

This document is important and requires your immediate attention. You should read the sections applicable to you in their entirety. If you are in any doubt as to how to deal with it, please consult with your financial, legal, taxation or other professional adviser.

Scheme Book

for schemes of arrangement between

Adelaide Bank Limited

ACN 061 461 550

and its Ordinary Shareholders, Step Up Preference Shareholders and Reset Preference Shareholders

in relation to a recommended merger with

Bendigo Bank Limited

ACN 068 049 178

The Adelaide Bank Directors unanimously recommend that, in the absence of a superior proposal, Ordinary Shareholders vote in favour of the Ordinary Share Scheme, Step Up Preference Shareholders vote in favour of the Step Up Preference Share Scheme and Reset Preference Shareholders vote in favour of the Reset Preference Share Scheme.

The Independent Expert has concluded that the Ordinary Share Scheme is in the best interests of Ordinary Shareholders, the Step Up Preference Share Scheme is in the best interests of Step Up Preference Shareholders and the Reset Preference Share Scheme is in the best interests of Reset Preference Shareholders.

If you have any questions about the Ordinary Share Scheme, the Step Up Preference Share Scheme, the Reset Preference Share Scheme or this document, please call the Shareholder Information Line on 1800 211 826 (free call from within Australia) or +612 8986 9354 (from outside Australia).



Adelaide Bank

Financial advisers



Legal advisers

JOHNSON WINTER & SLATTERY
LAWYERS

Important notices and disclaimers

What is this document?

This Scheme Book is intended to provide information relevant to the decision of:

- Ordinary Shareholders regarding how to vote on the Ordinary Share Scheme pursuant to which it is proposed that Bendigo Bank will acquire all of the Adelaide Bank Ordinary Shares;
- Step Up Preference Shareholders regarding how to vote on the Step Up Preference Share Scheme pursuant to which it is proposed that Bendigo Bank will acquire all of the Adelaide Bank Step Up Preference Shares; and
- Reset Preference Shareholders regarding how to vote on the Reset Preference Share Scheme pursuant to which it is proposed that Bendigo Bank will acquire all of the Adelaide Bank Reset Preference Shares.

Important document

This Scheme Book is an important document and should be read carefully in its entirety. If you are in any doubt as to the course you should follow, you should seek independent professional advice.

Date

This Scheme Book is dated 5 October 2007.

Explanatory statement

This Scheme Book is an explanatory statement which has been prepared pursuant to section 412(1) of the Corporations Act to explain the effect of the Schemes and provide information which is material to the making of a decision by Ordinary Shareholders, Step Up Preference Shareholders and Reset Preference Shareholders about how to vote in respect of the Schemes.

Role of ASIC, ASX and the Court

A copy of this Scheme Book has been examined by ASIC pursuant to section 411(2)(b) of the Corporations Act and registered by ASIC under section 412(6) of the Corporations Act. ASIC has been requested to provide a statement in accordance with section 411(17)(b) of the Corporations Act that ASIC has no objection to the Schemes. If ASIC provides that statement, it will be produced to the Court at the Second Court Hearing. Neither ASIC nor any of its officers takes any responsibility for the contents of this Scheme Book.

A copy of this Scheme Book has been lodged with ASX. Neither ASX nor any of its officers takes any responsibility for the contents of this Scheme Book.

The Court is not responsible for the contents of this Scheme Book and, in ordering that the Scheme Meetings be convened, the Court does not in any way indicate that the Court has approved or will approve or otherwise endorses the Schemes.

Responsibility for information in this Scheme Book

The Adelaide Bank Information has been prepared by Adelaide Bank and is the responsibility of Adelaide Bank. Bendigo Bank and its directors, officers, employees and advisers do not assume any responsibility for the accuracy or completeness of the Adelaide Bank Information.

The Bendigo Bank Information has been prepared by Bendigo Bank and is the responsibility of Bendigo Bank. Adelaide Bank and its directors, officers, employees and advisers do not assume any responsibility for

the accuracy or completeness of the Bendigo Bank Information.

The Merged Group Information has been prepared jointly by Adelaide Bank and Bendigo Bank. Adelaide Bank and Bendigo Bank are jointly responsible for the Merged Group Information.

KPMG has prepared the Independent Expert's Reports and is responsible for those reports. None of Adelaide Bank, Bendigo Bank and their respective directors, officers, employees and advisers assumes any responsibility for the accuracy or completeness of the information in the Independent Expert's Reports except, in the case of Adelaide Bank and Bendigo Bank, in relation to information given by them respectively to the Independent Expert.

Ernst & Young has prepared the Investigating Accountant's Report and is responsible for that report. None of Adelaide Bank, Bendigo Bank and their respective directors, officers, employees and advisers assumes any responsibility for the accuracy or completeness of the information in the Investigating Accountant's Report except, in the case of Adelaide Bank and Bendigo Bank, in relation to information given by them respectively to Ernst & Young.

Investment decisions

This Scheme Book does not take into account your individual investment objectives, financial situation, taxation position or particular needs. The information in this Scheme Book should not be relied on as the sole basis for any decision in relation to your Adelaide Bank Ordinary Shares, Adelaide Bank Step Up Preference Shares or Adelaide Bank Reset Preference Shares. You should seek independent professional advice before making any investment decision in relation to your Adelaide Bank Ordinary Shares, Adelaide Bank Step Up Preference Shares, Adelaide Bank Reset Preference Shares or how to vote at the Scheme Meetings.

Forward looking statements

This Scheme Book contains forward looking statements which are not based solely on historical facts but are based on current expectations about future events and results. These forward looking statements are subject to inherent risks and uncertainties. Such risks and uncertainties include factors and risks specific to the industry in which Adelaide Bank and Bendigo Bank operate as well as general economic conditions, prevailing exchange rates and interest rates, conditions in the financial markets, government policies and regulation, competitive pressures and changes in technology. Actual events or results may differ materially from the expectations expressed or implied in such forward looking statements.

None of Adelaide Bank, Bendigo Bank and their respective directors, officers, employees and advisers makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, except to the extent required by law. Accordingly, you are cautioned about relying on forward looking statements contained in this Scheme Book.

Foreign shareholders

Any Shareholder whose address in the Adelaide Bank Register at the Scheme Record Date is outside of Australia and its external territories and New Zealand is an Ineligible Foreign Shareholder for the purposes of the

Schemes, unless Bendigo Bank is satisfied, acting reasonably, that it is lawful and not unduly onerous for the Shareholder to be issued Scheme Consideration and participate in the relevant Scheme.

In respect of an Ineligible Foreign Shareholder, on the Implementation Date Bendigo Bank must issue to a Nominee (appointed by Bendigo Bank and approved by Adelaide Bank) the Scheme Consideration to which that Ineligible Foreign Shareholder would otherwise be entitled.

The Nominee will offer to sell the shares issued to it within 15 Business Days of the Implementation Date and Bendigo Bank will account to the Ineligible Foreign Shareholders for the net proceeds of the sale. This process is described in more detail in Sections 6.6 (for Ordinary Shareholders), 11.5 (for Step Up Preference Shareholders) and 16.5 (for Reset Preference Shareholders).

This Scheme Book is subject to Australian disclosure requirements and accounting standards which may differ from those applicable in other jurisdictions.

This Scheme Book and the Schemes do not in any way constitute an offer of securities, or an offer to acquire securities, in any place in which, or to any person to whom, it would not be lawful to make such an offer.

Foreign shareholders who are subject to taxation outside Australia should consult their tax adviser as to the applicable tax consequences of the Schemes.

Privacy

Adelaide Bank and Bendigo Bank may collect personal information about you in connection with the Schemes. The personal information may include the names, contact details and details of shareholdings of Shareholders together with the names and contact details of individuals appointed by Shareholders to act as proxies, attorneys or corporate representatives to vote at the Scheme Meetings.

Such information will be collected for the purpose of the Scheme Meetings and implementing the Schemes. The information may be disclosed to Adelaide Bank, Adelaide Bank's advisers and service providers, Bendigo Bank and Bendigo Bank's advisers and service providers to the extent necessary in connection with the Scheme Meetings and implementing the Schemes.

You may have certain rights to access personal information which is collected about you. You should contact the Adelaide Bank Registry in the first instance, should you wish to exercise these rights.

Shareholders who appoint a named person as their proxy, attorney or corporate representative to vote at the Scheme Meetings should inform that individual of the matters outlined above.

Definitions

Capitalised terms used in this Scheme Book are defined in the Glossary in Section 29.

Questions

If you have any questions in relation to the Schemes or this Scheme Book, please call the Shareholder Information Line on 1800 211 826 (free call from within Australia) or +612 8986 9354 (from outside Australia).

A copy of this Scheme Book can be found on Adelaide Bank's website at: www.adelaidebank.com.au.

Contents

Key dates and events	2		
Letter from the Chairman of Adelaide Bank to Shareholders	3		
Letter from the Chairman of Bendigo Bank to Shareholders	5		
What you should do	6		
Part A:			
Information for Ordinary Shareholders	8		
Why you should vote in favour of the Ordinary Share Scheme	10		
Potential disadvantages of the Ordinary Share Scheme	23		
1 Overview of the Ordinary Share Scheme	26		
2 Frequently asked questions for Ordinary Shareholders	30		
3 Assessment of the Ordinary Share Scheme	37		
4 How to vote	44		
5 Information regarding New Bendigo Bank Ordinary Shares	46		
6 Implementation of the Ordinary Share Scheme	49		
Part B:			
Information for Step Up Preference Shareholders	58		
7 Overview of the Step Up Preference Share Scheme	60		
8 Frequently asked questions for Step Up Preference Shareholders	66		
9 Assessment of the Step Up Preference Share Scheme	72		
10 How to vote	76		
11 Implementation of the Step Up Preference Share Scheme	78		
Part C:			
Information for Reset Preference Shareholders	82		
12 Overview of the Reset Preference Share Scheme	84		
13 Frequently asked questions for Reset Preference Shareholders	89		
14 Assessment of the Reset Preference Share Scheme	94		
15 How to vote	98		
16 Implementation of the Reset Preference Share Scheme	100		
Part D:			
General information			104
17 Information about Adelaide Bank			106
18 Information about Bendigo Bank			116
19 Information about the Merged Group			127
20 Risk factors			140
21 Taxation implications of the Merger for Adelaide Bank shareholders			147
22 Investigating Accountant's Report			151
23 Independent Expert's Report for Ordinary Shareholders			156
24 Independent Expert's Report for Step Up Preference Shareholders			322
25 Independent Expert's Report for Reset Preference Shareholders			346
26 Adelaide Bank additional information			369
27 Bendigo Bank additional information			376
28 General additional information			379
29 Glossary			381
Appendix 1 – Merger Implementation Agreement			388
Appendix 2 – Terms of Ordinary Share Scheme			425
Appendix 3 – Terms of Step Up Preference Share Scheme			434
Appendix 4 – Terms of Reset Preference Share Scheme			443
Appendix 5 – Deed Poll			452
Appendix 6 – Terms of New Bendigo Bank Step Up Preference Shares			457
Appendix 7 – Terms of New Bendigo Bank Reset Preference Shares			465
Appendix 8 – Notice of Ordinary Share Scheme Meeting			474
Appendix 9 – Notice of Step Up Preference Share Scheme Meeting			476
Appendix 10 – Notice of Reset Preference Share Scheme Meeting			478
Corporate directory			IBC

Key dates and events

Deadline for receipt of proxy forms for Scheme Meetings	10 November 2007 (12.00 midday)
Scheme Meetings Record Date	11 November 2007 (12.00 midday)
Ordinary Share Scheme Meeting to be held at Adelaide Convention Centre, North Terrace, Adelaide, SA	12 November 2007 (9.30am)
Step Up Preference Share Scheme Meeting to be held at Adelaide Convention Centre, North Terrace, Adelaide, SA	12 November 2007 (10.45am)
Reset Preference Share Scheme Meeting to be held at Adelaide Convention Centre, North Terrace, Adelaide, SA	12 November 2007 (11.30am)
Second Court Hearing to approve the Schemes	16 November 2007
Effective Date of Schemes	20 November 2007
Suspension of trading in Adelaide Bank Ordinary Shares, Adelaide Bank Step Up Preference Shares and Adelaide Bank Reset Preference Shares	20 November 2007
Commencement of trading in New Bendigo Bank Ordinary Shares, New Bendigo Bank Step Up Preference Shares and New Bendigo Bank Reset Preference Shares on deferred settlement basis on ASX	21 November 2007
Scheme Record Date	27 November 2007 (6.30pm)
Implementation Date	30 November 2007
Issue of New Bendigo Bank Ordinary Shares, New Bendigo Bank Step Up Preference Shares and New Bendigo Bank Reset Preference Shares	30 November 2007
End of trading in New Bendigo Bank Ordinary Shares, New Bendigo Bank Step Up Preference Shares and New Bendigo Bank Reset Preference Shares on deferred settlement basis on ASX	4 December 2007
Commencement of trading in New Bendigo Bank Ordinary Shares, New Bendigo Bank Step Up Preference Shares and New Bendigo Bank Reset Preference Shares	5 December 2007

Unless stated otherwise, all times in this Scheme Book are references to South Australian time.

These dates and times are indicative only. The actual times and dates will depend on many factors outside the control of Adelaide Bank, including the Court approval process and the satisfaction or, where applicable, waiver of the conditions precedent in the Merger Implementation Agreement. Any changes will be notified on Adelaide Bank's website at www.adelaidebank.com.au and announced to ASX.

Letter from the Chairman of Adelaide Bank to Shareholders



5 October 2007

Dear shareholder

On 9 August 2007, the boards of Adelaide Bank and Bendigo Bank announced their intention to merge via a scheme of arrangement.

Your board believes the Merger will create a unique customer and partner-focused financial services organisation, combining Adelaide Bank's skills as a specialist wholesale finance provider and Bendigo Bank's renowned service-focused retail banking operations.

The Merger presents all Shareholders with an opportunity to participate in a larger and stronger Merged Group which is expected to benefit from greater funding flexibility, anticipated annual pre-tax cost synergies of approximately \$60 million – \$65 million per annum¹ and the potential to realise revenue synergies. With these benefits, your board believes the Merged Group will be in a stronger position to pursue further value creating opportunities.

The schemes of arrangement

You will note that three schemes of arrangement are proposed in connection with the Merger.

If all three schemes of arrangement are implemented, they will result in Bendigo Bank acquiring all of the Adelaide Bank Ordinary Shares, Adelaide Bank Step Up Preference Shares and Adelaide Bank Reset Preference Shares.

Each scheme of arrangement must be approved by the relevant class of Shareholders and by the Court. However, the Merger is only conditional on the Ordinary Share Scheme being approved and implemented and will still proceed even if the Step Up Preference Share Scheme and the Reset Preference Share Scheme are not approved and implemented.

Under the Schemes:²

- Ordinary Scheme Shareholders will receive 1.075 New Bendigo Bank Ordinary Shares for every Adelaide Bank Ordinary Share they hold at the Scheme Record Date;
- Step Up Preference Share Scheme Shareholders will receive one New Bendigo Bank Step Up Preference Share for every Adelaide Bank Step Up Preference Share they hold at the Scheme Record Date; and
- Reset Preference Share Scheme Shareholders will receive one New Bendigo Bank Reset Preference Share for every Adelaide Bank Reset Preference Share they hold at the Scheme Record Date.

Holders of Adelaide Bank Ordinary Shares, Adelaide Bank Step Up Preference Shares and Adelaide Bank Reset Preference Shares will be asked to vote on the Schemes at their respective Scheme Meetings. You may vote either in person or by completing the relevant proxy form(s) enclosed with this Scheme Book.

The Ordinary Share Scheme Meeting will be held at 9.30am on 12 November 2007 at Adelaide Convention Centre, North Terrace, Adelaide, SA.

The Step Up Preference Share Scheme Meeting will be held at 10.45am on 12 November 2007 at Adelaide Convention Centre, North Terrace, Adelaide, SA.

The Reset Preference Share Scheme Meeting will be held at 11.30am on 12 November 2007 at Adelaide Convention Centre, North Terrace, Adelaide, SA.

¹ Excluding one-off merger and integration costs. Please refer to Section 19.1(c) for details.

² Subject to rounding. Different arrangements apply to Ineligible Foreign Shareholders.

Directors' recommendation

The Adelaide Bank Directors consider the Ordinary Share Scheme, Step Up Preference Share Scheme and Reset Preference Share Scheme are in the best interests of Ordinary Shareholders, Step Up Preference Shareholders and Reset Preference Shareholders respectively. **Accordingly, the Adelaide Bank Directors unanimously recommend that Ordinary Shareholders, Step Up Preference Shareholders and Reset Preference Shareholders vote in favour of their respective Scheme, in the absence of a superior proposal.**

Each Adelaide Bank Director who is able to control the voting rights in relation to the Adelaide Bank Ordinary Shares, Adelaide Bank Step Up Preference Shares and Adelaide Bank Reset Preference Shares intends to vote those shares, or procure that those shares are voted, in favour of the respective Schemes, in the absence of a superior proposal.

Independent Expert

The Adelaide Bank Directors appointed KPMG as Independent Expert to assess the merits of the Schemes. KPMG has concluded that each of the Ordinary Share Scheme, Step Up Preference Share Scheme and Reset Preference Share Scheme is fair and reasonable and in the best interests of Ordinary Shareholders, Step Up Preference Shareholders and Reset Preference Shareholders respectively.

Conclusion


Please read this Scheme Book carefully as it contains important information in relation to the Merger and will assist you in making an informed decision on how to vote at the respective Scheme Meetings. Ordinary Shareholders should read Parts A and D in their entirety, Step Up Preference Shareholders should read Parts B and D in their entirety and Reset Preference Shareholders should read Parts C and D in their entirety.

It is important that you cast your vote, either by attending the Scheme Meetings or by completing and returning the relevant proxy form(s) accompanying this Scheme Book.

If you have any questions about the Schemes or this Scheme Book, please contact your financial, legal, taxation or other professional adviser or call the Shareholder Information Line on 1800 211 826 (freecall from within Australia) or +612 8986 9354 (from outside Australia).

On behalf of the Adelaide Bank Board, I would like to take this opportunity to thank you for your support of Adelaide Bank over many years and we look forward to your ongoing support as a shareholder of the Merged Group.

Yours faithfully



Adele Lloyd

Chairman
Adelaide Bank Limited

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Letter from the Chairman of Bendigo Bank to Shareholders

5 October 2007

Dear Adelaide Bank shareholder



The merger of Bendigo Bank and Adelaide Bank provides you with an opportunity to own shares in a unique customer and partner-focused financial services organisation.

The boards of both Adelaide Bank and Bendigo Bank believe the Merger is a logical next step for both companies, which are growing strongly but would greatly benefit from an immediate increase in size and diversity. Size means more efficient use of capital and a lower unit cost base and diversity gives the Merged Group a broader range of revenues and greater flexibility as markets change. The Merger also enables both banks to retain and further develop two very different banking strategies without harming either.

Bendigo Bank and Adelaide Bank have each developed innovative and distinctive strategies and are leaders in their fields. Bendigo Bank is Australia's pre-eminent service-focused retail bank and is renowned for partnering with communities and Adelaide Bank excels in partnering with a range of distribution partners (such as mortgage brokers) as a specialist wholesale finance provider. The differences are important, because it has resulted in businesses with minimal overlap, meaning they can be brought together to the benefit of all stakeholders – shareholders, customers, communities, partners and staff.

The Merger creates a business with complementary products and services that can be delivered more cost effectively. With increased financial strength, scale efficiency and funding flexibility, the Merged Group is better positioned to pursue expansion opportunities and invest in growth and continued innovation.

The Bendigo Bank Directors unanimously support the Merger. The Independent Expert has concluded that the Schemes are in the best interests of Adelaide Bank shareholders.

On behalf of the Bendigo Bank Board, I encourage you to vote in favour of the Schemes and look forward to welcoming you as a shareholder of the Merged Group.

Yours faithfully

A handwritten signature in black ink that reads 'Robert Johanson'.

Robert Johanson
Chairman
Bendigo Bank Limited

What you should do

Read the relevant parts of this Scheme Book in full before making a decision on how to vote

- **If you are a holder of Adelaide Bank Ordinary Shares, you need to read Parts A and D**
- **If you are a holder of Adelaide Bank Step Up Preference Shares, you need to read Parts B and D**
- **If you are a holder of Adelaide Bank Reset Preference Shares, you need to read Parts C and D**

- Consider whether you should seek independent financial and tax advice
- If you have any questions call the Shareholder Information Line on 1800 211 826 (free call from within Australia) or +61 2 8986 9354 (from outside Australia)
- Vote at the Ordinary Share Scheme Meeting, the Step Up Preference Share Scheme Meeting and/or the Reset Preference Share Scheme Meeting (as appropriate)
- Vote as follows:
 - by proxy, using the appropriate enclosed proxy form:
 - Ordinary Shareholders should use the blue proxy form;
 - Step Up Preference Shareholders should use the green proxy form; and
 - Reset Preference Shareholders should use the yellow proxy form;
 - by attorney;
 - by corporate representative; or
 - in person, at the Scheme Meetings to be held at Adelaide Convention Centre on 12 November 2007

The Adelaide Bank Board unanimously recommends that you vote in favour of the Schemes

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Information for Ordinary Shareholders

IMPORTANT NOTICE:
PART D ALSO CONTAINS INFORMATION FOR ORDINARY SHAREHOLDERS.
APPENDIX 8 CONTAINS THE NOTICE OF ORDINARY SHARE SCHEME MEETING.

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Part A | Information for Ordinary Shareholders

Why you should vote in favour of the Ordinary Share Scheme

	Refer to page	For more information, see
1. Your board unanimously recommends that you vote in favour of the Ordinary Share Scheme, in the absence of a superior proposal	12	Section 3.1
2. The Independent Expert has assessed the Ordinary Share Scheme to be in the best interests of Ordinary Shareholders	13	Section 3.2(a)
3. You will have an opportunity to participate in a larger and financially stronger Merged Group	14	Sections 3.2(b) and (c)
4. The Merged Group intends to retain and grow the existing businesses of Adelaide Bank and Bendigo Bank	15	Section 3.2(d)
5. The Merged Group will benefit from greater funding flexibility incorporating Adelaide Bank's securitisation expertise and Bendigo Bank's retail funding strength	16	Section 3.2(e)
6. Benefits are expected from the increased market capitalisation of the Merged Group relative to Adelaide Bank	17	Section 3.2(f)

	Refer to page	For more information, see
7. Future synergy benefits are anticipated as a result of the Merger	18	Section 3.2(g)
8. The Merger terms represent a premium to the trading price of Adelaide Bank Ordinary Shares prior to the announcement of the Merger	19	Section 3.2(h)
9. The Merger is expected to be cash earnings per share accretive for Ordinary Shareholders	20	Section 3.2(i)
10. The Merger represents a value enhancing alternative for Ordinary Shareholders, in the absence of a superior proposal	21	Section 3.2(j)
11. There are possible negative implications if the Merger is not implemented	22	Section 3.2(k)

For you to receive these benefits, the Ordinary Share Scheme must be approved by Ordinary Shareholders. Your vote is important.

Ordinary Shareholders should read all of Parts A and D



Your board unanimously recommends that you vote in favour of the Ordinary Share Scheme, in the absence of a superior proposal

- Your board has determined that the Ordinary Share Scheme is in the best interests of Ordinary Shareholders and unanimously recommends that Ordinary Shareholders vote in favour of the Ordinary Share Scheme, in the absence of a superior proposal
- For detailed reasons for the board's recommendation, please refer to Section 3.2

2.

The Independent Expert has assessed the Ordinary Share Scheme to be in the best interests of Ordinary Shareholders

- KPMG has concluded that the Ordinary Share Scheme is in the best interests of Ordinary Shareholders
- A copy of the Independent Expert's Report in relation to the Ordinary Share Scheme is set out in Section 23. Ordinary Shareholders should read the Independent Expert's Report in its entirety

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3.

You will have an opportunity to participate in a larger and financially stronger Merged Group

- On a pro forma basis, the Merged Group would have had combined loans under management of more than \$43 billion and net profit after tax of approximately \$265 million for the financial year ended 30 June 2007³
- The Merger will bring together the specialist skills of Adelaide Bank's wholesale banking operations and Bendigo Bank's retail banking operations, continuing to provide a diversified portfolio of earnings
- The stronger business profile of the Merged Group may result in a positive credit re-rating for the Merged Group in the future in comparison to Adelaide Bank
- For further information regarding the financial effect of the Merger, please refer to Section 19

³ See table and accompanying notes in Section 19.8.

4.

The Merged Group intends to retain and grow existing businesses of Adelaide Bank and Bendigo Bank

- The Merged Group intends to retain and grow the existing businesses of Adelaide Bank and Bendigo Bank
- Head office functions of the Merged Group will be shared between existing sites
- It is intended that the wholesale business will be headquartered in Adelaide
- Bendigo Bank intends to change its name to 'Bendigo and Adelaide Bank Limited'⁴
- For further information about the Merged Group, please refer to Section 19

⁴ If the Ordinary Share Scheme is implemented, a resolution to give effect to the name change will be proposed at an extraordinary general meeting of the Merged Group to be held within two months of the implementation of the Merger.

5.

The Merged Group will benefit from greater funding flexibility incorporating Adelaide Bank's securitisation expertise and Bendigo Bank's retail funding strength

- The Merged Group will have a more diversified funding mix incorporating Bendigo Bank's retail funding strength and Adelaide Bank's securitisation expertise
- As a result, the Merger is expected to reduce the exposure of Ordinary Shareholders to wholesale debt market volatility
- For further information about the Merged Group, please refer to Section 19

6.

Benefits are expected from the increased market capitalisation of the Merged Group relative to Adelaide Bank

- The Merged Group is expected to have a greater market capitalisation than Adelaide Bank as a stand alone company
- Based on recent share prices of Adelaide Bank Ordinary Shares and Bendigo Bank Ordinary Shares, the pro forma market capitalisation of the Merged Group would have been approximately \$3.5 billion⁵ that would have placed it well within the S&P/ASX100 Index
- Increased market capitalisation and increased financial scale of the Merged Group are likely to provide greater opportunities for access to capital markets (if required)
- Shares in the Merged Group are likely to trade more actively and potentially enjoy stronger analyst and investor interest

⁵ Based on the closing prices and ordinary shares outstanding of Adelaide Bank and Bendigo Bank on 4 October 2007, the last trading day before the date of this Scheme Book (excluding the quoted preference shares of both companies). This statement should not be taken to be a forecast that Bendigo Bank Ordinary Shares will trade at any particular price.

7.

Future synergy benefits are anticipated as a result of the Merger

- It is anticipated that the Merger will ultimately provide annual pre-tax cost synergies of approximately \$60 million – \$65 million with 80% of these pre-tax cost synergies expected to be realised in the second full year of operation⁶
- These synergies are expected to be realised principally from the consolidation of technology platforms and common head office and back office functions
- In addition, it is expected that the Merger will potentially generate revenue synergies through opportunities to cross sell Adelaide Bank's and Bendigo Bank's existing products to the combined customer base of the Merged Group, including more than 1.3 million retail customers and the customer base of wholesale partners
- Realisation of these synergies is subject to the integration and other risks outlined in Section 20.5
- For further information regarding synergies, please refer to Section 19.1(c)

⁶ Excluding one-off merger and integration costs.

8.

The Merger terms represent a premium to the trading price of Adelaide Bank Ordinary Shares prior to the announcement of the Merger

- The Merger terms represent a premium to the trading price of Adelaide Bank Ordinary Shares prior to the announcement of the Merger (based on the trading price of Adelaide Bank Ordinary Shares and Bendigo Bank Ordinary Shares prior to the announcement of the Merger)⁷

Basis	Adelaide Bank Ordinary Share price (\$)	Bendigo Bank Ordinary Share price (\$)	Implied offer value (\$)	Implied premium (%)
Closing price (8 August 2007 ⁽¹⁾)	14.40	16.50	17.74	23
VWAP ⁽²⁾ 2 weeks	14.58	16.14	17.35	19
VWAP ⁽²⁾ 1 month	14.79	16.07	17.28	17
VWAP ⁽²⁾ 3 months	15.08	16.11	17.32	15
VWAP ⁽²⁾ 6 months	14.54	15.92	17.11	18
VWAP ⁽²⁾ 12 months	13.82	15.10	16.23	17

Notes:

(1) Being the last trading day prior to the announcement of the Merger.

(2) VWAP (volume weighted average price) means the ratio of the total value of shares traded to the total volume of shares traded over the period. The VWAP periods are up to and including 8 August 2007.

As at 4 October 2007, the last trading day before the date of this Scheme Book, the closing price on ASX of Bendigo Bank Ordinary Shares was \$13.65, implying an offer value per Adelaide Bank Ordinary Share of \$14.67

⁷ This statement should not be taken to be a forecast that Bendigo Bank Ordinary Shares will trade at any particular price.

9.

The Merger is expected to be cash earnings per share accretive for Ordinary Shareholders

- When the Merger was announced to ASX on 9 August 2007, Adelaide Bank indicated that the Merger was expected to be cash earnings per share accretive for Ordinary Shareholders in the first full financial year following completion of the Merger^{8,9,10}

8 Cash earnings per share is determined prior to amortisation and excluding one-off merger and integration costs.

9 Earnings per share accretion to Ordinary Shareholders has been determined based on the Merged Group earnings per share relative to Adelaide Bank earnings per share on a stand alone basis.

10 A number of factors will influence the actual earnings per share in future years including:

- the future performance of the Merged Group;
- the amount and timing of cost savings, revenue enhancements and other synergies realised as a consequence of the Merger;
- the amount and timing of integration costs, the degree to which these costs are capitalised and the rate at which they are amortised; and
- further developments and transactions by the Merged Group.

10.

The Merger represents a value enhancing alternative for Ordinary Shareholders, in the absence of a superior proposal

- The Merged Group will be in a stronger position to pursue further value creating opportunities than either Adelaide Bank or Bendigo Bank would be able to pursue on a stand alone basis
- The Merger is expected to enable the acceleration and expansion of value creating opportunities by forming a stronger, more diversified business better positioned to grow and innovate
- For further information about the Merged Group please refer to Section 19



There are possible negative implications if the Merger is not implemented

- If the Merger is not implemented Adelaide Bank Ordinary Shares will continue to be quoted on ASX, but it is difficult to predict where the price of Adelaide Bank Ordinary Shares might settle in the absence of the impact that could be attributed to merger related market activity
- Adelaide Bank will incur transaction costs of approximately \$4 million in connection with the Merger, without the benefit of any of the potential advantages of the Merger
- In addition, depending on the circumstances of the Merger not proceeding, a break fee may be payable by Adelaide Bank to Bendigo Bank under the Merger Implementation Agreement. However, a break fee will not be payable if the Merger does not proceed solely as a result of shareholder approval not being obtained
- Please refer to Section 3.2(k) for further details

Part A | Information for Ordinary Shareholders

Potential disadvantages of the Ordinary Share Scheme

Although the Ordinary Share Scheme is recommended by the Adelaide Bank Directors and the Independent Expert believes the Ordinary Share Scheme is in the best interests of Ordinary Shareholders, Ordinary Shareholders should also consider reasons for not voting in favour of the Ordinary Share Scheme. Some factors which may lead Ordinary Shareholders to vote against the Ordinary Share Scheme are set out below.

The Adelaide Bank Directors believe these factors are outweighed by the benefits the Merger is expected to deliver

1. Smaller share of a larger Merged Group

- The Merger will result in Ordinary Shareholders holding an economic interest in approximately 45% of the Merged Group¹¹ rather than a direct 100% interest in Adelaide Bank
- Please refer to Section 3.3(a) for further information

2. Consideration consists of New Bendigo Bank Ordinary Shares

- As the consideration under the Ordinary Share Scheme consists of New Bendigo Bank Ordinary Shares, the value of the consideration is dependent on the price at which Bendigo Bank Ordinary Shares trade
- Ordinary Shareholders should note that there is no cash alternative available under the Ordinary Share Scheme
- Please refer to Section 18.7 for information regarding historical market prices for Bendigo Bank Ordinary Shares and Section 20 for further information regarding risks relating to holding New Bendigo Bank Ordinary Shares

3. Integration risk

- The success of the Merger and, in particular, the ability to realise cost and revenue synergies will be dependent, among other things, on Adelaide Bank and Bendigo Bank being integrated effectively, efficiently and in a timely manner, without material disruption to their businesses
- Please refer to Sections 3.3(d) and 20.5 for further details

¹¹ Based on 108,316,569 Adelaide Bank Ordinary Shares and 145,192,294 Bendigo Bank Ordinary Shares outstanding on the last trading day before the date of this Scheme Book. The exact percentage ownership of the Merged Group will of course be impacted by any share issues by Adelaide Bank and Bendigo Bank prior to the Implementation Date. However, the anticipated share issues before that date are not expected to have a material impact on this relative pro forma ownership.

4. Possibility of a more attractive proposal

- It is possible that a more attractive proposal for Ordinary Shareholders could emerge in the future
- The Adelaide Bank Directors have not received any superior proposal as at the date of this Scheme Book
- In addition, Ordinary Shareholders should note that Adelaide Bank has agreed certain exclusivity arrangements with Bendigo Bank. Please refer to Section 6.8 for further details

5. Taxation

- If the Ordinary Share Scheme is implemented, it may result in taxation consequences for some Ordinary Shareholders arising earlier than would otherwise have been the case
- Ordinary Shareholders should consider the tax consequences of the Merger in view of their own particular circumstances and seek advice from their tax adviser
- Please refer to Section 21 for information regarding the general Australian tax consequences of the Merger for Ordinary Shareholders

Ordinary Shareholders should carefully read all of Parts A and D

Overview of the Ordinary Share Scheme

1.1 Background

On 9 August 2007, following execution of the Merger Implementation Agreement, Adelaide Bank and Bendigo Bank jointly announced a proposal to merge by way of a scheme of arrangement.

The Merger is to be implemented by way of the Ordinary Share Scheme. If the Ordinary Share Scheme is implemented, Bendigo Bank will acquire all of the Adelaide Bank Ordinary Shares and Adelaide Bank will become a subsidiary of Bendigo Bank.

This Part A contains important information for Ordinary Shareholders regarding the Ordinary Share Scheme. Part D also contains important information.

Separate schemes of arrangement are proposed in relation to the Adelaide Bank Step Up Preference Shares (**Step Up Preference Share Scheme**) and the Adelaide Bank Reset Preference Shares (**Reset Preference Share Scheme**). The Ordinary Share Scheme is not conditional on the Step Up Preference Share Scheme or the Reset Preference Share Scheme (although the Step Up Preference Share Scheme and Reset Preference Share Scheme are conditional on the Ordinary Share Scheme). Further information regarding the Step Up Preference Share Scheme is set out in Part B and further information regarding the Reset Preference Share Scheme is set out in Part C.

The Adelaide Bank Directors unanimously recommend that Ordinary Shareholders vote in favour of the Ordinary Share Scheme, in the absence of a superior proposal. Each Adelaide Bank Director who is able to control the voting rights attached to Adelaide Bank Ordinary Shares intends to vote those shares, or procure that those shares are voted, in favour of the Ordinary Share Scheme, in the absence of a superior proposal.

Furthermore the Ordinary Share Scheme has been considered by the Independent Expert. The Independent Expert has concluded that the Ordinary Share Scheme is in the best interests of Ordinary Shareholders. The full report of the Independent Expert in relation to the Ordinary Share Scheme can be found in Section 23. You should read the Independent Expert's Report in its entirety.

The Ordinary Share Scheme is subject to a number of conditions, details of which can be found in Sections 1.6 and 6.2.

1.2 Terms of the Merger

On implementation of the Ordinary Share Scheme:

- all of the Adelaide Bank Ordinary Shares will be transferred to Bendigo Bank; and
- Ordinary Scheme Shareholders will receive 1.075 fully paid New Bendigo Bank Ordinary Shares¹² for each Adelaide Bank Ordinary Share held on the Scheme Record Date.

If the number of Adelaide Bank Ordinary Shares held by an Ordinary Shareholder is such that the aggregate entitlement of that Ordinary Shareholder to New Bendigo Bank Ordinary Shares under the Ordinary Share Scheme is not a whole number, then the entitlement will (subject to the share splitting provisions in clause 5.2(b) of the Ordinary Share Scheme) be rounded up or down to the nearest whole number, with fractions of 0.5 or more being rounded up and fractions of less than 0.5 being rounded down.

1.3 Rationale for the Merger

The Merger combines two successful organisations to create a unique customer and partner-focused financial services organisation with a strong cultural alignment.

Adelaide Bank's experience in partnering with a range of distribution partners as a specialist wholesale finance provider will be combined with Bendigo Bank's pre-eminent service and community-focused retail banking operations to support a multi-channel distribution strategy.

The Merger brings together specialist skills in wholesale and retail banking to create a stronger, more diversified business with increased scale which will be better positioned to grow and innovate.

The Merged Group is expected to have:

- loans under management of more than \$43 billion including mortgage loans exceeding \$30 billion;
- an enlarged presence in the fast growing wealth management sector; with approximately \$7 billion of funds under management;
- enhanced scale to drive greater operating efficiencies across the Merged Group;
- expanded product offering and enhanced processing capability to a combined customer base;

¹² Subject to rounding. Different arrangements apply to Ineligible Foreign Shareholders.

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- a diversified earnings, assets and liabilities base;
- greater funding flexibility by combining Adelaide Bank's securitisation expertise and Bendigo Bank's retail funding strength;
- an expanded national footprint of more than 380 branches covering all Australian States and Territories; and
- access to more than 1.3 million existing retail customers and the customer base of wholesale partners.

Based on recent share prices of Adelaide Bank Ordinary Shares and Bendigo Bank Ordinary Shares, the pro forma market capitalisation of the Merged Group would be approximately \$3.5 billion that would have placed it well within the S&P/ASX100 Index.¹³

In addition, it is anticipated the Merger will ultimately provide approximately \$60 million – \$65 million in annual pre-tax cost synergies, with 80% of those pre-tax cost synergies expected to be realised in the second full year of operation,¹⁴ and provide the potential to realise revenue synergies from cross selling products to the combined customer base of the Merged Group, including more than 1.3 million retail customers and the customer base of wholesale partners. Important information regarding anticipated synergies is set out in Sections 3.2(g) and 19.1(c).

1.4 Recommendation of Adelaide Bank Directors

The Adelaide Bank Directors have considered the potential advantages and disadvantages of the Merger. They believe that the Merger is in the best interests of Ordinary Shareholders and unanimously recommend that Ordinary Shareholders vote in favour of the Ordinary Share Scheme, in the absence of a superior proposal.

In making their recommendation, the Adelaide Bank Directors have in particular considered the following:

- the reasons why Ordinary Shareholders should vote in favour of the Ordinary Share Scheme, set out in Section 3.2;
- the potential disadvantages of the Merger, set out in Section 3.3; and
- the risks associated with the Merger, set out in Section 20.

Each Adelaide Bank Director who is able to control the voting rights attached to Adelaide Bank Ordinary Shares intends to vote those shares, or procure that those shares are voted, in favour of the Ordinary Share Scheme, in the absence of a superior proposal.

The Adelaide Bank Directors have not received any superior proposal as at the date of this Scheme Book.

1.5 Independent Expert's Report

KPMG was appointed by the Adelaide Bank Directors as the Independent Expert to assess the merits of the Ordinary Share Scheme. KPMG has concluded that the Ordinary Share Scheme is in the best interests of Ordinary Shareholders.

A copy of the Independent Expert's Report in relation to the Ordinary Share Scheme is included in Section 23 and should be read in its entirety.

1.6 Conditions of the Merger

Implementation of the Ordinary Share Scheme is subject to a number of conditions precedent being satisfied or waived including, but not limited to:

- approval of the Ordinary Share Scheme by Ordinary Shareholders;
- approval of the Ordinary Share Scheme by the Court;
- approval of the Merger by the Treasurer of the Commonwealth of Australia for the purpose of the Financial Sector (Shareholdings) Act and the Banking Act;
- indication by the ACCC that it does not intend to oppose the Merger;
- approval for the official quotation of the New Bendigo Bank Ordinary Shares granted by ASX, subject to any conditions which ASX may reasonably require;
- no occurrence of a Bendigo Bank Material Adverse Change or Adelaide Bank Material Adverse Change;
- no occurrence of a Bendigo Bank Regulated Event or Adelaide Bank Regulated Event;

¹³ Based on the closing prices and ordinary shares outstanding of Adelaide Bank and Bendigo Bank on 4 October 2007, the last trading day before the date of this Scheme Book (excluding the quoted preference shares of both companies). This statement should not be taken to be a forecast that Bendigo Bank Ordinary Shares will trade at any particular price.

¹⁴ Excluding one-off merger and integration costs. Please refer to Section 19.1(c) for details.

- the representations and warranties provided by Bendigo Bank and Adelaide Bank in the Merger Implementation Agreement being true and correct in all material respects; and
- no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing any aspect of the Ordinary Share Scheme being in effect.

On 10 September 2007, the ACCC confirmed in writing that it will not oppose the Merger. Adelaide Bank and Bendigo Bank have made application for the Treasurer's approval for the purposes of the Financial Sector (Shareholdings) Act and the Banking Act but have not received these approvals as at the date of this Scheme Book.

As at the date of lodgement of this Scheme Book with ASIC for registration, neither Adelaide Bank nor Bendigo Bank is aware of any circumstances which would cause the outstanding conditions not to be satisfied or waived.

Further information regarding the conditions to the Ordinary Share Scheme is set out in Section 6.2.

1.7 If the Merger does not proceed

If the Ordinary Share Scheme does not proceed, Ordinary Shareholders will retain their Adelaide Bank Ordinary Shares and Adelaide Bank will continue as a stand alone entity and continue to remain listed on ASX. Adelaide Bank will continue to focus on its current business plan and strategy. The rights of Ordinary Shareholders will remain unchanged.

Adelaide Bank will incur transaction costs of approximately \$4 million in connection with the Merger if the Ordinary Share Scheme is not implemented and the Merger does not proceed. These costs will be borne by Adelaide Bank without the benefit of any of the potential advantages of the Merger. These costs may have an adverse effect on the financial performance of the Adelaide Bank Group for the financial year ending 30 June 2008.

In addition, depending on the circumstances of the Merger not proceeding, a break fee may be payable by Adelaide Bank to Bendigo Bank, or vice versa, under the Merger Implementation Agreement. However, a break fee will not be payable if the Merger does not proceed solely as a result of shareholder approval not being obtained. Please see Section 6.9 for further details.

1.8 Merged Group Board

(a) Chairman, Deputy Chairman and executive directors

The current Chairman of Bendigo Bank, Robert Johanson, will continue as Chairman, and Kevin G Osborn, currently a non-executive director of Adelaide Bank, will become Deputy Chairman. The current Managing Director of Bendigo Bank, Rob Hunt, will be the Managing Director of the Merged Group until his announced retirement in July 2009. Jamie McPhee, currently Group Managing Director of Adelaide Bank, will be appointed to the Merged Group Board as an executive director and be responsible for the wholesale banking services of the Merged Group. With Mr Hunt's retirement in July 2009, this will place Mr McPhee in an excellent position to succeed Mr Hunt.

(b) Additional non-executive directors

Subject to receiving shareholder approval at Bendigo Bank's annual general meeting on 29 October 2007 to amend Bendigo Bank's constitution to increase the size of its board, the Merged Group Board will consist of an additional five non-executive directors from the existing Bendigo Bank Board (nominated by Bendigo Bank) and an additional three non-executive directors from the existing Adelaide Bank Board (nominated by Adelaide Bank). If the Bendigo Bank constitution is not so amended, Bendigo Bank will be able to instead nominate only an additional four non-executive directors and Adelaide Bank only an additional two non-executive directors.

The proposed board structure of the Merged Group ensures the continued representation of existing Adelaide Bank shareholders and Bendigo Bank shareholders on the Merged Group Board.

Please refer to Section 19.3 for details.

1.9 Proposed name of the Merged Group

Bendigo Bank intends to change its name to 'Bendigo and Adelaide Bank Limited' if the Ordinary Share Scheme is implemented. Accordingly, a resolution to give effect to this name change would be proposed at an extraordinary general meeting to be held within two months after the implementation of the Ordinary Share Scheme.

1.10 Approvals required

For the Ordinary Share Scheme to be implemented, it must be approved by:

- a majority (i.e. more than 50%) in number of Ordinary Shareholders present and voting on the resolution (in person or by proxy, attorney or, in the case of a corporate Ordinary Shareholder, by a corporate representative); and
- at least 75% of the total number of votes cast on the resolution by Ordinary Shareholders (in person or by proxy, attorney or, in the case of a corporate Ordinary Shareholder, by a corporate representative).

The Ordinary Share Scheme Meeting has been convened for 9.30am on 12 November 2007 at Adelaide Convention Centre, North Terrace, Adelaide SA.

The Ordinary Share Scheme is also conditional on approval by the Court.

1.11 Entitlement to vote

All Ordinary Shareholders on the Adelaide Bank Register at 12.00 midday on 11 November 2007 are entitled to vote at the Ordinary Share Scheme Meeting.

For further details on how to vote, please refer to Section 4.

1.12 Trading of New Bendigo Bank Ordinary Shares

If the Ordinary Share Scheme is implemented, New Bendigo Bank Ordinary Shares are expected to commence trading on a deferred settlement basis on ASX on 21 November 2007, being the next trading day after the Effective Date, and on a normal settlement basis on 5 December 2007.

1.13 Tax considerations for Ordinary Shareholders

A summary of the general Australian taxation implications of the Ordinary Share Scheme for Ordinary Shareholders who are Australian residents for tax purposes is set out in Section 21.

Your decision regarding how to vote on the Ordinary Share Scheme should be made only after consultation with your financial, legal, taxation or other professional adviser based on your own investment objectives, financial situation, taxation position and particular needs.

1.14 Limits on shareholdings in Bendigo Bank

Your attention is drawn to the shareholding limits set out in the Financial Sector (Shareholdings) Act. Under that legislation, the approval of the Commonwealth Treasurer is required for the purchase of a stake of more than 15% in any company in the financial sector. The same limit currently applies to Adelaide Bank.

1.15 How to obtain further information

For further information, you should:

- contact your financial, legal, taxation or other professional adviser;
- call the Shareholder Information Line on 1800 211 826 (free call from within Australia) or +612 8986 9354 (from outside Australia); or
- contact Adelaide Bank at the following email address:
merger@adelaidebank.com.au

Part A | Section 2

Frequently asked questions for Ordinary Shareholders

Set out below are answers to frequently asked questions regarding the Merger, the Ordinary Share Scheme and the action you should take.

The answers provided are intended to assist you with your understanding of the Merger and the Ordinary Share Scheme. However, you should carefully read Parts A and D in their entirety in order to fully understand the Merger, the Ordinary Share Scheme and the action you should take.

QUESTIONS ABOUT THE MERGER

Q1 What is the Merger?

The Merger will combine Adelaide Bank and Bendigo Bank to create a unique customer and partner-focused financial services organisation with strong cultural alignment.

The Merger will be implemented by a scheme of arrangement under which Ordinary Shareholders will receive New Bendigo Bank Ordinary Shares in exchange for their Adelaide Bank Ordinary Shares. There will also be separate schemes of arrangement in respect of the Adelaide Bank Step Up Preference Shares and Adelaide Bank Reset Preference Shares.

Bendigo Bank intends to change its name to 'Bendigo and Adelaide Bank Limited' if the Ordinary Share Scheme is implemented. Accordingly, a resolution to give effect to this name change would be proposed at an extraordinary general meeting to be held within two months after the implementation of the Ordinary Share Scheme.

Further details of the Merger are set out in Sections 1 and 3.

Q2 How will the Merger be implemented?

The Merger will be implemented by a scheme of arrangement under the Corporations Act described in this Scheme Book as the Ordinary Share Scheme. Under the Ordinary Share Scheme, all Adelaide Bank Ordinary Shares will be transferred to Bendigo Bank and Bendigo Bank will issue to Ordinary Scheme Shareholders 1.075 New Bendigo Bank Ordinary Shares¹⁵ for each Adelaide Bank Ordinary Share held by them at the Scheme Record Date. The Merger will result in Adelaide Bank becoming a subsidiary of Bendigo Bank.

Please refer to Section 6.1 for further details.

¹⁵ Subject to rounding. Different arrangements apply to Ineligible Foreign Shareholders – please see Q32.

Q3**Why is the Merger being proposed?**

The Merger is being proposed because the Adelaide Bank Directors unanimously believe that it is in the best interests of Ordinary Shareholders and is expected to deliver the following benefits to Ordinary Shareholders:

- an opportunity to participate in a larger and financially stronger Merged Group (see Section 3.2(b) and (c));
- greater funding flexibility incorporating Adelaide Bank's securitisation expertise and Bendigo Bank's retail funding strength (see Section 3.2(e));
- potential for improved liquidity and trading resulting from the increased market capitalisation of the Merged Group (see Section 3.2(f));
- access to future synergy benefits anticipated from the Merger (see Section 3.2(g));
- the Merger terms represent a premium to the trading price of Adelaide Bank Ordinary Shares prior to the announcement of the Merger (see Section 3.2(h)) (based on the trading price of Adelaide Bank Ordinary Shares and Bendigo Bank Ordinary Shares prior to the announcement of the Merger); and
- cash earnings per share accretion in the first full financial year following completion of the Merger (see Section 3.2(i)).

Please refer to Section 3 for further information regarding the potential advantages of the Merger and the reasons why you should consider voting in favour of the Ordinary Share Scheme.

Q4**What is the recommendation of the Adelaide Bank Directors?**

The Adelaide Bank Directors unanimously recommend that all Ordinary Shareholders vote in favour of the Ordinary Share Scheme, in the absence of a superior proposal. Please see Section 3.1 for further details.

Q5**Are there any disadvantages?**

The Adelaide Bank Directors unanimously believe that the potential advantages of the Merger outweigh the potential disadvantages of the Merger.

However, Ordinary Shareholders should be aware of the potential disadvantages of the Merger which are summarised in Section 3.3. Ordinary Shareholders should also take into account the risks associated with the Merger and an investment in the Merged Group which are described in Section 20.

Q6**What are the prospects of a superior proposal?**

It is possible that an interested party may make a proposal which is superior to the Ordinary Share Scheme prior to Ordinary Shareholders voting on the Ordinary Share Scheme. Accordingly, the recommendation of the Adelaide Bank Directors to vote in favour of the Ordinary Share Scheme is subject to there being no superior proposal. The Adelaide Bank Directors have not received any superior proposal since the announcement of the Merger on 9 August 2007. In these circumstances, Ordinary Shareholders should not assume that a superior proposal will be made before the Ordinary Share Scheme Meeting.

Q7**What is the opinion of the Independent Expert?**

Adelaide Bank appointed KPMG to provide an opinion as to whether the Ordinary Share Scheme is in the best interests of Ordinary Shareholders.

The Independent Expert has considered the Ordinary Share Scheme and has concluded that the Ordinary Share Scheme is in the best interests of Ordinary Shareholders. The Independent Expert's Report in relation to the Ordinary Share Scheme is set out in full in Section 23.

Q8**What is a scheme of arrangement?**

A scheme of arrangement is a legal arrangement between a company and its shareholders. The terms of the Ordinary Share Scheme are set out in full in Appendix 2.

Q9**Is shareholder approval required?**

In order to take effect, the Ordinary Share Scheme will need to be approved by a majority (i.e. greater than 50%) in number of Ordinary Shareholders present and voting on the resolution (in person or by proxy, attorney or, in the case of a corporate Ordinary Shareholder, by a corporate representative). Those who vote in favour must also cast at least 75% of the total number of votes cast by Ordinary Shareholders on the resolution (in person or by proxy, attorney or, in the case of a corporate Ordinary Shareholder, by a corporate representative).

The Ordinary Share Scheme is also conditional on approval by the Court.

Q10**Are there any conditions to the Merger completing?**

There are a number of outstanding conditions precedent set out in the Merger Implementation Agreement that will need to be satisfied or waived before the Ordinary Share Scheme can become Effective. Please refer to Section 6.2 for a full description of the conditions to the Ordinary Share Scheme.

QUESTIONS ABOUT THE MERGED GROUP**Q11****Immediately following completion of the Merger, how will ownership of the Merged Group be split between Adelaide Bank shareholders and Bendigo Bank shareholders?**

Following completion of the Merger, Ordinary Shareholders will own approximately 45% of Bendigo Bank Ordinary Shares and Bendigo Bank shareholders will own approximately 55% of Bendigo Bank Ordinary Shares.¹⁶

Q12**Who will be the directors of the Merged Group?**

Robert Johanson will continue as Chairman and Kevin G Osborn, a non-executive director of Adelaide Bank, will become Deputy Chairman.

Rob Hunt, Managing Director of Bendigo Bank, will continue in that position until his retirement on 1 July 2009.

¹⁶ Based on 108, 316, 569 Adelaide Bank Ordinary Shares and 145, 192, 294 Bendigo Bank Ordinary Shares outstanding on the last trading day before the date of this Scheme Book. The exact percentage ownership of the Merged Group will of course be impacted by any share issues by Adelaide Bank and Bendigo Bank prior to the Implementation Date. However, the anticipated share issues before that date are not expected to have a material impact on this relative pro forma ownership.

Adelaide Bank's Group Managing Director, Jamie McPhee, will be appointed to the Merged Group Board as executive director and be responsible for wholesale banking services of the Merged Group. With Mr Hunt's retirement in July 2009, this will place Mr McPhee in an excellent position to succeed Mr Hunt.

Subject to receiving shareholder approval at Bendigo Bank's annual general meeting on 29 October 2007 to amend Bendigo Bank's constitution to increase the size of its board, the Merged Group Board will also include eight further directors, comprised of five non-executive directors from the existing Bendigo Bank Board (nominated by Bendigo Bank) and three non-executive directors from the existing Adelaide Bank Board (nominated by Adelaide Bank).

If this approval is not obtained, the Merged Group Board will instead include six further directors, comprised of four non-executive directors from the existing Bendigo Bank Board and two non-executive directors from the existing Adelaide Bank Board.

Please refer to Section 19.3 for further details.

Q13 **What will happen to the Adelaide Bank businesses?**

The Merged Group intends to retain and grow the businesses of Adelaide Bank and Bendigo Bank.

Q14 **Where will the Merged Group's head office be located?**

Head office functions of the Merged Group will be shared between existing sites. It is intended that the wholesale business of the Merged Group will be headquartered in Adelaide and the retail business headquartered in Bendigo. The registered head office of the Merged Group will be in Bendigo. Meetings of the Merged Group Board and annual general meetings of the Merged Group will be shared between South Australia and Victoria on such basis as the Merged Group Board considers appropriate.

QUESTIONS ABOUT VOTING

Q15 **When and where will the Ordinary Share Scheme Meeting be held?**

The Ordinary Share Scheme Meeting will be held at 9.30am on 12 November 2007 at Adelaide Convention Centre, North Terrace, Adelaide, SA.

Q16 **Can I vote at the Ordinary Share Scheme Meeting?**

If you are registered as an Ordinary Shareholder as at 12.00 midday on 11 November 2007, then you are entitled to vote at the Ordinary Share Scheme Meeting.

Q17 **How do I vote?**

You can vote in person or by proxy or attorney. Any Ordinary Shareholder that is a body corporate may vote at the Scheme Meeting through a corporate representative. Details of how to vote are set out in Section 4.

Q18 **Is voting compulsory? If not, should I vote?**

No, voting is not compulsory. However, the Adelaide Bank Directors unanimously believe the Merger is in the best interests of Ordinary Shareholders and urge you to carefully read Parts A and B in their entirety and exercise your right to vote. Your vote is important.

Q19 **What if I cannot attend the meeting?**

If you cannot attend the Ordinary Share Scheme Meeting, you should complete and return the enclosed proxy form in accordance with the instructions on the proxy form.

Please refer to Section 4 for further information regarding voting and appointing a proxy.

Q20**What happens if I do not vote, or if I vote against the Ordinary Share Scheme?**

If the Ordinary Share Scheme is implemented and you are an Ordinary Scheme Shareholder, then all of your Adelaide Bank Ordinary Shares will be transferred to Bendigo Bank and you will receive 1.075 New Bendigo Bank Ordinary Shares¹⁷ for each Adelaide Bank Ordinary Share you hold at the Scheme Record Date, notwithstanding that you did not vote, or that you voted against the Ordinary Share Scheme.

Q21**Are Bendigo Bank shareholders entitled to vote?**

No, only holders of Adelaide Bank Ordinary Shares are entitled to vote on the Ordinary Share Scheme.

Q22**How will Adelaide Bank Directors be voting?**

Each Adelaide Bank Director who is able to control voting rights in relation to Adelaide Bank Ordinary Shares intends to vote those shares, or procure that those shares are voted, in favour of the Ordinary Share Scheme, in the absence of a superior proposal.

Q23**When will the voting result be known?**

The result of the vote will be available shortly after the conclusion of the Ordinary Share Scheme Meeting and will be announced to ASX as soon as possible after it becomes available and will also be published on Adelaide Bank's website at www.adelaidebank.com.au.

Q24**What happens if the Ordinary Share Scheme is not approved?**

If the Ordinary Share Scheme is not approved by Ordinary Shareholders or the Court, the Ordinary Share Scheme and the Merger will not proceed. In that case, Adelaide Bank will continue as a stand alone entity listed on ASX and Ordinary Shareholders will retain their Adelaide Bank Ordinary Shares.

QUESTIONS ABOUT WHAT YOU WILL RECEIVE UNDER THE ORDINARY SHARE SCHEME**Q25****What will I be entitled to receive if the Ordinary Share Scheme is approved?**

If the Ordinary Share Scheme is implemented and you are an Ordinary Scheme Shareholder, you will be entitled to receive 1.075 New Bendigo Bank Ordinary Shares¹⁸ for each Adelaide Bank Ordinary Share which you hold at the Scheme Record Date.

Q26**When will I receive my New Bendigo Bank Ordinary Shares?**

If you are entitled to be issued New Bendigo Bank Ordinary Shares, you will be issued with your New Bendigo Bank Ordinary Shares on the Implementation Date and holding statements detailing your holding will be sent to you as soon as practicable after that date. At this stage, the Implementation Date is expected to be 30 November 2007.

¹⁷ Subject to rounding. Different arrangements apply to Ineligible Foreign Shareholders.

¹⁸ Subject to rounding. Different arrangements apply to Ineligible Foreign Shareholders – please see Q32.

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Q27**Will I be required to pay broker fees?**

You will not need to pay broker fees in connection with the Merger. However, if you sell your New Bendigo Bank Ordinary Shares after the Merger, you may have to pay broker fees.

Q28**When can I start trading my New Bendigo Bank Ordinary Shares?**

Trading in New Bendigo Bank Ordinary Shares on ASX is expected to commence on a deferred settlement basis on 21 November 2007. Deferred settlement trading is currently expected to continue until 4 December 2007. Normal settlement trading is currently expected to commence on 5 December 2007.

Q29**Will I get a final dividend from Adelaide Bank for the financial year ended 30 June 2007?**

Ordinary Shareholders will receive a fully franked final dividend for the financial year ended 30 June 2007 of \$0.36 per Adelaide Bank Ordinary Share. The dividend is expected to be paid on 15 October 2007.

Q30**Will I continue to receive dividends from Adelaide Bank?**

If the Merger is implemented, you will not receive any further dividends from Adelaide Bank. However, as a holder of New Bendigo Bank Ordinary Shares, you will be entitled to receive any dividends paid by the Merged Group in the future. Please refer to Section 19.6 for important information regarding the payment of dividends by the Merged Group.

Q31**Can I still sell my Adelaide Bank Ordinary Shares?**

You can sell your Adelaide Bank Ordinary Shares on market at any time before the close of trading on the Effective Date. If the Ordinary Share Scheme is approved by Ordinary Shareholders and the Court, trading in Adelaide Bank Ordinary Shares on ASX will be suspended with effect from close of trading on the Effective Date. At this stage, the Effective Date is expected to be 20 November 2007.

Please note that this date may change. Any change will be announced to ASX and notified on Adelaide Bank's website at www.adelaidebank.com.au.

If you sell your Adelaide Bank Ordinary Shares on ASX:

- you may need to pay brokerage on the sale;
- you will not share in any potential benefits of owning New Bendigo Bank Ordinary Shares; and
- there may be different tax consequences from those that arise under the Merger.

Q32**What if I am a foreign shareholder?**

An Ordinary Shareholder whose address as shown in the Adelaide Bank Register as at the Scheme Record Date is outside of Australia and its external territories and New Zealand will be an Ineligible Foreign Ordinary Shareholder for the purposes of the Ordinary Share Scheme, unless Bendigo Bank, acting reasonably, determines otherwise. The New Bendigo Bank Ordinary Shares the Ineligible Foreign Ordinary Shareholder would otherwise be entitled to receive under the Ordinary Share Scheme will be issued instead to the Nominee who will sell them on ASX and the sale proceeds, net of costs, will be remitted to the Ineligible Foreign Ordinary Shareholder. Please see Section 6.6 for further details.

Q33

What are the taxation implications for Ordinary Shareholders?

Australian residents for tax purposes who hold their Adelaide Bank Ordinary Shares on capital account should be able to elect to receive capital gains tax rollover relief. A general overview of the Australian tax consequences of the Ordinary Share Scheme for Ordinary Shareholders who are Australian residents for tax purposes is set out in Section 21. This is a general overview only. Ordinary Shareholders are therefore advised to consult their own tax advisers to obtain specific advice relevant to their circumstances.

Q34

What do I need to do?

You should carefully read Parts A and D in their entirety.

Your vote is important and you are encouraged to attend the Ordinary Share Scheme Meeting. If you cannot attend the meeting, you should complete the enclosed proxy form and return it as soon as possible and, in any event, by no later than 12.00 midday on 10 November 2007.

If you have any further questions about the Merger, the Ordinary Share Scheme or this Scheme Book please contact your financial, legal, taxation or other professional adviser or call the Shareholder Information Line on 1800 211 826 (free call from within Australia) or +612 8986 9354 (from outside Australia) or contact Adelaide Bank at merger@adelaidebank.com.au.

Assessment of the Ordinary Share Scheme

There are a number of important matters that Ordinary Shareholders need to consider in making a decision on how to vote with respect to the Ordinary Share Scheme. These include a number of potential advantages and disadvantages, some of which will be dependent upon the individual financial and taxation circumstances of each Ordinary Shareholder:

Ordinary Shareholders should consider the potential advantages and disadvantages in relation to the Ordinary Share Scheme in the context of their individual investment objectives, financial situation, taxation position and particular needs, and should carefully read Parts A and D in their entirety and seek financial, legal, taxation or other professional advice if necessary. The general Australian tax implications of the Ordinary Share Scheme for Ordinary Shareholders who are Australian residents for tax purposes are described in Section 21.

3.1 Directors' recommendation

For the reasons set out below, the Adelaide Bank Directors consider that the Ordinary Share Scheme is in the best interests of Ordinary Shareholders and unanimously recommend that Ordinary Shareholders vote in favour of the Ordinary Share Scheme, in the absence of a superior proposal.

Each Adelaide Bank Director who is able to control the voting rights in relation to Adelaide Bank Ordinary Shares intends to vote those shares, or procure that those shares are voted, in favour of the Ordinary Share Scheme, in the absence of a superior proposal.

3.2 Why should Ordinary Shareholders vote in favour of the Ordinary Share Scheme?

The Adelaide Bank Directors believe that Ordinary Shareholders should vote in favour of the Ordinary Share Scheme for the following reasons:

(a) The Independent Expert has assessed the Ordinary Share Scheme to be in the best interests of Ordinary Shareholders

KPMG was appointed by the Adelaide Bank Directors as the Independent Expert to assess the merits of the Ordinary Share Scheme. KPMG has concluded that the Ordinary Share Scheme is in the best interests of Ordinary Shareholders.

A copy of the Independent Expert's Report in relation to the Ordinary Share Scheme is set out in Section 23. Ordinary Shareholders should read the Independent Expert's Report in its entirety.

(b) You will have an opportunity to participate in a larger and financially stronger Merged Group

Following the Merger, Ordinary Shareholders who remain as shareholders in the Merged Group will be able to participate in any future growth of Adelaide Bank as part of a larger and financially stronger Merged Group. On a pro forma basis, the Merged Group would have had combined loans under management of more than \$43 billion and net profit after tax of approximately \$265 million for the financial year ended 30 June 2007. Please refer to Section 19.8 for the pro forma financial statements of the Merged Group.

The Merger will bring together the specialist skills of Adelaide Bank's wholesale banking operations and Bendigo Bank's retail banking operations, continuing to provide a diversified portfolio of earnings. Please refer to Section 19 for further information regarding the financial effect of the Merger.

(c) Potentially improved credit rating

The stronger business profile of the Merged Group may result in a positive credit re-rating in the future for the Merged Group in comparison to Adelaide Bank.

Following the announcement of the Merger, Standard & Poor's (**S&P**) affirmed its 'BBB+/A-2' issuer credit ratings on Adelaide Bank and Bendigo Bank and revised the outlook on the ratings to positive from stable.

S&P stated: 'The positive outlook reflects the possibility that the ratings on the combined entity may be raised by one notch in the next two years as benefits from the proposed merger are progressively realized. If the merger were to succeed, the combined entity is likely to benefit from a stronger business profile on the back of greater scale, business and geographic diversity. There is also potential for an improvement in earnings diversity and funding flexibility. However, the combined entity will also face challenges related to the integration of IT systems, future operational and management structure and cultural differences. An upgrade in the rating on the combined entity will depend on the bank successfully retaining its customer base and evidence that integration risks would be satisfactorily addressed and that the projected cost savings would be substantially realised. The outlook will revert to stable if the Merger does not proceed.*'

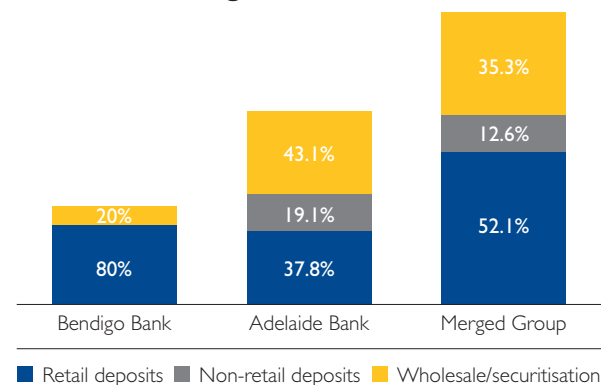
The potentially stronger credit standing of the Merged Group offers Ordinary Shareholders the prospect of increased financial security. An upgrade in the Merged Group's credit rating could also positively affect the market price and liquidity of New Bendigo Bank Ordinary Shares.

(d) The Merged Group intends to retain and grow the existing businesses of Adelaide Bank and Bendigo Bank

The Merged Group intends to retain and grow the Adelaide Bank and Bendigo Bank businesses. Both businesses operate a number of brands whose value is recognised by the Merged Group.

Head office functions of the Merged Group will be shared between existing sites. It is intended that the wholesale business of the Merged Group will be headquartered in Adelaide and the retail business headquartered in Bendigo. The registered head office of the Merged Group will be in Bendigo. Meetings of the Merged Group Board and annual general meetings of the Merged Group will be shared between South Australia and Victoria on such basis as the Merged Group Board considers appropriate.

Bendigo Bank intends to change its name to 'Bendigo and Adelaide Bank Limited' if the Ordinary Share Scheme is implemented. Accordingly, a resolution to give effect to this name change would be proposed at an extraordinary general meeting to be held within two months after the implementation of the Ordinary Share Scheme.

(e) The Merged Group will benefit from greater funding flexibility incorporating Adelaide Bank's securitisation expertise and Bendigo Bank's retail funding strength**Pro forma funding mix**

The Merged Group will have a more diversified funding mix incorporating Bendigo Bank's retail funding strength and Adelaide Bank's securitisation expertise. As a result, the Merger is expected to reduce the exposure of Ordinary Shareholders to wholesale debt market volatility. In the financial year ended 30 June 2007, wholesale debt funding comprised 43% of Adelaide Bank's total funding. On a pro forma combined basis as at 30 June 2007, wholesale debt funding would have been reduced to 35% of total funding whilst retail funding would have increased to 52%.

* The Standard & Poor's ratings are based on information publicly released by Standard & Poor's. Standard & Poor's have not consented to the use of these credit rating references in this Scheme Book. The credit rating references are not recommendations for Shareholders to take any particular action.

(f) Benefits are expected from the increased market capitalisation of the Merged Group relative to Adelaide Bank

The Merged Group is expected to have a greater market capitalisation than Adelaide Bank as a stand alone company. Based on the recent share prices of Adelaide Bank Ordinary Shares and Bendigo Bank Ordinary Shares, the pro forma market capitalisation of the Merged Group would have been approximately \$3.5 billion¹⁹ that would have placed it well within the S&P/ASX100 Index.

Increased market capitalisation and increased financial scale of the Merged Group are likely to provide greater opportunities for access to capital markets (if required). Together with an increased free float, this is also likely to see shares in the Merged Group trading more actively and potentially enjoying stronger analyst and investor interest.

(g) Future synergy benefits are anticipated as a result of the Merger

It is anticipated the Merger will ultimately provide annual pre-tax cost synergies of approximately \$60 million – \$65 million with 80% of those pre-tax cost synergies expected to be realised in the second full year of operation.²⁰ These synergies are expected to be realised principally from the consolidation of technology platforms and common head office and back office functions.

The realisation and timing of cost synergies are subject to the integration and other risks described in Section 20.

It is expected that the Merger will potentially generate revenue synergies through opportunities to cross sell existing products of Adelaide Bank and Bendigo Bank to the combined customer base of the Merged Group, including more than 1.3 million retail customers and the customer base of wholesale partners.

Synergies are further discussed in Section 19.1(c).

(h) The Merger terms represent a premium to the trading price of Adelaide Bank Ordinary Shares prior to the announcement of the Merger

The Merger terms, as described in Section 1.2, represent a premium to the trading price of Adelaide Bank Ordinary Shares prior to the announcement of the Merger as shown in the table below (based on the trading price of Adelaide Bank Ordinary Shares and Bendigo Bank Ordinary Shares prior to the announcement of the Merger).²¹

Basis	Adelaide Bank Ordinary Share price (\$)	Bendigo Bank Ordinary Share price (\$)	Implied offer value (\$)	Implied premium (%)
Closing price (8 August 2007 ⁽¹⁾)	14.40	16.50	17.74	23
VWAP ⁽²⁾ 2 weeks	14.58	16.14	17.35	19
VWAP ⁽²⁾ 1 month	14.79	16.07	17.28	17
VWAP ⁽²⁾ 3 months	15.08	16.11	17.32	15
VWAP ⁽²⁾ 6 months	14.54	15.92	17.11	18
VWAP ⁽²⁾ 12 months	13.82	15.10	16.23	17

Notes:

- (1) Being the last trading day prior to announcement of the Merger.
 (2) VWAP (volume weighted average price) means the ratio of the total value of shares traded to the total volume of shares traded over the period. The VWAP periods are up to and including 8 August 2007.

As at 4 October 2007, being the last trading day before the date of this Scheme Book, the closing price on ASX of Bendigo Bank Ordinary Shares was \$13.65, implying an offer value per Adelaide Bank Ordinary Share of \$14.67.

¹⁹ Based on the closing prices and ordinary shares outstanding of Adelaide Bank and Bendigo Bank on 4 October 2007, the last trading day before the date of this Scheme Book (excluding the quoted preference shares of both companies). This statement should not be taken to be a forecast that Bendigo Bank Ordinary Shares will trade at any particular price.

²⁰ Excluding one-off merger and integration costs. Please refer to Section 19.1(c) for details.

²¹ This statement should not be taken to be a forecast that Bendigo Bank Ordinary Shares will trade at any particular price.

(i) The Merger is expected to be cash earnings per share accretive for Ordinary Shareholders

When the Merger was announced to ASX on 9 August 2007, Adelaide Bank indicated that the Merger was expected to be cash earnings per share accretive for Ordinary Shareholders in the first full financial year following completion of the Merger.^{22,23}

A number of factors will influence the actual cash earnings per share in future years including:

- the future performance of the Merged Group;
- the amount and timing of cost savings, revenue enhancements and other synergies realised as a consequence of the Merger;
- the amount and timing of integration costs, the degree to which these costs are capitalised and the rate at which they are amortised; and
- further developments and transactions by the Merged Group.

(j) The Merger represents a value enhancing alternative for Ordinary Shareholders, in the absence of a superior proposal

In forming their recommendation, the Adelaide Bank Directors have carefully considered Adelaide Bank's strategy as a stand alone entity. Whilst this strategy offers the opportunity to create further value for Ordinary Shareholders, the Merger is, in the opinion of the Adelaide Bank Directors, a logical strategic combination which will enable the acceleration and expansion of value creating opportunities by forming a stronger, more diversified business which will be better positioned to grow and innovate.

In addition, the Merged Group will be in a stronger position to pursue further value creating opportunities than either party would be able to pursue on a stand alone basis.

The Adelaide Bank Directors are of the opinion that the Merger is the most value enhancing alternative for Ordinary Shareholders at this time, in the absence of a superior proposal.

(k) There are possible negative implications if the Merger is not implemented

If the Ordinary Share Scheme is not implemented and the Merger does not proceed, Adelaide Bank will continue to operate as a stand alone company and continue to remain listed on ASX.

Adelaide Bank Ordinary Shares will continue to be quoted on ASX, but it is difficult to predict where the share price of Adelaide Bank Ordinary Shares might settle in the absence of the impact that could be attributed to merger related market activity.

Adelaide Bank will incur transaction costs of approximately \$4 million in connection with the Merger if the Ordinary Share Scheme is not implemented and the Merger does not proceed. These costs will be borne by Adelaide Bank without the benefit of any of the potential advantages of the Merger. These costs will have an effect on the financial performance of the Adelaide Bank Group for the financial year ending 30 June 2008.

In addition, depending on the circumstances of the Merger not proceeding, a break fee may be payable by Adelaide Bank to Bendigo Bank under the Merger Implementation Agreement. However, a break fee will not be payable if the Merger does not proceed solely as a result of shareholder approval not being obtained. Please see Section 6.9 for further details.

3.3 Potential disadvantages of the Merger

Although the Ordinary Share Scheme is recommended by the Adelaide Bank Directors and the Independent Expert believes the Ordinary Share Scheme is in the best interests of Ordinary Shareholders, Ordinary Shareholders should also consider reasons for not voting in favour of the Ordinary Share Scheme. Some factors which may lead Ordinary Shareholders to vote against the Ordinary Share Scheme are set out below. The Adelaide Bank Directors believe that these factors are outweighed by the benefits the Merger is expected to deliver.

²² Cash earnings per share accretion to Ordinary Shareholders has been determined based on the Merged Group earnings per share relative to Adelaide Bank earnings per share on a stand alone basis.

²³ Cash earnings per share is determined prior to amortisation and excluding one off and merger integration costs.

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(a) Smaller share of a larger Merged Group

The Merger will result in Ordinary Shareholders holding an economic interest in approximately 45% of the Merged Group.²⁴ Ordinary Shareholders will no longer hold a direct 100% interest in Adelaide Bank alone, but instead will hold a smaller share of an enlarged Merged Group.

(b) Consideration consists of New Bendigo Bank Ordinary Shares

As the consideration payable to Ordinary Shareholders under the Ordinary Share Scheme consists of New Bendigo Bank Ordinary Shares, the value of the consideration received by Ordinary Shareholders in connection with the Merger will be dependent on the price at which New Bendigo Bank Ordinary Shares trade once the Merger is implemented. The value of New Bendigo Bank Ordinary Shares will be exposed to the normal risks associated with share ownership and the Merged Group's exposure to the Australian financial services industry.

Ordinary Shareholders should note that there is no cash alternative available under the Ordinary Share Scheme.

Please refer to Section 20 for further information regarding risks relating to New Bendigo Bank Ordinary Shares and the Merged Group.

(c) Uncertainty in the movement of Bendigo Bank share price prior to Implementation Date

The share price of Bendigo Bank can fluctuate up or down depending on market conditions and other relevant factors affecting equity markets, many of which are beyond the control of Bendigo Bank.

Accordingly, the value of the consideration which Ordinary Shareholders will receive from Bendigo Bank under the Ordinary Share Scheme could change (up or down) between the date of this Scheme Book and the Implementation Date when Ordinary Shareholders will receive the New Bendigo Bank Ordinary Shares. Refer to Section 18.7 for further information on historical market prices for Bendigo Bank Ordinary Shares.

(d) Integration risk

The success of the Merger and, in particular, the ability to realise the synergies outlined in Section 19.1(c), will be dependent, among other things, on Adelaide Bank and Bendigo Bank being integrated effectively, efficiently and in a timely manner, without material disruption to their businesses.

There is no guarantee that the Merged Group will be able to complete this integration successfully or that synergies will be realised in the amounts estimated or over the period contemplated or at the costs estimated in this Scheme Book. There is a risk that the Merged Group's future profitability and prospects could be adversely affected if integration is not completed successfully.

Please refer to Section 20.5 for further details regarding integration and other transaction risks.

(e) Possibility of a more attractive proposal

It is possible that a more attractive proposal for Ordinary Shareholders could emerge in the future. As at the date of this Scheme Book, Adelaide Bank Directors are not aware of any such proposal.

Ordinary Shareholders should be aware that Adelaide Bank has agreed in the Merger Implementation Agreement not to solicit any competing proposal or, except in limited circumstances, respond to any unsolicited competing proposal. Further information in relation to Adelaide Bank's 'no shop' and 'no talk' restrictions is set out in Section 6.8.

(f) Taxation

If the Ordinary Share Scheme is implemented, it may result in taxation consequences for some Ordinary Shareholders arising earlier than would otherwise have been the case. The general Australian tax consequences of the Merger for Ordinary Shareholders who are Australian residents for tax purposes are contained in Section 21. Ordinary Shareholders should consider the tax consequences of the Merger in view of their own particular circumstances and seek advice from their tax adviser.

²⁴ Based on 108, 316, 569 Adelaide Bank Ordinary Shares and 145, 192, 294 Bendigo Bank Ordinary Shares outstanding on the last trading day before the date of this Scheme Book. The exact percentage ownership of the Merged Group will of course be impacted by any share issues by Adelaide Bank and Bendigo Bank prior to the Implementation Date. However, the anticipated share issues before that date are not expected to have a material impact on this relative pro forma ownership.

3.4 Other relevant considerations

(a) Risk factors

Refer to the risk factors associated with investing in the Merged Group as set out in Section 20.

(b) Conditions of Merger

The Ordinary Share Scheme is subject to various conditions. Full details of these conditions are provided in Section 6.2. As at the date of this Scheme Book, neither Adelaide Bank nor Bendigo Bank is aware of any circumstances which would cause the outstanding conditions not to be satisfied.

(c) Change in nature of Ordinary Shareholders' investment

The Merger will alter the nature of Ordinary Shareholders' investment, with an increase in exposure to retail and community banking and a reduction in exposure to wholesale banking.

(d) Retention of final dividend for the financial year ended 30 June 2007

The Merger will not affect the entitlement of Ordinary Shareholders to the fully franked final dividend of \$0.36 per Adelaide Bank Ordinary Share for the financial year ended 30 June 2007. The dividend is expected to be paid on 15 October 2007.

(e) Capital gains tax rollover relief

By receiving New Bendigo Bank Ordinary Shares under the Ordinary Share Scheme, Ordinary Shareholders who hold Adelaide Bank Ordinary Shares on capital account should be entitled to capital gains tax rollover relief. See Section 21 for a general overview of the Australian taxation implications of the Ordinary Share Scheme.

(f) Break fees

Each of Adelaide Bank and Bendigo Bank has agreed to pay a break fee of \$15 million (exclusive of GST) in certain circumstances. Please refer to the summary of the break fee arrangements set out in Section 6.9. A copy of the Merger Implementation Agreement (excluding annexures) is set out in Appendix I.

(g) Adelaide Bank representation on Merged Group Board

(i) Chairman, Deputy Chairman and executive directors

The current Chairman of Bendigo Bank, Robert Johanson, will continue as Chairman and Kevin G Osborn, currently a non-executive director of Adelaide Bank, will become Deputy Chairman. The current Managing Director of Bendigo Bank, Rob Hunt, will be the Managing Director of the Merged Group until his announced retirement in July 2009. Jamie McPhee, currently Group Managing Director of Adelaide Bank, will be appointed to the Merged Group Board as an executive director and be responsible for wholesale banking services of the Merged Group. With Mr Hunt's retirement in July 2009, this will place Mr McPhee in an excellent position to succeed Mr Hunt.

(ii) Additional non-executive directors

Subject to receiving shareholder approval at Bendigo Bank's annual general meeting on 29 October 2007 to amend Bendigo Bank's constitution to increase the size of its board, the Merged Group Board will consist of an additional five non-executive directors from the existing Bendigo Bank Board (nominated by Bendigo Bank) and an additional three non-executive directors from the existing Adelaide Bank Board (nominated by Adelaide Bank).

If the Bendigo Bank constitution is not amended, Bendigo Bank will be able to instead nominate only an additional four non-executive directors and Adelaide Bank only an additional two non-executive directors.

The proposed board structure of the Merged Group ensures the continued representation of existing Adelaide Bank shareholders and Bendigo Bank shareholders on the Merged Group Board.

Please refer to Section 19.3 for further details.

(h) Merged Group dividends

Over the last three years, Bendigo Bank has maintained a dividend policy of paying approximately 70% of cash earnings per share as fully franked dividends to ordinary shareholders. The Merged Group intends to continue to adopt a similar dividend payout policy.

Payment of dividends in accordance with this policy will be dependent on a number of factors, including the Merged Group's profitability, the availability of franking credits and the funding requirements and general financial position of the Merged Group, which in turn may be affected by trading and general economic conditions. Dividend policy will be a decision for the Merged Group Board from time to time, taking into account these and other appropriate factors. Accordingly, no assurance is given as to the timing, extent and payment of dividends or the extent to which dividends will be franked.

Ordinary Shareholders should note that Adelaide Bank's present policy is to pay 70% of normalised net cash profit after tax as fully franked dividends.

(i) All or nothing proposal

If the Ordinary Share Scheme is implemented, the Ordinary Share Scheme will bind all Ordinary Scheme Shareholders, including those who do not vote at the Ordinary Share Scheme Meeting and those who vote against the Ordinary Share Scheme, meaning that all Ordinary Scheme Shareholders will receive the Scheme Consideration.

Conversely, if the Ordinary Share Scheme is not implemented, Ordinary Shareholders will retain their Adelaide Bank Ordinary Shares and will not receive New Bendigo Bank Ordinary Shares. The potential advantages of the Merger, as outlined in Section 3.2, will not be realised. However, some of the potential disadvantages of the Merger identified in Section 3.3 will not arise.

Part A | Section 4

How to vote

4.1 Ordinary Share Scheme Meeting

The Ordinary Share Scheme is subject to approval by Ordinary Shareholders at the Ordinary Share Scheme Meeting.

The Ordinary Share Scheme Meeting has been convened for 9.30am on 12 November 2007 at Adelaide Convention Centre, North Terrace, Adelaide, SA.

At the Ordinary Share Scheme Meeting, Ordinary Shareholders will be asked to consider and, if thought fit, pass the following resolution:

That pursuant to and in accordance with section 411 of the Corporations Act, the scheme of arrangement proposed to be entered into between Adelaide Bank and its Ordinary Shareholders, as more particularly set out in the Scheme Book of which this notice of meeting forms part, is approved (with or without modification as approved by the Court).

In order for the resolution to be passed, it must be approved by a majority (i.e. greater than 50%) in number of Ordinary Shareholders present and voting on the resolution (in person or by proxy, attorney or, in the case of corporate Ordinary Shareholders, by a corporate representative). In addition, those Ordinary Shareholders who vote in favour must cast at least 75% of the total number of votes cast by Ordinary Shareholders on the resolution (in person or by proxy, attorney or, in the case of corporate Ordinary Shareholders, by a corporate representative).

Voting at the Ordinary Share Scheme Meeting will be by poll.

4.2 Adelaide Bank Directors' recommendation

The Adelaide Bank Directors unanimously recommend that you vote in favour of the Ordinary Share Scheme, in the absence of a superior proposal. See Section 3.2 for the reasons for this recommendation.

4.3 Entitlement to vote

All Ordinary Shareholders as at 12.00 midday on 11 November 2007 will be entitled to vote at the Ordinary Share Scheme Meeting.

4.4 How to vote

You may vote in person at the Ordinary Share Scheme Meeting or by proxy or attorney.

A corporate shareholder or corporate proxy may vote by corporate representative appointed pursuant to section 250D of the Corporations Act.

All persons attending the Ordinary Share Scheme Meeting must disclose their name at the point of entry to the meeting. All persons entitled to vote at the meeting will then be given a voting card and admitted to the Ordinary Share Scheme Meeting.

Further details are set out below.

(a) Voting in person

To vote in person, you must attend the meeting commencing at 9.30am on 12 November 2007 at Adelaide Convention Centre, North Terrace, Adelaide, SA.

(b) Voting by proxy

If you cannot attend the Ordinary Share Scheme Meeting, you may vote by proxy. A proxy need not be a shareholder in Adelaide Bank.

You may appoint a proxy by completing the blue proxy form accompanying this Scheme Book. A proxy form can also be requested by contacting the Adelaide Bank Registry.

If you are entitled to cast two or more votes, you may appoint up to two proxies. If you wish to appoint two proxies, please refer to the back of the proxy form for instructions.

Appointing a proxy will not preclude you from attending the meeting in person and voting at the meeting instead of your proxy.

The proxy form and, if applicable, the power of attorney under which it is signed or a certified copy of that power of attorney, must be:

- posted to Computershare Investor Services Pty Limited in the reply paid envelope provided or, if you are outside of Australia or do not otherwise use the reply paid envelope, to GPO Box 242, Melbourne VIC 3001;
- delivered to Computershare Investor Services Pty Limited at Level 5, 115 Grenfell Street, Adelaide SA 5000;
- successfully transmitted by facsimile to (08) 8236 2305 (international +618 8236 2305); or
- posted, delivered or successfully transmitted by facsimile to the registered office of Adelaide Bank,

so that it is received by no later than 12.00 midday on 10 November 2007.

(c) Voting by attorney

Alternatively, if you cannot attend the Ordinary Share Scheme Meeting, you may vote by attorney. An attorney need not be a shareholder in Adelaide Bank.

If you are entitled to cast two or more votes, you may appoint up to two attorneys.

The instrument appointing an attorney, or a copy of that instrument certified as a true copy, must be:

- posted to Computershare Investor Services Pty Limited in the reply paid envelope provided or, if you are outside of Australia or do not otherwise use the reply paid envelope, to GPO Box 242, Melbourne VIC 3001;
- delivered to Computershare Investor Services Pty Limited at Level 5, 115 Grenfell Street, Adelaide SA 5000;
- successfully transmitted by facsimile to (08) 8236 2305 (international +618 8236 2305); or
- posted, delivered or successfully transmitted by facsimile to the registered office of Adelaide Bank,

so that it is received by no later than 12.00 midday on 10 November 2007.

(d) Voting by corporate representative

If a representative of a corporate shareholder or corporate proxy is to attend the Ordinary Share Scheme Meeting pursuant to section 250D of the Corporations Act, a certificate of appointment of the representative (or such other document as the Chairman of the Ordinary Share Scheme Meeting considers sufficient) should be produced prior to admission to the meeting. A form of certificate can be obtained from the Adelaide Bank Registry.

Part A | Section 5

Information regarding New Bendigo Bank Ordinary Shares

The New Bendigo Bank Ordinary Shares to be issued as consideration pursuant to the Ordinary Share Scheme will be issued fully paid and, from the date of their issue, will rank equally with existing Bendigo Bank Ordinary Shares.

Within seven days after the date of this Scheme Book, an application will be made by Bendigo Bank to ASX for the granting of official quotation of the New Bendigo Bank Ordinary Shares to be issued pursuant to the Ordinary Share Scheme. Quotation is not guaranteed or automatic on such application, but quotation is expected in the ordinary course as Bendigo Bank is already admitted to the official list of ASX.

It is expected that the New Bendigo Bank Ordinary Shares will commence trading on ASX, initially on a deferred settlement basis, on 21 November 2007. It is the responsibility of each Ordinary Shareholder to determine their entitlement to New Bendigo Bank Ordinary Shares under the Ordinary Share Scheme before trading those shares to avoid the risk of selling shares that they do not own.

Trading of the New Bendigo Bank Ordinary Shares on a normal settlement basis is expected to commence on 5 December 2007.

5.1 Bendigo Bank's capital structure

As at the date of this Scheme Book, Bendigo Bank's issued share capital is as follows:

- 145,192,294 Bendigo Bank Ordinary Shares; and
- 900,000 Bendigo Bank Preference Shares.

Apart from 178,769 rights and 1,057,114 options and offers as contemplated by the Bendigo Bank employee incentive schemes (please refer to Section 27.4 for further details), there are no other Bendigo Bank options, rights, shares, convertible instruments or other equity securities (or offers or agreements to issue any of the foregoing). In relation to Bendigo Bank's employee incentive schemes, Bendigo Bank is intending to make offers later this year of approximately 250,000 Bendigo Bank Ordinary Shares to employees of Community Bank® companies. The shares must be paid for by employees but employees will be provided with an interest free loan for the sole purpose of acquiring the shares. Refer to Section 27.4(a) for further information on Bendigo Bank's employee incentive schemes.

5.2 Rights and obligations attaching to New Bendigo Bank Ordinary Shares

Set out below is a summary of the rights attaching to New Bendigo Bank Ordinary Shares. This summary does not purport to be exhaustive or to constitute a definitive statement of the rights and liabilities of ordinary shareholders of Bendigo Bank, which can involve complex questions of law arising from the interaction of Bendigo Bank's constitution, statutory law, common law and ASX Listing Rule requirements.

A copy of Bendigo Bank's constitution is available for inspection through Bendigo Bank's website at www.bendigobank.com.au.

(a) Share capital

Subject to Bendigo Bank's constitution, the Corporations Act and ASX Listing Rules and to any special rights conferred on the holders of any shares:

- all unissued shares are under the control of the Bendigo Bank Board which may grant options on the shares, issue or otherwise dispose of the shares on terms and conditions and for the consideration it thinks fit; and
- any shares or other securities may be issued with preferred, deferred or other special rights, obligations or restrictions, whether in regard to dividends, voting, return of share capital, payment of calls or otherwise, as the Bendigo Bank Board may determine and on any terms the Bendigo Bank Board considers appropriate.

(b) General meetings and notices

Subject to the Corporations Act and ASX Listing Rules, each holder of Bendigo Bank Ordinary Shares is entitled to receive notice of, and to attend and vote at, general meetings of Bendigo Bank and to receive all notices, accounts and other documents required to be sent to shareholders under Bendigo Bank's constitution, the Corporations Act or ASX Listing Rules. Bendigo Bank may give notice to any shareholder personally by leaving it at the shareholder's registered address or by sending it by prepaid post or facsimile transmission addressed to the shareholder's registered address or, in any case, by other electronic means determined by the Bendigo Bank Board.

(c) Voting

At a general meeting, subject to a number of specified exceptions, on a show of hands each holder of Bendigo Bank Ordinary Shares present in person or by proxy, attorney or duly appointed representative, has one vote.

On a poll, each holder of Bendigo Bank Ordinary Shares has:

- one vote for each fully paid Bendigo Bank Ordinary Share held; and
- for each other Bendigo Bank Ordinary Share held, a vote in respect of the share which carries the same proportionate value as the proportion of the amount paid up (not credited), or agreed to be considered as paid up on the total issue price of that share at the time that the poll is taken, bears to the total issue price of the share (excluding amounts received).

In the case of an equality of votes, the Chairman has, on both a show of hands and at a poll, a casting vote in addition to the vote to which the Chairman may be entitled as a shareholder, proxy, attorney or duly appointed representative of a shareholder.

(d) Dividends

The Bendigo Bank Board may declare a dividend to be paid to the shareholders entitled. Subject to the Corporations Act and the rights of, or any restrictions on, the holders of shares created or raised under any special arrangement as to dividends, dividends are payable on each Bendigo Bank Ordinary Share on the basis of the proportion which the amount paid is of the total amounts paid (not credited), agreed to be considered to be paid or payable (excluding amounts credited) on the share. When declaring a dividend, the Bendigo Bank Board may determine that payment of the dividend be effected wholly or in part by the distribution of specific assets or documents of title and in particular by the issue or transfer of paid up shares, debentures, debenture stock or grant of options of Bendigo Bank or any other corporation.

The Bendigo Bank Board may establish and maintain one or more dividend plans under which shareholders may, among other alternatives, elect with respect to some or all of their shares to reinvest the dividend by subscribing for shares in Bendigo Bank.

(e) Transfer of Bendigo Bank Ordinary Shares

Bendigo Bank Ordinary Shares, when quoted on ASX, are transferable by:

- a written transfer in the usual or common form or in any form the Bendigo Bank Board may prescribe or in a particular case accept, duly stamped (if necessary) being delivered to Bendigo Bank;
- a proper transfer, which is to be in the form required or permitted by the Corporations Act or the settlement rules of ASX Settlement and Transfer Corporation Pty Limited; or
- any other electronic system established or recognised by ASX Listing Rules in which Bendigo Bank participates in accordance with the rules of that system.

The Bendigo Bank Board may, subject to the requirements of the Corporations Act and ASX Listing Rules, refuse to register any transfer of shares in Bendigo Bank if the registration would infringe an applicable law or ASX Listing Rules, or if the transfer concerns securities over which Bendigo Bank has a lien, or if it is permitted to do so under ASX Listing Rules.

(f) Winding up

If Bendigo Bank is wound up, the liquidator may divide among all or any of the contributories as the liquidator thinks fit, in specie or in kind, any part of the assets of the company and may vest any part of the assets of the company in trustees on any trusts for the benefit of all or any of the contributories as the liquidator thinks fit. Depositors and other creditors will be paid out in priority to Bendigo Bank shareholders. Any surplus available will be distributed among shareholders in accordance with the Corporations Act.

(g) Number of directors

The Bendigo Bank constitution provides that the Bendigo Bank Board may determine the number of Bendigo Bank Directors, but the number must not be less than three or more than 10. It is proposed to seek shareholder approval at Bendigo Bank's annual general meeting on 29 October 2007 to amend Bendigo Bank's constitution, to increase the maximum number of directors to 12.

(h) Bendigo Bank Preference Shares

Bendigo Bank currently has 900,000 Bendigo Bank Preference Shares on issue with a face value of \$100 per share and will offer New Bendigo Bank Step Up Preference Shares and New Bendigo Bank Reset Preference Shares under the Step Up Preference Share Scheme and the Reset Preference Share Scheme respectively.

For the payment of dividends, including any accrued dividends, Bendigo Bank Ordinary Shares will rank behind the Merged Group's other share capital (being the Bendigo Bank Preference Shares, the New Bendigo Bank Step Up Preference Shares and the New Bendigo Bank Reset Preference Shares).

In a winding up or liquidation, Bendigo Bank Ordinary Shares will rank behind the Merged Group's other share capital as well as all depositors and creditors of the Merged Group.

5.3 Substantial shareholders

As at the date preceding the date of this Scheme Book, Bendigo Bank has no shareholder with voting power (as defined in the Corporations Act) of at least 5% of its issued voting shares.

Implementation of the Ordinary Share Scheme

6.1 Steps in implementing the Ordinary Share Scheme

(a) Execution of Merger Implementation Agreement

On 9 August 2007, Adelaide Bank and Bendigo Bank entered into the Merger Implementation Agreement under which Adelaide Bank agreed to propose the Ordinary Share Scheme to its Ordinary Shareholders and Adelaide Bank and Bendigo Bank agreed to take all steps reasonably necessary to implement the Ordinary Share Scheme.

A copy of the Merger Implementation Agreement (excluding annexures) is set out in Appendix 1.

(b) Completion of due diligence

On Tuesday 4 September 2007, Adelaide Bank and Bendigo Bank announced to ASX that they had satisfactorily completed their respective post announcement due diligence enquiries.

(c) Execution of Deed Poll by Bendigo Bank

On 3 October 2007, Bendigo Bank executed the Deed Poll pursuant to which Bendigo Bank agrees, subject to the Ordinary Share Scheme becoming Effective, to provide to each Ordinary Scheme Shareholder the Scheme Consideration to which that Ordinary Scheme Shareholder is entitled under the Ordinary Share Scheme. A copy of the Deed Poll is included in Appendix 5.

(d) Ordinary Share Scheme Meeting

On 5 October 2007, the Court ordered that Adelaide Bank convene the Ordinary Share Scheme Meeting at 9:30am on 12 November 2007 at Adelaide Convention Centre, North Terrace, Adelaide, SA for the purpose of Ordinary Shareholders considering and, if thought fit, approving the Ordinary Share Scheme.

For the Ordinary Share Scheme to proceed, a resolution in favour of the Ordinary Share Scheme must be passed at the Ordinary Share Scheme Meeting by:

- a majority (i.e. more than 50%) in number of Ordinary Shareholders present and voting on the resolution (either in person or by proxy, attorney or, in the case of a corporate Ordinary Shareholder, by a corporate representative); and
- at least 75% of the total number of votes cast on the resolution by Ordinary Shareholders (in person or by proxy, attorney or, in the case of a corporate Ordinary Shareholder, by a corporate representative).

The vote will be conducted by poll.

(e) Court order approving the Ordinary Share Scheme

In order to become Effective, the Ordinary Share Scheme must be approved by the Court. Adelaide Bank will apply to the Court for an order approving the Ordinary Share Scheme if the Ordinary Share Scheme is approved by the requisite majorities of Ordinary Shareholders voting at the Ordinary Share Scheme Meeting and all conditions to the Ordinary Share Scheme referred to in Section 6.2 below have been satisfied or waived.

The Court may refuse to approve the Ordinary Share Scheme, even if the Ordinary Share Scheme is approved by the requisite majorities of Ordinary Shareholders.

(f) Implementation of the Ordinary Share Scheme

If the Court approves the Ordinary Share Scheme, Adelaide Bank will lodge a copy of the Court's orders with ASIC. The Ordinary Share Scheme will become Effective on the date this occurs.

If the Ordinary Share Scheme becomes Effective, it will be implemented on the Implementation Date, being the eighth Business Day after the date on which the Ordinary Share Scheme becomes Effective. On that date:

- all of the Adelaide Bank Ordinary Shares will be transferred to Bendigo Bank without the need for any further act by any Ordinary Shareholder; and
- Bendigo Bank will provide the Scheme Consideration to the Ordinary Scheme Shareholders.

(g) Suspension of trading in Adelaide Bank Ordinary Shares and removal from official quotation

If the Court approves the Ordinary Share Scheme, Adelaide Bank intends to notify ASX of the Court approval on the date on which Court approval is obtained. It is expected that trading in Adelaide Bank Ordinary Shares on ASX will be suspended from the close of trading on that date.

Following the Implementation Date, Adelaide Bank will request ASX to end official quotation of Adelaide Bank Ordinary Shares.

(h) Change of name for the Merged Group

Bendigo Bank intends to change its name to 'Bendigo and Adelaide Bank Limited' if the Ordinary Share Scheme is implemented. Accordingly, a resolution to give effect to this name change would be proposed at an extraordinary general meeting to be held within two months after the implementation of the Ordinary Share Scheme.

(i) Appointment of Adelaide Bank nominees to the Merged Group Board

As soon as practicable following implementation of the Merger, the Merged Group Board will be reconstituted in the manner described in Section 19.3.

6.2 Conditions precedent

The Ordinary Share Scheme will not proceed unless all of the conditions precedent set out in clause 3.1 of the Merger Implementation Agreement are satisfied or, where applicable, have been waived in accordance with the Merger Implementation Agreement. In summary, the conditions precedent are as follows:

(a) Conditions for the benefit of both Adelaide Bank and Bendigo Bank

The following conditions precedent were included in the Merger Implementation Agreement for the benefit of both Adelaide Bank and Bendigo Bank. Waiver of any breach or non-fulfilment of any of these conditions requires the agreement in writing of both Adelaide Bank and Bendigo Bank:

- ACCC: before 8.00am on the Second Court Date, the ACCC:
 - indicates that it does not intend to oppose the Merger;
 - indicates that it does not intend to oppose the Merger subject to the receipt of undertakings acceptable to both Adelaide Bank and Bendigo Bank (and Bendigo Bank and Adelaide Bank agree that their consent to give such undertakings cannot be unreasonably withheld); or
 - has not commenced, or threatened to commence, proceedings in respect of the Merger;

- other regulatory approvals: before 8.00am on the Second Court Date, all other approvals, consents, modifications or waivers of a Governmental Agency which are reasonably necessary to implement the Ordinary Share Scheme are obtained;
- New Bendigo Bank Ordinary Shares quotation approval: before 8.00am on the Second Court Date, ASX provides approval for the official quotation of the New Bendigo Bank Ordinary Shares, subject to any conditions which ASX may reasonably require, including implementation of the Ordinary Share Scheme;
- no restraints: no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing any aspect of the Ordinary Share Scheme is in effect as at 8.00am on the Second Court Date; and
- Independent Expert: before the date on which the Scheme Book is lodged with ASIC, the Independent Expert gives a report to Adelaide Bank that in its opinion the Ordinary Share Scheme is in the best interests of Ordinary Shareholders.

(b) Conditions for the benefit of Adelaide Bank only

The following conditions were included in the Merger Implementation Agreement for the sole benefit of Adelaide Bank. Only Adelaide Bank can waive any breach or non-fulfilment of these conditions:

- Bendigo Bank Regulated Event: no Bendigo Bank Regulated Event (as defined in the Merger Implementation Agreement) occurs between the date of the Merger Implementation Agreement and 8.00am on the Second Court Date;
- Bendigo Bank Material Adverse Change: no Bendigo Bank Material Adverse Change (as defined in the Merger Implementation Agreement) occurs or becomes known to Adelaide Bank between the date of the Merger Implementation Agreement and 8.00am on the Second Court Date; and

- Bendigo Bank representations, warranties and undertakings: the representations and warranties of Bendigo Bank set out in clause 6.2 of the Merger Implementation Agreement are true and correct in all material respects as at the date of the Merger Implementation Agreement and as at 8.00am on the Second Court Date and the undertakings in that clause have been complied with.

(c) Conditions for the benefit of Bendigo Bank only

The following conditions were included in the Merger Implementation Agreement for the sole benefit of Bendigo Bank. Only Bendigo Bank can waive any breach or non-fulfilment of these conditions:

- Adelaide Bank Regulated Event: no Adelaide Bank Regulated Event (as defined in the Merger Implementation Agreement) occurs between the date of the Merger Implementation Agreement and 8.00am on the Second Court Date;
- Adelaide Bank Material Adverse Change: no Adelaide Bank Material Adverse Change (as defined in the Merger Implementation Agreement) occurs or becomes known to Bendigo Bank between the date of the Merger Implementation Agreement and 8.00am on the Second Court Date; and
- Adelaide Bank representations, warranties and undertakings: the representations and warranties of Adelaide Bank set out in clause 6.1 of the Merger Implementation Agreement are true and correct in all material respects as at the date of the Merger Implementation Agreement and as at 8.00am on the Second Court Date and the undertakings in that clause have been complied with.

(d) Conditions that cannot be waived

The following conditions were included in the Merger Implementation Agreement for the benefit of both Adelaide Bank and Bendigo Bank. Neither Adelaide Bank nor Bendigo Bank may waive any breach or non-fulfilment of any of these conditions:

- Commonwealth Treasurer:
 - under the Financial Sector (Shareholdings) Act, the Treasurer of the Commonwealth of Australia approves Bendigo Bank holding a 'stake' (as therein defined) in Adelaide Bank of 100% and, if such approval is subject to conditions, those conditions are acceptable to Adelaide Bank and Bendigo Bank; and
 - under the Banking Act, the Treasurer of the Commonwealth of Australia has given prior written consent to Adelaide Bank in relation to the Ordinary Share Scheme and, if such consent is subject to conditions, those conditions are acceptable to Bendigo Bank and Adelaide Bank; and
- shareholder approval: the Ordinary Share Scheme is approved by the requisite majorities of Ordinary Shareholders.

6.3 Status of conditions precedent

As at the date of this Scheme Book, the following conditions precedent have been satisfied:

- ACCC: on 10 September 2007 the ACCC confirmed in writing that it does not intend to oppose the Merger; and
- Independent Expert: the Independent Expert has given a report to Adelaide Bank that in its opinion the Ordinary Share Scheme is in the best interests of Ordinary Shareholders (see Section 23 for a copy of the report).

If any of the remaining conditions are not satisfied or waived before 8.00am on the Second Court Date, Adelaide Bank and Bendigo Bank will consult in good faith with a view to determining whether:

- the Ordinary Share Scheme may proceed by way of alternative means or methods;
- to extend the relevant time or date for satisfaction of the condition;
- to change the date of the Second Court Hearing; or
- to extend the End Date (as currently defined in the Merger Implementation Agreement to mean 29 February 2008 or such later date as Adelaide Bank and Bendigo Bank may agree in writing).

If Adelaide Bank and Bendigo Bank are unable to reach agreement, within the Required Consultation Period (as defined in the Merger Implementation Agreement), either of them may, provided the condition is for their benefit, terminate the Merger Implementation Agreement.

As at the date of lodgement of this Scheme Book with ASIC for registration, neither Adelaide Bank nor Bendigo Bank is aware of any circumstances which would cause the outstanding conditions not to be satisfied or waived.

6.4 Scheme Consideration

Subject to arrangements for Ineligible Foreign Shareholders (which are summarised in Section 6.6), Bendigo Bank will issue on the Implementation Date 1.075 New Bendigo Bank Ordinary Shares²⁵ for each Adelaide Bank Ordinary Share held by an Ordinary Scheme Shareholder as at the Scheme Record Date.

This exchange ratio was agreed through arm's length negotiations between Adelaide Bank and Bendigo Bank.

In the case of joint holders, the New Bendigo Bank Ordinary Shares will be issued to and registered in the name of the joint holders.

The Scheme Record Date is expected to be 6.30pm on 27 November 2007 and the Implementation Date is expected to be 30 November 2007. These dates may change and will be finalised only after the Court has considered and approved the Ordinary Share Scheme. Any changes to these dates will be announced to ASX and notified on Adelaide Bank's website at www.adelaidebank.com.au.

If the number of Adelaide Bank Ordinary Shares held by an Ordinary Scheme Shareholder is such that the aggregate entitlement of that Ordinary Scheme Shareholder to New Bendigo Bank Ordinary Shares under the Ordinary Share Scheme is not a whole number, then the entitlement will (subject to the share splitting provisions in clause 5.2(b) of the Ordinary Share Scheme) be rounded up or down to the nearest whole number, with fractions of 0.5 or more being rounded up and fractions of less than 0.5 being rounded down.

6.5 Determination of persons entitled to Scheme Consideration

Ordinary Shareholders whose names appear on the Adelaide Bank Register as at the Scheme Record Date, i.e. at 6.30pm on 27 November 2007, will be entitled to receive the Scheme Consideration under the Ordinary Share Scheme.

6.6 Foreign shareholders

(a) General

Restrictions in certain foreign countries may make it impractical or unlawful for Bendigo Bank to offer or issue New Bendigo Bank Ordinary Shares to Ordinary Shareholders located in those countries, or for Ordinary Shareholders located in those countries to receive New Bendigo Bank Ordinary Shares under the Ordinary Share Scheme.

Any Ordinary Shareholder whose address in the Adelaide Bank Register at the Scheme Record Date is outside of Australia and its external territories and New Zealand is a Foreign Ordinary Shareholder.

A Foreign Ordinary Shareholder will be classified as an Ineligible Foreign Ordinary Shareholder unless Bendigo Bank is satisfied, acting reasonably, that:

- it is lawful, under any one or more relevant jurisdictions, and not unduly onerous to issue a Foreign Ordinary Shareholder with the Scheme Consideration when the Ordinary Share Scheme becomes Effective; and
- it is lawful, under any one or more relevant jurisdictions, for that Foreign Ordinary Shareholder to participate in the Ordinary Share Scheme.

²⁵ Subject to rounding.

Bendigo Bank is not obliged to (and will not) issue any New Bendigo Bank Ordinary Shares to any Ineligible Foreign Ordinary Shareholder under the Ordinary Share Scheme. Instead, on the Implementation Date Bendigo Bank must issue to a Nominee (appointed by Bendigo Bank and approved by Adelaide Bank) the New Bendigo Bank Ordinary Shares to which that Ineligible Foreign Ordinary Shareholder would otherwise, but for these arrangements, be entitled to receive.

Bendigo Bank will procure that:

- within 15 Business Days after the Implementation Date, the Nominee offers for sale on the stock market operated by ASX all of the New Bendigo Bank Ordinary Shares issued to the Nominee under the Ordinary Share Scheme in such manner, at such price and on such other terms (and at the risk of the Ineligible Foreign Ordinary Shareholders) as the Nominee determines in its absolute discretion; and
- promptly after the last sale, each Ineligible Foreign Ordinary Shareholder is paid such fraction of the proceeds of sale (after deduction of reasonable fees of the Nominee, brokerage, taxes and other reasonable costs of sale) as is equal to the number of New Bendigo Bank Ordinary Shares which would have otherwise been issued to the Ineligible Foreign Ordinary Shareholder under the Ordinary Share Scheme divided by the total number of New Bendigo Bank Ordinary Shares issued to the Nominee under the Ordinary Share Scheme.

Payment will be made by cheque in Australian currency drawn on an Australian bank and sent to the address of the Ineligible Foreign Ordinary Shareholder as noted in the Adelaide Bank Register. Payment made in this way will be in full satisfaction of Bendigo Bank's obligations to the Ineligible Foreign Ordinary Shareholder under the Ordinary Share Scheme.

Each Ineligible Foreign Ordinary Shareholder appoints Adelaide Bank as its agent to receive on its behalf any financial services guide or other notices (including any updates of those documents) that the Nominee is required to provide to Ineligible Foreign Ordinary Shareholders under the Corporations Act.

None of Adelaide Bank, Bendigo Bank or the Nominee gives any assurance as to the price that will be achieved for the sale of the New Bendigo Bank Ordinary Shares by the Nominee.

(b) Ordinary Shareholders resident in New Zealand

The New Bendigo Bank Ordinary Shares to be issued under the Ordinary Share Scheme will be issued to New Zealand Ordinary Shareholders in accordance with the *Securities Act 1978* and the *Securities Act (Overseas Companies) Exemption Notice 2002*. This Scheme Book is not a prospectus or an investment statement under New Zealand law and may not contain all the information that a prospectus or investment statement under New Zealand law is required to contain.

The issue of New Bendigo Bank Ordinary Shares will be done in the manner specified in this Scheme Book, as prescribed by the laws of Australia and by the Deed Poll entered into by Bendigo Bank. Bendigo Bank may not be subject in all respects to New Zealand law and the obligations in the Deed Poll entered into by Bendigo Bank concerning the issue of New Bendigo Bank Ordinary Shares may not be enforceable in New Zealand courts.

In addition to the other risk factors specified in Section 20, investing in New Bendigo Bank Ordinary Shares may involve currency risk for New Zealand investors and will have Australian and New Zealand tax implications which are not set out in Section 21. New Zealand investors should seek their own advice and satisfy themselves as to the Australian and New Zealand tax implications of participating in the Ordinary Share Scheme.

For the purposes of the *Securities Act (Overseas Companies) Exemption Notice 2002*, Bendigo Bank is not, and will not be, listed on the New Zealand Stock Exchange, and investors may not have access to information in the same way as they would if it were so listed. Similarly, Adelaide Bank is not currently listed on the New Zealand Stock Exchange.

6.7 Warranties by Ordinary Shareholders

The Ordinary Share Scheme provides that each Ordinary Scheme Shareholder is deemed to have warranted to Bendigo Bank, and appointed and authorised Adelaide Bank as its attorney and agent to warrant to Bendigo Bank, that:

- their Adelaide Bank Ordinary Shares will, at the date of transfer of them to Bendigo Bank, be fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, including any restrictions on transfer; and
- they have full power and capacity to sell and to transfer their Adelaide Bank Ordinary Shares to Bendigo Bank under the Ordinary Share Scheme.

6.8 Exclusivity arrangements

The Merger Implementation Agreement contains 'no shop', 'no talk' and 'no due diligence' restrictions. These restrictions apply to both Adelaide Bank and Bendigo Bank from the date of the Merger Implementation Agreement until the first to occur of:

- the termination of the Merger Implementation Agreement;
- the Implementation Date; and
- 29 February 2008, or such later date as Adelaide Bank and Bendigo Bank may agree in writing,

(Exclusivity Period).

Under the 'no shop' restrictions, during the Exclusivity Period, each of Adelaide Bank and Bendigo Bank must ensure that neither it, nor any of its representatives, directly or indirectly solicits, invites, facilitates or encourages, or communicates any intention to do any of these things, with a view to obtaining any offer or proposal from any person in relation to a Competing Proposal.

Under the 'no talk' restrictions, during the Exclusivity Period, each party must ensure that neither it, nor any of its representatives, negotiates or enters into, continues or participates in negotiations or discussions with any other person regarding a Competing Proposal, even if:

- that person's Competing Proposal was not directly or indirectly solicited, initiated, facilitated or encouraged by it or any of its representatives; or
- that person has publicly announced their Competing Proposal.

Under the 'no due diligence' restriction, during the Exclusivity Period, neither Adelaide Bank nor Bendigo Bank may, without the other's prior written consent:

- solicit, invite, facilitate or encourage any party to undertake due diligence investigations on it or any of its related bodies corporate; or
- make available to any person or permit any such person to receive any non-public information relating to it or any of its related bodies corporate in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal for it.

In addition, during the Exclusivity Period, each of Adelaide Bank and Bendigo Bank must immediately notify the other if it is approached by any person to engage in any activity that would breach the 'no talk' or 'no due diligence' restrictions.

However, the 'no talk' and 'no due diligence' restrictions and the notification obligation do not apply to the extent that they restrict a party or its board or representatives from taking any action in respect of a bona fide Competing Proposal which was not encouraged, solicited, invited, facilitated or initiated by the party in contravention of the 'no shop' restriction, or to the extent that they require a party to notify the other party of any approach, provided that the party's board has determined, in good faith and acting reasonably, that:

- the Competing Proposal is a Superior Proposal (as described below); or

- failing to respond in any way to that Competing Proposal or the consequences of providing notification to the other party would likely cause the party's directors to breach their fiduciary duty or other legal duties, after receiving written advice to that effect from their external lawyers.

The party relying on the exception must immediately send the other party notice to that effect.

For the purposes of the provisions summarised above:

Superior Proposal means, in relation to a party, a bona fide Competing Proposal for the party which the board of directors of the party determines, acting in good faith, and after having taken advice from its financial and legal advisers is capable of being valued and completed, taking into account all aspects of the Competing Proposal for the party and:

- in the case of Adelaide Bank – more favourable to Ordinary Shareholders than the Ordinary Share Scheme, taking into account all the terms and conditions of the Competing Proposal for Adelaide Bank; and
- in the case of Bendigo Bank – of greater benefit to the shareholders of Bendigo Bank than implementing the Ordinary Share Scheme, taking into account all the terms and conditions of the Competing Proposal for Bendigo Bank.

6.9 Break fee

Under the Merger Implementation Agreement, Adelaide Bank and Bendigo Bank acknowledge that, if the Ordinary Share Scheme is not implemented, both parties will incur significant costs.

In these circumstances, Adelaide Bank and Bendigo Bank have agreed that provision be made for the following payments.

Bendigo Bank has agreed to pay Adelaide Bank \$15 million (exclusive of GST) if:

- there is a material breach by Bendigo Bank of its obligations under the Merger Implementation Agreement;
- a Bendigo Bank Regulated Event occurs between the date of the Merger Implementation Agreement and 8.00am on the Second Court Date;

- a Bendigo Bank Material Adverse Change occurs or otherwise becomes known to Adelaide Bank between the date of the Merger Implementation Agreement and 8.00am on the Second Court Date (provided that no amount is payable if the risk or possibility of the Bendigo Bank Material Adverse Change was fairly disclosed to Adelaide Bank prior to the date of the Merger Implementation Agreement and the Bendigo Bank Material Adverse Change occurring on or after the date of the Merger Implementation Agreement was beyond the control of Bendigo Bank); or
- the Bendigo Bank Board recommends a Mutually Exclusive Competing Proposal for Bendigo Bank,

and the Merger Implementation Agreement is terminated in accordance with its terms prior to the Implementation Date.

A **Mutually Exclusive Competing Proposal** for Bendigo Bank is a Competing Proposal for Bendigo Bank which is conditional on the Ordinary Share Scheme not becoming effective or which requires Bendigo Bank to abandon the Merger with Adelaide Bank.

Adelaide Bank has agreed to pay Bendigo Bank \$15 million (exclusive of GST), if:

- (a) there is a material breach by Adelaide Bank of its obligations under the Merger Implementation Agreement;
- (b) an Adelaide Bank Regulated Event occurs between the date of the Merger Implementation Agreement and 8.00am on the Second Court Date;
- (c) an Adelaide Bank Material Adverse Change occurs or otherwise becomes known to Bendigo Bank between the date of the Merger Implementation Agreement and 8.00am on the Second Court Date (provided that no amount is payable if the risk or possibility of the Adelaide Bank Material Adverse Change was fairly disclosed to Bendigo Bank prior to the date of the Merger Implementation Agreement and the Adelaide Bank Material Adverse Change occurring on or after the date of the Merger Implementation Agreement was beyond the control of Adelaide Bank);

- (d) the Independent Expert:
- (i) gives a report to Adelaide Bank that in its opinion the Ordinary Share Scheme is not in the best interests of Ordinary Shareholders; or
 - (ii) having given a report to Adelaide Bank that in its opinion the Ordinary Share Scheme is in the best interests of Adelaide Bank Ordinary Shareholders, changes that opinion for any reason;
- (e) at any time before the end of the Scheme Meetings, any Adelaide Bank Director makes a public statement changing or withdrawing their support or recommendation of the Ordinary Share Scheme; or
- (f) at any time before the end of the Scheme Meetings, any Adelaide Bank Director recommends a Competing Proposal for Adelaide Bank,

and the Merger Implementation Agreement is terminated in accordance with its terms prior to the Implementation Date.

However, no amount is payable by Adelaide Bank to Bendigo Bank:

- under paragraphs (d) and (e), if no Competing Proposal for Adelaide Bank has been made, announced or proposed and the Independent Expert gives an opinion that the Ordinary Share Scheme is not in the best interests of the Ordinary Shareholders or having given an opinion that it is in the best interests, changes that opinion; or
- only because the holders of Adelaide Bank Ordinary Shares fail to pass, by the requisite majorities, the resolution to approve the Ordinary Share Scheme at the Ordinary Share Scheme Meeting, in circumstances where no Adelaide Bank Director has made a public statement changing or withdrawing their support or recommendation of the Ordinary Share Scheme or has recommended a Competing Proposal for Adelaide Bank.

6.10 Termination of the Merger Implementation Agreement

Either Adelaide Bank or Bendigo Bank may terminate the Merger Implementation Agreement at any time prior to the commencement of the Court hearing on the Second Court Date for any of the following reasons:

- the other party is in material breach of any clause of the Merger Implementation Agreement, taken in the context of the Ordinary Share Scheme as a whole, the non-defaulting party has given notice to the other party setting out the material breach and stating an intention to terminate the Merger Implementation Agreement and the material breach has continued to exist for five business days (as defined in ASX listing rules) (or any shorter period ending immediately prior to the commencement of the Court hearing on the Second Court Date) from the time the notice is given;
- any Adelaide Bank Director has changed or withdrawn their recommendation of the Ordinary Share Scheme;
- the Independent Expert, having given a report to Adelaide Bank that in its opinion the Ordinary Share Scheme is in the best interests of Ordinary Shareholders, changes that opinion for any reason;
- if the Court refuses to make any order convening the Ordinary Share Scheme Meeting and the party obtains an opinion from Queen's Counsel or Senior Counsel that an appeal against that decision would have no reasonable prospect of success;
- if a court or other Governmental Agency has issued a final and non-appealable order, decree or ruling or taken other action which permanently restrains or prohibits the Ordinary Share Scheme;
- if a condition precedent in clause 3.1 of the Merger Implementation Agreement for the benefit of that party is breached or is not fulfilled and that breach or non-fulfilment is not waived, and Adelaide Bank and Bendigo Bank are not able to reach agreement under clause 3.5 of the Merger Implementation Agreement;

- if the Ordinary Share Scheme has not become Effective on or before 29 February 2008, or such later date as Adelaide Bank and Bendigo Bank may agree in writing; or
- if the Bendigo Bank Board recommends a Competing Proposal for Bendigo Bank.

In addition, the Merger Implementation Agreement will terminate automatically, without the action of any party, if the Scheme Resolution is not approved by the requisite majorities of Ordinary Shareholders.

If the Merger Implementation Agreement is terminated, the agreement will cease to have any force or effect and the parties will have no further obligations under the Merger Implementation Agreement (other than in respect of a party's accrued rights or remedies) and Adelaide Bank and Bendigo Bank will no longer be obliged to proceed with the Merger, provided that certain clauses survive termination.

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Information for Step Up Preference Shareholders

IMPORTANT NOTICE:
PART D ALSO CONTAINS INFORMATION FOR STEP UP PREFERENCE SHAREHOLDERS.
APPENDIX 9 CONTAINS THE NOTICE OF STEP UP PREFERENCE SHARE SCHEME MEETING.

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Overview of the Step Up Preference Share Scheme

7.1 Background

On 9 August 2007, following execution of the Merger Implementation Agreement, Adelaide Bank and Bendigo Bank jointly announced a proposal to merge by way of a scheme of arrangement.

In connection with the Merger, Bendigo Bank is seeking to acquire all of the Adelaide Bank Step Up Preference Shares.

It is proposed that the acquisition of the Adelaide Bank Step Up Preference Shares will be implemented by way of the Step Up Preference Share Scheme. If the Step Up Preference Share Scheme is approved, Bendigo Bank will acquire all of the Adelaide Bank Step Up Preference Shares.

This Part B contains important information for Step Up Preference Shareholders regarding the Step Up Preference Share Scheme. Part D also contains important information.

Separate schemes of arrangement are proposed in relation to the Adelaide Bank Ordinary Shares (**Ordinary Share Scheme**) and the Adelaide Bank Reset Preference Shares (**Reset Preference Share Scheme**). Each of the Step Up Preference Share Scheme and the Reset Preference Share Scheme is conditional on the Ordinary Share Scheme. Further information regarding the Ordinary Share Scheme is set out in Part A and further information regarding the Reset Preference Share Scheme is set out in Part C.

The Adelaide Bank Directors unanimously recommend that Step Up Preference Shareholders vote in favour of the Step Up Preference Share Scheme, in the absence of a superior proposal. Each Adelaide Bank Director who is able to control the voting rights attached to Adelaide Bank Step Up Preference Shares intends to vote those shares, or procure that those shares are voted, in favour of the Step Up Preference Share Scheme, in the absence of a superior proposal.

Furthermore, the Step Up Preference Share Scheme has been considered by the Independent Expert. The Independent Expert has concluded that the Step Up Preference Share Scheme is in the best interests of Step Up Preference Shareholders. A copy of the Independent Expert's Report in relation to the Step Up Preference Share Scheme can be found in Section 24. You should read the Independent Expert's Report in its entirety.

The Step Up Preference Share Scheme is subject to a number of conditions, details of which can be found in Sections 7.8 and 11.2.

7.2 Terms of the Step Up Preference Share Scheme

On implementation of the Step Up Preference Share Scheme:

- all of the Adelaide Bank Step Up Preference Shares will be transferred to Bendigo Bank; and
- Step Up Preference Scheme Shareholders will receive one fully paid New Bendigo Bank Step Up Preference Share²⁶ for each Adelaide Bank Step Up Preference Share held at the Scheme Record Date.

7.3 The New Bendigo Bank Step Up Preference Shares

The New Bendigo Bank Step Up Preference Shares to be issued as consideration pursuant to the Step Up Preference Share Scheme will be issued fully paid and on terms that are substantially the same as those applicable to the Adelaide Bank Step Up Preference Shares.

The key differences between the terms of issue of the New Bendigo Bank Step Up Preference Shares and the existing Adelaide Bank Step Up Preference Shares are as follows:

- the Merged Group has the right to exchange all of the New Bendigo Bank Step Up Preference Shares on the occurrence of an Acquisition Event, described further in Section 7.5(a);
- the definition of Tax Event in the terms of the New Bendigo Bank Step Up Preference Shares which provides the Merged Group with the right to exchange all of the New Bendigo Bank Step Up Preference Shares has been expanded, described further in Section 7.5(b);
- the terms of the New Bendigo Bank Step Up Preference Shares comply with the requirements under the terms of the Bendigo Bank Preference Shares concerning the equal ranking of those shares, described further in Section 7.5(c); and
- in addition, of course, if the New Bendigo Bank Step Up Preference Shares are exchanged for, or converted into, shares under their terms, they would exchange or convert to Bendigo Bank Ordinary Shares rather than Adelaide Bank Ordinary Shares.

²⁶ Different arrangements apply to Ineligible Foreign Shareholders.

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7.4 Key terms of the New Bendigo Bank Step Up Preference Shares

The table below sets out a summary of the key terms of the New Bendigo Bank Step Up Preference Shares.

The terms of the New Bendigo Bank Step Up Preference Shares are set out in full in Appendix 6.

Key term	Position in relation to New Bendigo Bank Step Up Preference Shares
Issuer	The Merged Group
Number expected to be issued	1 million
Face value	\$100 per New Bendigo Bank Step Up Preference Share
Dividend	Preferred, non-cumulative floating rate dividend
Calculation of dividend rate	<p>The dividend rate is the rate calculated as:</p> $(\text{Market Rate} + \text{Margin}) \times (1 - T)$ <p>where:</p> <p>Market Rate is a floating rate to be set by reference to the Bank Bill Rate (as defined in Appendix 6) on the dividend payment date immediately prior to the dividend period;</p> <p>Margin is 1.75% per annum prior to the step up date and 2.75% per annum thereafter; and</p> <p>T is the Australian corporate tax rate applicable to the franking account of Adelaide Bank from which the dividend will be franked, expressed as a decimal (currently 0.30)</p>
Payment of dividend	<p>Dividends will be payable quarterly in arrears, on 10 January, 10 April, 10 July and 10 October in each year that the New Bendigo Bank Step Up Preference Shares are on issue</p> <p>The first dividend payment date will be 10 January 2008</p> <p>The dividend is only payable if the Merged Group Board, in its discretion, determines that a dividend is payable and subject to certain other conditions</p>
Non-cumulative	<p>Dividends are non-cumulative. If all or part of a dividend is not paid, the Merged Group is not obliged to pay, and no holder has a right to be paid, the unpaid part of the dividend at any time in the future</p> <p>However, if this occurs, the Merged Group cannot pay a dividend on Bendigo Bank Ordinary Shares or other equal ranking shares of the Merged Group unless the Merged Group takes certain actions</p>
Franking	Dividends are expected to be fully franked. If a dividend is unfranked or partially franked, the dividend will be increased to compensate holders for the unfranked portion
Step up date	<p>10 October 2014</p> <p>On the step up date, the Margin will be increased by a one-time step up of 1.00% per annum for dividend periods after the step up date</p>

Key term	Position in relation to New Bendigo Bank Step Up Preference Shares
Exchange by the Merged Group	<p>The Merged Group may exchange some or all of the New Bendigo Bank Step Up Preference Shares on the step up date or any subsequent dividend payment date, or exchange all of the New Bendigo Bank Step Up Preference Shares on any dividend payment date following the occurrence of an Acquisition Event (described in Section 7.5(a)), a Tax Event (described in Section 7.5(b)) or a regulatory event (which may occur prior to the step up date)</p> <p>On exchange, at its sole discretion, the Merged Group may:</p> <ul style="list-style-type: none"> • exchange each share for the face value, subject to the prior approval of APRA; • convert the New Bendigo Bank Step Up Preference Shares into Bendigo Bank Ordinary Shares; or • undertake a combination of the above
Conversion into Bendigo Bank Ordinary Shares	<p>If the Merged Group elects to convert, the number of Bendigo Bank Ordinary Shares into which the New Bendigo Bank Step Up Preference Shares will convert is calculated by dividing the issue price by 97.5% of the average daily volume weighted average price of Bendigo Bank Ordinary Shares during the 20 trading days immediately preceding the date for exchange</p>
Ranking	<p>For the payment of dividends, the New Bendigo Bank Step Up Preference Shares will rank equally with the New Bendigo Bank Reset Preference Shares and Bendigo Bank Preference Shares and in priority to the Bendigo Bank Ordinary Shares. In a winding up or liquidation, the New Bendigo Bank Step Up Preference Shares will rank behind all depositors and creditors of Bendigo Bank, and ahead of Bendigo Bank Ordinary Shares, and equally with the New Bendigo Bank Reset Preference Shares and Bendigo Bank Preference Shares for the return of the face value and any dividend due but not paid</p>
Participation	<p>The New Bendigo Bank Step Up Preference Shares do not carry a right to participate in issues of securities to, or capital reconstructions affecting, holders of Bendigo Bank Ordinary Shares</p>
Voting rights	<p>No right to vote, except in limited circumstances</p>
Quotation	<p>The Step Up Preference Share Scheme is conditional on the New Bendigo Bank Step Up Preference Shares being granted official quotation (which is not guaranteed or automatic)</p>

7.5 Material differences between the New Bendigo Bank Step Up Preference Shares and the Adelaide Bank Step Up Preference Shares

The material differences between the New Bendigo Bank Step Up Preference Shares and the Adelaide Bank Step Up Preference Shares are as follows:

(a) Acquisition Event

The Merged Group may exchange some or all of the New Bendigo Bank Step Up Preference Shares for Bendigo Bank Ordinary Shares on any dividend payment date following the occurrence of an Acquisition Event (which may occur prior to the step up date).

An **Acquisition Event** occurs when:

- a takeover bid is made to acquire some or all of the Bendigo Bank Ordinary Shares, the offers under the bid are or become unconditional and either:
 - the bidder has a relevant interest in more than 50% of the Bendigo Bank Ordinary Shares on issue; or
 - the Bendigo Bank Directors issue a statement recommending acceptance of offers under the bid; or
- the Bendigo Bank Directors issue a statement recommending a scheme of arrangement which, when implemented, will result in a person having a relevant interest in more than 50% of the Bendigo Bank Ordinary Shares on issue.

There is no equivalent right in the terms of the Adelaide Bank Step Up Preference Shares.

(b) Tax Event

The Merged Group may exchange the New Bendigo Bank Step Up Preference Shares for Bendigo Bank Ordinary Shares on any dividend payment date following the receipt of advice from a reputable legal counsel or tax adviser in Australia that as a result of a change in Australian tax law the New Bendigo Bank Step Up Preference Shares will not be treated as equity interests for taxation purposes, imputation benefits will be denied to holders or franking debits will be posted to Bendigo Bank's franking account as a result of the New Bendigo Bank Step Up Preference Shares being on issue or the Bendigo Bank Ordinary Shares being on issue following any conversion of New Bendigo Bank Step Up Preference Shares into Bendigo Bank Ordinary Shares.

There is no equivalent right in the terms of the Adelaide Bank Step Up Preference Shares.

(c) Accommodating the Bendigo Bank Preference Shares

The terms of the New Bendigo Bank Step Up Preference Shares restrict payments and returns of capital on certain securities, including the Bendigo Bank Ordinary Shares, in circumstances where the Merged Group has failed to pay New Bendigo Bank Step Up Preference Shareholders a dividend in full within a specified time. Broadly, that restriction will only be lifted if:

- (i) four consecutive dividend payments are then made to the holders of New Bendigo Bank Step Up Preference Shares (or equivalent dividends if the frequency of payment is other than quarterly); or

- (ii) an optional dividend equal to the unpaid amount (if any) of the four immediately preceding dividends (or equivalent dividends if the frequency of payment is other than quarterly) is paid to the holders of New Bendigo Bank Step Up Preference Shares and any equal ranking holders of the share capital of the Merged Group (if any).

Whilst there is a similar clause in the terms of the Adelaide Bank Step Up Preference Shares, the above provision differs in that (under (ii)) the optional dividend payment must be made to the equal ranking holders of share capital of the Merged Group. This has been incorporated so as to ensure equality of treatment between the holders of New Bendigo Bank Step Up Preference Shares and the holders of Bendigo Bank Preference Shares.

(d) Underlying shares are Bendigo Bank Ordinary Shares

If the New Bendigo Bank Step Up Preference Shares are exchanged for, or converted into, shares under their terms, they would exchange or convert into Bendigo Bank Ordinary Shares rather than Adelaide Bank Ordinary Shares.

7.6 Recommendation of Adelaide Bank Directors

The Adelaide Bank Directors have considered the potential advantages and disadvantages of the Step Up Preference Share Scheme. They believe that the Step Up Preference Share Scheme is in the best interests of Step Up Preference Shareholders and unanimously recommend that Step Up Preference Shareholders vote in favour of the Step Up Preference Share Scheme, in the absence of a superior proposal.

In making their recommendation, the Adelaide Bank Directors have in particular considered the following:

- the reasons why Step Up Preference Shareholders should vote in favour of the Step Up Preference Share Scheme, set out in Section 9.2;
- the potential disadvantages of the Step Up Preference Share Scheme, set out in Section 9.3; and
- the risks associated with an investment in the Merged Group, set out in Section 20.

Each Adelaide Bank Director who is able to control the voting rights attached to Adelaide Bank Step Up Preference Shares intends to vote those shares, or procure that those shares are voted, in favour of the Step Up Preference Share Scheme, in the absence of a superior proposal.

The Adelaide Bank Directors have not received any superior proposal as at the date of this Scheme Book.

7.7 Independent Expert's Report

KPMG was appointed by the Adelaide Bank Directors as the Independent Expert to assess the merits of the Step Up Preference Share Scheme. KPMG has concluded that the Step Up Preference Share Scheme is in the best interests of Step Up Preference Shareholders.

A copy of the Independent Expert's Report in relation to the Step Up Preference Share Scheme is set out in Section 24 and should be read in its entirety.

7.8 Conditions precedent

The Step Up Preference Share Scheme will not proceed unless:

- it is approved by the requisite majorities of Step Up Preference Shareholders and by the Court;
- all approvals, consents, modifications or waivers of any Governmental Agency which are reasonably necessary to implement the Step Up Preference Share Scheme are obtained;
- ASX provides approval for the official quotation of the New Bendigo Bank Step Up Preference Shares, subject to any conditions which ASX may reasonably require;
- the Court approves the Ordinary Share Scheme; and
- such other conditions required by the Court as are acceptable to Adelaide Bank and Bendigo Bank have been satisfied.

7.9 Step Up Preference Share Scheme approval

For the Step Up Preference Share Scheme to be implemented, it must be approved by:

- a majority (i.e. more than 50%) in number of Step Up Preference Shareholders present and voting on the resolution (in person or by proxy, attorney or, in the case of a corporate Step Up Preference Shareholder, by a corporate representative); and

- at least 75% of the total number of votes cast on the resolution by Step Up Preference Shareholders (in person or by proxy, attorney or, in the case of a corporate Step Up Preference Shareholder, by a corporate representative).

The Step Up Preference Share Scheme Meeting has been convened for 10.45am on 12 November 2007 at Adelaide Convention Centre, North Terrace, Adelaide, SA.

7.10 Entitlement to vote

All Step Up Preference Shareholders on the Adelaide Bank Register at 12.00 midday on 11 November 2007 are entitled to vote at the Step Up Preference Share Scheme Meeting.

For further details on how to vote, please refer to Section 10.

7.11 What happens if the Step Up Preference Share Scheme and the Ordinary Share Scheme do not proceed?

If the Ordinary Share Scheme does not become Effective, the Step Up Preference Share Scheme (and the Reset Preference Share Scheme) will not proceed and the Step Up Preference Shareholders will retain their Adelaide Bank Step Up Preference Shares and the rights of Step Up Preference Shareholders will remain unchanged.

7.12 What happens if the Step Up Preference Share Scheme does not proceed but the Ordinary Share Scheme becomes Effective?

If the Ordinary Share Scheme becomes Effective, but the Step Up Preference Share Scheme does not become Effective, the Step Up Preference Shareholders will retain their Adelaide Bank Step Up Preference Shares and the rights of Step Up Preference Shareholders will remain unchanged. However, in those circumstances it is the present intention of Bendigo Bank and Adelaide Bank (subject to maintaining an appropriate capital position) that the Merged Group proceeds with any entitlement it may have to compulsorily acquire the Adelaide Bank Step Up Preference Shares under part 6A.2 of the Corporations Act.

In these circumstances, the intention is (subject to maintaining an appropriate capital position) to proceed with the compulsory acquisition of the Adelaide Bank

Step Up Preference Shares irrespective of whether or not the Reset Preference Share Scheme becomes Effective. However, the timing of an election by Bendigo Bank to proceed with such a compulsory acquisition is likely to depend on the course of the Reset Preference Share Scheme. In particular, if the Reset Preference Share Scheme does not become Effective, Bendigo Bank may need to first exchange the Adelaide Bank Reset Preference Shares for cash consideration (subject to APRA's approval) pursuant to the change of control event clause in the terms of the Adelaide Bank Reset Preference Shares (see Section 12.11) before proceeding to compulsorily acquire the Adelaide Bank Step Up Preference Shares.

Step Up Preference Shareholders should note, in the context of the Merged Group seeking to compulsorily acquire the Adelaide Bank Step Up Preference Shares, that the Corporations Act contains procedures and safeguards pursuant to which:

- the Merged Group would be required to prepare and issue a compulsory acquisition notice in a prescribed form;
- a Step Up Preference Shareholder would be entitled to object to the compulsory acquisition of their Adelaide Bank Step Up Preference Shares;
- if people who hold at least 10% of the Adelaide Bank Step Up Preference Shares validly objected to the compulsory acquisition of their Adelaide Bank Step Up Preference Shares, the compulsory acquisition would not proceed unless the Merged Group applied to the Court for its approval, and such approval was granted by the Court on the basis that the Merged Group established that the Step Up Preference Shareholders would receive fair value for their Adelaide Bank Step Up Preference Shares;
- the Merged Group would be required to bear the legal costs of any proper and reasonable objection to the compulsory acquisition made by a Step Up Preference Shareholder; and
- the Merged Group would only be entitled to seek to compulsorily acquire the Adelaide Bank Step Up Preference Shares for a cash sum.

7.13 Trading of New Bendigo Bank Step Up Preference Shares

If the Step Up Preference Share Scheme becomes Effective, New Bendigo Bank Step Up Preference Shares are expected to commence trading on a deferred settlement basis on ASX on 21 November 2007, being the next trading day after the Effective Date, and on a normal settlement basis on 5 December 2007.

As at the date of this Scheme Book, there are no New Bendigo Bank Step Up Preference Shares on issue. Accordingly, there is no information regarding the price of sale of any New Bendigo Bank Step Up Preference Shares, which would otherwise give rise to disclosure requirements under the Corporations Regulations.

7.14 Tax considerations for Step Up Preference Shareholders

A summary of the general Australian taxation implications of the Step Up Preference Share Scheme for Step Up Preference Shareholders who are Australian residents for tax purposes is set out in Section 21.

Your decision regarding how to vote on the Step Up Preference Share Scheme should be made only after consultation with your financial, legal, taxation or other professional adviser based on your own investment objectives, financial situation, taxation position and particular needs.

7.15 How to obtain further information

For further information, you should:

- contact your financial, legal, taxation or other professional adviser;
- call the Shareholder Information Line on 1800 211 826 (free call from within Australia) or +612 8986 9354 (from outside Australia); or
- contact Adelaide Bank at the following email address:
merger@adelaidebank.com.au

Frequently asked questions for Step Up Preference Shareholders

Set out below are answers to frequently asked questions regarding the Step Up Preference Share Scheme and the action you should take.

The answers provided are intended to assist you with your understanding of the Step Up Preference Share Scheme. However, you should carefully read Parts B and D in their entirety in order to fully understand the Step Up Preference Share Scheme and the action you should take.

QUESTIONS ABOUT THE STEP UP PREFERENCE SHARE SCHEME

Q1 What is the Step Up Preference Share Scheme?

The Step Up Preference Share Scheme is a scheme of arrangement between Adelaide Bank and the Step Up Preference Shareholders.

Under the Step Up Preference Share Scheme, all Adelaide Bank Step Up Preference Shares will be transferred to Bendigo Bank and Bendigo Bank will issue one New Bendigo Bank Step Up Preference Share²⁷ to Step Up Preference Share Scheme Shareholders for each Adelaide Bank Step Up Preference Share held by them at the Scheme Record Date.

Q2 Why is the Step Up Preference Share Scheme being proposed?

The Step Up Preference Share Scheme is being proposed in connection with the merger of Adelaide Bank and Bendigo Bank.

It is intended to enable Bendigo Bank to acquire 100% of the issued shares of Adelaide Bank (together with the Ordinary Share Scheme and Reset Preference Share Scheme).

Q3 What is the recommendation of the Adelaide Bank Directors?

The Adelaide Bank Directors are unanimously recommending that Step Up Preference Shareholders vote in favour of the Step Up Preference Share Scheme, in the absence of a superior proposal. Please see Section 9 for further details.

²⁷ Different arrangements apply to Ineligible Foreign Shareholders – please see Q28.

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Q4**Are there any disadvantages?**

The Adelaide Bank Directors unanimously believe that the potential advantages of the Step Up Preference Share Scheme outweigh its potential disadvantages.

However, Step Up Preference Shareholders should be aware of the potential disadvantages of the Step Up Preference Share Scheme which are summarised in Section 9.3. Step Up Preference Shareholders should also take into account the risks which are described in Section 20.

Q5**What is the opinion of the Independent Expert?**

Adelaide Bank appointed KPMG to provide an opinion as to whether the Step Up Preference Share Scheme is in the best interests of Step Up Preference Shareholders.

The Independent Expert has considered the Step Up Preference Share Scheme and has concluded that the Step Up Preference Share Scheme is in the best interests of Step Up Preference Shareholders. A copy of the Independent Expert's Report in relation to the Step Up Preference Share Scheme is set out in Section 24.

Q6**What is a scheme of arrangement?**

A scheme of arrangement is a legal arrangement between a company and its shareholders. The terms of the Step Up Preference Share Scheme are set out in full in Appendix 3.

Q7**Is shareholder approval required?**

In order to take effect, the Step Up Preference Share Scheme will need to be approved by a majority (i.e. greater than 50%) in number of Step Up Preference Shareholders present and voting on the resolution (in person or by proxy, attorney or, in the case of a corporate Step Up Preference Shareholder, by a corporate representative). Those who vote in favour must also cast at least 75% of the total number of votes cast by Step Up Preference Shareholders on the resolution (in person or by proxy, attorney or, in the case of a corporate Step Up Preference Shareholder, by a corporate representative).

The Step Up Preference Share Scheme is also conditional on approval by the Court.

Q8**Are there any conditions to the Step Up Preference Share Scheme being completed?**

The Step Up Preference Share Scheme is conditional on approval by the requisite majorities of Step Up Preference Shareholders and by the Court on the receipt of any necessary regulatory approvals, ASX granting official quotation to the New Bendigo Bank Step Up Preference Shares, and on the Ordinary Share Scheme. Please refer to Sections 7.8 and 11.2 for further details.

QUESTIONS ABOUT THE MERGED GROUP

Q9

Who will be the directors of the Merged Group?

Robert Johanson will continue as Chairman and Kevin G Osborn, a non-executive director of Adelaide Bank, will become Deputy Chairman.

Rob Hunt, Managing Director of Bendigo Bank, will continue in that position until his retirement on 1 July 2009.

Adelaide Bank's Group Managing Director, Jamie McPhee, will be appointed to the Merged Group Board as an executive director and be responsible for wholesale banking services of the Merged Group. With Mr Hunt's retirement in July 2009, this will place Mr McPhee in an excellent position to succeed Mr Hunt.

Subject to receiving shareholder approval at Bendigo Bank's annual general meeting on 29 October 2007 to amend Bendigo Bank's constitution to increase the size of its board, the Merged Group Board will also include eight further directors, comprised of five non-executive directors from the existing Bendigo Bank Board (nominated by Bendigo Bank) and three non-executive directors from the existing Adelaide Bank Board (nominated by Adelaide Bank).

If this approval is not obtained, the Merged Group Board will instead include six further directors, comprised of four non-executive directors from the existing Bendigo Bank Board and two non-executive directors from the existing Adelaide Bank Board.

Please refer to Section 19.3 for further details.

Q10

What will happen to the Adelaide Bank businesses?

The Merged Group intends to retain and grow the businesses of Adelaide Bank and Bendigo Bank.

Q11

Where will the Merged Group's head office be located?

Head office functions of the Merged Group will be shared between existing sites. It is intended that the wholesale business of the Merged Group will be headquartered in Adelaide and the retail business headquartered in Bendigo. The registered head office of the Merged Group will be in Bendigo. Meetings of the Merged Group Board and annual general meetings of the Merged Group will be shared between South Australia and Victoria on such basis as the Merged Group Board considers appropriate.

QUESTIONS ABOUT VOTING

Q12

When and where will the Step Up Preference Share Scheme Meeting be held?

The Step Up Preference Share Scheme Meeting will be held at 10.45am on 12 November 2007 at Adelaide Convention Centre, North Terrace, Adelaide, SA.

Q13

Can I vote at the Step Up Preference Share Scheme Meeting?

If you are registered as a Step Up Preference Shareholder as at 12.00 midday on 11 November 2007, then you are entitled to vote at the Step Up Preference Share Scheme Meeting.

Q14

How do I vote?

You can vote in person or by proxy or attorney. Any Step Up Preference Shareholder that is a body corporate may vote at the Step Up Preference Share Scheme Meeting through a corporate representative. Details of how to vote are set out in Section 10.

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Q15**Is voting compulsory? If not, should I vote?**

No, voting is not compulsory. However, the Adelaide Bank Directors unanimously believe that the Step Up Preference Share Scheme is in the best interests of Step Up Preference Shareholders and urge you to read Parts B and D in their entirety and exercise your right to vote. Your vote is important.

Q16**What if I cannot attend the meeting?**

If you cannot attend the Step Up Preference Share Scheme Meeting, you should complete and return the enclosed proxy form in accordance with the instructions on the proxy form.

Please refer to Section 10 for further information regarding voting and appointing a proxy.

Q17**What happens if I do not vote, or if I vote against the Step Up Preference Share Scheme?**

If the Step Up Preference Share Scheme is implemented and you are a Step Up Preference Share Scheme Shareholder, all of your Adelaide Bank Step Up Preference Shares will be transferred to Bendigo Bank and you will receive one New Bendigo Bank Step Up Preference Share²⁸ for each Adelaide Bank Step Up Preference Share held by you at the Scheme Record Date. This will occur even if you did not vote or voted against the Step Up Preference Share Scheme.

Q18**Are Bendigo Bank shareholders entitled to vote?**

No, only Step Up Preference Shareholders are entitled to vote on the Step Up Preference Share Scheme.

Q19**How will Adelaide Bank Directors be voting?**

Each Adelaide Bank Director who is able to control voting rights in relation to Adelaide Bank Step Up Preference Shares intends to vote those shares, or procure that those shares are voted, in favour of the Step Up Preference Share Scheme, in the absence of a superior proposal.

Q20**When will the voting result be known?**

The result of the vote will be available shortly after the conclusion of the Step Up Preference Share Scheme Meeting and will be announced to ASX as soon as possible after it becomes available and will also be published on Adelaide Bank's website at www.adelaidebank.com.au.

Q21**What happens if the Step Up Preference Share Scheme is not approved?**

If the Step Up Preference Share Scheme is not approved by Step Up Preference Shareholders or the Court, the Step Up Preference Share Scheme will not proceed. However, if the Ordinary Share Scheme becomes Effective, it is the present intention of Bendigo Bank and Adelaide Bank (subject to maintaining an appropriate capital position) that the Merged Group would, in that circumstance, pursue any entitlement it may have to compulsorily acquire the Adelaide Bank Step Up Preference Shares under part 6A.2 of the Corporations Act. Please refer to Section 11.7 for a discussion of the implications of such an outcome for Step Up Preference Shareholders.

²⁸ Different arrangements apply to Ineligible Foreign Shareholders – please see Q28.

QUESTIONS ABOUT WHAT YOU WILL RECEIVE UNDER THE STEP UP PREFERENCE SHARE SCHEME

Q22

What will I be entitled to receive if the Step Up Preference Share Scheme is approved?

If the Step Up Preference Share Scheme is implemented and you are a Step Up Preference Share Scheme Shareholder, you will be entitled to receive one New Bendigo Bank Step Up Preference Share²⁹ for each Adelaide Bank Step Up Preference Share which you hold at the Scheme Record Date.

Q23

When will I receive my New Bendigo Bank Step Up Preference Shares?

If you are entitled to be issued New Bendigo Bank Step Up Preference Shares, you will be issued with your New Bendigo Bank Step Up Preference Shares on the Implementation Date and holding statements detailing your holding will be sent to you as soon as practicable after that date. At this stage, the Implementation Date is expected to be 30 November 2007.

Q24

Will I be required to pay broker fees?

You will not need to pay broker fees in connection with the Step Up Preference Share Scheme. However, if you sell your New Bendigo Bank Step Up Preference Shares after the Step Up Preference Share Scheme is implemented, you may have to pay broker fees.

Q25

When can I start trading my New Bendigo Bank Step Up Preference Shares?

Trading in New Bendigo Bank Step Up Preference Shares on ASX is expected to commence on a deferred settlement basis on 21 November 2007. Deferred settlement trading is currently expected to continue until 4 December 2007. Normal settlement trading is currently expected to commence on 5 December 2007.

Q26

Will I continue to receive dividends from Adelaide Bank?

If the Step Up Preference Share Scheme is implemented, you will not receive any further dividends from Adelaide Bank. However, as a holder of New Bendigo Bank Step Up Preference Shares, you will be entitled to receive dividends on your New Bendigo Bank Step Up Preference Shares paid by the Merged Group in the future.

The dividend payment dates for the New Bendigo Bank Step Up Preference Shares are 10 January, 10 April, 10 July and 10 October in each year that the New Bendigo Bank Step Up Preference Shares are on issue (these are the same dates as the dates for the Adelaide Bank Step Up Preference Shares). The first dividend payment date is 10 January 2008 and will be in respect of the period since the last payment date on the Adelaide Bank Step Up Preference Shares. The dividend is only payable if the Merged Group Board, in its discretion, determines that a dividend is payable and subject to certain other conditions. Please refer to Section 19.6 for important information regarding dividends.

²⁹ Different arrangements apply to Ineligible Foreign Shareholders – please see Q28.

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Q27**Can I still sell my Adelaide Bank Step Up Preference Shares?**

You can sell your Adelaide Bank Step Up Preference Shares on market at any time before the close of trading on the Effective Date. If the Step Up Preference Share Scheme is approved by Step Up Preference Shareholders and the Court, trading in Adelaide Bank Step Up Preference Shares on ASX will be suspended with effect from close of trading on the Effective Date. At this stage, the Effective Date is expected to be 20 November 2007.

Please note that this date may change. Any change will be announced to ASX and notified on Adelaide Bank's website at www.adelaidebank.com.au.

If you sell your Adelaide Bank Step Up Preference Shares on ASX:

- (a) you may need to pay brokerage on the sale; and
- (b) there may be different tax consequences from those that arise under the Step Up Preference Share Scheme.

Q28**What if I am a foreign shareholder?**

A Step Up Preference Shareholder whose address as shown in the Adelaide Bank Register as at the Scheme Record Date is outside of Australia and its external territories and New Zealand will be an Ineligible Foreign Step Up Preference Shareholder for the purposes of the Step Up Preference Share Scheme, unless Bendigo Bank, acting reasonably, determines otherwise. The New Bendigo Bank Step Up Preference Shares the Ineligible Foreign Step Up Preference Shareholder would otherwise be entitled to receive under the Step Up Preference Share Scheme will be issued instead to the Nominee who will offer to sell them on ASX and the sale proceeds, net of costs, will be remitted to the Ineligible Foreign Step Up Preference Shareholder. Please see Section 11.5 for further details.

Q29**What are the taxation implications for Step Up Preference Shareholders?**

Australian residents for tax purposes who hold their Adelaide Bank Step Up Preference Shares on capital account should be able to elect to receive capital gains tax rollover relief. A general overview of the Australian tax consequences of the Step Up Preference Share Scheme for Step Up Preference Shareholders who are Australian residents for tax purposes is set out in Section 21. This is a general overview only. Step Up Preference Shareholders are therefore advised to consult their own tax advisers to obtain specific advice relevant to their circumstances.

Q30**What do I need to do?**

You should carefully read Parts B and D in their entirety.

Your vote is important and you are encouraged to attend the Step Up Preference Share Scheme Meeting. If you cannot attend the meeting, you should complete the enclosed proxy form and return it as soon as possible and, in any event, by no later than 12.00 midday on 10 November 2007.

If you have any further questions about the Step Up Preference Share Scheme or this Scheme Book, please contact your financial, legal, taxation or other professional adviser or call the Shareholder Information Line on 1800 211 826 (free call from within Australia) or +612 8986 9354 (from outside Australia) or contact Adelaide Bank at merger@adelaidebank.com.au.

Assessment of the Step Up Preference Share Scheme

There are a number of important matters that Step Up Preference Shareholders need to consider in making a decision on how to vote with respect to the Step Up Preference Share Scheme.

These include a number of potential advantages and disadvantages, some of which will be dependent upon the individual financial and taxation circumstances of each Step Up Preference Shareholder.

Step Up Preference Shareholders should consider the potential advantages and disadvantages in relation to the Step Up Preference Share Scheme in the context of their individual investment objectives, financial situation, taxation position and particular needs, and should carefully read Parts B and D in their entirety and seek financial, legal, taxation or other professional advice if necessary. The general Australian tax implications of the Step Up Preference Share Scheme for Step Up Preference Shareholders who are Australian residents for tax purposes are described in Section 21.

9.1 Directors' recommendation

For the reasons set out below, the Adelaide Bank Directors consider that the Step Up Preference Share Scheme is in the best interests of Step Up Preference Shareholders and unanimously recommend that Step Up Preference Shareholders vote in favour of the Step Up Preference Share Scheme, in the absence of a superior proposal.

Each Adelaide Bank Director who is able to control the voting rights in relation to Adelaide Bank Step Up Preference Shares intends to vote those shares, or procure that those shares are voted, in favour of the Step Up Preference Share Scheme, in the absence of a superior proposal.

9.2 Why should Step Up Preference Shareholders vote in favour of the Step Up Preference Share Scheme?

The Adelaide Bank Directors believe that Step Up Preference Shareholders should vote in favour of the Step Up Preference Share Scheme for the following reasons:

(a) The Independent Expert has assessed the Step Up Preference Share Scheme to be in the best interests of Step Up Preference Shareholders

KPMG was appointed by the Adelaide Bank Directors as the Independent Expert to assess the merits of the Step Up Preference Share Scheme. KPMG has concluded that the Step Up Preference Share Scheme is in the best interests of Step Up Preference Shareholders.

A copy of the Independent Expert's Report in relation to the Step Up Preference Share Scheme is set out in Section 24. Step Up Preference Shareholders should read the Independent Expert's Report in its entirety.

(b) Step Up Preference Share Scheme is the best alternative available

A better alternative for Step Up Preference Shareholders could only be achieved if a superior proposal were proposed for Adelaide Bank Step Up Preference Shares. As at the date of this Scheme Book, Adelaide Bank Directors are not aware of any such superior proposal.

(c) **Exchange for step up preference shares in a larger and financially stronger Merged Group**

On implementation of the Step Up Preference Share Scheme, Adelaide Bank Step Up Preference Shareholders will receive New Bendigo Bank Step Up Preference Shares from a larger and financially stronger Merged Group. Key reasons why the Merged Group is expected to be larger and financially stronger include the following:

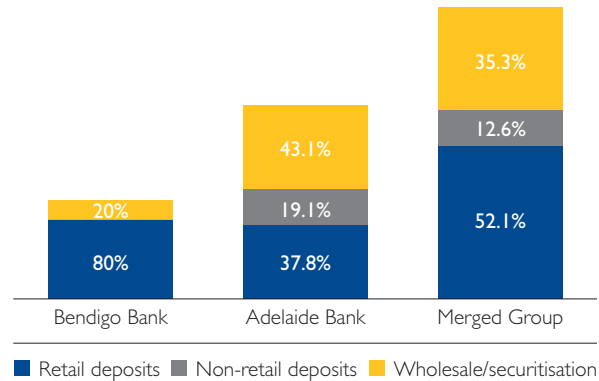
- Merged Group's combined earnings and asset base**

On a pro forma basis, the Merged Group would have had combined loans under management of more than \$43 billion and net profit after tax of approximately \$265 million for the financial year ended 30 June 2007;³⁰
- Potential synergies under the Merged Group**

It is anticipated the Merger will ultimately provide annual pre-tax cost synergies of approximately \$60 million – \$65 million with 80% of those pre-tax cost synergies expected to be realised in the second full year of operation³¹ and provide further potential revenue synergies through opportunities to cross-sell Adelaide Bank's and Bendigo Bank's existing products to the combined customer base of the Merged Group, including more than 1.3 million retail customers and the customer base of wholesale partners; and
- A more diversified funding base**

The Merged Group will have a more diversified funding mix incorporating Bendigo Bank's retail funding strength, and Adelaide Bank's securitisation expertise. As a result, as compared to Adelaide Bank on a stand alone basis, the Merged Group's earnings are expected to have less exposure to wholesale debt market volatility. In the financial year ended 30 June 2007, wholesale debt funding comprised 43% of Adelaide Bank's total funding. On a pro forma combined basis as at 30 June 2007, wholesale debt funding would have been reduced to 35% of total funding whilst retail funding would have increased to 52%.

Pro forma funding mix



(d) **Potentially improved credit rating**

The stronger business profile of the Merged Group may result in a positive credit re-rating in the future for the Merged Group in comparison to Adelaide Bank.

Following the announcement of the Merger, Standard & Poor's (**S&P**) affirmed its 'BBB+/A-2' issuer credit ratings on Adelaide Bank and Bendigo Bank and revised the outlook on the ratings to positive from stable.

S&P stated: 'The positive outlook reflects the possibility that the ratings on the combined entity may be raised by one notch in the next two years as benefits from the proposed merger are progressively realised. If the merger were to succeed, the combined entity is likely to benefit from a stronger business profile on the back of greater scale, business and geographic diversity. There is also potential for an improvement in earnings diversity and funding flexibility. However, the combined entity will also face challenges related to the integration of IT systems, future operational and management structure and cultural differences. An upgrade in the rating on the combined entity will depend on the bank successfully retaining its customer base and evidence that integration risks would be satisfactorily addressed and that the projected cost savings would be substantially realised. The outlook will revert to stable if the Merger does not proceed.*'

The potentially stronger credit standing of the Merged Group offers Step Up Preference Shareholders the prospect of increased financial security. An upgrade in the Merged Group's credit rating could also positively affect the market price and liquidity of New Bendigo Bank Step Up Preference Shares.

³⁰ See table and accompanying notes in Section 19.8.

³¹ Excluding one-off merger and integration costs. Please refer to Section 19.1(c) for details.

* The Standard & Poor's ratings are based on information publicly released by Standard & Poor's. Standard & Poor's have not consented to the use of these credit rating references in this Scheme Book. The credit rating references are not recommendations for Shareholders to take any particular action.

(e) No significant changes to the key terms of Step Up Preference Shares

Other than as described in Section 7.5, there are no significant changes between the key terms of the existing Adelaide Bank Step Up Preference Shares and the New Bendigo Bank Step Up Preference Shares.

(f) Possible negative implications if the Step Up Preference Share Scheme is not implemented but the Ordinary Share Scheme is implemented

If the Step Up Preference Share Scheme does not become Effective in circumstances where the Ordinary Share Scheme is implemented:

- Bendigo Bank will acquire all of the Adelaide Bank Ordinary Shares; and
- Step Up Preference Shareholders will retain their Adelaide Bank Step Up Preference Shares and will not receive New Bendigo Bank Step Up Preference Shares.

In these circumstances, the present intention of Bendigo Bank and Adelaide Bank is (subject to maintaining an appropriate capital position) to seek to compulsorily acquire the Adelaide Bank Step Up Preference Shares under part 6A.2 of the Corporations Act (see Section 11.7). However, there can be no assurance that compulsory acquisition would proceed or that it would proceed within a particular timeframe. Accordingly, Step Up Preference Shareholders should be aware that, if their Adelaide Bank Step Up Preference Shares remain outstanding, under the terms of the Adelaide Bank Step Up Preference Shares, Adelaide Bank has the discretion to exchange the Adelaide Bank Step Up Preference Shares for cash or Adelaide Bank Ordinary Shares at certain times or on the occurrence of certain events. In such circumstances, Adelaide Bank would be unlikely to exchange Adelaide Bank Step Up Preference Shares for Adelaide Bank Ordinary Shares as that would reduce the Merged Group's holding of Adelaide Bank Ordinary Shares below 100%. Should the Merged Group choose to exchange Adelaide Bank Step Up Preference Shares, it is anticipated that it would only do so for cash.

9.3 Potential disadvantages of the Step Up Preference Share Scheme

Although the Step Up Preference Share Scheme is recommended by the Adelaide Bank Directors and the Independent Expert believes the Step Up Preference Share Scheme to be in the best interests of Step Up Preference Shareholders, Step Up Preference Shareholders should also consider reasons for not voting in favour of the Step Up Preference Share Scheme. Some factors which may lead Step Up Preference Shareholders to vote against the Step Up Preference Share Scheme are set out below. The Adelaide Bank Directors believe that these factors are outweighed by the benefits the Merger is expected to deliver.

(a) Consideration consists of New Bendigo Bank Step Up Preference Shares

As the consideration payable to Step Up Preference Shareholders under the Step Up Preference Share Scheme consists of New Bendigo Bank Step Up Preference Shares, the value of the consideration received by Step Up Preference Shareholders in connection with the Merger will be dependent on the price at which New Bendigo Bank Step Up Preference Shares trade once the Merger is implemented. The value of New Bendigo Bank Step Up Preference Shares will be exposed to the normal risks associated with share ownership and the Merged Group's exposure to the Australian financial services industry.

Please refer to Section 20 for further information regarding risks relating to New Bendigo Bank Step Up Preference Shares and the Merged Group.

(b) Possibility of a more attractive proposal

It is possible that a more attractive proposal for Step Up Preference Shareholders could emerge in the future. As at the date of this Scheme Book, Adelaide Bank Directors are not aware of any such proposal.

Step Up Preference Shareholders should be aware that Adelaide Bank has agreed under the Merger Implementation Agreement not to solicit any competing proposal for the acquisition of Adelaide Bank or, except in limited circumstances, respond to any unsolicited competing proposal for the acquisition of Adelaide Bank. Further information in relation to Adelaide Bank's 'no shop' and 'no talk' restrictions is set out in Section 6.8.

(c) Taxation

If the Step Up Preference Share Scheme is implemented, it may result in taxation consequences for some Step Up Preference Shareholders arising earlier than would otherwise have been the case. The general Australian tax consequences of the Merger for Step Up Preference Shareholders who are Australian residents for tax purposes are contained in Section 21. Step Up Preference Shareholders should consider the tax consequences of the Merger in view of their own particular circumstances and seek advice from their tax adviser.

9.4 Other relevant considerations**(a) Risk factors**

Refer to the risk factors associated with investing in the Merged Group as set out in Section 20.

(b) Conditional upon the Ordinary Share Scheme

The Step Up Preference Share Scheme is conditional upon the Ordinary Share Scheme. Further details on this are provided in Section 11.2.

(c) Capital gains tax rollover relief

By receiving New Bendigo Bank Step Up Preference Shares under the Step Up Preference Share Scheme, Step Up Preference Shareholders who hold Adelaide Bank Step Up Preference Shares on capital account should be entitled to capital gains tax rollover relief. See Section 21 for a general overview of the Australian taxation implications of the Step Up Preference Share Scheme.

(d) All or nothing proposal

If the Step Up Preference Share Scheme is implemented, the Step Up Preference Share Scheme will bind all Step Up Preference Share Scheme Shareholders, including those who do not vote at the Step Up Preference Share Scheme Meeting and those who vote against the Step Up Preference Share Scheme, meaning that all Step Up Preference Share Scheme Shareholders will receive the Scheme Consideration.

Conversely, if the Step Up Preference Share Scheme is not implemented, Step Up Preference Shareholders will retain their Adelaide Bank Step Up Preference Shares and will not receive New Bendigo Bank Step Up Preference Shares. The potential advantages of the Merger for the Step Up Preference Shareholders, as outlined in Section 9.2, will not be realised. However, some of the potential disadvantages of the Merger for the Step Up Preference Shareholders identified in Section 9.3 will not arise.

However, it is the present intention of Bendigo Bank and Adelaide Bank (subject to maintaining an appropriate capital position) that the Merged Group would, in that circumstance, pursue any entitlement it may have to compulsorily acquire the Adelaide Bank Step Up Preference Shares under part 6A.2 of the Corporations Act. Please refer to Section 11.7.

(e) Bendigo Bank Preference Shares

There are 900,000 Bendigo Bank Preference Shares with a face value of \$100 per share on issue as at the date of this Scheme Book. These Bendigo Bank Preference Shares will rank equally with the New Bendigo Bank Step Up Preference Shares as to dividends and in a winding up or liquidation.

If the Reset Preference Share Scheme is implemented, New Bendigo Bank Reset Preference Shares will be issued. These New Bendigo Bank Reset Preference Shares will also rank equally with the New Bendigo Bank Step Up Preference Shares as to dividends and in a winding up or liquidation.

How to vote

10.1 Step Up Preference Share Scheme Meeting

The Step Up Preference Share Scheme is subject to approval by Step Up Preference Shareholders at the Step Up Preference Share Scheme Meeting.

The Step Up Preference Share Scheme Meeting has been convened for 10.45am on 12 November 2007 at Adelaide Convention Centre, North Terrace, Adelaide, SA.

At the Step Up Preference Share Scheme Meeting, Step Up Preference Shareholders will be asked to consider and, if thought fit, pass the following resolution:

That pursuant to and in accordance with section 411 of the Corporations Act, the scheme of arrangement proposed to be entered into between Adelaide Bank and its Step Up Preference Shareholders, as more particularly set out in the Scheme Book of which this notice of meeting forms part, is approved (with or without modification as approved by the Court).

In order for the resolution to be passed, it must be approved by a majority (i.e. greater than 50%) in number of Step Up Preference Shareholders present and voting on the resolution (in person or by proxy, attorney or, in the case of a corporate Step Up Preference Shareholder, a corporate representative). In addition, those Step Up Preference Shareholders who vote in favour must cast at least 75% of the total number of votes cast by Step Up Preference Shareholders on the resolution (in person or by proxy, attorney or, in the case of a corporate Step Up Preference Shareholder, a corporate representative).

Voting at the Step Up Preference Share Scheme Meeting will be by poll.

10.2 Adelaide Bank Directors' recommendation

The Adelaide Bank Directors unanimously recommend that Step Up Preference Shareholders vote in favour of the Step Up Preference Share Scheme, in the absence of a superior proposal. See Section 9.2 for the reasons for this recommendation.

10.3 Entitlement to vote

All Step Up Preference Shareholders as at 12.00 midday on 11 November 2007 will be entitled to vote at the Step Up Preference Share Scheme Meeting.

10.4 How to vote

You may vote in person at the Step Up Preference Share Scheme Meeting or by proxy or attorney.

A corporate shareholder or corporate proxy may vote by corporate representative appointed pursuant to section 250D of the Corporations Act.

All persons attending the Step Up Preference Share Scheme Meeting must disclose their name at the point of entry to the meeting. All persons entitled to vote at the meeting will then be given a voting card and admitted to the Step Up Preference Share Scheme Meeting.

Further details are set out below.

(a) Voting in person

To vote in person, you must attend the meeting commencing at 10.45am on 12 November 2007 at Adelaide Convention Centre, North Terrace, Adelaide, SA.

(b) Voting by proxy

If you cannot attend the Step Up Preference Share Scheme Meeting, you may vote by proxy. A proxy need not be a shareholder in Adelaide Bank.

You may appoint a proxy by completing the green proxy form accompanying this Scheme Book. A proxy form can also be requested by contacting the Adelaide Bank Registry.

If you are entitled to cast two or more votes, you may appoint up to two proxies. If you wish to appoint two proxies, please refer to the back of the proxy form for instructions.

Appointing a proxy will not preclude you from attending the meeting in person and voting at the meeting instead of your proxy.

The proxy form and, if applicable, the power of attorney under which it is signed or a certified copy of that power of attorney, must be:

- posted to Computershare Investor Services Pty Limited in the reply paid envelope provided or, if you are outside of Australia or do not otherwise use the reply paid envelope, to GPO Box 242, Melbourne VIC 3001;

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- delivered to Computershare Investor Services Pty Limited at Level 5, 115 Grenfell Street, Adelaide SA 5000;
- successfully transmitted by facsimile to (08) 8236 2305 (international +618 8236 2305); or
- posted, delivered or successfully transmitted by facsimile to the registered office of Adelaide Bank,

so that it is received by no later than 12.00 midday on 10 November 2007.

(c) Voting by attorney

Alternatively, if you cannot attend the Step Up Preference Share Scheme Meeting, you may vote by attorney. An attorney need not be a shareholder in Adelaide Bank.

If you are entitled to cast two or more votes, you may appoint up to two attorneys.

The instrument appointing an attorney, or a copy of that instrument certified as a true copy, must be:

- posted to Computershare Investor Services Pty Limited in the reply paid envelope provided or, if you are outside of Australia or do not otherwise use the reply paid envelope, to GPO Box 242, Melbourne VIC 3001;
- delivered to Computershare Investor Services Pty Limited at Level 5, 115 Grenfell Street, Adelaide SA 5000;
- successfully transmitted by facsimile to (08) 8236 2305 (international +618 8236 2305); or
- posted, delivered or successfully transmitted by facsimile to the registered office of Adelaide Bank,

so that it is received by no later than 12.00 midday on 10 November 2007.

(d) Voting by corporate representative

If a representative of a corporate shareholder or corporate proxy is to attend the Step Up Preference Share Scheme Meeting pursuant to section 250D of the Corporations Act, a certificate of appointment of the representative (or such other document as the Chairman of the Step Up Preference Share Scheme Meeting considers sufficient) should be produced prior to admission to the meeting. A form of certificate can be obtained from the Adelaide Bank Registry.

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Implementation of the Step Up Preference Share Scheme

II.1 Steps in implementing the Step Up Preference Share Scheme

(a) Execution of Merger Implementation Agreement

On 9 August 2007, Adelaide Bank and Bendigo Bank entered into the Merger Implementation Agreement under which Adelaide Bank agreed to propose the Step Up Preference Share Scheme to Step Up Preference Shareholders and Adelaide Bank and Bendigo Bank agreed to take all steps reasonably necessary to implement the Step Up Preference Share Scheme.

A copy of the Merger Implementation Agreement (excluding annexures) is set out in Appendix 1.

(b) Execution of Deed Poll by Bendigo Bank

On 3 October 2007, Bendigo Bank executed the Deed Poll pursuant to which Bendigo Bank agrees, subject to the Step Up Preference Share Scheme becoming Effective, to provide to each Step Up Preference Shareholder the Scheme Consideration to which that Step Up Preference Shareholder is entitled under the Step Up Preference Share Scheme. A copy of the Deed Poll is included in Appendix 5.

(c) Step Up Preference Share Scheme Meeting

On 5 October 2007, the Court ordered that Adelaide Bank convene the Step Up Preference Share Scheme Meeting at 10.45am on 12 November 2007 at Adelaide Convention Centre, North Terrace, Adelaide, SA for the purpose of Step Up Preference Shareholders considering and, if thought fit, approving the Step Up Preference Share Scheme.

For the Step Up Preference Share Scheme to proceed, a resolution in favour of the Step Up Preference Share Scheme must be passed at the Step Up Preference Share Scheme Meeting by:

- a majority (i.e. more than 50%) in number of Step Up Preference Shareholders present and voting on the resolution (either in person or by proxy, attorney or, in the case of a corporate Step Up Preference Shareholder, by a corporate representative); and
- at least 75% of the total number of votes cast on the resolution by Step Up Preference Shareholders (in person or by proxy, attorney or, in the case of a corporate Step Up Preference Shareholder, by a corporate representative).

The vote will be conducted by poll.

(d) Court order approving the Step Up Preference Share Scheme

In order to become Effective, the Step Up Preference Share Scheme must be approved by the Court. Adelaide Bank will apply to the Court for an order approving the Step Up Preference Share Scheme if the Step Up Preference Share Scheme is approved by the requisite majorities of Step Up Preference Shareholders voting at the Step Up Preference Share Scheme Meeting and all conditions to the Step Up Preference Share Scheme referred to in Section 11.2 have been satisfied or waived.

The Court may refuse to approve the Step Up Preference Share Scheme, even if the Step Up Preference Share Scheme is approved by the requisite majorities of Step Up Preference Shareholders.

(e) Implementation of the Step Up Preference Share Scheme

If the Court approves the Step Up Preference Share Scheme, Adelaide Bank will lodge a copy of the Court's orders with ASIC. The Step Up Preference Share Scheme will become Effective on the date this occurs.

If the Step Up Preference Share Scheme becomes Effective, it will be implemented on the Implementation Date, being the eighth Business Day after the date on which the Step Up Preference Share Scheme becomes Effective. On that date:

- all of the Adelaide Bank Step Up Preference Shares will be transferred to Bendigo Bank without the need for any further act by any Step Up Preference Shareholder; and
- Bendigo Bank will provide the Scheme Consideration to the Step Up Preference Share Scheme Shareholders.

(f) Suspension of trading in Adelaide Bank Step Up Preference Shares and removal from official quotation

If the Court approves the Step Up Preference Share Scheme, Adelaide Bank intends to notify ASX of the Court approval on the date on which Court approval is obtained. It is expected that trading in Adelaide Bank Step Up Preference Shares on ASX will be suspended from the close of trading on that date.

Following the Implementation Date, Adelaide Bank will request ASX to end official quotation of Adelaide Bank Step Up Preference Shares.

11.2 Conditions precedent

The Step Up Preference Share Scheme will not proceed unless:

- it is approved by the requisite majorities of Step Up Preference Shareholders and by the Court;
- all approvals, consents, modifications or waivers of any Governmental Agency which are reasonably necessary to implement the Step Up Preference Share Scheme are obtained;
- ASX provides approval for the official quotation of the New Bendigo Bank Step Up Preference Shares, subject to any conditions which ASX may reasonably require;
- the Court approves the Ordinary Share Scheme; and
- such other conditions required by the Court as are acceptable to Adelaide Bank and Bendigo Bank have been satisfied.

11.3 Scheme Consideration

Subject to arrangements for Ineligible Foreign Step Up Preference Shareholders (which are summarised in Section 11.5), Bendigo Bank will issue on the Implementation Date one New Bendigo Bank Step Up Preference Share for each Adelaide Bank Step Up Preference Share held by a Step Up Preference Share Scheme Shareholder as at the Scheme Record Date.

The exchange ratio reflects the intention of Adelaide Bank and Bendigo Bank to replicate (as far as practicable) the existing terms of Adelaide Bank Step Up Preference Shares, but in the Merged Group. Accordingly, it was determined that, under the Step Up Preference Share Scheme, Step Up Preference Shareholders should exchange their Adelaide Bank Step Up Preference Shares for New Bendigo Bank Step Up Preference shares on a one-for-one basis.

In the case of joint holders, the New Bendigo Bank Step Up Preference Shares will be issued to and registered in the name of the joint holders.

The Scheme Record Date is expected to be 6.30pm on 27 November 2007 and the Implementation Date is expected to be 30 November 2007. These dates may change and will be finalised only after the Court has considered and approved the Step Up Preference Share Scheme. Any changes to these dates will be announced to ASX and notified on Adelaide Bank's website at www.adelaidebank.com.au.

11.4 Determination of persons entitled to Scheme Consideration

Step Up Preference Shareholders whose names appear on the Adelaide Bank Register as at the Scheme Record Date, i.e. at 6.30pm on 27 November 2007, will be entitled to receive the Scheme Consideration under the Step Up Preference Share Scheme.

11.5 Foreign shareholders

(a) General

Restrictions in certain foreign countries may make it impractical or unlawful for Bendigo Bank to offer or issue New Bendigo Bank Step Up Preference Shares to Step Up Preference Shareholders located in those countries, or for Step Up Preference Shareholders located in those countries to receive New Bendigo Bank Step Up Preference Shares under the Step Up Preference Share Scheme.

Any Step Up Preference Shareholder whose address in the Adelaide Bank Register at the Scheme Record Date is outside of Australia and its external territories and New Zealand is a Foreign Step Up Preference Shareholder.

A Foreign Step Up Preference Shareholder will be classified as an Ineligible Foreign Step Up Preference Shareholder unless Bendigo Bank is satisfied, acting reasonably, that:

- it is lawful, under any one or more relevant jurisdictions, and not unduly onerous to issue a Foreign Step Up Preference Shareholder with the Scheme Consideration when the Step Up Preference Share Scheme becomes Effective; and
- it is lawful, under any one or more relevant jurisdictions, for that Foreign Step Up Preference Shareholder to participate in the Step Up Preference Share Scheme.

Bendigo Bank is not obliged to (and will not) issue any New Bendigo Bank Step Up Preference Shares to any Ineligible Foreign Step Up Preference Shareholder under the Step Up Preference Share Scheme. Instead, on the Implementation Date Bendigo Bank must issue to a Nominee (appointed by Bendigo Bank and approved by Adelaide Bank) the New Bendigo Bank Step Up Preference Shares to which that Ineligible Foreign Step Up Preference Shareholder would otherwise, but for these arrangements, be entitled to receive.

Bendigo Bank will procure that:

- within 15 Business Days after the Implementation Date, the Nominee offers for sale on the stock market operated by ASX all of the New Bendigo Bank Step Up Preference Shares issued to the Nominee under the Step Up Preference Share Scheme in such manner, at such price and on such other terms (and at the risk of the Ineligible Foreign Step Up Preference Shareholders) as the Nominee determines in its absolute discretion; and
- promptly after the sale, each Ineligible Foreign Step Up Preference Shareholder is paid such fraction of the proceeds of sale (after deduction of reasonable fees of the Nominee, brokerage, taxes and other reasonable costs of sale) as is equal to the number of New Bendigo Bank Step Up Preference Shares which would have otherwise been issued to the Ineligible Foreign Step Up Preference Shareholder under the Step Up Preference Share Scheme divided by the total number of New Bendigo Bank Step Up Preference Shares issued to the Nominee under the Step Up Preference Share Scheme.

Payment will be made by cheque in Australian currency drawn on an Australian bank and sent to the address of the Ineligible Foreign Step Up Preference Shareholder as noted in the Adelaide Bank Register. Payment made in this way will be in full satisfaction of Bendigo Bank's obligations to the Ineligible Foreign Step Up Preference Shareholder under the Step Up Preference Share Scheme.

Each Ineligible Foreign Step Up Preference Shareholder appoints Adelaide Bank as its agent to receive on its behalf any financial services guide or other notices (including any updates of those documents) that the Nominee is required to provide to Ineligible Foreign Step Up Preference Shareholders under the Corporations Act.

None of Adelaide Bank, Bendigo Bank or the Nominee gives any assurance as to the price that will be achieved for the sale of the New Bendigo Bank Step Up Preference Shares by the Nominee.

(b) Step Up Preference Shareholders resident in New Zealand

The New Bendigo Bank Step Up Preference Shares to be issued under the Step Up Preference Share Scheme will be issued to New Zealand Step Up Preference Shareholders in accordance with the *Securities Act 1978* and the *Securities Act (Overseas Companies) Exemption Notice 2002*. This Scheme Book is not a prospectus or an investment statement under New Zealand law and may not contain all the information that a prospectus or investment statement under New Zealand law is required to contain.

The issue of New Bendigo Bank Step Up Preference Shares will be done in the manner specified in this Scheme Book, as prescribed by the laws of Australia and by the Deed Poll entered into by Bendigo Bank. Bendigo Bank may not be subject in all respects to New Zealand law and the Deed Poll entered into by Bendigo Bank concerning the issue of New Bendigo Bank Step Up Preference Shares may not be enforceable in New Zealand courts.

In addition to the other risk factors specified in Section 20, investing in New Bendigo Bank Step Up Preference Shares may involve currency risk for New Zealand investors and will have Australian and New Zealand tax implications which are not set out in Section 21. New Zealand investors should seek their own advice and satisfy themselves as to the Australian and New Zealand tax implications of participating in the Step Up Preference Share Scheme.

For the purposes of the *Securities Act (Overseas Companies) Exemption Notice 2002*, Bendigo Bank is not, and will not be, listed on the New Zealand Stock Exchange, and investors may not have access to information in the same way as they would if it were so listed. Similarly, Adelaide Bank is not currently listed on the New Zealand Stock Exchange.

11.6 Warranties by Step Up Preference Shareholders

The Step Up Preference Share Scheme provides that each Step Up Preference Shareholder is deemed to have warranted to Bendigo Bank, and appointed and authorised Adelaide Bank as its attorney and agent to warrant on their behalf to Bendigo Bank, that:

- their Adelaide Bank Step Up Preference Shares will, at the date of transfer of them to Bendigo Bank, be fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, including any restrictions on transfer; and
- they have full power and capacity to sell and to transfer their Adelaide Bank Step Up Preference Shares to Bendigo Bank under the Step Up Preference Share Scheme.

11.7 Possible compulsory acquisition if Step Up Preference Share Scheme is not implemented

If the Step Up Preference Share Scheme is not implemented, the Step Up Preference Shareholders will retain their Adelaide Bank Step Up Preference Shares and their rights will remain unchanged.

However, if the Merger proceeds without the Step Up Preference Share Scheme becoming Effective, it is the present intention of Bendigo Bank and Adelaide Bank (subject to maintaining an appropriate capital position) that the Merged Group pursue any entitlement it may have to compulsorily acquire the Adelaide Bank Step Up Preference Shares under part 6A.2 of the Corporations Act.

In these circumstances, the intention is (subject to maintaining an appropriate capital position) to proceed with the compulsory acquisition of the Adelaide Bank Step Up Preference Shares irrespective of whether or not the Reset Preference Share Scheme becomes Effective. However, the timing of an election by Bendigo Bank to proceed with such a compulsory acquisition is likely to depend on the course of the Reset Preference Share Scheme. In particular, if the Reset Preference Share Scheme does not become Effective, Bendigo Bank may need to first exchange the Adelaide Bank Reset Preference Shares for cash consideration (subject to APRA's approval) pursuant to the change of control event clause in the terms of the Adelaide Bank Reset Preference Shares (clause 20.2) before proceeding to compulsorily acquire the Adelaide Bank Step Up Preference Shares.

Step Up Preference Shareholders should note, in the context of the Merged Group seeking to compulsorily acquire the Adelaide Bank Step Up Preference Shares, that the Corporations Act contains procedures and safeguards pursuant to which:

- the Merged Group would be required to prepare and issue a compulsory acquisition notice in a prescribed form;
- a Step Up Preference Shareholder would be entitled to object to the compulsory acquisition of their Adelaide Bank Step Up Preference Shares;
- if people who hold at least 10% of the Step Up Preference Shares validly objected to the compulsory acquisition of their Adelaide Bank Step Up Preference Shares, the compulsory acquisition would not proceed unless the Merged Group applied to the court for its approval, and such approval was granted by the court on the basis that the Merged Group established that the Step Up Preference Shareholders would receive fair value for their Adelaide Bank Step Up Preference Shares;
- the Merged Group would be required to bear the legal costs of any proper and reasonable objection to the compulsory acquisition made by a Step Up Preference Shareholder; and
- the Merged Group would only be entitled to seek to compulsorily acquire the Adelaide Bank Step Up Preference Shares for a cash sum.

11.8 Other information

Step Up Preference Shareholders are directed to the disclosure in Sections 6.8 and 6.9 regarding the exclusivity and break fee arrangements which Adelaide Bank has agreed to under the Merger Implementation Agreement.

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Information for Reset Preference Shareholders

IMPORTANT NOTICE:
PART D ALSO CONTAINS INFORMATION FOR RESET PREFERENCE SHAREHOLDERS.
APPENDIX 10 CONTAINS THE NOTICE OF RESET PREFERENCE SHARE SCHEME MEETING.

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Overview of the Reset Preference Share Scheme

12.1 Background

On 9 August 2007, following execution of the Merger Implementation Agreement, Adelaide Bank and Bendigo Bank jointly announced a proposal to merge by way of a scheme of arrangement.

In connection with the Merger, Bendigo Bank is seeking to acquire all of the Adelaide Bank Reset Preference Shares.

It is proposed that the acquisition of the Adelaide Bank Reset Preference Shares will be implemented by way of the Reset Preference Share Scheme. If the Reset Preference Share Scheme is approved, Bendigo Bank will acquire all of the Adelaide Bank Reset Preference Shares.

This Part C contains important information for Reset Preference Shareholders regarding the Reset Preference Share Scheme. Part D also contains important information.

Separate schemes of arrangement are proposed in relation to the Adelaide Bank Ordinary Shares (**Ordinary Share Scheme**) and the Adelaide Bank Step Up Preference Shares (**Step Up Preference Share Scheme**). Each of the Step Up Preference Share Scheme and the Reset Preference Share Scheme is conditional on the Ordinary Share Scheme. Further information regarding the Ordinary Share Scheme is set out in Part A and further information regarding the Step Up Preference Share Scheme is set out in Part B.

The Adelaide Bank Directors unanimously recommend that Reset Preference Shareholders vote in favour of the Reset Preference Share Scheme, in the absence of a superior proposal. Each Adelaide Bank Director who is able to control the voting rights attached to Adelaide Bank Reset Preference Shares intends to vote those shares, or procure that those shares are voted, in favour of the Reset Preference Share Scheme, in the absence of a superior proposal.

Furthermore, the Reset Preference Share Scheme has been considered by the Independent Expert. The Independent Expert has concluded that the Reset Preference Share Scheme is in the best interests of Reset Preference Shareholders. A copy of the Independent Expert's Report in relation to the Reset Preference Share Scheme can be found in Section 25. You should read the Independent Expert's Report in its entirety.

The Reset Preference Share Scheme is subject to a number of conditions, details of which can be found in Sections 12.7 and 16.2.

12.2 Terms of the Reset Preference Share Scheme

On implementation of the Reset Preference Share Scheme:

- all of the Adelaide Bank Reset Preference Shares will be transferred to Bendigo Bank; and
- Reset Preference Share Scheme Shareholders will receive one fully paid New Bendigo Bank Reset Preference Share³² for each Adelaide Bank Reset Preference Share held on the Scheme Record Date.

12.3 The New Bendigo Bank Reset Preference Shares

The New Bendigo Bank Reset Preference Shares to be issued as consideration pursuant to the Reset Preference Share Scheme will be issued fully paid and on terms that are substantially the same as those applicable to the Adelaide Bank Reset Preference Shares.

Apart from the fact that the New Bendigo Bank Reset Preference Shares would, if they are exchanged for or converted into shares under their terms, exchange or convert into Bendigo Bank Ordinary Shares rather than Adelaide Bank Ordinary Shares, the only key difference between the terms of issue of the New Bendigo Reset Preference Shares and the existing Adelaide Bank Reset Preference Shares is in respect of the ranking of shares. This difference ensures that the New Bendigo Reset Preference Shares comply with the requirements under the terms of Bendigo Bank Preference Shares concerning the equal ranking of those shares.

Specifically, the terms of the New Bendigo Bank Reset Preference Shares restrict payments and returns of capital on certain securities, including the Bendigo Bank Ordinary Shares, in circumstances where the Merged Group has failed to pay New Bendigo Bank Reset Preference Shareholders a dividend in full within a specified time. Broadly, that restriction will only be lifted if:

- two consecutive dividend payments are then made to the New Bendigo Bank Reset Preference Shareholders (or equivalent dividends if the frequency of payments is other than semi-annual); or
- an optional dividend equal to the unpaid amount (if any) of the two immediately preceding dividends (or equivalent dividends if the frequency of payment is other than semi-annual) is paid to the New Bendigo Bank Reset Preference Shareholders and any equal ranking holders of the share capital of the Merged Group (if any).

³² Different arrangements apply to Ineligible Foreign Shareholders.

12.4 Key terms of the New Bendigo Bank Reset Preference Shares

The table below sets out a summary of the key terms of the New Bendigo Bank Reset Preference Shares.

The terms of the New Bendigo Bank Reset Preference Shares are set out in full in Appendix 7.

Key term	Position in relation to New Bendigo Bank Reset Preference Shares
Issuer	The Merged Group
Number expected to be issued	894,754 (assuming exchange of 105,426 Adelaide Bank Reset Preference Shares on 1 November 2007 as noted in Section 17.5)
Face value	\$100 per New Bendigo Bank Reset Preference Share
Dividend	Preferred, non-cumulative dividend, fixed until the reset date (1 November 2012)
Calculation of dividend rate	<p>The dividend rate is the rate calculated as:</p> $(\text{Market Rate} + \text{Margin}) \times (1 - T_i)$ <p>where:</p> <p>Market Rate is a floating rate to be set by reference to the mid swap reference rate for the dividend period on the dividend payment date immediately prior to the dividend period;</p> <p>Margin is 1.60% per annum prior to the reset date, after which it may be increased, subject to certain conditions, or decreased; and</p> <p>T_i is the Australian corporate tax rate applicable to the franking account of the Merged Group from which the dividend will be franked, expressed as a decimal (currently 0.30)</p>
Payment of dividend	<p>Dividends will be payable twice yearly in arrears, on 1 May and 1 November in each year that the New Bendigo Bank Reset Preference Shares are on issue</p> <p>The first dividend payment date will be 1 May 2008</p> <p>The dividend is only payable if the Merged Group Board, in its discretion, determines that a dividend is payable and subject to certain other conditions</p>
Non-cumulative	<p>Dividends are non-cumulative. If all or part of a dividend is not paid, the Merged Group is not obliged to pay, and no holder of New Bendigo Bank Reset Preference Shares has a right to be paid, the unpaid part of the dividend at any time in the future</p> <p>However, if this occurs, the Merged Group cannot pay a dividend on Bendigo Bank Ordinary Shares or other equal ranking shares of the Merged Group unless the Merged Group takes certain actions</p>
Franking	Dividends are expected to be fully franked. If a dividend is unfranked or partially franked, the dividend will be increased to compensate holders for the unfranked portion
Reset date	<p>The first reset date is 1 November 2012</p> <p>On the reset date, the Merged Group may reset certain terms, such as the date of the next reset date and the dividend rate applying until such date. New Bendigo Reset Preference Shareholders will be notified of the new terms prior to the reset date</p>

Key term	Position in relation to New Bendigo Bank Reset Preference Shares
Exchange by the Merged Group	<p>The Merged Group may exchange some or all of the New Bendigo Bank Reset Preference Shares on the reset date or any subsequent dividend payment date, or exchange all of the New Bendigo Bank Reset Preference Shares on any dividend payment date following the occurrence of a control event, tax event or regulatory event (which may occur prior to the reset date)</p> <p>On exchange, at its sole discretion, the Merged Group may:</p> <ul style="list-style-type: none"> • exchange each New Bendigo Bank Reset Preference Share for the face value, subject to the prior approval of APRA; • convert the New Bendigo Bank Reset Preference Shares into Bendigo Bank Ordinary Shares; or • undertake a combination of the above
Exchange by holder of New Bendigo Bank Reset Preference Shares	<p>A holder of New Bendigo Bank Reset Preference Shares may exchange some or all New Bendigo Bank Reset Preference Shares on a reset date and earlier following a control event by delivering an exchange notice to the Merged Group</p> <p>On receipt of an exchange notice from a holder of New Bendigo Bank Reset Preference Shares, at its sole discretion, the Merged Group may:</p> <ul style="list-style-type: none"> • exchange the New Bendigo Bank Reset Preference Shares for cash consideration equal to the face value, subject to the prior approval of APRA; • convert the New Bendigo Bank Reset Preference Shares into Bendigo Bank Ordinary Shares; or • arrange for the New Bendigo Bank Reset Preference Shares to be acquired by a third party at the face value
Conversion into Bendigo Bank Ordinary Shares	<p>If the Merged Group elects to convert, the number of Bendigo Bank Ordinary Shares into which the New Bendigo Bank Reset Preference Shares will convert is calculated by dividing the face value by 97.5% of the average daily volume weighted average price of Bendigo Bank Ordinary Shares during the 20 trading days immediately preceding the date for exchange</p>
Ranking	<p>For the payment of dividends, the New Bendigo Bank Reset Preference Shares will rank equally with the New Bendigo Bank Step Up Preference Shares and Bendigo Bank Preference Shares and in priority to the Bendigo Bank Ordinary Shares. In a winding up or liquidation, the New Bendigo Bank Reset Preference Shares will rank behind all depositors and creditors of Bendigo Bank, ahead of Bendigo Bank Ordinary Shares, and equally with the New Bendigo Bank Step Up Preference Shares and Bendigo Bank Preference Shares for the return of the face value and any dividend due but not paid</p>
Participation	<p>The New Bendigo Bank Reset Preference Shares do not carry a right to participate in issues of securities to, or capital reconstructions affecting, holders of Bendigo Bank Ordinary Shares</p>
Voting rights	<p>No right to vote, except in limited circumstances</p>
Quotation	<p>The Reset Preference Share Scheme is conditional on the New Bendigo Bank Reset Preference Shares being granted official quotation (which is not guaranteed or automatic)</p>

12.5 Recommendation of Adelaide Bank Directors

The Adelaide Bank Directors have considered the potential advantages and disadvantages of the Reset Preference Share Scheme. They believe that the Reset Preference Share Scheme is in the best interests of Reset Preference Shareholders and unanimously recommend that Reset Preference Shareholders vote in favour of the Reset Preference Share Scheme, in the absence of a superior proposal.

In making their recommendation, the Adelaide Bank Directors have in particular considered the following:

- the reasons why Reset Preference Shareholders should vote in favour of the Reset Preference Share Scheme, set out in Section 14.2;
- the potential disadvantages of the Reset Preference Share Scheme, set out in Section 14.3; and
- the risks associated with an investment in the Merged Group, set out in Section 20.

Each Adelaide Bank Director who is able to control the voting rights attached to Adelaide Bank Reset Preference Shares intends to vote those shares, or procure that those shares are voted, in favour of the Reset Preference Share Scheme, in the absence of a superior proposal.

The Adelaide Bank Directors have not received any superior proposal as at the date of this Scheme Book.

12.6 Independent Expert's Report

KPMG was appointed by the Adelaide Bank Directors as the Independent Expert to assess the merits of the Reset Preference Share Scheme. KPMG has concluded that the Reset Preference Share Scheme is in the best interests of Reset Preference Shareholders.

A copy of the Independent Expert's Report in relation to the Reset Preference Share Scheme is set out in Section 25 and should be read in its entirety.

12.7 Conditions precedent

The Reset Preference Share Scheme will not proceed unless:

- it is approved by the requisite majorities of Reset Preference Shareholders and by the Court;
- all approvals, consents, modifications or waivers of any Governmental Agency which are reasonably necessary to implement the Reset Preference Share Scheme are obtained;
- ASX provides approval for the official quotation of the New Bendigo Bank Reset Preference Shares, subject to any conditions which ASX may reasonably require;
- the Court approves the Ordinary Share Scheme; and
- such other conditions required by the Court as are acceptable to Adelaide Bank and Bendigo Bank have been satisfied.

12.8 Reset Preference Share Scheme approval

For the Reset Preference Share Scheme to be implemented, it must be approved by:

- a majority (i.e. more than 50%) in number of Reset Preference Shareholders present and voting on the resolution (in person or by proxy, attorney or, in the case of a corporate Reset Preference Shareholder, by a corporate representative); and
- at least 75% of the total number of votes cast on the resolution by Reset Preference Shareholders (in person or by proxy, attorney or, in the case of a corporate Reset Preference Shareholder, by a corporate representative).

The Reset Preference Share Scheme Meeting has been convened for 11.30am on 12 November 2007 at Adelaide Convention Centre, North Terrace, Adelaide, SA.

12.9 Entitlement to vote

All Reset Preference Shareholders on the Adelaide Bank Register at 12.00 midday on 11 November 2007 are entitled to vote at the Reset Preference Share Scheme Meeting.

For further details on how to vote, please refer to Section 15.

12.10 What happens if the Reset Preference Share Scheme and the Ordinary Share Scheme do not proceed?

If the Reset Preference Share Scheme does not proceed and the Ordinary Share Scheme does not become Effective, the Reset Preference Shareholders will retain their Adelaide Bank Reset Preference Shares and the rights of Reset Preference Shareholders will remain unchanged.

12.11 What happens if the Reset Preference Share Scheme does not proceed but the Ordinary Share Scheme becomes Effective?

If the Ordinary Share Scheme becomes Effective, but the Reset Preference Share Scheme does not become Effective, the Reset Preference Shareholders will retain their Adelaide Bank Reset Preference Shares and the rights of Reset Preference Shareholders will remain unchanged.

However, in those circumstances, on the basis that the Merger would constitute a change of control event, it is the present intention of Bendigo Bank and Adelaide Bank that Adelaide Bank would exchange the Adelaide Bank Reset Preference Shares for cash (subject to APRA's approval) pursuant to clause 20.2 of the terms of the Adelaide Bank Reset Preference Shares.

12.12 Trading of New Bendigo Bank Reset Preference Shares

If the Reset Preference Share Scheme becomes Effective, New Bendigo Bank Reset Preference Shares are expected to commence trading on a deferred settlement basis on ASX on 21 November 2007, being the next trading day after the Effective Date and on a normal settlement basis on 5 December 2007.

As at the date of this Scheme Book, there are no New Bendigo Bank Reset Preference Shares on issue. Accordingly, there is no information regarding the price of sale of any New Bendigo Bank Reset Preference Shares, which would otherwise give rise to disclosure requirements under the Corporations Regulations.

12.13 Tax considerations for Reset Preference Shareholders

A summary of the general Australian taxation implications of the Reset Preference Share Scheme for Reset Preference Shareholders who are Australian residents for tax purposes is set out in Section 21.

Your decision regarding how to vote on the Reset Preference Share Scheme should be made only after consultation with your financial, legal, taxation or other professional adviser based on your own investment objectives, financial situation, taxation position and particular needs.

12.14 How to obtain further information

For further information, you should:

- contact your financial, legal, taxation or other professional adviser;
- call the Shareholder Information Line on 1800 211 826 (free call from within Australia) or +612 8986 9354 (from outside Australia); or
- contact Adelaide Bank at the following email address: merger@adelaidebank.com.au

Part C | Section 13

Frequently asked questions for Reset Preference Shareholders

Set out below are answers to frequently asked questions regarding the Reset Preference Share Scheme and the action you should take.

The answers provided are intended to assist you with your understanding of the Reset Preference Share Scheme. However, you should carefully read Parts C and D in their entirety in order to fully understand the Reset Preference Share Scheme and the action you should take.

QUESTIONS ABOUT THE RESET PREFERENCE SHARE SCHEME

Q1 What is the Reset Preference Share Scheme?

The Reset Preference Share Scheme is a scheme of arrangement between Adelaide Bank and the Reset Preference Shareholders.

Under the Reset Preference Share Scheme, all Adelaide Bank Reset Preference Shares will be transferred to Bendigo Bank and Bendigo Bank will issue one New Bendigo Bank Reset Preference Share³³ to Reset Preference Share Scheme Shareholders for each Adelaide Bank Reset Preference Share held by them at the Scheme Record Date.

Q2 Why is the Reset Preference Share Scheme being proposed?

The Reset Preference Share Scheme is being proposed in connection with the merger of Adelaide Bank and Bendigo Bank.

It is intended to enable Bendigo Bank to acquire 100% of the issued shares of Adelaide Bank (together with the Ordinary Share Scheme and Step Up Preference Share Scheme).

Q3 What is the recommendation of the Adelaide Bank Directors?

The Adelaide Bank Directors are unanimously recommending that Reset Preference Shareholders vote in favour of the Reset Preference Share Scheme, in the absence of a superior proposal. Please see Section 14.1 for further details.

³³ Different arrangements apply to Ineligible Foreign Shareholders – please see Q28 below.

Q4

Are there any disadvantages?

The Adelaide Bank Directors unanimously believe that the potential advantages of the Reset Preference Share Scheme outweigh its potential disadvantages.

However, Reset Preference Shareholders should be aware of the potential disadvantages of the Reset Preference Share Scheme which are summarised in Section 14.3. Reset Preference Shareholders should also take into account the risks which are described in Section 20.

Q5

What is the opinion of the Independent Expert?

Adelaide Bank appointed KPMG to provide an opinion as to whether the Reset Preference Share Scheme is in the best interests of Reset Preference Shareholders.

The Independent Expert has considered the Reset Preference Share Scheme and has concluded that the Reset Preference Share Scheme is in the best interests of Reset Preference Shareholders. A copy of the Independent Expert's Report in relation to the Reset Preference Share Scheme is set out in Section 25.

Q6

What is a scheme of arrangement?

A scheme of arrangement is a legal arrangement between a company and its shareholders. The terms of the Reset Preference Share Scheme are set out in full in Appendix 4.

Q7

Is shareholder approval required?

In order to take effect, the Reset Preference Share Scheme will need to be approved by a majority (i.e. greater than 50%) in number of Reset Preference Shareholders present and voting on the resolution (in person or by proxy, attorney or, in the case of a corporate Reset Preference Shareholder, a corporate representative). Those who vote in favour must also cast at least 75% of the total number of votes cast by Reset Preference Shareholders on the resolution (in person or by proxy, attorney or, in the case of a corporate Reset Preference Shareholder, a corporate representative).

The Reset Preference Share Scheme is also conditional on approval by the Court.

Q8

Are there any conditions to the Reset Preference Share Scheme being completed?

The Reset Preference Share Scheme is conditional on approval by the requisite majorities of Reset Preference Shareholders and by the Court on the receipt of any necessary regulatory approvals, ASX granting official quotation to the New Bendigo Bank Reset Preference Shares, and on the Ordinary Share Scheme. Please refer to Sections 12.7 and 16.2 for further details.

QUESTIONS ABOUT THE MERGED GROUP

Q9

Who will be the directors of the Merged Group?

Robert Johanson will continue as Chairman and Kevin G Osborn, a non-executive director of Adelaide Bank, will become Deputy Chairman.

Rob Hunt, Managing Director of Bendigo Bank, will continue in that position until his retirement on 1 July 2009.

Adelaide Bank's Group Managing Director, Jamie McPhee, will be appointed to the Merged Group Board as an executive director and be responsible for wholesale banking services of the Merged Group. With Mr Hunt's retirement in July 2009, this will place Mr McPhee in an excellent position to succeed Mr Hunt.

Subject to receiving shareholder approval at Bendigo Bank's annual general meeting on 29 October 2007 to amend Bendigo Bank's constitution to increase the size of its board, the Merged Group Board will also include eight further directors, comprised of five non-executive directors from the existing Bendigo Bank Board (nominated by Bendigo Bank) and three non-executive directors from the existing Adelaide Bank Board (nominated by Adelaide Bank).

If this approval is not obtained, the Merged Group Board will instead include six further directors, comprised of four non-executive directors from the existing Bendigo Bank Board and two non-executive directors from the existing Adelaide Bank Board.

Please refer to Section 19.3 for further details.

Q10**What will happen to the Adelaide Bank businesses?**

The Merged Group intends to retain and grow the businesses of Adelaide Bank and Bendigo Bank.

Q11**Where will the Merged Group's head office be located?**

Head office functions of the Merged Group will be shared between existing sites. It is intended that the wholesale business of the Merged Group will be headquartered in Adelaide and the retail business headquartered in Bendigo. The registered head office of the Merged Group will be in Bendigo. Meetings of the Merged Group Board and annual general meetings of the Merged Group will be shared between South Australia and Victoria on such basis as the Merged Group Board considers appropriate.

QUESTIONS ABOUT VOTING**Q12****When and where will the Reset Preference Share Scheme Meeting be held?**

The Reset Preference Share Scheme Meeting will be held at 11.30am on 12 November 2007 at Adelaide Convention Centre, North Terrace, Adelaide, SA.

Q13**Can I vote at the Reset Preference Share Scheme Meeting?**

If you are registered as a Reset Preference Shareholder as at 12.00 midday on 11 November 2007, then you are entitled to vote at the Reset Preference Share Scheme Meeting.

Q14**How do I vote?**

You can vote in person or by proxy or attorney. Any Reset Preference Shareholder that is a body corporate may vote at the Reset Preference Share Scheme Meeting through a corporate representative. Details of how to vote are set out in Section 15.

Q15**Is voting compulsory? If not, should I vote?**

No, voting is not compulsory. However, the Adelaide Bank Directors unanimously believe that the Reset Preference Share Scheme is in the best interests of Reset Preference Shareholders and urge you to read Parts C and D in their entirety and exercise your right to vote. Your vote is important.

Q16**What if I cannot attend the meeting?**

If you cannot attend the Reset Preference Share Scheme Meeting, you should complete and return the enclosed proxy form in accordance with the instructions on the proxy form.

Please refer to Section 15 for further information regarding voting and appointing a proxy.

Q17**What happens if I do not vote, or I vote against the Reset Preference Share Scheme?**

If the Reset Preference Share Scheme becomes Effective and you are a Reset Preference Share Scheme Shareholder, all of your Adelaide Bank Reset Preference Shares will be transferred to Bendigo Bank and you will receive one New Bendigo Bank Reset Preference Share³⁴ for each Adelaide Bank Reset Preference Share held by you at the Scheme Record Date. This will occur even if you did not vote or voted against the Reset Preference Share Scheme.

Q18**Are Bendigo Bank shareholders entitled to vote?**

No, only Reset Preference Shareholders are entitled to vote on the Reset Preference Share Scheme.

³⁴ Different arrangements apply to Ineligible Foreign Shareholders – please see Q28.

Q19

How will Adelaide Bank Directors be voting?

Each Adelaide Bank Director who is able to control voting rights in relation to Adelaide Bank Reset Preference Shares intends to vote those shares, or procure that those shares are voted, in favour of the Reset Preference Share Scheme, in the absence of a superior proposal.

Q20

When will the voting result be known?

The result of the vote will be available shortly after the conclusion of the Reset Preference Share Scheme Meeting and will be announced to ASX as soon as possible after it becomes available and will also be published on Adelaide Bank's website at www.adelaidebank.com.au.

Q21

What happens if the Reset Preference Share Scheme is not approved?

If the Reset Preference Share Scheme is not approved by Reset Preference Shareholders or the Court, the Reset Preference Share Scheme will not proceed. However, it is the present intention of Bendigo Bank and Adelaide Bank (subject to maintaining an appropriate capital position) that Adelaide Bank will, in that circumstance, exercise its rights to exchange the Adelaide Bank Reset Preference Shares for cash (subject to APRA approval) under clause 20.2 of the terms of issue of those shares. Please refer to Section 16.7.

QUESTIONS ABOUT WHAT YOU WILL RECEIVE UNDER THE RESET PREFERENCE SHARE SCHEME

Q22

What will I be entitled to receive if the Reset Preference Share Scheme is approved?

If the Reset Preference Share Scheme becomes Effective and you are a Reset Preference Share Scheme Shareholder, you will be entitled to receive one New Bendigo Bank Reset Preference Share³⁵ for each Adelaide Bank Reset Preference Share which you hold at the Scheme Record Date.

Q23

When will I receive my New Bendigo Bank Reset Preference Shares?

If you are entitled to be issued New Bendigo Bank Reset Preference Shares, you will be issued with your New Bendigo Bank Reset Preference Shares on the Implementation Date and holding statements detailing your holding will be sent to you as soon as practicable after that date. At this stage, the Implementation Date is expected to be 30 November 2007.

Q24

Will I be required to pay broker fees?

You will not need to pay broker fees in connection with the Reset Preference Share Scheme. However, if you sell your New Bendigo Bank Reset Preference Shares after the Reset Preference Share Scheme is implemented, you may have to pay broker fees.

Q25

When can I start trading my New Bendigo Bank Reset Preference Shares?

Trading in New Bendigo Bank Reset Preference Shares on ASX is expected to commence on a deferred settlement basis on 21 November 2007. Deferred settlement trading is currently expected to continue until 4 December 2007. Normal settlement trading is currently expected to commence on 5 December 2007, the Business Day after New Bendigo Bank Reset Preference Shares are issued.

³⁵ Different arrangements apply to Ineligible Foreign Shareholders – please see Q28.

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Q26**Will I continue to receive dividends from Adelaide Bank?**

You will receive a dividend of \$3.025 per Adelaide Bank Reset Preference Shares payable on 1 November 2007. The record date for this dividend will be 17 October 2007.

If the Reset Preference Share Scheme is implemented, you will not receive any further dividends from Adelaide Bank. However, as a holder of New Bendigo Bank Reset Preference Shares, you will be entitled to receive dividends on your New Bendigo Bank Reset Preference Shares paid by the Merged Group in the future.

The dividend payment dates for the New Bendigo Bank Reset Preference Shares will be 1 May and 1 December in each year that the New Bendigo Bank Reset Preference Shares are on issue (these are the same dates as the dates for Adelaide Bank Reset Preference Shares). The first dividend payment date is 1 May 2008 and will be in respect of the period since the last payment date on the Adelaide Bank Reset Preference Shares. The dividend is only payable if the Merged Group Board in its discretion, determines that a dividend is payable and subject to certain other conditions. Please refer to Section 19.6 for important information regarding dividends.

Q27**Can I still sell my Adelaide Bank Reset Preference Shares?**

You can sell your Adelaide Bank Reset Preference Shares on market at any time before the close of trading on the Effective Date. If the Reset Preference Share Scheme is approved by Reset Preference Shareholders and the Court, trading in Adelaide Bank Reset Preference Shares on ASX will be suspended with effect from close of trading on the Effective Date. At this stage, the Effective Date is expected to be 20 November 2007.

Please note that this date may change. Any change will be announced to ASX and notified on Adelaide Bank's website at www.adelaidebank.com.au.

If you sell your Adelaide Bank Reset Preference Shares on ASX:

- you may need to pay brokerage on the sale; and
- there may be different tax consequences from those that arise under the Reset Preference Share Scheme.

Q28**What if I am a foreign shareholder?**

A Reset Preference Shareholder whose address as shown in the Adelaide Bank Register as at the Scheme Record Date is outside of Australia and its external territories and New Zealand will be an Ineligible Foreign Reset Preference Shareholder for the purposes of the Reset Preference Share Scheme, unless Bendigo Bank determines otherwise. The New Bendigo Bank Reset Preference Shares the Ineligible Foreign Reset Preference Shareholder would otherwise be entitled to receive under the Reset Preference Share Scheme will be issued instead to the Nominee who will offer to sell them on ASX and the sale proceeds, net of costs, will be remitted to the Ineligible Foreign Shareholder. Please see Section 16.5 for further details.

Q29**What are the taxation implications for Reset Preference Shareholders?**

Australian residents for tax purposes who hold their Adelaide Bank Reset Preference Shares on capital account should be able to elect to receive capital gains tax rollover relief. A general overview of the Australian tax consequences of the Reset Preference Share Scheme for Reset Preference Shareholders who are Australian residents for tax purposes is set out in Section 21. This is a general overview only. Reset Preference Shareholders are therefore advised to consult their own tax advisers to obtain specific advice relevant to their circumstances.

Q30**What do I need to do?**

You should carefully read Parts C and D in their entirety.

Your vote is important and you are encouraged to attend the Reset Preference Share Scheme Meeting. If you cannot attend the meeting, you should complete the enclosed proxy form and return it as soon as possible and, in any event, by no later than 12.00 midday on 10 November 2007.

If you have any further questions about the Reset Preference Share Scheme, please contact your financial, legal, taxation or other professional adviser or call the Shareholder Information Line on 1800 211 826 (free call from within Australia) or +612 8986 9354 (from outside Australia) or contact Adelaide Bank at merger@adelaidebank.com.au.

Part C | Section 14

Assessment of the Reset Preference Share Scheme

There are a number of important matters that Reset Preference Shareholders need to consider in making a decision on how to vote with respect to the Reset Preference Share Scheme.

These include a number of potential advantages and disadvantages, some of which will be dependent upon the individual financial and taxation circumstances of each Reset Preference Shareholder.

Reset Preference Shareholders should consider the potential advantages and disadvantages in relation to the Reset Preference Share Scheme in the context of their individual financial situation, investment objectives, taxation position and particular needs, and should carefully read Parts C and D in their entirety and seek financial, legal, taxation or other professional advice if necessary. The general Australian tax implications of the Reset Preference Share Scheme for Reset Preference Shareholders who are Australian residents for tax purposes are described in Section 21.

14.1 Directors' recommendation

For the reasons set out below, the Adelaide Bank Directors consider that the Reset Preference Share Scheme is in the best interests of Reset Preference Shareholders and unanimously recommend that Reset Preference Shareholders vote in favour of the Reset Preference Share Scheme, in the absence of a superior proposal.

Each Adelaide Bank Director who is able to control the voting rights in relation to Adelaide Bank Reset Preference Shares intends to vote those shares, or procure that those shares are voted, in favour of the Reset Preference Share Scheme, in the absence of a superior proposal.

14.2 Why should Reset Preference Shareholders vote in favour of the Reset Preference Share Scheme?

The Adelaide Bank Directors believe that Reset Preference Shareholders should vote in favour of the Reset Preference Share Scheme for the following reasons:

(a) **The Independent Expert has assessed the Reset Preference Share Scheme to be in the best interests of the Reset Preference Shareholders**

KPMG was appointed by the Adelaide Bank Directors as the Independent Expert to assess the merits of the Reset Preference Share Scheme. KPMG has concluded that the Reset Preference Share Scheme is in the best interests of Reset Preference Shareholders.

A copy of the Independent Expert's Report in relation to the Reset Preference Share Scheme is set out in Section 25. Reset Preference Shareholders should read the Independent Expert's Report in its entirety.

(b) **Reset Preference Scheme is the best alternative available**

A better alternative for Reset Preference Shareholders could only be achieved if a superior proposal were proposed for Adelaide Bank Reset Preference Shares. As at the date of this Scheme Book, Adelaide Bank Directors are not aware of any such superior proposal.

(c) **Exchange for reset preference shares in a larger and financially stronger Merged Group**

On implementation of the Reset Preference Share Scheme, Adelaide Reset Preference Shareholders will receive New Bendigo Reset Preference Shares from a larger and financially stronger Merged Group. Key reasons why the Merged Group is expected to be larger and financially stronger include the following:

- **Merged Group's combined earnings and asset base**

On a pro forma basis, the Merged Group would have had combined loans under management of more than \$43 billion and net profit after tax of approximately \$265 million for the financial year ended 30 June 2007;³⁶

³⁶ See table and accompanying notes in Section 19.8.

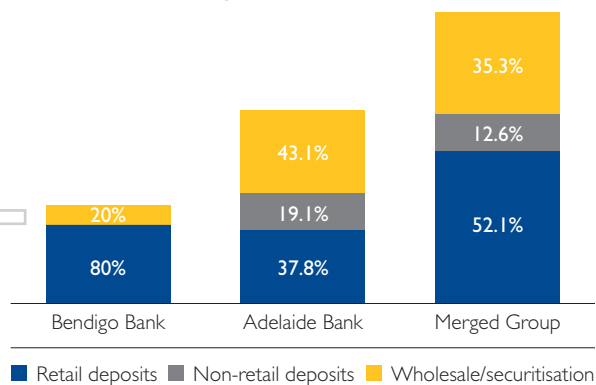
Potential synergies under the Merged Group

It is anticipated the Merger will ultimately provide pre-tax cost synergies of approximately \$60 million – \$65 million, with 80% of those pre-tax cost synergies expected to be realised in the second full year of operation,³⁷ and provide further potential revenue synergies through opportunities to cross sell Adelaide Bank's and Bendigo Bank's existing products to the enlarged customer base of the Merged Group, including more than 1.3 million retail customers and the customer base of wholesale partners; and

A more diversified funding base

The Merged Group will have a more diversified funding mix incorporating Bendigo Bank's retail funding strength and Adelaide Bank's securitisation expertise. As a result, as compared to Adelaide Bank on stand alone basis, the Merged Group's earnings are expected to have less exposure to wholesale debt market volatility. In the financial year ended 30 June 2007, wholesale debt funding comprised 43% of Adelaide Bank's total funding. On a pro forma combined basis as at 30 June 2007, wholesale debt funding would have been reduced to 35% of total funding whilst retail funding would have increased to 52%.

Pro forma funding mix



(d) Potentially improved credit rating

The stronger business profile of the Merged Group may result in a positive credit re-rating in the future for the Merged Group in comparison to Adelaide Bank.

Following the announcement of the Merger, Standard & Poor's (**S&P**) affirmed its 'BBB+/A-2' issuer credit ratings on Adelaide Bank and Bendigo Bank and revised the outlook on the ratings to positive from stable.

S&P stated: 'The positive outlook reflects the possibility that the ratings on the combined entity may be raised by one notch in the next two years as benefits from the proposed merger are progressively realized. If the merger were to succeed, the combined entity is likely to benefit from a stronger business profile on the back of greater scale, business and geographic diversity. There is also potential for an improvement in earnings diversity and funding flexibility. However, the combined entity will also face challenges related to the integration of IT systems, future operational and management structure and cultural differences. An upgrade in the rating on the combined entity will depend on the bank successfully retaining its customer base and evidence that integration risks would be satisfactorily addressed and that the projected cost savings would be substantially realised. The outlook will revert to stable if the Merger does not proceed.'*

The potentially stronger credit standing of the Merged Group offers Reset Preference Shareholders the prospect of increased financial security. An upgrade in the Merged Group's credit rating could also positively affect the market price and liquidity of New Bendigo Bank Reset Preference Shares.

³⁷ Excluding one-off merger and integration costs. Please refer to Section 19.1(c) for details.

* The Standard & Poor's ratings are based on information publicly released by Standard & Poor's. Standard & Poor's have not consented to the use of these credit rating references in this Scheme Book. The credit rating references are not recommendations for Shareholders to take any particular action.

(e) No significant changes to the key terms of Reset Preference Shares

Other than as described above, there are no significant changes between the key terms of the existing Adelaide Bank Reset Preference Shares and the New Bendigo Bank Reset Preference Shares.

(f) Opportunity to retain an investment in preference shares

If the Reset Preference Share Scheme does not become Effective in circumstances where the Ordinary Share Scheme is implemented, a change in control will have occurred which will entitle Adelaide Bank to exchange the Adelaide Bank Reset Preference Shares for cash (subject to APRA's approval). It is the present intention of Adelaide Bank and Bendigo Bank to exercise this right. In such circumstances, holders of Adelaide Bank Reset Preference Shares will receive a cash payment equal to the face value of each Adelaide Bank Reset Preference Share held by them. In contrast, if the Reset Preference Share Scheme is implemented, Reset Preference Shareholders will receive New Bendigo Bank Reset Preference Shares on substantially the same terms as their Adelaide Bank Reset Preference Shares.

However, there can be no assurance that Adelaide Bank Reset Preference Shares will in fact be exchanged for cash in these circumstances or that it would occur within a particular timeframe. Accordingly, Reset Preference Shareholders should be aware, if their Adelaide Bank Reset Preference Shares remain outstanding and if the Merged Group is unable to exchange the Adelaide Bank Reset Preference Shares for cash, that Adelaide Bank would be unlikely, as an alternative, to exercise its right to exchange them for Adelaide Bank Ordinary Shares as that would reduce the Merged Group's holding of Adelaide Bank Ordinary Shares below 100%.

14.3 Potential disadvantages of the Reset Preference Share Scheme

Although the Reset Preference Share Scheme is recommended by the Adelaide Bank Directors and the Independent Expert believes the Reset Preference Share Scheme to be in the best interests of Reset Preference Shareholders, Reset Preference Shareholders should also consider reasons for not voting in favour of the Reset Preference Share Scheme. Some factors which may lead Reset Preference Shareholders to vote against the Reset Preference Share Scheme are set out below. The Adelaide Bank Directors believe that these factors are outweighed by the benefits the Merger is expected to deliver.

(a) Consideration consists of New Bendigo Bank Reset Preference Shares

As the consideration payable to Reset Preference Shareholders under the Reset Preference Share Scheme consists of New Bendigo Bank Reset Preference Shares, the value of the consideration received by Reset Preference Shareholders in connection with the Merger will be dependent on the price at which New Bendigo Bank Reset Preference Shares trade once the Merger is implemented. The value of New Bendigo Bank Reset Preference Shares will be exposed to the normal risks associated with share ownership and the Merged Group's exposure to the Australian financial services industry.

Please refer to Section 20 for further information regarding risks relating to New Bendigo Bank Reset Preference Shares and the Merged Group.

(b) Possibility of a more attractive proposal

It is possible that a more attractive proposal for Reset Preference Shareholders could emerge in the future. As at the date of this Scheme Book, Adelaide Bank Directors are not aware of any such proposal.

Reset Preference Shareholders should be aware that Adelaide Bank has agreed under the Merger Implementation Agreement not to solicit any competing proposal for the acquisition of Adelaide Bank or, except in limited circumstances, respond to any unsolicited competing proposal for the acquisition of Adelaide Bank. Further information in relation to Adelaide Bank's 'no shop' and 'no talk' restrictions is set out in Section 6.8.

(c) Taxation

If the Reset Preference Share Scheme is implemented, it may result in taxation consequences for some Reset Preference Shareholders arising earlier than would otherwise have been the case. The general Australian tax consequences of the Merger for Reset Preference Shareholders who are Australian residents for tax purposes are contained in Section 21. Reset Preference Shareholders should consider the tax consequences of the Merger in view of their own particular circumstances and seek advice from their tax adviser.

14.4 Other relevant considerations**(a) Risk factors**

Refer to the risk factors associated with investing in the Merged Group as set out in Section 20.

(b) Conditional upon the Ordinary Share Scheme

The Reset Preference Share Scheme is conditional upon the Ordinary Share Scheme. Full details on this are provided in Section 16.2.

(c) Retention of dividend payable on 1 November 2007

The Merger will not affect the entitlement of Reset Preference Shareholders to the fully franked final dividend of \$3.025 per Adelaide Bank Reset Preference Share payable on 1 November 2007. The record date for this dividend will be 17 October 2007.

(d) Capital gains tax rollover relief

By receiving New Bendigo Bank Reset Preference Shares under the Reset Preference Share Scheme, Reset Preference Shareholders who hold Adelaide Bank Reset Preference Shares on capital account should be entitled to capital gains tax rollover relief. See Section 21 for a general overview of the Australian taxation implications of the Reset Preference Share Scheme.

(e) All or nothing proposal

If the Reset Preference Share Scheme is implemented, the Reset Preference Share Scheme will bind all Reset Preference Share Scheme Shareholders, including those who do not vote at the Reset Preference Share Scheme Meeting and those who vote against the Reset Preference Share Scheme, meaning that all Reset Preference Share Scheme Shareholders will receive the Scheme Consideration.

Conversely, if the Reset Preference Share Scheme is not implemented, Reset Preference Shareholders will retain their Adelaide Bank Reset Preference Shares and will not receive New Bendigo Bank Reset Preference Shares. The potential advantages of the Merger for Reset Preference Shareholders, as outlined in Section 14.2, will not be realised. However, some of the potential disadvantages of the Merger for Reset Preference Shareholders identified in Section 14.3 will not arise.

However, it is the present intention of Bendigo Bank and Adelaide Bank that Adelaide Bank would, in that circumstance, exercise its rights to exchange the Adelaide Bank Reset Preference Shares for cash (subject to APRA's approval) under clause 20.2 of the terms of issue of those shares. Please refer to Section 16.7.

(f) Bendigo Bank Preference Shares

There are 900,000 Bendigo Bank Preference Shares with a total face value of \$100 per share on issue as at the date of this Scheme Book. These Bendigo Bank Preference Shares will rank equally with the New Bendigo Bank Reset Preference Shares as to dividends and in a winding up or liquidation.

If the Step Up Preference Share Scheme is implemented, New Bendigo Bank Step Up Preference Shares will be issued. These New Bendigo Bank Step Up Preference Shares will also rank equally with the New Bendigo Bank Reset Preference Shares as to dividends and in a winding up or liquidation.

Part C | Section 15

How to vote

15.1 Reset Preference Share Scheme Meeting

The Reset Preference Share Scheme is subject to approval by Reset Preference Shareholders at the Reset Preference Share Scheme Meeting.

The Reset Preference Share Scheme Meeting has been convened for 11.30am on 12 November 2007 at Adelaide Convention Centre, North Terrace, Adelaide, SA.

At the Reset Preference Share Scheme Meeting, Reset Preference Shareholders will be asked to consider and, if thought fit, pass the following resolution:

That pursuant to and in accordance with section 411 of the Corporations Act, the scheme of arrangement proposed to be entered into between Adelaide Bank and its Reset Preference Shareholders, as more particularly set out in the Scheme Book of which this notice of meeting forms part, is approved (with or without modification as approved by the Court).

In order for the resolution to be passed, it must be approved by a majority (i.e. greater than 50%) in number of Reset Preference Shareholders present and voting on the resolution (in person or by proxy, attorney or, in the case of a corporate Reset Preference Shareholder, a corporate representative). In addition, those Reset Preference Shareholders who vote in favour must cast at least 75% of the total number of votes cast by Reset Preference Shareholders on the resolution (in person or by proxy, attorney or, in the case of a corporate Reset Preference Shareholder, a corporate representative).

Voting at the Reset Preference Share Scheme Meeting will be by poll.

15.2 Adelaide Bank Directors' recommendation

The Adelaide Bank Directors unanimously recommend that Reset Preference Shareholders vote in favour of the Reset Preference Share Scheme, in the absence of a superior proposal. See Section 14.2 for the reasons for this recommendation.

15.3 Entitlement to vote

All Reset Preference Shareholders as at 12.00 midday on 11 November 2007 will be entitled to vote at the Reset Preference Share Scheme Meeting.

15.4 How to vote

You may vote in person at the Reset Preference Share Scheme Meeting or by proxy or attorney.

A corporate shareholder or corporate proxy may vote by corporate representative appointed pursuant to section 250D of the Corporations Act.

All persons attending the Reset Preference Share Scheme Meeting must disclose their name at the point of entry to the meeting. All persons entitled to vote at the meeting will then be given a voting card and admitted to the Reset Preference Share Scheme Meeting.

Further details are set out below.

(a) Voting in person

To vote in person, you must attend the meeting commencing at 11.30am on 12 November 2007 at Adelaide Convention Centre, North Terrace, Adelaide, SA.

(b) Voting by proxy

If you cannot attend the Reset Preference Share Scheme Meeting, you may vote by proxy. A proxy need not be a shareholder in Adelaide Bank.

You may appoint a proxy by completing the yellow proxy form accompanying this Scheme Book. A proxy form can also be requested by contacting the Adelaide Bank Registry.

If you are entitled to cast two or more votes, you may appoint up to two proxies. If you wish to appoint two proxies, please refer to the back of the proxy form for instructions.

Appointing a proxy will not preclude you from attending the meeting in person and voting at the meeting instead of your proxy.

The proxy form and, if applicable, the power of attorney under which it is signed or a certified copy of that power of attorney, must be:

- posted to Computershare Investor Services Pty Limited in the reply paid envelope provided or, if you are outside of Australia or do not otherwise use the reply paid envelope, to GPO Box 242, Melbourne VIC 3001;
- delivered to Computershare Investor Services Pty Limited at Level 5, 115 Grenfell Street, Adelaide SA 5000;
- successfully transmitted by facsimile to (08) 8236 2305 (international +618 8236 2305); or
- posted, delivered or successfully transmitted by facsimile to the registered office of Adelaide Bank,

so that it is received by no later than 12.00 midday on 10 November 2007.

(c) Voting by attorney

Alternatively, if you cannot attend the Reset Preference Share Scheme Meeting, you may vote by attorney. An attorney need not be a shareholder in Adelaide Bank.

If you are entitled to cast two or more votes, you may appoint up to two attorneys.

The instrument appointing an attorney, or a copy of that instrument certified as a true copy, must be:

- posted to Computershare Investor Services Pty Limited in the reply paid envelope provided or, if you are outside of Australia or do not otherwise use the reply paid envelope, to GPO Box 242, Melbourne VIC 3001;
- delivered to Computershare Investor Services Pty Limited at Level 5, 115 Grenfell Street, Adelaide SA 5000;
- successfully transmitted by facsimile to (08) 8236 2305 (international +618 8236 2305); or
- posted, delivered or successfully transmitted by facsimile to the registered office of Adelaide Bank,

so that it is received by no later than 12.00 midday on 10 November 2007.

(d) Voting by corporate representative

If a representative of a corporate shareholder or corporate proxy is to attend the Reset Preference Share Scheme Meeting pursuant to section 250D of the Corporations Act, a certificate of appointment of the representative (or such other document as the Chairman of the Reset Preference Share Scheme Meeting considers sufficient) should be produced prior to admission to the meeting. A form of certificate can be obtained from the Adelaide Bank Registry.

Part C | Section 16

Implementation of the Reset Preference Share Scheme

16.1 Steps in implementing the Reset Preference Share Scheme

(a) Agreement to propose the Reset Preference Share Scheme

Post the execution of the Merger Implementation Agreement, Adelaide Bank and Bendigo Bank agreed to propose the Reset Preference Share Scheme to Reset Preference Shareholders and Adelaide Bank and Bendigo Bank agreed to take all steps reasonably necessary to implement the Reset Preference Share Scheme.

A copy of the Merger Implementation Agreement (excluding annexures) is set out in Appendix 1.

(b) Execution of Deed Poll by Bendigo Bank

On 3 October 2007, Bendigo Bank executed the Deed Poll pursuant to which Bendigo Bank agrees, subject to the Reset Preference Share Scheme becoming Effective, to provide to each Reset Preference Shareholder the Scheme Consideration to which that Reset Preference Shareholder is entitled under the Reset Preference Share Scheme. A copy of the Deed Poll is included in Appendix 5.

(c) Reset Preference Share Scheme Meeting

On 5 October 2007, the Court ordered that Adelaide Bank convene the Reset Preference Share Scheme Meeting at 11.30am on 12 November 2007 at Adelaide Convention Centre for the purpose of Reset Preference Shareholders considering and, if thought fit, approving the Reset Preference Share Scheme.

For the Reset Preference Share Scheme to proceed, a resolution in favour of the Reset Preference Share Scheme must be passed at the Reset Preference Share Scheme Meeting by:

- a majority (i.e. more than 50%) in number of Reset Preference Shareholders present and voting on the resolution (either in person or by proxy, attorney or, in the case of a corporate Reset Preference Shareholder, by a corporate representative); and
- at least 75% of the total number of votes cast on the resolution by Step Up Preference Shareholders (either in person or by proxy, attorney or, in the case of a corporate Reset Preference Shareholder, by a corporate representative).

The vote will be conducted by poll.

(d) Court order approving the Reset Preference Share Scheme

In order to become Effective, the Reset Preference Share Scheme must be approved by the Court. Adelaide Bank will apply to the Court for an order approving the Reset Preference Share Scheme if the Reset Preference Share Scheme is approved by the requisite majorities of Reset Preference Shareholders voting at the Reset Preference Share Scheme Meeting and all conditions to the Reset Preference Share Scheme referred to in Section 16.2 have been satisfied or waived.

The Court may refuse to approve the Reset Preference Share Scheme, even if the Reset Preference Share Scheme is approved by the requisite majorities of Reset Preference Shareholders.

(e) Implementation of the Reset Preference Share Scheme

If the Court approves the Reset Preference Share Scheme, Adelaide Bank will lodge a copy of the Court's orders with ASIC. The Reset Preference Share Scheme will become Effective on the date this occurs.

If the Reset Preference Share Scheme becomes Effective, it will be implemented on the Implementation Date, being the eighth Business Day after the date on which the Reset Preference Share Scheme becomes Effective. On that date:

- all of the Adelaide Bank Reset Preference Shares will be transferred to Bendigo Bank without the need for any further act by any Reset Preference Shareholder; and
- Bendigo Bank will provide the Scheme Consideration to the Reset Preference Share Scheme Shareholders.

(f) Suspension of trading in Adelaide Bank Reset Preference Shares and removal from official quotation

If the Court approves the Reset Preference Share Scheme, Adelaide Bank intends to notify ASX of the Court approval on the date on which Court approval is obtained. It is expected that trading in Adelaide Bank Reset Preference Shares on ASX will be suspended from the close of trading on that date.

Following the Implementation Date, Adelaide Bank will request ASX to end official quotation of Adelaide Bank Reset Preference Shares.

16.2 Conditions precedent

The Reset Preference Share Scheme will not proceed unless:

- it is approved by the requisite majorities of Reset Preference Shareholders and by the Court;
- all approvals, consents, modifications or waivers of any Governmental Agency which are reasonably necessary to implement the Reset Preference Share Scheme are obtained;
- ASX provides approval for the official quotation of the New Bendigo Bank Reset Preference Shares, subject to any conditions which ASX may reasonably require;
- the Court approves the Ordinary Share Scheme; and
- such other conditions required by the Court as are acceptable to Adelaide Bank and Bendigo Bank have been satisfied.

16.3 Scheme Consideration

Subject to arrangements for Ineligible Foreign Shareholders (which are summarised in Section 16.5), Bendigo Bank will issue on the Implementation Date one New Bendigo Bank Reset Preference Share for each Adelaide Bank Reset Preference Share held by a Reset Preference Share Scheme Shareholder as at the Scheme Record Date.

The exchange ratio reflects the intention of Adelaide Bank and Bendigo Bank to replicate (as far as practicable) the existing terms of Adelaide Bank Reset Preference Shares, but in the Merged Group. Accordingly, it was determined that, under the Reset Preference Share Scheme, Reset Preference Shareholders should exchange their Adelaide Bank Reset Preference Shares for New Bendigo Bank Reset Preference shares on a one-for-one basis.

In the case of joint holders, the New Bendigo Bank Reset Preference Shares will be issued to and registered in the name of the joint holders.

The Scheme Record Date is expected to be 6.30pm on 27 November 2007 and the Implementation Date is expected to be 30 November 2007. These dates may change and will be finalised only after the Court has considered and approved the Reset Preference Share Scheme. Any changes to these dates will be announced to ASX and notified on Adelaide Bank's website at www.adelaidebank.com.au.

16.4 Determination of persons entitled to Scheme Consideration

Reset Preference Shareholders whose names appear on the Adelaide Bank Register as at the Scheme Record Date, i.e. at 6.30pm on 27 November 2007, will be entitled to receive the Scheme Consideration under the Reset Preference Share Scheme.

16.5 Foreign shareholders

(a) General

Restrictions in certain foreign countries may make it impractical or unlawful for Bendigo Bank to offer or issue New Bendigo Bank Reset Preference Shares to Reset Preference Shareholders located in those countries, or for Reset Preference Shareholders located in those countries to receive New Bendigo Bank Reset Preference Shares under the Reset Preference Share Scheme.

Any Reset Preference Shareholder whose address in the Adelaide Bank Register at the Scheme Record Date is outside of Australia and its external territories and New Zealand is a Foreign Reset Preference Shareholder.

A Foreign Reset Preference Shareholder will be classified as an Ineligible Foreign Reset Preference Shareholder unless Bendigo Bank is satisfied, acting reasonably, that:

- it is lawful, under any one or more relevant jurisdictions, and not unduly onerous to issue a Foreign Reset Preference Shareholder with the Scheme Consideration when the Reset Preference Share Scheme becomes Effective; and
- it is lawful, under any one or more relevant jurisdictions, for that Foreign Reset Preference Shareholder to participate in the Reset Preference Share Scheme.

Bendigo Bank is not obliged to (and will not) issue any New Bendigo Bank Reset Preference Shares to any Ineligible Foreign Reset Preference Shareholder under the Reset Preference Share Scheme. Instead, on the Implementation Date Bendigo Bank must issue to a Nominee (appointed by Bendigo Bank and approved by Adelaide Bank) the New Bendigo Bank Reset Preference Shares to which that Ineligible Foreign Reset Preference Shareholder would otherwise, but for these arrangements, be entitled to receive.

Bendigo Bank will procure that:

- within 15 Business Days after the Implementation Date, the Nominee offers for sale on the stock market operated by ASX, all of the New Bendigo Bank Reset Preference Shares issued to the Nominee under the Reset Preference Share Scheme in such manner, at such price and on such other terms (and at the risk of the Ineligible Foreign Reset Preference Shareholders) as the Nominee determines in its absolute discretion; and
- promptly after the last sale, each Ineligible Foreign Reset Preference Shareholder is paid such fraction of the proceeds of sale (after deduction of reasonable fees of the Nominee, brokerage, taxes and other reasonable costs of sale) as is equal to the number of New Bendigo Bank Reset Preference Shares which would have otherwise been issued to the Ineligible Foreign Reset Preference Shareholder under the Reset Preference Share Scheme divided by the total number of New Bendigo Bank Reset Preference Shares issued to the Nominee under the Reset Preference Share Scheme.

Payment will be made by cheque in Australian currency drawn on an Australian bank and sent to the address of the Ineligible Foreign Reset Preference Shareholder as noted in the Adelaide Bank Register. Payment made in this way will be in full satisfaction of Bendigo Bank's obligations to the Ineligible Foreign Reset Preference Shareholder under the Reset Preference Share Scheme.

Each Ineligible Foreign Reset Preference Shareholder appoints Adelaide Bank as its agent to receive on its behalf any financial services guide or other notices (including any updates of those documents) that the Nominee is required to provide to Ineligible Foreign Reset Preference Shareholders under the Corporations Act.

None of Adelaide Bank, Bendigo Bank or the Nominee gives any assurance as to the price that will be achieved for the sale of the New Bendigo Bank Reset Preference Shares by the Nominee.

(b) Reset Preference Shareholders resident in New Zealand

The New Bendigo Bank Reset Preference Shares to be issued under the Reset Preference Share Scheme will be issued to New Zealand Reset Preference Shareholders in accordance with the *Securities Act 1978* and the *Securities Act (Overseas Companies) Exemption Notice 2002*. This Scheme Book is not a prospectus or an investment statement under New Zealand law and may not contain all the information that a prospectus or investment statement under New Zealand law is required to contain.

The issue of New Bendigo Bank Reset Preference Shares will be done in the manner specified in this Scheme Book, as prescribed by the laws of Australia and by the Deed Poll entered into by Bendigo Bank. Bendigo Bank may not be subject in all respects to New Zealand law and the Deed Poll entered into by Bendigo Bank concerning the issue of New Bendigo Bank Reset Preference Shares may not be enforceable in New Zealand courts.

In addition to the other risk factors specified in Section 20, investing in New Bendigo Bank Reset Preference Shares may involve currency risk for New Zealand investors and will have Australian and New Zealand tax implications which are not set out in Section 21. New Zealand investors should seek their own advice and satisfy themselves as to the Australian and New Zealand tax implications of participating in the Reset Preference Share Scheme.

For the purposes of the *Securities Act (Overseas Companies) Exemption Notice 2002*, Bendigo Bank is not, and will not be, listed on the New Zealand Stock Exchange, and investors may not have access to information in the same way as they would if it were so listed. Similarly, Adelaide Bank is not currently listed on the New Zealand Stock Exchange.

16.6 Warranties by Reset Preference Shareholders

The Reset Preference Share Scheme provides that each Reset Preference Shareholder is deemed to have warranted to Bendigo Bank, and appointed and authorised Adelaide Bank as its attorney and agent to warrant on their behalf to Bendigo Bank, that:

- their Adelaide Bank Reset Preference Shares will, at the date of transfer of them to Bendigo Bank, be fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, including any restrictions on transfer; and
- they have full power and capacity to sell and to transfer their Adelaide Bank Reset Preference Shares to Bendigo Bank under the Reset Preference Share Scheme.

16.7 Possible exchange after change of control event

If the Ordinary Share Scheme becomes Effective, but the Reset Preference Share Scheme does not become Effective, the Reset Preference Shareholders will retain their Adelaide Bank Reset Preference Shares and the rights of Reset Preference Shareholders will remain unchanged.

However, in those circumstances, on the basis that the Merger would constitute a change of control event, it is the present intention of Bendigo Bank and Adelaide Bank that Adelaide Bank exchange the Adelaide Bank Reset Preference Shares for cash (subject to APRA's approval) pursuant to clause 20.2 of the terms of the Adelaide Bank Reset Preference Shares. In those circumstances, each Adelaide Bank Reset Preference Share would be exchanged for an amount of cash equal to the issue price plus any accrued dividend amount.

16.8 Other information

Reset Preference Shareholders are directed to the disclosures in Sections 6.8 and 6.9 regarding the exclusivity and break fee arrangements which Adelaide Bank has agreed to under the Merger Implementation Agreement.

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General information

IMPORTANT NOTICE:

THIS PART CONTAINS IMPORTANT INFORMATION FOR:

- ORDINARY SHAREHOLDERS;
- STEP UP PREFERENCE SHAREHOLDERS; AND
- RESET PREFERENCE SHAREHOLDERS.

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Information about Adelaide Bank

17.1 Background

Adelaide Bank is a South Australian based, ASX listed bank with a market capitalisation of approximately \$1.6 billion as at 24 September 2007. Adelaide Bank has been operating for more than 100 years, evolving from Australia's largest building society at the time, the Co-operative Building Society of South Australia Limited, to become an Australian bank in January 1994. It was listed on ASX in July 1992.

Adelaide Bank provides a broad range of finance, wealth and banking services. It had total assets of \$31.6 billion as at 30 June 2007. Adelaide Bank has successfully established itself as a product innovator and specialises in loan product development, processing and wholesaling.

Adelaide Bank has 25 retail branches in South Australia, in addition to an extensive third party distribution network. It has a partner-centric business model based on key strategic alliances and partnerships with mortgage brokers, mortgage managers, stockbrokers, financial planners and other third parties throughout Australia. Adelaide Bank had relationships with numerous wholesale partners and access to 174,000 retail customers as at 30 June 2007.

17.2 Overview of Adelaide Bank's operations

In June 2007, Adelaide Bank announced a new organisational design consisting of four main revenue generating business units – Wholesale Mortgages, Wealth Management, Business Lending and Retail Banking. The new structure is intended to promote simplicity, efficiency and management accountability, while clearly aligning the operation of each business unit with the needs of its customers and partners.

(a) Wholesale Mortgages

Wholesale Mortgages manufactures and processes residential home loans, which are distributed through mortgage brokers and mortgage managers.

The Wholesale Mortgages business is a product innovator and home loan processor. Adelaide Bank was the first Australian bank to offer 'Lo Doc' loans in 2001, and the first Australian bank to offer a shared equity home loan (the Equity Finance Mortgage in conjunction with Rismark) in 2007. Assets at 30 June 2007 were \$17.4 billion, representing 63% of total assets (excluding unallocated assets).

Wholesale Mortgages returned a pre-tax profit of \$37.6 million, representing 23% of total segment Pre-tax Profit.

(b) Wealth Management

Wealth Management includes Adelaide Bank's margin lending businesses as well as Adelaide Managed Funds Limited (**Adelaide Managed Funds**). It also includes the wealth deposit business.

Adelaide Managed Funds was established in 1998 and is a wholly owned subsidiary of Adelaide Bank. Direct sales and various business alliances are used to distribute Adelaide Managed Funds' Wealth Management products Australia-wide. Products include AAA Saver, Adelaide Cash Management Trust, the listed Asset Backed Yield Trust and the Protected Global Opportunities Fund.

Assets at 30 June 2007 were \$5.0 billion, representing 18% of total assets (excluding unallocated assets). Wealth Management returned a pre-tax profit for the year ended 30 June 2007 of \$41.7 million, representing 26% of total Pre-tax Profit.

(c) Business Lending

Business Lending comprises Portfolio Funding and Specialised Lending. Portfolio Funding is focused on the provision of funding solutions to finance companies utilising Adelaide Bank's securitisation expertise. This business has grown continuously over the past six years on the back of strong industry demand. Specialised Lending focuses predominantly on lending to the aged care and retirement village sectors and has been involved in these sectors for 15 years.

Assets at 30 June 2007 were \$2.9 billion, representing 10% of total assets (excluding unallocated assets). Business Lending returned a pre-tax profit for that period of \$42.3 million, representing 26% of total Pre-tax Profit.

(d) Retail Banking

Retail Banking comprises 24 Adelaide Bank branches in metropolitan Adelaide and nearby locations, and one branch in the regional South Australian centre of Mt Gambier. It also includes business banking for South Australian customers and telephone and internet banking.

Assets at 30 June 2007 were \$2.2 billion, representing 8% of total assets (excluding unallocated assets) and deposits were \$2.6 billion.

Retail Banking returned a pre-tax profit for that period of \$40.4 million, representing 25% of total Pre-tax Profit.

17.3 Directors, senior management and employees

(a) Directors

Dr Adele Lloyd, Chairman

PhD, MEd Admin, BA (Hons), DipT

Dr Lloyd joined the Adelaide Bank Board in 1997. She was appointed Deputy Chairman of Adelaide Bank in March 2003 and Chairman in October 2005. Dr Lloyd has a number of family business interests. She holds a Masters and Doctorate in Administration and Management and is currently a member of the Council of the University of South Australia. Dr Lloyd is also on the board of Adelaide Managed Funds.

Roger Cook AM, Deputy Chairman

FREI, MAICD

Mr Cook is an international commercial real estate authority who joined the Adelaide Bank Board in 1997 and was appointed Deputy Chairman in 2005. He is the Chairman of the SA Motor Sport board, Urban Construct Pty Limited and the Motor Accident Commission (SA). Mr Cook is a director of V8 Supercars Australia Pty Limited, TEGA Pty Limited and a number of other private companies.

Jamie McPhee, Group Managing Director

BEng (Hons), MBA, GAICD

Mr McPhee started his career with Adelaide Bank in 1988 within the Treasury function, and was appointed Group Managing Director in December 2006. Mr McPhee began his financial services career in the dealing room of merchant bank Wallace Smith Trust Company based in London. He returned to Adelaide in 1988 and joined The Co-operative Building Society of South Australia Limited (which later became Adelaide Bank). He was appointed Chief Manager of Treasury at the time of the merger between The Co-operative Building Society of South Australia Limited and the Hindmarsh Building Society in January 1992, and in 1993 was promoted to the organisation's executive committee. Mr McPhee was the Treasurer of The Co-operative Building Society of South Australia Limited during its conversion to Adelaide Bank on 1 January 1994.

In the following years, Mr McPhee held various positions within the organisation, including General Manager of Lending and Chief General Manager of Retail Banking. In 2003, he was appointed Chief General Manager of Operations, responsible for the day-to-day banking operations of Adelaide Bank and its subsidiaries, and in 2005, he was appointed Chief Operating Officer, responsible for all bank operations in the group. Mr McPhee has completed a civil engineering degree with Honours, and an MBA from the University of Adelaide. He is a Fellow of the Australian Institute of Banking and Finance, an Associate of the Financial Services Institute of Australasia and a Graduate of the Australian Institute of Company Directors.

Kevin G Osborn, Independent director

FAICD, FPNA

Mr Osborn was appointed to the Adelaide Bank Board in 2003. He was formerly the Chief Executive of Bank One in Australia (now part of JPMorgan Chase). Mr Osborn is a director of the Economic Development Board of South Australia, and was formerly a director of the American Chamber of Commerce in Australia. He is a director of ABB Grain Limited and the Leadership Institute of South Australia. Mr Osborn is a Fellow of the National Institute of Accountants and a Foundation Fellow of the Australian Institute of Company Directors. He is Chair of the Adelaide Bank Risk Committee.

Dr Patricia Crook AO, JP, Independent director

MAICD

Dr Crook joined the Adelaide Bank Board in March 2000 and is the Managing Director of Adelaide based therapeutic goods manufacturer Dynek Pty Limited, a company she co-founded in 1974. In addition to her role with Adelaide Bank, she is a member of the State Procurement Board and a director of Amrac Corporation and Transition Technologies Corporation.

Kevin Abrahamson, Independent director

BSc (Hons), MA, MBA, FAICD, FFin, FAIM

Mr Abrahamson is an Australian finance sector specialist and consultant who has been on the Adelaide Bank Board since 2000. As a specialist in the area of corporate strategy and information technology, he has worked as a consultant to the financial sector since 1997 as the head of KD Abrahamson Consultants. From 1988 to 1997, he held the position of General Manager, Group Services with Advance Bank and St George Bank. Mr Abrahamson was also a director of Fiducian Portfolio Services Limited between 2000 and 2004.

Steven Crane, Independent director

BCom, FAIM, MAICD, SFFin

Mr Crane is a former Chief Executive Officer of ABN AMRO Australia, a position he held until 2003, before joining the Adelaide Bank Board in 2005. He is the Deputy Chairman of the Australian Chamber Orchestra and Chairman of Global Valve Technology Pty Limited. He has previously held the position of Executive in Residence at the University of NSW (Economics and Commerce). Mr Crane was a director of Foodland Associated Limited between 2003 and 2005 and Chairman of Investa Property Group from 2006 to 2007.

(b) Senior management**Tim Piper – Chief General Manager, Wholesale Mortgages**

Mr Piper joined Adelaide Bank in 2005 following nearly 18 years with National Australia Bank. During a career spanning nearly 30 years, he has had direct experience with most facets of banking, from personal finance, through to middle and large commercial lending, and credit risk. In particular, his credit risk experience has seen him closely involved with asset restructuring and international capital and debt markets. He held global responsibilities – with a strong Asian focus – for three years of his career. He initially joined Adelaide Bank as the General Manager of Credit Risk, spent a short time leading the Shared Services division, and recently assumed responsibility for Wholesale Mortgages as Chief General Manager, Wholesale Mortgages.

Philip Riquier – Chief General Manager, Business Lending

Mr Riquier has had a career in the financial services sector spanning more than 20 years. His experience includes commercial and corporate banking with Westpac Banking Corporation prior to joining Adelaide Bank in 1993. Mr Riquier has held several positions, including Head of Products, Head of National Business Lending, and more recently General Manager of Portfolio Funding. Mr Riquier was one of the founding architects of the Portfolio Funding business, along with the current Chief General Manager, Wealth Management, Anthony Baum.

Anthony Baum – Chief General Manager, Wealth Management

Mr Baum has more than 17 years' experience in the banking sector. He was appointed to his current role of Chief General Manager, Wealth Management in May 2007. Mr Baum is responsible for Adelaide Bank's growing Wealth Management businesses, which includes margin lending, investment and structured products through Adelaide Bank's subsidiary Adelaide Managed Funds. Prior to his current role, Mr Baum was the Chief General Manager of Financial Markets for Adelaide Bank. Mr Baum, who is also a former Group Treasurer of Adelaide Bank, joined the business in May 2000 from BNP Paribas in London. He was one of the founding architects of the Portfolio Funding business, along with the current Chief General Manager, Business Lending, Philip Riquier.

Stephen Small – Chief General Manager, Retail Banking

Mr Small has been with Adelaide Bank for seven years, gaining experience across a large component of the customer and partner interfacing operations of Adelaide Bank. The majority of Mr Small's time has been spent in the Retail and Wholesale Mortgages business units. He previously held the position of Chief General Manager, Banking, before being appointed to the position of Chief General Manager, Retail Banking in May 2007. Prior to joining Adelaide Bank, Mr Small undertook a variety of roles within the retail sector, culminating in the position of National Sales and Marketing Manager with Australia's largest book chain, Angus & Robertson.

**Bruce Speirs – Chief Executive Officer,
Adelaide Managed Funds**

Mr Speirs was appointed CEO of Adelaide Managed Funds in February 2007, and also sits on Adelaide Bank Executive Committee. Since joining the Adelaide Bank Group, Mr Speirs has held various senior management positions and his responsibilities have included management of Adelaide Bank and third party originated securitisation transactions. Prior to joining the Adelaide Bank Group, Mr Speirs spent nine years with the Audit and Corporate Finance divisions of Ernst & Young with a financial services industry focus. This position included secondments to the United Kingdom and the United States.

**Richard Fennell – Chief General Manager,
Group Strategy**

Mr Fennell joined Adelaide Bank in March 2007 after an 18 year career in management consulting, primarily with PricewaterhouseCoopers. As a partner with PricewaterhouseCoopers in Australia and Hong Kong, Mr Fennell managed change programs with banks and other financial services organisations, in Australia and across South East Asia. Following the acquisition of PricewaterhouseCoopers Consulting by IBM, Mr Fennell led IBM's Finance and Administration Outsourcing business for the Asia Pacific region.

**Julian Carne – Chief General Manager,
Shared Services**

Mr Carne has spent the past 17 years in a range of senior management roles. These have primarily been as the general manager of human resources, and more recently have included broader management roles. His most immediate role prior to joining Adelaide Bank was as General Manager of Stegbar Pty Limited for South Australia and the Northern Territory, with full profit and loss responsibility and more than 150 full time equivalent staff. He worked for Tenneco (a large publicly listed company in the United States) for eight years, three of them managing manufacturing plants with a combined full time equivalent of more than 520 staff. Mr Carne also spent more than three years at Codan Limited, an Adelaide based designer and manufacturer of communications equipment, as General Manager of Human Resources.

**David Hughes – Chief General Manager,
Finance & Information Services**

Mr Hughes came to Adelaide Bank in June 2007 after seven years as Chief Financial Officer and Company Secretary for Codan Limited, an Adelaide based designer and manufacturer of communications equipment. Mr Hughes was instrumental in the successful listing of the company on ASX, and was heavily involved in its predominantly export-focused business planning. Prior to Codan Limited, Mr Hughes was Executive General Manager – Information Services for Normandy Mining Limited and held global responsibility for information services across the group. Mr Hughes also has experience in senior roles with Southcorp Limited and James Hardie Industries Limited. Mr Hughes has led a number of large business system implementations and business process redesign projects, as well as senior finance roles across a number of diverse industries.

**Andrew Kamm – Chief General Manager,
Risk Management and Company Secretary**

Mr Kamm joined the organisation in 1988 as a solicitor. In 1993, he was appointed Chief Legal Officer and Company Secretary to the Adelaide Bank Board. As Chief General Manager, Risk Management and Company Secretary, he is responsible for risk management, legal services, internal audit and secretarial for the group.

Frank Lupoi – Chief Financial Officer

Mr Lupoi commenced work with Adelaide Bank in 1989 as the financial accountant. During his career, he has overseen various areas of Adelaide Bank including Treasury, Credit Risk and Corporate Sourcing. He currently holds the position of Chief Financial Officer and is responsible for the finance and accounting functions of the Adelaide Bank Group.

(c) Employees

As at 30 June 2007, Adelaide Bank had a total of 1,185 full time equivalent employees.

17.4 Adelaide Bank financial overview

This Section 17.4 sets out summary historical financial information in relation to Adelaide Bank. The summary historical financial information has been extracted from Adelaide Bank's audited financial statements for the financial years ended 30 June 2006 and 2007. Adelaide Bank's summary historical financial information is based on Australian equivalents to International Financial Reporting Standards (**AIFRS**) and does not take account of the effects of the Merger.

The financial information contained in this Section 17.4 is presented in an abbreviated form insofar as it does not include all of the disclosures, statements or comparative information as required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

Copies of the relevant annual reports from which the following historical financial information has been extracted can be found on Adelaide Bank's website at www.adelaidebank.com.au. The annual reports contain details of Adelaide Bank's accounting policies and in each case detailed discussion and analysis by Adelaide Bank management of the financial results for the relevant period. Shareholders without internet access can obtain copies of these reports by contacting Adelaide Bank directly.

(a) Summary historical income statement

All in \$m	FY2007	FY2006
Interest income	1,912.7	1,476.9
Interest expense	(1,647.6)	(1,226.8)
Net interest income	265.1	250.1
Other income	70.4	61.6
Net operating income	335.5	311.7
Bad and doubtful debt expense	(17.9)	(11.8)
Other expenses	(172.0)	(161.6)
Profit before income tax expense	145.6	138.3
Income tax expense	(44.6)	(43.9)
Profit after income tax expense	101.0	94.4
Basic and fully diluted earnings per share (cents)	88.52	84.16
Cash basic and fully diluted earnings per share before significant items (cents)	96.78	88.68
Fully franked ordinary dividends per share (cents)	65.00	58.00

(b) Management discussion and analysis of financial performance

(i) Group summary

Profitability

In FY2007, Adelaide Bank's statutory profit increased by 7% to \$101.0 million, the seventh consecutive record annual profit.

Each of Adelaide Bank's four business units (Wholesale Mortgages, Wealth Management, Business Lending and Retail Banking) contributed between 23% and 26% of total Pre-tax Profit to the Adelaide Bank Group in the year.

Net interest income

Net interest income increased despite margin contraction across the banking sector. This is indicative of asset growth across the business, and of Adelaide Bank's success at generating new business through its low-cost third party distribution network.

Other operating income

During the year, there was a greater focus on fees and charges, and in particular setting fees which were fair and reasonable and ensuring collection of these fees. Due to the increase in lending activity other income has increased by 14% (\$8.8 million increase) to \$70.4 million in FY2007.

Operating expenses

Operating expenses continue to decrease as a percentage of operating income. This is a continuation of a long term trend for Adelaide Bank. In addition, recent Adelaide Bank initiatives and the introduction of 'LEAN' manufacturing principles are expected to continue to improve operating efficiencies.

Asset quality

Maintaining credit quality was a priority in FY2007, although gross impaired loans increased by \$7.4 million over the year to \$31.0 million. Gross impaired loans represent 0.22% of gross non-securitised loans, up slightly from the \$24.4 million level as at 31 December 2006.

These levels are sound and among the best of all the Australian banks when expressed as a percentage of the bank's loan portfolio. Importantly, these impairments relate to specific fraud or product issues which have been rectified and are not indicative of systemic deterioration of credit quality.

Notwithstanding this, Adelaide Bank has employed a three tiered credit quality improvement initiative, specifically aimed at continuing to improve credit quality.

(ii) Business unit results**I. Wholesale Mortgages**

	FY2007 (\$m)	FY2006 (\$m)	Change (\$m) ⁽¹⁾	Change (%) ⁽¹⁾
Net interest income	63.5	84.6	(21.2)	(25)
Other income	29.7	31.1	(1.5)	(5)
Operating expenses	46.2	49.9	(3.6)	(7)
Bad and doubtful debt expense	9.3	5.4	3.9	73
Contribution before tax	37.6	60.5	(22.9)	(38)

Note:

(1) Differences are due to rounding.

Net interest income in FY2007 was \$63.5 million, down 25% on the previous year's result of \$84.6 million, reflecting intense market competition and interest margin pressure.

Other income fell by \$1.5 million, a decrease of 5% and mainly due to reduced income from third party processing, which is no longer a key focus of Adelaide Bank's business. This change in focus also saw a \$3.6 million reduction in operating expenses to \$46.2 million.

These challenges resulted in a significant reduction of 38% in the business unit's contribution before tax to \$37.6 million.

The Wholesale Mortgages business was the subject of a complete strategic review during the year, prompted by its sharp decline in contribution to the Adelaide Bank Group's profit, primarily as a result of increased competition in the third party originated mortgage market and severe net interest margin compression.

Following the announcement of the strategic review results, management is now in the process of implementing the recommendations of that review, primarily in the areas of cost reduction and yield improvement.

While these initiatives are in their infancy, initial efforts were successful in reversing the downward profit trends of the business in the last half of the financial year.

In FY2007, the SmartSuite product was launched to deliver a competitive, simple and streamlined process for brokers distributing Adelaide Bank loans.

2. Wealth Management

	FY2007 (\$m)	FY2006 (\$m)	Change (\$m) ⁽¹⁾	Change (%) ⁽¹⁾
Net interest income	71.4	60.8	10.6	18
Other income	5.2	1.5	3.8	259
Operating expenses	33.1	26.2	6.9	26
Bad and doubtful debt expense	1.8	(0.1)	1.9	— ⁽²⁾
Contribution before tax	41.7	36.1	5.6	16

Notes:

(1) Differences are due to rounding.

(2) Percentage not meaningful.

Net interest income increased by \$10.6 million in FY2007 as a result of strong portfolio growth, although this was partially offset by a reduced interest margin.

Other income increased by \$3.8 million primarily due to increased fee income from the funds management activities of Adelaide Managed Funds.

Operating expenses increased by \$6.9 million to \$33.1 million due mainly to growth in costs in the margin lending business, particularly as a result of investment in process efficiencies and redesign. Conversely, the FY2007 cost increase is expected to produce significant efficiencies in the coming financial year.

There was a solid increase in the contribution before tax of 16% to \$41.7 million from last year's figure of \$36.1 million.

Adelaide Managed Funds had \$3.2 billion in funds under management as at 30 June 2007.

Adelaide Managed Funds provides niche opportunities not normally available to retail investors, with an emphasis on yield rather than growth in the form of cash and enhanced cash funds, listed funds and structured products.

Adelaide Bank's margin lending businesses currently enjoy a strong market share.

3. Business Lending

	FY2007 (\$m)	FY2006 (\$m)	Change (\$m) ⁽¹⁾	Change (%) ⁽¹⁾
Net interest income	55.1	36.5	18.6	51
Other income	8.0	4.8	3.1	65
Operating expenses	19.3	11.4	7.9	69
Bad and doubtful debt expense	1.5	0.3	1.2	401
Contribution before tax	42.3	29.6	12.7	43

Note:

(1) Differences are due to rounding.

Business Lending experienced strong year-on-year profit growth in FY2007.

Growth in the loan portfolio was reflected in an increased net interest income for the reporting period, by more than 50% on the previous year to \$55.1 million.

Operating expenses increased by \$7.9 million to \$19.3 million due mainly to increased staff costs in Portfolio Funding as this part of the business increased in scale and scope.

Contribution before tax significantly increased by \$12.7 million to \$42.3 million.

4. Retail Banking

	FY2007 (\$m)	FY2006 (\$m)	Change (\$m) ⁽¹⁾	Change (%) ⁽¹⁾
Net interest income	65.8	63.3	2.6	4
Other income	22.7	21.6	1.1	5
Operating expenses	45.9	51.2	(5.3)	(10)
Bad and doubtful debt expense	2.2	2.9	(0.7)	(24)
Contribution before tax	40.4	30.8	9.6	31

Note:

(1) Differences are due to rounding.

Net interest income increased slightly to \$65.8 million due to increased volumes in the residential portfolio, although this was partly offset by reduced margins. Improved margins in retail deposits also contributed to the increased income.

Operating expenses reduced by \$5.3 million to \$45.9 million due mainly to efficiencies realised in the business over the course of the year. Contribution before tax was increased by 31% to \$40.4 million.

(c) Summary historical balance sheet

Adelaide Bank's summary historical balance sheet as at 30 June 2007 and as at 30 June 2006, prepared in accordance with AIFRS, is illustrated below.

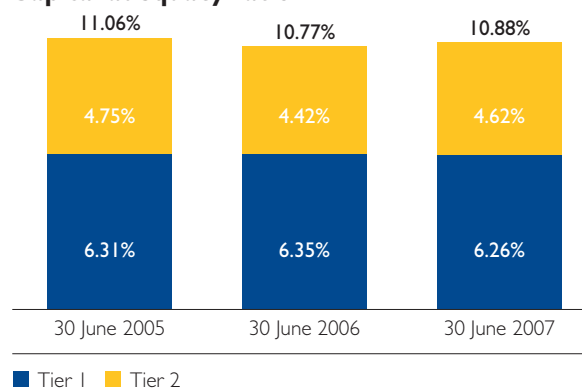
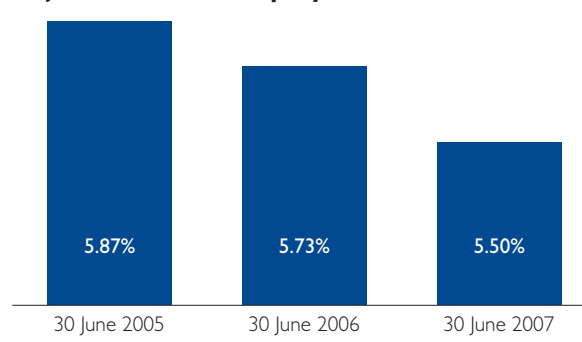
All in \$m	30 June 2007	30 June 2006
Assets		
Cash and cash equivalents	601.8	221.1
Balances due from other banks	251.6	167.1
Available for sale financial assets	3.0	–
Held for trading financial assets	2,511.0	1,408.4
Held to maturity investments	171.3	338.2
Derivative financial assets	168.8	28.3
Loans and other receivables	27,534.8	23,758.6
Property, plant and equipment	29.9	34.4
Intangible assets	38.5	37.9
Deferred tax assets	70.5	38.2
Other assets	189.6	179.0
Total assets	31,570.8	26,211.5
Liabilities		
Deposits	15,624.7	12,087.3
Notes payable	13,846.9	12,454.4
Balances due to other banks	175.3	121.4
Provisions	17.4	16.7
Current tax liabilities	6.7	14.4
Deferred tax liabilities	30.2	20.0
Other liabilities	465.0	316.5
Derivative financial liabilities	184.2	4.7
Reset preference shares	99.8	99.4
Subordinated debt	372.0	342.0
Total liabilities	30,822.2	25,476.8
Net assets	748.6	734.7
Equity		
Ordinary share capital	400.3	386.3
Step up preference share capital	97.5	97.5
Treasury shares/employee benefits reserve	(3.5)	(6.1)
Reserves	23.9	21.1
Retained earnings	230.4	235.9
Total equity	748.6	734.7

* The Standard & Poor's and Moody's ratings are based on information publicly released by Standard & Poor's and Moody's. Standard & Poor's and Moody's have not consented to the use of these credit rating references in this Scheme Book. The credit rating references are not recommendations for Shareholders to take any particular action.

(d) Credit ratings and capital management

As at 30 June 2007, Adelaide Bank's capital adequacy ratios were strong with adjusted common equity ratio at 5.50%, total capital adequacy at 10.88% and Tier 1 ratio at 6.26%.

Adelaide Bank has a long term credit rating of BBB+ as rated by Standard & Poor's and a long term rating of A2 as rated by Moody's.*

Capital adequacy ratio**Adjusted common equity ratio**

APRA's proposal to apply capital adequacy principles as determined by Basel II may result in changes to Adelaide Bank's capital adequacy ratios. Basel II seeks to provide regulatory capital requirements that are both more comprehensive and more sensitive to risks, making the Australian banking system safer and more efficient. Adelaide Bank is working closely with APRA to understand the changes and ensure compliance with capital requirements is met.

(e) Contingent liability disclosure

Since December 2006, the Australian Taxation Office (**ATO**) has been conducting a tax audit in relation to three transactions undertaken by members of the Adelaide Bank Group. The three transactions were undertaken during 1999 and 2000 and involved primary tax of up to \$16 million. The transactions were undertaken in accordance with external advice received at the time by the Adelaide Bank Group. The existence of the tax audit has previously been disclosed to Adelaide Bank shareholders by way of a contingent liability note to Adelaide Bank's financial statements for the half year ended 31 December 2006 (p38, note 9). At the date of this Scheme Book, the ATO has not concluded the tax audit nor issued an amended assessment. Adelaide Bank is unable to make an assessment of the amount of the additional liability (if any) that might result from the tax audit. It is not expected that the implementation of the Merger will have a material impact on the likely outcome of the tax audit or the amount of any additional liability in connection with the tax audit.

17.5 Material changes in financial position since 30 June 2007 and other developments

Since the announcement of the Merger on 9 August 2007, 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. As Adelaide Bank utilises a range of funding sources including wholesale funding, Adelaide Bank's overall cost of funds has increased as a consequence.

As a result of these events, Adelaide Bank has reviewed and continues to review its pricing models to ensure it is appropriately pricing its products to have regard to this cost increase to seek to maintain net interest margins. Adelaide Bank has adjusted certain interest rates for a number of categories of its loan products as a consequence.

Adelaide Bank has not suffered any losses in its margin lending business as a result of recent global equity market volatility.

Since the announcement of the Merger, the Reserve Bank of Australia (**RBA**) has announced a general change to the categories of instruments that are eligible to be used in 'repurchase agreements' (or 'repos') with the RBA, such that bills, certificates of deposit and bonds issued by Adelaide Bank have become eligible from 17 September 2007. This policy measure is expected to improve Adelaide Bank's access to funding sources.

On 9 August 2007, Adelaide Bank announced the payment of a final dividend of \$0.36 per Adelaide Bank Ordinary Share payable on 15 October 2007.

On 27 September 2007 Adelaide Bank announced that it received 'Exchange Notices' from Reset Preference Shareholders in respect of 105,426 Adelaide Bank Reset Preference Shares, and that Adelaide Bank had elected to exchange those Adelaide Bank Reset Preference Shares into Adelaide Bank Ordinary Shares on 1 November 2007. The number of Adelaide Bank Ordinary Shares to be issued will be determined in accordance with the terms of the Adelaide Bank Reset Preference Shares, by reference to a weighted average share price of Adelaide Bank Ordinary Shares during a 20 trading day period prior to 1 November 2007. Any Adelaide Bank Ordinary Shares on issue as at the Scheme Record Date would participate in the Ordinary Share Scheme if it becomes effective.

Other than as set out in Section 17.5, Adelaide Bank's financial position has not materially changed since 30 June 2007, being the date of its last published audited financial statements, that were submitted on 28 September 2007 to ASX and ASIC.

17.6 Historical share price performance

The following graph illustrates the movement in the Adelaide Bank Ordinary Share price from 1 January 2002 to 1 October 2007:



The last recorded closing price for Adelaide Bank Ordinary Shares on ASX on 4 October 2007 was \$14.40.

During the three months ended 4 October 2007:

- the highest recorded daily closing price for Adelaide Bank Ordinary Shares on ASX was \$16.51 on 9 August 2007; and
- the lowest recorded daily closing price for Adelaide Bank Ordinary Shares on ASX was \$13.71 on 18 September 2007.

The last recorded sale price for Adelaide Bank Ordinary Shares on ASX before the public announcement of the Merger was \$14.40 on 8 August 2007.

None of the above share prices should be taken as a forecast that Adelaide Bank Ordinary Shares will trade at any particular price.

17.7 ASIC and ASX lodgements and disclosures

Adelaide Bank is a disclosing entity for the purposes of the Corporations Act and as such is subject to continuous reporting and disclosure obligations. Specifically, as a listed company, Adelaide Bank is subject to ASX Listing Rules which require (subject to certain exceptions) it to notify ASX immediately of any information of which it becomes aware concerning Adelaide Bank that a reasonable person would expect to have a material effect on the price or value of its shares. The disclosures made to ASX are available for inspection at ASX during normal business hours or from ASX's website at www.asx.com.au.

In addition, Adelaide Bank is also required to lodge various documents with ASIC. Copies of documents lodged with ASIC by Adelaide Bank may be obtained from, or inspected at, an ASIC office.

Adelaide Bank will provide free of charge, to any holder of Adelaide Bank shares who requests it before the Schemes are approved by order of the Court, a copy of:

- the Adelaide Bank constitution;
- any continuous disclosure notice given to ASX by Adelaide Bank after the lodgement with ASIC of the annual financial report of Adelaide Bank for the year ended 30 June 2007 referred to above and before lodgement for registration of this Scheme Book with ASIC; and
- the annual financial report of Adelaide Bank for the year ended 30 June 2007.

All of these documents can be accessed on Adelaide Bank's website at www.adelaidebank.com.au.

Part D | Section 18

Information about Bendigo Bank

18.1 Background

Bendigo Bank is a community-focused bank based in the central Victorian city of Bendigo and is the only Australian bank headquartered outside a capital city.

Bendigo Bank commenced operations in 1858 as a building society servicing the Bendigo community. In 1978, Bendigo Bank began an expansion phase, acquiring a number of other companies, including Sandhurst Trustees, and in 1995 converted from a building society to a bank. From here, the footings were set to grow a bank that was prepared to work with its customers and communities for their benefit. Bendigo Bank believes that its success is underpinned by:

- partnering with the communities in which it operates;
- being committed to exceed customer expectations (quality customer service);
- providing products relevant to its customers' lifestyle and business needs;
- being proud to be a regional bank and building long term relationships with its customers;
- maintaining public trust by acting in an ethical manner;
- providing convenient access to its services; and
- leading and empowering its staff to make a difference.

As a retailer of banking and wealth management services to households and small-to-medium size businesses, Bendigo Bank has a major presence across Victoria and Queensland and is growing its networks throughout Australia as it responds to new marketing opportunities and develops business alliances.

Bendigo Bank believes successful customers and successful communities create a successful organisation. Through assisting customers achieve their financial goals, Bendigo Bank believes it is rewarded with a larger share of their business and the benefits of having those customers become advocates of Bendigo Bank.

As at 30 June 2007, Bendigo Bank had assets under management of approximately \$19 billion and over 1.1 million customers.

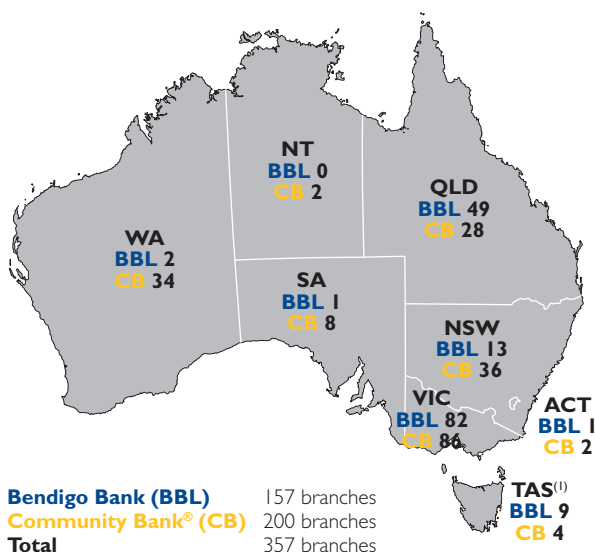
18.2 Overview of Bendigo Bank's operations

Bendigo Bank is a financial solutions distribution company providing banking and financial services primarily to retail customers and small to medium size businesses. Bendigo Bank products and services are now available throughout Australia, including more than 150 company owned branches and 200 Community Bank® branches. Bendigo Bank currently operates across a range of segments including retail and distribution (including consumer banking and business banking), Wealth Solutions and joint venture partners.

(a) Retail and distribution

Bendigo Bank's retail banking operations provide financial services via a number of channels including branch, agent, online and phone banking. Loans under management were \$15.8 billion as at 30 June 2007. Funding totalled \$15.2 billion, of which 80% consisted of retail and 20% wholesale.

Bendigo Bank's branch network has expanded from 72 branches in 1995 to 357 as at 30 June 2007. This expansion is apparent nationwide with approximately half of Bendigo Bank's branches located outside Victoria. The significant growth in the branch network has led to an increase in customers and improved product penetration. In addition, the continued maturity in Community Bank® branches ensures a strong platform for further growth.



Note:

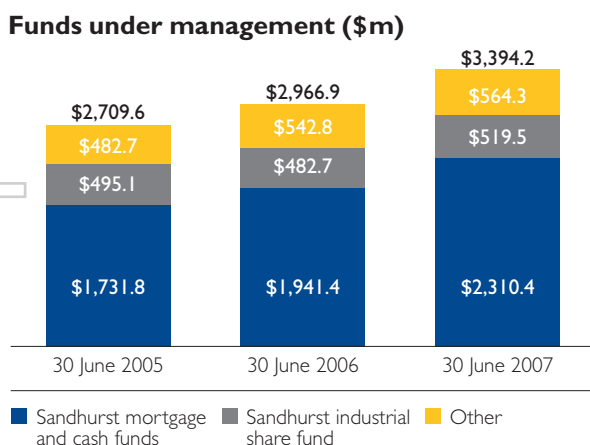
(1) Branches in Tasmania are represented through Tasmanian Banking Services Limited.

The Community Bank® model engages and involves communities in securing access to branch banking services. Essentially, a local publicly owned company invests in the rights to operate a Bendigo Bank franchise. Bendigo Bank supplies all banking and back office services while the community company operates the shopfront. Revenue is shared, enabling communities to benefit from aggregating their own banking. In addition to paying dividends, companies reinvest those profits back into community enterprise and development.

At the end of June 2007, there were 200 Community Bank® branches across Australia, owned by more than 52,000 community shareholders. The Community Bank® model has grown considerably over the last five years, enabling Bendigo Bank an expanded distribution network across a diverse client base.

(b) Wealth Solutions

Bendigo Bank's Wealth Solutions offering incorporates financial advice and planning, managed funds, trustee and custodian services. The funds management and trustee business is conducted through Sandhurst Trustees with \$3.4 billion of funds under management as at 30 June 2007. Sandhurst Trustee offers a range of investment products including superannuation funds, national and international equity investments, mortgage funds, cash funds, diversified funds and funeral bonds. The growth in funds under management is illustrated below:



Bendigo Bank also offers margin lending products to investors, although this is a relatively new business currently operating on a small scale. Bendigo Bank's retail network, including Bendigo Financial Planning, is the major distribution channel for the funds management activities.

(c) Joint venture partners

Bendigo Bank is engaged in a number of joint venture partnerships providing specialist services to a range of discrete customer groups. In addition to the Community Bank® partnership model, among other things Bendigo Bank also partners in Elders Rural Bank Limited (**ERB**), Homesafe Solutions Pty Limited (**Homesafe**) and Tasmanian Banking Services Limited (**TBS**).

ERB is a 50:50 joint venture between Bendigo Bank and Futuris Corporation Limited, delivering specialist agribusiness banking services to Australia's rural sector. The joint venture combines Bendigo Bank's banking expertise with Elders Australia Limited's widespread branch network, knowledge of the agriculture industry and customer base. As at 30 June 2007, ERB had loans under management of \$3.2 billion.

Homesafe is the trustee and management company responsible for the development, marketing, sales and management of the Homesafe Debt Free Equity Release product that enables aged home owners to access the equity in their homes in a secure and cost efficient manner.

TBS is a joint venture between Bendigo Bank and Tasmanian Perpetual Trustees, providing banking services in Tasmania. There are now nine branches across Tasmania.

18.3 Directors, senior management and employees

(a) Directors

Robert Johanson, Chairman, Independent director

BA, LL.M (Melb), MBA (Harvard)

Mr Johanson was appointed Chairman of the Bendigo Bank Board in 2006. He has been a director for 20 years and was previously Bendigo Bank's Deputy Chairman for five years. Mr Johanson chairs the Governance & HR Committee and is a member of the Audit Committee. Mr Johanson has expertise in corporate strategy, capital and risk management. Mr Johanson is a director of Grant Samuel Group Pty Limited (and subsidiaries). Mr Johanson is also a member of the Council of the University of Melbourne, a member of its Finance Committee and Chairman of the Investment Committee. He is a director of Robert Salzer Foundation Limited and a member of the Takeovers Panel. Mr Johanson is also a director of Community Telco Australia Pty Limited, Elders Rural Bank Limited and Homesafe Solutions Pty Limited.

Rob Hunt, Managing Director, Non-independent director

FAICD, Doctor of University (honoris causa)
La Trobe University (1999)

Mr Hunt was appointed Chief Executive Officer of Bendigo Bank in 1988, and was also appointed to the Bendigo Bank Board as an executive director in 1990. Mr Hunt is a member of the Governance & HR, Risk, Property and IT Strategy Committees. Mr Hunt has led Bendigo Bank's development from a provincial building society to a nationally represented and diverse banking and financial services group. Mr Hunt is the architect of Bendigo Bank's Community Bank[®] model and other alliance arrangements. He is a councillor of the Australian Bankers' Association Inc and a member of the Business Council of Australia, the Prime Minister's Community Business Partnership and the Victorian Government's Innovation Economy Advisory Board. Mr Hunt is also Chairman of Community Telco Australia Pty Limited and of Bendigo Community Telco Limited, and director of Community Sector Enterprises Pty Limited, Elders Rural Bank Limited and Tasmanian Banking Services Limited.

Neal Axelby, Independent director

DipCM, FAICD, AIFM, AIFS

Mr Axelby has been a Bendigo Bank Director for seven years and is a member of the Credit, Governance & HR and Risk Committees. Mr Axelby has had 15 years of combined experience as an employee and director in the finance industry before joining the Bendigo Bank Board. He also has 22 years' experience in senior management positions in the private sector. Mr Axelby is a director of Ipswich & West Morton United Friendly Society Dispensary Limited and several private companies. Mr Axelby was a director of First Australian Building Society Limited which was acquired by Bendigo Bank in 2000. Mr Axelby is a director of Sunstate Lenders Mortgage Insurance Pty Limited.

Jennifer Dawson, Independent director

BBus (Acc), FCA, MAICD

Ms Dawson has been a Bendigo Bank Director for eight years and is Chair of the Audit Committee and a member of the Property and Credit Committees. Ms Dawson spent 10 years with Arthur Andersen in the Audit and IT Controls division. Ms Dawson has experience in the areas of financial reporting and audit, IT internal control reviews, internal audit and risk management. Ms Dawson is a director of Coliban Region Water Corporation and a member of the Victorian Regional Development Advisory Committee. Ms Dawson was engaged by Bendigo Bank during the period from 1995 to 1999, initially as a contractor and then as an employee. Ms Dawson is a director of Community Sector Banking Pty Limited and Community Sector Enterprises Pty Limited.

Donald Erskine, Independent director

Mr Erskine has been a Bendigo Bank Director for eight years. He chairs the Property Committee and is a member of the Credit and IT Strategy Committees. Mr Erskine is a mechanical engineer and Chairman of several private companies. Mr Erskine has an extensive background in manufacturing and property development and experience in international trade. Mr Erskine is the Chairman of Australian Technical College, Bendigo and a director of Bendigo Community Telco Limited.

Terence O'Dwyer, Independent director

BCom, DipAdvAcc, FCA, FAICD

Mr O'Dwyer has been a Bendigo Bank Director for seven years and is the Chair of the IT Strategy Committee and a member of the Audit and Risk Committees. Mr O'Dwyer is the former Chairman and Managing Partner of BDO Kendalls (Chartered Accountants). He was a partner in the firm for 28 years and headed its Corporate Finance division prior to being appointed its independent Chairman. Mr O'Dwyer is Chairman of Metal Storm Limited and Roamfree Limited and a director of Queensland Theatre Company Limited. He has previously chaired MFS Limited and Brumby's Bakeries Holdings Limited and has had service on other public company boards and government business enterprises. Mr O'Dwyer was a director of First Australian Building Society Limited which was acquired by Bendigo Bank in 2000.

Deborah Radford, Independent director

BEd, GDip Finance & Investment, John Kennedy School of Government (Harvard)

Ms Radford has been a Bendigo Bank Director for two years and is a member of the Audit, IT Strategy and Credit Committees. Ms Radford is an economics graduate with experience in both the public and private sectors. Ms Radford has 15 years' experience in the banking industry with both international and local banks. Ms Radford is a director of Forestry Tasmania, City West Water Limited and Deb Radford & Associates Pty Limited, a consultancy company advising to government business enterprises.

Kevin Roache, Independent director

LLB, BCom, CPA Australia, FAICD, Barrister and Solicitor of the Supreme Court of Victoria

Mr Roache has been a Bendigo Bank Director for 16 years, chairs the Credit Committee and is a member of the Risk and Governance & HR Committees. Mr Roache has extensive experience in advising clients on business and taxation issues. Mr Roache is a director of Geelong Community Enterprise Limited, a former President of the Geelong Business Club, a member of the Finance Committee of Geelong Chamber of Commerce, a member of Committee for Geelong and a former Chairman of Barwon Health and has been a board member of many community and charitable organisations. Mr Roache was the Chairman of Capital Building Society, the business of which was integrated into Bendigo Bank in 1992. Mr Roache is the Chairman of partners in Coulter Roache Lawyers.

Tony Robinson, Independent director

BCom (Melb), MBA (Melb), ASA

Mr Robinson has been a Bendigo Bank Director for two years, chairs the Risk Committee and is a member of the Governance & HR Committee. Mr Robinson commenced employment in April 2007 as an executive director and Chief Executive Officer of the listed financial services company, IOOF Holdings Limited. Mr Robinson was the Managing Director and Chief Executive Officer of OAMPS Limited, before it was acquired by Wesfarmers Limited in November 2006. He was previously also a director of Victorian Employers' Chamber of Commerce and Industry. Mr Robinson's previous management positions include Joint Managing Director of Falkiners Stockbroking, Managing Director of WealthPoint, Chief Financial Officer of Link Telecommunications and General Manager Corporate Services at Mayne Nickless.

(b) Senior management**Mike Hirst, Chief Operating Officer**

Mr Hirst commenced with Bendigo Bank in July 2001 as executive director of Sandhurst Trustees. Mr Hirst was responsible for the creation of Bendigo Bank's Wealth Management business. Mr Hirst brings with him extensive experience and qualifications in the areas of banking, treasury, capital markets and funds management. Mr Hirst joined Bendigo Bank following 11 years in senior executive and management positions with Colonial Limited. Prior to this, Mr Hirst held senior finance roles for three years with Chase AMP Bank and seven years with Westpac Banking Corporation in branch banking and finance and planning roles. Mr Hirst holds a Bachelor of Commerce, Melbourne University, and is a director of Treasury Corporation of Victoria, Elders Rural Bank Limited and Barwon Health. Current responsibilities and reporting lines include oversight of retail and distribution, group solutions and corporate and strategic opportunity evaluation.

Greg Gillett, Chief General Manager Strategy & Staff

Mr Gillett spent 20 years with National Australia Bank (10 years in management) before joining Bendigo Bank in 1994. Mr Gillett's previous positions within Bendigo Bank include Manager, Branch Planning & Productivity and Executive Assistant to the Managing Director, before heading up Bendigo Bank's retail distribution network. He is a Senior Fellow of the Financial Services Institute of Australasia and former member of The Australian Banking Industry Ombudsman Limited. Current responsibilities and reporting lines include Bendigo Bank Human Resource department and payroll function, strategic planning and strategic markets.

Vicky Kelly, Chief General Manager, MD's Office

Ms Kelly joined Bendigo Bank in November 1992 and was responsible for Bendigo Bank's information technology as the Chief Information Officer. Current responsibilities and reporting lines include operational improvement opportunities within Bendigo Bank. Ms Kelly has more than 40 years' experience in information technology, including eight years with the British Civil Service.

Craig Langford, Chief Financial Officer

Mr Langford was General Manager Financial Management with Trust Bank before joining Bendigo Bank in October 1997. Current responsibilities and reporting lines include financial management and reporting, accounting, treasury, taxation, insurance and risk management. Mr Langford holds a Master of Business Administration University of Melbourne (Melbourne Business School) and a Bachelor of Business (Accounting) University of Tasmania and is a Fellow of the Financial Services Institute of Australasia and a Fellow of CPA Australia.

Marnie Baker, Chief General Manager Solutions

Ms Baker has been with Bendigo Bank since 1989 and has held senior positions within Treasury, Structured Finance, Capital Planning and Balance Sheet Management prior to being appointed to her current role. In her current role, Ms Baker is also the Chief Executive Officer and executive director of Sandhurst Trustees. The Solutions division is responsible for the provision of retail, business, wealth and alliance products and services. Ms Baker holds a Bachelor of Business (Accounting), Latrobe University and is a member of CPA Australia, a member of the Australian Institute of Company Directors and a Fellow of the Financial Services Institute of Australasia.

Russell Jenkins, Chief General Manager Retail & Distribution

Mr Jenkins joined Bendigo Bank in 1992, undertaking a variety of roles ranging from corporate services to Chief Manager Group Strategy and Planning. Mr Jenkins led Bendigo Bank's Community Bank[®] team from inauguration in 1998. In 2002, the role was broadened to incorporate responsibility for Bendigo Bank's other Alliance Partners, Business Banking, Cards and Marketing arms. In 2005, Mr Jenkins was appointed to the role of Chief General Manager, Retail & Distribution, covering all of Bendigo Bank's distribution networks. Mr Jenkins currently has responsibility for Bendigo Bank's distribution business including the branch network, business banking, financial planners and call centres. Mr Jenkins holds an Honours degree in Engineering from Melbourne University. Prior to joining Bendigo Bank, Mr Jenkins spent three years with the Pratt Group/Visyboard and five years with Price Waterhouse in a senior consulting role in their Australian and European practices.

**Owen Davies, General Manager
Corporate Affairs & Marketing**

Mr Davies joined Bendigo Bank in 1995. Mr Davies is responsible for Bendigo Bank's marketing, branding, branch and product merchandising, media relations, advertising, shareholder relations and internal and external communication. Mr Davies holds a Bachelor of Social Science (major in economics) and is a member of Bendigo Bank's Marketing Advisory Committee. Mr Davies has 16 years' experience in the media industry through roles with the Melbourne Herald and Bendigo Advertiser.

Deborah Hambleton, Group General Counsel

Ms Hambleton joined Bendigo Bank in 2003 in the above role. Ms Hambleton holds a Bachelor of Laws (Hons), Bachelor of Arts and a Graduate Diploma in Commercial Law from Monash University and has 18 years' experience in corporate law. Before joining Bendigo Bank, Ms Hambleton held the roles of Vice President Deutsche Bank AG, National Listings Counsel Australian Stock Exchange and Solicitor and Senior Associate with Arthur Robinson & Hedderwicks. Ms Hambleton is a member of the Corporations Committee of the Law Council of Australia, a Fellow of the Institute of Chartered Secretaries and Administrators, a member of the CSA Applied Corporate Law Subject Advisory Committee, a member of the CSA Legislative Review Group and a member of Melbourne University, Banking & Financial Services Advisory Board.

**Richard Hasseldine, Chief General Manager
Group Delivery**

Mr Hasseldine joined Bendigo Bank as Senior Executive Corporate Delivery in September 2001. Mr Hasseldine has extensive experience in the banking and finance industry and previously worked with Bendigo Bank for six months in 1999 as Project Director of the Elders Rural Bank Limited project. Current responsibilities and reporting lines include internal audit, corporate services, loans administration, properties and business operations. Mr Hasseldine originally trained as a Chartered Accountant in the UK and spent five years with Coopers & Lybrand in London, Tanzania, Rhodesia and Hong Kong. He then served as CFO of a Hong Kong subsidiary of the Inchcape Group for 10 years. In more recent times, he held positions of General Manager Finance & Administration and General Manager Corporate with Bank of Melbourne.

Andrew Watts, Chief Information Officer

Mr Watts joined Bendigo Bank in July 1994, just prior to its conversion from building society to bank in 1995. Mr Watts has held a number of management roles in Bendigo Bank's Marketing, Retail and IT businesses including Manager, Product Development and Research, Senior Manager, Direct Banking, Senior Manager, Remote Banking, Chief Manager, Network Development and Planning, Chief Manager, Northern Australia (NSW, ACT & QLD) – Retail, Business Banking, Financial Planning and COO Office – Strategic Partnership Research and Analysis. Mr Watts holds a Bachelor of Engineering and Graduate Diploma of Business Administration.

David Oataway, Company Secretary

Mr Oataway has been Company Secretary of Bendigo Bank for nine years and has been with Bendigo Bank since 1997. Prior to his appointment as Company Secretary of Bendigo Bank, he held roles with Bendigo Bank's Internal Audit and Secretariat departments. Prior to joining Bendigo Bank, he was employed by Melbourne and Bendigo based chartered accounting firms. Mr Oataway holds a Bachelor of Business, is a Chartered Accountant and is an associate member of Chartered Secretaries Australia.

(c) Employees

As at 30 June 2007, the group employed 2,248 full time equivalent staff (Community Bank[®] employees are employed by their relevant Community Bank[®] company and are not included in this number).

18.4 Board and corporate governance

Bendigo Bank is committed to high standards of corporate governance. The Bendigo Bank Board believes that Bendigo Bank's commitment to ethical corporate dealings in the conduct of its business has been an important element of its success during its 149 year history. This commitment applies to the dealings by Bendigo Bank with its shareholders, customers, employees, suppliers, regulators and the community. It is also reflected in Bendigo Bank's corporate values.

Further details on Bendigo Bank's corporate governance framework and policies are available from Bendigo Bank's website at www.bendigobank.com.au.

18.5 Bendigo Bank financial overview

This Section 18.5 sets out summary historical financial information in relation to Bendigo Bank. The summary historical financial information has been extracted from Bendigo Bank's audited financial statements for the financial years ended 30 June 2006 and 2007. Bendigo Bank's summary historical financial information is based on AIFRS and does not take account of the effects of the Merger.

The financial information contained in this Section 18.5 is presented in an abbreviated form insofar as it does not include all of the disclosures, statements or comparative information as required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

Copies of the relevant annual reports from which the following historical financial information has been extracted can be found on Bendigo Bank's website at www.bendigobank.com.au. The annual reports contain details of Bendigo Bank's accounting policies and in each case detailed discussion and analysis by Bendigo Bank management of the financial results for the relevant period. Shareholders without internet access can obtain copies of these reports by contacting Bendigo Bank directly.

(a) Key financial and operating highlights

Bendigo Bank's key financial and operating highlights are illustrated below for each of the two years ended 30 June 2007:

Bendigo Bank key financial and operating highlights

All in \$m	FY2007	FY2006
Profit after income tax expense	121.8	116.7
Net interest margin ⁽¹⁾	2.90%	2.76%
Cash basis earnings before significant items	118.5	102.5
Retail deposits	12,188.3	11,346.8
Funds under management	3,394.2	2,966.9
Loans under management	15,829.5	14,057.2
New loan approvals	7,018.0	6,189.6
Residential	4,580.4	4,013.8
Non-residential	2,437.6	2,175.8
Cost to income ratio	64.6%	66.6%
Cash basic earnings per share before significant items (cents)	82.9	73.2
Dividend per share (cents)	58.0	52.0

Note:

(1) Net interest margin is before Community Bank®/alliances share of net interest income.

(b) Summary historical income statement

Bendigo Bank's summary historical income statement is set out below for each of the two years ended 30 June 2007, prepared in accordance with AIFRS:

Summary historical income statement

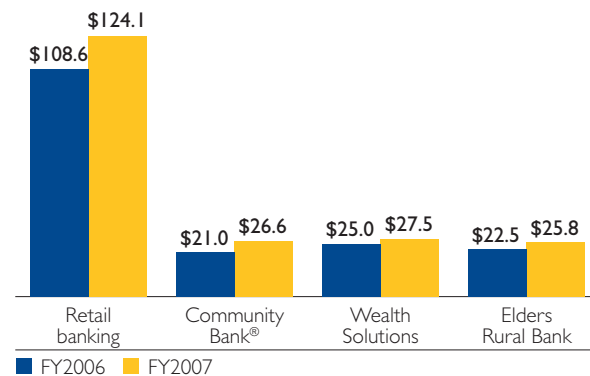
All in \$m	FY2007	FY2006
Income		
Interest income	1,058.6	907.5
Interest expense	(701.5)	(592.4)
Net interest income	357.1	315.1
Non-interest income	183.2	179.6
Share of associates' net profit	21.9	22.2
Net operating income	562.2	516.9
Expenses		
Bad and doubtful debts	(8.2)	(7.0)
Other expenses	(376.0)	(344.2)
Total expenses	(384.2)	(351.2)
Profit before income tax expense	178.0	165.7
Income tax expense	(56.2)	(49.0)
Profit after tax	121.8	116.7
Cash basic earnings per share before significant items (cents)	82.9	73.2

(c) Management discussion and analysis of historical financial performance

Profit after tax for the year ended 30 June 2007 was \$121.8 million, an increase of 4.4% on the prior year. Excluding significant items, profit after tax rose 18.7% on the prior year.

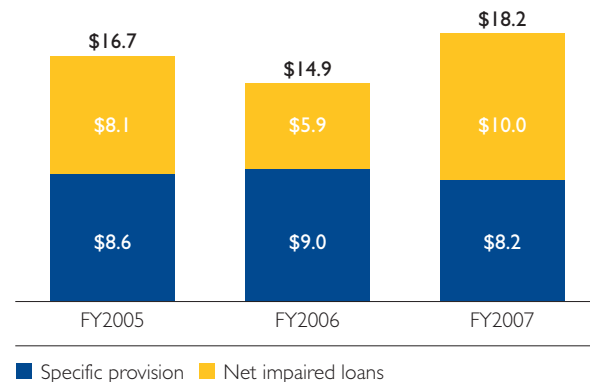
Net interest income rose 13.3% compared to the previous year as a result of the growth in both interest earning assets and interest earning liabilities and an expansion in the gross interest margin. Repricing and product mix changes were the main driver of the gross interest margin expansion. Retail banking accounted for 81% of net interest income, Community Bank® business 17% and Wealth Solutions 2%. Bendigo Bank recorded a net interest margin of 2.90%,³⁸ an increase of 14 basis points from the prior year.

Profit before income tax expense and significant items increased 19.9% on the prior year reaching \$185.2 million. The diversification of revenue by business segment is illustrated below:

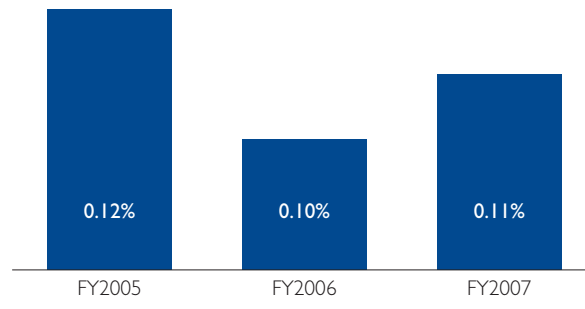
Profit contributions before income tax expense and significant items (\$m)

Bendigo Bank continues to experience sound levels of credit quality with net impaired loans standing at \$10.0 million, up from \$5.9 million. However, this represents just 0.07% of gross loan receivables.

Bendigo Bank's strong credit quality is illustrated in the charts below and on page 124:

Impaired loans (\$m)

³⁸ Net interest margin is before Community Bank®/alliances share of net interest income.

Gross impaired loans/total assets

Other expenses (excluding significant items) rose by 9.1% reaching \$368.8 million for the year ended 30 June 2007. The major contributors to this increase were:

- staff and related costs increased by 9.9% following the increase of 85 full time equivalent staff across Bendigo Bank. The majority of the staff increases were in retail distribution and support. Wage increases awarded under Bendigo Bank's certified agreement and other salary increases also contributed to the increase in the category;
- occupancy costs increased 7.5% due to increases in property rent and outgoings and higher contracted cleaning and security costs; and
- information technology costs increased by 23.0%, reflecting increases in communications lines across the network, commissioning of the new data centre in Bendigo and upgrading of computer hardware and software systems.

Notwithstanding the above increases, the cost to income ratio continued to improve, decreasing from 66.6% to 64.6% over the period.

Significant items for the year ended 30 June 2007 included costs relating to the Employee Share Plan of \$5.6 million (no applicable tax expense) and expenses incurred in the proposed Bank of Queensland merger of \$1.2 million (after tax).

(d) Summary historical balance sheet

Bendigo Bank's summary historical balance sheet as at 30 June 2007 and 30 June 2006, prepared in accordance with AIFRS, is illustrated below:

Summary historical balance sheet

All in \$m	30 June 2007	30 June 2006
Assets		
Cash and cash equivalents	257.6	270.8
Due from other financial institutions	71.5	209.0
Derivatives	74.9	28.4
Financial assets available for sale	559.2	455.3
Financial assets held to maturity	1,614.4	1,370.6
Loans and other receivables	13,843.5	12,436.7
Investments in associates and joint ventures accounted for using the equity method	156.3	143.5
Property, plant and equipment	61.5	81.1
Assets held for sale	93.4	–
Investment property	34.2	–
Intangible assets and goodwill	93.7	89.6
Deferred tax assets	32.6	27.4
Other assets	108.8	83.7
Total assets	17,001.6	15,196.1
Liabilities		
Due to other financial institutions	184.0	166.3
Deposits	15,231.0	13,599.8
Derivatives	34.6	20.0
Income tax payable	16.3	9.9
Provisions	40.4	37.4
Deferred tax liabilities	21.8	16.1
Subordinated debt – at amortised cost	307.2	307.1
Other liabilities	151.3	140.0
Total liabilities	15,986.6	14,296.6
Net assets	1,015.0	899.5

All in \$m	30 June 2007	30 June 2006
Equity		
Equity attributable to equity holders of the parent	–	–
Issued capital – ordinary	605.2	564.1
Perpetual non-cumulative redeemable convertible preference shares	88.5	88.3
Employee Share Ownership Plan shares	(40.4)	(25.6)
Reserves	130.0	78.8
Retained profits	232.4	194.5
Total parent interests	1,015.7	900.1
Total minority interest	(0.7)	(0.6)
Total equity	1,015.0	899.5

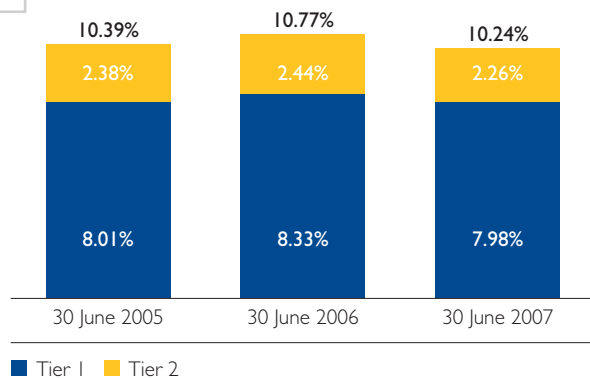
(e) Credit ratings and capital management

As at 30 June 2007, Bendigo Bank's capital adequacy ratios were strong with adjusted common equity ratio at 5.42%, total capital adequacy at 10.24% and Tier 1 ratio at 7.98%.

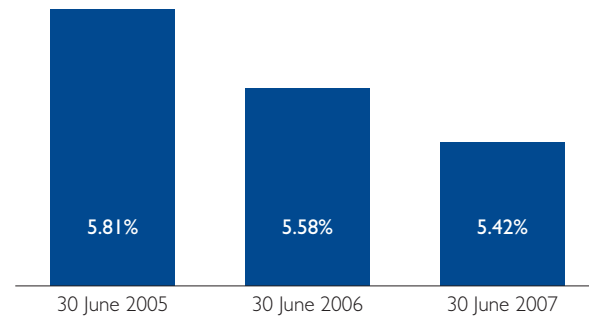
Bendigo Bank currently has a long term credit rating of BBB+ and positive outlook as rated by Standard & Poor's and Fitch. Bendigo Bank also currently has a short term credit rating of A-2 and F2 as rated by Standard & Poor's and Fitch respectively.³⁹

Credit ratings are not market ratings, nor are they recommendations to buy, sell or hold securities. Credit ratings are subject to revision or withdrawal at any time.

Capital adequacy ratio



Adjusted common equity ratio



APRA's proposal to apply capital adequacy principles as determined by Basel II may result in changes to Bendigo Bank's capital adequacy ratios. Basel II seeks to provide regulatory capital requirements that are both more comprehensive and more sensitive to risks, making the Australian banking system safer and more efficient. Bendigo Bank is working closely with APRA to understand the changes and ensure compliance with capital requirements.

18.6 Material changes in financial position since 30 June 2007

As previously mentioned in Section 17.5, global markets are facing volatile credit conditions (and resulting in increased pricing for wholesale funding) following the rising defaults in the US sub-prime market. Currently, around 80% of Bendigo Bank loans are funded by retail deposits, limiting the direct impact on Bendigo Bank of rising wholesale funding costs.

On 9 August 2007, Bendigo Bank declared a dividend of 34 cents per fully paid Bendigo Bank Ordinary Share payable on 28 September 2007.

Other than as set out in Section 18.6, Bendigo Bank's financial position has not materially changed since 30 June 2007, being the date of its last published audited financial statements, that were submitted on 27 September 2007 to ASX and ASIC.

³⁹ The Fitch and Standard & Poor's ratings are based on information released publicly by Fitch and Standard & Poor's. Fitch and Standard & Poor's have not consented to the use of these credit rating references in this Scheme Book. The credit rating references are not recommendations for Shareholders to take any particular action.

18.7 Historical share price performance

The following graph illustrates the movement in the Bendigo Bank Ordinary Share price from 1 January 2002 to 1 October 2007:



Source: IRESS

Bendigo Bank Ordinary Shares are quoted on ASX. The last recorded closing price for Bendigo Bank Ordinary Shares on ASX on 4 October 2007, being the last date before this Scheme Book was lodged with ASIC, was \$13.65.

During the three months ended 4 October 2007:

- the highest recorded daily closing price for Bendigo Bank Ordinary Shares on ASX was \$16.55 on 7 August 2007; and
- the lowest recorded daily closing price for Bendigo Bank Ordinary Shares on ASX was \$13.34 on 18 September 2007.

The closing price for Bendigo Bank Ordinary Shares on ASX before the public announcement of the Merger was \$16.50 on 8 August 2007.

None of the above share prices should be taken as a forecast that Bendigo Bank Ordinary Shares will trade at any particular price.

18.8 ASIC and ASX lodgements and disclosures

Bendigo Bank is a disclosing entity for the purposes of the Corporations Act and as such is subject to continuous reporting and disclosure obligations. Specifically, as a listed company, Bendigo Bank is subject to ASX Listing Rules which require (subject to certain exceptions) it to notify ASX immediately of any information of which it becomes aware concerning Bendigo Bank that a reasonable person would expect to have a material effect on the price or value of its shares. The disclosures made to ASX are available for inspection at ASX during normal business hours or from ASX's website at www.asx.com.au.

In addition, Bendigo Bank is also required to lodge various documents with ASIC. Copies of documents lodged with ASIC by Bendigo Bank may be obtained from, or inspected at, an ASIC office.

Bendigo Bank will provide free of charge, to any holder of Adelaide Bank shares who requests it before the Schemes are approved by order of the Court,⁴⁰ a copy of:

- the Bendigo Bank constitution;
- the annual financial report of Bendigo Bank for the year ended 30 June 2007 (being the annual financial report most recently lodged with ASIC before this Scheme Book was lodged for registration with ASIC); and
- any continuous disclosure notice given to ASX by Bendigo Bank after the lodgement with ASIC of the annual financial report of Bendigo Bank for the year ended 30 June 2007 referred to above and before lodgement for registration of this document with ASIC.

All of these documents can be accessed on Bendigo Bank's website at www.bendigobank.com.au.

⁴⁰ This obligation will cease in respect of the Scheme if the Scheme does not receive the requisite shareholder approval.

Information about the Merged Group

19.1 Rationale for the Merger

The Merger will bring together two successful organisations, Bendigo Bank and Adelaide Bank, 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 and Bendigo Bank have both undertaken analysis to assess the potential benefits and risks of the Merger. On the basis of that analysis, the boards of Adelaide Bank and Bendigo Bank believe that the following benefits set out in this Section will result from the Merger:

The statements set out in this Section are based on the current knowledge and intentions of the boards of Adelaide Bank and Bendigo Bank and accordingly may be subject to change as new information becomes available or as circumstances change.

Section 20 sets out potential risk factors that may affect the ability of the Merged Group to achieve these benefits.

(a) Combination of two distinctive but complementary businesses

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.

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 the customer proposition will be enhanced by the Merger. This combination will be able to provide a more comprehensive offering and value proposition for the combined organisation's customers and partners.

(b) Financially stronger entity: better positioned to grow and innovate

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

- loans under management of more than \$43 billion including mortgage loans exceeding \$30 billion;
- a diversified earnings, assets and liabilities base;
- an enlarged presence in the fast growing wealth management sector; with approximately \$7 billion of funds under management;
- enhanced scale to drive greater operating efficiencies across the Merged Group; and
- greater funding flexibility by combining Adelaide Bank's securitisation expertise with Bendigo Bank's retail funding strength.

In addition, based on recent share prices of Adelaide Bank Ordinary Shares and Bendigo Bank Ordinary Shares, the pro forma market capitalisation of the Merged Group would be approximately \$3.5 billion which would have placed it well within the S&P/ASX100 Index.⁴¹

⁴¹ Based on the closing prices and ordinary shares outstanding of Adelaide Bank and Bendigo Bank on 4 October 2007, the last trading day before the date of this Scheme Book (excluding the quoted preference shares of both companies). This statement should not be taken to be a forecast that Bendigo Bank Ordinary Shares will trade at any particular price.

(c) Value from synergies

The Merged Group represents the combination of two complementary businesses.

It is anticipated the Merger will ultimately provide annual pre-tax cost synergies of approximately \$60 million – \$65 million with 80% of those pre-tax cost synergies expected to be realised in the second full year of operation.⁴²

The table below provides an overview of the key expected synergies identified:

Expected synergy	Description of cost synergy
Technology	Reduced spending on desktops, IT applications, communications, software licences and data processing as IT systems and processes are rationalised and migrated onto common platforms. It is anticipated that there will also be some rationalisation of fixed assets.
Corporate	Consolidation of shared services and corporate services and procurement synergies from greater purchasing power. Listing, funding and regulatory costs (annual ASX listing, share registry, board, audit fees and APRA related costs) and operating expenses (consultancy, office accommodation, office supplies, media and printing).
Personnel	Staff cost savings through the elimination of duplicated functions.

This estimate of cost synergies has been determined by Adelaide Bank and Bendigo Bank in light of their analysis to date and the results of a review of potential synergies by their respective management teams.

Having regard to the work undertaken to date, the boards of Adelaide Bank and Bendigo Bank believe that the amount and timing of estimated cost synergies are both reasonable and achievable. However, the realisation and timing of cost synergies are subject to the integration and other risks described in Section 20.5. Accordingly, there can be no assurance that cost synergies will be realised in line with the timing and amounts disclosed above. Any failure to achieve the level of estimated cost synergies, or any delay in achieving them or any increase in anticipated integration costs, may adversely affect the financial performance and position, and future prospects, of the Merged Group.

Adelaide Bank and Bendigo Bank have commenced a further detailed review of the structure, systems and activities of both Adelaide Bank and Bendigo Bank to assess and identify cost synergies in greater detail and develop detailed plans for the achievement of the identified synergies and to maximise the performance

of business operations and the assets of the business. This review will continue after the Ordinary Share Scheme becomes Effective.

In addition to the cost synergies detailed above, Adelaide Bank and Bendigo Bank also anticipate the potential for revenue synergies owing to opportunities to cross sell their existing products to the combined customer base of the Merged Group, including more than 1.3 million retail customers and the customer base of wholesale partners. Products which the Merged Group would look to cross sell include:

- wealth management products, including the Sandhurst Trustees Common Fund, Leveraged Equities' margin lending products and Adelaide Managed Funds' products;
- retail banking products, including the Homesafe Debt Free Equity Release product and the 'Smartsuite' products; and
- business lending products (including portfolio funding).

No assurance can be given as to the timing or amount of these revenue synergies.

⁴² Excluding one-off merger and integration costs.

Integration costs and timing

In order to achieve the cost synergies referred to above, it is anticipated that the Merged Group will incur approximately \$50 million – \$60 million in one-off integration costs, equivalent to approximately one times the level of estimated cost synergies.

The majority of these integration costs are expected to be incurred over two years. It is expected that integration work will occur in stages. However, it is anticipated that the majority of the integration work will be completed within the first 24 months following implementation of the Merger.

(d) Enhanced product and services offering to the combined customer base

The Merged Group will have an expanded product offering which will be made available through more than 380 branches covering all States and Territories. Currently, the respective retail businesses serve more than 1.3 million retail customers and the customer base of wholesale partners. The Community Bank® model will continue to be a focus of the retail growth strategy under the Merged Group, and the Merged Group will have a greater capacity to invest further in the South Australian branch network.

(e) Value enhancement for business partners

It is intended that partners of both banks, including Adelaide Bank's existing wholesale distributors of mortgages and other financial services products, will continue to operate as an important distribution channel. These partners will have access to a greater variety of products, backed by the increased scale and enhanced processing capability of the Merged Group. There are plans to continue to grow the branch network across Australia.

19.2 Operating structure

The proposed Merged Group will focus on customer acquisition and partnering, combining four main business segments: Retail Banking, Wealth Management, Business Partners and Wholesale Mortgages.

Customer acquisition		Partnering		
Retail Banking <ul style="list-style-type: none"> Retail branches Community Bank® branches Business banking Financial planning Solutions 	Wealth Management <ul style="list-style-type: none"> Margin lending Funds management Investments Relationships 	Business Partners <ul style="list-style-type: none"> Portfolio funding Specialised lending Third party relationships 	Wholesale Mortgages <ul style="list-style-type: none"> Partner relationships Mortgage processing Product manufacturing 	
Corporate services and shared services				

19.3 Merged Group Board

(a) Chairman, Deputy Chairman and executive directors

Subject to receiving shareholder approval at Bendigo Bank's annual general meeting on 29 October 2007 to amend Bendigo Bank's constitution to increase the size of its board, the Merged Group Board will consist of six non-executive directors from the existing Bendigo Bank Board (nominated by Bendigo Bank), four non-executive directors from the existing Adelaide Bank Board (nominated by Adelaide Bank), Mr Rob Hunt as Managing Director and Mr Jamie McPhee as an executive director.

Mr Robert Johanson will continue as Chairman and Mr Kevin G Osborn will be the Deputy Chairman.

If the Bendigo Bank constitution is not amended, Bendigo Bank will be able to instead nominate only five non-executive directors and Adelaide Bank only three non-executive directors.

Profiles of Messrs Johanson and Hunt are set out in Section 18.3 and profiles of Messrs Osborn and McPhee are set out in Section 17.3.

(b) Other non-executive directors

Mr Steven Crane and Dr Patricia Crook have agreed to tender their resignations as Adelaide Bank Directors in the event that the Ordinary Share Scheme is approved.

Adelaide Bank proposes to nominate Dr Adele Lloyd, Mr Kevin Abrahamson and Mr Roger Cook, as its non-executive director appointees to the Merged Group Board in addition to Mr Osborn.

As at the date of this Scheme Book, Adelaide Bank has not made a decision as to whom of Dr Lloyd, Mr Abrahamson and Mr Cook will not be nominated to the Merged Group Board, if Bendigo Bank's constitution is not amended.

Profiles of Dr Lloyd and Messrs Abrahamson and Cook are set out in Section 17.3.

As at the date of this Scheme Book, Bendigo Bank has not made a decision about whom of the Bendigo Bank non-executive directors will remain on the Merged Group Board in addition to Mr Johanson.

Profiles of the current directors of Bendigo Bank from whom those nominated directors will be drawn (being Mr Neil Axelby, Ms Jennifer Dawson, Mr Donald Erskine, Mr Terence O'Dwyer, Ms Deborah Radford, Mr Kevin Roache and Mr Tony Robinson) are set out in Section 18.3.

Bendigo Bank and Adelaide Bank will make an announcement to ASX on the composition of the Merged Group Board after a decision is made.

19.4 Corporate governance of the Merged Group

The Merged Group intends to continue to apply the corporate governance policies of Bendigo Bank referred to in Section 18.4. However, it is expected that the Merged Group Board will review these policies following the Implementation Date to ensure that they are appropriate for the circumstances of the Merged Group.

19.5 Intentions for the Merged Group

This Section 19.5 sets out the Merged Group's intentions, if the Ordinary Share Scheme becomes effective, with regard to:

- the ownership structure of the Merged Group;
- the continuation of the business of Adelaide Bank and any major changes to the business of Adelaide Bank; and
- the future employment of Adelaide Bank employees.

The expected intentions of the Merged Group Board have been compiled by the current boards of Adelaide Bank and Bendigo Bank. Both boards have confirmed that they agree with the stated intentions. These statements of intention are based on the information known to the boards of Adelaide Bank and Bendigo Bank at the date of this Scheme Book regarding their respective businesses and the general business environment.

Final decisions will only be reached by the Merged Group Board in light of:

- experience gained through exposure to the combined businesses; and
- material information and circumstances at the relevant time.

Accordingly, the statements set out in this Section 19.5 are statements based on current intentions which may change as new information becomes available or circumstances change, including as part of the review referred to in Section 19.1(c).

(a) Ownership structure of the Merged Group

Immediately following the implementation of the Merger, the Merged Group will be owned approximately 55% by the current Bendigo Bank shareholders and 45% by the current Adelaide Bank Ordinary Shareholders.⁴³

(b) Continuation of the businesses of Adelaide Bank

- **Businesses**
The Merged Group intends to retain and grow the Bendigo Bank and Adelaide Bank businesses. Both businesses operate a number of brands whose value is recognised by the Merged Group. These businesses will operate within a listed entity using the name 'Bendigo and Adelaide Bank Limited' assuming shareholders approve the name change (refer to item (c) below for further information regarding the name change).
- **Branches**
A key strategy of the Merged Group will be to expand its branch presence and grow retail distribution capability and reach. The Merged Group intends to retain the existing branches and only consolidate them should a direct overlap exist.

- **Partners**
Partners, 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.

(c) Name change of the Merged Group

Bendigo Bank intends to change its name to 'Bendigo and Adelaide Bank Limited' if the Ordinary Share Scheme is implemented. Accordingly, a resolution to give effect to this name change would be proposed at an extraordinary general meeting to be held within two months after the implementation of the Ordinary Share Scheme.

(d) Future employment of Adelaide Bank and Bendigo Bank employees

The Merged Group recognises the value and knowledge of Adelaide Bank and Bendigo Bank employees. The Merged Group believes that both banks will contribute pools of talented people. Subject to the comments below, the Merged Group intends to optimise the use of available skills of staff within the Merged Group.

The Merged Group's employment requirements will be reviewed in light of the identified synergy cost saving. Realisation of those savings arising from duplicated activities and functions in the Merged Group will necessarily result in some staff reductions.

The Merged Group intends to select the best personnel from each company to ensure that staff members with the most relevant expertise and experience are retained. Employment decisions will, however, be made in the context of the expected continuing growth of the Merged Group and taking into consideration both entities' existing and future vacant positions.

Where there are headcount reductions, the Merged Group will recognise the terms of relevant employment contracts and severance arrangements. Where possible, reassignment of staff and natural attrition will be used to manage the impact of lower staff requirements.

⁴³ Based on 108, 316, 569 Adelaide Bank Ordinary Shares and 145, 192, 294 Bendigo Bank Ordinary Shares on the last trading day before the date of this Scheme Book. The exact percentage ownership of the Merged Group will of course be impacted by any share issues by Adelaide Bank and Bendigo Bank prior to the Implementation Date. However, the anticipated share issues before that date are not expected to have a material impact on this pro forma ownership.

(e) Head office and meeting arrangements

Head office functions of the Merged Group will be shared between existing sites. It is intended that the wholesale business of the Merged Group will be headquartered in Adelaide and the retail business headquartered in Bendigo. The registered head office of the Merged Group will be in Bendigo. Meetings of the Merged Group Board and annual general meetings of the Merged Group will be shared between South Australia and Victoria on such basis as the Merged Group Board considers appropriate.

(f) Major changes and redeployment of fixed assets

Other than as set out in this Scheme Book, the Merged Group has no present intentions to make any major changes to the business of Adelaide Bank (including any redeployment of the fixed assets of Adelaide Bank).

19.6 Dividends and capital management policy**(a) Dividend policy**

Over the last three years, Bendigo Bank has maintained a dividend policy of paying approximately 70% of cash earnings per share as fully franked dividends to ordinary shareholders. The Merged Group intends to continue to adopt a similar dividend payout policy.

Payment of dividends in accordance with this policy will be dependent on a number of factors, including the Merged Group's profitability, the availability of franking credits and the funding requirements and general financial position of the Merged Group, which in turn may be affected by trading and general economic conditions. Dividend policy will be a decision for the Merged Group Board from time to time, taking into account these and other appropriate factors. Accordingly, no assurance is given as to the timing, extent and payment of dividends or the extent to which dividends will be franked.

(b) Post Merger capital management initiatives

Following the Merger, the Merged Group will be capitalised above minimum regulatory capital requirements. The Merged Group Board will set capital targets for the percentage of risk weighted assets for Tier I capital, adjusted common equity and total capital, taking into account timing of integration costs and synergies and other factors inherent in its normal operations.

Both Adelaide Bank and Bendigo Bank are currently working with the regulatory authorities to ensure compliance with the requirements of Basel II, to be implemented from 1 January 2008. The Merged Group intends to continue these discussions and will undertake to remain appropriately capitalised under the new Basel II regime.

19.7 Risk factors relating to the Merged Group

Please see Section 20 for a discussion of the risks associated with the Merger and an investment in the Merged Group.

19.8 Pro forma historical financial information**(a) Introduction**

This Section 19.8 contains pro forma historical financial information for the Merged Group:

- pro forma historical income statement for the Merged Group for the year ended 30 June 2007; and
- pro forma historical balance sheet for the Merged Group as at 30 June 2007.

The pro forma historical financial information in this Section 19.8 should be read in conjunction with the risks described in Section 20 and other information contained in this Scheme Book.

The pro forma historical financial information in this Section 19.8 is based on audited accounts. The financial information contained in this Section 19.8 has been presented in an abbreviated form insofar as it does not contain all the disclosures, statements or comparative information as required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

The unaudited pro forma historical income statement in this Section 19.8 is for illustrative purposes only and is prepared on the basis that the Merger had occurred on 1 July 2006. The unaudited pro forma historical balance sheet in this Section 19.8 is for illustrative purposes only and is prepared on the basis that the Merger occurred on 30 June 2007. If the Merger had occurred in the past, the Merged Group's operating results and financial position would have been different from those presented in the pro forma historical income statement and pro forma historical balance sheet in this Section 19.8.

The accounting policies of the Merged Group used to prepare the pro forma financial information are based on the accounting policies of Bendigo Bank contained in its audited financial statements for the year ended 30 June 2007 unless otherwise noted.

The Investigating Accountant has prepared an Investigating Accountant's Report in respect of the historical and pro forma historical financial information included in this Section. A copy of this report is included in Section 22.

(b) Merged Group pro forma historical income statement

The Merged Group pro forma historical income statement is compiled from the following:

- Bendigo Bank audited income statement for the year ended 30 June 2007;
- Adelaide Bank audited income statement for the year ended 30 June 2007; and
- adjustments relating to the potential synergies of the Merged Group.

The Merged Group pro forma historical income statement and the Merger adjustments are based on information prepared by both Adelaide Bank and Bendigo Bank.

Merged Group pro forma historical income statement

All in \$m	Bendigo Bank FY2007	Adelaide Bank FY2007	Merger adjustments	Pro forma Merged Group including synergies
Income				
Interest income	1,058.6	1,912.7		2,971.3
Interest expense	(701.5)	(1,647.6)		(2,349.1)
Net interest income	357.1	265.1	-	622.2
Non-interest income	183.2	70.4	-	253.6
Share of associates' net profit	21.9	-	-	21.9
Net operating income	562.2	335.5	-	897.7
Expenses				
Bad and doubtful debts	(8.2)	(17.9)	-	(26.1)
Other expenses	(376.0)	(172.0)	60.0 ⁽¹⁾	(488.0)
Total expenses	(384.2)	(189.9)	60.0	(514.1)
Profit before income tax expense	178.0	145.6	60.0	383.6
Income tax expense	(56.2)	(44.6)	(18.0) ⁽²⁾	(118.8)
Profit after income tax expense	121.8	101.0	42.0	264.8

Notes:

- (1) The Merged Group pro forma historical income statement assumes the Merger occurred on 1 July 2006 and approximately \$60 million of synergies were realised in the financial year ended 30 June 2007. No non-recurring or one-off transaction costs of a material nature have been identified other than non-recurring implementation costs as referred to in Section 19.1(c) and the costs incurred in relation to the transaction as set out in note 1 to the Merged Group pro forma historical balance sheet. These costs have been excluded from the pro forma financial income statement of the Merged Group.
- (2) Pro forma income tax expense has been calculated by applying a nominal tax rate of 30% to the anticipated cost savings and resultant increased profit.

(c) **Merger adjustments underlying the pro forma historical income statement**

Alignment of the accounting policies of Adelaide Bank and Bendigo Bank

No material differences have been identified between the accounting policies of Adelaide Bank and Bendigo Bank based on published accounting policies and therefore no adjustments have been made to the Merged Group pro forma historical income statement.

A full and detailed review of the application of accounting policies will be undertaken after completion of the Merger and may result in further adjustments.

Synergies and costs

The synergies included in the pro forma income statement are the lower end of the costs savings anticipated to be achieved by the Merged Group for the financial year ending 30 June 2010 (i.e. after integration is fully completed). Eighty percent of the pre-tax cost synergies are expected to be realised in the second full year of operation. No adjustment has been made to the Merged Group pro forma historical income statement for the impact of integration costs or transaction costs related to the Merger that may impact the income statement. Synergies and integration costs associated with the Merger are discussed in more detail in Section 19.1(c).

Adjustments relating to the new capital structure

No adjustment has been made to the Merged Group pro forma historical income statement to reflect any change in financing costs.

Adjustments relating to the impact of acquisition accounting

The impact of acquisition accounting is discussed in more detail in the Merged Group pro forma historical balance sheet section.

For the purposes of the pro forma historical income statement, no adjustments have been made to reflect the impact of acquisition accounting because for the purposes of the pro forma income statement and balance sheet, the book value of Adelaide Bank's assets and liabilities, as reported in the year end financial statements to 30 June 2007, is assumed to be equal to their fair value at the date of acquisition.

The expected impact of adopting acquisition accounting on the income statement of the Merged Group will include an amortisation charge for finite life intangible assets. Refer to the Merged Group pro forma historical balance sheet section for further discussion on potential intangible assets which may arise as a result of the Merger.

(d) **Merged Group pro forma historical balance sheet**

The Merged Group pro forma historical balance sheet is compiled from the following:

- Bendigo Bank audited balance sheet as at 30 June 2007;
- Adelaide Bank audited balance sheet as at 30 June 2007; and
- relevant Merger adjustments required to present the Merged Group on an aggregated basis.

The Merged Group pro forma historical balance sheet and the Merger adjustments are based on information prepared by both Adelaide Bank and Bendigo Bank.

Merged Group pro forma historical balance sheet

All in \$m	Bendigo Bank as at 30 June 2007	Adelaide Bank as at 30 June 2007	Merger adjustments	Pro forma Merged Group including synergies
Assets				
Cash and cash equivalents	257.6	601.8	(30.0) ⁽¹⁾	829.4
Due from other financial institutions	71.5	251.6	–	323.0
Derivatives	74.9	168.8	–	243.7
Financial assets available for sale	559.2	3.0	–	562.2
Financial assets held for trading	–	2,511.0	–	2,511.0
Financial assets held to maturity	1,614.4	171.3	–	1,785.7
Loans and other receivables	13,843.5	27,534.8	–	41,378.3
Investments in associates and joint ventures	156.3	–	–	156.3
Property, plant and equipment	61.5	29.9	–	91.4
Assets held for sale	93.4	–	–	93.4
Investment property	34.2	–	–	34.2
Intangible assets and goodwill	93.7	38.5	951.7 ^{(1), (2)}	1,083.9
Deferred tax assets	32.6	70.5	–	103.1
Other assets	108.8	189.6	–	298.4
Total assets	17,001.6	31,570.8	921.7	49,494.1
Liabilities				
Due to other financial institutions	184.0	175.3	–	359.3
Deposits	15,231.0	15,624.7	–	30,855.7
Notes payable	–	13,846.9	–	13,846.9
Derivatives	34.6	184.2	–	218.8
Income tax payable	16.3	6.7	–	23.0
Provisions	40.4	17.4	–	57.8
Deferred tax liabilities	21.8	30.2	–	52.0
Subordinated debt – at amortised cost	307.2	372.0	–	679.2
Reset preference shares	–	99.8 ⁽³⁾	–	99.8 ⁽³⁾
Other liabilities	151.3	465.0	–	616.3
Total liabilities	15,986.6	30,822.2	–	46,808.8
Net assets	1,015.0	748.6	921.7	2,685.3

Notes to the Merged Group pro forma historical balance sheet are on the following page.

All in \$m	Bendigo Bank as at 30 June 2007	Adelaide Bank as at 30 June 2007	Merger adjustments	Pro forma Merged Group including synergies
Equity				
Equity attributable to equity holders of the parent				
Issued capital – ordinary	605.2 ⁽³⁾	400.3 ⁽³⁾	1,205.4 ⁽³⁾	2,210.9 ⁽³⁾
Preference share capital	88.5	97.5	–	186.0
Employee Share Ownership Plan shares	(40.4)	–	–	(40.4)
Employee benefits reserve	–	(3.5)	(29.4) ⁽²⁾	(32.9)
Reserves	130.0	23.9	12.1 ⁽²⁾	166.0
Retained earnings	232.4	230.4	(266.4) ⁽²⁾	196.4
Total parent entity interests	1,015.7	748.6	921.7	2,686.0
Minority interests	(0.7)	–	–	(0.7)
Total equity	1,015.0	748.6	921.7	2,685.3

Notes:

- (1) The Merged Group pro forma historical balance sheet assumes the Merger occurred on 1 July 2006. Anticipated transaction costs of \$30 million have been included within the Merged Group pro forma historical balance sheet, with a reduction in the cash position and an increase to intangible assets and goodwill for these costs. The final amounts incurred and allocation may be different to that reflected for the purposes of the Merged Group pro forma historical balance sheet.
- (2) The Merger adjustments assume a Bendigo Bank Ordinary Share price of \$13.79 (being the closing price on 24 September 2007) and an exchange ratio of 1.075 New Bendigo Bank Ordinary Shares⁴⁴ for each Adelaide Bank Ordinary Share and that 108.3 million Adelaide Bank Ordinary Shares were on issue (as at 30 June 2007). For the purposes of calculating the intangible assets and goodwill for the Merged Group on consolidation, the book value of Adelaide Bank's assets and liabilities, as reported in the audited accounts as at 30 June 2007, is assumed to be equal to their fair value at the date of acquisition.
- The general reserve for credit losses of \$35.905 million of Adelaide Bank prior to the Merger which is eliminated on consolidation is deemed to be reinstated by a transfer from the merged entities' retained earnings of an equivalent amount as an initial transaction entry. Treasury shares held in trust on the date of the Merger within the employee benefits reserve are assumed to convert to Bendigo Bank Ordinary Shares at the exchange ratio and price outlined above. These shares will be treasury shares of the Merged Group. As at 30 June 2007, the number of treasury shares held by Adelaide Bank was 2.2 million.
- Other reserves, including the employee benefit reserves (excluding the treasury shares held within the reserve) and the cash flow hedge reserve are eliminated on consolidation of the Merged Group.
- (3) The number of Adelaide Bank Ordinary Shares to be converted into New Bendigo Bank Ordinary Shares has been assumed to equal the number of Adelaide Bank Ordinary Shares on issue as at 30 June 2007 converted at the stated conversion rate of 1.075 New Bendigo Bank Ordinary Shares per Adelaide Bank Ordinary Share. This does not take into account any potential change in the issued ordinary share capital of Adelaide Bank which may occur as a result of any capital raising, dividend reinvestment plans or conversion of preference shares, including the conversion of 105,426 Adelaide Bank Reset Preference Shares into Adelaide Bank Ordinary Shares on 1 November as disclosed in Section 17.5.

⁴⁴ Subject to rounding. Different arrangements apply to Ineligible Foreign Shareholders.

(e) Merger adjustments underlying the pro forma historical balance sheet**Alignment of the accounting policies of Adelaide Bank and Bendigo Bank**

No material differences have been identified between the accounting policies of Adelaide Bank and Bendigo Bank based on published accounting policies and therefore no adjustments have been made to the Merged Group pro forma historical balance sheet.

A full and detailed review of the application of accounting policies will be undertaken after completion of the Merger and may result in further adjustments.

Adjustments relating to funding and new capital structure

No adjustment has been made to the Merged Group's pro forma historical balance sheet to reflect any change.

Adjustments relating to the impact of acquisition accounting

Accounting standard AASB 3 Business Combinations requires Bendigo Bank to measure the cost of the Merger at the aggregate of the fair value of assets, liabilities and equity issued by Bendigo Bank in exchange for control of Adelaide Bank at the date on which the exchange occurs.

Bendigo Bank Ordinary Shares form part of the cost of acquisition. In accordance with accounting standards, the fair value of these shares will be determined as the published market price on the date of the acquisition. For the purposes of calculating the cost of acquisition, a value of \$13.79 per Bendigo Bank Ordinary Share has been used as described in note 2 above. To the extent the Bendigo Bank share price changes in the period to the acquisition date, the cost of acquisition and accordingly the value of intangible assets acquired (discussed below) will change.

The cost of the Merger includes assumed pre-tax transaction costs of \$30 million. As these costs form part of the cost of acquisition and are non-recurring in nature, they do not impact the pro forma historical income statement. All identifiable assets (including intangible assets), liabilities and contingent liabilities that meet certain recognition criteria should be recognised separately in the consolidated financial statements of the Merged Group. Once this process has been completed, the excess of the cost of the Merger over and above Bendigo Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities should be recognised as goodwill. This goodwill amount and any related impairment will only be identified once the Merger occurs. Similarly, the identification and valuation of intangible assets, including the breakdown between finite life and infinite life intangibles, will not be possible until after the completion of the Merger. Accounting standards allow a period of 12 months to finalise provisional acquisition accounting adjustments from the date of acquisition.

The following potential intangible assets may be recognised in the consolidated balance sheet subsequent to the Merger:

- market related assets such as brands;
- contract based assets such as contracts in force, funds under management, employment contracts and lease agreements; and
- technology based assets such as software.

For the purposes of the pro forma historical balance sheet, total intangible assets, including goodwill, relating to the acquisition are \$1,083.9 million. This amount will change once the fair value of all assets, liabilities and contingent liabilities acquired are determined as at the acquisition date. The \$1,083.9 million amount is determined as the excess of the cost of acquisition of \$1,605.7 million based on the implied value of the Schemes adjusted for the net assets acquired, preference shares and transaction costs.

Adjustments relating to non-recurring and one-off transactions

No non-recurring or one-off transactions of a material nature have been identified other than non-recurring implementation costs as referred to in Section 19.1(c) and the costs incurred in relation to the transaction as set out in note 1 to the Merged Group pro forma historical balance sheet above.

19.9 Bendigo Bank significant accounting policies

The significant accounting policies of Bendigo Bank are set out in note 2 of Bendigo Bank's 2007 annual report available from Bendigo Bank's website at www.bendigobank.com.au. As noted in Sections 19.8(c) and 19.8(f), there are no material differences between the published accounting policies of Adelaide Bank and Bendigo Bank.

19.10 Statement regarding pro forma forecast financial information

The boards of Adelaide Bank and Bendigo Bank have carefully considered whether they have a reasonable basis to produce reliable and meaningful forecast financial information for the Merged Group having regard to, among other matters, advice from their advisers, and have concluded that they do not have a reasonable basis to provide forecast financial information that is sufficiently meaningful and reliable for Shareholders.

The Merged Group performance in any period will reflect a number of factors that cannot be predicted with a high level of confidence and are outside its control. These factors include the current volatile state of the global credit markets impacting on the banking sector; including the volatility in pricing and volumes of wholesale funding and securitisation; the level of investment returns impacting the wealth management and margin lending business; and uncertainties in the regulatory environment.

The future performance of the Merged Group's businesses is subject to the risk factors set out in Section 20.

Part D | Section 20

Risk factors

20.1 Introduction

If the Merger proceeds, Scheme Shareholders (other than Ineligible Foreign Shareholders) will receive New Bendigo Bank Ordinary Shares, New Bendigo Bank Step Up Preference Shares and/or New Bendigo Bank Reset Preference Shares under the Schemes (as applicable).

An investment in New Bendigo Bank Ordinary Shares, New Bendigo Bank Step Up Preference Shares and/or New Bendigo Bank Reset Preference Shares is subject to a range of risks. This Section 20 summarises the key risks that apply to the Merged Group and its businesses as well as risks arising from the Merger. If any, or a combination, of these risks actually occurs, the Merged Group's businesses, financial condition, results of operations, cash flows and prospects could be materially adversely affected. If this occurs, the value and price of New Bendigo Bank Ordinary Shares, New Bendigo Bank Step Up Preference Shares and/or New Bendigo Bank Reset Preference Shares, and the capacity of the Merged Group to pay dividends on those shares, are likely to be adversely affected.

Some of the risks outlined in this Section 20 can be mitigated by the use of safeguards and appropriate controls while others will remain outside the control of the Merged Group.

The risks described below are not the only risks that the Merged Group could face. Additional risks and uncertainties not presently known to Adelaide Bank or Bendigo Bank or that are currently believed to be immaterial may also adversely affect the Merged Group's business and operations.

The information in this Section 20 should be carefully considered together with the other information in this Scheme Book.

This Section 20 does not take into account the investment objectives, financial situation or particular needs of individual Shareholders and should not be relied on as the sole basis for any investment decision.

20.2 General economic and political risks

The financial performance and position of the Merged Group and the price and value of shares in Bendigo Bank may fluctuate due to a range of general economic and political factors, including:

- general economic conditions in Australia and internationally;
- changes in government, fiscal, monetary and regulatory policies;
- inflation and interest rates;
- fluctuation in both debt and equity capital markets;
- relative changes in exchange rates;
- global geo-political events and hostilities; and
- acts of terrorism.

Although the Merged Group will have in place a number of strategies designed to minimise its exposure to, and mitigate the effects of, such risks, there can be no assurance that such arrangements will protect the Merged Group fully from such risks.

20.3 Financial markets risks

Financial markets in general have historically experienced volatility that has been unrelated to the operating performance of particular companies. These broad market and industry fluctuations may materially adversely affect the trading price of shares in Bendigo Bank, regardless of the Merged Group's actual operating performance. Historical market prices of Bendigo Bank's shares should not be regarded as indicative of the future market price at which Bendigo Bank's shares may trade. The trading price of Bendigo Bank shares could also be affected by:

- inclusion of the Merged Group on, or removal of the Merged Group from, major market indices; and
- recommendations by brokers and analysts.

20.4 Risks relating to the businesses of the Merged Group

The financial performance and position of the Merged Group and the price and value of shares in Bendigo Bank may also be affected by risks which specifically relate to the businesses of the Merged Group. The key risks are outlined below:

(a) Financial services industry specific risks

There are a number of risks which will arise directly from the operations of the Merged Group as a participant in the Australian financial services industry. These risks include:

- **Credit risk** – the potential for loss arising from a debtor or counterparty failing to meet their financial contractual obligations or the failure to recover the recorded value of specific investments. This risk will be inherent in the Merged Group's lending activities;
- **Liquidity risk** – the potential for the Merged Group to be unable to meet its financial commitments when they fall due as a result of mismatches in its cash flows from financial transactions;
- **Market risk** – the risk of an adverse event in the financial markets causing a loss of earnings to the Merged Group. This risk arises generally from either funding risk or interest rate risk:
 - **Funding risk** – the risk of over-reliance on a particular funding source, or the risk that the Merged Group will not have access to sufficient capital or liquidity, which carries a risk of volatility in funding costs or funding availability; and
 - **Interest rate risk** – this risk arises from a variety of sources including mismatches between the repricing periods of assets and liabilities. As a result of these mismatches, movements in interest rates can affect earnings or the value of the Merged Group;
- **System credit growth risk** – the risk that system credit growth may slow as a result of both macroeconomic and company specific factors. Movements in the business cycle may also affect the Merged Group;

- **Margin compression risk** – the risk that the net interest margin of the Merged Group may narrow as a result of increased competition and other factors which include, but are not limited to, cost of funding and portfolio mix; and
- **Operational risk** – the risk of potential variations in the value of the Merged Group's day-to-day activities, other than those captured in the credit and market risk categories, which relate to strategic and business decisions, process, systems and human error and external events.

The existing businesses of the Adelaide Bank Group and Bendigo Bank Group have adopted policies and procedures designed to control exposures to, and limit the extent of, these risks. Whilst there are inherent limitations in any risk management control system, the development and maintenance of effective control systems should provide a solid foundation for the Merged Group to manage the risks described above.

(b) Business specific risks

There are a number of risks which relate specifically to the business of the Merged Group. These risks include:

- **Brand risk** – the risk of the potential damage to the reputation of brands which could have an adverse impact on the financial performance of the Merged Group;
- **Systems risk** – the risk of failure of information technology systems used by the Merged Group which could result in disruption to operations, loss of customers, damaged reputation and weakening of competitive position;
- **Regulatory risk** – the risk that APRA's regulations regarding capital requirements change. In particular, APRA is proposing to apply capital adequacy principles as determined by Basel II. There is a possibility that the overall capital required to be held may be higher than the current requirement;
- **Credit rating risk** – the risk that the Merged Group is faced with a credit rating downgrade which could result in loss of business and/or an increase in the cost of capital and/or a reduction in the ability to raise capital;

- **Community Bank® risk** – under its Community Bank® business, Community Bank® branches of Bendigo Bank operate in every Australian State and Territory. The branches are operated by companies that have entered into franchise and management agreements with Bendigo Bank to manage and operate a Community Bank® branch of Bendigo Bank. Under a standard franchise agreement, Bendigo Bank derives revenue through the Community Bank® business from the payment of franchise fees and other fees by franchisees, as well as through revenue sharing arrangements. The staff of each franchisee are trained by Bendigo Bank and, in some cases, are seconded from Bendigo Bank.

While Bendigo Bank considers carefully the suitability of potential franchisees and undertakes extensive community campaigning and business planning processes, there can be no guarantee of the success of a Community Bank® branch. In particular, the Community Bank® business has only been in operation since 1998, and many Community Bank® branches have only been operating for a few years. As a growing network, a material portion of the network is relatively new and there are risks that may develop over time. For example, it is possible that one or more branches may not be able to sustain the level of revenue or profitability that they currently achieve (or that it is forecast that they will achieve).

Further, under the standard franchise agreement each franchise is subject to periodic renewal, subject to the franchisee satisfying certain conditions, at the option of the franchisee. In particular, under the standard franchise agreement, the initial term is five years with two options to renew, each for a further five years. It is possible that a franchisee will not want to (or be able to) renew its franchise. This may impact on the number of Community Bank® branches in operation.

Poor performance by one or more franchisees, or the termination of one or more franchise agreements, may cause a loss in revenue and cause harm to the brand names Bendigo Bank relies on and to Bendigo Bank; and

- **Nominee business risk** – part of the business of Sandhurst Trustees, a wholly owned subsidiary of Bendigo Bank, is its trustee and custodian business. This includes custodial services, acting as trustee for debenture and convertible note issues, acting as trustee or responsible entity of unit trusts and managed investment schemes and acting as a trustee for retail superannuation funds. There are particular risks that apply to such a business. In particular, as a trustee or custodian Sandhurst Trustees may generally be liable in its personal capacity (i.e. without a right of indemnity from the assets of the trust for which it is the trustee) for losses or damages caused as a result of negligence, fraud or breach of duty of Sandhurst Trustees or its officers. Further, as a trustee or custodian, the reputation of Sandhurst Trustees may be impacted adversely by the actions of its clients notwithstanding it has acted in good faith.

Sandhurst Trustees is the debenture trustee in respect of a debenture issue by Fincorp Investments Limited (Receivers and Managers Appointed) (In Liquidation) (**Fincorp**) and is custodian of the assets of the Fincorp Diversified Property Fund and Fincorp Enhanced Income Fund. Administrators were appointed to Fincorp on 23 March 2007 and ASIC is examining any potential wrongdoing by former directors and officers of Fincorp and the role and conduct of advisers to Fincorp and other parties, including the role of Sandhurst Trustees as debenture trustee for Fincorp. The position of Sandhurst Trustees has been reviewed by Bendigo Bank and Bendigo Bank does not believe that Sandhurst Trustees has acted improperly.

(c) Competition

There is substantial competition for the provision of financial services in the markets in which the Merged Group will operate. Factors contributing to this include industry deregulation, mergers, changes in customers' needs and preferences, entry of new participants, development of new distribution methods and increased diversification of products by competitors. This competition could lead to:

- loss of existing partners and customers or greater difficulty in retaining existing partners and customers;

- difficulty in attracting new customers;
- pressure on profit margins; and
- obsolescence of existing products and services and the need for more rapid deployment of new products and services.

The effects of competitive market conditions could materially impact on the financial performance and position of the Merged Group.

(d) Changes in technology

Technology plays an increasingly important role in the delivery of financial services to customers in a cost effective manner. The Merged Group's ability to compete effectively in the future will, in part, be driven by its ability to maintain an appropriate technology platform for the efficient delivery of its products and services.

(e) Litigation

The Merged Group may be exposed to litigation. There can be no assurance that courts will not increase the basis on which the Merged Group may suffer liability in connection with litigation.

(f) Changes in government policy, regulations or legislation

The Merged Group may be affected by changes in government policy, regulations or legislation applying to companies in the Australian financial services industry. These include possible changes in the accounting and taxation treatment of financial products and services or its capital, the regulation of selling practices and solvency standards. These changes may affect the Merged Group by, for example, requiring the Merged Group to hold more or less capital or incur other costs.

(g) Credit market conditions

As noted in Section 17.5, since the announcement of the Merger on 9 August 2007, 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. Continued volatility in global credit markets, further increases in funding costs and changes to availability of funding sources could adversely affect the Merged Group's financial performance and liquidity.

20.5 Risks relating to the Merger

Adelaide Bank shareholders should also take into account the following specific risks associated with the Merger.

(a) Integration

The success of the Merger and, in particular, the ability to realise the synergies outlined in Section 19.1(c), will be dependent, among other things, on the Adelaide Bank Group and Bendigo Bank Group being integrated effectively, efficiently and in a timely manner, without material disruption to the businesses of the two groups.

There is no guarantee that the Merged Group will be able to complete this integration successfully or that synergies will be realised in the amounts estimated or over the period contemplated or at the costs estimated in this Scheme Book. There is a risk that the Merged Group's future profitability and prospects could be adversely affected if integration is not completed successfully.

Although integration planning is already taking place and there is clear commitment to the timely completion of the integration, there remains a risk that unforeseen issues or difficulties may arise in the integration of Adelaide Bank and Bendigo Bank that may result in integration benefits and/or synergies being delayed, or being achieved only in part, or not at all. Areas of particular risk include:

- unforeseen difficulties or costs relating to the integration of information technology systems;
- unforeseen difficulties or costs in extracting savings from the consolidation of head office and back office functions; and
- unforeseen difficulties or costs in the integration of financial and accounting systems.

(b) Loss of key personnel

Both Adelaide Bank and Bendigo Bank have key employees whose experience and expertise are important to the ongoing success of their businesses. There may be unintended losses of key personnel during the Merger process which may have an effect on the performance of the Merged Group until any vacated positions are adequately filled.

(c) Fluctuations in price or value of New Bendigo Bank Ordinary Shares, New Bendigo Bank Step Up Preference Shares and New Bendigo Bank Reset Preference Shares

Under the Schemes, Bendigo Bank will issue a significant number of shares to Scheme Shareholders. Some Scheme Shareholders may not intend to hold their shares in Bendigo Bank and may seek to sell them. If such sales are significant, there may be an oversupply of shares in Bendigo Bank which may have an adverse effect on the price of such shares while the oversupply continues.

The market value of New Bendigo Bank Ordinary Shares, New Bendigo Bank Step Up Preference Shares and New Bendigo Bank Reset Preference Shares at the time at which they are received by Scheme Shareholders under the Schemes (and the value at which they trade beyond that date) may vary significantly from their market value on the date that the Schemes become Effective.

The market price of New Bendigo Bank Ordinary Shares, New Bendigo Bank Step Up Preference Shares and New Bendigo Bank Reset Preference Shares may fall due to the factors described in this Section 20 and other factors, some of which are beyond the Merged Group's control, including, but not limited to:

- operating results that vary from the expectations of securities analysts and investors;
- changes in expectations as to the Merged Group's future financial performance;
- changes in market valuations of other banks or financial services institutions;
- the announcement of acquisitions, strategic partnerships, joint ventures or capital commitments by the Merged Group or its competitors; and
- future issues of debt or equity securities by the Merged Group.

Accordingly, there can be no assurance that the price or value of New Bendigo Bank Ordinary Shares, New Bendigo Bank Step Up Preference Shares and New Bendigo Bank Reset Preference Shares will increase in the future.

(d) Customers

Adelaide Bank and Bendigo Bank are focused on ensuring that the integration of the Adelaide Bank Group and Bendigo Bank Group will occur in a way that does not adversely affect relationships with customers. However, a risk remains that customer relationships may be adversely affected to a material extent.

(e) Effect of change in control on contractual arrangements

Some of the commercial contracts to which Adelaide Bank is a party contain change of control clauses which may enable the counterparty to those contracts to terminate the contracts upon the implementation of the Merger. As at the date of this Scheme Book, Adelaide Bank has identified a number of agreements that contain change of control clauses which will be triggered if the Merger is implemented. In particular, Adelaide Bank has identified a number of agreements entered into in the ordinary course of its business which contain change of control clauses. Adelaide Bank considers that the impact of such change of control clauses that will be triggered by the Merger (and are expected to be relied on by the relevant counterparty) is unlikely to be material to the financial position, performance or prospects of the Merged Group.

If a counterparty does terminate a contract, the Merged Group could lose the benefit of the contract and may not be able to obtain similarly favourable terms upon entry into replacement arrangements, if any.

(f) Regulatory approval

The Merger is subject to a number of conditions precedent, including approval by the Treasurer of the Commonwealth of Australia for the purposes of the Financial Sector (Shareholdings) Act and the Banking Act. Adelaide Bank and Bendigo Bank have made application for these approvals, but have not received these approvals as at the date of this Scheme Book. Such approvals may be granted subject to conditions, which could be material to the Merged Group's operations and profitability.

(g) **Risks associated with Adelaide Bank Step Up Preference Shares and Adelaide Bank Reset Preference Shares remaining outstanding**

If the Step Up Preference Share Scheme does not succeed (and the Merged Group does not for any reason compulsorily acquire the Adelaide Bank Step Up Preference Shares) and/or the Reset Preference Share Scheme does not proceed (and the Merged Group does not for any reason exercise its right to exchange the Adelaide Bank Reset Preference Shares for cash), Adelaide Bank would not be a wholly owned subsidiary of the Merged Group for the purposes of the Corporations Act (including Chapter 2E) and may not be able to be consolidated for Australian taxation purposes.

This could impact the extent of the integration of Adelaide Bank and Bendigo Bank and the ability to carry out transactions between those entities after the Implementation Date.

20.6 Risks associated with holding New Bendigo Bank Step Up Preference Shares and New Bendigo Bank Reset Preference Shares

(a) **Ability to pay dividends**

New Bendigo Bank Step Up Preference Shares and New Bendigo Bank Reset Preference Shares are not debt instruments and dividends are not the same as interest payments. Dividends are non-cumulative and therefore, do not accrue if they are not paid.

The payment of dividends is subject to certain conditions (see clause 9.2 of Appendix 6 and clause 10.2 of Appendix 7). There is a risk that one or more of these conditions may not be satisfied and a dividend is not paid.

(b) **Exchange by the Merged Group**

The Merged Group may exchange all or some of the New Bendigo Bank Step Up Preference Shares and New Bendigo Bank Reset Preference Shares at the step up date (or subsequent dividend payment date) and reset date respectively or at other times upon the occurrence of certain events including in response to a change in tax laws, changes in the treatment by APRA of the New Bendigo Bank Step Up Preference Shares or New Bendigo Bank Reset Preference Shares or on the occurrence of certain takeovers or schemes of arrangements. Exchange may occur before a holder wishes to dispose of their New Bendigo Bank Step Up Preference Shares or New Bendigo Bank Reset Preference Shares. This may have negative consequences for a holder depending on their individual circumstances.

On such exchange, the Merged Group may convert New Bendigo Bank Step Up Preference Shares or New Bendigo Bank Reset Preference Shares into Bendigo Bank Ordinary Shares or redeem, buy back or cancel such shares at their issue price. The number of Bendigo Bank Ordinary Shares to be issued on conversion depends on the volume weighted average price of Bendigo Bank Ordinary Shares during the period of 20 trading days prior to the exchange date. This may differ to the market price for Bendigo Bank Ordinary Shares on the exchange date.

If the Merged Group redeems, buys back or cancels New Bendigo Bank Step Up Preference Shares or New Bendigo Bank Reset Preference Shares, the amount paid to holders may be higher or lower than the price paid for the Adelaide Bank Step Up Preference Shares or Adelaide Bank Reset Preference Shares exchanged by the holder for the New Bendigo Bank Step Up Preference Shares or New Bendigo Bank Reset Preference Shares respectively.

(c) Right and method to exchange by holders

Holders of New Bendigo Bank Step Up Preference Shares have no right of exchange. The Merged Group may choose to exchange some or all of the New Bendigo Bank Step Up Preference Shares when that does not coincide with the holder's individual preferences, and that might disadvantage the holder in light of market conditions or individual circumstances.

Holders of New Bendigo Bank Reset Preference Shares may require the Merged Group to exchange some or all of their New Bendigo Bank Reset Preference Shares in certain circumstances and the Merged Group has the right to determine the method of exchange. An option may be chosen that does not coincide with the holder's individual preferences, and that might disadvantage the holder in light of market conditions or individual circumstances.

(d) Ranking

New Bendigo Bank Step Up Preference Shares and New Bendigo Bank Reset Preference Shares are not debt instruments. In the unlikely event of a winding up of the Merged Group, holders will rank in priority of payment behind all depositors and creditors of Bendigo Bank but equally with each other holder of New Bendigo Bank Step Up Preference Shares and New Bendigo Bank Reset Preference Shares (and Bendigo Bank Preference Shares) and ahead of holders of Bendigo Bank Ordinary Shares and holders of securities ranking lower than New Bendigo Bank Step Up Preference Shares or New Bendigo Bank Reset Preference Shares (as applicable) to the extent of the issue price and any dividend that is due but unpaid. If there is a shortfall of funds on a winding up, there is a risk that holders will not receive a full return of capital and any dividends due but unpaid at the time.

(e) New securities

The Merged Group may issue other securities, in some cases without the approval of holders. In particular, the Merged Group may, without shareholder approval, issue other preference shares that rank equally or behind New Bendigo Bank Step Up Preference Shares or New Bendigo Bank Reset Preference Shares for dividends or repayment of capital in a winding up of the Merged Group. Such further issues by the Merged Group may affect the market price and liquidity of New Bendigo Bank Step Up Preference Shares and New Bendigo Bank Reset Preference Shares (as applicable) and may also impact the ability of the Merged Group to pay dividends or the sufficiency of funds on a winding up.

(f) Credit ratings

As a result of changes in the Merged Group's operating performance or capital structure, there is a risk that the credit ratings of the Merged Group could be downgraded in the future. This could affect the market price and liquidity of New Bendigo Bank Step Up Preference Shares and New Bendigo Bank Reset Preference Shares.

(g) Regulatory classification

APRA has confirmed that the New Bendigo Bank Step Up Preference Shares and New Bendigo Bank Reset Preference Shares satisfy its prudential standards in relation to eligible Tier 1 capital. However, if the Merged Group subsequently determines that the New Bendigo Bank Step Up Preference Shares or New Bendigo Bank Reset Preference Shares do not qualify, or there is a risk that the Merged Group is unable to treat them as Tier 1 capital under APRA guidelines, or due to a change in securities laws additional unacceptable requirements would be imposed on the Merged Group, then, in certain circumstances, the Merged Group may convert the relevant class of shares into Bendigo Bank Ordinary Shares or, subject to APRA approval, redeem, buy back or cancel the New Bendigo Bank Step Up Preference Shares and New Bendigo Bank Reset Preference Shares for their issue price.

Taxation implications of the Merger for Adelaide Bank shareholders

21.1 Introduction

This Section provides a general overview of the Australian tax implications for Shareholders who are Australian residents for tax purposes and who hold their shares on capital account.

The outline does not address the tax implications for Shareholders who:

- hold their shares on revenue account such as banks, insurance companies and share trading entities; or
- are non-residents of Australia for tax purposes (including non-resident Shareholders who currently hold Adelaide Bank Ordinary Shares, Adelaide Bank Step Up Preference Shares or Adelaide Bank Reset Preference Shares, or will hold New Bendigo Bank Ordinary Shares, New Bendigo Bank Step Up Preference Shares or New Bendigo Bank Reset Preference Shares, through a permanent establishment in Australia).

The information contained in this outline is of a general nature only. It does not constitute tax advice and should not be relied upon as such. All Shareholders should seek independent professional advice on the consequences of participating in the Schemes, based on their particular circumstances.

21.2 Australian tax consequences of participating in the Scheme

(a) Exchange of shares

Shareholders who participate in the respective Schemes will receive consideration for the transfer of their shares to Bendigo Bank in the form of New Bendigo Bank Ordinary Shares, New Bendigo Bank Step Up Preference Shares and New Bendigo Bank Reset Preference Shares respectively.

The transfer of Adelaide Bank Ordinary Shares, Adelaide Bank Step Up Preference Shares or Adelaide Bank Reset Preference Shares to Bendigo will be a capital gains tax (**CGT**) event for holders of those shares. Shareholders will:

- make a capital gain if the capital proceeds for their shares are greater than the cost base of their shares subject to the application of CGT scrip-for-scrip roll over relief (CGT roll over relief) (see below); or
- make a capital loss if the capital proceeds for their shares are less than the reduced cost base of their shares.

The capital proceeds from the exchange of Adelaide Bank Ordinary Shares, Adelaide Bank Step Up Preference Shares and Adelaide Bank Reset Preference Shares will be equal to the market value of the New Bendigo Bank Ordinary Shares, the New Bendigo Bank Step Up Preference Shares and the New Bendigo Bank Reset Preference Shares respectively.

The market value of the New Bendigo Bank Ordinary Shares, the New Bendigo Bank Step Up Preference Shares and the New Bendigo Bank Reset Preference Shares should be worked out at the time of the CGT event, which is the day on which the relevant Schemes are implemented.

The cost base of the Adelaide Bank Ordinary Shares, Adelaide Bank Step Up Preference Shares and Adelaide Bank Reset Preference Shares will generally include their original cost of acquisition, plus incidental costs incurred in relation to their acquisition and disposal. Additionally, the cost base of these shares will be reduced by any returns of capital received by holders of these shares who held their shares at the time of capital reductions.

Capital gains and capital losses of a Shareholder in an income year from all sources are aggregated to determine whether there is a net capital gain or net capital loss for that income year. The aggregated capital gains are then offset against any available net capital losses from prior income years. The relevant discount percentage (see below) is then applied to each amount of the remaining discount capital gain if the Shareholder is an individual, trust or complying superannuation entity. In contrast, any remaining net capital losses can generally be carried forward for offset in future income years. Net capital losses cannot be offset against other items of assessable income.

(b) CGT discount

In general, individuals, complying superannuation entities or trusts that have held Adelaide Bank Ordinary Shares, Adelaide Bank Step Up Preference Shares and Adelaide Bank Reset Preference Shares for at least 12 months should be entitled to discount the capital gain (after the application of any current year or available carry forward capital losses), provided they do not index the cost base of the shares for inflation. The amount of this discount is 50% in the case of individuals and trusts and 33¹/₃% for complying superannuation entities. This is referred to as the 'CGT discount'. The CGT discount is not available for Shareholders that are companies.

Where the Shareholder is a trustee of a trust that has held the shares for at least 12 months, the CGT discount may flow through to the beneficiaries of that trust if those beneficiaries are not companies. Shareholders that are trustees should seek specific advice regarding the tax consequences of distributions to beneficiaries who may qualify for discount capital gains.

21.3 CGT roll over relief**(a) Availability**

Shareholders who would otherwise make a capital gain in respect of the transfer of their shares should be eligible to choose CGT roll over relief for the transfer of their shares.

(b) Effect

The capital gain that relates to the consideration received in the form of New Bendigo Bank Ordinary Shares, New Bendigo Step Up Preference Shares and/or New Bendigo Bank Reset Preference Shares is disregarded if CGT roll over relief is available and a choice to obtain roll over relief is made.

(c) How to choose CGT roll over relief

Shareholders will generally need to choose CGT roll over relief before lodging their tax return for the income year in which the CGT event happens. For Shareholders who are individuals, this is expected to be the tax return for the year ending 30 June 2008. Choosing CGT roll over relief can be evidenced by excluding the relevant capital gain from the tax return of the Shareholders.

(d) CGT cost base of New Bendigo Bank Ordinary Shares, New Bendigo Bank Step Up Preference Shares and New Bendigo Bank Reset Preference Shares

To calculate any capital gain or capital loss on a disposal of New Bendigo Bank Ordinary Shares, New Bendigo Bank Step Up Preference Shares or New Bendigo Bank Reset Preference Shares, it will be necessary to have regard to the cost base or reduced cost base of the New Bendigo Bank Ordinary Shares, the New Bendigo Bank Step Up Preference Shares and the New Bendigo Bank Reset Preference Shares respectively, and their respective dates of acquisition. These will be affected where a Shareholder chooses CGT roll over relief in respect of Adelaide Bank Ordinary Shares, Adelaide Bank Step Up Preference Shares or Adelaide Bank Reset Preference Shares exchanged for New Bendigo Bank Ordinary Shares, New Bendigo Bank Step Up Preference Shares or New Bendigo Bank Reset Preference Shares.

(e) Where CGT roll over relief is chosen

The first element of the cost base of the New Bendigo Bank Ordinary Shares, the New Bendigo Bank Step Up Preference Shares or the New Bendigo Bank Reset Preference Shares will be equal to the cost base of the Adelaide Bank Ordinary Shares, the Adelaide Bank Step Up Preference Shares or the Adelaide Bank Reset Preference Shares respectively, at the time of the CGT event. The New Bendigo Bank Ordinary Shares, the New Bendigo Bank Step Up Preference Shares and the New Bendigo Bank Reset Preference Shares received in exchange for Adelaide Bank Ordinary Shares, Adelaide Bank Step Up Preference Shares or Adelaide Bank Reset Preference Shares will be taken for CGT purposes to have the same acquisition date as the Adelaide Bank Ordinary Shares, the Adelaide Bank Step Up Preference Shares or the Adelaide Bank Reset Preference Shares respectively, where CGT roll over relief is chosen.

(f) **Where CGT roll over relief is not chosen or is not available**

In this case, the cost base of the New Bendigo Bank Ordinary Shares, the New Bendigo Bank Step Up Preference Shares or the New Bendigo Bank Reset Preference Shares received will be equal to the market value of the New Bendigo Bank Ordinary Shares, the New Bendigo Bank Step Up Preference Shares or the New Bendigo Bank Reset Preference Shares received respectively. The New Bendigo Bank Ordinary Shares, the New Bendigo Bank Step Up Preference Shares or the New Bendigo Bank Reset Preference Shares will be taken, for CGT purposes, to have been acquired at the time the relevant Scheme is implemented.

21.4 Employees who participate in the Allocation Scheme under the Adelaide Bank Executive Directors and Staff Securities Plan

Employees who have received their Adelaide Bank Ordinary Shares from the trustee holding those shares under the Allocation Scheme (see Section 26.9(d)) or who are absolutely entitled as against the trustee holding those shares will be subject to the same CGT treatment as noted in Sections 21.2 and 21.3.

The taxation implications for employees who have not yet become absolutely entitled against the trustee holding Adelaide Bank Ordinary Shares under the Allocation Scheme (see Section 26.9(d)) will depend upon whether they have made an election to be taxed in respect of the Adelaide Bank Ordinary Shares in the income year in which they acquired their interest in the Adelaide Bank Ordinary Shares.

If such an election has been made, the Merger will not cause previously excluded amounts (i.e. \$1,000 per annum) to be included in the assessable incomes of such employees. These employees will not be subject to the CGT provisions as the Adelaide Bank Ordinary Shares are held by the trustee and they will not otherwise have to include an amount in their assessable incomes. The trustee will be entitled to disregard any capital gain or capital loss as a consequence of exchanging Adelaide Bank Ordinary Shares for New Bendigo Bank Ordinary Shares. The cost base or reduced cost base of the New Bendigo Bank Ordinary Shares (for the purposes of determining any capital gain or capital loss when the New Bendigo Bank Ordinary Shares are subsequently sold) will be equal to the market value of the Adelaide Bank Ordinary Shares at the time the employees acquired their interest in the Adelaide Bank Ordinary Shares.

If employees have not made such an election, they will not be subject to tax under the employee share scheme provisions of the tax law if the trustee exchanges the employees' allocated Adelaide Bank Ordinary Shares for New Bendigo Bank Ordinary Shares. Any capital gain or capital loss is disregarded for the employees and the trustee. Assuming the employee does not dispose of the New Bendigo Bank Ordinary Shares in an arm's length transaction within 30 days of the 'cessation time', the cost base or reduced cost base will be equal to the market value of the New Bendigo Bank Ordinary Shares at the 'cessation time'. In general terms, the 'cessation time' is usually when the employees actually acquire the New Bendigo Bank Ordinary Shares.

Once the employees have received their New Bendigo Bank Ordinary Shares from the trustee, the CGT treatment should be the same as that outlined in Section 21.2, in respect of any subsequent CGT event.

21.5 Dividends

This Section 21.5 on dividends applies only to persons who will hold New Bendigo Bank Ordinary Shares, New Bendigo Bank Step Up Preference Shares or New Bendigo Bank Reset Preference Shares and who are Australian residents for tax purposes.

Generally, the assessable income of such shareholders will include any franking credit attached to a dividend paid to them in addition to the amount of the dividend (even if any of the dividends are reinvested). Where the franking credit is included in the shareholder's assessable income, the shareholder will generally be entitled to a corresponding tax offset against tax payable by the shareholder.

To be eligible for the franking credit and tax offset, a shareholder must satisfy the 'holding period rules', whereby the New Bendigo Bank Ordinary Shares must be held at risk for at least 45 days (90 days in the case of the New Bendigo Bank Step Up Preference Shares and the New Bendigo Bank Reset Preference Shares, not including the date of acquisition or the date of disposal) around the first dividend date.

A shareholder will not be taken to have held New Bendigo Bank Ordinary Shares, New Bendigo Step Up Preference Shares or New Bendigo Bank Reset Preference Shares at risk where the shareholder holds 'positions' (such as options or other hedging arrangements) which materially diminish the risks of loss or opportunities for gain in respect of those shares.

In addition, a shareholder must not be obliged to make a 'related payment' in respect of any dividend, unless they hold the shares at risk for the required holding period around all dividend dates.

The holding period rules will not apply to the shareholder who is an individual whose tax offset entitlement (for all franked distributions received in the income year) does not exceed \$5,000 for the income year in which the franked dividend is received.

Where a shareholder is an individual, a complying superannuation entity or a registered charity (in certain circumstances), that shareholder will generally be entitled to a refund to the extent that the franking credit attached to that shareholder's dividends exceeds that shareholder's tax liability for the income year.

Franked dividends distributed to shareholders that are companies will generally also give rise to a franking credit in the shareholders' franking account, where those shareholders satisfy the rules outlined above for claiming a tax offset.

A shareholder that is a company will generally be entitled to claim a carry forward loss calculated by reference to any excess of the franking credit attached to the shareholder's dividends over the shareholder's tax liability for the income year. Shareholders that are companies should seek specific advice regarding the tax consequences of dividends received in respect of New Bendigo Bank Ordinary Shares, New Bendigo Bank Step Up Preference Shares and New Bendigo Bank Reset Preference Shares and the calculation of carry forward losses arising from excess tax offsets.

21.6 GST

No GST should generally be payable in respect of the disposal of Adelaide Bank Ordinary Shares, Adelaide Bank Step Up Preference Shares or Adelaide Bank Reset Preference Shares or the acquisition of the New Bendigo Bank Ordinary Shares, New Bendigo Bank Step Up Preference Shares or New Bendigo Bank Reset Preference Shares.

21.7 Stamp duty

No stamp duty will be payable by the Shareholders in respect of their disposal of Adelaide Bank Ordinary Shares, Adelaide Bank Step Up Preference Shares or Adelaide Bank Reset Preference Shares or acquisition of New Bendigo Bank Ordinary Shares, New Bendigo Bank Step Up Preference Shares or New Bendigo Bank Reset Preference Shares.

21.8 Tax file numbers

It is not compulsory for Shareholders to notify Bendigo of their Australian Tax File Number (**TFN**) (or Australian Business Number (**ABN**)) if the New Bendigo Bank Ordinary Shares, New Bendigo Bank Step Up Preference Shares or New Bendigo Bank Reset Preference Shares are held in the course of carrying on an enterprise).

However, if a TFN or ABN notification is not provided to Bendigo Bank, Australian income tax at the top individual marginal tax rate plus the Medicare levy, currently totalling 46.5%, will be deducted from any dividends paid, unless the dividend is fully franked. However, shareholders are entitled to claim an income tax credit or refund (as applicable) in their income tax returns in respect of the tax withheld.

Investigating Accountant's Report



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28 September 2007

The Directors
Adelaide Bank Limited
169 Pirie Street
ADELAIDE SA 5000

The Directors
Bendigo Bank Limited
Fountain Court
BENDIGO VIC 3550

Dear Directors

Investigating Accountant's Report

1. Introduction

We have prepared this Investigating Accountant's Report ('IAR' or 'Report') at the request of the Directors of Adelaide Bank Limited and its controlled entities ('Adelaide Bank') and Bendigo Bank Limited and its controlled entities ('Bendigo Bank') for inclusion in a Scheme Booklet to be dated on or about 3 October 2007 relating to the Merger ('Merged Group') between Adelaide Bank and Bendigo Bank.

This report covers certain Adelaide Bank and Bendigo Bank historical financial information and Merged Group combined pro-forma historical financial information to be disclosed in the Scheme Booklet.

Expressions defined in the Scheme Booklet have the same meaning in this report.

2. Financial Information

2.1 Adelaide Bank Historical Financial Information

The summary historical consolidated financial information of Adelaide Bank, as set out in Section 17 of the Scheme Booklet, comprises the:

- summary historical income statements of Adelaide Bank for the years ended 30 June 2006 and 30 June 2007;
- summary historical balance sheets of Adelaide Bank as at 30 June 2006 and 30 June 2007; and
- selected notes thereto (together "Adelaide Bank historical financial information").

The Adelaide Bank historical financial information set out in Section 17 of the Scheme Booklet has been extracted from the financial statements of Adelaide Bank for the years ended 30 June 2006 and 30 June 2007.

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The financial statements of Adelaide Bank for the years ended 30 June 2006 and 30 June 2007 were audited by Ernst & Young in accordance with Australian Auditing Standards. The audit opinions issued to the members of Adelaide Bank relating to those financial statements were unqualified.

The directors of Adelaide Bank are responsible for the preparation and presentation of the Adelaide Bank historical financial information.

The Adelaide Bank historical financial information is presented in an abbreviated form insofar as it does not include all of the disclosures, statements or comparative information as required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act 2001 ("Corporations Act").

2.2 Bendigo Bank Limited Historical Financial Information

The historical consolidated financial information of Bendigo Bank, as set out in Section 18 of the Scheme Booklet, comprises the:

- summary historical income statements of Bendigo Bank for the years ended 30 June 2006 and 30 June 2007;
- summary historical balance sheets of Bendigo Bank as at 30 June 2006 and 30 June 2007; and
- selected notes thereto (together "Bendigo Bank historical financial information").

The Bendigo Bank historical financial information set out in Section 18 of the Scheme Booklet has been extracted from the financial statements of Bendigo Bank for the years ended 30 June 2006 and 30 June 2007.

The financial statements of Bendigo Bank for the years ended 30 June 2006 and 30 June 2007 were audited by Ernst & Young in accordance with Australian Auditing Standards. The audit opinions issued to the members of Bendigo Bank relating to those financial statements were unqualified.

The directors of Bendigo Bank are responsible for the preparation and presentation of the Bendigo Bank historical financial information.

The Bendigo Bank historical financial information is presented in an abbreviated form insofar as it does not include all of the disclosures, statements or comparative information as required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

2.3 Pro-forma Historical Financial Information of the Merged Group

The pro-forma historical financial information of the Merged Group, as set out in Section 19 of the Scheme Booklet, comprises the:

- unaudited pro-forma historical income statement of the Merged Group for the twelve months ended 30 June 2007, adjusted to reflect the pro forma adjustments described in Section 19 of the Scheme Booklet ('the Pro Forma Adjustments'), assuming the Merger had occurred as at 1 July 2006, as described in Section 19 of the Scheme Booklet.



- unaudited pro-forma historical balance sheet of the Merged Group as at 30 June 2007, adjusted to reflect the anticipated impact of the effects of pro-forma adjustments, assuming the Merger had occurred as at 30 June 2007, as set out in Section 19 of the Scheme Booklet.

The pro-forma historical income statement and pro-forma historical balance sheet (“Merged Group pro-forma historical financial information”) are presented to illustrate the financial performance of the Merged Group as though the Merger occurred on 1 July 2006 and the financial position of the Merged Group as at 30 June 2007 had the proposed Merger occurred at that date.

This pro-forma historical financial information has been prepared by Bendigo Bank and Adelaide Bank based on the terms of the Merger Implementation Agreement and the information set out in the Scheme Booklet. Bendigo Bank and Adelaide Bank have not had the opportunity to perform the assessment of the fair values of the assets, liabilities and contingent liabilities of Adelaide Bank. If the Merger had occurred in the past, the Merged Group’s financial position and financial performance would have been different from that presented in the pro-forma financial information in Section 19 of the Scheme Booklet.

The Merged Group pro-forma historical financial information is presented in an abbreviated form insofar as it does not include all of the disclosures, statements or comparative information as required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

3. Scope

The Directors of Adelaide Bank are responsible for the Adelaide Bank historical financial information and the Directors of Bendigo Bank are responsible for the Bendigo Bank historical financial information. The Scheme Booklet sets out the responsibility of Adelaide Bank and Bendigo Bank for the Merged Group pro forma historical financial information. We disclaim any responsibility for any reliance on this report or on the financial information to which it relates for any purposes other than that for which it was prepared. This report should be read in conjunction with the full Scheme Booklet.

3.1 *Audit of the accuracy of the Adelaide Bank Historical Financial Information*

We have audited the accuracy of the extraction of the Adelaide Bank historical financial information in order to provide reasonable assurance as to whether the historical financial information as set out in Section 17 of the Scheme Booklet, has been accurately extracted from Adelaide Bank’s audited financial statements.

We have audited the consistency of the Adelaide Bank historical financial information as set out in the Merged Group section of the Scheme Book with the historical financial information as included in Section 17 of this Scheme Booklet in order to provide reasonable assurance as to whether the historical financial information as set out in Section 19, is consistent with the historical financial information of Adelaide Bank outlined in Section 17 of the Scheme Booklet.



3.2 Audit of the accuracy of the Bendigo Bank Historical Financial Information

We have audited the accuracy of the extraction of the Bendigo Bank historical financial information in order to provide reasonable assurance as to whether the historical financial information as set out in Section 18 of the Scheme Booklet, has been accurately extracted from Bendigo Bank's audited financial statements.

We have audited the consistency of the Bendigo Bank historical financial information as set out in the Merged Group section of the Scheme Book with the historical financial information as included in Section 18 of this Scheme Booklet in order to provide reasonable assurance as to whether the historical financial information as set out in Section 19, is consistent with the historical financial information of Bendigo Bank outlined in Section 18 of the Scheme Booklet.

3.3 Audit of the compilation of the Pro-forma Financial Information of the Merged Group

We have audited the compilation of the Merged Group pro-forma historical financial information in order to provide reasonable assurance as to whether the pro-forma balance sheet as at 30 June 2007 and pro-forma income statement for the twelve months ended 30 June 2007 as set out in Section 19 of the Scheme Booklet have been properly and accurately prepared on the basis of the:

- Adelaide Bank and Bendigo Bank historical financial information; and
- Pro Forma Adjustments described in Section 19 of the Scheme Booklet.

We do not express any opinion, as to whether the Merged Group pro-forma historical information contained in the Scheme Booklet is presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia and accounting policies adopted by Bendigo Bank disclosed in the Scheme Book.

4. Opinions

4.1 Adelaide Bank Historical Financial Information

In our opinion, the historical financial information of Adelaide Bank as set out in Section 17 of the Scheme Booklet, has been accurately extracted or derived from Adelaide Bank's audited financial statements.

4.2 Bendigo Bank Historical Financial Information

In our opinion, the historical financial information of Bendigo Bank as set out in Section 18 of the Scheme Booklet, has been accurately extracted or derived from Bendigo Bank's audited financial statements.

4.3 Pro-forma Historical Financial Information of the Merged Group

In our opinion, the Merged Group historical financial information, as set out in Section 19 of the Scheme Booklet, has been properly prepared on the basis of the:

- Adelaide Bank historical financial information described in Section 17 of the Scheme Booklet;



- Bendigo Bank historical financial information described in Section 18 of the Scheme Booklet; and
- Pro Forma Adjustments described in Section 19 of the Scheme Booklet.

5. Subsequent Events

Apart from the matters dealt with in this Report and having regard to the scope of our Report, to the best of our knowledge and belief, no material transactions or events outside the ordinary business of Adelaide Bank and Bendigo Bank subsequent to 30 June 2007 have come to our attention which require comment on or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

6. Disclosure

Ernst & Young does not have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in this matter. Ernst & Young provides audit, tax, and other advisory services to Adelaide Bank and Bendigo Bank, and will receive a professional fee for the preparation of this Report.

Bendigo Bank and Adelaide Bank have agreed to indemnify and hold harmless Ernst & Young and its employees from any claims arising out of misstatement or omission in any material or information supplied by that party.

Consent to the inclusion of the Investigating Accountant's Report in the Scheme Booklet in the form and context in which it appears, has been given. At the date of this Report, this consent has not been withdrawn.

Yours faithfully

A handwritten signature in cursive script that reads 'Ernst & Young.' The signature is written in black ink.

Ernst & Young

Part D | Section 23

Independent Expert's Report for Ordinary Shareholders



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The Board of Directors
Adelaide Bank Limited
169 Pirie Street
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2 October 2007

Dear Mesdames and Sirs

Independent expert report & Financial services guide

1 Introduction

On 9 August 2007, the Boards of Directors of Adelaide Bank Limited (Adelaide Bank) and Bendigo Bank Limited (Bendigo Bank) jointly announced their intention to merge their respective businesses (Merger Proposal or Proposed Merger). The Merger Proposal is to be effected by way of a scheme of arrangement (Ordinary Share Scheme) which, if approved, will result in Bendigo Bank acquiring all the ordinary shares of Adelaide Bank and Adelaide Bank becoming a subsidiary of Bendigo Bank.

Under the Ordinary Share Scheme, Adelaide Bank ordinary shareholders will receive 1.075 (exchange ratio) Bendigo Bank ordinary shares (New Bendigo Bank ordinary shares) for every Adelaide Bank ordinary share they currently own (Consideration).

Separate schemes of arrangement are proposed for the Adelaide Bank Step Up Preference Shares (Step Up Preference Share Scheme) and Adelaide Bank Reset Preference Shares (Reset Preference Share Scheme). The Ordinary Share Scheme is not conditional upon the Step Up Preference Share Scheme and/or the Reset Preference Share Scheme being approved.

The Board of Directors of Adelaide Bank has requested KPMG Corporate Finance (Aust) Pty Ltd (KPMG) to prepare an independent expert report in respect of the Ordinary Share Scheme. In this regard, this report indicates whether, in our opinion, the Ordinary Share Scheme is in the best interests of Adelaide Bank ordinary shareholders.

Adelaide Bank is a public company listed on the Australian Securities Exchange (ASX) with a market capitalisation of approximately \$1.6 billion based on the closing share price on 8 August 2007, being the date prior to the announcement of the Merger Proposal. Adelaide Bank is currently one of Australia's top 150 companies listed on the ASX. The principal activities of Adelaide Bank include the provision of residential mortgages, business loans, consumer loans, margin loans, savings and investment products. It had assets and loans under management of approximately \$32.4 billion and \$27.5 billion respectively at 30 June 2007.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Bendigo Bank is also a public company listed on the ASX, with a market capitalisation at 8 August 2007 of approximately \$2.3 billion. Bendigo Bank is currently one of Australia's top 100 companies listed on the ASX. Bendigo Bank provides a range of banking and other financial services primarily to retail customers and small to medium size businesses including residential mortgages, business loans, savings and investment products, financial planning advice and trustee services. Bendigo Bank's products are distributed through the bank's retail network, which includes Community Bank[®] and joint venture partners such as Elders Rural Bank, Homesafe Solutions and Tasmanian Banking Services.

The combined business of Adelaide Bank and Bendigo Bank is hereafter referred to as the "Merged Group".

We note that this report forms part of the Scheme Booklet dated on or about 3 October 2007 prepared by Adelaide Bank (Scheme Booklet). Details of the Ordinary Share Scheme are summarised in Section 3 of this report and set out more fully in the Scheme Booklet.

2 Summary of opinion

2.1 Conclusion

In our opinion, having regard to the matters set out in this report, and in the absence of a superior proposal, on balance, the Ordinary Share Scheme is in the best interests of Adelaide Bank ordinary shareholders.

In forming this opinion, we have had particular regard to the fact that, based on our analysis, on a market price basis (using share prices of listed ordinary shares on the ASX) and on an underlying value basis, the exchange ratio under the Merger Proposal is favourable to Adelaide Bank ordinary shareholders.

Furthermore, in our view, the possible disadvantages of the Ordinary Share Scheme from Adelaide Bank's perspective are relatively limited and are outweighed by the benefits of the Merger Proposal.

Consistent with usual practice, and to ensure that our analysis does not in itself incorporate the effects of the Merger Proposal, we have primarily undertaken our analysis of the exchange ratio based on market prices and underlying values that existed prior to the announcement of the Merger Proposal. We have, however, where appropriate also had regard to events that have occurred in relation to Adelaide Bank and Bendigo Bank between the date of the announcement of the Merger Proposal and the date of this report.

Further details of the key factors we have considered are summarised below.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

2.2 *Analysis of the value of the Consideration to be received by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme*

The Consideration to be received by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme of 1.075 New Bendigo Bank ordinary shares for each Adelaide Bank ordinary share they own is fair.

We have estimated the value of the Consideration to be received by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme, in terms of market prices and underlying values, as shown below. Using either measure of value, the Consideration under the Merger Proposal is fair to Adelaide Bank ordinary shareholders.

Estimated value of the Consideration based on market prices

We note that prior to the announcement of the Merger Proposal, the ordinary share prices of Bendigo Bank and possibly Adelaide Bank may have been influenced by Bank of Queensland's (Bank of QLD) proposed merger with Bendigo Bank. Accordingly, to facilitate a meaningful analysis of both company's market price, we have segmented our analysis in the periods shown in the table below (refer to Section 6.8 for detailed discussion).

Based on the various trading periods prior to the announcement of the Merger Proposal shown in the table below, and using volume weighted average prices (VWAP) of Adelaide Bank and Bendigo Bank ordinary shares, we have estimated the value per New Bendigo Bank ordinary share to be received by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme, to lie in the range of \$14.36 to \$16.98.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 1: Estimated value per New Bendigo Bank ordinary share – based on market prices

VWAP period Notes	Adelaide Bank VWAP	Bendigo Bank VWAP	Adelaide Bank's contribution to market capitalisation	Bendigo Bank's contribution to market capitalisation	Estimated value of cost synergies net of integration costs	Estimated value of the Merged Group	Estimated value per New Bendigo Bank ordinary share
	\$	\$	Smillion	Smillion	Smillion	Smillion	\$
Period 1 - 20 Mar 06 to 18 Mar 07 - Pre Bank of QLD Proposal Period							
Last 12 months of Period 1	13.11	13.68	1,419.8	1,972.2	400.0	3,792.0	14.55
Last 6 months of Period 1	13.17	14.02	1,426.4	2,021.3	400.0	3,847.7	14.76
Last 3 months of Period 1	13.15	13.81	1,424.8	1,990.7	400.0	3,815.6	14.64
Last 1 month of Period 1	13.49	13.75	1,461.3	1,983.0	400.0	3,844.2	14.75
Last 1 week of Period 1	13.04	13.39	1,412.5	1,930.6	400.0	3,743.1	14.36
Period 2 - 19 Mar 07 to 23 Apr 07 - Bank of QLD First Proposal Period							
Period 2	14.33	17.15	1,552.0	2,473.3	400.0	4,425.2	16.98
Period 3 - 24 Apr 07 to 20 Jun 07 - Bank of QLD Second Proposal Period							
Period 3	15.17	16.38	1,642.7	2,361.1	400.0	4,403.8	16.90
Period 4 - 21 Jun 07 to 8 Aug 07 - Pre Merger Proposal Announcement Period							
Period 4	15.00	15.85	1,624.7	2,285.8	400.0	4,310.5	16.54

Notes:

- 1 Based on existing number of Adelaide Bank ordinary shares.
- 2 Based on existing number of Bendigo Bank ordinary shares.
- 3 Based on mid-point of estimated value range of cost synergies, net of integration costs.
- 4 The above analysis does not take into account any possible re-rating arising from the Merger Proposal.
- 5 Calculated based on the existing number of Adelaide Bank and Bendigo Bank ordinary shares, and the Merged Group number of shares based on the exchange ratio.

Source: IRESS and KPMG analysis.

Based on the estimated value per New Bendigo Bank ordinary share of \$14.36 to \$16.98, the implied value of the Consideration to be received by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme is summarised below.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 2: Implied value of the Consideration to be received per Adelaide Bank ordinary share - based on market prices

VWAP period	Estimated value per New Bendigo Bank ordinary share	Consideration exchange ratio	Implied value of the Consideration	Adelaide Bank VWAP
	\$		\$	\$
Period 1 - 20 Mar 06 to 18 Mar 07 - Pre Bank of QLD Proposal Period				
Last 12 months of Period 1	14.55	1.075	15.64	13.11
Last 6 months of Period 1	14.76	1.075	15.87	13.17
Last 3 months of Period 1	14.64	1.075	15.74	13.15
Last 1 month of Period 1	14.75	1.075	15.86	13.49
Last 1 week of Period 1	14.36	1.075	15.44	13.04
Period 2 - 19 Mar 07 to 23 Apr 07 - Bank of QLD First Proposal Period				
Period 2	16.98	1.075	18.25	14.33
Period 3 - 24 Apr 07 to 20 Jun 07 - Bank of QLD Second Proposal Period				
Period 3	16.90	1.075	18.16	15.17
Period 4 - 21 Jun 07 to 8 Aug 07 - Pre Merger Proposal Announcement Period				
Period 4	16.54	1.075	17.78	15.00

Source: IRESS and KPMG analysis.

The above indicates that, on the basis of market prices, the implied value of the Consideration to be received by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme exceeds the VWAP of Adelaide Bank ordinary shares over the various trading periods prior to the announcement of the Merger Proposal. Accordingly, the Consideration is fair in this regard from Adelaide Bank's perspective.

As at 24 September 2007, Adelaide Bank's closing share price was \$14.36 (trading ex-dividend) and Bendigo Bank's closing share price was \$13.79 (trading ex-dividend). Based on these share prices, the implied ratio of Adelaide Bank's and Bendigo Bank's ordinary share prices at this date is in the order of 1.04, which approximates the exchange ratio of 1.075 under the Merger Proposal.

Estimated value of the Consideration based on assessed underlying values

Our assessed underlying values of Adelaide Bank and Bendigo Bank, and our estimated value per New Bendigo Bank ordinary share, are calculated on the basis of:

- a portfolio interest (i.e. excluding a premium for control)
- market conditions as at 8 August 2007 (i.e. the trading day prior to the announcement of the Merger Proposal)
- cum 2007 final dividend.

Based on our assessed underlying values of Adelaide Bank and Bendigo Bank, and an estimated value for potential cost synergies (net of estimated integration costs) expected to arise from the



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Merger Proposal, we have estimated the value per New Bendigo Bank ordinary share to be received by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme, to lie in the range of \$14.77 to \$16.69.

Table 3: Estimated value per New Bendigo Bank ordinary share – based on underlying values

Smillion	Notes	Reference	
		Section	Low High
Assessed underlying value of Adelaide Bank		8.3	1,500.0 1,700.0
Assessed underlying value of Bendigo Bank		9.3	2,000.0 2,200.0
Add: assessed value of potential cost synergies	1	11.3	350.0 450.0
Estimated value of the Merged Group	2		3,850.0 4,350.0
Number of New Bendigo Bank ordinary shares (millions)	3		260.6 260.6
Estimated value per New Bendigo Bank ordinary share (\$)			14.77 16.69

Notes:

- 1 Net of estimated integration costs.
- 2 Does not take into account any possible re-rating arising from the Merger Proposal.
- 3 Calculated based on the existing number of Adelaide Bank and Bendigo Bank ordinary shares, and the Merged Group number of shares based on the exchange ratio.

Source: KPMG analysis.

Based on the estimated underlying value per New Bendigo Bank ordinary share of \$14.77 to \$16.69, the implied value of the Consideration to be received by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme is summarised below.

Table 4: Implied value of the Consideration to be received per Adelaide Bank ordinary share – based on underlying values

	Reference		Low	High
	Section		\$	\$
Assessed underlying value per existing Adelaide Bank ordinary share	8.3		13.85	15.69
Estimated value per New Bendigo share	11.2		14.77	16.69
Exchange ratio			1.075	1.075
Implied value of the Consideration to be received per Adelaide Bank ordinary share			15.88	17.94

Source: KPMG analysis.

The above analysis indicates that, on the basis of underlying values, the value of the Consideration to be received by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme is greater than our assessed value per Adelaide Bank ordinary share. Accordingly, the Consideration is fair in this regard from Adelaide Bank's perspective.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

2.3 Assessment of the level of premium being “received” by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme

A premium is being “received” by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme.

We have considered the implied premium being “received” by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme based on market prices and underlying values as shown below.

Assessment of premium based on market prices

An analysis of the implied premium based on market prices of Adelaide Bank ordinary shares traded on the ASX is set out in the table below.

Table 5: Assessment of premium based on market prices

VWAP period	Adelaide Bank VWAP	Implied value of the Consideration	Difference premium	Difference premium
	\$	\$	\$	%
Period 1 - 20 Mar 06 to 18 Mar 07 - Pre Bank of QLD Proposal Period				
Last 12 months of Period 1	13.11	15.64	2.53	19.3%
Last 6 months of Period 1	13.17	15.87	2.70	20.5%
Last 3 months of Period 1	13.15	15.74	2.58	19.6%
Last 1 month of Period 1	13.49	15.86	2.37	17.5%
Last 1 week of Period 1	13.04	15.44	2.40	18.4%
Period 2 - 19 Mar 07 to 23 Apr 07 - Bank of QLD First Proposal Period				
Period 2	14.33	18.25	3.92	27.4%
Period 3 - 24 Apr 07 to 20 Jun 07 - Bank of QLD Second Proposal Period				
Period 3	15.17	18.16	3.00	19.8%
Period 4 - 21 Jun 07 to 8 Aug 07 - Pre Merger Proposal Announcement Period				
Period 4	15.00	17.78	2.78	18.5%

Source: IRESS and KPMG analysis.

The above analysis indicates that, based on market prices, a premium in the range of 17.5 percent to 27.4 percent is being “received” by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme. In this regard, if the premiums implied in the Bank of QLD First Proposal Period and the Bank of QLD Second Proposal Periods were to be excluded, then a premium in the range of 17.5 percent to 20.5 percent is being “received”.

We consider the premiums calculated in the table above to be reasonable as the proposed transaction is a merger whereby Adelaide Bank ordinary shareholders will own approximately 45 percent of the Merged Group, will share in the expected benefits of the Proposed Merger and will have representation at management level and on the Board of Directors of the Merged Group.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Assessment of premium based on assessed underlying values

An analysis of the implied premium based on our assessed underlying values of Adelaide Bank and Bendigo Bank ordinary shares is set out in the table below.

Table 6: Assessment of premium based on underlying values

	Reference Section	Low \$	High \$
Assessed underlying value per Adelaide Bank ordinary share	8.3	13.85	15.69
Assessed Consideration being received per Adelaide Bank ordinary share	11.2	15.88	17.94
Difference - premium		2.03	2.25
Difference - premium (%)		14.7%	14.3%

Source: KPMG analysis.

The above analysis indicates that, based on underlying values, a premium is being "received" by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme in the order of 14.3 percent to 14.7 percent from Bendigo Bank ordinary shareholders under the Ordinary Share Scheme.

As mentioned above, we consider the premium to be reasonable having regard to the fact that the proposed transaction is a merger whereby Adelaide Bank ordinary shareholders will own approximately 45 percent of the Merged Group, will share in the expected benefits of the Proposed Merger and will have representation at management level and on the Board of Directors of the Merged Group.

2.4

Analysis of the relative contribution and ownership of the Merged Group

Under the Ordinary Share Scheme, based on a market price analysis, Adelaide Bank ordinary shareholders will receive a favourable ownership share of the Merged Group relative to their contribution to the Merged Group.

We have assessed the value contributed by Adelaide Bank and Bendigo Bank to the Merged Group in terms of market prices and underlying values as shown below.

Relative contribution based on market prices

The table below shows, for various trading periods prior to the announcement of the Merger Proposal, the contributions of market price by each of Adelaide Bank and Bendigo Bank.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 7: Merged Group - market price contributions

VWAP period	Adelaide Bank	Bendigo Bank
Period 1 - 20 Mar 06 to 18 Mar 07 - Pre Bank of QLD Proposal Period		
Last 12 months of Period 1	41.9%	58.1%
Last 6 months of Period 1	41.4%	58.6%
Last 3 months of Period 1	41.7%	58.3%
Last 1 month of Period 1	42.4%	57.6%
Last 1 week of Period 1	42.3%	57.7%
Period 2 - 19 Mar 07 to 23 Apr 07 - Bank of QLD First Proposal Period		
Period 2	38.6%	61.4%
Period 3 - 24 Apr 07 to 20 Jun 07 - Bank of QLD Second Proposal Period		
Period 3	41.0%	59.0%
Period 4 - 21 Jun 07 to 8 Aug 07 - Pre Merger Proposal Announcement Period		
Period 4	41.5%	58.5%
Percentage ownership of the Merged Group	44.7%	55.3%

Source: IRESS and KPMG analysis.

The above analysis suggests that, on the basis of relative contributions to market price of the Merged Group, the exchange ratio of the Merger Proposal favours Adelaide Bank ordinary shareholders. It indicates that Adelaide Bank ordinary shareholders contribute relatively less than they receive and, correspondingly, Bendigo Bank ordinary shareholders contribute more than they receive based on market prices.

As at 24 September 2007, Adelaide Bank's closing share price was \$14.36 and Bendigo Bank's closing share price was \$13.79. The implied contribution to the Merged Group by Adelaide Bank and Bendigo Bank based on these prices is approximately 43.9 percent and 56.1 percent respectively which approximate their respective ownership of the Merged Group.

Relative contribution based on assessed underlying values

Our analysis of the contributions of each of Adelaide Bank and Bendigo Bank to the Merged Group, based on underlying values, suggests that Adelaide Bank ordinary shareholders will contribute 42.9 percent to 43.6 percent and Bendigo Bank ordinary shareholders 56.4 percent to 57.1 percent compared to ownership levels in the Merged Group of approximately 45 percent and 55 percent respectively. Therefore, on this basis, Adelaide Bank ordinary shareholders contribute relatively less than they receive and, correspondingly, Bendigo Bank ordinary shareholders contribute more than they receive based on underlying values.

2.5 Analysis of the financial impact of the Ordinary Share Scheme from Adelaide Bank's perspective

Adelaide Bank ordinary shareholders are on balance, expected to be financially better off following the Ordinary Share Scheme.

The table below compares several earnings and asset measures.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 8: Financial impact of the Merger Proposal

	Notes	Before	After (before cost synergies)	After (after cost synergies)
Basic EPS (cents per share)		92.8	86.5	102.7
Cash basis EPS (cents per share)		96.8	86.1	102.3
Dividends per share (cents per share)		65.0	57.4	73.5
NTA per share (\$ per share)	1	6.56	6.65	6.65
Return on average ordinary equity		16.84%	9.99%	11.74%

Notes:

Above based on pro-forma financial statements of the Merged Group (see Section 10.2 for details).

1 Calculated as net assets less intangibles divided by number of ordinary shares at 30 June 2007.

Source: Adelaide Bank and Bendigo Bank.

The above analysis illustrates that the Merger Proposal is expected to:

- be EPS accretive and result in higher dividends per share for Adelaide Bank ordinary shareholders if the expected synergies are realised. The timing and amount of synergies is uncertain
- reduce return on average ordinary equity (ROE). This is principally an accounting outcome of the Proposed Merger reflecting the significant increase in the accounting value of ordinary equity in the Merged Group's balance sheet
- slightly increase NTA per share. In this regard, we note that the value of the Merged Group shares are likely to be driven by underlying earnings rather than net assets.

2.6 Other qualitative factors relevant to Adelaide Bank ordinary shareholders

The strategic rationale for the Merger Proposal

The strategic rationale for the Merger Proposal is to combine two distinctive but complementary businesses to enhance the value proposition for all stakeholders of the respective companies.

The Merger Proposal seeks to bring together two "niche" Australian regional banks:

- Adelaide Bank, a specialist wholesale finance provider with a wholesale banking strategy
- Bendigo Bank, focused as a retail and Community Bank[®]

to create a more robust financial services organisation through leveraging off the strengths of both banks.

Adelaide Bank and Bendigo Bank believe that the Merged Group will be financially stronger and better positioned to grow and innovate and that it will have greater scale, revenue

For personal use only



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

diversification, geographic extension, an enlarged balance sheet and increased funding flexibility.

Benefits of the Merger Proposal

The Merger Proposal offers a range of potential benefits to Adelaide Bank shareholders

The Merger Proposal is expected to yield benefits. Specifically, for Adelaide Bank, the benefits of the Merger Proposal will include:

- *Value from cost synergies:* Cost synergies available through the Merger Proposal are estimated to be in the range of approximately \$60 million to \$65 million per annum on a pre-tax basis. These synergies are expected to be realised principally from the consolidation of technology platforms, common head office and back office functions. To realise the expected synergies, the Merged Group is estimated to incur a total one-off integration cost of approximately \$50 million to \$60 million on a pre-tax basis
- *Larger customer base:* Adelaide Bank and Bendigo Bank anticipate potential for revenue synergies arising from opportunities to cross-sell their existing products to the combined customer base of approximately 1.3 million retail customers. Adelaide Bank and Bendigo Bank have not quantified the potential value of these revenue synergies
- *Diversification of funding:* Approximately half of the Merged Group's liability funding will be sourced from retail deposits compared to approximately one third of Adelaide Bank's liability funding at 30 June 2007. The Merged Group will have less exposure to the volatility of the wholesale debt markets compared with Adelaide Bank as a stand alone entity
- *Diversification of assets:* The Merged Group will have less exposure to residential loans compared with Adelaide Bank as a stand alone entity. Approximately two thirds of the Merged Group's gross loans and advances will be residential loans compared to 72 percent of Adelaide Bank's gross loans and advances at 30 June 2007. The residential loan segment of the credit market is highly competitive and net interest margins on residential loans have contracted
- *Greater capital management flexibility:* The Merged Group's pro forma proportion of securitised loans to total loans under management is 36.2 percent at 30 June 2007 compared to Adelaide Bank's 49.4 percent at that date. Historically, Adelaide Bank has not securitised greater than 50 percent of loans under management as rating agencies and regulators may view this unfavourably. The Merged Group will have greater flexibility to securitise loans, for capital management and other purposes, compared to Adelaide Bank as a stand alone entity.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Share market impact

The Merger Proposal should have a positive impact on share market trading in the ordinary shares of the Merged Group.

There should be a positive impact on share market trading in shares of the Merged Group that will arise from the:

- increased market capitalisation
- increased index weighting
- improved liquidity
- possible increased coverage from brokers

which may lead to a potential price re-rating.

Since the announcement of the Merger Proposal, Adelaide Bank's ordinary share price (based on closing prices) has changed from \$14.40 (trading cum-dividend including a \$0.36 fully franked dividend) on 8 August 2007 to \$14.36 (trading ex-dividend) on 24 September 2007. Over the period approximately 20.3 percent of Adelaide Bank's average issued ordinary shares were traded on the ASX. In this regard, we note the share price may have also changed in the absence of the Merger Proposal as a result of the following events/announcements subsequent to the announcement of the Merger Proposal:

- the release of Adelaide Bank's fiscal year (FY) 2007 results
- rationalisation occurring in the financial services sector
- the upward movement in the S&P/ASX 200 Banks Index of 1.8 percent
- Adelaide Bank and Bendigo Bank's share prices trading on an ex 2007 final dividend basis after 17 September 2007 and 27 August 2007 respectively.

Any attempt to separate the price effect of the above events/announcements on Adelaide Bank's ordinary share price from the price movement associated with the announcement of the Merger Proposal is necessarily highly subjective.

Change in the nature of investment in Adelaide Bank ordinary shares

The Merger Proposal will change the nature of the investment of Adelaide Bank ordinary shareholders.

An important issue for Adelaide Bank ordinary shareholders to consider in assessing the merits of the Merger Proposal is the change in the nature of their investment.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

The Merger Proposal will result in Adelaide Bank ordinary shareholders increasing their exposure to retail and community banking principally at the expense of wholesale banking.

Possible disadvantages of the Ordinary Share Scheme

None of the disadvantages of the Merger Proposal should outweigh the benefits of the Merger Proposal.

The possible disadvantages of the Ordinary Share Scheme to Adelaide Bank ordinary shareholders include:

- On the basis of the exchange ratio, Adelaide Bank ordinary shareholders as a group collectively will hold approximately 45 percent of the issued shares in the Merged Group immediately after the Ordinary Share Scheme, therefore, the interest of Adelaide Bank ordinary shareholders as a group will be diluted. We note however that immediately after the Ordinary Share Scheme, the share register of the Merged Group will be relatively open, with no controlling shareholder. This also means that Adelaide Bank ordinary shareholders will continue to have the possible opportunity of realising a control premium for their investment through a future transaction involving the Merged Group.
- Control of Adelaide Bank at the Board level and possibly at the management level will pass to Bendigo Bank. If the constitution of Bendigo Bank is amended to increase the size of its Board of Directors, the Board of Directors of the Merged Group will consist of seven Bendigo Bank directors and five Adelaide Bank directors. However, Adelaide Bank and Bendigo Bank have agreed to select and appoint the best candidates for the key management roles within the Merged Group.
- No cash alternative and/or cash component is being offered as consideration and/or part thereof under the Ordinary Share Scheme. This represents a potential limited disadvantage for those shareholders wishing an absolute or partial exit from their investment. While they are able to do so by selling their shares on the ASX, transaction costs will be incurred.
- The actual value of the Consideration to be received by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme cannot be quantified with certainty prior to the Ordinary Share Scheme meeting as the actual value of the Consideration will be dependent upon the Bendigo Bank ordinary share price at the time that the Ordinary Share Scheme is implemented. In this regard, in the event that Bendigo Bank ordinary share price falls materially prior to the Ordinary Share Scheme meeting, shareholders may choose to vote against the Ordinary Share Scheme.
- While the scrip consideration offered under the Ordinary Share Scheme may be more tax efficient for Adelaide Bank ordinary shareholders and will allow them to share in a material way in the merger synergies and other benefits expected to result from the Merger Proposal, it exposes Adelaide Bank ordinary shareholders to the integration risks of the transaction if synergies are not achieved.
- Ineligible Foreign shareholders will not be issued shares in the Merged Group as consideration under the Ordinary Share Scheme, instead, their entitlement will be issued to a



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

nominee appointed by Bendigo Bank who will sell their shares on the ASX and remit the net proceeds to them. This represents a disadvantage for those Ineligible Foreign shareholders who are seeking ongoing investment exposure in Adelaide Bank. However, they have the flexibility to reinvest the cash they will receive in shares in the Merged Group, albeit they will have to incur transaction costs.

Implementation risks

As with any merger, there are implementation risks and uncertainties.

The benefits of the Merger Proposal will depend in part on a successful merger of the two organisations. As with all mergers, there are implementation risks and uncertainties relating to the timing and/or costs of integration. In this case, the common core banking systems and the alignment of culture of Adelaide Bank and Bendigo Bank should result in lower integration risk than for many other mergers. Further, the cost synergies estimated for the Merged Group were prepared by the respective banks based on a good understanding of the two businesses and the markets in which they operate. In this regard, Adelaide Bank and Bendigo Bank believe that the amount and timing of estimated cost synergies is both reasonable and achievable. However, the realisation and timing of cost synergies are subject to integration and other risks.

Alternative proposals

No alternative proposals for Adelaide Bank has emerged.

The Merger Proposal represents a culmination of several months of discussion and negotiation. The Directors of Adelaide Bank have advised that, apart from the Merger Proposal, no alternative formal proposal to acquire and/or merge with Adelaide Bank has been received by Adelaide Bank.

In any event, following the announcement of the Merger Proposal, potential alternative acquirers have had the opportunity to make competing offers for Adelaide Bank. The Directors of Adelaide Bank have advised that no such offers have yet been made for Adelaide Bank.

We note that approximately six weeks will elapse between the date of this report and Adelaide Bank ordinary shareholders' meeting to consider the Ordinary Share Scheme. In the event that an alternative offer emerges within this timeframe on better terms, Adelaide Bank ordinary shareholders could elect to vote against the Ordinary Share Scheme.

Other considerations

Unanimous recommendation of the Merger Proposal by the Board of Directors of Adelaide Bank.

The Directors of Adelaide Bank have unanimously recommended the Merger Proposal in the absence of a superior proposal. In addition, Adelaide Bank and Bendigo Bank have advised that



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

the Merger Proposal has received positive endorsements from their respective customers, partners and communities.

Tax implications

CGT rollover relief provision should apply to many shareholders.

Adelaide Bank ordinary shareholders should refer to the taxation section which is included in the Scheme Booklet in relation to the tax effects of the Ordinary Share Scheme. The Scheme Booklet indicates that many ordinary shareholders should be able to utilise the capital gains tax rollover relief provisions to defer any capital gains tax liability until such time in the future as they may dispose of their New Bendigo Bank ordinary shares acquired as a consequence of the Ordinary Share Scheme. However, the specific tax implications for each Adelaide Bank ordinary shareholder will depend upon the particular circumstances of the person or entity. Adelaide Bank ordinary shareholders should not rely solely upon the taxation section of the Scheme Booklet for taxation purposes, and should seek and rely on their own taxation advice where appropriate.

2.7 Implications if the Ordinary Share Scheme is not approved

In the event the Ordinary Share Scheme does not proceed, among other things:

- Adelaide Bank will continue to be listed on the ASX and the Directors of Adelaide Bank anticipate that the business operations of Adelaide Bank will, in the foreseeable future, continue to be conducted in the manner in which it is presently conducted and continue to operate in line with the Board's previously stated objectives
- Adelaide Bank ordinary shares are likely to trade at lower levels than current market prices in the absence of an alternative proposal. We note that following the announcement of the Merger Proposal to 24 September 2007, Adelaide Bank ordinary shares have traded in the range of \$13.71 to \$16.51 (based on closing prices). This range compares with the one month and three month VWAPs of Adelaide Bank ordinary shares prior to the announcement of the Merger Proposal of approximately \$14.79 and \$15.08 respectively. It is not possible to accurately predict the prices at which Adelaide Bank ordinary shares might trade in the future in the absence of the Merger Proposal or an alternative offer. However, in the absence of any unexpected events impacting Adelaide Bank, it is likely that the price of Adelaide Bank ordinary shares on the ASX will fall below current market prices
- the expected benefits of the Ordinary Share Scheme will not be realised. However, some of the possible disadvantages and risks of the Ordinary Share Scheme will not arise
- Adelaide Bank may, in certain circumstances, become liable to pay Bendigo Bank a break-fee of \$15 million under the Merger Implementation Agreement



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

- Adelaide Bank will have incurred the costs estimated to be in the order of \$4 million and expended management time in planning for implementation of the Ordinary Share Scheme without achieving an outcome.

2.8 General advice

In forming our opinion, we have considered the interests of Adelaide Bank ordinary shareholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual Adelaide Bank ordinary shareholders. It is neither practical nor possible to assess the implications of the Ordinary Share Scheme on individual Adelaide Bank ordinary shareholders as we do not know their specific financial circumstances.

The decision of Adelaide Bank ordinary shareholders as to whether or not to vote in favour of the Ordinary Share Scheme is a matter for individuals based on, amongst other things, their views as to value and future market conditions, risk profile, liquidity preference, investment strategy and tax position. Individual Adelaide Bank ordinary shareholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the Ordinary Share Scheme may be influenced by his or her particular circumstances, we recommend that individual shareholders consult their financial adviser.

Our opinion is based solely on the information available at the date of this report as set out in Appendix 2. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report.

The above opinion should be considered in conjunction with, and not independently of, the information set out in the remainder of this report, including the appendices.

All currency amounts in this report are denominated in Australian dollars (\$) unless stated otherwise.

Yours faithfully

Gary Wingrove
Executive Director

Don Manifold
Executive Director

Lilian Look
Director

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Contents

Financial Services Guide	18
3 Outline of the Ordinary Share Scheme	20
4 Basis of assessment	23
5 Industry overview	27
6 Profile of Adelaide Bank	41
7 Profile of Bendigo Bank	70
8 Assessment of underlying value of Adelaide Bank	103
9 Assessment of underlying value of Bendigo Bank	112
10 Overview of the Merged Group	124
11 Estimated underlying value of the Merged Group	133
12 Evaluation of the Ordinary Share Scheme.....	136
Appendix 1 – Qualifications and declarations	150
Appendix 2 – Sources of information	153
Appendix 3 – Comparable companies	154
Appendix 4 – Comparable transactions	161
Appendix 5 – Brokers' forecast earnings consensus	163
Appendix 6 – Overview of the valuation methodologies.....	164



*Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007*

Financial Services Guide

2 October 2007

KPMG Corporate Finance (Aust) Pty Ltd ABN 43 007 363 215 (KPMG or we or us or our as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide (**FSG**). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted
- the services we are authorised to provide under our **Australian Financial Services Licence, Licence No: 246901**
- remuneration that we and/or our staff and any associates receive in connection with the general financial product advice
- any relevant associations or relationships we have
- our complaints handling procedures and how you may access them.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence, which authorises us to provide financial product advice in relation to:

- interests in managed investments schemes (excluding investor directed portfolio services)
- securities (such as shares and debentures).

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

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*Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007*

Benefits that we may receive

We charge fees for providing reports. These fees will be agreed with, and paid by, the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis.

Except for the fees referred to above, neither KPMG, nor any of its executive directors, directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Associations and relationships

Through a variety of corporate and trust structures KPMG is ultimately controlled by and operates as part of KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). Our executive directors may be partners in the KPMG Partnership. From time to time KPMG, the KPMG Partnership and/or entities related to the KPMG Partnership may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Industry Complaints Service Limited (**FICS**). FICS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FICS are available at the FICS website www.fics.asn.au or by contacting them directly at Financial Industry Complaints Service Limited, PO Box 579, Collins Street West, Melbourne VIC 8007.

Toll free: 1300 78 08 08 Facsimile: (03) 9621 2291

Contact details

You may contact us using the details set out at the top of our letterhead on page 1 of this report.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

3 Outline of the Ordinary Share Scheme

3.1 Summary

On 9 August 2007, the Boards of Directors of Adelaide Bank and Bendigo Bank jointly announced their intention to merge their respective businesses. The Merger Proposal is to be effected by way of the Ordinary Share Scheme which, if approved, will result in Bendigo Bank acquiring all the ordinary shares of Adelaide Bank and Adelaide Bank becoming a subsidiary of Bendigo Bank.

Under the Ordinary Share Scheme, Adelaide Bank ordinary shareholders will receive 1.075 Bendigo Bank ordinary shares for every Adelaide Bank ordinary share they currently own.

Separate schemes of arrangement are proposed for the Adelaide Bank Step Up Preference Shares (Step Up Preference Share Scheme) and Adelaide Bank Reset Preference Shares (Reset Preference Share Scheme). The Ordinary Share Scheme is not conditional upon the Step Up Preference Share Scheme and/or the Reset Preference Share Scheme being approved.

Under the Ordinary Share Scheme, Ineligible Foreign Adelaide Bank ordinary shareholders (as defined in the Scheme Booklet) will not be issued with New Bendigo Bank ordinary shares but will have those shares issued to a nominee who will sell them and account to each Ineligible Foreign Adelaide Bank ordinary shareholder for the net proceeds of sale after deductions of any applicable brokerage, taxes and other charges.

Adelaide Bank and Bendigo Bank have entered into a Merger Implementation Agreement dated 9 August 2007 (MIA) setting out the terms and conditions of each party's obligations in connection with the implementation of the Ordinary Share Scheme.

3.2 Other conditions and key terms

The Ordinary Share Scheme is subject to a number of important conditions, including, inter alia:

- Adelaide Bank ordinary shareholders' approval at the Ordinary Share Scheme meeting
- Court approval of the Ordinary Share Scheme
- The Treasurer of the Commonwealth of Australia's approval:
 - under the Financial Sector (Shareholdings) Act 1998 (Cth) for Bendigo Bank to hold a 100% stake in Adelaide Bank
 - under the Banking Act 1959 (Cth) in relation to the Ordinary Share Scheme
- Australian Competition and Consumer Commission's (ACCC) approval

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

- admission for official quotation on the ASX of the New Bendigo Bank ordinary shares to be issued pursuant to the Ordinary Share Scheme
- no Adelaide Bank or Bendigo Bank “Regulated Event” occurring as defined in the MIA
- no Adelaide Bank or Bendigo Bank “Material Adverse Change” occurring as defined in the MIA
- the representations and warranties provided by Adelaide Bank and Bendigo Bank in the MIA being true and correct in all material respects
- no temporary restraining order or other order issued by any court or legal restraint preventing any aspect of the Ordinary Share Scheme being effected.

Other key points of the Ordinary Share Scheme and the announcement by the Boards of Directors of Adelaide Bank and Bendigo Bank include:

- Board of Directors and management of the Merged Group
 - if the constitution of Bendigo Bank is amended to increase the size of the Board of Directors, the Board of Directors of the Merged Group will consist of twelve directors: six non-executive directors from the Board of Directors of Bendigo Bank (nominated by Bendigo Bank), four non-executive directors from the Board of Directors of Adelaide Bank (nominated by Adelaide Bank), and two executive directors (one each from Bendigo Bank and Adelaide Bank)
 - Mr Robert Johanson, Chairman of Bendigo Bank, will be the Chairman of the Merged Group. Mr Kevin Osborn, Non-Executive Director of Adelaide Bank, will become the Deputy Chairman
 - Mr Rob Hunt, Group Managing Director of Bendigo Bank, will continue to lead the organisation as Group Managing Director of the Merged Group until 1 July 2009
 - Mr Jamie McPhee, Adelaide Bank’s Managing Director, will be appointed to the Board of the Merged Group as Executive Director and be responsible for its wholesale banking services
 - Mr Mike Hirst, Bendigo Bank’s Chief Operating Officer, will be responsible for the retail banking businesses of the Merged Group.
- Other Adelaide Bank securities
 - an additional scheme of arrangement, the Step Up Preference Share Scheme, is being proposed by Adelaide Bank. Under the Step Up Preference Share Scheme, all of the Step Up Preference Shares will be transferred to Bendigo Bank and the Step Up Preference



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

shareholders will be entitled to receive a new Bendigo Step Up Preference Share in exchange for each existing Step Up Preference Share. The Step Up Preference Share Scheme is conditional upon the Ordinary Share Scheme being implemented, but not vice-versa

- on 20 August 2007 Adelaide Bank issued a notice to holders of Reset Preference Shares that Adelaide Bank intends to reset the terms of those shares. In addition, a separate scheme of arrangement, the Reset Preference Share Scheme, is being proposed by Adelaide Bank. Under the Reset Preference Share Scheme, all of the Reset Preference Shares will be transferred to Bendigo Bank and the Reset Preference shareholders will be entitled to receive a new Bendigo Reset Preference Share in exchange for each existing Reset Preference Share. The Reset Preference Share Scheme is conditional upon the Ordinary Share Scheme being implemented, but not vice-versa
- Each of Adelaide Bank and Bendigo Bank is subject to exclusivity obligations under which each party must ensure that neither it, nor any of its representatives, negotiates or enters into negotiations or discussions with any other person regarding a competing proposal. However, the exclusivity obligations do not restrict each party from responding to any unsolicited competing proposal where the directors of its company determine that the competing proposal is superior to the Merger Proposal or where failing to respond to the competing proposal would likely cause them to breach their legal or fiduciary duties
- Each of Adelaide Bank and Bendigo Bank has agreed to pay the other party a break-fee of \$15 million (exclusive of GST) under certain circumstances set out in the MIA. In the case of Adelaide Bank, the circumstances where a break fee may be payable by it to Bendigo Bank include:
 - there is material breach by Adelaide Bank of its obligations under the MIA
 - an Adelaide Bank "Regulated Event" as defined in the MIA occurs
 - an Adelaide Bank "Material Adverse Change" as defined in the MIA occurs
 - the independent expert engaged by Adelaide Bank concludes that, in its opinion, the Ordinary Share Scheme is not in the best interests of Adelaide Bank ordinary shareholders. However, no amount is payable by Adelaide Bank to Bendigo Bank if no competing proposal for Adelaide Bank has been made and the independent expert gives an opinion that the Ordinary Share Scheme is not in the best interests of Adelaide Bank ordinary shareholders
 - before the end of the Ordinary Share Scheme meeting, any Adelaide Bank director changes or withdraws their support or recommendation for the Ordinary Share Scheme, or recommends a competing proposal.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

A proposal to change the Merged Group name to “Bendigo and Adelaide Bank Limited” will be submitted to the shareholders of the Merged Group when the Proposed Merger is complete.

4 Basis of assessment

This report has been prepared by KPMG for inclusion in the Scheme Booklet to accompany the Notice of the Meeting to convene a court ordered scheme meeting of Adelaide Bank ordinary shareholders on or about 12 November 2007 in accordance with Section 411 of the Corporations Act (Corporations Act). The purpose of the meeting is to seek Adelaide Bank ordinary shareholders’ approval for the Ordinary Share Scheme.

4.1 Technical requirements

Section 412(1) of the Corporations Act requires that an explanatory statement issued in relation to a proposed scheme of arrangement under Section 411 of the Corporations Act include information that is material to the making of a decision by a creditor or member as to whether or not to agree with the relevant proposal.

Part 3 of Schedule 8 of the Corporations Regulations specifies that the explanatory statement to be sent to shareholders must include a report prepared by an expert where a party to the scheme of arrangement has a prescribed shareholding or where any of its directors will also be directors of the scheme company. The expert report must state whether the proposed scheme of arrangement is in the best interests of shareholders and set out the reasons for forming that opinion.

In this case, there is no legal requirement under Part 3 of Schedule 8 for an independent expert report to be prepared for inclusion in the Scheme Booklet prepared by Adelaide Bank in relation to the Ordinary Share Scheme since neither of the above conditions are met (i.e. neither company holds a 30 percent or greater interest in the other, and there are no common Directors between Adelaide Bank and Bendigo Bank). However, such reports are often provided in a scheme of arrangement to assist shareholders in assessing whether or not a scheme is in their best interests. Accordingly, the Board of Directors of Adelaide Bank has requested KPMG to prepare a report as if required under Section 411 of the Corporations Act and Schedule 8 of the Corporations Regulations providing an opinion as to whether, in the opinion of the KPMG, the Ordinary Share Scheme is in the best interests of Adelaide Bank ordinary shareholders.

Regulatory Guide 75 (formerly Policy Statement 75) “Independent Expert Reports to Shareholders”, issued by the Australian Securities & Investments Commission (ASIC), indicates the principles and matters that it expects a person preparing an expert report for inclusion in an explanatory statement to consider in determining whether a scheme of arrangement is “in the best interests of the members”. With respect to determining the meaning of “in the best interests”, paragraph 6 of Regulatory Guide 75 states:

“Fair and reasonable” should be taken as a reference to “in the best interests of the members”.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Whilst this does not indicate that ASIC considers “fair and reasonable” to have the same meaning as “in the best interests of members”, we consider that an analysis undertaken under the concepts of “fair and “reasonable” as expressed in Regulatory Guide 75 are consistent with determining whether a proposal is “in the best interests of the members”.

Schemes of arrangement pursuant to Section 411 can encompass a wide range of transactions. Accordingly, “in the best interests” must be capable of a broad interpretation to meet the particular circumstances of each transaction.

In the present context, we are of the opinion that the expert must consider the overall commercial effect of the Ordinary Share Scheme, and weigh up the likely advantages and disadvantages of the Ordinary Share Scheme to Adelaide Bank ordinary shareholders to form a view as to whether the Ordinary Share Scheme is in the best interests of Adelaide Bank ordinary shareholders.

4.2 ***Factors considered in determining our opinion***

We have considered the following principal factors in determining whether the Ordinary Share Scheme is in the best interests of Adelaide Bank ordinary shareholders:

- the value of the Consideration to be received by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme
- the relative market prices based on share prices of Adelaide Bank ordinary shares and Bendigo Bank ordinary shares
- the relative assessed underlying values of Adelaide Bank and Bendigo Bank ordinary shares
- the implied premium to be “received” by Adelaide Bank ordinary shareholders based on the proposed exchange ratio
- the contribution of the respective shareholders to the Merged Group and their ownership in the Merged Group thereafter
- the financial impact of the Merger Proposal from Adelaide Bank’s perspective
- any taxation consequences for Adelaide Bank and its shareholders
- the likelihood of an alternative transaction
- the consequences of not approving the Ordinary Share Scheme
- various other qualitative factors relevant to Adelaide Bank ordinary shareholders.

In forming our opinion, we have considered the interests of Adelaide Bank ordinary shareholders as a whole. We have not considered how the Ordinary Share Scheme may affect individual shareholders who may have different financial circumstances. It is not practical or

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

possible to assess the implications of the Ordinary Share Scheme on individual shareholders, as their specific financial circumstances are not known to us.

As an individual's decision to vote for or against the Ordinary Share Scheme may be influenced by his or her particular circumstances, we recommend that individual shareholders consult their financial adviser.

4.3 Sources of information

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report.

The statements and opinions expressed in this report are made in good faith and have been based on information available as at the date of this report, and that information is believed to be reliable and accurate. We have relied upon the information set out in Appendix 2 and have no reason to believe that any material factors have been withheld from us. The preparation of this report does not imply that KPMG or any of its affiliates have carried out any form of audit on the accounting or other records of Adelaide Bank or Bendigo Bank. We note that any forecasts and projections as supplied to us by Adelaide Bank and Bendigo Bank are based upon assumptions about events and circumstances that have not yet transpired. Accordingly, KPMG cannot provide any assurance that the estimates will be representative of the results that will actually be achieved during the forecast period.

4.4 Valuation approaches adopted

General

ASIC's Practice Note 43 "Valuation reports and profit forecasts" indicates that it is appropriate for an independent expert to consider the following valuation methods:

- the discounted cash flow method (DCF)
- the capitalisation of future earnings or cash flows method (capitalisation of earnings)
- the amount that would be distributed to shareholders on an orderly realisation of assets (asset based approach)
- the amount that an alternative acquirer might be prepared to pay or
- the most recent quoted price of listed shares.

A summary of each of these approaches is set out in Appendix 6. We have considered each of these approaches in preparing this report. Each of the above methodologies is applicable in different circumstances.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

For the purposes of this report, we have valued Adelaide Bank and Bendigo Bank using the capitalisation of earnings approach. We consider the capitalisation of earnings approach is the most appropriate methodology for valuing Adelaide Bank and Bendigo Bank due to:

- their established track record of profitable operations and a proven growth trend in earnings
- the availability of robust information from comparable companies and comparable transactions and
- the absence of long term forecasts suitable for the application of a DCF methodology.

We have undertaken cross checks of our valuation derived using the capitalisation of earnings approach to recent prices of Adelaide Bank and Bendigo Bank ordinary shares traded on the ASX and net tangible asset multiples.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

5 Industry overview

5.1 Introduction

The Australian financial services industry is comprised of retail and non-retail banks, investment banks, credit unions, building societies, superannuation funds, managed funds, insurance offices, securitisation vehicles and other various financial corporations and financiers. The industry has grown considerably over the four years to 31 March 2007 with financial service providers holding total assets of approximately \$3.7 trillion at the end of March 2007, up from \$2.1 trillion four years ago.

Adelaide Bank and Bendigo Bank are authorised deposit-taking institutions (ADIs) which are authorised under the Banking Act 1959 to carry on banking business in Australia. ADIs include banks, building societies and credit unions and comprise a significant share of the industry as shown below.

Table 9: Australian financial institution assets 31 March 2003 – 31 March 2007

Australian financial institution assets as at 31 March (\$billion)					
Financial service institution	2003	2004	2005	2006	2007
Reserve Bank of Australia (RBA)	69.8	66.2	70.5	96.9	123.7
ADIs	1,050.4	1,245.1	1,372.2	1,583.6	1,842.2
Registered financial corporations	168.8	138.6	162.6	175.2	206.3
Life offices and superannuation funds	454.7	529.6	610.8	738.6	845.9
Other managed funds	179.0	194.8	223.1	270.5	311.3
Other financial institutions	215.9	248.3	275.8	317.4	368.0
Total	2,138.6	2,422.6	2,715.0	3,182.2	3,697.4

Source: RBA.

As well as providing a range of retail and wholesale banking services, both Adelaide Bank and Bendigo Bank have wealth management operations. An overview of the banking and wealth management segments of the financial services industry is provided below.

5.2 Banking industry overview and key participants

The Australian banking sector is comprised primarily of the four major banks, regional banks and branches of foreign banks.

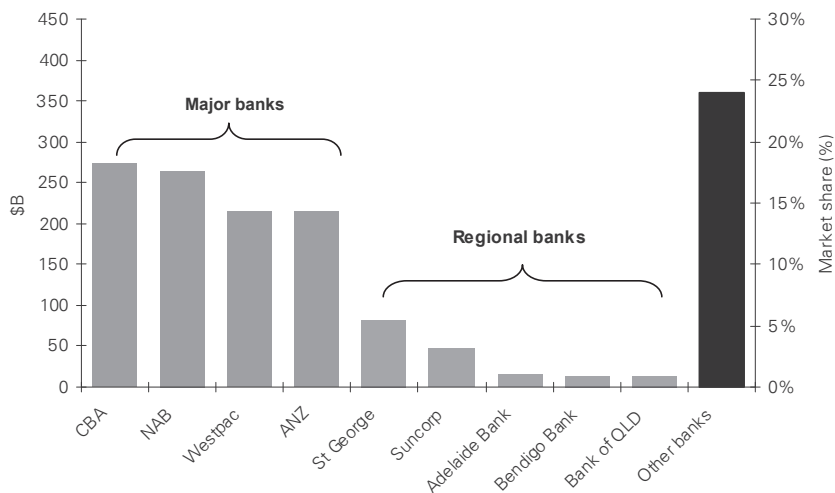
Major banks

The four major banks, Australian and New Zealand Banking Group Limited (ANZ), Commonwealth Bank of Australia (CBA), National Australia Bank Limited (NAB) and Westpac Banking Corporation (WBC), provide full banking services. The major banks dominate the banking industry in Australia across retail, business and institutional segments and have a strong national presence and extensive branch networks. At June 2007 their combined market share of total Australian banking assets was approximately 64.5 percent.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Figure 1 : Total banking assets by bank as at 30 June 2007



Source: APRA.

Regional banks

Regional banks are smaller than the majors and generally have a higher geographic focus which can be traced to their state or region of origination. The five major regional banks, St George Bank Limited (St George), Suncorp-Metway Limited (Suncorp), Bendigo Bank, Adelaide Bank and Bank of QLD have provided competition to the four major banks, typically within the region in which they originated, rather than on a national basis.

The regional banks have adopted varying business models. Bendigo Bank and Bank of QLD have focussed on branch expansion including franchise branches. Adelaide Bank and Suncorp have focused on relationships with national mortgage brokers and other partners to drive expansion.

Regional banks tend to compete primarily in the retail and mid size corporate sectors. They have performed strongly over recent years, capitalising on the cost rationalisation programs of the major banks and the tendency toward branch closures and declines in customer service levels. Regional banks have been drivers of innovation and improved customer service in order to provide points of differentiation. More recently there has been a tendency toward geographic expansion outside of home markets for regional banks.

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Independent expert report & Financial services guide
2 October 2007

Other banking institutions

In addition to the major banks and regional banks, foreign-owned banks operate in Australia. Foreign owned banks operate primarily in specialist financing, corporate lending and advisory. Most foreign owned banks do not have a retail presence, however Citibank, HSBC Bank Australia and HBOS (BankWest) provide some retail branches in Australia.

Non-banking financial institutions such as building societies and credit unions also compete with banks, primarily in deposit-taking and housing finance. Combined they comprise less than two percent of total assets of the Australian financial services industry.

5.3 *Bank ownership*

Most Australian banks are listed on the ASX and with the exception of BankWest have a diverse shareholder base. The Financial Services Sector (Shareholding) Act prevents shareholdings in Australian banks in excess of 15 percent where approval has not been granted by the Federal Treasurer. The Federal Treasurer also has the power to limit shareholdings that are less than 15 percent where it is considered in the best interests of the nation to do so, or would result in practical control of that bank.

The prudential supervisor of banks in Australia, the Australian Prudential Regulatory Authority (APRA) also has general guidelines against any single shareholder of a bank being in a position to exercise undue control over a bank's policies and approval, without approval from APRA.

Mergers between any of the four major banks are not currently permitted by the Australian Government. Any mergers between regional banks are required to be considered by the ACCC as to whether competition is materially lessened in a substantial market. The ACCC has previously indicated that it considers Australia's regional banks as providing vigorous competition to the four major banks and accordingly, it would carefully consider any proposed acquisitions of regional banks.

5.4 *Performance of the banking industry*

The banking industry has undergone significant changes since financial deregulation commenced in the 1970s. Changes to Australia's financial system from deregulation included:

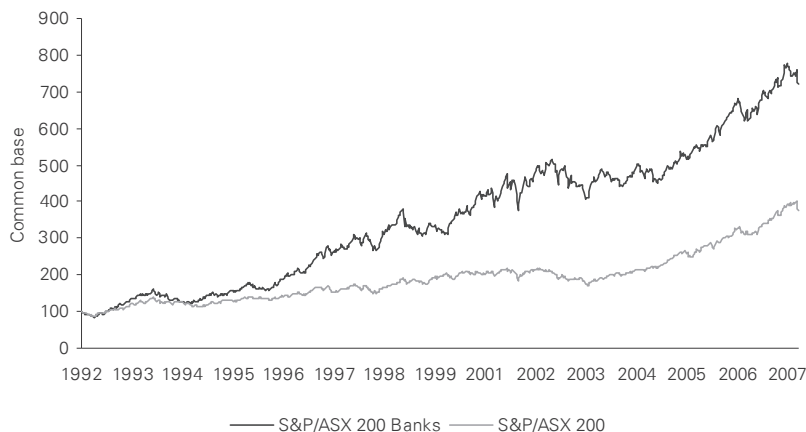
- interest rate controls were removed over time
- interest rates on government securities were freed up
- the exchange rate was floated
- foreign banks were permitted to enter the Australian financial system.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Performance of the banking industry has been particularly strong since the mid-1990s, reflecting the ongoing expansion of the Australian economy. The banking industry has outperformed the wider market since 1994 as demonstrated below.

Figure 2 : Relative performance of banks to the ASX 200 over 15 years to July 2007



Source: IRESS.

Despite falling interest margins, the banking sector has achieved superior performance driven primarily by the strength of lending volume growth, particularly in housing. Performance has also been driven by increased fee income and a focus on cost rationalisation, which has caused the aggregate cost-to-income ratio of banks to fall to 48 percent in FY2006, which is circa 13 percent less than during the mid 1990s.

The asset quality of banks has also improved over this period as a result of the strength of Australia's economy and a shift toward lower risk lending. Australian banks' problem loans are relatively low by historical and international standards, despite some increase in mortgage arrears as a result of reduced credit standards over the past decade.

The major banks have performed well recently due to continued growth in incomes and a strong credit market, despite the drought in Australia and rising interest rates. The major banks still compete on price and service however they are now also competing on community values. In a very competitive operating market, regional banks continued to perform well in FY2006, reflecting the strong environment and the benefits gained from expanding outside their traditional markets. Regional banks have outperformed major banks in relative share market performance in the last four years as shown below.

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Independent expert report & Financial services guide
2 October 2007

Figure 3: Relative share price performance of regional banks to major banks August 1997 - July 2007

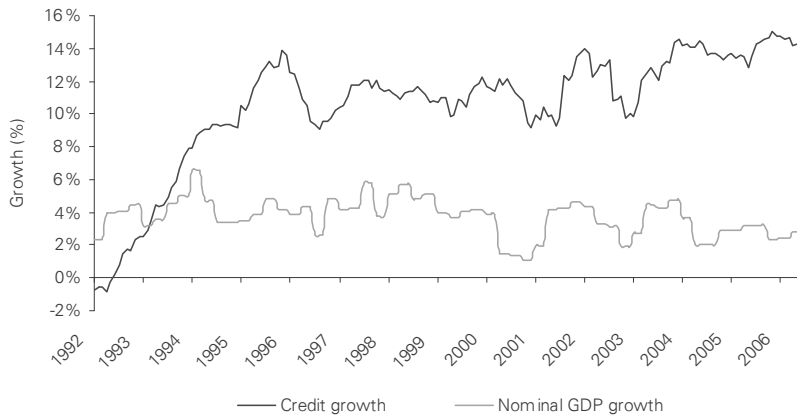


Source: IRESS.

5.5 Credit growth

The growth of the banking sector has been primarily driven by credit growth, which was significant following the recession of the early 1990s.

Figure 4: Credit and GDP growth September 1992 to March 2007



Source: RBA.

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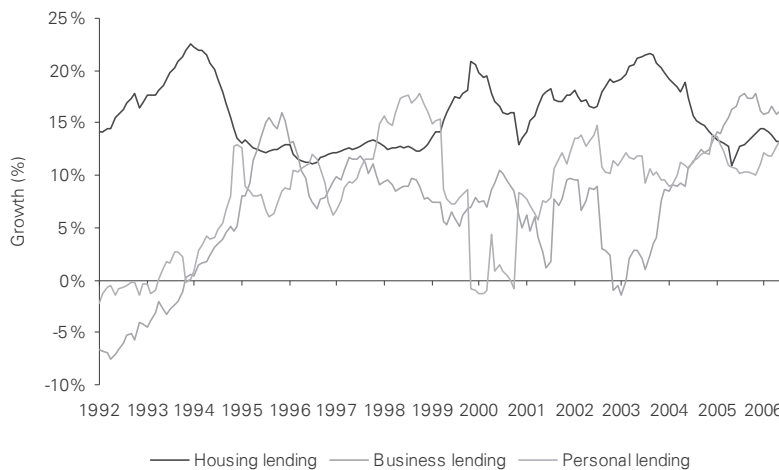
Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Credit growth has largely outperformed nominal GDP growth since 1994, principally due to asset value appreciation in housing and shares, together with increased personal leverage.

Housing and share prices have risen sharply over the past decade. House prices grew particularly from 1996 to 2003 in Sydney, Melbourne and Brisbane and more recently in Perth. Share prices over the past five years also have recorded strong growth with the ASX 200 recording an annual increase of 20 percent over the past four years. Lending to acquire these assets has risen accordingly.

At the same time, debt has grown to comprise circa 160 percent of annual income at the end of 2006, more than double what it was a decade ago. The leverage of the household sector has increased to a debt to asset ratio of 17.5 percent in September 2006, up from 11 percent during the mid 1990s. Personal credit has also increased recently, with growth particularly strong in margin lending to fund the purchase of shares and managed funds as a result of the buoyant share market.

Figure 5: Credit growth by type September 1992 to March 2007



Source: RBA.

Over the past two years, business lending has also grown strongly. Since September 2005, business lending has outpaced housing lending. In March 2007, business credit was approximately 17 percent higher than the year prior. Strength in business lending reflects healthy corporate balance sheets, the tendency for companies to return cash to shareholders through capital management initiatives and increased buy-out and leveraged private equity activity.



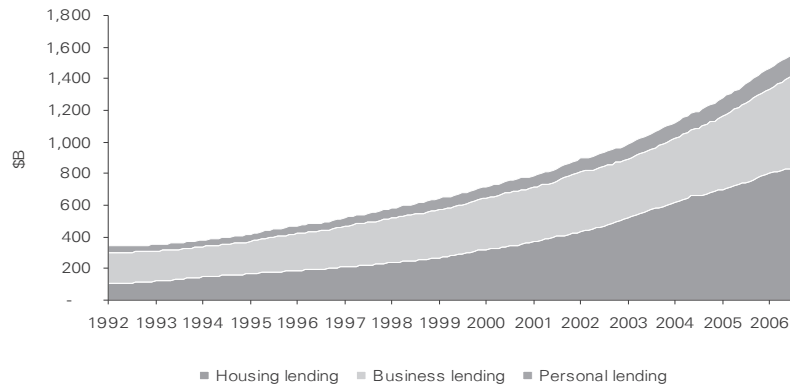
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Independent expert report & Financial services guide
2 October 2007*

5.6 Banks' principal assets and liabilities

Loans and advances

Loans and advances are typically the largest assets held by Australian banks. Prior to 2001, business loans were the largest credit exposure representing 58 percent of total aggregate credit as at September 1992. By April 2001, housing lending was greater than business lending and by March 2007, housing lending was 54 percent of total aggregate credit.

Figure 6: Aggregate credit September 1992 to March 2007



Source: RBA.

For the major banks and regional banks, 59 percent and 70 percent respectively of gross lending in FY2006 was housing lending.

Figure 7: Aggregate credit September 1992 to March 2007



Source: Company reports.

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Independent expert report & Financial services guide
2 October 2007

Recent intense competition in housing lending has caused margin contraction and loosening of lending practices, such as increases in lending ratios, using alternative property valuation techniques, a larger reliance on mortgage brokers and the broader availability of low documentation (lo-doc) loans. With the relative decline in margins, banks have increased their focus on lending to businesses and competition has intensified.

Features of the growth in business lending are the growing prominence of brokers servicing the small to medium enterprises (SMEs) and the growing number of transactions by private equity funds who tend to favour highly leveraged buy-outs. The gross exposure (which includes short-term underwriting) of the larger Australian banks to private equity was approximately \$15 billion at the end of 2006.

Deposits and other funding

Bank funding has traditionally been sourced principally from customer deposits, however with increased competition for savings, through legislative changes such as compulsory superannuation contributions as well as the fact that lending has grown more rapidly than deposits, banks have been forced to rely on other more expensive funding sources such as wholesale funding and the securitisation of assets. As at January 2007, retail deposits contributed only 21 percent of banks' total liabilities in comparison to 37 percent a decade ago. In recent years banks have progressively offered high interest, online savings accounts to attract more bank deposits. Whilst this has reduced interest margins, it has improved consumer sentiment toward bank deposits.

Major banks are using a greater proportion of wholesale funds to support growth, often through the issue of foreign currency debt securities. Banks' foreign currency liabilities increased by more than 25 percent over the year to January 2007. The majority of this foreign exposure is hedged. Banks are also relying more heavily on securitisation to fulfil any funding shortfall. The Australian asset securitisation market has been established for around 20 years, growing considerably over the past decade. Total assets and liabilities associated with asset securitisation increased to around \$160 billion in June 2004, up from \$10 billion in March 1995. Residential mortgages comprise approximately 70 percent of the assets of Australian securitisation vehicles.

5.7

Interest Rates

Interest margins are continuing to decline, with the ratio of net interest income to average interest earning assets declining to 2.3 percent in FY2006 from 3.7 percent last decade. The decline in interest margins reflects the intense competition for both deposits and loans in the financial markets and that the financial sector is increasingly sourcing funds from the more expensive wholesale markets.

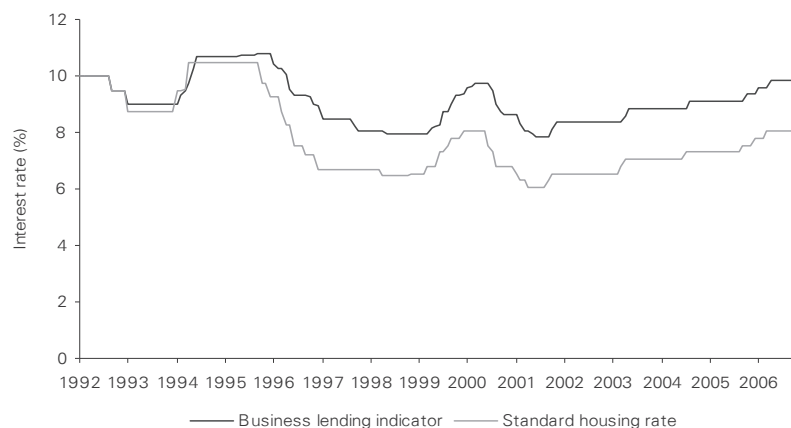
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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

The increased exposure of banks' total lending to housing has also reduced overall interest margins as housing loans generally earn a lower margin than business lending. With the relative slowdown in the housing market and the resurgence of business lending, this trend is beginning to show signs of reversal. The comparative interest rates between housing and business lending since 1992 are shown below.

Figure 8: Housing and business interest rates August 1992 to July 2007



Source: RBA.

Regional banks' net interest margin has generally been lower than that of the major banks, reflecting the higher proportion of housing lending to business lending and higher cost of funding.

5.8 **Banking regulation**

Banks are regulated by the Banking Act 1959, which requires body corporates to be authorised by the Treasurer to carry on deposit-taking businesses. APRA provides prudential supervision for ADIs, insurance companies and superannuation funds to ensure they maintain a sound financial position. In addition to APRA supervision, ADIs must comply with the Corporations Act 2001 and are therefore also regulated by ASIC. ADIs are required to hold an Australian Financial Services Licence under the Financial Services Reform Act.

As required by APRA, ADIs must comply with various prudential standards. The principal prudential standards that apply to ADIs are discussed below.

Capital adequacy

ADIs are required to maintain a minimum level of capital as a proportion of their risk weighted assets. This ratio is referred to as the capital adequacy ratio (CAR) and aims to ensure ADIs



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

retain sufficient levels of capital to absorb any losses associated with the quality of balance sheet assets without seriously threatening their solvency.

APRA requires ADIs to maintain a CAR of at least eight percent. The minimum capital required is calculated by multiplying risk-weighted assets by the required ratio. The weighting of assets is determined by the relative credit risks as set by APRA.

The capital of ADIs is classified as either Tier 1 or Tier 2, with Tier 1 representing the higher quality of assets. The total capital of an ADI must comprise at least 50 percent of Tier 1 capital which is essentially limited to ordinary share capital, retained earnings, reserves, current year earnings and permanent irredeemable preference shares.

ADIs will be required to comply with Basel II capital adequacy requirements from 1 January 2008. Basel II is an update to the original International Bank Capital Accord (Basel I), which has been in effect since 1998. Basel II is an effort by international banking supervisors to make international capital regulations more consistent, increase the risk sensitivity of regulatory capital and promote enhanced risk-management practices in large, internationally active banking organisations.

Basel II provides banks with a number of options, varying in their level of sophistication, to manage their capital positions. The more sophisticated approach allows banks to use internal risk measurement models to determine their capital requirements.

Liquidity risk

APRA agrees with each ADI on a liquidity policy, which places significant emphasis on an ADI's internal liquidity management practices. ADIs without approved risk management models must satisfy liquidity requirements by maintaining nine percent of liabilities in high quality liquid assets (HQLA), which aims to ensure that financial obligations can be met as and when they fall due.

Asset quality and credit exposure

APRA requires ADIs to have an effective credit risk management system to meet the needs of that ADI. APRA must be advised of impaired assets and requires these to be disclosed in published financial statements.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

5.9 Non-operating holding companies

Many ADIs are considering the merits of a non-operating holding company (NOHC) that owns a banking business (Banking Business) and non-banking business (Non-Banking Business) as two separate subsidiary companies. The Banking Business would continue to be subject to APRA regulation as an ADI. The Non-Banking Business would no longer be subject to the same level of APRA regulation, but rather a reduced regulatory regime. The consideration of NOHC structures is being driven by, amongst other things, the growth of activities by many banks that do not require an ADI licence and the emergence of competitors providing banking products and services that are not required to hold an ADI licence.

5.10 Outlook for the banking industry

The following are expected to influence the banking industry's performance in the near future:

- despite signs of weakening credit, recent volatility in Australian and global equity and credit markets and the recent 0.25 percent increase in the official cash rate by the RBA, major and regional banks are not expecting significant increases in credit losses due to the low levels of unemployment which enable households to service debt, and a robust economy. However, increases in wholesale funding costs including securitisation may adversely affect the financial performance of certain banks
- the intense competition in the banking sector is expected to continue, with pressure on pricing and interest rate margins. The major banks are expected to continue to focus on cost savings to ensure they retain competitiveness. Regional banks are also expected to focus on costs and also the investment into improved customer service and innovative new products, in order to achieve profitable growth. They are also expected to continue to seek growth outside their traditional markets
- as the Australian market matures and competition remains intense, major banks, with limited domestic consolidation options, may seek expansion opportunities into developing markets. The push for efficiencies and scale is expected to lead to further market activity for regional banks, which may include acquisitions of smaller organisations
- major banks are likely to increase their focus on improved customer service and specialised products to compete for revenue. This may add pressure to regional banks and other financial institutions that were previously able to utilise superior customer service and niche products as points of differentiation.

5.11 Overview of the wealth management industry and key participants

Wealth management includes superannuation, managed investments, life insurance and other products sold principally by financial planners, who dominate wealth management product sales.



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Independent expert report & Financial services guide
2 October 2007*

Retail managed funds generate the majority of industry profits. Set out below are the key participants in retail funds management as at 31 March 2007.

Table 10: Retail Funds Under Management as at March 2007

Retail Funds Under Management					
Company	FUM (March 2007)	Market share (March 2007)	FUM (March 2006)	Market share (March 2006)	Annual growth
CBA / Colonial	71,783	13.1%	63,638	13.6%	12.8%
NAB / MLC Group	67,103	12.3%	58,733	12.6%	14.3%
AMP Group	60,364	11.1%	51,358	11.0%	17.5%
ING Australia Group	50,828	9.3%	45,005	9.6%	12.9%
Macquarie Group	39,501	7.2%	31,327	6.7%	26.1%
BT / WBC	33,676	6.2%	30,509	6.5%	10.4%
St George	31,122	5.7%	21,064	4.5%	47.7%
AXA Australia Group	25,724	4.7%	22,363	4.8%	15.0%
Aviva Group	19,160	3.5%	16,261	3.5%	17.8%
Mercer Investment Nominees	14,955	2.7%	12,420	2.7%	20.4%
Badges	29,381	5.4%	21,791	4.7%	34.8%
Others	102,533	18.8%	92,191	19.8%	11.2%
Total	546,131	100.0%	466,659	100.0%	17.0%

Source: Plan for Life, 4 June 2007.

As shown above, banks now dominate the wealth management industry and hold a significant market share in retail, superannuation and discretionary investment segments. Income from wealth management is providing an increasing share of banks' income and comprises around 13 percent of total income for the five largest banks (the four major banks plus St George). This is compared to approximately nine percent of income it contributed five years ago. Australian owned banks command approximately 40 percent of the total retail funds under management.

5.12 *Funds under management growth*

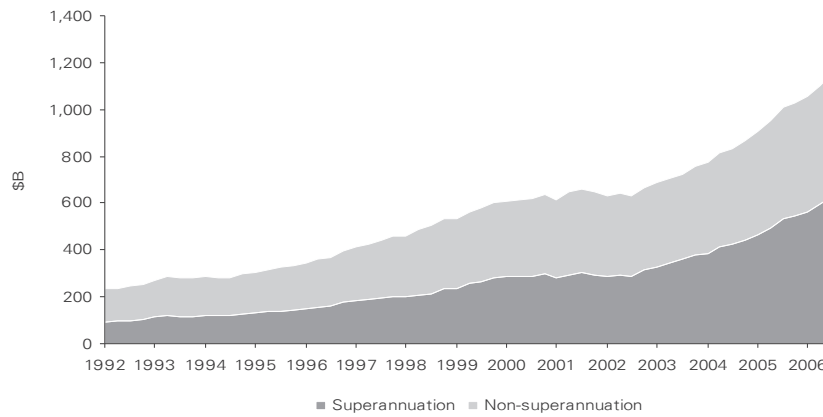
The wealth management industry has also grown significantly and is expected to continue to do so. Funds under management (FUM) have grown from \$234 billion as at September 1992 to almost \$1.2 trillion as at March 2007. Australian FUM increased by 14.7 percent over the year to March 2007 to \$1.2 trillion. The compound annual growth rate over the ten years to March 2007 has been more than 12 percent. A significant contributor to industry growth in Australia has been the introduction of a broad-based compulsory superannuation contribution scheme.

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Independent expert report & Financial services guide
2 October 2007*

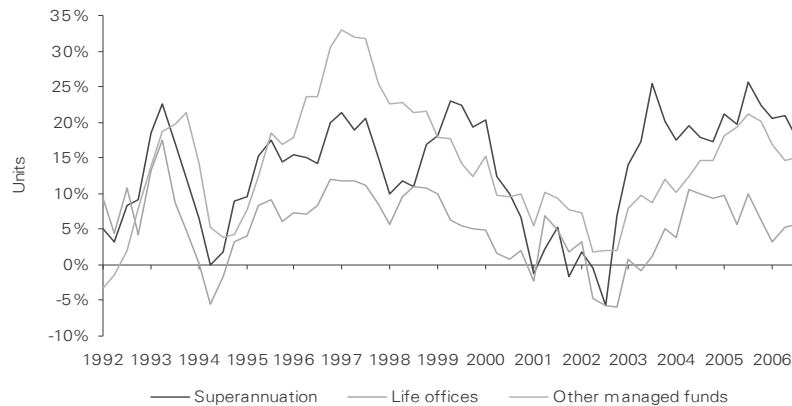
Figure 9: Australian funds under management September 1992 - 31 March 2007



Source: ABS.

Superannuation funds now represent the largest class of FUM. The rapid growth in superannuation funds has been a product of active encouragement of superannuation-based savings through changes to legislation such as the compulsory superannuation contribution by employers and, more recently, wage earners becoming increasingly aware of alternative sources of savings required to fund their retirement. Growth in FUM is shown below.

Figure 10: Growth of funds under management September 1992 - March 2007



Source: ABS.

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Independent expert report & Financial services guide
2 October 2007*

While superannuation funds are the largest class of FUM, other managed funds have also grown rapidly over the period set out above and particularly since 2002.

5.13 Wealth management regulation

The wealth management industry is heavily regulated, with separate regulation for superannuation products and non-superannuation products. The following is a summary of the regulations and monitoring bodies which govern superannuation and non-superannuation products and services.

Superannuation products and services

All superannuation funds (with the exception of self-managed funds) are regulated by APRA, and ASIC under the Superannuation Safety Amendment Act 2004 and the Managed Investments Act. Self-managed funds are monitored by the Australian Taxation Office (ATO). The leading industry body is the Association of Superannuation Funds of Australia, which aims to represent and protect the interests of all elements of the superannuation industry.

Non-superannuation products and services

ASIC is the key regulatory agency for non-superannuation products and services. ASIC has extensive powers in relation to monitoring the establishment of managed investment schemes, and if necessary controlling their management and operations.

The Investment and Financial Services Association is the major financial services industry body responsible for providing guidance on best practice to industry and communicating with government, regulators, and other groups on behalf of the industry.

5.14 Outlook for the wealth management industry

Australia is the fourth largest, and growing, investment market in the world and the RBA has forecast growth of circa 10 percent per annum over the next 15 years. The principal reasons for this anticipated industry growth include:

- mandated superannuation contributions have bi-partisan support such that a minimum level of industry growth is effectively underwritten by Australian government regulation
- Australia's ageing population is generating large numbers of people looking to invest for their retirement
- consumer awareness of investment products, and the need for long-term planning and wealth creation to contribute to a secure future, is increasing.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

6 Profile of Adelaide Bank

6.1 Introduction

Adelaide Bank is a South Australian based regional bank that has been operating for over 100 years. In South Australia, Adelaide Bank offers its customers a range of personal and small business lending, deposits and other financial products through its 25 branches. These activities now account for approximately a quarter of Adelaide Bank's profit due to the growth in its wholesale banking operations. These operations include designing, manufacturing and processing home loan, margin loan and receivable funding products distributed throughout Australia principally by partners such as mortgage managers and stock brokers.

Adelaide Bank is amongst the top 150 companies listed on the ASX.

Adelaide Bank employs approximately 1,200 staff and has in excess of \$32.4 billion of assets under management, comprised of loans under management of \$27.5 billion and FUM of \$4.9 billion. Housing loans made up 72 percent of loans under management at 30 June 2007.

In FY2007 Adelaide Bank generated total operating income of approximately \$335.5 million and net profit after tax (NPAT) of \$101 million. As at 8 August 2007, being the day prior to the announcement of the Merger Proposal, it had a market capitalisation of approximately \$1.6 billion.

Adelaide Bank's stated strategic aim is to achieve continued growth and increased shareholder returns through a portfolio of diversified income streams.

Set out below is a summary of the key events in Adelaide Bank's history.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 11: History of Adelaide Bank's operations

Date	Event
1900	Co-operative Building Society of South Australia was founded
1990	Acquired REI Building Society
1992	Merged with Hindmarsh Adelaide Building Society
1992	Became the largest building society in Australia
	Divested non-core businesses Barrett & Barrett Real Estate and Versace Business Services
1993	Completed conversion of Co-op Performing Notes to Permanent Shares as a precursor to an ASX listing
	Divested non-core business JM Insurance Agencies
	Introduced third party mortgage distribution and business banking
1994	Co-operative Building Society of South Australia granted a banking authority and converted into Adelaide Bank and listed on the ASX
	Divested non-core business Co-operative Security Services
1996	Expanded interstate lending through third party mortgage originators
	Regional offices established in Brisbane and Perth
	Divested stockbroking arm and non-core business Co-operative Retirement Services of America Inc.
1998	Divested 14 retirement estates located in South Australia and Queensland, owned and operated by Adelaide Bank's retirement subsidiary, Co-operative Retirement Services
2000	Acquired Leveraged Equities Limited, a margin lending business (\$810 million portfolio)
	Divested Co-operative Retirement Services, a retirement estate management and marketing operation
	Completed its first global securitisation issue with a \$1.25 billion issue that accessed markets in both Europe and the United States
2003	Acquired Hartleys Limited margin lending book (\$130 million portfolio)
	Issued first Reset Preference Shares
2005	Acquired Goldman Sachs JBWere margin lending book (\$890 million portfolio)
	Removed ten percent ownership restriction
2006	Adelaide Managed Funds (AMF) lodged product disclosure statement for \$200 million trust
	Sold rural loan book to Landmark
2007	Implemented organisational restructure
	Signed MIA with Bendigo Bank
	Announced Merger Proposal

Source: Adelaide Bank and DatAnalysis.

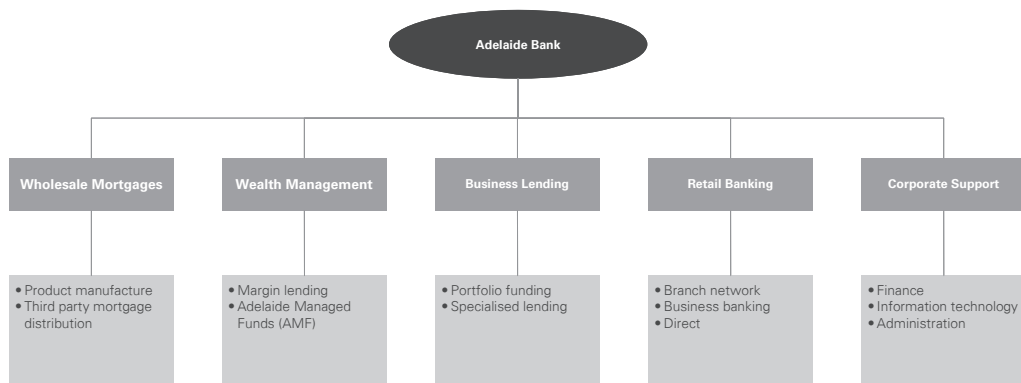
Adelaide Bank has four business units supported by a range of corporate functions, as shown below.

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Independent expert report & Financial services guide
2 October 2007

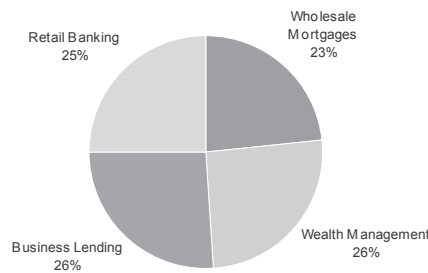
Figure 11: Adelaide Bank structure



Source: Adelaide Bank.

Each business units' relative contribution to net profit before tax (NPBT) during FY2007 is shown below:

Figure 12: NPBT by business segment (FY2007)



Note: NPBT excludes unallocated corporate overheads.

Source: Adelaide Bank.

6.2 Wholesale Mortgages

The Wholesale Mortgages business unit manufactures, processes and distributes residential home loan products nationally through various mortgage managers and mortgage brokers. Wholesale mortgages employs approximately 320 staff, and had \$17.4 billion in assets under management at 30 June 2007, a 13 percent increase over the previous year.

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Independent expert report & Financial services guide
2 October 2007*

Margin contraction in 2007 had its greatest impact on the Wholesale Mortgages division, principally caused by increased competition in the third party originated mortgage market and net interest margin compression as a result of lo-doc loan repricing and increased fixed rate (lower margin) lending.

Following a strategic review in FY2007, Wholesale Mortgages has implemented several initiatives to improve profitability including decreasing processing costs, reviewing pricing for sustained profitability and credit quality improvement.

6.3 *Wealth Management*

The Wealth Management business unit includes the wealth financing or margin lending business based in Sydney and Melbourne, AMF and the wealth deposit business. The Wealth Management division focuses its distribution through the "adviser channel" such as stock brokers and financial planners. FUM at 30 June 2007 is shown below.

Table 12: Wealth Management loans and deposits under management

Smillion	30 June 2006 Smillion	30 June 2007 Smillion	Annual growth
Assets	3,621	5,084	40%
Liabilities	4,301	4,762	11%

Source: Adelaide Bank.

Wealth Financing

Wealth Financing is a key growth driver for Wealth Management and employs approximately 130 staff in Sydney and a further 30 in Melbourne.

Adelaide Bank's wealth financing business incurred a \$1.8 million charge for bad and doubtful debts in FY2007 as a result of a small number of impaired loans relating to one product. In the eighteen months prior, the margin lending portfolio's impaired loans were negligible.

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Independent expert report & Financial services guide
2 October 2007

AMF

AMF is a Responsible Entity which manages four fixed income retail funds which are distributed by partners such as stock brokers and financial planners as well as through Adelaide Bank's retail branch network.

Table 13: AMF products

Product name	Type	Description	Assets under management at 30 June 2007 \$million
Adelaide Cash Management Trust	Cash fund	Unit trust, pooling deposits and investing them on deposit with Adelaide Bank	1,275
AAA Saver	Cash fund	Invests in residential mortgage-backed securities, asset-backed securities and liquid assets	1,694
Asset Backed Yield Trust	Listed fund	ASX listed, Australian registered managed investment scheme invests in asset-backed securities	191
Protected Global Opportunities Fund	Structured product	A seven year capital protected investment with exposure to eight REITs ¹ and six BRICs ² with a focus on emerging and global property markets	22
Total			3,182

Source: Adelaide Bank.

Adelaide Bank expects continued demand for yield products, in part due to the changing investment needs of the ageing population, and anticipates opportunities to create additional products to meet this market demand.

Wealth Deposit

The Wealth Deposit business manages approximately \$1.7 billion in term deposits sourced from Wealth Management's distribution channels including stock brokers and financial planners, and portals such as e-trade.

6.4 Business Lending

The Business Lending division includes both Portfolio Funding, which provides funding solutions for finance companies, and Specialised Lending, which focuses on the niche sectors of aged care, leasing and corporate. The Business Lending division had \$2.9 billion in assets under management in at 30 June 2007, a 15 percent increase over FY2006.

Portfolio Funding

Portfolio Funding employs a team of approximately 40 people. It finances loans, leases and other receivables, often through securitisation vehicles, that are originated, credit approved and managed by third parties. Portfolios typically range from \$30 million to \$600 million in size and cover a diverse variety of receivables including store card receivables, medical equipment leasing, IT equipment finance and managed investment schemes.

¹ Real estate investment trusts.

² Emerging market funds in Brazil, Russia, India and China.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Portfolio Funding has established a niche market position providing securitisation services to mid-sized finance companies. Portfolio Funding leverages Adelaide Bank's expertise in partnership management and securitisation and is a low cost to income business offering a high return on equity and attractive organic growth opportunities.

Specialised Lending

Specialised Lending employs a team of approximately 20 people engaged in business lending with approximately \$1 billion in loans under management at 30 June 2007. Its loan portfolio broadly consists of commercial property loans, aged care property loans and leases.

6.5 Retail Banking

The Retail Banking business unit comprises a network of 25 branches principally in metropolitan Adelaide. It serves approximately 180,000 customers and employs approximately 300 staff. Retail Banking had \$2.2 billion in loans under management at 30 June 2007, representing a one percent increase over the previous year.

Retail Banking provides a range of personal deposit, lending and other financial products through its branch network and its customer contact centre. Retail banking also encompasses business banking which focuses on SME lending to its predominately South Australian client base. Retail Banking is currently undertaking a full review of its operations to refine its strategic direction and improve returns.

6.6 Financial overview

We summarise in this section Adelaide Bank's historical financial performance and financial position. No financial data for FY2008 has been disclosed in our report at the request of Adelaide Bank management, for confidentiality reasons.

Adelaide Bank's financial performance

Adelaide Bank's consolidated income statements for the three years ended 30 June 2007 are set out in the table below.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 14: Adelaide Bank's consolidated historical income statements

Smillion	Notes	30 Jun 2005	30 Jun 2006	30 Jun 2007
		Audited	Audited	Audited
		Actual	Actual	Actual
		AIFRS	AIFRS	AIFRS
Net interest income		223.7	250.1	265.1
Non interest income		59.3	61.6	70.4
Total operating income		283.0	311.7	335.5
Bad and doubtful debts expense		(10.6)	(11.8)	(17.9)
Operating expenses		(152.5)	(161.6)	(171.9)
Net profit before tax (NPBT)		120.0	138.3	145.6
Income tax expense		(36.7)	(43.9)	(44.6)
Net profit after tax (NPAT)		83.3	94.4	101.0
Significant items after tax		(0.9)	-	4.6
Amortisation of acquisition costs	1	2.7	7.1	7.1
Dividends paid on preference shares		(9.8)	(5.2)	(5.6)
Movement in General reserve for credit losses		-	(2.3)	(2.8)
Cash basis NPAT		75.3	94.0	104.3
<i>Weighted number of ordinary shares (basic and diluted) (million)</i>		95.6	106.0	107.8
<i>Basic and diluted EPS (cents per share)</i>	2,6	75.9	84.2	92.8
<i>Cash basis EPS (cents per share)</i>	3,6	78.8	88.7	96.8
<i>Dividends per share</i>		53.0	58.0	65.0
<i>Average interest earning assets balance (\$million)</i>		17,535.9	22,244.3	26,867.8
<i>Net interest margin</i>	4	1.24%	1.16%	1.01%
<i>Interest spread</i>	5	1.07%	1.00%	0.84%
<i>Cash basis return on average ordinary equity</i>	6	18.76%	17.29%	18.06%
<i>Return on average ordinary equity</i>	6	18.08%	16.02%	16.84%
<i>Cost to income ratio</i>	6	54.3%	50.7%	48.3%
<i>Basic and diluted EPS growth</i>			10.8%	10.3%
<i>Cash basis EPS growth</i>			12.6%	9.1%
<i>Dividends per share growth</i>			9.4%	12.1%

Notes:

- 1 Excludes amortisation of intangible software.
- 2 Diluted and basic EPS calculated by dividing NPAT, adjusted for preference share dividends, by the weighted number of ordinary shares (basic and diluted). The number of basic and diluted shares is consistent as Adelaide Bank does not treat potential ordinary shares related to hybrids as dilutive.
- 3 Cash basis EPS calculated by dividing cash basis NPAT by the weighted number of ordinary shares.
- 4 Net interest margin calculated by dividing the net interest income by the average interest earning assets.
- 5 Interest spread is the difference between the average interest rate earned on assets and the average interest rate paid on funds.
- 6 Excludes significant items.

*Numbers may not add due to rounding.

Source: Adelaide Bank Full Financial Reports 2007, 2006 and 2005, Appendix 4E 30 June 2006 and 30 June 2007



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Comments on historical financial performance

In relation to the historical income statements outlined above, we note that:

- FY2006 represents the first financial report prepared in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS). Prior financial reports were prepared in accordance with Australian Generally Accepted Accounting Principles (AGAAP). FY2005's accounts shown above have been restated in accordance with AIFRS, however in our discussion of Adelaide Bank's FY2005 results, we have made comparisons to FY2004 results on an AGAAP basis
- results for FY2005:
 - net interest income increased driven by an 18.5 percent increase in average interest earning assets to \$11.5 billion slightly offset by a decline in net interest margin of 0.04 percent
 - operating expenses increased by 16.9 percent, which was largely attributable to an increase in staff expenses of 14.2 percent due to wage increases from the bank's Enterprise Agreement and increased staff levels, a 24.6 percent increase in technology costs from increases to software development and licensing fees and an increase of 10.6 percent in occupancy expenses relating to increased rental requirements
 - the net significant item income related to the profit on the sale of Adelaide Bank's Cashcard shares, which amounted to \$1.3 million on a pre-tax basis and \$0.9 million on a post-tax basis
- results for FY2006:
 - the increase of \$4.7 billion in the bank's average interest earning assets during the financial year contributed to an increase of 11.8 percent or \$26.4 million in net interest income. The bank's net interest margin declined from 1.24 percent to 1.16 percent over this period
 - excluding the \$1.3 million significant item in FY2005, non interest income increased by approximately 6.2 percent or \$3.6 million to \$61.6 million. This increase was driven by growth in fees and insurance commissions of 3.2 percent and 30.6 percent respectively. Further, other revenue which includes FUM fees increased by 18.8 percent
 - operating expenses increased by 5.9 percent or \$9 million, to \$161.6 million. Of this increase, \$4.7 million was attributable to the operating costs associated with the Goldman Sachs JBWere margin loan business acquired by the bank during FY2005. Further contributing to the increase was the 17 percent growth in staff costs (14.6 percent excluding the Goldman Sachs JBWere margin loan business) and the 22 and 14.8 percent growth in technology and occupancy costs respectively, which reflected the

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

growth of the company, additional compliance costs and the conservative treatment of software costs

- results for FY2007:
 - despite margin contraction across the banking sector due to increased competition, net interest income increased by 6 percent, or almost \$15 million to \$265.1 million due to the 20.8 percent growth in the bank's average interest earning assets. Offsetting this volume growth was a decline in both the net interest margin to 1.01 percent from 1.16 percent in FY2006 and the interest spread to 0.84 percent from 1.00 percent in FY2006
 - non interest income increased by 14.3 percent or \$8.8 million, reflecting increased management focus on setting and collecting fees in line with industry best practice. Total fees (including loan, transaction and account service fees) increased by 16.5 percent or \$6.5 million, to \$45.5 million. This increase was largely due to an increase of \$5 million, or 25 percent, in loan fees
 - significant items related to the final payment made to Mr Barry Fitzpatrick who retired from the bank as Group Managing Director and Chief Executive Officer (CEO) on 15 December 2006, following 21 years as CEO. The payment amounted to a pre-tax profit impact of \$6.6 million and a post tax profit impact of \$4.6 million
 - excluding the significant item, operating expenses grew by 2.4 percent or \$3.8 million, compared to growth of 5.9 percent in FY2006. The reduction in the rate of growth was a result of the bank's focus on cost control. Technology and communication expenses reduced by 10.5 percent and 11.2 percent respectively, as a result of the bank's Corporate Sourcing initiative aimed at increasing procurement process efficiency and more rigorous contract renegotiation. Professional fees increased by 15 percent due to increased expenditure on legal and other consultants, which related to various strategic initiatives.

A summary of each business segment's financial performance for the two years ended 30 June 2007 is set out in the table below. We note that an organisational redesign was undertaken by Adelaide Bank in June 2007, and Adelaide Bank has not restated their FY2005 financial accounts to reflect the business segments shown below.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 15: Adelaide Bank's business segment financial performance

Smillion	Notes	30 Jun	30 Jun	%
		2006	2007	
		Actual	Actual	Change
		AIFRS	AIFRS	
Wholesale mortgages				
Net interest income		84.6	63.5	(25.0%)
Non interest income		31.1	29.7	(4.7%)
Bad & doubtful debt expense		(5.4)	(9.3)	72.5%
Operating and other expenses		(49.9)	(46.2)	(7.2%)
Net profit before tax		60.5	37.6	(37.8%)
Wealth management				
Net interest income		60.8	71.4	17.5%
Non interest income		1.5	5.2	259.6%
Bad & doubtful debt expense		0.1	(1.8)	n/m
Operating and other expenses		(26.2)	(33.1)	26.4%
Net profit before tax		36.1	41.7	15.5%
Business lending				
Net interest income		36.5	55.1	50.9%
Non interest income		4.8	8.0	65.1%
Bad & doubtful debt expense		(0.3)	(1.5)	n/m
Operating and other expenses		(11.4)	(19.3)	69.1%
Net profit before tax		29.6	42.3	42.8%
Retail banking				
Net interest income		63.3	65.8	4.1%
Non interest income		21.6	22.7	5.1%
Bad & doubtful debt expense		(2.9)	(2.2)	n/m
Operating and other expenses		(51.2)	(45.9)	(10.3%)
Net profit before tax		30.8	40.4	31.2%
Total net profit before tax and unallocated expenses		157.1	162.1	3.2%
Unallocated revenue less unallocated expenses	1	(18.8)	(16.4)	
Total net profit before tax		138.3	145.6	5.3%
Income tax expense		(43.9)	(44.6)	
Net Profit After Tax		94.4	101.0	7.0%

Notes:

1 Includes significant item.

n/m represents not meaningful.

*Numbers may not add due to rounding.

Source: Adelaide Bank Appendix 4E 30 June 2007.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

In relation to the table above, we note that:

- Wholesale mortgages
 - net interest income decreased by 25 percent or \$21.2 million to \$63.5 million in FY2007 reflecting intense market competition in the third party originated mortgage market and interest margin pressure, in particular during the first half of FY2007 due to lo-doc repricing and an increase in lower margin fixed rate lending
 - non interest income decreased by 4.7 percent or \$1.5 million. This reduction was largely due to lower income from third-party processing, no longer a key focus for the bank
 - operating costs reduced by 7.2 percent, or \$3.6 million reflecting the reduced focus on third-party processing and greater levels of cost effectiveness in the mortgage processing centre
- Wealth Management
 - net interest income increased by \$10.6 million, or 17.5 percent during FY2007. This was driven by strong portfolio growth, partially offset by a reduction in interest margins
 - non interest income increased by \$3.8 million, to \$5.2 million, largely due to an increase in manager fee income from Adelaide Managed Funds
 - expenses grew by \$6.9 million to \$33.1 million, an increase of 26.4 percent, largely due to investment in process efficiencies and redesign in the margin lending business
- Business Lending
 - net interest income grew by 50.9 percent or \$18.6 million during FY2007. This growth was due to increased demand for receivables funding transactions
 - other income also grew due to the level of Portfolio Funding transactions and was up by \$3.1 million, or 65.1 percent, to \$8 million
 - operating expenses in FY2007 were \$19.3 million, representing an increase of \$7.9 million or 69.1 percent, largely attributable to increased staff costs in Portfolio Funding which increased in scale and scope
- Retail Banking
 - net interest income increased by 4.1 percent, or \$2.6 million, to \$65.8 million. This increase was due to increased volumes in the residential portfolio, despite being affected by reduced margins. An improvement in retail deposit margins also contributed to the increased income
 - other income grew by 5.1 percent, or \$1.1 million to \$22.7 million
 - operating expenses declined by \$5.3 million, or 10.3 percent to \$45.9 million, largely due to process efficiencies in deposit and consumer lending products.

Adelaide Bank's consolidated financial position

Adelaide Bank's historical balance sheets at 30 June 2005, 2006 and 2007 are summarised in the table below.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 16: Adelaide Bank's consolidated balance sheets

As at	Notes	30 Jun 2005	30 Jun 2006	30 Jun 2007
		Audited AIFRS ⁽¹⁾	Audited AIFRS	Audited AIFRS
\$million				
Cash and cash equivalents		741.9	221.1	601.8
Assets due from other financial institutions		155.2	167.1	251.5
Derivatives		-	28.3	168.8
Financial assets available for sale		-	-	3.0
Financial assets held for trading		1,215.3	1,408.4	2,511.0
Financial assets held to maturity		30.1	338.2	171.3
Loans and receivables - investments		-	452.4	802.4
Loans and other receivables		19,091.5	23,306.2	26,732.4
Property, plant and equipment		33.1	34.4	29.9
Intangible assets and goodwill		35.4	37.9	38.4
Deferred tax assets		32.4	38.2	70.5
Other assets		209.2	179.0	189.6
Total assets		21,544.0	26,211.5	31,570.7
Liabilities due to other financial institutions		(108.9)	(121.4)	(175.4)
Deposits		(11,766.2)	(12,087.3)	(15,624.7)
Notes payable		(8,059.8)	(12,454.4)	(13,846.9)
Derivatives		-	(4.7)	(184.2)
Other payables		(510.5)	(316.4)	(464.9)
Income tax payable		(20.8)	(14.4)	(6.7)
Provisions		(12.6)	(16.7)	(17.4)
Deferred tax liabilities		(5.4)	(20.0)	(30.2)
Reset preference shares		(98.9)	(99.4)	(99.8)
Subordinated debt		(312.0)	(342.0)	(372.0)
Total liabilities		(20,895.0)	(25,476.8)	(30,822.2)
Net assets		649.0	734.7	748.5
Issued capital - ordinary		347.6	386.3	400.3
Reset preference share capital		-	-	-
Step up preference share capital		97.5	97.5	97.5
Treasury shares/Employee benefits reserve		(0.1)	(6.1)	(3.5)
Reserves		(2.1)	21.1	23.9
Retained earnings		206.1	235.9	230.4
Total equity		649.0	734.7	748.5
<i>Ordinary shares on issue at balance date (million)</i>		<i>104.2</i>	<i>107.2</i>	<i>108.3</i>
<i>Net assets per share (\$)</i>		<i>\$6.23</i>	<i>\$6.85</i>	<i>\$6.91</i>
<i>Net tangible assets per share (\$)</i>	2	<i>\$5.89</i>	<i>\$6.50</i>	<i>\$6.56</i>

Notes

1 Balances adjusted for the effect of AASB 132/139 on transition to AIFRS.

2 Net tangible assets per share is net assets less intangible assets and net deferred tax assets, divided by ordinary shares on issue at balance date.

Source: Adelaide Bank Full Financial Report 2006, Appendix 4E 30 June 2006 and 30 June 2007.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

In relation to the balance sheets outlined above, we note that:

- cash and cash equivalents comprises cash on hand and money at call. Assets due from other financial institutions represent various inter-bank assets. These assets fluctuate depending on liquidity needs and inter-bank obligations
- financial assets held for trading and financial assets held to maturity comprise negotiable securities (such as bank accepted bills of exchange, negotiable certificates of deposit, asset backed securities and government securities) and non negotiable securities (such as deposits with banks and other parties). These assets are held principally to meet the bank's liquidity needs as well as to provide liquidity for the bank's securitisation trusts. The \$935.7 million increase in these assets to \$2,682.3 million at 30 June 2007 was driven by the bank's liquidity requirements, together with surplus funds invested following asset securitisations late in FY2007
- the net asset and liability derivative balance represents the marked to market value of interest rate swaps and other derivative instruments. The decrease in net value from \$23.6 million to (\$15.4) million in FY2007 related to changes in the value of foreign exchange and interest-rate hedging contracts
- financial assets available for sale of \$3 million at 30 June 2007 consisted of an investment in Rismark, an innovative provider of equity finance mortgages
- loans and receivables – investments primarily relates to notes acquired by the bank from securitisation trusts established by the Portfolio Funding business unit. The \$350 million increase from FY2006 to FY2007 reflected the growth in average loans under management
- net loans and other receivables pertain to balances for overdrafts, credit cards, securitised and non-securitised term loans, margin loans, funding of portfolios of receivables, loan portfolio premiums and deferred costs relating to capitalised loan origination fees and securitisation costs which are amortised over four years, net of impairment provisions. The profile of Adelaide Bank's loans is discussed separately below
- the \$32.3 million increase in deferred tax assets to \$70.5 million was attributable to increases in prepaid interest on margin lending and an increase in the cash flow hedge reserve
- other assets are those that are generally non-interest bearing and are short-term in nature, and include accrued interest, deferred expenditure and sundry debtors, which predominantly comprise receivables due from securitised trusts and other securities, normally settled within 30 days
- the bank's deposits balance, which largely consists of retail and wholesale deposits, comprises at call and term deposits, certificates of deposit, transferable deposits and fixed

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

and floating rate transferable term deposits. Wholesale other deposits are fixed and floating rate medium term notes. Notes payable are principally notes issued from securitisation programs. The profile of Adelaide Bank's liability funding is discussed separately below

- other liabilities are those that are generally non interest bearing and are short term in nature, and include accrued interest and sundry creditors, which predominantly comprise of collections made on behalf of securitisation trusts and payables relating to securities with the majority settled within 30 days
- one million Reset Preference Shares were issued in November 2002 at \$100 per share. Refer to Section 6.7 for details
- subordinated debt consists of subordinated notes issued for a term of ten years, maturing from 2011 to 2016 with a redemption option at par value after five years, subject to approval from APRA, and \$75 million in Floating Rate Capital Notes, which are unsecured perpetual subordinated notes.

Loan assets

The loans and other receivables balances in the consolidated balance sheets above record the company's gross asset balances, net of impairment provisions. In the table below, we show the company's gross loan balances categorised by purpose.

Table 17: Gross loan balance by purpose

As at		30 Jun 2005	30 Jun 2006	30 Jun 2007
		Audited	Audited	Audited
\$million	Notes	AGAAP	AIFRS	AIFRS
Residential loans		14,480.7	17,634.8	19,749.5
Consumer loans		274.0	248.4	235.3
Margin loans		2,642.9	3,571.7	5,043.6
Commercial loans		1,566.3	2,165.7	2,387.2
Total gross loan balance	1	18,964.0	23,620.6	27,415.6
<i>Residential loan proportion</i>	2	<i>76.4%</i>	<i>74.7%</i>	<i>72.0%</i>
<i>Consumer loan proportion</i>	2	<i>1.4%</i>	<i>1.1%</i>	<i>0.9%</i>
<i>Margin loan proportion</i>	2	<i>13.9%</i>	<i>15.1%</i>	<i>18.4%</i>
<i>Commercial loan proportion</i>	2	<i>8.3%</i>	<i>9.2%</i>	<i>8.7%</i>

Notes

1 FY2005 figures presented in AGAAP and do not reconcile to balance sheet.

2 Proportion of total gross loan balance.

Source: Adelaide Bank Appendix 4E 30 June 2006 and 30 June 2007.

Residential loans are the largest component of gross loans representing 72 percent at 30 June 2007, however, its relative proportion is decreasing as margin and commercial lending are growing more rapidly. Margin loans increased from 15.1 percent of total gross loans at 30 June 2006 to 18.4 percent at 30 June 2007 reflecting strong growth in this product.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

The gross loan balances above can also be categorised into either loans and factoring receivables, or loans that have been sold into securitisation trusts, both of which are on-balance sheet items. The bank's total loans under management over the last three years is shown below.

Table 18: Gross loans balances

As at		30 Jun 2005	30 Jun 2006	30 Jun 2007
		Audited	Audited	Audited
Smillion	Notes	AGAAP	AIFRS	AIFRS
Loans - non securitised	1	11,065.2	11,686.4	13,884.7
Loans - securitised	2	7,898.7	11,934.2	13,530.8
Total loans	3	18,964.0	23,620.6	27,415.6
<i>On-balance sheet proportion</i>	4	58.3%	49.5%	50.6%
<i>On-balance sheet - securitised loans proportion</i>	4	41.7%	50.5%	49.4%

Notes

- 1 *Gross balance of loans held by the consolidated group.*
- 2 *Loans that have been sold into securitisation trusts. Under AIFRS, these securitisation trusts are consolidated and form part of on-balance sheet assets.*
- 3 *FY2005 figures presented in AGAAP and do not reconcile to balance sheet.*
- 4 *Proportion of total loans under management.*

Source: Adelaide Bank Appendix 4E 30 June 2006 and 30 June 2007.

Adelaide Bank's securitised loans represented approximately half of total loans under management at 30 June 2006 and 30 June 2007.

Loan quality

The levels of provisions and impaired loans relative to the bank's loan portfolio are shown in the table below.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 19: Provisions for impaired loans and loan quality

As at		30 Jun 2005	30 Jun 2006	30 Jun 2007
Smillion	Notes	Audited AGAAP	Audited AIFRS	Audited AIFRS
Specific provisions				
Residential lending		0.4	4.9	9.8
Consumer lending		3.0	-	-
Margin lending		0.5	-	1.8
Business lending		0.9	1.1	2.1
Total specific provisions		4.7	6.0	13.6
Collective impairment provision		-	20.3	23.0
General provision	1	39.0	-	-
Total provisions		43.7	26.3	36.6
Impaired loans				
Gross impaired loans		6.3	23.6	31.0
Less Specific provisions		4.7	6.0	13.6
Less Collective impairment provision (Consumer)		-	2.6	2.1
Net impaired loans		1.6	15.0	15.3
Total loans on balance sheet		11,065.2	11,686.4	13,884.7
<i>Gross impaired loans/Total loans on balance sheet</i>		<i>0.06%</i>	<i>0.20%</i>	<i>0.22%</i>
<i>Specific provisions/Gross impaired loans</i>	2	<i>75.0%</i>	<i>25.6%</i>	<i>43.9%</i>
<i>Provision Coverage</i>	3	<i>696.8%</i>	<i>111.6%</i>	<i>118.0%</i>

Notes:

- 1 FY2005 includes general provision for comparison purposes.
- 2 Calculated as specific provisions for doubtful debts divided by gross impaired loans.
- 3 Calculated as total balance in provisions for doubtful debts divided by gross impaired loans.

Source: Adelaide Bank Full Financial Report 2006 and Appendix 4E 30 June 2007

In relation to the above table, we note that in FY2007:

- the total balance of provisions for doubtful debts increased by \$10.3 million, to \$36.6 million
- gross impaired loans increased from \$26.3 million to \$31.0 million. As a proportion of total loans on balance sheet, impaired loans have increased from 0.20 percent in FY2006 to 0.22 percent in FY2007
- relative to FY2006, the proportion of specific provisions to gross impaired loans increased, however, the level of total provisions to gross impaired loans (the provision coverage) decreased.

Whilst specific provisions are an estimate of likely losses from identified impaired loans, general reserves/provisions have in the past covered average loss levels expected across a business cycle. However, with the introduction of AIFRS, general provisioning has been replaced by collective provisioning, the latter requiring loans to be grouped by credit risk and a provision raised based on historical loss experience, adjusted for other factors which could affect each loan group. The collective impairment allowance is held in addition to specific



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

allowances to provide an allowance against any losses which may be inherent in the portfolio but which have not yet been identified.

Funding

Adelaide Bank's liability funding for the three years ended 30 June 2007 is set out in the table below.

Table 20: Sources of funds

As at		30 Jun 2005	30 Jun 2006	30 Jun 2007
		Audited	Audited	Audited
\$million	Notes	AIFRS	AIFRS	AIFRS
Retail deposits		9,240.6	8,802.1	9,957.2
Wholesale deposits		2,338.8	3,105.8	5,568.0
Wholesale deposits - other		186.8	179.5	99.6
Reset preference shares	1	98.9	99.4	99.8
Subordinated debt		312.0	342.0	372.0
Notes payable		8,059.8	12,454.4	13,846.9
Total funding sources		20,236.9	24,983.1	29,943.5
<i>Retail proportion</i>		45.7%	35.2%	33.3%
<i>Wholesale proportion</i>		11.6%	12.4%	18.6%
<i>Wholesale other proportion</i>		0.9%	0.7%	0.3%
<i>Reset preference share proportion</i>		0.5%	0.4%	0.3%
<i>Subordinated debt proportion</i>		1.5%	1.4%	1.2%
<i>Notes proportion</i>		39.8%	49.9%	46.2%

Notes:

1 Step Up Preference Shares are excluded as they are treated as equity under AIFRS.

Source: Adelaide Bank Full Financial Report 2006, Draft 2007 Financial Report and Appendix 4E 30 June 2007.

Adelaide Bank's retail deposit balances have increased over the last three years in value but decreased as a proportion of total funding. Notes payable have increased in value and as a proportion of total funding and amounted to 46.2 percent of total liability funding at 30 June 2007.

Capital adequacy

APRA's Prudential Standards require ADIs such as Adelaide Bank to maintain a level of capital that is consistent with the risks stemming from the activities it undertakes. To this end, APRA's capital adequacy framework requires all ADIs to maintain a risk-based capital ratio of at least eight percent, and at least half of this must be from Tier 1 capital (implying a minimum Tier 1 capital ratio of four percent). APRA requires Adelaide Bank to maintain a risk-based capital ratio of at least 10 percent.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Further to this, credit ratings agency Standard & Poor's uses its own measure of capital, the adjusted common equity (ACE) ratio, which is calculated by deducting goodwill, intangibles and investments in non-banking subsidiaries from core shareholder's equity, and then dividing by the institution's total risk weighted assets. This ratio has been used by most Australian banks as an additional means of measuring capital adequacy.

Adelaide Bank's historical capital adequacy measurements for the three years ended FY2007 are set out in the table below.

Table 21: Adelaide Bank's historical capital adequacy

As at		30 Jun 2005	30 Jun 2006	30 Jun 2007
Smillion	Notes	AGAAP	AIFRS	AIFRS
Tier 1 capital		525.4	565.4	625.6
Tier 2 capital		408.4	428.3	468.4
Less: deductions from capital	1	(13.1)	(34.0)	(7.5)
Total qualifying capital base		920.6	959.7	1,086.5
Total risk weighted assets		8,321.0	8,907.3	9,986.3
APRA's required minimum capital base	2	832.1	890.7	998.6
Capital in excess of APRA's minimum requirement		88.5	68.9	87.9
Total ACE		488.0	510.8	549.7
Capital adequacy ratio	3	11.1%	10.8%	10.9%
ACE ratio	4	5.9%	5.7%	5.5%

Notes:

- 1 Investments in non-consolidated subsidiaries or associates and other bank's capital instruments.
- 2 Based on 10.0% of total risk weighted assets.
- 3 Calculated by dividing total qualifying capital base by total risk weighted assets.
- 4 Calculated by dividing total ACE by total risk weighted assets.

Source: Adelaide Bank Full Financial Report 2006 and Appendix 4E 30 June 2007

In relation to the table above, we note that:

- Adelaide Bank's Tier 1 capital as a proportion of total risk weighted assets has remained at approximately 6.3 percent, and its total risk weighted capital adequacy ratio has remained above its target range of 10.0 percent
- the bank's ACE ratio was between 5.5 percent and 5.9 percent.

Adelaide Bank's consolidated cash flow statement

Adelaide Bank's historical cash flow statements for the three years ended 30 June 2007 are summarised in the table below.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 22: Adelaide Bank's cash flow statements

	30 Jun 2005 Actual AGAAP	30 Jun 2006 Actual AIFRS	30 Jun 2007 Actual AIFRS
Million			
Cash flows from operating activities			
Net interest income	220.5	257.4	289.6
Loan fees and other income	44.8	59.6	71.4
Operating expenses	(144.6)	(165.1)	(176.3)
Income taxes paid	(35.2)	(48.6)	(60.4)
Net cash flows from operating activities	85.5	103.3	124.3
Cash flows from investing activities			
Cash flows for purchases of property, plant and equipment	(5.9)	(8.1)	(2.8)
Cash proceeds from sale of property, plant and equipment	1.3	0.4	0.9
(Increase) in investments	(267.9)	(529.6)	(1,079.2)
(Increase) in due from other banks	(23.8)	(12.0)	(84.4)
Acquisition of margin lending business	(61.6)	-	-
(Increase) in loan advances	(6,450.5)	(7,401.1)	(6,519.6)
(Increase) in other assets	(2.1)	(3.3)	(1.9)
Net cash flows from investing activities	(6,810.3)	(7,953.6)	(7,687.0)
Cash flows from financing activities			
Proceeds from subordinated note issue	107.0	30.0	30.0
Payment from capital note redemption	(40.0)	-	-
Increase in notes payable	4,508.4	6,991.5	4,378.7
Proceeds from issue of Step Up Preference Shares	100.0	-	-
Payment of Step Up share issue costs	(2.5)	-	-
Proceeds from issue of ordinary shares	100.0	-	-
Payment of shares issue costs	(1.4)	-	-
Increase in due to other banks	12.5	12.6	53.9
Increase in deposits	2,541.3	319.9	3,537.9
Payment of dividends on hybrid shares	(8.7)	(5.2)	(5.5)
Payment of dividends on ordinary shares	(40.8)	(19.3)	(51.6)
Net cash flows from financing activities	7,275.7	7,329.5	7,943.4
Net increase/(decrease) in cash and cash equivalents	550.9	(520.8)	380.7
Cash and cash equivalents at the beginning of period	191.0	741.9	221.1
Cash and cash equivalents at the end of period	741.9	221.1	601.8

Notes:

*Numbers may not add due to rounding.

Source: Adelaide Bank Full Financial Report 2006 and Appendix 4E 30 June 2007.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

In relation to the table above, we note that:

- growth in net operating cash flow is primarily due to increases in net interest income and loan fees and other income
- the decrease in net cash outflows from FY2006 to FY2007 was attributable to the increase in loan advances
- the increase in net financing cash flows from FY2006 to FY2007 is largely due to the increase in deposits partially offset by a decline in notes payable.

Contingent Liabilities

At 30 June 2007, Adelaide Bank had \$11.2 million of issued guarantees on behalf of clients. Further, Adelaide Bank had a fiduciary duty as a manager, custodian or trustee of \$4.2 billion of funds, which were not included on the balance sheet.

Since December 2006 the ATO has been conducting a tax audit in relation to three transactions undertaken by related entities of Adelaide Bank. The three transactions were undertaken during 1999 and 2000 and involved primary tax of up to \$16 million, and according to Adelaide Bank, were undertaken in accordance with external advice received at the time. At the date of this report, the ATO has not concluded the tax audit nor issued an amended assessment. As such, Adelaide Bank is unable to make an assessment of the amount or timing of the additional liability (if any) that may result from the tax audit. However, the bank does not expect the implementation of the Merger Proposal to have a material impact on the likely outcome of the tax audit, or the amount of any additional liability in connection with the tax audit.

6.7 Capital structure

Issued capital

Adelaide Bank's issued capital as at 10 September 2007 comprises:

- 108,316,569 ordinary shares
- 1,000,000 Reset Preference Shares
- 1,000,000 Step Up Preference Shares
- 750,000 floating rate capital notes
- 15,000 fixed rate term transferable deposits
- 95,000 floating rate term transferable deposits.

All of these securities are quoted on the ASX.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Registered shareholders

Adelaide Bank's top ten registered shareholders as at 10 September 2007 (latest available) are set out in the table below.

Table 23: Major shareholders in Adelaide Bank

Name of shareholder	Total number of shares held	% of total issued share capital
J P Morgan Nominees Australia Limited	7,844,122	7.2%
National Nominees Limited	4,936,548	4.6%
HSBC Custody Nominees (Australia) Limited	3,157,210	2.9%
ANZ Nominees Limited	3,055,079	2.8%
Citicorp Nominees Pty Limited	2,323,852	2.1%
Milton Corporation Limited	1,364,300	1.3%
Argo Investments Limited	1,297,501	1.2%
Cogent Nominees Pty Limited	1,063,407	1.0%
HSBC Custody Nominees (Australia) Limited - A/C 2	1,053,916	1.0%
Cooperative Member Services Pty Ltd	966,950	0.9%
Total shares held by top ten shareholders	27,062,885	25.0%
Other shareholders	81,253,684	75.0%
Total number of shares on issue	108,316,569	100.0%

Source: Adelaide Bank.

There were no substantial shareholders of Adelaide Bank ordinary shares at the date of the last notice being 3 April 2007.

Movements in securities on issue

Adelaide Bank has issued a number of securities as part of its dividend reinvestment plan and further capital raisings. The details of security issues completed by Adelaide Bank from 1 January 2006 to 3 April 2007 are shown below.

Table 24: Issues of Adelaide Bank securities

Date	Securities issued	Details
Mar 2007	475,767 ordinary shares	Ordinary shares allotted under dividend reinvestment plan at a price of \$13.35
Mar 2007	55,000 floating rate term transferable deposits	Issue of floating rate term transferable deposits
Feb 2007	10,000 floating rate term transferable deposits	Issue of floating rate term transferable deposits
Oct 2006	592,562 ordinary shares	Ordinary shares allotted under dividend reinvestment plan at a price of \$12.95
May 2006	15,000 fixed rate term transferable deposits	Issue of fixed rate term transferable deposits
May 2006	30,000 floating rate term transferable deposits	Issue of floating rate term transferable deposits
Apr 2006	665,493 ordinary shares	Ordinary shares allotted under dividend reinvestment plan at a price of \$12.70

Source: Adelaide Bank company announcements.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Reset Preference Shares

As at 3 April 2007, Adelaide Bank had one million Reset Preference Shares on issue. The key terms of the Reset Preference Shares include:

- issue price of \$100 per Reset Preference Share
- payment of a preferential, non-cumulative, floating rate dividend
- dividend rate fixed until the first reset date, being 1 November 2007, at the greater of 6 percent or 2.75 percent over the five year swap rate, multiplied by one minus the corporate tax rate
- dividends are payable half yearly in arrears on 1 May and 1 November of each year
- at each reset date, Adelaide Bank is entitled to reset certain terms, such as the date of the next reset date and the dividend rate
- Adelaide Bank may exchange Reset Preference Shares for cash or ordinary shares on a reset date or in limited other circumstances, such as a takeover offer or scheme of arrangement
- a holder may exchange Reset Preference Shares on a reset date or by delivery of an exchange notice to Adelaide Bank
- holders of Reset Preference Shares are not entitled to vote except in limited circumstances, and do not have a right to participate in security issues or capital reconstructions.

On 20 August 2007, Adelaide Bank announced that it will be resetting certain terms of the Reset Preference Shares subsequent to the first reset date (i.e. from 2 November 2007). The terms being reset are:

- reduction of the variable margin from 2.75 percent to 1.6 percent
- election of the next reset date as 1 November 2012.

As noted in the earlier parts of this report, a separate scheme of arrangement is proposed for the Adelaide Bank Reset Preference shareholders (refer to Section 3).

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Step Up Preference Shares

As at 3 April 2007 Adelaide Bank had one million Step Up Preference Shares on issue. The key terms of the Step Up Preference Shares include:

- issue price of \$100 per Step Up Preference Share
- payment of a preferential, non-cumulative, floating rate dividend
- dividend rate based on the bank bill rate plus a margin, multiplied by one minus the corporate tax rate
- dividends are payable quarterly in arrears on 10 January, 10 April, 10 July and 10 October of each year
- Adelaide Bank may exchange Step Up Preference Shares for cash or ordinary shares or a combination on or subsequent to the Step Up date or in limited other circumstances, such as changes in tax, laws or regulations
- holders of Step Up Preference Shares are not entitled to vote except in limited circumstances, and do not have a right to participate in security issues or capital reconstructions.

As noted in the earlier parts of this report, a separate scheme of arrangement is proposed for the Adelaide Bank Step Up Preference shareholders (refer to Section 3).

Floating rate capital notes

As at 3 April 2007, Adelaide Bank had 750,000 floating rate capital notes on issue. The key terms of the floating rate capital notes are summarised below:

- interest rate is determined as the bank bill swap reference rate plus a margin of 0.75 percent per annum
- interest is calculated and paid quarterly
- notes are subordinated, and in the event of a winding up, rank as if they were a class of preference shares
- Adelaide Bank will not in any circumstances be required to repay the notes at the request of a note-holder.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Fixed rate term transferable deposits

As at 3 April 2007, Adelaide Bank had 15,000 fixed rate term transferable deposits on issue, each with a denomination of \$10,000. Interest on these deposits is payable half yearly at a fixed rate of 6.25 percent per annum. The deposits mature on 22 May 2009.

Floating rate term transferable deposits

As at 24 September 2007, Adelaide Bank had 95,000 floating rate term transferable deposits on issue, each with a denomination of \$10,000. Interest on these deposits is payable quarterly at a floating rate of the three month AUD bank bill swap reference rate plus a margin of 0.2 percent. The deposits mature on 22 May 2009.

Employee share plan

The employee share plan (ESP) operates to allot shares to eligible staff at certain times. The price is generally set at market levels, and payment is funded with an interest free loan. The last allocation of shares made under the plan was in 2001. As at 30 June 2007, the number of shares on issue under the ESP was 406,600.

Deferred employee share plan

The Deferred Employee Share Plan (DESP) operates for senior and executive staff, who may receive short term incentive and long term incentive remuneration in the form of shares. Shares which are held in the DESP are purchased on market. The purchase of these shares is recognised as an expense in the period in which the benefit is earned.

6.8 Ordinary share price analysis

Market performance

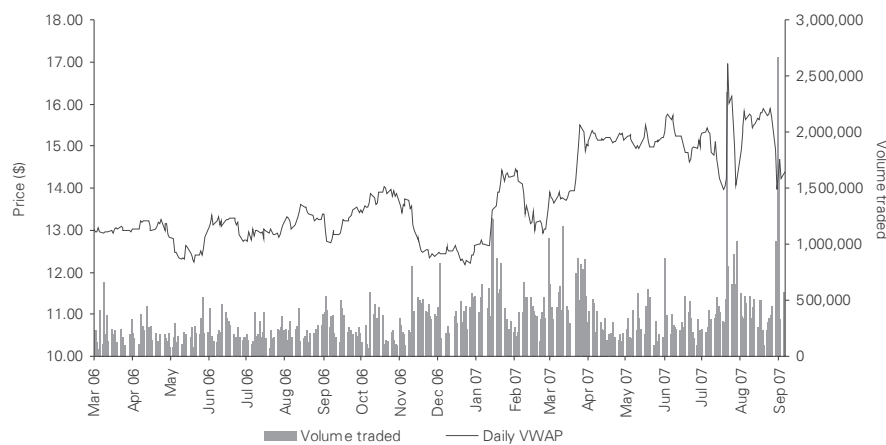
The chart below graphs the daily share price, represented by the VWAP, and daily trading volume of Adelaide Bank's ordinary shares from 20 March 2006 (being one year before Bank of QLD's proposed merger offer with Bendigo Bank) to 24 September 2007 (the Latest Analysis Date).

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Figure 13: Adelaide Bank's ordinary share price and volume



Note: Excludes off market trades.

Source: IRESS.

In relation to the above chart, we note:

- the decline in share price and significant activity on and after 30 November 2006 appears to coincide with Adelaide Bank revising its FY2007 earnings guidance, noting a cash EPS before significant items would be in the range of six to nine percent, instead of ten percent as previously advised
- the spike in trading volumes and increase in share price on 1 February and 2 February 2007 coincided with Adelaide Bank's release of its first half FY2007 results, whereby the company announced a 10 percent increase in cash basis profits compared to the same time in the prior financial year. More than 1.2 million shares were traded on each of these days
- more than one million shares were traded on each of 19 March 2007 and 30 March 2007. The former date coincided with Bank of QLD's announcement of a proposed merger with Bendigo Bank, and the latter date with Adelaide Bank's announcement that its FY2007 half year report was available
- the sharp rise in Adelaide Bank's ordinary share price between 9 April 2007 and 13 April 2007 could possibly have been the result of takeover speculation. On 10 April 2007 a financial press article reported on persisting speculation that Adelaide Bank would be drawn into the consolidation of Australia's financial services sector, given that the Bank of QLD had 'recently confirmed it had previously held preliminary merger discussions with other regional players, including Adelaide Bank'. Further, the article gave reference to Adelaide Bank's new managing director having recently restructured his executive management team



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

- the falling share price between 25 July 2007 and 6 August 2007 was consistent with the decline in global equity markets
- on 9 August 2007, Adelaide Bank and Bendigo Bank announced the Merger Proposal and the release of each bank's FY2007 financial results. On that day, Adelaide Bank's ordinary share price increased by approximately 14.7 percent (compared to the closing share price on 8 August 2007) to its \$16.51 closing price, with a VWAP and intra-day high of \$16.96 and \$18.00 respectively
- shortly after the announcement of the Merger Proposal, Adelaide Bank's ordinary share price began to decline, following the volatility and large sell-off of shares in global equity markets. However, on 17 August 2007 the share price began to 'rebound' consistent with the Australian All Ordinaries Index, and continued to increase in-line with the Australian share market until mid September 2007
- on 17 September 2007 Adelaide Bank ordinary shares began trading on an ex-dividend basis, which coincided with a fall in share price larger than the dividend itself
- from 17 September 2007 to 20 September 2007, Adelaide Bank's ordinary share price declined significantly, coupled with more than one million shares traded on each of those days, and peaking at approximately 2.7 million shares traded on 18 September 2007. The increased activity was most likely a result of rumours that Adelaide Bank had sought liquidity assistance from the RBA, a rumour later refuted by both the RBA and Adelaide Bank
- Adelaide Bank ordinary shares closed at \$14.36 on the Latest Analysis Date of 24 September 2007.

Relative market performance

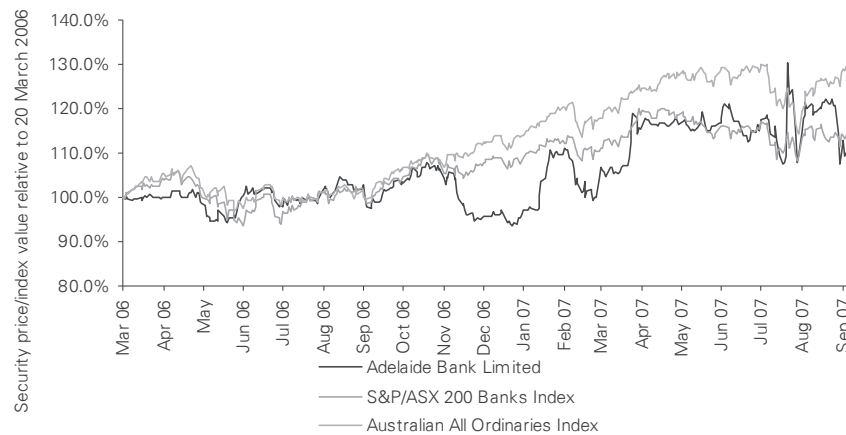
Adelaide Bank is a member of various indices including the S&P/ASX 200 Banks Index and the Australian All Ordinaries Index, of which Adelaide Bank had weightings at 24 September 2007 of approximately 0.6 percent and 0.1 percent respectively. The figure below illustrates Adelaide Bank's ordinary share price performance since 20 March 2006 relative to these indices.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Figure 14: Adelaide Bank's ordinary shares relative share price performance



Source: IRESS.

In relation to the figure above, we note that relative to 20 March 2006:

- Adelaide Bank's ordinary share price generally performed in line with both indices until 30 November 2006, when, as previously discussed, Adelaide Bank revised its FY2007 earnings guidance downwards
- the recovery in Adelaide Bank's relative share price performance commenced at the beginning of February 2007, when the bank announced its first half FY2007 results. After this time there appeared to be a decline in both Adelaide Bank and share market performance
- between 9 April 2007 and 13 April 2007, takeover speculation pushed the share price upwards. Following this, the share price has performed in-line with the S&P/ASX 200 Banks Index (albeit both underperforming relative to the Australian All Ordinaries Index), with significant improvement on the day of the Merger Proposal announcement
- following the 'rebound' on 17 August 2007 to the middle of September 2007, Adelaide Bank's ordinary share price outperformed the S&P/ASX 200 Banks Index, but did not recover as strongly as the Australian All Ordinaries Index, on a relative basis
- from 18 September 2007 to 24 September 2007, Adelaide Bank's ordinary share price underperformed both indices on a relative basis, possibly as a result of rumours circulating at the time that Adelaide Bank had sought liquidity assistance from the RBA, a rumour later refuted by both the RBA and Adelaide Bank.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

VWAP and liquidity analysis

We have analysed the VWAP (based on the traded value of on-market share transactions on a daily basis) and historical liquidity of Adelaide Bank and Bendigo Bank ordinary shares from 20 March 2006 to 24 September 2007. Over this period, there were several material announcements which may have influenced the share price and/or the level of trading of Bendigo Bank ordinary shares, and possibly Adelaide Bank ordinary shares, on the ASX. These key events include:

- 19 March 2007 – Bank of QLD proposed a merger with Bendigo Bank, via a cash and scrip offer
- 24 April 2007 – Bendigo Bank rejected the Bank of QLD proposal
- 21 June 2007 – Bendigo Bank rejected Bank of QLD's second (informal) proposal
- 9 August 2007 – Bendigo Bank and Adelaide Bank announce the Merger Proposal.

To facilitate a meaningful analysis of both company's share prices, we have segmented our analysis into five sub periods as follows:

- Period 1 – 20 March 2006 to 18 March 2007 – the period prior to Bank of QLD's first proposal (Pre Bank of QLD Proposal Period)
- Period 2 – 19 March 2007 to 23 April 2007 – the period from the announcement of Bank of QLD's first proposal to the day before Bendigo Bank's rejection of Bank of QLD's first proposal (Bank of QLD First Proposal Period)
- Period 3 – 24 April 2007 to 20 June 2007 – the period from the announcement of Bendigo Bank's rejection of Bank of QLD's first proposal, to the day before Bendigo Bank's rejection of Bank of QLD's second informal proposal (Bank of QLD Second Proposal Period). We note that whilst the second informal proposal was not publicly announced, it appears that the second informal proposal was made sometime within this date range
- Period 4 – 21 June 2007 to 8 August 2007 – the period from the announcement of Bendigo Bank's rejection of Bank of QLD's second informal proposal, to the day before the announcement of the Merger Proposal (Pre Merger Proposal Announcement Period)
- Period 5 – 9 August 2007 to 24 September 2007 – the period from the announcement of the Merger Proposal to the Latest Analysis Date (Post Merger Proposal Announcement Period).

We set out in the table below an analysis of the VWAP and historical liquidity of Adelaide Bank's ordinary shares over the periods described above.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 25: Adelaide Bank ordinary shares VWAP and liquidity analysis

Period	Highest traded price during period	Lowest traded price during period	VWAP of period	Cumulative volume of shares traded during period	Volume of ordinary shares traded as a percentage of the average number of issued ordinary shares
Period 1 - 20 Mar 06 to 18 Mar 07 - Pre Bank of QLD Proposal Period					
Last 12 months of Period 1	\$14.56	\$12.11	\$13.11	73,305,245	68.2%
Last 6 months of Period 1	\$14.56	\$12.11	\$13.17	45,872,347	42.6%
Last 3 months of Period 1	\$14.56	\$12.11	\$13.15	26,484,102	24.6%
Last 1 month of Period 1	\$14.50	\$12.80	\$13.49	7,604,873	7.1%
Last 1 week of Period 1	\$13.41	\$12.80	\$13.04	1,725,806	1.6%
Period 2 - 19 Mar 07 to 23 Apr 07 - Bank of QLD First Proposal Period					
Period 2	\$15.71	\$13.21	\$14.33	13,817,472	12.8%
Period 3 - 24 Apr 07 to 20 Jun 07 - Bank of QLD Second Proposal Period					
Period 3	\$15.80	\$14.83	\$15.17	10,402,402	9.6%
Period 4 - 21 Jun 07 to 8 Aug 07 - Pre Merger Proposal Announcement Period					
Period 4	\$16.03	\$13.90	\$15.00	11,498,869	10.6%
Period 5 - 9 Aug 07 to 24 Sep 07 - Post Merger Proposal Announcement Period					
Period 5	\$18.00	\$13.55	\$15.23	21,938,269	20.3%

Note: The Merger Proposal was announced on 9 August 2007. Calculations exclude off-market trades/transactions.

Source: IRESS and Bloomberg.

In relation to the above table, we note:

- in the twelve months to 18 March 2007, trading in Adelaide Bank's ordinary shares amounted to approximately 68 percent of its average issued ordinary shares over this period
- over the Bank of QLD First Proposal Period, approximately 13 percent of the bank's average issued ordinary shares was traded, which demonstrates a relatively higher level of liquidity when compared to the last one month of the Pre Bank of QLD Proposal Period, where approximately 7 percent of Adelaide Bank's average issued ordinary shares was traded
- during the Post Merger Proposal Announcement Period, approximately 20.3 percent of the bank's shares were traded.

Based on this analysis, trading of Adelaide Bank's ordinary shares are considered to be relatively liquid over the periods analysed.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

7 Profile of Bendigo Bank

7.1 Introduction

Bendigo Bank is a community focused bank based in the central Victorian city of Bendigo. It is the only Australian bank headquartered outside a capital city. This focus has helped Bendigo Bank differentiate itself as a financial institution and its focus on community issues has been pivotal to its development of a niche position in the banking market. Bendigo Bank provides retail banking and wealth management services to approximately 1.1 million customers and has a national presence albeit stronger in Victoria and Queensland. Bendigo Bank is a member of the S&P/ASX 100 Index.

The company employs approximately 2,248 full time employees (excluding Community Bank[®] staff) and has in excess of \$18.9 billion of assets under management, comprised of loans under management of \$15.8 billion and other assets of \$3.1 billion. Housing loans make up the majority of Bendigo Bank's loan portfolio and lending is concentrated in Victoria and Queensland with these States representing 55 percent and 16 percent of lending respectively at 30 June 2007.

In FY2007, Bendigo Bank generated total operating income of approximately \$562.2 million and NPAT of \$121.8 million.

As at 8 August 2007, being the day prior to the announcement of the Merger Proposal, it had a market capitalisation of approximately \$2.3 billion.

Bendigo Bank's stated strategic aim is to be a banking group capable of generating quality and diversified revenues through relationships with its growing customer base and communities across Australia. Its stated key financial objective is to grow at profitable prices rather than chase market share and thereby increase profit and earnings in a sustainable way.

Set out below is a summary of the key events in Bendigo Bank's history.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 26: History of Bendigo Bank's operations

Date	Event
1858	Bendigo Permanent Land and Building Society was founded
1978	Merged with Eaglehawk Building Society
1983	Merged with Sandhurst Building Society
1985	Merged with Sunraysia Building Society
1992	Acquired Compass Building Society and Capital Building Society Merged with Sandhurst Trustees Limited
1995	Converted to bank status Acquired National Mortgage Market Corporation, securitisation and mortgage management
1997	Acquired Monte Paschi Australia, a commercial bank servicing the Italian community Acquired Worley Securities Pty Ltd, financial planners (disposed of in 2006)
1998	Launched the Community Bank [®] concept in response to a wave of bank branch closures in regional and suburban Australia
1999	Acquired IOOF Building Society Acquired Victorian Securities Corporation Pty Ltd, a finance company Entered into Elders Rural Bank Limited 50/50 joint venture with Futuris Corporation Limited Entered into Bendigo Bank Investment Services 50/50 joint venture with IOOF Limited, to bring financial planning into Bendigo Bank branches (now 100 percent owned by Bendigo Bank)
2000	Elders Rural Bank Limited granted a banking authority Entered into Tasmanian Banking Services Limited 50/50 joint venture with Tasmanian Trustees Limited to provide retail banking across Tasmania Acquired First Australian Building Society
2002	Launched Community Sector Banking, a joint venture with the not-for-profit sector Launched Bendigo Bank Managed Funds
2005	Opened 300 th branch and 150 th community branch Welcomed Bendigo Bank's million th customer
2006	Announced the sale of new headquarters in Bendigo Bank for \$100 million in a sale-and-leaseback transaction to occur on 1 September 2008, after completion of the new building
2007	Rejected Bank of Queensland's offer to merge with Bendigo Bank Opened 200 th Community Bank [®] Signed MIA with Adelaide Bank Announced Merger Proposal

Source: Bendigo Bank and DatAnalysis.

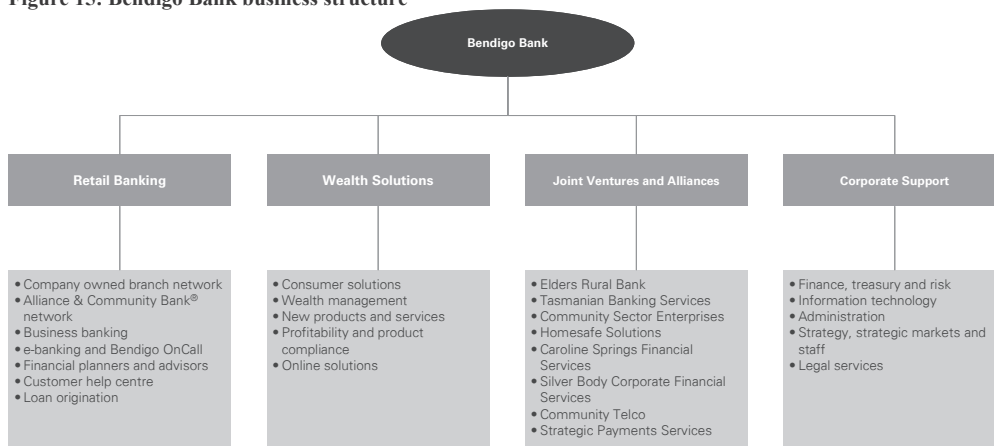
Bendigo Bank is building a new head office in Bendigo, Victoria which is due for completion in late-2008. A number of Bendigo Bank staff have relocated to the new complex which, upon final completion, will house 1,000 Bendigo Bank staff. Bendigo Bank has contracted to sell the new headquarters for \$100 million in a sale-and-leaseback transaction after completion and will take a long-term lease on the premises. In addition, Bendigo Bank has invested \$10 million in a new, off-site technology centre on the outskirts of the city of Bendigo.

Bendigo Bank operates in three business segments supported by a range of corporate functions, as shown below.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

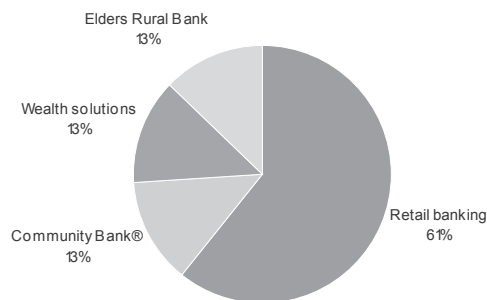
Figure 15: Bendigo Bank business structure



Source: Bendigo Bank.

For financial reporting purposes, Bendigo Bank segments its results by Retail Banking, Community Bank®, Wealth Solutions and Joint Ventures and Alliances. Each of these segments' relative contribution to NPBT during FY2007 is shown below.

Figure 16 : NPBT by business segment (FY2007)



Note: NPBT excludes unallocated corporate overhead, other associates' results and significant items.

Source: Bendigo Bank.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

7.2 **Retail Banking**

The Retail Banking business encompasses Bendigo Bank's:

- company owned branches
- community owned branches
- business banking
- other activities such as e-banking, customer help centres, call centres, loan origination and financial planning.

In 2006, Bendigo Bank brought its company and community owned branches together under the Retail Banking division. Its distribution network as at 30 June 2007 was as follows:

Table 27: Bendigo Bank retail distribution network

State/territory	Company owned branch	Community owned branch	Subtotal
ACT	1	2	3
NSW	13	36	49
NT	0	2	2
QLD	49	28	77
SA	1	8	9
TAS	9*	4	13
VIC	82	86	168
WA	2	34	36
Total	157	200	357

Note:

* Branches in Tasmania are represented through Tasmanian Banking Services Limited.

Source: Bendigo Bank.

Bendigo Bank continues to expand its geographic reach and by May 2007, more than half of Bendigo Bank's branches were outside Victoria, whereas only one was in 1995. According to the bank, the significant growth in the branch network has led to an increase in customers and improved product penetration, with the continued maturity in Community Bank[®] branches ensuring a strong platform for further growth.

Company owned branches

Bendigo Bank had 157 company branches at 30 June 2007 principally in Victoria and Queensland. These branches offer Bendigo Bank's deposit, lending and other financial products to retail customers and small to medium sized businesses.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Community Bank[®]

The Community Bank[®] business model was launched in 1998 with the objective of returning branch banking services to communities who had lost and/or were seeking access to banking services. Under the Community Bank[®] model, local communities raise between \$0.5 million to \$1 million share capital to cover branch fit out, IT costs, other expenses and working capital. Community Bank[®] branches are governed by franchise agreements whereby the Community Bank[®] is responsible for all costs and expenses associated with the franchise and its operations and the carrying on of the business at the branch, including staff and lease costs. Loans and deposits are held on Bendigo Bank's balance sheet while staff are employed by the Community Bank[®].

One half of Community Bank[®] branches are less than four years old. As the Community Bank[®] network matures Bendigo Bank expects it to generate strong growth as product penetration increases.

Business banking

Bendigo Bank has a network of 95 business banking managers and small business managers supported by over 100 business banking officers and assistants represented in all Australian States and Territories. All company owned bank branches offer business banking services. Bendigo Bank also has a small network of specialist Agribusiness managers dedicated to servicing the specific needs of rural industries in the areas they operate. These specialists predominantly write business for Elders Rural Bank.

Bendigo Bank's business banking staff service the commercial and small business customers, providing a full range of banking products and services. At 31 March 2007 the business banking network serviced more than 5,500 customers with an average commercial loan size of \$0.4 million. Bendigo Bank's total business banking footings, being business loans plus deposits, grew from \$3.2 billion in June 2004 to \$5.4 billion in March 2007, a 70 percent increase.

Bendigo Bank's stated strategic objective for business banking is to broaden the range of financial service product solutions relevant to its customer base and develop a distinct value proposition for the business banking segment. Bendigo Bank does not participate in the corporate or institutional banking market and has no exposure to credit derivatives.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

7.3 *Wealth Solutions*

The wealth solutions business incorporates the following:

- financial advice and planning
- funds management, trustee and custodial services
- margin lending.

Financial planning and advice

Bendigo Bank's financial planning business comprises 58 salaried financial planners located across Bendigo Bank's branch network as at 30 June 2007. Each adviser may serve several branches. Bendigo Bank is currently implementing an in-house associate financial planning adviser program, adding approximately eight new associate financial planners to the system each year who are Bendigo Bank salaried employees located in Bendigo Bank branches.

Funds management, trustee and custodial services

Bendigo Bank's funds management, trustee and custodial services operations are conducted by its wholly owned subsidiary Sandhurst Trustees Limited (STL). Victorian Securities Corporation Limited, another wholly owned subsidiary, operates a debenture company.

STL is an authorised trustee, a responsible entity for managed investment schemes and a registrable superannuation entity. STL was established in 1888 as a trustee company providing traditional trustee services, however in recent years the core business focus and profit growth has been predominantly driven by the funds management business. The funds management business has four key product groups as shown below.

Table 28 : Funds Management product groupings

Fund	Distribution	Description
Sandhurst Common Funds	Retail	Mortgage and cash funds
Sandhurst Industrial Share Fund	Retail and wholesale	Strategic alliance with Investors Mutual Limited
Bendigo Bank Managed Funds	Retail and wholesale	"Fund of funds" diversified managed funds
Sandhurst Professional Series	Wholesale	Four managed funds and the Sandhurst Cash Common Fund

Source: Bendigo Bank.

Bendigo Bank's FUM totalled approximately \$3.4 billion at 30 June 2007 across a number of different funds as shown below.



*Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007*

Table 29: Bendigo Bank's FUM as at 30 June 2007

FUM	\$million
Sandhurst Common Funds (note 1)	2,310
Sandhurst Industrial Share Fund	519
Bendigo Bank Superannuation Plan (note 2)	330
Bendigo Bank Managed Funds	157
Other Funds	78
Total	3,394

Notes:

- 1 Sandhurst Common Funds predominantly comprise Sandhurst Select Mortgage Fund.
- 2 Bendigo Bank Superannuation Plan provides a simple low cost superannuation vehicle (Bendigo Bank Super EasyTM) and a comprehensive superannuation offering with a menu of underlying cash, managed funds and direct share investment options.

Source: Bendigo Bank.

Margin lending

Bendigo Bank offers margin lending products to its customers.

7.4

Joint Ventures and Alliances

Bendigo Bank has entered into a number of joint ventures and alliances. In FY2007 these Joint Ventures and Alliances jointly contributed \$21.9 million to consolidated NPBT and \$13.8 million to consolidated NPAT. Of this amount, Elders Rural Bank contributed \$18.0 million, as shown in Table 33.

Elders Rural Bank

Elders Rural Bank is a 50/50 joint venture with Futuris Corporation Limited. It was established in 2000 to deliver specialist banking services to the rural sector, combining Bendigo Bank's banking expertise and product range with Elders Australia Limited's network of 400 branches, knowledge of the agriculture industry and loyal customer base.

Elders Rural Bank reported NPAT of \$36.0 million for the year ended 30 June 2007, representing an approximate 11.5 percent increase on last year. Loans under management grew by 13.9 percent to reach \$3.2 billion with deposits rising 11.7 percent to \$3.2 billion. Despite a period of challenging seasonal conditions for its client base, credit performance was stable with the ratio of net non-performing loans to gross loans under management at 0.36 percent (FY2006: 0.29 percent). During August 2007 Standard & Poor's upgraded its rating of Elders Rural Bank from BBB-/A3 to BBB / A2.

Other joint ventures and alliances

The remaining joint ventures and alliances are described below.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 30: Bendigo Bank's Joint ventures and Alliances

Joint Venture	Products, services and distribution
Tasmanian Banking Services Limited (50/50 JV with Tasmanian Perpetual Trustees Limited)	Established in 2000 to provide banking services to Tasmania through nine Tasmanian Banking Services branches.
Community Sector Enterprises Pty Ltd, trading as Community Sector Banking	Delivers banking services to the not-for-profit sector in return for a share of margin and fee income.
Homesafe Solutions Pty Ltd (50/50 JV with Athy Pty Ltd)	Responsible for the development, marketing, sales and management of the Homesafe Debt Free Equity Release product that enables aged homeowners to access the equity in their homes in a secure and cost efficient manner.
Caroline Springs Financial Services Pty Ltd (50/50 JV with Delfin Lend Lease)	A joint venture which established a branch in February 2005 as part of the infrastructure for a new integrated property development in the Melbourne suburb of Caroline Springs.
Silver Body Corporate Financial Services Pty Ltd (50/50 JV with SSKB Financial Services)	A joint venture providing banking to a specialised market segment, including one branch located on the Gold Coast.
Community Telco Australia Pty Ltd (50/50 JV with AAPT)	Provides telecommunications services and systems under licence to franchises of Bendigo Bank's wholly-owned subsidiary, Community Developments Australia Ltd.
Strategic Payments Services Pty Ltd (JV between Bendigo Bank (40%), Customers Limited (40%) and MasterCard International (20%))	An independent payment processing business that will handle the processing and management of all Bendigo Bank and Customers ATM and EFTPOS transactions. Core systems development work has been completed and migration of devices and transactions commenced in June 2007.

Source: Bendigo Bank.

7.5 Corporate support

Corporate support provides finance, treasury, risk management, information technology, administrative, strategic and legal services. As part of its capital management Bendigo Bank, through National Mortgage Market Corporation (a wholly owned subsidiary), has developed the Banksia residential mortgage securitisation programs and provides additional funding and capital management options to Bendigo Bank.

7.6 Financial overview

We summarise in this section Bendigo Bank's historical financial performance and financial position. No financial data for the 2008 financial year has been disclosed in our report at the request of Bendigo Bank management, for commercial sensitivity reasons.

Bendigo Bank's financial performance

Bendigo Bank's consolidated income statements for the three years ended 30 June 2007 are set out in the table below.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 31: Bendigo Bank's consolidated historical income statements

Smillion	Notes	30 Jun 2005	30 Jun 2006	30 Jun 2007
		AIFRS	AIFRS	AIFRS
Net interest income		286.1	315.1	357.1
Non interest income		144.2	162.3	183.2
Total operating income		430.3	477.4	540.3
Share of associates' net profits	1	20.3	22.2	21.9
Total income		450.6	499.6	562.2
Bad and doubtful debts expense		(13.6)	(7.0)	(8.2)
Operating and other expenses		(305.0)	(338.1)	(368.8)
Net profit before tax (NPBT) and significant items		132.0	154.5	185.2
Income tax expense before significant items		(40.7)	(46.2)	(56.7)
Net loss attributable to minority interest		0.4	-	0.1
Profit after income tax expense and before significant items		91.7	108.3	128.6
Significant items after income tax		3.0	8.4	(6.8)
Net profit after tax (NPAT)		94.7	116.7	121.8
Significant items after tax		(3.0)	(8.4)	6.8
After tax intangibles amortisation	2	0.3	1.7	1.2
Dividends paid on preference shares		-	(2.5)	(4.8)
Movement in General reserve for credit losses (GRCL)		-	(3.9)	(4.7)
Movement in GRCL - associates		-	(1.1)	(1.8)
Cash basis NPAT		92.0	102.5	118.5
Weighted number of ordinary shares (million)		140.4	140.1	142.9
Weighted number of ordinary shares (diluted) (million)	3	140.4	144.8	150.1
Basic earnings per ordinary share (EPS) (cents per share)	4, 9	65.3	75.5	86.6
Diluted EPS (cents per share)	5, 9	65.3	74.8	85.7
Cash basis EPS (cents per share) (Basic)	6, 9	65.5	73.2	82.9
Dividends per share		45.0	52.0	58.0
Average interest earning assets balance (\$million)		12,538.0	13,821.6	15,269.9
Net interest margin	7	2.28%	2.28%	2.34%
Interest spread	8	2.07%	2.07%	2.15%
Cash basis return on average ordinary equity		13.58%	14.51%	15.37%
Return on average ordinary equity		13.98%	16.16%	15.18%
Cost to income ratio		66.9%	66.6%	64.6%
Basic EPS growth			15.7%	14.7%
Diluted EPS growth			14.5%	14.5%
Cash basis EPS growth (Diluted)			11.7%	13.3%
Dividends per share growth			15.6%	11.5%

Notes:

- 1 Equity accounted.
- 2 Excludes amortisation of intangible software.
- 3 Dilution incorporates effect of executive share options and preference shares.
- 4 Basic EPS calculated by dividing NPAT less preference dividends by the weighted number of ordinary shares.
- 5 Diluted EPS calculated by dividing NPAT by the weighted number of ordinary shares (diluted).
- 6 Cash basis EPS calculated by dividing cash basis NPAT by the weighted number of ordinary shares.
- 7 Net interest margin calculated by dividing net interest income by average interest earning assets balance.
- 8 Interest spread is the difference between the average interest rate earned on assets and the average interest rate paid on funds.
- 9 Excludes significant items.

*Numbers may not add due to rounding.

Source: Bendigo Bank Full Financial Report 2006, Appendix 4E 30 June 2006 and 30 June 2007.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Comments on historical financial performance

In relation to the historical income statements outlined above, we note that:

- FY2006 represents the first financial report prepared in accordance with AIFRS. Prior financial reports were prepared in accordance with AGAAP. In particular, FY2005's accounts shown above have been restated in accordance with AIFRS, however in our discussion of Bendigo Bank's FY2005 results, we have made comparisons to FY2004 results on an AGAAP basis
- results for FY2005:
 - net interest income increased by 11 percent underpinned by a 20.4 percent increase in average interest earning assets
 - the recently acquired (May 2005) factoring business, Oxford Funding also contributed to non interest income
 - staffing costs increased by 15 percent primarily due to growth in the bank's retail division
 - net significant income items were related to the sale of Bendigo Bank's:
 - IOOF Holdings Pty Ltd shares (part only)
 - BSX Group Holdings Ltd shares
 - Cashcard shares
 - properties
- results for FY2006:
 - the company's average interest earning assets balance increased by approximately \$1.3 billion during the financial year, contributing to an approximate 10.1 percent or \$29 million increase in net interest income. The bank's net interest margin remained steady at 2.28 percent
 - non interest income increased by approximately 12.6 percent or \$18.1 million from increases in liability product transaction fees and income from the bank's electronic delivery network. Further, Oxford Funding had its first full year of income contribution to the consolidated group
 - significant items included the following:



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

- profit from the deemed disposal of Select Managed Funds Ltd shares of \$15.5 million on a pre-tax basis, or \$10.9 million on a post tax basis, due to its merger with Australian Wealth Management Ltd
- an accounting gain from the change in Bendigo Bank's equity accounted investment in Community Telco Aust Pty Ltd of \$1.8 million (no applicable tax expense)
- relocation expenses for the bank's new Docklands facility were approximately \$0.7 million or \$0.5 million after tax
- review of carrying value of equity investment portfolio of \$5.4 million or \$3.8 million after tax
- operating and other expenses increased by 11.1 percent or \$34.3 million due primarily to increased staffing in the bank's retail division, a full year of Oxford Funding staffing costs, and an 18.4 percent or \$4.4 million increase in information technology costs reflecting growth in the delivery network and upgrading of computer and software systems, which also entailed a 55.6 percent or \$2 million increase in amortisation of intangibles from the new software and software development
- results for FY2007:
 - net interest income increased by 13.3 percent or \$42 million as a result of increases in both interest earnings assets and liabilities, and growth in gross interest margin, which increased due mostly to repricing and product mix changes. These factors contributed to a net interest margin of 2.34 percent, compared to 2.28 percent in FY2006, and an increase in interest spread to 2.15 percent, from 2.07 percent in FY2006
 - non interest income increased by 12.9 percent or \$20.9 million, driven by factors such as increased income from Bendigo Bank's electronic delivery network and increases in liability product transaction fees as a result of customer account growth
 - significant items related to expenses for the issue of shares under the Employee Share Plan during the first half of the financial year, as well as the costs relating to the proposed Bank of QLD merger during the latter part of the financial year, which amounted to \$5.6 million and \$1.7 million respectively, on a pre-tax basis
 - operating and other expenses increased by approximately 9.1 percent or \$30.7 million, due mainly to increases in staff related costs, information technology hardware and infrastructure costs and increased ATM and EFTPOS network costs.

We show below, a summary of each business segment's financial performance for the three years ended 30 June 2007.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 32: Bendigo Bank's business segment financial performance

Smillion	Notes	30 Jun 2005	30 Jun 2006	30 Jun 2007
		Actual AIFRS	Actual AIFRS	Actual AIFRS
Retail banking				
Net interest income		242.5	259.4	287.8
Non interest income		85.3	103.5	100.5
Operating and other expenses		(224.9)	(254.3)	(264.2)
Net profit before tax		102.9	108.6	124.1
Community Bank[®]				
Net interest income		37.2	48.5	61.2
Non interest income		21.8	25.1	27.0
Operating and other expenses		(42.9)	(52.6)	(61.6)
Net profit before tax		16.1	21.0	26.6
Wealth Solutions				
Net interest income		6.4	7.2	8.1
Non interest income		38.5	43.6	46.8
Operating and other expenses		(21.5)	(25.8)	(27.4)
Net profit before tax		23.4	25.0	27.5
JVs, alliances and corporate				
Net interest income		-	-	-
Non interest income	1	7.0	7.4	8.9
Share of net profit of investments	2	20.3	22.2	21.9
Operating and other expenses		(34.2)	(18.5)	(31.1)
Net profit before tax		(6.9)	11.1	(0.3)
Total net profit before tax		135.5	165.7	177.9
Retail banking				
Net interest income growth			7.0%	10.9%
Non interest income growth			21.3%	-2.9%
NPBT growth			5.5%	14.3%
Community Bank[®]				
Net interest income growth			30.4%	26.2%
Non interest income growth			15.1%	7.6%
NPBT growth			30.4%	26.7%
Wealth Solutions				
Net interest income growth			12.5%	12.5%
Non interest income growth			13.2%	7.3%
NPBT growth			6.8%	10.0%
JVs, alliances and corporate				
Non interest income growth			5.7%	20.3%
Share of net profit of investments growth			9.4%	-1.4%
NPBT growth			n/a	n/a

Notes:

1 Relates predominantly to income from Bendigo Bank's subsidiary Sunstate (mortgage insurance), income from strategic initiatives, various recovery and fee items, dividends received from listed and unlisted share investments and hedging gains.

2 Equity accounted.

*Numbers may not add due to rounding.

Source: Bendigo Bank Full Financial Report 2006, Appendix 4E 30 June 2006 and 30 June 2007.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

We note that whilst Retail Banking's contribution remains significantly larger than that of Community Bank[®], the continued maturing of the Community Bank[®] branch network is expected to see growth from Community Bank[®] outstrip growth of company owned branches in the near term. As a result, Bendigo Bank expects a contraction in net interest margin as the Community Bank[®] contribution increases.

In relation to the table above, we note that:

- Retail Banking
 - growth in net interest income reflects mainly growth in deposits and loans coupled with interest margin improvements
 - historically, Bendigo Bank has achieved margins above other competitors, mainly attributable to Bendigo Bank's focus on forming relationships with its customers, and its Community Bank[®] model
 - although margins for key products are expected to remain relatively flat, the net interest margin for mortgages is expected to decline as a result of increasing competition
 - the Business Bank division has also grown, with loan and deposit balances at March 2007 increasing 13.2 percent and 19.7 percent respectively, relative to the balances at 30 June 2006
- Community Bank[®]
 - eighteen Community Bank[®] branches opened during FY2007, which contributed to the deposits and loans growth
 - as mentioned above, maturing of the Community Bank[®] branch network is expected to result in faster growth
 - recent statistics on the Community Bank[®] branch network include:
 - approximately one third (65 sites) of Community Bank[®] branches have now paid dividends totalling almost \$7 million to local shareholders
 - contribution to community projects has reached almost \$10 million
- Wealth Solutions
 - the 7.3 percent growth in non interest income stemmed from growth in trustee and management fees (15.7 percent), as well as wealth solutions product commissions (9.7 percent)

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

- FUM at 30 June 2007 grew by 14.4 percent to approximately \$3.4 billion. The three largest funds were the Sandhurst mortgage and cash funds (68 percent of total FUM), the Sandhurst Industrial Share Fund (15.3 percent of total FUM), and the Bendigo Superannuation Plan (9.7 percent of total FUM)
- JVs, alliances and corporate
 - the 20 percent growth in non interest income was due mainly to Elders Rural Bank, whose profits after tax contribution grew by 11.8 percent from FY2006 to FY2007
 - we show in the table below, Bendigo Bank's investments in associates and each entity's contribution to Bendigo Bank's NPAT:

Table 33: Investments in associates at 30 June 2007

Company name	Principal activity	Ownership interest at 30 June 2007	Bendigo Bank's share of FY2007 NPAT Smillion
Elders Rural Bank Ltd	Banking	50.0%	18.0
Tasmanian Banking Services Ltd	Financial services	50.0%	0.9
Community Sector Enterprises Pty Ltd	Financial services	50.0%	(0.1)
Homesafe Solution Pty Ltd	Financial services	50.0%	(1.0)
Caroline Springs Financial Services Pty Ltd	Financial services	50.0%	(0.1)
Silver Body Corporate Financial Services Pty Ltd	Financial services	50.0%	0.1
Community Telco Australia Pty Ltd	Telecommunication services	50.0%	(1.4)
Strategic Payment Services Pty Ltd	Payments processing services	50.0%	(2.6)
			13.8

Note:

The \$13.8 million NPAT contribution is equivalent to \$21.9 million on a pre-tax basis (as shown earlier in the FY2007 income statement).

Source: Bendigo Bank Appendix 4E 30 June 2007.

Bendigo Bank's consolidated financial position

Bendigo Bank's historical balance sheets for the three years ended 30 June 2007 are summarised in the table below.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 34: Bendigo Bank's consolidated balance sheets

As at	Notes	30 Jun 2005	30 Jun 2006	30 Jun 2007
		Audited AIFRS	Audited AIFRS	Audited AIFRS
\$million				
Cash and cash equivalents		253.1	270.8	257.6
Assets due from other financial institutions	1	188.9	209.0	71.5
Derivatives	2	3.1	28.4	74.9
Financial assets available for sale	3	42.5	455.3	559.2
Financial assets held to maturity		1,570.1	1,370.6	1,614.4
Loans and other receivables		11,392.4	12,436.7	13,843.5
Investments in associates and joint ventures	4	118.1	143.5	156.3
Property, plant and equipment	5	47.5	81.1	154.9
Investment property		-	-	34.2
Intangible assets and goodwill		90.4	89.6	93.7
Deferred tax assets		35.8	27.4	32.6
Other assets		116.7	83.7	108.8
Total assets		13,858.6	15,196.1	17,001.6
Liabilities due to other financial institutions	1	(143.3)	(166.3)	(184.0)
Deposits		(12,572.2)	(13,599.8)	(15,231.0)
Derivatives	2	(6.3)	(20.0)	(34.6)
Other liabilities		(111.3)	(140.0)	(151.3)
Income tax payable		(8.3)	(9.9)	(16.3)
Provisions		(32.0)	(37.4)	(40.4)
Deferred tax liabilities		(2.4)	(16.1)	(21.8)
Subordinated debt - at amortised cost		(262.1)	(307.1)	(307.2)
Total liabilities		(13,137.9)	(14,296.6)	(15,986.6)
Net assets		720.7	899.5	1,015.0
Issued capital - ordinary		546.3	564.1	605.2
Perpetual non-cumulative convertible preference shares		43.0	88.3	88.5
ESOP shares		(30.0)	(25.6)	(40.4)
Reserves		4.0	78.8	130.0
Retained earnings		157.8	194.5	232.4
Total parent entity interests		721.1	900.1	1,015.7
Minority interest		(0.4)	(0.6)	(0.7)
Total equity		720.7	899.5	1,015.0
Ordinary shares on issue at balance date (million)		139.1	140.9	144.2
Net assets per share (\$)		\$5.18	\$6.39	\$7.04
Net tangible assets per share (\$)	6	\$4.53	\$5.75	\$6.39

Notes:

- 1 Relate to inter-bank settlement processes which are generally repaid within two working days.
- 2 Relate to exchange rate and interest rate contracts used for hedging purposes.
- 3 Relate to securities and share investments available for sale (see discussion below).
- 4 Accounted for using the equity method.
- 5 Includes expenditures relating to the construction of new head office development in Bendigo, Victoria, with a carrying value of \$93.4 million as at 30 June 2007. The head office is considered to be an asset currently held for sale.
- 6 Net tangible assets per share is net assets less intangible assets, divided by ordinary shares on issue at balance date.

* Numbers may not add due to rounding.

Source: Bendigo Bank Full Financial Report 2006, Appendix 4E 30 June 2006 and 30 June 2007.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

In relation to the balance sheets outlined above, we note that:

- the 66 percent reduction in assets due from other financial institutions at 30 June 2007 is due to fluctuations in inter-bank obligations e.g. bank cheques
- the increase in asset and liability derivative balances relates to foreign exchange and interest-rate hedging contract maturities
- financial assets available for sale – securities, relate to negotiable certificates of deposit of \$19.9 million and government securities of \$408.9 million as at 30 June 2007
- financial assets available for sale – share investments, relate to listed and unlisted share investments recorded at fair value of \$124.5 million and \$5.9 million respectively. These assets consist of investments in ordinary shares and units in unit trusts, and therefore have no fixed maturity date or coupon rate. The fair value of listed shares are based on quoted market values at balance date, whilst those of unlisted shares are estimated using valuation techniques based on assumptions that are not supported by observable market values or rates. However, management believe that the estimates and assumptions used are reasonable and they were the most appropriate at balance date. We list in the table below, Bendigo Bank's listed and unlisted share investments at 30 June 2007

Table 35: Bendigo Bank's ordinary share investments at 30 June 2007

Company name	Number of shares held at 30 June 2007 million	Share price ¹ at 30 June 2007	Market value at 30 June 2007 \$million
IOOF Holdings Limited	5.3	\$10.03	53.6
Australian Wealth Management Limited	13.0	\$2.64	34.3
Tasmanian Perpetual Trustees Limited	1.1	\$7.49	8.1
Customers Limited	117.2	\$0.21	24.6
Other listed shares	n/a	n/a	3.8
Total value of listed investments			124.5
Value of unlisted investments			5.9
Financial assets available for sale - share investments			130.4

Notes:

¹ Based on closing bid prices used for financial reporting purposes, as advised by Bendigo Bank.

* Numbers may not add due to rounding.

Source: Bendigo Bank.

- financial assets held to maturity comprise negotiable securities (such as bank accepted bills of exchange, negotiable certificates of deposit and government securities) and non negotiable securities (deposits with banks and other parties), which at 30 June 2007 had balances of \$1,603.2 million and \$11.2 million respectively
- loans and other receivables pertain to balances for overdrafts, credit cards, term loans, lease and factoring receivables and accrued interest, offset by impairment provisions and



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

unearned income. We discuss further in a section below, the profile of Bendigo Bank's loans balances (both on-balance sheet and those which are managed)

- Bendigo Bank's investments in associates' historical carrying values are as follows:

Table 36: Investments in associates' historical carrying values

Company name	30 Jun	30 Jun	30 Jun
	2005	2006	2007
	Audited	Audited	Audited
	AIFRS	AIFRS	AIFRS
Elders Rural Bank Ltd	115.1	137.6	151.4
Other (note 1)	3.0	5.9	4.9
	118.1	143.5	156.3

Notes:

1 Relates to other investments in associates. Refer Table 33 for complete list of associates.

Source: Bendigo Bank.

- during the half year ended 31 December 2006, Bendigo Bank acquired assets with a cost of \$50.2 million, including \$28.2 million relating to their new head office development in Bendigo. On 1 September 2006, the bank announced that it had sold its new head office for \$100 million in a sale and leaseback transaction arranged by Societe Generale Corporate & Investment Banking (SGCIB). A consortium of investors arranged by SGCIB will purchase the new development and the bank's existing Fountain Court adjacent building. The sale will occur on 1 September 2008, and therefore the 30 June 2007 balance sheet has not been adjusted to reflect the sale
- the increase in property, plant and equipment balance primarily relates to the capitalisation of financing and construction costs of the new head office development
- the \$34.2 million investment property balance relates to investment properties beneficially owned by Bendigo Bank through a trust managed by its 50/50 joint venture in Homesafe
- the increase in intangibles and goodwill relates to computer software
- other assets are those that are generally non-interest bearing and are short-term in nature, and include accrued income, prepayments, sundry debtors (normally settled within 30 days) and a reserve fund, which is required to be maintained by Sandhurst Trustees Limited under the Trustee Companies Act 1984, to provide for the appointment of a liquidator, a receiver and manager or an administrator of a trustee company
- the company's deposits balance comprise retail and wholesale deposits, with the latter encompassing offshore funds from a Euro medium term note program (EMTN) and a Euro commercial paper program (ECP). We discuss in a section below, the composition of Bendigo Bank's deposits balance over the last financial years.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Loan assets

Loans and other receivables in the consolidated balance sheets above record the bank's gross asset balances, net of impairment provisions and unearned income. In the table below, we show the bank's gross loan balances categorised by purpose.

Table 37: Gross loan balance by purpose

As at		30 Jun	30 Jun	30 Jun
\$million		2005	2006	2007
	Notes	Audited AIFRS	Audited AIFRS	Audited AIFRS
Residential loans		7,293.5	7,778.7	8,497.9
Consumer loans		2,292.0	2,511.5	2,921.8
Commercial loans		1,917.3	2,207.4	2,494.6
Total gross loan balance		11,502.8	12,497.6	13,914.3
<i>Residential loan proportion</i>	1	63.4%	62.2%	61.1%
<i>Consumer loan proportion</i>	1	19.9%	20.1%	21.0%
<i>Commercial loan proportion</i>	1	16.7%	17.7%	17.9%

Notes:

1 Proportion of total gross loan balance.

Source: Bendigo Bank Appendix 4E 30 June 2006 and 30 June 2007.

The table above indicates that the proportion of residential loans of the bank's gross loan balance is declining slowly, whilst the proportionate balances of its consumer and commercial loans are increasing slightly over the period.

The gross loan balances above can also be categorised into either loans and factoring receivables, or loans that have been sold into securitisation trusts, both of which are on-balance sheet items. Shown in the table below is an analysis of the bank's total loans under management balance over the last three years, including the gross balance of loans managed by Bendigo Bank's wholly-owned subsidiary, Sandhurst Trustees Limited.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 38: Gross balances of loans under management

As at		30 Jun	30 Jun	30 Jun
\$million		2005	2006	2007
		Audited	Audited	Audited
	Notes	AIFRS	AIFRS	AIFRS
On-balance sheet loans – non securitised	1	11,021.3	12,151.7	13,674.6
On-balance sheet loans - securitised	2	481.5	345.9	239.7
STL Common Funds	3	1,335.9	1,559.6	1,915.2
Total loans under management		12,838.7	14,057.2	15,829.5
<i>On-balance sheet proportion</i>	4	85.8%	86.4%	86.4%
<i>On-balance sheet - securitised loans proportion</i>	4	3.8%	2.5%	1.5%
<i>STL Common Funds proportion</i>	4	10.4%	11.1%	12.1%

Notes

- Gross balance of loans and factoring receivables held by the consolidated group.
- Loans that have been sold into securitisation trusts. Under AIFRS, these securitisation trusts are consolidated and form part of on-balance sheet assets.
- Gross balance of loans in funds managed by Sandhurst Trustees Limited, a wholly-owned subsidiary of Bendigo Bank Limited.
- Proportion of total loans under management.

Source: Bendigo Bank Appendix 4E 30 June 2006 and 30 June 2007.

In relation to the above table, we note that Bendigo Bank's loans under management has been increasing slowly, with securitised loans forming a lesser portion, and Sandhurst Trustees Limited's loans an increasing portion.

Loan quality

The level of provisions and impaired loans relative to the bank's loan portfolio are shown in the table below.

Table 39: Provisions for impaired loans and loan quality

As at		30 Jun	30 Jun	30 Jun
\$million		2005	2006	2007
		Audited	Audited	Audited
	Notes	AIFRS	AIFRS	AIFRS
Specific provisions		8.6	9.1	8.4
Collective provisions		-	8.8	11.4
General reserve for credit losses (GRCL)		60.3	40.6	45.3
Total balance in provisions for doubtful debts		68.9	58.5	65.1
Total impaired loans		16.6	14.9	18.2
Total gross loan balance on balance sheet		11,502.9	12,497.6	13,914.3
<i>Total impaired loans/Total loans on balance sheet</i>		0.14%	0.12%	0.13%
<i>Specific provisions/Total impaired loans</i>		51.8%	61.1%	46.2%
<i>Provision Coverage</i>	1	415.1%	392.6%	357.7%

Notes:

- Calculated as total balance in provisions for doubtful debts divided by total impaired loans.

Source: Bendigo Bank Appendix 4E 30 June 2006 and 30 June 2007.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

In relation to the above table, we note that in FY2007:

- the level of provisions for impaired loans increased very slightly relative to FY2006, even as a percentage of the bank's total gross loan balances
- relative to FY2006, the proportion of specific provisions to total impaired loans decreased, as did the level of total provisions to total impaired loans (the provision coverage).

Whilst specific provisions are an estimate of likely losses from identified impaired loans, general reserves/provisions have in the past covered average loss levels expected across a business cycle. However, with the introduction of AIFRS accounting, there has been a move from general provisioning to collective provisioning, the latter requiring loans to be grouped by credit risk and a provision raised based on historical loss experience adjusted for other factors which could affect each loan group.

We note that Bendigo Bank's current long term credit rating with Standard & Poors and separately with Fitch is BBB+, with a positive outlook.

Funding sources

Bendigo Bank sources its retail deposits from its company owned branches and those from the Community Bank[®] branch network. In addition to funds from its securitisation programs, since receiving a credit rating from international rating agency Standard & Poors in FY1996, it has been able to access a wider source of wholesale deposits, including funds from overseas. We summarise in the table below, Bendigo Bank's historical sources of liability funds.

Table 40: Sources of funds

As at		30 Jun 2005	30 Jun 2006	30 Jun 2007
		Audited	Audited	Audited
\$million	Notes	AIFRS	AIFRS	AIFRS
Retail deposits		10,043.2	11,346.8	12,188.3
Wholesale - domestic deposits	1	1,386.3	1,439.8	1,778.9
Wholesale - offshore deposits	2	1,142.7	813.2	1,263.8
Subordinated debt - at amortised cost		262.1	307.1	307.2
Total funding sources	3	12,834.3	13,906.9	15,538.2
<i>Retail proportion</i>		78.3%	81.6%	78.4%
<i>Wholesale proportion</i>		19.7%	16.2%	19.6%
<i>Subordinated debt proportion</i>		2.0%	2.2%	2.0%

Notes:

- 1 Under AIFRS, the assets and liabilities of securitisation trusts form part of the consolidated group. The borrowings of securitisation trusts have been included in the wholesale - domestic deposits balance.
- 2 Includes funds from the Euro medium term note and Euro commercial paper programs.
- 3 Bendigo Reset Preference Shares are excluded as they are treated as equity under AIFRS.

* Numbers may not add due to rounding.

Source: Bendigo Bank Full Financial Report 2006 and Appendix 4E 30 June 2007.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

In relation to the above table, we note that Bendigo Bank's retail deposit balances have increased over the last three years, maintaining its overall proportion of the company's liability funding sources, despite the recent increased competition for retail deposits stemming from the uptake in internet banking and low/no fee and high interest (comparable to term deposit) accounts. Further, as noted in earlier commentary, the bank has also improved its net interest margin from FY2006 to FY2007.

Bendigo Bank's strategy is to sell mortgages to its in-house common funds managed by Sandhurst Trustees, thereby effectively moving loans off balance sheet, which has helped it achieve a more capital efficient funding profile. Such mortgages are off-balance sheet and therefore do not carry a capital charge. Funding for the bank's common funds is predominantly from its retail customer network.

As previously mentioned, the bank's wholesale funding includes the EMTN program, which when established in May 1998 had a limit of US\$500 million, but was increased to US\$1 billion in 2006. The program was established to further diversify the bank's funding base by introducing investors from Europe and Asia.

Capital adequacy

We show below, Bendigo Bank's historical capital adequacy for the three years ended FY2007.

Table 41: Bendigo Bank's historical capital adequacy

Smillion	Notes	30 Jun	30 Jun	30 Jun
		2005	2006	2007
		AGAAP	AGAAP	AIFRS
Tier 1 capital		612.8	713.5	778.1
Tier 2 capital		298.1	347.8	372.8
Less: deductions from capital	1	(115.7)	(138.2)	(151.9)
Total qualifying capital base		795.2	923.1	999.0
Total risk weighted assets		7,655.1	8,566.9	9,754.0
APRA's required minimum capital base	2	765.5	856.7	975.4
Capital in excess of APRA's minimum requirement		29.7	66.4	23.6
Total ACE		444.9	478.0	528.7
Tier 1 ratio		8.0%	8.3%	8.0%
Tier 2 ratio		3.9%	4.1%	3.8%
Non qualifying assets as a % of total assessed risk		-1.5%	-1.6%	-1.6%
Risk weighted capital adequacy ratio	3	10.4%	10.8%	10.2%
ACE ratio	4	5.8%	5.6%	5.4%

Notes:

- 1 Investments in non-consolidated subsidiaries or associates and other bank's capital instruments.
- 2 Based on Bendigo Bank's minimum APRA capital ratio of 10 percent of total risk weighted assets.
- 3 Calculated by dividing total qualifying capital base by total risk weighted assets.
- 4 Calculated by dividing total ACE by total risk weighted assets.

* Numbers may not add due to rounding.

Whilst not shown, we note that Bendigo Bank's current capital adequacy projections do not provide an allowance for the impacts of Basel II.

Source: Bendigo Bank Full Financial Report 2006 and Appendix 4E 30 June 2007.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

In relation to the table above, we note that:

- Bendigo Bank's Tier 1 ratio remains within its target range of 7.8 percent to 8.3 percent, and its total risk weighted capital adequacy ratio remains within its targeted range of 10 percent to 10.75 percent
- the bank believes it maintains an efficient ACE ratio within a target range of 5.25 percent to 5.75 percent. Further, they believe they have a capital adequacy management plan that will allow them to meet, but not materially exceed their expected target capital ratios which are 8 percent for Tier 1 capital, 2.4 percent for Tier 2 capital, 10.4 percent for total risk weighted capital and 5.5 percent for ACE.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Bendigo Bank's consolidated cash flow statement

Bendigo Bank's historical cash flow statements for the three years ended 30 June 2007 are summarised in the table below.

Table 42: Bendigo Bank's consolidated cash flow statements

Smillion	Notes	30 Jun	30 Jun	30 Jun
		2005	2006	2007
		Actual	Actual	Actual
		AIFRS	AIFRS	AIFRS
Cash flows from operating activities				
Interest and other items of a similar nature received		815.6	904.8	1,038.7
Interest and other costs of finance paid		(522.2)	(573.6)	(664.5)
Receipts from customers (excluding effective interest)		133.3	158.9	172.5
Payments to suppliers and employees		(332.1)	(288.4)	(420.7)
Dividends received		12.6	15.1	15.7
Income taxes paid		(41.6)	(45.6)	(43.9)
Net cash flows from operating activities		65.6	171.2	97.8
Cash flows from investing activities				
Cash flows for purchases of property, plant and equipment		(16.5)	(44.6)	(117.8)
Cash proceeds from sale of property, plant and equipment		9.4	5.8	1.0
Cash paid for purchases of intangible software		(6.8)	(9.0)	(1.6)
Cash paid for purchases of equity investments		(34.4)	(28.7)	(35.3)
Cash proceeds from sale of equity investments		13.9	2.2	7.7
Net increase in balance of loans outstanding		(1,342.3)	(976.1)	(1,412.1)
Net increase in balance of investment securities		(350.8)	(161.5)	(278.1)
Total disposal consideration on derecognition of subsidiary		-	0.7	-
Net cash received/(paid) on acquisition of a subsidiary		14.6	-	-
Net cash flows from investing activities		(1,712.9)	(1,211.2)	(1,836.2)
Cash flows from financing activities				
Cash paid for buyback of shares		(27.0)	-	-
Proceeds from issue of preference share instalment		45.0	44.9	0.2
Net increase in balance of retail deposits		987.2	1,286.2	831.7
Net increase/(decrease) in balance of wholesale deposits		729.2	(277.5)	789.3
Proceeds from issue of subordinated debt		85.0	75.0	60.0
Repayment of subordinated debt		(22.5)	(30.1)	(60.0)
Dividends paid		(36.5)	(48.1)	(57.0)
Repayment of ESOP shares		1.4	4.4	5.8
Payment of share issue costs		(2.0)	-	-
Net cash flows from financing activities		1,759.8	1,054.8	1,570.0
Net increase/(decrease) in cash and cash equivalents		112.5	14.8	(168.4)
Cash and cash equivalents at the beginning of period		186.2	298.7	313.5
Cash and cash equivalents at the end of period	1	298.7	313.5	145.1

Notes:

1 Equivalent to the net sum of 'cash and cash equivalents', 'assets due from other financial institutions' and liabilities due to other financial institutions' shown in Bendigo Bank's balance sheet at equivalent dates.

*Numbers may not add due to rounding.

Source: Bendigo Bank Full Financial Report 2006 and Appendix 4E 30 June 2007.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

In relation to the table above, we note that:

- growth in net operating cash flows is due mostly to the increase in payments to suppliers and employees
- the increase in net cash outflows from investing activities was due mainly to increases in property, plant and equipment for the construction of the bank's new head office, as well as increase in loan balances outstanding and investment securities held
- the increase in net financing cash flows is largely from the increase in wholesale deposit balances.

Contingent assets

As at 30 June 2007, Bendigo Bank did not have any contingent assets.

Contingent liabilities

As at 30 June 2007, Bendigo Bank had the following contingent liabilities:

- \$111.9 million of issued guarantees on behalf of clients
- \$24 million of documentary letters of credit and performance related obligations.

As the probability and quantum of the above obligations is unpredictable, management has not been able to estimate with confidence the timing of any potential payment.

7.7 Capital structure

Issued capital

Bendigo Bank's issued capital as at 3 September 2007 comprises:

- 138,557,711 listed ordinary shares
- 5,630,179 unlisted shares for employees comprising the following classes:
 - 227,900 BENAM class shares
 - 243,587 BENA0 class shares
 - 2,310 BENAQ class shares
 - 431,930 BENAS class shares
 - 975,203 BENAU class shares

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

- 1,119,974 BENAI class shares
- 839,550 BENAK class shares
- 1,389,725 BENAA class shares
- 100,000 BENAY class shares
- 300,000 BENAZ class shares
- 900,000 listed Reset Preference Shares.

Bendigo Bank has advised that all of the listed and unlisted ordinary shares carry the same rights and entitlements.

Registered shareholders

Bendigo Bank's top ten registered shareholders as at 31 August 2007 (latest available) are set out in the table below.

Table 43: Major shareholders in Bendigo Bank as at 31 August 2007

Name of shareholder	Total number of shares held	% of total issued share capital
HSBC Custody Nominees (Aust) Ltd	3,581,718	2.6%
Milton Corporation Ltd	2,954,743	2.1%
JP Morgan Nominees Australia Ltd	2,951,473	2.1%
National Nominees Ltd	2,559,552	1.8%
HSBC Custody Nominees (Aust) Ltd No2 A/C	1,940,057	1.4%
Citicorp Nominees Pty Limited	1,362,820	1.0%
Leesville Equity Pty Ltd	1,340,477	1.0%
Cogent Nominees Pty Limited	1,162,953	0.8%
ANZ Nominees Limited <Cash Income A/C>	788,045	0.6%
Choiseul Investments Limited	730,250	0.5%
Total shares held by top ten listed shareholders	19,372,088	14.0%
Other listed shareholders	119,178,974	86.0%
Total number of listed ordinary shares	138,551,062	100.0%
Number of unlisted employee ordinary shares	5,636,828	
Total number of listed and unlisted ordinary shares	144,187,890	

Source: Bendigo Bank.

Due to the subsequent conversion of a number of unlisted employee ordinary shares to listed ordinary shares, the total balance of each as at 3 September 2007 was 5,630,179 and 138,557,711 respectively, with the total balance of Bendigo Bank ordinary shares remaining at 144,187,890.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

There were no substantial shareholders of Bendigo Bank ordinary shares at the date of the last notice, being 3 September 2007.

Movements in securities on issue

Bendigo Bank has issued a number of securities as part of its dividend reinvestment plan and conversion of employee shares. The details of security issues completed by Bendigo Bank from 1 January 2006 to 24 September 2007 are set out in the table below.

Table 44: Issues of Bendigo Bank securities

Date	Securities issued	Details
Sep 2007	34,077 ordinary shares	Conversion of employee shares of various classes into fully paid ordinary shares on a one for one basis
Aug 2007	46,359 ordinary shares	Conversion of employee shares of various classes into fully paid ordinary shares on a one for one basis
Jul 2007	20,531 ordinary shares	Conversion of employee shares
Jun 2007	55,804 ordinary shares	Conversion of employee shares
May 2007	178,806 ordinary shares	Conversion of employee shares
Apr 2007	62,691 ordinary shares	Conversion of employee shares
Mar 2007	840,668 ordinary shares	Ordinary shares allotted under dividend reinvestment plan or bonus share scheme at a price of \$13.40
Mar 2007	37,219 ordinary shares	Conversion of employee shares
Feb 2007	32,326 ordinary shares	Conversion of employee shares
Jan 2007	22,652 ordinary shares	Conversion of employee shares
Dec 2006	23,592 ordinary shares	Conversion of employee shares
Nov 2007	21,558 ordinary shares	Conversion of employee shares
Oct 2006	1,520,662 unlisted employee shares	Issue of unlisted employee shares under the employee share plan at \$13.54
Oct 2006	30,760 ordinary shares	Conversion of employee shares
Sep 2006	975,599 ordinary shares	Ordinary shares allotted under dividend reinvestment plan or bonus share scheme at a price of \$13.62
Sep 2006	26,931 ordinary shares	Conversion of employee shares
Aug 2006	95,603 ordinary shares	Conversion of employee shares
Jul 2006	23,272 ordinary shares	Conversion of employee shares
Jun 2006	21,802 ordinary shares	Conversion of employee shares
May 2006	900,000 preference shares	Issue of fully paid preference shares
May 2006	13,954 ordinary shares	Conversion of employee shares
Apr 2006	65,077 ordinary shares	Conversion of employee shares
Mar 2006	709,140 ordinary shares	Ordinary shares allotted under dividend reinvestment plan or bonus share scheme at a price of \$14.01
Mar 2006	45,242 ordinary shares	Conversion of employee shares
Feb 2006	35,893 ordinary shares	Conversion of employee shares
Jan 2006	29,231 ordinary shares	Conversion of employee shares

Source: Bendigo Bank company announcements.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Reset Preference Shares

As at 3 September 2007 Bendigo Bank had 900,000 reset preference shares (Bendigo Reset Preference Shares) on issue. The key terms of the Bendigo Reset Preference Shares include:

- face value of \$100 per Bendigo Reset Preference Share
- payment of a preferential, non-cumulative, floating rate dividend
- dividend rate fixed until the first reset date, being 15 June 2015, at 1.5 percent over the 90 day bank bill swap rate, multiplied by one minus the corporate tax rate
- dividends are payable quarterly in arrears on 15 March, 15 June, 15 September and 15 December of each year
- at each reset date, Bendigo Bank is entitled to reset certain terms, such as the date of the next reset date and the dividend rate
- Bendigo Bank may exchange Bendigo Reset Preference Shares for cash or ordinary shares on a reset date or subsequent dividend payment date or in limited other circumstances, such as a change in tax, laws or regulations
- holders of Bendigo Reset Preference Shares are not entitled to vote except in limited circumstances, and do not have a right to participate in security issues or capital reconstructions.

Employee share plan

Bendigo Bank announced a new ESP on 23 May 2006. Under the plan, shares will be issued to staff at the prevailing market value. The shares must be paid for by the staff member, but they can be provided with an interest free loan for the acquisition of shares. After tax dividends are then applied to reduce the loan balance. Staff cannot trade in shares acquired under the plan until the loan has been repaid.

The ESP is only for general staff. Executives including the managing director cannot participate in the plan.

As at 3 September 2007, the number of shares on issue under the ESP is 5,630,179 and the total employee loans owing is in the order of \$39.7 million.

Executive Incentive Plan

The Executive Incentive Plan (EIP) was designed to retain and recruit senior and key executives, by linking rewards to the achievement of the strategic long term goals and performance of Bendigo Bank. The two key instruments provided under the EIP are performance options and performance rights.

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Independent expert report & Financial services guide
2 October 2007

Performance options

Each performance option carries the right, upon exercise and payment of the exercise price, to the issue or transfer of one fully paid Bendigo Bank ordinary share. Currently there are 1,057,114 performance options on issue, none of which have vested to their respective holders. The earliest vesting date of the options is 30 June 2009 (with the exception of a tranche of options granted to Bendigo Bank's Managing Director which have an earlier vesting date of 30 June 2008). The vesting condition for all options require Bendigo Bank's actual growth in total shareholder return (over the respective option holder's performance period) to be greater than or equal to the median total shareholder return growth of ASX 200 companies (excluding Bendigo Bank and several other industry categories) at the grant date.

If there is a takeover or change of control of the company, the Board of Bendigo Bank may decide that unvested options vest, having regard to the company's pro-rata performance against the relevant performance conditions. In this regard, Bendigo Bank has advised that as there is no takeover or change of control of Bendigo Bank by virtue of the Ordinary Share Scheme, these provisions are not triggered.

Performance rights

Each performance right carries the right, upon exercise, to the issue or transfer of one fully-paid Bendigo Bank ordinary share. Currently there are 178,769 performance rights on issue, none of which have vested to their respective holders, and similar to the performance options, none will vest until at least 30 June 2009 (with the exception of a tranche of rights granted to Bendigo Bank's Managing Director which have an earlier vesting date of 30 June 2008). The performance rights' vesting condition requires Bendigo Bank's cash basis EPS growth over the right holder's performance period (a pre-determined period of three years³) to equal or exceed 10 percent compound annual growth.

If there is a takeover or change of control of the company, the Board may decide that unvested rights vest, having regard to the company's pro-rata performance against the relevant performance conditions. In this regard, Bendigo Bank has advised that as there is no takeover or change of control of Bendigo Bank by virtue of the Ordinary Share Scheme, these provisions are not triggered.

7.8 Ordinary share price analysis

Market performance

As previously discussed in Section 6.8, we have analysed Bendigo Bank's ordinary share price and trading from 20 March 2006 to 24 September 2007 over five segmented periods. We

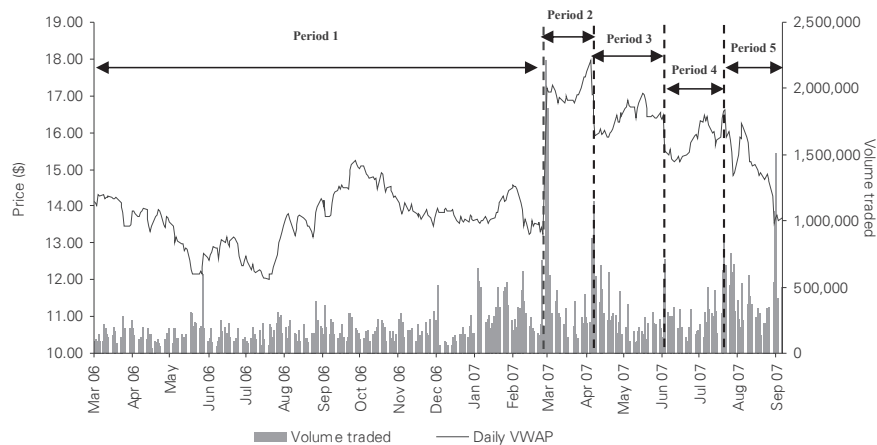
³ With the exception of the Managing Director, under which one tranche (out of three) has a performance period of two years.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

illustrate in the chart below, Bendigo Bank's daily share price (represented by the VWAP) and trading volume over the aforementioned analysis period.

Figure 17: Bendigo Bank's ordinary share price and volume



Note: Excludes off market trades.

Source: IRESS.

In relation to the above chart, we note:

- Period 1 – Pre Bank of QLD Proposal Period
 - the spike in trading volumes on 15 June 2006 coincided with the payment of Bendigo Bank Reset Preference Share dividends, and the allotment of Bendigo Bank Reset Preference Shares (the final instalment per partly paid preference share was due on the same day)
 - overall, Bendigo Bank's ordinary share price exhibited no particular trend during the Pre Bank of QLD Proposal Period
- Period 2 - Bank of QLD First Proposal Period
 - the large increase in share price and trading volumes on 19 March 2007 coincided with the announcement of Bank of QLD's proposed merger with Bendigo Bank
 - during the Bank of QLD First Proposal Period, Bendigo Bank's ordinary share price reached its highest traded level on 23 April 2007, with an intra-day high of \$18.02, closing price of \$18.00 and VWAP for the day of \$17.97

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

- Period 3 - Bank of QLD Second Proposal Period
 - the sharp fall in share price on 24 April 2007 coincided with Bendigo Bank's announcement of its rejection of Bank of QLD's proposal made on 19 March 2007. On that day, approximately 0.9 million shares were traded, with an intra-day low of \$16.80, closing price of \$17.00 and a VWAP for the day of \$17.03
 - another large fall in the bank's share price accompanied approximately 1.2 million share trades that occurred on 26 April 2007, which coincided with Bendigo Bank hosting a shareholder information session as to why the Board of Directors rejected the Bank of QLD offer, and Bank of QLD issuing a response to the rejection. On the day, the share price reached an intra-day low of \$16.23, closed at \$16.30 and reached a VWAP for the day of \$16.45
- Period 4 - Pre Merger Proposal Announcement Period
 - on 21 June 2007, at approximately 3:20pm, it was announced that Bendigo Bank had rejected a second informal proposal made by Bank of QLD, and that Bank of QLD was now no longer seeking a merger with Bendigo Bank. Media outlets stated that sources close to the deal understood that the revised proposal included an all-cash option as an alternative to shares in the merged entity, and that the cash offer was above the value of Bank of QLD's first offer
 - the bank's share price dropped sharply on the 22 June 2007, and remained at these levels until reaching a peak around 24 July 2007 to 26 July 2007, after which the share price dropped along with the rest of global equity markets. On 27 July 2007, the S&P/ASX 200 Index dropped 2.81 percent, with the media claiming it was the worst decline in the Australian stock market since 11 September 2001, following a sell-off in global equities
- Period 5 – Post Merger Proposal Announcement Period
 - coinciding with Bendigo Bank and Adelaide Bank's joint announcement of the Merger Proposal, and both banks releasing their FY2007 results, the Bendigo Bank ordinary share price spiked to a VWAP of \$16.61, with approximately 0.9 million share trades
 - from 20 August 2007 to 23 August 2007, Bendigo Bank's ordinary share price trended upwards, along with the rest of the Australian stock market, following the 'recovery' of global equity markets after the downturn in the US sub-prime debt market
 - from 24 August 2007 to mid September 2007, Bendigo Bank's ordinary share price trended downwards, and did not appear to be linked to any particular announcements made by the bank during this period, notwithstanding that its ordinary shares began trading on an ex-dividend basis on 27 August 2007, pertaining to the 34 cents per ordinary share FY2007 final dividend distribution



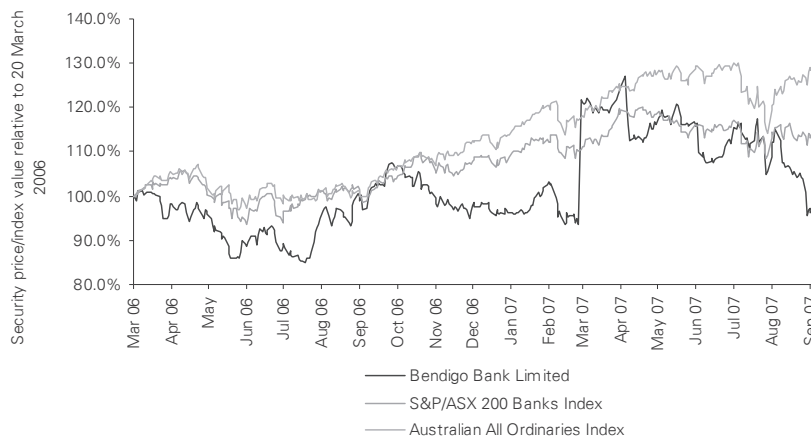
Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

- the drop in Bendigo Bank's ordinary share price and increase in traded share volumes around 18 September 2007 coincided with rumours that Adelaide Bank had sought liquidity assistance from the RBA, a rumour later refuted by both the RBA and Adelaide Bank
- on 24 September 2007 the Bendigo Bank ordinary share price closed at \$13.79.

Relative market performance

Bendigo Bank is a member of various indices including the S&P/ASX 200 Banks Index and the Australian All Ordinaries Index, of which Bendigo Bank had weightings at 24 September 2007 of approximately 0.7 percent and 0.1 percent respectively. The figure below illustrates Bendigo Bank's ordinary share price performance since 20 March 2006 relative to these indices.

Figure 18: Bendigo Bank's relative ordinary share price performance



Source: IRESS.

In relation to the figure above, we note that relative to 20 March 2006, Bendigo Bank's ordinary share price has generally underperformed both indices until 19 March 2007, when Bank of QLD first announced a proposed merger with Bendigo Bank, however this only remained the case until 24 April 2007 when Bendigo Bank rejected Bank of QLD's first proposal, after which time Bendigo Bank's ordinary share price again generally underperformed both indices, particularly the Australian All Ordinaries Index.

VWAP and liquidity analysis

We set out in the table below, an analysis of the VWAP (based on the traded value of on-market share transactions on a daily basis) and historical liquidity of Bendigo Bank's ordinary shares over our analysis period from 20 March 2006 to 24 September 2007.

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Independent expert report & Financial services guide
2 October 2007

Table 45: Bendigo Bank ordinary shares VWAP and liquidity analysis

Period	Highest traded price during period	Lowest traded price during period	VWAP of period	Cumulative volume of shares traded during period	Volume of ordinary shares traded as a percentage of the average number of issued ordinary shares
Period 1 - 20 Mar 06 to 18 Mar 07 - Pre Bank of QLD Proposal Period					
Last 12 months of Period 1	\$15.31	\$11.96	\$13.68	47,493,094	34.8%
Last 6 months of Period 1	\$15.31	\$12.85	\$14.02	28,002,842	20.4%
Last 3 months of Period 1	\$14.66	\$12.85	\$13.81	16,478,428	12.0%
Last 1 month of Period 1	\$14.66	\$12.85	\$13.75	5,728,749	4.2%
Last 1 week of Period 1	\$13.66	\$13.16	\$13.39	1,417,603	1.0%
Period 2 - 19 Mar 07 to 23 Apr 07 - Bank of QLD First Proposal Period					
Period 2	\$18.02	\$16.52	\$17.15	10,168,605	7.4%
Period 3 - 24 Apr 07 to 20 Jun 07 - Bank of QLD Second Proposal Period					
Period 3	\$17.20	\$15.75	\$16.38	11,757,140	8.5%
Period 4 - 21 Jun 07 to 8 Aug 07 - Pre Merger Proposal Announcement Period					
Period 4	\$16.80	\$15.01	\$15.85	9,721,804	7.0%
Period 5 - 9 Aug 07 to 24 Sep 07 - Post Merger Proposal Announcement Period					
Period 5	\$16.99	\$13.21	\$14.93	15,737,021	11.4%

Note: The Merger Proposal was announced on 9 August 2007. Calculations exclude off-market trades/transactions.

Source: IRESS and Bloomberg.

In relation to the above table, we note:

- in the twelve months to 18 March 2007, trading in Bendigo Bank's ordinary shares amounted to approximately 35 percent of its average listed ordinary shares over this period
- over the Bank of QLD First Proposal Period and the Bank of QLD Second Proposal Period, approximately 7.4 percent and 8.5 percent of the bank's average listed ordinary shares on issue was traded respectively, which demonstrates a relatively higher level of liquidity when compared to the last one month of the Pre Bank of QLD Proposal Period, where 4.2 percent of Bendigo Bank's average listed ordinary shares on issue was traded
- during the Post Merger Proposal Announcement Period, approximately 11.4 percent of the company's shares were traded
- Bendigo Bank's shareholder information session presentation held on 26 April 2007 revealed the following statistics⁴ about its shareholder base at the time:
 - average age of shareholders is 67, with 52 percent of shareholders retired

⁴ Based on a random sample of shareholders across Australia, involving 463 interviews.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

- approximately 52 percent of shareholders own share parcels of between one to one thousand shares
- 39 percent of shareholders have held their shares for more than 10 years, whilst 37 percent of shareholders had held their shares for between 5 to 10 years.

The above information would imply that at the time of the survey, a large number of Bendigo Bank ordinary shareholders were retired and owned a small parcel of shares which they did not actively trade.

Based on this analysis, trading of Bendigo Bank's ordinary shares are considered to exhibit lower levels of liquidity compared with Adelaide Bank over the periods analysed, possibly reflecting the profile of its shareholders.

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Independent expert report & Financial services guide
2 October 2007

8 Assessment of underlying value of Adelaide Bank

8.1 General

An important aspect in considering whether the Ordinary Share Scheme is in the best interests of Adelaide Bank ordinary shareholders is to compare the underlying value of Adelaide Bank ordinary shares to the underlying value of Bendigo Bank ordinary shares.

As Adelaide Bank ordinary shareholders will receive, as consideration under the Ordinary Share Scheme, a portfolio interest in the shares of the Merged Group, we have elected to undertake an assessment of the respective underlying values of Adelaide Bank and Bendigo Bank on a listed minority, or portfolio interest, basis (i.e. exclusive of a premium for control). In this regard, we note that if Bendigo Bank were to acquire Adelaide Bank in a conventional takeover, it would likely be required to pay a control premium over our assessed underlying value of Adelaide Bank set out in this section.

Further, we have undertaken our assessment of the underlying value of Adelaide Bank on a stand-alone basis (i.e. without incorporating the impact of the Merger Proposal) and therefore have excluded:

- any movements in Adelaide Bank's ordinary share price since the announcement of the Merger Proposal
- any cost savings or revenue enhancements which may accrue to the Merged Group
- any transaction costs associated with implementing the Merger Proposal.

This section sets out our assessment of the underlying value per Adelaide Bank ordinary share on a stand-alone portfolio interest basis.

8.2 Final dividends

On 9 August 2007, Adelaide Bank announced both the Merger Proposal and the company's 2007 annual results, which included a fully franked final dividend of 36 cents per share payable on 15 October 2007 to shareholders registered on the record date of 21 September 2007. As our analysis is at 8 August 2007, our calculations and assessment of underlying value of Adelaide Bank is on a cum-dividend basis.

8.3 Summary of assessed value

As discussed in Section 4.4, we have adopted the capitalisation of earnings approach in assessing the underlying value of Adelaide Bank. The capitalisation of earnings approach provides a value of Adelaide Bank to which the value of any surplus assets is added to determine the equity value of Adelaide Bank.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

In line with industry practice of valuing financial institutions, we have adopted NPAT as the earnings base for our valuation. Further, in order to facilitate a meaningful comparison, we have based our analysis using cash NPAT as an earnings definition to remove distortions to value caused by items such as amortisation charges, movements in general reserves, the impact of preference shares and one-off significant items which are not part of ongoing operations.

In this regard, we note that it is common for banks and financial analysts to report cash NPAT. Cash NPAT is used for comparative analysis only and does not represent the operating cash flow of the company.

We have assessed the underlying value of the equity in Adelaide Bank to lie in the range of \$1.5 billion to \$1.7 billion, which equates to an underlying value per Adelaide Bank ordinary share of between \$13.85 and \$15.69 per share (cum final dividend of 36 cents). As mentioned above, our assessed value represents the underlying stand-alone value of a portfolio interest in Adelaide Bank. We note that the closing share price of Adelaide Bank on 8 August 2007 (last trading day prior to the Merger Proposal) of \$14.40 falls within our assessed underlying value range. Our assessment is detailed in the remainder of this section, and summarised in the table below.

Table 46: Summary of assessed underlying value of Adelaide Bank

	Notes	Assessed Low value	value High value
Assessed equity value (\$million)	1	1,500.0	1,700.0
Number of ordinary shares on issue (million)		108.3	108.3
Value per Adelaide Bank ordinary share (\$ per share)	1	13.85	15.69

Notes:

1 On a cum 2007 final dividend basis.

Source: KPMG analysis.

8.4

Implied capitalisation multiples

The cash NPAT and reported NTA multiples implied by our assessed equity valuation range are summarised in the table below.

Table 47: Adelaide Bank's implied valuation multiples

	Notes	Ref Section	Variable Smillion	Implied multiples range	
				Low	High
Assessed equity value (\$million)				1,500.0	1,700.0
Cash NPAT multiples					
Historical FY2007 cash NPAT		6.6	104.3	14.4 x	16.3 x
Brokers' consensus forecast FY2008 cash NPAT	1	Appendix 5	117.0	12.8 x	14.5 x
NTA multiples					
NTA at 30 June 2007		6.6	710.6	2.1 x	2.4 x

Notes:

1 Based on average forecast cash NPAT of various brokers (refer to Appendix 5).

Source: Adelaide Bank, various broker reports and KPMG analysis.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

In our view, the multiples implied by the valuation range are reasonable having regard to factors including:

- cash NPAT and NTA multiples implied in the trading of comparable companies
- price/earnings (PE) multiples and NTA multiples implied in comparable transactions
- the operational risks of Adelaide Bank
- the growth profile of the businesses of Adelaide Bank
- the nature of the environment in which the company operates, in particular, recent industry consolidation and takeover/merger speculation around the smaller banks
- the recent events in the global credit market.

In particular, in our view our assessed range of values for Adelaide Bank is reasonable based on our review of the market evidence discussed below.

8.5 *Comparable company trading multiples*

There are no listed companies in Australia that are directly comparable to Adelaide Bank given its regional focus, relatively small retail customer base, high level of securitisation and wholesale product offerings. Accordingly, in assessing the reasonableness of the multiples implied by our assessed equity value we have considered the following groups of listed companies:

- major banks
- regional banks
- building societies
- mortgage providers
- funds management businesses.

Details of these companies are contained in Appendix 3. In relation to these comparable companies' trading multiples we note the following:

- the multiples reflect trading of portfolio interests in the companies, and therefore exclude any premium for control



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

- the multiples reflect market capitalisation as at 8 August 2007 (i.e. the date before the announcement of the Merger Proposal) and publicly available information regarding forecast earnings for each company (where available).

Implied cash NPAT multiples

The cash NPAT multiples of the groups of comparable companies shown in Appendix 3 indicate that:

- cash NPAT multiples of major banks are generally lower than those of regional banks, building societies and mortgage providers, reflecting mainly higher growth expectations and/or speculation around takeover activity of regional banks and building societies. We note that the Australian Government's 'Four Pillars' policy, which aims at maintaining competition in the banking industry, prohibits the major banks from merging with each other, implying constrained merger and/or takeover opportunities for the major banks. As such, we expect their multiples to be lower than those of regional banks and building societies, which have historically and more recently, been the focus of takeover and merger speculation
- the low, high, mean and median cash NPAT multiples of the groups of comparable companies considered are set out below. We have focused on the major banks, regional banks and building societies, as we consider these companies to be most comparable to Adelaide Bank.

Table 48: Cash NPAT and NTA multiples of grouped comparable companies

Times	Notes	Low	High	Mean	Median
Historical cash NPAT multiples					
Major banks		15.0 x	16.0 x	15.5 x	15.6 x
Regional banks (excluding Adelaide Bank)		17.5 x	22.8 x	19.8 x	19.3 x
Building societies	1	19.7 x	28.5 x	22.8 x	20.3 x
Forecast cash NPAT multiples					
Major banks		13.4 x	14.6 x	14.0 x	14.0 x
Regional banks (excluding Adelaide Bank)		15.4 x	18.3 x	16.9 x	16.9 x
Building societies	1	16.9 x	25.7 x	21.6 x	21.8 x
NTA multiples					
Major banks		2.6 x	4.2 x	3.4 x	3.3 x
Regional banks (excluding Adelaide Bank)		2.5 x	4.2 x	3.3 x	3.2 x
Building societies		1.5 x	3.5 x	2.6 x	2.7 x

Notes:

1 As historical cash NPAT and forecast cash NPAT multiples are not available for building societies, the historical reported NPAT and forecast adjusted NPAT multiples are used instead.

All low, high, mean and median calculations exclude outliers (where relevant).

Source: Bloomberg, company financial reports, broker reports and KPMG analysis.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

In relation to the table above, we note:

- our implied historical cash NPAT multiple range for Adelaide Bank of 14.4 times to 16.3 times is:
 - broadly consistent with the major banks' multiple range of 15 times to 16 times
 - below the regional banks' historical multiple range. We do not consider this unreasonable given that Adelaide Bank's wholesale product manufacturing model has historically attracted a lower multiple than the retail sales models of Bendigo Bank, St George Bank Limited and Bank of QLD
- our implied forecast cash NPAT multiple range of 12.8 times to 14.5 times is broadly consistent with the range of the major banks' forecast multiples of 13.4 times to 14.6 times. In addition, we note that our implied range is below the range of regional banks' forecast multiples of 15.4 times to 18.3 times and is below the range of building societies' forecast multiples of 16.9 times to 25.7 times. We do not consider this unreasonable as Adelaide Bank is relatively smaller than the other regional banks and most of the building societies are the subject of takeover speculation.

We note that the historical and forecast multiples of most comparable companies set out in Appendix 3 generally relate to the financial years 2006 and 2007 respectively. In contrast, the historical and forecast multiples implied by our valuation of Adelaide Bank relate to financial years 2007 and 2008 respectively. Accordingly, to facilitate comparability, shown below are the implied multiples of the major and regional banks by financial years.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 49: Comparable bank multiples by financial year

Comparable Companies	FY2006	FY2007	FY2008
Cash NPAT multiple (times)	(1)	(2)	(3)
Major banks			
ANZ Banking Group Limited	15.0	13.4	12.2
Commonwealth Bank of Australia	18.0	15.3	13.9
National Australia Bank Limited	16.0	14.6	13.4
Westpac Banking Corporation	15.9	14.1	12.8
Mean	16.2	14.3	13.0
Median	15.9	14.4	13.1
Regional banks			
Bendigo Bank Limited	22.3	19.3	16.9
Bank of Queensland Limited	22.8	18.3	15.5
St George Bank Limited	17.5	15.4	13.8
Suncorp-Metway Limited (Note 4)	19.2	16.5	12.7
Mean	20.4	17.4	14.7
Median	20.7	17.4	14.7

Notes:

- 1 Represents market capitalisation divided by historical cash NPAT adjusted, where appropriate and available, for discontinued operations, significant items, preference share dividends and general reserve credit losses.
- 2 Represents market capitalisation divided by historical cash NPAT where available, or broker forecast cash NPAT.
- 3 Represents market capitalisation divided by broker consensus forecast cash NPAT.
- 4 Suncorp does not report cash NPAT, but we have included normalised NPAT for comparability.

Source: Bloomberg, company financial reports and various broker reports.

In relation to the table above we note the following:

- our implied historical cash NPAT multiple range of 14.4 times to 16.3 times for Adelaide Bank is broadly consistent with the range of FY2007 multiples using the major banks' mean of 14.3 times as a low and the regional banks' mean of 17.4 times as a high
- our implied forecast cash NPAT multiple range of 12.8 times to 14.5 times for Adelaide Bank is broadly consistent with the range of FY2008 multiples using the major bank's mean of 13 times as a low and the regional banks' mean of 14.7 times as a high. Furthermore, our implied forecast range lies within the regional banks' forecast multiple range of 12.7 times to 16.9 times (excluding Adelaide Bank from the range)
- the major banks' FY2008 cash NPAT multiples are within a relatively tight range.

Implied NTA multiples

Our implied NTA multiple range of 2.1 times to 2.4 times, whilst at the lower end of the comparable companies' range, does not appear unreasonable having regard to the size of Adelaide Bank.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Share price

As noted in Section 6.8 and supported by the liquidity analysis shown in Table 25 (which we repeat below to supplement our analysis), trading of Adelaide Bank's ordinary shares exhibited relatively high levels of liquidity over the period 20 March 2006 to 24 September 2007.

Table 50: Adelaide Bank VWAP and liquidity analysis

Period	Highest traded price during period	Lowest traded price during period	VWAP of period	Cumulative volume of shares traded during period	Volume of ordinary shares traded as a percentage of the average no. of issued ordinary shares
Period 1 - 20 Mar 06 to 18 Mar 07 - Pre Bank of QLD Proposal Period					
Last 12 months of Period 1	\$14.56	\$12.11	\$13.11	73,305,245	68.2%
Last 6 months of Period 1	\$14.56	\$12.11	\$13.17	45,872,347	42.6%
Last 3 months of Period 1	\$14.56	\$12.11	\$13.15	26,484,102	24.6%
Last 1 month of Period 1	\$14.50	\$12.80	\$13.49	7,604,873	7.1%
Last 1 week of Period 1	\$13.41	\$12.11	\$13.04	1,725,806	1.6%
Period 2 - 19 Mar 07 to 23 Apr 07 - Bank of QLD First Proposal Period					
Period 2	\$15.71	\$13.21	\$14.33	13,817,472	12.8%
Period 3 - 24 Apr 07 to 20 Jun 07 - Bank of QLD Second Proposal Period					
Period 3	\$15.80	\$14.83	\$15.17	10,402,402	9.6%
Period 4 - 21 Jun 07 to 8 Aug 07 - Pre Merger Proposal Announcement Period					
Period 4	\$16.03	\$13.90	\$15.00	11,498,869	10.6%
Period 5 - 9 Aug 07 to 24 Sep 07 - Post Merger Proposal Announcement Period					
Period 5	\$18.00	\$13.55	\$15.23	21,938,269	20.3%

Note:

The Merger Proposal was announced on 9 August 2007. Calculations exclude off-market trades/transactions.

Source: IRESS and Bloomberg.

We have examined Adelaide Bank's ordinary share price trading in the aforementioned period in the context of our assessed underlying value per Adelaide Bank ordinary share of between \$13.85 and \$15.69. In this regard, our assessed value range does not appear unreasonable given:

- our underlying valuation range is within the range of traded share prices of Adelaide Bank ordinary shares during the Pre Merger Proposal Announcement Period
- our underlying valuation range is within the range of traded prices of Adelaide Bank ordinary shares during the Post Merger Proposal Announcement Period. We note that during this period, trading of Adelaide Bank ordinary shares would have likely been affected by the overall downturn in credit markets and global equities, as well as rumours that Adelaide Bank had sought liquidity assistance from the RBA, a rumour later refuted by both the RBA and Adelaide Bank.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

8.6 *Comparable company transaction multiples*

Details of these comparable company transactions are set out in Appendix 4.

In considering the comparable transactions, we note:

- the transactions typically resulted in the transfer of control to the acquiring entity. As such, the implied multiples include a premium for control. This premium often reflects the synergistic benefits of the transaction to the acquirer, as well as the payment of a simple control premium. There is insufficient publicly available information to determine the extent to which implied multiples relate to operating synergies as opposed to a simple control premium
- the control premium paid is not explicitly determined, rather it is an outcome of the transaction being completed at a price that is acceptable to the acquirer. Therefore, depending on the nature of the transaction, the circumstances of the acquirer and the business being acquired, the control premium paid in each case is likely to vary over a wide range.

Comparing implied multiples of comparable transactions for regional banks in general is difficult as:

- the growth prospects, branch network size, product offerings and geographic coverage of regional banks vary substantially
- the environment of banking is changing, with consolidation occurring and new regulatory requirements being put in place (e.g. Basel II).

Implied PE multiples

Our implied historical cash NPAT multiple range of 14.4 times to 16.3 times lies between the averages of the comparable transactions for the group of banks and building societies of 14.4 times and 20.7 times respectively. Whilst positioned closer to the average historical PE multiples of the banks, we do not consider this unreasonable as the scale of Adelaide Bank is more comparable to that of the banks than the building societies. We would also expect our multiple range to be at the lower end of the range because it does not include a premium for control.

In particular, our implied historical multiple range for Adelaide Bank does not appear unreasonable in light of the following transactions:

- the acquisition of 43 percent of the Bank of Western Australia announced in October 2003 (which had an equity value that is approximately 50 percent larger than Adelaide Bank prior to the announcement) was at a historical PE multiple of 15.6 times, having regard to the percentage acquired and the time frame

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

- the merger of Promina and Suncorp-Metway announced in 2006 (the Promina Suncorp transaction), where the independent expert commissioned by Promina valued Suncorp-Metway Limited's banking business using a 17.2 times to 20.1 times historical multiple including a premium for control
- the acquisition of 100% of Bank of Melbourne announced in April 1997 (of comparable size to Adelaide Bank) was at a historical PE multiple of 15.8 times.

Implied NTA multiples

Our implied NTA multiple range of 2.1 times to 2.4 times for Adelaide Bank, whilst higher than the average bank and building society comparable transaction multiples of 2.0 and 2.1 times respectively, does not appear unreasonable as our implied range lies within the range of the banking NTA multiples ranging from 1.1 times to 2.7 times, and those of the building society NTA multiples ranging from 1.1 times to 3 times, which, we note include a premium for control.

Further, we note that in valuing Bank of Western Australia, the independent expert valuation range implied an NTA multiple range of 2.0 times to 2.2 times.

8.7 *Surplus assets*

Adelaide Bank does not have any material assets which could be regarded as surplus to its operations.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

9 Assessment of underlying value of Bendigo Bank

9.1 *General*

This section sets out our assessment of the underlying value of a Bendigo Bank ordinary share on the basis of a listed minority, or portfolio interest (i.e. exclusive of a premium for control). We have approached the valuation of Bendigo Bank on this basis as the New Bendigo Bank shares to be offered to Adelaide Bank ordinary shareholders as consideration under the Ordinary Share Scheme will be listed ordinary shares in the Merged Group to which control does not attach.

Further, we have undertaken our assessment of the underlying value of Bendigo Bank in this section on a stand-alone basis (i.e. without incorporating the impact of the Merger Proposal) and therefore have excluded:

- any movements in Bendigo Bank's ordinary share price since the announcement of the Merger Proposal
- any cost savings or revenue enhancements which may accrue to the Merged Group
- any transaction costs associated with implementing the Merger Proposal.

9.2 *Final dividends*

On 9 August 2007, Bendigo Bank announced both the Merger Proposal and the company's 2007 annual results, which included a fully franked final dividend of 34 cents per share payable on 28 September 2007 to ordinary shareholders registered on 31 August 2007. As our analysis is at 8 August 2007, our calculations and assessment of underlying value of Bendigo Bank is on a cum-dividend basis.

9.3 *Summary of assessed value*

As discussed in Section 4.4, we have adopted the capitalisation of earnings approach in assessing the underlying value for Bendigo Bank. Consistent with the approach used to assess the underlying value of Adelaide Bank, we have adopted cash NPAT as the earnings base for our valuation.

We have assessed the underlying value of the equity in Bendigo Bank to lie in the range of \$2 billion to \$2.2 billion, which equates to an underlying value per ordinary share in Bendigo Bank of between \$13.87 and \$15.26 per share. As mentioned above, our assessed value represents the underlying stand-alone value of a portfolio interest in Bendigo Bank. Our assessment is detailed in the remainder of this section, and summarised in the table below:

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 51: Summary of assessed underlying value of Bendigo Bank

	Notes	Assessed value	
		Low value	High value
Assessed equity value (\$million)	1	2,000.0	2,200.0
Number of ordinary shares on issue (million)	2	144.2	144.2
Value per Bendigo Bank ordinary share (\$ per share)	1	13.87	15.26

Notes:

- 1 On a cum FY2007 final dividend basis.
- 2 Includes unlisted ordinary shares.

Source: KPMG analysis.

9.4 Implied capitalisation multiples

The cash NPAT and reported NTA multiples implied by our assessed equity valuation range are summarised in the table below.

Table 52: Bendigo Bank's implied valuation multiples

	Notes	Ref Section	Variable \$million	Implied multiples range	
				Low	High
Assessed equity value (\$million)				2,000.0	2,200.0
Cash NPAT multiples					
Historical FY2007 cash NPAT		7.6	118.5	16.9 x	18.6 x
Brokers' consensus forecast FY2008 cash NPAT	1	Appendix 5	135.0	14.8 x	16.3 x
NTA multiples					
NTA at 30 June 2007		7.6	921.3	2.2 x	2.4 x

Notes:

- 1 Based on average forecast cash NPAT of various brokers (refer to Appendix 5).

Source: Bendigo Bank, various broker reports and KPMG analysis.

In our view, the multiples implied by the valuation range are reasonable having regard to factors including:

- cash NPAT and NTA multiples implied in the trading of comparable companies
- PE and NTA multiples implied in comparable transactions
- the operational risks of Bendigo Bank
- the growth profile of the businesses of Bendigo Bank
- the nature of the environment in which Bendigo Bank operates, in particular, recent industry consolidation and takeover/merger speculation around the smaller banks
- the recent events in the global credit market.

In particular, in our view our assessed range of values for Bendigo Bank is reasonable based on our review of the market evidence discussed below.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

9.5 *Comparable company trading multiples*

There are no listed companies in Australia that are directly comparable to Bendigo Bank given its national presence, Community Bank[®] branch network, customer base and product offerings. Accordingly, in assessing the reasonableness of the multiples implied by our assessed equity value we have considered the groups of listed companies used in valuing Adelaide Bank.

Details of these companies are contained in Appendix 3. In relation to these comparable companies' trading multiples we note the following:

- the multiples reflect trading of portfolio interests in the companies, and therefore exclude any premium for control
- the multiples reflect market capitalisation as at 8 August 2007 (i.e. the date before the announcement of the Merger Proposal) and publicly available information regarding forecast earnings for each company (where available).

Implied cash NPAT multiples

The cash NPAT multiples of the groups of comparable companies shown in Appendix 3 indicate that:

- cash NPAT multiples of major banks are generally lower than those of both regional banks, building societies and mortgage providers, reflecting mainly higher growth expectations and/or speculation around takeover activity of regional banks and building societies. As noted in Section 8.5, the Australian Government's 'Four Pillars' policy effectively constrains merger and/or takeover opportunities for the major banks. As such, we expect their multiples to be lower than those of regional banks and building societies, which have historically and more recently, been the focus of takeover and merger speculation amongst industry commentators
- the low, high, mean and median cash NPAT multiples of the groups of comparable companies considered are set out below. We have focused on the major banks, regional banks and building societies, as we consider these companies to be relatively more comparable to Bendigo Bank.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 53: Cash NPAT and NTA multiples of grouped comparable companies

Times	Notes	Low	High	Mean	Median
Historical cash NPAT multiples					
Major banks		15.0 x	16.0 x	15.5 x	15.6 x
Regional banks (excluding Bendigo Bank)		15.0 x	22.8 x	18.4 x	17.5 x
Building societies	1	19.7 x	28.5 x	22.8 x	20.3 x
Forecast cash NPAT multiples					
Major banks		13.4 x	14.6 x	14.0 x	14.0 x
Regional banks (excluding Bendigo Bank)		13.3 x	18.3 x	15.7 x	15.4 x
Building societies	1	16.9 x	25.7 x	21.6 x	21.8 x
NTA multiples					
Major banks		2.6 x	4.2 x	3.4 x	3.3 x
Regional banks (excluding Bendigo Bank)		2.2 x	4.2 x	3.2 x	3.2 x
Building societies		1.5 x	3.5 x	2.6 x	2.7 x

Notes:

1 As historical cash NPAT and forecast cash NPAT multiples are not available for building societies, the historical reported NPAT and forecast adjusted NPAT multiples are used instead.

All low, high, mean and median calculations exclude outliers (where relevant).

Source: Bloomberg, company financial reports, broker reports and KPMG analysis.

In relation to the table above, we note:

- our implied historical cash NPAT multiple range of 16.9 times to 18.6 times for Bendigo Bank is:
 - within the range of regional banks' historical multiple range of 15 times to 22.8 times, and encompasses the regional banks' mean and median multiples of 18.4 times and 17.5 times respectively
 - broadly consistent with the ranges of both major banks and building societies
- our implied forecast cash NPAT multiple range of 14.8 times to 16.3 times for Bendigo Bank:
 - is within the range of regional banks' forecast multiples of 13.3 times to 18.3 times, and encompasses the regional banks' mean and median multiples of 15.7 times and 15.4 times respectively
 - falls in between the ranges of the major banks' forecast multiples of 13.4 times to 14.6 times, and those of building societies ranging from 16.9 times to 25.7 times.

We note that the historical and forecast multiples of most comparable companies set out in Appendix 3 generally relate to the financial years 2006 and 2007 respectively. In contrast, the



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

historical and forecast cash NPAT multiples implicit in our valuation range relate to the cash NPAT of Bendigo Bank for financial years 2007 and 2008 respectively. Accordingly, to facilitate comparability, shown below are the implied multiples of the major and regional banks by financial years.

Table 54: Comparable bank multiples by financial year

Comparable Companies	FY2006	FY2007	FY2008
Cash NPAT multiple (times)	(1)	(2)	(3)
Major banks			
ANZ Banking Group Limited	15.0 x	13.4 x	12.2 x
Commonwealth Bank of Australia	18.0 x	15.3 x	13.9 x
National Australia Bank Limited	16.0 x	14.6 x	13.4 x
Westpac Banking Corporation	15.9 x	14.1 x	12.8 x
Mean	16.2 x	14.3 x	13.0 x
Median	15.9 x	14.4 x	13.1 x
Regional banks			
Adelaide Bank Limited	16.6 x	15.0 x	13.3 x
Bank of Queensland Limited	22.8 x	18.3 x	15.5 x
St George Bank Limited	17.5 x	15.4 x	13.8 x
Suncorp-Metway Limited (Note 4)	19.2 x	16.5 x	12.7 x
Mean	19.0 x	16.3 x	13.8 x
Median	18.3 x	15.9 x	13.5 x

Notes:

- 1 Represents market capitalisation divided by historical cash NPAT adjusted, where appropriate and available, for discontinued operations, significant items, preference share dividends and general reserve credit losses.
- 2 Represents market capitalisation divided by historical cash NPAT where available, or broker forecast cash NPAT.
- 3 Represents market capitalisation divided by broker consensus forecast cash NPAT.
- 4 Suncorp does not report cash NPAT, but we have included normalised NPAT for comparability.

Source: Bloomberg, company financial reports and various broker reports.

In relation to the table above we note that Bank of QLD, which is perhaps the closest comparable regional bank to Bendigo Bank (in terms of size measured by market capitalisation and franchise focus) traded on the following multiples:

- historical FY2007 cash NPAT multiple of 18.3 times, which falls within our implied historical cash NPAT multiple range of 16.9 times to 18.6 times for Bendigo Bank
- forecast FY2007 cash NPAT multiple of 15.5 times, which falls within our implied forecast cash NPAT multiple range of 14.8 times to 16.3 times for Bendigo Bank.

In this regard, the implied trading multiples of Bank of QLD (whose shares we consider to be relatively more liquid than those of Bendigo Bank) are generally consistent with our implied ranges of cash NPAT multiples for Bendigo Bank.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Implied cash NPAT multiple range of Bendigo Bank relative to that of Adelaide Bank

The implied cash NPAT multiples in our underlying valuation of Bendigo Bank are higher than those implied in our underlying valuation of Adelaide Bank in Section 8. Based on the mid points of the implied multiples, the Bendigo Bank historical cash NPAT multiple is approximately 15.3 percent higher, and the forecast cash NPAT multiple is approximately 13.8 percent higher. We do not consider this unreasonable given:

- Bendigo Bank is larger than Adelaide Bank based on market capitalisation
- trading of ordinary shares of Bendigo Bank over the last five years consistently exhibited a higher PE multiple compared to trading of Adelaide Bank ordinary shares over the same period
- Adelaide Bank's wholesale banking model has historically attracted lower multiples than banks with retail models such as those employed by Bendigo Bank, Bank of QLD and St George Bank
- Bendigo Bank's brokers' consensus forecast cash NPAT growth for FY2008 of 13.9 percent is higher than Adelaide Bank's brokers' consensus forecast cash NPAT growth of 12.2 percent
- based on broker consensus forecasts for Bendigo Bank and Adelaide Bank, Bendigo Bank has a three year EPS CAGR of approximately 12.5 percent to FY2008, compared to a three year EPS CAGR of approximately 10.3 percent for Adelaide Bank. Further, Bendigo Bank had 14.7 percent EPS growth in FY2007 with 11.7 percent forecast in FY2008, compared to Adelaide Bank's 10.3 percent EPS growth in FY2007 and forecast 11.6 percent in FY2008
- Adelaide Bank relies heavily on securitisation (46.2 percent of liability funding at 30 June 2007) and as such, is more affected (compared to Bendigo Bank) by the recent events involving the credit market following the US sub-prime market collapse
- Bendigo Bank is regarded as Australia's pre-eminent customer focused bank
- notwithstanding the following:
 - Bendigo Bank's funding is predominantly retail based, and is therefore particularly exposed to the emerging pressures in retail deposits (from within the industry and from low cost, high interest online bank accounts) with the highest reliance on retail funding of any Australian listed bank
 - Adelaide Bank has strong specialist wholesale brands with a good history of production innovation (particularly as a leader in margin lending and third party product distribution).



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Implied NTA multiples

Our implied NTA multiple range of 2.2 times to 2.4 times for Bendigo Bank, whilst at the lower end of the range of the regional banks' multiples, does not appear unreasonable, particularly compared to the NTA multiple range implied in our valuation of Adelaide Bank of 2.1 times to 2.4 times.

Share price

As noted in Section 7.8 and supported by the liquidity analysis shown in Table 45 (which we repeat below to supplement our analysis), trading of Bendigo Bank's ordinary shares exhibited relatively low levels of liquidity over the period 20 March 2006 to 24 September 2007, possibly a function of its shareholder profile.

Table 55: Bendigo Bank VWAP and liquidity analysis

Period	Highest traded price during period	Lowest traded price during period	VWAP of period	Cumulative volume of shares traded during period	Volume of ordinary shares traded as a percentage of the average number of ordinary shares
Period 1 - 20 Mar 06 to 18 Mar 07 - Pre Bank of QLD Proposal Period					
Last 12 months of Period 1	\$15.31	\$11.96	\$13.68	47,493,094	34.8%
Last 6 months of Period 1	\$15.31	\$12.85	\$14.02	28,002,842	20.4%
Last 3 months of Period 1	\$14.66	\$12.85	\$13.81	16,478,428	12.0%
Last 1 month of Period 1	\$14.66	\$12.85	\$13.75	5,728,749	4.2%
Last 1 week of Period 1	\$13.66	\$13.16	\$13.39	1,417,603	1.0%
Period 2 - 19 Mar 07 to 23 Apr 07 - Bank of QLD First Proposal Period					
Period 2	\$18.02	\$16.52	\$17.15	10,168,605	7.4%
Period 3 - 24 Apr 07 to 20 Jun 07 - Bank of QLD Second Proposal Period					
Period 3	\$17.20	\$15.75	\$16.38	11,757,140	8.5%
Period 4 - 21 Jun 07 to 8 Aug 07 - Pre Merger Proposal Announcement Period					
Period 4	\$16.80	\$15.01	\$15.85	9,721,804	7.0%
Period 5 - 9 Aug 07 to 24 Sep 07 - Post Merger Proposal Announcement Period					
Period 5	\$16.99	\$13.21	\$14.93	15,737,021	11.4%

Note: The Merger Proposal was announced on 9 August 2007. Calculations exclude off-market trades/transactions.

Source: IRESS and Bloomberg.

Nonetheless, we have examined the company's share price trading in the aforementioned period in the context of our assessed underlying value per ordinary share in Bendigo Bank of between \$13.87 and \$15.26. In this regard, our assessed value range does not appear unreasonable given:

- it either falls within or overlaps with all but the last week of the Pre Bank of QLD Proposal Period's trading prices, in which we note approximately 1.4 million shares were traded, which represents only one percent of the average number of issued Bendigo Bank ordinary shares during that period
- share price trading of ordinary Bendigo Bank shares during the Bank of QLD First Proposal Period, Bank of QLD Second Proposal Period and arguably, the Pre Merger Proposal

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Announcement Period, included takeover speculation and possibly the effects of the Bank of QLD proposal. Further:

- during the Bank of QLD First Proposal Period, the Bendigo Bank ordinary share price exhibited a VWAP of \$17.15, which was 23.7 percent to 12.4 percent above our implied underlying share price range. We note that the proposed consideration in Bank of QLD's first offer was 0.748 Bank of QLD shares and \$5.50 cash for each Bendigo Bank ordinary share. Based on the ASX announcement at the time, this valued one Bendigo Bank ordinary share at approximately \$17.18 (based on the Bank of QLD's one month VWAP for the period to 16 March 2007), or approximately 23.9 percent to 12.6 percent respectively, over our assessed underlying value range for Bendigo Bank. Further, one industry commentator estimated the Bank of QLD's first offer implied a value of \$19.60 per Bendigo Bank ordinary share, implying premiums of 41.3 percent and 28.5 percent respectively
- during the Bank of QLD Second Proposal Period, the VWAP of Bendigo Bank ordinary shares was approximately \$16.38. Based on our assessed underlying valuation range, this represented a premium of approximately 18.1 percent to 7.3 percent respectively, over our assessed underlying valuation range. We note that various commentators speculated that the Bank of QLD's second proposal included a full cash alternative consideration, speculated to be in the range of \$17.25 to \$18.00 per Bendigo Bank ordinary share. The speculated cash offer amounts would have implied premiums of approximately 24.4 percent to 13.1 percent, and 29.8 percent to 18 percent respectively, to our underlying valuation range
- whilst overlapping at the lower end, our underlying valuation range does not appear unreasonable compared to the traded share price range of Bendigo Bank ordinary shares during the Pre Merger Proposal Announcement Period
- our underlying valuation range lies within the range of traded prices of Bendigo Bank ordinary shares during the Post Merger Proposal Announcement Period. We note that during this period, trading of Bendigo Bank ordinary shares would have likely been affected by the overall downturn in credit markets and global equities, as well as rumours that Adelaide Bank had sought liquidity assistance from the RBA, a rumour later refuted by both the RBA and Adelaide Bank.

9.6 Comparable company transaction multiples

Details of these comparable company transactions are set out in Appendix 4.

As discussed in the valuation of Adelaide Bank section, in considering the comparable transactions, we note:

- the transactions typically resulted in the transfer of control to the acquiring entity. As such, the implied multiples include a premium for control



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

- the control premium paid is not explicitly determined, rather it is an outcome of the transaction being completed at a price that is acceptable to the acquirer.

Comparing implied multiples of comparable transactions for regional banks in general is difficult as:

- the different growth prospects, branch network size, product offerings and geographic coverage of regional banks vary substantially
- the environment of banking is changing, with consolidation occurring and new regulatory requirements being put in place (e.g. Basel II).

Implied PE multiples

Our implied historical cash NPAT multiple range of 16.9 times to 18.6 times for Bendigo Bank lies between the averages of the comparable transactions for the group of banks and building societies of 14.4 times and 20.7 times respectively. Whilst positioned marginally closer (based on the mid point of our implied range) to the average historical PE multiples of the building societies, we do not consider this unreasonable as the transaction multiples include a premium for control, notwithstanding that the building society transactions involve companies that are significantly smaller (in terms of market capitalisation) than Bendigo Bank, and that the more recent transactions (post 2005) include historical PE multiples above 25.3 times.

In particular, the implied historical cash NPAT multiple range does not appear unreasonable when compared to:

- the acquisition of 43 percent of the Bank of Western Australia announced in October 2003 (which is comparable to Bendigo Bank in terms of market capitalisation) was at a historical PE multiple of 15.6 times having regard to the percentage acquired and the time frame
- the Promina Suncorp transaction, where the independent expert commissioned by Promina valued Suncorp-Metway Limited's banking business using a 17.2 times to 20.1 times historical multiple including a premium for control.

Our implied forecast cash NPAT multiple range of 14.8 times to 16.3 times for Bendigo Bank lies between the average of the comparable transactions for the group of banks and building societies of 12.7 times and 21.4 times respectively, notwithstanding the scarcity of forecast information. Whilst our implied range is closer to that of the banks, this is not unreasonable given the historic timeframe of the comparable transactions, and that our underlying valuation does not include a premium for control.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

In particular, the implied forecast cash NPAT multiple range does not appear unreasonable when compared to:

- the Bank of Western Australia transaction with an implied forecast PE multiple of 14.2 times, having regard to the percentage acquired, and the implied PE growth of 9.9 percent compared to Bendigo Bank's cash NPAT growth of 13.9 percent implied in its forecast cash NPAT multiple
- the Promina Suncorp Transaction, whereby Suncorp-Metway Limited's banking business was valued by the independent expert using a 15.7 times to 18.3 times forecast multiple on a portfolio basis.

Implied NTA multiples

Our implied NTA multiple range of 2.2 times to 2.4 times for Bendigo Bank, whilst higher than the average bank and building society comparable transaction multiples of 2 times and 2.1 times respectively, does not appear unreasonable as our implied range lies within the range of the banking NTA multiples ranging from 1.1 times to 2.7 times, and those of the building society NTA multiples ranging from 1.1 times to 3 times, which, we note include a premium for control.

Further, we note that in valuing Bank of Western Australia, the independent expert valuation range implied an NTA multiple range of 2 times to 2.2 times.

9.7 *Surplus assets*

Bendigo Bank has the following assets which could be regarded as surplus to its operations.

Property, plant and equipment – Bendigo head office

As discussed in Section 7.6, on 1 September 2006, Bendigo Bank announced it had sold its new head office for \$100 million in a sale and leaseback transaction arranged by SGCIB which will be effective from 1 September 2008. Bendigo Bank management advised that based on the agreed rental under the arrangement of approximately \$7 million per annum (with annual increase of the lower of consumer price index or 5 percent), this implies a 7 percent rental yield, which, given the location, size and age of the office facility, does not appear unreasonable. While the new head office can be regarded as a surplus asset with a corresponding rental expense (adjustment to the NPAT of Bendigo Bank), given the reasonableness of the implied rental yield, the market value of the head office would be offset by the rental expense. Therefore, the net impact on the assessed value will be immaterial.

Investment property

As noted in Section 7.6, the \$34.2 million investment property balance relates to the proportion of investment properties beneficially owned by Bendigo Bank through a trust managed by its 50/50 joint venture in Homesafe. For accounting purposes, the investment properties are



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

required to be consolidated into Bendigo Bank's financial statements. However, the Homesafe joint venture is currently loss making and the income from the investment property is almost completely offset by the losses from the joint venture. Accordingly, the impact on value will be immaterial.

Listed share investments

As at 8 August 2007, the market value based on closing share prices of Bendigo Bank's main listed share investments amounted to approximately \$117.1 million as detailed below.

Table 56: Market value of Bendigo Bank's share investments at 8 August 2007

Company name	Number of shares held at 30 June 2007	Last price per share at 8 August 2007	Market value at 8 August 2007
	million		\$million
IOOF Holdings Limited	5.3	\$9.65	51.6
Australian Wealth Management Limited	13.0	\$2.56	33.3
Tasmanian Perpetual Trustees Limited	1.1	\$7.09	7.6
Customers Limited	117.2	\$0.21	24.6
Total value of listed investments			117.1

Source: Bendigo Bank, Bloomberg.

As at 24 September 2007, the share prices above have not materially changed, with an overall variation in total value of less than one percent.

According to Bendigo Bank, its other listed share investments at 30 June 2007 had a market value in the order of \$3.8 million. In this regard, Bendigo Bank has advised that the market value of these investments at 24 September 2007 has not materially changed.

As these investments are not required for the operations of the bank, they are regarded as surplus assets. We have incorporated the value of these investments into our assessed value of Bendigo Bank. Further, we note that the dividend income from these investments is included in the cash NPAT of the company.

Unlisted share investments

As these unlisted investments are not required for the operations of the bank, they are regarded as surplus assets. We have incorporated the value of these unlisted investments into our assessed value of Bendigo Bank. Further, we note that the dividend income from these unlisted investments is included in the cash NPAT of the company.

Employee Share Plan

As discussed in Section 7.7, Bendigo Bank currently has 5,630,179 shares issued under the ESP, at 30 June 2007. This results in amounted to a \$39.7 million loan receivable in the company's balance sheet, which we have treated as a surplus asset for the purposes of our valuation. We note that, in the context of the overall value, this amount is relatively immaterial.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

EIP - performance options and rights

At the date of the announcement of the Merger Proposal, Bendigo Bank had 1,057,114 performance options and 178,769 performance rights on issue to senior management under the company's EIP. Details of these options and rights are summarised in Section 7.7 of our report.

As none of the options or rights have vested and the earliest date any of the instruments can do so is 30 June 2009⁵ (and this is contingent on performance/vesting hurdles), we have not adjusted our valuation of Bendigo Bank for either of these financial instruments. Further, we note that under the Ordinary Share Scheme, no changes are proposed to be made to the terms and conditions of the performance options and rights.

⁵ With the exception of Bendigo Bank's Managing Director, who has one tranche (out of three) with a performance period ending 30 June 2008.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

10 Overview of the Merged Group

An overview of the Merged Group's operations, pro forma financial performance and pro forma financial position is summarised below.

10.1 *The Merged Group's operations*

Operations

If the Merger Proposal is approved, the Merged Group will bring together complementary organisations. The Merged Group will combine Adelaide Bank's wholesale mortgages, margin lending and portfolio funding operations with Bendigo Bank's community focused retail banking business. The Merged Group will have greater scale, revenue diversification and geographic extension as shown below.

Table 57 : Merged Group operations

	Bendigo Bank	Adelaide Bank	Merged Group
Market capitalisation at 8 August 2007	\$2.3 billion	\$1.6 billion	\$3.9 billion
ASX 200 position at 8 August 2007	96	116	Top 70
No. of shareholders	52,500	28,500	82,000
No. of customers	1,126,000	180,000	1,306,000
Loans under management at 30 June 2007	\$15.8 billion	\$27.4 billion	\$43.2 billion
Funds under management at 30 June 2007	\$3.4 billion	\$3.5 billion	\$6.9 billion
Credit rating	BBB+	BBB+	Potential for upgrade

Source: Adelaide Bank and Bendigo Bank.

Distribution

The Merged Group's branch distribution network will be expanded as shown in the table below.

Table 58 : Merged Group distribution network

	Bendigo Bank company branches	Bendigo Bank community branches	Bendigo Bank alliances	Adelaide Bank company branches	Total
ACT	1	2	-	-	3
NSW	13	36	7	-	56
NT	1	3	-	-	4
QLD	49	28	24	-	101
SA	1	8	2	25	36
TAS	9	4	-	-	13
VIC	82	87	60	-	229
WA	2	34	3	-	39
Total	158	202	96	25	481

Source: Adelaide Bank and Bendigo Bank.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Complementing its branch distribution network, the Merged Group's wholesale distribution is expected to include:

- approximately 40 mortgage managers and 200 mortgage brokers
- approximately 30 corporate partners using receivable funding products
- numerous stock brokers and financial planners.

Potential synergies

Based on assessments which were undertaken separately by management of each of Adelaide Bank and Bendigo Bank, it is estimated that, if the Merger Proposal proceeds, annual pre-tax cost savings of \$60 million to \$65 million will be achieved. Eighty percent of those pre-tax cost synergies are expected to be realised in the second full year of operation. The potential cost synergies identified include:

- technology savings – it is expected that IT systems and processes can be rationalised and migrated onto a common platform resulting in reduced spending on desktops, IT applications, communications, licences and data processing
- consolidation of corporate costs – it is expected that savings will come from listing costs, regulatory fees, consolidation of shared services and corporate services as well as procurement synergies resulting from greater purchasing power
- personnel – savings are expected to arise through the elimination of duplicated functions.

Potential revenue synergies have not been quantified at this stage by management of Adelaide Bank or Bendigo Bank. However, both banks anticipate revenue synergies through cross sell of their existing products to the combined customer base of the Merged Group.

Adelaide Bank and Bendigo Bank do not expect the Proposed Merger to disrupt day to day operations of either company significantly. There is no material branch overlap, leaving both retail banking divisions and the Elders Rural Bank joint venture minimally affected by the Proposed Merger.

10.2 *Financial overview of the Merged Group*

Merged Group's pro forma financial performance

The pro forma statement of financial performance for the Merged Group for the year ended 30 June 2007 is set out in the table below.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 59: Pro forma statement of financial performance

	Notes	Bendigo	Adelaide	Merged	Merged	
		Bank	Bank	Group	Group	
		30 Jun 2007	30 Jun 2007	30 Jun 2007	Adj	30 Jun 2007
\$million		AIFRS	AIFRS	AIFRS		AIFRS
Net interest income		357.1	265.1	622.2		622.2
Non interest income		183.2	70.4	253.6		253.6
Share of associates' net profits		21.9	-	21.9		21.9
Income after interest expense		562.2	335.5	897.7		897.7
Bad & doubtful debts		(8.2)	(17.9)	(26.1)		(26.1)
Other expenses	1	(376.1)	(172.0)	(548.0)	60.0	(488.0)
Net profit before tax (NPBT)		178.0	145.6	323.6		383.6
Income tax expense	2	(56.2)	(44.6)	(100.8)	(18.0)	(118.8)
Net profit after tax (NPAT)	3	121.8	101.0	222.8	42.0	264.8
After tax intangibles amortisation		1.2	7.1	8.3		8.3
Significant items after tax		6.8	4.6	11.4		11.4
Dividends paid on preference shares		(4.8)	(5.6)	(10.4)		(10.4)
Movement in GRCL		(4.7)	(2.8)	(7.5)		(7.5)
Movement in CGCL - associates		(1.8)	-	(1.8)		(1.8)
Cash basis NPAT		118.5	104.3	222.8	42.0	264.8
Weighted number of ordinary shares (million)		142.9	107.8	258.8		258.8
Weighted number of ordinary shares (diluted - mil)	4	150.1	123.8	281.8		281.8
Basic EPS (cents per share)	4,5,8	86.6	92.8	86.5		102.7
Diluted EPS (cents per share)	4,6,8	85.7	90.5	85.4		100.3
Cash basis EPS (cents per share) (basic)	4,7,8	82.9	96.8	86.1		102.3
Dividends per share (cents per share)	9	58.0	65.0	57.4		73.5
Net interest margin		2.34%	1.01%	1.48%		1.48%
Interest spread		2.15%	0.84%	1.29%		1.29%
Return on average ordinary equity		15.18%	16.84%	9.99%		11.74%
Cost to income ratio		64.6%	48.3%	61.0%		54.4%

Notes:

- 1 Synergies represent the lower end of the range of cost savings anticipated to be achieved by the Merged Group in FY2010.
- 2 Pro forma tax expense has been calculated by applying a nominal tax rate of 30 percent to incremental profit from anticipated cost savings.
- 3 Non-recurring implementation costs have been excluded from the pro forma Merged Group consolidated income statement.
- 4 Adelaide Bank's EPS and diluted share calculations shown above are different to the calculations disclosed in its 4E and summarised in Table 14. In the table above preference shares are treated as dilutive to be consistent with Bendigo Bank.
- 5 Basic EPS calculated by dividing NPAT less dividends paid on preference shares, by the weighted number of ordinary shares.
- 6 Diluted EPS calculated by dividing NPAT by the weighted number of ordinary shares (diluted).
- 7 Cash basis EPS calculated by dividing cash basis NPAT by the weighted number of ordinary shares.
- 8 Excludes significant items.
- 9 Pro forma dividend per share after synergies assumes 70 percent pay-out ratio of cash basis NPAT.

*Numbers may not add due to rounding.

Source: Adelaide Bank and Bendigo Bank.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

In relation to the above pro forma statement of financial performance for the Merged Group we note that:

- the pro forma statement of financial performance for the Merged Group includes cost synergies in the amount of \$60 million but does not include forecast integration costs resulting from the Proposed Merger (which are estimated to be in the range of \$50 million to \$60 million). As noted earlier, full benefits of these synergies are only expected in FY2010
- pro forma net interest margin of the Merged Group is 1.48 percent, 47 basis points above that of Adelaide Bank and pro forma interest spread for the Merged Group is 1.29 percent, 45 basis points higher than that of Adelaide Bank
- the pro forma cost to income ratio of the Merged Group is 61 percent before synergies and 54.4 percent after synergies, in contrast to Adelaide Bank's cost to income ratio of 48.3 percent. This reflects the higher costs associated with operating Bendigo Bank's branch network
- Adelaide Bank FY2007 basic EPS was 92.8 cents, 7.3 percent higher than the pro forma Merged Group's basic EPS (excluding synergies) of 86.5 cents and 9.6 percent lower than the pro forma Merged Group's basic EPS (including synergies) of 102.7 cents
- Adelaide Bank FY2007 diluted EPS was 90.5 cents, approximately 6 percent higher than the pro forma Merged Group's diluted EPS (excluding synergies) of 85.4 cents and 9.8 percent lower than the pro forma Merged Group's diluted EPS (including synergies) of 100.3 cents
- pro forma FY2007 dividend per share for the Merged Group excluding and including synergies is 57.4 cents and 73.5 cents respectively, compared with Adelaide Bank's FY2007 dividend per share of 65 cents.

Merged Group's pro forma financial position

We set out in the table below the pro forma statements of financial position for each of Bendigo Bank, Adelaide Bank and the Merged Group as at 30 June 2007 under AIFRS.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 60 : Pro forma statement of financial position

Smillion	Notes	Bendigo	Adelaide	Adj	Merged
		30 Jun 2007	30 Jun 2007		30 Jun 2007
		Audited	Audited		Pro forma
Assets					
Cash and cash equivalents	1	257.6	601.8	(30.0)	829.4
Due from other financial institutions		71.5	251.6		323.1
Derivatives		74.9	168.8		243.7
Financial assets available for sale		559.2	3.0		562.2
Financial assets held for trading		-	2,511.0		2,511.0
Financial assets held to maturity		1,614.4	171.3		1,785.7
Loans and other receivables		13,843.5	27,534.8		41,378.3
Investments in associates and joint ventures		156.3	-		156.3
Property Plant and Equipment		154.9	29.9		184.8
Investment Property		34.2	-		34.2
Intangible assets & goodwill	2, 3	93.7	38.5	951.7	1,083.9
Deferred tax assets		32.6	70.5		103.1
Other assets		108.8	189.6		298.4
Total Assets		17,001.6	31,570.8	921.7	49,494.1
Liabilities					
Due to other financial institutions		184.0	175.3		359.3
Deposits		15,231.0	15,624.7		30,855.7
Notes Payable		-	13,846.9		13,846.9
Derivatives		34.6	184.2		218.8
Other payables		151.3	465.0		616.3
Income tax payable		16.3	6.7		23.0
Provisions		40.4	17.4		57.8
Deferred tax liabilities		21.8	30.2		52.0
Subordinate debt - at amortised cost		307.2	372.0		679.2
Reset preference shares		-	99.8		99.8
Other Liabilities		-	-		-
Total Liabilities		15,986.6	30,822.2	-	46,808.8
Net Assets		1,015.0	748.6	921.7	2,685.3
Equity attributable to equity holders of the parent					
Issued capital - ordinary	2	605.2	400.3	1,205.4	2,210.9
Preference share capital		88.5	97.5	-	186.0
Employee Share Ownership Plan (ESOP) shares		(40.4)	-	-	(40.4)
Employee benefits reserve		-	(3.5)	(29.4)	(32.9)
Reserves		130.0	23.9	12.1	166.0
Retained Earnings		232.4	230.4	(266.4)	196.4
Total parent entity interests		1,015.7	748.6	921.7	2,686.0
Total minority interests		(0.7)	-		(0.7)
Total Equity		1,015.0	748.6	921.7	2,685.3

Notes:

*Totals may not add due to rounding.

1 Anticipated transaction costs of \$30.0m have been included within the Pro-Forma Balance Sheet.

2 For the purposes of calculating intangible assets and goodwill, the book value of Adelaide Bank's assets and liabilities at 30 June 2007 is assumed to be equal to their fair value at the date of acquisition.

3 The acquisition adjustments assume a Bendigo share price of \$13.79 (being the closing price on 24 September 2007) and an exchange ratio of 1.075 Bendigo Bank shares for each Adelaide Bank share.

Source: Adelaide Bank and Bendigo Bank.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

In relation to the above pro forma statement of financial position for the Merged Group we note the following:

- the book value of intangibles in the Merged Group is forecast to increase significantly, relating to the recognition of goodwill and other identifiable intangibles as a result of the Proposed Merger
- the Merged Group has greater scale than Adelaide Bank, with 50.3 percent more loans and other receivables, 97.5 percent more deposits and 57.9 percent greater total assets.

Loan assets

The pro forma statement of gross loan balance by purpose for the Merged Group at 30 June 2007 (excluding loans and receivables – investments) is set out in the table below.

Table 61 : Pro forma statement of gross loan balance by purpose

		Bendigo Bank 30 Jun 2007	Adelaide Bank 30 Jun 2007	Merged Group 30 Jun 2007
\$million	Notes	AIFRS	AIFRS	AIFRS
Residential loans		8,497.9	19,749.5	28,247.4
Consumer loans		2,921.8	235.3	3,157.1
Margin loans		n/a	5,043.6	5,043.6
Commercial loans		2,494.6	2,387.2	4,881.8
Total gross loan balance		13,914.3	27,415.6	41,329.9
<i>Residential loan proportion</i>	1	61.1%	72.0%	68.3%
<i>Consumer loan proportion</i>	1	21.0%	0.9%	7.6%
<i>Margin loan proportion</i>	1	n/a	18.4%	12.2%
<i>Commercial loan proportion</i>	1	17.9%	8.7%	11.8%

Notes:

n/a represents not applicable.

1 *Proportion of total gross loan balance.*

Source: Adelaide Bank and Bendigo Bank.

If the Merger Proposal is approved, the Merged Group will have a more diversified loan portfolio than Adelaide Bank. As at 30 June 2007 the pro forma Merged Group had a lower concentration of residential loans than Adelaide Bank as a stand-alone entity as residential loans approximate 68 percent of the Merged Group's gross loan balance compared with approximately 72 percent of Adelaide Bank's gross loan balance. Margin loans and commercial loans both represented approximately 12 percent and consumer loans will account for approximately eight percent of the Merged Group's gross loan balance.

Approximately 36 percent of the Merged Group's loans under management as at 30 June 2007 were securitised or held in funds managed by Sandhurst Trustees Limited. In comparison, Adelaide Bank's securitised loans disclosed on balance sheet at 30 June 2007 represented 49.4 percent of total loans under management as summarised below.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 62 : Pro forma statement of gross balances of loans under management

Smillion	Notes	Bendigo	Adelaide	Merged
		Bank	Bank	Group
		30 Jun	30 Jun	30 Jun
		2007	2007	2007
		AIFRS	AIFRS	AIFRS
On-balance sheet loans - non securitised	1	13,674.6	13,884.7	27,559.3
On-balance sheet loans - securitised (previously off balance sheet)	2	239.7	13,530.8	13,770.5
STL Common Funds	3	1,915.2	-	1,915.2
Total loans under management		15,829.5	27,415.6	43,245.1
<i>On-balance sheet proportion</i>	4	86.4%	50.6%	63.7%
<i>On-balance sheet - securitised loans proportion</i>	4	1.5%	49.4%	31.8%
<i>STL Common Funds proportion</i>	4	12.1%	0.0%	4.4%

Notes:

- 1 Gross balance of loans held by the consolidated group.
- 2 Loans that have been sold into securitisation trusts. Under AIFRS, these securitisation trusts are consolidated and form part of on-balance sheet assets.
- 3 Gross balance of loans in funds managed by Sandhurst Trustees Limited, a subsidiary of Bendigo Bank.
- 4 Proportion of total loans under management.

Source: Adelaide Bank and Bendigo Bank.

Funding sources

The Merged Group's pro forma liability funding at 30 June 2007 is set out in the table below.

Table 63 : Pro forma statement of sources of funds

Smillion	Notes	Bendigo	Adelaide	Merged
		Bank	Bank	Group
		30 Jun	30 Jun	30 Jun
		2007	2007	2007
		AIFRS	AIFRS	AIFRS
Retail deposits		12,188.3	9,957.2	22,145.5
Wholesale deposits	1	3,042.7	5,667.6	8,710.3
Preference shares	2	-	99.8	99.8
Subordinated debt		307.2	372.0	679.2
Notes payable		-	13,846.9	13,846.9
Total funding sources		15,538.2	29,943.5	45,481.7
<i>Retail proportion</i>		78.4%	33.3%	48.7%
<i>Wholesale proportion</i>		19.6%	18.9%	19.2%
<i>Reset preference share proportion</i>		-	0.3%	0.2%
<i>Subordinated debt proportion</i>		2.0%	1.2%	1.5%
<i>Notes proportion</i>		-	46.2%	30.4%

Notes:

- 1 Under AIFRS, the assets and liabilities of securitisation trusts form part of the consolidated group. The borrowings of securitisation trusts have been included in the wholesale deposits balance.
- 2 Adelaide Bank's Step Up Preference Shares and Bendigo Bank's Reset Preference Shares are excluded as they are treated as equity under AIFRS.

Source: Adelaide Bank and Bendigo Bank Draft 2007 Financial Report and Appendix 4E 30 June 2007.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

The Merged Group's total liability funding sources as at 30 June 2007 were approximately \$45.5 billion, comprised predominantly of retail deposits, notes payable and wholesale domestic deposits. At 30 June 2007 approximately half of the Merged Group's liability funding was retail deposits compared with one third for Adelaide Bank as a stand alone entity.

Capital adequacy

ADI's are currently required to comply with Basel I capital requirements. The Merged Group's pro forma capital adequacy under Basel I is set out in the tables below.

Table 64 : Pro forma capital adequacy of the Merged Group under Basel I

Smillions	Notes	Bendigo	Adelaide	Merged
		Bank	Bank	Group
		30 Jun	30 Jun	30 Jun
		2007	2007	2007
		AIFRS	AIFRS	AIFRS
Tier 1 capital		778.1	625.6	1,415.5
Tier 2 capital		372.8	468.4	799.6
Less: deductions from capital	1	(151.9)	(7.5)	(159.4)
Total qualifying capital base		999.0	1,086.5	2,055.7
Total risk weighted assets		9,754.0	9,986.3	19,740.2
APRA's required minimum capital base	2	975.4	998.6	1,974.0
Capital in excess of APRA's minimum requirement		23.6	87.9	81.7
Total ACE		528.7	549.7	1,048.5
<i>Capital adequacy ratio</i>	3	10.2%	10.9%	10.4%
<i>ACE ratio</i>	4	5.4%	5.5%	5.2%

Notes:

- 1 Investments in non-consolidated subsidiaries or associates and other banks' capital instruments.
- 2 Based on 10 percent of total risk weighted assets for Bendigo Bank and Adelaide Bank respectively.
- 3 Calculated by dividing total qualifying capital base by total risk weighted assets.
- 4 Calculated by dividing total ACE by total risk weighted assets.

Source: Adelaide Bank and Bendigo Bank Appendix 4E 30 June 2007.

Basel II capital adequacy requirements will be in effect from 1 January 2008. Adelaide Bank and Bendigo Bank believe the Merged Group's capital adequacy is unlikely to be materially less than Adelaide Bank's capital adequacy position under Basel I.

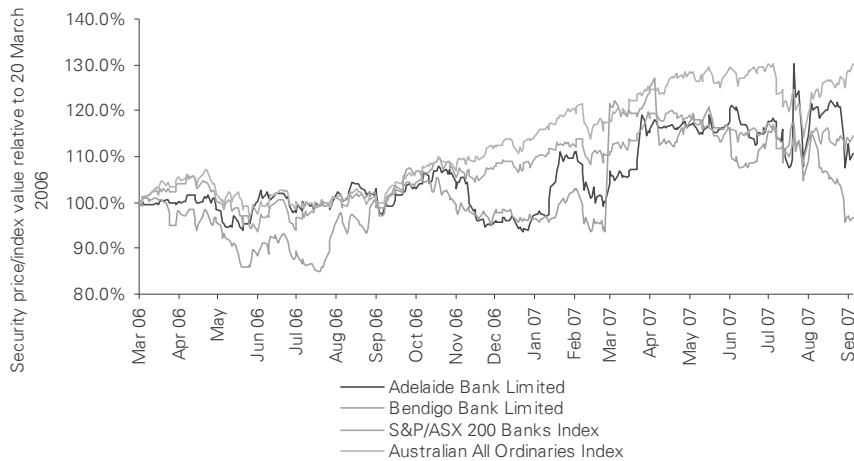


Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

10.3 *Relative share price performance*

We summarise in the figure below the share price (represented by the VWAP) performance of Adelaide Bank and Bendigo Bank ordinary shares compared to the S&P/ASX 200 Banks Index and the Australian All Ordinaries Index between 20 March 2006 and 24 September 2007.

Figure 19: Relative share price performance



Note: Share prices exclude off market trades.

Source: IRESS.

The above figure indicates that:

- the share price of Adelaide Bank's ordinary shares, on a relative basis, generally outperformed Bendigo Bank's ordinary share price (on a relative basis) up and until the time Bank of QLD made its first merger proposal offer to Bendigo Bank
- on the 9 August 2007, the day of the Merger Proposal announcement, Adelaide Bank's share price outperformed Bendigo Bank, the S&P/ASX 200 Banks Index and the Australian All Ordinaries Index on a relative basis
- following the 'rebound' in the Australian share market on 17 August 2007, Adelaide Bank's ordinary share price has continued to outperform Bendigo Bank's ordinary share price
- both Adelaide Bank's and Bendigo Bank's ordinary share prices have generally underperformed the Australian All Ordinaries Index over the analysed period.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

11 Estimated underlying value of the Merged Group

11.1 General

For the purposes of ascribing a value to the Consideration being offered to Adelaide Bank ordinary shareholders under the Ordinary Share Scheme (i.e. the value of a New Bendigo Bank ordinary share) it is necessary to estimate the value of the Merged Group.

This section sets out our estimation of the underlying value of the Merged Group on the basis of a listed minority, or portfolio interest (i.e. exclusive of a premium for control). We have approached the valuation of the Merged Group on this basis since the New Bendigo Bank ordinary shares offered to Adelaide Bank ordinary shareholders as consideration under the Ordinary Share Scheme will be listed shares in the Merged Group to which control does not attach.

11.2 Summary of assessed value

Our overall valuation approach in relation to estimating the underlying value of a New Bendigo Bank ordinary share has been to add the separate stand-alone values assessed for each of Adelaide Bank and Bendigo Bank (set out in the previous sections of this report), to which the estimated value of the cost synergies (net of estimated integration costs) is added, and divided by the enlarged number of New Bendigo Bank ordinary shares that will be on issue following the Merger Proposal.

We have estimated the underlying value of the Merged Group to lie in the range of \$3.85 billion to \$4.35 billion, which equates to an underlying value per New Bendigo Bank ordinary share of \$14.77 to \$16.69. This calculation does not explicitly consider the impact of any market re-rating of the shares arising from the transaction. Our assessment is summarised in the table below.

Table 65: Summary of estimated value per New Bendigo Bank ordinary share

Smillion	Reference			
	Notes	Section	Low	High
Assessed underlying value of Adelaide Bank		8	1,500.0	1,700.0
Assessed underlying value of Bendigo Bank		9	2,000.0	2,200.0
Add: assessed value of potential cost synergies	1	11.3	350.0	450.0
Estimated value of the Merged Group	2		3,850.0	4,350.0
Number of New Bendigo Bank ordinary shares (millions)	3		260.6	260.6
Estimated value per New Bendigo Bank ordinary share (\$)			14.77	16.69

Notes:

- 1 Net of estimated integration costs.
- 2 Does not take into account any possible re-rating arising from the Merger Proposal.
- 3 Based on the number of existing Bendigo Bank and Adelaide Bank ordinary shares, and the Merged Group number of shares based on the exchange ratio.

Source: KPMG analysis.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

11.3 *Estimated value of synergies*

Cost synergies

Adelaide Bank and Bendigo Bank estimate that, if the Merger Proposal proceeds, annual pre-tax cost savings of between approximately \$60 million to \$65 million will be achieved. This estimate of cost synergies has been determined by Adelaide Bank and Bendigo Bank in light of their due diligence enquiries and the results of a review of potential synergies by their respective management teams. The assessments undertaken indicate that approximately 80 percent of the cost synergies are expected to be realised in the second full year of operation.

We note that the estimated cost synergies represent approximately:

- 35 percent of Adelaide Bank's cost base and
- 10 percent of the combined cost base of Adelaide Bank and Bendigo Bank.

In order to realise the cost synergies, the Merged Group has estimated one-off integration costs to be approximately \$50 million to \$60 million on a pre-tax basis. The majority of these integration costs are expected to be incurred over two years. It is expected that integration work will occur in stages over that period.

We note that estimates for synergies are based on assumptions which, by their nature, may vary through events beyond the control of management.

For the purposes of estimating a value of the Merged Group, we have valued the potential cost synergies (after deducting the estimated present value of one-off integration costs) to be in the range of \$350 million to \$450 million.

Our estimated value of the cost synergies is based on a high level DCF analysis and implies capitalisation multiples of approximately 8.3 times to 9.9 times on an after merger integration cost basis.

Table 66: Implied multiples – value of cost synergies

\$million	Notes	Low	High
Estimated value of post tax cost synergies, net of integration costs		350.0	450.0
Expected pre-tax cost synergies estimate per annum		60.0	65.0
Expected post tax cost synergies estimate per annum	1	42.0	45.5
Implied multiples (times)		8.3	9.9

Notes:
1 Based on a 30 percent corporate tax rate.

Source: KPMG analysis.

The multiples implied by our assessed value of cost synergies are lower than the weighted average of NPAT multiples implied in our assessment of the underlying value of Adelaide Bank

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

and Bendigo Bank. We consider this to be reasonable as it reflects the greater uncertainties attaching to achieving cost synergies and the likely lower growth rate for costs compared to profits of the operating business, and hence attracts a lower multiple. Further, the implied multiples are on an after integration cost basis.

Revenue synergies

In addition to cost synergies, Adelaide Bank and Bendigo Bank also anticipate potential for revenue synergies arising from opportunities to cross sell their existing products to the combined customer base of the Merged Group. Adelaide Bank and Bendigo Bank have not at this stage quantified the potential revenue synergies. Accordingly, in estimating the underlying value of the Merged Group, we have not ascribed an additional value to the potential revenue synergies, however if achieved they will provide further upside to Adelaide Bank ordinary shareholders.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

12 Evaluation of the Ordinary Share Scheme

We have considered the following principal factors in determining whether the Ordinary Share Scheme is in the best interests of Adelaide Bank ordinary shareholders:

- the value of the Consideration to be received by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme
- the relative market prices based on share prices of Adelaide Bank ordinary shares and Bendigo Bank ordinary shares
- the relative assessed underlying values of Adelaide Bank and Bendigo Bank ordinary shares
- the implied premium to be “received” by Adelaide Bank ordinary shareholders based on the proposed exchange ratio
- the contribution of the respective shareholders to the Merged Group and their ownership in the Merged Group thereafter
- the financial impact of the Merger Proposal from Adelaide Bank’s perspective
- any taxation consequences for Adelaide Bank and its shareholders
- the likelihood of an alternative transaction
- the consequences of not approving the Ordinary Share Scheme
- various other qualitative factors relevant to Adelaide Bank ordinary shareholders.

12.1 *Analysis of the value of the Consideration to be received by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme*

The Consideration to be received by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme of 1.075 New Bendigo Bank ordinary shares for each Adelaide Bank ordinary share they own is fair.

We have estimated the value of the Consideration to be received by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme, in terms of market prices and underlying values, as shown below. Using either measure of value, the Consideration under the Merger Proposal is fair to Adelaide Bank ordinary shareholders.

Estimated value of the Consideration based on market prices

We note that prior to the announcement of the Merger Proposal, the ordinary share prices of Bendigo Bank and possibly Adelaide Bank may have been influenced by Bank of QLD’s proposed merger with Bendigo Bank. Accordingly, to facilitate a meaningful analysis of both company’s market price, we have segmented our analysis in the periods shown in the table below (refer to Section 6.8 for detailed discussion).

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Based on the various trading periods prior to the announcement of the Merger Proposal shown in the table below, and using volume weighted average prices of Adelaide Bank and Bendigo Bank ordinary shares, we have estimated the value per New Bendigo Bank ordinary share to be received by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme, to lie in the range of \$14.36 to \$16.98.

Table 67: Estimated value per New Bendigo Bank ordinary share – based on market prices

VWAP period	Adelaide Bank VWAP	Bendigo Bank VWAP	Adelaide Bank's contribution to market capitalisation	Bendigo Bank's contribution to market capitalisation	Estimated value of cost synergies net of integration costs	Estimated value of the Merged Group	Estimated value per New Bendigo Bank ordinary share
Notes	\$	\$	1 \$million	2 \$million	3 \$million	4 \$million	5 \$
Period 1 - 20 Mar 06 to 18 Mar 07 - Pre Bank of QLD Proposal Period							
Last 12 months of Period 1	13.11	13.68	1,419.8	1,972.2	400.0	3,792.0	14.55
Last 6 months of Period 1	13.17	14.02	1,426.4	2,021.3	400.0	3,847.7	14.76
Last 3 months of Period 1	13.15	13.81	1,424.8	1,990.7	400.0	3,815.6	14.64
Last 1 month of Period 1	13.49	13.75	1,461.3	1,983.0	400.0	3,844.2	14.75
Last 1 week of Period 1	13.04	13.39	1,412.5	1,930.6	400.0	3,743.1	14.36
Period 2 - 19 Mar 07 to 23 Apr 07 - Bank of QLD First Proposal Period							
Period 2	14.33	17.15	1,552.0	2,473.3	400.0	4,425.2	16.98
Period 3 - 24 Apr 07 to 20 Jun 07 - Bank of QLD Second Proposal Period							
Period 3	15.17	16.38	1,642.7	2,361.1	400.0	4,403.8	16.90
Period 4 - 21 Jun 07 to 8 Aug 07 - Pre Merger Proposal Announcement Period							
Period 4	15.00	15.85	1,624.7	2,285.8	400.0	4,310.5	16.54

Notes:

- 1 Based on existing number of Adelaide Bank ordinary shares.
- 2 Based on existing number of Bendigo Bank ordinary shares.
- 3 Based on mid-point of estimated value range of cost synergies, net of integration costs.
- 4 The above analysis does not take into account any possible re-rating arising from the Merger Proposal.
- 5 Calculated based on the existing number of Adelaide Bank and Bendigo Bank ordinary shares, and the Merged Group number of shares based on the exchange ratio.

Source: IRESS and KPMG analysis.

Based on the estimated value per New Bendigo Bank ordinary share of \$14.36 to \$16.98, the implied value of the Consideration to be received by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme is summarised below.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 68: Implied value of the Consideration to be received per Adelaide Bank ordinary share - based on market prices

VWAP period	Estimated value per New Bendigo Bank ordinary share \$	Consideration exchange ratio	Implied value of the Consideration \$	Adelaide Bank VWAP \$
Period 1 - 20 Mar 06 to 18 Mar 07 - Pre Bank of QLD Proposal Period				
Last 12 months of Period 1	14.55	1.075	15.64	13.11
Last 6 months of Period 1	14.76	1.075	15.87	13.17
Last 3 months of Period 1	14.64	1.075	15.74	13.15
Last 1 month of Period 1	14.75	1.075	15.86	13.49
Last 1 week of Period 1	14.36	1.075	15.44	13.04
Period 2 - 19 Mar 07 to 23 Apr 07 - Bank of QLD First Proposal Period				
Period 2	16.98	1.075	18.25	14.33
Period 3 - 24 Apr 07 to 20 Jun 07 - Bank of QLD Second Proposal Period				
Period 3	16.90	1.075	18.16	15.17
Period 4 - 21 Jun 07 to 8 Aug 07 - Pre Merger Proposal Announcement Period				
Period 4	16.54	1.075	17.78	15.00

Source: IRESS and KPMG analysis.

The above indicates that, on the basis of market prices, the implied value of the Consideration to be received by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme exceeds the VWAP of Adelaide Bank ordinary shares over the various trading periods prior to the announcement of the Merger Proposal. Accordingly, the Consideration is fair in this regard from Adelaide Bank's perspective.

As at 24 September 2007, Adelaide Bank's closing share price was \$14.36 (trading ex-dividend) and Bendigo Bank's closing share price was \$13.79 (trading ex-dividend). Based on these share prices, the implied ratio of Adelaide Bank's and Bendigo Bank's ordinary share prices at this date is in the order of 1.04, which approximates the exchange ratio of 1.075 under the Merger Proposal.

Estimated value of the Consideration based on assessed underlying values

Our assessed underlying values of Adelaide Bank and Bendigo Bank, and our estimated value per New Bendigo Bank ordinary share, are calculated on the basis of:

- a portfolio interest (i.e. excluding a premium for control)
- market conditions as at 8 August 2007 (i.e. the trading day prior to the announcement of the Merger Proposal)
- cum 2007 final dividend.

Based on our assessed underlying values of Adelaide Bank and Bendigo Bank, and an estimated value for potential cost synergies (net of estimated integration costs) expected to arise from the

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Merger Proposal, we have estimated the value per New Bendigo Bank ordinary share to be received by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme, to lie in the range of \$14.77 to \$16.69.

Table 69: Estimated value per New Bendigo Bank ordinary share – based on underlying values

Smillion	Notes	Reference		
		Section	Low	High
Assessed underlying value of Adelaide Bank		8.3	1,500.0	1,700.0
Assessed underlying value of Bendigo Bank		9.3	2,000.0	2,200.0
Add: assessed value of potential cost synergies	1	11.3	350.0	450.0
Estimated value of the Merged Group	2		3,850.0	4,350.0
Number of New Bendigo Bank ordinary shares (millions)	3		260.6	260.6
Estimated value per New Bendigo Bank ordinary share (\$)			14.77	16.69

Notes:

- 1 Net of estimated integration costs.
- 2 Does not take into account any possible re-rating arising from the Merger Proposal.
- 3 Calculated based on the existing number of Adelaide Bank and Bendigo Bank ordinary shares, and the Merged Group number of shares based on the exchange ratio.

Source: KPMG analysis.

Based on the estimated underlying value per New Bendigo Bank ordinary share of \$14.77 to \$16.69, the implied value of the Consideration to be received by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme is summarised below.

Table 70: Implied value of the Consideration to be received per Adelaide Bank ordinary share – based on underlying values

	Reference		
	Section	Low	High
		\$	\$
Assessed underlying value per existing Adelaide Bank ordinary share	8.3	13.85	15.69
Estimated value per New Bendigo share	11.2	14.77	16.69
Exchange ratio		1.075	1.075
Implied value of the Consideration to be received per Adelaide Bank ordinary share		15.88	17.94

Source: KPMG analysis.

The above analysis indicates that, on the basis of underlying values, the value of the Consideration to be received by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme is greater than our assessed value per Adelaide Bank ordinary share. Accordingly, the Consideration is fair in this regard from Adelaide Bank's perspective.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

12.2 Assessment of the level of premium being “received” by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme

A premium is being “received” by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme.

We have considered the implied premium being “received” by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme based on market prices and underlying values as shown below.

Assessment of premium based on market prices

An analysis of the implied premium based on market prices of Adelaide Bank ordinary shares traded on the ASX is set out in the table below.

Table 71: Assessment of premium based on market prices

VWAP period	Adelaide Bank VWAP	Implied value of the Consideration	Difference premium	Difference premium
	\$	\$	\$	%
Period 1 - 20 Mar 06 to 18 Mar 07 - Pre Bank of QLD Proposal Period				
Last 12 months of Period 1	13.11	15.64	2.53	19.3%
Last 6 months of Period 1	13.17	15.87	2.70	20.5%
Last 3 months of Period 1	13.15	15.74	2.58	19.6%
Last 1 month of Period 1	13.49	15.86	2.37	17.5%
Last 1 week of Period 1	13.04	15.44	2.40	18.4%
Period 2 - 19 Mar 07 to 23 Apr 07 - Bank of QLD First Proposal Period				
Period 2	14.33	18.25	3.92	27.4%
Period 3 - 24 Apr 07 to 20 Jun 07 - Bank of QLD Second Proposal Period				
Period 3	15.17	18.16	3.00	19.8%
Period 4 - 21 Jun 07 to 8 Aug 07 - Pre Merger Proposal Announcement Period				
Period 4	15.00	17.78	2.78	18.5%

Source: IRESS and KPMG analysis.

The above analysis indicates that, based on market prices, a premium in the range of 17.5 percent to 27.4 percent is being “received” by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme. In this regard, if the premiums implied in the Bank of QLD First Proposal Period and the Bank of QLD Second Proposal Periods were to be excluded, then a premium in the range of 17.5 percent to 20.5 percent is being “received”.

We consider the premiums calculated in the table above to be reasonable as the proposed transaction is a merger whereby Adelaide Bank ordinary shareholders will own approximately 45 percent of the Merged Group, will share in the expected benefits of the Proposed Merger and will have representation at management level and on the Board of Directors of the Merged Group.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Assessment of premium based on assessed underlying values

An analysis of the implied premium based on our assessed underlying values of Adelaide Bank and Bendigo Bank ordinary shares is set out in the table below.

Table 72: Assessment of premium based on underlying values

	Reference Section	Low \$	High \$
Assessed underlying value per Adelaide Bank ordinary share	8.3	13.85	15.69
Assessed Consideration being received per Adelaide Bank ordinary share	11.2	15.88	17.94
Difference - premium		2.03	2.25
Difference - premium (%)		14.7%	14.3%

Source: KPMG analysis.

The above analysis indicates that, based on underlying values, a premium is being "received" by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme in the order of 14.3 percent to 14.7 percent from Bendigo Bank ordinary shareholders under the Ordinary Share Scheme.

As mentioned above, we consider the premium to be reasonable having regard to the fact that the proposed transaction is a merger whereby Adelaide Bank ordinary shareholders will own approximately 45 percent of the Merged Group, will share in the expected benefits of the Proposed Merger and will have representation at management level and on the Board of Directors of the Merged Group.

12.3 Analysis of the relative contribution and ownership of the Merged Group

Under the Ordinary Share Scheme, based on a market price analysis, Adelaide Bank ordinary shareholders will receive a favourable ownership share of the Merged Group relative to their contribution to the Merged Group.

We have assessed the value contributed by Adelaide Bank and Bendigo Bank to the Merged Group in terms of market prices and underlying values as shown below.

Relative contribution based on market prices

The table below shows, for various trading periods prior to the announcement of the Merger Proposal, the contributions of market price by each of Adelaide Bank and Bendigo Bank.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 73: Merged Group - market price contributions

VWAP period	Adelaide Bank	Bendigo Bank
Period 1 - 20 Mar 06 to 18 Mar 07 - Pre Bank of QLD Proposal Period		
Last 12 months of Period 1	41.9%	58.1%
Last 6 months of Period 1	41.4%	58.6%
Last 3 months of Period 1	41.7%	58.3%
Last 1 month of Period 1	42.4%	57.6%
Last 1 week of Period 1	42.3%	57.7%
Period 2 - 19 Mar 07 to 23 Apr 07 - Bank of QLD First Proposal Period		
Period 2	38.6%	61.4%
Period 3 - 24 Apr 07 to 20 Jun 07 - Bank of QLD Second Proposal Period		
Period 3	41.0%	59.0%
Period 4 - 21 Jun 07 to 8 Aug 07 - Pre Merger Proposal Announcement Period		
Period 4	41.5%	58.5%
Percentage ownership of the Merged Group	44.7%	55.3%

Source: IRESS and KPMG analysis.

The above analysis suggests that, on the basis of relative contributions to market price of the Merged Group, the exchange ratio of the Merger Proposal favours Adelaide Bank ordinary shareholders. It indicates that Adelaide Bank ordinary shareholders contribute relatively less than they receive and, correspondingly, Bendigo Bank ordinary shareholders contribute more than they receive based on market prices.

As at 24 September 2007, Adelaide Bank's closing share price was \$14.36 and Bendigo Bank's closing share price was \$13.79. The implied contribution to the Merged Group by Adelaide Bank and Bendigo Bank based on these prices is approximately 43.9 percent and 56.1 percent respectively which approximate their respective ownership of the Merged Group.

Relative contribution based on assessed underlying values

Our analysis of the contributions of each of Adelaide Bank and Bendigo Bank to the Merged Group, based on underlying values, suggests that Adelaide Bank ordinary shareholders will contribute 42.9 percent to 43.6 percent and Bendigo Bank ordinary shareholders 56.4 percent to 57.1 percent compared to ownership levels in the Merged Group of approximately 45 percent and 55 percent respectively. Therefore, on this basis, Adelaide Bank ordinary shareholders contribute relatively less than they receive and, correspondingly, Bendigo Bank ordinary shareholders contribute more than they receive based on underlying values.

12.4 Analysis of the financial impact of the Ordinary Share Scheme from Adelaide Bank's perspective

Adelaide Bank ordinary shareholders are on balance, expected to be financially better off following the Ordinary Share Scheme.

The table below compares several earnings and asset measures.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 74: Financial impact of the Merger Proposal

	Notes	Before	After (before cost synergies)	After (after cost synergies)
Basic EPS (cents per share)		92.8	86.5	102.7
Cash basis EPS (cents per share)		96.8	86.1	102.3
Dividends per share (cents per share)		65.0	57.4	73.5
NTA per share (\$ per share)	1	6.56	6.65	6.65
Return on average ordinary equity		16.84%	9.99%	11.74%

Notes:

Above based on pro-forma financial statements of the Merged Group (see Section 10.2 for details).

1 Calculated as net assets less intangibles divided by number of ordinary shares at 30 June 2007.

Source: Adelaide Bank and Bendigo Bank.

The above analysis illustrates that the Merger Proposal is expected to:

- be EPS accretive and result in higher dividends per share for Adelaide Bank ordinary shareholders if the expected synergies are realised. The timing and amount of synergies is uncertain
- reduce ROE. This is principally an accounting outcome of the Proposed Merger reflecting the significant increase in the accounting value of ordinary equity in the Merged Group's balance sheet
- slightly increase NTA per share. In this regard, we note that the value of the Merged Group shares are likely to be driven by underlying earnings rather than net assets.

12.5 Other qualitative factors relevant to Adelaide Bank ordinary shareholders

The strategic rationale for the Merger Proposal

The strategic rationale for the Merger Proposal is to combine two distinctive but complementary businesses to enhance the value proposition for all stakeholders of the respective companies.

The Merger Proposal seeks to bring together two “niche” Australian regional banks:

- Adelaide Bank, a specialist wholesale finance provider with a wholesale banking strategy
- Bendigo Bank, focused as a retail and Community Bank[®]

to create a more robust financial services organisation through leveraging off the strengths of both banks.

Adelaide Bank and Bendigo Bank believe that the Merged Group will be financially stronger and better positioned to grow and innovate and that it will have greater scale, revenue



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

diversification, geographic extension, an enlarged balance sheet and increased funding flexibility.

Benefits of the Merger Proposal

The Merger Proposal offers a range of potential benefits to Adelaide Bank shareholders

The Merger Proposal is expected to yield benefits. Specifically, for Adelaide Bank, the benefits of the Merger Proposal will include:

- *Value from cost synergies:* Cost synergies available through the Merger Proposal are estimated to be in the range of approximately \$60 million to \$65 million per annum on a pre-tax basis. These synergies are expected to be realised principally from the consolidation of technology platforms, common head office and back office functions. To realise the expected synergies, the Merged Group is estimated to incur a total one-off integration cost of approximately \$50 million to \$60 million on a pre-tax basis
- *Larger customer base:* Adelaide Bank and Bendigo Bank anticipate potential for revenue synergies arising from opportunities to cross-sell their existing products to the combined customer base of approximately 1.3 million retail customers. Adelaide Bank and Bendigo Bank have not quantified the potential value of these revenue synergies
- *Diversification of funding:* Approximately half of the Merged Group's liability funding will be sourced from retail deposits compared to approximately one third of Adelaide Bank's liability funding at 30 June 2007. The Merged Group will have less exposure to the volatility of the wholesale debt markets compared with Adelaide Bank as a stand alone entity
- *Diversification of assets:* The Merged Group will have less exposure to residential loans compared with Adelaide Bank as a stand alone entity. Approximately two thirds of the Merged Group's gross loans and advances will be residential loans compared to 72 percent of Adelaide Bank's gross loans and advances at 30 June 2007. The residential loan segment of the credit market is highly competitive and net interest margins on residential loans have contracted
- *Greater capital management flexibility:* The Merged Group's pro forma proportion of securitised loans to total loans under management is 36.2 percent at 30 June 2007 compared to Adelaide Bank's 49.4 percent at that date. Historically, Adelaide Bank has not securitised greater than 50 percent of loans under management as rating agencies and regulators may view this unfavourably. The Merged Group will have greater flexibility to securitise loans, for capital management and other purposes, compared to Adelaide Bank as a stand alone entity.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Share market impact

The Merger Proposal should have a positive impact on share market trading in the ordinary shares of the Merged Group.

There should be a positive impact on share market trading in shares of the Merged Group that will arise from the:

- increased market capitalisation
- increased index weighting
- improved liquidity
- possible increased coverage from brokers

which may lead to a potential price re-rating.

Since the announcement of the Merger Proposal, Adelaide Bank's ordinary share price (based on closing prices) has changed from \$14.40 (trading cum-dividend including a \$0.36 fully franked dividend) on 8 August 2007 to \$14.36 (trading ex-dividend) on 24 September 2007. Over the period approximately 20.3 percent of Adelaide Bank's average issued ordinary shares were traded on the ASX. In this regard, we note the share price may have also changed in the absence of the Merger Proposal as a result of the following events/announcements subsequent to the announcement of the Merger Proposal:

- the release of Adelaide Bank's FY2007 results
- rationalisation occurring in the financial services sector
- the upward movement in the S&P/ASX 200 Banks Index of 1.8 percent
- Adelaide Bank and Bendigo Bank's share prices trading on an ex 2007 final dividend basis after 17 September 2007 and 27 August 2007 respectively.

Any attempt to separate the price effect of the above events/announcements on Adelaide Bank's ordinary share price from the price movement associated with the announcement of the Merger Proposal is necessarily highly subjective.

Change in the nature of investment in Adelaide Bank ordinary shares

The Merger Proposal will change the nature of the investment of Adelaide Bank ordinary shareholders.

An important issue for Adelaide Bank ordinary shareholders to consider in assessing the merits of the Merger Proposal is the change in the nature of their investment.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

The Merger Proposal will result in Adelaide Bank ordinary shareholders increasing their exposure to retail and community banking principally at the expense of wholesale banking.

Possible disadvantages of the Ordinary Share Scheme

None of the disadvantages of the Merger Proposal should outweigh the benefits of the Merger Proposal.

The possible disadvantages of the Ordinary Share Scheme to Adelaide Bank ordinary shareholders include:

- On the basis of the exchange ratio, Adelaide Bank ordinary shareholders as a group collectively will hold approximately 45 percent of the issued shares in the Merged Group immediately after the Ordinary Share Scheme, therefore, the interest of Adelaide Bank ordinary shareholders as a group will be diluted. We note however that immediately after the Ordinary Share Scheme, the share register of the Merged Group will be relatively open, with no controlling shareholder. This also means that Adelaide Bank ordinary shareholders will continue to have the possible opportunity of realising a control premium for their investment through a future transaction involving the Merged Group.
- Control of Adelaide Bank at the Board level and possibly at the management level will pass to Bendigo Bank. If the constitution of Bendigo Bank is amended to increase the size of its Board of Directors, the Board of Directors of the Merged Group will consist of seven Bendigo Bank directors and five Adelaide Bank directors. However, Adelaide Bank and Bendigo Bank have agreed to select and appoint the best candidates for the key management roles within the Merged Group.
- No cash alternative and/or cash component is being offered as consideration and/or part thereof under the Ordinary Share Scheme. This represents a potential limited disadvantage for those shareholders wishing an absolute or partial exit from their investment. While they are able to do so by selling their shares on the ASX, transaction costs will be incurred.
- The actual value of the Consideration to be received by Adelaide Bank ordinary shareholders under the Ordinary Share Scheme cannot be quantified with certainty prior to the Ordinary Share Scheme meeting as the actual value of the Consideration will be dependent upon the Bendigo Bank ordinary share price at the time that the Ordinary Share Scheme is implemented. In this regard, in the event that Bendigo Bank ordinary share price falls materially prior to the Ordinary Share Scheme meeting, shareholders may choose to vote against the Ordinary Share Scheme.
- While the scrip consideration offered under the Ordinary Share Scheme may be more tax efficient for Adelaide Bank ordinary shareholders and will allow them to share in a material way in the merger synergies and other benefits expected to result from the Merger Proposal, it exposes Adelaide Bank ordinary shareholders to the integration risks of the transaction if synergies are not achieved.
- Ineligible Foreign shareholders will not be issued shares in the Merged Group as consideration under the Ordinary Share Scheme, instead, their entitlement will be issued to a

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

nominee appointed by Bendigo Bank who will sell their shares on the ASX and remit the net proceeds to them. This represents a disadvantage for those Ineligible Foreign shareholders who are seeking ongoing investment exposure in Adelaide Bank. However, they have the flexibility to reinvest the cash they will receive in shares in the Merged Group, albeit they will have to incur transaction costs.

Implementation risks

As with any merger, there are implementation risks and uncertainties.

The benefits of the Merger Proposal will depend in part on a successful merger of the two organisations. As with all mergers, there are implementation risks and uncertainties relating to the timing and/or costs of integration. In this case, the common core banking systems and the alignment of culture of Adelaide Bank and Bendigo Bank should result in lower integration risk than for many other mergers. Further, the cost synergies estimated for the Merged Group were prepared by the respective banks based on a good understanding of the two businesses and the markets in which they operate. In this regard, Adelaide Bank and Bendigo Bank believe that the amount and timing of estimated cost synergies is both reasonable and achievable. However, the realisation and timing of cost synergies are subject to integration and other risks.

Alternative proposals

No alternative proposals for Adelaide Bank has emerged.

The Merger Proposal represents a culmination of several months of discussion and negotiation. The Directors of Adelaide Bank have advised that, apart from the Merger Proposal, no alternative formal proposal to acquire and/or merge with Adelaide Bank has been received by Adelaide Bank.

In any event, following the announcement of the Merger Proposal, potential alternative acquirers have had the opportunity to make competing offers for Adelaide Bank. The Directors of Adelaide Bank have advised that no such offers have yet been made for Adelaide Bank.

We note that approximately six weeks will elapse between the date of this report and Adelaide Bank ordinary shareholders' meeting to consider the Ordinary Share Scheme. In the event that an alternative offer emerges within this timeframe on better terms, Adelaide Bank ordinary shareholders could elect to vote against the Ordinary Share Scheme.

Other considerations

Unanimous recommendation of the Merger Proposal by the Board of Directors of Adelaide Bank.

The Directors of Adelaide Bank have unanimously recommended the Merger Proposal in the absence of a superior proposal. In addition, Adelaide Bank and Bendigo Bank have advised that



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

the Merger Proposal has received positive endorsements from their respective customers, partners and communities.

Tax implications

CGT rollover relief provision should apply to many shareholders.

Adelaide Bank ordinary shareholders should refer to the taxation section which is included in the Scheme Booklet in relation to the tax effects of the Ordinary Share Scheme. The Scheme Booklet indicates that many ordinary shareholders should be able to utilise the capital gains tax rollover relief provisions to defer any capital gains tax liability until such time in the future as they may dispose of their New Bendigo Bank ordinary shares acquired as a consequence of the Ordinary Share Scheme. However, the specific tax implications for each Adelaide Bank ordinary shareholder will depend upon the particular circumstances of the person or entity. Adelaide Bank ordinary shareholders should not rely solely upon the taxation section of the Scheme Booklet for taxation purposes, and should seek and rely on their own taxation advice where appropriate.

12.6 Implications if the Ordinary Share Scheme is not approved

In the event the Ordinary Share Scheme does not proceed, among other things:

- Adelaide Bank will continue to be listed on the ASX and the Directors of Adelaide Bank anticipate that the business operations of Adelaide Bank will, in the foreseeable future, continue to be conducted in the manner in which it is presently conducted and continue to operate in line with the Board's previously stated objectives
- Adelaide Bank ordinary shares are likely to trade at lower levels than current market prices in the absence of an alternative proposal. We note that following the announcement of the Merger Proposal to 24 September 2007, Adelaide Bank ordinary shares have traded in the range of \$13.71 to \$16.51 (based on closing prices). This range compares with the one month and three month VWAPs of Adelaide Bank ordinary shares prior to the announcement of the Merger Proposal of approximately \$14.79 and \$15.08 respectively. It is not possible to accurately predict the prices at which Adelaide Bank ordinary shares might trade in the future in the absence of the Merger Proposal or an alternative offer. However, in the absence of any unexpected events impacting Adelaide Bank, it is likely that the price of Adelaide Bank ordinary shares on the ASX will fall below current market prices
- the expected benefits of the Ordinary Share Scheme will not be realised. However, some of the possible disadvantages and risks of the Ordinary Share Scheme will not arise
- Adelaide Bank may, in certain circumstances, become liable to pay Bendigo Bank a break-fee of \$15 million under the MIA

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

- Adelaide Bank will have incurred the costs estimated to be in the order of \$4 million and expended management time in planning for implementation of the Ordinary Share Scheme without achieving an outcome.

12.7 **Conclusion**

In our opinion, having regard to the matters set out in this report, and in the absence of a superior proposal, on balance, the Ordinary Share Scheme is in the best interests of Adelaide Bank ordinary shareholders.

In forming our opinion, we have considered the interests of Adelaide Bank ordinary shareholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual Adelaide Bank ordinary shareholders. It is neither practical nor possible to assess the implications of the Ordinary Share Scheme on individual Adelaide Bank ordinary shareholders as we do not know their specific financial circumstances.

The decision of Adelaide Bank ordinary shareholders as to whether or not to vote in favour of the Ordinary Share Scheme is a matter for individuals based on, amongst other things, their views as to value and future market conditions, risk profile, liquidity preference, investment strategy and tax position. Individual Adelaide Bank ordinary shareholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the Ordinary Share Scheme may be influenced by his or her particular circumstances, we recommend that individual shareholders consult their financial adviser.



*Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007*

Appendix 1 – Qualifications and declarations

Qualifications

KPMG is the holder of an Australian Financial Services Licence No 246901 under the Corporations Act 2001 and is controlled by the partners of KPMG Chartered Accountants (the KPMG Partnership). The KPMG Partnership is a long established firm of chartered accountants which provides a full range of professional services, including advising on valuations, acquisitions, takeovers, restructuring proposals, reorganisations and related matters. The following persons, whose qualifications and experience are stated below, have been responsible for preparation of this report.

Gary Wingrove is a partner in the KPMG Partnership and is an Executive Director of KPMG. He holds a Bachelor of Commerce, is an Associate of the Institute of Chartered Accountants in Australia, and is a Fellow of the Financial Services Institute of Australasia. Gary is the national head of KPMG's valuation practice in Australia and has over 15 years experience in the preparation of valuations and expert reports on the valuation of shares and businesses and the provision of merger and acquisition advice.

Don Manifold is a partner in the KPMG Partnership and is an Executive Director of KPMG. He holds a Bachelor of Economics (Accounting) with honours, a Master of Business Administration from the Australian Graduate School of Management and is a Member of the Institute of Chartered Accountants in Australia. Don has over nine years experience in the provision of merger and acquisition advice and considerable experience in the valuation of shares and businesses.

Lilian Look is a Director of KPMG. She holds a Bachelor of Economics and a Bachelor of Laws, is a Fellow of the Financial Services Institute of Australasia and is an Associate of CPA Australia. Lilian has over 10 years experience in the preparation of valuations and expert reports on the valuation of shares and businesses.

Mr Wingrove, Mr Manifold and Ms Look, were assisted in the preparation of this report by other appropriately qualified KPMG staff.

Declarations

The statements made in the report are given in good faith and have been derived from information believed to be reliable and accurate. We have examined this information and have no reason to believe that any material factors have been withheld from us.

During the course of this engagement, KPMG provided draft copies of this report to management of Adelaide Bank and Bendigo Bank for comment as to factual accuracy, as opposed to opinions, which are the responsibility of KPMG alone. Changes made to this report as a result of these reviews have not changed the opinions reached by KPMG.

For personal use only



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Interests

KPMG is entitled to receive a fee in the order of \$425,000, excluding GST, for the preparation of this report. In addition, KPMG is entitled to receive a fee of \$70,000, excluding GST, for the preparation of a separate letter to Adelaide Bank Step Up Preference shareholders and Reset Preference shareholders in relation to the Step Up Preference Share Scheme and the Reset Preference Share Scheme. Except for these fees, KPMG has not received and will not receive any pecuniary or other benefit whether direct or indirect for or in connection with the preparation of this report.

Employees of KPMG, the KPMG Partnership and its affiliated entities may hold securities in Adelaide Bank and/or Bendigo Bank. However, no individual involved in the preparation of this report, or review thereof, holds a direct interest in Adelaide Bank and/or Bendigo Bank ordinary shares.

Consent

KPMG consents to the issue of this report by Adelaide Bank in the Scheme Booklet. Other than this report, neither the KPMG Partnership nor KPMG have been involved in the preparation of the Scheme Booklet. Accordingly, we take no responsibility for the content of the Scheme Booklet as a whole.

Except as noted above, neither the whole nor any part of this report nor any reference thereto may be included in or with or attached to any other document, circular, resolution, letter or statement without the prior written consent of KPMG to the form and context in which it appears.

Reliance on information

KPMG has prepared this report on the basis of information available as at the date of this report. Nothing in this report should be taken to imply that KPMG has verified any information supplied to us, or has in any way carried out an audit of the books of account or other records of Adelaide Bank, Bendigo Bank or any of their associated entities for the purposes of this report. We have considered and relied upon information provided by certain directors and senior management of Adelaide Bank and Bendigo Bank, which after due enquiry, we believe to be reliable, complete and not misleading. We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

We note that any forecasts and projections as supplied to us are based upon assumptions about events and circumstances that have not yet transpired. Accordingly, KPMG cannot provide any assurance that the estimates will be representative of the results which will actually be achieved during the forecast period.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

The opinion of KPMG is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our assessment either positively or negatively.

Indemnity

Adelaide Bank has indemnified KPMG and its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with this report, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services by KPMG and occasioned by reliance by KPMG on information provided by Adelaide Bank and/or Bendigo Bank or any of their representatives which is subsequently found to be false or misleading or not complete. Complete information is deemed to be information which at the time of completing this report should have been available to KPMG and would have reasonably been expected to have been made available to KPMG to enable us to form our opinion.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Appendix 2 – Sources of information

In preparing this report, we have considered, inter alia, the following main sources of information:

Public information

Company and transaction information

- latest draft copy of the Scheme Booklet dated 25 September 2007 in relation to the Ordinary Share Scheme
- various Adelaide Bank and Bendigo Bank annual reports up to the year ended 30 June 2006 and Appendix 4E reports for the three years ended 30 June 2007
- earnings guidance for Adelaide Bank and Bendigo Bank as advised by the management of each respective company
- various brokers, comparable companies, independent expert and analyst reports and company websites
- financial information from Bloomberg and IRESS
- financial information and reports from DatAnalysis and Connect4
- various ASX company announcements for Adelaide Bank and Bendigo Bank
- various press releases, public announcements, media and analyst presentation material and other public filings by Adelaide Bank and Bendigo Bank
- various comparable company and transaction information from Zephyr, SDC Thomson and MergerMarkets
- various discussions and email correspondences with management and financial advisers to Adelaide Bank and Bendigo Bank

Industry information

- various data series and publications from the ABS and the RBA
- various publications and financial information from APRA
- various KPMG Financial Institutions Performance Surveys
- various industry reports from IBISWorld
- media release from Plan For Life
- various press articles from the Australian Financial Review

Non public information

- other confidential documents, board papers, presentations and working papers.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Appendix 3 – Comparable companies

We have identified a number of groups of companies with aspects of their operations similar to Adelaide Bank and Bendigo Bank (comparable companies). In assessing the comparable companies, it should be noted that:

- whilst the comparable companies have operations similar in nature to those of Adelaide Bank and Bendigo Bank, none of the comparable companies' operations match those of either bank exactly, and the set of comparable companies is therefore not directly comparable
- the comparable companies are different in terms of their size and growth profile, as well as the size and characteristics of the market segments in which they operate
- other industry specific factors affecting the comparability of companies include:
 - differences in contribution of various business segments (such as retail banking, financial planning and funds management)
 - differences in industry focus
 - differences in investment type for funds under management (e.g. property, equities, debt instruments, derivative instruments)
- trading multiples of publicly listed companies reflect the investment expectations of portfolio investors and as such, do not include a premium for control.

A list of comparable companies used in our analysis is detailed in the tables on the following pages, which are followed by a description of each comparable company.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 75: Comparable companies

Comparable Companies	Last reported financials	Market Capitalisation (1) AUD\$m	Historical reported NPAT multiple (2) times	Historical cash NPAT multiple (3) times	Forecast adjusted NPAT multiple (4) times	Forecast cash NPAT multiple (5) times	Net tangible Asset Multiple (6) times
Major banks							
ANZ Banking Group Limited	09/2006	53,292.5	14.5	15.0	13.6	13.4	3.0
Commonwealth Bank of Australia	06/2007	70,218.5	15.7	15.3	14.2	13.9	4.2
National Australia Bank Limited	09/2006	63,446.7	14.4	16.0	14.6	14.6	2.6
Westpac Banking Corporation	09/2006	48,809.3	15.9	15.9	14.2	14.1	3.5
Mean			15.1	15.5	14.1	14.0	3.4
Median			15.1	15.6	14.2	14.0	3.3
Regional banks							
Adelaide Bank Limited	06/2007	1,559.8	14.8	15.0	13.4	13.3	2.2
Bendigo Bank Limited	06/2007	2,285.6	17.8	19.3	16.9	16.9	2.5
Bank of Queensland Limited	08/2006	1,867.7	20.1	22.8	18.3	18.3	2.9
St George Bank Limited	09/2006	17,915.4	16.6	17.5	15.4	15.4	4.2
Suncorp-Metway Limited	06/2007	17,573.0	16.5	n/a	16.3	n/a	3.5
Mean (all)			17.2	18.6	16.0	16.0	3.1
Median (all)			16.6	18.4	16.3	16.1	2.9
Mean (excluding Adelaide Bank)			17.8	19.8	16.7	16.9	3.3
Median (excluding Adelaide Bank)			17.2	19.3	16.6	16.9	3.2
Mean (excluding Bendigo Bank)			17.0	18.4	15.8	15.7	3.2
Median (excluding Bendigo Bank)			16.6	17.5	15.8	15.4	3.2
Building societies							
Home Building Society Limited	06/2006	436.5	43.0	n/a	18.4	n/a	1.5
Mackay Permanent Building Society Limited	06/2006	48.9	28.5	n/a	25.7	n/a	2.8
Rock Building Society Limited	06/2006	93.1	20.3	n/a	25.2	n/a	2.6
Wide Bay Australia Limited	06/2007	319.5	19.7	n/a	16.9	n/a	3.5
Mean (excluding outliers)			22.8	n/a	21.6	n/a	2.6
Median (excluding outliers)			20.3	n/a	21.8	n/a	2.7
Mortgage providers							
Firstfolio Limited	06/2006	26.8	n/a	n/a	n/a	n/a	n/a
Homeloans Limited	06/2006	68.9	26.5	n/a	n/a	n/a	3.2
Mortgage Choice Limited	06/2006	348.7	19.5	n/a	20.6	n/a	7.5
RAMS Home Loans Group Limited	06/2006	757.2	25.3	n/a	17.4	n/a	n/a
Mean			23.8	n/a	19.0	n/a	5.3
Median			25.3	n/a	19.0	n/a	5.3

Notes:

- 1) Represents market capitalisation as at 8 August 2007 (denominated in millions of Australian dollars).
 - 2) Represents market capitalisation divided by historical reported NPAT adjusted, where appropriate, for discontinued operations, significant items and minority interests.
 - 3) Represents market capitalisation divided by historical disclosed cash NPAT (or equivalent where available).
 - 4) Represents market capitalisation divided by Bloomberg broker consensus forecast adjusted NPAT.
 - 5) Represents market capitalisation divided by broker consensus cash NPAT.
 - 6) Represents market capitalisation divided by net tangible assets.
- Outliers have been shaded and excluded from the calculation of mean and median where specified.
"n/a" data not available / not applicable.

Source: Bloomberg, company financial reports and broker reports.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 75: Comparable companies (continued)

Comparable Companies	Last reported financials	Market Capitalisation (1) AUD\$m	Historical reported NPAT multiple (2) times	Forecast adjusted NPAT multiple (3) times	Net tangible Asset Multiple (4) times	FUM % (5) %
Funds Management						
Allco Finance Group Limited	06/2006	3,358.9	34.6	17.5	3.8	159.4%
Challenger Financial Services Group Limited	06/2006	3,007.0	22.4	16.6	3.9	54.9%
City Pacific Limited	06/2007	595.3	10.2	n/a	4.3	38.1%
Everest Babcock & Brown Limited	12/2006	766.9	81.6	n/a	14.2	23.0%
HFA Holdings Limited	06/2006	490.4	n/a	25.6	109.5	10.4%
Hunter Hall International Limited	06/2006	365.5	28.9	n/a	13.1	17.3%
IOOF Holdings Limited	06/2006	663.8	28.5	22.1	51.9	0.5%
Magellan Financial Group Ltd	06/2006	193.2	75.3	n/a	3.0	41.0%
Mariner Financial Limited	06/2006	134.5	13.1	n/a	1.7	14.9%
MFS Limited	06/2006	2,342.2	28.7	17.6	2.2	46.0%
Perpetual Limited	06/2006	3,192.6	23.6	21.7	13.1	7.8%
Platinum Asset Management Limited	06/2006	3,893.3	20.8	21.1	17.9	16.6%
Prime Financial Group Limited	06/2007	147.8	77.6	20.4	7.4	4.8%
Treasury Group Limited	06/2006	343.8	24.8	n/a	7.8	2.3%
Wilson HTM Investment Group	06/2006	382.8	35.0	n/a	12.5	10.5%
Mean (excluding outliers)			24.6	20.3	8.1	10.8%
Median (excluding outliers)			24.8	20.8	7.4	10.5%

Notes:

- 1) Represents market capitalisation as at 8 August 2007 (denominated in millions of Australian dollars).
- 2) Represents market capitalisation divided by historical reported NPAT adjusted, where appropriate, for discontinued operations, significant items and minority interests.
- 3) Represents market capitalisation divided by Bloomberg broker consensus forecast adjusted NPAT.
- 4) Represents market capitalisation divided by net tangible assets.
- 5) Represents enterprise value divided by funds under management.

Outliers have been shaded and excluded from the calculation of mean and median where specified.

"n/a" data not available / not applicable.

Source: Bloomberg, company financial reports and broker reports.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Descriptions of comparable companies⁶

Major banks

- *Australia and New Zealand Banking Group Limited* is an international bank with activities in general banking, mortgage and instalment lending, life insurance, leasing, hire purchase and general finance. ANZ also provides international and investment banking, investment and portfolio management and advisory services, nominee and custodian services, stockbroking and executor and trustee services.
- *Commonwealth Bank of Australia* provides banking, life insurance and related services for individuals, small businesses and medium sized commercial enterprises. The bank provides corporate and general banking, international financing, institutional banking and funds management such as superannuation products, unit trusts and financial planning.
- *National Australia Bank Limited* is an international banking group which operates in Australia, New Zealand, Europe, Asia and the United States. The group offers banking services, credit and access card facilities, leasing, housing and general finance, international and investment banking, wealth and funds management, life insurance and custodian, trustee and nominee services.
- *Westpac Banking Corporation* offers general and savings banking, including lending, deposit taking and payment services. Westpac also provides investment portfolio management and advice, unit trust and superannuation funds management, nominee and custodian facilities, insurance services, consumer finance, leasing, general finance, foreign exchange dealing and money market services.

Regional banks

- *Bank of Queensland Limited* operates trading and savings bank facilities that offer loans, advances and lines of credit to Queensland communities, credit card facilities, personal loans and nominee/corporate/international services. The bank also offers management services along with offering electronic banking and delivery services.
- *St George Bank Limited* is a commercial bank providing retail banking and financial services. The bank's services include consumer lending, call and term deposits, funds management, financial planning, general and life insurance, investment advice, treasury market services, personal financial services, institutional banking, leasing and derivatives.
- *Suncorp-Metway Limited* offers retail and business banking, life and general insurance, superannuation and funds management services. The group's services include personal banking and loans, personal insurance products, credit cards, pension savings accounts, term

⁶ Source: Bloomberg and company websites.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

deposits, property development finance, commercial lending, investments and lease financing.

Building societies

- *Home Building Society Limited* provides a range of financial services in Western Australia. The services include cheque and savings accounts, term deposits, housing loans, personal and commercial loans of various types, electronic card and telephone transaction facilities, insurance services and financial planning. The company also has interests in land development projects.
- *Mackay Permanent Building Society Limited* operations include the raising of funds and the provision of finance for housing. The company offers loan services including residential loans secured by mortgages along with providing a variety of savings deposit accounts, long term deposit accounts, overdrafts and commercial and consumer lending.
- *Rock Building Society Limited* activities include the raising of retail deposit funds from the Central Queensland general public and the provision of housing finance which is secured by registered mortgages over residential property. The company also provides household insurance products and financial planning services.
- *Wide Bay Australia Limited* provides home loans and mortgages throughout Australia. The company also provides investment opportunities, associated financial services, electronic banking, insurance services, credit cards, lines of credit and foreign exchange services.

Mortgage providers

- *Firstfolio Limited* offers lending and transaction products and solutions. The group processes and manages residential and commercial mortgages along with providing wholesale funds from financial institutions. The group also offers infrastructure IT support for small businesses.
- *Homeloans Limited* provides non-bank originator and mortgage management services to home owners in Australia. The company operates under the brand name of Homeloans.
- *Mortgage Choice Limited* provides mortgage broking and related financial services. The company provides advice regarding mortgage products offered by its panel of lenders and service to residential mortgage consumers for both owner occupied and investment loans.
- *RAMS Home Loans Group Limited* provides residential home loans throughout Australia. The company's business covers origination, distribution and funding of residential home loans.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Funds management

- *Allco Finance Group Limited* is a financial services group focusing on specialised asset finance, funds management, and debt and equity funding. The group's primary asset classes include aviation, shipping, rail, property, small ticket equity and financial assets.
- *Challenger Financial Services Group Limited* provides asset and funds management, advisory services, corporate financial services, retirement income products, mortgage financing, margin lending and property investment services.
- *City Pacific Limited* is a funds and investment management company operating in Australia. The company focuses on lending against mortgage backed securities and also is involved in property development and short-term lending.
- *Everest Babcock & Brown Limited* is an absolute return investment fund manager. The company manages a number of absolute return funds and funds that invest directly in subordinated debt and equity co-investments. Everest Babcock & Brown is not associated or affiliated with the Bermuda-based Everest Capital.
- *HFA Holdings Limited* is a specialist funds management company. The company provides absolute fund products to retail, wholesale, and institutional investors throughout Australia.
- *Hunter Hall International Limited* is an ethical fund manager whose investment policy restricts investment in companies involved in activities such as tobacco, armaments, gambling, destruction of the environment or cruelty to animals.
- *IOOF Holdings Limited* is a financial services company operating in Australia. The services provided by the company include personal superannuation, allocated pension services, employee superannuation retirement services and funds management.
- *Magellan Financial Group Ltd* is a specialist fund management group involved in the development of globally focused investment funds for retail and institutional investors.
- *Mariner Financial Limited* is a financial services company. The company provides investment banking and financial services which includes developing and distributing investment products and retirement income products.
- *MFS Limited* is a diversified investment company in the funds management and financial service sectors. MFS owns the MFS Fund Management Group, the HFA Funds Management Group, and a range of domestic tourism and accommodation related assets.

For personal use only



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

- *Perpetual Limited* is a financial services company that has two primary activities, wealth management services and corporate trust services. The company provides funds management, responsible entity services, trustee services, executor services, financial planning, investment administration, superannuation, custody and registry services.
- *Platinum Asset Management Limited* is a fund management company. The company specialises in the investment of global equities.
- *Prime Financial Group Limited* is a diversified financial services and advisory company. The company provides financial advice, funds management, corporate advisory and finance.
- *Treasury Group Limited* is an Australian investment and funds management company. The company is developing a wholesale funds management service.
- *Wilson HTM Investment Group* is a national investment and advisory group servicing private and corporate markets, and providing investment management.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Appendix 4 – Comparable transactions

We have reviewed transactions that have been completed in the Australian banking and wealth management industries, with particular focus on banks, building societies, mortgage providers and wealth management companies that provide funds management and/or financial planning services. In considering comparable transaction information, we note that:

- it is difficult to find comparable transaction information involving companies directly comparable to Adelaide Bank and Bendigo Bank due to differences in the various market segments, product offerings, size, and geographical locations in which companies involved in comparable transactions are operating
- the transactions typically resulted in the transfer of control to the acquiring entity. As such, the implied multiples include a premium for control. This premium often reflects the synergistic benefits of the transaction to the acquirer, as well as the payment of a simple control premium. There is insufficient publicly available information to determine the extent to which implied multiples relate to operating synergies as opposed to a simple control premium
- the control premium paid is not explicitly determined, rather it is an outcome of the transaction being completed at a price that is acceptable to the acquirer. Therefore, depending on the nature of the transaction, the circumstances of the acquirer and the business being acquired, the control premium paid in each case is likely to vary over a wide range

We have detailed the comparable transactions (where public information is available) used in our analysis in the table below.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Table 76: Comparable transactions

Announcement date	Target	Acquirer	Percentage acquired	Equity value AUD\$ m	Historical PE multiple times	Forecast PE multiple times	NTA multiple times	FUM percentage
Banks								
Oct 2003	National Bank of New Zealand	ANZ	100.0%	4,915.0	11.2	7.2	2.7	n/a
May 2003	Bank of Western Australia	HBOS	43.0%	2,426.5	15.6	14.2	2.0	n/a
Mar 2000	Colonial	Commonwealth Bank	100.0%	8,198.8	18.0	n/a	1.7	n/a
Nov 1999	Trust Bank of Tasmania	Colonial	100.0%	149.1	11.5	n/a	1.1	n/a
Apr 1997	Bank of Melbourne	Westpac	100.0%	1,440.0	15.8	14.8	2.2	n/a
Oct 1996	Advance Bank	St George Bank	100.0%	2,809.7	13.4	n/a	2.7	n/a
Jun 1996	Metway Bank	Suncorp and QIDC	9.9%	642.4	15.1	14.5	1.9	n/a
Average					14.4	12.7	2.0	n/a
Median					15.1	14.4	2.0	n/a
Building societies								
Aug 2007	Mackay Permanent Building*	Bank of Queensland	100.0%	53.2	31.0	28.0	3.0	n/a
Aug 2006	Pioneer Permanent Building	Bank of Queensland	100.0%	49.6	25.3	n/a	2.6	n/a
Aug 2005	StateWest Credit Society	Home Building Society	100.0%	120.0	16.7	n/a	1.7	n/a
Sep 2001	NRMA Building Society	HSBC Bank Australia	100.0%	138.0	n/a	n/a	1.6	n/a
Jun 2000	First Australian Building Society	Bendigo Bank	100.0%	134.9	14.5	18.1	1.1	n/a
Mar 1999	IOOF Building Society	Bendigo Bank	100.0%	42.9	15.8	n/a	2.8	n/a
Average					20.7	23.1	2.1	n/a
Median					16.7	23.1	2.2	n/a
Mortgage providers								
Jul 2007	RAMS Home Loans Group	IPO	78.6%	884.5	29.5	n/a	n/a	n/a
Funds Management								
May 2007	Platinum Asset Management	IPO	20.0%	2,805.0	15.0	n/a	12.9	11.5%
Oct 2006	Perennial Investment	IOOF	21.9%	310.8	n/a	31.1	13.4	1.5%
Jan 2006	Select Managed Funds	Australian Wealth Management	100.0%	396.6	28.3	16.8	12.1	5.3%
Mar 2006	Oasis Asset Management	ING Australia	76.0%	71.1	n/a	n/a	n/a	2.0%
Mar 2005	HSBC Asset Management	Challenger Financial Services	100.0%	21.9	7.1	n/a	n/a	0.6%
Feb 2005	Treasury Group PL	City Pacific	100.0%	24.0	n/a	n/a	n/a	2.0%
Nov 2004	Tower de-merger	Australian Wealth Management	100.0%	250.0	16.0	15.1	7.6	1.7%
Apr 2004	Associated Planners Group	Challenger Financial Services	100.0%	91.3	612.8	n/a	n/a	1.2%
Feb 2003	Tyndall Investment	James Fielding Holdings	14.9%	29.8	12.5	n/a	n/a	5.6%
Jan 2003	Challenger International	CPH Investment Corp	100.0%	551.4	3.5	n/a	0.7	23.3%
Aug 2002	BT Financial Group	Westpac Banking Corporation	100.0%	900.0	-180.0	33.0	7.0	5.0%
Aug 2002	Hastings Funds Management	Westpac Banking Corporation	51.0%	70.6	n/a	n/a	n/a	3.5%
Jul 2002	ipac Securities	AXA Asia Pacific Holdings	100.0%	205.0	43.8	15.0	n/a	4.4%
Apr 2002	Rothschild Australia	Westpac Banking Corporation	100.0%	323.0	24.0	n/a	n/a	3.1%
Jan 2002	ANZ Funds Management JV	ING Australia	100.0%	3,753.0	20.1	n/a	3.0	9.8%
Average (excluding outliers)					18.9	22.2	8.1	4.1%
Median (excluding outliers)					16.0	16.8	7.6	3.3%

Note:

* Transaction pending.

Source: Company announcements, Thomson Financial, various independent expert reports, Connect4, MergerMarkets, Bloomberg.



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Appendix 5 – Brokers' forecast earnings consensus

The table below provides a summary of forecast cash NPAT (or adjusted NPAT in some cases) by various brokers that follow both Adelaide Bank and Bendigo Bank in the Australian share market. We note that the forecasts presented represent forecasts published by brokers following the announcement of the Merger Proposal on 8 August 2007.

Table 77: Brokers' forecast earnings consensus

Smillion	Date of broker report	FY 2008 Cash NPAT	
		Adelaide Bank	Bendigo Bank
Broker 1	9-Aug-07	117.0	135.0
Broker 2	9-Aug-07	114.7	131.5
Broker 3	9-Aug-07	122.0	144.0
Broker 4	9-Aug-07	117.0	135.0
Broker 5	9-Aug-07	116.1	134.8
Broker 6	9-Aug-07	120.0	140.0
Broker 7	9-Aug-07	117.4	134.6
Broker 8	9-Aug-07	115.0	136.0
Broker 9	9-Aug-07	116.0	135.0
Average		117.2	136.2
Median		117.0	135.0

Note:

A number of the cash NPAT forecasts shown above are referred to as 'adjusted NPAT' in brokers' reports.

Source: Various broker reports.



*Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007*

Appendix 6 – Overview of the valuation methodologies

Discounted cash flow methodology

Value is future oriented and accordingly the theoretically correct manner to assess value is to consider future earnings potential of a business. Under a DCF approach, forecast cash flows are discounted back to the valuation date, generating a net present value for the cash flow stream of the business. A terminal value at the end of the explicit forecast period is then determined and that value is also discounted back to the valuation date and added to the net present value of the cash flow stream to give an overall value for the business.

In a DCF valuation, the forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operation cycle for more cyclical industries. Typically, a forecast period of at least five years is required, although this can vary by industry and by sector within a given industry.

Discount rate

The rate at which the future cash flows are discounted (the discount rate) should reflect not only the time value of money, but also the risk associated with the business' future operations. This means that in order for a DCF to produce a sensible valuation figure, the quality of the underlying cash flow forecasts is fundamental.

The discount rate typically employed is the weighted average cost of capital of the business, reflecting an optimal (as opposed to actual) financing structure, which is applied to unleveraged cash flows and results in an enterprise value for the business. Alternatively, in certain circumstances, it is more appropriate to apply an equity approach, which takes the business' cost of equity and applies it to leveraged cash flows to determine an equity value for the business.

Terminal value

In calculating the terminal value, regard must be had to the business' potential for further growth beyond the explicit forecast period. The "constant growth model", which applies an expected constant level of growth to the cash flow forecast in the last year of the forecast period and assumes such growth is achieved in perpetuity, is a common method. The terminal value calculation should be cross-checked for reasonableness against implied exit multiples.

Capitalisation of earnings methodology

An earnings based approach estimates a sustainable level of future earnings for a business (assessed earnings) and applies an appropriate multiple to those earnings, capitalising them into a value for the business. The earnings bases to which a multiple is commonly applied include earnings before interest, taxation, depreciation and amortisation (EBITDA), earnings before interest, taxation, and amortisation (EBITA), earnings before interest and taxation (EBIT) and NPAT.

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Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

In assessing the earnings of the business being valued, factors to be taken into account include whether the historical performance of the business reflects the expected level of future operating performance, particularly in cases of continued development or when significant changes occur in the operating environment and when the underlying business is cyclical.

With regard to the multiples applied in an earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued.

The multiples derived for comparable quoted companies are generally based on share prices reflective of the trades of small parcels of shares. As such, they generally reflect multiples reflective of the prices at which portfolio interests change hands. That is there is no premium for control incorporated within such pricing. They may also be impacted by the level of liquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (i.e. 100 percent) it is appropriate to also reference the multiples achieved in recent transactions, where a control premium and breadth of purchaser interest are more fully reflected.

An earnings approach is effectively a proxy for the DCF valuation approach. It may be used as a primary valuation approach where the business subject to valuation is a stable business operating in a relatively mature or developed industry, or to provide a market cross-check to the conclusions reached under a theoretical DCF approach. An earnings approach is also commonly adopted when sufficiently reliable forecast information to undertake a DCF is not available.

Net assets or cost based methodology

Under a net assets or cost based approach, total value is based on the sum of the net asset value or the costs incurred in developing a business to date, plus, if appropriate, a premium to reflect the value of intangible assets not recorded on the balance sheet.

Net asset value is determined by marking every asset and liability on (and off) the company's balance sheet to current market values.

A premium is added, if appropriate, to the marked-to-market net asset value, reflecting the profitability, market position and the overall attractiveness of the business. The net asset value, including any premium, can be matched to the "book" net asset value, to give a price to net assets, which can then be compared to that of similar transactions or quoted companies.

A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (eg. real estate holding companies). A net asset approach is also useful as a cross-check to assess the relative riskiness of the business (eg. through measures such as levels of tangible asset backing).



Adelaide Bank Limited
Independent expert report & Financial services guide
2 October 2007

Alternative acquirer

This valuation methodology considers the premium price that an alternative acquirer is prepared to pay for a business as a result of potential economies of scale, reduction in competition and synergies with existing operations or other factors.

Industry specific methodology

Depending on the industry in which the business operates, an industry specific approach may be appropriate in assessing value. Industry specific methodologies typically involve the application of a 'rule of thumb', which is accepted within the industry as an appropriate basis for benchmarking value.

Industry specific methodologies typically involve the application of a multiplier to an operating metric such as revenue, customer numbers or funds under management.

The multiplier applied is determined with reference to common perception in the market, which is supported through empirical evidence from recently completed transactions.

An industry specific methodology is most appropriate as a cross-check of the value determined by applying one of the above methodologies as a primary methodology.

Enterprise or equity value

Depending on the valuation approach selected and the treatment of the business' existing debt position, the valuation range calculated will result in either an enterprise value or an equity value being determined.

An enterprise value reflects the value of the whole of the business (i.e. the total assets of the business including fixed assets, working capital and goodwill/intangibles) that accrues to the providers of both debt and equity. An enterprise value will be calculated if a multiple is applied to unleveraged earnings (i.e. revenue, EBITDA, EBITA or EBIT) or unleveraged free cash flow.

An equity value reflects the value that accrues to the equity holders. To compare an enterprise value to an equity value, the level of net debt must be deducted from the enterprise value. An equity value will be calculated if a multiple is applied to leveraged earnings (i.e. NPAT) or free cash flow, post debt servicing.

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Independent Expert's Report for Step Up Preference Shareholders



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The Board of Directors
Adelaide Bank Limited
169 Pirie Street
Adelaide SA 5000

2 October 2007

Dear Mesdames and Sirs

Independent expert letter to Step Up Preference shareholders & Financial services guide

1 Introduction

On 9 August 2007, the Boards of Directors of Adelaide Bank Limited (Adelaide Bank) and Bendigo Bank Limited (Bendigo Bank) jointly announced their intention to merge their respective businesses (Merger Proposal or Proposed Merger). The Merger Proposal is to be effected by way of a scheme of arrangement with Adelaide Bank's ordinary shareholders (Ordinary Share Scheme) which, if approved, will result in Bendigo Bank acquiring all the ordinary shares of Adelaide Bank and Adelaide Bank becoming a subsidiary of Bendigo Bank.

In connection with the Merger Proposal, Bendigo Bank is seeking to acquire all of the Step Up Preference Shares of Adelaide Bank (Adelaide Bank SPS) via a separate scheme of arrangement (Step Up Preference Share Scheme) with Adelaide Bank's Step Up Preference shareholders (Adelaide Bank SPS holders).

Under the Step Up Preference Share Scheme, Adelaide Bank SPS holders (except Ineligible Foreign Step Up Preference Shareholders) will receive one fully paid Step Up Preference Share in Bendigo Bank (New Bendigo Bank SPS) for every Adelaide Bank SPS they currently own.

The Step Up Preference Share Scheme is conditional upon the Ordinary Share Scheme becoming effective, but not vice-versa.

A separate scheme of arrangement is proposed for the Reset Preference Shares of Adelaide Bank (Reset Preference Share Scheme). The Step Up Preference Share Scheme is not conditional upon the Reset Preference Share Scheme being approved, and vice-versa.

Adelaide Bank is a public company listed on the Australian Securities Exchange (ASX) with a market capitalisation of approximately \$1.6 billion based on the closing share price on 8 August 2007, being the date prior to the announcement of the Merger Proposal. Adelaide Bank is currently one of Australia's top 150 companies listed on the ASX. The principal activities of



Adelaide Bank Limited
Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007

Adelaide Bank include the provision of residential mortgages, business loans, consumer loans, margin loans, savings and investment products. It had assets and loans under management of approximately \$32.4 billion and \$27.5 billion respectively at 30 June 2007.

Bendigo Bank is also a public company listed on the ASX, with a market capitalisation at 8 August 2007 of approximately \$2.3 billion. Bendigo Bank is currently one of Australia's top 100 companies listed on the ASX. Bendigo Bank provides a range of banking and other financial services primarily to retail customers and small to medium size businesses including residential mortgages, business loans, savings and investment products, financial planning advice and trustee services. Bendigo Bank's products are distributed through the bank's retail network, which includes Community Bank® and joint venture partners such as Elders Rural Bank, Homesafe Solutions and Tasmanian Banking Services.

The combined business of Adelaide Bank and Bendigo Bank is hereafter referred to as the "Merged Group".

2

Requirement for our letter

There are no statutory or regulatory requirements for an independent expert report to be prepared for Adelaide Bank SPS holders in relation to the Step Up Preference Share Scheme. Nevertheless, the Directors of Adelaide Bank have commissioned KPMG Corporate Finance (Aust) Pty Ltd (KPMG) to prepare this independent expert letter (IEL) stating whether, in our opinion, the Step Up Preference Share Scheme is in the best interests of Adelaide Bank SPS holders.

The purpose of the IEL is to assist Adelaide Bank SPS holders in deciding whether or not to vote in favour of the Step Up Preference Share Scheme.

Regulatory Guide 75 (formerly Policy Statement 75) "Independent Expert Reports to Shareholders", issued by the Australian Securities and Investments Commission (ASIC), indicates the principles and matters that it expects a person preparing an expert report for inclusion in an explanatory statement to consider in determining whether a scheme of arrangement is "in the best interests of the members". With respect to determining the meaning of "in the best interests", paragraph 6 of Policy Statement 75 states:

"Fair and reasonable" should be taken as a reference to "in the best interests of the members".

Whilst this does not indicate that ASIC considers "fair and reasonable" to have the same meaning as "in the best interests of members", we consider that an analysis undertaken under the concepts of "fair and reasonable" as expressed in Regulatory Guide 75 is consistent with determining whether a proposal is "in the best interests of the members".

Schemes of arrangement pursuant to Section 411 can encompass a wide range of transactions. Accordingly, "in the best interests" must be capable of a broad interpretation to meet the particular circumstances of each transaction.

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Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007

In the present context, we are of the opinion that the expert must consider the overall commercial effect of the Step Up Preference Share Scheme, to form a view as to whether the Step Up Preference Share Scheme is in the best interests of Adelaide Bank SPS holders. Accordingly, in assessing whether the Step Up Preference Share Scheme is in the best interests of Adelaide Bank SPS holders, we have considered, inter alia:

- the key terms and conditions of the Adelaide Bank SPS compared to the key terms and conditions of the New Bendigo Bank SPS to be received as consideration under the Step Up Preference Share Scheme
- the credit quality of the New Bendigo Bank SPS being offered as consideration under the Step Up Preference Share Scheme
- whether the Merger Proposal is in the best interests of Adelaide Bank ordinary shareholders. In this regard, if an election is made by the Merged Group to exchange the New Bendigo Bank SPS for ordinary shares in the Merged Group on various dates in the future, then New Bendigo Bank SPS holders will become ordinary shareholders in the Merged Group at that time. Accordingly, our assessment of the Merger Proposal from the perspective of Adelaide Bank ordinary shareholders is also applicable to Adelaide Bank SPS holders as prospective ordinary shareholders of the Merged Group
- the possible disadvantages of the Step Up Preference Share Scheme
- the tax implications on Adelaide Bank SPS holders in approving the Step Up Preference Share Scheme
- the possible implications on Adelaide Bank SPS holders if the Step Up Preference Share Scheme is not approved.

This letter forms part of the Scheme Booklet prepared by Adelaide Bank in relation to the Merger Proposal (Scheme Booklet) dated on or about 3 October 2007. Details of the Step Up Preference Share Scheme are set out fully in the Scheme Booklet.

This letter should be read in conjunction with our Independent Expert Report to ordinary shareholders of Adelaide Bank (IER) dated on or about 2 October 2007.

3 Summary of opinion

3.1 Conclusion

In our opinion, having regard to the matters set out in this letter, and in the absence of a superior proposal, on balance, the Step Up Preference Share Scheme is in the best interests of Adelaide Bank SPS holders.

The main reasons for our conclusion are:



Adelaide Bank Limited
Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007

- **the key terms of the New Bendigo Bank SPS are substantially the same as the key terms currently applicable to Adelaide Bank SPS**
- **the New Bendigo Bank SPS will potentially be of a greater credit quality than the Adelaide Bank SPS**
- **we have concluded that, in the absence of a superior proposal, on balance, the Merger Proposal is in the best interests of Adelaide Bank ordinary shareholders**
- **none of the disadvantages of the Step Up Preference Share Scheme outweigh the benefits of the scheme**
- **capital gains tax (CGT) rollover relief provision should apply to many Adelaide Bank SPS holders**
- **there are possible negative implications if the Step Up Preference Share Scheme is not implemented but the Ordinary Share Scheme is implemented.**

Details of the above can be found in Section 5.

3.2

General advice

In forming our opinion, we have considered the interests of Adelaide Bank SPS holders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual Adelaide Bank SPS holders. It is neither practical nor possible to assess the implications of the Step Up Preference Share Scheme on individual Adelaide Bank SPS holders as we do not know their specific financial circumstances.

The decision of Adelaide Bank SPS holders as to whether or not to vote in favour of the Step Up Preference Share Scheme is a matter for individuals based on, amongst other things, their views as to value and future market conditions, risk profile, liquidity preference, investment strategy and tax position. Individual Adelaide Bank SPS holders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the Step Up Preference Share Scheme may be influenced by his or her particular circumstances, we recommend that individual Adelaide Bank SPS holders consult their financial adviser.

Our opinion is based solely on the information available at the date of this letter as set out in Appendix 2. We note that we have not undertaken to update our letter for events or circumstances arising after the date of this letter.

The above opinion should be considered in conjunction with, and not independently of, the information set out in the remainder of this letter, including the appendices. In addition, this letter should be read in conjunction with our IER and the Scheme Booklet.

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Adelaide Bank Limited
Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007

All currency amounts in this letter are denominated in Australian dollars (\$) unless stated otherwise.

Yours faithfully

Gary Wingrove
Executive Director

Don Manifold
Executive Director

Lilian Look
Director

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Adelaide Bank Limited
Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007

Contents

Financial Services Guide	7
4 Overview of Adelaide Bank Step Up Preference Shares.....	9
5 Evaluation of the Step Up Preference Share Scheme.....	13
Appendix 1 – Qualifications and declarations.....	21
Appendix 2 – Sources of information	24

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*Adelaide Bank Limited
Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007*

Financial Services Guide

2 October 2007

KPMG Corporate Finance (Aust) Pty Ltd ABN 43 007 363 215 (KPMG or we or us or our as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide (**FSG**). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted
- the services we are authorised to provide under our **Australian Financial Services Licence, Licence No: 246901**
- remuneration that we and/or our staff and any associates receive in connection with the general financial product advice
- any relevant associations or relationships we have
- our complaints handling procedures and how you may access them.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence, which authorises us to provide financial product advice in relation to:

- interests in managed investments schemes (excluding investor directed portfolio services)
- securities (such as shares and debentures).

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.



*Adelaide Bank Limited
Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007*

Benefits that we may receive

We charge fees for providing reports. These fees will be agreed with, and paid by, the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis.

Except for the fees referred to above, neither KPMG, nor any of its executive directors, directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Associations and relationships

Through a variety of corporate and trust structures KPMG is ultimately controlled by and operates as part of KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). Our executive directors may be partners in the KPMG Partnership. From time to time KPMG, the KPMG Partnership and/or entities related to the KPMG Partnership may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Industry Complaints Service Limited (**FICS**). FICS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FICS are available at the FICS website www.fics.asn.au or by contacting them directly at Financial Industry Complaints Service Limited, PO Box 579, Collins Street West, Melbourne VIC 8007.

Toll free: 1300 78 08 08 Facsimile: (03) 9621 2291

Contact details

You may contact us using the details set out at the top of our letterhead on page 1 of this letter.



Adelaide Bank Limited
Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007

4 Overview of Adelaide Bank Step Up Preference Shares

We provide in this section, an overview of the Adelaide Bank SPS to which the Step Up Preference Share Scheme relates.

4.1 Background

At the date of the announcement of the Merger Proposal, Adelaide Bank had one million Adelaide Bank SPS on issue.

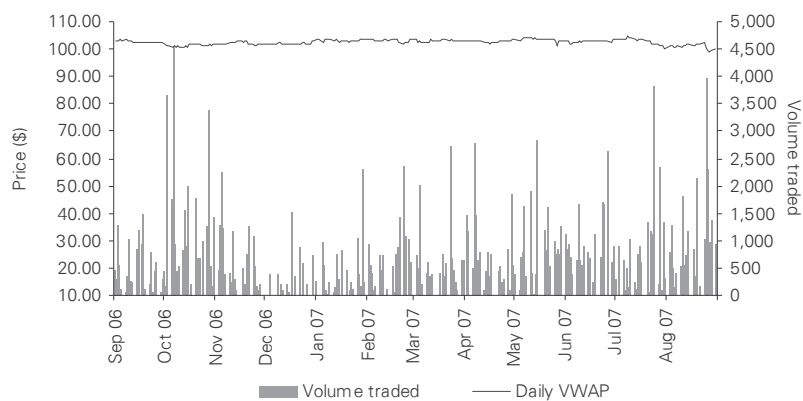
Adelaide Bank SPS were issued and began trading on the ASX under the code 'ADBPB' on 30 September 2004. They were issued principally for the purposes of boosting the bank's capital base (and therefore improve its capital adequacy) as well as lowering its cost of capital.

4.2 Adelaide Bank SPS price analysis

Market performance

The chart below graphs the daily Adelaide Bank SPS price, represented by the volume weighted average price (VWAP), and daily trading volume of Adelaide Bank SPS from 25 September 2006 to 24 September 2007 (the latest analysis date).

Figure 1: Adelaide Bank SPS – daily VWAP and volume



Source: IRESS.

In relation to the above chart, we note that:

- trading prices of Adelaide Bank SPS remained relatively flat over the last twelve months to 24 September 2007. During this period, the preference shares were relatively thinly traded at prices ranging from \$98.62 to \$105.00



Adelaide Bank Limited
Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007

- the increase in traded volumes between 27 October 2006 and 21 November 2006 appears to coincide with the following events:
 - Adelaide Bank's issue of approximately 593,000 ordinary shares under its Dividend Reinvestment Plan on 26 October 2006
 - presentation of Adelaide Bank's strategic direction by the General Manager and Chief Operating Officer on 3 November 2006
- the spike in trading volumes on 17 August 2007 appears to coincide with an overall improvement in the performance of the Australian share market on that day
- the increased trading activity from late August 2007 to the latest analysis date could possibly reflect the following:
 - on 22 August 2007 Adelaide Bank announced the Step Up Preference Share Scheme
 - on 4 September 2007 both Adelaide Bank and Bendigo Bank announced that their respective due diligence procedures relating to the Merger Proposal had been completed
 - on 11 September 2007 both Adelaide Bank and Bendigo Bank announced that the Australian Competition and Consumer Commission would not oppose the Merger Proposal
 - on 18 September 2007 there were rumours in the financial press that Adelaide Bank had sought liquidity assistance from the Reserve Bank of Australia (RBA), a rumour later refuted by both the RBA and Adelaide Bank
- Adelaide Bank SPS closed at \$99.80 on the latest analysis date of 24 September 2007.

Market performance relative to ordinary shares

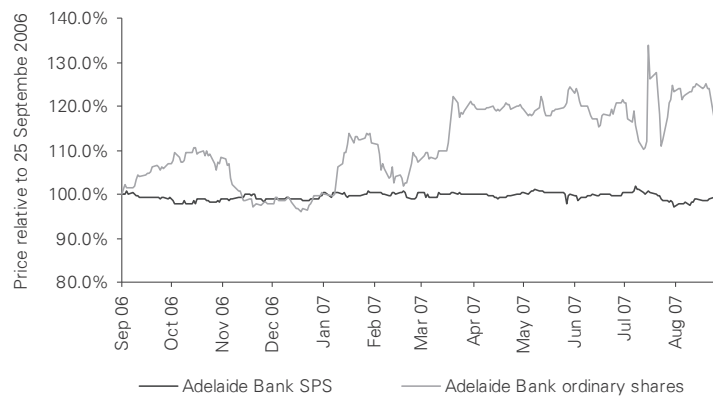
The figure below illustrates Adelaide Bank SPS' relative price performance to that of Adelaide Bank's ordinary share price (represented by VWAP) from 25 September 2006 to the latest analysis date.

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Adelaide Bank Limited
Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007

Figure 2: Adelaide Bank SPS' relative price performance to Adelaide Bank's ordinary share price



Source: IRESS.

In relation to the above chart, we note that the relative underperformance of Adelaide Bank SPS to that of the bank's ordinary shares is expected, being a relative function of the:

- nature and underlying attributes of preference shares
- smaller security holder base
- lower levels of trading.

4.3 **Ownership**

Adelaide Bank's top ten Step Up Preference shareholders as at 31 August 2007 (latest available) are set out in the table below.

Figure 3: Top ten Adelaide Bank SPS holders

Name of shareholder	Total number of shares held	% of total issued share capital
J P Morgan Nominees Australia Limited	51,020	5.1%
National Nominees Limited	50,000	5.0%
Argo Investments Limited	17,000	1.7%
ANZ Nominees Limited (Cash Income A/c)	15,908	1.6%
RBC Dexia Investor Services Australia Nominees Pty Limited (MLCI A/C)	11,932	1.2%
Returned Services League of Australia (Queensland Branch)	10,000	1.0%
Questor Financial Services Limited (TPS RF A/C)	8,284	0.8%
Petlind Pty Ltd	7,430	0.7%
Laidlaw Family Investments Pty Ltd (Laidlaw Family Invest A/C)	4,865	0.5%



Adelaide Bank Limited
Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007

Name of shareholder	Total number of shares held	% of total issued share capital
M F Custodians Ltd	4,240	0.4%
Total number held by top ten Adelaide Bank SPS holders	180,679	18.1%
Other Adelaide Bank SPS holders	819,321	81.9%
Total number of Adelaide Bank SPS on issue	1,000,000	100.0%

Source: Adelaide Bank 2007 Financial Statements.

In relation to the table above, we note that there are no substantial Adelaide Bank SPS holders as at 31 August 2007, and that most holders own relatively small percentages of the total number of Adelaide Bank SPS on issue.

4.4 *Terms of issue of Adelaide Bank SPS*

The terms of issue of the Adelaide Bank SPS include:

- face value of \$100.00 per Adelaide Bank SPS
- payment of a preferential, non-cumulative, floating rate dividend
- no maturity/expiry date as Adelaide Bank SPS are perpetual
- a dividend rate based on the bank bill rate plus a margin, multiplied by one minus the corporate tax rate. During the last year the dividend rate has ranged from 5.4 percent to 5.77 percent
- dividends are payable quarterly in arrears on 10 January, 10 April, 10 July and 10 October of each year
- Adelaide Bank may exchange Step Up Preference Shares for cash or ordinary shares or a combination of these on a dividend payment date in limited circumstances, such as changes in tax treatment, laws or regulations or on the step up date (i.e. 10 October 2014), or on any subsequent dividend payment date
- holders of Step Up Preference Shares are not entitled to vote except in limited circumstances, and do not have a right to participate in security issues or capital reconstructions.

Other key terms of the Adelaide Bank SPS are detailed in the Scheme Booklet.

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Adelaide Bank Limited
Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007

5 Evaluation of the Step Up Preference Share Scheme

5.1 Approach

For the purposes of assessing whether the Step Up Preference Share Scheme is in the best interests of the Adelaide Bank SPS holders, we have considered, inter alia:

- the key terms and conditions of the Adelaide Bank SPS compared to the key terms and conditions of the New Bendigo Bank SPS to be received as consideration under the Step Up Preference Share Scheme
- the credit quality of the New Bendigo Bank SPS being offered as consideration under the Step Up Preference Share Scheme
- whether the Merger Proposal is in the best interests of Adelaide Bank ordinary shareholders. In this regard, if an election is made by the Merged Group to exchange the New Bendigo Bank SPS for ordinary shares in the Merged Group on various dates in the future, then New Bendigo Bank SPS holders will become ordinary shareholders in the Merged Group at that time. Accordingly, our assessment of the Merger Proposal from the perspective of Adelaide Bank ordinary shareholders is also applicable to Adelaide Bank SPS holders as prospective ordinary shareholders of the Merged Group
- the possible disadvantages of the Step Up Preference Share Scheme
- the tax implications on Adelaide Bank SPS holders in approving the Step Up Preference Share Scheme
- the possible implications on Adelaide Bank SPS holders if the Step Up Preference Share Scheme is not approved, but the Ordinary Share Scheme is approved.

5.2 Comparison of key terms of Adelaide Bank SPS and New Bendigo Bank SPS

The key terms of the New Bendigo Bank SPS are substantially the same as the key terms currently applicable to Adelaide Bank SPS.

All key terms of issue currently applicable to the Adelaide Bank SPS will remain substantially intact under the New Bendigo Bank SPS, except for the following main changes:

- under the terms of issue of the New Bendigo Bank SPS, the right of the Merged Group to exchange New Bendigo Bank SPS for ordinary shares in the Merged Group and/or cash has been extended through the following:
 - the inclusion of an "Acquisition Event" which is described below
 - the expansion of the definition of a "Tax Event" which is described below.

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Adelaide Bank Limited
Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007

While there are no equivalent rights in the terms of the Adelaide Bank SPS relating to the above, we note that:

- the inclusion of an Acquisition Event appears to be consistent with terms that are typically found in securities of this nature, and is not considered unreasonable
- the additions to the Tax Event definition appears to be aimed at maintaining the taxation benefits (in terms of franking credits) of the Adelaide Bank SPS, which is in the interests of most Adelaide Bank SPS holders
- under the terms of issue of the New Bendigo Bank SPS, New Bendigo Bank SPS will rank equally with:
 - existing Bendigo Bank Preference Shares on issue (BPS)
 - New Bendigo Bank RPS to be issued under the Reset Preference Share Scheme (if approved)

for the payment of dividends, or in the case of winding up or liquidation of the Merged Group on the return of the face value and any dividend due but not paid.

We note that under the current terms of issue of the Adelaide Bank SPS and Adelaide Bank RPS, both the Adelaide Bank SPS and Adelaide Bank RPS have equal ranking for the payment of dividends and share capital/dividend returns on a winding up or liquidation. In this regard, while the inclusion of the BPS in the same ranking as the New Bendigo Bank SPS and New Bendigo Bank RPS effectively dilutes the capital base available for preference share distributions (both in the form of dividends and capital return) of the Merged Group, the Merged Group will have a larger capital base from which to make distributions.

Details of the Acquisition Event, expanded Tax Event and new ranking terms are discussed below.

Acquisition Event

Whilst not defined under the Adelaide Bank SPS, under the New Bendigo Bank SPS the Merged Group may exchange New Bendigo Bank SPS for ordinary shares in the Merged Group and/or cash on any Dividend Payment Date (as defined in the Terms of Issue of the New Bendigo Bank SPS) following the occurrence of an Acquisition Event, which may occur prior to the Step Up Date (as defined in the Terms of Issue of the New Bendigo Bank SPS). An Acquisition Event occurs when:

- a takeover bid is made to acquire ordinary shares in the Merged Group, the offers under the bid are, or become unconditional and either:

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Adelaide Bank Limited
Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007

- the bidder has a relevant interest in more than 50 percent of ordinary shares in the Merged Group on issue, or
- the Bendigo Bank Directors issue a statement recommending acceptance of the offers under the bid, or
- Bendigo Bank Directors issue a statement recommending a scheme of arrangement which, when implemented, will result in a person having a relevant interest in more than 50 percent of ordinary shares in the Merged Group on issue.

Expanded Tax Event definition

In addition to the existing definition of a Tax Event under the terms of the Adelaide Bank SPS, under the terms of the New Bendigo Bank SPS the Merged Group may exchange New Bendigo Bank SPS for ordinary shares in the Merged Group and/or cash on any Dividend Payment Date following the receipt of advice from a reputable legal counsel or tax advisor in Australia that as a result of a change in Australian tax law:

- New Bendigo Bank SPS will not be treated as equity interests for taxation purposes, or
- imputation benefits will be denied to New Bendigo Bank SPS holders, or
- franking debits will be posted to the Merged Group's franking account as a result of:
 - the New Bendigo Bank SPS being on issue, or
 - ordinary shares in the Merged Group being on issue following any exchange of New Bendigo Bank SPS for ordinary shares in the Merged Group.

Additional ranking terms - accommodating Bendigo Bank Preference Shares

The terms of the New Bendigo Bank SPS restrict payments and returns of capital on certain securities, including ordinary shares in the Merged Group, in circumstances where the Merged Group has failed to pay New Bendigo Bank SPS holders a dividend in full within a specified time. Broadly, the restrictions will only be lifted if:

- four consecutive dividend payments are then made to New Bendigo SPS holders (or equivalent dividends if the frequency of payment is other than quarterly), or
- an optional dividend equal to the unpaid amount (if any) of the four immediately preceding dividends (or equivalent dividends if the frequency of payment is other than quarterly) is paid to:
 - New Bendigo Bank SPS holders

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Adelaide Bank Limited
Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007

- any equal ranking holders of the share capital of the Merged Group (if any).

Whilst a similar clause to the above can be found in the terms of the Adelaide Bank SPS, the last point (payment of an optional dividend to equal ranking holders of the Merged Group's share capital) has been incorporated to ensure equal treatment between New Bendigo Bank SPS holders, New Bendigo Bank Reset Preference shareholders (New Bendigo Bank RPS holders) and BPS holders

- the share underlying each New Bendigo Bank SPS is a fully paid ordinary share in the Merged Group, instead of a fully paid ordinary share in Adelaide Bank which is currently the share underlying each Adelaide Bank SPS.

5.3 ***The credit quality of the New Bendigo Bank SPS being offered as consideration under the Step Up Preference Share Scheme***

The New Bendigo Bank SPS may potentially be of a greater credit quality than the Adelaide Bank SPS.

As discussed in Section 2.6 of the IER, the Merger Proposal offers a range of potential benefits to Adelaide Bank ordinary shareholders (and therefore Adelaide Bank SPS holders), such as:

- value from cost synergies
- larger customer base
- diversification of funding
- diversification of assets
- greater capital management flexibility.

The above benefits could potentially lead to a positive credit re-rating for the Merged Group in comparison to Adelaide Bank. In this regard, following the announcement of the Merger Proposal, rating agency Standard and Poor's (S&P) affirmed its 'BBB+/A-2' issuer credit ratings on both Adelaide Bank and Bendigo Bank, and revised its outlook on the ratings from stable to positive, reflecting the possibility that the rating of the Merged Group may be increased by one level in the next two years as benefits of the Merger Proposal are progressively realised. It was noted that the Merged Group is likely to benefit from a stronger business profile as an outcome of:

- greater scale
- business diversity
- geographic diversity

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Adelaide Bank Limited
Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007

along with the potential for improvement in earnings diversity and funding flexibility. Notwithstanding the above, S&P raised the following possible challenges the Merged Group may face, primarily relating to:

- integration of information technology systems
- future operational and management structures
- cultural differences.

Further, S&P noted that any potential upgrade in credit rating of the Merged Group would depend on:

- the successful retention of each bank's customer base
- evidence that integration risks would be satisfactorily addressed
- projected cost savings being substantially realised.

Should the Merger Proposal not proceed, the outlook would revert to stable.

On balance, the Merger Proposal may lead to a positive credit re-rating of the Merged Group relative to the existing credit rating of Adelaide Bank. From the perspective of Adelaide Bank SPS holders, this would imply that the New Bendigo Bank SPS may potentially be of greater credit quality than the Adelaide Bank SPS, notwithstanding the implementation risks and uncertainties relating to the timing and/or costs of integration. Further, an upgrade in credit rating of the Merged Group may positively affect the market price and liquidity of the New Bendigo Bank SPS.

5.4 *The Merger Proposal is in the best interests of Adelaide Bank ordinary shareholders*

We have concluded that, in the absence of a superior proposal, on balance, the Merger Proposal is in the best interests of Adelaide Bank ordinary shareholders.

Based on our evaluation of the Merger Proposal from the perspective of Adelaide Bank ordinary shareholders (set out in Sections 2 and 12 of the IER), on balance, we consider that the Ordinary Share Scheme is in the best interests of Adelaide Bank ordinary shareholders. In particular, we have concluded that:

- the value of an ordinary share in the Merged Group is of greater value than that of an Adelaide Bank ordinary share
- Adelaide Bank ordinary shareholders are expected to be financially better off following the Merger Proposal

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Adelaide Bank Limited
Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007

- there are other qualitative factors set out in Sections 2.6 and 12.5 of the IER that are on balance favourable to Adelaide Bank ordinary shareholders, which include:
 - the Merger Proposal offers a range of potential benefits to Adelaide Bank ordinary shareholders
 - the Merger Proposal should have a positive impact on share market trading in the ordinary shares of the Merged Group.

We note however, that the Merger Proposal, as with any merger, is subject to implementation risks and uncertainties.

5.5 *Possible disadvantages of the Step Up Preference Share Scheme*

None of the disadvantages of the Step Up Preference Share Scheme outweigh the benefits of the scheme.

The possible disadvantages of the Step Up Preference Share Scheme to Adelaide Bank SPS holders include:

- No cash alternative and/or cash component is being offered as consideration and/or part thereof under the Step Up Preference Share Scheme. This represents a potential limited disadvantage for those shareholders wishing an absolute or partial exit from their investment. While they are able to exit by selling their shares on the ASX, transaction costs will be incurred.
- The actual value of the consideration to be received by Adelaide Bank SPS holders under the Step Up Preference Share Scheme cannot be quantified with certainty prior to the Step Up Preference Share Scheme meeting as the actual value of the consideration will be dependent upon the New Bendigo Bank SPS price at the time that the Step Up Preference Share Scheme is implemented.
- While the scrip consideration offered under the Step Up Preference Share Scheme may be more tax efficient for many Adelaide Bank SPS holders and allow them to share in a material way in the merger synergies and other benefits expected to result from the Merger Proposal, it exposes Adelaide Bank SPS holders to the integration risks of the transaction if synergies are not achieved.
- Ineligible Foreign Step Up Preference shareholders will not be issued New Bendigo Bank SPS as consideration under the Step Up Preference Share Scheme, instead, their entitlement will be issued to a nominee appointed by Bendigo Bank who will sell their shares on the ASX and remit the net proceeds to them. This represents a disadvantage for those Ineligible Foreign Step Up Preference shareholders who are seeking ongoing investment exposure in Step Up Preference shares in Adelaide Bank. However, they have the flexibility to reinvest the cash they will receive in Step Up Preference shares in the Merged Group, albeit they will have to incur transaction costs.

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Adelaide Bank Limited
Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007

5.6 *Tax implications*

CGT rollover relief provision should apply to many Adelaide Bank SPS holders.

Adelaide Bank SPS holders should refer to the taxation section which is included in the Scheme Booklet in relation to the tax effects of the Step Up Preference Share Scheme. The Scheme Booklet indicates that many Adelaide Bank SPS holders who hold their shares on capital account, should be able to utilise the capital gains tax rollover relief provisions to defer any capital gains tax liability until such time in the future as they dispose of their New Bendigo Bank SPS acquired as a consequence of the Step Up Preference Share Scheme. However, the specific tax implications for each Adelaide Bank SPS holder will depend upon the particular circumstances of the person or entity. Adelaide Bank SPS holders should not rely solely upon the taxation section of the Scheme Booklet for taxation purposes, and should seek and rely on their own taxation advice where appropriate.

5.7 *Implications if the Step Up Preference Share Scheme is not approved*

There are possible negative implications if the Step Up Preference Share Scheme is not implemented but the Ordinary Share Scheme is implemented.

If the Step Up Preference Share Scheme is not approved, there are different consequences depending on whether:

- the Ordinary Share Scheme is not approved
- the Ordinary Share Scheme is approved.

We discuss each scenario below.

If the Ordinary Share Scheme is not approved

If the Ordinary Share Scheme is not approved, the Step Up Preference Share Scheme will not proceed and Adelaide Bank SPS holders will retain their Adelaide Bank SPS with the terms of issue of the Adelaide Bank SPS remaining unchanged.

If the Ordinary Share Scheme is approved

If the Ordinary Share Scheme is approved, but the Step Up Preference Share Scheme is not approved, then:

- Bendigo Bank will acquire all of the Adelaide Bank ordinary shares
- Adelaide Bank SPS holders will retain their Adelaide Bank SPS and will not receive New Bendigo Bank SPS.



Adelaide Bank Limited
Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007

Were this to occur, Bendigo Bank may (subject to maintaining an appropriate capital position) seek to compulsorily acquire the Adelaide Bank SPS under Part 6A.2 of the Corporations Act. However, according to Adelaide Bank, there can be no assurance that compulsory acquisition would proceed or that it would proceed within a particular timeframe. Accordingly, Adelaide Bank SPS holders should note that under the terms of the Adelaide Bank SPS, Adelaide Bank may at its discretion, exchange Adelaide Bank SPS for cash or Adelaide Bank ordinary shares at certain times or on the occurrence of certain events. In this regard, the Merged Group would be unlikely to exchange Adelaide Bank SPS for ordinary shares, as exchanging for Adelaide Bank ordinary shares would reduce the Merged Group's holdings of Adelaide Bank ordinary shares below 100 percent. We note however, that if the Reset Preference Share Scheme is also not approved, then Bendigo Bank may need to first exchange Adelaide Bank RPS for cash consideration (subject to APRA approval) pursuant to the change of control terms of the Adelaide Bank RPS, before compulsorily acquiring the Adelaide Bank SPS.

5.8

Conclusion

In our opinion, having regard to the matters set out in this letter, and in the absence of a superior proposal, on balance, the Step Up Preference Share Scheme is in the best interests of Adelaide Bank SPS holders.

In forming our opinion, we have considered the interests of Adelaide Bank SPS holders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual Adelaide Bank SPS holders. It is neither practical nor possible to assess the implications of the Step Up Preference Share Scheme on individual Adelaide Bank SPS holders as we do not know their specific financial circumstances.

The decision of Adelaide Bank SPS holders as to whether or not to vote in favour of the Step Up Preference Share Scheme is a matter for individuals based on, amongst other things, their views as to value and future market conditions, risk profile, liquidity preference, investment strategy and tax position. Individual Adelaide Bank SPS holders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the Step Up Preference Share Scheme may be influenced by his or her particular circumstances, we recommend that individual Adelaide Bank SPS holders consult their financial adviser.

Our opinion is based solely on the information available at the date of this letter as set out in Appendix 2. We note that we have not undertaken to update our letter for events or circumstances arising after the date of this letter.

The above opinion should be considered in conjunction with, and not independently of, the information set out in the remainder of this letter, including the appendices. In addition, this letter should be read in conjunction with our IER and the Scheme Booklet.

For personal use only



*Adelaide Bank Limited
Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007*

Appendix 1 – Qualifications and declarations

Qualifications

KPMG is the holder of an Australian Financial Services Licence No 246901 under the Corporations Act 2001 and is controlled by the partners of KPMG Chartered Accountants (the KPMG Partnership). The KPMG Partnership is a long established firm of chartered accountants which provides a full range of professional services, including advising on valuations, acquisitions, takeovers, restructuring proposals, reorganisations and related matters. The following persons, whose qualifications and experience are stated below, have been responsible for preparation of this letter.

Gary Wingrove is a partner in the KPMG Partnership and is an Executive Director of KPMG. He holds a Bachelor of Commerce, is an Associate of the Institute of Chartered Accountants in Australia, and is a Fellow of the Financial Services Institute of Australasia. Gary is the national head of KPMG's valuation practice in Australia and has over 15 years experience in the preparation of valuations and expert reports on the valuation of shares and businesses and the provision of merger and acquisition advice.

Don Manifold is a partner in the KPMG Partnership and is an Executive Director of KPMG. He holds a Bachelor of Economics (Accounting) with honours, a Master of Business Administration from the Australian Graduate School of Management and is a Member of the Institute of Chartered Accountants in Australia. Don has over nine years experience in the provision of merger and acquisition advice and considerable experience in the valuation of shares and businesses.

Lilian Look is a Director of KPMG. She holds a Bachelor of Economics and a Bachelor of Laws, is a Fellow of the Financial Services Institute of Australasia and is an Associate of CPA Australia. Lilian has over 10 years experience in the preparation of valuations and expert reports on the valuation of shares and businesses.

Mr Wingrove, Mr Manifold and Ms Look, were assisted in the preparation of this letter by other appropriately qualified KPMG staff.

Declarations

The statements made in the letter are given in good faith and have been derived from information believed to be reliable and accurate. We have examined this information and have no reason to believe that any material factors have been withheld from us.

During the course of this engagement, KPMG provided draft copies of this letter to management of Adelaide Bank and Bendigo Bank for comment as to factual accuracy, as opposed to opinions, which are the responsibility of KPMG alone. Changes made to this letter as a result of these reviews have not changed the opinions reached by KPMG.



*Adelaide Bank Limited
Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007*

Interests

KPMG is entitled to receive a fee in the order of \$70,000, excluding GST, for the preparation of this letter and a separate letter to Adelaide Bank Reset Preference shareholders. In addition, KPMG is entitled to receive a fee of \$425,000, excluding GST, for the preparation of the IER in relation to the Ordinary Share Scheme. Except for these fees, KPMG has not received and will not receive any pecuniary or other benefit whether direct or indirect for or in connection with the preparation of this letter.

Employees of KPMG, the KPMG Partnership and its affiliated entities may hold securities in Adelaide Bank and/or Bendigo Bank. However, no individual involved in the preparation of this letter, or review thereof, holds a direct interest in Adelaide Bank and/or Bendigo Bank ordinary shares.

Consent

KPMG consents to the issue of this letter by Adelaide Bank in the Scheme Booklet. Other than this letter, neither the KPMG Partnership nor KPMG have been involved in the preparation of the Scheme Booklet. Accordingly, we take no responsibility for the content of the Scheme Booklet as a whole.

Except as noted above, neither the whole nor any part of this letter nor any reference thereto may be included in or with or attached to any other document, circular, resolution, letter or statement without the prior written consent of KPMG to the form and context in which it appears.

Reliance on information

KPMG has prepared this letter on the basis of information available as at the date of this letter. Nothing in this letter should be taken to imply that KPMG has verified any information supplied to us, or has in any way carried out an audit of the books of account or other records of Adelaide Bank, Bendigo Bank or any of their associated entities for the purposes of this letter. We have considered and relied upon information provided by certain directors and senior management of Adelaide Bank and Bendigo Bank, which after due enquiry, we believe to be reliable, complete and not misleading. We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this letter are given in good faith, and in the belief that such statements and opinions are not false or misleading.

We note that any forecasts and projections as supplied to us are based upon assumptions about events and circumstances that have not yet transpired. Accordingly, KPMG cannot provide any assurance that the estimates will be representative of the results which will actually be achieved during the forecast period.

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Adelaide Bank Limited
Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007

The opinion of KPMG is based on prevailing market, economic and other conditions at the date of this letter. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our assessment either positively or negatively.

Indemnity

Adelaide Bank has indemnified KPMG and its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with this letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services by KPMG and occasioned by reliance by KPMG on information provided by Adelaide Bank and/or Bendigo Bank or any of their representatives which is subsequently found to be false or misleading or not complete. Complete information is deemed to be information which at the time of completing this letter should have been available to KPMG and would have reasonably been expected to have been made available to KPMG to enable us to form our opinion.



Adelaide Bank Limited
Independent expert letter to Step Up Preference
shareholders & Financial services guide
2 October 2007

Appendix 2 – Sources of information

In preparing this letter, we have considered, inter alia, the following main sources of information:

Public information

Company and transaction information

- latest draft copy of the Scheme Booklet dated 25 September 2007 in relation to the Ordinary Share Scheme, Step Up Preference Share Scheme and Reset Preference Share Scheme
- Independent expert report and Financial services guide dated 2 October 2007, prepared by KPMG, including the sources of information used to prepare the IER
- New Bendigo Bank SPS Terms of Issue
- Adelaide Bank SPS Prospectus dated 26 August 2004
- Adelaide Bank 2007 Financial Statements
- financial information from IRESS
- various Adelaide bank announcements made to the ASX
- various discussions and email correspondences with management, financial and legal representatives of Adelaide Bank and/or Bendigo Bank.

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Independent Expert's Report for Reset Preference Shareholders



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The Board of Directors
Adelaide Bank Limited
169 Pirie Street
Adelaide SA 5000

2 October 2007

Dear Mesdames and Sirs

Independent expert letter to Reset Preference shareholders & Financial services guide

1 Introduction

On 9 August 2007, the Boards of Directors of Adelaide Bank Limited (Adelaide Bank) and Bendigo Bank Limited (Bendigo Bank) jointly announced their intention to merge their respective businesses (Merger Proposal or Proposed Merger). The Merger Proposal is to be effected by way of a scheme of arrangement with Adelaide Bank's ordinary shareholders (Ordinary Share Scheme) which, if approved, will result in Bendigo Bank acquiring all the ordinary shares of Adelaide Bank and Adelaide Bank becoming a subsidiary of Bendigo Bank.

In connection with the Merger Proposal, Bendigo Bank is seeking to acquire all of the Reset Preference Shares of Adelaide Bank (Adelaide Bank RPS) via a separate scheme of arrangement (Reset Preference Share Scheme) with Adelaide Bank's Reset Preference shareholders (Adelaide Bank RPS holders).

Under the Reset Preference Share Scheme, Adelaide Bank RPS holders (except Ineligible Foreign Reset Preference Shareholders) will receive one fully paid Reset Preference Share in Bendigo Bank (New Bendigo Bank RPS) for every Adelaide Bank RPS they currently own.

The Reset Preference Share Scheme is conditional upon the Ordinary Share Scheme becoming effective, but not vice-versa.

A separate scheme of arrangement is proposed for the Step Up Preference Shares of Adelaide Bank (Step Up Preference Share Scheme). The Reset Preference Share Scheme is not conditional upon the Step Up Preference Share Scheme being approved, and vice-versa.

Adelaide Bank is a public company listed on the Australian Securities Exchange (ASX) with a market capitalisation of approximately \$1.6 billion based on the closing share price on 8 August 2007, being the date prior to the announcement of the Merger Proposal. Adelaide Bank is currently one of Australia's top 150 companies listed on the ASX. The principal activities of



*Adelaide Bank Limited
Independent expert letter to Reset Preference
shareholders & Financial services guide
2 October 2007*

Adelaide Bank include the provision of residential mortgages, business loans, consumer loans, margin loans, savings and investment products. It had assets and loans under management of approximately \$32.4 billion and \$27.5 billion respectively at 30 June 2007.

Bendigo Bank is also a public company listed on the ASX, with a market capitalisation at 8 August 2007 of approximately \$2.3 billion. Bendigo Bank is currently one of Australia's top 100 companies listed on the ASX. Bendigo Bank provides a range of banking and other financial services primarily to retail customers and small to medium size businesses including residential mortgages, business loans, savings and investment products, financial planning advice and trustee services. Bendigo Bank's products are distributed through the bank's retail network, which includes Community Bank® and joint venture partners such as Elders Rural Bank, Homesafe Solutions and Tasmanian Banking Services.

The combined business of Adelaide Bank and Bendigo Bank is hereafter referred to as the "Merged Group".

2

Requirement for our letter

There are no statutory or regulatory requirements for an independent expert report to be prepared for Adelaide Bank RPS holders in relation to the Reset Preference Share Scheme. Nevertheless, the Directors of Adelaide Bank have commissioned KPMG Corporate Finance (Aust) Pty Ltd (KPMG) to prepare this independent expert letter (IEL) stating whether, in our opinion, the Reset Preference Share Scheme is in the best interests of Adelaide Bank RPS holders.

The purpose of the IEL is to assist Adelaide Bank RPS holders in deciding whether or not to vote in favour of the Reset Preference Share Scheme.

Regulatory Guide 75 (formerly Policy Statement 75) "Independent Expert Reports to Shareholders", issued by the Australian Securities and Investments Commission (ASIC), indicates the principles and matters that it expects a person preparing an expert report for inclusion in an explanatory statement to consider in determining whether a scheme of arrangement is "in the best interests of the members". With respect to determining the meaning of "in the best interests", paragraph 6 of Policy Statement 75 states:

"Fair and reasonable" should be taken as a reference to "in the best interests of the members".

Whilst this does not indicate that ASIC considers "fair and reasonable" to have the same meaning as "in the best interests of members", we consider that an analysis undertaken under the concepts of "fair and reasonable" as expressed in Regulatory Guide 75 is consistent with determining whether a proposal is "in the best interests of the members".

Schemes of arrangement pursuant to Section 411 can encompass a wide range of transactions. Accordingly, "in the best interests" must be capable of a broad interpretation to meet the particular circumstances of each transaction.

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Adelaide Bank Limited
Independent expert letter to Reset Preference
shareholders & Financial services guide
2 October 2007

In the present context, we are of the opinion that the expert must consider the overall commercial effect of the Reset Preference Share Scheme, to form a view as to whether the Reset Preference Share Scheme is in the best interests of Adelaide Bank RPS holders. Accordingly, in assessing whether the Reset Preference Share Scheme is in the best interests of Adelaide Bank RPS holders, we have considered, inter alia:

- the key terms and conditions of the Adelaide Bank RPS compared to the key terms of issue of the New Bendigo Bank RPS to be received as consideration under the Reset Preference Share Scheme
- the credit quality of the New Bendigo Bank RPS being offered as consideration under the Reset Preference Share Scheme
- whether the Merger Proposal is in the best interests of Adelaide Bank ordinary shareholders. In this regard, if an election is made by the Merged Group or the New Bendigo Bank RPS holder to exchange New Bendigo Bank RPS for ordinary shares in the Merged Group on various dates in the future, then New Bendigo Bank RPS holders will become ordinary shareholders in the Merged Group at that time. Accordingly our assessment of the Merger Proposal from the perspective of Adelaide Bank ordinary shareholders is also applicable to Adelaide Bank RPS holders as prospective ordinary shareholders of the Merged Group
- the possible disadvantages of the Reset Preference Share Scheme
- the tax implications on Adelaide Bank RPS holders in approving the Reset Preference Share Scheme
- the possible implications on Adelaide Bank RPS holders if the Reset Preference Share Scheme is not approved.

This letter forms part of the Scheme Booklet prepared by Adelaide Bank in relation to the Merger Proposal (Scheme Booklet) dated on or about 3 October 2007. Details of the Reset Preference Share Scheme are set out fully in the Scheme Booklet.

This letter should be read in conjunction with our Independent Expert Report to ordinary shareholders of Adelaide Bank (IER) dated on or about 2 October 2007.

3 Summary of opinion

3.1 Conclusion

In our opinion, having regard to the matters set out in this letter, and in the absence of a superior proposal, on balance, the Reset Preference Share Scheme is in the best interests of Adelaide Bank RPS holders.

The main reasons for our conclusion are:



Adelaide Bank Limited
Independent expert letter to Reset Preference
shareholders & Financial services guide
2 October 2007

- **the key terms of the New Bendigo Bank RPS are substantially the same as the key terms currently applicable to the Adelaide Bank RPS**
- **the New Bendigo Bank RPS will potentially be of a greater credit quality than the Adelaide Bank RPS**
- **we have concluded that, in the absence of a superior proposal, on balance, the Merger Proposal is in the best interests of Adelaide Bank ordinary shareholders**
- **none of the disadvantages of the Reset Preference Share Scheme outweigh the benefits of the scheme**
- **capital gains tax (CGT) rollover relief provision should apply to many Adelaide Bank RPS holders**
- **the Merged Group is likely to exchange the Adelaide Bank RPS for cash if the Reset Preference Share Scheme is not implemented but the Ordinary Share Scheme is implemented.**

Details of the above can be found in Section 5.

3.2 General advice

In forming our opinion, we have considered the interests of Adelaide Bank RPS holders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual Adelaide Bank RPS holders. It is neither practical nor possible to assess the implications of the Reset Preference Share Scheme on individual Adelaide Bank RPS holders as we do not know their specific financial circumstances.

The decision of Adelaide Bank RPS holders as to whether or not to vote in favour of the Reset Preference Share Scheme is a matter for individuals based on, amongst other things, their views as to value and future market conditions, risk profile, liquidity preference, investment strategy and tax position. Individual Adelaide Bank RPS holders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the Reset Preference Share Scheme may be influenced by his or her particular circumstances, we recommend that individual Adelaide Bank RPS holders consult their financial adviser.

Our opinion is based solely on the information available at the date of this letter as set out in Appendix 2. We note that we have not undertaken to update our letter for events or circumstances arising after the date of this letter.

The above opinion should be considered in conjunction with, and not independently of, the information set out in the remainder of this letter, including the appendices. In addition, this letter should be read in conjunction with our IER and the Scheme Booklet.

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Adelaide Bank Limited
Independent expert letter to Reset Preference
shareholders & Financial services guide
2 October 2007

All currency amounts in this letter are denominated in Australian dollars (\$) unless stated otherwise.

Yours faithfully

Gary Wingrove
Executive Director

Don Manifold
Executive Director

Lilian Look
Director

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Adelaide Bank Limited
Independent expert letter to Reset Preference
shareholders & Financial services guide
2 October 2007

Contents

Financial Services Guide 7

4 Overview of Adelaide Bank Reset Preference Shares 9

5 Evaluation of the Reset Preference Share Scheme 13

Appendix 1 – Qualifications and declarations 20

Appendix 2 – Sources of information 23

For personal use only



*Adelaide Bank Limited
Independent expert letter to Reset Preference
shareholders & Financial services guide
2 October 2007*

Financial Services Guide

2 October 2007

KPMG Corporate Finance (Aust) Pty Ltd ABN 43 007 363 215 (KPMG or we or us or our as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide (**FSG**). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted
- the services we are authorised to provide under our **Australian Financial Services Licence, Licence No: 246901**
- remuneration that we and/or our staff and any associates receive in connection with the general financial product advice
- any relevant associations or relationships we have
- our complaints handling procedures and how you may access them.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence, which authorises us to provide financial product advice in relation to:

- interests in managed investments schemes (excluding investor directed portfolio services)
- securities (such as shares and debentures).

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.



Adelaide Bank Limited
Independent expert letter to Reset Preference
shareholders & Financial services guide
2 October 2007

Benefits that we may receive

We charge fees for providing reports. These fees will be agreed with, and paid by, the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis.

Except for the fees referred to above, neither KPMG, nor any of its executive directors, directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Associations and relationships

Through a variety of corporate and trust structures KPMG is ultimately controlled by and operates as part of KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). Our executive directors may be partners in the KPMG Partnership. From time to time KPMG, the KPMG Partnership and/or entities related to the KPMG Partnership may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Industry Complaints Service Limited (**FICS**). FICS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FICS are available at the FICS website www.fics.asn.au or by contacting them directly at Financial Industry Complaints Service Limited, PO Box 579, Collins Street West, Melbourne VIC 8007.

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Contact details

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Adelaide Bank Limited
Independent expert letter to Reset Preference
shareholders & Financial services guide
2 October 2007

4 Overview of Adelaide Bank Reset Preference Shares

We provide in this section, an overview of the Adelaide Bank RPS to which the Reset Preference Share Scheme relates.

4.1 Background

At the date of the announcement of the Merger Proposal, Adelaide Bank had one million Adelaide Bank RPS on issue.

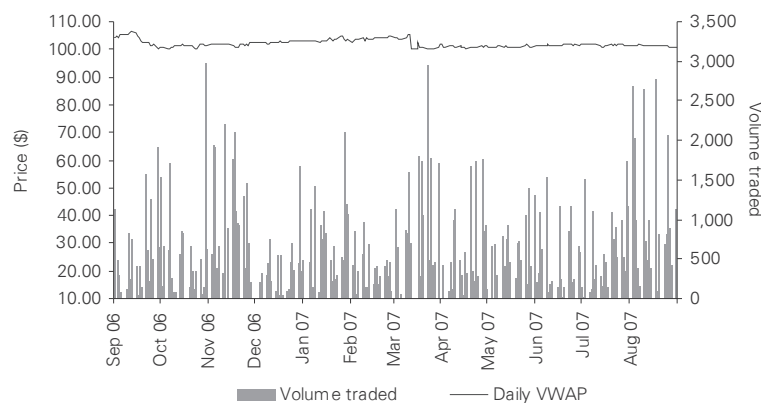
Adelaide Bank RPS were issued and began trading on the ASX under the code 'ADBPA' on 28 November 2002. They were issued principally for the purposes of boosting the bank's capital base (and therefore improve its capital adequacy) as well as lowering its cost of capital.

4.2 Adelaide Bank RPS price analysis

Market performance

The chart below graphs the daily Adelaide Bank RPS price, represented by the volume weighted average price (VWAP), and daily trading volume of Adelaide Bank RPS from 25 September 2006 to 24 September 2007 (the latest analysis date).

Figure 1: Adelaide Bank RPS – daily VWAP and volume



Source: IRESS.

In relation to the above chart, we note that:

- trading prices of Adelaide Bank RPS remained relatively flat over the last twelve months to 24 September 2007. During this period, the preference shares were relatively thinly traded at prices ranging from \$99.95 to \$107.00



Adelaide Bank Limited
Independent expert letter to Reset Preference
shareholders & Financial services guide
2 October 2007

- the increase in traded volumes between 23 November 2006 and 12 December 2006 appears to coincide with Adelaide Bank revising its FY2007 earnings guidance, noting a cash earnings per share before significant items to be in the range of six to nine percent, instead of ten percent as previously advised
- the drop in Adelaide Bank RPS prices on 5 April 2007 and the spike in traded volumes on 16 April 2007 does not appear to be directly linked to any announcements made by the bank, however the fluctuations may be related to takeover speculation around the same time. On 10 April 2007, a financial press article reported on persisting speculation that Adelaide Bank would be drawn into the consolidation of Australia's financial services sector
- the intermittent spikes in trading volumes between 27 August 2007 and 10 September 2007 do not appear to be linked to any particular announcements made by Adelaide Bank, however around the same time, the following occurred:
 - on 20 August 2007 Adelaide Bank disclosed a 'Dividend Reset Notice' for its Adelaide Bank RPS. Under the notice, the bank reset the Margin to 1.6 percent (and therefore reset the Dividend Rate) for the period after the next Reset Date, which is 1 November 2007
 - on 22 August 2007 Adelaide Bank announced the Step Up Preference Share Scheme
 - on 4 September 2007 both Adelaide Bank and Bendigo Bank announced that their respective due diligence procedures relating to the Merger Proposal had been completed
 - on 7 September 2007 Adelaide Bank announced the Reset Preference Share Scheme
- the spike in trading volumes on 11 September 2007 coincided with both Adelaide Bank and Bendigo Bank announcing that the Australian Competition and Consumer Commission would not oppose the Merger Proposal
- the spike in trading volumes on 19 September 2007 coincided with an ASX announcement made by Adelaide Bank refuting rumours that the bank had sought liquidity assistance from the Reserve Bank of Australia (RBA), a rumour which was also refuted by the RBA
- Adelaide Bank RPS closed at \$100.80 on the latest analysis date of 24 September 2007.

Market performance relative to ordinary shares

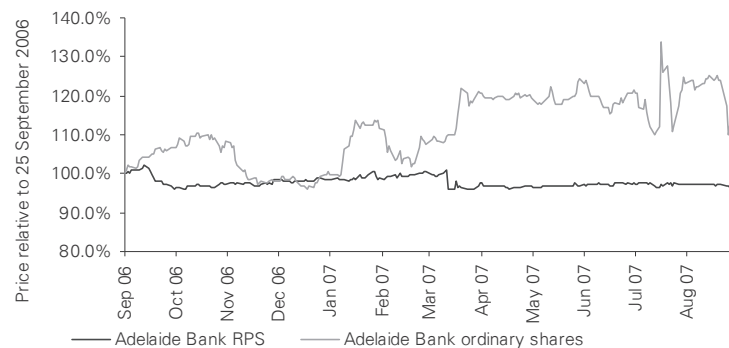
The figure below illustrates Adelaide Bank RPS' relative price performance to that of Adelaide Bank's ordinary share price (represented by VWAP) from 25 September 2006 to the latest analysis date.

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Adelaide Bank Limited
Independent expert letter to Reset Preference
shareholders & Financial services guide
2 October 2007

Figure 2: Adelaide Bank RPS' relative price performance to Adelaide Bank's ordinary share price



Source: IRESS.

In relation to the above chart, we note that the relative underperformance of Adelaide Bank RPS to that of the bank's ordinary shares is expected, being a relative function of the:

- nature and underlying attributes of preference shares
- smaller security holder base
- lower levels of trading.

4.3 Ownership

Adelaide Bank's top ten Reset Preference shareholders as at 31 August 2007 (latest available) are set out in the table below.

Figure 3: Top ten Adelaide Bank RPS holders

Name of shareholder	Total number of shares held	% of total issued share capital
ANZ Nominees Limited (Cash Income A/C)	20,330	2.0%
M F Custodians Ltd	19,426	1.9%
Takeda Pty Ltd (R J Walker Family A/C)	17,300	1.7%
Bayeux Capital Pty Ltd	15,300	1.5%
Citicorp Nominees Pty Limited	12,976	1.3%
Questor Financial Services Limited (TPS RF A/C)	10,561	1.1%
Cogent Nominees Pty Limited	8,131	0.8%
Citicorp Nominees Pty Limited (CFSIL CFS WS ENH Yield A/C)	6,382	0.6%
IPS Archibald Pty Ltd (Sophie Archibald S/F A/C)	4,598	0.5%
Faete Holdings Pty Ltd	3,555	0.4%



Adelaide Bank Limited
Independent expert letter to Reset Preference
shareholders & Financial services guide
2 October 2007

Name of shareholder	Total number of shares held	% of total issued share capital
Total number held by top ten Adelaide Bank RPS holders	118,559	11.9%
Other Adelaide Bank RPS holders	881,441	88.1%
Total number of Adelaide Bank RPS on issue	1,000,000	100.0%

Source: Adelaide Bank 2007 Financial Statements.

In relation to the table above, we note that there are no substantial Adelaide Bank RPS holders as at 31 August 2007, and that most holders own relatively small percentages of the total number of Adelaide Bank RPS on issue.

4.4 **Terms of issue of Adelaide Bank RPS**

The terms of issue of the Adelaide Bank RPS include:

- face value of \$100.00 per Adelaide Bank RPS
- payment of a preferential, non-cumulative, fixed rate dividend
- no maturity/expiry date as Adelaide Bank RPS are perpetual
- a dividend rate fixed until the first reset date, being 1 November 2007, at the greater of 6 percent or 2.75 percent over the five year swap rate, multiplied by one minus the corporate tax rate. During the last year the dividend rate has been in the order of 6 percent
- dividends are payable half yearly in arrears on 1 May and 1 November of each year
- at each reset date, Adelaide Bank is entitled to reset certain terms, such as the date of the next reset date and the dividend rate. In this regard, as mentioned in Section 4.2, on 20 August 2007, Adelaide Bank reset the dividend rate by resetting the margin to 1.6 percent over the five year swap rate for the next dividend period commencing 2 November 2007
- Adelaide Bank may exchange Adelaide Bank RPS for cash or ordinary shares or a combination of these on a reset date or in limited other circumstances, such as a takeover offer or scheme of arrangement
- an Adelaide Bank RPS holder may exchange Adelaide Bank RPS at a reset date (the next being 1 November 2007) by delivery of an exchange notice to Adelaide Bank
- Adelaide Bank RPS holders are not entitled to vote except in limited circumstances, and do not have a right to participate in security issues or capital reconstructions.

Other key terms of the Adelaide Bank RPS are detailed in the Scheme Booklet.

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Adelaide Bank Limited
Independent expert letter to Reset Preference
shareholders & Financial services guide
2 October 2007

5 Evaluation of the Reset Preference Share Scheme

5.1 Approach

For the purposes of assessing whether the Reset Preference Share Scheme is in the best interests of Adelaide Bank RPS holders, we have considered, inter alia:

- the key terms and conditions of the Adelaide Bank RPS compared to the key terms of issue of the New Bendigo Bank RPS to be received as consideration under the Reset Preference Share Scheme
- the credit quality of the New Bendigo Bank RPS being offered as consideration under the Reset Preference Share Scheme
- whether the Merger Proposal is in the best interests of Adelaide Bank ordinary shareholders. In this regard, if an election is made by the Merged Group or the New Bendigo Bank RPS holder to exchange New Bendigo Bank RPS for ordinary shares in the Merged Group on various dates in the future, then New Bendigo Bank RPS holders will become ordinary shareholders in the Merged Group at that time. Accordingly our assessment of the Merger Proposal from the perspective of Adelaide Bank ordinary shareholders is also applicable to Adelaide Bank RPS holders as prospective ordinary shareholders of the Merged Group
- the possible disadvantages of the Reset Preference Share Scheme
- the tax implications on Adelaide Bank RPS holders in approving the Reset Preference Share Scheme
- the possible implications on Adelaide Bank RPS holders if the Reset Preference Share Scheme is not approved, but the Ordinary Share Scheme is approved.

5.2 Comparison of key terms of Adelaide Bank RPS and New Bendigo Bank RPS

The key terms of the New Bendigo Bank RPS are substantially the same as the key terms currently applicable to the Adelaide Bank RPS.

All key terms of issue currently applicable to the Adelaide Bank RPS will remain substantially intact under the New Bendigo Bank RPS, except for the following main changes:

- Under the terms of issue of the New Bendigo Bank RPS, New Bendigo Bank RPS will rank equally with:
 - existing Bendigo Bank Preference Shares on issue (BPS)
 - New Bendigo Bank SPS to be issued under the Step Up Preference Share Scheme (if approved)



Adelaide Bank Limited
Independent expert letter to Reset Preference
shareholders & Financial services guide
2 October 2007

for the payment of dividends (including Optional Dividends), or in the case of winding up or liquidation of the Merged Group, on the return of the face value and any dividend due but not paid.

We note that under the current terms of issue of the Adelaide Bank RPS and Adelaide Bank SPS, both the Adelaide Bank RPS and Adelaide Bank SPS have equal ranking for the payment of dividends and share capital/dividend returns on a winding up or liquidation. In this regard, while the inclusion of the BPS in the same ranking as the New Bendigo Bank RPS and New Bendigo Bank RPS effectively dilutes the capital base available for preference share distributions (both in the form of dividends and capital return) of the Merged Group, the Merged Group will have a larger capital base from which to make distributions. Further details about the additional ranking terms are discussed below.

- The share underlying each New Bendigo Bank RPS is a fully paid ordinary share in the Merged Group, instead of a fully paid ordinary share in Adelaide Bank which is currently the share underlying each Adelaide Bank RPS.

Details of the new ranking terms are discussed below.

Additional ranking terms - accommodating Bendigo Bank Preference Shares

The terms of the New Bendigo Bank RPS restrict payments and returns of capital on certain securities, including ordinary shares in the Merged Group, in circumstances where the Merged Group has failed to pay New Bendigo Bank RPS holders a dividend in full within a specified time. Broadly, the restrictions will only be lifted if:

- two consecutive dividend payments are then made to New Bendigo RPS holders (or equivalent dividends if the frequency of payment is other than semi-annual), or
- an optional dividend equal to the unpaid amount (if any) of the two immediately preceding dividends (or equivalent dividends if the frequency of payment is other than semi-annual) is paid to:
 - New Bendigo Bank RPS holders
 - equal ranking holders of the share capital of the Merged Group (if any).

Whilst a similar clause to the above can be found in the terms of the Adelaide Bank RPS, the last point (payment of an optional dividend to equal ranking holders of the Merged Group's share capital) has been incorporated to ensure equal treatment between New Bendigo Bank RPS holders, New Bendigo Bank Step Up Preference shareholders (New Bendigo Bank SPS holders) and Bendigo Bank Preference shareholders (BPS holders).

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Adelaide Bank Limited
Independent expert letter to Reset Preference
shareholders & Financial services guide
2 October 2007

5.3 *The credit quality of the New Bendigo Bank RPS being offered as consideration under the Reset Preference Share Scheme*

The New Bendigo Bank RPS will potentially be of a greater credit quality than the Adelaide Bank RPS.

As discussed in Section 2.6 of the IER, the Merger Proposal offers a range of potential benefits to Adelaide Bank ordinary shareholders (and therefore Adelaide Bank RPS holders), such as:

- value from cost synergies
- larger customer base
- diversification of funding
- diversification of assets
- greater capital management flexibility.

The above benefits could potentially lead to a positive credit re-rating for the Merged Group in comparison to Adelaide Bank. In this regard, following the announcement of the Merger Proposal, rating agency Standard and Poor's (S&P) affirmed its 'BBB+/A-2' issuer credit ratings on both Adelaide Bank and Bendigo Bank, and revised its outlook on the ratings from stable to positive, reflecting the possibility that the rating of the Merged Group may be increased by one level in the next two years as benefits of the Merger Proposal are progressively realised. It was noted that the Merged Group is likely to benefit from a stronger business profile as an outcome of:

- greater scale
- business diversity
- geographic diversity

along with the potential for improvement in earnings diversity and funding flexibility. Notwithstanding the above, S&P raised the following possible challenges the Merged Group may face, primarily relating to:

- integration of information technology systems
- future operational and management structures
- cultural differences.



Adelaide Bank Limited
Independent expert letter to Reset Preference
shareholders & Financial services guide
2 October 2007

Further, S&P noted that any potential upgrade in credit rating of the Merged Group would depend on:

- the successful retention of each bank's customer base
- evidence that integration risks would be satisfactorily addressed
- projected cost savings being substantially realised.

Should the Merger Proposal not proceed, the outlook would revert to stable.

On balance, the Merger Proposal may lead to a positive credit re-rating of the Merged Group relative to the existing credit rating of Adelaide Bank. From the perspective of Adelaide Bank RPS holders, this would imply that the New Bendigo Bank RPS may potentially be of greater credit quality than the Adelaide Bank RPS, notwithstanding the implementation risks and uncertainties relating to the timing and/or costs of integration. Further, an upgrade in credit rating of the Merged Group may positively affect the market price and liquidity of the New Bendigo Bank RPS.

5.4 *The Merger Proposal is in the best interests of Adelaide Bank ordinary shareholders*

We have concluded that, in the absence of a superior proposal, on balance, the Merger Proposal is in the best interests of Adelaide Bank ordinary shareholders.

Based on our evaluation of the Merger Proposal from the perspective of Adelaide Bank ordinary shareholders (set out in Sections 2 and 12 of the IER), on balance, we consider that the Ordinary Share Scheme is in the best interests of Adelaide Bank ordinary shareholders. In particular, we have concluded that:

- the value of an ordinary share in the Merged Group is of greater value than that of an Adelaide Bank ordinary share
- Adelaide Bank ordinary shareholders are expected to be financially better off following the Merger Proposal
- there are other qualitative factors set out in Sections 2.6 and 12.5 of the IER that are on balance favourable to Adelaide Bank ordinary shareholders, which include:
 - the Merger Proposal offers a range of potential benefits to Adelaide Bank ordinary shareholders
 - the Merger Proposal should have a positive impact on share market trading in the ordinary shares of the Merged Group.

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Adelaide Bank Limited
Independent expert letter to Reset Preference
shareholders & Financial services guide
2 October 2007

We note however, that the Merger Proposal, as with any merger, is subject to implementation risks and uncertainties.

5.5 *Possible disadvantages of the Reset Preference Share Scheme*

None of the disadvantages of the Reset Preference Share Scheme outweigh the benefits of the scheme.

The possible disadvantages of the Reset Preference Share Scheme to Adelaide Bank RPS holders include:

- No cash alternative and/or cash component is being offered as consideration and/or part thereof under the Reset Preference Share Scheme. This represents a potential limited disadvantage for those shareholders wishing an absolute or partial exit from their investment. While they are able to exit by selling their shares on the ASX, transaction costs will be incurred.
- The actual value of the consideration to be received by Adelaide Bank RPS holders under the Reset Preference Share Scheme cannot be quantified with certainty prior to the Reset Preference Share Scheme meeting as the actual value of the consideration will be dependent upon the New Bendigo Bank RPS price at the time that the Reset Preference Share Scheme is implemented.
- While the scrip consideration offered under the Reset Preference Share Scheme may be more tax efficient for many Adelaide Bank RPS holders and allow them to share in a material way in the merger synergies and other benefits expected to result from the Merger Proposal, it exposes Adelaide Bank RPS holders to the integration risks of the transaction if synergies are not achieved.
- Ineligible Foreign Reset Preference Shareholders will not be issued New Bendigo Bank RPS as consideration under the Reset Preference Share Scheme, instead, their entitlement will be issued to a nominee appointed by Bendigo Bank who will sell their shares on the ASX and remit the net proceeds to them. This represents a disadvantage for those Ineligible Foreign Reset Preference shareholders who are seeking ongoing investment exposure in Reset Preference shares in Adelaide Bank. However, they have the flexibility to reinvest the cash they will receive in Reset Preference shares in the Merged Group, albeit they will have to incur transaction costs.

5.6 *Tax implications*

Capital gains tax (CGT) rollover relief provision should apply to many Adelaide Bank RPS holders.

Adelaide Bank RPS holders should refer to the taxation section which is included in the Scheme Booklet in relation to the tax effects of the Reset Preference Share Scheme. The Scheme Booklet indicates that many Adelaide Bank RPS holders who hold their shares on capital account, should be able to utilise the capital gains tax rollover relief provisions to defer any



Adelaide Bank Limited
Independent expert letter to Reset Preference
shareholders & Financial services guide
2 October 2007

capital gains tax liability until such time in the future as they dispose of their New Bendigo Bank RPS acquired as a consequence of the Reset Preference Share Scheme. However, the specific tax implications for each Adelaide Bank RPS holder will depend upon the particular circumstances of the person or entity. Adelaide Bank RPS holders should not rely solely upon the taxation section of the Scheme Booklet for taxation purposes, and should seek and rely on their own taxation advice where appropriate.

5.7 *Implications if the Reset Preference Share Scheme is not approved*

The Merged Group is likely to exchange Adelaide Bank RPS for cash if the Reset Preference Share Scheme is not implemented but the Ordinary Share Scheme is implemented.

If the Reset Preference Share Scheme is not approved, there are different consequences depending on whether:

- the Ordinary Share Scheme is not approved
- the Ordinary Share Scheme is approved.

We discuss each scenario below.

If the Ordinary Share Scheme is not approved

If the Ordinary Share Scheme is not approved, the Reset Preference Share Scheme will not proceed and Adelaide Bank RPS holders will retain their Adelaide Bank RPS with the terms of issue of the Adelaide Bank RPS remaining unchanged.

If the Ordinary Share Scheme is approved

If the Ordinary Share Scheme is approved, but the Reset Preference Share Scheme is not approved, then:

- Bendigo Bank will acquire all of Adelaide Bank's ordinary shares
- Adelaide Bank RPS holders will retain their Adelaide Bank RPS and will not receive New Bendigo Bank RPS.

Were this to occur, on the basis that the Proposed Merger would constitute a Control Event (as defined in the Terms of Issue of the New Bendigo Bank RPS), then it is the present intention of Adelaide Bank and Bendigo Bank that the Merged Group exchange the Adelaide Bank RPS for cash (subject to Australian Prudential Regulation Authority (APRA) approval) pursuant to the Adelaide Bank RPS Terms of Issue which provide Adelaide Bank with the right to exchange Adelaide Bank RPS for cash on the occurrence of a Control Event.

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Adelaide Bank Limited
Independent expert letter to Reset Preference
shareholders & Financial services guide
2 October 2007

5.8 **Conclusion**

In our opinion, having regard to the matters set out in this letter, and in the absence of a superior proposal, on balance, the Reset Preference Share Scheme is in the best interests of Adelaide Bank RPS holders.

In forming our opinion, we have considered the interests of Adelaide Bank RPS holders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual Adelaide Bank RPS holders. It is neither practical nor possible to assess the implications of the Reset Preference Share Scheme on individual Adelaide Bank RPS holders as we do not know their specific financial circumstances.

The decision of Adelaide Bank RPS holders as to whether or not to vote in favour of the Reset Preference Share Scheme is a matter for individuals based on, amongst other things, their views as to value and future market conditions, risk profile, liquidity preference, investment strategy and tax position. Individual Adelaide Bank RPS holders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the Reset Preference Share Scheme may be influenced by his or her particular circumstances, we recommend that individual Adelaide Bank RPS holders consult their financial adviser.

Our opinion is based solely on the information available at the date of this letter as set out in Appendix 2. We note that we have not undertaken to update our letter for events or circumstances arising after the date of this letter.

The above opinion should be considered in conjunction with, and not independently of, the information set out in the remainder of this letter, including the appendices. In addition, this letter should be read in conjunction with our IER and the Scheme Booklet.



*Adelaide Bank Limited
Independent expert letter to Reset Preference
shareholders & Financial services guide
2 October 2007*

Appendix 1 – Qualifications and declarations

Qualifications

KPMG is the holder of an Australian Financial Services Licence No 246901 under the Corporations Act 2001 and is controlled by the partners of KPMG Chartered Accountants (the KPMG Partnership). The KPMG Partnership is a long established firm of chartered accountants which provides a full range of professional services, including advising on valuations, acquisitions, takeovers, restructuring proposals, reorganisations and related matters. The following persons, whose qualifications and experience are stated below, have been responsible for preparation of this letter.

Gary Wingrove is a partner in the KPMG Partnership and is an Executive Director of KPMG. He holds a Bachelor of Commerce, is an Associate of the Institute of Chartered Accountants in Australia, and is a Fellow of the Financial Services Institute of Australasia. Gary is the national head of KPMG's valuation practice in Australia and has over 15 years experience in the preparation of valuations and expert reports on the valuation of shares and businesses and the provision of merger and acquisition advice.

Don Manifold is a partner in the KPMG Partnership and is an Executive Director of KPMG. He holds a Bachelor of Economics (Accounting) with honours, a Master of Business Administration from the Australian Graduate School of Management and is a Member of the Institute of Chartered Accountants in Australia. Don has over nine years experience in the provision of merger and acquisition advice and considerable experience in the valuation of shares and businesses.

Lilian Look is a Director of KPMG. She holds a Bachelor of Economics and a Bachelor of Laws, is a Fellow of the Financial Services Institute of Australasia and is an Associate of CPA Australia. Lilian has over 10 years experience in the preparation of valuations and expert reports on the valuation of shares and businesses.

Mr Wingrove, Mr Manifold and Ms Look, were assisted in the preparation of this letter by other appropriately qualified KPMG staff.

Declarations

The statements made in the letter are given in good faith and have been derived from information believed to be reliable and accurate. We have examined this information and have no reason to believe that any material factors have been withheld from us.

During the course of this engagement, KPMG provided draft copies of this letter to management of Adelaide Bank and Bendigo Bank for comment as to factual accuracy, as opposed to opinions, which are the responsibility of KPMG alone. Changes made to this letter as a result of these reviews have not changed the opinions reached by KPMG.

For personal use only



Adelaide Bank Limited
Independent expert letter to Reset Preference
shareholders & Financial services guide
2 October 2007

Interests

KPMG is entitled to receive a fee in the order of \$70,000, excluding GST, for the preparation of this letter and a separate letter to Adelaide Bank Step Up Preference shareholders. In addition, KPMG is entitled to receive a fee of \$425,000, excluding GST, for the preparation of the IER in relation to the Ordinary Share Scheme. Except for these fees, KPMG has not received and will not receive any pecuniary or other benefit whether direct or indirect for or in connection with the preparation of this letter.

Employees of KPMG, the KPMG Partnership and its affiliated entities may hold securities in Adelaide Bank and/or Bendigo Bank. However, no individual involved in the preparation of this letter, or review thereof, holds a direct interest in Adelaide Bank and/or Bendigo Bank ordinary shares.

Consent

KPMG consents to the issue of this letter by Adelaide Bank in the Scheme Booklet. Other than this letter, neither the KPMG Partnership nor KPMG have been involved in the preparation of the Scheme Booklet. Accordingly, we take no responsibility for the content of the Scheme Booklet as a whole.

Except as noted above, neither the whole nor any part of this letter nor any reference thereto may be included in or with or attached to any other document, circular, resolution, letter or statement without the prior written consent of KPMG to the form and context in which it appears.

Reliance on information

KPMG has prepared this letter on the basis of information available as at the date of this letter. Nothing in this letter should be taken to imply that KPMG has verified any information supplied to us, or has in any way carried out an audit of the books of account or other records of Adelaide Bank, Bendigo Bank or any of their associated entities for the purposes of this letter. We have considered and relied upon information provided by certain directors and senior management of Adelaide Bank and Bendigo Bank, which after due enquiry, we believe to be reliable, complete and not misleading. We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this letter are given in good faith, and in the belief that such statements and opinions are not false or misleading.

We note that any forecasts and projections as supplied to us are based upon assumptions about events and circumstances that have not yet transpired. Accordingly, KPMG cannot provide any assurance that the estimates will be representative of the results which will actually be achieved during the forecast period.



Adelaide Bank Limited
Independent expert letter to Reset Preference
shareholders & Financial services guide
2 October 2007

The opinion of KPMG is based on prevailing market, economic and other conditions at the date of this letter. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our assessment either positively or negatively.

Indemnity

Adelaide Bank has indemnified KPMG and its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with this letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services by KPMG and occasioned by reliance by KPMG on information provided by Adelaide Bank and/or Bendigo Bank or any of their representatives which is subsequently found to be false or misleading or not complete. Complete information is deemed to be information which at the time of completing this letter should have been available to KPMG and would have reasonably been expected to have been made available to KPMG to enable us to form our opinion.

For personal use only



Adelaide Bank Limited
Independent expert letter to Reset Preference
shareholders & Financial services guide
2 October 2007

Appendix 2 – Sources of information

In preparing this letter, we have considered, inter alia, the following main sources of information:

Public information

Company and transaction information

- latest draft copy of the Scheme Booklet dated 25 September 2007 in relation to the Ordinary Share Scheme, Reset Preference Share Scheme and Step Up Preference Share Scheme
- Independent expert report and Financial services guide dated 2 October 2007, prepared by KPMG, including the sources of information used to prepare the IER
- New Bendigo Bank RPS Terms of Issue
- Adelaide Bank RPS Prospectus dated 25 October 2002
- Adelaide Bank 2007 Financial Statements
- financial information from IRESS
- various Adelaide bank announcements made to the ASX
- various discussions and email correspondences with management, financial and legal representatives of Adelaide Bank and/or Bendigo Bank.

Adelaide Bank additional information

26.1 Adelaide Bank's capital structure

As at the date of this Scheme Book, Adelaide Bank's issued share capital is as follows:

- 108,316,569 Adelaide Bank Ordinary Shares;
- 1,000,000 Adelaide Bank Step Up Preference Shares; and
- 1,000,000 Adelaide Bank Reset Preference Shares.

Adelaide Bank also has on issue 750,000 floating rate capital notes, which are subordinated debt obligations and with a face value of \$100 per capital note and are quoted on ASX.

However, Adelaide Bank's issued share capital is expected to change prior to the Merger being implemented because, as noted in Section 17.5, Adelaide Bank announced on 27 September 2007 that it received 'Exchange Notices' from Reset Preference Shareholders in respect of 105,426 Adelaide Bank Reset Preference Shares, and that Adelaide Bank had elected to exchange those Adelaide Bank Reset Preference Shares into Adelaide Bank Ordinary Shares on 1 November 2007. Adelaide Bank's issued share capital may also change due to Ordinary Shareholders participating in Adelaide Bank's dividend reinvestment plan in respect of the dividend payable on Adelaide Bank Ordinary Shares on 15 October 2007.

26.2 Adelaide Bank Directors

The Adelaide Bank Directors in office at the date of lodgement of this Scheme Book for registration by ASIC are:

Name	Position
Dr Adele Lloyd	Chairman
Roger Cook	Deputy Chairman
Kevin Abrahamson	Non-executive director
Steven Crane	Non-executive director
Patricia Crook	Non-executive director
Jamie McPhee	Group Managing Director
Kevin G Osborn	Non-executive director

Each of the Adelaide Bank Directors recommends Shareholders vote in favour of the Schemes. Please refer to Sections 3.1, 9.1 and 14.1 for details of the Adelaide Bank Directors' recommendations.

26.3 Interests in Adelaide Bank held by Adelaide Bank Directors

As at the date of this Scheme Book, the Adelaide Bank Directors have the following relevant interests in marketable securities in Adelaide Bank:

Name	No. of securities held			
	Ordinary shares	Reset preferences shares	Step up preference shares	Capital notes
Dr Adele Lloyd	3,951	–	–	–
Roger Cook	3,068	–	–	–
Kevin Abrahamson	14,703	129	180	–
Steven Crane	11,129	–	–	–
Patricia Crook	5,078	–	–	–
Jamie McPhee	496,496	–	–	–
Kevin G Osborn	7,477	–	–	–

In addition, Jamie McPhee holds 38,635 performance rights under Adelaide Bank's long term incentive plan adopted in June 2007. Each performance right entitles Mr McPhee to be issued or transferred one Adelaide Bank Share subject to the satisfaction of performance criteria. Subject to the Ordinary Share Scheme becoming Effective, Mr McPhee has agreed to relinquish these performance rights in return for participation in an appropriate Bendigo Bank employee incentive scheme. Refer to Section 26.9(f), under the heading 'New LTIP' for further information.

The effect of the Schemes on the interests of the non-executive directors referred to above will be no different from the effect on the like interests of other persons.

26.4 Interests in Bendigo Bank held by Adelaide Bank Directors

None of the Adelaide Bank Directors holds any interests in marketable securities in Bendigo Bank as at the date of this Scheme Book.

Pursuant to clause 5.11 of the Merger Implementation Agreement, Bendigo Bank will offer to Jamie McPhee, after the Implementation Date, the right to participate in an appropriate Bendigo Bank employee incentive scheme on terms which, taken as a whole, constitute an incentive package which is economically equivalent to the Adelaide Bank long term incentive plan performance rights currently held by him, provided that he is an employee of the Merged Group at the time.

26.5 Payments or other benefits to Adelaide Bank Directors, secretaries and executive officers

On the Implementation Date, the Adelaide Bank Directors who are not appointed to the Merged Group Board have agreed to tender their resignations from the Adelaide Bank Board. Based on the indicative timetable set out on page 2, the estimated payments to these Adelaide Bank Directors upon their retirement as a consequence of the Schemes are as follows:

Name of director	Estimated payment ⁽¹⁾
Steven Crane	\$30,000.00 ⁽²⁾
Patricia Crook	\$15,833.33

Notes:

- (1) Payment comprises pro rata annual directors' fees, and amounts paid by Adelaide Bank to superannuation funds nominated by the directors in lieu of payment of fees in cash of \$2,477 on behalf of Mr Crane and \$1,307.37 on behalf of Dr Crook.
- (2) Aggregate estimated payment to Mr Crane as a director of both Adelaide Bank and Adelaide Managed Funds, a wholly owned subsidiary of Adelaide Bank.

Except as set out above, no payments or other benefits are proposed to be made or given to any director, secretary or executive officer of Adelaide Bank or any of its related bodies corporate as compensation for loss of, or as consideration for or in connection with, his or her loss of office or retirement from office where such loss of office or retirement from office is as a consequence of, or in connection with, the Schemes.

Further, except as set out above, no one has paid or agreed to pay any amount, and no one has given or agreed to give any benefit, to any director of Adelaide Bank to induce that person to become or to qualify as a director of Bendigo Bank.

26.6 Other agreements or arrangements with Adelaide Bank Directors

Except as set out below or elsewhere in this Scheme Book, there is no agreement or arrangement made between any Adelaide Bank Director and any other person in connection with or conditional on the outcome of any of the Schemes:

- each Adelaide Bank Director who holds Adelaide Bank Ordinary Shares, Adelaide Bank Step Up Preference Shares or Adelaide Bank Reset Preference Shares at the Scheme Record Date will be entitled to receive New Bendigo Bank Ordinary Shares, New Bendigo Bank Step Up Preference Shares or Bendigo Bank Reset Preference Shares (as the case may be) in accordance with the terms of the Schemes;
- if the Ordinary Share Scheme becomes Effective, Kevin G Osborn, Jamie McPhee and the other persons nominated by Adelaide Bank to the Bendigo Bank Board will join the Merged Group Board. Mr Osborn, Mr McPhee and the other Adelaide Bank nominees will be paid directors' fees in accordance with Bendigo Bank's existing fee arrangements for directors as described in Section 27.2(c). Mr McPhee will not be paid any amounts for acting as a director aside from his remuneration under his existing executive service contract;
- Bendigo Bank has indemnified each Adelaide Bank Director from and against all claims, liabilities and losses which he or she may suffer or incur by reason of a breach of any of the representations, warranties and undertakings given by Bendigo Bank in clause 6.2 of the Merger Implementation Agreement; and
- Mr Steven Crane and Dr Patricia Crook have agreed to tender their resignations as Adelaide Bank Directors in the event that the Ordinary Share Scheme is approved. As at the date of this Scheme Book, Adelaide Bank has not made a decision as to whom of Dr Lloyd, Mr Abrahamson and Mr Cook will not be nominated to the Merged Group Board, if Bendigo Bank's constitution is not amended.

26.7 Interests held by Adelaide Bank Directors in contracts of Bendigo Bank

Other than as set out in Sections 26.4 and 26.6, no Adelaide Bank Director has an interest in any contract entered into by Bendigo Bank.

26.8 Other interests of Adelaide Bank Directors

Except as set out in this Scheme Book, no Adelaide Bank Director has any other interest material to any of the Schemes.

26.9 Consequences of the Schemes for Adelaide Bank employee incentive schemes

(a) Long Term Incentive Plan (New LTIP)

On 28 June 2007, the Adelaide Bank Board approved the terms of the New LTIP. The purpose of the New LTIP is to assist in the retention and motivation of employees of Adelaide Bank eligible to participate in the New LTIP and to provide an incentive to those employees to drive continuing improvement in Adelaide Bank's performance.

Participation is by invitation from the Adelaide Bank Board only. Each offer under the New LTIP is required to include details of the performance rights the eligible employee may apply for, the performance conditions applicable to some or all performance rights and the performance period(s) within which the performance conditions must be satisfied.

A trustee is required to be appointed (**LTIP Trustee**) to acquire Adelaide Bank Ordinary Shares (as directed by Adelaide Bank) and hold the shares under the terms of the New LTIP. If the performance conditions applicable to the performance rights held by a participant are satisfied within the applicable performance period (see paragraph above), absent the Merger, it was intended that the LTIP Trustee allocate to the participant's New LTIP account the number of shares to which the participant is entitled.

If a change in control or similar event occurs in relation to Adelaide Bank, the Adelaide Bank Board has the discretion to direct that a proportion of performance rights held by a participant will vest. The Adelaide Bank Board has elected not to exercise this discretion in relation to the Merger.

If a participant ceased to be employed by Adelaide Bank prior to the completion of a performance period for any reason (other than death, total and permanent disability, redundancy or any other reason determined by the Adelaide Bank Board (**Qualifying Reason**)) or within the first 12 months of that performance period for a Qualifying Reason, any performance rights held by a participant to which that performance period applies would lapse.

A participant would forfeit any performance rights in his or her New LTIP account if the participant was dismissed for cause or, in the reasonable opinion of the Adelaide Bank Board, the participant had acted fraudulently or dishonestly, committed a serious breach of duty to Adelaide Bank, engaged in any act of harassment or discrimination or brought Adelaide Bank into serious disrepute.

Adelaide Bank has made offers under the New LTIP to 10 Adelaide Bank executives (including Mr Jamie McPhee, Adelaide Bank's Group Managing Director) of, in aggregate, 126,435 performance rights under the New LTIP.

Refer to paragraph (f) below for information on the consequences of the Schemes for the New LTIP and the offers made under the New LTIP.

(b) Short Term Incentive Plan (New STIP)

On 28 June 2007, the Adelaide Bank Board approved the terms of the New STIP. The purpose of the New STIP is to provide an attraction and retention mechanism and reward performance against key performance indicators (**KPIs**). The New STIP is designed to complement the New LTIP described above. All Adelaide Bank executives are eligible to participate in the New STIP.

Absent the Merger, offers to participate in the New STIP were to be made on an annual basis. The New STIP performance period was based on a financial year and it was intended that performance categories and KPIs, measures, hurdles and weighting would be established and agreed in June each year, prior to commencement of the relevant performance period.

Payments made under the New STIP are at the discretion of the Adelaide Bank Board and, if made, were to have been made in cash or applied in the purchase of shares, at the discretion of the participant.

If a change in control occurs in relation to Adelaide Bank or a participant ceases to be employed by Adelaide Bank, the Adelaide Bank Board has the discretion to direct that a proportion of a New STIP payment be allocated to a participant. The Adelaide Bank Board has elected not to exercise this discretion in relation to the Merger.

Offers dated 6 and 7 August 2007 have been made under the New STIP to 10 Adelaide Bank executives (including Mr Jamie McPhee, Adelaide Bank's Group Managing Director).

Refer to paragraph (f) below for information on the consequences of the Schemes for the New STIP and the offers made under the New STIP.

(c) Deferred Employee Share Plan (DESP)

The DESP was established to assist in the retention and motivation of employees of Adelaide Bank (and its associated companies). Participation in the DESP is by invitation from the Adelaide Bank Board only.

Under the DESP, Adelaide Bank puts money into a dedicated DESP trust account and that money is applied by the DESP trustee (**DESP Trustee**) to acquire Adelaide Bank Ordinary Shares on ASX or from other purchases, as directed by the Adelaide Bank Board. The shares are held by the DESP Trustee for the benefit of participants in the DESP. Participants are entitled to receive any income (including dividends) and distributions or entitlements in respect of the DESP shares.

Participants' rights to receive shares allocated under the DESP may be subject to performance and/or vesting criteria (as determined by the Adelaide Bank Board) (**Requirements**). When all applicable Requirements have been met, a participant may request permission of the DESP Trustee to withdraw his or her vested shares from the DESP (or to direct the DESP Trustee to sell the shares on market).

Participants also have a right to request permission of the DESP Trustee to withdraw shares from the DESP if there is a change in control of Adelaide Bank (as will occur in the case of the Merger).

Shares under the DESP are forfeited if a participant ceases to be an employee of Adelaide Bank when the participant's DESP shares remain subject to Requirements or the participant is dismissed with cause, and the Adelaide Bank Board directs that the shares be forfeited.

Shares are currently held by the DESP Trustee under the DESP in respect of:

- a long term incentive plan (offered to executives and senior employees employed as at 1 July 2005) relating to the period from July 2005 to June 2008 (**2005 – 2008 Offer**);
- a short term incentive plan (offered to executives and senior employees employed or promoted following 1 July 2005) relating to the 30 June 2007 financial year (to the extent that the participant elected to take a short term incentive award in shares rather than cash) (**2007 Offer**); and
- prior long term and short term incentive plan offers made by Adelaide Bank to executives and senior employees (**Prior Offers**).

All of these shares have (or will) vest in the relevant participants but continue to be held in the DESP under the terms of the DESP.

From 1 July 2007, it was anticipated that long term and short term incentive components of Adelaide Bank executive remuneration would be provided through the New LTIP and New STIP (refer to paragraphs (a) and (b) respectively above).

To this extent, although the 2005 – 2008 Offer will remain in place until 30 June 2008, subject to the following, it is not currently anticipated that any further shares will vest to participants under the 2005 – 2008 Offer. Participants under the 2005 – 2008 Offer have or will have received a one-off award of Adelaide Bank Ordinary Shares capped at one third of the maximum number of shares available to them under the 2005 – 2008 Offer. The Adelaide Bank Board has elected to waive the Requirements in respect of these shares and accordingly, these shares have (or will) vest in the relevant participants.

No further Adelaide Bank Ordinary Shares will be acquired by the DESP Trustee.

As at the date of this Scheme Book, the DESP Trustee holds approximately 549,041 shares that have (or will) vest in the relevant participants (77,799 in respect of the 2007 Offer and 99,172 in respect of the 2005 – 2008 Offer and 372,070 in respect of the Prior Offers) and approximately 301,409 shares that will not vest in the relevant participants (which shares were previously the subject of the 2005 – 2008 Offer and the Prior Offer) which the Adelaide Bank Board has determined will be allocated to eligible employees that accept the 2007 Allocation Scheme Offer (see further at paragraph (d) below).

Refer to paragraph (f) below for information on the consequences of the Schemes for the DESP, including proposed amendments to the DESP.

Each DESP participant is entitled to direct the DESP Trustee how to vote the participant's DESP shares at meetings of Adelaide Bank shareholders.

(d) Allocation scheme under the Executive Directors and Staff Securities Plan (Allocation Scheme)

Under the Allocation Scheme, at the end of each financial year, the Adelaide Bank Board may allocate an amount of Adelaide Bank's pre-tax operating profit to acquire Adelaide Bank Ordinary Shares to be given free of charge to eligible employees.

All part time, full time and casual employees of Adelaide Bank, and all fixed term contract employees of Adelaide Bank who have completed at least one year of continuous service with Adelaide Bank, are eligible to participate in the Allocation Scheme. In practice, Adelaide Bank executives and senior employees who participate in long term incentive plans of Adelaide Bank do not participate in the Allocation Scheme.

The Adelaide Bank Board determines the number of shares to be allocated to eligible employees. Invitations are then issued to eligible employees on this basis.

In respect of any accepted invitations, the trustee under the Allocation Scheme (**Allocation Scheme Trustee**) then acquires Adelaide Bank Ordinary Shares and holds the shares on trust for participants. Participants are entitled to receive dividends in respect of the Allocation Scheme shares.

Three years after the Allocation Scheme Trustee acquires shares for a participant, the Allocation Scheme Trustee must transfer the shares to the participant, provided that:

- if prior to the expiry of the relevant three year period, a participant ceases to be employed by Adelaide Bank, the participant may direct the Allocation Scheme Trustee to transfer the shares to the participant; and
- if Adelaide Bank is subject to a takeover, participants can direct the Allocation Scheme Trustee to accept the offer for their Allocation Scheme shares (provided the Adelaide Bank Board declares that this direction is permissible).

As at the date of this Scheme Book, there are approximately 945,700 Adelaide Bank Ordinary Shares held by the Allocation Scheme Trustee under the Allocation Scheme – 339,825 of those shares have vested and 605,875 of those shares have not yet vested.

The Adelaide Bank Board has made an offer dated on or around 28 September 2007 under the Allocation Scheme to eligible employees in respect of the 1 July 2006 to 30 June 2007 financial year (**2007 Allocation Scheme Offer**). Responses to the 2007 Allocation Scheme Offer must be provided to Adelaide Bank by 19 October 2007. Adelaide Bank Ordinary Shares are expected to be allocated by 26 October 2007 to eligible employees who accept the 2007 Allocation Scheme Offer. Up to a total maximum number of 300,000 Adelaide Bank Ordinary Shares may be allocated under the 2007 Allocation Scheme Offer. Any such shares allocated will be existing Adelaide Bank Ordinary Shares held by the DESP Trustee. There will be no new Adelaide Bank Ordinary Shares issued in relation to the 2007 Allocation Scheme Offer.

Refer to paragraph (f) below for information on the consequences of the Schemes for the Allocation Scheme and the 2007 Allocation Scheme Offer, including proposed amendments to the Allocation Scheme.

Each participant in the Allocation Scheme is entitled to direct the Allocation Scheme Trustee how to vote the participant's Allocation Scheme shares at meetings of Adelaide Bank shareholders.

(e) Loan scheme under the Executive Directors and Staff Securities Plan (Loan Scheme)

The Loan Scheme is defunct and is no longer used by Adelaide Bank. However, there are still participants under the Loan Scheme with outstanding loans (see further below).

All part time, full time and casual employees and executive directors of Adelaide Bank who had completed at least one year of continuous service with Adelaide Bank were eligible to participate in the Loan Scheme.

Participation was by invitation by the Adelaide Bank Board. The Loan Scheme provided participants with the right to take up a loan from Adelaide Bank to fund the purchase of Adelaide Bank Ordinary Shares under the scheme.

Until any applicable loan is repaid, Loan Scheme shares are held in trust for a participant by the trustee of the Loan Scheme (**Loan Scheme Trustee**). The loan must be repaid if the participant ceases to be employed by Adelaide Bank and the Loan Scheme Trustee is entitled to sell the shares in the event that the participant ceases to be an Adelaide Bank employee, fails to repay a loan or breaches the Loan Scheme rules. Unless the Adelaide Bank Board determines otherwise, dividends are to be applied by the Loan Scheme Trustee to repay interest (if any) and loan capital.

As at the date of this Scheme Book, there are six employees participating in the Loan Scheme (by way of 12 interest free loans). The Loan Scheme Trustee holds 406,000 Adelaide Bank Ordinary Shares under the Loan Scheme for those participants.

Refer to paragraph (f) below for information on the consequences of the Schemes for the Loan Scheme, including proposed amendments to the Loan Scheme.

Each participant in the Loan Scheme is entitled to direct the Loan Scheme Trustee how to vote the participant's Loan Scheme shares at meetings of Adelaide Bank shareholders.

(f) Consequences of the Schemes for Adelaide Bank employee incentive schemes

General

It is expected that after the Implementation Date, no new offers will be made under any of Adelaide Bank's employee incentive schemes and that Adelaide Bank employees will instead be eligible to participate in employee incentive schemes of the Merged Group.

New LTIP

As noted in paragraph (a) above, Adelaide Bank has made offers under the New LTIP to 10 Adelaide Bank executives (each an **Eligible Officer**) of, in aggregate, 126,435 performance rights under the New LTIP (**New LTIP Offers**).

Under the Merger Implementation Agreement (clause 5.11(a)):

- (i) Adelaide Bank will not take any action in relation to the New LTIP Offers unless Bendigo Bank consents (such consent not to be unreasonably withheld) and Adelaide Bank must use its reasonable endeavours to seek the agreement of each Eligible Officer to exchange their performance rights for the rights contemplated by sub-paragraph (ii) below; and
- (ii) by no later than the Implementation Date, Bendigo Bank must commit to each Eligible Officer to offer, after the Implementation Date, the right to participate in an appropriate Bendigo Bank employee incentive scheme on terms which, taken as a whole, constitute an incentive package which is, from the standpoint of the Eligible Officer acting reasonably, economically equivalent to the New LTIP Offer made by Adelaide Bank to the Eligible Officer (provided that at the time the offer is made, the Eligible Officer is an employee of Adelaide Bank or a related body corporate).

New STIP

Adelaide Bank and Bendigo Bank will, in view of the Merger, consider and agree how the New STIP will be treated after the Implementation Date. The Merger will impact on the ability of employees participating in the New STIP to achieve the relevant agreed New STIP KPIs and participants electing to apply cash awarded under the New STIP to purchase shares following the Merger, will need to purchase Bendigo Bank, rather than Adelaide Bank, shares.

Allocation Scheme, DESP and Loan Scheme

It is proposed that these schemes be amended by the Adelaide Bank Board as permitted under the terms of the schemes as follows (subject to obtaining consents (if any) necessary to amend any of the schemes):

- the terms of the Allocation Scheme be amended to allow participants under the Allocation Scheme to elect to direct the Allocation Scheme Trustee to, following the Implementation Date, transfer Allocation Scheme shares (which at that time will be New Bendigo Bank Ordinary Shares) held by the trustee on account of a participant (whether those shares are 'vested' or not) to the participant to be held outright by the participant;⁴⁵ and

⁴⁵ DESP participants already have this right in the event of a change in control of Adelaide Bank (as will occur under the Merger) and Loan Scheme participants will have this right to the extent that they repay outstanding Loan Scheme loans existing in respect of their Loan Scheme entitlements.

- to the extent that participants have not withdrawn their shares from the DESP, Allocation Scheme and/or Loan Scheme as at the Implementation Date, the terms of these schemes be amended to allow the trustee of each scheme to accept New Bendigo Bank Ordinary Shares in exchange for Adelaide Bank Ordinary Shares under the Ordinary Share Scheme and to thereafter hold New Bendigo Bank Ordinary Shares (rather than Adelaide Bank Ordinary Shares) under the terms of each scheme.

Taxation

Please refer to Section 21.4 for information regarding various taxation consequences of the Merger for Allocation Scheme participants.

26.10 Consents

The following persons have given and, before the date on which this Scheme Book was lodged with ASIC for registration, have not withdrawn, their consent to be named in this Scheme Book in the form and context in which they are named:

- Johnson Winter & Slattery as legal adviser to Adelaide Bank;
- ABN AMRO Corporate Finance Australia Limited as financial adviser to Adelaide Bank;
- KPMG as Independent Expert;
- Ernst & Young as Investigating Accountant;
- Computershare Investor Services Pty Limited as the Adelaide Bank Registry; and
- Bendigo Bank in respect of the Bendigo Bank Information and the Merged Group Information.

The following persons have given and, before the date on which this Scheme Book was lodged with ASIC for registration, have not withdrawn, their consent to the inclusion in this Scheme Book of the following statements in the form and context in which they are included:

- KPMG in respect of the Independent Expert's Reports and references to those reports in this Scheme Book; and
- Ernst & Young in respect of the Investigating Accountant's Report, references to that report in this Scheme Book and any statement referring to or based upon the audited accounts of Adelaide Bank or Bendigo Bank.

Each person referred to in this Section 26.10 has not authorised or caused the issue of this Scheme Book, does not make, or purport to make, any statement in this Scheme Book or any statement on which a statement in this Scheme Book is based other than as specified in this Section 26.10 and, to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Scheme Book except in respect of those reports or statements to which they have consented as specified in this Section 26.10.

26.11 Creditors of Adelaide Bank

The Schemes, if implemented, are not expected to materially prejudice Adelaide Bank's ability to pay its creditors as they involve the acquisition of shares in Adelaide Bank. No material new liability (other than transaction costs) is expected to be incurred by Adelaide Bank as a consequence of the implementation of the Schemes. Adelaide Bank has paid and is paying all of its creditors within normal terms of trade and is solvent and trading in an ordinary commercial manner.

Bendigo Bank additional information

27.1 Interests of the Bendigo Bank Group in Adelaide Bank securities

(a) Relevant interests and voting power

As at the date of this Scheme Book, Bendigo Bank does not have a relevant interest in any of the Adelaide Bank securities on issue or any voting power in Adelaide Bank.

(b) Dealings in Adelaide Bank securities

Except as disclosed elsewhere in this Scheme Book, neither Bendigo Bank nor any of its associates has provided, or agreed to provide, or has received or agreed to receive, consideration for any Adelaide Bank shares under a sale, purchase or agreement for sale or purchase of Adelaide Bank shares during the four months ended on the day immediately before the date of this Scheme Book.

Except as disclosed elsewhere in this Scheme Book, during the period of four months ended on the day immediately before the date of this Scheme Book, neither Bendigo Bank nor any of its associates has given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person, or an associate, to:

- vote in favour of the Schemes; or
- dispose of Adelaide Bank shares

which was not offered to all Adelaide Bank shareholders.

27.2 Interests of Bendigo Bank Directors

(a) Interests in proposal

Mr Johanson is a director of Grant Samuel which has been engaged as a joint adviser with Goldman Sachs JBWere Pty Ltd to provide advisory services in connection with the proposed Merger. The engagement was made after the procedures in the protocol established between Bendigo Bank and Grant Samuel had been followed. The fees payable to Grant Samuel include fees that are dependent upon the Merger becoming Effective.

Except as disclosed elsewhere in this Scheme Book no Bendigo Bank Director holds as at the date of this Scheme Book, or has held in the two years before the date of this Scheme Book, an interest in the Merger or Adelaide Bank.

Except as disclosed elsewhere in this Scheme Book, no one has paid or agreed to pay any amount, and no one has given or agreed to give any benefit to, any Bendigo Bank Director to induce that person to become or to qualify as a Bendigo Bank Director.

(b) Interests of Bendigo Bank Directors in Adelaide Bank shares

As at the date of this Scheme Book, Kevin Roache, an independent director of Bendigo Bank, holds 852 Adelaide Bank Ordinary Shares. There are no other Adelaide Bank shares held by a Bendigo Bank Director.

(c) Interests of Bendigo Bank Directors in Bendigo Bank shares

As at the date of this Scheme Book, the Bendigo Bank Directors have interests in the following securities in Bendigo Bank:

Director	Ordinary shares	Preference shares
Robert Johanson	186,330	500
Rob Hunt AM ⁽¹⁾	809,107	–
Neal Axelby	32,994	50
Jennifer Dawson	13,584	100
Donald Erskine	245,913	–
Terence O'Dwyer	50,300	–
Deborah Radford	1,000	–
Tony Robinson	2,500	–
Kevin Roache	46,189	200

Note:

(1) Includes 600,000 shares issued under the Bendigo Employee Share Ownership Plan.

(d) Bendigo Bank Directors' fees

The constitution of Bendigo Bank contains several provisions as to the fees payable to non-executive directors of Bendigo Bank. As fees for services, each non-executive director of Bendigo Bank is to be paid an amount determined by the Bendigo Bank Board, provided that the aggregate amount payable to non-executive directors for their services in any year may not exceed the amount determined by Bendigo Bank shareholders in general meetings (the limit is currently \$1.2 million).

Any Bendigo Bank Director who performs services outside the ordinary duties of a Bendigo Bank Director (such as serving on special committees) may be paid extra fees as determined by the Bendigo Bank Board. However, the policy of the Bendigo Bank Board is that Bendigo Bank does not pay additional fees in relation to committee memberships or subsidiary and joint venture directorships. In addition, every Bendigo Bank Director is entitled to be paid all reasonable travel accommodation and other expenses incurred by the director in attending meetings of Bendigo Bank, of the Bendigo Bank Board or of any committees, or while engaged on the business of Bendigo Bank.

(e) Insurance of directors and officers

During or since the financial year end, Bendigo Bank has paid premiums to insure certain officers and employees of Bendigo Bank and related bodies corporate. Those covered by the insurance policy include the directors, officers and secretaries of Bendigo Bank and its subsidiaries and executive committee members of Bendigo Bank.

Disclosure of the nature of the liability and the amount of the premium is prohibited by the confidentiality clause of the contract of insurance.

(f) Indemnification of directors and officers

The constitution stipulates that Bendigo Bank is to indemnify, to the extent permitted by law, each officer or employee of Bendigo Bank against liabilities (including costs, damages and expenses incurred in defending any proceedings or appearing before any court, tribunal, government authority or other body) incurred by an officer or employee in, or arising out of the conduct of the business of Bendigo Bank or arising out of the discharge of the officer's or employee's duties.

As provided under Bendigo Bank's constitution, Bendigo Bank has entered into deeds providing for indemnity, insurance and access to documents for each director who held office during the year. The deed requires Bendigo Bank to indemnify, to the extent permitted by law, the director against all liabilities (including costs, damages and expenses incurred in defending any proceedings or appearing before any court, tribunal, government authority or other body) incurred by the director in, or arising out of, the conduct of the business of Bendigo Bank, a subsidiary or any other corporation in which Bendigo Bank holds shares or securities or in the discharge of their duties as a director of Bendigo Bank or duties arising by reason of their appointment or secondment to any other corporation.

27.3 Bendigo Bank Dividend Reinvestment Plan

The Dividend Reinvestment Plan is a means by which Bendigo Bank shareholders may elect to reinvest dividends declared by Bendigo Bank in additional Bendigo Bank Ordinary Shares, instead of receiving cash dividends in respect of all or part of their holding of shares. Participation in the plan is optional and is not transferable. Under the plan, the Bendigo Bank Board may determine in its absolute discretion to issue new shares to a participating shareholder and/or to arrange for the purchase and transfer of existing shares to a participating shareholder. The value per share at which shares will be issued, or transferred, under the plan will be the volume weighted average price of Bendigo Bank Ordinary Shares sold in the ordinary course of trading on ASX during the 10 trading days after the record date, rounded to the nearest cent. All shares issued under the plan will rank equally, in all respects, with all other fully paid Bendigo Bank Ordinary Shares then on issue and will participate in all dividends subsequently declared.

The Bendigo Bank Directors shall have the right not to proceed with an issue, or purchase and transfer, of shares from the proceeds of any particular dividend if it is considered advisable not to do so and in such a case the dividend will be paid by cheques or electronic funds transfer to the shareholder. A participant may at any time give notice in writing of termination of participation in the plan.

The rules of the Bendigo Bank dividend reinvestment plan are available on the Bendigo Bank website at www.bendigobank.com.au.

27.4 Bendigo Bank employee share and incentive plans

(a) Employee Share Plan

The Employee Share Plan is established for the benefit of employees of Bendigo Bank, its subsidiaries and other companies decided by the Bendigo Bank Board for this purpose. Participation in the Employee Share Plan is by invitation. It is only available to general staff; executives (including the Managing Director) may not participate in it. Under the terms of the Employee Share Plan, shares will be issued at the prevailing market value. The shares must be paid for by the staff member.

The plan provides staff members with an interest free loan for the sole purpose of acquiring plan shares. Net cash dividends after personal income tax obligations are applied to reduce the loan balance. Staff cannot deal in the shares until the loan has been repaid. From the date on which the money is advanced to the staff member to pay for the shares and those shares are allocated to the staff member, the staff member will be beneficially entitled to the shares and will be entitled to vote, receive notices issued to shareholders by Bendigo Bank and receive dividends if entitled to do so. Any shares allocated under this plan will rank equally in all respects with other shares for the time being on issue.

(b) Executive Incentive Plan

The Executive Incentive Plan is designed to link executive reward with the key performance drivers which underpin sustainable growth in shareholder value – including both share price and returns to shareholders. Participation is offered to executives, including the Managing Director, as decided by the Bendigo Bank Board. Under the Executive Incentive Plan, eligible executives are granted options and performance rights subject to performance conditions set by the Bendigo Bank Board. If the performance conditions are satisfied during the relevant performance period, the options and performance rights will vest. Options and performance rights are granted at no cost to the executive. The Executive Incentive Plan rules provide that the Bendigo Bank Board may determine that a price is payable upon exercise of an option. The exercise price for options will generally be the market price of the shares at the grant date. Executives are entitled to vote and to receive any dividend, bonus issue, return of capital or other distribution made in respect of shares they are allocated on vesting and exercise of their options and performance rights, as applicable. The 2007 and 2008 grants are subject to a dealing restriction. Executives are not entitled to sell, transfer or otherwise deal with the shares allocated to them until two years after the end of the initial performance period. If an executive ends their employment with Bendigo Bank before the performance conditions for the options or performance rights have been met, the options and performance rights that have not yet vested will lapse, subject to exceptions. If there is a takeover or change of control of Bendigo Bank, the Bendigo Bank Board may decide that unvested options or performance rights vest, having regard to Bendigo Bank's pro-rata performance against the relevant performance conditions.

The rules of both the Bendigo Bank Executive Incentive Plan and the Employee Share Plan are available on the Bendigo Bank website at www.bendigobank.com.au.

General additional information

28.1 ASIC relief

Regulation 5.1.01 of the Corporations Regulations requires that, unless ASIC allows otherwise, the Scheme Book must contain all of the matters set out in part 3 of schedule 8 to the Corporations Regulations. As some of these requirements are not applicable or appropriate in respect of the Scheme, ASIC has allowed the following variations in this Scheme Book:

(a) Payments or benefits proposed to be given to Adelaide Bank Directors

Clause 8302(d) of schedule 8 to the Corporations Regulations requires the disclosure of particulars of any payment or other benefit that is proposed to be made or given to any director, secretary or executive officer of Adelaide Bank or any related body corporate as compensation for loss of, or as consideration for or in connection with his or her retirement from, office of the relevant company.

ASIC has allowed Adelaide Bank to vary its compliance with this requirement. The effect of ASIC's consent is that Adelaide Bank has only disclosed particulars of any payment or other benefit that is proposed to be made or given to any director, secretary or executive officer of Adelaide Bank or any related body corporate as compensation for loss of, or as consideration for or in connection with his or her retirement from, office, only to the extent that the director, secretary or executive officer will lose office or retire from office in connection with the Scheme.

(b) Change in financial position

Clause 8302(h) of schedule 8 of the Corporations Regulations requires this Scheme Book to disclose the extent to which the financial position of Adelaide Bank has materially changed since the date of the last balance sheet laid before Adelaide Bank's general meeting, being its financial statements for the financial year ended 30 June 2006.

ASIC has allowed Adelaide Bank to confine its disclosure to all material changes to Adelaide Bank's financial position between 30 June 2007 and the lodgement of this Scheme Book for registration by ASIC on the basis that:

- Adelaide Bank complies with Division 1 of Part 2M.3 of the Corporations Act in respect of its financial year ended 30 June 2007;
- this Scheme book states that Adelaide Bank will give a copy of the documents referred to in section 295 of the Corporations Act free of charge to any shareholder of Adelaide Bank who asks for them before the Schemes are approved by order of the Court (see Section 17.7);
- Adelaide Bank will ensure that a copy of the documents referred to in section 295 of the Corporations Act is available on its website (see Section 17.7);
- any material change in Adelaide Bank's financial position occurring after 30 June 2007 but prior to the date of this Scheme Book is disclosed in this Scheme Book (see Section 17.5);
- this Scheme Book and the Independent Expert's Reports sent to or made available to shareholders are substantially in the form of the drafts given to ASIC; and
- this Scheme Book contains a statement to the effect that, except as set out in this Scheme Book, there is no other information material to the making of a decision in relation to the Schemes, being information that is known to Adelaide Bank or a director of any of its related bodies, which has not previously been disclosed to shareholders (see Section 28.4).

28.2 No unacceptable circumstances

The directors of each of Adelaide Bank and Bendigo Bank believe that the Merger does not involve any circumstances in relation to the affairs of Adelaide Bank or Bendigo Bank that could reasonably be characterised as constituting 'unacceptable circumstances' for the purposes of section 657A of the Corporations Act.

28.3 Warranties from Scheme Shareholders

Scheme Shareholders' attention is drawn to the warranties that Scheme Shareholders who participate in a Scheme will be deemed to have given, if the Scheme is implemented, in clause 7.2 of the Ordinary Share Scheme, clause 7.2 of the Step Up Preference Share Scheme and clause 7.2 of the Reset Preference Share Scheme (as set out in Appendix 2, Appendix 3 and Appendix 4 respectively).

In particular, the Schemes provide that each Scheme Shareholder is deemed to have warranted to Bendigo Bank, and appointed and authorised Adelaide Bank as its attorney and agent to warrant to Bendigo Bank, that:

- Adelaide Bank Ordinary Shares, Adelaide Bank Step Up Preference Shares and/or Adelaide Bank Reset Preference Shares (as the case may be) (including any rights and entitlements to more shares) will, at the date of the transfer of them to Bendigo Bank, be fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind; and
- they have full power and capacity to sell and to transfer their Adelaide Bank Ordinary Shares, Adelaide Bank Step Up Preference Shares and/or Adelaide Bank Reset Preference Shares (as the case may be) together with any rights and entitlements attaching to such shares.

28.4 Other material information

Other than as contained in or referred to in this Scheme Book, there is no other information material to the making of a decision by Shareholders whether or not to vote in favour of the Schemes being information that is known to Adelaide Bank, an Adelaide Bank Director or a director of a related body of Adelaide Bank and which has not previously been disclosed to Shareholders.

Part D | Section 29

Glossary

ACCC means the Australian Competition and Consumer Commission.

Adelaide Bank means Adelaide Bank Limited ACN 061 461 550.

Adelaide Bank Board means the board of directors of Adelaide Bank.

Adelaide Bank Director means a director of Adelaide Bank.

Adelaide Bank Group means Adelaide Bank and its Controlled Entities.

Adelaide Bank Information means all information in this Scheme Book other than the Bendigo Bank Information, the Merged Group Information, the Independent Expert's Reports and the Investigating Accountant's Report.

Adelaide Bank Managed Funds means Adelaide Managed Funds Limited ACN 062 274 533.

Adelaide Bank Material Adverse Change has the meaning given to it in the Merger Implementation Agreement.

Adelaide Bank Ordinary Share means an ordinary share in Adelaide Bank.

Adelaide Bank Register means the register of members of Adelaide Bank.

Adelaide Bank Registry means Computershare Investor Services Pty Limited.

Adelaide Bank Regulated Event has the meaning given to it in the Merger Implementation Agreement.

Adelaide Bank Reset Preference Share means a reset preference share in Adelaide Bank.

Adelaide Bank Step Up Preference Share means a step up preference share in Adelaide Bank.

Adelaide Managed Funds means Adelaide Managed Funds Limited ACN 062 274 533.

AIFRS means the Australian equivalents to International Financial Reporting Standards.

APRA means the Australian Prudential Regulation Authority.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited ACN 008 624 691 or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.

ASX Listing Rules means the official listing rules of ASX.

Banking Act means the *Banking Act 1959* (Cth).

Bendigo Bank means Bendigo Bank Limited ACN 068 049 178.

Bendigo Bank Board means the board of directors of Bendigo Bank.

Bendigo Bank Director means a director of Bendigo Bank.

Bendigo Bank Group means Bendigo Bank and its Controlled Entities.

Bendigo Bank Information means the information contained in the letter from the Chairman of Bendigo Bank (other than the reference to the belief of the Adelaide Bank Board), Sections 5, 18 and 27, Appendices 6 and 7 and any other information in this Scheme Book (other than the Independent Expert's Reports, the Merged Group Information and the Investigating Accountant's Report) attributed to or regarding Bendigo Bank. For the purposes of this definition, Bendigo Bank and Adelaide Bank have identified the information that is Bendigo Bank Information.

Bendigo Bank Material Adverse Change has the meaning given to it in the Merger Implementation Agreement.

Bendigo Bank Ordinary Share means an ordinary share in Bendigo Bank.

Bendigo Bank Preference Share means a preference share in Bendigo Bank issued pursuant to a prospectus dated 16 March 2005.

Bendigo Bank Regulated Event has the meaning given to it in the Merger Implementation Agreement.

Business Day means a day that is not a Saturday, Sunday, bank holiday or public holiday in Victoria or South Australia.

Competing Proposal means, in relation to Adelaide Bank, any proposed or possible transaction or arrangement pursuant to which, if ultimately completed, a person (other than Bendigo Bank or a related body corporate of Bendigo Bank) would:

- directly or indirectly, acquire an interest, a relevant interest in or become the holder of:
 - more than 50% of the Adelaide Bank Ordinary Shares; or
 - the whole or a substantial part or a material part of the business or property of Adelaide Bank or the Adelaide Bank Group;
- acquire control of Adelaide Bank, within the meaning of section 50AA of the Corporations Act; or
- otherwise acquire or merge with Adelaide Bank (including by a reverse takeover bid, reverse scheme of arrangement or dual listed companies structure).

Competing Proposal means, in relation to Bendigo Bank, any proposed or possible transaction or arrangement pursuant to which, if ultimately completed, a person would:

- directly or indirectly, acquire an interest, a relevant interest in or become the holder of:
 - more than 50% of the Bendigo Bank Ordinary Shares; or
 - the whole or a substantial part or a material part of the business or property of Bendigo Bank or the Bendigo Bank Group;
- acquire control of Bendigo Bank, within the meaning of section 50AA of the Corporations Act; or
- otherwise acquire or merge with Bendigo Bank (including by a reverse takeover bid, reverse scheme of arrangement or dual listed companies structure).

Controlled Entities has the meaning given in the Corporations Act.

Corporations Act means the *Corporations Act 2001* (Cth).

Corporations Regulations means the *Corporations Regulations 2001* (Cth).

Court means the Federal Court of Australia.

Deed Poll means the Deed Poll set out in Appendix 5.

Effective, when used in relation to a Scheme, means the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act approving the Scheme.

Effective Date, when used in relation to a Scheme, means the date on which the Schemes become Effective.

Financial Sector (Shareholdings) Act means the *Financial Sector (Shareholdings) Act 1998* (Cth).

Fitch means Fitch Australia Pty Ltd ACN 081 339 184.

FY means financial year to 30 June.

Governmental Agency means any government or representative of a government or any governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency, competition authority or entity. It includes ASIC and ASX (and any other stock exchange).

Grant Samuel means Grant Samuel Corporate Finance Pty Limited ACN 076 176 657.

Implementation Date when used in relation to a Scheme, means the date on which the Schemes are to be implemented, being the third Business Day after the Scheme Record Date.

Independent Expert means KPMG.

Independent Expert's Reports means the reports set out in Sections 23, 24 and 25.

Ineligible Foreign Shareholders means Ineligible Foreign Ordinary Shareholders, Ineligible Foreign Step Up Preference Shareholders and Ineligible Foreign Reset Preference Shareholders which terms are defined in Sections 6.6, 11.5 and 16.5 respectively.

Investigating Accountant's Report means the report set out in Section 22.

KPMG means KPMG Corporate Finance (Aust) Pty Limited ACN 007 363 215.

Merged Group means the Bendigo Bank Group or, as the context requires, Bendigo Bank, after the Implementation Date.

Merged Group Board means the board of directors of the Merged Group.

Merged Group Information means the information contained in Sections 19 and 20 attributed to the Merged Group or the Merged Group Board or regarding the Merged Group, including information elsewhere in this Scheme Book (other than the Independent Expert's Reports and the Investigating Accountant's Report) repeating the information contained in Sections 19 and 20 and other information in this Scheme Book (other than the Independent Expert's Reports and the Investigating Accountant's Report) attributed to the Merged Group or the Merged Group Board or regarding the Merged Group. For the purposes of this definition, Bendigo Bank and Adelaide Bank have identified the information that is Merged Group Information.

Merger means the merger of Adelaide Bank and Bendigo Bank as a consequence of the Ordinary Share Scheme becoming Effective.

Merger Implementation Agreement means the Merger Implementation Agreement dated 9 August 2007 between Adelaide Bank and Bendigo Bank, a copy of which (excluding annexures) is set out in Appendix 1.

New Bendigo Bank Ordinary Share means a Bendigo Bank Ordinary Share to be issued by Bendigo Bank under the Ordinary Share Scheme.

New Bendigo Bank Reset Preference Share means a reset preference share in Bendigo Bank having the rights and obligations set out in Appendix 7 to be issued by Bendigo Bank under the Reset Preference Share Scheme.

New Bendigo Bank Step Up Preference Share means a step up preference share in Bendigo Bank having the rights and obligations set out in Appendix 6 to be issued by Bendigo Bank under the Step Up Preference Share Scheme.

Nominee means the person chosen by Bendigo Bank to undertake the functions set out in clause 5.4 of the Ordinary Share Scheme, clause 5.3 of the Step Up Preference Share Scheme and clause 5.3 of the Reset Preference Share Scheme.

Ordinary Scheme Shareholder means an Ordinary Shareholder at the Scheme Record Date (other than Bendigo Bank).

Ordinary Share Scheme means the scheme of arrangement set out in Appendix 2 to be proposed between Adelaide Bank and the Ordinary Shareholders pursuant to section 411 of the Corporations Act.

Ordinary Share Scheme Meeting means the meeting of Ordinary Shareholders convened by the Court under section 411 of the Corporations Act for the purpose of considering and, if thought fit, approving the Ordinary Share Scheme.

Ordinary Shareholder means a person who is registered in the Adelaide Bank Register as a holder of Adelaide Bank Ordinary Shares.

Pre-tax Profit excludes unallocated revenue and expenses.

Reset Preference Share Scheme means the scheme of arrangement set out in Appendix 4 to be proposed between Adelaide Bank and the Reset Preference Shareholders pursuant to section 411 of the Corporations Act.

Reset Preference Share Scheme Meeting means the meeting of Reset Preference Shareholders convened by the Court under section 411 of the Corporations Act for the purpose of considering and, if thought fit, approving the Reset Preference Share Scheme.

Reset Preference Share Scheme Shareholder means a Reset Preference Shareholder at the Scheme Record Date (other than Bendigo Bank).

Reset Preference Shareholder means a person who is registered in the Adelaide Bank Register as a holder of Adelaide Bank Reset Preference Shares.

Sandhurst Trustees means Sandhurst Trustees Limited.

Scheme Book means this explanatory statement in relation to the Merger as required under section 412(1) of the Corporations Act in respect of the Schemes.

Scheme Consideration means, in relation to the Ordinary Share Scheme, the consideration referred to in Section 6.4, in relation to the Step Up Preference Share Scheme, the consideration referred to in Section 11.3 and, in relation to the Reset Preference Share Scheme, the consideration referred to in Section 16.3.

Scheme Meetings means the Ordinary Share Scheme Meeting, the Step Up Preference Share Scheme Meeting and the Reset Preference Share Scheme Meeting.

Scheme Meetings Record Date means the time and date for determining shareholders entitled to vote at the Scheme Meetings.

Scheme Record Date, when used in relation to a Scheme, means the time and date for determining Scheme Shareholders under that Scheme, being 6.30pm on the fifth Business Day after the Effective Date for that Scheme.

Scheme Resolution means the resolution to be put to Ordinary Scheme Shareholders to approve the Ordinary Share Scheme (such resolution will be put to Ordinary Scheme Shareholders at the Ordinary Share Scheme Meeting and must be approved by the requisite majorities of Ordinary Scheme Shareholders under section 411(4) of the Corporations Act).

Scheme Shareholder means a person who is registered in the Adelaide Bank Register as the holder of Adelaide Bank Ordinary Shares, Adelaide Bank Step Up Preference Shares or Adelaide Bank Reset Preference Shares at the Scheme Record Date.

Schemes means the Ordinary Share Scheme, the Step Up Preference Share Scheme and the Reset Preference Share Scheme and **Scheme** means any one of them.

Second Court Date means the first day on which the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Schemes is heard or, if the application is adjourned for any reason, the first day on which the adjourned application is heard.

Second Court Hearing means the hearing before the Court to approve the Schemes following the Scheme Meetings.

Shareholders means the Ordinary Shareholders, the Step Up Preference Shareholders and the Reset Preference Shareholders and **Shareholder** means any one of them.

Shares means the Adelaide Bank Ordinary Shares, the Adelaide Bank Step Up Preference Shares and the Adelaide Bank Reset Preference Shares.

Step Up Preference Share Scheme means the scheme of arrangement set out in Appendix 3 to be proposed between Adelaide Bank and the Step Up Preference Shareholders pursuant to section 411 of the Corporations Act.

Step Up Preference Share Scheme Meeting means the meeting of Step Up Preference Shareholders convened by the Court under section 411 of the Corporations Act for the purpose of considering and, if thought fit, approving the Step Up Preference Share Scheme.

Step Up Preference Share Scheme Shareholder means a Step Up Preference Shareholder at the Scheme Record Date (other than Bendigo Bank).

Step Up Preference Shareholder means a person who is registered in the Adelaide Bank Register as a holder of Adelaide Bank Step Up Preference Shares.

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Appe

Appendix 1 – Merger Implementation Agreement	388
Appendix 2 – Terms of Ordinary Share Scheme	425
Appendix 3 – Terms of Step Up Preference Share Scheme	434
Appendix 4 – Terms of Reset Preference Share Scheme	443
Appendix 5 – Deed Poll	452
Appendix 6 – Terms of New Bendigo Bank Step Up Preference Shares	457
Appendix 7 – Terms of New Bendigo Bank Reset Preference Shares	465
Appendix 8 – Notice of Ordinary Share Scheme Meeting	474
Appendix 9 – Notice of Step Up Preference Share Scheme Meeting	476
Appendix 10 – Notice of Reset Preference Share Scheme Meeting	478

Indices

Appendix I I

Merger Implementation Agreement

Table of Contents		
I	Definitions and Interpretation	389
1.1	Definitions	389
1.2	Interpretation	397
1.3	Business Day	397
2	Agreement to Propose and Implement Scheme	398
3	Conditions Precedent and Pre-Implementation Steps	398
3.1	Conditions Precedent	398
3.2	Benefit and waiver of Conditions Precedent	399
3.3	Best endeavours and co-operation	399
3.4	Notifications	400
3.5	Conditions Precedent not met	400
4	Scheme	401
4.1	Outline of Scheme	401
4.2	Scheme Consideration	401
4.3	Treatment of Foreign Adelaide Shareholders	401
5	Steps for Implementation	401
5.1	Adelaide's obligations in respect of the Scheme	401
5.2	Appeal process	402
5.3	Bendigo's obligations in respect of the Scheme	402
5.4	Preparation of Scheme Booklet	403
5.5	Adelaide Board recommendation	404
5.6	Adelaide Board intentions	404
5.7	Conduct of business	405
5.8	Board & management changes	405
5.9	Head Office & Meeting Arrangements	405
5.10	Post-announcement due diligence	406
5.11	Other Adelaide Securities	406
5.12	Name Change	407
6	Representations and Warranties	407
6.1	Representations by Adelaide	407
6.2	Representations by Bendigo	409
6.3	Nature of provisions	410
7	No Reliance on Due Diligence Information	410
7.1	Due diligence investigations	410
7.2	No warranty by Bendigo or Adelaide	410
7.3	Own enquiries	411
7.4	Benefit	411
8	Public Announcements and Communications	412
8.1	Public announcements	412
8.2	Agreement on Communications	412
9	Termination	412
9.1	Termination for material breach	412
9.2	Termination due to withdrawal of Adelaide Board recommendation	412
9.3	Other termination events	413
9.4	Termination for Competing Proposal for Bendigo	413
9.5	Automatic termination	413
9.6	Effect of termination	413
10	Exclusivity	413
10.1	No-shop restriction	413
10.2	No-talk restriction	413
10.3	No due diligence	414
10.4	Notification	414
10.5	Exceptions	415
10.6	Normal provision of information	415
10.7	No ongoing discussions	415
10.8	Acknowledgement	415
11	Payment of Liquidated Amount	416
11.1	Rationale	416
11.2	Payment by Bendigo to Adelaide	416
11.3	Payment by Adelaide to Bendigo	417
11.4	Compliance with law	418
11.5	Other claims	419
12	Reliance	419
12.1	Reliance by parties	419
12.2	Survival of representations	419
12.3	Notification	419
13	Indemnities	420
13.1	Indemnity by Bendigo	420
13.2	Indemnity by Adelaide	420
13.3	Survival of indemnities	420
14	Confidentiality	420
15	General	420
15.1	Entire agreement	420
15.2	Further acts	420
15.3	Severability	420
15.4	Notices	421
15.5	Expenses and stamp duties	422
15.6	Amendments	422
15.7	Assignment	422
15.8	Governing law	422
15.9	Waiver	422
15.10	Consents	422
15.11	No representation or reliance	423
15.12	No merger	423
15.13	GST	423
15.14	Counterparts	423
Execution Page		424

Date 9 August 2007

Parties

1. **Bendigo Bank Limited** (ABN 11 068 049 178) (**Bendigo**)
2. **Adelaide Bank Limited** (ABN 54 061 461 550) (**Adelaide**)

Recitals

- A Bendigo and Adelaide have agreed to merge by means of a scheme of arrangement under part 5.1 of the Corporations Act involving Adelaide and its shareholders, pursuant to which Bendigo will acquire all of the ordinary shares in Adelaide.
- B Bendigo and Adelaide have agreed in good faith to implement the Scheme upon and subject to the terms and conditions of this Agreement.
- C Bendigo and Adelaide have agreed certain other matters in connection with the Scheme as set out in this Agreement.

It is agreed as follows.

I Definitions and Interpretation

I.1 Definitions

The following definitions apply unless the context requires otherwise.

ACCC means the Australian Competition and Consumer Commission.

APRA means the Australian Prudential Regulatory Authority.

Adelaide Board means the board of directors of Adelaide.

Adelaide Due Diligence Information has the meaning given in clause 7.1(b).

Adelaide Group means Adelaide and its Related Bodies Corporate.

Adelaide Indemnified Parties means Adelaide, the Related Bodies Corporate of Adelaide, the Officers of Adelaide, and the Officers of each Related Body Corporate of Adelaide.

Adelaide LTIP means the long term incentive plan announced by Adelaide to ASX on 23 July 2007.

Adelaide LTIP Offers means the offers to (and subsequent acceptances of those offers by) 10 Adelaide executives of, in aggregate, 126,435 performance rights under the Adelaide LTIP, as disclosed to Bendigo prior to the date of this Agreement.

Adelaide Material Adverse Change means an event, occurrence or matter other than:

- (a) that required to be done or procured by Adelaide pursuant to this Agreement or the Scheme;
- (b) as fairly disclosed in an announcement to ASX prior to the date of this Agreement or as fairly disclosed by Adelaide to Bendigo in writing prior to the date of this Agreement (provided that disclosure of the risk or possibility of an event, occurrence or matter happening shall not be a disclosure of an actual event, occurrence or matter happening);
- (c) an actual event, occurrence or matter which is known to Bendigo prior to the date of this Agreement (which does not include knowledge of the risk or possibility of an event, occurrence or matter happening);
- (d) the payment by Adelaide of a final dividend in respect of the financial year ended 30 June 2007 of no more than \$0.36 per Adelaide Share; or
- (e) any other event, occurrence or matter which the parties agree in writing shall be excluded from this definition,

which individually will, or is reasonably likely to, or when aggregated with all such events, occurrences or matters will, or is reasonably likely to:

- (f) diminish the value of the consolidated net assets of the Adelaide Group by \$37 million or more;
- (g) diminish the consolidated net profit after tax of the Adelaide Group in any financial year by \$10 million or more, excluding any costs and expenses incurred in connection with the Scheme; or
- (h) have a material adverse effect on the ability of Adelaide to perform its obligations under this Agreement.

Adelaide Provided Information means information included in the Scheme Booklet, other than:

- (a) Bendigo Provided Information and any information solely derived from, or prepared solely in reliance on, Bendigo Provided Information;
- (b) the Independent Expert's report and the investigating accountant's report; and
- (c) the Combined Information.

Adelaide Regulated Event means the occurrence of any of the following:

- (a) Adelaide converts all or any of its shares into a larger or smaller number of shares;
- (b) Adelaide resolves to reduce its share capital in any way or reclassifies, redeems or repurchases directly or indirectly any of its shares;
- (c) Adelaide or any Related Body Corporate of Adelaide:
 - (i) enters into a buy back agreement; or
 - (ii) resolves to approve the terms of a buy back agreement under the Corporations Act;
- (d) Adelaide declares, pays or distributes any dividend, bonus or other share of its profits or assets, or returns or announces an intention to return or agree to return any capital to its members, other than any declaration, payment or distribution of either an interim or final dividend consistent with past practice as regards to dividend payout ratios;

(e) Adelaide or any Related Body Corporate of Adelaide:

- (i) issues or agrees to issue shares or instruments convertible into shares (each an **Adelaide Security**) to a person outside of the Adelaide Group; or
- (ii) grants or agrees to grant an option (including any performance right or right to have shares transferred) over or in respect of Adelaide Securities to a person outside of the Adelaide Group,

other than the issue of shares under the Adelaide dividend reinvestment plan that is in effect as at the date of this Agreement in respect of the final dividend contemplated in paragraph (d) of the definition of Adelaide Material Adverse Change (provided that such issue is not underwritten, except following consultation with Bendigo to the extent such underwriting is required by APRA and, in any case, that the shares are on issue and on the Register prior to the Record Date);

- (f) Adelaide makes a material change or amendment to its constitution;
- (g) Adelaide or any Related Body Corporate of Adelaide creates, or agrees to create, any mortgage, charge, lien or other encumbrance over the whole, or a substantial part, of its business or property;
- (h) Adelaide resolves that it be wound up;
- (i) a court makes an order for the winding up of Adelaide or of any Related Body Corporate of Adelaide;
- (j) a liquidator, provisional liquidator or administrator of Adelaide or of any Related Body Corporate of Adelaide is appointed;
- (k) a receiver or a receiver and manager is appointed in relation to the whole, or a substantial part, of the property of Adelaide or of any Related Body Corporate of Adelaide;

after the Announcement Date:

- (i) Adelaide or any Related Body Corporate of Adelaide acquiring, offering to acquire or agreeing to acquire one or more companies, businesses or assets (or any interest in one or more companies, businesses or assets) for an amount in aggregate greater than \$37 million, or making an announcement in relation to such an acquisition, offer or agreement;
- (ii) Adelaide or any Related Body Corporate of Adelaide leasing or disposing of, offering to lease or dispose of or agreeing to lease or dispose of one or more companies, businesses or assets (or any interest in one or more companies, businesses or assets) for an amount, or in respect of which the book value (as recorded in Adelaide's statement of financial position as at 30 June 2007) is, in aggregate greater than \$37 million, or making an announcement in relation to such a lease, disposition, offer or agreement;
- (iii) Adelaide or any Related Body Corporate of Adelaide entering into, or offering to enter into or agreeing to enter into, any agreement, joint venture or partnership involving a commitment of greater than 24 months other than in the ordinary course of business or which would require expenditure, or the foregoing of revenue, by the Adelaide Group of an amount which is, in aggregate, more than \$37 million or which would bring the aggregate new capital expenditure commitments of the Adelaide Group since the Announcement Date to more than \$37 million, or making an announcement in relation to such an entry, offer or agreement;
- (iv) Adelaide or any Related Body Corporate of Adelaide making any loans, advances or capital contributions to, or investments in, any other person, other than to or in Adelaide or any wholly owned Related Body Corporate of Adelaide, or in the ordinary course of business; or
- (v) Adelaide or any Related Body Corporate of Adelaide incurring any indebtedness or issuing any indebtedness or debt securities other than in the ordinary course of business,
- or the business of the Adelaide Group not otherwise being carried on in the ordinary course;
- (m) Adelaide or any Related Body Corporate of Adelaide executes a deed of company arrangement;
- (n) Adelaide or any Related Body Corporate of Adelaide (as applicable) authorises, commits or agrees to take any of the actions referred to in any of the foregoing paragraphs,
- provided that an Adelaide Regulated Event will not include:
- (o) a matter:
- (i) required to be done or procured by Adelaide pursuant to this Agreement or the Scheme;
- (ii) which a party is permitted to do, or not to do, under clause 10.5 whilst the Exclusivity Period continues, or which a party is permitted to do, or not to do, in connection with any Competing Proposal once the Exclusivity Period ends;
- (iii) in relation to which Bendigo has expressly consented in writing; or
- (iv) fairly disclosed by Adelaide to Bendigo in writing prior to the date of this Agreement; or
- (p) any of the following matters:
- (i) the payment by Adelaide of a final dividend in respect of the financial year ended 30 June 2007 of no more than \$0.36 per Adelaide Share;
- (ii) any securitisation transaction undertaken by any member of the Adelaide Group in the ordinary course of business;
- (iii) the taking of any action referred to in, or agreed by the parties pursuant to, clause 5.11(c) by any member of the Adelaide Group; and

(iv) any member of the Adelaide Group undertaking any action as may be required by APRA in connection with:

- (A) the resetting of the terms of the Reset Preference Shares;
- (B) any exchange notice issued by a holder of Reset Preference Shares; or
- (C) any action agreed by the parties pursuant to clause 5.11(c).

Adelaide Share means a fully paid ordinary share issued in the capital of Adelaide.

Adelaide Shareholder means a person who is recorded in the Register as the holder of Adelaide Shares.

Adviser means, in relation to an entity, a financier, financial adviser, corporate adviser, legal adviser, or technical or other expert adviser or consultant who provides advisory services in a professional capacity to the market in general and who has been engaged by that entity.

Agreed Public Announcement means the public announcement to be made jointly by Adelaide and Bendigo in the form of Annexure 4.

Announcement Date means:

- (a) the date on which this Agreement is executed; or
- (b) if this Agreement is executed on a day which is not a Trading Day or is executed after 4.00pm (Melbourne time) on a day which is a Trading Day, the first Trading Day immediately following the day of execution.

ASIC means the Australian Securities and Investments Commission.

ASIC Review Draft means a draft of the Scheme Booklet which is to be provided to ASIC for approval.

ASIC Review Period means the period from the date on which the ASIC Review Draft is submitted to ASIC to the date on which ASIC confirms that it has no objection to the form of the Scheme Booklet.

associate has the meaning given in section 12 of the Corporations Act.

ASX means ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.

ASX Listing Rules means the official listing rules of ASX.

Bendigo Board means the board of directors of Bendigo.

Bendigo Due Diligence Information has the meaning given in clause 7.1(a).

Bendigo Group means Bendigo and its Related Bodies Corporate.

Bendigo Indemnified Parties means Bendigo, the Related Bodies Corporate of Bendigo, the Officers of Bendigo, and the Officers of each Related Body Corporate of Bendigo.

Bendigo Material Adverse Change means an event, occurrence or matter other than:

- (a) that required to be done or procured by Bendigo pursuant to this Agreement or the Scheme;
- (b) as fairly disclosed in an announcement to ASX prior to the date of this Agreement or as fairly disclosed by Bendigo to Adelaide in writing prior to the date of this Agreement (provided that disclosure of the risk or possibility of an event, occurrence or matter happening shall not be a disclosure of an actual event, occurrence or matter happening);
- (c) an actual event, occurrence or matter which is known to Adelaide prior to the date of this Agreement (which does not include knowledge of the risk or possibility of an event, occurrence or matter happening);
- (d) the payment by Bendigo of a final dividend in respect of the financial year ended 30 June 2007 of no more than \$0.34 per Bendigo Share; or
- (e) any other event, occurrence or matter which the parties agree in writing shall be excluded from this definition,

which individually will, or is reasonably likely to, or when aggregated with all such events, occurrences or matters will, or is reasonably likely to:

- (f) diminish the value of the consolidated net assets of the Bendigo Group by \$45 million or more;

- (g) diminish the consolidated net profit after tax of the Bendigo Group in any financial year by \$12 million or more, excluding any costs and expenses incurred in connection with the Scheme; or
- (h) have a material adverse effect on the ability of Bendigo to perform its obligations under this Agreement.

Bendigo Provided Information means:

- (a) all information regarding or relating to the Bendigo Group which is necessary to ensure that the Scheme Booklet complies with the requirements of section 411(3) of the Corporations Act and ASIC Regulatory Guide 60 and ASIC Regulatory Guide 142, including (but not limited to) any financial forecasts information or other information contributed by Bendigo to the Scheme Booklet concerning financial forecasts; and
- (b) all the information that would be required under section 636(1)(g) of the Corporations Act if the Scheme Booklet were a bidder's statement offering the New Bendigo Shares as consideration under a takeover bid, to the extent reasonably practicable,

but for the avoidance of doubt does not include the Combined Information.

Bendigo Regulated Event means the occurrence of any of the following:

- (a) Bendigo converts all or any of its shares into a larger or smaller number of shares;
- (b) Bendigo resolves to reduce its share capital in any way or reclassifies, redeems or repurchases directly or indirectly any of its shares;
- (c) Bendigo or any Related Body Corporate of Bendigo:
- (i) enters into a buy back agreement; or
- (ii) resolves to approve the terms of a buy back agreement under the Corporations Act;
- (d) Bendigo declares, pays or distributes any dividend, bonus or other share of its profits or assets, or returns or announces an intention to return or agree to return any capital to its members, other than any declaration, payment or distribution of either an interim or final dividend consistent with past practice as regards to dividend payout ratios;

- (e) Bendigo or any Related Body Corporate of Bendigo:
- (i) issues or agrees to issue shares or instruments convertible into shares (each a **Bendigo Security**) to a person outside of the Bendigo Group; or
- (ii) grants or agrees to grant an option over or in respect of Bendigo Securities to a person outside of the Bendigo Group,

other than pursuant to an employee share or incentive scheme or under Bendigo's dividend reinvestment plan that is in effect as at the date of this Agreement in respect of the final dividend contemplated in paragraph (d) of the definition of Bendigo Material Adverse Change (provided that such issue is not underwritten);

- (f) Bendigo makes a material change or amendment to its constitution;
- (g) Bendigo or any Related Body Corporate of Bendigo creates, or agrees to create, any mortgage, charge, lien or other encumbrance over the whole, or a substantial part, of its business or property;
- (h) Bendigo resolves that it be wound up;
- (i) a court makes an order for the winding up of Bendigo or of any Related Body Corporate of Bendigo;
- (j) a liquidator, provisional liquidator or administrator of Bendigo or of any Related Body Corporate of Bendigo is appointed;
- (k) a receiver or a receiver and manager is appointed in relation to the whole, or a substantial part, of the property of Bendigo or of any Related Body Corporate of Bendigo;
- (l) after the Announcement Date:
- (i) Bendigo or any Related Body Corporate of Bendigo acquiring, offering to acquire or agreeing to acquire one or more companies, businesses or assets (or any interest in one or more companies, businesses or assets) for an amount in aggregate greater than \$45 million, or making an announcement in relation to such an acquisition, offer or agreement;

- (ii) Bendigo or any Related Body Corporate of Bendigo leasing or disposing of, offering to lease or dispose of or agreeing to lease or dispose of one or more companies, businesses or assets (or any interest in one or more companies, businesses or assets) for an amount, or in respect of which the book value (as recorded in Bendigo's statement of financial position as at 30 June 2007) is, in aggregate greater than \$45 million, or making an announcement in relation to such a lease, disposition, offer or agreement;
- (iii) Bendigo or any Related Body Corporate of Bendigo entering into, or offering to enter into or agreeing to enter into, any agreement, joint venture or partnership involving a commitment of greater than 24 months other than in the ordinary course of business or which would require expenditure, or the foregoing of revenue, by the Bendigo Group of an amount which is, in aggregate, more than \$45 million or which would bring the aggregate new capital expenditure commitments of the Bendigo Group since the Announcement Date to more than \$45 million, or making an announcement in relation to such an entry, offer or agreement;
- (iv) Bendigo or any Related Body Corporate of Bendigo making any loans, advances or capital contributions to, or investments in, any other person, other than to or in Bendigo or any wholly owned Related Body Corporate of Bendigo, or in the ordinary course of business; or
- (v) Bendigo or any Related Body Corporate of Bendigo incurring any indebtedness or issuing any indebtedness or debt securities other than in the ordinary course of business,
- or the business of the Bendigo Group not otherwise being carried on in the ordinary course;
- (m) Bendigo or any Related Body Corporate of Bendigo executes a deed of company arrangement;
- (n) Bendigo or any Related Body Corporate of Bendigo (as applicable) authorises, commits or agrees to take any of the actions referred to in any of the foregoing paragraphs,
- provided that a Bendigo Regulated Event will not include:
- (o) a matter:
- (i) required to be done or procured by Bendigo pursuant to this Agreement or the Scheme;
- (ii) which a party is permitted to do, or not to do, under clause 10.5 whilst the Exclusivity Period continues, or which a party is permitted to do, or not to do, in connection with any Competing Proposal once the Exclusivity Period ends;
- (iii) in relation to which Adelaide has expressly consented in writing; or
- (iv) fairly disclosed by Bendigo to Adelaide in writing prior to the date of this Agreement; or
- (p) the payment by Bendigo of a final dividend in respect of the financial year ended 30 June 2007 of no more than \$0.34 per Bendigo Share.
- Bendigo Step Up Preference Share** means a step up preference share to be issued by Bendigo having the terms agreed to by the parties, each acting reasonably, following good faith discussions as to the terms of such a share.
- Bendigo Share** means a fully paid ordinary share issued in the capital of Bendigo.
- Business Day** has the meaning given in ASX Listing Rules.
- Combined Information** means the information in the Scheme Booklet regarding the combined Bendigo/ Adelaide group after the merger and risk factors associated with the merger of Bendigo and Adelaide.
- Communications** means all forms of communications, whether written, oral, in electronic format or otherwise, and whether direct or indirect via agents or Representatives.

Competing Proposal means either a Competing Proposal for Adelaide or a Competing Proposal for Bendigo, as the case requires.

Competing Proposal for Adelaide means any proposed or possible transaction or arrangement pursuant to which, if ultimately completed, a person (other than Bendigo or a Related Body Corporate of Bendigo) would:

- (a) directly or indirectly, acquire an interest, a relevant interest in or become the holder of:
 - (i) more than 50% of the Adelaide Shares; or
 - (ii) the whole or a substantial part or a material part of the business or property of Adelaide or the Adelaide Group;
- (b) acquire control of Adelaide, within the meaning of section 50AA of the Corporations Act; or
- (c) otherwise acquire or merge with Adelaide (including by a reverse takeover bid, reverse scheme of arrangement or dual listed companies structure).

Competing Proposal for Bendigo means any proposed or possible transaction or arrangement pursuant to which, if ultimately completed, a person would:

- (a) directly or indirectly, acquire an interest, a relevant interest in or become the holder of:
 - (i) more than 50% of the Bendigo Shares; or
 - (ii) the whole or a substantial part or a material part of the business or property of Bendigo or the Bendigo Group;
- (b) acquire control of Bendigo, within the meaning of section 50AA of the Corporations Act; or
- (c) otherwise acquire or merge with Bendigo (including by a reverse takeover bid, reverse scheme of arrangement or dual listed companies structure).

Conditions Precedent means the conditions precedent set out in clause 3.1.

Confidentiality Agreement means the Agreement so entitled between Bendigo and Adelaide and dated 2 July 2007.

Corporations Act means the *Corporations Act 2001* (Cth).

Court means a court of competent jurisdiction under the Corporations Act.

Deed Poll means a deed poll substantially in the form of Annexure 3 (or in such other form as is agreed between Bendigo and Adelaide) under which Bendigo covenants in favour of the Scheme Participants to perform its obligations under the Scheme.

Effective means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Scheme.

End Date means 29 February 2008, or such later date as Bendigo and Adelaide may agree in writing.

Exclusivity Period means the period commencing on the date of this Agreement and ending on the earlier of:

- (a) the termination of this Agreement in accordance with its terms;
- (b) the Implementation Date; and
- (c) the End Date.

Foreign Adelaide Shareholder means an Adelaide Shareholder whose address as shown in the Register is a place outside Australia and its external territories or New Zealand.

Governmental Agency means any government or representative of a government or any governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency, competition authority or entity. It includes ASIC and ASX (and any other stock exchange).

Implementation Date means the third Business Day following the Record Date.

Independent Expert means such person as Adelaide appoints to prepare an independent expert's report in relation to the Scheme.

New Bendigo Shares means Bendigo Shares to be issued under the Scheme as Scheme Consideration.

Officer means, in relation to an entity, its directors, officers and employees.

Record Date means 7.00pm (Sydney time) on the fifth Business Day following the date on which the Scheme becomes Effective, or such earlier date as the parties may agree in writing.

Register means the register of members of Adelaide.

Related Body Corporate has the meaning given in the Corporations Act.

Representative means, in relation to a party:

- (a) a Related Body Corporate of the party; or
- (b) an Officer of the party or any of the party's Related Bodies Corporate; or
- (c) an Adviser to the party or any of the party's Related Bodies Corporate.

Reset Preference Shares means the reset preference shares issued by Adelaide pursuant to a prospectus dated 25 October 2002.

Scheme means the scheme of arrangement under part 5.1 of the Corporations Act to be made between Adelaide and the Scheme Participants substantially in the form of Annexure 2, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and approved in writing by each party.

Scheme Booklet means the explanatory memorandum prepared, or to be prepared, by Adelaide in respect of the Scheme and despatched to Adelaide Shareholders.

Scheme Consideration means 1.075 Bendigo Shares for each Adelaide Share held by a Scheme Participant as at the Record Date.

Scheme Meeting means the meeting of Adelaide Shareholders to be ordered by the Court to be convened pursuant to section 411(1) of the Corporations Act in respect of the Scheme.

Scheme Participant means a person who is an Adelaide Shareholder as at the Record Date (other than Bendigo).

Scheme Resolution means the resolution to be put to Adelaide Shareholders to approve the Scheme (such resolution will be put to Adelaide Shareholders at the Scheme Meeting and must be approved by the requisite majorities of Adelaide Shareholders under section 411(4) of the Corporations Act).

Second Court Date means the first day on which the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme is heard or, if the application is adjourned for any reason, the first day on which the adjourned application is heard.

Step Up Preference Shares means the step up preference shares issued by Adelaide pursuant to a prospectus dated 26 August 2004.

Step Up Preference Share Scheme has the meaning given in clause 5.11(b).

Step Up Preference Share Scheme

Consideration means one Bendigo Step Up Preference Share for each Step Up Preference Share.

Superior Proposal in relation to a party means a bona fide Competing Proposal for the party which the board of directors of the party determines, acting in good faith, and after having taken advice from its financial and legal advisers is:

- (a) capable of being valued and completed, taking into account all aspects of the Competing Proposal for the party; and
- (b)
 - (i) in the case of Adelaide – more favourable to the Adelaide Shareholders than the Scheme, taking into account all the terms and conditions of the Competing Proposal for Adelaide;
 - (ii) in the case of Bendigo – of greater benefit to the shareholders of Bendigo than implementing the Scheme, taking into account all the terms and conditions of the Competing Proposal for Bendigo.

Timetable means the indicative timetable set out in Annexure I, subject to any modifications as the parties may agree in writing.

Trading Day has the meaning given in ASX Listing Rules.

voting power has the meaning given in section 610 of the Corporations Act.

1.2 Interpretation

In this Agreement, headings are for convenience only and do not affect the interpretation of this Agreement and, unless the context otherwise requires:

- (a) words importing the singular include the plural and vice versa;
- (b) words importing a gender include any gender;
- (c) other parts of speech and grammatical forms of a word or phrase defined in this Agreement have a corresponding meaning;
- (d) an expression importing a natural person includes any company, partnership, joint venture, association, corporation or other body corporate and any Governmental Agency;
- (e) a reference to any thing (including, but not limited to, any right) includes a part of that thing but nothing in this clause 1.2(e) implies that performance of part of an obligation constitutes performance of the obligation;
- (f) a reference to a clause, party, annexure, exhibit or schedule is a reference to a clause of, and a party, annexure, exhibit and schedule to, this Agreement and a reference to this Agreement includes any annexure, exhibit and schedule;
- (g) a reference to a statute, regulation, proclamation, ordinance or by law includes all statutes, regulations, proclamations, ordinances or by laws amending, consolidating or replacing it, whether passed by the same or another Governmental Agency with legal power to do so, and a reference to a statute includes all regulations, proclamations, ordinances and by laws issued under that statute;
- (h) a reference to a document includes:
 - (i) all amendments or supplements to, or replacements or novations of, that document; and
 - (ii) any agreement in writing, or any certificate, notice, instrument or other document of any kind whether stored or provided in paper or electronic form;
- (i) a reference to a party to a document includes that party's successors and permitted assigns;
- (j) no provision of this Agreement will be construed adversely to a party solely on the ground that the party was responsible for the preparation of this Agreement or that provision;
- (k) a reference to an agreement other than this Agreement includes an undertaking, deed, agreement or legally enforceable arrangement or understanding whether or not in writing;
- (l) a reference to an asset includes all property of any nature, including, but not limited to, a business, and all rights, revenues and benefits;
- (m) a reference to a body, other than a party to this Agreement (including, without limitation, an institute, association or authority), whether statutory or not:
 - (i) which ceases to exist; or
 - (ii) whose powers or functions are transferred to another body,
 is a reference to the body which replaces it or which substantially succeeds to its powers or functions;
- (n) (without limiting the ways in which information can be provided or disclosed) information will be deemed to have been provided or disclosed by one party to the other if the party provides the other party or its agents or advisers with a document and the relevant piece of information is disclosed in the document;
- (o) where a word or phrase is given a defined meaning, any other part of speech or grammatical form of that word or phrase has a corresponding meaning;
- (p) the word 'includes' in any form is not a word of limitation;
- (q) a reference to '\$' or 'dollar' is to Australian currency; and
- (r) a reference to any time is a reference to that time in Adelaide, Australia.

1.3 Business Day

Except where otherwise expressly provided, where under this Agreement the day on which any act, matter or thing is to be done is a day other than a Business Day, such act, matter or thing will be done on the next Business Day.

2 Agreement to Propose and Implement Scheme

- (a) Adelaide agrees to propose and implement the Scheme upon and subject to the terms and conditions of this Agreement, and to use all reasonable endeavours to do so in accordance with the Timetable.
- (b) Bendigo agrees to assist Adelaide to implement the Scheme upon and subject to the terms and conditions of this Agreement, and to use all reasonable endeavours to do so in accordance with the Timetable.

3 Conditions Precedent and Pre-Implementation Steps

3.1 Conditions Precedent

Subject to this clause 3, the obligations of Adelaide in clause 5.1(k) and Bendigo's obligation to pay the Scheme Consideration in accordance with the Deed Poll and clause 5.3(i) are subject to the satisfaction of each of the following Conditions Precedent:

- (a) **Regulatory Approvals:** before 8.00am on the Second Court Date:
- (i) **(Commonwealth Treasurer):**
- (A) under the Financial Sector (Shareholdings) Act 1998 (Cth) the Treasurer of the Commonwealth of Australia approves Bendigo holding a 'stake' (as that term is defined in the Financial Sector (Shareholdings) Act 1998 (Cth)) in Adelaide of 100%, and if such approval is subject to conditions those conditions are acceptable to Bendigo and Adelaide; and
- (B) under the Banking Act 1959 (Cth) the Treasurer of the Commonwealth of Australia has given prior written consent to Adelaide in relation to the Scheme, and if such consent is subject to conditions those conditions are acceptable to Bendigo and Adelaide;
- (ii) **(ACCC)** the ACCC:
- (A) indicates that it does not intend to oppose the proposed acquisition of Adelaide Shares by Bendigo;
- (B) indicates that it does not intend to oppose the proposed acquisition of Adelaide Shares by Bendigo subject to the receipt of undertakings acceptable to both Bendigo and Adelaide (and Bendigo and Adelaide agree that their consent to give such undertakings cannot be unreasonably withheld); or
- (C) has not commenced, or threatened to commence, proceedings in respect of the proposed acquisition of Adelaide Shares by Bendigo; and
- (iii) **(other approvals)** all other approvals, consents, modifications or waivers of a Governmental Agency which are reasonably necessary to implement the Scheme are obtained;
- (b) **Quotation Approval for New Bendigo Shares:** before 8.00am on the Second Court Date, ASX provides approval for the official quotation of the New Bendigo Shares, subject to any conditions which ASX may reasonably require, including implementation of the Scheme;
- (c) **Shareholder Approval:** before 8.00am on the Second Court Date, the Scheme Resolution is approved by the requisite majorities of Adelaide Shareholders;
- (d) **Restraints:** no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing any aspect of the Scheme is in effect as at 8.00am on the Second Court Date;
- (e) **Independent Expert:** before the date on which the Scheme Booklet is lodged with ASIC, the Independent Expert gives a report to Adelaide that in its opinion the Scheme is in the best interests of Adelaide Shareholders;

(f) **Bendigo Regulated Events:** no Bendigo Regulated Event occurs between the date of this Agreement and 8.00am on the Second Court Date;

(g) **Bendigo Material Adverse Change:** no Bendigo Material Adverse Change occurs, or is discovered, announced, disclosed or otherwise becomes known to Adelaide between the date of this Agreement and 8.00am on the Second Court Date;

(h) **Bendigo Representations and Warranties:** the representations and warranties of Bendigo set out in clause 6.2 of this Agreement are true and correct in all material respects as at the date of this Agreement and as at 8.00am on the Second Court Date and the undertakings in that clause have been complied with;

(i) **Adelaide Regulated Events:** no Adelaide Regulated Event occurs between the date of this Agreement and 8.00am on the Second Court Date; and

(j) **Adelaide Material Adverse Change:** no Adelaide Material Adverse Change occurs, or is discovered, announced, disclosed or otherwise becomes known to Bendigo between the date of this Agreement and 8.00am on the Second Court Date; and

(k) **Adelaide Representations and Warranties:** the representations and warranties of Adelaide set out in clause 6.1 of this Agreement are true and correct in all material respects as at the date of this Agreement and as at 8.00am on the Second Court Date and the undertakings in that clause have been complied with.

3.2 Benefit and waiver of Conditions Precedent

(a) The Conditions Precedent in clauses 3.1(a)(ii), 3.1(a)(iii), 3.1(b), 3.1(d), and 3.1(e) are for the benefit of each party and any breach or non-fulfilment of any of those Conditions Precedent may only be waived with the written consent of both parties.

(b) The Conditions Precedent in clauses 3.1(f), 3.1(g) and 3.1(h) are for the sole benefit of Adelaide, and any breach or non-fulfilment of any of those Conditions Precedent may only be waived by Adelaide giving its written consent.

(c) The Conditions Precedent in clauses 3.1(i), 3.1(j) and 3.1(k) are for the sole benefit of Bendigo, and any breach or non-fulfilment of any of those Conditions Precedent may only be waived by Bendigo giving its written consent.

(d) The Conditions Precedent in clauses 3.1(a)(i) and 3.1(c) cannot be waived.

(e) A party entitled to waive the breach or non-fulfilment of a Condition Precedent pursuant to this clause 3.2 may do so in its absolute discretion and, subject to the other party agreeing to abide by the conditions, may do so subject to conditions.

(f) If a party waives the breach or non-fulfilment of a Condition Precedent, that waiver will not preclude it from suing the other party for any breach of this Agreement constituted by the same event which gave rise to the breach or non-fulfilment of the Condition Precedent.

3.3 Best endeavours and co-operation

(a) Bendigo must use its best endeavours to satisfy, or procure the satisfaction of, the Conditions Precedent in clauses 3.1(b), 3.1(f), 3.1(g) and 3.1(h).

(b) Adelaide must use its best endeavours to satisfy, or procure the satisfaction of, the Conditions Precedent in clauses 3.1(c), 3.1(i), 3.1(j) and 3.1(k).

(c) Each of Bendigo and Adelaide must use their respective best endeavours to:

(i) satisfy, or procure the satisfaction of, the Conditions Precedent in clauses 3.1(a), 3.1(d) and 3.1(e); and

(ii) procure that there is no occurrence within the reasonable control of Bendigo or Adelaide (as applicable) or their respective Related Bodies Corporate that would prevent any Condition Precedent from being satisfied.

- (d) For the purposes of paragraphs (a), (b) and (c), the 'best endeavours' of a party will require that party to (among other things):
- (i) observe and comply with clause 8.2; and
 - (ii) co-operate with the other party or a Governmental Agency or third party in good faith with a view to satisfying the Conditions Precedent, including providing all information reasonably required by the other party in relation to the Bendigo Group or Adelaide Group (as applicable) in order to satisfy the Conditions Precedent and providing all information reasonably required by any Governmental Agency or other third party to such Governmental Agency or third party as appropriate.

3.4 Notifications

Each party must:

- (a) keep the other promptly and reasonably informed of the steps it has taken and of its progress towards satisfaction of the Conditions Precedent;
- (b) promptly notify the other in writing if it becomes aware that any Condition Precedent has been satisfied; and
- (c) promptly notify the other in writing of a failure to satisfy a Condition Precedent or of any material development of which it becomes aware that may lead to a Condition Precedent not being satisfied.

3.5 Conditions Precedent not met

- (a) If:
 - (i) there is a breach or non-fulfilment of a Condition Precedent which is not waived in accordance with clause 3.2 by the time or date specified in clause 3.1 for satisfaction of the Condition Precedent; or
 - (ii) there is an act, failure to act, event or occurrence which will prevent a Condition Precedent being satisfied by the time or date specified in clause 3.1 for its satisfaction (and the breach or non-fulfilment of the Condition Precedent which would otherwise occur has not already been waived),

Bendigo and Adelaide will consult in good faith with a view to determining whether:

- (iii) the Scheme may proceed by way of alternative means or methods;
 - (iv) to extend the relevant time or date for satisfaction of the Condition Precedent;
 - (v) to change the date of the application to be made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme or adjourning that application (as applicable) to another date agreed by the parties; or
 - (vi) to extend the End Date.
- (b) If Bendigo and Adelaide are unable to reach agreement under sub-paragraphs (a)(iii), (a)(iv), (a)(v) or (a)(vi) within the Required Consultation Period (as defined below), either party may, provided that Condition Precedent is for the benefit of that party, terminate this Agreement, by notice in writing to the other party within five Business Days after the end of the Required Consultation Period, in which case clause 9.6 will have effect. Failing such termination within that period, the Condition Precedent will, where it is capable of being waived by that party, be taken to have been waived by that party and, where it is not capable of being waived by that party, will be taken as not being satisfied and the Agreement will be taken to have been terminated by that party in which case clause 9.6 will have effect.

- (c) For the purposes of clause 3.5(b), the **Required Consultation Period** is the shorter of:
 - (i) five Business Days after both parties becoming aware that sub-paragraph (a)(i) or (a)(ii) above (as the case may be) is triggered; and
 - (ii) the period commencing at the time both parties become aware that sub-paragraph (a)(i) or (a)(ii) above, as the case may be, is triggered and ending at 8.00am on the Second Court Date.

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4 Scheme

4.1 Outline of Scheme

Subject to the terms and conditions of this Agreement, on the Implementation Date all of the Adelaide Shares held by Scheme Participants will be transferred to Bendigo and the Scheme Participants will be entitled to receive the Scheme Consideration.

4.2 Scheme Consideration

Bendigo covenants in favour of Adelaide (in its own right and as trustee on behalf of the Scheme Participants) that in consideration of the transfer to Bendigo of each Adelaide Share held by a Scheme Participant under the terms of the Scheme, Bendigo will, subject to the terms of the Scheme, issue 1.075 Bendigo Shares to each such Scheme Participant for each Adelaide Share held at the Record Date. Any fractional entitlement of a Scheme Participant to part of a Bendigo Share will be rounded up or down to the nearest whole number of Bendigo Shares in accordance with the Scheme.

4.3 Treatment of Foreign Adelaide Shareholders

Unless Bendigo is satisfied, acting reasonably, that:

- (a) it is lawful, under any one or more relevant jurisdiction, and not unduly onerous to issue a Foreign Adelaide Shareholder with Bendigo Shares when the Scheme becomes Effective; and
- (b) it is lawful, under any one or more relevant jurisdiction, for that Foreign Adelaide Shareholder to participate in the Scheme,

Bendigo will, in accordance with the Scheme, procure that the Bendigo Shares to which that Foreign Adelaide Shareholder would otherwise become entitled under the Scheme will be issued to a nominee appointed by Bendigo (but who must first be approved by Adelaide) who will sell those Bendigo Shares and pay to that Foreign Adelaide Shareholder the proceeds received, after deducting any applicable fees, brokerage, taxes and charges.

5 Steps for Implementation

5.1 Adelaide's obligations in respect of the Scheme

Adelaide must take all necessary steps to propose and implement the Scheme as soon as is reasonably practicable and use all reasonable endeavours to do so in accordance with the Timetable, including taking each of the following steps:

- (a) **Preparation of Scheme Booklet:** prepare the Scheme Booklet in accordance with clause 5.4;
- (b) **Independent Expert:** appoint the Independent Expert, and provide any assistance and information reasonably requested by the Independent Expert to enable it to prepare its report in relation to the Scheme;
- (c) **Investigating Accountant:** appoint the investigating accountant, and provide any assistance and information reasonably requested by the investigating accountant to enable it to prepare its report in relation to the Scheme
- (d) **Approval of ASIC Review Draft:** as soon as practicable after preparation of the ASIC Review Draft (including, for the avoidance of doubt, the Combined Information), procure that a meeting of the Adelaide Board is convened to approve the ASIC Review Draft as being in a form appropriate for despatch to the Adelaide Shareholders, subject to completion of dates, numbers and minor corrections;
- (e) **Lodgement of ASIC Review Draft:** provide a copy of the ASIC Review Draft to ASIC;
- (f) **ASIC Review Period:** during the ASIC Review Period, keep Bendigo informed of any matters raised by ASIC in relation to the Scheme Booklet, and use best endeavours, in co-operation with Bendigo, to resolve any such matters;
- (g) **Approval of Scheme Booklet:** as soon as practicable after the end of the ASIC Review Period, procure that a meeting of the Adelaide Board is convened to approve the Scheme Booklet (including, for the avoidance of doubt, the Combined Information) for despatch to Adelaide Shareholders;

- (h) **Court direction:** apply to the Court for an order under section 411(1) of the Corporations Act directing Adelaide to convene the Scheme Meeting;
- (i) **Scheme Meeting:** convene the Scheme Meeting in accordance with the Court order, and put the Scheme Resolution to Adelaide Shareholders at the Scheme Meeting, provided that if this Agreement is terminated under clause 9 it will take all steps reasonably required to ensure the Scheme Meeting is not held;
- (j) **Section 411(17)(b) statement:** apply to ASIC for the production of a statement pursuant to section 411(17)(b) of the Corporations Act stating that ASIC has no objection to the Scheme;
- (k) **Court approval:** if the Scheme Resolution is passed by the requisite majorities of Adelaide Shareholders, as soon as practicable after such time apply to the Court for an order approving the Scheme in accordance with sections 411(4)(b) and 411(6) of the Corporations Act;
- (l) **Lodge copy of Court order:** if the Court approves the Scheme in accordance with sections 411(4)(b) and 411(6) of the Corporations Act, as soon as practicable after such time lodge with ASIC an office copy of the order approving the Scheme in accordance with section 411(10) of the Corporations Act;
- (m) **Registration:** register all transfers of Adelaide Shares to Bendigo on the Implementation Date; and
- (n) **All things necessary:** do all other things contemplated by or necessary to lawfully give effect to the Scheme and the orders of the Court approving the Scheme.

5.2 Appeal process

If the Court refuses to make any orders convening the Scheme Meeting or approving the Scheme, Adelaide must appeal the Court's decision to the fullest extent possible (except to the extent that the parties agree otherwise, or independent Senior Counsel indicates that, in their view, an appeal would have no reasonable prospect of success before the End Date).

5.3 Bendigo's obligations in respect of the Scheme

Bendigo must take all necessary steps to assist Adelaide to propose and implement the Scheme as soon as is reasonably practicable and use all reasonable endeavours to do so in accordance with the Timetable, including taking each of the following steps:

- (a) **Provide information:** provide to Adelaide and its Representatives the information referred to in clause 5.4(d);
- (b) **Preparation of Scheme Booklet:** providing assistance with the preparation of the Scheme Booklet in accordance with clause 5.4;
- (c) **Independent Expert information:** provide any assistance and information reasonably requested by Adelaide or by the Independent Expert in connection with the preparation of the Independent Expert's report to be despatched together with the Scheme Booklet;
- (d) **Investigating Accountant information:** provide any assistance and information reasonably requested by Adelaide or by the investigating accountant appointed by Adelaide for the purpose of work undertaken by the investigating accountant in connection with the Scheme Booklet;
- (e) **ASIC Review Period:** provide reasonable assistance to Adelaide to assist Adelaide to resolve any matter raised by ASIC regarding the Scheme Booklet or the Scheme during the ASIC Review Period;
- (f) **Approval of Scheme Booklet:** as soon as practicable after the end of the ASIC Review Period, procure that a meeting of the Bendigo Board is convened to approve those sections of the Scheme Booklet that comprise the Bendigo Provided Information and the Combined Information as being in a form appropriate for despatch to Adelaide Shareholders;
- (g) **Court representation:** procure that it is represented by counsel at the Court hearings convened for the purposes of sections 411(1) and 411(4)(b) of the Corporations Act, at which, through its counsel, Bendigo will undertake (if requested by the Court) to do all such things and take all such steps within its power as may be necessary in order to ensure the fulfilment of its obligations under this Agreement and the Scheme;

- (h) **Deed Poll:** prior to despatch of the Scheme Booklet to Adelaide Shareholders, execute the Deed Poll;
- (i) **Scheme Consideration:** if the Scheme becomes Effective, provide the Scheme Consideration in accordance with the Deed Poll on the Implementation Date; and
- (j) **Amendment of Bendigo's constitution:** procure that:
- (i) a resolution to amend Bendigo's constitution so as to increase the maximum number of directors of Bendigo to enable the Bendigo Board to be reconstituted in the manner contemplated by clause 5.8(a)(i), is proposed at the next annual general meeting of Bendigo's members;
 - (ii) the directors of Bendigo unanimously recommend that the resolution be approved;
 - (iii) each Bendigo director who holds Bendigo Shares, or who has control over voting rights attaching to Bendigo Shares, votes in favour of the resolution, or procures that the Bendigo Shares the voting rights of which the Bendigo director has control over are voted in favour of the resolution; and
 - (iv) subject to Bendigo members approving the resolution, the filings required by section 136(5) of the Corporations Act are made promptly and, in any event, within the period set out in section 136(5).
- 5.4 Preparation of Scheme Booklet**
- (a) Subject to Bendigo complying with its obligations under clauses 5.4(d) and 5.4(e), Adelaide must prepare the Scheme Booklet (and cooperate in good faith with Bendigo to agree the form and content of the Combined Information) as soon as practicable after the date of this Agreement and use all reasonable endeavours to do so in accordance with the Timetable.
- (b) Adelaide must ensure that the Scheme Booklet complies with the requirements of the Corporations Act, ASX Listing Rules, ASIC Regulatory Guide 60 and ASIC Regulatory Guide 142 (except that the obligation to do so in respect of the Bendigo Provided Information and the Combined Information is subject to Bendigo complying with its obligations under clauses 5.4(d), 5.4(e), 6.2(d), 6.2(e), 6.2(f) and 6.2(h)(i)).
- (c) Without limiting clause 5.4(b), the Scheme Booklet will include:
- (i) the Scheme;
 - (ii) a notice of Scheme Meeting and proxy form;
 - (iii) a copy of this Agreement (without the Annexures);
 - (iv) a copy of the executed Deed Poll;
 - (v) the report of the Independent Expert;
 - (vi) a statement that the Adelaide Board unanimously recommends that Adelaide Shareholders approve the Scheme Resolution, in the absence of a Superior Proposal, unless prior to the issue of the Scheme Booklet the Adelaide Board has changed or withdrawn its recommendation in accordance with clause 5.5; and
 - (vii) a statement that each Adelaide director that is able to control voting rights in relation to Adelaide Shares intends to vote those Adelaide Shares, or procure that those Adelaide Shares are voted, in favour of the Scheme, in the absence of a Superior Proposal, unless prior to the issue of the Scheme Booklet the Adelaide director has changed his or her voting intention in accordance with clause 5.5.
- (d) Bendigo must provide the Bendigo Provided Information to Adelaide and such assistance as Adelaide may reasonably require in order to adapt such information for inclusion in the Scheme Booklet as soon as practicable after the date of this Agreement (and use all reasonable endeavours to do so in accordance with the Timetable).
- (e) Adelaide and Bendigo must use all reasonable endeavours to jointly develop, and agree the form and content of, the Combined Information as soon as practicable after the date of this Agreement (and use all reasonable endeavours to do so in accordance with the Timetable).
- (f) Adelaide and Bendigo agree that they will be jointly responsible for the Combined Information and that a statement to this effect will be included in the Scheme Booklet.

- (g) Adelaide must make available to Bendigo drafts of the Scheme Booklet (including any draft of a report by the Independent Expert but excluding those sections containing the Independent Expert's opinions or conclusions), drafts of each document required for the Court hearings, consult with Bendigo in relation to the content of those drafts (including the inclusion of any Bendigo Provided Information and the Combined Information), and consider in good faith, for the purpose of amending those drafts, comments from Bendigo and its Representatives on those drafts.
- (h) Adelaide must obtain written consent from Bendigo for the form and context in which any Bendigo Provided Information and the Combined Information appears in the Scheme Booklet, such consent not to be unreasonably withheld by Bendigo.
- (i) Adelaide and Bendigo each agree that the efficient preparation of the Scheme Booklet and the implementation of the Scheme is in the interests of their respective shareholders and that they will use all reasonable endeavours and utilise all necessary resources (including management resources and the resources of external advisers) to comply with their respective obligations under this clause 5.4 and to produce the Scheme Booklet as soon as reasonably practicable.

5.5 Adelaide Board recommendation

Adelaide must procure that the Adelaide Board:

- (a) will unanimously recommend that Adelaide Shareholders approve the Scheme Resolution and will not withdraw that recommendation once made; and
- (b) will not make any public statement which would suggest that the Scheme is no longer so recommended,

unless:

- (c) the Independent Expert gives a report to Adelaide which opines that the Scheme is not in the best interests of Adelaide Shareholders (or, having given a report to Adelaide that in its opinion the Scheme is in the best interests of Adelaide shareholders, gives a report changing that opinion for any reason to opine that the Scheme is not in the best interests of Adelaide Shareholders); or

- (d) the Adelaide Board determines in accordance with clause 10.5(a) that a Competing Proposal for Adelaide constitutes a Superior Proposal to the Scheme.

5.6 Adelaide Board intentions

- (a) The Agreed Public Announcement to be issued by Adelaide immediately after execution of this Agreement must also state that each Adelaide director who holds Adelaide Shares, or who has control over voting rights attaching to Adelaide Shares, intends to vote in favour of the Scheme, or procure that the Adelaide Shares the voting rights of which the Adelaide director has control over are voted in favour of the Scheme, in the absence of a Superior Proposal, unless the Independent Expert gives a report to Adelaide which opines that the Scheme is not in the best interests of Adelaide Shareholders.
- (b) Adelaide undertakes to use its best endeavours to ensure that each Adelaide director who holds Adelaide Shares, or who has control over voting rights attaching to Adelaide Shares:
- (i) intends to vote in favour of the Scheme, or procure that the Adelaide Shares the voting rights of which the Adelaide director has control over are voted in favour of the Scheme; and
- (ii) does not change that voting intention, unless:
- (iii) the Independent Expert gives a report to Adelaide which opines that the Scheme is not in the best interests of Adelaide Shareholders (or, having given a report to Adelaide that in its opinion the Scheme is in the best interests of Adelaide shareholders, gives a report changing that opinion for any reason to opine that the Scheme is not in the best interests of Adelaide Shareholders); or
- (iv) the Adelaide Board determines in accordance with clause 10.5(a) that a Competing Proposal for Adelaide constitutes a Superior Proposal to the Scheme.

5.7 Conduct of business

- (a) Subject to clause 5.7(b):
- (i) unless otherwise agreed to in writing between Bendigo and Adelaide or fairly disclosed in writing by a party to the other prior to the date of this Agreement, from the date of this Agreement up to and including the Implementation Date, each of Bendigo and Adelaide must, and must cause their respective Related Bodies Corporate to conduct their respective businesses in the ordinary and proper course in substantially the same manner as previously conducted; and
 - (ii) without limiting the foregoing, from the date of this Agreement up to and including the Implementation Date, each of Bendigo and Adelaide must ensure, to the extent within their control or the control of one of their Related Bodies Corporate, that:
 - (A) in the case of Bendigo, a Bendigo Regulated Event; and
 - (B) in the case of Adelaide, an Adelaide Regulated Event,
 does not occur without the prior written consent of the other.
- (b) Nothing which a party is:
- (i) permitted to do, or not to do, under clause 10.5;
 - (ii) permitted to do, or not to do, in connection with any Competing Proposal once the Exclusivity Period ends; or
 - (iii) permitted to do under any carve-out to the definitions of Adelaide Material Adverse Change, Adelaide Regulated Event, Bendigo Material Adverse Change or Bendigo Regulated Event (as the case may be),
- shall constitute a breach of its obligations under clause 5.7(a).

5.8 Board & management changes

As soon as practicable after the Second Court Date and after the Scheme Consideration has been provided to Scheme Participants:

- (a) Bendigo will reconstitute the Bendigo Board:
 - (i) in the event that the resolution referred to in clause 5.3(j) is approved by the requisite majority of Bendigo's members, so that it consists of six non-executive directors from the Bendigo Board (as nominated by Bendigo), four non-executive directors from the Adelaide Board (as nominated by Adelaide), Rob Hunt as Managing Director & Chief Executive Officer and Jamie McPhee as Executive Director; and
 - (ii) otherwise, so that it consists of five non-executive from the Bendigo Board (as nominated by Bendigo), three non-executive directors from the Adelaide Board (as nominated by Adelaide), Rob Hunt as Managing Director & Chief Executive Officer and Jamie McPhee as Executive Director;
- (b) Bendigo will procure that Kevin Osborn is appointed as Deputy Chairman of the Bendigo Board (it being agreed that Robert Johanson will remain as Chairman of the Bendigo Board); and
- (c) Adelaide will use its best endeavours to cause the appointment of that number of nominees of Bendigo to the Adelaide Board which gives those nominees, acting together, control of the Adelaide Board.

5.9 Head Office & Meeting Arrangements

- (a) The head office functions of the combined Adelaide/Bendigo Group will be conducted in Victoria and South Australia.
- (b) The registered office of Bendigo will remain in Victoria.
- (c) Subject to paragraph (d), Adelaide and Bendigo acknowledge that, following implementation of the Scheme, meetings of the Bendigo Board and annual general meetings of Bendigo will be shared between South Australia and Victoria on such basis as the Bendigo Board considers appropriate.
- (d) Bendigo agrees that Bendigo's 2009 annual general meeting will be held in Adelaide.

5.10 Post-announcement due diligence

- (a) During the 21 day period commencing on the date of this Agreement:
- (i) Bendigo must provide, and must cause each other member of the Bendigo Group to provide, to Adelaide and its Representatives, such access to their management personnel and documents, records and other information as Adelaide may reasonably require for the purpose of completing its due diligence inquiries in relation to the Bendigo Group; and
 - (ii) Adelaide must provide, and must cause each other member of the Adelaide Group to provide, to Bendigo and its Representatives, such access to their management personnel and documents, records and other information as Bendigo may reasonably require for the purpose of completing its due diligence inquiries in relation to the Adelaide Group,
- it being acknowledged, for the avoidance of doubt, that a party's right of termination in respect of any event, occurrence or matter discovered or disclosed or of which the party becomes aware during this 21 day period is governed by clause 3.5 of this Agreement.
- (b) By the end of the 31 day period commencing on the date of this Agreement, each party shall make an announcement to ASX indicating whether:
- (i) its due diligence inquiries have been concluded satisfactorily; or
 - (ii) it will exercise its rights under clause 3.5 of this Agreement in respect of any event, occurrence or matter which is fairly disclosed to them or becomes actually known to them in the 21 day period referred to in this clause 5.10.

5.11 Other Adelaide Securities**(a) Adelaide LTIP**

- (i) In respect of the Adelaide LTIP Offers, Adelaide will not take any action in respect of them unless Bendigo consents (such consent not to be unreasonably withheld) and Adelaide must use its reasonable endeavours to seek the agreement of each Eligible Adelaide Employee to exchange their performance rights for the rights contemplated by sub-paragraph (ii).
- (ii) As soon as practicable following the date of this Agreement and, in any event, by no later than the Implementation Date, Bendigo must commit to each Eligible Adelaide Employee to offer, after the Implementation Date, the right to participate in an appropriate Bendigo employee incentive scheme on terms which, taken as a whole, constitute an incentive package which is, from the standpoint of the Eligible Adelaide Employee acting reasonably, economically equivalent to the Adelaide LTIP Offer made by Adelaide to that Eligible Adelaide Employee, provided that at the time the offer is made, the Eligible Adelaide Employee is an employee of Adelaide or a Related Body Corporate.
- (iii) For the purpose of this clause 5.11(a), **Eligible Adelaide Employee** means an Officer of any member of the Adelaide Group who has been made an Adelaide LTIP Offer.

(b) Step-Up Preference Shares

- (i) The parties agree that an additional scheme will be proposed by Adelaide in respect of the Step Up Preference Shares (the **Step Up Preference Share Scheme**) and under that scheme, subject to the terms and conditions of this Agreement, on the Implementation Date all of the Step Up Preference Shares will be transferred to Bendigo and the scheme participants under the Step Up Preference Share Scheme will be entitled to receive the Step Up Preference Scheme Consideration.

- (ii) The Step Up Preference Scheme will be conditional on the Scheme being implemented, but not vice versa.
- (iii) All other provisions of this Agreement applicable to the Scheme apply equally to the Step Up Preference Share Scheme, *mutatis mutandis*, and the parties will work together in good faith to coordinate the two schemes (including, if appropriate, by preparing and issuing one scheme booklet for both schemes) and it being agreed that the shareholder vote on the Step Up Preference Share Scheme will be on the same day as, but after, the vote on the Scheme.

(c) **Reset Preference Shares**

- (i) Bendigo acknowledges that by 20 August 2007 Adelaide will issue a notice, following consultation with Bendigo as to the form and content of the notice, to holders of Reset Preference Shares that Adelaide intends to reset the terms of those shares in such manner as Adelaide determines and specifies in the notice. Adelaide must act reasonably in determining the reset terms.
- (ii) If any holder of Reset Preference Shares issues a notice to Adelaide requesting an exchange of their Reset Preference Shares on the reset date, Adelaide will consult in good faith with Bendigo regarding the action that will be taken by Adelaide in response to such notice with a view to agreeing a course of action that best accommodates:
 - (A) Adelaide's desire to achieve an outcome which would not materially adversely affect its capital structure should the Scheme not become Effective; and
 - (B) both parties' desire to ensure that Bendigo is able to acquire all of the Reset Preference Shares in connection with the Scheme,

provided that it is agreed that Adelaide cannot be required to take an action that would be contrary to a requirement of APRA.

5.12 Name Change

Bendigo agrees with Adelaide (on Adelaide's own behalf and separately as trustee or nominee for each person who is an Adelaide Shareholder at the Record Date) that Bendigo will:

- (a) procure that:
 - (i) an extraordinary general meeting of Bendigo's members is held within two months of the Implementation Date at which a resolution is proposed to change Bendigo's name to 'Bendigo and Adelaide Bank Limited';
 - (ii) the directors of Bendigo unanimously recommend that the resolution be approved by members of Bendigo; and
 - (iii) each Bendigo director who holds Bendigo Shares, or who has control over voting rights attaching to Bendigo Shares, votes in favour of the resolution, or procures that the Bendigo Shares the voting rights of which the Bendigo director has control over are voted in favour of the resolution; and
- (b) subject to Bendigo members approving the resolution, comply with its lodgement obligations under section 157 of the Corporations Act promptly and, in any event, within the period set out in section 157(2).

6 Representations and Warranties

6.1 Representations by Adelaide

Adelaide represents and warrants (and, where applicable, undertakes) to Bendigo (on its own behalf and separately as trustee for each of the Bendigo Indemnified Parties) that, except as consented to in writing by Bendigo, as at the date of this Agreement, 8.00am on the Second Court Date and any other time to which a representation in this clause is expressed to be given:

- (a) Adelaide is a validly existing corporation registered under the laws of its place of incorporation;
- (b) the execution and delivery of this Agreement by Adelaide has been properly authorised by all necessary corporate action and Adelaide has full corporate power and lawful authority to execute and deliver this Agreement and to perform or cause to be performed its obligations under this Agreement;

- (c) this Agreement constitutes legal, valid and binding obligations on Adelaide (subject to laws generally affecting creditors' rights and the principles of equity);
- (d) the Adelaide Provided Information contained in the Scheme Booklet:
- (i) will be prepared and included in the Scheme Booklet in good faith and on the understanding that Bendigo and each of its Officers will rely on that information for the purposes of considering and approving the Bendigo Provided Information in the Scheme Booklet; and
 - (ii) will comply in all material respects with the requirements of the Corporations Act, ASX Listing Rules, ASIC Regulatory Guide 60 and ASIC Regulatory Guide 142;
- (e) all information provided by or on behalf of Adelaide to the Independent Expert or the investigating accountant to enable their respective reports to be included in the Scheme Booklet to be prepared and completed will be provided in good faith and on the understanding that they will rely upon that information for the purpose of preparing their respective reports for inclusion in the Scheme Booklet;
- (f) as at the date the Scheme Booklet is despatched to Adelaide Shareholders, the Scheme Booklet (excluding the Bendigo Provided Information, the Combined Information, the Independent Expert's report and the investigating accountant's report) will not be misleading or deceptive in any material respect (whether by omission or otherwise);
- (g) that, as a continuing obligation, but in respect of the Bendigo Provided Information subject to Bendigo complying with its obligations under clause 6.2(g), the Scheme Booklet (other than the Combined Information, which is dealt with in clauses 6.1(h)(ii) and 6.2(h)(ii)) will be updated by all such further or new information which may arise after the Scheme Booklet has been despatched until the Scheme Meeting which is necessary to ensure that the Scheme Booklet is not misleading or deceptive in any material respect (whether by omission or otherwise);
- (h) in respect of the Combined Information:
- (i) it will cooperate with Bendigo in good faith to ensure that as at the date the Scheme Booklet is despatched to Adelaide Shareholders, the Combined Information will not be misleading or deceptive in any material respect (whether by omission or otherwise); and
 - (ii) that it will, as a continuing obligation, cooperate with Bendigo in good faith to ensure that the Scheme Booklet will be updated by all such further or new information which may arise after the Scheme Booklet has been despatched until the Scheme Meeting which is necessary to ensure that the Scheme Booklet is not misleading or deceptive in any material respect (whether by omission or otherwise);
- (i) Adelaide is not in breach of its continuous disclosure obligations under ASX Listing Rules;
- (j) Adelaide's financial statements for the financial year ended 30 June 2006, and, as from the date of their lodgement with ASIC, Adelaide's financial statements for the financial year ended 30 June 2007, give a true and fair view of the financial position of Adelaide as at the relevant dates;
- (k) as at the date of this Agreement, the total issued capital of Adelaide is:
- (i) 108,316,569 Adelaide Shares;
 - (ii) 1,000,000 Reset Preference Shares;
 - (iii) 1,000,000 Step Up Preference Shares; and
 - (iv) the Adelaide LTIP Offers, and
- there are no other Adelaide options, rights, performance rights, shares, convertible instruments or other equity securities (or offers or agreements to issue any of the foregoing); and
- (l) as at the date of this Agreement, Adelaide's voting power in Bendigo is nil.

6.2 Representations by Bendigo

Bendigo represents and warrants (and, where applicable, undertakes) to Adelaide (on its own behalf and separately as trustee for each of the Adelaide Indemnified Parties) that, except as consented to in writing by Adelaide, as at the date of this Agreement, 8.00am on the Second Court Date and any other time to which a representation in this clause is expressed to be given:

- (a) Bendigo is a validly existing corporation registered under the laws of its place of incorporation;
- (b) the execution and delivery of this Agreement by Bendigo has been properly authorised by all necessary corporate action and Bendigo has full corporate power and lawful authority to execute and deliver this Agreement and to perform or cause to be performed its obligations under this Agreement;
- (c) this Agreement constitutes legal, valid and binding obligations on Bendigo (subject to laws generally affecting creditors' rights and the principles of equity);
- (d) the Bendigo Provided Information:
 - (i) will be provided in good faith and on the understanding that Adelaide and each of its Officers will rely on that information for the purposes of preparing the Scheme Booklet and proposing the Scheme; and
 - (ii) will comply in all material respects with the requirements of the Corporations Act, ASX Listing Rules, ASIC Regulatory Guide 60 and ASIC Regulatory Guide 142;
- (e) all information provided by or on behalf of Bendigo to the Independent Expert or the investigating accountant to enable their respective reports to be included in the Scheme Booklet to be prepared and completed will be provided in good faith and on the understanding that they will rely upon that information for the purpose of preparing their respective reports for inclusion in the Scheme Booklet;
- (f) as at the date the Scheme Booklet is despatched to Adelaide Shareholders, the Bendigo Provided Information will not be misleading or deceptive in any material respect (whether by omission or otherwise);
- (g) that it will, as a continuing obligation, provide to Adelaide all such further or new material information that arises after the Scheme Booklet has been despatched until the date of the Scheme Meeting which is necessary to ensure that the Bendigo Provided Information, in the form and context in which that information appears in the version of the Scheme Booklet sent to shareholders, is not misleading or deceptive in any material respect (whether by omission or otherwise);
- (h) in respect of the Combined Information:
 - (i) it will cooperate with Adelaide in good faith to ensure that as at the date the Scheme Booklet is despatched to Adelaide Shareholders, the Combined Information will not be misleading or deceptive in any material respect (whether by omission or otherwise); and
 - (ii) that it will, as a continuing obligation cooperate with Adelaide in good faith to ensure that the Scheme Booklet will be updated by all such further or new information which may arise after the Scheme Booklet has been despatched until the Scheme Meeting which is necessary to ensure that the Scheme Booklet is not misleading or deceptive in any material respect (whether by omission or otherwise);
- (i) Bendigo is not in breach of its continuous disclosure obligations under ASX Listing Rules;
- (j) Bendigo's financial statements for the financial year ended 30 June 2006, and, from the date of their lodgement with ASIC, Bendigo's financial statements for the financial year ended 30 June 2007, give a true and fair view of the financial position of Bendigo as at the relevant dates;
- (k) the New Bendigo Shares will upon issue:
 - (i) be duly issued and fully paid;
 - (ii) be free from encumbrances, other than as provided for in the constitution of Bendigo; and
 - (iii) rank equally in all respects, including for future dividends, with all existing Bendigo Shares; and

(l) as at the date of this Agreement, the total issued capital of Bendigo is:

- (i) 144,187,890 Bendigo Shares;
- (ii) 900,000 Bendigo reset preference shares, and

apart from the 156,247 rights and 935,578 options and offers as contemplated by the Bendigo employee incentive schemes, there are no other Bendigo options, rights, shares, convertible instruments or other equity securities (or offers or agreements to issue any of the foregoing).

6.3 Nature of provisions

Each of the representations, warranties and undertakings given by a party in this clause 6 must be construed as a separate and independent provision and will not be limited or restricted by reference to the terms of any other representation, warranty or undertaking in this clause 6 or any other term of this Agreement.

7 No Reliance on Due Diligence Information

7.1 Due diligence investigations

- (a) Adelaide acknowledges and agrees, both on its own behalf and on behalf of each of its Representatives, that:
- (i) both prior to and after entry into this Agreement, it and its Representatives have undertaken, and will undertake their own due diligence investigations in relation to the Bendigo Group, including access to data rooms, site visits, management presentations, interviews and discussions and access to Bendigo Group external auditors and advisers; and
 - (ii) in the course of those investigations, and the negotiations and discussions between the parties in relation thereto, Bendigo and its Representatives have provided, and will provide, to Adelaide and its Representatives information in various forms in connection with the Scheme or relating to the Bendigo Group's past, present or future operations, affairs, business and/or strategic plans,
(the **Bendigo Due Diligence Information**).

(b) Bendigo acknowledges and agrees, both on its own behalf and on behalf of each of its Representatives, that:

- (i) both prior to and after entry into this Agreement, it and its Representatives have undertaken, and will undertake, their own due diligence investigations in relation to the Adelaide Group, including access to data rooms, site visits, management presentations, interviews and discussions and access to Adelaide Group external auditors and advisers; and
- (ii) in the course of those investigations, and the negotiations and discussions between the parties in relation thereto, Adelaide and its Representatives have provided, and will provide, to Bendigo and its Representatives information in various forms in connection with the Scheme or relating to the Adelaide Group's past, present or future operations, affairs, business and/or strategic plans,
(the **Adelaide Due Diligence Information**).

7.2 No warranty by Bendigo or Adelaide

- (a) Each of Bendigo and its Representatives:
- (i) makes no representation or warranty:
 - (A) as to the accuracy, completeness or relevance of any of the Bendigo Due Diligence Information;
 - (B) that any of the Bendigo Due Diligence Information has been audited, verified or prepared with reasonable care; or
 - (C) that the Bendigo Due Diligence Information is the totality of the information that a person would require or expect to find in order to consider or evaluate the Scheme,
 except that Bendigo warrants that the Bendigo Due Diligence Information has been or (as the case may be) will be disclosed in good faith;
 - (ii) accepts no responsibility to Adelaide, its Representatives or any other person for any false, inaccurate or misleading Bendigo Due Diligence Information or for any opinion formed or conclusion drawn by Adelaide or its Representatives as a result of examining the Bendigo Due Diligence Information;

- (iii) accepts no responsibility to inform Adelaide of any matter arising or coming to the notice of Bendigo which may affect or qualify any Bendigo Due Diligence Information; and
- (iv) is not liable for any loss of any kind (including, without limitation, any consequential or economic loss) arising from any inaccuracy, incompleteness or similar defect in the Bendigo Due Diligence Information or any default, negligence or lack of care in relation to the preparation or provision of the Bendigo Due Diligence Information.

(b) Each of Adelaide and its Representatives:

- (i) makes no representation or warranty:
 - (A) as to the accuracy, completeness or relevance of any of the Adelaide Due Diligence Information;
 - (B) that any of the Adelaide Due Diligence Information has been audited, verified or prepared with reasonable care; or
 - (C) that the Adelaide Due Diligence Information is the totality of the information that a person would require or expect to find in order to consider or evaluate the Scheme,

except that Adelaide warrants that the Adelaide Due Diligence Information has been or (as the case may be) will be disclosed in good faith;

- (ii) accepts no responsibility to Bendigo, its Representatives or any other person for any false, inaccurate or misleading Adelaide Due Diligence Information or for any opinion formed or conclusion drawn by Bendigo or its Representatives as a result of examining the Adelaide Due Diligence Information;
- (iii) accepts no responsibility to inform Bendigo of any matter arising or coming to the notice of Bendigo which may affect or qualify any Adelaide Due Diligence Information; and
- (iv) is not liable for any loss of any kind (including, without limitation, any consequential or economic loss) arising from any inaccuracy, incompleteness or similar defect in the Adelaide Due Diligence Information or any default, negligence or lack of care in relation to the preparation or provision of the Adelaide Due Diligence Information.

7.3 Own enquiries

- (a) Without limiting clauses 7.1(a) and 7.2(a), Adelaide hereby acknowledges and agrees that it:
 - (i) has made, and during the inquiries contemplated by clause 5.10 will make, its own independent assessment of all Bendigo Due Diligence Information;
 - (ii) carried out, and relied solely on, and during the inquiries contemplated by clause 5.10 will carry out, and rely solely on, its own investigation and analysis of the Bendigo Due Diligence Information and the Scheme; and
 - (iii) entered into this Agreement utilising the Bendigo Due Diligence Information solely at its own risk.
- (b) Without limiting clauses 7.1(b) and 7.2(b), Bendigo hereby acknowledges and agrees that it:
 - (i) has made, and during the inquiries contemplated by clause 5.10 will make, its own independent assessment of all Adelaide Due Diligence Information;
 - (ii) carried out, and relied solely on, and during the inquiries contemplated by clause 5.10 will carry out, and rely solely on, its own investigation and analysis of the Adelaide Due Diligence Information and the Scheme; and
 - (iii) entered into this Agreement utilising the Adelaide Due Diligence Information solely at its own risk.

7.4 Benefit

- (a) The acknowledgements, confirmations and agreements given and made by Adelaide in this clause 7 are given to Bendigo on its own behalf and separately as trustee for each of the Bendigo Indemnified Parties (notwithstanding that they are not parties to this Agreement).
- (b) The acknowledgements, confirmations and agreements given and made by Bendigo in this clause 7 are given to Adelaide on its own behalf and separately as trustee for each of the Adelaide Indemnified Parties (notwithstanding that they are not parties to this Agreement).

8 Public Announcements and Communications

8.1 Public announcements

- (a) On the Announcement Date, Adelaide and Bendigo must jointly release the Agreed Public Announcement, which has attached to it a summary of the key terms of this Agreement.
- (b) Subject to paragraph (c), each party must use its best endeavours to consult with the other prior to making any other public announcements in connection with the Scheme.
- (c) Where a party is required by applicable law, ASX Listing Rules or any other applicable stock exchange regulation to make any announcement or make any disclosure relating to matters the subject of the Scheme, it may do so only after it has given the other party as much notice as is reasonably practicable in the context of any deadlines imposed by law or a Governmental Agency and has consulted with the other party as to the content of that announcement or disclosure.

8.2 Agreement on Communications

Except in relation to Communications regulated by clause 8.1 and to the extent permitted by applicable law:

- (a) Bendigo and Adelaide must in good faith consult with each other and agree in advance on all aspects (including the timing, form, content and manner) of:
 - (i) any Communications with:
 - (A) any Governmental Agency, including ASIC, ACCC, Australian Taxation Office, Australian Prudential Regulatory Authority, the Commonwealth Treasurer and any Commonwealth, State or Territory government department or member of parliament; or
 - (B) any rating agency; and
 - (ii) any press release,
- in relation to the implementation of the Scheme, whether or not such Communications are for the purposes of satisfying a Condition Precedent;

- (b) each of Bendigo and Adelaide must ensure that any other Communications with third parties in relation to the Scheme (such as with employees or shareholders or with the media other than by way of press release) must be in accordance with the communication protocols and messages agreed between the parties (and if branded with the name or logo of the other party, must be consented to by that party);
- (c) each party must provide copies to the other party of any written Communications sent to or received from a person referred to in clause 8.2(a) promptly upon despatch or receipt (as the case may be); and
- (d) each party shall have the right to be present and make submissions at or in relation to any proposed meeting with any Governmental Agency in relation to the Scheme.

9 Termination

9.1 Termination for material breach

This Agreement may be terminated at any time prior to the commencement of the Court hearing on the Second Court Date by a party if:

- (a) the other party is in material breach of any clause of this Agreement (including a representation, warranty or undertaking in clause 6), taken in the context of the Scheme as a whole, before the commencement of the Court hearing on the Second Court Date;
- (b) the non-defaulting party has given notice to the other party setting out the material breach and stating an intention to terminate this Agreement; and
- (c) the material breach has continued to exist for five Business Days (or any shorter period ending immediately prior to the commencement of the Court hearing on the Second Court Date) from the time such notice is given.

9.2 Termination due to withdrawal of Adelaide Board recommendation

This Agreement may be terminated at any time by either party prior to the commencement of the Court hearing on the Second Court Date if:

- (a) any Adelaide director makes a public statement changing or withdrawing their recommendation of the Scheme whether or not in accordance with clause 5.5; or

- (b) the Independent Expert, having given a report to Adelaide that in its opinion the Scheme is in the best interests of Adelaide shareholders, changes that opinion for any reason.

9.3 Other termination events

This Agreement may be terminated at any time prior to the commencement of the Court hearing on the Second Court Date by a party:

- (a) if the Court refuses to make any order convening the Scheme Meeting and that party obtains an opinion from Queen's Counsel or Senior Counsel that an appeal against that decision would have no reasonable prospect of success;
- (b) if a Court or other Governmental Agency has issued a final and non appealable order, decree or ruling or taken other action which permanently restrains or prohibits the Scheme;
- (c) in accordance with clause 3.5; or
- (d) if the Scheme has not become Effective on or before the End Date.

9.4 Termination for Competing Proposal for Bendigo

This Agreement may be terminated at any time by either party prior to the commencement of the Court hearing on the Second Court Date if the Bendigo Board recommends a Competing Proposal for Bendigo.

9.5 Automatic termination

Without limiting any other provision of this Agreement, this Agreement will terminate automatically, without the action of any party, in the event that the Scheme Resolution is not approved by the requisite majorities of Adelaide Shareholders.

9.6 Effect of termination

In the event of termination of this Agreement by either Bendigo or Adelaide pursuant to clauses 9.1, 9.2, 9.3 or 9.4, or if this Agreement terminates automatically pursuant to clause 9.5, this Agreement will have no further force or effect and the parties will have no further obligations under this Agreement, other than in respect of any accrued rights or remedies including in respect of any liability for an antecedent breach of this Agreement and provided that this clause 9 and clauses 6, 7, 11, 12, 13, 14, 15.4, 15.5 and clauses 15.7 to 15.14 (both inclusive) survive termination.

10 Exclusivity

10.1 No-shop restriction

During the Exclusivity Period:

- (a) Adelaide must ensure that neither it nor any of its Representatives directly or indirectly solicits, invites, facilitates or encourages, or communicates any intention to do any of these things, with a view to obtaining any offer or proposal from any person in relation to a Competing Proposal for Adelaide; and
- (b) Bendigo must ensure that neither it nor any of its Representatives directly or indirectly solicits, invites, facilitates, encourages, or initiates any enquiries, negotiations or discussions, or communicates any intention to do any of these things, with a view to obtaining any expression of interest, offer or proposal from any person in relation to a Competing Proposal for Bendigo.

10.2 No-talk restriction

Subject to clause 10.5, during the Exclusivity Period:

- (a) Adelaide must ensure that neither it nor any of its Representatives negotiates or enters into, continues or participates in negotiations or discussions with any other person regarding a Competing Proposal for Adelaide, even if:
 - (i) that person's Competing Proposal for Adelaide was not directly or indirectly solicited, initiated, facilitated or encouraged by Adelaide or any of its Representatives; or
 - (ii) that person has publicly announced their Competing Proposal for Adelaide; and
- (b) Bendigo must ensure that neither it nor any of its Representatives negotiates or enters into, continues or participates in negotiations or discussions with any other person regarding a Competing Proposal for Bendigo, even if:
 - (i) that person's Competing Proposal for Bendigo was not directly or indirectly solicited, initiated, facilitated or encouraged by Bendigo or any of its Representatives; or
 - (ii) that person has publicly announced their Competing Proposal for Bendigo.

10.3 No due diligence

Without limiting the general nature of clause 10.2 but subject to clause 10.5, during the Exclusivity Period:

- (a) Adelaide must not without Bendigo's prior written consent:
 - (i) solicit, invite, facilitate or encourage any party (other than Bendigo or its Representatives) to undertake due diligence investigations on Adelaide or any of its Related Bodies Corporate where to do so would involve a breach of clause 10.1(a); or
 - (ii) make available to any person (other than to Bendigo or its Representatives) or permit any such person to receive any non-public information relating to Adelaide or any of its Related Bodies Corporate in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal for Adelaide; and
- (b) Bendigo must not without Adelaide's prior written consent:
 - (i) solicit, invite, facilitate or encourage any party (other than Adelaide or its Representatives) to undertake due diligence investigations on Bendigo or any of its Related Bodies Corporate where to do so would involve a breach of clause 10.1(b); or
 - (ii) make available to any person (other than to Adelaide or its Representatives) or permit any such person to receive any non-public information relating to Bendigo or any of its Related Bodies Corporate in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal for Bendigo.

10.4 Notification

Subject to clause 10.5, during the Exclusivity Period:

- (a) Adelaide must immediately inform Bendigo if it is approached by any person to engage in any activity that would breach its obligations in clauses 10.2(a) or 10.3(a) (or would breach its obligations in clauses 10.2(a) or 10.3(a) if it were not for clause 10.5), but Adelaide will not be obliged to identify the relevant person to Bendigo, or the details of the Competing Proposal for Adelaide, unless:
 - (i) such Competing Proposal for Adelaide, or details of the relevant Competing Proposal for Adelaide, has been made public; or
 - (ii) clause 10.5 permits or requires Adelaide to respond to the Competing Proposal for Adelaide; and
- (b) Bendigo must immediately inform Adelaide if it is approached by any person to engage in any activity that would breach its obligations in clauses 10.2(b) or 10.3(b) (or would breach its obligations in clauses 10.2(b) or 10.3(b) if it were not for clause 10.5), but Bendigo will not be obliged to identify the relevant person to Adelaide, or the details of the Competing Proposal for Bendigo, unless:
 - (i) such Competing Proposal for Bendigo, or details of the relevant Competing Proposal for Bendigo, has been made public; or
 - (ii) clause 10.5 permits or requires the party to respond to the Competing Proposal for Bendigo.

10.5 Exceptions

- (a) The obligations in clauses 10.2(a), 10.3(a) and 10.4(a) do not apply to the extent that they restrict Adelaide, the Adelaide Board or any of Adelaide's Representatives from taking any action in respect of a bona fide Competing Proposal for Adelaide which was not encouraged, solicited, invited, facilitated or initiated by Adelaide in contravention of clause 10.1(a), or to the extent that they require Adelaide to provide the notification or details referred to in clause 10.4(a), provided that the Adelaide Board has determined, in good faith and acting reasonably, that:
- (i) the Competing Proposal for Adelaide is a Superior Proposal; or
 - (ii) failing to respond in any way to that Competing Proposal for Adelaide or the consequences of providing the notification or details referred to in clause 10.4(a) would be likely to cause the Adelaide directors to breach their fiduciary or other legal duties, after receiving written advice to that effect from Adelaide's external lawyers,

and a notice must be immediately sent to Bendigo that it is relying on the carve out in this clause 10.5(a).

- (b) The obligations in clauses 10.2(b), 10.3(b) and 10.4(b) do not apply to the extent that they restrict Bendigo, or the Bendigo Board or any of Bendigo's Representatives from taking any action in respect of a bona fide Competing Proposal for Bendigo which was not encouraged, solicited, invited, facilitated or initiated by Bendigo in contravention of clause 10.1(b), or to the extent that they require Bendigo to provide the notification or details referred to in clause 10.4(b), provided that the Bendigo Board has determined, in good faith and acting reasonably, that:
- (i) the Competing Proposal for Bendigo is a Superior Proposal; or

- (ii) failing to respond in any way to that Competing Proposal for Bendigo or the consequences of providing the notification or details referred to in clause 10.4(b) would be likely to cause the Adelaide directors to breach their fiduciary or other legal duties, after receiving written advice to that effect from Bendigo's external lawyers

and a notice must be immediately sent to Adelaide that it is relying on the carve out in this Clause 10.5(b).

10.6 Normal provision of information

Nothing in this clause 10 prevents a party from:

- (a) providing information to its Representatives;
- (b) providing information to rating agencies or any Governmental Agency;
- (c) providing information to its auditors, Advisers, customers, joint venturers, franchisees, alliance partners and suppliers acting in that capacity in the ordinary course of business; or
- (d) making presentations to brokers, portfolio investors, analysts and other third parties in the ordinary course of business.

10.7 No ongoing discussions

Each party represents and warrants to the other as at the date of this Agreement that it is not in discussions or negotiations with any third party regarding any Competing Proposal in respect of it.

10.8 Acknowledgement

Each party has required the other to agree to the obligations set out in this clause 10 in consideration of it proceeding to implement the Scheme and incurring significant costs in doing so. In the absence of obtaining these obligations from the other, neither party would have entered into this Agreement.

II Payment of Liquidated Amount

II.1 Rationale

- (a) Adelaide and Bendigo believe that the Scheme will provide significant benefits to Adelaide, Bendigo and their respective shareholders. Adelaide and Bendigo acknowledge that, if they enter into this Agreement and the Scheme is subsequently not implemented, both parties will incur significant costs.
- (b) In the circumstances referred to in clause 11.1(a), both parties requested that provision be made for the payments outlined in clauses 11.2 and 11.3, without which neither party would have entered into this Agreement.
- (c) Both the Adelaide Board and the Bendigo Board believe that, in the circumstances referred to in clause 11.1(a), it is appropriate for both parties to agree to the payments referred to in clauses 11.2 and 11.3 to secure each other's participation in the Scheme.
- (d) The amount payable by Bendigo pursuant to clause 11.2, or by Adelaide pursuant to clause 11.3, is an amount to compensate the other party for the following:
 - (i) advisory costs;
 - (ii) costs of management and directors' time;
 - (iii) commitment fees and financing costs;
 - (iv) out-of-pocket expenses;
 - (v) reasonable opportunity costs incurred in pursuing the Scheme or in not pursuing other alternative acquisitions or strategic initiatives which could have developed to further that party's business and objectives; and
 - (vi) costs of convening and holding the Scheme Meeting and any other meeting in connection with the Scheme (these costs are applicable to Adelaide only).

II.2 Payment by Bendigo to Adelaide

- (a) Bendigo agrees to pay Adelaide \$15 million (exclusive of GST) if:
 - (i) Bendigo is in material breach of its obligations under this Agreement (including a breach of a representation, warranty or undertaking set out in clause 6.2 of this Agreement);
 - (ii) a Bendigo Regulated Event occurs between the date of this Agreement and 8.00am on the Second Court Date;
 - (iii) a Bendigo Material Adverse Change occurs, or is discovered, announced, disclosed or otherwise becomes known to Adelaide between the date of this Agreement and 8.00am on the Second Court Date (provided that no amount is payable if the risk or possibility of the Bendigo Material Adverse Change was fairly disclosed to Adelaide prior to the date of this Agreement and the Bendigo Material Adverse Change occurring on or after the date of this Agreement was beyond the control of Bendigo); or
 - (iv) the Bendigo Board recommends a Mutually Exclusive Competing Proposal for Bendigo, and this Agreement is terminated in accordance with its terms prior to the Implementation Date.

For the purpose of this clause 11.2(a), a **Mutually Exclusive Competing Proposal for Bendigo** means a Competing Proposal for Bendigo which is conditional on the Scheme not becoming Effective or which requires Bendigo to abandon the merger with Adelaide.
- (b) Bendigo must pay Adelaide the amount referred to in clause 11.2(a) within 10 Business Days of receipt by Bendigo from Adelaide of a demand for payment. The demand may only be made after the occurrence of an event referred to in clause 11.2(a).

- (c) Despite anything else in this Agreement:
- (i) the fee payable to Adelaide under clause 11.2(a) is only payable once; and
 - (ii) where an event, occurrence or matter comprising a Bendigo Material Adverse Change is discovered, announced, disclosed or otherwise becomes known to Adelaide between the date of this Agreement and the end of the 21 day period referred to in clause 5.10, the fee under clause 11.2(a)(iii) is only payable if, in addition to satisfying clause 11.2(a)(iii), the event, occurrence or matter, or the risk or possibility of the event, occurrence or matter, was deliberately or knowingly misrepresented, or deliberately or knowingly not disclosed, by Bendigo to Adelaide prior to the date of this Agreement.

11.3 Payment by Adelaide to Bendigo

- (a) Subject to clause 11.3(d), Adelaide agrees to pay Bendigo \$15 million (exclusive of GST) if:
 - (i) Adelaide is in material breach of its obligations under this Agreement (including a breach of a representation, warranty or undertaking set out in clause 6.1 of this Agreement);
 - (ii) an Adelaide Regulated Event occurs between the date of this Agreement and 8.00am on the Second Court Date;
 - (iii) an Adelaide Material Adverse Change occurs, or is discovered, announced, disclosed or otherwise becomes known to Bendigo between the date of this Agreement and 8.00am on the Second Court Date (provided that no amount is payable if the risk or possibility of the Adelaide Material Adverse Change was fairly disclosed to Bendigo prior to the date of this Agreement and the Adelaide Material Adverse Change occurring on or after the date of this Agreement was beyond the control of Adelaide);
 - (iv) the Independent Expert gives a report to Adelaide that in its opinion the Scheme is not in the best interests of Adelaide Shareholders;
 - (v) having given a report to Adelaide that in its opinion the Scheme is in the best interests of Adelaide shareholders, the Independent Expert changes that opinion for any reason;
 - (vi) subject to clause 11.3(b), at any time before the end of the Scheme Meeting, any Adelaide Director makes a public statement changing or withdrawing their support or recommendation of the Scheme; or
 - (vii) at any time before the end of the Scheme Meeting, any Adelaide Director recommends a Competing Proposal for Adelaide,
 and this Agreement is terminated in accordance with its terms prior to the Implementation Date.
- (b) Clause 11.3(a)(vi) will not apply where any Adelaide director makes a public statement changing or withdrawing their support or recommendation of the Scheme:
 - (i) as a consequence of any event referred to in clause 11.2(a) or 9.3 (other than as a result of a breach or non-fulfilment of the Condition Precedent referred to in clause 3.1(e) in circumstances where there is a Competing Proposal for Adelaide); or
 - (ii) following termination of this Agreement by Adelaide under clause 9.4.
- (c) Adelaide must pay Bendigo the amount referred to in clause 11.3(a) within 10 Business Days of receipt by Adelaide from Bendigo of a demand for payment made after the occurrence of an event referred to in clause 11.3(a).
- (d) No amount is payable by Adelaide to Bendigo:
 - (i) under clause 11.3(a)(iv) to (vi) (inclusive) where no Competing Proposal for Adelaide has been made, announced or proposed and the Independent Expert:
 - (A) gives an opinion that the Scheme is not in the best interests of the Adelaide Shareholders; or
 - (B) having given a report to Adelaide that in its opinion the Scheme is in the best interests of Adelaide Shareholders, changes that opinion for any reason; or

- (ii) under clause 11.3(a) only because the holders of Adelaide Shares fail to pass, by the requisite majorities, the resolution to approve the Scheme at the Scheme Meeting, in circumstances where no Adelaide Director has made a public statement changing or withdrawing their support or recommendation of the Scheme or has recommended a Competing Proposal for Adelaide.
- (e) Despite anything else in this Agreement:
- (i) the fee payable to Bendigo under clause 11.3(a) is only payable once; and
- (ii) where an event, occurrence or matter comprising an Adelaide Material Adverse Change is discovered, announced, disclosed or otherwise becomes known to Bendigo between the date of this Agreement and the end of the 21 day period referred to in clause 5.10, the fee under clause 11.3(a)(iii) is only payable if, in addition to satisfying clause 11.3(a)(iii), the event, occurrence or matter, or the risk or possibility of the event, occurrence or matter, was deliberately or knowingly misrepresented, or deliberately or knowingly not disclosed, by Adelaide to Bendigo prior to the date of this Agreement.

11.4 Compliance with law

- (a) Subject to clause 11.4(f), if a court or the Takeovers Panel determines that any part of the agreement by a party under this clause 11:
- (i) constitutes, or would if performed constitute:
- (A) a breach of the fiduciary or statutory duties of that party's directors to that party; or
- (B) unacceptable circumstances within the meaning of the Corporations Act; or
- (C) is, or would if performed be, unlawful for any reason,
- then, provided that the relevant party has complied with its obligations under this clause 11.4, that party will not be obliged to comply with that part of the agreement (but will be obliged to comply with all other parts of the agreement).
- (b) Subject to clause 11.4(f), if it is determined by the Takeovers Panel or a court that all or any part of a payment made under this clause 11 involved a breach of the fiduciary or statutory duties of that party's directors to that party or unacceptable circumstances within the meaning of the Corporations Act, the party who received the payment must immediately refund all or such applicable part of it.
- (c) Subject to clause 11.4(f), if in such Takeovers Panel proceedings, the Takeovers Panel indicates to Bendigo and Adelaide or either of them that in the absence of a written undertaking pursuant to section 201A of the *Australian Securities and Investments Commission Act 2001* it will make a declaration of unacceptable circumstances, each of Bendigo and Adelaide (as the case may be) may give that undertaking on their own behalf and must give reasonable consideration to giving that undertaking if requested by the other party. Where such undertakings are given, this clause 11 will operate in a manner consistent with the terms of such undertakings.

- (d) Subject to clause 11.4(f), neither party may make, nor may it cause or permit to be made, any application to a court, arbitral tribunal or the Takeovers Panel for or in relation to a determination referred to in clause 11.4(a).
- (e) If any third party makes any application to a court, arbitral tribunal or the Takeovers Panel for or in relation to a determination referred to in clause 11.4(a), then each party must make submissions in the course of those proceedings supporting to the fullest extent reasonably practicable the position that no such determination should be made.
- (f) Nothing in this clause 11.4 precludes either party from bringing or requires either party to bring appeal or review proceedings in relation to any determination referred to in clause 11.4(a). If either party brings such proceedings:
- (i) the other must make submissions in the course of those proceedings supporting to the fullest extent reasonably practicable the review application made by the first party; and
 - (ii) for the purposes of this clause 11.4, the determination the subject of the appeal or review proceeding shall be deemed not to have been made and clauses 11.4(a), 11.4(b) and 11.4(c) shall have effect only in relation to any determination made in the appeal or review proceedings.

11.5 Other claims

Adelaide and Bendigo acknowledge and agree that if an amount is paid under clauses 11.2 and 11.3 in respect of an act or event, that payment constitutes respectively, their sole and exclusive remedy for any liability arising under or in connection with this Agreement in respect of that act or event.

12 Reliance

12.1 Reliance by parties

Each party (the **Representor**) acknowledges that:

- (a) in entering into this Agreement the other party has relied on the representations, warranties and undertakings provided by the Representor in clause 6.1 or 6.2 (as applicable); and
- (b) any breach of the representations, warranties and undertakings provided by the Representor in clause 6.1 or 6.2 (as applicable) after the Scheme becomes Effective may only give rise to a claim in damages and cannot result in a termination of this Agreement.

12.2 Survival of representations

Each representation and warranty in clauses 6.1 and 6.2:

- (a) is severable;
- (b) will survive the termination of this Agreement; and
- (c) is given with the intent that liability under it will not be confined to breaches which are discovered prior to the date of termination of this Agreement.

12.3 Notification

A party (the **Notifying Party**) will promptly advise the other in writing of:

- (a) a representation or warranty provided in this Agreement by the Notifying Party becoming false; or
- (b) a breach of this Agreement by the Notifying Party.

13 Indemnities

13.1 Indemnity by Bendigo

Bendigo agrees with Adelaide (on Adelaide's own behalf and separately as trustee or nominee for each of the other Adelaide Indemnified Parties) to indemnify and keep indemnified the Adelaide Indemnified Parties from and against all claims, actions, proceedings, liabilities, obligations, damages, loss, harm, charges, costs, expenses, duties and other outgoings of whatever nature and however arising which any of the Adelaide Indemnified Parties may suffer or incur by reason of any breach of any of the representations, warranties and undertakings in clause 6.2.

13.2 Indemnity by Adelaide

Adelaide agrees with Bendigo (on Bendigo's own behalf and separately as trustee or nominee for each of the other Bendigo Indemnified Parties) to indemnify and keep indemnified the Bendigo Indemnified Parties from and against all claims, actions, proceedings, liabilities, obligations, damages, loss, harm, charges, costs, expenses, duties and other outgoings of whatever nature and however arising which any of the Bendigo Indemnified Parties may suffer or incur by reason of any breach of any of the representations, warranties and undertakings in clause 6.1.

13.3 Survival of indemnities

Each indemnity in clauses 13.1 and 13.2 will:

- (a) be severable;
- (b) be a continuing obligation;
- (c) constitute a separate and independent obligation of the party giving the indemnity from any other obligations of that party under this Agreement; and
- (d) survive the termination of this Agreement.

14 Confidentiality

Each party acknowledges and agrees that it remains bound by the Confidentiality Agreement and accepts that the terms of this Agreement will prevail over the Confidentiality Agreement to the extent of any inconsistency. In particular, the parties acknowledge and agree that clause 8 of this Agreement supersedes and replaces any conflicting clauses of the Confidentiality Agreement.

15 General

15.1 Entire agreement

Without affecting the operation of clause 14, in relation to the subject matter of this Agreement, this Agreement:

- (a) embodies the entire understanding of the parties and constitutes the entire terms agreed upon between the parties; and
- (b) supersedes any prior agreement (whether or not in writing) between the parties.

15.2 Further acts

Each party will promptly do and perform all further acts and execute and deliver all further documents (in form and content reasonably satisfactory to that party) required by law or reasonably requested by any other party to give effect to this Agreement.

15.3 Severability

A term or part of a term of this Agreement that is illegal or unenforceable may be severed from this Agreement and the remaining terms or parts of the term of this Agreement continue in force.

15.4 Notices

Any communication under or in connection with this Agreement:

- (a) must be in writing;
- (b) must be addressed as shown below:

Bendigo

Address: The Bendigo Centre,
Bendigo, Victoria 3550
Fax: 03 5485 7624
Email: david.oataway@bendigobank.com.au
For the attention of: David Oataway,
Company Secretary

Adelaide

Address: 169 Pirie Street,
Adelaide, South Australia, 5000
Fax: 08 8300 6839
Email: akamm@adelaidebank.com.au
For the attention of: Andrew Kamm

(or as otherwise notified by that party to the other party from time to time);

- (c) must be signed by the party making the communication or by a person duly authorised by that party, or in the case of a notice sent by email, sent from the work email address of such a person;
- (d) must be delivered or sent by email or fax to the addressee in accordance with clause 15.4(b); and
- (e) will be deemed to be received by the addressee:
 - (i) (in the case of prepaid post) on the third Business Day after the date of posting to an address within Australia, and on the fifth Business Day after the date of posting to an address outside Australia;

- (ii) (in the case of email) on the first to occur of:
 - (A) receipt by the sender of an email acknowledgement from the recipient's information system showing that the communication has been delivered to the email address referred to in clause 15.4(b);
 - (B) the time that the communication enters an information system which is under the control of the recipient; and
 - (C) the time that the communication is first opened or read by an employee or officer of the recipient,

but if the result is that a communication would be taken to be received on a day that is not a Business Day in the place to which the Notice is sent or is later than 5.00pm (local time) on a Business Day it will be deemed to be received at 9.00am on the next Business Day in that place;

- (iii) (in the case of fax) at the local time (in the place of receipt of that fax) which then equates to the time at which that fax is sent as shown on the transmission report which is produced by the machine from which that fax is sent and which confirms transmission of that fax in its entirety, unless that local time is not a Business Day, or is after 5.00pm on a Business Day, when that communication will be deemed to be received at 9.00am on the next Business Day; and
- (iv) (in the case of delivery by hand) on delivery at the address of the addressee as provided in clause 15.4(b) unless that delivery is not made on a Business Day, or after 5.00pm on a Business Day, when that communication will be deemed to be received at 9.00am on the next Business Day.

15.5 Expenses and stamp duties

- (a) Except as otherwise provided in this Agreement, each party will pay its own costs and expenses in connection with the negotiation, preparation, execution, and performance of this Agreement and the proposed, attempted or actual implementation of this Agreement and the Scheme.
- (b) Bendigo must pay all stamp duties (if any) and any fines and penalties with respect to stamp duty in respect of this Agreement, the Scheme or the steps to be taken under this Agreement or the Scheme.

15.6 Amendments

This Agreement may only be varied by a document signed by or on behalf of each of the parties.

15.7 Assignment

A party cannot assign, novate or otherwise transfer any of its rights or obligations under this Agreement without the prior written consent of the other party.

15.8 Governing law

- (a) This Agreement is governed by and will be construed according to the laws of South Australia.
- (b) Each party irrevocably submits to the non-exclusive jurisdiction of the courts of South Australia and of the courts competent to determine appeals from those courts.

15.9 Waiver

- (a) Failure to exercise or enforce or a delay in exercising or enforcing or the partial exercise or enforcement of any right, power or remedy provided by law or under this Agreement by any party will not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement of that or any other right, power or remedy provided by law or under this Agreement.
- (b) Any waiver or consent given by any party under this Agreement will only be effective and binding on that party if it is given or confirmed in writing by that party.
- (c) No waiver of a breach of any term of this Agreement will operate as a waiver of another breach of that term or of a breach of any other term of this Agreement.

15.10 Consents

Any consent referred to in, or required under, this Agreement from any party may not be unreasonably withheld, unless this Agreement expressly provides for that consent to be given in that party's absolute discretion.

15.11 No representation or reliance

- (a) Each party acknowledges that no party (nor any person acting on its behalf) has made any representation or other inducement to it to enter into this Agreement, except for representations or inducements expressly set out in this Agreement.
- (b) Each party acknowledges and confirms that it does not enter into this Agreement in reliance on any representation or other inducement by or on behalf of any other party, except for any representation or inducement expressly set out in this Agreement.

15.12 No merger

The rights and obligations of the parties will not merge on completion of any transaction under this Agreement. They will survive the execution and delivery of any assignment or other document entered into for the purpose of implementing any transaction.

15.13 GST

- (a) Unless otherwise expressly stated, all amounts payable under this Agreement are expressed to be exclusive of GST. If GST is payable on a Taxable Supply made under or in connection with this Agreement, the recipient of the supply must pay the supplier, an additional amount equal to the GST payable on that supply provided that the supplier first issues a tax invoice for that supply.
- (b) Without limiting clause 15.13(a), if an amount payable under this Agreement is calculated by reference to a liability incurred by a party, then the amount of the liability must be reduced by the amount of any Input Tax Credit to which that party is entitled in respect of the acquisition of the supply to which that liability relates. A party will be assumed to be entitled to a full Input Tax Credit unless it demonstrates that its entitlement is otherwise prior to the date on which payment must be made.
- (c) Words and expressions used in this clause 15.13 have the same meaning as in *A New Tax System (Goods and Services) Tax Act 1999* (Cth).

15.14 Counterparts

This Agreement may be executed in any number of counterparts and by the parties on separate counterparts. Each counterpart constitutes the agreement of each party who has executed and delivered that counterpart.

Execution Page

EXECUTED in accordance with section 127 of the *Corporations Act 2001* by **Bendigo Bank Limited**:

Director Signature

Director/Secretary Signature

Print Name

Print Name

EXECUTED in accordance with section 127 of the *Corporations Act 2001* by **Adelaide Bank Limited**:

Director Signature

Director/Secretary Signature

Print Name

Print Name

For personal use only

Appendix | 2

Terms of Ordinary Share Scheme

Pursuant to section 411 of the *Corporations Act 2001* (Cth)

BETWEEN

- 1 **ADELAIDE BANK LIMITED**
ACN 061 461 550 (**Adelaide Bank**); and
- 2 The holders of Adelaide Bank Ordinary Shares as at the Record Date.

I Definitions and interpretation

I.1 Definitions

In this scheme:

Adelaide Bank Register means the register of members of Adelaide Bank.

Adelaide Bank Ordinary Share means a fully paid ordinary share in the share capital of Adelaide Bank.

Adelaide Bank Reset Preference Share means a fully paid reset preference share in the share capital of Adelaide Bank.

Adelaide Bank Step Up Preference Share means a fully paid step up preference share in the share capital of Adelaide Bank.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited ACN 008 624 691 or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.

Bendigo Bank means Bendigo Bank Limited ACN 068 049 178.

Bendigo Bank Ordinary Share means a fully paid ordinary share in the share capital of Bendigo Bank.

Bendigo Bank Preference Share means a fully paid preference share in the share capital of Bendigo Bank issued pursuant to a prospectus dated 16 March 2005.

Bendigo Bank Register means the register of members of Bendigo Bank.

Business Day means a day that is not a Saturday, Sunday, bank holiday or public holiday in South Australia.

CHESS means the clearing house electronic sub-register system of share transfers operated by ASX Settlement and Transfer Corporation Pty Limited ACN 008 504 532.

Close of Trading means close of trading on ASX on the Effective Date.

Corporations Act means the *Corporations Act 2001* (Cth).

Court means the Federal Court of Australia or such other court of competent jurisdiction under the Corporations Act agreed to in writing by Adelaide Bank and Bendigo Bank.

Deed Poll means the deed poll dated 3 October 2007 executed by Bendigo Bank in favour of the Ordinary Share Scheme Shareholders and others.

Effective means, in relation to a scheme of arrangement, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) in relation to that scheme.

Effective Date means, in relation to a scheme of arrangement, the date on which that scheme becomes Effective.

End Date means 29 February 2008, or such later date as Bendigo Bank and Adelaide Bank may agree in writing.

Implementation Date means the third Business Day following the Record Date.

Ineligible Foreign Ordinary Shareholder means an Ordinary Share Scheme Shareholder whose Registered Address, as shown in the Adelaide Bank Register as at the Record Date, is a place outside Australia and Australia's external territories and New Zealand, unless Bendigo Bank has decided, in accordance with the Merger Implementation Agreement, not to treat such person as an Ineligible Foreign Ordinary Shareholder for the purpose of this Ordinary Share Scheme.

Listing Rules means the official listing rules of ASX.

Merger Implementation Agreement means the merger implementation agreement dated 9 August 2007 between Adelaide Bank and Bendigo Bank.

New Bendigo Bank Ordinary Shares means Bendigo Bank Ordinary Shares to be issued as Ordinary Share Scheme Consideration.

Nominee means a nominee chosen by Bendigo Bank to undertake the functions set out in clause 5.4.

Ordinary Share Scheme means this scheme of arrangement, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act.

Ordinary Share Scheme Consideration means the 1.075 Bendigo Bank Ordinary Shares to be issued under this Ordinary Share Scheme for each Ordinary Share Scheme Share.

Ordinary Share Scheme Share means each Adelaide Bank Ordinary Share on issue as at the Record Date.

Ordinary Share Scheme Shareholder means each person who is registered in the Adelaide Bank Register as the holder of Adelaide Bank Ordinary Shares at the Record Date (other than Bendigo Bank).

Record Date means 7.00pm (Sydney time) on the fifth Business Day after the Effective Date, or such other date as Adelaide Bank and Bendigo Bank may agree in writing.

Registered Address means, in relation to an Ordinary Share Scheme Shareholder, their address as shown in the Adelaide Bank Register as at the Record Date.

Scheme Book means the information despatched to holders of Adelaide Bank Ordinary Shares and approved by the Court, including an explanatory statement of Adelaide Bank in respect of this Ordinary Share Scheme and related matters issued pursuant to section 412 of the Corporations Act which has been registered with ASIC.

Second Court Date means the first day on which the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving this Ordinary Share Scheme is heard or, if the application is adjourned for any reason, the first day on which the adjourned application is heard.

1.2 Interpretation

In this scheme, unless a contrary intention appears:

- (a) words or expressions importing the singular include the plural and vice versa;
- (b) words or expressions importing a gender include the other gender;
- (c) words or expressions denoting individuals include corporations, firms, unincorporated bodies, government authorities and instrumentalities;
- (d) where a word or expression is defined or given meaning, another grammatical form has a corresponding meaning;
- (e) any heading, index, table of contents or marginal note is for convenience only and does not affect the interpretation of this Ordinary Share Scheme;
- (f) a reference to a clause, paragraph or sub-paragraph is a reference to a clause, paragraph or sub-paragraph of this Ordinary Share Scheme;
- (g) a reference to this Ordinary Share Scheme or another document includes that document as amended, varied, novated, supplemented or replaced from time to time;
- (h) a reference to a person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (i) a reference to legislation or a provision of legislation includes:
 - (i) all regulations, orders or instruments issued under the legislation or provision; and
 - (ii) any modification, consolidation, amendment, re-enactment, replacement or codification of such legislation or provision;
- (j) a reference to 'dollars' or '\$' is a reference to Australian dollars;
- (k) references to include and including are to be construed without limitation;
- (l) words or expressions defined in the Corporations Act have the same meaning when used in this document; and
- (m) a reference to time is to South Australian time.

2 Preliminary

- (a) Adelaide Bank is a public company registered in South Australia and is limited by shares. Adelaide Bank is admitted to the official list of ASX and Adelaide Bank Ordinary Shares, Adelaide Bank Reset Preference Shares and Adelaide Bank Step Up Preference Shares are officially quoted on the stock market operated by ASX.
- (b) As at the date of the Scheme Book, 108,316,569 Adelaide Bank Ordinary Shares were on issue.
- (c) Bendigo Bank is a public company registered in Victoria and is limited by shares. Bendigo Bank is admitted to the official list of ASX and Bendigo Bank Ordinary Shares and Bendigo Bank Preference Shares are officially quoted on the stock market operated by ASX.
- (d) The directors of Adelaide Bank consider it in the best interests of Adelaide Bank Ordinary Shareholders for Adelaide Bank to merge with Bendigo Bank and that this should be achieved through the implementation of this Ordinary Share Scheme.
- (e) Adelaide Bank and Bendigo Bank have agreed by entering into the Merger Implementation Agreement to implement the Ordinary Share Scheme.
- (f) If the Ordinary Share Scheme becomes Effective and is implemented, each of the following will occur:
- (i) all of the Ordinary Share Scheme Shares will be transferred to Bendigo Bank and Adelaide Bank will become a subsidiary of Bendigo Bank; and
 - (ii) in consideration of the transfer of the Ordinary Share Scheme Shares to Bendigo Bank, Bendigo Bank will provide the Ordinary Share Scheme Consideration to the Ordinary Share Scheme Shareholders in accordance with this Ordinary Share Scheme.
- (g) Bendigo Bank has agreed by executing the Deed Poll to provide the Ordinary Share Scheme Consideration to Ordinary Share Scheme Shareholders in accordance with this Ordinary Share Scheme and take the other actions attributed to it under this Ordinary Share Scheme.

3 Conditions precedent**3.1 Conditions precedent**

The Ordinary Share Scheme is conditional on the following conditions precedent:

- (a) all of the conditions precedent set out in clause 3.1 of the Merger Implementation Agreement having been satisfied or waived in accordance with the terms of the Merger Implementation Agreement;
- (b) the Ordinary Share Scheme being approved for the purposes of section 411(4)(b) of the Corporations Act; and
- (c) such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to the Ordinary Share Scheme as are acceptable to Adelaide Bank and Bendigo Bank having been satisfied,

and the Ordinary Share Scheme will be of no force or effect unless and until the conditions precedent in this clause 3.1 are satisfied.

3.2 Lapse of Ordinary Share Scheme

The Ordinary Share Scheme will lapse and be of no further force or effect if the Merger Implementation Agreement is terminated in accordance with its terms before 8.00am on the Second Court Date, or if the Effective Date does not occur on or before the End Date. If the Merger Implementation Agreement is terminated in accordance with its terms or if the Effective Date does not occur on or before the End Date, Adelaide Bank and Bendigo Bank are each released from:

- (a) any further obligation to take steps to implement this Ordinary Share Scheme; and
- (b) any liability with respect to this Ordinary Share Scheme.

3.3 Certificate

At or before the Court hearing on the Second Court Date, Adelaide Bank and Bendigo Bank will each provide the Court with a certificate, or such other evidence as the Court requests, confirming whether or not all of the conditions precedent set out in clause 3.1 of the Merger Implementation Agreement have been satisfied or waived in accordance with the terms of the Merger Implementation Agreement.

4 Implementation of the Ordinary Share Scheme

4.1 Lodgement of Ordinary Share Scheme orders

Adelaide Bank must lodge the orders of the Court approving the Ordinary Share Scheme with ASIC as soon as practicable and, in any event, by no later than 5.00pm on the first Business Day following the date on which the Court approves the Ordinary Share Scheme (or such other Business Day as Adelaide Bank and Bendigo Bank agree). The Ordinary Share Scheme will become effective on and from the date of lodgement of the orders.

4.2 Acquisition of Adelaide Bank by Bendigo Bank

On the Implementation Date:

- (a) all of the Ordinary Share Scheme Shares, together with all rights and entitlements attaching to those shares at the Implementation Date, will be transferred to Bendigo Bank without the need for any further act by any Ordinary Share Scheme Shareholder by Adelaide Bank effecting a valid transfer or transfers of the Ordinary Share Scheme Shares to Bendigo Bank under section 1074D of the Corporations Act or, if this procedure is not available for any reason, by:
 - (i) Adelaide Bank delivering to Bendigo Bank duly completed and executed share transfer form or forms (executed by Adelaide Bank as transferor acting as the attorney and agent of each Ordinary Share Scheme Shareholder under clause 7.6(b)) in respect of all of the Ordinary Share Scheme Shares in favour of Bendigo Bank as transferee (which may be a master transfer of all or part of the Ordinary Share Scheme Shares);
 - (ii) Bendigo Bank duly executing such transfer form or forms as transferee and delivering it or them to Adelaide Bank for registration; and
 - (iii) Adelaide Bank promptly procuring that the name of Bendigo Bank is entered in the Adelaide Bank Register as the holder of all of the Ordinary Share Scheme Shares; and
- (b) Bendigo Bank must provide the Ordinary Share Scheme Consideration to the Ordinary Share Scheme Shareholders in accordance with this Ordinary Share Scheme.

5 Ordinary Share Scheme Consideration

5.1 Calculation of Ordinary Share Scheme Consideration

Subject to clauses 5.2 and 5.4, in consideration for the transfer of their Ordinary Share Scheme Shares to Bendigo Bank, each Ordinary Share Scheme Shareholder shall be entitled to be issued with 1.075 New Bendigo Bank Ordinary Shares per Ordinary Share Scheme Share held by them as shown in the Adelaide Bank Register on the Record Date.

5.2 Fractional entitlements and shareholding splitting or division

- (a) If the number of Ordinary Share Scheme Shares held by an Ordinary Share Scheme Shareholder is such that the aggregate entitlement of that Ordinary Share Scheme Shareholder to New Bendigo Bank Ordinary Shares under this Ordinary Share Scheme is not a whole number, then that Ordinary Share Scheme Shareholder's entitlement must be rounded up or down to the nearest whole number, with fractions of 0.5 or more being rounded up and fractions of less than 0.5 being rounded down.
- (b) If Bendigo Bank is of the reasonable opinion that two or more Ordinary Share Scheme Shareholders (each of whom holds a number of Ordinary Share Scheme Shares which results in rounding in accordance with clause 5.2(a)) have, before the Record Date, been party to shareholding splitting or division in an attempt to obtain unfair advantage by reference to such rounding, Bendigo Bank may give notice to those Ordinary Share Scheme Shareholders:
 - (i) setting out their names and Registered Addresses;
 - (ii) stating that opinion; and
 - (iii) attributing to one of them specifically identified in the notice the Ordinary Share Scheme Shares held by all of them,

and, after such notice has been given, the Ordinary Share Scheme Shareholder specifically identified in the notice as the deemed holder of all the specified Ordinary Share Scheme Shares will, for the purposes of the other provisions of this Ordinary Share Scheme, be taken to hold all of those Ordinary Share Scheme Shares and each of the other Ordinary Share Scheme Shareholders whose names and Registered Addresses are set out in the notice will, for the purposes of the other provisions of this Ordinary Share Scheme, be taken to hold no Ordinary Share Scheme Shares. Bendigo Bank, by complying with the other provisions of this Ordinary Share Scheme relating to it in respect of the Ordinary Share Scheme Shareholder specifically identified in the notice as the deemed holder of all the specified Ordinary Share Scheme Shares, will be taken to have satisfied and discharged its obligations to the other Ordinary Share Scheme Shareholders named in the notice under the terms of this Ordinary Share Scheme.

5.3 Provision of Ordinary Share Scheme Consideration

The obligation of Bendigo Bank under this Ordinary Share Scheme to provide the Ordinary Share Scheme Consideration to Ordinary Share Scheme Shareholders will be satisfied by Bendigo Bank:

- (a) in the case of Ordinary Share Scheme Shareholders who are not Ineligible Foreign Ordinary Shareholders:
 - (i) entering the name of each such Ordinary Share Scheme Shareholder in the Bendigo Bank Register on the Implementation Date in respect of the New Bendigo Bank Ordinary Shares to which that Ordinary Share Scheme Shareholder is entitled under this Ordinary Share Scheme; and
 - (ii) as soon as reasonably practicable following the Implementation Date, if their New Bendigo Bank Ordinary Shares are held on the issuer sponsored subregister of Bendigo Bank, sending or procuring the sending of a holding statement to the Registered Address of each such Ordinary Share Scheme Shareholder in respect of the New Bendigo Bank Ordinary Shares to which they are entitled under this Ordinary Share Scheme; and

- (b) in the case of Ineligible Foreign Ordinary Shareholders, performing its obligations under clause 5.4.

5.4 Provision of Ordinary Share Scheme Consideration to the Nominee

- (a) Bendigo Bank will be under no obligation to issue, and must not issue, any New Bendigo Bank Ordinary Shares under this Ordinary Share Scheme to any Ineligible Foreign Ordinary Shareholder and, instead, on the Implementation Date must issue to the Nominee the New Bendigo Bank Ordinary Shares which, but for this clause 5.4, would be required to be issued to Ineligible Foreign Ordinary Shareholders under the Ordinary Share Scheme.
- (b) Bendigo Bank will cause the Nominee to offer for sale on the stock market operated by ASX within 15 Business Days after the Implementation Date all of the New Bendigo Bank Ordinary Shares issued to the Nominee under this Ordinary Share Scheme in such manner, and at such price and on such other terms (and at the risk of the Ineligible Foreign Ordinary Shareholder), as the Nominee shall determine in its absolute discretion.
- (c) Bendigo Bank will pay, or cause the Nominee to pay, to each Ineligible Foreign Ordinary Shareholder such fraction of the proceeds of sale (after deduction of reasonable fees of the Nominee, brokerage, taxes and other reasonable costs of sale) as is equal to the number of New Bendigo Bank Ordinary Shares which would have been issued to the Ineligible Foreign Ordinary Shareholder under this Ordinary Share Scheme but for this clause 5.4 divided by the total number of New Bendigo Bank Ordinary Shares issued to the Nominee under this Ordinary Share Scheme promptly after the last sale of New Bendigo Bank Ordinary Shares by the Nominee. Payment is to be made by cheque in Australian currency drawn on an Australian bank and sent to the Registered Address of the Ineligible Foreign Ordinary Shareholder in full satisfaction of Bendigo Bank's obligation to that Ineligible Foreign Ordinary Shareholder under the Ordinary Share Scheme.

- (d) Each Ineligible Foreign Ordinary Shareholder appoints Adelaide Bank as its agent to receive on its behalf any financial services guide or other notices (including any updates of those documents) that the Nominee is required to provide to Ineligible Foreign Ordinary Shareholders under the Corporations Act.

None of Adelaide Bank, Bendigo Bank or the Nominee gives any assurance as to the price that will be achieved for the sale of the New Bendigo Bank Ordinary Shares by the Nominee.

5.5 Status of New Bendigo Bank Ordinary Shares

- (a) Bendigo Bank undertakes that the New Bendigo Bank Ordinary Shares to be issued to Ordinary Share Scheme Shareholders and the Nominee under this Ordinary Share Scheme will:
- (i) be duly and validly issued;
 - (ii) be fully paid; and
 - (iii) rank equally in all respects with all other Bendigo Bank Ordinary Shares.
- (b) Bendigo Bank must use its best endeavours to procure that New Bendigo Bank Ordinary Shares will be quoted on the stock market conducted by ASX on an ordinary settlement basis as soon as possible after the Implementation Date.

5.6 Joint holders

In the case of joint holders of Ordinary Share Scheme Shares:

- (a) the New Bendigo Bank Ordinary Shares to be issued under this Ordinary Share Scheme must be issued to and registered in the names of the joint holders;
- (b) the holding statement referred to in clause 5.3(a)(ii) must be forwarded to the holder whose name appears first in the Adelaide Bank Register on the Record Date; and
- (c) any cheque required to be sent under clause 5.4 must be made payable to the joint holders and forwarded to the holder whose name appears first in the Adelaide Bank Register on the Record Date.

5.7 Binding instructions or notifications

Except for an Ordinary Share Scheme Shareholder's tax file number, any binding instruction or notification between an Ordinary Share Scheme Shareholder and Adelaide Bank relating to Ordinary Share Scheme Shares at the Record Date (including any instructions relating to payment of dividends or to communications from Adelaide Bank) will from the Record Date be deemed (except to the extent determined otherwise by Bendigo Bank in its sole discretion) to be a similarly binding instruction or notification to, and accepted by, Bendigo Bank in respect of the New Bendigo Bank Ordinary Shares issued to the Ordinary Share Scheme Shareholder until that instruction or notification is revoked or amended in writing addressed to Bendigo Bank at the place where the Bendigo Bank Register is kept. Any such instructions or notifications accepted by Bendigo Bank will apply to and in respect of the issue of New Bendigo Bank Ordinary Shares as part of the Ordinary Share Scheme Consideration only to the extent that they are not inconsistent with the other provisions of this Ordinary Share Scheme.

6 Dealings in Adelaide Bank Ordinary Shares

6.1 Dealings in Adelaide Bank Ordinary Shares by Ordinary Share Scheme Shareholders

- (a) For the purpose of establishing who is an Ordinary Share Scheme Shareholder, dealings in Adelaide Bank Ordinary Shares will only be recognised if:
 - (i) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Adelaide Bank Register as the holder of the relevant Adelaide Bank Ordinary Shares by the Record Date; and
 - (ii) in all other cases, registrable transfers or transmission applications in respect of those dealings are received at the place where the Adelaide Bank Register is kept by the Record Date.
- (b) Adelaide Bank must register transfers or transmission applications of the type referred to in clause 6.1(a)(ii) by the Record Date.

- (c) Adelaide Bank will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Adelaide Bank Ordinary Shares received after the Record Date (except pursuant to clause 4.2).

6.2 Adelaide Bank Register

- (a) For the purpose of determining entitlements to Ordinary Share Scheme Consideration, Adelaide Bank must, until the Ordinary Share Scheme Consideration has been provided in accordance with this Ordinary Share Scheme, maintain or procure the maintenance of the Adelaide Bank Register in accordance with the provisions of this clause 6 and the Adelaide Bank Register in this form will solely determine entitlements to Ordinary Share Scheme Consideration.
- (b) As from the Record Date, each entry current at that time in the Adelaide Bank Register in relation to the Ordinary Share Scheme Shares will cease to be of any effect other than as evidence of entitlement to the Ordinary Share Scheme Consideration in accordance with this Ordinary Share Scheme in respect of the Ordinary Share Scheme Shares relating to that entry.

6.3 Certificates and holding statements

All certificates and statements of holding for Ordinary Share Scheme Shares held by Ordinary Share Scheme Shareholders shall, following the Record Date, cease to have any effect as documents of title in respect of such Ordinary Share Scheme Shares.

6.4 Provision of information

As soon as practicable after the Record Date and in any event at least two Business Days before the Implementation Date, Adelaide Bank will ensure that details of the names, Registered Addresses and holdings of Ordinary Share Scheme Shares for each Ordinary Share Scheme Shareholder are made available to Bendigo Bank in such form as Bendigo Bank may reasonably require.

6.5 Quotation of Adelaide Bank Ordinary Shares

- (a) It is expected that suspension of trading on ASX in Adelaide Bank Ordinary Shares will occur from the Close of Trading.
- (b) At a time after the Implementation Date to be determined by Bendigo Bank, Adelaide Bank will apply for termination of the official quotation of Adelaide Bank Ordinary Shares on ASX.

7 General provisions

7.1 Agreements by Ordinary Share Scheme Shareholders

Without the need for any further act:

- (a) each Ordinary Share Scheme Shareholder agrees to:
- (i) the transfer of its Ordinary Share Scheme Shares to Bendigo Bank in accordance with this Ordinary Share Scheme; and
 - (ii) any variation, cancellation and modification of the rights attached to their Adelaide Bank Ordinary Shares constituted by or resulting from this Ordinary Share Scheme;
- (b) each Ordinary Share Scheme Shareholder who is not an Ineligible Foreign Ordinary Shareholder agrees to become a member of Bendigo Bank in respect of the New Bendigo Bank Ordinary Shares issued to it under this Ordinary Share Scheme and to be bound by the constitution of Bendigo Bank; and
- (c) each Ordinary Share Scheme Shareholder who is an Ineligible Foreign Ordinary Shareholder agrees and acknowledges that the payment to it of the amount referred to in clause 5.4(c) constitutes the satisfaction in full of all of its entitlements in and to the Ordinary Share Scheme Shareholder's Ordinary Share Scheme Consideration.

7.2 Warranties by Ordinary Share Scheme Shareholders

Each Ordinary Share Scheme Shareholder is deemed to have warranted to Bendigo Bank, and appointed and authorised Adelaide Bank as its attorney and agent to warrant to Bendigo Bank, that their Ordinary Share Scheme Shares will, at the date of transfer of them to Bendigo Bank, be fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, including any restrictions on transfer, and that they have full power and capacity to sell and to transfer their Ordinary Share Scheme Shares to Bendigo Bank under the Ordinary Share Scheme. Adelaide Bank undertakes that it will provide such warranty to Bendigo Bank as agent and attorney of each Ordinary Share Scheme Shareholder.

7.3 Pending registration of transfers

From the Effective Date, pending the registration of Bendigo Bank in the Adelaide Bank Register as the holder of the Ordinary Share Scheme Shares, Bendigo Bank will be beneficially entitled to the Ordinary Share Scheme Shares transferred to it under this Ordinary Share Scheme and each Ordinary Share Scheme Shareholder:

- (a) is deemed to have irrevocably appointed Bendigo Bank as attorney and agent (and directed Bendigo Bank in each capacity) to appoint any officer or agent nominated by Bendigo Bank as its sole proxy and, where appropriate, its corporate representative, to attend shareholders' meetings, exercise the votes attached to the Ordinary Share Scheme Shares registered in their name and sign any shareholders' resolution (and each Ordinary Share Scheme Shareholder acknowledges and agrees that as a result of Bendigo Bank being so appointed they cannot themselves attend or vote at any meetings or sign any resolutions, whether in person or by proxy or corporate representative); and
- (b) must take all other actions in the capacity of a registered holder of Ordinary Share Scheme Shares as Bendigo Bank reasonably directs.

7.4 Stamp duty

Bendigo Bank must pay all stamp duty (if any) payable in connection with the transfer of the Ordinary Share Scheme Shares under this Ordinary Share Scheme.

7.5 Effect of Ordinary Share Scheme

Each Ordinary Share Scheme Shareholder acknowledges that this Ordinary Share Scheme binds Adelaide Bank and all of the holders for the time being of Adelaide Bank Ordinary Shares (including those who do not attend the members' meeting of Adelaide Bank to approve the Ordinary Share Scheme or vote at that meeting) and, to the extent permitted by law, overrides the constitution of Adelaide Bank.

7.6 Authority to Adelaide Bank and Bendigo Bank

- (a) Each Ordinary Share Scheme Shareholder consents to Adelaide Bank and Bendigo Bank doing all acts and things as may be necessary or desirable to give full effect to the Ordinary Share Scheme and the transactions contemplated by it.
- (b) Each Ordinary Share Scheme Shareholder, without the need for any further act, irrevocably appoints Adelaide Bank and each of its directors and officers (jointly and severally) as its agent and attorney for the purpose of executing any document or doing any other act necessary or expedient to give effect to the terms of this Ordinary Share Scheme and the transactions contemplated by it including the provision of a proper instrument of transfer in respect of Ordinary Share Scheme Shares for the purposes of section 1071B of the Corporations Act (which may be a master transfer of all or part of the Ordinary Share Scheme Shares).

7.7 Enforcement of Deed Poll

- (a) Each Ordinary Share Scheme Shareholder, without the need for any further act, irrevocably appoints Adelaide Bank and each of its directors and officers (jointly and severally) as its agent and attorney for the purpose of enforcing the Deed Poll against Bendigo Bank.
- (b) Adelaide Bank undertakes in favour of each Ordinary Share Scheme Shareholder that it will enforce the Deed Poll against Bendigo Bank on behalf of and as agent and attorney for each Ordinary Share Scheme Shareholder.

7.8 Further assurance

Adelaide Bank will execute all documents and do all acts and things as may be necessary or desirable to give full effect to the Ordinary Share Scheme and the transactions contemplated by it.

7.9 Amendments to the Ordinary Share Scheme

If the Court proposes to approve the Ordinary Share Scheme subject to any alterations or conditions, Adelaide Bank may consent on behalf of all persons concerned, by its counsel, to those alterations or conditions to which Bendigo Bank has consented in writing.

7.10 Definition of 'sending'

For the purpose of clause 5, the word 'send' (or any variant thereof) means:

- (a) sending by ordinary pre-paid post or courier to the Registered Address of the Ordinary Share Scheme Shareholder; or
- (b) delivering to the address by any other means at no cost to the recipient.

7.11 Notices

If a notice, transfer, transmission application, direction or other communication referred to in this Ordinary Share Scheme is sent by post to Adelaide Bank, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at the registered office of Adelaide Bank.

7.12 Governing law

- (a) This Ordinary Share Scheme is governed by the laws of South Australia.
- (b) Each of Adelaide Bank, Bendigo Bank and the holders of Adelaide Bank Ordinary Shares irrevocably and unconditionally submits, in connection with this Ordinary Share Scheme, to the non-exclusive jurisdiction of the Court and any courts which have jurisdiction to hear appeals from the Court.

Appendix | 3

Terms of Step Up Preference Share Scheme

Pursuant to section 411 of the *Corporations Act 2001* (Cth)

BETWEEN

- 1 **ADELAIDE BANK LIMITED**
ACN 061 461 550 (**Adelaide Bank**); and
- 2 The holders of Adelaide Bank Step Up Preference Shares as at the Record Date.

I Definitions and interpretation

I.1 Definitions

In this scheme:

Adelaide Bank Ordinary Share means a fully paid ordinary share in the share capital of Adelaide Bank.

Adelaide Bank Register means the register of members of Adelaide Bank.

Adelaide Bank Reset Preference Share means a fully paid reset preference share in the share capital of Adelaide Bank.

Adelaide Bank Step Up Preference Share means a fully paid step up preference share in the share capital of Adelaide Bank.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited ACN 008 624 691 or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.

Bendigo Bank means Bendigo Bank Limited ACN 068 049 178.

Bendigo Bank Ordinary Share means a fully paid ordinary share in the share capital of Bendigo Bank.

Bendigo Bank Preference Share means a fully paid preference share in the share capital of Bendigo Bank issued pursuant to a prospectus dated 16 March 2005.

Bendigo Bank Register means the register of members of Bendigo Bank.

Business Day means a day that is not a Saturday, Sunday, bank holiday or public holiday in South Australia.

CHES means the clearing house electronic sub-register system of share transfers operated by ASX Settlement and Transfer Corporation Pty Limited ACN 008 504 532.

Close of Trading means close of trading on ASX on the Effective Date.

Corporations Act means the *Corporations Act 2001* (Cth).

Court means the Federal Court of Australia or such other court of competent jurisdiction under the Corporations Act agreed to in writing by Adelaide Bank and Bendigo Bank.

Deed Poll means the deed poll dated 3 October 2007 executed by Bendigo Bank in favour of the Step Up Preference Share Scheme Shareholders and others.

Effective means, in relation to a scheme of arrangement, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) in relation to that scheme.

Effective Date means, in relation to a scheme of arrangement, the date on which that scheme becomes Effective.

End Date means 29 February 2008, or such later date as Bendigo Bank and Adelaide Bank may agree in writing.

Governmental Agency has the same meaning as in the Merger Implementation Agreement.

Implementation Date means the third Business Day following the Record Date.

Ineligible Foreign Step Up Preference Shareholder means a Step Up Preference Share Scheme Shareholder whose Registered Address, as shown in the Adelaide Bank Register as at the Record Date, is a place outside Australia and Australia's external territories and New Zealand, unless Bendigo Bank has decided, in accordance with the Merger Implementation Agreement, not to treat such person as an Ineligible Foreign Step Up Preference Shareholder for the purpose of this Step Up Preference Share Scheme.

Listing Rules means the official listing rules of ASX.

Merger Implementation Agreement means the merger implementation agreement dated 9 August 2007 between Adelaide Bank and Bendigo Bank.

New Bendigo Bank Step Up Preference Share means a step up preference share in the share capital of Bendigo Bank to be issued under this Step Up Preference Share Scheme, the terms of which are set out in Appendix 6 of the Scheme Book.

Nominee means a nominee chosen by Bendigo Bank to undertake the functions set out in clause 5.3.

Ordinary Share Scheme means the scheme of arrangement between Adelaide Bank and the holders of Adelaide Bank Ordinary Shares, as set out in Appendix 2 of the Scheme Book.

Record Date means 7.00pm (Sydney time) on the fifth Business Day after the Effective Date, or such other date as Adelaide Bank and Bendigo Bank may agree in writing.

Registered Address means, in relation to a Step Up Preference Share Scheme Shareholder, their address as shown in the Adelaide Bank Register as at the Record Date.

Scheme Book means the information despatched to holders of Adelaide Bank Step Up Preference Shares and approved by the Court, including an explanatory statement of Adelaide Bank in respect of this Step Up Preference Share Scheme and related matters issued pursuant to section 412 of the Corporations Act which has been registered with ASIC.

Second Court Date means the first day on which the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving this Step Up Preference Share Scheme is heard or, if the application is adjourned for any reason, the first day on which the adjourned application is heard.

Step Up Preference Share Scheme means this scheme of arrangement, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act.

Step Up Preference Share Scheme

Consideration means one New Bendigo Bank Step Up Preference Share to be issued under this Step Up Preference Share Scheme for each Step Up Preference Share Scheme Share.

Step Up Preference Share Scheme Share means each Adelaide Bank Step Up Preference Share on issue as at the Record Date.

Step Up Preference Share Scheme

Shareholder means a person who is registered in the Adelaide Bank Register as the holder of Adelaide Bank Step Up Preference Shares at the Record Date (other than Bendigo Bank).

1.2 Interpretation

In this scheme, unless a contrary intention appears:

- (a) words or expressions importing the singular include the plural and vice versa;
- (b) words or expressions importing a gender include the other gender;
- (c) words or expressions denoting individuals include corporations, firms, unincorporated bodies, government authorities and instrumentalities;
- (d) where a word or expression is defined or given meaning, another grammatical form has a corresponding meaning;
- (e) any heading, index, table of contents or marginal note is for convenience only and does not affect the interpretation of this Step Up Preference Share Scheme;
- (f) a reference to a clause, paragraph or sub-paragraph is a reference to a clause, paragraph or sub-paragraph of this Step Up Preference Share Scheme;
- (g) a reference to this Step Up Preference Share Scheme or another document includes that document as amended, varied, novated, supplemented or replaced from time to time;
- (h) a reference to a person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (i) a reference to legislation or a provision of legislation includes:
 - (i) all regulations, orders or instruments issued under the legislation or provision; and
 - (ii) any modification, consolidation, amendment, re-enactment, replacement or codification of such legislation or provision;
- (j) a reference to 'dollars' or '\$' is a reference to Australian dollars;
- (k) references to include and including are to be construed without limitation;
- (l) words or expressions defined in the Corporations Act have the same meaning when used in this document; and
- (m) a reference to time is to South Australian time.

2 Preliminary

- (a) Adelaide Bank is a public company registered in South Australia and is limited by shares. Adelaide Bank is admitted to the official list of ASX and Adelaide Bank Ordinary Shares, Adelaide Bank Step Up Preference Shares and Adelaide Bank Reset Preference Shares are officially quoted on the stock market operated by ASX.
- (b) As at the date of the Scheme Book, 1,000,000 Adelaide Bank Step Up Preference Shares were on issue.
- (c) Bendigo Bank is a public company registered in Victoria and is limited by shares. Bendigo Bank is admitted to the official list of ASX and the Bendigo Bank Ordinary Shares and Bendigo Bank Preference Shares are officially quoted on the stock market operated by ASX.
- (d) Adelaide Bank and Bendigo Bank have agreed by entering into the Merger Implementation Agreement to implement this Step Up Preference Share Scheme.
- (e) If the Step Up Preference Share Scheme becomes Effective and is implemented, each of the following will occur:
- (i) all of the Step Up Preference Share Scheme Shares will be transferred to Bendigo Bank; and
 - (ii) in consideration of the transfer of the Step Up Preference Share Scheme Shares to Bendigo Bank, Bendigo Bank will provide the Step Up Preference Share Scheme Consideration to the Step Up Preference Share Scheme Shareholders in accordance with this Step Up Preference Share Scheme.
- (f) Bendigo Bank has agreed by executing the Deed Poll to provide the Step Up Preference Share Scheme Consideration to Step Up Preference Share Scheme Shareholders in accordance with this Step Up Preference Share Scheme and take the other actions attributed to it under this Step Up Preference Share Scheme.

3 Conditions precedent**3.1 Conditions precedent**

The Step Up Preference Share Scheme is conditional on the following conditions precedent:

- (a) holders of Adelaide Bank Step Up Preference Shares approving the Step Up Preference Share Scheme in accordance with section 411(4)(a) of the Corporations Act;
- (b) all approvals, consents, modifications or waivers of a Governmental Agency which are reasonably necessary to implement the Step Up Preference Share Scheme being obtained;
- (c) ASX providing approval for the official quotation of the New Bendigo Bank Step Up Preference Shares, subject to any conditions which ASX may reasonably require, including implementation of the Step Up Preference Share Scheme;
- (d) the Court approving the Step Up Preference Share Scheme, with or without modification, pursuant to section 411(4)(b) of the Corporations Act;
- (e) the Court approving the Ordinary Share Scheme, with or without modification, pursuant to section 411(4)(b) of the Corporations Act; and
- (f) such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to the Step Up Preference Share Scheme as are acceptable to Adelaide Bank and Bendigo Bank have been satisfied,

and the Step Up Preference Share Scheme Share will be of no force or effect unless and until the conditions precedent in this clause 3.1 are satisfied.

3.2 Lapse of Step Up Preference Share Scheme

The Step Up Preference Share Scheme will lapse and be of no further force or effect if:

- (a) any of the conditions in clause 3.1 is not satisfied by the End Date; or
- (b) the Merger Implementation Agreement is terminated in accordance with its terms.

If this Step Up Preference Share Scheme lapses, Adelaide Bank and Bendigo Bank are each released from:

- (c) any further obligation to take steps to implement this Step Up Preference Share Scheme; and
- (d) any liability with respect to this Step Up Preference Share Scheme.

3.3 Certificate

At or before the Court hearing on the Second Court Date, Adelaide Bank and Bendigo Bank will each provide the Court with a certificate, or such other evidence as the Court requests, confirming whether or not all of the conditions precedent set out in clause 3.1 have been satisfied or waived.

4 Implementation of the Step Up Preference Share Scheme

4.1 Lodgement of Step Up Preference Share Scheme orders

If the conditions in clause 3.1 are satisfied, Adelaide Bank must lodge the orders of the Court approving the Step Up Preference Share Scheme with ASIC as soon as practicable and, in any event, by no later than 5.00pm on the first Business Day following the date on which the Court approves the Step Up Preference Share Scheme (or such other Business Day as Adelaide Bank and Bendigo Bank agree). The Step Up Preference Share Scheme will become effective on and from the date of lodgement of the orders.

4.2 Acquisition of Adelaide Bank Step Up Preference Shares by Bendigo Bank

On the Implementation Date:

- (a) all of the Step Up Preference Share Scheme Shares, together with all rights and entitlements attaching to those shares at the Implementation Date, will be transferred to Bendigo Bank without the need for any further act by any Step Up Preference Share Scheme Shareholder by Adelaide Bank effecting a valid transfer or transfers of the Step Up Preference Share Scheme Shares to Bendigo Bank under section 1074D of the Corporations Act or, if this procedure is not available for any reason, by:
 - (i) Adelaide Bank delivering to Bendigo Bank duly completed and executed share transfer form or forms (executed by Adelaide Bank as transferor acting as the attorney and agent of each Step Up Preference Share Scheme Shareholder under clause 7.6(b)) in respect of all of the Step Up Preference Share Scheme Shares in favour of Bendigo Bank as transferee (which may be a master transfer of all or part of the Step Up Preference Share Scheme Shares);
 - (ii) Bendigo Bank duly executing such transfer form or forms as transferee and delivering it or them to Adelaide Bank for registration; and
 - (iii) Adelaide Bank promptly procuring that the name of Bendigo Bank is entered in the Adelaide Bank Register as the holder of all of the Step Up Preference Share Scheme Shares; and
- (b) Bendigo Bank must provide the Step Up Preference Share Scheme Consideration to the Step Up Preference Share Scheme Shareholders in accordance with this Step Up Preference Share Scheme.

5 Step Up Preference Share Scheme Consideration

5.1 Step Up Preference Share Scheme Consideration

Subject to clause 5.3, in consideration for the transfer of their Step Up Preference Share Scheme Shares to Bendigo Bank, each Step Up Preference Share Scheme Shareholder shall be entitled to be issued with one New Bendigo Bank Step Up Preference Share for each Step Up Preference Share Scheme Share held by them as shown in the Adelaide Bank Register on the Record Date.

5.2 Provision of Step Up Preference Share Scheme Consideration

The obligation of Bendigo Bank under this Step Up Preference Share Scheme to provide the Step Up Preference Share Scheme Consideration to Step Up Preference Share Scheme Shareholders will be satisfied by Bendigo Bank:

- (a) in the case of Step Up Preference Share Scheme Shareholders who are not Ineligible Foreign Step Up Preference Shareholders:
 - (i) entering the name of each such Step Up Preference Share Scheme Shareholder in the Bendigo Bank Register on the Implementation Date in respect of the New Bendigo Bank Step Up Preference Shares to which that Step Up Preference Share Scheme Shareholder is entitled under this Step Up Preference Share Scheme; and
 - (ii) as soon as reasonably practicable following the Implementation Date, if their New Bendigo Bank Step Up Preference Shares are held on the issuer sponsored subregister of Bendigo Bank, sending or procuring the sending of a holding statement to the Registered Address of each such Step Up Preference Share Scheme Shareholder in respect of the New Bendigo Bank Step Up Preference Shares to which they are entitled under this Step Up Preference Share Scheme; and
- (b) in the case of Ineligible Foreign Step Up Preference Shareholders, performing its obligations under clause 5.3.

5.3 Provision of Step Up Preference Share Scheme Consideration to the Nominee

- (a) Bendigo Bank will be under no obligation to issue, and must not issue, any New Bendigo Bank Step Up Preference Shares under this Step Up Preference Share Scheme to any Ineligible Foreign Step Up Preference Shareholder and, instead, on the Implementation Date must issue to the Nominee the New Bendigo Bank Step Up Preference Shares which, but for this clause 5.3, would be required to be issued to Ineligible Foreign Step Up Preference Shareholders under the Step Up Preference Share Scheme.
- (b) Bendigo Bank will cause the Nominee to offer for sale on the stock market operated by ASX within 15 Business Days after the Implementation Date all of the New Bendigo Bank Step Up Preference Shares issued to the Nominee under this Step Up Preference Share Scheme in such manner; and at such price and on such other terms (and at the risk of the Ineligible Foreign Step Up Preference Shareholder), as the Nominee shall determine in its absolute discretion.
- (c) Bendigo Bank will pay, or cause the Nominee to pay, to each Ineligible Foreign Step Up Preference Shareholder such fraction of the proceeds of sale (after deduction of reasonable fees of the Nominee, brokerage, taxes and other reasonable costs of sale) as is equal to the number of New Bendigo Bank Step Up Preference Shares which would have been issued to the Ineligible Foreign Step Up Preference Shareholder under this Step Up Preference Share Scheme but for this clause 5.3 divided by the total number of New Bendigo Bank Step Up Preference Shares issued to the Nominee under this Step Up Preference Share Scheme promptly after the last sale of New Bendigo Step Up Preference Shares by the Nominee. Payment is to be made by cheque in Australian currency drawn on an Australian bank and sent to the Registered Address of the Ineligible Foreign Step Up Preference Shareholder in full satisfaction of Bendigo Bank's obligation to that Ineligible Foreign Step Up Preference Shareholder under the Step Up Preference Share Scheme.

- (d) Each Ineligible Foreign Step Up Preference Shareholder appoints Adelaide Bank as its agent to receive on its behalf any financial services guide or other notices (including any updates of those documents) that the Nominee is required to provide to Ineligible Foreign Step Up Preference Shareholders under the Corporations Act.

None of Adelaide Bank, Bendigo Bank or the Nominee gives any assurance as to the price that will be achieved for the sale of the New Bendigo Bank Step Up Preference Shares by the Nominee.

5.4 Status of New Bendigo Bank Step Up Preference Shares

- (a) Bendigo Bank undertakes that New Bendigo Bank Step Up Preference Shares to be issued to Step Up Preference Share Scheme Shareholders and the Nominee under this Step Up Preference Share Scheme will:
- (i) be duly and validly issued; and
 - (ii) be fully paid.

- (b) Bendigo Bank must use its best endeavours to procure that New Bendigo Bank Step Up Preference Shares will be quoted on the stock market conducted by ASX on an ordinary settlement basis as soon as possible after the Implementation Date.

5.5 Joint holders

In the case of joint holders of Step Up Preference Share Scheme Shares:

- (a) the New Bendigo Bank Step Up Preference Shares to be issued under this Step Up Preference Share Scheme must be issued to and registered in the names of the joint holders;
- (b) the holding statement referred to in clause 5.2(a)(ii) must be forwarded to the holder whose name appears first in the Adelaide Bank Register on the Record Date; and
- (c) any cheque required to be sent under clause 5.3 must be made payable to the joint holders and forwarded to the holder whose name appears first in the Adelaide Bank Register on the Record Date.

5.6 Binding instructions or notifications

Except for a Step Up Preference Share Scheme Shareholder's tax file number, any binding instruction or notification between a Step Up Preference Share Scheme Shareholder and Adelaide Bank relating to Step Up Preference Share Scheme Shares at the Record Date (including any instructions relating to payment of dividends or to communications from Adelaide Bank) will from the Record Date be deemed (except to the extent determined otherwise by Bendigo Bank in its sole discretion) to be a similarly binding instruction or notification to, and accepted by, Bendigo Bank in respect of the New Bendigo Bank Step Up Preference Shares issued to the Step Up Preference Share Scheme Shareholder until that instruction or notification is revoked or amended in writing addressed to Bendigo Bank at the place where the Bendigo Bank Register is kept. Any such instructions or notifications accepted by Bendigo Bank will apply to and in respect of the issue of New Bendigo Bank Step Up Preference Shares as part of the Step Up Preference Share Scheme Consideration only to the extent that they are not inconsistent with the other provisions of this Step Up Preference Share Scheme.

6 Dealings in Adelaide Bank Step Up Preference Shares

6.1 Dealings in Adelaide Bank Step Up Preference Share Scheme Shareholders

- (a) For the purpose of establishing who is a Step Up Preference Share Scheme Shareholder, dealings in Adelaide Bank Step Up Preference Shares will only be recognised if:
- (i) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Adelaide Bank Register as the holder of the relevant Adelaide Bank Step Up Preference Shares by the Record Date; and
 - (ii) in all other cases, registrable transfers or transmission applications in respect of those dealings are received at the place where the Adelaide Bank Register is kept by the Record Date.

- (b) Adelaide Bank must register transfers or transmission applications of the type referred to in clause 6.1(a)(ii) by the Record Date.
- (c) Adelaide Bank will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Adelaide Bank Step Up Preference Shares received after the Record Date (except pursuant to clause 4.2).

6.2 Adelaide Bank Register

- (a) For the purpose of determining entitlements to Step Up Preference Share Scheme Consideration, Adelaide Bank must, until the Step Up Preference Share Scheme Consideration has been provided in accordance with this Step Up Preference Share Scheme, maintain or procure the maintenance of the Adelaide Bank Register in accordance with the provisions of this clause 6 and the Adelaide Bank Register in this form will solely determine entitlements to Step Up Preference Share Scheme Consideration.
- (b) As from the Record Date, each entry current at that time in the Adelaide Bank Register in relation to the Step Up Preference Share Scheme Shares will cease to be of any effect other than as evidence of entitlement to the Step Up Preference Share Scheme Consideration in accordance with this Step Up Preference Share Scheme in respect of the Step Up Preference Share Scheme Shares relating to that entry.

6.3 Certificates and holding statements

All certificates and statements of holding for Step Up Preference Share Scheme Shares held by Step Up Preference Share Scheme Shareholders shall, following the Record Date, cease to have any effect as documents of title in respect of such Step Up Preference Share Scheme Shares.

6.4 Provision of information

As soon as practicable after the Record Date and in any event at least two Business Days before the Implementation Date, Adelaide Bank will ensure that details of the names, Registered Addresses and holdings of Step Up Preference Share Scheme Shares for each Step Up Preference Share Scheme Shareholder are made available to Bendigo Bank in such form as Bendigo Bank may reasonably require.

6.5 Quotation of Adelaide Bank Step Up Preference Shares

- (a) It is expected that suspension of trading on ASX in Adelaide Bank Step Up Preference Shares will occur from the Close of Trading.
- (b) At a time after the Implementation Date to be determined by Bendigo Bank, Adelaide Bank will apply for termination of the official quotation of Adelaide Bank Step Up Preference Shares on ASX.

7 General provisions

7.1 Agreements by Step Up Preference Share Scheme Shareholders

Without the need for any further act:

- (a) each Step Up Preference Share Scheme Shareholder agrees to:
 - (i) the transfer of its Step Up Preference Share Scheme Shares to Bendigo Bank in accordance with this Step Up Preference Share Scheme; and
 - (ii) any variation, cancellation and modification of the rights attached to their Adelaide Bank Step Up Preference Shares constituted by or resulting from this Step Up Preference Share Scheme;
- (b) each Step Up Preference Share Scheme Shareholder who is not an Ineligible Foreign Step Up Preference Shareholder agrees to become a member of Bendigo Bank in respect of the New Bendigo Bank Step Up Preference Shares issued to it under this Step Up Preference Share Scheme and to be bound by the constitution of Bendigo Bank; and
- (c) each Step Up Preference Share Scheme Shareholder who is an Ineligible Foreign Step Up Preference Shareholder agrees and acknowledges that the payment to it of the amount referred to in clause 5.3(c) constitutes the satisfaction in full of all of its entitlements in and to the Step Up Preference Share Scheme Consideration.

7.2 Warranties by Step Up Preference Share Scheme Shareholders

Each Step Up Preference Share Scheme Shareholder is deemed to have warranted to Bendigo Bank, and appointed and authorised Adelaide Bank as its attorney and agent to warrant to Bendigo Bank, that their Step Up Preference Share Scheme Shares will, at the date of transfer of them to Bendigo Bank, be fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, including any restrictions on transfer; and that they have full power and capacity to sell and to transfer their Step Up Preference Share Scheme Shares to Bendigo Bank under the Step Up Preference Share Scheme. Adelaide Bank undertakes that it will provide such warranty to Bendigo Bank as agent and attorney of each Step Up Preference Share Scheme Shareholder.

7.3 Pending registration of transfers

From the Effective Date, pending the registration of Bendigo Bank in the Adelaide Bank Register as the holder of the Step Up Preference Share Scheme Shares, Bendigo Bank will be beneficially entitled to the Step Up Preference Share Scheme Shares transferred to it under this Step Up Preference Share Scheme and each Step Up Preference Share Scheme Shareholder:

- (a) is deemed to have irrevocably appointed Bendigo Bank as attorney and agent (and directed Bendigo Bank in each capacity) to appoint any officer or agent nominated by Bendigo Bank as its sole proxy and, where appropriate, its corporate representative, to attend shareholders' meetings, exercise the votes attached to the Step Up Preference Share Scheme Shares registered in their name and sign any shareholders' resolution (and each Step Up Preference Share Scheme Shareholder acknowledges and agrees that as a result of Bendigo Bank being so appointed they cannot themselves attend or vote at any meetings or sign any resolutions, whether in person or by proxy or corporate representative); and
- (b) must take all other actions in the capacity of a registered holder of Step Up Preference Share Scheme Shares as Bendigo Bank reasonably directs.

7.4 Stamp duty

Bendigo Bank must pay all stamp duty (if any) payable in connection with the transfer of the Step Up Preference Share Scheme Shares under this Step Up Preference Share Scheme.

7.5 Effect of Step Up Preference Share Scheme

Each Step Up Preference Share Scheme Shareholder acknowledges that this Step Up Preference Share Scheme binds Adelaide Bank and all of the holders for the time being of Adelaide Bank Step Up Preference Shares (including those who do not attend the members' meeting of Adelaide Bank to approve the Step Up Preference Share Scheme or vote at that meeting) and, to the extent permitted by law, overrides the constitution of Adelaide Bank.

7.6 Authority to Adelaide Bank and Bendigo Bank

- (a) Each Step Up Preference Share Scheme Shareholder consents to Adelaide Bank and Bendigo Bank doing all acts and things as may be necessary or desirable to give full effect to the Step Up Preference Share Scheme and the transactions contemplated by it.
- (b) Each Step Up Preference Share Scheme Shareholder, without the need for any further act, irrevocably appoints Adelaide Bank and each of its directors and officers (jointly and severally) as its agent and attorney for the purpose of executing any document or doing any other act necessary or expedient to give effect to the terms of this Step Up Preference Share Scheme and the transactions contemplated by it including the provision of a proper instrument of transfer in respect of Step Up Preference Share Scheme Shares for the purposes of section 1071B of the Corporations Act (which may be a master transfer of all or part of the Step Up Preference Share Scheme Shares).

7.7 Enforcement of Deed Poll

- (a) Each Step Up Preference Share Scheme Shareholder, without the need for any further act, irrevocably appoints Adelaide Bank and each of its directors and officers (jointly and severally) as its agent and attorney for the purpose of enforcing the Deed Poll against Bendigo Bank.
- (b) Adelaide Bank undertakes in favour of each Step Up Preference Share Scheme Shareholder that it will enforce the Deed Poll against Bendigo Bank on behalf of and as agent and attorney for each Step Up Preference Share Scheme Shareholder.

7.8 Further assurance

Adelaide Bank will execute all documents and do all acts and things as may be necessary or desirable to give full effect to the Step Up Preference Share Scheme and the transactions contemplated by it.

7.9 Amendments to the Step Up Preference Share Scheme

If the Court proposes to approve the Step Up Preference Share Scheme subject to any alterations or conditions, Adelaide Bank may consent on behalf of all persons concerned, by its counsel, to those alterations or conditions to which Bendigo Bank has consented in writing.

7.10 Definition of 'sending'

For the purpose of clause 5, the word 'send' (or any variant thereof) means:

- (a) sending by ordinary pre-paid post or courier to the Registered Address of the Step Up Preference Share Scheme Shareholder; or
- (b) delivering to the address by any other means at no cost to the recipient.

7.11 Notices

If a notice, transfer, transmission application, direction or other communication referred to in this Step Up Preference Share Scheme is sent by post to Adelaide Bank, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at the registered office of Adelaide Bank.

7.12 Governing law

- (a) This Step Up Preference Share Scheme is governed by the laws of South Australia.
- (b) Each of Adelaide Bank, Bendigo Bank and the holders of Adelaide Bank Step Up Preference Shares irrevocably and unconditionally submits, in connection with this Step Up Preference Share Scheme, to the non-exclusive jurisdiction of the Court and any courts which have jurisdiction to hear appeals from the Court.

Appendix I 4

Terms of Reset Preference Share Scheme

Pursuant to section 411 of the *Corporations Act 2001 (Cth)*

BETWEEN

- 1 **ADELAIDE BANK LIMITED**
ACN 061 461 550 (**Adelaide Bank**); and
- 2 The holders of Adelaide Bank Reset Preference Shares as at the Record Date.

I Definitions and interpretation

I.1 Definitions

In this scheme:

Adelaide Bank Ordinary Share means a fully paid ordinary share in the share capital of Adelaide Bank.

Adelaide Bank Register means the register of members of Adelaide Bank.

Adelaide Bank Reset Preference Share means a fully paid reset preference share in the share capital of Adelaide Bank.

Adelaide Bank Step Up Preference Share means a fully paid step up preference share in the share capital of Adelaide Bank.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited ACN 008 624 691 or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.

Bendigo Bank means Bendigo Bank Limited ACN 068 049 178.

Bendigo Bank Ordinary Share means a fully paid ordinary share in the share capital of Bendigo Bank.

Bendigo Bank Preference Share means a fully paid preference share in the share capital of Bendigo Bank issued pursuant to a prospectus dated 16 March 2005.

Bendigo Bank Register means the register of members of Bendigo Bank.

Business Day means a day that is not a Saturday, Sunday, bank holiday or public holiday in South Australia.

CHESS means the clearing house electronic sub-register system of share transfers operated by ASX Settlement and Transfer Corporation Pty Limited ACN 008 504 532.

Close of Trading means close of trading on ASX on the Effective Date.

Corporations Act means the *Corporations Act 2001 (Cth)*.

Court means the Federal Court of Australia or such other court of competent jurisdiction under the Corporations Act agreed to in writing by Adelaide Bank and Bendigo Bank.

Deed Poll means the deed poll dated 3 October 2007 executed by Bendigo Bank in favour of the Reset Preference Share Scheme Shareholders and others.

Effective means, in relation to a scheme of arrangement, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) in relation to that scheme.

Effective Date means, in relation to a scheme of arrangement, the date on which that scheme becomes Effective.

End Date means 29 February 2008, or such later date as Bendigo Bank and Adelaide Bank may agree in writing.

Governmental Agency has the same meaning as in the Merger Implementation Agreement.

Implementation Date means the third Business Day following the Record Date.

Ineligible Foreign Reset Preference Shareholder means a Reset Preference Share Scheme Shareholder whose Registered Address, as shown in the Adelaide Bank Register as at the Record Date, is a place outside Australia and Australia's external territories and New Zealand, unless Bendigo Bank has decided, in accordance with the Merger Implementation Agreement, not to treat such person as an Ineligible Foreign Reset Preference Shareholder for the purpose of this Reset Preference Share Scheme.

Listing Rules means the official listing rules of ASX.

Merger Implementation Agreement means the merger implementation agreement dated 9 August 2007 between Adelaide Bank and Bendigo Bank.

New Bendigo Bank Reset Preference Share means a reset preference share in the share capital of Bendigo Bank to be issued under this Reset Preference Share Scheme, the terms of which are set out in Appendix 7 of the Scheme Book.

Nominee means a nominee chosen by Bendigo Bank to undertake the functions set out in clause 5.3.

Ordinary Share Scheme means the scheme of arrangement between Adelaide Bank and the holders of Adelaide Bank Ordinary Shares, as set out in Appendix 2 of the Scheme Book.

Record Date means 7.00pm (Sydney time) on the fifth Business Day after the Effective Date, or such other date as Adelaide Bank and Bendigo Bank may agree in writing.

Registered Address means, in relation to a Reset Preference Share Scheme Shareholder, their address as shown in the Adelaide Bank Register as at the Record Date.

Reset Preference Share Scheme means this scheme of arrangement, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act.

Reset Preference Share Scheme Consideration means one New Bendigo Bank Reset Preference Share to be issued under this Reset Preference Share Scheme for each Reset Preference Share Scheme Share.

Reset Preference Share Scheme Share means each Adelaide Bank Reset Preference Share on issue as at the Record Date.

Reset Preference Share Scheme Shareholder means a person who is registered in the Adelaide Bank Register as the holder of Adelaide Bank Reset Preference Shares at the Record Date.

Scheme Book means the information despatched to holders of Adelaide Bank Reset Preference Shares and approved by the Court, including an explanatory statement of Adelaide Bank in respect of this Reset Preference Share Scheme and related matters issued pursuant to section 412 of the Corporations Act which has been registered with ASIC.

Second Court Date means the first day on which the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving this Reset Preference Share Scheme is heard or, if the application is adjourned for any reason, the first day on which the adjourned application is heard.

1.2 Interpretation

In this scheme, unless a contrary intention appears:

- (a) words or expressions importing the singular include the plural and vice versa;
- (b) words or expressions importing a gender include the other gender;
- (c) words or expressions denoting individuals include corporations, firms, unincorporated bodies, government authorities and instrumentalities;
- (d) where a word or expression is defined or given meaning, another grammatical form has a corresponding meaning;
- (e) any heading, index, table of contents or marginal note is for convenience only and does not affect the interpretation of this Reset Preference Share Scheme;
- (f) a reference to a clause, paragraph or sub-paragraph is a reference to a clause, paragraph or sub-paragraph of this Reset Preference Share Scheme;
- (g) a reference to this Reset Preference Share Scheme or another document includes that document as amended, varied, novated, supplemented or replaced from time to time;
- (h) a reference to a person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (i) a reference to legislation or a provision of legislation includes:
 - (i) all regulations, orders or instruments issued under the legislation or provision; and
 - (ii) any modification, consolidation, amendment, re-enactment, replacement or codification of such legislation or provision;
- (j) a reference to 'dollars' or '\$' is a reference to Australian dollars;
- (k) references to include and including are to be construed without limitation;
- (l) words or expressions defined in the Corporations Act have the same meaning when used in this document; and
- (m) a reference to time is to South Australian time.

2 Preliminary

- (a) Adelaide Bank is a public company registered in South Australia and is limited by shares. Adelaide Bank is admitted to the official list of ASX and Adelaide Bank Ordinary Shares, Adelaide Bank Step Up Preference Shares and Adelaide Bank Reset Preference Shares are officially quoted on the stock market operated by the ASX.
- (b) As at the date of the Scheme Book, 1,000,000 Adelaide Bank Reset Preference Shares were on issue.
- (c) Bendigo Bank is a public company registered in Victoria and is limited by shares. Bendigo Bank is admitted to the official list of ASX and the Bendigo Bank Ordinary Shares and Bendigo Bank Preference Shares are officially quoted on the stock market operated by ASX.
- (d) Adelaide Bank and Bendigo Bank have agreed to implement this Reset Preference Share Scheme.
- (e) If the Reset Preference Share Scheme becomes Effective and is implemented, each of the following will occur:
- (i) all of the Reset Preference Share Scheme Shares will be transferred to Bendigo Bank; and
 - (ii) in consideration of the transfer of the Reset Preference Share Scheme Shares to Bendigo Bank, Bendigo Bank will provide the Reset Preference Share Scheme Consideration to the Reset Preference Share Scheme Shareholders in accordance with this Reset Preference Share Scheme.
- (f) Bendigo Bank has agreed by executing the Deed Poll to provide the Reset Preference Share Scheme Consideration to Reset Preference Share Scheme Shareholders in accordance with this Reset Preference Share Scheme and take the other actions attributed to it under this Reset Preference Share Scheme.

3 Conditions precedent**3.1 Conditions precedent**

The Reset Preference Share Scheme is conditional on the following conditions precedent:

- (a) holders of Adelaide Bank Reset Preference Shares approving the Reset Preference Share Scheme in accordance with section 411(4)(a) of the Corporations Act;
- (b) all approvals, consents, modifications or waivers of a Governmental Agency which are reasonably necessary to implement the Reset Preference Share Scheme being obtained;
- (c) ASX providing approval for the official quotation of the New Bendigo Bank Reset Preference Shares, subject to any conditions which ASX may reasonably require, including implementation of the Reset Preference Share Scheme;
- (d) the Court approving the Reset Preference Share Scheme, with or without modification, pursuant to section 411(4)(b) of the Corporations Act;
- (e) the Court approving the Ordinary Share Scheme, with or without modification, pursuant to section 411(4)(b) of the Corporations Act; and
- (f) such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to the Reset Preference Share Scheme as are acceptable to Adelaide Bank and Bendigo Bank having been satisfied,

and the Reset Preference Share Scheme Share will be of no force or effect unless and until the conditions precedent in this clause 3.1 are satisfied.

3.2 Lapse of Reset Preference Share Scheme

The Reset Preference Share Scheme will lapse and be of no further force or effect if:

- (a) any of the conditions in clause 3.1 is not satisfied by the End Date; or
- (b) the Merger Implementation Agreement is terminated in accordance with its terms.

If this Reset Preference Share Scheme lapses, Adelaide Bank and Bendigo Bank are each released from:

- (c) any further obligation to take steps to implement this Reset Preference Share Scheme; and
- (d) any liability with respect to this Reset Preference Share Scheme.

3.3 Certificate

At or before the Court hearing on the Second Court Date, Adelaide Bank and Bendigo Bank will each provide the Court with a certificate, or such other evidence as the Court requests, confirming whether or not all of the conditions precedent set out in clause 3.1 have been satisfied or waived.

4 Implementation of the Reset Preference Share Scheme

4.1 Lodgement of Reset Preference Share Scheme orders

If the conditions in clause 3.1 are satisfied, Adelaide Bank must lodge the orders of the Court approving the Reset Preference Share Scheme with ASIC as soon as practicable and, in any event, by no later than 5.00pm on the first Business Day following the date on which the Court approves the Reset Preference Share Scheme (or such other Business Day as Adelaide Bank and Bendigo Bank agree). The Reset Preference Share Scheme will become effective on and from the date of lodgement of the orders.

4.2 Acquisition of Adelaide Bank Reset Preference Shares by Bendigo Bank

On the Implementation Date:

- (a) all of the Reset Preference Share Scheme Shares, together with all rights and entitlements attaching to those shares at the Implementation Date, will be transferred to Bendigo Bank without the need for any further act by any Reset Preference Share Scheme Shareholder by Adelaide Bank effecting a valid transfer or transfers of the Reset Preference Share Scheme Shares to Bendigo Bank under section 1074D of the Corporations Act or, if this procedure is not available for any reason, by:
 - (i) Adelaide Bank delivering to Bendigo Bank duly completed and executed share transfer form or forms (executed by Adelaide Bank as transferor acting as the attorney and agent of each Reset Preference Share Scheme Shareholder under clause 7.6(b)) in respect of all of the Reset Preference Share Scheme Shares in favour of Bendigo Bank as transferee (which may be a master transfer of all or part of the Reset Preference Share Scheme Shares);
 - (ii) Bendigo Bank duly executing such transfer form or forms as transferee and delivering it or them to Adelaide Bank for registration; and
 - (iii) Adelaide Bank promptly procuring that the name of Bendigo Bank is entered in the Adelaide Bank Register as the holder of all of the Reset Preference Share Scheme Shares; and
- (b) Bendigo Bank must provide the Reset Preference Share Scheme Consideration to the Reset Preference Share Scheme Shareholders in accordance with this Reset Preference Share Scheme.

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5 Reset Preference Share Scheme Consideration

5.1 Reset Preference Share Scheme Consideration

Subject to clause 5.3, in consideration for the transfer of their Reset Preference Share Scheme Shares to Bendigo Bank, each Reset Preference Share Scheme Shareholder shall be entitled to be issued with one New Bendigo Bank Reset Preference Share for each Reset Preference Share Scheme Share held by them as shown in the Adelaide Bank Register at the Record Date.

5.2 Provision of Reset Preference Share Scheme Consideration

The obligation of Bendigo Bank under this Reset Preference Share Scheme to provide the Reset Preference Share Scheme Consideration to Reset Preference Share Scheme Shareholders will be satisfied by Bendigo Bank:

- (a) in the case of Reset Preference Share Scheme Shareholders who are not Ineligible Foreign Reset Preference Shareholders:
 - (i) entering the name of each such Reset Preference Share Scheme Shareholder in the Bendigo Bank Register on the Implementation Date in respect of the New Bendigo Bank Reset Preference Shares to which that Reset Preference Share Scheme Shareholder is entitled under this Reset Preference Share Scheme; and
 - (ii) as soon as reasonably practicable following the Implementation Date, if their New Bendigo Bank Reset Preference Shares are held on the issuer sponsored subregister of Bendigo Bank, sending or procuring the sending of holding statements to the Registered Address of each such Reset Preference Share Scheme Shareholder in respect of the New Bendigo Bank Reset Preference Shares to which they are entitled under this Reset Preference Share Scheme; and
- (b) in the case of Ineligible Foreign Reset Preference Shareholders, performing its obligations under clause 5.3.

5.3 Provision of Reset Preference Share Scheme Consideration to the Nominee

- (a) Bendigo Bank will be under no obligation to issue, and must not issue, any New Bendigo Bank Reset Preference Shares under this Reset Preference Share Scheme to any Ineligible Foreign Reset Preference Shareholder and, instead, on the Implementation Date must issue to the Nominee the New Bendigo Bank Reset Preference Shares which, but for this clause 5.3, would be required to be issued to Ineligible Foreign Reset Preference Shareholders under the Reset Preference Share Scheme.
- (b) Bendigo Bank will cause the Nominee to offer for sale on the stock market operated by ASX within 15 Business Days after the Implementation Date all of the New Bendigo Bank Reset Preference Shares issued to the Nominee under this Reset Preference Share Scheme in such manner, and at such price and on such other terms (and at the risk of the Ineligible Foreign Reset Preference Shareholder), as the Nominee shall determine in its absolute discretion.
- (c) Bendigo Bank will pay, or cause the Nominee to pay, to each Ineligible Foreign Reset Preference Shareholder such fraction of the proceeds of sale (after deduction of reasonable fees of the Nominee, brokerage, taxes and other reasonable costs of sale) as is equal to the number of New Bendigo Bank Reset Preference Shares which would have been issued to the Ineligible Foreign Reset Preference Shareholder under this Reset Preference Share Scheme but for this clause 5.3 divided by the total number of New Bendigo Bank Reset Preference Shares issued to the Nominee under this Reset Preference Share Scheme promptly after the last sale of New Bendigo Bank Reset Preference Shares by the Nominee. Payment is to be made by cheque in Australian currency drawn on an Australian bank and sent to the Registered Address of the Ineligible Foreign Reset Preference Shareholder in full satisfaction of Bendigo Bank's obligation to that Ineligible Foreign Reset Preference Shareholder under the Reset Preference Share Scheme.

- (d) Each Ineligible Foreign Reset Preference Shareholder appoints Adelaide Bank as its agent to receive on its behalf any financial services guide or other notices (including any updates of those documents) that the Nominee is required to provide to Ineligible Foreign Reset Preference Shareholders under the Corporations Act.

None of Adelaide Bank, Bendigo Bank or the Nominee gives any assurance as to the price that will be achieved for the sale of the New Bendigo Bank Reset Preference Shares by the Nominee.

5.4 Status of Bendigo Bank Reset Preference Shares

- (a) Bendigo Bank undertakes that New Bendigo Bank Reset Preference Shares to be issued to Reset Preference Share Scheme Shareholders and the Nominee under this Reset Preference Share Scheme will:
- (i) be duly and validly issued; and
 - (ii) be fully paid.
- (b) Bendigo Bank must use its best endeavours to procure that New Bendigo Bank Reset Preference Shares will be quoted on the stock market conducted by ASX on an ordinary settlement basis as soon as possible after the Implementation Date.

5.5 Joint holders

In the case of joint holders of Reset Preference Share Scheme Shares:

- (a) the New Bendigo Bank Reset Preference Shares to be issued under this Reset Preference Share Scheme must be issued to and registered in the names of the joint holders;
- (b) the holding statement referred to in clause 5.2(a)(ii) must be forwarded to the holder whose name appears first in the Adelaide Bank Register on the Record Date; and
- (c) any cheque required to be sent under clause 5.3 must be made payable to the joint holders and forwarded to the holder whose name appears first in the Adelaide Bank Register on the Record Date.

5.6 Binding instructions or notifications

Except for a Reset Preference Share Scheme Shareholder's tax file number, any binding instruction or notification between a Reset Preference Share Scheme Shareholder and Adelaide Bank relating to Reset Preference Share Scheme Shares at the Record Date (including any instructions relating to payment of dividends or to communications from Adelaide Bank) will from the Record Date be deemed (except to the extent determined otherwise by Bendigo Bank in its sole discretion) to be a similarly binding instruction or notification to, and accepted by, Bendigo Bank in respect of the New Bendigo Bank Reset Preference Shares issued to the Reset Preference Share Scheme Shareholder until that instruction or notification is revoked or amended in writing addressed to Bendigo Bank at the place where the Bendigo Bank Register is kept. Any such instructions or notifications accepted by Bendigo Bank will apply to and in respect of the issue of New Bendigo Bank Reset Preference Shares as part of the Reset Preference Share Scheme Consideration only to the extent that they are not inconsistent with the other provisions of this Reset Preference Share Scheme.

6 Dealings in Adelaide Bank Reset Preference Shares

6.1 Dealings in Adelaide Bank Reset Preference Shares by Reset Preference Share Scheme Shareholders

- (a) For the purpose of establishing who is a Reset Preference Share Scheme Shareholder, dealings in Adelaide Bank Reset Preference Shares will only be recognised if:
 - (i) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Adelaide Bank Register as the holder of the relevant Adelaide Bank Reset Preference Shares by the Record Date; and
 - (ii) in all other cases, registrable transfers or transmission applications in respect of those dealings are received at the place where the Adelaide Bank Register is kept by the Record Date.
- (b) Adelaide Bank must register transfers or transmission applications of the type referred to in clause 6.1(a)(ii) by the Record Date.

- (c) Adelaide Bank will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Adelaide Bank Reset Preference Shares received after the Record Date (except pursuant to clause 4.2).

6.2 Adelaide Bank Register

- (a) For the purpose of determining entitlements to Reset Preference Share Scheme Consideration, Adelaide Bank must, until the Reset Preference Share Scheme Consideration has been provided in accordance with this Reset Preference Share Scheme, maintain or procure the maintenance of the Adelaide Bank Register in accordance with the provisions of this clause 6 and the Adelaide Bank Register in this form will solely determine entitlements to Reset Preference Share Scheme Consideration.
- (b) As from the Record Date, each entry current at that time in the Adelaide Bank Register in relation to the Reset Preference Share Scheme Shares will cease to be of any effect other than as evidence of entitlement to the Reset Preference Share Scheme Consideration in accordance with this Reset Preference Share Scheme in respect of the Reset Preference Share Scheme Shares relating to that entry.

6.3 Certificates and holding statements

All certificates and statements of holding for Reset Preference Share Scheme Shares held by Reset Preference Share Scheme Shareholders shall, following the Record Date, cease to have any effect as documents of title in respect of such Reset Preference Share Scheme Shares.

6.4 Provision of information

As soon as practicable after the Record Date and in any event at least two Business Days before the Implementation Date, Adelaide Bank will ensure that details of the names, Registered Addresses and holdings of Reset Preference Share Scheme Shares for each Reset Preference Share Scheme Shareholder are made available to Bendigo Bank in such form as Bendigo Bank may reasonably require.

6.5 Quotation of Adelaide Bank Reset Preference Shares

- (a) It is expected that suspension of trading on ASX in Adelaide Bank Reset Preference Shares will occur from the Close of Trading.
- (b) At a time after the Implementation Date to be determined by Bendigo Bank, Adelaide Bank will apply for termination of the official quotation of Adelaide Bank Reset Preference Shares on ASX.

7 General provisions

7.1 Agreements by Reset Preference Share Scheme Shareholders

Without the need for any further act:

- (a) each Reset Preference Share Scheme Shareholder agrees to:
- (i) the transfer of its Reset Preference Share Scheme Shares to Bendigo Bank in accordance with this Reset Preference Share Scheme; and
 - (ii) any variation, cancellation and modification of the rights attached to their Adelaide Bank Reset Preference Shares constituted by or resulting from this Reset Preference Share Scheme;
- (b) each Reset Preference Share Scheme Shareholder who is not an Ineligible Foreign Reset Preference Shareholder agrees to become a member of Bendigo Bank in respect of the New Bendigo Bank Reset Preference Shares issued to it under this Reset Preference Share Scheme and to be bound by the constitution of Bendigo Bank; and
- (c) each Reset Preference Share Scheme Shareholder who is an Ineligible Foreign Reset Preference Shareholder agrees and acknowledges that the payment to it of the amount referred to in clause 5.3(c) constitutes the satisfaction in full of all of its entitlements in and to the Reset Preference Share Scheme Consideration.

7.2 Warranties by Reset Preference Share Scheme Shareholders

Each Reset Preference Share Scheme Shareholder is deemed to have warranted to Bendigo Bank, and appointed and authorised Adelaide Bank as its attorney and agent to warrant to Bendigo Bank, that their Reset Preference Share Scheme Shares will, at the date of transfer of them to Bendigo Bank, be fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, including any restrictions on transfer; and that they have full power and capacity to sell and to transfer their Reset Preference Share Scheme Shares to Bendigo Bank under the Reset Preference Share Scheme. Adelaide Bank undertakes that it will provide such warranty to Bendigo Bank as agent and attorney of each Reset Preference Share Scheme Shareholder.

7.3 Pending registration of transfers

From the Effective Date, pending the registration of Bendigo Bank in the Adelaide Bank Register as the holder of the Reset Preference Share Scheme Shares, Bendigo Bank will be beneficially entitled to the Reset Preference Share Scheme Shares transferred to it under this Reset Preference Share Scheme and each Reset Preference Share Scheme Shareholder:

- (a) is deemed to have irrevocably appointed Bendigo Bank as attorney and agent (and directed Bendigo Bank in each capacity) to appoint any officer or agent nominated by Bendigo Bank as its sole proxy and, where appropriate, its corporate representative, to attend shareholders' meetings, exercise the votes attached to the Reset Preference Share Scheme Shares registered in their name and sign any shareholders' resolution (and each Reset Preference Share Scheme Shareholder acknowledges and agrees that as a result of Bendigo Bank being so appointed they cannot themselves attend or vote at any meetings or sign any resolutions, whether in person or by proxy or corporate representative); and
- (b) must take all other actions in the capacity of a registered holder of Reset Preference Share Scheme Shares as Bendigo Bank reasonably directs.

7.4 Stamp duty

Bendigo Bank must pay all stamp duty (if any) payable in connection with the transfer of the Reset Preference Share Scheme Shares under this Reset Preference Share Scheme.

7.5 Effect of Reset Preference Share Scheme

Each Reset Preference Share Scheme Shareholder acknowledges that this Reset Preference Share Scheme binds Adelaide Bank and all of the holders for the time being of Adelaide Bank Reset Preference Shares (including those who do not attend the members' meeting of Adelaide Bank to approve the Reset Preference Share Scheme or vote at that meeting) and, to the extent permitted by law, overrides the constitution of Adelaide Bank.

7.6 Authority to Adelaide Bank and Bendigo Bank

- (a) Each Reset Preference Share Scheme Shareholder consents to Adelaide Bank and Bendigo Bank doing all acts and things as may be necessary or desirable to give full effect to the Reset Preference Share Scheme and the transactions contemplated by it.
- (b) Each Reset Preference Share Scheme Shareholder, without the need for any further act, irrevocably appoints Adelaide Bank and each of its directors and officers (jointly and severally) as its agent and attorney for the purpose of executing any document or doing any other act necessary or expedient to give effect to the terms of this Reset Preference Share Scheme and the transactions contemplated by it including the provision of a proper instrument of transfer in respect of Reset Preference Share Scheme Shares for the purposes of section 1071B of the Corporations Act (which may be a master transfer of all or part of the Reset Preference Share Scheme Shares).

7.7 Enforcement of Deed Poll

- (a) Each Reset Preference Share Scheme Shareholder, without the need for any further act, irrevocably appoints Adelaide Bank and each of its directors and officers (jointly and severally) as its agent and attorney for the purpose of enforcing the Deed Poll against Bendigo Bank.
- (b) Adelaide Bank undertakes in favour of each Reset Preference Share Scheme Shareholder that it will enforce the Deed Poll against Bendigo Bank on behalf of and as agent and attorney for each Reset Preference Share Scheme Shareholder.

7.8 Further assurance

Adelaide Bank will execute all documents and do all acts and things as may be necessary or desirable to give full effect to the Reset Preference Share Scheme and the transactions contemplated by it.

7.9 Amendments to the Reset Preference Share Scheme

If the Court proposes to approve the Reset Preference Share Scheme subject to any alterations or conditions, Adelaide Bank may consent on behalf of all persons concerned, by its counsel, to those alterations or conditions to which Bendigo Bank has consented in writing.

7.10 Definition of 'sending'

For the purpose of clause 5, the word 'send' (or any variant thereof) means:

- (a) sending by ordinary pre-paid post or courier to the Registered Address of the Reset Preference Share Scheme Shareholder; or
- (b) delivering to the address by any other means at no cost to the recipient.

7.11 Notices

If a notice, transfer, transmission application, direction or other communication referred to in this Reset Preference Share Scheme is sent by post to Adelaide Bank, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at the registered office of Adelaide Bank.

7.12 Governing law

- (a) This Reset Preference Share Scheme is governed by the laws of South Australia.
- (b) Each of Adelaide Bank, Bendigo Bank and the holders of Adelaide Bank Reset Preference Shares irrevocably and unconditionally submits, in connection with this Reset Preference Share Scheme, to the non-exclusive jurisdiction of the Court and any courts which have jurisdiction to hear appeals from the Court.

Appendix | 5

Deed Poll

3 October 2007

BY **BENDIGO BANK LIMITED**
ACN 068 049 178
of The Bendigo Centre, Bendigo, Victoria

In favour of: Each **Ordinary Share Scheme Shareholder, Step Up Preference Share Scheme Shareholder** and **Reset Preference Share Scheme Shareholder**

RECITALS

- A** Adelaide Bank has agreed to propose the Schemes.
- B** Bendigo Bank is entering into this Deed Poll to covenant in favour of the Scheme Shareholders to perform the steps attributed to it under the Schemes.

OPERATIVE PART

I Definitions and interpretation

I.1 Definitions

In this deed poll:

- (a) **Ordinary Share Scheme** means the scheme of arrangement between Adelaide Bank and the holders of Adelaide Bank Ordinary Shares set out in Appendix 2 of the Scheme Book;
- (b) **Reset Preference Share Scheme** means the scheme of arrangement between Adelaide Bank and the holders of Adelaide Bank Reset Preference Shares set out in Appendix 4 of the Scheme Book;
- (c) **Schemes** means the Ordinary Share Scheme, Step Up Preference Share Scheme and Reset Preference Share Scheme;
- (d) **Scheme Book** means the information despatched to holders of Adelaide Bank Ordinary Shares, Adelaide Bank Reset Preference Shares and Adelaide Bank Step Up Preference Shares and approved by the Court including explanatory statements prepared by Adelaide Bank in relation to the Schemes issued pursuant to section 412 of the Corporations Act which have been registered by ASIC;
- (e) **Scheme Shareholders** means the Ordinary Share Scheme Shareholders, Step Up Preference Scheme Shareholders and the Reset Preference Share Scheme Shareholders;
- (f) **Step Up Preference Share Scheme** means the scheme of arrangement between Adelaide Bank and the holders of Adelaide Bank Step Up Preference Shares set out in Appendix 3 of the Scheme Book; and
- (g) terms defined in the Schemes have the same meaning when used in this deed poll unless separately defined in this deed poll.

For personal use only

1.2 Interpretation

In this deed poll, unless a contrary intention appears:

- (a) words or expressions importing the singular include the plural and vice versa;
- (b) words or expressions importing a gender include the other gender;
- (c) words or expressions denoting individuals include corporations, firms, unincorporated bodies, government authorities and instrumentalities;
- (d) where a word or expression is defined or given meaning, another grammatical form has a corresponding meaning;
- (e) any heading is for convenience only and does not affect the interpretation of this deed poll;
- (f) a reference to this deed poll or another document includes the document as amended, varied, novated, supplemented or replaced from time to time;
- (g) a reference to a person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (h) a reference to legislation or a provision of legislation includes:
 - (i) all regulations, orders or instruments issued under the legislation or provision; and
 - (ii) any modification, consolidation, amendment, re-enactment, replacement or codification of such legislation or provision;
- (i) any recitals, schedule or annexure form part of this deed poll and have effect as if set out in full in the body of this deed poll;
- (j) a reference to 'dollars' or '\$' is a reference to Australian dollars;
- (k) words or expressions defined in the Corporations Act have the same meaning when used in this deed poll; and
- (l) references to include and including are to be construed without limitation.

2 Nature of Deed Poll

Bendigo Bank acknowledges and agrees that:

- (a) this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not party to it; and
- (b) under the Schemes, each Scheme Shareholder appoints Adelaide Bank as its agent and attorney to enforce this deed poll against Bendigo Bank.

3 Termination

3.1 Termination

The obligations of Bendigo Bank under this deed poll will automatically terminate and the terms of this deed poll will be of no further force or effect if the Merger Implementation Agreement is terminated in accordance with its terms.

3.2 Consequences of termination

If this deed poll is terminated under clause 3.1, then in addition and without prejudice to any other available rights, powers or remedies:

- (a) Bendigo Bank is released from its obligations to further perform this deed poll except those obligations contained in clause 10.1; and
- (b) each Scheme Shareholder retains the rights they have against Bendigo Bank in respect of any breach of this deed poll by Bendigo Bank which occurred before this deed poll is terminated.

4 Obligations to Ordinary Share Scheme Shareholders

4.1 Condition precedent

Bendigo Bank's obligations under this clause 4 are subject to the Ordinary Share Scheme becoming Effective.

4.2 Obligation to provide Ordinary Share Scheme Consideration and other matters

Bendigo Bank undertakes to:

- (a) provide the Ordinary Share Scheme Consideration to each Ordinary Share Scheme Shareholder (other than Ineligible Foreign Ordinary Shareholders); and
- (b) undertake all other actions attributed to it under the Ordinary Share Scheme,

subject to and in accordance with the Ordinary Share Scheme.

4.3 Status of New Bendigo Bank Ordinary Shares

Bendigo Bank undertakes that the New Bendigo Bank Ordinary Shares which are issued to each Ordinary Share Scheme Shareholder in accordance with the Ordinary Share Scheme will:

- (a) be duly and validly issued;
- (b) be fully paid; and
- (c) rank equally in all respects with all other Bendigo Bank Ordinary Shares.

5 Obligations to Step Up Preference Scheme Shareholders

5.1 Condition precedent

Bendigo Bank's obligations under this clause 5 are subject to the Step Up Preference Share Scheme becoming Effective.

5.2 Obligation to provide Step Up Preference Share Scheme Consideration and other matters

Bendigo Bank undertakes to:

- (a) provide the Step Up Preference Share Scheme Consideration to each Step Up Preference Share Scheme Shareholder (other than Ineligible Foreign Step Up Preference Shareholders); and
- (b) undertake all other actions attributed to it under the Step Up Preference Share Scheme,

subject to and in accordance with the Step Up Preference Share Scheme.

5.3 Status of New Bendigo Bank Step Up Preference Shares

Bendigo Bank undertakes that the New Bendigo Bank Step Up Preference Shares which are issued to each Step Up Preference Share Scheme Shareholder in accordance with the Step Up Preference Share Scheme will be duly and validly issued and fully paid.

6 Obligations to Reset Preference Share Scheme Shareholders

6.1 Condition precedent

Bendigo Bank's obligations under this clause 6 are subject to the Reset Preference Share Scheme becoming Effective.

6.2 Obligation to provide Reset Preference Share Scheme Consideration and other matters

Bendigo Bank undertakes to:

- (a) provide the Reset Preference Share Scheme Consideration to each Reset Preference Share Scheme Shareholder (other than Ineligible Foreign Reset Preference Shareholders); and
- (b) undertake all other actions attributed to it under the Reset Preference Share Scheme,

subject to and in accordance with the Reset Preference Share Scheme.

6.3 Status of New Bendigo Bank Reset Preference Shares

Bendigo Bank undertakes that the New Bendigo Bank Reset Preference Shares which are issued to each Reset Preference Share Scheme Shareholder in accordance with the Reset Preference Share Scheme will be duly and validly issued and fully paid.

7 Warranties

Bendigo Bank represents and warrants that:

- (a) it is a corporation validly existing under the laws of Australia;
- (b) it has the corporate power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- (c) it has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance of this deed poll and to carry out the transactions contemplated by this deed poll; and
- (d) this deed poll has been duly and validly executed and is valid and binding upon it and enforceable in accordance with its terms.

8 Continuing obligations

This deed poll is irrevocable and remains in full force and effect until the earlier of:

- (a) Bendigo Bank having fully performed its obligations under this deed poll; or
- (b) the termination of this deed poll under clause 3.

9 Further assurances

Bendigo Bank will do all things and execute all deeds, instruments, transfers or other documents and do all acts or things as may be necessary or desirable to give full effect to the provisions of this deed poll and the transactions contemplated by it.

10 General

10.1 Stamp duty

Bendigo Bank must:

- (a) pay all stamp duty (if any) and related fines and penalties in respect of this deed poll and any instrument made under this deed poll; and
- (b) indemnify each Scheme Shareholder against any liability arising from any failure to comply with clause 10.1(a).

10.2 Notices

- (a) Any notice or other communication to Bendigo Bank in connection with this deed poll must be in legible writing in English, signed by the person making the communication or its agent and must be given to Bendigo Bank either by hand delivery, pre-paid post or facsimile, in each case addressed in the manner relevantly described below:

Address: The Bendigo Centre, Bendigo, VIC 3550

Attention: David Oataway, Company Secretary

Facsimile: +613 5485 7624

- (b) Any notice or other communication given in accordance with clause 10.2(a) shall, in the absence of proof of earlier receipt, be deemed to have been duly given as follows:
 - (i) if delivered by hand, on delivery;
 - (ii) if sent by pre-paid mail, on the third Business Day after posting; and
 - (iii) if sent by facsimile, when despatched.
- (c) Any notice given after 5.00pm in the place to which it is addressed shall be deemed not to have been given until the start of the next business day in such place.

10.3 Cumulative rights

The rights, powers and remedies of Bendigo Bank and the Scheme Shareholders under this deed poll are cumulative with and do not exclude the rights, powers or remedies provided by law independently of this deed poll.

10.4 Waiver and variation

- (a) If a Scheme Shareholder does not exercise a right arising from a breach of this deed poll at any given time, it may, unless it has waived that right in writing, exercise the right at a later point in time.
- (b) A provision of this deed poll may not be varied unless the variation is agreed to by Adelaide Bank in writing in which event Bendigo Bank will enter into a further deed poll in favour of the Scheme Shareholders giving effect to such amendment.

10.5 Governing law and jurisdiction

- (a) The laws of South Australia govern this document.
- (b) Bendigo Bank irrevocably submits, in connection with this deed poll and the Schemes, to the non-exclusive jurisdiction of the Court and any courts which have jurisdiction to hear appeals from the Court.

10.6 Assignment

The rights of a Scheme Shareholder under this deed poll are personal. They cannot be assigned, charged or otherwise dealt with, and no person shall attempt or purport to do so, without the prior written consent of Bendigo Bank.

EXECUTED as a Deed Poll

EXECUTED by **BENDIGO BANK LIMITED** in accordance with section 127 of the Corporations Act by:

Director

Director/Secretary

Name
(BLOCK LETTERS)

Name
(BLOCK LETTERS)

Appendix I 6

Terms of New Bendigo Bank Step Up Preference Shares

1 Description

This document sets out the terms and conditions of BBL's \$100 non-cumulative, redeemable and convertible perpetual step up preference shares (**SPS**).

2 Issuer

Bendigo Bank Limited (ABN 11 068 049 178) (**BBL**).

3 Face Value

Each SPS will be issued as fully paid at a face value of \$100 per SPS (**Face Value**).

4 Maturity

None, the SPS are perpetual.

5 Dividends

5.1 Calculation

The SPS will pay a dividend in arrears on each Dividend Payment Date (each a **Dividend**). The Dividend is calculated as:

$$\text{Dividend} = \frac{\text{Dividend Rate} \times \text{Face Value} \times D}{365}$$

where:

D is the Dividend Period;

Dividend Rate is the rate, expressed as a percentage per annum, calculated as:

$$(\text{Market Rate} + \text{Margin}) \times (1 - T),$$

where:

Market Rate has the meaning given in clause 6;

Margin has the meaning given in clause 7; and

T has the meaning given in clause 5.2.

5.2 Adjusted Dividend

If any Dividend is not franked to 100% under part 3-6 of the Tax Act, the Dividend will be adjusted in accordance with the following formula:

$$\text{Dividend} = \frac{D}{1 - [T \times (1 - f)]}$$

where:

D is the Dividend calculated under clause 5.1;

T is the Australian corporate tax rate applicable to the franking account of BBL from which the Dividend will be franked, expressed as a decimal; and

f is the franking percentage within the meaning of part 3-6 of the Tax Act of the Dividend, expressed as a decimal.

5.3 Non-cumulative

Dividends are non-cumulative. If and to the extent that all or any part of a Dividend is not paid under the provisions of these Terms of Issue, BBL will have no liability to pay, and the Holders will have no right to be paid, any amount in respect of that Dividend.

6 Market Rate

For the first Dividend Payment Date, the Market Rate will be the Bank Bill Rate at or around 10.15am (Sydney time) on the last dividend payment date in respect of the Adelaide SPS prior to the date of allotment.

For each Dividend Payment Date after the first Dividend Payment Date, the Market Rate will be the Bank Bill Rate at or around 10.15am (Sydney time) on the immediately prior Dividend Payment Date, or if that date is not a Business Day, on the next Business Day following that date.

7 Margin

The Margin, expressed as a percentage per annum will:

- for the period up to the Step Up Date, be 1.75% (**Initial Margin**); and
- for the period after the Step Up Date, be the Initial Margin plus 1.00%.

8 Deductions

BBL may deduct from any Dividend payable to a Holder the amount of any withholding or other tax, duty or levy required by law to be deducted in respect of such amount. If any such deduction has been made and the amount of the deduction accounted for by BBL to the relevant revenue authority and the balance of the amount payable has been paid to the Holder concerned, then the full amount payable to such Holder will be taken to have been duly paid and satisfied by BBL. BBL must pay the full amount required to be deducted to the relevant revenue authority within the time allowed for such payment without incurring penalty under the applicable law and must, if required by any Holder, deliver to that Holder the relevant receipt issued by the revenue authority without delay after it is received by BBL.

9 Dividend Payment Date and restrictions payment

9.1 Payment

Dividends will be payable on the SPS quarterly in arrears, with the first such Dividend payment being 10 January 2008 and thereafter on each 10 April, 10 July, 10 October and 10 January (each a **Dividend Payment Date**).

9.2 Restrictions

A Dividend is only payable if:

- (a) the directors, at their discretion, declare that the Dividend is payable;
- (b) unless otherwise approved by APRA, the amount of payments on Tier 1 Securities does not exceed the Distributable Profits on the relevant Dividend Payment Date;
- (c) BBL complies with APRA's then prevailing prudential standards and guidelines relating to the payment of Dividends; and
- (d) APRA has not issued any objection to the Dividend.

9.3 Record Date

A Dividend is only payable to those persons registered as Holders on the Record Date.

10 Dividend restrictions

If BBL fails to pay a Dividend in full within 20 Business Days after the relevant Dividend Payment Date, BBL may not, without approval of a special resolution passed at a separate meeting of Holders:

- (a) declare or pay a dividend or make any distribution on any share capital of BBL over which the SPS rank in priority for participation in profits; or
- (b) declare or pay any dividend or make any distribution on the SPS or on any share capital of BBL which ranks by legal or stated terms equal with the SPS for participation in profits (other than proportionate payment); or
- (c) redeem, reduce, cancel or acquire for any consideration any share capital of BBL (other than the SPS or share capital ranking equally with or in priority to the SPS);

unless:

- (d) BBL has complied with clause 11.1; or
- (e) all SPS have been Exchanged

11 Optional Dividend

11.1 Optional Dividend

The restrictions in clause 10 will no longer apply if:

- (a) four consecutive Dividends payable on the SPS after the Dividend that BBL failed to pay have been paid in full (or an equivalent amount of Dividends if the frequency of payment is other than quarterly); or
- (b) an optional dividend (**Optional Dividend Payment**) has been paid to the Holders equal to the unpaid amount of the four immediately preceding Dividends prior to the date of payment of the Optional Dividend Payment (or equivalent Dividends if the frequency of payment is other than quarterly) and an optional dividend has been paid to the holders of share capital of BBL which ranks equally with the SPS (if any) equal to the unpaid amount (if any) of the four immediately preceding dividends prior to the date of payment of the Optional Dividend Payment (or equivalent dividends if the frequency of payment is other than quarterly).

11.2 Restrictions

Payment of an Optional Dividend Payment is subject to APRA's prior approval and the restrictions set out in clause 9.2.

11.3 Record Date

An Optional Dividend Payment is only payable to those persons registered as Holders on the Record Date.

12 Ranking**12.1 Subordinated**

The SPS are subordinated to all depositors and creditors of BBL without any rights of set off. The SPS do not represent a deposit liability of BBL and are not subject to the depositor protection provisions of Australian banking legislation.

12.2 Dividends

Until conversion, the SPS rank ahead of Ordinary Shares and equal with the BPS and the RPS for payment of Dividends.

12.3 Liquidation preference

In a winding up or liquidation of BBL, the SPS rank subordinate to all creditors (including depositors), senior to holders of Ordinary Shares and at least equal with other preference shares (including the BPS and the RPS) for return of the Face Value and the amount of any Dividend due but unpaid, and otherwise do not participate in a winding up. All preference shares then on issue rank equally amongst themselves.

13 Set Off

No contractual right of set off exists between the SPS and any claims by BBL on the Holders.

14 Other issues**14.1 Right to participate**

Holders do not have a right to participate in issues of securities to, or capital reconstructions affecting, holders of Ordinary Shares.

14.2 Other issues

BBL reserves the right to issue further SPS or other preference shares which rank equally with existing SPS, whether in respect of dividends, return of capital on a winding up or otherwise. Such an issue does not constitute a variation or abrogation of the rights attached to the then existing SPS.

15 Voting

Holders will not be entitled to vote at any general meeting of BBL except that they may vote:

- (a) if at the time of the meeting, a Dividend has been declared but has not been paid in full by the relevant Dividend Payment Date;
- (b) on a proposal:
 - (i) to reduce BBL's share capital;
 - (ii) that affects rights attached to the SPS;
 - (iii) to wind up BBL; or
 - (iv) for the disposal of the whole of BBL's property, business and undertaking;
- (c) on a resolution to approve the terms of a buy back agreement;
- (d) during the winding up of BBL; and
- (e) in any other circumstances in which the Listing Rules require holders of preference shares to be entitled to vote,

in which case Holders will have the same rights as to manner of attendance and to voting as a holder of Ordinary Shares with one vote per SPS

16 Exchange by BBL**16.1 Exchange by BBL**

Subject to clause 16.2, BBL has the right to Exchange some or all of the SPS on the Step Up Date or any subsequent Dividend Payment Date by delivering to a Holder an Exchange Notice within the Notice Period specifying which of the following actions it intends to undertake (singularly or in combination):

- (a) Exchange the Holder's SPS for cash consideration (subject to APRA approval) equal to the Exchange Consideration; or
- (b) Exchange the Holder's SPS for the Exchange Number of Ordinary Shares.

16.2 Exchange of some but not all SPS

- (a) Any Exchange by BBL of some but not all of the SPS is subject to there being a minimum of 250,000 SPS remaining on issue following the Exchange.

- (b) If BBL Exchanges some but not all of the SPS under clause 16.1, BBL must endeavour to treat Holders on an approximately proportionate basis. BBL may discriminate to take account of logistical considerations such as marketable parcels, if necessary

17 Exchange Notice

17.1 Irrevocable

An Exchange Notice given by BBL under clause 16.1 or clause 18 is irrevocable.

17.2 Content

If BBL serves an Exchange Notice on Holders, BBL must include in that notice which, or which combination, of the Exchange options it intends to do in respect of the SPS which are the subject of the notice and otherwise may include such information as BBL considers necessary to effect the Exchange in an orderly manner.

18 BBL Exchange – Special Events

18.1 Exchange (Special Event) by BBL

- (a) On the occurrence of a Tax Event or a Regulatory Event, BBL has the right to Exchange all (but not some) of the SPS on any subsequent Dividend Payment Date.
- (b) On the occurrence of an Acquisition Event, BBL has the right to Exchange all (but not some) of the SPS on a date to be specified by BBL (which date must not be less than 20 Business Days, and not more than three months, after the date of delivery of the relevant Exchange Notice).

18.2 Exchange of all SPS

If BBL elects to Exchange all of the SPS, BBL in its absolute discretion must determine and notify Holders by delivering to Holders an Exchange Notice within the Notice Period which of the following actions it will undertake (singularly or in combination):

- (a) Exchange the Holder's SPS for cash consideration (subject to APRA approval) equal to the Exchange Consideration; or
- (b) Exchange the Holder's SPS for the Exchange Number of Ordinary Shares.

19 Holder obligations

If required by BBL, where BBL has exercised its right to Exchange the Holder's SPS for cash consideration (subject to APRA approval) equal to the Exchange Consideration under these Terms of Issue, the Holder must:

- (a) vote in favour (subject to compliance with the law and to the extent the Holder is entitled to do so) or otherwise abstain from any required resolution;
- (b) provide all documentation and execute any authorisation or power necessary; and
- (c) take all other action necessary or desirable, to effect the Exchange of those SPS.

20 Volume Weighted Average Price

20.1 Calculation

The VWAP is 97.5% of the average of the daily volume weighted average sale price of Ordinary Shares over the 20 Trading Day period (the **Reference Period**) of those shares prior to the relevant date for Exchange.

20.2 Fractions

Where the total number of Ordinary Shares to be allotted to a Holder in respect of the total number of SPS being Exchanged at that time includes a fraction, that fraction will be disregarded except where the total number is less than one, in which event the total number will be deemed to equal one.

20.3 Adjustment

For the purposes of calculating VWAP, if during the Reference Period (or any part of the Reference Period) the Ordinary Shares have been quoted on ASX:

- (a) cum dividend or cum entitlement, and the Ordinary Shares to be issued to Holders will not carry that dividend or entitlement, then the VWAP on the days the Ordinary Shares have been quoted cum dividend or cum entitlement will be reduced by an amount equal to:
- (i) the cash amount of the dividend (not including any amount for attached franking); or
- (ii) the cash amount or the value of the other entitlement.

(b) ex dividend or ex entitlement, and the Ordinary Shares to be issued to Holders will be entitled to receive the relevant dividend or entitlement, then the VWAP on the days the Ordinary Shares have been quoted ex dividend or ex entitlement will be increased by an amount equal to:

- (i) the cash amount of the dividend (not including any amount for attached franking); or
- (ii) the cash amount or the value of the other entitlement.

Appropriate adjustments will be made by the Directors for any capital reconstruction during this period.

21 Notice and meetings

Holders of SPS will be entitled to:

- (a) receive notice of and attend (but not vote, except in accordance with clause 15) at any general meeting of BBL;
- (b) receive all reports and audited accounts of BBL which are sent by BBL to holders of Ordinary Shares.

Failure by BBL to give a Holder any notice, report or other document to which that Holder is entitled under this paragraph will not affect the validity of any meeting (or any proceedings at any meeting), transaction or document which relates to the document which was not received by the Holder.

22 Quotation

BBL must use all reasonable endeavours and furnish all documents, information and undertakings as may be reasonably necessary in order to procure, at its own expense, quotation of the SPS on ASX and of all Ordinary Shares issued on any Exchange of the SPS into Ordinary Shares on each of the stock exchanges on which the other Ordinary Shares of BBL are quoted on the date of Exchange.

23 Amendments to the Terms of Issue

Subject to complying with all applicable laws and with APRA's prior approval, BBL may without the authority, assent or approval of Holders amend or add to these Terms of Issue if such amendment or addition is, in the opinion of BBL:

- (a) of a formal, minor or technical nature;
- (b) made to correct a manifest error;
- (c) made to comply with any law, ASX Listing Rules or the listing or quotation requirements of any stock exchange on which BBL proposes from time to time to seek quotation of its securities;
- (d) convenient for the purpose of obtaining or maintaining the quotation of the SPS; or
- (e) not likely (taken as a whole and in conjunction with all other modifications, if any, to be made contemporaneously with that modification) to be materially prejudicial to the interests of the Holders of the SPS.

24 Interpretation

24.1 Definitions

In these Terms of Issue, the following expressions have the following meanings:

Acquisition Event occurs when:

- (a) a takeover bid is made to acquire all or some Ordinary Shares, the offers under the bid are, or become, unconditional and either:
 - (i) the bidder has a relevant interest in more than 50% of the Ordinary Shares on issue; or
 - (ii) the directors issue a statement recommending acceptance of the offers under the bid; or
- (b) the directors issue a statement recommending a scheme of arrangement which, when implemented, will result in a person having a relevant interest in more than 50% of the Ordinary Shares on issue.

Adelaide Bank means Adelaide Bank Limited (ABN 54 061 461 550).

Adelaide RPS means the non-cumulative, perpetual reset preference shares issued by Adelaide Bank pursuant to the prospectus dated 25 October 2002.

Adelaide SPS means the non-cumulative, redeemable and convertible preference shares issued by Adelaide Bank pursuant to a prospectus dated 26 August 2004.

Adelaide SPS Scheme means the scheme of arrangement between Adelaide Bank and holders of Adelaide SPS.

APRA means the Australian Prudential Regulatory Authority (ABN 79 635 582 658) or any authority succeeding to its powers and functions.

ASX means ASX Limited (ABN 98 008 624 691).

ASX Listing Rules means the listing rules of ASX from time to time with any modification or waivers in their application to BBL which ASX may grant.

BBL means Bendigo Bank Limited (ABN 11 068 049 178).

Bank Bill Rate means the rate, expressed as a percentage per annum, calculated as the average mid rate for bills of a term of 90 days which average rate is displayed on the Reuters page designated BBSW (or any page which replaces that page), or if there is a manifest error in the calculation of that average rate or that average rate is not displayed on the relevant date, the nearest possible equivalent rate specified in good faith by BBL.

BPS means the perpetual, non-cumulative, redeemable and convertible preference shares issued by BBL pursuant to a prospectus dated 16 March 2005.

Business Day has the meaning given in the listing rules of ASX.

Directors means some or all of the directors of BBL.

Distributable Profits means the profits after tax of the Group (on a consolidated basis) for the immediately preceding Reporting Year, less the aggregate amount of dividends paid or liable to be paid by any member of the Group (other than intra Group payments) on Tier 1 Securities in the 12 month period up to and including the payment date for the Dividend.

Dividend has the meaning given in clause 5.

Dividend Payment Date has the meaning given in clause 9.1.

Dividend Period is:

- (a) in relation to the Dividend payable on the first Dividend Payment Date – the number of days from (and including) the last dividend payment in respect of the Adelaide SPS prior to implementation of the Adelaide SPS Scheme until (but not including) the first Dividend Payment Date; and
- (b) in relation to each subsequent Dividend – the number of days from (and including) the preceding Dividend Payment Date until (but not including) the relevant Dividend Payment Date.

Dividend Rate has the meaning given in clause 5.1.

Exchange has the meaning given in clause 16.

Exchange Consideration means the product of the Face Value and the number of SPS held by the Holder that are to be Exchanged.

Exchange Notice has the meaning given in clause 17.

Exchange Number is the number of Ordinary Shares to be Exchanged for a Holder's SPS and is calculated by dividing the Exchange Consideration by the VWAP.

Face Value has the meaning given in clause 3.

Group means BBL and its controlled entities.

Holders means the persons whose names are for the time being registered in the register of SPS as a holder of SPS.

Initial Margin has the meaning given in clause 7(a).

Margin has the meaning given in clause 7.

Market Rate has the meaning given in clause 6.

Notice Period means not less than 20 Business Days (but not more than three months) prior to the Step Up Date or the relevant Dividend Payment Date (as applicable) and, in the case of an Acquisition Event, means the six month period after that Acquisition Event.

Optional Dividend Payment has the meaning given in clause 11.1(b).

Ordinary Share means an ordinary fully paid share in the capital of BBL.

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Qualifying Tier I Capital means an instrument that satisfies APRA's requirements for inclusion in the Tier I Capital of an Australian deposit-taking institution (irrespective of whether it is actually included in the calculation of the aggregate Tier I Capital of an Australian deposit-taking institution).

Record Date means:

- (a) in relation to a Dividend, the date that is 11 Business Days before the Dividend Payment Date for that Dividend; and
- (b) in relation to an Optional Dividend Payment, the date prior to its payment that is determined by BBL, or such other date as may be required by ASX from time to time.

Reference Period has the meaning given in clause 20.1.

Regulatory Event means:

- (a) the receipt by BBL of advice from reputable legal counsel that as a result of any amendment to, clarification of, or change (including any announcement of a prospective change) in any law or regulation affecting securities laws in Australia, or any official administrative pronouncement or action or judicial decision interpreting or applying such laws or regulations which amendment, clarification or change is effective or pronouncement, action or decision if announced on or after the date of issue of the SPS additional requirements would be imposed on BBL which the Directors determine, at their sole discretion, to be unacceptable; or
- (b) the determination by the Directors that there is a risk that the SPS will not be, or will no longer be, Qualifying Tier I Capital.

Reporting Year means each 12 month period ending 30 June, or such other period as approved by APRA in circumstances where BBL has changed its reporting period for its financial results.

RPS means the non-cumulative, perpetual reset preference shares issued by BBL to holders of Adelaide RPS pursuant to a scheme of arrangement between Adelaide Bank and holders of Adelaide RPS.

SPS has the meaning given in clause 1.

Step Up Date means 10 October 2014.

Tax Act means the *Income Tax Assessment Act 1936* (Cth) or the *Income Tax Assessment Act 1997* (Cth), and any other Act setting the rate of income tax payable and any regulation promulgated thereunder.

Tax Event means the receipt by BBL of advice from a reputable legal counsel or other tax adviser in Australia that as a result of any amendment to, clarification of, or change in Australian tax law (including laws, treaties, judicial decisions and administrative actions) that results in there being more than an insubstantial risk that:

- (a) BBL would be exposed to a more than de minimus increase in the costs of servicing the obligations on the SPS (as a result of increased taxes, duties or other governmental charges or civil liabilities) that BBL deems to be unacceptable; or
- (b) the SPS will not be treated as equity interests for taxation purposes or imputation benefits will be denied to Holders or franking debits will be posted to BBL's franking account as a result of the SPS being on issue or the Ordinary Shares being on issue following any conversion of SPS into Ordinary Shares.

Terms of Issue means the terms of issue of the SPS as set out in this document.

Tier I Capital means the core capital of BBL as defined by APRA.

Tier I Securities means the SPS, the BPS, the Ordinary Shares and any other security issued by BBL which constitutes Tier I Capital.

Trading Day has the meaning given in the listing rules of ASX.

VWAP has the meaning given in clause 20.

24.2 Exchange

In these Terms of Issue:

- (a) a reference to 'Exchange the Holder's SPS for cash consideration (subject to APRA approval) equal to the Exchange Consideration' is a reference to the redemption, buy back or cancellation of the SPS as determined by the directors and approved by APRA;

- (b) a reference to 'Exchange the Holder's SPS for the Exchange Number of Ordinary Shares' is a reference to the conversion of the Holder's SPS into the Exchange Number of Ordinary Shares. If BBL elects to convert the SPS into Ordinary Shares then each SPS which is the subject of the Exchange Notice will convert on the date specified in the Exchange Notice into one Ordinary Share and upon conversion, each Holder will be allotted such number of additional Ordinary Shares as is required so that the Holder receives the Exchange Number of Ordinary Shares. Exchange of the Holder's SPS into Ordinary Shares in this manner does not constitute cancellation, redemption or termination of any SPS or an issue, allotment or creation of new shares (other than additional Ordinary Shares issued to make up the Exchange Number); and
- (c) a reference to 'Exchanged' or 'Exchange' is a reference to the SPS being converted, redeemed, bought back or cancelled as determined by the directors.
- 24.3 Restriction on conversion**
- Notwithstanding any other provision of these Terms of Issue, if the conversion of SPS into Ordinary Shares for a particular Holder would result in that Holder breaching any provision of the constitution of BBL or any applicable law, the Directors have the discretion not to convert that Holder's SPS into Ordinary Shares and instead to redeem, buy back or cancel that Holder's SPS as contemplated by these Terms of Issue (whether or not the specific event would otherwise permit such action under these Terms of Issue). Before taking such action, the Directors will take reasonable steps to determine which is preferred by the particular Holder.
- 24.4 Interpretation**
- Unless the context otherwise requires or unless otherwise specified:
- (a) if there is any inconsistency between the provisions of these Terms of Issue and the constitution of BBL then, to the maximum extent permitted by law, the provisions of these Terms of Issue will prevail;
- (b) the Directors may exercise all powers of BBL under these Terms of Issue as are not, by the *Corporations Act 2001* (Cth) or by BBL's constitution, required to be exercised by the company in general meeting;
- (c) notices may be given by BBL to a Holder in the manner prescribed by BBL's constitution for the giving of notices to members of BBL and the relevant provisions of BBL's constitution apply with all necessary modification to notices to Holders;
- (d) a reference to a clause is a reference to a clause of these Terms of Issue;
- (e) if a calculation is required under these Terms of Issue, unless the contrary intention is expressed, the calculation will be rounded to two decimal places. For the purposes of making payment to any person, any fraction of a cent will be disregarded;
- (f) definitions and interpretation under BBL's constitution will also apply to these Terms of Issue subject to clause 24.4(a);
- (g) any provisions which refer to the requirements of APRA or any other prudential regulatory requirements will apply to BBL only if BBL is an entity or the holding company of an entity subject to regulation and supervision by APRA at the relevant time;
- (h) a reference to, or to any part or provision of, a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (i) if an event under these terms must occur on a stipulated day which is not a Business Day, then the stipulated day will be taken to be the next Business Day; and
- (j) the terms 'takeover bid', 'relevant interest' and 'arrangement' when used in these Terms of Issue have the meaning given in the *Corporations Act 2001* (Cth).

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Appendix I 7

Terms of New Bendigo Bank Reset Preference Shares

1 Description

This document sets out the terms and conditions of \$100 perpetual reset preference shares, paying fixed non-cumulative dividends with certain terms periodically reset to be issued by BBL. The first reset will be on 1 November 2012. Holders will have an option on each reset date to request that the RPS be Exchanged for Ordinary Shares of BBL of approximately equal value to the original Face Value of the preference shares (the RPS).

2 Issuer

Bendigo Bank Limited (ABN 11 068 049 178).

3 Face Value

Each RPS will be issued as fully paid at a face value of \$100 per RPS (**Face Value**).

4 Maturity

None, the RPS are perpetual.

5 Dividends

5.1 Calculation

The RPS will pay a fixed dividend on each Dividend Payment Date (each a **Dividend**). The Dividend is calculated as:

$$\text{Dividend} = \frac{\text{Dividend Rate} \times \text{Face Value} \times D}{365}$$

where:

D is:

- (a) in relation to the Dividend payable on the first Dividend Payment Date – the number of days from (and including) the last dividend payment in respect of the Adelaide RPS prior to implementation of the Adelaide RPS Scheme until (but not including) the first Dividend Payment Date; and
- (b) in relation to each subsequent Dividend – the number of days from (and including) the preceding Dividend Payment Date until (but not including) the relevant Dividend Payment Date;

Dividend Rate is:

- (a) for the period to the first Reset Date, the amount calculated as $(\text{Market Rate} + \text{Margin}) \times (1 - T_i)$; and
- (b) for the periods between succeeding Reset Dates, as reset by BBL in accordance with clause 8;

Market Rate has the meaning given in clause 6;

Margin has the meaning given in clause 7; and

T_i has the meaning given in clause 5.2.

5.2 Gross up

If any Dividend is not franked to 100% under part 3-6 of the Tax Act (or any provisions that revise or replace that part), the Dividend will be adjusted in accordance with the following formula:

$$\text{Dividend} = \frac{D}{1 - [T_i \times (1 - f)]}$$

where:

D is the Dividend calculated under clause 5.1;

T_i is the Australian corporate tax rate applicable to the franking account of BBL from which the Dividend will be franked, expressed as a decimal; and

f is the franking percentage (within the meaning of part 3-6 of the Tax Act or any part that replaces or revises that part) of the Dividend, expressed as a decimal.

5.3 Non-cumulative

Dividends are non-cumulative. If and to the extent that all or any part of a Dividend is not paid because of the provisions of these Terms of Issue, BBL will have no liability to pay, and the Holders will have no right to be paid, any amount in respect of that Dividend.

6 Market Rate

The initial Market Rate will be the rate, expressed as a percentage per annum, quoted as the 10.00am mid swap reference rate for the period between 2 November 2007 and 31 October 2012 (being the five year mid swap reference rate) from the Australian Financial Markets Association (**AFMA**) rate set page as displayed at or around 10.15am (Sydney time) on Reuters Monitor System page SWAPREF on 1 November 2007. On Reset Dates, the Market Rate will be the rate as reset under clause 8.

7 Margin

The **Margin**, expressed as a percentage per annum will:

- (a) for the period to the first Reset Date, be 1.60% (**Initial Margin**); and
- (b) for periods between succeeding Reset Dates, be as reset by BBL in accordance with clause 8.

8 Reset feature

8.1 Right to 'Reset'

BBL will have the ability to 'Reset' certain terms of the RPS on specific future dates (each a **Reset Date**). The first Reset Date will be on 1 November 2012. BBL will offer new terms within the Notice Period in a Dividend Reset Notice, specifying:

- (a) the timing of the next Reset Date (which must be a Dividend Payment Date);
- (b) the Dividend Rate to apply to the period commencing on the Reset Date until the next Reset Date; and
- (c) the frequency of Dividend Payment Dates (including appropriate adjustments to the calculations of Dividends and the next Dividend Payment Date).

8.2 APRA restrictions on variation of terms

The variation of terms on Reset Dates will be subject to the following restrictions (unless otherwise agreed by APRA):

- (a) the next Reset Date must be five years from the immediately preceding Reset Date;
- (b) the Dividend Rate will be calculated as $(\text{Market Rate} + \text{Margin}) \times (1 - T_i)$;
- (c) the Market Rate will be the rate, expressed as a percentage per annum, quoted as the 10.00am mid swap reference rate for the period between the relevant Reset Dates from the AFMA rate set page displayed at or around 10.15am (Sydney time) on Reuters Monitor System page SWAPREF (or any page which replaces that page) on the relevant Reset Date;

- (d) the Margin may be increased on any Reset Date provided that it does not exceed the lesser of:

- (i) the Margin that applied on the previous Reset Date plus 100 basis points;
- (ii) 3.75%; and
- (iii) the Initial Margin $\times \frac{(\text{FR} - \text{FRG})}{(\text{FI} - \text{FIG})}$

where:

- FR is the fair market value yield curve on Bloomberg Page FMCS for BBB rated five year AUD securities (or any page which replaces that page) on the relevant Reset Notice Date;
- FI is the fair market value yield curve on Bloomberg Page FMCS for BBB rated five year AUD securities (or any page which replaces that page) on the issue date of the RPS;
- FRG is the fair market value yield curve on Bloomberg Page FMCS for Australian government five year AUD securities (or any page which replaces that page) on the relevant Reset Notice Date; and
- FIG is the fair market value yield curve on Bloomberg Page FMCS for Australian government five year AUD securities (or any page which replaces that page) on the issue date of the RPS;

- (e) the Margin may be decreased without limitation on any Reset Date; and
- (f) BBL may not change the Margin on a Reset Date if the credit rating of BBL as determined by a majority of rating agencies (or if only one rating agency has rated BBL, that rating agency) (as agreed with APRA or any other similar credit test approved by APRA) has declined since the immediately preceding Reset Date.

As stated above, APRA may from time to time waive any or all of the restrictions in this clause 8, in which event BBL may vary the terms as contemplated under clause 8.1.

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9 Deductions

BBL may deduct from any Dividend payable to a Holder the amount of any withholding or other tax, duty or levy required by law to be deducted in respect of such amount. If any such deduction has been made and the amount of the deduction accounted for by BBL to the relevant revenue authority and the balance of the amount payable has been paid to the Holder concerned, then the full amount payable to such Holder will be taken to have been duly paid and satisfied by BBL. BBL must pay the full amount required to be deducted to the relevant revenue authority within the time allowed for such payment without incurring penalty under the applicable law and must, if required by any Holder, deliver to that Holder the relevant receipt issued by the revenue authority without delay after it is received by BBL.

10 Dividend Payment Date and restrictions

10.1 Payment

Dividends will be payable on the RPS in arrears on each Dividend Payment Date, with the first Dividend Payment Date being on 1 May 2008 and thereafter on each 1 November and 1 May until the RPS are Exchanged or except to the extent varied under clause 8.

10.2 Restrictions

A Dividend is only payable if:

- (a) the directors, at their discretion, determine that the dividend is payable;
- (b) unless otherwise approved by APRA, the amount of payments on Tier 1 Securities does not exceed the Distributable Profits on the relevant Dividend Payment Date;
- (c) BBL complies with APRA's then prevailing prudential standards and guidelines; and
- (d) APRA has not issued any objection to the Dividend payment or stated that if the proposed payment is made the RPS will cease to be treated as Tier 1 Capital.

10.3 Record Date

A Dividend is only payable to those persons registered as Holders on the date which is 11 Business Days before the Dividend Payment Date for that Dividend (**Record Date**).

11 Ordinary Dividend restrictions

If BBL fails to pay a Dividend in full within 20 Business Days after the relevant Dividend Payment Date, BBL may not, without approval of a special resolution passed at a separate meeting of Holders, make any payments, or return capital, on any Tier 1 Securities subordinated to the RPS until:

- (a) BBL has complied with clause 12.1; or
- (b) all RPS have been Exchanged.

12 Optional Dividend

12.1 Optional Dividend

The restrictions in clause 11 will no longer apply if:

- (a) two consecutive Dividends stated to be payable on the RPS thereafter have been paid in full (or an equivalent amount of Dividends if the frequency of payment is other than semi annual); or
- (b) an optional dividend (**Optional Dividend Payment**) has been paid to the Holders equal to the unpaid amount (if any) of the two immediately preceding Dividends prior to the date of payment of the Optional Dividend Payment (or equivalent Dividends if the frequency of payment is other than semi annual) and an optional dividend has been paid to the holders of share capital of BBL which ranks equally with the RPS (if any) equal to the unpaid amount (if any) of the two immediately preceding dividends prior to the date of payment of the Optional Dividend Payment (or equivalent dividends if the frequency of payment is other than semi-annual).

12.2 Restrictions

Payment of an Optional Dividend Payment is subject to the restrictions set out in clause 10.2.

12.3 Record Date

An Optional Dividend Payment is only payable to those persons registered as Holders on the date (**Record Date**) prior to its payment that is determined by BBL from time to time or such other date as may be required by ASX from time to time.

13 Ranking**13.1 Subordinated**

The RPS are subordinated to all depositors and creditors of BBL without any rights of set off. RPS do not represent a deposit liability of BBL.

13.2 Dividends

Until conversion, the RPS rank ahead of Ordinary Shares and equal with the SPS and BPS for payment of Dividends.

13.3 Liquidation preference

In a winding up or liquidation of BBL, the RPS rank subordinate to all creditors including depositors, senior to holders of Ordinary Shares and at least equal with other preference shares (including the SPS and BPS) for return of the Face Value and the amount of any Dividend due but unpaid, and otherwise do not participate in a winding up. All preference shares then on issue rank equally amongst themselves.

14 Set off

No contractual right of set off exists between the RPS and any claims by BBL on the Holders.

15 Other issues**15.1 Right to participate**

Holders do not have a right to participate in issues of securities to, or capital reconstructions affecting, holders of Ordinary Shares.

15.2 Other issues

BBL reserves the right to issue further RPS or preference shares which rank equally with existing RPS, whether in respect of dividends, return of capital on a winding up or otherwise. Such an issue does not constitute a variation or abrogation of the rights attached to the then existing RPS.

16 Voting

Holders will not be entitled to vote at any general meeting of BBL except that they may vote:

- (a) if at the time of the meeting, a Dividend has been declared but has not been paid in full by the relevant Dividend Payment Date;
- (b) on a proposal:
 - (i) to reduce BBL's share capital;
 - (ii) that affects rights attached to the RPS;
 - (iii) to wind up BBL; or
 - (iv) for the disposal of the whole of BBL's property, business and undertaking;
- (c) on a resolution to approve the terms of a buy back agreement;
- (d) during the winding up of BBL; and
- (e) in any other circumstances in which the Listing Rules require holders of preference shares to be entitled to vote,

in which case Holders will have the same rights as to manner of attendance and to voting as a holder of Ordinary Shares with one vote per RPS.

17 Exchange prior to a Reset Date**17.1 BBL Exchange**

BBL has the right to Exchange some or all of the RPS on the Reset Date by delivering to a Holder an Exchange Notice within the Notice Period specifying which of the following actions to undertake (singularly or in combination):

- (a) Exchange the Holder's RPS for cash consideration (subject to APRA approval) equal to the Exchange Consideration; or
- (b) Exchange the Holder's RPS for the Exchange Number of Ordinary Shares.

17.2 Holder Exchange

Prior to a Reset Date, Holders may request an Exchange of some or all of their RPS within the Notice Period by delivering an Exchange Notice to BBL.

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18 Exchange Notice

An Exchange Notice is an irrevocable notice in a form acceptable to the directors given by either:

- (a) a Holder to BBL requesting the Exchange of their RPS for Ordinary Shares;
- (b) BBL to a Holder stating that BBL intends to Exchange some or all of the Holder's RPS in the manner specified in the notice.

Once a Holder has given an Exchange Notice, that Holder must not deal with, transfer, dispose of or otherwise encumber the RPS the subject of the Exchange Notice.

19 BBL Exchange options

On the receipt of an Exchange Notice from a Holder, BBL in its absolute discretion must determine and notify Holders within the Notice Period which of the following actions it will undertake (singularly or in combination):

- (a) Exchange the Holder's RPS for cash consideration (subject to APRA approval) equal to the Exchange Consideration; or
- (b) Exchange the Holder's RPS for the Exchange Number of Ordinary Shares; or
- (c) arrange for the Holder's RPS to be each acquired at the Face Value by a third party and that the proceeds are delivered to the Holder.

20 BBL Exchange – Special Events

On the occurrence of a Tax Event or a Regulatory Event, BBL has the right to Exchange some or all of the RPS on the next Dividend Payment Date. BBL in its absolute discretion must determine and notify Holders within the Notice Period which of the following actions it will undertake (singularly or in combination):

- (a) Exchange the Holder's RPS for cash consideration (subject to APRA approval) equal to the Exchange Consideration; or
- (b) Exchange the Holder's RPS for the Exchange Number of Ordinary Shares.

21 Exchange – Control Event**21.1 Holder Exchange – Control Event**

On the occurrence of a Control Event, Holders have the right to request Exchange of some or all of the Holder's RPS by delivering an Exchange Notice within the Notice Period to BBL to Exchange some or all of their RPS 35 Business Days after the date of despatch of the notification to Holders of the occurrence of a Control Event. Where a Holder requests an Exchange, BBL in its absolute discretion must determine and notify Holders promptly which of the following actions it will undertake (singularly or in combination):

- (a) Exchange the Holder's RPS for cash consideration (subject to APRA approval) equal to the Exchange Consideration; or
- (b) Exchange the Holder's RPS for the Exchange Number of Ordinary Shares.

21.2 BBL Exchange – Control Event

Following notification to Holders of the occurrence of the Control Event, BBL has the right to Exchange some or all of the Holder's RPS 35 Business Days after the date of despatch of a notice to Holders under this clause 21.2. BBL in its absolute discretion must determine and notify Holders within the Notice Period specifying which of the following actions it will undertake (singularly or in combination):

- (a) Exchange the Holder's RPS for cash consideration (subject to APRA approval) equal to the Exchange Consideration; or
- (b) Exchange the Holder's RPS for the Exchange Number of Ordinary Shares.

22 Notice Period

The Notice Period is:

- (a) in respect of a Dividend Reset Notice given under clause 8.1 or an Exchange Notice given under clause 17.1 (BBL Exchange), at least 50 Business Days prior to the Reset Date;
- (b) in respect of an Exchange Notice given under clause 17.2 (Holder Exchange), at least 35 Business Days prior to the Reset Date;
- (c) in respect of BBL Exchange Options (clause 19), at least 20 Business Days prior to the Reset Date;

- (d) in respect of an BBL Exchange – Special Event (clause 20) at least 20 Business Days prior to the next Dividend Payment Date;
- (e) in respect of a notice given under clause 21.1 (Holder Exchange – Control Event), the 20 Business Days following the despatch of the notification to Holders of the Control Event; and
- (f) in respect of a notice given under clause 21.2 (BBL Exchange – Control Event), the 10 Business Days following the expiry of the period referred to in clause 22(e).

23 Volume Weighted Average Price

23.1 Calculation

The **VWAP** is:

- (a) if the Exchange has been triggered by the issue of an Exchange Notice issued by a Holder under clause 17.2, the average of the daily volume weighted average sale price of Ordinary Shares over the 20 Trading Day period of those shares prior to the relevant date for Exchange; and
- (b) in all other cases, 97.5% of the average of the daily volume weighted average sale price of Ordinary Shares over the 20 Trading Day period of those shares prior to the relevant date for Exchange.

23.2 Fractions

Where the total number of Ordinary Shares to be allotted to a Holder in respect of the total number of RPS being Exchanged at that time includes a fraction, that fraction will be disregarded except where the total number is less than one, in which event the total number will be deemed to equal one.

23.3 Adjustment

If the Ordinary Shares have been quoted cum dividend or cum entitlement during that period, and the Ordinary Shares to be issued to Holders will not carry that entitlement, then the VWAP on the days the Ordinary Shares have been quoted cum dividend or cum entitlement will be reduced by an amount equal to:

- (a) the cash amount of the dividend (not including any amount for attached franking); or
- (b) the cash amount or the value of the other entitlement.

Appropriate adjustments will be made by the directors for any capital reconstruction during this period.

24 Accrued Dividend Amount

The Accrued Dividend Amount is only payable, subject to APRA approval, where a Holder has elected to Exchange their RPS after the occurrence of a Control Event.

The **Accrued Dividend Amount** is the Dividend payable on the next Dividend Payment Date multiplied by the number of days from (but not including) the last Dividend Payment Date until the date on which the RPS will be Exchanged, divided by the number of days between the relevant Dividend Payment Dates.

25 Control Event

25.1 50% offer or scheme

Subject to clause 25.2, a **Control Event** occurs when:

- (a) there is an unconditional takeover offer for more than 50% of the Ordinary Shares and:
 - (i) the offeror becomes entitled to more than 50% of the voting power; and
 - (ii) the board of BBL recommends acceptance; or
- (b) a scheme of arrangement is approved which when implemented the purchaser will have more than 50% of the voting power of the Ordinary Shares.

25.2 Concurrent offer or scheme involving RPS

The board of BBL may in its absolute discretion deem an event of the type set out in clause 24.1 not to be a Control Event where a concurrent or simultaneous unconditional takeover offer or scheme of arrangement is made or proposed that effectively includes all of the RPS on issue at the relevant time and under which Holders would receive consideration for their RPS at least equal to the Exchange Amount referred to in paragraph (d) of the definition of Exchange Amount.

26 Notice and meetings

Holders of RPS will be entitled to:

- (a) receive notice of and attend (but not vote, except in accordance with clause 16) at any general meeting of BBL;
- (b) receive all reports and audited accounts of BBL which are sent by BBL to holders of Ordinary Shares.

Failure by BBL to give a Holder any notice, report or other document to which that Holder is entitled under this paragraph will not affect the validity of any meeting (or any proceedings at any meeting), transaction or document which relates to the document which was not received by the Holder.

27 Quotation

BBL must use all reasonable endeavours and furnish all documents, information and undertakings as may be reasonably necessary in order to procure, at its own expense, quotation of the RPS on ASX and of all Ordinary Shares issued on any Exchange of the RPS into Ordinary Shares on each of the stock exchanges on which the other Ordinary Shares of BBL are quoted on the date of Exchange.

28 Amendments to the Terms of Issue

Subject to complying with all applicable laws and with APRA's prior approval, BBL may without the authority, assent or approval of Holders amend or add to these terms of issue if such amendment or addition is, in the opinion of BBL:

- (a) of a formal, minor or technical nature;
- (b) made to correct a manifest error; or
- (c) not likely (taken as a whole and in conjunction with all other modifications, if any, to be made contemporaneously with that modification) to be materially prejudicial to the interests of the Holders of the RPS.

29 Interpretation

29.1 Definitions

In these Terms of Issue, the following expressions have the following meanings:

Accrued Dividend Amount has the meaning given in clause 24.

Adelaide Bank means Adelaide Bank Limited (ABN 54 061 461 550).

Adelaide RPS means the non-cumulative, perpetual reset preference shares issued by Adelaide Bank pursuant to the prospectus dated 25 October 2002.

Adelaide RPS Scheme means the scheme of arrangement between Adelaide Bank and holders of Adelaide RPS.

Adelaide SPS means the non-cumulative, redeemable and convertible step up preference shares issued by Adelaide Bank pursuant to the prospectus dated 26 August 2004.

AFMA has the meaning given in clause 6.

APRA means the Australian Prudential Regulatory Authority (ABN 79 635 582 658).

ASX means ASX Limited (ABN 98 008 624 691).

BBL means Bendigo Bank Limited (ABN 11 068 049 178).

BPS means the perpetual, non-cumulative, redeemable and convertible preference shares issued by BBL pursuant to the prospectus dated 16 March 2005.

Business Day has the meaning given in the listing rules of ASX.

Control Event has the meaning given in clause 25.

Distributable Profits means the operating profits after income tax of BBL for the immediately preceding year, less dividends, distributions or coupons already paid on any Tier 1 Securities during the current year.

Dividend has the meaning given in clause 5.

Dividend Payment Date has the meaning given in clause 10.1.

Dividend Rate has the meaning given in clause 5.1.

Dividend Reset Notice means a notice given by BBL under clause 8.1.

Exchange Amount means:

- (a) in the case of Exchange under clause 17, the Face Value;
- (b) in the case of Exchange under clause 19, the Face Value;
- (c) in the case of Exchange under clause 20, the Face Value; or
- (d) in the case of Exchange under clause 21, the Face Value plus the Accrued Dividend Amount.

Exchange Consideration means the product of the Exchange Amount and the number of RPS held by the Holder that are to be Exchanged.

Exchange Notice has the meaning given in clause 18.

Exchange Number is the number of Ordinary Shares to be Exchanged for a Holder's RPS and is calculated by dividing the Exchange Consideration by the VWAP.

Face Value has the meaning given in clause 3.

Holders means the persons whose names are for the time being registered in the register of RPS as a holder of RPS.

Initial Margin has the meaning given in clause 7(a).

Margin has the meaning given in clause 7.

Market Rate has the meaning given in clause 6.

Notice Period has the meaning given in clause 22.

Optional Dividend Payment has the meaning given in clause 12.1(b).

Ordinary Share means an ordinary fully paid share in the capital of BBL.

Record Date:

- (a) in relation to a Dividend, has the meaning given in clause 10.3; and
- (b) in relation to an Optional Dividend Payment, has the meaning given in clause 12.3.

Regulatory Event means:

- (a) the receipt by BBL of advice from reputable legal counsel that as a result of any amendment to, clarification of, or change in any law or regulation affecting securities laws in Australia, additional requirements would be imposed on BBL which the Board of BBL determines, at its sole discretion, to be unacceptable; or
- (b) the determination by the board of BBL that there is a risk that BBL is not or will not be entitled to treat all RPS as Tier I Capital under APRA guidelines.

Reset Date has the meaning given in clause 8.1.

Reset Notice Date means the date on which a Dividend Reset Notice is despatched to Holders.

RPS has the meaning given in clause 1.

SPS means the non-cumulative, redeemable and convertible perpetual step up preference shares issued by BBL to holders of Adelaide SPS pursuant to a scheme of arrangement between Adelaide Bank and holders of Adelaide SPS.

Tax Act means the *Income Tax Assessment Act 1936* (Cth) and the *Income Tax Assessment Act 1997* (Cth).

Tax Event means the receipt by BBL of advice from a reputable legal counsel or other tax adviser in Australia that as a result of any amendment to, clarification of, or change in Australian tax law (including laws, treaties, judicial decisions and administrative actions) that results in there being more than an insubstantial risk of BBL being exposed to a more than de minimus increase in the costs of servicing the obligations on the RPS (as a result of increased taxes, duties or other governmental charges or duties) that BBL deems to be unacceptable except that advice that the RPS will be treated as debt for taxation or accounting purposes will not be a Tax Event.

Terms of Issue means the terms of issue of the RPS as set out in this document.

Tier I Capital means the core capital of BBL as defined by APRA.

Tier I Securities means the RPS, the Ordinary Shares and any other security issued by BBL which constitutes Tier I Capital.

Trading Day has the meaning given in the listing rules of ASX.

VWAP has the meaning given in clause 23.

29.2 Exchange

In these Terms of Issue:

- (a) a reference to 'Exchange the Holder's RPS for cash consideration (subject to APRA approval) equal to the Exchange Consideration' is a reference to the redemption, buy back or cancellation of the RPS as determined by the directors and approved by APRA;
- (b) a reference to 'Exchange the Holder's RPS for the Exchange Number of Ordinary Shares' is a reference to the conversion of the Holder's RPS into the Exchange Number of Ordinary Shares. Exchange of the Holder's RPS into Ordinary Shares in this manner does not constitute cancellation, redemption or termination of any RPS or an issue, allotment or creation of new shares (other than additional Ordinary Shares issued to make up the Exchange Number); and
- (c) a reference to 'Exchanged' or 'Exchange' is a reference to the RPS being converted, redeemed, bought back or cancelled as determined by the directors.

29.3 Restriction on conversion

Notwithstanding any other provision of these Terms of Issue, if the conversion of RPS into Ordinary Shares for a particular Holder would result in that Holder breaching any provision of the constitution of BBL or any applicable law, the board of BBL has the discretion not to convert that Holder's RPS into Ordinary Shares and instead to redeem, buy back, cancel or procure the sale of that Holder's RPS as contemplated by these Terms of Issue (whether or not the specific event would otherwise permit such action under these Terms of Issue). Before taking such action, the board of BBL will take reasonable steps to determine which is preferred by the particular Holder.

29.4 Interpretation

Unless the context otherwise requires or unless otherwise specified:

- (a) if there is any inconsistency between the provisions of these Terms of Issue and the constitution of BBL then, to the maximum extent permitted by law, the provisions of these Terms of Issue will prevail;
- (b) the board of BBL may exercise all powers of BBL under these Terms of Issue as are not, by the Corporations Act or by BBL's constitution, required to be exercised by the company in general meeting;
- (c) notices may be given by BBL to a Holder in the manner prescribed by BBL's constitution for the giving of notices to members of BBL and the relevant provisions of BBL's constitution apply with all necessary modification to notices to Holders;
- (d) a reference to a clause is a reference to a clause of these Terms of Issue;
- (e) if a calculation is required under these Terms of Issue, unless the contrary intention is expressed, the calculation will be rounded to two decimal places. For the purposes of making payment to any person, any fraction of a cent will be disregarded;
- (f) definitions and interpretation under BBL's constitution will also apply to these Terms of Issue subject to clause 29.4(a);
- (g) any provisions which refer to the requirements of APRA or any other prudential regulatory requirements will apply to BBL only if BBL is an entity or the holding company of an entity subject to regulation and supervision by APRA at the relevant time;
- (h) the terms 'takeover bid', 'relevant interest' and 'scheme of arrangement' when used in these terms have the meaning given in the Corporations Act;
- (i) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them; and
- (j) if an event under these terms must occur on a stipulated day which is not a Business Day, then the stipulated day will be taken to be the next Business Day.

Appendix | 8

Notice of Ordinary Share Scheme Meeting

NOTICE OF SCHEME MEETING ADELAIDE BANK LIMITED

ACN 061 461 550

NOTICE IS HEREBY GIVEN that, by an order of the Federal Court of Australia (Court) made on 5 October 2007 pursuant to section 411(1) of the Corporations Act, the Court has directed that a meeting of Ordinary Shareholders in Adelaide Bank be held at the Adelaide Convention Centre on 12 November 2007 at 9.30am.

Business of the meeting

To consider and, if thought fit, to pass the following resolution in accordance with section 411(4)(a)(ii) of the Corporations Act:

'THAT pursuant to and in accordance with section 411 of the Corporations Act, the scheme of arrangement proposed to be entered into between Adelaide Bank and its Ordinary Shareholders, as more particularly set out in the Scheme Book of which this notice of meeting forms part, is approved (with or without modification as approved by the Court).'

By order of the board of

ADELAIDE BANK LIMITED



Andrew Kamm

Company Secretary

5 October 2007

EXPLANATORY NOTES

These notes should be read in conjunction with this notice of meeting.

- 1 Defined Terms:** Capitalised terms used in this notice of meeting (and not otherwise defined in it) have the meanings set out in the Glossary contained in the Scheme Book of which this notice of meeting forms part.
- 2 Purpose of Meeting:** The purpose of the meeting is to consider and, if thought fit, to approve a scheme of arrangement (with or without modification) to be made between Adelaide Bank and its Ordinary Shareholders. A copy of the scheme of arrangement is set out in the Scheme Book of which this notice forms part.
- 3 Required Majority:** The resolution to approve the Scheme must be approved by:
 - (i) a majority in number of Ordinary Shareholders present and voting on the resolution (whether in person or by proxy, attorney or corporate representative); and
 - (ii) at least 75 per cent of the total number of votes cast by Ordinary Shareholders on the resolution (whether in person or by proxy, attorney or corporate representative).
- 4 Court Approval:** In accordance with section 411(4)(b) of the Corporations Act, the Scheme is also conditional on approval by order of the Court. Ordinary Shareholders are entitled to appear at the Court hearing to approve the Ordinary Share Scheme. Details of the time and place of the Court hearing will be advertised, notified on Adelaide Bank's website at www.adelaidebank.com.au and announced to ASX. If the resolution set out in this notice of meeting is passed (with or without modification) in accordance with the requisite majorities set out above and the conditions precedent to the Ordinary Share Scheme referred to in Section 6.2 of the Scheme Book are satisfied or, where applicable, waived, Adelaide Bank intends to apply to the Court for the necessary orders to give effect to the Scheme.
- 5 Voting by poll:** Voting at the meeting will occur by poll only.

6 Voting Entitlement: Only persons recorded in the Adelaide Bank Register as Ordinary Shareholders as at 12.00 midday on 11 November 2007 will be entitled to vote at the Scheme Meeting.

7 How to Vote: Ordinary Shareholders can vote at the Scheme Meeting in one of the following ways:

- (i) by attending and voting in person;
- (ii) by appointing a proxy to attend and vote on their behalf, using the blue proxy form accompanying the Scheme Book or a corresponding additional or replacement form obtained from Adelaide Bank Registry;
- (iii) by appointing an attorney to attend and vote on their behalf; or
- (iv) in the case of bodies corporate, by appointing an authorised corporate representative pursuant to section 250D of the Corporations Act to attend and vote on their behalf.

8 Voting in person: Ordinary Shareholders who plan to attend the Scheme Meeting are asked to bring with them their personalised proxy form enclosed with the Scheme Book and to arrive at the venue 30 minutes prior to the time designated for the Scheme Meeting, if possible, so that shareholdings may be checked against the Adelaide Bank Register and attendances noted.

9 Voting by attorney: Attorneys must provide to Adelaide Bank the original or a certified copy of the power of attorney under which they have been authorised to attend and vote at the Scheme Meeting. The power of attorney appointing the attorney must be duly executed and must specify the name of each of the Ordinary Shareholder, the company (i.e. Adelaide Bank) and the attorney, and also specify the meetings at which the appointment may be used. The appointment may be a standing one. The original or a certified copy of the power of attorney must be provided to Adelaide Bank in the same manner as proxy forms and must be received by the Adelaide Bank Registry or Adelaide Bank by 12.00 midday on 10 November 2007.

10 Voting by proxy: An Ordinary Shareholder entitled to attend and vote may appoint up to two proxies to attend and vote in their place. Where two proxies are appointed, each proxy may be appointed to represent a specified percentage of the Ordinary Shareholder's voting rights or number of Adelaide Bank Ordinary Shares. If percentages or numbers are not specified, each proxy may exercise half the Ordinary Shareholder's votes. Fractions of votes will be disregarded. A proxy need not be an Ordinary Shareholder. For the appointment of a proxy to be effective, the blue proxy form accompanying the Scheme Book or a corresponding additional or replacement form obtained from the Adelaide Bank Registry (together with any power of attorney or other authority under which the proxy form is signed or a certified copy of that power of attorney or authority) must be completed and received by the Adelaide Bank Registry or Adelaide Bank by 12.00 midday on 10 November 2007.

11 Corporate representative: To vote at the Scheme Meeting (other than by proxy or attorney), a body corporate that is an Ordinary Shareholder must appoint a person to act as its representative. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the Ordinary Share Scheme Meeting evidence of their appointment, including any authority under which it is signed.

A proxy form can be returned by posting it in the envelope provided (reply paid for use in Australia only) or by delivering, posting or faxing to:

Adelaide Registry

Computershare Investor Services Pty Limited

By post: GPO Box 242, Melbourne, VIC 3001

By hand: Level 5, 115 Grenfell Street, Adelaide, SA 5000

Fax: (08) 8236 2305
(international +61 8 8236 2305)

Adelaide Bank Registered Office

By post: 169 Pirie Street, Adelaide, SA 5000

By hand: 169 Pirie Street, Adelaide, SA 5000

Appendix | 9

Notice of Step Up Preference Share Scheme Meeting

NOTICE OF SCHEME MEETING ADELAIDE BANK LIMITED

ACN 061 461 550

NOTICE IS HEREBY GIVEN that, by an order of the Federal Court of Australia (Court) made on 5 October 2007 pursuant to section 411(1) of the Corporations Act, the Court has directed that a meeting of Step Up Preference Shareholders in Adelaide Bank be held at the Adelaide Convention Centre on 12 November 2007 at 10.45am.

Business of the meeting

To consider and, if thought fit, to pass the following resolution in accordance with section 411(4)(a)(ii) of the Corporations Act:

'THAT pursuant to and in accordance with section 411 of the Corporations Act, the scheme of arrangement proposed to be entered into between Adelaide Bank and its Step Up Preference Shareholders, as more particularly set out in the Scheme Book of which this notice of meeting forms part, is approved (with or without modification as approved by the Court).'

By order of the board of

ADELAIDE BANK LIMITED



Andrew Kamm

Company Secretary

5 October 2007

EXPLANATORY NOTES

These notes should be read in conjunction with this notice of meeting.

- 1 Defined Terms:** Capitalised terms used in this notice of meeting (and not otherwise defined in it) have the meanings set out in the Glossary contained in the Scheme Book of which this notice of meeting forms part.
- 2 Purpose of Meeting:** The purpose of the meeting is to consider and, if thought fit, to approve a scheme of arrangement (with or without modification) to be made between Adelaide Bank and its Step Up Preference Shareholders. A copy of the scheme of arrangement is set out in the Scheme Book of which this notice forms part.
- 3 Required Majority:** The resolution to approve the Step Up Preference Share Scheme must be approved by:
 - (i) a majority in number of Step Up Preference Shareholders present and voting on the resolution (whether in person or by proxy, attorney or corporate representative); and
 - (ii) at least 75 per cent of the total number of votes cast by Step Up Preference Shareholders on the resolution (whether in person or by proxy, attorney or corporate representative).
- 4 Court Approval:** In accordance with section 411(4)(b) of the Corporations Act, the Step Up Preference Share Scheme is also conditional on approval by order of the Court. Step Up Preference Shareholders are entitled to appear at the Court hearing to approve the Step Up Preference Share Scheme. Details of the time and place of the Court hearing will be advertised, notified on Adelaide Bank's website at www.adelaidebank.com.au and announced to ASX. If the resolution set out in this notice of meeting is passed (with or without modification) in accordance with the requisite majorities set out above and the conditions precedent to the Scheme referred to in Section 11.2 of the Scheme Book are satisfied or, where applicable, waived, Adelaide Bank intends to apply to the Court for the necessary orders to give effect to the Step Up Preference Share Scheme.
- 5 Voting by poll:** Voting at the meeting will occur by poll only.

6 Voting Entitlement: Only persons recorded in the Adelaide Bank Register as Step Up Preference Shareholders as at 12.00 midday on 11 November 2007 will be entitled to vote at the Scheme Meeting.

7 How to Vote: Step Up Preference Shareholders can vote at the Step Up Preference Share Scheme Meeting in one of the following ways:

- (i) by attending and voting in person;
- (ii) by appointing a proxy to attend and vote on their behalf, using the green proxy form accompanying the Scheme Book or a corresponding additional or replacement form obtained from Adelaide Bank Registry;
- (iii) by appointing an attorney to attend and vote on their behalf; or
- (iv) in the case of bodies corporate, by appointing an authorised corporate representative pursuant to section 250D of the Corporations Act to attend and vote on their behalf.

8 Voting in person: Step Up Preference Shareholders who plan to attend the Step Up Preference Share Scheme Meeting are asked to bring with them their personalised proxy form enclosed with the Scheme Book and to arrive at the venue 30 minutes prior to the time designated for the Step Up Preference Share Scheme Meeting, if possible, so that shareholdings may be checked against the Adelaide Bank Register and attendances noted.

9 Voting by attorney: Attorneys must provide to Adelaide Bank the original or a certified copy of the power of attorney under which they have been authorised to attend and vote at the Step Up Preference Share Scheme Meeting. The power of attorney appointing the attorney must be duly executed and must specify the name of each of the Step Up Preference Shareholder, the company (i.e. Adelaide Bank) and the attorney, and also specify the meetings at which the appointment may be used. The appointment may be a standing one. The original or a certified copy of the power of attorney must be provided to Adelaide Bank in the same manner as proxy forms and must be received by the Adelaide Bank Registry or Adelaide Bank by 12.00 midday on 10 November 2007.

10 Voting by proxy: A Step Up Preference Shareholder entitled to attend and vote may appoint up to two proxies to attend and vote in their place. Where two proxies are appointed, each proxy may be appointed to represent a specified percentage of the Step Up Preference Shareholder's voting rights or number of Adelaide Bank Step Up Preference Shares. If percentages or numbers are not specified, each proxy may exercise half the Step Up Preference Shareholder's votes. Fractions of votes will be disregarded. A proxy need not be a Step Up Preference Shareholder. For the appointment of a proxy to be effective, the green proxy form accompanying the Scheme Book or a corresponding additional or replacement form obtained from the Adelaide Bank Registry (together with any power of attorney or other authority under which the proxy form is signed or a certified copy of that power of attorney or authority) must be completed and received by the Adelaide Bank Registry or Adelaide Bank by 12.00 midday on 10 November 2007.

11 Corporate representative: To vote at the Step Up Preference Share Scheme Meeting (other than by proxy or attorney), a body corporate that is a Step Up Preference Shareholder must appoint a person to act as its representative. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the Step Up Preference Share Scheme Meeting evidence of their appointment, including any authority under which it is signed.

A proxy form can be returned by posting it in the envelope provided (reply paid for use in Australia only) or by delivering, posting or faxing to:

Adelaide Registry

Computershare Investor Services Pty Limited

By post: GPO Box 242, Melbourne, VIC 3001

By hand: Level 5, 115 Grenfell Street, Adelaide, SA 5000

Fax: (08) 8236 2305
(international +61 8 8236 2305)

Adelaide Bank Registered Office

By post: 169 Pirie Street, Adelaide, SA 5000

By hand: 169 Pirie Street, Adelaide, SA 5000

Appendix I 10

Notice of Reset Preference Share Scheme Meeting

NOTICE OF SCHEME MEETING ADELAIDE BANK LIMITED

ACN 061 461 550

NOTICE IS HEREBY GIVEN that, by an order of the Federal Court of Australia (Court) made on 5 October 2007 pursuant to section 411(1) of the Corporations Act, the Court has directed that a meeting of Reset Preference Shareholders in Adelaide Bank be held at the Adelaide Convention Centre on 12 November 2007 at 11.30am.

Business of the meeting

To consider and, if thought fit, to pass the following resolution in accordance with section 411(4)(a)(ii) of the Corporations Act:

'THAT pursuant to and in accordance with section 411 of the Corporations Act, the scheme of arrangement proposed to be entered into between Adelaide Bank and its Reset Preference Shareholders, as more particularly set out in the Scheme Book of which this notice of meeting forms part, is approved (with or without modification as approved by the Court).'

By order of the board of

ADELAIDE BANK LIMITED



Andrew Kamm

Company Secretary

5 October 2007

EXPLANATORY NOTES

These notes should be read in conjunction with this notice of meeting.

- 1 Defined Terms:** Capitalised terms used in this notice of meeting (and not otherwise defined in it) have the meanings set out in the Glossary contained in the Scheme Book of which this notice of meeting forms part.
- 2 Purpose of Meeting:** The purpose of the meeting is to consider and, if thought fit, to approve a scheme of arrangement (with or without modification) to be made between Adelaide Bank and its Reset Preference Shareholders. A copy of the scheme of arrangement is set out in the Scheme Book of which this notice forms part.
- 3 Required Majority:** The resolution to approve the Reset Preference Share Scheme must be approved by:
 - (i) a majority in number of Reset Preference Shareholders present and voting on the resolution (whether in person or by proxy, attorney or corporate representative); and
 - (ii) at least 75 per cent of the total number of votes cast by Reset Preference Shareholders on the resolution (whether in person or by proxy, attorney or corporate representative).
- 4 Court Approval:** In accordance with section 411(4)(b) of the Corporations Act, the Reset Preference Share Scheme is also conditional on approval by order of the Court. Reset Preference Shareholders are entitled to appear at the Court hearing to approve the Reset Preference Share Scheme. Details of the time and place of the Court hearing will be advertised, notified on Adelaide Bank's website at www.adelaidebank.com.au and announced to ASX. If the resolution set out in this notice of meeting is passed (with or without modification) in accordance with the requisite majorities set out **above** and the conditions precedent to the Scheme referred to in Section 16.2 of the Scheme Book are satisfied or, where applicable, waived, Adelaide Bank intends to apply to the Court for the necessary orders to give effect to the Reset Preference Share Scheme.
- 5 Voting by poll:** Voting at the meeting will occur by poll only.

6 Voting Entitlement: Only persons recorded in the Adelaide Bank Register as Reset Preference Shareholders as at 12.00 midday on 11 November 2007 will be entitled to vote at the Scheme Meeting.

7 How to Vote: Reset Preference Shareholders can vote at the Reset Preference Share Scheme Meeting in one of the following ways:

- (i) by attending and voting in person;
- (ii) by appointing a proxy to attend and vote on their behalf, using the yellow proxy form accompanying the Scheme Book or a corresponding additional or replacement form obtained from Adelaide Bank Registry;
- (iii) by appointing an attorney to attend and vote on their behalf; or
- (iv) in the case of bodies corporate, by appointing an authorised corporate representative pursuant to section 250D of the Corporations Act to attend and vote on their behalf.

8 Voting in person: Reset Preference Shareholders who plan to attend the Reset Preference Share Scheme Meeting are asked to bring with them their personalised proxy form enclosed with the Scheme Book and to arrive at the venue 30 minutes prior to the time designated for the Reset Preference Share Scheme Meeting, if possible, so that shareholdings may be checked against the Adelaide Bank Register and attendances noted.

9 Voting by attorney: Attorneys must provide to Adelaide Bank the original or a certified copy of the power of attorney under which they have been authorised to attend and vote at the Reset Preference Share Scheme Meeting. The power of attorney appointing the attorney must be duly executed and must specify the name of each of the Reset Preference Shareholder, the company (i.e. Adelaide Bank) and the attorney, and also specify the meetings at which the appointment may be used. The appointment may be a standing one. The original or a certified copy of the power of attorney must be provided to Adelaide Bank in the same manner as proxy forms and must be received by the Adelaide Bank Registry or Adelaide Bank by 12.00 midday on 10 November 2007.

10 Voting by proxy: A Reset Preference Shareholder entitled to attend and vote may appoint up to two proxies to attend and vote in their place. Where two proxies are appointed, each proxy may be appointed to represent a specified percentage of the Reset Preference Shareholder's voting rights or number of Adelaide Bank Reset Preference Shares. If percentages or numbers are not specified, each proxy may exercise half the Reset Preference Shareholder's votes. Fractions of votes will be disregarded. A proxy need not be a Reset Preference Shareholder. For the appointment of a proxy to be effective, the yellow proxy form accompanying the Scheme Book or a corresponding additional or replacement form obtained from the Adelaide Bank Registry (together with any power of attorney or other authority under which the proxy form is signed or a certified copy of that power of attorney or authority) must be completed and received by the Adelaide Bank Registry or Adelaide Bank by 12.00 midday on 10 November 2007.

11 Corporate representative: To vote at the Reset Preference Share Scheme Meeting (other than by proxy or attorney), a body corporate that is a Reset Preference Shareholder must appoint a person to act as its representative. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the Reset Preference Share Scheme Meeting evidence of their appointment, including any authority under which it is signed.

A proxy form can be returned by posting it in the envelope provided (reply paid for use in Australia only) or by delivering, posting or faxing to:

Adelaide Registry

Computershare Investor Services Pty Limited

By post: GPO Box 242, Melbourne, VIC 3001

By hand: Level 5, 115 Grenfell Street, Adelaide, SA 5000

Fax: (08) 8236 2305
(international +61 8 8236 2305)

Adelaide Bank

By post: 169 Pirie Street, Adelaide, SA 5000

By hand: 169 Pirie Street, Adelaide, SA 5000

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Corporate directory

Company

Adelaide Bank Limited ACN 061 461 550

Registered office

169 Pirie Street
Adelaide SA 5000

Company Secretary

Mr Andrew Kamm

Adelaide Bank Registry

Hand delivery address

Level 5
115 Grenfell Street
Adelaide SA 5000

Postal address

GPO Box 242
Melbourne VIC 3001

Legal adviser

Johnson Winter & Slattery

Level 10
211 Victoria Square
Adelaide SA 5000

Level 30
264 George Street
Sydney NSW 2000

Level 38
530 Collins Street
Melbourne VIC 3000

Financial adviser

ABN AMRO Corporate Finance Australia Limited
88 Phillip Street
Sydney NSW 2000

Independent Expert

KPMG Corporate Finance (Aust) Pty Limited
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91 King William Street
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