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Bendigo and Adelaide Bank

Annual Financial Report 2012

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ABN 11 068 049 178

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In an effort to reduce our paper consumption and impact on the environment, this Annual Report has been printed on recycled paper using environmentally friendly inks.

Calendar

2012

28.09.12	Distribution of Final Dividend
10.10.12	Bendigo Step Up Preference Share Dividend
29.10.12	Annual General Meeting
01.11.12	Bendigo Reset Preference Share Dividend
17.12.12	Bendigo Preference Share Dividend

Proposed 2013

10.01.13	Bendigo Step Up Preference Share Dividend
18.02.13	Announcement of Interim Results and Interim Dividend
20.02.13	Interim Ex-Dividend Date
26.02.13	Interim Dividend Record Date
15.03.13	Bendigo Preference Share Dividend
28.03.13	Distribution of Interim Dividend
10.04.13	Bendigo Step Up Preference Share Dividend
01.05.13	Bendigo Reset Preference Share Dividend
17.06.13	Bendigo Preference Share Dividend
10.07.13	Bendigo Step Up Preference Share Dividend
19.08.13	Announcement of Final Results and Final Dividend
23.08.13	Final Ex-Dividend Date
29.08.13	Final Dividend Record Date
16.09.13	Bendigo Preference Share Dividend
30.09.13	Distribution of Final Dividend
10.10.13	Bendigo Step Up Preference Share Dividend
28.10.13	Annual General Meeting
01.11.13	Bendigo Reset Preference Share Dividend
16.12.13	Bendigo Preference Share Dividend

The 2013 dates are proposed. Please visit **www.bendigoadelaide.com.au** to view the most current calendar.

In this report, the expression "the Bank", "the Company" or "the Group" refers to Bendigo and Adelaide Bank Limited and its controlled entities.

Full Financial Report

For the 12 month period ending **30 June 2012**

BENDIGO AND ADELAIDE BANK LIMITED
ABN 11 068 049 178

Annual Financial Report
Period ending 30 June 2012

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CORPORATE GOVERNANCE

Our Vision

We aim to be Australia's leading customer-connected bank

Our Strategy

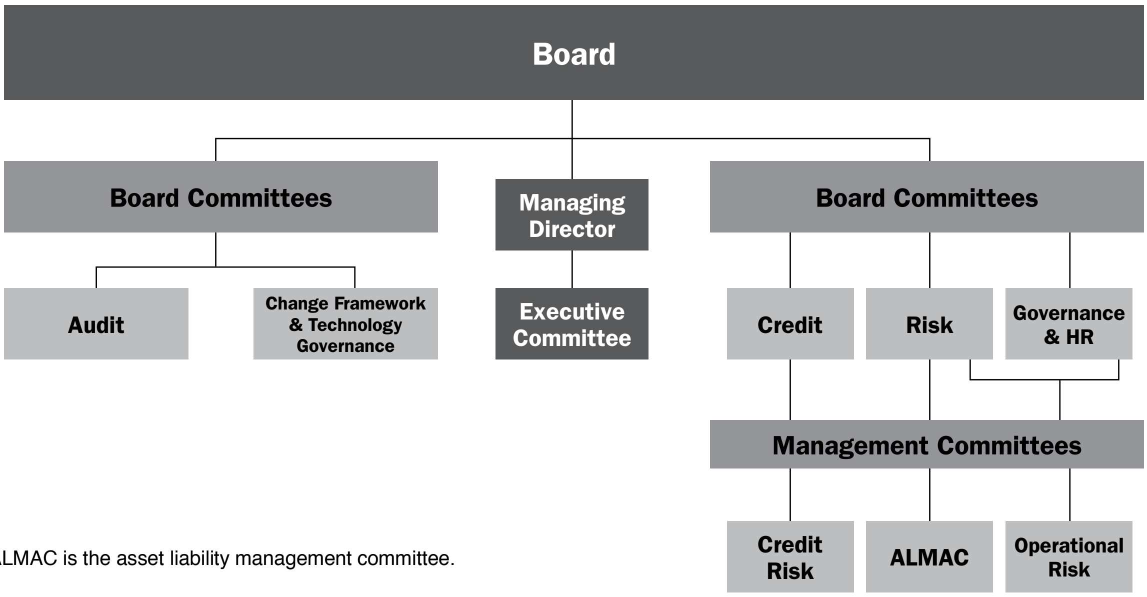
- Our strength comes from our focus on the success of our customers, people, partners and communities
- We take a 100 year view of the business
- We listen
- We respect everyone's choice, needs and objectives
- We partner for sustainable long term outcomes

Introduction

Bendigo and Adelaide Bank is committed to high standards of corporate governance. This commitment applies to the Company's relationship with its shareholders, customers, employees, suppliers, regulators and the communities in which we operate.

The governance processes and practices adopted by the Company take into account APRA's standards and guidance and the governance recommendations set by the ASX Corporate Governance Council (ASX Recommendations). A summary of the ASX Recommendations with reference to the Company's governance practices is available on the Company's website – www.bendigoadelaide.com.au. The governance documents referred to below can also be accessed from this website.

The following provides an overview of the Company's corporate governance structure.



Note: ALMAC is the asset liability management committee.

Board role and skills

The board charter sets out the responsibilities of the board. A copy of the charter is available on the Company's website. Except in relation to any matters reserved to the board under the charter, the day-to-day management of the Company and its operations is delegated to management.

The Company appoints directors with appropriate skills and experience to contribute to the effectiveness of the board, to provide leadership and contribute to the success of Company.

This involves taking into account the Company's strategy (set out above), which includes building a long term sustainable business focusing on the success of our customers, people, partners and communities. This delivers prosperity for stakeholders, which in turn creates prosperity for the Company and its shareholders.

The board regularly reviews the necessary skills, knowledge and experience represented on the board to deliver the strategy of the group and to take into account the benefits to the organisation of having board representation relating to strategic points of difference.

The board uses a skills matrix to assist with the review. The criteria from the matrix are set out below.

Industry

1. Banking industry

   Note, this includes the following:

   - Retail banking and distribution
   - Capital management, including capital and financial markets and treasury
   - Regulation, including prudential regulation

2. Wealth management industry

Subject matter specific

3. Governance
4. Accounting and financial reporting
5. Legal
6. Technology and telecommunications
7. Corporate finance/investment banking
8. Risk management

General

9. Business
10. Listed board
11. Retailing Note, this includes sales, branding and marketing
12. Understanding of regional and community issues

A director may obtain independent professional advice at the reasonable cost to the Company with approval of the Chair of the board (or, if the Chair refuses to give approval, the board).

The directors

Details of the directors of the Company during the reporting period are set out below.

Robert Johanson, Chair, Independent
BA, LLM (Melb), MBA (Harvard), 61 years

Term of office: Robert has been a Company director for 25 years. He was appointed Deputy Chair in 2001 and Chair 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 25 years experience in providing corporate advice on capital market transactions to a wide range of public and private companies.

Board committees: governance & HR, change framework & technology governance

Group and joint venture directorships: Rural Bank Ltd, Homesafe Solutions Pty Ltd (Chair) and Bank of Cyprus Australia Ltd (from March 2012 to August 2012).

Other director and memberships (current and within last 3 years):

Member, Takeovers Panel

Deputy Chancellor, University of Melbourne and Chairman, Australia India Institute.

Director, Robert Salzer Foundation Ltd and Grant Samuel Group Pty Ltd. Grant Samuel provides professional advisory services to the Company. Further information is provided under the renewal and re-election section following.

Mike Hirst, managing director, not independent
BCom (Melb), 54 years

Term of office: Mike was appointed as managing director and chief executive officer of the Company in 2009.

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

Board committees: Mike has a standing invitation to attend meetings of the risk, credit, governance and HR and change framework and technology governance committees. He is not a member of these committees.

Group and joint venture directorships: Rural Bank Ltd and Bank of Cyprus Australia Ltd (from March 2012 to August 2012)

Other director and memberships (current and within last 3 years):

Director, Treasury Corporation of Victoria

Member, Financial Sector Advisory Council and Business Council of Australia

Councillor, Australian Bankers' Association

Director, Barwon Health (ended 2009).

Kevin Abrahamson, Independent
BSc (Hons), MA, MBA, FAICD, FFin, FAIM, 67 years
Note: Retired October 2011

Term of office: Kevin joined the Adelaide Bank board in 2000 and the Bendigo and Adelaide Bank board in 2007 and retired from the board in October 2011.

Skills, experience and expertise: As a specialist in the area of corporate strategy and information technology, Kevin has worked as a consultant in the financial sector since 1997 as the head of KD Abrahamson Consultants. From 1988 to 1997, he held the position of General Manager, Group Services with Advance Bank and St George Bank.

Board committees: Audit, Change Framework & Technology Governance

Group and joint venture directorships: n/a

Other director and memberships (current and within last 3 years): n/a

Jenny Dawson, Independent
B Bus (Acc), FCA, MAICD, 47 years
Note: Standing for re-election at the 2012 AGM

Term of office: Ms Dawson joined the board in 1999.

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

Board committees: audit (Chair), credit

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

Other director and memberships (current and within last 3 years):

Member, Victorian Regional Policy Advisory committee

Chair, Regional Development Australia Committee for the Loddon Mallee Region

Director, Goulburn-Murray Water

Former director, Coliban Region Water Corporation (ended 2010).

Jim Hazel, Independent
BEc, FFin, 61 years

Term of office: Jim joined the board in 2010.

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

Board committees: risk (Chair), credit, governance & HR

Group and joint venture directorships: Rural Bank Limited

Other director and memberships (current and within last 3 years):

Chairman, Ingenia Communities Group Ltd (listed, period June 2012 to present)

Director, Centrex Metals Ltd (listed, period of directorship: 2010 to present), Impedimed Ltd (listed, period of directorship: 2007 to present), Motor Accident Commission and Coopers Brewery Ltd

Former director, Becton Property Group (2006 – 2010).

Jacqueline Hey, Independent
BCom (Melb), Graduate Certificate in Management (Southern Cross University), (GAICD), 46 years

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

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

Board committees: audit, risk, change framework & technology governance (Chair from July 2012)

Group and joint venture directorships: Bank of Cyprus Australia Ltd (from March 2012 to August 2012)

Other director and memberships (current and within last 3 years):

Director, Special Broadcasting Service (SBS) and Honorary Consul of Sweden for Victoria.

Former director of Victorian Branch of Australian Industry Group (AIG) (ended 2010),

Australian Mobile Telecommunications Association (ended 2010) and

Ericsson Group Companies (Australia & New Zealand) (ended 2010).

David Matthews, Independent
Dip BIT, GAICD, 54 years

Term of office: David joined the board in 2010.

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

Board committees: Credit, Audit

Group and joint venture directorships:

Co-Chair of the **Community Bank**® Strategic Advisory Board.

Other director and memberships (current and within last 3 years):

Director, Pulse Australia, Australian Field Crops Association, Rupanyup/Minyip Finance Group Ltd.

Terry O'Dwyer, Independent
B Com, Dip Adv Acc, FCA, FAICD, 62 years
Note: Retired August 2012

Term of office: Terry joined the board in 2000 and retired from the board in August 2012. Terry was a director of First Australian Building Society Limited which was acquired by the Company in 2000.

Skills, experience and expertise: Terry has expertise in accounting and corporate finance. Terry was a partner in BDO Kendalls (Chartered Accountants) for 28 years and headed its corporate finance division before being appointed Chair.

Board committees: audit, risk, change framework & technology governance

Group and joint venture directorships: n/a

Other director and memberships (current and within last 3 years):

Chair, Metal Storm Ltd (Administrator Appointed) (listed, period of directorship: 2007 to present) and

Director, Queensland Theatre Company Ltd.

Deb Radford, Independent
B.Ec, G. Dip Finance & Investment, 56 years
Note: Standing for re-election at the 2012 AGM

Term of office: Deb joined the board in 2006.

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

Board committees: credit (Chair), change framework & technology governance, Governance & HR

Group and joint venture directorships: Bank of Cyprus Australia Ltd (from March 2012 to August 2012)

Other director and memberships (current and within last 3 years):

Director, Forestry Tasmania (ceased 30 June 2012) and City West Water (ceased 30 September 2011).

Tony Robinson, Independent
B Com (Melb), ASA, MBA (Melb), 54 years
Note: Standing for re-election at the 2012 AGM

Term of office: Tony joined the board in 2006.

Skills, experience and expertise: Tony is the managing director of Centrepoint Alliance Limited and has many years' experience in financial services, particularly wealth management and insurance.

Tony's previous roles include chief executive officer and executive director of IOOF Holdings Ltd, managing director and chief executive officer of OAMPS Limited, joint managing director of Falkiners Stockbroking, managing director of WealthPoint, and senior executive positions at Link Telecommunications and Mayne Nickless.

Board committees: risk, governance & HR (Chair)

Group and joint venture directorships: n/a

Other director and memberships (current and within last 3 years):

Director, Centrepoint Alliance Limited (listed, period of directorship: 2009 to present)

Former director, IOOF Holdings Limited (listed, period of directorship: 2007 to 2009).

Independence

The board believes that the exercise of independent judgment by directors is an important feature of corporate governance.

The board policy sets out the test for the purpose of assessing the independence of non-executive directors as follows: "An independent director is a director who is free from any material business or other association – including those arising out of a substantial shareholding, involvement in past management or as a supplier, customer or advisor - that could interfere with the exercise of their independent judgment". In deciding materiality, the quantitative materiality thresholds in *Accounting Standard AASB 1031* are taken into account, as well as qualitative materiality factors.

The board has assessed each non-executive director as independent. Further detail in relation to Robert Johanson and Jenny Dawson is set out below.

Robert Johanson

The Chairman of the Company, Mr Robert Johanson, is responsible for leading the board and ensuring that it is operating to the appropriate governance standards. Robert has been Chairman of the Company since 2006 and a non-executive director since 1988.

Robert is a director of Grant Samuel Group Pty Ltd (and subsidiaries), which has a long standing relationship with the Company and which is one of a range of firms which may be engaged to provide corporate advisory services to the Company. In choosing a provider for corporate advisory services, the Company will consider the type of assistance required, the expertise of the firm and individuals in the firm, their understanding of the Company and its strategy, and the cost of the services.

During the reporting period Grant Samuel was engaged to provide general commercial property advice and advice on the group's distribution arrangements with Australia Post. The Company engaged other firms in relation to the institutional share placement, share purchase plan and the acquisition of Bank of Cyprus Australia.

The total fees paid by the Company to Grant Samuel for the 2011/12 financial year was approximately $280,000 (excluding GST and disbursements). Grant Samuel has provided the Bank with written confirmation that, in relation to the engagements referred to above, the fees paid by the Bank in 2011/12 are not material to Grant Samuel.

The board has an established protocol for the engagement of Grant Samuel. The protocol deals with the following two key matters.

- The decision whether to appoint Grant Samuel.
- The involvement of Mr Johanson.

Appointment: The appointment may be made by the managing director if the matter comes within quantitative materiality guidelines set by the board and does not involve a success fee or break fee. Otherwise the appointment can only be made by the board. In making a decision the board must consider the following.

- Confirmation from Grant Samuel regarding the materiality of the transaction to Grant Samuel.
- Confirmation from Mr Johanson regarding the materiality of the transaction to Mr Johanson and whether Mr Johanson believes the engagement would interfere with his exercise of independent judgment as a director.
- Whether the engagement would impact on the independence of Mr Johanson, taking into account the above confirmations, and materiality from the perspective of the Company.
- Whether Mr Johanson may be present and participate in board discussions and vote on the matter about which Grant Samuel provides advice.
- Whether the engagement of Grant Samuel is in the best interests of the Company.

Mr Johanson is not present and does not participate in the board decision on whether to engage Grant Samuel. He may be invited to join the meeting to answer questions or make additional comments (including if Mr Johanson is aware of any reason it would not be in the interests of the Company to engage Grant Samuel in the matter under consideration), but then is required to leave the meeting for the discussion and decision.

Umbrella engagement terms have been agreed with Grant Samuel (without the involvement of Mr Johanson), and specific engagements are documented.

***Involvement*:** If Grant Samuel is engaged, there are a number of restrictions on Mr Johanson's involvement, including the following.

- The primary responsibility for management of the matter by Grant Samuel is to be with personnel other than Mr Johanson.
- The work and strategic advice is to be carried out by personnel other than Mr Johanson. Contact with the Company is to be through those personnel.
- Mr Johanson is to have a review role only in relation to advice, and if Mr Johanson attends any meetings, he is to do so as a director of the Company.
- If the board has decided that Mr Johanson can participate in decision-making on the matter, Mr Johanson is required to make an independent assessment of advice provided by Grant Samuel and if he has any concerns, to raise those concerns with the managing director or the board.

The board believes that the engagement of Grant Samuel does not prejudice the independence of Mr Johanson. Furthermore, the board believes that Mr Johanson has consistently brought independent judgement to bear on board decisions and is satisfied that Mr Johanson has retained independence of character and judgement and has not formed associations with management (or others) that might compromise his ability to exercise independent judgement or act in the best interests of the Company.

Jenny Dawson

Ms Jenny Dawson has been a non-executive director of the Company for 13 years.

Jenny is a chartered accountant based in Bendigo. As stated above, she has particular expertise in the areas of financial reporting and audit, IT internal control reviews, internal audit and risk management.

Prior to her appointment to the board in 1999, Jenny worked with the Company from 1995 up to the date of her appointment, initially as a contractor (1995 to 1998) and then as an employee (1998 to 1999) managing the internal audit function. At that time, the Company was predominantly based in regional Victoria and was less than 10% of the size it is now.

In the period leading up to Jenny's appointment, 2 board members, both experienced accountants, retired. The board reviewed the skills, experience and attributes represented on the board and identified, in particular, the benefits of gender diversity and additional local representation (in Bendigo) as well as the need to replace the accounting skills lost through the retirement of directors. Jenny's skills, experience and attributes met all of the criteria sought by the board and she was appointed to the board.

Since Jenny's appointment, the rules and regulations in relation to corporate governance issued by ASX and APRA changed so that previous employment relationships between a director and a company became a relevant consideration when assessing a director's independence. The Company endorses the policy behind these changes.

By the time these standards came into effect a number of years after her appointment, the board assessed Jenny as independent on the basis that sufficient time had elapsed and senior management changes had been made that Jenny displayed independence of character and judgment and did not have associations with management and staff that might compromise her ability to exercise independent judgement or act in the best interests of the Company. This continues to be the case today.

Renewal and re-election

The board is committed to a process of orderly renewal, overseen by the governance and HR committee, and taking into account the planned retirement of directors.

In November 2007 (the time of the merger between Bendigo Bank and Adelaide Bank), 2 former directors of Bendigo Bank resigned and 5 former directors of Adelaide Bank were appointed to the board. Since then, the following changes have taken place:

- 6 non-executive directors have retired;
- an executive director has resigned; and
- 3 new non-executive directors have been appointed.

In addition to this, in 2009 the managing director retired and a new managing director was appointed.

As a result, there are now 4 directors who have served on the board for less than 5 years (including the managing director), 2 directors who have served 5-10 years and 2 who have served more than 10 years.

In considering renewal the board considers term of service, but not as a determinative factor. Moreover, the board considers that there is a benefit in retaining the services of directors who have experience across economic cycles and changes in the market environment. Corporate memory is an important attribute of the board.

A director seeking re-election at the end of their term must provide a statement of contribution to the board. In making a decision whether to recommend re-election, the board takes into account the statement of contribution, the director's performance assessment, the skills and experience needed on the board and the skills and experience of the current board.

All new directors are provided with an induction program for the board (and relevant committees) to familiarise directors with the Company's business and strategy.

Board performance

The following board performance review process applies.

- **Board as a whole** – annual review: An internal review is conducted by the Chair of the board. This involves questionnaires completed by directors and executives, as well as individual discussions by the Chair.
- **Individual directors** – annual review: This is conducted by the Chair of the board.
- **Chair of board** – annual review: This is conducted by the board as a whole, led by the Chair of the governance & HR committee.
- **Committees** – bi-annual review: This is bi-annual to enable a greater focus on the board as a whole and individual director assessment in other years. The review is lead by the chair of each committee and discussed in a board meeting.

Reviews of the board as a whole, committees, individual directors and the Chair of the board took place during the year in accordance with the process described above.

The review of the board and committees involves consideration of performance against the charters and goals and objectives set at the start of the financial year. The board review also considers the structure and role of the board (including in strategy and planning), culture and relationships, meeting processes and organisational performance monitoring.

An external consultant was engaged in the 2011-2012 financial year to provide assistance and advice in relation to the board performance evaluation process.

Board committees

The board is assisted in discharging its responsibilities by the 5 board committees described below. These committees have been in place for the full financial year.

The membership of the committees has been structured so as to spread responsibility and make best use of the range of skills across the board.

The board receives the minutes of all committees at the following board meeting.

A committee can seek information from any group employee or any other source and meet with employees and third parties without the presence of management. A committee may consult with a professional adviser or expert at the cost of the Company, if the committee considers it necessary to carry out its responsibilities.

A summary of the role of each of the board committees is set out below.

The **audit committee** assists the board in relation to the following:

- external audit function, including prudential audit requirements;
- Group Assurance (internal audit & credit risk review) function;
- statutory financial and APRA reporting; and
- internal control framework.

The **governance and HR committee** assists the board in relation to the following:

- nomination matters, including board composition and succession planning;
- board performance;
- remuneration, including executive remuneration policy, approval of remuneration consultants and recommendation of remuneration arrangements for the managing director and senior executives to the board;
- corporate governance matters generally; and
- key human resource policies, including diversity and occupational health and safety.

The **risk committee** has oversight of risk, including the establishment, implementation, review and monitoring of risk management systems and policies for balance sheet and off-balance sheet risk (including trading and liquidity) and operational risk (including regulatory compliance, financial crimes, anti-money laundering and counter terrorism financing and business continuity).

The **credit committee** has oversight of the establishment, implementation, review and monitoring of credit risk management systems and policies, taking into account the risk appetite of the group, the overall business strategy and management expertise.

The **change framework and technology governance committee** has oversight and monitoring of the group's technology governance and transformational or change projects within the Company. The change committee monitors the status of the performance and progress of major change projects and the major activities and priorities for the technology services division. An example of the projects overseen by the committee is the conversion of the Adelaide Bank customer data to the Bendigo Bank banking platform.

Board remuneration

The remuneration policy and information about remuneration paid is set out in the remuneration report in the Directors' Report. There are no schemes for retirement benefits, other than superannuation, for non-executive directors.

Overview of meetings and member attendance

Director	Board		Committees									
			Audit		Credit		Risk		Governance & HR		Change Framework & Technology	
Meetings during reporting period	16		7		13		6		6		5	
A = Number eligible to attend B = Number attended	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Robert Johanson	16	16							6	6	5	5
Kevin Abrahamson [1]	7	7	3	3							3	3
Jenny Dawson	16	16	7	7	13	13						
Jim Hazel	16	16			13	12	6	6	6	6		
Jacquie Hey	16	16	7	7			6	6			5	5
Mike Hirst [3]	16	16			5	3	1	1				
David Matthews [2]	16	15	6	6	13	12						
Terry O'Dwyer [4]	16	15	7	7			6	5			5	5
Deb Radford	16	14			13	13			6	5	5	5
Tony Robinson	16	16					6	6	6	5		

1 Mr K Abrahamson retired from the board on 24 October 2011.
2 Mr D Matthews was appointed to the Audit Committee on 7 July 2011.
3 Mr M Hirst ceased to be a member of the risk and credit committees on 24 October 2011.
4 Mr T O'Dwyer retired from the board on 13 August 2012.

In addition to the meetings described in the table above, a board sub-committee was established during the reporting period in relation to the acquisition of Bank of Cyprus Australia Limited by the Company and the share capital raisings by the Company. The members of the board sub-committee were Robert Johanson, Mike Hirst and Jenny Dawson. The committee met twice during the reporting period and all three members attended both meetings.

Code of conduct and reporting of concerns

The Company's corporate values provide a framework to guide interactions within the group, with customers, shareholders, suppliers and the community. The values are teamwork, integrity, performance, engagement, leadership and passion.

These values have been incorporated in a code of conduct that has been endorsed by the executive committee and adopted by the board.

The code of conduct is a statement of the group's corporate ethics and philosophy and underpins business decisions, actions and behaviour. It aims to make sure that high standards of corporate and individual behaviour are observed in conducting the business, and provides support for those behaviours.

The code provides guidelines for directors and staff, so that there is a common understanding of the values and expected standards of behaviour, including in relation to conflicts of interest, use of information and position and confidentiality. More detailed policies exist that then deal specifically with various aspects of the code, for example the conflicts of interest.

In addition, the reporting of concerns policy provides a reference point for reporting concerns, including on an anonymous basis. This includes a concern, a grievance, and report of a suspected breach of law or group policy (including any breach of the code of conduct). The reporting of concerns policy also sets out the protection provided for employees who raise concerns in good faith.

Fit and proper

In addition, all directors and senior managers must meet fit and proper standards under the Company's fit and proper policy, which addresses the requirements of APRA's Prudential Standard CPS520 "Fit and Proper". Under the policy, all directors and senior managers need to have appropriate skills, experience and knowledge, and act with honesty and integrity. Directors and senior managers are assessed before appointment and then annually. All directors and senior managers have been assessed as fit and proper.

Continuous disclosure and communications

The continuous disclosure policy assists the Company in making sure that all price sensitive information is disclosed to Australian Securities Exchange (ASX) under the continuous disclosure requirements of ASX Listing Rules and the Corporations Act.

The board meeting agenda includes continuous disclosure as a standing item for board consideration. The managing director, Chair and executive officers are responsible for identifying matters or transactions arising between board meetings which require disclosure under the ASX Listing Rules.

All announcements to be lodged with ASX must first be approved by an authorised officer, generally the managing director, before release. The Company secretary is responsible for coordinating communications with ASX and for having systems in place to make sure that information is not released to external parties until confirmation of lodgement is received from ASX.

The communications policy provides clear authorities and protocols for all communications with parties external to the Company, including investors, ASX, regulatory authorities, media and brokers. It has also been designed to complement the continuous disclosure policy, to make sure that information flows are controlled, and to reduce the likelihood of inadvertent disclosures outside the continuous disclosure reporting regime. In addition to all direct communications sent to individual shareholders, the Company will communicate publicly with its shareholders by posting information in the corporate governance section on the Company's website.

To provide shareholders with a better opportunity to participate in the Annual General Meeting, in 2012 the Company will again hold its Annual General Meeting in two locations – Bendigo and Adelaide. Directors and senior management will be in both locations and the meeting will be transmitted live between the two venues, enabling shareholders to ask questions and vote across two venues.

Share trading

The trading policy imposes restrictions on trading in the Company's securities by directors, members of the executive committee and other designated employees (who may have access to price sensitive information). A black-out period is imposed for the 10 weeks leading up to each of the half-year and full-year announcements to ASX.

The policy also requires these employees and officers to tell the Company before and after trading and this information is reported to the board. In addition, all employees and directors are prohibited from trading if in possession of price sensitive information. The policy prohibits directors, members of the executive committee and other designated employees from using their Company securities as part of a margin loan portfolio.

The policy also prohibits a participant in an executive incentive plan from entering into a transaction designed to remove the "at risk" element of an entitlement under the plan (a) before it vests, and (b) after it vests, until any restriction period imposed by the board ends or has been lifted.

Overview of diversity

The Company has a diversity policy that is founded on the Company's code of conduct and corporate values. As stated in the policy:

> *"Staff:* We advocate an inclusive and welcoming workplace. As an employer, we aim to offer an environment where people are treated with respect, feel valued, and can achieve success, both for the individual and the organisation. We also recognise the importance of an appropriate work-life balance.
>
> *Customers and communities:* Our vision is to be Australia's leading customer-connected banking group. We engage with customers and communities, by taking time to connect, listen and understand and build sustainable relationships. It makes sense to have a diverse team to be able to better understand and meet the needs of our diverse customer base and the communities in which we operate.
>
> *The Bank:* Our ability to deliver our "unique style of banking" is dependent on having the best people. We will only find these people by drawing from the broadest pool of candidates available. Attracting and retaining a diverse team of talented people positions our organisation for success – it creates both immediate business value and a sustainable organisation. It also contributes to our good reputation.
>
> So diversity makes good business sense and helps create value for shareholders."

The governance & HR committee has responsibility for keeping the policy under review. This includes the effectiveness of the policy. The board is responsible for assessing performance against measurable objectives on an annual basis.

A people development and diversity council has been established, chaired by the executive, corporate resources. The council comprises representatives from across the Company. Its role is to promote diversity and inclusiveness in the workplace, and also to provide input from across the organisation to assist formulate policy, strategy and objectives.

The governance & HR committee established the Company's diversity and inclusiveness strategy and work program in 2012 as a means for measuring the effectiveness of the policy in achieving the Company's diversity objectives. The diversity and inclusiveness strategy and work program is described below.

Diversity profile

Information about the Company's gender profile as at 31 March 2012 is set out in the following table.

	All employees	Award employees	Salaried employees (*not* senior management or executive)	Senior management and executive positions		Board (1)
				Senior management (2)	Executive committee (1)	
Total number of employees or directors	5230	2687	2400	134	9	9
Number of women	3280	2195	1049	34 (2)	2	3
Women as percentage of total	63%	82%	44%	25%	22%	33%

1 The CEO is a member of the executive committee and also an executive director and so is included in both sets of numbers.

2 Last year the table showed the Company numbers and percentages and a separate note was included about Rural Bank, which had become a wholly-owned subsidiary during that financial year. This year, the numbers for Rural Bank are included in the table, along with those of Bank of Cyprus Australia, which was acquired during this financial year. This has impacted in particular on the percentages shown for women in senior management (and combined senior management and executive committee), which has reduced from 30% last year (or 29% for senior managers and executive committee combined) to 25% this year as a result of the impact of the numbers in Rural Bank and Bank of Cyprus Australia.

Progress against 2011 diversity objectives

The diversity objectives set last year and progress against those objectives is discussed below.

1. *Develop and introduce an inclusiveness and diversity strategy at an organisational level across the following four areas - gender, age, cultural background (with an initial focus on indigenous background) and disability – by 30 June 2012 – completed.*

   The Company has introduced a diversity and inclusiveness strategy and work program that is designed to establish a strong foundation for ongoing diversity and inclusiveness initiatives. The purpose of the strategy and work program is to support the Company's aim to become Australia's leading customer connected bank by providing an environment with a diverse workforce where employees work in an inclusive and welcoming workplace.

   The priority areas for development are:

   - developing and supporting inclusive leaders,
   - creating an inclusive culture where all employees can thrive,
   - building a more diverse workforce at all levels,
   - strengthening diversity foundations and effective governance of diversity and inclusiveness, and
   - aligning the diversity program to fit the Company's customer connected strategy.

2. *Introduce a program for management development for both genders through experience as directors on subsidiary and joint venture boards; conduct an analysis of current gender composition of these boards and set target for female representation – by 30 June 2012 - completed.*

   A program for management development through representation on subsidiary and joint venture boards has been introduced. An analysis of the current gender composition of these boards has been completed and targets have been set for the gender composition of management on these boards. The new target is reported as a new diversity objective (see below).

3. *Increase the representation of females in senior management (including senior managers and executives) from 29% to at least one third – by 30 June 2015 - ongoing.*

   Initiatives under the diversity and inclusiveness strategy and work program have been designed to achieve this target.

   The reported percentage of women in senior management this year has reduced from 29% to 25% due to the inclusion of Rural Bank and Bank of Cyprus Australia. Accordingly, this objective now effectively targets an increase from 25% to one third.

4. *Maintain female representation of at least one third of the board – ongoing.*

   This representation has been maintained, with 3 female directors on the board (out of a total of 8).

Additional diversity objectives

The board has set the following additional objectives, which are priority initiatives identified under the diversity and inclusiveness strategy and work program.

1. F*emale management representation on subsidiary and joint venture boards – target 25% by 30 June 2013.*

   Female representation is currently 20%. Increasing representation from senior management ranks would increase the number of female candidates. The management development program introduced for both genders is expected to increase female representation.

2. *Senior management and the top 200 hiring managers to attend a diversity awareness and unconscious bias workshop with diversity messages to be built into the management and leader development program by 30 June 2013.*

   An important foundation of a successful diversity and inclusiveness strategy is the creation of a broad based awareness of diversity and inclusiveness which reveals and helps to address underlying attitudes and mindsets.

3. *Flexible work arrangements to be reviewed - by 30 June 2013.*

   Flexible work arrangements have been identified as an important enabler for diversity and inclusiveness. While the Company does have policies and processes in place, the diversity and inclusiveness strategy and work program requires further work to be done to further embed flexible working as the accepted way of doing things.

4. *Additional operational milestones and targets to support each of the elements of the diversity and inclusiveness strategy to be set by 30 November 2012 and reviewed by 30 June 2013.*

   The operational milestones and targets are to be based on the Company's current operational profiles and reflect the following, which are Company's priority areas of focus:

   - gender
   - age
   - disability
   - cultural background.

Overview of risk management

The management of risk is an essential element of the group's strategy and operations. The risk management strategy is based on risk principles approved by the board.

The board is responsible for overseeing the establishment, implementation, review and monitoring of risk management systems, policies and internal controls to manage the Company's material risks. The board has established an integrated framework of committees, policies and controls to identify, assess, monitor and manage risk. Executive management is responsible for implementing the policies and controls.

The first line of defence is the business itself which has accountability for controls. It is the operational and business management team where the primary responsibility exists for identifying and managing risk, implementing controls and monitoring their effectiveness through quality processes.

The second line of defence is primarily group risk that provides specialist assistance to the business to monitor and manage risks.

The third line of defence is group assurance. Through completion of reviews outlined in the group assurance strategic plan, assessments are made to determine whether the group's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning effectively.

The Company has established a system of regular reporting from independent risk (credit, operational and market) and audit functions to the executive committee and board committees on the implementation and effectiveness of the risk management systems, policies and internal controls designed to manage key business risks.

Key business risks

The following provides an overview of the key risks. Further information about risks and the associated risk management framework is presented at Note 40 of the Annual Financial Report.

Credit risk

Description: Credit risk is risk of financial loss due to the unwillingness or inability of a counterparty to fully meet their contractual debts and obligations.

Responsibilities: The board credit committee provides assistance to the board in relation to oversight of the group's credit risk profile and credit risk management framework. The committee is responsible for approving changes to the framework including setting policies in relation to credit standards, practices and procedures within the group and monitoring compliance with the policies. A management credit committee supports the board credit committee in respect to credit risk management and an independent credit risk function manages credit support, analysis and reporting. This is complemented by credit risk reviews performed by the group assurance function.

Market Risk

Description: Market risk is the risk of losses arising from adverse movements in market prices which in turn affect the value of balance sheet positions. Market risk includes interest rate risk and currency risk which are discussed below.

An independent middle office function oversees, supports and reports on the market risk activities of group treasury and financial markets to the asset liability management committee (ALMAC) and board risk committees. Middle office provides treasury and financial markets with policy direction, risk management advice (market, operational and credit risks) and compliance monitoring in relation to the reporting of market risk and related activities. The risks and activities include liquidity, traded and non-traded market risk (interest rate and foreign exchange).

Interest rate risk

Description: Interest rate risk is the potential for volatility in earnings due to adverse movements in interest rates.

Responsibilities: Interest rate risk management is primarily monitored through the board risk committee, supported by a management committee, the ALMAC. Interest rate risk is managed through group treasury.

Currency risk

Description: Currency risk is the risk of loss of earnings due to adverse movements in exchange rates.

Responsibilities: Currency risk is primarily monitored by the board risk committee, supported by a management committee, the ALMAC. Currency risk is managed through group treasury, in the financial markets unit.

Liquidity risk

Description: Liquidity risk is the inability to access funds, which may lead to an inability to meet obligations in an orderly manner as they arise or having to forego investment opportunities.

Responsibilities: Liquidity risk is primarily monitored by the board risk committee, supported by a management committee, the ALMAC. It is managed through group treasury, in the liquidity and balance sheet management units. The independent middle office function oversees and supports the risk management framework for liquidity risk as discussed above.

Strategic risk

Description: The risk that adverse business decisions, ineffective or inappropriate business plans or failure to respond to changes in the environment will impact the Company's ability to meet its objectives.

Responsibilities: Strategic risk is primarily monitored by the executive management committee. The board has ultimate responsibility for strategic risk.

Operational risk

Description: Operational risk is the risk of impact on objectives resulting from inadequate or failed internal processes, people and systems or from external events including legal and reputation risk but excluding strategic risk.

Responsibilities Operational risk (other than financial reporting risk) is primarily monitored by the board risk committee, supported by a management committee, the operational risk committee.

It is managed through the group operational risk business unit, which manages regulatory compliance, fraud prevention and detection, anti-money laundering and business continuity.

Operational risk is governed by the group operational risk framework. The framework complies with Basel II (operational risk management) and Australian Standard – AS/NZS 4360:2004 (risk management).

The board audit committee has primary responsibility for the oversight of financial reporting risk. In addition to the internal group assurance function (discussed below), the external auditor considers risk management in order to assess and understand the group's business and financial risks as well as the effectiveness of internal controls which may have a significant impact on the annual financial report.

Group assurance

Group assurance is an internal audit and credit risk review function, independent of the business and of the external auditor. It assesses the adequacy and effectiveness of the Company's processes for controlling its activities and managing its risks.

The head of group assurance has a direct reporting line to the board audit committee and an administrative reporting line to the executive, corporate resources, as well as direct access to the managing director, the Chair of the board audit committee and the Chair of the board. The board committee procedural rules provide for the audit committee to meet at least annually with the head of group assurance without management present.

Group assurance also has direct access to any member of staff and access to any information relevant to its work. Reports on the outcome of assurance programs are provided to the board audit committee, with those relating to credit risk also provided to the board credit committee. Reports on specific reviews are also provided to other board committees as appropriate.

The strategic plan for the group assurance function is approved and monitored by the board audit committee which also assesses and confirms the independence and effectiveness of the function.

Financial reporting

The directors of the Company are responsible for the preparation and fair presentation of the financial statements. The board's responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The audit committee assists the board by providing oversight of the group's financial reporting responsibilities including external audit independence and performance. The audit committee responsibilities include the following:

- Assessing whether the financial statements are consistent with committee members' information and knowledge and, in their opinion, adequate for shareholder needs.
- Overseeing compliance with the statutory financial reporting obligations of the group.
- Considering and applying any significant changes in accounting policies, principles and practices.

The managing director and chief financial officer provide a written statement to the board in accordance with section 295A of the Corporations Act that the Annual Financial Report is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The statement is made on the basis that it provides a reasonable, but not absolute, level of assurance and does not imply a guarantee against adverse events or circumstances that may arise in future periods.

External auditor

Independence policy

The board audit committee is responsible for maintaining a policy about auditor independence, rotation and the provision of non-audit services, and monitoring compliance with that policy. The policy on audit independence sets out the factors that may compromise auditor independence.

It requires advance approval by the audit committee for engaging the auditor for any non-audit services, to enable the audit committee to consider whether there may be an impact on auditor independence.

The policy requires the audit committee to receive the annual and half-year independence declarations from the auditor. The external auditor also meets separately with the audit committee without the presence of management.

Non-audit services

The audit committee gives an annual and half-year statement to the board as to whether the audit committee is satisfied that the independence of the external audit function has been maintained having regard to the provision of non-audit services, and why it is so satisfied.

As part of this process the audit committee receives a report, confirmed by group assurance, setting out the nature and scope of all non-audit services provided during the period, including fees and confirmation from relevant senior management that they are not aware of any matters that might impact the auditor's independence.

The Directors' Report includes a statement about whether the directors are satisfied that the provision of non-audit services is compatible with the independence of the auditor and the reasons for being so satisfied.

Rotation of audit personnel

The policy provides 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, with a two-year cooling-off period.

Annual General Meeting

Members may give written questions to the Company for the auditor about the content of the auditor's report to be considered at the Annual General Meeting, or the conduct of the audit of the Annual Financial Report to be considered at the Annual General Meeting, no later than the fifth business day before the day on which the Annual General Meeting is held.

The external audit engagement partner from Ernst & Young is required to make sure that a suitably qualified representative attends the Annual General Meeting. The chair of the meeting provides an opportunity for the members as a whole at the meeting to ask the auditor's representative questions relevant to the conduct of the audit, the preparation and conduct of the auditor's report, the accounting policies adopted by the Company in relation to the preparation of the financial statements and the independence of the auditor in relation to the conduct of the audit.

The Chair also allows a reasonable opportunity for the representative of the auditor to answer written questions submitted before the meeting.

FIVE YEAR HISTORY

The Bendigo and Adelaide Bank group

Financial Performance for the year ended 30 June

	2012 (1)	2011	2010 (2)	2009 (3)	2008 (4)
	$m	$m	$m	$m	$m
Interest income	3,434.8	3,385.8	2,712.2	3,154.7	2,695.6
Interest expense	2,490.7	2,450.6	1,857.6	2,519.7	2,098.1
Net interest income	944.1	935.2	854.6	635.0	597.5
Other income	268.8	300.8	280.4	238.7	272.4
Bad & doubtful debts expense (net of bad debts recovered)	32.4	44.2	44.7	80.3	23.1
Other expenses	854.4	767.3	739.6	674.1	560.5
Profit before income tax expense	326.1	424.5	350.7	119.3	286.3
Income tax expense	(131.1)	(77.9)	(90.8)	(35.5)	(87.3)
Net (profit)/loss attributable to non controlling interest	-	(4.5)	(17.3)	-	(0.7)
Profit after income tax expense	195.0	342.1	242.6	83.8	198.3
Adjustments	128.0	(5.9)	48.4	97.7	41.3
Cash basis earnings	323.0	336.2	291.0	181.5	239.6
Financial Position at 30 June					
Total assets	57,237.8	55,004.5	52,222.5	47,114.2	48,049.0
Net loans and other receivables	48,670.0	46,409.8	43,603.2	38,740.9	40,105.0
Cash and cash equivalents	561.0	670.6	1,040.2	1,148.0	1,608.6
Financial assets and derivatives	5,372.5	5,296.8	4,848.6	4,360.3	3,647.8
Other assets	2,634.3	2,627.3	2,730.5	2,780.6	2,113.9
Equity	4,217.7	3,960.1	3,880.4	3,118.7	3,297.9
Deposits and Notes payable	50,983.7	48,975.0	46,217.4	41,854.3	42,697.1
Reset preference share	89.5	89.5	89.5	89.5	89.5
Subordinated debt	436.9	575.7	532.9	598.7	675.8
Other liabilities	1,510.0	1,404.2	1,502.3	1,453.0	1,288.7
Share Information					
Net tangible assets per ordinary share	$6.16	$5.76	$5.27	$4.31	$5.60
Earnings per ordinary share - cents	48.6	91.5	67.4	25.4	87.7
Cash basis earnings per ordinary share - cents	84.2	92.3	83.3	62.6	111.1
Dividends per ordinary share:					
Interim - cents	30.0	30.0	28.0	28.0	28.0
Final - cents	30.0	30.0	30.0	15.0	37.0
Total - cents	60.0	60.0	58.0	43.0	65.0
Ratios					
Profit after tax before specific items return on average assets	0.56%	0.61%	0.56%	0.36%	0.72%
Return on average assets	0.35%	0.64%	0.49%	0.18%	0.61%
Cash basis return on average ordinary equity	8.36%	9.07%	8.18%	5.79%	12.29%
Return on average ordinary equity	4.84%	8.99%	6.61%	2.35%	9.70%

1 Figures for 2012 include the fully consolidated trading of Bank of Cyprus Australia from 1 March 2012.
2 Figures for 2010 include the fully consolidated trading of Rural Bank from 1 October 2009, Tasmanian Banking Services from 1 August 2009.
3 Figures for 2009 include the fully consolidated trading of Macquarie margin lending portfolio from January 2009.
4 Figures for 2008 include the merger w ith Adelaide Bank effective 30 November 2007.

FIVE YEAR COMPARISON

The Bendigo and Adelaide Bank group

Financial Performance for the year ended 30 June

		2012 [8]	2011	2010 [1]	2009 [2]	2008 [3]
Key Trading Indicators						
Retail deposits - Bendigo Adelaide [4]	($m)	33,017.1	29,867.9	27,542.6	26,505.0	20,537.7
Number of depositors' accounts - Bendigo Adelaide [4]		2,132,090	1,860,441	1,812,286	1,754,849	1,638,443
Total loans approved	($m)	12,665.6	13,885.5	11,916.6	9,137.4	8,845.2
Number of loans approved		79,724	83,942	80,881	69,678	81,853
Liquid assets and cash equivalents	($m)	5,933.5	5,967.4	5,888.8	5,508.3	5,256.4
Total liabilities	($m)	53,020.1	51,044.4	48,260.7	43,995.5	44,751.1
Liquid assets & cash equiv as proportion of total liabilities	(%)	11.19	11.69	12.20	12.52	11.75
Number of branches [5]		486	466	448	426	404
Average deposit holdings per branch	($m)	67.9	64.1	61.5	62.2	50.8
Number of staff (excluding Community Banks)	(FTE)	4,189	4,019	3,847	3,598	3,478
Assets per staff member	($m)	13.665	13.686	13.554	13.095	13.815
Staff per million dollars of assets [6]		0.07	0.07	0.07	0.08	0.07
Dissection of Loans by Security [7] ($'000)						
Residential loans		33,768.8	31,522.3	28,875.5	28,569.4	29,840.4
Commercial loans		11,622.1	10,784.2	10,182.1	5,987.6	5,712.3
Margin lending		2,333.2	3,202.2	3,627.0	3,475.9	3,773.8
Unsecured loans		869.2	834.6	823.7	707.1	737.9
Other		238.7	220.5	191.0	183.1	193.9
Gross loans		48,832.0	46,563.8	43,699.3	38,923.1	40,258.3
Dissection of Loans by Security [7] (%)						
Residential loans		69.15	67.70	66.08	73.40	74.12
Commercial loans		23.80	23.16	23.30	15.38	14.19
Margin lending		4.78	6.88	8.30	8.93	9.37
Unsecured loans		1.78	1.79	1.88	1.82	1.83
Other		0.49	0.47	0.44	0.47	0.49
Total		100.00	100.00	100.00	100.00	100.00
Asset Quality						
Impaired loans	($m)	358.5	358.7	282.2	223.6	59.4
Specific provisions	($m)	(102.1)	(90.6)	(78.3)	(66.9)	(21.6)
Net impaired loans	($m)	256.4	268.1	203.9	156.7	37.8
Net impaired loans % of gross loans	(%)	0.53	0.58	0.47	0.42	0.09
Specific provision for impairment	($m)	102.9	91.4	79.1	67.7	22.1
Specific provision % of gross loans less unearned income	(%)	0.21	0.20	0.18	0.18	0.06
Collective provision	($m)	31.8	41.9	47.1	44.3	36.8
General reserve for credit losses (general provision)	($m)	128.5	110.9	104.7	86.1	76.2
Collective provision (net of tax effect) & GRCL (general provn) as a % of risk-weighted assets	(%)	0.53	0.54	0.54	0.54	0.51
Loan write-offs as % of average total assets	(%)	0.06	0.07	0.10	0.07	0.10

1 Figures for 2010 include the fully consolidated trading of Rural Bank from 1 October 2009, Tasmanian Banking Services from 1 August 2009.
2 Figures for 2009 include the fully consolidated trading of Macquarie margin lending portfolio from January 2009.
3 Figures for 2008 include the merger with Adelaide Bank effective 30 November 2007.
4 Excludes Rural Bank and treasury retail deposits
5 Includes Community Bank branches, franchises and joint ventures
6 These ratios do not take into account off-balance sheet assets under management, which totalled $1.9 billion at 30 June 2011 (2010: $1.9 billion).
7 For the purposes of this dissection, overdrafts and personal loans secured by residential and commercial property mortgages are included in residential and commercial loan categories respectively.
8 Figures for 2012 include the fully consolidated trading of Bank of Cyprus Australia from 1 March 2012.

DIRECTORS' REPORT

Your board of directors has pleasure in presenting the 148th Financial Report of Bendigo and Adelaide Bank Limited and its controlled entities for the year ended 30 June 2012.

DIRECTORS

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

Robert Johanson (chairman)
Mike Hirst (managing director)
Kevin Abrahamson (retired on 24 October 2011)
Jenny Dawson
Jim Hazel
Jacqueline Hey (appointed 5 July 2011)
David Matthews
Terry O'Dwyer (retired on 13 August 2012)
Deb Radford
Tony Robinson

Particulars of the skills, experience, expertise and responsibilities of the Directors at the date of this report are set out in the Corporate Governance section of the Annual Financial Report at pages 5 to 7.

Share Issues

The following share classes were issued during the financial year:

	No. of shares
Ordinary shares	
Ordinary shares issued under Employee Share Grant Scheme	-
Ordinary shares issued under the Dividend Reinvestment Plan	10,309,077
Ordinary shares issued in lieu of dividends under the Bonus Share Scheme	867,252
Ordinary shares issued under an Institutional Entitlement	17,751,480
Ordinary shares issued under a Retail Entitlement	6,200,872
Total ordinary shares issued	**35,128,681**

Share Options and Rights

Unissued Shares:

As at the date of this report, there were nil unissued ordinary shares under options, nil rights to unissued ordinary shares and 587,330 performance shares. Refer to notes 36 and 38 of the financial statements for further details of the rights and options outstanding. The board may decide how to treat the participant's options, performance shares or performance rights to make sure the participant is neither advantaged nor disadvantaged as a result of any share issues or reconstructions.

Shares issued as a result of the exercise of options:

During the financial year no performance rights vested (2011: nil) and 210,864 (2011: 409,753) performance shares vested and were automatically exercised to acquire ordinary shares in the Company at a nil exercise price. No options to acquire ordinary shares in the Company vested during the year.

Ordinary Share Dividends Paid or Recommended

Dividends paid:	
Final dividend 2011 of 30.0¢ per share, paid September 2011	$107.4 million
Interim dividend 2012 of 30.0¢ per share, paid March 2012	$113.2 million
Dividend recommended:	
Final dividend 2012 of 30.0¢ per share, declared by the directors on 20 August 2012, payable 28 September 2012	$118.1 million
All dividends were fully franked	
Shareholders electing to receive dividends in the form of shares received the following ordinary shares, paid in full:	
September 2011	5,005,825
March 2012	5,303,252
In addition, shareholders electing to receive bonus shares in lieu of dividends received the following ordinary shares, paid in full:	
September 2011	338,041
March 2012	529,211

Preference Share Dividends Paid or Recommended

Dividends paid:	
115.07 cents per share paid on 15 September 2011 (2010: 113.07 cents)	$1.0 million
111.11 cents per share paid on 15 December 2011 (2010: 110.91 cents)	$1.0 million
105.50 cents per share paid on 15 March 2012 (2011: 114.0 cents)	$1.0 million
104.87 cents per share paid on 15 June 2012 (2011: 112.39 cents)	$0.9 million
Dividend announced:	
A dividend of 91.81 cents per security for the period 15 June 2012 to 16 September 2012 (inclusive), announced on 18 June 2012, payable 17 September 2012	$.8 million
All dividends were fully franked	

Step-up Preference Share Dividends Paid or Recommended

Dividend paid:	
116.00 cents per share paid on 11 July 2011 (2010: 110.00)	$1.2 million
118.00 cents per share paid on 10 October 2011 (2010: 116.00)	$1.2 million
114.00 cents per share paid on 10 January 2012 (2011: 116.00)	$1.1 million
108.00 cents per share paid on 10 April 2012 (2011: 116.00)	$1.1 million
Dividend announced:	
A dividend of 105.0¢ per security for the period 10 April 2012 to 9 July 2012 (inclusive), announced on 11 April 2012, payable 10 July 2012	$1.1 million
All dividends were fully franked	

Reset Preference Share Dividends Paid or Recommended

310.53 cents per share paid on 1 November 2011 (2010: 310.53)	$2.8 million
307.16 cents per share paid on 1 May 2012 (2011: 305.47)	$2.7 million

Operating and Financial Review

Principal Activities

The principal activities of the Company and its controlled entities during the financial year were the provision of a range of banking and other financial services, including retail banking, mortgage distribution through third-parties, business lending, margin lending, business banking and commercial finance, invoice discounting, funds management, treasury and foreign exchange services (including trade finance), superannuation, financial advisory and trustee services. There was no significant change in the nature of the activities of the group during the year.

Consolidated Result

The consolidated profit after providing for income tax of the group amounted to $195.0 million (2011 - $342.1 million).

Review of Operations and Operating Results

The Company announced an after tax statutory profit of $195.0 million for the financial year ended 30 June 2012. Cash earnings were $323.0 million, a decrease of 3.9 per cent over the previous financial year. The Company also announced a final dividend of 30 cents per share (fully franked), which is flat on the previous financial year.

The Company's performance was impacted by the challenging market environment including high funding costs and a low demand for credit. Despite this the Company continues to grow and invest in the business and the Company's core revenue generating businesses of retail, third party banking, wealth and rural banking continue to perform well. The Company has also maintained its efforts to improve the funding and capital profile.

The Company has limited net interest margin contraction through prudent and proactive balance sheet management. It has sought to price both assets and liabilities in the most appropriate manner for all stakeholders. This has been combined with an active hedging program which, while expensive, has successfully mitigated the risk of significant margin volatility.

The Company also announced the sale of the subordinated notes held in its TORRENS securitisation program. The sale of the entire portfolio of notes is expected to release approximately $80 million of Core Tier One capital. This, together with the sale of the Company's 7.8% interest in IOOF Holdings Limited in August 2012 has resulted in an additional 42 basis points of Core Tier One capital post balance date. These non-dilutive capital management initiatives demonstrate the Company's commitment to managing a profitable, but ultimately low risk and prudent business.

The Company continues to focus on its long-term performance and sustainability which is central to its strategy. The strategy has been vindicated by recent credit rating upgrades from Fitch and Standard & Poor's, and contrasts very favourably to the rating momentum of many banks across the globe.

Funding costs have remained high, with sustained competition for retail term deposits in particular. Despite these pressures net interest margin only decreased by seven basis points over the year. The Company's term deposit retention rates have remained consistently higher than 80%, notwithstanding the Company continuing to adopt a less aggressive pricing structure than many of its competitors. Deposits grew by $2.2 billion over the six months to June 2012, and by $3.9 billion over the full year.

The Company's margin lending portfolio has now fallen more than 70% since its pro-forma peak of more than $8 billion in 2007. While this decline is being replaced by asset growth in other portfolios, notably residential mortgages sourced through both retail and third-party channels, it has had a significant impact on the weighted average margin achieved on business assets. The decline in the margin lending portfolio, and an assessment of the value of the wealth division, resulted in December 2011's write-off of $95.1 million of goodwill associated with this business, which affected the full year statutory profit.

Cost containment and efficiency continues to be a major focus of management. Operating expenses, excluding the purchase of the Bank of Cyprus Australia (BOCA), grew by just 1.1% over the year. Operational expense growth including the BOCA acquisition was 2.2%. However, due to deteriorating revenues the cost-to-income ratio increased to 59.1% compared to 57.4% for the 2011 year. The group maintains its long-term 55% cost-to-income target. As part of the group's continued cost focus the Board has announced there will be no short term incentive bonus pool for the payment of executive bonuses for the 2012 year.

Despite this cost focus the Company continues to invest in the strategic initiatives and its front-line capacity. The integration of BOCA continues ahead of plan and in excess of synergy targets. There has been significant investment of staff and resources into the group's Basel II Advanced Accreditation project and customer-led connection strategy. This is in addition to the continued investment in the roll-out of the Company's newly-developed customer relationship management system. These investments are being resourced from within the business, with considerable effort being made to maintain front-line capacity and service levels, while managing back-office functions to fit the needs of the evolving business.

Credit quality is sound across the Company's businesses. 90 day arrears in our largest portfolio, being residential mortgages, deteriorated slightly over the period, sitting at 0.82% in June 2012, while business lending arrears (90-day) increased marginally to 2.8%. The consumer portfolio continued to perform well, with both credit card and personal loan arrears at near historical lows of 1.56% and 0.99% respectively. Rural Bank arrears and provisions are returning to historical levels after the trade disruptions and natural disasters of the past 24-months.

The Company's outlook for the coming year remains difficult to predict given the significant market volatility and revenue challenges facing all banks. Funding costs, changing asset mix and demand for credit are all volatile reflecting the global environment. Notwithstanding these pressures, the Company will continue to invest in its business, its people, and the communities that it operates in, and will work diligently in its efforts to become Australia's leading customer-connected bank.

The Company has industry-leading customer and business customer satisfaction levels as well as staff engagement levels which are 2% above the Australian high-performance benchmark. The Company will continue to leverage these strengths, and the strengths of its funding and capital profiles, to take advantage of the significant opportunities that exist for Bendigo and Adelaide Bank.

Further information on the operations, performance, strategies and prospects of the economic entity are set out in the Report by Chairman and Managing Director at pages 8 to 10 of the 2012 Annual Review which is available from the Company's web site. Certain information in respect to business strategies and prospects has not been disclosed where the disclosure is likely to result in unreasonable prejudice to the Company or its controlled entities.

Significant Changes in the State of Affairs

The following significant changes in the state of affairs of the group occurred during the financial year:

In September 2011, 5,005,825 shares were allotted at an issue price of $8.06 to those shareholders participating in the Dividend Reinvestment Plan, increasing share capital by $40.3 million.

In December 2011, 17,751,480 shares were allotted at an issue price of $8.45 per share, increasing share capital by $148 million, which is net of share issue costs.

In March 2012, 6,200,872 shares were allotted at an issue price of $7.33 per share, increasing share capital by $45 million, which is net of share issue costs.

In March 2012, 5,303,252 shares were allotted at an issue price of $7.36 to those shareholders participating in the Dividend Reinvestment Plan, increasing share capital by $39 million.

In the opinion of the directors, there were no other significant changes in the state of affairs of the group that occurred during the financial year under review not otherwise disclosed in this report or the financial statements.

After Balance Date Events

On 20 August 2012 the Bank declared a final dividend for ordinary shares, on 18 June 2012 announced a dividend for preference shares and on 11 April 2012 announced a dividend for Step up preference shares, details of which are shown previously.

On the 9th August 2012 Bendigo and Adelaide Bank Group announced the sale of its 7.8% stake in IOOF. The sale will improve statutory earnings by approximately $40 million and Tier One capital will increase by approximately 13 basis points. There will be a reduction of dividend income received for the financial year 2013 of approximately $7.5 million. For further information please refer to our ASX release on the 9th August 2012.

The Bank recently completed the sale of a portfolio of subordinated notes it held in existing Torrens securitisation trusts. The Bank had previously deducted capital against these holdings to the value of approximately $90 million. This sale eliminates the need for this deduction and increases Tier One capital by 29 basis points. There will be a loss on sale of these investments of $12.4 million recorded for the financial year 2013.

Except as referred to in the report by chairman and managing director, above, or dealt with elsewhere in the consolidated financial report, there were no matters or circumstances which arose since the end of the financial year to the date of this report which 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.

Likely Developments and Results

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 information provided above under the heading "Review of Operations and Operating Results", as well as the Report by the Chairman and Managing Director at pages 8 to 10 of the 2012 Annual Review which is available from the Company's web site.

SUMMARY OF REMUNERATION ARRANGEMENTS AND OUTCOMES FOR SENIOR EXECUTIVES FOR 2012

This summary gives shareholders a concise and easy to understand overview of the group's remuneration outcomes for the 2012 financial year and includes information on the actual value of remuneration received by senior executives. This summary is unaudited and has not been prepared to comply with statutory obligations or accounting standards. The detailed statutory remuneration disclosures prepared to comply with the accounting standards are contained in the Company's 2012 remuneration report.

	2011 - 2012 Outcomes
Remuneration oversight & approval	The board, on recommendation of the governance & HR committee, approved the 2012 remuneration arrangements for senior executives, including the managing director, in August 2011. The managing director's long term incentive arrangements were set in 2009. The senior executives' long term incentive arrangements were set in 2009 and 2010. No long term incentive grants were made to senior executives in the 2012 financial year.
Remuneration policy	A number of technical changes were made to the Remuneration Policy to clarify its operation under APRA's remuneration prudential standards. The changes did not alter the design or structure of the group's remuneration arrangements in FY2012.
Non executive director fees	The base non-executive director fee was increased from $129,375 to $143,000 ($286,000 for the Chair – two times the base fee) for the period 1 July 2011 to 31 October 2011 and from $143,000 to $165,000 ($412,500 for the Chair – two and a half times the base fee) for the period 1 November 2011 to 30 June 2012. There were no additional fee payments for board committee memberships. In addition, the non-executive directors again contributed $5,000 of their annual fee payment to fund the board scholarship for students to assist them meet their living expenses. Additional fees were paid to directors who were on the boards of Rural Bank Limited, Sandhurst Trustees Limited and the **Community Bank**® Strategic Advisory Board.
Senior executive salaries	The board approved changes to senior executive remuneration arrangements in August 2011 in line with increases awarded to salaried employees generally. The overall increase in fixed remuneration for all senior executives and other direct reports to the managing director for the 2012 financial year was 3.5%.
Company performance	The Company's overall performance for the year did not achieve the targets set by the board. The Company announced a statutory after-tax profit of $195 million for the year. The Company's cash earnings result was $323 million, a 3.9% decrease on the previous financial year. The cash earnings result equated to 84.2 cents per share and represents an 8.7% decrease on the previous financial year. The Company's share price decreased by 145 cents (16.4%) and the Company's annual dividend remained flat at 60 cents.
Short term incentive ("STI")	In August 2012 the board, on recommendation from management and the governance & HR committee, decided that the criteria for establishment of a group short term incentive (STI) performance bonus pool were not met and no STI bonus pool was established for the 2012 financial year. As no STI bonus pool was established, no STI bonuses were paid to senior executives for the 2012 financial year.
Long term incentive ("LTI")	No long term incentive grants were made to senior executives in the 2012 financial year. Below is a summary of the outcomes for past grants. Shareholders approved an issue of five equal annual parcels of performance shares to the managing director at the 2009 Annual General Meeting (AGM), with the performance periods measured over one to five years (with the final performance period ending 30 June 2014). No further grants are proposed during the performance period. The board also approved an issue of three equal annual parcels of performance shares to other senior executives following the 2009 AGM, with the performance periods measured from one to three years (with the final performance period ending 30 June 2012). The vested performance shares for the managing director and the other senior executives are subject to a further trading restriction which applies for the later of 2 years from the end of each parcel's performance period and the date specified in the offer. In 2010 the board approved a supplementary grant to senior executives to reflect changes in senior executive roles, market relativities and to re-align the mix of short and long-term incentive components (with performance periods also ending 30 June 2012). Half of each annual parcel of performance shares is subject to earnings per share (**EPS**) and total shareholder return (**TSR**) tests. The EPS test for the parcel tested on 30 June 2012 (which included previous parcels rolled over from 2010 and 2011 for retesting) was not met. For the managing director, these performance shares have been rolled over for retesting in FY2013. For other senior executives, the performance share parcels tested on 30 June 2012 have lapsed. The other half of each annual parcel of performance shares is subject to the executive's continued employment with the Company. The relevant employment date under the grant was 30 June 2012, and accordingly, the 2012 parcel vested for executives who received the grant and were employed by the Company at that date.

2011-12 Remuneration outcomes for senior executives

Remuneration outcome summary

The table below sets out the actual remuneration received by senior executives in relation to FY2012. The values disclosed in the table below are different to the tables set out later in the Remuneration Report for the reasons explained in footnote 6.

	Remuneration received [6]				Remuneration forfeited	
Executive (current title)	**Base Pay [1] (Fixed annual remuneration)**	**Short term incentive (Cash/ Shares)[2]**	**Long term incentive Shares [3]**	**Total**	**% of cash bonus not awarded [4]**	**Value of LTI that lapsed [5]**
Key management personnel – current members of executive committee						
Mike Hirst (Managing Director)	$1,258,408	-	$556,399	$1,814,807	100%	$178,885
Marnie Baker (Executive: Banking and Wealth)	$556,883	-	$155,089	$711,972	100%	$282,047
Dennis Bice (Executive: Retail Banking)	$409,666	-	$81,088	$490,754	100%	$120,116
John Billington (Executive: Bendigo Wealth)	$414,504	-	$96,397	$510,901	100%	$132,098
Richard Fennell (Chief Financial Officer)	$511,922	-	$152,139	$664,061	100%	$272,376
Russell Jenkins (Executive: Customer and Community)	$470,938	-	$155,089	$626,027	100%	$289,339
Tim Piper (Executive: Risk)	$409,540	-	$113,953	$523,493	100%	$216,942
Stella Thredgold (Executive: Corporate Resources)	$312,951	-	$65,722	$378,673	100%	$90,061
Andrew Watts (Executive: Change)	$420,696	-	$98,587	$519,283	100%	$189,918

1 **Base pay**: This is the total amount of cash salary, non-monetary benefits, company superannuation contributions and annual leave and long-service leave paid in the financial year.

2 **Short term incentive:** In accordance with the Company's remuneration policy, one third of the short term incentive is subject to deferral into shares in the Company for a period of two years.

3 **Shares**: Value is derived from the LTI if the securities vest. For the purposes of this table, the value is based on the Company's closing share price on the day the securities were tested, being 30 June 2012. The vesting date of the shares is anticipated to be in September 2012.

4 **% of cash bonus not awarded**: This is the percentage of the bonus for the reporting year that the executive did not receive, due to performance conditions not being satisfied. It does not carry over into future years.

5 **Value of lapsed LTI**: This is the value of performance rights and performance shares for the reporting year that have lapsed and are not subject to retesting. The value is calculated by using the closing share price of the Company's shares at the date of testing, being 30 June 2012. For the purpose of this table the value of options that lapsed for the reporting year, and are not subject to re-testing, have not been included as the exercise price ($14.66) exceeded the market value of the Company's shares at testing date.

6 **Differences to Remuneration Report:** The difference to the amount disclosed in the Remuneration Report varies for the following reasons.

In relation to base pay, the statutory Remuneration Report amounts include an additional amount representing a notional interest benefit, calculated on the average balance of interest-free loans provided under the employee share ownership plan calculated at the Company's average cost of funds. The amounts in the Remuneration Report also include movements in annual and long service leave accruals.

The disclosure in the table under the column "Shares" represents the actual value of shares received by senior executives in FY2012 for long term incentive (LTI) grants that have vested. The value disclosed is the market value of the shares at the date of testing or vesting as explained in the footnote. The amounts disclosed under the Share Based Payments columns in the Remuneration Report represent the accounting values for current and previous year LTI grants which by law must be disclosed in the Remuneration Report and include LTI that has not and may never vest if performance or service conditions for vesting are not met. There were no termination benefits for the above senior executives.

REMUNERATION REPORT

1. Introduction

This remuneration report is for the Company and the consolidated entity (group) for the year ended 30 June 2012. It forms part of the Directors' Report. It has been audited. The remuneration report explains the approach the Company takes to remuneration for non-executive directors and for senior executives, and details the remuneration provided.

In this report the term "senior executive" is used to refer to all executives who fall within the definition of key management personnel of the group – ie those persons with authority and responsibility for planning, directing and controlling the activities of the group, directly or indirectly.

2. Non-executive directors

2.1 The non-executive directors

The non-executive directors of the Company are as follows.

Robert Johanson (Chairman)
Kevin Abrahamson (retired 24 October 2011)
Jenny Dawson
Jacqueline Hey (appointed 5 July 2011)
Jim Hazel
David Matthews
Terry O'Dwyer (retired on 13 August 2012)
Deb Radford
Tony Robinson

2.2 Principles

The following principles apply to non-executive director remuneration.

Principle	Comment
1. Structure Remuneration to preserve independence / encourage longer-term perspective	As the focus of the board is to build sustainable shareholder value by taking a longer-term strategic perspective, there is no direct link between non-executive directors' fees and the annual results of the Company. Non-executive directors do not receive bonuses or incentive payments, nor participate in the Company's employee equity participation plans.
2. Shareholders approve an aggregate fee pool	The shareholders approve an aggregate fee pool. This includes payments by the Company and its subsidiaries. Shareholders approved the current aggregate fee pool for non-executive directors of $2,500,000 at the 2011 Annual General Meeting. This fee pool covers the main board, Company directors on the Rural Bank board and the Chair of Sandhurst Trustees.
3. Fees are reviewed and set by reference to key considerations	The governance & HR committee recommends to the board the remuneration policy and remuneration for non-executive directors. The following considerations are taken into account in setting fees: (a) The scope of responsibilities of non-executive directors and time commitments. This includes taking into account any changes in the operations of the Company and industry developments which impact director responsibilities and risk, at both the board and committee level. (b) Fees paid by peer companies and companies of similar market capitalisation, including survey data and peer analysis to understand the level of director fees paid in the market by companies of a relatively comparable size and complexity, particularly in the banking and finance sector.
4. Base fee	Non-executive directors receive a fixed annual fee, which is reviewed annually. The Chair receives a higher base fee in recognition of the additional time commitment and responsibilities. No additional fees are paid for serving on board committees. The base fee per annum for the reporting period was as set out below: From 1 July 2011 to 31 October, 2011: (a) $143,000 for directors. (b) $286,000 for the Chair (two times the base fee). From 1 November 2011 to present: (a) $165,000 for directors (b) $412,500 for the Chair (two and half times the base fee). The directors support a Company scholarship fund. This support is generally provided by way of the director forfeiting the right to the amount of the contribution ($5,000) so that the director receives a lower base fee and that amount is instead paid into the scholarship fund. The scholarships are awarded to outstanding students who have been offered a full-time place at an Australian university or college campus, who would not otherwise be able to undertake tertiary education due to social or financial circumstances. The scholarship for each student is up to a maximum of $5,000 per annum and intended to provide assistance by way of support for accommodation costs or other direct study costs.
5. Subsidiary, joint venture and other boards	The board may decide to pay additional fees to directors who are directors of subsidiary, joint venture or other boards. The Company pays additional fees for directors of the Company who are also members of the Sandhurst Trustees Limited board, the wealth management subsidiary of the Company, and the **Community Bank**® Strategic Advisory Board. These amounts are included in the shareholder approved cap and are included in the total fees disclosed paid to non-executive directors. Rural Bank Limited, a subsidiary of the Company, pays its own fees to its non-executive directors, which includes directors of the Company. These amounts are included in the shareholder approved cap and are included in the total fees disclosed paid to non-executive directors.
6. Superannuation	Superannuation contributions are made on behalf of the non-executive directors at a rate of 9%. This amount is included in the shareholder approved cap. No other post-employment benefits are paid to non-executive directors.
7. Special services	The board may decide to pay for special services or any journey on the business of the Company. If fees are paid, they are included in the shareholder approved cap. The board did not pay any fees of this nature during the year.
8. Travel, accommodation	Directors are reimbursed for all reasonable travel, accommodation and other expenses incurred in attending meetings or when engaged on Company business. This is not included in the shareholder approved cap.
9. No share-based payments	There were no share-based payments to non-executive directors in the reporting period.

2.3 Remuneration paid - FY2012 and FY2011

The following payments were made to non-executive directors in the 2011 and 2012 financial years.

	Short-term benefits		Post-employment benefits	Total
	Fees [1]	Non-monetary benefits[2]	Superannuation contributions[3]	
Robert Johanson [5] (Chairman)				
2012	443,763	-	39,939	483,702
2011	346,584	-	31,193	377,777
Kevin Abrahamson [4]				
2012	6,000	38,000	3,960	47,960
2011	96,410	37,910	12,089	146,409
Jenny Dawson [5]				
2012	243,231	-	21,891	265,122
2011	222,589	-	20,033	242,622
Jim Hazel [5]				
2012	238,417	-	21,458	259,875
2011	212,264	-	19,104	231,368
Jacquie Hey [4]				
2012	154,085	-	13,868	167,953
2011	-	-	-	-
David Matthews [5]				
2012	188,231	-	16,941	205,172
2011	165,473	-	14,893	180,366
Terry O'Dwyer				
2012	158,231	-	14,241	172,472
2011	134,320	-	12,089	146,409
Deb Radford				
2012	158,231	-	14,241	172,472
2011	134,320	-	12,089	146,409
Tony Robinson				
2012	135,437	22,794	14,241	172,472
2011	107,443	26,877	12,089	146,409
Aggregate totals				
2012	1,725,626	60,794	160,780	1,947,200
2011	1,419,403	64,787	133,579	1,617,769

1 Fee amounts include the $5,000 director contribution to the board scholarship program for FY2011 and FY2012.
2 Represents fee sacrifice component of base director fee amount paid into superannuation.
3 Company superannuation contributions.
4 Appointments/retirements: Ms Hey was appointed as a non-executive director on 5 July 2011. Mr Abrahamson retired on 24 October 2011.
5 Subsidiary fees: Fees were paid by Rural Bank Limited to Mr Johanson of $70,186 for FY2012 (FY2011: $77,945) and Mr Hazel of $80,186 for FY2012 (FY2011); $77,945) plus company superannuation contributions. The fees paid to Ms Dawson for FY2012 and FY2011 include an additional fee of $85,000 as chair of Sandhurst Trustees Ltd. The fees paid to Mr Matthews include $30,000 for FY2011 and FY2012 for his role as Co-Chair of the **Community Bank**® Strategic Advisory Board.

3. Senior executives

3.1 The senior executives

The executive key management personnel, who form the executive committee for the Company, are as follows.

Mike Hirst	Managing Director & Chief Executive Officer
Marnie Baker	Executive: Banking and Wealth
Dennis Bice	Executive: Retail Banking
John Billington	Executive: Bendigo Wealth
Richard Fennell	Executive: Finance & Treasury (Chief Financial Officer)
Russell Jenkins	Executive: Customer and Community
Tim Piper	Executive: Risk
Stella Thredgold	Executive: Corporate Resources
Andrew Watts	Executive: Business Change

3.2 Oversight of senior executive remuneration

The governance & HR committee provides assistance to the board in relation to the Company's remuneration arrangements. The board makes all final decisions in relation to those arrangements.

Issue	Commentary
1. Governance & HR committee	The current members of the committee are all independent non-executive directors: 1. Tony Robinson (Chairman) 2. Jim Hazel 3. Robert Johanson 4. Deb Radford The committee has responsibility for providing input into the group's risk framework in relation to remuneration risk; in particular, recommending to the board the remuneration arrangements for the senior executives (including the managing director). Further details of the committee's responsibilities for remuneration are summarised below and the committee charter is available from the Company's website.
2. Remuneration policy	The committee's remuneration responsibilities include conducting regular reviews of, and making recommendations to the board on, the remuneration policy taking into account the Company's strategy, objectives, risk profile, shareholder interests, regulatory requirements, corporate governance practices and market developments.
3. Remuneration on individual basis	The committee is required to form an opinion of those persons whose activities, individually or collectively, may affect the financial soundness of the institution, and for whom a significant portion of total remuneration is based on performance (additional management personnel) as required under the remuneration requirements of the Australian Prudential Regulation Authority (APRA). The committee makes an annual recommendation to the board on the remuneration of the managing director, direct reports of the managing director, additional management personnel, and other persons specified by APRA.
4. Remuneration in relation to categories of person	The Committee makes an annual recommendation to the board on the remuneration of categories of persons covered by the remuneration policy, not addressed above, namely: (a) Other responsible persons (as defined in APRA's prudential Standard APS 520 Fit and Proper (excluding the auditor and non-executive directors)). (b) Risk and financial control personnel. This includes recommendations on the following: (a) Changes in the structure of remuneration arrangements. (b) The basis on which performance based remuneration is provided, including the pool of funds available for distribution as bonuses.
5. Risk adjustment	The committee makes recommendations to the board on the exercise of the board's discretion to adjust performance-based components of remuneration (STI and LTI) to reflect the outcomes of business activities, the risks relating to those activities and the time necessary for the outcomes of the business activities to be reliably measured. This includes adjusting performance-based component of remuneration downwards, to zero if appropriate, where necessary to protect the financial soundness of the Company or to respond to significant, unexpected or unintended consequences that were not foreseen by the board.
6. Equity plans	The committee recommends to the board equity schemes and monitors tracking of performance against board approved hurdles for senior executives.
7. Superannuation	The committee recommends to the board any material changes to superannuation arrangements.
8. Independent advice	The committee may consult a professional adviser or expert, at the cost of the Company, if the committee considers it necessary to carry out its duties and responsibilities. During the reporting period no remuneration recommendations were sought from external consultants which would require approval of directors or the committee under the legislation1 that applies from 1 July 2011 to remuneration consultancy contracts or which could only be provided to directors or the committee under that legislation (as is required for certain remuneration recommendations).

3.3 Remuneration policy

The key features of the Company's remuneration policy, applicable to remuneration paid in FY2012, are set out in the table below. In August 2012 the Company amended its remuneration policy. As discussed in section 3.7 below, this did not impact any remuneration paid in FY2012.

The Company continues to pursue a long term strategy focused on the interests and prospects of its customers, communities and partners, and building sustainable shareholder value. The Company's strategy is built on the vision of being Australia's leading customer connected banking group. The Company's performance in FY2012, based on this strategy, is set out in section 3.5.1.

The board has sought to maintain a remuneration framework that provides the desired flexibility and reward structure to support this strategy whilst recognising the need to provide remuneration arrangements which are aligned with shareholder interests and appropriate for senior executive roles, responsibilities and market relativities.

Issue	Commentary	For more information see
1. Philosophy	The following philosophy applies to the remuneration framework at both an organisational and divisional level: (a) Remuneration should facilitate the delivery of superior long term results for the business and shareholders and promote sound risk management principles. (b) Remuneration should support the corporate values and desired culture. (c) Remuneration should support the attraction, retention, motivation and alignment of the talent we need to achieve our business goals. (d) Remuneration should reinforce leadership, accountability, teamwork and innovation. (e) Remuneration should be aligned to the contribution and performance of the businesses, teams and individuals.	n/a
2. Fixed remuneration	Fixed remuneration in the form of base pay is designed to reflect the value the senior executive provides to the group including the skills and competencies needed to generate targeted results, their sustained contribution to the team and group and the value of the role and contribution of the individual in the context of the external market. Senior executive base remuneration is reviewed annually. Senior executives are given the opportunity to receive their base pay in a variety of forms including cash and non-cash (salary sacrifice) benefits such as motor vehicles, superannuation contributions and expense payment arrangements, provided the cost (including any fringe benefits tax) to the Company remains the same. In setting the remuneration of senior executives, the board takes into account general market and peer information, as well as the experience and expertise of the individual, relative to the role and responsibilities of each senior executive and maintains overall a conservative median market positioning. In the case of the managing director, the board also considers the strategic direction the managing director brings to the role, and any changes in the size, nature and complexity of the group's business activities, as well as industry developments which impact on the managing director's roles and responsibilities.	3.4
3. Variable: short term incentive ("STI")	STI is discretionary performance-based remuneration designed to drive and reward medium term results, reflecting the level and time horizon of risk. This includes financial and non-financial results and metrics at an organisational, divisional, team and individual level. Participation in STI is recommended by the governance & HR committee to the board for approval and offered to senior executives at the start of each year. Senior executive STI payments are funded through a group bonus pool established for the distribution of STI remuneration. The board decides the amount of any bonus pool at the end of each financial year having regard to key financial and risk measures that include cash earnings in excess of targeted minimum shareholder return and return on equity. The bonus pool is also adjusted to reflect the types and levels of risk involved in achieving the performance, and the overall risk appetite of the group. The board, on recommendation from the governance and HR committee, has discretion as to whether senior executives will receive an STI payment, and if so, the amount of the incentive payment. Factors taken into account in deciding STI payments include the group's financial performance, business unit performance, the individual's contribution to team performance, individual performance and their contribution to meeting risk and compliance requirements at a group, team and individual level.	3.4, 3.5.2

Issue	Commentary	For more information see
4. STI deferral and forfeiture	STI remuneration is subject to deferral as set out below. (a) One-third of STI awards which exceed the $30k threshold set by the board are subject to deferral (refer table at 3.5.2 (8). (b) Deferral is for two years from the end of the financial year for which the STI is granted. (c) The amount deferred is converted into shares in the Company. (d) The participant is entitled to vote and receive dividends on the deferred equity. Forfeiture occurs if an employee's employment with the group ends; if an employee acts fraudulently or dishonestly and in other cases decided by the board (for example, due to an adjustment for risk).	3.5.2
5. Variable: long term incentive ("LTI")	LTI is discretionary equity based remuneration designed to drive and reward long term growth and sustained Company value, aligning the interests of shareholders and senior executives. At the board's discretion, senior executives may be invited to participate in long term incentive plans. The grants are subject to long term performance and service conditions. The performance measures link reward with key performance targets that underpin sustainable growth in shareholder value including both share price and returns to shareholders. As the incentive is awarded in shares, the service condition provides a retention incentive that is linked to longer term Company performance and shareholder returns and takes into account the Company's conservative median market positioning for base pay.	3.4, 3.4.2 3.5.3
6. Risk adjustment: STI & LTI	The board has discretion, having regard to the recommendation of the governance & HR committee, to adjust variable remuneration (STI and LTI) to reflect the following. (a) The outcomes of business activities. (b) The risks related to the business activities taking account, where relevant, of the cost of the associated capital. (c) The time necessary for the outcomes of those business activities to be reliably measured. This includes adjusting performance-based components of remuneration downwards, to zero if appropriate, in relation to persons or classes of persons, if such adjustments are necessary to protect the financial soundness of the regulated institution or respond to significant unexpected or unintended consequences that were not foreseen by the board.	n/a
7. Hedging	A hedging restriction applies to variable remuneration that comprises equity. A member of key management personnel and their closely related parties may not enter into a transaction designed to remove the at-risk element of the equity before it has vested. This also applies to the at-risk element of equity after it has vested, if it is subject to a holding lock. These restrictions are in the staff trading policy and remuneration policy. The Company treats compliance with these policies as important and takes appropriate measures to ensure compliance. At the end of each financial year, the Company requires a confirmation from each participant in the plan that they have complied with these restrictions. If an employee breaches either of these restrictions the employee forfeits all variable remuneration in the form of equity that is subject to the prohibition at the time of the breach.	n/a
8. Margin loan facility restriction	The staff trading policy also prohibits designated officers, including non-executive directors and senior executives, from using the Company's securities as collateral in any margin loan arrangements.	n/a

3.4 Remuneration terms and payments – overview

3.4.1 Components of remuneration

The components of executive remuneration and the relative proportion of remuneration for each component for FY2012 are set out below. The arrangements have been structured to emphasise longer term performance aligned with the Company's strategy and shareholder interests and to minimise risks associated with a short term performance focus.

	% of total aggregate remuneration*		
	Fixed remuneration	**'At risk' – performance-based**	
		STI**	**LTI*****
Mike Hirst	47%	15%	38%
Marnie Baker	53%	19%	28%
Dennis Bice	62%	16%	22%
John Billington	52%	21%	27%
Richard Fennell	51%	20%	29%
Russell Jenkins	49%	21%	30%
Tim Piper	52%	20%	28%
Stella Thredgold	55%	18%	27%
Andrew Watts	53%	19%	28%

* Aggregate remuneration comprises of fixed annual reward (including base salary, superannuation and allowances), STI at-risk available for the FY2012 year and the remuneration value of LTI grants for the FY2012 year.

** These amounts are subject to performance levels being achieved based on goals set and minimum values, risk and performance gateways being met.

*** These amounts are subject to continued service with the Company, and for a portion of the grant, target performance levels being achieved.

3.4.2 Remuneration paid – FY2012 and FY2011

The remuneration paid to senior executives is set out below in the table below.

In setting remuneration levels for FY2012, the market survey and peer information used was based on 2011 Annual Report disclosures and data contributed directly by listed companies. The survey data includes S&P ASX 200 companies and companies in the banking and financial services sector. The senior executive remuneration was targeted at market median levels.

Senior executive	Short-term Employee Benefits				Super-annuation benefits [5]	Other long-term benefits[6]	Share-based payments [7, 8]			Total
	Cash salary [1]	Cash bonuses (STI) [2]	Non-Monetary benefits [3]	Other[4]			Rights & performance shares	Options	Deferred shares[10]	
Mike Hirst										
2012	1,184,484	-	26,491	10,920	40,000	23,211	1,068,591	-	-	2,353,697
2011	1,225,413	200,000	47,238	12,636	41,538	90,648	1,202,879	74,837	100,000	2,995,189
Marnie Baker										
2012	477,146	-	42,902	8,584	22,383	14,952	295,514	-	-	861,481
2011	494,491	133,333	19,431	10,318	22,985	57,313	340,003	23,296	66,667	1,167,837
Dennis Bice										
2012	356,697	-	14,664	4,057	33,826	12,300	155,267	-	-	576,811
2011	326,222	46,667	39,548	4,930	33,316	24,351	164,855	-	23,333	663,222
John Billington[9]										
2012	406,196	-	5,736	-	15,774	-	179,984	-	-	607,690
2011	332,957	66,667	9,639	-	12,452	-	200,452	-	33,333	655,500
Richard Fennell										
2012	461,947	-	9,898	-	22,339	-	289,265	-	-	783,449
2011	461,383	133,333	7,497	-	22,918	-	332,963	21,667	66,667	1,046,428
Russell Jenkins										
2012	420,317	-	42,562	8,746	22,584	(6,424)	295,514	-	-	783,299
2011	422,785	106,667	38,538	10,811	23,220	16,060	343,053	26,346	53,333	1,040,813
Tim Piper										
2012	371,818	-	15,431	-	33,815	11,030	216,629	-	-	648,723
2011	331,369	83,333	21,467	-	33,578	12,944	254,861	21,667	41,667	800,886
Stella Thredgold										
2012	270,737	-	6,896	-	23,239	7,850	122,711	-	-	431,433
2011	264,848	53,333	10,966	-	19,822	16,948	136,666	-	26,667	529,250
Andrew Watts										
2012	359,584	-	32,016	1,972	22,888	10,447	184,073	-	-	610,980
2011	374,789	66,667	27,457	2,525	23,094	9,725	227,940	22,933	33,333	788,463
Aggregate totals										
2012	4,308,926	-	196,596	34,279	236,848	73,366	2,807,548	-	-	7,657,563
2011	4,234,257	890,000	221,781	41,220	232,923	227,989	3,203,672	190,746	445,000	9,687,588

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

2 In the case of FY2012, no STI was awarded given earnings performance did not meet the minimum criteria set by the board.

3 "Non-monetary" relates to sacrifice components of KMP salary.

4 "Other" relates to the notional value of the interest free loan benefit provided under the group's employee share plans. A notional benefit is calculated using the average outstanding loan balance and the Company's average cost of funds. Details on loans provided to the senior executive under the employee share plans are disclosed in the Annual Financial Report at Note 38.

5 Represents superannuation contributions made on behalf of key management personnel.

6 The amounts disclosed relate to movements in long service leave entitlement accruals.

7 In accordance with the requirements of Australian Accounting Standards, remuneration includes a proportion of the fair value of equity compensation granted or outstanding during the year. The fair value of equity instruments which do not vest during the reporting period is calculated as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual senior executives may ultimately realise should the equity instruments vest. The fair value of performance rights, options and performance shares as at the date of their grant has been calculated under AASB 124 Related Party Disclosures 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 options and performance shares vesting. The assumptions underpinning these valuations are set out in Note 36 to the Annual Financial Report.

8 The amortised value of performance rights, options and performance shares as a percentage of total remuneration was: M Hirst 45% (2011: 43%), M Baker 34% (2011: 31%), D Bice 27% (2011: 25%), J Billington 30% (2011: 31%), R Fennell 37% (2011: 34%), R Jenkins 38% (2011: 35%), T Piper 33% (2011: 35%), S Thredgold 28% (2011:26%), A Watts 30% (2011: 32%).

9 Mr Billington became a member of key management personnel during FY2011 on 31 August 2010. Therefore, Mr Billington's reported remuneration for FY2011 only represents the remuneration paid to him for the portion of the 2011 financial year that he was in that a key management personnel role.

10 One third of STI awards are subject to deferral into equity for two years. The amounts represent the amortised fair value for accounting purposes of the STI deferred share grants which are still to vest and are subject to forfeiture conditions.

3.5 Performance based remuneration

3.5.1 Company performance

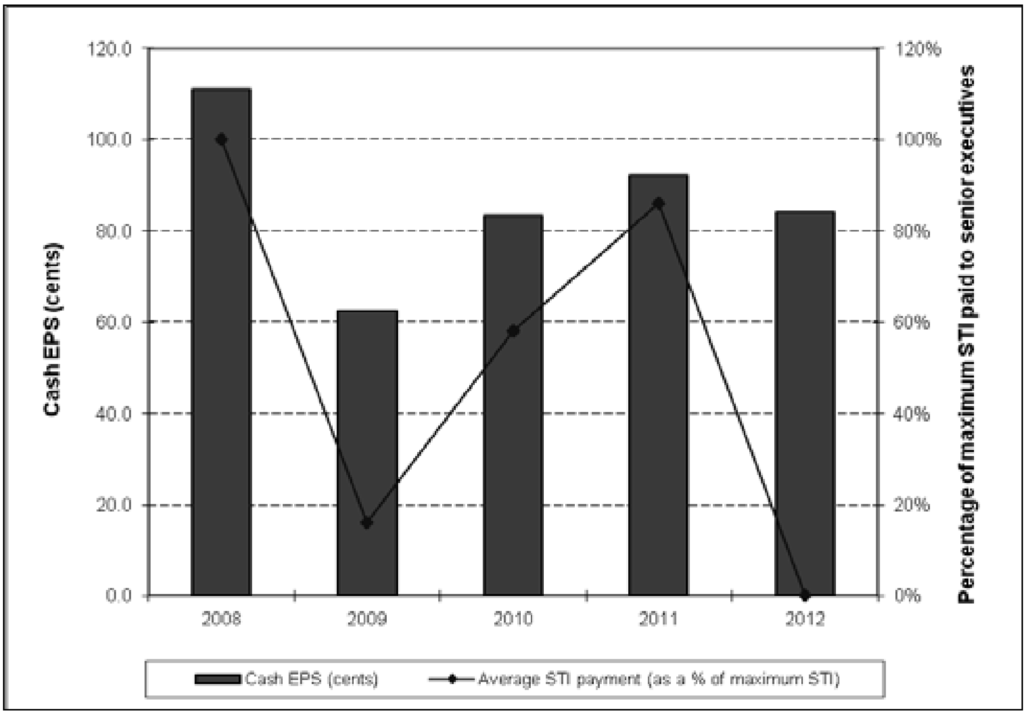
The Company announced on 20 August 2012 a statutory after-tax profit of $195 million. The Company's cash earnings result was $323 million, a 3.9% decrease on the previous financial year. The cash earnings result equated to 84.2 cents per share and represents an 8.7% decrease on the previous financial year. Information on the Company's share price performance is presented below.

The performance for the year was impacted by the challenging market environment including high funding costs and a low demand for credit. The group's core revenue generating businesses, retail, third party banking, wealth and rural banking continue to perform well. Deposits grew by more than $4 billion over the year and credit quality is sound across the Company's businesses.

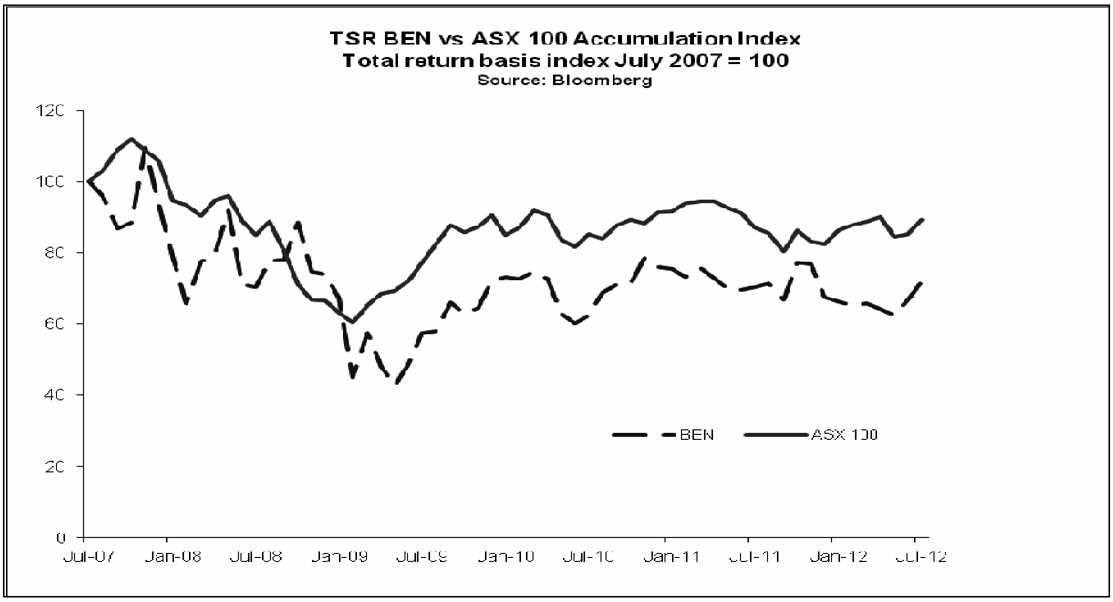
The Company recorded a 1% increase in net interest income to $944.1 million and the interest margin before payments to community banks and alliances decreased from 2.17% to 2.10%. Net of these payments, interest margin decreased 7 basis points to 1.77% in the 12 months to 30 June 2012. Cost containment and efficiency has again been a major focus over the year. Expenses before specific items increased by 2.2% to $751.7 million compared to June 2011. The cost to income ratio was 59.1% compared to 57.4% at June 2011.

Company performance measure	**Financial year ending**				
	June 2012	**June 2011**	**June 2010**	**June 2009**	**June 2008**
Basic earnings per share (cents)	48.6	91.5	67.4	25.4	87.7
Cash earnings per share (cents)	84.2	92.3	83.3	62.6	111.1
NPAT ($m)	195.0	342.1	242.6	83.8	198.3
Dividends paid	60	60	58	43	65
Share price at start of financial year	$8.86	$8.18	$6.95	$10.93	$15.20
Share price at end of financial year	$7.41	$8.86	$8.18	$6.95	$10.93
Absolute shareholder return	(9.6%)	16%	26%	(32%)	(24%)

The following graph shows the cash earnings over the past year and four previous years, with the average STI payment (as a percentage of the maximum STI) paid to senior executives, which demonstrates the relationship between performance and STI payments. Based on the Company performance, the quantitative performance conditions as set out in sections 3.5.2 were not met and no STI bonuses were paid in relation to FY2012.



The following graph compares the Company's total shareholder return (TSR) against the ASX 100 Accumulation Index for the past five years (explained in section 3.5.3(b)). The ASX 100 is the comparator group against which the Company's TSR performance is measured for the current long term incentive plan. As discussed further below, no instruments have vested for current senior executives under the discontinued executive incentive plan.



The above table, together with the graphs, illustrate the progress in the key performance indicators used by the board to measure and compare the Company's year-on-year performance over the past 5 years.

The second key performance indicator used for the LTI is the Company's TSR performance. The Company's market relative TSR performance underperformed the comparator group and did not achieve the targeted percentile ranking for the 2007, 2008 and 2009 performance periods. The Company's market relative TSR percentile ranking was partially achieved for both the 2010, 2011 and 2012 performance periods, however, because the EPS gateway hurdle for FY2012 was not met, no LTIs subject to performance conditions vested for FY2012. Only LTIs subject to service conditions vested.

3.5.2 Short-term incentive

(a) Description

The principles that apply to the short term incentive have been summarised above for executive key management personnel (3.3). More detail is provided below.

Feature	Description
1. What is the STI?	The senior executive remuneration packages include an annual cash incentive component which rewards the achievement of annual financial goals, taking into account risk management and compliance, and senior executive contributions to longer term growth and performance. The maximum amount of the senior executive cash incentive is set by the board taking into account market data and the senior executive's particular role and responsibilities.
2. Who participates in the STI?	All senior executives (who are key management personnel) and other senior management as decided by the board.
3. Why does the board consider the STI an appropriate incentive?	The objective of the incentive is to link a reasonable proportion of senior executive remuneration with the annual financial performance of the Company and the achievement of individual business priorities which enhance the future prospects of the Company. The total potential annual cash incentive is set for each senior executive with operational responsibilities at a level which provides an appropriate incentive to achieve business and financial targets and at a cost that is reasonable to the Company in its circumstances.
4. Are performance conditions imposed?	The STI is based on target performance conditions designed to drive short and medium term results and at a level that reduces incentive for inappropriate behaviour and risk taking. Payment of the STI for senior executives and other participants is at the discretion of the board and is based, first, on the achievement of financial performance measures and, secondly, on the level of individual executive performance.
5. What are the performance conditions, why were they chosen and how are they measured?	**5.1 General conditions** ***Threshold performance – Setting of Group Performance Bonus Pool*** The amount of the annual incentive component awarded and paid to executives is dependent, first, on the Company's cash earnings performance set by the board and the establishment of a pool of funds approved by the board for the payment of staff bonuses. In establishing any bonus pool the board takes into account financial measures including the achievement of targeted cash earnings and return on equity performance. The bonus pool also takes into account the type and level of risk associated with achieving the cash earnings performance using risk measures including capital ratios, liquidity ratios and the Company's risk weighted asset base. The annual bonus pool settings are structured in a manner so that the aggregate amount that can be allocated to the bonus pool are capped. The board selected the cash EPS measure as it represents a publicly available performance measure that appropriately reflects the short-term interests of shareholders. The Company's cash EPS ratio ensures that an appropriate focus is placed upon both profit performance and effective application of shareholder capital. The selected risk measures are fundamental to the nature of the business activities carried on by the Company. ***Additional quantitative and qualitative measures*** Payment of the annual incentive component is also dependent on achievement by executives of quantitative and qualitative measures as explained below. These measures have been chosen to link the executive's performance with the Company's vision to be Australia's leading customer-connected bank and its long-term strategic perspective (see further the governance statement in the annual report), as well as to encourage improved performance and to ensure the level of risk associated with the level of performance achieved by the Company is appropriate for the Company's circumstances. In addition, the managing director's objectives are linked to enhancing the reputation of the organisation. **5.2 Specific conditions** ***Managing director*** The managing director's annual cash incentive component for the FY2012 year was based upon a mix of quantitative and qualitative performance measures and was set at a maximum of $400,000. The quantitative element, weighted at 50% for FY2012, focused on the group achieving its targeted cash EPS performance. This was chosen to link the managing director's performance to improved Company performance. The qualitative element, weighted at 50% for FY2012, was chosen to focus on the continued progress of the group's strategic priorities. The objectives and measures are set out below.

<table>
<tr>
<td>5. What are the performance conditions, why were they chosen and how are they measured? (cont)</td>
<td>
<table>
<tr><td>1. Achievement of Business Goals</td><td>Prioritising and allocating resources to the strategic objectives and operational plans and the delivery of benefits identified in operational plans.</td></tr>
<tr><td>2. Risk and Compliance</td><td>The level of risk associated with the group’s performance was within the group’s risk appetite.</td></tr>
<tr><td>3. Customer satisfaction and advocacy</td><td>Maintaining the organisation’s customer satisfaction and advocacy ratings at existing levels.</td></tr>
<tr><td>4. Succession Planning</td><td>A pool of potential successors is available for senior executive positions with at least one replacement ready for each position in the next three years; includes any appropriate development plans.</td></tr>
<tr><td>5. Scale and Rating Advantage</td><td>Implementation of growth initiatives and opportunities that deliver scale advantage and support a ratings upgrade.</td></tr>
<tr><td>6. Representation of the Organisation</td><td>Represent the organisation at:
• Federal and State Political levels
• Industry forums; and
• Conferences or other public forums.</td></tr>
</table>
The board has established an equal weighting between financial and strategic objectives to give the appropriate focus on longer term performance and the achievement of strategic objectives.
Other senior executives
The objectives and measures for individual executives include those set out below.
(a) Group financial and strategic performance – net profit after tax, cash earnings per share, return on equity, liquidity and capital ratios and arrears performance.
(b) Business unit (team) financial and strategic performance – achievement of division or business unit growth and financial performance targets, implementation of specific business initiatives and projects in line with project targets and timeframes, independent industry focused customer satisfaction and advocacy rankings and customer and community engagement initiatives.
(c) Individual contribution to team performance – achievement of overall division or business unit targets and business and risk objectives, assessment of extent to which a “one-team” culture has been promoted, assessment of continuous improvement in processes and procedures.
(d) Individual performance, including alignment with corporate values and meeting performance objectives – assessment of leadership, management of business unit resourcing and compliance with corporate values and code of conduct.
Contribution to meeting risk and compliance requirements at the group, team and individual level. Risk and compliance requirements also represent a gateway to whether a payment is made and the size of the payment. Notwithstanding financial performance and the individual contribution and performance, if the individual, team or group does not meet or only partially meets risk and compliance requirements, no award or a reduced award may be made. Measures include compliance with risk management and operational policies and procedures.
</td>
</tr>
<tr>
<td>6. When are the performance conditions measured and who assesses the performance?</td>
<td>The performance conditions are measured at the same time as board approval of the Company’s year-end profit result announcement. The achievement of the quantitative cash EPS performance condition for senior executives is measured on the basis of the Company’s reported cash EPS ratio. However, STI is only paid if the board decides there is a bonus pool available – see the table at paragraph 3.3 above, item 3. This method of assessment has been chosen because it enables the objective measurement of EPS growth against EPS targets while enabling the board to exercise its discretion for risk adjustments relating to the outcomes of business activities, the risks relating to those activities and the time necessary for the outcomes of the business activities to be reliably measured. Further information regarding the board’s approach to adjusting remuneration for risk is contained in sections 3.2 and 3.3.</td>
</tr>
</table>

6. When are the performance conditions measured and who assesses the performance? (cont)	The non-executive directors conduct the assessment of the managing director's performance, taking into account the quantitative and qualitative measures set by the board, at which time the board decides the amount of the incentive payment based upon the achievement of the agreed performance measures. This allows for independent and objective assessment of the achievement of performance measures while enabling any necessary risk adjustments to occur at the board's discretion. The managing director assesses the performance of other senior executives and recommends the annual STI payments for senior executives for consideration by the governance & HR committee and decision by the board. In making the recommendation, the managing director takes into account the group bonus pool available for the payment of STI awards and bonuses to group employees. This method of assessment has been chosen as the managing director is best placed to make an informed assessment of senior executive performance and progress towards performance targets, while the board retains ultimate oversight for the grant of STI awards and any necessary risk adjustments.
7. How well were the performance conditions met in the 2012 financial year?	On recommendation of the governance & HR committee, the board determined that the criteria for establishment of a group performance bonus pool had not been met and no bonus pool was established for the 2012 financial year. Therefore, even where executives met their individual performance objectives, no STI awards were made.
8. What deferral arrangements apply?	One third of STI awards which exceed the $30k threshold set by the board, are subject to deferral into equity for two years from the end of the financial year if awarded, ie until 30 June 2014.

(b) Payments – FY2012

No short term incentives were paid to senior executives for FY2012. The short term incentives forfeited are set out in the table below.

Senior executive	Maximum Award available	STI payment		STI payment as % of maximum STI	% of maximum STI payment forfeited
		Paid as cash	Deferred into shares		
Mike Hirst	**$400,000**	-	-	0%	100%
Marnie Baker	**$225,000**	-	-	0%	100%
Dennis Bice	**$100,000**	-	-	0%	100%
John Billington	**$160,000**	-	-	0%	100%
Richard Fennell	**$225,000**	-	-	0%	100%
Russell Jenkins	**$200,000**	-	-	0%	100%
Tim Piper	**$150,000**	-	-	0%	100%
Stella Thredgold	**$100,000**	-	-	0%	100%
Andrew Watts	**$150,000**	-	-	0%	100%

3.5.3 Long term incentive

(a) Overview

Each of the senior executives received their relevant tranches of LTI grants in previous years (as described below). No LTI grants were made to senior executives in FY2012. The Company intends to make new LTI grants to certain senior executives in FY2013 (see section 3.7).

The following long term incentive arrangements are in place.

	Salary sacrifice, deferred share and performance share plan	Executive incentive plan
Established	2008	2006
Status	Current - First grant made in December 2009.	Discontinued - Last grant made in November 2008, final testing 2012.
Participants	Senior executives (including the managing director) and other senior management approved by the board.	Senior executives and other senior management approved by the board.
Nature of grants	Grants of performance shares subject to performance and service conditions set by the board. If the performance or service conditions are not satisfied during the performance periods, the performance shares lapse and the senior executives receive no value from the grants.	Grants of options and performance rights subject to performance conditions set by the board. If the performance conditions are not satisfied during the performance period, the options and rights lapse and the senior executives receive no value from the grants.

The Company also has a loan-based limited recourse employee share ownership plan (ESOP). The ESOP was open to general staff and senior executives (including the managing director) and was used by the Company as the long-term incentive arrangement before introducing the executive incentive plan. It did not include performance conditions, as at the time, the board considered that it was in the best interests of the organisation as a whole to have the managing director and other senior executives on the same equity participation arrangement as general staff who also participated in the ESOP. Information on the ESOP, including share grants and loan details are disclosed at Notes 36 and 38 of the Annual Financial Report. This plan is no longer open to senior executives.

(b) Current plan – terms

Key features of the current plan and grants under it are summarised below.

Feature	Description
1. What is the purpose of the LTI?	Grants of performance shares under the plan are designed to link senior executive reward with key performance measures that underpin sustainable longer-term growth in shareholder value including both share price and returns to shareholders.
2. Who participates in the LTI?	The managing director and other senior executives as decided by the board. Shareholder approval is required for participation by the managing director.
3. What proportion of total remuneration does the LTI represent?	In the case of the managing director, the grant made under the LTI in 2009, annualised over each of the five years to which the grant relates, equated to 45% of his total annual remuneration for the 2012 year. In the case of other senior executives, the grants under the current LTI equate to between 22% and 29% of their total annual remuneration.
4. How is reward delivered under the LTI?	The LTI involves an entitlement to performance shares made in equal tranches. See 3.5.3(c) for the tranches that have been issued. Each tranche comprises two components or grants: (a) Grant A - 50% of each annual tranche is subject to an EPS gateway hurdle, requiring an increase in the cash EPS performance of the Company for the performance period. If that hurdle is met, the grant is then subject to a TSR performance hurdle. (b) Grant B - The other 50% of each annual tranche is subject to continuing service with the Company. Each performance share represents an entitlement to one ordinary share in the Company. Accordingly, the maximum number of shares that may be acquired is equal to the number of performance shares issued (subject to the conditions to vesting being met).
5. Do participants pay for the performance shares?	Performance shares have been granted at no cost to the recipient and no exercise price applies.
6. What rights are attached to the performance shares?	The vested shares are subject to a dealing restriction and senior executives are not entitled to sell, transfer or otherwise deal with the shares allocated to them until the later of 2 years after the end of the tranche's performance period and the date specified in the offer. In addition, the shares may not be hedged during that period. Senior executives or their closely related parties may not enter into any transaction designed to remove the "at-risk" element of an instrument both before and, if there is a holding lock, after it vests (see 3.3 above). Senior executives are entitled to vote and to receive any dividend, bonus issue, return of capital or other distribution made in respect of shares they are allocated on vesting of their performance shares. Dividends paid on vested performance shares are reinvested into shares (less an amount distributed to senior executives to meet tax obligations on the dividends) and are held in trust on the same terms as the performance shares during the dealing restriction period.
7. What are the hurdles and performance conditions?	The vesting of the performance shares in Grant A is subject to a gateway cash EPS hurdle. The gateway hurdle will be met if there is an increase in the Company's cash EPS performance during the financial year immediately before vesting for each tranche (ie the final year of the performance period for that tranche). The second performance condition for the performance shares granted under the plan is based on the Company's market relative TSR performance over the performance period. See below – 3.5.3(c) for the performance period. In the case of the managing director, five tranches were granted in 2009. The performance for each tranche is measured over one to five year performance periods (with the final performance period ending on 30 June 2014). In the case of other executives, grants in FY2009 are measured over one to three years, and the supplementary grants in FY2010 are measured over one to two years.
8. Why were the performance conditions and periods chosen?	The EPS based gateway hurdle is a fundamental indicator of financial performance, both internally and externally, and links directly to the Company's long-term objective of growing earnings. The gateway cash EPS hurdle ensures that a minimum level of improvement in the Company's performance and capital efficiency is achieved before any performance shares can vest.

<table>
<tr><td>8. Why were the performance conditions and periods chosen? (cont)</td><td>The TSR based hurdle ensures an alignment between comparative shareholder return and reward for the senior executives and provides a relative, external market performance measure, having regard to the TSR performance of other companies in a comparator group (see item 11 below for information on the composition of the comparator group).

The performance periods take into account retention of senior executives and the managing director, and the period of the managing director’s contract (see further, 3.5.3 (c) below).</td></tr>
<tr><td>9. How is EPS measured?</td><td>Cash basis EPS will be calculated as the reportable earnings approved by the board. For the purpose of the grants, the EPS gateway involves determining whether there has been an improvement in the cash basis EPS from the previous financial year.</td></tr>
<tr><td>10. How is TSR measured?</td><td>TSR measures changes in the market value of the Company’s shares over the performance period and the value of dividends on the shares during that period (dividends are treated as if they were re-invested).</td></tr>
<tr><td>11. Why does the Company think the TSR hurdle is appropriate?</td><td>The use of a TSR based hurdle ensures an alignment between comparative shareholder return and reward for the managing director and senior executives and provides a relative, external market performance measure, having regard to the TSR performance of other companies in a comparator group. For the purpose of the grants under the plan, the comparator group is the ASX 100 Accumulation Index (excluding the Company, property trusts and resources). This group was chosen because the companies are of comparable size, and there are insufficient companies of comparable size in the banking or financial services sector alone to benchmark against performance of an industry-specific group.</td></tr>
<tr><td>12. What is the plan’s vesting terms – performance shares?</td><td>Performance shares granted under the plan will vest in accordance with the following table provided the EPS gateway condition has been met.
<table>
<tr><td>Company’s TSR ranking against TSR of peer group</td><td>Percentage of performance shares that vest</td></tr>
<tr><td>TSR below 50th percentile</td><td>Nil</td></tr>
<tr><td>TSR between 50th percentile and 75th percentile</td><td>65%</td></tr>
<tr><td>TSR above 75th percentile</td><td>100%</td></tr>
</table></td></tr>
<tr><td>13. Does the plan provide for retesting?</td><td>To the extent that the performance conditions attaching to performance shares granted under the plan are not satisfied at the end of the relevant tranche’s performance period, the performance shares that do not vest will be carried forward and retested as described below.

Performance shares that do not vest will be treated as forming part of the following tranche and will be tested together with other performance shares at the end of the following tranche’s performance period. The board believes that retesting in these circumstances is appropriate because it ensures that senior executives are not disadvantaged by short-term average performance over a longer-term period of strong performance.</td></tr>
<tr><td>14. What if a senior executive ends employment?</td><td>If a senior executive ends their employment with the Company before the performance conditions for the performance shares have been met, the performance shares that have not yet vested will lapse. However, if the senior executive’s employment ends because of death, disability, redundancy, or any other reason approved by the board for this purpose, the board may, in its discretion decide that a number of performance shares vest.</td></tr>
<tr><td>15. What if a senior executive breaches their duties?</td><td>If a senior executive were to act fraudulently, dishonestly or, in the board’s opinion, in breach of his or her legal duties, any unvested performance shares will lapse.</td></tr>
<tr><td>16. What happens if there is a change in control?</td><td>If there is a takeover or change of control of the Company, the board has the discretion to decide that unvested performance shares vest, having regard to the Company’s pro rata performance against the relevant performance conditions.</td></tr>
</table>

(c) Current plan – grants

General

The following grants to the managing director and other senior executives were still in place under the current plan in FY2012.

The first grant to the managing director and other senior executives was made on 11 December 2009 (FY 2010 Grant). The managing director's grant involved one to five year performance periods. The grants to other senior executives involved one to three year performance periods.

The board approved supplementary grants of performance shares in FY2011 as follows:

(a) To current senior executives who were not senior executives at the time of the FY2010 grant.

(b) To senior executives who were senior executives at the time of the FY2010 grant as part of the 2011 remuneration review to reflect changes in role, the contributions made and realignment of the mix of variable pay between short and long term.

The grants were made with the same end date to align with the FY2010 grant made to senior executives, and aside from the difference in length of performance periods, were on the same terms as the FY2010 grant.

The following table shows the categories of participants that have received grants under the plan and the achievement to date against the performance measure for each tranche.

Performance period		**Participants**	**Outcome to date**	
Start	**End**		**Grant A** (EPS and TSR condition)	**Grant B** (service condition)
1.7.09	30.6.10	Senior executives Managing director	This tranche was tested in August 2010. The EPS gateway hurdle was met. The TSR test was partially met and 65% of the shares vested. The shares that did not vest were carried forward and retested in 2011and 2012 and lapsed.	The performance shares issued to senior executives who remained employed by the group have vested, as the service condition was satisfied. For each senior executive whose employment with the Company ended during a year, the performance shares for that year lapsed.
1.7.09	30.6.11	Senior executives Managing director	This tranche was tested in August 2011. The EPS gateway hurdle was met. The TSR test was partially met and 65% of the shares vested. The shares that did not vest were carried forward and retested in 2012 and lapsed.	
1.7.10	30.6.11	Senior executives (supplementary grant)	This tranche was tested in August 2011. The EPS gateway hurdle was met. The TSR test was partially met and 65% of the shares vested. The shares that did not vest were carried forward and retested in 2012 and lapsed.	
1.7.09	30.6.12	Senior executives Managing director	This tranche was tested in August 2012. The EPS gateway hurdle was not met. In the case of the managing director, the shares that did not vest were carried forward and are available for retesting in 2013 (over a 4 year performance period). For all other senior executives, their performance shares have lapsed.	
1.7.10	30.6.12	Senior executives (supplementary grant)	This tranche was tested in August 2012. The EPS gateway was not met, and all of the performance shares have lapsed.	
1.7.09	30.6.13	Managing director	This tranche is held by the managing director under his 5 year grant and will be tested in August 2013.	n/a
1.7.09	30.6.14	Managing director	This tranche is held by the managing director under his 5 year grant and will be tested in August 2014.	n/a

An explanation of the pricing model used to calculate these values is set out in Note 36 to the Annual Financial Report.

The number of performance shares granted is included in the table in paragraph 3.5.3(f) below and the maximum value of the grants is included in the table in paragraph 3.5.3 (g) below. Having regard to the service and performance conditions, the potential minimum value is nil.

Managing director

Further details about the grants made to the managing director are set out in the table below.

In setting the five year performance period (and the additional dealing restriction ie the later of 2 years from the end of each tranche's performance period and 30 June 2014), the board took into account the initial five year term of the managing director's contract (July 2009 – July 2014) and the importance of rewarding the managing director for taking a longer-term perspective on the Company's progress and performance.

In setting the remuneration value of the entitlement, the board included a component that was subject to continued service with the Company. This took into account the relatively moderate market setting of the managing director's remuneration. It was intended to provide the managing director with a further ownership stake in Company aligned with shareholder interests. This component in substance represents a deferred part of the managing director's fixed reward linked to the long term performance of Company and interests of shareholders. The LTI will be reviewed at the end of the initial five year contract period.

The performance shares were issued at market price to the value of $5 million (representing an annualised amount over each of the five years of $1 million). The market price was based on the volume weighted average price of the Company's shares traded on the ASX for the 5 days before 1 July 2009 (being $6.56).

The maximum number of shares that may be acquired by the managing director is equal to the number of performance shares issued, being 762,190.

	% of remuneration value of performance rights	**Performance shares (number)**	**Potential remuneration value**	**Performance period**	**Outcome to date**
Tranche 1	Grant A 10% Grant B 10%	76,219 76,219	$500,000 $500,000	1 year (1 July 2009 to 30 June 2010)	*No of shares vested*: 125,761 *Grant A – 49, 542* *Grant B – 76, 219* *Value at time of vesting*: $8.18 per share *No of shares carried into next tranche*: 26,677 *(from Grant A)*
Tranche 2	Grant A 10% Grant B 10%	76,219 76,219	$500,000 $500,000	2 years (1 July 2009 to 30 June 2011)	*No of shares vested*: 143,102 *Grant A – 66, 883* *Grant B – 76, 219* *Value at vesting time*: $8.86 *No of shares carried into next tranche:* 36,013 *(from Grant A)*
Tranche 3	Grant A 10% Grant B 10%	76,219 76,219	$500,000 $500,000	3 years (1 July 2009 to 30 June 2012)	*No of shares vested*: 76,219 *Grant A – Nil* *Grant B – 76, 219* *Value at vesting time*: $7.30 *No of shares carried into next tranche:* 112,232
Tranche 4	Grant A 10% Grant B 10%	76,219 76,219	$500,000 $500,000	4 years (1 July 2009 to 30 June 2013)	n/a
Tranche 5	Grant A 10% Grant B 10%	76,219 76,219	$500,000 $500,000	5 years (1 July 2009 to 30 June 2014)	n/a

(d) Discontinued plan - terms

The terms of the discontinued executive incentive plan and grants under it are similar to those described above for the current plan, and the rationale for choosing the performance conditions was the same. The instruments issued under the discontinued plan were options and performance rights, each option or performance right representing one share. The design of the plan, including the terms and conditions of the options and performance rights issued under the plan, have been disclosed in prior year Annual Reports. Further information on the discontinued plan is disclosed at Notes 36 and 38 of the Annual Financial Report.

(e) Discontinued plan - grants

Shareholders at the 2006 Annual General Meeting approved the grant of instruments under the discontinued executive incentive plan to senior executives. Offers were made as follow:

- November 2006 (2007 grant)
- July 2007 (2008 grant)
- November 2008 (2009 grant)

The proportion of remuneration represented by the LTI was between 12% and 23% of total remuneration.

Outcome

The outcome is that no securities have vested under the terms of the executive incentive plan to current senior executives and the current senior executives have derived no value from the grants:

- The 2007 grant was tested in August 2009 and was retested in August 2010 (and also in January 2010 for the options). The unvested rights and options lapsed.
- The 2008 grant was tested in August 2010 and retested in August 2011 (and also in January 2011 for the options). The unvested rights and options lapsed.

The 2009 grant was tested in August 2011 and retested in August 2012 and no performance rights or options vested.

(f) All plans - changes in number of instruments - FY2012

The table below sets out the changes in number of performance rights, options and performance shares held by senior executives during the year.

Movements in number						
Senior executive	**Instrument**	**Balance at 1 July 2011**	**Granted**	**Vested**	**Forfeited/ Lapsed**	**Balance at 30 June 2012**
Mike Hirst	Performance rights	24,141	-	-	24,141	-
	Options	204,261	-	-	204,261	-
	Performance shares	493,328	-	76,219	-	417,109
Marnie Baker	Performance rights	7,515	-	-	7,515	-
	Options	78,898	-	-	78,898	-
	Performance shares	51,793	-	21,245	30,548	-
Dennis Bice	Performance shares	27,318	-	11,108	16,210	-
John Billington	Performance shares	31,032	-	13,205	17,827	-
Richard Fennell	Performance rights	6,989	-	-	6,989	-
	Options	47,445	-	-	47,445	-
	Performance shares	50,610	-	20,841	29,769	-
Russell Jenkins	Performance rights	8,499	-	-	8,499	-
	Options	88,462	-	-	88,462	-
	Performance shares	51,793	-	21,245	30,548	-
Tim Piper	Performance rights	6,989	-	-	6,989	-
	Options	47,445	-	-	47,445	-
	Performance shares	37,898	-	15,610	22,288	-
Stella Thredgold	Performance shares	21,157	-	9,003	12,154	
Andrew Watts	Performance rights	7,398	-	-	7,398	-
	Options	71,373	-	-	71,373	-
	Performance shares	31,737	-	13,505	18,232	-

(g) All plans - value of instruments - FY2012

The table below sets out the value of performance rights, options and performance shares that were granted, vested, exercised or forfeited/lapsed during FY2012.

		Value			
Senior executive	**Instrument**	**Granted[(a)]**	**Vested[(b)]**	**Exercised**	**Forfeited/ Lapsed[(c)]**
Mike Hirst	Performance rights	-	-	-	$224,511
	Options	-	-	-	$329,511
	Performance shares	-	$556,399	$556,399	-
Marnie Baker	Performance rights	-	-	-	$69,890
	Options	-	-	-	$142,389
	Performance shares	-	$155,089	$155,089	$219,597
Dennis Bice	Performance shares		$81,088	$81,088	$117,138
John Billington	Performance shares		$96,397	$96,397	$125,139
Richard Fennell	Performance rights	-	-	-	$64,998
	Options	-	-	-	$65,000
	Performance shares	-	$152,139	$152,139	$213,484
Russell Jenkins	Performance rights	-	-	-	$79,041
	Options	-	-	-	$159,039
	Performance shares	-	$155,089	$155,089	$219,597
Tim Piper	Performance rights	-	-	-	$64,998
	Options	-	-	-	$65,000
	Performance shares	-	$113,953	$115,953	$159,804
Stella Thredgold	Performance shares	-	$65,722	$65,722	$85,324
Andrew Watts	Performance rights	-	-	-	$68,801
	Options	-	-	-	$123,800
	Performance shares	-	$98,587	$98,587	$127,982

(a) The value of performance shares at the grant date is calculated using the fair value of the performance shares. An explanation of the pricing model used to calculate this value is set out in Note 36 to the Annual Financial Report.

(b) The value of vested performance shares is based on the Company's volume weighted closing share price on the date of testing (there is no exercise price), being $7.30. The shares are scheduled to vest in September 2012.

(c) The value of each performance right, performance share and option on the date it lapses or is forfeited is calculated using the fair value of the performance rights and options. An explanation of the pricing model used to calculate this value is set out in Note 36 to the Annual Financial Report.

(d) The value of options, performance rights and performance shares carried forward to future financial years is calculated using the fair value of the performance shares. The share based payments may be forfeited after allocation in specific circumstances as described in section 3.5.3. Therefore the minimum possible value of the awards is nil. The maximum value cannot be determined because it depends on future share price, but it is estimated according to fair value used for accounting purposes in this table.

3.6 Senior executive contracts

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

Issue	Description	Applies to
What is the duration of the contracts?	Fixed term of 5 years from 2009, subject to the termination provisions summarised below, and then continuing unless otherwise agreed by the Company or managing director.	Managing director
	On-going until notice is given by either party.	Senior executives [(a)]
What notice must be provided by a senior executive to end the contract without cause?	12 months' notice. No notice period required if material change in duties or responsibilities.	Managing director
	6 months' notice. No notice period required if material change in duties or responsibilities.	All senior executives [(a)]
What notice must be provided by the Company to end the contract without cause? [(b)]	12 months' notice or payment in lieu.	All senior executives [(a)]
What payments must be made by the Company for ending the contract without cause?	Payment of gross salary in lieu of period of notice (including payment of accrued / unused leave entitlements calculated to end of relevant notice period).	Senior executives
What are notice and payment requirements if the Company 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.	Senior executives
Are there any post-employment restraints?	12 month non-competition and non-solicitation (employees, customers and suppliers) restriction.	Managing director
	12 month non-solicitation (employees, customers and suppliers) restriction.	Senior executives

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

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

3.7 Changes to remuneration policy and remuneration of senior executives (other than the Managing Director)

3.7.1. Remuneration policy

The board approved changes to the remuneration policy in August 2012. These included the changes below, which did not affect remuneration for FY2012.

- Clarification around the responsibilities for remuneration decisions and processes.
- A reduction in the maximum variable remuneration that can be paid as a percentage of total remuneration for a number of categories of employee, including the managing director (but no change for senior executives).

3.7.2. Remuneration components

For FY2013, the board proposes to introduce deferred shares as a retention incentive and a changed structure for LTI. These changes will not apply to the managing director in FY2013, as his remuneration is governed by his 5 year fixed term contract (entered into in 2009) and his long term incentive for the 5 year period of his employment was granted in 2009.

(a) Remuneration mix

The senior executives will have their base remuneration supplemented by a grant of deferred shares which, under accounting treatment, forms part of their variable remuneration. A corresponding decrease will be made to the senior executives' LTI opportunity so that the remuneration mix between fixed and at-risk remuneration will remain unchanged.

The key proposed changes for senior executives in FY2013 are summarised below.

(b) Deferred shares

Senior executives' base remuneration will be supplemented by grants of deferred shares as a retention incentive. The deferred shares will be beneficially owned by the senior executive from the grant date, but will be held on trust for two years by the plan trustee, subject to vesting conditions. During the period the deferred shares are held on trust, the senior executive is entitled to vote, receive notices issued to ordinary shareholders and receive dividends. However, the senior executive is not entitled to "deal" in or enter into any transaction designed to remove the "at risk" element of the deferred shares until they vest (eg sale, creation of a security interest or hedge). Vesting is subject to the following:

(i) Service condition – continued employment for the two years from the beginning of the financial year in respect of which the grant is made (until 30 June 2014); and

(ii) Risk adjustment – any adjustment the board decides to make to take into account the outcomes of business activities, the risks related to the business activities and the time necessary for the outcomes of those business activities to be reliably measured.

When the deferred shares vest and are transferred into the name of the senior executive, the senior executive is then free to "deal" in the vested shares.

The purpose of the grant is to:

(i) Supplement the conservative median base pay positioning of senior executives;

(ii) Provide an incentive for the retention of senior executives making the benefit of the grant contingent on a minimum service period; and

(iii) Align the experience of senior executives with shareholders in terms of the value of the grant which will be the market value at the time they vest and are transferred to the senior executive.

The proportion available under this component will be a third of the amount available for share based payments (other than deferred shares for STI purposes) rather than half under the previous arrangement.

(c) FY2013 LTI Grant - performance shares

Starting from FY2013, the Company intends to make annual LTI grants to senior executives, rather then multi-tranche grants every 3 years.

The first annual LTI grant will be made to senior executives in FY2013. The FY2013 grant of performance shares will be a single tranche with a four year performance period. The 4 year performance period will consist of a 12 month initial performance period for EPS testing (1 July 2012 to 30 June 2013) and a 3 year performance period for relative TSR testing (1 July 2013 to 30 June 2016).

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

Meetings of directors
Information on board and committee meeting attendance for the year is presented in the Corporate Governance Statement.

Insurance of directors and officers

During or since the financial year end, the Company has paid premiums to insure certain officers of the company and its related bodies corporate. The officers of the Company covered by the insurance policy include the directors listed above, the secretary and directors or secretaries of controlled entities who are not also directors and secretaries of Bendigo and Adelaide Bank Limited. The insurance does not provide cover for the independent auditor of the Company or of a related body corporate of the Company.

Disclosure of the nature of the liability and the amount of the premium is prohibited by the confidentiality clause of the contract of insurance. The Company has not provided any insurance for an independent auditor of the Company or a related body corporate.

Indemnification of Officers

The constitution stipulates that the Company is to indemnify, to the extent permitted by law, each officer of the Company against liabilities (including costs, damages and expenses incurred in defending any proceedings or appearing before any court, tribunal, government authority or other body) incurred by an officer or employee in, or arising out of the conduct of the business of the Company or arising out of the discharge of the officer's or employee's duties.

As provided under the Company's Constitution, the Company has entered into deeds providing for indemnity, insurance and access to documents for each director who held office during the year. The deed requires the Company to indemnify, to the extent permitted by law, the director against all liabilities (including costs, damages and expenses incurred in defending any proceedings or appearing before any court, tribunal, government authority or other body) incurred by the director in, or arising out of conduct of the business of the Company, an associated entity of the Company or in the discharge of their duties as a director of the Company, a subsidiary or associated company.

Directors' Interests in Equity
The relevant interest of each director (in accordance with section 205G of the *Corporations Act 2001*) in shares of the company or a related body corporate at the date of this report is as follows:

Director	Ordinary shares	Preference shares [2]	Performance Rights and Options	Sandhurst Industrial Share Fund (Units) [3]	Sandhurst Professional IML Industrial Share Fund (Units) [3]
Robert Johanson	214,784	500	-	64,672	-
Mike Hirst	441,698 [1]	-	417,109	-	-
Jenny Dawson	24,954	100	-	-	54,176
Jim Hazel	12,462	-	-	-	-
Jacquie Hey	3,114	-	-	-	-
David Matthews	7,295	-	-	-	-
Terry O’Dwyer	74,530	-	-	-	-
Deb Radford	1,900	-	-	-	-
Tony Robinson	6,921				

1 Includes 50,000 shares issued under the Bendigo Employee Share Ownership Plan and 367,106 shares issued under the salary sacrifice, deferred share and performance share plan.
2 There are no relevant interests in relation to the Company’s Step-Up Preference Shares or Reset Preference Shares.
3 Relevant interests in managed investment schemes made available by a subsidiary of the Company.

Environmental Regulation

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

Company Secretary

William Conlan, LL.B (Melb)

Mr Conlan was appointed as company secretary of Bendigo and Adelaide Bank Limited on 14 November 2011, having worked with the Company for almost 10 years in strategy, capital management and compliance. Mr Conlan is a practising lawyer and, prior to commencing employment with the Bank, was a lawyer in private practice in Melbourne.

Auditor Independence and Non-audit Services

The Company’s audit committee has conducted an assessment of the independence of the external auditor for the year ended 30 June 2012. The assessment was conducted on the basis of the Company’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 2012. The audit committee's assessment confirmed that the independence requirements have been met. The audit committee’s assessment was accepted by the full board. A copy of the auditor’s independence declaration is provided at the end of this Directors’ Report.

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.

Details of all non-audit services for the year ended 30 June 2012:

(a) Audit related fees (Regulatory)

In its capacity as the group's external auditor, Ernst & Young are periodically engaged to provide assurance services to the group in accordance with Australian Auditing Standards. All assignments are subject to engagement letters in accordance with Australian Auditing Standards. They include audit services required for regulatory and prudential purposes and the amounts shown are GST exclusive.

Service Category	**Fees** (excluding GST) $	**Entity**
APRA Prudential Standard APS310 report	175,203	Bendigo and Adelaide Bank Limited, Rural Bank Limited.
Australian Financial Services Licence Audits	60,873	(1) Refer below
Comfort Letter – Euro Medium Term Note Program	28,325	Bendigo and Adelaide Bank Limited
Trust Deed Report - Victorian Securities Trust	9,914	Bendigo and Adelaide Bank Limited
Sub total – Audit related fees (Regulatory)	**274,315**	

(1) Amount attributed to Bendigo and Adelaide Bank and subsidiary companies

(b) Audit related fees (Non-regulatory)

In its capacity as the group's external auditor, Ernst & Young are periodically engaged to provide assurance and related services not required by statute or regulation but are reasonably related to the performance of the audit or review of the group's financial statements which are traditionally performed by the external auditor. These services include assurance of the group's credit assessments and reviews of the group's acquisition accounting and tax consolidation processes. The amounts shown are GST exclusive.

Service Category	**Fees** (excluding GST) $	**Entity**
Prospectus for deposit notes	8,446	Victorian Securities Corporation Limited
EMTN audit procedures	3,399	Bendigo and Adelaide Bank Limited
Completion accounts	30,900	Bank of Cyprus Australia Limited
Sub total – Audit related fees (Non-regulatory)	**42,745**	

(c) Non audit related fees

Service	**Fees** (excluding GST) $	**Entity**
Tax advice	182,334	Bendigo and Adelaide Bank Limited
Professional services	44,805	Bendigo and Adelaide Bank Limited
Sub total – non audit related fees	**227,139**	
Total – non audit services	**544,199**	

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 assessed that the provision of those services is compatible with the general standard of independence for auditors imposed by the Corporations Act.

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. As noted previously, this audit committee's assessment has been reviewed and accepted by the full board.

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

In relation to our audit of the financial report of Bendigo and Adelaide Bank Limited for the year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

T M Dring
Partner

4 September 2012

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

Robert Johanson

Chairman

Mike Hirst

Managing Director

4 September 2012

INCOME STATEMENT

for the year ended 30 June 2012

	Note	Consolidated		Parent	
		2012	2011	2012	2011
Income		$m	$m	$m	$m
Net interest income					
Interest income	4	3,434.8	3,385.8	2,611.1	2,485.2
Interest expense	4	2,490.7	2,450.6	1,858.5	1,752.8
Total net interest income		944.1	935.2	752.6	732.4
Other revenue					
Dividends	4	7.8	7.2	7.3	46.2
Fees	4	177.2	174.7	160.1	158.1
Commissions	4	43.6	38.8	14.4	11.4
Other revenue	4	52.1	74.3	50.8	59.2
Total other revenue		280.7	295.0	232.6	274.9
Other income					
Ineffectiveness in cash flow hedges	4	(13.0)	2.6	(13.8)	(1.3)
Other	4	0.4	(0.2)	0.3	(0.2)
		(12.6)	2.4	(13.5)	(1.5)
Share of joint ventures net profit	21	0.7	3.4	-	-
Total income after interest expense		1,212.9	1,236.0	971.7	1,005.8
Expenses					
Bad and doubtful debts on loans and receivables					
Bad and doubtful debts		36.8	48.5	21.8	16.5
Bad and doubtful debts recovered		(4.4)	(4.3)	(4.0)	(4.2)
Total bad and doubtful debts on loans and receivables	4	32.4	44.2	17.8	12.3
Other expenses					
Staff and related costs	4	387.8	375.0	339.5	332.6
Occupancy costs	4	65.6	62.3	61.3	59.4
Amortisation of intangibles	4	44.0	41.7	34.6	33.2
Property, plant & equipment costs	4	11.4	11.5	10.8	11.0
Fees and commissions	4	30.4	26.7	9.4	8.7
Impairment loss on goodwill	4	95.1	-	95.1	-
Impairment loss on held for sale assets	4	3.8	-	-	-
Accounting loss on disposal of securitisation notes	4	-	14.7	-	14.7
Write-down of impaired intangible software	4	-	26.6	-	26.6
Recovery of GST payments	4	-	(15.3)	-	(15.3)
Integration costs	4	2.7	7.2	2.7	4.6
Employee shares gain/(loss)	4	1.1	(1.4)	1.1	(1.4)
Other	4	212.5	218.3	204.3	232.2
Total other expenses		854.4	767.3	758.8	706.3
Profit before income tax expense		326.1	424.5	195.1	287.2
Income tax expense	6	(131.1)	(77.9)	(90.5)	(16.6)
Net profit for the period		195.0	346.6	104.6	270.6
Net (profit) attributable to non-controlling interest		-	(4.5)	-	-
Net profit attributable to owners of the parent		195.0	342.1	104.6	270.6

Earnings per share for profit attributable to the ordinary equity holders of the parent:

Basic earnings per ordinary share (cents per share)	8	48.6	91.5
Diluted earnings per ordinary share (cents per share)	8	47.7	86.4
Franked dividends per ordinary share (cents per share)	9	60.0	60.0

BALANCE SHEET
as at 30 June 2012

	Note	Consolidated		Parent	
		2012	2011	2012	2011
		$m	$m	$m	$m
Assets					
Cash and cash equivalents	13	288.8	469.0	175.8	346.7
Due from other financial institutions	13	272.2	201.6	266.3	200.9
Amounts receivable from controlled entities		-	-	1,090.8	1,587.2
Financial assets held for trading	14	4,366.1	4,331.7	4,367.0	4,332.7
Financial assets available for sale - debt securities	15	444.8	452.1	1,594.6	2,334.7
Financial assets held to maturity	17	388.4	380.3	1.8	69.7
Other assets	27	509.7	417.0	852.8	828.3
Financial assets available for sale - equity investments	16	124.7	123.4	4.1	3.5
Derivatives	42	48.5	9.3	547.3	42.2
Loans and other receivables - investment	18	453.0	471.2	453.0	471.2
Net loans and other receivables	18	48,217.0	45,938.6	41,366.6	39,255.4
Investments in joint ventures accounted for using the equity method	21	12.9	12.5	-	-
Shares in controlled entities		-	-	604.1	489.3
Property, plant & equipment	22	69.0	99.9	60.6	66.7
Deferred tax assets	6	170.2	180.2	108.5	134.1
Investment property	24	298.9	263.0	-	-
Assets held for sale	23	25.4	-	-	-
Intangible assets and goodwill	25	1,548.2	1,654.7	1,408.4	1,519.1
Total Assets		57,237.8	55,004.5	52,901.7	51,681.7
Liabilities					
Due to other financial institutions	13	327.2	215.6	315.1	214.6
Deposits	28	44,572.7	40,521.3	40,179.4	37,526.0
Notes payable	28	6,411.0	8,453.7	-	576.9
Derivatives	42	179.0	132.0	111.2	152.4
Other payables	29	731.8	781.2	1,168.0	830.7
Loans payable to securitisation trusts		-	-	6,294.1	7,738.0
Income tax payable	6	86.8	68.6	86.8	68.6
Provisions	30	80.7	84.5	75.8	82.5
Deferred tax liabilities	6	104.5	122.3	209.2	71.0
Reset preference shares	31	89.5	89.5	89.5	89.5
Subordinated debt - at amortised cost	32	436.9	575.7	361.1	484.9
Total Liabilities		53,020.1	51,044.4	48,890.2	47,835.1
Net Assets		4,217.7	3,960.1	4,011.5	3,846.6
Equity					
Equity attributable to equity holders of the parent					
Issued capital - ordinary	33	3,681.8	3,408.9	3,681.8	3,408.9
Perpetual non-cumulative redeemable convertible preference shares	33	88.5	88.5	88.5	88.5
Step up preference shares	33	100.0	100.0	100.0	100.0
Employee Share Ownership Plan (ESOP) shares	33	(21.3)	(24.6)	(21.3)	(24.6)
Reserves	34	72.2	37.8	70.7	43.6
Retained earnings	34	296.5	349.5	91.8	230.2
Total Equity		4,217.7	3,960.1	4,011.5	3,846.6

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2012

	Note	Consolidated		Parent	
		2012 $m	2011 $m	2012 $m	2011 $m
Profit for the year		195.0	346.6	104.6	270.6
Net gain/(loss) on available for sale - equity investments	34	(9.6)	11.5	(0.1)	0.4
Transfer to income on sale of available for sale assets	34	-	(1.0)	-	(1.0)
Net gain on cash flow hedges taken to equity	34	47.0	95.7	34.2	102.0
Net gain/(loss) on reclassification from cash flow hedge reserve to income	34	(13.0)	2.6	(13.9)	(1.3)
Net unrealised (loss) on debt securities in available for sale portfolio	34	(1.8)	(0.3)	(1.8)	(0.1)
Actuarial gain/(loss) on superannuation defined benefits plan	34	(1.8)	0.3	(1.8)	0.3
Tax effect on items taken directly to or transferred from equity	34	(6.9)	(31.1)	(5.7)	(28.8)
Net income recognised directly in equity		13.9	77.7	10.9	71.5
Total comprehensive income for the period		208.9	424.3	115.5	342.1
Total comprehensive income for the period attributable to:					
Non-controlling interest		-	5.8	-	-
Members of the Parent		208.9	418.5	115.5	342.1

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2012

CONSOLIDATED

	Attributable to owners of Bendigo and Adelaide Bank Limited						
	Issued ordinary capital	Shares *	Retained earnings	Reserves **	Total	Non-controlling interest	Total equity
	$m	$m	$m	$m	$m	$m	$m
At 1 July 2011							
Opening balance b/fwd	3,408.9	163.9	349.5	37.8	3,960.1	-	3,960.1
Comprehensive income:							
Profit for the year	-	-	195.0	-	195.0	-	195.0
Other comprehensive income	-	-	(1.4)	15.3	13.9	-	13.9
Total comprehensive income for the period	-	-	193.6	15.3	208.9	-	208.9
Transactions with owners in their capacity as owners:							
Shares issued	274.8	-	-	-	274.8	-	274.8
Share issue expenses	(1.9)	-	-	-	(1.9)	-	(1.9)
Reduction in employee share ownership plan (ESOP) shares	-	3.3	-	-	3.3	-	3.3
Movement in general reserve for credit losses (GRCL)	-	-	(17.6)	17.6	-	-	-
Share based payment	-	-	-	1.5	1.5	-	1.5
Equity dividends	-	-	(229.0)	-	(229.0)	-	(229.0)
At 30 June 2012	3,681.8	167.2	296.5	72.2	4,217.7	-	4,217.7

*refer to note 33 Issued Capital for further details
**refer to note 34 Retained earnings and reserves for further details

for the year ended 30 June 2011

	Attributable to owners of Bendigo and Adelaide Bank Limited						
	Issued ordinary capital	Shares *	Retained earnings	Reserves **	Total	Non-controlling interest	Total equity
	$m	$m	$m	$m	$m	$m	$m
At 1 July 2010							
Opening balance b/fwd	3,361.7	160.8	234.5	(22.3)	3,734.7	145.7	3,880.4
Acquired in business combination	-	-	-	-	-	(148.3)	(148.3)
Comprehensive income:							
Profit for the year	-	-	342.1	-	342.1	4.5	346.6
Other comprehensive income	-	-	0.3	76.1	76.4	1.3	77.7
Total comprehensive income for the period	-	-	342.4	76.1	418.5	5.8	424.3
Transactions with owners in their capacity as owners:							
Shares issued	47.2	-	-	-	47.2	-	47.2
Reduction in Employee Share Ownership Plan (ESOP) shares	-	3.1	-	-	3.1	-	3.1
Movement in general reserve for credit losses (GRCL)	-	-	(6.2)	6.2	-	0.1	0.1
Share based payment	-	-	-	(1.6)	(1.6)	-	(1.6)
Acquisition Reserve - Rural Bank	-	-	-	(20.4)	(20.4)	-	(20.4)
Equity dividends	-	-	(221.4)	-	(221.4)	(4.3)	(225.7)
Other	-	-	0.2	(0.2)	-	1.0	1.0
At 30 June 2011	3,408.9	163.9	349.5	37.8	3,960.1	-	3,960.1

*refer to note 33 Issued Capital for further details
**refer to note 34 Retained earnings and reserves for further details

STATEMENT OF CHANGES IN EQUITY (continued…)

for the year ended 30 June 2012

PARENT

	Attributable to owners of Bendigo and Adelaide Bank Limited				
	Issued ordinary capital	Shares *	Retained earnings	Reserves **	Total Equity
	$m	$m	$m	$m	$m
At 1 July 2011					
Opening balance b/fwd	3,408.9	163.9	230.2	43.6	3,846.6
Comprehensive income:					
Profit for the year	-	-	104.6	-	104.6
Other comprehensive income	-	-	(1.4)	12.3	10.9
Total comprehensive income for the period	-	-	103.2	12.3	115.5
Transactions with owners in their capacity as owners:					
Shares issued	274.8	-	-	-	274.8
Share issue expenses	(1.9)	-	-	-	(1.9)
Reduction in Employee Share Ownership Plan (ESOP) shares	-	3.3	-	-	3.3
Movement in general reserve for credit losses (GRCL)	-	-	(12.6)	12.6	-
Share based payment	-	-	-	2.2	2.2
Equity dividends	-	-	(229.0)	-	(229.0)
At 30 June 2012	3,681.8	167.2	91.8	70.7	4,011.5

*refer to note 33 Issued Capital for further details
**refer to note 34 Retained earnings and reserves for further details

for the year ended 30 June 2011

	Attributable to owners of Bendigo and Adelaide Bank Limited				
	Issued ordinary capital	Shares *	Retained earnings	Reserves **	Total Equity
	$m	$m	$m	$m	$m
At 1 July 2010					
Opening balance b/fwd	3,361.7	160.8	186.7	(34.1)	3,675.1
Comprehensive income:					
Profit for the year	-	-	270.6	-	270.6
Other comprehensive income	-	-	0.3	71.2	71.5
Total comprehensive income for the period	-	-	270.9	71.2	342.1
Transactions with owners in their capacity as owners:					
Shares issued	47.2	-	-	-	47.2
Reduction in Employee Share Ownership Plan (ESOP) shares	-	3.1	-	-	3.1
Movement in general reserve for credit losses (GRCL)	-	-	(6.2)	6.2	-
Share based payment	-	-	-	0.5	0.5
Equity dividends	-	-	(221.4)	-	(221.4)
Other	-	-	0.2	(0.2)	-
At 30 June 2011	3,408.9	163.9	230.2	43.6	3,846.6

*refer to note 33 Issued Capital for further details
**refer to note 34 Retained earnings and reserves for further details

CASH FLOW STATEMENT

for the year ended 30 June 2012

	Note	Consolidated		Parent	
		2012	2011	2012	2011
		$m	$m	$m	$m
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest and other items of a similar nature received		3,442.3	3,338.9	2,584.1	2,444.9
Interest and other costs of finance paid		(2,545.0)	(2,380.3)	(1,868.9)	(1,696.9)
Receipts from customers (excluding effective interest)		265.6	271.6	256.3	257.2
Payments to suppliers and employees		(850.5)	(655.8)	(677.7)	(625.0)
Dividends received		8.1	7.5	7.3	46.2
Income taxes paid		(120.6)	(93.8)	(87.0)	(70.5)
Net cash flows from operating activities	12	199.9	488.1	214.1	355.9
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash paid for purchases of property, plant and equipment		(12.2)	(14.3)	(11.7)	(14.5)
Cash proceeds from sale of property, plant and equipment		1.2	1.1	1.1	0.8
Cash paid for purchases of investment property		(44.4)	(89.4)	-	-
Cash proceeds from sale of investment property		11.0	7.2	-	-
Cash paid for purchases of intangible software		(15.4)	(4.7)	(8.6)	(4.2)
Cash paid for purchases of equity investments		(12.0)	(3.0)	(2.6)	(191.0)
Net increase in balance of loans and other receivables outstanding		(929.6)	(2,841.3)	(1,596.6)	(3,408.4)
Net (increase)/decrease in balance of investment securities		208.1	(364.9)	773.7	(670.9)
Proceeds from return of capital		0.4	0.7	-	230.6
Net cash received on acquisition of a subsidiary		(213.1)	-	(131.4)	-
Net cash flows used in investing activities		(1,006.0)	(3,308.6)	(976.1)	(4,057.6)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		195.5	-	195.5	-
Acquisition of non-controlling interest		-	(166.6)	-	-
Net increase in balance of retail deposits		2,638.3	2,993.6	2,614.9	3,622.9
Net increase in balance of wholesale deposits		78.9	450.4	38.5	395.5
Proceeds from issue of subordinated debt		-	259.5	-	250.7
Repayment of subordinated debt		(138.7)	(217.7)	(123.8)	(160.2)
Dividends paid		(149.7)	(177.4)	(149.7)	(177.4)
Dividends paid to non controlling entity		-	(14.4)	-	-
Net decrease in balance of notes payable		(2,040.8)	(699.7)	(2,020.8)	(599.6)
Repayment of ESOP shares		3.3	3.1	3.3	3.1
Payment of share issue costs		(1.9)	-	(1.9)	-
Net cash flows from financing activities		584.9	2,430.8	556.0	3,335.0
Net decrease in cash and cash equivalents		(221.2)	(389.7)	(206.0)	(366.7)
Cash and cash equivalents at the beginning of period		455.0	844.7	333.0	699.7
Cash and cash equivalents at the end of period	13	233.8	455.0	127.0	333.0

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The financial report of Bendigo and Adelaide Bank Limited (the Company) for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 4 September 2012.

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
Australia 3550

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

The financial report has been prepared in accordance with the historical cost convention, amortised cost for loans and receivables and financial liabilities, except for investment properties, land and buildings, derivative financial instruments and available-for-sale financial assets which are measured at their fair value.

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).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Compliance with IFRS

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

Recently issued or amended standards not yet effective.

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2012:

Reference	Title	Summary	Application date of Standard *	Impact on group financial report	Application date for group *
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 1,5,7,101,112,120,121,132,133,134,1039, 1049]	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.	1 July 2012	The group has not yet determined the extent of the impacts of the amendments, if any.	1 July 2012
AASB 119	Employee Benefits	The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognised in full with actuarial gains and losses being recognised in other comprehensive income. It also revised the method of calculating the return on plan assets. The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. Consequential amendments were also made to other standards via AASB 2011-10.	1 January 2013	The group has not yet determined the extent of the impacts of the amendments, if any.	1 July 2013
Annual Improve-ments 2009-2011 Cycle ****	Annual Improvements to IFRSs 2009-2011 Cycle	This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB. The following items are addressed by this standard: IFRS 1 First-time Adoption of International Financial Reporting Standards ►Repeated application of IFRS 1 ►Borrowing costs IAS 1 Presentation of Financial Statements ►Clarification of the requirements for comparative information IAS 16 Property, Plant and Equipment ►Classification of servicing equipment IAS 32 Financial Instruments: Presentation ►Tax effect of distribution to holders of equity instruments IAS 34 Interim Financial Reporting ►Interim financial reporting and segment information for total assets and liabilities	1 January 2013	The group has not yet determined the extent of the impacts of the amendments, if any.	1 July 2013

Reference	Title	Summary	Application date of Standard *	Impact on group financial report	Application date for group *
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	This Amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.	1 July 2013	The group has not yet determined the extent of the impacts of the amendments, if any.	1 July 2013
AASB 1053	Application of Tiers of Australian Accounting Standards	This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements: (a) Tier 1: Australian Accounting Standards (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements: (a) For-profit entities in the private sector that have public accountability (as defined in this Standard); and (b) The Australian Government and State, Territory and Local Governments. The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements: (a) For-profit private sector entities that do not have public accountability; (b) All not-for-profit private sector entities; and (c) Public sector entities other than the Australian Government and State, Territory and Local Governments. Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11 and 2012-1.	1 July 2013	The group has not yet determined the extent of the impacts of the amendments, if any.	1 July 2013
AASB 2012-2	Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities	AASB 2012-2 principally amends AASB 7 *Financial Instruments: Disclosures* to require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.	1 January 2013	The group has not yet determined the extent of the impacts of the amendments, if any.	1 July 2013
AASB 2012-4	Amendments to Australian Accounting Standards – Government Loans	AASB 2012-4 adds an exception to the retrospective application of Australian Accounting Standards under AASB 1 *First-time Adoption of Australian Accounting Standards* to require that first-time adopters apply the requirements in AASB 139 Financial Instruments: Recognition and Measurement (or AASB 9 Financial Instruments) and AASB 120 Accounting for Government Grants and Disclosure of Government Assistance prospectively to government loans (including those at a below-market rate of interest) existing at the date of transition to Australian Accounting Standards.	1 January 2013	The group has not yet determined the extent of the impacts of the amendments, if any.	1 July 2013

Reference	Title	Summary	Application date of Standard *	Impact on group financial report	Application date for group *
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle;	AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The Standard addresses a range of improvements, including the following: • repeat application of AASB 1 is permitted (AASB 1); and clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 *Presentation of Financial Statements*).	1 January 2013	The group has not yet determined the extent of the impacts of the amendments, if any.	1 July 2013
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities;	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	The group has not yet determined the extent of the impacts of the amendments, if any.	1 July 2015
AASB 2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]	These amendments address the determination of deferred tax on investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recoverable through sale. The amendments also incorporate SIC-21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* into IFRS 112.	1 January 2012	The group has not yet determined the extent of the impacts of the amendments, if any.	1 July 2012
AASB 10	Consolidated Financial Statements	IFRS 10 establishes a new control model that applies to all entities. It replaces parts of IFRS 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112 *Consolidation – Special Purpose Entities.* The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This is likely to lead to more entities being consolidated into the group. Consequential amendments were also made to other standards via IFRS 2011-7.	1 January 2013	The group has not yet determined the extent of the impacts of the amendments, if any.	1 July 2013
AASB 11	Joint Arrangements	IFRS 11 replaces IFRS 131 *Interests in Joint Ventures* and UIG-113 *Jointly- controlled Entities – Non-monetary Contributions by Ventures.* IFRS 11 uses the principle of control in IFRS 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for the joint arrangements held by the group. Consequential amendments were also made to other standards via IFRS 2011-7 and amendments to IFRS 128.	1 January 2013	The group has not yet determined the extent of the impacts of the amendments, if any.	1 July 2013

Reference	Title	Summary	Application date of Standard *	Impact on group financial report	Application date for group *
AASB 12	Disclosure of Interests in Other Entities	IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	The group has not yet determined the extent of the impacts of the amendments, if any.	1 July 2013
AASB 13	Fair Value Measurement	IFRS 13 establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under IFRS when fair value is required or permitted by IFRS. Application of this definition may result in different fair values being determined for the relevant assets. IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via IFRS 2011-8.	1 January 2013	The group has not yet determined the extent of the impacts of the amendments, if any.	1 July 2013
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* (AASB 139 *Financial Instruments: Recognition and Measurement*). It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. (a) Financial assets that are debit instruments are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria. (b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these	1 January 2013***	The group has not yet determined the extent of the impacts of the amendments, if any.	1 January 2013

Reference	Title	Summary	Application date of Standard *	Impact on group financial report	Application date for group *
AASB 9 (contd)	Financial Instruments	investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. (d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: The change attributable to changes in credit risk are presented in other comprehensive income (OCI). The remaining change is presented in profit or loss. If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.			

* Designates the beginning of the applicable annual reporting period unless otherwise stated

*** AASB ED 215 *Mandatory effective date of IFRS 9* proposes to defer the mandatory effective date of AASB 9 to annual periods beginning on or after 1 January 2013, with early application permitted

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation

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

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

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

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

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

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

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

2.4 Business combinations

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

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

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

2.5 Changes in accounting policies

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

The group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as at 1 July 2011

- AASB 2009-12 *Further Amendments to Australian Accounting Standards [AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023, 1031 & Interpretations 2, 4, 16, 1039 & 1052]*
- AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement*
- AASB 2010-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2010-5 *Further Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118,119, 121, 132, 133, 134, 137, 139, 140,1023 & 1038 & Interpretations 115,127,132 & 1042]*
- AASB 124 *Related Party Disclosures (amendment)*
- AASB 1054 *Australian Additional Disclosures*
- AASB 2010-6 Amendments to Australian *Accounting Standards – Disclosures on Transfers of Financial Assets* [AASB 1 and AASB 7]
- AASB 2011-1 *Amendments to Australian Accounting Standards* [AASB 1, 5, 101, 107, 108, 121, 128, 132, 134, Interpretation 2, 112 and 113]

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the group, its impact is described below:

AASB 124 (Revised) *Related Party Disclosures (December 2009)*

The amendments to AASB 124 simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:

(a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other;

(b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and

(c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.

A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.

AASB 2009-12 *Amendments to Australian Accounting Standards [AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]*

This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. In particular, it amends AASB 8 Operating Segments to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.

AASB 2009-14 *Amendments to Australian Accounting Interpretation – Prepayments of a Minimum Funding Requirement*

Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement arise from the issuance of Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14). The requirements of IFRIC 14 meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit.

The amendment requires entities to treat the benefit of such an early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made.

AASB 1054 *Australian Additional Disclosures*

This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB.

This standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas:

(a) Compliance with Australian Accounting Standards;

(b) The statutory basis or reporting framework for financial statements;

(c) Whether the financial statements are general purpose or special purpose;

(d) Audit fees; and

(e) Imputation credits.

AASB 2010-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

The amendments emphasise the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. It clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. It provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions. It also clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

AASB 2010-5 *Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121,132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]*

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB. These amendments have no major impact on the requirements of the amended pronouncements.

AASB 2010-6 *Amendments to Australian Accounting Standards Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]*

This standard makes amendments to increase the disclosure requirements for transactions involving transfers of financial assets. Disclosures require enhancements to the existing disclosure in IFRS 7 where an asset is transferred but is not derecognised and introduce new disclosure for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.

AASB 2011-1 *Amendments to Australian Accounting Standards arising form the Trans-Tasman Convergence project*

This standard makes amendments to many Australian Accounting Standards, removing the disclosures which have been relocated to AASB 1054.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Significant accounting judgments, estimates and assumptions

(i) Significant accounting judgments

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

Cash earnings

Cash earnings are considered by management as a key indicator representing the performance of the core business activities of the group. The basis for determining cash earnings is the statutory profit after tax, adjusted for specific items after tax, acquired intangibles amortisation after tax and preference share/step up preference share appropriations. Cash earnings have been used in a number of key indicator calculations such as note 8 – earnings per ordinary share and note 10 – return on average ordinary equity.

Specific items

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

Operating Lease Commitments – Group as Lessor

The entity has entered into commercial property leases on its investment property portfolio. The entity has determined that it retains all the significant risks and rewards of ownership of these properties and has thus classified the leases as operating leases.

Recovery of deferred tax assets

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

Securitisations

Securitised positions are held through a number of Special Purpose Entities ("SPEs"). As the Bank is exposed to the majority of the residual risk associated with these SPEs, their underlying assets, liabilities, revenues and expenses are reported in the Bank's consolidated balance sheet and income statement. At each reporting period, the Bank reassesses the requirement to consolidate these SPEs in accordance with AASB 127 and judgment is exercised.

(ii) Significant accounting estimates and assumptions

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

Impairment of goodwill and intangibles with indefinite useful lives

The group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in note 26.

Impairment of financial assets and property, plant & equipment

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

Impairment of non-financial assets other than goodwill

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

Employee benefits (leave provisions)

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

Superannuation defined benefit plan

Various actuarial assumptions are required when determining the group's superannuation obligations. The bank's policy on superannuation defined benefit plan is disclosed in Note 2.24 and Note 43.

Loan provisioning

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

2.7 Comparatives

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Trustee and funds management activities

Controlled entities of the Bank act as the Trustee and/or Manager for a number of funds. The assets and liabilities of these funds are not included in the consolidated financial statements. The parent entity does not have direct or indirect control of the funds as defined by Accounting Standard AASB 127 *Consolidated and Separate Financial Statements*. Commissions and fees generated by the funds management activities are brought to account when earned.

2.9 Foreign currency transactions and balances

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

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

2.10 Cash and cash equivalents

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

For the purposes of the cash flow statement, cash includes cash on hand and in banks, short-term money market investments readily convertible into cash within 2 working days, net of outstanding overdrafts.

Bank overdrafts are carried at amortised cost. Interest is charged as an expense as it accrues.

2.11 Classification of financial instruments

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

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

The classifications are:

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

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

2.12 Financial assets and financial liabilities

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement.

All regular way purchases and sales of financial assets are recognised on the settlement date i.e. the date the group settles the purchase of the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place.

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

Treasury financial assets – held to maturity

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

Investments that are intended to be held to maturity are subsequently measured at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

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

Treasury financial liabilities – deposits and subordinated debt

All treasury funding instruments are initially recognised at cost, being the fair value of the consideration given and including charges associated with the issue of the instrument. They are subsequently measured at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

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

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets – available for sale share investments

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

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

Purchases and sales of financial assets and liabilities that require delivery of assets/securities within the time frame, and generally established by regulation or convention in the market place are recognised on the settlement date i.e. the date that the group receives or pays the principal sum.

2.13 Loans and receivables

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

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

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

Impairment loss is measured as the difference between the loan's carrying amount and the value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. Impairment losses are recognised in the income statement.

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

Specific provision

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

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

Collective provision

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

General reserve for credit losses

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

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

2.14 Investments in joint ventures accounted for using the equity method

The group's investment in joint ventures is accounted for under the equity method of accounting in the consolidated financial statements. These are entities in which the group has significant influence and is not a subsidiary. The financial statements of joint ventures are used by the group to apply the equity method. The accounting policies of the joint ventures and the group are consistent.

The investments in the joint ventures are carried in the consolidated balance sheet at cost plus post-acquisition changes in the group's share of the results of operations of the joint ventures, less any impairment in value. The income statement reflects the share of the results of operations of the joint ventures.

Where there have been changes recognised directly in the joint ventures’ equity, the group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. The cumulative post acquisition changes in reserves are adjusted against the carrying amount of the investment.

Dividends receivable from joint ventures are recognised in the parent entity’s income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Property, plant & equipment

Cost and valuation

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

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

Asset category	**2012**	**2011**
	Years	**Years**
Freehold buildings	40	40
Leasehold improvements	3 - 10	3 – 10
Plant & equipment	2 - 10	2 – 10

Impairment

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

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

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognised in the income statement, unless they relate to revalued assets. Impairment losses of revalued assets are recognised in the revaluation reserve.

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.

Fair value is determined by reference to market-based evidence, which is the amount which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

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

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

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

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

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

Derecognition

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

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

2.16 Assets held for sale

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

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

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

2.17 Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an investment property at the time the cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, fair value is determined by discounting the expected future cash flows of the portfolio, taking account of the restrictions on the ability to realise the investment property due to contractual obligations. Assumptions used in the modelling of future cash flows are sourced from market indexes of property values and long term growth/discount rates appropriate to residential property. Gains or losses arising from changes in the fair values of investment properties are recognised in profit and loss in the year in which they arise.

2.18 Goodwill

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

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

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

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

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

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

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

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

2.19 Intangible assets

Acquired both separately and from a business combination

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

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

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

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

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

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

Computer software

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

Research and development costs

Research costs are expensed as incurred.

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

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

	Trustee Licence	**Computer software/ Development costs**	**Intangible assets acquired in business combination**
Useful lives	Indefinite	Finite	Finite
Method used	Not amortised or revalued	Usually not in excess of 5 years – straight line (major software systems – 7 years)	Amortised to reflect period and pattern of economic benefits
Internally generated/acquired	Acquired	Internally generated or acquired	Acquired
Impairment test/recoverable amount testing	Annually and where an indicator of impairment exists	Annually and where an indicator of impairment exists	Annually and where an indicator of impairment exists

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

2.20 Trade and other payables

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

Interest, when charged by the lender, is recognised on an effective interest rate basis.

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

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

2.21 Reserve fund

Up until May 2010, the Trustee Companies Act 1984 required that a reserve fund be maintained to provide for the event of the appointment of a liquidator, a receiver and manager or an administrator of a trustee company. Sandhurst Trustees Limited complied with the Act by setting aside the value of at call investments, freehold property and other financial assets to a reserve fund.

2.22 Deposits

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

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

2.23 Provisions

Provisions are recognised when the group has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, and it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

A provision for dividend is not recognised as a liability unless the dividend is declared, determined or publicly recommended on or before the reporting date.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Employee benefits

Wages and Salaries, Annual leave and Sick leave

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

Annual leave liabilities are accrued on the basis of full pro rata entitlement at their nominal amounts, being the amounts estimated to apply when the leave is paid. Sick leave bonus liability has been calculated at balance date in accordance with the relevant group policy, which provides entitlement dependent on an individual employees' years of service and unused sick leave.

Long Service Leave

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

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

Superannuation

Accumulation fund

Contributions are made to an employee accumulation superannuation fund and are charged to expenses when incurred.

Defined benefit plan

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

2.25 Share based payments

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

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

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

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

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

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

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

2. the Employee Share Grant Scheme

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

4. The Executive Incentive Plan (“EIP”), which provides for grants of performance options and rights to key executives, including the managing director (discontinued).

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

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

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

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

2.26 Leases

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

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

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

2.27 Financial guarantees

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

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

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

- Probability of default (PD): This represents the likelihood of the guaranteed party defaulting in a 1 year period and is assessed on historical default rates.
- Loss given default (LGD): This represents the proportion of the exposure that is not expected to be recovered in the event of a default by the guaranteed party and is based on historical experience.
- Exposure to default (EAD): This represents the maximum loss that Bendigo and Adelaide Bank is exposed to if the guaranteed party were to default. The model assumes that the guaranteed loan/facility/contract is at maximum possible exposure at the time of default.

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

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

Therefore, the fair value of financial guarantees has not been included in the balance sheet. The nominal value of financial guarantees is disclosed in the “Contingent liabilities” note of this financial report.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.28 Revenue

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

Interest, fees and commissions

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

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

Loan origination and loan application fees

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

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

Unearned income

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

Loan portfolio premium

The loan portfolio premium is included as part of net loans and receivables in the balance sheet. The amortisation of the loan portfolio premium is charged to the income statement on an effective yield basis and is included in net interest income.

Day 1 Profit

Where the transaction price in a non-active market is different to the fair value from other observable market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the income statement in 'Other income'.

Dividends

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

2.29 Borrowing costs

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

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

2.30 Income tax

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

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

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

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

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

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

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

2.31 Goods and services tax ("GST")

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.32 Derecognition of financial instruments

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

2.33 Derivative financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

2.34 Issued ordinary capital

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

2.35 Hybrid capital instruments

Perpetual non-cumulative redeemable convertible preference shares

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

Reset preference shares

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

Step up preference shares

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.36 Earnings per ordinary share (EPS)

Basic EPS is calculated as net profit attributable to members, adjusted to exclude cost of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends), preference share dividends; the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

Cash basis EPS is calculated as net profit attributable to members, adjusted for:

- after tax intangibles amortisation (except intangible software amortisation);
- after tax specific income and expense items; and
- costs of servicing equity (other than dividends) and preference share dividends;

divided by the weighted average number of ordinary shares, adjusted for any bonus element.

3. SEGMENT RESULTS

Segment information

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

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

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

Types of products and services

Retail banking
Net interest income predominantly derived from the provision of first mortgage finance less interest paid to depositors; and fee income from the provision of banking services delivered through the company-owned branch network and the group's share of net interest and fee income from the Community Bank branch network. As of 1 March 2012, Bank of Cyprus Australia has been included in the retail banking segment.

Third party banking
Net interest income and fees derived from the manufacture and processing of residential home loans, distributed through mortgage brokers, mortgage managers and predominantly mortgage originators and Alliance partners.

Wealth
Fees, commissions and interest from the provision of financial planning services, wealth management and margin lending activities, less interest paid to depositors referred by our wealth partners. Commission received as Responsible Entity for managed investment schemes and for corporate trusteeships and other trustee and custodial services.

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

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

Accounting policies and inter-segment transactions

The accounting policies used by the group in the reporting segments internally are the same as those contained in note 2 of the accounts.

Revenue and expenses associated with each business segment are included in determining their result. Transactions between business segments are based on agreed recharges between operating segments. Segment net interest income is recognised based on an internally set transfer pricing policy based on pre-determined market rates of return on the assets and liabilities of the segment. These rates are reset at the beginning of each reporting period and applied throughout that period. It is likely that rates will be reset for the 2013 financial year; however this is subject to a management review. Management use these apportionments to assess relative performance between operating segments rather than absolute assessments of year on year performance.

Major customers

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

SEGMENT RESULTS (continued)

For the year ended 30 June 2012

	Operating segments						
	Retail banking $m	Third party banking $m	Wealth $m	Rural Bank $m	**Total operating segments $m**	Central functions $m	**Total $m**
Net interest income	534.6	214.2	79.9	115.4	**944.1**	-	**944.1**
Other income	178.2	25.0	47.7	5.7	**256.6**	24.5	**281.1**
Share of net profit of equity accounted investments	-	-	-	-	**-**	0.7	**0.7**
Total segment income	712.8	239.2	127.6	121.1	**1,200.7**	25.2	**1,225.9**
Operating expenses	550.5	64.7	71.3	51.0	**737.5**	14.2	**751.7**
Credit expenses	13.8	6.2	0.4	12.0	**32.4**	-	**32.4**
Segment result	148.5	168.3	55.9	58.1	**430.8**	11.0	**441.8**

For the year ended 30 June 2011

	Operating segments						
	Retail banking $m	Third party banking $m	Wealth $m	Rural Bank $m	**Total operating segments $m**	Central functions $m	**Total $m**
Net interest income	516.3	201.0	102.5	115.4	**935.2**	-	**935.2**
Other income	172.3	27.5	45.9	6.4	**252.1**	42.7	**294.8**
Share of net profit of equity accounted investments	-	-	-	-	**-**	3.4	**3.4**
Total segment income	688.6	228.5	148.4	121.8	**1,187.3**	46.1	**1,233.4**
Operating expenses	530.4	67.6	76.4	45.4	**719.8**	15.7	**735.5**
Credit expenses	12.2	1.1	(0.1)	31.0	**44.2**	-	**44.2**
Segment result	146.0	159.8	72.1	45.4	**423.3**	30.4	**453.7**

	Operating segments						
Reportable segment assets	Retail banking $m	Third party banking $m	Wealth $m	Rural Bank $m	**Total operating segments $m**	Central functions $m	**Total $m**
As at 30 June 2012	26,419.3	16,112.3	2,408.0	3,983.9	**48,923.5**	8,314.3	**57,237.8**
As at 30 June 2011	23,428.5	15,728.2	3,208.1	4,024.8	**46,389.6**	8,614.9	**55,004.5**
Reportable segment liabilities							
As at 30 June 2012	31,916.1	517.9	5,025.4	3,472.2	**40,931.6**	5,677.5	**46,609.1**
As at 30 June 2011	27,966.5	489.7	4,880.8	3,595.6	**36,932.6**	5,658.1	**42,590.7**

SEGMENT RESULTS (continued)

Reconciliation between segment and statutory results

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

	Consolidated	
	Jun-12 Full year $m	Jun-11 Full year $m
Reconciliation of total segment income to group income		
Total segment income	1,225.9	1,233.4
Ineffectiveness in cash flow hedges	(13.0)	2.6
Total group income	1,212.9	1,236.0
Reconciliation of segment expenses to group total expenses		
Segment operating expenses	751.7	735.5
Specific expense items [1]	102.7	31.8
Total group expenses	854.4	767.3
Reconciliation of segment credit expenses to bad and doubtful debts on loans and receivables		
Segment credit expenses	32.4	44.2
Bad and doubtful debts on loans and receivables	32.4	44.2
Reconciliation of segment result to group profit before tax		
Total segment result	441.8	453.7
Ineffectiveness in cash flow hedges	(13.0)	2.6
Specific expense items [1]	(102.7)	(31.8)
Group profit before tax	326.1	424.5

1 refer note 5 for details of specific items

	Consolidated	
	As at Jun-12 $m	As at Jun-11 $m
Reportable segment assets		
Total assets for operating segments	57,237.8	55,004.5
Total assets	57,237.8	55,004.5
Reportable segment liabilities		
Total liabilities for operating segments	46,609.1	42,590.7
Securitisation funding	6,411.0	8,453.7
Total liabilities	53,020.1	51,044.4

Geographical Information

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

4. PROFIT

Profit before income tax expense has been determined as follows:

	Consolidated		Parent	
	2012	**2011**	**2012**	**2011**
	$m	**$m**	**$m**	**$m**
(a) Income:				
Interest income				
Controlled entities				
Cash and cash equivalents	-	-	0.3	0.1
Financial assets (treasury) held for trading, available for sale and held to maturity	-	-	409.8	409.1
Loans and other receivables	-	-	537.6	490.3
Other persons/entities				
Cash and cash equivalents	4.2	9.7	3.1	8.9
Financial assets (treasury) held for trading	211.3	209.7	211.3	210.3
Financial assets (treasury) available for sale	26.1	20.5	20.1	12.2
Financial assets (treasury) held to maturity	29.5	39.1	6.2	15.2
Loans and other receivables	3,163.7	3,106.8	1,422.7	1,339.1
Total interest income	3,434.8	3,385.8	2,611.1	2,485.2
Interest expense				
Controlled entities				
Wholesale - domestic	-	-	0.9	5.4
Other persons/entities				
Deposits				
Retail	1,828.5	1,691.9	1,617.2	1,488.3
Wholesale - domestic	190.3	171.2	183.2	162.6
Wholesale - offshore	4.4	9.5	4.3	9.5
Other borrowings				
Notes payable	421.5	533.4	14.0	50.7
Reset preference shares	5.5	5.5	5.5	5.5
Subordinated debt	40.5	39.1	33.4	30.8
Total interest expense	2,490.7	2,450.6	1,858.5	1,752.8
Total net interest income	944.1	935.2	752.6	732.4
Other revenue				
Dividends				
Controlled entities	-	-	6.8	44.7
Joint ventures	-	-	0.4	0.3
Other	7.5	7.1	0.1	1.2
Distribution from unit trusts	0.3	0.1	-	-
	7.8	7.2	7.3	46.2
Fees				
Assets	63.3	61.4	52.7	52.1
Liabilities & electronic delivery	84.0	80.5	83.2	79.9
Securitisation income	7.4	8.6	7.4	8.7
Trustee, management & other services	5.7	6.8	0.4	0.4
Other	16.8	17.4	16.4	17.0
	177.2	174.7	160.1	158.1
Commissions				
Wealth solutions	29.1	27.5	-	(0.1)
Insurance	15.6	12.4	13.4	10.9
Other	(1.1)	(1.1)	1.0	0.6
	43.6	38.8	14.4	11.4
Other				
Income from property	2.1	1.8	4.9	5.1
Foreign exchange income	15.9	15.4	15.4	15.4
Factoring products income	12.2	11.6	12.2	11.6
Trading profit - held for trading securities	2.4	2.1	2.6	2.1
Other	19.5	43.4	15.7	25.0
	52.1	74.3	50.8	59.2
Other income				
Ineffectiveness in cash flow hedges	(13.0)	2.6	(13.8)	(1.3)
Profit/(loss) on disposal of property, plant & equipment	0.4	(0.2)	0.3	(0.2)
Realised accounting gain on the sale of equity investments				
	(12.6)	2.4	(13.5)	(1.5)
Share of associates' and joint ventures net profits/losses	0.7	3.4	-	-

PROFIT (continued)

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
(b) Expenses				
Bad and doubtful debts				
Specific provision	44.9	48.4	29.3	18.4
Collective provision	(10.2)	(5.2)	(8.7)	(7.0)
Bad debts written off	2.1	5.3	1.2	5.1
Bad debts recovered	(4.4)	(4.3)	(4.0)	(4.2)
	32.4	44.2	17.8	12.3
Staff and related costs				
Salaries, wages and incentives	320.9	317.6	282.6	281.2
Superannuation contributions	28.0	26.5	24.5	23.3
Provision for annual leave	0.1	(0.3)	(1.0)	(0.1)
Provision for long service leave	8.3	2.0	6.9	2.2
Other provisions	0.6	0.7	0.6	0.7
Payroll tax	18.2	18.3	16.0	16.2
Fringe benefits tax	2.3	2.7	1.8	2.4
Executive equity transactions expense	2.2	0.7	1.9	0.7
Other	7.2	6.8	6.2	6.0
	387.8	375.0	339.5	332.6
Occupancy costs				
Operating lease rentals	37.6	35.0	36.8	34.9
Depreciation of buildings	0.3	0.4	-	-
Amortisation of leasehold improvements	6.5	5.7	6.2	5.6
Property rates and outgoings	3.9	3.6	3.8	3.6
Land tax	0.4	0.2	0.4	0.2
Repairs and maintenance	6.7	6.9	4.6	5.0
Utilities	3.6	3.8	3.5	3.8
Cleaning	3.8	3.8	3.7	3.8
Other	2.8	2.9	2.3	2.5
	65.6	62.3	61.3	59.4
Amortisation of intangibles				
Amortisation of intangible assets	27.8	28.1	19.4	20.5
Amortisation of intangible software	16.2	13.6	15.2	12.7
Impairment losses on goodwill	95.1	-	95.1	-
	139.1	41.7	129.7	33.2
Property, plant & equipment costs				
Depreciation of property, plant & equipment	11.4	11.5	10.8	11.0
Fees and commissions	30.4	26.7	9.4	8.7
Employee shares shortfall/(gain)	1.1	(1.4)	1.1	(1.4)
Impairment loss on held for sale asset	3.8	-	-	-
Accounting loss on disposal of securitisation notes	-	14.7	-	14.7
Write-down of impaired intangible software	-	26.6	-	26.6
Recovery of GST payments	-	(15.3)	-	(15.3)
Integration costs	2.7	7.2	2.7	4.6
Other				
Administration expenses				
Communications, postage and stationery	34.2	32.9	33.8	30.3
Computer systems and software costs	55.2	57.5	47.7	51.3
Advertising & promotion	30.6	28.9	27.4	26.8
Other product & services delivery costs	35.8	36.6	35.4	36.5
Impairment loss - shares in controlled entities	-	-	-	1.8
Impairment loss - assets available for sale, equity investments	-	-	9.5	-
Consultancy expense	7.4	9.5	6.4	9.0
Legal expense	7.3	8.0	6.9	7.3
Travel expense	6.6	7.9	5.7	6.9
General administration expenses	32.9	33.7	28.4	57.4
Other	0.5	1.3	1.5	3.7
	210.5	216.3	202.7	231.0
Listing and rating agency costs	2.0	2.0	1.6	1.2
Total other	212.5	218.3	204.3	232.2

5. CASH EARNINGS

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

	Consolidated 2012 $m	Consolidated 2011 $m
Profit after income tax expense	195.0	342.1
Adjusted for		
Specific items after tax [1]	117.0	(16.9)
Amortisation of acquired intangibles after tax	19.5	19.7
Distributions paid on preference shares	(3.9)	(4.1)
Distributions paid on step-up preference shares	(4.6)	(4.6)
Cash basis earnings after tax	323.0	336.2

(1) Specific income and expense items after tax comprise:

	2012	2011
Income		
Ineffectiveness in cash flow hedges (income)/expense	9.1	(1.8)
Expense		
Shortfall/(Gain) relating to Employee Share Plan	0.8	(1.0)
Integration costs	2.6	5.7
Accounting loss on disposal of securitisation notes	-	10.3
GST refund on change to apportionment methodology	-	(10.7)
Write down of intangible software assets	-	17.9
Impairment loss on held for sale asset	2.7	-
Impairment loss goodwill	95.1	-
Specific tax benefits		
Acquisition tax benefit - Adelaide	-	(40.8)
Acquisition tax expense - Rural Bank	-	2.9
Non deductible wealth management rights	4.3	-
Non deductible unrealised hedges at acquisition	2.4	-
Specific items attributable to non-controlling interest	-	0.6
	117.0	(16.9)

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

6. INCOME TAX EXPENSE

Major components of income tax expense are:

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Income statement				
Current income tax				
Current income tax charge	138.6	139.4	(76.2)	139.5
Acquisition income tax benefit	-	(27.1)	-	(28.6)
Retrospective change in tax legislation	3.2	-	1.7	-
Imputation credits	(3.4)	(12.4)	(0.2)	(9.4)
Adjustments in respect of current income tax of previous years	2.3	(13.4)	2.2	(9.6)
Deferred income tax				
Acquisition income tax benefit	-	(11.1)	-	(12.2)
Retrospective change in tax legislation	3.5	-	2.6	-
Adjustments in respect of deferred income tax of previous years	(1.6)	(1.3)	(2.0)	(4.6)
Relating to origination and reversal of temporary differences	(11.5)	3.8	162.4	(58.5)
Income tax expense reported in the income statement	131.1	77.9	90.5	16.6
Statement of changes in equity				
Deferred income tax related to items charged or credited directly in equity				
Net gain on cash flow hedge	11.1	27.6	7.0	28.7
Net gain/(loss) on available-for-sale investments	(3.8)	3.5	(0.9)	0.1
Other	(0.4)	-	(0.4)	-
Income tax expense reported in equity	6.9	31.1	5.7	28.8

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:

	Consolidated 2012 $m	Consolidated 2011 $m	Parent 2012 $m	Parent 2011 $m
Income tax expense attributable to:				
Accounting profit before income tax	326.1	424.5	195.1	287.2
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	97.8	127.4	58.6	86.2
under/(over) provision in prior years	0.7	(14.7)	0.2	(14.2)
tax credits and adjustments	(3.4)	(12.4)	(0.2)	(9.4)
Expenditure not allowable for income tax purposes	2.9	7.6	5.7	12.9
Impairment Wealth Management goodwill	28.5	-	28.5	-
Other assessable income	-	6.5	-	-
Other non assessable income	-	(1.7)	(3.5)	(9.1)
Tax effect of tax credits and adjustments	1.0	3.7	0.1	2.8
Retrospective change in tax legislation	6.7	-	4.3	-
Acquisition income tax benefit	-	(38.2)	-	(40.8)
Other	(3.1)	(0.3)	(3.2)	(11.8)
Income tax expense reported in the consolidated income statement	131.1	77.9	90.5	16.6

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

	Balance sheet			
	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Gross Deferred tax liabilities				
Available-for-sale financial assets	(26.1)	(29.0)	0.7	0.9
Deferred expenses	(1.1)	(1.8)	(1.1)	(2.0)
Derivatives	(17.5)	(2.8)	(164.1)	(12.7)
Intangible assets on acquisition	(36.2)	(44.9)	(23.5)	(30.0)
Lease receivable	(8.3)	(7.4)	(8.2)	(7.2)
Other	(15.3)	(36.4)	(13.0)	(20.0)
	(104.5)	(122.3)	(209.2)	(71.0)
Gross Deferred tax assets				
Derivatives	54.2	39.6	31.0	45.4
Employee entitlements	20.1	21.8	18.6	21.2
Intangible liabilities on acquisition	8.1	9.7	0.3	2.0
Losses available for offset against future taxable income	0.5	0.5	0.4	0.4
Prepaid income	11.8	17.5	0.9	1.1
Provisions	48.3	47.0	34.7	32.0
Other	27.2	44.1	22.6	32.0
	170.2	180.2	108.5	134.1

INCOME TAX EXPENSE (continued)

	Balance sheet			
	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Tax payable/(receivable) attributable to members of the tax consolidated group	86.8	68.6	86.8	68.6
	86.8	68.6	86.8	68.6

At 30 June 2012, there is no unrecognised deferred income tax liability (2011: Nil) for taxes that would be payable on the unremitted earnings of certain of the group's subsidiaries or joint ventures, as the group has no liability for additional taxation should such amounts be remitted.

Tax consolidation

Effective 1 July 2002, for the purposes of income taxation, Bendigo and Adelaide Bank Limited and its 100% owned subsidiaries formed a 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.

Bendigo and Adelaide Bank Limited formally notified the Australian Tax Office of its adoption of the tax consolidation regime upon the lodgement of its 2003 income tax return.

Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group on a group allocation method based on a notional standalone calculation, while deferred taxes are calculated by members of the tax consolidated group in accordance with AASB112 Income Taxes.

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

Tax consolidation outcomes

During the year, retrospective amendments to tax consolidation legislation came into effect which impact the group. The outcomes of these changes have resulted in a debit to income tax expense of $6.7m (2011: nil).

Taxation of Financial Arrangements ("TOFA")

The new taxing regime for financial instruments (TOFA) began to apply to the Tax Consolidated group on 1 July 2010. The regime aims to align the tax and accounting treatment of financial arrangements.

The Tax Consolidated group made a transitional election to bring pre-existing arrangements into TOFA. The deferred tax in relation to the transitional adjustment that this created is being amortised equally over the 2011 to 2014 years.

7. CAPITAL MANAGEMENT

a. Capital management

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

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

The group manages capital adequacy according to the framework provided by the APRA Prudential Standards. Capital adequacy is measured at two levels:

- Level 1 includes Bendigo and Adelaide Bank Limited and certain controlled entities that meet the 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 securitisation 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 (eligible capital as a percentage of total risk-weighted assets) at both Level 1 and Level 2 as determined by APRA. As part of the group's capital management process, the board considers the group's strategy, financial performance objectives, credit ratings and other factors relating to the efficient management of capital in setting target ratios of capital above the regulatory required levels. These processes are formalised within the group's internal capital adequacy assessment process (or ICAAP).

The group has adopted the Prudential Capital Adequacy Standardised Approach to credit risk, operational risk and market risk, which requires the group to determine capital requirements based on standards set by APRA. The group has satisfied the minimum capital requirements at Levels 1 and 2 throughout the 2011/12 financial year.

APRA has defined two broad categories of capital, and the form and substance of their components must meet APRA's specific requirements in order to be eligible for inclusion in the group's capital base. Tier 1 capital comprises the highest quality components of capital, and Tier 2 includes other components of lesser quality, but which still contribute to the overall strength of the group as a going concern. At least half of the group's eligible capital must be held in the form of Tier 1 capital.

CAPITAL MANAGEMENT (continued)

b. Capital adequacy

	Consolidated	
	As at June 2012 $m	**As at June 2011 $m**
Risk weighted capital ratios		
Tier 1	8.39%	7.85%
Tier 2	2.02%	2.74%
Total capital ratio	10.41%	10.59%
Qualifying capital		
Tier 1		
Contributed capital	3,681.8	3,408.9
Retained profits & reserves	101.3	159.4
Innovative tier 1 capital	277.9	277.9
Less,		
Intangible assets, cash flow hedges and capitalised expenses	1,583.9	1,660.5
Net deferred tax assets	-	13.5
50/50 deductions	8.5	16.4
Other adjustments - APS 120 securitisation	92.4	112.5
Total tier 1 capital	2,376.2	2,043.3
Tier 2		
General reserve for credit losses/collective provision (net of tax effect)	144.4	132.8
Subordinated debt	434.6	576.2
Asset revaluation reserves	1.9	23.0
	580.9	732.0
Less,		
50/50 deductions	8.5	16.4
Total tier 2 capital	572.4	715.6
Total qualifying capital	2,948.6	2,758.9
Total risk weighted assets	28,310.1	26,043.3

8. EARNINGS PER ORDINARY SHARE

	Consolidated 2012	Consolidated 2011
	Cents per share	Cents per share
Basic earnings per ordinary share	48.6	91.5
Diluted earnings per ordinary share	47.7	86.4
Cash basis earnings per ordinary share	84.2	92.3
	$m	**$m**
Reconciliation of earnings used in the calculation of basic earnings per ordinary share		
Profit after tax	195.0	346.6
(Profit)/loss attributable to non-controlling interests	-	(4.5)
Dividends paid on preference shares	(3.9)	(4.1)
Dividends paid/accrued on step up preference shares	(4.6)	(4.6)
	186.5	333.4
Reconciliation of earnings used in the calculation of diluted earnings per ordinary share		
Earnings used in calculating basic earnings per ordinary share	186.5	333.4
Add back dividends on dilutive preference shares	12.4	12.6
	198.9	346.0
Reconciliation of earnings used in the calculation of cash basis earnings per ordinary share		
Earnings used in calculating basic earnings per ordinary share	186.5	333.4
After tax intangibles amortisation (excluding software amortisation)	19.5	19.7
After tax specific income and expense items (Note 5)	117.0	(16.9)
	323.0	336.2
	No. of shares	**No. of shares**
Weighted average number of ordinary shares used in basic and cash basis earnings per ordinary share	383,463,802	364,334,486
Effect of dilution - executive performance rights	1,149,679	1,052,826
Effect of dilution - preference shares	32,352,260	35,041,690
Weighted average number of ordinary shares used in diluted earnings per ordinary share	416,965,741	400,429,002

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

Potentially dilutive instruments
The following instruments are potentially dilutive as at the reporting date:

	Dilutive 2012	Dilutive 2011
Preference shares	Yes	Yes
Step up preference shares	Yes	Yes
Reset preference shares	Yes	Yes
Executive share options	No	No
Executive performance rights	Yes	Yes

9. DIVIDENDS

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Dividends paid or proposed				
Ordinary shares				
Dividends paid during the year				
current year				
Interim dividend (30.0 cents per share) (2011 - 30.0 cents per share)	113.2	107.0	113.2	107.0
previous year				
Final dividend (30.0 cents per share) (2011 - 30.0 cents per share)	107.4	105.7	107.4	105.7
	220.6	212.7	220.6	212.7
Dividends proposed since the reporting date, but not recognised as a liability				
Final dividend (30.0 cents per share) (2011: 30.0 cents per share)	118.1	107.7	118.1	107.7
Franked dividends per ordinary shares (cents per share)	60.0	60.0	60.0	60.0

All dividends paid were fully franked. Proposed dividends will be fully franked out of existing franking credits or out of franking credits arising from payment of income tax provided for in the financial statements for the year ended 30 June 2012.

	Consolidated		Parent	
	2012	2011	2012	2011
Preference shares				
Dividends paid during the year				
115.07 cents per share paid on 15 September 2011 (2010: 113.07 cents)	1.0	1.0	1.0	1.0
111.11 cents per share paid on 15 December 2011 (2010: 110.91 cents)	1.0	1.0	1.0	1.0
105.50 cents per share paid on 15 March 2012 (2011: 114.00 cents)	1.0	1.1	1.0	1.1
104.87 cents per share paid on 15 June 2012 (2011: 112.39 cents)	0.9	1.0	0.9	1.0
	3.9	4.1	3.9	4.1
Step up preference shares				
Dividends paid during the year				
116.00 cents per share paid on 11 July 2011 (2010: 110.00 cents)	1.2	1.0	1.2	1.0
118.00 cents per share paid on 10 October 2011 (2010: 116.00 cents)	1.2	1.2	1.2	1.2
114.00 cents per share paid on 10 January 2012 (2011: 116.00 cents)	1.1	1.2	1.1	1.2
108.00 cents per share paid on 10 April 2012 (2011: 116.00 cents)	1.1	1.2	1.1	1.2
	4.6	4.6	4.6	4.6
Reset preference shares (recorded as debt instruments)				
Dividends paid during the year:				
310.53 cents per share paid on 7 November 2011 (2010: 310.53)	2.8	2.8	2.8	2.8
307.16 cents per share paid on 1 May 2012 (2011: 305.47)	2.7	2.7	2.7	2.7
	5.5	5.5	5.5	5.5
Dividend franking account				
Balance of franking account as at end of financial year	189.5	166.0		
Franking credits that will arise from the payment of income tax provided for in the financial report	86.8	68.6		
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	(51.5)	(46.2)		
	224.8	188.4		

The tax rate at which dividends have been franked is 30% (2011: 30%).
Dividends proposed will be franked at the rate of 30% (2011: 30%).

Dividend paid

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

	Consolidated 2012	Consolidated 2011	Parent 2012	Parent 2011
Paid in cash	149.7	191.8	149.7	177.4
Satisfied by issue of shares	79.3	44.0	79.3	44.0
	229.0	235.8	229.0	221.4

DIVIDENDS (continued)

Dividend Reinvestment Plan

The Dividend Reinvestment Plan provides shareholders with the opportunity of converting their entitlement to a dividend into new shares. The issue price of the shares is equal to the volume weighted average share price of Bendigo and Adelaide Bank shares traded on the Australian Securities Exchange over the fifteen trading days following the Record Date at a discount of 2.5%. 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 price of Bendigo and Adelaide Bank shares traded on the Australian Securities Exchange over the fifteen trading days following the Record Date at a discount of 2.5%. 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 2012 final dividend was 29 August 2012.

10. RETURN ON AVERAGE ORDINARY EQUITY

	Consolidated	
	2012	**2011**
	%	**%**
Return on average ordinary equity	4.84	8.99
Pre-specific items return on average ordinary equity	7.88	8.54
Cash basis return on average ordinary equity	8.36	9.07
	$m	**$m**
Reconciliation of earnings used in the calculation of return on average ordinary equity		
Net profit for the year	195.0	346.6
(Profit)/loss attributable to non-controlling interests	-	(4.5)
Dividends paid on preference shares	(3.9)	(4.1)
Dividends paid/accrued on step up preference shares	(4.6)	(4.6)
Earnings used in calculation of return on average ordinary equity	186.5	333.4
After tax specific income and expense items	117.0	(16.9)
Earnings used in calculation of pre-specific items return on average ordinary equity	303.5	316.5
After tax intangibles amortisation (excluding amortisation of intangible software)	19.5	19.7
Earnings used in calculation of cash basis return on average ordinary equity	323.0	336.2
Reconciliation of ordinary equity used in the calculation of return on average ordinary equity		
Total equity	4,217.7	3,960.1
Preference share net capital	(188.5)	(188.5)
Asset revaluation reserve - available for sale investments	(26.9)	(34.5)
Unrealised gains/losses on cash flow hedge reserve	86.4	109.3
Acquisitions reserve	20.4	20.4
Ordinary equity	4,109.1	3,866.8
Average ordinary equity	3,852.5	3,713.4

The above calculation uses a twelve month rolling basis of calculation.

11. NET TANGIBLE ASSETS PER ORDINARY SHARE

	Consolidated	
	2012	2011
	$	$
Net tangible assets per ordinary share	6.16	5.76
Reconciliation of net tangible assets used in calculation of net tangible assets per ordinary share	$m	$m
Net assets	4,217.7	3,960.1
Intangibles	(1,548.2)	(1,654.7)
Preference shares - face value	(90.0)	(90.0)
Step up preference shares - face value	(100.0)	(100.0)
Net tangible assets	2,479.5	2,115.4
Number of ordinary shares on issue at reporting date	402,233,266	367,104,585

12. CASH FLOW STATEMENT RECONCILIATION

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Profit after tax	195.0	346.6	104.6	270.6
Non-cash items				
Doubtful debts expense	36.8	48.5	21.8	16.5
Amortisation	139.1	41.7	129.7	33.2
Depreciation	18.2	17.6	17.0	16.6
Revaluation (increments)/decrements	0.9	(0.6)	0.6	2.0
Equity settled transactions	1.7	4.5	1.7	4.5
Share of joint ventures' net profits	(0.7)	(3.4)	-	-
Ineffectiveness in cash flow hedges	13.0	(2.6)	13.8	1.3
Changes in assets and liabilities				
Increase/(decrease) in tax provision	18.2	(4.5)	18.2	8.7
Increase/(decrease) in deferred tax assets & liabilities	(7.8)	22.4	163.8	(46.5)
(Increase)/decrease in derivatives	7.9	(133.5)	(546.3)	20.7
(Increase)/decrease in accrued interest	(39.3)	24.1	(21.1)	34.9
Increase/(decrease) in accrued employees entitlements	(4.4)	5.1	(7.5)	7.5
Increase/(decrease) in other accruals, receivables and provisions	(178.7)	122.2	317.8	(14.1)
Net cash flows from operating activities	199.9	488.1	214.1	355.9

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.

13. CASH AND CASH EQUIVALENTS

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Notes, coin and cash at bank	244.2	310.6	131.2	191.3
Investments at call	44.6	158.4	44.6	155.4
	288.8	469.0	175.8	346.7
Reconciliation of cash and cash equivalents				
For the purposes of the cash flow statement, cash and cash equivalents includes:				
Cash and cash equivalents	288.8	469.0	175.8	346.7
Due from other financial institutions	272.2	201.6	266.3	200.9
Due to other financial institutions	(327.2)	(215.6)	(315.1)	(214.6)
	233.8	455.0	127.0	333.0

14. FINANCIAL ASSETS HELD FOR TRADING

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Bank discount securities	-	219.6	-	219.6
Other discount securities	2,656.7	2,629.8	2,657.6	2,630.8
Floating rate notes	706.6	834.0	706.6	834.0
Government securities	1,002.8	648.3	1,002.8	648.3
	4,366.1	4,331.7	4,367.0	4,332.7
Maturity analysis				
Not longer than 3 months	1,387.6	3,086.5	1,387.6	3,086.5
Longer than 3 and not longer than 12 months	2,334.6	469.1	2,334.6	469.1
Longer than 1 and not longer than 5 years	643.9	776.1	643.9	776.1
Over 5 years	-	-	0.9	1.0
	4,366.1	4,331.7	4,367.0	4,332.7

15. FINANCIAL ASSETS AVAILABLE FOR SALE – DEBT SECURITIES

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Negotiable securities				
Negotiable certificates of deposit	92.7	122.3	-	-
Mortgage backed securities	352.1	311.1	352.1	311.1
Floating rate notes	-	18.7	-	18.9
Notes to securitisations	-	-	1,242.5	2,004.7
	444.8	452.1	1,594.6	2,334.7
Maturity analysis				
Not longer than 3 months	105.3	123.1	813.1	1,124.1
Longer than 3 and not longer than 12 months	41.6	79.9	65.4	79.9
Longer than 1 and not longer than 5 years	297.9	249.1	297.9	282.7
Over 5 years	-	-	418.2	848.0
	444.8	452.1	1,594.6	2,334.7
Recognised gains / (losses) before tax:				
(Loss) recognised directly in equity	(1.8)	(0.3)	(1.8)	(0.1)

16. FINANCIAL ASSETS AVAILABLE FOR SALE – EQUITY INVESTMENTS

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Share investments at fair value				
Listed share investments	122.0	121.2	1.4	1.3
Unlisted share investments	2.7	2.2	2.7	2.2
	124.7	123.4	4.1	3.5

Fair value of share investments is determined as follows:

Listed shares - quoted market price at balance date.

Unlisted shares - estimated using valuation techniques based on assumptions that are not supported by observable market prices or rates. Management believes the estimated fair values resulting from the valuation techniques and recorded in the balance sheet and the related changes in fair values recorded in equity are reasonable and the most appropriate at the balance sheet date.

	Consolidated		Parent	
Recognised gains / (losses) before tax:				
Gain/(loss) recognised directly in equity	(9.6)	11.5	(0.1)	0.4
Amount removed from equity and recognised in (profit)/loss	-	(1.0)	-	(1.0)

17. FINANCIAL ASSETS HELD TO MATURITY

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Negotiable securities				
Bank accepted bills of exchange	9.9	6.0	-	-
Negotiable certificates of deposit	328.5	250.5	-	-
Other	47.1	116.3	0.5	68.4
	385.5	372.8	0.5	68.4
Non negotiable securities				
Deposits - other	1.6	6.2	-	-
Other	1.3	1.3	1.3	1.3
	2.9	7.5	1.3	1.3
Total financial assets held to maturity	388.4	380.3	1.8	69.7
Maturity analysis				
Not longer than 3 months	331.5	302.0	-	52.7
Longer than 3 and not longer than 12 months	38.4	34.8	-	15.2
Longer than 1 and not longer than 5 years	15.0	35.5	-	-
Over 5 years	3.5	8.0	1.8	1.8
	388.4	380.3	1.8	69.7

18. LOANS AND OTHER RECEIVABLES

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Loans and other receivables - investments	453.0	471.2	453.0	471.2
Overdrafts	4,342.5	4,156.8	4,257.5	4,154.7
Credit cards	241.2	230.3	241.2	230.3
Term loans	40,828.7	37,875.0	36,335.7	34,359.6
Margin lending	2,333.2	3,202.2	-	-
Lease receivables	472.1	485.0	459.4	481.5
Factoring receivables	78.7	49.7	78.7	49.7
Other	82.6	93.6	82.6	75.7
Gross loans and other receivables	48,379.0	46,092.6	41,455.1	39,351.5
Specific provision for impairment (Note 19)	(102.9)	(91.4)	(60.0)	(47.3)
Collective provision for impairment (Note 19)	(31.8)	(41.9)	(27.7)	(36.1)
Unearned income	(105.1)	(92.0)	(64.3)	(65.0)
	(239.8)	(225.3)	(152.0)	(148.4)
Deferred Costs paid	77.8	71.3	63.5	52.3
Net loans and other receivables	48,217.0	45,938.6	41,366.6	39,255.4
Impaired loans				
Loans - without provisions	98.7	88.5	32.1	46.2
- with provisions	224.0	237.9	94.6	87.1
Restructured Loans	35.8	32.3	35.7	32.3
less specific impairment provisions	(102.1)	(90.6)	(59.2)	(46.4)
Net impaired loans	256.4	268.1	103.2	119.2
Net impaired loans % of loans and other receivables	0.53%	0.58%	0.25%	0.30%
Portfolios facilities - past due 90 days, not well secured	3.7	4.1	3.7	4.1
less impairment provisions	(0.8)	(0.8)	(0.8)	(0.8)
Net portfolio facilities	2.9	3.3	2.9	3.3
Loans past due 90 days				
Accruing loans past due 90 days, with adequate security balance	811.8	729.2	665.8	631.2
Net fair value of properties acquired through the enforcement of security	108.2	66.2	99.0	62.5
Interest income recognised				
Interest income recognised in respect of impaired loans	5.6	2.1	2.5	1.2
Interest income forgone in respect of impaired loans	26.1	11.5	6.3	2.8

Interest income recognised is the interest income actually received subsequent to these balances becoming impaired or restructured.
Interest income forgone is the gross interest income that would have been recorded during the financial year had the interest on such loans been included in income.

	Consolidated 2012	Consolidated 2011	Parent 2012	Parent 2011
Maturity analysis (1)				
At call / overdrafts	7,971.4	8,578.1	5,085.1	4,872.5
Not longer than 3 months	1,311.8	931.2	791.6	602.9
Longer than 3 and not longer than 12 months	1,727.4	1,568.3	1,062.2	1,182.0
Longer than 1 and not longer than 5 years	6,660.3	6,430.0	4,489.3	4,442.5
Longer than 5 years	31,161.1	29,056.2	30,479.9	28,722.8
	48,832.0	46,563.8	41,908.1	39,822.7

1 Balances exclude specific and general provisions for doubtful debts and unearned revenue, and are categorised by the contracted maturity date of each loan facility.

LOANS AND OTHER RECEIVABLES (continued)

Derecognition of securitised loan portfolios

The parent entity ("the Bank") through its loan securitisation program, securitises mortgage loans to the Torrens Trust and Lighthouse Trusts ("the Trusts") which in turn issue rated securities to investors.

The Bank holds income and capital units in the Trusts at nominal values, which entitles the Bank to receive excess income, if any, generated by the securitised assets, while the capital units receive upon termination of the Trusts any residual capital value.

Fees are received for various services provided to the Trusts on an arms length basis, including the servicing fee and management fees and are reported in the Income Statement. As the value of fees and excess income is influenced by the financial performance of the Trusts, the Bank has determined that substantially all of the risks and rewards of these securitised loan portfolios have been retained and consequently, the loans have not been derecognised. Securitised mortgage loans totalling $11,531.8 million (2011: $13,366.2 million) are reported in loans and receivables of the parent entity.

Investors in the Trusts have no recourse against the Bank if cash flows from the securitised loans are inadequate to service the obligations of the Trusts.

19. IMPAIRMENT OF LOANS AND ADVANCES

	Consolidated		Parent	
	2012	**2011**	**2012**	**2011**
	$m	**$m**	**$m**	**$m**
Specific provision for impairment				
Opening balance	91.4	79.1	47.3	51.7
Provision acquired in business combination	0.3	-	-	-
Transfer of business	-	-	8.4	-
Charged to income statement	44.9	48.4	29.3	18.4
Impaired debts written-off applied to specific impairment provision	(33.7)	(36.1)	(25.0)	(22.8)
Closing balance	102.9	91.4	60.0	47.3
Collective provision for impairment				
Opening balance	41.9	47.1	36.1	43.1
Provision acquired in business combination	0.1	-	-	-
Transfer of business	-	-	0.3	-
Charged to income statement	(10.2)	(5.2)	(8.7)	(7.0)
Closing balance	31.8	41.9	27.7	36.1
General reserve for credit losses				
Opening balance	110.9	104.7	92.4	86.2
Provision acquired in business combination	4.8	-	-	-
Charged to equity	12.8	6.2	12.6	6.2
Closing balance	128.5	110.9	105.0	92.4
Bad and doubtful debts expense				
Specific provisions for impairment	44.9	48.4	29.3	18.4
Collective provision	(10.2)	(5.2)	(8.7)	(7.0)
Bad debts written off	2.1	5.3	1.2	5.1
Bad debts recovered	(4.4)	(4.3)	(4.0)	(4.2)
	32.4	44.2	17.8	12.3
Ratios				
Specific provision as % of gross loans less unearned income	0.21%	0.20%		
Collective provision (adjusted for tax) & General reserve for credit losses as a % of risk-weighted assets	0.53%	0.54%		

20. PARTICULARS IN RELATION TO CONTROLLED ENTITIES

Chief entity	Prinicpal Activities
Bendigo and Adelaide Bank Limited	Banking
Directly Controlled Operating Entities [(1)] [(2)]	
AB Management Pty Ltd	Securitisation Manager
ABL Custodian Services Pty Ltd	Security Trustee
ABL NIM Pty Ltd	Trust Manager
ABL Nominees Pty Ltd	Trustee company
Adelaide Managed Funds Ltd	Responsible Entity for listed trusts
Bank of Cyprus Australia Limited	Banking
Hindmarsh Adelaide Property Trust	Property Owner
Hindmarsh Financial Services Ltd	Investment company
Leveraged Equities Ltd	Margin Lending
Adelaide Equity Finance Pty Ltd	Margin Lending
Leveraged Equities 2009 Trust	Securitisation
Pirie Street Custodian Ltd	Provider of share nominee services for margin lending
BBS Nominees Pty Ltd	Administration company
Bendigo Finance Pty Ltd	Leasing finance
Bendigo Financial Planning Ltd	Financial advisory services
Community Developments Australia Pty Ltd	Community initiatives
Homesafe Trust	Homesafe product financier
National Mortgage Market Corporation Pty Ltd	Mortgage origination & management
Rural Bank Limited	Banking
Sandhurst Trustees Ltd	Trustee company
Sandhurst Nominees (Victoria) Pty Ltd	Nominee services
Pirie Street Nominees Pty Ltd	Financial services
Securitisation	
AIL Trust No 1	Securitisation
ABL Portfolio Funding Trust 2007-1	Securitisation
Lighthouse Warehouse Trust No 1	Securitisation
Lighthouse Warehouse Trust No 2	Securitisation
Lighthouse Warehouse Trust No 14	Securitisation
Torrens Series 2004-1 Trust	Securitisation
Torrens Series 2004-2 (W) Trust	Securitisation
Torrens Series 2005-1 Trust	Securitisation
Torrens Series 2005-2(S) Trust	Securitisation
Torrens Series 2005-3 (E) Trust	Securitisation
Torrens Series 2006-1(E) Trust	Securitisation
Torrens Series 2007-1 Trust	Securitisation
Torrens Series 2008-1 Trust	Securitisation
Torrens Series 2008-2(W) Trust	Securitisation
Torrens Series 2008-3 Trust	Securitisation
Torrens Series 2008-4 Trust	Securitisation
Torrens Series 2009-1 Trust	Securitisation
Torrens Series 2009-3 Trust	Securitisation
Torrens Series 2010-1 Trust	Securitisation
Torrens Series 2010-2 Trust	Securitisation
Torrens Series 2010-3 Trust	Securitisation
Torrens Series 2011-1(E)	Securitisation
Torrens Series 2011-2	Securitisation

1 *Non-Operating controlled entities are excluded from the above list.*

2 *All entities are 100% owned and incorporated in Australia.*

21. INVESTMENTS IN JOINT VENTURES USING THE EQUITY METHOD

Name	Ownership interest held by consolidated entity 2012 %	2011 %	Balance date
Community Sector Enterprises Pty Ltd	50.0	50.0	30 June
Homesafe Solutions Pty Ltd	50.0	50.0	30 June
Silver Body Corporate Financial Services Pty Ltd	50.0	50.0	30 June
Community Telco Australia Pty Ltd	50.0	50.0	30 June
Strategic Payments Services Pty Ltd	47.5	47.5	31 December
Linear Financial Holdings Pty Ltd	40.0	24.3	30 June
Homebush Financial Services Ltd	49.0	-	30 June

(i) Principal activities of joint venture companies

Community Sector Enterprises Pty Ltd - financial services
Homesafe Solutions Pty Ltd - trust manager
Silver Body Corporate Financial Services Pty Ltd - financial services
Community Telco Australia Pty Ltd - telecommunication services
Strategic Payments Services Pty Ltd - payment processing services
Linear Financial Holdings Pty Ltd - asset management services
Homebush Financial Services Ltd - financial services (acquired January 2012)

All joint venture companies are incorporated in Australia, and have a balance date of 30 June except Strategic Payments Services Pty Ltd which has a balance date of 31 December.

(ii) Share of joint ventures' revenue and profits	2012 $m	2011 $m
Share of joint ventures':		
- revenue	16.4	15.0
- expense	15.7	11.6
- profit before income tax	0.7	3.4
- income tax expense	0.3	0.2
- profit after income tax	0.4	3.2

	2012 $m	2011 $m
Share of joint ventures' operating profits after income tax:		
- Community Sector Enterprises Pty Ltd	0.2	0.3
- Homesafe Solutions Pty Ltd	0.4	0.9
- Silver Body Corporate Financial Services Pty Ltd	0.2	0.2
- Community Telco Australia Pty Ltd	-	-
- Strategic Payments Services Pty Ltd	0.3	2.2
- Linear Financial Holdings Pty Ltd	(0.7)	(0.4)
- Homebush Financial Services Ltd	-	-
	0.4	3.2

The consolidated entity's share in the retained profits and reserves of joint venture companies is not available for payment of dividends to shareholders of Bendigo and Adelaide Bank Limited until such time as those profits and reserves are distributed by the joint venture companies.

INVESTMENTS IN JOINT VENTURES USING THE EQUITY METHOD (continued)

	2012 $m	2011 $m
(iii) Carrying amount of investments in joint ventures		
Balance at the beginning of financial year	12.5	7.2
- carrying amount of investment in joint ventures acquired during the year	0.4	2.3
- dividends received from joint ventures	(0.4)	(0.2)
- share of joint ventures' net profits for the financial year	0.4	3.2
Carrying amount of investments in joint ventures at the end of the financial year	12.9	12.5
Represented by:		
Investments at equity accounted amount:		
- Homebush Financial Services Ltd	0.8	-
- Community Sector Enterprises Pty Ltd	0.8	0.8
- Silver Body Corporate Financial Services Pty Ltd	0.4	0.5
- Community Telco Australia Pty Ltd	-	-
- Strategic Payment Services Pty Ltd	8.8	8.5
- Homesafe Solutions Pty Ltd	0.3	0.2
- Linear Financial Holdings Pty Ltd	1.8	2.5
	12.9	12.5

There are no impairment losses relating to investments in joint ventures.

	2012 $m	2011 $m
Unrecognised losses relating to joint ventures	1.2	0.8
(iv) The consolidated entity's share of the assets and liabilities of joint venture in aggregate		
Assets	13.4	11.1
Liabilities	9.8	6.8
Net Assets	3.6	4.3
(v) Amount of retained profits of the consolidated entity attributable to joint ventures	62.9	62.9

Subsequent events affecting a joint ventures' profits/losses for the ensuing year (if any) are disclosed in the Events after balance sheet Date note 46.

The consolidated entity's share of joint ventures' commitments and contingent liabilities (if any) are disclosed in the Commitments and Contingencies note 43.

22. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Parent	
	2012	**2011**	**2012**	**2011**
	$m	**$m**	**$m**	**$m**
(a) Carrying Value				
Property				
Freehold land - at fair value	1.0	16.6	0.3	0.3
	1.0	16.6	0.3	0.3
Freehold buildings - at fair value	1.1	15.4	0.2	0.2
Accumulated depreciation	(0.1)	(0.5)	-	-
	1.0	14.9	0.2	0.2
Leasehold improvements - at cost	80.7	70.4	72.7	69.0
Accumulated depreciation	(40.9)	(30.8)	(36.7)	(30.6)
	39.8	39.6	36.0	38.4
	41.8	71.1	36.5	38.9
Other				
Plant, furniture, fittings, office equipment & vehicles - at cost	179.3	170.3	172.1	167.3
Accumulated depreciation	(152.1)	(141.5)	(148.0)	(139.5)
	27.2	28.8	24.1	27.8
	69.0	99.9	60.6	66.7
(b) Reconciliations				
Freehold land				
Carrying amount at beginning of financial year	16.6	16.6	0.3	6.5
Transfer to assets held for sale	(15.6)	-	-	(6.2)
	1.0	16.6	0.3	0.3
Freehold buildings				
Carrying amount at beginning of financial year	14.9	15.3	0.2	10.3
Depreciation expense	(0.3)	(0.4)	-	-
Transfer to assets held for sale	(13.6)	-	-	(10.1)
	1.0	14.9	0.2	0.2
Leasehold improvements - at cost				
Carrying amount at beginning of financial year	39.6	38.5	38.4	37.2
Additions	3.8	6.9	3.8	6.9
Additions through acquisition of entities	2.9	-	-	-
Disposals	-	(0.1)	-	(0.1)
Depreciation expense	(6.5)	(5.7)	(6.2)	(5.6)
	39.8	39.6	36.0	38.4
Plant, furniture, fittings, office equipment & vehicles				
Carrying amount at beginning of financial year	28.8	33.2	27.8	31.4
Additions	8.4	7.4	7.9	7.6
Additions through acquisition of entities	2.2	-	-	-
Disposals	(0.8)	(1.0)	(0.8)	(0.9)
Depreciation expense	(11.4)	(11.5)	(10.8)	(11.0)
Transfer to assets	-	0.7	-	0.7
	27.2	28.8	24.1	27.8

If land and buildings were measured using the cost model the carrying amounts would be as follows:

	Consolidated 2012	Consolidated 2011	Parent 2012	Parent 2011
Land	0.4	17.9	0.1	0.1
Buildings	0.6	21.8	0.1	0.1
Accumulated depreciation and impairment	(0.3)	(2.2)	(0.1)	(0.1)
Net carrying amount	0.7	37.5	0.1	0.1

23. ASSETS HELD FOR SALE

	Consolidated		Parent	
	2012	**2011**	**2012**	**2011**
	$m	**$m**	**$m**	**$m**
Carrying amount at beginning of financial year	-	-	-	-
Land and buildings [(1)]	25.4	-	-	-
	25.4	-	-	-

[(1)] An impairment loss of $3.8 m was recorded on initial recognition of assets transferred to held for sale.

24. INVESTMENT PROPERTY

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Carrying amount at beginning of financial year	263.0	158.9	-	-
Additions	36.3	83.0	-	-
Net gain/(loss) from fair value adjustments	(0.4)	21.1	-	-
	298.9	263.0	-	-

Investment properties are carried at fair value, which has been determined in accordance with directors' valuations and have not been independently valued.

The asset represents residential properties acquired under the Homesafe Equity Release product, and is subject to restricted trading rights over the life of the agreements with individual customers. The realisability of the properties and the remittance of income and proceeds of disposal can be impacted by the real estate market conditions, particularly Melbourne and Sydney. The fair value represents the amounts at which the assets could be sold in an arm's length transaction at the date of valuation including allowance for the restrictions applicable to these assets, and is determined by reference to adjusted property market index rates.

25. INTANGIBLE ASSETS AND GOODWILL

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
(a) Carrying value				
Intangible assets				
Customer list - at cost	9.1	3.6	-	-
Accumulated amortisation	(4.2)	(3.6)	-	-
	4.9	-	-	-
Computer software - at cost	135.3	114.8	119.9	103.6
Accumulated amortisation and impairment	(67.9)	(49.2)	(54.6)	(39.4)
	67.4	65.6	65.3	64.2
Trustee licence - at cost	8.4	8.4	-	-
Accumulated impairment	-	-	-	-
	8.4	8.4	-	-
Computer Software (Adelaide) - at fair value	1.3	1.3	1.3	1.3
Accumulated amortisation	(1.3)	(1.3)	(1.3)	(1.3)
	-	-	-	-
Trade Name - at fair value	28.4	28.4	25.5	25.5
Accumulated amortisation	(20.7)	(16.0)	(19.7)	(15.4)
	7.7	12.4	5.8	10.1
Customer Relationship - at fair value	72.0	72.0	29.3	29.3
Accumulated amortisation	(30.7)	(22.1)	(16.4)	(12.8)
	41.3	49.9	12.9	16.5
Management rights - at fair value	15.3	15.3	15.3	15.3
Accumulated amortisation	(4.7)	(3.6)	(4.7)	(3.6)
	10.6	11.7	10.6	11.7
Core Deposits - at fair value	116.3	116.3	98.7	98.7
Accumulated amortisation	(68.5)	(55.7)	(62.0)	(51.6)
	47.8	60.6	36.7	47.1
Goodwill	1,360.1	1,446.1	1,277.1	1,369.5
Total intangible assets and goodwill	1,548.2	1,654.7	1,408.4	1,519.1

INTANGIBLE ASSETS AND GOODWILL (continued)

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
(b) Reconciliations				
Intangible assets				
Customer list				
Carrying amount at beginning of financial year	-	-	-	-
Additions/fair value adjustment	5.5			
Amortisation charge	(0.6)	-	-	-
	4.9	-	-	-
Computer software				
Carrying amount at beginning of financial year	65.6	25.1	64.2	23.3
Addition acquired through business combination	0.8	-	-	-
Additions	17.2	81.3	16.3	80.8
Transfers	-	(0.7)	-	(0.7)
Impairment write down	-	(26.6)	-	(26.6)
Amortisation charge	(16.2)	(13.5)	(15.2)	(12.6)
	67.4	65.6	65.3	64.2
Trustee licence				
Carrying amount at beginning of financial year	8.4	8.4	-	-
	8.4	8.4	-	-
Computer software (Adelaide)				
Carrying amount at beginning of financial year	-	0.1	-	0.1
Amortisation Charge	-	(0.1)	-	(0.1)
	-	-	-	-
Trade Name				
Carrying amount at beginning of financial year	12.4	16.3	10.1	13.7
Additional acquired trade name	-	0.8	-	0.8
Amortisation Charge	(4.7)	(4.7)	(4.3)	(4.4)
	7.7	12.4	5.8	10.1
Customer Relationship				
Carrying amount at beginning of financial year	49.9	58.5	16.5	20.1
Amortisation Charge	(8.6)	(8.6)	(3.6)	(3.6)
	41.3	49.9	12.9	16.5
Management Rights				
Carrying amount at beginning of financial year	11.7	12.7	11.7	12.7
Amortisation Charge	(1.1)	(1.0)	(1.1)	(1.0)
	10.6	11.7	10.6	11.7
Core Deposits				
Carrying amount at beginning of financial year	60.6	74.4	47.1	58.6
Amortisation Charge	(12.8)	(13.8)	(10.4)	(11.5)
	47.8	60.6	36.7	47.1
Goodwill				
Carrying amount at beginning of financial year	1,446.1	1,446.1	1,369.5	1,353.1
Addition acquired through business combination/(purchase price adjustment)	9.1	-	-	-
Transfer from subsidiary	-	-	2.7	16.4
Impairment of goodwill	(95.1)	-	(95.1)	-
	1,360.1	1,446.1	1,277.1	1,369.5
Total intangible assets and goodwill	1,548.2	1,654.7	1,408.4	1,519.1

Intangible assets

Finite useful life

The customer list was acquired through a business combination (AIM Investment Management Pty Ltd) and has been capitalised at fair value. The customer list has been assessed as having a finite life and is amortised using a method that reflects the pattern of the economic benefits of the asset over a period of 5 years.

Computer software includes internally developed software and software that is not an integral part of the related hardware. Intangible software is capitalised at cost and is amortised over the assessed useful life of the asset on a straight line basis. This is generally a period of between 2.5 years and 7 years (major software items).

The carrying value of internally developed software is tested annually for impairment, using estimates of future cash flows over the assets remaining useful life.

INTANGIBLE ASSETS AND GOODWILL (continued)

Other intangible assets acquired through the business combinations with Adelaide Bank Limited and Rural Bank Limited, include trade name, customer relationship, management rights and core deposits. These assets have been capitalised at fair value and are amortised to reflect the period and pattern of economic benefit. Impairment testing is completed annually on these assets, and if impairment indicators are met, the assets are written down to recoverable amounts.

Indefinite useful life

The trustee licence represents an intangible asset purchased through the effect of a business combination (Sandhurst Trustees Limited). The useful life of this asset has been estimated as indefinite and the cost method is utilised for measurement.

The asset is assessed as having an indefinite life as the authorisation for Sandhurst Trustees Limited to trade as a trustee company has no end period. Revocation of the authority is unlikely and would occur only in the event of non-compliance with conditions under which authorisation is granted. Sandhurst Trustees Limited has specific compliance procedures in place to ensure these conditions are met.

Goodwill

The goodwill items represent intangible assets purchased through the effect of business combinations.

For intangible assets that have definite life, impairment testing is only required at each reporting date where there is an indication of an impairment. For intangible assets that have indefinite life, impairment testing is required at least annually.

26. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIVES

Goodwill acquired through business combinations is initially measured at its cost, being the excess of the cost of the business combination over Bendigo and Adelaide Bank Limited interest in the net fair value of all subsidiaries' identifiable assets, liabilities and contingent liabilities. Goodwill is not amortised, but is tested for impairment annually or more frequently if impairment indicators exist.

For the half year ended 31 December 2011 there were a number of indicators that suggested that impairment testing was required. As such, testing occurred and an impairment loss of $95.1 million was recorded as at 31 December 2011 against the Wealth cash-generating unit.

Allocation of Goodwill and Intangible Assets

Goodwill and intangible assets do not generate cash flows independently of other assets or groups of assets, and often contributes to the cash flows of multiple cash-generating units. Therefore the accounting standard allows companies to aggregate cash-generating units ("CGU") and test goodwill for impairment at relatively higher levels than is the case of other assets.

Amortisation and Impairment Charge – Intangible Assets with Finite Lives

All the intangible assets other than goodwill and trustee licence have been assessed as having finite lives in the ranges as follows:

Category	**Useful Life**
Core Deposit	2 – 10 years
Trade name	5 – 15 years
Customer Relationship	7 – 12 years
Management Rights	15 years

Impairment Review Methodologies – Goodwill and Intangible Assets with Indefinite Lives

Impairment testing for goodwill and intangible assets is performed by comparing the carrying amount of the CGU grouping to which the goodwill and intangible assets have been allocated with its recoverable amount. The recoverable amount is measured as the higher of value in use and fair value less costs to sell.

(i) Fair Value Method

In the goodwill impairment review model, fair value less costs to sell is calculated by multiplying the CGU's projected after tax cash flows for 2012/2013 (adjusted for specific items) by 12.

In order to determine the appropriate multiple, consideration is given to recent similar transactions that may have occurred. A review is performed over earnings multiples across similar sectors over the last five years as well as current market conditions. Management consider that an earnings multiple of 12 is appropriate for each for the groups identified CGU's.

IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIVES (continued)

(ii) Value in Use Method

Value in use recoverable amount calculation is based on 5 years' forecasted after tax cash flows for the CGU, discounted back to the present value using an appropriate discount rate, plus a terminal value.

The discount rate applied to the cash flows projection is 9.37%. Management believe this discount rate is appropriate based on current market risk free rate, company specific beta and market risk premium.

Terminal value for value in use method is calculated by discounting the fifth year's earning by the discount factor (i.e. 9.37% minus long term growth rate i.e. 3%). Long term growth rates of 3% have been used.

The 5 years' forecasted after tax cash flows of each CGU is based on management's expectation of group strategy and future trends in the industry.

The below table represents the growth assumptions adopted for the retail CGU which uses the value in use methodology for the 2012/13 year and is based on the financial forecast approved by the board:

	Profit Growth Rate				Long term growth rate
CGU	**2013/14**	**2014/15**	**2015/16**	**2016/17**	
Retail	4.0%	6.8%	6.8%	6.8%	3.0%

The 2012/13 forecasted after tax cash flows are based on the financial forecast approved by the board.

For impairment review purposes, no impairment loss is required to be made if the CGU's recoverable amount is above the CGU's net asset carrying amount under either of the fair value and value in use tests. Based on the fair value or value in use tests results, no further impairment loss is required to be made for any of the CGU's as at 30 June 2012.

For the purpose of impairment testing, goodwill and intangible assets acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

For goodwill allocation, the cash generating units identified represent the core business operations of the group as follows:

Retail
The provision of retail banking products and services delivered through the company-owned branch network and the group's share of net interest and fee income from the **Community Bank**® branch network and includes the Bank of Cyprus Australia.

Third Party
The provision of residential home loans, distributed through mortgage brokers, mortgage managers, mortgage originators and alliance partners.

Wealth
The provision of financial planning services, margin lending activities and wealth deposits. Commissions are received as the responsible entity for managed investment schemes and for corporate trusteeships and other trustee and custodial services.

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

The carrying amount of goodwill and intangibles allocated to each cash-generating unit is as follows:

CGU	Goodwill test applied	Carrying amount of goodwill	Carrying amount of intangibles	Sensitivity before impairment becomes evident for the test applied		
		$m	$m	Fair value	Value in use	
				Earnings multiple	Profit growth	Discount rate
Retail	Value in use	658.2	40.8	Not applicable [(1)]	Lower by 11.0%	12.3%
Third Party	Fair value	455.8	65.0	Lower by 2	Lower by 15.5%	14.1%
Wealth	Fair value	229.3	46.3	Lower by 1	Lower by 17.0%	14.4%
Rural Bank	Fair value	16.8	36.0	Lower by 1	Lower by 12.3%	12.8%
	Total	**1,360.1**	**188.1**			

[(1)] The value in use test has been applied to the Retail CGU.

27. OTHER ASSETS

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Shares in joint ventures [1]	-	-	15.4	14.9
Accrued income	20.7	15.8	18.5	12.5
Prepayments	22.4	17.1	17.4	13.7
Sundry debtors	263.3	151.4	645.1	602.7
Accrued interest	203.3	232.7	156.4	184.5
	509.7	417.0	852.8	828.3

Other assets are generally non-interest bearing and are short-term by nature.
Sundry debtors are normally settled within 30 days.
Accrued interest is interest accrued on loans and receivables and is generally charged to the loan or receivable on the first day of the next month.

[1] Shares in joint ventures are carried at cost. Refer to note 21 for more information regarding joint ventures.

28. DEPOSITS

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
DEPOSITS				
Retail				
Bendigo Adelaide - company owned	21,399.3	19,440.0	20,300.3	19,828.0
Bendigo Adelaide - community bank/alliances	11,617.8	10,427.9	11,617.8	10,427.9
Rural Bank	2,143.6	2,349.0	-	-
Treasury sourced	5,502.4	4,474.0	4,519.4	3,566.8
	40,663.1	36,690.9	36,437.5	33,822.7
Wholesale				
Domestic	3,832.5	3,669.2	3,664.8	3,542.1
Offshore	77.1	161.2	77.1	161.2
	3,909.6	3,830.4	3,741.9	3,703.3
	44,572.7	40,521.3	40,179.4	37,526.0
Deposits by geographic location				
Victoria	21,180.3	17,929.5	18,748.8	17,285.7
New South Wales	8,063.8	9,182.8	7,573.7	8,095.1
Australian Capital Territory	773.0	603.9	836.3	527.9
Queensland	4,959.2	4,387.9	4,537.8	3,895.3
South Australia/Northern Territory	5,268.2	4,582.7	4,716.0	4,408.5
Western Australia	2,918.2	2,453.7	2,457.0	2,017.5
Tasmania	933.6	794.3	818.8	716.4
Overseas	476.4	586.5	491.0	579.6
	44,572.7	40,521.3	40,179.4	37,526.0
NOTES PAYABLE	6,411.0	8,453.7	-	576.9

29. OTHER PAYABLES

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Sundry creditors	36.2	21.0	157.9	176.6
Accrued expenses and outstanding claims	266.7	305.9	668.1	301.7
Accrued interest	387.2	389.3	342.0	352.4
Prepaid interest	41.7	65.0	-	-
	731.8	781.2	1,168.0	830.7

Payables are non-interest bearing and are generally settled within 30 days.
Accrued interest is credited to customer accounts in accordance with the terms of the investment products held by the customer, but generally within a twelve month period.

30. PROVISIONS

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
(a) Balances				
Employee benefits (Note 35)	66.9	71.3	62.0	69.5
Employee shares shortfall (1)	4.2	3.2	4.2	3.2
Rewards program (2)	4.2	3.9	4.2	3.9
Property Rent (3)	1.5	1.8	1.5	1.8
Dividends (4)	1.0	1.2	1.0	1.2
Uninsured Losses (5)	2.9	3.1	2.9	2.9
	80.7	84.5	75.8	82.5

(1) The provision for employee shares shortfall is in relation to possible losses associated with employee loans under the Employee share plan. This provision will only be utilised if:

(a) employees instruct the administrator of the plan to sell their shares in settlement of the employee loan relating to those shares: and,

(b) at the time of the sale the market price of Bendigo and Adelaide Bank Limited shares is below the outstanding value of those shares in the loan account.

(2) The provision for rewards program is to recognise the liability to customers in relation to points earned by them under the Bendigo and Adelaide Bank Rewards Program and is measured on the basis of full value of points outstanding at balance date. As reward points "expire" after three years, the balance will be utilised, or forfeited within a three year period.

(3) The provision for property rent is to recognise the difference between actual property rent paid and the property rent expense recognised in the income statement. The value recognised in the income statement is in accordance with Accounting Standard AASB 117 "Leases" whereby the lease expense is to be recognised on a straight-line basis over the period of the lease. The provision is expected to be utilised over the period of the respective leases, typically a period between three and ten years. However, it is expected that a balance will continue as old leases expire and are replaced by new leases.

(4) 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 12 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.

(5) The provision for uninsured losses represents the expected loss in relation to fraud not covered under insurance contracts.

	Consolidated		Parent	
	2012	2011	2012	2011
(b) Movements	$m	$m	$m	$m
Employee benefits				
Opening balance	71.3	66.2	69.5	62.0
Provision acquired in business combination	1.6	-	-	-
Additional provisions recognised	34.0	41.9	30.2	40.5
Decrease due to change in discount rate	(0.3)	0.1	(0.3)	0.1
Amounts utilised during the year	(39.7)	(36.9)	(37.4)	(33.1)
Closing balance	66.9	71.3	62.0	69.5
Employee shares shortfall				
Opening balance	3.2	4.8	3.2	4.8
Release of provision	1.2	(1.4)	1.2	(1.4)
Amounts utilised during the year	(0.2)	(0.2)	(0.2)	(0.2)
Closing balance	4.2	3.2	4.2	3.2
Rewards program				
Opening balance	3.9	3.8	3.9	3.8
Additional provisions recognised	1.6	2.3	1.6	2.3
Amounts utilised during the year	(1.3)	(2.2)	(1.3)	(2.2)
Closing balance	4.2	3.9	4.2	3.9
Property Rent				
Opening balance	1.8	2.0	1.8	2.0
Amounts utilised during the year	(0.3)	(0.2)	(0.3)	(0.2)
Closing balance	1.5	1.8	1.5	1.8
Dividends				
Opening balance	1.2	9.2	1.2	1.2
Additional dividends provided	229.1	227.8	229.1	221.4
Dividends paid during the year	(229.3)	(235.8)	(229.3)	(221.4)
Closing balance	1.0	1.2	1.0	1.2
Uninsured Losses				
Opening balance	3.1	3.1	2.9	3.1
Additional provisions recognised	0.6	0.3	0.4	-
Amounts utilised during the year	(0.8)	(0.3)	(0.4)	(0.2)
Closing balance	2.9	3.1	2.9	2.9

31. RESET PREFERENCE SHARES

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Reset preference shares - 894,574 fully paid $100 preference shares	89.5	89.5	89.5	89.5
	89.5	89.5	89.5	89.5

Reset preference shares are perpetual, but can be exchanged at the request of the holder or the Company. Dividends are non-cumulative and are payable six-monthly in arrears at the discretion of the directors, based on a dividend rate of the five year mid swap reference rate plus the initial margin multiplied by one less the corporate tax rate.

32. SUBORDINATED DEBT

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Subordinated capital notes	436.9	575.7	361.1	484.9
Maturity analysis				
Not longer than 3 months	38.5	-	38.5	-
Longer than 3 and not longer than 12 months	43.8	124.8	20.2	109.8
Longer than 1 and not longer than 5 years	72.7	155.1	30.5	89.3
Over 5 years	281.9	295.8	271.9	285.8
	436.9	575.7	361.1	484.9

33. ISSUED CAPITAL

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Issued and paid up capital				
Ordinary shares fully paid - 402,233,266 (2011: 367,104,585)	3,681.8	3,408.9	3,681.8	3,408.9
Preference shares of $100 face value fully paid - 900,000 (2011: 900,000 fully paid)	88.5	88.5	88.5	88.5
Step-up preference shares of $100 face value fully paid - 1,000,000 (2011: 1,000,000)	100.0	100.0	100.0	100.0
Employee share ownership plan shares	(21.3)	(24.6)	(21.3)	(24.6)
	3,849.0	3,572.8	3,849.0	3,572.8

Effective 1 July 1998, the corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the parent does not have authorised capital nor par value in respect of its issued shares.
Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Preference share (BPS) dividends are non-cumulative and are payable quarterly in arrears, at the discretion of the directors, based on a dividend rate equal to the sum of the 90 day bank bill rate plus the initial margin multiplied by one minus the company tax rate. It is expected that dividends paid will be fully franked. The BPS are perpetual, but may be redeemed by Bendigo and Adelaide Bank subject to prior approval of APRA.

Step up Preference share (SPS) dividends are non-cumulative and are payable quarterly in arrears, at the discretion of the directors, based on a dividend rate equal to the sum of the 90 day bank bill rate plus the initial margin multiplied by one minus the company tax rate. It is expected that dividends paid will be fully franked. The SPS are perpetual, but may be redeemed by Bendigo and Adelaide Bank subject to prior approval of APRA.

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

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Movement in ordinary shares on issue				
Opening balance 1 July - 367,104,585 (2011: 361,366,745)	3,408.9	3,361.7	3,408.9	3,361.7
Shares issued under:				
Bonus share scheme - 338,041 @ $8.06; 529,211 @ $7.36				
(2011: 301,032 @ $9.19; 266,541 @ $8.95)	-	-	-	-
Dividend reinvestment plan - 5,005,825 @ $8.06; 5,303,252 @ $7.36				
(2011: 2,713,513 @ $9.19; 2,129,521 @ $8.95)	79.3	44.0	79.3	44.0
Institutional placement and entitlement offer - 17,751,480 @ $8.45 (2011: Nil)	150.0	-	150.0	-
Retail entitlement offer - 6,200,872 @ $7.33 (2011: Nil)	45.5	-	45.5	-
Employee share plan - Nil (2011: 327,233 @ $9.78)	-	3.2	-	3.2
Share issue costs	(1.9)	-	(1.9)	-
Closing balance 30 June - 402,233,266 (2011: 367,104,585)	3,681.8	3,408.9	3,681.8	3,408.9
Movements in preference shares on issue				
Opening balance 1 July - 900,000 fully paid (2011: 900,000 fully paid)	88.5	88.5	88.5	88.5
Closing balance 30 June - 900,000 fully paid to $100 (2011: 900,000 fully paid)	88.5	88.5	88.5	88.5
Movements in step up preference shares on issue				
Opening balance 1 July - 1,000,000 (2011: 1,000,000)	100.0	100.0	100.0	100.0
Closing balance 30 June - 1,000,000 fully paid to $100 (2011: 1,000,000)	100.0	100.0	100.0	100.0
Movements in Employee share ownership plan shares				
Opening balance 1 July	(24.6)	(27.7)	(24.6)	(27.7)
Reduction in Employee share ownership plan shares	3.3	3.1	3.3	3.1
Closing balance 30 June	(21.3)	(24.6)	(21.3)	(24.6)
Total issued and paid up capital	3,849.0	3,572.8	3,849.0	3,572.8

34. RETAINED EARNINGS AND RESERVES

	Consolidated		Parent	
RETAINED EARNINGS	**2012**	**2011**	**2012**	**2011**
	$m	**$m**	**$m**	**$m**
Movements				
Opening balance 1 July	349.5	234.5	230.2	186.7
Profit for the year	195.0	342.1	104.6	270.6
Transfer from asset revaluation reserve	-	0.2	-	0.2
Movements in general reserve for credit losses	(17.6)	(6.2)	(12.6)	(6.2)
Dividends	(229.0)	(221.4)	(229.0)	(221.4)
Defined benefits actuarial adjustment	(1.8)	0.3	(1.8)	0.3
Tax effect of defined benefits actuarial adjustment	0.4	-	0.4	-
Balance 30 June	296.5	349.5	91.8	230.2
OTHER RESERVES				
(a) Balances				
Employee benefits reserve	20.2	18.7	20.2	18.0
Asset revaluation reserve - property	3.4	3.4	0.1	0.1
Asset revaluation reserve - available for sale share investments	28.7	34.5	1.8	1.0
Asset revaluation reserve - available for sale debt securities	(1.8)	-	(1.7)	0.1
Cash flow hedge reserve	(86.4)	(109.3)	(54.7)	(68.0)
General reserve for credit losses	128.5	110.9	105.0	92.4
Acquisitions Reserve	(20.4)	(20.4)	-	-
	72.2	37.8	70.7	43.6

(b) Nature, purpose and movements

Employee benefits reserve

(a) Nature and purpose

The employee benefits reserve is used to record the assessed cost of shares issued to non-executive employees under the Employee Share Plan and the assessed cost of options granted to executive employees under the Executive Incentive Plan.

(b) Movements

	2012	2011	2012	2011
Opening balance	18.7	20.3	18.0	17.5
Net increase/(decrease) in reserve	1.5	(1.6)	2.2	0.5
	20.2	18.7	20.2	18.0

Asset revaluation reserve - property

(a) Nature and purpose

The asset revaluation reserve is used to record increments and decrements in the value of non-current assets.

(b) Movements

	2012	2011	2012	2011
Opening balance	3.4	3.6	0.1	0.3
Transfer asset revaluation reserve to retained earnings	-	(0.2)	-	(0.2)
	3.4	3.4	0.1	0.1

Asset revaluation reserve - available for sale share investments

(a) Nature and purpose

The asset revaluation reserve is used to record increments and decrements in the value of non-current assets. The reserve can only be used to pay dividends in limited circumstances.

(b) Movements

	2012	2011	2012	2011
Opening balance	34.5	27.5	1.0	1.7
Transfer asset revaluation reserve to retained earnings (sold assets)	-	(1.0)	-	(1.0)
Net revaluation increments/(decrements)	(9.6)	11.5	(0.1)	0.4
Tax effect of net revaluation increments	3.0	(3.5)	0.1	(0.1)
Tax adjustments relating to prior years	0.8	-	0.8	-
	28.7	34.5	1.8	1.0

Asset revaluation reserve - available for sale debt securities

(a) Nature and purpose

The net unrealised gains reserve is used to record unrealised gains and losses on investments in the available for sale portfolio.

(b) Movements

	2012	2011	2012	2011
Opening balance	-	0.3	0.1	0.2
Net unrealised (losses)	(1.8)	(0.3)	(1.8)	(0.1)
	(1.8)	-	(1.7)	0.1

RETAINED EARNINGS AND RESERVES (continued)

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Cash flow hedge reserve				
(a) Nature and purpose				
The cash flow hedge reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.				
(b) Movements				
Opening balance	(109.3)	(178.7)	(68.0)	(140.0)
Changes due to mark to market	47.0	95.7	34.2	102.0
Changes due to mark to market attributable to non controlling interests	-	(1.3)	-	-
Tax effect of changes due to mark to market	(15.0)	(26.8)	(11.2)	(29.1)
Changes due to transfer to the income statement	(13.0)	2.6	(13.9)	(1.3)
Tax effect of changes due to transfer to the income statement	3.9	(0.8)	4.2	0.4
Transfer of business	-	-	-	-
	(86.4)	(109.3)	(54.7)	(68.0)
General reserve for credit losses				
(a) Nature and purpose				
The general reserve for credit losses records the value of a reserve maintained to recognised credit losses inherent in the group's lending portfolio, but not yet identified. The bank is required to maintain general provisions (includes general reserve for credit losses and collective provision) by APRA at a minimum level of 0.50% (net of tax) of risk-weighted assets.				
(b) Movements				
Opening balance	110.9	104.7	92.4	86.2
Establishment of BOCA GRCL on acquisition	4.8	-	-	-
Increase/(decrease) in general reserve for credit losses	12.8	6.2	12.6	6.2
	128.5	110.9	105.0	92.4
Acquisitions Reserve				
(a) Nature and purpose				
The acquisition reserve is used to record the difference between the carrying value of non-controlling interest and the consideration paid to acquire the remaining interest of the non-controlling interest. The reserve is attributable to the equity of the parent.				
(b) Movements				
Opening balance	(20.4)	-	-	-
Consideration paid in excess of carrying value of non-controlling interest.	-	(20.4)	-	-
	(20.4)	(20.4)	-	-
Total reserves	72.2	37.8	70.7	43.6

35. EMPLOYEE BENEFITS

	Consolidated		Parent	
	2012	**2011**	**2012**	**2011**
	$m	**$m**	**$m**	**$m**
Employee benefits liability				
Provision for annual leave	21.0	20.8	18.9	19.8
Provision for other employee payments	0.6	14.1	-	14.1
Provision for long service leave	40.1	31.7	37.9	30.9
Provision for sick leave bonus	5.2	4.7	5.2	4.7
Aggregate employee benefits liability	66.9	71.3	62.0	69.5

It is anticipated that annual leave provided at balance date will be paid in the ensuing 12 month period.
Other employee payments are expected to be paid in September 2012.
Long service leave is taken with agreement between employee and employer, or on termination of employment.
Sick leave bonus is paid to entitled employees on termination of employment.

36. SHARE BASED PAYMENT PLANS

Salary Sacrifice, Deferred Share and Performance Share Plan (Current)

The Company has established an Employee Salary Sacrifice, Deferred Share and Performance Share Plan (the "Plan"). In 2009 the board approved changes to the Plan rules to enable the Plan to be used as the vehicle for senior executive (including the Managing Director) long term incentive arrangements. The changes provide for grants of Performance Shares to the managing director, other senior executives and senior management (the "Participants") and to include rules to allow the board to set performance conditions and to determine when those performance conditions have been met and the Performance Shares vest.

Under the Plan, the Participants have been granted performance shares subject to performance conditions set by the board. If the performance conditions are satisfied during the relevant performance period, the performance shares will vest. The performance conditions and performance periods for grants under the Plan are set out in the 2012 Remuneration Report. Each performance share represents an entitlement to one fully-paid ordinary share in the company. Accordingly, the maximum number of shares that may be acquired by the Participants is equal to the number of performance shares granted.

Performance shares are granted at no cost to Participants. The Plan rules provide that the board may determine that a price is payable upon exercise of an exercisable performance share. The board has determined that no exercise price will apply to exercisable performance shares.

The number of performance shares granted to Participants is based on the value of each performance share. The assessed fair value of each performance share granted under the Plan are set out in the tables presented at note 37 and prior year remuneration reports.

The Participants are entitled to vote and to receive any dividend, bonus issue, return of capital or other distribution made in respect of shares they are allocated on vesting and exercise of their performance shares. The grants are subject to a dealing restriction. The Participants are not entitled to sell, transfer or otherwise deal with any shares allocated to them until 2 years after the end of the initial performance period.

The first grant was made under the Plan to Participants in December 2009 with subsequent grants made in October 2010, December 2010 and September 2011. The grants were made in accordance with the terms disclosed in the Remuneration Report and were valued and expensed in accordance with applicable accounting requirements. The expense recognised in the income statement in relation to share-based payments is disclosed in note 36.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of and movements in performance shares issued during the year.

	2012 No.	2012 WAEP	2011 No.	2011 WAEP
Outstanding at the beginning of the year	877,560	$0.00	913,263	$0.00
Granted during the year	110,201	$0.00	374,050	$0.00
Forfeited during the year	-	-	-	-
Vested / Exercised during the year	(210,864)	$0.00	(409,753)	$0.00
Expired during the year	(189,567)	-	-	-
Outstanding at the end of the year	587,330	$0.00	877,560	$0.00

The outstanding balance as at 30 June 2012 is represented by 587,330 performance shares over ordinary shares with an exercise price of nil, each exercisable upon meeting the above conditions, and until 2014. The weighted average fair value of performance shares granted during the year was $7.50 (2011: $7.70).

The fair value of the performance shares granted under the Plan takes into account the terms and conditions upon which the performance shares were granted. The fair value is estimated as at the date of grant using the Black-Scholes-Merton Option Pricing Model incorporating a Monte Carlo simulation option pricing model to estimate the probability of achieving the TSR hurdle and the number of shares vesting. The following table lists the inputs to the model used for the years ended 30 June 2011 and 2012.

	2012 Grant	2011 Grant
Dividend yield (%)	6.0%	5.0% and 5.5%
Expected volatility (%)	27.5%	25%
Risk-free interest rate (%)	3.79% to 4.27%	4.82% to 4.95%
Expected life of performance shares (years)	3	2 and 3
Exercise price ($)	Nil	Nil
Fair value share price at grant date ($)	$8.82	$9.16 and $9.95

The expected life of the performance shares is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of shares granted were incorporated into the measurement of fair value.

SHARE BASED PAYMENT PLANS (continued)

Executive Incentive Plan (discontinued)

The Executive Incentive Plan ("Plan") was established in 2006. The Plan provides for grants of options and performance rights ("Instruments") to the Managing Director and other senior executives. Under the Plan, senior executives were granted options and performance rights subject to performance conditions set by the board. If the performance conditions are satisfied during the relevant performance period, the options and performance rights will vest. The Plan has been discontinued and replaced by the new arrangement involving grants of performance shares under the Employee Salary Sacrifice, Deferred Share and Performance Share Plan as described above.

The performance conditions and performance periods for grants under the Plan are set out in the 2012 Remuneration Report. Each option and performance right represents an entitlement to one ordinary share in the company. Accordingly, the maximum number of shares that may be acquired by key executives is equal to the number of options and performance rights issued.

Options and performance rights are granted at no cost to the senior executives. The Plan rules provide that the board may determine that a price is payable upon exercise of an option or exercisable performance right. The exercise price for options will generally be the market price of the shares at the grant date, and no exercise price will apply to exercisable performance rights.

The number of options and performance rights granted to the senior executives is based on the value of each option and performance right. The assessed fair value of each option and each performance right granted under the Plan are set out in prior year remuneration reports.

Senior executives are entitled to vote and to receive any dividend, bonus issue, return of capital or other distribution made in respect of shares they are allocated on vesting and exercise of their performance rights and options, as applicable. The grants are subject to a dealing restriction. Senior executives are not entitled to sell, transfer or otherwise deal with the shares allocated to them until 2 years after the end of the initial performance period.

The last grant made under the Plan to senior executives of the group was in November 2008. The grant was in accordance with the terms disclosed in the 2012 Remuneration Report and the grants made under the Plan were valued and expensed in accordance with applicable accounting requirements.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of and movements in performance options issued during the year.

	2012 No.	2012 WAEP	2011 No.	2011 WAEP
Outstanding at the beginning of the year	905,561	$12.60	1,039,245	$12.54
Granted during the year	-	-	-	-
Forfeited during the year	-	-	(133,684)	$12.16
Vested / Exercised during the year	-	-	-	-
Expired during the year	(905,561)	$12.60	-	-
Outstanding at the end of the year	-	-	905,561	$12.60

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of and movements in performance rights issued during the year.

	2012 No.	2012 WAEP	2011 No.	2011 WAEP
Outstanding at the beginning of the year	87,451	$0.00	166,191	-
Granted during the year	-	-	-	-
Forfeited during the year	-	-	(20,936)	-
Vested / Exercised during the year	-	-	-	-
Expired during the year	(87,451)	$0.00	(57,804)	-
Outstanding at the end of the year	-	-	87,451	-

The outstanding balance of performance options and performance rights as at 30 June 2012 is nil.

The weighted average fair value of rights granted during the year was nil as the Plan was discontinued and no grants were made under the Plan (2011: $0.00). The weighted average fair value of options granted during the year was nil as the Plan was discontinued and no grants were made under the Plan (2011: $0.00).

SHARE BASED PAYMENT PLANS (continued)

The fair value of the performance options and performance rights granted under the Plan takes into account the terms and conditions upon which the options were granted. The fair value is estimated as at the date of grant using the Black-Scholes – Merton Option Pricing Model incorporating a Monte Carlo simulation option pricing model to estimate the probability of achieving the TSR hurdle and the number of options vesting. There have been no grants since 2008.

The expected life of the share rights and options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of shares granted were incorporated into the measurement of fair value.

Employee Share Plan (Current)

The Bank established a new loan-based limited recourse Employee Share Plan ("Plan") in 2006. The Plan is substantially the same as the legacy plan (employee share ownership plan) that was in place from 1995 to 2006. However, the new Plan is only available to general staff. Executives (including the Managing Director) may not participate in it.

Under the terms of the Plan, shares are issued at the prevailing market value. The shares must be paid for by the staff member. The Plan provides staff members with an interest-free loan for the sole purpose of acquiring Plan shares. Net cash dividends after personal income tax obligations are applied to reduce the loan balance and staff cannot deal in the shares until the loan has been repaid. The primary benefit under the terms of the Plan is the financial benefit of the limited recourse interest-free loan.

The first issue to general staff under this plan was completed in September 2006. A grant to **Community Bank**® employees was made in December 2007. There have been no further issues under this Plan.

Share issues under the Plan are valued and expensed in accordance with applicable accounting requirements. The expense recognised in the income statement in relation to share-based payments is disclosed on the following page.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of and movements in Plan shares (including the employee share ownership plan) during the year.

	2012 No.	2012 WAEP	2011 No.	2011 WAEP
Outstanding at the beginning of the year	4,187,187	$5.87	4,340,147	$6.38
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	(503,975)	$6.53	(152,960)	$7.66
Expired during the year	-	-	-	-
Outstanding at the end of the year	3,683,212	$5.78	4,187,187	$5.87
Exercisable at the end of the year	3,683,212	$5.78	4,187,187	$5.87

The outstanding balance as at 30 June 2012 is represented by 3,683,212 ordinary shares with a market value at 30 June 2012 of $7.41 each (value: $27,292,601), exercisable upon repayment of the employee loans.

The acquisition price of shares granted during the year was nil as no new shares have been issued since December 2007. The acquisition price for shares issued under the Plan is calculated using the volume weighted average share price of the company's shares traded on the ASX in the 7 days trading ending one calendar week before the invitation date.
The fair value of the shares granted under the Plan is estimated as at the date of each grant using the Black-Scholes-Merton Option Pricing Model taking into account the terms and conditions upon which the shares were granted. The fair value is determined by independent valuation. The expected life of the share options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of shares granted were incorporated into the measurement of fair value. The exercise price of the shares issued will reduce over time as dividends are applied to repay the staff loans.

SHARE BASED PAYMENT PLANS (continued)

Employee Share Plan (Current) cont'd.

		Consolidated 2012 $m	2011 $m
Recognised share-based payment expenses			
Expense arising from equity settled share-based payment transactions		2.2	4.5
Total expense arising from share-based payment transactions		2.2	4.5
Employee share and loan values and EPS impact (1)			
Employee Share and Loan Values			
Value of unlisted employee shares on issue at 30 June 2012 - 3,683,212 shares @ $7.41 (2011 - 4,187,187 shares @ $8.86)		27.3	37.1
Value of outstanding employee loans at beginning of year relating to employee shares		24.6	27.7
Value of repayments of loans during year		(3.3)	(3.1)
Value of outstanding employee loans at end of year relating to employee shares		21.3	24.6
Number of employees with outstanding loan balances		2,217	2,360
Indicative cost of funding employee loans			
Average balance of loans outstanding		22.6	25.8
Average cost of funds		5.06%	5.25%
After tax indicative cost of funding employee loans		0.8	0.9
Earnings per ordinary share - actual	- cents	48.6	91.5
Earnings per ordinary share - adjusted for interest foregone	- cents	48.8	91.8

The cost of employee interest-free loans is calculated by applying the Company's average cost of funds for the financial year to the average outstanding balance of employee loans for the financial year. This cost is then tax-effected at the company tax rate of 30% (2011: 30%).

Earnings per ordinary share - adjusted is calculated by adding the after tax indicative cost of funding employee loans to profit available for distribution to ordinary shareholders. This adjusted earnings figure is divided by the weighted average number of ordinary shares.

(1) The EPS analysis relates to shares issued under the Company's current and legacy employee share plans.

Share Grant Scheme (Current)

The Company has established a tax-exempt Employee Share Grant Scheme ("ESGS") as the main equity participation platform for general employees. Shareholder approval for future grants under the ESGS was obtained at the 2008 Annual General Meeting. The ESGS is open to all full-time and permanent part-time staff in the group (excluding Directors and Senior Executives) who can elect to acquire fully paid ordinary shares. It is/was intended that grants under the ESGS would be made annually subject to board discretion and having regard to company performance.

Employees will generally be entitled to participate in rights attached to the shares including to receive dividends and to vote at general meetings. The shares are restricted for 3 years unless the employee leaves the Company. The first grant to general employees was made in January 2009 with 764,504 fully paid ordinary shares being issued at $10.78. A second grant to general employees was made in March 2010 with 340,039 fully paid ordinary shares being issued at $10.03 and a third grant to general employees was made in February 2011 with 327,233 fully paid ordinary shares being issued at $9.78. The issue price is the volume weighted average price of the Company's shares traded over the 5 days prior to the issue. The share issues were valued and expensed in accordance with applicable accounting requirements. The expense recognised in the income statement in relation to share-based payments is disclosed on the previous page. As at 30 June 2012 there were 584,946 fully paid ordinary shares held by the Plan Trustee.

SHARE BASED PAYMENT PLANS (continued)

Bendigo and Adelaide Bank Employee Share Ownership Plan (Discontinued)

The Company discontinued in 2006 the existing loan-based Employee Share Ownership Plan ("Plan") that was open to all employees in the group, including the Managing Director and senior executives. The Plan will continue as a legacy plan until such time as the loans provided to fund share purchases under the Plan have been repaid. There have been no issues of shares under this Plan since November 2004. Shares were issued under the Plan at market value. The terms of the Plan are consistent with the Share Ownership Plan described earlier. The Plan provides staff members with an interest-free loan for the sole purpose of acquiring Plan shares. Staff cannot deal in the shares until the loan has been repaid. The primary benefit under the terms of the Plan is the financial benefit of the limited recourse interest-free loan.

The loan will be repayable progressively out of after tax dividends (if any) paid on the shares and the sale of unexercised renounceable rights (if any). A participant is not otherwise obliged to repay all or part of the outstanding loan while he or she is an employee of the Bendigo and Adelaide Bank group. The loan must be fully repaid when a participant ends employment and before the participant can sell, transfer, mortgage or otherwise deal with the shares.

Where a participant's employment ends as result of fraud, dishonesty or other serious issues, that participant will not be given the opportunity to repay their loan and retain their shares. They will also lose entitlement to any proceeds from the sale of their shares. If a participant's employment ends and the participant have not repaid the loan within the time period specified by the board, the Company may sell, transfer or realise the participant's shares and apply those funds to cover the costs of the sale and to repay the loan. If there is a shortfall in repaying the loan once the participant's shares are sold, the Company will not have any further recourse against the participant.

The notional value of the limited recourse interest-free loan provided to the managing director and relevant senior executives under this legacy Plan is disclosed in the remuneration tables that accompany this report. Information on shares issued and loans provided under this Plan have been aggregated into the above table titled "Recognised share-base payment expenses".

37. AUDITOR'S REMUNERATION

	Consolidated		Parent	
	2012	2011	2012	2011
	$	$	$	$
Total fees paid or due and payable to Ernst & Young (Australia) (1)				
Audit and review of financial statements (2)	2,027,396	1,921,760	1,198,039	1,256,299
Audit-related fees				
Regulatory (3)	274,315	476,851	211,665	436,195
Non-regulatory (4)	42,745	11,588	3,399	3,348
Total audit-related fees	317,060	488,439	215,064	439,543
All other fees (5)				
Taxation services	182,334	698,387	162,084	580,861
Other advice	44,805	11,005	44,805	11,005
Total other fees	227,139	709,392	206,889	591,866
Total remuneration of Ernst & Young Australia	2,571,595	3,119,591	1,619,992	2,287,708

(1) Fees exclude goods and services tax

(2) Audit and review of financial statements includes payments for the audit of the financial statements of the group and parent, including controlled entities that are required to prepare financial statements.

(3) Audit-related fees (Regulatory) consist of fees for services required by statute or regulation that are reasonably related to the performance of the audit of the group's financial statements and are traditionally performed by the external auditor. These services include assurance of the group's compliance with APRA and Australian Financial Services Licensing reporting and compliance requirements.

(4) Audit-related (Non-regulatory) consist of fees for assurance and related services not required by statute or regulation but are reasonably related to the performance of the audit or review of the group's financial statements which are traditionally performed by the external auditor. These services include assurance of the group's credit assessments and reviews of the group's acquisition accounting and tax consolidation processes.

(5) All other fees, including taxation services and other advice are incurred under the audit committee's pre-approval policies and procedures, having regard to the auditor's independence requirements of applicable laws, rules and regulations, and assessment that each of the non-audit services provided would not impair the independence of Ernst & Young.

38. KEY MANAGEMENT PERSONNEL

(a) Details of key management personnel for the group and the Company for the 2012 financial year are presented in the 2012 Remuneration Report.

(b) Compensation for key management personnel (being the directors of the Bank and the executives who have the authority and responsibility for planning, directing and controlling the activities of the group) for the 2012 financial year:

	CONSOLIDATED	
	2012	**2011**
	$	**$**
Short-term employee benefits	6,326,223	7,316,447
Post employment benefits	397,624	366,502
Other long-term benefits	73,365	227,988
Termination benefits	-	-
Share-based payment	2,807,549	3,394,418
Total Compensation	**9,604,761**	**11,305,355**

(c) Performance shares granted and vested during the year (Consolidated)

During previous financial years performance shares were granted as equity compensation under the Employee Salary Sacrifice, Deferred Share and Performance Share Plan ("Plan") to certain key management personnel as the long term incentive component. There were no grants to key management personnel during the 2012 financial year.

The Plan provides for grants of performance shares to key executives, including the Managing Director. Under the Plan, eligible executives are granted performance shares subject to performance conditions set by the board. If the performance conditions are satisfied during the relevant performance period, the performance shares will vest.

Each performance share represents an entitlement to one ordinary share in the company. Accordingly, the maximum number of shares that may be acquired by the key executives is equal to the number of performance shares granted.

Performance shares are granted at no cost to the key executives. The exercise price that applies to exercisable performance rights is nil.

The number of performance shares granted to the Managing Director and key executives have been based on the value of each option and performance right calculated using the recognised Black–Scholes-Merton valuation methodology. The assessed fair value of each performance share granted under the Plan is set out in the tables below. The grants are subject to a dealing restriction. Executives are not entitled to sell, transfer or otherwise deal with the shares allocated to them until 2 years after the end of the initial performance period.

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

Further details of the Plan are set out in the 2012 Remuneration Report.

KEY MANAGEMENT PERSONNEL (continued)

Performance Shares

There were no grants of performance shares to senior executives during or subsequent to the financial year ended 30 June 2012. The movement in performance shares granted by the Company is presented in the following table.

30 June 2012	Balance at 1-Jul-11	Granted as Remun-eration	Performance Shares Vested	Net Change Other (Expired)	Balance at 30-Jun-12	Total	Exercisable	Not Exercisable
Current Executives								
M Hirst	493,328	-	(76,219)	-	417,109	-	-	417,109
M Baker	51,793	-	(21,245)	(30,548)	-	-	-	-
D Bice	27,318	-	(11,108)	(16,210)	-	-	-	-
J Billington	31,032	-	(13,205)	(17,827)	-	-	-	-
R Fennell	50,610	-	(20,841)	(29,769)	-	-	-	-
R Jenkins	51,793	-	(21,245)	(30,548)	-	-	-	-
T Piper	37,898	-	(15,610)	(22,288)	-	-	-	-
S Thredgold	21,157	-	(9,003)	(12,154)	-	-	-	-
A Watts	31,737	-	(13,505)	(18,232)	-	-	-	-
Total	**796,666**	**-**	**(201,981)**	**(177,576)**	**417,109**	**-**	**-**	**417,109**

30 June 2011	Balance at 1-Jul-10	Granted as Remun-eration	Performance Shares Vested	Net Change Other	Balance at 30-Jun-11	Total	Exercisable	Not Exercisable
Current Executives								
M Hirst	636,430	-	(143,102)	-	493,328	493,328	-	493,328
M Baker	66,307	24,008	(38,522)	-	51,793	51,793	-	51,793
D Bice	43,100	4,800	(20,582)	-	27,318	27,318	-	27,318
J Billington	-	52,820	(21,788)		31,032	31,032		31,032
R Fennell	58,020	30,012	(37,422)	-	50,610	50,610	-	50,610
R Jenkins	66,307	24,008	(38,522)	-	51,793	51,793	-	51,793
T Piper	43,100	22,808	(28,010)	-	37,898	37,898	-	37,898
S Thredgold	-	36,012	(14,855)	-	21,157	21,157	-	21,157
A Watts	-	54,020	(22,283)	-	31,737	31,737	-	31,737
Total	**913,264**	**248,488**	**(365,086)**	**-**	**796,666**	**796,666**	**-**	**796,666**

KEY MANAGEMENT PERSONNEL (continued)

Performance Options FY 2012

There were no grants of options during or subsequent to the financial year ended 30 June 2012 and no shares were issued on the exercise of vested options. The movement in performance options granted by the Company is presented in the following table.

30 June 2012	Balance 1-Jul-11	Granted as Remun-eration	Options Exercised	Net Change Other (Expired)	Balance 30-Jun-12	Total	Exercisable	Not Exercisable
Current Executives								
M Hirst	204,261	-	-	(204,261)	-	-	-	-
M Baker	78,898	-	-	(78,898)	-	-	-	-
R Fennell	47,445	-	-	(47,445)	-	-	-	-
R Jenkins	88,462	-	-	(88,462)	-	-	-	-
T Piper	47,445	-	-	(47,445)	-	-	-	-
A Watts	71,373	-	-	(71,373)	-	-	-	-
Total	**537,884**	**-**	**-**	**(537,884)**	**-**	**-**	**-**	**-**

Performance Options FY 2011

There were no grants of options during or subsequent to the financial year ended 30 June 2011 and no shares were issued on the exercise of vested options. The movement in performance options granted by the Company is presented in the following table.

30 June 2011	Balance 1-Jul-10	Granted as Remun-eration	Options Exercised	Net Change Other	Balance 30-Jun-11	Total	Exercisable	Not Exercisable
Current Executives								
M Hirst	204,261	-	-	-	204,261	204,261	-	204,261
M Baker	78,898	-	-	-	78,898	78,898	-	78,898
R Fennell	47,445	-	-	-	47,445	47,445	-	47,445
R Jenkins	88,462	-	-	-	88,462	88,462	-	88,462
T Piper	47,445	-	-	-	47,445	47,445	-	47,445
A Watts	71,373	-	-	-	71,373	71,373	-	71,373
Total	**537,884**	**-**	**-**	**-**	**537,884**	**537,884**	**-**	**537,884**

KEY MANAGEMENT PERSONNEL (continued)

Performance Rights FY 2012

There were no grants of performance rights during or subsequent to the financial year ended 30 June 2012 and no shares were issued on the exercise of vested performance rights. The movement in performance rights granted by the Company is presented in the following table.

30 June 2012	Balance at 1-Jul-11	Granted as Remun-eration	Rights Vested / Exercised	Net Change Other (Expired)	Balance at 30-Jun-12	Total	Exercisable	Not Exercisable
Current Executives								
M Hirst	24,141	-	-	(24,141)	-	-	-	-
M Baker	7,515	-	-	(7,515)	-	-	-	-
R Fennell	6,989	-	-	(6,989)	-	-	-	-
R Jenkins	8,499	-	-	(8,499)	-	-	-	-
T Piper	6,989	-	-	(6,989)	-	-	-	-
A Watts	7,398	-	-	(7,398)	-	-	-	-
Total	**61,531**	**-**	**-**	**(61,531)**	**-**	**-**	**-**	**-**

Performance Rights FY 2011

There were no grants of performance rights during or subsequent to the financial year ended 30 June 2011 and no shares were issued on the exercise of vested performance rights. The movement in performance rights granted by the Company is presented in the following table.

30 June 2011	Balance 1-Jul-10	Granted as Remun-eration	Rights Vested / exercised	Net Change Other	Balance 30-Jun-11	Total	Exercisable	Not Exercisable
Current Executives								
M Hirst	31,625	-	-	(7,484)	24,141	24,141	-	24,141
M Baker	12,682	-	-	(5,167)	7,515	7,515	-	7,515
R Fennell	6,989	-	-	-	6,989	6,989	-	6,989
R Jenkins	14,201	-	-	(5,702)	8,499	8,499	-	8,499
T Piper	6,989	-	-	-	6,989	6,989	-	6,989
A Watts	11,318	-	-	(3,920)	7,398	7,398	-	7,398
Total	**83,804**	**-**	**-**	**(22,273)**	**61,531**	**61,531**	**-**	**61,531**

KEY MANAGEMENT PERSONNEL (continued)

(d) Shareholdings of directors and named executives (including their related parties) in the Company:

Name	Balance 1 July 2011			Net Change			Balance 30 June 2012		
	Ordinary shares	Employee shares	Pref Shares	Ordinary shares	Employee shares	Pref Shares	Ordinary shares	Employee shares	Pref Shares
Non-Executive Directors									
R Johanson	333,604	-	1,000	3,803	-	-	337,407	-	1,000
J Dawson	28,199	-	100	5,245	-	-	33,444	-	100
J Hazel	10,659	-	-	1,803	-	-	12,462	-	-
J Hey	-	-	-	3,114	-	-	3,114	-	-
D Matthews	6,925	-	-	370	-	-	7,295	-	-
T O'Dwyer	73,575	-	-	955	-	-	74,530	-	-
D Radford	1,900	-	-	-	-	-	1,900	-	-
A Robinson	5,966	-	-	955	-	-	6,921	-	-
Current Executives									
M Hirst	9,913	325,006	-	1,743	105,036	-	11,656	430,042	-
M Baker	23,205	120,620	500	6,020	19,978	-	29,225	140,598	500
D Bice	-	66,795	-	3,980	8,286	-	3,980	75,081	-
J Billington	-	21,788	-	-	13,795	-	-	35,583	-
R Fennell	-	61,910	-	-	22,651	-	-	84,561	-
R Jenkins	20,232	134,780	-	9,880	13,318	-	30,112	148,098	-
T Piper	-	46,562	-	-	16,959	-	-	63,521	-
S Thredgold	3,717	15,204	-	250	9,155	-	3,967	24,359	-
A Watts	3,387	41,852	-	3,040	11,068	-	6,427	52,920	-
Total	**521,282**	**834,517**	**1,600**	**41,158**	**220,246**	**-**	**562,440**	**1,054,763**	**1,600**

Name	Balance 1 July 2010			Net Change			Balance 30 June 2011		
	Ordinary shares	Employee shares	Pref Shares	Ordinary shares	Employee shares	Pref Shares	Ordinary shares	Employee shares	Pref Shares
Non-Executive Directors									
R Johanson	339,951	-	1,000	(6,347)	-	-	333,604	-	1,000
K Abrahamson	19,284	-	309	-	-	-	19,284	-	309
J Dawson	26,422	-	100	1,777	-	-	28,199	-	100
J Hazel	5,145	-	-	5,514	-	-	10,659	-	-
D Matthews	1,540	-	-	5,385	-	-	6,925	-	-
T O'Dwyer	68,575	-	-	5,000	-	-	73,575	-	-
D Radford	1,900	-	-	-	-	-	1,900	-	-
A Robinson	5,966	-	-	-	-	-	5,966	-	-
Current Executives									
M Hirst	9,288	175,761	-	625	149,245	-	9,913	325,006	-
M Baker	21,742	80,871	500	1,463	39,749	-	23,205	120,620	500
D Bice	3,347	45,165	-	(3,347)	21,630	-	-	66,795	-
J Billington	-	-	-	-	21,788	-	-	21,788	-
R Fennell	-	23,414	-	-	38,496	-	-	61,910	-
R Jenkins	38,960	95,031	-	(18,728)	39,749	-	20,232	134,780	-
T Piper	-	17,754	-	-	28,808	-	-	46,562	-
S Thredgold	3,717	349	-	-	14,855	-	3,717	15,204	-
A Watts	3,387	19,569	-	-	22,283	-	3,387	41,852	-
Total	**549,224**	**457,914**	**1,909**	**(8,658)**	**376,603**	**-**	**540,566**	**834,517**	**1,909**

All equity transactions with key management personnel have been entered into under terms and conditions no more favorable than those the entity would have adopted if dealing at arm's length other than shares issued under the Employee Share Ownership Plan. Issues of shares under the Employee Share Plan are made under conditions disclosed in Note 37.

(e) Loans to directors and named executives (including their related parties)

(i) Details of aggregates of loans to directors and named executives (including their related parties) are as follows:

	Balance at beginning of period	Interest charged	Interest not charged	Write-off	Balance at end of period	Number at 30 June 2012
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	
Directors[1]						
2012 [2]	3,240	205	-	-	1,975	5
2011 [2]	2,989	237	-	-	3,240	5
Executives[1]						
2012 [2]	4,451	268	35	-	4,405	7
2011 [2]	3,821	212	42	-	4,451	8
Total directors and executives						
2012 [2]	7,691	473	35	-	6,380	12
2011 [2]	6,810	449	42	-	7,691	13

1 Balances include interest-free loans provided to the Managing Director and Senior Executives in connection with share issues under employee share plans as described at Note 36.

2 Opening balances have been adjusted to include loans to directors and senior executives appointed during the year and to exclude directors and senior executives who ceased during the year.

KEY MANAGEMENT PERSONNEL (continued)

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

	Balance at beginning of period	Interest charged	Interest not charged	Write-off	Balance at end of period	Highest owing in period
	$'000	$'000	$'000	$'000	$'000	$'000
Directors						
R Johanson	1,576	98	-	-	504	1673
J Dawson	438	31	-	-	405	462
D Radford	250	6	-	-	54	270
T Robinson	500	32	-	-	500	503
D Matthews	476	38	-	-	512	534
Current Executives						
M Hirst						
Staff share loan	229	-	11	-	206	229
Loans	44	9	-	-	137	163
M Baker						
Staff share loan	184	-	9	-	159	184
Loans	85	4	-	-	43	85
D Bice						
Staff share loan	87	-	4	-	74	87
Loans	481	43	-	-	477	720
R Fennell						
Loans	463	34	-	-	464	499
R Jenkins						
Staff share loan	190	-	9	-	159	190
Loans	2,337	149	-	-	2,066	2,379
S Thredgold						
Loans	274	27	-	-	560	833
A Watts						
Staff share loan	44	-	2	-	35	44
Loans	33	2	-	-	25	38

Terms and conditions of director and senior executive loans

The loans to directors and senior executives are made in the ordinary course of the company's business and on an arms length basis. The loans are processed and approved in accordance with the Bank's standing lending processes and prevailing terms and conditions.

Terms and conditions of the loans under Employee Share Ownership Plan

Loans have been provided to senior executives under the terms of the Bank's legacy Employee Share Ownership Plan ("Plan"*)*. Details of the Plan's terms and conditions are provided at Note 36 to the financial statements.

(f) Other transactions of directors and director related entities

Mr R Johanson is a director of the Grant Samuel Group, which provided professional advisory services to Bendigo and Adelaide Bank Ltd based on normal commercial terms and conditions. A protocol, approved by the board, has been established for the engagement of Grant Samuel by the Bank which includes arrangements for dealing with conflicts of interest. The services are provided in accordance with scheduled fee rates which were discussed and approved by the board in the absence of Mr Johanson.

The services provided during the 2012 financial year related to the Australia Post and Rural Bank distribution arrangement, the Company's strategy for the Great Southern managed investment schemes and the Bank's Adelaide long term accommodation project. The amount paid or payable for the year was $273,322 (excluding GST) (2011: $1,856,357).

39. RELATED PARTY DISCLOSURES

Ultimate Parent Entity

Bendigo and Adelaide Bank Limited is the ultimate parent entity.

Wholly owned group transactions

Bendigo and Adelaide Bank Limited is the parent entity of all entities listed in Note 20 - Particulars in relation to controlled entities. Transactions undertaken during the financial year with those entities are eliminated in the consolidated financial report. The transactions principally arise from the provision of administrative, distribution, corporate and general banking services.

Additionally, Bendigo and Adelaide Bank pays operating costs and banks receipts on behalf of certain controlled entities which are financed via unsecured interest free intercompany loans. The loans have no fixed repayment date. Amounts due from and due to controlled entities at balance date are shown in the balance sheet. The balance of these inter-company loans is included in the net amount owing to/(from) subsidiaries column of the table below.

Interest received or receivable from and paid or payable to controlled entities and dividends received and receivable from controlled entities is disclosed in Note 4 - Profit and is included in the table on the next page.

RELATED PARTY DISCLOSURES (continued)

All material transactions excluding dividends, between Bendigo and Adelaide Bank and its subsidiaries during the period were as follows:

		Net receipts and fees (paid to)/ received from subsidiaries $m	Supplies, fixed assets and services charged to subsidiaries $m	Net amount owing to/(from) subsidiaries at 30 June $m
Bendigo Finance Pty Ltd	2012	0.2	-	(1.1)
	2011	(0.1)	-	(1.3)
Tasmanian Banking Services Limited	2012	-	-	-
	2011	2.1	-	-
National Mortgage Market Corporation Limited	2012	0.6	-	11.0
	2011	0.5	0.1	10.4
Fountain Plaza Pty Ltd	2012	-	-	-
	2011	(1.4)	-	-
Victorian Securities Corporation Limited	2012	(9.6)	3.5	(4.3)
	2011	4.0	2.8	8.8
Bendigo Financial Planning Limited	2012	7.8	13.1	(7.0)
	2011	11.5	10.8	(1.7)
Rural Bank Limited	2012	2.0	10.0	(14.9)
	2011	1.7	9.1	(6.9)
Community Developments Australia Pty Ltd	2012	1.3	0.8	(9.5)
	2011	1.8	1.7	(10.0)
Community Exchanges Australia Pty Ltd	2012	0.6	-	-
	2011	0.1	-	(0.6)
Sandhurst Trustees Limited	2012	16.7	10.3	(60.0)
	2011	18.2	10.4	(66.4)
Oxford Funding Pty Ltd	2012	(1.9)	-	-
	2011	-	-	1.9
Bank of Cyprus Australia Ltd	2012	(8.9)	-	(8.9)
	2011	-	-	-
Adelaide Equity Finance Pty Ltd	2012	29.3	-	(300.0)
	2011	(342.7)	3.5	(329.3)
Leveraged Equities	2012	1,106.5	15.9	(520.8)
	2011	(626.7)	18.7	(1,611.4)
Co-op Member Services Pty Ltd	2012	-	-	(1.2)
	2011	(23.8)	-	(1.2)
Hindmarsh Financial Service Pty Ltd	2012	-	-	(1.4)
	2011	-	-	(1.4)
AB Management Pty Ltd	2012	2.5	-	14.4
	2011	2.1	-	11.9
Adelaide Managed Funds Limited	2012	1.8	0.3	1.2
	2011	1.0	0.8	(0.3)
Hindmarsh Adelaide Property Trust	2012	0.1	0.1	(4.9)
	2011	-	-	(4.9)
Homesafe Trust	2012	-	-	(287.4)
	2011	-	-	(241.6)
Pirie St Nominees Pty Ltd	2012	(10.3)	-	(10.2)
	2011	0.1	-	0.1

Dividends paid by subsidiaries are disclosed in the table below.

Bendigo and Adelaide Bank provides funding and guarantee facilities to several subsidiary companies as detailed in the following table. The balance outstanding on these facilities is included in the net amount owing to/(from) subsidiaries in the above table.

All funding and guarantee facilities are provided to subsidiary companies on normal commercial terms and conditions.

RELATED PARTY DISCLOSURES (continued)

Several subsidiary companies have bank accounts and investment funds held with Bendigo and Adelaide Bank Limited under normal terms and conditions. These balances are included in the amount owing to/(from) subsidiaries in the above table.

Subsidiary	Facility	Limit $m	Drawn/issued at 30 June 2012 $m
Sandhurst Trustees Limited	Standby	20.0	-
	Guarantee	0.2	-
Bendigo Financial Planning Limited	Guarantee	-	-
Community Energy Australia Pty Ltd	Overdraft	0.4	-
Community Solutions Australia Pty Ltd	Overdraft	0.8	-
	Guarantee	-	-

Guarantees disclosed in the above table with a zero limit are less than $0.1 million.
All funding and guarantee facilities are provided to subsidiary companies on normal commercial terms and conditions.

Several subsidiary companies have bank accounts and investment funds held with Bendigo and Adelaide Bank Limited under normal terms and conditions. These balances are included in the amount owing to/(from) subsidiaries in the above table.

The following dividends received by Bendigo and Adelaide Bank Limited from subsidiary companies are included in the above table:

		$m
AB Investment Services Pty Ltd	2012	-
	2011	0.5
ABL Advisory Services Pty Ltd	2012	-
	2011	0.3
ABL Securities Pty Ltd	2012	-
	2011	16.3
Sandhurst Trustees Limited	2012	-
	2011	14.1
Victorian Securities Corporation Limited	2012	4.7
	2011	-
Rural Bank Limited	2012	-
	2011	9.6
Oxford Funding	2012	2.1
	2011	-
Tasmanian Banking Services Limited	2012	-
	2011	0.6
Fountain Plaza Pty Ltd	2012	-
	2011	3.3

During the year there were no other material transactions between subsidiary companies.

RELATED PARTY DISCLOSURES (continued)

Other related party transactions

Securitised and sold loans

The bank securitised loans totalling $1,556.9 million (2011: $4,755.7 million) during the financial year. The consolidated group does invest in some of its own securitisation programs where the Bank holds A & B notes equivalent to $5,719.4 million as at 30 June 2012 (2011: $6,586.3 million). The Bank does invest in other securitisation programs unrelated to the Bank as part of normal investment activities.

Joint venture entities

Bendigo and Adelaide Bank Limited has investments in joint venture entities as disclosed in Note 21 - Investments in joint ventures using the equity method. The group has transactions with the joint venture entities, principally relating to commissions received and paid, services and supplies procured from joint ventures and fees charged in relation to the provision of banking, administrative and corporate services. These revenue and expense items are included in the relevant values disclosed in Note 4 - Profit. The transactions are conducted on terms and conditions no more favourable than those which it is reasonable to expect would have been adopted if dealing with the joint venture entities at arm's length in the same circumstances.

During the financial year, transactions took place between the Bendigo and Adelaide Bank group and joint venture entities as follows:

		Commissions and fees paid to joint ventures	Supplies and services provided to joint ventures	Amount owing to/(from) joint ventures at 30 June
		$m	$m	$m
Homesafe Solutions Pty Ltd	2012	4.9	-	-
	2011	6.3	-	-
Community Sector Enterprises Pty Ltd	2012	7.3	1.5	0.1
	2011	6.2	3.8	0.2
Silver Body Corporate Financial Services Pty Ltd	2012	1.0	0.6	-
	2011	1.1	0.5	0.1
Strategic Payments Services Pty Ltd	2012	11.6	-	-
	2011	10.3	-	-
Community Telco Australia Pty Ltd	2012	0.2	-	0.7
	2011	0.3	-	0.2

Dividends received and receivable from joint venture entities are disclosed in Note 4 – Profit.

Bendigo and Adelaide Bank Limited provides loans, guarantees and/or overdraft facilities to joint venture companies in connection with cash flow management, and the payment of administration costs on behalf of the joint venture companies. The loans have agreed repayment terms which vary according to the nature of the facility. These loans are included in the net amount owing to/(from) joint ventures in the above table.

40. RISK MANAGEMENT

RISK OVERSIGHT

The management of risk is an essential element of the group's strategy, profitability management and is central to the way the group operates.

The board, being ultimately responsible for risk management associated with the group's activities, has established a risk appetite statement which is supported by an integrated governance and accountability framework, policies and controls to identify, assess, monitor and manage risk.

In addition to strategic and reputation risk the material business risks relating to the group can be categorised as: credit, market (including interest rate and currency), liquidity, and operational risk (includes compliance, contagion, environment/sustainability risks).

The risk management strategy is based upon managing the Bank's risks within the limits and tolerances detailed in the Company's risk appetite statement and is underpinned by a system of delegations, passing from the board through board committees, the managing director ("MD"), management committees to the various risk, support and business units of the group.

An essential element of the risk framework is the risk culture of the group. Management of risk is the responsibility of the business units of the group. Embedded in the group's culture are the values of all staff doing the right thing, taking responsibility for managing risks inherent in their role and engaging with the group's stakeholders including the broader community to deliver a sustainable business proposition for all. The group's risk management culture is also demonstrated by many aspects of management of the group, including:

- Risk is managed both top down and bottom up.
- Risk management is embedded in strategy, planning, policy (including remuneration) and procedures.
- An ability to identify opportunities, strive for quality and efficiency and minimise losses.
- Maintaining risk competencies especially for key roles.
- Regular discussion on risk at the business unit level.
- Acting promptly to manage risks and events whether internal or external.
- The existence of a close working relationship/partnership between the business and risk functions and acceptance of a "healthy tension" between the functions.

Board Responsibilities

In accordance with the board charter, the board principally through the audit, credit, risk, change framework and technology governance and governance & HR committees oversees the establishment, implementation, review and monitoring of risk management systems and policies, taking into account the risk appetite of the group, the overall business strategy, management expertise and the external environment. This includes approving risk limits and risk policies.

Board Committee Responsibilities

The board has approved policies that support the implementation of a risk oversight and management framework for the group. These policies are overseen by the board committees with each committee operating under a board approved charter that is reviewed annually.

Each committee has established Terms of Reference that describes the relevant responsibilities in respect to oversight and monitoring of board-approved risk management policies.

The committees evaluate developments in respect to the group's structure and operations, as well as economic, industry and market developments that may impact the group's management of risk.

Executive Responsibilities

On a day to day basis each executive, management and staff are responsible for carrying out their roles in a way that manages risk in line with policies and procedures.

Whilst the board has responsibility for approving the group's appetite for risk, the MD and other executive committee members are responsible for developing strategies and business plans commensurate with that risk appetite.

The executive committee has responsibility for ensuring that the board approved strategies and decisions are appropriately implemented as well as managing and monitoring the day to day activities of the group including the management of risk and consideration of emerging risks and opportunities.

The executive has a number of committees that assists the executive consider risk management matters including the asset liability management committee, management credit committee and the operational risk committee.

RISK MANAGEMENT (continued)

Independent Review

Group assurance (Internal audit)

The group assurance function operates under a charter and annual audit plan approved by the board audit committee. The board, on recommendation of the board audit committee, approves the appointment of the head of group assurance. The committee receives reports at each meeting in respect to the outcomes and status of the internal bank assurance plan. The independent group assurance function audits all functions across the group including the effectiveness of the group's risk management and internal compliance and control systems, in line with the bank assurance plan and has direct access to the board through the board audit committee.

Group risk

Group risk is an independent function of the group strategy and, providing the frameworks, policies and procedures to assist the group in managing credit and operational risk in line with the risk appetite set by the board.

The group credit risk function is responsible for reviewing portfolio credit quality, policy development and promulgation, credit policy compliance, the assessment of large/maximum credit and manages the performance of the credit management system at the group level.

The group operational risk function is responsible for providing the frameworks, tools and support to assist the business in the management of its operational risk (including regulatory compliance, business continuity, financial crimes and dealings through its partners).

The group insurance function develops an insurance strategy and program for "insurable risk" which is approved by the board risk committee

The group risk function has direct access to the board through the board credit and risk committees.

Middle office

A middle office function has been established within Finance and Treasury that is responsible for monitoring market risk and Treasury policy compliance (including adherence to tolerance limits). Middle office reports to the chief financial officer and has direct access to the asset liability management committee and in turn the board risk committee.

MD and CFO Assurance

As part of the statutory reporting arrangements for the group, the managing director (MD) and chief financial officer (CFO), provide a written declaration to the board that:

- The group's financial statements present a true and fair view, in all material respects, of the group's financial position and performance, are in accordance with the Corporations Act and comply with the Corporations Regulations 2001 and comply with accounting standards.
- The financial records of the group for the financial year have been properly maintained in accordance with Section 286 of the *Corporations Act 2001*.
- The above statements regarding the integrity of the financial reports are founded on a sound system of risk management and internal control and that the systems, including those relating to business continuity, are operating effectively in all material respects in relation to financial reporting risks.
- Any other matters that are prescribed by the Corporations Act regulations as they relate to the financial statements and notes to the financial statements are met.

To provide this assurance a formal due diligence and verification process, including attestations from management, is conducted. This assurance is provided each six months in conjunction with the 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.

In addition a description of the systems and policies employed to manage the key risks to which the Bank and group is exposed is provided to APRA. The MD confirms annually the integrity of these descriptions to APRA with the endorsement of the board.

RISK PRINCIPLES

Overview

The group's Risk Management Principles and Systems Description document summarises the risk management control framework of the group. These principles are approved by the board and may be amended with endorsement of the board. Specific details and responsibilities for managing each category of risk are contained in the relevant policy statements, frameworks and procedural manuals.

The risk principles are summarised below.

Risk management strategy

A structured framework has been established to ensure that the risk management objectives are linked to the group's business strategy and operations. The risk management strategy is underpinned by an integrated framework of responsibilities and functions driven from board level down to operational levels, covering all aspects of risk, most notably market, credit, liquidity, operational (includes compliance, contagion and environmental), strategic, reputation and emerging risks.

The framework recognises the governance structure and risk management framework referred to above.

RISK MANAGEMENT (continued)

Risk limits

Risk limits for market risk, credit risk and capital at risk are set and monitored by the appropriate management committees within the risk appetite approved by the board.

The management of operational risk is performed using qualitative self assessment and the group has defined general parameters to manage the group-wide operational risk profile to comply with the approved risk appetite and tolerances.

Limits (which may be in the form of net interest income, net profit before or after tax, retained earnings, market value of equity or other key performance indicators) are based upon the level of capital the board is willing to place at risk. Limits are calculated by aggregating quantifiable measures of market, credit and operational risk.

Prior to approval by the board, limits are formally reviewed on a regular basis by the appropriate management and board committees, who consider changes in market conditions, strategy or risk appetite. The limits are set and reviewed regularly by the asset liability management committee ("ALMAC"), management credit committee and executive committee. They align with the financial forecast and planning cycle take into account historic and projected risk-adjusted performance and are independently monitored.

Risk management measurement reporting and control

Effective measurement, reporting and control of risk is vital to manage the group's business activities in accordance with overall strategic and risk management objectives. The risk management, reporting and control framework requires the quantification of market, credit and liquidity risk, the capability to aggregate and monitor exposures, a comprehensive set of limits to ensure that exposures remain within the approved risk appetite, and a mechanism for evaluating performance on a risk-adjusted basis. The management of operational risk is based on a documented policy and framework. The board has defined general parameters to manage the group-wide operational risk profile to comply with the approved risk appetite and tolerances which considers both downside risk and opportunities.

Internal controls

The risk management framework requires robust internal controls across all aspects of the business as well as strong support functions covering legal, regulatory, governance, reputation, finance, information technology, human resources and strategy. Consequently the effectiveness and efficiency of controls is evaluated in all new and amended products, processes and systems or where external and internal factors impact the operating environment (e.g. changes in organisation structure, growth, new regulation).

Risk management systems

Accurate, reliable and timely information is vital to support decisions regarding risk management at all levels. The requirements span a diverse range of risk functionality including market and credit risk analysis systems, financial forecasting, strategic planning, asset and liability management, performance measurement, operational risk and regulatory reporting, as well as trading and trade processing systems and those systems supporting our staff.

Data reconciliation is established to provide for the integrity of the information used and appropriate security controls around all systems. Back-up and recovery procedures are defined and business continuity plans approved and communicated to promote resilience and minimise the impact of an incident.

The group maintains and implements specific policies and procedures to measure, monitor, manage and report on the material and emerging risks to which the group is exposed. Each policy contains requirements to be met for review and approval.

MATERIAL RISKS

Overview

The risk management framework of the group is structured upon:

- Core Risk Principles – overriding principles governing all activities and risk monitoring procedures; and
- Specific Risk Policies – appropriate policies, framework documents, procedures and processes implemented to manage specific risks to which the group is exposed.

The board, and industry regulators, have identified the material risks to which the group is exposed as being credit, market (including interest rate and currency), liquidity and operational risk. Specific risk management structures have been established by the group to manage these and other risks (e.g. reputation, emerging, strategic, contagion and sustainability).

The material risks are described below.

RISK MANAGEMENT (continued)

Credit risk

Credit risk is the potential that the group will suffer a financial loss due to the unwillingness or inability of counterparties to fully meet their contractual debts and obligations.

The board credit committee is responsible for monitoring adherence to credit policies, practices and procedures within the group. The board has established levels of delegated lending authority under which various levels of management (including the management credit committee), partners and the board credit committee can approve transactions.

Group credit risk has responsibility for:

- Managing, maintaining and enhancing the currency and relevance of the group's credit policies;
- Providing support and analysis of credit portfolio information for credit management purposes;
- Reporting to the management credit committee and the board credit committee and
- Jointly approving larger transactions that are not required to be submitted to the management credit committee for approval.

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

Gross maximum exposure	Consolidated		Parent	
	2012	2011	2012	2011
	$ m	$ m	$ m	$ m
Cash and cash equivalents	288.8	469.0	175.8	346.7
Due from other financial institutions	272.2	201.6	266.3	200.9
Financial assets held for trading	4,366.1	4,331.7	4,367.0	4,332.7
Financial assets available for sale - debt securities	444.8	452.1	1,594.6	2,334.7
Financial assets held to maturity	388.4	380.3	1.8	69.7
Other assets	509.7	417.0	852.8	828.3
Financial assets available for sale - share investments	124.7	123.4	4.1	3.5
Derivatives	48.5	9.3	547.3	42.2
Shares in controlled entities	-	-	604.1	489.3
Amounts receivable from controlled entities	-	-	1,090.8	1,587.2
Loans and other receivables - investment	453.0	471.2	453.0	471.2
Gross loans and other receivables	48,379.0	46,092.6	41,455.1	39,351.5
	55,275.2	52,948.2	51,412.7	50,057.9
Contingent liabilities	235.9	177.3	223.4	174.3
Commitments	4,611.8	4,505.6	4,319.1	4,415.6
	4,847.7	4,682.9	4,542.5	4,589.9
Total credit risk exposure	60,122.9	57,631.1	55,955.2	54,647.8

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.
The effect of collateral and other risk mitigation techniques is shown in the Ageing table within this note.

Concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as at 30 June 2012 was $652.6 million (2011: $685.6 million) before taking account of collateral or other credit enhancements and $652.6 million (2011: $685.6 million) net of such protection.

Geographic
The group's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographic regions:

Gross maximum exposure	Consolidated		Parent	
	2012	2011	2012	2011
	$ m	$ m	$ m	$ m
Victoria	22,347.6	20,326.1	23,395.7	22,985.2
New South Wales	12,835.2	13,026.0	10,894.3	10,803.5
Australian Capital Territory	823.2	635.5	784.1	629.7
Queensland	9,697.2	9,641.2	8,278.6	8,102.3
South Australia/Northern Territory	6,870.4	6,779.0	6,390.9	6,397.3
Western Australia	6,055.9	4,789.8	4,838.9	4,235.2
Tasmania	1,124.0	1,962.4	1,019.8	1,087.3
Overseas/other	369.4	471.1	352.9	407.3
Total credit risk exposure	60,122.9	57,631.1	55,955.2	54,647.8

RISK MANAGEMENT (continued)

Industry sector

An industry sector analysis of the group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

Industry Concentration	Consolidated		Parent	
	Gross maximum exposure 2012 $ m	Gross maximum exposure 2011 $ m	Gross maximum exposure 2012 $ m	Gross maximum exposure 2011 $ m
Accommodation and food services	644.6	644.6	642.9	530.3
Administrative and support services	310.1	321.4	310.1	217.8
Agriculture, forestry and fishing	4,913.8	4,937.6	1,467.2	1,295.4
Arts and recreation services	199.8	195.6	191.7	150.7
Construction	2,307.2	2,262.1	2,213.1	1,622.9
Education and training	411.4	417.1	411.4	240.7
Electricity, gas, water and waste services	208.9	213.5	208.9	130.2
Financial and insurance services	1,430.6	1,238.0	1,428.2	1,135.7
Financial services	6,288.8	6,199.1	9,429.2	10,150.2
Health care and social assistance	1,083.3	1,088.5	1,082.4	814.3
Information media and telecommunications	185.1	190.8	191.3	130.5
Manufacturing	927.5	902.7	897.4	584.5
Margin Lending	2,333.2	3,202.2	-	-
Mining	240.9	245.4	240.9	153.8
Other	176.7	160.9	126.6	102.2
Other Services	673.1	739.6	673.1	622.3
Professional, scientific and technical services	833.5	825.5	833.0	623.0
Public administration and safety	584.2	655.9	583.6	443.0
Rental, hiring and real estate services	4,071.8	3,316.7	3,525.9	3,163.0
Residential/consumer	29,630.3	27,286.5	28,921.2	30,667.8
Retail trade	1,461.9	1,380.3	1,399.1	1,053.2
Transport, postal and warehousing	729.7	735.6	724.8	464.5
Wholesale trade	476.5	471.5	453.2	351.8
	60,122.9	57,631.1	55,955.2	54,647.8

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For home loans - charges over borrowers' residential, other properties or cash. Further, lenders mortgage insurance (LMI) is taken out for most loans with a loan to valuation ratio (LVR) higher than 80%.
- For commercial loans - charges over specified assets such as commercial and residential property, inventory and trade receivables or cash, and guarantees.
- For margin lending - charges over listed securities and managed funds.
- For personal loans - approximately 50% are secured by a charge over a specified asset, whilst credit cards are predominantly unsecured.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during the review of the adequacy of the allowance for impairment losses.

It is the group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

RISK MANAGEMENT (continued)

Credit quality

The credit quality of financial assets is managed by the group using internal credit ratings. The table below shows the credit quality by class of asset for financial asset balance sheet lines, based on the group's credit rating system.

CONSOLIDATED

	Neither past due or impaired						
2012	High Grade	Standard Grade	Sub-standard Grade	Unrated	Consumer Loans *	Past Due or Impaired	Total
	$ m	$ m	$ m	$ m	$ m	$ m	$ m
Cash and cash equivalents	288.8	-	-	-	-	-	288.8
Due from other financial institutions	272.2	-	-	-	-	-	272.2
Financial assets held for trading	4,366.1	-	-	-	-	-	4,366.1
Financial assets available for sale - debt securities	444.8	-	-	-	-	-	444.8
Financial assets held to maturity	388.4	-	-	-	-	-	388.4
Other assets	-	-	-	509.7	-	-	509.7
Financial assets available for sale - share investments	-	-	-	124.7	-	-	124.7
Derivatives	48.5	-	-	-	-	-	48.5
Loans and other receivables - investment	-	233.2	58.4	17.9	-	143.5	453.0
Loans and other receivables	3,742.4	7,638.2	964.9	654.1	32,374.8	3,004.6	48,379.0
	9,551.2	7,871.4	1,023.3	1,306.4	32,374.8	3,148.1	55,275.2
2011							
Cash and cash equivalents	469.0	-	-	-	-	-	469.0
Due from other financial institutions	201.6	-	-	-	-	-	201.6
Financial assets held for trading	4,331.7	-	-	-	-	-	4,331.7
Financial assets available for sale - debt securities	452.1	-	-	-	-	-	452.1
Financial assets held to maturity	380.3	-	-	-	-	-	380.3
Other assets	-	-	-	417.0	-	-	417.0
Financial assets available for sale - share investments	-	-	-	123.4	-	-	123.4
Derivatives	9.3	-	-	-	-	-	9.3
Loans and other receivables - investment	-	357.2	-	23.2	-	90.8	471.2
Loans and other receivables	4,636.4	6,627.6	936.1	715.0	30,011.6	3,165.9	46,092.6
	10,480.4	6,984.8	936.1	1,278.6	30,011.6	3,256.7	52,948.2

PARENT

	Neither past due or impaired						
2012	High Grade	Standard Grade	Sub-standard Grade	Unrated	Consumer Loans *	Past Due or Impaired	Total
	$ m	$ m	$ m	$ m	$ m	$ m	$ m
Cash and cash equivalents	175.8	-	-	-	-	-	175.8
Due from other financial institutions	266.3	-	-	-	-	-	266.3
Financial assets held for trading	4,367.0	-	-	-	-	-	4,367.0
Financial assets available for sale - debt securities	1,594.6	-	-	-	-	-	1,594.6
Financial assets held to maturity	1.8	-	-	-	-	-	1.8
Other assets	-	-	-	852.8	-	-	852.8
Financial assets available for sale - share investments	-	-	-	4.1	-	-	4.1
Derivatives	547.3	-	-	-	-	-	547.3
Loans and other receivables - investment	-	233.2	58.4	17.9	-	143.5	453.0
Loans and other receivables	81.8	5,583.0	614.7	653.3	32,121.9	2,400.4	41,455.1
Amounts receivable from controlled entities	-	-	-	1,090.8	-	-	1,090.8
Shares in controlled entities	-	-	-	604.1	-	-	604.1
	7,034.6	5,816.2	673.1	3,223.0	32,121.9	2,543.9	51,412.7
2011							
Cash and cash equivalents	346.7	-	-	-	-	-	346.7
Due from other financial institutions	200.9	-	-	-	-	-	200.9
Financial assets held for trading	4,332.7	-	-	-	-	-	4,332.7
Financial assets available for sale - debt securities	2,334.7	-	-	-	-	-	2,334.7
Financial assets held to maturity	69.7	-	-	-	-	-	69.7
Other assets	-	-	-	828.3	-	-	828.3
Financial assets available for sale - share investments	-	-	-	3.5	-	-	3.5
Derivatives	42.2	-	-	-	-	-	42.2
Loans and other receivables - investment	-	357.2	-	23.2	-	90.8	471.2
Loans and other receivables	106.0	4,977.0	611.9	761.7	30,174.8	2,720.1	39,351.5
Amounts receivable from controlled entities	-	-	-	1,587.2	-	-	1,587.2
Shares in controlled entities	-	-	-	489.3	-	-	489.3
	7,432.9	5,334.2	611.9	3,693.2	30,174.8	2,810.9	50,057.9

* Consumer loans are predominantly mortgage secured residential loans not rated on an individual basis.

RISK MANAGEMENT (continued)

Ageing

Ageing analysis of past due but not impaired loans and other receivables

	Less than 30 days $ m	31 to 60 days $ m	61 to 90 days $ m	More than 91 days $ m	Total $ m	Fair value of collateral $m
Consolidated						
2012	1,548.7	274.1	157.3	809.5	2,789.6	7,182.7
2011	1,642.6	343.5	181.1	730.8	2,898.0	5,724.1
Parent						
2012	1,367.7	214.6	134.2	658.7	2,375.2	5,555.1
2011	1,578.4	331.5	160.9	574.5	2,645.3	5,368.3

Renegotiated terms

Generally, the terms of loans are only renegotiated on a temporary basis in the event of customer hardship. In these cases the term of the loan is extended, but no longer than the maximum term entitlement for the product. Original terms are typically re-instated within a 3 to 6 month period. The majority of retail customers proactively contact the bank prior to the loan becoming past due or impaired. Therefore, the carrying value of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is considered immaterial.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The group addresses impairment assessment in three areas: individually assessed allowances (specific provisions), collectively assessed allowances (collective provisions) and a prudential reserve (general reserve for credit losses).

Individually assessed provisions (specific provisions)

The group determines the impairment provision appropriate for each individually significant loan or advance on an individual basis. Items considered when determining provision amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of expected cash flows. The impairment losses are evaluated on a continuous basis.

Allowances are assessed on a portfolio basis for losses on loans and receivables that are not individually significant (including unsecured credit cards, personal loans, overdrafts, unsecured mortgage loans) and where specific identification is impractical. Provisions are calculated for these portfolios based on historical loss experience.

Collectively assessed provisions (collective provisions)

Where individual loans are found not to be specifically impaired they are grouped together according to their risk characteristics and are then assessed for impairment. Based on historical loss data and current available information for assets with similar risk characteristics, the appropriate collective provision is raised. The collective provisions are re-assessed at each balance date.

Prudential reserve (general reserve for credit losses)

A general reserve for credit losses is maintained to cover risks inherent in the loan portfolios.

Australian Prudential Regulation Authority ("APRA") requires that banks maintain a general reserve for credit losses to cover risks inherent in loan portfolios. In certain circumstances the collective provision can be included in this assessment. Movements in the general reserve for credit losses are recognised as an appropriation of retained earnings. The bank maintained a GRCL at 0.53% as at 30 June 2012 (2011:0.54%).

Liquidity risk

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

Group treasury is responsible for implementing liquidity risk management strategies in accordance with approved policies and adherence is monitored by the asset liability management committee and board risk committee. This includes maintaining prudent levels of liquid reserves and a diverse range of funding options to meet daily, short-term and long-term liquidity requirements.

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

The group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The group also has committed lines of credit that it can access to meet liquidity needs. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the group. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. Net liquid assets consist of cash, short term bank deposits and liquid debt securities available for immediate sale, less deposits for banks and other issued securities and borrowings due to mature within the next month.

RISK MANAGEMENT (continued)

The *liquidity ratio* during the financial year was as follows:

	2012 %	2011 %
30 June	11.09	11.59
Average during the financial year	12.09	12.37
Highest	13.67	14.68
Lowest	11.04	11.03

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the group's financial liabilities at 30 June 2012 based on contractual undiscounted cash flows. Cash flows which are subject to notice are treated as if notice were to be given immediately. However, the group expects that many customers will not request repayment on the earliest date the group could be required to pay and the table does not reflect the expected cash flows indicated by the group's deposit retention history.

CONSOLIDATED

	At call	Not longer than 3 mths	3 to 12 months	1 to 5 years	Longer than 5 years	Total
2012	$ m	$ m	$ m	$ m	$ m	$ m
Due to other financial institutions	327.2	-	-	-	-	327.2
Deposits	11,699.3	22,539.6	9,788.3	1,083.5	2.0	45,112.7
Notes payable	-	581.4	490.5	1,063.2	4,276.3	6,411.4
Derivatives	-	171.9	200.4	523.6	59.7	955.6
Other payables	530.0	-	-	-	-	530.0
Income tax payable	86.8	-	-	-	-	86.8
Reset preference shares	-	-	92.2	-	-	92.2
Subordinated debt - at amortised cost	-	46.5	41.9	140.2	433.9	662.5
	12,643.3	23,339.4	10,613.3	2,810.5	4,771.9	54,178.4
2011						
Due to other financial institutions	215.6	-	-	-	-	215.6
Deposits	11,075.6	17,614.8	11,399.4	816.1	1.0	40,906.9
Notes payable	-	1,170.1	1,374.9	5,952.2	2.2	8,499.4
Derivatives	-	183.8	487.7	459.8	82.4	1,213.7
Other payables	598.8	-	-	-	-	598.8
Income tax payable	68.6	-	-	-	-	68.6
Reset preference shares	-	-	5.4	92.2	-	97.6
Subordinated debt - at amortised cost	-	11.0	140.7	223.3	514.0	889.0
	11,958.6	18,979.7	13,408.1	7,543.6	599.6	52,489.6

PARENT

2012	At call	Not longer than 3 mths	3 to 12 months	1 to 5 years	Longer than 5 years	Total
	$ m	$ m	$ m	$ m	$ m	$ m
Due to other financial institutions	315.1	-	-	-	-	315.1
Deposits	11,140.8	20,675.1	7,768.8	974.7	-	40,559.4
Notes payable	-	-	-	-	-	-
Derivatives	-	141.4	130.3	166.2	59.5	497.4
Other payables	1,111.0	-	-	-	-	1,111.0
Loans payable to securitisation trusts	-	15.7	23.9	83.1	6,171.6	6,294.3
Income tax payable	86.8	-	-	-	-	86.8
Reset preference shares	-	-	92.2	-	-	92.2
Subordinated debt - at amortised cost	-	45.0	37.5	117.0	346.2	545.7
	12,653.7	20,877.2	8,052.7	1,341.0	6,577.3	49,501.9
2011						
Due to other financial institutions	214.6	-	-	-	-	214.6
Deposits	11,188.5	16,068.6	9,868.9	746.1	0.3	37,872.4
Notes payable	-	453.3	125.7	-	-	579.0
Derivatives	-	157.8	253.3	269.9	80.8	761.8
Other payables	631.8	-	-	-	-	631.8
Loans payable to securitisation trusts	-	120.7	31.0	3,364.6	4,221.8	7,738.1
Income tax payable	68.6	-	-	-	-	68.6
Reset preference shares	-	-	5.4	92.2	-	97.6
Subordinated debt - at amortised cost	-	9.2	135.2	194.1	403.5	742.0
	12,103.5	16,809.6	10,419.5	4,666.9	4,706.4	48,705.9

RISK MANAGEMENT (continued)

The table below shows the contractual expiry by maturity of the group's contingent liabilities and commitments.

CONSOLIDATED

2012	At call $ m	Not longer than 12 mths $ m	1 to 5 years $ m	Longer than 5 years $ m	Total $ m
Contingent liabilities	235.9	-	-	-	235.9
Commitments	4,611.8	73.9	170.6	301.9	5,158.2
Total	4,847.7	73.9	170.6	301.9	5,394.1
2011					
Contingent liabilities	177.3	-	-	-	177.3
Commitments	4,505.6	75.9	186.7	220.4	4,988.6
Total	4,682.9	75.9	186.7	220.4	5,165.9

PARENT

2012	At call $ m	Not longer than 12 mths $ m	1 to 5 years $ m	Longer than 5 years $ m	Total $ m
Contingent liabilities	223.4	-	-	-	223.4
Commitments	4,319.1	71.7	165.0	298.8	4,854.6
Total	4,542.5	71.7	165.0	298.8	5,078.0
2011					
Contingent liabilities	174.3	-	-	-	174.3
Commitments	4,415.6	75.7	186.0	220.4	4,897.7
Total	4,589.9	75.7	186.0	220.4	5,072.0

Market risk (including interest rate and currency risk)

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices.

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The board has established limits on the interest rate risk volatility of net interest income and market value of equity exposures. Positions are monitored regularly and approved hedging strategies are executed to ensure sensitivities and exposures are maintained within the established limits.

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 2012, 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 2012 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap. With sensitivity based on the assumption that there are parallel shifts in the yield curve.

Monitoring of adherence to policies, limits and procedures is controlled through the ALMAC and the board risk committee.

RISK MANAGEMENT (continued)

CONSOLIDATED

	+100 basis points 2012 $ m	-100 basis points 2012 $ m	+100 basis points 2011 $ m	-100 basis points 2011 $ m
Net interest income	33.7	(36.1)	49.3	(43.6)
Ineffectiveness in cash flow hedge	4.4	(4.4)	3.1	(3.1)
Income tax effect at 30%	(11.4)	12.2	(15.7)	14.0
Effect on profit	26.7	(28.3)	36.7	(32.7)
Effect on profit (per above)	26.7	(28.3)	36.7	(32.7)
Ineffectiveness in cash flow hedge	195.1	(195.1)	98.5	(98.5)
Income tax effect on reserves at 30%	(58.5)	58.5	(29.6)	29.6
Effect on equity	163.3	(164.9)	105.6	(101.6)

PARENT

	+100 basis points 2012 $ m	-100 basis points 2012 $ m	+100 basis points 2011 $ m	-100 basis points 2011 $ m
Net interest income	24.3	(29.3)	39.7	(36.6)
Ineffectiveness in cash flow hedge - controlled entity	4.4	(4.4)	3.6	(3.6)
Income tax effect at 30%	(8.6)	10.1	(13.0)	12.1
Effect on profit	20.1	(23.6)	30.3	(28.1)
Effect on profit (per above)	20.1	(23.6)	30.3	(28.1)
Cash flow hedge reserve	195.1	(195.1)	88.5	(88.5)
Income tax effect on reserves at 30%	(58.5)	58.5	(26.6)	26.6
Effect on equity	156.7	(160.2)	92.2	(90.0)

The movements in profit are due to higher/lower interest costs from variable rate debt and cash balances. The movement in equity is also affected by the increase/decrease in the fair value of derivative instruments designated as cash flow hedges, where these derivatives are deemed effective. Controlled entity hedges are no longer held following the transfer of all of the assets and liabilities of Adelaide Bank Limited to the parent entity. 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 $77.3m (2011: AUD $162.4m) 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 Treasury Operations unit.

It is the current policy of the group that it does not trade in derivatives or foreign currencies (i.e. the risk is managed rather than actively sought).

Equity price risk

The group's exposure to equity securities at 30 June 2012 is $124.7m (2011: $123.4m) with $108.2m (2011: $118.4m) of these listed on a recognised stock exchange. The fair value of listed investments is affected by movements in market prices, whilst unlisted investment fair values are determined using other valuation methods.

Equity securities price risk arises from investments in equity securities and is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The majority of the value of equity investments held are of a high quality and are publicly traded on either the ASX or BSX.

The groups' equity investments represent approximately 0.2% of total group assets and are predominantly long term strategic holdings, therefore short term volatility in fair values is not considered significant and a sensitivity analysis has not been completed.

RISK MANAGEMENT (continued)

Operational risk

Operational risk is defined as the risk of impact on objectives resulting from inadequate or failed internal processes, people and systems or from external events, including legal and reputation risk but excluding strategic risk, that are not already covered by other regulatory capital charges (i.e. credit and market risks).

The board risk committee is responsible for the oversight of the operational risk management policies and effectiveness of implementation across the group.

The executive committee and each individual executive member has day to day responsibility and accountability for the management of operational risk in their business/support line including, but not limited to ensuring operational risk management strategies are in place and operating effectively.

Management and staff in each business are responsible for identifying operational risks and determining, implementing, monitoring and reporting on policies and practices to manage operational risks to which their business is exposed.

In managing operational risks, the group is cognisant of its correlation with strategic, reputation and contagion risk.

The group considers both the internal and external environment as well emerging risks when monitoring and assessing operational risk.

Inherent in the group's industry the following factors can also impact the group's operations and outcomes:

- Globalisation & global impacts e.g. market liquidity, investor sentiment
- Economic e.g. changes in economic growth, interest rates
- Changes in government policy and regulation
- Demographic trends
- Technological dependency, advancements and speed to market
- Financial convergence and competitive landscape

Group operational risk has a role to assist and support the executive committee and business units to develop, implement, monitor and report on the effectiveness of implementation of the group's operational risk management framework. It reports to the board risk committee on the status of the implementation of the framework and implications of significant risks and risk events at the group level.

Sustainability and climate change

Sustainability and climate change risk is defined as the risk to the business and our stakeholders of meeting objectives due to changes in climate and environment.

In recognition of the importance of managing this risk (both downside and opportunity) the group's risk and business functions consider the broader environment, social responsibility and resilience in its decision making.

41. FINANCIAL INSTRUMENTS

Fair value

Disclosed below is the estimated fair value of the group's financial instruments presented in accordance with the requirements of Accounting Standard AASB 7 "Financial Instruments - Disclosure".

A financial instrument is defined by AASB 132 as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. A financial liability is a contractual obligation either to deliver cash or another financial asset to another entity, or, to exchange financial instruments with another entity under conditions that are potentially unfavourable.

Methodologies

The methodologies and assumptions used depend on the terms and risk characteristics of the various instruments and include the following:

Cash and cash equivalents, due to and from other financial institutions

The carrying values of certain on-balance sheet financial instruments approximate fair values. These include cash and short-term cash equivalents, due to and from other financial institutions and accrued interest receivable or payable. These instruments are short-term in nature and the related amounts approximate fair value and are receivable or payable on demand.

Derivatives (assets and liabilities)

The fair value of exchange-rate and interest-rate contracts, used for hedging purposes, is the estimated amount the group would receive or pay to terminate the contracts at reporting date. The fair value of these instruments is disclosed under "Derivatives".

Financial assets – held for trading (Securities)

These financial assets include floating rate notes and discounted short term securities. The carrying value of these assets is based on a mark to market value. Therefore the carrying value represents fair value.

Financial assets - available for sale

Available for sale financial assets (securities) are predominantly short-term bank accepted bills of exchange and negotiable certificates of deposit and are carried at fair value.

Financial assets - held to maturity (Securities)

The fair value of financial assets held to maturity, including bills of exchange, negotiable certificates of deposit, government securities and bank and other deposits, which are predominantly short-term, is measured at amortised book value. Carrying value of these assets approximates fair value.

Financial assets - available for sale (share investments and shares in controlled entities)

The fair value of share investments is based on market value for listed share investments and carrying values for unlisted share investments. As the listed share investments are carried at market value, carrying value represents fair value.

Loans and other receivables

The carrying value of loans and other receivables is net of specific and collective provisions for doubtful debts.

For variable rate loans, excluding impaired loans, the carrying amount is a reasonable estimate of fair value. The net fair value for fixed loans is calculated by utilising discounted cash flow models (i.e the net present value of the portfolio future principal and interest cash flows), based on the maturity of the loans. The discount rates applied represent the rate the market is willing to offer for these loans at arms-length.

The net fair value of impaired loans is calculated by discounting expected cash flows using these rates.

Investments in joint ventures

These investments are carried at the proportional share of equity invested in the joint venture, including accumulated profit or losses of the joint venture. The fair value has been determined using a multiple of the latest annual profit after tax. Where the joint venture is not yet profitable the fair value has been assumed to be equal to the carrying value.

Other assets

This category includes items such as sundry debtors, which are short-term by nature and the carrying amount is therefore a reasonable estimate of fair value, except for other assets in the Company which includes investments in joint ventures. Refer to Investments in joint ventures methodology above.

Deposits and notes payable

The carrying value of call, variable rate and fixed rate deposits repricing within six months approximates the fair value at balance date. The fair value of other term deposits is calculated using discounted cash flow models, based on the deposit type and its related maturity. The discount rates applied represent the rate the market is willing to offer these loans at arms-length.

Other financial liabilities

This category includes items such as sundry creditors which are short-term by nature and the carrying amount is therefore a reasonable estimate of fair value.

Reset preference shares

The closing share price of the reset preference shares on 30 June is used to calculate the fair value of these financial liabilities.

FINANCIAL INSTRUMENTS (continued)

Subordinated debt and other debt

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

Summary

The following table provides comparison of carrying and net fair values for each item discussed above, where applicable:

CONSOLIDATED

	Carrying value		Net fair value	
	2012	2011	2012	2011
	$m	$m	$m	$m
Financial Assets				
Cash and cash equivalents	288.8	469.0	288.8	469.0
Due from other financial institutions	272.2	201.6	272.2	201.6
Derivatives	48.5	9.3	48.5	9.3
Financial assets held for trading	4,366.1	4,331.7	4,366.1	4,331.7
Financial assets available for sale - debt securities	444.8	452.1	444.8	452.1
Financial assets available for sale - equity investments	124.7	123.4	124.7	123.4
Financial assets held to maturity	388.4	380.3	387.6	380.3
Loans and other receivables - investment	453.0	471.2	451.8	474.5
Net loans and other receivables	48,217.0	45,938.6	48,984.2	46,150.5
Investments in joint ventures accounted for using the equity method	12.9	12.5	12.9	12.5
Other assets	509.7	417.0	509.7	417.0
Financial Liabilities				
Due to other financial institutions	327.2	215.6	327.2	215.6
Deposits	44,572.7	40,521.3	44,057.9	39,954.9
Notes Payable	6,411.0	8,453.7	6,359.0	8,479.5
Derivatives	179.0	132.0	179.0	132.0
Other payables	731.8	781.2	731.8	781.2
Reset preference shares	89.5	89.5	90.8	91.3
Subordinated debt	436.9	575.7	430.7	566.1

PARENT

Financial Assets				
Cash and cash equivalents	175.8	346.7	175.8	346.7
Due from other financial institutions	266.3	200.9	266.3	200.9
Derivatives	547.3	42.2	547.3	42.2
Financial assets held for trading	4,367.0	4,332.7	4,367.0	4,332.7
Financial assets available for sale - debt securities	1,594.6	2,334.7	1,594.6	2,334.7
Financial assets available for sale - equity investments	4.1	3.5	4.1	3.5
Shares in controlled entities	604.1	489.3	604.1	489.3
Financial assets held to maturity	1.8	69.7	1.8	69.7
Loans and other receivables - investment	453.0	471.2	451.8	474.5
Net loans and other receivables	41,366.6	39,255.4	42,027.9	39,353.3
Amounts receivable from controlled entities	1,090.8	1,587.2	1,090.8	1,587.2
Other assets	852.8	828.3	850.3	825.9
Financial Liabilities				
Due to other financial institutions	315.1	214.6	315.1	214.6
Deposits	40,179.4	37,526.0	39,686.9	37,024.8
Notes Payable	-	576.9	-	576.9
Derivatives	111.2	152.4	111.2	152.4
Other payables	1,168.0	830.7	1,168.0	830.7
Loans payable to securitisation trusts	6,294.1	7,738.0	6,294.1	7,738.0
Reset preference shares	89.5	89.5	90.8	91.3
Subordinated debt	361.1	484.9	354.9	475.3

FINANCIAL INSTRUMENTS (continued)

Interest rate risk

The group's exposure to interest rate risks of financial assets and liabilities at the balance date are disclosed in the following table.

Sensitivity to interest rates arises from mismatches in the period to repricing of assets and liabilities. These mismatches are managed as part of the overall asset and liability management process.

CONSOLIDATED

AS AT 30 JUNE 2012		Fixed interest rate repricing :							
	Floating interest rate	Less than 3 months	Between 3 months & 6 months	Between 6 months & 12 months	Between 1 year & 5 years	After 5 years	Non interest bearing	Total carrying value per Balance sheet	Weighted average effective interest rate
Consolidated	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**%**
Assets									
Cash and cash equivalents	122.7	-	-	-	-	-	166.1	288.8	1.38
Due from other financial institutions	-	-	-	-	-	-	272.2	272.2	-
Financial assets held for trading	-	2,072.0	2,244.4	49.7	-	-	-	4,366.1	4.07
Financial assets available for sale	-	444.7	-	-	0.1	-	-	444.8	4.50
Financial assets held to maturity	-	350.0	38.2	0.2	-	-	-	388.4	3.83
Loans and other receivables	34,482.0	5,297.0	1,125.9	2,682.9	4,927.9	184.8	(30.5)	48,670.0	6.94
Derivatives	-	-	-	-	-	-	48.5	48.5	-
Total financial assets	34,604.7	8,163.7	3,408.5	2,732.8	4,928.0	184.8	456.3	54,478.8	
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	327.2	327.2	-
Deposits	11,506.7	22,854.0	6,917.9	2,137.1	1,156.3	0.7	-	44,572.7	4.38
Notes payable	74.1	6,056.9	150.0	-	130.0	-	-	6,411.0	4.86
Derivatives	-	-	-	-	-	-	179.0	179.0	-
Reset preference shares	-	-	89.5	-	-	-	-	89.5	6.16
Subordinated debt	-	424.9	-	-	12.0	-	-	436.9	7.10
Total financial liabilities	11,580.8	29,335.8	7,157.4	2,137.1	1,298.3	0.7	506.2	52,016.3	

FINANCIAL INSTRUMENTS (continued)

Interest rate risk (continued)

CONSOLIDATED

AS AT 30 JUNE 2011			Fixed interest rate repricing :						
	Floating interest rate	Less than 3 months	Between 3 months & 6 months	Between 6 months & 12 months	Between 1 year & 5 years	After 5 years	Non interest bearing	Total carrying value per Balance sheet	Weighted average effective interest rate
Consolidated	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**%**
Assets									
Cash and cash equivalents	174.4	-	-	-	-	-	294.6	469.0	1.75
Due from other financial institutions	-	-	-	-	-	-	201.6	201.6	-
Financial assets held for trading	41.8	3,863.2	426.7	-	-	-	-	4,331.7	5.15
Financial assets available for sale	19.0	432.9	-	0.1	0.1	-	-	452.1	5.59
Financial assets held to maturity	1.0	374.5	4.8	-	-	-	-	380.3	5.29
Loans and other receivables	31,873.9	5,674.7	1,195.6	2,804.6	4,770.0	123.6	(32.6)	46,409.8	7.78
Derivatives	-	-	-	-	-	-	9.3	9.3	-
Total financial assets	32,110.1	10,345.3	1,627.1	2,804.7	4,770.1	123.6	472.9	52,253.8	
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	215.6	215.6	-
Deposits	10,860.6	18,166.2	7,164.6	3,489.9	839.3	0.7	-	40,521.3	5.02
Notes payable	8.0	8,040.9	124.8	-	280.0	-	-	8,453.7	5.79
Derivatives	-	-	-	-	-	-	132.0	132.0	-
Reset preference shares	-	-	-	-	89.5	-	-	89.5	6.16
Subordinated debt	-	563.7	-	-	12.0	-	-	575.7	7.71
Total financial liabilities	10,868.6	26,770.8	7,289.4	3,489.9	1,220.8	0.7	347.6	49,987.8	

FINANCIAL INSTRUMENTS (continued)

Interest rate risk (continued)

PARENT

AS AT 30 JUNE 2012		Fixed interest rate repricing :							
	Floating interest rate	Less than 3 months	Between 3 months & 6 months	Between 6 months & 12 months	Between 1 year & 5 years	After 5 years	Non interest bearing	Total carrying value per Balance sheet	Weighted average effective interest rate
Parent	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**%**
Assets									
Cash and cash equivalents	63.5	-	-	-	-	-	112.3	175.8	1.24
Due from other financial institutions	-	-	-	-	-	-	266.3	266.3	-
Financial assets held for trading	-	1.8	-	-	-	-	-	1.8	4.43
Financial assets available for sale	-	2,072.5	2,244.8	49.7	-	-	-	4,367.0	4.07
Financial assets held to maturity	-	1,594.5	-	-	0.1	-	-	1,594.6	4.67
Loans and other receivables	28,632.9	5,083.6	1,017.4	2,003.8	4,572.7	179.2	330.0	41,819.6	6.79
Derivatives	-	-	-	-	-	-	547.3	547.3	-
Total financial assets	28,696.4	8,752.4	3,262.2	2,053.5	4,572.8	179.2	1,255.9	48,772.4	
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	315.1	315.1	-
Deposits	10,910.1	20,646.1	5,835.4	1,708.2	1,029.6	-	50.0	40,179.4	4.29
Loans payable to securitisation trusts	4,431.6	315.7	272.8	502.4	770.6	-	1.0	6,294.1	6.79
Derivatives	-	-	-	-	-	-	111.2	111.2	-
Reset preference shares	-	-	89.5	-	-	-	-	89.5	6.16
Subordinated debt	-	361.1	-	-	-	-	-	361.1	6.98
Total financial liabilities	15,341.7	21,322.9	6,197.7	2,210.6	1,800.2	-	477.3	47,350.4	

FINANCIAL INSTRUMENTS (continued)

Interest rate risk (continued)

PARENT

AS AT 30 JUNE 2011		Fixed interest rate repricing :							
	Floating interest rate	Less than 3 months	Between 3 months & 6 months	Between 6 months & 12 months	Between 1 year & 5 years	After 5 years	Non interest bearing	Total carrying value per Balance sheet	Weighted average effective interest rate
Parent	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**%**
Assets									
Cash and cash equivalents	161.8	-	-	-	-	-	184.9	346.7	2.21
Due from other financial institutions	-	-	-	-	-	-	200.9	200.9	-
Financial assets held for trading	41.8	3,864.1	426.8	-	-	-	-	4,332.7	5.15
Financial assets available for sale	19.0	2,315.5	-	0.1	0.1	-	-	2,334.7	5.80
Financial assets held to maturity	-	69.7	-	-	-	-	-	69.7	5.13
Loans and other receivables	26,521.8	5,538.0	1,104.6	1,928.4	4,488.8	110.0	35.0	39,726.6	7.58
Derivatives	-	-	-	-	-	-	42.2	42.2	-
Total financial assets	26,744.4	11,787.3	1,531.4	1,928.5	4,488.9	110.0	463.0	47,053.5	
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	214.6	214.6	-
Deposits	10,860.3	16,645.8	6,208.9	2,972.8	745.0	-	93.2	37,526.0	4.87
Notes payable	-	449.9	127.0	-	-	-	-	576.9	5.17
Loans payable to securitisation trusts	5,177.4	462.9	308.0	593.2	1,195.0	0.5	1.0	7,738.0	7.47
Derivatives	-	-	-	-	-	-	152.4	152.4	-
Reset preference shares	-	-	-	-	89.5	-	-	89.5	6.16
Subordinated debt	-	484.9	-	-	-	-	-	484.9	7.61
Total financial liabilities	16,037.7	18,043.5	6,643.9	3,566.0	2,029.5	0.5	461.2	46,782.3	

FINANCIAL INSTRUMENTS (continued)

Fair Value Financial Instruments

The group uses various methods in estimating the fair value of financial instrument. The methods comprise of

Level 1 - The fair value is calculated using quoted prices in active markets.

Level 2 - The fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (derived from prices).

Level 3 - The fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below.

CONSOLIDATED

As at 30 June 2012

	Quoted market price Level 1	Valuation technique - market observable inputs Level 2	Valuation technique - non market observable inputs Level 3	Total
Financial assets				
Financial assets - held to maturity	-	388.4	-	388.4
Financial assets - held for trading	-	4,366.1	-	4,366.1
Financial assets - available for sale	-	444.8	-	444.8
Derivative instruments	-	48.5	-	48.5
Listed investments	108.2	-	-	108.2
Unlisted equity investments	-	-	16.5	16.5
	108.2	5,247.8	16.5	5,372.5
Financial liabilities				
Derivative instruments	-	179.0	-	179.0
	-	179.0	-	179.0

As at 30 June 2011

	Quoted market price Level 1	Valuation technique - market observable inputs Level 2	Valuation technique - non market observable inputs Level 3	Total
Financial assets - held to maturity		380.3		380.3
Financial assets - held for trading	-	4,331.7	-	4,331.7
Financial assets - available for sale	-	452.1	-	452.1
Derivative instruments	-	9.3	-	9.3
Listed investments	118.4	-	-	118.4
Unlisted equity investments	-	-	5.0	5.0
	118.4	5,173.4	5.0	5,296.8
Financial liabilities				
Derivative instruments	-	132.0	-	132.0
	-	132.0	-	132.0

FINANCIAL INSTRUMENTS (continued)

PARENT

As at 30 June 2012

	Quoted market price Level 1	Valuation technique - market observable inputs Level 2	Valuation technique - non market observable inputs Level 3	Total
Financial assets				
Financial assets - held to maturity	-	1.8	-	1.8
Financial assets - held for trading	-	4,367.0	-	4,367.0
Financial assets - available for sale	-	352.1	-	352.1
Derivative instruments	-	547.3	-	547.3
Unlisted equity investments	-	-	4.1	4.1
	-	5,268.2	4.1	5,272.3
Financial liabilities				
Derivative instruments	-	111.2	-	111.2
	-	111.2	-	111.2

As at 30 June 2011

	Quoted market price Level 1	Valuation technique - market observable inputs Level 2	Valuation technique - non market observable inputs Level 3	Total
Financial assets				
Financial assets - held to maturity	-	47.1	-	47.1
Financial assets - held for trading	-	4,332.7	-	4,332.7
Financial assets - available for sale	-	330.0	-	330.0
Derivative instruments	-	42.2	-	42.2
Unlisted equity investments	-	-	3.5	3.5
	-	4,752.0	3.5	4,755.5
Financial liabilities				
Derivative instruments	-	152.4	-	152.4
	-	152.4	-	152.4

The Fair Value of Held for Trading and Available for Sale financial assets process is as follows.

Each month market security investment valuations are determined by the Middle Office department of the Group's Finance and Treasury Division. This involves an analysis of market rate sheets provided by institutions independent of Bendigo and Adelaide Bank. From these independent rate sheets, market average valuations are calculated within the Group's Treasury Management System, thereby updating the value of investments. Depending on the valuation movement, the company will report a profit or loss for the period.

Listed Investments relates to equity held in IOOF Holdings Ltd. Unlisted Equity Investments relates to equity holdings in entities that are traded in an illiquid market or are thinly traded.

Issued Debt includes issued Floating Rate Notes of $152.0m (2011: $592.5m) and Euro Commercial Paper of $77.3m (2011: $162.4m).

FINANCIAL INSTRUMENTS (continued)

Reconciliation of Level 3 fair value movements

CONSOLIDATED

As at 30 June 2012

	As at 30 June 2011 $m	Purchases $m	Sales $m	As at 30 June 2012 $m
Fair value assets				
Listed investments and unlisted equity investments	5.0	(0.9)	-	4.1
Total fair value assets	5.0	(0.9)	-	4.1

As at 30 June 2011

	As at 30 June 2010 $m	Purchases $m	Sales $m	As at 30 June 2011 $m
Fair value assets				
Listed investments and unlisted equity investments	4.4	0.6	-	5.0
Total fair value assets	4.4	0.6	-	5.0

PARENT

As at 30 June 2012

	As at 30 June 2011 $m	Purchases $m	Sales $m	As at 30 June 2012 $m
Fair value assets				
Listed investments and unlisted equity investments	3.5	0.6	-	4.1
Total fair value assets	3.5	0.6	-	4.1

As at 30 June 2011

	As at 30 June 2010 $m	Purchases $m	Sales $m	As at 30 June 2011 $m
Fair value assets				
Listed investments and unlisted equity investments	3.0	0.5	-	3.5
Total fair value assets	3.0	0.5	-	3.5

There were no transfers between level 1 and level 2 during the year.

42. DERIVATIVE FINANCIAL INSTRUMENTS

The group uses derivatives primarily to hedge banking operations and for asset and liability management. Some derivatives transactions may qualify as either cash flow or fair value hedges. The accounting treatment of these hedges is outlined in Note 2.33 Derivative Financial Instruments.

The group is exposed to volatility in interest cash flows inherent in its loan portfolio and that of the securitisation vehicles. Interest rate swaps are used to hedge the risk that this volatility creates.

During the 2012 financial year the consolidated entity recognised a loss of $12.6m (2011: a gain of $0.7m) due to hedge ineffectiveness.

Value of derivatives as at 30 June

	Consolidated 2012				Consolidated 2011			
	Notional Amount	Asset Revaluation	Liability Revaluation	Net Fair Value	Notional Amount	Asset Revaluation	Liability Revaluation	Net Fair Value
	$m	$m	$m	$m	$m	$m	$m	$m
Included in derivatives category								
Derivatives held for trading								
Forward Rate Agreements	1,200.0	-	(1.6)	(1.6)	-	-	-	-
Interest Rate Swaps	2,708.8	21.2	(24.9)	(3.7)	5,500.8	5.2	(5.3)	(0.1)
Foreign Exchange Contracts	73.1	0.5	(0.7)	(0.2)	39.7	0.4	(0.4)	-
Derivatives	3,981.9	21.7	(27.2)	(5.5)	5,540.5	5.6	(5.7)	(0.1)
Derivatives held as fair value hedges								
Interest Rate Swaps	59.2	-	(4.4)	(4.4)	64.4	0.2	(1.5)	(1.3)
Embedded Derivatives	1.0	0.2	(0.2)	-	6.5	0.4	(0.4)	-
Derivatives	60.2	0.2	(4.6)	(4.4)	70.9	0.6	(1.9)	(1.3)
Derivatives held as cash flow hedges								
Cross Currency Swaps	386.9	11.3	(58.4)	(47.1)	353.3	-	(60.0)	(60.0)
Interest Rate Swaps	19,128.9	15.3	(88.8)	(73.5)	9,496.6	3.1	(64.4)	(61.3)
Derivatives	19,515.8	26.6	(147.2)	(120.6)	9,849.9	3.1	(124.4)	(121.3)
Total derivatives	23,557.9	48.5	(179.0)	(130.5)	15,461.3	9.3	(132.0)	(122.7)

	Parent 2012				Parent 2011			
	Notional Amount	Asset Revaluation	Liability Revaluation	Net Fair Value	Notional Amount	Asset Revaluation	Liability Revaluation	Net Fair Value
	$m	$m	$m	$m	$m	$m	$m	$m
Included in derivatives category								
Derivatives held for trading								
Forward Rate Agreements	1,200.0	-	(1.6)	(1.6)	-	-	-	-
Interest Rate Swaps	14,508.8	537.1	(24.9)	512.2	19,144.2	40.0	(70.7)	(30.7)
Foreign Exchange Contracts	73.1	0.5	(0.7)	(0.2)	39.7	0.4	(0.4)	-
Derivatives	15,781.9	537.6	(27.2)	510.4	19,183.9	40.4	(71.1)	(30.7)
Derivatives held as fair value hedges								
Interest Rate Swaps	59.2	-	(4.4)	(4.4)	64.4	0.1	(1.5)	(1.4)
Derivatives	59.2	-	(4.4)	(4.4)	64.4	0.1	(1.5)	(1.4)
Derivatives held as cash flow hedges								
Interest Rate Swaps	18,520.6	9.7	(79.6)	(69.9)	8,846.9	1.7	(79.8)	(78.1)
Derivatives	18,520.6	9.7	(79.6)	(69.9)	8,846.9	1.7	(79.8)	(78.1)
Total derivatives	34,361.7	547.3	(111.2)	436.1	28,095.2	42.2	(152.4)	(110.2)

DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

CONSOLIDATED

2012	Within 1 year $ m	1 to 3 years $ m	3 to 8 years $ m	Over 8 years $ m
Cash inflows (Assets)	351.2	247.7	187.8	36.1
Cash outflows (Liabilities)	(372.4)	(337.8)	(209.1)	(36.4)
Net cash inflow	(21.2)	(90.1)	(21.3)	(0.3)
Income statement	(51.1)	(47.8)	(9.0)	(0.1)
2011				
Cash inflows (Assets)	581.7	346.5	91.4	48.4
Cash outflows (Liabilities)	(643.6)	(420.4)	(101.3)	(48.5)
Net cash inflow	(61.9)	(73.9)	(9.9)	(0.1)
Income statement	(65.0)	(33.4)	(9.1)	(0.1)

PARENT

2012	Within 1 year $ m	1 to 3 years $ m	3 to 8 years $ m	Over 8 years $ m
Cash inflows (Assets)	254.4	56.3	39.7	36.1
Cash outflows (Liabilities)	(271.7)	(130.8)	(58.5)	(36.4)
Net cash inflow	(17.3)	(74.5)	(18.8)	(0.3)
Income statement	(38.4)	(29.5)	(6.5)	(0.1)
2011				
Cash inflows (Assets)	404.0	161.1	85.5	48.4
Cash outflows (Liabilities)	(427.7)	(192.1)	(93.6)	(48.5)
Net cash inflow	(23.7)	(31.0)	(8.1)	(0.1)
Income statement	(53.5)	(28.1)	(7.3)	(0.1)

Net gain on cash flow hedges reclassified to the income statement:

	Consolidated		Parent	
	2012 $ m	2011 $ m	2012 $ m	2011 $ m
Interest income	8.0	13.6	4.1	9.1
Interest expense	(26.0)	(14.7)	(23.3)	(13.9)
Other operating expenses	(0.6)	1.8	(0.6)	1.8
	(18.6)	0.7	(19.8)	(3.0)
Taxation	5.6	(0.2)	5.9	0.9
Net gain on cash flow hedges reclassified to the income statement	(13.0)	0.5	(13.9)	(2.1)

During 2012 the group recognised a $0.1 million gain on fair value hedges (2011: nil), due to hedge ineffectiveness. For hedges that are marked to market and not in a hedge relationship, a loss of $1.2m (2011: gain of $0.8m) has been recognised.

43. COMMITMENTS AND CONTINGENCIES

(a) Commitments

The following are outstanding expenditure and credit related commitments as at 30 June 2012. Except where specified, all commitments are payable within one year.

Operating lease commitments - group as lessee

The group has entered into commercial property leases and commercial leases on certain motor vehicles and items of office equipment. These leases have an average life of between 3 and 7 years. Some property leases include optional renewal periods included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. The head office development has a lease term of 17 years remaining.

	Consolidated		Parent	
	2012 $m	2011 $m	2012 $m	2011 $m
Future minimum rentals payable under non-cancellable operating leases as at 30 June:				
Not later than 1 year	69.8	72.2	67.7	72.0
Later than 1 year but not later than 5 years	170.6	186.7	165.0	186.0
Later than 5 years	301.9	220.4	298.8	220.4
	542.3	479.3	531.5	478.4

Operating lease commitments - group as lessor

The group has entered into commercial property leases on the group's surplus office space. These non-cancellable leases have remaining terms of between 2 and 5 years. All leases have a clause to enable upward revision of the rental charge on a regular basis according to prevailing market conditions.

	Consolidated 2012 $m	Consolidated 2011 $m	Parent 2012 $m	Parent 2011 $m
Future minimum rentals receivable under non-cancellable operating leases as at 30 June				
Not later than 1 year	1.6	1.5	1.6	1.5
Later than 1 year but not later than 5 years	2.3	2.3	2.3	2.3
	3.9	3.8	3.9	3.8
Other expenditure commitments				
Sponsorship commitments not paid as at balance date, payable not later than one year	4.1	3.7	4.0	3.7
Credit related commitments				
Gross loans approved, but not advanced to borrowers	869.3	991.2	817.2	901.2
Credit limits granted to clients for overdrafts and credit cards				
Total amount of facilities provided	10,700.8	9,644.2	9,613.5	9,642.1
Amount undrawn at balance date	3,742.5	3,514.4	3,501.9	3,514.4

Normal commercial restrictions apply as to use and withdrawal of the facilities

COMMITMENTS AND CONTINGENCIES (continued)

(b) Superannuation Commitments

The Bendigo and Adelaide Bank group has a legally enforceable obligation to contribute to a superannuation plan for employees either on an accumulation basis (including the Superannuation Guarantee Charge) or on a defined benefits basis (Adelaide Bank staff superannuation plan) which provides benefits on retirement, disability or death based on years of service and final average salary. Employees contribute to the plan at a fixed percentage of remuneration.

The group's contribution to the defined benefit plan is determined by the Trustee after consideration of actuarial advice. At balance date, the Directors believe that funds available were adequate to satisfy all vested benefits under the plan.

Accounting Policy

Actuarial gains and losses are recognised in retained earnings.

Plan Information

Defined benefit members receive lump sum benefits on retirement, death, disablement and withdrawal. The defined benefit section of the Plan is closed to new members. All new members are entitled to become members of the accumulation categories of the fund.

Fair Value of Plan Assets

The fair value of Plan assets includes Bendigo and Adelaide Bank shares to the value of $1.1 million as at 30 June 2012.

Actual Return	**Consolidated 2012 $ m**	**Consolidated 2011 $ m**
Actual return on Plan assets	(0.1)	0.9
Principal Actuarial Assumptions		
Discount rate	2.6% pa	4.6% pa
Expected rate of return on Plan assets	7.0% pa	7.5% pa
Expected salary increase rate	3.5% pa	4.0% pa

Reconciliation of the Present Value of the Defined Benefit Obligation

	$ m	**$ m**
Present value of defined benefit obligations at beginning of period	**7.0**	**8.0**
Add Current service cost	0.3	0.3
Add Interest cost	0.3	0.4
Add contributions by plan participants	0.1	0.1
Add Actuarial gains/(losses)	0.9	(0.1)
Less Benefits paid	0.6	1.6
Less Taxes, premiums and expenses paid	-	0.1
Add Transfers in	-	-
Less Contributions to accumulation section	-	-
Present value of defined benefit obligations at end of the year	**8.0**	**7.0**

Reconciliation of the Fair Value of Plan Assets

Fair value of Plan assets at beginning of period	**9.4**	**9.9**
Add Expected return on plan assets	0.7	0.7
Add Actuarial gains/(losses)	(0.8)	0.2
Add Employer contributions	0.1	0.2
Add Contributions by plan participants	0.1	0.1
Less Benefits paid	0.6	1.6
Less Taxes, premiums and expenses paid	-	0.1
Add Transfers in	-	-
Less Contributions to accumulation section	-	-
Fair value of Plan assets at end of the year	**8.9**	**9.4**

COMMITMENTS AND CONTINGENCIES (continued)

Reconciliation of the Assets and Liabilities Recognised in the Balance Sheet

	Consolidated 2012 $ m	Consolidated 2011 $ m
Defined Benefit Obligation ^	8.0	7.0
Less Fair value of Plan assets	8.9	9.4
(Surplus)	(0.9)	(2.4)
Net superannuation (asset) / liability	**(0.9)**	**(2.4)**

^ includes contributions tax provision

Movements in Liability / (Asset) Recognised in the Balance Sheet

Net superannuation (asset) at beginning of period	**(2.4)**	**(1.9)**
Add Amount recognised in other comprehensive income	1.4	(0.3)
Less Employer contributions	0.1	0.2
Net superannuation (asset) at 30 June	**(0.9)**	**(2.4)**

Expense Recognised in Income Statement

Service cost	0.3	0.3
Interest cost	0.3	0.4
Expected return on assets	(0.7)	(0.7)
Superannuation expense	**(0.1)**	**-**

Amount recognised directly in Other Comprehensive Income

Actuarial (gain) / loss	1.8	(0.3)

Cumulative amount recognised directly in Other Comprehensive Income

Actuarial (gain) / loss	6.6	4.8

Plan Assets

The percentage invested in each asset class at the balance sheet date:

	Consolidated 2012 $ m	Consolidated 2011 $ m
Australian Equity	37%	38%
International Equity	24%	28%
Fixed Income	15%	12%
Property	14%	9%
Alternatives	4%	6%
Cash	6%	7%

COMMITMENTS AND CONTINGENCIES (continued)

Contribution Recommendations

The financial position of the defined benefits is reviewed regularly by the Bank, at least annually, to ensure that the contribution amount remains appropriate.

Funding Method

The method used to determine the employer contribution recommendations is the Attained Age Normal method. The method adopted affects the timing of the cost to the Bank.

Under the Attained Age Normal method, a “normal cost” is calculated which is the estimated employer contribution rate required to provide benefits in respect of future service after the review date. The “normal” cost is then adjusted to take into account any surplus (or deficiency) of assets over the value of liabilities in respect of service prior to the review date. Any surplus or deficiency can be used to reduce or increase the “normal” employer contribution rate over a suitable period of time.

Economic Assumptions

The long-term economic assumptions adopted are:

Expected rate of return on assets	7.0% pa
Expected salary increase rate	3.5% pa

Nature of Asset

Bendigo and Adelaide Bank has recognised an asset in the Balance Sheet (under Other assets) in respect of its defined benefit superannuation arrangements. If a surplus exists in the Plan, Bendigo and Adelaide Bank may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Plan’s actuary.

The Bendigo and Adelaide Bank Staff Superannuation Plan, a sub-plan of the Spectrum Super, does not impose a legal liability on Bendigo and Adelaide Bank to cover any deficit that exists in the Plan. If the Plan were wound up, there would be no legal obligation on the Bank to make good any shortfall. The rules of the Plan state that if the Plan winds up, the remaining assets are to be distributed amongst the Members as determined by the Trustee of the Plan.

The Bank may at any time terminate its contributions by giving one month’s notice in writing to the Trustee.

Historical Information

	2012	**2011**
	$ m	**$ m**
Present value of defined benefit obligation	8.0	7.0
Fair value of Plan assets	8.9	9.4
(Surplus) / deficit in Plan	(0.9)	(2.4)
Experience adjustments (gain)/loss - Plan assets	0.8	(0.2)
Experience adjustments (gain)/loss - Plan liabilities	(0.2)	(0.1)

Expected Contributions

Financial year ending	**2013**
	$m
Expected employer contributions	0.2

COMMITMENTS AND CONTINGENCIES (continued)

(c) Legal claim

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

A specific litigation risk exists in relation to the Bank's Great Southern loan portfolio. A law firm commenced a number of group legal proceedings involving the Bank and other parties on behalf of investors in relation to managed investment schemes managed by Great Southern Managers Australia Ltd ("Group Proceedings"). The Great Southern Group of companies is now in liquidation.

The Bank either acquired or advanced loans to investors in the managed investment schemes. Not all borrowers are members of the Group Proceedings as the Group Proceedings relate to specific schemes and categories of borrowers.

While no wrongdoing is alleged against the Bank and the Bank will vigorously defend the Group Proceedings, the law firm is seeking to have the loan deeds of those borrowers who are members of the Group Proceedings deemed void or unenforceable and for all money paid under those loans (including principal, any interest and fees) to be repaid to borrowers. The litigation will continue to be assessed and managed on an ongoing basis.

(d) Contingent liabilities and contingent assets

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Contingent liabilities				
Guarantees				
The economic entity has issued guarantees on behalf of clients	221.2	162.0	208.8	159.2
Other				
Documentary letters of credit & performance related obligations	14.7	15.3	14.6	15.1

As the probability and value of guarantees, letters of credit and performance related obligations that may be called on is unpredictable, it is not practical to state the timing of any potential payment.

Contingent assets
As at 30 June 2012, the economic entity does not have any contingent assets.

44. STANDBY ARRANGEMENTS AND UNCOMMITTED CREDIT FACILITIES

	Consolidated		Parent	
	2012	2011	2012	2011
	$m	$m	$m	$m
Amount available:				
Offshore borrowing facility	7,814.0	7,455.7	7,814.0	7,455.7
Domestic note program	5,750.0	5,750.0	5,000.0	5,000.0
Amount utilised:				
Offshore borrowing facility	77.3	162.4	77.3	162.4
Domestic note program	566.9	1,156.0	490.5	1,041.0
Amount not utilised:				
Offshore borrowing facility	7,736.7	7,293.3	7,736.7	7,293.3
Domestic note program	5,183.1	4,594.0	4,509.5	3,959.0

The Parent has a $US 5,000m Euro Commercial Paper program of which $US 79.1m (2011: $US 174.3m) was drawn down as at 30 June 2012, and a $US 3,000m Euro Medium Term Note program of which there were no draw downs (2011: EURO nil). As at 30 June 2012 the Parent has a $5,000m Domestic Note Program of which $490.5m (2011: $1,041.0m) was issued and the consolidated group has an additional $750.0m Domestic Note Program through its subsidiary Rural Bank Limited, of which $76.4m (2011: $115.0m) was issued.

45. FIDUCIARY ACTIVITIES

The group conducts investment management and other fiduciary activities as trustee, custodian or manager for a number of funds and trusts, including superannuation, unit trusts and mortgage pools. The amounts of the funds concerned, which are not included in the group's statement of financial position is as follows:

	Consolidated	
	2012	**2011**
	$m	**$m**
Funds under trusteeship	2,733.0	2,780.9
Assets under management	1,789.2	1,859.0
Funds under management	1,300.7	1,365.1

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 eg manager and trustee. Where controlled entities, as trustees, custodian or manager incur liabilities in the normal course of their duties, a right of indemnity exists against the assets of the applicable trusts. As these assets are sufficient to cover liabilities, and it is therefore not probable that the group companies will be required to settle them, the liabilities are not included in the financial statements. Bendigo and Adelaide Bank does not guarantee the performance or obligations of its subsidiaries.

46. EVENTS AFTER BALANCE SHEET DATE

On the 9th August 2012 Bendigo and Adelaide Bank group announced the sale of its 7.8% stake in IOOF. The sale has improved statutory earnings by approximately $40m and Tier One capital will increase by approximately 13 basis points. For further information please refer to our ASX release on the 9th August 2012.

The Bank recently completed the sale of a portfolio of subordinated notes it held in existing Torrens securitisation trusts. BEN had previously deducted capital against these holdings to the value of approximately $90m. This sale eliminates the need for this deduction and increases Tier One capital by 29 basis points. There will be a loss on sale of these investments of $12.4m recorded for the financial year 2013.

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.

47. BUSINESS COMBINATIONS

Bank of Cyprus Australia Limited

On the 29th of February 2012, Bendigo and Adelaide Bank acquired the Bank of Cyprus Australia (BOCA), by purchasing 100% of shares on issue. The total consideration paid in cash for the Bank of Cyprus Australia was $131.4 million. The cost of the acquisition includes directly attributable costs including consultancy, legal, accounting and other professional fees.

The principal activities of Bank of Cyprus Australia are to provide a wide range of banking services with predominate focus on servicing the Hellenic community.

The acquisition had the following effect on the group's assets and liabilities:

	Pre-acquisition carrying amount	Recognised values on acquisition
Assets	**$m**	**$m**
Cash and cash equivalents	184.5	184.5
Investment securities	186.2	189.6
Other financial assets	8.3	7.8
Loans and other receivables	1,330.7	1,329.3
Plant and equipment	5.1	5.1
Intangible assets	0.8	0.8
Other assets	2.4	4.6
Total Assets	1,718.0	1,721.7
Liabilities		
Interest bearing deposits	1,564.1	1,570.2
Trade and other payables	26.3	26.3
Provisions	2.0	2.0
Deferred tax liabilities	-	0.9
Total Liabilities	1,592.4	1,599.4
Net identifiable assets and liabilities attributable to Bendigo and Adelaide Bank Limited	125.6	122.3
Cost of acquisition		131.4
Fair value of net assets acquired		122.3
Final goodwill on acquisition		9.1

The consolidated statement of comprehensive income includes income of $11.1 million and profit before tax of $3.0 million for the 4 months to 30 June 2012.

Had the acquisition occurred at the beginning of the reporting period, the consolidated financial statement of comprehensive income would have included revenue of $34.4 million and a net profit before tax of $7.6 million.

Goodwill

Goodwill arose in the business combination as the consideration paid for the combination effectively included amounts in relation to the skills and talent of the acquired business workforce, the benefit of expected head office and operational synergies, revenue growth and future market development.

These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be measured reliably or they are not capable of being separated from the group and sold, transferred, licensed, rented or exchanged either individually or together with any related contracts.

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 2012 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001; and

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2.2 and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable

(d) this declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2012.

On behalf of the board

Robert Johanson
Chairman

Mike Hirst
Managing Director

4 September 2012

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Independent auditor's report to the members of Bendigo and Adelaide Bank Limited

Report on the financial report

We have audited the accompanying financial report of Bendigo and Adelaide Bank Limited, which comprises the balance sheets as at 30 June 2012, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2.2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Liability limited by a scheme approved
under Professional Standards Legislation

ERNST & YOUNG

Opinion

In our opinion:

a. the financial report of Bendigo and Adelaide Bank Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the company's and consolidated entity's financial positions as at 30 June 2012 and of their performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 26 to 47 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Bendigo and Adelaide Bank Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

T M Dring
Partner

4 September 2012

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 20 August 2012.

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 section of this report.

4. SUBSTANTIAL SHAREHOLDERS

As at 15 August 2012 there were no substantial shareholders in Bendigo and Adelaide Bank Limited as detailed in substantial holdings notices given to the company.

5. DISTRIBUTION OF SHAREHOLDERS

Range of Securities as at 15 August 2012 in the following categories:

Category	Fully Paid Ordinary Shares	Fully Paid Employee Shares	BPS Preference Shares	Reset Preference Shares	Step Up Preference Shares
1 - 1,000	37,183	3,467	3,095	3,170	3,042
1,001 - 5,000	36,519	783	53	74	86
5,001 - 10,000	6,932	78	1	7	5
10,001 - 100,000	3,665	19	5	3	7
100,001 and over	104	2	1	-	-
Number of Holders	84,403	4,349	3,155	3,254	3,140
Securities on Issue	396,677,626	5,555,640	900,000	894,574	1,000,000

6. MARKETABLE PARCEL

Based on the closing price of $8.50 on 15 August 2012 the number of holders with less than a marketable parcel of the Company's main class of securities (Ordinary Shares), as at 15 August 2012 was 7,229.

7. UNQUOTED SECURITIES

The number of unquoted equity securities that are on issue and the number of holders of those securities are shown in the above table under the heading of Fully Paid Employee shares.

8. MAJOR SHAREHOLDERS

Names of the 20 largest holders of Fully Paid Ordinary shares, including the number of shares each holds and the percentage of capital that number represents as at 15 August 2012 are:

FULLY PAID ORDINARY SHARES Rank	Name	Number of fully paid Ordinary Shares	Percentage held of Issued Ordinary Capital
1	HSBC Custody Nominees (Australia) Limited	44,294,330	11.01%
2	J P Morgan Nominees Australia Limited	34,492,785	8.58%
3	National Nominees Limited	29,978,473	7.45%
4	Citicorp Nominees Pty Limited	12,625,198	3.14%
5	BNP Paribas Noms Pty Ltd <DRP>	11,859,968	2.95%
6	Milton Corporation Limited	5,709,708	1.42%
7	BNP Paribas Noms Pty Ltd <Master Cust DRP >	4,232,999	1.05%
8	AMP Life Limited	3,708,014	0.92%
9	JP Morgan Nominees Australia Limited <Cash Income A/C>	3,207,889	0.80%
10	Queensland Investment Corporation	2,280,564	0.57%
11	HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	1,604,809	0.40%
12	BNP Paribas Noms Pty Ltd <SMP accounts DRP>	1,366,097	0.34%
13	Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	986,252	0.25%
14	Carlton Hotel Limited	753,455	0.19%
15	Leesville Equity Pty Ltd	678,065	0.17%
16	Navigator Australia Ltd <MLC Investment Sett A/C>	636,612	0.16%
17	BKI Investment Company Limited	610,400	0.15%
18	HSBC Custody Nominees (Australia) Limited - GSCO ECA	599,764	0.15%
19	RBC Investor Services Australia Nominees Pty Limited <GSAM A/C>	528,247	0.13%
20	Yarabie Estates Pty Ltd <Yarabie Super Fund A/C>	510,000	0.13%
		160,663,629	39.96%

BBS Nominees Pty Ltd, trustee for the Bendigo and Adelaide Employee Share Plan and Tasmanian Perpetual Trustees Limited, trustee for the Employee Share Grant Scheme, held a combined total of 5,555,640 unquoted shares as at the date of this report. These shares have not been included in the above table, but are included in total of issued ordinary share capital.

Names of the 20 largest holders of Bendigo and Adelaide Preference shares, including the number of shares each holds and the percentage of preference share capital that number represents as at 15 August 2012 are:

FULLY PAID PREFERENCE SHARES Rank	Name	Number of fully paid Preference Shares	Percentage held of issued Preference Capital
1	J P Morgan Nominees Australia Limited	139,757	15.53%
2	National Nominees Limited	29,750	3.31%
3	Citicorp Nominees Pty Limited	23,475	2.61%
4	RBC Investor Service Australia Nominees Pty Limited <GSENIP A/C>	15,454	1.72%
5	UBS Wealth Management Australia Nominees Pty Ltd	13,446	1.49%
6	JP Morgan Nominees Australia Limited <Cash Income A/C>	12,886	1.43%
7	BNP Paribas Noms Pty Ltd <Master Cust DRP>	7,744	0.86%
8	Dylac Pty Ltd	4,000	0.44%
9	Mr Trevor John Stafford & Mrs Lindley Joy Stafford <Stafford Family S/F A/C>	3,788	0.42%
10	Carbon Max Pty Ltd	3,550	0.39%
11	Mr Robert Maxwell Hill <Romahi Super Fund A/C>	3,526	0.39%
12	Royal Queensland Bush Children's Health Scheme	3,000	0.33%
13	The Trustees of the Diocese of Tasmania	3,000	0.33%
14	Mr Jeffrey Frederick Edwards & Mrs June Rose Edwards	2,794	0.31%
15	Ms Jillian Rosemary Broadbent	2,750	0.31%
16	J & S McKinnon Foundation Pty Ltd <McKinnon Fam Foundation A/C>	2,674	0.30%
17	World Wide Fund For Nature Australia	2,660	0.30%
18	Green Super Pty Ltd <Ross Knowles Super Fund A/C>	2,531	0.28%
19	James Bostock & Henry Taylor & RSL Custodian Pty Ltd <Blacktown RSL S/B Cap A/C>	2,474	0.27%
20	Mr Shaun Eric Sargent & Mr John Richard Green <The Friends School D/F A/C>	2,325	0.26%
		281,584	31.28%

MAJOR SHAREHOLDERS (continued)

Names of the 20 largest holders of Bendigo and Adelaide Reset Preference shares, including the number of shares each holds and the percentage of reset preference share capital that number represents as at 15 August 2012 are:

FULLY PAID RESET PREFERENCE SHARES Rank	Name	Number of fully paid Reset Preference Shares	Percentage held of issued Reset Preference Shares
1	UBS Nominees Pty Ltd	22,866	2.56%
2	Art Gallery of NSW Foundation	17,250	1.93%
3	M F Custodians Ltd	11,024	1.23%
4	BNP Paribas Noms Pty Ltd <Master Cust DRP>	8,131	0.91%
5	ST Hedwig Village	7,653	0.86%
6	J P Morgan Nominees Australia Limited	7,442	0.83%
7	CPA Australia Ltd	6,305	0.70%
8	Questor Financial Services Limited <TPS RF A/C>	6,262	0.70%
9	Edsgear Pty Limited	6,000	0.67%
10	The Synod of the Diocese of Adelaide of the Anglican Church of Australia Inc <no2 A/C>	6,000	0.67%
11	UBS Wealth Management Australia Nominees Pty Ltd	4,797	0.54%
12	Ritossa Holdings Pty Ltd <L Ritossa Furn PL S/F A/C>	4,472	0.50%
13	Mr Ian William Bailey & Mrs Gloria Jean Bailey <Bailey Family Super Fund A/C>	4,000	0.45%
14	Malvern Development Co Pty Ltd	4,000	0.45%
15	National Nominees Limited	4,000	0.45%
16	Dr Spencer David <David Family Inv Fund A/C>	3,860	0.43%
17	ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	3,718	0.42%
18	M F Custodians Ltd	3,495	0.39%
19	Ms Jillian Rosemary Broadbent	3,400	0.38%
20	Baker Custodian Corporation	3,390	0.38%
		138,065	15.45%

Names of the 20 largest holders of Bendigo and Adelaide Step Up Preference shares, including the number of shares each holds and the percentage of step up preference share capital that number represents as at 15 August 2012 are:

FULLY PAID STEP UP PREFERENCE SHARES Rank	Name	Number of fully paid Step up Preference Shares	Percentage held of issued Step up Preference Shares
1	J P Morgan Nominees Australia Limited	43,425	4.34%
2	National Nominees Limited	41,105	4.11%
3	Navigator Australia Ltd <MLC Investment Sett A/C>	19,757	1.98%
4	UBS Wealth Management Australia Nominees Pty Ltd	17,131	1.71%
5	Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	14,446	1.44%
6	Post Perfect Pty Ltd	10,800	1.08%
7	ABN Amro Clearing Sydney Nominees Pty Ltd <Next Custodian A/C>	10,165	1.02%
8	Returned Services League of Australia (Queensland Branch)	10,000	1.00%
9	JGW Investments Pty Ltd	6,640	0.66%
10	Elecnet (Aust) Pty Ltd <Electrical Ind Sev Sch A/C>	5,530	0.55%
11	Questor Financial Services Limited <TPS RF A/C>	5,496	0.55%
12	CPA Australia Ltd	5,235	0.52%
13	Ballabradach Pty Ltd	4,474	0.45%
14	HSBC Custody Nominees (Australia) Limited	4,445	0.44%
15	Rogand Pty Ltd <Rogand Unit A/C>	4,220	0.42%
16	Carbon Max Pty Ltd	4,108	0.41%
17	Peroda Nominees Pty Limited <Berman Super Fund A/C>	4,052	0.41%
18	M F Custodians Ltd	4,000	0.40%
19	Baker Custodian Corporation	3,893	0.39%
20	The Trustees of the Diocese of Tasmania	3,670	0.37%
		222,592	22.25%

9. VOTING RIGHTS

The holders of ordinary shares are entitled to vote at meetings of shareholders in the first instance by a show of hands of the shareholders present and entitled to vote. If a poll is called, each shareholder has one vote for each fully paid share held.

Holders of partly paid shares have a vote which carries the same proportionate value as the proportion that the amount paid up on the total issue price bears to the total issue price of the share.

In the case of an equality of votes the Chairman has, on both a show of hands and at a poll, a casting vote in addition to the vote to which the Chairman may be entitled as a shareholder, proxy, attorney or duly appointed representative of a shareholder.

Bendigo and Adelaide Bank

Annual Financial Report **2012**