Bendigo and Adelaide Bank Limited

ABN 11 068 049 178

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

For the period ending

31 December 2011

Released 20 February 2012

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

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APPENDIX 4D: HALF YEAR REPORT

1.1 Company details and reporting period

Bendigo and Adelaide Bank Limited
ABN 11 068 049 178

Reporting period - six months ended:	31 December 2011
Previous corresponding period - six months ended:	31 December 2010

1.2 Results for announcement to the market

Income from operations	down 3.0% to $602.0m
Profit after tax attributable to members	down 66.7% to $57.9m
Net profit attributable to members	down 66.7% to $57.9m

Dividends – current year	**Amount per security**
Interim Dividend – 2012, fully franked	30.0 cents

Record date for determining entitlements for the interim dividend – 29 February 2012

Payable 30 March 2012

Dividends – previous year	**Amount per security**
Final Dividend – 2011, fully franked Paid 30 September 2011	30.0 cents
Interim Dividend – 2011, fully franked Paid 31 March 2011	30.0 cents

1.3 Cash earnings results

Cash earnings attributable to members	up 0.3% to $162.6m
Cash earnings per share	down 1.8% to 43.9 cents
See note 2.4 for full details	

1.4 Net tangible assets per ordinary share

Refer to page 33 of the attached December 2011 half year profit announcement.

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

Nil.

1.6 Details of individual and total dividends

Refer to page 29 of the attached December 2011 half year profit announcement.

1.7 Details of any dividend or distribution reinvestment plans in operation

Refer to page 30 of the attached December 2011 half year profit announcement.

1.8 Details of associates and joint venture entities

Refer to page 32 of the attached December 2011 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 35 to 66 of the attached December 2011 half year profit announcement.

2. HALF YEAR ANNOUNCEMENT

2.1 Financial highlights

	Jun-10 Half $m	Dec-10 Half $m	Jun-11 Half $m	Dec-11 Half $m	Dec-10 Half to Dec-11 Half $m	%
Profit after tax attributable to parent	138.5	173.9	168.2	57.9	(116.0)	(66.7)
Profit after tax and before specific items	143.2	156.3	168.9	157.4	1.1	0.7
Cash earnings	151.3	162.1	174.1	162.6	0.5	0.3
Net interest income	446.6	461.3	473.9	475.1	13.8	3.0
Non-interest income (before specific items)	141.4	158.5	139.7	132.5	(26.0)	(16.4)
Expenses (before specific items)	356.3	371.9	363.6	367.5	(4.4)	(1.2)
Retail deposits	33,698.2	35,481.3	36,690.9	38,567.3	3,086.0	8.7
Ordinary equity	3,697.3	3,787.7	3,866.8	4,001.1	213.4	5.6
Funds under management	3,336.3	3,225.4	3,224.1	3,086.8	(138.6)	(4.3)
Loans under management	45,191.0	46,321.8	47,773.1	48,057.6	1,735.8	3.7
New loan approvals	6,541.5	7,048.1	6,837.4	6,476.9	(571.2)	(8.1)
Residential	4,502.6	4,887.6	4,759.7	4,654.0	(233.6)	(4.8)
Non-residential	2,038.9	2,160.5	2,077.7	1,822.9	(337.6)	(15.6)

	Jun-10 Half	Dec-10 Half	Jun-11 Half	Dec-11 Half	Dec-10 Half to Dec-11 Half %
Cost to income ratio	57.7%	57.7%	57.0%	58.2%	0.9
Earnings per ordinary share - cents	37.4	46.7	44.8	14.5	(69.0)
Cash basis earnings per ordinary share – cents	42.1	44.7	47.6	43.9	(1.8)
Dividend per share – cents	30.0	30.0	30.0	30.0	0.0

2.2 Results at a glance

2.2.1 Financial performance

Bendigo and Adelaide Bank Ltd announced a statutory profit after tax of $57.9 million for the 6 months ending 31 December 2011, a 66.7% decrease on the previous corresponding period. The cash earnings result is $162.6 million for the 6 months ending 31 December 2011, a 0.3% increase on the previous corresponding period.

	Further detail
- Statutory earnings per ordinary share of 14.5 cents (Dec-10 46.7 cents), a decrease of 69.0%.	2.4.11.3
- Statutory return on average ordinary equity is 2.81% (Dec-10 9.04%).	2.4.11.3
- Profit before income tax and specific items was $224.3 million (Dec-10 $229.8 million), a decrease of 2.4% (see note 2.4.2 for specific item details).	
- Profit after income tax before specific items was $157.4 million (Dec-10 $156.3 million), an increase of 0.7% (see note 2.4.2 for specific item details).	2.4.1
- Cash basis earnings per ordinary share of 43.9 cents (Dec-10 44.7 cents), a decrease of 1.8%.	
- Cash basis earnings return on average ordinary equity was 8.52% (Dec-10 8.64%).	2.4.11.3
- Cash basis earnings return on average tangible equity was 14.81% (Dec-10 16.51%).	2.4.11.3
- Net interest income increased by 3.0% to $475.1 million with an interest margin before payments to community banks and alliances decreasing from 2.19% to 2.13%. Net of these payments, interest margin decreased 7 basis points from 1.86% in June 2011 to 1.79% in the half year to December 2011. Refer to 2.4.3 for further analysis.	2.4.4
- Non-interest income before specific items was $132.5 million (Dec-10 $158.5 million), a decrease of 16.4%.	2.4.4
- Expenses before specific items decreased by 1.2% to $367.5 million compared to December 2010 half and increased by 1.1% compared to the June 2011 half. The cost to income ratio was 58.2% compared to 57.7% for the December 2010 half and 57.0% for the June 2011 half.	2.4.5
- Bad & Doubtful debts expense was $15.8 million (Dec-10 $18.1 million), a decrease of 12.7%.	2.4.8

2.2.2 Financial position

	Further detail
- Loans under management were $48.1 billion (Dec-10 $46.3 billion, Jun-11 $47.8 billion), an increase of 3.7% and 0.6% respectively.	2.4.6
- Retail deposits were $38.6 billion (Dec-10 $35.5 billion, Jun-11 $36.7 billion), an increase of 8.7% and 5.1% respectively.	2.4.9
- Managed funds were $3.1 billion (Dec-10 $3.2 billion, Jun-11 $3.2 billion), a decrease of 4.3%, and 4.3% respectively.	2.4.9
- Total provisions and reserves for doubtful debts were $248.7 million – an increase of $4.5 million since June 2011. General and collective provisions were 0.53% of Group Risk Weighted Assets.	2.4.8

2.2.3 Dividends

	Further detail
- An interim ordinary dividend of 30.0 cents per ordinary share, fully franked (31 December 2010 – 30.0 cents) has been declared by the Board.	2.4.11.5

2.3 Summary income statement

For the half year ended 31 December 2011

	Consolidated	
	Dec-11	**Dec-10**
	$m	**$m**
Income		
Net interest income		
Interest income	1,758.1	1,671.0
Interest expense	1,283.0	1,209.7
Net interest income	**475.1**	**461.3**
Total non interest income (2.4.4)	132.5	156.9
Share of associates' net profits accounted for using the equity method (2.5.2)	-	1.6
Total income	**607.6**	**619.8**
Expense		
Bad and doubtful debts (2.4.8)	15.8	18.1
Operating expenses (2.4.5)	367.5	371.9
Profit before income tax expense and specific items	**224.3**	**229.8**
Specific items before tax	(101.4)	(17.5)
Profit before income tax expense	**122.9**	**212.3**
Income tax expense	(65.0)	(33.9)
Profit after income tax expense	**57.9**	**178.4**
Net (profit)/loss attributable to non controlling interest	-	(4.5)
Profit after income tax expense attributable to members of the parent	**57.9**	**173.9**
Adjusted for:		
Specific items after tax (2.4.2)	99.5	(17.6)
Dividends paid on preference shares	(2.0)	(2.0)
Dividends paid on step-up preference shares	(2.3)	(2.3)
After tax intangibles amortisation (excluding amortisation of intangible software)	9.5	10.1
Cash basis earnings	**162.6**	**162.1**
Cash basis earnings per ordinary share (cents per share)	43.9	44.7
Basic earnings per ordinary share (cents per share)	14.5	46.7
Diluted earnings per ordinary share (cents per share)	14.4	44.0
Franked dividends per ordinary share (cents per share)	30.0	30.0

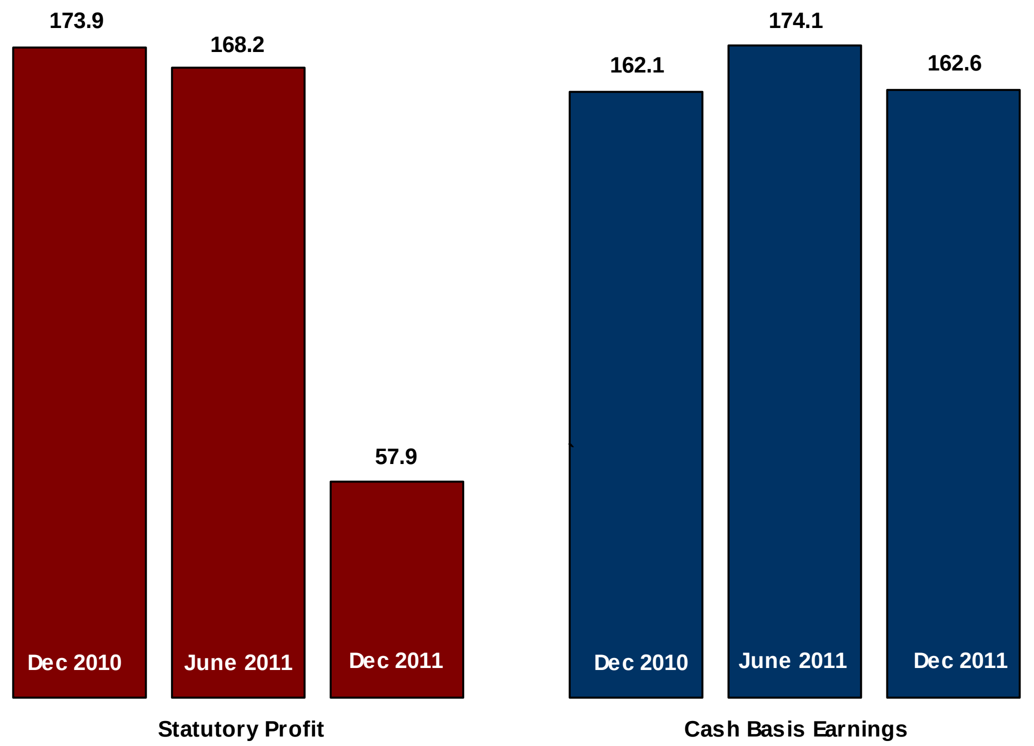
Refer note 3.7.6

2.4 Results commentary

2.4.1 Profit

	Dec-11	Jun-11	Change		Dec-10	Change	
	$m	$m	$m	%	$m	$m	%
Profit							
Profit before tax	122.9	212.2	(89.3)	(42.1)	212.3	(89.4)	(42.1)
Specific items before tax	101.4	11.7	89.7	766.7	17.5	83.9	479.4
Profit before tax and specific items	224.3	223.9	0.4	0.2	229.8	(5.5)	(2.4)
Profit after tax attributable to the parent	57.9	168.2	(110.3)	(65.6)	173.9	(116.0)	(66.7)
Specific items after tax	99.5	0.7	98.8	14,114.3	(17.6)	117.1	665.3
Profit after tax before specific items	157.4	168.9	(11.5)	(6.8)	156.3	1.1	0.7
Adjusted for:							
Amortisation of acquired intangibles after tax	9.5	9.6	(0.1)	(1.0)	10.1	(0.6)	(5.9)
Distributions paid on preference shares	(2.0)	(2.1)	0.1	4.8	(2.0)	-	-
Distributions paid on step-up preference shares	(2.3)	(2.3)	-	-	(2.3)	-	-
Cash basis profit after tax	162.6	174.1	(11.5)	(6.6)	162.1	0.5	0.3

Profit after tax
$m



2.4.2 Specific items

The reported profit after tax for the half year ended 31 December 2011 of $57.9 million included the following specific items:

	December 2011		December 2010	
	Before Tax $m	After Tax $m	Before Tax $m	After Tax $m
Items included in non interest income				
Ineffectiveness in cash flow hedges [1]	(5.6)	(3.9)	1.0	0.7
	(5.6)	(3.9)	1.0	0.7
Items included in operating expenses				
Integration costs associated with the Adelaide Bank merger and the Macquarie margin lending business	-	-	6.2	4.3
Accounting loss on disposal of securitisation notes	-	-	14.7	10.3
Employee shares shortfall/(gain) [2]	0.7	0.5	(2.4)	(1.7)
Write down on impaired Intangible assets	95.1	95.1	-	-
	95.8	95.6	18.5	12.9
Items included in income tax expense				
Acquisition income tax benefit - Adelaide Bank	-	-	-	33.3
Acquisition income tax expense - Rural Bank	-	-	-	(2.9)
	-	-	-	30.4
Specific items	(101.4)	(99.5)	(17.5)	18.2
Specific items attributable to non-controlling interests	-	-	(0.8)	(0.6)
Total specific items attributable to the group	(101.4)	(99.5)	(18.3)	17.6

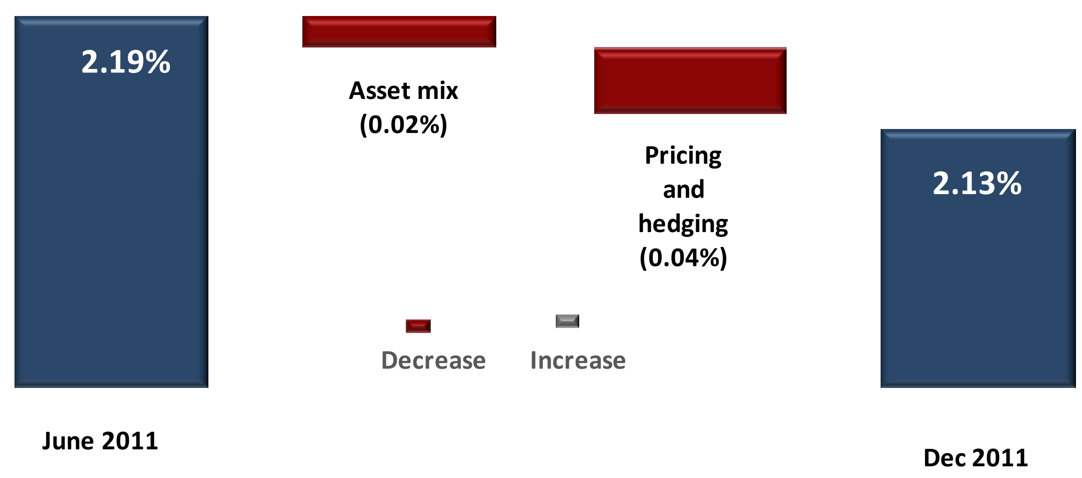
[1] Ineffectiveness resulting from the accounting for cash flow hedges acquired in the merger with Adelaide Bank Ltd and the consolidation of Rural Bank Ltd.

[2] Employee shares gain relates to a discontinued employee share plan, whereby the market value of shares are above the outstanding value of the attached staff loans.

2.4.3 Interest margin

This chart below provides a guide to movements in margin over the six month period.

Analysis of interest margin (movement over six months)
%



Asset Mix – Further decline in Margin Lending portfolio has continued to reweight the asset mix toward lower margin residential mortgages.

Pricing and hedging – An increase in the cost of retail term deposits, which has not been matched with the repricing of asset portfolios has contributed to the most significant reduction in NIM from prior half. Significant volatility through the half resulted in additional hedging required to manage within acceptable levels of risk.

2.4.4 Income

		Dec-11	Jun-11	Change		Dec-10	Change	
		$m	$m	$m	%	$m	$m	%
Income								
Net interest income		475.1	473.9	1.2	0.3	461.3	13.8	3.0
Other income comprising:								
Fees	- asset products	30.8	31.6	(0.8)	(2.5)	29.8	1.0	3.4
	- liability products & other	53.7	50.3	3.4	6.8	53.9	(0.2)	(0.4)
	- trustee, management & other services	3.1	3.3	(0.2)	(6.1)	3.5	(0.4)	(11.4)
Commissions	- wealth solutions	14.1	14.9	(0.8)	(5.4)	12.6	1.5	11.9
	- insurance	6.6	6.5	0.1	1.5	5.9	0.7	11.9
	- other	(0.6)	(0.5)	(0.1)	20.0	(0.6)	-	-
Dividend income		4.1	3.9	0.2	5.1	3.3	0.8	24.2
Homesafe revaluation		(2.5)	3.4	(5.9)	(173.5)	18.5	(21.0)	(113.5)
Other Operating Income		23.2	24.5	(1.3)	(5.3)	30.0	(6.8)	(22.7)
Total other income before specific items		132.5	137.9	(5.4)	(3.9)	156.9	(24.4)	(15.6)
Share of joint ventures profit		-	1.8	(1.8)	(100.0)	1.6	(1.6)	(100.0)
Total non interest income before specific items		132.5	139.7	(7.2)	(5.2)	158.5	(26.0)	(16.4)
Total income before specific items		607.6	613.6	(6.0)	(1.0)	619.8	(12.2)	(2.0)
Specific income items - non interest income		(5.6)	1.6	(7.2)	(450.0)	1.0	(6.6)	(660.0)
Total income		602.0	615.2	(13.2)	(2.1)	620.8	(18.8)	(3.0)

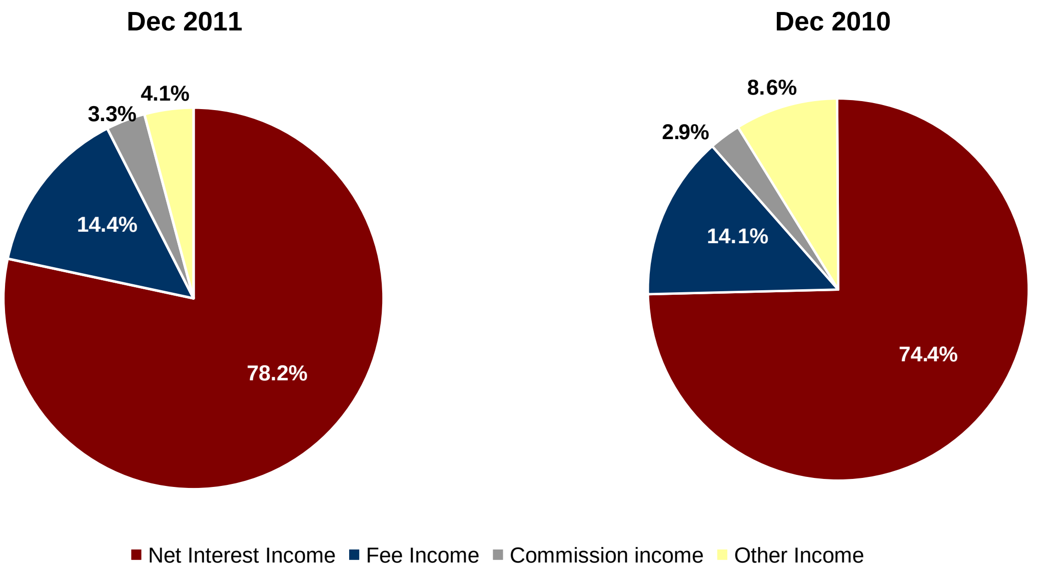
Comments on total income when compared to the previous corresponding period:

Net interest income increased by $13.8 million or 3.0%. Refer to 2.4.3 for further analysis.

Fees decreased by $10.2 million or 10.4% largely due to a reduction in transaction fees, interchange fees and credit card income.

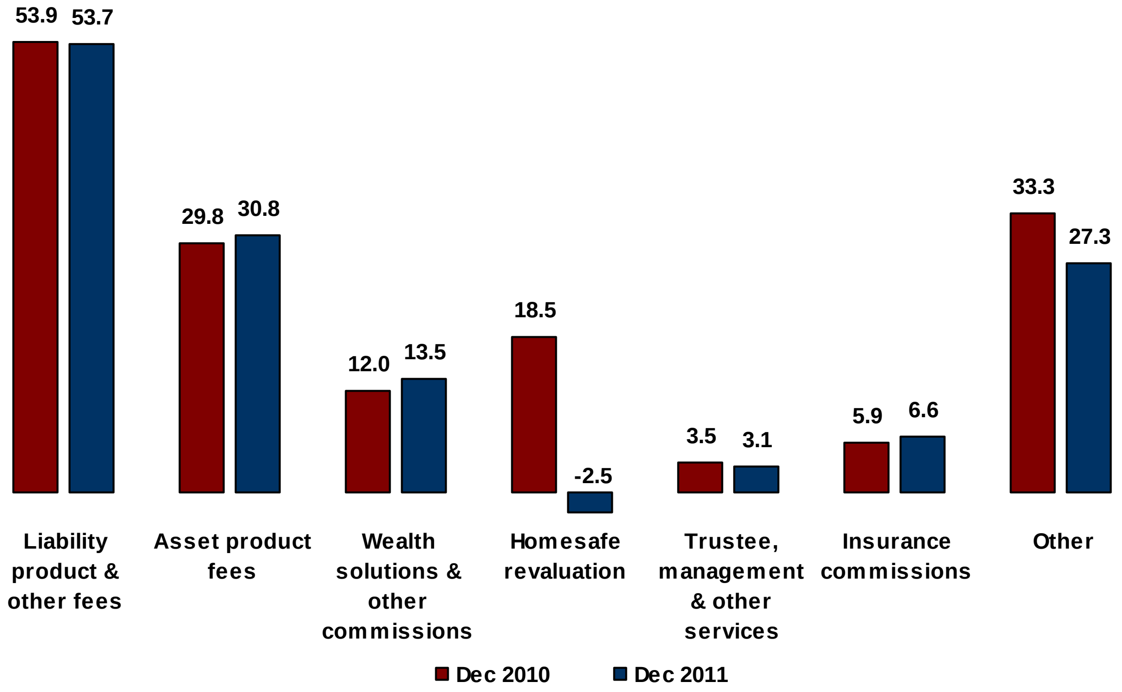
Homesafe revaluations was $21.0 million or 113.5% lower than the prior corresponding period. December 2010 half year benefited from a significant uplift in the value of the properties in the Homesafe Trust.

Income
%



Excludes specific income

Non-interest income
$m



2.4.5 Productivity and operating expenses

	Dec-11	Jun-11	Change		Dec-10	Change	
	$m	$m	$m	%	$m	$m	%
Expenses							
Staff and related costs	188.6	187.9	0.7	0.4	187.1	1.5	0.8
Occupancy costs	32.1	31.3	0.8	2.6	31.0	1.1	3.5
Information technology costs	27.5	27.6	(0.1)	(0.4)	29.9	(2.4)	(8.0)
Amortisation of acquired intangibles	13.6	13.6	-	-	14.5	(0.9)	(6.2)
Amortisation of software intangibles	7.8	8.4	(0.6)	(7.1)	6.2	1.6	25.8
Property, plant and equipment costs	5.6	5.3	0.3	5.7	6.2	(0.6)	(9.7)
Fees and commissions	20.8	20.4	0.4	2.0	18.6	2.2	11.8
Communications, postage & stationery	17.1	16.2	0.9	5.6	16.7	0.4	2.4
Advertising & promotion	9.4	8.2	1.2	14.6	8.4	1.0	11.9
Other product & services delivery costs	17.9	18.0	(0.1)	(0.6)	18.6	(0.7)	(3.8)
Other administration expenses	27.1	26.7	0.4	1.5	34.7	(7.6)	(21.9)
Total operating expenses	367.5	363.6	3.9	1.1	371.9	(4.4)	(1.2)
Specific items	95.8	13.3	82.5	620.3	18.5	77.3	417.8
Total expenses	463.3	376.9	86.4	22.9	390.4	72.9	18.7
Expenses to income	58.2%	57.0%	1.2%	2.1	57.7%	0.5%	0.9
Expenses to average assets	1.3%	1.3%	-	-	1.4%	(0.1%)	(7.1)
Number of staff (full-time equivalent)	4,091	4,019	72	1.8	3,926	165	4.2
Staff & related costs to income	31.0%	30.6%	0.4%	1.3	30.2%	0.8%	2.6

Expenses used in the above ratios are expenses less specific expense items and acquired intangibles amortisation.
Income used in the above ratios is income less specific income items.

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

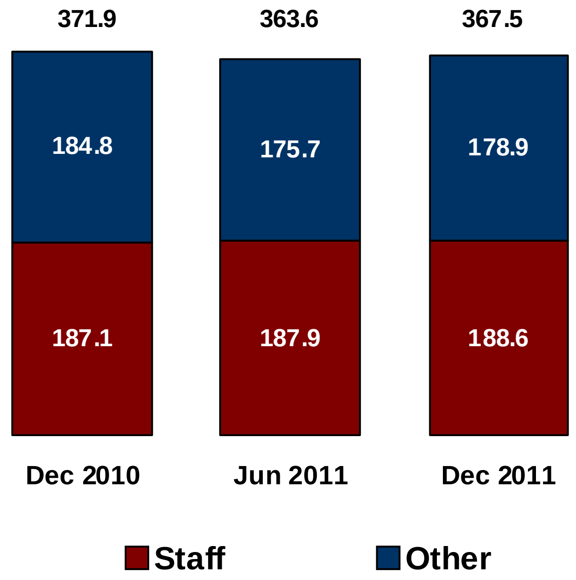
Occupancy costs increased by $1.1 million or 3.5% due to an overall increase in rent payments and maintenance costs since the same period last year.

Information technology costs decreased by $2.4 million or 8.0% predominantly due to a reduction in computer hardware lease costs.

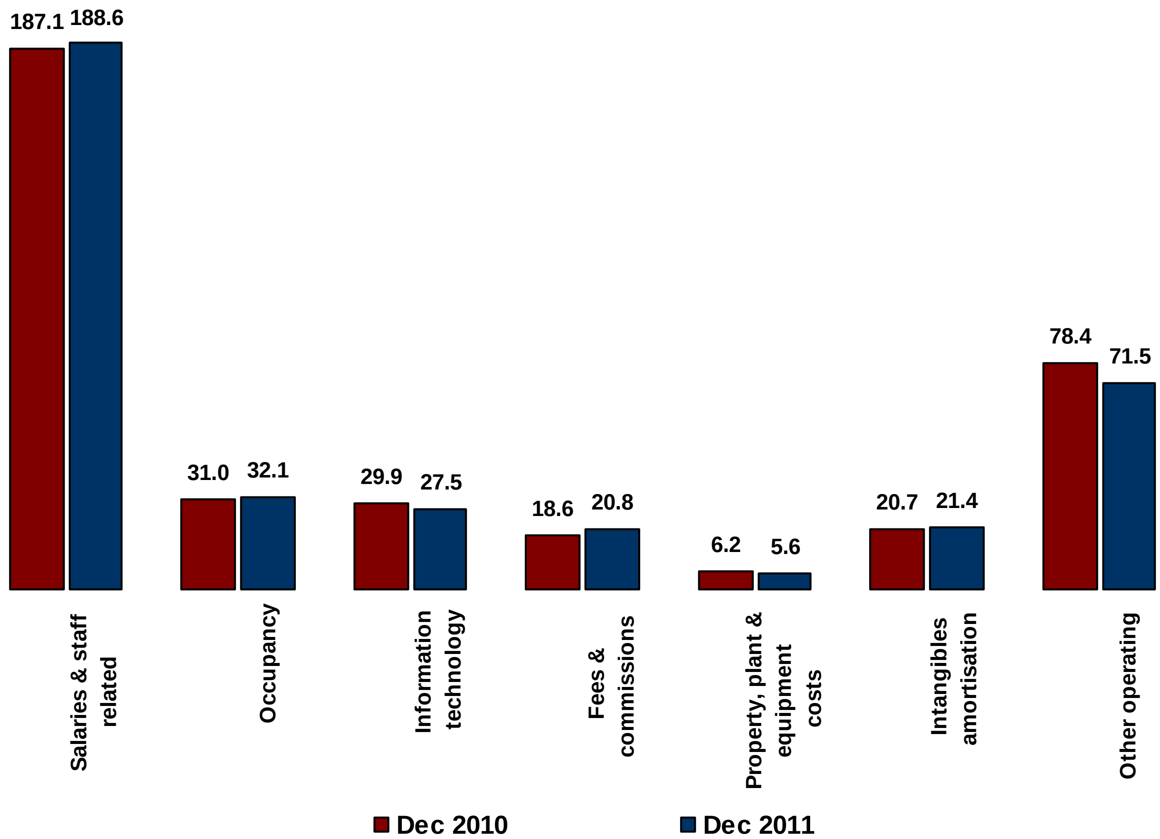
Fees and commissions increased by $2.2 million or 11.8% predominantly due to increases in various fees and commissions including network fees and trailer commissions paid.

Other administrative expenses decreased by $7.6 million or 21.9% due to a reduction in legal costs, subscriptions and non-lending write off's.

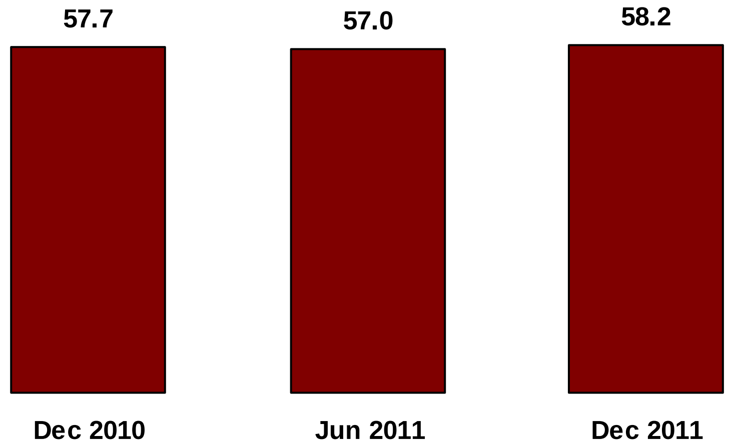
Operating expenses
$m



Operating expenses
$m



Cost to income ratio - expenses/income
%



Expenses used in the above ratios exclude specific items and acquired intangibles amortisation.
Income used in the above ratios is income less specific income items.

2.4.6 Lending

	Dec-11	Jun-11	Change		Dec-10	Change	
	$m	$m	$m	%	$m	$m	%
Approvals - by security							
Residential	4,654.0	4,759.7	(105.7)	(2.2)	4,887.6	(233.6)	(4.8)
Non-residential	1,822.9	2,077.7	(254.8)	(12.3)	2,160.5	(337.6)	(15.6)
Total approvals	6,476.9	6,837.4	(360.5)	(5.3)	7,048.1	(571.2)	(8.1)

	As at Dec-11	As at Jun-11	Change		As at Dec-10	Change	
	$m	$m	$m	%	$m	$m	%
Gross loan balance - by security							
Residential	32,481.5	31,522.3	959.2	3.0	29,947.1	2,534.4	8.5
Business							
Accommodation and food services	274.3	277.4	(3.1)	(1.1)	269.3	5.0	1.9
Administrative and support services	48.9	54.7	(5.8)	(10.6)	63.4	(14.5)	(22.9)
Agriculture, forestry and fishing	4,121.3	4,234.3	(113.0)	(2.7)	4,263.7	(142.4)	(3.3)
Arts and recreation services	69.4	67.8	1.6	2.4	69.1	0.3	0.4
Construction	657.0	628.4	28.6	4.6	576.2	80.8	14.0
Education and training	47.0	46.4	0.6	1.3	40.4	6.6	16.3
Electricity, gas, water and waste services	22.9	25.4	(2.5)	(9.8)	19.6	3.3	16.8
Financial and insurance services	641.5	612.0	29.5	4.8	628.0	13.5	2.1
Health care and social assistance	358.1	378.0	(19.9)	(5.3)	370.7	(12.6)	(3.4)
Information media and telecommunications	12.1	10.5	1.6	15.2	10.3	1.8	17.5
Manufacturing	194.7	188.5	6.2	3.3	186.6	8.1	4.3
Mining	18.7	20.8	(2.1)	(10.1)	21.1	(2.4)	(11.4)
Other Services	111.1	122.1	(11.0)	(9.0)	118.2	(7.1)	(6.0)
Professional, scientific and technical services	176.2	158.8	17.4	11.0	154.2	22.0	14.3
Public administration and safety	89.1	134.1	(45.0)	(33.6)	85.1	4.0	4.7
Rental, hiring and real estate services	2,695.1	2,428.3	266.8	11.0	2,264.7	430.4	19.0
Retail trade	485.7	478.3	7.4	1.5	453.9	31.8	7.0
Transport, postal and warehousing	116.4	127.2	(10.8)	(8.5)	136.3	(19.9)	(14.6)
Wholesale trade	140.3	137.4	2.9	2.1	124.6	15.7	12.6
Other	470.2	581.9	(111.7)	(19.2)	601.2	(131.0)	(21.8)
Total business	10,750.0	10,712.3	37.7	0.4	10,456.6	293.4	2.8
Margin lending	2,563.9	3,202.2	(638.3)	(19.9)	3,367.4	(803.5)	(23.9)
Unsecured	823.2	834.6	(11.4)	(1.4)	820.3	2.9	0.4
Other	214.0	220.5	(6.5)	(2.9)	200.3	13.7	6.8
Total gross loan balance	46,832.6	46,491.9	340.7	0.7	44,791.7	2,040.9	4.6
Gross loan balance - by purpose							
Residential	30,274.3	29,244.2	1,030.1	3.5	27,753.8	2,520.5	9.1
Consumer	4,659.4	4,520.9	138.5	3.1	4,208.2	451.2	10.7
Margin lending	2,563.9	3,202.2	(638.3)	(19.9)	3,367.4	(803.5)	(23.9)
Commercial	9,335.0	9,524.6	(189.6)	(2.0)	9,462.3	(127.3)	(1.3)
Total gross loan balance	46,832.6	46,491.9	340.7	0.7	44,791.7	2,040.9	4.6
Loans under management (gross balance)							
On-balance sheet	46,832.6	46,491.9	340.7	0.7	44,791.7	2,040.9	4.6
Off-balance sheet loans under management	1,225.0	1,281.2	(56.2)	(4.4)	1,530.1	(305.1)	(19.9)
Total Group loans under management	48,057.6	47,773.1	284.5	0.6	46,321.8	1,735.8	3.7

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

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

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

2.4.7 Asset quality

	As at Dec-11 $m	As at Jun-11 $m	Change $m	%	As at Dec-10 $m	Change $m	%
Impaired loans							
Full-performing [1]	3.2	3.5	(0.3)	(8.6)	4.9	(1.7)	(34.7)
Part-performing	117.5	122.3	(4.8)	(3.9)	66.9	50.6	75.6
Non-performing - property development	39.5	40.9	(1.4)	(3.4)	48.0	(8.5)	(17.7)
- other	152.4	159.7	(7.3)	(4.6)	173.3	(20.9)	(12.1)
Restructured loans	37.0	32.3	4.7	14.6	24.5	12.5	51.0
Total impaired assets	349.6	358.7	(9.1)	(2.5)	317.6	32.0	10.1
Less: Specific provisions	(96.9)	(91.4)	(5.5)	(6.0)	(81.5)	(15.4)	(18.9)
Net impaired assets	252.7	267.3	(14.6)	(5.5)	236.1	16.6	7.0
Past due 90 days							
Well Secured	482.5	500.5	(18.0)	(3.6)	414.4	68.1	16.4
Well Secured excluding commercial arrangement loans [2]	371.8	412.5	(40.7)	(9.9)	n/a		
Great Southern portfolio	238.8	224.5	14.3	6.4	203.6	35.2	17.3
Portfolio facilities (not well secured)	2.6	3.2	(0.6)	(18.8)	6.3	(3.7)	(58.7)
Ratios							
Gross impaired to gross loans	0.75%	0.77%	(0.02%)	(2.6)	0.71%	0.04%	5.6
Gross impaired (excl prop develop) to gross loans	0.66%	0.68%	(0.02%)	(2.9)	0.60%	0.06%	10.0
Gross impaired assets to total assets	0.63%	0.65%	(0.02%)	(3.1)	0.59%	0.04%	6.8
Gross impaired assets (excl prop develop) to total assets	0.55%	0.58%	(0.03%)	(5.2)	0.50%	0.05%	10.0
Net impaired to gross loans	0.54%	0.57%	(0.03%)	(5.3)	0.53%	0.01%	1.9
Net impaired (excl prop develop) to gross loans	0.46%	0.49%	(0.03%)	(6.1)	0.42%	0.04%	9.5
Provision coverage [3]	71.1%	68.1%	3.0%	4.4	73.4%	(2.30%)	(3.1)

[1] Includes loans where the value of the security has reduced below the value of the outstanding loans but repayments are being made in accordance with the loan contract.

[2] Commercial arrangement loans are excluded from well secured past due 90 days from 30 June 2011.

[3] Provision coverage is Provisions for doubtful debts - total divided by Total impaired assets.

2.4.8 Bad and doubtful debts

	Dec-11 $m	Jun-11 $m	Change $m	Change %	Dec-10 $m	Change $m	Change %
Expense:							
Bad debts written off	1.4	2.5	(1.1)	(44.0)	2.8	(1.4)	(50.0)
Provision for doubtful debts expense	17.5	25.7	(8.2)	(31.9)	17.5	-	-
Total bad and doubtful debts expense	18.9	28.2	(9.3)	(33.0)	20.3	(1.4)	(6.9)
Less: Bad debts recovered	3.1	2.1	1.0	47.6	2.2	0.9	40.9
Bad and doubtful debts net of recoveries	15.8	26.1	(10.3)	(39.5)	18.1	(2.3)	(12.7)

	As at Dec-11 $m	As at Jun-11 $m	Change $m	Change %	As at Dec-10 $m	Change $m	Change %
Balances:							
Prov'n for doubtful debts - specific	96.9	91.4	5.5	6.0	81.5	15.4	18.9
Prov'n for doubtful debts - collective	36.8	41.9	(5.1)	(12.2)	43.0	(6.2)	(14.4)
General reserve for credit losses	115.0	110.9	4.1	3.7	108.5	6.5	6.0
Provisions/reserve for doubtful debts - total	248.7	244.2	4.5	1.8	233.0	15.7	6.7
Loan write-offs (annualised) to average assets	0.07%	0.07%	-	-	0.08%	(0.01%)	(12.5)
Loan write-offs (annualised) to gross loans	0.08%	0.08%	-	-	0.10%	(0.02%)	(20.0)
Total provision/reserve for doubtful debts to gross loans	0.53%	0.53%	-	-	0.52%	0.01%	1.9
Collective provision (adjusted for tax) & GRCL to risk-weighted assets	0.53%	0.54%	(0.01%)	(1.9)	0.55%	(0.02%)	(3.6)

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

The movement in provisions comprise of:

	Specific $m	Collective $m	General reserve credit losses $m	Total $m
Balance at June	91.4	41.9	110.9	244.2
Provision for doubtful debts expense to profit and loss	22.6	(5.1)	-	17.5
Bad debts written off - previously provided for	(17.1)	-	-	(17.1)
Appropriation of movement in general reserve for credit losses	-	-	4.1	4.1
Balance at December	96.9	36.8	115.0	248.7

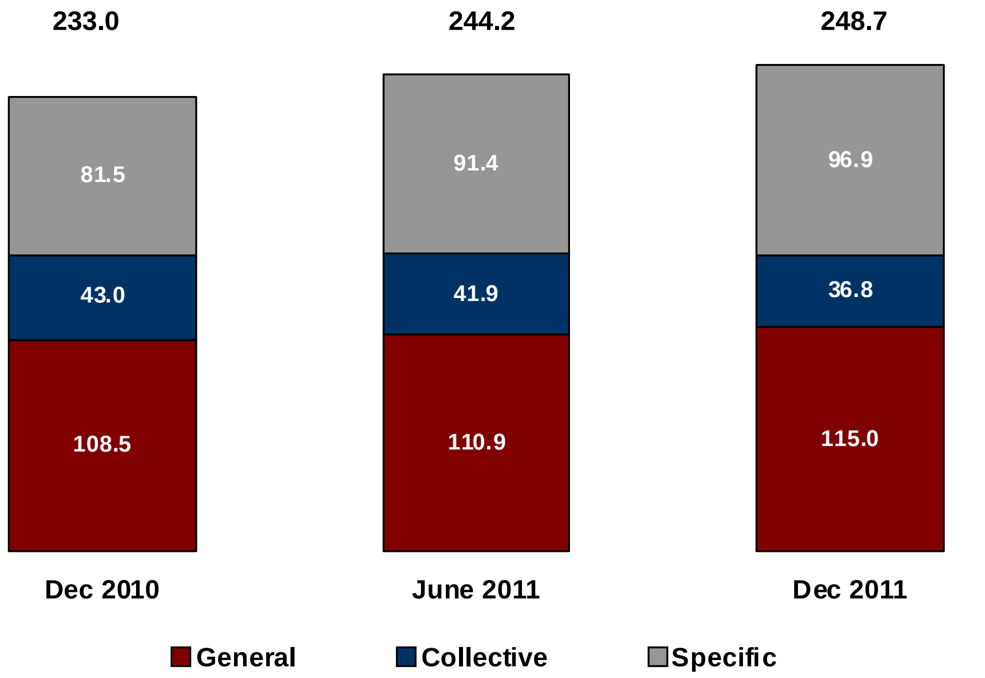
Total bad debts written off for the period, as shown above comprises:

Bad debts previously provided for	17.1
Other bad debts not previously provided for	1.4
	18.5

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

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

Total provisions and reserves for doubtful debts
$m



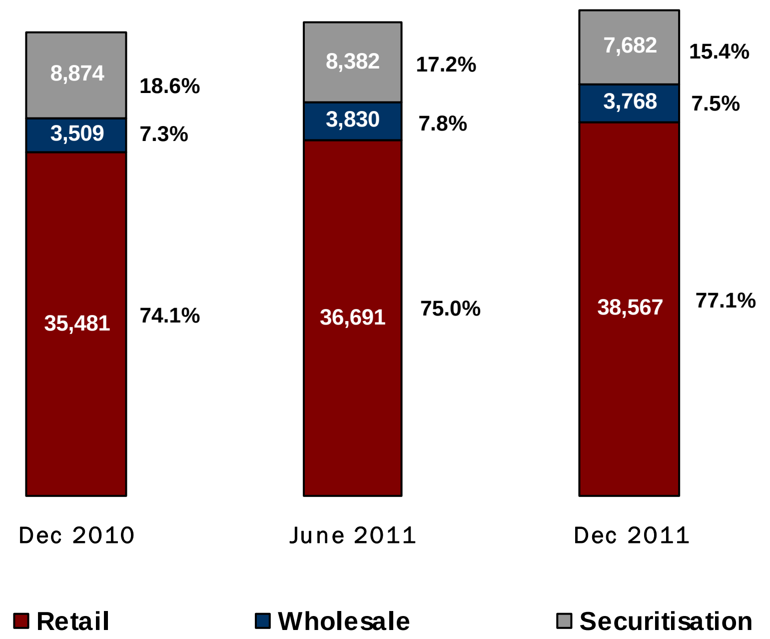
2.4.9 Deposits and funds under management

	As at Dec-11 $m	As at Jun-11 $m	Change $m	%	As at Dec-10 $m	Change $m	%
Deposits and funds under management							
Deposits	42,335.5	40,521.3	1,814.2	4.5	38,990.1	3,345.4	8.6
Securitisation	7,681.5	8,381.8	(700.3)	(8.4)	8,874.2	(1,192.7)	(13.4)
Managed funds	3,086.8	3,224.1	(137.3)	(4.3)	3,225.4	(138.6)	(4.3)
Total deposits and funds under management	53,103.8	52,127.2	976.6	1.9	51,089.7	2,014.1	3.9
Retail deposits and funds under management							
Retail deposits	38,567.3	36,690.9	1,876.4	5.1	35,481.3	3,086.0	8.7
Managed funds	3,086.8	3,224.1	(137.3)	(4.3)	3,225.4	(138.6)	(4.3)
Total retail deposits and funds under management	41,654.1	39,915.0	1,739.1	4.4	38,706.7	2,947.4	7.6
Deposits dissection: - $m							
Retail	38,567.3	36,690.9	1,876.4	5.1	35,481.3	3,086.0	8.7
Securitisation	7,681.5	8,381.8	(700.3)	(8.4)	8,874.2	(1,192.7)	(13.4)
Wholesale - domestic	3,719.2	3,669.2	50.0	1.4	3,281.6	437.6	13.3
Wholesale - offshore	49.0	161.2	(112.2)	(69.6)	227.2	(178.2)	(78.4)
Total deposits	50,017.0	48,903.1	1,113.9	2.3	47,864.3	2,152.7	4.5
Deposits dissection (excl securitisation) - %							
Retail	91.1%	90.5%	0.6%	0.7	91.0%	0.1%	0.1
Wholesale - domestic	8.8%	9.1%	(0.3%)	(3.3)	8.4%	0.4%	4.8
Wholesale - offshore	0.1%	0.4%	(0.3%)	(75.0)	0.6%	(0.5%)	(83.3)
Total deposits	100.0%	100.0%	-	-	100.0%	-	-
Managed funds dissection							
Assets under management	1,828.0	1,859.0	(31.0)	(1.7)	1,834.5	(6.5)	(0.4)
Other managed funds	1,258.8	1,365.1	(106.3)	(7.8)	1,390.9	(132.1)	(9.5)
Total managed funds	3,086.8	3,224.1	(137.3)	(4.3)	3,225.4	(138.6)	(4.3)

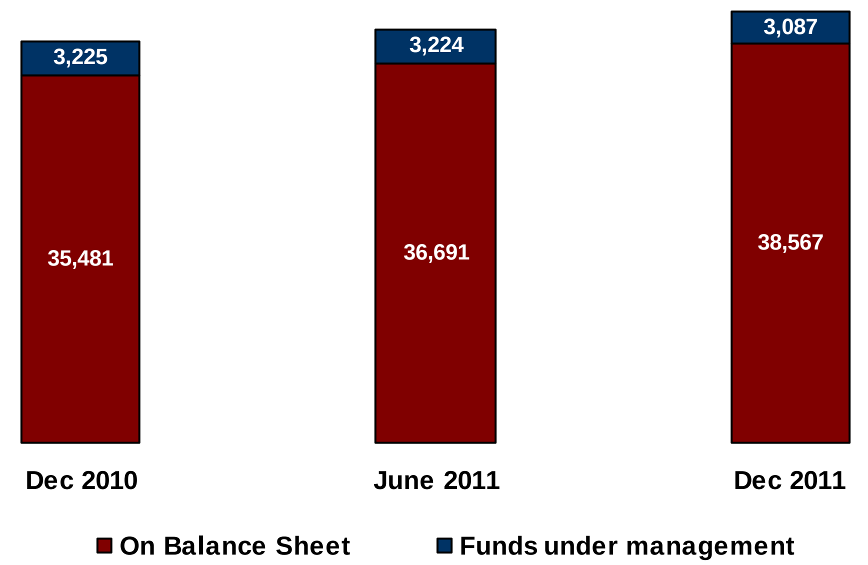
Assets under management include those funds deposited in the Sandhurst Trustees Limited Common Funds, which are invested in cash, cash enhanced and mortgage investments on behalf of the investors. These funds are off-balance sheet.

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

Funding mix
$m



Retail deposits and funds under management
$m



Retail deposits increased by $1.9 billion or 5.1% to $38.6 billion over the 6 months.

Wholesale deposits decreased by $62.2 million or 1.6% to $3.8 billion over the 6 months.

Securitisation decreased by $0.7 billion or 8.4% to $7.7 billion over the 6 months.

The Group's retail deposit base remains strong at 91.1% of on balance sheet funding (excluding securitisation).

2.4.10 Average balance sheet and related interest

for the six month period ended 31 December 2011

	Note	Average Balance $m	Interest 6 mths $m	Average Rate %
Average balances and rates	*1*			
Interest earning assets				
Cash and Investments		6,127.7	143.6	4.66
Loans and other receivables - company		38,520.8	1,401.1	7.23
Loans and other receivables - alliances		8,094.2	255.9	6.29
Total interest earning assets	*2*	52,742.7	1,800.6	6.79
Non interest earning assets				
Provisions for doubtful debts		(135.0)		
Other assets		2,859.4		
		2,724.4		
Total assets (average balance)		55,467.1		
Interest bearing liabilities and equity				
Deposits				
Retail - company		26,381.2	661.1	4.98
Retail - alliances		11,313.6	302.4	5.32
Wholesale - domestic		3,552.2	97.1	5.44
Wholesale - offshore		91.0	2.4	5.25
Notes Payable		8,174.7	237.5	5.78
Reset Preference Shares		89.5	2.8	6.22
Subordinated debt		566.6	22.2	7.79
Total interest bearing liabilities	*2*	50,168.8	1,325.5	5.26
Non interest bearing liabilities and equity				
Other liabilities		1,309.4		
Equity		3,988.9		
		5,298.3		
Total liabilities and equity (average balance)		55,467.1		
Interest margin and interest spread				
Interest earning assets		52,742.7	1,800.6	6.79
Interest bearing liabilities		(50,168.8)	(1,325.5)	(5.26)
Net interest income and interest spread	*3*		475.1	1.53
Net free liabilities and equity				0.26
Net interest margin	*4*			1.79

Impact of community bank/alliances revenue share arrangements

Net interest margin before community bank/alliances share of net interest income	2.13
Less impact of community bank/alliances share of net interest income	0.34
Net interest margin	1.79

1 Average balance is based on monthly closing balances from 30 June 2011 through 31 December 2011 inclusive.
2 Interest payments to alliance partners are net values in the Income Statement. Interest income and expense values have been increased by $42.5m to reflect gross amounts.
3 Interest spread is the difference between the average interest rate earned on interest earning assets and the average interest rate paid on interest bearing liabilities.
4 Net interest margin is the net interest income as a percentage of the average interest earning assets balance.

Average balance sheet and related interest (continued)
for the six month period ended 30 June 2011

	Note	Average Balance $m	Interest 6 mths $m	Average Rate %
Average balances and rates	*1*			
Interest earning assets				
Cash and Investments		5,799.1	136.4	4.74
Loans and other receivables - company		38,167.7	1,378.7	7.28
Loans and other receivables - alliances		7,438.1	237.1	6.43
Total interest earning assets	*2*	51,404.9	1,752.2	6.87
Non interest earning assets				
Provisions for doubtful debts		(126.3)		
Other assets		2,853.4		
		2,727.1		
Total assets (average balance)		54,132.0		
Interest bearing liabilities and equity				
Deposits				
Retail - company		25,451.6	623.4	4.94
Retail - alliances		10,731.7	286.9	5.39
Wholesale - domestic		3,391.0	94.5	5.62
Wholesale - offshore		180.0	4.9	5.49
Notes Payable		8,468.8	242.4	5.77
Reset Preference Shares		89.5	2.7	6.08
Subordinated debt		615.0	23.5	7.71
Total interest bearing liabilities	*2*	48,927.6	1,278.3	5.27
Non interest bearing liabilities and equity				
Other liabilities		1,303.9		
Equity		3,900.5		
		5,204.4		
Total liabilities and equity (average balance)		54,132.0		
Interest margin and interest spread				
Interest earning assets		51,404.9	1,752.2	6.87
Interest bearing liabilities		(48,927.6)	(1,278.3)	(5.27)
Net interest income and interest spread	*3*		473.9	1.60
Net free liabilities and equity				0.26
Net interest margin	*4*			1.86

Impact of community bank/alliances revenue share arrangements	
Net interest margin before community bank/alliances share of net interest income	2.19
Less impact of community bank/alliances share of net interest income	0.33
Net interest margin	1.86

1 *Average balance is based on monthly closing balances from 31 December 2010 through 30 June 2011 inclusive.*
2 *Interest payments to alliance partners are net values in the Income Statement. Interest income and expense values have been increased by $42.0m to reflect gross amounts.*
3 *Interest spread is the difference between the average interest rate earned on interest earning assets and the average interest rate paid on interest bearing liabilities.*
4 *Net interest margin is the net interest income as a percentage of the average interest earning assets balance.*

Average balance sheet and related interest (continued)
for the six month period ended 31 December 2010

	Note	Average Balance $m	Interest 6 mths $m	Average Rate %
Average balances and rates	*1*			
Interest earning assets				
Cash and Investments		5,902.3	142.6	4.79
Loans and other receivables - company		37,240.8	1,353.7	7.21
Loans and other receivables - alliances		6,847.9	217.8	6.31
Total interest earning assets	*2*	49,991.0	1,714.1	6.80
Non interest earning assets				
Provisions for doubtful debts		(126.7)		
Other assets		3,025.9		
		2,899.2		
Total assets (average balance)		52,890.2		
Interest bearing liabilities and equity				
Deposits				
Retail - company		24,700.0	598.7	4.81
Retail - alliances		10,069.0	266.9	5.26
Wholesale - domestic		2,997.0	81.3	5.38
Wholesale - offshore		172.4	4.6	5.29
Notes Payable		8,998.6	282.9	6.24
Reset Preference Shares		89.5	2.8	6.21
Subordinated debt		485.3	15.6	6.38
Total interest bearing liabilities	*2*	47,511.8	1,252.8	5.23
Non interest bearing liabilities and equity				
Other liabilities		1,475.2		
Equity		3,903.2		
		5,378.4		
Total liabilities and equity (average balance)		52,890.2		
Interest margin and interest spread				
Interest earning assets		49,991.0	1,714.1	6.80
Interest bearing liabilities		(47,511.8)	(1,252.8)	(5.23)
Net interest income and interest spread	*3*		461.3	1.57
Net free liabilities and equity				0.26
Net interest margin	*4*			1.83

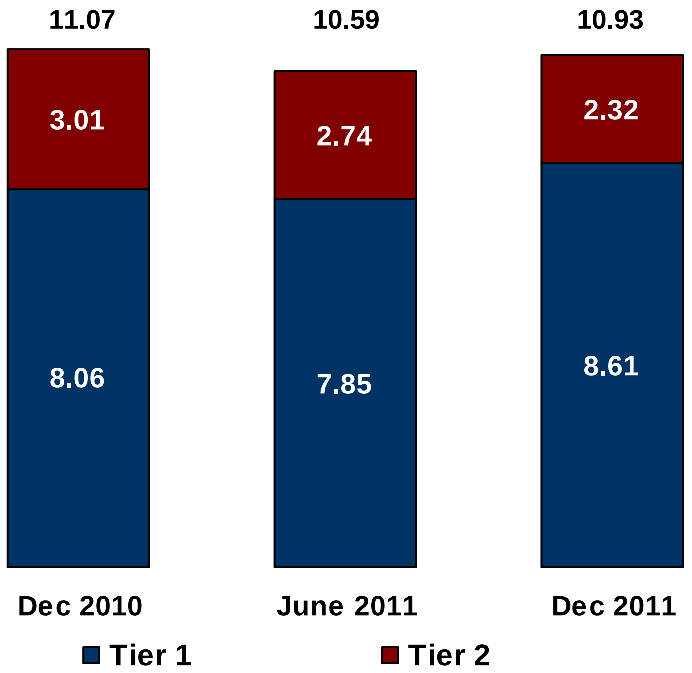
Impact of community bank/alliances revenue share arrangements	
Net interest margin before community bank/alliances share of net interest income	2.15
Less impact of community bank/alliances share of net interest income	0.32
Net interest margin	1.83

1 Average balance is based on monthly closing balances from 30 June 2010 through 31 December 2010 inclusive.
2 Interest payments to alliance partners are net values in the Income Statement. Interest income and expense values have been increased by $43.1m to reflect gross amounts.
3 Interest spread is the difference between the average interest rate earned on interest earning assets and the average interest rate paid on interest bearing liabilities.
4 Net interest margin is the net interest income as a percentage of the average interest earning assets balance.

2.4.11 Capital and shareholder returns

2.4.11.1 Capital adequacy

Capital adequacy
%



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

2.4.11.2 Assets and capital

	As at Dec-11 $m	As at Jun-11 $m	Change $m	%	As at Dec-10 $m	Change $m	%
Group assets	55,874.9	54,932.6	942.3	1.7	53,543.6	2,331.3	4.4
Capital adequacy							
Total qualifying capital	2,901.4	2,758.9	142.5	5.2	2,783.3	118.1	4.2
Risk-weighted assets	26,555.7	26,043.3	512.4	2.0	25,138.9	1,416.8	5.6
Risk-weighted capital adequacy	10.93%	10.59%	0.34%	3.2	11.07%	(0.14%)	(1.3)
- Tier 1	8.61%	7.85%	0.76%	9.7	8.06%	0.55%	6.8
- Tier 2	2.32%	2.74%	(0.42%)	(15.3)	3.01%	(0.69%)	(22.9)
Net tangible assets per fully paid ordinary share	$6.04	$5.76	$0.28	4.9	$5.44	$0.60	11.0
No. of fully paid shares on issue - 000's	390,200	367,105	23,095	6.3	364,381	25,819	7.1
Total Equity	4,093.2	3,960.1	133.1	3.4	3,867.1	226.1	5.8

2.4.11.3 Shareholder returns

	Dec-11	Jun-11	Change	%	Dec-10	Change	%
Cash basis earnings per ordinary share (weighted average)-cents	43.9	47.6	(3.7)	(7.8)	44.7	(0.8)	(1.8)
Earnings per ordinary share (weighted average)-cents	14.5	44.8	(30.3)	(67.6)	46.7	(32.2)	(69.0)
Diluted earnings per ordinary share (weighted average)-cents	14.4	42.3	(27.9)	(66.0)	44.0	(29.6)	(67.3)
Weighted average number of ordinary shares used basic and cash basis EPS calculations - 000's	370,548	365,819	4,729	1.3	362,874	7,674	2.1
Weighted average number of ordinary shares used in diluted EPS calculation - 000's	371,543	401,914	(30,371)	(7.6)	399,364	(27,821)	(7.0)
Cash basis return on average ordinary equity	8.52%	9.48%	(0.95%)	(10.0)	8.64%	(0.12%)	(1.4)
Cash basis return on average tangible equity	14.81%	17.24%	(2.43%)	(14.1)	16.51%	(1.70%)	(10.3)
After tax return on average ordinary equity	2.81%	8.92%	(6.11%)	(68.5)	9.04%	(6.23%)	(68.9)
After tax before specific items return on average ordinary equity	8.02%	8.95%	(0.93%)	(10.4)	8.10%	(0.08%)	(1.0)
Cash basis return on average assets	0.58%	0.64%	(0.06%)	(9.4)	0.61%	(0.03%)	(4.9)
After tax return on average assets	0.21%	0.62%	(0.41%)	(66.1)	0.66%	(0.45%)	(68.2)
After tax before specific items return on average assets	0.56%	0.62%	(0.06%)	(9.7)	0.59%	(0.03%)	(5.1)

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 specific items after tax and intangibles amortisation (except intangible software amortisation) and dividends on preference shares.

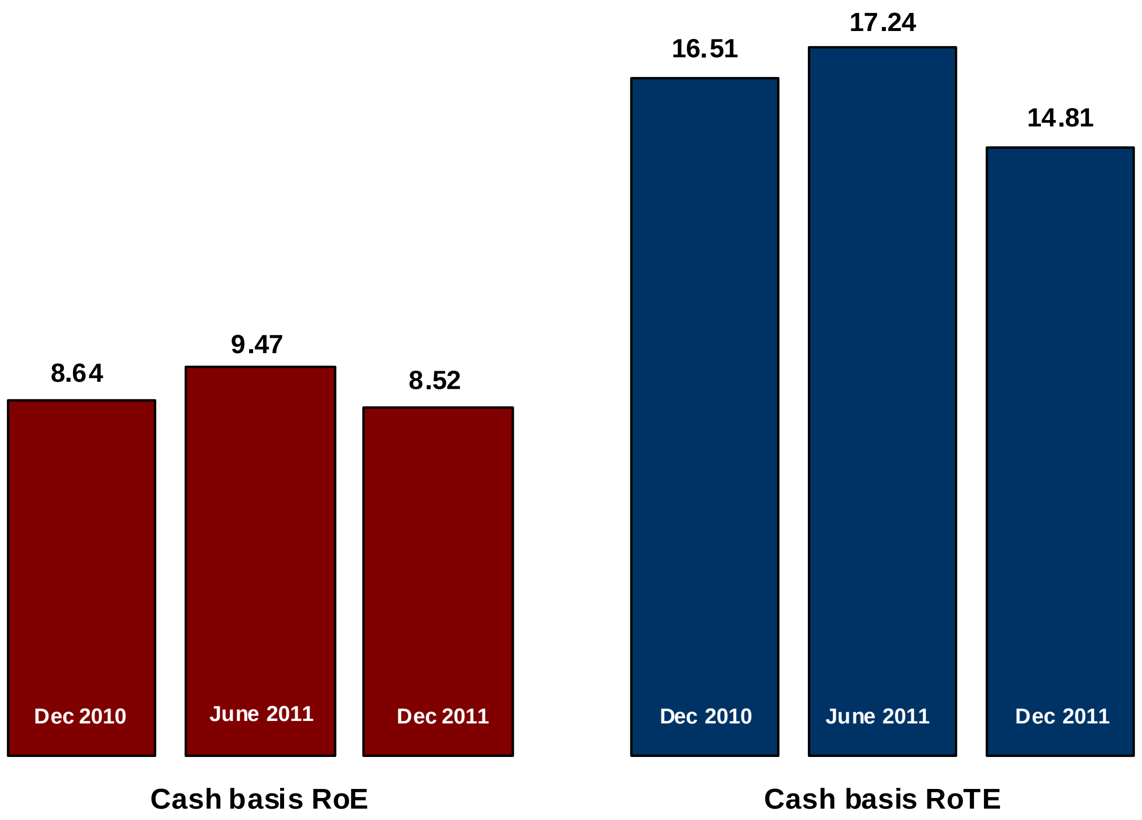
Earnings used in earnings per ordinary share are profit after tax including specific items, less dividends on preference shares.

Ordinary equity for use in these ratios is net assets less preference shares, asset revaluation reserves, unrealised gains/losses on cash flow hedges reserve.

After tax return on average assets uses profit after tax.

June profit figures are for the June 2011 half year and balance sheet items are as at end of June 2011.

2.4.11.4 Return on Equity (RoE) and Return on Tangible Equity (RoTE)

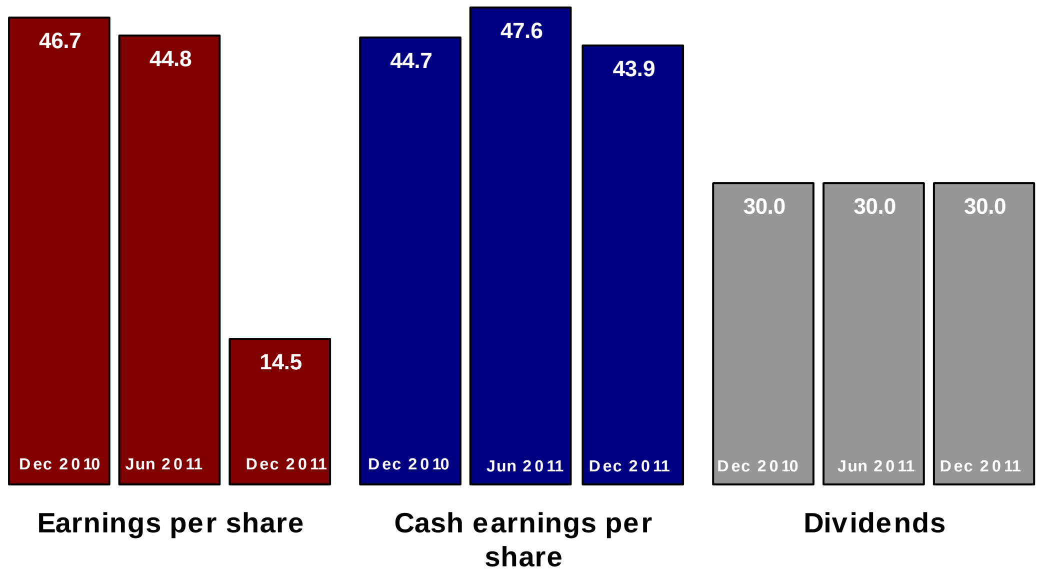


2.4.11.5 Dividends

	Dec-11	Jun-11	Change	%	Dec-10	Change	%
Dividend per share - cents	30.0	30.0	-	-	30.0	-	-
Dividend amount payable - $m	114.8	107.4	7.4	6.9	107.1	7.7	7.2
Payout ratio - earnings per ordinary share	206.9%	67.0%	139.9%	208.8	64.2%	142.7%	222.3
Payout ratio - cash basis per ordinary share	68.3%	63.0%	5.3%	8.4	67.1%	1.2%	1.8

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

Earnings per ordinary share (cents)



Dividend Reinvestment Plan

The Dividend Reinvestment Plan provides shareholders with the opportunity of converting their entitlement to a dividend into new shares. The issue price of the shares is equal to the volume weighted average share price of Bendigo and Adelaide Bank shares traded on the Australian Securities Exchange over a period of 15 trading days commencing on 2 March 2012 and ending on 22 March 2012 at a discount of 2.5%.

Bonus Share Scheme

The Bonus Share Scheme provides shareholders with the opportunity to elect to receive a number of bonus shares issued for no consideration instead of receiving a dividend. The issue price of the shares is equal to the volume weighted average share price of Bendigo and Adelaide Bank shares traded on the Australian Securities Exchange over a period of 15 trading days commencing on 2 March 2012 and ending on 22 March 2012 at a discount of 2.5%.

The last date for the receipt of an election notice for participation in either the Dividend Reinvestment Plan or Bonus Share Scheme for the 2012 interim dividend is 29 February 2012 and all shares issued under the Plan and the Scheme rank equally with other ordinary shares.

2.5 Additional notes

2.5.1 Analysis of intangible assets

	Balance sheet - carrying value	Half year amortisation/ impairment expense		
	Dec-11	**Dec-11**	**Jun-11**	**Dec-10**
	$m	**$m**	**$m**	**$m**
Goodwill	1,351.0	95.1	-	-
Trustee licence	8.4	-	-	-
Software	59.3	7.8	34.0	6.2
Customer list - AIM	5.4	0.1	-	-
Core deposits	54.2	6.4	6.3	7.4
Trade name	10.1	2.3	2.4	2.3
Customer relationship	45.6	4.3	4.3	4.3
Management rights - Adelaide Bank	11.1	0.5	0.6	0.5
Total Intangible Assets and Goodwill	1,545.1	116.5	47.6	20.7

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2.5.2 Investments accounted for using the equity method

Name	**Ownership interest held by consolidated entity**		
	Dec-11 %	**Jun-11 %**	**Dec 10 %**
Linear Financial Holdings Pty Ltd	24.3	24.3	Nil
Community Sector Enterprises Pty Ltd	50.0	50.0	50.0
Homesafe Solutions Pty Ltd	50.0	50.0	50.0
Silver Body Corporate Financial Services Pty Ltd	50.0	50.0	50.0
Community Telco Australia Pty Ltd	50.0	50.0	50.0
Strategic Payments Services Pty Ltd	47.5	47.5	47.5

(i) Principal activities of associate companies:

Linear Financial Holdings Pty Ltd – asset management services
Community Sector Enterprises Pty Ltd – financial services
Homesafe Solutions Pty Ltd – trust manager
Silver Body Corporate Financial Services Pty Ltd – financial services
Community Telco Australia Pty Ltd – telecommunication services
Strategic Payments Services Pty Ltd – payment processing services

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

	Dec-11 $m	**Dec-10 $m**
(ii) Share of joint ventures' profits:		
Profit before income tax	0.6	1.6
Income tax expense attributable to profit	(0.1)	(0.1)
Profit after income tax	0.5	1.5
Losses	(0.6)	-
Breakdown of profit/(loss) after income tax per joint venture:		
Community Sector Enterprises Pty Ltd	0.1	0.1
Homesafe Solutions Pty Ltd	0.3	0.3
Silver Body Corporate Financial Services Pty Ltd	0.1	0.1
Community Telco Australia Pty Ltd	-	-
Strategic Payments Services Pty Ltd	(0.2)	1.0
Linear Financial Holdings Pty Ltd	(0.3)	-
	-	1.5

2.5.3 Net tangible assets per share

	Dec-11	Jun-11	Dec-10
Net tangible assets per ordinary share	$6.04	$5.76	$5.44

Net tangible assets			
	$m	**$m**	**$m**
Net assets	4,093.2	3,960.1	3,867.1
Intangibles	(1,545.1)	(1,654.7)	(1,694.6)
Preference shares - face value	(90.0)	(90.0)	(90.0)
Step-up preference shares - face value	(100.0)	(100.0)	(100.0)
Net tangible assets attributable to ordinary shareholders	2,358.1	2,115.4	1,982.5
Ordinary Shares on issue '000	390,200	367,105	364,381

2.5.4 Credit ratings

	Short term	**Long term**	**Outlook**
Standard & Poor’s	A-2	A-	Stable
Fitch Ratings	F2	A-	Stable
Moody’s	P-1	A2	Stable

On 6 December 2011, Standard & Poor’s Ratings Services raised its long-term counterparty credit rating on Bendigo and Adelaide Bank Ltd to ‘A-‘ from ‘BBB+’, and affirmed the short-term rating at ‘A-2’. The outlook is stable. Standard and Poor’s commented that ‘the issuer credit ratings on Bendigo and Adelaide Bank Ltd reflect the Bank’s adequate business position, its strong capital and earnings, adequate risk position and liquidity levels’.

On 5 May 2011, Fitch Ratings, the international ratings agency upgraded Bendigo and Adelaide Bank Ltd’s long term rating to A- (from BBB+) and affirmed the short term rating of F2 and its support rating of ‘3’, and the Bank’s Support Rating floor of ‘BB’. The outlook has been revised to stable from positive. Fitch commented ‘Bendigo and Adelaide Bank Ltd has strengthened its retail banking franchise in a challenging operating environment for banks. The upgrade reflects this strengthening, taking into account Bendigo and Adelaide Bank Ltd’s conservative approach to risk management and stable funding base’.

On 14 December 2011, Moody’s Investors Service assigned a bank financial strength rating of C to Bendigo and Adelaide Bank Ltd. Moody’s affirmed a long term rating at A2, short term rating at P-1, with a stable outlook. Moody’s commented ‘the rating reflects the Bank’s diversified business profile and stable retail franchise, which includes a significant customer deposit base supported by a large national branch network’.

2.5.5 Issued capital

Changes to issued and quoted securities during the period

Ordinary Shares	**Number of Shares**	**$m**
Fully paid ordinary shares at 30 June 2011	367,104,585	3,408.9
Shares issued:		
September 2011 - Dividend Reinvestment Plan at $8.06	5,005,825	40.3
September 2011 - Bonus Share Scheme (in lieu of dividend payment) at $8.06	338,041	-
December 2011 - Institutional placement at $8.45	17,751,480	150.0
December 2011 - Institutional placement issue costs	-	(1.6)
Fully paid ordinary shares at 31 December 2011	**390,199,931**	**3,597.6**
Preference Shares		
Preference shares of $100 face value (fully paid) at 30 June 2011	900,000	88.5
Preference shares of $100 face value (fully paid) at 31 December 2011	**900,000**	**88.5**
Step Up Preference Shares		
Preference shares of $100 face value (fully paid) at 30 June 2011	1,000,000	100.0
Preference shares of $100 face value (fully paid) at 31 December 2011	**1,000,000**	**100.0**

Bendigo and Adelaide Bank Limited

ABN 11 068 049 178

Half Year Financial Report

For the period ending

31 December 2011

Information contained in this report should be read in conjunction with the June 2011 annual financial report.

CORPORATE INFORMATION

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

A description of the Group's operations and its principal activities is included in the review of operations and activities in the Directors' Report. The Directors' Report is not subject to audit or review and does not form part of the financial report.

Directors

Robert Johanson (Chairman)
Mike Hirst (Managing Director)
Kevin Abrahamson (retired 24 Oct 2011)
Jennifer Dawson
Jim Hazel
Jacqueline Hey (appointed 5 July 2011)
David Matthews
Terry O'Dwyer
Deborah Radford
Tony Robinson

Company Secretary

Will Conlan

Registered Office

Bendigo and Adelaide Bank Limited
The Bendigo Centre
PO Box 480
Bendigo Victoria 3552

Telephone 1300 361 911 (local call)
Fax (03) 5485 7668

Principal place of business

The Bendigo Centre
Bendigo Victoria 3550

Share Registry

Securities Registry
Bendigo and Adelaide Bank Limited
The Bendigo Centre
Bendigo Victoria 3550

Telephone 1800 646 042
Fax (03) 5485 7645
Email share.register@bendigobank.com.au

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 2011.

3.1.1 Directors

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

Robert Johanson (Chairman)
Mike Hirst (Managing Director)
Kevin Abrahamson (retired 24 Oct 2011)
Jennifer Dawson
Jim Hazel
Jacqueline Hey (appointed 5 July 2011)
David Matthews
Terry O'Dwyer
Deborah Radford
Tony Robinson

3.1.2 Review of operations

The principal activities of the Company and its controlled entities ("the Group") during the financial period were the provision of a range of banking and other financial services, including retail banking, third party 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.

The Group recorded a decline in income and profits during the half year when compared to the previous period:

Total income from operations decreased $18.8 million or 3.0% to $602.0 million when compared with the half-year ended 31 December 2010.

Profit before tax decreased by $89.4 million, or 42.1%, to $122.9 million. Profit after tax (attributable to members of the parent) decreased by $116.0 million to $57.9 million. Specific items affecting profit after tax were expenses for the half year of $99.5 million (Dec 2010: income ($17.6 million)). The primary specific item for the December 2011 half year is a goodwill impairment charge of $95.1 million due to the decline in the performance of the wealth cash generating unit. These items are disclosed in Note 3.7.14 of the financial report.

Group assets increased 1.7% or $0.9 billion during the half-year. Group assets at 31 December 2011 were $55.9 billion.

The total capital adequacy ratio increased during the half from 10.59% to 10.93%. Tier one capital increased during the half year from 7.85% to 8.61% with Tier two capital decreasing from 2.74% to 2.32%.

Fully franked dividends paid on preference shares during the half year:
115.07 cents per share, paid on 15 September 2011.
111.11 cents per share, paid on 15 December 2011.

Fully franked dividends paid on step up preference shares during the half year:
116.00 cents per share, paid on 11 July 2011.
118.00 cents per share, paid on 10 October 2011.

Fully franked dividends paid on reset preference shares during the half year:
310.53 cents per share, paid on 1 November 2011.

Fully franked dividends paid or declared on ordinary shares during the half year:
Final dividend of 30.0 cents per share, paid on 30 September 2011 in respect of the year ended 30 June 2011.
Interim dividend of 30.0 cents per share, declared on 20 February 2012, payable on 30 March 2012.

3.1.3 Significant changes in the state of affairs

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

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

On 16 December 2011, Bendigo and Adelaide Bank Limited reached agreement with the Bank of Cyprus Group to acquire its 100% owned Australian subsidiary, Bank of Cyprus Australia Limited (BOCAL). The purchase is expected to be completed by the end of February 2012.

In December 2011, the Group undertook a fully underwritten share placement to selected institutional investors. Placement occurred on 23 December 2011. Total shares issued were 17,751,480 at a price of $8.45 per share, increasing share capital by $147,685,673.45, which is net of share issue costs. It is anticipated that a share purchase plan for retail investors will occur in early in 2012.

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

3.1.4 Events after balance sheet date

On 20 February 2012 the directors of Bendigo and Adelaide Bank Limited declared an interim dividend of 30.0 cents per ordinary share (fully-franked) in respect of the December 2011 half-year payable on 31 March 2012. The amount estimated to be appropriated in relation to this dividend is $114.8 million. The dividend has not been provided for in the 31 December 2011 half year financial statements.

On 20 February 2012 the directors of Bendigo and Adelaide Bank announced the pricing and discount to be applied to the Shareholder Purchase Plan (SPP) which was announced as part of the BOCAL transaction and institutional share placement on 16 December 2011. The SPP is expected to raise between $50 million and $70 million in ordinary share capital. The price that shares will be offered under the plan will be the lower of; a fixed discount of 2.5 per cent to a Volume Weighted Average Price (VWAP) over the SPP offer period; and $8.45 (the price of the 16 December 2011 institutional placement). Full details, terms and conditions of the offer will be posted to eligible shareholders on 20 February 2012.

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

3.1.5 Independence of auditor

The Bank's audit committee has conducted an assessment of the independence of the external auditor for the period ended 31 December 2011. 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 2011. 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
www.ey.com/au

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

In relation to our review of the financial report of Bendigo and Adelaide Bank Limited for the half year ended 31 December 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

T M Dring
Partner
Melbourne
20 February 2012

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

Robert Johanson

Robert Johanson, Chairman
Bendigo

20 February 2012

3.2 Condensed income statement
for the half year ended 31 December 2011

	Notes	Consolidated 2011	Consolidated 2010
Income		$m	$m
Net interest income			
Interest income		1,758.1	1,671.0
Interest expense		1,283.0	1,209.7
Total net interest income		475.1	461.3
Other revenue			
Dividends		4.1	3.3
Fees		87.6	87.2
Commissions		20.1	17.9
Other revenue		23.1	46.8
Total other revenue		134.9	155.2
Other Income			
Ineffectiveness in cash flow hedges		(5.6)	1.0
Other income		(2.4)	1.7
Total other income		(8.0)	2.7
Share of associates' and joint ventures net profits/losses		-	1.6
Total income after interest expense		602.0	620.8
Expenses			
Bad and doubtful debts on loans and receivables		15.8	18.1
Other expenses			
Staff and related costs		188.6	187.1
Occupancy costs		32.1	31.0
Information technology costs		27.5	29.9
Amortisation of intangibles		21.4	20.7
Property, plant & equipment costs		5.6	6.2
Fees and commissions		20.8	18.6
Communications, postage & stationery		17.1	16.7
Advertising & promotion		9.4	8.4
Other product & services delivery costs		17.9	18.6
Consultancy costs		3.1	4.1
Legal costs		2.7	3.5
Travel costs		4.1	4.2
Integration costs		-	6.2
Accounting loss on disposal of securitisation notes		-	14.7
Employee shares shortfall/(gain)		0.7	(2.4)
Other		112.3	22.9
Total other expenses		463.3	390.4
Profit before income tax expense		122.9	212.3
Income tax expense	*3.7.4*	(65.0)	(33.9)
Net profit for the period		57.9	178.4
Net (profit) attributable to non-controlling interest		-	(4.5)
Net profit attributable to owners of the parent		57.9	173.9

	Notes	2011	2010
Earnings per share for profit attributable to the ordinary equity holders of the parent:			
Basic earnings per ordinary share (cents per share)	*3.7.6*	14.5	46.7
Diluted earnings per ordinary share (cents per share)	*3.7.6*	14.4	44.0
Franked dividends per share (cents per share)	*3.7.5*	30.0	30.0

3.3 Balance sheet
as at 31 December 2011

		Consolidated		
		As at	As at	As at
		31-Dec-11	30-Jun-11	31-Dec-10
	Notes	$m	$m	$m
Assets				
Cash and cash equivalents		403.0	469.0	428.9
Due from other financial institutions		61.7	201.6	65.7
Financial assets held for trading		5,056.0	4,331.7	4,681.8
Financial assets available for sale - debt securities		511.0	452.1	400.1
Financial assets held to maturity		378.4	380.3	471.8
Other assets		491.3	417.0	488.1
Financial assets available for sale - equity investments		107.8	123.4	144.7
Derivatives		53.5	9.3	9.1
Loans and other receivables - investment		476.3	471.2	482.9
Net loans and other receivables		46,202.6	45,866.7	44,150.4
Investments in joint ventures accounted for using the equity method		11.8	12.5	11.4
Property, plant & equipment		96.9	99.9	100.8
Deferred tax assets		196.7	180.2	184.9
Investment property		282.8	263.0	228.4
Intangible assets and goodwill	*3.7.14*	1,545.1	1,654.7	1,694.6
Total assets		55,874.9	54,932.6	53,543.6
Liabilities				
Due to other financial institutions		104.7	215.6	76.6
Deposits		42,335.5	40,521.3	38,990.1
Notes payable		7,681.5	8,381.8	8,874.2
Derivatives		188.9	132.0	188.5
Other payables		639.5	781.2	600.0
Income tax payable		33.8	68.6	15.9
Provisions		74.7	84.5	75.5
Deferred tax liabilities		137.8	122.3	144.7
Reset preference shares		89.5	89.5	89.5
Subordinated debt - at amortised cost		495.8	575.7	621.5
Total liabilities		51,781.7	50,972.5	49,676.5
Net assets		4,093.2	3,960.1	3,867.1
Equity				
Equity attributable to equity holders of the parent				
Issued capital -ordinary	*3.7.10*	3,597.6	3,408.9	3,386.6
Perpetual non-cumulative redeemable convertible preference shares	*3.7.10*	88.5	88.5	88.5
Step-up Preference Shares	*3.7.10*	100.0	100.0	100.0
Employee Share Ownership Plan (ESOP) shares		(22.7)	(24.6)	(26.0)
Reserves		40.5	37.8	21.7
Retained earnings		289.3	349.5	296.3
Total equity		4,093.2	3,960.1	3,867.1

3.4 Statement of comprehensive income
for the half year ended 31 December 2011

	Consolidated 2011 $m	Consolidated 2010 $m
Available for sale financial assets revaluation	(25.9)	32.9
Transfer to income on sale of available for sale assets	-	(0.2)
Net gain/(loss) on cash flow hedges taken to equity	20.1	56.6
Net gain/(loss) on reclassification from cash flow hedge reserve to income	5.6	2.7
Net unrealised gain/(loss) on debt securities in available for sale portfolio	(1.2)	(0.4)
Actuarial gain/(loss) on superannuation defined benefits plan	(2.2)	1.7
Tax effect on items taken directly to or transferred from equity	0.2	(28.4)
Net income/(loss) recognised directly in equity	(3.4)	64.9
Profit for the period ended 31 December	57.9	178.4
Total comprehensive income for the period	54.5	243.3
Total comprehensive income for the period attributable to:		
Non-controlling interest	-	5.8
Members of the Parent	54.5	237.5

3.5 Statement of Changes in Equity

for the half year ended 31 December 2011

Attributable to owners of Bendigo and Adelaide Bank Limited

	Issued ordinary capital	ESOP shares	Preference shares	Retained earnings	Employee benefits reserve	Asset revaluation reserve - property	Asset revaluation reserve - AFS share investments	Net unrealised gains reserve	Cash flow hedge reserve	Acquisitions Reserve	General reserve for credit losses	Total	Non-controlling interest	Total equity
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
CONSOLIDATED														
At 1 July 2011														
Opening balance b/fwd	3,408.9	(24.6)	188.5	349.5	18.7	3.4	34.5	-	(109.3)	(20.4)	110.9	3,960.1	-	3,960.1
Comprehensive income:														
Profit for the half-year	-	-	-	57.9	-	-	-	-	-	-	-	57.9	-	57.9
Other comprehensive income	-	-	-	(2.2)	-	-	(19.1)	-	17.9	-	-	(3.4)	-	(3.4)
Total comprehensive income for the period	-	-	-	55.7	-	-	(19.1)	-	17.9	-	-	54.5	-	54.5
Transactions with owners in their capacity as owners:														
Shares issued	190.3	-	-	-	-	-	-	-	-	-	-	190.3	-	190.3
Share issue expenses	(1.6)	-	-	-	-	-	-	-	-	-	-	(1.6)	-	(1.6)
Reduction in Employee Share Ownership Plan shares	-	1.9	-	-	-	-	-	-	-	-	-	1.9	-	1.9
Movement in general reserve for credit losses (GRCL)	-	-	-	(4.1)	-	-	-	-	-	-	4.1	-	-	-
Share based payment	-	-	-	-	(0.2)	-	-	-	-	-	-	(0.2)	-	(0.2)
Equity dividends	-	-	-	(111.8)	-	-	-	-	-	-	-	(111.8)	-	(111.8)
At 31 December 2011	3,597.6	(22.7)	188.5	289.3	18.5	3.4	15.4	-	(91.4)	(20.4)	115.0	4,093.2	-	4,093.2

Statement of Changes in Equity (continued)
for the half year ended 30 June 2011

Attributable to owners of Bendigo and Adelaide Bank Limited

	Issued ordinary capital	ESOP shares	Preference shares	Retained earnings	Employee benefits reserve	Asset revaluation reserve - property	Asset revaluation reserve - AFS share investments	Net unrealised gains reserve	Cash flow hedge reserve	Acquisitions Reserve	General reserve for credit losses (GRCL)	Total	Non-controlling interest	Total equity
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
CONSOLIDATED														
At 1 January 2011														
Opening balance b/fwd	3,386.6	(26.0)	188.5	296.3	19.0	3.4	49.7	(0.1)	(138.4)	(20.4)	108.5	3,867.1	-	3,867.1
Acquired in business combination	-	-	-	-	-	-	-	-	-	-	-	-	(148.3)	(148.3)
Comprehensive income:														
Profit for the half-year	-	-	-	168.2	-	-	-	-	-	-	-	168.2	-	168.2
Other comprehensive income	-	-	-	(1.4)	-	-	(15.2)	0.1	29.1	-	-	12.6	-	12.6
Total comprehensive income for														
the period	-	-	-	166.8	-	-	(15.2)	0.1	29.1	-	-	180.8	-	180.8
Transactions with owners in their														
capacity as owners:														
Shares issued	22.3	-	-	-	-	-	-	-	-	-	-	22.3	-	22.3
Reduction in Employee Share												-		
Ownership Plan shares	-	1.4	-	-	-	-	-	-	-	-	-	1.4	-	1.4
Movement in general reserve for														
credit losses (GRCL)	-	-	-	(2.4)	-	-	-	-	-	-	2.4	-	-	-
Share based payment	-	-	-	-	(0.3)	-	-	-	-	-	-	(0.3)	-	(0.3)
Equity dividends	-	-	-	(111.4)	-	-	-	-	-	-	-	(111.4)	4.3	(107.1)
Acquisition Accounting Amortisation Unwind	-	-	-	-	-	-	-	-	-	-	-	-	144.0	144.0
Other	-	-	-	0.2	-	-	-	-	-	-	-	0.2	-	0.2
At 30 June 2011	3,408.9	(24.6)	188.5	349.5	18.7	3.4	34.5	-	(109.3)	(20.4)	110.9	3,960.1	-	3,960.1

Statement of Changes in Equity (continued)
for the half year ended 31 December 2010

Attributable to owners of Bendigo and Adelaide Bank Limited

	Issued ordinary capital	ESOP shares	Preference shares	Retained earnings	Employee benefits reserve	Asset revaluation reserve - property	Asset revaluation reserve - AFS share investments	Net unrealised gains reserve	Cash flow hedge reserve	Acquisitions Reserve	General reserve for credit losses	Total	Non-controlling interest	Total equity
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
CONSOLIDATED														
At 1 July 2010														
Opening balance b/fwd	3,361.7	(27.7)	188.5	234.5	20.3	3.6	27.5	0.3	(178.7)	-	104.7	3,734.7	145.7	3,880.4
Comprehensive income:														
Profit for the half-year	-	-	-	173.9	-	-	-	-	-	-	-	173.9	4.5	178.4
Other comprehensive income	-	-	-	1.7	-	(0.2)	22.2	(0.4)	40.3	-	-	63.6	1.3	64.9
Total comprehensive income for the period	-	-	-	175.6	-	(0.2)	22.2	(0.4)	40.3	-	-	237.5	5.8	243.3
Transactions with owners in their capacity as owners:														
Shares issued	24.9	-	-	-	-	-	-	-	-	-	-	24.9	-	24.9
Reduction in Employee Share Ownership Plan shares	-	1.7	-	-	-	-	-	-	-	-	-	1.7	-	1.7
Movement in general reserve for credit losses (GRCL)	-	-	-	(3.8)	-	-	-	-	-	-	3.8	-	0.1	0.1
Share based payment	-	-	-	-	(1.3)	-	-	-	-	-	-	(1.3)	-	(1.3)
Equity dividends	-	-	-	(110.0)	-	-	-	-	-	-	-	(110.0)	(8.6)	(118.6)
Non Controlling Interest Unwind	-	-	-	-	-	-	-	-	-	-	-	-	(144.0)	(144.0)
Acquisition Reserve - Rural Bank	-	-	-	-	-	-	-	-	-	(20.4)	-	(20.4)	-	(20.4)
Other	-	-	-	-	-	-	-	-	-	-	-	-	1.0	1.0
At 31 December 2010	3,386.6	(26.0)	188.5	296.3	19.0	3.4	49.7	(0.1)	(138.4)	(20.4)	108.5	3,867.1	-	3,867.1

3.6 Cash flow statement
for the half year ended 31 December 2011

		Consolidated	
		2011	2010
		$m	$m
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and other items of a similar nature received		1,695.4	1,621.3
Interest and other costs of finance paid		(1,276.2)	(1,191.6)
Receipts from customers (excluding effective interest)		133.2	136.1
Payments to suppliers and employees		(513.9)	(489.9)
Dividends received		4.5	3.6
Income taxes paid		(100.0)	(79.6)
Net cash flows from/(used in) operating activities		(57.0)	(0.1)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash paid for purchases of property, plant and equipment		(5.0)	(7.2)
Cash proceeds from sale of property, plant and equipment		0.6	0.4
Cash paid for purchases of investment property		(27.0)	(53.6)
Cash proceeds from sale of investment property		4.7	2.6
Cash paid for purchases of intangible assets		(7.2)	-
Cash paid for purchases of equity investments		(10.5)	(3.0)
Net (increase) in balance of loans and other receivables outstanding		(341.0)	(1,112.5)
Net (increase) in balance of investment securities		(764.5)	(783.6)
Net cash flows from/(used in) investing activities		(1,149.9)	(1,956.9)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares		150.0	1.4
Acquisition of non-controlling interest		-	(166.6)
Net increase in balance of retail deposits		1,876.6	1,782.4
Net increase/(decrease) in balance of wholesale deposits		(63.3)	128.1
Proceeds from/(payments to) subordinated debtholders		(1.0)	259.5
Repayment of subordinated debt		(80.0)	(171.7)
Dividends paid		(71.4)	(85.1)
Dividends paid to non controlling entity		-	(14.4)
Net increase/(decrease) in balance of notes payable		(699.3)	(205.0)
Repayment of ESOP shares		1.9	1.7
Payment of share issue costs		(1.6)	-
Net cash flows from/(used in) financing activities		1,111.9	1,530.3
Net increase/(decrease) in cash and cash equivalents		(95.0)	(426.7)
Cash and cash equivalents at the beginning of the period		455.0	844.7
Cash and cash equivalents at the end of period	*3.7.9*	360.0	418.0

3.7 Notes to and forming part of the financial statements

3.7.1 Corporate information

The half year financial report of Bendigo and Adelaide Bank Limited for the six months ended 31 December 2011 was authorised for issue in accordance with a resolution of the Directors on 20 February 2012.

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

The domicile of Bendigo and Adelaide Bank Limited is Australia.

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

3.7.2 Summary of significant accounting policies

The half year financial report does not 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 and Adelaide Bank Limited as at 30 June 2011, which was prepared based on Australian Accounting Standards, together with any public announcements made by Bendigo and Adelaide Bank Limited and its controlled entities during the half-year ended 31 December 2011 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

Apart from the changes in accounting policy noted below, the accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

3.7.2.1 Basis of preparation

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

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

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

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

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

3.7.2.2 Changes in accounting policies

Since 1 July 2011 the Group has adopted the following Standards and Interpretations, mandatory for annual reporting periods beginning on or after 1 July 2011. Adoption of these Standards and Interpretations did not have any material effect on the financial position or performance of the Group.

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

The Group has not early adopted any Standards and Interpretations that have recently been issued or amended but are not yet effective for the half year ended 31 December 2011.

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

AASB 2009-12 *Amendments to Australian Accounting Standards*

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

AASB 2009-14 *Amendments to Australian Accounting Standards*

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

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

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

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

AASB 2010-5 *Amendments to Australian Accounting Standards*

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

AASB 124 *Related Party Disclosures (amendment)*

This standard clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity.

AASB 1054 *Australian Additional Disclosures (amendment)*

This standard is a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB. This standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas: compliance with Australian Accounting Standards, the statutory basis or reporting framework for financial statements, whether the financial statements are general purpose or special purpose, audit fees and imputation credits.

AASB 2010-6 *Amendments to Australian Accounting Standards*

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

AASB 2011-1 *Amendments to Australian Accounting Standards*

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

3.7.2.3 Significant accounting judgements, estimates and assumptions

(i) Significant accounting judgements

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

Cash earnings

Cash earnings are considered by management as a key indicator representing the performance of the core business activities of the Group. The basis for determining cash earnings is the statutory profit after tax, adjusted for specific items after tax, acquired intangibles amortisation after tax and preference share/step up preference share appropriations. Cash earnings have been used in a number of key indicator calculations such as 3.7.6 – earnings per ordinary share and 3.7.7 – return on average ordinary equity.

Specific items

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

3.7.3 Segment information

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

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

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

Types of products and services

Retail banking

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

Third party banking

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

Wealth

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

Rural Bank

Net interest and fee income from the provision of banking services to agribusiness, rural and regional Australian communities less interest paid to depositors.

Central functions

Functions not relating directly to a reportable operating segment.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in the reporting segments are the same as those contained in Note 3.7.2 of the accounts.

Revenue and expenses associated with each business segment are included in determining their result. Transactions between business segments are based on agreed recharges between operating segments. Segment net interest income is recognised based on an internally set transfer pricing policy based on pre-determined market rates of return on the assets and liabilities of the segment.

Major customers

Revenues from no one single customer amount to greater than 10% of the Group's revenues.

Segment information (continued)

Operating segments

for the half year ended 31 December 2011

	Operating segments						
	Retail banking	Third party banking	Wealth	Rural Bank	**Total operating segments**	Central functions	**Total**
	$m	$m	$m	$m	**$m**	$m	**$m**
Net interest income	261.0	111.0	43.6	59.5	**475.1**	-	**475.1**
Other income	90.1	9.5	22.6	2.8	**125.0**	7.5	**132.5**
Share of net profit of equity accounted investments	-	-	-	-	**-**	-	**-**
Total segment income	351.1	120.5	66.2	62.3	**600.1**	7.5	**607.6**
Operating expenses	183.9	10.8	28.5	22.9	**246.1**	121.4	**367.5**
Credit expenses	7.6	1.5	1.6	5.1	**15.8**	-	**15.8**
Segment result	159.6	108.2	36.1	34.3	**338.2**	(113.9)	**224.3**

for the half year ended 30 June 2011

	Operating segments						
	Retail banking	Third party banking	Wealth	Rural Bank	**Total operating segments**	Central functions	**Total**
	$m	$m	$m	$m	**$m**	$m	**$m**
Net interest income	261.7	105.6	49.9	56.7	**473.9**	-	**473.9**
Other income	89.7	10.7	23.6	3.1	**127.1**	10.8	**137.9**
Share of net profit of equity accounted investments	-	-	-	-	**-**	1.8	**1.8**
Total segment income	351.4	116.3	73.5	59.8	**601.0**	12.6	**613.6**
Operating expenses	175.3	11.3	28.1	19.4	**234.1**	129.5	**363.6**
Credit expenses	6.6	0.7	0.8	18.0	**26.1**	-	**26.1**
Segment result	169.5	104.3	44.6	22.4	**340.8**	(116.9)	**223.9**

Segment information (continued)

for the half year ended 31 December 2010

	Operating segments						
	Retail banking	Third party banking	Wealth	Rural Bank	**Total operating segments**	Central functions	**Total**
	$m	$m	$m	$m	**$m**	$m	**$m**
Net interest income	251.9	95.2	55.5	58.6	**461.2**	-	**461.2**
Other income	105.3	14.7	22.4	3.4	**145.8**	11.2	**157.0**
Share of net profit of equity accounted investments	-	-	-	-	**-**	1.6	**1.6**
Total segment income	357.2	109.9	77.9	62.0	**607.0**	12.8	**619.8**
Operating expenses	173.2	11.0	27.2	21.6	**233.0**	138.9	**371.9**
Credit expenses	5.5	(0.5)	0.1	13.0	**18.1**	-	**18.1**
Segment result	178.5	99.4	50.6	27.4	**355.9**	(126.1)	**229.8**

	Operating segments						
	Retail banking	Third party banking	Wealth	Rural Bank	**Total operating segments**	Central functions	**Total**
Reportable segment assets	$m	$m	$m	$m	**$m**	$m	**$m**
Half year ended 31 December 2011	24,093.8	16,027.9	2,712.3	3,888.3	**46,722.3**	9,152.6	**55,874.9**
Half year ended 30 June 2011	23,375.0	15,693.7	3,314.0	3,960.3	**46,343.0**	8,589.6	**54,932.6**
Half year ended 31 December 2010	22,186.0	14,918.3	3,514.2	4,099.6	**44,718.1**	8,825.5	**53,543.6**
Reportable segment liabilities							
Half year ended 31 December 2011	29,261.3	567.1	5,470.5	3,499.1	**38,798.0**	5,623.5	**44,421.5**
Half year ended 30 June 2011	27,813.4	489.7	5,031.1	3,593.2	**36,927.4**	6,237.0	**43,164.4**
Half year ended 31 December 2010	26,761.3	540.4	4,563.3	3,743.0	**35,608.0**	5,847.3	**41,455.3**

Segment information (continued)

Reconciliation between segment and statutory results

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

	Consolidated		
	Half year Dec 11 $m	**Half year Jun 11 $m**	**Half year Dec 10 $m**
Reconciliation of total segment income to group income			
Total segment income	607.6	613.6	619.8
Ineffectiveness in cash flow hedges	(5.6)	1.6	1.0
Total group income	602.0	615.2	620.8
Reconciliation of segment expenses to group total expenses			
Segment operating expenses	367.5	363.6	371.9
Specific expense items	95.8	13.3	18.5
Total group expenses	463.3	376.9	390.4
Reconciliation of segment credit expenses to bad and doubtful debts on loans and receivables			
Segment credit expenses	15.8	26.1	18.1
Bad and doubtful debts on loans and receivables	15.8	26.1	18.1
Reconciliation of segment result to group profit before tax			
Total segment result	224.3	223.9	229.8
Ineffectiveness in cash flow hedges	(5.6)	1.6	1.0
Specific expense items	(95.8)	(13.3)	(18.5)
Group profit before tax	122.9	212.2	212.3

	As at		
	Dec 11 $m	**Jun 11 $m**	**Dec 10 $m**
Reportable segment assets			
Total assets for operating segments	55,874.9	54,932.6	53,543.6
Total assets	55,874.9	54,932.6	53,543.6
Reportable segment liabilities			
Total liabilities for operating segments	44,421.5	43,164.4	41,455.3
Securitisation funding	7,360.2	7,808.1	8,221.2
Total liabilities	51,781.7	50,972.5	49,676.5

3.7.4 Income tax

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

	2011	2010
	$m	$m
Current income tax		
Current income tax charge	63.8	47.2
Adjustments in respect of current income tax of previous years	-	(2.5)
Deferred income tax		
Relating to origination and reversal of temporary differences	1.5	17.1
Adjustments in respect of deferred income tax of previous years	(0.3)	2.5
Tax consolidation items		
Acquisition income tax benefit Adelaide Bank	-	(33.3)
Acquisition income tax expense Rural Bank	-	2.9
Income tax expense reported in the Condensed Income Statement	65.0	33.9

3.7.5 Dividends paid or provided

	2011	2010
Ordinary shares	$m	$m
Dividends paid during the half-year:		
Final dividend 2011 - 30.0 cents (Final dividend 2010 - 30.0 cents)	107.4	105.7
.		
Dividends proposed since the reporting date, but not recognised as a liability:		
Interim dividend 2012 - 30.0 cents (Interim dividend 2011 - 30.0 cents)	114.8	107.1
Preference shares		
Dividends paid during the half-year:		
A dividend of 115.07 cents per share was paid on 15 September 2011 (2010: 113.07 cents)	1.0	1.0
A dividend of 111.11 cents per share was paid on 15 December 2011 (2010: 110.91 cents)	1.0	1.0
	2.0	2.0
Step up preference shares		
Dividends paid during the half-year:		
A dividend of 116.00 cents per share was paid on 11 July 2011 (2010: 110.00)	1.1	1.1
A dividend of 118.00 cents per share was paid on 10 October 2011 (2010: 116.00)	1.2	1.2
	2.3	2.3
Reset preference shares (recorded as debt instruments)		
Dividends paid during the half-year:		
A dividend of 310.53 cents per share was paid on 1 November 2011 (2010: 310.53)	2.8	2.8
	2.8	2.8

3.7.6 Earnings per ordinary share

	Half-year Dec-11	Half-year Jun-11	Half-year Dec-10
	Cents per share	Cents per share	Cents per share
Basic earnings per ordinary share	14.5	44.8	46.7
Diluted earnings per ordinary share	14.4	42.3	44.0
Cash basis earnings per ordinary share	43.9	47.6	44.7
	$m	$m	$m
Reconciliation of earnings used in the calculation of basic earnings per ordinary share			
Profit for the half-year (after tax)	57.9	168.2	178.4
(Profit)/loss attributable to non-controlling interest	-	-	(4.5)
Dividends paid on preference shares	(2.0)	(2.1)	(2.0)
Dividends paid on step-up preference shares	(2.3)	(2.3)	(2.3)
	53.6	163.8	169.6
Reconciliation of earnings used in the calculation of diluted earnings per ordinary share			
Earnings used in calculating basic earnings per ordinary share	53.6	163.8	169.6
Add back dividends on dilutive preference shares	-	6.3	6.3
	53.6	170.1	175.9
Reconciliation of earnings used in the calculation of cash basis earnings per ordinary share			
Earnings used in calculating basic earnings per ordinary share	53.6	163.8	169.6
After tax intangibles amortisation (excluding amortisation of intangible software)	9.5	9.6	10.1
After tax specific income and expense items (1)	99.5	0.7	(17.6)
	162.6	174.1	162.1
	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	370,548,321	365,819,161	362,874,018
Effect of dilution - executive performance rights	995,022	1,052,826	1,448,020
Effect of dilution - preference shares	-	35,041,690	35,041,690
Weighted ave no. of ordinary shares used in diluted earnings per ordinary share	371,543,343	401,913,677	399,363,728
(1) Specific income and expense items after tax comprise:	$m	$m	$m
Income			
Ineffectiveness in cash flow hedges	3.9	(1.1)	(0.7)
Realised accounting gain on equity investments	-	-	-
Gain relating to Employee Share Plan	-	-	-
Expense			
Shortfall relating to Employee Share Plan	0.5	0.7	(1.7)
Integration costs	-	1.4	4.3
Fair value write-down on unwind of securitisation trust	-	-	10.3
Impairment - Goodwill	95.1	-	-
Property revaluation decrement	-	-	-
Writedown of impaired intangible software assets	-	17.9	-
GST refund on change to apportionment methodology	-	(10.7)	-
Total specific (income)/expense items after tax	99.5	8.2	12.2
Acquisition income tax benefit - Adelaide Bank	-	(7.5)	(33.3)
Acquisition income tax expense - Rural Bank	-	-	2.9
	-	(7.5)	(30.4)
Total specific (income)/expense items after tax	99.5	0.7	(18.2)
Specific items attributable to non-controlling interests	-	-	0.6
Total specific (income)/expense items after tax	99.5	0.7	(17.6)

3.7.7 Return on average ordinary equity

	Consolidated		
	Half-year	Half-year	Half-year
	Dec-11	Jun-11	Dec-10
	%	%	%
Return on average ordinary equity	2.81	8.92	9.04
After tax before specific items return on average ordinary equity	8.02	8.95	8.10
Cash basis return on average ordinary equity	8.52	9.48	8.64
	$m	$m	$m
Reconciliation of earnings used in the calculation of return on average ordinary equity			
Profit for the half-year (after tax)	57.9	168.2	178.4
(Profit)/loss attributable to non-controlling interest	-	-	(4.5)
Dividends paid on preference shares	(2.0)	(2.1)	(2.0)
Dividends paid on step-up preference shares	(2.3)	(2.3)	(2.3)
Earnings used in calculation of return on average ordinary equity	53.6	163.8	169.6
After tax specific (income)/expense items (1)	99.5	0.7	(17.6)
Earnings used in calculation of pre specific items return on average ordinary equity	153.1	164.5	152.0
After tax intangibles amortisation (excluding amortisation of intangible software)	9.5	9.6	10.1
Earnings used in calculation of cash basis return on average ordinary equity	162.6	174.1	162.1

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

	As at	As at	As at
	Dec 11	Jun 11	Dec 10
	$m	$m	$m
Total equity	4,093.2	3,960.1	3,867.1
Preference share net capital	(188.5)	(188.5)	(188.5)
Asset revaluation reserve - Available for sale shares	(15.4)	(34.5)	(49.7)
Unrealised gains/losses on cash flow hedge reserve	91.4	109.3	138.4
Acquisitions reserve (2)	20.4	20.4	20.4
Non-controlling interests	-	-	-
Ordinary equity	4,001.1	3,866.8	3,787.7
Average ordinary equity (3)	3,787.2	3,704.6	3,722.7

(1) Refer to Earnings per Ordinary Share note for details.

(2) The excess consideration paid above the net asset value upon acquiring the remaining 40% of Rural Bank Limited.

(3) The average ordinary equity is calculated using a six month average.

Return on average ordinary equity is a key performance measure and is used in the company's management remuneration policy. Please refer to the June 2011 full year annual report for the full details of this policy.

3.7.8 Cash flow information

Reconciliation of cash	As at Dec 11 $m	As at Dec 10 $m
For the purposes of the statement of cash flows, cash and cash equivalents includes:		
Cash and cash equivalents	403.0	428.9
Due from other financial institutions	61.7	65.7
Due to other financial institutions	(104.7)	(76.6)
Cash and cash equivalents at the end of the half year	360.0	418.0

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 and receivables, Investment securities, Retail deposits, Wholesale deposits and Notes payable.

3.7.9 Issued capital

	As at Dec 11 $m	As at Dec 10 $m
Issued and paid up capital		
Ordinary shares fully paid - 390,199,931 (2010: 364,381,290)	3,597.6	3,386.6
Preference shares of $100 face value fully paid - 900,000 (2010: 900,000)	88.5	88.5
Preference shares of $100 face value fully paid - 1,000,000 (2010: 1,000,000)	100.0	100.0
	3,786.1	3,575.1
Movements in ordinary shares on issue		
Opening balance 1 July - 367,104,585 (2010: 361,366,745)	3,408.9	3,361.7
Shares issued under:		
Bonus share scheme - 338,041 @ $8.06 (2010: 301,032 @ $9.19)	-	-
Dividend reinvestment plan - 5,005,825 @ $8.06 (2010: 2,713,513 @ $9.19)	40.3	24.9
Institutional Share placement - 17,751,480 @ $8.45 (2010: $Nil)	150.0	-
Institutional Share placement - related issue costs	(1.6)	-
Closing balance 31 December - 390,199,931 (2010: 364,381,290)	3,597.6	3,386.6
Movements in preference shares on issue		
Opening balance 1 July - 900,000 fully paid (2010: 900,000 fully paid)	88.5	88.5
Closing balance 31 December - 900,000 fully paid (2010: 900,000 fully paid)	88.5	88.5
Movements in step-up preference shares on issue		
Opening balance 1 July - 1,000,000 fully paid (2010: 1,000,000 fully paid)	100.0	100.0
Closing balance 31 December - 1,000,000 fully paid (2010: 1,000,000 fully paid)	100.0	100.0

3.7.10 Capital adequacy

a) Capital adequacy

The Australian Prudential Regulation Authority (APRA) guidelines require capital to be allocated against credit, operational and market risk. Banks must maintain a ratio of qualifying capital (comprising Tier 1 and Tier 2 capital), to risk weighted assets of which at least half must be Tier 1 capital. The Bank adopted the "standard model" approach prescribed by APRA to calculate the Bank's capital position.

	Consolidated	
	Dec 2011	Jun 2011
	$m	$m
Risk weighted capital ratios		
Tier 1	8.61%	7.85%
Tier 2	2.32%	2.74%
Total capital ratio	**10.93%**	**10.59%**
Qualifying Capital		
Tier 1		
Contributed capital	3,597.6	3,408.9
Retained profits & reserves	98.4	159.4
Innovative tier 1 capital	277.9	277.9
Less,		
Intangible assets, cash flow hedges and capitalised expenses	1,576.9	1,660.5
Net deferred tax assets	-	13.5
50/50 deductions	14.5	16.4
Other adjustments as per APRA advice	96.7	112.5
Total Tier 1 capital	2,285.8	2,043.3
Tier 2		
General reserve for credit losses/collective provision (net of tax effect)	134.3	132.8
Subordinated debt	493.3	576.2
Asset revaluation reserves	2.5	23.0
Total Tier 2 capital	630.1	732.0
Less,		
50/50 deductions	14.5	16.4
Total Tier 2 capital	615.6	715.6
Total qualifying capital	**2,901.4**	**2,758.9**
Total risk weighted assets	**26,555.7**	**26,043.3**

3.7.11 Contingent assets and liabilities

(a) Contingent liabilities	Consolidated	
	Dec 2011 $m	**Dec 2010 $m**
Guarantees		
The economic entity has issued guarantees on behalf of clients in the normal course of business	184.7	168.3
Other		
Documentary letters of credit	17.9	13.8

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.

(b) Contingent assets

As at 31 December 2011, the economic entity does not have any contingent assets (2010: Nil).

3.7.12 Events after balance sheet date

On 20 February 2012 the directors of Bendigo and Adelaide Bank Limited declared an interim dividend of 30.0 cents per ordinary share (fully-franked) in respect of the December 2011 half-year payable on 31 March 2012. The amount estimated to be appropriated in relation to this dividend is $114.8 million. The dividend has not been provided for in the 31 December 2011 half year financial statements.

On 20 February 2012 the directors of Bendigo and Adelaide Bank announced the pricing and discount to be applied to the Shareholder Purchase Plan which was announced as part of the Bank of Cyprus Australia Limited acquisition and institutional share placement on 16 December 2011. The SPP is expected to raise between $50 million and $70 million in ordinary share capital. The price that shares will be offered under the plan will be the lower of; a fixed discount of 2.5 per cent to a VWAP over the SPP offer period; and $8.45 (the price of the 16 December 2011 institutional placement). Full details, terms and conditions of the offer will be posted to eligible shareholders on 20 February 2012.

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

3.7.13 Goodwill and intangible assets

	As at Dec 2011	**As at Dec 2010**
	$m	**$m**
Goodwill	1,448.6	1,448.6
Accumulated impairment	(97.6)	(2.5)
	1,351.0	1,446.1
Other intangible assets	394.0	379.4
Accumulated amortisation and impairment	(199.9)	(130.9)
	194.1	248.5

Impairment testing of goodwill and intangibles with indefinite lives

Goodwill acquired through business combinations is initially measured at its cost, being the excess of the cost of the business combination over Bendigo and Adelaide Bank Limited interest in the net fair value of all subsidiaries' identifiable assets, liabilities and contingent liabilities. Goodwill is not amortised, but is tested for impairment annually or more frequently if impairment indicators exist. For the half year ended 31 December 2011 there were a number of indicators that suggested that impairment testing would be required for this period. The following are indications that goodwill testing should occur for the half year ending 31 December 2011:

- Poor market sentiment and volatility in equity markets has seen a significant decrease in the size of the Margin Lending Portfolio since July 2011.
- Interest Margins continue to come under pressure with increases in funding costs.

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

Allocation of goodwill and intangible assets

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

Amortisation and impairment charge – intangible assets with finite lives

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

Category	**Useful life**
Core deposit	2 – 10 years
Trade name	5 – 15 years
Customer relationship	7 – 12 years
Management rights	15 years
Software	1-7 years

Impairment review methodologies – goodwill and intangible assets with indefinite lives

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

(i) Fair value method

In the goodwill impairment review model, fair value less costs to sell is calculated by multiplying the CGUs projected after tax cash flows for 2011/2012 (adjusted for specific items) by 12. In order to determine the appropriate multiple, consideration is given to recent similar transactions that may have occurred. A review is performed over earnings multiples across similar sectors over the last five years as well as current market conditions. Management consider that an earnings multiple of 12 is appropriate for each of the Group's identified CGUs.

(ii) Value in use method

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

The discount rate applied to the cash flows projection is 10.83%. Management believe this discount rate is appropriate based on current market risk free rate, company specific beta and market risk premium.

Terminal value for value in use method is calculated by discounting the fifth year's earning by the discount factor (i.e. 10.83% minus long term growth rate i.e. 3%). Long term growth rates of 3% have been used.

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

The 2011/12 forecasted after tax cash flows are based on the financial forecast approved by the board.

(iii) Impairment testing results

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

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

Retail banking

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

Third party banking

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

Wealth

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

Rural Bank

Net interest and fee income from the provision of banking services to agribusiness, rural and regional Australian communities less interest paid to depositors.

For impairment review purposes, an impairment loss is required to be made if the CGU's recoverable amount is less than the CGU's net asset carrying value under both the fair value and value in use tests. As a result of the goodwill testing, an impairment of $95.1 million has been recognised in the Income Statement for the half year ended 31 December 2011.

The carrying amount of goodwill and intangibles allocated to each CGU is as follows:

CGU	**Goodwill test applied**	**Carrying amount of goodwill**	**Impairment Recorded on goodwill (Dec 11)**	**Carrying amount of intangibles**
		$m	**$m**	**$m**
Retail	Value in use	649.0	-	69.6
Third Party	Fair value	455.8	-	41.0
Wealth	Fair value	324.5	(95.1)	43.6
Rural Bank	Fair value	16.8	-	39.9
	Total	**1,446.1**	**(95.1)**[(1)]	**194.1**

(1) Impairment is fully related to goodwill and there is no impairment to intangibles.

Sensitivity before impairment becomes evident for the test applied

	Fair value	**Value in use**	
	Earnings multiple	**Profit growth**	**Discount rate**
Retail	Not applicable [(1)]	Lower by 11.25%	14.25%
Third Party	Lower by 2	Lower by 8.80%	13.54%
Wealth	Not applicable [(2)]	Not applicable [(2)]	Not applicable [(2)]
Rural Bank	Lower by 1	Lower by 8.75%	13.41%

(1) The value in use test has been applied to the Retail CGU.
(2) Impairment required for Wealth CGU as the segment has failed both the fair value and value in use tests.

3.8 Directors' declaration

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

In the opinion of the directors:

(a) the half year financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half year ended on that date; and

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

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the half year ending 31 December 2011.

On behalf of the Board

Robert Johanson
Chairman
Bendigo
20 February 2011

3.9 External auditors review report

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To the members of Bendigo and Adelaide Bank Limited

Report on the Half Year Financial Report

We have reviewed the accompanying half year financial report of Bendigo and Adelaide Bank Limited, which comprises the balance sheet as at 31 December 2011, the condensed income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the half year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half year end 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 of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the preparation of the half year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, 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 2011 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 . As the auditor of Bendigo and Adelaide 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 half year financial report of Bendigo and Adelaide Bank Limited is not in accordance with the Corporations Act 2001, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half year ended on that date; and

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

Ernst & Young

Ernst & Young

T M Dring
Partner
Melbourne
20 February 2012