



Bendigo and Adelaide Bank Limited External Audit Independence Policy

Group Assurance

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OVERVIEW

BACKGROUND

This policy is consistent with:

- Corporations Act 2001 which contains a range of auditor independence requirements;
 - *general independence requirements (s324CA - s.324CD)*
 - *specific independence requirements (s.324CE - s.324CK)*
 - *auditor rotation for listed public companies (s.324DA - s.324DD).*
- Principle 4 of the ASX's Corporate Governance Principles and Recommendations: Safeguard integrity in financial reporting (A listed company should have formal and rigorous processes that independently verify and safeguard the integrity of its financial reporting);
- Prudential Standards APS 310 Audit and Related Matters and CPS 510 Governance and CPS 520 Fit and Proper; and
- APES 110 Code of Ethics for Professional Accountants, issued by the Accounting Professional and Ethical Standards Board.

PURPOSE

The objective of this policy is:

- To guide the appointment of an independent external auditor;
- To identify the key external auditor independence and disclosure requirements;
- To outline the requirements for rotating the external auditor engagement partners; and
- To ensure that Bendigo and Adelaide Bank and its related entities comply with legislative, prudential and professional standards relating to external auditor independence.

APPLICATION

This policy applies to all Group external audit engagements covering all Bendigo and Adelaide Bank related entities.

In relation to Sandhurst Trustees Limited (Sandhurst), as a registrable superannuation entity licensee, all requirements and the operation of this policy are to be met through its Audit, Risk and Compliance Committee, in line with its Charter.

Group Assurance may be engaged by the Australian Friendly Society ('AFS'), through their service agreement with Sandhurst, to arrange for provision of external audit services. AFS is an un-related entity of the Group and all requirements and the operation of this policy are to be met through its Audit Committee, in line with its Charter.

POLICY

1. Appointment of external auditors

Bendigo and Adelaide Bank Limited (the Bank) is required to appoint an independent external auditor with the appropriate skills, knowledge and experience to contribute to:

- the integrity of the Bank's financial reporting;
- fulfilling the role and responsibilities of the auditor appointed under APRA APS 310 and SPS 310; and
- auditing the Bank for the purposes of the Corporations Act.

The auditor appointed for the purposes of prudential standards may be the same auditor who audits the entity for the purposes of the Corporations Act 2001 (Cth).

The terms of engagement of the auditor must be set out in a legally binding contract between the entity and the auditor, and must cover a variety of matters set out in the prudential standards (Section 11 of APS 310 and Section 7 of SPS 310).

The external auditor responsibilities include submitting directly to APRA all reports required to be produced under prudential standard APS 310 and SPS 310.

Selection and appointment of the external auditor

1. Assessment

The following factors are assessed as part of the external auditor selection process.

- Professional standing, reputation, relevant experience and independence.
- Adequate resources including relevant industry and technical expertise.
- Ability to provide quality and efficient audit services.

2. Selection criteria

A proposed selection criteria is developed by Group Assurance and the Group Audit Committee; and then recommended to the Bendigo and Adelaide Bank Board for adoption, having regard to the above assessment considerations.

3. Selection process

The Group Audit Committee has the responsibility to recommend to the Bendigo and Adelaide Bank Board appropriate procedures for the selection, appointment and reappointment of the external auditor.

4. Appointment

It is the responsibility of Group Assurance to consult relevant stakeholders in facilitating the appointment of the external auditors. It is the responsibility of the Group Audit Committee to make recommendations to the Bendigo and Adelaide Bank Board on the appointment and removal of the external auditor, the scope of the external audit, engagement terms and the remuneration of the auditor.

2. Independence Requirements and Directors' report disclosures

Auditor's independence declaration

If an auditor conducts an audit for a financial year or half year, then the auditor must give the directors a written declaration that to the best of the auditor's knowledge and belief:

- There have been no contraventions of:
 - the auditor independence requirements (both general and specific) of the Corporations Act in relation to the audit; and
 - any applicable code of professional conduct in relation to the audit review;

or

- The only contraventions of the above are those contraventions which are set out in the declaration.

Examples of general and specific independence requirements are:

- Identifying, disclosing and managing conflicts of interest;
- Current or former officer or audit critical employee;
- Non audit services;
- Restrictions on auditors being employed by audit clients;
- Restrictions on auditors holding investments in audit clients;
- Multiple former audit firm partners or audit company directors.

Restrictions on auditors being employed by audit clients

- A former member of an audit firm, or director of an audit company, who was a professional member of the audit team (including lead and review partners) in the conduct of an audit at any time before their departure from the audit firm or company, cannot become an officer (director, company secretary or senior manager) of an audit client (including any related body corporate) until 2 years from the date of the last audit report in which they were involved in preparing.

Non audit services disclosure

- The Directors' Report must disclose details of the amount paid or payable to the auditor for each category of non audit service provided by the auditor to a member of the Group during the financial year.
- The Directors' Report must also contain a statement outlining whether the directors are satisfied, together with their reasons, that the provision of non audit services by the auditor during the year was compatible with the general standard of independence for auditors imposed by the Corporations Act. This statement must be consistent with formal advice obtained from the Group Audit Committee. The Group Audit Committee's advice must be provided to the Bendigo and Adelaide Bank Board. The approach for assessing the provision of non-audit services is set out in Section 4 below.

3. Bendigo and Adelaide Bank specific auditor independence requirements

Compliance with the following Bendigo and Adelaide Bank specific requirements must be confirmed by the external auditor for each reporting period.

Financial relationships:

- The audit firm, any member of the audit engagement team, or any of his or her immediate family must not have a direct or indirect investment in the Group's securities.
- The audit firm or engagement partner must not have effective control over superannuation fund investments in Group securities.
- The audit firm must not have a material financial interest in an entity that has a material interest in the Group.
- Any audit partners, member of the engagement audit team and managerial employees who provide non-audit services to the Group, as well as members of their immediate families, must not have a direct or indirect investment in the Group securities.
- The audit firm, or any member of the audit engagement team, or associate of the audit engagement team, must not have a business relationship with the Group or any of its officers.

Banking products and services:

The audit firm, any partner of the audit firm, members of the audit engagement team, or any of their immediate family, must not hold any account, investment or debt with the Group, other than accounts, investments or debts acquired or provided in the ordinary course of the Group's business and on terms and conditions that normally apply.

Confirmation that:

- The Group has not withheld payment of external audit fees at any time;
- No portion of fees paid by the Group to the auditor is paid on a contingency basis;
- There are no overdue fees owed to the external auditor from the Group, for past audit and non-audit services rendered;
- There is no litigation between the Group and the auditor;
- The compensation of the audit engagement team members is not linked to the provision of non audit services; and
- The auditor has not accepted or provided gifts or hospitality to Group employees and directors other than what is commensurate with social and professional courtesies.

Please note that the requirements above are not an exhaustive list, and does not limit the responsibility of the external auditor to declare any other matter which they are aware of, which may in fact or in appearance, to a reasonably informed third party, compromise their independence

4. Non Audit Services

Non-Audit Services Requiring Pre-Approval

All External Audit non audit engagements are prohibited unless approved in advance by the Group Audit Committee, or, by the sub-delegates. The Group Audit Committee delegates the approval of Non-Audit Services to the value of \$50,000 to the Head of Group Assurance, and, to the value of \$100,000 for the Chair of the Audit Committee, with the Group Audit Committee to be advised of all such approvals made by the sub-delegates at their next scheduled meeting.

The management submission for Group Audit Committee or sub-delegate approval must include a full assessment of the proposed non audit services' actual and potential impact upon the auditor's independence, and reference, for the approver's information and assessment, the proposed safeguards which will be put in place to ensure that any actual or perceived threats to the external auditors' independence will be reduced to an acceptable level.

In addition, although such requests may be submitted by management and approved by the Group Audit Committee or sub-delegate, it is incumbent on the External Auditor to immediately notify the Bank whether they subsequently become aware of any further information/ circumstances unknown to the Bank at the time of the submission was made and approved, which may cause the acceptance of such work to comprise their independence.

In relation to Rural Bank ('RBL') the policy adopted is in line with the above requirements with requests for all External Audit non audit engagements to be approved by the RBL Audit Committee and advised to the Group Audit Committee through the Head of Group Assurance.

Prohibited Non-Audit Services

In some circumstances, there are no level of safeguards that can be applied to proposed Non-Audit Services, which can reduce the perceived or actual threat to the External Auditor's independence to an acceptable level, and hence, are prohibited by the Group Audit Committee.

Under this Policy, the external auditor is prohibited from:

- Assuming managerial responsibilities, including acting in or participating in a decision making capacity or acting as an employee or advocate for the Bank;
- Providing book keeping, or other services related to the accounting records and/ or financial statements of the Bank and its related entities, including their preparation;
- Providing appraisal or valuation services;

- Providing internal audit outsourcing services;
- Providing legal services;
- Providing Human Resources and recruiting services;
- Providing actuary services (outside external audit);
- Designing and implementing financial information systems;
- Designing or implementing internal controls over financial reporting and accounting records;
- Providing Corporate Finance Services, such as assisting in the development of corporate strategies and KPI's;
- Performing audits on the external auditor's own professional expertise; and
- Providing any other service that the Group Audit Committee determines, by regulation, is impermissible.

Standing Exemptions

The Group Audit Committee has approved the following standing exemption from the condition that individual engagements require Group Audit Committee or sub-delegate pre-approval, on the basis that the exemption does not conflict with the independence of the External Auditor:

Permitted services such as those required by APRA and Euro Medium Term Note (EMTN prospectus), which are detailed in the External Audit Plan and are approved annually by the Group Audit Committee. Only if the nature of the work or the fee materially differs from the approved plan is a separate submission required.

For the purpose of fee materiality a variance greater than 10% of the quoted fee is to be referred to the Group Audit Committee for information.

Cost of Non-Audit Services

The total cost of the non-audit services provided by the External Auditor in a given financial year must not exceed 50 percent of the total external audit engagement fees for that year without the Group Audit Committee being immediately advised, to ensure that this can be monitored and managed accordingly so that any perceived threat to the External Auditor's independence can be appropriately managed.

In addition:

- Once this threshold is exceeded, all subsequent requests for Non-Audit Services can only be approved by the Group Audit Committee, and not the sub-delegates; and
- The external auditor must disclose to the company if members of the External Audit firm who provided Non-Assurance Services are planning to participate in audit related work, for a period of twelve months following completion of the Non-Assurance services.

5. Engagement partner rotation

A person who plays a significant role in executing external audits must rotate to ensure the independence and integrity of the external audit engagement.

A person plays a significant role in the audit if the person is the lead or review partner.

The partner rotation position approved for the current auditor, Ernst & Young, requires that a person who plays a significant role in the audit must rotate if they have acted in that role for five successive years or, if they were to act, they would have played a significant role for more than five out of seven successive financial years. In such cases a person must not play a significant role in the audit for at least two successive financial years.

It is the responsibility of the Group Audit Committee to make recommendations to the Bendigo and Adelaide Bank Board on the rotation of external audit engagement partners.

GOVERNANCE

IMPLEMENTATION AND REVIEW

This policy is to be reviewed and submitted for consideration for approval at least once every two years.

RELATED DOCUMENTS

Related regulation, policies, references and standards that should be read in conjunction with this policy include:

- Corporations Act
- ASX Corporate Governance Council's Corporate Governance Principles and Recommendations
- APS 310 and SPS 310 Audit and Related Matters
- CPS 510 Governance
- Code of Ethics for Professional Accountants 110
- Subsidiary Audit Policy
- Fit and Proper Policy

DOCUMENT CONTROL TABLE

Version No.	Approved by:	Date approved:	Date applicable:	Next review date:	Document owner:
1.0	Audit Committee	May 2005	On approval	April 2006	Head of Group Assurance
2.0	Audit Committee	April 2006	On approval	May 2007	Head of Group Assurance
3.0	Audit Committee	May 2007	On approval	April 2008	Head of Group Assurance
4.0	Audit Committee	April 2008	On approval	April 2009	Head of Group Assurance
5.0	Audit Committee	April 2009	On approval	June 2010	Head of Group Assurance
6.0	Audit Committee	June 2010	On approval	November 2011	Head of Group Assurance
7.0	Audit Committee	November 2011	On approval	November 2013	Head of Group Assurance
8.0	Audit Committee	November 2013	On approval	November 2015	Head of Group Assurance
9.0	Audit Committee	November 2015	On approval	November 2017	Head of Group Assurance
10.0	Audit Committee	November 2017	On Approval	November 2019	Head of Group Assurance