

Appendix 4D

Half Year Results

For the period ended 31 December 2017

Released 12 February 2018

ABN 11 068 049 178



Appendix 4D: Half Year Results

Contents

1	Appendix 4D: half year results	3	3	Statutory half year financial report	27
1.1	Company details and reporting period	3	3.0	Corporate Information	27
1.2	Results for announcement to the market	3	3.1	Directors' Report	28
1.3	Cash earnings results	3	3.1.1	Directors	28
1.4	Events after balance date	3	3.1.2	Review of operations	28
1.5	ASX Appendix 4D table	3	3.1.3	Significant changes in the state of affairs	29
1.6	Highlights	4	3.1.4	Events after balance sheet date	29
1.7	Key highlights	4	3.1.5	Independence of auditor	29
2	Half year results	4	3.2	Income statement	31
2.1	Financial summary	4	3.3	Statement of comprehensive income	31
2.1.1	Profit	4	3.4	Balance sheet	32
2.1.2	Cash earnings reconciliation	5	3.5	Statement of changes in equity	33
2.1.3	Financial metrics	6	3.6	Cash flow statement	34
2.2	Income statement	8	3.7	Notes to and forming part of the financial statements	35
2.3	Results commentary	9	3.7.1	Corporate information	35
2.3.1	Specific items	9	3.7.2	Summary of significant accounting policies	35
2.3.2	Net interest margin	10	3.7.2.1	Basis of preparation	35
2.3.3	Income	11	3.7.2.2	Changes in accounting policies	35
2.3.4	Homesafe Trust	12	3.7.2.3	Significant accounting judgements, estimates and assumptions	36
2.3.5	Operating expenses	13	3.7.3	Segment results	36
2.3.6	Lending	14	3.7.4	Income tax	39
2.3.7	Asset quality	15	3.7.5	Dividends paid and payable	39
2.3.8	Bad and doubtful debts	16	3.7.6	Earnings per ordinary share	40
2.3.9	Deposits and funds under management	17	3.7.7	Return on average ordinary equity	41
2.3.10	Average balance sheet	18	3.7.8	Cash flow information	41
2.3.11	Capital and shareholder returns	20	3.7.9	Share capital	41
2.3.11.1	Assets and capital	20	3.7.10	Financial instruments	42
2.3.11.2	Capital adequacy	20	3.7.11	Contingent assets and liabilities	46
2.3.11.3	Shareholder returns	22	3.8	Events after balance sheet date	46
2.3.11.4	Dividends	23		Directors' declaration	47
2.4	Additional notes	24		External auditors review report	48
2.4.1	Analysis of intangible assets	24			
2.4.2	Net tangible assets per share	24			
2.4.3	Investments accounted for using the equity method	24			
2.4.4	Credit ratings	25			
2.4.5	Issued capital	25			

1 Appendix 4D: Half year results

1.1 Company details and reporting period

Bendigo and Adelaide Bank Limited
ABN 11 068 049 178

Reporting period - six months ended: 31 December 2017
Previous corresponding period - six months ended: 31 December 2016

1.2 Results for announcement to the market

Income from operations		6.0% to \$842.9 m
Profit after tax from ordinary activities		10.9% to \$231.7 m
Net profit after tax attributable to Owners of the Company		10.9% to \$231.7 m

Dividends

Current financial year 2018	Date payable	Amount per security
Interim dividend - fully franked	29 March 2018	35.0 cents
Record date for determining entitlements	2 March 2018	

Previous financial year 2017	Date paid	Amount per security
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

Cash earnings attributable to Owners of the Company		10.7% to \$225.3 m
Cash earnings per share		7.6% to 46.8 cents

See note 2.1.1 and 2.3.11.3 for full details

1.4 Events after balance date

No other matters or circumstances have arisen since the end of the half 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.

1.5 ASX Appendix 4D table

	Page
➤ Details of reporting period and previous period	3
➤ Results for announcement to the market	3
➤ Commentary on results	9
➤ Net tangible assets per ordinary share	24
➤ Details of individual and total dividends	3
➤ Dividend dates	3
➤ Details of any dividend or distribution reinvestment plans in operation	23
➤ Details of associates and joint arrangement entities	24
➤ 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 have been subject to an independent review by our external auditors. There is no dispute or qualification to the financial accounts.	
➤ Half year financial statements Refer to pages 27 to 46 of the attached 31 December 2017 half year profit announcement.	

1.6 Highlights

➤ Statutory profit	↑ 10.9% to \$231.7m
➤ Statutory earnings per share	↑ 7.8% to 48.1 cents
➤ Cash earnings	↑ by 10.7% to \$225.3m
➤ Cash earnings per share	↑ 7.6% to 46.8 cents
➤ CET1 ratio of 8.61% an	↑ of 64 basis points compared to December 2016

1.7 Key highlights

- On a statutory basis, net profit was \$231.7m compared to \$209.0m in December 2016.
- Cash earnings¹ was \$225.3m compared to \$203.5m in December 2016.
- On a cash earnings basis:
 - Net interest income increased \$63.4m to \$663.5m. Net interest margin (before revenue share arrangements) increased by 18 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.
 - Expenses increased by 2.0% or \$8.8m due to an increase in software amortisation, legal fees relating to Great Southern and consultancy fees.
 - Bad debts were up \$6.5m or 16.3%. This increase was driven by provisions raised for commercial exposures.
- Impaired assets have decreased by \$11.9m or 4.0%.
- Great Southern past due 90 days has reduced by \$40.5m or 39.2%, other lending past due 90 days has decreased by \$16.7m or 3.9%.
- Common Equity Tier 1 ratio was up 64 basis points to 8.61% compared to December 2016. Total capital was 12.98% compared to 12.20% in December 2016.
- The interim dividend has been increased to 35 cents.

¹ Cash earning adjustments are outlined in section 2.1.2 and 2.3.1.

2 Half year results

2.1 Financial summary

2.1.1 Profit

	Dec-17	Jun-17	Change		Dec-16	Change	
	\$m	\$m	\$m	%	\$m	\$m	%
Profit before tax	339.1	323.6	15.5	4.8	304.7	34.4	11.3
Specific items before tax	(24.7)	(23.9)	(0.8)	(3.3)	(25.2)	0.5	2.0
Profit before tax and specific items	314.4	299.7	14.7	4.9	279.5	34.9	12.5
Profit after tax attributable to Owners of the Company	231.7	220.6	11.1	5.0	209.0	22.7	10.9
Specific items after tax	(17.2)	(16.7)	(0.5)	(3.0)	(18.1)	0.9	5.0
Other specific items after tax	6.3	4.9	1.4	28.6	6.2	0.1	1.6
Amortisation of acquired intangibles after tax	4.5	6.0	(1.5)	(25.0)	6.4	(1.9)	(29.7)
Cash earnings after tax	225.3	214.8	10.5	4.9	203.5	21.8	10.7

2.1 Financial summary (continued)

2.1.2 Cash earnings reconciliation

For the half year ended 31 December 2017

	Cash Adjustments										Homesafe realised income	Cash earnings
	Statutory profit	Fair value adjustments	Homesafe unrealised adjustments	Hedge ineffectiveness	Profit on sale of Estate business	Integration costs	Impairment charge/(reversal)	Litigation costs	Amortisation of intangibles	Cash earnings sub-total ¹		
	\$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
Total income	842.9	0.7	(30.0)	(1.1)	-	-	-	-	-	812.5	9.0	821.5
Credit expenses	(46.3)	-	-	-	-	-	-	-	-	(46.3)	-	(46.3)
Operating expenses	(457.5)	-	-	-	-	5.3	0.4	-	6.3	(445.5)	-	(445.5)
Net profit before tax	339.1	0.7	(30.0)	(1.1)	-	5.3	0.4	-	6.3	320.7	9.0	329.7
Tax expense	(107.4)	(0.2)	9.0	0.3	-	(1.6)	-	-	(1.8)	(101.7)	(2.7)	(104.4)
Net profit after tax	231.7	0.5	(21.0)	(0.8)	-	3.7	0.4	-	4.5	219.0	6.3	225.3

For the half year ended 30 June 2017

	Cash Adjustments										Homesafe realised income	Cash earnings
	Statutory profit	Fair value adjustments	Homesafe unrealised adjustments	Hedge ineffectiveness	Profit on sale of Estate business	Integration costs	Impairment charge/(reversal)	Litigation costs	Amortisation of intangibles	Cash earnings sub-total ¹		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	617.7	1.1	8.5	-	-	-	-	-	-	627.3	(3.6)	623.7
Other income	196.5	-	(44.0)	0.8	(3.9)	-	-	-	-	149.4	10.6	160.0
Total income	814.2	1.1	(35.5)	0.8	(3.9)	-	-	-	-	776.7	7.0	783.7
Credit expenses	(32.0)	-	-	-	-	-	-	-	-	(32.0)	-	(32.0)
Operating expenses	(458.6)	-	-	-	-	7.2	0.1	6.3	8.6	(436.4)	-	(436.4)
Net profit before tax	323.6	1.1	(35.5)	0.8	(3.9)	7.2	0.1	6.3	8.6	308.3	7.0	315.3
Tax expense	(103.0)	(0.4)	10.7	(0.3)	1.2	(2.1)	-	(1.9)	(2.6)	(98.4)	(2.1)	(100.5)
Net profit after tax	220.6	0.7	(24.8)	0.5	(2.7)	5.1	0.1	4.4	6.0	209.9	4.9	214.8

For the half year ended 31 December 2016

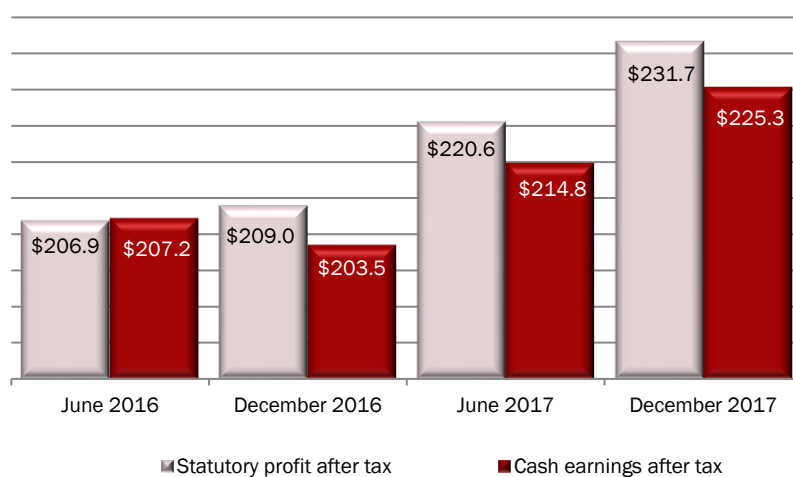
	Cash Adjustments										Homesafe realised income	Cash earnings
	Statutory profit	Fair value adjustments	Homesafe unrealised adjustments	Hedge ineffectiveness	Profit on sale of Estate business	Integration costs	Impairment charge/(reversal)	Litigation costs	Amortisation of intangibles	Cash earnings sub-total ¹		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	595.9	1.5	7.3	-	-	-	-	-	-	604.7	(4.6)	600.1
Other income	199.4	-	(46.4)	7.3	-	-	-	-	-	160.3	13.4	173.7
Total income	795.3	1.5	(39.1)	7.3	-	-	-	-	-	765.0	8.8	773.8
Credit expenses	(39.8)	-	-	-	-	-	-	-	-	(39.8)	-	(39.8)
Operating expenses	(450.8)	-	-	-	-	6.0	(0.9)	-	9.1	(436.6)	-	(436.6)
Net profit before tax	304.7	1.5	(39.1)	7.3	-	6.0	(0.9)	-	9.1	288.6	8.8	297.4
Tax expense	(95.7)	(0.4)	11.7	(2.2)	-	(1.9)	(0.1)	-	(2.7)	(91.3)	(2.6)	(93.9)
Net profit after tax	209.0	1.1	(27.4)	5.1	-	4.1	(1.0)	-	6.4	197.3	6.2	203.5

1 Cash earnings subtotal is equal to cash earnings before Homesafe realised income.

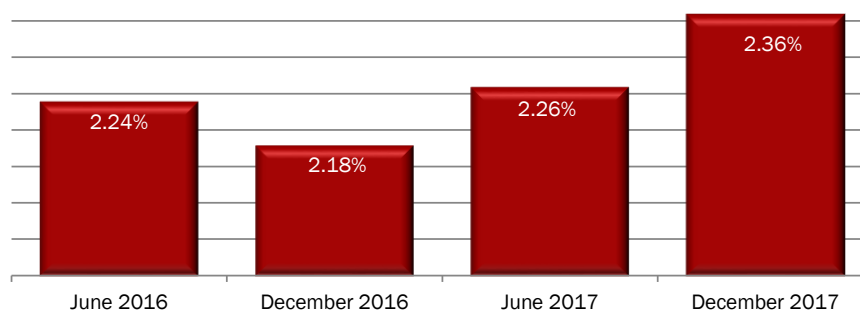
2.1.3 Financial metrics

	Dec-17 Half	Jun-17 Half	Dec-16 Half	Jun-16 Half	Dec-16 to Dec-17	
	\$m	\$m	\$m	\$m	\$m	%
Financial performance metrics						
Profit after tax attributable to Owners of the Company	231.7	220.6	209.0	206.9	22.7	10.9
Cash earnings (after tax)	225.3	214.8	203.5	207.2	21.8	10.7
Net interest income (statutory)	657.7	617.7	595.9	581.1	61.8	10.4
Net interest income (cash)	663.5	623.7	600.1	586.8	63.4	10.6
Total other income (statutory)	185.2	196.5	199.4	190.3	(14.2)	(7.1)
Total other income (cash)	158.0	160.0	173.7	167.4	(15.7)	(9.0)
Bad and doubtful debts	46.3	32.0	39.8	23.5	6.5	16.3
Expenses (statutory)	457.5	458.6	450.8	448.8	6.7	1.5
Expenses (cash)	445.5	436.4	436.6	431.9	8.9	2.0
	%	%	%	%	bps	change
Financial performance ratios						
Cost to income ratio	54.2%	55.7%	56.4%	57.3%	(220.0)	
Net interest margin before revenue share arrangements	2.36%	2.26%	2.18%	2.24%	18.0	
Net interest margin after revenue share arrangements	1.98%	1.89%	1.83%	1.89%	15.0	

Statutory profit and cash earnings (\$m)



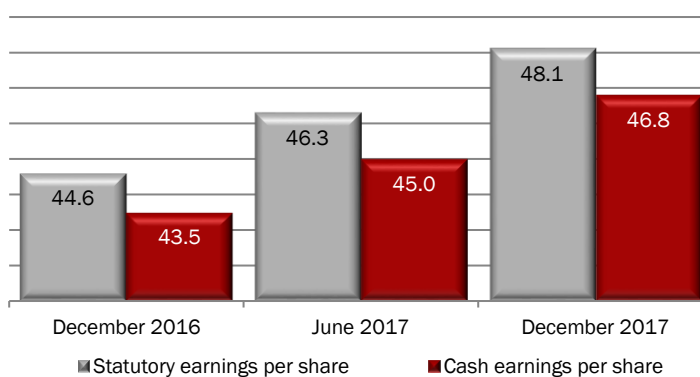
Net interest margin before revenue share arrangements (%)



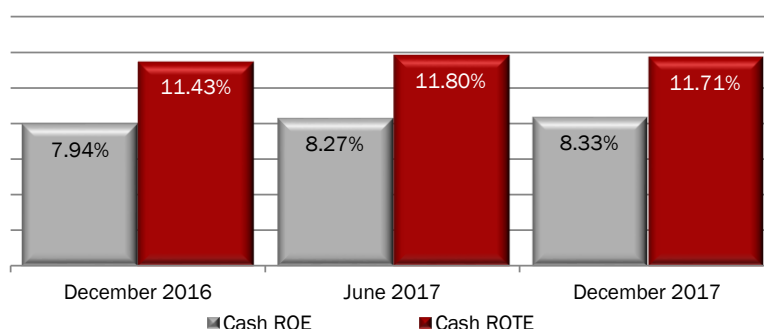
2.1.3 Financial metrics (continued)

	Dec-17 Half	Jun-17 Half	Dec-16 Half	Jun-16 Half	Dec-16 to Dec-17	
	\$m	\$m	\$m	\$m	\$m	%
Financial position metrics						
Ordinary equity	5,444.9	5,321.3	5,206.4	5,037.6	238.5	4.6
Retail deposits	50,308.9	50,743.1	50,579.9	48,445.3	(271.0)	(0.5)
Funds under management	5,630.3	5,322.5	4,979.7	4,684.1	650.6	13.1
Loans under management	61,614.8	61,924.1	60,975.7	58,286.2	639.1	1.0
New loan approvals	8,110.7	8,330.7	11,724.9	8,844.7	(3,614.2)	(30.8)
> Residential	5,881.2	5,419.3	8,710.5	5,588.3	(2,829.3)	(32.5)
> Non-residential	2,229.5	2,911.4	3,014.4	3,256.4	(784.9)	(26.0)
Total provisions and reserves for doubtful debts	306.2	282.5	303.3	325.6	2.9	1.0
	%	%	%	%	bps change	
Financial position ratios						
Return on average ordinary equity (after tax)	8.57%	8.49%	8.15%	8.40%	42	
Return on average ordinary equity (cash basis)	8.33%	8.27%	7.94%	8.41%	39	
Return on average tangible equity (cash basis)	11.71%	11.80%	11.43%	12.21%	28	
	cents	cents	cents	cents	cps change	
Key shareholder ratios						
Earnings per ordinary share (statutory basis)	48.1	46.3	44.6	44.8	3.5	
Earnings per ordinary share (cash basis)	46.8	45.0	43.5	44.9	3.3	
Dividend per share - fully franked	35.0	34.0	34.0	34.0	1.0	

Statutory EPS and cash EPS (cents)



ROE and ROTE (%)



2.2 Income statement

For the period ended 31 December 2017

	Dec-17 \$m	Jun-17 \$m	Dec-16 \$m
Income			
Interest income	1,344.1	1,315.5	1,332.9
Interest expense	(676.1)	(688.2)	(728.2)
Net interest income	668.0	627.3	604.7
Specific net interest income items	(10.3)	(9.6)	(8.8)
Total net interest income	657.7	617.7	595.9
Other income	144.5	149.4	160.3
Specific other income items	40.7	47.1	39.1
Total other income	185.2	196.5	199.4
Total income	842.9	814.2	795.3
Expenses			
Bad and doubtful debts	(46.3)	(32.0)	(39.8)
Operating expenses	(451.8)	(445.0)	(445.7)
Specific other expense items	(5.7)	(13.6)	(5.1)
Total operating expenses	(457.5)	(458.6)	(450.8)
Profit before income tax expense	339.1	323.6	304.7
Income tax expense	(107.4)	(103.0)	(95.7)
Profit after income tax expense attributable to Owners of the Company	231.7	220.6	209.0
Specific items after tax	(10.9)	(11.8)	(11.9)
Amortisation of acquired intangibles after tax	4.5	6.0	6.4
Cash earnings	225.3	214.8	203.5
Earnings per ordinary share (cents per share)	cents	cents	cents
Basic	48.1	46.3	44.6
Cash	46.8	45.0	43.5
Diluted	43.7	42.4	40.5
Franked dividends per share	35.0	34.0	34.0

2.3 Results commentary

2.3.1 Specific items

The reported profit after tax for the half year ended 31 December 2017 of \$231.7 million included the following specific items:

	Dec-17		Jun-17		Dec-16	
	Before Tax	After Tax	Before Tax	After Tax	Before Tax	After Tax
	\$m	\$m	\$m	\$m	\$m	\$m
Items included in interest income						
Fair value adjustments - interest expense	(0.7)	(0.5)	(1.1)	(0.7)	(1.5)	(1.1)
Homesafe funding costs - unrealised	(9.6)	(6.7)	(8.5)	(6.0)	(7.3)	(5.1)
Total specific net interest income items	(10.3)	(7.2)	(9.6)	(6.7)	(8.8)	(6.2)
Items included in other income						
Hedge ineffectiveness	1.1	0.8	(0.8)	(0.5)	(7.3)	(5.1)
Profit on sale of Estates business	-	-	3.9	2.7	-	-
Homesafe Trust - revaluation income	39.6	27.7	44.0	30.8	46.4	32.5
Total specific other income items	40.7	28.5	47.1	33.0	39.1	27.4
Items included in operating expenses						
Integration costs	(5.3)	(3.7)	(7.2)	(5.1)	(6.0)	(4.1)
Impairment (charge)/reversal	(0.4)	(0.4)	(0.1)	-	0.9	1.0
Litigation costs	-	-	(6.3)	(4.4)	-	-
Total specific operating expense items	(5.7)	(4.1)	(13.6)	(9.5)	(5.1)	(3.1)
Items included in income tax expense						
Tax impacts relating to prior year impairment losses	-	-	-	(0.1)	-	-
Total specific income tax benefit	-	-	-	(0.1)	-	-
Total specific items attributable to the Group	24.7	17.2	23.9	16.7	25.2	18.1
Other specific items						
Homesafe revaluation (gain) - realised	(13.5)	(9.5)	(10.6)	(7.4)	(13.4)	(9.4)
Homesafe funding costs - realised	4.5	3.2	3.6	2.5	4.6	3.2
Total other specific items attributable to the Group	(9.0)	(6.3)	(7.0)	(4.9)	(8.8)	(6.2)
Amortisation of acquired intangibles	(6.3)	(4.5)	(8.6)	(6.0)	(9.1)	(6.4)

Specific net 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 period.

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.

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

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

2.3.2 Net interest margin (before revenue share arrangements)



Asset Pricing - rate repricing has occurred over the past 6 months in interest only and investment portfolios given changes to regulatory requirements.

Liability repricing - rate repricing has occurred over the past 6 months particularly term deposit rates and as the Bank manages its funding requirements.

Equity contribution - the contribution to margin from net free liabilities and equity increased, reflecting higher margins earned by assets funded by these balances.

Cash Net Interest Income ¹

	Half year		
	Dec-17	Jun-17	Dec-16
	\$m	\$m	\$m
Net interest income including specific items ²	657.7	617.7	595.9
Adjustments:			
Fair value adjustments ³	0.7	1.1	1.5
Net interest income used in NIM calculation	658.4	618.8	597.4
Average interest earning assets ⁴	66,109.9	65,911.9	64,933.8
Average interest earning liabilities ⁴	62,483.6	62,348.4	61,509.6
Net interest margin	1.98%	1.89%	1.83%
Net interest margin before revenue share arrangement	2.36%	2.26%	2.18%

¹ Cash net interest income includes Homesafe unrealised funding costs.

² Refer to section 2.3.3 - Total net interest income including specific items.

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

⁴ Offset products have been reclassified from deposits and netted against the corresponding loan balance (December 17 HY: \$2,511.1m, June 17 HY: \$2,377.5m, December 16 HY: \$2,232.7m).

2.3.3 Income

	Dec-17	Jun-17	Change		Dec-16	Change	
	\$m	\$m	\$m	%	\$m	\$m	%
Net interest income	668.0	627.3	40.7	6.5	604.7	63.3	10.5
Homesafe funding costs - unrealised	(9.6)	(8.5)	(1.1)	(12.9)	(7.3)	(2.3)	(31.5)
Specific items - fair value adjustments	(0.7)	(1.1)	0.4	36.4	(1.5)	0.8	53.3
Total net interest income including specific items	657.7	617.7	40.0	6.5	595.9	61.8	10.4
Other income							
Fee income	84.7	84.4	0.3	0.4	87.8	(3.1)	(3.5)
Commissions	35.2	37.6	(2.4)	(6.4)	35.1	0.1	0.3
Foreign exchange income	9.2	8.9	0.3	3.4	9.1	0.1	1.1
Trading book revaluation income	3.2	7.2	(4.0)	(55.6)	12.6	(9.4)	(74.6)
Other	12.2	11.3	0.9	8.0	15.7	(3.5)	(22.3)
Total other income	144.5	149.4	(4.9)	(3.3)	160.3	(15.8)	(9.9)
Specific other income items							
Homesafe Trust - revaluation income	39.6	44.0	(4.4)	(10.0)	46.4	(6.8)	(14.7)
Other non interest income	1.1	3.1	(2.0)	(64.5)	(7.3)	8.4	115.1
Total other specific income	40.7	47.1	(6.4)	(13.6)	39.1	1.6	4.1
Total other income including specific items	185.2	196.5	(11.3)	(5.8)	199.4	(14.2)	(7.1)
Total income	842.9	814.2	28.7	3.5	795.3	47.6	6.0

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

Interest income increased by \$61.8m, or 10.4%. Refer to 2.3.2 for further analysis.

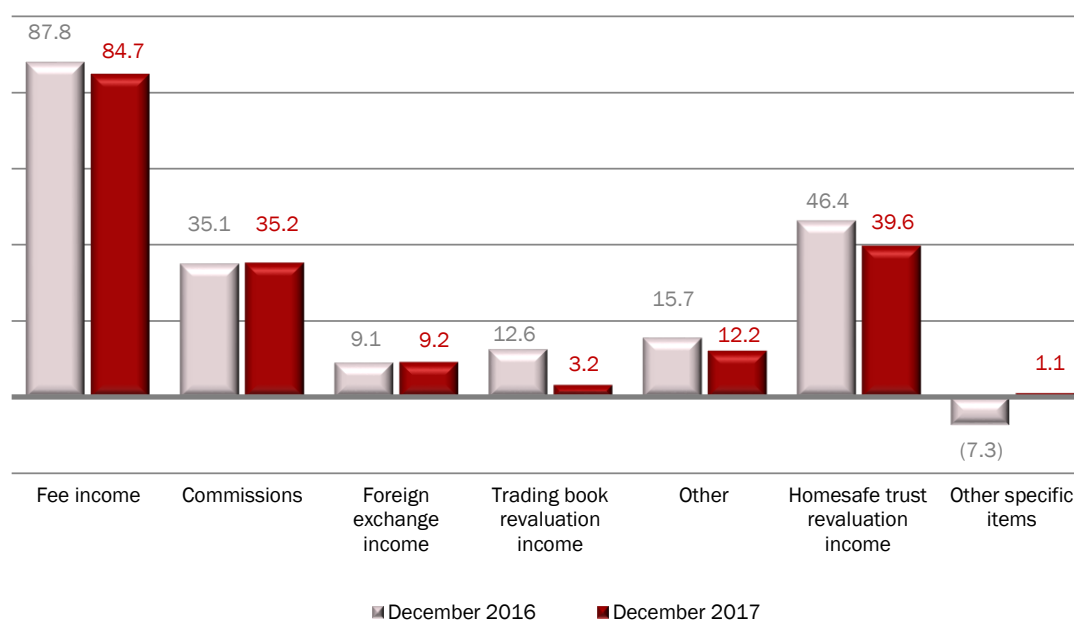
Fees decreased by \$3.1m, or 3.5%, primarily due to a higher cost in interchange fees particularly for contactless electronic transactions and a reduction in ATM fees charged to customers.

Trading book revaluation income - decreased by \$9.4m or 74.6% as trading activity produced lower income as volatility remained subdued given the stable interest rate environment.

Homesafe trust revaluation income was \$6.8m lower primarily due to slower growth in residential property prices in the markets of Melbourne and Sydney.

Specific items - other non interest income increased by \$8.4m. Refer to 2.3.1 for further detail.

Non-interest income (\$m)



2.3.4 Homesafe Trust

	Half Year		
	Dec-17	Jun-17	Dec-16
	\$m	\$m	\$m
Homesafe income			
Discount unwind	10.4	9.4	9.0
Profit on sale	1.0	0.3	1.4
Management fair value adjustment	(1.9)	(2.1)	(2.5)
Property revaluations	30.1	36.4	38.5
Total income	39.6	44.0	46.4

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.

	Half Year		
	Dec-17	Jun-17	Dec-16
	\$m	\$m	\$m
Homesafe realised income	13.5	10.6	13.4

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

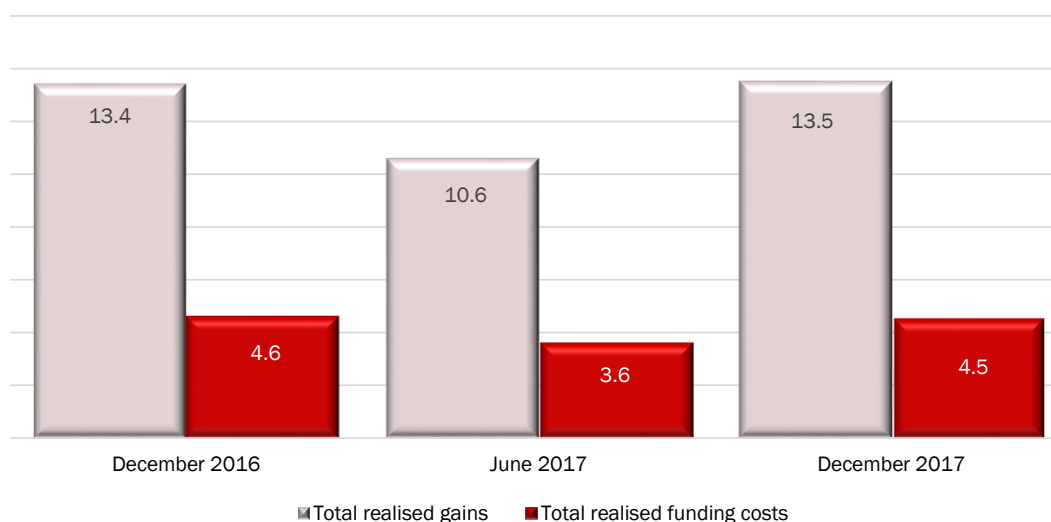
	Half Year		
	Dec-17	Jun-17	Dec-16
	\$m	\$m	\$m
Funding costs			
Funding costs - unrealised	(9.6)	(8.5)	(7.3)
Funding costs - realised	(4.5)	(3.6)	(4.6)

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

Funding costs unrealised - interest expense on existing contracts.

	As at Dec-17	As at Jun-17	As at Dec-16
	\$m	\$m	\$m
Portfolio balance			
Funded balance	387.4	370.0	360.9
Property revaluation balance	322.4	296.3	263.5
Total investment portfolio balance	709.8	666.3	624.4

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



2.3.5 Operating expenses

	Dec-17	Jun-17	Change		Dec-16	Change	
	\$m	\$m	\$m	%	\$m	\$m	%
Staff and related costs	245.0	237.3	7.7	3.2	243.2	1.8	0.7
Occupancy costs	44.9	46.1	(1.2)	(2.6)	45.9	(1.0)	(2.2)
Information technology costs	37.8	35.3	2.5	7.1	36.3	1.5	4.1
Amortisation of acquired intangibles	6.3	8.6	(2.3)	(26.7)	9.1	(2.8)	(30.8)
Amortisation of software intangibles	13.5	11.8	1.7	14.4	9.0	4.5	50.0
Property, plant and equipment costs	5.8	5.8	-	-	5.9	(0.1)	(1.7)
Fees and commissions	17.6	16.7	0.9	5.4	16.9	0.7	4.1
Communications, postage and stationery	15.6	15.9	(0.3)	(1.9)	17.1	(1.5)	(8.8)
Advertising and promotion	14.0	14.8	(0.8)	(5.4)	13.5	0.5	3.7
Other product and services delivery costs	16.0	16.0	-	-	17.0	(1.0)	(5.9)
Other administration expenses	35.3	36.7	(1.4)	(3.8)	31.8	3.5	11.0
Total operating expenses	451.8	445.0	6.8	1.5	445.7	6.1	1.4
Specific items	5.7	13.6	(7.9)	(58.1)	5.1	0.6	11.8
Total expenses	457.5	458.6	(1.1)	(0.2)	450.8	6.7	1.5

	Dec-17	Jun-17	Change		Dec-16	Change	
				%			%
Expenses to income ¹	54.2%	55.7%	(1.5)	(2.7)	56.4%	(2.2)	(3.9)
Expenses to average assets	1.28%	1.28%	0.00	0.0	1.28%	0.00	0.0
Staff and related costs to income ^{1,2}	29.5%	30.1%	(0.6)	(2.0)	31.0%	(1.5)	(4.8)
Number of staff (full-time equivalent)	4,387	4,413	(26)	(0.6)	4,424	(37)	(0.8)

¹ **Expenses** used in the above ratios are expenses less specific expense items and amortisation of acquired intangibles.

Income used in the above ratios is income less specific income items and other specific income items.

² Excludes redundancy costs.

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

Staff and related costs - increased by \$1.8m or 0.7% which includes wage and salary increases during the half. Salary costs include staff bonuses. Redundancy costs incurred were \$2.6m (June 17: \$1.2m and December 16: \$3.0m).

Software amortisation - increased by \$4.5m or 50.0%, due to the completion of a number of large technology projects now being amortised.

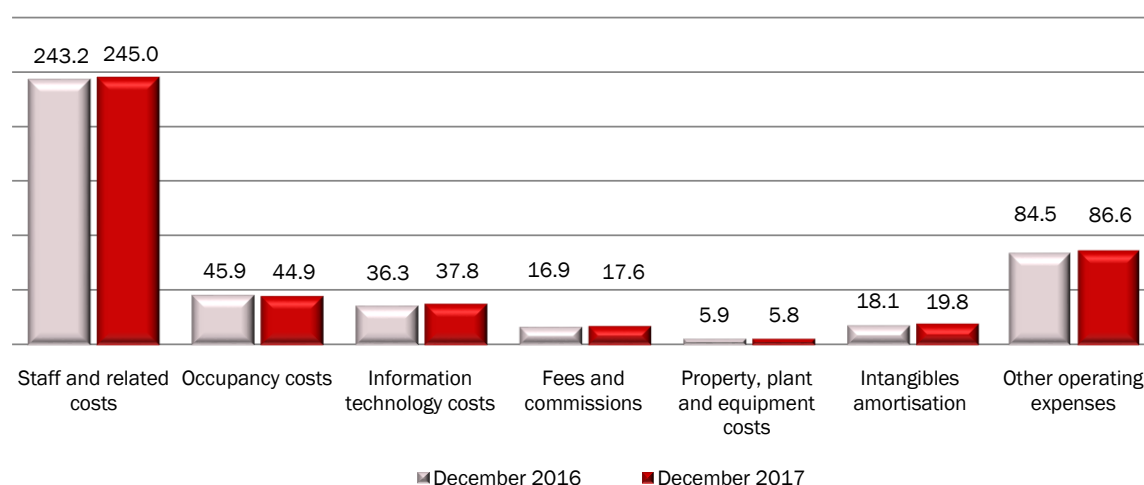
Other product and service delivery costs - decreased by \$1.0m, or 5.9% mainly due to a reduction in costs associated with 3rd party ATM's.

Other administration expenses - increased by \$3.5m or 11.0%, mainly due to an increase in legal costs relating to Great Southern and external consultancy fees.

Information technology costs - increased in \$1.5m or 4.1% due to an increase in software licence fees.

Specific items - other expenses - increased by \$0.6m or 11.8%. Refer to 2.3.1 for further detail.

Operating expenses (\$m)



2.3.6 Lending

	Dec-17	Jun-17	Change		Dec-16	Change	
	\$m	\$m	\$m	%	\$m	\$m	%
Approvals - by security							
Residential	5,881.2	5,419.3	461.9	8.5	8,710.5	(2,829.3)	(32.5)
Non-residential	2,229.5	2,911.4	(681.9)	(23.4)	3,014.4	(784.9)	(26.0)
Total approvals	8,110.7	8,330.7	(220.0)	(2.6)	11,724.9	(3,614.2)	(30.8)
	As at	As at			As at		
	Dec-17	Jun-17	Change		Dec-16	Change	
	\$m	\$m	\$m	%	\$m	\$m	%
Gross loan balance - by security							
Residential	43,262.2	43,115.5	146.7	0.3	42,415.7	846.5	2.0
Business							
Accommodation and food services	350.6	381.6	(31.0)	(8.1)	428.0	(77.4)	(18.1)
Administrative and support services	32.9	32.6	0.3	0.9	32.8	0.1	0.3
Agriculture, forestry and fishing	5,795.4	6,019.7	(224.3)	(3.7)	5,763.9	31.5	0.5
Arts and recreation services	93.4	94.7	(1.3)	(1.4)	101.7	(8.3)	(8.2)
Construction	1,134.2	1,230.0	(95.8)	(7.8)	1,139.5	(5.3)	(0.5)
Education and training	72.5	69.3	3.2	4.6	71.1	1.4	2.0
Electricity, gas, water and waste services	19.1	20.9	(1.8)	(8.6)	22.9	(3.8)	(16.6)
Financial and insurance services	416.4	374.1	42.3	11.3	478.8	(62.4)	(13.0)
Health care and social assistance	514.4	482.1	32.3	6.7	480.4	34.0	7.1
Information media and telecommunications	31.4	32.4	(1.0)	(3.1)	30.4	1.0	3.3
Manufacturing	282.5	288.5	(6.0)	(2.1)	276.8	5.7	2.1
Mining	16.8	19.3	(2.5)	(13.0)	21.1	(4.3)	(20.4)
Other Services	212.8	216.5	(3.7)	(1.7)	213.3	(0.5)	(0.2)
Professional, scientific and technical services	238.8	259.4	(20.6)	(7.9)	276.4	(37.6)	(13.6)
Public administration and safety	61.4	73.8	(12.4)	(16.8)	82.2	(20.8)	(25.3)
Rental, hiring and real estate services	4,100.0	4,186.4	(86.4)	(2.1)	4,264.4	(164.4)	(3.9)
Retail trade	435.6	457.8	(22.2)	(4.8)	463.0	(27.4)	(5.9)
Transport, postal and warehousing	138.7	141.2	(2.5)	(1.8)	145.2	(6.5)	(4.5)
Wholesale trade	169.0	167.4	1.6	1.0	161.5	7.5	4.6
Other	238.3	246.9	(8.6)	(3.5)	301.6	(63.3)	(21.0)
Total business	14,354.2	14,794.6	(440.4)	(3.0)	14,755.0	(400.8)	(2.7)
Margin lending	1,684.0	1,726.1	(42.1)	(2.4)	1,665.7	18.3	1.1
Unsecured	945.3	953.5	(8.2)	(0.9)	927.7	17.6	1.9
Other	333.4	338.4	(5.0)	(1.5)	337.7	(4.3)	(1.3)
Total gross loan balance	60,579.1	60,928.1	(349.0)	(0.6)	60,101.8	477.3	0.8
Gross loan balance - by purpose							
Residential	41,421.2	41,261.8	159.4	0.4	40,789.2	632.0	1.5
Consumer	2,451.4	2,571.4	(120.0)	(4.7)	2,593.7	(142.3)	(5.5)
Margin lending	1,684.0	1,726.1	(42.1)	(2.4)	1,665.7	18.3	1.1
Commercial	15,022.5	15,368.8	(346.3)	(2.3)	15,053.2	(30.7)	(0.2)
Total gross loan balance	60,579.1	60,928.1	(349.0)	(0.6)	60,101.8	477.3	0.8
Loans under management (gross balance)							
On-balance sheet	60,579.1	60,928.1	(349.0)	(0.6)	60,101.8	477.3	0.8
Off-balance sheet loans under management	1,035.7	996.0	39.7	4.0	873.9	161.8	18.5
Total Group loans under management	61,614.8	61,924.1	(309.3)	(0.5)	60,975.7	639.1	1.0

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 Dec-17	As at Jun-17	Change		As at Dec-16	Change	
	\$m	\$m	\$m	%	\$m	\$m	%
Impaired loans ¹							
Full-performing ²	0.1	0.3	(0.2)	(66.7)	1.0	(0.9)	(90.0)
Part-performing ³	33.3	33.5	(0.2)	(0.6)	35.9	(2.6)	(7.2)
Non-performing	250.9	201.6	49.3	24.5	217.8	33.1	15.2
Restructured loans ⁴	4.5	47.2	(42.7)	(90.5)	46.0	(41.5)	(90.2)
Total impaired assets	288.8	282.6	6.2	2.2	300.7	(11.9)	(4.0)
Less: specific impairment provisions	(112.5)	(88.5)	(24.0)	(27.1)	(110.2)	(2.3)	(2.1)
Net impaired assets	176.3	194.1	(17.8)	(9.2)	190.5	(14.2)	(7.5)
Portfolio facilities - past due 90 days, not well secured	3.6	5.8	(2.2)	(37.9)	4.9	(1.3)	(26.5)
Less: specific impairment provisions	(0.7)	(1.0)	0.3	(30.0)	(0.9)	0.2	(22.2)
Net portfolio facilities	2.9	4.8	(1.9)	(39.6)	4.0	(1.1)	(27.5)

Past due 90 days

Well secured (excluding commercial arrangement loans)	414.4	431.6	(17.2)	(4.0)	431.1	(16.7)	(3.9)
Great Southern portfolio	62.7	79.0	(16.3)	(20.6)	103.2	(40.5)	(39.2)

Ratios

	%	%	%	%	%
Total impaired loans to gross loans	0.48%	0.46%	0.02%	0.50%	(0.02%)
Total impaired loans to total assets	0.41%	0.40%	0.01%	0.42%	(0.01%)
Net impaired loans to gross loans	0.29%	0.32%	(0.03%)	0.32%	(0.03%)
Provision coverage ⁵	106.0%	100.0%	6.0%	100.9%	5.10%

¹ 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.

² 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.

³ 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.

⁴ Restructured loans are facilities in which the original contractual terms have been modified for reasons related to the financial difficulties of the customer.

⁵ Provision coverage is calculated as total provisions and reserves for doubtful debts divided by total impaired assets.

2.3.8 Bad and doubtful debts

	Dec-17	Jun-17	Change		Dec-16	Change	
	\$m	\$m	\$m	%	\$m	\$m	%
Bad and doubtful debts expense							
Bad debts written off	1.8	7.2	(5.4)	(75.0)	8.0	(6.2)	(77.5)
Provision doubtful debts - expense	50.0	33.0	17.0	51.5	38.4	11.6	30.2
Total bad and doubtful debts expense	51.8	40.2	11.6	28.9	46.4	5.4	11.6
Bad debts recovered	(5.5)	(8.2)	2.7	(32.9)	(6.6)	1.1	(16.7)
Bad and doubtful debts net of recoveries	46.3	32.0	14.3	44.7	39.8	6.5	16.3

	As at Dec-17	As at Jun-17	Change		As at Dec-16	Change	
	\$m	\$m	\$m	%	\$m	\$m	%
Provisions and reserves							
Provision for doubtful debts - specific	113.2	89.5	23.7	26.5	111.1	2.1	1.9
Provision for doubtful debts - collective	52.7	52.7	-	-	51.9	0.8	1.5
General reserve for credit losses	140.3	140.3	-	-	140.3	-	-
Total provisions and reserve for doubtful debts	306.2	282.5	23.7	8.4	303.3	2.9	1.0

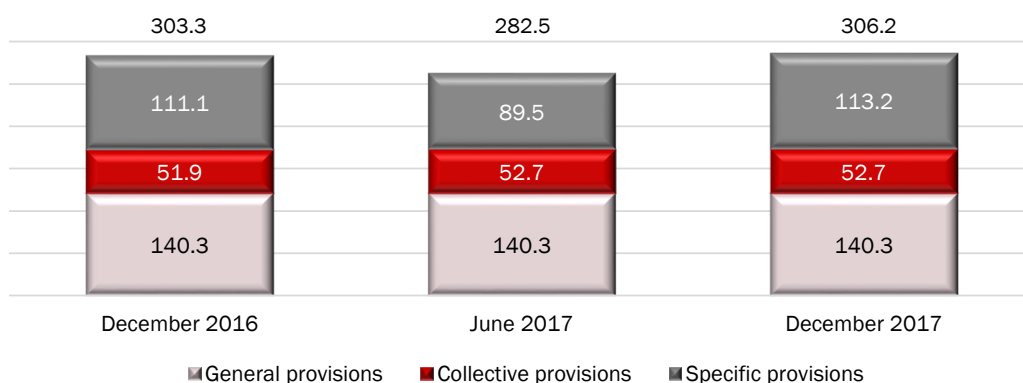
Ratios	%	%	%	%	%
Bad and doubtful debts net of recoveries to gross loans	0.15%	0.11%	0.04%	0.13%	0.02%
Bad and doubtful debts net of recoveries (excluding Great Southern) to gross loans	0.13%	0.07%	0.06%	0.09%	0.04%
Total provision/reserve for doubtful debts to gross loans	0.51%	0.46%	0.05%	0.50%	0.01%
Collective provision and GRCL to risk-weighted assets	0.51%	0.51%	-	0.50%	0.01%

	Specific \$m	Collective \$m	GRCL \$m	Total \$m
Movements in provisions and reserves				
Balance at 30 June 2017	89.5	52.7	140.3	282.5
Provision for doubtful debts expense to profit and loss	50.0	-	-	50.0
Bad debts written off - previously provided for	(26.3)	-	-	(26.3)
Balance at 31 December 2017	113.2	52.7	140.3	306.2
Balance at 31 December 2016	111.1	51.9	140.3	303.3
Provision for doubtful debts expense to profit and loss	32.2	0.8	-	33.0
Bad debts written off - previously provided for	(53.8)	-	-	(53.8)
Balance at 30 June 2017	89.5	52.7	140.3	282.5
Balance at 30 June 2016	125.3	53.4	146.9	325.6
Provision for doubtful debts expense to profit and loss	39.9	(1.5)	-	38.4
Appropriation of movement in general reserve for credit losses	-	-	(6.6)	(6.6)
Bad debts written off - previously provided for	(54.1)	-	-	(54.1)
Balance at 31 December 2016	111.1	51.9	140.3	303.3

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)



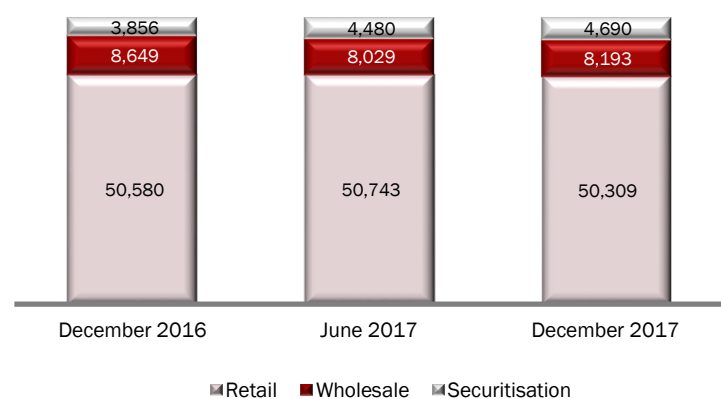
2.3.9 Deposits and funds under management

	As at Dec-17	As at Jun-17	Change		As at Dec-16	Change	
	\$m	\$m	\$m	%	\$m	\$m	%
Deposits and funds under management							
Deposits	58,502.0	58,772.3	(270.3)	(0.5)	59,228.5	(726.5)	(1.2)
Securitisation	4,690.3	4,480.2	210.1	4.7	3,855.7	834.6	21.6
Managed funds	5,630.3	5,322.5	307.8	5.8	4,979.7	650.6	13.1
Total deposits and funds under management	68,822.6	68,575.0	247.6	0.4	68,063.9	758.7	1.1
Deposits dissection - \$m							
Retail	50,308.9	50,743.1	(434.2)	(0.9)	50,579.9	(271.0)	(0.5)
Wholesale	8,193.1	8,029.2	163.9	2.0	8,648.6	(455.5)	(5.3)
Securitisation	4,690.3	4,480.2	210.1	4.7	3,855.7	834.6	21.6
Total deposits	63,192.3	63,252.5	(60.2)	(0.1)	63,084.2	108.1	0.2
Deposits dissection - %							
Retail	79.6%	80.2%			80.2%		
Wholesale	13.0%	12.7%			13.7%		
Securitisation	7.4%	7.1%			6.1%		
Total deposits	100.0%	100.0%			100.0%		
Managed funds dissection - \$m							
Assets under management	2,153.4	2,152.1	1.3	0.1	2,054.9	98.5	4.8
Other managed funds	3,476.9	3,170.4	306.5	9.7	2,924.8	552.1	18.9
Total managed funds	5,630.3	5,322.5	307.8	5.8	4,979.7	650.6	13.1

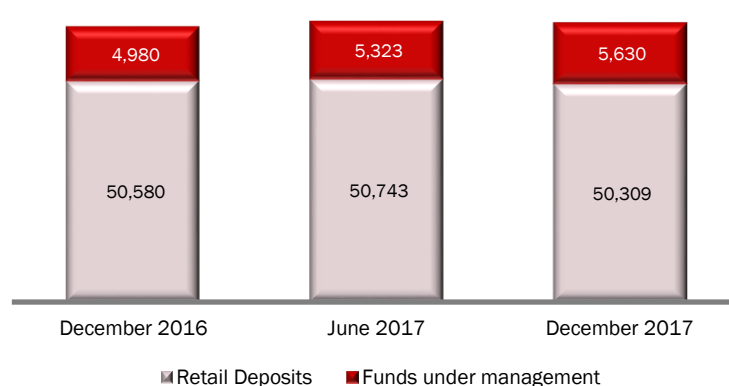
Assets under management include those funds deposited in the Sandhurst Trustees Limited Common Funds, which are invested in cash, cash enhanced and mortgage investments on behalf of investors. These funds are off-balance sheet.

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 Average balance sheet

For the six months ended 31 December 2017

	31 December 2017			30 June 2017		
	Average Balance \$m	Interest 6 mths \$m	Average Rate %	Average Balance \$m	Interest 6 mths \$m	Average Rate %
Average balances and rates ¹						
Interest earning assets						
Cash and investments	8,011.4	52.0	1.29	7,940.5	44.2	1.12
Loans and other receivables ^{2,6}	58,098.5	1,292.1	4.41	57,971.4	1,271.3	4.42
Total interest earning assets ³	66,109.9	1,344.1	4.03	65,911.9	1,315.5	4.02
Non interest earning assets						
Provisions for doubtful debts	(146.8)			(150.1)		
Other assets	3,053.7			3,048.6		
Total non interest earning assets	2,906.9			2,898.5		
Total assets (average balance)	69,016.8			68,810.4		
Interest bearing liabilities						
Deposits						
Retail ⁶	48,002.5	(487.3)	(2.01)	48,274.9	(500.1)	(2.09)
Wholesale - domestic	7,720.0	(90.5)	(2.33)	8,074.2	(97.5)	(2.43)
Wholesale - offshore	456.9	(5.8)	(2.52)	377.7	(5.0)	(2.67)
Notes payable	4,756.8	(67.1)	(2.80)	4,083.7	(59.0)	(2.91)
Preference shares	838.1	(17.5)	(4.14)	828.7	(17.7)	(4.31)
Subordinated debt	709.3	(17.5)	(4.89)	709.2	(17.4)	(4.95)
Total interest bearing liabilities ³	62,483.6	(685.7)	(2.18)	62,348.4	(696.7)	(2.25)
Non interest bearing liabilities and equity						
Other liabilities	1,065.6			1,129.8		
Equity	5,467.6			5,332.2		
	6,533.2			6,462.0		
Total liabilities and equity (average balance)	69,016.8			68,810.4		
Interest margin and interest spread						
Interest earning assets	66,109.9	1,344.1	4.03	65,911.9	1,315.5	4.02
Interest bearing liabilities	(62,483.6)	(685.7)	(2.18)	(62,348.4)	(696.7)	(2.25)
Net interest income and interest spread ^{4,7}		658.4	1.85		618.8	1.77
Net free liabilities and equity			0.13			0.12
Net interest margin ⁵			1.98			1.89
Impact of revenue share arrangements						
Net interest margin			1.98			1.89
Add: impact of revenue share arrangements			0.38			0.37
Net interest margin before revenue share arrangements			2.36			2.26

1 Average balance is based on monthly closing balances.

2 Loans and receivables excludes fair value specific items (December 2017 \$0.7m and June 2017 \$1.1m).

3 Interest payments for revenue share arrangements are net values in the Income Statement.

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

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

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

7 Net interest income includes Homesafe unrealised funding costs - refer to section 2.3.2 for net interest income reconciliation.

2.3.10 Average balance sheet (continued)

For the six months ended 31 December 2016

	31 December 2016			30 June 2016		
	Average Balance \$m	Interest 6 mths \$m	Average Rate %	Average Balance \$m	Interest 6 mths \$m	Average Rate %
Average balances and rates ¹						
Interest earning assets						
Cash and Investments	8,751.7	61.3	1.39	7,842.6	53.2	1.36
Loans and other receivables ^{2,6}	56,182.1	1,271.6	4.49	54,298.9	1,275.4	4.72
Total interest earning assets ³	64,933.8	1,332.9	4.07	62,141.5	1,328.6	4.30
Non interest earning assets						
Provisions for doubtful debts	(168.8)			(176.7)		
Other assets	2,983.5			2,864.5		
Total non interest earning assets	2,814.7			2,687.8		
Total assets (average balance)	67,748.5			64,829.3		
Interest bearing liabilities and equity						
Deposits						
Retail ⁶	47,325.2	(531.9)	(2.23)	44,875.7	(528.0)	(2.37)
Wholesale - domestic	8,459.4	(106.8)	(2.50)	8,137.6	(114.9)	(2.84)
Wholesale - offshore	344.5	(5.1)	(2.94)	353.1	(5.2)	(2.96)
Notes Payable	3,953.3	(58.0)	(2.91)	4,008.4	(62.4)	(3.13)
Convertible Preference Shares	825.9	(18.3)	(4.40)	823.0	(18.9)	(4.62)
Subordinated debt	601.3	(15.4)	(5.08)	583.5	(16.0)	(5.51)
Total interest bearing liabilities ³	61,509.6	(735.5)	(2.37)	58,781.3	(745.4)	(2.55)
Non interest bearing liabilities and equity						
Other liabilities	1,077.1			1,009.0		
Equity	5,161.8			5,039.0		
Total liabilities and equity (average balance)	67,748.5			64,829.3		
Interest margin and interest spread						
Interest earning assets	64,933.8	1,332.9	4.07	62,141.5	1,328.6	4.30
Interest bearing liabilities	(61,509.6)	(735.5)	(2.37)	(58,781.3)	(745.4)	(2.55)
Net interest income and interest spread ^{4, 7}		597.4	1.70		583.2	1.75
Net free liabilities and equity			0.13			0.14
Net interest margin ⁵			1.83			1.89
Impact of revenue share arrangements						
Net interest margin			1.83			1.89
Add: impact of revenue share arrangements			0.35			0.35
Net interest margin before revenue share arrangements			2.18			2.24

1 Average balance is based on monthly closing balances.

2 Loans and receivables excludes fair value specific items (December 2016 \$1.5m and June 2016 \$2.1m).

3 Interest payments for revenue share arrangements are net values in the Income Statement.

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

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

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

7 Net interest income includes Homesafe unrealised funding costs - refer to section 2.3.2 for net interest income reconciliation.

2.3.11 Capital and shareholder returns

2.3.11.1 Assets and capital

	As at Dec-17 \$m	As at Jun-17 \$m	Change		As at Dec-16 \$m	Change	
			\$m	%		\$m	%
Group assets	71,261.9	71,415.5	(153.6)	(0.2)	70,948.5	313.4	0.4
Capital adequacy							
Total regulatory capital	4,891.7	4,743.4	148.3	3.1	4,674.6	217.1	4.6
Risk-weighted assets	37,689.6	38,062.3	(372.7)	(1.0)	38,312.1	(622.5)	(1.6)
	%	%	%		%	%	
Risk-weighted capital adequacy	12.98%	12.46%	0.52%	4.2	12.20%	0.78%	6.4
- Tier 1	10.98%	10.49%	0.49%	4.7	10.17%	0.81%	8.0
- Tier 2	2.00%	1.97%	0.03%	1.5	2.03%	(0.03%)	(1.5)
- Common Equity Tier 1	8.61%	8.27%	0.34%	4.1	7.97%	0.64%	8.0

2.3.11.2 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.

Risk weighted capital ratios	Dec-17	Jun-17	Dec-16
Tier 1	10.98%	10.49%	10.17%
Tier 2	2.00%	1.97%	2.03%
Total capital ratio	12.98%	12.46%	12.20%
Common Equity Tier 1	8.61%	8.27%	7.97%

Regulatory capital	\$m	\$m	\$m
Common Equity Tier 1			
Contributed capital	4,506.8	4,456.8	4,406.1
Retained profits and reserves	670.7	621.7	587.0
Accumulated other comprehensive income (and other reserves)	(26.0)	(31.2)	(39.4)
Less:			
Intangible assets, cash flow hedges and capitalised expenses	1,807.9	1,797.4	1,795.9
Net deferred tax assets	57.5	59.5	64.3
Equity exposures	40.6	40.8	39.5
Other adjustments as per APRA advice	1.6	1.3	1.9
Total common equity tier 1 capital	3,243.9	3,148.3	3,052.1
Additional Tier 1 capital instruments	895.9	843.2	843.2
Total Additional Tier 1 Capital	895.9	843.2	843.2
Total Tier 1 Capital	4,139.8	3,991.5	3,895.3
Tier 2			
Tier 2 capital instruments	575.5	575.5	603.7
General reserve for credit losses/collective provision (net of tax effect)	176.4	176.4	175.6
Total Tier 2 Capital	751.9	751.9	779.3
Total regulatory capital	4,891.7	4,743.4	4,674.6
Total risk weighted assets	37,689.6	38,062.3	38,312.1

2.3.11.2 Capital adequacy (continued)

	As at Dec-17	As at Jun-17	Change		As at Dec-16	Change	
Risk-weighted assets	\$m	\$m	\$m	%	\$m	\$m	%
Credit risk	33,754.6	34,263.5	(508.9)	(1.5)	34,549.7	(795.1)	(2.3)
Market risk	293.6	231.8	61.8	26.7	300.8	(7.2)	(2.4)
Operational risk	3,641.4	3,567.0	74.4	2.1	3,461.6	179.8	5.2
Total risk-weighted assets	37,689.6	38,062.3	(372.7)	(1.0)	38,312.1	(622.5)	(1.6)

Key movements in capital in the December 2017 half year compared to the June 2017 half include:

> Common Tier 1

Dividend reinvestment plan - increased capital \$50.0 million.

Retained earnings increase of \$49.0 million net of Homesafe unrealised gains.

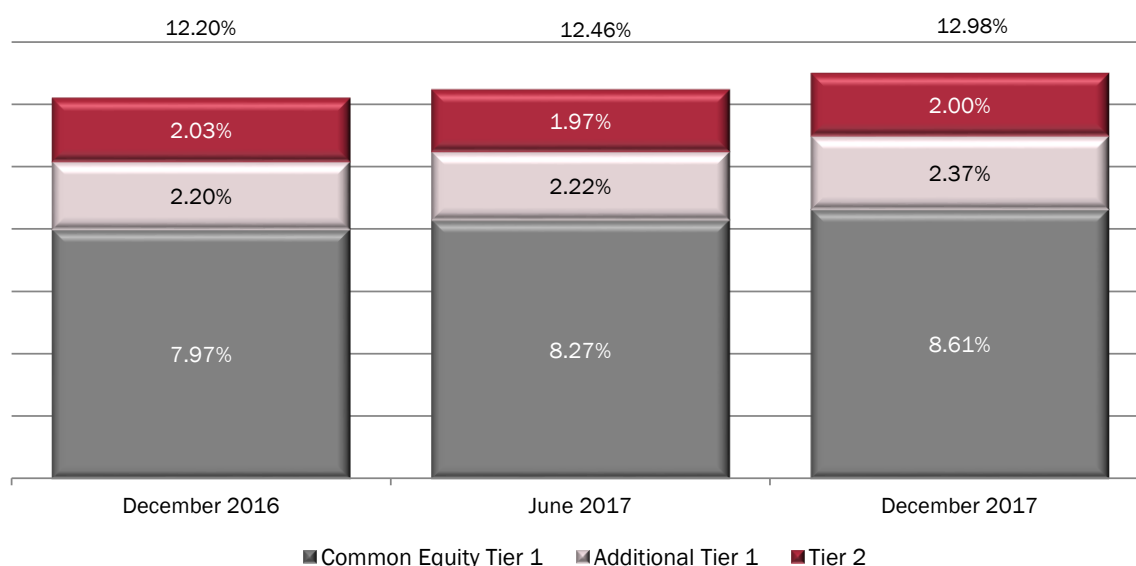
> Additional Tier 1

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 decreased during the half due to securitisation of residential mortgages.

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

2.3.11.3 Shareholder returns

	Dec-17	Jun-17	Change		Dec-16	Change	
Earnings per ordinary share	cents	cents	cents	%	cents	cents	%
Statutory earnings per ordinary share (weighted average)	48.1	46.3	1.8	3.9	44.6	3.5	7.8
Cash earnings per ordinary share (weighted average)	46.8	45.0	1.8	4.0	43.5	3.3	7.6
Diluted earnings per ordinary share (weighted average)	43.7	42.4	1.3	3.1	40.5	3.2	7.9
			Change			Change	
Weighted average number of ordinary shares	000's	000's	000's	%	000's	000's	%
Weighted average number of ordinary shares - used in basic and cash basis EPS calculations	481,535	476,817	4,718	1.0	468,086	13,449	2.9
Weighted average number of ordinary shares - used in diluted EPS calculations	558,104	550,100	8,004	1.5	548,117	9,987	1.8
Ratios	%	%	Change		%	Change	
Return on average ordinary equity (after tax)	8.57%	8.49%	0.08%		8.15%	0.42%	
Return on average ordinary equity (cash basis)	8.33%	8.27%	0.06%		7.94%	0.39%	
Return on average tangible equity (cash basis)	11.71%	11.80%	(0.09%)		11.43%	0.28%	
Return on average assets (after tax)	0.67%	0.65%	0.02%		0.61%	0.06%	
Return on average assets (cash basis)	0.65%	0.63%	0.02%		0.60%	0.05%	

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.

Refer to 3.7.6 for Earnings used in above calculations.

June profit figures are for the June 2017 half year and balance sheet items are as at end of June 2017.

Dilutive preference shares include convertible preference shares.

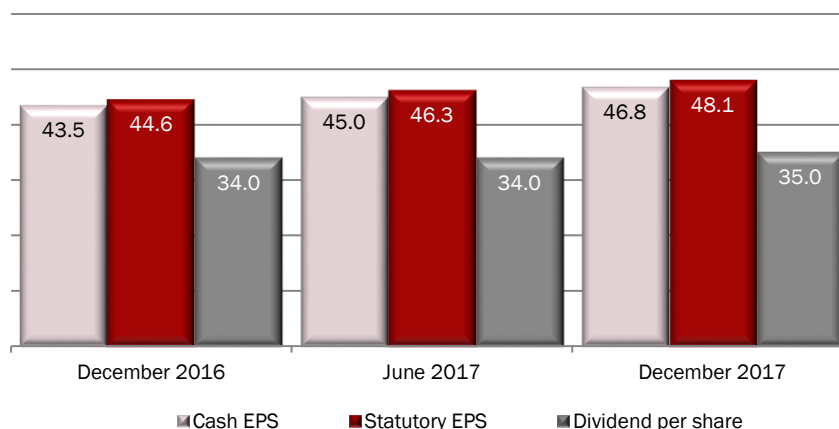
Ordinary equity for use in these ratios is represented by total ordinary shares and retained earnings.

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

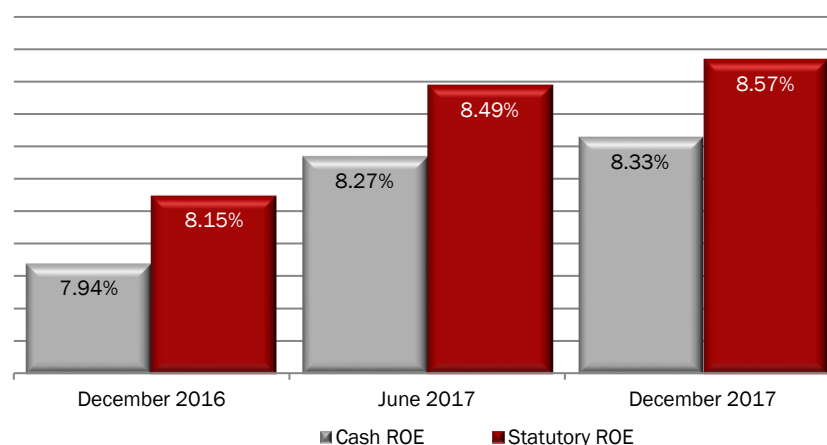
	As at Dec-17	As at Jun-17	Change		As at Dec-16	Change	
	\$m	\$m	\$m	%	\$m	\$m	%
Ordinary issued capital	4,506.7	4,456.7	50.0	1.1	4,406.1	100.6	2.3
Retained earnings	938.2	864.6	73.6	8.5	800.3	137.9	17.2
Total ordinary equity	5,444.9	5,321.3	123.6	2.3	5,206.4	238.5	4.6
Average ordinary equity	5,365.1	5,239.8			5,085.9		
Average tangible ordinary equity	3,815.6	3,672.1			3,531.7		

2.3.11.3 Shareholder returns (continued)

Earnings per share and dividend per share (cents)



Statutory and cash return on equity - half year



2.3.11.4 Dividends

	Dec-17	Jun-17	Change		Dec-16	Change	
				%			%
Dividend per share - cents	35.0	34.0	1.0	2.9	34.0	1.0	2.9
Dividend amount payable/paid - \$m	166.3	159.9	6.4	4.0	156.2	10.1	6.5
Payout ratio - earnings per ordinary share ¹	72.8%	73.4%	(0.6%)	(0.8)	76.2%	(3.4%)	(4.5)
Payout ratio - cash basis per ordinary share ¹	74.8%	75.6%	(0.8%)	(1.1)	78.2%	(3.4%)	(4.3)

¹ 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 March 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 price of Bendigo and Adelaide Bank shares traded on the Australian Securities Exchange over the seven trading days commencing 6 March 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 interim dividend is 5 March 2018.

2.4 Additional notes

2.4.1 Analysis of intangible assets

	Balance sheet Carrying value			Half year amortisation/ Impairment expense		
	Dec-17	Jun-17	Dec-16	Dec-17	Jun-17	Dec-16
	\$m	\$m	\$m	\$m	\$m	\$m
Goodwill	1,442.3	1,442.3	1,442.3	-	-	-
Trustee licence	8.4	8.4	8.4	-	-	-
Software	195.0	196.0	172.5	13.5	11.8	9.0
Customer lists	1.3	2.0	2.8	0.7	0.8	1.3
Core deposits	-	3.2	7.4	3.2	4.2	4.2
Trade name	1.7	2.0	2.3	0.3	0.3	0.4
Customer relationship	2.8	4.4	7.2	1.6	2.8	2.7
Management rights - Adelaide Bank	5.0	5.5	6.0	0.5	0.5	0.5
Total goodwill and other intangible assets	1,656.5	1,663.8	1,648.9	19.8	20.4	18.1

2.4.2 Net tangible assets per share

	Dec-17	Jun-17	Dec-16
Net tangible assets per ordinary share	\$8.06	\$7.85	\$7.70
	\$m	\$m	\$m
Net tangible assets			
Net assets	5,556.4	5,425.6	5,301.5
Intangibles	(1,656.5)	(1,663.8)	(1,648.9)
Net tangible assets attributable to ordinary shareholders	3,899.9	3,761.8	3,652.6
Number of fully paid ordinary shares on issue - 000's	483,863	479,206	474,353

2.4.3 Investments accounted for using the equity method

	Ownership interest held by consolidated entity			Balance date
	December 2017	June 2017	December 2016	
	%	%	%	
Joint arrangements				
Community Sector Enterprises Pty Ltd	50.0	50.0	50.0	30 June
Homesafe Solutions Pty Ltd	50.0	50.0	50.0	30 June
Silver Body Corporate Financial Services Pty Ltd	50.0	50.0	50.0	30 June
Associates				
Aegis Group ¹	49.5	49.5	49.5	30 June
Bendigo Telco Ltd	30.5	30.5	30.5	30 June
Dancoor Community Finances Ltd	49.0	49.0	49.0	30 June
Homebush Financial Services Ltd	49.0	49.0	49.0	30 June
TicToc Online Pty Ltd	30.7	30.7	34.1	30 June

¹ Aegis Group - economic interest is 23.5%.

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 ¹	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	-
Total ordinary shares at 31 December 2017	483,862,607	4,506.7

¹ BEN - ASX code Ordinary Fully Paid Shares

Half Year Financial Report

For the period ended 31 December 2017

Released 12 February 2018

ABN 11 068 049 178



3 Statutory half year financial report

3.0 Corporate Information

This half year report covers the consolidated entity comprising Bendigo and Adelaide Bank Limited ("the Company") and its subsidiaries ("the Group").

A description of the Group's operations and its principal activities is included in the review of operations and activities in the Directors' Report.

The Directors' Report is not subject to audit or review and does not form part of the financial report.

Directors

Robert Johanson (chairman)

Mike Hirst (managing director)

Jan Harris

Jim Hazel

Jacqueline Hey

Robert Hubbard

David Matthews

Deborah Radford

Tony Robinson

Company Secretary

Will Conlan

Registered Office

Bendigo and Adelaide Bank Limited

The Bendigo Centre

22 - 44 Bath Lane

Bendigo Victoria 3550

Telephone: 1300 361 911

Facsimile: 03 5485 7000

Principal place of business

The Bendigo Centre

Bendigo Victoria 3550

Share Registry

Securities Registry

Bendigo and Adelaide Bank Limited

The Bendigo Centre

Bendigo Victoria 3550

Telephone: 1800 646 042

Facsimile: 03 5485 7000

Email: share.register@bendigoadelaide.com.au

Auditors

Ernst & Young

Australia

3.1 Directors' Report

Your Directors' submit their report for the half year ended 31 December 2017.

3.1.1 Directors

The names of the directors of the Board of Bendigo and Adelaide Bank Limited ("the Company") who have held office during the half year and up to the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

Robert Johanson (chairman)
Mike Hirst (managing director)
Jan Harris
Jim Hazel
Jacqueline Hey
Robert Hubbard
David Matthews
Deborah Radford
Tony Robinson

3.1.2 Review of operations

The principal activities of the Company and its controlled entities ("the Group") during the financial period were the provision of a range of banking and other financial services, including retail banking, mortgage distribution through third-parties, business lending, rural 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 period.

The Group recorded an increase in cash earnings during the half year when compared to the previous corresponding period.

Total income from operations increased by \$47.6 million, or 6.0%, to \$842.9 million when compared with the half year ended 31 December 2016.

Profit before tax increased by \$34.4 million, or 11.3%, to \$339.1 million when compared to the previous corresponding period.
Profit after tax (attributable to owners of the Company) increased by \$22.7 million to \$231.7 million when compared to the previous corresponding period.

Group assets increased by 0.4%, or \$0.31 billion, when compared with the half year ended 31 December 2016. Group assets at 31 December 2017 were \$71.3 billion.

The total capital adequacy ratio increased during the half year from 12.46% to 12.98%. Tier 1 capital increased during the half year from 10.49% to 10.98%, with Tier 2 capital increasing from 1.97% to 2.0%. The Common Equity Tier 1 ratio increased during the half year from 8.27% to 8.61%.

Fully franked dividends paid on convertible preference shares (CPS) during the half year:

- > CPS 240.41 cents per share, paid on 13 December 2017
- > CPS2 178.91 cents per share, paid on 30 November 2017
- > CPS3 205.31 cents per share, paid on 15 December 2017

Fully franked dividends paid or declared on ordinary shares during the half year:

Final dividend of 34.0 cents per share, paid on 29 September 2017 in respect of the year ended 30 June 2017
Interim dividend of 35.0 cents per share, declared on 12 February 2018, payable on 29 March 2018

3.1 Directors' Report (continued)

3.1.3 Significant changes in the state of affairs

The following significant changes in the state of affairs of the Group occurred during the half year:

On 29 September 2017, 4,390,045 shares were allotted at an issue price of \$11.39 to those shareholders participating in the Dividend Reinvestment Plan, increasing share capital by \$50.0 million. Further to this, 266,098 shares were allotted under the bonus share scheme.

On 13 December 2017, 3,216,145 convertible preference shares were allotted at an issue price of \$100 and 2,688,703 convertible preference shares were redeemed at a redemption price of \$100.

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

3.1.4 Events after balance sheet date

No other matters or circumstances have arisen since the end of the half 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.

3.1.5 Independence of auditor

The Group's Audit Committee has conducted an assessment of the independence of the external auditor for the period ended 31 December 2017. The assessment was conducted on the basis of the Group'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 period ended 31 December 2017. 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 as required is set out on the following page and forms part of this report.

Signed in accordance with a resolution of the Board of Directors.



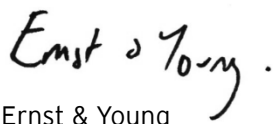
Robert Johanson, Chairman
Bendigo
12 February 2018

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

As lead auditor for the review of Bendigo and Adelaide Bank Limited for the half-year ended 31 December 2017, I declare to the best of my knowledge and belief, there have been:

- i. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

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



Ernst & Young



Graeme McKenzie
Partner
Melbourne

12 February 2018

3.2 Income statement

For the half year ended 31 December 2017

	Note	Consolidated		
		Dec-17 \$m	Jun-17 \$m	Dec-16 \$m
Net interest income				
Interest income		1,343.4	1,314.4	1,331.4
Interest expense		(685.7)	(696.7)	(735.5)
Total net interest income		657.7	617.7	595.9
Other revenue				
Fees		84.7	84.4	87.8
Commissions		35.2	37.6	35.1
Other income		65.3	74.5	76.5
Total other revenue		185.2	196.5	199.4
Total income		842.9	814.2	795.3
Expenses				
Bad and doubtful debts on loans and receivables		(46.3)	(32.0)	(39.8)
Other expenses				
Staff and related costs		(245.0)	(237.3)	(243.2)
Occupancy costs		(44.9)	(46.1)	(45.9)
Information technology costs		(37.8)	(35.3)	(36.3)
Amortisation of intangibles		(19.8)	(20.4)	(18.1)
Property, plant and equipment costs		(5.8)	(5.8)	(5.9)
Fees and commissions		(17.6)	(16.7)	(16.9)
Communications, postage and stationery		(15.6)	(15.9)	(17.1)
Advertising and promotion		(14.0)	(14.8)	(13.5)
Other product and services delivery costs		(16.0)	(16.0)	(17.0)
Other operating expenses		(41.0)	(50.3)	(36.9)
Total other expenses		(457.5)	(458.6)	(450.8)
Profit before income tax expense		339.1	323.6	304.7
Income tax expense	3.7.4	(107.4)	(103.0)	(95.7)
Net profit attributable to owners of the parent		231.7	220.6	209.0
Earnings per ordinary share (cents per share):		cents	cents	cents
Basic	3.7.6	48.1	46.3	44.6
Diluted	3.7.6	43.7	42.4	40.5
Franked dividends	3.7.5	35.0	34.0	34.0

3.3 Statement of comprehensive income

For the half year ended 31 December 2017

	\$m	\$m	\$m
Profit for the period ended	231.7	220.6	209.0
Items which may be reclassified subsequently to profit & loss:			
Net profit/(loss) on available for sale - equity investments	0.1	(1.5)	(0.1)
Transfer to income realised value of available for sale asset - equity investment	-	1.5	(1.5)
Net gain on cash flow hedges taken to equity	10.3	10.4	35.2
Net unrealised gain on available for sale - debt securities	-	0.3	0.6
Transfer gain/(loss) on sale of available for sale assets - debt securities	-	(0.1)	0.4
Tax effect on items taken directly to or transferred from equity	(3.1)	(3.7)	(9.9)
Total items that may be reclassified to profit & loss	7.3	6.9	24.7
Items which will not be reclassified subsequently to profit & loss:			
Actuarial gain/(loss) on superannuation defined benefits plan	0.4	(0.7)	1.0
Revaluation of land and buildings	-	0.3	-
Tax effect on items taken directly to or transferred from equity	(0.1)	0.1	(0.3)
Total items that will not be reclassified to profit & loss	0.3	(0.3)	0.7
Total comprehensive income for the period	239.3	227.2	234.4

3.4 Balance sheet

As at 31 December 2017

		Consolidated		
		As at	As at	As at
		Dec-17	Jun-17	Dec-16
Note	\$m	\$m	\$m	
Assets				
Cash and cash equivalents		1,050.9	1,059.6	913.2
Due from other financial institutions		156.2	270.3	156.3
Financial assets held for trading		5,869.5	5,657.6	6,183.9
Financial assets available for sale		427.3	286.6	287.0
Financial assets held to maturity		338.1	378.7	423.0
Derivatives		58.2	77.7	64.1
Net loans and other receivables		60,400.0	60,776.6	59,924.7
Investments accounted for using the equity method		8.7	8.5	8.7
Property, plant and equipment		78.2	77.8	86.4
Deferred tax assets		112.1	110.8	122.2
Investment property		709.8	666.3	624.4
Goodwill and other intangible assets		1,656.5	1,663.8	1,648.9
Other assets		396.4	381.2	505.7
Total Assets		71,261.9	71,415.5	70,948.5
Liabilities				
Due to other financial institutions		176.7	328.4	142.2
Deposits		58,502.0	58,772.3	59,228.5
Notes payable		4,690.3	4,480.2	3,855.7
Derivatives		40.2	59.0	77.8
Income tax payable		31.5	21.5	23.0
Provisions		129.8	130.8	123.3
Deferred tax liabilities		133.0	126.6	118.7
Other payables		413.7	532.3	541.8
Convertible preference shares		879.4	830.1	827.3
Subordinated debt		708.9	708.7	708.7
Total Liabilities		65,705.5	65,989.9	65,647.0
Net Assets		5,556.4	5,425.6	5,301.5
Equity				
Share capital	3.7.9	4,499.4	4,448.7	4,397.2
Reserves		118.8	112.3	104.0
Retained earnings		938.2	864.6	800.3
Total Equity		5,556.4	5,425.6	5,301.5

3.5 Statement of changes in equity

For the half year ended 31 December 2017

	Attributable to owners of Bendigo and Adelaide Bank Limited				
	Issued ordinary capital \$m	Other issued capital ¹ \$m	Retained earnings \$m	Reserves \$m	Total equity \$m
Opening balance at 1 July 2017	4,456.7	(8.0)	864.6	112.3	5,425.6
Comprehensive income:					
Profit for the period	-	-	231.7	-	231.7
Other comprehensive income	-	-	0.3	7.3	7.6
Total comprehensive income for the period	-	-	232.0	7.3	239.3
Transactions with owners in their capacity as owners:					
Shares issued	50.0	-	-	-	50.0
Reduction in employee share ownership plan (ESOP) shares	-	0.7	-	-	0.7
Movement in share based payment	-	-	2.3	(1.6)	0.7
Transfer from asset revaluation reserve	-	-	0.4	(0.4)	-
Equity dividends	-	-	(159.9)	-	(159.9)
Transfer to Operational Risk reserve	-	-	(1.2)	1.2	-
At 31 December 2017	4,506.7	(7.3)	938.2	118.8	5,556.4

For the half year ended 30 June 2017

	\$m	\$m ¹	\$m	\$m	\$m
Opening balance at 1 January 2017	4,406.1	(8.9)	800.3	104.0	5,301.5
Comprehensive income:					
Profit for the period	-	-	220.6	-	220.6
Other comprehensive income	-	-	(0.5)	7.1	6.6
Total comprehensive income for the period	-	-	220.1	7.1	227.2
Transactions with owners in their capacity as owners:					
Shares issued	50.7	-	-	-	50.7
Share issue expenses	(0.1)	-	-	-	(0.1)
Reduction in employee share ownership plan (ESOP) shares	-	0.9	-	-	0.9
Movement in share based payment	-	-	0.4	1.2	1.6
Equity dividends	-	-	(156.2)	-	(156.2)
At 30 June 2017	4,456.7	(8.0)	864.6	112.3	5,425.6

For the half year ended 31 December 2016

	\$m	\$m ¹	\$m	\$m	\$m
Opening balance at 1 July 2016	4,298.4	(10.2)	739.2	87.9	5,115.3
Comprehensive income:					
Profit for the period	-	-	209.0	-	209.0
Other comprehensive income	-	-	0.7	24.7	25.4
Total comprehensive income for the period	-	-	209.7	24.7	234.4
Transactions with owners in their capacity as owners:					
Shares issued	107.9	-	-	-	107.9
Share issue expenses	(0.2)	-	-	-	(0.2)
Reduction in employee share ownership plan (ESOP) shares	-	1.3	-	-	1.3
Movement in general reserve for credit losses (GRCL)	-	-	6.6	(6.6)	-
Movement in share based payment	-	-	-	(2.0)	(2.0)
Equity dividends	-	-	(155.2)	-	(155.2)
At 31 December 2016	4,406.1	(8.9)	800.3	104.0	5,301.5

¹ refer to note 3.7.9 Issued capital for further details

3.6 Cash flow statement

For the half year ended 31 December 2017

	Note	Consolidated		
		Dec-17 \$m	Jun-17 \$m	Dec-16 \$m
Cash flows from operating activities				
Interest and other items of a similar nature received		1,305.6	1,326.6	1,329.4
Interest and other costs of finance paid		(659.3)	(707.7)	(710.1)
Receipts from customers (excluding effective interest)		144.0	160.2	151.1
Payments to suppliers and employees		(539.9)	(429.1)	(412.9)
Dividends received		1.2	0.7	1.3
Income taxes paid		(95.6)	(88.3)	(104.4)
Cash flows from operating activities before changes in operating assets and liabilities		156.0	262.4	254.4
(Increase)/decrease in operating assets				
Net decrease/(increase) in balance of loans and other receivables		324.9	(831.0)	(2,780.7)
Net (increase)/decrease in balance of investment securities		(318.2)	583.7	192.1
Increase/(decrease) in operating liabilities				
Net (decrease)/increase in balance of deposits		(270.5)	(456.2)	2,173.9
Net increase in balance of notes payable		210.1	624.5	33.2
Net cash flows from/(used in) operating activities		102.3	183.4	(127.1)
Cash flows related to investing activities				
Cash paid for purchases of property, plant and equipment		(11.4)	(3.9)	(6.5)
Cash proceeds from sale of property, plant and equipment		0.4	1.4	0.4
Cash paid for purchases of investment property		(29.1)	(20.0)	(30.2)
Cash proceeds from sale of investment property		25.1	20.8	26.9
Cash paid for purchases of equity investments		-	(1.5)	(2.9)
Return of capital/dividends received from joint venture investments		0.9	-	-
Cash proceeds from sale of equity investments		-	-	0.5
Cash paid for purchases of intangible assets		-	(1.3)	-
Net cash flows used in investing activities		(14.1)	(4.5)	(11.8)
Cash flows from financing activities				
Proceeds from issue of ordinary/convertible preference shares		52.6	2.4	62.0
Proceeds from/(payments to) subordinated debt holders		0.2	-	125.3
Dividends paid		(106.9)	(107.9)	(109.3)
Repayment of ESOP shares		0.7	0.9	1.3
Payment of ordinary/convertible preference shares issue costs		(5.9)	(0.1)	(0.2)
Net cash flows (used in)/from financing activities		(59.3)	(104.7)	79.1
Net increase/(decrease) in cash and cash equivalents		28.9	74.2	(59.8)
Cash and cash equivalents at the beginning of period		1,001.5	927.3	987.1
Cash and cash equivalents at the end of period	3.7.8	1,030.4	1,001.5	927.3

3.7 Notes to and forming part of the financial statements

3.7.1 Corporate Information

The half year financial report of Bendigo and Adelaide Bank Limited for the six months ended 31 December 2017 was authorised for issue in accordance with a resolution of the Directors on 12 February 2018.

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 Bendigo and Adelaide Bank Limited is Australia.

The Group's functional and presentation currency is AUD (\$).

3.7.2 Summary of significant accounting policies

The half year financial report does not contain all disclosures of the type normally found within an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and finance and investing activities of the consolidated entity as that given by the annual financial report.

It is recommended that the half year financial report is read in conjunction with the annual financial report of Bendigo and Adelaide Bank Limited as at 30 June 2017, which was prepared based on Australian Accounting Standards, together with any public announcements made by Bendigo and Adelaide Bank Limited and its controlled entities made up until the date this half year financial report is signed by the Group in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001* and the ASX Listing Rules.

This half year financial report has been prepared on the basis of accounting policies consistent with those applied in the 30 June 2017 annual financial report, except as disclosed below.

3.7.2.1 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 half year financial report is a general purpose financial report which has been prepared in accordance with the Banking Act, applicable Australian Accounting Standards including AASB 134 *Interim Financial Reporting*, *Corporations Act 2001* and the requirements of law in so far as they are applicable to Australian banking corporations.

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

The amounts contained in the financial report have been rounded to the nearest one hundred thousand dollars (\$'00,000) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which this legislative instrument applies.

For the purposes of preparing the half year financial report, the half year has been treated as a discrete reporting period.

3.7.2.2 Changes in accounting policies

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

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 half year ended 31 December 2017.

AASB 9 *Financial Instruments* introduces changes to the classification and measurement of financial assets and financial liabilities, impairment of financial assets and new rules for hedge accounting. This standard is mandatory for the 30 June 2019 financial statements. The Group has an established AASB 9 program involving finance and risk functions across the Group. The program is in the process of developing and testing required models and assessing the impacts of the standard.

AASB 15 *Revenue from contracts with customers* applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards. The Group does not expect that a significant portion of the Group's revenue will be impacted by this standard and is currently in the process of assessing the impacts. This standard is effective for the 30 June 2019 financial statements. The impacts of the adoption of the standard are currently being assessed.

AASB 16 *Leases* introduces a requirement to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. This standard is effective for the 30 June 2020 financial statements. The impacts of the adoption of the standard are currently being assessed.

3.7 Notes to and forming part of the financial statements (continued)

3.7.2.2 Changes in accounting policies (continued)

Recently issued or amended standards not yet effective (continued)

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

- > 2014-10 Amendments to Australian Accounting Standards – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*;
- > 2016-5 Amendments to Australian Accounting Standards – *Classification and Measurement of Share-based Payment Transactions*;
- > 2017-1 Amendments to Australian Accounting Standards – *Transfers of Investments Property, Annual Improvements 2014-2016 Cycle and Other Amendments*;
- > 2017-6 Amendments to Australian Accounting Standards – *Prepayment Features with Negative Compensation*; and
- > 2017-7 Amendments to Australian Accounting Standards – *Long-term Interests in Associates and Joint Ventures*.

3.7.2.3 Significant accounting judgements, estimates and assumptions

(i) Significant accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgements, 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 and acquired intangibles amortisation after tax. Cash earnings have been used in a number of key indicator calculations such as 3.7.6 - earnings per ordinary share and 3.7.7 - 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.

3.7.3 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.

3.7.3 Segment results (continued)

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 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 half year ended 31 December 2017

	Operating segments			Total operating segments	Central functions	Total
	Local connection	Partner connection	Agribusiness			
	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	418.2	157.3	82.2	657.7	-	657.7
Other income	89.6	83.8	4.2	177.6	7.6	185.2
Total segment income	507.8	241.1	86.4	835.3	7.6	842.9
Operating expenses	(318.3)	(94.0)	(39.2)	(451.5)	(6.0)	(457.5)
Credit expenses	(34.1)	(11.5)	(0.7)	(46.3)	-	(46.3)
Segment result (before tax)	155.4	135.6	46.5	337.5	1.6	339.1
Tax expense	(49.2)	(43.0)	(14.7)	(106.9)	(0.5)	(107.4)
Segment result (statutory basis)	106.2	92.6	31.8	230.6	1.1	231.7
Cash basis adjustments:						
Specific income & expense items	-	(19.4)	2.9	(16.5)	(0.7)	(17.2)
Other specific items	-	6.3	-	6.3	-	6.3
Amortisation of intangibles	2.0	1.3	1.2	4.5	-	4.5
Segment result (cash basis)	108.2	80.8	35.9	224.9	0.4	225.3

For the half year ended 30 June 2017

	Operating segments			Total operating segments	Central functions	Total
	Local connection	Partner connection	Agribusiness			
	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	387.6	147.1	83.0	617.7	-	617.7
Other income	87.8	94.3	4.9	187.0	9.5	196.5
Total segment income	475.4	241.4	87.9	804.7	9.5	814.2
Operating expenses	(309.5)	(98.4)	(39.9)	(447.8)	(10.8)	(458.6)
Credit expenses	(15.1)	(17.5)	0.6	(32.0)	-	(32.0)
Segment result (before tax)	150.8	125.5	48.6	324.9	(1.3)	323.6
Tax expense	(48.1)	(40.0)	(15.5)	(103.6)	0.6	(103.0)
Segment result (statutory basis)	102.7	85.5	33.1	221.3	(0.7)	220.6
Cash basis adjustments:						
Specific income & expense items	0.3	(19.8)	2.2	(17.3)	0.6	(16.7)
Other specific income and expense items	-	4.9	-	4.9	-	4.9
Amortisation of intangibles	2.4	1.3	2.3	6.0	-	6.0
Segment result (cash basis)	105.4	71.9	37.6	214.9	(0.1)	214.8

3.7.3 Segment results (continued)

For the half year ended 31 December 2016

	Operating segments			Total operating segments	Central functions	Total
	Local connection	Partner connection	Agribusiness			
	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	377.7	135.7	82.5	595.9	-	595.9
Other income	90.7	92.1	3.5	186.3	13.1	199.4
Total segment income	468.4	227.8	86.0	782.2	13.1	795.3
Operating expenses	(319.0)	(92.7)	(39.1)	(450.8)	-	(450.8)
Credit expenses	(17.8)	(17.2)	(4.8)	(39.8)	-	(39.8)
Segment result (before tax)	131.6	117.9	42.1	291.6	13.1	304.7
Tax expense	(41.2)	(37.0)	(13.2)	(91.4)	(4.3)	(95.7)
Segment result (statutory basis)	90.4	80.9	28.9	200.2	8.8	209.0
Cash basis adjustments:						
Specific income & expense items	0.2	(24.9)	1.5	(23.2)	5.1	(18.1)
Other specific income and expense items	-	6.2	-	6.2	-	6.2
Amortisation of intangibles	2.2	1.8	2.4	6.4	-	6.4
Segment result (cash basis)	92.8	64.0	32.8	189.6	13.9	203.5

	Operating segments			Total operating segments	Central functions	Total
	Local connection	Partner connection	Agribusiness			
	\$m	\$m	\$m	\$m	\$m	\$m
As at 31 December 2017						
Reportable segment assets	33,648.4	21,275.7	6,090.7	61,014.8	10,247.1	71,261.9
Reportable segment liabilities	43,084.7	5,260.4	3,810.2	52,155.3	8,859.9	61,015.2
As at 30 June 2017						
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	9,183.1	61,509.7
As at 31 December 2016						
Reportable segment assets	32,723.2	21,696.3	5,906.2	60,325.7	10,622.8	70,948.5
Reportable segment liabilities	42,589.5	6,186.5	3,545.6	52,321.6	9,469.7	61,791.3

Reportable segment assets and liabilities	As at 31 December 2017	As at 30 June 2017	As at 31 December 2016
Total assets for operating segments	71,261.9	71,415.5	70,948.5
Total assets	71,261.9	71,415.5	70,948.5
Total liabilities for operating segments	61,015.2	61,509.7	61,791.3
Securitisation funding	4,690.3	4,480.2	3,855.7
Total liabilities	65,705.5	65,989.9	65,647.0

3.7.4 Income tax

For the half year ended 31 December 2017

The major components of income tax expense for the half year ended 31 December 2017 are:

	Dec-17 \$m	Jun-17 \$m	Dec-16 \$m
Current income tax			
Current income tax charge	(105.4)	(86.7)	(92.9)
Deferred income tax			
Relating to origination and reversal of temporary differences	(2.0)	(16.3)	(2.8)
Income tax expense reported in the income statement	(107.4)	(103.0)	(95.7)

3.7.5 Dividends paid and payable

	December 2017 interim dividend		
	Amount per share cents	Franked amount per share - %	Total amount \$m
On 12 February 2018, the directors declared the following dividend:	35.0	100.0	166.3

	Dec-17			Jun-17			Dec-16		
	Date paid	Amount per share cents	Total amount \$m	Date paid	Amount per share cents	Total amount \$m	Date paid	Amount per share cents	Total amount \$m
Ordinary shares ¹									
	June 2017 final dividend			December 2016 interim dividend			June 2016 final dividend		
Dividends paid during the half-year	Sep 2017	34.0	159.9	Mar 2017	34.0	156.2	Sep 2016	34.0	155.2
Convertible preference shares (recorded as debt instruments) ²									
Dividends paid during the half-year:	Dec 2017	240.4	6.5	June 2017	244.3	6.6	Dec 2016	249.6	6.7
Convertible preference shares (CPS2) (recorded as debt instruments) ³									
Dividends paid during the half-year:	Nov 2017	178.9	5.2	May 2017	180.9	5.3	Nov 2016	187.7	5.5
Convertible preference shares (CPS3) (recorded as debt instruments) ⁴									
Dividends paid during the half-year:	Dec 2017	205.3	5.8	June 2017	209.4	5.9	Dec 2016	215.8	6.1

Convertible preference shares (CPS4) (recorded as debt instruments)

Convertible preference shares (CPS 4, ASX:BENPG) were issued in December 2017 and as such no dividend has been paid during the period ended December 2017.

¹ BEN - ASX code - Ordinary Fully Paid Shares

² BENPD - ASX code - Convertible Non-Cumulative Preference Shares (CPS). These shares were redeemed in December 2017.

³ BENPE - ASX code - Convertible Non-Cumulative Preference Shares (CPS2). These shares were issued in October 2014.

⁴ BENPF - ASX code - Convertible Non-Cumulative Preference Shares (CPS3). These shares were issued in June 2015.

3.7.6 Earnings per ordinary share

	Half Year Dec-17 cents per share	Half Year Jun-17 cents per share	Half Year Dec-16 cents per share
Earnings per ordinary share			
Basic	48.1	46.3	44.6
Cash basis	46.8	45.0	43.5
Diluted	43.7	42.4	40.5
	\$m	\$m	\$m
Reconciliation of earnings used in the calculation of basic earnings per ordinary share			
Profit for the half-year (after tax)	231.7	220.6	209.0
Total basic earnings	231.7	220.6	209.0
Reconciliation of earnings used in the calculation of diluted earnings per ordinary share			
Earnings used in calculating basic earnings per ordinary share	231.7	220.6	209.0
Add back: dividends accrued and/or paid on dilutive convertible preference shares	12.3	12.4	12.8
Total diluted earnings	244.0	233.0	221.8
Reconciliation of earnings used in the calculation of cash basis earnings per ordinary share			
Earnings used in calculating basic earnings per ordinary share	231.7	220.6	209.0
Add back: amortisation of acquired intangibles (after tax)	4.5	6.0	6.4
Add back: Specific income and expense items (after tax) ¹	(10.9)	(11.8)	(11.9)
Total cash earnings	225.3	214.8	203.5
	No. of shares	No. of shares	No. of shares
Weighted ave no. of ordinary shares used in basic and cash basis earnings per ordinary share	481,534,536	476,816,951	468,085,928
Effect of dilution - executive performance rights	1,004,185	1,092,528	597,274
Effect of dilution - convertible preference shares	75,565,514	72,191,000	79,433,817
Weighted ave no. of ordinary shares used in diluted earnings per ordinary share	558,104,235	550,100,479	548,117,019
¹ Specific income and expense items after tax comprise:	Dec-17 \$m	Jun-17 \$m	Dec-16 \$m
Specific net interest income items			
Homesafe funding costs - unrealised	(6.7)	(6.0)	(5.1)
Fair value adjustments - interest expense	(0.5)	(0.7)	(1.1)
Specific other income items			
Hedge ineffectiveness	0.8	(0.5)	(5.1)
Profit on sale of Estates business	-	2.7	-
Homesafe Trust - revaluation income	27.7	30.8	32.5
Specific operating expense items			
Integration costs	(3.7)	(5.1)	(4.1)
Impairment (charge)/reversal	(0.4)	-	1.0
Litigation costs	-	(4.4)	-
Specific income tax benefit			
Tax impacts relating to prior year impairment losses	-	(0.1)	-
Total specific items attributable to the Group	17.2	16.7	18.1
Other specific items			
Homesafe revaluation (gain) - realised	(9.5)	(7.4)	(9.4)
Homesafe funding costs - realised	3.2	2.5	3.2
Total other specific items attributable to the Group	(6.3)	(4.9)	(6.2)

3.7.7 Return on average ordinary equity

	Half year Dec-17 %	Half year Jun-17 %	Half year Dec-16 %
Return on average ordinary equity (after tax)	8.57	8.49	8.15
Return on average ordinary equity (cash basis)	8.33	8.27	7.94
Reconciliaton of ordinary equity used in the calculation of return on average ordinary equity	As at Dec-17 \$m	As at Jun-17 \$m	As at Dec-16 \$m
Ordinary issued capital	4,506.7	4,456.7	4,406.1
Retained earnings	938.2	864.6	800.3
Total ordinary equity	5,444.9	5,321.3	5,206.4
Average ordinary equity ¹	5,365.1	5,239.8	5,085.9

¹ The average ordinary equity is calculated using a six month average.

Return on average ordinary equity is a key performance measure and is used in the company's management remuneration policy.

Please refer to the June 2017 full year annual report for the full details of this policy.

3.7.8 Cash flow information

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

	As at Dec-17 \$m	As at Jun-17 \$m	As at Dec-16 \$m
Cash and cash equivalents	1,050.9	1,059.6	913.2
Due from other financial institutions	156.2	270.3	156.3
Due to other financial institutions	(176.7)	(328.4)	(142.2)
Total cash and cash equivalents	1,030.4	1,001.5	927.3

Recognition and measurement

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

3.7.9 Share capital

	As at Dec-17		As at Jun-17		As at Dec-16	
	No. Of shares	Total \$m	No. Of shares	Total \$m	No. Of shares	Total \$m
Issued and paid up capital						
Ordinary shares fully paid	483,862,607	4,506.7	479,206,464	4,456.7	474,353,128	4,406.1
Employee share ownership plan shares	-	(7.3)	-	(8.0)	-	(8.9)
		4,499.4		4,448.7		4,397.2
	No. Of shares	Total \$m	No. Of shares	Total \$m	No. Of shares	Total \$m
Movements in ordinary shares						
Opening balance	479,206,464	4,456.7	474,353,128	4,406.1	463,762,656	4,298.4
Bonus share scheme	266,098	-	436,024	-	253,203	-
Dividend reinvestment plan	4,390,045	50.0	4,212,626	48.3	4,568,195	45.9
Employee Share scheme	-	-	204,686	2.4	-	-
Share purchase plan	-	-	-	-	5,769,074	62.0
Share issue costs	-	-	-	(0.1)	-	(0.2)
Closing balance	483,862,607	4,506.7	479,206,464	4,456.7	474,353,128	4,406.1
		\$m		\$m		\$m
Movements in Employee share ownership plan						
Opening balance		(8.0)		(8.9)		(10.2)
Reduction in employee share ownership plan shares		0.7		0.9		1.3
Closing balance		(7.3)		(8.0)		(8.9)

3.7.10 Financial instruments

The accounting policies within the 30 June 2017 annual financial report describe how different classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

a) Measurement basis of financial assets and liabilities

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

	Held at fair value	At fair value through profit & loss	At fair value through reserves	Held at amortised cost		Total
	Derivatives	Held for trading	Available for sale	Loans and receivables	Other financial instruments	
	\$m	\$m	\$m	\$m	\$m	\$m
31 December 2017						
Financial assets						
Cash and cash equivalents	-	-	-	-	1,050.9	1,050.9
Due from other financial institutions	-	-	-	-	156.2	156.2
Financial assets held to maturity	-	-	-	-	338.1	338.1
Financial assets held for trading	-	5,869.5	-	-	-	5,869.5
Financial assets available for sale	-	-	427.3	-	-	427.3
Loans & other receivables	-	-	-	60,400.0	-	60,400.0
Derivatives	58.2	-	-	-	-	58.2
Total financial assets	58.2	5,869.5	427.3	60,400.0	1,545.2	68,300.2
Financial liabilities						
Due to other financial institutions	-	-	-	-	176.7	176.7
Deposits	-	-	-	-	58,502.0	58,502.0
Notes payable	-	-	-	-	4,690.3	4,690.3
Derivatives	40.2	-	-	-	-	40.2
Convertible preference shares	-	-	-	-	879.4	879.4
Subordinated debt	-	-	-	-	708.9	708.9
Total financial liabilities	40.2	-	-	-	64,957.3	64,997.5

30 June 2017

Financial assets						
Cash and cash equivalents	-	-	-	-	1,059.6	1,059.6
Due from other financial institutions	-	-	-	-	270.3	270.3
Financial assets held to maturity	-	-	-	-	378.7	378.7
Financial assets held for trading	-	5,657.6	-	-	-	5,657.6
Financial assets available for sale	-	-	286.6	-	-	286.6
Loans & other receivables	-	-	-	60,776.6	-	60,776.6
Derivatives	77.7	-	-	-	-	77.7
Total financial assets	77.7	5,657.6	286.6	60,776.6	1,708.6	68,507.1
Financial liabilities						
Due to other financial institutions	-	-	-	-	328.4	328.4
Deposits	-	-	-	-	58,772.3	58,772.3
Notes payable	-	-	-	-	4,480.2	4,480.2
Derivatives	59.0	-	-	-	-	59.0
Convertible preference shares	-	-	-	-	830.1	830.1
Subordinated debt	-	-	-	-	708.7	708.7
Total financial liabilities	59.0	-	-	-	65,119.7	65,178.7

31 December 2016

Financial assets						
Cash and cash equivalents	-	-	-	-	913.2	913.2
Due from other financial institutions	-	-	-	-	156.3	156.3
Financial assets held to maturity	-	-	-	-	423.0	423.0
Financial assets held for trading	-	6,183.9	-	-	-	6,183.9
Financial assets available for sale	-	-	287.0	-	-	287.0
Loans & other receivables	-	-	-	59,924.7	-	59,924.7
Derivatives	64.1	-	-	-	-	64.1
Total financial assets	64.1	6,183.9	287.0	59,924.7	1,492.5	67,952.2

3.7.10 Financial instruments (continued)

a) Measurement basis of financial assets and liabilities (continued)

31 December 2016	Held at fair value	At fair value through profit & loss	At fair value through reserves	Held at amortised cost		Total
	Derivatives	Held for trading	Available for sale	Loans and receivables	Other financial instruments	
	\$m	\$m	\$m	\$m	\$m	\$m
Financial liabilities						
Due to other financial institutions	-	-	-	-	142.2	142.2
Deposits	-	-	-	-	59,228.5	59,228.5
Notes payable	-	-	-	-	3,855.7	3,855.7
Derivatives	77.8	-	-	-	-	77.8
Convertible preference shares	-	-	-	-	827.3	827.3
Subordinated debt	-	-	-	-	708.7	708.7
Total financial liabilities	77.8	-	-	-	64,762.4	64,840.2

b) Fair value measurement

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

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

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

Valuation of financial assets and liabilities

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

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

Level 1 - Quoted market prices

The fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - Valuation technique using observable inputs

The fair value is determined using models whose inputs are observable in an active market.

Level 3 - Valuation technique using significant unobservable inputs

The fair value is calculated using significant inputs that are not based on observable market data.

Financial assets and liabilities carried at fair value

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

31 December 2017	Level 1	Level 2	Level 3	Total fair value	Total carrying value
	\$m	\$m	\$m	\$m	\$m
Financial assets held for trading	-	5,869.5	-	5,869.5	5,869.5
Financial assets available for sale	0.1	404.6	22.6	427.3	427.3
Derivatives	-	58.2	-	58.2	58.2
Total financial assets carried at fair value	0.1	6,332.3	22.6	6,355.0	6,355.0
Derivatives	-	40.2	-	40.2	40.2
Total financial liabilities carried at fair value	-	40.2	-	40.2	40.2

30 June 2017

Financial assets held for trading	-	5,657.6	-	5,657.6	5,657.6
Financial assets available for sale	0.1	263.5	23.0	286.6	286.6
Derivatives	-	77.7	-	77.7	77.7
Total financial assets carried at fair value	0.1	5,998.8	23.0	6,021.9	6,021.9
Derivatives	-	59.0	-	59.0	59.0
Total financial liabilities carried at fair value	-	59.0	-	59.0	59.0

31 December 2016

Financial assets held for trading	-	6,183.9	-	6,183.9	6,183.9
Financial assets available for sale	0.1	265.3	21.6	287.0	287.0
Derivatives	-	64.1	-	64.1	64.1
Total financial assets carried at fair value	0.1	6,513.3	21.6	6,535.0	6,535.0
Derivatives	-	77.8	-	77.8	77.8
Total financial liabilities carried at fair value	-	77.8	-	77.8	77.8

Transfers between levels are deemed to have occurred at the beginning of the reporting period in which instruments are transferred.

There were no transfers between levels during the half year for the Group.

3.7.10 Financial instruments (continued)

b) Fair value measurement (continued)

Valuation methodology

Financial instruments - debt securities

Each month, independent valuations are determined by the middle office department of the Group's Risk division.

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

Financial instruments - equity investments

Level 1 - Listed investments relates to equities held that are on listed exchanges.

Level 2 - Unlisted investments are equity holdings in unlisted managed investment schemes. For managed scheme investments the most recent prices provided by the fund manager are used.

Level 3 - Unlisted investments are equity holdings in small unlisted entities. Given there are no quoted market prices and fair value cannot be reliably measured, investments are held at cost less impairment.

Derivatives

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

Movements in level 3 portfolio

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

Financial assets - equity investments	\$m
As at 30 June 2017	23.0
Impairment charge	(0.4)
Purchases	-
Sales	-
As at 31 December 2017	22.6

Financial assets and liabilities carried at amortised cost

Valuation Hierarchy

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

	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying amount
	\$m	\$m	\$m	\$m	\$m
31 December 2017					
Financial assets					
Cash and cash equivalents	1,050.9	-	-	1,050.9	1,050.9
Due from other financial institutions	156.2	-	-	156.2	156.2
Financial assets held to maturity	-	338.1	-	338.1	338.1
Loans and other receivables	-	-	60,489.7	60,489.7	60,400.0
Financial liabilities					
Due to other financial institutions	176.7	-	-	176.7	176.7
Deposits	-	58,560.2	-	58,560.2	58,502.0
Notes payable	-	4,711.3	-	4,711.3	4,690.3
Convertible preference shares	899.7	-	-	899.7	879.4
Subordinated debt	-	704.4	-	704.4	708.9

30 June 2017

Financial assets					
Cash and cash equivalents	1,059.6	-	-	1,059.6	1,059.6
Due from other financial institutions	270.3	-	-	270.3	270.3
Financial assets held to maturity	-	378.7	-	378.7	378.7
Loans and other receivables	-	-	60,880.0	60,880.0	60,776.6
Financial liabilities					
Due to other financial institutions	328.4	-	-	328.4	328.4
Deposits	-	58,840.3	-	58,840.3	58,772.3
Notes payable	-	4,492.2	-	4,492.2	4,480.2
Convertible preference shares	838.0	-	-	838.0	830.1
Subordinated debt	-	701.9	-	701.9	708.7

3.7.10 Financial instruments (continued)

b) Fair value measurement (continued)

	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying amount
	\$m	\$m	\$m	\$m	\$m
31 December 2016					
Financial assets					
Cash and cash equivalents	913.2	-	-	913.2	913.2
Due from other financial institutions	156.3	-	-	156.3	156.3
Financial assets held to maturity	-	423.0	-	423.0	423.0
Loans and other receivables	-	-	60,072.8	60,072.8	59,924.7
Financial liabilities					
Due to other financial institutions	142.2	-	-	142.2	142.2
Deposits	-	59,308.6	-	59,308.6	59,228.5
Notes payable	-	3,861.5	-	3,861.5	3,855.7
Convertible preference shares	838.3	-	-	838.3	827.3
Subordinated debt	-	702.1	-	702.1	708.7

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

Valuation methodology

Cash and cash equivalents, due from/to other financial institutions

The carrying value for these assets and liabilities are a reasonable approximation of fair value.

Financial instruments - held to maturity

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

Loans and other receivables

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

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

Deposits

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

Notes payable

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

Convertible preference shares

The fair value for convertible preference shares is based on quoted market rates for the issue concerned as at period end.

Subordinated debt

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

3.7.11 Contingent assets and liabilities

(a) Contingent assets

As at 31 December 2017, the economic entity does not have any contingent assets (31 December 2016: Nil).

(b) Contingent liabilities

	Dec-17 \$m	Jun-17 \$m	Dec-16 \$m
Guarantees - the economic entity has issued guarantees on behalf of clients in the normal course of business	245.2	251.6	247.2
Other - documentary letters of credit	8.3	2.2	9.5

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.

3.8 Events after balance sheet date

No matters or circumstances have arisen since the end of the half 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.

Directors' declaration

In accordance with a resolution of the directors of Bendigo and Adelaide Bank Limited, I state that:

In the opinion of the directors:

- (a) the half year financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half year ended on that date; and
 - (ii) complying with Australian Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*;
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Robert Johanson
Chairman
Bendigo
12 February 2018

Independent Auditor's Review Report to the Members of Bendigo and Adelaide Bank Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Bendigo and Adelaide Bank Limited (the Company) and its subsidiaries (collectively the Group), which comprises the balance sheet as at 31 December 2017, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

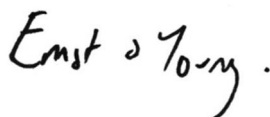
Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2017 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, 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.



Ernst & Young



Graeme McKenzie
Partner
Melbourne



Luke Slater
Partner
Melbourne

12 February 2018

Bendigo and Adelaide Bank Ltd
ABN 11 068 049 178

