Q&A – 2012 Annual General Meeting

1. ***Shareholders have lost 85 cents in TSR (10% of share value) in the last financial year. Why did this happen when major banks have made positive gains for their shareholders?***

   In times of stock market volatility, the Total Shareholder Return (TSR) measurement will often be equally as volatile and, depending on the point in time used to calculate a TSR, the result can be significantly distorted. For example:

   - if the end of the financial year is used (i.e. 30 June 2011 to 30 June 2012) TSR was -9.6% (or minus 85 cents as set out in the question); however
   - if the date of the Bank's full year result announcement for 2012 is used (i.e. 20 August 2011 to 20 August 2012) TSR was +10.5%.

   While the Bank's share price has generally underperformed the major banks' share prices in recent times, the Bank remains confident that its prospects will create positive returns for its shareholders over the long term.

   - The Bank's capital position has been bolstered by the various capital raising initiatives undertaken during the 2011/12 financial year.
   - Its primary source of funding is retail deposits and the Bank is not reliant upon international funding markets and did not use the government wholesale funding guarantee.
   - Credit quality remains sound.
   - The core revenue generating businesses of retail, third party banking, wealth and rural banking continue to perform well.
   - The Bank leads the industry in customer satisfaction.
   - There is continued investment in staff and resources, as evidenced by:
     - the roll-out of the newly-developed customer relationship management system;
     - the Basel II Advanced Accreditation project, and
     - the customer-led connection strategy.

2. ***Please explain the $95 million write-down to the Wealth business during the 2011/12 financial year.***

   Sentiment around equity markets has been poor since the onset of the GFC. As a consequence, margin lending portfolios across Australia have shrunk. The Bank's margin lending business, Leveraged Equities, has not been immune from this. In fact, by December 2011 the Leveraged Equities book had fallen by more than $1 billion from its peak in January 2009 and, in the six months to December 2011 alone, the book had decreased by about 19%. This drop is not inconsistent with the decline experienced by margin lenders across Australia.

   In response to this, in December 2011 the Bank tested the goodwill arising from the purchase of the Leveraged Equities business. The Bank looked at the future expected cash flows for the Leveraged Equities business, which had been adversely impacted by the declining loan book, and assessed that the value of the business had been impaired to the value of $95.1 million.

   The write-off did not affect the Bank's regulatory capital levels.

3. ***What reasons are there for shareholders not to be fearful of the outcome of the acquisition of Bank of Cyprus Australia?***

The Bank continues to be confident that the acquisition of Bank of Cyprus Australia will create value for shareholders. The amount of goodwill paid for Bank of Cyprus Australia was negligible, the loan book is almost entirely secured against real property and a thorough due diligence was conducted on the business prior to the acquisition being finalised.

The integration of Bank of Cyprus Australia continues ahead of plan and in excess of synergy targets.

4. ***Why, in the current circumstances, have the non-executive directors received a fee increases over the last two years of 27% (increase of $36,222) and the chairman 51% (increase of $163,000)? Is there any intention for further increases in the short term?***

In 2011, the Bank reviewed the fees paid to directors using market and survey data and determined that the fees were not commensurate with directors' responsibilities, time commitments and market relativities. As a result of the review, a proposal to increase non-executive directors was expressly set out in the notice of meeting for the 2011 AGM and approved by shareholders at the 2011 AGM.

Under the board policy, directors' fees are reviewed annually. There was no increase to directors' fees in 2012.

5. ***Does the board intend to exclude retesting of long term incentives, as you have done this year for senior executives, in the managing director's remuneration contract for 2014?***

The managing director's current employment arrangements, including long term incentives, are fixed for a 5 year period commencing in 2009 and ending in 2014. These arrangements, including the long term incentives, were approved by shareholders at the 2009 AGM.

No decision has been made in relation to the employment arrangements, including long term incentives, for the managing director beyond 2014. However, the new long term incentive plan for senior executives would be considered in the future.

6. ***Could you outline the plan for board renewal?***

The board is committed to a process of orderly renewal. There are now 4 directors who have served on the board for less than 5 years (including the managing director), 2 directors who have served 5-10 years and 2 who have served more than 10 years. The renewal process will take account of the planned retirement of directors. In considering renewal the board considers term of service, but not as a determinative factor. Moreover, the board considers that there is a benefit in retaining the services of directors who have experience across economic cycles and changes in the market environment. Corporate memory is an important attribute of the board.

7. ***Why has the Bank's share price dropped from $16 about five years ago to around $8 today?***

Before the GFC, particularly in 2006 and 2007, the Bank's share price included a takeover premium, reflecting the amount of M&A speculation at that time. This premium has since disappeared and the Bank's share price has been re-rated at a lower price-earnings multiple. Part of the decline can be attributable to this.

It would be fair to surmise, however, that the decline in the Bank's share price since 2007 relates less to issues specific to the Bank than issues affecting the market more broadly. From November 2007 until March 2009 the total value of the top 200 companies listed on the ASX fell

on average by 55%, having recovered slightly but still continuing to trade well below the 2007 highs.

8. What are the plans for the Bank once Basel II advanced accreditation is achieved?

The move to the advanced accreditation offers numerous benefits to the Bank, including:
- improved processes and business efficiencies,
- more robust risk management systems particularly in relation to credit and operational risk,
- potential for lower credit losses,
- potential to improve customer experience,
- better market profile, and
- potential to improve capital efficiency.

9. What is the Bank doing about providing modern banking facilities, such as mobile banking?

An increasing number of the Bank's customers are choosing to do their banking online, in their home, over the phone, on their mobile devices or via current social media platforms like Twitter and Facebook.

The Bank understands the importance of connecting with its customers in a manner preferred by them. The challenge for the Bank is to deliver the same level of satisfaction and intimacy that customers have come to enjoy in our traditional branch and face to face interactions with them.

In 2012, the Bank established the Customer Led Connections team which champions the development and introduction of new electronic applications, systems and services to deliver the experience being demanded by its customers. The Customer Led Connections team has been working on:
- delivering eStatements;
- creating a digital mailbox with Australia Post;
- establishing a presence on Twitter (February 2012) and Facebook (June 2012);
- revamping the online banking platform (expected release in early 2013); and
- improving the Bank's mobile phone banking app.

10. In December 2011, the Bank announced that it was buying Bank of Cyprus Australia, and at the same time announced a private placement and a share purchase plan. However, to be equitable to all shareholders, the Bank should have announced a rights issue, rather than giving preferential treatment to institutional shareholders. This creates inequality and means larger shareholders (excluding institutions) have their shareholdings diluted. I would appreciate the Bank's views re the use of private placements.

A private placement to institutional investors dilutes non-institutional shareholders. The board was mindful of this and so resolved to combine the placement with a share purchase plan, open to all shareholders. We acknowledge that larger non-institutional shareholders may unfortunately be part of a small percentage of shareholders that were diluted as a result of the capital raising. This is a consequence of the ASX rules and the skittish state of the financial markets that a rights issue was not feasible as the underwriting banks were unwilling to remain exposed to the market for such a long period.

It is worth noting that, throughout the GFC and unlike many other listed entities, Bendigo and Adelaide Bank has consistently implemented capital raising initiatives which avoid disadvantaging non-institutional shareholders.