Annual Financial Report 2017

Bendigo and Adelaide Bank

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Front cover – The front cover image was captured at the "Be the Change" filming. Photographed at the Clifton Hill/North Fitzroy Community Bank® branch, "Be the Change" shows that our customers create change every day. A change for good. A change for better. And this change has a real and positive impact on people and communities right across Australia.

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Directors' Report

The Directors of Bendigo and Adelaide Bank Limited (the "Bank") present their report together with the financial report of the Bank and the Consolidated Entity (the "Group") for the year ended 30 June 2017.

Directors' information

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

Robert Johanson
Chair, Independent
BA, LLM (Melb), MBA (Harvard), 66 years

Term of office: Robert has been a Director of the Bank for 29 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 35 years' experience in providing corporate advice on capital market transactions to a wide range of public and private companies.

Board committees: Governance & HR and Technology & Change

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

Other director and memberships (including directorships of other listed companies for the previous three years):
Chairman, Australia India Institute and MBD Energy Limited

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

Mike Hirst
Managing Director, non independent
BCom (Melb), SFFin, MAICD, 59 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 in 2001. Mike has extensive experience in banking, treasury, funds management and financial markets, including previous senior executive and management positions with Colonial Limited, Chase AMP Bank Limited and Westpac Banking Corporation.

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 Limited

Other director and memberships (including directorships of other listed companies for the previous three years):
Member, Business Council of Australia and Financial Sector Advisory Council

Deputy Chairman, Australian Bankers' Association Council

Acting Chairman, Racing Victoria Limited

Member, MasterCard (Asia Pacific) Advisory Board.

Jan Harris
Independent
BEc (Hons), 58 years

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

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

Board committees: Member of Risk and Audit

Group and joint venture directorships:
Rural Bank Limited

Other director and memberships (including directorships of other listed companies for the previous three years):
External Member, Audit and Risk Committee of the Australian Security Intelligence Organisation

Member (part-time), International Air Services Commission.

Jim Hazel
Independent
BEc, SFFin, FAICD, 66 years

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

Skills, experience and expertise: Jim is a professional public company Director who has had an extensive career in banking and finance, including in the regional banking industry.

Board committees: Chair of Risk and member of Credit and Technology & Change

Group and joint venture directorships: Rural Bank Limited

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

Director, Centrex Metals Limited (ASX listed, period: 2010 to present), Impedimed Limited (ASX listed, period: 2007 to March 2016), Adelaide Football Club Limited, Coopers Brewery Limited and Council Member of the University of South Australia.

Jacqueline Hey,
Independent
BCom (Melb), Graduate Certificate in Management (Southern Cross University), GAICD, 51 years

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

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

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

Group and joint venture directorships:
Rural Bank Limited

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

Robert Hubbard,
Independent
BA (Hons) Accy, FCA, 58 years

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

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

Board committees: Chair of Audit and member of Risk

Group and joint venture directorships:
Rural Bank Limited

Other director and memberships (including directorships of other listed companies for the previous three years):
Chairman, Orocobre Limited (ASX and TSX listed, period: November 2012 to present) and Central Petroleum Limited (ASX listed, period: December 2013 to present).

Director, Primary Health Care Limited (ASX listed, period: December 2014 to present).

Directors’ information continued

David Matthews
Independent
Dip BIT, GAICD,
59 years

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

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

Board committees: Member of Credit and Audit

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

Other director and memberships (including directorships of other listed companies for the previous three years): Director, Pulse Australia, Australian Grain Technologies, Rupanyup/Minyip Finance Group Limited.

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

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

Skills, experience and expertise: Deb has over 25 years’ experience in the banking industry with both international and local banks. Deb also worked in the Victorian State Treasury, and ran her own consulting business advising the government on commercial transactions.

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

Group and joint venture directorships: Rural Bank Limited

Other director and memberships (including directorships of other listed companies for the previous three years): Director, SMS Management & Technology Limited (ASX listed, period: September 2013 to November 2016)

Council Member of La Trobe University.

Tony Robinson
Independent
BCom (Melb), ASA, MBA (Melb), 59 years

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

Skills, experience and expertise: Tony has many years’ experience in financial services, particularly wealth management and insurance. Tony’s previous roles include CEO of Centrepoint Alliance Limited, IOOF Holdings Limited and OAMPS Limited.

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

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

Other director and memberships (including directorships of other listed companies for the previous three years): Chairman, TasFoods Limited (ASX listed, period: June 2014 to present) and Primary Opinion Limited (ASX listed, period: November 2015 to present).

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

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 residential, business, rural and consumer lending, deposit-taking, payments services, wealth management and superannuation, treasury and foreign exchange services. There was no significant change in the nature of the activities during the year.

Operating results

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

Dividends

The Directors announced on 14 August 2017 a fully franked final dividend of 34 cents per fully paid ordinary share. The final dividend is payable on 29 September 2017. The proposed payment is expected to amount to $158.4 million.

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

- A final dividend for the 2016 financial year of 34 cents per share, paid on 30 September 2016 (amount paid: $155.1 million); and
- An interim dividend for the 2017 financial year of 34 cents per share, paid on 31 March 2017 (amount paid: $156.3 million).

Further details on the dividends provided for or paid during the 2017 financial year on the Bank’s ordinary and preference shares are provided at Note 7 Dividends of the Financial Statements.

Review of operations

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

State of affairs

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

After balance date events

The Bank declared a final dividend of 34 cents per ordinary share on 14 August 2017.

The Directors are not aware of any other matter or circumstance which arose since the end of the financial year to the date of this report that has significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

Future developments

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

Rounding of amounts

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

Meetings of Directors

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

Director	Board		Audit Committee		Credit Committee		Risk Committee		Governance & HR Committee		Technology & Change Committee	
Meetings during the year	A	B	A	B	A	B	A	B	A	B	A	B
Robert Johanson	17	16							4	4	5	5
Jan Harris	17	17	8	8			6	6				
Jim Hazel	17	16			6	5	6	5			5	4
Jacquie Hey	17	16			6	6			4	4	5	5
Mike Hirst	17	17										
Robert Hubbard	17	17	8	8			6	6				
David Matthews	17	17	8	8	6	6						
Deb Radford	17	16			6	6			4	3	5	5
Tony Robinson	17	17	8	8			6	6	4	4		

A = Number eligible to attend B = Number attended

Directors' interests in Equity

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

Director	Ordinary Shares No.	Preference Shares No.	Performance Rights No.	Sandhurst Cash Common Fund ($) [2]
Robert Johanson	218,169	-	-	476
Mike Hirst [1]	715,689	-	76,219	-
Jan Harris	1,000	-	-	-
Jim Hazel	26,128	-	-	-
Jacquie Hey	11,378	250	-	-
Robert Hubbard	11,775	-	-	-
David Matthews	30,959	-	-	-
Deb Radford	1,900	3,190	-	-
Tony Robinson	33,140	-	-	-

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

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

Directors' interests continued

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

Share Options and Rights

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

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

During or since the end of the financial year the Bank granted 378,759 rights (2016: 175,373). This included 215,700 rights granted to key management personnel. There have been no grants of rights to Non-executive Directors.

As at the date of this report there are 704,773 rights that are exercisable or may become exercisable at a future date under the Plan. The last date for the exercise of the rights ranges between 30 June 2018 and 30 June 2020.

During or since the end of the financial year no rights vested (2016: nil) and no new fully paid ordinary shares have been issued by the Bank during or since the end of the financial year as a result of rights being exercised.

For the period 1 July 2017 to the date of this report, no rights have lapsed.

Further details of Key Management Personnel equity holdings during the financial year are detailed in the 2017 Remuneration Report.

Corporate Governance

An overview of the Bank's corporate governance structures and practices is presented in the 2017 Corporate Governance Statement available from the Bank's website at www.bendigoadelaide.com.au/public/corporate_governance/

The Bank confirms it has followed the ASX Corporate Governance Council's Principles and Recommendations (3rd edition) during the 2017 financial year.

Environmental Regulation

The Group endeavours to conduct its operations in a manner that minimises its impact on the environment. Information on the Group's environmental performance and activities to manage the Group's environmental impact are provided in the 2017 Annual Review which is available from the Group's website.

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

The Group is not subject to the Federal Government's National Greenhouse and Energy Reporting (NGER) Scheme which requires controlling corporations to report annually on greenhouse gas emissions, energy production and energy consumption, if they exceed certain threshold levels. Whilst not required to report under the Scheme, the Group does measure and monitor its greenhouse gas emissions and has voluntarily reported these emissions since 2011 to the Carbon Disclosure Project.

Indemnification of Officers

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

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

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

Indemnification of Auditor

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

Insurance of Directors and Officers

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

Company Secretary

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 2016.

To support the declaration, a formal risk management and financial statement 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 2017.

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 2017. A copy of the auditor's independence declaration is presented at the end of this section.

Non-Audit Services

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

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

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

Details of all non-audit services for the year ended 30 June 2017:

(a) Assurance related fees (Regulatory)

Service Category	Fees $	Entity
AFSL audits, APS 310 and APS 910 audits	238,741	Bendigo and Adelaide Bank Limited
AFSL audit, APS 310 and APS 910 audits	83,875	Rural Bank Limited
Euro Medium Term Note Program	30,906	Bendigo and Adelaide Bank Limited
Sub-total: Audit related fees (Regulatory)	**353,522**	

(b) Audit related fees (Non-regulatory)

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

Service Category	Fees $	Entity
Alliance Bank Revenue Share Model	20,400	Bendigo and Adelaide Bank Limited
Subordinated Note Issuance	13,260	Bendigo and Adelaide Bank Limited
Basel II advanced accreditation program	29,600	Bendigo and Adelaide Bank Limited
Securitisation Trusts	169,805	Securitisation Trusts
Sub-total: Assurance related fees (Non-regulatory)	**233,065**	
Total: non-assurance services	**586,587**	

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

As lead auditor for the audit of Bendigo and Adelaide Bank Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Ernst & Young

Graeme McKenzie
Partner
Melbourne

5 September 2017

Operating and Financial Report

Business overview

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

Our vision is to be Australia's most customer connected bank and our point of difference is our focus on the success of our customers, people, partners and communities.

Our main business activity is raising funds through customer deposits and wholesale funding markets and lending those funds to our customers. The major lending activities are residential lending, commercial and business lending and consumer finance, which includes personal loans, credit cards and overdrafts.

Our main revenue sources are:

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

Our business activities are structured and managed under the following three customer-facing divisions:

Local Connection
Local Connection incorporates retail banking (including Community Bank® and Delphi Bank®), business banking and financial markets. The services are available from our national branch and agency network, business bankers, call centres, on-line and phone banking services and ATM network.

Partner Connection
Partner Connection incorporates our Third Party Banking, Wealth and Leveraged businesses.

Third Party Banking provides commercial, residential and consumer finance through intermediaries including mortgage managers and brokers. It also includes our Portfolio Funding business which provides funding to finance companies.

Wealth is the provider of superannuation, investment and financial planning services through our subsidiaries, Sandhurst Trustees Limited and Bendigo Financial Planning Limited.

Leveraged is our margin lending business. The services are provided by our subsidiary, Leveraged Equities Limited through its team of business development and relationship managers.

The Partner Connection segment also includes Alliance Bank and Homesafe.

Agribusiness Division
The division is an amalgamation of our Rural Bank and Rural Finance businesses. This division provides specialist financial products and services to primary producers and agribusiness participants through a national network of outlets and agribusiness lending specialists mainly based in rural and regional centres.

Performance overview

Highlights	
Statutory profit	⬆ 3.4% to $429.6 million
Statutory earnings per share	⬆ 0.6% to 90.9 cents
Cash earnings	⬆ by 4.2% to $418.3 million
Cash earnings per share	⬆ 1.2% to 88.5 cents
Common Equity Tier 1 ratio of 8.27%	⬆ 30 basis points compared to December 2016

The year in review
We were pleased to announce a strong profit result for the year. The after tax statutory profit was $429.6 million which represents an increase of 3.4 percent on the prior year's result of $415.6 million. The statutory earnings per ordinary share was 90.9 cents (FY2016: 90.4 cents).

The Bank declared a final fully franked dividend of 34 cents per share, taking the full-year dividend to 68 cents per share (FY2016: 68 cents). The statutory return on average ordinary equity was 8.32 percent and the return on average tangible equity was 11.61 percent.

This was again a very challenging year given the high level of competition and pressure on interest margins. Despite this, we saw good levels of activity which translated into above system growth, which is a testament to our vision to be Australia's most customer connected bank.

All our major businesses experienced good levels of activity with our housing, business and rural portfolios all recording increases in lending volumes for the year. Total assets grew by $2.8 billion and total liabilities increased by $2.5 billion over the year. The liability growth was mainly in the retail at-call and term deposit portfolios.

We saw strong housing lending growth from the Local Connection Division of 7.7 percent and a solid contribution through our Third Party channels, although new prudential caps on investor and interest-only lending curtailed growth in the second half. Net interest margin improved 8 basis points over the second half, with an exit margin of 2.34 percent.

Credit quality is sound with loan arrears performance generally flat year on year. Although the industry is experiencing historically low levels, there was an increase in bad and doubtful debt charges for the year.

Our ability to attract retail deposits is a real strength of our business, providing flexibility for executing on growth opportunities. The growth in retail deposits meant that 80.2 percent of our total funding base was provided by our retail customers as at year end.

Our focus on efficiency and continuous improvement has also been a key contributor to the result. Expenses remained flat year on year, and our cost to income ratio improved to 56.1 percent, as productivity gains flow from our investments in technology and making it easier for our customers to do business with us.

Our capital position is extremely strong, particularly given the relatively low level of risk in the balance sheet. Importantly, our ability to organically generate capital is expected to enable us to achieve APRA's new unquestionably strong capital benchmarks well within the required timeframe without needing to raise additional capital, aside from dividend reinvestments. This benchmark is explained in the Capital Adequacy section of this report.

Our progress towards Advanced Accreditation is continuing, although further announcements from APRA on asset risk weightings, which are expected later this year, will better inform this decision.

Regardless, the significant investment we have made to date has vastly improved our risk management capability and is an important step in ensuring we can operate on a level playing field with the major banks.

Investing for the future by developing the skills and knowledge of our staff and delivering innovative and customer focused solutions has again been a key focus for the business. This includes new technologies and digital solutions to meet our customers' ever changing needs.

The result is a positive reflection on our unique and valued proposition, which is resonating with all of our stakeholders.

Customer connection is central to our strategy, and our customers are our greatest advocates. Our proposition for customers has driven the highest levels of trust and advocacy in the industry. We're number one in the Customer Experience Index across all industries, our corporate reputation is the highest of all Australian retail banks, and out of all banks' customers, our customers are most likely to recommend us to others, according to Roy Morgan research.

Our proposition for communities also remains strong. Our Community Bank® model is delivering tangible benefits for many communities and our business, with 9 percent balance sheet growth this year. Approximately $16.6 million was returned directly to local communities in the last financial year, and the impact of this funding will support the sustainability of hundreds of Australian communities for the long-term.

The current operating environment is extremely competitive, and we expect this to continue. This means we will need to maintain our focus on achieving our vision to be Australia's most customer connected bank, and take greater advantage of the opportunities ahead of us. Our customer focus, high trust ratings and customer advocacy provide a great platform for business growth. Paired with our strong funding and balance sheet position, we are well placed to generate sustainable returns for our stakeholders.

Financial result summary

	Full year ending				Six months ending			
	Jun 17	Jun 16	Change		Jun 17	Dec 16	Change	
	$m	$m	$m	%	$m	$m	$m	%
Profit before tax	628.3	606.9	21.4	3.5	323.6	304.7	18.9	6.2
Specific items before tax	(49.1)	(52.5)	3.4	(6.5)	(23.9)	(25.2)	1.3	(5.2)
Profit before tax and specific items	**579.2**	**554.4**	**24.8**	**4.5**	**299.7**	**279.5**	**20.2**	**7.2**
Profit after tax attributable to Owners of the Company	429.6	415.6	14.0	3.4	220.6	209.0	11.6	5.6
Specific items after tax	(34.8)	(34.9)	0.1	(0.3)	(16.7)	(18.1)	1.4	(7.7)
Other specific items after tax	11.1	7.0	4.1	58.6	4.9	6.2	(1.3)	(21.0)
Amortisation of acquired intangibles after tax	12.4	13.7	(1.3)	(9.5)	6.0	6.4	(0.4)	(6.3)
Cash earnings after tax	**418.3**	**401.4**	**16.9**	**4.2**	**214.8**	**203.5**	**11.3**	**5.6**

Financial performance ratios	Jun 17 Half	Dec 16 Half	Total	Jun 16 Half	Dec 15 Half	Total	Jun 16 to Jun 17
	cents	cents	cents	cents	cents	cents	cps change
Earnings per ordinary share (statutory basis)	46.3	44.6	**90.9**	44.8	45.6	**90.4**	0.5
Earning per ordinary share (cash basis)	45.0	43.5	**88.5**	44.9	42.4	**87.3**	1.2
Dividend per share - fully franked	34.0	34.0	**68.0**	34.0	34.0	**68.0**	-
	%	%	%	%	%	%	% change
Cost to income ratio	55.7	56.4	**56.1**	58.2	57.9	**58.1**	3.4
Net interest margin before profit share arrangements	2.26	2.18	**2.22**	2.24	2.23	**2.23**	(0.4)
Net interest margin after profit share arrangements	1.89	1.83	**1.86**	1.89	1.90	**1.89**	(1.6)

Cash earnings result

The cash earnings result for the year was $418.3 million, which represents a 4.2 percent improvement on the previous year's result of $401.4 million. The cash earnings per ordinary share was 88.5 cents which is a 1.2 percent increase on the previous year.

The cash basis return on average ordinary equity was 8.10 percent and the return on average tangible equity was 11.61 percent.

On a cash earnings basis, net interest income increased by $47.7 million to $1,232.0 million. Net interest margin (before profit share arrangements) decreased by 1 basis point to 2.22 percent across the year. The movement broadly reflected strong competition and cash rate reductions, offset by increases in lending rates.

Our average interest earning assets for the year grew by $3.6 billion or 5.8 percent, which drove the improvement in net interest income, and other revenue grew by $6.8 million or 2.2 percent due to stronger trading income from our liquidity holdings.

Our operating expenses were held relatively flat with a slight increase of $2.0 million (0.2 percent). Salary costs were flat and an increase in software amortisation was offset by reductions in marketing costs and other product and service delivery costs.

The bad and doubtful debt expense increased by 62.8 percent on the previous year. This was mainly due to specific provisioning for a small number of business exposures and an increase in bad and doubtful debt charges for the Great Southern portfolio.

A reconciliation between the statutory profit and cash earnings result for the year is provided at Note 5 Segment results in the 2017 Financial Report.

Analysis of financial performance

	Full year ending				Six months ending			
	Jun 17	Jun 16	Change		Jun 17	Dec 16	Change	
Income	$m	$m	$m	%	$m	$m	$m	%
Net interest income	1,232.0	1,184.3	47.7	4.0	627.3	604.7	22.6	3.7
Homesafe funding costs - unrealised	(15.8)	(15.6)	(0.2)	1.3	(8.5)	(7.3)	(1.2)	16.4
Specific items - interest expense	(2.6)	(4.6)	2.0	(43.5)	(1.1)	(1.5)	0.4	(26.7)
Total net interest income including specific items	**1,213.6**	**1,164.1**	**49.5**	**4.3**	**617.7**	**595.9**	**21.8**	**3.7**
Other income								
Fee income	160.0	161.9	(1.9)	(1.2)	79.8	80.2	(0.4)	(0.5)
Commissions	72.7	68.9	3.8	5.5	37.6	35.1	2.5	7.1
Foreign exchange income	18.0	20.9	(2.9)	(13.9)	8.9	9.1	(0.2)	(2.2)
Trading book revaluation income	19.8	8.9	10.9	122.5	7.2	12.6	(5.4)	(42.9)
Other	39.2	42.3	(3.1)	(7.3)	15.9	23.3	(7.4)	(31.8)
Total other income	**309.7**	**302.9**	**6.8**	**2.2**	**149.4**	**160.3**	**(10.9)**	**(6.8)**
Specific other income items								
Homesafe Trust - revaluation income	90.4	79.7	10.7	13.4	44.0	46.4	(2.4)	(5.2)
Other - non interest income	(4.2)	7.9	(12.1)	(153.2)	3.1	(7.3)	10.4	(142.5)
Total income including specific items	**1,609.5**	**1,554.6**	**54.9**	**3.5**	**814.2**	**795.3**	**18.9**	**2.4**

Net interest income

The increase in net interest income was mainly driven by growth in average interest earning assets. This was offset to some degree by a one basis point decrease in the net interest margin year on year.

Our average interest earning assets increased by $3.6 billion or 5.8 percent on the prior year which was mainly due to a $3.12 billion increase in the residential lending portfolio and a $433.6 million increase across the commercial, business and rural portfolios.

Our margin performance over the year is a story of two halves. During the first half of the year our net interest margin declined due to cash rate reductions in May and August 2016 and heightened competition, causing lending rates to decline. The margin was also adversely impacted by holding additional liquidity in the lead up to the acquisition of the Keystart portfolio. As a result, our net interest margin declined by six basis points for the first half.

During the second half, our net interest margin recovered as interest rate increases on mortgages, particularly interest only and investor mortgage loans, became effective.

Operating expenses

	Full year ending				Six months ending			
	Jun 17	Jun 16	Change		Jun 17	Dec 16	Change	
	$m	$m	$m	%	$m	$m	$m	%
Staff and related costs	480.5	480.3	0.2	-	237.3	243.2	(5.9)	(2.4)
Occupancy costs	92.0	91.6	0.4	0.4	46.1	45.9	0.2	0.4
Information technology costs	71.6	70.2	1.4	2.0	35.3	36.3	(1.0)	(2.8)
Amortisation of acquired intangibles	17.7	19.5	(1.8)	(9.2)	8.6	9.1	(0.5)	(5.5)
Amortisation of software intangibles	20.8	15.4	5.4	35.1	11.8	9.0	2.8	31.1
Property, plant and equipment costs	11.7	11.3	0.4	3.5	5.8	5.9	(0.1)	(1.7)
Fees and commissions	33.6	33.6	-	-	16.7	16.9	(0.2)	(1.2)
Communications, postage and stationery	33.0	33.8	(0.8)	(2.4)	15.9	17.1	(1.2)	(7.0)
Advertising and promotion	28.3	31.1	(2.8)	(9.0)	14.8	13.5	1.3	9.6
Other product and services delivery costs	33.0	37.4	(4.4)	(11.8)	16.0	17.0	(1.0)	(5.9)
Other administration expenses	68.5	64.5	4.0	6.2	36.7	31.8	4.9	15.4
Total operating expenses	**890.7**	**888.7**	**2.0**	**0.2**	**445.0**	**445.7**	**(0.7)**	**(0.2)**
Specific items	18.7	14.9	3.8	25.5	13.6	5.1	8.5	166.7
Total expenses including specific items	**909.4**	**903.6**	**5.8**	**0.6**	**458.6**	**450.8**	**7.8**	**1.7**

In a period where revenue growth has been challenging, the business has carefully managed the cost base and continued to drive savings and operational efficiencies. Operating expenses were kept relatively flat year on year. This combined with our income growth resulted in the cost to income ratio improving to 56.1 percent.

The main movement in operating expenses for the year related to software amortisation. The increase is mainly due to completing a number of our significant technology related investments. The increase in other administration expenses was mainly due to additional legal costs associated with the Great Southern portfolio.

Staff expenses were flat compared to the previous year. The additional costs associated with this year's bonus pool allocation and the employee share grant to general staff were offset by operational efficiencies and savings. This includes a reduction of 118 full time equivalent staff over the year.

Bad and doubtful debt charges and loan impairment provisions

	Full year ending				Six months ending			
	Jun 17	Jun 16	Change		Jun 17	Dec 16	Change	
Bad and doubtful debts expense	$m	$m	$m	%	$m	$m	$m	%
Bad debts written off	20.5	4.4	16.1	365.9	12.5	8.0	4.5	56.3
Provision doubtful debts - expense	71.4	52.5	18.9	36.0	33.0	38.4	(5.4)	(14.1)
Total bad and doubtful expense	**91.9**	**56.9**	**35.0**	**61.5**	**45.5**	**46.4**	**(0.9)**	**(1.9)**
Less: Bad debts recovered	(20.1)	(12.8)	(7.3)	57.0	(13.5)	(6.6)	(6.9)	104.5
Bad and doubtful debts net of recoveries	**71.8**	**44.1**	**27.7**	**62.8**	**32.0**	**39.8**	**(7.8)**	**(19.6)**

	As at Jun 17	As at Jun 16	Change		As at Jun 17	As at Dec 16	Change	
Provisions and reserves	$m	$m	$m	%	$m	$m	$m	%
Provision for doubtful debts - specific	89.5	125.3	(35.8)	(28.6)	89.5	111.1	(21.6)	(19.4)
Provision for doubtful debts - collective	52.7	53.4	(0.7)	(1.3)	52.7	51.9	0.8	1.5
General reserve for credit losses	140.3	146.9	(6.6)	(4.5)	140.3	140.3	-	-
Total provisions and reserve for doubtful debts	**282.5**	**325.6**	**(43.1)**	**(13.2)**	**282.5**	**303.3**	**(20.8)**	**(6.9)**

	As at Jun 17	As at Jun 16	Change	As at Jun 17	As at Dec 16	Change
Ratios	%	%	%	%	%	%
Bad and doubtful debts net of recoveries to gross loans	0.12	0.08	0.04	0.11	0.13	(0.03)
Total provision/reserve for doubtful debts to gross loans	0.46	0.57	(0.11)	0.46	0.50	(0.04)
Collective provision and GRCL to risk-weighted assets	0.51	0.55	(0.04)	0.51	0.50	0.01

The increase in bad and doubtful debt charges was disappointing, however the level of bad and doubtful debts are still low by industry standards.

There was a significant reduction in the provisions and reserve for bad and doubtful debts for the year, which decreased from $325.6 million to $282.5 million. This movement mainly relates to a decrease in specific provisions as a result of the finalisation of a number of large, longstanding exposures in the rural and business lending portfolios that were provided for in previous financial years. The movement also reflects the finalisation of exposures in the Great Southern portfolio that were provided for in previous years.

The small decrease in the collective provision mainly reflects reductions for the Great Southern loan portfolio of $2.6 million and the rural portfolios of $2.4 million. These movements reflect the ongoing amortisation of the Great Southern portfolio and a reduction in defaulted loans in the rural portfolio. As a percentage of the overall portfolio, the collective provision for the Great Southern portfolio increased over the period. The above-mentioned reductions were offset by additional provisioning for certain commercial exposures and to reflect emerging stress in the Western Australian housing market.

The year-end collective provision for the Great Southern portfolio was $16.5 million. When combined with the specific provision of $11.9 million, the total provisioning for the Great Southern portfolio represent 23.6 percent of gross loans outstanding at year end. We also started to see significant bad debt recoveries which exceeded $20 million for the year.

Analysis of financial position

Financial position metrics	Jun 17 Half $m	Dec 16 Half $m	Total $m	Jun 16 Half $m	Dec 15 Half $m	Total $m	Jun 16 to Jun 17 $m	%:
Ordinary equity	5,321.3	5,206.4	**5,321.3**	5,037.6	4,941.6	**5,037.6**	283.7	5.6
Retail deposits	50,743.2	50,579.9	**50,743.2**	48,445.3	45,776.0	**48,445.3**	2,297.9	4.7
Funds under management	5,322.5	4,979.7	**5,322.5**	4,684.1	4,517.7	**4,684.1**	638.4	13.6
Loans under management	61,740.2	60,865.2	**61,740.2**	58,227.6	56,353.3	**58,227.6**	3,512.6	6.0

Loan portfolio

	Jun 17 Half $m	Dec 16 Half $m	Total $m	Jun 16 Half $m	Dec 15 Half $m	Total $m	Jun 16 to Jun 17 $m	%
New loan approvals	8,330.7	11,724.9	**20,055.6**	8,844.7	8,187.9	**17,032.6**	3,023.0	17.7
Residential	5,419.3	8,710.5	**14,129.8**	5,588.3	5,263.9	**10,852.2**	3,277.6	30.2
Non-residential	2,911.4	3,014.4	**5,925.8**	3,256.4	2,924.0	**6,180.4**	(254.6)	(4.1)

	As at Jun 17 $m	As at Jun 16 $m	Change $m	Change %	As at Jun 17 $m	As at Dec 16 $m	Change $m	Change %:
Gross loan balance - by purpose								
Residential	41,261.7	38,100.0	3,161.7	8.3	41,261.7	40,789.2	472.5	1.2
Consumer	2,571.4	2,693.9	(122.5)	(4.5)	2,571.4	2,593.7	(22.3)	(0.9)
Margin lending	1,726.1	1,742.4	(16.3)	(0.9)	1,726.1	1,665.7	60.4	3.6
Commercial	15,368.8	14,935.2	433.6	2.9	15,368.8	15,053.2	315.6	2.1
Total gross loan balance	**60,928.0**	**57,471.5**	**3,456.5**	**6.0**	**60,928.0**	**60,101.8**	**826.2**	**1.4**
Loans under management (gross balance)								
On-balance sheet	60,928.0	57,471.5	3,456.5	6.0	60,928.0	60,101.8	826.2	1.4
Off-balance sheet loans under management	812.1	756.1	56.0	7.4	812.1	763.4	48.7	6.4
Total Group loans under management	**61,740.1**	**58,227.6**	**3,512.5**	**6.0**	**61,740.1**	**60,865.2**	**874.9**	**1.4**

Loans under management represent the gross balance of loans held and managed by the Group categorised as follows:
- On-balance sheet loans are the gross balance of loans and factoring receivables held by the consolidated Group.
- Off-balance sheet loans under management represent the gross balance of off-balance sheet loans managed by wholly-owned subsidiaries of Bendigo and Adelaide Bank Limited.

The gross loan portfolio increased over the year by $3.5 billion or 6.0 percent. This includes the $1.35 billion Keystart residential mortgage portfolio acquired in the first half of the year. The lending growth has been predominately funded by strong growth in customer deposits.

Competition for new lending was again challenging due to pricing competition in the market, particularly in the first half. Housing loan growth of 8.7 percent compares favourably to system growth of 6.8 percent and our commercial lending portfolio grew by 3.5 percent which was below system growth of 6.4 percent.

Residential loan approvals for the year amounted to $14.1 billion, representing a 30.2 percent increase on the previous year. Non-residential loan approvals reduced slightly for the year to $5.9 billion, representing a 4.1 percent decrease on the previous year.

Our home loan customers have continued to make principal repayments ahead of schedule. Approximately 45 percent of our home loan borrowers are ahead of their minimum loan repayments, and 29 percent are three or more repayments ahead of schedule.

The loan portfolio remains very well secured. In total, 98.4 percent of the portfolio is secured, with 97.9 percent secured by mortgages or listed securities. The average loan to valuation ratio at origination for the residential mortgage portfolio is 61 percent and 62 percent of the portfolio is secured by owner-occupied residences.

Asset quality

Impaired loans	As at Jun 17 $m	As at Jun 16 $m	Change $m	Change %	As at Jun 17 $m	As at Dec 16 $m	Change $m	Change %
Full-performing	0.3	1.2	(0.9)	(75.0)	0.3	1.0	(0.7)	(70.0)
Part-performing	33.5	65.4	(31.9)	(48.8)	33.5	35.9	(2.4)	(6.7)
Non-performing	201.6	237.1	(35.5)	(15.0)	201.6	217.8	(16.2)	(7.4)
Restructured loans	47.2	46.5	0.7	1.5	47.2	46.0	1.2	2.6
Total impaired assets	**282.6**	**350.2**	**(67.6)**	**(19.3)**	**282.6**	**300.7**	**(18.1)**	**(6.0)**
Less: specific impairment provisions	(88.5)	(124.4)	35.9	(28.9)	(88.5)	(110.2)	21.7	(19.7)
Net impaired assets	**194.1**	**225.8**	**(31.7)**	**(14.0)**	**194.1**	**190.5**	**3.6**	**1.9**
Portfolio facilities - past due 90 days, not well secured	5.8	4.8	1.0	20.8	5.8	4.9	0.9	18.4
Less: specific impairment provisions	(1.0)	(0.9)	(0.1)	11.1	(1.0)	(0.9)	(0.1)	11.1
Net portfolio facilities	**4.8**	**3.9**	**0.9**	**23.1**	**4.8**	**4.0**	**0.8**	**20.0**
Past due 90 days	$m	$m	$m	%	$m	$m	$m	%
Well secured (excluding commercial arrangement loans)	431.6	396.9	34.7	8.7	431.6	431.1	0.5	0.1
Great Southern portfolio	79.0	157.9	(78.9)	(50.0)	79.0	103.2	(24.2)	(23.4)
Ratios	%	%	%		%	%	%	
Total impaired loans to gross loans	0.46	0.61	(0.15)		0.46	0.50	(0.04)	
Total impaired loans to total assets	0.40	0.51	(0.11)		0.40	0.42	(0.02)	
Net impaired loans to gross loans	0.32	0.39	(0.07)		0.32	0.32	0.00	
Provision coverage	100.0	93.0	7.0		100.0	100.9	(0.9)	

Total impaired assets decreased by $67.6 million (19.3 percent) to $282.6 million. As mentioned earlier, the decrease reflects the finalisation of a number of large, longstanding exposures for which loss provisions were raised in prior years.

As at year end the loan provisioning and reserves coverage was sitting at 100 percent of total impaired assets.

The 90+ day arrears increased by $34.7 million for the year. The movement is mainly represented by increases for the residential ($40.4 million), business lending ($34.1 million) and other lending portfolios ($11.1 million). In contrast, the arrears for the rural and Delphi portfolios were below the previous financial year by $31.2 million and $16.1 million respectively.

However, on an absolute basis, our arrears as a percentage of the lending portfolio remain low and compare favourably with available industry data. The following table summarises the arrears trend for our major lending portfolios, which have largely remained flat over the period.

	Arrears Percentage (%)				
Portfolio	**As at Jun 15**	**As at Dec 15**	**As at Jun 16**	**As at Dec 16**	**As at Jun 17**
Residential	0.55	0.49	0.54	0.56	0.59
Business	1.38	1.39	1.15	1.34	1.16
Rural	1.59	1.97	2.33	2.14	1.70
Consumer	1.22	1.17	1.38	1.42	1.52

Great Southern past due 90 days has reduced by $78.9 million or 50 percent for the year. This decrease is in line with the overall run-off in the portfolio.

Deposits and managed funds

	As at Jun 17	As at Jun 16	Change		As at Jun 17	As at Dec 16	Change	
	$m	$m	$m	%	$m	$m	$m	%
Deposits and funds under management								
Deposits	58,772.3	57,054.7	1,717.6	3.0	58,772.3	59,228.5	(456.2)	(0.8)
Securitisation	4,480.2	3,822.5	657.7	17.2	4,480.2	3,855.7	624.5	16.2
Managed funds	5,322.5	4,684.1	638.4	13.6	5,322.5	4,979.7	342.8	6.9
Total deposits and funds under management	**68,575.0**	**65,561.3**	**3,013.7**	**4.6**	**68,575.0**	**68,063.9**	**511.1**	**0.8**
Deposits dissection								
Retail	50,743.1	48,445.3	2,297.8	4.7	50,743.2	50,579.9	163.3	0.3
Wholesale	8,029.2	8,609.4	(580.2)	(6.7)	8,029.2	8,648.6	(619.4)	(7.2)
Securitisation	4,480.2	3,822.5	657.7	17.2	4,480.2	3,855.7	624.5	16.2
Total deposits	**63,252.5**	**60,877.2**	**2,375.3**	**3.9**	**63,252.6**	**63,084.2**	**168.4**	**0.3**
Deposits dissection - %								
Retail	80.2%	79.6%			80.2%	80.2%		
Wholesale	12.7%	14.1%			12.7%	13.7%		
Securitisation	7.1%	6.3%			7.1%	6.1%		
Total deposits	**100.0%**	**100.0%**			**100.0%**	**100.0%**		
Managed funds dissection								
Assets under management	2,152.1	2,060.7	91.4	4.4	2,152.1	2,054.9	97.2	4.7
Other managed funds	3,170.4	2,623.4	547.0	20.9	3,170.4	2,924.8	245.6	8.4
Total managed funds	**5,322.5**	**4,684.1**	**638.4**	**13.6**	**5,322.5**	**4,979.7**	**342.8**	**6.9**

Funding and liquidity

Our ability to attract retail deposits is one of our core strengths. Retail deposit growth for the year comprised a $1.2 billion increase in at-call retail deposits and a $1.1 billion increase in retail term deposits.

Retail deposit funding, as a percentage of total funding, increased from 79.6 percent to 80.2 percent over the year.

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

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

Securitisation also forms an important part of our funding and capital strategy and we will continue to monitor this market and participate where investor appetite and pricing is appropriate.

The Group manages liquidity holdings in line with the Board approved funding strategy and funding plan, ensuring adequate levels of High Quality Liquid Assets (HQLA), other liquid assets and diversified sources of funding. In meeting our liquidity requirement the Group maintains a Committed Liquidity Facility provided by the Reserve Bank of Australia.

The Group also has a significant amount of contingent liquidity in the form of internal securitisation whereby the collateral can be presented to the Reserve Bank of Australia for cash in extraordinary circumstances such as systemic liquidity issues.

The Net Stable Funding Ratio (NSFR) reporting requirement comes into effect on 1 January 2018 and will apply to institutions that are also subject to the LCR requirements. The NSFR is designed to strengthen the funding and liquidity resilience of applicable financial institutions by encouraging the institutions to fund their activities using more stable sources of funding on an ongoing basis.

As at 30 June 2017 our Liquidity Coverage Ratio (LCR) stood at 122 percent. The LCR was maintained within internal targets throughout the year and exceeded the minimum prudential requirement at all times. The indicative NSFR was approximately 110 percent at year end which exceeds the 100 percent prudential requirement.

Capital adequacy

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

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

The Bank maintained a strong capital position with the capital levels being above APRA minimum requirements at all times throughout the financial year. The Bank improved its capital position with the Common Equity Tier 1 (CET1) ratio increasing over the year from 8.09 percent to 8.27 percent at 30 June 2017. The Tier 1 and Total Capital ratios were 10.49 percent and 12.46 percent respectively at year end.

Assets and Capital	As at Jun 17	As at Jun 16	Change		As at Jun 17	As at Dec 16	Change	
	$m	$m	$m	%	$m	$m	$m	%
Group assets	71,415.5	68,572.7	2,842.8	4.1	71,415.5	70,948.5	467.0	0.7
Capital adequacy								
Total regulatory capital	4,743.4	4,455.6	287.8	6.5	4,743.4	4,674.6	68.8	1.5
Risk-weighted assets	38,062.3	36,485.5	1,576.8	4.3	38,062.3	38,312.1	(249.8)	(0.7)
	%	%	%	%	%	%	%	%
Risk-weighted capital adequacy	12.46	12.21	0.25	2.0	12.46	12.20	0.26	2.1
Tier 1	10.49	10.40	0.09	0.9	10.49	10.17	0.32	3.1
Tier 2	1.97	1.81	0.16	8.8	1.97	2.03	(0.06)	(3.0)
Common Equity Tier 1	8.27	8.09	0.18	2.2	8.27	7.97	0.30	3.8

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

a. On 31 October 2016 the Bank allotted 5,769,074 ordinary shares pursuant to a Share Purchase Plan, which allowed eligible existing shareholders of the Bank to purchase up to $7,500 of new fully paid ordinary shares. The shares were issued at $10.75 raising $62 million of new capital. The capital raised under the Share Purchase Plan was used to acquire the Keystart loan portfolio.

b. During the year we successfully completed three issuances of residential mortgage backed securities totalling $1.95 billion under the Torrens Series securitisation program. The transactions received strong support from the market and provided us with funding and capital benefits.

c. Shareholder participation in the dividend reinvestment plan and bonus share scheme for the year contributed an additional $94.2 million of capital.

d. A grant of shares was made to eligible employees on 10 March 2017 under the terms of the Employee Share Grant Scheme. The grant involved an allocation of 204,686 new fully paid ordinary shares at an issue price of $11.94, contributing $2.4 million of additional capital.

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

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

With our Common Equity Tier 1 up 30 basis points to 8.27% from December, we are confident that we will be able to meet the new ‘unquestionably strong’ requirements within the required timeframe, given what we currently know.

APRA has advised that it will be announcing changes to the risk weightings on assets, most likely before the end of the year. This will impact on both standardised and advanced banks and may impact on our decision to become accredited as an advanced bank, although we believe APRA will still wish to provide an incentive in the frameworks for banks to move from the standardised to advanced approach to risk management.

Segment performance

	Operating segments			Total operating segments	Central functions	Total
	Local connection	Partner connection	Agribusiness			
	$m	$m	$m	**$m**	$m	**$m**
Net interest income	765.0	282.9	165.7	**1,213.6**	-	**1,213.6**
Other income	178.5	186.5	8.4	**373.4**	22.5	**395.9**
Total segment income	**943.5**	**469.4**	**174.1**	**1,587.0**	**22.5**	**1,609.5**
Operating expenses	(630.1)	(189.6)	(78.8)	**(898.5)**	(10.9)	**(909.4)**
Credit expenses	(32.0)	(35.6)	(4.2)	**(71.8)**	-	**(71.8)**
Segment result (before tax expense)	**281.4**	**244.2**	**91.1**	**616.7**	**11.6**	**628.3**
Tax expense	(89.0)	(77.2)	(28.8)	**(195.0)**	(3.7)	**(198.7)**
Segment result (statutory basis)	**192.4**	**167.0**	**62.3**	**421.7**	**7.9**	**429.6**
Cash basis adjustments:						
Specific income & expense items	0.5	(44.7)	3.7	**(40.5)**	5.7	**(34.8)**
Other specific items	-	11.1	-	**11.1**	-	**11.1**
Amortisation of intangibles	4.6	3.1	4.7	**12.4**	-	**12.4**
Segment result (cash basis)	**197.5**	**136.5**	**70.7**	**404.7**	**13.6**	**418.3**

Local Connection
The cash basis contribution from our largest business segment, Local Connection, increased slightly from $197.1 million to $197.5 million.

The division continues to lead the industry in customer experience and satisfaction ratings, which is driven by a strong focus on meeting customer needs and delivering high levels of service.

Net interest income increased by $23.2 million following strong residential loan growth and active margin management. In an extremely competitive environment, we continue to have a disciplined approach to pricing and leveraging the strength of our customer value proposition.

Other income decreased by $10.8 million, with lower fee and foreign exchange income the main drivers. As we respond to the changing expectations of our customers, we have reduced some of the fees we charge.

Operating expenses decreased by $4.5 million mainly due to lower allocated costs, partially offset by higher amortisation charges. This is the result of a continued focus on efficiency and productivity in the business, with the emphasis on implementing sustainable improvements.

The result was impacted by a $14.4 million increase in credit expenses, which was mainly due to write-offs for a small number of larger exposures in the business lending portfolio.

Partner Connection
The cash basis contribution from the Partner Connection division increased from $124.9 million to $136.5 million.

Net interest income increased by $24.1 million due to growth in the lending portfolio (including in particular the Keystart acquisition) and a stronger net interest margin due to loan repricing during the year.

Other income increased by $5.9 million following a stronger contribution from commission income. Operating expenses decreased by $4.7 million, mainly due to a reduction in salary and wage costs, offset to a degree by additional legal fees relating to the Great Southern portfolio.

Credit expenses increased by $18.7 million mainly due to the Great Southern loan portfolio, with higher write-offs partially offset by reductions in both collective and specific provisions.

The Third Party Mortgage business performed well, improving its earnings contribution from the prior year. Portfolio growth was achieved through both the Mortgage Broker and Mortgage Manager partners. New lending volumes were lower in the second half following the introduction of new regulatory lending limits.

The Wealth business increased its contribution for the year. The market leading Bendigo Smart Start Super product grew strongly again this year and now represents in excess of $1.0 billion in funds under management.

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

Agribusiness
The cash basis contribution from our Agribusiness segment increased from $68.1 million to $70.6 million for the financial year. This was achieved in a market dominated by high levels of competition. Lending activity was solid with the business achieving loan settlements well above the annual target.

Total income was relatively flat for the year. The interest margin came under pressure during the year and this will be a key area of focus for the new financial year. Operating expenses were flat compared to the previous year and credit expenses improved by $5.4 million.

Overall the business performed well and returned to a more normalised credit performance with previously reported defaulting exposures now finalised. The revenue performance was in line with expectations.

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

	Short Term	Long Term	Outlook	Date last affirmed
Standard & Poor's	A-2	BBB+	Stable	22 May 2017
Fitch Ratings	F2	A-	Stable	4 November 2016
Moody's	P-2	A3	Stable	20 June 2017

On 22 May 2017, Standard & Poor's (S&P) informed the Bank that it had reduced its stand-alone ratings of 23 financial institutions in Australia due to concerns about the economic conditions in Australia, primarily the level of growth in private sector debt and residential property prices. S&P noted that it believed the conditions will unwind in an orderly fashion. The Bank's long term credit rating was downgraded by one-notch to BBB+/Stable. The short-term rating was unchanged.

On 20 June 2017, Moody's informed the Bank it had downgraded the Baseline Credit Assessments, long-term ratings and Counterparty Risk Assessments of 12 Australian banks and their affiliates. This reflected elevated risks in the household sector which heightened the sensitivity of the bank's credit profiles to an adverse shock. The Bank's long term credit rating was downgraded by one-notch to A3/Stable and the short term rating was downgraded by one-notch to P-2.

On 4 November 2016, Fitch Ratings affirmed the Bank's long term rating at 'A-' and affirmed the short term rating of 'F2' and its support rating of '3', and the Bank's viability rating of 'A-'. The outlook remains stable.

Business developments

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

Achieving advanced accreditation is about improving the way we do business. Importantly this is an initiative that we, as an organisation, decided to pursue. The key benefits of achieving the advanced accreditation include:

a. Improving our banking systems and processes, and consequently the customers' experience;
b. Enhancing our business and risk management processes and practices;
c. Strengthening our market profile amongst shareholders, ratings agencies and regulators;
d. Lifting our market competitiveness; and
e. Allowing us to operate a more capital efficient business which will ultimately benefit our customers, communities and shareholders.

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

As discussed above, the changes to 'unquestionably strong' announced by APRA in July 2017 and the expected changes to risk weights late in this year, may impact on our decision to become an advanced bank. Whilst we will not be able to ascertain the impact of these regulatory changes until they are announced in full, we believe APRA will wish to provide an incentive in the frameworks for banks to move from standardised to advanced status.

Customer connected
Customers are looking for more control over their banking requirements as new technologies reshape the business environment. Digital applications, mobile platforms and online services are rapidly changing customer expectations and the way they access their banking services. It is vital that we transform our business to remain competitive as customers look for new and innovative ways to access our services. In the coming year, we will continue to develop strategies, platforms, tools and innovative capabilities to deliver the services sought by our customers.

During the year we released more leading edge customer-focused technologies and digital solutions to improve the customer experience and make it easier for customers to do business with us. Much of this development is being undertaken by partnering with technology companies rather than through developing the new technologies ourselves.

Looking forward
We are well positioned to continue to grow profitably given our market positioning, long history of trusted service, our sound balance sheet and our investments in systems and digital technologies now coming on stream.

Customer behaviour and insight drives our business planning and we will continue to respond to changing customer behaviour and expectations.

We expect households to continue to pay down debt in the low interest rate environment, and credit for housing investors is expected to continue to be rationed in response to recent macro-prudential regulatory interventions.

Our conservative funding base and strong balance sheet provides us with good capacity to manage these pressures and grow our business. It also puts us in a solid position to benefit from market opportunities as well as improvements in market confidence and the broader operating environment. We are confident our customer-focused banking model will continue to be relevant and underpin our growth and performance.

Risk management framework, business uncertainties and significant business risks

The Board is responsible for the risk management strategy which includes approving the risk management framework and risk appetite within which the business is expected to operate. Information on our risk management framework and approach to managing risk is presented in the 2017 Corporate Governance Statement and Note 29 to the 2017 Annual Financial Report.

Risk dependencies and uncertainties
The Group's business activities are subject to a number of dependencies and uncertainties which could adversely impact the achievement of business strategies and earnings performance. The timing and extent of these uncertainties is difficult to predict and managing their impact is, to a reasonable degree, outside our control. A summary of the key dependencies and uncertainties is presented below.

Dependence on prevailing macro-economic and financial market conditions
The business is highly dependent on the general state of domestic and global economies and financial markets. Our performance can be significantly impacted by economic and political events, both domestic and international, as well as by natural disasters. This includes the level of economic activity and demand for financial services by our customers. In particular, lending is dependent on customer and investor confidence, the overall state of the economy including employment levels, the residential lending market and the prevailing interest rate environment.

Environmental factors
The Group and its customers are based and operate businesses in a diverse range of domestic geographical locations. A significant environmental change or external event (such as a fire, storm, drought or flood) has the potential to disrupt business activities, impact on our operations, damage property and affect the value of assets held in affected locations and our ability to recover amounts owing to us. Through our agribusiness division we also have a large exposure to the domestic rural sector. The performance of this sector is impacted by national weather patterns and commodity price movements which in-turn may impact our overall earnings performance.

Market Competition
The markets in which we operate are highly competitive and may become even more so. Factors that contribute to competition include mergers and acquisitions, changes in customer behaviour, entry of new participants, the development of new sales methods and regulatory change. Increasing competition could potentially lead to reduced business volumes and revenue, a compression in our net interest margins as well as additional costs to retain market share. The Group is also dependent on its ability to offer products and services that match changing customer preferences.

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

Changes in monetary policy
The Reserve Bank of Australia (RBA) sets official interest rates so as to affect the demand for money and credit in Australia. The cash rate influences other interest rates in the economy which then affects the level of economic activity. Movements in the cash rate impact our cost of funds for lending and investing and the return earned on these loans and investments which can impact our net interest margin.

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

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

Credit Ratings
External credit ratings have a significant impact on both our access to, and the cost of, capital and wholesale funding. Credit ratings may be withdrawn, made subject to qualifications, revised, or suspended by a credit rating agency at any time. Also, the methodologies by which they are determined may be revised. A downgrade or potential downgrade to our rating may reduce access to capital and wholesale debt markets, potentially leading to an increase in funding costs, as well as affecting the willingness of counterparties to transact with the Bank.

Capital Base
The capital base is critical to the management of our businesses and our ability to access funding. We are required to maintain a level of capital by APRA and other key stakeholders to support our business operations and risk appetite. There can be no certainty that additional capital required in the future will be available or able to be raised on acceptable terms.

Business risks
There are a number of significant business risks that we manage including credit risk, interest rate risk in the banking book, traded market risk, liquidity risk, operational risk and strategic risk. To manage these risks we have established a framework of systems, policies and procedures which are overseen by our independent risk management functions as well as senior management committees, Board committees and the Board.

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

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

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

Liquidity Risk
Liquidity Risk is inherent in all banking operations due to the timing mismatch between cash inflows and cash outflows. 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 that the Group has insufficient capacity to fund increases in assets. The principal objective is to ensure that all cash flow commitments are met in a timely manner while at the same time continuing to meet minimum liquidity and prudential requirements.

Operational Risk
Operational risk is defined as the risk of an adverse impact on our objectives or the risk of loss resulting from inadequate or failed internal processes, activities and systems or from external events. Operational risk can directly impact our reputation and result in financial losses which could adversely affect our financial performance and/or financial condition.

Strategic Risk
There is a risk that adverse business decisions, ineffective or inappropriate business plans or a failure to respond to changes in the operating environment will impact our ability to deliver our strategy and business objectives. The Bank also regularly examines new initiatives and market opportunities, including acquisitions and disposals, with a view to growing shareholder value.

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

Fraud Risk
The Group is exposed to the risk of fraud, both internal and external. Financial crime is an inherent risk within financial services, given the ability for employees and external parties to obtain advantage for themselves or others. An inherent risk also exists due to systems and internal controls failing to prevent or detect all instances of fraud. We have established robust techniques and capabilities to detect and prevent fraud. All actual or alleged fraud is investigated under the authority of our financial crimes unit.

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

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

Vendor failure or non-performance risk
The Group sources a number of key services from external suppliers and service providers. The failure of a key service provider, or the inability of a key service provider to meet their contractual obligations, including key service standards, could disrupt our operations and ability to comply with regulatory requirements.

Litigation risk
From time to time, the Group may be subject to material litigation, regulatory actions, legal or arbitration proceedings and other contingent liabilities which, if they crystallise, may adversely affect the Group's results. There is a risk that these contingent liabilities may be larger than anticipated or that additional litigation or other contingent liabilities may arise.

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

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

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

Contagion Risk
The Group includes a number of subsidiaries that are trading entities and holders of Australian Financial Services Licences and/or Australian Credit Licences. Dealings and exposures between the Bank and its subsidiaries principally arise from the provision of administrative, corporate, distribution and general banking services. The majority of subsidiary resourcing and infrastructure is provided by the Bank's centralised back office functions. Other dealings arise from the provision of funding and equity contributions.

Remuneration Report

Contents

This Remuneration Report is for the financial year ended 30 June 2017. The Report has been prepared in accordance with section 300A of the Corporations Act 2001 and the Corporations Regulations 2001 and has been audited. The Remuneration Report sets out our remuneration framework, the remuneration arrangements applicable to the Key Management Personnel (KMP), and the link between performance and remuneration outcomes for the year.

Section 1: Overview of remuneration outcomes

The Bank was pleased to announce a positive earnings result with the statutory profit improving by 3.4 percent on the prior year in spite of a fiercely competitive operating environment and continued pressure on growth and net interest margin. The result reflected the Bank's continued focus on customer outcomes, solid lending growth and a disciplined approach to cost management. In this context the following remuneration arrangements and outcomes were approved for the year:

- Executive remuneration was reviewed in September 2016. Aside from one member of the Executive, there were no increases to Executive remuneration. Ms Gartmann's remuneration was increased to bring it more in line with market. The Executives all received partial STI awards for FY17. More detail on the STI payments to Executives is provided in sections 4.2.2 and 7.
- Shareholders approved grants of deferred shares and performance rights to the Managing Director at the 2016 Annual General Meeting. The grants for the 2017 financial year were made during the year in accordance with the terms outlined in the Notice of Meeting.

- The Board approved a grant of deferred base pay, awarded in shares, to Senior Executives (as part of the Senior Executives' base pay), with a deferral period ending 30 June 2018. More detail on the deferred share grant is provided in sections 4.2.2 and 7.
- Senior Executives also received a grant of performance rights. More detail on the performance right grant is provided in sections 4.2.2 and 7.
- The Board decided to vest the full amount of deferred base and deferred STI equity grants made in 2015 as the vesting criteria were satisfied.
- The TSR performance measure for the grant of performance rights to Senior Executives in 2013 was not satisfied and as a result the rights lapsed.
- There were no increases to the annual fee payment for Non-executive Directors and the Board resolved to discontinue the fees to Rural Bank directors. More detail on the fees paid to Non-executive directors is provided in sections 5 and 7.

In addition to the matters set out above, the Bank changed the methodology for calculating cash earnings by excluding the unrealised income and/or losses and related funding costs of the Homesafe investment. A full description of the change, and the impact of the change on KMP remuneration arrangements, is set out at section 4.2.1 of the Remuneration Report.

Key Management Personnel

KMPs are the persons with authority and responsibility for planning, directing and controlling the activities of the Group. The KMP for the financial year comprise the Directors and Senior Executives listed below. For the purposes of this report, references to 'Executive' means the Managing Director and the Senior Executives.

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

Section 2: Remuneration framework

2.1 Remuneration structure

The remuneration framework is designed to support the achievement of our strategic objectives and ensure remuneration outcomes are aligned with sustainable financial performance and growth in shareholder value. The framework is documented in our remuneration policy which was reviewed during the year. There were no material changes to the policy. Our remuneration framework is based on the following principles:

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

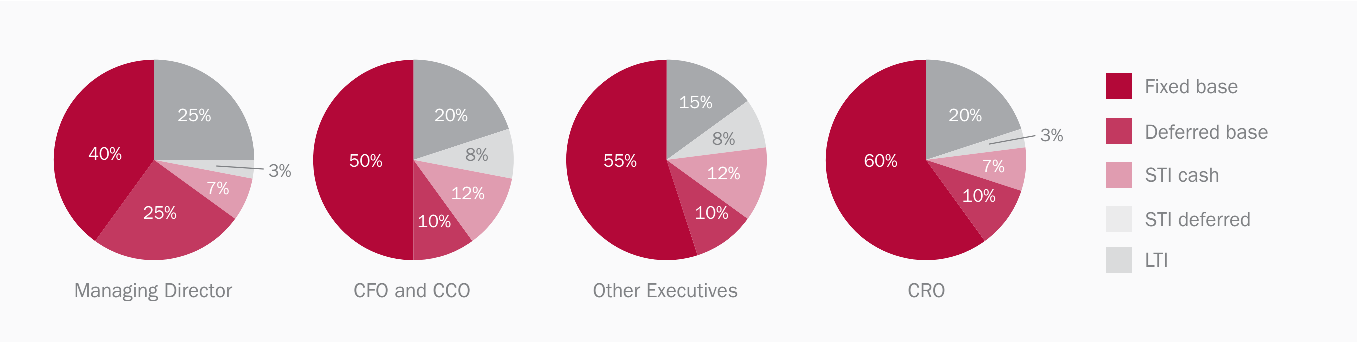
The following table summarises our Executive remuneration model:

Total Target Reward			
Fixed	Variable		
Base Renumeration		Short Term Incentive (STI)	Long Term Incentive (LTI)
Fixed Base - Cash	Deferred Base - Equity	Cash & Equity	Equity
• Base salary and superannuation contributions. • Together with deferred base, is set by reference to the role and responsibilities, market data, internal relativities and the Group's performance outlook. • Recognises an individual's experience, skills, competencies and value.	• Annual grants of deferred shares. • Deferred shares (fully paid ordinary shares) issued at no cost and beneficially owned from grant date. • Subject to continued employment ("service condition") over the two-year deferral period. • Subject to financial performance and risk adjustment. • Shares held on trust for two years by Plan Trustee.	• Cash, or a combination of cash and deferred equity. • STI maximum opportunity is set for each Executive at the start of the year. • The STI maximum opportunity is a fixed dollar amount. • STI payments are capped at 100% of the STI maximum opportunity. • Awards are subject to Group and individual performance and passing risk, compliance and values gateways. • If award exceeds $50,000, one third of the award is deferred into equity (deferred shares), issued on substantially the same terms as deferred base remuneration.	• Grants of performance rights ("rights"). • Each right represents an entitlement to one ordinary share. • Maximum number of ordinary shares that can be acquired is equal to the number of rights granted. • Rights are granted at no cost and have no exercise price. • Vesting is subject to Cash EPS, Customer Advocacy and TSR performance measures, and a service condition. • Performance measures tested over 4 years for Managing Director and 3 years for Senior Executives. • There is no retesting.

2.2 Remuneration approach

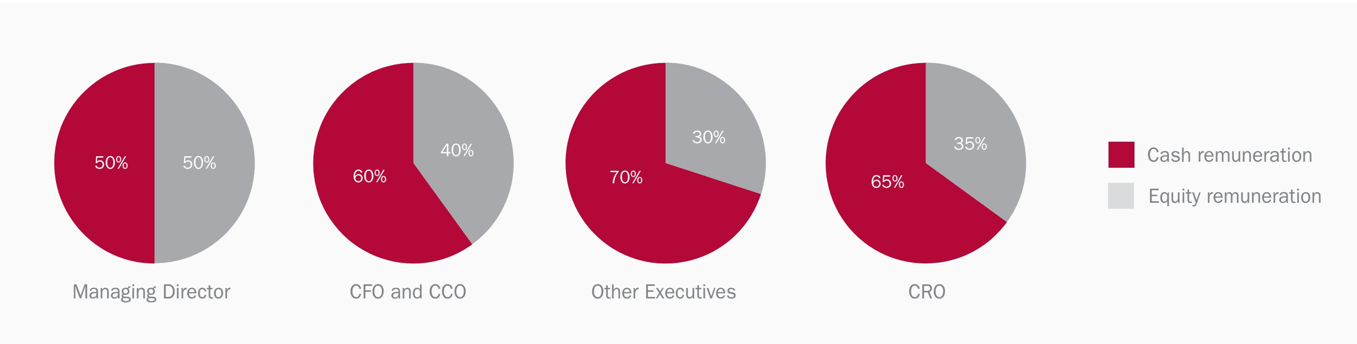
Executive remuneration is structured to balance the focus between the achievement of short term business objectives and sustainable growth in shareholder value and the financial soundness of the organisation.

The total target reward for Executives is set by the Board at the start of each year. The arrangements are reviewed by the Governance & HR Committee to ensure the mix and amount of remuneration continues to be fair and appropriate with incentive components linked to performance measures that support the business objectives and shareholder outcomes. The following chart sets out the target remuneration mix for the year. The mix of actual remuneration awarded will vary depending on performance outcomes.



As shown in the above chart, Executive remuneration includes the following components of equity-based remuneration:
- deferred base pay;
- deferred STI; and
- LTI.

The equity-based arrangements are designed to build the Executives' personal exposure to the Bank's share price performance and further align their interests with shareholders. The following chart sets out the approximate targeted mix of cash and equity for the year.



The total base remuneration (i.e. fixed base and deferred base) for each of the Executives continues to sit at around the market median, but the proportion of incentive-based pay, particularly STI, is relatively low when compared to other listed entities in Australia, especially in the banking sector.

We are aware that this approach is different to the principles promoted by some governance advisers that have a preference for a higher variable component. Our remuneration structure reflects the Board's long-held view that remuneration which is highly leveraged towards short-term performance can create a disconnect between the individual's interests and the long-term interests of shareholders and other stakeholders, including increasing the risk of poor culture within an organisation.

In addition, the recent public and regulatory scrutiny on conduct and culture within certain Australian banks has also led to renewed concerns about leverage in banking executive pay. This concern was supported by the recommendations from the independent retail banking remuneration review commissioned by the Australian Bankers' Association ("the Sedgwick Review") which observed that the maximum variable reward should be low relative to fixed pay.

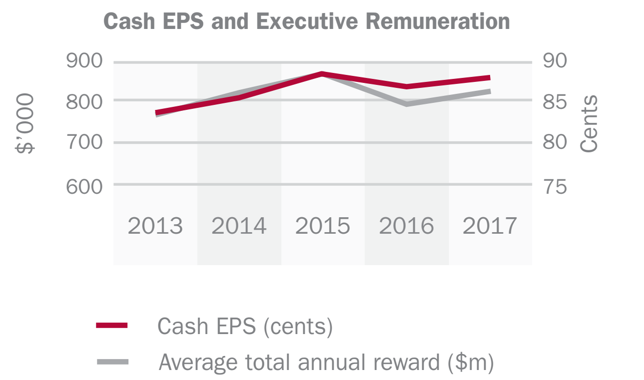
In our view, the Executive's remuneration arrangements strike an appropriate balance between community expectations and the alignment of Executive remuneration with shareholder outcomes.

In line with the above approach, the Managing Director's base remuneration includes a higher equity component, deferred over two years. The Managing Director's variable remuneration includes a relatively small percentage linked to annual performance (STI) and a larger, but still moderate, percentage linked to longer term shareholder outcomes (deferred base and LTI). The Board has chosen to structure the Managing Director's remuneration in this way to recognise the Managing Director's unique role in delivering long-term sustainable improvement in business performance and shareholder returns.

Compared to the Managing Director, the remuneration structure for Senior Executives has a higher percentage of fixed base pay (cash) with a more moderate, but still significant, percentage of variable and equity remuneration that is subject to the achievement of financial and non-financial performance measures and risk outcomes. As shown in the charts above, the actual mix between Executives varies to reflect the particular nature of an Executive's role, whilst promoting a focus on sustainable, longer-term improvement in shareholder value.

Since 2013, Executive pay increases have been broadly in line with overall staff salary increases. The average annual cost of Executive remuneration, based on statutory disclosures, has increased by an average of 1.7 percent per annum.

The following chart compares the movement in cash earnings per share, using the new methodology explained at section 4.2.1, against the movement in Executive remuneration (including variable remuneration) for the past five financial years.



2.3 Remuneration components, terms and policies

Base remuneration

Executive base remuneration comprises both fixed base and deferred base components.

In setting base remuneration the Board considers the nature and complexity of the role and the skills and experience needed to successfully fulfil the role. Base remuneration is also determined in context of the external market including comparable roles in the banking sector and other companies of a similar size and complexity.

- **Fixed base**
  Fixed base comprises cash salary and employer superannuation contributions.
- **Deferred base**
  Deferred base is represented by annual grants of deferred shares that are held on trust for a two-year deferral period. The grants are designed to provide an additional retention incentive for the Executives which is linked to shareholder interests. Deferred shares are fully paid ordinary shares granted at no cost and are beneficially owned by the Executive from grant date. The grants are subject to a two-year service condition and risk adjustment at the discretion of the Board. If the service condition is not met the deferred shares do not vest and are forfeited.

The remuneration value of deferred share grants is determined on the basis of the Executive's targeted remuneration mix. The number of deferred shares granted is calculated by dividing the deferred component by the volume weighted average closing price of the Bank's shares for the last five trading days of the financial year prior to the year of grant. For the purposes of the grant made during the year the volume weighted average closing price was $9.32. The shares are typically acquired on-market and there were no changes this year to the terms or conditions of deferred share grants.

Short Term Incentive (STI)

Executive remuneration includes an annual incentive component. The incentive is designed to provide an appropriate level of reward for the achievement of annual financial targets and business objectives.

The STI maximum opportunity for each Executive is decided by the Board at the start of the year taking into account the Executive's responsibilities and target remuneration mix. The STI maximum opportunity is a fixed dollar amount which is, for the reasons already explained, positioned at relatively modest levels.

The performance measures for the Managing Director's STI are set by the Board on recommendation from the Governance & HR Committee and focus on the achievement of a range of medium term targets and risk management outcomes. The performance for each of the Senior Executive's STI are set by the Managing Director and focus on the Senior Executive's responsibilities and expected contribution to annual performance and business objectives. The STI performance measures are presented at section 3.

Annual STI awards are driven by the size of the bonus pool established by the Board to fund bonus payments. The parameters for establishing a bonus pool are approved by the Board at the start of the year and require a minimum level of cash earnings performance. The amount of the bonus pool will increase with cash earnings performance above a hurdle, subject to the achievement of key financial and risk management hurdles set by the Board, and is capped at 110 percent of the cash earnings target set at the start of the year. The Board also applies a discretionary overlay to take into account the underlying quality of the result and shareholder outcomes.

The Board decides the amount of the bonus pool after financial year-end, on recommendation from the Governance & HR Committee. If a bonus pool is not established, no STI awards are made. If a bonus pool is established, but the size of the pool is less than the maximum potential pool, the STI maximum opportunity for each Executive is proportionately adjusted downwards to reduce their STI opportunity.

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

The Managing Director assesses each of the Senior Executive's performance shortly after financial year-end based on the achievement of the individual's financial and non-financial measures set at the start of the year.

The Managing Director then applies any upward or downward adjustment to determine the proposed STI awards for recommendation to the Governance & HR Committee and Board. The Board considers the Managing Director is best placed to assess the performance and overall contribution of the Senior Executives.

STI deferral

If an STI award exceeds $50,000, one third of the award is deferred into equity as grants of deferred shares. The deferred shares are fully paid ordinary shares acquired on-market and held by the Plan Trustee for a two-year deferral period commencing from the end of the financial year for which the STI was granted. They are also subject to a two-year service condition and risk adjustment at the discretion of the Board. If the service condition is not met the deferred shares do not vest and are forfeited. The number of deferred shares granted is calculated by dividing the value of the deferred STI component by the volume weighted average closing price of the Bank's shares for the last five trading days ending on the grant date. No STI deferred shares were granted during the year as no STI awards were made in respect to the 2016 financial year.

Long Term Incentive (LTI)

LTI is equity based remuneration that is subject to long-term performance and service conditions. At the Board's discretion, Executives may be invited to participate in annual grants of performance rights. The rights are granted at no cost, have no exercise price and each right represents an entitlement to one ordinary share.

The remuneration value of LTI grants is also determined on the basis of the Executive's targeted remuneration mix and the number of performance rights granted is determined by dividing the value of the LTI component by the volume weighted average closing price of the Bank's shares for the last five trading days of the financial year prior to the year of the grant. For the purposes of the grant made during the year the volume weighted average closing price was $9.32.

The following changes were made for the performance rights granted in FY17:

- a new "Customer Hurdle" was introduced;
- a new vesting approach was adopted; and
- the performance period for Senior Executives (i.e. not including the Managing Director) was reduced from four years to three years.

Each of these changes is discussed in more detail below.

The FY17 performance right grants were made using a three 'sleeve' approach. An overview of the grant design is presented in the below table.

	First Sleeve	Second Sleeve	Third Sleeve	Service Condition
Allocation and Measures (all grants)	30% of performance rights granted Subject to a 'Customer Hurdle'	35% of performance rights granted Subject to EPS and TSR measures	35% of performance rights granted Subject to TSR measure	
Performance period: Managing Director	Customer Hurdle performance period: 1.7.16 to 30.6.20	EPS performance period: 1.7.16 to 30.6.17 TSR performance period: 1.7.16 to 30.6.20	TSR performance period: 1.7.16 to 30.6.20	01.7.16 to 30.6.20
Performance period: Senior Executives	Customer Hurdle performance period: 1.7.16 to 30.6.19	EPS performance period: 1.7.16 to 30.6.17 TSR performance period: 1.7.16 to 30.6.19	TSR performance period: 1.7.16 to 30.6.19	01.7.16 to 30.6.19

First Sleeve- Customer Hurdle

To satisfy the Customer Hurdle, the Bank's net promotor score (NPS) performance over the performance period (measured using a 6 month rolling average) must be 20 basis points greater than the median performance of a peer group of Australian banks. The performance rights subject to the Customer Hurdle are also subject to a service condition as well as Board discretions described below. If the Customer Hurdle is met, all the rights under this sleeve will vest. If the Customer Hurdle is not met, the rights will not vest and will lapse.

NPS was chosen as it represents a global industry standard used to measure customer advocacy. Customers are asked to rate their likelihood of recommending a particular financial institution to their family and friends, on a 10 point scale. NPS is calculated by subtracting the proportion of detractors (those rating between 1 and 6) from the proportion of promoters (those rating between 9 and 10), resulting in an overall NPS score. The underlying data is sourced from Roy Morgan Research, who survey around 50,000 consumers annually.

The equity grants to the Managing Director for FY17, including the LTI grant with the new Customer Hurdle, was considered by the Bank's shareholders at the Bank's Annual General Meeting for 2016, with more than 82 percent voting in favour of the proposal. Notwithstanding this strong support for the equity grants from the Bank's shareholders, some governance commentators have expressed concern about the introduction of the Customer Hurdle on the basis that, in their view, NPS - a measure of good customer outcomes - does not necessarily drive a better shareholder outcome. We believe the introduction of a Customer Hurdle for 30% of the LTI value acts as an appropriate incentive for the Bank's executives for two main reasons:

- the Customer Hurdle directly links a part of their total remuneration to the Bank's vision to be Australia's most customer-connected Bank, which we believe is a key part of building long term value for shareholders; and
- the Customer Hurdle addresses some governance commentators' concerns about the utility of TSR as the sole determinant for an LTI award. It is worth noting, however, that the Board is still committed to TSR for 70% of the LTI.

It is also worth noting that the introduction of a hurdle directly linked to good customer outcomes is a consistent response to the increased public concern about conduct and culture concerns in the Australian banking sector.

Second Sleeve - EPS and TSR Hurdle

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

The EPS hurdle was chosen because EPS is an important and well understood indicator of financial performance and capital efficiency. Also, as the performance rights are issued annually, 35 percent of the LTI component is conditional upon an improved cash EPS performance year-on-year.

The TSR hurdle measures the Bank's shareholder return performance relative to the TSR performance of other ASX 100 companies (excluding property trusts and resources stocks) using the ASX 100 Accumulation Index. This comparator group was chosen as it is frequently used in the market and requires the Bank to outperform the majority of companies in the peer group before the KMP receive any value from the grant. The TSR measure was chosen as it is a widely used and understood means of measuring performance linked to shareholder value. The TSR measure is independently calculated by an external provider.

Third Sleeve- TSR Hurdle

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

Vesting Schedule

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

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

As the table above shows, vesting of performance rights commences at 60% for performance above the median of the comparator group and reaches 100% at the 75th percentile. The vesting schedule has been structured in this way to reflect the fact that the value of our LTI plans for Executives does not represent a significant part of remuneration.

The performance period for the Senior Executives' LTI is three years, and four years for the Managing Director's LTI. The Board decided in 2016 to reduce the performance period for Senior Executives' LTI to three years (from four years) following a review of the current practices of a peer group of companies and the guidelines published by the main governance advisory firms.

The performance rights are also subject to a service condition. If the service condition is not met, the performance rights will not vest irrespective of the outcome of the testing for the three sleeves, unless the Board exercises its discretion otherwise.

In relation to the Managing Director, if his employment with the Bank ends prior to July 2019, the Board may exercise a discretion to shorten the Customer Hurdle performance period, the TSR performance period and the service condition to a period of three years.

There is no retesting. For each sleeve, if the hurdle is not met the performance rights lapse. If performance rights vest, the Board will instruct the Plan Trustee to subscribe for or acquire the required number of ordinary shares.

Legacy grants (Senior Executives)

Current grants of performance rights were made to Senior Executives during the 2014, 2015 and 2016 financial years. The main distinction between the grant terms and the current year's grant are outlined below. The Managing Director's previous performance right grant concluded at 30 June 2016.

These "legacy" grants have a four year performance period consisting of a twelve month initial performance period for cash EPS testing followed by a three year performance period for relative TSR testing. The grants are also subject to a four year continued service condition. The TSR hurdle measures the Bank's shareholder return performance relative to the TSR performance of other companies in the ASX 100 Accumulation Index (excluding property trusts and resources stocks).

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

a. EPS hurdle: The grant is reduced by 50 percent if the Bank's cash earnings per share for the applicable financial year is less than the cash earnings per share for the previous financial year.
b. TSR hurdle: The TSR performance period is three years.

Vesting of the performance rights (as adjusted for the EPS performance outcome) will be conditional on achieving the following TSR performance against the peer group:

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

There is no retesting and any rights that do not vest will lapse. There have been no changes to terms or performance measures of the performance right grants made in previous years.

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

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

The performance rights do not carry any dividend or voting rights or the right to participate in the issue of new shares, such as a bonus share issue. The Executives are prohibited from dealing in the performance rights.

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

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

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

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

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

a. The outcomes of business activities;
b. The risks related to the business activities taking into account, where relevant, the cost of the associated capital; and
c. The time necessary for the outcome of those business activities to be reliably measured.

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

Hedging
Executives and their closely related parties may not enter into a transaction designed to remove the at-risk element of equity based pay before it has vested, or while it is subject to a trading restriction. These restrictions are in the Bank's Trading Policy and Remuneration Policy. The Bank treats compliance with these policies as important. At the end of each financial year each Executive is required to confirm that they have complied with these restrictions. If an Executive breaches either of these restrictions the Executive forfeits all variable remuneration in the form of equity that is subject to the prohibition at the time of the breach.

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

Section 3:
Remuneration arrangements FY2017

Managing Director

The Managing Director's fixed base remuneration remained unchanged at $1,379,000 per annum.

There was also no change to the Managing Director's STI component of $400,000 which has remained unchanged since the 2012 financial year. The Board set the following financial and non-financial performance measures for the year.

Criteria	Measure	Assessment
1. Risk	a. The level of risk associated with the Group's performance was within the Group's risk appetite; and	The measure was met
	b. An effective risk culture is promoted with evidence of enhanced risk practice across the organisation.	The measure was met
2. Medium term targets	a. Shareholder Targets: focusing on improved and sustainable shareholder value;	The measure was met
	b. Customer Targets: focusing on customer satisfaction, advocacy rankings and growth in the customer base and products per customer ratio;	The measure was substantially met
	c. Financial Targets: focusing on improving economic performance including balance sheet and earnings growth;	The measure was met
	d. Partner Targets: focusing on the performance of the partner network including community and partner satisfaction rankings; and	The measure was met
	e. People Targets: focusing on employee engagement, diversity and inclusion and organisational effectiveness.	The measure was met
3. Strategic projects	a. The progress made during the year towards achieving Basel II advanced accreditation.	The measure was substantially met
	b. Increasing the depth and capability of leadership at all levels within the organisation; and	The measure was substantially met
	c. The progress made in identifying and progressing new growth opportunities that align with the Group's Purpose.	The measure was met
4. Public representation	The Group continues to be represented effectively to government (state and federal) and in industry and public forums.	The measure was met

The Managing Director's grants of 76,219 deferred shares and 76,219 performance rights was made on 16 December 2016 on the terms described at Section 2.3. Each of the grants had a face value of $746,184 based on the Bank's closing share price on 1 July 2016 of $9.79 and achieving 100 percent vesting. Details of the grants are presented at Section 7.

Senior Executives

Senior Executive base remuneration remained unchanged except for one individual who received a 5% increase. The monetary value of the Senior Executive deferred base grants were also unchanged. Details of the share grants are presented at Section 7.

Senior Executive STI components were unchanged and are presented in Section 7 (Table 4). The STI components were subject to the achievement of financial and non-financial performance based on the following:

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

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

Senior Executive LTI components were unchanged with the exception of one individual who received a moderate increase to align with internal relativities. The annual grant of performance rights was made in accordance with the terms described at Section 2.3. Further details on the performance right grants are presented at Section 7.

Section 4:
Linking remuneration to performance

4.1 Overview of company performance

The Group produced a sound operating result in what has again been a challenging and highly competitive environment. The following table provides an overview of the key performance indicators on a year-on-year basis for the past five years. The remuneration outcomes for the year were in line with the Group's performance and progress made in respect to longer term business priorities.

Company performance measure	Financial year ending				
	2017	2016	2015	2014	2013
Statutory net profit after tax ($m)	429.6	415.6	423.9	372.3	352.3
Statutory earnings per share (cents)	90.9	90.4	92.5	87.7	84.9
Cash earnings ($m) [1]	418.3	401.4	402.8	359.5	341.8
Cash earnings per share (cents) [1]	88.5	87.3	88.6	85.9	83.9
Dividends paid and payable (cents per share)	68.0	68.0	66.0	64.0	61.0
Share price at start of financial year	$9.60	$12.26	$12.20	$10.07	$7.41
Share price at end of financial year	$11.08	$9.60	$12.26	$12.20	$10.07
Total shareholder return	**22.5%**	**(16.2%)**	**5.9%**	**28%**	**44%**

[1] The cash earnings and cash earnings per share amounts for the prior years have been recalculated using the new methodology, announced to the market on 5 June 2017, which excludes the unrealised gains/losses and associated funding costs from the Homesafe investment. More detail on the change in accounting treatment for the Homesafe portfolio is provided in Section 4.2.1.

4.2 Remuneration outcomes

4.2.1 Change to treatment of Homesafe income in cash earnings

Homesafe is a product funded by the Bank whereby mature-aged homeowners can sell a percentage of the future sale value of their home in return for an upfront lump sum. From the establishment of Homesafe in 2005, the value of the Bank's investment in Homesafe contracts has grown to a current value of more than $666 million.

Under the applicable accounting standard, movements in the value of the Homesafe portfolio are recorded in the profit and loss statement. These amounts include both realised gains/losses (i.e. cash proceeds when the property is eventually sold) and unrealised gains/losses (i.e. mark-to-market movements in the value of the underlying properties) on the portfolio.

Whilst the profit contribution from Homesafe has been a significant part of the Bank's total net profit after tax in recent years, the feedback from the investment community indicated that they did not fully value the contribution from the Homesafe portfolio because a considerable proportion was derived from non-cash movements in the value of the underlying properties (i.e. unrealised gains).

In June 2017 the Bank decided to modify its formula for calculating cash earnings by excluding the unrealised gains/losses generated through the valuation movements of the portfolio, as well as the associated funding costs. Any realised gains will continue to be reflected in cash earnings, representing the profit from the movement in the value of properties from initial funding until the property is sold. The change will provide more transparency around the amount of realised income received by the Bank and should reduce volatility in the Bank's cash earnings. This approach is also broadly consistent with the regulatory capital treatment of the Homesafe investment.

The change became effective for the Bank's earnings for the financial year ended 30 June 2017, with previous years' earnings re-stated on a pro forma basis. The statutory reporting figures are unaffected by this change.

As mentioned earlier, the parameters for the establishment of the bonus pool are set at the start of each financial year, based on a minimum level of cash earnings performance. The parameters for the establishment of a bonus pool for FY17 were approved by the Board in July 2016 and based on the 'old' cash earnings formula that included unrealised gains/losses from the Homesafe portfolio. This is because the change to the cash earnings calculation described above was not under consideration at the time. Accordingly, for the purposes of calculating the amount of this year's bonus pool, the Board used the 'old' cash earnings formula.

The "second sleeve" of performance rights granted to Executives in 2016 includes a requirement that, for the rights to vest, the Bank's cash EPS performance for FY17 must have been equal to or better than the cash EPS performance for FY16. The Board considered both the 'old' cash earnings formula and 'new' cash earnings formula for both FY16 and FY17, and under both scenarios the EPS hurdle was satisfied. On this basis, the Board resolved to carry forward the "second sleeve" of performance rights granted to Executives in 2016 for TSR testing in accordance with its terms.

All of the other current Executive equity grants are not directly affected by the change to the cash earnings calculation.

The board has specifically considered the impact of the change on KMP remuneration outcomes and is satisfied the KMP have not benefitted from the change.

4.2.2 Current year outcomes

Deferred base - The deferred base pay and deferred STI grants made in 2015 were scheduled to be tested and having regard to the financial soundness of the organisation it was decided by the Board to vest the deferred shares. Details on the vested deferred shares are presented at Section 7.

STI - The measures used to determine the bonus pool allocation are broadly the annual cash earnings performance overlaid with key performance metrics and risk management outcomes. For the reasons described in section 4.2.1, the 'old' formula for calculating cash earnings was used to calculate the bonus pool. Following are the bonus pool measures and outcomes for the financial year:

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

Secondary Measures	Risk and Performance Outcomes
Cash earnings per share	The Group outperformed the cash earnings per share hurdle. Cash earning per share improved on the previous year's performance using both the 'old' and the 'new' methodologies.
Return on Equity (cash basis)	The return on equity ratio for the year was 8.1 percent. This exceeded the targeted performance.
Return on Tangible Equity (cash basis)	The return on tangible equity ratio for the year was 11.6 percent. This exceeded the targeted performance.
Common Equity Tier 1 Equity	The Common Equity Tier 1 ratio at year end was 8.27 percent. This was above the targeted performance.
Cost to Income Ratio	The cost to income ratio for the year was 56.1 percent. This was in line with the targeted performance.
Liquidity Coverage Ratio	The liquidity coverage ratio was maintained in accordance with approved internal and regulatory limits during the year. This met the targeted performance.
Risk Weight Assets / Total Assets	The risk weighted asset to total asset ratio at year end was 53.3 percent. This was in line with the targeted performance.

The Group performed soundly overall and recorded continued improvement in most key financial performance measures.

The Board determined that the criteria for establishing a performance bonus pool had been met and a bonus pool was established for the year. The bonus pool represented 60 percent of the maximum capped amount.

The performance assessments for individual Executives were completed for the year in accordance with the process described at section 2.3 and STI awards have been made in line with those assessments.

The Board assessed the performance of the Managing Director. Based on the size of the bonus pool, the Managing Director was awarded an STI payment of $240,000 for the year. The Board assessed that the Managing Director had achieved his performance goals and decided not to make any further adjustment to the STI award.

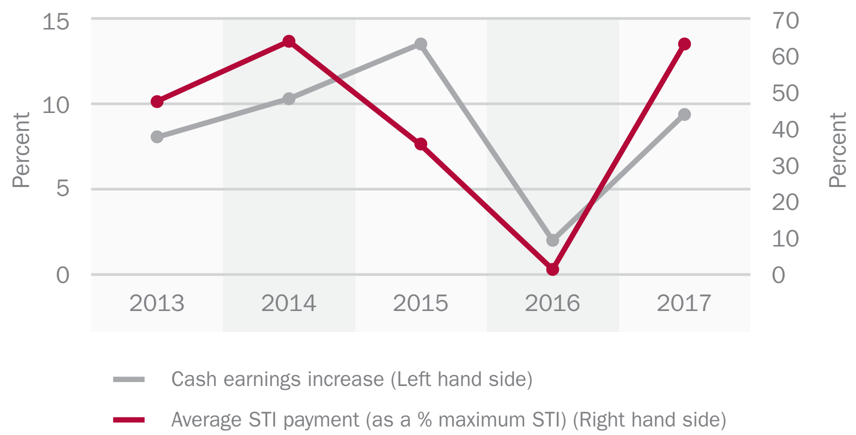
Accordingly, the actual STI payment represents 60% of the STI maximum opportunity which corresponds with the proportion of the maximum bonus pool established for STI and bonus payments.

The Managing Director assessed the performance of the Senior Executives and determined the proposed STI awards for consideration by the Governance and HR Committee and Board. On average the actual STI payments represent 55.4% percent of the STI maximum opportunity which is consistent with the size of the bonus pool established by the Board. There were no adjustments to individual STI awards for the risk or compliance conditions.

The following chart shows the correlation between the annual improvement in the Group's cash earnings (calculated using the 'old' cash earnings methodology and average STI award (as a percentage of the STI maximum opportunity) over the past five years.

LTI - The measures used to determine the vesting of prior and current year's performance rights are a combination of the Group's EPS, TSR and NPS performance.

The below table summarises the current LTI performance right grants and performance testing outcomes for the year:



Grant	Grant Date	NPS Test Date	EPS Test Date	EPS Test Met	TSR Test Date	TSR Test Met	NPS Test Met	Vested for 2017	Lapsed for 2017	Remaining
2014 LTI Senior Executives	17.12.13	n/a	30.06.14	Met	30.06.17	Test not met	n/a	0%	100%	0%
2015 LTI Senior Executives	10.12.14	n/a	30.06.15	Met	30.06.18	Not yet tested	n/a	0%	0%	100%
2016 LTI Senior Executives	17.12.15	n/a	30.06.16	Met	30.06.19	Not yet tested	n/a	0%	0%	100%
2017 LTI Senior Executives	16.12.16	30.06.19	30.06.17	Met	30.06.19	Not yet tested	Not yet tested	0%	0%	100%
2017 LTI Managing Director	16.12.16	30.06.20	30.06.17	Met	30.06.20	Not yet tested	Not yet tested	0%	0%	100%

The LTI grant made to Senior Executives in 2014 reached the end of the four year performance period and was tested against the TSR performance measure. The relative TSR performance was rated below the median of the peer group, and the measure was not met. In accordance with the vesting framework none of the performance rights vested. The grants made to Senior Executives in 2015 and 2016 will be tested in future periods.

As mentioned above, in relation to the 2017 LTI grants, the EPS performance hurdle relating to the second sleeve was tested using both the 'old' and the 'new' cash earnings methodologies, and was met under both scenarios. Accordingly 100 percent of the performance rights have been carried forward for testing over the three year (Senior Executives) and four year (Managing Director) TSR performance periods. The first and third sleeves will also be tested in future periods.

The Board considers the remuneration outcomes to be consistent with shareholder outcomes.

The Executive remuneration disclosures presented at Table 3 of this report indicate that the value of the share based payments to the Managing Director decreased significantly year on year. These figures are driven by the accounting rules for valuing and amortising share-based payments which can be misleading.

The actual share-based payment grants to the Managing Director have been maintained at the same level since his appointment to the role in 2009, being annual grants of 76,219 deferred shares and 76,219 performance rights. The movement in the accounting values is due to differences in the amortisation periods and fair value of the more recent grants, being the grants made in 2016 and 2017.

Section 5:
Non-executive Director remuneration

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

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

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

a. The scope of responsibilities of Non-executive Directors and time commitments. This includes consideration of significant changes to the Group's operations and industry developments which impact Director responsibilities at the Board and committee level.
b. Fees paid by peer companies and companies of similar market capitalisation and complexity, including survey data and peer analysis to understand the level of Director fees paid in the market, particularly in the banking and finance sector.

Non-executive Directors receive a fixed annual fee inclusive of superannuation contributions at 9.5 percent. In relation to the superannuation contributions, Non-executive Directors can elect to receive amounts above the maximum contributions limit as cash or additional superannuation contributions. The Chairman receives a higher base fee in recognition of the additional time commitment and responsibilities.

The base fee for Non-executive Directors remained unchanged for the year. The current base fee which has been in effect from 1 September 2015 is:

a. $193,000 for Directors (inclusive of company superannuation contributions); and
b. $482,500 for the Chairman (inclusive of company superannuation contributions).

No additional fees are paid for serving on Board Committees.

Additional fees were paid to Non-executive Directors appointed to the Boards of subsidiary companies Sandhurst Trustees, Rural Bank and the Community Bank® National Council. During the year the Board decided to cease the payment of fees for the Rural Bank Board effective 1 September 2016.

A review of the Non-executive Director fees has also been completed since the end of the financial year. The Board has approved a 2.5 percent increase to the annual base fee taking the annual fee amount to $197,825 effective from 1 August 2017.

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

Section 6:
Remuneration governance

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

a. Tony Robinson (Chairman)
b. Jacquie Hey
c. Robert Johanson
d. Deb Radford

The Committee has responsibility for providing input into the Group's risk management framework in relation to remuneration risk, in particular, recommending to the Board the remuneration arrangements for the Executives.

A summary of the Committee's remuneration responsibilities is presented below and the Committee Charter is available from the Corporate Governance section of the Bank's website at www.bendigoadelaide.com.au/public/corporate_governance/.

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

a. the remuneration arrangements for executives, including the terms on which performance-based remuneration will be provided;
b. the performance-based remuneration outcomes for the executives; and
c. the annual bonus pool.

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

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

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

Section 7:
KMP remuneration, equity and loan tables

Table 1: Non-executive Director remuneration

The following payments were made to Non-executive Directors in the 2017 and 2016 financial years.

Non-executive Director	Short-term benefits		Post-employment benefits	Total
	Fees [1]	Non-monetary benefits [2]	Superannuation contributions [3]	
R Johanson (Chairman) [4]				
2017	$458,334	$4,550	$19,616	$482,500
2016	$534,686	$4,550	$19,308	$558,544
J Harris [5]				
2017	$176,689	-	$16,311	$193,000
2016	$72,939	-	$6,376	$79,315
J Hazel [6]				
2017	$176,689	-	$16,311	$193,000
2016	$256,279	-	$24,338	$280,617
J Hey				
2017	$176,689	-	$16,311	$193,000
2016	$175,911	-	$16,706	$192,617
R Hubbard				
2017	$176,689	-	$16,311	$193,000
2016	$175,925	-	$16,692	$192,617
D Matthews [7]				
2017	$184,488	$5,674	$18,338	$208,500
2016	$260,135	$5,674	$19,308	$285,117
D Radford				
2017	$176,689	-	$16,311	$193,000
2016	$175,903	-	$16,714	$192,617
T Robinson [8]				
2017	$233,384	-	$19,616	$253,000
2016	$266,809	-	$19,308	$286,117
Aggregate totals				
2017	**$1,759,651**	**$10,224**	**$139,125**	**$1,909,000**
2016	**$1,918,587**	**$10,224**	**$138,750**	**$2,067,561**

[1] Fee amounts include the $5,000 Director contribution to the Board scholarship program.
[2] Represents fee sacrifice component of the base Director fee paid as superannuation.
[3] Represents company superannuation contributions.
[4] The comparative fee amount for Mr Johanson includes the fee paid by Rural Bank Limited of $77,000 inclusive of company superannuation.
[5] Ms Jan Harris was appointed to the Board on 2 February 2016.
[6] The comparative fee amount for Mr Hazel includes the fee paid by Rural Bank Limited of $88,000 inclusive of company superannuation.
[7] The fees paid to Mr Matthews include $15,500 inclusive of company superannuation as a member of the Community Bank® National Council. The comparative amount includes a fee of $77,000 inclusive of company superannuation as a Director of Rural Bank Limited.
[8] The fees paid to Mr Robinson include a fee of $60,000 inclusive of company superannuation as a Director of Sandhurst Trustees Limited (FY2016: $93,500).

Table 2: Non-executive Director equity holdings

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

Name	Number at the start of year		Net Change [1]		Number at end of year [2]	
	Ordinary shares	Preference shares	Ordinary shares	Preference shares	Ordinary shares	Preference shares
Non-executive Directors						
R Johanson	241,300	-	14,515	-	255,815	-
J Harris	1,000	-	-	-	1,000	-
J Hazel	24,172	-	1,956	-	26,128	-
J Hey	10,013	250	1,365	-	11,378	250
R Hubbard	10,387	-	1,388	-	11,775	-
D Matthews	28,361	-	2,598	-	30,959	-
D Radford	1,900	3,190	-	-	1,900	3,190
T Robinson	23,192	-	9,948	-	33,140	-

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

Table 3: Executive remuneration

The statutory executive remuneration disclosures 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.

Executive	Short-term employee benefits			Superannuation benefits [4]	Other long-term benefits [5]	Termination	Share-based payments [6]		Total	Performance related [11]
	Cash Salary [1]	Cash bonuses (STI) [2]	Non-monetary benefits [3]				Performance rights [7]	Deferred shares [8]		
M Hirst										
2017	$1,395,084	$160,000	$520	$19,616	($8,096)	-	$150,559	$488,945	$2,206,628	15%
2016	$1,365,435	-	$7,015	$19,308	($14,256)	-	$358,737	$996,058	$2,732,297	15%
M Baker										
2017	$545,945	$80,000	$16,038	$19,652	($15,144)	-	$146,572	$184,624	$977,687	24%
2016	$549,882	-	$12,174	$19,308	$8,625	-	$95,032	$186,633	$871,654	15%
R Fennell										
2017	$570,558	$100,000	$4,500	$19,616	$14,527	-	$149,364	$187,385	$1,045,950	25%
2016	$589,920	-	$4,500	$19,308	($3,113)	-	$97,824	$195,646	$904,085	15%
A Gartmann [10]										
2017	$306,332	$40,000	$720	$19,616	$4,759	-	$37,572	$69,426	$478,425	16%
2016	$194,964	-	-	$13,238	$3,131	-	$7,916	$30,000	$249,249	3%
R Musgrove										
2017	$295,489	$40,000	$24,252	$29,722	($13,788)	-	$59,185	$69,426	$504,286	20%
2016	$300,549	-	$18,288	$29,722	($4,400)	-	$29,530	$70,975	$444,664	9%
T Piper										
2017	$523,845	$40,000	$15,250	$19,616	$13,991	-	$118,372	$144,647	$875,721	18%

Executive	Short-term employee benefits			Superannuation benefits [4]	Other long-term benefits [5]	Termination	Share-based payments [6]		Total	Performance related [11]
	Cash Salary [1]	Cash bonuses (STI) [2]	Non-monetary benefits [3]				Performance rights [7]	Deferred shares [8]		
2016	$533,849	-	$15,770	$19,308	$14,245	-	$76,012	$140,593	$799,777	11%
B Speirs [9]										
2017	$322,931	$50,000	$6,500	$19,652	$8,495	-	$50,764	$69,426	$527,768	19%
2016	$247,020	-	$4,902	$14,560	$10,934	-	$15,918	$22,623	$315,957	5%
S Thredgold										
2017	$347,509	$80,000	$5,000	$19,652	($6,817)	-	$61,978	$69,426	$576,748	25%
2016	$340,995	-	$5,000	$19,308	($15,209)	-	$43,624	$75,724	$469,442	12%
A Tullio										
2017	$340,228	$50,000	$18,939	$19,616	$5,923	-	$59,185	$89,327	$583,218	20%
2016	$346,635	-	$15,329	$19,308	$31,255	-	$29,530	$84,304	$526,361	9%
A Watts										
2017	$363,348	$33,333	$31,828	$19,616	$6,840	-	$61,978	$67,015	$583,958	18%
2016	$403,506	-	$17,558	$19,308	($7,604)	-	$49,275	$74,638	$556,681	13%
Former Key Management Personnel										
D Bice [9]										
2016	$316,894	-	$12,071	$14,507	($69,393)	$774,377	$32,778	$64,598	$1,145,832	12%
J Billington [10]										
2016	$110,706	-	-	$24,506	-	$412,778	$16,575	$53,518	$618,083	15%
2017	**$5,011,269**	**$673,333**	**$123,547**	**$206,374**	**$10,690**	**-**	**$895,529**	**$1,439,647**	**$8,360,389**	
2016	**$5,300,355**	**-**	**$112,607**	**$231,689**	**($45,785)**	**$1,187,155**	**$852,751**	**$1,995,310**	**$9,634,082**	

[1] Cash salary amounts include the net movement in the Executive's annual leave accrual for the year.
[2] These amounts represent STI cash awards to Executives for the financial year. The cash component is expected to be paid in October 2017. Refer also to footnote 8 below for discussion on the deferral of STI components.
[3] "Non-monetary" relates to sacrifice components of Executive salary such as motor vehicle costs.
[4] Represents company superannuation contributions made on behalf of executives. Company superannuation contributions form part of the executive's fixed base remuneration and are paid up to the statutory maximum contributions base. Mr Musgrove also receives an additional company contributions as part of an arrangement with former members of a defined benefit fund that was amalgamated with an accumulation fund in 1994.
[5] The amounts disclosed relate to movements in long service leave accruals.
[6] In accordance with the requirements of Australian Accounting Standards, remuneration includes a proportion of the fair value of equity compensation granted or outstanding during the year. The fair value of equity instruments is calculated as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual executives may ultimately realise should the equity instruments vest. The fair value of performance rights as at the grant date has been calculated under AASB 2 *Share-based Payments* applying a Black-Scholes-Merton valuation method incorporating a Monte Carlo simulation option pricing model to estimate the probability of achieving the Total Shareholder Return hurdle and the number of performance rights that vest. The assumptions underpinning these valuations are set out in Table 5.
[7] The amounts included in the performance rights column represent the fair value of performance right grants to Executives amortised over the applicable vesting period. The Managing Director's current year amount represents the amortised fair value allocation for the performance right grant made during the 2017 financial year. The comparative amount represents the final amortised fair value allocation for the previous performance right grant that completed on 30 June 2016. The Senior Executives current year amounts represent the amortised fair value allocation for the 2014, 2015, 2016 and 2017 performance right grants. The comparative amounts represent the amortised fair value allocation for the 2013, 2014, 2015 and 2016 performance right grants.
[8] The amounts included in the deferred share column comprise:
- The fair value of deferred STI components amortised over a two-year deferral period. The deferred STI component for the 2015 financial year is amortised over 2016 and 2017 financial years. There was no deferred STI component for the 2016 financial year.
- The fair value of the deferred base pay grants amortised over a two-year deferral period. The deferred base pay grant made during the 2016 financial year is amortised over the 2016 and 2017 financial years and the deferred base pay grant made during the 2017 financial year is amortised over the 2017 and 2018 financial years. The comparative figure includes the fair value of the deferred base pay grant made in the 2015 financial year amortised over the 2015 and 2016 financial years.

[9] Mr Dennis Bice ceased as a KMP on 31 March 2016 and Mr Bruce Speirs commenced as a KMP on 29 September 2015. The remuneration amounts for these KMP (except for the termination payment to Mr Bice) are presented on a pro-rata basis.
[10] Mr John Billington ceased as a KMP on 29 September 2015 and Ms Alex Gartmann commenced as a KMP on 26 October 2015.
[11] The performance related percentage comprises cash bonus (STI) payments, the amortised fair value of performance right grants and the amortised fair value of deferred STI components (which form part of the amount disclosed under the 'Deferred shares' column).

Table 4: Executive STI payments

The following short-term incentives were awarded to executives for FY2017.
The short term incentives forfeited are also set out in the table below.

Executive	STI maximum opportunity [1]	STI payment		STI payment as % of STI maximum opportunity	% of STI Award forfeited
		Paid as cash	Deferred into shares [2]		
M Hirst	$400,000	$160,000	$80,000	60%	40%
M Baker	$200,000	$ 80,000	$40,000	60%	40%
R Fennell	$250,000	$100,000	$50,000	60%	40%
A Gartmann	$70,000	$40,000	$20,000	86%	14%
R Musgrove	$100,000	$40,000	-	40%	60%
T Piper	$100,000	$40,000	-	40%	60%
B Speirs	$125,000	$50,000	$25,000	60%	40%
S Thredgold	$200,000	$80,000	$40,000	60%	40%
A Tullio	$100,000	$50,000	$25,000	60%	40%
A Watts	$180,000	$33,333	$16,667	28%	72%

[1] The STI award is subject to the achievement of financial and non-financial measures. Accordingly, the minimum potential STI award is nil.
[2] One-third of STI awards that exceed the $50,000 threshold set by the Board are subject to deferral for two years into shares in the Bank. The allocation of deferred shares for the 2017 deferred STI components is expected to be made in October 2017.

Table 5: All equity plans – equity valuation inputs

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

a. Deferred Shares

Equity Instrument	Grant date	Terms & Conditions for each Grant			
		Issue price / Fair value [1]	Share price at grant date	Restriction period end / test date	Vest / Expiry date
Deferred Shares STI [2]	12.10.2015	$10.02	$10.36	30.06.2017	30.06.2017
Deferred Shares Base Pay	17.12.2015	$12.43	$11.24	30.06.2017	30.06.2017
Deferred Shares Base Pay	16.12.2016	$12.25	$12.25	30.06.2018	30.06.2018

[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.
[2] The Managing Director's deferred STI grant was made on 30 September 2015.

b. Performance rights

Equity Instrument	Grant date	Fair value [1]	Share price $	Terms & Conditions for each Grant					
				Exercise price	Risk free interest rate	Dividend yield	Expected volatility	Expected life	Performance period end / expiry date [2]
Performance Rights	17.12.2013	$4.45	$10.98	-	2.91%	7.50%	22%	4 years	30.06.2017
Performance Rights	10.12.2014	$5.53	$12.62	-	2.31%	6.00%	18%	4 years	30.06.2018
Performance Rights	17.12.2015	$4.92	$11.24	-	2.18%	6.00%	20%	4 years	30.06.2019
Performance Rights – Sleeve 1	16.12.2016	$10.63	$12.25	-	1.93%	5.75%	20%	3 years	30.06.2019
Performance Rights – Sleeve 2	16.12.2016	$7.29	$12.25	-	1.93%	5.75%	20%	3 years	30.06.2019
Performance Rights – Sleeve 3	16.12.2016	$7.29	$12.25	-	1.93%	5.75%	20%	3 years	30.06.2019
Performance Rights – Sleeve 1 (MD)	16.12.2016	$10.05	$12.25	-	2.10%	5.75%	20%	4 years	30.06.2020
Performance Rights – Sleeve 2 (MD)	16.12.2016	$6.98	$12.25	-	2.10%	5.75%	20%	4 years	30.06.2020
Performance Rights – Sleeve 3 (MD)	16.12.2016	$6.98	$12.25	-	2.10%	5.75%	20%	4 years	30.06.2020

[1] The fair value is calculated as at grant date in accordance with AASB 2 Share-based Payments using an independent valuation.
[2] The Board will test the performance condition as soon as practical after year end. Any performance rights that do not vest will lapse at 5.00pm on the date the Board makes its decision on what performance rights vest or lapse.

Table 6: All equity plans – number of instruments

The table below sets out the number and value of deferred shares and performance rights granted to Executives by the Bank during FY2017. It also includes details of grants made in prior years that vested or were forfeited or lapsed during the year.

Executive	Equity Instrument	Grant Date	Grants [1] Units	Granted [2] $	Prior years' awards vested [3] Units	Prior years' awards vested [4,7] $	Forfeited / Lapsed [2,6] Units	Forfeited /Lapsed [5,6] $
	Deferred Shares STI	30.09.2015	-	-	4,412	$44,208	-	-
M Hirst	Performance Rights	16.12.2016	76,219	$602,203	-	-	-	-
	Deferred Shares Base Pay	16.12.2016	76,219	$933,683	-	-	-	-
	Deferred Shares STI	12.10.2015	-	-	2,206	$22,104	-	-
	Deferred Shares Base Pay	17.12.2015	-	-	12,067	$149,993	-	-
M Baker	Performance Rights	17.12.2013	-	-	-	-	17,570	$78,187
	Deferred Shares Base Pay	16.12.2016	16,094	$197,152	-	-	-	-
	Performance Rights	16.12.2016	26,824	$222,428	-	-	-	-
	Deferred Shares STI	12.10.2015	-	-	2,757	$27,625	-	-
	Deferred Shares Base Pay	17.12.2015	-	-	12,067	$149,993	-	-
R Fennell	Performance Rights	17.12.2013	-	-	-	-	20,080	$89,356
	Deferred Shares Base Pay	16.12.2016	16,094	$197,152	-	-	-	-
	Performance Rights	16.12.2016	26,824	$222,428	-	-	-	-
	Deferred Shares Base Pay	17.12.2015	-	-	4,827	$60,000	-	-
A Gartmann	Deferred Shares Base Pay	16.12.2016	6,437	$78,853	-	-	-	-
	Performance Rights	16.12.2016	10,729	$88,966	-	-	-	-
	Deferred Shares Base Pay	17.12.2015	-	-	4,827	$60,000	-	-
	Performance Rights	17.12.2013	-	-	-	-	7,530	$33,509
R Musgrove	Deferred Shares Base Pay	16.12.2016	6,437	$78,853	-	-	-	-
	Performance Rights	16.12.2016	10,729	$88,966	-	-	-	-
	Deferred Shares Base Pay	17.12.2015	-	-	10,056	$124,996	-	-
	Performance Rights	17.12.2013	-	-	-	-	15,060	$67,017
T Piper	Deferred Shares Base Pay	16.12.2016	13,412	$164,297	-	-	-	-
	Performance Rights	16.12.2016	21,459	$177,935	-	-	-	-
	Deferred Shares Base Pay	17.12.2015	-	-	4,827	$60,000	-	-
	Performance Rights	17.12.2013	-	-	-	-	5,020	$22,339
B Speirs	Deferred Shares Base Pay	16.12.2016	6,437	$78,853	-	-	-	-
	Performance Rights	16.12.2016	10,729	$88,966	-	-	-	-
	Deferred Shares Base Pay	17.12.2015	-	-	4,827	$60,000	-	-
	Performance Rights	17.12.2013	-	-	-	-	10,040	$44,678
S Thredgold	Deferred Shares Base Pay	16.12.2016	6,437	$78,853	-	-	-	-
	Performance Rights	16.12.2016	10,729	$88,966	-	-	-	-

Table 6: All equity plans – number of instruments continued

Executive	Equity Instrument	Grant Date	Grants [1] Units	Granted [2] $	Prior years' awards vested [3] Units	Prior years' awards vested [4,7] $	Forfeited / Lapsed [2,6] Units	Forfeited /Lapsed [5,6] $
	Deferred Shares STI	12.10.2015	-	-	1,663	$16,663	-	-
	Deferred Shares Base Pay	17.12.2015	-	-	5,631	$69,993	-	-
A Tullio	Performance Rights	17.12.2013	-	-	-	-	7,530	$33,509
	Deferred Shares Base Pay	16.12.2016	7,510	$91,998	-	-	-	-
	Performance Rights	16.12.2016	10,729	$88,966	-	-	-	-
	Deferred Shares STI	12.10.2015	-	-	1,829	$18,327	-	-
	Deferred Shares Base Pay	17.12.2015	-	-	4,022	$49,993	-	-
A Watts	Performance Rights	17.12.2013	-	-	-	-	10,040	$44,678
	Deferred Shares Base Pay	16.12.2016	5,364	$65,709	-	-	-	-
	Performance Rights	16.12.2016	10,729	$88,966	-	-	-	-

[1] The grants to Executives in FY2017 constituted 100% of the grants available for the year and were made on the terms described at Section 2. The number of base pay deferred shares and performance rights allocated to executives is calculated by dividing the remuneration value by the volume weighted average closing price of the Bank's shares for the last five trading days of the financial year prior to year of the grant. The number of STI deferred shares allocated to Executives is calculated by dividing the deferred STI remuneration value by the volume weighted average closing price of the Bank's shares for the five trading days ending on the grant date.

[2] The value of the performance right grants and deferred share grants is the fair value (refer Table 5). The minimum total value of the grants, if the applicable performance and service conditions are not met, is nil. The future value of the rights is dependent on the achievement of the performance hurdles and the share price at the time the performance rights vest. An estimate of the maximum possible total value in future financial years is the fair value shown above.

[3] The percentage of performance rights that vested during the year was nil as the TSR measure for these performance rights was either not met or will be tested over future periods. The percentage of base pay deferred share grants and STI deferred share grants made in FY2016 that vested during the year was 100%. The percentage of the deferred share base pay grant made in FY2017 that vested during the year was nil as the grant will be tested in a future period.

[4] The value of vested deferred shares is measured using the fair values applicable to the grant of deferred shares that vested. The applicable fair values are presented at Table 5. As each deferred share represents one ordinary share in the Bank, the number of ordinary shares that will be allocated is the same as the number of vested deferred shares.

[5] The value of each instrument on the date it lapses or is forfeited is calculated using the fair value of the instrument. Performance rights and deferred shares lapse where the applicable performance and service conditions are not satisfied.

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

[7] The Bank acquired the following securities on-market for the purpose of, and to satisfy the entitlements of holders of rights to acquire securities granted under, the Bank's Employee Salary Sacrifice, Deferred Share and Performance Share Plan:
a. Total number of ordinary shares purchased during the financial year: 163,659 ordinary shares (FY2016: 108,733 ordinary shares); and
b. Average price per ordinary share at which the securities were purchased: $12.25 per security (FY2016: $10.42 per security).

Table 7: Movements in Executive equity holdings

The details of shareholdings in the Bank held by Executives (including their close family members or any entity they, or their close family members, control, jointly control or significantly influence) are set out below. The ordinary share amounts include shares issued under the Employee Share Ownership Plan made under conditions disclosed in the 2017 Annual Financial Report at Note 35.

Performance rights and deferred shares are granted as equity compensation under the Employee Salary Sacrifice, Deferred Share and Performance Share Plan ("Plan") to Executives as LTI, Deferred Base and Deferred STI remuneration components.

Executive	Equity Instrument	Number at start of year	Number granted during the year as remuneration	Number Received on exercise or exercised / released during the year	Number Lapsed / expired during the year	Net change other	Number at end of year [1, 2]
M Hirst	Deferred shares	4,412	76,219	(4,412)	-	-	76,219
	Ordinary shares	698,384	-	4,412	-	(63,326)	639,470
	Performance rights	-	76,219	-	-	-	76,219
M Baker	Deferred shares	14,273	16,094	(14,273)	-	-	16,094
	Ordinary shares	287,905	-	14,273	-	17,362	319,540
	Preference shares	800	-	-	-	-	800
	Performance rights	58,040	26,824	-	(17,570)	-	67,294
R Fennell	Deferred shares	14,824	16,094	(14,824)	-	-	16,094
	Ordinary shares	89,038	-	14,824	-	(17,000)	86,862
	Performance rights	60,550	26,824	-	(20,080)	-	67,294
A Gartmann	Deferred shares	4,827	6,437	(4,827)	-	-	6,437
	Ordinary shares	-	-	4,827	-	-	4,827
	Performance rights	6,436	10,729	-	-	-	17,165
R Musgrove	Deferred shares	4,827	6,437	(4,827)	-	-	6,437
	Ordinary shares	29,378	-	4,827	-	(2,000)	32,205
	Performance rights	23,718	10,729	-	(7,530)	-	26,917
T Piper	Deferred shares	10,056	13,412	(10,056)	-	-	13,412
	Ordinary shares	48,502	-	10,056	-	(6,000)	52,558
	Performance rights	47,436	21,459	-	(15,060)	-	53,835
B Speirs	Deferred shares	4,827	6,437	(4,827)	-	-	6,437
	Ordinary shares	995	-	4,827	-	(995)	4,827
	Performance rights	17,136	10,729	-	(5,020)	-	22,845
S Thredgold	Deferred shares	4,827	6,437	(4,827)	-	-	6,437
	Ordinary shares	26,751	-	4,827	-	-	31,578
	Performance rights	26,228	10,729	-	(10,040)	-	26,917
A Tullio	Deferred shares	7,294	7,510	(7,294)	-	-	7,510
	Ordinary shares	6,573	-	7,294	-	(6,502)	7,365
	Performance rights	23,718	10,729	-	(7,530)	-	26,917
A Watts	Deferred shares	5,851	5,364	(5,851)	-	-	5,364
	Ordinary shares	74,666	-	5,851	-	(28,497)	52,020
	Performance rights	26,228	10,729	-	(10,040)	-	26,917

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

Table 8: Executive employment agreements

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

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

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

Table 9: Non-executive Director and executive loans

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

	Balance at beginning of year [1]	Interest charged	Interest not charged	Write-off	Balance at end of year	Number at year end
	$'000	$'000	$'000	$'000	$'000	
Non-executive Directors						
2017	3,486	211	-	-	6,589	5
Executives						
2017	4,183	147	-	-	3,867	7
Total Directors and Executives						
2017	7,669	358	-	-	10,456	12

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

2017	Balance at beginning of year	Interest charged	Interest not charged	Write-off	Balance at end of year	Highest owing in period [2]
	$'000	$'000	$'000	$'000	$'000	$'000
Non-executive Directors						
J Hey	-	16	-	-	29	3,504
R Johanson	1,110	58	-	-	1,227	1,277
D Matthews	1,351	97	-	-	4,313	4,418
T Robinson	1,004	40	-	-	1,000	1,004
Executives						
M Hirst	87	8	-	-	993	928
R Fennell	539	29	-	-	566	566
R Musgrove	375	17	-	-	334	376
T Piper	495	24	-	-	485	495
S Thredgold	977	29	-	-	745	977
A Tullio	784	30	-	-	694	789
A Watts	897	6	-	-	-	901

[1] The balances exclude loans provided to Executives under the Employee Share Ownership Plan. The Corporations Regulations do not require the disclosure of these loans. The balances have also been amended to exclude loans provided to Mr Bice and Mr Billington who ceased as KMP during the previous financial year.

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

Terms and conditions of Non-executive Director and Executive loans

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

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

Robert Johanson
Chairman
5 September 2017

Mike Hirst
Managing Director
5 September 2017

Financial Statements

Income statement for the year ended 30 June 2017

		Group		Bank	
		2017	2016	2017	2016
	Note	$m	$m	$m	$m
Net interest income					
Interest income		2,618.7	2,682.9	2,298.3	2,337.4
Interest expense		(1,405.1)	(1,518.8)	(1,214.5)	(1,305.2)
Total net interest income	3	**1,213.6**	**1,164.1**	**1,083.8**	**1,032.2**
Other revenue					
Fees		160.0	161.9	144.9	146.3
Commissions		72.7	68.9	21.4	18.5
Other		163.2	159.7	71.3	79.0
Total other revenue	3	**395.9**	**390.5**	**237.6**	**243.8**
Total income		**1,609.5**	**1,554.6**	**1,321.4**	**1,276.0**
Expenses					
Bad and doubtful debts		(91.9)	(56.9)	(68.5)	(48.4)
Bad and doubtful debts recovered		20.1	12.8	6.0	10.1
Total bad and doubtful debts	3	**(71.8)**	**(44.1)**	**(62.5)**	**(38.3)**
Operating expenses					
Staff and related costs		(480.5)	(480.3)	(428.7)	(419.9)
Occupancy costs		(92.0)	(91.6)	(91.2)	(89.8)
Amortisation and depreciation costs		(50.2)	(46.2)	(39.2)	(34.4)
Fees and commissions		(33.6)	(33.6)	(7.8)	(8.1)
Other		(253.1)	(251.9)	(231.6)	(239.0)
Total other expenses	3	**(909.4)**	**(903.6)**	**(798.5)**	**(791.2)**
Profit before income tax expense		**628.3**	**606.9**	**460.4**	**446.5**
Income tax expense	4	(198.7)	(191.3)	(148.0)	(143.4)
Net profit for the year		**429.6**	**415.6**	**312.4**	**303.1**
Earnings per share (cents)					
Basic	6	90.9	90.4		
Diluted	6	82.9	81.3		

Statement of comprehensive income for the year ended 30 June 2017

	Note	Group 2017 $m	Group 2016 $m	Bank 2017 $m	Bank 2016 $m
Profit for the year		**429.6**	**415.6**	**312.4**	**303.1**
Items which may be reclassified subsequently to the profit & loss:					
Net loss on available for sale - equity investments	17	(1.6)	(0.1)	(1.7)	-
Net gain/(loss) on cash flow hedges taken to equity	17	45.6	(2.0)	44.3	(3.3)
Net unrealised gain/(loss) on available for sale - debt securities	17	0.9	(3.3)	62.4	(99.3)
Transfer to loss/(income) on sale of available for sale assets	17	0.3	1.1	0.3	1.1
Tax effect on items taken directly to or transferred from equity	17	(13.6)	1.3	(31.6)	30.5
Total items that may be reclassified to profit & loss		**31.6**	**(3.0)**	**73.7**	**(71.0)**
Items which will not be reclassified subsequently to the profit & loss:					
Actuarial loss/(gain) on superannuation defined benefits plan	17	0.3	(1.4)	0.3	(1.4)
Revaluation of land and buildings	17	0.3	-	0.1	-
Tax effect on items taken directly to equity	17	(0.2)	0.4	(0.1)	0.4
Total items that will not be reclassified to profit & loss		**0.4**	**(1.0)**	**0.3**	**(1.0)**
Total comprehensive income for the year		**461.6**	**411.6**	**386.4**	**231.1**
Total comprehensive income for the year attributable to:					
Owners of the Company		461.6	411.6	386.4	231.1

Balance sheet as at 30 June 2017

	Note	Group 2017 $m	Group 2016 $m	Bank 2017 $m	Bank 2016 $m
Assets					
Cash and cash equivalents	25	1,059.6	1,060.0	885.2	933.0
Due from other financial institutions	25	270.3	221.9	270.7	221.8
Amounts receivable from controlled entities		-	-	1,072.3	1,160.1
Financial assets held for trading	18	5,657.6	6,369.1	5,657.9	6,369.4
Financial assets available for sale	19	286.6	353.5	5,243.7	6,941.1
Financial assets held to maturity	20	378.7	382.8	65.8	62.7
Derivatives	21	77.7	79.0	181.8	290.3
Net loans and other receivables	8	60,776.6	57,256.8	55,611.4	52,280.6
Investments accounted for using the equity method		8.5	4.1	7.5	3.9
Shares in controlled entities		-	-	570.2	569.8
Property, plant & equipment	36	77.8	90.7	73.0	86.0
Deferred tax assets	4	110.8	131.8	108.0	132.6
Investment property	23	666.3	573.4	-	-
Goodwill and other intangible assets	26	1,663.8	1,634.7	1,567.4	1,528.7
Other assets	27	381.2	414.9	439.8	420.2
Total Assets		**71,415.5**	**68,572.7**	**71,754.7**	**71,000.2**
Liabilities					
Due to other financial institutions	25	328.4	294.8	328.0	287.1
Deposits	10	58,772.3	57,054.7	55,235.1	53,786.3
Notes payable	10	4,480.2	3,822.5	503.5	502.2
Derivatives	21	59.0	111.8	77.6	110.7
Loans payable to securitisation trusts		-	-	8,472.2	9,437.3
Income tax payable	4	21.5	34.5	21.5	34.5
Provisions	34	130.8	116.7	127.2	112.6
Deferred tax liabilities	4	126.6	114.7	65.9	104.1
Other payables	28	532.3	499.9	582.1	654.9
Convertible preference shares	11	830.1	824.4	830.1	824.4
Subordinated debt	12	708.7	583.4	698.7	573.4
Total Liabilities		**65,989.9**	**63,457.4**	**66,941.9**	**66,427.5**
Net Assets		**5,425.6**	**5,115.3**	**4,812.8**	**4,572.7**
Equity					
Share capital	16	4,448.7	4,288.2	4,448.7	4,288.2
Reserves	17	112.3	87.9	110.1	43.7
Retained earnings	17	864.6	739.2	254.0	240.8
Total Equity		**5,425.6**	**5,115.3**	**4,812.8**	**4,572.7**

Statement of changes in equity for the year ended 30 June 2017

	Group				
	Attributable to owners of Bendigo and Adelaide Bank Limited				
	Issued ordinary capital $m	Other issued capital[1] $m	Retained earnings $m	Reserves[2] $m	Total equity $m
At 1 July 2016					
Opening balance b/fwd	**4,298.4**	**(10.2)**	**739.2**	**87.9**	**5,115.3**
Comprehensive income					
Profit for the year	-	-	429.6	-	429.6
Other comprehensive income	-	-	0.2	31.8	32.0
Total comprehensive income for the year	**-**	**-**	**429.8**	**31.8**	**461.6**
Transactions with owners in their capacity as owners					
Shares issued	158.6	-	-	-	158.6
Share issue expenses	(0.3)	-	-	-	(0.3)
Reduction in employee share ownership plan (ESOP) shares	-	2.2	-	-	2.2
Movement in general reserve for credit losses (GRCL)	-	-	6.6	(6.6)	-
Share based payment	-	-	0.4	(0.8)	(0.4)
Equity dividends	-	-	(311.4)	-	(311.4)
At 30 June 2017	**4,456.7**	**(8.0)**	**864.6**	**112.3**	**5,425.6**

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

for the year ended 30 June 2016

	Group				
	Attributable to owners of Bendigo and Adelaide Bank Limited				
	Issued ordinary capital $m	Other issued capital[1] $m	Retained earnings $m	Reserves[2] $m	Total equity $m
At 1 July 2015					
Opening balance b/fwd	**4,235.4**	**(11.8)**	**623.1**	**95.0**	**4,941.7**
Comprehensive income					
Profit for the year	-	-	415.6	-	415.6
Other comprehensive income	-	-	(1.0)	(3.0)	(4.0)
Total comprehensive income for the year	**-**	**-**	**414.6**	**(3.0)**	**411.6**
Transactions with owners in their capacity as owners					
Shares issued	63.0	-	-	-	63.0
Prior years' restatement	-	-	(1.2)	-	(1.2)
Reduction in employee share ownership plan (ESOP) shares	-	1.6	-	-	1.6
Share based payment	-	-	3.5	(4.1)	(0.6)
Equity dividends	-	-	(300.8)	-	(300.8)
At 30 June 2016	**4,298.4**	**(10.2)**	**739.2**	**87.9**	**5,115.3**

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

Statement of changes in equity (continued) for the year ended 30 June 2017

	Bank				
	Attributable to owners of Bendigo and Adelaide Bank Limited				
	Issued ordinary capital $m	Other issued capital[1] $m	Retained earnings $m	Reserves[2] $m	Total equity $m
At 1 July 2016					
Opening balance b/fwd	**4,298.4**	**(10.2)**	**240.8**	**43.7**	**4,572.7**
Transfer from de-registered subsidiary company	-	-	5.0	-	5.0
Comprehensive income					
Profit for the year	-	-	312.4	-	312.4
Other comprehensive income	-	-	0.2	73.8	74.0
Total comprehensive income for the year	**-**	**-**	**312.6**	**73.8**	**386.4**
Transactions with owners in their capacity as owners					
Shares issued	158.6	-	-	-	158.6
Share issue expenses	(0.3)	-	-	-	(0.3)
Reduction in employee share ownership plan (ESOP) shares	-	2.2	-	-	2.2
Movement in general reserve for credit losses (GRCL)	-	-	6.6	(6.6)	-
Share based payment	-	-	0.4	(0.8)	(0.4)
Equity dividends	-	-	(311.4)	-	(311.4)
At 30 June 2017	**4,456.7**	**(8.0)**	**254.0**	**110.1**	**4,812.8**

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

for the year ended 30 June 2016

	Bank				
	Attributable to owners of Bendigo and Adelaide Bank Limited				
	Issued ordinary capital $m	Other issued capital[1] $m	Retained earnings $m	Reserves[2] $m	Total equity $m
At 1 July 2015					
Opening balance b/fwd	**4,235.4**	**(11.8)**	**236.7**	**118.8**	**4,579.1**
De-registered subsidiary company	-	-	0.5	-	0.5
Comprehensive income					
Profit for the year	-	-	303.1	-	303.1
Other comprehensive income	-	-	(1.0)	(71.0)	(72.0)
Total comprehensive income for the year	**-**	**-**	**302.1**	**(71.0)**	**231.1**
Transactions with owners in their capacity as owners					
Shares issued	63.0	-	-	-	63.0
Prior years' restatement	-	-	(1.2)	-	(1.2)
Reduction in employee share ownership plan (ESOP) shares	-	1.6	-	-	1.6
Share based payment	-	-	3.5	(4.1)	(0.6)
Equity dividends	-	-	(300.8)	-	(300.8)
At 30 June 2016	**4,298.4**	**(10.2)**	**240.8**	**43.7**	**4,572.7**

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

Cash flow statement for the year ended 30 June 2017

	Note	Group 2017 $m	Group 2016 $m	Bank 2017 $m	Bank 2016 $m
Cash flows from operating activities					
Interest and other items of a similar nature received		2,656.0	2,724.0	2,376.3	2,274.9
Interest and other costs of finance paid		(1,417.8)	(1,578.1)	(1,225.0)	(1,352.5)
Receipts from customers (excluding effective interest)		311.3	305.9	242.7	250.5
Payments to suppliers and employees		(842.0)	(1,051.3)	(755.6)	(939.4)
Dividends received		2.0	2.1	1.7	1.8
Income taxes paid		(192.7)	(155.2)	(155.4)	(138.2)
Cash flows from operating activities before changes in operating assets and liabilities		**516.8**	**247.4**	**484.7**	**97.1**
(Increase)/decrease in operating assets					
Net increase in balance of loans and other receivables		(3,611.7)	(1,778.9)	(3,370.6)	(1,559.7)
Net decrease/(increase) in balance of investment securities		775.8	(650.9)	2,396.8	(1,721.4)
Increase/(decrease) in operating liabilities					
Net increase in balance of retail deposits		583.0	3,339.5	404.0	2,834.4
Net increase/(decrease) in balance of wholesale deposits		1,134.7	209.8	1,044.8	122.4
Net increase/(decrease) in balance of notes payable		657.7	(1,103.4)	(963.8)	466.8
Net cash flows from operating activities	24	**56.3**	**263.5**	**(4.1)**	**239.6**
Cash flows related to investing activities					
Cash paid for purchases of property, plant and equipment		(10.4)	(14.5)	(9.9)	(14.1)
Cash proceeds from sale of property, plant and equipment		1.8	1.0	1.7	0.8
Cash paid for purchases of investment property		(50.2)	(49.4)	-	-
Cash proceeds from sale of investment property		47.7	37.7	-	-
Cash paid for purchases of intangible assets		(1.3)	-	-	-
Cash paid for purchases of equity investments		(4.4)	(2.1)	(2.4)	(5.6)
Cash proceeds from sale of equity investments		0.5	-	0.5	-
Net cash flows used in investing activities		**(16.3)**	**(27.3)**	**(10.1)**	**(18.9)**
Cash flows from financing activities					
Proceeds from issue of shares		64.4	-	64.4	-
Proceeds/(payments to) from subordinated debt holders		125.3	(9.2)	125.3	(0.3)
Dividends paid		(217.2)	(237.8)	(217.2)	(237.8)
Repayment of ESOP shares		2.2	1.6	2.2	1.6
Payment of share issue costs		(0.3)	(0.6)	(0.3)	(0.6)
Net cash flows used in investing activities		**(25.6)**	**(246.0)**	**(25.6)**	**(237.1)**
Net increase/(decrease) in cash and cash equivalents		14.4	(9.8)	(39.8)	(16.4)
Cash and cash equivalents at the beginning of period		987.1	996.9	867.7	884.1
Cash and cash equivalents at the end of period	25	**1,001.5**	**987.1**	**827.9**	**867.7**

Basis of preparation

This section describes the Group's significant accounting policies that relate to the financial statements and notes of the accounts. If an accounting policy relates to a particular note, the applicable policy is contained within the relevant note.

This section also shows new accounting standards, amendments and interpretations, and whether they are effective in 2017 or later years. We explain how these changes are expected to impact the financial position and performance of the Group.

1 Corporate information

The financial report of Bendigo and Adelaide Bank Limited (the Bank) and its controlled entities (the Group) for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the directors on 5 September 2017.

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

The domicile of the company is Australia.

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

2 Summary of significant accounting policies

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

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

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

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

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

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

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

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

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

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

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

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

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.

2 Summary of significant accounting policies (continued)

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

Changes in accounting policies
The accounting policies are consistent with those applied in the previous financial year.

Compliance with IFRS
Recently issued or amended standards not yet effective
Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2017.

AASB 9 *Financial Instruments* introduces changes to the classification and measurement of financial assets and financial liabilities, impairment of financial assets and new rules for hedge accounting. This standard is mandatory for the 30 June 2019 financial statements. The Group has an established AASB 9 program involving finance and risk functions across the Group. The program is in the process of developing and testing required models and assessing the impacts of the standard, and as such is not yet able to reasonably estimate the impact on its financial statements.

AASB 15 *Revenue from contracts with customers* establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cashflows arising from customer contracts. This standard is effective for the 30 June 2019 financial statements. The Group doesn't expect that a significant portion of the Group's revenue will be impacted by this standard and is currently in the process of assessing the impacts and as such is not yet in a position to reliably estimate the impact to the financial statements.

AASB 16 *Leases* introduces a requirement to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. This standard is effective for the 30 June 2020 financial statements. This change will mainly impact the properties that the Group currently accounts for as operating leases. The potential effects of adoption of the standard are currently being assessed.

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

- 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 12];*
- 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107;*
- 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions [AASB 2];*
- 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments [AASB 1, AASB 12, AASB 128 and AASB 140]; and*
- 2017-2 *Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle [AASB 12 and AASB 5].*

Results for the year

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

3 Profit

	Group		Bank	
	2017	2016	2017	2016
	$m	$m	$m	$m
Net interest income				
Interest income				
Cash and cash equivalents	2.1	3.1	2.0	2.9
Financial assets held for trading	127.5	133.4	127.5	133.4
Financial assets available for sale	4.5	12.3	170.3	183.4
Financial assets held to maturity	9.6	9.8	0.8	0.6
Loans and other receivables	2,475.0	2,524.3	1,997.7	2,017.1
Total interest income	**2,618.7**	**2,682.9**	**2,298.3**	**2,337.4**
Interest expense				
Deposits				
Retail	(1,027.5)	(1,113.1)	(946.4)	(1,027.0)
Wholesale - domestic	(181.7)	(191.2)	(182.1)	(191.5)
Wholesale - offshore	(10.1)	(10.3)	(10.1)	(10.3)
Other borrowings				
Notes payable	(117.0)	(134.4)	(7.7)	(7.4)
Convertible preference shares	(36.0)	(37.7)	(36.0)	(37.7)
Subordinated debt	(32.8)	(32.1)	(32.2)	(31.3)
Total interest expense	**(1,405.1)**	**(1,518.8)**	**(1,214.5)**	**(1,305.2)**
Total net interest income	**1,213.6**	**1,164.1**	**1,083.8**	**1,032.2**
Other revenue				
Fees				
Assets	80.4	71.4	70.6	61.7
Liabilities & other products	75.9	86.5	73.9	84.0
Trustee, management & other services	3.7	4.0	0.4	0.6
Total fees	**160.0**	**161.9**	**144.9**	**146.3**
Commissions				
Wealth solutions	72.7	68.9	21.4	18.5
Total commissions	**72.7**	**68.9**	**21.4**	**18.5**
Other				
Foreign exchange income	18.0	20.9	18.0	20.9
Factoring products income	6.4	7.5	6.4	7.5
Trading book revaluation income	19.8	8.9	19.8	8.9
Homesafe income	90.4	79.7	-	-
Other	28.6	42.7	27.1	41.7
Total other income	**163.2**	**159.7**	**71.3**	**79.0**

3 Profit (continued)

Recognition and measurement
Revenue is recognised at the fair value of the consideration received or receivable, and meets the criteria below:
- it is probable that the economic benefits will flow to the entity and
- the revenue can be reliably measured.

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

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

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

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

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

	Group		Bank	
	2017	2016	2017	2016
	$m	$m	$m	$m
Expenses				
Bad and doubtful debts				
Specific provision	(72.1)	(58.1)	(64.6)	(47.9)
Collective provision	0.7	5.6	0.4	3.4
Bad debts written off	(20.5)	(4.4)	(4.3)	(4.0)
Bad debts recovered	20.1	12.8	6.0	10.2
Total bad and doubtful debts	**(71.8)**	**(44.1)**	**(62.5)**	**(38.3)**
Operating expenses				
Staff and related costs				
Salaries, wages and incentives	(411.8)	(410.1)	(367.6)	(358.6)
Superannuation contributions	(37.4)	(37.4)	(33.3)	(32.7)
Payroll tax	(26.4)	(27.4)	(23.3)	(23.8)
Other	(4.9)	(5.4)	(4.5)	(4.8)
Total staff and related costs	**(480.5)**	**(480.3)**	**(428.7)**	**(419.9)**
Occupancy costs				
Operating lease rentals	(57.2)	(56.9)	(57.0)	(55.9)
Depreciation of leasehold improvements	(10.1)	(10.5)	(10.0)	(10.4)
Other	(24.7)	(24.2)	(24.2)	(23.5)
Total occupancy costs	**(92.0)**	**(91.6)**	**(91.2)**	**(89.8)**
Amortisation and depreciation				
Amortisation of acquired intangibles	(17.7)	(19.5)	(8.5)	(9.2)
Amortisation of software intangibles	(20.8)	(15.4)	(19.4)	(14.3)
Depreciation of property, plant & equipment	(11.7)	(11.3)	(11.3)	(10.9)
Total amortisation and depreciation costs	**(50.2)**	**(46.2)**	**(39.2)**	**(34.4)**
Fees and commissions	**(33.6)**	**(33.6)**	**(7.8)**	**(8.1)**
Other operating expenses				
Communications, postage and stationery	(33.0)	(33.8)	(33.0)	(33.6)
Computer systems and software costs	(71.6)	(70.2)	(68.2)	(66.0)
Advertising and promotion	(28.3)	(31.1)	(25.5)	(29.3)
Other product and services delivery costs	(33.0)	(37.4)	(32.8)	(37.2)
Other expenses	(87.2)	(79.4)	(72.1)	(72.9)
Total other operating expenses	**(253.1)**	**(251.9)**	**(231.6)**	**(239.0)**

3 Profit (continued)

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

Bad and doubtful debts are measured as the difference between the carrying amount and the value of the estimated future cash flows, discounted at the financial instruments original effective interest rate. Refer to Note 9 Impairment of loans and advances for more information on loan impairment.

Staff and related costs
Wage and salary costs are recognised over the period in which the employees provide the service. Refer to Note 34 Provisions for more information relating to staff provisions.

Incentive payments are recognised to the extent that the Group has a present obligation over the period that the employees are required to work to qualify for the scheme. Refer to Note 35 Share based payment plans for further information on share based payments.

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

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

Depreciation and amortisation - refer to Note 36 Property, plant and equipment for further information on depreciation and Note 26 Goodwill and other intangibles for amortisation on intangibles.

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

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

4 Income tax expense

Major components of income tax expense are:

	Group 2017 $m	Group 2016 $m	Bank 2017 $m	Bank 2016 $m
Income statement				
Current income tax				
Current income tax charge	(182.3)	(181.0)	(195.6)	(128.1)
Franking credits	1.2	0.8	1.2	0.8
Adjustments in respect of current income tax of previous years	1.5	8.6	1.5	8.6
Deferred income tax				
De-recognition of temporary differences	(0.1)	(1.9)	(0.1)	(1.9)
Adjustments in respect of deferred income tax of previous years	(1.8)	(5.4)	(1.7)	(5.4)
Relating to origination and reversal of temporary differences	(17.2)	(12.4)	46.7	(17.4)
Income tax expense reported in the income statement	**(198.7)**	**(191.3)**	**(148.0)**	**(143.4)**
Statement of changes in equity				
Deferred income tax related to items charged or credited directly in equity				
Net (gain)/loss on cash flow hedge	(13.7)	0.6	(13.3)	1.0
Net loss/(gain) on available for sale investments	0.1	0.7	(18.3)	29.5
Net gain on revaluation of land and buildings	(0.1)	-	-	-
Actuarial (gain)/loss on superannuation defined benefits plan	(0.1)	0.4	(0.1)	0.4
Income tax charged or credited in equity	**(13.8)**	**1.7**	**(31.7)**	**30.9**
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:				
Accounting profit before income tax	628.3	606.9	460.4	446.5
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	(188.5)	(182.1)	(138.1)	(133.9)
Under/(over) provision in prior years	(0.3)	3.2	(0.2)	3.2
Tax credits and adjustments	1.2	0.8	1.2	0.8
Expenditure not allowable for income tax purposes	(11.6)	(11.6)	(11.1)	(11.6)
Other non assessable income	1.1	0.2	1.0	-
Tax effect of tax credits and adjustments	(0.4)	(0.2)	(0.4)	(0.2)
De-recognition of temporary differences	(0.1)	(1.9)	(0.1)	(1.9)
Other	(0.1)	0.3	(0.3)	0.2
Income tax expense reported in the income statement	**(198.7)**	**(191.3)**	**(148.0)**	**(143.4)**

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

	Group 2017 $m	Group 2016 $m	Bank 2017 $m	Bank 2016 $m
Gross deferred tax liabilities				
Available for sale financial assets	0.2	0.2	(0.6)	0.1
Deferred expenses	2.4	1.6	2.4	1.6
Derivatives	11.0	17.5	42.3	80.9
Intangible assets on acquisition	5.1	10.4	3.4	5.8
Investment property	88.7	68.8	-	-
Other	19.2	16.2	18.4	15.7
	126.6	**114.7**	**65.9**	**104.1**

4 Income tax expense (continued)

Deferred income tax (continued)

	Group 2017 $m	Group 2016 $m	Bank 2017 $m	Bank 2016 $m
Gross deferred tax assets				
Derivatives	15.4	32.0	21.0	31.7
Employee benefits	32.6	28.9	31.6	27.7
Available for sale financial assets	-	-	-	19.1
Provisions	48.2	60.5	44.8	47.9
Other	14.6	10.4	10.6	6.2
	110.8	**131.8**	**108.0**	**132.6**
Tax payable attributable to members of the tax consolidated group	21.5	34.5	21.5	34.5
	21.5	**34.5**	**21.5**	**34.5**

At 30 June 2017, there is no unrecognised deferred income tax liability (2016: Nil) for taxes that would be payable on the unremitted earnings of certain Group's subsidiaries or joint ventures, as the Group has no liability for additional taxation should such amounts be remitted.

Recognition and measurement

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

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

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

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

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

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

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

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

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

5 Segment results

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

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

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

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

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

Types of products and services

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

Partner connection
Contains all partner distribution channels, including mortgage brokers, mortgage managers, mortgage originators, Alliance Partners, Homesafe, Leveraged, portfolio funding, financial planning, wealth management, responsible entity activities, other trustee services and custodial services. The partner connection segment is a combination of the third party and wealth cash generating units.

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

Central functions
Functions not relating directly to a reportable operating segment.

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

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

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

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

For the year ended 30 June 2017	Operating segments			Total operating segments	Central functions	Total
	Local connection	Partner connection	Agri-business			
	$m	$m	$m	$m	$m	$m
Net interest income	765.0	282.9	165.7	1,213.6	-	1,213.6
Other income	178.5	186.5	8.4	373.4	22.5	395.9
Total segment income	**943.5**	**469.4**	**174.1**	**1,587.0**	**22.5**	**1,609.5**
Operating expenses	(630.1)	(189.6)	(78.8)	(898.5)	(10.9)	(909.4)
Credit expenses	(32.0)	(35.6)	(4.2)	(71.8)	-	(71.8)
Segment result (before tax expense)	**281.4**	**244.2**	**91.1**	**616.7**	**11.6**	**628.3**
Tax expense	(89.0)	(77.2)	(28.8)	(195.0)	(3.7)	(198.7)
Segment result (statutory basis)	**192.4**	**167.0**	**62.3**	**421.7**	**7.9**	**429.6**
Cash basis adjustments:						
Specific income & expense items	0.5	(44.7)	3.7	(40.5)	5.7	(34.8)
Other specific items	-	11.1	-	11.1	-	11.1
Amortisation of intangibles	4.6	3.1	4.7	12.4	-	12.4
Segment result (cash basis)	**197.5**	**136.5**	**70.7**	**404.7**	**13.6**	**418.3**

5 Segment results (continued)

For the year ended 30 June 2016	Operating segments			Total operating segments	Central functions	Total
	Local connection	Partner connection	Agri-business			
	$m	$m	$m	$m	$m	$m
Net interest income	741.8	259.0	163.3	1,164.1	-	1,164.1
Other income	189.3	166.0	8.7	364.0	26.5	390.5
Total segment income	**931.1**	**425.0**	**172.0**	**1,528.1**	**26.5**	**1,554.6**
Operating expenses	(634.7)	(191.6)	(77.3)	(903.6)	-	(903.6)
Credit expenses	(17.6)	(16.9)	(9.6)	(44.1)	-	(44.1)
Segment result (before tax expense)	**278.8**	**216.5**	**85.1**	**580.4**	**26.5**	**606.9**
Tax expense	(87.3)	(67.6)	(26.6)	(181.5)	(9.8)	(191.3)
Segment result (statutory basis)	**191.5**	**148.9**	**58.5**	**398.9**	**16.7**	**415.6**
Cash basis adjustments:						
Specific income & expense items	1.1	(35.5)	4.9	(29.5)	(5.4)	(34.9)
Other specific items	-	7.0	-	7.0	-	7.0
Amortisation of intangibles	4.5	4.5	4.7	13.7	-	13.7
Segment result (cash basis)	**197.1**	**124.9**	**68.1**	**390.1**	**11.3**	**401.4**

Reportable segment assets and liabilities	Operating segments			Total operating segments	Central functions	Total
	Local connection	Partner connection	Agri-business			
	$m	$m	$m	$m	$m	$m
For the year ended 30 June 2017						
Reportable segment assets	33,453.6	21,522.8	6,265.9	**61,242.3**	10,173.2	**71,415.5**
Reportable segment liabilities	42,849.6	5,598.0	3,873.4	**52,321.0**	9,188.7	**61,509.7**
For the year ended 30 June 2016						
Reportable segment assets	31,728.3	19,873.4	5,964.0	**57,565.7**	11,007.0	**68,572.7**
Reportable segment liabilities	40,924.0	5,418.9	3,592.6	**49,935.5**	9,699.4	**59,634.9**

	As at June 2017	As at June 2016
Total assets for operating segments	71,415.5	68,572.7
Total assets	**71,415.5**	**68,572.7**
Total liabilities for operating segments	61,509.7	59,634.9
Notes payable	4,480.2	3,822.5
Total liabilities	**65,989.9**	**63,457.4**

6 Earnings per ordinary share

	Group 2017	Group 2016
	Cents per share	Cents per share
Basic	90.9	90.4
Diluted	82.9	81.3
Cash basis	88.5	87.3

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

Reconciliation of earnings used in the calculation of earnings per ordinary share	2017 $m	2016 $m
Net profit after tax	429.6	415.6
Total basic earnings	**429.6**	**415.6**
Earnings used in calculating basic earnings per ordinary share	429.6	415.6
Add back: dividends accrued and/or paid on dilutive convertible preference shares	25.2	26.4
Total diluted earnings	**454.8**	**442.0**
Earnings used in calculating basic earnings per ordinary share	429.6	415.6
Add back: amortisation of acquired intangibles (after tax)	12.4	13.7
Add back: specific income and expense items (after tax)	(34.8)	(34.9)
Add back: other specific items (after tax)	11.1	7.0
Total cash earnings	**418.3**	**401.4**
Specific income and expense items after tax comprise:		
Items included in interest income		
Fair value adjustments - interest expense	(1.8)	(3.2)
Homesafe funding costs - unrealised	(11.1)	(10.9)
Total specific net interest income items	**(12.9)**	**(14.1)**
Items included in non interest income		
Hedge ineffectiveness	(5.6)	5.5
Profit on sale of Estates business	2.7	-
Homesafe Trust - revaluation income	63.3	55.8
Total specific non interest income items	**60.4**	**61.3**
Items included in operating expenses		
Integration costs	(9.2)	(7.8)
Impairment reversal/(charge)	1.0	(2.1)
Litigation costs	(4.4)	(1.0)
Total specific operating expense items	**(12.6)**	**(10.9)**
Items included in income tax expense		
Tax impacts relating to prior year impairment losses	(0.1)	(1.4)
Total specific income tax expense	**(0.1)**	**(1.4)**
Total specific items attributable to the Group	**34.8**	**34.9**
Other specific items		
Homesafe revaluation gain - realised	16.8	11.6
Homesafe funding costs - realised	(5.7)	(4.6)
Total other specific items attributable to the Group	**11.1**	**7.0**

6 Earnings per ordinary share (continued)

Weighted average number of ordinary shares	Group 2017 No. of shares	Group 2016 No. of shares
Weighted average number of ordinary shares (basic)	472,415,559	459,536,374
Effect of dilution - executive performance rights	841,381	1,054,939
Effect of dilution - convertible preference shares	75,639,421	83,071,324
Weighted average number of ordinary shares (diluted)	**548,896,361**	**543,662,637**

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

	Dilutive 2017	Dilutive 2016
Convertible preference shares	Yes	Yes
Executive performance rights	Yes	Yes
Subordinated Note (with non viability clause)	No	No

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

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

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

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

Significant accounting judgments, estimates and assumptions

Cash earnings
Cash earnings is a non-IFRS financial measure. It is considered by management to be a key indicator of the underlying performance of the core business activities of the Group. The basis for determining cash earnings is the net profit after tax, adjusted for specific items after tax, acquired intangibles amortisation after tax, and distributions for preference share/step up preference shares.

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

7 Dividends

Dividends paid or proposed

Ordinary shares (ASX:BEN)	Group 2017 Date paid	Group 2017 Cents per share ¢	Group 2017 Total amount $m	Group 2016 Date paid	Group 2016 Cents per share ¢	Group 2016 Total amount $m	Bank 2017 Date paid	Bank 2017 Cents per share ¢	Bank 2017 Total amount $m	Bank 2016 Date paid	Bank 2016 Cents per share ¢	Bank 2016 Total amount $m
Dividends paid during the year:												
Interim dividend	Mar 2017	34.0	156.3	Mar 2016	34.0	153.6	Mar 2017	34.0	156.3	Mar 2016	34.0	153.6
Final dividend	Sept 2016	34.0	155.1	Sept 2015	33.0	147.2	Sept 2016	34.0	155.1	Sept 2015	33.0	147.2
		68.0	**311.4**		**67.0**	**300.8**		**68.0**	**311.4**		**67.0**	**300.8**
Dividends proposed since the reporting date, but not recognised as a liability:												
Final dividend	Sept 2017	34.0	158.4				Sept 2017	34.0	158.4			

All dividends paid were fully franked at 30% (2016: 30%). Proposed dividends will be fully franked at 30% (2016: 30%) out of existing franking credits or out of franking credits arising from payment of income tax provided for in the financial statements for the year ended 30 June 2017.

	Group 2017 Date paid	Group 2017 Cents per share ¢	Group 2017 Total amount $m	Group 2016 Date paid	Group 2016 Cents per share ¢	Group 2016 Total amount $m	Bank 2017 Date paid	Bank 2017 Cents per share ¢	Bank 2017 Total amount $m	Bank 2016 Date paid	Bank 2016 Centsper share ¢	Bank 2016 Total amount $m
Convertible preference shares (recorded as debt instruments) (ASX:BENPD)												
Dividends paid during the year:												
	Dec 2016	249.56	6.7	Dec 2015	253.52	6.8	Dec 2016	249.56	6.7	Dec 2015	253.52	6.8
	Jun 2017	244.33	6.6	Jun 2016	261.46	7.0	Jun 2017	244.33	6.6	Jun 2016	261.46	7.0
		493.89	**13.3**		**514.98**	**13.8**		**493.89**	**13.3**		**514.98**	**13.8**
Convertible preference shares (CPS2) (recorded as debt instruments) (ASX:BENPE)												
Dividends paid during the year:												
	Nov 2016	187.73	5.5	Nov 2015	189.53	5.5	Nov 2016	187.73	5.5	Nov 2015	189.53	5.5
	May 2017	180.85	5.3	May 2016	194.42	5.7	May 2017	180.85	5.3	May 2016	194.42	5.7
		368.58	**10.8**		**383.95**	**11.2**		**368.58**	**10.8**		**383.95**	**11.2**
Convertible preference shares (CPS3) (recorded as debt instruments) (ASX:BENPF)												
Dividends paid during the year:												
	Dec 2016	215.84	6.1	Dec 2015	219.82	6.2	Dec 2016	215.84	6.1	Dec 2015	219.82	6.2
	Jun 2017	209.42	5.9	Jun 2016	226.72	6.4	Jun 2017	209.42	5.9	Jun 2016	226.72	6.4
		425.26	**12.0**		**446.54**	**12.6**		**425.26**	**12.0**		**446.54**	**12.6**

7 Dividends (continued)

Dividend franking account	Group 2017 $m	Group 2016 $m
Balance of franking account as at the end of the financial year	392.7	345.1
Franking credits that will arise from the payment of income tax provided for in the financial report	18.8	34.5
Impact of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution of equity holders during the period	(68.7)	(67.6)
Closing balance	**342.8**	**312.0**

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

	Group 2017 $m	Group 2016 $m	Bank 2017 $m	Bank 2016 $m
Paid in cash [1]	217.2	237.8	217.2	237.8
Satisfied by issue of shares [2]	94.2	63.0	94.2	63.0
	311.4	**300.8**	**311.4**	**300.8**

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

Dividend Reinvestment Plan
The Dividend Reinvestment Plan provides shareholders with the opportunity of converting their entitlement from a dividend into new shares. The issue price of the shares is equal to the volume weighted average share price of Bendigo and Adelaide Bank shares traded on the Australian Securities Exchange over the seven trading days commencing 8 September 2017 at a discount of 1.5%. Shares issued under this Plan rank equally with all other ordinary shares.

Bonus Share Scheme
The Bonus Share Scheme provides shareholders with the opportunity to elect to receive a number of bonus shares issued for no consideration instead of receiving a dividend. The issue price of the shares is equal to the volume weighted average share price of Bendigo and Adelaide Bank shares traded on the Australian Securities Exchange over the seven trading days commencing 8 September 2017 at a discount of 1.5%. 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 2017 final dividend was 7 September 2017.

Lending

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

8 Loans and other receivables

		Group		Bank	
		2017	2016	2017	2016
	Note	$m	$m	$m	$m
Loans and other receivables - investments		76.6	197.7	92.2	197.7
Overdrafts		3,125.0	3,600.6	3,114.4	3,590.3
Credit cards		339.8	288.4	339.8	288.4
Term loans		54,901.0	50,937.5	51,528.2	47,713.3
Margin lending		1,726.1	1,742.4	-	-
Lease receivables		549.2	487.9	438.0	396.3
Factoring receivables		91.1	99.3	91.1	99.3
Other		119.2	117.6	119.2	117.6
Gross loans and other receivables		**60,928.0**	**57,471.4**	**55,722.9**	**52,402.9**
Specific provision	9	(89.5)	(125.3)	(75.8)	(87.0)
Collective provision	9	(52.7)	(53.4)	(49.0)	(49.4)
Unearned income		(79.3)	(106.5)	(52.6)	(53.2)
Total provisions and unearned income		**(221.5)**	**(285.2)**	**(177.4)**	**(189.6)**
Deferred costs paid		70.1	70.6	65.9	67.3
Net loans and other receivables		**60,776.6**	**57,256.8**	**55,611.4**	**52,280.6**
Maturity analysis[1]					
At call / overdrafts		5,875.8	7,952.1	4,709.5	6,007.0
Not longer than 3 months		1,918.5	1,307.1	1,008.3	991.6
Longer than 3 and not longer than 12 months		2,085.9	2,075.7	1,737.7	1,704.2
Longer than 1 and not longer than 5 years		9,086.0	7,488.5	6,587.2	5,283.4
Longer than 5 years		41,961.8	38,648.0	41,680.2	38,416.7
		60,928.0	**57,471.4**	**55,722.9**	**52,402.9**

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

Recognition and measurement

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

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

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

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

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

9 Impairment of loans and advances

	Group		Bank	
	2017	2016	2017	2016
Summary of impaired financial assets	$m	$m	$m	$m
Impaired loans				
Loans - without provisions	79.7	68.7	28.7	19.9
Loans - with provisions	155.7	235.0	134.4	148.7
Restructured loans	47.2	46.5	42.1	43.1
Less: specific provisions	(88.5)	(124.4)	(74.8)	(86.1)
Net impaired loans	**194.1**	**225.8**	**130.4**	**125.6**
Net impaired loans % of net loans and other receivables	0.32%	0.39%	0.23%	0.24%
Portfolio facilities - past due 90 days, not well secured	5.8	4.8	5.0	4.4
Less: specific provisions	(1.0)	(0.9)	(1.0)	(0.9)
Net portfolio facilities	**4.8**	**3.9**	**4.0**	**3.5**
Loans past due 90 days				
Accruing loans past due 90 days, with adequate security balance	519.0	574.4	439.6	462.9
Net fair value of properties acquired through the enforcement of security	75.2	78.2	69.6	73.4

	Group		Bank	
	2017	2016	2017	2016
Summary of provisions	$m	$m	$m	$m
Specific provision				
Opening balance	125.3	116.8	87.0	79.3
Released to income statement	72.1	58.1	64.6	47.9
Impaired debts written off applied to specific provision	(107.9)	(49.6)	(75.8)	(40.2)
Closing balance	**89.5**	**125.3**	**75.8**	**87.0**
Collective provision				
Opening balance	53.4	59.0	49.4	52.8
Released to income statement	(0.7)	(5.6)	(0.4)	(3.4)
Closing balance	**52.7**	**53.4**	**49.0**	**49.4**
General reserve for credit losses (GRCL)				
Opening balance	146.9	146.9	128.3	128.3
Released to equity	(6.6)	-	(6.6)	-
Closing balance	**140.3**	**146.9**	**121.7**	**128.3**
Total provisions and reserve	**282.5**	**325.6**	**246.5**	**264.7**
Ratios				
Specific provision as % of gross loans	0.15%	0.22%		
Total provisions and reserves as % of gross loans	0.46%	0.57%		
Collective provision and general reserve for credit losses as a % of risk-weighted assets	0.51%	0.55%		
Provision coverage [1]	100.00%	93.00%		

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

9 Impairment of loans and advances (continued)

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

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

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

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

Specific provision
A specific provision is recognised for all impaired loans when there is reasonable doubt over the 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, where provisions are calculated based on historical loss experience.

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

General reserve for credit losses
The Australian Prudential Regulation Authority (APRA) requires that banks maintain a general reserve for credit losses to cover risks inherent in loan portfolios. In certain circumstances the collective provision can be included in this assessment.

Movements in the general reserve for credit losses are recognised as an appropriation from retained earnings.

Funding and capital management

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

10 Deposits and notes payable

	Group		Bank	
	2017	2016	2017	2016
	$m	$m	$m	$m
Retail				
At call	23,100.6	22,045.4	21,595.1	20,161.8
Term	20,441.3	19,499.5	19,884.2	19,499.5
Financial Markets	7,201.2	6,900.4	5,727.9	5,516.9
Total retail deposits	**50,743.1**	**48,445.3**	**47,207.2**	**45,178.2**
Wholesale				
Domestic	7,446.8	8,179.2	7,445.5	8,177.9
Offshore	582.4	430.2	582.4	430.2
Total wholesale deposits	**8,029.2**	**8,609.4**	**8,027.9**	**8,608.1**
Total deposits	**58,772.3**	**57,054.7**	**55,235.1**	**53,786.3**
Deposits by geographic location				
Victoria	25,724.7	24,127.4	25,032.9	23,411.8
New South Wales	15,252.4	15,450.9	13,963.3	14,328.7
Australian Capital Territory	1,288.8	1,458.0	1,242.1	1,350.5
Queensland	5,425.8	5,139.5	5,088.7	4,831.9
South Australia/Northern Territory	5,940.5	5,569.7	5,286.9	5,021.2
Western Australia	3,552.9	3,564.2	3,124.0	3,188.5
Tasmania	1,080.9	1,105.9	994.3	1,018.6
Overseas	506.3	639.1	502.9	635.1
Total deposits	**58,772.3**	**57,054.7**	**55,235.1**	**53,786.3**
Total notes payable	**4,480.2**	**3,822.5**	**503.5**	**502.2**

Recognition and measurement

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

For liabilities carried at amortised cost, gains and losses are recognised in the income statement when the liabilities are de-recognised.

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

11 Convertible preference shares

	Group		Bank	
	2017	2016	2017	2016
	$m	$m	$m	$m
CPS (ASX Code:BENPD)				
Nov 12: 2,688,703 fully paid $100 Convertible preference shares	268.9	268.9	268.9	268.9
Unamortised issue costs	(0.7)	(3.1)	(0.7)	(3.1)
	268.2	**265.8**	**268.2**	**265.8**
CPS2 (ASX Code:BENPE)				
Oct 14: 2,921,188 fully paid $100 Convertible preference shares	292.1	292.1	292.1	292.1
Unamortised issue costs	(5.9)	(7.6)	(5.9)	(7.6)
	286.2	**284.5**	**286.2**	**284.5**
CPS3 (ASX Code:BENPF)				
June 15: 2,822,108 fully paid $100 Convertible preference shares	282.2	282.2	282.2	282.2
Unamortised issue costs	(6.5)	(8.1)	(6.5)	(8.1)
	275.7	**274.1**	**275.7**	**274.1**
Total convertible preference shares	**830.1**	**824.4**	**830.1**	**824.4**

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

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

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

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

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

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

12 Subordinated debt

	Group		Bank	
	2017	2016	2017	2016
	$m	$m	$m	$m
Subordinated debt	**708.7**	**583.4**	**698.7**	**573.4**
Maturity analysis				
Not longer than 3 months	-	-	-	-
Longer than 3 and not longer than 12 months	-	-	-	-
Longer than 1 and not longer than 5 years	260.6	260.7	250.6	250.7
Over 5 years	448.1	322.7	448.1	322.7
	708.7	**583.4**	**698.7**	**573.4**

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

Subordinated debt instruments are initially recognised at cost, being the fair value of the consideration received, less charges associated with the issue of the instrument.

They are subsequently measured at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

13 Securitisation and transferred assets

Group	Repurchase agreements 2017 $m	Repurchase agreements 2016 $m	Securitisation 2017 $m	Securitisation 2016 $m
Carrying amount of transferred assets [1]	521.8	520.3	3,902.1	3,149.1
Carrying amount of associated liabilities [2]	521.8	520.3	3,934.5	3,296.3
Fair value of transferred assets			3,896.4	3,130.9
Fair value of associated liabilities			3,946.9	3,285.1
Net Position			**(50.4)**	**(154.2)**

Bank	Repurchase agreements 2017 $m	Repurchase agreements 2016 $m	Securitisation 2017 $m	Securitisation 2016 $m
Carrying amount of transferred assets	503.5	502.2	8,134.5	8,989.9
Carrying amount of associated liabilities [3]	503.5	502.2	8,397.5	9,430.6
Fair value of transferred assets			8,113.5	8,952.5
Fair value of associated liabilities			8,407.1	9,354.9
Net Position			**(293.5)**	**(402.4)**

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

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

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

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

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

Securitised and sold loans

The Bank securitised loans totalling $1,939.4 million (2016: $2,876.4 million) during the financial year. The Group invests in some of its own securitisation programs by holding A and B class notes equivalent to $4,960.1 million as at 30 June 2017 (2016: $6,617.7 million).

14 Standby arrangements and uncommitted credit facilities

	Group 2017 $m	Group 2016 $m	Bank 2017 $m	Bank 2016 $m
Amount available:				
Offshore borrowing facility	10,866.2	10,988.1	10,866.2	10,988.1
Domestic note program	6,000.0	6,000.0	5,000.0	5,000.0
Amount utilised:				
Offshore borrowing facility	583.2	426.3	583.2	426.3
Domestic note program	3,416.4	3,987.9	3,405.0	3,976.5
Amount not utilised:				
Offshore borrowing facility	10,283.0	10,348.1	10,283.0	10,348.1
Domestic note program	2,583.6	2,012.1	1,595.0	1,023.5

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

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

The offshore funding facilities include Euro medium term notes and Euro commercial paper. The Euro commercial paper programmes are utilised to satisfy short term funding requirements. They represent unsubordinated and unsecured obligations.

The funding is issued in both Australian and foreign denominations. The instruments may be issued at a discount, or bear interest on a fixed or floating rate basis.

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

15 Capital management

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

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

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

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

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

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

Common Equity Tier 1 capital primarily consists of shareholders equity less goodwill and other prescribed adjustments.

Tier 1 capital is comprised of Common Equity Tier 1 plus other highly ranked capital instruments acceptable to APRA.

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

Total capital is the aggregate of Tier 1 and Tier 2 capital. The Group has adopted the Standardised Approach to credit risk, operational risk and market risk, which requires the Group to determine capital requirements based on standards set by APRA. The Group has satisfied the minimum capital requirements at Levels 1 and 2 throughout the 2016/17 financial year.

16 Share capital

	Group		Bank	
	2017	2016	2017	2016
Issued and paid up capital	$m	$m	$m	$m
Ordinary shares (ASX Code: BEN) fully paid - 479,206,464 (2016: 463,762,656)	4,456.7	4,298.4	4,456.7	4,298.4
Employee Share Ownership Plan	(8.0)	(10.2)	(8.0)	(10.2)
	4,448.7	**4,288.2**	**4,448.7**	**4,288.2**
Movements in ordinary shares on issue				
Opening balance 1 July - 463,762,656 (2016: 456,566,225)	4,298.4	4,235.4	4,298.4	4,235.4
Shares issued under:				
Bonus share scheme - 436,024 @ 11.46 , 253,203 @ $10.04				
(2016: 330,292 @ $10.64; 267,943 @ $9.05)	-	-	-	-
Dividend reinvestment plan - 4,212,626 @ $11.46; 4,568,195 @ $10.04				
(2016: 2,031,453 @ $10.64; 4,566,743 @ $9.05)	94.2	63.0	94.2	63.0
Share purchase plan - 5,769,074 @ $10.75 (2016: Nil)	62.0	-	62.0	-
Employee share plan - 204,686 @ $11.94 (2016: Nil)	2.4	-	2.4	-
Share issue costs	(0.3)	-	(0.3)	-
Closing balance 30 June - 479,206,464 (2016: 463,762,656)	**4,456.7**	**4,298.4**	**4,456.7**	**4,298.4**
Movements in Employee Share Ownership Plan				
Opening balance	(10.2)	(11.8)	(10.2)	(11.8)
Reduction in Employee Share Ownership Plan	2.2	1.6	2.2	1.6
Closing balance	**(8.0)**	**(10.2)**	**(8.0)**	**(10.2)**
Total issued and paid up capital	**4,448.7**	**4,288.2**	**4,448.7**	**4,288.2**

Nature of issued capital

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

Recognition and measurement
Ordinary shares, preference shares and step up preference shares are classified as equity. Issued ordinary capital, preference and step up preference shares are recognised at the fair value of the consideration received net of transaction costs (net of any tax benefit). Dividends are recognised as a distribution from equity in the year that they are declared.

Employee Share Ownership Plan is the value of loans outstanding in relation to shares issued to employees under this plan and effectively represents the unpaid portion of the issued shares.

17 Retained earning and reserves

Retained earnings

	Group		Bank	
	2017	2016	2017	2016
Movements	$m	$m	$m	$m
Opening balance	739.2	623.1	240.8	236.7
Profit for the year	429.6	415.6	312.4	303.1
Share based payment	0.4	3.5	0.4	3.5
Prior year restatement	-	(1.2)	-	(1.2)
Movements in general reserve for credit losses	6.6	-	6.6	-
Dividends	(311.4)	(300.8)	(311.4)	(300.8)
Deregistration of subsidiary company	-	-	5.0	0.5
Defined benefits actuarial adjustment	0.3	(1.4)	0.3	(1.4)
Tax effect of defined benefits actuarial adjustment	(0.1)	0.4	(0.1)	0.4
Closing balance	**864.6**	**739.2**	**254.0**	**240.8**

Reserves

Movements				
Employee benefits reserve				
Opening balance	10.3	14.4	10.3	14.4
Net decrease in reserve	(0.8)	(4.1)	(0.8)	(4.1)
Closing balance	**9.5**	**10.3**	**9.5**	**10.3**
Asset revaluation reserve - property				
Opening balance	1.3	1.3	0.4	0.4
Net revaluation increments	0.3	-	0.1	-
Tax effect of net revaluation increments	(0.1)	-	-	-
Closing balance	**1.5**	**1.3**	**0.5**	**0.4**
Asset revaluation reserve - available for sale equity securities				
Opening balance	1.5	1.6	1.2	1.2
Revaluation decrements	(1.6)	(0.1)	(1.7)	-
Tax effect of revaluation decrements	0.5	-	0.5	-
Closing balance	**0.4**	**1.5**	**-**	**1.2**
Asset revaluation reserve - available for sale debt securities				
Opening balance	(0.9)	0.6	(45.4)	23.3
Net unrealised gain/(loss)	0.9	(3.3)	62.4	(99.3)
Transfer to income on sale of available for sale assets	0.3	1.1	0.3	1.1
Tax effect of net unrealised gains/(losses)	(0.4)	0.7	(18.8)	29.5
Closing balance	**(0.1)**	**(0.9)**	**(1.5)**	**(45.4)**
Operational risk reserve				
Opening balance	1.8	1.8	-	-
Closing balance	**1.8**	**1.8**	**-**	**-**
Cash flow hedge reserve				
Opening balance	(52.6)	(51.2)	(51.1)	(48.8)
Changes due to mark to market	45.6	(2.0)	44.3	(3.3)
Tax effect of changes due to mark to market	(13.7)	0.6	(13.3)	1.0
Closing balance	**(20.7)**	**(52.6)**	**(20.1)**	**(51.1)**

17 Retained earning and reserves (continued)

Reserves (continued)	Group		Bank	
	2017	2016	2017	2016
Movements (continued)	$m	$m	$m	$m
General reserve for credit losses (GRCL)				
Opening balance	146.9	146.9	128.3	128.3
Increase/(decrease) in GRCL	(6.6)	-	(6.6)	-
Closing balance	**140.3**	**146.9**	**121.7**	**128.3**
Acquisition reserve				
Opening balance	(20.4)	(20.4)	-	-
Closing balance	**(20.4)**	**(20.4)**	**-**	**-**
Total reserves	**112.3**	**87.9**	**110.1**	**43.7**

Nature and purpose of reserves

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

Asset revaluation reserve - property
The reserve records revaluation adjustments on the Group's property assets.

Asset revaluation reserve - available for sale - equity investments and debt securities
The reserve records fair value changes on available for sale assets.

Operational risk reserve
The reserve is required to meet Sandhurst Trustees Limited licence requirements.

Cash flow hedge reserve
The reserve records the portion of gain or loss on the derivatives that are determined to be in an effective cash flow hedge relationship.

General reserve for credit losses
APRA Prudential standard, APS 220 *Credit Quality*, requires a reserve to be held to recognise estimated future credit losses which may arise over the life of the Group's lending portfolio.

Acquisition reserve
The reserve records the difference between the carrying value of the non-controlling interest and the consideration paid to acquire the remaining interest of the non-controlling interest.

Treasury and investments

This section covers the financial instruments held by the Group including: financial instruments, derivatives, investments accounted for using the equity method (joint arrangements and associates) and investment property. This section outlines how the fair value of financial instruments is determined and the associated methodology.

Classification of financial instruments

Financial instruments are classified into one of five categories, which determine the accounting treatment.

The classification depends on the purpose for which the instruments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

The classifications are:

- Loans and receivables (refer Lending Section)
- Held for trading
- Available for sale
- Held to maturity
- Non-trading liabilities (refer Treasury and Funding Section)

18 Financial assets held for trading

	Group		Bank	
	2017	2016	2017	2016
	$m	$m	$m	$m
Discount securities	2,126.0	3,377.2	2,126.3	3,377.5
Floating rate notes	232.3	-	232.3	-
Government securities	3,299.3	2,991.9	3,299.3	2,991.9
Total financial assets held for trading	**5,657.6**	**6,369.1**	**5,657.9**	**6,369.4**
Maturity analysis				
Not longer than 3 months	2,092.7	1,685.5	2,092.7	1,685.5
Longer than 3 and not longer than 12 months	496.7	2,091.3	496.7	2,091.3
Longer than 1 and not longer than 5 years	2,398.2	2,592.3	2,398.2	2,592.6
Over 5 years	670.0	-	670.3	-
	5,657.6	**6,369.1**	**5,657.9**	**6,369.4**

Recognition and measurement
Financial instruments are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. These financial instruments are measured at fair value with gains and losses recognised in the income statement. Fair value measurement is outlined in Note 22 Financial instruments.

19 Financial assets available for sale

	Group		Bank	
	2017	2016	2017	2016
	$m	$m	$m	$m
Debt securities				
Negotiable certificates of deposit	151.1	118.7	-	-
Mortgage backed securities	60.6	144.7	60.6	144.7
Security deposits	24.9	24.8	24.9	24.8
Securitisation notes	-	-	4,957.9	6,554.0
Liquidity collateral	18.0	34.9	177.1	194.0
Total financial assets available for sale - debt	**254.6**	**323.1**	**5,220.5**	**6,917.5**
Equity investments				
Listed share investments	0.1	2.4	0.1	2.3
Unlisted share investments	31.9	28.0	23.1	21.3
Total financial assets available for sale - equity	**32.0**	**30.4**	**23.2**	**23.6**
Total financial assets available for sale	**286.6**	**353.5**	**5,243.7**	**6,941.1**
Maturity analysis				
Not longer than 3 months	35.0	118.7	-	-
Longer than 3 and not longer than 12 months	127.2	34.5	11.2	34.5
Longer than 1 and not longer than 5 years	49.4	135.1	49.4	135.1
Over 5 years	18.1	34.9	5,135.0	6,748.0
Non-maturing	56.9	30.3	48.1	23.5
	286.6	**353.5**	**5,243.7**	**6,941.1**
Recognised gains/(losses) before tax:				
Gain/(loss) recognised directly in equity	0.9	(3.3)	62.4	(99.3)
Amount removed from equity and recognised in (profit)/loss	0.3	1.1	0.3	1.1

Recognition and measurement
Available for sale investments are non-derivative financial assets that are designated as available for sale or are not categorised into any of the categories under AASB 139 *Financial Instruments: Recognition and Measurement.*

Available for sale investments are measured at fair value with gains and losses recorded in a reserve within equity. Upon disposal or impairment, the accumulated gains or losses recorded in equity are transferred to the income statement.

Fair value measurement is outlined in Note 22 Financial instruments.

20 Financial assets held to maturity

	Group		Bank	
	2017	2016	2017	2016
	$m	$m	$m	$m
Negotiable certificates of deposit	185.0	193.1	-	-
Floating rate notes	122.5	120.2	-	-
Other Deposits	71.1	69.5	65.8	62.6
Total financial assets held to maturity	**378.6**	**382.8**	**65.8**	**62.6**
Maturity analysis				
Not longer than 3 months	195.5	204.5	63.7	60.6
Longer than 3 and not longer than 12 months	107.9	86.0	-	-
Longer than 1 and not longer than 5 years	67.9	84.7	-	1.3
Over 5 years	7.4	7.6	2.1	0.8
	378.7	**382.8**	**65.8**	**62.7**

Classification and measurement
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity where the Group has the positive intention and ability to hold to maturity.

Investments that are held to maturity are measured at amortised cost using the effective interest method. Any discount or premium on acquisition is taken over the period to maturity.

Gains and losses are recognised in the income statement when the investments are sold or impaired.

21 Derivative financial instruments

	Group 2017				Group 2016			
	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	3,334.7	39.9	-	39.9	3,474.5	19.6	-	19.6
Interest rate swaps	20,305.0	16.0	(17.1)	(1.1)	16,842.4	29.4	(22.0)	7.4
Foreign exchange contracts	79.4	0.6	(0.4)	0.2	130.4	0.7	(0.5)	0.2
	23,719.1	**56.5**	**(17.5)**	**39.0**	**20,447.3**	**49.7**	**(22.5)**	**27.2**
Derivatives held as fair value hedges								
Interest rate swaps	13.9	-	(0.9)	(0.9)	15.5	-	(1.6)	(1.6)
Cross currency swaps	156.8	16.3	-	16.3	156.8	22.8	-	22.8
	170.7	**16.3**	**(0.9)**	**15.4**	**172.3**	**22.8**	**(1.6)**	**21.2**
Derivatives held as cash flow hedges								
Interest rate swaps	14,734.0	4.9	(40.6)	(35.7)	19,475.2	6.5	(87.7)	(81.2)
	14,734.0	**4.9**	**(40.6)**	**(35.7)**	**19,475.2**	**6.5**	**(87.7)**	**(81.2)**
Total derivatives	**38,623.8**	**77.7**	**(59.0)**	**18.7**	**40,094.8**	**79.0**	**(111.8)**	**(32.8)**

	Bank 2017				Bank 2016			
	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	3,334.7	39.9	-	39.9	3,474.5	19.6	-	19.6
Interest rate swaps	29,943.0	120.2	(36.7)	83.5	25,995.5	240.8	(23.3)	217.5
Foreign exchange contracts	79.4	0.6	(0.4)	0.2	130.4	0.7	(0.5)	0.2
	33,357.1	**160.7**	**(37.1)**	**123.6**	**29,600.4**	**261.1**	**(23.8)**	**237.3**
Derivatives held as fair value hedges								
Interest rate swaps	13.9	-	(0.9)	(0.9)	15.4	-	(1.6)	(1.6)
Cross currency swaps	156.8	16.3	-	16.3	156.8	22.8	-	22.8
	170.7	**16.3**	**(0.9)**	**15.4**	**172.2**	**22.8**	**(1.6)**	**21.2**
Derivatives held as cash flow hedges								
Interest rate swaps	13,402.1	4.8	(39.6)	(34.8)	18,876.1	6.4	(85.3)	(78.9)
	13,402.1	**4.8**	**(39.6)**	**(34.8)**	**18,876.1**	**6.4**	**(85.3)**	**(78.9)**
Total derivatives	**46,929.9**	**181.8**	**(77.6)**	**104.2**	**48,648.7**	**290.3**	**(110.7)**	**179.6**

21 Derivative financial instruments (continued)

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

Group	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Greater than 5 years
2017	$m	$m	$m	$m	$m	$m
Forecast cash inflows	388.1	229.5	33.9	16.8	7.5	21.4
Forecast cash outflows	(425.7)	(244.8)	(39.5)	(18.5)	(8.0)	(21.1)
Forecast net cash outflows	**(37.6)**	**(15.3)**	**(5.6)**	**(1.7)**	**(0.5)**	**0.3**
2016						
Forecast cash inflows	379.6	127.7	206.6	21.3	11.1	28.2
Forecast cash outflows	(421.8)	(150.2)	(214.8)	(23.0)	(11.3)	(28.3)
Forecast net cash outflows	**(42.2)**	**(22.5)**	**(8.2)**	**(1.7)**	**(0.2)**	**(0.1)**
Bank						
2017						
Forecast cash inflows	359.3	227.7	33.2	16.6	7.5	21.4
Forecast cash outflows	(396.1)	(242.6)	(38.5)	(18.2)	(8.0)	(21.1)
Forecast net cash outflows	**(36.8)**	**(14.9)**	**(5.3)**	**(1.6)**	**(0.5)**	**0.3**
2016						
Forecast cash inflows	369.3	125.0	206.2	21.3	11.1	28.2
Forecast cash outflows	(409.6)	(147.0)	(214.3)	(23.0)	(11.3)	(28.3)
Forecast net cash outflows	**(40.3)**	**(22.0)**	**(8.1)**	**(1.7)**	**(0.2)**	**(0.1)**

	Group		Bank	
	2017	2016	2017	2016
Net gains /(losses) arising from hedge ineffectiveness	$m	$m	$m	$m
Gains/ (losses) arising from fair value hedges				
Gains/(losses) on hedging instruments	(5.9)	(1.7)	(5.9)	(1.7)
Gains/(losses) on the hedged items attributable to the hedged risk	3.8	4.0	3.8	4.0
Gains on cash flow hedges				
Gains on cash flow hedges	-	-	-	-
Gains on hedges, (not in a hedge accounting relationship)				
Gains on hedges	(6.0)	5.6	(6.0)	5.6
	(8.1)	**7.9**	**(8.1)**	**7.9**

Nature and purpose
The Group uses derivative financial instruments primarily to manage risk, including interest rate risk and foreign currency rate risk. Note 29 Risk management outlines the risk management framework that the Group applies.

Recognition and measurement
Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured on a monthly basis. Any gains and losses arising from a change in fair value of the derivative, except for those that qualify as cash flow hedges, are taken directly to the income statement. All derivatives are classified as Level 2 Investments and the valuation methodology is outlined in Note 22 Financial instruments.

21 Derivative financial instruments (continued)

Recognition and measurement (continued)

Hedge accounting
A hedge relationship is established whereby a hedging instrument (derivative) is identified as offsetting changes in the fair value or cash flows of a hedged item (asset or liability). The Group formally designates and documents the hedge relationship, including the risk management strategy for undertaking the hedge. This includes the identification of the hedge instrument, hedge item, the nature of the risk and how effectiveness will be tested. Testing is completed on a monthly basis both retrospectively and prospectively.

Derivatives that meet the hedge accounting criteria are able to be accounted for as either a fair value hedge or a cashflow hedge.

Fair value hedges
Fair value hedges principally consist of interest rate swaps and cross currency swaps that are used to protect against changes in the fair value of fixed rate long term financial instruments due to movements in interest rates and exchange rates. Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, along with changes in the fair value of the hedged item. If a hedge relationship no longer meets the criteria for hedge accounting, then hedge accounting is discontinued. The cumulative adjustment to the hedge item is amortised to the income statement over the remaining period until maturity.

Cashflow hedges
Cashflow hedges consist principally of interest rate swaps that are used to protect against exposures to movements in future interest cash flows on assets and liabilities which bear interest at variable rates.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts in the cash flow hedge reserve are recognised in the income statement in the periods when the hedged item is recognised in profit or loss.

Offsetting financial assets and financial liabilities
The Group presents its derivative assets and liabilities on a gross basis.

Derivative financial instruments entered into by the Group are subject to International Swaps and Derivatives Association (ISDA) master netting agreements and other similar master netting arrangements. These arrangements do not meet the criteria for offsetting in the balance sheet. This is because they create for the parties to the agreement a right of set-off, of recognised amounts that are only enforceable following an event of default, insolvency or bankruptcy of the Group, or the counterparties, or following other predetermined events. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The following table sets out the effect of netting arrangements on derivative financial assets and derivative financial liabilities if they were to be applied:

	Group			
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
	2017		2016	
	$m	$m	$m	$m
Amounts subject to enforceable master netting or similar agreements				
Amounts of recognised financial assets/liabilities reported on the balance sheet	37.4	58.8	58.9	111.6
Related amounts not set-off on the balance sheet				
Financial collateral (received)/pledged	(8.8)	(50.3)	(17.1)	(91.2)
Net amount	**28.6**	**8.5**	**41.8**	**20.4**
Financial assets/liabilities not subject to enforceable master netting or similar agreements	40.3	0.2	20.1	0.2
Total financial assets/liabilities recognised on the balance sheet	**77.7**	**59.0**	**79.0**	**111.8**

21 Derivative financial instruments (continued)

Offsetting financial assets and financial liabilities (continued)

	Bank			
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
	2017		2016	
	$m	$m	$m	$m
Amounts subject to enforceable master netting or similar agreements				
Amounts of recognised financial assets/liabilities reported on the balance sheet	141.5	77.4	270.2	110.5
Related amounts not set-off on the balance sheet				
Financial collateral (received)/pledged	(8.8)	(50.3)	(17.1)	(91.2)
Net amount	**132.7**	**27.1**	**253.1**	**19.3**
Financial assets/liabilities not subject to enforceable master netting or similar agreements	40.3	0.2	20.1	0.2
Total financial assets/liabilities recognised on the balance sheet	**181.8**	**77.6**	**290.3**	**110.7**

For the purpose of this disclosure, financial collateral not set off on the balance sheet have been capped by relevant netting agreements so as not to exceed the net amounts of financial assets/(liabilities) reported on the balance sheet (ie overcollateralisation, where it exists, is not reflected in the tables).

22 Financial instruments

All financial instruments are initially recognised at fair value on the date of initial recognition depending on the classification of the asset and liability. Details of these classifications are included in the introduction to this section (Treasury and Investments).

a) Measurement basis of financial assets and liabilities
The following table details the carrying amount of the financial assets and liabilities by classification on the balance sheet.

	Held at fair value	At fair value through profit and loss	At fair value through reserves	Held at amortised cost		Total
Group	Derivatives	Held for trading	Available for sale	Loans and receivables	Other financial instruments	
2017	$m	$m	$m	$m	$m	$m
Financial assets						
Cash and cash equivalents	-	-	-	-	1,059.6	1,059.6
Due from other financial institutions	-	-	-	-	270.3	270.3
Financial assets held to maturity	-	-	-	-	378.7	378.7
Financial assets held for trading	-	5,657.6	-	-	-	5,657.6
Financial assets available for sale	-	-	286.6	-	-	286.6
Loans and other receivables	-	-	-	60,776.6	-	60,776.6
Derivatives	77.7	-	-	-	-	77.7
Total financial assets	**77.7**	**5,657.6**	**286.6**	**60,776.6**	**1,708.6**	**68,507.1**
Financial liabilities						
Due to other financial institutions	-	-	-	-	328.4	328.4
Deposits	-	-	-	-	58,772.3	58,772.3
Notes payable	-	-	-	-	4,480.2	4,480.2
Derivatives	59.0	-	-	-	-	59.0
Convertible preference shares	-	-	-	-	830.1	830.1
Subordinated debt	-	-	-	-	708.7	708.7
Total financial liabilities	**59.0**	**-**	**-**	**-**	**65,119.7**	**65,178.7**
2016						
Financial assets						
Cash and cash equivalents	-	-	-	-	1,060.0	1,060.0
Due from other financial institutions	-	-	-	-	221.9	221.9
Financial assets held to maturity	-	-	-	-	382.8	382.8
Financial assets held for trading	-	6,369.1	-	-	-	6,369.1
Financial assets available for sale	-	-	353.5	-	-	353.5
Loans and other receivables	-	-	-	57,256.8	-	57,256.8
Derivatives	79.0	-	-	-	-	79.0
Total financial assets	**79.0**	**6,369.1**	**353.5**	**57,256.8**	**1,664.7**	**65,723.1**
Financial liabilities						
Due to other financial institutions	-	-	-	-	294.8	294.8
Deposits	-	-	-	-	57,054.7	57,054.7
Notes payable	-	-	-	-	3,822.5	3,822.5
Derivatives	111.8	-	-	-	-	111.8
Convertible preference shares	-	-	-	-	824.4	824.4
Subordinated debt	-	-	-	-	583.4	583.4
Total financial liabilities	**111.8**	**-**	**-**	**-**	**62,579.8**	**62,691.6**

22 Financial instruments (continued)

	Held at fair value	At fair value through profit and loss	At fair value through reserves	Held at amortised cost		Total
Bank	Derivatives	Held for trading	Available for sale	Loans and receivables	Other financial instruments	
2017	$m	$m	$m	$m	$m	$m
Financial assets						
Cash and cash equivalents	-	-	-	-	885.2	885.2
Due from other financial institutions	-	-	-	-	270.7	270.7
Financial assets held to maturity	-	-	-	-	65.8	65.8
Financial assets held for trading	-	5,657.9	-	-	-	5,657.9
Financial assets available for sale	-	-	5,243.7	-	-	5,243.7
Loans and other receivables	-	-	-	55,611.4	-	55,611.4
Derivatives	181.8	-	-	-	-	181.8
Total financial assets	**181.8**	**5,657.9**	**5,243.7**	**55,611.4**	**1,221.7**	**67,916.5**
Financial liabilities						
Due to other financial institutions	-	-	-	-	328.0	328.0
Deposits	-	-	-	-	55,235.1	55,235.1
Notes payable	-	-	-	-	503.5	503.5
Derivatives	77.6	-	-	-	-	77.6
Convertible preference shares	-	-	-	-	830.1	830.1
Subordinated debt	-	-	-	-	698.7	698.7
Total financial liabilities	**77.6**	**-**	**-**	**-**	**57,595.4**	**57,673.0**
2016						
Financial assets						
Cash and cash equivalents	-	-	-	-	933.0	933.0
Due from other financial institutions	-	-	-	-	221.8	221.8
Financial assets held to maturity	-	-	-	-	62.7	62.7
Financial assets held for trading	-	6,369.4	-	-	-	6,369.4
Financial assets available for sale	-	-	6,941.1	-	-	6,941.1
Loans and other receivables	-	-	-	52,280.6	-	52,280.6
Derivatives	290.3	-	-	-	-	290.3
Total financial assets	**290.3**	**6,369.4**	**6,941.1**	**52,280.6**	**1,217.5**	**67,098.9**
Financial liabilities						
Due to other financial institutions	-	-	-	-	287.1	287.1
Deposits	-	-	-	-	53,786.3	53,786.3
Notes payable	-	-	-	-	502.2	502.2
Derivatives	110.7	-	-	-	-	110.7
Convertible preference shares	-	-	-	-	824.4	824.4
Subordinated debt	-	-	-	-	573.4	573.4
Total financial liabilities	**110.7**	**-**	**-**	**-**	**55,973.4**	**56,084.1**

22 Financial instruments (continued)

b) Fair value measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Wherever possible, fair values have been calculated using unadjusted quoted market prices in active markets for identical instruments. A quoted market price in an active market provides the most reliable evidence of fair value.

For all other financial instruments, the fair value is determined by using other valuation techniques.

Valuation of financial assets and liabilities
Various valuation techniques are used to measure the fair value of financial instruments. The technique adopted is dependent upon the inputs available.

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

- **Level 1** - Quoted market prices
  The fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities.
- **Level 2** - Valuation technique using observable inputs
  The fair value is determined using models whose inputs are observable in an active market.
- **Level 3** - Valuation technique using significant unobservable inputs. The fair value is calculated using significant inputs that are not based on observable market data.

Financial assets and liabilities carried at fair value
The table below details financial instruments carried at fair value, by balance sheet classification and hierarchy level:

Group	Level 1	Level 2	Level 3	Total fair value	Total carrying value
2017	$m	$m	$m	$m	$m
Financial assets					
Financial assets held for trading	-	5,657.6	-	5,657.6	5,657.6
Financial assets available for sale	0.1	263.5	23.0	286.6	286.6
Derivatives	-	77.7	-	77.7	77.7
Financial liabilities					
Derivatives	-	59.0	-	59.0	59.0
2016					
Financial assets					
Financial assets held for trading	-	6,369.1	-	6,369.1	6,369.1
Financial assets available for sale	2.4	329.9	21.2	353.5	353.5
Derivatives	-	79.0	-	79.0	79.0
Financial liabilities					
Derivatives	-	111.8	-	111.8	111.8
Bank					
2017	$m	$m	$m	$m	$m
Financial assets					
Financial assets held for trading	-	5,657.9	-	5,657.9	5,657.9
Financial assets available for sale	0.1	5,220.6	23.0	5,243.7	5,243.7
Derivatives	-	181.8	-	181.8	181.8
Financial liabilities					
Derivatives	-	77.6	-	77.6	77.6
2016					
Financial assets					
Financial assets held for trading	-	6,369.4	-	6,369.4	6,369.4
Financial assets available for sale	2.4	6,917.5	21.2	6,941.1	6,941.1
Derivatives	-	290.3	-	290.3	290.3
Financial liabilities					
Derivatives	-	110.7	-	110.7	110.7

Transfers between levels are deemed to have occurred at the beginning of the reporting period in which instruments are transferred. There were no transfers between levels during the year for the Group or Bank.

22 Financial instruments (continued)

Valuation methodology

Financial instruments - debt securities
Each month, independent valuations are determined by the middle office department of the Group's Finance and Treasury division.

This involves an analysis of independently sourced data that is deemed most representative of the market. From this independent data which is made available by other financial institutions, market average valuations are calculated, and the value of debt securities are updated.

Financial instruments - equity investments

- Level 1 - Listed investments relates to equities held that are on listed exchanges.
- Level 2 - Unlisted investments are equity holdings in unlisted managed investment schemes. For managed scheme investments the most recent prices provided by the fund manager are used.
- Level 3 - Unlisted investments are equity holdings in small unlisted entities. Given there are no quoted market prices and fair value cannot be reliably measured, investments are held at cost less impairment.

Derivatives
Where the Group's derivative assets and liabilities are not traded on an exchange, they are valued using valuation methodologies, including discounted cash flow and option pricing models as appropriate. The most significant inputs into the valuations are interest rate yields which are developed from publicly quoted rates.

Movements in level 3 portfolio
The following table provides a reconciliation from the beginning balances to the ending balances for financial instruments which are classified as level 3:

	Group		Bank	
Financial assets - equity investments	2017	2016	2017	2016
	$m	$m	$m	$m
Opening balance	21.2	22.2	21.2	22.2
Impairment charge	(0.3)	(1.6)	(0.3)	(1.6)
Purchases	2.4	0.6	2.4	0.6
Sales	(0.3)	-	(0.3)	-
Closing balance	**23.0**	**21.2**	**23.0**	**21.2**

Financial assets and liabilities carried at amortised cost

Valuation hierarchy
The table below details financial instruments carried at amortised cost, by balance sheet classification and hierarchy level:

Group	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
2017	$m	$m	$m	$m	$m
Financial assets					
Cash and cash equivalents	1,059.6	-	-	1,059.6	1,059.6
Due from other financial institutions	270.3	-	-	270.3	270.3
Financial assets held to maturity	-	378.7	-	378.7	378.7
Loans and other receivables	-	-	60,880.0	60,880.0	60,776.6
Financial liabilities					
Due to other financial institutions	328.4	-	-	328.4	328.4
Deposits	-	58,840.3	-	58,840.3	58,772.3
Notes payable	-	4,492.2	-	4,492.2	4,480.2
Convertible preference shares	838.0	-	-	838.0	830.1
Subordinated debt	-	701.9	-	701.9	708.7

22 Financial instruments (continued)

Financial assets and liabilities carried at amortised cost (continued)

Valuation hierarchy (continued)

Group	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
2016	$m	$m	$m	$m	$m
Financial assets					
Cash and cash equivalents	1,060.0	-	-	1,060.0	1,060.0
Due from other financial institutions	221.9	-	-	221.9	221.9
Financial assets held to maturity	-	382.8	-	382.8	382.8
Loans and other receivables	-	-	57,450.4	57,450.4	57,256.8
Financial liabilities					
Due to other financial institutions	294.8	-	-	294.8	294.8
Deposits	-	57,121.8	-	57,121.8	57,054.7
Notes payable	-	3,810.9	-	3,810.9	3,822.5
Convertible preference shares	799.1	-	-	799.1	824.4
Subordinated debt	-	576.1	-	576.1	583.4
Bank					
2017					
Financial assets					
Cash and cash equivalents	885.2	-	-	885.2	885.2
Due from other financial institutions	270.7	-	-	270.7	270.7
Financial assets held to maturity	-	65.8	-	65.8	65.8
Loans and other receivables	-	-	55,701.9	55,701.9	55,611.4
Financial liabilities					
Due to other financial institutions	328.0	-	-	328.0	328.0
Deposits	-	55,295.5	-	55,295.5	55,235.1
Notes payable	-	503.5	-	503.5	503.5
Convertible preference shares	838.0	-	-	838.0	830.1
Subordinated debt	-	691.9	-	691.9	698.7
2016					
Financial assets					
Cash and cash equivalents	933.0	-	-	933.0	933.0
Due from other financial institutions	221.8	-	-	221.8	221.8
Financial assets held to maturity	-	62.7	-	62.7	62.7
Loans and other receivables	-	-	52,458.1	52,458.1	52,280.6
Financial liabilities					
Due to other financial institutions	287.1	-	-	287.1	287.1
Deposits	-	53,848.1	-	53,848.1	53,786.3
Notes payable	-	502.2	-	502.2	502.2
Convertible preference shares	799.1	-	-	799.1	824.4
Subordinated debt	-	566.1	-	566.1	573.4

Transfers between levels are deemed to have occurred at the beginning of the reporting period in which instruments are transferred. There were no significant transfers between levels during the year for the Group or Bank.

22 Financial instruments (continued)

Valuation methodology

Cash and cash equivalents, due from/to other financial institutions
The carrying value for these assets and liabilities are a reasonable approximation of fair value.

Financial instruments - held to maturity
The fair values of financial assets held to maturity are measured at amortised cost which approximates their fair value given they are predominantly short-term in nature or have interest rates which reprice frequently.

Loans and other receivables
The carrying value of loans and other receivables is net of specific and collective provisions. For variable rate loans, excluding impaired loans, the carrying amount is a reasonable estimate of fair value.

The fair value for fixed loans is calculated by utilising discounted cash flow models, based on the maturity of the loans. The discount rates used represent the rate the market is willing to offer at arms-length for customers of similar credit quality. The net fair value of impaired loans is calculated by discounting expected cash flows using these rates.

Deposits
The carrying value of deposits at call is considered to represent fair value given they are short term in nature. The fair value for all term deposits is calculated using a discounted cash flow model applying market rates, or current rates for deposits of similar maturities.

Notes payable
The fair value for all notes payable is calculated using a discounted cash flow model applying independent market rates and margins for similar financial instruments.

Convertible preference shares
The fair value for convertible preference shares is based on quoted market rates for the issue concerned as at 30 June.

Subordinated debt
The fair value of subordinated debt is calculated based on quoted market prices. For those debt issues where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instrument is used.

23 Investment property

Investment property values reflect the Group's investment in residential real estate through the Homesafe Trust. The investments represent shared equity interest alongside the original homeowners in Sydney and Melbourne residential properties.

	Group		Bank	
	2017	2016	2017	2016
	$m	$m	$m	$m
Opening balance	573.4	482.0	-	-
Additions	50.2	49.4	-	-
Disposals	(47.7)	(37.7)	-	-
Homesafe income	90.4	79.7	-	-
Total investment property	**666.3**	**573.4**	**-**	**-**

Recognition and measurement
Investment properties are measured initially at cost, including transaction costs and then stated at fair value. Gains or losses arising from changes in the fair values of investment properties are recognised in the income statement in the year in which they arise.

Valuation methodology
Subsequent to initial recognition, fair value is determined by discounting the expected future cash flows of the portfolio, taking into account the restrictions on the ability to realise the investment property due to contractual obligations.

Assumptions used in the modelling of future cashflows are sourced from market indices of property values (Residex) and long term growth/discount rates appropriate to residential property and historical experience of contracts that have been closed out. The discounted cash flow model is prepared on a monthly basis. Inputs that form part of the discounted cash flow model include rates of property appreciation, discount rates, selling costs, mortality rates and future CPI increases.

Fair value measurement
There are different levels of fair value measurement. When fair value is calculated using inputs that are not based on observable market data, then assets will be considered as Level 3 fair value. Investment property has been categorised as a Level 3 fair value based on the inputs outlined above.

Sensitivity of Level 3 fair value measurements to reasonably possible alternative assumptions

Valuation technique	Significant unobservable inputs		Range of estimates (weighted -average) for unobservable input	Fair value measurement sensitivity to unobservable inputs	Effect of reasonably possible alternative assumptions	
					Favourable change	Unfavourable change
		$m[1]			$m	$m
Discounted cash flow	Rates of property appreciation - long term growth rate 6%	666.3	5% - 7%	Significant increases in these inputs would result in higher fair values.	83.7	(43.6)
	Discount rates - 7.75%	666.3	6.75% - 8.75%	Significant increases in these inputs would result in lower fair values.	84.4	(43.2)

[1] This includes a fair value adjustment of $28.2m which reflects an assumed 3% increase in property prices for the next 18 months before returning to a long term growth rate of 6%.

Where valuation techniques use non-observable inputs that are significant to a fair value measurement in its entirety, changing these inputs will change the resultant fair value measurement.

The most significant inputs impacting the carrying value of the investment property are the long term growth rates and the discount rates. There are interdependencies between a number of the assumptions made which mean that no single factor is likely to move independent of others, however the sensitivities disclosed above assume all other assumptions remain unchanged.

Operating assets and liabilities

This section outlines the operating assets and liabilities of the Group and associated information. Included in this section is information on the following: cash flow statement reconciliation, cash & cash equivalents, goodwill, other assets and other payables.

24 Cash flow statement reconciliation

	Group		Bank	
	2017	2016	2017	2016
	$m	$m	$m	$m
Profit after tax	429.6	415.6	312.4	303.1
Non-cash items				
Bad debts expense	91.9	56.9	68.5	48.5
Amortisation	38.5	34.9	27.9	23.5
Depreciation (including leasehold improvements)	21.8	21.8	21.3	21.3
Revaluation increments	(88.1)	(65.2)	(22.4)	33.5
Share of net (profit)/loss from joint arrangements and associates	(1.1)	0.1	(1.3)	0.1
Impairment write down	(0.8)	2.3	(1.5)	2.3
Fair value acquisition adjustments	7.9	5.1	4.1	5.1
Hedge gains/(losses) in relation to ineffectiveness	8.1	(7.9)	8.1	(7.9)
Changes in assets and liabilities				
Increase/(decrease) in tax provision	(13.0)	16.3	46.0	(17.7)
Increase/(decrease) in deferred tax assets & liabilities	32.9	17.5	(13.6)	(6.8)
(Increase)/decrease in derivatives	(51.5)	(11.4)	75.4	(85.3)
Decrease in accrued interest	(1.2)	(42.5)	(1.5)	(35.7)
Decrease in accrued employee entitlements	12.4	0.3	13.1	0.6
(Increase)/decrease in other accruals, receivables and provisions	29.4	(196.4)	(51.8)	(187.5)
Cash flows from operating activities before changes in operating assets and liabilities	**516.8**	**247.4**	**484.7**	**97.1**
Net (Increase)/decrease in operating assets				
Net increase of loans to other entities	(3,611.7)	(1,778.9)	(3,370.6)	(1,559.7)
Net (increase)/decrease of investment securities	775.8	(650.9)	2,396.8	(1,721.4)
Net Increase/(decrease) in operating liabilities				
Net increase in balance of retail deposits	583.0	3,339.5	404.0	2,834.4
Net increase in balance of wholesale deposits	1,134.7	209.8	1,044.8	122.4
Net increase/(decrease) in balance of notes payable	657.7	(1,103.4)	(963.8)	466.8
Net cash flows from operating activities	**56.3**	**263.5**	**(4.1)**	**239.6**

Cash flows presented on a net basis
Cash flows arising from the following activities are presented on a net basis in the cash flow statement: Loans and other receivables, investment securities, retail deposits and wholesale deposits.

25 Cash and cash equivalents

	Group		Bank	
	2017	2016	2017	2016
	$m	$m	$m	$m
Notes and coins and cash at bank	177.6	178.8	177.6	178.7
Cash at bank	731.4	653.3	594.1	546.4
Investments at call	150.6	227.9	113.5	207.9
Total cash and cash equivalents	**1,059.6**	**1,060.0**	**885.2**	**933.0**

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

Cash and cash equivalents	1,059.6	1,060.0	885.2	933.0
Due from other financial institutions	270.3	221.9	270.7	221.8
Due to other financial institutions	(328.4)	(294.8)	(328.0)	(287.1)
	1,001.5	**987.1**	**827.9**	**867.7**

Recognition and measurement
Cash and cash equivalents include cash on hand, deposits held at call with banks, bank overdrafts and other short term investments that have an original maturity of three months or less. Cash at bank earns interest at variable rates based on daily bank and short term deposit rates. Interest is recognised in the income statement using the effective interest method.

26 Goodwill and other intangible assets

Group	Goodwill	Computer software	Core deposits	Customer relationship	Other acquired intangibles[1]	Trustee licence	Total
	$m	$m	$m	$m	$m	$m	$m
Carrying amount as at 1 July 2016	1,442.3	148.8	11.6	9.9	13.7	8.4	1,634.7
Additions	-	68.0	-	-	-	-	68.0
Amortisation charge	-	(20.8)	(8.4)	(5.5)	(3.8)	-	(38.5)
Impairment charge	-	-	-	-	(0.4)	-	(0.4)
Closing balance as at 30 June 2017	**1,442.3**	**196.0**	**3.2**	**4.4**	**9.5**	**8.4**	**1,663.8**
Carrying amount as at 1 July 2015	1,442.3	74.7	20.0	16.2	18.9	8.4	1,580.5
Additions	-	89.5	-	-	0.2	-	89.7
Amortisation charge	-	(15.4)	(8.4)	(6.3)	(4.8)	-	(34.9)
Impairment of goodwill	-	-	-	-	(0.6)	-	(0.6)
Closing balance as at 30 June 2016	**1,442.3**	**148.8**	**11.6**	**9.9**	**13.7**	**8.4**	**1,634.7**
Bank							
Carrying amount as at 1 July 2016	1,362.8	146.2	9.2	1.5	9.0	-	1,528.7
Additions	-	66.6	-	-	-	-	66.6
Amortisation charge	-	(19.4)	(6.5)	(0.5)	(1.5)	-	(27.9)
Closing balance as at 30 June 2017	**1,362.8**	**193.4**	**2.7**	**1.0**	**7.5**	**-**	**1,567.4**
Carrying amount as at 1 July 2015	1,362.8	72.9	15.6	2.8	10.5	-	1,464.6
Additions	-	87.6	-	-	-	-	87.6
Amortisation charge	-	(14.3)	(6.4)	(1.3)	(1.5)	-	(23.5)
Closing balance as at 30 June 2016	**1,362.8**	**146.2**	**9.2**	**1.5**	**9.0**	**-**	**1,528.7**

[1] These assets include customer lists, management rights and trade names.

Recognition and measurement

Intangible assets (other than goodwill)
Intangible assets acquired separately are measured at cost on initial recognition. Intangible assets acquired in a business combination are measured at fair value at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less accumulated amortisation and impairment losses. Intangible assets with a finite life are amortised over a straight line basis over their useful life and tested at least annually for impairment or when there is an indicator that impairment may exist. Intangible assets with indefinite lives are tested for impairment in the same way as goodwill. The amortisation period and method are reviewed at each financial year end for all intangible assets.

Computer software includes both purchased and internally generated software. The cost of internally generated software comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management. Costs incurred in the ongoing maintenance of software are expensed as incurred.

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the sale proceeds and the carrying amount of the asset and are included in the income statement in the year of disposal.

A summary of the policies applied to the Group's intangible assets (excluding goodwill) are as follows:

	Trustee Licence	Computer software/ development costs	Intangible assets acquired in a business combination
Useful lives	Indefinite	Finite	Finite
Method used	Not amortised or revalued	Straight line over 2.5 to 10 years	Straight line over life of asset (2 - 15yrs)
Internally generated/acquired	Acquired	Internally generated or acquired	Acquired
Impairment test/recoverable amount testing	Annually and when an indicator of impairment exists	Annually and when an indicator of impairment exists	Annually and when an indicator of impairment exists

26 Goodwill and other intangible assets (continued)

Recognition and measurement

Goodwill
Goodwill acquired in a business combination is initially measured at cost. Cost is measured as the cost of the business combination minus the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. Following initial recognition goodwill is measured at cost less accumulated impairment losses.

Goodwill is allocated to cash generating units (CGU) for the purposes of impairment testing, which is undertaken at the lowest level at which Goodwill is monitored for internal management purposes. Impairment testing is performed at least annually, or whenever there is an indication of impairment, by comparing the recoverable amount of a CGU with its carrying amount. The carrying amount of a CGU is based on its assets, liabilities and allocated goodwill. The recoverable amount of a CGU is the higher of its fair value less cost to sell and its value in use. If the recoverable amount is less than the carrying value, an impairment loss is charged to the income statement.

At the date of disposal of a business, attributable goodwill is measured on the basis of the value of the operation disposed of and the portion of the CGU retained.

Goodwill has been allocated to the following CGUs:

	2017	2016
	$m	$m
Local connection	677.5	677.5
Partner connection	464.4	464.4
Wealth	209.7	209.7
Agribusiness	90.7	90.7
	1,442.3	**1,442.3**

Key assumptions used in value in use calculations
In determining value in use the estimated future (pre-tax) cash flows are discounted to their present value using a discount rate. The estimated future cash flows are obtained from the Group's forecast which is developed annually and approved by management and the board. Growth rates are applied to the approved forecast data to extrapolate for a further four years.

The discount rate used is based on the weighted average cost of capital for each CGU and reflects current market assessments of the risks specific to the CGU for which future estimates of cash flows have not been adjusted.

A terminal growth rate of 3.0% is representative of long term growth rates, including inflation, in Australia. It is used to extrapolate cash flows beyond the forecast period for each CGU.

The table below contains discount rates used in the calculation of the recoverable amount for each CGU:

	Discount rate
Local connection	10.17%
Partner connection	10.47%
Wealth	10.77%
Agribusiness	11.07%

Sensitivity analysis
Whilst there was no impairment in any of the CGUs, changes in the key assumptions would affect the recoverable amount of the CGUs. The table below discloses the possible changes to key assumptions which would result in impairment first becoming evident:

Increase/(decrease) in key assumptions	Wealth
Other income growth rate	(1.28%)
Discount rate	0.67%

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

27 Other assets

	Group		Bank	
	2017	2016	2017	2016
	$m	$m	$m	$m
Accrued income	34.5	39.0	30.5	33.9
Prepayments	30.6	22.6	30.1	22.8
Sundry debtors	102.8	113.2	194.5	152.7
Accrued interest	157.0	158.8	129.0	129.9
Deferred expenditure	56.3	81.3	55.7	80.9
Total other assets	**381.2**	**414.9**	**439.8**	**420.2**

Recognition and measurement

Prepayments and sundry debtors
Prepayments and sundry debtors are recognised initially at fair value and then subsequently measured at amortised cost using the effective interest method. Collectability of sundry debtors is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off when identified.

Accrued interest
Accrued interest is interest that has been recognised as income on an accrual basis using the effective interest method, but is yet to be charged to the loan or receivable.

Deferred expenditure
Deferred expenditure relating to projects is capitalised to the Balance Sheet when it is probable the future economic benefits attributable to the asset will flow to the Group. The cost model is applied which requires the asset to be carried at cost less any impairment losses. When the project has been completed these items are transferred to capitalised software (refer to Note 27 Goodwill and other intangible assets for further information). The carrying value of deferred expenditure is reviewed for impairment annually when the asset is not yet available for use, or more frequently when an indicator of impairment arises.

28 Other payables

	Group		Bank	
	2017	2016	2017	2016
	$m	$m	$m	$m
Accrued expenses and outstanding claims	310.9	275.6	396.4	466.8
Accrued interest	196.3	199.2	185.7	188.1
Prepaid interest	25.1	25.1	-	-
Total other payables	**532.3**	**499.9**	**582.1**	**654.9**

Recognition and measurement

Sundry creditors and accrued expenses
Sundry creditors and accrued expenses are carried at amortised cost, which is the fair value of the consideration to be paid in the future for goods and services received. Sundry creditors are generally settled within 30 days.

Accrued interest
Accrued interest is the interest that is recognised as an expense in the income statement but has yet to be paid to the customers liability account. Interest is recognised using the effective interest method.

Prepaid interest
Prepaid interest is the interest received from customers in advance. This interest is recognised as income in the income statement using the effective interest method.

Other disclosure matters

The following section outlines all other disclosure matters including: risk management, business combinations, subsidiaries and controlled entities, related party disclosures, provisions, commitments and contingencies and other required disclosures.

The risk management note outlines the key financial risks that the Group manages.

29 Risk management

Nature of risk
The Group is exposed to a range of risks which have the potential to adversely impact its financial performance and financial position. The Group actively manages those risks it assesses to be material including key financial risks (i.e. credit risk, liquidity risk and market risk) and operational risks.

The Board is ultimately responsible for the management of risk which is achieved by establishing, reviewing and overseeing the Group's Risk Management Framework (the framework) including its risk profile, risk appetite and risk strategy. The framework provides a high level description of the material risks faced by the Group together with the policies and procedures implemented to measure, monitor and manage those risks.

The Board's role is supported by committees namely the Asset and Liability Management Committee (ALMAC), Management and Board Credit committees, Operational Risk committee and the Board Risk committee who monitor adherence to policies, limits and procedures.

Further details regarding the Group's material risks including our strategic approach to their management is contained within the Directors' Report and the Corporate Governance statement. Our committee charters are available on our website.

Financial risk management
The Group's exposure to financial risks are considered significant given financial instruments held by the Group constitute the core contributors of financial performance and position. An overview of the Group's key financial risks is presented below.

Credit risk
Credit risk is risk of the Group suffering a financial loss if any of its customers or counterparties fail to fulfil their contractual obligations.

The Group is predominantly exposed to credit risk as a result of its lending activities as well as counterparty exposures arising from the funding activities of Group Treasury and the use of derivative contracts.

The table below presents the maximum exposure to credit risk arising from balance sheet and off-balance sheet financial instruments. The exposure is shown gross before taking into account any master netting, collateral agreements or other credit enhancements.

	Group		Bank	
	2017	2016	2017	2016
Gross maximum exposure	$m	$m	$m	$m
Cash and cash equivalents	882.0	881.2	707.6	754.3
Due from other financial institutions	270.3	221.9	270.7	221.8
Financial assets held for trading	5,657.6	6,369.1	5,657.9	6,369.4
Financial assets available for sale	286.6	353.5	5,243.7	6,941.1
Financial assets held to maturity	378.7	382.8	65.8	62.7
Other assets	259.8	272.0	323.5	282.6
Derivatives	77.7	79.0	181.8	290.3
Shares in controlled entities	-	-	570.2	569.8
Amounts receivable from controlled entities	-	-	1,072.3	1,160.1
Gross loans and other receivables	60,928.0	57,471.4	55,722.9	52,402.9
	68,740.7	**66,030.9**	**69,816.4**	**69,055.0**
Contingent liabilities	253.8	237.3	249.1	232.4
Commitments	6,206.7	7,000.2	5,677.3	6,561.4
	6,460.5	**7,237.5**	**5,926.4**	**6,793.8**
Total credit risk exposure	**75,201.2**	**73,268.4**	**75,742.8**	**75,848.8**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount.

For contingent liabilities including financial guarantees granted, it is the maximum amount that the Group would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments, it is generally the full amount of the committed facilities.

29 Risk management (continued)

Credit risk (continued)

Concentrations of the maximum exposure to credit risk
Concentration risk is managed by client or counterparty, by geographical region and by industry sector. The Group implements certain exposure and concentration limits in order to mitigate the risk.

The maximum credit exposure to any client or counterparty as at 30 June 2017 was $939.2 million (2016: $1,107.0 million) before taking account collateral or other credit enhancements and $939.2 million (2016: $1,107.0 million) net of such protection.

Geographic - based on the location of the counterparty or customer. The table below presents the maximum exposure to credit risk categorised by geographical region. The exposures are shown gross before taking into account any collateral held or other credit enhancements.

	Group		Bank	
	2017	2016	2017	2016
Geographic concentration	$m	$m	$m	$m
Victoria	30,311.4	30,435.1	30,355.8	30,690.8
New South Wales	14,529.8	14,018.4	18,105.5	20,040.4
Queensland	9,273.8	9,310.8	8,322.7	8,526.1
South Australia/Northern Territory	7,713.7	7,436.1	7,148.7	7,029.0
Western Australia	7,545.5	6,923.9	6,194.6	5,400.8
Australian Capital Territory	3,946.5	2,609.2	3,939.3	2,576.3
Tasmania	1,500.6	1,667.7	1,317.2	1,295.7
Overseas	379.9	867.2	359.0	289.7
Total credit risk exposure	**75,201.2**	**73,268.4**	**75,742.8**	**75,848.8**

Industry Sector - is based on the industry in which the customer or counterparty are engaged. The table below presents the maximum exposure to credit risk categorised by industry sector. The exposures are shown gross before taking into account any collateral held or other credit enhancements.

	Group		Bank	
	2017	2016	2017	2016
Industry concentration	$m	$m	$m	$m
Accommodation and food services	710.3	766.0	708.8	764.4
Administrative and support services	252.2	272.4	252.2	272.4
Agriculture, forestry and fishing	6,538.1	6,496.8	2,625.0	2,800.2
Arts and recreation services	219.5	219.0	219.4	218.9
Construction	2,706.7	2,631.3	2,676.4	2,583.5
Education and training	357.7	366.6	357.7	366.6
Electricity, gas, water and waste services	169.4	185.5	169.4	185.5
Financial and insurance services	1,121.0	1,155.9	1,120.1	1,154.6
Financial services	7,849.4	8,561.4	14,136.4	16,686.2
Health care and social assistance	980.5	914.4	980.5	914.4
Information media and telecommunications	157.4	168.0	157.4	168.0
Manufacturing	863.6	905.9	858.0	901.0
Margin lending	1,726.1	1,742.4	-	-
Mining	176.1	193.1	176.0	192.9
Other	305.2	317.5	277.8	243.0
Other services	645.2	655.9	644.9	655.6
Professional, scientific and technical services	852.1	893.5	851.9	893.1
Public administration and safety	403.4	456.0	402.3	455.5
Rental, hiring and real estate services	5,526.5	5,285.9	5,514.8	5,269.4
Residential/consumer	41,414.7	38,760.8	41,393.6	38,807.8
Retail trade	1,206.3	1,245.2	1,202.1	1,244.9
Transport, postal and warehousing	603.7	651.6	602.1	647.8
Wholesale trade	416.1	423.3	416.0	423.1
Total credit risk exposure	**75,201.2**	**73,268.4**	**75,742.8**	**75,848.8**

Credit quality

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below presents the credit quality of financial assets, based on the Group's credit rating system and are gross of any impairment allowances.

Group	Neither past due or impaired					Past due or impaired	Total
	High grade	Standard grade	Sub-standard grade	Unrated	Consumer loans [1]		
2017	$m	$m	$m	$m	$m	$m	$m
Cash and cash equivalents	882.0	-	-	-	-	-	882.0
Due from other financial institutions	270.3	-	-	-	-	-	270.3
Financial assets held for trading	5,657.6	-	-	-	-	-	5,657.6
Financial assets available for sale	254.6	-	-	32.0	-	-	286.6
Financial assets held to maturity	378.7	-	-	-	-	-	378.7
Other assets	-	-	-	259.8	-	-	259.8
Derivatives	77.7	-	-	-	-	-	77.7
Loans and other receivables	4,361.3	10,449.5	1,430.3	669.6	41,599.7	2,417.6	60,928.0
	11,882.2	**10,449.5**	**1,430.3**	**961.4**	**41,599.7**	**2,417.6**	**68,740.7**
2016							
Cash and cash equivalents	881.2	-	-	-	-	-	881.2
Due from other financial institutions	221.9	-	-	-	-	-	221.9
Financial assets held for trading	6,369.1	-	-	-	-	-	6,369.1
Financial assets available for sale	323.1	-	-	30.4	-	-	353.5
Financial assets held to maturity	382.8	-	-	-	-	-	382.8
Other assets	-	-	-	272.0	-	-	272.0
Derivatives	79.0	-	-	-	-	-	79.0
Loans and other receivables	3,996.6	9,865.4	1,427.4	748.0	39,016.8	2,417.2	57,471.4
	12,253.7	**9,865.4**	**1,427.4**	**1,050.4**	**39,016.8**	**2,417.2**	**66,030.9**
Bank							
2017							
Cash and cash equivalents	707.6	-	-	-	-	-	707.6
Due from other financial institutions	270.7	-	-	-	-	-	270.7
Financial assets held for trading	5,657.9	-	-	-	-	-	5,657.9
Financial assets available for sale	5,220.5	-	-	23.2	-	-	5,243.7
Financial assets held to maturity	65.8	-	-	-	-	-	65.8
Other assets	-	-	-	323.5	-	-	323.5
Derivatives	181.8	-	-	-	-	-	181.8
Loans and other receivables	537.3	8,909.8	1,292.6	660.6	42,157.9	2,164.7	55,722.9
Amounts receivable from controlled entities	-	-	-	1,072.3	-	-	1,072.3
Shares in controlled entities	-	-	-	570.2	-	-	570.2
	12,641.6	**8,909.8**	**1,292.6**	**2,649.8**	**42,157.9**	**2,164.7**	**69,816.4**
2016							
Cash and cash equivalents	754.3	-	-	-	-	-	754.3
Due from other financial institutions	221.8	-	-	-	-	-	221.8
Financial assets held for trading	6,369.4	-	-	-	-	-	6,369.4
Financial assets available for sale	6,917.5	-	-	23.6	-	-	6,941.1
Financial assets held to maturity	62.7	-	-	-	-	-	62.7
Other assets	-	-	-	282.6	-	-	282.6
Derivatives	290.3	-	-	-	-	-	290.3
Loans and other receivables	480.5	8,363.7	1,245.4	741.5	39,522.8	2,049.0	52,402.9
Amounts receivable from controlled entities	-	-	-	1,160.1	-	-	1,160.1
Shares in controlled entities	-	-	-	569.8	-	-	569.8
	15,096.5	**8,363.7**	**1,245.4**	**2,777.6**	**39,522.8**	**2,049.0**	**69,055.0**

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

Credit Quality (continued)

The credit ratings range from high grade where there is a very high likelihood of the asset being recovered in full to sub-standard grade where there is concern over the obligor's ability to make payments when due.

Credit risk stress testing is regularly performed to assess the likelihood of loan default, to examine the financial strength of borrowers and counterparties including their ability to meet commitments under changing scenarios and to assess the exposure and extent of loss should default actually occur.

Ageing

The following table presents the ageing analysis of past due but not impaired loans and other receivables.

Loans and receivables which are 90 or more days past due are not classified as impaired assets where the estimated net realisable value of the collateral/security is sufficient to cover the repayment of all principal and interest amounts due.

The exposures are shown net after taking into account any collateral held or other credit enhancements.

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total	Fair value of collateral
	$m	$m	$m	$m	$m	$m
Group						
2017	1,254.4	257.0	109.3	516.1	2,136.8	6,052.4
2016	1,131.2	246.3	111.3	578.2	2,067.0	5,959.6
Bank						
2017	1,218.7	211.8	91.4	436.7	1,958.6	5,025.6
2016	1,076.3	196.6	94.4	466.6	1,833.9	4,647.3

Liquidity risk

Liquidity risk is defined as the risk that the Group is unable to meet its payment obligations as they fall due. The principal objectives are to ensure that all cash flow commitments are met in a timely manner and prudential requirements are satisfied.

As at January 2015, the Group commenced measurement and reporting of liquidity under the revised APRA Prudential Standard APS210, using the scenario based Liquidity Coverage Ratio (LCR). This new regime requires the Group to maintain a ratio of High Quality Liquid Assets (HQLA) to cover defined projected cash outflows over a 30 day period.

The Group continues to manage the liquidity holdings in line with the Board approved funding strategy and funding plan, ensuring adequate levels of HQLA, other liquid assets and diversified sources of funding. In meeting our liquidity requirement the Group makes use of the Reserve Bank of Australia provided Committed Liquidity Facility.

The Group also maintains a significant amount of contingent liquidity in the form of internal securitisation whereby the collateral can be presented to the Reserve Bank of Australia for cash in extraordinary circumstances such as systemic liquidity issues.

Liquidity risk is managed in line with the Board approved Risk Appetite, Framework and Policy. The framework incorporates limits, monitoring and escalation processes to ensure sufficient liquidity is maintained.

The Group has established a set of early warning indicators to support the liquidity risk management process, in particular, to alert management of emerging or increased risk or vulnerability in its liquidity position. The liquidity risk management framework is also supported by liquidity standards and policies which are regularly reviewed and updated to reflect prevailing market conditions, changes in operational requirements and regulatory obligations.

Analysis of financial liabilities by remaining contractual maturities
The table below analyses the Group's financial liabilities into relevant maturity periods based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table represent all cash flows, on an undiscounted basis, including all future coupon payments, both principal and interest, and therefore may not reconcile with the amounts disclosed on the balance sheet.

For foreign exchange derivatives and cross currency interest rate swaps, the amounts disclosed are the gross contractual cash flows to be paid.

For interest rate swaps, the cash flows are the net amounts to be paid, and have been estimated using forward interest rates applicable at the reporting date.

Group	At call	Not longer than 3 months	3 to 12 months	1 to 5 years	Longer than 5 years	Total
2017	$m	$m	$m	$m	$m	$m
Due to other financial institutions	328.4	-	-	-	-	328.4
Deposits	22,612.9	16,603.1	15,451.0	4,300.8	0.7	58,968.5
Notes payable	5.0	522.8	411.4	1,271.3	2,269.7	4,480.2
Derivatives - net settled	-	13.5	26.6	21.0	0.1	61.2
Other payables	593.4	-	-	-	-	593.4
Convertible preference shares	-	-	35.0	375.7	578.8	989.5
Subordinated debt	-	8.3	25.6	374.7	495.7	904.3
Total financial liabilities	**23,539.7**	**17,147.7**	**15,949.6**	**6,343.5**	**3,345.0**	**66,325.5**
Contingent liabilities	253.8	-	-	-	-	253.8
Commitments	6,206.7	21.2	63.6	222.1	101.7	6,615.3
Total contingent liabilities and commitments	**6,460.5**	**21.2**	**63.6**	**222.1**	**101.7**	**6,869.1**
2016						
Due to other financial institutions	294.8	-	-	-	-	294.8
Deposits	20,919.9	17,453.1	15,222.2	3,636.5	14.6	57,246.3
Notes payable	36.0	557.3	3.5	2,450.3	775.9	3,823.0
Derivatives - net settled	-	17.5	33.1	42.6	9.9	103.1
Other payables	765.7	-	-	-	-	765.7
Convertible preference shares	-	-	36.6	405.5	599.5	1,041.6
Subordinated debt	-	7.7	23.9	379.3	363.7	774.6
Total financial liabilities	**22,016.4**	**18,035.6**	**15,319.3**	**6,914.2**	**1,763.6**	**64,049.1**
Contingent liabilities	237.3	-	-	-	-	237.3
Commitments	7,000.2	19.4	58.1	246.0	159.9	7,483.6
Total contingent liabilities and commitments	**7,237.5**	**19.4**	**58.1**	**246.0**	**159.9**	**7,720.9**

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

Bank	At call	Not longer than 3 months	3 to 12 months	1 to 5 years	Longer than 5 years	Total
2017	$m	$m	$m	$m	$m	$m
Due to other financial institutions	328.0	-	-	-	-	328.0
Deposits	22,175.8	15,198.8	13,853.3	4,192.1	0.7	55,420.7
Notes payable	-	503.5	-	-	-	503.5
Derivatives - net settled	-	13.2	26.0	20.4	0.1	59.7
Other payables	589.6	-	-	-	-	589.6
Loans payable to securitisation trusts	-	-	-	-	8,472.2	8,472.2
Convertible preference shares	-	-	35.0	375.7	578.8	989.5
Subordinated debt	-	8.3	25.6	364.7	495.7	894.3
Total financial liabilities	**23,093.4**	**15,723.8**	**13,939.9**	**4,952.9**	**9,547.5**	**67,257.5**
Contingent liabilities	249.1	-	-	-	-	249.1
Commitments	5,677.3	21.2	63.6	222.1	101.7	6,085.9
Total contingent liabilities and commitments	**5,926.4**	**21.2**	**63.6**	**222.1**	**101.7**	**6,335.0**
2016						
Due to other financial institutions	287.1	-	-	-	-	287.1
Deposits	20,572.2	15,978.5	13,801.7	3,599.7	14.6	53,966.7
Notes payable	-	502.2	-	-	-	502.2
Derivatives - net settled	-	17.0	31.7	42.1	9.9	100.7
Other payables	898.8	-	-	-	-	898.8
Loans payable to securitisation trusts	-	-	-	-	9,437.3	9,437.3
Convertible preference shares	-	-	36.6	405.5	599.5	1,041.6
Subordinated debt	-	7.5	23.4	366.8	363.7	761.4
Total financial liabilities	**21,758.1**	**16,505.2**	**13,893.4**	**4,414.1**	**10,425.0**	**66,995.8**
Contingent liabilities	232.4	-	-	-	-	232.4
Commitments	6,561.4	19.3	57.9	245.8	159.9	7,044.3
Total contingent liabilities and commitments	**6,793.8**	**19.3**	**57.9**	**245.8**	**159.9**	**7,276.7**

Market risk (including interest rate and currency risk)
Market risk is the risk that changes in market rates and prices including: interest rates, foreign currency exchange rates, equity prices, will affect the Group's financial performance and financial position. Market risk is referred to as either traded or non-traded risk.

Traded market risk primarily represents interest rate risk in the trading book which operates as an integral part of the liquidity risk management function. The trading book portfolio consists of securities held for trading and liquidity purposes. This risk is represented by the potential adverse impact to net interest income (NII) and other income resulting from positions held in traded interest rate securities such as government bonds and traded interest rate swaps.

Non-traded market risk primarily represents interest rate risk in the banking book (IRRBB). This risk is represented by the potential adverse impact to NII resulting from a mismatch between the maturity and repricing dates of its assets and liabilities that arises in the normal course of its business activities. The banking book activities that give rise to market risk include general lending activities, balance sheet funding and capital management.

The Group currently uses both a static and dynamic approach to model the effect of interest rate movements on NII and market value of equity (MVE). The primary interest rate monitoring tools used are simulation models and gap analysis. The interest rate simulation model is a dynamic technique that allows the performance of risk management strategies to be tested under a variety of rate environments over a range of timeframes extending out to five years. The results of this testing are then compared to the risk appetite limits for NII.

Interest Rate risk (continued)

Group	Floating interest rate	Fixed interest rate repricing: Less than 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 5 years	After 5 years	Non-interest earning/ bearing	Total carrying value per Balance sheet	Weighted average effective interest rate
2017	$m	$m	$m	$m	$m	$m	$m	$m	%
Assets									
Cash & cash equivalents	882.0	-	-	-	-	-	177.6	1,059.6	1.48
Due from other financial institutions	-	-	-	-	-	-	270.3	270.3	-
Financial assets held for trading	-	2,065.4	481.4	-	2,451.4	659.0	0.4	5,657.6	2.04
Financial assets available for sale	-	95.4	115.9	-	-	-	43.3	254.6	2.12
Financial assets held to maturity	71.8	208.9	98.0	-	-	-	-	378.7	2.17
Loans & other receivables	39,390.5	7,911.0	2,227.9	3,831.5	7,374.0	41.7	-	60,776.6	4.81
Derivatives	-	-	-	-	-	-	77.7	77.7	1.64
Total financial assets	**40,344.3**	**10,280.7**	**2,923.2**	**3,831.5**	**9,825.4**	**700.7**	**569.3**	**68,475.1**	
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	328.4	328.4	-
Deposits	17,871.4	19,881.8	9,793.0	7,292.0	3,933.4	0.7	-	58,772.3	1.97
Notes payable	551.6	3,928.6	-	-	-	-	-	4,480.2	2.72
Derivatives	-	-	-	-	-	-	59.0	59.0	1.80
Convertible preference shares	-	-	830.1	-	-	-	-	830.1	5.02
Subordinated debt	-	708.7	-	-	-	-	-	708.7	4.91
Total financial liabilities	**18,423.0**	**24,519.1**	**10,623.1**	**7,292.0**	**3,933.4**	**0.7**	**387.4**	**65,178.7**	
2016									
Assets									
Cash & cash equivalents	698.7	18.0	18.1	36.2	108.7	-	180.3	1,060.0	1.40
Due from other financial institutions	-	-	-	-	-	-	221.9	221.9	-
Financial assets held for trading	-	1,795.0	2,090.1	-	2,484.0	-	-	6,369.1	1.94
Financial assets available for sale	-	322.7	-	-	-	-	0.4	323.1	2.29
Financial assets held to maturity	25.3	268.5	89.0	-	-	-	-	382.8	2.86
Loans & other receivables	35,652.1	8,141.0	1,313.1	2,634.3	9,475.7	40.6	-	57,256.8	5.02
Derivatives	-	-	-	-	-	-	79.0	79.0	-
Total financial assets	**36,376.1**	**10,545.2**	**3,510.3**	**2,670.5**	**12,068.4**	**40.6**	**481.6**	**65,692.7**	
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	294.8	294.8	-
Deposits	20,415.9	20,316.9	9,185.1	5,445.7	1,689.7	1.4	-	57,054.7	2.28
Notes payable	519.6	3,302.9	-	-	-	-	-	3,822.5	2.91
Derivatives	-	-	-	-	-	-	111.8	111.8	-
Convertible preference shares	-	-	824.4	-	-	-	-	824.4	5.26
Subordinated debt	-	583.4	-	-	-	-	-	583.4	5.34
Total financial liabilities	**20,935.5**	**24,203.2**	**10,009.5**	**5,445.7**	**1,689.7**	**1.4**	**406.6**	**62,691.6**	

Interest Rate risk (continued)

Bank	Floating interest rate	Fixed interest rate repricing: Less than 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 5 years	After 5 years	Non-interest earning/ bearing	Total carrying value per Balance sheet	Weighted average effective interest rate
2017	$m	$m	$m	$m	$m	$m	$m	$m	%
Assets									
Cash & cash equivalents	707.6	-	-	-	-	-	177.6	885.2	1.49
Due from other financial institutions	-	-	-	-	-	-	270.7	270.7	-
Financial assets held for trading	-	2,066.1	481.4	-	2,451.4	659.0	-	5,657.9	2.04
Financial assets available for sale	-	5,220.5	-	-	-	-	-	5,220.5	2.58
Financial assets held to maturity	65.8	-	-	-	-	-	-	65.8	1.54
Loans & other receivables	41,152.1	2,770.9	1,899.3	3,156.4	6,592.4	40.3	-	55,611.4	4.77
Derivatives	-	-	-	-	-	-	181.8	181.8	-
Total financial assets	**41,925.5**	**10,057.5**	**2,380.7**	**3,156.4**	**9,043.8**	**699.3**	**630.1**	**67,893.3**	
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	328.0	328.0	-
Deposits	17,415.3	18,632.1	8,991.7	6,441.8	3,754.2	-	-	55,235.1	1.95
Notes payable	503.5	-	-	-	-	-	-	503.5	2.31
Loans payable - securitisation trusts	6,106.7	236.9	361.9	591.5	1,175.2	-	-	8,472.2	4.8
Derivatives	-	-	-	-	-	-	77.6	77.6	-
Convertible preference shares	-	-	830.1	-	-	-	-	830.1	5.02
Subordinated debt	-	698.7	-	-	-	-	-	698.7	4.91
Total financial liabilities	**24,025.5**	**19,567.7**	**10,183.7**	**7,033.3**	**4,929.4**	**-**	**405.6**	**66,145.2**	
2016									
Assets									
Cash & cash equivalents	572.4	18.1	18.1	36.2	108.7	-	179.5	933.0	1.70
Due from other financial institutions	-	-	-	-	-	-	221.8	221.8	-
Financial assets held for trading	-	1,685.1	2,090.1	-	2,594.2	-	-	6,369.4	2.02
Financial assets available for sale	217.8	6,699.7	-	-	-	-	-	6,917.5	3.10
Financial assets held to maturity	-	62.7	-	-	-	-	-	62.7	3.75
Loans & other receivables	31,046.8	8,031.9	1,313.9	2,362.6	9,473.1	52.3	-	52,280.6	4.87
Derivatives	-	-	-	-	-	-	290.3	290.3	-
Total financial assets	**31,837.0**	**16,497.5**	**3,422.1**	**2,398.8**	**12,176.0**	**52.3**	**691.6**	**67,075.3**	
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	287.1	287.1	-
Deposits	18,945.2	19,798.0	8,506.7	4,739.8	1,795.2	1.4	-	53,786.3	2.28
Notes payable	502.2	-	-	-	-	-	-	502.2	-
Loans payable - securitisation trusts	7,252.0	143.3	171.9	327.5	1,542.6	-	-	9,437.3	5.02
Derivatives	-	-	-	-	-	-	110.7	110.7	-
Convertible preference shares	-	-	824.4	-	-	-	-	824.4	4.26
Subordinated debt	-	573.4	-	-	-	-	-	573.4	5.35
Total financial liabilities	**26,699.4**	**20,514.7**	**9,503.0**	**5,067.3**	**3,337.8**	**1.4**	**397.8**	**65,521.4**	

29 Risk management (continued)

Interest Rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Group's income statement and equity.

The sensitivity of the income statement is the effect of assumed changes in interest rates on the net interest for one year, based on the floating rate financial assets and financial liabilities held at 30 June 2017, 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 2017 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by the maturity of the asset or swap, with sensitivity based on the assumption that there are parallel shifts in the yield curve.

	+100 basis points	-100 basis points	+100 basis points	-100 basis points
	2017	2017	2016	2016
Group	$m	$m	$m	$m
Net interest income	53.1	(64.8)	34.1	(38.1)
Ineffectiveness in derivatives	(64.0)	64.0	(33.1)	33.1
Income tax effect at 30%	3.3	0.2	(0.3)	1.5
Effect on profit	**(7.6)**	**(0.6)**	**0.7**	**(3.5)**
Effect on profit (per above)	(7.6)	(0.6)	0.7	(3.5)
Cash flow hedge reserve	3.8	(3.8)	(24.2)	24.2
Income tax effect on reserves at 30%	(1.1)	1.1	7.3	(7.3)
Effect on equity	**(4.9)**	**(3.3)**	**(16.2)**	**13.4**
Bank				
Net interest income	47.0	(58.1)	24.9	(29.2)
Ineffectiveness in derivatives	(60.1)	60.1	(33.1)	33.1
Income tax effect at 30%	3.9	(0.6)	2.5	(1.2)
Effect on profit	**(9.2)**	**1.4**	**(5.7)**	**2.7**
Effect on profit (per above)	(9.2)	1.4	(5.7)	2.7
Cash flow hedge reserve	12.0	(12.0)	(23.2)	23.2
Income tax effect on reserves at 30%	(3.6)	3.6	7.0	(7.0)
Effect on equity	**(0.8)**	**(7.0)**	**(21.9)**	**18.9**

The movements in profit are due to higher/lower interest costs from variable rate debt and cash balances. The movement in equity is also affected by the increase/decrease in the fair value of derivative instruments designated as cash flow hedges, where these derivatives are deemed effective.

This analysis reflects a scenario where no management actions are taken to counter movements in rates.

Foreign currency risk

The Group does not have any significant exposure to foreign currency risk, as all borrowings through the Company's Euro Medium Term Note program (EMTN) and Euro Commercial Paper program (ECP) are fully hedged. At balance date the principal of foreign currency denominated borrowings under these programs was AUD $583.2 million (2016: AUD $426.3 million) with all borrowings fully hedged by cross currency swaps, and foreign exchange swaps. Retail and business banking FX transactions are managed by the Group's Financial Markets unit, with resulting risk constrained by Board approved spot and forward limits. Adherence to limits is independently monitored by the Middle Office function.

The Group conducts discretionary interest rate and foreign exchange trading. This trading forms part of the trading book activity within the liquidity management function. The trading book positions include approved financial instruments, both physical and derivative.

30 Subsidiaries and other controlled entities

Subsidiaries

The following table presents the material subsidiaries of the Group. A subsidiary has been considered to be material if it has more than 0.5% of the total Group assets.

Chief entity and Ultimate parent	Principal activities
Bendigo and Adelaide Bank Limited	Banking

Other entities	Principal activities
Homesafe Trust	Homesafe product financier
Leveraged Equities Ltd	Margin lending
Rural Bank Ltd	Banking

All entities are 100% owned and incorporated in Australia.

Investments in controlled entities	Group		Bank	
	2017	2016	2017	2016
	$m	$m	$m	$m
At cost	-	-	570.2	569.8
	-	**-**	**570.2**	**569.8**

Significant restrictions

The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory framework requires banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. The carrying amounts of banking subsidiaries' assets and liabilities are $4.5 billion and $3.8 billion, respectively (2016: $4.2 billion and $3.6 billion, respectively).

Recognition and measurement

The Group classify all entities where it owns 100% of the shares and in which it controls as subsidiaries. The basis of consolidation is presented in Note 2 Summary of significant accounting policies. Investments in subsidiaries are stated at cost.

Special Purpose Vehicles (SPE's)

The following table presents a list of the material SPE's. A SPE has been considered to be material where the assets are more than 0.5% of total group assets. For further information relating to SPE's refer to Note 13 Securitisation and transferred assets.

Entity	Principal activities	Entity	Principal activities
Leveraged Equities 2009 Trust	Securitisation	Torrens Trust 2016-1 Trust	Securitisation
Torrens Series 2008-1 Trust	Securitisation	Torrens Trust 2017-1 Trust	Securitisation
Torrens Series 2008-4 Trust	Securitisation	Torrens Trust 2017-2 Trust	Securitisation

31 Related party disclosures

Subsidiary transactions
Transactions undertaken with subsidiaries are eliminated in the Group's financial reports. Transactions between the parent and the subsidiary are funded through intercompany loans with no fixed repayment date and are repayable upon demand.

A summary of material transactions excluding dividends between the Bank and its subsidiaries during the period were:

	2017	2016
	$m	$m
Opening balance at beginning of financial year	(71.8)	(164.8)
Net receipts and fees received from subsidiaries	131.8	223.0
Supplies, fixed assets and services charged to subsidiaries	(109.2)	(130.0)
Net amount owing from subsidiaries	**(49.2)**	**(71.8)**

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

		Limit	Drawn/issued at 30 June 2017
Subsidiary	Facility	$m	$m
Sandhurst Trustees Limited	Guarantee	0.5	-

Other related party transactions

Joint arrangement entities and associates
Bendigo and Adelaide Bank Limited has investments in joint arrangement entities and associates which are investments accounted for using the equity method.

Transactions entered into with these related entities principally include commissions received and paid, services and supplies procured and fees charged in relation to the provision of banking, administrative and corporate services. These revenue and expense items are included in the Group's income statement. The transactions are conducted on the same terms as other third party transactions.

A summary of material transactions excluding dividends between the Bank and joint arrangements and associates during the period were:

	2017	2016
	$m	$m
Commissions and fees paid to joint arrangements and associates	31.7	20.2
Supplies and services provided to joint arrangements and associates	8.8	12.1
Amount owing from joint arrangements and associates	(1.1)	(0.8)

Bendigo and Adelaide Bank Limited provides loans, guarantees and/or overdraft facilities to joint arrangements and associates. The loans have agreed repayment terms which vary according to the nature of the facility. These loans are included in the net amount owing from joint arrangements and associates in the above table.

Other related party transactions

Key management personnel
Key management personnel (KMP) are those persons with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

The Group's KMP are those members of the Bendigo and Adelaide Bank Group Executive Committee together with its Non-executive Directors. Further details relating to KMP are located in the Remuneration Report.

31 Related party disclosures (continued)

Other related party transactions (continued)

Key management personnel (continued)
The table below details, on an aggregated basis, KMP compensation:

	30 June 2017	30 June 2016
Compensation	$'000's	$'000's
Salaries and other short term benefits	7,578.0	7,341.8
Post-employment benefits	345.5	370.4
Other long term benefits	10.6	(45.8)
Termination benefits	-	1,187.2
Share based payments	2,335.2	2,848.1
Total	**10,269.3**	**11,701.7**

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

	30 June 2017	30 June 2016
Equity holdings	No.	No.
Ordinary shares (includes deferred shares)	1,763,788	1,817,262
Preference shares	4,240	4,240
Performance shares	412,320	315,718
Closing balance	**2,180,348**	**2,137,220**

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

	30 June 2017	30 June 2016
Loans [1,2,3]	$'000's	$'000's
Loans outstanding at the beginning of the year [2]	7,668.6	7,056.7
Loans outstanding at the end of the year	10,455.7	8,762.2
Interest paid or payable	358.0	374.3
Interest not charged	-	-

1. The balance of loans outstanding includes the provision of a guarantee to the value of $20,000 which was provided to a KMP in the ordinary course of the Group's business and on an arm's length basis.
2. The balance of loans outstanding exclude the value of loans provided to Executives under the Employee Share Ownership Plan.
3. The balance of loans outstanding relate to KMP who were in the office at the start of the year.

Loans to directors and senior executives are made in the ordinary course of the Group's business and on an arm's length basis. The loans are processed and approved in accordance with the Bank's standard lending terms and conditions.

32 Involvement with unconsolidated structured entities

The table below describes the types of structured entities that the Group does not consolidate but in which it holds an interest.

Type of structured entity	Nature and purpose	Interest held by the Group
Securitisation vehicles - for loans and advances originated by third parties	To generate: • external funding for third parties; and • investment opportunities for the Group. These vehicles are financed through the issue of notes to investors.	• Investments in notes issued by the vehicles
Managed investment funds	To generate: • a range of investment opportunities for external investors; and • fees from managing assets on behalf of third party investors for the Group.	• Investment in units issued by the funds • Management fees

32 Involvement with unconsolidated structured entities (continued)

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

	2017	2016
Balance sheet	$m	$m
Cash and cash equivalents	0.1	0.1
Loans and other receivables	76.5	197.4
Financial assets available for sale	8.8	6.7
	85.4	**204.2**

Maximum exposure to loss
Loans and other receivables, the maximum exposure to loss is the current carrying value of these interests representing the amortised cost at reporting date.

The maximum loss exposure for the interest rate swaps is expected to be immaterial but 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 2017 and 2016 with structured entities.

	Carrying amount	Maximum loss exposure	Carrying amount	Maximum loss exposure
	2017	2017	2016	2016
	$m	$m	$m	$m
Cash and cash equivalents	0.1	0.1	0.1	0.1
Senior notes	76.5	76.5	197.4	197.4
Investment	8.8	8.8	6.7	6.7
Interest rate swap	-	**	-	**

** Maximum loss exposure is not disclosed as it is expected to be immaterial and is not quantifiable.

Significant restrictions
There are no significant restrictions imposed by any unconsolidated structured entity on the Group's ability to access or use its assets or settle its liabilities.

Recognition and measurement
A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Involvement with structured entities varies and includes debt financing of these entities as well as other relationships. A review is undertaken to determine the involvement the Group has and whether the involvement with these entities results in significant influence, joint control or control over the structured entity. The structured entities over which control can be exercised are consolidated. These entities are outlined in Note 30 Subsidiaries and other controlled entities.

The Group has no contractual arrangements that would require it to provide financial or other support to a consolidated or unconsolidated entity. The Group has not previously provided financial support, and has no intention to provide such support to these entities.

Managed Investment funds
Sandhurst Trustees Limited (STL), a subsidiary of the Group, acts as a responsible entity for certain managed investment funds. The decision-making rights of the fund are restricted to the Product Disclosure Statements. The fees received by STL are not variable, are commensurate with the services provided and are consistent with similar funds in the market. Where STL holds investments in the funds, the Group assessed the Bank's power over the relevant activities of the entity and the significance of its exposure to variable returns to determine whether the Managed Investment Fund should be consolidated.

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

Alliance partners
Alliance partners are not consolidated by the Group as the Group does not have power to govern decision making, and while the Group's returns are variable they are calculated as a percentage of the gross margin. The Group has no representation on the Board of these entities.

33 Fiduciary activities

The Group conducts investment management and other fiduciary activities as responsible entity, trustee, custodian or manager for a number of funds and trusts, including superannuation, unit trusts and mortgage pools.

The amounts of the funds concerned are:

	Group	
	2017	2016
	$m	$m
Funds under trusteeship	5,393.9	4,868.5
Assets under management	2,152.1	2,060.7
Funds under management	3,170.4	2,623.4

Recognition and measurement
The assets and liabilities of these trusts and funds are not included in the consolidated financial statements as the Group does not have direct or indirect control of the trusts and funds. Commissions and fees earned in respect of the activities are included in the income statement of the Group.

As an obligation arises under each type of duty, the amount of funds has been included where that duty arises.
This may lead to the same funds being shown more than once where the Group acts in more than one capacity in relation to those funds (e.g. manager and trustee). Where controlled entities, as trustees, custodian or manager incur liabilities in the normal course of their duties, a right of indemnity exists against the assets of the applicable trusts. As these assets are sufficient to cover liabilities, and it is therefore not probable that the Group will be required to settle them, the liabilities are not included in the financial statements.

34 Provisions

	Group		Bank	
	2017	2016	2017	2016
	$m	$m	$m	$m
Employee entitlements	108.9	96.4	105.3	92.3
Property rent	15.4	14.1	15.4	14.1
Other [1]	6.5	6.2	6.5	6.2
Closing balance	**130.8**	**116.7**	**127.2**	**112.6**

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

Movements in provisions (excluding employee entitlements)

	Property Rent		Other		Total	
	2017	2016	2017	2016	2017	2016
Group	$m	$m	$m	$m	$m	$m
Opening balance	14.1	12.7	6.2	5.9	20.3	18.6
Additional provision recognised	2.6	2.6	316.2	303.1	318.8	305.7
Amounts utilised during the year	(1.3)	(1.2)	(315.9)	(302.8)	(317.2)	(304.0)
Closing balance	**15.4**	**14.1**	**6.5**	**6.2**	**21.9**	**20.3**
Bank						
Opening balance	14.1	12.7	6.2	5.9	20.3	18.6
Additional provision recognised	2.6	2.6	316.2	303.1	318.8	305.7
Amounts utilised during the year	(1.3)	(1.2)	(315.9)	(302.8)	(317.2)	(304.0)
Closing balance	**15.4**	**14.1**	**6.5**	**6.2**	**21.9**	**20.3**

34 Provisions (continued)

Recognition and measurement

Employee benefits
The table below shows the individual balances for employee benefits:

	Group		Bank	
	2017	2016	2017	2016
	$m	$m	$m	$m
Annual leave	29.8	27.8	28.6	25.9
Other employee payments	12.0	1.2	12.0	1.2
Long service leave	59.8	59.9	57.4	57.8
Sick leave bonus	7.3	7.5	7.3	7.4
Closing balance	**108.9**	**96.4**	**105.3**	**92.3**

Annual leave and long service leave are measured as the present value of expected future payments for the services provided by employees up to the reporting date. The provision is measured at the amounts that are expected to be paid when the liabilities are settled. Expected future payments are discounted using corporate bond rates.

Annual leave is accrued on the basis of full pro-rata entitlement and amounts are estimated to apply when the leave is paid. It is anticipated that annual leave will be paid in the ensuing twelve months.

Long service leave has been assessed at full pro-rata entitlement in respect of all employees with more than one year's service. The assessment considers the likely number of employees that will ultimately be entitled to long service leave, estimated future salary rates and on-costs.

Sick leave bonus provides an entitlement dependent on an employee's years of service and unused sick leave and is paid on termination.

Other employee payments include short term incentives and are expected to be paid in the ensuing twelve months.

Property rent
The provision for property rent is to recognise the difference between actual property rent paid and the property rent expense recognised in the income statement. The lease expense is recognised on a straight line basis over the period of the lease. The provision is expected to be utilised over the period of the respective leases, typically a period between three and ten years. However, it is expected that a balance will continue as old leases expire and are replaced by new leases.

Other
The provision for dividends represents the residual carried forward balance in relation to ordinary shareholders that participate in the dividend reinvestment plan. It is expected that the current balance will be utilised within a twelve month period. However, an ongoing balance will continue unless all outstanding balances are paid to shareholders upon ceasing participation in the dividend reinvestment plan. The provision also includes accrued dividends relating to preference shares.

The provision of rewards program is to recognise the liability to customers in relation to points earned by them under the program. Reward points expire after three years. The balance will be utilised or forfeited during that period.

Recognition and measurement
Provisions are recognised when the Group has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, and it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used the increase in the provision due to the passage of time is recognised as a finance cost.

A provision for dividend is not recognised as a liability unless the dividend is declared, determined or publicly recommended on or before the reporting date.

35 Share based payment plans

The Group provides benefits to employees by offering share based compensation whereby employees render services in exchange for shares or rights over shares.

These share based incentive plans form an integral part of the Group's remuneration framework with the objective of aligning the interests of executives and general employees to the interests of shareholders.

Further detailed information including terms and conditions associated with each plan is included in the Remuneration Report.

Details of current plans

Performance rights
The Plan provides for grants of performance rights to the Managing Director, Senior Executives and key senior management (the Participants) as determined by the Board. Participants are invited to receive grants of performance rights that are subject to performance conditions set by the Board.

The performance right grant made during FY2017 is subject to the following performance conditions:

- a 'customer hurdle' that requires the Bank's Net Promoter Score over the performance period to be 20 points greater than the median performance of the peer group.
- Cash earnings per share must be equal to or exceed the previous year's, followed by a total shareholder return (TSR) performance hurdle; and
- continuing service with the Group.

The previous performance right grants are subject to the following performance conditions:

- increase in cash earnings per share from previous financial year, followed by a total shareholder return (TSR) performance hurdle; and
- continuing service with the Group.

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

Deferred shares
Under the Plan, Participants are granted deferred shares as part of their base remuneration and short term incentive payments. The deferred shares are beneficially owned by the Participant from the grant date and are held on trust for a two year period.

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

- two year continued service condition; and
- risk conditions

If the service condition is satisfied, the deferred shares will vest subject to any risk conditions.

The number of shares awarded as part of the plan are calculated by dividing the deferred remuneration value by the volume weighted average closing price of the Company's shares for the last five trading days of the financial year prior to the year of grant. The Participants are entitled to vote and to receive any dividend, bonus issue, return of capital or distribution made in respect of shares they are allocated on vesting and exercise of their deferred shares.

Employee Share Grant Scheme (ESGS)
The Company has established a share based incentive plan for full time and permanent part time employees of the Group (excluding Directors and Senior Executives).

The shares will be held in trust for a period of three years after which time they will be transferred to the employee. During the restricted period employees will be entitled to receive dividends and to vote at general meetings.

Employee Share Plan
The Company established a loan based limited recourse Employee Share plan in 2006. The Plan is only available to full time and part time employees of the Group (excluding Senior Executives and the Managing Director).

The Plan provides employees with a limited recourse interest free loan for the sole purpose of acquiring fully paid ordinary shares in the Company. The shares must be paid for by the employee with cash dividends after personal income tax being applied to repay the loans. Employees cannot exercise, dispose or transfer the shares until the loan has been fully repaid.

The first issue to staff under this Plan was completed in September 2006 with a further grant made in December 2007. There have been no further issues under this Plan.

Employee Share Ownership Plan (discontinued)
In 2006 the Company discontinued the existing loan based Employee Share Ownership Plan that was open to all employees of the Group.

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

35 Share based payment plans (continued)

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

	Performance rights		Deferred shares		Share Grant Scheme		Employee Share Plan			
	2017	2016	2017	2016	2017	2016	2017	2017	2016	2016
	No. [1]	No. [1]	No. [1]	No. [1]	No. [1]	No. [1]	No. [2]	WAEP ($)	No.	WAEP ($)
Outstanding at beginning of year	454,024	662,051	94,186	263,877	228,038	246,018	1,858,178	5.45	1,994,420	5.93
Granted	378,759	175,373	163,659	94,186	204,686	-	-	-	-	-
Forfeited/lapsed	(128,010)	(383,400)	-	-	-	-	-	-	-	-
Vested/ exercised	-	-	(94,186)	(263,877)	(233,200)	(17,980)	(264,901)	4.62	(136,242)	5.11
Outstanding at year end	704,773	454,024	163,659	94,186	199,524	228,038	1,593,277	5.03	1,858,178	5.45
Exercisable at year end	-	-	-	-	-	-	-	-	-	-

1. Closing balance of deferred shares and performance rights are exercisable upon meeting the required conditions and until 30 June 2018 and 30 June 2020 respectively.
2. The outstanding balance as at 30 June 2017 is represented by 1,593,277 (2016: 1,858,178) ordinary shares with a market value of $17,653,509 (2016: $17,838,509), exercisable upon repayment of the employee loan.

Recognition and measurement
The cost of the employee services received in respect of shares or rights granted is recognised in the income statement over the period the employee provides the services, generally the period between the grant date and the vesting date of the shares or rights. The overall cost of the award is calculated using the number of shares or rights expected to vest and the fair value of the shares or rights at the grant date.

Fair value methodology
The fair value of shares or rights granted under the various Plans takes into account the terms and conditions upon which the shares or rights were granted.

Performance rights - The fair value is determined using a Black Scholes Merton valuation method incorporating a Monte Carlo Simulation option pricing model taking into account the terms and conditions upon which the rights were granted.

The following inputs are used in the models:

	Managing Director	Other executives
	2017	2017
Dividend yield (%)	5.75%	5.75%
Expected volatility (%)	20.00%	20.00%
Risk-free interest rate (%)	2.10%	1.93%
Expected life of performance rights (years)	4	3
Exercise price ($)	Nil	Nil

The expected life of the performance rights are based on historical data, and are not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of shares granted were incorporated into the measurement of fair value. The fair value is determined by an independent valuation.

Deferred shares - The fair value is measured as at the date of the grant using the volume weighted average closing price of the Company's shares traded on the ASX for five trading days ending on the grant date.

36 Property, plant and equipment

	Freehold land	Freehold buildings	Leasehold improvements	Office equipment & vehicles[1]	Total
Group	$m	$m	$m	$m	$m
Carrying amount as at 1 July 2016	1.3	1.6	54.1	33.7	90.7
Additions	-	-	3.1	7.3	10.4
Disposals	-	-	(0.9)	(0.9)	(1.8)
Revaluations	0.4	(0.1)	-	-	0.3
Depreciation expense	-	-	(10.1)	(11.7)	(21.8)
Closing balance as at 30 June 2017	**1.7**	**1.5**	**46.2**	**28.4**	**77.8**
Carrying amount as at 1 July 2015	1.3	1.7	61.4	34.4	98.8
Additions	-	-	3.5	11.2	14.7
Disposals	-	-	(0.4)	(0.6)	(1.0)
Depreciation expense	-	(0.1)	(10.4)	(11.3)	(21.8)
Closing balance as at 30 June 2016	**1.3**	**1.6**	**54.1**	**33.7**	**90.7**
Bank					
Carrying amount as at 1 July 2016	0.3	0.4	53.3	32.0	86.0
Additions	-	-	3.1	6.8	9.9
Disposals	-	-	(0.9)	(0.8)	(1.7)
Revaluations	0.1	-	-	-	0.1
Depreciation expense	-	-	(10.0)	(11.3)	(21.3)
Closing balance as at 30 June 2017	**0.4**	**0.4**	**45.5**	**26.7**	**73.0**
Carrying amount as at 1 July 2015	0.3	0.4	60.4	32.7	93.8
Additions	-	-	3.6	10.7	14.3
Disposals	-	-	(0.3)	(0.5)	(0.8)
Depreciation expense	-	-	(10.4)	(10.9)	(21.3)
Closing balance as at 30 June 2016	**0.3**	**0.4**	**53.3**	**32.0**	**86.0**

1. Includes office equipment, funriture and fittings.

If land and buildings were measured using the cost model the carrying amounts would be as follows:

	Group		Bank	
	2017	2016	2017	2016
	$m	$m	$m	$m
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**

36 Property, plant and equipment (continued)

Recognition and measurement

Cost and valuation
Plant and equipment is measured at cost less accumulated depreciation and/or impairment. Land is measured at fair value and buildings are measured at fair value less accumulated depreciation.

All assets having limited useful lives, except land, are depreciated from the date of acquisition using the straight line method over their estimated useful lives as follows:

Asset category	2017	2016
Freehold buildings	40	40
Leasehold improvements	10-12	10-12
Plant & equipment	4-10	4-10
Furniture, fixtures and fittings	4-5	4-5
Motor vehicles	5	5

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least annually. Where an asset's carrying value is assessed to be more than the recoverable amount, an impairment loss is recognised.

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

Derecognition
An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the income statement in the year the item is derecognised.

37 Commitments and contingencies

a) Commitments
The following are outstanding expenditure and credit related commitments as at 30 June 2017. Except where specified, all commitments are payable within one year.

	Group		Bank	
	2017	2016	2017	2016
Operating lease commitments (as lessee)	$m	$m	$m	$m
Not later than 1 year	81.1	72.9	81.1	72.7
Later than 1 year but not later than 5 years	208.4	232.3	208.4	232.1
Later than 5 years	91.2	159.9	91.2	159.9
	380.7	**465.1**	**380.7**	**464.7**
Operating lease commitments (as lessor)				
Not later than 1 year	3.7	4.5	3.7	4.5
Later than 1 year but not later than 5 years	13.7	15.4	13.7	15.4
Later than 5 years	10.5	13.7	10.5	13.7
	27.9	**33.6**	**27.9**	**33.6**
Credit related commitments				
Gross loans approved, but not advanced to borrowers	2,001.1	2,243.3	1,935.4	2,195.9
Credit limits granted to clients for overdrafts and credit cards [1]				
Total amount of facilities provided	10,110.3	10,959.8	9,047.4	9,960.1
Amount undrawn at balance date	4,205.6	4,756.9	3,741.9	4,365.5

1. Normal commercial restrictions apply as to use and withdrawal of the facilities.

Recognition and measurement

Operating leases
An operating lease is a lease where substantially all of the risks and rewards of the leased assets remain with the lessor. The Group has entered into commercial property leases and commercial leases on certain motor vehicles and items of office equipment. The leases have various terms and some property leases include optional renewal periods in the contracts. There are no restrictions placed upon the lessee by entering these leases. Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the lease expense, over the term of the lease.

The Group has entered into commercial property leases on the Group's surplus office space. These non-cancellable leases have various terms. All leases have a clause to enable upward revision of the rental charge on a regular basis according to prevailing market conditions. Rentals received are recognised in the income statement on a straight line basis over the lease term.

Future minimum rentals payable and receivable under non-cancellable operating leases as at 30 June 2017 are outlined in the table above.

37 Commitments and contingencies (continued)

b) Contingent liabilities and contingent assets

Contingent liabilities	Group		Bank	
	2017	2016	2017	2016
	$m	$m	$m	$m
Guarantees				
The economic entity has issued guarantees on behalf of clients	251.6	234.7	247.2	230.1
Other				
Documentary letters of credit & performance related obligations	2.2	2.6	1.9	2.3

As the probability and value of guarantees, letters of credit and performance related obligations that may be called on is unpredictable, it is not practical to state the timing of any potential payment.

Recognition and measurement

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

Contingent liabilities are not recognised on the balance sheet. The contractual term of the guarantee matches the underlying obligations to which it relates. The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The guarantees issued by the Bank are fully secured and the bank has never incurred a loss in relation to the financial guarantees it has provided.

Legal claims
The Group is engaged in a range of litigation and court proceedings at any point in time. However, no current proceedings or claims are expected to have a material effect on the business, financial condition or operating results of the Group. For all litigation exposures where loss is probable and can be reliably estimated an appropriate provision is made. The Group has no provisions raised for any current legal proceedings.

Contingent assets
As at 30 June 2017, the economic entity does not have any contingent assets.

38 Auditors' remuneration

	Group		Bank	
	2017	2016	2017	2016
	$	$	$	$
Total fees paid or due and payable to Ernst & Young (Australia) [1]				
Audit and review of financial statements [2]	**1,919,667**	**1,907,192**	**1,602,269**	**1,499,158**
Audit related fees				
Regulatory [3]	353,522	340,902	321,260	259,888
Non-regulatory [4]	233,065	443,782	63,260	295,800
Total audit related fees	**586,587**	**784,684**	**384,520**	**555,688**
Total remuneration of Ernst & Young (Australia)	**2,506,254**	**2,691,876**	**1,986,789**	**2,054,846**

1. Fees exclude goods and services tax.
2. Audit and review of financial statements includes payments for the audit of the financial statements of the Group and Bank, including controlled entities that are required to prepare financial statements.
3. Audit related fees (Regulatory) consist of fees for services required by statute or regulation that are reasonably related to the performance of the audit of the Group's financial statements and are traditionally performed by the external auditor. These services include assurance of the Group's compliance with APRA and Australian Financial Services Licensing reporting and compliance requirements.
4. Audit related fees (Non-regulatory) consist of fees for assurance and related services not required by statute or regulation but are reasonably related to the performance of the audit or review of the Group's financial statements which are traditionally performed by the external auditor. These services include assurance of funding and capital raising and data and model validation for Basel II advanced accreditation.

39 Events after balance sheet date

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in subsequent financial years.

Directors' Declaration

In accordance with a resolution of the directors of Bendigo and Adelaide Bank Limited, we state that:

In the opinion of the directors:

a. the financial statements and notes of the Company and the Bendigo and Adelaide Bank Group are in accordance with the *Corporations Act 2001*, including:

  i. giving a true and fair view of the Company's and the Bendigo and Adelaide Bank Group's financial position as at 30 June 2017 and of its performance for the year ended on that date; and

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

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

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

d. this declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2017.

On behalf of the Board

Robert Johanson

Robert Johanson
Chairman
5 September 2017

Mike Hirst
Managing Director
5 September 2017

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Independent auditor's report to the members of Bendigo and Adelaide Bank Limited

Report on the audit of the financial report

Opinion

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

- the balance sheets as at 30 June 2017;
- the income statements, statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended;
- notes to the financial statements, including a summary of significant accounting policies; and
- the Directors' declaration.

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

- giving a true and fair view of Company's and the Group's financial position as at 30 June 2017 and of their financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the *Corporations Regulations* 2001.

Basis for Opinion

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

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

Key Audit Matters

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

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

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Key audit matter	How our audit addressed the key audit matter
Provisions for bad and doubtful debts	
As described in Notes 3 - Profit, 9 – Impairment of loans and advances, 29 – Risk management, the provisions for bad and doubtful debts are determined under application of Australian Accounting Standard - AASB 139 *Financial Instruments* . The assessment of the provision is performed by the Group on a specific and collective basis. This assessment includes estimates and assumptions across a number of factors, including: • Borrower's financial situation; • Collateral; and • External market factors. Estimates that are made on a collective basis use a series of internal models. This assessment is done based on historical loss data and available information for assets with similar risk characteristics. This was a key audit matter due to the size of the provision (specific provision 30 June 2017: \$89.5 million, collective provision 30 June 2017: \$52.7 million), and the degree of judgment and estimation uncertainty associated with the calculation. Details on the methodology and assumptions used in the calculation of the provision for doubtful debts are included in Note 9 to the financial report.	Our audit of the collective provision for bad and doubtful debts required actuarial expertise to assist in the testing of the mechanics of the underlying model and model assumptions. Accordingly, we involved our Actuarial specialists to test the model and key assumptions and parameters including probability of default, exposure at default and loss given default assumptions. To address the risk of material misstatement and obtain sufficient audit evidence, we performed the following procedures over the provisions for bad and doubtful debts: • Assessed the Group's calculation methodology against the requirements of Australian Accounting Standard - AASB 139 *Financial Instruments;* • Assessed the design and effectiveness of relevant controls used to manage the flow of information between systems and models; • Tested the methodology associated with specific and collective provision estimates, which included performing testing of individual loan exposures and assessing the adequacy of internal credit quality assessments and associated provisions; and • Assessed the adequacy of the disclosures associated with the provision for doubtful debts.

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Key audit matter	How our audit addressed the key audit matter
Investment in Homesafe	
The Group owns 100% of the Homesafe Trust, and has a 50% ownership in the Homesafe Solutions joint venture that was established in 2005. Homesafe offers a Debt Free Equity Release product to allow customers to release the equity in their homes in exchange for a capped percentage share of the future sale proceeds of the property. The Homesafe portfolio is measured at fair value using a discounted cash flow model. The valuation of the portfolio is subject to judgment in relation to key assumptions including: • Mortality Rate; • Voluntary exit rate; • Residential real estate growth rates; and • Discount rates. Further details on the methodology and assumptions used in the calculation of the investment properties are included in Note 23 to the financial report. Within this note the Bank provides a sensitivity analysis of the key significant inputs into their model, being the rates of property appreciation and discount rates. This was a key audit matter due to the size of the Group's investment in residential real estate recognised within the Homesafe Trust (30 June 2017: \$666.3 million), the income recognised in the current year from the Homesafe portfolio (\$90.4 million) and the degree of judgment and estimation uncertainty associated with the assumptions.	In undertaking our procedures we involved our actuarial and real estate specialists to assess the model supporting the discounted cash flow model and property price assumptions incorporated in the model. In performing our procedures, we: • Tested data quality used in the discounted cash flow model and assessed the design and operating effectiveness of relevant controls supporting contract origination and completion including letter of offer, certificate of title, valuation, signed sale agreements and cash reconciliations; • Involved our valuation and actuarial specialists to assess the key assumptions used in the valuation model and the Group's fair value adjustment including discount rates, residential real estate growth rates, mortality rates, voluntary exit rate as well as the valuation model mechanics and validation; and • Assessed the adequacy of the disclosures in respect of the investment and associated gains in the financial report.

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Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill	
Goodwill has been recognised as a result of the Group's historical acquisitions, representing the excess of the purchase consideration over the fair value of assets acquired. Upon acquisition, goodwill has been allocated across the Group's four Cash Generating Unit's ('CGUs'). An impairment assessment is performed each year, comparing the carrying value of the CGU with its recoverable amount. The recoverable amount of each CGU is determined using a value in use calculation. This calculation incorporates a range of assumptions, including: • Future cash flows; • Discount rates; and • Terminal growth rates. Further details on the methodology and assumptions used in the impairment assessment of goodwill are included in Note 26 to the financial report. This was a key audit matter due to the size of the goodwill balance held on balance sheet (30 June 2017: $1.44 billion), and the degree of judgment and estimation uncertainty associated with the impairment assessment.	In obtaining sufficient audit evidence, we: • Obtained an understanding of the process over the Group's impairment assessment; • Benchmarked the implied valuations to comparable company valuation multiples; • Involved our valuation specialists to assess the key assumptions used in the impairment assessment including discount rates and growth rates applied, as well as check the mathematical accuracy of the model supporting the valuation for each CGU; • Assessed the CGU's identified for which goodwill is assessed for impairment; • Performed sensitivity analysis of the Group's assumptions to assess key trigger points; and • Assessed the adequacy of the disclosures associated with the goodwill impairment assessment in the financial report.

Key audit matter	How our audit addressed the key audit matter
Intangible software and deferred expenditure assets	
Deferred expenditure assets Deferred expenditure has been recognised for the Group's internally generated assets that as at balance sheet date are not yet ready for use. The Group's deferred expenditure assets at 30 June 2017 predominantly consist of costs incurred for developing new IT systems. *Software intangible assets* Once the deferred expenditure assets are in use by the Group, they are recorded as software intangible assets and amortised over their useful life. The Group records these assets at cost less any amortisation and impairment charges (if applicable). An impairment assessment is performed on a semi-annual basis or more frequently if indicators of impairment exist. This was a key audit matter due to the size of intangible software and deferred expenditure assets held on balance sheet (30 June 2017: $252.3 million), and the degree of judgment and estimation uncertainty associated with the impairment assessment, specifically related to the forecasted project benefits. For further details on the methodology applied by the Group in relation to software intangibles refer to Note 26 and deferred expenditure refer to Note 27.	As part of our audit response to the risks of deferred expenditure assets we performed the following: • Assessed the design and operating effectiveness of the Group's controls relating to the review and approval of projects that meet the Australian Accounting Standards – AASB 138 *Intangibles* criteria to be capitalised and controls over the monitoring and managing of deferred expenditure projects; • Assessed the Group's annual impairment assessment of both deferred expenditure and software intangibles, which included assessing key inputs and assumptions including future benefits expected to be derived from the assets, checking the mathematical accuracy of the calculations and performing sensitivity analysis on key inputs and assumptions specifically related to the forecast project benefits; and • Assessed the adequacy of the disclosures associated with the deferred expenditure and software intangibles in the financial report.

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

The Directors are responsible for the other information. The other information comprises the information in the Company's Annual Report for the year ended 30 June 2017, but does not include the Financial Report and the auditor's report thereon.

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

In connection with our audit of the Financial Report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

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

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

Report on the Remuneration Report

Opinion of the Remuneration Report

We have audited the Remuneration Report included in pages 25 to 47 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of the Company for the year ended 30 June 2017, complies with section 300A of the *Corporations Act* 2001.

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Responsibility

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

Ernst & Young

Graeme McKenzie Partner Melbourne	Luke Slater Partner Melbourne

5 September 2017

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 14 August 2017.

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 16 August 2017 there was one substantial shareholder in Bendigo and Adelaide Bank Limited as detailed in substantial holdings notices given to the Company - BlackRock Group.

5 Distribution of shareholders

Range of Securities as at 16 August 2017 in the following categories:

Category	Fully paid ordinary shares	Fully paid Employee shares	Convertible Preference shares	Convertible Preference shares 2	Convertible Preference shares 3
1 - 1,000	36,087	4,549	4,879	4,659	5,219
1,001 - 5,000	38,836	496	293	415	372
5,001 - 10,000	8,689	15	30	31	13
10,001 - 100,000	4,757	4	13	12	14
100,001 and over	106	-	-	-	-
Number of Holders	88,475	5,064	5,215	5,117	5,618
Securities on Issue	477,436,022	1,770,442	2,688,703	2,921,188	2,822,108

6 Marketable parcel

Based on a closing price of $12.49 on 16 August 2017 the number of holders with less than a marketable parcel of the company's main class of securities (Ordinary Shares), as at 16 August 2017 was 3,373.

7 Unquoted securities

The number of unquoted equity securities that are on issue and the number of holders of those securities are shown in the above table under the heading of Fully Paid Employee shares.

Additional information (continued)

8 Major shareholders

Names of the 20 largest holders of Fully Paid Ordinary shares, including the number of shares each holds and the percentage of capital that number represents as at 16 August 2017 are:

Fully paid ordinary shares

Rank	Name	Number of securities	% of securities
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	91,244,775	19.04%
2	J P MORGAN NOMINEES AUSTRALIA LIMITED	37,567,758	7.84%
3	CITICORP NOMINEES PTY LIMITED	27,401,922	5.72%
4	NATIONAL NOMINEES LIMITED	12,406,666	2.59%
5	MILTON CORPORATION LIMITED	5,709,708	1.19%
6	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	4,114,701	0.86%
7	BNP PARIBAS NOMS PTY LTD <DRP>	3,666,385	0.77%
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	2,172,870	0.45%
9	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	1,806,073	0.38%
10	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	1,443,488	0.30%
11	BAINPRO NOMINEES PTY LIMITED	1,334,114	0.28%
12	CARLTON HOTEL LIMITED	1,117,147	0.23%
13	NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	953,464	0.20%
14	AMP LIFE LIMITED	870,225	0.18%
15	DIESEL COOLING PTY LTD	700,000	0.15%
16	LEESVILLE EQUITY PTY LTD	679,455	0.14%
17	NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	616,998	0.13%
18	NATIONAL NOMINEES LIMITED <DB A/C>	533,193	0.11%
19	YARABIE ESTATES PTY LTD <YARABIE SUPER FUND A/C>	510,000	0.11%
20	TERMZ PTY LTD <POMPAPIEL SUPER FUND A/C>	500,000	0.10%
		195,348,942	40.77%

BBS Nominees Pty Ltd, trustee for the Bendigo and Adelaide Employee Share Plan and Pacific Custodians Pty Limited, trustee for the Employee Share Grant Scheme, held a combined total of 1,770,442 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.

Additional information (continued)

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 16 August 2017 are:

Fully paid Convertible Preference Shares (CPS)

Rank	Name	Number of securities	% of securities
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	98,601	3.67%
2	BNP PARIBAS NOMS PTY LTD <DRP>	69,575	2.59%
3	J P MORGAN NOMINEES AUSTRALIA LIMITED	67,347	2.50%
4	IOOF INVESTMENT MANAGEMENT LIMITED <IPS SUPER A/C>	39,453	1.47%
5	SANDHURST TRUSTEES LTD <DMP ASSET MANAGEMENT A/C>	19,083	0.71%
6	PCI PTY LTD	17,715	0.66%
7	BALMORAL FINANCIAL INVESTMENTS PTY LTD <NO 2 A/C>	16,203	0.60%
8	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	15,830	0.59%
9	WORONORA GENERAL CEMETERY & CREMATORIUM	15,000	0.56%
10	SOUTH HONG NOMINEES PTY LTD <HONG SUPER FUND A/C>	14,000	0.52%
11	NATIONAL NOMINEES LIMITED	12,538	0.47%
12	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	11,000	0.41%
13	G E MALLAN INVESTMENTS PTY LTD <MALLAN SUPER FUND A/C>	10,300	0.38%
14	WALMSLEY DEVELOPMENTS PTY LTD	10,000	0.37%
15	BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED	10,000	0.37%
16	MARENTO PTY LTD	10,000	0.37%
17	TRISTAR METALS PTY LTD	10,000	0.37%
18	SUNTECA (WA) PTY LTD	10,000	0.37%
19	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	9,697	0.36%
20	NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	9,448	0.35%
		475,790	17.70%

Additional information (continued)

8 Major shareholders (continued)

Names of the 20 largest holders of Bendigo and Adelaide Convertible Preference shares 2, including the number of shares each holds and the percentage of convertible preference share 2 capital that number represents as at 16 August 2017 are:

Fully paid Convertible Preference Shares 2 (CPS2)

Rank	Name	Number of securities	% of securities
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	93,268	3.19%
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	57,782	1.98%
3	BNP PARIBAS NOMS PTY LTD <DRP>	51,213	1.75%
4	NATIONAL NOMINEES LIMITED	31,777	1.09%
5	TGB HOLDINGS PTY LTD	26,610	0.91%
6	J P MORGAN NOMINEES AUSTRALIA LIMITED	22,811	0.78%
7	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	21,667	0.74%
8	JOHN E GILL TRADING PTY LTD	17,130	0.59%
9	CITICORP NOMINEES PTY LIMITED	16,826	0.58%
10	JGW INVESTMENTS PTY LTD	15,725	0.54%
11	UNIVERSITY OF TASMANIA <LISTED INCOME SECURITIES AC>	14,685	0.50%
12	THE TRUST COMPANY (AUSTRALIA) LIMITED <WCCTFI A/C>	11,500	0.39%
13	INVIA CUSTODIAN PTY LIMITED <MF FOUNDATION PTY LTD A/C>	10,000	0.34%
14	C ROBERTSON PTY LTD <ROBERTSON SUPER FUND A/C>	10,000	0.34%
15	TRISTAR METALS PTY LTD	10,000	0.34%
16	WINCHELADA PTY LIMITED	10,000	0.34%
17	IOOF INVESTMENT MANAGEMENT LIMITED <IPS SUPER A/C>	9,856	0.34%
18	PUPGALL PTY LTD	8,560	0.29%
19	NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	8,280	0.28%
20	NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	7,598	0.26%
		455,288	15.59%

8 Major shareholders (continued)

Names of the 20 largest holders of Bendigo and Adelaide Convertible Preference shares 3, including the number of shares each holds and the percentage of convertible preference share 3 capital that number represents as at 16 August 2017 are:

Fully paid Convertible Preference Shares 3 (CPS3)

Rank	Name	Number of securities	% of securities
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	90,985	3.22%
2	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	54,438	1.93%
3	NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	47,761	1.69%
4	GAEA GROUP PTY LTD <NO 2 A/C>	37,906	1.34%
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	28,342	1.00%
6	J P MORGAN NOMINEES AUSTRALIA LIMITED	26,712	0.95%
7	BNP PARIBAS NOMS PTY LTD <DRP>	25,475	0.90%
8	NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	25,427	0.90%
9	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	19,349	0.69%
10	G C F INVESTMENTS PTY LTD	15,000	0.53%
11	SANDHURST TRUSTEES LTD <DMP ASSET MANAGEMENT A/C>	11,781	0.42%
12	NATIONAL NOMINEES LIMITED	11,653	0.41%
13	JGW INVESTMENTS PTY LTD	10,260	0.36%
14	SOUTH LAKE PTY LTD	10,100	0.36%
15	BRIPAT MANAGEMENT PTY LTD	10,000	0.35%
16	BAPTIST FINANCIAL SERVICES AUSTRALIA LIMITED	10,000	0.35%
17	NARRA HOLDINGS PTY LTD <LAWRENCE NARRA FAMILY A/C>	10,000	0.35%
18	TGB HOLDINGS PTY LTD	9,800	0.35%
19	WINCHELADA PTY LIMITED	8,012	0.28%
20	JDB SERVICES PTY LTD <RAC & JD BRICE INVEST A/C>	7,800	0.28%
		470,801	16.68%

9. Voting rights

Under the Bank's Constitution, each person who is a voting Shareholder and who is present at a general meeting of the Bank in person or by proxy, attorney or official representative is entitled to one vote on a show of hands or, on a poll, one vote for each fully paid ordinary share held.

In the case of an equality of votes the Chairman has, on both a show of hands and at a poll, a casting vote in addition to the vote to which the Chairman may be entitled as a shareholder, proxy, attorney or duly appointed representative of a shareholder.