# BENDIGO BANK LIMITED

ABN 11 068 049 178

# HALF-YEAR FINANCIAL REPORT

# 31 DECEMBER 2004

# DIRECTORS' REPORT

Your Directors submit their report for the half-year ended 31 December 2004.

### Directors

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

Richard A Guy OAM (Chairman)
Robert N Johanson (Deputy Chairman)
Robert G Hunt AM (Managing Director)
Neal J Axelby
Jennifer L Dawson
Donald J Erskine
Terence J O'Dwyer
Kevin E Roache

### Review of Operations

The Group recorded strong growth in revenues and profits during the half year with all major divisions improving their overall contribution to the result.

Profit after tax increased by 24% to $42.8 million when compared to the half-year ended 31 December 2003. This result included specific income and expense items that contibuted $3.9 million after tax (2003: $1.4 million). Profit after tax before specific items was $38.9 million, a 17% increase over 2003.

Profit before tax increased by 19% to $60.5 million. This result included specific income and expense items that contributed $5.5 million (2003: $1.9 million). Profit before tax and specific items was $55.0 million, an increase of 12% over December 2003.

Group assets increased 10%, or $1.1 billion in the half-year. Group assets at 31 December 2004 were $12.4 billion.

The total capital adequacy ratio increased during the half from 10.35% to 10.48% and remains comfortably above the required level. Tier one capital decreased during the half year from 8.38% to 8.16% with Tier two capital increasing from 1.97% to 2.32%.

A final dividend of 23.0 cents per share, fully franked at 30%, was paid on 30 September 2004 in respect of the year ended 30 June 2004.

An interim dividend of 19.0 cents per share (up from 17.0 cents - Interim 2004), fully franked at 30%, will be payable on 31 March 2005.

### Significant Changes in the State of Affairs

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

(a) In September 2004, 1,107,312 shares were allotted at an issue price of $9.74 to those shareholders participating in the Dividend Reinvestment Plan, increasing share capital by $10.8 million.

(b) Following approval at the Annual General Meeting in October 2004, an issue of shares was made to the Managing Director under the Employee Share Ownership Plan. 300,000 shares were issued in November 2004 at a price of $9.99, increasing share capital by $3.0 million.

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

### After Balance Date Events

No matters or circumstances have arisen since the end of the half-year to the date of this report which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in subsequent financial periods, except for the proposed offer of Perpetual Step-up Preference shares and an on-market buy-back of ordinary shares, as disclosed in the Subsequent Events note to this financial report.

### Rounding of Amounts

The amounts contained in this report and 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.

### Independence of auditor

The Bank's audit committee has conducted an assessment of the independence of the external auditor for the period ended 31 December 2004. The assessment was conducted on the basis of the Bank's audit independence policy and the requirements of the Corporations Act 2001. The assessment included a review of non-audit services provided by the auditor and an assessment of the independence declaration issued by the external auditor for the period ended 31 December 2004. 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 the half-year financial report.

Signed in accordance with a resolution of the Board of Directors

**R A Guy OAM**, Chairman
Bendigo
Dated this 14th day of February, 2005

# CONDENSED STATEMENT OF FINANCIAL PERFORMANCE

## for the half-year ended 31 December 2004

| | | Note | Consolidated 2004 $m | Consolidated 2003 $m |
|---|---|---|---|---|
| **Revenue from ordinary activities** | | | | |
| **Net interest revenue** | | | | |
| Interest revenue | | | 370.6 | 284.5 |
| Interest expense | | | 232.8 | 161.7 |
| Net interest revenue | | | 137.8 | 122.8 |
| **Other revenue from ordinary activities** | | | | |
| Dividends | | | 0.9 | 0.2 |
| Fees | - asset products | | 12.4 | 12.0 |
| | - liability products and electronic delivery | | 25.7 | 20.0 |
| | - trustee, management and other services | | 4.7 | 4.8 |
| | - securitisation | | 3.0 | 4.9 |
| | - other | | 4.2 | 4.2 |
| Commissions | - insurance | | 3.0 | 2.5 |
| | - other | | 14.9 | 12.0 |
| Property revenue | | | 0.4 | 0.5 |
| Other operating revenue | | | 2.7 | 1.2 |
| Specific income items | | *2* | 8.3 | 3.3 |
| Total other revenue from ordinary activities | | | 80.2 | 65.6 |
| **Share of associates' net profits (losses) accounted for using the equity method** | | | 8.5 | 7.9 |
| Total revenue after interest expense | | | 226.5 | 196.3 |
| **Expenses from ordinary activities** | | | | |
| **Bad and doubtful debts** | | | | |
| Bad and doubtful debts | | | 8.7 | 6.4 |
| Bad debts recovered | | | (0.3) | (0.1) |
| Total bad and doubtful debts | | | 8.4 | 6.3 |
| **Other expenses from ordinary activities** | | | | |
| Borrowing costs | | | 0.1 | 0.3 |
| Staff and related costs | | | 77.5 | 68.3 |
| Occupancy costs | | | 12.8 | 11.2 |
| Information technology costs | | | 11.8 | 12.2 |
| Amortisation of goodwill | | | 2.1 | 2.1 |
| Property, plant and equipment costs | | | 7.6 | 5.8 |
| Fees and commissions | | | 8.0 | 6.9 |
| Administration expenses | | | 34.9 | 30.8 |
| Specific expense items | | *2* | 2.8 | 1.4 |
| Total expenses from other ordinary activities | | | 157.6 | 139.0 |
| **Profit from ordinary activities before income tax expense** | | | 60.5 | 51.0 |
| Income tax expense relating to ordinary activities | | | (16.3) | (16.0) |
| Specific items income tax expense | | *2* | (1.6) | (0.5) |
| **Net profit** | | | 42.6 | 34.5 |
| Net (profit)/loss attributable to outside equity interest | | | 0.2 | 0.1 |
| **Net profit attributable to members of Bendigo Bank Limited** | | | 42.8 | 34.6 |
| Transfer (to)/from reserves | | | - | - |
| Total revenues, expenses and valuation adjustments attributable to members of Bendigo Bank Limited and recognised directly in equity | | | - | - |
| **Total changes in Equity other than those resulting from transactions with owners as owners attributable to members of Bendigo Bank Limited** | | | 42.8 | 34.6 |
| Basic earnings per share (cents per share) | | | 30.5 | 26.8 |
| Diluted earnings per share (cents per share) | | | 30.5 | 26.8 |
| Franked dividends per share (cents per share) | | | 19.0 | 17.0 |

# CONDENSED STATEMENT OF FINANCIAL POSITION

## for the half-year ended 31 December 2004

| | Note | Consolidated As at 31-Dec-04 $m | As at 30-Jun-04 $m | As at 31-Dec-03 $m |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and liquid assets | | 152.9 | 157.5 | 193.3 |
| Due from other financial institutions | | 51.4 | 157.6 | 56.8 |
| Investment securities | | 1,560.0 | 1,220.2 | 1,280.9 |
| Loans and other receivables | | 10,237.2 | 9,372.6 | 8,300.8 |
| Shares - other | | 24.3 | 27.3 | 28.1 |
| Investments accounted for using the equity method | | 110.1 | 101.1 | 95.2 |
| Property, plant & equipment | | 62.4 | 56.6 | 56.1 |
| Deferred tax assets | | 33.8 | 32.8 | 28.3 |
| Intangibles | | 61.5 | 63.7 | 65.8 |
| Other assets | | 105.6 | 95.1 | 105.1 |
| **Total Assets** | | 12,399.2 | 11,284.5 | 10,210.4 |
| **Liabilities** | | | | |
| Due to other financial institutions | | 54.7 | 128.9 | 55.7 |
| Deposits | | 11,289.6 | 10,148.9 | 9,259.4 |
| Payables | | 72.8 | 88.7 | 64.6 |
| Current tax liabilities | | 6.5 | 6.9 | 4.9 |
| Provisions | | 28.4 | 27.1 | 25.2 |
| Subordinated debt | | 239.3 | 199.3 | 186.3 |
| Deferred tax liabilities | | 4.9 | 8.3 | 6.2 |
| **Total Liabilities** | | 11,696.2 | 10,608.1 | 9,602.3 |
| **Net Assets** | | 703.0 | 676.4 | 608.1 |
| **Equity** | | | | |
| Parent entity interest | | | | |
| Contributed capital | | 565.4 | 551.6 | 508.8 |
| Reserves | | 5.4 | 5.4 | 3.3 |
| Retained profits | *3* | 132.6 | 119.6 | 95.8 |
| Total parent entity interest in equity | | 703.4 | 676.6 | 607.9 |
| Total outside equity interest | | (0.4) | (0.2) | 0.2 |
| **Total Equity** | | 703.0 | 676.4 | 608.1 |

# CONDENSED STATEMENT OF CASH FLOWS

## for the half-year ended 31 December 2004

| | Consolidated 2004 $m | Consolidated 2003 $m |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Interest and other items of a similar nature received | 364.9 | 285.8 |
| Borrowing costs paid | (230.2) | (163.2) |
| Receipts from customers (excluding interest) | 69.3 | 63.4 |
| Payments to suppliers and employees | (169.3) | (187.8) |
| Dividends received | 6.2 | 5.0 |
| Income taxes paid | (20.1) | (18.4) |
| Net cash flows from operating activities | 20.8 | (15.2) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Cash flows for purchases of property, plant and equipment | (13.3) | (10.9) |
| Cash proceeds from sale of property, plant and equipment | 0.5 | 2.4 |
| Cash paid for purchases of equity investments | (9.0) | (10.6) |
| Cash proceeds from sale of equity investments | 10.0 | - |
| Net increase in balance of loans outstanding | (861.7) | (786.2) |
| Net increase in balance of investment securities | (340.7) | (150.9) |
| Net cash flows used in investing activities | (1,214.2) | (956.2) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from shares issued | - | 15.3 |
| Net increase in balance of retail deposits | 572.2 | 1,013.9 |
| Net increase in balance of wholesale deposits | 563.6 | 3.0 |
| Net increase/(decrease) in balance of subordinated debt | 40.0 | (10.6) |
| Dividends paid | (19.0) | (15.3) |
| Net cash flows from financing activities | 1,156.8 | 1,006.3 |
| Net increase/(decrease) in cash held | (36.6) | 34.9 |
| Add cash at the beginning of the financial period | 186.2 | 159.4 |
| Cash at the end of the half year | 149.6 | 194.3 |

### NOTES TO THE CONDENSED STATEMENT OF CASH FLOWS

*(a) 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.

- Net increase in balance of loans outstanding
- Net increase in balance of investment securities
- Net increase  in balance of retail deposits
- Net increase in balance of wholesale deposits
- Net increase/(decrease) in balance of subordinated debt
- Proceeds from share issues is net of capital raising costs

*(b) Reconciliation of cash*

For the purposes of the statement of cash flows, cash includes:

| | 2004 | 2003 |
|---|---|---|
| Cash and liquid assets | 152.9 | 193.3 |
| Due from other financial institutions | 51.4 | 56.8 |
| Due to other financial institutions | (54.7) | (55.7) |
| Other (rounding) | - | (0.1) |
| | 149.6 | 194.3 |

Cash and liquid assets 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.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### a Basis of preparation of the interim financial report

The half-year financial report is a general purpose financial report which has been prepared in accordance with the Banking Act, applicable Accounting Standards including AASB 1029 "Interim Financial Reporting", other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), Corporations Act 2001 and the requirements of law so far as they are applicable to Australian banking corporations.

The half-year financial report has been prepared in accordance with the historical cost convention, except for freehold land and buildings on freehold land, which are measured at their fair value.

The half-year financial report does not include notes of the type normally included in an annual financial report and therefore cannot to be expected to provide as full an understanding of the financial performance, financial postion and finance and investing activities of the consolidated entity as would a full financial report.

It is recommended that the half-year report is read in conjunction with the Annual Financial Report of Bendigo Bank Limited as at 30 June 2004 together with any public announcements made by Bendigo Bank Limited and its controlled entities during the half-year ended 31 December 2004 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

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

### b Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year ended 30 June 2004.

| | Consolidated | |
|---|---|---|
| | 2004 | 2003 |
| | $m | $m |
| Profit from ordinary activities before income tax expense includes the following income and expenses where disclosure is relevant in explaining the financial performance of the entity: | | |
| *Specific income items* | | |
| Proceeds on sale of IOOF Holdings Limited shares | 7.8 | - |
| GST refund on electronic transactions | - | 1.4 |
| Proceeds on sale of Cashcard shares (first adjustment amount) | 0.5 | - |
| Proceeds on sale of properties | - | 1.9 |
| | 8.3 | 3.3 |
| *Specific expense items* | | |
| Book value of IOOF Holdings Limited shares sold | 2.8 | - |
| Book value of properties sold | - | 1.4 |
| | 2.8 | 1.4 |
| Net specific items before income tax | 5.5 | 1.9 |
| Income tax applicable to specific income and expense items | (1.6) | (0.5) |
| Specific items after income tax | 3.9 | 1.4 |
| **b Specific items - gains/(losses)** | | |
| Profit/(loss) from disposal of property | - | 0.5 |
| Profit/(loss) from sale of other investments | 5.5 | - |
| **3 RETAINED PROFITS** | | |
| Profit from ordinary activities after income tax expense attributable to members of Bendigo Bank Limited | 42.8 | 34.6 |
| Retained profits at beginning of the financial year | 119.6 | 85.6 |
| Total available for appropriation | 162.4 | 120.2 |
| Dividend paid - Final 2004 (2003: Final 2003) | (29.8) | (24.4) |
| Aggregate of amounts transferred (to)/from reserves | - | - |
| Retained profits at the end of the half year | 132.6 | 95.8 |

## 4 DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES

| | Consolidated 2004 $m | Consolidated 2003 $m |
|---|---|---|
| Dividends paid during the half-year: | | |
| Final dividend 2004 - 23.0 cents (Final dividend 2003 - 20.0 cents) | 29.8 | 24.4 |
| Dividends proposed since the reporting date, but not recognised as a liablity: | | |
| Interim dividend 2005 - 19.0 cents (Interim dividend 2004 - 17.0 cents) | 25.4 | 21.5 |

## 5 AVERAGE BALANCE SHEET AND RELATED INTEREST

| For the six month period ended 31 December 2004 | Note | Average Balance $m | Interest 6 mths $m | Average rate % |
|---|---|---|---|---|
| **Average balances and rates** | 1 | | | |
| **Interest earning assets** | | | | |
| Cash and liquid assets | | 124.9 | 0.7 | 1.12 |
| Investment securities | | 1,422.5 | 40.3 | 5.67 |
| Loans and other receivables | 2 | 9,944.7 | 329.6 | 6.63 |
| | | 11,492.1 | 370.6 | 6.45 |
| **Non interest earning assets** | | | | |
| Property, plant & equipment | | 59.6 | | |
| Provisions for doubtful debts | | (64.7) | | |
| Other assets | | 303.9 | | |
| | | 298.8 | | |
| Total assets (average balance) | | 11,790.9 | | |
| **Interest bearing liabilities and equity** | | | | |
| Deposits | | | | |
| Retail | | 9,275.1 | 182.9 | 3.94 |
| Wholesale - domestic | | 819.6 | 22.8 | 5.56 |
| Wholesale - offshore | | 647.3 | 19.3 | 5.96 |
| Other borrowings | | | | |
| Subordinated debt | | 225.0 | 7.8 | 6.93 |
| | | 10,967.0 | 232.8 | 4.25 |
| **Non interest bearing liabilities and equity** | | | | |
| Other liabilities | | 295.8 | | |
| Equity | | 528.1 | | |
| | | 823.9 | | |
| Total liabilities and equity | | 11,790.9 | | |
| **Interest margin and interest spread** | | | | |
| Interest earning assets | | 11,492.1 | 370.6 | 6.45 |
| Interest bearing liabilities | | (10,967.0) | (232.8) | (4.25) |
| Net interest income and interest spread | 3 | | 137.8 | 2.20 |
| Net interest margin | 4 | | | 2.40 |

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

| | |
|---|---|
| Net interest margin before community bank/alliances share of net interest income | 2.81 |
| Less impact of community bank/alliances share of net interest income | 0.41 |
| Net interest margin | 2.40 |

*1 Average balance is based on monthly closing balances from 30 June 2004 through 31 December 2004 inclusive, with the exception of Wholesale domestic which is based on a daily closing balance.*

*2 Interest includes an adjustment for share of margin paid to Community Banks and other alliance partners.*

*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.*

## 5 AVERAGE BALANCE SHEET AND RELATED INTEREST (continued)

### For the six month period ended 30 June 2004

| | Note | Average Balance $m | Interest 6 mths $m | Average rate % |
|---|---|---|---|---|
| **Average balances and rates** | 1 | | | |
| **Interest earning assets** | | | | |
| Cash and liquid assets | | 129.6 | 0.6 | 0.93 |
| Investment securities | | 1,302.3 | 37.5 | 5.76 |
| Loans and other receivables | 2 | 8,915.0 | 292.9 | 6.57 |
| | | 10,346.9 | 331.0 | 6.40 |
| **Non interest earning assets** | | | | |
| Property, plant & equipment | | 57.5 | | |
| Provisions for doubtful debts | | (60.1) | | |
| Other assets | | 293.4 | | |
| | | 290.8 | | |
| Total assets (average balance) | | 10,637.7 | | |
| Interest bearing liabilities and equity | | | | |
| Deposits | | | | |
| Retail | | 8,713.6 | 164.4 | 3.77 |
| Wholesale - domestic | | 507.4 | 14.2 | 5.60 |
| Wholesale - offshore | | 455.8 | 14.1 | 6.19 |
| Other borrowings | | | | |
| Subordinated debt | | 208.7 | 7.4 | 7.09 |
| | | 9,885.5 | 200.1 | 4.05 |
| Non interest bearing liabilities and equity | | | | |
| Other liabilities | | 146.9 | | |
| Equity | | 605.3 | | |
| | | 752.2 | | |
| Total liabilities and equity | | 10,637.7 | | |
| **Interest margin and interest spread** | | | | |
| Interest earning assets | | 10,346.9 | 331.0 | 6.40 |
| Interest bearing liabilities | | (9,885.5) | (200.1) | (4.05) |
| Net interest income and interest spread | 3 | | 130.9 | 2.35 |
| Net interest margin | 4 | | | 2.53 |

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

| | |
|---|---|
| Net interest margin before community bank/alliances share of net interest income | 2.91 |
| Less impact of community bank/alliances share of net interest income | 0.38 |
| Net interest margin | 2.53 |

*1 Average balance is based on monthly closing balances from 31 December 2003 through 30 June 2004 inclusive, with the exception of Wholesale domestic which is based on a daily closing balance.*

*2 Interest includes an adjustment for share of margin paid to Community Banks and other alliance partners.*

*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.*

## 5 AVERAGE BALANCE SHEET AND RELATED INTEREST (continued)

| For the six month period ended 31 December 2003 | Note | Average Balance $m | Interest 6 mths $m | Average rate % |
|---|---|---|---|---|
| **Average balances and rates** | 1 | | | |
| **Interest earning assets** | | | | |
| Cash and liquid assets | | 123.4 | 0.4 | 0.70 |
| Investment securities | | 1,181.1 | 30.2 | 5.11 |
| Loans and other receivables | 2 | 7,978.5 | 253.9 | 6.37 |
| | | 9,283.0 | 284.5 | 6.13 |
| **Non interest earning assets** | | | | |
| Property, plant & equipment | | 54.9 | | |
| Provisions for doubtful debts | | (56.6) | | |
| Other assets | | 282.2 | | |
| | | 280.5 | | |
| Total assets (average balance) | | 9,563.5 | | |
| **Interest bearing liabilities and equity** | | | | |
| Deposits | | | | |
| Retail | | 7,948.2 | 136.7 | 3.44 |
| Wholesale - domestic | | 350.4 | 8.7 | 4.97 |
| Wholesale - offshore | | 359.0 | 9.9 | 5.49 |
| Other borrowings | | | | |
| Subordinated debt | | 198.0 | 6.5 | 6.56 |
| | | 8,855.6 | 161.8 | 3.66 |
| **Non interest bearing liabilities and equity** | | | | |
| Other liabilities | | 134.2 | | |
| Equity | | 573.7 | | |
| | | 707.9 | | |
| Total liabilities and equity | | 9,563.5 | | |
| **Interest margin and interest spread** | | | | |
| Interest earning assets | | 9,283.0 | 284.5 | 6.13 |
| Interest bearing liabilities | | (8,855.6) | (161.8) | (3.66) |
| Net interest income and interest spread | 3 | | 122.7 | 2.47 |
| Net interest margin | 4 | | | 2.64 |

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

| | |
|---|---|
| Net interest margin before community bank/alliances share of net interest income | 2.99 |
| Less impact of community bank/alliances share of net interest income | 0.35 |
| Net interest margin | 2.64 |

*1 Average balance is based on monthly closing balances from 30 June 2003 through 31 December 2003 inclusive, with the exception of Wholesale domestic which is based on daily closing balance.*

*2 Interest includes an adjustment for share of margin paid to Community Banks and other alliance partners.*

*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.*

## 6 SEGMENT REPORTING

**31 December 2004**

### (a) Business segments

| | Retail Banking | Community Banking | Wealth Solutions | J/Ventures, Alliances & Corp Supp't | Eliminations | Total |
|---|---|---|---|---|---|---|
| **Revenue** | $m | $m | $m | $m | $m | $m |
| *Net interest revenue* | | | | | | |
| External interest revenue | 263.3 | 52.4 | 7.5 | 47.4 | - | 370.6 |
| External interest expense | (154.8) | (36.6) | (4.6) | (36.8) | - | (232.8) |
| Net intersegment interest | (0.1) | - | - | 0.1 | - | - |
| Net interest revenue | 108.4 | 15.8 | 2.9 | 10.7 | - | 137.8 |
| *Other revenue* | | | | | | |
| Other external revenue | 40.9 | 9.7 | 20.2 | 9.4 | - | 80.2 |
| Other intersegment revenue | 4.7 | - | - | 1.7 | (6.4) | - |
| Total other revenue | 45.6 | 9.7 | 20.2 | 11.1 | (6.4) | 80.2 |
| *Share of net profit of equity accounted investments* | - | - | - | 8.5 | - | 8.5 |
| *Total segment revenue after interest expense* | | | | | | |
| External revenue after interest expense | 149.4 | 25.5 | 23.1 | 28.5 | - | 226.5 |
| Intersegment revenue after interest expense | 4.6 | - | - | 1.8 | (6.4) | - |
| Total revenue after interest expense | 154.0 | 25.5 | 23.1 | 30.3 | (6.4) | 226.5 |
| **Results** | | | | | | |
| Segment result | 31.6 | 6.9 | 11.6 | 16.8 | (6.4) | 60.5 |
| Internal cost allocations | 1.6 | (1.5) | (0.6) | 0.5 | - | 0.0 |
| Consolidated entity profit from ordinary activities before income tax expense | 33.2 | 5.4 | 11.0 | 17.3 | (6.4) | 60.5 |
| Income tax expense | (10.0) | (1.6) | (3.3) | (3.0) | - | (17.9) |
| Outside equity interests | - | - | - | 0.2 | - | 0.2 |
| Consolidated entity profit from ordinary activities after income tax expense | 23.2 | 3.8 | 7.7 | 14.5 | (6.4) | 42.8 |
| **Assets** | | | | | | |
| Segment assets | 6,798.9 | 2,191.1 | 137.2 | 3,161.9 | - | 12,289.1 |
| Equity accounted assets | - | - | - | 110.1 | - | 110.1 |
| Total assets | 6,798.9 | 2,191.1 | 137.2 | 3,272.0 | - | 12,399.2 |
| **Liabilities** | | | | | | |
| Segment liabilities | 5,955.5 | 2,861.6 | 182.3 | 2,696.8 | - | 11,696.2 |
| **Other segment information:** | | | | | | |
| *Non-cash expenses* | | | | | | |
| Depreciation | 5.8 | 0.5 | 0.3 | 0.5 | - | 7.1 |
| Amortisation of goodwill & intangibles | 1.5 | - | 0.2 | 0.4 | - | 2.1 |
| Non-cash expenses other than depreciation & amortisation | 16.9 | 2.1 | 3.0 | 0.7 | (6.1) | 16.6 |
| *Acquisition of property, plant and equipment, intangible assets and other non-current assets* | 16.0 | 0.4 | 0.2 | 5.7 | - | 22.3 |

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

**6 SEGMENT REPORTING (Continued)**

**31 December 2003**

## (a) Business segments

| | Retail Banking | Community Banking | Wealth Solutions | J/Ventures, Alliances & Corp Supp't | Eliminations | Total |
|---|---|---|---|---|---|---|
| **Revenue** | $m | $m | $m | $m | $m | $m |
| *Net interest revenue* | | | | | | |
| External interest revenue | 208.3 | 30.4 | 7.2 | 38.6 | - | 284.5 |
| External interest expense | (112.1) | (18.3) | (4.6) | (26.7) | - | (161.7) |
| Net intersegment interest | (0.1) | | | 0.1 | | - |
| Net interest revenue | 96.1 | 12.1 | 2.6 | 12.0 | - | 122.8 |
| *Other revenue* | | | | | | |
| Other external revenue | 39.6 | 7.9 | 17.3 | 0.8 | - | 65.6 |
| Other intersegment revenue | 5.7 | - | 0.6 | 1.4 | (7.7) | - |
| Total other revenue | 45.3 | 7.9 | 17.9 | 2.2 | (7.7) | 65.6 |
| *Share of net profit of equity accounted investments* | - | - | - | 7.9 | - | 7.9 |
| *Total segment revenue after interest expense* | | | | | | |
| External revenue after interest expense | 135.8 | 20.0 | 19.9 | 20.6 | - | 196.3 |
| Intersegment revenue after interest expense | 5.6 | - | 0.6 | 1.5 | (7.7) | - |
| Total revenue after interest expense | 141.4 | 20.0 | 20.5 | 22.1 | (7.7) | 196.3 |
| **Results** | | | | | | |
| Segment result | 33.3 | 5.1 | 8.2 | 8.0 | (3.6) | 51.0 |
| Internal cost allocations | (2.5) | (2.5) | (0.4) | 5.4 | - | - |
| Consolidated entity profit from ordinary activities before income tax expense | 30.8 | 2.6 | 7.8 | 13.4 | (3.6) | 51.0 |
| Income tax expense | (9.2) | (0.8) | (2.3) | (4.2) | - | (16.5) |
| Outside equity interests | - | - | - | 0.1 | - | 0.1 |
| Consolidated entity profit from ordinary activities after income tax expense | 21.6 | 1.8 | 5.5 | 9.3 | (3.6) | 34.6 |
| **Assets** | | | | | | |
| Segment assets | 5,875.4 | 1,503.6 | 125.5 | 2,610.7 | - | 10,115.2 |
| Equity accounted assets | - | - | - | 95.2 | - | 95.2 |
| Total assets | 5,875.4 | 1,503.6 | 125.5 | 2,705.9 | - | 10,210.4 |
| **Liabilities** | | | | | | |
| Segment liabilities | 5,390.2 | 2,179.4 | 180.2 | 1,852.5 | - | 9,602.3 |
| **Other segment information:** | | | | | | |
| *Non-cash expenses* | | | | | | |
| Depreciation | 5.2 | 0.6 | 0.3 | 0.5 | - | 6.6 |
| Amortisation of goodwill & intangibles | 1.5 | - | 0.2 | 0.4 | - | 2.1 |
| Non-cash expenses other than depreciation & amortisation | 8.9 | 1.8 | 4.0 | 0.5 | (7.6) | 7.6 |
| *Acquisition of property, plant and equipment, intangible assets and other non-current assets* | 15.1 | 0.2 | 0.1 | 6.1 | - | 21.5 |

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

## (b) Geographical 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.

## 6 SEGMENT REPORTING (Continued)

**Descriptions of derived revenue by segment**

Retail banking

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

Community banking

The group's share of interest predominantly derived from the provision of first mortage housing 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, commissions and interest from the provision of financial planning services.

Joint ventures, Alliances and Corporate support.

Profit share from equity accounted investments in associates, revenue from alliances and minor subsidiaries and unallocated corporate support business units.

Eliminations

The elimination of intersegment transactions, so that the total column represents the consolidated group.

| | Consolidated | |
|---|---|---|
| | 2004 | 2003 |
| | $m | $m |
| **7 CONTINGENT LIABILITIES** | | |
| **Guarantees** | | |
| The economic entity has issued guarantees on behalf of clients | 31.7 | 48.9 |
| **Other** | | |
| Documentary letters of credit | - | - |

## 8 SUBSEQUENT EVENTS

No matters or circumstances have arisen since the end of the half-year to the date of this financial report which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in subsequent financial periods, except that on 14 February 2005 the bank announced:

A capital management program, which will include an isue of $100 Perpetual Step-up Preference Shares, paid to 50%, to raise $100 million in capital; an on-market buy back of up to 5 million shares subject to APRA approval; and the immediate suspension of the 2.5% discount on shares issued under the bank's Dividend Reinvestment Plan and Bonus Share Scheme.

## 9 ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Australian Accounting Standards Board (AASB) is implementing the Financial Reporting Council’s policy of adopting the International Financial Reporting Standards (IFRS), which will apply to the group’s reporting periods from 1 July 2005. Therefore, the adoption of these standards will be first reflected in the group's financial statements for the half-year ending 31 December 2005 and the year ended 30 June 2006.

The group is required to prepare an opening balance sheet in accordance with IFRS as at 1 July 2004. Most accounting policy adjustments to retrospectively apply Australian equivalents to IFRS will be made against retained earnings in this opening balance sheet. However, transitional adjustments relating to those standards for which comparatives are not required will only be made on 1 July 2005. Comparatives are not required for AASB 132: Financial Instruments: Disclosure and Presentation, AASB 139: Financial Instruments: Recognition and Measurement and AASB 4: Insurance Contracts.

Adoption of IFRS in 2005 is expected to have significant impacts on the accounting policies of Australian reporting entities and their reported financial position and financial performance.

Bendigo Bank commenced a project in December 2002 to assess the implications of the adoption of IFRS for accounting policies, reported performance and position of the group. As part of this project, Bendigo Bank has formed an IAS Conversion Team (ICT) to undertake assessment of impacts, implementation of necessary changes to accounting policies, modifications to accounting systems and communication to stakeholders.

The ICT regularly reports to the company Audit Committee on project progress, findings, impacts and identified changes required to group accounting policies, systems and procedures to ensure transition.

## 9 ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Key areas of the bank's accounting policies, and therefore reported performance and position that are likely to be affected by the adoption of IFRS are:

| | |
|---|---|
| **Goodwill**<br>Initial impact on retained earnings at 1 July 2004<br>Lower expenses<br>Volatility in results in the event of impairment | There will no longer be a requirement to amortise goodwill arising in a business combination, therefore there will no longer be an expense item reflecting the annual goodwill amortisation.<br>Goodwill is instead subject to impairment testing at least annually, using new methodology. This change may result in increased volatility of future earnings where impairment losses may occur. The new testing methodology may result in assessment of impairment for some existing goodwill and require initial write down against retained earnings on transition to IFRS. |
| **Financial instruments**<br>Volatility in future earnings or equity for those instruments that are to be measured at fair value | Financial instruments will be required to be classified into five categories, which will determine the accounting treatment of the item. This will result in a change to the current accounting policy that does not classify financial instruments into these categories. Some instruments currently carried at amortised cost will in future be carried at fair value, with fair value changes either charged to profit and loss or taken to equity, depending on their classification. The future financial effect of this change is not yet known as the classification and measurement process has not yet been fully completed, but the impact on reported profit should not be significant. However, the fair value adjustments could result in volatility to equity reserve balances.<br>These changes do not require comparatives for the 2004/05 financial year. |
| **Derivatives**<br>Potential volatility in future earnings<br>Volatility in equity | All derivative contracts will be recorded at fair value. When derivatives meet the new criteria for recognition as a hedge, movements in fair value will be taken to equity. Derivatives not meeting the criteria will have such movements taken to profit and loss. Also, all hedges will require effectiveness testing, with any ineffectiveness taken to profit and loss. It is expected that the majority of our derivatives will meet the criteria for effective hedging.<br>The group predominantly uses cash flow hedges in respect of its interest rate risk hedging, which could result in volatility in equity reserve balances.<br>These changes do not require comparatives for the 2004/05 financial year. |
| **Credit loss (loan) provisioning**<br>Initial impact on retained earnings at 1 July 2005<br>Volatility in future earnings<br>Lower general provision | IFRS adopts an approach known as "incurred losses" for credit loss provisioning and provides guidance on measurement of incurred losses. Provisions are raised for losses that have already been incurred for exposures that are known to be impaired. The estimated losses on these impaired exposures are then discounted to their present value. As this discount unwinds, there is a resulting recognition of interest in the statement of financial performance during the period between recognition of impairment and recovery of the written down amount.<br>Smaller loans, such as consumer lending products, will not be individually assessed but impairment tested in portfolios based upon similar risk profiles using objective evidence, on the basis of historical loss experience.<br>Currently, the bank does not discount the cash flows associated with impaired loans when assessing potential losses, so it is anticipated that the level of provisioning will increase, thereby reducing reported profits.<br>The group currently maintains a general provision for doubtful debts for prudential reasons. As this provision is predominantly assessed on probable losses and not based on an event or loss that has been incurred, it is likely that the general provision will be reduced significantly to comply with IFRS.<br>These changes do not require comparatives for the 2004/05 financial year. |
| **Securitisation**<br>New assets/liabilities recognised | Securitisations undertaken have been reviewed to ensure they meet the de-recognition requirements of IFRS. It is possible that one program undertaken may not meet these requirements, resulting in re-recognition of these assets. The value of these assets is not material to the group. |
| **Taxation**<br>New assets/liabilities recognised | A "balance sheet" approach will be adopted, replacing the "statement of financial performance" approach currently used in Australia. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its tax base. It is expected that the standard may require the group to carry higher levels of deferred tax assets and liabilities, including a deferred tax liability in relation to the asset revaluation reserve. |

| | |
|---|---|
| **Revenue and expense recognition**<br>Reclassification of revenue and expense items | Under IFRS, the group will change the way it currently recognises certain revenue and expense items. Any fee income integral to the yield of an originated financial instrument, net of any direct incremental costs, must be capitalised and deferred over the expected life of the instrument. This is similar to current treatment and is not expected to have a material impact on reported profit, but some re-classifications of revenue between fee income and interest income will occur. |
| **Capital implications** | The full implications for the group's capital adequacy are dependent on rules currently being developed by APRA, which have yet to be publicly released for industry consultation. APRA has stated that it will not make any IFRS-related changes to the existing prudential framework until it has completed relevant consultations and not before 1 July 2005 at the earliest. Existing prudential rules apply in the interim. |

At this stage the company has not been able to quantify the final impacts on future financial reports. Bendigo Bank will continue to place a high priority on this project and will continue to include reference to the impacts in future reporting.

## DIRECTORS' DECLARATION

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

In the opinion of the directors:

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

(i) giving a true and fair view of the financial position as at 31 December 2004 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

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

On behalf of the Board

**R A Guy OAM,** Chairman
Bendigo
Dated this 14th day of February 2005

# AUDITOR'S INDEPENDENT REVIEW REPORT

To the members of Bendigo Bank Limited

**Scope**

*The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Bendigo Bank Limited ("the company") and the consolidated entities, for the period ended 31 December 2004. The consolidated entity comprises both the company and the entities it controlled during the period.

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 Standard AASB 1029 "Interim Financial Reporting", 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.

*Review approach*

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001, Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia, so as to present 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.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

**Independence**

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. In addition to our review of the financial report, we were engaged to undertake other non-audit services. The provision of these services has not impaired our independence.

**Statement**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Bendigo Bank Limited is not 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 as at 31 December 2004 of their performance for the period ended on that date; and

(ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the *Corporations Regulations 2001* ; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

**Brett Kallio**
Partner

Bendigo
Dated this 14th day of February 2005

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

# AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Bendigo Bank Limited

In relation to our review of the financial report of Bendigo Bank Limited for the half-year ended 31 December 2004, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

**Brett Kallio**
Partner

Bendigo
Dated this 14th day of February 2005