

Directors' Report

Your Directors submit their report for the half-year ended December 31, 1998.

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:

Richard A Guy OAM (Chairman)	B.Appl.Sc.Melbourne, M.Sc.London
William R Beischer	
Robert G Hunt (Managing Director)	
Robert N Johanson	B.A. Melbourne, LL.B.Melbourne, M.B.A.Harvard
William R Lanyon	
Kevin E Roache	LL.B, B.Com. - Melbourne, A.S.C.P.A.
E Brian Thomas (Deputy Chairman)	F.C.P.A.

Review of Operations

The Group continued to show strong growth in lending and retail deposits for the first half of 1998/99, which assisted the increased profit result for the period.

Profit after tax increased by 26.3% to \$8.5 million compared to the six months ending December 31, 1997. This result includes an abnormal profit on the sale of Data Advantage Limited shares. The after tax benefit of this transaction was \$1.1 million.

Group assets achieved strong organic growth, with a 9.3% increase for the period, driven by record lending approvals.

Total assets of the economic entity as at December 31 were \$3.465 billion.

Tier one capital increased strongly in the half-year from 6.08% to 9.47%, primarily due to increased share capital and an adjustment to the asset risk-weighting requirements determined by APRA.

Tier two capital declined in the period, mainly due to the conversion of convertible notes to permanent shares.

Asset quality continued to improve with net impaired assets declining to \$10.5 million, which represents 0.38% of gross loans.

A final dividend of 11.5 cents per share, fully franked was paid on October 31, 1998 in respect of the year ended June 30, 1998.

A proposed interim dividend of 10.5 cents per share, fully franked will be payable on April 30, 1999. The holders of the shares partly-paid to \$2.00 will not participate in this interim dividend.

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:

- During the period, 5,589,029 convertible notes were converted to permanent shares, increasing share capital by \$18.7 million.
- In December 1998 11,396,928 shares were allotted following a 1 for 6 rights issue, which added \$22.8 million to share capital.
- During the period under review, an additional 952,214 shares were issued under the Staff share plan, which increased share capital by \$4.4 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 consolidated accounts.

After Balance Date Events

On January 4, 1999 the economic entity invested \$42.5 million for the right to participate in a project with Futuris Corporation Limited and to acquire a 50% ownership of Elders Rural Services Limited (ERSL). This transaction involved the allotment of 4 million ordinary shares to Elders Limited, a wholly owned subsidiary of Futuris Corporation Limited. ERSL is the vehicle for a joint venture between Elders and Bendigo Bank, which will focus on providing a unique new financial service, combining Elders' understanding of agriculture and rural lending expertise with the banking skills, product and infrastructure of Bendigo Bank.

Rounding of Amounts

The amounts contained in this report have been rounded off under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which this class order applies.

Signed in accordance with a resolution of the Board of Directors

R G Hunt, Managing Director

Bendigo

Dated this 12th day of February, 1999

PROFIT & LOSS ACCOUNT
for the 6 months ended December 31, 1998

	<i>Note</i>	Consolidated	
		1998	1997
		\$'000	\$'000
Interest income		111,076	94,916
Interest expense		67,127	57,095
Net interest income		43,949	37,821
Other operating income		19,584	15,606
Total operating income		63,533	53,427
Bad and doubtful debts		3,107	1,867
Other operating expenses		48,880	41,422
Operating profit before abnormal items and income tax		11,546	10,138
Abnormal items before income tax	2	1,165	-
Operating profit before income tax		12,711	10,138
Income tax attributable to operating profit		4,259	3,446
Operating profit after income tax			
attributable to members of the chief entity		8,452	6,692
Retained profits at beginning of the financial year		20,688	16,031
Total available for appropriation		29,140	22,723
Dividends - Final 1998 (adjustment to provision)		9	21
- Interim 1999		5,844	4,362
Retained profits at the end of the half year		23,287	18,340
Basic earnings per share		16.4¢	13.8¢
Diluted earnings per share		15.1¢	13.4¢

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The accompanying notes form part of these financial statements

BALANCE SHEET

as at December 31, 1998

	<i>Note</i>	Consolidated		
		31-Dec-98	30-Jun-98	31-Dec-97
		\$'000	\$'000	\$'000
Assets				
Cash and liquid assets	5	77,723	36,697	50,229
Due from other financial institutions		34,275	57,031	27,466
Investment securities		480,980	473,243	342,007
Loans and other receivables		2,740,852	2,493,406	2,358,299
Deposit with the Reserve Bank of Australia		30,780	26,510	23,616
Shares - other		740	748	733
Other investments		5,220	5,849	5,243
Property, plant & equipment		25,147	31,679	33,422
Intangibles		18,109	18,531	18,963
Other assets		51,665	27,229	49,124
Total Assets		3,465,491	3,170,923	2,909,102
Liabilities				
Due to other financial institutions		42,155	39,068	25,627
Deposits		3,097,328	2,832,121	2,607,320
Provision - dividend		5,862	5,166	4,375
Provision - income tax		6,572	2,531	(1,063)
Other provisions		10,691	9,623	10,133
Subordinated debt		88,171	106,636	106,735
Other liabilities		17,071	26,088	12,529
Total Liabilities		3,267,850	3,021,233	2,765,656
Net Assets		197,641	149,690	143,446
Shareholders' Equity				
Share capital		159,406	114,054	110,196
Reserves		14,948	14,948	14,910
Retained profits		23,287	20,688	18,340
Total Shareholders' Equity		197,641	149,690	143,446

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS

for the 6 months ended December 31, 1998

	Note	Consolidated	
		1998	1997
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and other items of a similar nature received		110,573	96,360
Interest and other costs of finance paid		(66,651)	(62,222)
Receipts from customers (excluding interest)		18,537	15,618
Payments to suppliers		(78,269)	(46,088)
Dividends received		54	30
Income taxes paid		(664)	(2,081)
Net cash provided by operating activities		<u>(16,420)</u>	<u>1,617</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash flows for purchases of property, plant and equipment		(2,975)	(922)
Cash proceeds from sale of property, plant and equipment		7,446	1,054
Cash paid for purchases of equity investments		500	110
Cash proceeds from sale of equity investments		1,165	23
Net (increase) decrease in balance of loans outstanding		(243,885)	(206,008)
Net (increase) decrease in balance of Reserve Bank of Australia deposit		(4,270)	(1,569)
Net (increase) decrease of investment securities		(7,737)	(114,671)
Net cash paid on acquisition of subsidiary		-	(2,763)
Net cash used in investing activities		<u>(249,756)</u>	<u>(324,746)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from shares issued		20,426	446
Net increase (decrease) in balance of retail deposits		361,138	75,750
Net increase (decrease) in balance of wholesale deposits		(96,841)	184,888
Net increase (decrease) in balance of subordinated debt		-	35,202
Dividends paid		(3,365)	(2,535)
Net cash provided by financing activities		<u>281,358</u>	<u>293,751</u>
Net increase (decrease) in cash held		<u>15,182</u>	<u>(29,378)</u>
Cash at the beginning of the financial year		54,661	81,446
Less cash at the end of the half year	5	<u>69,843</u>	<u>52,068</u>
		<u>15,182</u>	<u>(29,378)</u>

The accompanying notes form part of these financial statements

Notes to and Forming Part of the Financial Statements

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

a Basis of preparation of the financial report

Bendigo Bank Limited (the Bank) is a 'prescribed corporation' in terms of Section 408A of the Corporations Law. Financial statements prepared in compliance with the Banking Act are deemed to comply with the provisions of the Corporations Law.

The financial statements of the Bank and the consolidated financial statements of the economic entity, are a general purpose financial report prepared in accordance with the Banking Act, applicable Accounting Standards including AASB 1029: Half-Year Accounts and Consolidated Accounts, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), Corporations Law and the requirements of law so far as they are applicable to Australian banking corporations. The accounting policies have been consistently applied, unless otherwise stated.

It is recommended that the half-year report is read in conjunction with the Annual Financial Statements of Bendigo Bank Limited as at June 30, 1998 together with any public announcements made by Bendigo Bank Limited and its controlled entities during the half-year ended December 31, 1998 in accordance with the continuous disclosure obligations arising under the Corporations Law.

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 year.

c Share capital

On July 1, 1998, as a consequence of the abolition of the concepts of the "par value" of shares and "share premium" by the Company Law Review Act 1998, the "Issued Capital Account" was renamed the "Share Capital Account" and an amount of \$63.892 million was transferred from the "Share Premium Account" to the "Share Capital Account".

2 ABNORMAL ITEMS

	Consolidated	
	1998	1997
	\$'000	\$'000
Profit on sale of shares	1,165	-
Abnormal items before income tax	1,165	-
Income tax applicable	47	-
Abnormal items after income tax	1,118	-

3 DIVIDENDS PAID OR PROVIDED FOR

Franked dividends paid during the half year	5,162	3,875
Franked dividends proposed during the half year	5,844	4,362

Notes continued

	Average Balance \$'000	Interest 6 mths \$'000	Average rate %
4 AVERAGE BALANCE SHEET AND RELATED INTEREST			
Average balances and rates ⁽¹⁾			
Interest earning assets			
Cash and liquid assets	22,707	615	5.42
Investment securities	484,359	13,468	5.56
Loans and other receivables	2,651,199	96,982	7.32
Deposit with Reserve Bank of Australia	28,564	11	0.08
	<u>3,186,829</u>	<u>111,076</u>	<u>6.97</u>
Non interest earning assets			
Property, plant & equipment	27,657		
Provisions for doubtful debts	(31,015)		
Other assets	70,353		
	<u>66,995</u>		
Total assets (average balance)	<u>3,253,823</u>		
Interest bearing liabilities and equity			
Deposits			
Retail	2,332,255	46,369	3.98
Wholesale - domestic	446,274	11,624	5.21
Wholesale - offshore	176,469	4,535	5.14
Other borrowings			
Subordinated debt	101,546	4,599	9.06
	<u>3,056,545</u>	<u>67,127</u>	<u>4.39</u>
Non interest bearing liabilities and equity			
Other liabilities	35,061		
Shareholders' equity	162,218		
	<u>197,279</u>		
Total liabilities and shareholders' equity	<u>3,253,823</u>		
Interest margin and interest spread			
Interest earning assets	3,186,829	111,076	6.97
Interest bearing liabilities	(3,056,545)	(67,127)	(4.39)
Net interest income and interest spread		43,949	2.58
Net interest margin			2.76

¹ Average balance is based on monthly closing balances from June 30, 1998 through December 31, 1998 inclusive

² Interest spread is the difference between the average interest rate earned on assets and the average interest rate paid on funds.

³ Interest margin is the net interest income as a percentage of average interest earning assets.

	Consolidated	
	1998 \$'000	1997 \$'000
5 NOTES TO THE STATEMENT OF CASH FLOWS		
<i>(a) Cash flows presented on a net basis</i>		
Cash flows arising from the following activities are presented on a net basis in the statement of cash flows.		
- Net (increase) decrease in balance of loans outstanding		
- Net (increase) decrease in balance of Reserve Bank of Australia deposit		
- Net decrease (increase) of investment securities		
- Net increase (decrease) in balance of retail deposits		
- Net increase (decrease) in balance of wholesale deposits		
- Net increase (decrease) in balance of subordinated debt		
- Proceeds from share issues is net of capital raising costs		
<i>(b) Reconciliation of cash</i>		
For the purposes of the statement of cash flows, cash includes:		
Cash and liquid assets	77,723	50,229
Due from other financial institutions	34,275	27,466
Due to other financial institutions	(42,155)	(25,627)
	<u>69,843</u>	<u>52,068</u>

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 financial statements and notes of the consolidated entity:
 - (i) give a true and fair view of the financial position as at December 31, 1998 and the performance for the half-year ended on that date of the consolidated entity; and
 - (ii) comply with Accounting Standards and the Corporations Regulations; 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 G Hunt, Managing Director

Bendigo

Dated this 12th day of February 1999

Independent Review Report

To the Members of Bendigo Bank Limited

Scope

We have reviewed the financial report of Bendigo Bank Limited for the half-year ended December 31, 1998, as set out on pages 2 to 7, including the Directors' Declaration. The financial report includes the consolidated financial statements of the consolidated entity comprising Bendigo Bank Limited and the entities it controlled at the end of the half-year or from time to time during the half-year. The company's directors are responsible for the financial report.

We have conducted an independent review of the financial report 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 Accounting Standard AASB 1029: Half-Year Accounts and Consolidated Accounts and other mandatory professional reporting requirements and statutory requirements, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. Our review was limited primarily to inquiries of the disclosing entity's personnel and analytical review procedures applied to financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and accordingly, we do not express an audit opinion.

Review Statement

As a result of our review, we have not become aware of any matter that makes us believe that the half-year financial report of Bendigo Bank Limited is not in accordance with:

- (a) the Corporations Law, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at December 31, 1998 and its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 1029: Half-Year Accounts and Consolidated Accounts and the Corporations Regulations;
- (b) other mandatory professional reporting requirements.

ERNST & YOUNG
RICHMOND SINNOTT & DELAHUNTY

Ian Miller
Partner

Bendigo
Dated this 12th day of February 1999

Warren Sinnott
Partner

Dated this 12th day of February 1999