



**SHAREHOLDER QUESTIONS OF GENERAL INTEREST  
ANNUAL GENERAL MEETING  
29 OCTOBER 2007**

The major focus of shareholder questions was the Bank's recent share trading performance, the proposed Adelaide Bank merger and the Bank of Queensland proposal earlier in the year.

Following is a general description of the questions presented by shareholders:

**Questions:**

*Some shareholders conveyed their concerns about the proposed merger with Adelaide Bank following the recent global credit market volatility, observing that the market and media did not support the merger and that there had been reported concerns about Adelaide Bank's exposure to wholesale funding and speculation about its credit quality.*

**Answer:**

The chairman will address shareholders at the 2007 annual general meeting on the proposed Adelaide Bank merger. The chairman's address will be lodged with the Australian Securities Exchange before the meeting and will also be available from the Bank's web site.

Details of the chairman's address will also be included in the November "Shareholder Review" which will be mailed to shareholders early November 2007.

**Questions:**

*Some shareholders expressed their concern on the board's decision to reject the Bank of Queensland proposal earlier this year given the Bank's share trading performance since rejecting the proposal and announcing the proposed merger with Adelaide Bank. They also conveyed their view that the Bank of Queensland proposal should have been presented to Bendigo Bank's shareholders.*

**Answer:**

Bank of Queensland could have put an offer directly to our shareholders, but chose to put it forward in a form that specifically required the enthusiastic support of our Board. The Board carefully considered the proposal and considered that it was not in shareholders' best interests.

The negative reaction of our shareholders – which includes most of our staff and many customers – meant there was little prospect of it being approved.

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Significant differences existed in long-term business investment philosophies and customer engagement strategies. There were also adverse Capital Gains Tax consequences for many shareholders with the cash proposal.

**Question:**

*A number of shareholders have questioned the need for twelve directors on the new board.*

**Answer:**

Subject to implementation of the Merger, it is intended that the board will be reconstituted to consist of twelve directors comprising six non-executive directors from Bendigo Bank's current board, four non-executive directors from Adelaide Bank's current board and Mr Rob Hunt as managing director and Mr Jamie McPhee as an executive director.

If the Merger is not implemented, the Board does not propose to increase the number of Directors on the Board at this time.

It is not uncommon to increase the board size as part of a merger transaction. It is important that an appropriate mix of the knowledge and experience from the boards of both businesses is carried forward and represented on the merged entity's board, particularly during the integration of the two organisations.

In due course the number of non-executive directors may well reduce depending on the board's needs and circumstances.

**Question:**

*Is the Bank concerned about Adelaide Bank's exposure to wholesale funding, what is the position of Adelaide's credit quality and does Adelaide have any exposure to sub-prime lending?*

**Answer:**

Adelaide Bank in August 2007 announced a record profit and shortly after announced it had strong liquidity. Its Managing Director, Jamie McPhee, has publicly stated his Bank's credit quality is good.

Mr McPhee said as part of Adelaide Bank's 2007 full year result announcement that "Asset quality is a strength of the Bank. We're very comfortable with the credit quality across our key portfolios. The ratio of bad debt write-offs to loans is eight basis points which is low and compares favorably with other Banks."

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While there has been speculation in the media about the recent global credit market volatility and its impact on Adelaide Bank, Mr McPhee confirmed on 25 October 2007 that Adelaide Bank is “actually experiencing an overall improvement in credit quality. Our mortgage business is showing the lowest level of 90-days in arrears since December 2005, and has shown seven consecutive months of improvement. We have not experienced any credit losses in our margin lending portfolio during this period of increased market volatility.”

Adelaide Bank also announced on 25 October 2007 that it had successfully issued a \$505.5 million term Residential Mortgage Backed Securities deal. The issue was initially marketed with a pool size of \$350 million, but investor demand saw the pool increase to \$505.5 million with a total of 15 investors taking part. The issue was priced at 42 basis points over the one-month bank bill swap reference rate (BBSW), which was a higher cost than the previous transaction (18 basis points over BBSW).

While there is general credit market volatility, Adelaide Bank has confirmed that it does not have any direct exposure to US sub-prime lending.

**Question:**

*Why weren't Bendigo Bank shareholders given an opportunity to vote on the proposed Adelaide Bank merger?*

**Answer:**

The Merger was negotiated to be implemented by way of a Scheme of Arrangement. The Scheme is required to be considered by Adelaide Bank shareholders only and no meeting of Bendigo Bank shareholders is required or will be held to approve the Merger. This is consistent with market practice.

**Question:**

*How has the global credit crisis impacted Bendigo Bank and what is Bendigo Bank's exposure to sub-prime lending?*

**Answer:**

Recent events on world credit markets have increased the cost of wholesale funding for all banks including Bendigo Bank and Adelaide Bank.

Global credit markets have been affected by developments that originated in the United States sub-prime mortgage industry. These developments have led to an increase in the cost of wholesale funds throughout global markets including Australia and in some cases a reduction in the availability of some offshore funding sources.

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While Bendigo Bank is largely retail funded, we too raise wholesale money to fund some of our lending and we have experienced some increase in our wholesale funding cost. The impact of this development is being actively managed by the relevant business units.

Bendigo Bank has no direct exposure to the US sub-prime market.

**Question:**

*It seems to be that Adelaide Bank's capital base is not as strong as Bendigo Bank's with its tier one to risk weighted assets ratio lower than Bendigo Bank's which I understand is one of the highest. I also understand that Adelaide Bank has had above average credit growth and high exposure to margin lending.*

*How does the Board plan to combine the two companies to ensure that the financial health and growth rate of the merged company is at least as good as Bendigo Bank's is currently?*

**Answer:**

Adelaide Bank must comply with the minimum capital requirements set by APRA - as Bendigo Bank and other Australian Banks do. As at 30 June 2007 Adelaide Bank reported a strong capital adequacy ratio at 30 June 2007 of 10.88% (comprising Tier 1: 6.26% and Tier 2: 4.62%). Bendigo Bank's capital adequacy ratio at year end was 10.24% (comprising Tier 1: 7.98% and Tier 2: 2.26%)

Adelaide Bank's total assets under management grew by 21%, loans under management grew by 16% (slightly above market growth of 15%) and mortgage loans grew by 12% (broadly in line with market growth).

The Merger will bring together two successful organisations to create a unique customer and partner-focused financial services organisation.

The strong cultural alignment of Adelaide Bank and Bendigo Bank is evidenced by similar histories, values and objectives which are expected to provide a solid foundation for the successful integration of the two companies. The Merger will combine Adelaide Bank's strength in wholesale mortgages, margin lending and portfolio funding with Bendigo Bank's unique community-focused retail banking business.

Adelaide Bank's experience in partnering with a range of retail financial services distribution partners as a specialist wholesale finance provider will be combined with Bendigo Bank's pre-eminent service and community-focused retail banking business. The Merged Group will retain and grow both businesses allowing the Merged Group to support a multi-channel distribution strategy.

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It is intended that the Adelaide Bank brand will represent the wholesale business with that business headquartered in Adelaide and the retail business will be headquartered in Bendigo and be primarily represented by the Bendigo Bank brand.

There is limited overlap in the retail branches, so it is expected that the customer proposition will be enhanced by the Merger and that the combination will be able to provide a more comprehensive offering and value proposition for the combined organisation's customers and partners.

The Merger is expected to create a larger, more diversified business which will be better positioned to continue to grow through innovation.

**Question:**

*What is the rationale behind the 1.075 Bendigo Bank share offer to Adelaide Bank shareholders for one share?*

**Answer:**

The Merger exchange ratio (1.075 shares) was determined by Bendigo Bank and Adelaide Bank during the negotiation of the Merger having regard to a range of factors including the overall terms of the Merger.

The Merger will result in a change in control of Adelaide Bank with Bendigo Bank being the succeeding listed entity for the merged group.

**Questions:**

*When Mr Rob Hunt retires in two years time does the agreement behind the impending merger involve a process or an understanding for the appointment of Mr Jamie McPhee as managing director? How do you envisage Mr Hunt's replacement in two years time being made?*

**Answer:**

It has been agreed that Adelaide Bank's Managing Director, Jamie McPhee, will be appointed to the Board of the merged group as an executive director and be responsible for its Wholesale Banking services. With Mr Hunt's retirement in July 2009, this will place Mr McPhee in an excellent position to succeed Mr Hunt.

No final decision has been made on the successor for Mr Hunt and the board will conduct an appropriate evaluation process prior to making a decision.

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**Question:**

*This question concerns both the accounts in the report and the impending merger. At the February briefing on the interim results Wealth Solutions was showing a 26% increase in profit before tax over the corresponding period in the previous year whereas in the final report the increase was only 10%.*

*In the final half of the year there was a decrease in profit for Wealth Solutions and no improvement over the comparable period last year. The strategy for growth described at the February briefing emphasised Wealth Solutions as an important part of growth based on the large geographic footprint of the Bendigo Bank through its retail and community Banking system. Has competition from the larger players restricted the growth of Wealth Solutions?*

**Answer:**

For the 2006 / 2007 year, the wealth solutions division contributed \$27.5 million to the Bank's pre-tax profit, up by 10%. The interim result for our wealth solutions business included a one-off profit item. Excluding the one-off item, the contribution for the full year would have represented an increase of 3.6% on the previous financial year.

Funds under management grew by 14%, to \$3.4 billion and funds under advice grew by 11% to \$1.3 billion during the year. The further expansion of our wealth solutions offering and business base continues to be a key business priority for the group.

The wealth solutions division incorporates our financial planning and advice business. The financial planning contribution for the year included the significant investment of the new associate planner program which enables staff to qualify as financial planners and remain within the group.

In addition, all advisers have made the transition to the new customer service offering which is based on a fee for service model. These factors have impacted the financial planning contribution during the year, but we expect these investments to generate favourable returns going forward.

**Question:**

*Has Adelaide Bank's wealth solutions (or equivalent) been able to grow in the second half of the financial year? How will the Adelaide Bank contribute to the future growth of the merged entity if the merger proceeds? Will the basic growth strategy for Bendigo Bank need to be changed? If so, in what way?*



**Answer:**

Bendigo Bank is unable to comment specifically on the growth performance of Adelaide Bank's wealth management business for the second half, however we note that Adelaide Bank's result announcement on 9 August 2007 stated as follows:

"Wealth Management – which includes Adelaide Bank's margin lending business and wholly owned subsidiary Adelaide Managed Funds – contributed a pre-tax profit of \$41.7 million. Strong asset growth helped the division to counter contraction in net interest margin. The fundamentals of the wealth management industry remain strong, and we are confident of a robust performance from this business in the coming reporting period. "

Adelaide Bank brings to us wholesale banking businesses that we would have been looking to develop or acquire anyway. In this sense, it accelerates our strategy and helps us to create a complete banking alternative.

The Merger will bring together specialist skills in wholesale and retail banking that have been separately developed. . This Merger creates a business with complementary products and services that can be delivered more cost effectively to customers and partners. We are committed to ensuring the merged group continues the excellent track-record of both organisations in creating sustainable value for shareholders.

The Merger brings Adelaide Bank's core competencies in wholesale mortgages, margin lending and portfolio funding together with Bendigo Bank's unique community focused retail banking business. Whilst any merger or significant transaction has its risks, the Merger is expected to provide real and tangible benefits including:

**Customers** will have access to more products, more branches and more ATM's through more than 380 company and community-owned branches across Australia. It is intended that the Adelaide Bank and Bendigo Bank businesses will be retained and grown. The Community Bank® model will continue to grow and prosper under the merged group, and the merged group will have greater capacity to invest further in the South Australian branch network.

**Partners** of both banks, including wholesale distributors of mortgages and other financial services products, will see a continued commitment to the partnership model. These partners will have access to a greater variety of products, backed by the greater scale and processing capability of the merged group.

With the expected increased financial strength, scale efficiency and funding flexibility, the merged group would be better positioned to pursue expansion opportunities and invest in growth and continued innovation.

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**Question:**

*Has there, or is there expected to be, any blow out in the cost of the head office building?  
How will the price obtained compare with the cost of the building? Will the rent be an increase  
going forward in staff accommodation costs?*

**Answer:**

As previously reported, the Bank has contracted to sell its new headquarters to a consortium of buyers arranged by Societe Generale for \$100 million. The Bank will lease back the premises on a long term lease.

The project is closely monitored by group management and external project manager. Regular reports on the status of the project are considered by the board property committee and full board.

The project costs will also be reviewed prior to the sale of the premises in 2008 to determine any appropriate assets that will continue to be owned by the Bank and amortised in accordance with accounting requirements.

The staff occupancy cost for the group will increase marginally going forward. However, the new head office provides the Bank with the capacity to cater for its occupancy requirements over the next 5 to 10 years.

Bringing together staff previously based in five different locations into one location will be much more conducive to productivity, good communication and creating a coherent corporate culture.

The board considers that these advantages will offset the occupancy cost increase. It is noted that the head office buildings will be sold at a yield of approximately 7% representing a relatively competitive rate in the Bendigo property market.

**Question:**

*What is the nature of the large (\$90m) reduction in "other accruals, receivables and provisions" compared to the previous financial year (note 13 on pg 94) accounting for the large (\$73.4m) reduction in net cash flows for the year (pg 57)?*



**Answer:**

The reduction referred to arises from fluctuations in the inter-bank settlement accounts (including electronic funds transfer transactions). These settlement accounts are operational in nature and relate to the settlement of customer transactions between Bendigo and other banks and clearing houses. The transactions do not represent expenses to the Bank. The balances of these accounts can vary significantly depending on the timing of the month end (such as weekends).

*We received other questions from shareholders relating to our branch network, products and services and general aspects of the Bank's operations. These questions will be responded to by the company secretary or relevant business unit management. We thank shareholders for taking the time to forward their questions and we trust that shareholders find this summary of interest.*

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