.9**	**5,178.4**	**55,611.2**	**1,166.1**	**67,755.6**
Financial liabilities						
Due to other financial institutions	-	-	-	-	328.0	328.0
Deposits	-	-	-	-	55,738.6	55,738.6
Derivatives	77.6	-	-	-	-	77.6
Preference shares	-	-	-	-	830.1	830.1
Subordinated debt	-	-	-	-	698.7	698.7
Total financial liabilities	**77.6**	**-**	**-**	**-**	**57,595.4**	**57,673.0**

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.

22 **Financial instruments** (continued)

b) Fair value measurement (continued)

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	Level 1	Level 2	Level 3	Total fair value	Total carrying value
2018	$m	$m	$m	$m	$m
Financial assets					
Financial assets held for trading	-	4,499.5	-	4,499.5	4,499.5
Financial assets available for sale	0.1	450.3	18.6	469.0	469.0
Derivatives	-	29.7	-	29.7	29.7
Financial liabilities					
Derivatives	-	34.8	-	34.8	34.8
2017					
Financial assets					
Financial assets held for trading	-	5,657.6	-	5,657.6	5,657.6
Financial assets available for sale	0.1	358.9	23.0	382.0	382.0
Derivatives	-	37.8	-	37.8	37.8
Financial liabilities					
Derivatives	-	59.0	-	59.0	59.0
Bank					
2018	$m	$m	$m	$m	$m
Financial assets					
Financial assets held for trading	-	4,499.5	-	4,499.5	4,499.5
Financial assets available for sale	0.1	5,471.9	18.6	5,490.6	5,490.6
Derivatives	-	220.2	-	220.2	220.2
Financial liabilities					
Derivatives	-	54.1	-	54.1	54.1
2017					
Financial assets					
Financial assets held for trading	-	5,657.9	-	5,657.9	5,657.9
Financial assets available for sale	0.1	5,155.3	23.0	5,178.4	5,178.4
Derivatives	-	142.0	-	142.0	142.0
Financial liabilities					
Derivatives	-	77.6	-	77.6	77.6

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.

22 **Financial instruments** (continued)

Valuation methodology

Financial instruments - debt securities

Each month, independent valuations are determined by the middle office department of the Group's Risk Management 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:

	Group		Bank	
Financial assets - equity investments	2018	2017	2018	2017
	$m	$m	$m	$m
Opening balance	23.0	21.2	23.0	21.2
Impairment charge	(0.4)	(0.3)	(0.4)	(0.3)
Purchases	-	2.4	-	2.4
Sales	-	(0.3)	-	(0.3)
Transfers out	(4.0)	-	(4.0)	-
Closing balance	**18.6**	**23.0**	**18.6**	**23.0**

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	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
2018	$m	$m	$m	$m	$m
Financial assets					
Cash and cash equivalents	983.3	154.1	-	1,137.4	1,137.4
Due from other financial institutions	-	283.0	-	283.0	283.0
Financial assets held to maturity	-	413.2	-	413.2	413.2
Loans and other receivables	-	-	61,664.6	61,664.6	61,601.8
Financial liabilities					
Due to other financial institutions	-	352.5	-	352.5	352.5
Deposits	-	59,594.9	-	59,594.9	59,529.5
Notes payable	-	3,560.1	-	3,560.1	3,544.8
Preference shares	882.2	-	-	882.2	880.9
Subordinated debt	-	704.2	-	704.2	709.2

22 **Financial instruments** (continued)

Financial assets and liabilities carried at amortised cost (continued)

Valuation hierarchy (continued)

Group	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
2017	$m	$m	$m	$m	$m
Financial assets					
Cash and cash equivalents	819.0	177.6	-	996.6	996.6
Due from other financial institutions	-	277.8	-	277.8	277.8
Financial assets held to maturity	-	378.7	-	378.7	378.7
Loans and other receivables	-	-	60,880.0	60,880.0	60,776.6
Financial liabilities					
Due to other financial institutions	-	328.4	-	328.4	328.4
Deposits	-	59,362.1	-	59,362.1	59,294.1
Notes payable	-	3,970.4	-	3,970.4	3,958.4
Preference shares	838.0	-	-	838.0	830.1
Subordinated debt	-	701.9	-	701.9	708.7
Bank					
2018					
Financial assets					
Cash and cash equivalents	682.7	154.1	-	836.8	836.8
Due from other financial institutions	-	295.8	-	295.8	295.8
Financial assets held to maturity	-	49.5	-	49.5	49.5
Loans and other receivables	-	-	56,207.7	56,207.7	56,148.7
Financial liabilities					
Due to other financial institutions	-	346.7	-	346.7	346.7
Deposits	-	55,586.2	-	55,586.2	55,528.9
Preference shares	882.2	-	-	882.2	880.9
Subordinated debt	-	694.2	-	694.2	699.2
2017					
Financial assets					
Cash and cash equivalents	644.6	177.6	-	822.2	822.2
Due from other financial institutions	-	278.1	-	278.1	278.1
Financial assets held to maturity	-	65.8	-	65.8	65.8
Loans and other receivables	-	-	55,701.7	55,701.7	55,611.2
Financial liabilities					
Due to other financial institutions	-	328.0	-	328.0	328.0
Deposits	-	55,799.0	-	55,799.0	55,738.6
Preference shares	838.0	-	-	838.0	830.1
Subordinated debt	-	691.9	-	691.9	698.7

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 Bank.

22 **Financial instruments** (continued)

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 and 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 arm's 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.

Preference shares

The fair value for 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 **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 home owners in Sydney and Melbourne residential properties.

	Group		Bank	
	2018	2017	2018	2017
	$m	$m	$m	$m
Opening balance	666.3	573.4	-	-
Additions	59.0	50.2	-	-
Disposals	(45.0)	(47.7)	-	-
Homesafe Trust income	55.4	90.4	-	-
Total investment property	**735.7**	**666.3**	**-**	**-**

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

Valuation technique	Significant unobservable inputs		Range of estimates (weighted -average) for unobservable inputs	Fair value measurement sensitivity to unobservable inputs	Effect of reasonably possible alternative assumptions	
					Favourable change	Unfavourable change
		$m[1]			$m	$m
Discounted cash flow	Rates of property appreciation - long term growth rate 6%	735.7	5% - 7%	Significant increases in these inputs would result in higher fair values.	89.9	(46.1)
	Discount rates - 7.75%	735.7	6.75% - 8.75%	Significant increases in these inputs would result in lower fair values.	90.4	(45.5)

[1] This includes a fair value adjustment of $31.2m which reflects an assumed 3% increase in property prices for the next 18 months before returning to a long term growth rate of 6%.

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.

24 Cash flow statement reconciliation

	Group		Bank	
	2018	2017	2018	2017
	$m	$m	$m	$m
Profit after tax	**434.5**	**429.6**	**349.7**	**312.4**
Non-cash items				
Bad debts expense	78.9	86.6	72.5	68.5
Amortisation	36.2	38.5	31.5	27.9
Depreciation (including leasehold improvements)	20.4	21.8	19.7	21.3
Revaluation increments	(27.5)	(88.1)	3.4	(22.4)
Equity settled transactions	3.7	-	3.5	-
Share of net (profit)/loss from joint arrangements and associates	(2.3)	(1.1)	(2.4)	(1.3)
Dividends received/(accrued) from joint ventures	(1.3)	-	(1.0)	-
Impairment write down/(reversal)	0.4	(0.8)	0.4	(1.5)
Fair value acquisition adjustments	7.8	7.9	7.8	4.1
Hedge (losses)/gains in relation to ineffectiveness	(1.7)	8.1	(2.3)	7.9
Changes in assets and liabilities				
Increase/(decrease) in tax provision	30.0	(13.0)	(45.7)	(13.0)
(Decrease)/increase in deferred tax assets & liabilities	(1.9)	32.9	19.9	(13.6)
(Increase)/decrease in derivatives	(16.1)	(11.6)	(101.7)	115.2
Decrease in accrued interest	(26.4)	(1.2)	(22.1)	(1.5)
Decrease in accrued employee entitlements	1.7	12.4	1.9	13.1
(Increase)/decrease in other accruals, receivables and provisions	(141.9)	26.4	(197.4)	114.6
Cash flows from operating activities before changes in operating assets and liabilities	**394.5**	**548.4**	**137.7**	**631.7**
Net (Increase)/decrease in operating assets				
Net increase of loans to other entities	(904.1)	(3,606.5)	(549.8)	(4,609.0)
Net decrease of investment securities	1,039.4	680.4	865.3	2,462.1
Net Increase/(decrease) in operating liabilities				
Net increase/(decrease) in balance of retail deposits	230.7	583.0	(61.1)	412.8
Net increase/(decrease) in balance of wholesale deposits	4.7	1,134.7	(148.7)	1,037.3
Net (decrease)/increase in balance of notes payable	(413.6)	657.7	-	-
Net cash flows from/(used in) operating activities	**351.6**	**(2.3)**	**243.4**	**(65.1)**

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.

25 Cash and cash equivalents

	Group		Bank	
	2018	2017	2018	2017
	$m	$m	$m	$m
Notes and coins and cash at bank	154.1	177.6	154.1	177.6
Cash at bank	766.8	731.4	466.2	594.1
Reverse repurchase agreements	100.0	-	100.0	-
Investments at call	116.5	87.6	116.5	50.5
Total cash and cash equivalents	**1,137.4**	**996.6**	**836.8**	**822.2**

Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes:

Cash and cash equivalents	1,137.4	996.6	836.8	822.2
Due from other financial institutions	283.0	277.8	295.8	278.1
Due to other financial institutions	(352.5)	(328.4)	(346.7)	(328.0)
	1,067.9	**946.0**	**785.9**	**772.3**

Recognition and measurement

Cash and cash equivalents include cash on hand, deposits held at call with banks, bank overdrafts, reverse repurchase agreements 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.

26 **Goodwill and other intangible assets**

Group	Goodwill	Computer software	Core deposits	Customer relationship	Other acquired intangibles[1]	Trustee licence	Total
	$m	$m	$m	$m	$m	$m	$m
Carrying amount as at 1 July 2017	1,442.3	196.0	3.2	4.4	9.5	8.4	1,663.8
Additions	-	22.4	-	-	-	-	22.4
Amortisation charge	-	(28.0)	(3.2)	(2.2)	(2.8)	-	(36.2)
Closing balance as at 30 June 2018	**1,442.3**	**190.4**	**-**	**2.2**	**6.7**	**8.4**	**1,650.0**
Carrying amount as at 1 July 2016	1,442.3	148.8	11.6	9.9	13.7	8.4	1,634.7
Additions	-	68.0	-	-	-	-	68.0
Amortisation charge	-	(20.8)	(8.4)	(5.5)	(3.8)	-	(38.5)
Impairment of goodwill	-	-	-	-	(0.4)	-	(0.4)
Closing balance as at 30 June 2017	**1,442.3**	**196.0**	**3.2**	**4.4**	**9.5**	**8.4**	**1,663.8**
Bank							
Carrying amount as at 1 July 2017	1,362.8	193.4	2.7	1.0	7.5	-	1,567.4
Additions	-	22.4	-	-	-	-	22.4
Amortisation charge	-	(26.9)	(2.7)	(0.5)	(1.4)	-	(31.5)
Closing balance as at 30 June 2018	**1,362.8**	**188.9**	**-**	**0.5**	**6.1**	**-**	**1,558.3**
Carrying amount as at 1 July 2016	1,362.8	146.2	9.2	1.5	9.0	-	1,528.7
Additions	-	66.6	-	-	-	-	66.6
Amortisation charge	-	(19.4)	(6.5)	(0.5)	(1.5)	-	(27.9)
Closing balance as at 30 June 2017	**1,362.8**	**193.4**	**2.7**	**1.0**	**7.5**	**-**	**1,567.4**

[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 exist. 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.

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

26 **Goodwill and other intangible assets** (continued)

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:

	2018	2017
	$m	$m
Local connection	677.5	677.5
Partner connection	464.4	464.4
Wealth	209.7	209.7
Agribusiness	90.7	90.7
	1,442.3	**1,442.3**

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 and the board. 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
Local connection	10.17%
Partner connection	10.47%
Wealth	10.77%
Agribusiness	11.07%

Sensitivity analysis

Whilst there was no impairment in any of the CGUs, changes in the key assumptions would affect the recoverable amount of the CGUs.

The table below discloses the possible changes to key assumptions which would result in impairment first becoming evident:

Increase/(decrease) in key assumptions	Wealth
Other income growth rate	(0.54%)
Expense growth rate	0.45%
Discount rate	0.29%

The sensitivities above assume that the specific assumption moves in isolation, while all other assumptions are held constant.

27 Other assets

	Group		Bank	
	2018	2017	2018	2017
	$m	$m	$m	$m
Accrued income	28.1	34.5	25.4	30.5
Prepayments	33.0	30.6	32.2	30.1
Sundry debtors	116.2	102.8	1,228.9	1,105.2
Accrued interest	166.7	157.0	114.0	108.0
Deferred expenditure	80.7	56.3	80.6	55.7
Total other assets	**424.7**	**381.2**	**1,481.1**	**1,329.5**

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 26 Goodwill and other intangible assets for further information). The carrying value of deferred expenditure is reviewed for impairment annually when the asset is not yet available for use, or more frequently when an indicator of impairment arises.

28 Other payables

	Group		Bank	
	2018	2017	2018	2017
	$m	$m	$m	$m
Accrued expenses and outstanding claims	244.0	310.9	394.0	396.4
Accrued interest	180.3	196.3	169.6	185.7
Prepaid interest	24.5	25.1	-	-
Total other payables	**448.8**	**532.3**	**563.6**	**582.1**

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 in the income statement using the effective interest method.

Other disclosure matters

The following section outlines all other disclosure matters including: risk management, 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.

29 **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 monitor adherence to policies, limits and procedures.

Further details regarding the Group's material risks including our strategic approach to their 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 and 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	
	2018	2017	2018	2017
Gross maximum exposure	$m	$m	$m	$m
Cash and cash equivalents	983.3	819.0	682.7	644.6
Due from other financial institutions	283.0	277.8	295.8	278.1
Financial assets held for trading	4,499.5	5,657.6	4,499.5	5,657.9
Financial assets available for sale	469.0	382.0	5,490.6	5,178.4
Financial assets held to maturity	413.2	378.7	49.5	65.8
Other assets	282.9	259.7	1,343.0	1,213.2
Derivatives	29.7	37.8	220.2	142.0
Shares in controlled entities	-	-	585.2	570.2
Amounts receivable from controlled entities	-	-	21.1	5.8
Gross loans and other receivables	61,793.5	60,928.1	56,299.8	55,722.6
	68,754.1	**68,740.7**	**69,487.4**	**69,478.6**
Contingent liabilities	247.1	253.8	239.8	249.1
Commitments	6,122.8	6,206.7	5,623.4	5,677.3
	6,369.9	**6,460.5**	**5,863.2**	**5,926.4**
Total credit risk exposure	**75,124.0**	**75,201.2**	**75,350.6**	**75,405.0**

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.

29 **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 2018 was $830.5 million (2017: $939.2 million) before taking account collateral or other credit enhancements and $830.5 million (2017: $939.2 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	
	2018	2017	2018	2017
Geographic concentration	$m	$m	$m	$m
Victoria	31,106.0	30,255.9	30,781.3	30,083.3
New South Wales	16,306.1	17,346.3	20,124.5	20,801.2
Australian Capital Territory	1,760.0	1,185.5	1,731.1	1,178.3
Queensland	9,265.8	9,273.8	8,259.0	8,322.7
South Australia/Northern Territory	7,242.7	7,713.7	6,632.6	7,148.7
Western Australia	7,573.4	7,545.5	6,194.0	6,194.6
Tasmania	1,566.6	1,500.6	1,360.2	1,317.2
Overseas/other	303.4	379.9	267.9	359.0
Total credit risk exposure	**75,124.0**	**75,201.2**	**75,350.6**	**75,405.0**

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.

	Group		Bank	
	2018	2017	2018	2017
Industry concentration	$m	$m	$m	$m
Accommodation and food services	652.5	710.3	651.0	708.8
Administrative and support services	237.1	252.2	237.1	252.2
Agriculture, forestry and fishing	6,724.7	6,538.1	2,415.3	2,625.0
Arts and recreation services	198.1	219.5	198.0	219.4
Construction	2,432.1	2,706.7	2,400.6	2,676.4
Education and training	319.5	357.7	319.5	357.7
Electricity, gas, water and waste services	162.2	169.4	162.2	169.4
Financial and insurance services	1,200.8	1,121.0	1,200.1	1,120.1
Financial services	6,970.4	7,849.6	13,238.0	13,834.4
Health care and social assistance	988.8	980.5	988.8	980.5
Information media and telecommunications	147.6	157.4	147.6	157.4
Manufacturing	829.0	863.6	827.8	858.0
Margin lending	1,694.7	1,726.1	-	-
Mining	159.1	176.1	159.1	176.0
Other	358.1	304.9	317.3	263.3
Other services	616.2	645.2	615.9	644.9
Professional, scientific and technical services	814.0	852.1	813.9	851.9
Public administration and safety	355.1	403.4	354.7	402.3
Rental, hiring and real estate services	5,145.8	5,526.5	5,138.7	5,514.8
Residential/consumer	43,025.8	41,414.8	43,079.5	41,372.3
Retail trade	1,129.6	1,206.3	1,129.5	1,202.1
Transport, postal and warehousing	576.7	603.7	570.1	602.1
Wholesale trade	386.1	416.1	385.9	416.0
Total credit risk exposure	**75,124.0**	**75,201.2**	**75,350.6**	**75,405.0**

29 **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					Past due or impaired	Total
	High grade	Standard grade	Sub-standard grade	Unrated	Consumer loans [1]		
2018	$m	$m	$m	$m	$m	$m	$m
Cash and cash equivalents	983.3	-	-	-	-	-	983.3
Due from other financial institutions	283.0	-	-	-	-	-	283.0
Financial assets held for trading	4,499.5	-	-	-	-	-	4,499.5
Financial assets available for sale	441.3	-	-	27.7	-	-	469.0
Financial assets held to maturity	413.2	-	-	-	-	-	413.2
Other assets	-	-	-	282.9	-	-	282.9
Derivatives	29.7	-	-	-	-	-	29.7
Loans and other receivables	5,110.9	8,888.4	1,061.9	1,560.4	41,692.8	3,479.1	61,793.5
	11,760.9	**8,888.4**	**1,061.9**	**1,871.0**	**41,692.8**	**3,479.1**	**68,754.1**
2017							
Cash and cash equivalents	819.0	-	-	-	-	-	819.0
Due from other financial institutions	277.8	-	-	-	-	-	277.8
Financial assets held for trading	5,657.6	-	-	-	-	-	5,657.6
Financial assets available for sale	350.0	-	-	32.0	-	-	382.0
Financial assets held to maturity	378.7	-	-	-	-	-	378.7
Other assets	-	-	-	259.7	-	-	259.7
Derivatives	37.8	-	-	-	-	-	37.8
Loans and other receivables	4,361.3	10,449.5	1,430.3	669.6	41,599.8	2,417.6	60,928.1
	11,882.2	**10,449.5**	**1,430.3**	**961.3**	**41,599.8**	**2,417.6**	**68,740.7**
Bank							
2018							
Cash and cash equivalents	682.7	-	-	-	-	-	682.7
Due from other financial institutions	295.8	-	-	-	-	-	295.8
Financial assets held for trading	4,499.5	-	-	-	-	-	4,499.5
Financial assets available for sale	5,471.8	-	-	18.8	-	-	5,490.6
Financial assets held to maturity	49.5	-	-	-	-	-	49.5
Other assets	-	-	-	1,343.0	-	-	1,343.0
Derivatives	220.2	-	-	-	-	-	220.2
Loans and other receivables	888.8	7,401.3	961.6	1,535.6	42,323.1	3,189.4	56,299.8
Amounts receivable from controlled entities	-	-	-	21.1	-	-	21.1
Shares in controlled entities	-	-	-	585.2	-	-	585.2
	12,108.3	**7,401.3**	**961.6**	**3,503.7**	**42,323.1**	**3,189.4**	**69,487.4**
2017							
Cash and cash equivalents	644.6	-	-	-	-	-	644.6
Due from other financial institutions	278.1	-	-	-	-	-	278.1
Financial assets held for trading	5,657.9	-	-	-	-	-	5,657.9
Financial assets available for sale	5,155.2	-	-	23.2	-	-	5,178.4
Financial assets held to maturity	65.8	-	-	-	-	-	65.8
Other assets	-	-	-	1,213.2	-	-	1,213.2
Derivatives	142.0	-	-	-	-	-	142.0
Loans and other receivables	537.3	8,909.8	1,292.6	660.6	42,157.6	2,164.7	55,722.6
Amounts receivable from controlled entities	-	-	-	5.8	-	-	5.8
Shares in controlled entities	-	-	-	570.2	-	-	570.2
	12,480.9	**8,909.8**	**1,292.6**	**2,473.0**	**42,157.6**	**2,164.7**	**69,478.6**

[1] Consumer loans are predominantly mortgage secured residential loans not rated on an individual basis.

29 **Risk management** (continued)

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	31 to 60 days	61 to 90 days	More than 91 days	Total	Fair value of collateral
		$m	$m	$m	$m	$m	$m
Group							
	2018	1,821.9	384.0	233.9	703.5	3,143.3	8,855.9
	2017	1,254.4	257.0	109.3	516.1	2,136.8	6,052.4
Bank							
	2018	1,761.9	355.4	219.4	599.2	2,935.9	7,582.6
	2017	1,218.7	211.8	91.4	436.7	1,958.6	5,025.6

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.

In accordance with APS210, APRA Prudential Standard the Group needs to maintain a ratio of High Quality Liquid Assets (HQLA) to cover defined projected cash outflows over a 30 day period, using the scenario based Liquidity Coverage Ratio (LCR).

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 provided 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.

29 **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	At call	Not longer than 3 months	3 to 12 months	1 to 5 years	Longer than 5 years	Total
2018	$m	$m	$m	$m	$m	$m
Due to other financial institutions	352.5	-	-	-	-	352.5
Deposits	23,574.5	16,075.5	16,166.9	3,956.9	1.6	59,775.4
Notes payable	4.8	279.1	213.2	720.7	2,329.4	3,547.2
Derivatives - net settled	-	9.5	11.2	9.6	0.2	30.5
Other payables	536.0	-	-	-	-	536.0
Preference shares	-	-	36.4	705.6	355.2	1,097.2
Subordinated debt	-	9.4	27.7	367.5	478.4	883.0
Total financial liabilities	**24,467.8**	**16,373.5**	**16,455.4**	**5,760.3**	**3,164.8**	**66,221.8**
Contingent liabilities	247.1	-	-	-	-	247.1
Commitments	6,122.8	18.9	56.7	191.7	72.4	6,462.5
Total contingent liabilities and commitments	**6,369.9**	**18.9**	**56.7**	**191.7**	**72.4**	**6,709.6**
2017						
Due to other financial institutions	328.4	-	-	-	-	328.4
Deposits	22,612.8	17,106.6	15,451.1	4,300.8	0.7	59,472.0
Notes payable	5.0	19.3	411.4	1,271.3	2,269.7	3,976.7
Derivatives - net settled	-	13.5	26.6	21.0	0.1	61.2
Other payables	593.4	-	-	-	-	593.4
Preference shares	-	-	35.0	375.7	578.8	989.5
Subordinated debt	-	8.3	25.6	374.7	495.7	904.3
Total financial liabilities	**23,539.6**	**17,147.7**	**15,949.7**	**6,343.5**	**3,345.0**	**66,325.5**
Contingent liabilities	253.8	-	-	-	-	253.8
Commitments	6,206.7	21.2	63.6	222.1	101.7	6,615.3
Total contingent liabilities and commitments	**6,460.5**	**21.2**	**63.6**	**222.1**	**101.7**	**6,869.1**

29 **Risk management** (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

Bank	At call	Not longer than 3 months	3 to 12 months	1 to 5 years	Longer than 5 years	Total
2018	$m	$m	$m	$m	$m	$m
Due to other financial institutions	346.7	-	-	-	-	346.7
Deposits	22,921.3	14,654.5	14,319.5	3,801.7	1.6	55,698.6
Derivatives - net settled	-	9.5	11.0	9.6	0.2	30.3
Other payables	616.6	-	-	-	-	616.6
Loans payable to securitisation trusts	-	-	-	-	8,097.9	8,097.9
Preference shares	-	-	36.4	705.6	355.2	1,097.2
Subordinated debt	-	9.2	27.2	356.9	478.4	871.7
Total financial liabilities	**23,884.6**	**14,673.2**	**14,394.1**	**4,873.8**	**8,933.3**	**66,759.0**
Contingent liabilities	239.8	-	-	-	-	239.8
Commitments	5,623.4	18.9	56.6	191.5	72.4	5,962.8
Total contingent liabilities and commitments	**5,863.2**	**18.9**	**56.6**	**191.5**	**72.4**	**6,202.6**
2017						
Due to other financial institutions	328.0	-	-	-	-	328.0
Deposits	22,175.8	15,702.3	13,853.3	4,192.1	0.7	55,924.2
Derivatives - net settled	-	13.2	26.0	20.4	0.1	59.7
Other payables	589.6	-	-	-	-	589.7
Loans payable to securitisation trusts	-	-	-	-	8,134.5	8,134.5
Preference shares	-	-	35.0	375.7	578.8	989.5
Subordinated debt	-	8.3	25.6	364.7	495.7	894.3
	23,093.4	**15,723.8**	**13,939.9**	**4,952.9**	**9,209.8**	**66,919.8**
Contingent liabilities	249.1	-	-	-	-	249.1
Commitments	5,677.3	21.2	63.6	222.1	101.7	6,085.9
Total contingent liabilities and commitments	**5,926.4**	**21.2**	**63.6**	**222.1**	**101.7**	**6,335.0**

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 and equity prices which 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 the 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.

29 **Risk management** (continued)

Interest Rate risk (continued)

Group	Floating interest rate	Fixed interest rate repricing: Less than 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 5 years	After 5 years	Non-interest earning/ bearing	Total carrying value per Balance sheet	Weighted average effective interest rate
2018	$m	$m	$m	$m	$m	$m	$m	$m	%
Assets									
Cash & cash equivalents	983.3	-	-	-	-	-	154.1	1,137.4	0.97
Due from other financial institutions	-	-	-	-	-	-	283.0	283.0	-
Financial assets held for trading	-	2,396.3	149.0	-	1,595.2	289.1	69.9	4,499.5	2.17
Financial assets available for sale	53.7	162.3	39.6	-	-	-	213.4	469.0	1.06
Financial assets held to maturity	5.8	211.4	145.2	-	-	-	50.8	413.2	2.29
Loans & other receivables	43,342.9	7,287.2	1,497.0	2,797.5	6,639.7	37.5	-	61,601.8	4.52
Derivatives	-	-	-	-	-	-	29.7	29.7	-
Total financial assets	**44,385.7**	**10,057.2**	**1,830.8**	**2,797.5**	**8,234.9**	**326.6**	**800.9**	**68,433.6**	
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	352.5	352.5	-
Deposits	18,809.6	19,197.6	9,888.1	7,549.4	4,083.2	1.6	-	59,529.5	1.91
Notes payable	-	3,544.8	-	-	-	-	-	3,544.8	3.36
Derivatives	-	-	-	-	-	-	34.8	34.8	-
Preference shares	-	316.2	564.7	-	-	-	-	880.9	5.85
Subordinated debt	-	706.1	-	-	-	-	3.1	709.2	5.21
Total financial liabilities	**18,809.6**	**23,764.7**	**10,452.8**	**7,549.4**	**4,083.2**	**1.6**	**390.4**	**65,051.7**	
2017									
Assets									
Cash & cash equivalents	819.0	-	-	-	-	-	177.6	996.6	1.48
Due from other financial institutions	-	-	-	-	-	-	277.8	277.8	-
Financial assets held for trading	-	2,065.4	481.4	-	2,451.4	659.0	0.4	5,657.6	2.04
Financial assets available for sale	63.0	95.4	115.9	-	-	-	75.7	350.0	2.12
Financial assets held to maturity	71.8	208.9	98.0	-	-	-	-	378.7	2.17
Loans & other receivables	39,390.5	7,911.0	2,227.9	3,831.5	7,374.0	41.7	-	60,776.6	4.81
Derivatives	-	-	-	-	-	-	37.8	37.8	-
Total financial assets	**40,344.3**	**10,280.7**	**2,923.2**	**3,831.5**	**9,825.4**	**700.7**	**569.3**	**68,475.1**	
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	328.4	328.4	-
Deposits	18,393.2	19,881.8	9,793.0	7,292.0	3,933.4	0.7	-	59,294.1	1.97
Notes payable	29.8	3,928.6	-	-	-	-	-	3,958.4	2.72
Derivatives	-	-	-	-	-	-	59.0	59.0	-
Preference shares	-	-	830.1	-	-	-	-	830.1	5.02
Subordinated debt	-	708.7	-	-	-	-	-	708.7	4.91
Total financial liabilities	**18,423.0**	**24,519.1**	**10,623.1**	**7,292.0**	**3,933.4**	**0.7**	**387.4**	**65,178.7**	

29 **Risk management** (continued)

Interest Rate risk (continued)

Bank	Floating interest rate	Fixed interest rate repricing: Less than 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 5 years	After 5 years	Non-interest earning/ bearing	Total carrying value per Balance sheet	Weighted average effective interest rate
2018	$m	$m	$m	$m	$m	$m	$m	$m	%
Assets									
Cash & cash equivalents	682.7	-	-	-	-	-	154.1	836.8	1.14
Due from other financial institutions	-	-	-	-	-	-	295.8	295.8	-
Financial assets held for trading	69.9	2,396.3	149.0	-	1,595.2	289.1	-	4,499.5	2.17
Financial assets available for sale	5,428.7	43.1	-	-	-	-	-	5,471.8	1.73
Financial assets held to maturity	49.0	0.5	-	-	-	-	-	49.5	3.50
Loans & other receivables	36,289.4	7,488.6	1,688.7	3,094.1	7,552.8	35.1	-	56,148.7	4.64
Derivatives	-	-	-	-	-	-	220.2	220.2	-
Total financial assets	**42,519.7**	**9,928.5**	**1,837.7**	**3,094.1**	**9,148.0**	**324.2**	**670.1**	**67,522.3**	
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	346.7	346.7	-
Deposits	18,456.5	17,724.3	9,044.5	6,463.0	3,839.0	1.6	-	55,528.9	1.88
Loans payable - securitisation trusts	6,010.1	239.7	244.7	406.5	1,196.9	-	-	8,097.9	4.64
Derivatives	-	-	-	-	-	-	54.1	54.1	-
Preference shares	-	316.2	564.7	-	-	-	-	880.9	5.85
Subordinated debt	3.1	696.1	-	-	-	-	-	699.2	5.21
Total financial liabilities	**24,469.7**	**18,976.3**	**9,853.9**	**6,869.5**	**5,035.9**	**1.6**	**400.8**	**65,607.7**	
2017									
Assets									
Cash & cash equivalents	644.7	-	-	-	-	-	177.5	822.2	1.49
Due from other financial institutions	-	-	-	-	-	-	278.1	278.1	-
Financial assets held for trading	-	2,066.1	481.4	-	2,451.4	659.0	-	5,657.9	2.04
Financial assets available for sale	-	5,155.3	-	-	-	-	-	5,155.3	2.58
Financial assets held to maturity	65.8	-	-	-	-	-	-	65.8	1.54
Loans & other receivables	35,205.2	7,964.9	1,974.3	3,576.8	6,848.2	41.8	-	55,611.2	4.77
Derivatives	-	-	-	-	-	-	142.0	142.0	-
Total financial assets	**35,915.7**	**15,186.3**	**2,455.7**	**3,576.8**	**9,299.6**	**700.8**	**597.6**	**67,732.5**	
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	328.0	328.0	-
Deposits	17,918.8	18,632.1	8,991.7	6,441.8	3,754.2	-	-	55,738.6	1.95
Loans payable - securitisation trusts	5,827.6	236.6	376.1	592.7	1,101.5	-	-	8,134.5	4.77
Derivatives	-	-	-	-	-	-	77.6	77.6	-
Preference shares	-	-	830.1	-	-	-	-	830.1	5.02
Subordinated debt	-	698.7	-	-	-	-	-	698.7	4.91
Total financial liabilities	**23,746.4**	**19,567.4**	**10,197.9**	**7,034.5**	**4,855.7**	**-**	**405.6**	**65,807.5**	

29 **Risk management** (continued)

Interest Rate risk (continued)

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 2018, 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 2018 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.

	+100 basis points	-100 basis points	+100 basis points	-100 basis points
	2018	2018	2017	2017
Group	$m	$m	$m	$m
Net interest income	55.4	(68.7)	53.1	(64.8)
Ineffectiveness in derivatives	(49.4)	49.4	(64.0)	64.0
Income tax effect at 30%	(1.8)	5.8	3.3	0.2
Effect on profit	**4.2**	**(13.5)**	**(7.6)**	**(0.6)**
Effect on profit (per above)	4.2	(13.5)	(7.6)	(0.6)
Cash flow hedge reserve	(58.2)	58.2	3.8	(3.8)
Income tax effect on reserves at 30%	17.5	(17.5)	(1.1)	1.1
Effect on equity	**(36.5)**	**27.2**	**(4.9)**	**(3.3)**
Bank				
Net interest income	45.8	(58.3)	47.0	(58.1)
Ineffectiveness in derivatives	(48.7)	48.7	(60.1)	60.1
Income tax effect at 30%	0.9	2.9	3.9	(0.6)
Effect on profit	**(2.0)**	**(6.7)**	**(9.2)**	**1.4**
Effect on profit (per above)	(2.0)	(6.7)	(9.2)	1.4
Cash flow hedge reserve	(58.7)	58.7	12.0	(12.0)
Income tax effect on reserves at 30%	17.6	(17.6)	(3.6)	3.6
Effect on equity	**(43.1)**	**34.4**	**(0.8)**	**(7.0)**

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 $216.2m (2017: AUD $583.2m) 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.

30 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.

Investments in controlled entities	Group		Bank	
	2018	2017	2018	2017
	$m	$m	$m	$m
At cost	-	-	585.2	570.2
	-	**-**	**585.2**	**570.2**

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 requires 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 $4.9 billion and $4.1 billion, respectively (2017: $4.5 billion and $3.8 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 SPEs. A SPE has been considered to be material where the assets are more than 0.5% of total group assets. For further information relating to SPEs refer to Note 13 Securitisation and transferred assets.

Entity	Principal activities	Entity	Principal activities
Leveraged Equities 2009 Trust	Securitisation	Torrens Trust 2016-1 Trust	Securitisation
Torrens Series 2008-1 Trust	Securitisation	Torrens Trust 2017-1 Trust	Securitisation
Torrens Series 2008-4 Trust	Securitisation	Torrens Trust 2017-3 Trust	Securitisation

31 **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:

	2018	2017
	$m	$m
Opening balance at beginning of financial year	(49.2)	(71.8)
Net receipts and fees received from subsidiaries	159.7	131.8
Supplies, fixed assets and services charged to subsidiaries	(103.1)	(109.2)
Net amount owing from subsidiaries	**7.4**	**(49.2)**

Bendigo and Adelaide Bank provides funding and guarantee facilities to several subsidiary companies. These facilities are provided on normal commercial terms and conditions.

		Limit	Drawn/issued at 30 June 2018
Subsidiary	Facility	$m	$m
Sandhurst Trustees Limited	Guarantee	0.5	-

Other related party transactions

Joint arrangement entities and associates

Bendigo and Adelaide Bank Limited has investments in joint arrangement entities and associates which are 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:

	2018	2017
	$m	$m
Commissions and fees paid to joint arrangements and associates	35.5	31.7
Supplies and services provided to joint arrangements and associates	8.3	8.8
Amount owing from joint arrangements and associates	(2.1)	(1.1)

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.

The table below details, on an aggregated basis, KMP compensation:

	30 June 2018	30 June 2017
Compensation	$'000's	$'000's
Salaries and other short term benefits	8,066.0	7,578.0
Post-employment benefits	340.3	345.5
Other long term benefits	(27.1)	10.6
Share based payments	2,890.6	2,335.2
Total	**11,269.8**	**10,269.3**

31 **Related party disclosures** (continued)

Other related party transactions (continued)

Key management personnel (continued)

The table below details, on an aggregate basis, KMP equity holdings. The holdings comprise ordinary shares, preference shares, performance shares and deferred shares:

	30 June 2018	30 June 2017
Equity holdings	No.	No.
Ordinary shares (includes deferred shares)	1,826,703	1,763,788
Preference shares	4,240	4,240
Performance shares	509,011	412,320
Closing balance	**2,339,954**	**2,180,348**

The table below details, on an aggregated basis, loan balances outstanding at the end of the year between the Group and its KMP:

	30 June 2018	30 June 2017
Loans [1,2,3]	$'000's	$'000's
Loans outstanding at the beginning of the year [2]	10,456.1	7,668.6
Loans outstanding at the end of the year	12,174.4	10,455.7
Interest paid or payable	496.1	358.0
Interest not charged	-	-

1. 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.
2. The balance of loans outstanding excludes the value of loans provided to Executives under the Employee Share Ownership Plan.
3. The balance of loans outstanding relate to KMP who were in office at the start of, or appointed during, the financial year.

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.

32 **Involvement with unconsolidated structured 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

Risks associated with unconsolidated structured entities

The following table summarises the carrying values recognised in the balance sheet in relation to unconsolidated structured entities:

	2018	2017
Balance sheet	$m	$m
Cash and cash equivalents	0.1	0.1
Loans and other receivables	93.0	76.5
Financial assets available for sale	8.9	8.8
	102.0	**85.4**

32 **Involvement with unconsolidated structured entities** (continued)

Maximum exposure to loss

For 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 unquantifiable as these swaps pay a floating rate of interest which is uncapped, however is expected to be immaterial.

The following table summarises the Group's maximum exposure to loss from its involvement with structured entities.

	Carrying amount	Maximum loss exposure	Carrying amount	Maximum loss exposure
	2018	2018	2017	2017
	$m	$m	$m	$m
Cash and cash equivalents	0.1	0.1	0.1	0.1
Senior notes	93.0	93.0	76.5	76.5
Investment	8.9	8.9	8.8	8.8
Interest rate swap	-	**	-	**

** Maximum loss exposure is not disclosed as it is expected to be immaterial and is 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 30 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, an assessment of the Group's power over the relevant activities of the Fund and the significance of its exposure to variable returns is completed to determine whether the Fund should be consolidated.

Community Banks

Community Banks are not consolidated by the Group as the Group does not have power to govern decision making. 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. These shares are held as investments and are 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. 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.

33 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	
	2018	2017
	$m	$m
Funds under trusteeship	5,924.6	5,393.9
Assets under management	2,200.0	2,152.1
Funds under management	3,633.2	3,170.4

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.

34 Provisions

	Group		Bank	
	2018	2017	2018	2017
	$m	$m	$m	$m
Employee entitlements	110.5	108.9	107.2	105.3
Property rent	19.8	15.4	19.8	15.4
Other [1]	6.3	6.5	5.1	6.5
Closing balance	**136.6**	**130.8**	**132.1**	**127.2**

[1] Other provisions comprise various other provisions including reward programs and dividends.

Movements in provisions (excluding employee entitlements)

	Property Rent		Other		Total	
	2018	2017	2018	2017	2018	2017
Group	$m	$m	$m	$m	$m	$m
Opening balance	15.4	14.1	6.5	6.2	21.9	20.3
Additional provision recognised	7.2	2.6	327.5	316.2	334.7	318.8
Amounts utilised during the year	(2.8)	(1.3)	(327.7)	(315.9)	(330.5)	(317.2)
Closing balance	**19.8**	**15.4**	**6.3**	**6.5**	**26.1**	**21.9**
Bank						
Opening balance	15.4	14.1	6.5	6.2	21.9	20.3
Additional provision recognised	7.2	2.6	326.3	316.2	333.5	318.8
Amounts utilised during the year	(2.8)	(1.3)	(327.7)	(315.9)	(330.5)	(317.2)
Closing balance	**19.8**	**15.4**	**5.1**	**6.5**	**24.9**	**21.9**

Employee benefits

The table below shows the individual balances for employee benefits:

	Group		Bank	
	2018	2017	2018	2017
	$m	$m	$m	$m
Annual leave	31.3	29.8	30.4	28.6
Other employee payments	12.3	12.0	12.3	12.0
Long service leave	59.8	59.8	57.5	57.4
Sick leave bonus	7.1	7.3	7.0	7.3
Closing balance	**110.5**	**108.9**	**107.2**	**105.3**

34 **Provisions** (continued)

Recognition and measurement

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 ceasingparticipation 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.

35 **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 framework 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 that are subject to performance conditions set by the Board.

The performance right grant made during FY2018 is subject to the following performance conditions:

- a 'customer hurdle' that requires the Bank's Net Promoter Score over the performance period to be better than the performance of a peer group of Australian banks.
- 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 previous performance right grants 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.

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 are fully-paid ordinary shares in the Company and are granted subject to certain Board imposed conditions being satisfied:

- 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 deferred shares.

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.

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.

35 **Share based payment plans** (continued)

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. Refer to the June 2015 annual financial report or prior years for more detailed information regarding this Plan.

Summary of details under the various plans

The following table details the number (No.) and movements in the various plans during the year. The rights and share are granted at no cost and have no exercise price.

	Performance rights		Deferred shares		Share Grant Scheme		Employee Share Plan			
	2018	2017	2018	2017	2018	2017	2018	2018	2017	2017
	No. [1]	No. [1]	No. [1]	No. [1]	No. [1]	No. [1]	No. [2]	WAEP ($)	No.	WAEP ($)
Outstanding at beginning of year	688,585	454,024	163,659	94,186	199,524	228,038	1,593,277	5.03	1,858,178	5.45
Granted	309,349	378,759	175,309	163,659	-	204,686	-	-	-	-
Forfeited/lapsed	(164,209)	(144,198)	(3,870)	-	-	-	-	-	-	-
Vested/ exercised	-	-	(163,659)	(94,186)	(16,098)	(233,200)	(128,447)	4.90	(264,901)	4.62
Outstanding at year end	833,725	688,585	171,439	163,659	183,426	199,524	1,464,830	4.49	1,593,277	5.03
Exercisable at year end	-	-	-	-	-	-	-	-	-	-

1. Closing balance of deferred shares and performance rights are exercisable upon meeting the required conditions and until 30 June 2019 and 30 June 2021 respectively.
2. The outstanding balance as at 30 June 2018 is represented by 1,464,830 (2017: 1,593,277) ordinary shares with a market value of $15,878,757 (2017: $17,653,509), exercisable upon repayment of the employee loan.

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 a Black Scholes Merton valuation method 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	Other executives	Other executives
	12 Dec 2017	24 Apr 2018	12 Dec 2017
Dividend yield (%)	5.75%	6.42%	5.75%
Expected volatility (%)	22.50%	24.67%	22.50%
Risk-free interest rate (%)	2.09%	2.28%	1.97%
Expected life of performance rights (years)	4 years	3 years	3 years
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.

36 **Commitments and contingencies**

a) Commitments

The following are outstanding expenditure and credit related commitments as at 30 June 2018. Except where specified, all commitments are payable within one year.

	Group		Bank	
	2018	2017	2018	2017
Operating lease commitments (as lessee)	$m	$m	$m	$m
Not later than 1 year	71.6	81.1	71.5	81.1
Later than 1 year but not later than 5 years	177.6	208.4	177.4	208.4
Later than 5 years	65.3	91.2	65.3	91.2
	314.5	**380.7**	**314.2**	**380.7**
Operating lease commitments (as lessor)				
Not later than 1 year	4.0	3.7	4.0	3.7
Later than 1 year but not later than 5 years	14.1	13.7	14.1	13.7
Later than 5 years	7.1	10.5	7.1	10.5
	25.2	**27.9**	**25.2**	**27.9**
Credit related commitments				
Gross loans approved, but not advanced to borrowers	2,106.4	2,001.1	2,061.0	1,935.4
Credit limits granted to clients for overdrafts and credit cards [1]				
Total amount of facilities provided	9,181.7	10,110.3	8,068.9	9,047.4
Amount undrawn at balance date	4,016.4	4,205.6	3,562.4	3,741.9

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 2018 are outlined in the table above.

36 **Commitments and contingencies** (continued)

b) Contingent liabilities and contingent assets

Contingent liabilities	Group 2018 $m	Group 2017 $m	Bank 2018 $m	Bank 2017 $m
Guarantees				
The economic entity has issued guarantees on behalf of clients	245.4	251.6	238.3	247.2
Other				
Documentary letters of credit & performance related obligations	1.7	2.2	1.5	1.9

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 Group on behalf of customers whereby the Group 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 recorded provisions for the existing Sandhurst Trustees Ltd legal proceedings.

Compensation claims

On the 7th August 2018, ASIC announced an update to the program of work that they are overseeing in relation to “Fee for No Service” (FFNS) remediation programs. A number of Australian Financial services (AFS) licensees have been identified, who have potential FFNS failings. This included Bendigo Financial Planning, a subsidiary of the Bendigo and Adelaide Bank Group.

The Group did raise a provision for $1.2m for compensation costs, relating to customers acquired through the business acquisition of Wheelers Financial Services in relation to FFNS failings. However, work is continuing on other remediation programs impacting Bendigo Financial Planning, and as such is not in a position to reliably estimate the impact of any resolution and therefore a provision has yet to be raised for any compensation costs.

Contingent assets

As at 30 June 2018, the economic entity does not have any contingent assets.

37 Auditors' remuneration

	Group		Bank	
	2018	2017	2018	2017
	$	$	$	$
Total fees paid or due and payable to Ernst & Young (Australia) [1]				
Audit and review of financial statements [2]	**1,680,870**	**1,771,965**	**1,330,730**	**1,399,280**
Audit related fees				
Regulatory [3]	737,487	353,522	707,050	321,260
Non-regulatory [4]	364,900	233,065	299,500	63,260
Total audit related fees	**1,102,387**	**586,587**	**1,006,550**	**384,520**
Total remuneration of Ernst & Young (Australia)	**2,783,257**	**2,358,552**	**2,337,280**	**1,783,800**

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.

38 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 2018 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*;

b. the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2;

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; and

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 2018.

On behalf of the Board

Robert Johanson

Robert Johanson
Chairman
4 September 2018

Marnie Baker
Managing Director

Ernst & Young
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Independent Auditor's Report to the Members of Bendigo and Adelaide Bank Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Bendigo and Adelaide Bank Limited ('the Company') and its subsidiaries (collectively 'the Group'), which comprises:

- the Group consolidated and Company balance sheet as at 30 June 2018;
- the Group consolidated and Company income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended;
- notes to the financial statements, including a summary of significant accounting policies; and
- the Directors' declaration.

In our opinion the accompanying financial report is in accordance with the *Corporations Act* 2001, including:

- giving a true and fair view of the Company's and the Group's financial position as at 30 June 2018 and of their financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the *Corporations Regulations* 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act* 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ('the Code') that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Key audit matter	How our audit addressed the key audit matter
Provisions for bad and doubtful debts	
As described in Notes 3 *Profit* 9 *Impairment of loans and advances* and 29 *Risk management*, the provisions for bad and doubtful debts are determined in accordance with Australian Accounting Standard - AASB 139 *Financial Instruments: Recognition and Measurement*. The provisions were determined by the Group on a specific and collective basis. This assessment included estimates and assumptions across a number of factors, including: ▸ borrower's financial situation; ▸ collateral; and ▸ external market factors. Estimates that were made on a collective basis use a series of internal models. This assessment was made based upon historical loss data and available information for assets with similar risk characteristics. This was a key audit matter due to the size of the provision (specific provision 30 June 2018: $119.3 million, collective provision 30 June 2018: $48.2 million), and the degree of judgment and estimation uncertainty associated with the calculations. Details on the methodology and assumptions used in the calculation of the provision for bad and doubtful debts are included in Note 9 of the financial report.	Our audit of the collective provision for bad and doubtful debts required actuarial expertise to assist in the testing of the mechanics of the underlying model and model assumptions. Accordingly, we involved our actuarial specialists to test the mathematical accuracy of the model and key assumptions and parameters, including probability of default, exposure at default and loss given default assumptions. In addressing the adequacy of the provisions for bad and doubtful debts, our audit procedures included the following: ▸ Assessed the Group's calculation methodology against the requirements of Australian Accounting Standard - AASB 139. ▸ Assessed the operating effectiveness of relevant controls used to manage the flow of information between systems and models related to the determination of provisions for bad and doubtful debts. ▸ Tested the methodology associated with specific and collective provision estimates, which included performing testing of individual loan exposures and assessing the adequacy of internal credit quality assessments and associated provisions. ▸ Assessed the adequacy of the disclosures associated with the provision for bad and doubtful debts.

Key audit matter	How our audit addressed the key audit matter
Investment property – Homesafe	
The Group controls Homesafe Trust, and has a 50% ownership in the Homesafe Solutions joint venture that was established in 2005. Homesafe offers a Debt Free Equity Release product to allow customers to release the equity in their homes in exchange for a capped percentage share of the future sale proceeds of the property. The Homesafe portfolio is measured at fair value using a discounted cash flow model. The valuation of the portfolio is subject to judgment in relation to key assumptions, including: ▸ mortality rate; ▸ voluntary exit rate; ▸ residential real estate growth rates; and ▸ discount rates. Further details on the methodology and assumptions used in the calculation of the investment properties are included in Note 23 of the financial report. Within this note the Bank provides a sensitivity analysis of the key significant inputs into their model, being the rates of property appreciation and discount rates. This was a key audit matter due to the size of the Group's investment in residential real estate recognised within the Homesafe Trust (30 June 2018: $735.7 million), the income recognised in the current year from the Homesafe portfolio (30 June 2018: $55.4 million) and the degree of judgment and estimation uncertainty associated with the assumptions.	Our audit procedures included the following: ▸ Tested data used in the discounted cash flow model by agreeing details for a sample of properties to signed contracts. ▸ Involved our valuation, real estate and actuarial specialists to assess the key assumptions used in the valuation model and the Group's fair value adjustment, including discount rates, residential real estate growth rates, mortality rates, voluntary exit rate as well as the valuation model mechanics and validation. ▸ Assessed the adequacy of the disclosures in respect of the investment and associated gains in the financial report.

Building a better working world

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill	
The Group has recognised Goodwill as a result of historical acquisitions. Goodwill has been allocated across the Group's four Cash Generating Unit's ('CGUs'). An impairment assessment is performed each year, comparing the carrying value of the CGU with its recoverable amount. The recoverable amount of each CGU was determined using a value in use calculation. This calculation incorporated a range of assumptions, including: ▸ future cash flows; ▸ discount rates; and ▸ terminal growth rates. Further details on the methodology and assumptions used in the impairment assessment of goodwill are included in Note 26 to the financial report. This was a key audit matter due to the size of the goodwill balance held on balance sheet (30 June 2018: $1,442.3 million), and the degree of judgment and estimation uncertainty associated with the impairment assessment.	Our audit procedures included the following: ▸ Assessed the appropriateness of the CGUs identified to which goodwill has been allocated. ▸ Ensured that the forecast cash flows were consistent with the most recent Board-approved cash flow forecasts and assessed the accuracy of the Group's previous forecasts by performing a comparison of historical forecasts to actual results. ▸ Involved our valuation specialists to assess the key assumptions used in the impairment assessment, including discount rates and growth rates applied, as well as test the mathematical accuracy of the impairment models. ▸ Evaluated the sensitivity analysis performed by the Group focusing on where a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount and therefore indicate impairment charges may be required. ▸ Benchmarked the implied valuations to comparable company valuation multiples. ▸ Assessed the adequacy of the disclosures associated with the goodwill impairment assessment in the financial report.

Key audit matter	How our audit addressed the key audit matter
Impairment of computer software	

The Group's computer software intangible assets consist of both internally-generated and externally-purchased software assets and are amortised over their useful lives.
 	
The Group records these assets at cost less any amortisation and impairment charges, if applicable. An impairment assessment is performed on a semi-annual basis or more frequently if indicators of impairment exist.
 	
Impairment testing of these assets was a key audit matter due to the size of intangible held on balance sheet (30 June 2018: $190.4 million), and the degree of judgment and estimation uncertainty associated with the impairment assessment, specifically related to the forecasted project benefits.
 	
For further details on the methodology applied by the Group in relation to impairment testing of computer software intangibles refer to Note 26.
	Our audit procedures included the following:
	
	▸ Evaluated the Group's annual impairment assessment of both computer software intangible assets, which included:
	  ▸ assessing key inputs and assumptions, including future benefits expected to be derived from the assets;
	  ▸ testing the mathematical accuracy of the calculations; and
	  ▸ performing sensitivity analyses on key inputs and assumptions specifically related to the forecast project benefits.
	
	▸ Assessed the adequacy of the disclosures associated with impairment testing of computer software intangible assets in the financial report.

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Company's 2018 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the Financial Report

The Directors 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 control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Company's and Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 28 to 50 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Bendigo and Adelaide Bank Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act* 2001.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act* 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Graeme McKenzie
Partner
Melbourne

Luke Slater

Luke Slater
Partner
Melbourne

4 September 2018

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

		2018	2017	2016	2015[1]	2014
Financial Performance						
Net interest income	($m)	1,305.2	1,213.6	1,164.1	1,177.6	1,118.2
Credit expenses	($m)	70.6	71.8	44.1	68.3	81.9
Profit after income tax attributable to Owners of the Company	($m)	434.5	429.6	415.6	423.9	372.3
Cash earnings after income tax	($m)	445.1	418.3	401.4	402.8	359.4
Financial Position						
Total assets	($m)	71,439.8	71,415.5	68,572.7	66,028.8	65,062.9
Net loans and other receivables	($m)	61,601.8	60,776.6	57,256.8	55,531.6	52,932.8
Total equity	($m)	5,620.3	5,425.6	5,115.3	4,941.7	4,966.5
Deposits and notes payable	($m)	63,074.3	63,252.5	60,877.2	58,431.2	57,615.8
Risk weighted assets	($m)	38,256.4	38,062.3	36,485.5	34,712.9	32,618.4
Additional tier 1 capital ratio	(%)	2.34	2.22	2.31	2.43	1.26
Common equity tier 1 capital ratio	(%)	8.62	8.27	8.09	8.17	8.73
Tier 2 capital ratio	(%)	1.89	1.97	1.81	1.97	2.26
Share information (per ordinary share)						
Net tangible assets	($)	8.16	7.85	7.51	7.36	7.24
Earnings (statutory basis)	(¢)	89.9	90.9	90.4	92.5	87.7
Earnings (cash basis)	(¢)	92.1	88.5	87.3	88.6	86.0
Dividends - fully franked						
Interim	(¢)	35.0	34.0	34.0	33.0	31.0
Final	(¢)	35.0	34.0	34.0	33.0	33.0
Total	(¢)	70.0	68.0	68.0	66.0	64.0
Shareholder ratios						
Return on average tangible equity (cash basis)	(%)	11.52	11.61	11.83	12.37	12.54
Return on average assets (cash basis)	(%)	0.65	0.61	0.62	0.61	0.59
Return on average ordinary equity (cash basis)	(%)	8.23	8.10	8.17	8.47	8.42
Return on average ordinary equity after tax (statutory basis)	(%)	8.03	8.32	8.46	8.84	8.59
Key Trading Indicators						
Number of staff (excluding Community Banks)	(FTE)	4,426	4,413	4,531	4,628	4,387
Assets per staff member	($m)	16.1	16.2	15.1	14.3	14.8
Asset Quality						
Impaired loans	($m)	335.8	282.6	350.2	325.6	411.8
Specific provisions	($m)	(118.3)	(88.5)	(124.4)	(116.1)	(113.6)
Net impaired loans		**217.5**	**194.1**	**225.8**	**209.5**	**298.2**
Net impaired loans % of gross loans	(%)	0.35	0.32	0.39	0.38	0.56
Specific provision for impairment	($m)	119.3	89.5	125.3	116.8	114.4
Specific provision % of gross loans	(%)	0.19	0.15	0.22	0.21	0.22
Collective provision	($m)	48.2	52.7	53.4	59.0	42.8
General reserve for credit losses (GRCL) (general provision)	($m)	140.3	140.3	146.9	146.9	138.3
Collective provision & GRCL as a % of risk-weighted assets	(%)	0.52	0.56	0.55	0.59	0.56

1 Figures for 2015 includes Rural Finance from 1 July 2014.

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 13 August 2018.

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 15 August 2018 there were two substantial shareholders in Bendigo and Adelaide Bank Limited as detailed in substantial holdings notices given to the Company - BlackRock Group and Vanguard Group.

5 Distribution of shareholders

Range of Securities as at 15 August 2018 in the following categories:

Category	Fully Paid Ordinary Shares	Fully Paid Employee Shares	Convertible Preference Shares 2	Convertible Preference Shares 3	Converting Preference Shares 4
1 - 1,000	36,157	4,150	4,476	5,062	5,571
1,001 - 5,000	38,841	449	423	378	411
5,001 - 10,000	8,955	14	29	9	30
10,001 - 100,000	5,020	4	13	14	15
100,001 and over	107	-	1	1	1
Number of Holders	**89,080**	**4,617**	**4,942**	**5,464**	**6,028**
Securities on Issue	**484,790,721**	**1,627,760**	**2,921,188**	**2,822,108**	**3,216,145**

6 Marketable parcel

Based on a closing price of $11.51 on 15 August 2018 the number of holders with less than a marketable parcel of the Company's main class of securities (Ordinary Shares), as at 15 August 2018 was 3,549.

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.

Additional information (continued)

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 15 August 2018 are:

Fully paid ordinary shares

Rank	Name	Number of shares	% of shares
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	92,580,411	19.03%
2	J P MORGAN NOMINEES AUSTRALIA LIMITED	38,403,497	7.90%
3	CITICORP NOMINEES PTY LIMITED	27,658,675	5.69%
4	NATIONAL NOMINEES LIMITED	9,348,506	1.92%
5	MILTON CORPORATION LIMITED	5,709,708	1.17%
6	BNP PARIBAS NOMS PTY LTD <DRP>	3,505,167	0.72%
7	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	2,898,218	0.60%
8	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	2,174,681	0.45%
9	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	1,970,992	0.41%
10	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	1,201,201	0.25%
11	CARLTON HOTEL LIMITED	1,117,147	0.23%
12	NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	911,685	0.19%
13	WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C>	877,777	0.18%
14	NATIONAL NOMINEES LIMITED <DB A/C>	794,937	0.16%
15	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	750,270	0.15%
16	DIESEL COOLING PTY LTD	700,000	0.14%
17	AMP LIFE LIMITED	695,081	0.14%
18	LEESVILLE EQUITY PTY LTD	679,455	0.14%
19	NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	586,688	0.12%
20	YARABIE ESTATES PTY LTD <YARABIE SUPER FUND A/C>	510,000	0.10%
		193,074,096	**39.69%**

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 1,627,760 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.

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 15 August 2018 are:

Fully paid Convertible Preference Shares 2 (CPS2)

Rank	Name	Number of shares	% of shares
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	129,436	4.43%
2	BNP PARIBAS NOMS PTY LTD <DRP>	59,192	2.03%
3	NATIONAL NOMINEES LIMITED	40,219	1.38%
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	32,303	1.11%
5	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	27,513	0.94%
6	TGB HOLDINGS PTY LTD	26,610	0.91%
7	J P MORGAN NOMINEES AUSTRALIA LIMITED	23,199	0.79%
8	CITICORP NOMINEES PTY LIMITED	18,934	0.65%
9	JOHN E GILL TRADING PTY LTD	16,579	0.57%
10	MERCHANT FOUNDATION PTY LTD <MERCHANT CHARITABLE FND A/C>	14,792	0.51%
11	UNIVERSITY OF TASMANIA <LISTED INCOME SECURITIES AC>	14,685	0.50%
12	THE TRUST COMPANY (AUSTRALIA) LIMITED <WCCTFI A/C>	14,670	0.50%
13	NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	11,418	0.39%
14	MRS MAXINE FRANCES ELLIS	10,100	0.35%
15	INVIA CUSTODIAN PTY LIMITED <MF FOUNDATION PTY LTD A/C>	10,000	0.34%
16	C ROBERTSON PTY LTD <ROBERTSON SUPER FUND A/C>	10,000	0.34%
17	TRISTAR METALS PTY LTD	10,000	0.34%
18	GORDON MERCHANT NO 2 PTY LTD <MERCHANT FAMILY A/C>	9,900	0.34%
19	CITICORP NOMINEES PTY LIMITED <DPSL A/C>	9,737	0.33%
20	AVANTEOS INVESTMENTS LIMITED <3311559 HANSPETER A/C>	9,689	0.33%
		498,976	**17.08%**

Additional information (continued)

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 15 August 2018 are:

Fully paid Convertible Preference Shares 3 (CPS3)

Rank	Name	Number of shares	% of shares
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	111,058	3.94%
2	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	72,806	2.58%
3	GAEA GROUP PTY LTD <NO 2 A/C>	37,906	1.34%
4	NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	35,517	1.26%
5	BNP PARIBAS NOMS PTY LTD <DRP>	30,974	1.10%
6	TRUSTEES OF CHURCH PROPERTY FOR THE DIOCESE OF NEWCASTLE <SAVINGS & DEVELOPMENT A/C>	28,200	1.00%
7	NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	23,369	0.83%
8	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	22,082	0.78%
9	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	19,600	0.69%
10	JANMEL INVESTMENTS PTY LTD <HYBRID SECURITIES FUND A/C>	15,650	0.55%
11	G C F INVESTMENTS PTY LTD	15,000	0.53%
12	J P MORGAN NOMINEES AUSTRALIA LIMITED	14,398	0.51%
13	CITICORP NOMINEES PTY LIMITED	14,315	0.51%
14	NATIONAL NOMINEES LIMITED	13,661	0.48%
15	IOOF INVESTMENT MANAGEMENT LIMITED <IPS SUPER A/C>	11,639	0.41%
16	BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED	10,000	0.35%
17	TGB HOLDINGS PTY LTD	9,800	0.35%
18	JDB SERVICES PTY LTD <RAC & JD BRICE INVEST A/C>	7,800	0.28%
19	AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	6,945	0.25%
20	MR STEPHEN PHILIP GOLDBERG & MRS JANINE HEATHER GOLDBERG <STEJAGOLD SUPER FUND A/C>	6,500	0.23%
		507,220	**17.97%**

Names of the 20 largest holders of Bendigo and Adelaide Converting Preference shares 4, including the number of shares each holds and the percentage of converting preference share 4 capital that number represents as at 15 August 2018 are:

Fully paid Converting Preference Shares 4 (CPS4)

Rank	Name	Number of shares	% of shares
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	181,822	5.65%
2	J P MORGAN NOMINEES AUSTRALIA LIMITED	45,807	1.42%
3	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	43,828	1.36%
4	CITICORP NOMINEES PTY LIMITED	43,562	1.35%
5	NATIONAL NOMINEES LIMITED	38,363	1.19%
6	IOOF INVESTMENT MANAGEMENT LIMITED <IPS SUPER A/C>	26,540	0.83%
7	SOUTH HONG NOMINEES PTY LTD <HONG SUPER FUND A/C>	19,372	0.60%
8	SOUTH BAY NOMINEES PTY LTD <C & P HONG FAMILY A/C>	18,224	0.57%
9	PCI PTY LTD	17,715	0.55%
10	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	17,377	0.54%
11	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	14,595	0.45%
12	TRUSTEES OF CHURCH PROPERTY FOR THE DIOCESE OF NEWCASTLE <SAVINGS & DEVELOPMENT A/C>	13,605	0.42%
13	NETWEALTH INVESTMENTS LIMITED <SUPER SERVICES A/C>	11,373	0.35%
14	T & A CAPITAL MANAGEMENT PTY LTD <S&H A/C>	11,100	0.35%
15	NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	10,973	0.34%
16	NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	10,357	0.32%
17	WALMSLEY DEVELOPMENTS PTY LTD	10,000	0.31%
18	BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED	10,000	0.31%
19	MARENTO PTY LTD	10,000	0.31%
20	TRISTAR METALS PTY LTD	10,000	0.31%
		564,613	**17.53%**

Additional information (continued)

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.