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# Appendix 4E

## Full Year Results

For the year ended 30 June 2018

Released 13 August 2018

ABN 11 068 049 178





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# Appendix 4E: Full year results

## 1.1 Company details and reporting period

Bendigo and Adelaide Bank Limited

ABN 11 068 049 178

Reporting period - twelve months ended:

30 June 2018

Previous corresponding period - twelve months ended:

30 June 2017

## 1.2 Results for announcement to the market

<b>Income from operations</b>	↑	2.1% to \$1,643.5m
<b>Profit after tax from ordinary activities</b>	↑	1.1% to \$434.5m
<b>Net profit after tax attributable to Owners of the Company</b>	↑	1.1% to \$434.5m

<b>Dividends</b>	<b>Date Payable/Paid</b>	<b>Amount per security</b>
<b>Current year 2018</b>		
Record date for determining entitlements	4 September 2018	
Final dividend - fully franked	28 September 2018	35.0 cents
Interim dividend - fully franked	29 March 2018	35.0 cents
<b>Previous year 2017</b>		
Final dividend - fully franked	29 September 2017	34.0 cents
Interim dividend - fully franked	31 March 2017	34.0 cents

## 1.3 Cash earnings results

<b>Cash earnings attributable to Owners of the Company</b>	↑	6.4% to \$445.1m
<b>Cash earnings per share</b>	↑	4.1% to 92.1 cents

See note 2.1.2 and 2.3.10.3 for full details

This Appendix 4E: Full year results should be read in conjunction with the media release and results presentation released to the ASX on 13 August 2018.

## 1.4 ASX Appendix 4E table

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Details of individual and total dividends	30
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### **Details of entities over which control has been gained or lost during the period**

During the financial period there have been no changes to the entities in the Group.

### **Accounting standards used for foreign entities**

Not applicable.

### **Dispute or qualifications if audited**

This report is based on financial accounts that are in the process of being audited by our external auditors, Ernst & Young.

## 1.5 Highlights

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➤ Statutory profit	↑	1.1% to \$434.5m
➤ Statutory earnings per share	↓	1.1% to 89.9 cents
➤ Cash earnings	↑	6.4% to \$445.1m
➤ Cash earnings per share	↑	4.1% to 92.1 cents
➤ CET1 ratio of 8.62%	↑	35 basis points compared to June 2017

## 1.6 Key highlights

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➤ On a statutory basis, net profit was \$434.5m compared to \$429.6m in June 2017.

➤ Cash earnings<sup>1</sup> was \$445.1m compared to \$418.3m in June 2017.

On a cash earnings basis:

- Net interest income increased \$91.6m to \$1,323.6m. Net interest margin (before revenue share arrangements) for the year increased by 14 basis point to 2.36% compared to the prior corresponding period. The net interest margin increased mainly due to repricing activity both in the lending and deposit portfolio;
- Other operating income decreased \$28.5m or 9.2% mainly due to a reduction in trading book revaluation income and a reduction in ATM and transaction fees charged to customers.
- Expenses increased by 3.2% or \$27.9m mainly due to an increase in staff costs due to salary increases and lower capitalisation rates, software amortisation and technology costs.
- Credit expenses decreased by 1.7% or \$1.2m. The expenses for the second half were \$24.6m, which was a decrease of \$22.0m from the first half.

➤ Net impaired assets increased by \$23.4m or 12.1%.

➤ Great Southern past due 90 days has reduced by \$28.5m or 36.1%, other lending past due 90 days has increased by \$10.9m or 2.5%.

➤ Common Equity Tier 1 ratio was up 35 basis points to 8.62% compared to June 2017. Total capital was 12.85% compared to 12.46% in June 2017.

➤ The final dividend has been increased by 1 cent to 35 cents compared to the final dividend for June 2017.

<sup>1</sup> Specific items cash earnings adjustments are outlined in section 2.2.1.

## 1.7 Annual general meeting

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The annual general meeting will be held as follows:

Place: Ulumbarra Theatre, Gaol Road, Bendigo, Victoria

Date: 30 October 2018

Time: 11 a.m. (Australian Eastern Daylight Saving Time)

## 1.8 Subsequent events

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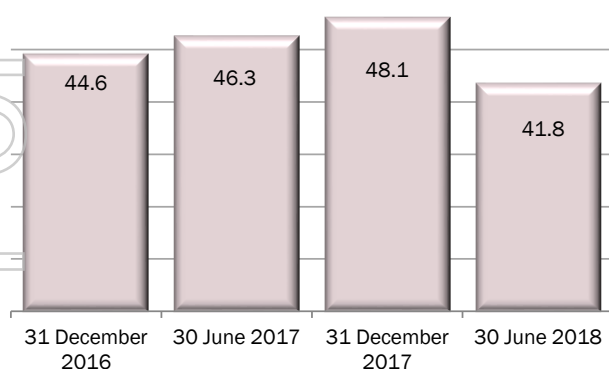
No other matters or circumstances have arisen since the end of the financial year to the date of this report which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial periods.

2.0 Full year results  
 2.1 Financial summary  
 2.1.1 Statutory profit results

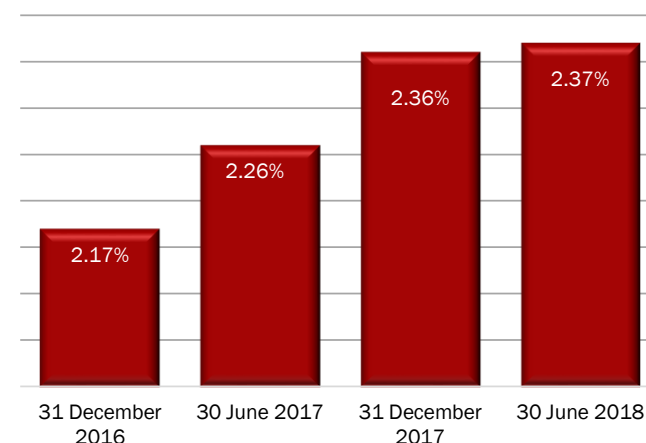
	Full year ending				Six months ending			
	Jun-18	Jun-17	Change		Jun-18	Dec-17	Change	
	\$m	\$m	\$m	%	\$m	\$m	\$m	%
Net interest income	1,305.2	1,213.6	91.6	7.5	647.5	657.7	(10.2)	(1.6)
Other operating income	338.3	395.9	(57.6)	(14.5)	153.1	185.2	(32.1)	(17.3)
<b>Total income</b>	<b>1,643.5</b>	<b>1,609.5</b>	<b>34.0</b>	<b>2.1</b>	<b>800.6</b>	<b>842.9</b>	<b>(42.3)</b>	<b>(5.0)</b>
Credit expenses	(70.6)	(71.8)	1.2	1.7	(24.3)	(46.3)	22.0	47.5
Operating expenses	(938.4)	(909.4)	(29.0)	(3.2)	(480.9)	(457.5)	(23.4)	(5.1)
<b>Total expenses</b>	<b>(1,009.0)</b>	<b>(981.2)</b>	<b>(27.8)</b>	<b>(2.8)</b>	<b>(505.2)</b>	<b>(503.8)</b>	<b>(1.4)</b>	<b>(0.3)</b>
<b>Profit before income tax expense</b>	<b>634.5</b>	<b>628.3</b>	<b>6.2</b>	<b>1.0</b>	<b>295.4</b>	<b>339.1</b>	<b>(43.7)</b>	<b>(12.9)</b>
Income tax expense	(200.0)	(198.7)	(1.3)	(0.7)	(92.6)	(107.4)	14.8	13.8
<b>Profit after income tax expense</b>	<b>434.5</b>	<b>429.6</b>	<b>4.9</b>	<b>1.1</b>	<b>202.8</b>	<b>231.7</b>	<b>(28.9)</b>	<b>(12.5)</b>

	Half year			Half year			Year on year change
	Jun-18	Dec-17	Total	Jun-17	Dec-16	Total	
<b>Earnings per ordinary share (cents)</b>	<b>cents</b>	<b>cents</b>	<b>cents</b>	<b>cents</b>	<b>cents</b>	<b>cents</b>	<b>cps</b>
Basic	41.8	48.1	89.9	46.3	44.6	90.9	(1.0)
Diluted	37.6	43.7	81.2	42.4	40.5	82.9	(1.7)
Franked dividends per share	35.0	35.0	70.0	34.0	34.0	68.0	2.0
<b>Financial performance ratios</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>bps change</b>
Net interest margin before revenue share arrangements	2.37%	2.36%	2.36%	2.26%	2.17%	2.22%	14
Net interest margin after revenue share arrangements	1.98%	1.98%	1.98%	1.89%	1.82%	1.86%	12
<b>Financial position ratios</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>bps change</b>
Return on average ordinary equity (after tax)	7.50%	8.57%	8.03%	8.49%	8.15%	8.32%	(29)
Return on average tangible equity (after tax)	10.45%	12.05%	11.24%	12.11%	11.74%	11.93%	(69)
Return on average assets	0.59%	0.67%	0.63%	0.65%	0.61%	0.63%	-

Statutory EPS (cents)



Net interest margin before revenue share arrangements (%)



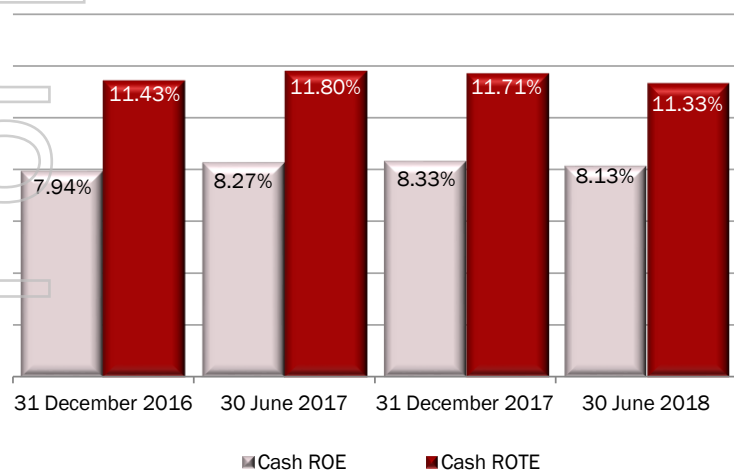
## 2.1 Financial summary (continued)

### 2.1.2 Cash earnings results

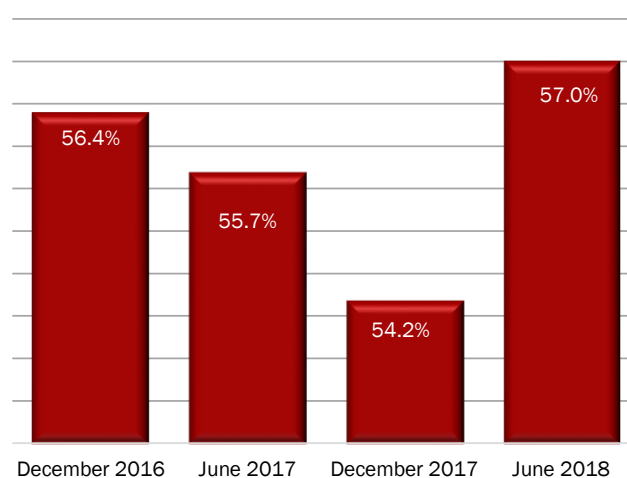
	Full year ending				Six months ending			
	Jun-18	Jun-17	Change		Jun-18	Dec-17	Change	
	\$m	\$m	\$m	%	\$m	\$m	\$m	%
Net interest income	1,323.6	1,232.0	91.6	7.4	655.6	668.0	(12.4)	(1.9)
Other operating income	281.2	309.7	(28.5)	(9.2)	136.7	144.5	(7.8)	(5.4)
<b>Total income</b>	<b>1,604.8</b>	<b>1,541.7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

	Half year			Half year			Year on year change
	Jun-18	Dec-17	Total	Jun-17	Dec-16	Total	
<b>Earnings per ordinary share (cents)</b>	<b>cents</b>	<b>cents</b>	<b>cents</b>	<b>cents</b>	<b>cents</b>	<b>cents</b>	<b>cps</b>
Cash	45.3	46.8	92.1	45.0	43.5	88.5	3.6
<b>Financial performance ratios (cash)</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>bps</b>
Cost to income ratio	57.0%	54.2%	55.6%	55.7%	56.4%	56.1%	(50)
<b>Financial position ratios (cash)</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>bps</b>
Return on average ordinary equity	8.13%	8.33%	8.23%	8.27%	7.94%	8.10%	13
Return on average tangible equity	11.33%	11.71%	11.52%	11.80%	11.43%	11.61%	(9)
Return on average assets	0.64%	0.65%	0.65%	0.63%	0.60%	0.61%	4

#### Cash ROE and ROTE (%)



#### Cost to income ratio (%)



## 2.1 Financial summary (continued)

### 2.1.3 Cash earnings reconciliation

For the year ended 30 June 2018

	Cash earnings adjustments											
	Statutory profit	Fair value adjustments	Homesafe unrealised adjustments	Hedging income/(costs)	(Profit)/loss on sale of business	Integration costs	Impairment charge/(reversal)	Operating expenses <sup>1</sup>	Amortisation of intangibles	Cash earnings sub-total <sup>2</sup>	Homesafe realised income	Cash earnings
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	1,305.2	1.2	17.2	-	-	-	-	-	-	1,323.6	(7.5)	1,316.1
Other income	338.3	-	(55.4)	(1.7)	-	-	-	-	-	281.2	23.7	304.9
<b>Total income</b>	<b>1,643.5</b>	<b>1.2</b>	<b>(38.2)</b>	<b>(1.7)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,604.8</b>	<b>16.2</b>	<b>1,621.0</b>
Credit expenses	(70.6)	-	-	-	-	-	-	-	-	(70.6)	-	(70.6)
Operating expenses	(938.4)	-	-	-	1.6	7.6	0.4	19.7	8.2	(900.9)	-	(900.9)
<b>Net profit before tax</b>	<b>634.5</b>	<b>1.2</b>	<b>(38.2)</b>	<b>(1.7)</b>	<b>1.6</b>	<b>7.6</b>	<b>0.4</b>	<b>19.7</b>	<b>8.2</b>	<b>633.3</b>	<b>16.2</b>	<b>649.5</b>
Tax expense	(200.0)	(0.4)	11.4	0.5	(0.4)	(2.3)	-	(5.9)	(2.4)	(199.5)	(4.9)	(204.4)
<b>Net profit after tax</b>	<b>434.5</b>	<b>0.8</b>	<b>(26.8)</b>	<b>(1.2)</b>	<b>1.2</b>	<b>5.3</b>	<b>0.4</b>	<b>13.8</b>	<b>5.8</b>	<b>433.8</b>	<b>11.3</b>	<b>445.1</b>

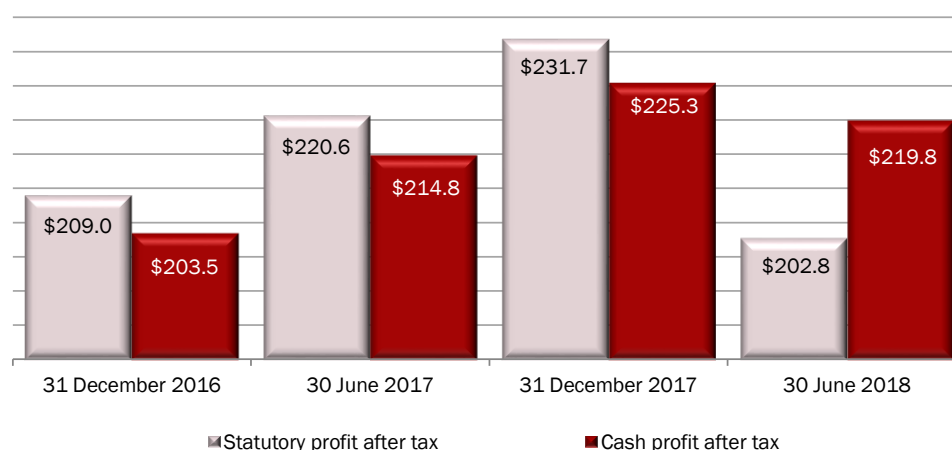
For the year ended 30 June 2017

	Cash earnings adjustments											
	Statutory profit	Fair value adjustments	Homesafe unrealised adjustments	Hedge ineffectiveness	(Profit)/loss on sale of business	Integration costs	Impairment charge/(reversal)	Operating expenses <sup>1</sup>	Amortisation of intangibles	Cash earnings sub-total <sup>2</sup>	Homesafe realised income	Cash earnings
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	1,213.6	2.6	15.8	-	-	-	-	-	-	1,232.0	(8.2)	1,223.8
Other income	395.9	-	(90.4)	8.1	(3.9)	-	-	-	-	309.7	24.0	333.7
<b>Total income</b>	<b>1,609.5</b>	<b>2.6</b>	<b>(74.6)</b>	<b>8.1</b>	<b>(3.9)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,541.7</b>	<b>15.8</b>	<b>1,557.5</b>
Credit expenses	(71.8)	-	-	-	-	-	-	-	-	(71.8)	-	(71.8)
Operating expenses	(909.4)	-	-	-	-	13.2	(0.8)	6.3	17.7	(873.0)	-	(873.0)
<b>Net profit before tax</b>	<b>628.3</b>	<b>2.6</b>	<b>(74.6)</b>	<b>8.1</b>	<b>(3.9)</b>	<b>13.2</b>	<b>(0.8)</b>	<b>6.3</b>	<b>17.7</b>	<b>596.9</b>	<b>15.8</b>	<b>612.7</b>
Tax expense	(198.7)	(0.8)	22.4	(2.5)	1.2	(4.0)	(0.1)	(1.9)	(5.3)	(189.7)	(4.7)	(194.4)
<b>Net profit after tax</b>	<b>429.6</b>	<b>1.8</b>	<b>(52.2)</b>	<b>5.6</b>	<b>(2.7)</b>	<b>9.2</b>	<b>(0.9)</b>	<b>4.4</b>	<b>12.4</b>	<b>407.2</b>	<b>11.1</b>	<b>418.3</b>

<sup>1</sup> includes legal, litigation and compensation costs.

<sup>2</sup> Cash earnings subtotal is equal to cash earnings before Homesafe realised income.

### Statutory profit and cash profit (\$m)





## 2.1 Financial summary (continued)

### 2.1.3 Cash earnings reconciliation

For the half year ended 30 June 2018

	Cash earnings adjustments											
	Statutory profit	Fair value adjustments	Homesafe unrealised adjustments	Hedging income/(costs)	(Profit)/loss on sale of business	Integration costs	Impairment charge/(reversal)	Operating expenses <sup>1</sup>	Amortisation of intangibles	Cash earnings sub-total <sup>2</sup>	Homesafe realised income	Cash earnings
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	647.5	0.5	7.6	-	-	-	-	-	-	655.6	(3.0)	652.6
Other income	153.1	-	(15.8)	(0.6)	-	-	-	-	-	136.7	10.2	146.9
<b>Total income</b>	<b>800.6</b>	<b>0.5</b>	<b>(8.2)</b>	<b>(0.6)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>792.3</b>	<b>7.2</b>	<b>799.5</b>
Credit expenses	(24.3)	-	-	-	-	-	-	-	-	(24.3)	-	(24.3)
Operating expenses	(480.9)	-	-	-	1.6	2.3	-	19.7	1.9	(455.4)	-	(455.4)
<b>Net profit before tax</b>	<b>295.4</b>	<b>0.5</b>	<b>(8.2)</b>	<b>(0.6)</b>	<b>1.6</b>	<b>2.3</b>	<b>-</b>	<b>19.7</b>	<b>1.9</b>	<b>312.6</b>	<b>7.2</b>	<b>319.8</b>
Tax expense	(92.6)	(0.2)	2.4	0.2	(0.4)	(0.7)	-	(5.9)	(0.6)	(97.8)	(2.2)	(100.0)
<b>Net profit after tax</b>	<b>202.8</b>	<b>0.3</b>	<b>(5.8)</b>	<b>(0.4)</b>	<b>1.2</b>	<b>1.6</b>	<b>-</b>	<b>13.8</b>	<b>1.3</b>	<b>214.8</b>	<b>5.0</b>	<b>219.8</b>

For the half year ended 31 December 2017

	Cash earnings adjustments											
	Statutory profit	Fair value adjustments	Homesafe unrealised adjustments	Hedging income/(costs)	(Profit)/loss on sale of business	Integration costs	Impairment charge/(reversal)	Operating expenses <sup>1</sup>	Amortisation of intangibles	Cash earnings sub-total <sup>2</sup>	Homesafe realised income	Cash earnings
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	657.7	0.7	9.6	-	-	-	-	-	-	668.0	(4.5)	663.5
Other income	185.2	-	(39.6)	(1.1)	-	-	-	-	-	144.5	13.5	158.0
<b>Total income</b>	<b>842.9</b>	<b>0.7</b>	<b>(30.0)</b>	<b>(1.1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>812.5</b>	<b>9.0</b>	<b>821.5</b>
Credit expenses	(46.3)	-	-	-	-	-	-	-	-	(46.3)	-	(46.3)
Operating expenses	(457.5)	-	-	-	-	5.3	0.4	-	6.3	(445.5)	-	(445.5)
<b>Net profit before tax</b>	<b>339.1</b>	<b>0.7</b>	<b>(30.0)</b>	<b>(1.1)</b>	<b>-</b>	<b>5.3</b>	<b>0.4</b>	<b>-</b>	<b>6.3</b>	<b>320.7</b>	<b>9.0</b>	<b>329.7</b>
Tax expense	(107.4)	(0.2)	9.0	0.3	-	(1.6)	-	-	(1.8)	(101.7)	(2.7)	(104.4)
<b>Net profit after tax</b>	<b>231.7</b>	<b>0.5</b>	<b>(21.0)</b>	<b>(0.8)</b>	<b>-</b>	<b>3.7</b>	<b>0.4</b>	<b>-</b>	<b>4.5</b>	<b>219.0</b>	<b>6.3</b>	<b>225.3</b>

<sup>1</sup> includes legal, litigation and compensation costs.

<sup>2</sup> Cash earnings subtotal is equal to cash earnings before Homesafe realised income.

## 2.2 Results commentary

### 2.2.1 Specific items

The reported profit after tax for the year ended 30 June 2018 \$434.5 million included the following specific items:

	30 June 2018		30 June 2017	
	Before Tax	After Tax	Before Tax	After Tax
	\$m	\$m	\$m	\$m
<b>Items included in interest income</b>				
Fair value adjustments - interest expense	(1.2)	(0.8)	(2.6)	(1.8)
Homesafe funding costs - unrealised	(17.2)	(12.0)	(15.8)	(11.1)
<b>Total specific net interest income items</b>	<b>(18.4)</b>	<b>(12.8)</b>	<b>(18.4)</b>	<b>(12.9)</b>
<b>Items included in other income</b>				
Hedge ineffectiveness	1.7	1.2	(8.1)	(5.6)
Profit on sale of Estates business	-	-	3.9	2.7
Homesafe Trust - revaluation income	55.4	38.8	90.4	63.3
<b>Total specific other income items</b>	<b>57.1</b>	<b>40.0</b>	<b>86.2</b>	<b>60.4</b>
<b>Items included in operating expenses</b>				
Integration costs	(7.6)	(5.3)	(13.2)	(9.2)
Loss on sale of Telco business	(1.6)	(1.2)	-	-
Impairment reversal/(charge)	(0.4)	(0.4)	0.8	1.0
Compensation costs	(1.2)	(0.9)	-	-
Legal costs	(1.6)	(1.1)	-	-
Litigation costs	(16.9)	(11.8)	(6.3)	(4.4)
<b>Total specific operating expense items</b>	<b>(29.3)</b>	<b>(20.7)</b>	<b>(18.7)</b>	<b>(12.6)</b>
<b>Items included in income tax expense</b>				
Tax impacts relating to prior year impairment losses	-	-	-	(0.1)
<b>Total specific income tax benefit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(0.1)</b>
<b>Total specific items attributable to the Group</b>	<b>9.4</b>	<b>6.5</b>	<b>49.1</b>	<b>34.8</b>
<b>Homesafe realised income</b>				
Homesafe revaluation gain - realised	(23.7)	(16.6)	(24.0)	(16.8)
Homesafe funding costs - realised	7.5	5.3	8.2	5.7
<b>Total Homesafe realised income</b>	<b>(16.2)</b>	<b>(11.3)</b>	<b>(15.8)</b>	<b>(11.1)</b>
<b>Amortisation of acquired intangibles</b>	<b>(8.2)</b>	<b>(5.8)</b>	<b>(17.7)</b>	<b>(12.4)</b>

#### Specific interest income items

Fair value adjustments - the accounting for the acquisition of the business activities of Rural Finance resulted in the recognition of fair value adjustments on the loans acquired. These fair value adjustments are amortised over the life of the underlying transactions.

Homesafe funding costs unrealised - interest expense incurred on existing contracts for the current year.

#### Specific other income items

Hedge ineffectiveness - ineffectiveness resulting from hedge accounting.

Homesafe Trust revaluation income - represents the valuation movements of the investment property held.

#### Specific operating expense items

Integration costs - costs associated with the integration of the business activities of Alliance Partners and Rural Finance. All integration costs have been finalised as at June 2018.

Loss on sale of Telco business - represents sale proceeds less transaction costs.

Impairment - an impairment has been recorded for the investment the Group has in Regional Development Fund.

Compensation costs - Wheeler's 'fee for no service' compensation costs.

Legal costs - costs associated with the Royal Commission.

Litigation costs - costs incurred in relation to a Sandhurst Trustees legal cases, not covered by insurance. As the business to which these litigation costs relate has now been sold, the costs incurred are not considered to be core to the ongoing business of the Bank.

#### Other specific items

Homesafe revaluation gain - realised - represents funds received on completion being the difference between the cash received on completion less the initial funds advanced.

Homesafe funding costs realised - addback of accumulated interest expense on completed contracts since contract initiation. These costs have previously been excluded from cash earnings for the financial year incurred. These adjustments align the realised income and funding costs within the same period.

Refer to prior period ASX result releases for details of prior year specific items.

## 2.2.2 Net interest margin (before revenue share arrangements)

### Net interest margin June 17 to June 18



**Asset mix** - impact of holding lower average liquid asset balances during the year. Higher liquidity was required in FY17 to support the Keystart portfolio acquisition.

**Liability pricing** - deposit rate repricing has occurred over the past 12 months, particularly in term deposit rates as the Bank managed its funding requirements.

**Liability mix** - the continued strong at call deposit growth has had a positive impact on the total cost of deposit funding.

### Net interest margin December 17 to June 18



**Asset pricing** - pricing pressure continued on variable lending portfolios. This was partially offset by reduced hedging expense.

**Asset mix** - a reduction in average balance of liquid assets through ongoing management of liquid position.

**Liability pricing** - rate repricing continued on term deposits as the Bank managed its funding requirements, however this has been partially offset by the higher cost of wholesale funding due to the increase in BBSW rates.

**Liability mix** - the continued strong at call deposit growth has had a positive impact on the total cost of deposits funding.

**Equity contribution** - the contribution to margin from net free liabilities and equity reduced marginally, reflecting lower margins earned by assets funded by these balances.

### Net Interest Income <sup>1</sup>

	Full year		Half year	
	Jun-18	Jun-17	Jun-18	Dec-17
	\$m	\$m	\$m	\$m
Net interest income including specific items <sup>2</sup>	1,305.2	1,213.6	647.5	657.7
Adjustments:				
Fair value adjustments <sup>3</sup>	1.2	2.6	0.5	0.7
<b>Net interest income used in NIM calculation</b>	<b>1,306.4</b>	<b>1,216.2</b>	<b>648.0</b>	<b>658.4</b>
Average interest earning assets <sup>4</sup>	66,007.3	65,418.7	65,868.6	66,109.9
Average interest earning liabilities <sup>4</sup>	62,326.1	61,900.9	62,150.6	62,483.6
Net interest margin	1.98%	1.86%	1.98%	1.98%
Net interest margin before revenue share arrangement	2.36%	2.22%	2.37%	2.36%

<sup>1</sup> Net interest income includes Homesafe unrealised funding costs.

<sup>2</sup> Refer to section 2.1.1 - Statutory net interest income.

<sup>3</sup> Fair value adjustments represent entries created on a business acquisition (Rural Finance).

<sup>4</sup> Offset products have been reclassified from deposits and netted against the corresponding loan balance (June 18 FY: \$2,551.4m, June 17 FY: \$2,303.3m, June 18 HY: \$2,596.0m, December 17 HY: \$2,511.1m).

## 2.2.3 Income

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

Comments on total income when compared to the previous corresponding period:

**Net interest income** increased by \$91.6m, or 7.4%. Refer to 2.2.2 for further analysis.

**Fee income** decreased by \$4.3m, or 2.5%, primarily due to a reduction in fees collected (ATM and transaction fees).

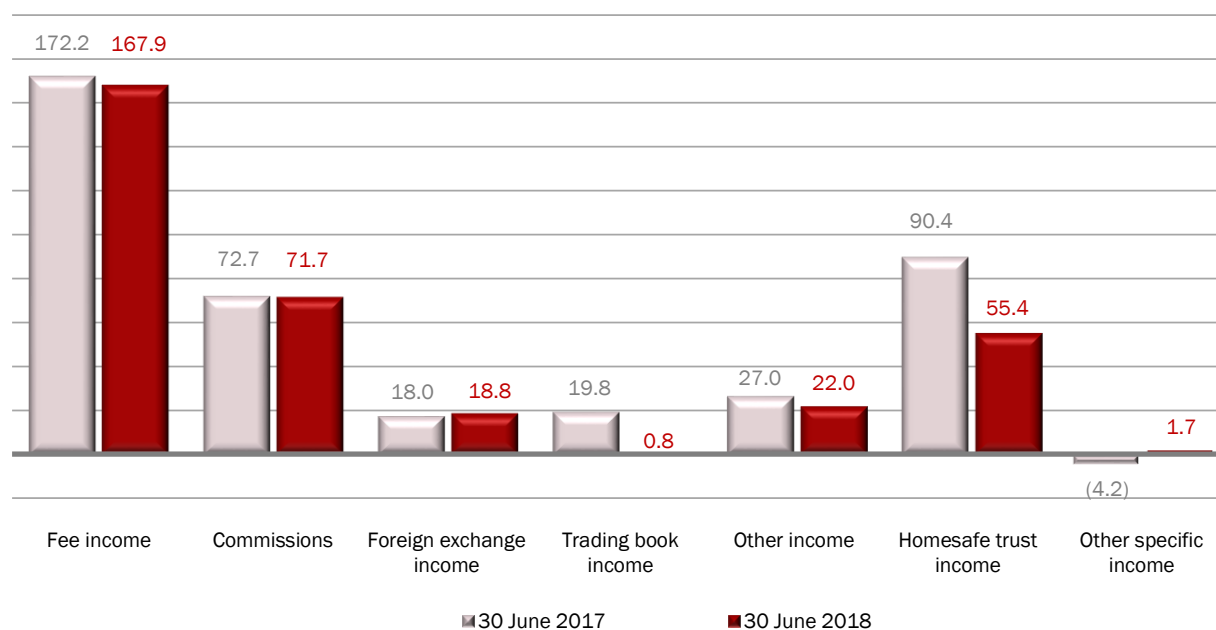
**Trading book income** decreased by \$19.0m, or 96.0% given the stable interest rate environment in the first half, and the second half was impacted by the elevated cash/bill spread.

**Homesafe Trust income** was \$35.0, or 38.7% lower primarily due to slower growth in residential property prices in the markets of Melbourne and Sydney. Refer to section 2.2.4 for further detail.

**Other income** includes factoring income and franchise fees.

**Specific items - other income** increased by \$5.9m. Refer to 2.2.1 for further detail.

### Other income (\$m)



## 2.2.4 Homesafe Trust

	Full Year			Half Year		
	Jun-18	Jun-18	Dec-17	Jun-17	Jun-17	Dec-16
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Homesafe Income</b>						
Discount unwind	20.5	10.1	10.4	18.4	9.4	9.0
Profit on sale	2.3	1.3	1.0	1.7	0.3	1.4
Management fair value adjustment	(3.0)	(1.1)	(1.9)	(4.6)	(2.1)	(2.5)
Property revaluations	35.6	5.5	30.1	74.9	36.4	38.5
<b>Total Income</b>	<b>55.4</b>	<b>15.8</b>	<b>39.6</b>	<b>90.4</b>	<b>44.0</b>	<b>46.4</b>

**Homesafe income** - This includes the amortisation of the discount, property revaluation movements and any movement in management fair value adjustment. Profit on sale represents the difference between cash received on completion versus the carrying value at the time of completion.

	Full Year			Half Year		
	Jun-18	Jun-18	Dec-17	Jun-17	Jun-17	Dec-16
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Homesafe realised income</b>	<b>23.7</b>	<b>10.2</b>	<b>13.5</b>	<b>24.0</b>	<b>10.6</b>	<b>13.4</b>

**Realised** - funds received on completion being the difference between the cash received on completion less the initial funds advanced.

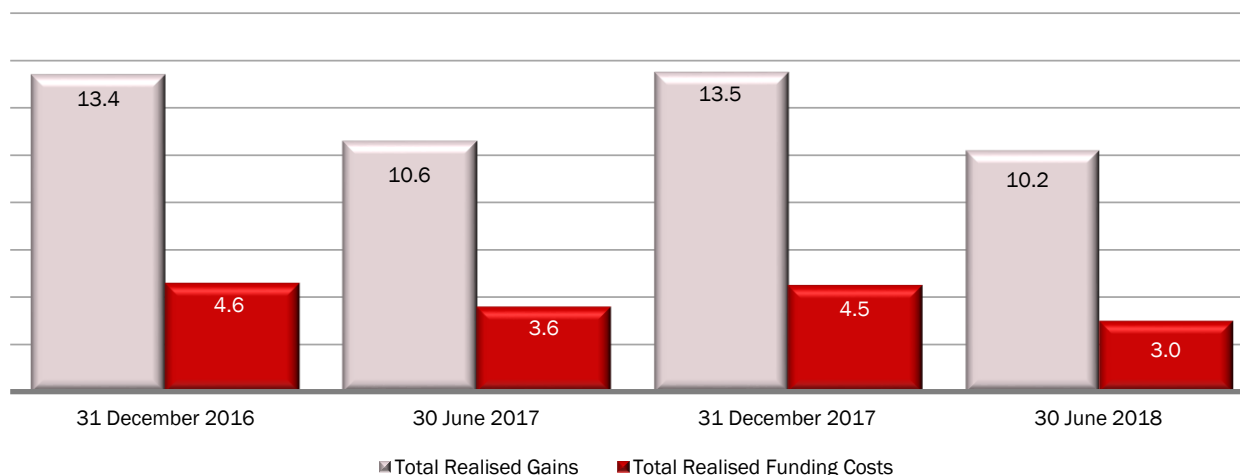
	Full Year			Half Year		
	Jun-18	Jun-18	Dec-17	Jun-17	Jun-17	Dec-16
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Funding Costs</b>						
Funding costs - unrealised	(17.2)	(7.6)	(9.6)	(15.8)	(8.5)	(7.3)
Funding costs - realised	(7.5)	(3.0)	(4.5)	(8.2)	(3.6)	(4.6)

**Funding costs realised** - accumulated interest expense on completed contracts since initial funding.

**Funding costs unrealised** - interest expense on existing contracts.

	As at		As at	
	Jun-18	Dec-17	Jun-17	Dec-16
	\$m	\$m	\$m	\$m
<b>Portfolio balance</b>				
Funded balance	408.1	387.4	370.0	360.9
Property revaluation balance	327.6	322.4	296.3	263.5
<b>Total Investment Portfolio balance</b>	<b>735.7</b>	<b>709.8</b>	<b>666.3</b>	<b>624.4</b>

### Total Realised Gains and Realised Funding Costs (\$m)



## 2.2.5 Operating expenses

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

	Change				Change			
	Jun-18	Jun-17		%	Jun-18	Dec-17		%
Cost to income <sup>1</sup>	55.6%	56.1%	(0.5)	(0.9)	57.0%	54.2%	2.8	5.2
Expenses to average assets	1.31%	1.28%	0.03	2.30	1.34%	1.28%	0.1	4.7
Number of staff (full-time equivalent)	4,426	4,413	13	0.3	4,426	4,387	39	0.9
Staff and related costs to income <sup>2</sup>	30.5%	30.6%	(0.1)	(0.3)	31.5%	29.6%	1.9	6.4

<sup>1</sup> Expenses used in the above ratios are expenses less specific expense items and acquired intangibles amortisation. Income used in the above ratios is income less specific net interest income items and other specific income items.

<sup>2</sup> Excludes redundancy costs.

Comments on individual expense categories when compared to the previous corresponding period are:

**Staff and related costs** - increased by \$16.8m or 3.5% which includes wage and salary increases and lower capitalisation rates.

Salary costs include staff bonuses. Redundancy costs incurred were \$2.3m (June 17: \$4.2m).

**Information technology costs** - increased by \$5.4m or 7.5% due to an increase in software licence fees.

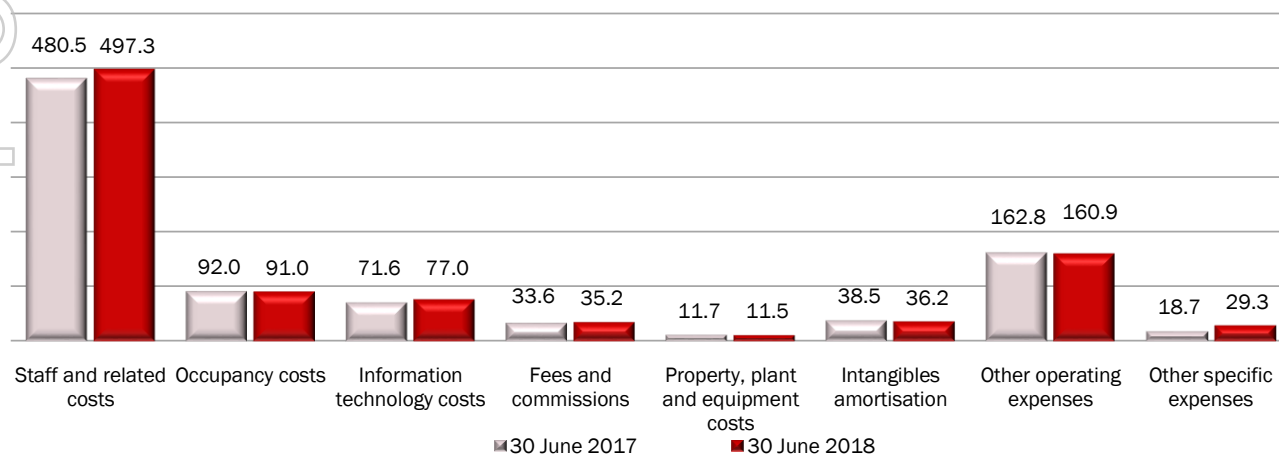
**Amortisation of acquired intangibles** decreased by \$9.5m or 53.7% due to the completed amortisation period for prior business acquisitions associated intangibles.

**Software amortisation** - increased by \$7.2m or 34.6%, due to the completion of a number of large technology projects now being amortised.

**Other administration expenses** - increased by \$4.4m or 6.4%, mainly due to an increase in legal costs relating to Great Southern and external consultancy fees.

**Specific items - other expenses** - increased by \$10.6m or 56.7%. Refer to 2.2.1 for further detail.

### Operating expenses (\$m)



## 2.2.6 Average balance sheet

For the year ended 30 June 2018

	30 June 2018			30 June 2017		
	Average	Interest	Average	Average	Interest	Average
	Balance	12 mths	Rate	Balance	12 mths	Rate
	\$m	\$m	%	\$m	\$m	%
<b>Average balances and rates <sup>1</sup></b>						
<b>Interest earning assets</b>						
Cash and investments	7,814.9	138.4	1.77	8,389.5	143.7	1.71
Loans and other receivables <sup>2,5</sup>	58,192.4	2,522.4	4.33	57,029.2	2,504.7	4.39
<b>Total interest earning assets</b>	<b>66,007.3</b>	<b>2,660.8</b>	<b>4.03</b>	<b>65,418.7</b>	<b>2,648.4</b>	<b>4.05</b>
<b>Non interest earning assets</b>						
Credit provisions	(155.0)			(159.2)		
Other assets	3,051.0			2,993.5		
<b>Total non interest earning assets</b>	<b>2,896.0</b>			<b>2,834.3</b>		
<b>Total assets (average balance)</b>	<b>68,903.3</b>			<b>68,253.0</b>		
<b>Interest bearing liabilities</b>						
Deposits						
Retail <sup>5</sup>	47,833.4	(951.7)	(1.99)	47,764.1	(1,032.0)	(2.16)
Wholesale - domestic	7,992.0	(191.8)	(2.40)	8,252.0	(204.3)	(2.48)
Wholesale - offshore	399.0	(10.5)	(2.63)	375.4	(10.1)	(2.69)
Repurchase agreements	520.4	(7.9)	(1.52)	521.7	(7.9)	(1.51)
Notes payable	4,014.4	(122.4)	(3.05)	3,509.3	(109.1)	(3.11)
Convertible preference shares	857.5	(34.9)	(4.07)	827.3	(36.0)	(4.35)
Subordinated debt	709.4	(35.2)	(4.96)	651.1	(32.8)	(5.04)
<b>Total interest bearing liabilities</b>	<b>62,326.1</b>	<b>(1,354.4)</b>	<b>(2.17)</b>	<b>61,900.9</b>	<b>(1,432.2)</b>	<b>(2.31)</b>
<b>Non interest bearing liabilities and equity</b>						
Other liabilities	1,064.4			1,109.3		
Equity	5,512.8			5,242.8		
<b>Total liabilities and equity (average balance)</b>	<b>68,903.3</b>			<b>68,253.0</b>		
<b>Interest margin and interest spread</b>						
Interest earning assets	66,007.3	2,660.8	4.03	65,418.7	2,648.4	4.05
Interest bearing liabilities	(62,326.1)	(1,354.4)	(2.17)	(61,900.9)	(1,432.2)	(2.31)
<b>Net interest income and interest spread <sup>3,6</sup></b>		<b>1,306.4</b>	<b>1.86</b>		<b>1,216.2</b>	<b>1.74</b>
Interest free liabilities and equity			0.12			0.12
<b>Net interest margin <sup>4</sup></b>			<b>1.98</b>			<b>1.86</b>
<b>Impact of revenue share arrangements</b>						
Net interest margin			1.98			1.86
Add: impact of revenue share arrangements			0.38			0.36
Net interest margin before revenue share arrangements			2.36			2.22

1 Average balance is based on monthly closing balances.

2 Loans and receivables excludes fair value specific items (June 2018 \$1.2m and June 2017 \$2.6m).

3 Interest spread is the difference between the average interest rate earned on assets and the average interest rate paid on funds.

4 Interest margin is the net interest income as a percentage of average interest earning assets.

5 Offset products have been reclassified from deposits and netted against the corresponding loan balance.

6 Net interest income excludes fair value adjustments - refer to section 2.2.2 for net interest income reconciliation.

## 2.2.6 Average balance sheet

For the six months ended 30 June 2018

	30 June 2018			31 December 2017		
	Average	Interest	Average	Average	Interest	Average
	Balance	6 mths	Rate	Balance	6 mths	Rate
	\$m	\$m	%	\$m	\$m	%
<b>Average balances and rates <sup>1</sup></b>						
<b>Interest earning assets</b>						
Cash and investments	7,622.2	67.9	1.80	8,011.4	70.5	1.75
Loans and other receivables <sup>2,5</sup>	58,246.4	1,248.8	4.32	58,098.5	1,273.6	4.35
<b>Total interest earning assets</b>	<b>65,868.6</b>	<b>1,316.7</b>	<b>4.03</b>	<b>66,109.9</b>	<b>1,344.1</b>	<b>4.03</b>
<b>Non interest earning assets</b>						
Credit provisions	(164.7)			(146.8)		
Other assets	3,054.0			3,053.7		
<b>Total non interest earning assets</b>	<b>2,889.3</b>			<b>2,906.9</b>		
<b>Total assets (average balance)</b>	<b>68,757.9</b>			<b>69,016.8</b>		
<b>Interest bearing liabilities</b>						
Deposits						
Retail <sup>5</sup>	47,649.2	(464.4)	(1.97)	48,002.5	(487.3)	(2.01)
Wholesale - domestic	8,237.2	(101.3)	(2.48)	7,720.0	(90.5)	(2.33)
Wholesale - offshore	339.7	(4.7)	(2.79)	456.9	(5.8)	(2.52)
Repurchase agreements	521.0	(4.0)	(1.55)	519.9	(3.9)	(1.49)
Notes payable	3,814.0	(59.2)	(3.13)	4,236.9	(63.2)	(2.96)
Convertible Preference Shares	880.0	(17.4)	(3.99)	838.1	(17.5)	(4.14)
Subordinated debt	709.5	(17.7)	(5.03)	709.3	(17.5)	(4.89)
<b>Total interest bearing liabilities</b>	<b>62,150.6</b>	<b>(668.7)</b>	<b>(2.17)</b>	<b>62,483.6</b>	<b>(685.7)</b>	<b>(2.18)</b>
<b>Non interest bearing liabilities and equity</b>						
Other liabilities	1,043.0			1,065.6		
Equity	5,564.3			5,467.6		
<b>Total liabilities and equity (average balance)</b>	<b>68,757.9</b>			<b>69,016.8</b>		
<b>Interest margin and interest spread</b>						
Interest earning assets	65,868.6	1,316.7	4.03	66,109.9	1,344.1	4.03
Interest bearing liabilities	(62,150.6)	(668.7)	(2.17)	(62,483.6)	(685.7)	(2.18)
<b>Net interest income and interest spread <sup>3,6</sup></b>		<b>648.0</b>	<b>1.86</b>		<b>658.4</b>	<b>1.85</b>
Interest free liabilities and equity			0.12			0.13
<b>Net interest margin <sup>4</sup></b>			<b>1.98</b>			<b>1.98</b>
Net interest margin			1.98			1.98
Add: impact of revenue share arrangements			0.39			0.38
Net interest margin before revenue share arrangements			2.37			2.36

1 Average balance is based on monthly closing balances.

2 Loans and receivables excludes fair value specific items (June 2018 \$0.5m and December 2017 \$0.7m).

3 Interest spread is the difference between the average interest rate earned on assets and the average interest rate paid on funds.

4 Interest margin is the net interest income as a percentage of average interest earning assets.

5 Offset products have been reclassified from deposits and netted against the corresponding loan balance.

6 Net interest income excludes fair value adjustments - refer to section 2.2.2 for net interest income reconciliation.



## 2.2.6 Average balance sheet

For the six months ended 30 June 2017

	30 June 2017			31 December 2016		
	Average	Interest	Average	Average	Interest	Average
	Balance	6 mths	Rate	Balance	6 mths	Rate
	\$m	\$m	%	\$m	\$m	%
<b>Average balances and rates <sup>1</sup></b>						
<b>interest earning assets</b>						
Cash and Investments	7,964.6	67.9	1.72	8,754.4	75.8	1.72
Loans and other receivables <sup>2,5</sup>	57,971.4	1,247.6	4.34	56,181.8	1,257.1	4.44
<b>Total interest earning assets</b>	<b>65,936.0</b>	<b>1,315.5</b>	<b>4.02</b>	<b>64,936.2</b>	<b>1,332.9</b>	<b>4.07</b>
<b>Non interest earning assets</b>						
Credit provisions	(150.1)			(168.8)		
Other assets	3,024.5			2,980.8		
<b>Total non interest earning assets</b>	<b>2,874.4</b>			<b>2,812.0</b>		
<b>Total assets (average balance)</b>	<b>68,810.4</b>			<b>67,748.2</b>		
<b>Interest bearing liabilities and equity</b>						
Deposits						
Retail <sup>5</sup>	48,274.9	(500.1)	(2.09)	47,324.8	(531.9)	(2.23)
Wholesale - domestic	8,074.2	(97.5)	(2.43)	8,459.4	(106.8)	(2.50)
Wholesale - offshore	377.7	(5.0)	(2.67)	344.5	(5.1)	(2.94)
Repurchase agreements	520.6	(3.8)	(1.47)	522.5	(4.1)	(1.56)
Notes payable	3,563.1	(55.2)	(3.12)	3,430.9	(53.9)	(3.12)
Convertible Preference Shares	828.7	(17.7)	(4.31)	825.9	(18.3)	(4.40)
Subordinated debt	709.2	(17.4)	(4.95)	601.3	(15.4)	(5.08)
<b>Total interest bearing liabilities</b>	<b>62,348.4</b>	<b>(696.7)</b>	<b>(2.25)</b>	<b>61,509.3</b>	<b>(735.5)</b>	<b>(2.37)</b>
<b>Non interest bearing liabilities and equity</b>						
Other liabilities	1,129.8			1,077.1		
Equity	5,332.2			5,161.8		
<b>Total liabilities and equity (average balance)</b>	<b>68,810.4</b>			<b>67,748.2</b>		
<b>interest margin and interest spread</b>						
Interest earning assets	65,936.0	1,315.5	4.02	64,936.2	1,332.9	4.07
Interest bearing liabilities	(62,348.4)	(696.7)	(2.25)	(61,509.3)	(735.5)	(2.37)
<b>Net interest income and interest spread <sup>3,6</sup></b>		<b>618.8</b>	<b>1.77</b>		<b>597.4</b>	<b>1.70</b>
Interest free liabilities and equity			0.12			0.12
<b>Net interest margin <sup>4</sup></b>			<b>1.89</b>			<b>1.82</b>
Net interest margin			1.89			1.82
Add: impact of revenue share arrangements			0.37			0.35
Net interest margin before revenue share arrangements			2.26			2.17

1 Average balance is based on monthly closing balances.

2 Loans and receivables excludes fair value specific items (June 2017 \$1.1m and December 2016 \$1.5m).

3 Interest spread is the difference between the average interest rate earned on assets and the average interest rate paid on funds.

4 Interest margin is the net interest income as a percentage of average interest earning assets.

5 Offset products have been reclassified from deposits and netted against the corresponding loan balance.

6 Net interest income excludes fair value adjustments - refer to section 2.2.2 for net interest income reconciliation.

## 2.2.7 Segment results

### Segment reporting

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

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

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

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

Changes to the internal organisational structure of the Group, can cause the Group's operating segment results to change.

Where this occurs, the corresponding segment information for the previous financial year is restated.

### Types of products and services

#### Local connection

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

#### Partner connection

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

#### Agribusiness

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

#### Central functions

Functions not relating directly to a reportable operating segment.

### Accounting policies and inter-segment transactions

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

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

### Major customers

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

### Geographic Information

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

### For the year ended 30 June 2018

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

## 2.2.7 Segment results (continued)

For the year ended 30 June 2017

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

### Reportable segment assets and liabilities

	Operating segments			Total operating segments	Central functions	Total
	Local connection	Partner connection	Agri-business			
	\$m	\$m	\$m			
<b>For the year ended 30 June 2018</b>						
Reportable segment assets	33,960.3	21,789.2	6,542.3	62,291.8	9,148.4	71,440.2
Reportable segment liabilities	43,041.7	5,025.9	4,235.5	52,303.1	9,972.9	62,276.0
<b>For the year ended 30 June 2017</b>						
Reportable segment assets	33,433.5	21,526.4	6,295.4	61,255.3	10,160.2	71,415.5
Reportable segment liabilities	42,821.5	5,598.3	3,906.8	52,326.6	9,704.9	62,031.5
					As at	As at
					June 2018	June 2017
Total assets for operating segments					71,440.2	71,415.5
<b>Total assets</b>					<b>71,440.2</b>	<b>71,415.5</b>
Total liabilities for operating segments					62,276.0	62,031.5
Securitisation funding					3,544.8	3,958.4
<b>Total liabilities</b>					<b>65,820.8</b>	<b>65,989.9</b>

## 2.3 Financial statements

### 2.3.1 Balance sheet metrics

	Half year		Total	Half year		Total	Year on year change	
	Jun-18	Dec-17	FY18	Jun-17	Dec-16	FY17		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
<b>Financial position metrics</b>								
Ordinary equity	5,505.8	5,444.9	<b>5,505.8</b>	5,321.3	5,206.4	<b>5,321.3</b>	184.5	3.5
Retail deposits	50,614.5	50,308.9	<b>50,614.5</b>	50,743.1	50,579.9	<b>50,743.1</b>	(128.6)	(0.3)
Funds under management	5,833.2	5,630.3	<b>5,833.2</b>	5,322.5	4,979.7	<b>5,322.5</b>	510.7	9.6
Loans under management	62,926.9	61,614.8	<b>62,926.9</b>	61,924.1	60,975.7	<b>61,924.1</b>	1,002.8	1.6
New loan approvals	8,089.3	8,110.7	<b>16,200.0</b>	8,330.7	11,724.9	<b>20,055.6</b>	(3,855.6)	(19.2)
> Residential	5,437.7	5,881.2	<b>11,318.9</b>	5,419.3	8,710.5	<b>14,129.8</b>	(2,810.9)	(19.9)
> Non-residential	2,651.6	2,229.5	<b>4,881.1</b>	2,911.4	3,014.4	<b>5,925.8</b>	(1,044.7)	(17.6)
Total provisions and reserves for doubtful debts	307.8	306.2	<b>307.8</b>	282.5	303.3	<b>282.5</b>	25.3	9.0
<b>Capital management metrics</b>								
Common Equity Tier 1 (%)	8.62%	8.61%	<b>8.62%</b>	8.27%	7.97%	<b>8.27%</b>		35
							\$m	%
Credit risk weighted assets (\$m)	34,367.6	33,754.6	<b>34,367.6</b>	34,263.5	34,549.7	<b>34,263.5</b>	104.1	0.30
Total risk weighted assets (\$m)	38,256.4	37,689.6	<b>38,256.4</b>	38,062.3	38,312.1	<b>38,062.3</b>	194.1	0.51
<b>Liquidity risk</b>								
Liquidity coverage ratio	127.1%	125.3%	<b>126.2%</b>	116.0%	119.3%	<b>117.6%</b>		1,110
Net stable funding ratio <sup>1</sup>	110.2%							
<b>Impaired assets</b>								
Gross impaired assets (\$m)	335.8	288.8	<b>335.8</b>	282.6	300.7	<b>282.6</b>	53.2	18.8
Net impaired assets (\$m)	217.5	176.3	<b>217.5</b>	194.1	190.5	<b>194.1</b>	23.4	12.1
								bps
Net impaired loans to gross loans (%)	0.35%	0.29%	<b>0.35%</b>	0.32%	0.32%	<b>0.32%</b>		3

<sup>1</sup> Net stable funding ratio calculated from 1st January 2018.

### 2.3.2 Statement of comprehensive income For the year ended 30 June 2018

	As at Jun-18 \$m	As at Jun-17 \$m
<b>Profit for the period ended 30 June</b>	<b>434.5</b>	<b>429.6</b>
<b>Items which may be reclassified subsequently to profit &amp; loss:</b>		
Net gain/(loss) on available for sale - equity investments	0.2	(1.6)
Net gain on cash flow hedges taken to equity	10.9	45.6
Net unrealised (loss)/gain on available for sale - debt securities	(0.1)	0.9
Transfer to gain on sale of available for sale assets - debt securities	-	0.3
Tax effect on items taken directly to or transferred from equity	(3.3)	(13.6)
<b>Total items that may be reclassified to profit &amp; loss</b>	<b>7.7</b>	<b>31.6</b>
<b>Items which will not be reclassified subsequently to profit &amp; loss:</b>		
Actuarial gain on superannuation defined benefits plan	0.4	0.3
Revaluation of land and buildings	-	0.3
Tax effect on items taken directly to or transferred from equity	(0.1)	(0.2)
<b>Total items that will not be reclassified to profit &amp; loss</b>	<b>0.3</b>	<b>0.4</b>
<b>Total comprehensive income for the period</b>	<b>442.5</b>	<b>461.6</b>

### 2.3.3 Balance sheet As at 30 June 2018

	As at Jun-18 \$m	As at Jun-17 \$m
<b>Assets</b>		
Cash and cash equivalents	1,137.4	996.6
Due from other financial institutions	283.0	277.8
Financial assets held for trading	4,499.5	5,657.6
Financial assets available for sale	469.0	382.0
Financial assets held to maturity	413.2	378.7
Derivatives	29.7	37.8
Net loans and other receivables	61,601.8	60,776.6
Investments in joint ventures accounted for using the equity method	8.9	8.5
Property, plant and equipment	69.9	77.8
Deferred tax assets	117.0	110.8
Investment property	735.7	666.3
Goodwill and other intangible assets	1,650.0	1,663.8
Other assets	424.7	381.2
<b>Total Assets</b>	<b>71,439.8</b>	<b>71,415.5</b>
<b>Liabilities</b>		
Due to other financial institutions	352.5	328.4
Deposits	59,529.5	59,294.1
Notes payable	3,544.8	3,958.4
Derivatives	34.8	59.0
Income tax payable	51.5	21.5
Provisions	136.6	130.8
Deferred tax liabilities	130.9	126.6
Other payables	448.8	532.3
Convertible preference shares	880.9	830.1
Subordinated debt	709.2	708.7
<b>Total Liabilities</b>	<b>65,819.5</b>	<b>65,989.9</b>
<b>Net Assets</b>	<b>5,620.3</b>	<b>5,425.6</b>
<b>Equity</b>		
Share capital	4,523.3	4,448.7
Reserves	121.1	112.3
Retained earnings	975.9	864.6
<b>Total Equity</b>	<b>5,620.3</b>	<b>5,425.6</b>

### 2.3.4 Statement of changes in equity

For the year ended 30 June 2018

	Attributable to owners of Bendigo and Adelaide Bank Limited				
	Issued	Other	Retained	Reserves	Total
	ordinary	issued			
	capital	capital			
\$m	\$m	\$m	\$m	\$m	
<b>Opening balance at 1 July 2017</b>	<b>4,456.7</b>	<b>(8.0)</b>	<b>864.6</b>	<b>112.3</b>	<b>5,425.6</b>
<b>Comprehensive income:</b>					
Profit for the period	-	-	434.5	-	434.5
Other comprehensive income	-	-	0.3	7.7	8.0
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>434.8</b>	<b>7.7</b>	<b>442.5</b>
<b>Transactions with owners in their capacity as owners:</b>					
Shares issued	73.2	-	-	-	73.2
Transfer from Asset Revaluation reserve	-	-	0.4	(0.4)	-
Reduction in employee share ownership plan (ESOP) shares	-	1.4	-	-	1.4
Movement in operational risk reserve	-	-	(1.5)	1.4	(0.1)
Movement in share based payment	-	-	2.6	0.1	2.7
Equity dividends	-	-	(325.0)	-	(325.0)
<b>Closing balance at 30 June 2018</b>	<b>4,529.9</b>	<b>(6.6)</b>	<b>975.9</b>	<b>121.1</b>	<b>5,620.3</b>

### For the year ended 30 June 2017

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

### 2.3.5 Cash flow statement

For the year ended 30 June 2018

	Jun-18 \$m	Jun-17 \$m
<b>Cash flows from operating activities</b>		
Interest and other items of a similar nature received	2,701.8	2,656.0
Interest and other costs of finance paid	(1,379.9)	(1,417.8)
Receipts from customers (excluding effective interest)	284.8	311.3
Payments to suppliers and employees	(995.2)	(842.0)
Dividends received	1.3	2.0
Income taxes paid	(175.2)	(192.7)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>437.6</b>	<b>516.8</b>
<b>(Increase)/decrease in operating assets</b>		
Net increase in balance of loans and other receivables	(904.1)	(3,611.7)
Net decrease in balance of investment securities	944.0	775.8
<b>increase/(decrease) in operating liabilities</b>		
Net increase in balance of deposits	235.4	1,717.7
Net increase/(decrease) in balance of notes payable	(413.6)	657.7
<b>Cash flows from operating activities</b>	<b>299.3</b>	<b>56.3</b>
<b>Cash flows related to investing activities</b>		
Cash paid for purchases of property, plant and equipment	(15.4)	(10.4)
Cash proceeds from sale of property, plant and equipment	1.4	1.8
Cash paid for purchases of investment property	(59.1)	(50.2)
Cash proceeds from sale of investment property	45.0	47.7
Cash proceeds from sale of equity investments	-	0.5
Cash paid for purchases of equity investments	(0.1)	(4.4)
Proceeds from return of capital/dividend from JV partners	2.0	-
Cash paid for purchases of intangible assets	(2.9)	(1.3)
<b>Net cash flows used in investing activities</b>	<b>(29.1)</b>	<b>(16.3)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of ordinary/convertible preference shares	52.7	64.4
Proceeds from issue of subordinated debt	0.5	125.3
Dividends paid	(251.9)	(217.2)
Repayment received for ESOP shares	1.4	2.2
Payment of share issue costs	(6.5)	(0.3)
<b>Net cash flows from financing activities</b>	<b>(203.8)</b>	<b>(25.6)</b>
Net increase in cash and cash equivalents	66.4	14.4
Cash and cash equivalents at the beginning of the period	1,001.5	987.1
<b>Cash and cash equivalents at the end of period</b>	<b>1,067.9</b>	<b>1,001.5</b>

## 2.3.6 Lending

	Full year ending				Six months ending			
	Jun-18	Jun-17	Change		Jun-18	Dec-17	Change	
	\$m	\$m	\$m	%	\$m	\$m	\$m	%
<b>Approvals - by security</b>								
Residential	11,318.9	14,129.8	(2,810.9)	(19.9)	5,437.7	5,881.2	(443.5)	(7.5)
Non-residential	4,881.1	5,925.8	(1,044.7)	(17.6)	2,651.6	2,229.5	422.1	18.9
<b>Total approvals</b>	<b>16,200.0</b>	<b>20,055.6</b>	<b>(3,855.6)</b>	<b>(19.2)</b>	<b>8,089.3</b>	<b>8,110.7</b>	<b>(21.4)</b>	<b>(0.3)</b>
	As at	As at	Change		As at	As at	Change	
	Jun-18	Jun-17	Change		Jun-18	Dec-17	Change	
	\$m	\$m	\$m	%	\$m	\$m	\$m	%
<b>Gross loan balance - by security</b>								
<b>Residential</b>	<b>44,139.7</b>	<b>43,115.5</b>	<b>1,024.2</b>	<b>2.4</b>	<b>44,139.7</b>	<b>43,262.2</b>	<b>877.5</b>	<b>2.0</b>
<b>Business</b>								
Accommodation and food services	350.5	381.6	(31.1)	(8.1)	350.5	350.6	(0.1)	-
Administrative and support services	33.5	32.6	0.9	2.8	33.5	32.9	0.6	1.8
Agriculture, forestry and fishing	6,229.3	6,019.7	209.6	3.5	6,229.3	5,795.4	433.9	7.5
Arts and recreation services	86.8	94.7	(7.9)	(8.3)	86.8	93.4	(6.6)	(7.1)
Construction	1,123.6	1,230.0	(106.4)	(8.7)	1,123.6	1,134.2	(10.6)	(0.9)
Education and training	61.4	69.3	(7.9)	(11.4)	61.4	72.5	(11.1)	(15.3)
Electricity, gas, water and waste services	20.6	20.9	(0.3)	(1.4)	20.6	19.1	1.5	7.9
Financial and insurance services	432.6	374.1	58.5	15.6	432.6	416.4	16.2	3.9
Health care and social assistance	531.6	482.1	49.5	10.3	531.6	514.4	17.2	3.3
Information media & telecommunications	33.2	32.4	0.8	2.5	33.2	31.4	1.8	5.7
Manufacturing	273.6	288.5	(14.9)	(5.2)	273.6	282.5	(8.9)	(3.2)
Mining	17.4	19.3	(1.9)	(9.8)	17.4	16.8	0.6	3.6
Other Services	220.4	216.5	3.9	1.8	220.4	212.8	7.6	3.6
Professional, scientific & technical services	238.4	259.4	(21.0)	(8.1)	238.4	238.8	(0.4)	(0.2)
Public administration and safety	53.0	73.8	(20.8)	(28.2)	53.0	61.4	(8.4)	(13.7)
Rental, hiring and real estate services	3,924.6	4,186.4	(261.8)	(6.3)	3,924.6	4,100.0	(175.4)	(4.3)
Retail trade	434.8	457.8	(23.0)	(5.0)	434.8	435.6	(0.8)	(0.2)
Transport, postal and warehousing	145.6	141.2	4.4	3.1	145.6	138.7	6.9	5.0
Wholesale trade	168.7	167.4	1.3	0.8	168.7	169.0	(0.3)	(0.2)
Other	249.2	246.9	2.3	0.9	249.2	238.3	10.9	4.6
<b>Total business</b>	<b>14,628.8</b>	<b>14,794.6</b>	<b>(165.8)</b>	<b>(1.1)</b>	<b>14,628.8</b>	<b>14,354.2</b>	<b>274.6</b>	<b>1.9</b>
Margin lending	1,694.7	1,726.1	(31.4)	(1.8)	1,694.7	1,684.0	10.7	0.6
Unsecured	1,017.2	953.5	63.7	6.7	1,017.2	945.3	71.9	7.6
Other	313.1	338.4	(25.3)	(7.5)	313.1	333.4	(20.3)	(6.1)
<b>Total gross loan balance</b>	<b>61,793.5</b>	<b>60,928.1</b>	<b>865.4</b>	<b>1.4</b>	<b>61,793.5</b>	<b>60,579.1</b>	<b>1,214.4</b>	<b>2.0</b>
<b>Gross loan balance - by purpose</b>								
Residential	42,365.9	41,261.8	1,104.1	2.7	42,365.9	41,421.2	944.7	2.3
Consumer	2,559.8	2,571.4	(11.6)	(0.5)	2,559.8	2,451.4	108.4	4.4
Margin lending	1,694.7	1,726.1	(31.4)	(1.8)	1,694.7	1,684.0	10.7	0.6
Commercial	15,173.1	15,368.8	(195.7)	(1.3)	15,173.1	15,022.5	150.6	1.0
<b>Total gross loan balance</b>	<b>61,793.5</b>	<b>60,928.1</b>	<b>865.4</b>	<b>1.4</b>	<b>61,793.5</b>	<b>60,579.1</b>	<b>1,214.4</b>	<b>2.0</b>
<b>Loans under management (gross balance)</b>								
On-balance sheet	61,793.5	60,928.1	865.4	1.4	61,793.5	60,579.1	1,214.4	2.0
Off-balance sheet loans under management	1,133.4	996.0	137.4	13.8	1,133.4	1,035.7	97.7	9.4
<b>Total Group loans under management</b>	<b>62,926.9</b>	<b>61,924.1</b>	<b>1,002.8</b>	<b>1.6</b>	<b>62,926.9</b>	<b>61,614.8</b>	<b>1,312.1</b>	<b>2.1</b>

**Loans under management** represent the gross balance of loans held and managed by the Group categorised as follows:

**On-balance sheet loans** are the gross balance of loans and factoring receivables held by the consolidated Group.

**Off-balance sheet loans** under management represent the gross balance of off-balance sheet loans managed by wholly-owned subsidiaries of Bendigo and Adelaide Bank Limited.



## 2.3.7 Asset quality

	As at	As at	Change		As at	As at	Change	
	Jun-18	Jun-17	\$m	%	Jun-18	Dec-17	\$m	%
<b>Impaired loans<sup>1</sup></b>								
Full-performing <sup>2</sup>	13.9	0.3	13.6	4,533.3	13.9	0.1	13.8	13,800.0
Part-performing <sup>3</sup>	56.6	33.5	23.1	69.0	56.6	33.3	23.3	70.0
Non-performing	261.3	201.6	59.7	29.6	261.3	250.9	10.4	4.1
Restructured loans <sup>4</sup>	4.0	47.2	(43.2)	(91.5)	4.0	4.5	(0.5)	(11.1)
<b>Total impaired assets</b>	<b>335.8</b>	<b>282.6</b>	<b>53.2</b>	<b>18.8</b>	<b>335.8</b>	<b>288.8</b>	<b>47.0</b>	<b>16.3</b>
Less: specific impairment provisions	(118.3)	(88.5)	(29.8)	33.7	(118.3)	(112.5)	(5.8)	5.2
<b>Net impaired assets</b>	<b>217.5</b>	<b>194.1</b>	<b>23.4</b>	<b>12.1</b>	<b>217.5</b>	<b>176.3</b>	<b>41.2</b>	<b>23.4</b>
Portfolio facilities - past due 90 days, not well secured	4.8	5.8	(1.0)	(17.2)	5.8	3.6	2.2	61.1
Less: specific impairment provisions	(1.0)	(1.0)	-	0.0	(1.0)	(0.7)	(0.3)	42.9
<b>Net portfolio facilities</b>	<b>3.8</b>	<b>4.8</b>	<b>(1.0)</b>	<b>(20.8)</b>	<b>4.8</b>	<b>2.9</b>	<b>1.9</b>	<b>65.5</b>
<b>Past due 90 days</b>								
Well secured (excluding commercial arrangement loans)	414.0	431.6	(17.6)	(4.1)	414.0	414.4	(0.4)	(0.1)
Great Southern portfolio	50.5	79.0	(28.5)	(36.1)	50.5	62.7	(12.2)	(19.5)
<b>Ratios</b>	<b>%</b>	<b>%</b>	<b>%</b>		<b>%</b>	<b>%</b>	<b>%</b>	
Total impaired loans to gross loans	0.54%	0.46%	0.08%		0.54%	0.48%	0.06%	
Total impaired loans to total assets	0.47%	0.40%	0.07%		0.47%	0.41%	0.06%	
Net impaired loans to gross loans	0.35%	0.32%	0.03%		0.35%	0.29%	0.06%	
Provision coverage <sup>5</sup>	91.7%	100.0%	(8.3%)		91.7%	106.0%	(14.3%)	

<sup>1</sup> A facility is classified as impaired regardless of whether it is 90 days or more past due (arrears) when there is doubt as to whether the full amounts due (interest and principal) will be achieved in a timely manner. This is the case even if the full extent of the loss cannot be clearly determined.

<sup>2</sup> Includes loans where the value of the security has reduced below the value of the outstanding loans but repayments are being made in accordance with the loan contract.

<sup>3</sup> Includes loans where the value of the security has reduced below the value of the outstanding loans but partial repayments are being made in accordance with the loan contract.

<sup>4</sup> Restructured loans are facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customers.

<sup>5</sup> Provision coverage is calculated as total provisions and reserves for doubtful debts - divided by total impaired assets.

## 2.3.8 Credit expenses

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

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

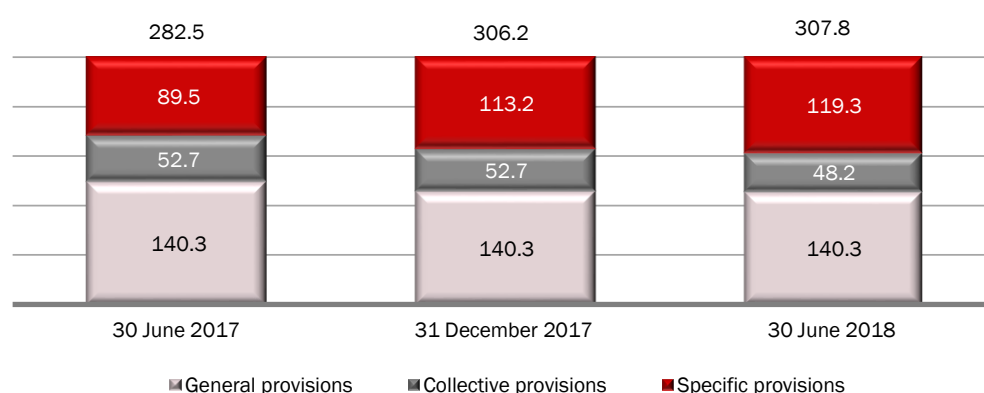
	As at Jun-18			As at Dec-17		
	%	%	bps	%	%	bps
<b>Ratios</b>						
Credit expenses to gross loans	0.11%	0.12%	(1)	0.08%	0.15%	(7)
Credit expenses (excluding Great Southern) to gross loans	0.10%	0.08%	2	0.07%	0.13%	(6)
Total provision/reserve for doubtful debts to gross loans	0.50%	0.46%	4	0.50%	0.51%	(1)
Collective provision and GRCL to risk-weighted assets	0.49%	0.51%	(2)	0.49%	0.51%	(2)

	Specific	Collective	GRCL	Total
	\$m	\$m	\$m	\$m
<b>Movements in provisions and reserves</b>				
Balance at July 2017	89.5	52.7	140.3	282.5
Provision for doubtful debts expense to profit and loss	79.8	(4.5)	-	75.3
Bad debts written off - previously provided for	(50.0)	-	-	(50.0)
<b>Balance at 30 June 2018</b>	<b>119.3</b>	<b>48.2</b>	<b>140.3</b>	<b>307.8</b>
Balance at July 2016	125.3	53.4	146.9	325.6
Provision for doubtful debts expense to profit and loss	72.1	(0.7)	-	71.4
Appropriation of movement in general reserve for credit losses	-	-	(6.6)	(6.6)
Bad debts written off - previously provided for	(107.9)	-	-	(107.9)
<b>Balance at 30 June 2017</b>	<b>89.5</b>	<b>52.7</b>	<b>140.3</b>	<b>282.5</b>

Movements in specific and collective provisions are reflected as an expense in the income statement.

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

### Total provisions and reserves for doubtful debts (\$m)



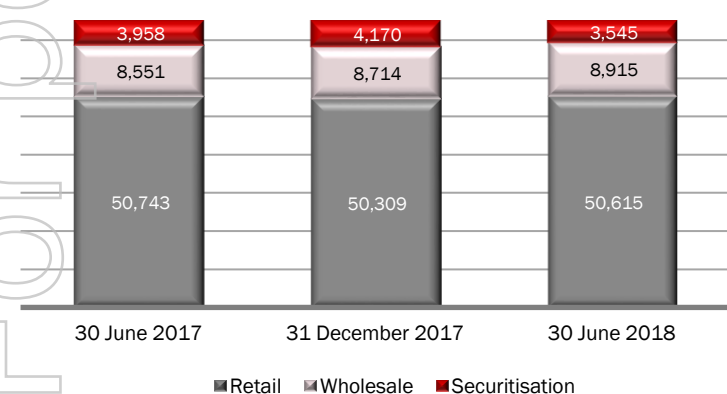
## 2.3.9 Deposits and funds under management

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

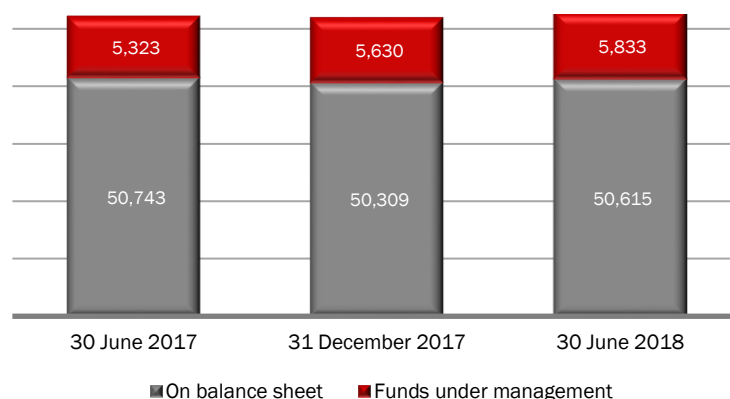
**Assets under management** include those funds deposited in the Sandhurst Trustees Limited Common Funds, which are invested in cash, cash enhanced and mortgage investments on behalf of investors. These funds are off-balance sheet.

**Other managed funds** include funds deposited for investment in managed investment products and superannuation funds managed off-balance sheet by Sandhurst Trustees Limited and Adelaide Managed Funds Limited. Also included are portfolios of loans managed by the Bank and third parties who contribute to first loss coverage.

Funding mix (\$m)



Retail deposits and funds under management (\$m)



## 2.3.10 Capital and shareholder returns

### 2.3.10.1 Assets and capital

	As at		Change		As at		Change	
	Jun-18	Jun-17			Jun-18	Dec-17		
	\$m	\$m	\$m	%	\$m	\$m	\$m	%
Group assets	71,439.8	71,415.5	24.3	-	71,439.8	71,261.9	177.9	0.2
Capital adequacy								
Total regulatory capital	4,916.0	4,743.4	172.6	3.6	4,916.0	4,891.7	24.3	0.5
Risk-weighted assets	38,256.4	38,062.3	194.1	0.5	38,256.4	37,689.6	566.8	1.5
	%	%	%		%	%	%	
Risk-weighted capital adequacy	12.85%	12.46%	0.39%	3.1	12.85%	12.98%	(0.13%)	(1.0)
- Tier 1	10.96%	10.49%	0.47%	4.5	10.96%	10.98%	(0.02%)	(0.2)
- Tier 2	1.89%	1.97%	(0.08%)	(4.1)	1.89%	2.00%	(0.11%)	(5.5)
- Common Equity Tier 1	8.62%	8.27%	0.35%	4.2	8.62%	8.61%	0.01%	0.1

### 2.3.10.2 Capital adequacy

The Australian Prudential Regulation Authority (APRA) guidelines require capital to be allocated against credit, operational and market risk.

Banks must maintain a ratio of qualifying capital (comprising Common Equity Tier 1, Additional Tier 1 and Tier 2 capital), to risk weighted assets.

The Bank adopted the "standard model" approach prescribed by APRA to calculate the Bank's capital position.

<b>Risk weighted capital ratios</b>	Jun-18	Dec-17	Jun-17
Tier 1	10.96%	10.98%	10.49%
Tier 2	1.89%	2.00%	1.97%
<b>Total capital ratio</b>	<b>12.85%</b>	<b>12.98%</b>	<b>12.46%</b>
<b>Common Equity Tier 1</b>	<b>8.62%</b>	<b>8.61%</b>	<b>8.27%</b>
<b>Regulatory capital</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
<b>Common Equity Tier 1</b>			
Contributed capital	4,529.9	4,506.8	4,456.8
Retained profits & reserves	707.9	670.7	621.7
Accumulated other comprehensive income (and other reserves)	(23.9)	(26.0)	(31.2)
Less:			
Intangible assets, cash flow hedges and capitalised expenses	1,813.2	1,807.9	1,797.4
Net deferred tax assets	64.7	57.5	59.5
Equity exposures	36.8	40.6	40.8
Other adjustments as per APRA advice	1.5	1.6	1.3
<b>Total common equity tier 1 capital</b>	<b>3,297.7</b>	<b>3,243.9</b>	<b>3,148.3</b>
Additional Tier 1 capital instruments	895.9	895.9	843.2
<b>Total Additional Tier 1 Capital</b>	<b>895.9</b>	<b>895.9</b>	<b>843.2</b>
<b>Total Tier 1 Capital</b>	<b>4,193.6</b>	<b>4,139.8</b>	<b>3,991.5</b>
<b>Tier 2</b>			
Tier 2 capital instruments	547.4	575.5	575.5
General reserve for credit losses/collective provision (net of tax effect)	175.0	176.4	176.4
<b>Total Tier 2 Capital</b>	<b>722.4</b>	<b>751.9</b>	<b>751.9</b>
<b>Total regulatory capital</b>	<b>4,916.0</b>	<b>4,891.7</b>	<b>4,743.4</b>
<b>Total risk weighted assets</b>	<b>38,256.4</b>	<b>37,689.6</b>	<b>38,062.3</b>

## 2.3.10.2 Capital adequacy (continued)

Risk-weighted assets	As at	As at	Change		As at	As at	Change	
	Jun-18	Jun-17	\$m	%	Jun-18	Dec-17	\$m	%
Credit risk	34,367.6	34,263.5	104.1	0.3	34,367.6	33,754.6	613.0	1.8
Market risk	212.4	231.8	(19.4)	(8.4)	212.4	293.6	(81.2)	(27.7)
Operational risk	3,676.4	3,567.0	109.4	3.1	3,676.4	3,641.4	35.0	1.0
<b>Total risk-weighted assets</b>	<b>38,256.4</b>	<b>38,062.3</b>	<b>194.1</b>	<b>0.5</b>	<b>38,256.4</b>	<b>37,689.6</b>	<b>566.8</b>	<b>1.5</b>

Key movements in the June 2018 year include:

### > Common Tier 1

Dividend reinvestment plan increased capital by \$73.2m.

Retained earnings net increase of \$86.2m net of Homesafe unrealised gains.

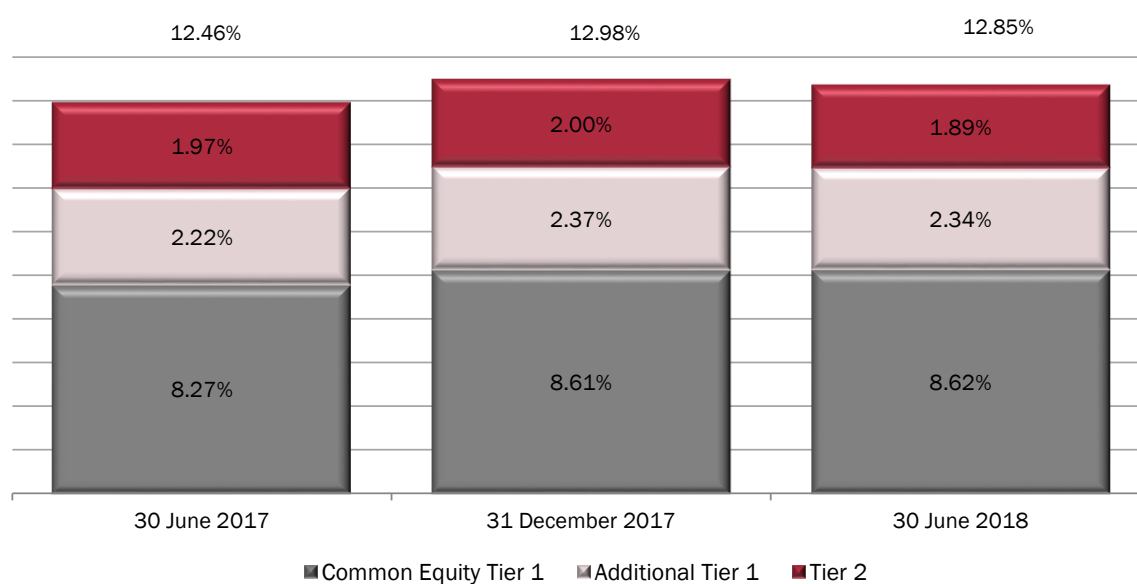
### > Additional Tier 1

In December 2017 convertible preference share securities BENPD were redeemed and BENPG were issued with an increase to capital of \$52.7m.

### > Risk weighted assets

Risk weighted assets increased during the year due to loan growth offset by securitisation of residential mortgages of \$750.0m.

## Capital adequacy (%)



Capital adequacy is calculated in accordance with regulations set down by APRA.

### Pillar 3 Disclosures

Details on the market disclosures required under Pillar 3, per prudential standard APS 330 "Public Disclosure", are provided on the Group's website at:

[http://www.bendigoadelaide.com.au/public/shareholders/announcements/aps\\_330.asp](http://www.bendigoadelaide.com.au/public/shareholders/announcements/aps_330.asp)

### 2.3.10.3 Shareholder returns

	Full year ending				Six months ending			
	Jun-18	Jun-17	Change		Jun-18	Dec-17	Change	
<b>Earnings per ordinary share</b>	cents	cents	cents	%	cents	cents	cents	%
Statutory earnings per ordinary share (weighted average)	89.9	90.9	(1.0)	(1.1)	41.8	48.1	(6.3)	(13.1)
Cash earnings per ordinary share (weighted average)	92.1	88.5	3.6	4.1	45.3	46.8	(1.5)	(3.2)
Diluted earnings per ordinary share (weighted average)	81.2	82.9	(1.7)	(2.1)	37.6	43.7	(6.1)	(14.0)
<b>Weighted average number of ordinary shares</b>	000's	000's	Change		000's	000's	Change	
Weighted average number of ordinary shares - used in basic and cash basis EPS calculations	483,353	472,416	10,937	2.3	485,176	481,535	3,641	0.8
Weighted average number of ordinary shares - used in diluted EPS calculations	564,956	548,896	16,059	2.9	572,105	558,104	14,001	2.5
<b>Ratios</b>	%	%	Change		%	%	Change	
Return on average ordinary equity (after tax)	8.03%	8.32%	(0.29%)		7.50%	8.57%	(1.07%)	
Return on average ordinary equity (cash basis)	8.23%	8.10%	0.13%		8.13%	8.33%	(0.20%)	
Return on average tangible equity (cash basis)	11.52%	11.61%	(0.09%)		11.33%	11.71%	(0.38%)	
Return on average assets (after tax)	0.63%	0.63%	0.00%		0.59%	0.67%	(0.08%)	
Return on average assets (cash basis)	0.65%	0.61%	0.04%		0.64%	0.65%	(0.01%)	

Cash earnings used in cash basis earnings per ordinary share is profit after tax adjusted for specific items after tax and amortisation on acquired intangibles.

Earnings used in the statutory earnings per ordinary share is, profit after tax including specific items.

Dilutive preference shares include convertible preference shares.

Ordinary equity for use in these ratios is represented by total ordinary shares and retained earnings.

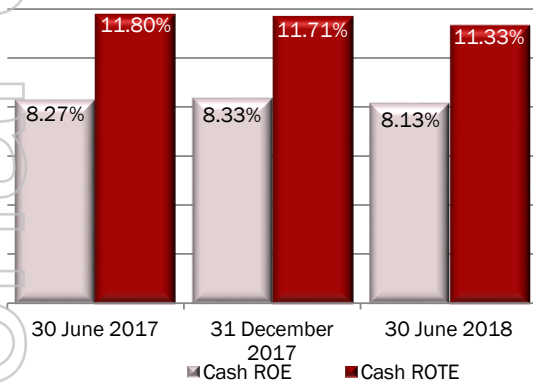
Tangible equity for use in these ratios is represented by net assets less intangible assets.

	As at	As at	Change		As at	As at	Change	
	Jun-18	Jun-17	\$m	%	Jun-18	Dec-17	\$m	%
Ordinary issued capital	4,529.9	4,456.7	73.2	1.6	4,529.9	4,506.7	23.2	0.5
Retained earnings	975.9	864.6	111.3	12.9	975.9	938.2	37.7	4.0
<b>Total ordinary equity</b>	<b>5,505.8</b>	<b>5,321.3</b>	<b>184.5</b>	<b>3.5</b>	<b>5,505.8</b>	<b>5,444.9</b>	<b>60.9</b>	<b>1.1</b>
<b>Average ordinary equity</b>	<b>5,408.4</b>	<b>5,162.9</b>			<b>5,451.8</b>	<b>5,365.1</b>		
<b>Average tangible ordinary equity</b>	<b>3,864.9</b>	<b>3,601.9</b>			<b>3,914.3</b>	<b>3,815.6</b>		

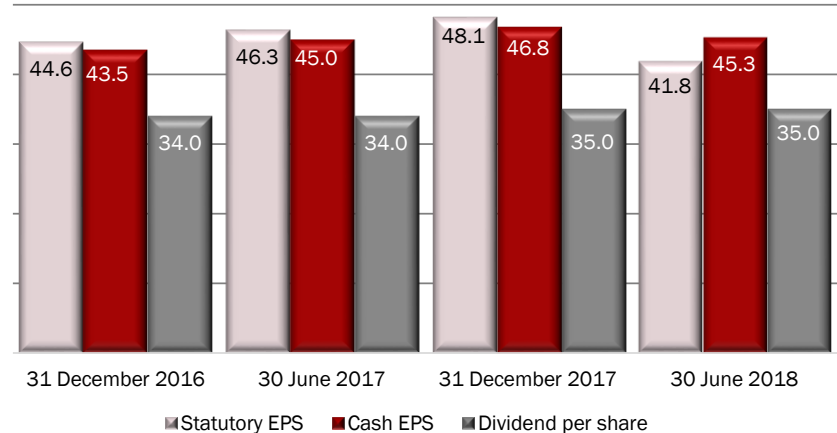
### 2.3.10.3 Shareholder returns (continued)

Reconciliation of earnings used in the calculation of earnings per ordinary share	Full year ending		Half year ending	
	Jun-18	Jun-17	Jun-18	Dec-17
	\$m	\$m	\$m	\$m
Net Profit after tax	434.5	429.6	202.8	231.7
<b>Total basic earnings</b>	<b>434.5</b>	<b>429.6</b>	<b>202.8</b>	<b>231.7</b>
Earnings used in calculating basic earnings per ordinary share	434.5	429.6	202.8	231.7
Add back : Dividends accrued and/or paid on dilutive convertible preference shares	24.4	25.2	12.1	12.3
<b>Total diluted earnings</b>	<b>458.9</b>	<b>454.8</b>	<b>214.9</b>	<b>244.0</b>
Earnings used in calculating basic earnings per ordinary share	434.5	429.6	202.8	231.7
Add back: Amortisation of acquired intangibles (after tax)	5.8	12.4	1.3	4.5
Add back: Specific income and expense items (after tax)	4.8	(23.7)	15.7	(10.9)
<b>Total cash earnings</b>	<b>445.1</b>	<b>418.3</b>	<b>219.8</b>	<b>225.3</b>

#### Statutory and cash return on equity (%)



#### Earnings per share and dividend per share (cents)



### 2.3.10.4 Dividends

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

<sup>1</sup> Payout ratio is calculated as dividend per share divided by the applicable earnings per ordinary share.

#### 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 seven trading days commencing 6 September 2018. Shares issued under this Plan rank equally with all other ordinary shares.

#### Bonus Share Scheme

The Bonus Share Scheme provides shareholders with the opportunity to elect to receive a number of bonus shares issued for no consideration instead of receiving a dividend. The issue price of the shares is equal to the volume weighted average share price of Bendigo and Adelaide Bank shares traded on the Australian Securities Exchange over the seven trading days commencing 6 September 2018. Shares issued under this scheme rank equally with all other ordinary shares.

The last date for the receipt of an election notice for participation in either the Dividend Reinvestment Plan or Bonus Share Scheme for the 2018 final dividend is 5 September 2018.

## 2.4 Additional notes

### 2.4.1 Analysis of intangible assets

	Balance sheet		Amortisation/ impairment expense	
	Carrying value			
	Jun-18	Jun-17	Jun-18	Jun-17
	\$m	\$m	\$m	\$m
Goodwill	1,442.3	1,442.3	-	-
Trustee licence	8.4	8.4	-	-
Software	190.4	196.0	28.0	20.8
Customer lists	0.7	2.0	1.4	2.1
Core deposits	-	3.2	3.2	8.4
Trade name	1.5	2.0	0.4	0.7
Customer relationship	2.2	4.4	2.2	5.5
Management rights - Adelaide Bank	4.5	5.5	1.0	1.0
<b>Total intangible assets and goodwill</b>	<b>1,650.0</b>	<b>1,663.8</b>	<b>36.2</b>	<b>38.5</b>

### 2.4.2 Net tangible assets per share

	Jun-18	Jun-17
	\$m	\$m
<b>Net tangible assets per ordinary share</b>	<b>\$8.16</b>	<b>\$7.85</b>
<b>Net tangible assets</b>		
Net assets	5,620.3	5,425.6
Intangibles	(1,650.0)	(1,663.8)
<b>Net tangible assets attributable to ordinary shareholders</b>	<b>3,970.3</b>	<b>3,761.8</b>
<b>Number of fully paid ordinary shares on issue - 000's</b>	<b>486,418</b>	<b>479,206</b>

### 2.4.3 Investments accounted for using the equity method

	Ownership interest held by		Balance date
	consolidated entity		
	June 2018	June 2017	
	%	%	
<b>Joint Arrangements</b>			
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
<b>Associates</b>			
Aegis Group <sup>1</sup>	49.5	49.5	30 June
Bendigo Telco Ltd	30.5	30.5	30 June
Dancoor Community Finances Ltd	49.0	49.0	30 June
Homebush Financial Services Ltd	49.0	49.0	30 June
TicToc Online Pty Ltd	32.7	30.7	30 June

<sup>1</sup> Aegis Group - economic interest is 23.5%.

All joint arrangements and associates are incorporated in Australia.



## 2.4.4 Credit ratings

	Short term	Long term	Outlook
Standard & Poor's	A-2	BBB+	Stable
Fitch Ratings	F2	A-	Stable
Moody's	P-2	A3	Stable

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

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

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

## 2.4.5 Issued capital

Changes to issued and quoted securities during the period:

Ordinary Shares <sup>1</sup>	Number of Shares	\$m
Fully paid ordinary shares at 30 June 2017	479,206,464	4,456.7
Shares issued:		
September 2017 - Dividend reinvestment plan at \$11.39	4,390,045	50.0
September 2017 - Bonus share scheme (in lieu of dividend payment) at \$11.39	266,098	-
March 2018 - Dividend reinvestment plan at \$10.70	2,159,544	23.2
March 2018 - Bonus share scheme (in lieu of dividend payment) at \$10.70	396,330	-
<b>Total ordinary shares at 30 June 2018</b>	<b>486,418,481</b>	<b>4,529.9</b>

<sup>1</sup> BEN - ASX code Ordinary Fully Paid Shares

## 2.4.6 AASB 9 Financial instruments

AASB9 Financial Instruments is effective for the Group 1 July 2018, which addresses Classification and Measurement, Impairment and Hedge accounting.

### Classification and Measurement

AASB 9 introduces a principles-based approach to the classification of financial assets which is based on our business model for managing the assets and the contractual cash flow characteristics of the asset.

As a result of the application of the new standard there will be some reclassifications in categories within the balance sheet. A minor adjustment to retained earnings will be recorded to reflect the changes to remeasurement of some assets.

There are no changes to the classification of financial liabilities.

### Hedge Accounting

AASB 9 introduces a new hedge accounting model that expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The new model no longer specifies quantitative measures for effectiveness testing.

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under AASB 9 and as such there will be no change to the existing approach.

## 2.4.6 AASB 9 Financial instruments (continued)

### Impairment

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

The standard requires entities to incorporate past, current and forward looking economic conditions when estimating expected losses. The guiding principle of the expected credit loss model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. There are two measurement bases:

- > 12-month ECL (Stage 1), which applies to all items from initial recognition, as long as there is no significant deterioration in credit quality; and
- > Lifetime ECL (Stage 2 & 3), which applies when a significant increase in credit risk has occurred.

The impact of moving between 12 month and lifetime ECL and the application of forward looking information has the potential for provisions to be more volatile under AASB 9 than AASB 139. The determination of a significant increase in credit risk takes into account many different factors and will vary by product and business segment.

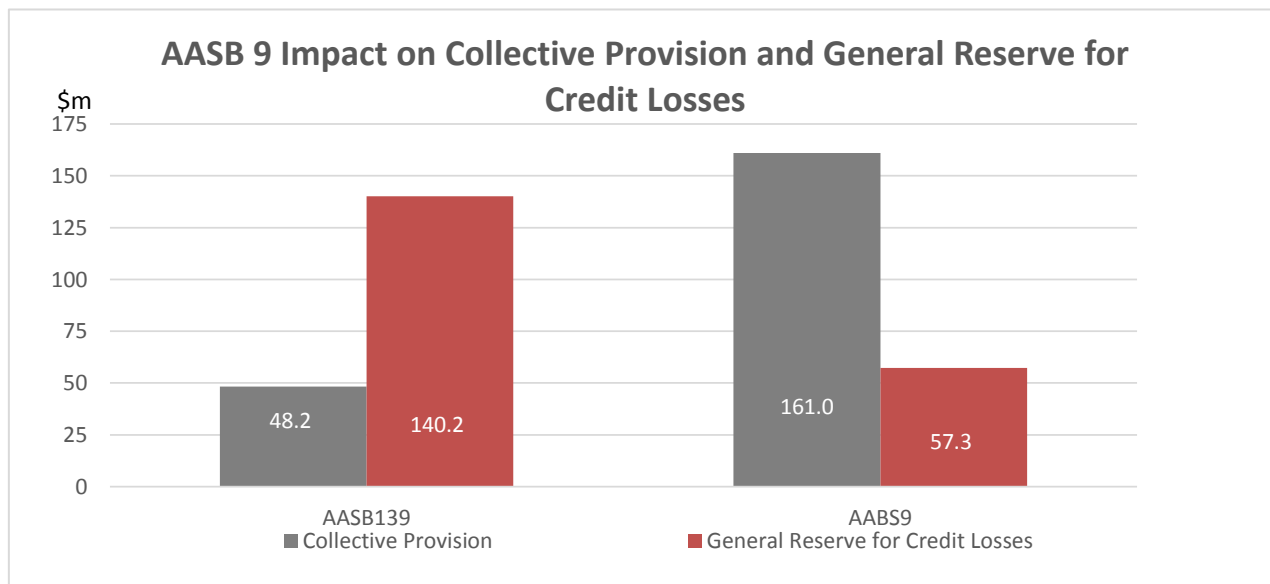
The Group has developed models used to calculate the expected credit loss impairment.

The initial impact will be recognised in opening retained earnings.

The increase in impairment provisions on transition to AASB9 is not reflective of any change in the underlying portfolio credit quality.

Total regulatory capital will be unchanged however there will be a reduction in CET1 of 8bps from 1 July 2018.

Below is a summary of the initial impacts:



As a result of the application of the new ECL approach under AASB9, we expect the following impacts to the Group's provisions and retained earnings:

- > The collective provision will increase by \$112.8m with a corresponding decrease to retained earnings. As a result of this impact an associated deferred tax adjustment will be made for \$33.8m along with a corresponding increase to retained earnings.
- > The general reserve for credit losses will decrease by \$82.9m with a corresponding increase to retained earnings.
- > The Group's total capital position remains unchanged due to the movement between provisions and retained earnings offsetting one another.

Common Equity Tier 1 will reduce by 8bps.



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