

Shareholder Review

Information for shareholders
of Bendigo and Adelaide
Bank Limited

March 2009



Bendigo and
Adelaide Bank

Message from the Chairman

This issue details our 2008-09 interim profit, which was a good result in difficult conditions.



Nonetheless, market reaction to our result was disappointing, with our share price falling sharply.

So why the poor market reaction? Certainly our result was a complex set of numbers. The impact of new accounting standards on the financial reporting of the merger between Bendigo Bank and Adelaide

Bank made it difficult to make like-for-like comparisons against our previous profit result.

For this reason, we concentrated on the measure of most interest to shareholders – our company cash earnings.

And that was a good story.

We grew cash earnings per share by 3 per cent. That sounds modest, but was an excellent outcome given the current market and when measured against the many companies reporting a decline in earnings.

It enabled us to declare the same interim dividend as last year – 28 cents per share. Given the pressure on company dividends across the board, we felt maintaining the dividend in the first half was a good outcome.

It is important to understand market sentiment in this economic environment, which is the worst the world has seen since the 1930s Great Depression. Demand for credit has fallen worldwide and the supply of wholesale money to fund remaining domestic credit is more difficult to attract and more expensive. Markets thrive on confidence and trust, and at the moment both are in short supply. The slightest disappointment can cause a company to be heavily marked down.

In our case, professional investors noted a substantial decline in our net interest margins during the first half and a slight increase in our provisioning for bad and doubtful debts. The change in our margins was primarily brought about by the strategic decisions we took to strengthen the liability (funding) mix in our balance sheet to take account of the worsening global business and funding climates.

Pursuing this strategy in a rapidly declining interest rate environment adversely affected margin revenues in the first half, but significantly improves the strength of the balance sheet and our future options. We deliberately increased the retail component of our funding in this period of uncertainty and more than 80 per cent of on-balance sheet loans are now funded by domestic retail customers. We also provisioned against four loans where performance was in question and continue to monitor our overall loan portfolio for those sectors and /or parts of the economy that are impacted by the global slowdown.

We are now reviewing all our divisions' operations and priorities to ensure we are well structured and positioned to pursue our strategy of being a real and viable alternative in the Australian banking market. Our capital position is strong and record deposit

inflows have provided us with reliable funding to service our customers' needs. These funds are being applied to customer business and through the channels to market that provide us the most appropriate and reliable returns, and therefore the best prospects of developing long-term relationships with our customers.

Our robust balance sheet provides us with the foundation to manage through the tough times. This downturn follows a long period of economic prosperity – partly built on shifting sands – and is particularly severe. But we have managed previous downturns over the past 150 years and we will manage this one.

Remember, too, that our customers are also being challenged by difficulties caused by the global crisis and our help and support is both valued and appreciated by our customers in our effort to minimise their risks and thereby minimise our own bad debt experience.

Just as our governments are doing, we are now looking to minimise the short-term impact of the downturn in a way that will position our business to ride the inevitable upswing that always follows these lows in the economic cycle. Our management team is now looking at our income lines, our costs and our priorities to ensure they properly respond to current economic conditions.

Those measures are necessary for us to remain strong for the future, but other measures will also give you a balanced picture of how the Bank is progressing and has positioned itself for the future generation of shareholder value.

- > Our expanded network continues to mature.
- > We continue to open branches and this year will achieve around 25 new sites.
- > Around 10,000 new customers join us each month.
- > Our margin lending business, Leveraged Equities, has just acquired a \$1.5 billion book representing around 13,000 new customers.
- > We are Australia's best partner business and are being actively sought out by new communities and partners.
- > We have the best customer satisfaction and advocacy ratings in the industry.

We have a stated vision to be Australia's best customer connected bank, and never has that been a more valuable position because 'traditional banking' is well and truly back in vogue. The problems engendered by too-smart financial practices have served to remind governments, corporations and the general populace of the value of a bank which is grounded in the fundamentals of providing quality advice, quality service and quality product.

We have all those attributes and offer a true and differentiated alternative in the market. We should all have great confidence in the long-term prospects for Bendigo and Adelaide Bank – even if the market is struggling to see the benefits of our strategy and the strength of Australian banks in general.

Robert Johanson.

Bendigo and Adelaide Bank has announced an after-tax profit before significant items of \$118.8 million for the six months ending 31 December, 2008. Cash earnings were up 72.8 per cent to \$122.2m, representing growth in cash earnings per share of 3 per cent – to 44.3 cents per share².

Directors announced an interim dividend of 28 cents per share (fully franked), the same as the prior corresponding period.

Group Managing Director Rob Hunt said the Bank's strategy – which was based on traditional banking disciplines – had enabled the business to strengthen its balance sheet and post the positive result in a very challenging market.

"This result was achieved and delivered in a changing and challenging time for banks," Mr Hunt said.

"Our determined and disciplined approach to writing sustainable and profitable business has placed the Group in the best possible position to manage these market challenges.

"We have strengthened our balance sheet, and improved our liability mix. This was achieved by lifting the proportion of retail funding and reducing our reliance on wholesale funding. Clearly wholesale funding markets remain problematic in this environment.

"The reshaping of our balance sheet provides us with greater flexibility – and places us in an ideal position to deal with the current difficult trading environment.

"In tough times, the close connection we maintain with our customers, communities and partners is more important than ever. Credit quality remains sound, and we are committed to working with our customers who may find themselves in financial troubles.

"The continued support of our customers and shareholders is providing us with the funding and capital to start taking advantage of the opportunities that are emerging in the current business environment. Our recent acquisition of the Macquarie margin lending business is an obvious example of this.

"At the same time we continue to establish our brand credentials and relevance across Australia. We continue to expand our distribution network and to grow and expand our customer base."

Group performance

Net profit after tax and before significant items for the reporting period was \$118.8 million – reflecting growth in cash earnings per share of 3.0 per cent, to 44.3 cents per share when compared with last year's reported 43.0 cents. Revenue grew by 32.3 per cent to \$446.0 million.

The cost to income ratio continued to improve – from 60.5 per cent in December 2007, to 58.3 per cent this period. This improvement was due to continued efficiencies from the merger with Adelaide Bank, and a concerted effort to manage costs appropriately in the current business environment.

Strong results announced in difficult environment

Edited version of the announcement made to the Australian Stock Exchange on 16 February 2009.

Highlights¹

- > Cash earnings per share up 3.0 per cent to 44.3c
- > Net profit after tax before significant items up 56.1 per cent to \$118.8m
- > Credit quality remains sound
- > Dividend 28 cents per share (fully franked)

The merger with Adelaide Bank continues to proceed in line with forecasts, with \$33.1 million in run-rate cost synergies achieved to 31 December 2008.

Operating expenses before significant items grew by 47 per cent – mainly due to higher staff costs from the addition of 1140 full time equivalent staff through the merger with Adelaide Bank.

There is a substantial difference between our reported statutory profit and cash profit. This is primarily the result of the accounting for cash flow hedges acquired in the merger with Adelaide Bank. More detail of this is contained in our reports at www.bendigobank.com.au

The Bank has also announced a proposal to acquire all of the units in the Asset Backed Yield Trust for approximately \$174 million. Full details of this proposal are available on our website under Investor Information.

Asset quality

Bendigo and Adelaide Bank manages a highly granular portfolio of assets, with just six loans of more than \$30 million, and the top 20 exposures representing less than 1.40 per cent of group loans.

Asset quality remains sound, with gross impaired loans representing 0.21 per cent of total assets. This compares favourably with two previous economic downturns – 2001 and 1998 – where impaired loan levels were 0.50 and 0.87 per cent respectively. Total provisions and reserves for doubtful debts grew to \$156.9 million – an increase of \$21.8 million since June 2008. General and collective provisions remain a conservative 51 basis points of Group Risk Weighted Assets.

1 Comparisons are with previously reported results for Bendigo and Adelaide Bank. Comparisons in the statutory accounts for the period ending 31 December 2008 include a re-statement of some figures, relating primarily to fair value adjustments required as a result of the merger with Adelaide Bank in November 2007.

2 Cash EPS was based on a weighted average number of shares.

Funding and capital

The ability of our branch network to produce sustainable liability growth has been clearly evident, with deposit growth of 31.5 per cent since December 2007 – to a total of \$19.8 billion.

The Group remains strongly capitalised with a total capital position of 10.78 per cent and a tier 1 ratio of 7.99 per cent as at 31 December 2008. Liquidity is also strong and remains well in excess of our statutory requirements.

Developments since the reporting period ended have further strengthened the Bank's capital position. This includes the issuance of \$52 million of short dated Convertible Preference Shares as consideration for the purchase of the Macquarie margin lending portfolio.

The Bank believes this level of capital is appropriate for the lower-risk loan portfolio of the Bank.

Retail Bank

The Retail Bank – including the **Community Bank®** model – continues to enjoy strong growth and profitability. Branch openings included five new company owned sites, and 19 new **Community Bank®** branches. Demand for new company owned and **Community Bank®** branches continues to remain strong. The Group expects to continue to open about 25 new branches each year.

Partner Advised Banking

Our Partner Advised Banking business continues to provide strong results, and has responded well to the current trading environment. Our margin lending business, Leveraged Equities, has managed the extreme market volatility exceptionally well, with no provisions or losses in the period.

The recent acquisition of the Macquarie margin lending business provides further scalability and increases customer numbers to more than 31,000. The Third Party Mortgages business has been restructured to meet the challenges of the current funding environment. New and existing portfolios have been repriced, and the Bank has rolled out a new commission structure with its distribution partners.



Bank's bushfire appeal hits \$6 million

Bendigo and Adelaide Bank, through its Community Enterprise Foundation, launched a Bushfire Appeal on 9 February with a \$100,000 donation.

We have branches in most of the fire-affected areas, and local branch staff were overwhelmed by customers and community members eager to support those who have been affected by the unprecedented Victorian bushfires.

The Appeal hit the \$1 million mark in just over 24 hours. Donations came in from the general public, major companies, **Community Bank®** companies, staff, and customers throughout Australia - both in branches and online.

The Foundation started to distribute money from its Bushfire Appeal within a week, with \$250,000 released to assist those most in need.

Foundation Chief Executive Officer, Callum Wright, said the Foundation wanted to start releasing further Appeal funds as soon as possible.

"We identified a number of organisations who could put the money to good use and we will continue to talk with groups and communities over the coming weeks.

"Thanks to the generosity of people right across Australia we have a lot more to give, with our Bushfire Appeal total currently standing at more than \$6 million."

Initial bushfire donation recipients include;

State-wide
National Association of Loss and Grief Vic Inc. \$10,000 – Counselling services
Vic Relief Food Bank Ltd \$10,000 – Food for fire victims and emergency service workers
Rotary Australia World Community Service Ltd \$13,200 – Shelter boxes that serve as emergency accommodation
Gippsland
Victoria State Emergency Service Warragul Unit \$5,000 – Community building activities
Central Victoria
Loddon Mallee Housing Services Ltd \$10,000 – Provision of emergency housing in the Bendigo area
Bendigo Community Health Services Inc. \$10,000 – Care packages and counselling services for people in Eaglehawk and Redesdale
Future Employment Opportunities Inc. \$5,000 – Back-to-school packs for Eaglehawk school students
Yarra Valley
Victorian Animal Aid Trust \$5,000 – Animal welfare

How to donate

People wanting to donate to the Victorian Bushfire Appeal and the North Queensland Flood Appeal can log on to Bendigo Bank's website, or call into any branch of Bendigo Bank or Adelaide Bank. At this stage, phone donations cannot be accepted.

Donations of \$2 or more are tax-deductible.

Bendigo and Adelaide Bank customers affected by the fires or the flood are urged to contact their local branch or call 1300 366 666.

Mortgage relief

As well as the distribution of funds from the Foundation, Bendigo Bank is providing interest relief to customers who have lost homes, businesses or income as a direct result of the bushfires.

Repayments on owner-occupied and business loans will be deferred for three months and interest will not accrue during this period. Customers with fixed rate loans who elect to use an insurance payment to pay out their loan will not be charged loan break costs.

After the three months, the Bank's Mortgage Help Centre will work with customers individually.

Our aim is to help our customers get back on their feet as quickly as possible.



Relief for flood victims

While Victoria was still coming to terms with the most devastating bushfires in Australia's history, communities in north Queensland were suffering the effects of severe floods.

As with the bushfires, an appeal was set up by Bendigo and Adelaide Bank to raise funds for communities affected by Cyclone Ellie.

The Appeal quickly hit the \$50,000 milestone in community donations, with Bendigo and Adelaide Bank donating a further \$50,000.

Queensland State Manager Ashley Hood said the Bank is supporting affected householders and business people as part of its hardship provisions policy.

"Our close connections with community leaders will also ensure the Bank plays a significant role in recovery long after the flood waters subside," he said.

"Our aim is to help them get back on their feet as quickly as possible."



Photographs from top to bottom

Prime Minister Kevin Rudd cuts the green ribbon and declares The Bendigo Centre officially open.

Prime Minister Kevin Rudd addresses the community.

The former 'face' of Bendigo Bank, Doug Laity, at the opening of the laneway named after him.

Frank Perrow's children, Elizabeth McCauley and John Perrow, unveil the plaque honouring their father.

PM opens The Bendigo Centre

Prime Minister Kevin Rudd officially declared Bendigo and Adelaide Bank's new 'green' headquarters in Bendigo open for business on Thursday, 11 December.

Almost 2000 people attended the Bank's housewarming party, with the Prime Minister and Victorian Premier John Brumby the guests of honour.

Celebrations continued following the 11am official ceremony, with a festival held in the precinct and community tours of the centre.

The Bendigo Centre is one of the first Five Star Green Star designed buildings to be built in regional Australia and has created much interest in the regional city since construction began more than three years ago.

Bendigo and Adelaide Bank is now undertaking planning for a similar Five Star Green Star designed building in Adelaide.

The Bank will redevelop the site of the current Adelaide head office at 169 Pirie Street. Construction of the new facility should be complete by 2012.

We've also updated the website with some great photos and videos - take a look at www.bendigobank.com.au

Former employees honoured

Former employees, General Manager Frank Perrow and Number One Teller Doug Laity, were honoured during opening of The Bendigo Centre, with the official opening of Perrow Walk and Laity Lane.

Their commitment to the company was recognised by Managing Director, Rob Hunt, who himself has been an employee of the Bank for 35 years and will retire in mid-2009.

"Long service has been a hallmark of Bendigo employees with Doug holding the record of 48 years with the company and Frank known to locals as 'Mr Building Society'," Mr Hunt said.

"It is fitting that we recognise their contribution to what is today a national financial institution with 4500-plus employees."

Hurstbridge donates \$150,000

A \$150,000 donation by **Community Bank®** company in Hurstbridge, Victoria, will go towards rebuilding Victorian communities devastated by the Black Saturday bushfires.

Many customers, shareholders and staff of the local community company were directly impacted by the fires, in which lives were lost and homes and businesses destroyed.

Chairman Barry Henwood said the \$150,000 donation by the community company epitomised the philosophy of the **Community Bank®** model.

Bendigo and Adelaide Bank raises \$190 million through Share Purchase Plan (SPP) and share placement

On 23 December, the Bank announced it had raised \$190 million of capital by placing 19 million new shares at \$10 per share. \$80 million of capital was raised via a share purchase plan (SPP) with a further \$100 million raised via an institutional placement.

Chairman Robert Johanson said the capital raising provided the opportunity to boost the Bank's capital position materially and to provide it with a solid platform to take advantage of growth opportunities in the current market.

"Our loyal shareholder base has always been a great strength of this company and we are delighted with their support," Mr Johanson said.

The SPP and Placement shares were allotted to successful applicants on 31 December 2008 and were quoted on ASX from this date.

Bendigo and Adelaide Bank buys Macquarie margin lending portfolio

On Thursday 8 January the Bank announced to the market the acquisition of Macquarie Bank's \$1.5 billion margin lending portfolio for \$52 million.

Our margin lending business, Leveraged Equities (LE), now distributes margin loans through some of the strongest brands in the country including Leveraged Equities, Goldman Sachs JBWere, Macquarie, Ord Minnett, ABN Amro Morgans and AVIVA.

The acquisition further consolidates LE in a leadership position in the margin lending market, complemented by an exceptional talent base and broad industry knowledge. Its market share in the margin lending industry will increase from approximately 12 per cent to an estimated 20 per cent, with loans under management of \$3.6 billion.

This opportunity provides LE and the Bank with increased penetration in the financial planning market, through additional relationships with more than 3,000 financial planners and advisers. Our already prominent position within the stockbroking industry will be further enhanced as a result of this acquisition.

Bendigo and Adelaide Bank Managing Director Rob Hunt said the acquisition further expanded and strengthened this important part of the business.

"Lending against this asset class is an important capability for both our direct customers and those of our partner advised businesses," Mr Hunt said.

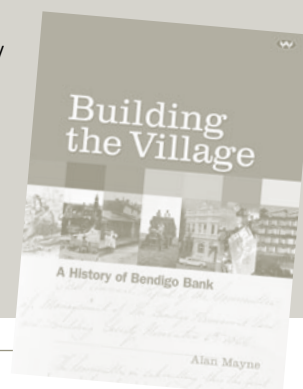
"We see Leveraged Equities, our margin lending business, as a vital and strategic long-term part of the Bendigo and Adelaide Bank Group."

Special shareholder offer

Building the Village – A History of Bendigo Bank, published in early December, is available for the shareholder special price of just \$12 postage paid.

The book, written by historian Professor Alan Mayne, was launched in Bendigo by Victorian Premier John Brumby on 10 December 2008.

Shareholders can purchase the book directly by calling the Bank's Marketing Department (03) 5485 7104 with your credit card details.



Your Company news

Group Managing Director to retire

As previously announced, Group Managing Director Rob Hunt will retire from the Bank on 1 July.

Your Board has employed the services of a professional recruitment agency, and is assessing a range of internal and external candidates as Mr Hunt's successor. The Board is in the final stages of this process and we expect to make an announcement to shareholders soon.

Changing address?

Please ensure you advise of any change of address. Broker-sponsored shareholders should advise their broker, not Share Registry (which is unable to process your request).

Issuer-sponsored shareholders should obtain a Change of Address Form and complete and return it to Bendigo Bank Share Registry, PO Box 480, Bendigo, Victoria 3552.

Forms can be downloaded from our Online Share Registry, or obtained from Share Registry on 1800 646 042.

Have you received multiple newsletters?

If your household has received multiple copies of this review and you would like to receive just one, please advise us in writing to Bendigo Bank Share Registry, PO Box 480, Bendigo, Victoria 3552.

Do you have multiple shareholdings?

If you have multiple issuer sponsored shareholdings of the same name that you wish to consolidate into a single shareholding, please advise the Share Registry in writing.

If your shareholdings are broker sponsored, please contact your sponsoring broker.

Become an e-shareholder

By registering to become a Bendigo Bank e-shareholder, you will receive online, your Annual Report and shareholder reviews.

To register, simply enter your details at www.bendigobank.com.au/e-shareholder



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