connections

Strengthening connections with our customers and communities

Full Financial Report **2006**

Bendigo Bank

Report by Chairman and Managing Director

Bendigo Bank in 2005/2006 achieved an after-tax profit of $100 million for the first time.

Profit available for distribution to Ordinary Shareholders was $109.2 million. Even adjusted for one-off significant items, the figure was still $100.8 million, a healthy 10 per cent improvement on the previous year.

At the start of the financial year, we aimed to increase cash earnings per share (EPS) by 10 per cent.
We achieved an increase of 11.8 per cent, to 73.2 cents per share. EPS after significant items was 78.0 cents per share. Directors declared total shareholder dividends of 52.0 cents per share, fully franked.

Our earnings performance continued a strong and steady trend. In each of the past five years we have increased cash EPS by more than 10 per cent. This is the best measure of our financial progress, as it reflects our ability to improve returns to shareholders.

Please turn to Pages 13 and 24 for a more detailed explanation of our financial results, the first to be prepared under new international accounting standards.

Our continued earnings progress is pleasing, as it reflects our determination to build a business that can provide shareholders with sustainable earnings growth. We will improve our chances of achieving this by remaining relevant to our customers and strongly connected with our communities. This will build commitment from customers to buy from us and remain loyal to us, thereby generating sustainable revenues. These are likely to produce improved profit performance and therefore value for shareholders.

Present indications are that we remain on course. Customer satisfaction and advocacy ratings remain near all-time highs and continue to lead the banking industry. Our contribution to the prosperity and well-being of our communities is increasing. And shareholder wealth – dividends plus capital growth – is growing.

Strategy set in 1995

The footings for success were set with our conversion to bank status in 1995. We were convinced there was a place in banking for a bank prepared to work with its customers and communities for their benefit. If we could establish strong connections with them, and be relevant to their futures, there was a better chance they would opt to buy from us, remain loyal to us, and advocate us to others. We wanted the Bendigo Bank brand to mean something special.

The company you see today is the result of more than a decade of orderly progression towards our ideal of a national financial services company with the ability to add value beyond the simple provision of products and services.

In 1995 we faced three challenges to become a long-term part of the banking system. Put simply, we had to:

> Be able to reach more customers around Australia.

> Provide them with a wider product choice.

> Develop our own skills to support those products, to comply with ever-widening licensing requirements, and to contribute to communities in ways other than banking.

We approached these tasks in a measured way. We couldn't afford to do them all at once and there have always been – and remain – more growth opportunities than we can afford to pursue. And so we ration our capital accordingly, always bearing in mind our intention to improve shareholder returns year on year.

Branded retail strategy is working

Started just 11 years ago, this branded retail banking strategy is now starting to mature. Consider the evidence:

> We are raising deposits and loans almost equally in every market we enter, a testament to the brand value.

> Half our branches are outside Victoria (only one was in 1995).

> One-third of our branches are less than four years old, and based on our past experience we expect will continue to grow strongly.

> The growth we are achieving is at profitable prices, with our gross margin exceeding those of other retail banks. We believe our fair but competitive pricing properly reflects our commitment to quality customer service.

> We are diversifying our revenues to reduce the risk of a downturn in one sector.

> Community engagement is proving to greatly assist customer acquisition and retention.

> Our Wealth Solutions and Business Banking divisions are increasing their value in most of our markets, and

> Our alliances and joint venture companies continue to grow and contribute to our profit performance.

Expansion continues

These outcomes have been produced by a strategy that has remained consistent since bank conversion and continues to produce steady expansion.

> We continue to open around 30 branches each year, fuelling future growth.

> Customer numbers continue to grow by a net 6,500 per month. Our brand advertising is supported by strong word of mouth support, with four-in-ten customers prepared to actively advocate our brand.

> Our Wealth Solutions division – which is underpinned and supported through our own Sandhurst Trustees company – is achieving good results and is positioning us for continued growth into the future.

> Bendigo Investment Services was reshaped and relaunched as Bendigo Financial Planning, which aims to provide customers with transparent, unbiased advice and we anticipate continued growth in future. By June 2007 we expect to increase adviser coverage across our network, with many of the new advisers emerging from our in-house associate adviser program.

> All markets are now serviced by our business bankers.

> Our joint ventures and alliances are growing at very acceptable rates.

Achieving our current position has required heavy investment, and we have expensed most of this. Future earnings will be little impacted by amortisation of past investments. We will continue with judicious investments while demand for our brand remains strong.

Strategic priorities unchanged

Our strategic priorities remain unchanged:

> Grow at profitable prices (rather than chase market share with unsustainably low pricing).

> Increase profit and earnings per share performance (shareholder value) in a sustainable way.

> Further diversify our revenue base.

> Continue to invest while demand for Bendigo remains strong.

> Further strengthen the connections with our customers and communities (to improve the likelihood of strong relationships).

> Bring to maturity the branches, Wealth Solutions division and alliances in which we have invested.

> Focus on maintaining high credit standards and producing good credit management outcomes.

> Continue to enhance the Group's risk management capabilities.

Looking ahead

We are planning for continued growth. Builders are well advanced on our new head office in Bendigo, due for completion in mid-2008 in time for the Company's 150th anniversary celebrations. This complex will be one of the largest commercial developments in regional Australia and it will confirm the City of Greater Bendigo as a leading inland city. We are grateful for financial assistance provided by the Victorian Government and for the co-operation of the City of Greater Bendigo. Both were quick to recognise the advantages of an inner city complex that will ultimately house 1,000 staff in the commercial heart of Bendigo.

As part of the building project, we will this year invest $10 million in a new, off-site technology centre on the outskirts of Bendigo. This centre will allow for considerable growth in our business.

We conduct our business in an evermore competitive environment. Competition will further intensify as overseas banks and non-bank competitors continue to enter markets once the preserve of Australian financial services companies. Experience has shown us capable of adapting our business to grow profitably in changing markets.

Our future in a more competitive market will be secured by our relevance to our customers and communities. If Bendigo is seen to be valuable to them, then we will win our share of business.

For this reason, we will continue to broaden our community engagement activities such as our Lead On youth and community development program and community foundation. We will ensure all our regions have the skills to undertake these activities.

In early 2006, we brought our company and community owned branches together under the one division. It had been necessary to quarantine our **Community Bank®** division while the model was being developed and proven, but with 182 branches and a proven track record, it is no longer necessary. Both networks will learn from each other.

Having attracted more than one million customers to the Bendigo brand, we are now focused on deepening the relationships we have with them. Research shows that most customers are happy for us to make relevant product offers to them and we are therefore investing in sales, retention and value-add programs. These will be monitored to ensure they are focused on improving outcomes for customers, not just on achieving sales.

Customer service and community relevance remain our longest standing competitive advantages and we will continue to invest in the people and technology needed to maintain standards.

We anticipate growing revenues from Wealth Solutions and Business Banking as they become more fully integrated into our customer offering. Our alliances and joint ventures, too, are expected to further improve their profit contributions. And of course we will continue to open more branches across Australia.

For all these reasons, we remain confident about our capacity to further improve shareholder returns. We are targeting an increase in cash earnings per share of around 10 per cent in 2006/2007.

Board renewal

In March 2006, Richard Guy OAM stood down as Chairman after 19 years at the helm of our Company. In August 2006, he resigned as a Director from the Board he first joined in 1982. All shareholders will join us in thanking Richard for his long service and congratulating him on his leadership during a long period of sustained change and growth for the Company.

‘What will have Bendigo Bank pressed on the screen in 20 years time? It will have nothing to do with product, price and feature because they can be replicated overnight. It will not be convenience, because all banks will be convenient. It will be whether our bank is relevant to customers – to their families, their communities and their aspirations. Our business model aims to build stronger connections with our customers and communities so there is a greater likelihood they will buy and stay. That’s what will make our business sustainable for the long term.’

Rob Hunt – Managing Director

Richard joined a building society with 12 Victorian branches, $176 million in assets and an after-tax profit of $2.7 million. He leaves a bank with 335 branches across Australia, assets under management of $17 billion and an after-tax profit of more than $100 million.

He chaired the Company through the development phase of the community banking and broader community engagement strategies that are producing sustainable growth, and he proudly – and we think rightly – claims his greatest achievement was to encourage the Bendigo culture which keeps this organisation at the forefront of customer service in Australian banking. Over 18 of his 19 years as Chairman, Richard and our current Managing Director, Rob Hunt, formed a team that led the emergence of a new style of banking. This achievement will be writ large in our company’s history. Richard Guy has been a tremendous ambassador for the Bendigo and represented us with great distinction in many and varied forums. We thank him for his enormous contribution and wish him and his family well for the future.

Our succession planning ensured a smooth transition to the leadership of new Chairman Robert Johanson, a Director of 18 years standing and Deputy Chairman for the past five years. We also appointed two new Directors who bring new perspectives and ideas to the table. Profiles of Deborah Radford and Tony Robinson are presented on Page 43 of this report.

Finally

Our business model looks incredibly complex with company and **Community Bank®** branches, some private franchises, agencies, subsidiaries, joint ventures, alliances and third party arrangements. In fact, though, the Bendigo Group is built on the four basic businesses featured in this report:

- Distribution of banking and other services
- Product manufacture or importing
- Technology, and
- Balance sheet and risk management.

Above all these is our community engagement strategy. This year we produced a separate report outlining some of the social benefits this is producing. Entitled *Bendigo Bank in the community,* it is available on our website or by request to our Customer Help Centre on 1300 361 911.

The strength of our business lies in our connections with our past and those we are developing with our customers and communities today. From our past we take a service ethic and reputation that have enabled us to attract more customers. For our future we are committed to further strengthening the connections we have with our customers and communities. Both depend on the ability of our staff to deliver the Bendigo way of banking and we thank them for their ongoing commitment to our success.

Robert Johanson

Robert N Johanson
Chairman

Rob Hunt AM
Managing Director

Bendigo Bank

ABN 11 068 049 178

FULL FINANCIAL REPORT

For the period ending

30 JUNE 2006

TABLE OF CONTENTS

		Page
	Five Year History	*3*
	Five Year Comparison	*4*
	Corporate Information	*5*
	Directors' Report	*6*
	Remuneration Report	*12*
	Income Statement	*33*
	Balance Sheet	*34*
	Cash Flow Statement	*35*
	Statement of Changes in Equity	*36*
	Notes to the Financial Statements	*38*
1	Corporate information	*38*
2	Summary of significant accounting policies	*38*
3	Segment information	*55*
4	Profit from continuing activities	*58*
5	Underlying profit	*60*
6	Income tax expense	*60*
7	Average balance sheet and related interest	*63*
8	Capital adequacy and ace ratio	*65*
9	Earnings per ordinary share	*66*
10	Dividends	*67*
11	Return on average ordinary equity	*68*
12	Net tangible assets per ordinary share	*69*
13	Cash flow information	*69*
14	Cash and cash equivalents	*70*
15	Financial assets available for sale - securities	*70*
16	Financial assets available for sale – share investments	*70*
17	Held to maturity financial assets	*71*
18	Loans and other receivables	*72*
19	Impairment of loans and advances	*73*
20	Particulars in relation to controlled entities	*74*
21	Investments in associates and joint venture using the equity method	*74*
22	Property, pant and equipment	*76*
23	Intangible assets and goodwill	*77*
24	Impairment testing of goodwill and intangibles with indefinite lives	*78*
25	Other assets	*80*
26	Deposits	*81*
27	Financial liabilities	*82*
28	Provisions	*82*
29	Subordinated debt	*83*
30	Issued capital	*83*
31	Reserves	*84*
32	Minority interest	*85*
33	Employee benefits	*85*
34	Bendigo Employee Share Ownership Plan	*86*
35	Auditor's remuneration	*87*
36	Director and executive disclosures	*88*
37	Related party disclosures	*92*
38	Financial risk management objectives and policies	*95*
39	Financial instruments	*97*
40	Commitments and contingencies	*103*
41	Fiduciary activities	*104*
42	Events after balance sheet date	*104*
43	Impact on adoption of AIFRS	*105*
	Directors Declaration	*113*
	Independent Audit Report	*114*
	Additional information	*116*

FIVE YEAR HISTORY

The Bendigo Group

Financial Performance year ended 30 June	Disclosures prepared under AIFRS		Comparatives prepared under previous AGAAP		
	2006	2005 [1]	2004	2003	2002
	$m	$m	$m	$m	$m
Interest income	907.5	815.0	615.5	500.6	447.0
Interest expense	592.4	528.9	361.9	278.3	254.4
Net interest income	315.1	286.1	253.6	222.3	192.6
Other income	201.8	172.9	157.5	125.6	99.6
Bad & doubtful debts expense (net of bad debts recovered)	7.0	13.6	13.8	15.3	22.0
Other expenses	344.2	309.9	282.0	243.3	205.8
Profit before income tax expense	165.7	135.5	115.3	89.3	64.4
Income tax expense	(49.0)	(41.2)	(35.8)	(30.2)	(15.7)
Net (profit)/loss attributable to minority interest	-	0.4	0.3	(0.1)	0.1
Profit after income tax expense	116.7	94.7	79.8	59.0	48.8
Profit appropriations not available to ordinary shareholders	(7.5)	-	-	-	-
Profit available for distribution to ordinary shareholders	109.2	94.7	79.8	59.0	48.8
Financial Position at 30 June					
Total assets	15,196.1	13,858.6	11,284.5	9,256.6	7,967.7
Loans and receivables	12,436.7	11,392.4	9,372.6	7,504.0	6,209.5
Cash and cash equivalents	479.8	442.0	315.1	288.5	354.6
Financial assets and derivatives	1,854.3	1,615.7	1,220.2	1,130.0	1,085.3
Other assets	425.3	408.5	376.6	334.2	318.3
Equity	899.5	720.7	676.4	552.7	494.4
Deposits	13,599.8	12,572.2	10,148.9	8,241.2	6,988.5
Subordinated debt	307.1	262.1	199.3	204.7	161.4
Other liabilities	389.7	303.6	259.9	258.1	323.4
Share Information					
Net tangible assets per ordinary share	$4.78	$4.21	$4.40	$3.80	$3.38
Earnings per ordinary share - cents	78.0	67.5	60.2	46.8	41.1
Cash basis earnings per ordinary share - cents	73.2	65.5	58.5	50.2	44.8
Dividends per ordinary share:					
Interim - cents	22.0	19.0	17.0	13.5	12.0
Final - cents	30.0	26.0	23.0	20.0	17.0
Total - cents	52.0	45.0	40.0	33.5	29.0
Ratios					
Return on average assets	0.75%	0.75%	0.78%	0.69%	0.65%
Return on average ordinary equity	15.14%	13.98%	12.99%	11.06%	10.24%

1 Figures for 2005 include the acquisition of Oxford Funding Pty Ltd effective 1 May 2005.

Comparatives for financial years 2004 and prior are not prepared under AIFRS. The main adjustments that would make the figures comply with AIFRS are:

Profit -
goodwill and trustee licence are not amortised under AIFRS.
movements in general provision for doubtful debts (general reserve for credit losses) reflect as appropriations of profit under AIFRS rather than expense under AGAAP.
loan application fees and loan origination fees are recognised on an effective interest rate basis (deferred and amortised) and are disclosed as net interest income under AIFRS.

Balance sheet -
general provision for doubtful debts now disclosed as general reserve for credit losses in equity
establishment of new collective provision for doubtful debts under AIFRS. This provision is treated as a general provision for prudential purposes.
specific provisions for doubtful debts are assessed on the basis of discounted estimated future cash flows under AIFRS. Future cash flows were not discounted under AGAAP.
loans to employees in relation to employee share ownership plan disclosed as reduction of equity under AIFRS.
assets and liabilities of securitisation trusts are consolidated under AIFRS.
share investments are carried at fair value under AIFRS.
derivative financial instruments are carried at fair value under AIFRS.
computer software assets have been reclassified from property, plant & equipment to intangible assets under AIFRS.
deferred tax assets and liabilities have been recognised in relation to asset revaluation reserves under AIFRS.

More detailed explanations of the adjustments are disclosed in the "Impact on Adoption of AIFRS" note to the financial statements under the heading "Notes to reconciliations".

FIVE YEAR COMPARISON

The Bendigo Group

		Disclosures prepared under AIFRS		Comparatives prepared under previous AGAAP		
		2006	2005	2004	2003	2002
Key Trading Indicators						
Retail deposits - branch sourced	($m)	10,771.4	9,259.8	8,293.3	6,823.4	5,637.9
Number of depositors' accounts		1,309,957	1,201,627	1,094,884	974,788	850,979
Total loans approved	($m)	6,189.6	5,872.6	6,077.8	4,822.8	3,637.2
Number of loans approved		66,227	65,498	72,063	70,175	47,325
Liquid assets and cash equivalents	($m)	2,334.1	2,057.7	1,535.3	1,418.5	1,439.9
Total assets	($m)	15,196.1	13,858.6	11,284.5	9,256.6	7,967.7
Liquid assets & cash equiv as proportion of total assets	(%)	15.36	14.85	13.61	15.32	18.07
Number of branches (1)		335	302 (6)	276	246	215
Average deposit holdings per branch	($m)	32.2	30.7	30.0	27.6	26.2
Number of staff (excluding Community Banks)	(FTE)	2,343	2,214 (2)	2,063	1,904	1,754 (3
Assets per staff member (4)	($m)	6.486	5.990	5.470	4.862	4.543
Staff per million dollars of assets (4)		0.15	0.17	0.18	0.21	0.22
Dissection of Loans by Security ($'000) (5)						
Residential loans		9,278.1	8,629.2	7,110.9	5,602.5	4,583.2
Commercial loans		2,574.4	2,217.8	1,774.1	1,446.5	1,239.5
Unsecured loans		415.1	490.6	492.9	463.5	403.4
Other		230.0	165.2	92.0	71.4	52.7
Gross loans		12,497.6	11,502.8	9,469.9	7,583.9	6,278.8
Dissection of Loans by Security (%) (5)						
Residential loans		74.24	75.02	75.09	73.87	72.99
Commercial loans		20.60	19.28	18.73	19.07	19.74
Unsecured loans		3.32	4.26	5.20	6.11	6.42
Other		1.84	1.44	0.98	0.95	0.85
Total		100.00	100.00	100.00	100.00	100.00
Asset Quality						
Non-accruing loans	($m)	14.9	16.7	12.9	16.4	20.6
Specific provisions	($m)	(9.0)	(8.6)	(8.0)	(10.6)	(8.7)
Net impaired loans	($m)	5.9	8.1	4.9	5.8	11.9
Net impaired loans % of gross loans	(%)	0.05	0.07	0.05	0.08	0.19
Specific provision for impairment	($m)	9.1	8.6	8.1	10.7	9.8
Specific provision % of gross loans less unearned income	(%)	0.07	0.08	0.09	0.14	0.16
Collective provision	($m)	8.8	-	-	-	-
General reserve for credit losses (general provision)	($m)	40.6	60.3	53.4	43.8	35.7
Collective provision (net of tax) & GRCL (general provn) as a % of risk-weighted assets	(%)	0.55	0.55	0.55	0.55	0.55
Loan write-offs as % of average total assets	(%)	0.04	0.06	0.07	0.08	0.11

1 Includes Community Bank branches.
2 Includes staff increases from the acquisition of Oxford Funding Pty Ltd.
3 Includes staff increases from the acquisition of Bendigo Investment Services.
4 These ratios do not take into account off-balance sheet assets under management, which totalled $1.6 billion at 30 June 2006 (2005: $1.3 billion).
5 For the purposes of this dissection, overdrafts and personal loans secured by residential and commercial property mortgages are included in residential and commercial loan categories respectively.
6 Revised due to reclassification of some outlets.

Comparatives for financial years 2004 and prior are not prepared under AIFRS. The main adjustments that would make the figures comply with AIFRS are:

Profit - goodwill and trustee licence are not amortised under AIFRS.
movements in general provision for doubtful debts (general reserve for credit losses) reflect as appropriations of profit under AIFRS rather than expense under AGAAP.
loan application fees and loan origination fees are recognised on an effective interest rate basis (deferred and amortised) and are disclosed as net interest income under AIFRS.

Balance sheet - general provision for doubtful debts now disclosed as general reserve for credit losses in equity.
establishment of new collective provision for doubtful debts under AIFRS. This provision is treated as a general provision for prudential purposes.
specific provisions for doubtful debts are assessed on the basis of discounted estimated future cash flows under AIFRS. Future cash flows were not discounted under AGAAP.
loans to employees in relation to employee share ownership plan disclosed as reduction of equity under AIFRS.
assets and liabilities of securitisation trusts are consolidated under AIFRS.
share investments are carried at fair value under AIFRS.
derivative financial instruments are carried at fair value under AIFRS.
computer software assets have been reclassified from property, plant & equipment to intangible assets under AIFRS.
deferred tax assets and liabilities have been recognised in relation to asset revaluation reserves under AIFRS.

Please note that only Key Trading Indicators based on asset values are impacted by AIFRS.

More detailed explanations of the adjustments are disclosed in the "Impact on Adoption of AIFRS" note to the financial statements under the heading "Notes to reconciliations".

CORPORATE INFORMATION

This annual report covers both Bendigo Bank Limited as an individual entity and the consolidated entity comprising Bendigo Bank Limited and its subsidiaries.

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

Directors

R N Johanson – Chairman
R G Hunt AM – Managing Director
N J Axelby
J L Dawson
D J Erskine
R A Guy OAM*
T J O'Dwyer
D L Radford
K E Roache
A D Robinson

*retired from the Board on 31 August 2006

Company Secretary

D A Oataway

Registered Office

Bendigo Bank Limited
Second Floor
Fountain Court
Bendigo Victoria 3550

Telephone (03) 5433 9339
Fax (03) 5433 9690

Principal place of business

Fountain Court
Bendigo Victoria 35550

Share Registry

Securities Registry
Bendigo Bank Limited
Second Floor
Fountain Court
Bendigo Victoria 3550

Telephone (03) 5433 9549
Fax (03) 5433 9029

Auditors

Ernst & Young
Australia

DIRECTORS' REPORT

Your Board of Directors has pleasure in presenting the 141st Financial Report of Bendigo Bank Limited and its controlled entities for the year ended 30 June 2006.

DIRECTORS

The names and details of the company's directors in office during the financial year and until the date of this report are as follows.

Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities.

The particulars of the qualifications, experience, special responsibilities and age of each director as at the date of this report are as follows:

NAME, AGE, QUALIFICATIONS AND INDEPENDENCE STATUS	TERM OF OFFICE	SPECIAL RESPONSIBILITIES	SKILLS, EXPERIENCE, EXPERTISE RELATIONSHIPS
Robert Johanson **Chairman** (55 years) BA, LLM (Melb) MBA (Harvard) Independent director	Director for 19 years and appointed as chairman during 2006. Previously deputy chairman for 5 years.	**Committees** Governance (Chair) Risk (Chair) Audit **Group and joint venture company directorships** Community Telco Australia Pty Ltd Elders Rural Bank Ltd Homesafe Solutions Pty Ltd (Chair)	Mr Johanson has expertise in corporate strategy, capital and risk management. He has provided independent corporate advice in respect to capital market transactions to a wide range of public and private companies. Mr Johanson is a member of the Finance Committee and Chairman of the Investment Committee of the University of Melbourne and a director of the Robert Salzer Foundation Ltd. He is also a member of the Takeovers Panel. Mr Johanson is a director of Grant Samuel Group Pty Ltd (and subsidiaries). Grant Samuel provides professional advisory services to the Group on normal commercial terms and conditions. The services provided during the 2006 financial year related to the Group property review, subsidiary, alliance and joint venture activities and initiatives, and strategic developments.
Rob Hunt AM **Managing Director** (55 years) FAICD Doctor of University (honoris causa) La Trobe University, 1999 Executive Director and Chief Executive Officer	Employee since 1973 and appointed CEO in 1988. Appointed to Board in 1990.	**Committees** Governance Risk Property IT Strategy **Group and joint venture company directorships** Community Telco Australia Pty Ltd (Chair) Community Sector Enterprises Pty Ltd Elders Rural Bank Ltd Tasmanian Banking Services Ltd Mr Hunt is also chair of a number of subsidiary companies involved in community engagement activities.	Based in Bendigo, Mr Hunt has led the Bank's development from a provincial building society to a nationally represented, uniquely positioned and diverse banking and financial services group. Mr Hunt is the architect of the Bank's Community Banking™ and other alliance arrangements. He is also Chairman of Bendigo Community Telco Ltd. He is a Councilor of the ABA, a member of the BCA, the Prime Minister's Community Business Partnership and the Victorian Government's Innovation Economy Advisory Board.

NAME, AGE, QUALIFICATIONS AND INDEPENDENCE STATUS	TERM OF OFFICE	SPECIAL RESPONSIBILITIES	SKILLS, EXPERIENCE, EXPERTISE RELATIONSHIPS
Neal Axelby (56 years) Dip CM ACIS, FAICD, AIMM Independent director	Director for 6 years.	**Committees** Credit Governance Risk **Group and joint venture company directorships** Sunstate Lenders Mortgage Insurance Pty Ltd	A Queensland-based director, Mr Axelby has had 15 years combined years of experience as an employee and director in the finance industry before joining the board. He also has 22 years experience in senior management positions in the private sector. Mr Axelby is a director of Ipswich & West Moreton United Friendly Society Dispensary Ltd and several private companies. Mr Axelby was a director of First Australian Building Society Limited (FABS) which was acquired by Bendigo Bank in 2000.
Jennifer Dawson (41 years) B Bus (Acc) FCA, MAICD Independent director	Director for 7 years. *Seeking re-election at 2006 AGM	**Committees** Audit (Chair) Property Credit **Group and joint venture company directorships** Community Sector Banking Pty Ltd Community Sector Enterprises Pty Ltd	A Bendigo-based director, Ms Dawson spent 10 years with Arthur Andersen in the audit and IT controls division. Ms Dawson has experience in the areas of financial reporting and audit, IT internal control reviews, internal audit and risk management. Ms Dawson is a director of Coliban Region Water Authority and a member of the Victorian Regional Development Advisory Committee. Ms Dawson was engaged by Bendigo Bank during the period 1995 to 1999, initially as a contractor and then as an employee. Ms Dawson was a shareholder of Central Victorian Removals Pty Ltd (ceased November 2005). Central Victorian Removals provided relocation services to Bendigo Bank on normal commercial terms and conditions.
Donald Erskine (60 years) Independent director	Director for 7 years. *Seeking re-election at 2006 AGM	**Committees** Credit Property (Chair) IT Strategy **Group and joint venture company directorships** Community Telco Australia Pty Ltd (Mr Erskine resigned as a director of the subsidiary on 18 August 2005)	A Bendigo-based director, Mr Erskine is a mechanical engineer and chairman of several private companies. Mr Erskine has an extensive background in manufacturing and property development and experience in international trade. Mr Erskine is the chairman of Australian Technical College, Bendigo. He is also a director of Bendigo Community Telco Ltd.

NAME, AGE, QUALIFICATIONS AND INDEPENDENCE STATUS	**TERM OF OFFICE**	**SPECIAL RESPONSIBILITIES**	**SKILLS, EXPERIENCE, EXPERTISE RELATIONSHIPS**
Richard Guy OAM (61 years) B App Sc M Sc (London) Independent director	Director for 25 years. Retired as chairman during 2006. Mr Guy retired from the board on 31 August 2006	**Committees** Governance Audit Property **Group and joint venture company directorships** Elders Rural Bank Ltd (retired on 31 December 2005)	A Bendigo-based director, Mr Guy is an engineer by trade and is chairman of Crystal Industries Group. Mr Guy was chairman of the Bank from 1986 to 2006 through a period of rapid growth and development including the conversion to Bank status in 1995, a number of mergers, joint ventures and the introduction of Community Bank®. Mr Guy is a director of Bendigo Mining Limited, a company listed on the Australian Stock Exchange, and member of various community and charitable organisations.
Terence O'Dwyer (56 years) B Com, Dip Adv Acc FCA, FAICD Independent director	Director for 6 years.	**Committees** Audit Risk IT Strategy (Chair) **Group and joint venture company directorships** Sunstate Lenders Mortgage Insurance Pty Ltd	A Queensland-based director, Mr O'Dwyer chairs BDO Kendalls (Chartered Accountants). He was a partner in the firm for 28 years and headed its corporate finance division prior to being appointed its independent Chairman. Mr O'Dwyer is chairman of Metal Storm Ltd, MFS Ltd, Brumby's Bakeries Holdings Ltd and a director of Queensland Theatre Company Ltd. Mr O'Dwyer was a director of First Australian Building Society Limited which was acquired by Bendigo Bank in 2000.
Deborah Radford (50 years) B.Ec G. Dip Finance & Investment – Securities Institute of Australia Independent director	Director appointed February 2006 *Seeking election at 2006 AGM	**Committees** IT Strategy Credit **Group and joint venture company directorships** Nil	A Melbourne based director, Ms Radford is an economics graduate with experience in both the public and private sector. Ms Radford has extensive experience in the banking sector, specialising in credit, acquisitions and property transactions. Ms Radford is a Director of Forestry Tasmania, Melbourne Market Authority, City West Water and Deb Radford & Associates, a consultancy company advising on government business enterprises.

NAME, AGE, QUALIFICATIONS AND INDEPENDENCE STATUS	TERM OF OFFICE	SPECIAL RESPONSIBILITIES	SKILLS, EXPERIENCE, EXPERTISE RELATIONSHIPS
Kevin Roache (66 years) LLB, B Com, ASCPA, FAICD Barrister & Solicitor of the Supreme Court of Victoria Independent director	Director for 15 years. *Seeking re-election at 2006 AGM	**Committees** Credit (Chair) Risk Governance **Group and joint venture company directorships** Nil	A Geelong-based director, Mr Roache has extensive experience in advising clients on business and taxation issues. Mr Roache is the past President of the Geelong Business Club, member of the Finance Committee of Geelong Chamber of Commerce, member of Committee for Geelong, a former Chairman of Barwon Health Geelong and has been a board member of many community and charitable organisations. Mr Roache was a director of Capital Building Society, the business of which was integrated into Bendigo Bank in 1992. Mr Roache is the Chairman of partners in Coulter Roache Laywers which provides legal services to the Group on normal commercial terms and conditions.
Antony Robinson (49 years) B Com ASA MBA (Melbourne) Independent director	Director appointed April 2006 *Seeking election at 2006 AGM	**Committees** Risk Governance **Group and joint venture company directorships** Nil	A Melbourne-based director, Mr Robinson is the chief executive officer of OAMPS Limited, which provides broking and financial services for insurance, risk management, workers' compensation and occupational health and safety, financial planning services and superannuation. He was also a director of VECCI. Mr Robinson's previous management positions include joint managing director of Falkiners Stockbroking, managing director of WealthPoint, chief financial officer of Link Telecommunications and general manager corporate services at Mayne Nickless.

Share Issues

The following share classes were issued during the financial year:

	No. of shares
Ordinary shares	
Ordinary shares issued under the Dividend Reinvestment Plan	1,451,293
Ordinary shares issued in lieu of dividends under the Bonus Share Scheme	292,999
Total ordinary shares issued	**1,744,292**

Share Options

During the year, or since the end of the financial year, no entity within the economic entity has granted to any person an option to take up shares in the economic entity. There are no outstanding options in relation to shares.

Ordinary Share Dividends Paid or Recommended

Dividends paid:	
Final dividend 2005 of 26.0¢ per share, paid September 2005	$34.3 million
Interim dividend 2006 of 22.0¢ per share, paid March 2006	$29.1 million
Dividend recommended:	
Final dividend 2006 of 30.0¢ per share, declared by the directors on 14 August 2006, payable 29 September 2006	$40.1 million
All dividends were fully franked	
Shareholders electing to receive dividends in the form of shares received the following ordinary shares, paid in full:	
September 2005	866,908
March 2006	584,385
In addition, shareholders electing to receive bonus shares in lieu of dividends received the following ordinary shares, paid in full:	
September 2005	168,244
March 2006	124,755

Preference Share Dividends Paid or Recommended

Dividends paid:	
90.80 cents per share, paid 15 September 2005	$0.8 million
62.19 cents per share, paid 15 December 2005	$0.6 million
61.62 cents per share, paid 15 March 2006	$0.5 million
62.68 cents per share, paid 15 June 2006	$0.6 million
Dividend announced:	
A dividend of 131.68¢ per security for the period 15 June 2006 to 14 September 2006 (inclusive), announced on 14 August 2006, payable 15 September 2005	$1.2 million
All dividends were fully franked	

Operating and Financial Review

Principal Activities

The principal activities of the Company and its controlled entities during the financial year were the provision of a range of banking and other financial services, including retail banking, business banking and commercial finance, funds management, treasury and foreign exchange services (including trade finance), superannuation, financial advisory and trustee services. There was no significant change in the nature of the activities of the economic entity during the year.

Consolidated Result

The consolidated profit from ordinary activities of the economic entity, after providing for income tax, amounted to $116.7 million (2005 - $94.7million).

Review of Operations and Operating Results

An operational and financial review, including information on the operations, financial position and business strategies and prospects of the economic entity is set out in the Report by Chairman and Managing Director contained in the Concise Annual Report. Certain information in respect to business strategies and prospects has not been disclosed where the disclosure is likely to result in unreasonable prejudice to the Company or its controlled entities.

Significant Changes in the State of Affairs

Total equity increased from $720.7 million to $899.5 million, an increase of $178.8 million or 24.8 per cent. Contributed ordinary equity increased by $17.8 million, due to shares issued under the dividend reinvestment plan.

Contributed preference share equity increased by $45.3 million due to payment in June 2006 of the second and final instalment of $50 per share on the 900,000 $100 face value shares on issue.

Reserves increased by $74.8 million. The major contributor to this increase was the establishment of the general reserve for credit losses of $40.6 million and $6.5 million for associate companies. Asset revaluation reserves also increased by $25.0 million, predominantly due to the AIFRS requirement to adjust our share investments to fair value. The remaining $2.7 million increase was attributable to unrealised gains/losses on hedges in compliance with AIFRS hedge accounting principles.

Significant After Balance Date Events

On 14 August 2006 the Bank declared a final dividend for ordinary shares and announced a dividend for preference shares, details of which are shown above.

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

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

Except as referred to in the Report by Chairman and Managing Director, or dealt with elsewhere in the consolidated financial report, there were no matters or circumstances which arose since the end of the financial year to the date of this report which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in subsequent financial years.

Likely Developments and Results

Disclosure of information relating to major developments in the operations of the Group and the expected results of those operations in future financial years, which, in the opinion of the directors, will not unreasonably prejudice the interests of the Group, is contained in the Report by Chairman and Managing Director accompanying this Full Financial Report.

REMUNERATION REPORT

The Directors of the Company present this Remuneration Report for the Company and for the consolidated entity for the year ended 30 June 2006. This Remuneration Report is prepared in accordance with section 300A of the Corporations Act and Accounting Standard AASB 124 "Related Party Disclosures" and forms part of the Directors' Report. The disclosures have been audited other than where indicated.

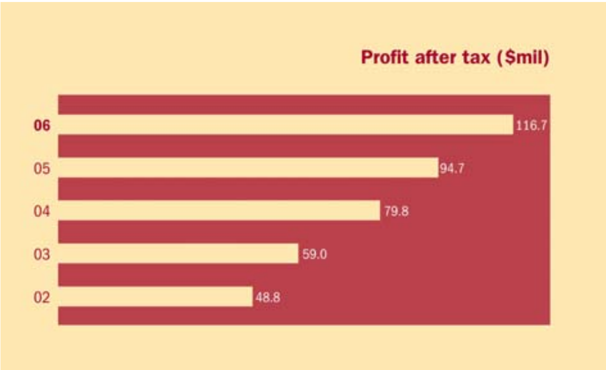
The Group's policy in respect to non-executive and executive remuneration is available from the Bank's web site.

Group Performance

The following overview of the Company's development and performance is provided as background information to assist shareholders in their consideration of the Remuneration Report and to explain the link between Group performance and executive remuneration.

Bendigo Bank has developed to become a nationally represented, diversified financial services enterprise which is in the top 120 companies listed on the Australian Stock Exchange. The Bank has maintained a consistent branded retail strategy, focussed on the interests and prospects of our customers and communities. This is supported by a strategically focussed investment program and commitment to our corporate and social responsibilities. Through this strategy Bendigo Bank has built a brand that is well recognised, respected and sought after. Through continued commitment to the strategy, the maturity of investments to date and further investment, the Bank expects to deliver to shareholders improved, and sustainable, growth in shareholder value.

The accompanying charts set out the Company's key financial performance measures for the financial year ended 30 June 2006, and the four previous financial years, to illustrate the consequences of the Company's performance on shareholder value and returns.



The Company has experienced growth in after-tax earnings averaging 27% per year since 2001 resulting in:

- An increase in the Company's share price, from $6.60 at 30 June 2001 to $12.90 at 30 June 2006, of $6.30 [$3.03 for 2006].
- Growth in EPS, from 28.2 cents per share (2001) to 72.0 cents per share (2006), of approximately 123% [15.6% for 2006]; and
- An increase in dividends, from 26 cents per share (2001) to 52 cents per share (2006), of 26 cents per share [7 cents per share for 2006].

The Company has announced a final dividend of 30 cents per share on 14 August 2006, payable on 29 September 2006. This results in a total dividend payable by the Bank for the 2006 financial year of 52 cents per share (fully franked) which represents a 15.6% increase on the previous year.

As at 30 June 2006 the Company's share price has increased by $3.03 against the Company's share price as at 30 June 2005, which represents an increase of 31%.

The Company conducted an on-market share buy-back of 2.85 million shares during the 2005 financial year. This reduced the number of ordinary shares on issue and had a positive impact on EPS.

This financial report includes a specific disclosure in respect to the key terms and estimated financial impact of the Bank's equity plans on shareholder returns. The disclosure is presented at Note 34.

During the 5 year period ended 30 June 2006, the total shareholder return, calculated on the basis of the gain in the Bank's share price and notional reinvestment of dividends paid during the same 5 year period, equates to 140%.

Under a prospectus dated 16 March 2005, Bendigo Bank issued 900,000 Bendigo Preference Shares, at a face value of $100 per share, to raise $90 million in share capital. The capital raising has diversified the Bank's Tier 1 capital base and was structured to assist the Bank in aligning after-tax profit performance with ordinary shareholder returns.

Non-Executive Director Fees

Objectives and Structure:

The Board has adopted a policy in respect to non-executive director fees with the following objectives.

- To attract and retain appropriately qualified and experienced directors.
- To remunerate directors fairly having regard to their responsibilities, including providing leadership and guidance to management.
- To build sustainable shareholder value by encouraging a longer-term strategic perspective, by not linking fees to the results of Bendigo Bank.

As the focus of the Board is to build sustainable shareholder value by taking a longer-term strategic perspective, there is no direct link between non-executive directors' fees and the annual results of the Bank. In accordance with the Board policy, non-executive director remuneration comprises the following elements.

- Base fee.
- Superannuation Guarantee Charge ("SGC") payments - currently at 9% of directors' fees.

A committee fee previously applied to membership of the Board credit committee ceased on 31 October 2005.

Non-executive director fees and SGC payments are determined by the Board within the aggregate limit approved by shareholders. The current aggregate director fee limit which was approved by shareholders at the 2005 Annual General Meeting is $1,200,000 per annum.

The Chairman receives twice the base fee paid to other directors to recognise and compensate for the Chairman's additional time commitment. Non-executive directors do not receive bonuses or incentive payments, nor participate in the Bank's equity participation plans. Non-executive directors are entitled under the Company's constitution to be reimbursed for business related expenses.

Non-executive director fees are reviewed annually by the Board to ensure that the structure and amount are appropriate for the circumstances of the Bank. Fees for non-executive directors are decided by the Board based on the recommendation of the Governance Committee. The Board determined that annual non-executive director fee payments may be increased annually by the CPI index should the Governance Committee not recommend a general fee payment increase.

The Committee takes into account survey data and peer analysis to determine the level of director fees paid in the market by companies of a relatively comparable size and complexity, particularly in the banking and finance sector, and to ensure that fees and payments reflect the demands and the scope of responsibilities of directors. The assessment takes into account the remuneration policies of the Bank, changes in the nature and operations of the Group including industry developments which impact the responsibilities and risks associated with the role of director.

At the date of this report, the base fee paid to each non-executive director is $90,000 per annum. This base fee was effective from 1st November 2005, based upon independent advice obtained from a remuneration consultant and took into account the Board's decision to wind-up the Bank's retirement benefit arrangement as at 31 August 2005 and to cease the payment of separate committee and subsidiary fees. The fee will increase to $93,600 per annum effective 1st November 2006, reflecting a CPI increase.

Details of the membership of the Governance Committee, and its responsibilities in relation to remuneration arrangements, are set out on page 44 of the Concise Annual Report. The fees of non-executive directors for the year are detailed in the table that accompanies this report.

Non-Executive Directors' Retirement Benefits - No Longer Offered

A retirement benefit scheme was in place for non-executive directors since Bank conversion on 1 July 1995. Directors in office as at December 2003 were entitled to receive retirement benefit equal to the aggregate of the remuneration paid to the director during the three-year period before retirement (including superannuation contributions by the Company), provided the director had served at least nine years.

Last year, the Board decided to wind-up the current arrangement with non-executive director retirement benefit entitlements being crystalised as at 31 August 2005. Each eligible director has a period of up to 4 years from August 2005 to inform the Bank as to the manner in which their respective entitlements are to be paid, provided the cost to the Bank is the same.

The Bank will continue to pay statutory superannuation guarantee charge payments to current and new non-executive directors.

Details of the retirement benefit accruals for the period to 31 August 2005 and the aggregate entitlements payable to each director as at 31 August 2005 are disclosed in the non-executive director remuneration table and associated notes that accompany this report.

Executive Remuneration

Objectives and Structure:

The Board has adopted a policy in respect to executive remuneration with the following objectives.

- To motivate executive management to manage and lead the business successfully and to drive strong long-term organisational growth in line with the strategy and business objectives.
- To drive successful organisational performance by incorporating an annual performance incentive and establish longer-term performance objectives.
- To further drive longer-term organisational performance through an equity-based reward structure.
- To make sure that there is transparency and fairness in executive remuneration policy and practices.
- To deliver a balanced solution addressing all elements of total pay – base pay, incentive pay (cash and shares), and benefits including loans.
- To make sure appropriate superannuation arrangements are in place for executives.
- To contribute to appropriate attraction and retention strategies for executives.

The Group has pursued a long term "branded retail banking strategy" which has required a significantly different focus and direction to that typically taken by other organisations in the sector. The Board and Managing Director have sought to maintain a remuneration framework that provides the desired flexibility and reward structure to support this strategy whilst recognising the need to provide remuneration arrangements which are aligned with shareholder interests and commensurate with executive roles, responsibilities and market relativities.

The strategy has involved a significant investment program by the Group which has included acquisitions, expansion of the Group's product range and the distribution network through joint ventures, **Community Bank**® and alliance activities, and investments into a range of community enhancement initiatives.

These investments have a medium to longer-term maturity profile with the objective of generating sustainable improvement in shareholder value. This has been reflected in the Company's short and long term incentive remuneration arrangements for senior executives. The arrangements have been designed to balance the reward for annual performance and provide sufficient flexibility to allow for rewards to be tailored to recognise the development of business opportunities that present themselves during a year or programs that stretch across more than one reporting period.

To achieve the above objectives, executive remuneration arrangements have been structured to comprise:

- Fixed annual remuneration
- Incentive arrangements
- Superannuation guarantee charge payments (currently 15% for the Managing Director and 9% for other executives)

It is the objective of the Board, and Managing Director, to achieve a balance between fixed remuneration and incentive components that takes into account market relativities and aligns executive remuneration with shareholder interests. The incentive based component of the total remuneration package for the Managing Director was 31% and for the executives, including executives who are key management personnel and executives identified in the executive remuneration table that accompanies this report ("Named Executives"), ranged between 20% and 30% of their total remuneration package.

The incentive arrangements in place during the 2006 year included the following components:
- an annual (cash) incentive; and
- equity participation

There have been no issues of equity to the Named Executives since November 2004. The Bank announced on 19 October 2005 that a review would be undertaken in respect to the Bank's remuneration arrangements. The outcomes of the review, including proposed changes to the long-term incentive arrangements, have been described in the "Long term incentives" section of this report.

The incentive arrangements in place during the year were designed to reward the achievement of annual financial goals, individual performance criteria and to drive continued improvement in sustainable shareholder value. There were no long term incentive grants during the year while the Bank was reviewing its long term incentive arrangements. The Bank has completed that review and has introduced a new Executive Incentive Plan (the "Plan") for senior executives (including the Managing Director) and a new Employee Share Plan for general staff. A description of the Plans are set out in the 2006 Notice of Annual General Meeting.

The remuneration arrangements apply to the Managing Director, executives (including the Named Executives) and the Company Secretary of Bendigo Bank.

The Board decides the remuneration arrangements for the Managing Director, including the proportions of fixed remuneration and incentive arrangements, and considers whether any change to the nature or amount should be made to the arrangements, on an annual basis.

The Managing Director, also on an annual basis, reviews and determines the nature and amount of remuneration for executives (including the Company Secretary), including the proportions of fixed remuneration and incentive arrangements.

Fixed annual remuneration:

The terms of employment for executives, including the Managing Director, provide for a base salary component. It is intended that executive base salaries take into account market relativities having regard to the need for Bendigo Bank to attract, motivate and retain the appropriate executive management. The base salary is a specified dollar amount that the executive may receive in a form agreed by the Company.

The base salary component is set by reference to appropriate benchmark information relevant to the executive's role, responsibilities, experience and expertise.

Executives are given the opportunity to receive their base salary in a variety of forms including cash and non-cash (salary sacrifice) benefits such as motor vehicle, superannuation contributions and expense payment arrangements. Executives are able to structure their salary sacrifice arrangements so that the payments are optimal for the recipient, provided they are made available at the same economic cost (including applicable fringe benefits tax) to the Bank.

Managing Director:

In setting the fixed remuneration arrangements for the Managing Director, the Board surveys the range of comparable remuneration arrangements in the market, particularly in the banking and finance sector, to ensure that the remuneration arrangements take into account market relativities and also take into account the particular experience, expertise and strategic direction that the Managing Director brings to the role. The Board's assessment has regard to changes in the size, nature and complexity of the Group's business activities and relevant industry developments which impact the Managing Director's role and responsibilities.

Other executives:

In setting the fixed remuneration arrangements for other executives, the Managing Director takes into account general market and peer information, relative to the particular role and responsibilities of the executive.

Incentive Arrangements:

It is the Board's objective that the incentive arrangements for the Managing Director comprise short-term annual (STI) and long-term (LTI) incentive components. The board has set a targeted remuneration mix for the Managing Director of:

Fixed: 40%
STI: 30%
LTI: 30%

The Board and Managing Director have set a targeted allocation value of 30% of fixed annual reward for participation by other executives in the new Executive Incentive Plan.

Details of the short-term incentive arrangements for the 2006 financial year and the new long-term incentive arrangements are set out below.

Annual Incentive Arrangements

As discussed above, the Managing Director's and executive remuneration packages for the 2006 year included an annual incentive component which rewards both annual financial goals and longer term performance. Payment of any part of the incentive component is at the discretion of the Board in respect of the Managing Director and at the discretion of the Managing Director for executives.

The maximum amount of the cash incentive is set by the Board for the Managing Director, taking into account market data. The Managing Director sets the maximum for other executives, taking into account the executive's particular role and responsibilities.

The amount of the annual incentive component paid to executives, including the Managing Director, is contingent primarily upon the Group achieving budgeted profit performance and in addition, subject to the discretion of the Board and Managing Director, the technical competence, leadership, operational management performance and achievement of agreed business outcomes. The amounts are set following the year-end profit announcement.

The objective of the incentive component is to link the annual financial performance of the group, and the achievement of individual business priorities which enhance the future prospects of the company with the remuneration received by executives. The total potential annual cash incentive is set for each executive with operational responsibilities at a level which provides an appropriate incentive to achieve the business and financial targets and at a cost that is reasonable to the Company in its circumstances.

Managing Director:

The Managing Director's annual cash incentive component for the year ended 30 June 2006 was based upon a mix of quantitative and qualitative performance measures and was set at a maximum of $600,000.

The quantitative element focused on the achievement of EPS growth calculated at the rate of $40,000 for every one cent per share increase in the Bank's reported normalised EPS ratio above the normalised EPS ratio achieved for the 2005 financial year, with a maximum of $400,000 payable.

The Board selected the EPS measure as it represents a publicly available performance measure that appropriately reflects the short-term interests of shareholders. The Board considers that the use of the Bank's EPS ratio ensures that an appropriate focus is placed upon both profit performance and effective application of shareholder capital, given the Bank must adhere at all times to the minimum capital requirements set by the Australian Prudential Regulation Authority.

The Board has set qualitative performance measures in respect to the balance of the annual cash incentive ($200,000) that focus on the continued progress of the Group strategy and reinforcement of the Bank's positioning, the achievement of major business priorities confirmed by the Board, and:

- Continued progress of the Bank to enable an increase in the Bank's credit rating;
- Continued progress of the rationalisation of the Group's property and premises requirements;
- Continued development of the Group's wealth management business;
- Succession planning and development of management; and
- Continued enhancement of the Group's reporting framework.

The above qualitative and quantitative performance measures were selected by the Board to reflect a balance between measures which provide an annual profit-based incentive and measures which provide incentive to generate further sustainable shareholder value during the short to medium term.

The performance of the Managing Director is reviewed by the Board on an annual basis in two stages. The Chairman conducts an assessment of the Managing Director's performance as part of the annual Board and director performance process completed prior to year-end. The outcomes of the assessment are presented to the non-executive directors by the Chairman.

The non-executive directors complete the second stage of the assessment process, after the Group's year-end profit result announcement, at which time the Board determines the amount of the incentive payment based upon the achievement of the agreed performance measures. The Board also determines at the same time the following year's fixed remuneration and incentive arrangements including performance criteria.

Other Executives:

The annual incentive component for other executives is primarily determined on the basis of the Group's normalised EPS performance. Details of the Bank's EPS performance is set out in the Group Performance section of this report. At the discretion of the Managing Director, payment of the annual incentive component may also take into account the executive's technical competence, leadership, operational management performance and achievement of relevant business outcomes for the year.

Generally the amount of the annual incentive paid to other executives is contingent upon the achievement of targeted EPS performance, aligned with the market guidance issued by the Bank. The Managing Director will also take into account the individual performance achievements of the executive member. The incentive paid to executives is based upon an assessment of the Group's actual EPS performance and the extent to which the executive has discharged their position responsibilities and achieved objectives.

Executives may also participate in the bonus pool that is allocated amongst Group employees. Executives only participate in the bonus pool if Company performance exceeds the Board approved budget performance. The amount of any payment from the bonus pool to executives is determined by the Managing Director. Amounts paid from the bonus pool allocation to executives for the 2006 financial year are disclosed in the accompanying remuneration tables**.** No amounts were paid from the bonus pool allocation to executives for the 2006 financial year.

Long term incentives:

Executive Incentive Plan: Executives

There were no long term incentive payments or grants of shares to the Named Executives in the financial year ending 30 June 2006 due to the pending establishment of a new executive incentive plan.

The Board considers it important that executives, including the Managing Director, have ongoing share ownership in the company.

The Company's new Executive Incentive Plan (Plan) is designed to link executive reward with the key performance drivers which underpin sustainable growth in shareholder value – including both share price and returns to shareholders. Participation is offered to executives, including the Managing Director, as decided by the Board.

Offers to participate in the Plan will be made to 11 executives and the Managing Director shortly after the 2006 Annual General Meeting.

Overview of the Plan

The Plan provides for grants of options and performance rights ("Instruments") to key executives, including the Managing Director. Under the Plan, eligible executives are granted options and performance rights subject to performance conditions set by the Board. If the performance conditions are satisfied during the relevant performance period, the options and performance rights will vest. The performance conditions and performance periods for the 2007 grants are set out below.

Options and performance rights are granted at no cost to the executive. The Plan rules provide that the Board may determine that a price is payable upon exercise of an option or exercisable performance right. The exercise price for options will generally be the market price of the shares at the grant date, and no exercise price will apply to exercisable performance rights.

Executives are entitled to vote and to receive any dividend, bonus issue, return of capital or other distribution made in respect of shares they are allocated on vesting and exercise of their performance rights and options, as applicable.

The 2007 grants are subject to a dealing restriction. Executives are not entitled to sell, transfer or otherwise deal with the shares allocated to them until 2 years after the end of the initial performance period.

If an executive ends their employment with the Company before the performance conditions for the options or performance rights have been met, the options and performance rights that have not yet vested will lapse.

However, if the executive's employment ends because of death, disability, redundancy, or if the Board consents, the Board may decide that a number of options and performance rights vest.

If there is a takeover or change of control of the Company, the Board may decide that unvested options or performance rights vest, having regard to the Company's pro rata performance against the relevant performance conditions.

If an executive were to act fraudulently, dishonestly or, in the Board's opinion, in breach of his or her legal duties, any unvested options or performance rights will lapse.

Performance Conditions

The performance condition for options to be granted to executives in 2007 will be based on the Company's total shareholder return ("TSR"). The performance condition for performance rights granted to executives in 2007 will be based on the Company's compound growth in cash basis earnings per share ("EPS"), both measured over a 3 year initial performance period.

Total Shareholder Return ("TSR")

TSR measures changes in the market value of the Company's shares over the performance period and the value of dividends on the shares during that period (dividends are treated as if they were re-invested).

The use of a TSR based hurdle ensures an alignment between comparative shareholder return and reward for the executives and provides a relative, external market performance measure, having regard to the TSR performance of other companies in a comparator group. For the purpose of the 2007 grants under the Plan, the comparator group consists of ASX 200 companies (excluding financials, property trusts and resources) ("**Peer Group**").

Earnings Per Share ("EPS")

Cash basis EPS will be calculated as the reportable earnings which reflect the underlying operating performance of the business, as approved by the Board. The EPS based hurdle is a fundamental indicator of financial performance, both internally and externally and links directly to the Company's long-term objective of growing earnings.

For the purpose of the 2007 grants under the Plan, the EPS performance condition involves a comparison between the cash basis EPS for the last financial year of the performance period against the cash basis EPS for the first financial year of the performance period.

Vesting schedule – Options

Options granted in 2007 will vest in accordance with the following table.

Company's TSR ranking against TSR of Peer Group	Percentage of options that vest
TSR below 50th percentile	Nil
TSR at the 50th percentile	50%
TSR between 51st and 74th percentile	An additional 2% of options will vest for every percentage increase.
TSR at or above 75th percentile	100%

Vesting schedule – performance rights

Performance rights granted in 2007 will vest as set out below. At the end of the performance period, the growth in the Company's cash basis EPS must equal or exceed 10% per annum, calculated on a compound basis.

Company's compound growth in EPS	Percentage of performance rights that vest
EPS growth less than 10%	Nil
EPS growth at or above 10%	100%

The Board has a discretion to increase or decrease by 20% the number of performance rights provided under the 2007 grant based on an assessment of whether cash basis EPS growth was due to factors controllable by the Company or external factors.

Retesting

To the extent that the performance conditions attaching to options and performance rights granted in 2007 are not satisfied at the end of the initial performance period, the options and performance rights that do not vest, will be carried forward and retested as described below.

Options: will be retested after a further 6 months and, if still not satisfied, they may be retested one final time after another 6 months.

Performance rights: will be retested only once, after 12 months.

Any options or performance rights that have not vested at the end of the additional 12 month period will lapse.

Terms of grant to Managing Director

It is proposed that options and performance rights will be granted to the Managing Director in three separate tranches if shareholder approval is obtained at the Company's 2006 Annual General Meeting.

In the 2007 financial year, it is intended that options and performance rights will be granted in two separate tranches, commencing concurrently. Tranche 1 will consist of 120,349 options and 19,043 performance rights and will have an initial performance period of 2 years. Tranche 2 will consist of 160,465 options and 25,391 performance rights and have an initial performance period of 3 years. Tranche 3, which will be granted in the 2008 financial year, will also have a 3 year initial performance period.

The performance conditions attaching to Tranches 1 and 2 are those noted above, which apply to all executives participating in the Plan, except that Tranche 1 has an initial performance period of 2 years. The performance conditions for Tranche 3 will be determined by the Board before the start of the 2008 financial year and will be reported in the Company's 2007 Remuneration Report. It is intended that the performance conditions for Tranche 3 will consist of either or both of TSR and EPS hurdles and will be consistent with those applicable to other executives receiving grants under the Plan at that time.

Employee Share Plan: General Staff

Legacy Plan

The Company has discontinued the existing loan-based Employee Share Ownership Plan ("Plan") which was open to all employees in the Group, including the Managing Director and executives. The Plan will continue as a legacy plan until such time as the loans provided to fund share purchases under the Plan have been repaid. There have been no issues of shares under this Plan since November 2004.

Further details of the major terms and conditions of the Plan are set out in this financial report at Note 34.

New Plan

As announced on 23 May 2006, the Bank has established a new loan-based limited recourse Employee Share Plan ("Plan"). The Plan is substantially the same as the Legacy plan. However, it is only available to general staff. Executives (including the Managing Director) may not participate in it.

Under the terms of the Plan, shares were issued at the prevailing market value, and not at a discount or nil cost. The shares must be paid for by the staff member (this included issues to the Managing Director and other executives). The Plan provided staff members with an interest-free loan for the sole purpose of acquiring Plan shares. Net cash dividends after personal income tax obligations are applied to reduce the loan balance. Staff (including executives) cannot deal in the shares until the loan has been repaid.

The Board has recently approved, on the recommendation of the Managing Director, a share issue to general staff under the Plan. The share issue was completed during September 2006.

Issues under the Plan are valued and treated in accordance with applicable accounting requirements.

Executive Employment Contracts:

It is the Group's policy that executive employment contracts will not be for fixed terms and are not to include a provision for payment on early termination, without Board approval. To date executive members, other than the Managing Director, are employed under the prevailing employment terms and conditions of the Group as set out in the standard employment letter signed by the executive. The respective remuneration arrangements are determined in accordance with Group employment practices.

The employment letter signed by executives does not contain a separate provision in respect to early termination other than in the case of the chief financial officer which provides for a 6 month termination notice period, except in the case of non-performance.

The notice period applicable to other executives ranges between three to four weeks, depending on the executive's length of service.

At the date of this report the only contract the Board has approved which contains a specific provision for payment on early termination is the employment contract entered into between the Bank and the Managing Director. Details of the contract terms are set out below.

Employment Contract – Managing Director:

The current employment agreement with the Group's Managing Director commenced on 1 July 2001 and expires on 30 June 2007. As announced on 19 October 2006 the Managing Director has agreed to extend the agreement and from 1 July 2007 Mr Hunt's employment as Managing Director will be open-ended. A summary of the key elements of the employment agreement follows.

The agreement provides for termination payments to be made in certain circumstances and the payment varies depending on the circumstances as explained below. In each case, it includes payment in lieu of statutory leave entitlements.

Bendigo Bank may terminate the agreement without cause by giving 12 months' notice or, at its option, payment of pro-rata gross salary, in lieu of the required notice, together with any accrued but unused statutory leave entitlements including any that would have accrued in that period. Bendigo Bank may also terminate the agreement for cause, including illegal conduct or gross misconduct, including serious neglect of duties, which in the reasonable opinion of the Board is injurious to the Company, provided that Mr Hunt is given the opportunity to defend himself before termination. In that case, Mr Hunt is entitled to payment of his pro rata gross salary and benefits to the date of termination and payment in lieu of any accrued but unused statutory leave entitlements as at that date.

Mr Hunt may terminate the agreement by giving Bendigo Bank not less than six months' written notice. Mr Hunt is entitled to the pro rata gross salary and benefits for the duration of the six-month notice period. Bendigo Bank may at its sole election make a payment in lieu of the notice period.

Mr Hunt may also treat the agreement as terminated if without cause Bendigo Bank acts or proposes to act to diminish the job content, status, responsibility or authority of Mr Hunt or reduce his gross salary. In that case, Bendigo Bank is required to pay Mr Hunt an amount equivalent to 12 months' gross salary, together with any accrued but unused statutory leave entitlements including any that would have accrued in that period.

The agreement provides for participation in any equity participation plan, other than the general staff plan and for issues of equity instruments at least every two years during the term of the agreement.

Details of the remuneration of directors and executives of the group for the 2006 financial year.

(a) Details of Key Management Personnel

The directors and executives, including key management personnel (being the directors of the Bank and the executives who have the authority and responsibility for planning, directing and controlling the activities of the Group), and the five most highly remunerated executives of the Group and the Company for the 2006 financial year.

(i) Directors

Robert N Johanson	Chairman (non executive) - appointed chairman 28 March 2006
Robert G Hunt AM	Managing Director
Neal J Axelby	Director (non-executive)
Jennifer L Dawson	Director (non-executive)
Donald J Erskine	Director (non-executive)
Richard Guy OAM	Director (non-executive) - retired from the Board on 31 August 2006
Terence J O'Dwyer	Director (non-executive)
Deborah L Radford	Director (non-executive) - appointed 27 February 2006
Kevin E Roache	Director (non-executive)
Antony D Robinson	Director (non-executive) - appointed 24 April 2006

(ii) Executives:

Marnie A Baker [(1)]	Chief General Manager, Solutions
Gregory D Gillett	Chief General Manager, Strategy and Human Resources
Richard H Hasseldine	Chief General Manager, Group Delivery
Michael J Hirst	Chief Operating Officer
Russell P Jenkins [(1)]	Chief General Manager, Retail and Distribution
Vicky M Kelly	Chief Information Officer
K Craig Langford	Chief Financial Officer

[1] Mr Jenkins and Ms Baker became Key Management Personnel following changes to their position responsibilities implemented during September 2005. Other than the retirement of Mr R A Guy noted above, there were no other changes in respect to the group's key management personnel between the reporting date and the date the financial report was authorised for issue.

(b) Remuneration of Key Management Personnel

The remuneration details of directors and named executives for the financial year ended 30 June 2006 (consolidated) are set out in the following tables.

Non-Executive Directors	Short-Term				Post Employment		Long-Term	Share - Based Payment	Total
	Salary & fees (1)	Cash Bonus (At-Risk) (2)	Non Monetary Benefits (3)	Other (4)	Superannuation (5)	Retirement Benefits (6)	Incentive Plans & Long Service Leave Accrual (7)	Options & Shares (8)	
R N Johanson (9)	107,500	-	-	-	9,675	(1,025)	-	-	116,150
N J Axelby	86,822	-	-	-	7,814	814	-	-	95,450
J L Dawson	88,534	-	-	-	7,964	3,611	-	-	100,109
D J Erskine	86,822	-	-	-	7,814	3,277	-	-	97,913
R A Guy OAM (9)	147,500	-	-	-	13,275	(5,682)	-	-	155,093
T J O'Dwyer	85,000	-	-	-	7,650	1,582	-	-	94,232
D L Radford	31,150	-	-	-	2,804	-	-	-	33,954
K E Roache	87,551	-	-	-	7,880	2,488	-	-	97,919
A D Robinson	17,300	-	-	-	1,557	-	-	-	18,857
Total	738,179	-	-	-	66,433	5,065	-	-	809,677

Remuneration of Key Management Personnel (continued)

Executives	Short-Term				Post Employment		Long-Term	Share - Based Payment	Total	Total Performance Related
	Salary & fees	Cash Bonus (At-Risk) (2)	Non Monetary Benefits (3)	Other (4)	Superannuation (5)	Retirement Benefits (6)	Incentive Plans & Long Service Leave Accrual (7)	Options & Shares (8)		
R G Hunt AM	769,315	559,000	36,500	245,146	177,687	-	10,276	-	1,797,924	31%
M A Baker	261,797	90,000	13,799	15,165	30,202	-	22,019	-	432,982	21%
G D Gillett	328,940	160,000	53,905	30,741	48,702	-	12,812	-	635,100	25%
R H Hasseldine	138,144	110,000	132,698	14,641	35,294	-	6,318	-	437,095	25%
M J Hirst	377,150	185,000	54,483	16,601	53,169	-	14,272	-	700,675	26%
R P Jenkins	310,700	90,000	15,539	17,243	33,906	-	27,412	-	494,800	18%
V M Kelly	320,943	120,000	32,717	28,825	40,458	-	16,089	-	559,032	21%
K C Langford	344,546	160,000	66,029	28,415	50,452	-	16,753	-	666,195	24%
Total	2,851,535	1,474,000	405,670	396,777	469,870	-	125,951	-	5,723,803	

Remuneration of Key Management Personnel (continued)

The remuneration details for the financial year ended 30 June 2005 (consolidated) are set out in the following tables.

Non-Executive Directors	Short-Term				Post Employment		Long-Term	Share - Based Payment	Total	Total Performance Related
	Salary & fees (1)	Cash Bonus (At-Risk) (2)	Non Monetary Benefits (3)	Other (4)	Superannuation (5)	Retirement Benefits (6)	Incentive Plans & Long Service Leave Accrual (7)	Options & Shares (7)		
R N Johanson	71,618	-	-	-	6,446	(7,735)	-	-	70,329	-
N J Axelby	76,883	-	-	-	6,919	18,728	-	-	102,530	-
J L Dawson	73,069	-	3,814	-	7,374	25,553	-	-	109,810	-
D J Erskine	76,883	-	-	-	6,919	25,067	-	-	108,869	-
R A Guy OAM (9)	143,236	-	-	-	12,891	(14,114)	-	-	142,013	-
T J O'Dwyer	71,618	-	-	-	6,446	12,271	-	-	90,335	-
K E Roache	78,968	-	-	-	7,107	9,119	-	-	95,194	-
Total	592,275	-	3,814	-	54,102	68,889	-	-	719,080	-

Remuneration of Key Management Personnel (continued)

Executives	Short-Term				Post Employment		Long-Term	Share - Based Payment	Total	Total Performance Related
	Salary	Cash Bonus (At-Risk) (2)	Non Monetary Benefits (3)	Other (4)	Superannuation (5)	Retirement Benefits (6)	Incentive Plans & Long Service Leave Accrual (7)	Options & Shares (8)		
R G Hunt AM	600,753	450,000	30,625	162,882	130,102	-	10,865	-	1,385,227	33%
G D Gillett	304,907	160,000	43,472	29,650	42,296	-	9,615	-	589,940	27%
R H Hasseldine	165,512	100,000	95,570	13,816	31,867	-	5,062	-	411,827	24%
M J Hirst	264,939	160,000	77,441	15,651	39,981	-	7,306	-	565,318	28%
V M Kelly	311,519	100,000	29,364	27,778	33,875	-	9,293	-	511,829	20%
K C Langford	281,519	150,000	60,346	27,328	39,981	-	9,525	-	568,699	26%
Total	1,929,149	1,120,000	336,818	277,105	318,102	-	51,666	-	4,032,840	

Notes:

1. Includes fees payable to members of the credit committee members up to 31 October 2005. The amounts paid comprise Mr K Roache $2,550 (2005 $7,350) ; Ms J Dawson $1,822 (2005 $5,265); Mr D Erskine $1,822 (2005 $5,265) ; and Mr N Axelby $1,822 (2005 $5,265) .
2. The percentage of the incentive payment for the financial year approved by the Board for payment to the Managing Director is 93% (7% forfeited). The percentage of the incentive payments for the financial year approved by the Managing Director for payment to the specified executives is 100% (2005 100%). A minimum level of performance must be achieved before any annual incentive is paid, Therefore, the minimum potential value of the annual incentive which was granted in respect of the 2006 financial year was nil. The maximum value of annual incentive grants made during the 2006 financial year is the amount specified in this table. The incentive payments will be paid during September 2006.
3. “Non monetary’ relates to the salary sacrifice components of short-term compensation.
4. “Other” relates to the interest free loan provided under the Employee Share Ownership Plan. A notional benefit is calculated using the average outstanding loan balance and the bank’s average cost of funds. Details in respect to loans provided to the executive under the Employee Share Ownership Plan are disclosed in the full financial statements at Note 36.
5. Represents superannuation contributions made on behalf of directors and named executives in accordance with the Superannuation Guarantee Charge legislation.
6. Represents amounts provided for by the company during the financial year in relation to the contractual retirement benefit payment to which the non-executive director will be entitled upon retirement from office. As disclosed in the 2005 Concise Annual Report, the retirement benefit entitlements were crystalised as at 31 August 2005 with the following entitlements payable: RA Guy $341,052; RN Johanson $170,434; NJ Axelby $93,471; JL Dawson $126,326; DJ Erskine $125,506; TJ O’Dwyer $87,782; KE Roache $191,722. The respective entitlements are to be paid-out by the Bank in accordance with each director’s instructions over the next few years. The final retirement benefit entitlements have been adjusted for Superannuation Guarantee Charge contributions and associated earnings.
7. The amounts disclosed relate solely to long service leave accruals.

Remuneration of Key Management Personnel (continued)

8. For the reasons set out in this report, no equity grants were made to the Managing Director or the named executives during the 2006 financial year. Accordingly, 0% of the remuneration for the Managing Director and named executives for the 2006 financial year consisted of options and rights. There were no equity and other remuneration components paid to non-executive directors in accordance with the non-executive director remuneration policy.

   During the 2005 year 300,000 ordinary shares were issued to the Group Managing Director under the terms of the Employee Share Ownership Plan, as approved by shareholders at the 2004 Annual General Meeting. The shares were issued fully paid (funded by an interest-free loan) at market value. An approximate fair value of the 300,000 shares issued, based on the valuation methodology under AASB2 “Share-based payment”, ranges between $420,000 and $515,000. The benefit of the interest-free loan is disclosed in the remuneration table in the “Short-Term - Other” column in respect to the Managing Director.

   During the 2005 year, the Board approved the sale of a percentage of the Bank’s ownership in Bendigo Community Telco Limited to the Managing Director, the details of which are disclosed in the related party note to the full financial statements. As part of the Managing Director’s remuneration arrangements, the Board approved a benefit of a deferred payment arrangement for the Managing Director to finance the purchase of the shares. The benefit of the deferred payment arrangement is also included as remuneration under “Short -Term - Other” column in respect to the Managing Director.

9. Fees include Chairman’s allowance of $62,500 (2005 $71,618) paid to Mr R A Guy and Chairman’s allowance of $22,500 paid to Mr R N Johanson.

Meetings of directors

The number of meetings of the Bank's directors (including meetings of committees of directors) held during the year ended 30 June 2006 and the number attended by each director were:

	Board of directors Meetings		Meetings in Committees											
			Audit		Credit		Risk		Property		Governance		IT Strategy	
Attended by:	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
R A Guy OAM	16	13	9	7					1	-	4	3		
R N Johanson	16	15	4	3			6	5			3	3	4	4
R G Hunt AM	16	14					6	6	1	1	4	3	6	5
N J Axelby	16	16			11	11	6	6			4	4		
J L Dawson	16	16	9	9	11	11			1	1				
D J Erskine	16	15			11	11			1	1			6	5
T J O'Dwyer	16	16	9	7			6	5					6	6
D L Radford[1]	5	5			4	4							2	2
K E Roache	16	16			11	9	6	6			4	4		
A D Robinson[2]	3	2					1	1			1	1		

A = Number held
B = Number attended

[1] DL Radford was appointed to the Board on 27 February 2006.
[2] AD Robinson was appointed to the Board on 24 April 2006.

Insurance of Directors and Officers

During or since the financial year end, the Company has paid premiums to insure certain officers of the company and related bodies corporate. The officers of the Company covered by the insurance policy include the directors listed above, the secretary and directors or secretaries of controlled entities who are not also directors and secretaries of Bendigo Bank Limited, and general managers of each of the divisions of the economic entity.

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

Indemnification of Officers

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

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

Directors' Interests in Equity

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

Director	Ordinary shares	Preference shares
R N Johanson	178,401	500
R G Hunt AM[1]	808,954	-
N J Axelby	26,461	50
J L Dawson	12,765	100
D J Erskine	230,908	-
R A Guy OAM	324,623	200
T J O'Dwyer	50,300	-
D L Radford	1,000	-
A D Robinson	2,500	-
K E Roache	40,643	200

[1] Includes 740,000 shares issued under the Bendigo Employee Share Ownership Plan.

Environmental Regulation

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

Company Secretary

David A Oataway B Bus, CA, ACIS

Mr Oataway has been the company secretary of Bendigo Bank Limited for eight years. Prior to this position he held roles within the Bank's internal audit and secretariat departments. Prior to joining the Bank he was employed by Melbourne and Bendigo based chartered accounting firms.

Auditor Independence and Non-audit Services

The Company's audit committee has conducted an assessment of the independence of the external auditor for the year ended 30 June 2006. The assessment was conducted on the basis of the Company's audit independence policy and the requirements of the Corporations Act 2001. The assessment included a review of non-audit services provided by the auditor and an assessment of the independence declaration issued by the external auditor for the year ended 30 June 2006. The audit committee's assessment confirmed that the independence requirements have been met. The audit committee's assessment was accepted by the full Board. A copy of the auditor's independence declaration is provided at the end of this Directors' Report.

Non-Audit Services

Details of all non-audit services for the year ended 30 June 2006:

(a) Audit related fees:

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

Service Category	Fees paid/payable (excluding GST) $	Entity
APRA Prudential Standard APS310 report	52,000	Bendigo Bank Limited
Australian Financial Services Licences	41,000	*Note 1*
APRA Prudential Standard GPS220 report	16,000	Sunstate Lenders Mortgage Insurance
Sub total – audit related fees	**109,000**	

Note 1: Amount attributed to Bendigo Bank and subsidiary companies: Sandhurst Trustees Limited, Victorian Securities Corporation Ltd, Worley Securities Pty Ltd, Bendigo Investment Services Limited and National Assets Securitisation Corporation

(b) Non-audit related fees

Non-audit services are those services paid or payable to the Group's external auditor, Ernst & Young, which do not relate to the audit requirements of the Corporations Act.

Service	Fees paid/payable (excluding GST) $	Entity
Tax compliance services	85,543	Bendigo Bank Limited
Tax advice – (R&D, GST and other advice)	90,541	Bendigo Bank Limited
Sub total – non-audit related fees	**176,084**	
Total	**285,084**	

The Audit Committee has reviewed the nature and scope of the above non-audit services provided by the external auditor. In doing so, the Audit Committee has assessed that the provision of those services is compatible with the general standard of independence for auditors imposed by the Corporations Act.

This assessment was made on the basis that the non-audit services performed did not represent the performance of management functions or the making of management decisions, nor were the dollar amounts of the non-audit fees considered sufficient to impair the external auditor's independence. As noted previously, this Audit Committee's assessment has been reviewed and accepted by the full Board.

ERNST & YOUNG

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000
Australia

GPO Box 67
Melbourne VIC 3001

Tel 61 3 9288 8000
Fax 61 3 8650 7777

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

In relation to our audit of the financial report of Bendigo Bank Limited for the year ended 30 June 2006, 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.

Brett Kallio

Ernst + Young

Brett Kallio

Partner

12 September 2006

Ernst & Young

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW).

Signed in accordance with a resolution of the Board of Directors

Robert Johanson

R N Johanson

Chairman

R G Hunt AM

Managing Director

12 September 2006

INCOME STATEMENT

for the year ended 30 June 2006

	Note	Consolidated		Bendigo Bank	
		2006	2005	2006	2005
Revenue		$m	$m	$m	$m
Net interest income					
Interest income	4	907.5	815.0	844.2	741.5
Interest expense	4	592.4	528.9	538.2	464.3
Net interest income		315.1	286.1	306.0	277.2
Other revenue					
Dividends	4	2.7	1.6	31.3	26.4
Fees - asset products	4	21.4	26.7	19.1	24.5
- liability products and electronic delivery	4	62.6	53.5	62.3	53.2
- trustee, management & other services	4	9.0	9.6	2.5	1.6
- other	4	10.7	9.4	10.3	9.2
Commissions - wealth solutions	4	31.9	29.0	0.4	0.4
- insurance	4	7.3	6.8	5.2	4.6
- other	4	2.4	1.8	2.4	1.9
Other revenue	4	13.5	4.5	15.3	10.0
Total other revenue		161.5	142.9	148.8	131.8
Income					
Profit on sale of SMF shares	4	15.5	-	15.5	-
Other income	4	2.6	9.7	0.6	7.9
Total income		18.1	9.7	16.1	7.9
Share of associates' net profits (losses) accounted for using the equity method	4	22.2	20.3	-	-
Total income after interest expense		516.9	459.0	470.9	416.9
Expenses					
Bad and Doubtful Debts on loans and receivables					
Bad and Doubtful Debts	4	7.3	14.1	6.6	14.0
Bad and Doubtful Debts recovered	4	(0.3)	(0.5)	(0.3)	(0.5)
Total bad and doubtful debts on loans and receivables	4	7.0	13.6	6.3	13.5
Other expenses					
Borrowing costs	4	0.3	0.4	0.3	0.4
Staff and related costs	4	170.8	154.8	154.2	140.0
Occupancy costs	4	29.3	26.2	38.6	31.5
Amortisation of intangibles	4	5.6	3.6	3.7	2.8
Property, plant & equipment costs	4	9.9	9.1	8.8	7.8
Fees and commissions	4	18.9	17.4	15.5	14.3
Other	4	109.4	98.4	105.0	94.4
Total other expenses		344.2	309.9	326.1	291.2
Profit before income tax expense		165.7	135.5	138.5	112.2
Income tax expense	6	(49.0)	(41.2)	(33.6)	(25.8)
Net profit		116.7	94.3	104.9	86.4
Net (profit)/loss attributable to minority interest	32	-	0.4	-	-
Net profit attributable to members of Bendigo Bank Limited		116.7	94.7	104.9	86.4
Basic earnings per ordinary share (cents per share)	9	78.0	67.5		
Diluted earnings per ordinary share (cents per share)	9	78.0	67.5		
Franked dividends per ordinary share (cents per share)	10	52.0	45.0		

BALANCE SHEET

as at 30 June 2006

	Note	Consolidated		Bendigo Bank	
		2006	2005	2006	2005
		$m	$m	$m	$m
Assets					
Cash and cash equivalents	14	270.8	253.1	214.4	115.9
Due from other financial institutions	14	209.0	188.9	209.0	182.6
Derivatives	39	28.4	3.1	28.4	3.1
Financial assets available for sale - securities	15	360.9	-	360.9	-
Financial assets available for sale - share investments	16	94.4	42.5	225.5	157.9
Shares in controlled entities	20	-	-	151.2	145.6
Financial assets held to maturity	17	1,370.6	1,570.1	1,291.8	1,505.9
Loans and other receivables	18	12,436.7	11,392.4	11,948.0	10,762.6
Amounts receivable from controlled entities		-	-	40.1	10.0
Investments in associates and joint ventures	21	143.5	118.1	-	-
Property, plant & equipment	22	81.1	47.5	40.9	29.0
Intangible assets and goodwill	23	89.6	90.4	13.5	7.2
Deferred tax assets	6	27.4	35.8	26.9	36.0
Other assets	25	83.7	116.7	58.9	93.9
Total Assets		15,196.1	13,858.6	14,609.5	13,049.7
Liabilities					
Due to other financial institutions	14	166.3	143.3	166.3	143.3
Deposits	26	13,599.8	12,572.2	13,063.1	11,800.3
Derivatives	39	20.0	6.3	22.2	6.2
Financial liabilities	27	140.0	111.3	110.8	80.3
Income tax payable	6	9.9	8.3	9.9	8.3
Provisions	28	37.4	32.0	36.4	31.1
Deferred tax liabilities	6	16.1	2.4	15.2	1.7
Subordinated debt - at amortised cost	29	307.1	262.1	307.1	262.1
Total Liabilities		14,296.6	13,137.9	13,731.0	12,333.3
Net Assets		899.5	720.7	878.5	716.4
Equity					
Parent entity interest					
Issued capital -ordinary	30	564.1	546.3	564.1	546.3
Perpetual non-cumulative redeemable convertible preference shares	30	88.3	43.0	88.3	43.0
ESOP shares		(25.6)	(30.0)	(25.6)	(30.0)
Reserves	31	78.8	4.0	69.0	1.0
Retained earnings		194.5	157.8	182.7	156.1
Total parent entity interest in equity		900.1	721.1	878.5	716.4
Total minority interest	32	(0.6)	(0.4)	-	-
Total Equity		899.5	720.7	878.5	716.4

CASH FLOW STATEMENT

for the year ended 30 June 2006

	Note	Consolidated		Bendigo Bank	
		2006	2005	2006	2005
		$m	$m	$m	$m
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest and other items of a similar nature received		904.8	815.6	838.3	739.4
Interest and other costs of finance paid		(573.6)	(522.2)	(519.4)	(461.1)
Receipts from customers (excluding interest)		158.9	133.3	117.0	98.8
Payments to suppliers and employees		(288.4)	(332.1)	(267.6)	(288.0)
Dividends received		15.1	12.6	31.3	26.2
Income taxes paid		(45.6)	(41.6)	(40.1)	(37.0)
Net cash flows from operating activities	13	171.2	65.6	159.5	78.3
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash flows for purchases of property, plant and equipment		(44.6)	(16.5)	(17.0)	(15.4)
Cash proceeds from sale of property, plant and equipment		5.8	9.4	1.7	7.3
Cash paid for purchases of intangible software		(9.0)	(6.8)	(8.8)	(5.3)
Cash paid for purchases of equity investments		(28.7)	(34.4)	(28.7)	(16.0)
Cash proceeds from sale of equity investments		2.2	13.9	0.4	107.5
Net increase in balance of loans outstanding		(976.1)	(1,342.3)	(1,151.1)	(1,672.3)
Net increase in balance of investment securities		(161.5)	(350.8)	(146.8)	(331.6)
Net cash increase on derecognition of a subsidiary		0.7	-	-	-
Net cash received/(paid) on acquisition of a subsidiary		-	14.6	-	(19.8)
Net cash flows used in investing activities		(1,211.2)	(1,712.9)	(1,350.3)	(1,945.6)
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash paid for buyback of shares		-	(27.0)	-	(27.0)
Proceeds from issue of preference shares		44.9	45.0	44.9	45.0
Net increase in balance of retail deposits		1,286.2	987.2	1,281.3	989.7
Net increase/(decrease) in balance of wholesale deposits		(277.5)	729.2	(34.7)	818.4
Proceeds from issue of subordinated debt		75.0	85.0	75.0	85.0
Repayment of subordinated debt		(30.1)	(22.5)	(30.1)	(22.5)
Dividends paid		(48.1)	(36.5)	(48.1)	(36.5)
Repayment of ESOP shares		4.4	1.4	4.4	1.4
Payment of share issue costs		-	(2.0)	-	(2.0)
Net cash flows from financing activities		1,054.8	1,759.8	1,292.7	1,851.5
Net increase/(decrease) in cash and cash equivalents held		14.8	112.5	101.9	(15.8)
Add cash and cash equivalents at the beginning of the financial period		298.7	186.2	155.2	171.0
Cash and cash equivalents at the end of financial year	14	313.5	298.7	257.1	155.2

STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of Bendigo Bank Limited						Minority interest	Total equity
	Issued capital	**ESOP shares**	**Perp non-cum redeem conv pref shares**	**Retained earnings**	**Other reserves**	**Total**		
CONSOLIDATED	$m	$m	$m	$m	$m	$m	$m	$m
At 1 July 2004								
Opening AGAAP balance	551.6	-	-	119.6	5.4	676.6	(0.2)	676.4
AIFRS opening balance adjusts:								
Goodwill impairment	-	-	-	(3.4)	-	(3.4)	-	(3.4)
Adjust lease (rent) costs	-	-	-	(0.1)	-	(0.1)	-	(0.1)
Tax effect of asset reval reserve	-	-	-	-	1.2	1.2	-	1.2
ESOP shares	-	(31.4)	-	-	-	(31.4)	-	(31.4)
Adjusted AIFRS open bal	551.6	(31.4)	-	116.1	6.6	642.9	(0.2)	642.7
Transfer from ass reval reserve				2.3	(2.3)			
Tax effect of asset reval reserve	-	-	-	-	(0.3)	(0.3)	-	(0.3)
Total income and expenses recognised directly in equity	-	-	-	2.3	(2.6)	(0.3)	-	(0.3)
Profit for the year	-	-	-	94.7	-	94.7	(0.2)	94.5
Total income/(expense) for the year	-	-	-	97.0	(2.6)	94.4	(0.2)	94.2
Issue of share capital	21.7	-	43.0	-	-	64.7	-	64.7
Share buy-back	(27.0)	-	-	-	-	(27.0)	-	(27.0)
Reduction in ESOP shares	-	1.4	-	-	-	1.4	-	1.4
Equity dividends	-	-	-	(55.1)	-	(55.1)	-	(55.1)
Other	-	-	-	(0.2)	-	(0.2)	-	(0.2)
At 30 June 2005	546.3	(30.0)	43.0	157.8	4.0	721.1	(0.4)	720.7
At 1 July 2005								
Opening balance b/fwd	546.3	(30.0)	43.0	157.8	4.0	721.1	(0.4)	720.7
AIFRS opening balance adjustments:								
Adjust carrying value of share investments	-	-	-	-	25.5	25.5	-	25.5
Tax effect - adjust carrying value of share investments	-	-	-	-	(7.5)	(7.5)	-	(7.5)
Discounting of specific provisions	-	-	-	(0.3)	-	(0.3)	-	(0.3)
Fair value adjustments	-	-	-	0.1	-	0.1	-	0.1
Fair value adjusts-associates	-	-	-	(0.8)	-	(0.8)	-	(0.8)
Establish general reserve for credit losses (GRCL)	-	-	-	-	36.7	36.7	-	36.7
Establish GRCL-associates	-	-	-	-	4.8	4.8	-	4.8
Deferred loan application fees	-	-	-	(7.4)	-	(7.4)	-	(7.4)
Other open bal adjusts-assoc	-	-	-	(1.0)	0.6	(0.4)	-	(0.4)
Adjusted opening balance	546.3	(30.0)	43.0	148.4	64.1	771.8	(0.4)	771.4
Net gains on AFS fin assets	-	-	-	-	7.3	7.3	-	7.3
Gains/(losses) on c/flow hedges	-	-	-	-	2.3	2.3	-	2.3
Gains/(loss) on c/flow h-assoc	-	-	-	-	0.4	0.4	-	0.4
Total income and expenses recognised directly in equity	-	-	-	-	10.0	10.0	-	10.0
Profit for the year	-	-	-	116.7	-	116.7	(0.2)	116.5
Total income/(expense) for the year	-		-	116.7	10.0	126.7	(0.2)	126.5
Issue of share capital	17.8	-	-	-	-	17.8	-	17.8
Pref share instalment (net)	-	-	45.3	-	-	45.3	-	45.3
Reduction in ESOP shares	-	4.4	-	-	-	4.4	-	4.4
Transfer from Asset reval res	-	-	-	0.3	(0.3)	-	-	-
Movements in GRCL	-	-	-	(3.9)	3.9	-	-	-
Move in GRCL-associates	-	-	-	(1.1)	1.1	-	-	-
Equity dividends	-	-	-	(65.9)	-	(65.9)	-	(65.9)
At 30 June 2006	564.1	(25.6)	88.3	194.5	78.8	900.1	(0.6)	899.5

STATEMENT OF CHANGES IN EQUITY (continued)

Attributable to equity holders of Bendigo Bank Limited

BENDIGO BANK	**Issued capital** $m	**ESOP shares** $m	**Perp non-cum redeem conv pref shares** $m	**Retained earnings** $m	**Other reserves** $m	**Total Equity** $m
At 1 July 2004						
Opening AGAAP balance	551.6	-	-	125.5	2.0	679.1
AIFRS opening balance adjusts:						
Goodwill impairment	-	-	-	(2.2)	-	(2.2)
Adjust lease (rent) costs	-	-	-	(0.1)	-	(0.1)
Tax effect of asset revaluation reserve	-	-	-	-	0.9	0.9
ESOP shares	-	(31.4)	-	-	-	(31.4)
Adjusted AIFRS open bal	551.6	(31.4)	-	123.2	2.9	646.3
Transfer from ass reval reserve	-	-	-	1.7	(1.7)	-
Tax effect of asset revaluation reserve	-	-	-	-	(0.2)	(0.2)
Total income and expenses recognised directly in equity	-	-	-	1.7	(1.9)	(0.2)
Profit for the year	-	-	-	86.4	-	86.4
Total income for the year	-	-	-	88.1	(1.9)	86.2
Issue of share capital	21.7	-	43.0	-	-	64.7
Share buy-back	(27.0)	-	-	-	-	(27.0)
Reduction in ESOP shares	-	1.4	-	-	-	1.4
Equity dividends	-	-	-	(55.1)	-	(55.1)
Other	-	-	-	(0.1)	-	(0.1)
At 30 June 2005	546.3	(30.0)	43.0	156.1	1.0	716.4
At 1 July 2005						
Opening balance b/fwd	546.3	(30.0)	43.0	156.1	1.0	716.4
AIFRS open bal adjusts:						
Adj carrying value of share investments	-	-	-	-	25.5	25.5
Tax effect - adj carry value of share investments	-	-	-	-	(7.5)	(7.5)
Discounting of specific provisions	-	-	-	(0.3)	-	(0.3)
Fair value adjustments	-	-	-	0.1	-	0.1
Fair value - swaps	-	-	-	(0.3)	-	(0.3)
Establish general reserve for credit losses (GRCL)	-	-	-	(1.2)	36.7	35.5
Deferred loan application fees	-	-	-	(6.9)	-	(6.9)
Adjusted opening bal	546.3	(30.0)	43.0	147.5	55.7	762.5
Net gains on AFS finan assets	-	-	-	-	7.1	7.1
Gains/(losses) on c/flow hedges	-	-	-	-	2.3	2.3
Total income and expense for the year recognised directly in equity	-	-	-	-	9.4	9.4
Profit for the year	-	-	-	104.9	-	104.9
Total income/(expense) for the year	-	-	-	104.9	9.4	114.3
Issue of share capital	17.8	-	-	-	-	17.8
Pref share instalment (net)	-	-	45.3	-	-	45.3
Reduction in ESOP shares	-	4.4	-	-	-	4.4
Transfer from Asset reval res	-	-	-	-	-	-
Movements in GRCL	-	-	-	(3.9)	3.9	-
Equity dividends	-	-	-	(65.9)	-	(65.9)
Other	-	-	-	0.1	-	0.1
At 30 June 2006	564.1	(25.6)	88.3	182.7	69.0	878.5

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The financial report of Bendigo Bank Limited (the Company) for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 12 September 2006.

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

The domicile of Bendigo Bank Limited is Australia.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

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

The financial report is a general purpose financial report which has been prepared in accordance with the Banking Act, applicable Accounting Standards, Corporations Act 2001 and the requirements of law so far as they are applicable to Australian banking corporations.

The financial report has been prepared in accordance with the historical cost or amortised cost for loans and receivables and financial liabilities, except for investment properties, land and buildings, derivative financial instruments and available-for-sale financial assets which are measured at their fair value. The carrying value of recognised assets and liabilities that are hedged with fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged through the income statement or at amortised cost where appropriate.

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

2.2 Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first annual financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 and AASB 139, as the group has adopted the exemption under AASB 1 to apply these standards from 1 July 2005.

2.3 Reconciliations and descriptions of transition impacts

Reconciliations and descriptions of the impact of transition from previous AGAAP to AIFRS are provided in Note 43 – Impact of Adoption of AIFRS:

- AIFRS equity at 1 July 2004, 30 June 2005 and 1 July 2005; and
- AIFRS profit for the year ended 30 June 2005.

2.4 Changes in accounting policies

The accounting policies are consistent with those applied in the previous financial year and corresponding interim period, with the exception of changes resulting from the adoption of AIFRS. Where an accounting policy has been changed as a result of the adoption of AIFRS, the AIFRS compliant policy is set below.

2.5 Significant accounting judgments, estimates and assumptions

(i) Significant accounting judgments

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

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

(ii) Significant accounting estimates and assumptions

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

Impairment of goodwill and intangibles with indefinite useful lives.

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in note 24.

Impairment of financial assets and property, plant & equipment.

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

Employee benefits (leave provisions)

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

(iii) Recently issued or amended standards not yet effective.

Except for the revised AASB 119 "Employee Benefits" (issued December 2005), Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2006:

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard	Application date for Group
2004-3	AASB 1: *First –time adoption of AIFRS* AASB 101: *Presentation of Financial Statements* AASB 124: *Related Party Disclosures*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-1	AASB 139: *Financial Instruments: Recognition and Measurement*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-4	AASB 139: *Financial Instruments: Recognition and Measurement,* AASB 132: *Financial Instruments: Disclosure and Presentation,* AASB 1: *First-Time adoption of AIFRS,* AASB 1023: *General Insurance Contracts,* AASB 1038: *Life Insurance Contracts*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-5	AASB 1: *First-Time adoption of AIFRS,* AASB 139: *Financial Instruments: Recognition and Measurement*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-6	AASB 3: *Business Combinations*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-9	AASB 4: *Insurance Contracts,* AASB 1023 *General Insurance Contracts,* AASB 139: *Financial Instruments: Recognition and Measurement and* AASB 132: *Financial Instruments: Disclosure and Presentation*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-10	AASB 132: *Financial Instruments: Disclosure and Presentation,* AASB 101: *Presentation of Financial Statements,* AASB 114: *Segment Reporting,* AASB 117: *Leases,* AASB 133: *Earnings per Share,* AASB 139: *Financial Instruments: Recognition and Measurement,* AASB 1: *First-Time adoption of AIFRS,* AASB 4: *Insurance Contracts,* AASB 1023: *General Insurance Contracts* and AASB 1038: *Life Insurance Contracts*	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
2006-1	AASB 121: *The Effects of Change in Foreign Currency Rates*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006

New or revised Standard/UIG Affected Standard(s)	Nature of change to accounting policy	Application date of standard	Application date for Group
AASB 119: *Employee Benefits*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
AASB 7: *Financial Instruments: Disclosures*	No change to accounting policy required. Therefore no impact.	1 January 2007	Group will early adopt 1 July 2006
UIG 4: *Determining whether an Arrangement contains a Lease*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
UIG 5: *Rights to Interest in Decommissioning, Restoration and Environmental Rehabilitation Funds*	No change to accounting policy required. Therefore no impact.	1 January 2006	Not applicable to group

New Standard/UIG Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for Group
UIG 7: *Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies*		1 March 2006	1 July 2006
UIG 8: *Scope of AASB 2*		1 May 2006	1 July 2006
UIG 9: *Reassessment of Embedded Derivatives*		1 June 2006	1 July 2006

2.6 Basis of consolidation

The consolidated financial statements comprise the financial statements of Bendigo Bank Limited and all of its controlled entities (the group).

A controlled entity is any entity (including special purpose entities) over which Bendigo Bank Limited has the power to govern directly or indirectly decision-making in relation to financial and operating policies, so as to require that entity to conform with the objectives of Bendigo Bank Limited.

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

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

Minority interests represent the interests of Community Exchanges Australia Limited and Community Telco Australia Limited (until August 2005), not held by the group.

2.7 Securitisations

Securitised positions are held through a number of Special Purpose Entities (“SPEs”). As the Bank is exposed to the majority of the residual risk associated with these SPEs, their underlying assets, liabilities, revenues and expenses are reported in the Bank’s consolidated balance sheet and income statement.

2.8 Trustee and funds management activities

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

2.9 Investments in associates and joint ventures using the equity method

The group's investment in associates is accounted for under the equity method of accounting in the consolidated financial statements. These are entities in which the group has significant influence and which is neither a subsidiary nor a joint venture. The financial statements of associates are used by the group to apply the equity method. The reporting dates of the associates and the group are identical and both use consistent accounting policies.

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

Where there have been changes recognised directly in the associates' equity, the group recognises its share of any changes and discloses this, when applicable in the consolidated statement of changes in equity.

2.10 Foreign currency transactions and balances

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

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

2.11 Property, plant & equipment

Cost and valuation

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

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

Asset category	**2006 Years**	**2005 Years**
Freehold buildings	40	40
Leasehold improvements	3 - 10	3 - 10
Office furniture & equipment	5	5
Computer hardware	3	3
Motor vehicles	5	5

Impairment

On transition to AIFRS, management identified cash generating units and applicable impairment indicators in accordance with AASB 136 "Impairment of Assets".

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

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

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

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

Revaluations

Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

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

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

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

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

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

Valuations are performed every three years (or more often if circumstances require) ensuring that the carrying amount does not differ materially from the asset's fair value at the balance sheet date.

Derecognition

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

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

2.12 Intangibles assets - goodwill

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

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

On transition to AIFRS, management identified cash generating units and applicable impairment indicators in accordance with AASB 136 "Impairment of Assets".

Goodwill with respect to business combinations completed prior to 1 July 2004 has been allocated to identified cash generating units expected to benefit from the synergies of the combination. Impairment testing was performed by management on transition to AIFRS, resulting in some impairment of goodwill not previously recognised under AGAAP. Goodwill was found to be impaired under AIFRS due to the new testing methodologies prescribed under AIFRS. Impairment losses on transition have been recognised in retained earnings at 1 July 2004.

For business combinations after 1 July 2004 any goodwill acquired is allocated to each of the cash generating units expected to benefit from the combination's synergies.

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

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

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

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

2.13 Intangibles assets - other

Acquired both separately and from a business combination

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

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

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

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

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

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

Computer software

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

Research and development costs

Research costs are expensed as incurred.

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

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

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

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

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

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

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

2.14 Classification of financial instruments

From 1 July 2004 to 30 June 2005

The group has applied previous AGAAP in the comparative information on financial assets within the scope of AASB 132 and AASB 139. Under AGAAP, measurement of financial instruments is at cost and market value, with certain derivatives not recognised on balance sheet.
Financial instruments are classified under the previous AGAAP both on initial and subsequent recognition as follows:

Loans & receivables -	measured at cost
Held to maturity -	measured at cost
Held for trading -	measured at cost
Available for sale (share investments) -	measured at deemed cost
Non-trading liabilities -	measured at cost

Transition 1 July 2005

The nature of adjustments to comply with AASB 132 and 139 are the classification of available for sale, held to maturity and financial assets at fair value through profit or loss.

At the date of transition, any changes to carrying amounts were recognised directly in retained earnings. Under AIFRS, all derivatives are recorded at fair value in the balance sheet.

Financial instruments are classified into one of five categories, which determines the accounting treatment of the financial instrument.

The classifications are:

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

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

2.15 Financial assets and financial liabilities

From 1 July 2005

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement. The group currently does not have any investments held for trading.

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

Treasury financial assets

From 1 July 2005

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

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

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

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

Treasury financial liabilities

From 1 July 2005

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

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

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

Funding instruments that are issued in currencies other than AUD and are not part of an effective hedge relationship are accounted for at amortised cost. These transactions are restated to AUD equivalents each month with adjustments taken directly to income. The group does not currently have any such transactions, as all liabilities denominated in foreign currencies are hedged.

Financial assets - Equity investments

From 1 July 2005

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

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

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

2.16 Asset quality – loans and receivables

From 1 July 2005

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

Loan provisioning

From 1 July 2004 to 30 June 2005
All loans are kept under continuous management review and provisions made for all identified doubtful debts as and when they arise.

Specific provisioning

A specific provision is made for all identified doubtful debts and is recognised when there is reasonable doubt over the collectability of principal and interest in accordance with the loan agreement. All bad debts are written off against the specific provision in the period in which they are classified as irrecoverable.

The provision is determined by specific identification and by estimation of expected losses in relation to loan portfolios where specific identification is impractical. These portfolios include unsecured credit cards, overdrawn accounts and personal loans, unsecured mortgage loans (property realisation shortfalls) where provisions are calculated as follows:

(a) accounts in default past due 90 to 180 days - 10% of account balance is provided; and

(b) accounts in default past due over 180 days - 100% of account balance is provided.

In addition, a general provision is maintained to cover doubtful debts which are not yet identified. The level of the general provision is determined having regard to asset growth, economic conditions, the level of risk weighted assets and other general risk factors.

Adjustment on transition 1 July 2005

On transition to AIFRS on 1 July 2005, the general provision has been reversed to retain earnings. A collective impairment provision and a general reserve for credit losses has been recognised in place of the general provision.

From 1 July 2005

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

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

Impairment losses are recognised in the income statement.

Specific provision

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

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

Collective provision

Where individual loans are found not to be impaired they are grouped together according to their risk characteristics and are then assessed for impairment. Based on historical loss data and current available information for assets with similar risk characteristics, the appropriate collective provision is raised. Adjustments to the collective provisions are recognised as an expense in the income statement.

General reserve for credit losses

In addition a general reserve for credit losses is maintained to cover risks inherent in the loan portfolios. Movements in the general reserve for credit losses are recognised as an appropriation of retained earnings.

Australian Prudential Regulation Authority (APRA) requires that banks maintain a general reserve for credit losses at a minimum level of 0.50% of risk weighted assets (net of tax). In certain circumstances the collective provision can be included in this assessment.

2.17 Cash and cash equivalents

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

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

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

2.18 Other financial liabilities

From 1 July 2004 to 30 June 2005

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

Interest, when charged by the lender, is recognised as an expense on an accrual basis.

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

From 1 July 2005

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

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

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

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

2.19 Reserve fund

The Trustee Companies Act 1984 requires that a reserve fund be maintained to provide for the event of the appointment of a liquidator, a receiver and manager or an administrator of a trustee company. In such an event, the monies in the reserve fund are available to be utilised in accordance with Section 39 (3) of the Trustee Companies Act 1984.

Sandhurst Trustees Limited complies with the Act by setting aside the value of at call investments, freehold property and other financial assets to the reserve fund.

2.20 Deposits

From 1 July 2004 to 30 June 2005

All deposits and borrowings are initially recognised at cost. Interest, issue costs, discounts or premiums are amortised on an accruals basis.

From 1 July 2005

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

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

2.21 Provisions

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

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

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

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

2.22 Employee benefits

Wages and Salaries, Annual leave, Sick leave and Directors' Retirement Provision

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

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

Directors' retirement provision is accrued in accordance with the board approved arrangement. The entitlement is calculated on the basis of pro rata years of service up to a maximum of nine years. Directors' retirement provision accruals have ceased with effect 31 August 2005, due to the crystallisation of entitlements at that date as disclosed in the Bendigo Bank Limited Financial Report 30 June 2005.

Long Service Leave

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

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

Superannuation

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

2.23 Share based payments

The Company has discontinued the existing loan-based Employee Share Ownership Plan ("Plan"). There have been no issues of shares under this Plan since November 2004. The Plan will continue as a legacy plan until such times as the loans provided to fund share purchases under the Plan have been repaid.

Shares issued under the current ESOP are deemed to have been issued under an employee share option. The value of the shares issued is included in issued capital at the issue price.

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

2.24 Leases

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

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

2.25 Revenue

From 1 July 2004 to 30 June 2005

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

Interest income, interest expense and fee income is brought to account on an accruals basis in the income statement.

From 1 July 2005

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

Interest, fees and commissions

Control of a right to receive consideration for the provision of, or investment in, assets has been attained. Interest, fee and commission revenue is brought to account on an accruals basis. Interest is accrued using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument.

Loan origination and loan application fees

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

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

Loan origination fees are amortised on a straight-line basis over the 3 year average life of loans in the portfolio, as the results of this method are not materially different from the results generated from the use of the effective interest method.

Loan application fees are amortised on a straight-line basis over the average life of loans in the respective loan product categories. The amortisation periods are between 24 and 40 months.

Unearned income

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

Dividends

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

2.26 Borrowing costs

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

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

2.27 Income tax

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

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

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

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

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

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

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

2.28 Goods and services tax (GST)

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

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

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

2.29 Derecognition of financial instruments

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

2.30 Derivative financial instruments

From 1 July 2004 to 30 June 2005

The Group uses derivative financial instruments to hedge its interest rate and foreign exchange risk. These derivatives are accounted for on the same basis as the underlying exposure. The premiums or periodic payments related to off-balance sheet financial instruments are amortised over the life of the instrument to match revenue arising from the hedged asset or liability.

Realised gains or losses are brought to account as and when they occur.

Interest rate swaps that are hedges of balance sheet positions are accounted for on an accruals basis. Interest receipts and payments made under these swaps are recognised in the income statement when they are receivable or due to be paid.

From 1 July 2005

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

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

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

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

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

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

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

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

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

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

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

2.31 Issued ordinary capital

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

2.32 Perpetual preference capital

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

2.33 Earnings per ordinary share (EPS)

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

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

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

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

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

- after tax intangibles amortisation (except intangible software amortisation); and
- after tax significant income and expense items
- costs of servicing equity (other than dividends), preference share dividends and movements in general reserve for credit losses

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

3. SEGMENT INFORMATION

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

The operating businesses are organised and managed according to the nature of products and services provided and the key delivery channels, with each segment representing a strategic business unit that offers a different delivery method and/or different products and services.

Retail banking

Net interest revenue, predominantly derived from the provision of first mortgage finance less the interest paid to depositors; and fee revenue derived from the provision of banking services delivered through the company-owned branch network.

Community banking

The group's share of interest predominantly derived from the provision of first mortgage finance less the interest paid to depositors; and fee revenue derived from the provision of banking services delivered through the community bank branch network.

Wealth creation

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

Joint ventures, Alliances and corporate support

Share of profit from equity accounted investments in associates, revenue from alliances and minor subsidiaries and unallocated corporate support business units.

a. Business segments

The following tables present revenue and profit information and certain asset and liability information regarding business segments for the years ended 30 June 2006 and 2005.

For the twelve months ended 30 June 2006

	Retail Banking	Community Banking	Wealth Solutions	J/Ventures, Alliances & Corp Supp't	Total
Revenue	$m	$m	$m	$m	$m
Net interest income	259.4	48.5	7.2	-	315.1
Other income					
Other external income	103.0	25.1	41.3	10.2	179.6
Other intersegment income	0.5	-	2.3	(2.8)	-
Total other income	103.5	25.1	43.6	7.4	179.6
Share of net profit of equity accounted investments	-	-	-	22.2	22.2
Total income after interest expense					
External income after interest expense	362.4	73.6	48.5	32.4	516.9
Intersegment income after interest expense	0.5	-	2.3	(2.8)	-
Total income after interest expense	362.9	73.6	50.8	29.6	516.9
Results					
Segment result	145.8	43.2	26.6	(49.9)	165.7
Internal cost allocations	(37.2)	(22.2)	(1.6)	61.0	-
Consolidated entity profit from continuing operations before income tax expense	108.6	21.0	25.0	11.1	165.7
Income tax expense					(49.0)
Minority interests					-
Consolidated entity profit from continuing operations after income tax expense					116.7
Assets					
Segment assets	7,791.3	3,320.0	149.5	3,791.8	15,052.6
Originated and managed assets	981.7	228.8	715.1	(1,925.6)	-
Equity accounted assets	-	-	-	143.5	143.5
Total assets	8,773.0	3,548.8	864.6	2,009.7	15,196.1
Liabilities					
Segment liabilities	6,611.9	4,007.3	179.3	3,498.1	14,296.6
Funds under management	1,368.9	416.2	1,181.0	(2,966.1)	-
Total liabilities	7,980.8	4,423.5	1,360.3	532.0	14,296.6
Other segment information					
Non-cash expenses					
Depreciation and amortisation	10.6	1.2	0.3	0.3	12.4
Amortisation of intangibles	4.7	0.6	0.2	0.1	5.6
Impairment losses recognised in profit & loss	-	-	-	5.5	5.5
Non-cash expenses other than depreciation & amortisation	18.6	3.7	10.0	(12.6)	19.7
Acquisition of property, plant and equipment, intangible assets and other non-current assets	8.0	0.2	0.8	100.3	109.3

Business segments (continued)

For the twelve months ended 30 June 2005

	Retail Banking	Community Banking	Wealth Solutions	J/Ventures, Alliances & Corp Supp't	Total
Revenue	$m	$m	$m	$m	$m
Net interest income	242.5	37.2	6.4	-	286.1
Other income					
Other external income	81.5	21.5	38.3	11.3	152.6
Other intersegment income	3.8	0.3	0.2	(4.3)	-
Total other income	85.3	21.8	38.5	7.0	152.6
Share of net profit of equity accounted investments	-	-	-	20.3	20.3
Total income after interest expense					
External income after interest expense	324.0	58.6	44.7	31.7	459.0
Intersegment income after interest expense	3.8	0.3	0.2	(4.3)	-
Total income after interest expense	327.8	58.9	44.9	27.4	459.0
Results					
Segment result	133.7	33.7	25.0	(56.9)	135.5
Internal cost allocations	(30.8)	(17.6)	(1.6)	50.0	-
Consolidated entity profit from continuing operations before income tax expense	102.9	16.1	23.4	(6.9)	135.5
Income tax expense					(41.2)
Minority interests					0.4
Consolidated entity profit from continuing operations after income tax expense					94.7
Assets					
Segment assets	7,503.6	2,622.3	141.9	3,472.7	13,740.5
Originated and managed assets	956.4	148.7	750.3	(1,855.4)	-
Equity accounted assets	-	-	-	118.1	118.1
Total assets	8,460.0	2,771.0	892.2	1,735.4	13,858.6
Liabilities					
Segment liabilities	6,124.2	3,141.3	169.3	3,703.1	13,137.9
Funds under management	1,266.1	301.0	1,140.7	(2,707.8)	-
Total liabilities	7,390.3	3,442.3	1,310.0	995.3	13,137.9
Other segment information					
Non-cash expenses					
Depreciation and amortisation	10.2	0.4	0.3	0.4	11.3
Amortisation of intangibles	2.8	0.3	0.1	0.4	3.6
Impairment losses recognised in profit & loss	-	-	-	-	-
Non-cash expenses other than depreciation & amortisation	26.7	3.9	6.0	(10.3)	26.3
Acquisition of property, plant and equipment, intangible assets and other non-current assets	11.9	0.5	0.2	64.8	77.4

b. Geographic segments

Bendigo Bank Limited and controlled entities operate predominantly in the geographic areas of all Australian states and the Australian Capital Territory providing banking and financial services.

4. PROFIT FROM CONTINUING ACTIVITIES

Profit before income tax expense has been determined as follows:

	Consolidated 2006 $m	Consolidated 2005 $m	Bendigo Bank 2006 $m	Bendigo Bank 2005 $m
(a) Revenue:				
Interest income				
Controlled entities				
Investment securities	-	-	0.1	0.6
Other persons/entities				
Cash and liquid assets	3.0	1.2	3.3	1.0
Investment securities	97.0	83.9	91.7	80.1
Loans and other receivables	774.3	682.3	744.8	654.6
Securitisation	33.2	47.6	4.3	5.2
Total interest income	907.5	815.0	844.2	741.5
Interest expense				
Controlled entities				
Retail deposits	-	-	-	0.6
Wholesale - domestic	-	-	0.4	-
Other persons/entities				
Deposits				
Retail	444.1	376.1	434.9	366.5
Wholesale - domestic	46.2	46.8	29.6	33.6
Wholesale - offshore	53.5	46.5	53.5	46.5
Other borrowings				
Subordinated debt	19.8	17.1	19.8	17.1
Securitisation	28.8	42.4	-	-
Total interest expense	592.4	528.9	538.2	464.3
Net interest income	315.1	286.1	306.0	277.2
Other revenue				
Dividends				
Controlled entities	-	-	16.2	13.7
Associates	-	-	12.6	11.2
Other	2.5	1.5	2.5	1.5
Distribution from unit trusts	0.2	0.1	-	-
	2.7	1.6	31.3	26.4
Fees				
Assets	21.4	26.7	19.1	24.5
Liabilities & electronic delivery	62.6	53.5	62.3	53.2
Trustee, management & other services	9.0	9.6	2.5	1.6
Other	10.7	9.4	10.3	9.2
	103.7	99.2	94.2	88.5
Commissions				
Insurance	7.3	6.8	5.2	4.6
Wealth solutions	31.9	29.0	0.4	0.4
Other	2.4	1.8	2.4	1.9
	41.6	37.6	8.0	6.9
Other				
Income from property	0.5	0.8	9.3	5.7
Foreign exchange revenue	5.0	3.9	5.0	3.9
Other	8.0	(0.2)	1.0	0.4
	13.5	4.5	15.3	10.0
Total other revenue	161.5	142.9	148.8	131.8
Income				
Profit on sale of SMF shares	15.5	-	15.5	-
Other income				
Profit on disposal of property, plant & equipment	(0.1)	0.3	(0.3)	0.3
Profit on sale of other investments	0.9	1.0	0.8	0.5
Other	1.8	8.4	0.1	7.1
Total other income	2.6	9.7	0.6	7.9
Share of associates' net profits (losses) accounted for using the equity method	22.2	20.3	-	-
Total income after interest expense	516.9	459.0	470.9	416.9

PROFIT FROM CONTINUING ACTIVITIES (continued)

	Consolidated		Bendigo Bank	
	2006	2005	2006	2005
	$m	$m	$m	$m
(b) Expenses				
Expenses				
Bad and doubtful debts				
Specific provisions	6.2	7.3	5.7	7.5
Collective provision	1.1	-	0.9	-
General provision	-	6.7	-	6.5
Bad debts written off	-	0.1	-	-
Bad debts recovered	(0.3)	(0.5)	(0.3)	(0.5)
Total bad and doubtful debts	7.0	13.6	6.3	13.5
Borrowing costs	0.3	0.4	0.3	0.4
Other expenses				
Staff and related costs				
Salaries and wages	133.9	121.8	120.6	109.8
Superannuation contributions	13.3	11.7	12.1	10.6
Provision for annual leave	1.4	1.9	1.3	1.5
Provision for long service leave	2.1	1.4	2.0	1.2
Other provisions	0.6	1.0	0.5	1.1
Payroll tax	8.2	7.2	7.4	6.5
Fringe benefits tax	2.6	1.8	2.2	1.6
Other	8.7	8.0	8.1	7.7
	170.8	154.8	154.2	140.0
Occupancy costs				
Operating lease rentals	15.9	12.6	26.6	19.2
Depreciation of buildings	0.2	0.4	-	0.1
Amortisation of leasehold improvements	2.3	2.0	2.3	2.0
Property rates	0.3	0.4	0.2	0.3
Land tax	0.2	0.1	0.1	0.1
Repairs and maintenance	3.2	3.4	2.9	3.1
Other	7.2	7.3	6.5	6.7
	29.3	26.2	38.6	31.5
Amortisation of intangibles				
Amortisation of intangible assets	1.6	0.3	-	-
Amortisation of intangible software	3.9	3.3	3.7	2.8
Impairment losses on goodwill	0.1	-	-	-
	5.6	3.6	3.7	2.8
Property, plant & equipment costs				
Depreciation of property, plant & equipment	9.9	9.0	8.8	7.7
Losses on disposal of property, plant & equipment	-	0.1	-	0.1
	9.9	9.1	8.8	7.8
Fees and commissions	18.9	17.4	15.5	14.3
Administration expenses				
Communications, postage and stationery	22.2	19.8	21.2	18.9
Computer systems and software costs	28.3	23.9	27.1	22.8
Advertising & promotion	11.7	9.1	11.3	8.8
Other product & services delivery costs	18.4	16.0	18.4	15.9
General administration expenses	22.2	23.4	19.8	22.1
Decrements arising from the revaluation of investments	-	0.3	-	0.3
Provision for directors' retirement allowance	-	0.1	-	0.1
Other	6.6	5.8	7.2	5.5
	109.4	98.4	105.0	94.4
Total expenses	351.2	323.5	332.4	304.7
Profit before income tax expense	165.7	135.5	138.5	112.2

5. UNDERLYING PROFIT

Underlying profit shows the growth in the core business of the economic entity

	Consolidated		Bendigo Bank	
	2006	2005	2006	2005
	$m	$m	$m	$m
Profit after income tax expense	116.7	94.7	104.9	86.4
Add,				
Bad and doubtful debts expense (net of bad debts recovered)	7.0	13.6	6.3	13.5
Amortisation of intangibles (except software amortisation)	1.7	0.3	-	-
Significant items	(11.2)	(3.5)	(9.5)	(2.2)
Income tax expense (Note 6)	49.0	41.2	33.6	25.8
Underlying profit	163.2	146.3	135.3	123.5

6. INCOME TAX EXPENSE

Major components of income tax expense are:

Income statement				
Current income tax				
Current income tax charge	57.6	46.8	45.1	33.8
Adjustments in respect of current income tax of previous years	(1.9)	-	(1.9)	0.1
Deferred income tax				
Relating to origination and reversal of temporary differences	(3.3)	(2.7)	(3.2)	(2.8)
Imputation credits	(6.4)	(5.3)	(6.4)	(5.3)
Other items	3.0	2.4	-	-
Income tax expense reported in the income statement	49.0	41.2	33.6	25.8
Statement of changes in equity				
Deferred income tax related to items charged or credited directly in equity				
Net gain on hedge of net investment	(10.9)	-	(10.8)	-
Tax effect of collective provisions	2.5	-	2.5	-
Income tax benefit reported in equity	(8.4)	-	(8.3)	-

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the group's applicable income tax rate is as follows:

Income tax expense attributable to:				
Accounting profit before income tax	165.7	135.5	138.5	112.2
The income tax expense comprises amounts set aside as:				
Provision attributable to current year at statutory rate, being				
prima facie tax on accounting profit before tax	49.7	40.7	41.6	33.7
under (over) provision in prior years	(1.9)	-	(1.9)	0.1
tax credits and adjustments	(6.4)	(5.3)	(6.4)	(5.3)
Fair value revaluations on property, plant & equipment	0.7	0.9	0.6	0.8
Capital allowances	0.1	0.1	0.1	0.1
Expenditure not allowable for income tax purposes	2.3	0.8	2.3	0.8
Deferred tax movement	(3.3)	(2.7)	(3.2)	(2.8)
Other non assessable income	(4.7)	(2.5)	(4.7)	(2.2)
Tax effect attributable to associates	(2.0)	0.8	-	-
Post-employment Benefits	1.1	0.9	1.0	1.1
Movement in loan provisions	2.8	0.6	2.6	0.5
Movement in provisions	0.5	0.4	0.6	0.5
Tax effect of franking credits	1.9	1.6	1.9	1.6
Other	8.2	4.9	(0.9)	(3.1)
Income tax expense reported in the consolidated income statement	49.0	41.2	33.6	25.8
Effective income tax rate	29.6%	30.4%	24.3%	23.0%

INCOME TAX EXPENSE (continued)

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

	Balance sheet		Income statement	
	2006	2005	2006	2005
	$m	$m	$m	$m
Consolidated				
Deferred tax liabilities				
Revaluations of land and buildings to fair value	(0.2)	(0.3)	-	-
Revaluations of available-for-sale financial assets to fair value	(13.4)	0.8	3.3	-
Deferred gains and losses on foreign exchange contracts	-	-	(0.1)	-
Deferred expenses	(2.4)	(2.8)	(0.4)	(0.4)
Other	(0.1)	(0.1)	0.1	-
Deferred tax liabilities	(16.1)	(2.4)		
Deferred tax assets				
Post-employment benefits	6.8	5.7	(1.1)	(0.9)
Deferred gains and losses of interest rate swaps	-	-	(0.6)	-
Expenses tax depreciable	0.6	0.7	-	(0.1)
Revaluation of land and buildings	3.1	2.6	(0.5)	(0.5)
Revaluation of plant and equipment	1.7	1.6	(0.2)	(0.3)
Adjustment to provisions	4.4	3.9	(0.5)	(0.4)
Prepaid income	1.2	1.3	0.1	1.1
Adjustment to loan provisions	5.3	19.0	(0.3)	(0.6)
Other	4.3	1.0	(3.1)	(0.6)
Deferred tax assets	27.4	35.8		
Deferred tax income/(expense)			(3.3)	(2.7)
Bendigo Bank				
Deferred income tax liabilities				
Revaluations of land and buildings to fair value	(0.1)	(0.1)	-	-
Revaluations of available-for-sale financial assets to fair value	(13.0)	0.8	3.1	-
Deferred expenses	(2.1)	(2.4)	(0.3)	(0.4)
Other	-	-	(0.1)	-
Deferred tax liabilities	(15.2)	(1.7)		
Deferred tax assets				
Post-employment benefits	6.5	5.5	(1.0)	(1.1)
Revaluations of interest rate swaps to fair value	0.6	-	(0.6)	-
Expenses tax depreciable	0.6	0.6	-	(0.1)
Revaluation of land and buildings	2.7	2.2	(0.5)	(0.5)
Revaluation of plant and equipment	1.5	1.4	(0.1)	(0.3)
Adjustments to provisions	4.3	3.8	(0.6)	(0.5)
Prepaid income	1.2	1.3	0.1	1.1
Adjustment to loan provisions	5.2	20.1	(0.1)	(0.5)
Other	4.3	1.0	(3.1)	(0.5)
Deferred tax assets	26.9	35.9		
Deferred tax income/(expense)			(3.2)	(2.8)

At 30 June 2006, there is no unrecognised deferred income tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the group's subsidiaries, associates or joint ventures, as the group has no liability for additional taxation should such amounts be remitted.

Tax Consolidation

Effective 1 July 2002, for the purposes of income taxation, Bendigo Bank Limited and its 100% owned subsidiaries formed a tax consolidated group. Members of the group entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a stand alone basis. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated group is Bendigo Bank Limited.

There has not been any material effect on tax assets or liabilities as a result of any revised tax legislation. Bendigo Bank Limited formally notified the Australian Tax Office of its adoption of the tax consolidation regime upon the lodgement of its 2003 income tax return.

Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group on a stand alone taxpayer basis, while deferred taxes are allocated to members of the tax consolidated group in accordance with the principle of AASB 112 Income Taxes. Allocations under the tax funding agreement are made at the end of each month.

The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the subsidiaries inter-company accounts with the tax consolidated group head company, Bendigo Bank Limited. Because under UIG 1052 Tax Consolidation Accounting the allocation of current taxes to tax consolidated group members on the basis of accounting profits is not an acceptable method of allocation given the group's circumstances, the difference between the current tax amount that is allocated under the tax funding agreement and the amount that is allocated under an acceptable method is recognised as a contribution/distribution of the subsidiaries' equity accounts.

In preparing the accounts of Bendigo Bank Limited for the current year, the following amounts have been recognised as tax-consolidation contribution adjustments:

	Bendigo Bank	
	2006	2005
	$m	$m
Total increase/(reduction) to tax expense of Bendigo Bank Limited	(0.1)	5.2
Total increase/(reduction) to inter-company assets of Bendigo Bank Limited	0.1	(5.2)
Total increase/(reduction) to equity accounts of Bendigo Bank Limited	-	-

7. AVERAGE BALANCE SHEET AND RELATED INTEREST

For the twelve month period ended 30 June 2006

	Note	Average Balance $m	Interest 12 mths $m	Average Rate %
Average balances and rates	*1*			
Interest earning assets				
Cash and cash equivalents		203.9	3.0	1.47
Financial assets (treasury) available for sale & held to maturity		1,697.0	97.0	5.72
Loans and other receivables - company		8,267.3	603.0	7.29
Loans and other receivables - alliances		3,190.3	211.6	6.63
		13,358.5	914.6	6.85
Securitisation interest earning assets		463.1	33.2	7.17
Total interest earning assets	*2,3*	13,821.6	947.8	6.86
Non interest earning assets				
Property, plant & equipment		63.6		
Provisions for doubtful debts		(21.6)		
Other assets		428.2		
		470.2		
Total assets (average balance)		14,291.8		
Interest bearing liabilities and equity				
Deposits				
Retail - company		6,763.5	277.6	4.10
Retail - alliances		3,958.9	206.8	5.22
Wholesale - domestic		842.8	46.2	5.48
Wholesale - offshore		914.6	53.5	5.85
Other borrowings				
Subordinated debt		294.0	19.8	6.73
		12,773.8	603.9	4.73
Securitisation interest bearing liabilities		448.6	28.8	6.42
Total interest bearing liabilities	*2*	13,222.4	632.7	4.79
Non interest bearing liabilities and equity				
Other liabilities		265.5		
Equity		803.9		
		1,069.4		
Total liabilities and equity		14,291.8		
Interest margin and interest spread				
Interest earning assets		13,821.6	947.8	6.86
Interest bearing liabilities		(13,222.4)	(632.7)	(4.79)
Net interest income and interest spread	*4*		315.1	2.07
Net interest margin	*5*			2.28

Impact of community bank/alliances profit share arrangements

Net interest margin before community bank/alliances share of net interest income	2.76
Less impact of community bank/alliances share of net interest income	0.48
Net interest margin	2.28

1 Average balance is based on monthly closing balances from 30 June 2005 through 30 June 2006 inclusive, with the exception of Wholesale domestic, which is based on a daily closing balance.
2 Interest payments to alliance partners are net values in the Income Statement. Interest income and expense values have been increased by $40.3m to reflect the gross amounts.
3 Interest income includes $7.2m of application fee income reclassified under AIFRS.
4 Interest spread is the difference between the average interest rate earned on assets and the average interest rate paid on funds.
5 Interest margin is the net interest income as a percentage of average interest earning assets.

AVERAGE BALANCE SHEET AND RELATED INTEREST (continued)

For the twelve month period ended 30 June 2005

	Note	Average Balance $m	Interest 12 mths $m	Average Rate %
Average balances and rates	*1*			
Interest earning assets				
Cash and cash equivalents		125.0	1.2	0.96
Financial assets (treasury) available for sale & held to maturity		1,482.1	83.9	5.66
Loans and other receivables - company		7,804.8	555.8	7.12
Loans and other receivables - alliances		2,440.5	158.6	6.50
		11,852.4	799.5	6.75
Securitisation interest earning assets		685.6	47.6	6.94
Total interest earning assets	*2*	12,538.0	847.1	6.76
Non interest earning assets				
Property, plant & equipment		53.9		
Provisions for doubtful debts		(66.7)		
Other assets		324.7		
		311.9		
Total assets (average balance)		12,849.9		
Interest bearing liabilities				
Deposits				
Retail - company		6,372.4	250.9	3.94
Retail - alliances		3,079.9	157.3	5.11
Wholesale - domestic		821.5	46.8	5.70
Wholesale - offshore		779.7	46.5	5.96
Other borrowings				
Subordinated debt		247.3	17.1	6.91
		11,300.8	518.6	4.59
Securitisation interest bearing liabilities		669.6	42.4	6.33
Total interest bearing liabilities	*2*	11,970.4	561.0	4.69
Non interest bearing liabilities and equity				
Other liabilities		209.1		
Equity		670.4		
		879.5		
Total liabilities and equity		12,849.9		
Interest margin and interest spread				
Interest earning assets		12,538.0	847.1	6.76
Interest bearing liabilities		(11,970.4)	(561.0)	(4.69)
Net interest income and interest spread	*3*		286.1	2.07
Net interest margin	*4*			2.28

Impact of community bank/alliances profit share arrangements

Net interest margin before community bank/alliances share of net interest income	2.68
Less impact of community bank/alliances share of net interest income	0.40
Net interest margin	2.28

1 Average balance is based on monthly closing balances from 30 June 2004 through 30 June 2005 inclusive, with the exception of Wholesale domestic, which is based on a daily closing balance.
2 Interest payments to alliance partners are net values in the Income Statement. Interest income and expense values have been increased by $32.1m to reflect the gross amounts.
3 Interest spread is the difference between the average interest rate earned on assets and the average interest rate paid on funds.
4 Interest margin is the net interest income as a percentage of average interest earning assets.

8. CAPITAL ADEQUACY AND ACE RATIO

a. Capital adequacy

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

The group has reported under AIFRS for the financial year commencing 1 July 2005. APRA has amended its prudential regulations in response to the implementation of AIFRS and that these changes take effect 1 July 2006. Therefore, capital adequacy calculations continue to be made under previous AGAAP for the 2005/06 financial year.

	Consolidated	
	As at	As at
	June 2006 $m	June 2005 $m
Risk weighted capital ratios		
Tier 1	8.33%	8.01%
Tier 2	2.44%	2.38%
Total capital ratio	10.77%	10.39%
Qualifying Capital		
Tier 1		
Contributed capital	652.4	589.3
Retained profits & reserves	166.7	128.1
Less,		
Intangible assets	77.2	79.0
Net future income tax benefit	17.9	14.2
Other adjustments as per APRA advice	10.5	11.4
Total Tier 1 capital	713.5	612.8
Tier 2		
General reserve for credit losses	46.7	42.2
Subordinated debt	307.1	262.1
Asset revaluation reserves	3.0	3.0
	356.8	307.3
Less,		
Subsidiary investment residual	9.0	9.2
Total Tier 2 capital	347.8	298.1
Less,		
Investments in non-consolidated subsidiaries or associates and other bank's capital instruments	138.2	115.7
Total qualifying capital	923.1	795.2
Total risk weighted assets	**8,566.9**	**7,655.1**

CAPITAL ADEQUACY AND ACE RATIO (continued)

b. Adjusted common equity ("ACE")

Adjusted common equity is one measure considered by Standard & Poor's in evaluating the Bank's credit rating. The ACE ratio has been calculated in accordance with the Standard & Poor's methodology.

	Consolidated	
	As at June 2006 $m	As at June 2005 $m
Adjusted Common Equity		
Tier 1 capital	713.5	612.8
Deduct:		
Preference share capital	88.3	43.0
Subsidiary investment residual	9.0	9.2
Investments in non-consolidated subsidiaries or associates and other banks' capital instruments	138.2	115.7
Total Adjusted Common Equity	478.0	444.9
Adjusted Common Equity ratio to risk weighted assets	**5.58%**	**5.81%**

9. EARNINGS PER ORDINARY SHARE

	Consolidated	
	2006	2005
Share ratios	Cents per share	Cents per share
Basic earnings per ordinary share	78.0	67.5
Diluted earnings per ordinary share	78.0	67.5
Cash basis earnings per ordinary share	73.2	65.5
Earnings used in the calculation of earnings per ordinary share	$m	$m
Net profit	116.7	94.3
Net loss attributable to minority interests	-	0.4
Distributions paid on preference shares	(2.5)	-
Movement in general reserve for credit losses	(3.9)	-
Movement in general reserve for credit losses - associates	(1.1)	-
Earnings used in calculating basic earnings per ordinary share	109.2	94.7
Earnings used in calculating diluted earnings per ordinary share	109.2	94.7
After tax intangibles amortisation (excluding amortisation of intangible software)	1.7	0.3
After tax significant income and expense items	(8.4)	(3.0)
Earnings used in calculating cash basis earnings per ordinary share	102.5	92.0
Weighted average number of ordinary shares	No. of shares	No. of shares
Weighted average number of ordinary shares used in basic earnings per ordinary share	140,057,705	140,391,946

The above weighted average number of ordinary shares is also used in the calculation of diluted and cash basis earnings per ordinary share as there are no dilutive potential ordinary shares.

Conversions, calls, subscription or issues after 30 June 2006

There have been no conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this financial report.

10. DIVIDENDS

	Consolidated		Bendigo Bank	
	2006 $m	2005 $m	2006 $m	2005 $m
Dividends paid or proposed				
Ordinary shares				
Dividends paid during the year				
current year				
Interim dividend (22.0 cents per share) (2005 - 19.0 cents per share)	29.1	25.3	29.1	25.3
previous year				
Final dividend (26.0 cents per share) (2005 - 23.0 cents per share)	34.3	29.8	34.3	29.8
	63.4	55.1	63.4	55.1
Dividends proposed since the reporting date, but not recognised as a liability				
Final dividend (30.0 cents per share) (2005: 26.0 cents per share)	40.1	34.3	40.1	34.3

All dividends paid were fully franked. Proposed dividends will be fully franked out of existing franking credits or out of franking credits arising from payment of income tax provided for in the financial statements for the year ended 30 June 2006.

	Consolidated 2006 $m	Consolidated 2005 $m	Bendigo Bank 2006 $m	Bendigo Bank 2005 $m
Preference shares				
Dividends paid during the year				
90.80 cents per share paid on 15 September 2005 (2005: Nil)	0.8	-	0.8	-
62.19 cents per share paid on 15 December 2005 (2005: Nil)	0.6	-	0.6	-
61.62 cents per share paid on 15 March 2006 (2005: Nil)	0.5	-	0.5	-
62.68 cents per share paid on 15 June 2006 (2005: Nil)	0.6	-	0.6	-
	2.5	-	2.5	-
Dividend franking account				
Balance of franking account as at end of financial year			95.4	79.6
Franking credits that will arise from the payment of income tax provided for in the financial report			9.9	8.3
Impact of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution of equity holders during the period			(18.1)	(15.5)
			87.2	72.4

The tax rate at which dividends have been franked is 30% (2005: 30%).
Dividends proposed will be franked at the rate of 30% (2005: 30%).

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

	Consolidated 2006 $m	Consolidated 2005 $m	Bendigo Bank 2006 $m	Bendigo Bank 2005 $m
Paid in cash	48.1	36.5	48.1	36.5
Satisfied by issue of shares	17.8	18.6	17.8	18.6
	65.9	55.1	65.9	55.1

Dividend Reinvestment Plan

The Dividend Reinvestment Plan provides shareholders with the opportunity of converting their entitlement to a dividend into new shares. The issue price of the shares is equal to the volume weighted average share price of Bendigo Bank shares traded on the Australian Stock Exchange over the ten trading days following the Record Date. Shares issued under this Plan rank equally with all other ordinary shares.

Bonus Share Scheme

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

The last date for the receipt of an election notice for participation in either the Dividend Reinvestment Plan or Bonus Share Scheme for the 2006 final dividend was 1 September 2006.

11. RETURN ON AVERAGE ORDINARY EQUITY

	Consolidated 2006 %	2005 %
Return on average ordinary equity	15.14	13.98
Pre-significant items return on average ordinary equity	13.97	13.54
Cash basis return on average ordinary equity	14.21	13.58

	$m	$m
Reconciliation of earnings used in the calculation of return on average ordinary equity		
Net profit for the year	116.7	94.3
(Profit)/loss attributable to minority interests	-	0.4
Distributions paid on preference shares	(2.5)	-
Movement in general reserve for credit losses	(3.9)	-
Movement in general reserve for credit losses - associates	(1.1)	-
Earnings used in calculation of return on average ordinary equity	109.2	94.7
After tax significant income and expense items	(8.4)	(3.0)
Earnings used in calculation of pre-significant items return on average ordinary equity	100.8	91.7
After tax intangibles amortisation (excluding amortisation of intangible software)	1.7	0.3
Earnings used in calculation of cash basis return on average ordinary equity	102.5	92.0

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

Total equity	899.5	720.7
Preference share net capital	(88.3)	(43.0)
General reserve for credit losses	(40.6)	-
General reserve for credit losses - associates	(6.5)	-
Minority interest	0.6	0.4
Ordinary equity	764.7	678.1
Average ordinary equity	721.4	677.4

12. NET TANGIBLE ASSETS PER ORDINARY SHARE

Net tangible assets per ordinary share	$ 4.78	$ 4.21

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

	$m	$m
Net assets	899.5	720.7
Intangibles	(89.6)	(90.4)
Preference shares - face value	(90.0)	(45.0)
General reserve for credit losses	(40.6)	-
General reserve for credit losses - associates	(6.5)	-
Minority interest	0.6	0.4
Net tangible assets	673.4	585.7
Number of ordinary shares on issue at reporting date	140,850,961	139,106,669

13. CASH FLOW INFORMATION

Reconciliation of cash flow from operations with profit after income tax

	Consolidated		Bendigo Bank	
	2006	2005	2006	2005
	$m	$m	$m	$m
Profit after tax	116.7	94.3	104.9	86.4
Non-cash items				
Doubtful debts expense	7.3	14.1	6.6	14.0
Amortisation	5.6	3.6	3.7	2.8
Depreciation	12.4	11.3	11.1	9.9
Revaluation (increments)/decrements	5.4	0.7	7.2	0.3
Share of associates' net (profits)	(22.2)	(20.3)	-	-
Dividends received/(accrued) from associates	12.5	11.3	-	(0.3)
Profits on sale of investment securities	(16.5)	(8.0)	(14.6)	(6.6)
(Profits)/losses on sale of property, plant & equipment	0.1	(1.7)	0.3	(1.2)
Changes in assets and liabilities				
Increase/(decrease) in tax provision	1.6	8.4	1.6	(3.7)
Increase/(decrease) in deferred tax liability	5.3	(8.8)	4.4	(7.5)
(Increase)/decrease in accrued interest	14.2	(3.7)	15.4	(1.3)
Increase in accrued employees entitlements	3.7	3.7	3.5	4.5
Increase/(decrease) in other accruals, receivables and provisions	25.1	(39.3)	15.4	(19.0)
Net cash flows from/(used in) operating activities	171.2	65.6	159.5	78.3

Cash flows presented on a net basis

Cash flows arising from the following activities are presented on a net basis in the statement of cash flows:
Investment securities, Retail deposits, Wholesale deposits and Subordinated debt.

14. CASH AND CASH EQUIVALENTS

	Consolidated		Bendigo Bank	
	2006	2005	2006	2005
	$m	$m	$m	$m
Notes, coin and cash at bank	268.0	247.7	213.1	113.7
Investments at call	2.8	5.4	1.3	2.2
	270.8	253.1	214.4	115.9
Reconciliation of cash and cash equivalents				
For the purposes of the statement of cash flows, cash and cash equivalents includes:				
Cash and cash equivalents	270.8	253.1	214.4	115.9
Due from other financial institutions	209.0	188.9	209.0	182.6
Due to other financial institutions	(166.3)	(143.3)	(166.3)	(143.3)
	313.5	298.7	257.1	155.2

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.

15. FINANCIAL ASSETS AVAILABLE FOR SALE - SECURITIES

Negotiable securities				
Negotiable certificates of deposit	205.1	-	205.1	-
Government securities	155.8	-	155.8	-
	360.9	-	360.9	-
Maturity analysis				
Not longer than 3 months	179.1	-	179.1	-
Longer than 3 and not longer than 12 months	181.8	-	181.8	-
	360.9	-	360.9	-

Negotiable certificates of deposit held have an average maturity of 45 days (2005: nil) with effective interest rates of 5.66% to 5.90% (2005: nil).
Government securities held have an average maturity of 152 days (2005: nil) with effective interest rates of 5.80% to 5.97% (2005: nil).

16. FINANCIAL ASSETS AVAILABLE FOR SALE – SHARE INVESTMENTS

Share investments at fair value (2005: at deemed cost)				
Listed share investments	91.7	22.3	91.5	22.2
Unlisted share investments	2.7	20.2	2.7	20.2
	94.4	42.5	94.2	42.4
Share investments at cost				
Shares in associates	-	-	131.3	115.5
Other share investments	-	-	-	-
	-	-	131.3	115.5
Total share investments	94.4	42.5	225.5	157.9

Available for sale share investments consist of investments in ordinary shares and units in unit trusts, and therefore have no fixed maturity date or coupon rate.

Fair value of share investments is determined as follows:

Listed shares - quoted market price at balance date.

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

Other share investments at cost are measured at cost as fair value cannot be reliably measured for these unlisted investments.

Prior to 2006 financial year all share investments were carried at deemed cost under previous AGAAP.

17. FINANCIAL ASSETS HELD TO MATURITY

	Consolidated		Bendigo Bank	
	2006	2005	2006	2005
	$m	$m	$m	$m
Negotiable securities				
Bank accepted bills of exchange	19.8	73.3	-	24.8
Negotiable certificates of deposit	252.3	368.9	207.8	356.0
Government securities	745.4	715.0	745.4	715.0
Other	338.4	409.9	338.4	409.9
	1,355.9	1,567.1	1,291.6	1,505.7
Non negotiable securities				
Deposits - banks	5.3	-	-	-
Deposits - other	3.1	2.8	-	-
Other	6.3	0.2	0.2	0.2
	14.7	3.0	0.2	0.2
	1,370.6	1,570.1	1,291.8	1,505.9
Maturity analysis				
Not longer than 3 months	605.0	1,131.2	548.7	1,067.0
Longer than 3 and not longer than 12 months	527.2	120.6	504.7	120.6
Longer than 1 and not longer than 5 years	238.1	317.8	238.1	317.8
Over 5 years	0.3	0.5	0.3	0.5
	1,370.6	1,570.1	1,291.8	1,505.9

Bills of exchange and promissory notes held have an average maturity of 49 days (2005: 23 days) with an effective interest rate of 5.61% to 5.96% (2005: 5.44%). Negotiable certificates of deposit held have an average maturity of 103 days (2005: 61 days) with effective interest rates of 5.83% to 6.20% (2005: 5.42% to 6.15%). Government securities held have an average maturity of 81 days (2005: 61 days) with effective interest rates of 5.53% to 5.92% (2005: 5.26% to 5.46%). Other securities includes deposits with banks and other parties made with an average maturity of 690 days (2005: 704 days) with effective interest rates of 5.78% to 6.35% (2005: 5.56% to 5.99%).

18. LOANS AND OTHER RECEIVABLES

	Consolidated		Bendigo Bank	
	2006	2005	2006	2005
	$m	$m	$m	$m
Overdrafts	2,736.9	2,311.8	2,779.2	2,353.7
Credit cards	111.4	92.8	111.4	92.8
Term loans	9,220.2	8,706.6	8,737.8	8,080.4
Lease receivables	321.3	296.1	319.2	294.3
Factoring receivables	46.8	40.6	3.6	-
Other	-	-	-	-
Accrued interest	60.7	55.0	56.4	49.8
Gross loans and other receivables	12,497.3	11,502.9	12,007.6	10,871.0
less:				
Specific provision for impairment (Note 19)	(9.1)	(8.6)	(8.6)	(8.6)
Collective provision for impairment (Note 19)	(8.8)	-	(8.6)	-
Unearned income	(42.7)	(41.6)	(42.4)	(41.4)
	12,436.7	11,452.7	11,948.0	10,821.0
less:				
General provision for impairment (Note 19)	-	(60.3)	-	(58.4)
Net loans and other receivables	12,436.7	11,392.4	11,948.0	10,762.6
Impaired loans				
Non-accruing loans - without provisions	0.6	0.8	0.6	0.8
- with provisions	14.3	15.8	12.9	15.8
less specific impairment provisions	(9.0)	(8.6)	(8.5)	(8.6)
Net impaired loans	5.9	8.0	5.0	8.0
Net impaired loans % of loans and other receivables	0.05%	0.07%	0.04%	0.07%
Portfolios Facilities - past due 90 days, not well secured	1.8	1.5	1.8	1.5
less impairment provisions	(0.2)	(0.1)	(0.2)	(0.1)
Net Portfolio Facilities	1.6	1.4	1.6	1.4
Loans past due 90 days				
Accruing loans past due 90 days, with adequate security balance	74.0	55.2	74.0	55.2
Amount in arrears	5.2	4.8	5.2	4.8

Accruing loans past due 90 days balance includes $13.9 million (2003: $5.0 milllion) of loans due to their review date expirying more than 90 days ago, but which are not in payment default.

Interest income recognised and forgone				
Interest income recognised in respect of impaired loans	0.1	0.2	0.1	0.2
Interest income forgone in respect of impaired loans	-	1.0	-	1.0

Interest income recognised is the interest income actually received subsequent to these balances becoming non-accrual or restructured.

Interest income forgone is the gross interest income that would have been recorded during the financial year had the interest on such loans been included in income.

Loans by geographic location (1) (2)				
Victoria	7,088.7	6,620.8	6,778.2	6,232.2
New South Wales	1,625.7	1,517.5	1,553.8	1,425.5
Australian Capital Territory	246.6	238.5	228.7	223.5
Queensland	1,935.7	1,724.7	1,874.2	1,625.1
South Australia / Northern Territory	324.9	304.6	310.1	282.0
Western Australia	770.2	630.6	762.9	620.2
Tasmania	462.5	430.9	461.4	429.4
Overseas/Other	43.0	35.3	38.3	33.1
	12,497.3	11,502.9	12,007.6	10,871.0

1 Geographic location determined from the customer postcode/address.

Maturity analysis (2)				
At call / overdrafts	2,909.7	2,458.2	2,900.0	2,453.2
Not longer than 3 months	1,149.5	1,193.4	1,144.5	1,177.8
Longer than 3 and not longer than 12 months	679.7	659.0	660.8	643.7
Longer than 1 and not longer than 5 years	3,822.3	2,940.6	3,776.5	2,872.8
Longer than 5 years	3,936.1	4,251.7	3,525.8	3,723.5
	12,497.3	11,502.9	12,007.6	10,871.0

2 Balances exclude specific and general provisions for doubtful debts and unearned revenue.

LOANS AND OTHER RECEIVABLES (continued)

Overdraft facilities are made available to customers on a secured or unsecured basis and are withdrawable by the bank. Effective base interest rates range from 6.95% to 13.40% (2005: 6.70% to 12.20% and interest is charged on a monthly basis. Casual overdrafts incur an additional 6.00% (2005: 6.00%) overlimit fee.

Credit card facilities are made available to customers on an unsecured basis. Customers can choose between various products, offering the option of "interest free" days, no "interest free" days and various interest rates. Interest is charged on a monthly basis with effective interest rates ranging from 6.99% to 17.15% (2005: 13.4% to 16.4%).

Term loans (mortgage loans) are offered to customers as a variety of products, all being secured by mortgage security. Products offer variable or fixed interest rates, short and long-term payment periods, with or without monthly fees. Interest is charged on a monthly basis with effective interest rates ranging from the bank's cost of funds to 9.05% (2005: 9.15%).

Term loans (personal loans) are offered on a secured or unsecured basis with terms ranging from one to seven years. Interest is fixed and charged on a monthly in arrears basis ranging from 10.50% to 11.95% (2005: 9.45% to 14.45%).

Lease receivables are finance leases with terms of one to five years. The average earning rate implicit in the leases is 7.50% (2005: 7.54%). All leases are secured by the asset that is subject of the lease.

Factoring receivables are offered to customers as a variety of products by assignment of book debts. Products offered are full service, partnership and confidential debtor finance. Some of these are combinations of fixed fees and daily interest on funds employed, others are fees per day based on a set fee. On average these are revolving facilities with debt term on average between 30 and 50 days.

Other loans are generally short-term and are normally settled within 30 days.

Accrued interest on loans is normally charged to the loan accounts in the month following accrual.

19. IMPAIRMENT OF LOANS AND ADVANCES

	Consolidated		Bendigo Bank	
	2006	2005	2006	2005
	$m	$m	$m	$m
Specific provision for impairment				
Opening balance	8.6	8.1	8.6	8.1
AIFRS transition adjustments - 1 July 2005	0.5	-	0.5	-
Charged to income statement	6.4	7.5	5.7	7.5
Impaired debts written-off applied to specific impairment provision	(6.4)	(7.0)	(6.2)	(7.0)
Closing balance	9.1	8.6	8.6	8.6
Collective provision for impairment				
Opening balance	-	-	-	-
AIFRS transition adjustments - 1 July 2005	7.9	-	7.7	-
Charged to income statement	0.9	-	0.9	-
Impaired debts written-off applied to specific impairment provision	-	-	-	-
Closing balance	8.8	-	8.6	-
General reserve for credit losses (2005: General provision)				
Opening balance	60.3	53.4	58.4	51.9
AIFRS transition adjustments - 1 July 2005 - write-back general provision	(60.3)	-	(58.4)	-
AIFRS transition adjustments - 1 July 2005 - create general reserve for credit losses	36.7	-	36.7	-
Provision acquired	-	0.3	-	-
Charged to equity (2005: charged to income statement)	3.9	6.6	3.9	6.5
Closing balance	40.6	60.3	40.6	58.4
Bad and doubtful debts expense				
Specific provisions for impairment	-	0.5	(0.5)	0.5
Collective provision	0.9	-	0.9	-
General provision	-	6.6	-	6.5
Impaired debts written off	6.4	7.0	6.2	7.0
	7.3	14.1	6.6	14.0
Ratios				
Specific provision as % of gross loans less unearned income	0.07%	0.08%		
Collective provision (net of tax) & General reserve for credit losses as a % of risk-weighted assets	0.55%	0.55%		

20. PARTICULARS IN RELATION TO CONTROLLED ENTITIES

Name	Extent of Interest If not 100%	Principal Activities
Chief entity		
Bendigo Bank Limited		Banking
Directly Controlled Operating Entities (1) (2		
BBL Caroline Springs Pty Ltd		Investment company
BBL (SSKB) Financial Services Pty Ltd		Investment company
BBS Nominees Pty Ltd		Administration company
Bendigo Finance Pty Ltd		Leasing finance
Bendigo Investment Services Ltd (3)		Financial advisory services
Bendigo Superannuation Ltd		Superannuation trustee
Bensand Services Pty Ltd		Investment company
Cass Comm Limited (4)		Financial services
Community Developments Australia Pty Ltd		Community initiatives
Community Energy Australia Pty Ltd		Community initiatives
Community Solutions Australia Pty Ltd		Community initiatives
Community Exchanges Australia Pty Ltd	55%	Community initiatives
First Australian Building Society Ltd		Holding company
Sunstate Lenders Mortgage Insurance Pty Ltd		Mortgage insurance
Fountain Plaza Pty Ltd		Property owner
National Mortgage Market Corporation Pty Ltd		Mortgage origination & m'ment
National Assets Securitisation Corporation Pty Ltd		Securitisation manager
Asia Pacific Receivables Corporation Pty Ltd		Securitisation
Oxford Funding Pty Ltd		Invoice discounting
Sandhurst Trustees Ltd		Trustee company
Sandhurst Nominees (Victoria) Ltd		Nominee company
Sandhurst Custodians Ltd		Custodian company
Sandhurst Nominees (Canberra) Ltd		Nominee company
Bendigo Asset Management Limited		Investment manager
Victorian Securities Corporation Ltd		Financial services
Worley Securities Pty Ltd		Financial advisory services

1 Non-Operating controlled entities are excluded from the above list.
2 All entities are 100% owned and incorporated in Australia, unless otherwise specified.
3 In July 2006, Bendigo Investment Services Ltd changed its name to Bendigo Financial Planning Ltd.
4 Formerly Cassa Commerciale Australia Ltd.

21. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE USING THE EQUITY METHOD

Name	Ownership interest held by consolidated entity		Balance date
	2006	2005	
	%	%	
Elders Rural Bank Ltd	50.0	50.0	30 June
Tasmanian Banking Services Ltd	50.0	50.0	30 June
Community Sector Enterprises Pty Ltd	50.0	50.0	30 June
Homesafe Solutions Pty Ltd	50.0	50.0	30 June
Caroline Springs Fin Serv Pty Ltd	50.0	50.0	30 June
Silver Body Financial Services Pty Ltd	50.0	50.0	30 June
Community Telco Australia Pty Ltd	50.0	90.0	30 June
Strategic Payment Services Pty Ltd	40.0	-	30 June

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

All associate companies were incorporated in Australia.

INVESTMENTS IN ASSOCIATES AND JOINT VENTURE USING THE EQUITY METHOD (continued)

	Total	
(ii) Share of associates' revenue and profits	2006	2005
	$m	$m
Share of associates':		
- revenue	51.1	35.8
- profit before income tax	22.2	20.3
- income tax expense	6.7	6.4
- profit after income tax	15.5	13.9
Share of associates' operating profits after income tax:		
Elders Rural Bank Ltd	16.1	13.7
Tasmanian Banking Services Ltd	0.8	0.7
Community Sector Enterprises Pty Ltd	-	0.2
Homesafe Solutions Pty Ltd	(0.6)	(0.3)
Caroline Springs Financial Services Pty Ltd	(0.1)	-
Silver Body Financial Services Pty Ltd	(0.1)	-
Community Telco Australia Pty Ltd	(0.5)	-
Strategic Payment Services Pty Ltd	(0.1)	-
BSX Group Holdings Ltd	-	(0.4)
	15.5	13.9

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

(iii) Carrying amount of investments in associates		
Balance at the beginning of financial year	118.1	101.1
- carrying amount of investment in associate acquired during the year	18.4	14.8
- carrying amount of investment in associate sold during the year (2005: BSX)	-	(0.4)
- dividends received from associates	(12.5)	(11.3)
- share of associates' net profits (losses) for the financial year	15.5	13.9
- share of associates' movements in retained earnings for the financial year	3.6	-
- share of associates' movements in reserves for the financial year	0.4	-
Carrying amount of investments in associates at the end of the financial year	143.5	118.1
Represented by:		
Investments at equity accounted amount:		
- Elders Rural Bank Ltd	137.6	115.1
- Tasmanian Banking Services Ltd	1.9	1.7
- Community Sector Enterprises Pty Ltd	0.1	0.1
- Homesafe Solutions Pty Ltd	0.4	0.7
- Caroline Springs Financial Services Pty Ltd	0.2	0.3
- Silver Body Financial Services Pty Ltd	0.2	0.2
- Community Telco Australia Pty Ltd	2.2	-
- Strategic Payment Services Pty Ltd	0.9	-
- BSX Group Holdings Limited	-	-
	143.5	118.1

There are no impairments losses relating to investments in associates.

	Total		Elders Rural Bank Limited	
	2006	2005	2006	2005
(iv) The consolidated entity's share of the assets and liabilities of associates in aggregate				
Assets	1,640.8	1,313.4	1,631.7	1,309.6
Liabilities	1,519.3	1,217.5	1,516.3	1,216.8
Net Assets	121.5	95.9	115.4	92.8
(v) Amount of retained profits of the consolidated entity attributable to associates	68.4	52.9		

Subsequent events affecting an associate's profits/losses for the ensuing year (if any) are disclosed in the Events after Balance Day note.

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

22. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Bendigo Bank	
	2006	2005	2006	2005
	$m	$m	$m	$m
(a) Carrying Value				
Property				
Freehold land - at fair value [(1)]	5.0	6.5	0.2	0.2
	5.0	6.5	0.2	0.2
Freehold buildings - at fair value [(1]	8.0	11.3	0.2	1.7
Accumulated depreciation	(0.4)	(0.3)	-	-
	7.6	11.0	0.2	1.7
Leasehold improvements - at cost	24.7	13.4	24.7	13.2
Accumulated depreciation	(10.3)	(8.4)	(10.3)	(8.3)
	14.4	5.0	14.4	4.9
	27.0	22.5	14.8	6.8
Other				
Plant, furniture, fittings, office equipment & vehicles - at cost	111.1	77.1	73.9	63.6
Accumulated depreciation	(57.0)	(52.1)	(47.8)	(41.4)
	54.1	25.0	26.1	22.2
	81.1	47.5	40.9	29.0
(b) Reconciliations				
Freehold land [(1)]				
Carrying amount at beginning of financial year	6.5	9.1	0.2	2.5
Additions	-	-	-	-
Revaluations	-	-	-	-
Disposals	(1.5)	(2.6)	-	(2.3)
	5.0	6.5	0.2	0.2
Freehold buildings [(1)]				
Carrying amount at beginning of financial year	11.0	13.3	1.7	3.3
Additions	0.2	2.4	-	1.6
Revaluations	-	-	-	-
Disposals	(3.3)	(4.3)	(1.5)	(3.1)
Depreciation expense	(0.3)	(0.4)	-	(0.1)
	7.6	11.0	0.2	1.7
Leasehold improvements - at cost				
Carrying amount at beginning of financial year	5.0	2.2	4.9	2.2
Acquisitions	-	0.1	-	-
Additions	11.9	4.9	11.9	4.9
Disposals	(0.2)	(0.2)	(0.2)	(0.2)
Depreciation expense	(2.3)	(2.0)	(2.2)	(2.0)
	14.4	5.0	14.4	4.9
Plant, furniture, fittings, office equipment & vehicles				
Carrying amount at beginning of financial year	25.0	32.0	22.2	26.3
Acquisitions	-	0.3	-	-
Additions	39.9	12.2	13.2	10.2
AIFRS reclassification of software to intangible assets	-	(6.9)	-	(4.7)
Disposals	(1.1)	(1.0)	(0.5)	(0.8)
Depreciation expense	(9.7)	(11.6)	(8.8)	(8.8)
	54.1	25.0	26.1	22.2

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

Land	2.7	3.6	0.1	0.1
Buildings	8.5	10.3	0.1	1.6
Accumulated depreciation and impairment	(3.8)	(3.8)	-	(0.1)
Net carrying amount	7.4	10.1	0.2	1.6

1 *The fair values of freehold land and buildings on freehold land have been determined by reference to director valuations, based upon independent valuations previously obtained. The independent valuations are performed on an open market basis, being the amounts for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the valuation date. The effective date of the revaluation was 30 June 2004.*

Included in plant & equipment (consolidated) at 30 June 2006 is an amount of $25.791 mill (2005: Nil) relating to expenditures in relation to the construction of a new Head Office development in Bendigo, Victoria.

23. INTANGIBLE ASSETS AND GOODWILL

	Consolidated		Bendigo Bank	
	2006	2005	2006	2005
	$m	$m	$m	$m
(a) Carrying value				
Intangible assets				
Customer list - at cost	4.6	4.6	-	-
Accumulated amortisation	(2.0)	(0.3)	-	-
	2.6	4.3	-	-
Computer software - at cost	19.5	23.3	18.7	18.3
Accumulated amortisation	(5.9)	(12.9)	(5.2)	(11.1)
	13.6	10.4	13.5	7.2
Trustee licence - at cost	8.4	8.4	-	-
Accumulated impairment	-	-	-	-
	8.4	8.4	-	-
Goodwill				
Purchased goodwill - at cost	2.2	2.2	2.2	2.2
Accumulated impairment	(2.2)	(2.2)	(2.2)	(2.2)
	-	-	-	-
Goodwill on consolidation - at cost	66.3	68.5	-	-
Accumulated impairment	(1.3)	(1.2)	-	-
	65.0	67.3	-	-
	89.6	90.4	13.5	7.2
(b) Reconciliations				
Intangible assets				
Customer list				
Carrying amount at beginning of financial year	4.3	-	-	-
Additions/fair value adjustment	(0.1)	4.6	-	-
Amortisation charge	(1.6)	(0.3)	-	-
	2.6	4.3	-	-
Computer software				
Carrying amount at beginning of financial year	10.4	-	7.2	-
AIFRS transition reclassification from property, plant & equipment	-	6.9	-	4.7
Additions	10.1	6.8	10.0	5.3
Disposals	(3.1)	-	-	-
Amortisation charge	(3.8)	(3.3)	(3.7)	(2.8)
	13.6	10.4	13.5	7.2
Trustee licence				
Carrying amount at beginning of financial year	8.4	8.4	-	-
	8.4	8.4	-	-
Goodwill				
Purchased goodwill				
Carrying amount at beginning of financial year	-	2.2	-	2.2
Impairment	-	(2.2)	-	(2.2)
	-	-	-	-
Goodwill on consolidation				
Carrying amount at beginning of financial year	67.3	53.0	-	-
Additions/(purchase price adjustment)	(2.2)	15.5		
Impairment	(0.1)	(1.2)	-	-
	65.0	67.3	-	-
	89.6	90.4	13.5	7.2

Intangible assets

Finite useful life

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

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

Indefinite useful life

The trustee licence represents an intangible asset purchased through the effect of a business combination (Sandhurst Trustees Limited). The useful life of this asst has been estimated as indefinite and the cost method utilised for measurement. The asset is assessed as having an indefinite life as the authorisation for Sandhurst Trustees Limited to trade as a trustee company has no end period. Revocation of the authority is unlikely and would occur only in the event of non-compliance with conditions under which authorisation is granted. Sandhurst Trustees Limited has specific compliance procedures in place to ensure these conditions are met.

Goodwill

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

24. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIVES

Goodwill acquired through business combinations have been allocated to cash generating units, or groups of cash generating units, which are reportable segments for internal reporting, for impairment testing as follows:

Sandhurst Trustees Limited

Goodwill has been allocated to the cash generating unit (CGU) of Sandhurst Trustees Limited (STL).

The recoverable amount of the STL CGU has been determined based on a fair value calculation using the projected cash flows for 2005/06 and applying a multiple of 12 (2005:12). Management believe this multiple is appropriate for this business. For impairment testing purposes, the fair value has been allocated on the basis of 80% of the fair value relates to the trustee licence and 20% of the fair value relates to the goodwill.

The multiple would have to decline to 1.1 before impairment would be evident.

Worley Securities Pty Ltd

Goodwill has been allocated to the cash generating unit of Worley Securities Pty Ltd (Worleys).

The recoverable amount of the Worleys CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets and projections approved by senior management covering a five-year period.

The pre-tax discount rate applied to cash flow projections is 18.5% (2005: 18.8%). The terminal value of the CGU has been calculated using a multiple of 5 (2005: 5), which is considered by management to be appropriate for a company of this nature.

The results of this test have required a goodwill write-down of $88,981 (2005: Nil). The goodwill relating to this cash generating unit is now written-off to zero.

Benhold Pty Ltd (IOOF Building Society)

Goodwill for IOOF has been allocated to the group of cash generating units comprising branches in the state of Victoria, Australia.

The recoverable amount of the IOOF group of branches has been determined based on a value in use calculation using the projected after-tax cash flows for 2005/06 of the group of units and applying a multiple of 12 (2005:12). Management believes this multiple is appropriate for the group of branches.

The multiple would have to decline to 4.5 before impairment would be evident.

Victorian Securities Corporation Limited

Goodwill has been allocated to the cash generating unit of Victorian Securities Corporation Limited (VSCL).

The recoverable amount of the VSCL CGU has been determined based on a fair value calculation using the projected 2005/06 VSCL after-tax profit and a multiple of 12 (2005:12). Management believes this multiple is appropriate for a business of this nature.

The multiple would have to decline to 7.5 before impairment would be evident.

First Australian Building Society Limited

Goodwill for First Australian Building Society Limited (FABS) has been allocated to the group of cash generating units comprising the branches located in the state of Queensland, Australia. The recoverable amount of the FABS group of units has been determined based on a fair value calculation using the projected 2005/06 after-tax profit for the group of units and a multiple of 12 (2005:12). Management believes this multiple is appropriate for this group of cash generating units.

The multiple would have to decline to 4 before impairment would be evident.

Oxford Funding Pty Ltd

Goodwill has been allocated to the cash generating unit of Oxford Funding Pty Ltd (Oxford).

The recoverable amount of the Oxford CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets and projections approved by senior management covering a five-year period.

The pre-tax discount rate applied to cash flow projections is 16.5% (2005:11.2%). The terminal value of the unit has been calculated using a multiple of 10 (2005: 10), which is considered by management to be appropriate for a company of this nature in the factoring industry.

The multiple would have to decline to 6.2 before impairment would be evident.

Intangible assets with indefinite lives

Sandhurst Trustees Limited trustee licence

The recoverable amount of the STL cash generating unit has been determined based on a fair value calculation using the projected cash flows for 2005/06 and applying a multiple of 12 (2005:12). Management believe this multiple is appropriate for this business. For impairment testing purposes, the fair value has been allocated on the basis of 80% of the fair value relates to the trustee licence and 20% of the fair value relates to the goodwill.

The multiple would have to decline to 1.5 before impairment would be evident.

Multiples

Multiples used in impairment testing - management believe that the appropriate multiples to be used in impairment testing of the majority of cash generating units within the group fall within the range 8 to 12. This range has been derived taking into account a number of relevant factors that would influence the multiple relating to businesses within the Bendigo Bank group.

Carrying amount of goodwill allocated to each of the cash generating units or group of cash generating units

		Carrying amount of goodwill and intangible assets	
		2006	2005
		$m	$m
Sandhurst Trustees Limited	- goodwill	0.8	0.8
	- trustee licence	8.4	8.4
Worley Securities Pty Ltd		-	0.1
Benhold Pty Ltd (IOOF Building Society)		13.7	13.7
Victorian Securities Corporation Limited		2.7	2.7
First Australian Building Society Limited		34.6	34.6
Oxford Funding Pty Ltd	- goodwill	13.2	15.4
	- customer list	2.6	4.3
Total value allocated		76.0	80.0

Key assumptions used in value in use calculation for the cash generating units or groups of cash generating units for 30 June 2006 and 30 June 2005

The following describes each key assumption on which management has based its cash flow projections when determining the value in use of the cash generating units or groups of cash generating units:

Oxford Funding Pty Ltd

Income and expense projections have been based on historical trends, together with expectations of senior management with regard to business growth and expense increases. The 2005/06 (2005: 2004/05) cash flows are based on year-to-date February 2006 actual performance plus forecasts to June 2006. The four years after 2005/06 are based on a cash flow growth of 10% per annum (2005: 10%), which is believed by management to be appropriate for this cash generating unit. The company was purchased by Bendigo Bank in April 2005 and now has access to the business banking distribution network of the bank, which should assist the company to achieve its projections.

25. OTHER ASSETS

	Consolidated		Bendigo Bank	
	2006	2005	2006	2005
	$m	$m	$m	$m
Accrued income	21.1	22.9	15.8	19.3
Reserve fund	10.5	9.5	-	-
Prepayments	6.3	4.7	6.3	4.5
Sundry debtors	45.8	79.6	36.8	70.1
	83.7	116.7	58.9	93.9

Other assets are generally non-interest bearing and are short-term by nature.

Sundry debtors are normally settled within 30 days.

The Reserve fund is required to be maintained by Sandhurst Trustees Limited under the Trustee Companies Act 1984, to provide for the event of the appointment of a liquidator, a receiver and manager or an administrator of a trustee company. The at call investments component of the fund attracts interest at an effective interest rate of 5.64% (2005: 5.14%). The managed fund and share investments component attract an effective yield of 7.83% (2005: 3.46%). The land and buildings component is carried at fair value, based on an independent valuation as at 30 June 2004.

26. DEPOSITS

	Consolidated		Bendigo Bank	
	2006	2005	2006	2005
	$m	$m	$m	$m
Retail				
Branch network	10,771.5	9,260.0	10,595.3	9,092.4
Treasury sourced	575.3	783.2	588.3	792.7
	11,346.8	10,043.2	11,183.6	9,885.1
Wholesale				
Domestic	1,439.8	1,386.3	1,066.3	772.5
Offshore	813.2	1,142.7	813.2	1,142.7
	2,253.0	2,529.0	1,879.5	1,915.2
	13,599.8	12,572.2	13,063.1	11,800.3
Deposits by geographic location				
Victoria	8,066.1	7,640.2	7,730.3	6,910.0
New South Wales	1,540.2	1,349.2	1,485.7	1,335.0
Australian Capital Territory	84.7	101.2	82.2	101.0
Queensland	1,916.9	1,606.0	1,829.6	1,578.4
South Australia/Northern Territory	197.4	166.8	191.1	166.0
Western Australia	802.2	635.0	780.0	633.2
Tasmania	268.6	210.9	261.0	210.6
Off-shore/other	723.7	862.9	703.2	866.1
	13,599.8	12,572.2	13,063.1	11,800.3
Maturity analysis				
At call	5,874.1	4,646.9	5,507.0	4,651.0
Not longer than 3 months	4,365.1	4,332.1	4,283.5	4,254.8
Longer than 3 and not longer than 12 months	2,141.0	1,882.1	2,057.1	1,805.7
Longer than 1 and not longer than 5 years	1,219.3	1,710.7	1,215.2	1,088.4
Longer than 5 years	0.3	0.4	0.3	0.4
	13,599.8	12,572.2	13,063.1	11,800.3

Deposits-retail branch network consist of a variety of investor products on an at call or term deposit basis. Interest is payable monthly, quarterly, half-yearly or at maturity of the deposit, depending on the product features. Certain transactions attract fees, which are generally charged on a monthly basis - these fees can be reduced, or eliminated, by customers depending on the number and value of "relationships" the customer has with the economic entity. Carded interest rates range from 0% to 5.00% (2005: 0% to 5.55%).

Deposits-retail treasury sourced include certificates of deposit issued with an average maturity of 51 days (2005: 64 days) with effective interest rates of 5.36% to 6.26% (2005: 4.60% to 6.98%) and term deposits, fixed and floating rate notes and 11am call deposits. Fixed term deposits have an average maturity of 128 days (2005: 393 days). 11am call monies are available at call. Interest rates on this group of deposits range from 5.0% to 6.4% (2005: 3.84% to 7.40%).

Deposits-wholesale domestic deposits include certificate of deposits with an average maturity of 72 days (2005: 62 days) with effective interest rates of 5.65% to 6.08% (2005: 4.77% to 5.82%). Fixed term deposits have an average maturity of 1007 days (2005: 436 days). 11am call monies are available at call. Interest rates on this group of deposits range from 5.5% to 6.6% (2005: 5.00% to 6.60%).

Deposits-wholesale offshore comprise a Euro medium term note program (EMTN) and a Euro commercial paper program (ECP). At balance date, the principal of borrowings under the EMTN program was AUD530.2 million (2005: AUD 464.5 million), taking account of the conversion inherent in the cross currency swaps. The average interest rate in BBSW +.4448% (2005: +.5303%) and rates are reset on a quarterly basis. The notes on issue mature on 26 March 2007, 10 September 2007 and 1 April 2008.

ECPs on issue have an average maturity of 148 days (2005: 37 days) with an effective interest rate of 5.68% to 6.27% (2005: 5.69%).

27. FINANCIAL LIABILTIES

	Consolidated		Bendigo Bank	
	2006 $m	2005 $m	2006 $m	2005 $m
Sundry creditors	34.0	47.3	18.6	33.5
Accrued expenses and outstanding claims	106.0	64.0	92.2	46.8
	140.0	111.3	110.8	80.3

Payables are non-interest bearing and are generally settled within 30 days.

28. PROVISIONS

	Consolidated		Bendigo Bank	
	2006 $m	2005 $m	2006 $m	2005 $m
(a) Balances				
Employee benefits (Note 33)	32.4	28.6	31.4	27.8
Other loss events	0.4	1.1	0.4	1.1
Rewards program	2.6	2.2	2.6	2.1
Property Rent	1.9	-	1.9	-
Dividends	0.1	0.1	0.1	0.1
	37.4	32.0	36.4	31.1

Provision for other loss events is in relation to possible losses associated with outstanding legal issues. These are expected to be resolved within 12 months of balance date.

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

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

Provision for dividend represents the residual carried forward balance in relation to shareholders that participate in the dividend reinvestment plan. It is expected that the current balance will be utilised within a 12 month period. However, an ongoing balance will continue unless all outstanding balances are paid to shareholders upon ceasing participation in the dividend reinvestment plan.

	Consolidated 2006 $m	Consolidated 2005 $m	Bendigo Bank 2006 $m	Bendigo Bank 2005 $m
(b) Movements				
Employee benefits				
Opening balance	28.6	24.8	27.8	23.4
Additional provisions recognised	17.6	21.5	16.9	20.9
Amounts utilised during the year	(13.8)	(17.7)	(13.3)	(16.5)
Closing balance	32.4	28.6	31.4	27.8
Other loss events				
Opening balance	1.1	0.7	1.1	0.7
Additional provisions recognised	0.5	6.8	0.5	6.8
Amounts utilised during the year	(1.2)	(6.4)	(1.2)	(6.4)
Closing balance	0.4	1.1	0.4	1.1
Rewards program				
Opening balance	2.2	1.6	2.1	1.6
Additional provisions recognised	1.6	2.4	1.6	2.3
Amounts utilised during the year	(1.2)	(1.8)	(1.1)	(1.8)
Closing balance	2.6	2.2	2.6	2.1
Property Rent				
Opening balance	-	-	-	-
Additional provisions recognised	1.9	-	1.9	-
Amounts utilised during the year	-	-	-	-
Closing balance	1.9	-	1.9	-
Dividends				
Opening balance	0.1	0.1	0.1	0.1
Additional dividends provided	63.6	55.1	63.6	55.1
Dividends paid during the year	(63.6)	(55.1)	(63.6)	(55.1)
Closing balance	0.1	0.1	0.1	0.1

29. SUBORDINATED DEBT

	Consolidated		Bendigo Bank	
	2006	2005	2006	2005
	$m	$m	$m	$m
Subordinated capital notes	294.0	249.0	294.0	249.0
Rollover notes - series 1	13.1	13.1	13.1	13.1
	307.1	262.1	307.1	262.1
Maturity analysis				
Not longer than 3 months	13.1	-	13.1	-
Longer than 5 years	294.0	262.1	294.0	262.1
	307.1	262.1	307.1	262.1

Subordinated capital notes have an average maturity of 7.64 years (2005: 7.85 years) with effective interest rates of 6.29% to 7.95% (2005: 6.43% to 7.55%). Rollover notes - series 1 were issued on 19 October 2001. The maturity date in 19 October 2011 and interest is either floating, at the 180 bank bill rate plus a margin of 1.50% per annum, or fixed and floating. The fixed rate of 7.00% per annum applies until 19 October 2006, when these notes revert to the floating rate as previously described.

30. ISSUED CAPITAL

	Consolidated		Bendigo Bank	
	2006	2005	2006	2005
	$m	$m	$m	$m
Issued and paid up capital				
Ordinary shares fully paid - 140,850,961 (2005: 139,106,669)	564.1	546.3	564.1	546.3
Preference shares of $100 face value fully paid - 900,000 (2005: 900,000 paid to $50)	88.3	43.0	88.3	43.0
	652.4	589.3	652.4	589.3

Effective 1 July 1998, the corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the parent does not have authorised capital nor par value in respect of its issued shares.
Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Preference share (BPS) dividends are non-cumulative and are payable quarterly in arrears, at the discretion of he directors, based on a dividend rate equal to the sum of the 90 day bank bill rate plus the initial margin multiplied by one minus the company tax rate. It is expected that dividends paid will be fully franked. The BPS are perpetual, but may be redeemed by Bendigo Bank subject to prior approval of APRA.

Movement in ordinary shares on issue		
Opening balance - 1 July	546.3	551.6
Shares issued under:		
Bonus share scheme - 168,244 @ $11.07; 124,755 @ $14.01; (2005: 229,806 @ $9.74; 148,221 @ $9.89)	-	-
Dividend reinvestment plan - 866,908 @ $11.07; 584,385 @ $14.01; (2005: 1,107,312 @ $9.74; 792,975 @ $9.89)	17.8	18.7
Employee share plan - Nil (2005: 300,000@ $9.99)	-	3.0
Share buy back program - Nil (2005: 2,850,000 @ $9.46 average price)	-	(27.0)
Closing balance - 30 June	564.1	546.3

Movements in preference shares on issue		
Opening balance 1 July - 900,000 partly paid to $50 (2005: Nil)	43.0	-
Shares issued - Nil (2005: 900,000 partly paid to $50)	-	45.0
Payment of unpaid portion of existing shares	45.0	-
Share issue expenses offset by tax benefit	0.3	(2.0)
Closing balance 30 June - 900,000 fully paid to $100 (2005: 900,000 partly paid to $50)	88.3	43.0

31. RESERVES

	Consolidated		Bendigo Bank	
	2006	2005	2006	2005
	$m	$m	$m	$m
Asset revaluation reserve				
(a) Nature and purpose				
The asset revaluation reserve is used to record increments and decrements in the value of non-current assets. The reserve can only be used to pay dividends in limited circumstances.				
(b) Movements				
Opening Balance	4.0	5.4	1.0	2.0
AIFRS transition adjustment - after tax value of revaluations	18.0	1.2	18.0	0.9
Transfer asset revaluation reserve to retained earnings (sold assets)	(14.3)	(2.3)	(14.3)	(1.7)
Transfer asset revaluation reserve to retained earnings (revalued buildings depn)	(0.2)	-	-	-
Net revaluation increments	24.9	-	24.8	-
Tax effect of net revaluation increments	(3.3)	(0.3)	(3.3)	(0.2)
Closing Balance	29.1	4.0	26.2	1.0
Net unrealised gains reserve				
(a) Nature and purpose				
The net unrealised gains reserve is used to record unrealised gains and losses on investments in the available for sale portfolio.				
(b) Movements				
Opening Balance	-	-	-	-
Net unrealised gains/(losses)	(0.1)	-	(0.1)	-
	(0.1)	-	(0.1)	-
Cash flow hedge reserve				
(a) Nature and purpose				
The cash flow hedge reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.				
(b) Movements				
Opening Balance	-	-	-	-
Net gains on cash flow hedges	2.3	-	2.3	
	2.3	-	2.3	-
Cash flow hedge reserve - associates				
(a) Nature and purpose				
Associates record the group's share of the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.				
(b) Movements				
Opening Balance	-	-	-	-
Net gains on cash flow hedges	0.4	-	-	.
	0.4	-	-	-
General reserve for credit losses				
(a) Nature and purpose				
The general reserve for credit losses records the value of a reserve maintained to recognised credit losses inherent in the group's lending portfolio, but not yet identified. The bank is required to maintain general provisions (includes general reserve for credit losses and collective provision) by APRA at a minimum level of 0.50% (net of tax) of risk-weighted assets.				
(b) Movements				
Opening Balance	-	-	-	-
Creation of GRCL on transition to AIFRS	36.7	-	36.7	-
Increase in general reserve for credit losses	3.9	-	3.9	-
	40.6	-	40.6	-
General reserve for credit losses - associates				
(a) Nature and purpose				
The general reserve for credit losses - associates records the group's share of an associate company's GRCL in accordance with equity accounting.				
(b) Movements				
Opening Balance	-	-	-	-
Creation of GRCL on transition to AIFRS	4.8	-	-	-
Increase in general reserve for credit losses	1.7	-	-	-
	6.5	-	-	-
Total reserves	78.8	4.0	69.0	1.0

32. MINORITY INTEREST

	Consolidated		Bendigo Bank	
	2006	2005	2006	2005
	$m	$m	$m	$m
Interest in:				
Ordinary shares	-	0.3	-	-
Retained earnings	(0.6)	(0.7)	-	-
	(0.6)	(0.4)	-	-
Reconciliation of minority equity interest in controlled entities:				
Opening balance	(0.4)	(0.2)	-	-
Add share of operating loss	-	(0.3)	-	-
Derecognition of minority interest	(0.2)	-	-	-
Other	-	0.1		
Closing balance	(0.6)	(0.4)	-	-

33. EMPLOYEE BENEFITS

Employee benefits liability				
Provision for annual leave	12.0	10.6	11.5	10.1
Provision for other employee payments	4.0	3.6	4.0	3.6
Provision for long service leave	10.6	8.6	10.3	8.3
Provision for sick leave bonus	1.8	1.5	1.7	1.5
Provision for employee on costs	3.6	3.2	3.5	3.2
Directors' retirement allowance	0.4	1.1	0.4	1.1
Aggregate employee benefits liability	32.4	28.6	31.4	27.8

It is anticipated that annual leave provided at balance date will be paid in the ensuing 12 month period.
Other employee payments are expected to be paid in September 2006.
Long service leave is taken with agreement between employee and employer, or on termination of employment.
Sick leave bonus is paid to entitled employees on termination of employment.
Directors' retirement allowance was discontinued as at 31 August 2005. Further details are provided in the 2006 Remuneration Report.

34. BENDIGO EMPLOYEE SHARE OWNERSHIP PLAN

Legacy Plan

The Company has discontinued the existing loan-based Employee Share Ownership Plan ("Plan") which was open to all employees in the Group, including the Managing Director and executives. The Plan will continue as a legacy plan until such time as the loans provided to fund share purchases under the Plan have been repaid. There have been no issues of shares under this Plan since November 2004.

The general design of the Plan is consistent with the New Plan as described below.

The market value of the Company's shares at balance date was $12.90. At this price there is currently no shortfall liability on any loan made under this plan.

New Plan

As announced on 23 May 2006, the Bank has established a new loan-based limited recourse Employee Share Plan ("Plan"). The Plan is substantially the same as the Legacy Plan. However, it is only available to general staff, and executives (including the Managing Director), may not participate in it.

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

When a staff member ceases their employment, they are required to repay their loan within three months, unless they retire, then they have six months to repay. The plan allows staff to request the plan administrator to sell their employee shares to repay their loan. In the event that the proceeds of sale of the shares is insufficient to fully repay the loan, the shares are forfeited to the Company's nominee in discharge of the loan.

The Board has recently approved, on the recommendation of the Managing Director, a share issue to general staff under the Plan. The share issue was completed during September 2006.

Issues under the Plan are valued and expensed in accordance with applicable accounting requirements.

Employee share and loan values

		Consolidated 2006 $m	Consolidated 2005 $m
Employee Share and Loan Values			
Value of unlisted employee shares on issue at 30 June 2006 - 4,798,426 shares @ $12.90 (2005 - 5,251,744 shares @ $9.87)		61.9	51.8
Value of outstanding employee loans at beginning of year relating to employee shares		30.0	31.4
Value of new loans relating to employee shares issued during year		-	3.0
Value of repayments of loans during year		(4.4)	(4.4)
Value of outstanding employee loans at end of year relating to employee shares		25.6	30.0
Number of employees with outstanding loan balances		1,461	1,710
Indicative cost of funding employee loans			
Average balance of loans outstanding		27.6	31.0
Average cost of funds		4.79%	4.31%
After tax indicative cost of funding employee loans		0.9	0.9
Earnings per ordinary share - actual	- cents	78.0	67.5
Earnings per ordinary share - adjusted for interest foregone	- cents	78.6	68.1

The cost of employee interest-free loans is calculated by applying the bank's average cost of funds for the financial year to the average outstanding balance of employee loans for the financial year. This cost is then tax-effected at the company tax rate of 30% (2005: 30%).

Earnings per ordinary share - adjusted is calculated by adding the after tax indicative cost of funding employee loans to profit available for distribution to ordinary shareholders. This adjusted earnings figure is divided by the weighted average number of ordinary shares.

35. AUDITOR'S REMUNERATION

	Consolidated 2006 $	Consolidated 2005 $	Bendigo Bank 2006 $	Bendigo Bank 2005 $
Chief entity auditors				
The auditor of Bendigo Bank Limited is Ernst & Young				
Amounts received, or due and receivable by the auditors for:				
-auditing the financial statements of the chief entity and any other entity in the economic entity	612,456	523,977	612,456	468,332
-taxation services in relation to the chief entity and any other entity in the economic entity	176,084	138,128	152,103	138,128
-other services in relation to the chief entity and any other entity in the economic entity	109,000	215,297	109,000	195,211
	897,540	877,402	873,559	801,671

36. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of key management personnel

The directors and executives, including key management personnel (being the directors of the Bank and the executives who have the authority and responsibility for planning, directing and controlling the activities of the Group), and the five most highly remunerated executives of the Group and the Company for the 2006 financial year.

(i) Directors

Robert N Johanson	Chairman (non executive)	- appointed chairman 28 March 2006
Robert G Hunt AM	Managing Director	
Neal J Axelby	Director (non-executive)	
Jennifer L Dawson	Director (non-executive)	
Donald J Erskine	Director (non-executive)	
Richard Guy OAM	Director (non-executive)	- retired from the Board on 31 August 2006
Terence J O'Dwyer	Director (non-executive)	
Deborah L Radford	Director (non-executive)	- appointed 27 February 2006
Kevin E Roache	Director (non-executive)	
Antony D Robinson	Director (non-executive)	- appointed 24 April 2006

(ii) Executives

Marnie A Baker (1)	Chief General Manager, Solutions
Gregory D Gillett	Chief General Manager, Strategy and Human Resources
Richard H J Hasseldine	Chief General Manager, Group Delivery
Michael J Hirst	Chief Operating Officer
Russell P Jenkins (1)	Chief General Manager, Retail and Distribution
Vicky M Kelly	Chief Information Officer
K Craig Langford	Chief Financial Officer

(1) Mr Jenkins and Mrs Baker became Key Personnel following changes to their position responsibilities implemented during September 2005. There were no other changes in respect to the group's key management personnel between the reporting date and the date the financial report was authorized for issue.

(b) Compensation of key management personnel

The company has applied the exemption under Corporations Amendments Regulation 2006 which exempts listed companies from providing remuneration disclosures in relation to their key management personnel in their annual financial reports by Accounting Standard AASB 124 "Related Party Disclosures". These remuneration disclosures are provided in the "Remuneration Report" section of the Directors' Report designated as audited.

DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(c) Shareholdings of directors and named executives (including their related parties)

Shares held in Bendigo Bank Ltd	Balance 1 July 2005			Net Change			Balance 30 June 2006		
	Ordinary shares	Employee shares	Preference Shares	Ordinary shares	Employee shares	Preference Shares	Ordinary shares	Employee shares	Preference Shares
Directors									
R N Johanson	267,393	-	1,000	5,057	-	-	272,450	-	1,000
R G Hunt AM	81,202	740,000	-	31,010	-	-	112,212	740,000	-
N J Axelby	34,752	-	100	6,807	-	-	41,559	-	100
J L Dawson	15,998	-	150	632	-	-	16,630	-	150
D J Erskine	242,121	-	-	-11,010	-	-	231,111	-	-
R A Guy OAM	724,488	-	200	17,211	-	-	741,699	-	200
T J O'Dwyer	50,300	-	-	-	-	-	50,300	-	-
D L Radford	-	-	-	1,000	-	-	1,000	-	-
K E Roache	42,578	-	200	1,475	-	-	44,053	-	200
A D Robinson	-	-	-	2,500	-	-	2,500	-	-
Executives									
M A Baker	4,550	57,850	500	179	-	-	4,729	57,850	500
G D Gillett	2,313	139,410	-	91	-	-	2,404	139,410	-
R H Hasseldine	150	45,000	-	-	-	-	150	45,000	-
M J Hirst	150	50,000	-	-	-	-	150	50,000	-
V M Kelly	2,622	129,000	-	-	-	-	2,622	129,000	-
K C Langford	450	123,367	-	-	-	-	450	123,367	-
R P Jenkins	14,777	76,160	-	586	-	-	15,363	76,160	-
Total	**1,483,844**	**1,360,787**	**2,150**	**55,538**	**0**	**0**	**1,539,382**	**1,360,787**	**2,150**

All equity transactions with directors and named executives have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length other than shares issued under the Employee Share Ownership Plan. Issue of shares under the Employee Share Ownership Plan are made under conditions disclosed in Note 34.

DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(d) Loans to directors and named executives (including their related parties)

(i) Details of aggregates of loans to directors and named executives (including their related parties) are as follows:

		Balance at beginning of period $'000	Interest charged $'000	Interest not charged $'000	Write-off $'000	Balance at end of period $'000	Number of group 30 June 2006 $'000
Directors[1]							
	2006	30,951	1,775	147	-	28,719	7
	2005	20,080	1,552	163	-	30,951	7
Executives[1]							
	2006	5,476	172	152	-	5,138	7
	2005	3,738	67	114	-	3,482	5
Total directors and executives							
	2006	34,433	1,953	299	-	33,856	14
	2005	23,818	1,618	277	-	34,433	12

[1] Balances include loans provided to the Managing Director and executives in connection with share issues under the employee share ownership plan.

(ii) Details of individuals (including their related parties) with loans above $100,000 in the reporting period are as follows:

	Balance at beginning of period $'000	Interest charged $'000	Interest not charged $'000	Write-off $'000	Balance at end of period $'000	Highest owing in period $'000
Directors						
R N Johanson	811	62	-	-	670	827
N J Axelby	293	19	-	-	294	306
J L Dawson	689	44	-	-	243	689
D J Erskine	21,159	1,442	-	-	20,273	21,607
R A Guy OAM	211	10	-	-	91	211
K E Roache	1,463	112	-	-	1,424	1,765
R G Hunt AM	1,253	86	-	-	738	1,253
Staff share loan	5,073	-	139	-	4,811	5,073
BCT share loan	176	-	8	-	176	176
Executives						
M A Baker						
Staff share loan	327	-	15	-	306	327
Loans	85	6	-	-	81	85
K C Langford						
Staff share loan	615	-	28	-	571	615
Loans	185	2	-	-	-	185
M J Hirst						
Staff share loan	355	-	17	-	338	355
R J Hasseldine						
Staff share loan	314	-	15	-	298	314
R P Jenkins						
Staff share loan	373	-	17	-	347	373
Loans	1,209	82	-	-	1,050	1,209
V Kelly						
Staff share loan	625	-	29	-	579	625
Loans	436	58	-	-	530	594
G Gillett						
Staff share loan	666	-	31	-	617	666
Loans	286	24	-	-	420	420

DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(d) Loans to directors and named executives (including their related parties) (continued)

Terms and conditions of the loans

Staff Share Loans provided to Mr R G Hunt and Executives are under the terms of Bank's Employee Share Ownership Plan ("Plan"). Details of the Plan's terms and conditions are provided at Note 33 to the financial statements

Loans totalling $20,272,715 were made to companies controlled by Mr D J Erskine. The loans were provided in connect with property development and commercial property investment arrangements in which Mr Erskine is associated. The loans were made in accordance with the Bank's prevailing lending terms and conditions.

(e) Other transactions of directors and director related entities

Mr K Roache as partner of the legal firm Coulter Roache has provided legal services to Bendigo Bank Ltd by way of mortgage document preparation based on normal commercial terms and conditions. The amount paid or payable during the year totalled $5,402 (2005: $46,600). The firm also leases its office premises from Bendigo Bank under a formal lease arrangement. The lease arrangement was determined on the basis of prevailing market terms and conditions.

Mr R Johanson is a director of the Grant Samuel Group, which provided consulting services to Bendigo Bank Ltd based on normal commercial terms and conditions. A protocol, approved by the Board, has been established for the engagement of Grant Samuel by the Bank which includes arrangements for dealing with conflicts of interest.

The services are provided in accordance with scheduled fee rates which were discussed and approved by the Board in the absence of Mr Johanson. The amount paid or payable during the year totalled $832,115 (2005: $462,528).

During the year, a related entity of Ms J Dawson provided relocation services to Bendigo Bank Ltd, on normal terms and conditions. The amount paid or payable during the year totalled $14,860 (2005: $26,852).

Associate company directorships:

Mr R Johanson is non-executive directors of Elders Rural Bank Limited, an associate entity of Bendigo Bank. Mr Johanson was paid a director fee of $59,000 plus Superannuation Guarantee Charge by Elders Rural Bank Limited in connection with the directorship. Mr R Guy was also non-executive director of Elders Rural Bank Limited, an associate entity of Bendigo Bank, for the six months ended 31 December 2005. Mr Guy was paid a director fee of $28,000 plus Superannuation Guarantee Charge by Elders Rural Bank Limited in connection with the directorship.

37. RELATED PARTY DISCLOSURES

Ultimate Parent Entity

Bendigo Bank Limited is the ultimate parent entity.

Wholly owned group transactions

Bendigo Bank Limited is the parent entity of all entities listed in Note 20 - Particulars in relation to controlled entities. Transactions undertaken during the financial year with those entities are eliminated in the consolidated financial report.

The transactions principally arise from the provision of administrative, distribution, corporate and the general banking services.

Additionally, Bendigo Bank pays operating costs and banks receipts on behalf of certain controlled entities which are financed via unsecured interest free intercompany loans. The loans have no fixed repayment date. Amounts due from and due to controlled entities at balance date are shown in the Balance Sheet. The balance of these inter-company loans is included in the Amount owing to/(from) subsidiaries column of the table below.

Interest received or receivable from and paid or payable to controlled entities and dividends received and receivable from controlled entities is disclosed in Note 4 - Profit from continuing activities and is included in the table below.

Material transactions between Bendigo Bank and its subsidiaries during the period were as follows:

		Net receipts and fees paid to subsidiaries	Supplies, fixed assets and services charged to subsidiaries	Net amount owing to/(from) subsidiaries at 30 June
		$m	$m	$m
Bendigo Finance Pty Ltd	2006	(0.8)	-	(2.3)
	2005	0.1	-	(1.5)
Worley Securities Pty Ltd	2006	0.9	0.9	(0.2)
	2005	-	1.0	(0.2)
National Mortgage Market Corporation Limited	2006	3.7	3.1	4.4
	2005	3.2	5.5	3.8
National Assets Securitiisation Pty Ltd	2006	0.1	0.2	0.8
	2005	0.3	-	0.9
Fountain Plaza Pty Ltd	2006	4.8	26.8	(22.7)
	2005	2.6	1.0	(0.7)
Victorian Securities Corporation Limited	2006	(7.8)	3.1	(7.7)
	2005	(0.9)	3.1	3.2
Bendigo Investment Services Limited	2006	8.3	8.7	0.2
	2005	8.1	7.9	0.6
Benhold Pty Ltd	2006	-	-	(5.2)
	2005	-	-	(5.2)
IOOF Building Society Pty Ltd	2006	-	-	20.4
	2005	-	-	20.4
Cass Comm Pty Ltd	2006	7.2	-	2.0
	2005	2.6	-	(5.2)
Community Developments Australia Pty Ltd	2006	-	1.0	(5.6)
	2005	(1.3)	0.6	(4.6)
Community Exchanges Australia Pty Ltd	2006	0.1	0.4	(1.4)
	2005	(0.1)	0.5	(1.1)
Sandhurst Trustees Limited	2006	8.5	8.7	(1.4)
	2005	8.6	7.6	(1.2)
Oxford Funding Pty Ltd	2006	(1.0)	0.1	(40.2)
	2005	(39.1)	-	(39.1)
First Australian Building Society Limited*	2006	1.4	-	(5.1)
	2005	88.2	-	(3.7)

* The 2005 net receipts figure for First Australian Building Society includes a return of capital to Bendigo Bank Limited of $95.2 million.

Bendigo Bank provides funding and guarantee facilities to several subsidiary companies as detailed in the following table. The balance outstanding on these facilities is included in the amount owing to/(from) subsidiaries in the above table.

Subsidiary	**Facility**	**Security**	**Limit**	**Drawn at 30 June 2006**
			$m	**$m**
Sandhurst Trustees Limited	Standby	Unsecured	20.0	-
Bendigo Asset Management Limited	Overdraft	Unsecured	2.0	1.9
Bendigo Investment Services Limited	Guarantee	Unsecured	-	-
Victorian Securities Corporation Limited	Standby	Unsecured	10.0	-
	Guarantee	Unsecured	-	-
Community Exchanges Australia Pty Ltd	Overdraft	Unsecured	1.3	1.2
Community Energy Australia Pty Ltd	Overdraft	Unsecured	0.2	0.2
Community Solutions Australia Pty Ltd	Overdraft	Unsecured	0.8	0.1
	Guarantee	Unsecured	-	-
Oxford Funding Pty Ltd	Overdraft	Unsecured	59.0	44.3
	Guarantee	Unsecured	5.3	-

Guarantees disclosed in the above table with a zero limit are less than $0.1 million.

All funding and guarantee facilities are provided to subsidiary companies on normal commercial terms and conditions.

Several subsidiary companies have bank accounts and investment funds held with Bendigo Bank Limited under normal terms and conditions. These balances are included in the amount owing to/(from) subsidiaries in the above table.

The following dividends received by Bendigo Bank Limited from subsidiary companies are included in the net receipts/fees paid column of the above table:

		$m
Sandhurst Trustees Limited	2006	16.2
	2005	13.7

There were no material transactions between subsidiary companies.

Other related party transactions

Securitised and sold loans

The bank securitised or sold loans totalling $325 million (2005: $304 million) during the financial year. Of this total, $325 million (2005: $297.5 million) were sold to the Common Funds managed by Sandhurst Trustee Limited, $Nil million (2005: $6.5 million) were substitutions into our securitisation programs.

Associated Entities

Bendigo Bank Limited has investments in associated entities as disclosed in Note 21 - Investments in associates. The group has transactions with the associated entities, principally relating to commissions received and paid, services and supplies procured from associates and fees charged in relation to the provision of banking, administrative and corporate services. These revenue and expense items are included in the relevant values disclosed in Note 4 - Profit from continuing activities. The transactions are conducted on terms and conditions no more favourable than those which it is reasonable to expect would have been adopted if dealing with the associated entities at arm's length in the same circumstances.

During the financial year, transactions took place between Bendigo Bank group and associate companies as follows:

		Commissions and fees paid to associates	Supplies and services provided to associates	Amount owing to/(from) associates at 30 June
		$m	$m	$m
Elders Rural Bank Ltd	2006	1.0	3.2	0.4
	2005	0.8	2.7	0.3
Tasmanian Banking Services Ltd	2006	7.7	5.8	0.4
	2005	7.3	5.3	0.2
Community Sector Enterprises P/L	2006	2.4	2.2	(0.1)
	2005	1.9	1.5	-
Caroline Springs Financial Services Pty Ltd	2006	0.2	0.4	-
	2005	0.2	0.5	-
Silver Body Financial Services P/L	2006	0.2	0.6	-
	2005	-	-	-

Dividends received and receivable from associated entities are disclosed in Note 4 - Profit from continuing activities.

Bendigo Bank Limited provides loans, guarantees and/or overdraft facilities to associated companies in connection with cash flow management, and the payment of administration costs on behalf of the associated companies. The loans have agreed repayment terms which vary according to the nature of the facility. The outstanding balances of these loans are disclosed in the above table.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES

The recognition and management of risk is an essential element of the Group's strategy. The Board, being ultimately responsible for the management of risks associated with the Group's activities, has established an integrated framework of committee structures, policies and controls to identify, assess, monitor and manage risk.

The risk management strategy is based upon risk principles approved by the Board and is underpinned by a system of delegations, passing from the Board through Board committees, the Managing Director and management committees to the business.

In accordance with the Bendigo Bank's Board Charter, the Board is responsible for oversight of the establishment, implementation, review and monitoring of risk management strategy, systems and policies, taking into account the risk tolerance of the Group, the overall business strategy and management expertise.

The Board has established specific audit, risk, credit, governance and IT strategy committees. Each committee operates under a formal charter (reviewed annually) that is approved by the full Board.

Whilst the Board has responsibility for establishing the priorities and the Group's appetite for risk, the Managing Director and other executive management are responsible for developing strategies and business plans commensurate with the risk appetite set by the Board.

The Executive Committee has responsibility for managing and monitoring the day to day activities of the Group (including the management of risk) and implementing the Board approved strategies and plans.

To support risk management at the executive management level dedicated functions charged with responsibility for monitoring, measuring and evaluating risk are in place.

The role of the risk management functions is to facilitate the implementation of the risk policies associated specifically with both quantifiable and unquantifiable risks arising from the activities of the Group. Group Risk and the Strategic Finance Unit ensure that a discipline is in place to identify the risks faced by the Group and that controls to manage these risks are adequate and functioning effectively. The Units have direct access to the Board through the BBL Credit and Risk Committees.

The Group's Internal Audit function is an independent function that operates under a charter and annual audit plan approved by the BBL Audit Committee. The Board, on recommendation of the BBL Audit Committee, approves the appointment of the head of internal audit.

The independent internal audit function, incorporating Credit Inspection, oversees all functions across the Group and has direct access to the Board through the BBL Audit Committee.

The risk management framework of the Group is based on:

- Core Risk Principles – overriding principles governing all activities and risk monitoring procedures; and
- Specific Risk Policies and Procedures – appropriate policies, procedures and processes implemented to manage specific risks.

The Board, and the industry regulator, have identified the key risks to which the Bank is exposed as being credit, liquidity, market (includes interest rate and currency) and operational risk. Specific risk management structures have been developed and implemented by the Group to manage these risks.

In addition to managing risk categories below the Board and Executive manage strategic and reputation risk.

Credit Risk

Credit risk is the potential that the Group will suffer a financial loss due to the unwillingness or inability of a counterparty to fully meet their contractual debts and obligations.

The BBL Credit Committee is responsible for monitoring adherence to credit policies, practices and procedures within the Group. The Board has established levels of delegated lending authority under which various levels of management and the BBL Credit Committee can approve transactions.

Group Credit Risk has responsibility for providing the framework, policies, analysis and reporting for managing credit risk throughout the Group.

A standard risk grading methodology is applied to assess, measure and report the quality of lending assets. The maximum credit lending exposure at balance date is the outstanding value of those assets and does not include the value of any security held.

Liquidity Risk

Liquidity risk is the inability to access funds, both anticipated and unforeseen, which may lead to the Group being unable to meet its obligations in an orderly manner as they arise or forgoing investment opportunities.

Group Strategic Finance is responsible for implementing liquidity risk management strategies in accordance with approved policies and adherence is monitored by the Asset Liability Management Committee and Board Risk Committee. This includes maintaining prudent levels of liquid reserves and a diverse range of funding options to meet daily, short-term and long-term liquidity requirements.

Liquidity scenarios are calculated under stressed and normal operating conditions to assist in anticipating cash flow needs and providing adequate reserves.

Interest rate risk

Interest rate risk is the potential for loss of earnings to the Group due to adverse movements in interest rates.

Interest rate risk is managed through the Balance Sheet Management unit using gap analysis and simulation modelling techniques. The objective is to enhance the Group's earnings performance by minimising fluctuations in net interest income and market value that may occur over time as a result of adverse changes in interest rates.

Monitoring of adherence to policies, limits and procedures are controlled through the Asset Liability Management Committee and the BBL Risk Committee.

Currency risk

Currency risk is the risk of loss of earnings to the Group due to adverse movements in exchange rates. Currency risk of the Group arises from foreign currency wholesale funding activities and customer related foreign exchange transactions.

It is the policy of the Group to hedge foreign currency wholesale funding and to manage its exposure in relation to customer related foreign exchange transactions within approved limits and policy requirements. Group Strategic Finance is responsible for managing currency risk under the supervision of the Asset Liability Management Committee and BBL Risk Committee.

Trading occurs when positions are taken in financial instruments, equities, foreign exchange or commodity markets with the objective of achieving a benefit from the actual or expected differences that arise between the buying price and selling price, or from other price or interest rate variations. Generally the benefits arising from these differences would be realised in a short to medium term time period.

The Group's policy does not permit the operation of a trading book. Trading positions in financial instruments, equities, foreign exchange or commodity markets are not to be taken. Derivatives such as interest rate swaps are utilised only to mitigate interest rate exposures in the balance sheet and to maintain interest margin.

Concentrations of Risk

There is no significant concentration of risk other than those disclosed in this financial report.

Operational risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Operational Risk Management Policy and Framework, in line with Basel II and the Australian Standard on operational risk, has been developed and is maintained by Group Operational Risk. The Group considers both the internal and external environment when it monitors and assesses operational risk.

The policy is approved by the Board and applies to the whole of the Group. It defines operational risk management roles and responsibilities. The Executive Committee and each individual Executive member have day to day responsibility and accountability for the management of operational risk in their line. In line with their role each staff member also has a responsibility to manage risk.

In addition to this overarching policy the Board has approved key policies relating to compliance, business continuity, anti money laundering and fraud control.

Group Operational Risk has a role to support the Executive Committee and the business to develop, implement, monitor and report on the effectiveness of implementation of the policy.

Group Operational Risk reports to the BBL Risk Committee on the status of the implementation of the framework and implications of significant risks and risk events.

Insurance risk

Insurance risk is the risk that the true value of insurance liabilities, both outstanding claims liability and premiums liability, will be greater than the estimated value of insurance liabilities. Monitoring of individual claims is part of the Group's credit risk process. Also, premiums are earned in accordance with independent actuarial advice and are reviewed by an approved actuary.

Reinsurance risk

Reinsurance risk is the risk of purchasing insufficient reinsurance protection to limit insurer losses during catastrophic events. Reinsurance risk is managed through a contract with Radian Insurance Inc.

39. FINANCIAL INSTRUMENTS

Fair value

Disclosed below is the estimated fair value of the economic entity's financial instruments presented in accordance with the requirements of AASB 132 "Financial Instruments: Disclosure and Presentation" (2005: AASB 1033 "Presentation and Disclosure of Financial Instruments").

A financial instrument is defined by AASB 132 (2005: AASB 1033) as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. A financial liability is a contractual obligation either to deliver cash or another financial asset to another entity, or, to exchange financial instruments with another entity under conditions that are potentially unfavourable.

Methodologies

The methodologies and assumptions used depend on the terms and risk characteristics of the various instruments and include the following:

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

The carrying values of certain on-balance sheet financial instruments approximate fair values. These include cash and short-term cash equivalents, due to and from other financial institutions and accrued interest receivable or payable. These instruments are short-term in nature and the related amounts approximate fair value and are receivable or payable on demand.

Derivatives (assets and liabilities)

The fair value of exchange-rate and interest-rate contracts, used for hedging purposes, is the estimated amount the Group would receive or pay to terminate the contracts at reporting date. The fair value of these instruments are disclosed in Note 39.

Fair value (continued)

Financial assets - available for sale and held to maturity (treasury)

The fair value of financial assets available for sale and held to maturity, including bills of exchange, negotiable certificates of deposit, government securities and bank and other deposits, which are predominantly short-term, is measured at amortised book value.

Financial assets - available for sale (share investments and shares in controlled entities)

The fair value of share investments is based on market value for listed share investments and carrying values for unlisted share investments.

Loans and other receivables

The carrying value of loans and other receivables is net of specific and collective provisions for doubtful debts (2005: Specific and general provisions).

For variable rate loans, excluding impaired loans, the carrying amount is a reasonable estimate of fair value. The net fair value for fixed loans is calculated by utilizing discounted cash flow models (ie the net present value of the portfolio future principal and interest cash flows), based on the maturity of the loans. The discount rates applied are based on the current benchmark rate offered for the average remaining term of the portfolio plus an add-on of the average credit margin of the existing portfolio, where appropriate.

The net fair value of impaired loans is calculated by discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

Other assets

This category includes items such as sundry debtors, which are short-term by nature and the carrying amount is therefore a reasonable estimate of fair value.

Deposits

The fair value of call, variable rate and fixed rate deposits repricing within six months is the carrying value at balance date. The fair value of other term deposits is calculated using discounted cash flow models, based on the deposit type and its related maturity.

Other financial liabilities

This category includes items such as sundry creditors which are short-term by nature and the carrying amount is therefore a reasonable estimate of fair value.

Subordinated debt and other debt

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

Fair value (continued)

Summary

The following table provides comparison of carrying and net fair values for each item discussed above, where applicable:

	Carrying value		Net fair value	
	2006	2005	2006	2005
CONSOLIDATED	$m	$m	$m	$m
Financial Assets				
Cash and cash equivalents	270.8	253.1	270.8	253.1
Due from other financial institutions	209.0	188.9	209.0	188.9
Derivatives	28.4	3.1	28.4	3.1
Financial assets available for sale - securities	360.9	-	360.9	-
Financial assets available for sale - share investments	94.4	42.5	94.4	42.5
Financial assets held to maturity	1,370.6	1,570.1	1,370.6	1,570.1
Loans and other receivables	12,436.7	11,392.4	12,773.5	11,724.0
Investments in associates and joint ventures accounted for using the equity method	143.5	118.1	143.5	118.1
Other assets	83.7	116.7	83.7	116.7
Financial Liabilities				
Due to other financial institutions	166.3	143.3	166.3	143.3
Deposits	13,599.8	12,572.2	13,364.8	12,367.4
Derivatives	20.0	6.3	20.0	6.3
Financial liabilities	140.0	111.3	140.0	111.3
Subordinated debt	307.1	262.1	299.2	253.4
BENDIGO BANK				
Financial Assets				
Cash and cash equivalents	214.4	115.9	214.4	115.9
Due from other financial institutions	209.0	182.6	209.0	182.6
Derivatives	28.4	3.1	28.4	3.1
Financial assets available for sale - securities	360.9	-	360.9	-
Financial assets available for sale - share investments	225.5	157.9	225.5	157.9
Shares in controlled entities	151.2	145.6	151.2	145.6
Financial assets held to maturity	1,291.8	1,505.9	1,291.8	1,505.9
Loans and other receivables	11,948.0	10,762.6	12,282.9	11,090.3
Amounts receivable from controlled entities	40.1	10.0	40.1	10.0
Other assets	58.9	93.9	58.9	93.9
Financial Liabilities				
Due to other financial institutions	166.3	143.3	166.3	143.3
Deposits	13,063.1	11,800.3	12,834.3	11,601.0
Derivatives	22.2	6.2	22.2	6.2
Financial liabilities	110.8	80.3	110.8	80.3
Subordinated debt	307.1	262.1	299.2	253.4

Interest rate risk

The economic entity's exposure to interest rate risks of financial assets and liabilities, both recognised and unrecognised at the balance date are disclosed in the following table.

Sensitivity to interest rates arises from mismatches in the period to repricing of assets and liabilities. These mismatches are managed as part of the overall asset and liability management process.

AS AT 30 JUNE 2006	Floating interest rate	Fixed interest rate repricing : Less than 3 months	Between 3 months & 6 months	Between 6 months & 12 months	Between 1 year & 5 years	After 5 years	Non-interest bearing	Total carrying value per Balance sheet	Weighted average effective interest rate
CONSOLIDATED	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**%**
Assets									
Cash and cash equivalents	171.6	-	-	-	-	-	99.2	270.8	3.47
Due from other financial institutior	-	-	-	-	-	-	209.0	209.0	-
Financial assets available for sale	-	179.1	181.8	-	-	-	94.4	455.3	5.80
Financial assets held to maturity	15.2	656.0	619.8	79.6	-	-	-	1,370.6	5.84
Loans and other receivables	7,095.1	1,217.2	392.2	456.0	3,224.8	19.0	32.4	12,436.7	7.42
Derivatives	-	-	-	-	-	-	28.4	28.4	-
Other assets	-	-	-	-	-	-	425.3	425.3	-
Total assets	7,281.9	2,052.3	1,193.8	535.6	3,224.8	19.0	888.7	15,196.1	-
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	166.3	166.3	-
Deposits	3,802.8	4,064.8	2,843.1	2,766.0	24.8	-	98.3	13,599.8	4.44
Derivatives	-	-	-	-	-	-	20.0	20.0	-
Subordinated debt	-	172.0	135.1	-	-	-	-	307.1	6.90
Other liabilities	-	-	-	-	-	-	203.4	203.4	-
Total liabilities	3,802.8	4,236.8	2,978.2	2,766.0	24.8	-	488.0	14,296.6	-
Equity							899.5	899.5	-

AS AT 30 JUNE 2005	Floating interest rate	Fixed interest rate repricing : Less than 3 months	Between 3 months & 6 months	Between 6 months & 12 months	Between 1 year & 5 years	After 5 years	Non-interest bearing	Total carrying value per Balance sheet	Weighted average effective interest rate
CONSOLIDATED	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**%**
Assets									
Cash and cash equivalents	159.3	-	-	-	-	-	93.8	253.1	3.32
Due from other financial institutior	-	-	-	-	-	-	188.9	188.9	0.00
Financial assets available for sale							42.5	42.5	0.00
Financial assets held to maturity	33.0	1,189.9	318.2	29.0	-	-	-	1,570.1	5.65
Loans and other receivables	6,981.4	1,205.2	392.6	418.4	2,352.2	11.9	30.7	11,392.4	7.32
Derivatives	-	-	-	-	-	-	3.1	3.1	0.00
Other assets	-	-	-	-	-	-	408.5	408.5	-
Total assets	7,173.7	2,395.1	710.8	447.4	2,352.2	11.9	767.5	13,858.6	-
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	143.3	143.3	-
Deposits	4,672.8	3,907.3	2,790.7	1,038.3	54.8	-	108.3	12,572.2	4.44
Derivatives	-	-	-	-	-	-	6.3	6.3	0.00
Subordinated debt	-	151.9	99.2	-	11.0	-	.	262.1	6.91
Other liabilities	-	-	-	-	-	-	154.0	154.0	-
Total liabilities	4,672.8	4,059.2	2,889.9	1,038.3	65.8	-	411.9	13,137.9	-
Equity	-	-	-	-	-	-	720.7	720.7	-

Interest rate risk (continued)

AS AT 30 JUNE 2006	Floating	Fixed interest rate repricing :					Non-interest	Total	Weighted
	interest	Less than	Between	Between	Between	After	bearing	carrying value	average
	rate	3 months	3 months	6 months	1 year	5 years		per	effective
			& 6 months	& 12 months	& 5 years			Balance sheet	interest rate
BENDIGO BANK	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**%**
Assets									
Cash and cash equivalents	135.6	-	-	-	-	-	78.8	214.4	3.44
Due from other financial institutior	-	-	-	-	-	-	209.0	209.0	-
Financial assets available for sale	-	179.4	181.5	-	-	-	225.5	586.4	5.80
Shares in controlled entities	-	-	-	-	-	-	151.2	151.2	
Financial assets held to maturity	-	619.6	592.6	79.6	-	-	-	1,291.8	5.87
Loans and other receivables	6,675.5	1,214.2	382.2	445.6	3,183.1	19.0	28.4	11,948.0	7.59
Derivatives	-	-	-	-	-	-	28.4	28.4	-
Other assets	-	-	-	-	-	-	180.3	180.3	-
Total assets	6,811.1	2,013.2	1,156.3	525.2	3,183.1	19.0	901.6	14,609.5	-
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	166.3	166.3	-
Deposits	3,811.3	3,637.5	2,764.4	2,733.5	20.4	-	96.0	13,063.1	4.38
Derivatives	-	-	-	-	-	-	22.2	22.2	-
Subordinated debt	-	172.0	135.1	-	-	-	-	307.1	6.90
Other liabilities	-	-	-	-	-	-	172.3	172.3	-
Total liabilities	3,811.3	3,809.5	2,899.5	2,733.5	20.4	-	456.8	13,731.0	-
Equity							878.5	878.5	-

AS AT 30 JUNE 2005	Floating	Fixed interest rate repricing :					Non-interest	Total	Weighted
	interest	Less than	Between	Between	Between	After	bearing	carrying value	average
	rate	3 months	3 months	6 months	1 year	5 years		per	effective
			& 6 months	& 12 months	& 5 years			Balance sheet	interest rate
BENDIGO BANK	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**%**
Assets									
Cash and cash equivalents	40.1	-	-	-	-	-	75.8	115.9	1.99
Due from other financial institutior	-	-	-	-	-	-	182.6	182.6	0.00
Financial assets available for sale							157.9	157.9	0.00
Shares in controlled entities	-	-	-	-	-	-	145.6	145.6	0.00
Financial assets held to maturity	0.7	1,169.8	306.4	29.0	-	-	-	1,505.9	5.65
Loans and other receivables	6,400.1	1,199.2	386.2	409.0	2,288.9	11.9	67.3	10,762.6	7.29
Derivatives							3.1	3.1	0.00
Other assets	-	-	-	-	-	-	176.1	176.1	-
Total assets	6,440.9	2,369.0	692.6	438.0	2,288.9	11.9	808.4	13,049.7	-
Liabilities									
Due to other financial institutions	-	-	-	-	-	-	143.3	143.3	-
Deposits	4,667.0	3,243.5	2,715.9	1,010.4	46.2	-	117.3	11,800.3	4.35
Derivatives							6.2	6.2	0.00
Subordinated debt	-	152.1	99.1	-	10.9	-	.	262.1	6.91
Other liabilities	-	-	-	-	-	-	121.4	121.4	-
Total liabilities	4,667.0	3,395.6	2,815.0	1,010.4	57.1	-	388.2	12,333.3	-
Equity	-	-	-	-	-	-	716.4	716.4	-

Derivative financial instruments

The economic entity uses derivatives primarily to hedge banking operations and for asset and liability management. Some derivatives transactions may qualify as either cashflow or fair value hedges. The accounting treatment of these hedges is outlined in Note 2.30 Derivative Financial Instruments.

The economic entity is exposed to volatility in interest cash flows inherent in its loan portfolio and that of the securitisation vehicles. Interest rate swaps are used to hedge the risk that this volatility creates.

All swaps that are part of a hedge relationship have been designated as cashflow hedges. As at 30 June 2006 the fair value of outstanding derivatives designated as cashflow hedges by the bank was $9.6 million positive value.

During the 2006 financial year the economic entity recognised a loss of less than $0.1 million due to hedge ineffectiveness. As at 30 June 2006 the fair value of outstanding derivatives designated as cashflow hedges by the economic entity was $7.4 million positive value.

Value of derivatives as at 30 June

	Consolidated 2006				Consolidated 2005			
	Notional Amount	Asset Revaluation	Liability Revaluation	Net Fair Value	Notional Amount	Asset Revaluation	Liability Revaluation	Net Fair Value
	$m	$m	$m	$m	$m	$m	$m	$m
Interest Rate Swaps	2,529.1	24.6	(17.2)	7.4	2,715.7	1.7	(13.1)	(11.4)
Cross Currency Swaps	530.2	3.8	(10.1)	(6.3)	717.2	3.1	(78.9)	(75.8)
Foreign Exchange Contracts	40.5	0.2	(0.3)	(0.1)	40.9	0.4	(0.2)	0.2
Total Derivatives	3,099.9	28.6	(27.6)	1.0	3,473.8	5.2	(92.2)	(87.0)

Outstanding interest rate swaps have interest rates on the receivable legs ranging from 4.50% to 7.13% and on the payable legs the rates range from 4.81% to 7.39%. All swaps mature between the dates 13 July 2006 and 30 June 2020. The average term to maturity is 672 days.

40. COMMITMENTS AND CONTINGENCIES

Commitments

	Consolidated 2006 $m	Consolidated 2005 $m	Bendigo Bank 2006 $m	Bendigo Bank 2005 $m

Outstanding expenditure and credit related commitments as at 30 June 2006. Except where specified, all commitments are payable within one year.

Operating lease commitments - group as lessee
The group has entered into commercial property leases and commercial leases on certain motor vehicles and items of office equipment. These leases have an average life of between 3 and 7 years. Some property leases include optional renewal periods included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	Consolidated 2006 $m	Consolidated 2005 $m	Bendigo Bank 2006 $m	Bendigo Bank 2005 $m
Not later than 1 year	42.9	27.0	42.8	26.7
Later than 1 year but not later than 5 years	74.1	51.2	73.9	50.8
Later than 5 years	13.0	19.2	13.0	19.2
	130.0	97.4	129.7	96.7
Capital expenditure commitments				
Capital expenditure commitments not provided for in the financial statements, payable not later than one year	47.0	45.6	47.0	45.6
Later than 1 year but not later than 5 years	18.7	45.3	18.7	45.3
	65.7	90.9	65.7	90.9
Other expenditure commitments				
Sponsorship commitments not paid as at balance date, payable not later than one year	1.1	1.4	1.0	1.3
Credit related commitments				
Gross loans approved, but not advanced to borrowers, payable not later than one year	425.5	375.0	425.5	330.7
Credit limits granted to clients for overdrafts and credit cards				
Total amount of facilities provided	4,304.9	3,651.5	4,361.6	3,651.5
Amount undrawn at balance date	1,456.6	1,246.9	1,471.0	1,205.0
Normal commercial restrictions apply as to use and withdrawal of the facilities				

Superannuation commitments

The economic entity participates in an employer sponsored superannuation plan, being a defined contribution plan which provides benefits to employees of the entities in the economic entity on retirement, death or disability.

The benefits under the plan are based on accumulated contributions and earnings for each employee. Employees contribute various percentages of their gross income and the company also contributes at least the minimum as required under the superannuation guarantee legislation.

The bank pays an annual insurance premium to provide death, total permanent disability and salary continuance cover for members of the superannuation.

Contingent liabilities and contingent assets

	Consolidated		Bendigo Bank	
	2006	2005	2006	2005
	$m	$m	$m	$m
(a) Contingent Liabilities				
Guarantees				
The economic entity has issued guarantees on behalf of clients	98.3	77.6	98.3	77.6
Other				
Documentary letters of credit & performance related obligations	13.6	14.7	13.6	14.7

As the 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 30 June 2006, the economic entity does not have any contingent assets.

41. FIDUCIARY ACTIVITES

The economic entity conducts investment management and other fiduciary activities as trustee, custodian or manager for a number of funds and trusts, including superannuation and approved deposit funds, unit trusts and mortgage pools. The amounts of the funds concerned, which are not included in the economic entity's statement of financial position are as follows:

	Consolidated	
	2006	2005
	$m	$m
Funds under trusteeship	3,429.2	3,289.7
Assets under management	1,941.4	1,875.2
Funds under management	1,028.3	977.8

As an obligation arises under each type of duty the amount of funds has been included where that duty arises. This may lead to the same funds being shown more than once where the economic entity acts in more than one capacity in relation to those funds eg manager and trustee. Where controlled entities, as trustees, incur liabilities in respect of these activities, a right of indemnity exists against the assets of the applicable trusts. As these assets are sufficient to cover liabilities, and it is therefore not probable that the Group companies will be required to settle them, the liabilities are not included in the financial statements. Bendigo Bank does not guarantee the performance or obligations of its subsidiaries.

42. EVENTS AFTER BALANCE SHEET DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in subsequent financial years.

On 14 August 2006 the Bank declared a final dividend, details of which are disclosed in the directors' report and in Note 10.

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

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

43. IMPACT ON ADOPTION OF AIFRS

Explanation of transition

The group has prepared these financial statements using Australian Standards that are equivalent to International Financial Reporting Standards ("AIFRS"). As these financial statements are for the first full year reported in accordance with AIFRS, it is necessary to explain how the transition from previous AGAAP to AIFRS affected the previously reported financial position, financial performance and cash flows since 30 June 2004 (ie. the balance sheets as at 1 July 2004, 30 June 2005 and1 July 2005; and the income statements and cash flow statements for the financial year ended 30 June 2005).

In accordance with AIFRS, the comparative information has been restated using the new accounting standards from 1 July 2004, with the exception of AASB 132 "Financial Instruments: Presentation and Disclosure" and AASB 139 "Financial Instruments: Recognition and Measurement". As permitted by the transitional provisions of AASB 1, management has elected not to apply these standards to the comparative information, and therefore apply them from 1 July 2005. Comparative information for financial instruments has been prepared on the basis of the economic entity's accounting policies under the previous AGAAP. The adjustments required on transition to AIFRS have been made retrospectively, with the majority being made against opening retained earnings, at the respective dates.

AIFRS has not changed the economics of the business, or the risks being carried, or affected the economic entity's ability to borrow funds or make dividend distributions.

Reconciliations from previous AGAAP to AIFRS

The following pages contain detailed reconciliations from previous AGAAP to AIFRS in accordance with AASB 1. Notes to the reconciliations are provided to explain the reason and impact of the changes on transition to AIFRS.

IMPACT OF ADOPTION OF AIFRS (continued)

Income Statement reconciliations for the year ended 30 June 2005

Income statement item	Note	Consolidated $m Previous AGAAP	Consolidated $m Transition impact	Consolidated $m AIFRS	Note	Bendigo Bank $m Previous AGAAP	Bendigo Bank $m Transition impact	Bendigo Bank $m AIFRS
Income								
Net interest income								
Interest income	(a) (l)	767.4	47.6	815.0	(a) (l)	736.3	5.2	741.5
Interest expense	(a)	486.6	42.3	528.9	(a)	464.2	0.1	464.3
Net interest income		280.8	5.3	286.1		272.1	5.1	277.2
Other revenue								
Dividends		1.6	-	1.6		26.4	-	26.4
Fees								
- asset products	(a)	26.0	0.7	26.7		24.5	-	24.5
- liability products, electronic delivery		53.5	-	53.5		53.2	-	53.2
- trustee, management & other	(a)	9.3	0.3	9.6		1.6	-	1.6
- securitisation	(a)	5.0	(5.0)	-	(a)	4.9	(4.9)	-
- other		9.4	-	9.4		9.2	-	9.2
Commissions								
- wealth solutions		29.0	-	29.0		-	0.4	0.4
- insurance		6.8	-	6.8		4.6	-	4.6
- other		1.8	-	1.8	(a)	2.2	(0.3)	1.9
Other revenue	(a)	4.3	0.2	4.5	(a)	10.1	(0.1)	10.0
Income	(n)	23.1	(13.4)	9.7	(n)	19.5	(11.6)	7.9
Total other income		169.8	(17.2)	152.6		156.2	(16.5)	139.7
Share of associates' profit	(q)	20.5	(0.2)	20.3		-	-	-
Total income after interest expense		471.1	(12.1)	459.0		428.3	(11.4)	416.9
Expenses								
Bad and doubtful debts								
Bad and doubtful debts		14.1	-	14.1		14.0	-	14.0
Bad debts recovered		(0.5)	-	(0.5)		(0.5)	-	(0.5)
Total bad and doubtful debts		13.6	-	13.6		13.5	-	13.5
Other expenses								
Borrowing costs		0.4	-	0.4		0.4	-	0.4
Staff and related costs		154.8	-	154.8		140.0	-	140.0
Occupancy costs	(p)	26.0	0.2	26.2	(p)	31.4	0.1	31.5
Amortisation of intangibles	(b) (m)	4.7	(1.1)	3.6	(b) (m)	0.6	2.2	2.8
Property, plant and equipment	(m) (n)	13.7	(4.6)	9.1	(m) (n)	11.8	(4.0)	7.8
Fees and commissions	(a)	16.6	0.8	17.4		14.3	-	14.3
Other expenses	(a) (l) (n)	109.9	(11.5)	98.4	(a) (l) (n)	104.7	(10.3)	94.4
Total expenses		326.1	(16.2)	309.9		303.2	(12.0)	291.2
Profit before income tax expense		131.4	4.1	135.5		111.6	0.6	112.2
Income tax expense	(q)	(41.3)	0.1	(41.2)		(25.8)	-	(25.8)
Net profit		90.1	4.2	94.3		85.8	0.6	86.4
Net loss - outside equity interest		0.3	0.1	0.4		-	-	-
Net profit attributable to members of Bendigo Bank Limited		90.4	4.3	94.7		85.8	0.6	86.4

IMPACT OF ADOPTION OF AIFRS (continued)

Balance Sheet reconciliation as at 1 July 2004

Balance Sheet item	Note	Consolidated $m Previous AGAAP	Consolidated $m Transition impact	Consolidated $m AIFRS	Note	Bendigo Bank $m Previous AGAAP	Bendigo Bank $m Transition impact	Bendigo Bank $m AIFRS
Assets								
Cash and cash equivalents	(a)	157.5	34.2	191.7		142.6	-	142.6
Due from other financial institutions		157.6	-	157.6		157.5	-	157.5
Derivatives		-	-	-		-	-	-
Share investments		27.3	-	27.3		368.8	-	368.8
Fin assets Held-to-maturity	(a)	1,220.2	7.5	1,227.7		1,174.3	-	1,174.3
Loans and other receivables	(a) (o)	9,372.6	651.2	10,023.8		9,197.7	-	9,197.7
Investments accounted for using the equity method		101.1	-	101.1		-	-	-
Property, plant & equipment	(m)	56.6	(2.1)	54.5	(m)	34.3	(2.0)	32.3
Intangible assets and goodwill	(b) (m)	63.7	(1.4)	62.3	(b) (m)	2.2	(0.2)	2.0
Deferred tax assets	(r)	32.8	0.5	33.3		32.8	-	32.8
Other financial assets	(a)	95.1	(3.9)	91.2		67.9	-	67.9
Total Assets		11,284.5	686.0	11,970.5		11,178.1	(2.2)	11,175.9
Liabilities								
Due to other financial institutions		128.9	-	128.9		128.9	-	128.9
Deposits	(a)	10,148.9	708.5	10,857.4		9,988.6	-	9,988.6
Derivatives		-	-	-		-	-	-
Financial liabilities	(a) (p)	88.7	11.9	100.6	(p)	73.4	0.1	73.5
Amounts payable to controlled entities		-	-	-		67.9	31.4	99.3
Income tax payable		6.8	-	6.8		6.8	-	6.8
Provisions		27.2	-	27.2		25.8	-	25.8
Deferred tax liabilities	(r)	8.3	(0.7)	7.6	(r)	8.3	(0.9)	7.4
Subordinated debt - at amortised cost		199.3	-	199.3		199.3	-	199.3
Total Liabilities		10,608.1	719.7	11,327.8		10,499.0	30.6	10,529.6
Net Assets		676.4	(33.7)	642.7		679.1	(32.8)	646.3
Equity								
Parent entity interest								
Issued capital		551.6	-	551.6		551.6	-	551.6
ESOP shares	(o)	-	(31.4)	(31.4)	(o)	-	(31.4)	(31.4)
Reserves	(r)	5.4	1.2	6.6	(r)	2.0	0.9	2.9
Retained profits	(b) (j) (p)	119.6	(3.5)	116.1	(b) (j) (p)	125.5	(2.3)	123.2
Total parent entity interest in equity		676.6	(33.7)	642.9		679.1	(32.8)	646.3
Total minority interest		(0.2)	-	(0.2)		-	-	-
Total Equity		676.4	(33.7)	642.7		679.1	(32.8)	646.3

	Consolidated as at 1 July 2004 $m	Bendigo Bank as at 1 July 2004 $m
Equity under previous AGAAP	676.4	679.1
Recognition of shares in relation to Employee Share Ownership Plan	(31.4)	(31.4)
Write-off of goodwill assessed as impaired on transition 1 July 2004	(3.4)	(2.2)
Adjust recognisition of lease (rent) costs on transition 1 July 2004	(0.1)	(0.1)
Recognise tax effect of asset revaluation reserves on transition 1 July 2004	1.2	0.9
Equity under AIFRS	642.7	646.3

IMPACT OF ADOPTION OF AIFRS (continued)

Balance Sheet reconciliation as at 30 June 2005

Balance Sheet item	Note	Consolidated $m Previous AGAAP	Consolidated $m Transition impact	Consolidated $m AIFRS	Note	Bendigo Bank $m Previous AGAAP	Bendigo Bank $m Transition impact	Bendigo Bank $m AIFRS
Assets								
Cash and cash equivalents	(a)	135.2	117.9	253.1		115.9	-	115.9
Due from other financal institutions		188.9	-	188.9		182.6	-	182.6
Derivatives	(f)	-	3.1	3.1	(f)	-	3.1	3.1
Fin assets AFS - share invests		42.5	-	42.5		303.5	-	303.5
Fin assets Held-to-maturity	(a)	1,541.7	28.4	1,570.1		1,505.9	-	1,505.9
Loans and other receivables	(a) (o)	10,938.2	454.2	11,392.4		10,762.6	-	10,762.6
Amounts rec'ble from controlled entities		-	-	-	(o)	41.0	(31.0)	10.0
Investments accounted for using the equity method		118.2	(0.1)	118.1		-	-	-
Property, plant & equipment	(m)	58.0	(10.5)	47.5	(m)	36.2	(7.2)	29.0
Intangible assets and goodwill	(b) (m)	79.0	11.4	90.4	(b) (m)	1.6	5.6	7.2
Deferred tax assets	(r)	35.4	0.4	35.8	(r)	35.4	0.6	36.0
Other financial assets	(a)	125.0	(8.3)	116.7	(f)	97.0	(3.1)	93.9
Total Assets		13,262.1	596.5	13,858.6		13,081.7	(32.0)	13,049.7
Liabilities								
Due to other financial institutions		143.3	-	143.3		143.3	-	143.3
Deposits	(a)	11,958.2	614.0	12,572.2		11,800.3	-	11,800.3
Derivatives	(f)	-	6.3	6.3	(f)	-	6.2	6.2
Financial liabilities	(a) (p)	106.2	5.1	111.3	(f)	86.2	(5.9)	80.3
Income tax payable		8.3	-	8.3		8.3	-	8.3
Provisions		32.0	-	32.0		31.1	-	31.1
Deferred tax liabilities	(e) (r)	2.9	(0.5)	2.4	(e) (r)	3.0	(1.3)	1.7
Subordinated debt - at amortised cost		262.1	-	262.1		262.1	-	262.1
Total Liabilities		12,513.0	624.9	13,137.9		12,334.3	(1.0)	12,333.3
Net Assets		749.1	(28.4)	720.7		747.4	(31.0)	716.4
Equity								
Parent entity interest								
Issued capital		589.3	-	589.3		589.3	-	589.3
ESOP shares	(o)	-	(30.0)	(30.0)	(o)	-	(30.0)	(30.0)
Reserves	(r)	3.1	0.9	4.0	(r)	0.3	0.7	1.0
Retained profits	(b) (j) (p)	157.1	0.7	157.8	(b) (j) (p)	157.8	(1.7)	156.1
Total parent entity interest in equity		749.5	(28.4)	721.1		747.4	(31.0)	716.4
Total minority interest		(0.4)	-	(0.4)		-	-	-
Total Equity		749.1	(28.4)	720.7		747.4	(31.0)	716.4

	Consolidated as at 30 June 2005 $m
Equity under previous AGAAP	749.1
Recognition of shares in relation to Employee Share Ownership Plan	(30.0)
Write-off of goodwill assessed as impaired on transition - 1 July 2004	(3.4)
Adjust recognisition of lease (rent) costs on transition - 1 July 2004	(0.1)
Recognise tax effect of deferred assets and liablilities in relation to revaluations of fixed assets and share investments	0.9
AIFRS adjustments to profit for the period as per income statement reconciliations above	4.3
Other minor adjustments	(0.1)
Equity under AIFRS	720.7

	Bendigo Bank as at 30 June 2005 $m
Equity under previous AGAAP	747.4
Recognition of shares in relation to Employee Share Ownership Plan	(30.0)
Write-off of goodwill assessed as impaired on transition - 1 July 2004	(2.2)
Adjust recognisition of lease (rent) costs on transition - 1 July 2004	(0.1)
Recognise tax effect of deferred assets and liablilities in relation to revaluations of fixed assets and share investments	0.7
AIFRS adjustments to profit for the period as per income statement reconciliations above	0.6
	716.4

IMPACT OF ADOPTION OF AIFRS (continued)

Balance Sheet reconciliation as at 1 July 2005

		Consolidated $m				Bendigo Bank $m		
Balance Sheet item	***Note***	**AIFRS 30 June 2005**	**Transition impact of 132/139**	**AIFRS 1 July 2005**	***Note***	**AIFRS 30 June 2005**	**Transition impact of 132/139**	**AIFRS 1 July 2005**
Assets								
Cash and cash equivalents		253.1	-	253.1		115.9	-	115.9
Due from other financal institutions		188.9	-	188.9		182.6	-	182.6
Derivatives		3.1	-	3.1	(f)	3.1	-	3.1
Fin assets AFS - securities	(h)	-	295.1	295.1	(h)	-	295.1	295.1
Fin assets AFS - share invests	(e)	42.5	25.5	68.0	(e)	303.5	25.5	329.0
Fin assets Held-to-maturity	(h)	1,570.1	(295.1)	1,275.0	(h)	1,505.9	(295.1)	1,210.8
Loans and other receivables	(c) (d) (f) (g)	11,392.4	63.0	11,455.4	(c) (d) (f) (g)	10,762.6	61.3	10,823.9
Amounts rec'ble from controlled entities		-	-	-		10.0	-	10.0
Investments accounted for using the equity method	(d) (k)	118.1	4.0	122.1		-	-	-
Property, plant & equipment		47.5	-	47.5		29.0	-	29.0
Intangibles		90.4	-	90.4		7.2	-	7.2
Deferred tax assets	(c) (d)	35.8	(12.3)	23.5	(c) (d)	36.0	(12.1)	23.9
Other financial assets		116.7	-	116.7		93.9	-	93.9
Total Assets		13,858.6	80.2	13,938.8		13,049.7	74.7	13,124.4
Liabilities								
Due to other financial institutions		143.3	-	143.3		143.3	-	143.3
Deposits	(f) (g)	12,572.2	(1.0)	12,571.2	(f) (g)	11,800.3	(1.0)	11,799.3
Derivatives	(f)	6.3	12.0	18.3	(f)	6.2	12.3	18.5
Financial liabilities	(l)	111.3	10.5	121.8	(l)	80.3	9.8	90.1
Income tax payable	(c)	8.3	(0.1)	8.2	(c)	8.3	(0.1)	8.2
Provisions		32.0	-	32.0		31.1	-	31.1
Deferred tax liabilities	(e) (r)	2.4	7.7	10.1	(e) (r)	1.7	7.6	9.3
Subordinated debt - at amortised cost		262.1	-	262.1		262.1	-	262.1
Total Liabilities		13,137.9	29.1	13,167.0		12,333.3	28.6	12,361.9
Net Assets		720.7	51.1	771.8		716.4	46.1	762.5
Equity								
Parent entity interest								
Issued capital		589.3	-	589.3		589.3	-	589.3
ESOP shares		(30.0)	-	(30.0)		(30.0)	-	(30.0)
Reserves	(d) (e) (f) (g) (h) (i) (r)	4.0	59.5	63.5	(d) (e) (f) (g) (h) (i) (r)	1.0	54.7	55.7
Retained profits	(c) (k) (l)	157.8	(8.4)	149.4	(c) (k) (l)	156.1	(8.6)	147.5
Total parent entity interest in equity		721.1	51.1	772.2		716.4	46.1	762.5
Total minority interest		(0.4)	-	(0.4)		-	-	-
Total Equity		720.7	51.1	771.8		716.4	46.1	762.5

	Consolidated as at 1 July 2005 $m
Equity under AIFRS - 30 June 2005	720.7
Adjust carrying value of AFS financial assets (share investments) to fair value	25.5
Tax effect of fair value adj to share investments	(7.5)
Discounting of specific provisions (tax effected)	(0.3)
Fair value adjustments to financial assets, financial liabilities and derivatives on transition:	
- group	0.1
- associates	(0.8)
Establishment of general reserve for credit losses and collective provision:	
- group	36.7
- associates	4.8
Deferred loan application fee income (tax effected)	(7.4)
	771.8

	Bendigo Bank as at 1 July 2005 $m
Equity under AIFRS - 30 June 2005	716.4
Adjust carrying value of AFS financial assets (share investments) to fair value	25.5
Tax effect of fair value adj to share investments	(7.5)
Discounting of specific provisions (tax effected)	(0.3)
Fair value adjustments to financial assets, financial liabilities and derivatives on transition	(0.2)
Establishment of general reserve for credit losses and collective provision:	35.5
Deferred loan application fee income (tax effected)	(6.9)
	762.5

IMPACT OF ADOPTION OF AIFRS (continued)

Notes to reconciliations:

Where specific explanations have not been provided, minor adjustments to figures are due to rounding only.

(a) Consolidation of special purpose securitisation trusts. These trusts were not consolidated under previous AGAAP. Under AASB 127: Consolidated and Separate Financial Statements and UIG Interpretation 112: Consolidation - Special Purpose Vehicles the consolidated entity is considered to control the securitisation vehicles, resulting in their consolidation. The income statement no longer reports management fees and other fees earned from the special purpose trusts. Instead, the income statement reports gross interest income earned on mortgage loans, interest expense accrued to noteholders, movements in the fair values of derivatives (unless the rules for cash flow hedging are met), and other income and expense items of the trusts. The underlying mortgage loans and liabilities to noteholders (along with derivatives) held by the special purpose trusts are reported on the consolidated balance sheet.

(b) Goodwill assessed as impaired under new AIFRS testing methodology. Written-off on transition (1 July 2004). The goodwill items were not found to be impaired under the previous AGAAP due to different testing methodology.

The Bank has elected under AASB 1 First Time Adoption of Australian Equivalents to International Reporting Standards not to restate the classification and accounting treatment of business combinations that occurred prior to the transition date in preparing the opening AIFRS consolidated balance sheet.

Goodwill is not amortised under AIFRS, resulting in a decrease in restated amortisation of goodwill and intangibles and an increase in the restated carrying value of goodwill. The carrying amount of goodwill is subject to impairment testing at least annually. Any impairment loss is to be reflected in the income statement.

(c) Increase in specific loan provisions on transition ($0.5 m). Future cash flows relating to loan impairment assessments are discounted to present value under AIFRS. The discount unwinds during the period between the initial recognition of the provision and the eventual recovery of the written down amount, resulting in the recognition of income.

The future cash flows were not discounted for impairment assessment purposes under previous AGAAP. The adjustment also has the effect of increasing deferred tax assets as the increase is a temporary timing difference.

Establishment of a collective provision for doubtful debts on transition ($7.7 m). This provision is to recognise losses that are inherent in the loan portfolios, but have not yet been identified. The balance of this provision (net of tax) will be included with the group general reserve for credit losses to comply with the APRA requirement that banks maintain a general provision (net of tax) at a minimum level of 0.50% of risk-weighted assets.

(d) Write-back of general provision for doubtful debts and creation of general reserve for credit losses ($60.3 m). AIFRS does not allow a general provision, but a general reserve is permitted due to the APRA requirement that ADI's maintain a general reserve for credit losses.

This change has also impacted our associate company, Elders Rural Bank (ERB) and we have therefore also reflected our share of the ERB adjustments in our financial statements as we equity account our investment in ERB.

Movements in the general reserve for credit losses are recognised as an appropriation (in equity), rather than in the income statement. This will have the effect of increasing reported profit, but the amount available for distribution to ordinary shareholders will be unchanged when compared to the previous AGAAP.

(e) Fair value adjustment to the carrying value of share investments on transition ($25.5 m). The adjustment is reflected in asset revaluation reserve. The recognition of deferred tax liability in relation to the adjustment reduces the asset revaluation reserve ($7.5 m).

Under previous AGAAP, the consolidated entity recorded share investments at deemed cost. Under AIFRS these investments are carried at fair value, with fair value movements reflected in equity.

(f) Recognition of derivatives, which are primarily interest rate swaps, on balance sheet at fair value. Under previous AGAAP only accrued interest was recognised on balance sheet.

Under AIFRS, all derivatives, including those used for balance sheet hedging purposes, are recognised on balance sheet and carried at fair value. Movements in the carrying amounts of derivatives are recognised in earnings, unless hedge accounting is applied.

(g) Fair value adjustment to hedged financial instruments previously carried at amortised cost. Adjustment through the income statement for ineffectiveness of hedges.

Financial instruments classified as hedged are now carried at fair value, with fair value movements reflected in the income statement. Financial instruments assessed as effectively hedged have their fair value movements offset by the fair value movement in the hedge instrument (derivative).

(h) Recognition of available for sale financial instruments at fair value which were previously carried at amortised cost.

AIFRS has required that a porfolio of our investment securities be categorised as available for sale. This portfolio is carried at fair value, with movements in fair value reflected in equity. This could result in volatility in equity reserves, depending on future movements in fair values. This portfolio contains selected investments to minimise the impact of fair value movements.

		Consolidated
		$m
(i)	The above 1 July 2005 changes impact reserves as follows -	
	Creation of general reserve for credit losses (after tax value)	36.7
	Creation of general reserve for credit losses (after tax value) - associates	4.8
	Increase asset revaluation reserve for fair value adjustment to share investments	
	(tax effected)	18.0
		59.5
(j)	The above 1 July 2004 changes impact retained earnings as follows -	
	Write-off of goodwill that was assessed as impaired on transition	(3.4)
	Accrued lease payments due to change in recognition pattern on transition	(0.1)
		(3.5)
(k)	The above 1 July 2005 changes impact retained earnings as follows -	
	Fair value adjustments to financial assets, liabilities and derivatives on transition	0.1
	Transition adjustments - associates	(0.8)
	Increase in specific loan provisions on transition (tax effected)	(0.3)
	Deferred loan application fee income (tax effected)	(7.4)
		(8.4)

(l) Loan origination fees re-categorised to interest income in accordance with AASB 139. Any fee income or expense integral to the yield of an originated financial instrument, net of any direct incremental costs, must be deferred over the expected life of the instrument. This change will not impact reported earnings, but requires the re-categorisation of the fee amortisation from operating expenses to interest income.

Loan application fees have also been re-categorised to interest income in accordance with AASB 139. These fees were recognised under previous AGAAP on an as earned (received) basis. As these fees are deferred over the expected life of the loans under AIFRS, this has resulted in a transition adjustment against retained earnings at 1 July 2005 of $10.5 million ($7.4 million tax effected).

(m) On transition, computer software assets have been reclassified from property, plant & equipment to intangible assets. The amortisation of these assets is unchanged, but is now reclassified from depreciation of plant & equipment to amortisation of intangibles.

(n) Reclassification of proceeds on sale of property, plant and equipment and book value of sold assets to profit or loss on sale of property, plant and equipment. Reclassification of proceeds on sale of other non-current assets and book value of sold assets to profit or loss on sale of other non-current assets.

(o) Reclassification of loans associated with the Employee Share Ownership Plan ("ESOP"). Under previous AGAAP, shares issued under the ESOP were included in issued capital and the outstanding balance of loans advanced to employees taking up the shares was reported as loans and receivables. Under AIFRS, the shares issued continue to be reported as issued capital.

The value of equity outstanding (ie. the outstanding balance of loans) falls under the AASB 2 Share Based Payments definition of treasury shares and must be deducted from equity in the balance sheet. The effect of this change is a reclassification of the outstanding balance of loans in relation to the ESOP from loans and receivables to ESOP shares in issued capital.

(p) Under AASB 117 Leases, lease payments under an operating lease are recognised as an expense on a straight-line basis unless another systematic basis is more representative of the time pattern of the user's benefit. The application of this standard has resulted in changes to the amount of lease expense recognised.

On transition to AIFRS as at 1 July 2004 we have recognised a lease liability to reflect previous year leasing expense not recognised under previous AGAAP. The transition adjustment is made against retained earnings.

Lease expense and lease liabilities have been increased for the restated comparatives for 2004/05.

(q) Share of AIFRS restated 2004/05 profit for associate company (Elders Rural Bank Limited).

(r) AASB 1020 Income Tax requires a balance sheet approach, rather than the previous income based methodology. This requires us to recognise the tax effect of asset revaluation reserve and reflect the adjustment in deferred tax balances.

Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP other than the inclusion of cash flows in relation to the securitisation trusts.

DIRECTORS DECLARATION

In accordance with a resolution of the directors of Bendigo Bank Limited, we state that:

In the opinion of the directors:

(a) the financial report, and additional disclosures included in the directors report designated as audited, of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards and Corporations Regulations 2001; and

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

This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2006.

On behalf of the Board

Robert Johanson

R N Johanson
Chairman

R G Hunt AM
Managing Director

12 September 2006

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

Independent audit report to members of Bendigo Bank Limited

Matters relating to the Electronic Presentation of the Audited Financial Report

This audit report relates to the financial report of Bendigo Bank Limited (the company) for the year ended 30 June 2006 included on the company's web site. The company's directors are responsible for the integrity of the company's web site. We have not been engaged to report on the integrity of the company's web site. The audit report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Bendigo Bank Limited (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report" on pages 12 to 28 of the directors' report, as permitted by Corporations Regulation 2M.6.04.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and the remuneration disclosures; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report and the remuneration disclosures. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and 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. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion:

1. the financial report of Bendigo Bank Limited is in accordance with:

(a) the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the financial position of Bendigo Bank Limited and the consolidated entity at 30 June 2006 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

2. the remuneration disclosures that are contained on pages 12 to 28 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures*.

Ernst & Young

Brett Kallio

Brett Kallio
Partner
Melbourne
12 September 2006

ADDITIONAL INFORMATION

1. MATERIAL DIFFERENCES

There are no material differences between the information supplied in this report and the information in the preliminary final report supplied by Bendigo Bank Ltd to the Australian Stock Exchange on 14 August 2006.

2. AUDIT COMMITTEE

As at the date of the Directors' Report the economic entity had an audit committee of the Board of Directors.

3. CORPORATE GOVERNANCE PRACTICES

The corporate governance practices adopted by Bendigo Bank Ltd are detailed in the Corporate Governance section of the Group's Concise Annual Report for 2006.

4. SUBSTANTIAL SHAREHOLDERS

As at 18 August 2006 there were no substantial shareholders in Bendigo Bank Ltd as defined by the Listing Rules of the Australian Stock Exchange Ltd.

5. DISTRIBUTION OF SHAREHOLDERS

Range of Securities as at 18 August 2006 in the following categories:

Category	Fully paid Ordinary Shares	Fully Paid Employee Shares	BPS Preference Shares
1 - 1,000	24,912	456	3,449
1,001 - 5,000	20,120	851	34
5,001 - 10,000	2,886	83	4
10,001 - 100,000	1,571	38	1
100,001 and over	69	4	1
Number of Holders	49,558	1,432	3,489
Securities on Issue	136,165,493	4,685,468	900,000

6. MARKETABLE PARCEL

Based on the closing price of $13.50 on 18 August 2006, the number of holders with less than a marketable parcel of the Company's main class of securities (Ordinary Shares) as at 18 August 2006 was 1,330.

7. UNQUOTED SECURITIES

The number of unquoted equity securities that are on issue and the number of holders of those securities are shown in the above table under the heading of Fully Paid Employee shares.

8. MAJOR SHAREHOLDERS

Names of the 20 largest holders of Fully Paid Ordinary Shares, including the number of shares each holds and the percentage of ordinary share capital that number represents as at 18 August 2006 are:

FULLY PAID ORDINARY SHARES Rank	Name	Number of fully paid Ordinary Shares	Percentage held of Issued Ordinary Capital
1	J P Morgan Nominees Australia Limited	3,737,888	2.65%
2	Westpac Custodian Nominees Limited	3,105,826	2.21%
3	Milton Corporation Limited	2,954,743	2.10%
4	National Nominees Limited	2,097,797	1.49%
5	Citicorp Nominees Pty Limited	1,631,542	1.16%
6	Leesville Equity Pty Ltd	1,340,477	0.95%
7	Cogent Nominees Pty Limited	1,134,514	0.81%
8	ANZ Nominees Limited (Cash Income a/c)	935,244	0.66%
9	Choiseul Investments Limited	710,250	0.50%
10	Argo Investments Limited	591,940	0.42%
11	AMP Life Limited	496,070	0.35%
12	Invia Custodian Pty Limited (Wilson Invmt Fund Ltd a/c)	495,463	0.35%
13	Brickworks Investment Company Limited	349,942	0.25%
14	Anthony Detata Nominees Pty Ltd	320,488	0.23%
15	Mansbridge, Ian George	319,151	0.23%
16	Warbont Nominees Pty Ltd (Unpaid Entrepot a/c)	297,320	0.21%
17	Sandhurst Trustees Ltd (SISF a/c)	293,136	0.21%
18	HSBC Custody Nominees (Australia) Limited - GSCO ECSA	292,914	0.21%
19	UBS Wealth Management Australia Nominees Pty Ltd	285,846	0.20%
20	Tobin (Estate of), Mary Alison Lorraine	228,346	0.16%
		21,618,897	15.35%

BBS Nominees Pty Ltd, trustee for the Bendigo Employee Share Ownership Plan, held 4,685,468 unlisted shares as at the date of this report. These shares have not been included in the above table.

Names of the 20 largest holders of Bendigo Preference Shares, including the number of shares each holds and the percentage of preference share capital that number represents as at 18 August 2006 are:

FULLY PAID PREFERENCE SHARES Rank	Name	Number of fully paid Preference Shares	Percentage held of Issued Preference Capital
1	J P Morgan Nominees Australia Limited	233,940	25.99%
2	Citicorp Nominees Pty Limited	17,000	1.89%
3	Cogent Nominees Pty Limited	10,000	1.11%
4	Edwards, JF & JR	8,293	0.92%
5	ANZ Nominees Limited	5,100	0.57%
6	Perry, BW & EM	5,046	0.56%
7	Cambooya Pty Ltd	5,000	0.56%
8	M F Custodians Ltd	5,000	0.56%
9	Pavwood Pty Limited	4,800	0.53%
10	Jackson, PD	4,000	0.44%
11	Leesville Equity Pty Ltd	4,000	0.44%
12	Scenic Tours Pty Ltd	3,000	0.33%
13	Cambooya Pty Ltd (Foundation a/c)	2,500	0.28%
14	Hadges, JT	2,500	0.28%
15	Rome Pty Ltd	2,428	0.27%
16	Pavwood Pty Limited (Put a/c)	2,100	0.23%
17	Australian Executor Trustees Limited	2,097	0.23%
18	Andre, RM	2,000	0.22%
19	Bond Street Custodians Limited	2,000	0.22%
20	Brencorp No. 11 Pty Limited	2,000	0.22%

9. VOTING RIGHTS

The holders of ordinary shares are entitled to vote at meetings of shareholders in the first instance by a show of hands of the shareholders present and entitled to vote. If a poll is called, each shareholder has one vote for each fully paid share held.

Holders of partly paid shares have a vote which carries the same proportionate value as the proportion that the amount paid up on the total issue price bears to the total issue price of the share.

In the case of an equality of votes the Chairman has, on both a show of hands and at a poll, a casting vote in addition to the vote to which the Chairman may be entitled as a shareholder, proxy, attorney or duly appointed representative of a shareholder.

Bendigo Bank Limited
Second Floor
Fountain Court
Bendigo, Victoria 3550
Telephone (03) 5433 9339
Facsimile (03) 5433 9690
www.bendigobank.com.au

Bendigo Bank

(S11741)(09/06)