together
we're bigger

Annual Financial Report **2014**

Bendigo and Adelaide Bank

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In an effort to reduce our paper consumption and impact on the environment, this Annual Financial Report is printed on FSC certified paper using environmentally friendly inks.

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Directors' Report

The Directors of Bendigo and Adelaide Bank Limited present their report together with the 150th Financial Report of Bendigo and Adelaide Bank Limited ("Bank") and its controlled entities ("Group") for the year ended 30 June 2014.

Principal activities

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

Operating results

The consolidated profit after providing for income tax of the Group amounted to $372.3 million, an increase of 5.7% on the 2013 result of $352.3 million.

During the year the Group took a number of significant steps to strengthen its capital base and funding capacity. This included a successful $300 million institutional subordinated debt offering and a $380 million capital raising that was well supported by institutional and retail investors.

The Group continued to focus on profitable growth through writing quality business which was evident in the profit result and overall credit performance.

The Group's operating income grew by $109.2 million (8.2%) which was mainly due to higher net interest income following a 5.1% increase in average interest earning assets. This was complemented by a 5 basis point increase in net interest margin achieved by maintaining a disciplined approach to managing the interest margin and the balance sheet.

Operating expenses increased by $37.3 million (4.8%). The main increases related to staff costs ($28.1 million) and occupancy costs ($14.7 million). These increases are largely driven by our investment in the Basel II project, contractual wage and salary adjustments and the new headquarters based in Adelaide.

The bad and doubtful debt expense increased by $12.0 million (17.2%) to $81.9 million for the financial year.

Balance sheet growth was strong with total assets increasing by $4.8 billion (8.0%) and total liabilities increasing by $4.3 billion (7.6%). The movements within the major components include:

Net loans and other receivables increased by $2.6 billion (5.2%) primarily driven by growth in residential lending of $2.1 billion (6.4%) and growth in commercial and business lending of $813 million. This growth was partially offset by declines in the consumer and margin lending portfolios.

The provision for credit impairment increased by $18.6 million (6.7%), mainly driven by an increase in the collective provision, credit losses in the Rural Bank portfolio and a provision for an isolated construction exposure in the retail portfolio.

Growth in customer deposits of $4.9 billion (10.4%) comprised growth in retail deposits of $2.6 billion (6.1%) and growth of $1.7 billion in domestic wholesale deposits.

Information on dividends paid and declared is presented below. Further details on the Group's operating results are contained in the Chairman's Report, Managing Director's Report and the Operating and Financial Review section of this report.

Dividends

The Directors announced on 11 August 2014 a fully franked final dividend of 33 cents per fully paid ordinary share. The final dividend is payable 30 September 2014. The proposed payment is expected to amount to $146.5 million.

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

- A final dividend for the 2013 financial year of 31 cents per share, paid on 30 September 2013 (amount paid: $125.1 million); and
- An interim dividend 2014 of 31 cents per share, paid on 31 March 2014 (amount paid: $126 million).

Further details on the dividends provided for or paid during the 2014 financial year on the Bank's ordinary and preference shares are provided at Note 9 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, are presented in the Chairman's Report, Managing Director's Report and the Operating and Financial Review section of this report.

State of affairs

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

After balance date events

The Bank declared a final dividend of 33 cents per ordinary share on 11 August 2014.

The Bank completed the acquisition of the business and assets of Rural Finance Corporation of Victoria on 1 July 2014 for $1.78 billion. The acquisition has strengthened the Group's commitment to rural and regional customers. The loan portfolio at the date of acquisition was $1.7 billion.

On 24 July 2014 the Bank announced that it has entered into an agreement to conclude the class actions brought by investors in managed investment schemes operated by Great Southern. Under the agreement, which is subject to Court approval, the members of the class actions have admitted that their loans are valid and enforceable and have provided a broad release from future litigation.

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 Report, the Managing Director's Report and the Operating and Financial Review section of this report.

Rounding of amounts

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

Operating and Financial Review

Overview

The Group operates primarily in Australia and is a community focused retail bank that commenced operations in 1858. Our major headquarters are in Bendigo, Adelaide and Melbourne. We have nearly 7,000 staff and operate a national network of more than 500 branches (Company-owned and Community Bank®) and 105 customer service agencies.

Our Business Model

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

Retail Banking

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

The major revenue sources are net interest income from traditional banking services (i.e. lending and taking deposits) and fee income for the provision of services.

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

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

Third Party Banking

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

The major revenue sources are net interest income and fees derived from the provision of residential, commercial, consumer and business lending and the contribution from Homesafe.

Bendigo Wealth

Bendigo Wealth is our wealth management division that provides margin lending, superannuation, managed investments, traditional trustee and financial planning products and services through Sandhurst Trustees, Leveraged Equities and Bendigo Financial Planning, all of which are subsidiaries of the Bank.

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

Rural Bank

Rural Bank is a wholly-owned subsidiary with a separate banking licence. Rural Bank provides specialised banking products and services to primary producers and agribusiness participants.

Rural Bank products and services are available at regional locations nationally including Bendigo Bank branches, Elders Rural Services branches and our metropolitan investment centres based in Adelaide and Perth.

The major revenue sources of this business are net interest income and fees predominantly derived from the provision of loans and deposits to agribusinesses based in rural and regional Australia.

Our vision and strategy

Our vision is to be Australia's most customer connected bank and our strategy is to focus on the success of our customers, people, partners and communities. For this purpose:

- We take a long term (100 year) view of the business which means that we make decisions that will generate value for years to come. We will not be price driven or willing to cut costs at the expense of long term value;
- We will listen and respond. With technology advancements and high levels of competition, listening to what it is our customers and partners want to achieve will help us to tailor products and services to meet their needs;

- We respect every customer's choice, needs and objectives. We look to put our customers in control of how they want to define their banking relationship with us and how they want to deal with us; and
- We partner for sustainable outcomes.

We believe our success comes from our focus on the success of others. If we do this we will be relevant, connected and valued, with the benefits flowing to all of our stakeholders including shareholders, customers, our people, partners and the wider community.

Key developments

Following is a summary of the more significant developments which took place during the year:

- Early in the year we decided to reinvigorate our margin lending business. We appointed a new head of margin lending as a member of our Executive and repositioned the business to broaden its distribution capability across all avenues of growth. We are optimistic that we will start to see improved demand for this business in the near term, although this will be largely dependent on changing consumer sentiment and the performance of the equity market.
- In August 2013 the Managing Director formed a new division called Customer Voice which unites all our direct customer feedback activities outside our customer facing business units. Listening to customer feedback through the internet and social media is another opportunity for us. The focus of this activity is to listen to the 'customer voice' through structured conversations, unstructured data, market research and customer focus groups to improve our understanding of our customers' needs and expectations and to provide them with relevant products and solutions.
- At the same time the Managing Director announced a review of our **Community Bank®** model called Project Horizon. This project will seek to set a shared (Bank and Partner) vision for the model for the next 15 years.
- The Managing Director also formed a new division called Customer Service Improvement in November 2013. Customer Service Improvement brings together our continuous improvement, processing centre, business process management and enterprise architecture activities.
- The focus of Customer Service Improvement is to simplify our business processes, reduce non-value add effort, oversee the simplification program for our information technology and to assist Customer Voice implement changes based on customer feedback. The initial focus is an improvement program for our end to end lending process, overseeing improvements to our online account opening process and continuing other process improvements already underway.
- In January 2014 we announced a successful institutional subordinated debt offering that raised $300 million. The offer represented Australia's first Basel III compliant subordinated debt offering targeted specifically to institutional investors. The subordinated debt qualifies as Tier 2 capital under the Basel III capital adequacy framework of the Australian Prudential Regulation Authority ("APRA"). The proceeds were used to supplement the Bank's regulatory capital requirements.
- Our new Adelaide home located at 80 Grenfell Street, in the heart of the city's business and retail district, was officially opened by the Prime Minister Tony Abbott on 5 February 2014. This multi-million dollar investment demonstrates our ongoing commitment to our customers, partners, shareholders and staff in South Australia.
- The new headquarters brings together more than 1,000 staff from across the Group, including our wholly-owned subsidiary Rural Bank, enhancing a one-team environment and encouraging greater connectivity. This investment is bigger than a new building. It's a symbol of our long-term relationship with the people of South Australia. The building is complemented by an innovative flagship branch which sets the benchmark for in-branch customer experience.
- The Bank was recently named as Australia's most recommended by customers participating in the latest Roy Morgan research. Almost two-thirds of our customers said they would recommend the Bank to friends and colleagues. We were also voted as one of Australia's most trusted brands (2013) by Readers Digest Australia and named Business Bank of the Year (2013) at Roy Morgan Research's Customer Satisfaction Awards in February 2014. This marks the third consecutive year the Bank has received this accolade. Our SmartStart Super product was also awarded a five-star rating by CANSTAR.
- In February 2014 we announced the issue of $500 million of residential mortgage backed securities under the Torrens Series securitisation program. The transaction received strong support from a range of domestic and overseas investors and provided us with funding and capital benefits.
- In May 2014 we successfully completed an underwritten institutional placement of 21,198,157 ordinary shares at an issue price of $10.85. The placement received strong support from a broad range of domestic and international investors. Funding raised from the placement was used to acquire the business and assets of Rural Finance Corporation of Victoria ("Rural Finance").
- We also offered eligible shareholders an opportunity to participate in a non-underwritten share purchase plan ("plan"). Under the plan eligible shareholders could apply for new ordinary shares up to a maximum value of $7,500. The support from retail shareholders was again very pleasing with 13,954,090 new shares issued to retail investors. Proceeds raised from the share issue were also used to fund the purchase of Rural Finance.
- We successfully completed the acquisition of the business and assets of Rural Finance Corporation of Victoria ("Rural Finance") on 1 July 2014. Rural Finance is a specialist rural lender that provides financial packages to fund the purchase, expansion and development of farm businesses. The purchase strengthens our commitment to regional and rural customers across Victoria. Rural Finance adds significantly to our agribusiness capabilities and enables us to provide a broader and more dynamic offering to Australian farmers.
- In July 2014 we welcomed the settlement (pending court approval) of the Great Southern class actions brought against the Bank. We have always maintained our conduct was appropriate and that we are entitled to be repaid the monies loaned to Great Southern borrowers. The settlement endorsed our position.
- Also during the year we announced a number of new and innovative customer focused technologies that make it easier for customers to do business with us. We recently launched:
  - "Redy" - a new payment solution developed in conjunction with Community Telco and our partner Strategic Payment Services. Redy is a secure mobile

payments platform. Customers can download an app and link it to their Bendigo Bank savings account or any Visa or Mastercard. It allows customers to make purchases on mobile devices and earn rewards on those purchases. The customer can choose to use the rewards on future purchases or donate them to charities or community groups.

  - "Bendigo MicroPay" – a small mobile EFTPoS device for businesses developed in conjunction with Quest Payment Systems and Strategic Payments Services. MicroPay uses new technology that makes accepting card payments more portable and easier for business operators and their customers. It is a pocket-sized, lightweight payment card reader that connects to any network, giving business owners more freedom and connectivity than ever before. It will enable our customers to receive payments on the spot while offering their customers greater convenience.

- We are also ready to introduce a new mobile e-banking app, and the first of our combined offerings of Banking and Telco products in the form of a bundled home loan with internet and phone services. In the first half of the new financial year we will add to the customers' digital experience with:
  - e-Statements;
  - website enhancements to accelerate customer acquisition and product sales with online account opening;
  - mobile engagement app for business and financial planning customers;
  - mobile digital wallet;
  - universal terminal for merchants;
  - optional Token or PIN for e-Banking; and
  - a bundled Telco and Banking solution for business customers.

Bigger than a bank campaign

During the year we launched our new retail bank campaign, 'Bigger than a bank'. Launched in South Australia in February 2014 to coincide with the opening of our new Adelaide office, the campaign was launched nationally in May 2014 with a partnership of the highly successful season of Masterchef Australia on the Channel Ten television network before expanding to other media in June 2014.

The campaign aims to increase consumers' consideration of us by expounding our banking credentials while showcasing the many ways in which our actions are 'bigger' than those normally associated with banks.

Basel II Advanced accreditation project

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

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

Under this approach, capital requirements are calculated based on certain fixed formulae and risk assessments determined by APRA. The advantage of this approach is that it is a relatively straight forward way of assessing capital requirements.

However, one of the potential disadvantages of this approach is that the Bank may end up holding more capital than it requires if APRA's assessment of risk is higher than our own assessment and experience. There is a cost in holding more capital than prudently required and this is more than likely a cost absorbed by our customers and shareholders.

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

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

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

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

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

We've implemented a range of new risk adjusted performance measurement and capital allocation methodologies and we are currently consulting with APRA on the likely timing of our application. As at 30 June 2014 our total spend stood at $50.6 million of which $38.6 million has been capitalised.

Basel III

The Basel Committee released in 2010 a series of consultation papers which propose changes to the Basel II framework ("Basel III"). The aim of the Basel III proposals is to strengthen global capital and liquidity framework and to improve the banking sector's ability to absorb shocks arising from financial and economic stress.

APRA subsequently announced that it supported the Basel III framework and would incorporate the requirements of the framework into the prudential standards.

The new Basel III minimum capital requirements commenced 1 January 2013 for Australian banks. We adopted the Basel III measurement and monitoring of regulatory capital from this date as required by APRA.

In January 2014, APRA issued its updated standard on liquidity management to implement the Basel III liquidity reforms. The standard contains a number of qualitative requirements that came into effect on 1 January 2014 with the exception of a new liquidity coverage ratio ("LCR") that comes into effect on 1 January 2015.

Under the LCR requirements the Bank must hold sufficient high-quality liquid assets as defined under the liquidity prudential standard. As there is insufficient volume of eligible government securities in the domestic market to enable banks to meet the LCR requirements, the Reserve Bank has advised that it will make available to Australian banks a "Committed Liquidity Facility" that will support compliance with the LCR requirements. The Bank continues to consult with APRA on the operational structure and requirements of the Committed Liquidity Facility.

We publish the information required under APRA's Prudential Standard APS 330 on our website at:

http://www.bendigoadelaide.com.au/public/shareholders/announcements/aps_330.asp

Challenges and opportunities

We anticipate that the operating environment for the coming year will again be very challenging given the subdued consumer and business sentiment and high level of competition in the credit markets.

However, we believe we continue to be well positioned for growth and other opportunities should they emerge given our distinctive offering and unique market positioning, our investment in systems, customer service improvement, social media, digital technologies and distribution network as well as our long history of trusted service.

We will continue to invest in our business to further understand the needs and aspirations of customers by developing our customer information and management platforms and by connecting with customers through social media forums and emerging technologies.

Challenges

Low credit growth environment and price competition
It is expected that the sector will continue to experience relatively subdued credit growth and this should in turn drive strong competition as financial institutions compete for the limited demand for credit. In line with this subdued demand we experienced a significant increase in price competition for credit during the second half of the year.

We expect the continued low credit demand will again make growth in interest revenue challenging. Our loan approvals for the year were relatively solid. However, a large percentage of our borrowers are continuing to make loan repayments ahead of their minimum contractual obligations. We believe we are well placed to generate sound credit growth given the relative youth of our retail network, our market positioning and value proposition.

Continued competition for deposits
It will be important that we remain competitive in the pricing of term deposits. The demand for retail deposit funding, combined with low absolute interest rates, is again expected to continue to place some pressure on bank margins, including our own.

We will again commence the new financial year with a very strong funding profile. The strong level of deposit funding, in the order of 78% of our overall funding mix, places us in a strong position. In addition, wholesale funding markets continue to improve and our conservative funding profile should enable us to access these markets where economically sensible to do so.

This year we successfully completed a further residential mortgage-backed security issue, unsecured senior debt issuances and a Swiss franc senior debt issuance under our Euro Medium Term Note Program.

Credit ratings

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

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

Regulatory change

Our business is subject to significant regulatory oversight. It is regulated by APRA, the Reserve Bank ("RBA"), the Australian Securities Exchange ("ASX"), the Australian Securities and Investments Commission ("ASIC"), the Australian Competition and Consumer Commission ("ACCC") and Australian Transaction Reports and Analysis Centre ("Austrac") amongst others.

Regulation of the banking and financial services sector is increasingly complex and extensive. Some of the more significant changes we will need to incorporate into our business structures include implementing the new minimum liquidity risk management standards and capital requirements under the Basel III reforms outlined earlier as well as other prudential reforms.

Other regulatory developments that will impact our business include the new regulations relating to the Foreign Account Tax Compliance Act, tighter anti-money laundering and counter-terrorism financing rules, the future of financial advice reforms, over-the-counter derivatives reforms, stronger governance regulations around financial advice and the development of a new industry payments platform.

These reforms typically require a significant resource allocation in order to implement the supporting information technology changes as well as required policy, system and procedure changes as well as training of our staff.

We welcomed the interim report of the Financial Services Inquiry. The inquiry recognises the environment has changed for lots of reasons and has taken a balanced approach in identifying the key issues, including the uneven playing field tilted in favour of larger banks. We look forward to working with the inquiry towards an appropriate resolution of these issues.

Opportunities

Our core focus on understanding the needs and objectives of our customers is unchanged. Customer behaviour and insight drives a lot of what we do and our Customer Voice team will coordinate the response to changes in customer behaviour and expectations.

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

We will continue to invest in our community and partner based activities, increasing the awareness of the benefits of our banking model and deepening the relationships with customers.

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

We will continue to invest in our online, mobile and social strategies through a number of initiatives. This investment will help us grow our connection to our customers utilising social media networks and making improvements to our mobile e-banking application as well as our internet banking platform and website.

Other opportunities include:

Network maturity and growth

The relative youth of our distribution network provides a significant platform for growth. We now have more than 500 branches across Australia and more than 160 of these have been operating for less than ten years.

The expansion of our retail network is evidence of our commitment to our customers and their communities and it is expected that this investment will continue to generate growth opportunities for us in years to come.

Funding tenure and diversity

The Group operates with a conservative funding structure and retail deposits continue to make up approximately 78% of the total funding. This continues to be in line with our funding strategy of maintaining a retail funding base ranging between 75% and 80% of total funding.

As demonstrated over recent years, funding markets can go through periods of significant disruption. More recently, the improved stability and liquidity in these markets have been welcomed by all participants.

As a result we have been able to access wholesale funding in both senior unsecured formats as well as secured residential mortgage backed securitisation funding. These transactions have provided us with new investors as well as an extension of our overall funding profile.

With the success of these transactions and the heightened awareness of our business model and credit rating, more opportunities are likely to arise to further diversify the investor base and potentially lengthen the term debt profile where economically sensible.

Systems and efficiency gains

We have started to work on upgrading our core lending platforms with the first of these relating to our third party mortgage business. We are working towards a single consolidated lending system right across the Bank, which should deliver significant efficiencies and savings, and just as importantly a more seamless and improved customer experience.

Continuous Improvement, driven by our Customer Service Improvement activity and a continuous improvement culture using LEAN techniques, is the centrepiece of our intention to make it easier for customers to do business with us and to deliver further operational efficiencies and cost savings.

It is through this process, that we will strive to improve our service delivery, grow customer business and to improve our efficiency by doing more things within the existing cost base.

Banking and telco convergence

We will continue to progress activities related to the convergence of banking and telecommunications. This project is about challenging and rethinking our on-line banking service as well as making additional investment into technology that will allow customers to define how and when they deal with us.

The digital strategy, of which these initiatives are a part, is principally being driven by our Customer Voice team. This is an exciting area of development and crosses on line product and service delivery channels, payments systems, telecommunications and social media.

Customer and staff engagement

In addition to our industry-leading customer satisfaction levels, the organisation has staff engagement levels which are above the Australian high-performance benchmark. There are significant advantages for an organisation that has engaged staff and the organisation will continue to use these strengths to the best advantage.

Consolidation opportunities

The organisation has an established record of successfully acquiring businesses that add shareholder value.

In recent years we have completed a number of small acquisitions that we believe add significant value including the Bank of Cyprus Australia (now called Delphi Bank) which is performing ahead of expectations, Community Telco Australia and Rural Bank. More recently the addition of Rural Finance Corporation to our Rural Bank offering makes us a more substantial player in this market. These purchases have all complemented our strategic goals and national distribution network.

The highly competitive environment, the regulatory burden and the pace of technological change is expected to result in more consolidation across the industry. We are well placed to take advantage of opportunities that may arise.

Looking forward

Looking forward we do not expect any significant change in the operating environment. After a period of consolidation and strengthening, we are now in an investment phase focusing on our Basel II program, consolidation opportunities and further business and system innovations.

We aim to capitalise on the many opportunities before us. More specifically our businesses will:

- Seek to gain a better understanding of the needs, aspirations and behaviours of customers by tapping into their "Customer Voice" and translating this into increased business from a more engaged and connected customer base.
- Aim to achieve above system growth in residential, business and agribusiness lending whilst maintaining our disciplined approach to margin management.
- Draw more customers to **www.bendigobank.com.au** through the delivery of our improved website service.
- Improve the experience for our third party lending customers through the launch of a new and more robust online banking site.
- Identify and invest in system and process improvements that improve our operational efficiency and the customer experience.
- Continue to invest in our margin lending business and position the business for a future turnaround in the investor confidence.
- Start to realise the opportunities and benefits from our 'convergence strategy' that involves the amalgamation of banking, telecommunications and payment services.
- Further develop our wealth proposition with a specific emphasis on lifting our presence in the growing superannuation market.

And just as importantly, we will continue to test and challenge everything we do to ensure we are operating as efficiently as possible.

Group performance highlights

We achieved an after tax statutory profit of $372.3 million for the year ended 30 June 2014, a 5.7% increase on the prior corresponding period.

The statutory earnings per ordinary share was 87.7 cents (FY2013: 84.9 cents), an increase of 3.3%, and the statutory return on average ordinary equity was 8.59% (FY2013: 8.52%).

The cash earnings result for the 2014 financial year was $382.3 million, representing a 9.9% improvement on the previous financial year ($348 million). The cash earnings per ordinary share was 91.5 cents, an increase of 7.1% on the previous financial year (85.4 cents).

The results show a continued improvement in a range of profitability and efficiency measures including net profit, cash earnings, net interest margin, dividend, earnings per share and cost to income ratio.

Net interest margin, in particular, was strong over the year improving by 5 basis points. This demonstrates the Bank's pricing discipline whilst providing rates that are fair to both our customers and our shareholders.

We continue to enjoy the strong support of our customers and the communities we operate in. This has again been reflected in reasonable asset growth across a range of portfolios, particularly in the second half.

We have maintained a conservative funding base and balance sheet structure and we have a highly engaged staff. Together these factors place us in a sound position to benefit from market opportunities that may be presented as well as any improvement in market sentiment and the general operating environment.

Business performance

Net interest income increased by 8.8% to $1,118.2 million (FY2013: $1,027.5 million).

We increased our net interest margin to 2.24% for the year, an increase of 5 basis points on the prior year and our non-interest income before specific items was $315.7 million (FY2013: $297.2 million), an increase of 6.2%.

The operating expenses before specific items increased by 4.8% to $816.3 million (FY2013: $779.0 million) and the cost to income ratio was 55.4% compared to 57.0% in 2013.

As expected, our expenses were impacted by increased costs from additional investment to improve our premises and capability, such as the Basel II Advanced Accreditation project and the new Adelaide building.

This continuing investment, combined with industry leading customer satisfaction and brand advocacy, has allowed the business to maintain its competitiveness and to grow with total new loan approvals increasing at a rate of 16.0% over the past twelve months. However, this was partially offset by high rates of loan repayments in the residential and business lending portfolios.

Credit quality

The bad and doubtful debts expense was $81.9 million (FY2013: $69.9 million), an increase of 17.2%.

Credit costs continue to be impacted by seasonal and trade disruptions to the north Queensland cattle sector, as well as an isolated construction exposure.

Despite this, 90-day arrears rates in our residential, business, consumer and agribusiness portfolios all performed better than at the same period last year, and this augers well for the coming financial year.

Capital

We look to maintain a conservative and prudent capital base that adequately supports the risks associated with our normal business activities. This includes providing for effective and efficient capital buffers to protect depositors and investors, and allowing the business to grow.

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

Our capital position has been further strengthened through the recent share placement and share purchase plan completed towards the end of the year. Common Equity Tier 1 increased to 8.73%, Tier 1 capital remained steady at 9.99% and total capital increased by 154 basis points to 12.25%.

Liquidity and funding

Domestic retail deposits remain central to our funding strategy and this complements the overall strategy. Wholesale markets are also utilised to achieve our funding objectives which include lengthening the contractual profile of liabilities and diversifying our funding sources. We also look to participation in markets that provide economic financing opportunities for the business.

Securitisation continues to be an important part of the Group's funding and capital management strategies. We are committed to achieving the right balance in our funding mix and we will continue to monitor the securitisation market and participate where and when appropriate.

Through the year, wholesale markets have continued to improve from both an availability and cost perspective. This has provided additional flexibility in managing liquidity requirements as well as funding to support growth opportunities as they have arisen.

Dividends

The Board announced an increase in the final dividend to 33 cents per share. This represents an increase of 6.5% on the prior half and takes the full-year dividend to 64 cents per share.

Outlook

The extended period of absolute low interest rates looks likely to continue for the foreseeable future. The transition in investment from the mining sector to the non-mining sector is still working its way through the domestic economy and, to date, the pace of transition is probably a little slower than some had hoped. While some parts of the domestic economy are experiencing above average trend growth other sectors are a little more subdued.

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

Group performance overview

Financial highlights	Jun-14 Total $m	Jun-13 Total $m	FY13 to FY14 $m	FY13 to FY14 %
Profit after tax attributable to parent	372.3	352.3	20.0	5.7
Profit after tax and before specific items	372.8	337.6	35.2	10.4
Cash earnings	382.3	348.0	34.3	9.9
Net interest income	1,118.2	1,027.5	90.7	8.8
Non-interest income (before specific items)	315.7	297.2	18.5	6.2
Bad and doubtful debts expense	81.9	69.9	12.0	17.2
Expenses (before specific items)	816.3	779.0	37.3	4.8
Retail deposits	44,843.0	42,245.8	2,597.2	6.1
Ordinary equity	4,700.8	4,156.1	544.7	13.1
Funds under management	3,390.5	2,954.3	436.2	14.8
Loans under management	53,980.7	51,689.2	2,291.5	4.4
New loan approvals	16,357.4	14,101.4	2,256.0	16.0
Residential	10,522.3	9,023.1	1,499.2	16.6
Non-residential	5,835.1	5,078.3	756.8	14.9

	Jun-14 %	Jun-13 %	FY13 to FY14 %
Cost to income ratio	55.4%	57.0%	(2.8)
Net interest margin before Community Bank/alliances share of net interest income	2.24%	2.19%	2.3
Return on average ordinary equity - statutory basis	8.59%	8.52%	0.8
Return on average ordinary equity - cash basis	8.96%	8.58%	4.4
Return on average tangible equity - cash basis	13.34%	13.48%	(1.0)

	Jun-14 cents	Jun-13 cents	FY13 to FY14 %
Earnings per ordinary share (statutory basis)	87.7	84.9	3.3
Earnings per ordinary share (cash basis)	91.5	85.4	7.1
Dividend per share	64.0	61.0	4.9

Analysis of group performance

Financial performance and business review

The 2014 financial year performance reflected the continuing improvement in our operating businesses. We maintained our focus on achieving growth at profitable prices and achieved a reasonable level of balance sheet growth.

Net interest margin was strong throughout the year with a five basis point improvement in a very competitive market. Net interest income increased by $90.7 million on last year's result.

Non-interest income increased to $315.7 million. This represents a 6.2% increase on the prior year's performance of $297.2 million. The improvement was mainly due to an increase of $25.2 million in the contribution from Homesafe, reflecting stronger residential real estate prices in Sydney and Melbourne. The increase also included an improvement in commission income due to growth in managed funds. These increases were offset to some degree by reduced liability product fee income and other income.

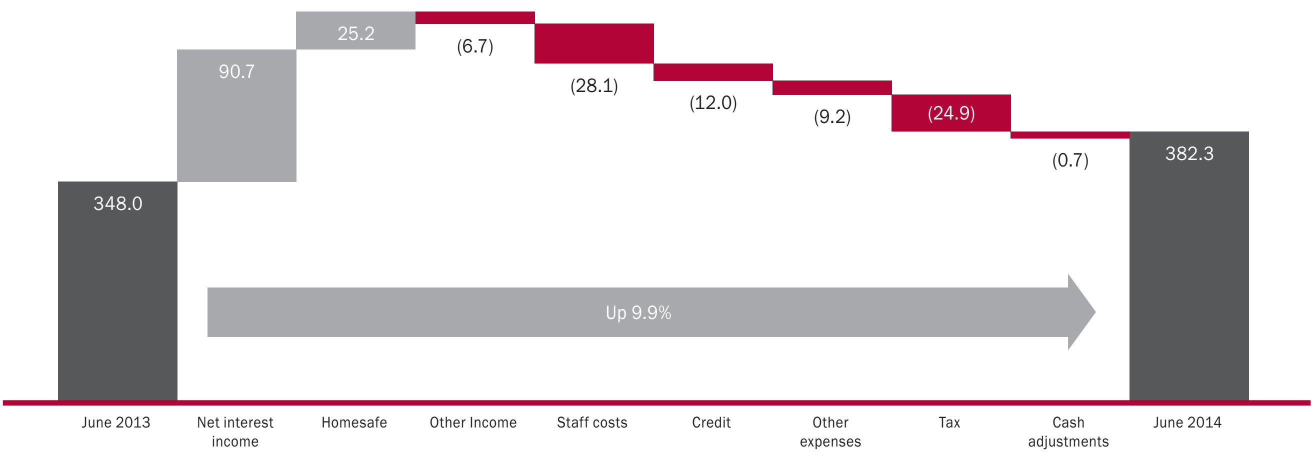
Cost containment and efficiency continued to be a major focus of management and, over the reporting period, operating expenses grew by just 4.8%, enabling us to achieve our long term cost-to-income target of 55%. The most significant movements related to occupancy, staff and information technology costs.

During the year our provisions for credit losses increased however, overall arrears were significantly lower when compared to the previous reporting period. Our overall credit quality continues to be very healthy, although there were a few isolated additional specific provisions relating to lending activity no longer undertaken by the Group.

We have strengthened our balance sheet through the subordinated debt issue and ordinary share issues as part of the share placement and share purchase plan completed in preparation for the Rural Finance acquisition.

Our underlying cash earnings was $382.3 million which represents an increase of 9.9% on the previous year. This equates to a cash earnings per share result of 91.5 cents and represents an increase of 7.1% on the prior year.
The components of the cash earnings performance are set out below:

Cash earnings movement ($m)



Analysis of net interest margin (%)

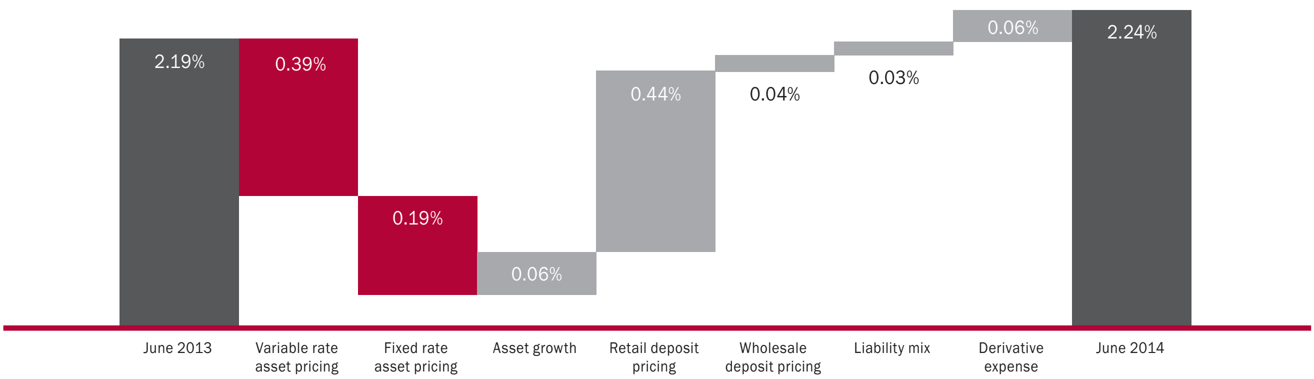
The improved margin performance resulted from our disciplined approach to product pricing. The easing in deposit competition and wholesale funding spreads provided us with an opportunity to improve the margin on our liability side.

We continue to focus on managing our net interest margin in a way that produces a fair outcome for all stakeholders, including customers, shareholders and our partners who share that margin.

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

These factors have generated some headwinds for our net interest margin in the new financial year. Also, our margin was adversely impacted in the second half by the additional funding we raised in preparation for the Rural Finance purchase.

Interest Margin[1]



[1] Before payments to Community Banks and alliances

Analysis of operating expenses

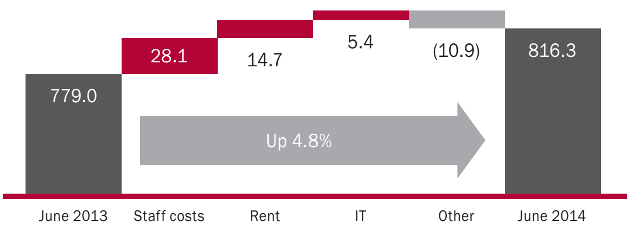
The increase in salaries and staff related expense was mainly due to ordinary annual salary and wage increases plus staff increases and our continued investment in strategic projects.

The staff costs include an additional 65 staff that were transferred to the Group as part of the Community Telco Australia purchase. It also includes additional contractor costs associated with our Basel II project.

The increase in information technology costs was mainly due to increased software maintenance costs and the cost of upgrading our website.

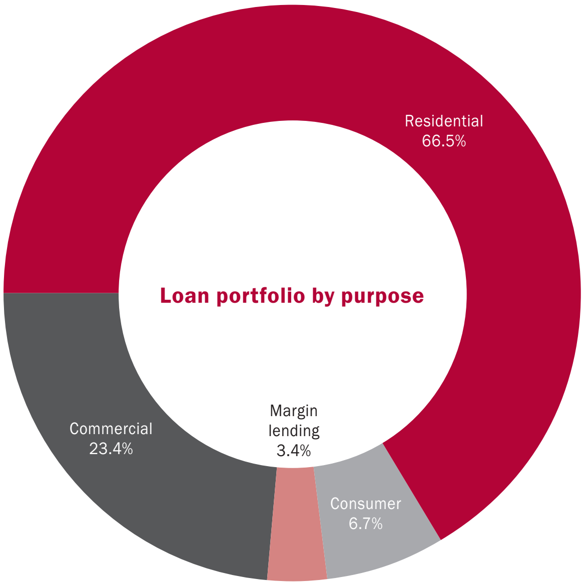
The occupancy cost increase was largely due to the inclusion of rental on the new Adelaide headquarters and annual rental increases on other premises.

Operating expenses ($m)



Overview of loan and deposit portfolios

Loans

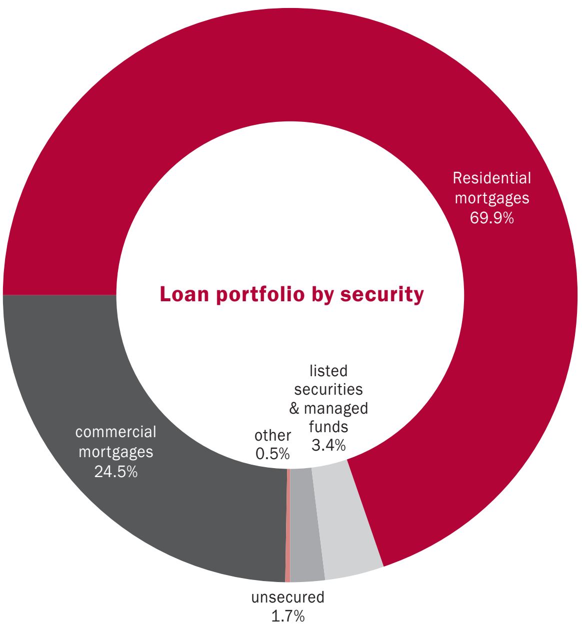


We grew our loan portfolio for the year by 4.8%, compared to system growth of 7.2%. The majority of the growth was reflected in our residential portfolio.

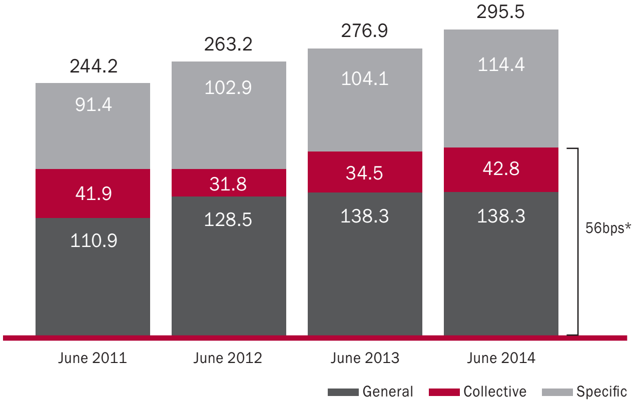
New loan approvals increased by 16% compared to the previous financial year. The majority of the increase related to our residential portfolio and the rate of approvals in our residential portfolio continues to increase. However, overall net growth performance continues to be offset by higher rates of principal repayments.

The below analysis demonstrates the very high percentage (97.8%) of loans secured by mortgages or listed securities.

Loss provisions and reserves for doubtful debts totalled $295.5 million as at year end. This is an increase of $18.6 million since June 2013. The main reasons for the increase are explained in the Group Performance Highlights section of this report.



Provisions for doubtful debts ($m)



Deposits

Total deposits grew by 8.2% during the year, well above system growth (5.9%).

In part, this was due to the requirement to raise the necessary funds to complete the Rural Finance acquisition. The funding task was predominantly managed through the deposit market, demonstrating the strength of our brands and franchise.

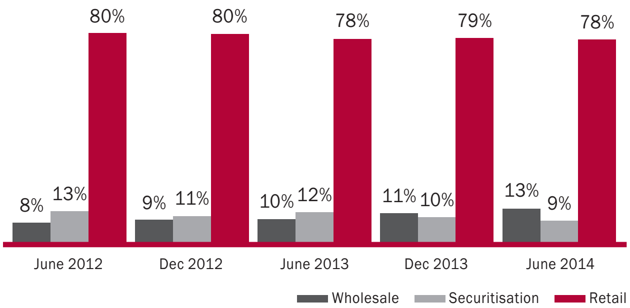
The growth in liabilities also reflects the shift in focus of price competition in the industry away from deposits and towards loans. In recent reporting periods, when there was extremely strong competition for deposits, our deposit growth was generally below system, and during that period we tended to outperform on the asset side. This year, the pricing focus swapped to assets, and we were able to grow our deposits at profitable prices.

Although we have increased our wholesale funding activity over the last couple of halves, the percentage of deposit funding of the total portfolio remains around the middle of our target ratio of 75% to 80%.

We expect to continue to actively participate in wholesale markets, including the RMBS market, but the funding mix is expected to remain in, or around, our target band.

The mix of deposits at year end is set out in the following table.

Historical funding mix



Capital adequacy

We continue to maintain a conservative capital management program based on the low risk and highly secured nature of our loan portfolio.

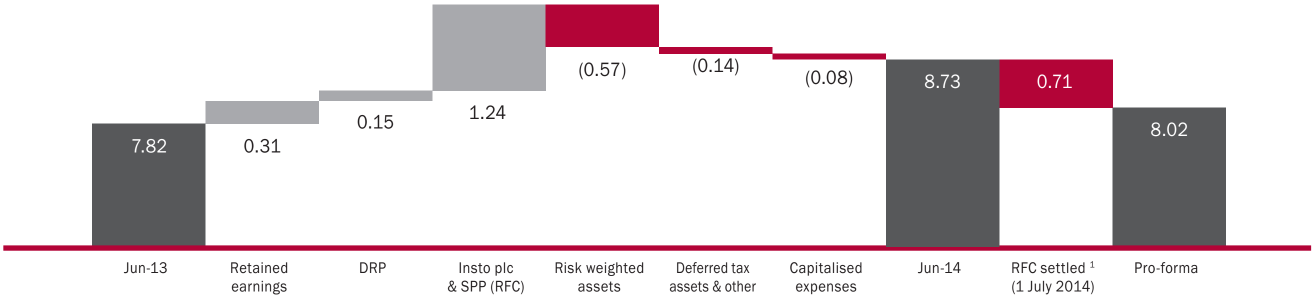
During the year we successfully completed a share placement and share purchase plan, raising more than $380 million of ordinary share capital. Participation in the share purchase plan, in particular, exceeded expectations, providing us with a strong capital position going into FY2015.

Our common equity Tier 1 (CET1) capital ratio as at 30 June 2014 was 8.73% an increase of 91 basis points on the previous year. After adjusting for the acquisition of Rural Finance the CET1 ratio sat at 8.02%, a 20 basis point improvement over the course of the year.

We have significant capacity going forward for additional capital efficiency primarily through the issuance of Tier 1 hybrid capital and Tier 2 subordinated debt.

The movement in the Group's CET1 ratio is set out in the following chart.

Common Equity Tier 1 movement



[1] Shows pro-forma impact to capital adequacy of the Rural Finance acquisition which was completed 1 July 2014

[2] Included in the 57bps movement in CET1 for RWA is 8bps from the changes to certain loan products terms and conditions.

Divisional performance

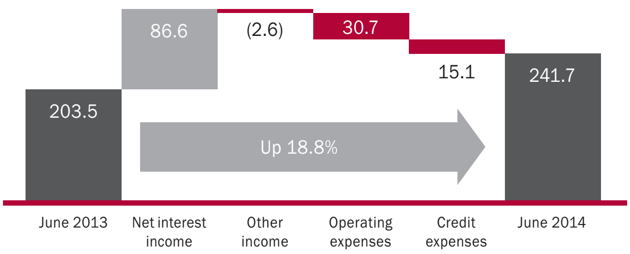
Retail Banking

Financial performance and business review

The profit contribution from our largest business segment, Retail, increased from $203.5 million to $241.7 million, before tax. The key driver of the increase was the improvement in net interest income. The benefits of the easing in term deposit pricing and the growth in the at-call deposits is reflected in the performance of our retail banking business.

Operating expenses increased over the year as we continue to invest in this key business segment. The increase in credit expense was mainly due to an isolated construction exposure.

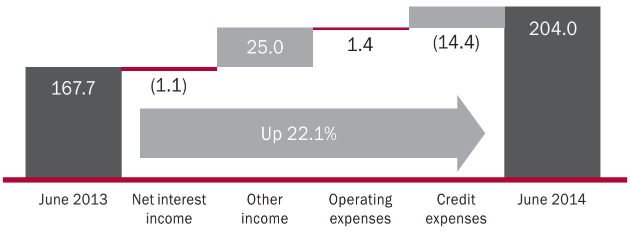
Retail Banking ($m)



Third Party Banking

Financial performance and business review

Third Party Banking ($m)



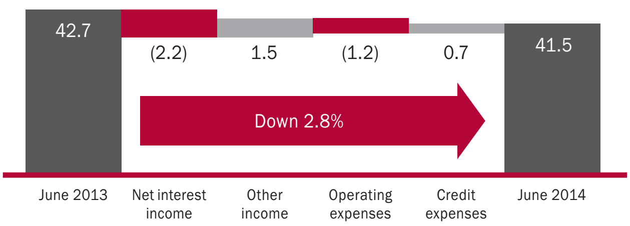
The contribution from the Third Party Banking segment increased for the year to $204.0 million, before tax.

The underlying performance of the Third Party Banking segment was stable. The increase in other income reflects the increased contribution from Homesafe and the improvement in credit expenses is a reflection of the improved credit performance of the Great Southern portfolio.

Wealth

Financial performance and business review

Wealth ($m)



The profit performance of the Wealth business segment for the year was reasonably flat, down $1.2 million, to $41.5 million before tax.

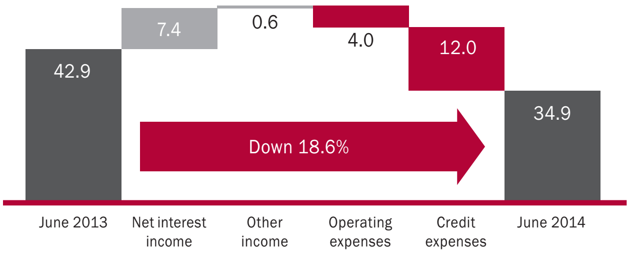
Net interest income decreased, mainly due to a reduction in the contribution from the margin lending business, offset to some extent by improved margins on wealth deposits.

Non-interest income has increased as our Wealth business builds on the investment in developing a broader product range for our customer base, and we expect this trend to continue into the next period.

Rural Bank

Financial performance and business review

Rural Bank ($m)



Rural Bank's segment contribution for the year was $34.9 million before tax, versus $42.9 million for the prior year.

Rural Bank's lending grew at 2.2% for the year which was above system. This was achieved despite historically high levels of principal repayments due to the excellent seasonal results for many customers through the southern markets.

The improvement in net interest income was largely attributable to an improved net interest margin that resulted from an easing in pricing of deposits. Rural Bank maintained its strategy of being predominantly retail funded.

The main contributor to the increase in operating costs was the reallocation of the Rural Banking team to the new Adelaide headquarters and the transfer of the Bendigo Bank rural banking team to Rural Bank.

Elevated credit losses continue to be incurred due to the ongoing difficulties with exposures secured by properties located in the northern regions of Australia. Drought conditions impacting much of Queensland have continued to depress security values and transaction activity, resulting in the need for further provisioning. While property prices in this market are showing some signs of stabilisation, it is expected that the operating conditions for the farming communities in this region will continue to be challenging for the foreseeable future.

The medium term outlook for the agricultural industry remains generally positive, helped by recent improvements in international trade and a modest decline in the value of the Australian dollar.

Further information about the Group's financial results and financial position are presented in the Annual Financial Report.

Risk management framework, business uncertainties and significant business risks

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

The Risk Committee and Credit Committee assist the Board by providing objective oversight of the risk profile and its alignment with the risk appetite and risk management framework. This includes overseeing the risk management framework for credit risk, operational risk, interest rate risk, traded market risk, liquidity risk and strategic risk.

Further information on the Group's risk governance and risk management framework is presented in the 2014 Corporate Governance Statement available from the Bank's website.

Risk factors and dependencies

Our business is exposed to a number of risk factors and uncertainties that could adversely impact our risk profile and earnings performance. The timing and extent of these uncertainties is difficult to predict and managing their impact is largely outside of our control.

Dependence on prevailing macro-economic conditions

Our revenues and earnings are dependent on 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, the residential lending market and the prevailing interest rate environment.

These factors are, in turn, impacted by domestic and international economic and political events, natural disasters and the general state of global economies and financial markets.

A downturn in the Australian economy could adversely impact our trading and financial performance, our ability to access funding at economically viable prices and our ability to access capital needed to support our business objectives and comply with prudential requirements.

Our business and its performance may also be adversely impacted by volatility in domestic and global financial markets. Volatility in these markets may result in reducing the availability of funding and / or increase the cost of funding needed to support our business activities.

This volatility may also lead to decreases in the value and liquidity of assets, including assets held as collateral, and an increased risk of borrower or counterparty default and credit losses.

Natural disasters such as cyclones, floods and earthquakes, and the economic and financial market implications of these disasters can adversely affect our trading performance and financial condition.

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

Market Competition

The markets in which we operate are highly competitive and could become even more so, particularly in those segments that are considered to provide higher growth prospects or are in greatest demand (for example, consumer loans).

Factors that contribute to competition risk include industry regulation, mergers and acquisitions, changes in customers' needs and preferences, entry of new participants, the development of new distribution and service methods, increased diversification of products by competitors and current non-competitors as well as regulatory changes to the rules governing the operations of banks and non-bank competitors.

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

Additionally, measures by the Australian government designed to further promote competitive and a sustainable banking system in Australia could have the effect of limiting or reducing the revenue earned from banking products or operations.

Significant slowdown in the Australian real estate market

Residential, commercial and rural property lending, together with property finance (including real estate development and investment property finance) constitute important businesses to us. Overall, the performance of the property market has continued to be variable.

A significant slowdown in the Australian real estate market could reduce our lending volumes and increase the losses that we may experience from existing loans, which, in either case, could materially and adversely impact our financial condition and financial performance.

Material business risks

The material risks directly associated with our business activities are credit risk, market risk, liquidity risk and operational risk.

Credit Risk

Credit risk is the risk of financial loss due to the unwillingness or inability of counterparties to fully meet their contractual debts and obligations. The majority of our credit risk exposure arises from general lending activities and the funding, trading and risk management activities of Group Treasury.

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

Our exposure to credit risk may be increased by a number of factors including deterioration in the financial condition of the individual borrower or counterparty, the value of assets we hold as collateral and the market value of the counterparty instruments and obligations it holds.

Credit risk is primarily monitored by the Board Credit Committee and the Management Credit Committee. The Bank's credit risk framework and supporting policies are managed by our independent credit risk unit. Further information on our approach to managing credit risk is described at Note 36 of the Financial Statements.

Market Risk

Market risk is the risk of loss arising from changes and fluctuations in interest rates, foreign currency exchange rates, equity prices and indices, commodity prices, debt securities prices, credit spreads and other market rates and prices (Traded Market Risk). It also includes Non-Traded Market Risk (Interest Rate Risk in the Banking Book) which is the risk of a loss in earnings or in the economic value on banking book items as a consequence of movements in interest rates.

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

Market risk is monitored through the Risk Committee and the Asset and Liability Management Committee (ALMAC) and is managed by Group Treasury. Further information on our approach to managing market risk is described at Note 36 of the financial statements.

Liquidity Risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations as they fall due, including repaying depositors or maturing wholesale debt, or that the Group has insufficient capacity to fund its asset growth.

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

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

Further information on our approach to managing liquidity risk is described at Note 36 of the financial statements.

Operational Risk

Operational risk is defined as the risk of impact on objectives or risk of loss resulting from inadequate or failed internal processes, people 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 or financial condition. Operational risk (other than financial reporting risk) is primarily monitored by the Risk Committee and the Operational Risk Committee. The Audit Committee has responsibility for the oversight of financial reporting risk.

Operational risk is governed by the Group operational risk management framework. The framework complies with the guidelines and principles set out in the International Standard for Risk Management ISO 31000 and the Basel Committee on Banking Supervision "Sound Practices for the Management and Supervision of Operational Risk" ("Sound Practices").

The operational risk tolerances are articulated through the use of the escalation matrix and a set of defined key risk indicators which are monitored by the Risk Committee.

Our business divisions are responsible for the day to day management of operational risk. Examples of operational risk and operational risk event categories include:

- Internal fraud and external fraud;
- Clients, products and business practices;
- Business disruption;
- Employment practices and workplace safety;
- Damage to physical assets; and
- Execution, delivery and process management.

The Group has also defined the top operational risk themes directly attributable to its activities and include compliance with regulatory requirements, business disruption, implementation of business change initiatives and vendor failure.

The consequences of each theme have been assessed taking into account the associated risk management and control framework. Key risk indicators have also been developed to monitor the themes.

Following is an overview of significant business risks and key operational risk themes directly associated with our activities.

Change to Credit Ratings

Our credit ratings have a significant impact on both our access to, and the cost of, capital and wholesale funding.

Credit ratings may be withdrawn, made subject to qualifications, revised, or suspended by the relevant credit rating agency at any time and the methodologies by which they are determined may be revised.

A downgrade or potential downgrade to our credit 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 counter parties to transact with the Bank.

Managing the Capital Base

The capital base is critical to the management of our businesses and our ability to access funding. We are required to maintain adequate capital and reserves to comply with prudential requirements. In addition, we need to maintain appropriate capital levels to support our business priorities and to protect against unexpected losses.

There can be no certainty that any additional capital required would be available or could be raised on reasonable terms. Global and domestic regulators have released proposals, including the Basel III proposals, to strengthen, among other things, the liquidity and capital requirements of banks and other regulated entities.

Our investor relations and capital management function has the day to day responsibility for capital management including compliance with internal and prudential capital limits. Capital adequacy is monitored by the ALMAC and Risk Committee.

Reputation Risk

Reputation risk may arise as a result of an external event or our own actions, and adversely affect perceptions about us held by the public (including customers), shareholders, investors, regulators or rating agencies.

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

We have implemented various structures including policies, systems and procedures designed to protect the brand and reputation of the organisation. The Executive Committee manages and oversees brand and reputation risk on a day to day basis.

Strategic Risk

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

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

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

Regulatory changes or a failure to comply with regulatory standards, law or policies

We are subject to the laws, regulations, policies and codes of practice in countries in which we trade or raise funds or, in respect of, which we have some other connection. In particular, our banking, funds management and superannuation activities are subject to extensive regulation, mainly relating to corporate governance, liquidity, capital, risk management and license conditions.

The regulations are generally designed to protect the interests of financial service users including depositors and investors, and the overall stability of the banking and finance sector. The Australian government and its agencies, including APRA, the Reserve Bank of Australia and other regulatory bodies including the Australian Securities Exchange and Australian Securities & Investments Commission have supervisory oversight of the Group.

A failure to comply with any standards, laws, regulation or policies in any of those jurisdictions could result in sanctions by these or other regulatory agencies, the exercise of any discretionary powers that the regulators hold or compensatory action by affected persons, which may in turn cause substantial damage to our reputation. To the extent that these regulatory requirements limit our operations or flexibility, they could adversely impact our profitability and prospects.

These regulatory and other governmental agencies (including revenue and tax authorities) frequently review banking and tax laws, regulations, codes of practice and policies.

Changes to laws, regulations, codes of practice or policies, including changes in interpretation or implementation of laws, regulations, codes of practices or policies, could affect the business in significant and unpredictable ways.

These may include increasing required levels of liquidity and capital, limiting the types of financial services and products we can offer and/or increasing the ability of non-banks to offer competing financial services or products as well as changes to accounting standards, taxation laws and prudential requirements.

Any such changes may adversely affect our business, operations and financial condition. The changes may lead us to, among other things, change our business mix, incur additional costs as a result of required system and process changes, raise additional amounts of higher quality capital (such as ordinary shares), hold additional levels of liquid assets and restructure the maturity profile of our wholesale funding base to more closely match our asset maturity profile.

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

Fraud Risk

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

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

There is a risk of intentional actions by our employees in order to gain an advantage from the Group or related third parties (for example stealing assets and/or information) and a risk of persons external to the Group dishonestly obtaining a benefit, financial or otherwise or causing a loss, by deception or other means.

We have established a control framework of systems, policies, procedures to monitor and manage fraud risk and continue to invest in new techniques and capabilities to detect and prevent fraud.
All actual or alleged fraud is investigated under the authority of our financial crimes unit to:

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

Disruption of information technology systems or failure to successfully implement new technology systems

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

Most of our daily operations are computer-based and information technology systems are essential to the day to day provision of banking services. The exposure to systems risks includes the complete or partial failure of information technology systems or data centre infrastructure, the inadequacy of internal and third-party information technology systems due to, among other things, failure to keep pace with industry developments and the capacity of the existing systems to effectively accommodate growth and integrate existing and future acquisitions and alliances.

To manage these risks, we have robust disaster recovery and information technology governance structures in place. However, any failure of these systems could result in business interruption, loss of customers, financial compensation, damage to reputation and/or a weakening of our competitive position, which could adversely impact our reputation and business and have an adverse effect on our financial condition and performance.

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

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

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

Data and Information Security Risk

Information security means protecting our information and information systems from unauthorised access, use, disclosure, disruption, modification, perusal, inspection, recording or destruction. By its nature, the Bank handles a considerable amount of personal and confidential information about its customers and its own internal operations.

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

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

However, there is a risk that information may be inadvertently or inappropriately accessed or distributed or illegally accessed or stolen. Any unauthorised use of confidential information could potentially result in breaches of privacy laws, regulatory sanctions, legal action and claims of compensation or erosion to our competitive position, which could adversely affect our financial position and reputation.

Impairment to capitalised software, goodwill and other intangible assets

In certain circumstances we could be exposed to a reduction in the value of intangible assets. The Bank carries goodwill principally related to its equity investments and intangible assets principally relating to assets recognised on acquisition of subsidiaries and capitalised software balances and capitalised project costs.

We are required to assess the carrying value of the goodwill and other intangible assets on an annual basis in accordance with accounting requirements. The basis of assessment is described in the financial statements.

A change to the assumptions on which goodwill calculations are based, together with expected changes in future cash flows, could materially impact this assessment and result in a write-off of part or all of the goodwill.

In the event that an intangible asset is no longer in use, or that the cash flows generated by the asset do not support the carrying value, an impairment may be recorded that adversely impacts our financial condition. The carrying value of intangible assets is monitored by Finance and Accounting and the Audit Committee.

Vendor failure or non-performance

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

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

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

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

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

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

An inability to meet change demand or to appropriately manage the volume of business change could adversely impact our operations, performance and reputation. This risk is managed through a framework of change management structures, policies and systems including the enterprise change process which is overseen by the Executive Committee.

Community Bank®

We now have **Community Bank®** branches operating in all States and Territories. The branches are operated by companies that have entered into franchise and management agreements with the Bank to manage and operate a **Community Bank®** branch. Under the franchise agreement the Bank derives revenue from franchisees through the payment of franchise fees and other fees, as well as through revenue sharing arrangements.

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

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

Further, under the franchise agreement each franchise is subject to periodic renewal, subject to the franchisee satisfying certain conditions. It is possible that a franchisee will not want to (or be able to) renew its franchise.

This may impact on the number of **Community Bank®** branches in operation. Poor performance by one or more franchisees, or the termination of one or more franchise agreements, may cause a loss in revenue and cause harm to our brand and reputation and adversely impact our operations and performance.

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

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

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

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

Contagion Risk

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

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

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

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

Litigation risk

From time to time, Bendigo and Adelaide Bank may be subject to material litigation, regulatory actions, legal or arbitration proceedings and other contingent liabilities which, if they crystallise, may adversely affect Bendigo and Adelaide Bank'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.

In relation to the Great Southern litigation, the Bank announced on 24 July 2014 that that it has entered into an agreement to conclude the class actions brought by investors in managed investment schemes operated by Great Southern. Under the agreement, which is subject to Court approval, the members of the class actions have admitted that their loans are valid and enforceable and have provided a broad release from future litigation.

Directors' information

The names and details of the directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Robert Johanson, Chair, Independent

BA, LLM (Melb), MBA (Harvard), 63 years

Term of office: Robert has been a director of the Bank for 26 years. He was appointed Chairman in 2006.

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

Board committees: Governance and HR, Technology and Change

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

Other director and memberships (current and within last 3 years): Member, Takeovers Panel; Deputy Chancellor, University of Melbourne, Chairman, Australia India Institute and Chairman of The Conversation; Director, Robert Salzer Foundation Ltd and Grant Samuel Group Pty Ltd.

Mike Hirst, Managing Director, not independent

BCom (Melb), SFin, 56 years

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

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

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

Group and joint venture directorships: Rural Bank Ltd

Other director and memberships (current and within last 3 years): Member, Financial Sector Advisory Council and Business Council of Australia; Deputy Chairman, Australian Bankers' Association Council; Member, Centre for Workplace Leadership Advisory Board; Deputy Chairman, Treasury Corporation of Victoria.

Jenny Dawson, Independent

BBus (Acc), FCA, MAICD, 49 years

Term of office: Jenny joined the Board in 1999.

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

Board committees: Audit (Chair), Credit

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

Other director and memberships (current and within last 3 years): Member, Victorian Regional Policy Advisory Committee; Chair, Regional Development Australia Committee for the Loddon Mallee Region; Independent Chair, Audit Committee - Goulburn-Murray Water; Former Director, Goulburn-Murray Water (ended 2012).

Jim Hazel, Independent

BEc, SFFin, FAICD, 63 years

Term of office: Jim joined the Board in 2010.

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

Board committees: Risk (Chair), Credit, Governance and HR

Group and joint venture directorships: Rural Bank Ltd

Other director and memberships (current and within last 3 years): Chairman, Ingenia Communities Group Ltd (ASX listed, period June 2012 to present); Director, Centrex Metals Ltd (ASX listed, period of directorship: 2010 to present), Impedimed Ltd (ASX listed, period of directorship: 2007 to present), Motor Accident Commission and Coopers Brewery Ltd.

Jacqueline Hey, Independent

BCom (Melb), Graduate Certificate in Management (Southern Cross University), GAICD, 48 years

Note: Standing for re-election at the 2014 AGM

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

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

Board committees: Audit, Risk, Technology and Change (Chair)

Group and joint venture directorships: n/a

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

Robert Hubbard, Independent

BA(Hons) Accy, FCA, MAICD, 55 years

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

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

Board committees: Audit, Risk

Group and joint venture directorships: n/a

Other director and memberships (current and within last 3 years): Director, Orocobre Ltd (ASX and TSX listed, period of directorship November 2012 to present); Director, Central Petroleum Ltd (ASX listed, period December 2013 to present); Chairman of Opera Queensland, Director of JK Tech Pty Ltd, Multiple Sclerosis Australia, MS Research Australia and Council member of the University of the Sunshine Coast.

David Matthews, Independent

Dip BIT, GAICD, 56 years

Term of office: David joined the Board in 2010.

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

Board committees: Credit, Audit

Group and joint venture directorships: Rural Bank Ltd

Former Co-Chair and current member of the **Community Bank®** Strategic Advisory Board.

Other director and memberships (current and within last 3 years): Director, Pulse Australia and Rupanyup/Minyip Finance Group Ltd.

Deb Radford, Independent

B.Ec, Graduate Diploma Finance & Investment, 58 years

Term of office: Deb joined the Board in 2006.

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

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

Group and joint venture directorships: n/a

Other director and memberships (current and within last 3 years): Director, SMS Management & Technology Ltd (ASX listed, period September 2013 to present); Former Director, Forestry Tasmania (ceased 30 June 2012) and City West Water (ceased 30 September 2011).

Tony Robinson, Independent

BCom (Melb), ASA, MBA (Melb), 56 years

Term of office: Tony joined the Board in 2006.

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

Board committees: Risk, Governance and HR (Chair)

Group and joint venture directorships: n/a

Other director and memberships (current and within last 3 years): Executive Director, Oncard International Limited (ASX listed, period June 2014 to present); Former Director, Centrepoint Alliance Limited (ASX listed, period of directorship: 2009 to 2013).

Meetings of Directors

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

Director	Board		Committees									
			Audit		Credit		Risk		Governance & HR		Technology & Change	
Meetings during the year												
	A	B	A	B	A	B	A	B	A	B	A	B
Robert Johanson	17	16							5	5	5	5
Jenny Dawson	17	17	9	9	7	7						
Jim Hazel	17	15			7	7	7	6	5	5		
Jacquie Hey	17	17	9	9			7	7			5	5
Mike Hirst	17	16										
Robert Hubbard	17	16	9	9			7	6				
David Matthews	17	17	9	9	7	6						
Deb Radford	17	15			7	6			5	5	5	5
Tony Robinson	17	16					7	6	5	5		

A = Number eligible to attend

B = Number attended

Directors' Interests in Equity

The relevant interest of each Director (in accordance with section 205G of the Corporations Act 2001) in shares and units of the Bank or a related body corporate at the date of this report is as follows:

Director	Ordinary Shares No.	Preference Shares No.	Performance Shares No.	Sandhurst IML Industrial Share Fund (Units) [2]	Sandhurst Professional IML Industrial Share Fund (Units) [2]	Bendigo Growth Wholesale / Index Fund (Units) [2]
Robert Johanson	203,840	500	-	83,675	-	128,744
Mike Hirst [1]	711,398	-	152,438	-	-	-
Jenny Dawson	29,718	100	-	-	58,175	35,921
Jim Hazel	17,024	-	-	-	-	-
Jacquie Hey	4,227	250	-	-	-	-
Robert Hubbard	5,192	-	-	-	-	-
David Matthews	16,594	-	-	-	-	-
Deb Radford	1,900	1,390	-	-	-	-
Tony Robinson	10,692	-	-	-	-	-

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

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

Other matters

Share Options and Rights

Rights to ordinary shares in the Bank (called "performance shares") are issued under the salary sacrifice, deferred share and performance share plan ("Plan"). Each performance share represents an entitlement to one fully-paid ordinary share in the Bank, is issued at no cost to the recipient and has a nil exercise price.

During or since the end of the financial year the Bank granted 300,528 (2013: 202,739) performance shares. This includes 260,368 performance shares that were granted to key management personnel (excluding Non-executive Directors). There have been no grants of performance shares to Non-executive Directors.

As at the date of this report there are 571,408 performance shares 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 2015 and 2017.

During or since the end of the financial year 228,955 (2013: 198,712) performance shares vested and were automatically exercised to acquire 228,955 ordinary shares in the Bank.

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 granted being exercised.

For the period 1 July 2014 to the date of this report, 91,522 performance shares lapsed as they were not exercised before the expiry date.

Under the terms of grants the Board may decide how to treat the participant's performance shares to make sure the participant is neither advantaged nor disadvantaged as a result of any capital reconstruction including bonus issues or rights issues.

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.

Further details of equity holdings of key management personnel for the 2014 financial year and as at the date of this report are detailed in the Remuneration Report.

Further details of rights issued over ordinary shares granted during the 2014 financial year, rights on issue as at the date of this report and shares allocated as a result of the exercise of rights granted during the financial year are detailed in the Remuneration Report and Note 33 of the 2014 Financial Report.

Corporate Governance

An overview of the Bank's corporate governance structures and practices is presented in the 2014 Corporate Governance Statement. The Bank has elected to early adopt the 3rd edition of the ASX Corporate Governance Council's Principles and Recommendations and has also elected to publish this year's Corporate Governance Statement on the Bank's website at **www.bendigoadelaide.com.au/public/corporate_governance/index.asp**

Environmental Regulation

The Group endeavours to conduct its operations in a manner that minimises its impact on the environment. Information on the Group's environmental performance and activities to manage the Group's environmental impact are provided in the 2014 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 environmental requirements.

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

Indemnification of Officers

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

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

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

Indemnification of Auditor

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

Insurance of Directors and Officers

During or since the financial year end, the Bank has paid premiums to insure certain officers of the Bank and its related bodies corporate. The officers of the Bank covered by the insurance policy include the Directors, the Company Secretary and Directors or Company Secretaries of controlled entities who are not also Directors or Company Secretaries of the Bank. The insurance does not provide cover for the external auditor of the Bank or of a related body corporate of the Bank.

Disclosure of the nature of the liability and the amount of the premium is prohibited by the confidentiality clause of the contract of insurance.

Company Secretary

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

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

Declaration by Chief Executive Officer and Chief Financial Officer

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

The Managing Director and Chief Financial Officer also provided declarations to the Board, consistent with the declarations under section 295A of the *Corporations Act 2001* and recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations, in relation to the financial statements for the half year ended 31 December 2013.

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

Auditor Independence and Non-audit Services

The Audit Committee has conducted an assessment of the independence of the external auditor for the year ended 30 June 2014.

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 2014. A copy of the auditor's independence declaration is presented below.

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 are 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 2014:

(a) Audit related fees (Regulatory)

Service Category	Fees $	Entity
AFSL audits, APS 310 and APS 910 audits	210,602	Bendigo and Adelaide Bank Limited
Comfort Letter – Euro Medium Term Note Program	30,076	Bendigo and Adelaide Bank Limited
AFSL audit and APS 310 audit	71,379	Rural Bank Limited
Sub-total: Audit related fees (Regulatory)	**312,057**	

(b) Audit related fees (Non-regulatory)

In its capacity as the Group's external auditor, Ernst & Young are 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
Debt Issuance	15,914	Bendigo and Adelaide Bank Limited
Data, model and scorecard validation for the Basel II advanced accreditation program	778,590	Bendigo and Adelaide Bank Limited
Euro Medium Term Note Programme audit procedures	3,605	Bendigo and Adelaide Bank Limited
Sub-total: Audit related fees (Non-regulatory)	**798,109**	

(c) Non audit related fees

Service Category	Fees $	Entity
Tax advice	800	Bendigo and Adelaide Bank Limited
Professional services	4,429	Bendigo and Adelaide Bank Limited
Sub-total: non audit related fees	5,229	
Total: non audit services	**1,115,395**	

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

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

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Building a better working world

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

In relation to our audit of the financial report of Bendigo and Adelaide Bank Limited for the financial year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

T M Dring
Partner
2 September 2014

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Remuneration Report

This Remuneration Report is for Bendigo and Adelaide Bank Limited ("Bank") and the consolidated entity ("Group") for the year ended 30 June 2014.

The Remuneration Report explains the Group's approach to the remuneration of key management personnel ("KMP") comprising Non-executive Directors, the Managing Director and other Senior Executives. It also explains the link between performance and remuneration outcomes and details the remuneration provided. The Remuneration Report has been prepared in accordance with section 300A of the Corporations Act 2001 and the Corporations Regulations 2001 and has been audited.

In accordance with the Corporations Regulations 2001, this year's Remuneration Report includes a number of additional tables that were previously presented in the financial statements (refer **Tables 7 to 10**).

In this report the term "Senior Executive" is used to refer to all executives who fall within the definition of KMP – i.e. those persons with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

1. Key Management Personnel (KMP)

Name	Position	Term as KMP
Non-Executive Directors		
Robert Johanson	Chairman	Full Year
Jenny Dawson	Director	Full Year
Jim Hazel	Director	Full Year
Jacqueline Hey	Director	Full Year
Robert Hubbard	Director	Full Year
David Matthews	Director	Full Year
Deb Radford	Director	Full Year
Tony Robinson	Director	Full Year
Senior Executives		
Mike Hirst	Managing Director & Chief Executive Officer	Full Year
Marnie Baker [1]	Executive: Customer Voice	Full Year
Dennis Bice	Executive: Retail Banking	Full Year
John Billington	Executive: Bendigo Wealth	Full Year
Richard Fennell [1]	Executive: Finance, Treasury & Change	Full Year
Russell Jenkins	Executive: Customer and Community	Ended: 19 August 2013
Robert Musgrove	Executive: Community Engagement	From: 19 August 2013
Tim Piper	Executive: Risk	Full Year
Stella Thredgold	Executive: Corporate Resources	Full Year
Alexandra Tullio	Executive: Geared Solutions (Margin Lending)	From: 5 July 2013
Andrew Watts [1]	Executive: Customer Service Improvement	Full Year

2. 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 participate in the Group's employee equity participation plans.

Shareholders approved an aggregate fee pool for Non-executive Directors of $2,500,000 at the 2011 Annual General Meeting. This fee pool covers payments (including superannuation) for the main Board and payments to the Bank's Non-executive Directors appointed to subsidiary boards and the **Community Bank®** Strategic Advisory Board.

The Governance & HR Committee ("the Committee") recommends to the Board the remuneration policy and remuneration for Non-executive Directors. The base fee is reviewed annually by the Committee and the following considerations are taken into account in setting the base fee:

- The scope of responsibilities of Non-executive Directors and time commitments. This includes taking into account any changes in the operations of the Group and industry developments which impact director responsibilities, at both the Board and committee level.
- 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 by companies of a relatively comparable size and complexity, particularly in the banking and finance sector.

Non-executive Directors receive a fixed annual fee plus superannuation contributions at 9.25% (FY2013: 9.0%) of the base fee. The base fee is reviewed annually. In relation to superannuation contributions, Non-executive Directors can elect to receive amounts above the maximum contributions limit as cash or additional superannuation contributions. The Chairman receives a higher base fee in recognition of the additional time commitment and responsibilities. No additional fees are paid for serving on Board Committees. Additional fees were paid to Non-executive Directors who are also members of the Rural Bank or Sandhurst Trustees or **Community Bank®** Strategic Advisory Boards. The base fee for the reporting period was:

- $169,125 for Directors
- $422,813 for the Chairman (two and half times the base fee).

The Board decided to increase the base fee by 2.5% in August 2013 in line with general market movements in Director fees. In relation to the 2015 financial year, the Board decided to increase the base fee by 3%. The Board also decided to change the Director fee structure from base fee plus superannuation to a fixed fee model inclusive of

[1] On 19 August 2013 the Managing Director announced that Marnie Baker (previously Executive: Banking & Wealth) will head up, as a continuing executive member, a new Customer Voice division. On 25 November 2013 the Managing Director announced the creation of a new Customer Service Improvement division to be headed by Andrew Watts. Andrew Watts continued to oversee the Change division for an interim period. Responsibility for the Change division was transferred to Richard Fennell later in the year.

superannuation. The change was made to accommodate amendments to superannuation legislation.

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

The amounts paid to Non-executive Directors for the 2014 and 2013 financial years are disclosed in **Table 1**.

3. Remuneration governance

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

1. Tony Robinson (Chairman)
2. Jim Hazel
3. Robert Johanson
4. 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 Senior Executives. A summary of the Committee's remuneration responsibilities is presented below and the Committee Charter is available from the Corporate Governance section of the Bank's website at **www.bendigoadelaide.com.au.**

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

a. The remuneration arrangements for the Senior Executives including the terms on which performance based remuneration will be provided;

b. The performance based remuneration outcomes for the Senior Executives; and

c. The pool of funds available for distribution as short term incentives and bonuses.

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.

4. Senior Executive remuneration

The Group has a Remuneration Policy, the key features of which are set out below. There were no significant changes to the Remuneration Policy during the year. The Board has sought to maintain a remuneration framework that provides flexibility and supports the Group's strategy whilst recognising the need to align remuneration with shareholder interests. The following principles apply to the Group's remuneration framework:

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

4.1 Remuneration components

The Remuneration Policy provides for the following remuneration components:

a. Base pay comprising:

> **Fixed base remuneration** (includes any salary sacrifice arrangements and superannuation)

> **Deferred base pay** (annual grants of deferred shares); and

b. Performance based "at-risk" pay comprising:

> Short Term Incentive ('STI') – awarded in cash or a combination of cash and deferred equity;

> Long Term Incentive ('LTI') - involving grants of performance rights (called "performance shares").

The remuneration mix for all Senior Executives includes each of the above components. The deferred base pay, deferred STI and LTI are equity based components designed to further align Senior Executive remuneration with the interests of shareholders.

The details of Senior Executive remuneration for the 2014 and 2013 financial years are disclosed in **Table 2** and **Table 3**.

4.2 Remuneration changes

The Board increased the Managing Director's fixed base remuneration by 2.5% from 3 October 2013. During the year the Board also approved changes to the remuneration arrangements for certain Senior Executives to recognise changes in their roles and responsibilities. Overall, the fixed base remuneration paid to Senior Executives (other than the Managing Director) increased by 1.2%.

On 26 March 2013 the Bank announced a two year extension of the Managing Director's employment contract. The initial five year fixed term contract, originally scheduled to end on 2 July 2014, is now scheduled to end on 2 July 2016. The Managing Director's equity based remuneration arrangements under the original five year fixed term contract completed on 2 July 2014. For the two year extension period, the Board has sought to align the Managing Director's equity based remuneration arrangements with the deferred base pay and LTI arrangements of other Senior Executives. The Managing Director's deferred base pay and LTI arrangements for the two year extension period were approved by shareholders at the Bank's 2013 Annual General Meeting.

Under the terms approved by shareholders the combined number of deferred shares and performance shares granted for each additional year of the Managing Director's contract is the same number of performance shares that were granted to the Managing Director under the original five year fixed term contract. The following grants have been completed since the end of the 2014 financial year in accordance with the terms approved at the 2013 Annual General Meeting:

- 152,438 deferred shares were granted as deferred base pay. The deferred shares are subject to a two year continued service and a risk adjustment condition. An additional one year dealing restriction also applies to vested deferred shares. The deferred shares are beneficially owned by the Managing Director from the grant date but are held on trust by the plan trustee for the two year service and one year restriction period.
- 152,438 performance shares were granted in two annual parcels as set out below. Each parcel is subject to a twelve month performance period for cash EPS testing and a three year performance period for TSR testing.

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

Any deferred shares or performance shares that do not vest at the end of the performance and service condition period will lapse.

4.3 Fixed base remuneration

Fixed base remuneration is made up of cash salary, salary sacrifice and superannuation. The superannuation contributions are capped at the applicable concessional contribution limit. Fixed base remuneration is designed to recognise an individual's skills, competencies and value in addition to their particular role and responsibilities. Senior Executive base remuneration is reviewed annually and is set having regard to market and internal relativities, the Group's financial outlook and the need to attract, motivate and retain key senior management. In setting the remuneration of Senior Executives the Board takes into account general market and peer information with a view to maintaining a moderate market positioning. The Managing Director has input on the base remuneration of the other Senior Executives.

4.4 Deferred base pay (deferred share grants)

Senior Executives receive annual deferred share grants as part of their base pay that are subject to the following conditions:

1. Service condition – continued employment for the two years from the beginning of the financial year in respect of which the grant is made; and
2. Risk adjustment – any adjustment the Board decides to make to take into account the outcomes of business activities and the risks related to the business activities.

Deferred base pay was introduced to further align the remuneration of Senior Executives with the interests of shareholders.

The deferred shares are fully paid ordinary shares granted at no cost. They have no exercise price and are beneficially owned by the Senior Executive from the grant date but held on trust for two years by the plan trustee. Senior Executives are entitled to vote and to receive any dividend, bonus issue, return of capital or other distribution made in respect of deferred shares. Senior Executives are not entitled to deal in the deferred shares until they vest and the Board may treat shares as forfeited before vesting. Deferred shares that do not vest at the end of the deferral period will be forfeited. There is no dealing restriction on vested deferred shares.

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

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

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

Details of deferred share grants made by the Bank to Senior Executives are disclosed in **Tables 4, 5** and **6**.

4.5 Short term incentive ("STI")

Senior Executive remuneration includes an annual incentive component that is awarded in cash and, if the award exceeds $50,000 (2013: $30,000), one third of the award is deferred equity in the Bank through grants of deferred shares on substantially the same terms as deferred base pay discussed above. The incentive is designed to reward the achievement of annual financial and business goals, taking into account risk management and compliance objectives, and Senior Executive contributions to longer term growth and performance. The STI target for each Senior Executive is set by the Board at the start of each year and the maximum potential STI for each Senior Executive is the same amount as the approved STI target.

The Board determined that the criteria for establishing a performance bonus pool for the 2014 financial year had been met and a bonus pool was established for the 2014 financial year. Further information on the structure of STI arrangements, performance measures and STI payments for the year are disclosed in **Section 5** and **Table 3**.

Forfeiture of the STI deferred component occurs if an employee's employment with the Group ends, if an employee acts fraudulently or dishonestly and in other cases decided at the discretion of the Board (for example, due to an adjustment for risk).

4.6 Long term incentive ("performance share grants")

LTI is discretionary equity based remuneration designed to drive and reward long-term growth and sustained shareholder value. At the Board's discretion, the Senior Executives may be invited to participate in LTI plans involving grants of performance shares. The grants are subject to long-term performance and service conditions designed to link Senior Executive reward with key performance measures that underpin sustainable longer term growth in shareholder value.

The following performance share grants are in place.

Managing Director	Other Senior Executives
1. 2009 Performance share grant comprising five annual tranches	1. 2013 Performance share grant
2. 2014 Performance share grant	2. 2014 Performance share grant

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

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

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

The Group also has a loan-based limited recourse employee share ownership plan (ESOP) that was open to general staff and Senior Executives (including the Managing Director) and was previously used by the Group as the long-term incentive arrangement. Information on the ESOP, including share grants and loan details are disclosed at Notes 33 and 35 of the Annual Financial Report. This plan was discontinued in 2006.

Further information on the structure of the performance share grants for the Managing Director and Senior Executives is presented at **Section 6** and **Tables 4, 5** and **6**.

4.7 Risk adjustment

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 outcomes 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 Committee reviews the appropriateness of releasing deferred equity components taking into account the Group's performance outlook and any other matter that might impact the financial soundness of the Group.

4.8 Mix of remuneration components

The following table sets out the Senior Executive remuneration mix for FY2014. The at-risk components for Senior Executives vary depending on their role and ability to influence the Group's performance and financial standing. This includes the deferred base pay which remains at-risk until it has vested.

	Fixed Remuneration [1]	Deferred Base Pay [2, 5]	STI [3]	LTI [4, 5]
Mike Hirst	49%	18%	15%	18%
Marnie Baker	56%	10%	17%	17%
Dennis Bice	59%	7%	20%	14%
John Billington	56%	10%	21%	13%
Richard Fennell	50%	10%	21%	19%
Robert Musgrove	59%	9%	18%	14%
Tim Piper	58%	12%	12%	18%
Stella Thredgold	53%	8%	23%	16%
Alexandra Tullio	59%	9%	18%	14%
Andrew Watts	58%	7%	21%	14%

[1] Fixed remuneration comprises base cash salary, salary sacrifice and superannuation,

[2] For the Managing Director, this represents the service component of the 2009 performance share grant applicable to the financial year. For other Senior Executives, this represents grants of deferred shares subject to continued service and risk adjustment.

[3] These amounts are subject to target performance levels being achieved in relation to values, risk and performance.

[4] These amounts are subject to target performance levels being achieved and continued service with the Bank.

[5] The percentages are the remuneration value of the equity grants. In the case of the Managing Director, this is the annual remuneration value of the performance share grant set by the Board in 2009.

4.9 Hedging

A Senior Executive or their closely related parties may not enter into a transaction designed to remove the at-risk element of the equity before it has vested. This also applies to the at-risk element of equity after it has vested, if it is subject to a holding lock. These restrictions are in the staff trading policy and remuneration policy.

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

4.10 Margin loan facility restriction

The staff trading policy also prohibits designated officers, including Non-executive Directors and Senior Executives, from using the Bank's securities as collateral in any margin loan arrangements.

5. STI specific arrangements and measures

5.1 Setting annual STI components and measures

The maximum potential STI component for Senior Executives is set by the Board at the start of each financial year. In setting the potential STI component the Board takes into account market data and the Senior Executive's role and responsibilities. The objective is to link an appropriate proportion of Senior Executive remuneration with the Group's annual performance and the achievement of short and medium term business priorities that enhance the future prospects of the Group. The STI is set at a level that does not promote short term outcomes or risk taking at the expense of longer term growth and sustainability.

5.2 Group bonus pool

The payment of STI awards is dependent on the establishment of a group bonus pool which is the total amount available for the payment of STI awards and staff bonuses.

At the start of each year the Board sets the minimum level of Group performance to be achieved before a bonus pool will be established. The Board also sets the parameters to determine the amount of funds allocated to the bonus pool if the minimum level of performance is exceeded.

For the 2014 financial year the performance and bonus pool allocation parameters were again based on the Group's cash earnings performance and consisted of:

1. A threshold hurdle requiring an improvement in cash earnings compared to the previous financial year;
2. A targeted cash earnings result for the financial year; and
3. A maximum potential bonus pool allocation based on 110% of the targeted cash earnings result.

The bonus pool accrues using predetermined percentages approved by the Board. The bonus pool accrual rate for performance above the targeted cash earnings is higher than the accrual rate for performance between the threshold hurdle and the targeted cash earnings.

The Board also set the financial and risk measures that may be used to adjust, at the discretion of the Board, any bonus pool allocation calculated using the cash earnings formula. The measures include targeted return on equity, capital, liquidity and cost to income ratios. These measures were selected to balance the allocation of profit between shareholder returns, employee reward and financial soundness of the organisation. For the 2014 financial year the Board established a bonus pool based on the above criteria. The bonus pool was 57% of the maximum capped amount (FY2013: 44%).

5.3 STI performance assessments and payments

The payment of individual STI awards to Senior Executives is at the discretion of the Board and takes into account the Group's capacity to pay STI awards to both general staff and Senior Executives. The potential maximum STI awards to Senior Executives will be adjusted to reflect the size of the bonus pool allocation. Where the bonus pool is less than the maximum potential pool, the STI award will be proportionately adjusted downwards as follows:

Individual Adjusted STI Award = (Actual Group Bonus Pool / Maximum Potential Bonus Pool) x Individual's Maximum STI

The Board maintained the Managing Director's maximum STI award at $400,000. This was set taking into account the remuneration objectives discussed earlier and the Managing Director's target remuneration mix. The maximum STI award is subject to adjustment based on the bonus pool allocation discussed above.

The Non-executive Directors assess the Managing Director's performance with reference to quantitative and qualitative measures set at the start of the year (refer below). The assessment is completed after the end of each financial year. Taking into account the size of the bonus pool, the Board will decide the Managing Director's STI award based upon the achievement of agreed performance measures. This allows for an objective assessment of the achievement of performance measures while enabling any necessary risk adjustments to occur at the Board's discretion.

The Board also assesses the achievement of the priorities set out below, and based on the assessment, makes any further adjustment to the Managing Director's STI award based on the assessment. These measures were chosen to link the Managing Director's performance to the Group's annual financial and risk management performance and the achievement of key business priorities. The qualitative measures are:

Measure	Description
1. Risk and Compliance	a. The level of risk associated with the Group's performance was within the Group's risk appetite; and b. An effective risk culture is promoted and maintained. This will be demonstrated through the completion of the annual risk declaration process as well as proactive Board discussions and monitoring of risk across the Group.
2. Medium term targets	Significant progress has been made towards achieving the following medium term targets set by the Board: a. Shareholder Targets: focusing on improved and sustainable shareholder value; b. Customer Targets: focusing on customer satisfaction rankings, customer service and growing the customer base; c. Financial Targets: focusing on improving economic performance including balance sheet and earnings growth; d. Partner Targets: focusing on the performance of the partner network including community and partner satisfaction rankings; and e. People Targets: focusing on employee engagement, diversity and organisational effectiveness.
3. Strategic project	Significant progress having been made towards achieving Basel II advanced accreditation by the target date.
4. Public representation	The Group continues to be represented effectively to government (state and federal) and in industry and public forums.

For the 2014 financial year the Board determined that the Managing Director met the quantitative measures as well as the above qualitative measures and, taking into account the bonus pool established by the Board, awarded an STI payment of $228,000. This award represents 57% of the potential maximum opportunity for the Managing Director, which corresponds with the proportion of the maximum bonus pool available for the Group. The Board considered the achievement of the strategic priorities outlined above, assessed that achievement against those priorities was on track and decided not to make any further adjustment to the Managing Director's STI award for FY14.

The Managing Director assesses the performance of other Senior Executives after the end of the financial year and recommends STI awards for consideration by the Governance & HR Committee and decision by the Board. The performance assessment takes into account the individual's performance including business unit performance, the individual's contribution to team performance and their contribution to meeting risk and compliance requirements.

The recommended STI awards are determined on the basis of the performance assessment taking into account the size of the bonus pool available for the payment of STI awards and bonuses. The method of assessment has been chosen as the Managing Director is best placed to make an informed assessment of each Senior Executive's performance and overall contribution while the Board retains ultimate oversight of STI awards and any necessary risk adjustments.

The performance objectives and measures for Senior Executives (other than the Managing Director) include:

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

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

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

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

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

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

The performance assessments were completed for the year in accordance with the process described above and STI awards have been made for the year in line with those assessments.

6. Specific measures and conditions for performance share grants

6.1 Performance shares - terms

Each performance share represents an entitlement to one ordinary share in the Bank. Accordingly, the maximum number of shares that may be acquired is equal to the number of performance shares issued (subject to the vesting conditions being met). Performance shares are granted at no cost to the recipient and have no exercise price.

The performance measures selected for performance share grants are the Group's cash EPS performance and TSR performance. The EPS hurdle is used because it is a fundamental indicator of financial performance, both internally and externally, and links directly to the Group's long-term objective of growing earnings. The EPS hurdle ensures improvement in the Group's performance and capital efficiency is achieved before any performance shares can vest.

The TSR hurdle is used because it aligns shareholder return with reward for Senior Executives and provides a relative, external market performance measure, having regard to the TSR performance of other companies in a comparator group. The TSR is independently calculated by an external provider. For the purpose of the grants under the plan, the comparator group is the ASX 100 Accumulation Index (excluding the Bank, property trusts and resources). This group was chosen because it is frequently used by listed companies and there are insufficient companies of comparable size in the banking or financial services sector alone to benchmark against performance of an industry-specific group.

The Board may make an adjustment to the number of performance shares that vest to take into account any unforseen or unexpected circumstances or consequences and risk. This includes risk adjustment to reflect the outcomes of business activities, the risks related to the business activities and the time necessary for the outcomes of those business activities to be reliably measured.

Performance shares do not vest until the participant has been advised by the Board to what extent the performance shares have vested. Performance shares that do not vest at the end of the performance period (in the case of the Managing Director, at the end of the final performance period) will be forfeited and lapse.

6.2 Managing Director

The Managing Director's performance share grant for FY2014 was set in 2009. Shareholders approved an issue of five equal annual parcels of performance shares to the Managing Director, with the performance periods measured over one to five years (the final performance period ended 30 June 2014). Each tranche comprised two components or grants:

Grant A - 50% of each annual tranche is subject to an EPS gateway hurdle. If that hurdle is met, the grant is then subject to a TSR performance hurdle.

Grant B - The other 50% of each annual tranche is subject to continuing service with the Company.

The vested shares are subject to a dealing restriction and the Managing Director is not entitled to sell, transfer or otherwise deal with the shares allocated to him until two years after the end of the tranche's performance period.

In setting the five year performance period (and the additional dealing restriction) the Board took into account the initial five year term of the Managing Director's contract (July 2009 – July 2014) and the importance of rewarding the Managing Director for taking a longer-term perspective on the Group's progress and performance.

In setting the structure and value of the performance share grant, the Board included a component that was subject to continued service with the Bank. This took into account the moderate market setting of the Managing Director's remuneration package. This component effectively represents a deferred part of the Managing Director's fixed reward linked to the long term performance of the Group and further aligns the Managing Director's remuneration with the interests of shareholders.

The grants represented an aggregate remuneration value of $5 million (representing an annualised amount over each of the five years of $1 million) based on the volume weighted average price of the Bank's shares traded on the ASX for the five days before 1 July 2009 (being $6.56).

The vesting of the performance shares in Grant A is subject to a gateway cash EPS hurdle. The gateway hurdle will be met if there is an increase in the Group's cash EPS performance during the financial year immediately before vesting for each tranche (i.e. the final year of the performance period for that tranche).

The second performance condition for Grant A is based on the Bank's market relative TSR performance over the performance period. To the extent that the performance conditions attaching to performance shares granted under the plan are not satisfied at the end of the relevant tranche's performance period, the performance shares that do not vest will be carried forward and retested. Performance shares that do not vest will be treated as forming part of the following tranche and will be tested together with other performance shares at the end of the following tranche's performance period. Performance shares that do not vest at the end of the final (fifth) performance period will lapse.

The Board believes that retesting in these circumstances is appropriate because it ensures that the Managing Director is not disadvantaged by short-term average performance over a longer-term period of strong performance. Having regard to the service and performance conditions, the potential minimum value of the grant (at the grant date) was nil.

The maximum number of ordinary shares that may be allocated to the Managing Director is equal to the number of performance shares issued, being 762,190. Performance shares granted to the Managing Director under the plan vest in accordance with the following table provided the cash EPS gateway condition has been met.

Company's TSR ranking against TSR of peer group	Percentage of performance shares that vest
TSR below 50th percentile	Nil
TSR between 50th percentile and 75th percentile	65%
TSR above 75th percentile	100%

The Managing Director is entitled to vote and to receive any dividend, bonus issue, return of capital or other distribution made in respect of shares allocated on vesting of the performance shares. Dividends paid on vested performance shares are reinvested into shares in the Bank (less an amount distributed to the Managing Director to meet tax obligations on the dividends) and are held in trust on the same terms as the performance shares during the dealing restriction period. Following is a summary of the grants and vesting results to date:

		Performance shares NO.	Fair value	Performance period	Outcome to date
Tranche 1	Grant A Grant B	76,219 76,219	$7.19 $8.56	1 year (1 July 2009 to 30 June 2010)	No of shares vested: 125,761 Grant A – 49, 542 Grant B – 76, 219 Released: 18 August 2014 Value at time of vesting: $8.18 per share No of shares carried into next tranche: 26,677 (from Grant A)
Tranche 2	Grant A Grant B	76,219 76,219	$6.61 $8.19	2 years (1 July 2009 to 30 June 2011)	No of shares vested: 143,102 Grant A – 66,883 Grant B – 76, 219 Released: 18 August 2014 Value at vesting time: $8.86 No of shares carried into next tranche: 36,013 (from Grant A)
Tranche 3	Grant A Grant B	76,219 76,219	$6.19 $7.83	3 years (1 July 2009 to 30 June 2012)	No of shares vested: 76,219 Grant A – Nil Grant B – 76, 219 Released: 18 August 2014 Value at vesting time: $7.30 No of shares carried into next tranche: 112,232 (from Grant A)
Tranche 4	Grant A Grant B	76,219 76,219	$5.70 $7.50	4 years (1 July 2009 to 30 June 2013)	No of shares vested: 198,712 Grant A – 122,493 Grant B – 76, 219 Value at vesting time: $10.07 No of shares carried into next tranche: 65,958 (from Grant A)
Tranche 5	Grant A Grant B	76,219 76,219	$5.02 $7.17	5 years (1 July 2009 to 30 June 2014)	No of shares vested: 168,635 Grant A – 92,416 Grant B – 76, 219 Value at vesting time: $12.20 No of performance shares that lapsed: 49,762 (from Grant A)

6.3 Other senior executives

The Board implemented a new performance share arrangement for other Senior Executives in 2013. The first annual performance share grant was made in August 2012 and a second grant was made in December 2013. Both grants were made as a single tranche with a four year performance period.

The 4 year performance period consists of a 12 month initial performance period for EPS testing followed by a 3 year performance period for relative TSR testing.

- EPS hurdle: The grant is reduced by 50% at the end of the initial performance period if the cash earnings per share are not equal to or better than the cash earnings per share for the previous year.
- TSR hurdle: During the 3 year TSR performance period, vesting of the performance shares (as adjusted for the EPS performance hurdle) will be conditional on TSR being at least equal to the median performance of a peer group consisting of the ASX100 Companies (excluding property trusts and resources). Median performance will result in 65% of the performance shares vesting, with 100% vesting if the Group's relative TSR performance is 75% or above.

The performance shares are also subject to the Senior Executive's continued employment with the Bank for the performance period and notification from the Board whether, and to what extent, the performance conditions have been met including to what extent performance shares have vested taking into account any necessary risk adjustment determined by the Board. There is no dealing restriction on vested shares.

7. Company performance

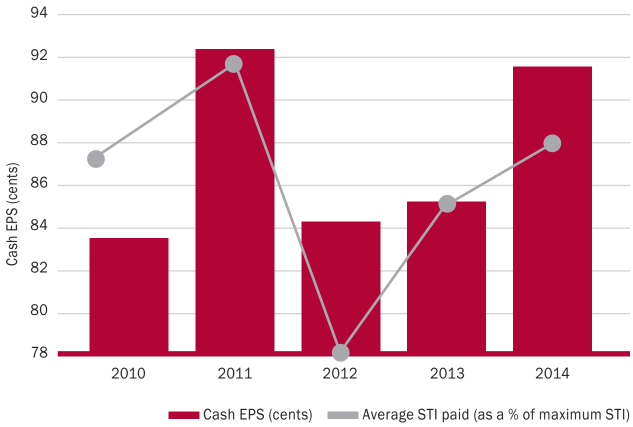
The short term incentive is designed to reward the achievement of annual financial and business goals, taking into account risk management and compliance objectives, and Senior Executive contributions to longer term growth and performance. The measures used to determine STI awards are annual cash earnings, business and risk management objectives.

The performance share grants are designed to drive and reward long-term growth and sustainable shareholder value, aligning the interests of Senior Executives and shareholders. The measures used to determine awards of performance shares are cash earnings per share performance and total shareholder return.

Following is an overview of the Group's performance for the 2014 financial year which includes the key financial outcomes used to determine STI and performance share awards. The below table and graphs also illustrate the Group's progress in the key performance indicators on a year-on-year basis for the past 5 years. Information on the achievement of strategic, business and risk management goals for the year is presented in the Operating and Financial Review section of the Annual Financial Report.

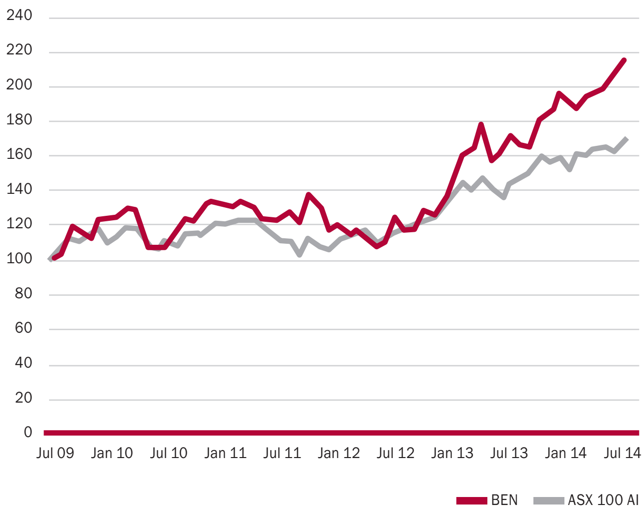
Company performance measure	Financial year ending				
	June 2014	June 2013	June 2012	June 2011	June 2010
Basic earnings per share (cents)	87.7	84.9	48.6	91.5	67.4
Cash earnings per share (cents)	91.5	85.4	84.2	92.3	83.3
NPAT ($m)	372.3	352.3	195.0	342.1	242.6
Cash earnings ($m)	382.3	348.0	323.0	336.2	291.0
Dividends paid and payable (cents per share)	64.0	61.0	60.0	60.0	58.0
Share price at start of financial year	$10.07	$7.41	$8.86	$8.18	$6.95
Share price at end of financial year	$12.20	$10.07	$7.41	$8.86	$8.18
Absolute shareholder return	**28%**	**44%**	**(9.6%)**	**16%**	**26%**

The following graph shows the cash earnings over the past year and four previous years, with the average STI payment (as a percentage of the maximum STI) paid to Senior Executives, which demonstrates the relationship between performance and STI payments.



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

TSR BEN vs ASX 100 Accumulation Index



Total return basis index July 2009 = 100 (source: Bloomberg)

Performance and remuneration outcomes

As discussed at section 5.2 above, the criteria to establish a short term incentive (STI) bonus pool was met for the financial year. Based on an assessment of the Group's financial performance, the achievement of business and risk management objectives and individual performance, the Board approved STI awards to Senior Executives for the year.

There was a general increase in the percentage of maximum potential STI awards paid to Senior Executive when compared to the previous financial year which reflects the continued improvement in financial performance and progress of the business. Details of individual STI awards are provided at **Table 3**.

In relation to the Managing Director's performance share grant, the Group's market relative TSR performance exceeded the median for the 2014 performance period and as the EPS gateway hurdle was also met, 65% of the performance shares that are subject to these performance measures vested. The performance shares that did not vest have lapsed. The performance shares subject to the service condition also vested for FY2014.

In relation to LTI grants for other Senior Executives, the EPS test for the parcel tested on 30 June 2014 was met and accordingly 100% of the performance shares have been carried forward for testing over the three year TSR performance period. None of the performance shares have vested or lapsed.

The current grants of deferred shares comprise the 2013 deferred base pay grant, the 2014 deferred base pay grant and the 2013 deferred STI grant. The grants are subject to continued employment and risk adjustment conditions. The 2013 deferred base pay grant was tested and having regard to the financial soundness of the organisation it was decided by the Board to vest the deferred shares. The 2014 deferred base pay grant has not vested as the grant will be tested in a future financial period. Also, the deferred component of the 2013 STI award has not vested as it will be tested in a future financial period.

8. Senior Executive termination arrangements

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

Issue	Description	Applies to
What is the duration of the contracts?	Fixed term to 2016, subject to the termination provisions summarised below, and then continuing unless otherwise agreed by the Board or Managing Director.	Managing Director
	On-going until notice is given by either party.	Senior Executives
What notice must be provided by a Senior Executive to end the contract without cause?	Up to 12 months' notice. No notice period required if material change in duties or responsibilities.	All Senior Executives (a)
What notice must be provided by the Bank to end the contract without cause? (b)	12 months' notice or payment in lieu.	All Senior Executives (a)
What payments must be made by the Bank for ending the contract without cause?	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 Senior 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 Senior 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.	Senior Executives

(a) This does not include Mr Dennis Bice. Mr Bice has been employed by the Company for more than 35 years and under his employment contract is entitled to 99 weeks notice or payment in lieu.

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

Table 1: Non-executive Director remuneration paid

The following payments were made to Non-executive Directors in the 2014 and 2013 financial years.

Non-executive Director		Short-term benefits: Fees [1]	Short-term benefits: Non-monetary benefits [2]	Post-employment benefits: Superannuation contributions [3]	Total
R Johanson (Chairman) [5]	2014	$514,976	$4,550	$17,775	$537,301
	2013	$501,644	$3,850	$20,619	$526,113
J Dawson [6]	2014	$253,649	-	$23,463	$277,112
	2013	$250,000	-	$22,500	$272,500
J Hazel [7]	2014	$248,836	-	$23,017	$271,853
	2013	$245,186	-	$22,067	$267,253
J Hey	2014	$168,649	-	$15,600	$184,249
	2013	$165,000	-	$14,850	$179,850
R Hubbard [4]	2014	$168,649	-	$15,600	$184,249
	2013 (part year)	$37,443	-	$3,370	$40,813
D Matthews [8]	2014	$191,264	-	$17,692	$208,956
	2013	$195,000	-	$17,550	$212,550
T O'Dwyer [4]	2014	-	-	-	-
	2013 (part year)	$19,039	-	$1,713	$20,752
D Radford	2014	$168,649	-	$15,600	$184,249
	2013	$165,000	-	$14,850	$179,850
T Robinson	2014	$145,855	$22,794	$15,600	$184,249
	2013	$142,206	$22,794	$14,850	$179,850
Aggregate totals	**2014**	**$1,860,527**	**$27,344**	**$144,347**	**$2,032,218**
	2013	**$1,720,518**	**$26,644**	**$132,369**	**$1,879,531**

1. Fee amounts include the $5,000 director contribution to the board scholarship program for FY2013 and FY2014.
2. Represents fee sacrifice component of base director fee amount paid into superannuation.
3. Company superannuation contributions.
4. Appointment: Mr Hubbard was appointed on 2 April 2013. Retirement: Mr O'Dwyer retired on 13 August 2012.
5. Subsidiary fees: Fees were paid by Rural Bank Limited to Mr Johanson of $70,186 for FY2014 (FY2013: $70,186) plus superannuation. The fees paid to Mr Johanson also include a payment of $27,717 in lieu of superannuation contributions above the maximum contribution limit.
6. Subsidiary fees: The fees paid by the Bank to Ms Dawson for FY2014 and FY2013 include an additional fee of $85,000 (plus superannuation) as chair of Sandhurst Trustees Ltd.
7. Subsidiary fees: Fees were paid by Rural Bank Limited to Mr Hazel of $80,187 plus superannuation for FY2014 (FY2013; $80,187) .
8. The fees paid to Mr Matthews include $22,615 plus superannuation for FY2014 (FY2013: $30,000) for his role as Co-Chair of the **Community Bank®** Strategic Advisory Board ("CBSAB") which ceased in January 2014. Mr Matthews receives an annual fee of $14,000 as a continuing member of the CBSAB.

Table 2: Senior Executive remuneration paid

The statutory Senior Executive remuneration disclosures for the 2014 and 2013 financial years are set out in the table below. The following remuneration disclosures have been prepared in accordance with the Corporations Act 2001 and Australian Accounting Standards.

		Short-term employee benefits						Share-based payments [7]		
Senior Executive		Cash salary [1]	Cash bonuses (STI) [2]	Non-monetary benefits [3]	Other [4]	Super-annuation benefits [5]	Other long-term benefits [6]	Performance shares [8, 10]	Deferred shares [9]	Total
M Hirst	2014	$1,340,342	$152,000	$31,308	$6,624	$17,775	($11,548)	$1,287,847	$29,329	$2,853,677
	2013	$1,167,494	$117,333	$31,308	$7,579	$16,470	$19,931	$1,006,091	$50,000	$2,416,206
M Baker	2014	$506,441	$87,500	$9,731	$4,999	$17,091	$10,094	$42,149	$121,184	$799,189
	2013	$479,496	$66,667	$26,894	$5,719	$16,470	$8,129	$22,603	$83,333	$709,311
D Bice	2014	$404,514	$57,000	$5,100	$2,372	$17,775	$25,588	$22,471	$64,755	$599,575
	2013	$385,654	$50,000	$6,340	$2,714	$16,470	$6,163	$11,302	$36,663	$515,306
J Billington	2014	$399,446	$56,667	-	-	$17,775	-	$27,745	$76,644	$578,277
	2013	$407,504	$24,000	-	-	$16,470	-	$16,575	$53,334	$517,883
R Fennell	2014	$510,278	$112,500	$4,841	-	$17,775	$91,887	$44,942	$121,184	$903,407
	2013	$486,679	$66,667	$6,052	-	$16,470	-	$22,603	$83,333	$681,804
R Jenkins [11]	2014	$62,245	$6,712	$3,204	$672	$2,386	($3,125)	$3,034	$16,000	$91,128
	2013	$466,115	$58,667	$21,987	$5,726	$16,470	$7,371	$22,603	$76,666	$675,605
R Musgrove [11]	2014	$255,963	$32,899	$20,778	$1,792	$26,402	$1,743	$7,252	$23,600	$370,429
T Piper	2014	$490,229	$50,000	$7,111	-	$17,775	$13,532	$33,706	$103,015	$715,368
	2013	$363,114	$44,000	$7,310	-	$16,470	$28,885	$16,952	$58,332	$535,063
S Thredgold	2014	$316,025	$57,000	$5,340	-	$17,775	$8,581	$22,471	$59,757	$486,949
	2013	$296,104	$30,000	$11,734	-	$16,470	$11,878	$11,302	$38,329	$415,817
A Tullio [11]	2014	$294,790	$37,584	$1,327	-	$17,580	-	$8,285	$38,868	$398,434
A Watts	2014	$379,552	$57,000	$11,830	$1,098	$17,775	($18,289)	$28,122	$75,590	$552,678
	2013	$360,297	$43,333	$29,326	$1,257	$16,470	($14,909)	$16,952	$54,166	$506,892
Aggregate totals	**2014**	**$4,959,825**	**$706,862**	**$100,570**	**$17,557**	**$187,884**	**$118,463**	**$1,528,024**	**$729,926**	**$8,349,111**
	2013	**$4,412,457**	**$500,667**	**$140,951**	**$22,995**	**$148,230**	**$67,448**	**$1,146,983**	**$534,156**	**$6,973,887**

1. Cash salary amounts include the net movement in the Senior Executive's annual leave accrual for the year.
2. These amounts represent STI cash awards to Senior Executives for the financial year. The cash component is expected to be paid in September 2014. Refer also to footnote 9 below for discussion on the deferral of STI components.
3. "Non-monetary" relates to sacrifice components of Senior Executive salary such as superannuation contributions and motor vehicle costs.
4. "Other" relates to the notional value of the interest free loan benefit provided under the Group's employee share plans. A notional benefit is calculated using the average outstanding loan balance and the Bank's average cost of funds. Details on loans provided to Senior Executives under the employee share plans are disclosed in the Annual Financial Report at Note 33.
5. Represents company superannuation contributions made on behalf of Senior Executives. Company superannuation contributions form part of the Senior Executive's fixed base remuneration and are paid up to the statutory maximum contributions base.
6. The amounts disclosed relate to movements in long service leave entitlement accruals.
7. 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 Senior Executives may ultimately realise should the equity instruments vest. The fair value of performance shares 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 shares that vest.
   The assumptions underpinning these valuations are set out in Table 4.
8. The amortised fair value amount disclosed for the Managing Director for the 2014 financial year comprises the following two fair value allocations due to the grants having overlapping performance periods:
   > The final annual allocation of the amortised fair value of the Managing Director's 2009 performance share grant: $929,109, and
   > The first annual allocation of the Managing Director's 2014 performance share grant: $358,737.
9. The amounts included in the deferred share column comprise:
   > The fair value of deferred STI components amortised over a two year deferral period. The deferred STI component for the 2013 financial year is amortised over 2014 and 2015 financial years and the deferred STI component for the 2014 financial year is amortised over the 2015 and 2016 financial years.
   > The fair value of the deferred base pay grants amortised over a two year deferral period. The deferred base pay grant made during the 2013 financial year is amortised over the 2013 and 2014 financial years and the deferred share grant made during the 2014 financial year is amortised over the 2014 and 2015 financial years.
10. The amortised value of performance shares as a percentage of total remuneration was: M Hirst 45% (2013: 42%), M Baker 5% (2013: 3%), D Bice 4% (2013:2 %), J Billington 5% (2013: 3%), R Fennell 5% (2013: 3%), R Jenkins 3% (2013: 3%), R Musgrove 2% (2013: 0%), T Piper 5% (2013: 3%), S Thredgold 5% (2013: 3%), A Tullio 2% (2013: 0%), A Watts 5% (2013: 3%).
11. Mr Jenkins ceased as a KMP on 19 August 2013, Mr Musgrove commenced as a KMP on 19 August 2013 and Ms Tullio commenced as a KMP on 5 July 2013. The remuneration details for these KMP are presented on a pro-rata basis.

Table 3: Senior Executive STI payments

The following short term incentives were awarded to Senior Executives for FY2014. The short term incentives forfeited are also set out in the table below.

Senior Executive	STI Target / Maximum award available [2]	STI payment		STI payment as % of maximum STI	% of maximum STI payment forfeited
		Paid as cash	Deferred into shares [1]		
M Hirst	$400,000	$152,000	$76,000	57%	43%
M Baker	$175,000	$87,500	$43,750	75%	25%
D Bice	$150,000	$57,000	$28,500	57%	43%
J Billington	$160,000	$56,667	$28,333	53%	47%
R Fennell	$225,000	$112,500	$56,250	75%	25%
R Jenkins [3]	$20,137	$6,712	$3,356	50%	50%
T Piper	$100,000	$50,000	$25,000	75%	25%
R Musgrove [3]	$86,575	$32,899	$16,449	57%	43%
S Thredgold	$150,000	$57,000	$28,500	57%	43%
A Tullio [3]	$98,904	$37,584	$18,792	57%	43%
A Watts	$150,000	$57,000	$28,500	57%	43%

1. One-third of STI awards that exceed the $50,000 threshold set by the Board are subject to deferral for two years into shares in the Bank. The allocation of deferred shares relating to STI deferral for FY2014 is expected to be completed in October 2014.
2. The STI award is subject to the achievement of financial and non-financial measures. Accordingly, the minimum potential STI award is nil.
3. Mr Jenkins ceased as a KMP on 19 August 2013, Mr Musgrove commenced as a KMP on 19 August 2013 and Ms Tullio commenced as a KMP on 5 July 2013.The STI amounts are presented a pro-rata basis.

Table 4: All plans – equity valuation inputs

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

a. Deferred Shares

Instrument	Grant date	Terms & Conditions for each Grant			
		Issue price / Fair value [1]	Exercise price	Share price at grant date	Restriction period end
Deferred Base Pay (2013)	31.08.2012	$7.30	-	$7.58	30.06.2014
Deferred Base Pay (2014)	17.12.2013	$10.86	-	$10.98	30.06.2015
Deferred Shares – STI (2013)	18.10.2013	$10.38	-	$10.47	30.06.2015

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.

b. Performance shares

Instrument	Grant date	Fair value [1]	Terms & Conditions for each Grant					
			Exercise price	Risk-free interest rate	Dividend yield	Expected volatility	Expected life	Performance period end
Performance Shares	11.12.2009	$7.19	-	4.25%	4.5%	30%	1 year	30.06.2010
Performance Shares	11.12.2009	$8.56	-	4.25%	4.5%	30%	1 year	30.06.2010
Performance Shares	11.12.2009	$6.61	-	4.47%	4.5%	30%	2 years	30.06.2011
Performance Shares	11.12.2009	$8.19	-	4.47%	4.5%	30%	2 years	30.06.2011
Performance Shares	11.12.2009	$6.19	-	4.77%	4.5%	30%	3 years	30.06.2012
Performance Shares	11.12.2009	$7.83	-	4.77%	4.5%	30%	3 years	30.06.2012
Performance Shares	11.12.2009	$5.70	-	5.02%	4.5%	30%	4 years	30.06.2013
Performance Shares	11.12.2009	$7.50	-	5.02%	4.5%	30%	4 years	30.06.2013
Performance Shares	11.12.2009	$5.02	-	5.15%	4.5%	30%	5 years	30.06.2014
Performance Shares	11.12.2009	$7.17	-	5.15%	4.5%	30%	5 years	30.06.2014
Performance Shares	31.08.2012	$3.30	-	2.49%	6.5%	25%	4 years	30.06.2016
Performance Shares	17.12.2013	$4.45	-	2.91%	7.5%	22%	4 years	30.06.2017

1. The fair value is calculated as at grant date in accordance with AASB2 Share-based Payments using an independent valuation.

Table 5: All plans – grants of instruments

The following terms apply to current equity instruments issued by the Bank.

Senior Executive	Instrument	Date Granted	Securities granted No. [(a) (b)]	Years payable	Maximum value of grant [(c)]	Vesting / exercise date	Expiry date
M Hirst	Performance Shares	07.12.2009	762,190	2009 - 2014	$5,332,283	30.06.2014	30.06.2014
	Deferred Shares STI	18.10.2013	5,651	2015	$58,667	30.06.2015	30.06.2015
M Baker	Performance Shares	31.08.2012	27,397	2016	$200,000	30.06.2016	30.06.2016
	Performance Shares	17.12.2013	17,570	2017	$175,000	30.06.2017	30.06.2017
	Deferred Base Pay	31.08.2012	13,699	2014	$100,000	30.06.2014	30.06.2014
	Deferred Base Pay	17.12.2013	10,040	2015	$100,000	30.06.2015	30.06.2015
	Deferred Shares STI	18.10.2013	3,211	2015	$33,333	30.06.2015	30.06.2015
D Bice	Performance Shares	31.08.2012	13,699	2016	$100,000	30.06.2016	30.06.2016
	Performance Shares	17.12.2013	10,040	2017	$100,000	30.06.2017	30.06.2017
	Deferred Base Pay	31.08.2012	6,849	2014	$50,000	30.06.2014	30.06.2014
	Deferred Base Pay	17.12.2013	5,020	2015	$50,000	30.06.2015	30.06.2015
	Deferred Shares STI	18.10.2013	2,408	2015	$25,000	30.06.2015	30.06.2015
J Billington	Performance Shares	31.08.2012	20,091	2016	$146,667	30.06.2016	30.06.2016
	Performance Shares	17.12.2013	10,040	2017	$100,000	30.06.2017	30.06.2017
	Deferred Base Pay	31.08.2012	10,046	2014	$73,333	30.06.2014	30.06.2014
	Deferred Base Pay	17.12.2013	7,362	2015	$73,333	30.06.2015	30.06.2015
R Fennell	Performance Shares	31.08.2012	27,397	2016	$200,000	30.06.2016	30.06.2016
	Performance Shares	17.12.2013	20,080	2017	$200,000	30.06.2017	30.06.2017
	Deferred Base Pay	31.08.2012	13,699	2014	$100,000	30.06.2014	30.06.2014
	Deferred Base Pay	17.12.2013	10,040	2015	$100,000	30.06.2015	30.06.2015
	Deferred Shares STI	18.10.2013	3,211	2015	$33,333	30.06.2015	30.06.2015
R Musgrove	Performance Shares	17.12.2013	7,530	2017	$75,000	30.06.2017	30.06.2017
	Deferred Base Pay	17.12.2013	5,020	2015	$50,000	30.06.2015	30.06.2015
T Piper	Performance Shares	31.08.2012	20,548	2016	$150,000	30.06.2016	30.06.2016
	Performance Shares	17.12.2013	15,060	2017	$150,000	30.06.2017	30.06.2017
	Deferred Base Pay	31.08.2012	10,274	2014	$75,000	30.06.2014	30.06.2014
	Deferred Base Pay	17.12.2013	10,040	2015	$100,000	30.06.2015	30.06.2015
	Deferred Shares STI	18.10.2013	2,119	2015	$22,000	30.06.2015	30.06.2015
S Thredgold	Performance Shares	31.08.2012	13,699	2016	$100,000	30.06.2016	30.06.2016
	Performance Shares	17.12.2013	10,040	2017	$100,000	30.06.2017	30.06.2017
	Deferred Base Pay	31.08.2012	6,849	2014	$50,000	30.06.2014	30.06.2014
	Deferred Base Pay	17.12.2013	5,020	2015	$50,000	30.06.2015	30.06.2015
	Deferred Shares STI	18.10.2013	1,445	2015	$15,000	30.06.2015	30.06.2015
A Tullio	Performance Shares	17.12.2013	7,530	2017	$75,000	30.06.2017	30.06.2017
	Deferred Base Pay	17.12.2013	5,020	2015	$50,000	30.06.2015	30.06.2015
	Deferred Shares STI	18.10.2013	2,320	2015	$24,080	30.06.2015	30.06.2015
A Watts	Performance Shares	31.08.2012	20,548	2016	$150,000	30.06.2016	30.06.2016
	Performance Shares	17.12.2013	10,040	2017	$100,000	30.06.2017	30.06.2017
	Deferred Base Pay	31.08.2012	10,274	2014	$75,000	30.06.2014	30.06.2014
	Deferred Base Pay	17.12.2013	5,020	2015	$50,000	30.06.2015	30.06.2015
	Deferred Shares STI	18.10.2013	2,087	2015	$21,667	30.06.2015	30.06.2015

a. The grants to Senior Executives in FY2014 constituted 100% of the grants available for the year and were made on the terms described at Sections 4 and 6. The remuneration value of performance share and deferred base pay grants to Senior Executives (excluding the Managing Director) are determined by the Board. The number of deferred shares (deferred base pay) and performance shares allocated to Senior Executives (excluding the Managing Director) is calculated by dividing the remuneration value by the volume weighted average closing price of the Bank's shares for the last five trading days of the financial year prior to year of the grant. The approach to determining the remuneration value and number of deferred shares and performance shares granted to the Managing Director is explained earlier in the Remuneration Report. The number of deferred shares (deferred STI) allocated to Senior Executives is calculated by dividing the deferred STI remuneration value by the volume weighted average closing price of the Bank's shares for the five trading days ending on the grant date.

b. The performance shares vest subject to performance and continued service over the period 1 July 2009 to 30 June 2014 for the Managing Director and the applicable performance period for other Senior Executives. The exercise price for the performance shares and deferred shares is nil.

c. In relation to the Managing Director, the maximum value of the performance share grants has been estimated using the fair values presented at Table 4. In relation to other Senior Executives, the maximum value of the performance share and deferred base pay grants have been estimated using 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 maximum value of STI deferred share grants have been estimated using the volume weighted average closing price of the Company's shares for the five trading days ending on the grant date. The minimum total value of the grants, if the applicable performance and / or service conditions are not met is nil.

Table 6: All plans - number of instruments

The table below sets out the number and value of equity instruments granted by the Bank including details of instruments granted in prior years that vested during the year and equity instruments that were forfeited or lapsed during FY2014.

			Movements in number			Movements in value [a]		
Senior Executive	Instrument	Grant date	Granted	Exercised / Vested	Forfeited / Lapsed	Granted [b]	Exercised / Vested [c]	Forfeited / Lapsed [d]
M Hirst	Performance Shares	11.12.2009	-	168,635	49,762	-	$1,056,738	$274,793
	Deferred Shares STI	18.10.2013	5,651	-	-	$58,667	-	-
M Baker	Performance Shares	31.08.2012	-	-	-	-	-	-
	Performance Shares	17.12.2013	17,570	-	-	$78,187	-	-
	Deferred Base Pay	31.08.2012	-	13,699	-	-	$100,000	-
	Deferred Base Pay	17.12.2013	10,040	-	-	$109,034	-	-
	Deferred Shares STI	18.10.2013	3,211	-	-	$33,333	-	-
D Bice	Performance Shares	31.08.2012	-	-	-	-	-	-
	Performance Shares	17.12.2013	10,040	-	-	$44,678	-	-
	Deferred Base Pay	31.08.2012	-	6,849	-	-	$50,000	-
	Deferred Base Pay	17.12.2013	5,020	-	-	$54,517	-	-
	Deferred Shares STI	18.10.2013	2,408	-	-	$25,000	-	-
J Billington	Performance Shares	31.08.2012	-	-	-	-	-	-
	Performance Shares	17.12.2013	10,040	-	-	$44,678	-	-
	Deferred Base Pay	31.08.2012	-	10,046	-	-	$73,333	-
	Deferred Base Pay	17.12.2013	7,362	-	-	$79,951	-	-
R Fennell	Performance Shares	31.08.2012	-	-	-	-	-	-
	Performance Shares	17.12.2013	20,080	-	-	$89,356	-	-
	Deferred Base Pay	31.08.2012	-	13,699	-	-	$100,000	-
	Deferred Base Pay	17.12.2013	10,040	-	-	$109,034	-	-
	Deferred Shares STI	18.10.2013	3,211	-	-	$33,333	-	-
R Musgrove	Performance Shares	17.12.2013	7,530	-	-	$33,509	-	-
	Deferred Base Pay	17.12.2013	5,020	-	-	$54,517	-	-
T Piper	Performance Shares	31.08.2012	-	-	-	-	-	-
	Performance Shares	17.12.2013	15,060	-	-	$67,017	-	-
	Deferred Base Pay	31.08.2012	-	10,274	-	-	$75,000	-
	Deferred Base Pay	17.12.2013	10,040	-	-	$109,034	-	-
	Deferred Shares STI	18.10.2013	2,119	-	-	$22,000	-	-
S Thredgold	Performance Shares	31.08.2012	-	-	-	-	-	-
	Performance Shares	17.12.2013	10,040	-	-	$44,678	-	-
	Deferred Base Pay	31.08.2012	-	6,849	-	-	$50,000	-
	Deferred Base Pay	17.12.2013	5,020	-	-	$54,517	-	-
	Deferred Shares STI	18.10.2013	1,445	-	-	$15,000	-	-
A Tullio	Performance Shares	17.12.2013	7,530	-	-	$33,509	-	-
	Deferred Base Pay	17.12.2013	5,020	-	-	$54,517	-	-
	Deferred Shares STI	18.10.2013	2,320	-	-	$24,080	-	-
A Watts	Performance Shares	31.08.2012	-	-	-	-	-	-
	Performance Shares	17.12.2013	10,040	-	-	$44,678	-	-
	Deferred Base Pay	31.08.2012	-	10,274	-	-	$75,000	-
	Deferred Base Pay	17.12.2013	5,020	-	-	$54,517	-	-
	Deferred Shares STI	18.10.2013	2,087	-	-	$21,667	-	-

a. For the Managing Director, the percentage of performance shares that vested during the year was 65% (Grant A) and 100% (Grant B). The performance shares that did not vest for Grant A have lapsed. For other Senior Executives, the percentage of performance shares that vested, or were forfeited, during the year was nil as the performance shares will be tested over future periods. The percentage of the deferred base pay grant made in FY 2013 that vested during the year was 100%. The percentage of the deferred share grant and deferred STI grant made in FY 2014 that vested during the year was nil as the grants will be tested over future periods.

b. The grant value of the performance shares and deferred shares is the fair value (refer Table 4). The minimum total value of the grants, if the applicable performance and service conditions are not met, is nil.

c. The number of vested performance shares for the Managing Director comprises performance shares that were carried forward from tranches one, two, three and four that were eligible for re-testing at 30 June 2014 together with performance shares from tranche five that were tested at 30 June 2014 and which vested. The value of vested performance shares is measured using the fair values applicable to the grant of performance shares that vested. The applicable fair values are presented at Table 4. As each performance share represents an entitlement to one ordinary share in the Bank, the number of ordinary shares that will be allocated is the same as the number of vested performance shares. The instruments are scheduled to be allocated in October 2014.

d. The value of each instrument on the date it lapses or is forfeited is calculated using the fair value of the instrument. Performance shares and deferred shares lapse where the applicable performance and service condition are not satisfied. As the performance shares and deferred shares only vest on satisfaction of performance and service conditions which are to be tested in future financial periods, none of the Senior Executive forfeited performance shares or deferred shares during the 2014 financial year.

Table 7: Non-executive Director equity holdings

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

	1 July 2013		Net Change		30 June 2014	
Name	**Ordinary shares**	**Pref Shares**	**Ordinary shares**	**Pref Shares**	**Ordinary shares**	**Pref Shares**
Non-executive Directors						
R Johanson	229,042	1,000	7,681	(500)	236,723	500
J Dawson	26,751	100	2,967	-	29,718	100
J Hazel	15,420	-	1,604	-	17,024	-
J Hey	3,338	250	889	-	4,227	250
R Hubbard [1]	4,500	-	692	-	5,192	-
D Matthews	11,407	-	5,187	-	16,594	-
D Radford	1,900	-	-	1,390	1,900	1,390
A Robinson	10,000	-	692	-	10,692	-

	1 July 2012		Net Change		30 June 2013	
Name	**Ordinary shares**	**Pref Shares**	**Ordinary shares**	**Pref Shares**	**Ordinary shares**	**Pref Shares**
Non-executive Directors						
R Johanson	241,821	500	(12,779)	500	229,042	1,000
J Dawson	24,954	100	1,797	-	26,751	100
J Hazel	12,462	-	2,958	-	15,420	-
J Hey	3,114	-	224	250	3,338	250
R Hubbard [1]	-	-	4,500	-	4,500	-
D Matthews	7,295	-	4,112	-	11,407	-
T O'Dwyer [1]	74,530	-	(74,530)	-	-	-
D Radford	1,900	-	-	-	1,900	-
A Robinson	6,921	-	3,079	-	10,000	-

1. Mr Hubbard was appointed on 2 April 2013 and Mr O'Dwyer retired on 13 August 2012.

Equity transactions: Managing Director and Senior Executives

All equity transactions with Senior Executives have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length other than shares issued under the Employee Share Ownership Plan. Issues of shares under the Employee Share Plan are made under conditions disclosed in the Annual Financial Report at Note 33.

Table 8: Movements in performance shares

Performance shares and deferred shares are granted as equity compensation under the Employee Salary Sacrifice, Deferred Share and Performance Share Plan ("Plan") to Senior Executives as long term incentive and deferred base remuneration components. The movements in performance shares granted by the Bank for FY2014 and FY2013 are set out below.

30 June 2014	Balance at 1-Jul-13	Granted as Remuneration	Number Exercised / Vested	Number Lapsed / Expired	Balance at 30-Jun-14	Exercisable	Not Exercisable
Senior Executive							
M Hirst	218,397	-	(168,635)	(49,762)	-	-	-
M Baker	27,397	17,570	-	-	44,967	-	44,967
D Bice	13,699	10,040	-	-	23,739	-	23,739
J Billington	20,091	10,040	-	-	30,131	-	30,131
R Fennell	27,397	20,080	-	-	47,477	-	47,477
R Musgrove [1]	12,004	7,530	-	-	19,534	-	7,530
T Piper	20,548	15,060	-	-	35,608	-	35,608
S Thredgold	13,699	10,040	-	-	23,739	-	23,739
A Tullio [1]	-	7,530	-	-	7,530	-	7,530
A Watts	20,548	10,040	-	-	30,588	-	30,588

30 June 2013	Balance at 1-Jul-12	Granted as Remuneration	Number Exercised / Vested	Number Lapsed / Expired	Balance at 30-Jun-13	Exercisable	Not Exercisable
Senior Executive							
M Hirst	417,109	-	(198,712)	-	218,397	-	218,397
M Baker	-	27,397	-	-	27,397	-	27,397
D Bice	-	13,699	-	-	13,699	-	13,699
J Billington	-	20,091	-	-	20,091	-	20,091
R Fennell	-	27,397	-	-	27,397	-	27,397
R Jenkins [1]	-	27,397	-	-	27,397	-	27,397
T Piper	-	20,548	-	-	20,548	-	20,548
S Thredgold	-	13,699	-	-	13,699	-	13,699
A Watts	-	20,548	-	-	20,548	-	20,548

1. Mr Jenkins ceased as a KMP on 19 August 2013, Mr Musgrove commenced as a KMP on 19 August 2013 and Ms Tullio commenced as a KMP on 5 July 2013. As at 19 August 2013, Mr Jenkins held 27,397 performance shares.

Table 9: Movements in other equity holdings

The movements in shareholdings in the Bank for Senior Executives (including their related parties) are below:

Senior Executive	Type [1]	1 July 2013	Granted as remuneration	Received on vesting [2]	Net change other	30 June 2014
M Hirst	Deferred shares	-	5,651	-	-	5,651
	Ordinary shares	660,811	-	168,635	23,863	853,309
	Preference shares	-	-	-	-	-
M Baker	Deferred shares	13,699	13,251	(13,699)	-	13,251
	Ordinary shares	187,392	-	-	7,893	195,285
	Preference shares	500	-	-	50	550
D Bice	Deferred shares	6,849	7,428	(6,849)	-	7,428
	Ordinary shares	70,033	-	-	2,506	72,539
	Preference shares	-	-	-	-	-
J Billington	Deferred shares	10,046	7,362	(10,046)	-	7,362
	Ordinary shares	42,493	-	-	1,292	43,785
	Preference shares	-	-	-	-	-
R Fennell	Deferred shares	13,699	13,251	(13,699)	-	13,251
	Ordinary shares	97,474	-	-	2,278	99,752
	Preference shares	-	-	-	-	-
R Musgrove [3]	Deferred shares	-	5,020	-	-	5,020
	Ordinary shares	16,054	-	-	6,002	22,056
	Preference shares	-	-	-	-	-
T Piper	Deferred shares	10,274	12,159	(10,274)	-	12,159
	Ordinary shares	61,761	-	-	(4,644)	57,117
	Preference shares	-	-	-	-	-
S Thredgold	Deferred shares	6,849	6,465	(6,849)	-	6,465
	Ordinary shares	33,545	-	-	881	34,426
	Preference shares	-	-	-	-	-
A Tullio [3]	Deferred shares	-	7,340	-	-	7,340
	Ordinary shares	-	-	-	71	71
	Preference shares	-	-	-	-	-
A Watts	Deferred shares	10,274	7,107	(10,274)	-	7,107
	Ordinary shares	66,316	-	-	1,322	67,638
	Preference shares	-	-	-	-	-

Senior Executive	Type [1]	1 July 2012	Granted as remuneration	Received on vesting [2]	Net change other	30 June 2013
M Hirst	Deferred shares	12,936	-	-	(12,936)	-
	Ordinary shares	428,761	-	198,712	33,338	660,811
	Preference shares	-	-	-	-	-
M Baker	Deferred shares	8,624	13,699		(8,624)	13,699
	Ordinary shares	171,615	-	-	15,777	187,392
	Preference shares	500	-	-	-	500
D Bice	Deferred shares	3,018	6,849		(3,018)	6,849
	Ordinary shares	80,089	-	-	(10,056)	70,033
	Preference shares	-	-	-	-	-
J Billington	Deferred shares	4,312	10,046		(4,312)	10,046
	Ordinary shares	36,250	-	-	6,243	42,493
	Preference shares	-	-	-	-	-
R Fennell	Deferred shares	8,624	13,699		(8,624)	13,699
	Ordinary shares	84,836	-	-	12,638	97,474
	Preference shares	-	-	-	-	-
R Jenkins [3]	Deferred shares	6,899	13,699		(6,899)	13,699
	Ordinary shares	159,770	-	-	(10,890)	148,880
	Preference shares	-	-	-	-	-
T Piper	Deferred shares	5,390	10,274		(5,390)	10,274
	Ordinary shares	63,371	-	-	(1,610)	61,761
	Preference shares	-	-	-	-	-
S Thredgold	Deferred shares	3,449	6,849		(3,449)	6,849
	Ordinary shares	28,780	-	-	4,765	33,545
	Preference shares	-	-	-	-	-
A Watts	Deferred shares	4,312	10,274		(4,312)	10,274
	Ordinary shares	60,030	-	-	6,286	66,316
	Preference shares	-	-	-	-	-

1. Ordinary share amounts include ordinary shares issued under the employee share ownership plan.
2. Shares allocated in relation to vested performance shares.
3. Mr Jenkins ceased as a KMP on 19 August 2013, Ms Tullio commenced as a KMP on 5 July 2013 and Mr Musgrove commenced as a KMP on 19 August 2013.

Table 10: Loans to Non-executive Directors and Senior Executives

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

	Balance at beginning of period	Interest charged	Interest not charged	Write-off	Balance at end of period	Number at period end
	$'000	$'000	$'000	$'000	$'000	
Non-executive Directors						
2014	2,132	119	-	-	1,635	5
2013	1,923	121	-	-	2,132	5
Senior Executives [1]						
2014	5,597	252	21	-	6,112	9
2013	4,859	261	23	-	5,130	7
Total directors and executives						
2014	7,729	371	21	-	7,747	14
2013	6,782	382	23	-	7,262	12

Balances include interest-free loans provided to Senior Executives in connection with share issues under employee share plans as described at Note 33. Details of individuals with loans in the reporting period are as follows:

2014	Balance at beginning of period	Interest charged	Interest not charged	Write-off	Balance at end of period	Highest owing in period[4]
	$'000	$'000	$'000	$'000	$'000	$'000
Non-executive Directors						
R Johanson	576	57	-	-	1,118	1,020
J Dawson	383	16	-	-	26	421
D Radford	291	7	-	-	41	101
T Robinson	500	15	-	-	5	-
D Matthews	382	24	-	-	445	457
Senior Executives						
M Hirst						
Staff share loan	183	-	7	-	160	183
Loans	120	7	-	-	103	130
M Baker						
Staff share loan	136	-	5	-	112	136
Loans	87	4	-	-	98	142
D Bice						
Staff share loan	65	-	2	-	56	65
Loans	594	32	-	-	517	674
J Billington						
Loans	711	42	-	-	872	889
R Fennell						
Loans	452	27	-	-	481	481
R Jenkins [2]						
Staff share loan	136	-	5	-	112	136
Loans	1,678	88	-	-	1,581	1,697
R Musgrove [2]						
Staff share loan	63	-	2	-	58	63
Loans	404	21	-	-	403	430
S Thredgold						
Loans	968	23	-	-	969	974
A Tullio [2]						
Loans	-	8	-	-	590	977

2013	Balance at beginning of period $'000	Interest charged $'000	Interest not charged $'000	Write-off $'000	Balance at end of period $'000	Highest owing in period[4] $'000
Non-executive Directors						
R Johanson	504	38	-	-	576	542
J Dawson	405	24	-	-	383	477
D Radford [3]	54	1	-	-	291	101
T Robinson	500	30	-	-	500	-
D Matthews	460	28	-	-	382	466
Senior Executives						
M Hirst						
Staff share loan	206	-	8	-	183	206
Loans	137	9	-	-	120	167
M Baker						
Staff share loan	159	-	6	-	136	159
Loans	43	4	-	-	87	103
D Bice						
Staff share loan	74	-	3	-	65	74
Loans	617	42	-	-	594	656
J Billington						
Loans	374	32	-	-	711	784
R Fennell						
Loans	464	28	-	-	452	492
R Jenkins						
Staff share loan	159	-	6	-	136	159
Loans	2,066	117	-	-	1,678	2,245
S Thredgold						
Loans	560	29	-	-	968	976

1. The opening balance has been adjusted to include the loan balances of Ms Tullio and Mr Musgrove who were appointed as executives during the year.
2. Mr Jenkins ceased as a KMP on 19 August 2013, Ms Tullio commenced as a KMP on 5 July 2013 and Mr Musgrove commenced as a KMP on 19 August 2013.
3. The facilities were fully repaid shortly after the start of the financial year. In addition the facilities were not redrawn until late in the financial year.
4. Represents aggregate highest indebtedness of the KMP during the financial year. All other items in this table relate to the KMP and their related parties.

Terms and conditions of director and Senior Executive loans

The loans to Non-executive Directors and Senior Executives are made in the ordinary course of the Group's business and on an arms-length basis. The loans are processed and approved in accordance with the Group's standing lending processes and prevailing terms and conditions.

Terms and conditions of the loans under Employee Share Ownership Plan

Loans have been provided to Senior Executives under the terms of the Group's legacy Employee Share Ownership Plan ("Plan"). Details of the Plan's terms and conditions are provided in the Annual Financial Report at Note 33.

This Directors Report is signed in accordance with a resolution of the board of directors

Robert Johanson
Chairman

Mike Hirst
Managing Director

2 September 2014

Five year history
The Bendigo and Adelaide Bank Group

Financial Performance for the year ended 30 June

	2014 $m	2013 [1] $m	2012 [2] $m	2011 $m	2010 [3] $m
Interest income	2,928.2	3,140.5	3,440.8	3,385.8	2,712.2
Interest expense	1,810.0	2,113.0	2,490.7	2,450.6	1,857.6
Net interest income	1,118.2	1,027.5	950.1	935.2	854.6
Other income	315.8	321.8	262.8	300.8	280.4
Bad & doubtful debts expense (net of bad debts recovered)	81.9	69.9	32.4	44.2	44.7
Other expenses	815.6	791.8	854.4	767.3	739.6
Profit before income tax expense	536.5	487.6	326.1	424.5	350.7
Income tax expense	164.2	135.3	131.1	77.9	90.8
Net (profit)/loss attributable to non-controlling interest	-	-	-	(4.5)	(17.3)
Profit after income tax expense	372.3	352.3	195.0	342.1	242.6
Cash earnings adjustments	10.0	(4.3)	128.0	(5.9)	48.4
Cash basis earnings	382.3	348.0	323.0	336.2	291.0
Financial Position at 30 June					
Total assets	65,064.9	60,272.5	57,237.8	55,004.5	52,222.5
Net loans and other receivables	52,932.8	50,511.5	48,670.0	46,409.8	43,603.2
Cash and cash equivalents	716.1	383.8	288.8	469.0	760.5
Due from other financial institutions	242.5	293.9	272.2	201.6	279.7
Financial assets and derivatives	8,217.9	6,447.4	5,372.5	5,296.8	4,848.6
Other assets	2,955.6	2,635.9	2,634.3	2,627.3	2,730.5
Equity	4,974.2	4,434.0	4,217.7	3,960.1	3,880.4
Deposits and notes payable	57,615.8	53,839.6	50,983.7	48,975.0	46,217.4
Reset preference shares	-	-	89.5	89.5	89.5
Convertible preference shares	261.4	259.2	-	-	-
Subordinated debt	655.5	354.3	436.9	575.7	532.9
Other liabilities	1,558.0	1,385.4	1,510.0	1,404.2	1,502.3
Share Information					
Net tangible assets per ordinary share	$7.26	$6.62	$6.16	$5.76	$5.27
Earnings per ordinary share (statutory basis) - cents	87.7	84.9	48.6	91.5	67.4
Earnings per ordinary share (cash basis) - cents	91.5	85.4	84.2	92.3	83.3
Dividends per ordinary share:					
Interim - cents	31.0	30.0	30.0	30.0	28.0
Final - cents	33.0	31.0	30.0	30.0	30.0
Total - cents	64.0	61.0	60.0	60.0	58.0
Ratios					
Profit after tax before specific items return on average assets	0.61%	0.58%	0.35%	0.64%	0.48%
Return on average assets (cash basis)	0.63%	0.60%	0.57%	0.63%	0.58%
Return on average ordinary equity (cash basis)	8.96%	8.58%	8.36%	9.07%	8.18%
Return on average ordinary equity (after tax)	8.59%	8.52%	4.84%	8.99%	6.61%

[1] Figures for 2013 includes Community Telco Australia from December 2012 as a wholly owned subsidiary.

[2] Figures for 2012 include Delphi Bank from 1 March 2012.

[3] Figures for 2010 include the fully consolidated trading of Rural Bank from 1 October 2009, Tasmanian Banking Services from 1 August 2009.

Five year comparison
The Bendigo and Adelaide Bank Group

Financial Performance for the year ended 30 June

		2014	2013 [1]	2012 [2]	2011	2010 [3]
Key Trading Indicators						
Total loans approved	($m)	16,357.4	14,101.4	12,665.6	13,885.5	11,916.6
Financial assets, derivatives & cash equivalents	($m)	8,934.0	6,831.2	5,933.5	5,967.4	5,888.8
Total liabilities	($m)	60,090.7	55,838.5	53,020.1	51,044.4	48,260.7
Financial assets, derivatives & cash equivalents as proportion of total liabilities	(%)	14.87	12.23	11.19	11.69	12.20
Number of branches [4]		512	489	486	466	448
Number of staff (excluding Community Banks)	(FTE)	4,387	4,251	4,189	4,019	3,847
Assets per staff member	($m)	14.8	14.2	13.7	13.7	13.6
Dissection of Loans by Security [5]	($'000)					
Residential loans		37,108.8	35,009.5	33,768.8	31,522.3	28,875.5
Commercial loans		13,027.1	12,662.0	11,622.1	10,784.2	10,182.1
Margin lending		1,822.7	1,915.6	2,333.2	3,202.2	3,627.0
Unsecured loans		906.7	824.2	869.2	834.6	823.7
Other		248.5	267.8	238.7	220.5	191.0
Gross loans		**53,113.8**	**50,679.1**	**48,832.0**	**46,563.8**	**43,699.3**
Dissection of Loans by Security [5]	(%)					
Residential loans		69.87	69.08	69.15	67.70	66.08
Commercial loans		24.53	24.98	23.80	23.16	23.30
Margin lending		3.43	3.78	4.78	6.88	8.30
Unsecured loans		1.71	1.63	1.78	1.79	1.88
Other		0.46	0.53	0.49	0.47	0.44
Total		**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Asset Quality	($m)					
Impaired loans		411.8	390.1	358.5	358.7	282.2
Specific provisions		(113.6)	(103.3)	(102.1)	(90.6)	(78.3)
Net impaired loans		**298.2**	**286.8**	**256.4**	**268.1**	**203.9**
Net impaired loans % of gross loans	(%)	0.56	0.57	0.53	0.58	0.47
Specific provision for impairment	($m)	114.4	104.1	102.9	91.4	79.1
Specific provision % of gross loans	(%)	0.22	0.21	0.21	0.20	0.18
Collective provision	($m)	42.8	34.5	31.8	41.9	47.1
General reserve for credit losses (GRCL) (general provision)	($m)	138.3	138.3	128.5	110.9	104.7
Collective provision & GRCL as a % of risk-weighted assets	(%)	0.56	0.57	0.53	0.54	0.54
Write-offs as % of average total assets	(%)	0.11	0.12	0.06	0.07	0.10

1 Figures for 2013 includes Community Telco Australia from December 2012 as a wholly owned subsidiary.

2 Figures for 2012 include Delphi Bank from 1 March 2012.

3 Figures for 2010 include the fully consolidated trading of Rural Bank from 1 October 2009, Tasmanian Banking Services from 1 August 2009.

4 Includes Retail and **Community Bank** ® branches. (June 14 includes 14 Delphi and 2 Rural Bank branches)

5 For the purposes of this dissection, overdrafts and personal loans secured by residential and commercial property mortgages are included in residential and commercial loan categories respectively.

Income statement
for the year ended 30 June 2014

		Consolidated		Parent	
		2014	2013	2014	2013
	Note	$m	$m	$m	$m
Income					
Net interest income					
Interest income		2,928.2	3,140.5	2,456.9	2,567.3
Interest expense		1,810.0	2,113.0	1,480.8	1,694.6
Total net interest income	3	**1,118.2**	**1,027.5**	**976.1**	**872.7**
Other revenue					
Dividends		0.8	0.7	0.2	115.7
Fees		160.5	167.6	141.1	145.2
Commissions		51.0	44.7	16.5	15.9
Other revenue		103.2	82.6	58.5	53.1
Total other revenue	3	**315.5**	**295.6**	**216.3**	**329.9**
Other income					
Ineffectiveness in cash flow hedges		0.1	(1.8)	0.1	(6.6)
Other		-	26.4	-	(12.3)
Total other income	3	**0.1**	**24.6**	**0.1**	**(18.9)**
Share of net profit accounted for using the equity method	19	0.2	1.6	1.1	1.9
Total income		**1,434.0**	**1,349.3**	**1,193.6**	**1,185.6**
Expenses					
Bad and doubtful debts					
Bad and doubtful debts		85.6	72.7	57.1	54.5
Bad and doubtful debts recovered		(3.7)	(2.8)	(3.6)	(2.7)
Total bad and doubtful debts	3	**81.9**	**69.9**	**53.5**	**51.8**
Other expenses					
Staff and related costs		435.1	407.0	385.1	363.6
Occupancy costs		85.3	70.6	81.7	67.6
Amortisation of intangibles		36.8	43.8	25.6	33.1
Property, plant & equipment costs		9.7	10.6	9.2	10.2
Fees and commissions		26.5	28.6	8.2	10.0
Impairment loss on goodwill		-	6.2	-	-
Integration costs		-	9.9	-	9.9
Other		222.2	215.1	223.6	203.1
Total other expenses	3	**815.6**	**791.8**	**733.4**	**697.5**
Profit before income tax expense		**536.5**	**487.6**	**406.7**	**436.3**
Income tax expense	6	(164.2)	(135.3)	(124.0)	(81.1)
Net profit for the year		**372.3**	**352.3**	**282.7**	**355.2**
Earnings per share (cents)					
Basic	8	87.7	84.9		
Diluted	8	83.6	79.9		
Dividends per share (cents)	9	64.0	61.0		

Statement of comprehensive income
for the year ended 30 June 2014

	Note	Consolidated 2014 $m	Consolidated 2013 $m	Parent 2014 $m	Parent 2013 $m
Profit for the year		372.3	352.3	282.7	355.2
Items which may be reclassified subsequently to the profit & loss:					
Net gain on available for sale - equity investments	31	1.4	1.1	0.6	-
Transfer to income on sale of available for sale assets	31	-	(37.1)	-	-
Net gain/(loss) on cash flow hedges taken to equity	31	(5.9)	75.8	(18.4)	60.2
Net gain/(loss) on reclassification from cash flow hedge reserve to income	31	0.1	(1.8)	0.1	(6.6)
Net unrealised gain on debt securities in available for sale portfolio	31	-	4.2	36.8	4.2
Tax effect on items taken directly to or transferred from equity	31	1.3	(14.4)	(5.8)	(18.6)
		(3.1)	27.8	13.3	39.2
Items which will not be reclassified subsequently to the profit & loss:					
Actuarial gain/(loss) on superannuation defined benefits plan	31	1.6	2.3	1.6	2.3
Revaluation of land and buildings	31	0.9	-	0.3	-
Tax effect on items taken directly to or transferred from equity	31	(0.8)	(0.7)	(0.6)	(0.7)
Net income recognised directly in equity		1.7	1.6	1.3	1.6
Total comprehensive income for the year		**370.9**	**381.7**	**297.3**	**396.0**
Total comprehensive income for the year attributable to:					
Members of the Parent		370.9	381.7	297.3	396.0

Balance sheet
as at 30 June 2014

	Note	Consolidated 2014 $m	Consolidated 2013 $m	Parent 2014 $m	Parent 2013 $m
Assets					
Cash and cash equivalents	11	716.1	383.8	610.5	258.1
Due from other financial institutions	11	242.5	293.9	242.4	292.2
Amounts receivable from controlled entities		-	-	283.8	544.7
Financial assets held for trading	12	7,265.4	5,465.2	7,265.8	5,465.8
Financial assets available for sale - debt securities	13	619.3	608.9	1,292.6	1,362.9
Financial assets held to maturity	15	286.6	323.3	2.0	1.8
Financial assets available for sale - equity investments	14	24.3	18.1	4.9	4.5
Derivatives	38	22.3	31.9	203.0	182.6
Loans and other receivables - investment	16	397.1	554.1	397.1	554.1
Net loans and other receivables	16	52,535.7	49,957.4	47,277.5	44,691.3
Investments accounted for using the equity method	19	15.7	15.6	15.1	13.8
Shares in controlled entities		-	-	575.4	526.5
Property, plant & equipment	20	96.8	63.4	92.4	59.5
Deferred tax assets	6	127.2	132.1	105.7	96.6
Investment property	21	404.9	348.9	-	5.9
Assets held for sale		3.3	25.4	-	-
Intangible assets and goodwill	22	1,504.4	1,518.2	1,380.3	1,390.0
Other assets	24	803.3	532.3	1,543.8	1,220.2
Total Assets		**65,064.9**	**60,272.5**	**61,292.3**	**56,670.5**
Liabilities					
Due to other financial institutions	11	363.5	379.5	363.0	371.4
Deposits	25	52,359.4	47,439.0	48,975.3	44,121.7
Notes payable	25	5,256.4	6,400.6	310.4	350.3
Derivatives	38	79.2	98.4	77.7	85.7
Loans payable to securitisation trusts		-	-	4,760.4	5,829.9
Income tax payable	6	17.5	47.1	17.5	47.1
Provisions	27	103.8	93.5	99.7	90.3
Deferred tax liabilities	6	79.8	78.2	101.7	88.0
Other payables	26	914.2	688.7	1,018.9	887.9
Convertible preference shares	28	261.4	259.2	261.4	259.2
Subordinated debt	29	655.5	354.3	603.3	302.2
Total Liabilities		**60,090.7**	**55,838.5**	**56,589.3**	**52,433.7**
Net Assets		**4,974.2**	**4,434.0**	**4,703.0**	**4,236.8**
Equity					
Issued capital - ordinary	30	4,183.3	3,758.0	4,183.3	3,758.0
Perpetual non-cumulative redeemable convertible preference shares	30	88.5	88.5	88.5	88.5
Step up preference shares	30	100.0	100.0	100.0	100.0
Employee Share Ownership Plan (ESOP) shares	30	(16.2)	(18.7)	(16.2)	(18.7)
Reserves	31	101.1	108.1	134.7	122.9
Retained earnings	31	517.5	398.1	212.7	186.1
Total Equity		**4,974.2**	**4,434.0**	**4,703.0**	**4,236.8**

Statement of changes in equity
For the year ended 30 June 2014

Consolidated

	Attributable to owners of Bendigo and Adelaide Bank Limited				
	Issued ordinary capital $m	Other Issued capital [1] $m	Retained earnings $m	Reserves [2] $m	Total equity $m
At 1 July 2013					
Opening balance b/fwd	3,758.0	169.8	398.1	108.1	4,434.0
Comprehensive income:					
Profit for the period	-	-	372.3	-	372.3
Other comprehensive income	-	-	1.1	(2.5)	(1.4)
Total comprehensive income for the period	-	-	373.4	(2.5)	370.9
Transactions with owners in their capacity as owners:					
Shares issued	427.8	-	-	-	427.8
Share issue expenses	(2.5)	-	-	-	(2.5)
Reduction in employee share ownership plan (ESOP) shares	-	2.5	-	-	2.5
Share based payment	-	-	-	(1.7)	(1.7)
Transfer from asset revaluation reserve	-	-	2.8	(2.8)	-
Equity dividends	-	-	(256.8)	-	(256.8)
At 30 June 2014	4,183.3	172.3	517.5	101.1	4,974.2

[1] refer to note 30 Issued capital for further details

[2] refer to note 31 Retained earnings and reserves for further details

For the year ended 30 June 2013

	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 2012					
Opening balance b/fwd	3,681.8	167.2	296.5	72.2	4,217.7
Comprehensive income:					
Profit for the period	-	-	352.3	-	352.3
Other comprehensive income	-	-	1.6	27.8	29.4
Total comprehensive income for the period	-	-	353.9	27.8	381.7
Transactions with owners in their capacity as owners:					
Shares issued	76.2	-	-	-	76.2
Reduction in employee share ownership plan (ESOP) shares	-	2.6	-	-	2.6
Movement in general reserve for credit losses (GRCL)	-	-	(9.8)	9.8	-
Share based payment	-	-	-	(1.7)	(1.7)
Equity dividends	-	-	(242.5)	-	(242.5)
At 30 June 2013	3,758.0	169.8	398.1	108.1	4,434.0

[1] refer to note 30 Issued capital for further details

[2] refer to note 31 Retained earnings and reserves for further details

Statement of changes in equity (continued)
For the year ended 30 June 2014

Parent

	Attributable to owners of Bendigo and Adelaide Bank Limited				
	Issued ordinary capital $m	Other Issued capital [1] $m	Retained earnings $m	Reserves [2] $m	Total equity $m
At 1 July 2013					
Opening balance b/fwd	3,758.0	169.8	186.1	122.9	4,236.8
De-registered subsidiary company	-	-	(0.4)	-	(0.4)
Comprehensive income:					
Profit for the period	-	-	282.7	-	282.7
Other comprehensive income	-	-	1.1	13.5	14.6
Total comprehensive income for the period	-	-	283.8	13.5	297.3
Transactions with owners in their capacity as owners:					
Shares issued	427.8	-	-	-	427.8
Share issue expenses	(2.5)	-	-	-	(2.5)
Reduction in employee share ownership plan (ESOP) shares	-	2.5	-	-	2.5
Share based payment	-	-	-	(1.7)	(1.7)
Equity dividends	-	-	(256.8)	-	(256.8)
At 30 June 2014	4,183.3	172.3	212.7	134.7	4,703.0

[1] refer to note 30 Issued capital for further details

[2] refer to note 31 Retained earnings and reserves for further details

For the year ended 30 June 2013

	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 2012					
Opening balance b/fwd	3,681.8	167.2	87.1	70.7	4,006.8
Acquired in business combination	-	-	(0.6)	-	(0.6)
Comprehensive income:					
Profit for the period	-	-	355.2	-	355.2
Other comprehensive income	-	-	1.6	39.2	40.8
Total comprehensive income for the period	-	-	356.8	39.2	396.0
Transactions with owners in their capacity as owners:					
Shares issued	76.2	-	-	-	76.2
Reduction in employee share ownership plan (ESOP) shares	-	2.6	-	-	2.6
Movement in general reserve for credit losses (GRCL)	-	-	(14.7)	14.7	-
Share based payment	-	-	-	(1.7)	(1.7)
Equity dividends	-	-	(242.5)	-	(242.5)
At 30 June 2013	3,758.0	169.8	186.1	122.9	4,236.8

[1] refer to note 30 Issued capital for further details

[2] refer to note 31 Retained earnings and reserves for further details

Cash flow statement
for the year ended 30 June 2014

		Consolidated		Parent	
		2014	2013	2014	2013
	Note	$m	$m	$m	$m
Cash flows from operating activities					
Interest and other items of a similar nature received		2,856.1	3,079.5	2,476.6	2,471.2
Interest and other costs of finance paid		(1,793.8)	(2,129.6)	(1,462.6)	(1,679.4)
Receipts from customers (excluding effective interest)		269.7	265.2	233.0	222.6
Payments to suppliers and employees		(751.6)	(781.0)	(980.1)	(784.4)
Dividends received		0.8	0.7	0.2	115.7
Income taxes paid		(185.8)	(177.2)	(104.1)	(124.5)
Net cash flows from operating activities	10	**395.4**	**257.6**	**163.0**	**221.2**
Cash flows from investing activities					
Cash paid for purchases of property, plant and equipment		(53.3)	(13.0)	(52.6)	(12.5)
Cash proceeds from sale of property, plant and equipment		1.9	0.9	1.5	0.8
Cash paid for purchases of investment property		(28.2)	(32.0)	-	-
Cash proceeds from sale of investment property		22.8	20.1	5.6	6.7
Cash paid for purchases of equity investments		(5.8)	(2.0)	(10.8)	(2.0)
Cash proceeds from sale of equity investments		-	109.8	-	-
Capital injection into subsidiaries		-	-	-	(36.0)
Net increase of loans and other receivables outstanding		(2,503.1)	(1,670.9)	(4,467.4)	(2,775.9)
Net increase in balance of investment securities		(1,773.9)	(1,124.7)	(611.3)	(867.1)
Net cash paid on acquisition of a business combination		(4.4)	(259.6)	-	(257.4)
Net cash flows used in investing activities		**(4,344.0)**	**(2,971.4)**	**(5,135.0)**	**(3,943.4)**
Cash flows from financing activities					
Proceeds from issue of shares		379.6	179.4	379.6	179.4
Net increase in balance of retail deposits		2,597.2	1,582.7	2,514.1	2,712.8
Net increase in balance of wholesale deposits		2,323.2	1,283.6	2,339.5	1,229.4
Proceeds from/(payments to) subordinated debt holders		301.2	(0.5)	301.2	-
Repayment of subordinated debt		-	(82.0)	-	(59.0)
Dividends paid		(211.5)	(166.1)	(211.5)	(166.1)
Net decrease in balance of notes payable		(1,144.2)	(10.4)	(39.9)	(113.9)
Repayment of ESOP shares		2.5	2.6	2.5	2.6
Payment of share issue costs		(2.5)	(11.1)	(2.5)	(11.1)
Net cash flows from financing activities		**4,245.5**	**2,778.2**	**5,283.0**	**3,774.1**
Net increase in cash and cash equivalents		296.9	64.4	311.0	51.9
Cash and cash equivalents at the beginning of period		298.2	233.8	178.9	127.0
Cash and cash equivalents at the end of period	11	**595.1**	**298.2**	**489.9**	**178.9**

Notes to the financial statements

1. Corporate information

The financial report of Bendigo and Adelaide Bank Limited (the Company) for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the directors on 2 September 2014.

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

2.1 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 preparation of the financial report requires the use of certain critical accounting estimates. Areas involving a higher degree of assumptions and estimates are outlined in Note 2.6 Significant accounting judgements, estimates and assumptions.

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).

2.2 Compliance with IFRS

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

Recently issued or amended standards not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2014.

Reference	Title	Summary	Applicat-ion date of Standard [1]	Impact on Group financial report	Applicat-ion date for the Group [1]
AASB 2012-3	Amendments to Australian Account-ing Standards - *Offsetting Financial Assets and Financ-ial Liabilities*	AASB 2012-3 adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1-Jan-14	The Group has not yet determined the extent of the impacts of the amendments, however it is not expected to result in a material impact.	1-Jul-14
Interpretation 21	*Levies*	This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation.	1-Jan-14	The Group has not yet determined the extent of the impacts of the amendments, however it is not expected to result in a material impact.	1-Jul-14

[1] Designates the beginning of the applicable annual reporting period unless otherwise stated.

2. Summary of significant accounting policies (continued)

2.2 Compliance with IFRS (continued)

Reference	Title	Summary	Application date of Standard [1]	Impact on Group financial report	Application date for the Group [1]
AASB 9	*Financial Instruments*	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.	1-Jan-18 [2]	The Group has not yet determined the extent of the impacts of the amendments.	1-Jul-18 [2]
AASB 2013-3	*Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*	AASB 2013-3 amends the disclosure requirements in AASB 136 *Impairment of Assets.* The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.	1-Jan-14	The Group has not yet determined the extent of the impacts of the amendments, however it is not expected to result in a material impact.	1-Jul-14
AASB 2013-4	Amendments to Australian Accounting Standards - Novation of derivatives & Continuation of Hedge Accounting [AASB 139]	AASB 2013-4 amends AASB 139 to permit the continuation of hedge accounting in specified circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty as a consequence of laws or regulations.	1-Jan-14	The Group has not yet determined the extent of the impacts of the amendments, however it is not expected to result in a material impact.	1-Jul-14
AASB 2013-5	Amendments to Australian Accounting Standards – Investment Entities [AASB 1, AASB 3, AASB 7, AASB 10, AASB 12, AASB 107, AASB 112, AASB 124, AASB 127, AASB 132, AASB 134 & AASB 139]	These amendments define an investment entity and require that, with limited exceptions, an investment entity does not consolidate its subsidiaries or apply AASB 3 *Business Combinations* when it obtains control of another entity. These amendments require an investment entity to measure unconsolidated subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. These amendments also introduce new disclosure requirements for investment entities to AASB 12 and AASB 127.	1-Jan-14	The Group has not yet determined the extent of the impacts of the amendments, however it is not expected to result in a material impact.	1-Jul-14
Annual Improvements 2011–2013 Cycle [3]	Annual Improvements to IFRSs 2011–2013 Cycle	This standard sets out amendments to International Financial Reporting Standards (IFRS) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB. The following items are addressed by this standard. IFRS 13 - Clarifies that the portfolio exception in paragraph 52 of IFRS 13 applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions.	1-Jul-14	The Group has not yet determined the extent of the impacts of the amendments, however it is not expected to result in a material impact.	1-Jul-14

[1] Designates the beginning of the applicable annual reporting period unless otherwise stated.

[2] In February 2014, the IASB tentatively decided that the mandatory effective date for the AASB 9 will be for annual periods beginning on or after 1 January 2018, however it is available for application now.

[3] These IFRS amendments have not yet been adopted by the AASB. In order to claim compliance with IFRS, these amendments should be noted in the financial statements.

2.2 Compliance with IFRS (continued)

Reference	Title	Summary	Application date of Standard [1]	Impact on Group financial report	Application date for the Group [1]
Annual Improvements 2011–2013 Cycle [3] (continued)	Annual Improvements to IFRSs 2011–2013 Cycle	of financial assets or financial liabilities as defined in IAS 32. IAS 40 - Clarifies that judgment is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of IFRS 3 that includes an investment property. That judgment is based on guidance in IFRS 3.	1-Jul-14	The Group has not yet determined the extent of the impacts of the amendments, however it is not expected to result in a material impact.	1-Jul-14
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	The Standard contains three main parts and makes amendments to a number of Standards and Interpretations. Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1. Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards. Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 *Hedge Accounting* into AASB 9 *Financial Instruments.*	[4]	The Group has not yet determined the extent of the impacts of the amendments, however it is not expected to result in a material impact.	[4]
IFRS 14 [3, 5]	Interim standard on regulatory deferral accounts	This interim standard provides first-time adopters of IFRS with relief from derecognising rate-regulated assets and liabilities until a comprehensive project on accounting for such assets and liabilities is completed by the IASB. It is intended to encourage rate-regulated entities to adopt IFRS while bridging the gap with entities that already apply IFRS, but do not recognise regulatory deferral accounts.	1-Jan-16	The Group has not yet determined the extent of the impacts of the amendments, however it is not expected to result in a material impact.	1-Jul-16
Amendments to IAS 16 and IAS 38 [3]	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits	1-Jan-16	The Group has not yet determined the extent of the impacts of the amendments, however it is not expected to result in a material impact.	1-Jul-16

[1] Designates the beginning of the applicable annual reporting period unless otherwise stated.

[2] In February 2014, the IASB tentatively decided that the mandatory effective date for the AASB 9 will be for annual periods beginning on or after 1 January 2018, however it is available for application now.

[3] These IFRS amendments have not yet been adopted by the AASB. In order to claim compliance with IFRS, these amendments should be noted in the financial statements.

[4] The application dates of AASB 2013-9 are as follows:

Part A - period ending on or after 20 December 2013	Application date for the Group: period ending 30 June 2014
Part B - period beginning on or after 1 January 2014	Application date for the Group: period beginning 1 July 2014
Part C - reporting periods beginning on or after 1 January 2015	Application date for the Group: period beginning 1 July 2015

[5] The application of this IFRS is highly unlikely to have an impact for Australian entities.

2. Summary of significant accounting policies (continued)

2.2 Compliance with IFRS (continued)

Reference	Title	Summary	Application date of Standard [1]	Impact on Group financial report	Application date for the Group [1]
Amendments to IAS 16 and IAS 38 [3] (continued)	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.	1-Jan-16	The Group has not yet determined the extent of the impacts of the amendments, however it is not expected to result in a material impact.	1-Jul-16
IFRS 15 [3]	Revenue from Contracts with Customers	IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.	1-Jan-17	The Group has not yet determined the extent of the impacts of the amendments, however it is not expected to result in a material impact.	1-Jul-17

[1] Designates the beginning of the applicable annual reporting period unless otherwise stated.

[2] In February 2014, the IASB tentatively decided that the mandatory effective date for the AASB 9 will be for annual periods beginning on or after 1 January 2018, however it is available for application now.

[3] These IFRS amendments have not yet been adopted by the AASB. In order to claim compliance with IFRS, these amendments should be noted in the financial statements.

2. Summary of significant accounting policies (continued)

2.3 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 conformity 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.

Investments in subsidiaries held by Bendigo and Adelaide Bank Limited are accounted for at cost in separate financial statements of the parent entity.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

Minority interests not held by the Group are allocated their share of net profit after tax in the income statement and are presented within equity in the consolidated balance sheet, separately from the parent shareholders' equity.

2.4 Business combinations

The acquisition accounting method is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange. Where equity instruments are issued in a business combination, the fair value of the instruments is their published price at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Acquisition related costs are expensed as incurred.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement, but only after a reassessment of the identifiable net assets and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

2.5 Changes in accounting policies

The accounting policies are consistent with those applied in the previous financial year except as follows:
The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as at 1 July 2013:

- AASB 10 *Consolidated Financial Statements*
- AASB 11 *Joint Arrangements*
- AASB 12 *Disclosures of Interest in Other Entities*
- AASB 13 *Fair Value Measurement*
- AASB 119 *Employee Benefits*
- AASB 2012-2 *Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities*
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*
- AASB 2012-9 *Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039*

Where the adoption of the Standard or Interpretation has been deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

AASB 10 *Consolidated Financial Statements*

This standard establishes a new control model that applies to all entities. It replaced AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112 *Consolidation - Special Purpose Entities* .

2. Summary of significant accounting policies (continued)

2.5 Changes in accounting policies (continued)

As a result of AASB 10, the Group has changed its accounting policy for determining whether it has control over, and consequently whether it consolidates other entities. AASB 10 introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns.

The Group has reassessed its control conclusions as of 1 July 2013. There has been no material impact on the Group's financial statements.

AASB 11 *Joint Arrangements*
This standard uses the principal of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. It removes the option to account for jointly controlled entities (JCE's) using proportionate consolidation. There has been no change to the Group's financial statements.

AASB 12 *Disclosure of Interests in Other Entities*
This standard includes all disclosures relating to an entity's interest in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates, structured entities and subsidiaries with non-controlling interests.

As a result of AASB 12, the Group has expanded disclosures about its interests in subsidiaries and involvement with unconsolidated structured entities.

AASB 13 *Fair Value Measurement*
This standard establishes a single source of guidance for determining the fair value of assets and liabilities. The standard does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted.

Application of this definition may result in different fair values being determined for the relevant assets.

In accordance with the transitional provisions of the standard, the Group has applied the new definition of fair value prospectively. The change had no significant impact on the measurements of the Group's assets and liabilities, but the Group has included new disclosures in the financial statements, which are required under the standard. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of the standard, the Group has provided the relevant comparative disclosures under those standards.

AASB 119 *Employee Benefits*
The main change resulting from the amendments is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liability arising from such plans is recognised in full with actuarial gains and losses being recognised in other comprehensive income. It also revised the method of calculating the return on plan assets. Interest cost and expected return on plan assets has been replaced with a net interest amount that is calculated by applying a discount rate to the net defined benefit asset/ liability. The standard changes the definition of short-term employee benefits. The distinction between short and long term benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.

AASB 2012-2 *Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities*
This standard principally amends AASB 7 *Financial Instruments: Disclosures* to require disclosures of the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's balance sheet, when all the offsetting criteria of AASB 132 are not met.

As a result of the amendments to the standard, the Group has expanded disclosures about offsetting financial assets and financial liabilities.

AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*
AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle.

2.6 Significant accounting judgments, estimates and assumptions

(i) Significant accounting judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Cash earnings
Cash earnings are considered by management as a key indicator representing the performance of the core business activities of the Group. The basis for determining cash earnings is the statutory profit after tax, adjusted for specific items after tax, acquired intangibles amortisation after tax and preference share/step up preference share appropriations. Cash earnings have been used in a number of key indicator calculations such as Note 8 – Earnings per ordinary share.

2. Summary of significant accounting policies (continued)

2.6 Significant accounting judgments, estimates and assumptions (continued)

Specific items

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

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Consolidation

In the process of applying the Group's accounting policy, management has made the following significant assumptions in relation to the consolidation of certain entities:

Managed investment funds

Sandhurst Trustees Limited, a subsidiary of the Group, acts as a responsible entity for certain managed investment funds. The decision-making rights of the funds are restricted by the Product Disclosure Statements. The fees that are received are not variable, are commensurate with the services provided, and are consistent with similar funds in the market. Where Sandhurst Trustees Limited holds investments in the funds and is exposed to variability of returns, the magnitude of the variability is assessed to determine if it is significant enough to result in Sandhurst Trustees Limited being a principal. As long as the aggregated economic interest (taking into account any fees and direct holdings) by Sandhurst Trustees Limited represents less than 37% of the total units in the fund, it is concluded that Sandhurst Trustees Limited is an agent and consolidation is not required. This percentage may change depending on certain factors, such as dilution of unit ownership and duration of operation.

Securitisation

The Group conducts an asset securitisation program through which it packages and sells asset backed securities to investors through Special Purpose Entities (SPE's). The Group is entitled to any residual income of the SPE after all payments to investors and costs of the programs have been met.

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 risk associated with the SPEs.

Liabilities associated with the programs are accounted for on an amortised cost basis using the effective interest method. Interest rate swaps and liquidity facilities are provided at arm's length to the SPEs.

Community Banks

Community Banks are not consolidated by the Group as the Group does not have power to govern decision making, and while the Group's returns are variable they are calculated as a percentage of the gross margin. In some cases the Group holds shares in some Community Bank Branches and has representation on the Board. Consolidation of a Community Bank Branch would occur when the Group has power to affect returns through majority representation on the Board.

Other Entities

Entities in which the Group holds a 50% interest and have joint control are classified as joint arrangements. Where the Group holds, directly or indirectly, 20% or more of the voting power of an entity and is able to significantly influence the decisions about the affairs of the entity, that entity is classified as an associate and is accounted for using the equity method.

(ii) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in Note 23.

Impairment of financial assets and property, plant & equipment

The Group has to make a judgment as to whether an impairment trigger is evident at each balance date. If a trigger is evident the asset must be tested for impairment, which requires the estimation of future cash flows and the use of an appropriate discount rate.

Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions.

2.6 Significant accounting judgments, estimates and assumptions (continued)

Employee benefits (leave provisions)

The carrying amount of leave liabilities is calculated based on assumptions and estimates of when employees will take leave and the prevailing wage rates at the time the leave will be taken. Long service leave liability also requires a prediction of the number of employees that will achieve entitlement to long service leave.

Superannuation defined benefit plan

Various actuarial assumptions are required when determining the Group's superannuation obligations. The Group's policy on superannuation defined benefit plan is disclosed in Note 2.24 and Note 39.

Loan provisioning

The Group determines whether loans are impaired on an ongoing basis. This requires an estimation of the value of future cash flows. The Group's policy for calculation of loan loss allowance is disclosed in Note 2.13.

Investment property

The fair value of investment properties are based on estimated future cash flows using market indices of property values and long term discount rates. The Group's policy for calculation of the fair value is disclosed in Note 2.17.

Fair Value of Financial Instruments

Fair value is the amount for which an asset could be exchanged or a liability settled, between willing parties in an arm's length transaction. Wherever possible, the fair value is determined by reference to the quoted bid or offer price in the most active market to which the Group has immediate access. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, using relevant observable inputs and minimising the use of unobservable inputs. In accordance with AASB 13 *Fair Value Measurement* , the Group categorises financial instruments carried on the balance sheet at fair value using the following three level hierarchy. Financial instruments are categorised as follows:

> Level 1 - quoted market prices in an active market for identical assets/liabilities.
> Level 2 - derived inputs other than quoted prices within level 1 that are observable either directly/indirectly.
> Level 3 - inputs that are unobservable.

2.7 Comparatives

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

2.8 Trustee and funds management activities

Controlled entities of the Group act as the Trustee and/or Manager for a number of funds. The assets and liabilities of these funds are not included in the consolidated financial statements. An assessment of each fund has occurred as per AASB 10 *Consolidated financial statements* . Note 43 provides the relevant information regarding the unstructured entities.

Commissions and fees earned in respect of the Group's trust and funds management activities are included in the income statement.

2.9 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.

2.10 Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the cash flow statement, cash includes cash on hand and in banks, short-term money market investments readily convertible into cash within two working days, net of outstanding overdrafts.

Bank overdrafts are carried at amortised cost. Interest is recognised in the income statement using the effective interest method.

2.11 Classification of financial instruments

Financial instruments in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified into one of five categories, which determine the accounting treatment of the financial instrument.

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 & receivables - measured at amortised cost
> Held to maturity - measured at amortised cost
> Held for trading - measured at fair value with changes in fair value charged to the income statement
> Available for sale - measured at fair value with changes in fair value taken to equity
> Non-trading liabilities - measured at amortised cost

All derivative contracts are recorded at fair value in the balance sheet.

2.12 Financial assets and financial liabilities

Financial assets held for trading

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. These assets are measured at fair value.

Gains or losses on investments held for trading are recognised in the income statement.

Financial assets – available for sale debt securities

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 of fair value through profit or loss, loans and receivables or held to maturity.

Available for sale investments primarily comprise debt securities and restricted bank deposits.

Available for sale investments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in the available for sale investments reserve within equity until disposal, when the cumulative gain or loss is transferred to the income statement. Upon disposal or impairment, the accumulated changes in fair value in the available for sale investments reserve is recognised in the income statement.

Financial assets – held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity where the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

Investments that are intended to be held to maturity 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.

For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

Financial liabilities – deposits and subordinated debt

All funding instruments are initially recognised at cost, being the fair value of the consideration given and including 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.

For liabilities carried at amortised cost, gains and losses are recognised in the income statement when the instruments are derecognised. Treasury funding instruments that are hedged are treated in accordance with the accounting policy for derivatives.

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.

Financial assets – available for sale equity investments

Investment securities available for sale consist of securities that are not actively traded by the Group.

Fair value of quoted investments in active markets are based on current bid prices. If the relevant market is not considered active (or the securities are unlisted), the Group establishes fair value by using valuation techniques, including recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Gains or losses on available-for-sale investments are recognised as a separate component in equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Offsetting financial assets and financial liabilities

The Group has in place International Swaps and Derivatives Association ("ISDA") and similar master netting arrangements which do not meet the criteria for offsetting in the balance sheet. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only 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.

2.13 Loans and receivables

Loans and receivables are carried at amortised cost, using the effective interest method. The effective interest rate calculation includes the contractual terms of loans 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.

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.
Impairment loss is measured as the difference between the loan's carrying amount and the value of estimated future cash flows (excluding future credit losses that have not been

2. Summary of significant accounting policies (continued)

2.13 Loans and receivables (continued)

incurred) discounted at the loan's original effective interest rate. Impairment losses are recognised in the income statement.

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

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 not recoverable.

The provision is determined by specific identification or by estimation of expected losses in relation to loan portfolios where specific identification is impractical, based on historical impairment experience for these portfolios.

These portfolios include unsecured credit cards, overdrawn accounts and personal loans, unsecured mortgage loans (property realisation shortfalls) where provisions are calculated based on historical loss experience.

Collective provision

Individual loans not subject to specific provisioning are grouped together according to their risk characteristics and are then assessed for impairment. Based on historical loss data and current available information for assets with similar risk characteristics, the appropriate collective provision is raised. 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 of retained earnings.

2.14 Investments accounted for using the equity method

The Group's investment in joint arrangements is accounted for under the equity method of accounting in the consolidated financial statements. The financial statements of joint arrangements are used by the Group to apply the equity method. The accounting policies of the joint arrangements and the Group are consistent.

The investments in the joint arrangements are carried at cost plus post-acquisition changes in the holding entity's share of the results of operations of the joint arrangements, less any impairment in value. The income statement of the holding entity reflects the share of the results of operations of the joint arrangements.

Dividends receivable from joint arrangements are recognised in the holding entity’s income statement when received.

When the Group’s share of losses in a joint arrangement equals or exceeds its interest in the joint arrangement, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint arrangement.

2.15 Property, plant & equipment

Cost and valuation

Plant and equipment is measured at cost less accumulated depreciation and any impairment in value. Land is measured at fair value. Buildings are measured at fair value less accumulated depreciation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Asset category	2014	2013
Freehold buildings	40	40
Leasehold improvements	10-12	10-12
Plant & equipment	4-10	4-10
Furniture, fixtures and fittings	4-5	4-5
Motor vehicles	5	5

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Revaluations

Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

The fair value of property is assessed at each reporting date. External valuations are performed every three years (or more often if circumstances require) ensuring that the carrying amount does not differ materially from the asset's fair value at the balance sheet date.

Any revaluation surplus is credited to the asset revaluation reserve included in the statement of comprehensive income and within equity unless it reverses a revaluation decrease of the same asset previously recognised in the income statement.

Any revaluation deficit is recognised in the income statement unless it directly offsets a previous surplus of the

2.15 Property, plant & equipment (continued)

same asset recognised in the asset revaluation reserve. An annual transfer from the asset revaluation reserve is made to retained earnings for the depreciation relating to the revaluation surplus. In addition, any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Upon disposal, any revaluation reserve relating to the particular asset being disposed of is transferred to retained earnings.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

2.16 Assets held for sale

Assets are classified as held for sale, when their carrying amounts are expected to be recovered principally through sale within twelve months.

They are measured at the lower of carrying amount or fair value less costs to sell, unless the nature of the assets requires they be measured in line with another accounting standard.

Assets classified as held for sale are neither amortised nor depreciated.

2.17 Investment properties

Investment properties are measured initially at cost, including transaction costs.

Subsequent to initial recognition, fair value is determined by discounting the expected future cash flows of the portfolio, taking account of the restrictions on the ability to realise the investment property due to contractual obligations. Assumptions used in the modelling of future cash flows are sourced from market indices of property values and long term growth/discount rates appropriate to residential property. 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.

2.18 Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at date of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is not amortised. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Management has identified cash generating units and applicable impairment indicators in accordance with AASB 136 *Impairment of Assets.*

Goodwill with respect to business combinations is allocated to identified cash generating units expected to benefit from the synergies of the combination.

Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates.

Where the recoverable amount of the cash generating unit is less than the carrying amount, which includes the allocated goodwill, an impairment loss is recognised in the income statement, with the goodwill being impaired first. Impairment losses of goodwill are not subsequently reversed.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash generating unit retained.

2.19 Intangible assets

Acquired both separately and from a business combination

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition.

Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Where amortisation is charged on assets with finite lives, this expense is taken to the income statement. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profit in the year in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite useful life intangibles, annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

The only intangible asset with an indefinite useful life currently carried by the Group is the trustee licence relating to Sandhurst Trustees Limited.

Computer software

Computer software, other than software that is an integral part of the computer hardware, is capitalised as intangible software and amortised on a straight-line basis over the useful life of the asset which are between 2.5 and 10 years.

Research and development costs

Research costs are expensed as incurred.

Development expenditure incurred on an individual project is carried forward when it is probable the future economic benefits attributable to the asset will flow to the Group.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Any expenditure carried forward is amortised over the period of expected future sales from the related project or expected useful life.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting period indicating that the carrying value may not be recoverable.

A summary of the policies applied to the Group's intangible assets (excluding goodwill) is 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	Usually not in excess of 5 yrs - straight line (major software systems - 10 yrs)	Straight line over life of asset (2 - 15yrs)
Internally generated/ acquired	Acquired	Internally generated or acquired	Acquired
Impairment test/ recoverable amount testing	Annually and where an indicator of impairment exists	Annually and where an indicator of impairment exists	Annually and where an indicator of impairment exists

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement where the asset is derecognised.

2.20 Trade and other payables

Liabilities for trade creditors and other amounts are carried at amortised cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity. Payables to related parties are carried at the amortised cost.

Interest, when charged by the lender, is recognised using the effective interest method.

Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

Interest, when charged on payables to related parties, is recognised as an expense on an accrual basis using the effective interest method.

2.21 Deposits

All deposits and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised.

2.22 Notes payable

The notes payable are predominately notes issued through securitisation programs. The notes are generally 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. Where the parent has designated the notes payable as available for sale, the change in fair value is recognised in equity.

2.23 Provisions

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.

2.24 Employee benefits

Wages and Salaries, Annual leave and Sick leave

Liabilities for wages and salaries have been recognised and measured as the amount which the Group has a present obligation to pay, at balance date, in respect of employees' service up to that date. Liabilities have been calculated at nominal amounts based on wage and salary rates current at balance date and include related on-costs. Wages and salaries liabilities are recognised in payables.

In accordance with AASB 119 Annual leave exceeding twelve months is discounted to take into account the time value of money. Annual leave liabilities are accrued on the basis of full pro-rata entitlement at their nominal amounts, being the amounts estimated to apply when the leave is paid. Sick leave liability has been calculated at balance date in accordance with the relevant Group policy, which provides entitlement dependent on an individual employees' years of service and unused sick leave.

Long Service Leave

Long service leave has been assessed at full pro rata entitlement in respect of all employees with more than one year's service. The amount provided meets the requirement of Accounting Standard AASB 119 *Employee Benefits* , which requires the assessment of the likely number of employees that will ultimately be entitled to long service leave, the estimated salary rates that will apply when the leave is paid, discounted to take account of the time value of money.

Annual leave, sick leave and long service leave liabilities are recognised in provisions.

Superannuation accumulation fund

Contributions are made to an employee accumulation superannuation fund and are charged to the income statement when incurred.

Defined benefit plan

Contributions made to the defined benefit plan by entities within the consolidated entity are added to the superannuation asset on the balance sheet. Any actuarial gains or losses are applied to the retained earnings with other fund movements being recognised in the statement of comprehensive income.

2.25 Share based payments

The Group provides benefits to its employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares, rights or options over shares.

There are a number of plans in place to provide these benefits:

1. the Employee Share Plan ("ESP"), which provides benefits only to the general staff. Executives (including the Managing Director) may not participate in it.

Under the terms of the ESP, shares are issued at the prevailing market value at the time of the issues. The shares must be paid for by the staff member. The ESP provides staff members with an interest-free loan for the sole purpose of acquiring Bendigo and Adelaide Bank shares. Dividends paid on shares issued under the plan are applied primarily to repay the loans. Staff cannot deal in the shares until the loan has been repaid.

2. Summary of significant accounting policies (continued)

2.25 Share based payments (continued)

The unpaid portion of the issued shares, reflected in the outstanding balance of interest-free loans advanced to employees, is accounted for as ESP shares. The outstanding loan value of the ESP shares is deducted from equity in the balance sheet.

The cost of issues under the plan is measured by reference to the fair value of the equity instruments at the date at which they are granted. Shares granted under the ESP, vest immediately and are expensed to the income statement with the employee benefits reserve increasing by a corresponding amount.

The last issue under this plan was made in January 2008.

2. The Employee Share Grant Scheme

This Plan was introduced in 2008 and is open to employees (excluding directors and senior executives) of Bendigo and Adelaide Bank and its subsidiaries. Employees may be granted shares annually up to a maximum number determined by the directors having regard to the Group's performance. When an eligible employee accepts an invitation to participate in the Scheme, the trustee of the Scheme will acquire shares on behalf of the employee and hold the shares on trust for the employee. Three years after the trustee acquires the shares, they will be transferred to the employee.

The cost of issues under the Scheme is measured by reference to the fair value of the equity instruments at the date at which they are granted. Shares granted under the Scheme vest immediately and are expensed to the income statement.

3. Employee Salary Sacrifice, Deferred Share and Performance Share Plan

This Plan was introduced in September 2008 as the Employee Salary Sacrifice and Deferred Share Plan, as a vehicle for employees to purchase shares in the Group via salary sacrifice. It was amended in August 2009 to allow for the grant of performance shares. Performance shares may be granted to any person employed by or on behalf of the Group who the Board decides are eligible to receive grants. The employee will not have beneficial title to the underlying shares until the relevant performance conditions have been met. The shares will be held by a trustee until that time.

The cost of equity-settled transactions under this Plan is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined with the assistance of an external valuer using a Black-Scholes-Merton option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase to employee benefits reserve, over the period in which the performance conditions are fulfilled (the vesting period), ending on the date on which the relevant executive becomes fully entitled to the award.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

4. The Executive Incentive Plan ("EIP"), which provides for grants of performance options and rights to key executives, including the Managing Director (discontinued).

Under the EIP, eligible executives are granted options and performance rights subject to performance conditions set by the Board. If the performance conditions are satisfied during the relevant performance period, the options and performance rights will vest.

The cost of these equity-settled transactions under the EIP is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined with the assistance of an external valuer using a binomial model.

The cost of equity-settled transactions is recognised, together with a corresponding increase to employee benefits reserve, over the period in which the performance conditions are fulfilled (the vesting period), ending on the date on which the relevant executive becomes fully entitled to the award.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

2.26 Leases

The determination of whether an arrangement is/or contains a lease is based in the sustance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses over the period of the lease on a straight line basis unless another systematic basis is more representative of the time pattern of the benefit.

The Group has no leases deemed to be finance leases where substantially all the risks and benefits are incidental to the ownership of the asset, but not the legal ownership, are transferred to entities within the Group.

2.27 Financial guarantees

Bank guarantees have been issued by the bank on behalf of customers whereby the bank is required to make specified payments to reimburse the holders for a loss they may incur because the customer fails to make a payment.

2. Summary of significant accounting policies (continued)

2.27 Financial guarantees (continued)

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach.

In order to estimate the fair value under this approach the following assumptions have been made:

> Probability of default (PD): This represents the likelihood of the guaranteed party defaulting in a 1 year period and is assessed on historical default rates.

> Loss given default (LGD): This represents the proportion of the exposure that is not expected to be recovered in the event of a default by the guaranteed party and is based on historical experience.

> Exposure to default (EAD): This represents the maximum loss that Bendigo and Adelaide Bank is exposed to if the guaranteed party were to default. The model assumes that the guaranteed loan/facility/contract is at maximum possible exposure at the time of default.

The value of the financial guarantee over each future year of the guarantees' life is then equal to PD x LGD x EAD, which is discounted over the contractual term of the guarantee, to reporting date to determine the fair value. The discount rate adopted is the five year Commonwealth government bond yield at 30 June 2014. The contractual term of the guarantee matches the underlying obligations to which it relates.

As guarantees issued by the bank are fully secured and the bank has therefore never incurred a loss in relation to financial guarantees, the LGD (proportion of the exposure that is not expected to be recovered) is zero.

Therefore, the fair value of financial guarantees has not been included in the balance sheet. The nominal value of financial guarantees is disclosed in Note 39 of the report.

2.28 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest, fees and commissions

Control of a right to receive consideration for the provision of, or investment in, assets has been attained.

Interest, fee and commission revenue is brought to account on an accrual basis. Interest is accrued using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument.

Loan origination and loan application fees

Loan origination and application fees are recognised as components of the calculation of the effective interest method in relation to originated loans. They therefore affect the interest recognised in relation to this portfolio of loans.

The average life and interest recognition pattern of loans in the relevant loan portfolios is reviewed annually to ensure the amortisation methodology for loan origination fees is appropriate.

Unearned income

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

Dividends

Dividends are recognised when control of a right to receive consideration for the investment in assets is established.

2.29 Borrowing costs

Borrowing costs are recognised as an expense when incurred unless they are incurred in relation to qualifying assets.

Borrowing costs for qualifying assets are capitalised as part of the cost of that asset.

2.30 Income tax

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.

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

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

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

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

2.30 Income tax (continued)

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.

2.31 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.

2.32 Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

2.33 Derivative financial instruments

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates with similar maturity profiles. The fair value of interest rate swap contracts is determined by discounting the expected future cash flows associated with the swaps. Discount rates are determined by reference to swap curves available through independent market data providers.

For the purpose of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement.

Any gain or loss attributable to the hedged risk on remeasurement of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortised to the income statement such that it is fully amortised by maturity.

In relation to cash flow hedges, to hedge firm commitments which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

The Group tests each of the designated cash flow hedges for effectiveness on a monthly basis both retrospectively and prospectively using regression analysis. A minimum of 30 data points is used for regression analysis and if the testing falls within the 80:125 range the hedge is considered highly effective and continues to be designated as a cash flow hedge.

When the hedged firm commitment results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

2. Summary of significant accounting policies (continued)

2.33 Derivative financial instruments (continued)

At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the year.

2.34 Issued ordinary capital

Issued and paid up ordinary capital is recognised at the fair value of the consideration received by the company. Any transaction costs (net of any tax benefit) arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

2.35 Hybrid capital instruments

Perpetual non-cumulative redeemable convertible preference shares

Preference capital is recognised at the fair value of the consideration received by the company. Any transaction costs (net of any tax benefit) arising on the issue of preference shares are recognised directly in equity as a reduction of the share proceeds received. Dividends are recognised as a distribution of equity.

Convertible preference shares

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

Step up preference shares

These instruments are classified as equity and the dividends are recognised as a distribution of equity.

2.36 Reserves

Asset Revaluation Reserve - property

The reserve is used to record revaluation adjustments on the Group's property assets. In the event the assets are sold or disposed the balance in the reserve will be transferred to retained earnings.

Asset revaluation reserve -available for sale investments

The reserve includes changes in the fair value of the available for sale assets. These changes are transferred to income statement when the asset is derecognised or impaired.

Cash flow hedge reserve

The reserve is used to record fair value gains or losses associated with the effective portion of designated cash flow hedging instruments. Amounts are reclassified to profit and loss when the hedged transaction impacts the profit and loss.

Acquisition reserve

The reserve is used to record 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.

General reserve for credit losses

APRA prudential standard APS 220 "Credit Quality" requires a reserve to be held to recognise credit losses inherent in the Group's lending portfolio, but not yet identified. The general reserve for credit losses is an appropriation of retained profits to non-distributable reserves.

2.37 Earnings per ordinary share (EPS)

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

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

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

3. Profit

Profit before income tax expense has been determined as follows:

	Consolidated		Parent	
	2014	2013	2014	2013
Income	$m	$m	$m	$m
Interest income				
Controlled entities				
Loans and other receivables	-	-	40.0	50.2
Other persons/entities				
Cash and cash equivalents	2.4	3.2	1.9	2.7
Financial assets held for trading	147.7	147.2	147.7	147.2
Financial assets available for sale	20.9	18.5	17.6	14.4
Financial assets held to maturity	15.4	37.4	-	-
Loans and other receivables	2,741.8	2,934.2	2,249.7	2,352.8
	2,928.2	**3,140.5**	**2,456.9**	**2,567.3**
Interest expense				
Controlled entities				
Wholesale - domestic	-	-	1.3	1.8
Other persons/entities				
Deposits				
Retail	1,369.1	1,645.5	1,241.3	1,481.8
Wholesale - domestic	180.5	170.8	172.9	162.6
Wholesale - offshore	16.6	10.0	16.6	10.0
Other borrowings				
Notes payable	199.3	247.3	8.0	4.5
Reset preference shares	-	1.8	-	1.8
Convertible preference shares	14.5	10.1	14.5	10.1
Subordinated debt	30.0	27.5	26.2	22.0
	1,810.0	**2,113.0**	**1,480.8**	**1,694.6**
Total net interest income	**1,118.2**	**1,027.5**	**976.1**	**872.7**
Other revenue				
Dividends				
Controlled entities	-	-	-	115.4
Other	0.2	0.2	0.2	0.3
Distribution from unit trusts	0.6	0.5	-	-
	0.8	**0.7**	**0.2**	**115.7**
Fees				
Assets	62.4	61.3	50.1	48.1
Liabilities & other products	93.1	101.0	90.6	96.7
Trustee, management & other services	5.0	5.3	0.4	0.4
	160.5	**167.6**	**141.1**	**145.2**
Commissions				
Wealth solutions	34.4	28.5	1.7	1.4
Insurance	16.6	16.2	14.8	14.5
	51.0	**44.7**	**16.5**	**15.9**
Other				
Income from property	2.2	1.9	2.2	1.7
Foreign exchange income	18.3	17.0	18.3	16.8
Factoring products income	12.0	13.6	12.0	13.6
Trading profit - held for trading securities	1.5	2.9	1.5	2.9
Homesafe revaluation income	50.3	25.1	-	-
Other	18.9	22.1	24.5	18.1
	103.2	**82.6**	**58.5**	**53.1**
Other income				
Ineffectiveness in cash flow hedges	0.1	(1.8)	0.1	(6.6)
Profit on disposal of IOOF shares	-	38.7	-	-
Loss on disposal of RMBS notes	-	(12.3)	-	(12.3)
	0.1	**24.6**	**0.1**	**(18.9)**
Share net profit accounted for using the equity method	**0.2**	**1.6**	**1.1**	**1.9**

3. Profit (continued)

Expenses	Consolidated 2014 $m	Consolidated 2013 $m	Parent 2014 $m	Parent 2013 $m
Bad and doubtful debts				
Specific provision	74.0	64.8	48.7	47.1
Collective provision	8.3	2.7	5.8	2.9
Bad debts written off	3.3	5.2	2.6	4.5
Bad debts recovered	(3.7)	(2.8)	(3.6)	(2.7)
	81.9	**69.9**	**53.5**	**51.8**
Staff and related costs				
Salaries, wages and incentives	368.0	341.4	326.1	303.6
Superannuation contributions	32.8	29.5	28.9	26.2
Employee provisions	5.1	7.7	4.8	8.8
Payroll tax	20.6	18.2	18.0	16.0
Fringe benefits tax	2.5	2.9	2.2	2.6
Executive equity transactions expense	(1.2)	0.2	(1.2)	0.1
Other	7.3	7.1	6.3	6.3
	435.1	**407.0**	**385.1**	**363.6**
Occupancy costs				
Operating lease rentals	48.5	40.4	48.1	40.0
Depreciation of leasehold improvements	9.2	7.3	9.1	7.1
Property rates, taxes and outgoings	7.4	4.7	6.9	4.6
Repairs and maintenance	7.9	6.6	5.7	4.6
Utilities	4.5	4.3	4.4	4.2
Cleaning	4.5	4.3	4.4	4.2
Other	3.3	3.0	3.1	2.9
	85.3	**70.6**	**81.7**	**67.6**
Amortisation of intangibles				
Amortisation of intangible assets	21.6	24.1	12.2	15.3
Amortisation of intangible software	15.2	19.7	13.4	17.8
	36.8	**43.8**	**25.6**	**33.1**
Impairment losses on goodwill	-	6.2	-	-
Depreciation of property, plant & equipment	9.7	10.6	9.2	10.2
Fees and commissions	26.5	28.6	8.2	10.0
Integration costs	-	9.9	-	9.9
Other				
Communications, postage and stationery	32.6	33.0	38.1	37.3
Computer systems and software costs	70.0	64.6	59.1	53.6
Advertising & promotion	32.6	32.0	30.0	29.1
Other product & services delivery costs	32.5	35.4	32.2	35.3
Consultancy expense	9.3	9.1	10.6	8.4
Legal expense	4.0	3.2	3.5	2.8
Travel expense	7.9	6.7	6.8	5.7
Other expenses	33.3	31.1	43.3	30.9
	222.2	**215.1**	**223.6**	**203.1**

4. Segment results

Segment information

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team in assessing performance and determining the allocation of resources.

The operating segments are identified according to the nature of products and services provided and the key delivery channels, with each segment representing a strategic business unit that offers a different delivery method and/or different products and services. Discrete financial information about each of these operating businesses is reported to the Managing Director on a monthly basis.

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

Types of products and services

Retail banking

Net interest income predominantly derived from the provision of mortgage finance and deposit facilities; and fee income from the provision of banking services delivered through the company-owned branch network and the Group's share of net interest and fee income from the Community Bank ® branch network. Delphi Bank and Community Telco Australia are included within the retail banking operating segment.

Third party banking

Net interest income and fees derived from the manufacture and processing of residential home loans, distributed through mortgage brokers, mortgage managers, mortgage originators and alliance partners. Within third party banking we include the contribution from the Homesafe Trust.

Wealth

Fees, commissions and interest from the provision of financial planning services, wealth management and margin lending activities. Commission received as Responsible Entity for managed investment schemes and for corporate trusteeships and other trustee and custodial services.

Rural Bank

The principal activities of Rural Bank are the provision of banking services to agribusiness, rural and regional Australian communities.

Central functions

Functions not relating directly to a reportable operating segment.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in the reporting segments internally are the same as those contained in note 2 of the annual financial report.

Revenue and expenses associated with each business segment are included in determining their result. Transactions between business segments are based on agreed recharges between operating segments. Segment net interest income is recognised based on an internally set transfer pricing policy based on pre-determined market rates of return on the assets and liabilities of the segment.

Major customers

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

4. Segment results (continued)

For the year ended 30 June 2014

	Operating segments: Retail banking $m	Third party banking $m	Wealth $m	Rural Bank $m	Total operating segments $m	Central functions $m	Total $m
Net interest income	695.4	230.6	72.1	120.1	1,118.2	-	1,118.2
Other income	189.1	65.8	41.1	6.1	302.1	13.4	315.5
Share of net profit accounted for using the equity method	-	-	-	-	-	0.2	0.2
Total segment income	**884.5**	**296.4**	**113.2**	**126.2**	**1,420.3**	**13.6**	**1,433.9**
Operating expenses	602.4	79.9	70.5	63.5	816.3	-	816.3
Credit expenses	40.4	12.5	1.2	27.8	81.9	-	81.9
Segment result	**241.7**	**204.0**	**41.5**	**34.9**	**522.1**	**13.6**	**535.7**

For the year ended 30 June 2013

	Operating segments: Retail banking $m	Third party banking $m	Wealth $m	Rural Bank $m	Total operating segments $m	Central functions $m	Total $m
Net interest income	608.8	231.7	74.3	112.7	1,027.5	-	1,027.5
Other income	191.7	40.8	39.6	5.5	277.6	18.0	295.6
Share of net profit accounted for using the equity method	-	-	-	-	-	1.6	1.6
Total segment income	**800.5**	**272.5**	**113.9**	**118.2**	**1,305.1**	**19.6**	**1,324.7**
Operating expenses	571.7	78.5	69.3	59.5	779.0	-	779.0
Credit expenses	25.3	26.9	1.9	15.8	69.9	-	69.9
Segment result	**203.5**	**167.1**	**42.7**	**42.9**	**456.2**	**19.6**	**475.8**

Reportable segment assets	Operating segments: Retail banking $m	Third party banking $m	Wealth $m	Rural Bank $m	Total operating segments $m	Central functions $m	Total $m
As at 30 June 2014	29,527.5	17,767.1	1,853.8	4,398.6	53,547.0	11,517.9	65,064.9
As at 30 June 2013	28,107.4	16,656.8	1,996.3	4,341.4	51,101.9	9,170.6	60,272.5
Reportable segment liabilities							
As at 30 June 2014	35,841.4	1,111.5	4,524.8	3,700.4	45,178.1	9,656.2	54,834.3
As at 30 June 2013	33,687.4	475.0	4,725.4	3,645.7	42,533.5	6,904.4	49,437.9

4. Segment results (continued)

Reconciliation between segment and statutory results

The table below reconciles the segment result back to the relevant statutory result presented in the financial report.

	Consolidated 2014 $m	Consolidated 2013 $m
Reconciliation of total segment income to Group income		
Total segment income	1,433.9	1,324.7
Ineffectiveness in cash flow hedges	0.1	(1.8)
Specific income items [1]	-	26.4
Total Group income	**1,434.0**	**1,349.3**
Reconciliation of segment expenses to Group total expenses		
Segment operating expenses	816.3	779.0
Specific expense items [1]	(0.7)	12.8
Total Group expenses	**815.6**	**791.8**
Reconciliation of segment credit expenses to bad and doubtful debts on loans and receivables		
Segment credit expenses	81.9	69.9
Bad and doubtful debts on loans and receivables	**81.9**	**69.9**
Reconciliation of segment result to Group profit before tax		
Total segment result	535.7	475.8
Ineffectiveness in cash flow hedges	0.1	(1.8)
Specific income items	-	26.4
Specific expense items	0.7	(12.8)
Group profit before tax	**536.5**	**487.6**

[1] refer to Note 5 - Cash earnings for further details.

	Consolidated As at June 2014 $m	Consolidated As at June 2013 $m
Reportable segment assets		
Total assets for operating segments	65,064.9	60,272.5
Total assets	**65,064.9**	**60,272.5**
Reportable segment liabilities		
Total liabilities for operating segments	54,834.3	49,437.9
Securitisation funding	5,256.4	6,400.6
Total liabilities	**60,090.7**	**55,838.5**

Geographic Information

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

5. Cash earnings

Cash earnings is used to represent the performance of the core business activities.

	Consolidated 2014 $m	Consolidated 2013 $m
Profit after income tax expense	372.3	352.3
Adjusted for:		
Specific items after tax [1]	0.5	(14.7)
Amortisation of acquired intangibles after tax	15.2	16.9
Distributions paid on preference shares	(2.6)	(3.1)
Distributions paid on step-up preference shares	(3.1)	(3.4)
Cash basis earnings after tax	**382.3**	**348.0**
Specific income and expense items after tax comprise [1] :		
Income		
Ineffectiveness in cash flow hedges expense	(0.1)	1.3
Profit on sale of IOOF shares	-	(38.7)
Loss on sale of RMBS notes	-	8.6
Expense		
Gain relating to Employee Share Plan	(0.5)	(2.3)
Integration costs	-	6.9
Impairment loss goodwill	-	6.2
Specific tax benefits		
Tax benefit relating to mergers and acquisitions	1.1	-
De-recognition of deferred tax asset	-	3.3
	0.5	**(14.7)**

[1] Specific items are those items that are deemed to be outside of our core activities and such items are not considered to be representative of the Group's ongoing financial performance.

Cash earnings is a non-IFRS key financial performance measure used by the bank. It is calculated by excluding certain items which are included within the statutory net profit attributable to owners of the Company. These specified items are excluded in order to better reflect what the bank considers to be the underlying performance of the Group. It is not a statutory measure and it is not presented in accordance with Australian Accounting Standards nor audited or reviewed in accordance with Australian Auditing Standards. It does not refer to any amount represented on the cash flow statement.

6. Income tax expense

Major components of income tax expense are:

	Consolidated		Parent	
	2014 $m	2013 $m	2014 $m	2013 $m
Income statement				
Current income tax				
Current income tax charge	161.5	143.7	129.5	208.3
Imputation credits	(0.2)	(0.2)	(0.1)	(0.1)
Adjustments in respect of current income tax of previous years	(5.4)	(7.8)	(5.0)	(4.9)
Deferred income tax				
De-recognition of temporary differences	-	3.8	-	0.4
Adjustments in respect of deferred income tax of previous years	4.0	(0.4)	4.1	(1.4)
Relating to origination and reversal of temporary differences	4.3	(3.8)	(4.5)	(121.2)
Income tax expense reported in the income statement	**164.2**	**135.3**	**124.0**	**81.1**
Statement of changes in equity				
Deferred income tax related to items charged or credited directly in equity				
Net gain/(loss) on cash flow hedge	(1.7)	22.2	(5.5)	16.1
Net gain/(loss) on available-for-sale investments	0.4	(9.0)	0.2	1.3
Net gain on debt securities in-available-for-sale portfolio	-	-	11.1	-
Net gain/(loss) on revaluation of land and buildings	0.3	(0.1)	0.1	(0.1)
Actuarial gain on superannuation defined benefits plan	0.5	0.7	0.5	0.7
Other	(1.2)	-	(1.2)	-
Income tax expense reported in equity	**(1.7)**	**13.8**	**5.2**	**18.0**

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

Income tax expense attributable to:				
Accounting profit before income tax	536.5	487.6	406.7	436.3
The income tax expense comprises amounts set aside as:				
Provision attributable to current year at statutory rate, being				
Prima facie tax on accounting profit before tax	161.0	146.3	122.0	130.9
Under/(over) provision in prior years	(1.4)	(8.2)	(0.9)	(6.3)
Tax credits and adjustments	(0.2)	(0.2)	(0.1)	(0.1)
Expenditure not allowable for income tax purposes	4.9	6.4	5.4	4.5
Other assessable income	-	0.9	-	0.6
Other non assessable income	(0.1)	(1.0)	(1.8)	(36.5)
Tax effect of tax credits and adjustments	0.1	0.1	-	-
De-recognition of temporary differences	-	3.8	-	0.4
Utilisation of previously unrecognised tax losses	-	(13.4)	-	(13.4)
Other	(0.1)	0.6	(0.6)	1.0
Income tax expense reported in the consolidated income statement	**164.2**	**135.3**	**124.0**	**81.1**

6. Income tax expense (continued)

Deferred income tax

Deferred income tax at 30 June relates to the following:

	Balance sheet			
	Consolidated		Parent	
	2014 $m	2013 $m	2014 $m	2013 $m
Gross deferred tax liabilities				
Available-for-sale financial assets	1.1	0.9	11.6	0.5
Deferred expenses	4.0	3.7	4.0	3.7
Derivatives	5.5	9.4	59.7	54.6
Intangible assets on acquisition	19.7	25.4	11.7	15.1
Investment property (Homesafe)	34.1	21.6	-	-
Lease receivable	-	2.8	(0.1)	2.7
Plant, furniture, fittings, office equipment & vehicles	6.3	6.6	6.2	6.5
Superannuation defined benefits plan	1.5	1.0	1.5	1.0
Other	7.6	6.8	7.1	3.9
	79.8	**78.2**	**101.7**	**88.0**
Gross deferred tax assets				
Derivatives	22.0	24.2	21.6	20.5
Employee entitlements	27.1	24.9	25.8	24.0
Intangible liabilities on acquisition	0.1	5.8	0.1	0.2
Available for sale financial assets	1.1	-	1.1	-
Prepaid income	0.6	0.5	0.6	0.5
Provisions	53.1	48.1	39.6	31.6
Leasehold improvements	11.5	10.1	11.4	10.0
Other	11.7	18.5	5.5	9.8
	127.2	**132.1**	**105.7**	**96.6**
Tax payable/(receivable) attributable to members of the tax consolidated group	17.5	47.1	17.5	47.1
	17.5	**47.1**	**17.5**	**47.1**

At 30 June 2014, there is no unrecognised deferred income tax liability (2013: 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.

At 30 June 2014, unused tax losses (capital in nature) of $91.5m (2013: $74.3m) exist in the consolidated Group. Deferred tax assets have not been recognised in respect of these losses as it is not probable that future taxable capital gains will be available against which the consolidated Group can utilise the benefit of the losses.

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.

Tax effect accounting by members of the tax consolidated group

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.*

The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the subsidiaries inter-company accounts with the tax consolidated Group head company, Bendigo and Adelaide Bank Limited. The tax funding agreement is in accordance with AASB Interpretation 1052 Tax Consolidation Accounting (UIG 1052). Where the tax funding agreement is not in accordance with UIG 1052 the difference between the current tax amount that is allocated under the tax funding agreement and the amount that is allocated under an acceptable method is recognised as a contribution/distribution in the subsidiaries' equity accounts.

Taxaxtion of Financial Arrangements ("TOFA")

The taxing regime for financial instruments (TOFA) began to apply to the Tax Consolidated Group on 1 July 2010. The regime aims to align the tax and accounting treatment of financial arrangements. The Tax Consolidated Group made a transitional election to bring pre-existing arrangements into TOFA. The deferred tax in relation to the transitional adjustment was fully amortised as at 30 June 2014.

7. Capital management

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

> Maintain a sufficient level of capital above the regulatory minimum to provide a buffer against loss arising from unanticipated events, and allow the Group to continue as a going concern;

> Optimise the level and use of capital resources to enhance shareholder value through maximising financial performance;

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

> Achieve progressive improvement to short and long term credit ratings.

The Group manages capital adequacy according to the framework provided by the APRA Prudential Standards. Capital adequacy is measured at two levels:

> Level 1 includes Bendigo and Adelaide Bank Limited and certain controlled entities that meet the Australian Prudential Regulation Authority ("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 (or ICAAP).

The Basel III measurement and monitoring of capital has been effective from 1 January 2013. The requirement defines what is acceptable as capital. Regulatory capital is divided into Common Equity Tier 1, Tier 1 and Tier 2 capital.

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

Total capital is the aggregate of Tier 1 and Tier 2 capital. The Group has adopted the Prudential Capital Adequacy Standardised Approach to credit risk, operational risk and market risk, which requires the Group to determine capital requirements based on standards set by APRA. The Group has satisfied the minimum capital requirements at Levels 1 and 2 throughout the 2013/14 financial year.

8. Earnings per ordinary share

	Consolidated 2014 Cents per share	Consolidated 2013 Cents per share
Basic	87.7	84.9
Diluted	83.6	79.9
Cash basis	91.5	85.4

	2014 $m	2013 $m
Reconciliation of earnings used in the calculation of basic earnings per ordinary share		
Profit after tax	372.3	352.3
Distributions paid/accrued on preference shares	(2.6)	(3.1)
Distributions paid/accrued on step up preference shares	(3.1)	(3.4)
	366.6	**345.8**
Reconciliation of earnings used in the calculation of diluted earnings per ordinary share		
Earnings used in calculating basic earnings per ordinary share	366.6	345.8
Add back dividends on dilutive preference shares	15.9	13.6
	382.5	**359.4**
Reconciliation of earnings used in the calculation of cash basis earnings per ordinary share		
Earnings used in calculating basic earnings per ordinary share	366.6	345.8
After tax intangibles amortisation (excluding software amortisation)	15.2	16.9
After tax specific income and expense items (Note 5)	0.5	(14.7)
	382.3	**348.0**

	2014 No. of shares	2013 No. of shares
Weighted average number of ordinary shares used in basic and cash basis earnings per ordinary share	417,934,373	407,408,624
Effect of dilution - executive performance rights	1,018,919	889,445
Effect of dilution - preference shares	38,799,357	41,620,085
Weighted average number of ordinary shares used in diluted earnings per ordinary share	457,752,649	449,918,154

Information on the classification of securities - Executive performance rights

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.

Potentially dilutive instruments

The following instruments are potentially dilutive as at the reporting date:

	Dilutive 2014	Dilutive 2013
Preference shares	Yes	Yes
Step up preference shares	Yes	Yes
Convertible preference shares	Yes	Yes
Executive share options	No	No
Executive performance rights	Yes	Yes
Subordinated Note (with non viability clause)	No	N/A

9. Dividends

	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
Dividends paid or proposed				
Ordinary shares				
Dividends paid during the year:				
Interim dividend (31.0 cents per share) (2013 - 30.0 cents per share)	126.0	118.3	126.0	118.3
Final dividend (31.0 cents per share) (2013 - 30.0 cents per share)	125.1	117.7	125.1	117.7
	251.1	**236.0**	**251.1**	**236.0**
Dividends proposed since the reporting date, but not recognised as a liability:				
Final dividend (33.0 cents per share) (2013: 31.0 cents per share)	146.5	125.1	146.5	125.1
Franked dividends per ordinary shares (cents per share)	64.0	61.0	64.0	61.0

All dividends paid were fully franked. Proposed dividends will be fully franked 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 2014.

	2014 $m	2013 $m	2014 $m	2013 $m
Preference shares				
Dividends paid during the year:				
74.71 cents per share paid on 16 September 2013 (2012: 91.81 cents)	0.7	0.8	0.7	0.8
71.20 cents per share paid on 16 December 2013 (2012: 87.54 cents)	0.6	0.8	0.6	0.8
71.35 cents per share paid on 17 March 2014 (2013: 77.63 cents)	0.6	0.7	0.6	0.7
72.34 cents per share paid on 16 June 2014 (2013: 83.45 cents)	0.7	0.8	0.7	0.8
	2.6	**3.1**	**2.6**	**3.1**
Step up preference shares				
Dividends paid during the year:				
85.00 cents per share paid on 10 July 2013 (2012: 105.00 cents)	0.8	1.1	0.8	1.1
81.00 cents per share paid on 10 October 2013 (2012: 94.00 cents)	0.8	0.9	0.8	0.9
77.00 cents per share paid on 10 January 2014 (2013: 87.00 cents)	0.8	0.9	0.8	0.9
76.00 cents per share paid on 10 April 2014 (2013: 83.00 cents)	0.7	0.8	0.7	0.8
	3.1	**3.7**	**3.1**	**3.7**
Reset preference shares (recorded as debt instruments)				
Dividends paid during the year:				
Nil (2012: 309.68 cents) Reset preference shares were fully repaid in November 2012.	-	2.8	-	2.8
	-	**2.8**	**-**	**2.8**
Convertible preference shares (recorded as debt instruments)				
Dividends paid during the year:				
273.62 cents per share paid on 13 December 2013 (2012: 65.49 cents)	7.3	1.8	7.3	1.8
266.49 cents per share paid on 13 June 2014 (2013: 282.72 cents)	7.2	7.6	7.2	7.6
	14.5	**9.4**	**14.5**	**9.4**

9. Dividends (continued)

	Consolidated	
	2014	2013
	$m	$m
Dividend franking account		
Balance of franking account as at end of financial year	327.1	257.3
Franking credits that will arise from the payment of income tax provided for in the financial report	17.5	47.1
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	(63.1)	(54.0)
	281.5	**250.4**

The tax rate at which dividends have been franked is 30% (2013: 30%)

Dividends proposed will be franked at the rate of 30% (2013: 30%)

	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
Dividend paid				
Dividends paid by cash or satisfied by the issue of shares under the dividend reinvestment plan during the year were as follows:				
Paid in cash	211.5	166.1	211.5	166.1
Satisfied by issue of shares	45.3	76.4	45.3	76.4
	256.8	**242.5**	**256.8**	**242.5**

Dividend Reinvestment Plan

The Dividend Reinvestment Plan provides shareholders with the opportunity of converting their entitlement to a dividend into new shares. The issue price of the shares is equal to the volume weighted average share price of Bendigo and Adelaide Bank shares traded on the Australian Securities Exchange over the fifteen trading days commencing 25 August 2014. 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 price of Bendigo and Adelaide Bank shares traded on the Australian Securities Exchange over the fifteen trading days commencing 25 August 2014. 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 2014 final dividend was 22 August 2014.

10. Cash flow statement reconciliation

	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
Profit after tax	372.3	352.3	282.7	355.2
Non-cash items				
Bad debts expense	81.9	72.7	53.5	54.5
Amortisation	36.8	50.0	25.6	33.1
Depreciation (including leasehold improvements)	18.9	17.9	18.3	17.3
Revaluation increments	(48.3)	(24.8)	-	(0.2)
Equity settled transactions	2.0	0.2	2.0	0.1
Share of net profit from joint ventures' and arrangements'	(0.2)	(1.6)	(1.1)	(1.9)
Loss on sale of investment securities	-	12.3	-	12.3
Ineffectiveness in cash flow hedges	(0.1)	1.8	(0.1)	6.6
Changes in assets and liabilities				
Decrease in tax provision	(29.6)	(39.7)	(29.6)	(39.7)
Increase/(decrease) in deferred tax assets & liabilities	6.5	11.8	4.6	(109.3)
(Increase)/decrease in derivatives	(9.6)	(64.0)	(28.4)	339.2
Increase in accrued interest	(39.6)	(58.7)	(41.2)	(41.3)
Increase in accrued employees entitlements	7.2	16.2	6.3	17.9
Decrease in other accruals, receivables and provisions	(2.8)	(88.8)	(129.6)	(422.6)
Net cash flows from operating activities	**395.4**	**257.6**	**163.0**	**221.2**

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.

11. Cash and cash equivalents

	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
Notes and coins	177.6	150.9	177.6	150.9
Cash at bank	392.7	129.2	327.2	23.4
Investments at call	145.8	103.7	105.7	83.8
Total cash and cash equivalents	**716.1**	**383.8**	**610.5**	**258.1**

Reconciliation of cash and cash equivalents

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

Cash and cash equivalents	716.1	383.8	610.5	258.1
Due from other financial institutions	242.5	293.9	242.4	292.2
Due to other financial institutions	(363.5)	(379.5)	(363.0)	(371.4)
	595.1	**298.2**	**489.9**	**178.9**

12. Financial assets held for trading

	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
Discount securities	3,348.1	2,351.5	3,348.5	2,352.1
Floating rate notes	980.0	1,122.1	980.0	1,122.1
Government securities	2,937.3	1,991.6	2,937.3	1,991.6
Total financial assets held for trading	**7,265.4**	**5,465.2**	**7,265.8**	**5,465.8**

	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
Maturity analysis				
Not longer than 3 months	3,705.6	2,028.0	3,705.6	2,028.0
Longer than 3 and not longer than 12 months	2,314.4	2,400.1	2,314.4	2,400.1
Longer than 1 and not longer than 5 years	1,245.4	1,037.1	1,245.4	1,037.1
Over 5 years	-	-	0.4	0.6
	7,265.4	**5,465.2**	**7,265.8**	**5,465.8**

13. Financial assets available for sale - debt securities

	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
Negotiable securities				
Negotiable certificates of deposit	104.5	109.5	-	-
Mortgage backed securities	455.8	426.0	455.8	426.0
Notes to securitisations	-	-	836.8	936.9
Liquidity collateral	59.0	73.4	-	-
Total financial assets available for sale	**619.3**	**608.9**	**1,292.6**	**1,362.9**
Maturity analysis				
Not longer than 3 months	105.5	95.5	537.6	629.6
Longer than 3 and not longer than 12 months	20.0	47.2	20.0	32.4
Longer than 1 and not longer than 5 years	473.3	418.8	434.8	392.8
Over 5 years	20.5	47.4	300.2	308.1
	619.3	**608.9**	**1,292.6**	**1,362.9**
Recognised gains/(losses) before tax:				
Gain/(loss) recognised directly in equity	-	4.2	36.8	4.2

14. Financial assets available for sale - equity investments

	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
Share investments at fair value				
Listed share investments	2.0	1.4	1.9	1.4
Unlisted share investments	22.3	16.7	3.0	3.1
Total financial assets available for sale	**24.3**	**18.1**	**4.9**	**4.5**

Fair value of share investments is determined as follows:

- Level 1 - Listed shares - quoted market price at balance date.
- Level 2 - Unlisted shares - valuation techniques based on derived inputs other than quoted prices within Level 1 that are observable either directly/indirectly.
- Level 3 - Unlisted shares - where there is no quoted prices and fair value cannot be reliably measured these investments are carried at cost less impairment.
- Management believes the estimated fair values resulting from the valuation techniques and recorded in the balance sheet and the related changes in fair values recorded in equity are reasonable and the most appropriate at the balance sheet date.

Recognised gains / (losses) before tax:				
Gain/(loss) recognised directly in equity	1.4	1.1	0.6	-
Amount removed from equity and recognised in (profit)/loss	-	(37.1)	-	-

15. Financial assets held to maturity

	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
Negotiable securities				
Negotiable certificates of deposit	197.3	289.8	-	-
Other	82.3	30.6	0.5	0.5
Total negotiable securities	**279.6**	**320.4**	**0.5**	**0.5**
Non negotiable securities				
Deposits - other	5.5	1.6	-	-
Other	1.5	1.3	1.5	1.3
Total non negotiable securities	**7.0**	**2.9**	**1.5**	**1.3**
Total financial assets held to maturity	**286.6**	**323.3**	**2.0**	**1.8**
Maturity analysis				
Not longer than 3 months	179.4	295.3	-	-
Longer than 3 and not longer than 12 months	17.8	10.0	-	-
Longer than 1 and not longer than 5 years	81.8	14.6	-	-
Over 5 years	7.6	3.4	2.0	1.8
	286.6	**323.3**	**2.0**	**1.8**

16. Loans and other receivables

	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
Loans and other receivables - investments	**397.1**	**554.1**	**397.1**	**554.1**
Overdrafts	4,096.9	4,345.8	4,070.4	4,305.7
Credit cards	280.4	282.4	280.4	282.4
Term loans	45,902.4	42,931.7	42,457.2	39,556.7
Margin lending	1,822.7	1,915.6	-	-
Lease receivables	460.9	472.5	404.6	437.3
Factoring receivables	67.5	98.6	67.5	98.6
Other	85.9	78.4	85.9	78.4
Gross loans and other receivables	**52,716.7**	**50,125.0**	**47,366.0**	**44,759.1**
Specific provision for impairment (Note 17)	(114.4)	(104.1)	(74.2)	(51.3)
Collective provision for impairment (Note 17)	(42.8)	(34.5)	(36.6)	(30.8)
Unearned income	(106.9)	(109.0)	(56.1)	(56.2)
Total provisions and unearned income	**(264.1)**	**(247.6)**	**(166.9)**	**(138.3)**
Deferred costs paid	**83.1**	**80.0**	**78.4**	**70.5**
Net loans and other receivables	**52,535.7**	**49,957.4**	**47,277.5**	**44,691.3**
Impaired loans				
Loans - without provisions	120.3	135.8	21.8	18.6
Loans - with provisions	276.8	191.7	153.4	89.0
Restructured loans	14.7	62.6	12.5	18.0
Less: specific impairment provisions	(113.6)	(103.3)	(73.4)	(50.5)
Net impaired loans	**298.2**	**286.8**	**114.3**	**75.1**
Net impaired loans % of loans and other receivables	0.56%	0.57%	0.24%	0.17%
Portfolios facilities - past due 90 days, not well secured	4.0	4.2	4.0	4.2
Less: specific impairment provisions	(0.8)	(0.8)	(0.8)	(0.8)
Net portfolio facilities	**3.2**	**3.4**	**3.2**	**3.4**
Loans past due 90 days				
Accruing loans past due 90 days, with adequate security balance	635.5	750.7	590.1	650.5
Net fair value of properties acquired through the enforcement of security	97.1	139.9	82.4	120.7
Interest income recognised				
Interest income recognised in respect of impaired loans	2.7	1.6	1.6	1.6
Interest income forgone in respect of impaired loans	29.5	5.7	6.6	5.1

Interest income recognised is the interest income actually received subsequent to these balances becoming impaired or restructured.

Interest income forgone is the gross interest income that would have been recorded during the financial year had the interest on such loans been included in income.

Maturity analysis [1]				
At call / overdrafts	9,179.2	7,601.0	6,769.9	5,237.3
Not longer than 3 months	1,047.4	1,369.6	921.0	954.0
Longer than 3 and not longer than 12 months	1,865.9	1,834.4	1,596.8	1,332.8
Longer than 1 and not longer than 5 years	6,951.8	7,222.4	5,239.8	5,294.6
Longer than 5 years	34,069.5	32,651.7	33,235.6	32,494.5
	53,113.8	**50,679.1**	**47,763.1**	**45,313.2**

[1] Balances exclude specific and general provisions for doubtful debts and unearned revenue, and are categorised by the contracted maturity date of each loan facility.

17. Impairment of loans and advances

	Consolidated 2014 $m	Consolidated 2013 $m	Parent 2014 $m	Parent 2013 $m
Specific provision for impairment				
Opening balance	104.1	102.9	51.3	60.0
Provision acquired in business combination	-	3.4	-	1.8
Transfer of business	-	-	-	1.2
Charged to income statement	74.0	64.8	48.7	47.1
Impaired debts written-off applied to specific impairment provision	(63.7)	(67.0)	(25.8)	(58.8)
Closing balance	**114.4**	**104.1**	**74.2**	**51.3**
Collective provision for impairment				
Opening balance	34.5	31.8	30.8	27.7
Transfer of business	-	-	-	0.2
Charged to income statement	8.3	2.7	5.8	2.9
Closing balance	**42.8**	**34.5**	**36.6**	**30.8**
General reserve for credit losses				
Opening balance	138.3	128.5	119.7	105.0
Transfer of business	-	-	-	4.9
Charged to equity	-	9.8	-	9.8
Closing balance	**138.3**	**138.3**	**119.7**	**119.7**
Total provision/reserve doubtful debts	**295.5**	**276.9**	**230.5**	**201.8**
Bad and doubtful debts expense				
Specific provisions for impairment	74.0	64.8	48.7	47.1
Collective provision	8.3	2.7	5.8	2.9
Bad debts written off	3.3	5.2	2.6	4.5
Bad debts recovered	(3.7)	(2.8)	(3.6)	(2.7)
Total bad and doubtful debts expense	**81.9**	**69.9**	**53.5**	**51.8**
Ratios				
Specific provision as % of gross loans	0.22%	0.21%		
Total provision/reserve for doubtful debts to gross loans	0.56%	0.55%		
Collective provision & general reserve for credit losses as a % of risk-weighted assets	0.56%	0.57%		

18. Particulars in relation to controlled entities

Chief entity	Principal Activities
Bendigo and Adelaide Bank Limited	Banking
Directly Controlled Operating Entities [1]	
AB Management Pty Ltd	Securitisation Manager
ABL Custodian Services Pty Ltd	Security Trustee
ABL Nominees Pty Ltd	Trustee company
Adelaide Managed Funds Ltd	Responsible Entity for listed trusts
ACN 092 167 904 (BOCA) Pty Ltd	Banking
Hindmarsh Adelaide Property Trust	Property Owner
Hindmarsh Financial Services Pty Ltd	Investment company
Pirie Street Holdings Pty Ltd	Non-operating
Community Insurance Solutions Pty Ltd	Insurance services
Bendigo Funding (Ararat) Pty Ltd	Investment company
Leveraged Equities Ltd	Margin Lending
Adelaide Equity Finance Pty Ltd	Margin Lending
Leveraged Equities 2009 Trust	Securitisation
Pirie Street Custodian Ltd	Provider of share nominee services for margin lending
BBS Nominees Pty Ltd	Administration company
Bendigo Finance Pty Ltd	Leasing finance
Bendigo Financial Planning Ltd	Financial advisory services
Community Telco Australia Pty Ltd	Telecommunications services
Homesafe Trust	Homesafe product financier
National Mortgage Market Corporation Pty Ltd	Mortgage origination & management
Rural Bank Limited	Banking
TDCC Holdings Pty Ltd	Property/land development
TDCC Developments No. 1 Pty Ltd	Property/land development
TDCC Developments No. 2 Pty Ltd	Property/land development
TDCC Developments No. 3 Pty Ltd	Property/land development
TDCC Developments No. 4 Pty Ltd	Property/land development
TDCC Developments No. 5 Pty Ltd	Property/land development
TDCC Developments No. 6 Pty Ltd	Property/land development
TDCC Developments No. 7 Pty Ltd	Property/land development
TDCC Developments No. 8 Pty Ltd	Property/land development
TDCC Developments No. 9 Pty Ltd	Property/land development
TDCC Developments No. 10 Pty Ltd	Property/land development
TDCC Developments No. 11 Pty Ltd	Property/land development
TDCC Developments No. 12 Pty Ltd	Property/land development
TDCC Developments No. 13 Pty Ltd	Property/land development
TDCC Developments No. 14 Pty Ltd	Property/land development
Sandhurst Trustees Ltd	Trustee company
Bendigo Asset Management Pty Ltd	Trustee company
CS Subcust 1 Pty Ltd	Provider of custodian services
CS Subcust 2 Pty Ltd	Provider of custodian services
CS Cust 1 Pty Ltd	Provider of custodian services
CS Cust 2 Pty Ltd	Provider of custodian services
CS Cust 3 Pty Ltd	Provider of custodian services

[1] All entities are 100% owned and incorporated in Australia.

18. Particulars in relation to controlled entities (continued)

Chief entity	Principal Activities
Directly Controlled Operating Entities (continued) [1]	
CS Cust 4 Pty Ltd	Provider of custodian services
CS Cust 5 Pty Ltd	Provider of custodian services
CS Cust 6 Pty Ltd	Provider of custodian services
CS Cust 7 Pty Ltd	Provider of custodian services
CS Cust 8 Pty Ltd	Provider of custodian services
CS Cust 9 Pty Ltd	Provider of custodian services
Sandhurst Nominees (Victoria) Ltd	Nominee services
Pirie Street Nominees Pty Ltd	Financial services
Securitisation	
ABL Portfolio Funding Trust 2007-1	Securitisation
AIL Trust No. 1	Securitisation
Lighthouse Warehouse Trust No 1	Securitisation
Lighthouse Warehouse Trust No 2	Securitisation
Lighthouse Warehouse Trust No 14	Securitisation
Torrens Series 2005-1 Trust	Securitisation
Torrens Series 2006-1(E) Trust	Securitisation
Torrens Series 2007-1 Trust	Securitisation
Torrens Series 2008-1 Trust	Securitisation
Torrens Series 2008-3 Trust	Securitisation
Torrens Series 2008-4 Trust	Securitisation
Torrens Series 2009-1 Trust	Securitisation
Torrens Series 2009-3 Trust	Securitisation
Torrens Series 2010-1 Trust	Securitisation
Torrens Series 2010-2 Trust	Securitisation
Torrens Series 2010-3 Trust	Securitisation
Torrens Series 2011-1(E) Trust	Securitisation
Torrens Series 2011-2 Trust	Securitisation
Torrens Series 2012-1 Trust	Securitisation
Torrens Series 2013-1 Trust	Securitisation
Torrens Series 2013-2 Trust	Securitisation
Torrens Series 2014-1 Trust	Securitisation

[1] All entities are 100% owned and incorporated in Australia.

Investments in controlled entities	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
At cost	-	-	575.4	526.5
	-	**-**	**575.4**	**526.5**

Significant restrictions

The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory framework require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. The carrying amounts of banking subsidiaries' assets and liabilities are $4.3 billion and $3.7 billion, respectively (2013: $4.2 billion and $3.7 billion, respectively).

19. Investments accounted for using the equity method

Name	Ownership interest held by consolidated entity 2014 %	Ownership interest held by consolidated entity 2013 %	Balance date
Joint Arrangements			
Community Sector Enterprises Pty Ltd	50.0	50.0	30 June
Homesafe Solutions Pty Ltd	50.0	50.0	30 June
Silver Body Corporate Financial Services Pty Ltd	50.0	50.0	30 June
Associates			
Aegis Correctional Partnership Pty Ltd	49.5	49.5	30 June
Aegis Securitisation Nominees Pty Ltd	49.5	49.5	30 June
Aegis Correctional Partnership Trust	49.5	49.5	30 June
Aegis Securitisation Trust	49.5	49.5	30 June
Dancoor Community Finances Ltd [1]	49.0	-	30 June
Homebush Financial Services Ltd	49.0	49.0	30 June
Linear Financial Holdings Pty Ltd	36.0	40.0	30 June
Strategic Payments Services Pty Ltd	47.5	47.5	31 December
Vic West Community Enterprise Pty Ltd	50.0	50.0	30 June

[1] Dancoor Community Finances Ltd (effective January 2014)

(i) Principal activities of joint arrangements

Community Sector Enterprises Pty Ltd - financial services
Homesafe Solutions Pty Ltd - trust manager
Silver Body Corporate Financial Services Pty Ltd - financial services

(ii) Principal activities of associates

Aegis Correctional Partnership Pty Ltd - trustee services
Aegis Securitisation Nominees Pty Ltd - trustee services
Aegis Correctional Partnership Trust - project management and financial services
Aegis Securitisation Trust - financial services
Dancoor Community Finances Ltd - financial services (acquired January 2014)
Homebush Financial Services Ltd - financial services
Linear Financial Holdings Pty Ltd - asset management services
Strategic Payments Services Pty Ltd - payment processing services
Vic West Community Enterprise Pty Ltd - telecommunications services

All joint arrangements and associates are incorporated in Australia.

19. Investments accounted for using the equity method (continued)

(iii) Share of joint arrangements revenue and profits

Share of profit/(loss) after income tax:	Consolidated 2014 $m	Consolidated 2013 $m	Parent 2014 $m	Parent 2013 $m
Revenue	7.6	6.9	7.2	6.5
Expense	6.8	6.4	6.5	6.1
Profit after income tax	**0.8**	**0.5**	**0.7**	**0.4**

Share of joint arrangements operating profits after income tax:	2014 $m	2013 $m	2014 $m	2013 $m
Community Sector Enterprises Pty Ltd	0.3	0.2	0.3	0.2
Homesafe Solutions Pty Ltd	0.4	0.2	0.4	0.2
Silver Body Corporate Financial Services Pty Ltd	0.1	0.1	-	-
	0.8	**0.5**	**0.7**	**0.4**

The consolidated entity's share in the retained profits and reserves of joint arrangements are not available for payment of dividends to shareholders of Bendigo and Adelaide Bank Limited until such time as those profits and reserves are distributed by the joint arrangements.

(iv) Share of associates revenue and profits

Share of profit/(loss) after income tax:	Consolidated 2014 $m	Consolidated 2013 $m	Parent 2014 $m	Parent 2013 $m
Revenue	16.8	9.2	15.1	6.6
Expense	17.4	8.1	14.7	5.1
Profit after income tax	**(0.6)**	**1.1**	**0.4**	**1.5**

Share of associates operating profits after income tax:	2014 $m	2013 $m	2014 $m	2013 $m
Aegis Correctional Partnership Pty Ltd	-	-	-	-
Aegis Securitisation Nominees Pty Ltd	-	-	-	-
Aegis Correctional Partnership Trust	-	-	-	-
Aegis Securitisation Trust	-	-	-	-
Dancoor Community Finances Ltd	-	-	-	-
Homebush Financial Services Ltd	-	-	-	-
Linear Financial Holdings Pty Ltd	(1.0)	(0.4)	-	-
Strategic Payments Services Pty Ltd	0.3	1.6	0.3	1.6
Vicwest Community Enterprise Ltd	0.1	(0.1)	0.1	(0.1)
	(0.6)	**1.1**	**0.4**	**1.5**

The consolidated entity's share in the retained profits and reserves of associates are not available for payment of dividends to shareholders of Bendigo and Adelaide Bank Limited until such time as those profits and reserves are distributed by the associates.

19. Investments accounted for using the equity method (continued)

(v) Carrying amount of investments in joint arrangements

	Consolidated		Parent	
	2014 $m	2013 $m	2014 $m	2013 $m
Balance at the beginning of financial year	1.7	1.5	1.3	1.1
Return of capital investment	(0.6)	(0.1)	(0.6)	(0.1)
Dividends received from joint arrangements	(0.3)	(0.2)	-	(0.1)
Share of total comprehensive income	0.8	0.5	0.7	0.4
Carrying amount of investments in joint arrangements at the end of the financial year	**1.6**	**1.7**	**1.4**	**1.3**

Total comprehensive income from joint arrangements

Profit or loss from continuing operations	0.8	0.5	0.7	0.4
Other comprehensive income	-	-	-	-
Total comprehensive income	**0.8**	**0.5**	**0.7**	**0.4**

All operations are continuing.

Carrying amount of investments represented by the following:

	2014 $m	2013 $m	2014 $m	2013 $m
Community Sector Enterprises Pty Ltd	1.2	0.9	1.2	0.9
Homesafe Solutions Pty Ltd	0.2	0.4	0.2	0.4
Silver Body Corporate Financial Services Pty Ltd	0.2	0.4	-	-
	1.6	**1.7**	**1.4**	**1.3**

There are no impairment losses relating to investments in joint arrangements.

(vi) Carrying amount of investments in associates

	2014 $m	2013 $m	2014 $m	2013 $m
Balance at the beginning of financial year	13.9	11.4	12.5	9.6
Carrying amount of investment acquired during the year	0.8	1.4	0.8	1.4
Share of total comprehensive income	(0.6)	1.1	0.4	1.5
Carrying amount of investments in associates at the end of the financial year	**14.1**	**13.9**	**13.7**	**12.5**

Total comprehensive income from associates

Profit or loss from continuing operations	(0.6)	1.1	0.4	1.5
Other comprehensive income	-	-	-	-
Total comprehensive income	**(0.6)**	**1.1**	**0.4**	**1.5**

All operations are continuing.

19. Investments accounted for using the equity method (continued)

(vi) Carrying amount of investments in associates (continued)

	Consolidated		Parent	
	2014 $m	2013 $m	2014 $m	2013 $m
Aegis Correctional Partnership Pty Ltd	-	-	-	-
Aegis Securitisation Nominees Pty Ltd	-	-	-	-
Aegis Correctional Partnership Trust	-	-	-	-
Aegis Securitisation Trust	-	-	-	-
Dancoor Community Finances Ltd	0.8	-	0.8	-
Homebush Financial Services Ltd	0.8	0.8	0.8	0.8
Linear Financial Holdings Pty Ltd	0.4	1.4	-	-
Strategic Payment Services Pty Ltd	10.5	10.2	10.5	10.2
Vicwest Community Enterprise Ltd	1.6	1.5	1.6	1.5
	14.1	**13.9**	**13.7**	**12.5**

There are no impairment losses relating to investments in associates.

(vii) The consolidated entity's share of the assets and liabilities of joint arrangements in aggregate

	2014 $m	2013 $m	2014 $m	2013 $m
Assets	2.6	3.8	2.3	3.4
Liabilities	1.3	2.3	1.2	2.3
Net Assets of joint arrangements	**1.3**	**1.5**	**1.1**	**1.1**

(viii) The consolidated entity's share of the assets and liabilities of associates in aggregate

	2014 $m	2013 $m	2014 $m	2013 $m
Assets	13.0	12.3	11.2	10.3
Liabilities	7.4	6.4	4.0	3.6
Net Assets of associates	**5.6**	**5.9**	**7.2**	**6.7**

Subsequent events affecting joint arrangements and associates profits/losses for the ensuing year (if any) are disclosed in the Events after balance sheet date Note 45.

The consolidated entity's share of joint arrangements and associates commitments and contingent liabilities (if any) are disclosed in the Commitments and contingencies Note 39.

Significant restrictions

There are no significant restrictions on the ability of joint arrangements or associates to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the entity.

20. Property, plant and equipment

	Consolidated 2014 $m	Consolidated 2013 $m	Parent 2014 $m	Parent 2013 $m
(a) Carrying Value				
Property				
Freehold land - at fair value	1.3	1.0	0.3	0.3
Closing balance	1.3	1.0	0.3	0.3
Freehold buildings - at fair value	1.7	1.1	0.4	0.2
Accumulated depreciation	-	(0.1)	-	-
Closing balance	1.7	1.0	0.4	0.2
Total land and buildings	**3.0**	**2.0**	**0.7**	**0.5**
Leasehold improvements - at cost	115.9	84.2	114.9	82.8
Accumulated depreciation	(51.7)	(45.8)	(51.3)	(45.3)
Closing balance	64.2	38.4	63.6	37.5
Plant, furniture, fittings, office equipment & vehicles - at cost	126.5	168.3	122.9	164.8
Accumulated depreciation	(96.9)	(145.3)	(94.8)	(143.3)
Closing balance	29.6	23.0	28.1	21.5
Total property, plant and equipment	**96.8**	**63.4**	**92.4**	**59.5**
(b) Reconciliations				
Freehold land				
Carrying amount at beginning of financial year	1.0	1.0	0.3	0.3
Revaluations	0.3	-	-	-
Balance at the end of year	**1.3**	**1.0**	**0.3**	**0.3**
Freehold buildings				
Carrying amount at beginning of financial year	1.0	1.0	0.2	0.2
Revaluations	0.7	-	0.2	-
Balance at the end of year	**1.7**	**1.0**	**0.4**	**0.2**
Leasehold improvements - at cost				
Carrying amount at beginning of financial year	38.4	39.8	37.5	36.0
Additions	35.7	6.0	35.7	6.0
Disposals	(0.7)	(0.1)	(0.5)	(0.1)
Depreciation expense	(9.2)	(7.3)	(9.1)	(7.1)
Transfer assets from subsidiary to parent	-	-	-	2.7
Balance at the end of year	**64.2**	**38.4**	**63.6**	**37.5**

20. Property, plant and equipment (continued)

	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
(b) Reconciliations (continued)				
Plant, furniture, fittings, office equipment & vehicles				
Carrying amount at beginning of financial year	23.0	27.2	21.5	24.1
Additions	17.6	7.1	16.9	6.5
Additions through acquisition of entities	-	0.1	-	-
Disposals	(1.3)	(0.8)	(1.0)	(0.7)
Depreciation expense	(9.7)	(10.6)	(9.2)	(10.2)
Transfer assets from subsidiary to parent	-	-	(0.1)	1.8
Balance at the end of year	**29.6**	**23.0**	**28.1**	**21.5**

If land and buildings were measured using the cost model the carrying amounts would be as follows:

Land	0.4	0.4	0.1	0.1
Buildings	0.6	0.6	0.1	0.1
Accumulated depreciation and impairment	(0.4)	(0.4)	(0.1)	(0.1)
Net carrying amount	**0.6**	**0.6**	**0.1**	**0.1**

21. Investment property

	Consolidated 2014 $m	Consolidated 2013 $m	Parent 2014 $m	Parent 2013 $m
Opening balance	348.9	298.9	5.9	-
Additions	28.2	32.0	-	-
Additions through acquisition of entities	-	12.5	-	12.5
Disposals	(20.5)	(17.6)	(5.9)	(6.6)
Net gain from fair value adjustments through the Income statement	48.3	23.1	-	-
Total investment property	**404.9**	**348.9**	**-**	**5.9**
Total gains for the reporting period related to assets held at the end of the reporting period in the Income statement	48.3	23.1	-	-

Investment properties are measured initially at cost, including transaction costs.

Investment property has been determined to be a Level 3 investment as per the fair value hierarchy (Note 37 - Financial Instruments).

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 cash flows 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.

Sensitivity of Level 3 fair value measurements to reasonably possible alternative assumptions

Valuation technique	Significant unobservable inputs	$m	Range of estimates (weighted -average) for unobservable input	Fair value measurement sensitivity to unobservable inputs	Effect of reasonably possible alternative assumptions: Favourable change $m	Effect of reasonably possible alternative assumptions: Unfavourable change $m
Discounted cash flow	Rates of property appreciation - 7%	404.9	5%-9%	Significant increases in these inputs would result in higher fair values.	124.8	(78.8)
	Discount rates - 8.75%	404.9	6.75%-10.75%	Significant increases in these inputs would result in lower fair values.	129.1	(81.9)

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.

22. Intangible assets and goodwill

	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
Customer list [1]				
Carrying amount at beginning of financial year	6.1	4.9	2.3	-
Acquisition through business combination	6.2	3.0	-	3.0
Adjustment due to sale	(0.5)	-	(0.5)	-
Amortisation charge	(2.5)	(1.8)	(0.7)	(0.7)
Closing balance	**9.3**	**6.1**	**1.1**	**2.3**
Computer software [2]				
Carrying amount at beginning of financial year	50.9	67.4	48.1	65.3
Acquisition through business combination	-	0.7	-	-
Additions	17.3	1.8	16.4	1.0
Transfers	-	-	-	(1.1)
Amortisation charge	(15.2)	(19.0)	(13.4)	(17.1)
Closing balance	**53.0**	**50.9**	**51.1**	**48.1**
Trustee licence [3]				
Carrying amount at beginning of financial year	8.4	8.4	-	-
Closing balance	**8.4**	**8.4**	**-**	**-**
Trade name [4]				
Carrying amount at beginning of financial year	4.8	7.7	3.3	5.8
Amortisation charge	(0.7)	(2.9)	(0.4)	(2.5)
Closing balance	**4.1**	**4.8**	**2.9**	**3.3**
Customer relationship [5]				
Carrying amount at beginning of financial year	32.7	41.3	9.3	12.9
Amortisation charge	(8.6)	(8.6)	(3.6)	(3.6)
Closing balance	**24.1**	**32.7**	**5.7**	**9.3**
Management rights [6]				
Carrying amount at beginning of financial year	9.6	10.6	9.6	10.6
Amortisation charge	(1.0)	(1.0)	(1.0)	(1.0)
Closing balance	**8.6**	**9.6**	**8.6**	**9.6**
Core deposits [7]				
Carrying amount at beginning of financial year	37.3	47.8	28.5	36.7
Amortisation charge	(8.8)	(10.5)	(6.5)	(8.2)
Closing balance	**28.5**	**37.3**	**22.0**	**28.5**
Goodwill				
Carrying amount at beginning of financial year	1,368.4	1,360.1	1,288.9	1,277.1
Acquisition through business combination	-	14.5	-	2.7
Transfer from subsidiary	-	-	-	9.1
Impairment of goodwill	-	(6.2)	-	-
Closing balance	**1,368.4**	**1,368.4**	**1,288.9**	**1,288.9**
Total intangible assets and goodwill	**1,504.4**	**1,518.2**	**1,380.3**	**1,390.0**

22. Intangible assets and goodwill (continued)

[1] Customer lists are acquired through business combinations and have been capitalised at fair value. The customer lists have been assessed as having a finite life and are amortised using a method that reflects the pattern of the economic benefits of the asset over a five year period.

[2] Computer software includes internally developed software and software that is not an integral part of the related hardware. Intangible software is capitalised at cost and is amortised on a straight line basis over the assessed useful life of the asset, being between 2.5 years and 10 years for core banking software. The carrying value of internally developed software is tested annually for impairment, using estimates of future cash flows over the assets remaining useful life.

[3] The trustee licence represents an intangible asset purchased through the effect of the Sandhurst Trustees Limited business combination and the cost method is utilised for measurement. The useful life of this asset has been estimated as indefinite as the authorisation for Sandhurst Trustees Limited to trade as a trustee company has no end period. Revocation of the authority is unlikely and would occur only in the event of non-compliance with conditions under which authorisation is granted. There are specific compliance procedures in place to ensure that these conditions are met.

[4] Trade names have been acquired through business combinations and have been capitalised at fair value. Trade names are amortised to reflect the period and pattern of economic benefit over a period of between 5 and 15 years.

[5] The customer relationships have been acquired through business combinations and have been capitalised at fair value. Customer relationships are amortised to reflect the period and pattern of economic benefit over a period of between 7 and 12 years.

[6] The management rights have been acquired through business combinations and have been capitalised at fair value. Management rights are amortised to reflect the period and pattern of economic benefit over a period of 15 years.

[7] The core deposits have been acquired through business combinations and have been capitalised at fair value. Core deposits are amortised to reflect the period and pattern of economic benefit over a period of between 2 and 10 years.

23. Impairment testing of goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is allocated at acquisition date to the cash generating unit that is expected to benefit from the synergies of the combination. The cash generating units to which the goodwill is allocated represent the core business operations of the Group and are also reportable segments; as defined in Note 4.

Goodwill has been allocated as follows:

	2014 $m	2013 $m
Retail	677.5	677.5
Third Party	464.4	464.4
Wealth	209.7	209.7
Rural Bank	16.8	16.8
	1,368.4	**1,368.4**

Key assumptions used in value in use calculations

Impairment testing of goodwill is performed by comparing the carrying amount of the cash generating unit to which the goodwill has been allocated with its recoverable amount. The recoverable amount of the cash generating units has been determined based on value in use calculations. These calculations have been performed for each cash generating unit using management's approved forecast which is then extrapolated using a constant growth rate for five years then discounted back to the present value using an appropriate discount rate, plus a terminal value.

The discount rate reflects the current market assessment of risk specific to each cash generating unit. The discount rate is calculated based on the average percentage of a weighted average cost of capital for each cash generating unit, determined on a post-tax basis and adjusted to reflect any risks specific to the cash generating unit for which future estimates of cash flows have not been adjusted.

The terminal growth rate of 3.0% represents the growth rate applied to extrapolate cash flows beyond the forecast period and is calculated for each cash generating unit, and is representative of long term growth rates including inflation in Australia.

The table below contains the key assumptions used in the calculation of the recoverable amount for each cash generating unit.

	Discount rate
Retail	10.74%
Third Party	10.74%
Wealth	11.34%
Rural Bank	10.74%

Sensitivity to changes in assumptions

Management has considered the impact of changes in the key assumptions on the calculated recoverable amount of each cash generating unit.

The results of the sensitivity analysis support the conclusion that goodwill is not impaired.

Sensitivity analysis - rates required before impairment becomes evident

	Discount rate	Long term growth rate
Retail	12.90%	0.00%
Third Party	11.10%	2.50%
Wealth	11.75%	2.45%
Rural Bank	12.80%	0.00%

24. Other assets

	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
Accrued income	24.2	22.3	17.9	15.6
Prepayments	26.0	24.0	20.7	18.7
Sundry debtors	504.7	246.2	1,290.8	986.4
Accrued interest	175.5	186.3	141.9	146.1
Deferred expenditure	72.9	53.5	72.5	53.4
Total other assets	**803.3**	**532.3**	**1,543.8**	**1,220.2**

25. Deposits and notes payable

Deposits	Consolidated 2014 $m	Consolidated 2013 $m	Parent 2014 $m	Parent 2013 $m
Retail				
At call	16,175.5	14,076.7	14,345.9	12,195.2
Term	21,206.4	21,857.2	21,206.4	21,856.9
Treasury	7,461.1	6,311.9	6,112.2	5,098.2
Total retail deposits	**44,843.0**	**42,245.8**	**41,664.5**	**39,150.4**
Wholesale				
Domestic	6,612.9	4,929.6	6,407.3	4,707.7
Offshore	903.5	263.6	903.5	263.6
Total wholesale deposits	**7,516.4**	**5,193.2**	**7,310.8**	**4,971.3**
Total deposits	**52,359.4**	**47,439.0**	**48,975.3**	**44,121.7**
Deposits by geographic location				
Victoria	22,505.4	21,061.8	21,777.7	20,416.1
New South Wales	12,528.2	10,285.3	11,366.2	9,236.8
Australian Capital Territory	1,089.6	968.5	1,001.8	938.4
Queensland	5,329.3	4,908.2	4,912.8	4,527.8
South Australia/Northern Territory	5,332.6	5,697.2	4,800.7	4,869.7
Western Australia	3,388.6	2,981.9	3,011.3	2,670.9
Tasmania	938.3	907.5	863.5	840.7
Overseas	1,247.4	628.6	1,241.3	621.3
Total deposits	**52,359.4**	**47,439.0**	**48,975.3**	**44,121.7**
Total notes payable	**5,256.4**	**6,400.6**	**310.4**	**350.3**

26. Other payables

	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
Sundry creditors	35.0	54.5	24.6	187.3
Accrued expenses and outstanding claims	585.9	291.7	749.3	410.2
Accrued interest	260.9	311.5	245.0	290.4
Prepaid interest	32.4	31.0	-	-
Total other payables	**914.2**	**688.7**	**1,018.9**	**887.9**

Sundry creditors are non-interest bearing and are generally settled within 30 days.

Accrued interest is credited to customer accounts in accordance with the terms of the investment products held by the customer, but generally within a twelve month period.

27. Provisions

(a) Balances	Consolidated 2014 $m	Consolidated 2013 $m	Parent 2014 $m	Parent 2013 $m
Employee benefits (Note 32)	90.3	83.8	86.2	80.6
Rewards program [1]	5.3	4.8	5.3	4.8
Property rent [2]	7.3	1.1	7.3	1.1
Dividends [3]	0.9	0.9	0.9	0.9
Uninsured losses [4]	-	2.9	-	2.9
Total provisions	**103.8**	**93.5**	**99.7**	**90.3**

[1] The provision for rewards program is to recognise the liability to customers in relation to points earned by them under the Bendigo and Adelaide Bank Rewards Program and is measured on the basis of full value of points outstanding at balance date. As reward points "expire" after three years, the balance will be utilised, or forfeited within a three year period.

[2] 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 value recognised in the income statement is in accordance with Accounting Standard AASB 117 *Leases* whereby the lease expense is to be 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.

[3] The provision for dividends represents the residual carried forward balance in relation to ordinary shareholders that participate in the dividend reinvestment plan. It is expected that the current balance will be utilised within a twelve month period. However, an ongoing balance will continue unless all outstanding balances are paid to shareholders upon ceasing participation in the dividend reinvestment plan. The provision also includes accrued dividends relating to preference shares.

[4] The provision for uninsured losses represents the expected loss in relation to fraud not covered under insurance contracts.

(b) Movements	Consolidated 2014 $m	Consolidated 2013 $m	Parent 2014 $m	Parent 2013 $m
Employee benefits				
Opening balance	83.8	71.1	80.6	66.2
Provision acquired in business combination	0.3	0.5	-	-
Additional provisions recognised	46.9	43.1	44.4	42.8
Increase due to change in discount rate	-	0.8	-	0.8
Amounts utilised during the year	(40.7)	(31.7)	(38.8)	(29.2)
Closing balance	**90.3**	**83.8**	**86.2**	**80.6**

27. Provisions (continued)

(b) Movements (continued)	Consolidated 2014 $m	Consolidated 2013 $m	Parent 2014 $m	Parent 2013 $m
Rewards program				
Opening balance	4.8	4.2	4.8	4.2
Additional provisions recognised	2.6	2.4	2.6	2.4
Amounts utilised during the year	(2.1)	(1.8)	(2.1)	(1.8)
Closing balance	**5.3**	**4.8**	**5.3**	**4.8**
Property rent				
Opening balance	1.1	1.5	1.1	1.5
Additional provisions recognised	7.2	-	7.2	-
Amounts utilised during the year	(1.0)	(0.4)	(1.0)	(0.4)
Closing balance	**7.3**	**1.1**	**7.3**	**1.1**
Dividends				
Opening balance	0.9	1.0	0.9	1.0
Additional dividends provided	256.8	242.7	256.8	242.7
Dividends paid during the year	(256.8)	(242.8)	(256.8)	(242.8)
Closing balance	**0.9**	**0.9**	**0.9**	**0.9**
Uninsured losses				
Opening balance	2.9	2.9	2.9	2.9
Additional provisions recognised/(released)	(2.8)	0.2	(2.8)	0.2
Amounts utilised during the year	(0.1)	(0.2)	(0.1)	(0.2)
Closing balance	**-**	**2.9**	**-**	**2.9**

28. Convertible preference shares

	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
Convertible preference shares - 2,688,703 fully paid $100 preference shares	268.9	268.9	268.9	268.9
Unamortised issue costs	(7.5)	(9.7)	(7.5)	(9.7)
Total convertible preference shares	**261.4**	**259.2**	**261.4**	**259.2**

In November 2012, the bank issued 2.7m convertible preference shares. The preference shares may be redeemed at the discretion of Bendigo and Adelaide Bank for a price per preference share on 13 December 2017. Any preference shares not already converted will be converted on 13 December 2019 into ordinary shares.

The preference shares carry a dividend which will be determined semi-annually, payable half yearly in arrears on 13 June and 13 December. If the bank is unable to pay a dividend because of insufficient profits, the dividend is non-cumulative. The convertible shares rank ahead of the ordinary shares in the event of liquidation, they are perpetual and do not have a fixed maturity date. The dividend rate will be the floating Bank Bill Rate plus the initial fixed margin, adjusted for franking credits.

29. Subordinated debt

	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
Subordinated capital notes	655.5	354.3	603.3	302.2
Maturity analysis				
Not longer than 3 months	-	-	-	-
Longer than 3 and not longer than 12 months	63.0	-	30.4	-
Longer than 1 and not longer than 5 years	9.5	72.5	-	30.4
Over 5 years	583.0	281.8	572.9	271.8
	655.5	354.3	603.3	302.2

30. Issued capital

	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
Issued and paid up capital				
Ordinary shares fully paid - 452,006,957 (2013: 412,007,864)	4,183.3	3,758.0	4,183.3	3,758.0
Preference shares of $100 face value fully paid - 900,000 (2013: 900,000 fully paid)	88.5	88.5	88.5	88.5
Step-up preference shares of $100 face value fully paid - 1,000,000 (2013: 1,000,000)	100.0	100.0	100.0	100.0
Employee share ownership plan shares	(16.2)	(18.7)	(16.2)	(18.7)
	4,355.6	**3,927.8**	**4,355.6**	**3,927.8**

Effective 1 July 1998, the corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the parent does not have authorised capital nor par value in respect of its issued shares. Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Preference share dividends are non-cumulative and are payable quarterly in arrears, at the discretion of the directors, based on a dividend rate equal to the sum of the 90 day bank bill rate plus the initial margin multiplied by one minus the company tax rate. It is expected that dividends paid will be fully franked. The Preference Shares are perpetual, but may be redeemed by Bendigo and Adelaide Bank subject to prior approval of APRA.

Step up Preference share dividends are non-cumulative and are payable quarterly in arrears, at the discretion of the directors, based on a dividend rate equal to the sum of the 90 day bank bill rate plus the initial margin multiplied by one minus the company tax rate. It is expected that dividends paid will be fully franked. The Step up Preference Shares are perpetual, but may be redeemed by Bendigo and Adelaide Bank subject to prior approval of APRA.

Employee share ownership plan shares 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.

	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
Movements in ordinary shares on issue				
Opening balance 1 July - 412,007,864 (2013: 402,233,266)	3,758.0	3,681.8	3,758.0	3,681.8
Shares issued under:				
Bonus share scheme - 259,797 @ $10.17; 226,848 @ $11.14 (2013: 402,549 @ $7.39; 403,561 @ $9.92)	-	-	-	-
Dividend reinvestment plan - 2,105,049 @ $10.17; 2,145,304 @ $11.14 (2013: 4,957,637 @ $7.39; 4,010,851 @ $9.92)	45.3	76.4	45.3	76.4
Institutional placement and entitlement offer - 21,198,157 @ $10.85 (2013: Nil)	230.0	-	230.0	-
Retail entitlement offer - 13,789,655 @ $10.85 (2013: Nil)	149.6	-	149.6	-
Employee share plan - 274,283 @ $10.47 (2013: Nil)	2.9	-	2.9	-
Share issue costs	(2.5)	(0.2)	(2.5)	(0.2)
Closing balance 30 June - 452,006,957 (2013: 412,007,864)	**4,183.3**	**3,758.0**	**4,183.3**	**3,758.0**

30. Issued capital (continued)

	Consolidated		Parent	
	2014 $m	2013 $m	2014 $m	2013 $m
Movements in preference shares on issue				
Opening balance 1 July - 900,000 fully paid (2013: 900,000 fully paid)	88.5	88.5	88.5	88.5
Closing balance 30 June - 900,000 fully paid to $100 (2013: 900,000 fully paid)	**88.5**	**88.5**	**88.5**	**88.5**
Movements in step up preference shares on issue				
Opening balance 1 July - 1,000,000 (2013: 1,000,000)	100.0	100.0	100.0	100.0
Closing balance 30 June - 1,000,000 fully paid to $100 (2013: 1,000,000)	**100.0**	**100.0**	**100.0**	**100.0**
Movements in Employee share ownership plan shares				
Opening balance	(18.7)	(21.3)	(18.7)	(21.3)
Reduction in Employee share ownership plan shares	2.5	2.6	2.5	2.6
Closing balance	**(16.2)**	**(18.7)**	**(16.2)**	**(18.7)**
Total other issued and paid up capital	**172.3**	**169.8**	**172.3**	**169.8**
Total issued and paid up capital	**4,355.6**	**3,927.8**	**4,355.6**	**3,927.8**

31. Retained earnings and reserves

Retained earnings	Consolidated 2014 $m	Consolidated 2013 $m	Parent 2014 $m	Parent 2013 $m
Movements				
Opening balance	398.1	296.5	186.1	87.1
Profit for the year	372.3	352.3	282.7	355.2
Transfer from asset revaluation reserve	2.8	-	-	-
Movements in general reserve for credit losses	-	(9.8)	-	(14.7)
Dividends	(256.8)	(242.5)	(256.8)	(242.5)
Deregistration of subsidiary company	-	-	(0.4)	-
Defined benefits actuarial adjustment	1.6	2.3	1.6	2.3
Tax effect of defined benefits actuarial adjustment	(0.5)	(0.7)	(0.5)	(0.7)
Transfer of business - Delphi Bank	-	-	-	(0.6)
Closing balance	**517.5**	**398.1**	**212.7**	**186.1**

Other reserves	Consolidated 2014 $m	Consolidated 2013 $m	Parent 2014 $m	Parent 2013 $m
(a) Balances				
Employee benefits reserve	16.8	18.5	16.8	18.5
Asset revaluation reserve - property	1.3	3.5	0.4	0.2
Asset revaluation reserve - available for sale equity investments	2.7	1.7	0.9	0.5
Asset revaluation reserve - available for sale debt securities	1.1	1.1	26.9	1.2
Cash flow hedge reserve	(38.7)	(34.6)	(30.0)	(17.2)
General reserve for credit losses	138.3	138.3	119.7	119.7
Acquisitions Reserve	(20.4)	(20.4)	-	-
Closing balance	**101.1**	**108.1**	**134.7**	**122.9**
(b) Movements				
Employee benefits reserve [1]				
Opening balance	18.5	20.2	18.5	20.2
Net increase/(decrease) in reserve	(1.7)	(1.7)	(1.7)	(1.7)
Closing balance	**16.8**	**18.5**	**16.8**	**18.5**
Asset revaluation reserve - property				
Opening balance	3.5	3.4	0.2	0.1
Transfer asset revaluation reserve to retained earnings	(4.0)	-	-	-
Tax effect of movement in asset revaluation reserve	1.2	-	-	-
Net revaluation increments	0.9	-	0.3	-
Tax effect of net revaluation increments	(0.3)	-	(0.1)	-
Tax adjustment relating to prior years	-	0.1	-	0.1
Closing balance	**1.3**	**3.5**	**0.4**	**0.2**

[1] The employee benefits reserve is used to record the assessed cost of shares issued to non-executive employees under the Employee Share Plan and the assessed cost of options granted to executive employees under the Executive Incentive Plan.

31. Retained earnings and reserves (continued)

Other reserves (continued)

	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
(b) Movements (continued)				
Asset revaluation reserve - available for sale equity investments				
Opening balance	1.7	28.7	0.5	1.8
Transfer asset revaluation reserve to retained earnings (sold assets)	-	(37.1)	-	-
Tax effect of asset revaluation reserve to profit (sold assets)	-	10.6	-	-
Net revaluation increments	1.4	1.1	0.6	-
Tax effect of net revaluation increments	(0.4)	(0.3)	(0.2)	-
Tax adjustments relating to prior years	-	(1.3)	-	(1.3)
Closing balance	**2.7**	**1.7**	**0.9**	**0.5**
Asset revaluation reserve - available for sale debt securities				
Opening balance	1.1	(1.8)	1.2	(1.7)
Net unrealised gains	-	4.2	36.8	4.2
Tax effect of net unrealised gains	-	(1.3)	(11.1)	(1.3)
Closing balance	**1.1**	**1.1**	**26.9**	**1.2**
Cash flow hedge reserve				
Opening balance	(34.6)	(86.4)	(17.2)	(54.7)
Changes due to mark to market	(5.9)	75.8	(18.4)	60.2
Tax effect of changes due to mark to market	1.7	(22.7)	5.5	(18.1)
Changes due to transfer to the income statement	0.1	(1.8)	0.1	(6.6)
Tax effect of changes due to transfer to the income statement	-	0.5	-	2.0
Closing balance	**(38.7)**	**(34.6)**	**(30.0)**	**(17.2)**
General reserve for credit losses [2]				
Opening balance	138.3	128.5	119.7	105.0
Establishment of GRCL on transfer of business	-	-	-	4.9
Increase/(decrease) in GRCL	-	9.8	-	9.8
Closing balance	**138.3**	**138.3**	**119.7**	**119.7**
Acquisition Reserve [3]				
Opening balance	(20.4)	(20.4)	-	-
Closing balance	**(20.4)**	**(20.4)**	**-**	**-**
Total reserves	**101.1**	**108.1**	**134.7**	**122.9**

[1] The employee benefits reserve is used to record the assessed cost of shares issued to non-executive employees under the Employee Share Plan and the assessed cost of options granted to executive employees under the Executive Incentive Plan.

[2] The general reserve for credit losses records the value of a reserve maintained to recognised credit losses inherent in the Group's lending portfolio, but not yet identified. The Bank is required to maintain general provisions (includes general reserve for credit losses and collective provision) by APRA.

[3] The acquisition reserve is used to record the difference between the carrying value of non-controlling interest and the consideration paid to acquire the remaining interest of the non-controlling interest. The reserve is attributable to the equity of the parent.

32. Employee benefits

	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
Employee benefits liability				
Provision for annual leave	24.0	23.5	22.2	21.7
Provision for Employee shares shortfall	-	0.7	-	0.7
Provision for other employee payments	11.2	9.1	10.7	9.1
Provision for long service leave	48.8	44.8	47.0	43.4
Provision for sick leave bonus	6.3	5.7	6.3	5.7
Aggregate employee benefits liability	**90.3**	**83.8**	**86.2**	**80.6**

It is anticipated that annual leave provided at balance date will be paid in the ensuing 12 month period.

Provision for employee shares shortfall is in relation to possible losses associated with employee loans under the Employee share plan. This provision will only be utilised if:

(a) employees instruct the administrator of the plan to sell their shares in settlement of the employee loan relating to those shares: and,

(b) at the time of the sale the market price of Bendigo and Adelaide Bank Limited shares is below the outstanding value of those shares in the loan account.

Other employee payments include short-term incentives and are expected to be paid in September 2014.

Long service leave is taken with agreement between employee and employer, or on termination of employment.

Sick leave bonus is paid to entitled employees on termination of employment.

33. Share based payment plans

The Company operates the following employee equity plans. These plans are an important component of the Company's remuneration framework. Further information on the plans including the terms and conditions applicable to grants under the Plans are set out in the 2014 Remuneration Report.

Salary Sacrifice, Deferred Share and Performance Share Plan (Current)

The Company has established an Employee Salary Sacrifice, Deferred Share and Performance Share Plan (the "Plan") used as the vehicle for senior executive long term incentive arrangements. The Plan provides for grants of performance shares to the Managing Director, senior executives and key senior management (the "Participants") as determined by the Board.

In addition, the plan is used to provide grants of deferred shares to Participants as deferred base remuneration that is subject to a service based condition and risk adjustment. The Plan is also used to provide grants of deferred shares in connection with the deferral of short-term incentive ("STI") awards to senior executives and senior management into equity in the Company.

Performance shares

Under the Plan, Participants are invited to receive awards of performance rights (called "performance shares") that are subject to performance conditions set by the Board. If the performance conditions are satisfied during the relevant performance period, the performance shares will vest. Each performance share represents an entitlement to one fully-paid ordinary share in the Company. Accordingly, the maximum number of ordinary shares that may be allocated to Participants is equal to the number of performance shares granted.

The maximum number of performance shares that may vest is subject to the achievement of performance conditions set by the board during the performance period (being 5 years for the Managing Director and 4 years for other Participants). Vesting of performance shares is subject to the achievement of the following:

In the case of the managing director, each annual tranche comprises two components or grants:

(a) Grant A - 50% of each annual tranche is subject to an EPS gateway hurdle requiring an increase in the cash EPS performance of the Company for the performance period. If that hurdle is met, the grant is then subject to a TSR performance hurdle.

(b) Grant B - The other 50% of each annual tranche is subject to continuing service with the Company.

In the case of other Participants, each annual grant is subject to a twelve-month initial performance period for EPS testing and a further three-year performance period for relative TSR testing. The grant will be reduced by 50% at the end of the initial performance period if the cash earnings per share are not equal to or better than the cash earnings per share for the previous year.

During the TSR performance period (for all Participants), vesting of the performance shares is conditional on TSR being at least equal to the median performance of a peer group consisting of the ASX100 Companies (excluding property trusts and resources). Median performance will result in 65% of the performance shares vesting, with 100% vesting if the Company's relative TSR performance is 75% or above.

Performance shares are granted at no cost to the Participants. The Plan rules provide that the Board may determine that a price is payable upon exercise of an exercisable performance share. The board has determined that no exercise price will apply to exercisable performance shares.

The number of performance shares 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 fair value of performance share grants under the Plan are measured at grant date by external valuation and are set out in the below table.

The Participants are entitled to vote and to receive any dividend, bonus issue, return of capital or other distribution made in respect of shares they are allocated on vesting and exercise of their performance shares. The grants to the Managing Director are also subject to a further two-year dealing restriction. There is no dealing restriction on the current grant of performance shares to other Participants.

The current grants under the Plan are as follows:

Grant Date	Number	Weighted
Dec-09	1,540,360	$7.17
Dec-10	90,030	$9.03
Sep-11	110,201	$6.82
Aug-12	202,739	$3.30
Dec-13	148,090	$4.45

33. Share based payment plans (continued)

The grants were made in accordance with the terms disclosed in the 2014 Remuneration Report and were valued and expensed in accordance with applicable accounting requirements and the expense is recognised in the income statement.

The following table illustrates the number (No.), weighted average exercise price (WAEP) and movements in performance shares issued during the year.

	2014 No.	2014 WAEP	2013 No.	2013 WAEP
Outstanding at the beginning of the year	591,357	-	587,330	-
Granted during the year	148,090	-	202,739	-
Forfeited during the year	(17,400)	-	-	-
Vested / Exercised during the year	(228,955)	-	(198,712)	-
Expired during the year	(74,122)	-	-	-
Outstanding at the end of the year	418,970	-	591,357	-

The outstanding balance as at 30 June 2014 is represented by 418,970 rights ('performance shares') over ordinary shares with an exercise price of nil, each exercisable upon meeting the above conditions, and until 2017.

The fair value of the performance shares granted under the Plan takes into account the terms and conditions upon which the performance shares were granted. The fair value is estimated as at the date of grant using the Black-Scholes-Merton Option Pricing Model incorporating a Monte Carlo simulation option pricing model to estimate the probability of achieving the TSR hurdle and the number of shares vesting.

The following table lists the inputs to the model used for the 2013 and 2014 financial years.

Grant	2014	2013
Dividend yield (%)	7.50%	6.50%
Expected volatility (%)	22%	25%
Risk-free interest rate (%)	2.91%	2.49%
Expected life of performance shares (years)	4	4
Exercise price ($)	Nil	Nil
Fair value share price at grant date ($)	$10.98	$7.58

The expected life of the performance shares is based on historical data and is 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.

Deferred shares

Under the Plan, the Participants are granted deferred shares as deferred base remuneration and in relation to the deferral of STI awards. Deferred shares are fully-paid ordinary shares in the Company. Accordingly, the maximum number of shares that may be acquired by the Participants is equal to the number of deferred shares granted.

Deferred shares issued in relation to deferred base remuneration are subject to a service condition and risk adjustment as decided by the Board. The deferred shares are granted at no cost, have no exercise price and are beneficially owned by the Participant from the grant date. They are held on trust for a two year deferral period.

One-third of STI awards that exceed the $50,000 threshold set by the Board are subject to deferral for two-years into equity in the Company. Deferred shares issued in relation to the deferral of STI awards are subject to a two year continued service condition and risk adjustment as decided by the Board.

If the service condition is satisfied at the end of the deferral period, the deferred shares will vest subject to any financial and risk adjustment decided by the Board.

The weighted average fair value of each performance share granted under the Plan is set out in the following table. The fair value of the deferred shares granted under the Plan takes into account the terms and conditions upon which the deferred shares were granted.

The number of shares granted as part of the STI deferral is calculated by dividing the value of the deferred STI remuneration by the volume weighted average closing price of the Company's shares for the five days ending on the grant dates. In relation to deferred base remuneration, the number of shares granted is 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 fair value is measured as at the date of 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.

The Participants are entitled to vote and to receive any dividend, bonus issue, return of capital or other distribution made in respect of shares they are allocated on vesting of their deferred shares.

The grants were made in accordance with the terms disclosed in the 2014 Remuneration Report and were valued and expensed in accordance with applicable accounting requirements and the expense recognised in the income statement.

The current grants under the Plan are as follows:

Grant	Number granted	Weighted Average Fair Value
September 2011 (Deferred STI)	74,466	$7.73
August 2012 (Deferred Base)	94,521	$7.30
October 2013 (Deferred STI)	30,397	$10.38
December 2013 (Deferred Base)	80,152	$10.86

The following table illustrates the number (No.), weighted average exercise price (WAEP) and movements in deferred shares issued during the year.

	2014 No.	2014 WAEP	2013 No.	2013 WAEP
Outstanding at the beginning of the year	94,521	-	74,466	-
Granted during the year	110,549	-	94,521	-
Forfeited during the year	-	-	(2,781)	-
Vested / Exercised during the year	(94,521)	-	(71,685)	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	110,549	-	94,521	-

The outstanding balance as at 30 June 2014 is represented by 110,549 deferred shares with an exercise price of nil, each exercisable upon the Participant meeting the conditions outlined above, and until 30 June 2015.

Share Grant Scheme (Current)

The Company has established a tax-exempt Employee Share Grant Scheme ("ESGS") as the main equity participation platform for general employees. The ESGS is open to all full-time and permanent part-time staff in the Group (excluding directors and senior executives) who can elect to acquire fully paid ordinary shares in the Company. It was intended that grants under the ESGS would be made annually subject to board discretion and having regard to the Company's performance.

Employees will generally be entitled to participate in rights attached to the shares including to receive dividends and to vote at general meetings. The shares are restricted for three years unless the employee leaves the Company.

The grants to general employees under the ESGS are as follows:

(a) January 2009: 764,504 fully paid ordinary shares issued at $10.78 with a fair value of $10.78;

(b) March 2010: 340,039 fully paid ordinary shares issued at $10.03 with a fair value of $10.03;

(c) February 2011: 327,233 fully paid ordinary shares issued at $9.78 with a fair value of $9.78; and

(d) October 2013: 274,251 fully paid ordinary shares issued at $10.47 with a fair value of $10.47

There were no grants under the ESGS during the 2012 and 2013 financial years.

The shares are issued at nil cost to eligible employees. The issue price is calculated using the volume weighted average price of the Company's shares traded over the five days prior to the issue date. The share issues were valued and expensed in accordance with applicable accounting requirements and the expense is recognised in the income statement. As at 30 June 2014 there were 262,555 fully paid ordinary shares held by the Plan Trustee.

33. Share based payment plans (continued)

The following table illustrates the number (No.), weighted average exercise price (WAEP) and movements in Plan shares during the year.

	2014 No.	2014 WAEP	2013 No.	2013 WAEP
Outstanding at the beginning of the year	278,310	-	584,946	-
Granted during the year	274,251	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	(290,006)	-	(306,636)	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	262,555	-	278,310	-
Exercisable at the end of the year	-	-	-	-

Employee Share Plan (Current)

The Company established a loan-based limited recourse Employee Share Plan ("Plan") in 2006. The Plan is substantially the same as the legacy plan (employee share ownership plan) that was in place from 1995 to 2006. However, the new Plan is only available to general staff. Senior executives (including the Managing Director) may not participate in this Plan.

Under the terms of the Plan, shares are issued at the prevailing market value. The shares must be paid for by the staff member. The Plan provides staff members with an interest-free loan for the sole purpose of acquiring Plan shares.

Net cash dividends after personal income tax obligations are applied to reduce the loan balance and staff cannot deal in the shares until the loan has been repaid. The primary benefit under the terms of the Plan is the financial benefit of the limited recourse interest-free loan.

The first issue to general staff under this plan was completed in September 2006. A grant to Community Bank® employees was made in December 2007. There have been no further issues under this Plan. Share issues under the Plan are valued and expensed in accordance with applicable accounting requirements. The expense recognised in the income statement in relation to share-based payments is disclosed on the following page. The following table illustrates the number (No.), weighted average exercise price (WAEP) and movements in Plan shares (including the employee share ownership plan) during the year.

	2014 No.	2014 WAEP	2013 No.	2013 WAEP
Outstanding at the beginning of the year	3,313,037	$5.65	3,683,212	$5.78
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	(165,448)	$5.67	(370,175)	$6.90
Expired during the year	-	-	-	-
Outstanding at the end of the year	3,147,589	$5.16	3,313,037	$5.65
Exercisable at the end of the year	3,147,589	$5.16	3,313,037	$5.65

The outstanding balance as at 30 June 2014 is represented by 3,147,589 ordinary shares with a market value of $38,400,586 at 30 June 2014 (30 June 14 share price $12.20), exercisable upon repayment of the employee loans.

The acquisition price for shares issued under the Plan is calculated using the volume weighted average share price of the company's shares traded on the ASX in the seven days trading ending one calendar week before the invitation date.

The fair value of the shares granted under the Plan is estimated as at the date of each grant using the Black-Scholes-Merton Option Pricing Model taking into account the terms and conditions upon which the shares were granted. The fair value is determined by independent valuation. The expected life of the share options is based on historical data and is not necessarily indicative of exercise patterns that may occur.

33. Share based payment plans (continued)

Employee Share Plan (Current) (continued)

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 exercise price of the shares issued will reduce over time as dividends are applied to repay the staff loans.

Employee Share Ownership Plan (Discontinued)

In 2006 the Company discontinued the existing loan-based Employee Share Ownership Plan (“Plan”) that was open to all employees in the Group, including the Managing Director and Senior Executives. The Plan will continue as a legacy plan until such time as the loans provided to fund share purchases under the Plan have been repaid. There have been no issues of shares under this Plan since November 2004.

Shares were issued under the Plan at market value. The terms of the Plan are consistent with the Share Ownership Plan described earlier. The Plan provides staff members with an interest-free loan for the sole purpose of acquiring Plan shares. Staff cannot deal in the shares until the loan has been repaid. The primary benefit under the terms of the Plan is the financial benefit of the limited recourse interest-free loan.

The loan will be repayable progressively out of after tax dividends (if any) paid on the shares and the sale of unexercised renounceable rights (if any). A participant is not otherwise obliged to repay all or part of the outstanding loan while he or she is an employee of the Bank.

The loan must be fully repaid when a participant ends employment and before the participant can sell, transfer, mortgage or otherwise deal with the shares.

If a participant’s employment ends and the participant has not repaid the loan within the time period specified by the Board, the Company may sell, transfer or realise the participant’s shares and apply those funds to cover the costs of the sale and to repay the loan. If there is a shortfall in repaying the loan once the participant’s shares are sold, the Company will not have any further recourse against the participant.

Information on the number, weighted average exercise price, loan balances and movements in Plan shares during the year have been aggregated into the tables presented above under the heading “Employee Share Plan (Current)”. The notional value of limited recourse interest-free loans provided to relevant Senior Executives under this Plan is also disclosed in the remuneration tables in the 2014 Remuneration Report.

34. Auditors' remuneration

	Consolidated		Parent	
	2014	2013	2014	2013
	$	$	$	$
Total fees paid or due and payable to Ernst & Young (Australia)[1]				
Audit and review of financial statements [2]	2,275,370	1,817,403	1,618,026	1,297,440
Audit-related fees				
Regulatory [3]	312,057	620,318	240,678	565,985
Non-regulatory [4]	798,109	3,502	798,109	3,502
Total audit-related fees	**1,110,166**	**623,820**	**1,038,787**	**569,487**
All other fees [5]				
Taxation services	800	125,705	800	93,205
Other services	4,429	50,470	-	-
Total other fees	**5,229**	**176,175**	**800**	**93,205**
Total remuneration of Ernst & Young Australia	**3,390,765**	**2,617,398**	**2,657,613**	**1,960,132**

[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 Parent, 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 (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 the Group's acquisition accounting, tax consolidation processes and data and model validation for Basel II advanced accreditation.

[5] All other fees, including taxation services and other advice are incurred under the audit committee's pre-approval policies and procedures, having regard to the auditor’s independence requirements of applicable laws, rules and regulations, and assessment that each of the non-audit services provided would not impair the independence of Ernst & Young.

35. Related party disclosures

Ultimate Parent Entity

Bendigo and Adelaide Bank Limited is the ultimate parent entity, which is incorporated in Australia.

Wholly owned Group transactions

Bendigo and Adelaide Bank Limited is the parent entity of all entities listed in Note 18 - Particulars in relation to controlled entities.

Transactions undertaken during the financial year with those entities are eliminated in the consolidated financial report. The transactions principally arise from the provision of administrative, distribution, corporate and general banking services.

Additionally, Bendigo and Adelaide Bank pays operating costs and banks receipts on behalf of certain controlled entities which are financed via unsecured interest free intercompany loans. The loans have no fixed repayment date. Amounts due from and due to controlled entities at balance date are shown in the balance sheet. The balance of these intercompany loans is included in the net amount owing from subsidiaries balance in the table below.

Interest received or receivable from and paid or payable to controlled entities and dividends received and receivable from controlled entities is disclosed in Note 3 - Profit.

The aggregate of material transactions excluding dividends between Bendigo Adelaide Bank and its subsidiaries during the period were:

	2014 $m	2013 $m
Opening balance at beginning of financial year	(379.6)	(787.5)
Net receipts and fees received from subsidiaries	263.0	462.5
Supplies, fixed assets and services charged to subsidiaries	(99.3)	(54.6)
Net amount owing from subsidiaries at 30 June 2014	(215.9)	(379.6)

Bendigo and Adelaide Bank provides funding and guarantee facilities to several subsidiary companies as detailed in the following table. The balance outstanding on these facilities are included in the net amount owing from subsidiaries in the above table. All funding and guarantee facilities are provided to subsidiary companies on normal commercial terms and conditions.

Subsidiary	Facility	Limit $m	Drawn/issued at 30 June 2014 $m
Sandhurst Trustees Limited	Guarantee	0.5	-

Dividends paid by the subsidiaries are disclosed below:	2014 $m	2013 $m
Sandhurst Trustees Limited	-	55.4
Leveraged Equities	-	60.0

All transactions between Group entities are eliminated on consolidation.

35. Related party disclosures (continued)

Other related party transactions

Securitised and sold loans

The Bank securitised loans totalling $498.4 million (2013: $3,053.0 million) during the financial year. The consolidated Group does invest in some of its own securitisation programs where the Bank holds A & B notes equivalent to $5,265.9 million as at 30 June 2014 (2013: $6,520.4 million). The Bank does invest in other securitisation programs unrelated to the Bank as part of normal investment activities.

Joint arrangement entities and associates

Bendigo and Adelaide Bank Limited has investments in joint arrangement entities and associates as disclosed in Note 19 - Investments accounted for using the equity method. The Group has transactions with the joint arrangement entities and associates, principally relating to commissions received and paid, services and supplies procured from joint arrangements and associates and fees charged in relation to the provision of banking, administrative and corporate services. These revenue and expense items are included in the relevant values disclosed in Note 3 - Profit. The transactions are conducted on terms and conditions no more favourable than those which it is reasonable to expect would have been adopted if dealing with the joint arrangement entities and associates at arm's length in the same circumstances.

During the financial year, transactions took place between the Bendigo and Adelaide Bank Group and joint arrangement entities and associates as follows:

		Commissions and fees paid to joint arrangements	Supplies and services provided to joint arrangements	Amount owing to/(from) joint arrangements
		$m	$m	$m
Homesafe Solutions Pty Ltd	2014	4.4	-	0.8
	2013	4.3	-	0.9
Community Sector Enterprises Pty Ltd	2014	9.0	3.8	0.3
	2013	8.6	3.8	0.3
Silver Body Corporate Financial Services Pty Ltd	2014	0.8	0.4	0.4
	2013	0.8	0.5	0.7
Strategic Payments Services Pty Ltd	2014	8.4	-	5.6
	2013	12.2	-	4.4
Dancoor Community Finances Ltd [1]	2014	0.2	0.1	0.1
Linear Financial Holdings Pty Ltd	2014	-	-	(5.2)
	2013	-	-	(4.7)
Homebush Financial Services Ltd	2014	0.5	0.2	-
	2013	0.6	0.1	0.1
Vicwest Community Enterprises Ltd	2014	0.1	6.6	(3.2)
	2013	0.1	3.0	(2.9)

[1] Dancoor Community Finances Ltd (effective January 2014)

Dividends received and receivable from joint arrangements and associates are disclosed in Note 3 – Profit.

Bendigo and Adelaide Bank Limited provides loans, guarantees and/or overdraft facilities to joint arrangements and associates in connection with cash flow management, and the payment of administration costs on behalf of the 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.

35. Related party disclosures (continued)

Other related party transactions

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group.

The table below details on an aggregated basis, key management personnel compensation:

The Group's key management personnel are those members of the Bendigo and Adelaide Bank Group Executive Committee together with its non-Executive Directors.

	30 June 2014 $'000's	30 June 2013 $'000's
Compensation		
Salaries and other short term benefits	7,672.7	6,824.0
Post-employment benefits	332.3	281.0
Other long term benefits	118.5	67.0
Share-based payments	2,257.9	1,681.0
Closing balance	**10,381.4**	**8,853.0**

The table below details, on an aggregate basis, key management personnel equity.

The equity holdings comprise of ordinary share, preference shares, performance shares and deferred shares.

	30 June 2014 No.	30 June 2013 No.
Equity holdings		
Opening balance [1]	1,985,557	1,962,272
Shares granted/purchased	352,025	471,224
Shares exercised/sold	(218,397)	(286,021)
Closing balance	**2,119,185**	**2,147,475**

The table below details, on an aggregated basis, loan balances outstanding at the end of the year, together with information relating to other transactions between the Group and its key management personnel.

	30 June 2014 $'000's	30 June 2013 $'000's
Loans		
Opening balance [1]	7,728.9	6,782.1
Advances	2,596.2	1,978.9
Interest	371.3	381.6
Repayments	(2,949.5)	(1,881.1)
Closing balance	**7,746.9**	**7,261.5**

Loans to directors and senior executives are made in the ordinary course of the Company's business and on an arm's length basis. The loans are processed and approved in accordance with the Bank's standing lending processes and prevailing terms and conditions.

[1] Mr Jenkins ceased as a KMP on 19 August 2013, Mr Musgrove commenced as a KMP on 19 August 2013 and Ms Tullio commenced as a KMP on 5 July 2013. The opening balance has been amended to account for the changes in key management personnel. For the purposes of these disclosures the changes were treated as effective from the start of the 2014 financial year.

36. Risk management

Financial Risk Management

The management of risk is an essential element of the Group's strategy and the way we operate our business. The key financial risks associated with the Group's activities are:

a. Credit Risk;
b. Market Risk – Traded;
c. Market Risk – Non Traded (Interest Rate Risk in the Banking Book); and
d. Liquidity and Funding Risk.

The above financial risks are managed within the Group's risk appetite and risk management framework which is overseen by the Board and the Board Risk Committee and Board Credit Committee. These committees are supported by executive management committees including the Management Credit Committee, Operational Risk Committee and Asset and Liability Management Committee ("ALMAC") which oversee the Group's risk profile, risk appetite and risk management framework.

The Board sets the risk appetite and risk management strategy. The types and level of risk that the Group is willing to accept to achieve its strategic objectives and business plans are documented in a Risk Appetite Statement. The strategy and approach to managing risks associated with the Group's activities are articulated in the Board approved Group Risk Management Framework. The Group applies the '3 lines of defence' approach to risk management. The first line of defence is represented by the Group's business divisions which are responsible for the day to day management of risk including identifying, assessing and implementing strategies to manage the risks associated with their business activities within the approved risk appetite.
The second line of defence is represented by the Group Risk and Middle Office functions. The Group Risk function reports to the Executive – Risk and the Middle Office function reports to the Chief Financial Officer. The second line of defence is responsible for the risk management framework and supporting policies and standards. The Group Risk and Middle Office functions assist the Group's business units in managing risk and provide independent challenge, oversight, monitoring and reporting of risk.
The third line of defence is the Group Assurance function. Group Assurance independently tests and validates the operation and effectiveness of the risk management framework and the supporting systems and controls.
Further information on the Group's risk management framework and the approach to managing risk, including Board, senior management and business unit responsibilities, is contained in the Operating and Financial Review section of the Annual Financial Report. An overview of the Group's risk appetite and approach to managing the key financial risks is presented below.

Credit risk

Credit risk is the potential that the Group will suffer a financial loss due to the unwillingness or inability of counterparties to fully meet their contractual debts and obligations. The Board has set an appetite for the maximum amount of credit risk that it is willing to assume at various levels across the organisation. The Group is predominantly exposed to credit risk as a result of its commercial, business and consumer lending activities as well as counterparty exposures arising from the funding activities of Group Treasury.

The risk appetite for credit risk is articulated through a number of selected credit risk measures. The credit risk characteristics considered by the Board in the setting credit risk appetite included customer concentrations, partner concentrations, portfolio concentrations (including geographic and industry), listed securities and managed fund exposures as well as stress testing scenarios and outcomes.

The Board approved credit risk appetite is expressed through the following exposure and concentration limits:

- Maximum large exposure limit (based on a portfolio percentage - excluding the treasury portfolio and intergroup loan advances);
- Maximum top 20 exposure limit (based on a portfolio percentage - excluding treasury portfolio and inter-group loan advances);
- Maximum top 20 exposure limit (based on a portfolio percentage including treasury portfolio and inter-group loan advances);
- Tolerable expected loss per individual transaction;

- Compliance with the following aggregate portfolio exposure limits:
  - Maximum Treasury Counterparty Exposure;
  - Maximum Geographic Exposure;
  - Maximum Industry Sector Exposure;
  - Maximum Business Sector Exposure;
  - Maximum Lenders Mortgage Insurance Exposure;
  - Maximum Lo Doc Portfolio Limit;
  - Margin Lending; and
  - Unsecured Exposure Limits.

The Board has approved a credit risk management framework ("framework") that sets out the approach to managing credit risk. The objective of the framework is to ensure there are effective structures, controls and governance practices to manage credit risk. This includes arrangements to monitor and report adherence with the credit risk appetite.
The framework comprises the strategy, governance, measurement, reporting and control structures used to manage credit risk. The framework is supported by a range of credit policies and manuals that govern exposure and concentration limits as well as the day to day provision of credit including credit ratings, credit standards, loan documentation and administration. The Board has also established levels of delegated lending authority under which the business, various levels of management (including the Management Credit Committee) and partners can approve credit transactions.

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Consolidated		Parent	
	2014	2013	2014	2013
Gross maximum exposure	$ m	$ m	$ m	$ m
Cash and cash equivalents	538.5	232.9	432.9	107.2
Due from other financial institutions	242.5	293.9	242.4	292.2
Financial assets held for trading	7,265.4	5,465.2	7,265.8	5,465.8
Financial assets available for sale - debt securities	619.3	608.9	1,292.6	1,362.9
Financial assets held to maturity	286.6	323.3	2.0	1.8
Other assets	680.2	432.5	1,432.7	1,132.5
Financial assets available for sale - equity investments	24.3	18.1	4.9	4.5
Derivatives	22.3	31.9	203.0	182.6
Shares in controlled entities	-	-	575.4	526.5
Amounts receivable from controlled entities	-	-	283.8	544.7
Loans and other receivables - investment	397.1	554.1	397.1	554.1
Gross loans and other receivables	52,716.7	50,125.0	47,366.0	44,759.1
	62,792.9	**58,085.8**	**59,498.6**	**54,933.9**
Contingent liabilities	266.9	232.9	264.2	227.8
Commitments	5,320.1	5,474.3	5,122.9	5,212.6
	5,587.0	**5,707.2**	**5,387.1**	**5,440.4**
Total credit risk exposure	**68,379.9**	**63,793.0**	**64,885.7**	**60,374.3**

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.
The effect of collateral and other risk mitigation techniques is shown in the ageing table within this note.

Concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client or counter-party, by geographical region and by industry sector.
The maximum credit exposure to any client or counter-party as at 30 June 2014 was $803.5 million (2013: $856.4 million) before taking account of collateral or other credit enhancements and $803.5 million (2013: $856.4 million) net of such protection.

Geographic

The Group's financial assets, before taking into account any collateral held or other credit enhance-ments can be analysed by the following geographic regions.

	Consolidated		Parent	
	2014	2013	2014	2013
Gross maximum exposure	$ m	$ m	$ m	$ m
Victoria	25,258.1	22,359.3	25,527.8	23,689.4
New South Wales	14,897.7	13,183.5	14,310.4	11,775.7
Australian Capital Territory	944.7	840.0	914.3	807.5
Queensland	10,406.1	9,836.3	9,365.7	8,537.5
South Australia/Northern Territory	7,404.3	7,907.9	6,903.4	7,476.8
Western Australia	7,663.3	7,552.7	6,259.3	6,139.9
Tasmania	1,425.8	1,504.9	1,241.8	1,356.8
Overseas/other	379.9	608.4	363.0	590.7
Total credit risk exposure	**68,379.9**	**63,793.0**	**64,885.7**	**60,374.3**

Industry Sector

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

Industry Concentration	Consolidated		Parent	
	Gross maximum exposure 2014 $ m	Gross maximum exposure 2013 $ m	Gross maximum exposure 2014 $ m	Gross maximum exposure 2013 $ m
Accommodation and food services	725.0	699.2	723.4	698.9
Administrative and support services	294.6	307.8	294.2	307.8
Agriculture, forestry and fishing	5,229.8	5,174.5	1,410.8	1,495.1
Arts and recreation services	213.9	206.2	213.6	206.2
Construction	2,677.9	2,564.1	2,631.9	2,522.6
Education and training	402.9	413.9	402.9	413.9
Electricity, gas, water and waste services	201.2	209.1	201.2	209.1
Financial and insurance services	1,400.5	1,515.7	1,395.5	1,514.5
Financial services	9,405.7	7,214.3	11,492.8	9,461.9
Health care and social assistance	956.8	1,180.7	956.8	1,180.7
Information media and telecommunications	174.5	184.5	174.5	192.8
Manufacturing	920.8	924.1	919.0	922.6
Margin Lending	1,822.7	1,915.6	-	-
Mining	216.9	236.6	216.9	236.6
Other	351.7	229.3	356.8	223.6
Other services	690.3	712.6	690.1	712.4
Professional, scientific and technical services	880.0	874.1	879.5	873.6
Public administration and safety	573.4	670.3	575.3	669.7
Rental, hiring and real estate services	4,763.4	4,157.7	4,750.2	4,138.6
Residential/consumer	33,888.4	31,758.8	34,014.2	31,753.2
Retail trade	1,412.8	1,414.7	1,412.5	1,414.3
Transport, postal and warehousing	742.5	775.6	739.6	775.2
Wholesale trade	434.2	453.6	434.0	451.0
	68,379.9	**63,793.0**	**64,885.7**	**60,374.3**

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

> For home loans - charges over borrowers' residential property, other properties or cash. Further, lenders mortgage insurance (LMI) is taken out for most loans with a loan to valuation ratio (LVR) higher than 80%.

> For commercial loans - charges over specified assets such as commercial and residential property, inventory and trade receivables or cash, and guarantees.

> For margin lending - charges over listed securities and managed funds.

> For personal loans - approximately 50% are secured by a charge over a specified asset, whilst credit cards are predominately unsecured.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during the review of the adequacy of the allowance for impairment losses. It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

36. Risk management (continued)

Credit quality

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset for financial asset balance sheet lines, based on the Group's credit rating system.

Consolidated

2014	Neither past due or impaired: High grade	Standard grade	Sub-standard grade	Unrated	Consumer loans [1]	Past due or impaired	Total
	$ m	$ m	$ m	$ m	$ m	$ m	$ m
Cash and cash equivalents	538.5	-	-	-	-	-	538.5
Due from other financial institutions	242.5	-	-	-	-	-	242.5
Financial assets held for trading	7,265.4	-	-	-	-	-	7,265.4
Financial assets available for sale - debt securities	619.3	-	-	-	-	-	619.3
Financial assets held to maturity	286.6	-	-	-	-	-	286.6
Other assets	-	-	-	680.2	-	-	680.2
Financial assets available for sale - equity investments	-	-	-	24.3	-	-	24.3
Derivatives	22.3	-	-	-	-	-	22.3
Loans and other receivables - investment	16.6	59.9	5.6	4.3	291.8	18.9	397.1
Loans and other receivables	3,789.7	8,823.9	922.6	530.1	35,874.6	2,775.8	52,716.7
	12,780.9	**8,883.8**	**928.2**	**1,238.9**	**36,166.4**	**2,794.7**	**62,792.9**

2013							
Cash and cash equivalents	232.9	-	-	-	-	-	232.9
Due from other financial institutions	293.9	-	-	-	-	-	293.9
Financial assets held for trading	5,465.2	-	-	-	-	-	5,465.2
Financial assets available for sale - debt securities	608.9	-	-	-	-	-	608.9
Financial assets held to maturity	323.3	-	-	-	-	-	323.3
Other assets	-	-	-	432.5	-	-	432.5
Financial assets available for sale - equity investments	-	-	-	18.1	-	-	18.1
Derivatives	31.9	-	-	-	-	-	31.9
Loans and other receivables - investment	-	302.4	221.7	17.2	-	12.8	554.1
Loans and other receivables	3,473.6	8,377.3	1,134.7	606.7	33,681.6	2,851.1	50,125.0
	10,429.7	**8,679.7**	**1,356.4**	**1,074.5**	**33,681.6**	**2,863.9**	**58,085.8**

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

Credit Quality (continued)

Parent

2014	Neither past due or impaired High grade	Standard grade	Sub-standard grade	Unrated	Consumer loans [1]	Past due or impaired	Total
	$ m	$ m	$ m	$ m	$ m	$ m	$ m
Cash and cash equivalents	432.9	-	-	-	-	-	432.9
Due from other financial institutions	242.4	-	-	-	-	-	242.4
Financial assets held for trading	7,265.8	-	-	-	-	-	7,265.8
Financial assets available for sale - debt securities	1,292.6	-	-	-	-	-	1,292.6
Financial assets held to maturity	2.0	-	-	-	-	-	2.0
Other assets	-	-	-	1,432.7	-	-	1,432.7
Financial assets available for sale - equity investments	-	-	-	4.9	-	-	4.9
Derivatives	203.0	-	-	-	-	-	203.0
Loans and other receivables - investment	16.6	59.9	5.6	4.3	291.8	18.9	397.1
Loans and other receivables	332.4	7,242.5	681.4	517.3	36,273.9	2,318.5	47,366.0
Amounts receivable from controlled entities	-	-	-	283.8	-	-	283.8
Shares in controlled entities	-	-	-	575.4	-	-	575.4
	9,787.7	**7,302.4**	**687.0**	**2,818.4**	**36,565.7**	**2,337.4**	**59,498.6**

2013	High grade	Standard grade	Sub-standard grade	Unrated	Consumer loans [1]	Past due or impaired	Total
Cash and cash equivalents	107.2	-	-	-	-	-	107.2
Due from other financial institutions	292.2	-	-	-	-	-	292.2
Financial assets held for trading	5,465.8	-	-	-	-	-	5,465.8
Financial assets available for sale - debt securities	1,362.9	-	-	-	-	-	1,362.9
Financial assets held to maturity	1.8	-	-	-	-	-	1.8
Other assets	-	-	-	1,132.5	-	-	1,132.5
Financial assets available for sale - equity investments	-	-	-	4.5	-	-	4.5
Derivatives	182.6	-	-	-	-	-	182.6
Loans and other receivables - investment	-	302.4	221.7	17.2	-	12.8	554.1
Loans and other receivables	83.0	6,768.7	807.4	964.9	33,684.4	2,450.7	44,759.1
Amounts receivable from controlled entities	-	-	-	544.7	-	-	544.7
Shares in controlled entities	-	-	-	526.5	-	-	526.5
	7,495.5	**7,071.1**	**1,029.1**	**3,190.3**	**33,684.4**	**2,463.5**	**54,933.9**

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

36. Risk management (continued)

Credit Quality (continued)

Ageing

Ageing analysis of past due but not impaired loans and other receivables.

	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
Consolidated						
2014	1,310.3	315.2	122.5	634.9	2,382.9	6,063.8
2013	1,560.7	321.6	133.8	457.6	2,473.7	8,486.8
Parent						
2014	1,214.4	258.4	87.4	589.4	2,149.6	4,673.7
2013	1,552.3	276.4	120.1	376.1	2,324.9	7,857.1

Renegotiated terms

Generally, the terms of loans are only renegotiated on a temporary basis in the event of customer hardship. In these cases the term of the loan is extended, but no longer than the maximum term entitlement for the product. Original terms are typically re-instated within a 3 to 6 month period. The majority of retail customers proactively contact the Bank prior to the loan becoming past due or impaired. Therefore, the carrying value of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is considered immaterial.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in three areas: individually assessed allowances (specific provisions), collectively assessed allowances (collective provisions) and a prudential reserve (general reserve for credit losses).

Individually assessed provisions (specific provisions)

The Group determines the impairment provision appropriate for each individually significant impaired loan or advance on an individual basis. Items considered when determining provision amounts include the sustainability of the counter-party's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of expected cash flows.

The impairment losses are evaluated on a continuous basis. Allowances are assessed on a portfolio basis for losses on loans and receivables that are not individually significant (including unsecured credit cards, personal loans, overdrafts, unsecured mortgage loans) and where specific identification is impractical. Provisions are calculated for these portfolios based on historical loss experience.

Collectively assessed provisions (collective provisions)

Where individual loans are found not to be specifically impaired they are grouped together according to their risk characteristics and are then assessed for impairment. Based on historical loss data and current available information for assets with similar risk characteristics, the appropriate collective provision is raised. The collective provisions are re-assessed at each balance date.

Prudential reserve (general reserve for credit losses)

A general reserve for credit losses is maintained to cover risks inherent in the loan portfolios. 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 of retained earnings. The Bank maintained a GRCL at 0.56% as at 30 June 2014 (2013:0.57%).

36. Risk management (continued)

Liquidity risk

Liquidity risk is defined as the risk that the Group is unable to meet its payment obligations as they fall due, including repaying depositors or maturing wholesale debt, or the Group having insufficient capacity to fund increases in assets. The principal objectives are to ensure that all cash flow commitments are met in a timely manner, minimum liquidity and prudential requirements continue to be met, the return on investments is maximised, funding costs are minimised and to ensure exchange and other settlement obligations are met on a cost efficient and timely basis. Liquidity risk is inherent in all banking operations due to the timing mismatch between cash inflows and cash outflows.

The Board has established a liquidity risk management framework ("framework") which is supported by documented liquidity management policies and procedures. In accordance with the framework the Group maintains:

> Robust liquidity risk management structures to manage daily cash flows and to ensure the group meets all obligations as they fall due and to provide a cushion of unencumbered high quality liquid assets to withstand a range of stress events;

> A clearly articulated liquidity risk appetite which includes risk tolerances, policies and procedures and linkage to business strategy and objectives;

> A funding strategy that provides appropriate diversification in the sources and tenor of funding and which maintains a strong presence in funding markets to support the diversification strategy;

> An effective funds transfer pricing framework that allocates liquidity costs, benefits and risks in the internal pricing, performance and measurement process;

> A stress testing framework which incorporates a variety of short term and extended "name" and "market-wide" scenarios which identify liquidity vulnerabilities and aim to confirm that current liquidity exposures are in accordance with the established liquidity risk tolerances;

> Contingency plans to deal with a name crisis, and

> The ability to achieve maximum profitability within the confines of the above objectives.

The framework incorporates limits, monitoring and escalation processes to ensure sufficient liquidity is maintained.
The Board has also established the liquidity risk tolerances used to determine the maximum level of liquidity risk that is accepted by the business. The liquidity risk appetite specifies the minimum holdings of high quality liquid assets that must be held at all times and requires the ongoing maintenance of prudent levels of liquidity to ensure that day-to-day liquidity requirements are met. The liquidity risk appetite statement contains a comprehensive set of measures comprising:

> Liquidity Ratio

> High Quality Liquid Asset Ratio

> Times Cover Ratio

> APRA Going Concern Scenario Modelling

> APRA Name Crisis Scenario Modelling

> RBA Exchange Settlement Account (ESA) Balance

> Portfolio Composition, Diversification and Funding Sources

The Group obtains its funding from a variety of sources including customer deposits and wholesale funding from domestic and international markets to meet its funding requirements.

A funding strategy is approved by the Board each year as part of the approval of annual business and financial targets. In addition, Finance and Treasury prepare and maintain a funding plan that is considered by the ALMAC on a monthly basis and reviewed by the Board Risk Committee.

Group Treasury is responsible for implementing liquidity risk management strategies in accordance with approved policies, limits and tolerances. 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.

The Group's liquidity risk management system measures net cash outflows and inflows and tolerances to ensure sufficient liquidity is available at all times. This includes normalised business operations as well as over an extended crisis horizon and includes alternative crisis scenarios to assist in anticipating cash flow needs and providing adequate reserves. The Group maintains a portfolio of high quality assets that can be liquidated and readily converted to cash in the event of an unforeseen interruption of cash flow.

Liquidity risk (continued)

The liquidity position is also 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 Group. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. Net liquid assets consist of cash, short term bank deposits and liquid debt securities available for immediate sale, less deposits for banks and other issued securities and borrowings due to mature within the next month.

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.

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 extra-ordinary circumstances such as systemic liquidity issues.

The Group is transitioning its liquidity risk management practices to comply with the Basel III Liquidity requirements under new Prudential Standard APS 210 which come into effect on 1 January 2015.

The liquidity ratio during the financial year was as follows:

	2014 %	2013 %
30 June	14.56	11.91
Average during the financial year	12.12	11.63
Highest	14.80	13.20
Lowest	11.13	10.90

Analysis of financial liabilities by remaining contractual maturities

The tables below summarises for the Group the maturity profile of the financial liabilities at 30 June 2014 based on contractual undiscounted cash flows, and the contractual expiry by maturity of the contingent liabilities and commitments. The table includes commitments which are not exposed to credit risk.

Cash flows which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Consolidated	At call	Not longer than 3 months	3 to 12 months	1 to 5 years	Longer than 5 years	Total
2014	$ m	$ m	$ m	$ m	$ m	$ m
Financial liabilities						
Due to other financial institutions	363.5	-	-	-	-	363.5
Deposits	14,235.8	21,696.3	13,309.6	3,477.8	1.0	52,720.5
Notes payable	8.5	441.3	345.3	2,745.3	1,721.6	5,262.0
Derivatives	-	94.0	208.9	506.4	40.2	849.5
Other payables	837.0	-	-	-	-	837.0
Income tax payable	17.5	-	-	-	-	17.5
Convertible preference shares	-	-	14.3	297.2	-	311.5
Subordinated debt - at amortised cost	-	10.0	58.6	150.8	729.1	948.5
Total financial liabilities	**15,462.3**	**22,241.6**	**13,936.7**	**7,177.5**	**2,491.9**	**61,310.0**
Contingent liabilities & commitments						
Contingent liabilities	266.9	-	-	-	-	266.9
Commitments	5,320.1	18.9	56.5	187.5	172.3	5,755.3
Total contingent liabilities and commitments	**5,587.0**	**18.9**	**56.5**	**187.5**	**172.3**	**6,022.2**

36. Risk management (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

Consolidated

2013	At call $ m	Not longer than 3 months $ m	3 to 12 months $ m	1 to 5 years $ m	Longer than 5 years $ m	Total $ m
Financial liabilities						
Due to other financial institutions	379.5	-	-	-	-	379.5
Deposits	12,516.6	21,044.2	12,246.8	2,058.4	1.2	47,867.2
Notes payable	-	549.6	10.8	1,454.1	4,392.2	6,406.7
Derivatives	-	184.7	144.7	373.0	47.2	749.6
Other payables	504.9	-	-	-	-	504.9
Income tax payable	47.1	-	-	-	-	47.1
Convertible preference shares	-	-	14.7	320.4	-	335.1
Subordinated debt - at amortised cost	-	6.0	17.7	117.4	375.2	516.3
Total financial liabilities	**13,448.1**	**21,784.5**	**12,434.7**	**4,323.3**	**4,815.8**	**56,806.4**
Contingent liabilities & commitments						
Contingent liabilities	232.9	-	-	-	-	232.9
Commitments	5,474.3	15.7	47.2	149.6	185.6	5,872.4
Total contingent liabilities and commitments	**5,707.2**	**15.7**	**47.2**	**149.6**	**185.6**	**6,105.3**

Parent

2014	At call $ m	Not longer than 3 months $ m	3 to 12 months $ m	1 to 5 years $ m	Longer than 5 years $ m	Total $ m
Financial liabilities						
Due to other financial institutions	363.0	-	-	-	-	363.0
Deposits	14,050.2	20,420.5	11,345.1	3,414.8	0.3	49,230.9
Notes payable	-	328.5	-	-	-	328.5
Derivatives	-	90.8	201.2	429.9	40.2	762.1
Other payables	975.3	-	-	-	-	975.3
Loans payable to securitisation trusts	-	-	-	-	4,760.4	4,760.4
Income tax payable	17.5	-	-	-	-	17.5
Convertible preference shares	-	-	14.3	297.2	-	311.5
Subordinated debt - at amortised cost	-	9.0	55.7	135.6	674.6	874.9
Total financial liabilities	**15,406.0**	**20,848.8**	**11,616.3**	**4,277.5**	**5,475.5**	**57,624.1**
Contingent liabilities & commitments						
Contingent liabilities	264.2	-	-	-	-	264.2
Commitments	5,122.9	18.4	55.0	180.2	163.4	5,539.9
Total contingent liabilities & commitments	**5,387.1**	**18.4**	**55.0**	**180.2**	**163.4**	**5,804.1**

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

Parent	At call	Not longer than 3 months	3 to 12 months	1 to 5 years	Longer than 5 years	Total
2013	$ m	$ m	$ m	$ m	$ m	$ m
Financial liabilities						
Due to other financial institutions	371.4	-	-	-	-	371.4
Deposits	12,336.7	19,787.4	10,273.7	2,007.6	0.5	44,405.9
Notes payable	-	350.3	-	-	-	350.3
Derivatives	-	98.7	135.9	198.8	47.2	480.6
Other payables	775.7	-	-	-	-	775.7
Loans payable to securitisation trusts	-	-	-	-	5,829.9	5,829.9
Income tax payable	47.1	-	-	-	-	47.1
Convertible preference shares	-	-	14.7	320.4	-	335.1
Subordinated debt - at amortised cost	-	5.0	14.8	102.0	316.9	438.7
Total financial liabilities	**13,530.9**	**20,241.4**	**10,439.1**	**2,628.8**	**6,194.5**	**53,034.7**
Contingent liabilities & commitments						
Contingent liabilities	227.8	-	-	-	-	227.8
Commitments	5,212.6	15.7	47.1	149.6	185.6	5,610.6
Total contingent liabilities & commitments	**5,440.4**	**15.7**	**47.1**	**149.6**	**185.6**	**5,838.4**

Market risk (including interest rate and currency risk)

Market risk is defined as the risk of loss arising from changes and fluctuations in interest rates, foreign currency exchange rates, equity prices and indices, commodity prices, debt securities prices, credit spreads and other market rates and prices ("Traded Market Risk"). It also includes non-traded market risk, primarily represented by Interest Rate Risk in the Banking Book ("IRRBB") defined as the risk of loss in earnings or in the economic value on banking book items as a consequence of movements in interest rates.

The Board has approved a risk management framework ('framework') for traded market risk. The objective of the framework is to ensure the Group maintains an appropriate control structure to manage trading book activities and to set the governance structures and measures for managing the exposure to traded market risk.

The Group operates a Trading Book as an integral part of its liquidity risk management function and the portfolio consists of securities held for trading and liquidity purposes. Traded Market Risk arises predominantly from positions held in the Trading Book. The Trading Book positions include permitted financial instruments including derivatives.

The approach to managing traded market risk involves the management of market sensitive assets and liabilities by controlling the gap, volume and mix of securities to achieve a desired position. The aim of this approach is to minimise the exposure to market risk and reduce potential volatility in earnings. Foreign currency trading is governed by a series of limits and is primarily used for the purpose of providing Group customers with access to foreign exchange products. Foreign exchange activities are limited by conservative spot and forward limits set out in a Board approved policy statement.

The Board has set a risk appetite for the maximum amount of Traded Market Risk that it is willing to take within the Group's treasury and foreign exchange activities based on the potential net losses incurred with the Trading Book portfolios as a result of an adverse parallel movement in the yield curve. Stress testing is conducted monthly to determine the potential exposure for Traded Market Risk.

The potential net losses incurred with the Trading Book portfolios must not exceed $10,000,000 as a result of an adverse parallel movement in the yield curve of 0.50% (including the maximum expected loss attributable to the Foreign Exchange portfolio).

36. Risk management (continued)

Market risk (including interest rate and currency risk)

The Board has approved a risk management framework ("framework") supported by documented policies and procedures to manage non-traded market risk (IRRBB). The framework sets out the approach to managing non-traded market risk. The objective of the framework is to ensure there are effective governance structures, responsibilities, systems as well as key controls and measures for managing non-traded market risk.

Non-traded market risk arises predominantly from the Group's general lending activities as well as balance sheet funding activities. The sources of interest rate risk are:

> Repricing risk that arises from changes on overall interest rate levels and the inherent mismatch in the maturity or repricing term of banking book business;

> Basis risk that arises from differences between actual and expected interest margins on banking book business above the implied cost of funding that business;

> Yield curve risk that arises from an adverse shift in market interest rates associated with investing in a fixed income instrument. The risk is associated with either a flattening or steepening of the yield curve, which is a result of changing yields among comparable fixed term securities with different maturities.

> Optionality risk is the risk of a loss in earnings or economic value due to the existence of stand-alone or embedded options to the extent that the potential for those losses is not included in the measurement of repricing, yield curve or basis risks.

The approach to managing non-traded market risk focuses on balancing the prudent management of non-traded market risk inherent in the balance sheet whilst managing net interest income volatility. The aim is to manage the exposure to large movements in interest rates and to reduce the volatility in current and future earnings.

The Group currently uses both a static and dynamic approach to model the effect of interest rate movements on net interest income ('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.

The Group's MVE is defined as the market value of its assets less the market value of its liabilities plus (or minus) the market value of any off-balance sheet positions. MVE fluctuations are tested against both immediate and permanent movements in market rates. Testing is undertaken using both actual and forecast balance sheet positions. The results of this testing are then compared to the risk appetite limits for a negative shift in MVE as a percentage of total equity.

The Board has also set a limit for the maximum amount of interest rate risk that the business is willing to assume. This limit defines the Group's appetite for market risk, measured on the basis of adverse impacts on earnings and/or economic value as a result of current and future movements in interest rates. The following limits have been set by the Board:

> NII at risk limit: The 12 month rolling forecast NII is to fall no more than 5% for every 1% parallel adverse shift in interest rates ;

> MVE limit: MVE is to fall no more than 2.5% of total equity for every 1% per annum parallel adverse shift in interest rates.

Interest Rate risk (continued)

Consolidated

As at 30 June 2014	Floating interest rate $m	Fixed interest rate repricing: Less than 3 months $m	Fixed interest rate repricing: Between 3 and 6 months $m	Fixed interest rate repricing: Between 6 and 12 months $m	Fixed interest rate repricing: Between 1 and 5 years $m	Fixed interest rate repricing: After 5 years $m	Non interest earning/ bearing $m	Total carrying value per Balance sheet $m	Weighted average effective interest rate %
Assets									
Cash & cash equivalents	473.8	18.1	-	-	-	-	224.2	716.1	1.58
Due from other financial institutions	-	-	-	-	-	-	242.5	242.5	-
Financial assets held for trading	656.3	3,990.0	1,886.7	226.7	505.7	-	-	7,265.4	3.02
Financial assets available for sale debt securities	59.0	560.3	-	-	-	-	-	619.3	3.48
Financial assets held to maturity	-	268.7	17.9	-	-	-	-	286.6	3.17
Loans & other receivables	33,538.2	6,885.5	1,231.2	2,754.5	8,494.1	29.3	-	52,932.8	5.65
Derivatives	-	-	-	-	-	-	22.3	22.3	-
Total financial assets	**34,727.3**	**11,722.6**	**3,135.8**	**2,981.2**	**8,999.8**	**29.3**	**489.0**	**62,085.0**	
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	363.5	363.5	-
Deposits	14,678.6	24,167.5	8,787.1	3,559.5	1,166.4	0.3	-	52,359.4	2.92
Notes payable	356.1	4,900.3	-	-	-	-	-	5,256.4	3.81
Derivatives	-	-	-	-	-	-	79.2	79.2	-
Convertible preference shares	-	-	261.4	-	-	-	-	261.4	7.72
Subordinated debt	-	643.5	-	12.0	-	-	-	655.5	6.06
Total financial liabilities	**15,034.7**	**29,711.3**	**9,048.5**	**3,571.5**	**1,166.4**	**0.3**	**442.7**	**58,975.4**	

Interest Rate risk (continued)

Consolidated

As at 30 June 2013	Floating interest rate $m	Fixed interest rate repricing: Less than 3 months $m	Between 3 and 6 months $m	Between 6 and 12 months $m	Between 1 and 5 years $m	After 5 years $m	Non interest earning/bearing $m	Total carrying value per Balance sheet $m	Weighted average effective interest rate %
Assets									
Cash & cash equivalents	162.3	-	-	-	-	-	221.5	383.8	1.16
Due from other financial institutions	-	-	-	-	-	-	293.9	293.9	-
Financial assets held for trading	-	3,146.9	2,294.2	24.1	-	-	-	5,465.2	2.94
Financial assets available for sale debt securities	73.4	520.5	14.9	0.1	-	-	-	608.9	3.66
Financial assets held to maturity	-	318.3	5.0	-	-	-	-	323.3	3.18
Loans & other receivables	35,097.6	6,184.9	1,064.6	2,406.4	5,659.4	95.4	3.2	50,511.5	6.13
Derivatives	-	-	-	-	-	-	31.9	31.9	-
Total financial assets	**35,333.3**	**10,170.6**	**3,378.7**	**2,430.6**	**5,659.4**	**95.4**	**550.5**	**57,618.5**	
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	379.5	379.5	-
Deposits	12,566.5	22,702.0	8,111.4	2,923.0	1,135.6	0.5	-	47,439.0	3.45
Notes payable	49.0	6,221.6	130.0	-	-	-	-	6,400.6	4.01
Derivatives	-	-	-	-	-	-	98.4	98.4	-
Convertible preference shares	-	-	259.2	-	-	-	-	259.2	7.80
Subordinated debt	-	342.3	-	-	12.0	-	-	354.3	6.67
Total financial liabilities	**12,615.5**	**29,265.9**	**8,500.6**	**2,923.0**	**1,147.6**	**0.5**	**477.9**	**54,931.0**	

Interest Rate risk (continued)

Parent

As at 30 June 2014	Floating interest rate $m	Fixed interest rate repricing: Less than 3 months $m	Between 3 and 6 months $m	Between 6 and 12 months $m	Between 1 and 5 years $m	After 5 years $m	Non interest earning/ bearing $m	Total carrying value per Balance sheet $m	Weighted average effective interest rate %
Assets									
Cash & cash equivalents	427.4	-	-	-	-	-	183.1	610.5	1.75
Due from other financial institutions	-	-	-	-	-	-	242.4	242.4	-
Financial assets held for trading	656.3	3,990.3	1,886.8	226.7	505.7	-	-	7,265.8	3.02
Financial assets available for sale	-	1,292.6	-	-	-	-	-	1,292.6	3.82
Financial assets held to maturity	-	2.0	-	-	-	-	-	2.0	3.43
Loans & other receivables	28,856.3	6,812.1	1,184.5	2,281.1	8,149.2	27.0	364.4	47,674.6	5.62
Derivatives	-	-	-	-	-	-	203.0	203.0	-
Total financial assets	**29,940.0**	**12,097.0**	**3,071.3**	**2,507.8**	**8,654.9**	**27.0**	**992.9**	**57,290.9**	
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	363.0	363.0	-
Deposits	14,281.2	22,356.0	7,946.0	3,045.7	1,112.4	0.3	233.7	48,975.3	2.87
Notes payable	310.4	-	-	-	-	-	-	310.4	-
Loans payable to securitisation trusts	3,422.2	138.0	139.5	290.2	770.5	-	-	4,760.4	5.54
Derivatives	-	-	-	-	-	-	77.7	77.7	-
Convertible preference shares	-	-	261.4	-	-	-	-	261.4	7.72
Subordinated debt	-	603.3	-	-	-	-	-	603.3	5.98
Total financial liabilities	**18,013.8**	**23,097.3**	**8,346.9**	**3,335.9**	**1,882.9**	**0.3**	**674.4**	**55,351.5**	

Interest Rate risk (continued)

Parent

As at 30 June 2013	Floating interest rate $m	Fixed interest rate repricing: Less than 3 months $m	Fixed interest rate repricing: Between 3 and 6 months $m	Fixed interest rate repricing: Between 6 and 12 months $m	Fixed interest rate repricing: Between 1 and 5 years $m	Fixed interest rate repricing: After 5 years $m	Non interest earning/ bearing $m	Total carrying value per Balance sheet $m	Weighted average effective interest rate %
Assets									
Cash & cash equivalents	128.1	-	-	-	-	-	130.0	258.1	1.38
Due from other financial institutions	-	-	-	-	-	-	292.2	292.2	-
Financial assets held for trading	-	3,147.3	2,294.4	24.1	-	-	-	5,465.8	2.94
Financial assets available for sale	-	1,362.8	-	0.1	-	-	-	1,362.9	4.00
Financial assets held to maturity	-	1.8	-	-	-	-	-	1.8	3.83
Loans & other receivables	30,213.8	6,089.7	1,003.5	2,075.4	5,345.4	92.3	425.3	45,245.4	6.01
Derivatives	-	-	-	-	-	-	182.6	182.6	-
Total financial assets	**30,341.9**	**10,601.6**	**3,297.9**	**2,099.6**	**5,345.4**	**92.3**	**1,030.1**	**52,808.8**	
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	371.4	371.4	-
Deposits	12,174.8	20,793.4	7,335.3	2,458.6	1,073.0	0.5	286.1	44,121.7	3.39
Notes payable	-	350.3	-	-	-	-	-	350.3	5.92
Loans payable to securitisation trusts	-	-	-	-	-	-	5,829.8	5,829.8	-
Derivatives	-	-	-	-	-	-	85.7	85.7	-
Reset preference shares	-	-	268.9	-	-	-	-	268.9	7.80
Subordinated debt	-	302.2	-	-	-	-	-	302.2	6.58
Total financial liabilities	**12,174.8**	**21,445.9**	**7,604.2**	**2,458.6**	**1,073.0**	**0.5**	**6,573.0**	**51,330.0**	

36. Risk management (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 2014, 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 2014 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap. With sensitivity based on the assumption that there are parallel shifts in the yield curve.

Monitoring of adherence to policies, limits and procedures is controlled through the ALMAC and the board risk committee.

Consolidated	+100 basis points	-100 basis points	+100 basis points	-100 basis points
	2014	2014	2013	2013
	$ m	$ m	$ m	$ m
Net interest income	34.8	(38.4)	9.4	(16.4)
Ineffectiveness in derivatives	4.3	(4.3)	0.5	(0.5)
Income tax effect at 30%	(11.7)	12.8	(3.0)	5.1
Effect on profit	**27.4**	**(29.9)**	**6.9**	**(11.8)**
Effect on profit (per above)	27.4	(29.9)	6.9	(11.8)
Cash flow hedge reserve	178.9	(178.9)	135.9	(135.9)
Income tax effect on reserves at 30%	(53.7)	53.7	(40.8)	40.8
Effect on equity	**152.6**	**(155.1)**	**102.0**	**(106.9)**

Parent	+100 basis points	-100 basis points	+100 basis points	-100 basis points
	2014	2014	2013	2013
	$ m	$ m	$ m	$ m
Net interest income	28.9	(35.3)	2.2	(10.8)
Ineffectiveness in derivatives	4.3	(4.3)	0.5	(0.5)
Income tax effect at 30%	(9.9)	11.9	(0.8)	3.4
Effect on profit	**23.3**	**(27.7)**	**1.9**	**(7.9)**
Effect on profit (per above)	23.3	(27.7)	1.9	(7.9)
Cash flow hedge reserve	175.4	(175.4)	129.5	(129.5)
Income tax effect on reserves at 30%	(52.6)	52.6	(38.9)	38.9
Effect on equity	**146.1**	**(150.5)**	**92.5**	**(98.5)**

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.

36. Risk management (continued)

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 $900.0m (2013: AUD $266.0m) 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.

Trading positions are taken with the intent to benefit from actual and/or expected price movements as well as to hedge exposures within the trading book. The vast majority of the trading book comprises securities that are repo-eligible with the RBA. The liquid nature of the trading assets remains the prime criteria for their purchase.

Discretionary interest rate activity comprises outright position taking in domestic financial instruments and derivatives, principally arising from the management of the Group's liquids portfolio and market making in financial instruments with the intention of benefiting from price movements ancillary to management of the liquidity portfolio. This is not a core component of the Group's trading activity.

The foreign currency trading is limited by conservative spot and forward limits as specified by policy and comprises:

> Limited physical and forward transactional activity from warehousing customer transactions; and

> Limited option transactions conducted on a strictly back to back basis to facilitate customer transactions.

The Group's discretionary interest rate and foreign exchange trading activities are governed by the Trading Book Policy and Group Treasury is responsible for the management of the day to day trading book activities.

Equity price risk

The Group's exposure to equity securities at 30 June 2014 is $24.3m (2013: $18.1m) with $2.0m (2013: $1.4m) of these listed on a recognised stock exchange. The fair value of listed investments is affected by movements in market prices, whilst unlisted investment fair values are determined using other valuation methods.

Equity securities price risk arises from investments in equity securities and is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The majority of the value of equity investments held are of a high quality and are publicly traded on either the ASX or BSX.

The Group's equity investments represent approximately 0.03% of total group assets and are predominantly long term strategic holdings, therefore short term volatility in fair values is not considered significant and a sensitivity analysis has not been completed.

37. Financial instruments

a) Measurement basis of financial assets and liabilities

The accounting policies in Note 2 describe how different classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amount of the financial assets and liabilities by category and by balance sheet heading.

Consolidated		At fair value through profit & loss	At fair value through reserves			
	Derivatives	Held for trading	Available for sale	Loans and Receivables	Held at amortised cost	Total
30 June 2014	$m	$m	$m	$m	$m	$m
Financial assets						
Cash and cash equivalents	-	-	-	-	716.1	716.1
Due from other financial institutions	-	-	-	-	242.5	242.5
Financial assets held to maturity	-	-	-	-	286.6	286.6
Financial assets held for trading	-	7,265.4	-	-	-	7,265.4
Financial assets available for sale - debt securities	-	-	619.3	-	-	619.3
Financial assets available for sale - equity investments	-	-	24.3	-	-	24.3
Loans & other receivables - investment	-	-	-	397.1	-	397.1
Loans & other receivables	-	-	-	52,535.7	-	52,535.7
Derivatives	22.3	-	-	-	-	22.3
Total financial assets	**22.3**	**7,265.4**	**643.6**	**52,932.8**	**1,245.2**	**62,109.3**
Financial liabilities						
Due to other financial institutions	-	-	-	-	363.5	363.5
Deposits	-	-	-	-	52,359.4	52,359.4
Notes payable	-	-	-	-	5,256.4	5,256.4
Derivatives	79.2	-	-	-	-	79.2
Convertible preference shares	-	-	-	-	261.4	261.4
Subordinated debt	-	-	-	-	655.5	655.5
Total financial liabilities	**79.2**	**-**	**-**	**-**	**58,896.2**	**58,975.4**
30 June 2013	$m	$m	$m	$m	$m	$m
Financial assets						
Cash and cash equivalents	-	-	-	-	383.8	383.8
Due from other financial institutions	-	-	-	-	293.9	293.9
Financial assets held to maturity	-	-	-	-	323.3	323.3
Financial assets held for trading	-	5,465.2	-	-	-	5,465.2
Financial assets available for sale - debt securities	-	-	608.9	-	-	608.9
Financial assets available for sale - equity investments	-	-	18.1	-	-	18.1
Loans & other receivables - investment	-	-	-	554.1	-	554.1
Loans & other receivables	-	-	-	49,957.4	-	49,957.4
Derivatives	31.9	-	-	-	-	31.9
Total financial assets	**31.9**	**5,465.2**	**627.0**	**50,511.5**	**1,001.0**	**57,636.6**

Consolidated (continued)

30 June 2013	Derivatives $m	At fair value through profit & loss: Held for trading $m	At fair value through reserves: Available for sale $m	Loans and Receivables $m	Held at amortised cost $m	Total $m
Financial liabilities						
Due to other financial institutions	-	-	-	-	379.5	379.5
Deposits	-	-	-	-	47,439.0	47,439.0
Notes payable	-	-	-	-	6,400.6	6,400.6
Derivatives	98.4	-	-	-	-	98.4
Convertible preference shares	-	-	-	-	259.2	259.2
Subordinated debt	-	-	-	-	354.3	354.3
Total financial liabilities	**98.4**	**-**	**-**	**-**	**54,832.6**	**54,931.0**

Parent

30 June 2014	$m	$m	$m	$m	$m	$m
Financial assets						
Cash and cash equivalents	-	-	-	-	610.5	610.5
Due from other financial institutions	-	-	-	-	242.4	242.4
Financial assets held to maturity	-	-	-	-	2.0	2.0
Financial assets held for trading	-	7,265.8	-	-	-	7,265.8
Financial assets available for sale - debt securities	-	-	1,292.6	-	-	1,292.6
Financial assets available for sale - equity investments	-	-	4.9	-	-	4.9
Loans & other receivables - investment	-	-	-	397.1	-	397.1
Loans & other receivables	-	-	-	47,277.5	-	47,277.5
Derivatives	203.0	-	-	-	-	203.0
Total financial assets	**203.0**	**7,265.8**	**1,297.5**	**47,674.6**	**854.9**	**57,295.8**
Financial liabilities						
Due to other financial institutions	-	-	-	-	363.0	363.0
Deposits	-	-	-	-	48,975.3	48,975.3
Notes payable	-	-	-	-	310.4	310.4
Derivatives	77.7	-	-	-	-	77.7
Convertible preference shares	-	-	-	-	261.4	261.4
Subordinated debt	-	-	-	-	603.3	603.3
Total financial liabilities	**77.7**	**-**	**-**	**-**	**50,513.4**	**50,591.1**

Parent

30 June 2013	$m	$m	$m	$m	$m	$m
Financial Assets						
Cash and cash equivalents	-	-	-	-	258.1	258.1
Due from other financial institutions	-	-	-	-	292.2	292.2
Financial assets held to maturity	-	-	-	-	1.8	1.8
Financial assets held for trading	-	5,465.8	-	-	-	5,465.8
Financial assets available for sale - debt securities	-	-	1,362.9	-	-	1,362.9
Financial assets available for sale - equity investments	-	-	4.5	-	-	4.5
Loans & other receivables - investment	-	-	-	554.1	-	554.1
Loans & other receivables	-	-	-	44,691.3	-	44,691.3
Derivatives	182.6	-	-	-	-	182.6
Total financial assets	**182.6**	**5,465.8**	**1,367.4**	**45,245.4**	**552.1**	**52,813.3**

Parent (continued)

30 June 2013	Derivatives	At fair value through profit & loss — Held for trading	At fair value through reserves — Available for sale	Loans and Receivables	Held at amortised cost	Total
	$m	$m	$m	$m	$m	$m
Financial liabilities						
Due to other financial institutions	-	-	-	-	371.4	371.4
Deposits	-	-	-	-	44,121.7	44,121.7
Notes payable	-	-	-	-	350.3	350.3
Derivatives	85.7	-	-	-	-	85.7
Convertible preference shares	-	-	-	-	259.2	259.2
Subordinated debt	-	-	-	-	302.2	302.2
Total financial liabilities	**85.7**	**-**	**-**	**-**	**45,404.8**	**45,490.5**

b) Fair Values of financial assets & liabilities

The following table summarises the carrying value of financial assets and liabilities presented on the Group's balance sheet. The fair values presented in the table are at a specific date and may be significantly different from the amounts which will actually be paid or received on the maturity or settlement date.

Consolidated

	2014 Carrying Value	2014 Fair Value	2013 Carrying Value	2013 Fair Value
	$m	$m	$m	$m
Financial assets				
Cash and cash equivalents	716.1	716.1	383.8	383.8
Due from other financial instruments	242.5	242.5	293.9	293.9
Financial assets held for trading	7,265.4	7,265.4	5,465.2	5,465.2
Financial assets held to maturity	286.6	286.6	323.3	323.3
Financial assets available for sale -debt securities	619.3	619.3	608.9	608.9
Financial assets available for sale - equity investments	24.3	24.3	18.1	18.1
Loans & other receivables - investment	397.1	404.3	554.1	568.0
Loans & other receivables	52,535.7	52,720.9	49,957.4	50,150.4
Derivatives	22.3	22.3	31.9	31.9
Financial liabilities				
Due to other financial institutions	363.5	363.5	379.5	379.5
Deposits	52,359.4	52,453.4	47,439.0	47,578.7
Notes payable	5,256.4	5,323.6	6,400.6	6,465.2
Derivatives	79.2	79.2	98.4	98.4
Convertible preference shares	261.4	279.8	259.2	275.1
Subordinated debt	655.5	654.1	354.3	355.6

37. Financial instruments (continued)

Parent	2014		2013	
	Carrying Value $m	Fair Value $m	Carrying Value $m	Fair Value $m
Financial assets				
Cash and cash equivalents	610.5	610.5	258.1	258.1
Due from other financial instruments	242.4	242.4	292.2	292.2
Financial assets held for trading	7,265.8	7,265.8	5,465.8	5,465.8
Financial assets held to maturity	2.0	2.0	1.8	1.8
Financial assets available for sale -debt securities	1,292.6	1,292.6	1,362.9	1,362.9
Financial assets available for sale - equity investments	4.9	4.9	4.5	4.5
Loans & other receivables - investment	397.1	404.3	554.1	568.0
Loans & other receivables	47,277.5	47,444.4	44,691.3	44,841.5
Derivatives	203.0	203.0	182.6	182.6
Financial liabilities				
Due to other financial institutions	363.0	363.0	371.4	371.4
Deposits	48,975.3	49,060.7	44,121.7	44,226.9
Notes payable	310.4	310.4	350.3	350.3
Derivatives	77.7	77.7	85.7	85.7
Convertible preference shares	261.4	279.8	259.2	275.1
Subordinated debt	603.3	598.2	302.2	296.9

The carrying amount for the following financial instruments is a reasonable approximation of the fair value: cash and cash equivalents, due from other financial instruments and due to other financial instruments.

c) 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 held by the Group. For all other financial instruments, the group determines fair value using other valuation techniques.

Valuation control framework

The Group has an established control framework with respect to the measurement of the fair values including independent price verification. The framework is independent of the front office management and reports directly to the Chief Financial Officer.

Specific controls include:

> verification of observable pricing,

> a review and approval process for new products,

> analysis and investigation of significant daily valuation movements.

Valuation of financial assets and liabilities

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs in making the measurement.

Level 1

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2

Level 2 fair value measurements are those derived from inputs other than quoted prices within level 1 that are observable either directly (as prices) or indirectly (derived from prices).

Level 3

Level 3 fair value measurements are from inputs that are unobservable. Where equity investments have no quoted market price and fair value cannot be reliably measured these investments are carried at cost less impairment.

37. Financial instruments (continued)

Financial assets and liabilities carried at fair value

Valuation Hierarchy

Consolidated

30 June 2014	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets held for trading	-	7,265.4	-	7,265.4
Financial assets available for sale -debt securities	-	619.3	-	619.3
Financial assets available for sale - equity investments	2.0	19.4	2.9	24.3
Derivatives	-	22.3	-	22.3
Total financial assets carried at fair value	**2.0**	**7,926.4**	**2.9**	**7,931.3**
Derivatives	-	79.2	-	79.2
Total financial liabilities carried at fair value	**-**	**79.2**	**-**	**79.2**

30 June 2013	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets held for trading	-	5,465.2	-	5,465.2
Financial assets available for sale -debt securities	-	608.9	-	608.9
Financial assets available for sale - equity investments	1.4	13.6	3.1	18.1
Derivatives	-	31.9	-	31.9
Total financial assets carried at fair value	**1.4**	**6,119.6**	**3.1**	**6,124.1**
Derivatives	-	98.4	-	98.4
Total financial liabilities carried at fair value	**-**	**98.4**	**-**	**98.4**

Parent

30 June 2014	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets held for trading	-	7,265.8	-	7,265.8
Financial assets available for sale -debt securities	-	1,292.6	-	1,292.6
Financial assets available for sale - equity investments	1.9	-	3.0	4.9
Derivatives	-	203.0	-	203.0
Total financial assets carried at fair value	**1.9**	**8,761.4**	**3.0**	**8,766.3**
Derivatives	-	77.7	-	77.7
Total financial liabilities carried at fair value	**-**	**77.7**	**-**	**77.7**

30 June 2013	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets held for trading	-	5,465.8	-	5,465.8
Financial assets available for sale -debt securities	-	1,362.9	-	1,362.9
Financial assets available for sale - equity investments	1.4	-	3.1	4.5
Derivatives	-	182.6	-	182.6
Total financial assets carried at fair value	**1.4**	**7,011.3**	**3.1**	**7,015.8**
Derivatives	-	85.7	-	85.7
Total financial liabilities carried at fair value	**-**	**85.7**	**-**	**85.7**

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 Parent.

Valuation methodology

Financial instruments & financial instruments - debt securities

Each month market security investment valuations are determined by the middle office department of the Group's Finance and Treasury division. This involves an analysis of market rate sheets provided by institutions independent of Bendigo and Adelaide Bank. From these independent rate sheets, market average valuations are calculated within the Group's Treasury management system, thereby updating the value of the investments.

Financial Instruments - Equity investments

Level 1 - Listed investments relates to equity 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 shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

Financial assets - equity investments investments	Consolidated $m	Parent $m
As at 30 June 2013	3.1	3.1
Gains or losses in equity	-	-
Purchases	-	-
Sales	-	-
Transfers in/out	(0.2)	(0.1)
As at 30 June 2014	**2.9**	**3.0**
Gains recognised in the income statement	-	-

Financial assets and liabilities carried at amortised cost

Valuation Hierarchy

The table below analyses the fair value of the financial assets and liabilities of the Group which are carried at amortised cost. They are categorised into levels 1 to 3 based on the degree to which their fair value is observable.

Consolidated 30 June 2014	Level 1 $m	Level 2 $m	Level 3 $m	Total Fair Value $m	Total Carrying amount $m
Financial assets					
Financial assets held to maturity	-	286.6	-	286.6	286.6
Loans & other receivables - investment	-	-	404.3	404.3	397.1
Loans & other receivables	-	-	52,720.9	52,720.9	52,535.7
Financial liabilities					
Deposits	-	52,453.4	-	52,453.4	52,359.4
Notes payable	-	5,323.6	-	5,323.6	5,256.4
Convertible preference shares	279.8	-	-	279.8	261.4
Subordinated debt	-	654.1	-	654.1	655.5

37. Financial instruments (continued)

Parent	Level 1 $m	Level 2 $m	Level 3 $m	Total Fair Value $m	Total Carrying amount $m
Financial assets					
Financial assets held to maturity	-	2.0	-	2.0	2.0
Loans & other receivables - investment	-	-	404.3	404.3	397.1
Loans & other receivables	-	-	47,444.4	47,444.4	47,277.5
Financial liabilities					
Deposits	-	49,060.7	-	49,060.7	48,975.3
Notes payable	-	310.4	-	310.4	310.4
Convertible preference shares	279.8	-	-	279.8	261.4
Subordinated debt	-	598.2	-	598.2	603.3

Note: Comparatives not provided as disclosure not required in 2013

Transfers between levels are deemed to have occurred at the beginning of the reporting periods in which the instruments were transferred. There have been no transfers between levels during the reporting period.

Valuation Methodology

Financial assets

Financial instruments - held to maturity

The fair value of financial assets held to maturity, including bills of exchange, negotiable certificates of deposit, government securities and bank and other deposits, which are predominantly short-term, is measured at amortised book value. Carrying value of these assets approximates fair value.

Loans & other receivables
(including Loans & other receivables - investments)

The carrying value of loans and other receivables is net of specific and collective provisions for doubtful debts. For variable rate loans, excluding impaired loans, the carrying amount is a reasonable estimate of fair value.

The net fair value for fixed loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the maturity of the loans. The discount rates applied represent the rate the market is willing to offer for these loans at arms-length.

The net fair value of impaired loans is calculated by discounting expected cash flows using these rates.

Financial liabilities

Deposits

The carrying value of deposits at call is considered to be fair value. 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 market rates and margins for similar instruments.

Convertible preference shares

The closing share price of the convertible preference shares on 30 June is used to calculate the fair value of these financial liabilities.

Subordinated debt

The fair value of subordinated debt is calculated based on quoted market prices, where applicable. 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.

38. Derivative financial instruments

The Group uses derivatives primarily to hedge banking operations and for asset and liability management. Some derivatives transactions may qualify as either cash flow or fair value hedges. The accounting treatment of these hedges is outlined in Note 2.33 Derivative Financial Instruments.

The Group is exposed to volatility in interest cash flows inherent in its loan portfolio and that of the securitisation vehicles. Interest rate swaps are used to hedge the risk that this volatility creates.
During the 2014 financial year the consolidated entity recognised a gain of $0.1 m (2013: a loss of $1.8m) due to hedge ineffectiveness.

	Consolidated 2014				Consolidated 2013			
	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	431.1	3.4	-	3.4	500.0	0.4	-	0.4
Interest rate swaps	1,036.7	10.1	(18.9)	(8.8)	1,300.0	16.0	(15.9)	0.1
Foreign exchange contracts	46.0	0.5	(0.3)	0.2	95.3	0.6	(0.6)	-
Derivatives	**1,513.8**	**14.0**	**(19.2)**	**(5.2)**	**1,895.3**	**17.0**	**(16.5)**	**0.5**
Derivatives held as fair value hedges								
Interest rate swaps	50.9	-	(2.5)	(2.5)	57.1	-	(3.6)	(3.6)
Embedded derivatives	0.1	-	-	-	0.4	-	-	-
Derivatives	**51.0**	**-**	**(2.5)**	**(2.5)**	**57.5**	**-**	**(3.6)**	**(3.6)**
Derivatives held as cash flow hedges								
Cross currency swaps	195.6	-	(16.8)	(16.8)	241.7	1.1	(22.8)	(21.7)
Interest rate swaps	17,694.1	8.3	(40.7)	(32.4)	14,393.8	13.8	(55.5)	(41.7)
Derivatives	**17,889.7**	**8.3**	**(57.5)**	**(49.2)**	**14,635.5**	**14.9**	**(78.3)**	**(63.4)**
Total derivatives	**19,454.5**	**22.3**	**(79.2)**	**(56.9)**	**16,588.3**	**31.9**	**(98.4)**	**(66.5)**

38. Derivative financial instruments (continued)

	Parent 2014				Parent 2013			
	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	431.1	3.4	-	3.4	500.0	0.4	-	0.4
Interest rate swaps	10,419.0	191.0	(30.0)	161.0	10,124.6	170.0	(31.5)	138.5
Foreign exchange contracts	92.1	0.5	(0.3)	0.2	95.3	0.6	(0.6)	-
Derivatives	**10,942.2**	**194.9**	**(30.3)**	**164.6**	**10,719.9**	**171.0**	**(32.1)**	**138.9**
Derivatives held as fair value hedges								
Interest rate swaps	50.9	-	(2.5)	(2.5)	57.1	-	(3.6)	(3.6)
Derivatives	**50.9**	**-**	**(2.5)**	**(2.5)**	**57.1**	**-**	**(3.6)**	**(3.6)**
Derivatives held as cash flow hedges								
Cross currency swaps	140.9	-	(7.8)	(7.8)	-	-	-	-
Interest rate swaps	17,395.2	8.1	(37.1)	(29.0)	13,996.0	11.6	(50.0)	(38.4)
Derivatives	**17,536.1**	**8.1**	**(44.9)**	**(36.8)**	**13,996.0**	**11.6**	**(50.0)**	**(38.4)**
Total derivatives	**28,529.2**	**203.0**	**(77.7)**	**125.3**	**24,773.0**	**182.6**	**(85.7)**	**96.9**

38. Derivative financial instruments (continued)

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

Consolidated	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Greater than 5 years
2014	$ m	$ m	$ m	$ m	$ m	$ m
Forecast cash inflows (Assets)	269.7	207.0	53.3	27.0	170.6	39.7
Forecast cash outflows (Liabilities)	(302.9)	(233.2)	(66.5)	(32.8)	(173.9)	(40.2)
Forecast net cash inflow	(33.2)	(26.2)	(13.2)	(5.8)	(3.3)	(0.5)
Income statement	(26.2)	(21.7)	(13.2)	(8.9)	(4.5)	(0.3)
2013						
Forecast cash inflows (Assets)	323.0	122.9	203.3	14.1	9.9	46.4
Forecast cash outflows (Liabilities)	(329.4)	(128.1)	(212.7)	(20.7)	(11.6)	(47.2)
Forecast net cash inflow	(6.4)	(5.2)	(9.4)	(6.6)	(1.7)	(0.8)
Income statement	(21.5)	(20.0)	(7.8)	(3.2)	(1.2)	(0.6)

Parent	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Greater than 5 years
2014	$ m	$ m	$ m	$ m	$ m	$ m
Forecast cash inflows (Assets)	263.2	135.8	52.0	26.9	170.6	39.7
Forecast cash outflows (Liabilities)	(292.0)	(159.1)	(64.2)	(32.6)	(173.9)	(40.2)
Forecast net cash inflow	(28.8)	(23.3)	(12.2)	(5.7)	(3.3)	(0.5)
Income statement	(21.9)	(19.9)	(12.6)	(8.8)	(4.5)	(0.3)
2013						
Forecast cash inflows (Assets)	231.6	90.0	34.5	13.7	9.9	46.4
Forecast cash outflows (Liabilities)	(234.7)	(118.6)	(49.0)	(19.8)	(11.4)	(47.2)
Forecast net cash inflow	(3.1)	(28.6)	(14.5)	(6.1)	(1.5)	(0.8)
Income statement	(15.4)	(13.3)	(5.7)	(2.8)	(1.1)	(0.6)

Net gains /(losses) arising from hedge ineffectiveness	2014 $ m	2013 $ m	2014 $ m	2013 $ m
Gains/(losses) on hedging instruments	1.0	0.9	1.0	0.9
(Losses)/gains on the hedged items attributable to the hedged risk	(1.1)	(0.8)	(1.1)	(0.8)
(Losses)/gains arising from cash flow hedges				
(Losses)/gains on hedge ineffectiveness	0.2	(1.9)	0.2	(6.7)
	0.1	**(1.8)**	**0.1**	**(6.6)**

39. Commitments and contingencies

(a) Commitments

The following are outstanding expenditure and credit related commitments as at 30 June 2014. Except where specified, all commitments are payable within one year.

Operating lease commitments - Group as lessee

The Group has entered into commercial property leases and commercial leases on certain motor vehicles and items of office equipment.

These leases have various terms and some property leases include optional renewal periods included in the contracts.

There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June:

	Consolidated		Parent	
	2014 $m	2013 $m	2014 $m	2013 $m
Not later than 1 year	70.3	58.3	68.3	58.2
Later than 1 year but not later than 5 years	187.5	149.6	180.2	149.6
Later than 5 years	172.3	185.6	163.4	185.6
	430.1	**393.5**	**411.9**	**393.4**

Operating lease commitments - Group as lessor

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.

Future minimum rentals receivable under non-cancellable operating leases as at 30 June:

	Consolidated		Parent	
	2014 $m	2013 $m	2014 $m	2013 $m
Not later than 1 year	1.2	1.2	1.2	1.2
Later than 1 year but not later than 5 years	2.5	1.3	2.5	1.3
	3.7	**2.5**	**3.7**	**2.5**

	Consolidated		Parent	
Other expenditure commitments	2014 $m	2013 $m	2014 $m	2013 $m
Sponsorship commitments not paid as at balance date, payable not later than one year	5.1	4.6	5.1	4.6
Credit related commitments				
Gross loans approved, but not advanced to borrowers	1,506.3	1,219.1	1,457.9	1,201.2
Credit limits granted to clients for overdrafts and credit cards				
Total amount of facilities provided	10,095.6	10,871.2	9,180.3	9,887.4
Amount undrawn at balance date	3,813.8	4,255.2	3,665.0	4,011.4

Normal commercial restrictions apply as to use and withdrawal of the facilities.

39. Commitments and contingencies (continued)

(b) Superannuation commitments

The Bendigo and Adelaide Bank Group has a legally enforceable obligation to contribute to a superannuation plan for employees either on an accumulation basis (including the Superannuation Guarantee Charge) or on a defined benefits basis (Adelaide Bank staff superannuation plan) which provides benefits on retirement, disability or death based on years of service and final average salary. Employees contribute to the plan at a fixed percentage of remuneration.

The Group's contribution to the defined benefit plan is determined by the Trustee after consideration of actuarial advice. At balance date, the Directors believe that funds available were adequate to satisfy all vested benefits under the plan.

Accounting Policy

Actuarial gains and losses are recognised in retained earnings.

Plan Information

Defined benefit members receive lump sum benefits on retirement, death, disablement and withdrawal. The defined benefit section of the Plan is closed to new members. All new members are entitled to become members of the accumulation categories of the fund.

The Superannuation Industry Supervision (SIS) legislation governs the superannuation industry and provides the framework within which superannuation plans operate.

The SIS Regulations require an actuarial valuation to be performed for each defined benefit superannuation plan every three years, or every year if the plan pays defined benefit pensions.

The Plan's Trustee is responsible for the governance of the Plan. The Trustee has a legal obligation to act solely in the best interests of Plan beneficiaries.

The Trustee has the following roles:

> Administration of the plan and payment to the beneficiaries from Plan assets when required in accordance with the Plan rules;

> Management and investment of the Plan assets; and

> Compliance with superannuation law and other applicable regulations.

The prudential regulator, APRA, licenses and supervises regulated superannuation plans.

	Consolidated	
	2014	2013
Actual Return	$ m	$ m
Actual return on Plan assets less interest income	1.1	1.6
Significant Actuarial Assumptions		
Discount rate	3.5% pa	3.2% pa
Expected salary increase rate	3.0% pa	3.0% pa
Reconciliation of the Fair Value of Plan assets	$ m	$ m
Fair value of plan assets at beginning of the year	**10.6**	**8.9**
Add Interest income	0.4	0.2
Add Actual return on plan assets less interest income	1.1	1.6
Add Employer contributions	-	0.2
Add Contributions by plan participants	0.1	0.1
Less Benefits paid	0.2	0.3
Less Taxes, premiums and expenses paid	0.1	0.1
Fair value of plan assets at the end of the year	**11.9**	**10.6**

39. Commitments and contingencies (continued)

(b) Superannuation commitments

Fair value of plan assets at end of the year	Consolidated 2014 $ m	Consolidated 2013 $ m
Present value of defined benefit obligations at beginning of the year	**7.1**	**8.0**
Add Current service cost	0.3	0.3
Add Interest cost	0.2	0.2
Add Contributions by Plan participants	0.1	0.1
Add Actuarial (gains)/losses	(0.3)	(1.1)
Less Benefits paid	0.2	0.3
Less Taxes, premiums and expenses paid	-	0.1
Less Adjustments to OCI following adoption to revised AASB 119	0.2	-
Fair value of plan assets at end of the year	**7.0**	**7.1**

Reconciliation of the assets and liabilities recognised in the balance sheet	Consolidated 2014 $ m	Consolidated 2013 $ m
Defined Benefit Obligation ^	7.0	7.1
Less Fair value of Plan assets	11.9	10.6
Surplus	(4.9)	(3.5)
Net defined benefit (asset)/liability	**(4.9)**	**(3.5)**

^ includes defined benefit contributions tax provision

Movements in Net defined benefit liability / (asset) recognised in the Balance Sheet	2014	2013
Net defined benefit liability (asset) at beginning of the year	**(3.5)**	**(0.9)**
Add Adjustment to OCI following adoption of revised AASB 119	(0.2)	-
Adjusted Net defined benefit liability/(asset) at beginning of the year	**(3.7)**	**(0.9)**
Add Defined benefit cost	0.2	0.3
Add Remeasurements	(1.4)	(2.7)
Less Employer contributions	-	0.2
Net defined benefit liability/(asset) at end of the year	**(4.9)**	**(3.5)**

Expense Recognised in Income Statement	2014	2013
Service cost	0.3	0.3
Net interest	(0.1)	-
Defined benefit cost recognised in profit or loss	**0.2**	**0.3**

Amount recognised in Other Comprehensive Income ("OCI")	2014	2013
Actuarial gain	(0.3)	(1.1)
Less Actual return on Plan assets less Interest income	1.1	1.2
Less Adjustment to OCI following adoption of revised AASB119	0.2	-
Total remeasurements recognised in other comprehensive income	**(1.6)**	**(2.3)**

39. Commitments and contingencies (continued)

(b) Superannuation commitments (continued)

Plan Assets

The percentage invested in each asset class at the balance sheet date:

	Consolidated 2014 $ m	Consolidated 2013 $ m
Australian Equity	36%	34%
International Equity	31%	29%
Fixed Income	16%	16%
Property	5%	10%
Alternatives	6%	5%
Cash	6%	7%

Risk Exposures

There are a number of risks to which the Plan exposes the Company. The more significant risks relating to the defined benefits are:

Investment Risk - The risk that investment returns will be lower than assumed and the Company will need to increase contributions to offset this shortfall.

Salary Growth Risk - The risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.

Legislative Risk - The risk is that legislative changes could be made which increase the cost of providing the defined benefits.

Timing of members leaving service - As the Plan has only a small number of members, if members, with large benefits or groups of members leave this may have an impact on the financial position of the Plan, depending on the financial position of the Plan at the time they leave. The impact may be positive or negative, depending upon the circumstances and timing of the withdrawal.

The defined benefit assets are invested in the Mercer Growth Option, a Mercer Superannuation Investment Trust investment product, and Bendigo and Adelaide Bank Limited Shares (referred to as Bank Shares). The assets have a 67% weighting to equities and therefore the Plan has a significant concentration of equity market risk. However, within the equity investments, the allocation both globally and across the sectors is diversified.

Sensitivity Analysis

The effect of reasonably possible changes in key assumptions on the value of the Plan under various scenarios are outlined below.

	Base Case
Discount rate	3.5% pa
Salary increase rate	3.0% pa
Defined benefit obligation [1] ($'m)	7.0

	Scenario A -0.5% pa discount rate	Scenario B +0.5% pa discount rate
Discount rate	3.0% pa	4.0% pa
Salary increase rate	3.0% pa	3.0% pa
Defined benefit obligation [1] ($m's)	7.4	6.7

[1] includes defined benefit contributions tax provision

39. Commitments and contingencies (continued)

(b) Superannuation commitments (continued)

	Scenario C -0.5% pa salary increase rate	Scenario D +0.5% pa salary increase rate
Discount rate	3.5% pa	3.5% pa
Salary increase rate	2.5% pa	3.5% pa
Defined benefit obligation [1] ($m's)	6.7	7.3

[1] includes defined benefit contributions tax provision

Contribution Recommendations

The financial position of the defined benefits is reviewed regularly by the Bank, at least annually, to ensure that the contribution amount remains appropriate.

Funding Method

The method used to determine the employer contribution recommendations is the Attained Age Normal method. The method adopted affects the timing of the cost to the Bank.

Under the Attained Age Normal method, a “normal cost” is calculated which is the estimated employer contribution rate required to provide benefits in respect of future service after the review date. The “normal” cost is then adjusted to take into account any surplus (or deficiency) of assets over the value of liabilities in respect of service prior to the review date. Any surplus or deficiency can be used to reduce or increase the “normal” employer contribution rate over a suitable period of time.

Economic Assumptions

The long-term economic assumptions adopted are:

Expected salary increase rate	3.0% pa

Nature of Asset

Bendigo and Adelaide Bank has recognised an asset in the Balance Sheet (under other assets) in respect of its defined benefit superannuation arrangements. If a surplus exists in the Plan, Bendigo and Adelaide Bank may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Plan’s actuary.

The Bendigo and Adelaide Bank Staff Superannuation Plan, a sub-plan of the Spectrum Super, does not impose a legal liability on Bendigo and Adelaide Bank to cover any deficit that exists in the Plan. If the Plan were wound up, there would be no legal obligation on the Bank to make good any shortfall. The rules of the Plan state that if the Plan winds up, the remaining assets are to be distributed amongst the Members as determined by the Trustee of the Plan.

The Bank may at any time terminate its contributions by giving a month’s notice in writing to the Trustee.

Expected Contributions Financial year ending	2015 $m
Expected employer contributions	0.1

(c) Legal claim

From time to time, Bendigo and Adelaide Bank may be subject to material litigation, regulatory actions, legal or arbitration proceedings and other contingent liabilities which, if they crystallise, may adversely affect the financial position or financial performance of the Bank.

A specific litigation risk exists in relation to the Bank's Great Southern loan portfolio. Class actions involving the Bank and other parties were commenced by investors in managed investment schemes operated by Great Southern Managers Australia Ltd, a subsidiary of Great Southern Limited (in liquidation).

The Bank either acquired or advanced loans to investors in the managed investment schemes. Not all borrowers are members of the class actions as they relate to specific schemes and categories of borrowers.

While no wrongdoing was alleged against the Bank, the class actions sought to have the loan deeds of borrowers that are members of the class actions deemed void or unenforceable and for all money paid under those loans to be repaid to borrowers by the Bank. The trial for the Group Proceedings concluded in October 2013.

On 23 July 2014, the Bank announced that it had entered into an agreement to conclude the class actions. Under the agreement, which is subject to approval by the court, borrowers that are members of the class actions admit that their loans are valid and enforceable and have provided a broad release from future litigation. Should the court not approve the agreement, the class actions will proceed to judgement.

The Bank continues to maintain that its conduct was at all times appropriate, the loan deeds are valid and enforceable, and that borrowers are obliged to repay the loans.

Bendigo and Adelaide Bank has raised provisions and in some cases made write-offs in relation to the Great Southern loan portfolio, having regard to the performance of the portfolio and other relevant factors.

39. Commitments and contingencies (continued)

(d) Contingent liabilities and contingent assets

	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
Contingent liabilities				
Guarantees				
The economic entity has issued guarantees on behalf of clients	255.2	217.0	252.7	212.0
Other				
Documentary letters of credit & performance related obligations	11.7	15.9	11.5	15.8

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.

Contingent assets

As at 30 June 2014, the economic entity does not have any contingent assets.

40. Standby arrangements and uncommitted credit facilities

	Consolidated		Parent	
	2014	2013	2014	2013
	$m	$m	$m	$m
Amount available:				
Offshore borrowing facility	8,502.0	8,755.0	8,502.0	8,755.0
Domestic note program	5,750.0	5,750.0	5,000.0	5,000.0
Amount utilised:				
Offshore borrowing facility	900.0	266.0	900.0	266.0
Domestic note program	2,943.0	1,731.0	2,890.0	1,678.0
Amount not utilised:				
Offshore borrowing facility	7,602.0	8,489.0	7,602.0	8,489.0
Domestic note program	2,807.0	4,019.0	2,110.0	3,322.0

The Parent has a $US 5,000m Euro Commercial Paper program of which $US 708m (2013: $US 243m) was drawn down as at 30 June 2014, and a $US 3,000m Euro Medium Term Note program of which $US 140m (2013: nil) was drawn down as at 30 June 2014.

As at 30 June 2014 the Parent has a $5,000m Domestic Note program of which $2,890m (2013: $1,678m) was issued and the consolidated Group has an additional $750m Domestic Note program through its subsidiary Rural Bank Limited, of which $53m (2013: $53m) was issued.

41. Fiduciary activities

The Group conducts investment management and other fiduciary activities as trustee, custodian or manager for a number of funds and trusts, including superannuation, unit trusts and mortgage pools.

The amounts of the funds concerned, which are not included in the Group's statement of financial position is as follows:

	Consolidated	
	2014 $m	2013 $m
Funds under trusteeship	3,616.2	3,491.1
Assets under management	1,703.9	1,665.3
Funds under management	1,686.6	1,609.9

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 companies will be required to settle them, the liabilities are not included in the financial statements. Bendigo and Adelaide Bank does not guarantee the performance or obligations of its subsidiaries.

42. Securitisation and transferred assets

Transfer of financial assets

In the normal course of business the Group enters into transactions by which it transfers financial assets to counterparties or directly to Special Purpose Entities (SPE's). These transfers do not give rise to de-recognition of those financial assets for the Group.

Repurchase agreements

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

Securitisation programs

The Group through its loan securitisation program, securitises mortgage loans to the Torrens Trusts and Lighthouse Trusts ("the trusts") which in turn issue rated securities to the investors.

The Bank holds income and capital units in the trusts at nominal values, which entitles the Bank to receive excess income, if any, generated by securitised assets, while the capital units receive upon termination of the trusts any residual capital value.

Investors in the trusts have no recourse against the Group if cash flows from the securitised loans are in-adequate to service the obligations of the trusts.

	Repurchase Agreements		Securitisation	
	2014	2013	2014	2013
Consolidated	$m	$m	$m	$m
Carrying amount of transferred assets [1]	310.3	350.3	4,743.8	5,806.4
Carrying amount of associated liabilities [2]	310.3	350.3	4,910.3	6,015.0
Fair value of transferred assets			4,724.1	5,829.0
Fair value of associated liabilities			4,978.5	6,079.6
Net Position			**(254.4)**	**(250.6)**

	Repurchase Agreements		Securitisation	
	2014	2013	2014	2013
Parent	$m	$m	$m	$m
Carrying amount of transferred assets	310.3	350.3	9,194.2	11,379.7
Carrying amount of associated liabilities [3]	310.3	350.3	9,600.8	11,862.1
Fair value of transferred assets			9,228.0	11,418.6
Fair value of associated liabilities			9,703.6	11,926.7
Net Position			**(475.6)**	**(508.1)**

[1] Represents the carrying value of the loans transferred to the trust.

[2] Securitisation liabilities of the Group include RMBS notes issued by the SPE's and held by external parties.

[3] Securitisation liabilities of the Bank include borrowings from SPE's including the SPE's that issue internally held notes for repurchase with central banks, recognised on transfer of residential mortgages by the Bank.

43. Involvement with unconsolidated entities

Structured entities

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, such as when voting rights relate to the administrative tasks only and the relevant activities are directed by means of contractual arrangements. Involvement with structured entities varies and includes debt financing of these entities as well as other relationships. In accordance with Note 2, it is established 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.

The Group has no contractual arrangements that would require it to provide financial or other support to a consolidated or unconsolidated structured entity. The Group has not previously provided financial support to a consolidated or unconsolidated structured entity, and has no current intentions to provide such support.

Interests in 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 as of 30 June 2014:

Balance sheet	Assets $m
Cash and cash equivalents	0.1
Loans and other receivables – investment	396.8
Financial assets available for sale – equity investments	19.4
Derivatives	0.8
Total	**417.1**

43. Involvement with unconsolidated entities (continued)

Maximum exposure to loss

For retained and purchased notes and investments, the maximum exposure to loss is the current carrying value of these interests representing the amortised cost at reporting date.

The maximum loss exposure for the interest rate swaps is unlimited and unquantifiable as these swaps pay a floating rate of interest which is uncapped.

The following table summarises the Group's maximum exposure to loss from its involvement at 30 June 2014 and 2013 with structured entities.

	Carrying amount 2014 $m	Maximum loss exposure 2014 $m	Carrying amount 2013 $m	Maximum loss exposure 2013 $m
Cash and cash equivalents	0.1	0.1	0.1	0.1
Senior notes	396.8	396.8	546.7	546.7
Investment	19.4	19.4	13.6	13.6
Interest rate swap	0.8	**	1.1	**

** Maximum loss exposure not disclosed as it is deemed to be potentially unlimited and not quantifiable.

Sponsored unconsolidated structured entities where no interest exists at the reporting date

The Group considers itself the sponsor of a structured entity when it is primarily involved in the design and establishment of the structured entity, it supports the ongoing operations of the entity and/or it provides financial support.

The Group has sponsored Lead On Australia Limited, a youth and community development organisation which aims to strengthen relationships between young people and the broader community. Lead On Australia Limited, a not-for-profit company limited by guarantee, was created and designed by the Group in 1999.

In October 2010, a management agreement between the Group and Lead On Australia Limited was executed which allows the Group to manage the operations and strategic direction of the company. The Group pays the wages of the company's employees and any ongoing expenses.
No income was received by the Group from Lead On Australia Limited during the reporting period and the fair value of any assets transferred was $0.3 million.

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.

44. Business combinations

Acquisitions in 2014

Rural Finance

On 1 July 2014 Bendigo and Adelaide Bank Group acquired 100% of the business activities and selected assets of Rural Finance Corporation of Victoria. The acquisition has strengthened the Group's commitment to rural and regional customers.
The consideration for the acquisition of net assets was $1.78b cash.

Rural Finance is based in Bendigo with 11 branches located across regional Victoria. Rural Finance is a leading lender to Victorian primary producers. The activities and responsibilities of Rural Finance include the Commercial activities as a speciality financier in the Victorian agricultural sector.

The following table shows the effect on the Group's assets:

Assets	Provisional fair value on acquisition $m
Loans	1,682.3
Motor vehicles and office equipment	2.3
Receivables	20.5
Total Assets	**1,705.1**
Liabilities	
Employee Provisions	1.9
Total Liabilities	**1.9**
Net identifiable assets attributable to Bendigo and Adelaide Bank Limited	**1,703.2**
Cost of acquisition	1,780.8
Fair value of net assets acquired	1,703.2
Provisional goodwill on acquisition	**77.6**

As the acquisition occurred on 1 July 2014 there was no impact to the Group financial statements year ended 30 June 2014.

The acquisition accounting method for a business combination is still being completed and as such the fair value of the net assets acquired on 1 July 2014 has not been finalised. It is expected that the full contractual amounts will be collected.

The provisional goodwill recognised is not expected to be deductible for income tax purposes.

45. Events after balance sheet date

On the 1 July 2014, the Group completed the acquisition of the Rural Finance business and net assets for $1.78 billion. The acquisition has strengthened the Group's commitment to rural and regional customers. The loan portfolio at the date of acquisition was $1.7 billion. This will reduce the Group's capital ratio from 12.25% to 11.39% as at July 2014.

On the 23 July 2014, the Group announced that it had entered into an agreement to conclude the class actions brought by investors in managed investment schemes operated by Great Southern. Under the agreement, which is subject to approval by the court, the Group's borrowers who are members of the class actions have admitted that their loans are valid and enforceable and have provided a broad release from future litigation.

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 2014 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001; and

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2.2 and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(d) this declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2014.

On behalf of the board

Robert Johanson
Chairman

Mike Hirst
Managing Director

2 September 2014

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Independent auditor's report to the members of Bendigo and Adelaide Bank Limited

Report on the financial report

We have audited the accompanying financial report of Bendigo and Adelaide Bank Limited, which comprises the consolidated balance sheet as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2.2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

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Opinion

In our opinion:

a. the financial report of Bendigo and Adelaide Bank Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 28 to 47 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Bendigo and Adelaide Bank Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

T M Dring
Partner
Melbourne
2 September 2014

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Additional information

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 11 August 2014.

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 13 August 2014 there were no substantial shareholders in Bendigo and Adelaide Bank Limited as detailed in substantial holdings notices given to the Company.

5. Distribution of shareholders

Range of Securities as at 13 August 2014 in the following categories:

Category	Fully Paid Ordinary Shares	Fully Paid Employee Shares	BPS Preference Shares	Convertible Preference Shares	Step Up Preference Shares
1 - 1,000	36,645	4,218	3,024	5,150	2752
1,001 - 5,000	38,727	640	68	283	75
5,001 - 10,000	8,058	54	3	25	7
10,001 - 100,000	4,278	12	6	13	8
100,001 and over	99	2	-	1	-
Number of Holders	87,807	4,926	3,101	5,472	2,842
Securities on Issue	447,910,914	4,260,478	900,000	2,688,703	1,000,000

6. Marketable parcel

Based on a closing price of $12.70 on 13 August 2014 the number of holders with less than a marketable parcel of the Company's main class of securities (Ordinary Shares), as at 13 August 2014 was 6,274.

7. Unquoted securities

The number of unquoted equity securities that are on issue and the number of holders of those securities are shown in the above table under the heading of Fully Paid Employee shares.

8. Major shareholders

Names of the 20 largest holders of Fully Paid Ordinary shares, including the number of shares each holds and the percentage of capital that number represents as at 13 August 2014 are:

Fully paid ordinary shares

Rank	Name	Number of fully paid Ordinary Shares	Percentage held of Issued Ordinary Capital
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	68,834,102	15.22%
2	J P MORGAN NOMINEES AUSTRALIA LIMITED	41,930,390	9.27%
3	NATIONAL NOMINEES LIMITED	28,967,979	6.41%
4	CITICORP NOMINEES PTY LIMITED	19,929,858	4.41%
5	MILTON CORPORATION LIMITED	5,709,708	1.26%
6	BNP PARIBAS NOMS PTY LTD <DRP>	4,964,344	1.10%
7	AMP LIFE LIMITED	2,895,352	0.64%
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	2,222,815	0.49%
9	QIC LIMITED	1,671,548	0.37%
10	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PI POOLED A/C>	1,432,968	0.32%
11	NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	1,258,904	0.28%
12	CARLTON HOTEL LIMITED	1,117,147	0.25%
13	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	984,532	0.22%
14	NEWECONOMY COM AU NOMINEES PTY LIMITED <900 ACCOUNT>	968,727	0.21%
15	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	905,687	0.20%
16	BKI INVESTMENT COMPANY LIMITED	838,000	0.19%
17	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	823,096	0.18%
18	NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	630,065	0.14%
19	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	551,908	0.12%
20	YARABIE ESTATES PTY LTD <YARABIE SUPER FUND A/C>	510,000	0.11%
		187,147,130	**41.39%**

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 4,260,478 unquoted shares as at the date of this report.

These shares have not been included in the above table, but are included in total of issued ordinary share capital.

8. Major shareholders (continued)

Names of the 20 largest holders of Bendigo and Adelaide Preference shares, including the number of shares each holds and the percentage of preference share capital that number represents as at 13 August 2014 are:

Fully paid preference shares

Rank	Name	Number of fully paid Preference Shares	Percentage held of Issued Preference Capital
1	NATIONAL NOMINEES LIMITED	50,466	5.61%
2	J P MORGAN NOMINEES AUSTRALIA LIMITED	42,973	4.77%
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	33,912	3.77%
4	RBC INVESTOR SERVICE AUSTRALIA NOMINEES PTY LIMITED <GSENIP A/C>	25,454	2.83%
5	CITICORP NOMINEES PTY LIMITED	24,675	2.74%
6	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	10,968	1.22%
7	BNP PARIBAS NOMS PTY LTD <DRP>	7,744	0.86%
8	MS JILLIAN ROSEMARY BROADBENT <QUEENS PARK A/C>	5,917	0.66%
9	CARBON MAX PTY LTD	5,624	0.62%
10	MR ROBERT PYLE DEAM	4,100	0.46%
11	DYLAC PTY LTD	4,000	0.44%
12	ROYAL QUEENSLAND BUSH CHILDREN'S HEALTH SCHEME	3,000	0.33%
13	TRUSTEES OF THE DIOCESE OF TASMANIA	3,000	0.33%
14	DECEMBER FORCE PTY LTD <TEAGUE FAMILY A/C>	2,840	0.32%
15	MR JEFFREY FREDERICK EDWARDS & MRS JUNE ROSE EDWARDS	2,794	0.31%
16	MR JOHN HENRY KILIAN BRUNNER	2,778	0.31%
17	J & S MCKINNON FOUNDATION PTY LTD <MCKINNON FAM FOUNDATION A/C>	2,674	0.30%
18	WORLD WIDE FUND FOR NATURE AUSTRALIA	2,660	0.30%
19	GREEN SUPER PTY LTD <ROSS KNOWLES SUPER FUND A/C>	2,531	0.28%
20	MR JAMES BOSTOCK & MR JOHN BRIAN MARSHALL & MR RSL CUSTODIAN PTY LTD <BLACKTOWN RSL S/B CAP A/C>	2,474	0.27%
		240,584	**26.73%**

8. Major shareholders (continued)

Names of the 20 largest holders of Bendigo and Adelaide Convertible Preference shares, including the number of shares each holds and the percentage of convertible preference share capital that number represents as at 13 August 2014 are:

Fully paid convertible preference shares

Rank	Name	Number of fully paid Convertible Preference Shares	Percentage held of Issued Convertible Preference Shares
1	BNP PARIBAS NOMS PTY LTD <DRP>	101,200	3.76%
2	CITICORP NOMINEES PTY LIMITED	50,276	1.87%
3	NORTHERN METROPOLITAN CEMETERIES T/A MACQUARIE PARK CEMETERY	40,000	1.49%
4	J P MORGAN NOMINEES AUSTRALIA LIMITED	32,264	1.20%
5	QUESTOR FINANCIAL SERVICES LIMITED <TPS RF A/C>	31,723	1.18%
6	NATIONAL NOMINEES LIMITED	30,942	1.15%
7	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	30,113	1.12%
8	SANDHURST TRUSTEES LTD <LMA A/C>	24,704	0.92%
9	WORONORA GENERAL CEMETERY & CREMATORIUM	15,000	0.56%
10	VESADE PTY LTD	15,000	0.56%
11	SANDHURST TRUSTEES LTD <DMP ASSET MANAGEMENT A/C>	14,571	0.54%
12	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	13,130	0.49%
13	HAMPTON PTY LTD	12,173	0.45%
14	G E MALLAN INVESTMENTS PTY LTD <MALLAN SUPER FUND A/C>	10,300	0.38%
15	BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED	10,000	0.37%
16	JOHN E GILL TRADING PTY LTD	10,000	0.37%
17	MARENTO PTY LTD	10,000	0.37%
18	NOILLY PTY LTD <WALMSLEY FAMILY FUND A/C>	10,000	0.37%
19	RANDLEWOOD PTY LTD <MURRAY FAMILY A/C>	10,000	0.37%
20	TRISTAR METALS PTY LTD	10,000	0.37%
		481,396	**17.89%**

8. Major shareholders (continued)

Names of the 20 largest holders of Bendigo and Adelaide Step Up Preference shares, including the number of shares each holds and the percentage of step up preference share capital that number represents as at 13 August 2014 are:

Fully paid step up preference shares

Rank	Name	Number of fully paid Step Up Preference Shares	Percentage held of Issued Step Up Preference Shares
1	NATIONAL NOMINEES LIMITED	59,834	5.98%
2	UBS NOMINEES PTY LTD	57,028	5.70%
3	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	20,784	2.08%
4	SANDHURST TRUSTEES LTD <LMA A/C>	13,323	1.33%
5	MS HEATHER MALLOCH SCOVELL & DR IAN LESLIE GARDNER <SCOVELL GARDNER FAM SF A/C>	13,000	1.30%
6	J P MORGAN NOMINEES AUSTRALIA LIMITED	11,021	1.10%
7	NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	10,425	1.04%
8	NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	10,062	1.01%
9	RETURNED SERVICES LEAGUE OF AUSTRALIA (QUEENSLAND BRANCH)	10,000	1.00%
10	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	8,951	0.90%
11	POST PERFECT PTY LTD	7,863	0.79%
12	AUST EXECUTOR TRUSTEES LTD <DDH PREFERRED INCOME FUND>	7,650	0.77%
13	PAISLEY & NICHOLSON PTY LTD <PAISLEY & NICHOLSON A/C>	7,500	0.75%
14	ESCOR INVESTMENTS PTY LTD <FF A/C>	5,635	0.56%
15	TANK LORD PTY LTD	5,443	0.54%
16	BNP PARIBAS NOMS PTY LTD <DRP>	5,000	0.50%
17	CARBON MAX PTY LTD	4,972	0.50%
18	CARBON MAX PTY LTD	4,559	0.46%
19	BALLABRADACH PTY LTD	4,474	0.45%
20	QUESTOR FINANCIAL SERVICES LIMITED <TPS RF A/C>	4,307	0.43%
		271,831	**27.19%**

9. Voting rights

The holders of ordinary shares are entitled to vote at meetings of shareholders in the first instance by a show of hands of the shareholders present and entitled to vote. If a poll is called, each shareholder has one vote for each fully paid share held.

Holders of partly paid shares have a vote which carries the same proportionate value as the proportion that the amount paid up on the total issue price bears to the total issue price of the share.

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.