

Bendigo and Adelaide Bank Limited

Shareholder Questions

The major focus of shareholder questions was the current market instability and the progress of the Adelaide Bank merger. Following is a summary of the questions presented by shareholders:

Question:

On page 88 of the Annual Report the segment information shows that 73% of the income comes from Retail Banking compared to 92% last year. The income from Retail banking has only increased by 24% compared with 2007. Of the remaining income 11% comes from Wholesale Banking (an Adelaide Bank contribution to the merged Company) and 12.5% from Wealth Solutions which is double Bendigo Bank's last years Wealth Solutions income. Taking into account the 2.5 times increase in equity (average) it appears to me that the merger is currently weighing down the income performance and probably earnings per share of the former Bendigo Bank. Shareholders who had shares in Bendigo Bank before the merger in December would like to know whether the increase in earnings per share of 13% was due to or in spite of the merger. Would you please clarify quantitatively how the merger has already delivered synergies and how it will do so in future now that the merger has taken place?

Answer:

Prior to the merger Bendigo standalone had publicly announced a forecast 12% Cash EPS for the FY08 financial year. In addition, Adelaide standalone had publicly announced a forecast of 10% Cash EPS.

The result of 13% Cash EPS for the combined group and the fact that the EPS number is based on a weighted number of shares (meaning the increase in share capital is taken into account in the calculation) demonstrates that the combined organisation is performing above these forecasts. The board has stated its confidence that the organisation will continue to deliver increases in shareholder value through growth in Cash EPS over coming year.

Approximately one third of the forecast merger synergies had been delivered by 30 June 2008 through a \$20 million reduction in the cost base.

Question:

With regard to the pending resignation of Mr Rob Hunt as Managing Director I understand that you have in place a procedure to find a replacement. The merger is still at an early stage of its implementation, difficult times for financial institutions prevail currently and the outlook is murky. Is there any prospect of Mr Rob Hunt staying on for a longer period than originally planned?

Answer:

Mr Rob Hunt will retire from the role of managing director on 1 July 2009. The board is currently undertaking a thorough succession process with the assistance of a specialist search consultant. The search process will include internal and external candidates. The board is targeting to make a market announcement in early April 2009.

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Question:

What exposure does Bendigo and Adelaide Bank have to the sub-prime lending crisis originating from the USA?

Answer:

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

Question:

Has the merger of Bendigo Bank and Adelaide Bank immediately placed the merged entity, Bendigo and Adelaide Bank, into a better position financially than the Bendigo Bank enjoyed previously or is the benefit to be realised sometime in the future?

Answer:

Bendigo and Adelaide Bank is now a stronger and more diversified business with substantial scale. With a much stronger capital base, broader business base and funding flexibility, the merged group is better positioned to manage changes in market conditions and to continue to invest in growth and expansion opportunities.

The imperatives of the merger, as announced at the time, are as valid in today's conditions as they were a year ago and we continue to benefit from a stronger, more broadly-based business and a wider geographic spread.

Question:

Is Bendigo and Adelaide Bank looking for opportunities to merge with, or take over other banks in order to become a bigger play on the Australian banking scene?

Answer:

The success of Bendigo Bank has included significant growth through alliances (such as with IOOF Holdings Limited), joint ventures (such as Elders Rural Bank Limited) and acquisitions (such as First Australian Building Society). We are always open to investments and other arrangements that provide a strategic fit and offer improved and lasting returns for shareholders.

Question:

Are the activities of the Community Bank[®] companies likely to be adversely affected by the global financial crisis? If so how?

Answer:

We do not expect the activities of our Community Bank[®] company network to be adversely affected by the global financial crisis. All banking business sourced through the Community Bank[®] company network is held on the balance sheet of Bendigo and Adelaide Bank.

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Our Community Bank® company network has proven to be one of our great strengths in the current climate. The network has made a significant contribution to retail deposit inflows to the Bank since the credit crisis commenced. The credit crisis has brought about a renewed appreciation for the importance of branch networks and there has been no slowing in the level of interest from communities looking to establish Community Bank® branches.

Each Community Bank® company is directly relevant to their market and raises the initial capital for their Community Bank® company from their local market. The profits generated from a Community Bank® company are channelled back into the local community.

Question:

75% of fees paid to Ernst & Young as auditors were paid for non-audit services. This could, in my view, represent a conflict of interest on the part of the auditor. When was the auditor for Bendigo last changed?

Answer:

All non-audit services provided by Ernst & Young must be approved by the board audit committee taking into account audit independence criteria in the Bank's auditor independence policy. Ernst & Young were appointed as external auditor in 1998. Mr Ian Miller was the initial audit engagement partner and Mr Brett Kallio was appointed as engagement partner in 2005. The board's audit engagement and rotation policy, introduced in 2004, requires the engagement partner to change every 5 years. There is no requirement for the audit firm to change under the policy. The audit committee also provides an annual confirmation to board as to whether audit committee is satisfied that the provision of non-audit services is compatible with the independence of the auditor.

Question:

Why is there not a reciprocal banking arrangement for Bendigo account holders to pay into "my account" through the facility of the Adelaide Bank branch in a town where there is not an existing Bendigo Bank.

Answer:

As part of the merger integration process, the Bank has established a project to implement Bendigo's teller platform across the Adelaide branch network. This will enable customer transaction access throughout our national branch network.

The project's current planned delivery date is April 2009 and the rollout will then be phased over a period of two to three weeks to ensure minimal impact to the customers and staff.

Question:

Why hasn't the board established a non-executive director fee sacrifice share plan earlier?

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Answer:

The design of the non-executive director fee sacrifice plan utilizes certain tax exemptions that only become available to the Bank if it has established a complying tax exempt / concessional general employee share plan. The new Employee Share Grant Plan constitutes such a plan whereas the existing loan-based plan did not.

Question:

Why can't Community Bank® company and joint venture staff participate in the new share grant plan?

Answer:

Unfortunately Community Bank® company and joint venture employees can't participate in the Share Grant Scheme as they are not employees of the Bank or its subsidiaries. The tax exempt rules applicable to the Plan require that participants must be employees of the Bank or its subsidiary companies.

Question:

Are there any further proposed changes to the board or plans to further reduce or increase the board size? The board was 12 directors following the merger and is now down to 10 directors.

Answer:

There are no plans at this time to either increase or decrease the size of the Board. The composition of the board is reviewed regularly to ensure that we have the appropriate mix of knowledge, skills and experience on the board.

Question:

There has been a lot of media about the impact of the government's guarantee on mortgage funds. A number of mortgage funds have announced that they have closed redemptions by investors. What has been the impact of the government guarantee on the mortgage funds of Sandhurst Trustees? Is it intended that you will close your funds to redemptions?

Answer:

The Sandhurst common funds, and in particular mortgage trusts, have experienced increased redemptions since the government's deposit guarantee announcement, and we expect this to continue.

The assets backing the Sandhurst funds are cash and first mortgages predominantly over residential property. The underlying assets in the funds have been written to Bendigo and Adelaide Bank credit standards and continue to perform well, generating strong cash flows. The Sandhurst funds are strongly supported with available liquidity facilities and there is no change to Sandhurst's redemption policy or its ability to meet redemptions.

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Question:

How can the salaries and bonuses being paid to senior bank executives be justified? I have also read in the media that the government is considering regulating the remuneration arrangements of bank senior executives. Does the board have a view on this proposal?

Answer:

The media has reported on senior executives of overseas banks receiving large remuneration rewards, notwithstanding that their institution has been bailed out, nationalised or gone bankrupt and that the government is considering regulating executive remuneration for the banking sector.

The approach being contemplated at this time is to link bank capital adequacy requirements with executive remuneration in a way that acts against excessive risk taking and delivers strong returns on capital over time.

The global credit crisis has shown the Australian banking system to be one of the strongest and well managed in the world.

We believe the remuneration arrangements at Bendigo and Adelaide Bank are appropriately structured and aligned with the market. The payments are not excessive by comparison to others in the market, and certainly not when compared to overseas institutions.

A key component of our executive remuneration arrangements is the linkage of a significant part of executive remuneration to the performance of the Bendigo and Adelaide Bank. Components of remuneration are not received if specified hurdles are not met. If the hurdles are met, then our shareholders also share the rewards via the profit and dividend growth and increased share price. We will continue to closely monitor the progress of this development.

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 was required to approve the Merger. This is consistent with market practice.

We received many other questions from shareholder relating to our 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.