Bendigo Bank

ABN 11 068 049 178

# Appendix 4D Half Year Report
# Half Year Announcement
# Half Year Financial Report

For the period ending

## 31 December 2007

Released 18 February 2008

This report comprises information given to the ASX under listing rule 4.2A

Information contained in this report should be read in conjunction with the June 2007 annual financial report.

# CONTENTS



Information contained in this report should be read in conjunction with the June 2007 annual financial report.

# 1. APPENDIX 4D: HALF YEAR REPORT

## 1.1 Company details and reporting period

Bendigo Bank Limited
ABN 11 068 049 178

| | |
|---|---|
| Reporting period - six months ended: | 31 December 2007 |
| Previous corresponding period - six months ended: | 31 December 2006 |

## 1.2 Results for announcement to the market

| | | | | **$m** |
|---|---|---|---|---|
| Revenue from operations | up | 15.3% | to | 320.1 |
| Profit after tax attributable to members | up | 34.1% | to | 72.8 |
| Net profit attributable to members | up | 34.1% | to | 72.8 |

| **Dividends – current year** | **Amount per security** |
|---|---|
| Interim Dividend – 2008, fully franked at 30% | 28.0 cents |
| Record date for determining entitlements for the interim dividend - 29 February 2008 | |
| Payable 31 March 2008 | |

| **Dividends – previous year** | **Amount per security** |
|---|---|
| Final Dividend – 2007, fully franked at 30%<br>Paid 28 September 2007 | 34.0 cents |
| Interim Dividend – 2007, fully franked at 30%<br>Paid 30 March 2007 | 24.0 Cents |

## 1.3 Cash earnings results

| | | | | |
|---|---|---|---|---|
| Cash earnings attributable to members | up | 27.6% | to | $70.7 million |
| Cash earnings per share<br>*See Note 2.4 for full details* | up | 10.3% | to | 43.0 cents |

## 1.4 Net tangible assets per security

Refer to pages 27 and 51 of the attached December 2007 half year profit announcement.

## 1.5 Details of entities over which control has been gained or lost during the period

On 30 November 2007 Bendigo Bank Limited acquired all the ordinary share capital of Adelaide Bank Limited and its controlled entities.

The information contained in this report includes the results of Adelaide Bank Limited and its controlled entities from that date. Prior period comparisons are for Bendigo Bank Limited only as reported in those prior periods.

## 1.6 Details of individual and total dividends

Refer to pages 24 and 48 of the attached December 2007 half year profit announcement.

## 1.7 Details of any dividend or distribution reinvestment plans in operation

Refer to page 26 of the attached December 2007 half year profit announcement.

## 1.8 Details of associates and joint venture entities

Refer to page 28 of the attached December 2007 half year profit announcement.

## 1.9 Accounting standards used for foreign entities

Not applicable.

## 1.10 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.

## 1.11 Half year financial statements

Refer to pages 32 to 62 of the attached December 2007 half year profit announcement.

# 2. HALF YEAR ANNOUNCEMENT

## 2.1 Financial highlights

All reported information includes the results of Adelaide Bank Limited for the month of December 2007

| | 2005-06 2nd Half $m | 2006-07 1st Half $m | 2006-07 2nd Half $m | 2007-08 1st Half $m | Change 1st Half 2006-07 to 1st Half 2007-08 $m | % |
|---|---|---|---|---|---|---|
| Profit after tax | 63.4 | 54.3 | 67.5 | **72.8** | 18.5 | 34.1 |
| Profit after tax before significant items | 56.3 | 59.9 | 68.7 | **76.1** | 16.2 | 27.0 |
| Cash earnings | 54.1 | 55.4 | 63.1 | **70.7** | 15.3 | 27.6 |
| Net interest income (before significant items) | 159.3 | 177.8 | 179.3 | **206.2** | 28.4 | 16.0 |
| Non-interest income (before significant items) | 94.5 | 99.9 | 105.2 | **118.2** | 18.3 | 18.3 |
| Expenses (before significant items) | 168.4 | 187.4 | 181.4 | **209.7** | 22.3 | 11.9 |
| Retail deposits | 11,272.8 | 11,788.1 | 12,103.9 | **22,676.6** | 10,888.5 | 92.4 |
| Total equity | 899.5 | 953.6 | 1,015.0 | **3,134.6** | 2,181.0 | 228.7 |
| Funds under management | 2,966.9 | 3,316.6 | 3,394.2 | **4,964.1** | 1,647.5 | 49.7 |
| Loans under management | 13,996.4 | 14,631.8 | 15,759.3 | **44,003.6** | 29,371.8 | 200.7 |
| New loan approvals | 3,082.9 | 3,371.8 | 3,646.2 | **3,884.6** | 512.8 | 15.2 |
| Residential | 2,038.5 | 2,230.6 | 2,349.8 | **2,723.2** | 492.6 | 22.1 |
| Non-residential | 1,044.4 | 1,141.2 | 1,296.4 | **1,161.4** | 20.2 | 1.8 |
| Cost to income ratio | 65.2% | 66.5% | 62.8% | **63.7%** | (2.8%) | (4.2) |
| Earnings per ordinary share - cents | 44.3 | 36.6 | 45.3 | **42.4** | 5.8 | 15.8 |
| Cash basis earnings per ordinary share –cents | 38.5 | 39.0 | 43.9 | **43.0** | 4.0 | 10.3 |
| Dividend per share – cents | 30.0 | 24.0 | 34.0 | **28.0** | 4.0 | 16.7 |

## 2.2 Results at a glance

### *2.2.1 Financial performance*

- Cash earnings $70.7 million (31 December 2006 $55.4 million), an increase of 27.6%.

- Cash basis earnings per ordinary share increased to 43.0 cents (31 December 2006 39.0 cents), an increase of 10.3%.

- Cash basis earnings return on average ordinary equity (annualised) was 12.5% (31 December 2006 14.8%).

- Profit after income tax before significant items was $76.1million (31 December 2006 $59.9 million), an increase of 27.0% (see note 2.4.1 for significant item details).

- Net interest income before significant items increased by 16.0% to $206.2 million with an interest margin before payments to community banks and alliances decreasing from 2.92% for the December 2006 half year to 2.37% for the December 2007 half year. Net of these payments, interest margin recorded a 47 basis point decrease from 2.37% in December 2006 to 1.90% in the half year to December 2007. This decrease is a result of incorporation of Adelaide Bank results for the month of December 2007 at a lower interest margin. Refer to 2.4.2 for further analysis.

- Non-interest income before significant items was $118.2 million (31 December 2006 $99.9 million), an increase of 18.3%.

- Expenses before significant items increased by 11.9% to $209.7 million compared to December 2006 half and 15.6% compared to the June 2007 half. The cost to income ratio was 63.7% compared to 66.5% for the December 2006 half and 62.8% for the June 2007 half.

### *2.2.2 Financial Position*

- Loans under management were $44.0 billion (31 December 2006 $14.6 billion), an increase of 200.7%. This increase included take-on of $27.4 billion of Adelaide Bank loans.

- Retail deposits were $22.7 billion (31 December 2006 $11.8 billion), an increase of 92.4%. This increase included take-on of $9.5 billion of Adelaide Bank retail deposits.

- Managed funds increased by $1.7 billion to $5.0 billion (31 December 2006 $3.3 billion). This increase included take-on of $1.6 billion of Adelaide Bank managed funds.

- Net impaired loans stood at $20.4 million on 31 December 2007 up from $4.2 million at 31 December 2006 and $10.0 million at 30 June 2007. The increase includes take-on of impaired loans of Adelaide Bank. As a percentage of the combined Bendigo Bank and Adelaide Bank loans, net impaired loans has reduced by 0.02% from June 2007 to 0.05% of loan receivables.

### *2.2.3 Dividends*

- An interim ordinary dividend of 28.0 cents per ordinary share, fully franked (31 December 2006 – 24.0 cents) has been declared by the Board, an increase of 16.7%.

## 2.3 Detailed Income Statement

For the half year ended 31 December 2007

| | | Consolidated 2007 $m | Consolidated 2006 $m |
|---|---|---|---|
| **Income** | | | |
| Net interest income | | | |
| Interest income | | 797.4 | 514.7 |
| Interest expense | | 591.2 | 336.9 |
| **Net interest income before significant items** | | **206.2** | **177.8** |
| **Non interest income** | | | |
| Dividends | | 2.2 | 2.1 |
| Fees | - asset products | 16.0 | 11.5 |
| | - liability products and other | 47.5 | 40.2 |
| | - trustee, management & other services | 5.4 | 4.7 |
| Commissions | - wealth solutions | 18.7 | 16.9 |
| | - insurance | 6.0 | 3.9 |
| | - other | 1.7 | 1.4 |
| Other income | | 9.0 | 7.3 |
| **Total non interest income** | | **106.5** | **88.0** |
| **Share of associates' net profits/ losses** | | **11.7** | **11.9** |
| **Total income after interest expense** | | **324.4** | **277.7** |
| **Expenses** | | | |
| *Bad and doubtful debts* | | | |
| Bad and doubtful debts | | 4.4 | 4.3 |
| Bad debts recovered | | (0.7) | (0.3) |
| **Total bad and doubtful debts** | | **3.7** | **4.0** |
| *Other expenses* | | | |
| Staff and related costs | | 104.5 | 94.7 |
| Occupancy costs | | 18.4 | 15.2 |
| Amortisation of intangibles | | 3.1 | 2.7 |
| Property, plant & equipment costs | | 5.6 | 5.2 |
| Fees and commissions | | 9.9 | 10.4 |
| Administration expenses | | 68.2 | 59.2 |
| **Total other expenses** | | **209.7** | **187.4** |
| **Profit before income tax expense and significant items** | | **111.0** | **86.3** |
| Income tax expense before significant items | | (34.2) | (26.4) |
| Net (profit)/loss attributable to outside equity interest | | (0.7) | - |
| **Profit after income tax expense and before significant items** | | **76.1** | **59.9** |
| Significant items after income tax expense | | (3.3) | (5.6) |
| **Profit after tax** | | **72.8** | **54.3** |

## Detailed Income Statement (continued)

| | Consolidated 2007 $m | Consolidated 2006 $m |
|---|---|---|
| **Profit after tax** | **72.8** | **54.3** |
| **Adjusted for:** | | |
| Significant items after tax | 3.3 | 5.6 |
| Significant cash earnings item - general reserve for credit losses reduction | (4.0) | - |
| Dividends paid on preference shares | (2.6) | (2.4) |
| Dividends paid on step-up preference shares | (0.5) | - |
| Movement in General reserve for credit losses | 1.1 | (1.8) |
| Movement in General reserve for credit losses - associates | (0.4) | (0.9) |
| Loan portfolio premium amortisation | 0.6 | - |
| After tax intangibles amortisation (excl. amortisation of intangible software) | 0.4 | 0.6 |
| **Cash basis earnings** | **70.7** | **55.4** |

| | 2007 | 2006 |
|---|---|---|
| Cash basis earnings per ordinary share (cents per share) | 43.0 | 39.0 |
| Basic earnings per ordinary share (cents per share) | 42.4 | 36.6 |
| Diluted earnings per ordinary share (cents per share) | 42.3 | 36.4 |
| Franked dividends per ordinary share (cents per share) | 28.0 | 24.0 |

## 2.4 Results commentary

### *2.4.1 Profit*

Cash earnings for the six months ended 31 December 2007 were $70.7 million, representing an increase of $15.3 million or 27.6% when compared with the previous corresponding period.

Profit after tax of $72.8 million for the six months ended 31 December 2007 is an increase of 34.1% over the previous corresponding period. After excluding the significant items (refer below) profit increased 27.0% to $76.1 million.

Underlying profit compared to the previous corresponding period increased from $90.9 million to $115.0 million, an increase of 26.5%.

| | Dec-07 | Jun-07 | Change | | Dec-06 | Change | |
|---|---|---|---|---|---|---|---|
| | $m | $m | $m | % | $m | $m | % |
| **Underlying Profit** | | | | | | | |
| Profit after tax | 72.8 | 67.5 | 5.3 | 7.9 | 54.3 | 18.5 | 34.1 |
| Adjustments: | | | | | | | |
| Significant items before tax | 4.8 | 1.7 | 3.1 | 182.4 | 5.6 | (0.8) | (14.3) |
| Loan portfolio premium amortistation | 0.6 | - | 0.6 | - | - | 0.6 | - |
| Bad and doubtful debts (net of recoveries) | 3.7 | 4.2 | (0.5) | (11.9) | 4.0 | (0.3) | (7.5) |
| Amortisation of intangibles (excl software amortisation) | 0.4 | 0.6 | (0.2) | (33.3) | 0.6 | (0.2) | (33.3) |
| Income tax expense - total | 32.7 | 29.8 | 2.9 | 9.7 | 26.4 | 6.3 | 23.9 |
| Underlying profit before tax | 115.0 | 103.8 | 11.2 | 10.8 | 90.9 | 24.1 | 26.5 |
| **Profit** | | | | | | | |
| Profit before tax | 106.2 | 97.2 | 9.0 | 9.3 | 80.7 | 25.5 | 31.6 |
| Significant items before tax | (4.8) | (1.7) | (3.1) | 182.4 | (5.6) | 0.8 | (14.3) |
| Profit before tax and significant items | 111.0 | 98.9 | 12.1 | 12.2 | 86.3 | 24.7 | 28.6 |
| Profit after tax | 72.8 | 67.5 | 5.3 | 7.9 | 54.3 | 18.5 | 34.1 |
| Significant items after tax | (3.3) | (1.2) | (2.1) | 175.0 | (5.6) | 2.3 | (41.1) |
| Profit after tax before significant items | 76.1 | 68.7 | 7.4 | 10.8 | 59.9 | 16.2 | 27.0 |
| *Adjusted for:* | | | | | | | |
| Intangibles amortisation (excluding software amortisation) | 0.4 | 0.6 | (0.2) | (33.3) | 0.6 | (0.2) | (33.3) |
| Distributions paid on preference shares | (2.6) | (2.4) | (0.2) | 8.3 | (2.4) | (0.2) | 8.3 |
| Distributions paid on step-up preference shares | (0.5) | - | (0.5) | - | - | (0.5) | - |
| Movement in general reserve for credit losses (GRCL) | 1.1 | (2.9) | 4.0 | (137.9) | (1.8) | 2.9 | (161.1) |
| Movement in general reserve for credit losses - associates | (0.4) | (0.9) | 0.5 | (55.6) | (0.9) | 0.5 | (55.6) |
| Loan portfolio premium amortisation | 0.6 | - | 0.6 | - | - | 0.6 | - |
| Significant cash earnings item - general reserve for credit losses reduction | (4.0) | - | (4.0) | - | - | (4.0) | - |
| Cash basis profit after tax | 70.7 | 63.1 | 7.6 | 12.0 | 55.4 | 15.3 | 27.6 |

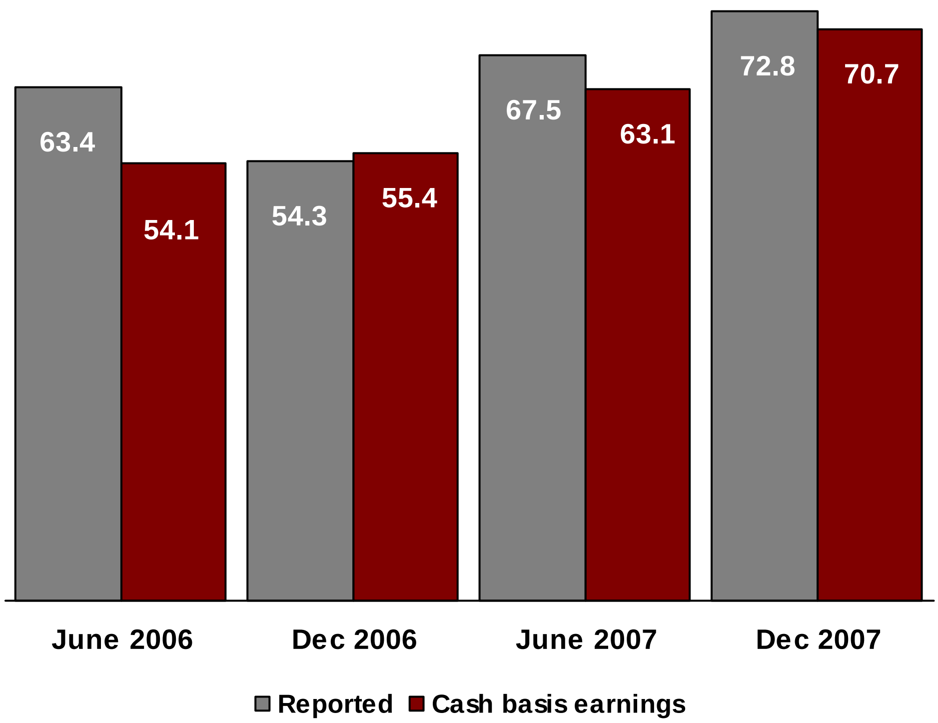
### Significant items

The reported profit after tax for the six months ending 31 December 2007 of $72.8 million included the following significant items:

Cash flow hedge reserve movement recognised on consolidation related to the acquisition of Adelaide Bank ($3.0 million after tax). Reset of Adelaide Bank hedges on acquisition has resulted in ineffectiveness on consolidation which impacts profit. As these hedges mature in future periods the profit impact will reverse. Additionally, integration costs associated with the Adelaide Bank acquisition incurred to end of December 2007 of $0.3 million after tax have been recognised as significant.

In addition, the reported cash basis profit includes a cash earnings significant item of $4.0 million. This relates to a decrease in Bendigo Banks' general reserve for credit losses from 0.55% to 0.51% of risk-weighted assets. This decrease has been applied following a prudent review of loss trends within the existing portfolio, which continues to report declining loss rates and continued strong credit management processes.

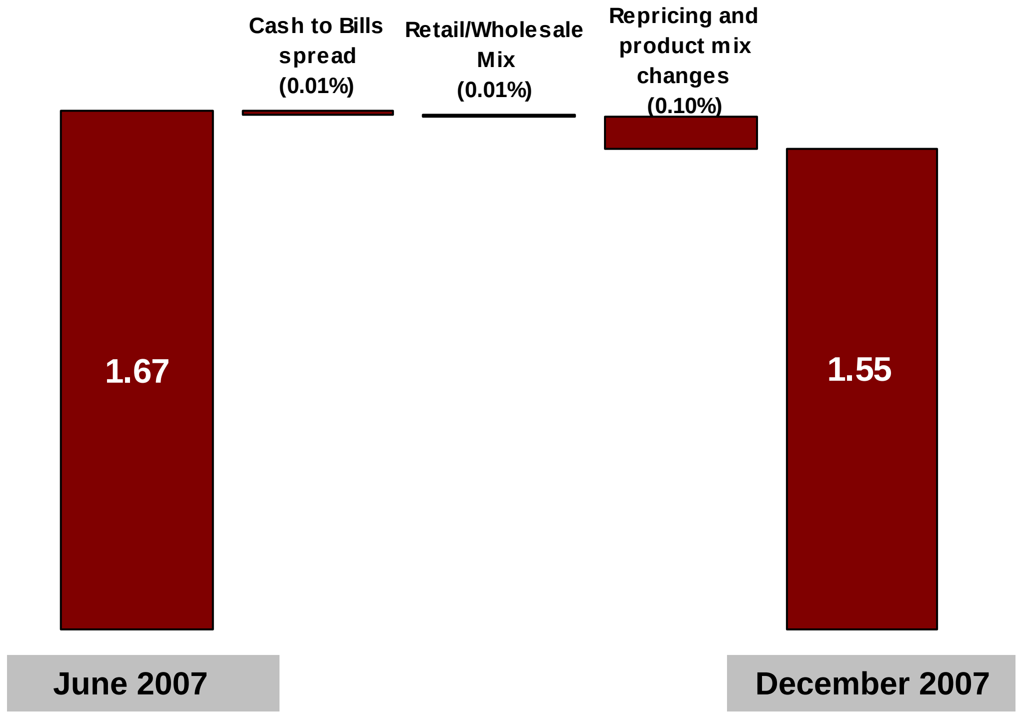
**Profit after tax**
**$mil**



### *2.4.2 Interest margin*

This chart provides a guide of movements in margin over the six month period, assuming the two banks were consolidated for the entire period.

**Analysis of interest margin (movement over the six months - proforma)**
**%**




Interest margin reduced one basis point due to the movement in cash to bills spread over the half year. Movements within the retail/wholesale mix also resulted in a one basis point reduction.

The remaining component of the movement for the period was a decrease of ten basis points associated with repricing and product mix changes during the half. Increases in the cost of funds over the past six months, combined with changes in the mix of retail assets has reduced net interest margin. The effect of portfolio repricing following the 0.50% increase in the official cash rate has helped to off-set some of this reduction.

Repricing of assets early in the second half, together with some repricing late in the first half should enable the combined bank to correct this margin decline over the second half.

## *2.4.3 Income*

| | | Dec-07 $m | Jun-07 $m | Change $m | Change % | Dec-06 $m | Change $m | Change % |
|---|---|---|---|---|---|---|---|---|
| **Income** | | | | | | | | |
| Net interest income before significant items | | 206.2 | 179.3 | 26.9 | 15.0 | 177.8 | 28.4 | 16.0 |
| Other income comprising: | | | | | | | | |
| Fees | - asset products | 16.0 | 11.9 | 4.1 | 34.5 | 11.5 | 4.5 | 39.1 |
| | - liability products & other | 47.5 | 41.3 | 6.2 | 15.0 | 40.2 | 7.3 | 18.2 |
| | - trustee, m'ment & other services | 5.4 | 4.8 | 0.6 | 12.5 | 4.7 | 0.7 | 14.9 |
| Commissions | - wealth solutions | 18.7 | 18.3 | 0.4 | 2.2 | 16.9 | 1.8 | 10.7 |
| | - insurance | 6.0 | 5.7 | 0.3 | 5.3 | 3.9 | 2.1 | 53.8 |
| | - other | 1.7 | 1.9 | (0.2) | (10.5) | 1.4 | 0.3 | 21.4 |
| Property revenue | | 0.6 | 0.5 | 0.1 | 20.0 | 0.4 | 0.2 | 50.0 |
| Dividend income | | 2.2 | 1.7 | 0.5 | 29.4 | 2.1 | 0.1 | 4.8 |
| Other | | 8.4 | 9.1 | (0.7) | (7.7) | 6.9 | 1.5 | 21.7 |
| Total other income before significant items | | 106.5 | 95.2 | 11.3 | 11.9 | 88.0 | 18.5 | 21.0 |
| Share of associates' profit | | 11.7 | 10.0 | 1.7 | 17.0 | 11.9 | (0.2) | (1.7) |
| Total non interest income before significant items | | 118.2 | 105.2 | 13.0 | 12.4 | 99.9 | 18.3 | 18.3 |
| Significant income items - net interest income | | (4.3) | - | (4.3) | - | - | (4.3) | - |
| Total income | | 320.1 | 284.5 | 35.6 | 12.5 | 277.7 | 42.4 | 15.3 |

**Comments on Total income when compared to the previous corresponding period:**

**Net interest income before significant items** increased by 16%. Refer to Note 2.4.2 for an analysis of the net interest income movements.

**Fees – asset products** increased by 39% due to volume related increases within Bendigo Bank and the inclusion of Adelaide Bank results for the month of December 2007.

**Fees – liability products and other** increased by 18% due to increases in account transaction fees and electronic transactions, including ATM and merchant service fees and the inclusion of Adelaide Bank results for the month of December 2007.

**Commissions – insurance** increased by 54% due to increased profit from Sunstate LMI and volume increases in other insurance commissions.

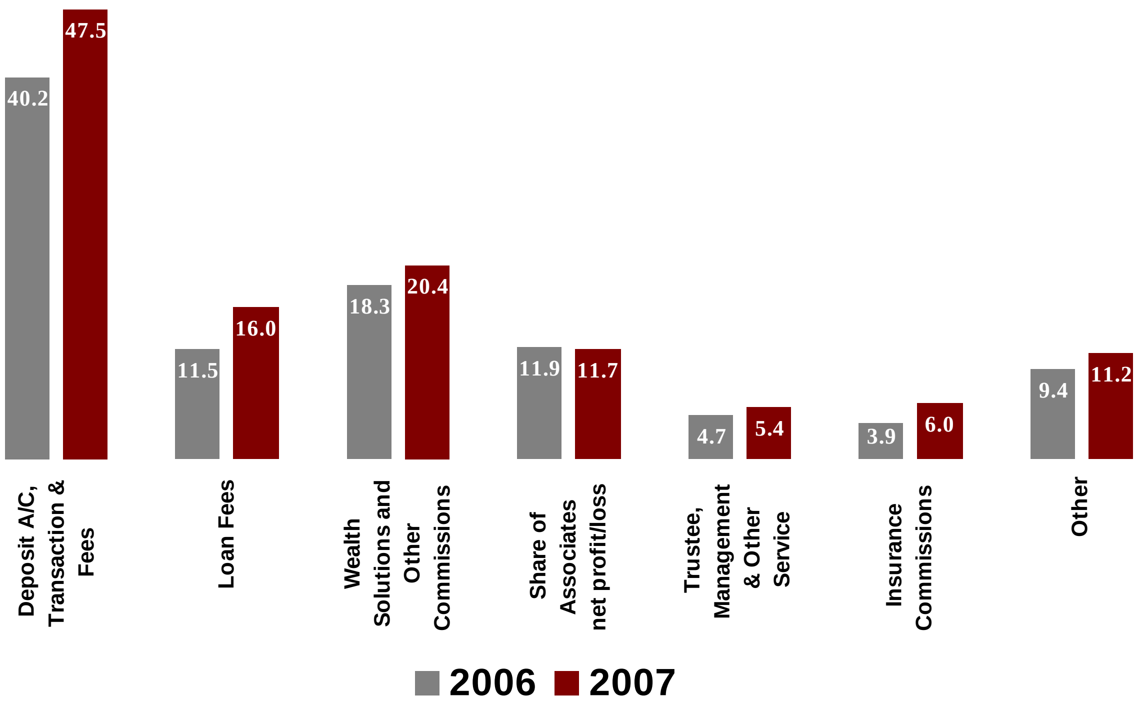
**Commissions – other** increased by 21% predominantly due to increased trailer commissions within Bendigo Bank.

**Property revenue** increased by 50% due to increased rental income from the Docklands property.

**Other income** increased by 22% predominantly due to increased foreign exchange income and revaluation income in relation to the Homesafe property trust. This was partially offset by an increase in the non-gap income share paid to community banks and alliances.

**Significant income item** is a cash flow hedge reserve movement recognised on consolidation related to the acquisition of Adelaide Bank (2006: Nil).

**Non-interest income**
**$mil**



## *2.4.4 Expenses*

### 2.4.4.1 Productivity and expenses

| | Dec-07 | Jun-07 | Change | | Dec-06 | Change | |
|---|---|---|---|---|---|---|---|
| | $m | $m | $m | % | $m | $m | % |
| Expenses | | | | | | | |
| Staff and related costs | 104.5 | 93.0 | 11.5 | 12.4 | 94.7 | 9.8 | 10.3 |
| Occupancy costs | 18.4 | 16.3 | 2.1 | 12.9 | 15.2 | 3.2 | 21.1 |
| Information technology costs | 20.6 | 17.4 | 3.2 | 18.4 | 17.4 | 3.2 | 18.4 |
| Amortisation of intangibles | 3.1 | 2.7 | 0.4 | 14.8 | 2.7 | 0.4 | 14.8 |
| Property, plant and equipment costs | 5.6 | 5.1 | 0.5 | 9.8 | 5.2 | 0.4 | 7.7 |
| Fees and commissions | 9.9 | 9.8 | 0.1 | 1.0 | 10.4 | (0.5) | (4.8) |
| Communications, postage & stationery | 13.5 | 12.3 | 1.2 | 9.8 | 11.5 | 2.0 | 17.4 |
| Advertising & promotion | 5.7 | 4.5 | 1.2 | 26.7 | 6.4 | (0.7) | (10.9) |
| Other product & services delivery costs | 12.4 | 10.9 | 1.5 | 13.8 | 9.5 | 2.9 | 30.5 |
| Other administration expenses | 16.0 | 9.4 | 6.6 | 70.2 | 14.4 | 1.6 | 11.1 |
| Total operating expenses | 209.7 | 181.4 | 28.3 | 15.6 | 187.4 | 22.3 | 11.9 |
| Significant expense items | 0.5 | 1.7 | (1.2) | (70.6) | 5.6 | (5.1) | (91.1) |
| Total expenses | 210.2 | 183.1 | 27.1 | 14.8 | 193.0 | 17.2 | 8.9 |
| Expenses to income | 63.7% | 62.8% | 0.9% | 1.4 | 66.5% | (2.8%) | (4.2) |
| Expenses to average assets | 1.8% | 2.2% | (0.4%) | (18.2) | 2.4% | (0.6%) | (25.0) |
| Expenses to average assets-incl managed funds | 1.6% | 1.9% | (0.3%) | (15.8) | 2.1% | (0.5%) | (23.8) |
| Number of staff (full-time equivalent) | 3,603 | 2,428 | 1,175 | 48.4 | 2,376 | 1,227 | 51.6 |
| Staff & related costs to income | 32.2% | 32.7% | (0.5%) | (1.5) | 34.1% | (1.9%) | (5.6) |

Expenses used in the above ratios is expenses less significant expense items and intangibles amortisation.

Income used in the above ratios is income less significant income items.

**Staff and related costs** increased 10% compared to previous corresponding period. This increase is predominantly due to the inclusion of the trading of Adelaide Bank for the month of December, which increased FTE by 1,140. Wage increases flowing from the bank's certified agreement and other salary increases, together with an increase in FTE numbers of 87 during the calendar year also contributed to the increase.

**Occupancy costs** increased 21% due to the inclusion of the trading of Adelaide Bank for the month of December and increases in rent, utilities, insurance, security and leasehold improvements costs.

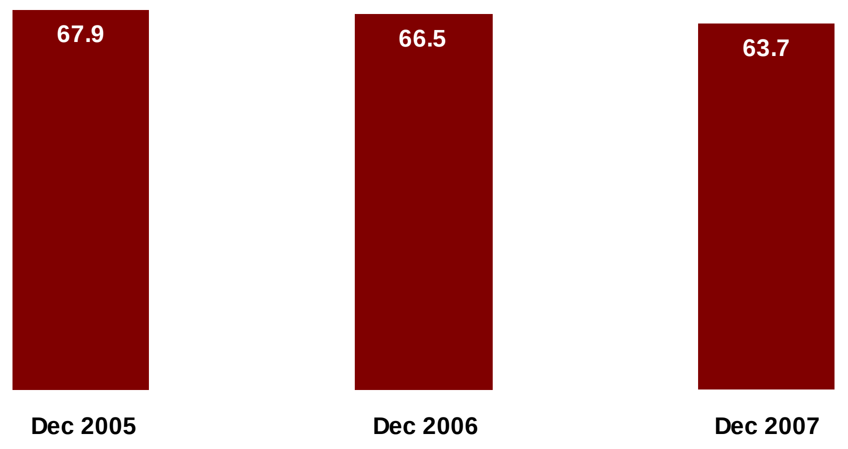
**Information technology costs** increased by 18%, due to the inclusion of the trading of Adelaide Bank for the month of December and increased computer hardware leasing, rental of computer lines and software maintenance costs flowing from growth in the network and upgrade of systems.

**Communications, postage & stationery** increased by 17% due to the inclusion of the trading of Adelaide Bank for the month of December and increases in telephone, postage and stationery costs following growth in volumes, the distribution network and prices.

**Other product & services delivery costs** increased 30% predominantly due to the expansion of the ATM and Eftpos networks and increased transaction volumes.

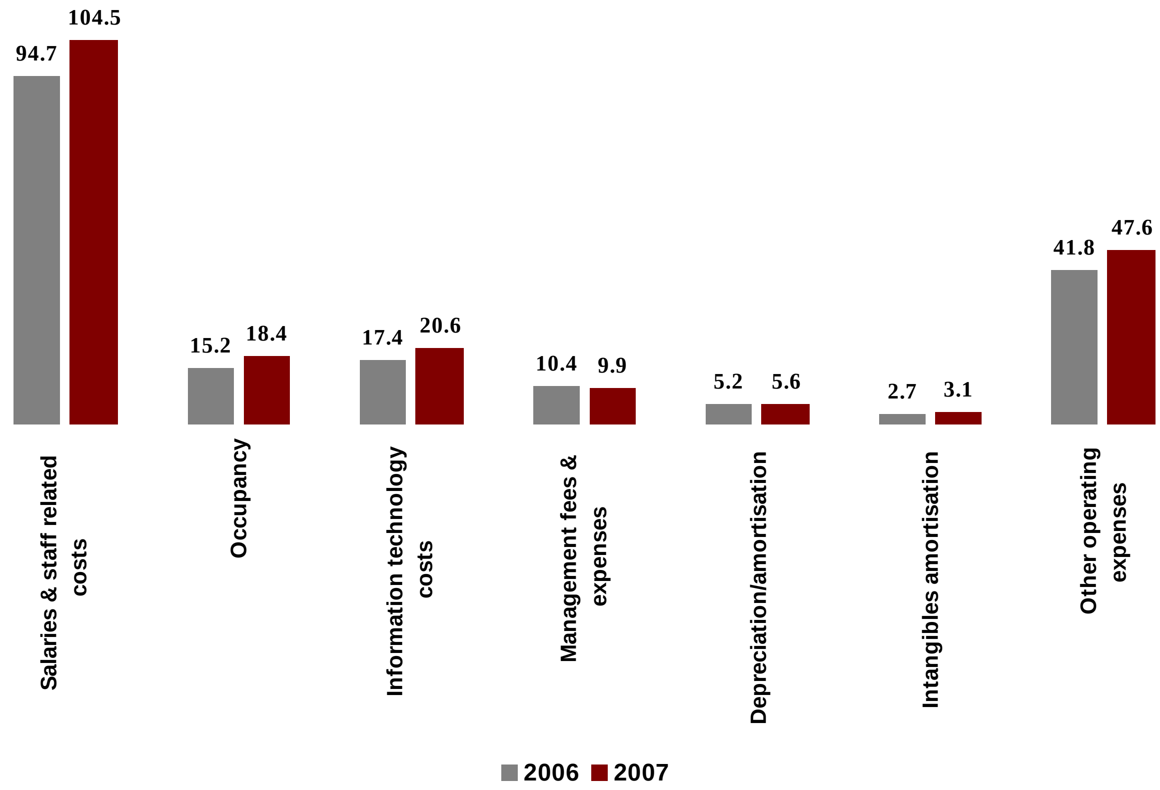
**Significant expense item** for 2007 is integration costs associated with the Adelaide Bank merger incurred to the end December 2007 ($0.5 million pre-tax). The items for comparative periods relate to expenses associated with the proposed Bank of Queensland merger (June 2007 - $1.7 million) and an issue of shares to staff under the Employee Share Plan in October 2006 ($5.6 million).

**Efficiency Ratio - Expenses/Income**
**%**




Expenses used in the above ratios are expenses less significant expense items and intangibles/goodwill amortisation. Income used in the above ratios is income less significant income items.

**Operating expenses**
**$mil**



## *2.4.5 Lending*

| | Dec-07 | Jun-07 | Change | | Dec-06 | Change | |
|---|---|---|---|---|---|---|---|
| | $m | $m | $m | % | $m | $m | % |
| **Approvals** - by security | | | | | | | |
| Residential | 2,723.2 | 2,349.8 | 373.4 | 15.9 | 2,230.6 | 492.6 | 22.1 |
| Non-residential | 1,161.4 | 1,296.4 | (135.0) | (10.4) | 1,141.2 | 20.2 | 1.8 |
| Total approvals | 3,884.6 | 3,646.2 | 238.4 | 6.5 | 3,371.8 | 512.8 | 15.2 |

| | As at Dec-07 | As at Jun-07 | Change | | As at Dec-06 | Change | |
|---|---|---|---|---|---|---|---|
| | $m | $m | $m | % | $m | $m | % |
| **Gross loan balance** - by security | | | | | | | |
| Residential | 30,103.7 | 10,193.3 | 19,910.4 | 195.3 | 9,633.8 | 20,469.9 | 212.5 |
| Business | | | | | | | |
| Property & business services | 1,646.8 | 1,100.1 | 546.7 | 49.7 | 975.8 | 671.0 | 68.8 |
| Agriculture & associated industries | 937.6 | 282.4 | 655.2 | 232.0 | 257.7 | 679.9 | 263.8 |
| Retail trade | 485.7 | 427.1 | 58.6 | 13.7 | 412.8 | 72.9 | 17.7 |
| Health & community services | 386.3 | 91.0 | 295.3 | 324.5 | 106.7 | 279.6 | 262.0 |
| Construction | 277.6 | 202.2 | 75.4 | 37.3 | 196.3 | 81.3 | 41.4 |
| Retirement | 276.5 | - | 276.5 | - | - | 276.5 | - |
| Transport & storage | 207.4 | 96.5 | 110.9 | 114.9 | 91.1 | 116.3 | 127.7 |
| Accom, cafes & restaurants | 206.9 | 160.3 | 46.6 | 29.1 | 150.7 | 56.2 | 37.3 |
| Personal & other services | 183.1 | 38.9 | 144.2 | 370.7 | 33.3 | 149.8 | 449.8 |
| Manufacturing | 172.8 | 133.8 | 39.0 | 29.1 | 118.3 | 54.5 | 46.1 |
| Finance & insurance | 132.4 | 53.7 | 78.7 | 146.6 | 48.9 | 83.5 | 170.8 |
| Wholesale trade | 105.6 | 107.7 | (2.1) | (1.9) | 93.6 | 12.0 | 12.8 |
| Cultural & recreational services | 38.9 | 38.7 | 0.2 | 0.5 | 39.5 | (0.6) | (1.5) |
| Education | 26.5 | 26.5 | - | - | 21.9 | 4.6 | 21.0 |
| Communication services | 19.5 | 18.8 | 0.7 | 3.7 | 13.5 | 6.0 | 44.4 |
| Other | 352.6 | 127.3 | 225.3 | 177.0 | 108.0 | 244.6 | 226.5 |
| Total business | 5,456.2 | 2,905.0 | 2,551.2 | 87.8 | 2,668.1 | 2,788.1 | 104.5 |
| Margin lending | 4,811.9 | - | 4,811.9 | - | - | 4,811.9 | - |
| Unsecured | 717.2 | 472.4 | 244.8 | 51.8 | 435.6 | 281.6 | 64.6 |
| Other | 296.1 | 273.4 | 22.7 | 8.3 | 187.1 | 109.0 | 58.3 |
| Total gross loan balance | 41,385.1 | 13,844.1 | 27,541.0 | 198.9 | 12,924.6 | 28,460.5 | 220.2 |
| **Gross loan balance** - by purpose | | | | | | | |
| Residential | 28,218.8 | 8,443.4 | 19,775.4 | 234.2 | 8,089.2 | 20,129.6 | 248.8 |
| Consumer | 3,332.5 | 2,913.3 | 419.2 | 14.4 | 2,539.6 | 792.9 | 31.2 |
| Margin lending | 4,811.9 | - | 4,811.9 | - | - | 4,811.9 | - |
| Commercial | 5,021.9 | 2,487.4 | 2,534.5 | 101.9 | 2,295.8 | 2,726.1 | 118.7 |
| Total gross loan balance | 41,385.1 | 13,844.1 | 27,541.0 | 198.9 | 12,924.6 | 28,460.5 | 220.2 |
| **Loans under management (gross balance)** | | | | | | | |
| On-balance sheet | 41,385.1 | 13,844.1 | 27,541.0 | 198.9 | 12,924.6 | 28,460.5 | 220.2 |
| Off-balance sheet loans under management | 611.6 | - | 611.6 | - | - | 611.6 | - |
| STL Common Funds | 2,006.9 | 1,915.2 | 91.7 | 4.8 | 1,707.2 | 299.7 | 17.6 |
| Total Group loans under management | 44,003.6 | 15,759.3 | 28,244.3 | 179.2 | 14,631.8 | 29,371.8 | 200.7 |

Gross balance of loans represents the outstanding balance of loans excluding provisions.

**Loans under management** represents the gross balance of loans managed by the Group.

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

*Off-balance sheet loans under management* is the gross balance of off-balance sheet loans managed by Adelaide Bank.

*STL Common Funds* is the gross balance of loans in these funds, which are managed by Sandhurst Trustees Limited, a wholly-owned subsidiary of Bendigo Bank Limited.

## *2.4.6 Asset quality*

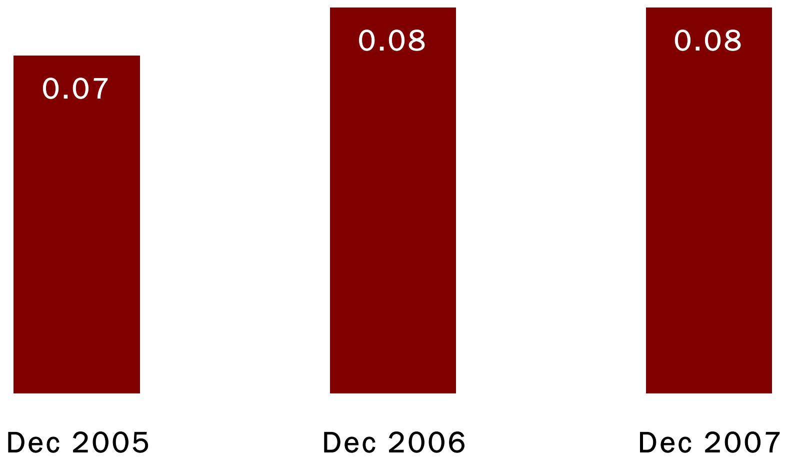
| | As at Dec-07 $m | As at Jun-07 $m | Change $m | % | As at Dec-06 $m | Change $m | % |
|---|---|---|---|---|---|---|---|
| **Impaired loans -** | | | | | | | |
| Full-performing | 1.1 | 1.4 | (0.3) | (21.4) | - | 1.1 | - |
| Part-performing | 0.6 | 0.8 | (0.2) | (25.0) | 2.0 | (1.4) | (70.0) |
| Non-performing | 37.7 | 16.0 | 21.7 | 135.6 | 10.8 | 26.9 | 249.1 |
| **Total impaired assets** | 39.4 | 18.2 | 21.2 | 116.5 | 12.8 | 26.6 | 207.8 |
| Less: Specific provisions | (19.0) | (8.2) | (10.8) | 131.7 | (8.6) | (10.4) | 120.9 |
| **Net impaired assets** | 20.4 | 10.0 | 10.4 | 104.0 | 4.2 | 16.2 | 385.7 |
| Gross impaired to gross loans | 0.10% | 0.13% | (0.03%) | (23.1) | 0.10% | 0.00% | - |
| Gross impaired assets to total assets | 0.08% | 0.11% | (0.03%) | (27.3) | 0.08% | 0.00% | - |
| Net impaired to gross loans | 0.05% | 0.07% | (0.02%) | (28.6) | 0.03% | 0.02% | 66.7 |
| Provision coverage | 333% | 358% | (25%) | (7.0) | 480% | (147%) | (30.6) |

*Provision coverage* is Provisions for doubtful debts - total divided by Total impaired assets.

| | As at Dec-07 $m | As at Jun-07 $m | Change $m | % | As at Dec-06 $m | Change $m | % |
|---|---|---|---|---|---|---|---|
| **Past due 90 days** | | | | | | | |
| Well secured | 144.2 | 61.6 | 82.6 | 134.1 | 63.1 | 81.1 | 128.5 |
| Portfolio facilities (not well secured) | 1.4 | 1.7 | (0.3) | (17.6) | 1.7 | (0.3) | (17.6) |

*Loans past due 90 days – well secured* includes $2.2 million (June 2007: $6.5 million, December 2006: $7.5 million) of loans due to their date expiring more than 90 days ago, but which are not in payment default.

**Gross impaired loans/Total assets**
**%**




Following the merger of the two entities, credit quality has been retained at the same level as the comparative period, as a percentage of a now much larger portfolio balance. Underlying credit quality is very strong across all portfolios. This is the result of continued focus on credit management processes and controls which has led to reductions in bad debt write-offs during the period.

## *2.4.7 Bad and Doubtful Debts*

| | Dec-07 | Jun-07 | Change | | Dec-06 | Change | |
|---|---|---|---|---|---|---|---|
| | $m | $m | $m | % | $m | $m | % |
| **Expense:** | | | | | | | |
| Bad debts expense | 0.7 | 0.9 | (0.2) | (22.2) | (0.2) | 0.9 | (450.0) |
| Prov'n doubtful debts - expense | 3.7 | 3.6 | 0.1 | 2.8 | 4.5 | (0.8) | (17.8) |
| Total bad and doubtful debts expense | 4.4 | 4.5 | (0.1) | (2.2) | 4.3 | 0.1 | 2.3 |

| | As at Dec-07 | As at Jun-07 | Change | | As at Dec-06 | Change | |
|---|---|---|---|---|---|---|---|
| | $m | $m | $m | % | $m | $m | % |
| **Balances:** | | | | | | | |
| Prov'n doubtful debts - specific | 18.0 | 8.4 | 9.6 | 114.3 | 8.8 | 9.2 | 104.5 |
| Prov'n doubtful debts - collective | 32.5 | 11.4 | 21.1 | 185.1 | 10.2 | 22.3 | 218.6 |
| General reserve for credit losses | 80.8 | 45.3 | 35.5 | 78.4 | 42.4 | 38.4 | 90.6 |
| Provisions/reserve doubtful debts - total | 131.3 | 65.1 | 66.2 | 101.7 | 61.4 | 69.9 | 113.8 |
| Loan write-offs (annualised) to average assets | 0.03% | 0.04% | (0.01%) | (25.0) | 0.04% | (0.01%) | (25.0) |
| Total provisions/reserve for doubtful debts to gross loans | 0.32% | 0.47% | (0.15%) | (31.9) | 0.48% | (0.16%) | (33.3) |
| Collective provision (tax effected) & GRCL to risk-weighted assets | 0.51% | 0.55% | (0.04%) | (7.3) | 0.55% | (0.04%) | (7.3) |

The balances of the components of provision for doubtful debts are:

| | Dec-07 | Jun-07 | Movement |
|---|---|---|---|
| Specific provisions | 18.0 | 8.4 | 9.6 |
| Collective provision | 32.5 | 11.4 | 21.1 |
| General reserve for credit losses (GRCL) | 80.8 | 45.3 | 35.5 |
| Total balance in provisions for doubtful debts/general reserve for credit losses | 131.3 | 65.1 | 66.2 |

The movement in provisions comprise:

| | Specific | Collective | Gen res cr losses | Total |
|---|---|---|---|---|
| Balance at June | 8.4 | 11.4 | 45.3 | 65.1 |
| Bad and doubtful debts expense to profit and loss | 5.8 | (1.4) | - | 4.4 |
| Bad debts written off | (3.1) | - | - | (3.1) |
| Appropriation of movement in general reserve for credit losses | - | - | (1.1) | (1.1) |
| Balance acquired in business combination | 6.9 | 22.5 | 36.6 | 66.0 |
| Balance at December | 18.0 | 32.5 | 80.8 | 131.3 |

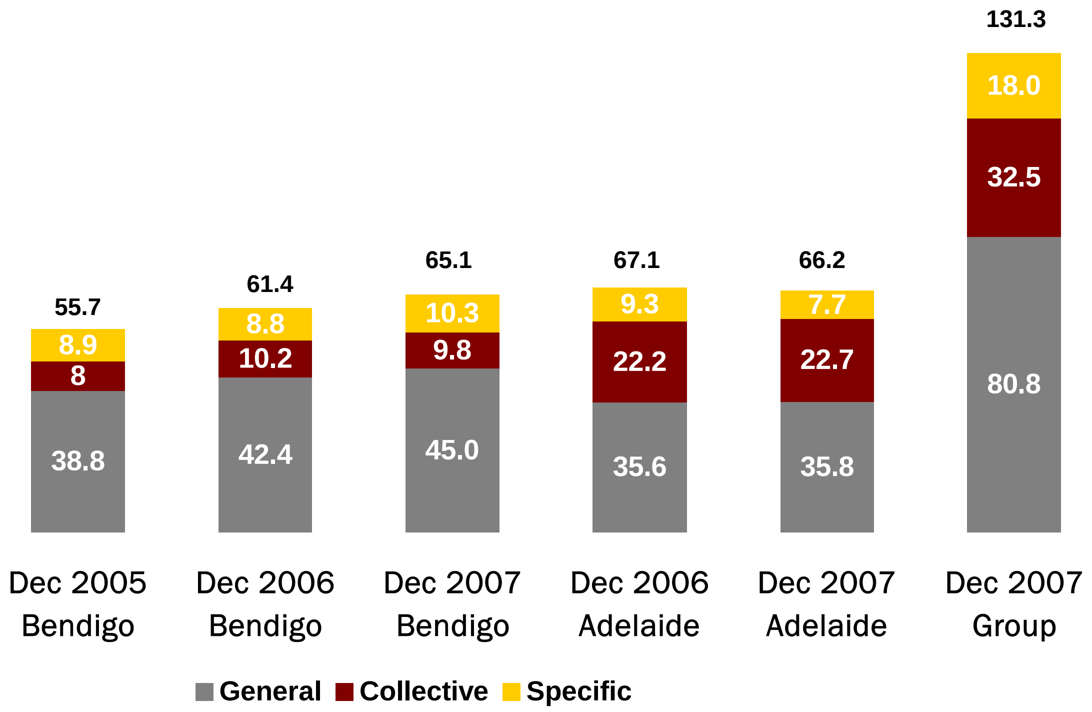
Total bad debts written off for the period, as shown above comprises:

| | |
|---|---|
| Bad debts previously provided for | 2.4 |
| Other bad debts | 0.7 |
| | 3.1 |

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**
**$mil**




For clarity we have provided the details for the individual Bendigo Bank and Adelaide Bank portfolios to show the movements across each.

This chart shows a slight increase in total provisions during this period for the Bendigo Bank portfolios, a direct result of increasing volumes.

Total provisions and reserves for the combined banks were $128.5 million as at 31 December 2006, therefore the movement for this period is an increase of $2.8 million.

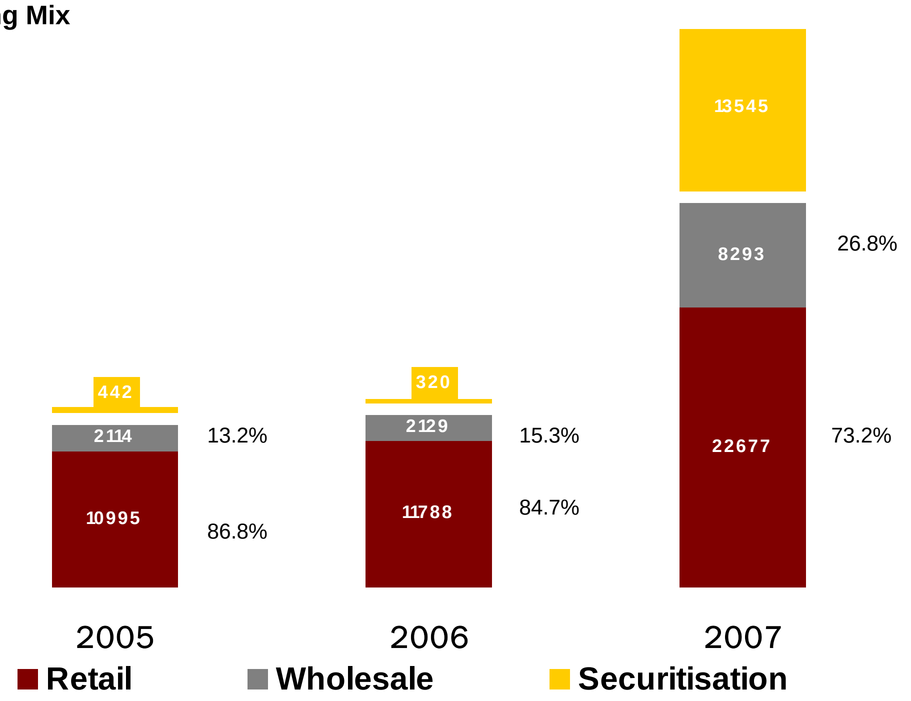
## *2.4.8 Deposits and Funds under Management*

| | As at Dec-07 $m | As at Jun-07 $m | Change $m | % | As at Dec-06 $m | Change $m | % |
|---|---|---|---|---|---|---|---|
| *Deposits and funds under management* | | | | | | | |
| Deposits | 30,969.9 | 14,887.5 | 16,082.4 | 108.0 | 13,916.6 | 17,053.3 | 122.5 |
| Securitisation | 13,544.6 | 259.1 | 13,285.5 | 5,127.6 | 319.5 | 13,225.1 | 4,139.3 |
| Managed funds | 4,964.1 | 3,394.2 | 1,569.9 | 46.3 | 3,316.6 | 1,647.5 | 49.7 |
| Total deposits and funds under management | 49,478.6 | 18,540.8 | 30,937.8 | 166.9 | 17,552.7 | 31,925.9 | 181.9 |
| *Retail deposits and funds under management* | | | | | | | |
| Retail deposits | 22,676.6 | 12,103.9 | 10,572.7 | 87.3 | 11,788.1 | 10,888.5 | 92.4 |
| Managed funds | 4,964.1 | 3,394.2 | 1,569.9 | 46.3 | 3,316.6 | 1,647.5 | 49.7 |
| Total retail deposits and funds under management | 27,640.7 | 15,498.1 | 12,142.6 | 78.3 | 15,104.7 | 12,536.0 | 83.0 |
| *Deposits dissection: - $m* | | | | | | | |
| Retail | 22,676.6 | 12,103.9 | 10,572.7 | 87.3 | 11,788.1 | 10,888.5 | 92.4 |
| Securitisation | 13,544.6 | 259.1 | 13,285.5 | 5,127.6 | 319.5 | 13,225.1 | 4,139.3 |
| Wholesale - domestic | 7,250.2 | 1,519.8 | 5,730.4 | 377.0 | 1,180.3 | 6,069.9 | 514.3 |
| Wholesale - offshore | 1,043.1 | 1,263.8 | (220.7) | (17.5) | 948.2 | 94.9 | 10.0 |
| Total deposits | 44,514.5 | 15,146.6 | 29,367.9 | 193.9 | 14,236.1 | 30,278.4 | 212.7 |
| *Deposits dissection (excl securitisation) - %* | | | | | | | |
| Retail | 73.2% | 81.3% | (8.1%) | (10.0) | 84.7% | (11.5%) | (13.6) |
| Wholesale - domestic | 23.4% | 10.2% | 13.2% | 129.4 | 8.5% | 14.9% | 175.3 |
| Wholesale - offshore | 3.4% | 8.5% | (5.1%) | (60.0) | 6.8% | (3.4%) | (50.0) |
| Total deposits | 100.0% | 100.0% | - | - | 100.0% | - | - |
| *Managed funds dissection* | | | | | | | |
| Common Funds | 2,448.2 | 2,310.4 | 137.8 | 6.0 | 2,193.3 | 254.9 | 11.6 |
| Investment and superannuation funds | 2,515.9 | 1,083.8 | 1,432.1 | 132.1 | 1,123.3 | 1,392.6 | 124.0 |
| Total managed funds | 4,964.1 | 3,394.2 | 1,569.9 | 46.3 | 3,316.6 | 1,647.5 | 49.7 |

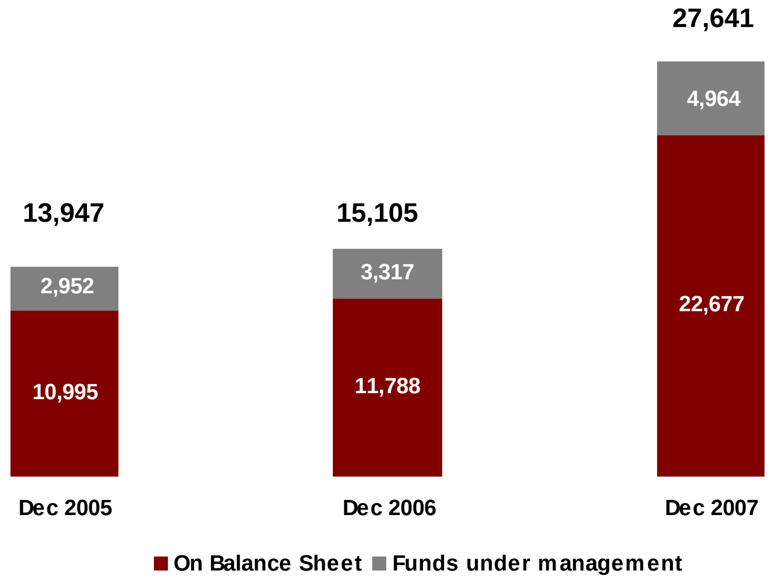
**Common funds** include those funds deposited in the Sandhurst Trustees Limited Common Funds, which are invested in cash and mortgage investments on behalf of the investors. These funds are off-balance sheet.

**Investment and superannuation funds** are funds deposited for investment in managed investment schemes and superannuation funds.

**Funding Mix**
**%**




**Retail deposits and Funds under management**
**$mil**




Retail deposits increased by $10.9 billion or 92.4% to $22.7 billion over the 12 months.

Wholesale deposits increased by $6.2 billion or 289.6% to $8.3 billion over the 12 months.

Securitisation increased by $13.2 billion or 4139.3% to $13.5 billion over the 12 months.

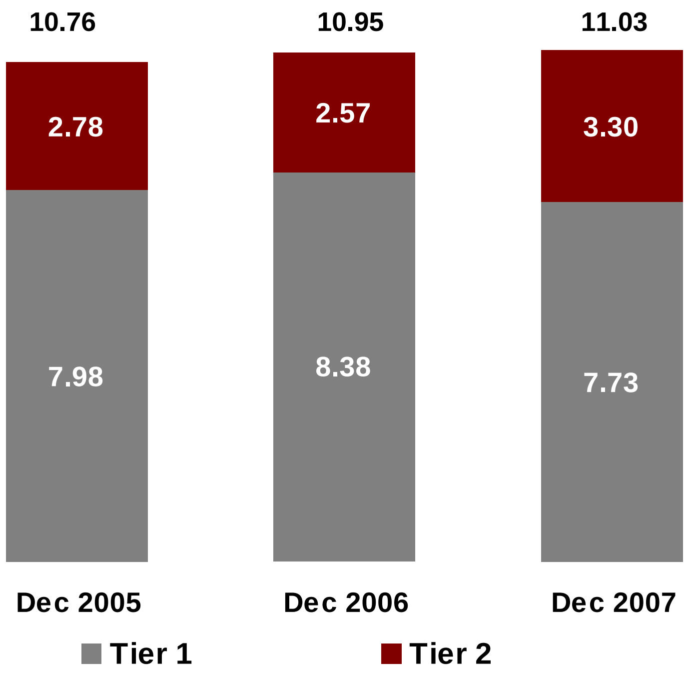
These increases included the take-on of $9.5 billion in retail deposits, $6.0 billion in wholesale deposits and $13.1 billion in securitisation from Adelaide Bank.

The group's retail deposit base remains strong at 73% of deposits (excluding securitisation) following the merger with Adelaide Bank, which introduced additional funding to the group.

## *2.4.9 Capital and Shareholder returns*

### 2.4.9.1 Capital Adequacy

**Capital adequacy**
**%**




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

## 2.4.9.2 Shareholder returns

| | Dec-07 $m | Jun-07 $m | Change $m | % | Dec-06 $m | Change $m | % |
|---|---|---|---|---|---|---|---|
| Cash basis earnings per ordinary share (weighted average)-cents | 43.0 | 43.9 | (0.9) | (2.1) | 39.0 | 4.0 | 10.3 |
| Earnings per ordinary share (weighted average)-cents | 42.4 | 45.3 | (2.9) | (6.4) | 36.6 | 5.8 | 15.8 |
| Diluted earnings per ordinary share (weighted average)-cents | 42.3 | 44.7 | (2.4) | (5.4) | 36.4 | 5.9 | 16.2 |
| Weighted average number of ordinary shares used basic and cash basis EPS calculations - 000's | 164,518 | 143,775 | 20,743 | 14.4 | 141,992 | 22,526 | 15.9 |
| Weighted average number of ordinary shares used in diluted EPS calculation - 000's | 170,770 | 151,030 | 19,740 | 13.1 | 149,247 | 21,523 | 14.4 |
| Cash basis return on average ordinary equity | 12.46% | 16.08% | (3.62%) | (22.5) | 14.78% | (2.32%) | (15.7) |
| After tax return on average ordinary equity | 12.28% | 16.59% | (4.31%) | (26.0) | 13.84% | (1.56%) | (11.3) |
| After tax before significant items return on average ordinary equity | 12.86% | 16.89% | (4.03%) | (23.9) | 15.34% | (2.48%) | (16.2) |
| After tax return on average assets | 0.64% | 0.82% | (0.18%) | (22.0) | 0.70% | (0.06%) | (8.6) |
| After tax before significant items return on average assets | 0.67% | 0.83% | (0.16%) | (19.3) | 0.77% | (0.10%) | (13.0) |

Profitability ratios use half year results which have been annualised by multiplying the numerator by two.

Cash earnings used in cash basis earnings per ordinary share is profit after tax adjusted for significant items after tax, intangibles amortisation (except intangible software amortisation), dividends on preference shares and movements in general reserve for credit losses.

Earnings used in earnings per ordinary share is profit after tax less dividends on preference shares.

Ordinary equity for use in these ratios is net assets less preference shares, asset revaluation reserve-shares, unrealised gains/losses on cash flow hedges reserve, general reserve for credit losses and minority interests.

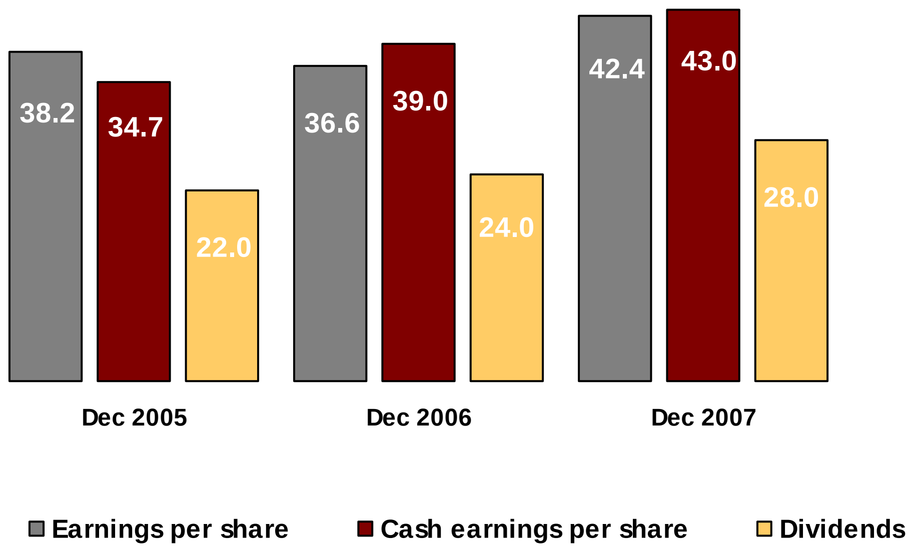
After tax return on average assets uses profit after tax.

June profit figures and ratios are for the June 2007 half year, balance sheet items are as at end of June 2007.

| | Dec-07 $m | Jun-07 $m | Change $m | % | Dec-06 $m | Change $m | % |
|---|---|---|---|---|---|---|---|
| Dividend per share - cents | 28.0 | 34.0 | (6.0) | (17.6) | 24.0 | 4.0 | 16.7 |
| Dividend amount payable - $m | 71.8 | 46.8 | 25.0 | 53.4 | 32.6 | 39.2 | 120.2 |
| Payout ratio - earnings per ordinary share | 66.0% | 75.1% | (9.1%) | (12.1) | 65.6% | 0.4% | 0.6 |
| Payout ratio - cash basis per ordinary share | 65.1% | 77.4% | (12.3%) | (15.9) | 61.5% | 3.6% | 5.9 |

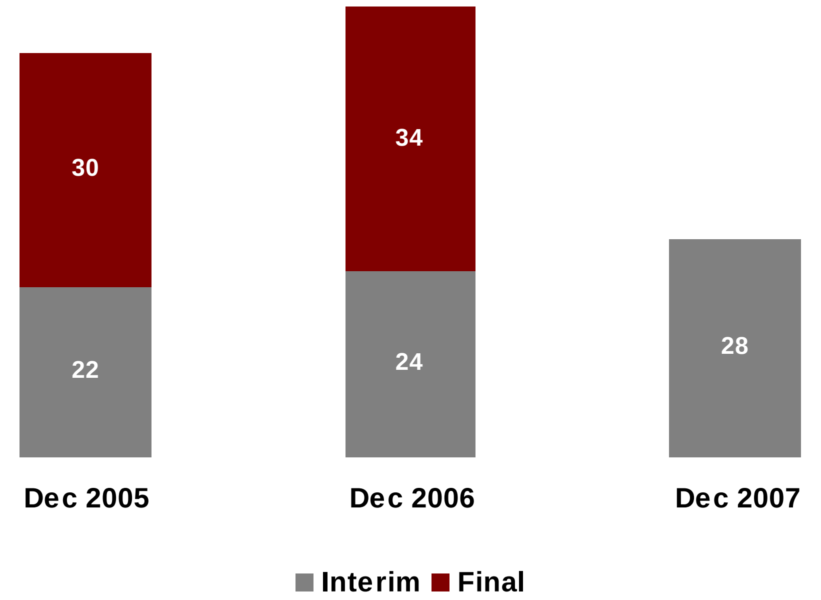
Payout ratio is calculated as dividend per share divided by the applicable earnings per ordinary share.

**Earnings per ordinary share**
**cents**




Earnings per ordinary share increased to 42.4 cents for the half year. Cash basis earnings per share was 43.0 cents, an increase of 4.0 cents, or 10.3% over 2006. The strong cash basis earnings per ordinary share growth enabled directors to lift the interim dividend 4.0 cents to 28.0 cents per share. This represents a payout ratio of 66.0% on earnings per ordinary share or 65.1% on cash basis earnings per ordinary share. The Interim dividend payment at 28.0 cents per share is anticipated to equate to an appropriation of $71.8 million which is $1.1 million in excess of the full reported cash earnings for the half year. This is due to the half year including only one month of Adelaide Bank results.

**Total Dividends paid**
**cents**




Our ability to continue paying fully franked dividends in the near term remains strong, with our adjusted franking account balance standing at $178.3 million after allowing for the interim 2008 dividend.

The dividend pay-out ratio for the half year on earnings per ordinary share (weighted average) is 66.0%, or 65.1% on cash basis earnings per ordinary share (weighted average).

**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 Bank shares traded on the Australian Stock Exchange over the 10 trading days following the record date at a discount of 2.5%. Shares issued under this Plan rank equally with all other ordinary shares.

**Bonus Share Scheme**

The Bonus Share Scheme provides shareholders with the opportunity to elect to receive a number of bonus shares issued for no consideration instead of receiving a dividend. The issue price of the shares is equal to the volume weighted average share price of Bendigo Bank shares traded on the Australian Stock Exchange over the 10 trading days following the Record Date at a discount of 2.5%. Shares issued under this scheme rank equally with all other ordinary shares.

The last date for the receipt of an election notice for participation in either the Dividend Reinvestment Plan or Bonus Share Scheme for the 2008 interim dividend is 29 February 2008.

## 2.5 Additional notes

### *2.5.1 Analysis of intangible assets*

| | Balance sheet - carrying value | Half year amortisation/ impairment expense | | |
|---|---|---|---|---|
| | Dec-07 | Dec-07 | Jun-07 | Dec-06 |
| | $m | $m | $m | $m |
| Goodwill | 1,309.9 | - | 0.1 | - |
| Trustee licence | 8.4 | - | - | - |
| Software | 21.1 | 2.7 | 1.9 | 2.1 |
| Customer list (Oxford Funding) | 1.1 | 0.4 | 0.8 | 0.6 |
| | 1,340.5 | 3.1 | 2.8 | 2.7 |

Goodwill of $1,309.9 million includes $1,212.1 million goodwill recognised on acquisition of Adelaide Bank Limited. Due to the complexity and timing of this acquisition, the fair values of assets acquired are provisional and are subject to further review during the 12 month period following acquisition. As a result, the goodwill number will alter over this period.

### *2.5.2 Assets and capital*

| | As at Dec-07 | As at Jun-07 | Change | | As at Dec-06 | Change | |
|---|---|---|---|---|---|---|---|
| | $m | $m | $m | % | $m | $m | % |
| Group assets | 49,382.0 | 17,001.6 | 32,380.4 | 190.5 | 15,942.7 | 33,439.3 | 209.7 |
| Capital adequacy | | | | | | | |
| Total qualifying capital | 2,240.6 | 999.0 | 1,241.6 | 124.3 | 984.6 | 1,256.0 | 127.6 |
| Risk-weighted assets | 20,311.5 | 9,754.0 | 10,557.5 | 108.2 | 8,992.9 | 11,318.6 | 125.9 |
| Risk-weighted capital adequacy | 11.03% | 10.24% | 0.79% | 7.7 | 10.95% | 0.08% | 0.7 |
| - Tier 1 | 7.73% | 7.98% | (0.25%) | (3.1) | 8.38% | (0.65%) | (7.8) |
| - Tier 2 | 3.30% | 2.26% | 1.04% | 46.0 | 2.57% | 0.73% | 28.4 |
| Net tangible assets per fully paid share | $5.76 | $5.40 | $0.36 | 6.7 | $5.06 | $0.70 | 13.8 |
| No. of fully paid shares on issue - 000's | 262,880 | 144,188 | 118,692 | 82.3 | 143,347 | 119,533 | 83.4 |
| Total Equity | 3,134.6 | 1,015.0 | 2,119.6 | 208.8 | 953.6 | 2,181.0 | 228.7 |

Total group assets rose by $32.4 billion during the reporting period, or 190.5%, and by $33.4 billion, or 209.7%, for the calendar year. This increase included take-on of $30.5 billion of Adelaide Bank total assets.

Risk weighted assets increased by 108.2% and the group's capital base was up by 124.3% to $2.2 billion during the reporting period. The group continues to be strongly capitalised with tier one ratio at 7.73% and tier two of 3.30%.

### *2.5.3 Investments accounted for using the equity method*

| **Name** | **Ownership interest held by consolidated entity** | | **Balance date** |
|---|---|---|---|
| | **2007** | **2006** | |
| | **%** | **%** | |
| Elders Rural Bank Ltd | 50.0 | 50.0 | 31 December |
| Tasmanian Banking Services Ltd | 50.0 | 50.0 | 31 December |
| Community Sector Enterprises Pty Ltd | 50.0 | 50.0 | 31 December |
| Homesafe Solutions Pty Ltd | 50.0 | 50.0 | 31 December |
| Caroline Springs Fin Services Pty Ltd | 50.0 | 50.0 | 31 December |
| Silver Body Corp Fin Services Pty Ltd | 50.0 | 50.0 | 31 December |
| Community Telco Australia Pty Ltd | 50.0 | 50.0 | 31 December |
| Strategic Payment Services Pty Ltd | 40.0 | 40.0 | 31 December |

(i) Principal activities of associate companies
Elders Rural Bank Ltd – bank
Tasmanian Banking Services Ltd – financial services
Community Sector Enterprises Pty Ltd – financial services
Homesafe Solutions Pty Ltd – financial services
Caroline Springs Financial Services Pty Ltd – financial services
Silver Body Corp Financial Services Pty Ltd – financial services
Community Telco Australia Pty Ltd – telecommunication services
Strategic Payment Services Pty Ltd – payment processing services

All associate companies are incorporated in Australia

| | **December 2007 $m** | **December 2006 $m** |
|---|---|---|
| (ii) Our Share of associates' profits: | | |
| Profit before income tax | 11.7 | 11.9 |
| Income tax expense attributable to profit | (4.4) | (4.1) |
| Profit after income tax | 7.3 | 7.8 |
| Our Share of associates' profit after income tax: | | |
| Elders Rural Bank Ltd | 9.8 | 9.1 |
| Tasmanian Banking Services Ltd | 0.4 | 0.4 |
| Community Sector Enterprises Pty Ltd | 0.2 | (0.1) |
| Homesafe Solutions Pty Ltd | (0.3) | (0.4) |
| Caroline Springs Financial Services Pty Ltd | - | - |
| Silver Body Corporate Financial Services Pty Ltd | 0.1 | 0.1 |
| Community Telco Australia Pty Ltd | (0.9) | (0.5) |
| Strategic Payment Services Pty Ltd | (2.0) | (0.8) |
| | 7.3 | 7.8 |

**Elders Rural Bank Ltd** reported an after-tax profit available for distribution to shareholders for the six months to December 2007 of $18.6 million. The interim result represented an increase of 13% on the corresponding result of $16.4 million in the same period last year. Loans under management grew by 17% to reach $3.4 billion. The business continues to perform soundly in an environment characterised by strong competition and the impact of drought conditions on its customer base.

**Tasmanian Banking Services Ltd** is a joint venture between Bendigo Bank and Tasmanian Perpetual Trustees providing banking services in Tasmania. Launched in 2000, there are now nine branches managing banking business totalling $671 million.

**Community Sector Enterprises Pty Ltd** is a joint venture between the Bank and Community 21 Ltd (which is owned by 20 not-for-profit sector bodies). Based on the Community Bank model, it delivers banking services to the not-for-profit sector in return for a share of the margin and fee income. This improves the return on capital for the sector, enhancing its ability to deliver services to the community. In line with Bendigo's strategy to bank discrete communities, it provides the Bank with a distribution channel providing access to a geographically diverse community of interest.

**Homesafe Solutions Pty Ltd** is the trustee and management company responsible for the development, marketing, sales and management of the Homesafe Debt Free Equity Release product that enables aged home-owners to access the equity in their homes in a secure and cost efficient manner. Since being launched in 2005, business valued at $45.3 million has been written in this product.

**Caroline Springs Financial Services Pty Ltd** is a joint venture between Bendigo Bank and Delfin Lend Lease Ltd which established a bank branch in February 2005 as part of the infrastructure for a new integrated property development in the Melbourne suburb of Caroline Springs.

**Silver Body Corporate Financial Services Pty Ltd** is a joint venture between Bendigo Bank and SSKB Holdings Pty Ltd to provide banking services to a specialised market segment. The joint venture includes the operation of one branch located on the Gold Coast.

**Community Telco Australia Pty Ltd (CTA)** is a joint venture between Bendigo Bank and AAPT. CTA provides telecommunications services and systems under licence to franchises of Bendigo Bank's wholly-owned subsidiary, Community Developments Australia Ltd.

**Strategic Payment Services Pty Ltd** was established in May 2006 and is a joint venture between Bendigo Bank (40%), Customers Limited (40%) and MasterCard International (20%). The company continues to build an independent payment processing business that will handle the processing and management of all Bendigo and Customers ATM and Eftpos transactions. To date all Bendigo Bank ATM's and 40% of EFTPOS terminals have been migrated.

### *2.5.4 Credit Ratings*

| | **Short Term** | **Long Term** | **Outlook** |
|---|---|---|---|
| Standard & Poor's | A2 | BBB+ | Stable – Positive watch |
| Fitch Ratings | F2 | BBB+ | Stable – Positive watch |

as at February 2008

We maintain continual dialogue with Rating Agencies, and continue to work towards a ratings upgrade for the merged group. Bendigo Bank maintains its BBB+ credit rating from Standard & Poor's (S&P), and a BBB+ credit rating from Fitch. Adelaide Bank maintains a BBB+ credit rating from S&P and a long term credit rating of A2 from Moody's. Both S&P and Fitch have Bendigo Bank and Adelaide Bank on a positive credit watch due to potential benefits from the merger.

### *2.5.5 Issued capital*

**Changes to issued and quoted securities during the period**

| **Ordinary shares** | **$m** |
|---|---|
| 144,187,890 fully paid ordinary shares at beginning of financial year | 605.2 |
| September 2007 – 854,591 shares issued at $14.87 under Dividend Reinvestment Plan | 12.7 |
| September 2007 – 149,813 shares issued at $14.87 under Bonus Share Scheme (in lieu of dividend payment) | - |
| November 2007 – 117,687,891 shares issued at $16.80 to Adelaide Bank shareholders to acquire the issued ordinary share capital of Adelaide Bank | 1,977.2 |
| Share issue costs | (0.4) |
| 262,880,185 fully paid ordinary shares at December 2007 | 2,594.7 |

| **Preference shares** | **$m** |
|---|---|
| 900,000 preference shares of $100 face value (fully paid) at beginning of financial year | 88.5 |
| 900,000 preference shares (fully paid) at December 2007 | 88.5 |

| **Step-up preference shares** | |
|---|---|
| Balance at beginning of financial year | - |
| Issue of 1,000,000 step-up preference shares of $100 face value (fully paid) | 100.0 |
| 1,000,000 step-up preference shares (fully paid) at December 2007 | 100.0 |

Bendigo Bank

ABN 11 068 049 178

# Half Year Financial Report

For the period ending

## 31 December 2007

Information contained in this report should be read in conjunction with the June 2007 annual financial report.

## CORPORATE INFORMATION

This half year report covers the consolidated entity comprising Bendigo Bank Limited 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 review and does not form part of the financial report.

### Directors

Robert Johanson (Chairman)
Robert Hunt AM (Managing Director)
Kevin Abrahamson
Jenny Dawson
Adele Lloyd
Jamie McPhee
Terry O'Dwyer
Kevin Osborn (Deputy Chairman)
Deborah Radford
Kevin Roache
Antony (Tony) Robinson

### Company Secretary

David Oataway

### Registered Office

Bendigo Bank Limited
The Bendigo Centre
Bendigo Victoria 3550

Telephone (03) 5485 6444
Fax (03) 5485 7668

### Principal place of business

The Bendigo Centre
Bendigo Victoria 3550

### Share Registry

Securities Registry
Bendigo Bank Limited
The Bendigo Centre
Bendigo Victoria 3550

Telephone (03) 5485 6392
Fax (03) 5485 7645

### Auditors

Ernst & Young
Australia

# 3 STATUTORY HALF YEAR FINANCIAL REPORT

## 3.1 Directors' Report

Your Directors submit their report for the half year ended 31 December 2007.

### *3.1.1 Directors*

The names of the directors of the Board of Bendigo Bank 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.

Mr Robert Johanson (Chairman)
Mr Robert Hunt AM (Managing Director)
Mr Kevin Abrahamson (appointed 30th November 2007)
Mr Neal Axelby (retired 30th November 2007)
Mr Roger Cook (appointed 30th November 2007, resigned 17th December 2007)
Ms Jenny Dawson
Mr Donald Erskine (retired 30th November 2007)
Dr Adele Lloyd (appointed 30th November 2007)
Mr Jamie McPhee (appointed 30th November 2007)
Mr Terry O'Dwyer
Mr Kevin Osborn (Deputy Chairman) (appointed 30th November 2007)
Ms Deborah Radford
Mr Kevin Roache
Mr Antony (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, wholesale mortgages, business lending, margin lending, business banking and commercial finance, funds management, treasury and foreign exchange services (including trade finance), superannuation, financial advisory and trustee services.

On 30 November 2007 Bendigo Bank Limited acquired all of the ordinary shares of Adelaide Bank Limited. The operating results of Adelaide Bank Limited for the month of December 2007 are included within this report.

The Group recorded continued growth in income and profits during the half-year. Total income rose $42.4 million or 15% to $320.1 million when compared with the half-year ended 31 December 2006. Profit before tax increased by $25.5 million, or 32%, to $106.2 million. Profit after tax (attributable to members of the parent) increased by $18.5 million to $72.8 million and included an after tax amount of $3.0 million relating to cash flow hedge ineffectiveness expense recognised upon Adelaide Bank consolidation (2006: $5.6 million expense related to an issue of shares under the Group's employee share plan).

Group assets increased 190%, or $32.4 billion during the half-year. Group assets at 31 December 2007 were $49.4 billion.

The total capital adequacy ratio increased during the half from 10.24% to 11.03%. Tier one capital decreased during the half year from 7.98% to 7.73% with Tier two capital increasing from 2.26% to 3.30%.

Fully franked dividends paid on preference shares during the half year:

A dividend of 142.66 cents per share was paid on 17 September 2007.

A dividend of 147.76 cents per share was paid on 17 December 2007.

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

A final dividend of 34.0 cents per share was paid on 28 September 2007 in respect of the year ended 30 June 2007.
An interim dividend of 28.0 cents per share has been declared and will be payable on 31 March 2008.

### *3.1.3 Significant changes in the state of affairs*

The following significant change in the state of affairs of the chief entity occurred during the half year:

In September 2007, 854,591 shares were allotted at an issue price of $14.87 to those shareholders participating in the Dividend Reinvestment Plan, increasing share capital by $12.7 million.

In November 2007, 117,687,891 shares were allotted at an issue price of $16.80 to the ordinary shareholders of Adelaide Bank to acquire the issued ordinary share capital of Adelaide Bank, increasing ordinary share capital by $1,977.2 million.

In November 2007, 1,000,000 step-up preference shares (fully paid) were allotted at an issue price of $100.00 to the holders of Adelaide Bank step-up preference shares as part of the merger with Adelaide Bank, increasing share capital by $100.0 million.

In the opinion of the directors, there were no other significant changes in the state of affairs of the economic entity 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 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 economic entity, the results of those operations, or the state of affairs of the economic entity in subsequent financial periods.

On 18 February 2008 the directors of Bendigo Bank Limited declared an interim dividend of 28.0 cents per ordinary share (fully-franked) in respect of the December 2007 half-year payable on 31 March 2008. The amount estimated to be appropriated in relation to this dividend is $71.8 million. The dividend has not been provided for in the 31 December 2007 half-year financial statements.

On 29 January 2008, at an Extraordinary General Meeting, shareholders approved a resolution to change the name of Bendigo Bank Limited to Bendigo and Adelaide Bank Limited with effect on and from 31 March 2008.

### *3.1.5 Independence of auditor*

The Bank's audit committee has conducted an assessment of the independence of the external auditor for the period ended 31 December 2007. The assessment was conducted on the basis of the Bank's audit independence policy and the requirements of the Corporations Act 2001. The assessment included a review of non-audit services provided by the auditor and an assessment of the independence declaration issued by the external auditor for the period ended 31 December 2007. The audit committee's assessment confirmed that the independence requirements have been met. The audit committee's assessment was accepted by the full Board.

The following independence declaration has been obtained from our auditors, Ernst & Young.

ERNST & YOUNG

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000
Australia

GPO Box 67
Melbourne VIC 3001

Tel 61 3 9288 8000
Fax 61 3 8650 7777

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

In relation to our review of the financial report of Bendigo Bank Limited for the half-year ended 31 December 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst + Young

Ernst & Young

Brett Kallio

Brett Kallio
Partner
Melbourne
18 February 2008

Liability limited by a scheme approved under
Professional Standards Legislation

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

Robert Johanson

Robert N. Johanson
Chairman
Bendigo
18 February 2008

## 3.2 Condensed Income Statement

for the half year ended 31 December 2007

| | *Notes* | Consolidated 2007 $m | Consolidated 2006 $m |
|---|---|---|---|
| **Income** | | | |
| **Net interest income** | | | |
| Total interest income | | 797.4 | 514.7 |
| Total interest expense | | 591.2 | 336.9 |
| Cash flow hedge ineffectiveness on Adelaide Bank consolidation | | (4.3) | - |
| Total net interest income | | 201.9 | 177.8 |
| **Other revenue** | | | |
| Dividends | | 2.2 | 2.1 |
| Fees | | 68.9 | 56.4 |
| Commissions | | 26.4 | 22.2 |
| Other revenue | | 7.0 | 5.7 |
| Total other revenue | | 104.5 | 86.4 |
| **Other Income** | | 2.0 | 1.6 |
| **Share of associates' and joint ventures net profits/losses** | | 11.7 | 11.9 |
| Total income after interest expense | | 320.1 | 277.7 |
| **Expenses** | | | |
| **Bad and doubtful debts on loans and receivables** | | 3.7 | 4.0 |
| **Other expenses** | | | |
| Staff and related costs | | 104.5 | 94.7 |
| Occupancy costs | | 18.4 | 15.2 |
| Information technology costs | | 20.6 | 17.4 |
| Amortisation of intangibles | | 3.1 | 2.7 |
| Property, plant & equipment costs | | 5.6 | 5.2 |
| Fees and commissions | | 9.9 | 10.4 |
| Communications, postage & stationery | | 13.5 | 11.5 |
| Advertising & promotion | | 5.7 | 6.4 |
| Other product & services delivery costs | | 12.4 | 9.5 |
| Employee equity settled transaction cost | | - | 5.6 |
| Other administration expenses | | 16.5 | 14.4 |
| Total other expenses | | 210.2 | 193.0 |
| **Profit before income tax expense** | | 106.2 | 80.7 |
| **Income tax expense** | | (32.7) | (26.4) |
| **Net profit for the period** | | 73.5 | 54.3 |
| **Net profit for the period attributable to:** | | | |
| Minority interest | | (0.7) | - |
| Members of the Parent | | 72.8 | 54.3 |
| Basic earnings per ordinary share (cents per share) | *3.6.7* | 42.4 | 36.6 |
| Diluted earnings per ordinary share (cents per share) | *3.6.7* | 42.3 | 36.4 |
| Franked dividends per share (cents per share) | *3.6.5* | 28.0 | 24.0 |

## 3.3 Balance Sheet
as at 31 December 2007

| | Notes | Consolidated As at 31-Dec-07 $m | As at 30-Jun-07 $m | As at 31-Dec-06 $m |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | | 842.4 | 257.6 | 242.4 |
| Due from other financial institutions | | 127.5 | 71.5 | 82.5 |
| Derivatives | | 312.0 | 75.4 | 48.7 |
| Financial assets held for trading | | 1,764.0 | - | - |
| Financial assets available for sale - securities | | 641.2 | 428.8 | 279.4 |
| Financial assets available for sale - share investments | | 113.9 | 130.4 | 116.5 |
| Financial assets held to maturity | | 1,972.6 | 1,614.4 | 1,684.3 |
| Current tax assets | | 3.7 | - | - |
| Loans and other receivables | | 41,426.0 | 13,773.3 | 12,906.5 |
| Investments in associates and joint ventures accounted for using the equity method | | 165.4 | 156.4 | 147.6 |
| Property, plant & equipment | | 95.8 | 61.5 | 115.0 |
| Assets held for sale | | 102.9 | 93.4 | - |
| Investment property | | 48.0 | 34.2 | 15.7 |
| Intangible assets and goodwill | | 1,340.5 | 93.7 | 88.6 |
| Deferred tax assets | | 69.3 | 32.6 | 34.2 |
| Other assets | | 356.8 | 178.4 | 181.3 |
| **Total Assets** | | 49,382.0 | 17,001.6 | 15,942.7 |
| **Liabilities** | | | | |
| Due to other financial institutions | | 119.4 | 184.0 | 134.1 |
| Deposits | | 30,969.9 | 14,887.5 | 13,916.6 |
| Notes payable | | 13,544.6 | 259.1 | 319.5 |
| Derivatives | | 59.6 | 35.0 | 28.3 |
| Other payables | | 573.7 | 235.3 | 228.1 |
| Income tax payable | | - | 16.3 | 15.5 |
| Provisions | | 56.0 | 40.5 | 38.3 |
| Deferred tax liabilities | | 106.7 | 21.7 | 21.5 |
| Reset preference shares | | 89.5 | - | - |
| Subordinated debt - at amortised cost | | 728.0 | 307.2 | 287.2 |
| **Total Liabilities** | | 46,247.4 | 15,986.6 | 14,989.1 |
| **Net Assets** | | 3,134.6 | 1,015.0 | 953.6 |
| **Equity** | | | | |
| Equity attributable to equity holders of the parent | | | | |
| Issued capital -ordinary | *3.6.11* | 2,594.7 | 605.2 | 595.7 |
| Perpetual non-cumulative redeemable convertible preference shares | *3.6.11* | 88.5 | 88.5 | 88.5 |
| Step-up preference shares | *3.6.11* | 100.0 | - | - |
| ESOP shares | | (37.3) | (40.4) | (43.9) |
| Reserves | | 169.5 | 130.0 | 110.5 |
| Retained earnings | | 219.2 | 232.4 | 203.5 |
| Total parent interests | | 3,134.6 | 1,015.7 | 954.3 |
| Total minority interest | | - | (0.7) | (0.7) |
| **Total Equity** | | 3,134.6 | 1,015.0 | 953.6 |

## 3.4 Cash Flow Statement

for the half year ended 31 December 2007

| | Note | Consolidated 2007 $m | Consolidated 2006 $m |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Interest and other items of a similar nature received | | 759.7 | 501.1 |
| Interest and other costs of finance paid | | (573.3) | (317.7) |
| Receipts from customers (excluding effective interest) | | 100.2 | 85.3 |
| Payments to suppliers and employees | | (257.6) | (230.1) |
| Dividends received | | 8.6 | 8.7 |
| Income taxes paid | | (27.1) | (23.1) |
| Net cash flows from operating activities | | 10.5 | 24.2 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Cash flows for purchases of property, plant and equipment | | (32.0) | (50.2) |
| Cash proceeds from sale of property, plant and equipment | | 0.8 | 0.5 |
| Cash paid for purchases of equity investments | | (7.9) | (4.6) |
| Cash proceeds from sale of equity investments | | 0.9 | - |
| Net increase in balance of loans outstanding | | (252.3) | (536.6) |
| Net increase in balance of investment securities | | (323.3) | (217.2) |
| Net cash received on acquisition of a subsidiary | | 475.0 | - |
| Net cash flows used in investing activities | | (138.8) | (808.1) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from preference share instalment | | - | 0.2 |
| Net increase in balance of retail deposits | | 1,086.8 | 515.2 |
| Net (decrease)/increase in balance of wholesale deposits | | (446.7) | 194.8 |
| Proceeds from issue of subordinated debt | | 70.0 | 40.0 |
| Repayment of subordinated debt | | (30.0) | (59.9) |
| Dividends paid | | (36.7) | (31.4) |
| Net increase in balance of notes payable | | 187.6 | - |
| Repayment of ESOP shares | | 3.1 | 2.3 |
| Payment of share issue costs | | (0.4) | - |
| Net cash flows from financing activities | | 833.7 | 661.2 |
| Net increase/(decrease) in cash and cash equivalents held | | 705.4 | (122.7) |
| Add cash and cash equivalents at the beginning of the financial period | | 145.1 | 313.5 |
| Cash and cash equivalents at the end of the half year | *3.6.10* | 850.5 | 190.8 |

## 3.5 Statement of changes in equity

| | Attributable to equity holders of Bendigo Bank Limited | | | | | | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| | Issued capital | ESOP shares | Perpetual non-cum redeem conv pref shares | Retained earnings | Other reserves | Total | | |
| | $m | $m | $m | $m | $m | $m | $m | $m |
| **CONSOLIDATED** | | | | | | | | |
| **At 1 July 2006** | | | | | | | | |
| Opening balance b/fwd | 564.1 | (25.6) | 88.3 | 194.5 | 78.8 | 900.1 | (0.6) | 899.5 |
| Net gains on available for sale financial assets | - | - | - | - | 11.5 | 11.5 | - | 11.5 |
| Gains/losses on cash flow hedges | - | - | - | - | 11.6 | 11.6 | - | 11.6 |
| Increase in employee benefits reserve | | | | | 5.8 | 5.8 | | 5.8 |
| Total income and expense for the half-year recognised directly in equity | - | - | - | - | 28.9 | 28.9 | - | 28.9 |
| Profit for the half-year | - | | - | 54.3 | - | 54.3 | - | 54.3 |
| Total income for the half-year | - | - | - | 54.3 | 28.9 | 83.2 | - | 83.2 |
| Issue of share capital | 31.7 | (20.6) | 0.2 | - | - | 11.3 | - | 11.3 |
| Share issue expenses | - | - | - | - | - | - | - | - |
| Reduction in Employee Share Ownership Plan shares | - | 2.3 | - | - | - | 2.3 | - | 2.3 |
| Movement in general reserve for credit losses (GRCL) | - | - | - | (1.8) | 1.8 | - | - | - |
| Movement in GRCL-associates | - | - | - | (0.9) | 0.9 | - | - | - |
| Equity dividends | - | - | - | (42.5) | - | (42.5) | - | (42.5) |
| Other | (0.1) | - | - | (0.1) | 0.1 | (0.1) | (0.1) | (0.2) |
| **At 31 December 2006** | 595.7 | (43.9) | 88.5 | 203.5 | 110.5 | 954.3 | (0.7) | 953.6 |
| | | | | | | | | |
| **At 1 January 2007** | | | | | | | | |
| **Opening balance b/fwd** | 595.7 | (43.9) | 88.5 | 203.5 | 110.5 | 954.3 | (0.7) | 953.6 |
| Net gains on available for sale financial assets | - | - | - | - | (5.0) | (5.0) | - | (5.0) |
| Gains/(losses) on c/flow hedges | - | - | - | - | 20.9 | 20.9 | - | 20.9 |
| Increase in employee benefits reserve | - | - | - | - | 0.7 | 0.7 | - | 0.7 |
| After tax increase in asset revaluation reserve | - | - | - | - | (0.7) | (0.7) | - | (0.7) |
| Total income and expense for the half-year recognised directly in equity | - | - | - | - | 15.9 | 15.9 | - | 15.9 |
| Profit for the half year | - | - | - | 67.5 | - | 67.5 | - | 67.5 |
| Total income and expense for the half year | - | - | - | 67.5 | 15.9 | 83.4 | - | 83.4 |
| | | | | | | | | |
| Issue of share capital | 9.5 | - | - | - | - | 9.5 | - | 9.5 |
| Reduction in Employee Share Ownership Plan shares | - | 3.5 | - | - | - | 3.5 | - | 3.5 |
| Movement in general reserve for credit losses (GRCL) | - | - | - | - | - | - | - | - |
| Movement in GRCL-associates | - | - | - | (3.8) | 3.8 | - | - | - |
| Transfer from asset revaluation reserve | | | | 0.1 | (0.1) | - | - | - |
| Equity dividends | - | - | - | (35.0) | - | (35.0) | - | (35.0) |
| Other | - | - | - | 0.1 | (0.1) | - | - | - |
| **At 30 June 2007** | 605.2 | (40.4) | 88.5 | 232.4 | 130.0 | 1,015.7 | (0.7) | 1,015.0 |

## Statement of changes in equity (continued)

| | Attributable to equity holders of Bendigo Bank Limited | | | | | | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| | Issued capital | ESOP shares | Preference share capital | Retained earnings | Other reserves | Total | | |
| | $m | $m | $m | $m | $m | $m | $m | $m |
| **At 1 July 2007** | | | | | | | | |
| **Opening balance b/fwd** | 605.2 | (40.4) | 88.5 | 232.4 | 130.0 | 1,015.7 | (0.7) | 1,015.0 |
| Net gain/(loss) on available for sale financial assets | - | - | - | - | (12.5) | (12.5) | - | (12.5) |
| Increase-employee benefits reserve | - | - | - | - | 0.9 | 0.9 | - | 0.9 |
| Gains/(losses) on c/flow hedges | - | - | - | - | 15.1 | 15.1 | - | 15.1 |
| Total income and expense for the half-year recognised directly in equity | - | - | - | - | 3.5 | 3.5 | - | 3.5 |
| Profit for the half year | | | | 72.8 | - | 72.8 | - | 72.8 |
| Total income for the half year | - | - | - | 72.8 | 3.5 | 76.3 | - | 76.3 |
| Issue of ordinary share capital | 1,989.9 | | | | - | 1,989.9 | - | 1,989.9 |
| Share issue expenses | (0.4) | - | - | - | - | (0.4) | - | (0.4) |
| Issue of step-up preference shares | - | - | 100.0 | - | - | 100.0 | - | 100.0 |
| Reduction in Employee Share Ownership Plan shares | - | 3.1 | - | - | - | 3.1 | - | 3.1 |
| Transfer from asset revaluation reserve | - | - | - | - | - | - | - | - |
| Re-establish general reserve for credit losses on acquisition of Adelaide Bank Limited | - | - | - | (36.6) | 36.6 | - | - | - |
| Movements in general reserve for credit losses (GRCL) | - | - | - | 1.1 | (1.1) | - | - | - |
| Movement in GRCL-associates | - | - | - | (0.4) | 0.4 | - | - | - |
| Equity dividends | - | - | - | (49.9) | - | (49.9) | - | (49.9) |
| Reversal of minority interest | - | - | - | - | - | - | 0.7 | 0.7 |
| Other | - | - | - | (0.2) | 0.1 | (0.1) | - | (0.1) |
| **At 31 December 2007** | 2,594.7 | (37.3) | 188.5 | 219.2 | 169.5 | 3,134.6 | - | 3,134.6 |

## 3.6 Notes to and forming part of the financial statements

### *3.6.1 Corporate information*

The half year financial report of Bendigo Bank Limited for the six months ended 31 December 2007 was authorised for issue in accordance with a resolution of the directors on 18 February 2008.

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

The domicile of Bendigo Bank Limited is Australia.

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

### *3.6.2 Summary of significant accounting policies*

The half year financial report does not include notes of the type normally included in 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 would a full financial report.

It is recommended that the half-year report is read in conjunction with the Annual Financial Report of Bendigo Bank Limited as at 30 June 2007, which was prepared based on Australian Accounting Standards, together with any public announcements made by Bendigo Bank Limited and its controlled entities during the half-year ended 31 December 2007 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

#### *3.6.2.1 Basis of preparation*

Bendigo 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 so far as they are applicable to Australian banking corporations.

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

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

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

### *3.6.2.2 Changes in accounting policies*

Since 1 July 2007 the Group has adopted the following Standards and Interpretations, mandatory for annual reporting periods beginning on or after 1 July 2007. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Group.

- AASB 7 Financial Instruments: Disclosures
- AASB 2005-10 Amendments to Australian Accounting Standards (AASB 132, 101, 114, 117, 133, 139, 1,4, 1023 and 1038)
- Interpretation 8 Scope of AASB 2 Share-based Payment
- Interpretation 9 Reassessment of Embedded Derivatives
- Interpretation 10 interim Financial Reporting and Impairment

### *3.6.3 Segment information*

The Group's primary reporting format is business segments and its secondary format is geographical segments.

**Business segments**

The Group's business segments have been realigned to reflect the organisational structure following the merger with Adelaide Bank. These segments are managed according to the nature of products and services provided and the key delivery channels, with each segment representing a strategic business unit that offers a different delivery method and/or different products and services.

*Retail banking*

Net interest income predominantly derived from the provision of first mortgage finance less the interest paid to depositors; and fee income from the provision of banking services delivered through the company-owned branch network and the Group's share of net interest and fee income from the community bank branch network.

*Wholesale banking*

Net interest income and fees derived from the manufacture and processing of residential home loans, distributed through mortgage brokers and mortgage managers and the Portfolio Funding and Specialised Lending businesses of the Group.

*Wealth solutions*

Fees, commissions and interest from the provision of financial planning services and margin lending activities. Commission received as Responsible Entity for managed investment schemes and for corporate trusteeships and other trustee and custodial services.

*Joint ventures and Alliances*

Profit share from equity accounted investments in associates and revenue from alliances and minor subsidiaries.

*Corporate support*

Unallocated corporate support business units.

**Geographic segments**

Bendigo Bank Limited and its controlled entities operate predominately in the geographic areas of all Australian states and territories, providing banking and other financial services.

## *Segment information (continued)*

The following tables present revenue and profit information and certain assets and liabilities regarding business segments for the six months ended 31 December 2007, 30 June 2007 and 31 December 2006. Past periods have been restated in accordance with the new Business segments resulting from the acquisition of Adelaide Bank. The 31 December 2007 numbers include six months of Bendigo Bank results and one month of Adelaide Bank results.

for the half year ended 31 December 2007

| | Retail Banking | Wholesale Banking | Wealth Solutions | J/Ventures & Alliances | Total Segments | Corporate Support | Total |
|---|---|---|---|---|---|---|---|
| **Income** | $m | $m | $m | $m | $m | $m | $m |
| *Net interest income* | 185.0 | 11.6 | 9.5 | - | **206.1** | (4.2) | **201.9** |
| *Other income* | | | | | | | |
| Other external income | 74.1 | 2.7 | 24.5 | - | **101.3** | 5.2 | **106.5** |
| Other intersegment income | - | - | - | - | **-** | - | **-** |
| Total other income | 74.1 | 2.7 | 24.5 | - | **101.3** | 5.2 | **106.5** |
| *Share of net profit of equity accounted investments* | - | - | - | 11.7 | **11.7** | - | **11.7** |
| *Total segment income after interest expense* | | | | | | | |
| External income | 259.1 | 14.3 | 34.0 | 11.7 | **319.1** | 1.0 | **320.1** |
| Intersegment income | - | - | - | - | **-** | - | **-** |
| Total segment income | 259.1 | 14.3 | 34.0 | 11.7 | **319.1** | 1.0 | **320.1** |
| **Results** | | | | | | | |
| Segment result from continuing operations before income tax expense | 76.0 | 8.7 | 17.4 | 11.7 | **113.8** | (7.6) | **106.2** |
| Income tax expense | | | | | | | **(32.7)** |
| Minority interests | | | | | | | **(0.7)** |
| Consolidated entity profit from continuing operations after income tax expense | | | | | | | **72.8** |
| **Assets** | | | | | | | |
| Segment assets | 15,779.6 | 20,073.9 | 4,980.1 | 444.3 | **41,277.9** | 7,938.7 | **49,216.6** |
| Equity accounted assets | - | - | - | - | **-** | 165.4 | **165.4** |
| Total on-balance sheet assets | 15,779.6 | 20,073.9 | 4,980.1 | 444.3 | **41,277.9** | 8,104.1 | **49,382.0** |
| **Liabilities** | | | | | | | |
| Total on-balance sheet liabilities | 15,512.6 | 9,185.6 | 9,833.4 | 539.3 | **35,070.9** | 11,176.5 | **46,247.4** |

Applicable commercial rates are used as the basis for pricing intersegment funding.
Internal cost allocations are undertaken on the basis of internal objective assessments.

## *Segment information (continued)*
for the half year ended 30 June 2007

| | Retail Banking | Wholesale Banking | Wealth Solutions | J/Ventures & Alliances | Total Segments | Corporate Support | Total |
|---|---|---|---|---|---|---|---|
| **Income** | $m | $m | $m | $m | $m | $m | $m |
| *Net interest income* | 175.4 | - | 3.9 | - | **179.3** | - | **179.3** |
| *Other income* | | | | | | | |
| Other external income | 64.8 | - | 22.9 | - | **87.7** | 7.5 | **95.2** |
| Other intersegment income | 0.1 | - | - | - | **0.1** | (0.1) | **-** |
| Total other income | 64.9 | - | 22.9 | - | **87.8** | 7.4 | **95.2** |
| *Share of net profit of equity accounted investments* | - | - | - | 10.0 | **10.0** | - | **10.0** |
| *Total segment income after interest expense* | | | | | | | |
| External income | 240.2 | - | 26.8 | 10.0 | **277.0** | 7.5 | **284.5** |
| Intersegment income | 0.1 | - | - | - | **0.1** | (0.1) | **-** |
| Total segment income | 240.3 | - | 26.8 | 10.0 | **277.1** | 7.4 | **284.5** |
| **Results** | | | | | | | |
| Segment result from continuing operations before income tax expense | 76.8 | - | 13.4 | 10.0 | **100.2** | (3.0) | **97.2** |
| Income tax expense | | | | | | | **(29.8)** |
| Minority interests | | | | | | | **0.1** |
| Consolidated entity profit from continuing operations after income tax expense | | | | | | | **67.5** |
| **Assets** | | | | | | | |
| Segment assets | 13,014.3 | - | 136.4 | 426.2 | **13,576.9** | 3,268.4 | **16,845.3** |
| Equity accounted assets | - | - | - | - | **-** | 156.3 | **156.3** |
| Total on-balance sheet assets | 13,014.3 | - | 136.4 | 426.2 | **13,576.9** | 3,424.7 | **17,001.6** |
| **Liabilities** | | | | | | | |
| Total on-balance sheet liabilities | 11,688.8 | - | 164.6 | 470.4 | **12,323.8** | 3,662.8 | **15,986.6** |

Applicable commercial rates are used as the basis for pricing intersegment funding.
Internal cost allocations are undertaken on the basis of internal objective assessments.

## *Segment information (continued)*

for the half year ended 31 December 2006

| Income | Retail Banking $m | Wholesale Banking $m | Wealth Solutions $m | J/Ventures & Alliances $m | Total Segments $m | Corporate Support $m | Total $m |
|---|---|---|---|---|---|---|---|
| *Net interest income* | 173.6 | - | 4.2 | - | **177.8** | - | **177.8** |
| *Other income* | | | | | | | |
| Other external income | 62.5 | - | 23.8 | - | **86.3** | 1.7 | **88.0** |
| Other intersegment income | 0.1 | - | 0.1 | - | **0.2** | (0.2) | **-** |
| Total other income | 62.6 | - | 23.9 | - | **86.5** | 1.5 | **88.0** |
| *Share of net profit of equity accounted investments* | - | - | - | 11.9 | **11.9** | - | **11.9** |
| *Total segment income after interest expense* | | | | | | | |
| External income | 236.1 | - | 28.0 | 11.9 | **276.0** | 1.7 | **277.7** |
| Intersegment income | 0.1 | - | 0.1 | - | **0.2** | (0.2) | **-** |
| Total segment income | 236.2 | - | 28.1 | 11.9 | **276.2** | 1.5 | **277.7** |
| **Results** | | | | | | | |
| Segment result from continuing operations before income tax expense | 73.9 | - | 14.1 | 11.9 | **99.9** | (19.2) | **80.7** |
| Income tax expense | | | | | | | **(26.4)** |
| Minority interests | | | | | | | **-** |
| Consolidated entity profit from continuing operations after income tax expense | | | | | | | **54.3** |
| **Assets** | | | | | | | |
| Segment assets | 11,801.2 | - | 144.9 | 391.8 | **12,337.9** | 3,457.2 | **15,795.1** |
| Equity accounted assets | - | - | - | - | **-** | 147.6 | **147.6** |
| Total on-balance sheet assets | 11,801.2 | - | 144.9 | 391.8 | **12,337.9** | 3,604.8 | **15,942.7** |
| **Liabilities** | | | | | | | |
| Total on-balance sheet liabilities | 11,231.7 | - | 175.5 | 405.1 | **11,812.3** | 3,176.8 | **14,989.1** |

Applicable commercial rates are used as the basis for pricing intersegment funding.
Internal cost allocations are undertaken on the basis of internal objective assessments.

### *3.6.4 Income tax*

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

| | 2007 $m | 2006 $m |
|---|---|---|
| Current income tax | | |
| Current income tax charge | 27.8 | 31.9 |
| Adjustments in respect of current income tax of previous years | (0.5) | (0.1) |
| Deferred income tax | | |
| Relating to origination and reversal of temporary differences | 5.4 | (5.4) |
| Income tax expense reported in the Condensed Income Statement | 32.7 | 26.4 |

### *3.6.5 Dividends paid or provided*

| | 2007 $m | 2006 $m |
|---|---|---|
| **Ordinary shares** | | |
| Dividends paid during the half-year: | | |
| Final dividend 2007 - 34.0 cents (Final dividend 2006 - 30.0 cents) | 46.8 | 40.1 |
| Dividends proposed since the reporting date, but not recognised as a liability: | | |
| Interim dividend 2008 - 28.0 cents (Interim dividend 2007 - 24.0 cents) | 71.8 | 32.8 |
| **Preference shares** | | |
| Dividends paid during the half-year: | | |
| A dividend of 142.66 cents per share was paid on 17 September 2007 (2006: 131.68 cents) | 1.3 | 1.2 |
| A dividend of 147.76 cents per share was paid on 17 December 2007 (2006: 134.64 cents) | 1.3 | 1.2 |
| | 2.6 | 2.4 |

### *3.6.6 Property, plant and equipment*

During the half-year ended 31 December 2007, the Group acquired assets with a cost of $11.1 million (2006: $50.2 million, including $28.2 million relating to the new head office development, which is now disclosed in Assets held for sale).

On 1 September 2006, the Bank announced it has contracted to sell its new headquarters in Bendigo for $100 million in a sale-and-leaseback transaction arranged by Societe Generale Corporate & Investment Banking (SGCIB).

A consortium of investors arranged by SGCIB will purchase both the new development and the bank's existing Fountain Court building adjacent. The sale will occur on 1 September 2008 - after completion of the new building - with Bendigo taking a long-term lease.

Assets with a book value of $0.5 million were disposed of by the Group during the half-year ended 31 December 2007 (2006: $0.5 million), resulting in a gain on disposal of Nil (2006: Nil).

### *3.6.7 Earnings per ordinary share*

| | Half-year Dec-07 Cents per share | Half-year Jun-07 Cents per share | Half-year Dec-06 Cents per share |
|---|---|---|---|
| Basic earnings per ordinary share | 42.4 | 45.3 | 36.6 |
| Diluted earnings per ordinary share | 42.3 | 44.7 | 36.4 |
| Cash basis earnings per ordinary share | 43.0 | 43.9 | 39.0 |
| | **$m** | **$m** | **$m** |
| **Reconciliation of earnings used in the calculation of basic earnings per ordinary share** | | | |
| Profit for the half-year (after tax) | 73.5 | 67.4 | 54.3 |
| (Profit)/loss attributable to minority interests | (0.7) | 0.1 | - |
| Dividends paid on preference shares | (2.6) | (2.4) | (2.4) |
| Dividends paid on step-up preference shares | (0.5) | - | - |
| | 69.7 | 65.1 | 51.9 |
| **Reconciliation of earnings used in the calculation of diluted earnings per ordinary share** | | | |
| Earnings used in calculating basic earnings per ordinary share | 69.7 | 65.1 | 51.9 |
| Add back dividends on dilutive preference shares | 2.6 | 2.4 | 2.4 |
| | 72.3 | 67.5 | 54.3 |
| **Reconciliation of earnings used in the calculation of cash basis earnings per ordinary share** | | | |
| Earnings used in calculating basic earnings per ordinary share | 69.7 | 65.1 | 51.9 |
| After tax intangibles amortisation (excluding amortisation of intangible software) | 0.4 | 0.6 | 0.6 |
| After tax significant income and expense items (1) | 3.3 | 1.2 | 5.6 |
| Movement in general reserve for credit losses | 1.1 | (2.9) | (1.8) |
| Movement in general reserve for credit losses - associates | (0.4) | (0.9) | (0.9) |
| Loan portfolio premium amortisation | 0.6 | - | - |
| Significant general reserve for credit losses movement - BBL move to 0.51% of RWA | (4.0) | - | - |
| | 70.7 | 63.1 | 55.4 |
| | **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** | 164,517,943 | 143,774,523 | 141,991,653 |
| Effect of dilution - share options relating to Managing Director and executives. | 178,770 | 100,117 | 100,117 |
| Effect of dilution - preference shares | 6,072,874 | 7,155,635 | 7,155,635 |
| **Weighted ave no. of ordinary shares used in diluted earnings per ordinary share** | 170,769,587 | 151,030,275 | 149,247,405 |

| (1) Significant income and expense items after tax comprise: | **$m** | **$m** | **$m** |
|---|---|---|---|
| *Income* | | | |
| Cash flow hedge ineffectiveness on Adelaide Bank consolidation | (3.0) | - | - |
| | (3.0) | - | - |
| *Expense* | | | |
| Adelaide Bank merger integration costs | 0.3 | - | - |
| Expense relating to the Bank of Queensland proposed merger | - | 1.2 | - |
| Expense relating to an issue of shares to staff under the Employee Share Plan | - | - | 5.6 |
| | 0.3 | 1.2 | 5.6 |
| Total significant income/(expense) items after tax | (3.3) | (1.2) | (5.6) |

### *3.6.8 Return on average ordinary equity*

| | Consolidated | | |
|---|---|---|---|
| | Half-year | Half-year | Half-year |
| | Dec-07 | Jun-07 | Dec-06 |
| | % | % | % |
| Return on average ordinary equity | 12.28 | 16.59 | 13.84 |
| Pre-significant items return on average ordinary equity | 12.86 | 16.89 | 15.34 |
| Cash basis return on average ordinary equity | 12.46 | 16.08 | 14.78 |

| | $m | $m | $m |
|---|---|---|---|
| **Reconciliation of earnings used in the calculation of return on average ordinary equity** | | | |
| Profit for the half-year (after tax) | 73.5 | 67.4 | 54.3 |
| (Profit)/loss attributable to minority interests | (0.7) | 0.1 | - |
| Dividends paid on preference shares | (2.6) | (2.4) | (2.4) |
| Dividends paid on step-up preference shares | (0.5) | - | - |
| **Earnings used in calculation of return on average ordinary equity** | 69.7 | 65.1 | 51.9 |
| After tax significant income and expense items (1) | 3.3 | 1.2 | 5.6 |
| **Earnings used in calculation of pre-significant items return on average ordinary equity** | 73.0 | 66.3 | 57.5 |
| After tax intangibles amortisation (excluding amortisation of intangible software) | 0.4 | 0.6 | 0.6 |
| Movement in general reserve for credit losses | 1.1 | (2.9) | (1.8) |
| Movement in general reserve for credit losses - associates | (0.4) | (0.9) | (0.9) |
| Loan portfolio premium amortisation | 0.6 | - | - |
| Significant general reserve for credit losses movement - BBL move to 0.51% of RWA | (4.0) | - | - |
| **Earnings used in calculation of cash basis return on average ordinary equity** | 70.7 | 63.1 | 55.4 |

**Reconciliaton of ordinary equity used in the calculation of return on average ordinary equity**

| | As at | As at | As at |
|---|---|---|---|
| | 31 Dec 07 | 30 Jun 07 | 31 Dec 06 |
| | $m | $m | $m |
| **Total equity** | 3,134.6 | 1,015.0 | 953.6 |
| Preference share net capital | (188.5) | (88.5) | (88.5) |
| Asset revaluation reserve - Available for sale shares | (20.1) | (32.7) | (37.7) |
| Unrealised gains/losses on cash flow hedge reserve | (50.2) | (35.2) | (14.3) |
| General reserve for credit losses | (80.8) | (45.3) | (42.4) |
| General reserve for credit losses - associates | (8.7) | (8.3) | (7.4) |
| Minority interest | - | 0.7 | 0.7 |
| **Ordinary equity** | 2,786.3 | 805.7 | 764.0 |
| **Average ordinary equity** | 1,135.2 | 784.9 | 749.9 |

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

| | | | |
|---|---|---|---|
| *Income* | | | |
| Cash flow hedge ineffectiveness on Adelaide Bank consolidation | (3.0) | - | - |
| | (3.0) | - | - |
| *Expense* | | | |
| Adelaide Bank merger integration costs to end December 2007 | 0.3 | - | - |
| Expense relating to the Bank of Queensland proposed merger | - | 1.2 | - |
| Expense relating to an issue of shares to staff under the Employee Share Plan | - | - | 5.6 |
| | 0.3 | 1.2 | 5.6 |
| Total significant income/(expense) items after tax | (3.3) | (1.2) | (5.6) |

### *3.6.9 Net tangible assets per ordinary share*

| | As at Dec 07 | As at Jun 07 | As at Dec 06 |
|---|---|---|---|
| **Net tangible assets per ordinary share** | $ 5.76 | $ 5.40 | $ 5.06 |

Reconciliation of Net tangible assets used in calculation of net tangible assets per ordinary share

| | $m | $m | $m |
|---|---|---|---|
| **Net assets** | 3,134.6 | 1,015.0 | 953.6 |
| Intangibles | (1,340.5) | (93.7) | (88.6) |
| Preference shares - face value | (90.0) | (90.0) | (90.0) |
| Step-up preference shares | (100.0) | - | - |
| General reserve for credit losses | (80.8) | (45.3) | (42.4) |
| General reserve for credit losses - associates | (8.7) | (8.3) | (7.4) |
| Minority interest | - | 0.7 | 0.7 |
| **Net tangible assets** | 1,514.6 | 778.4 | 725.9 |
| **Number of ordinary shares on issue at reporting date** | 262,880,185 | 144,187,890 | 143,347,222 |

### *3.6.10 Cash flow information*

| *Reconciliation of cash* | As at Dec 07 $m | As at Dec 06 $m |
|---|---|---|
| For the purposes of the statement of cash flows, cash and cash equivalents includes: | | |
| Cash and cash equivalents | 842.4 | 242.4 |
| Due from other financial institutions | 127.5 | 82.5 |
| Due to other financial institutions | (119.4) | (134.1) |
| Other | - | - |
| Cash and cash equivalents at the end of the half year | 850.5 | 190.8 |

Cash and cash equivalents are items readily convertible into cash and generally repayable on demand.

Amounts due to and from other financial institutions relate to inter-bank settlement processes and are generally repaid within 2 working days.

*Cash flows presented on a net basis*

Cash flows arising from the following activities are presented on a net basis in the cash flow statement:

Loans, Investment securities, Retail deposits and Wholesale deposits.

### *3.6.11 Issued capital*

| | As at Dec 07 $m | As at Dec 06 $m |
|---|---|---|
| **Issued and paid up capital** | | |
| Ordinary shares fully paid - 262,880,185 (2006: 143,347,222) | 2,594.7 | 595.7 |
| Preference shares of $100 face value fully paid - 900,000 (2006: 900,000) | 88.5 | 88.5 |
| Preference shares of $100 face value fully paid - 100,000,000 (2006: Nil) | 100.0 | - |
| | 2,783.2 | 684.2 |
| **Movements in ordinary shares on issue** | | |
| Opening balance 1 July - 144,187,890 (2006: 140,850,961) | 605.2 | 564.1 |
| Shares issued under: | | |
| Bonus share scheme - 149,813 @ $14.87 (2006: 156,945 @ $13.62) | - | - |
| Dividend reinvestment plan - 854,591 @ $14.87 (2006: 818,654 @ $13.62) | 12.7 | 11.1 |
| Issue to Adelaide Bank shareholders - 117,687,891 @ $16.80 | 1,977.2 | - |
| Employee share plan - Nil (2006: 1,520,662 @ $13.54) | - | 20.6 |
| Share issue costs (2006: Other) | (0.4) | (0.1) |
| Closing balance 31 December - 262,880,185 (2006: 143,347,222) | 2,594.7 | 595.7 |
| **Movements in preference shares on issue** | | |
| Opening balance 1 July - 900,000 fully paid (2006: 900,000 fully paid) | 88.5 | 88.3 |
| Payment of unpaid portion of existing shares | - | 0.2 |
| Closing balance 31 December - 900,000 fully paid (2006: 900,000 fully paid) | 88.5 | 88.5 |
| **Movements in step-up preference shares on issue** | | |
| Opening balance 1 July - nil | - | - |
| Issue of 1,000,000 $100 fully paid step-up preference shares | 100.0 | - |
| Closing balance 31 December - 1,000,000 fully paid (2006: Nil) | 100.0 | - |

## *3.6.12 Average Balance Sheet and related interest*

for the six month period ended 31 December 2007

| | Note | Average Balance $m | Interest 6 mths $m | Average Rate % |
|---|---|---|---|---|
| **Average balances and rates** | 1 | | | |
| **Interest earning assets** | | | | |
| Cash and Investments | | 2,973.4 | 88.8 | 5.94 |
| Loans and other receivables - company | | 13,805.5 | 567.6 | 8.18 |
| Loans and other receivables - alliances | | 4,806.1 | 178.0 | 7.37 |
| Total interest earning assets | 2 | 21,585.0 | 834.4 | 7.69 |
| **Non interest earning assets** | | | | |
| Provisions for doubtful debts | | (26.2) | | |
| Other assets | | 1,170.0 | | |
| | | 1,143.8 | | |
| Total assets (average balance) | | 22,728.8 | | |
| **Interest bearing liabilities and equity** | | | | |
| Deposits | | | | |
| Retail - company | | 9,275.3 | 205.0 | 4.40 |
| Retail - alliances | | 5,616.2 | 173.5 | 6.14 |
| Wholesale - domestic | | 2,465.3 | 96.3 | 7.77 |
| Wholesale - offshore | | 1,149.3 | 40.0 | 6.92 |
| Notes Payable | | 2,438.6 | 98.1 | 8.00 |
| Reset Preference Shares | | 14.9 | 0.5 | 6.67 |
| Subordinated debt | | 389.2 | 14.8 | 7.56 |
| Total interest bearing liabilities | 2 | 21,348.8 | 628.2 | 5.85 |
| **Non interest bearing liabilities and equity** | | | | |
| Other liabilities | | 14.1 | | |
| Equity | | 1,365.9 | | |
| | | 1,380.0 | | |
| Total liabilities and equity | | 22,728.8 | | |
| **Interest margin and interest spread** | | | | |
| Interest earning assets | | 21,585.0 | 834.4 | 7.69 |
| Interest bearing liabilities | | (21,348.8) | (628.2) | (5.85) |
| Net interest income and interest spread | | | 206.2 | 1.84 |
| Net interest margin | 3 | | | 1.90 |

**Impact of community bank/alliances profit share arrangements**

| | |
|---|---|
| Net interest margin before community bank/alliances share of net interest income | 2.37 |
| Less impact of community bank/alliances share of net interest income | 0.47 |
| Net interest margin | 1.90 |

1 *Average balance is based on monthly closing balances from 30 June 2007 through 31 December 2007 inclusive, with the exception of Wholesale domestic which is based on a daily closing balance.*
2 *Interest payments to alliance partners are net values in the Income Statement. Interest income and expense values have been increased by $37.0m to reflect gross amounts.*
3 *Interest margin is the net interest income as a percentage of average interest earning assets.*

## *Average Balance Sheet and related interest (continued)*

for the six month period ended 30 June 2007

| | Note | Average Balance $m | Interest 6 mths $m | Average Rate % |
|---|---|---|---|---|
| **Average balances and rates** | 1 | | | |
| **Interest earning assets** | | | | |
| Cash and Investments | | 2,325.8 | 69.3 | 6.01 |
| Loans and other receivables - company | | 9,058.8 | 353.6 | 7.87 |
| Loans and other receivables - alliances | | 4,277.0 | 150.2 | 7.08 |
| Total interest earning assets | 2 | 15,661.6 | 573.1 | 7.38 |
| **Non interest earning assets** | | | | |
| Provisions for doubtful debts | | (19.8) | | |
| Other assets | | 764.1 | | |
| | | 744.3 | | |
| Total assets (average balance) | | 16,405.9 | | |
| **Interest bearing liabilities and equity** | | | | |
| Deposits | | | | |
| Retail - company | | 6,908.8 | 151.8 | 4.43 |
| Retail - alliances | | 5,000.8 | 142.1 | 5.73 |
| Wholesale - domestic | | 1,515.0 | 43.2 | 5.75 |
| Wholesale - offshore | | 1,100.5 | 35.7 | 6.54 |
| Notes Payable | | 285.9 | 10.7 | 7.55 |
| Reset Preference Shares | | - | - | - |
| Subordinated debt | | 289.9 | 10.3 | 7.16 |
| Total interest bearing liabilities | 2 | 15,100.9 | 393.8 | 5.26 |
| **Non interest bearing liabilities and equity** | | | | |
| Other liabilities | | 335.8 | | |
| Equity | | 969.2 | | |
| | | 1,305.0 | | |
| Total liabilities and equity | | 16,405.9 | | |
| **Interest margin and interest spread** | | | | |
| Interest earning assets | | 15,661.6 | 573.1 | 7.38 |
| Interest bearing liabilities | | (15,100.9) | (393.8) | (5.26) |
| Net interest income and interest spread | | | 179.3 | 2.12 |
| Net interest margin | 3 | | | 2.31 |

**Impact of community bank/alliances profit share arrangements**

| | |
|---|---|
| Net interest margin before community bank/alliances share of net interest income | 2.88 |
| Less impact of community bank/alliances share of net interest income | 0.57 |
| Net interest margin | 2.31 |

1 *Average balance is based on monthly closing balances from 31 December 2006 through 30 June 2007 inclusive, with the exception of Wholesale domestic which is based on a daily closing balance.*
2 *Interest payments to alliance partners are net values in the Income Statement. Interest income and expense values have been increased by $29.2m to reflect gross amounts.*
3 *Interest margin is the net interest income as a percentage of average interest earning assets.*

## *Average Balance Sheet and related interest (continued)*

for the six month period ended 31 December 2006

| | Note | Average Balance $m | Interest 6 mths $m | Average Rate % |
|---|---|---|---|---|
| **Average balances and rates** | 1 | | | |
| **Interest earning assets** | | | | |
| Cash and Investments | | 2,137.3 | 63.7 | 5.91 |
| Loans and other receivables - company | | 8,882.4 | 343.4 | 7.67 |
| Loans and other receivables - alliances | | 3,837.7 | 135.3 | 6.99 |
| Total interest earning assets | 2 | 14,857.4 | 542.4 | 7.24 |
| | | | | |
| **Non interest earning assets** | | | | |
| Provisions for doubtful debts | | (18.6) | | |
| Other assets | | 681.1 | | |
| | | 662.5 | | |
| Total assets (average balance) | | 15,519.9 | | |
| | | | | |
| **Interest bearing liabilities and equity** | | | | |
| Deposits | | | | |
| Retail - company | | 6,919.7 | 148.4 | 4.25 |
| Retail - alliances | | 4,650.1 | 130.3 | 5.56 |
| Wholesale - domestic | | 1,162.2 | 33.3 | 5.68 |
| Wholesale - offshore | | 921.1 | 29.3 | 6.31 |
| Notes Payable | | 343.9 | 12.4 | 7.15 |
| Reset Preference Shares | | - | - | - |
| Subordinated debt | | 300.7 | 10.9 | 7.19 |
| Total interest bearing liabilities | 2 | 14,297.7 | 364.6 | 5.06 |
| | | | | |
| **Non interest bearing liabilities and equity** | | | | |
| Other liabilities | | 309.2 | | |
| Equity | | 913.0 | | |
| | | 1,222.2 | | |
| Total liabilities and equity | | 15,519.9 | | |
| | | | | |
| **Interest margin and interest spread** | | | | |
| Interest earning assets | | 14,857.4 | 542.4 | 7.24 |
| Interest bearing liabilities | | (14,297.7) | (364.6) | (5.06) |
| Net interest income and interest spread | | | 177.8 | 2.18 |
| Net interest margin | 3 | | | 2.37 |

**Impact of community bank/alliances profit share arrangements**

| | |
|---|---|
| Net interest margin before community bank/alliances share of net interest income | 2.92 |
| Less impact of community bank/alliances share of net interest income | 0.55 |
| Net interest margin | 2.37 |

1 *Average balance is based on monthly closing balances from 30 June 2006 through 31 December 2006 inclusive, with the exception of Wholesale domestic which is based on a daily closing balance.*
2 *Interest payments to alliance partners are net values in the Income Statement. Interest income and expense values have been increased by $27.7m to reflect gross amounts.*
3 *Interest margin is the net interest income as a percentage of average interest earning assets.*

### *3.6.13 Capital Adequacy and ACE ratio*

a) Capital adequacy

The Australian Prudential Regulation Authority (APRA) guidelines require capital to be allocated against credit and market risk. Banks must maintain a ratio of qualifying capital (comprising Tier 1 and Tier 2 capital), to risk weighted assets, and off-balance sheet exposures determined on a risk weighted basis, of which at least half must be Tier 1 capital. The Bank adopted the "standard model" approach prescribed by APRA to measure market risk. The resultant capital after applying a numeric conversion factor, forms part of risk-weighted assets.

| | Consolidated | |
|---|---|---|
| | Dec 2007 | Jun 2007 |
| | $m | $m |
| **Risk weighted capital ratios** | | |
| Tier 1 | 7.73% | 7.98% |
| Tier 2 | 3.30% | 2.26% |
| **Total capital ratio** | **11.03%** | **10.24%** |
| | | |
| **Qualifying Capital** | | |
| *Tier 1* | | |
| Contributed capital | 2,872.6 | 693.7 |
| Retained profits & reserves | 213.2 | 234.8 |
| Less, | | |
| Intangible assets | 1,502.4 | 104.9 |
| Deferred tax assets | 12.3 | 4.9 |
| Other capital deductions | 63.3 | 40.6 |
| Other adjustments as per APRA advice | (63.1) | - |
| Total Tier 1 capital | 1,570.9 | 778.1 |
| | | |
| *Tier 2* | | |
| General reserve for credit losses/collective provision (net of tax effect) | 102.6 | 53.2 |
| Subordinated debt | 728.0 | 307.1 |
| Asset revaluation reserves | 14.5 | 21.5 |
| Other adjustments approved by APRA | 3.0 | - |
| Total Tier 2 capital | 848.1 | 381.8 |
| Less, | | |
| Investments in non-consolidated subsidiaries or associates and other banks' capital instruments | 169.4 | 151.9 |
| Subsidiary investment residual | 9.0 | 9.0 |
| **Total qualifying capital** | **2,240.6** | **999.0** |
| | | |
| **Total risk weighted assets** | **20,311.5** | **9,754.0** |

## *Capital Adequacy and ACE ratio (continued)*

b) Adjusted Common Equity ("ACE")

Adjusted Common Equity is one measure considered by Standard & Poor's in evaluating the Bank's credit rating.

The ACE ratio has been calculated in accordance with the Standard & Poor's methodology.

| | Consolidated | |
|---|---|---|
| | **Dec 2007** | **Jun 2007** |
| | **$m** | **$m** |
| Adjusted Common Equity | | |
| Tier 1 capital | 1,570.9 | 778.1 |
| Deduct, | | |
| Preference share capital | 278.0 | 88.5 |
| Subsidiary investment residual | 9.0 | 9.0 |
| Investments in non-consolidated subsidiaries or associates and other banks' capital instruments | 169.4 | 151.9 |
| Total Adjusted Common Equity | 1,114.5 | 528.7 |
| | | |
| **Adjusted Common Equity ratio to risk weighted assets** | **5.49%** | **5.42%** |

## *3.6.14 Contingent assets and liabilities*

| | Consolidated | |
|---|---|---|
| | **2007** | **2006** |
| **(a) Contingent liabilities** | **$m** | **$m** |
| **Guarantees** | | |
| The economic entity has issued guarantees on behalf of clients in the normal course of business | 159.5 | 102.3 |
| **Other** | | |
| Documentary letters of credit | 16.6 | 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.

**Australian Taxation Office Audit**

Since December 2006 the Australian Taxation Office has been conducting a tax audit in relation to three transactions undertaken by members of the Adelaide Bank Group. The three transactions were undertaken during 1999 and 2000 and involved primary tax of up to $16 million. These transactions were undertaken in accordance with external advice received at the time by the Adelaide Bank Group. We are unable to make an assessment of the amount of the additional liability (if any) that may result from the tax audit. Any financial implications will be treated as an allocation of goodwill on acquisition.

**(b) Contingent assets**

As at 31 December 2007, the economic entity does not have any contingent assets (2006: Nil).

## *3.6.15 Events after balance sheet date*

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

On 18 February 2008 the directors of Bendigo Bank Limited declared an interim dividend of 28.0 cents per ordinary share (fully-franked) in respect of the December 2007 half-year payable on 31 March 2008. The amount estimated to be appropriated in relation to this dividend is $71.8 million. The dividend has not been provided for in the 31 December 2007 half-year financial statements.

On 29 January 2008, at an Extraordinary General Meeting, shareholders approved a resolution to change the name of Bendigo Bank Limited to Bendigo and Adelaide Bank Limited with effect on and from 31 March 2008.

## *3.7 Acquisition*

### Adelaide Bank Limited

On 30 November 2007, Bendigo Bank Limited acquired all the ordinary shares in Adelaide Bank Limited ("Adelaide") for $1,993,686,408, satisfied by $16,529,839 in cash (transaction costs) and the issue of 117,687,891 ordinary shares in Bendigo Bank Limited at a fair value of $16.80 per share, based on the volume weighted average price on the day of acquisition. The cost of the acquisition includes directly attributable costs including consultancy, legal, accounting and other professional fees.

The principal activities of Adelaide are the provision of wholesale mortgages, business lending, wealth management and retail banking services.

The acquisition had the following effect on the Group's assets and liabilities:

| | Pre-acquisition carrying amount | Recognised values on acquisition |
|---|---|---|
| **Assets** | $m | $m |
| Cash and cash equivalents | 483.7 | 483.7 |
| Due from other financial institutions | 120.3 | 120.3 |
| Derivatives | 210.7 | 210.7 |
| Financial assets held for trading | 1,934.5 | 1,934.5 |
| Financial assets available for sale - securities | 64.8 | 64.8 |
| Financial assets available for sale - share investments | 3.0 | 3.0 |
| Financial assets held to maturity | 0.3 | 0.3 |
| Current tax assets | 13.2 | 13.2 |
| Loans and other receivables | 27,402.8 | 27,402.8 |
| Property, plant & equipment | 28.7 | 28.7 |
| Intangible assets | | - |
| Intangible software | 3.9 | 3.9 |
| Goodwill | 33.9 | 33.9 |
| Deferred tax assets | 42.0 | 42.0 |
| Other assets | 160.7 | 160.7 |
| **Total Assets** | 30,502.5 | 30,502.5 |
| | | |
| **Liabilities** | | |
| Due to other financial institutions | 112.5 | 112.5 |
| Deposits | 15,442.2 | 15,442.2 |
| Notes payable | 13,097.8 | 13,097.8 |
| Derivatives | 30.9 | 30.9 |
| Other payables | 381.7 | 381.7 |
| Income tax payable | - | - |
| Provisions | 17.0 | 17.0 |
| Deferred tax liabilities | 68.4 | 68.4 |
| Reset preference shares | 89.5 | 89.5 |
| Subordinated debt - at amortised cost | 380.5 | 380.5 |
| **Total Liabilities** | 29,620.5 | 29,620.5 |
| | | |
| **Net identifiable assets and liabilities attributable to Bendigo Bank Limited** | 882.0 | 882.0 |
| | | |
| Consideration paid in cash (transaction costs) | | (16.5) |
| Cash acquired | | 491.5 |
| **Net cash inflow** | | 475.0 |

**Goodwill**

Goodwill arose in the business combination as the consideration paid for the combination effectively included amounts in relation to the skills and talent of the acquired business workforce, the benefit of expected head office and operational synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be measured reliably or they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged either individually or together with any related contracts.

Due to the complexity and timing of this acquisition, the fair values currently established are provisional and are subject to further review during the 12 month period following acquisition. This will alter assets and liabilities as currently disclosed for 31 December 2007.

During the period 30 November 2007 to 31 December 2007, Adelaide contributed net profit of $10.1 million to the consolidated net profit for the half year (excluding significant expense items of $3.1 million).

If the acquisition had occurred on 1 July 2007, group revenue would have been $459.9 million for the half year and net profit would have been $108.1 million. This pro-forma financial information uses Adelaide data for the six month period ended 31 December 2007 and represents the historical operating results of Adelaide, reported in accordance with their pre-acquisition accounting policies. It excludes transaction and integration costs of $19.0 million.

### *3.8 Directors' declaration*

In accordance with a resolution of the directors of Bendigo 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 financial position as at 31 December 2007 and the performance for the half year ended on that date of the consolidated entity; and

   ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

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

Robert N. Johanson
Chairman
Bendigo
Dated this 18th day of February 2008

### *3.9* External auditors review report

ERNST & YOUNG

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Melbourne VIC 3000
Australia

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Melbourne VIC 3001

Tel 61 3 9288 8000
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To the members of Bendigo Bank Limited

**Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Bendigo Bank Limited, which comprises the balance sheet as at 31 December 2007, and the condensed income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year or from time to time during the half-year.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*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 an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* and other mandatory reporting requirements in Australia. As the auditor of Bendigo Bank Limited and the entities it controlled during the half-year, 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.

ERNST & YOUNG

*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.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Bendigo Bank Limited is not 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 2007 and of its performance for the six months ended on that date; and

(ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst + Young

Ernst & Young

Brett Kallio

Brett Kallio
Partner
Melbourne
18 February 2008