

SHAREHOLDER QUESTIONS OF GENERAL INTEREST
ANNUAL GENERAL MEETING
3 NOVEMBER 2010

The focus of shareholder questions was on the performance of Bendigo and Adelaide Bank (“the Company”), diversity and senior executive remuneration arrangements. Following is a summary of the more frequently asked questions including questions raised by the Australian Shareholders’ Association.

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1. Question:

Why are none of the new directors standing for election this year women? What is the Board doing to attract women to the Board?

Answer:

The board appointed Mr Jim Hazel and Mr David Matthews to the Board during the year. The Board has eight non-executive directors which includes two female directors. This compares favourably with other listed companies.

The policy of Bendigo and Adelaide Bank is to appoint directors with appropriate skills, knowledge and experience to contribute to the effectiveness of the Board and to provide leadership and contribute to the success of Bendigo and Adelaide Bank.

The Board takes into account the benefits to the organisation of having board representation relating to strategic points of difference and having an appropriate blend of tenure, skills, diversity and experience to ensure there is an understanding of the challenges to an organisation through economic cycles and changes in the market environment.

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Whilst gender diversity is an important consideration, it is only one of many criteria that the Board takes into account when selecting potential candidates for appointment to the Board. The Board has signalled its intention to appoint another non-executive director during the year. Gender will be one of a number of important criteria that the Board will take into account in selecting a new director.

2. Question:

A number of shareholders wrote to us about the Atherton branch fraud that was covered by the media during the year. As reported, the long serving manager at the Atherton branch defrauded customers of more than three million dollars. He did this by falsifying customer term deposit records.

Answer:

The Company continues to work with Queensland Police and assisting them as they pursue criminal proceedings against the former Atherton Branch Manager.

Cash-handling businesses such as Bendigo and Adelaide Bank depend on the trust they have in their staff (and staff of agents acting on the Company's behalf). Sadly, this trust is occasionally betrayed and the Company is constantly investing in improvements to its systems, reporting procedures, audit techniques and investigative processes to deter and detect fraudulent activity.

However, the best systems in the world will not prevent fraud from occurring if the perpetrator is determined enough and this is an ongoing issue for businesses of all sizes, including those in the banking sector.

Whilst not wishing to trivialize this fraud, independent research of Australian companies demonstrate that we are not alone in the need to be vigilant against fraud and the constant need to ensure our systems are robust. Frauds such as this are characterized by

- Deliberate efforts to deceive; and
- Determined actions to conceal.

Significant work has been undertaken to prevent and respond to the manner in which this fraud was perpetuated and allowed to go undetected and there has been continued strengthening of some of our processes and procedures. In addition to revised procedures, we have a number of programs in place to assist and support our employees if they are concerned about any behaviour of co-workers or are feeling some form of personal pressure.

3. Question:

The Company over the last two years has so far weathered the storm of the GFC and the further bedding down of the Adelaide Bank merger, but it has only been with the injection of \$660m of new shareholder funds. This has served to keep total equity constant and improve the net interest rate margin, but with the increased number of shares the equity per share has fallen.

Shareholders who supported the offer of shares paid from \$6.75 to \$10 for the shares. Have shareholders been adequately compensated, or has there been a decrease in equity per share? Would you please tell me what were the figures for equity per share for the last three years.

Answer:

The Company's equity per share, calculated using the weighted average number of shares and excluding preference shares and minority interests, as at 30 June 2008, 30 June 2009 and 30 June 2010 is as follows:

2008: \$7.70
2009: \$9.80
2010: \$10.20

As a result of the global financial crisis and tightening of regulatory capital requirements, Companies will have to hold more capital to support their business activities. Consequently we anticipate that returns on capital will reduce.

4. Question:

Does the \$26.1m provision for doubtful debts cover only Great Southern investor loans? Is it sufficient if a high proportion of those loans remain unpaid?

Answer:

The Company has extended loans to a large number of investors to facilitate their investments in various managed investment schemes of which Great Southern Managers Australia Limited.

A total of \$26.1 million has been provided by the Company in the financial year ending 30 June 2010 in specific and collective provisions relating to the Great Southern Portfolio. This amount is considered to be adequate based on the Company's assessment of the recoverability of the loans.

The Company announced on 20 October 2010, Justice Croft of the Victorian Supreme Court struck out the amended statement of claim in the class action brought against the Company by law firm Macpherson + Kelly (M+K) on behalf of investors in Great Southern managed investment schemes. In the Company's view the judgment supports its position that the loans are valid and that it expected borrowers to meet their commitments.

DC Legal has also discontinued its class action claim against the Company.

5. Question:

I understand that the potential cost synergies from the Adelaide Bank merger were realised during the last financial year. Could you comment on unexpected advantages and disadvantages that have arisen due to the merger.

Answer:

Aside from the advantages and disadvantages set out in the scheme documentation, and the impact of the global financial crises, there have been no unexpected advantages or disadvantages of a material nature that have arisen in the past two years due to the merger.

We believe there have been other advantages to those disclosed in the scheme documents. The merged organisation has a much greater depth of skill and experience in its employee base and we continue to be optimistic that the merger will ultimately assist the organisation in respect to its external credit rating. Other benefits include:

The added flexibility and resilience that comes with multiple profit centres, distribution channels and brands. This allows us to vary our competitive position, profitability and growth rates across various businesses at different times taking into account the market environment, our business priorities and resource constraints; and

The accelerated improvement in our commercial lending by combining the Bendigo customer focus with Adelaide's specialised focus and that, to a degree, the improving growth rate in commercial lending is a reflection of this unexpected benefit.

On the downside, the implementation of the merger and amalgamation of the two organisations certainly demanded a significant amount of focus and resource commitment by the merged organisations which distracts from our other strategic priorities and business as usual focus.

6. Question:

What changes have been made to the Remuneration Policy in line with the shareholder responses to the 2009 remuneration report?

Answer:

During the year the Board completed a comprehensive review of the Company's remuneration arrangements taking into account the new APRA requirements, the shareholder response to the 2009 Remuneration Report and our strategic priorities. The new remuneration policy and supporting framework was approved by the Board in May 2010.

It is pleasing to report that the new APRA requirements did not result in any major structural changes to our remuneration arrangements. We think this reflects well on the relatively conservative arrangements previously established by the Board.

The new policy sets clear links between executive remuneration and the Company's performance and the level of risk associated with that performance. Under the policy, the board has an absolute discretion to adjust short and long term incentives downwards, to zero if appropriate, should such adjustments be considered necessary by the board.

The new policy also requires that short term incentive payments will be subject to deferral. One-third of future annual incentives will be subject to deferral for a two year period and the deferral is to be into shares in the Company.

Whilst not related to the shareholder vote on the 2009 remuneration report, the board has also decided to reduce the proportion of short-term focused incentive remuneration paid to executives and to increase the percentage of longer-term focused incentive remuneration.

This change is designed to promote a longer term outlook through participation in equity grants that have a sufficiently long performance period and dealing restriction while at the same time still rewarding achievement of the goals set by the Board to build shareholder value on an annual basis

7. Question (comment):

I am strongly against such a large amount of shares given to them (executives) as remuneration. Since I purchased my shares their value has gone down considerably, but these executives still received these large amounts of shares.

Answer:

In developing our remuneration arrangements the goal is to achieve an outcome which is fair to all parties including shareholders and the individual employee and drive performance and behaviour that is consistent with our longer term strategy. Only by meeting these goals will the organisation be able to attract, retain and motivate executives that have the capacity to deliver the best possible outcomes for shareholders.

In setting the division of total remuneration for executives between fixed pay and short and long term incentives and the allocation of these across vesting periods and between cash and shares, the Board has had regard to current market practice and its own assessment of the trade-offs between each variable.

The Board has set fixed remuneration and long term remuneration in the form of shares at around the median of the market for organisations of this size and complexity. Short term incentive settings are below the median. The portion that is paid via the issue of shares is believed appropriate to add to the alignment of interests and outcomes between the executive and the shareholders.

It should also be emphasised that any shares granted are conditional on retention of the executive for the timeframe required by the Board and a substantial portion (half of the most recent grants) is also contingent on achievement of a peer level performance in terms of generation of Total Shareholder Return.

The vesting of long term Incentives granted to executives since 2006, has reflected shareholder experience in that the 2006 grant which failed to meet both its initial performance test and a subsequent retest. All the rights and options in this grant have consequently lapsed and executives have received no benefit. Only 12.5% of the grant made to former Adelaide executives in 2007 vested with the remaining performance rights lapsing.

The main 2007 grant has failed to meet its first performance test and is subject to retest in 2011. Currently it is not expected that the required hurdles will be met and the performance rights and options granted will also lapse.

Balancing the interests of the shareholders who provide the risk capital and are looking for equity returns with the remuneration of the individuals who are working in the business and ensuring their rewards foster alignment is a complex task. We believe the current structure of remuneration provides both an appropriate balance and an appropriate alignment on interests.

8. Question:

Why does 50% of the long term incentive payment vest without a performance hurdle?

Answer:

The new long term incentive arrangement for senior executives includes a component (50% of the grant) that is subject to a continued employment condition. This portion is therefore akin to deferred base remuneration with the reward exposed to the share price of the business to align their interest with shareholders and to encourage a long term view of development. This arrangement was approved by Shareholders at the 2009 AGM.

In setting the structure of the grant, the Board, having regard to the relatively moderate market setting of senior executive remuneration (in particular for the Managing Director) included a component that was subject to continued service with the Company. This arrangement was undertaken with the intention of providing the Managing Director and other senior executives with an ownership stake in the Company which fosters alignment of interest and outcomes with shareholder interests and outcomes.

The Board also had regard to the retention of senior executives. The Board has appointed the new managing director under a five year contract. The managing director has appointed an executive committee with the necessary experience and understanding of the business to assist him in progressing the business for the next 5 years. It is this particular understanding and experience that the board, and the managing director, are seeking to retain and so the principals adopted for the managing director are being applied across the senior management group.

In designing this incentive the board has paid particular consideration to the many tasks and challenges ahead of the Bank over the next 5 years and that we have a very different strategy and business model to others in the market.

This means it is costly to replace the knowledge of our executives if they depart and very difficult to find appropriate senior executives to join the Group. Accordingly it was agreed that the incentive should be structured to include both a specific retention component and a component designed to drive longer term performance and to further align the interests of executives with shareholders.

The board considered setting a five year performance period for the other senior executives but decided that a performance term of three years was the most appropriate in the circumstances of the Company and considering the nature of the roles and responsibilities of the other senior executives.

9. Question:

What are the reasons for having such a short vesting period for the long term incentive payment to senior executives? Why could it not have been longer?

Answer:

The current long term arrangement for the managing director has a five year performance period and a further two year dealing restriction. The current long term arrangement for other senior executives has a three year performance period plus a further two year dealing restriction.

The objective of the Board is to promote a longer term outlook through participation in equity grants that have a sufficiently long performance period and dealing restriction. The Board considers the performance period (and two year dealing restriction) for the managing director and other senior executives to be appropriate taking into account the Company's strategy and circumstances.

Balancing the interests of the shareholders who provide the risk capital with the remuneration of the individuals who are working in the business and ensuring their rewards foster alignment is a complex task. And it requires trade-offs. For example long vesting periods for long term incentives ensure that the effort that is being rewarded produces a sustainable benefit for shareholders but the balancing side is that these structures can significantly reduce turnover at the senior executive level which is not solely positive as departures allow us to promote internal candidates or bring new people into the organisation who has the capacity to bring fresh perspectives and create new ideas.

Please also refer to the answers provided at questions 7 and 8.

10. Question:

Why is it necessary to reset vesting time for incentive payments when performance hurdles have not been reached?

Answer:

Under the terms of long term incentive ("LTI") grants to senior executives, to the extent that the performance conditions attaching to LTI grants are not satisfied at the end of the relevant grant's or tranche's performance period, the securities that do not vest will be carried forward and retested (up to a pre-determined period). The vesting period is not reset but extended with the relevant performance hurdles having to be met over the extended period.

For example where there are EPS growth requirements that these compound for the additional period. This is likely to make the achievement of the hurdle harder rather than easier but ensures that the vesting on long term incentives does not create pressure to achieve short term results as the end of the vesting or testing period draws near.

The Board believes that retesting in these circumstances is appropriate because it ensures that senior executives are not disadvantaged by short-term average performance (for example, as a result of economic or market developments that impact performance in the short-term) over a longer-term period of strong performance.

This is also consistent with the Board's view that limited retesting contributes to the development of long term value by diminishing the focus on short term performance.

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

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