



**Bendigo  
Bank**

# Shareholder Review

Information for shareholders  
of Bendigo Bank Limited

Welcome to the second edition of Shareholder Review, your shareholder news update. Four editions will be published each year: February (interim profit), August (full-year profit) and November (report on Annual General Meeting). In September, we will publish the Annual Review.

## Bendigo Bank merges with Adelaide Bank

On Monday, 12 November 2007 Adelaide Bank shareholders voted overwhelmingly for the proposal to merge with Bendigo Bank.

The merger also received final approval from the Federal Treasurer and Federal Court of Australia.

Nearly 98.4 per cent of the Adelaide Bank Ordinary Shareholders who voted supported the merger with Bendigo Bank. The Adelaide Bank Preference Shareholders also voted strongly to support the merger.

Friday, 30 November is Implementation Day, or Day One of the merged company. On this day, Bendigo Bank will issue new shares to Adelaide Bank shareholders at a ratio of 1.075 BEN shares for 1 ADB share.

New Bendigo Bank securities to be issued to Adelaide Bank shareholders are expected to commence trading on a deferred settlement basis on 21 November 2007 and on a normal settlement basis on 5 December 2007.



Robert Johanson – Chairman (left)  
Rob Hunt – Managing Director

## Bendigo Bank 142nd Annual General Meeting

Bendigo Bank's merger with Adelaide Bank was the focus of this year's Annual General Meeting. Chairman Robert Johanson confirmed that the merger with Adelaide Bank is expected to result in a stronger, more broadly based business, better able to continue to grow and deliver shareholder value, but without compromising on the values and principles at the heart of the business. Following the AGM, we spoke to Mr Johanson about the merger and plans for the future.

### **This was a significant AGM for Bendigo Bank in the lead-up to the Adelaide Bank shareholder vote and the merger of the two companies.**

It has been a big year for the Bank. With the AGM coming two weeks before Adelaide shareholders voted on the merger, it was an important opportunity for our board to explain our reasoning behind the merger with Adelaide Bank and to be answerable to them.

In 2007, we considered a number of strategic options and in the end, proposed a merger with our preferred partner Adelaide Bank. There is considerable pressure on banks to seek economies of scale to deal with the ever-growing regulatory burden, the cost of non-variable items such as IT and the capacity to deal with volatile markets.

Internationally there have been some very large mergers. A number of mergers among smaller deposit-takers have happened in Australia this year and we expect this will continue.

**You spent quite a lot of time in your Chairman's address discussing the credit crisis in banks, especially in the USA. Why is that relevant to Bendigo?**

The crisis, which has its origins in rising mortgage defaults in the US, has resulted in increases in the cost of funding for all banks. It is one of those periodic events in financial markets where risk and pricing parameters get reset. We wanted everyone to understand how we are dealing with it. After the merger, the combined company will have a wider range of funding sources available to it and a broader set of businesses and so will be better able to deal with whatever the next such crisis is.

**Why was the Adelaide Bank merger such an attractive prospect?**

For a number of reasons. It gives us scale – and size does matter in banking because of the large level of fixed costs that all banks have; the more business you leverage against those costs, the more profitable you can be. The merger broadens our funding sources and diversifies our revenue. Both these things are critical, because if one funding or revenue source comes under pressure, you have other levers to pull.

Also, our retail banks go together almost seamlessly. Adelaide Bank has a good retail business in Adelaide, where Bendigo Bank has almost no presence. Last year, Adelaide Bank's retail business with its 200,000 customers contributed 25 per cent of its profit. This really is a great fit with our very strong retail business and we will be investing to build it.

Customers will have access to more products, more branches and more ATM's through more than 380 company and community-owned branches across Australia. It is intended that the Adelaide Bank and Bendigo Bank businesses will be

retained and grown. The **Community Bank®** model will continue to grow and prosper under the merged group, and the merged group will have greater capacity to invest further in the South Australian branch network.

**There was some criticism as to why shareholders were not asked to vote on the Bank of Queensland offer earlier in the year. What was the board's thinking behind not taking the offer to a formal shareholder vote?**

We rejected the Bank of Queensland proposal because we judged the proposal had very little chance of success, it risked alienating many on whom the success of our business depends and it undervalued the company.

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

As directors, we see our job as creating long-term sustainable value for shareholders by building this business for the future. Our job is to make the investments and build the capacity and relationships for the organisation so that the next leaders will be able, in turn, to prosper in the face of the changes and challenges they will face.

Our job is to build and strengthen the business – to put it in the best position to flourish in the face of the changes underway in finance while re-affirming and reinforcing the values and principles which are at the heart of the way we do business. This is the way we have generated significant value for shareholders. It's on this basis that we ask shareholders to judge our decision to propose the merger with Adelaide Bank.

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

Mergers are always difficult and they are especially difficult in branded customer service businesses. Great attention is paid to short term shareholder interests and to savings and synergies and the customers are often forgotten. There are a number of academic studies that suggest in over half the cases, mergers end up losing shareholder value. So the most attractive thing about a merger with Adelaide Bank is the cooperative spirit in which both teams are dealing with the task of forging a stronger combined company.

**The board will be expanded to 12 directors as a result of the merger? What will the make-up of the board be?**

We wanted to be sure that the newly merged company will lose none of the experience and skills in both companies. So we asked shareholders to increase the size of the board to 12. In due course I expect the board will reduce in size. We shall make an announcement in coming weeks regarding the directors from Adelaide Bank and Bendigo Bank who will constitute the board of the new company.

The board of the merged company will consist of six non-executive directors from Bendigo Bank's board and four non-executive directors from Adelaide Bank's board. The board will also include Rob Hunt as Managing Director and Jamie McPhee (former Adelaide Bank MD) as an Executive Director.

I will remain Chairman of the merged company and Adelaide Bank director Kevin Osborne will be Deputy Chairman.

We expect to make an announcement in coming weeks regarding the other directors from both Adelaide Bank and Bendigo Bank who will constitute the board of the merged company.

**Will there be a change to the company name?**

An Extraordinary General Meeting will be held in late January 2008 for shareholders to vote on changing the name of the company to "Bendigo and Adelaide Bank Limited". Both sets of stakeholders are justly proud of the heritage they bring to the merger and we think that is properly reflected in a combined name. A notice of meeting to consider this and an updated constitution will be mailed to all shareholders in December.

**Is Wealth Management going to be as important in the future?**

Savings are now occurring in the form of superannuation, not in bank savings accounts so it will be more important that the bank is involved in this area.

Bendigo already has a good business through the Sandhurst Trustees products and Adelaide Funds Management business will expand our range. Last year Adelaide Bank's Wealth Management division – which includes Adelaide Bank's margin lending business and wholly owned subsidiary Adelaide Managed Funds – contributed a pre-tax profit of \$41.7 million.

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

The Wealth Solutions Division incorporates our financial planning and advice business. The financial planning contribution for the year included the significant investment in

the new associate planner program which enables staff to qualify as financial planners and remain within the group.

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

## Annual General Meeting passes all resolutions

All resolutions considered by shareholders at the 2007 AGM were overwhelmingly passed including:

- The Remuneration Report for the year ended 30 June 2007.
- The re-election of retiring Directors Robert Johanson, Terry O'Dwyer and Neal Axelby.
- Approval of an amendment to the Company Constitution to increase the maximum number of directors of the Company from 10 to 12.

Explanatory Notes of all resolutions accompanied the Notice of Meeting. Details of all proposals adopted are also available at [www.bendigobank.com.au](http://www.bendigobank.com.au)

## Shareholder questions

Shareholders were invited in their Notice of Annual General Meeting 2007 to submit written questions. An edited selection of answers follows.

### Adelaide Bank merger

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

**Answer:** Adelaide Bank in August 2007 announced a record profit and shortly after announced it had strong liquidity. Managing Director, Jamie McPhee, has publicly stated and our due diligence process showed that the credit quality of Adelaide Bank's loan book is excellent.

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

Adelaide Bank also announced on 25 October 2007 that it had successfully issued a \$505.5 million term Residential Mortgage Backed Securities deal. The issue was priced at 42 basis points over the one month bank bill swap reference rate (BBSW), which was a higher cost than the previous transaction (18 basis points over BBSW).

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



About 50 shareholders enjoyed a tour of The Bendigo Centre following the Annual General Meeting.

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

**Answer:** The merger was negotiated to be implemented by way of a Scheme of Arrangement. In effect, Adelaide Bank shareholders must agree to swap their Adelaide shares for Bendigo Bank shares. The Scheme is therefore required to be considered by Adelaide Bank shareholders only and no meeting of Bendigo Bank shareholders is required or was held to approve the merger.

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

**Answer:** The merger exchange ratio (1.075 new Bendigo shares for each Adelaide share) was struck during the negotiation of the merger having regard to a range of factors including earnings, dividends, share market values, prospects and the value each will bring to the new merged company.

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

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

**Answer:** Adelaide Bank's Managing Director, Jamie McPhee, will be appointed to the board of the merged group as an executive director. He will be responsible for our wholesale banking services. With Rob Hunt's retirement in July 2009, Jamie McPhee will be in an excellent position to

succeed Mr Hunt but no decision has been made on who will be the next Managing Director. The new merged company will be a much larger and more complex business than either company was before the merger. The board will conduct an appropriate evaluation process prior to making a decision.

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

Sub-prime lending exposure

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

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

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

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

Neither Bendigo Bank nor Adelaide bank has any direct exposure to the US sub-prime market.



## The Bendigo Centre

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

**Answer:** The Bank has contracted to sell its new headquarters to a consortium of buyers arranged by Society Generale for \$100 million. The Bank will lease back the premises on a long-term lease.

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

At this stage the total project cost is about \$107 million but that includes some assets which continue to be owned by the Bank and amortised in accordance with accounting requirements.

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

Previously we had staff scattered around Bendigo in five different locations, some in sub standard premises. The new light filled, open planned work space has already helped improve productivity, communication and build a coherent corporate culture.

The board considers that these advantages will offset the occupancy cost increase. The head office buildings will be sold with an 18 year lease back to the Bank at a yield of approximately seven per cent representing a relatively competitive rate in the Bendigo property market.



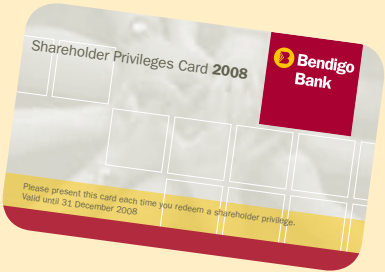
Clementa O'Brien, Bendigo; Janice West, Bendigo; Noelene Scales, Bendigo.



Shareholders Jean Ebbeck (Albury); Kees and Bernadette Weiss (Cranbourne) and Warren Ebbeck (Albury) enjoy refreshments at the AGM.

# Welcome to the Bendigo Bank Shareholder Privileges Package for 2008

We are pleased to offer Bendigo Bank shareholders a variety of benefits on various Bendigo Bank Group products and services for 2008.



These Shareholder Privileges are available to personal customers holding 500 or more fully paid Bendigo Bank shares or 40 Bendigo Preference Shares, or companies holding 1500 or more fully paid Bendigo Bank shares or 120 Bendigo Preference Shares.

## Your 2008 card

Eligible shareholders will find your 2008 Shareholder Privileges card enclosed. Please destroy your 2007 card. You will need to present your card each time you redeem a privilege.

All of the offers are valid until 31 December 2008, with the exception of Bendigo Online Share Trading which expires on 30 November 2008. If you would like further information, please contact Customer Help on 1300 361 911.

We encourage you to take advantage of these services. Terms and conditions for these offers are included in this newsletter, or where indicated.

<b>Privilege 1 Shareholder Account</b>	<p>Offering eligible shareholders a convenient transaction account with great benefits.</p> <p>You have the choice of a Bendigo Shareholder Passbook Account, a Bendigo Shareholder Everyday Account, or a Bendigo Shareholder Cheque Account. All accounts offer an attractive rate of interest, calculated daily and credited half yearly, convenient access 24 hours a day seven days a week and a transaction account rebate of \$10.00.</p> <p>Limited to one "Shareholder Account" per shareholder. The account must be in the name of a listed shareholder, except in the case of a company shareholding, in which case an account must be opened in a director's name.</p>
<b>Privilege 2 Special Term Deposit</b>	<p>A 12 month term deposit which will earn higher interest at 0.25%p.a. above the Bank's 12 month term deposit rate with interest paid on maturity.</p> <p>Minimum deposit \$5,000. Term deposit rate applicable on date of redemption of this offer. The rate listed is subject to change.</p>
<b>Privilege 3 Lending Products</b>	<p>\$0 Loan application fees for: home loans, investment loans, commercial loans, personal loans</p> <p>Maximum value of loan application fee waiver is \$1000 per application. Excludes all Bendigo Agribusiness Lending products.</p> <p>0.25%p.a. discount on the standard variable and fixed interest rates for margin lending.</p>



<b>Privilege 4</b> <b>Insurance</b>	<ul style="list-style-type: none"> <li>• 10% discount on premium for house and contents insurance</li> <li>• 20% discount on premium for travel insurance</li> <li>• 5% discount on premium for car insurance</li> <li>• 10% discount on premium for landlords insurance</li> </ul>
<b>Privilege 5</b> <b>Bendigo Bank</b> <b>Credit Card</b> <b>and Bendigo</b> <b>Rewards</b>	<ul style="list-style-type: none"> <li>• 5% discount off the normal standard rate for the Bendigo Red Up to 44 Days interest free credit cards. With your choice of either MasterCard or Visa and automatic membership to Bendigo Rewards.</li> <li>• Plus 5000 bonus reward points. If you successfully apply for a Bendigo Bank “interest free days” Red credit card we'll kick start your points tally with a bonus 5000 points.</li> </ul> <p>Annual fee of \$35 applies to the Bendigo Red Up to 44 Days interest free credit cards.</p>
<b>Privilege 6</b> <b>Bendigo</b> <b>Financial</b> <b>Planning</b>	<ul style="list-style-type: none"> <li>• An obligation free financial consultation with a Bendigo Financial Planner.</li> <li>• 20% discount on initial advice and implementation fees and on-going service fees paid via an on-going Service Agreement.</li> </ul> <p>Financial Planning services are provided by Bendigo Financial Planning Ltd ABN 81 087 585 073, AFSL No. 237898, a member of the Bendigo Bank group of companies, operating throughout Bendigo Bank branches in VIC, SA, QLD, NSW, ACT &amp; WA.</p>
<b>Privilege 7</b> <b>Foreign</b> <b>Currency and</b> <b>Travellers</b> <b>Cheques</b>	<ul style="list-style-type: none"> <li>• Receive a 50% discount on standard fees when buying foreign bank notes and on foreign currency cheque conversions (cash letter items only)*.</li> <li>• Travellers cheques FREE of commission charges. A safe way of carrying funds overseas or within Australia.</li> <li>• Receive a 50% discount on standard fees when cashing non-Amex travellers cheques*.</li> </ul> <p>* Please refer to the Bendigo Bank Schedule of Fees, Charges and Transaction Account Rebates for full details of fees and charges.</p>
<b>Privilege 8</b> <b>Bank Draft and</b> <b>Telegraphic</b> <b>Transfers</b>	<ul style="list-style-type: none"> <li>• 50% discount on standard fees on issue of foreign bank drafts and telegraphic transfers*.</li> <li>• Receive a 50% discount on the standard Bendigo Bank fee when making a payment of funds from a Bendigo Bank account for fast transfer to an account at any Australian financial institution**.</li> </ul> <p>* This discount applies only to the fee component charged by Bendigo Bank for issuing Bank drafts and telegraphic transfers and is only applicable to personal banking. This discount is not to be used to obtain concessions in relation to services provided to companies or trusts.</p> <p>** Please refer to the Bendigo Bank Schedule of Fees, Charges and Transaction Account Rebates for full details of fees and charges.</p>
<b>Privilege 9</b> <b>Sandhurst</b> <b>Trustees</b>	<ul style="list-style-type: none"> <li>• Sandhurst Trustees, a wholly owned subsidiary of Bendigo Bank would like to offer all shareholders:</li> <li>• 20% off preparation cost of wills.</li> </ul> <p>This offer is restricted to VIC and NSW only and is provided by Sandhurst Trustees Wills &amp; Estates Administration Service, Sandhurst Trustees, ABN 16 004 030 737, AFSL Number 237906, 18 View St, Bendigo, VIC 3550.</p>
<b>Privilege 10</b> <b>Bendigo Online</b> <b>Share Trading</b>	<ul style="list-style-type: none"> <li>• Register for Bendigo Online Share Trading and as a Bendigo Bank Shareholder you will receive your first 10 share trades free of brokerage (your new account must be opened by 30 November 2008 and share purchases completed within 60 days of the account opening).</li> </ul> <p>Visit <a href="http://www.bendigobank.com.au/share_trading/shareholder_offer.asp">http://www.bendigobank.com.au/share_trading/shareholder_offer.asp</a> for full terms and conditions and to complete your application today.</p>

## Your Company news

### 150th anniversary

On 9 July 2008, Bendigo Bank will celebrate the 150th anniversary of the community meeting in Abbots Hotel, out of which the first building society emerged. This will be a great occasion and we will look forward to wide participation in the celebrations.

### 10th anniversary of Community Bank®

On 25 June 1998, Bendigo Bank and the Wimmera towns of Rupanyup and Minyip celebrated the opening of Australia's first **Community Bank®** branch. In June 2008, Bendigo's 200-plus **Community Bank®** branch network will celebrate 10 years of community banking.

### The Bendigo Centre official launch

In late 2008 the Bendigo community will celebrate the official launch of The Bendigo Centre. Stage one is complete with more than 600 staff already located in the new building. At the time of the official launch, more than 1000 staff will be working in the company's state-of-the-art headquarters.

Details of all three celebrations will be communicated to shareholders in the New Year.

### Changing address?

Please ensure you advise of any change of address. Broker-sponsored shareholders should advise their broker, not our Share Registry (which is unable to process your request).

Issuer-sponsored shareholders should complete a Change of Address Form and return to Bendigo Bank Share Registry, PO Box 480, Bendigo, Victoria 3552.

Forms can be downloaded from our Online Share Registry, or contact Share Registry on 1800 646 042 to receive a copy.

### Have you received multiple reviews?

If your household has received multiple copies of this review and you would only like to receive one, please advise us in writing to Bendigo Bank Share Registry, PO Box 480, Bendigo, Victoria 3552.

### Become an e-shareholder

By registering to become a Bendigo Bank e-shareholder, you will receive most of your documents online, including your Annual Review and shareholder reviews.

To register, simply log on to [www.bendigobank.com.au/e-shareholder](http://www.bendigobank.com.au/e-shareholder) and enter your details.

## Community News

Two new **Community Bank®** branches opened in Victoria since the September Review - Mansfield and Bunyip. Two more branches are planned to open in December – Mt Beauty (Victoria) and Gin Gin (WA).

There are currently 203 **Community Bank®** branches across Australia. When you take the time to list them, the official statistics are impressive:

- 53,000 local shareholders
- \$10 billion in combined banking business
- \$10 million in grants to community groups and projects
- \$9 million in dividends paid to shareholders
- 1000 **Community Bank®** branch staff



Geelong based Director Kevin Roache (left) chats with former Bendigo Bank staff member Doug Laity, at the 2007 AGM.

## Terms & Conditions

The Shareholder Privileges Package is available to:

- Personal customers holding 500 or more fully paid Bendigo Bank Limited shares or 40 Bendigo Bank Limited Preference Shares, who currently hold an open and valid account with Bendigo Bank Limited and who are current customers of Bendigo Bank Limited.
- Companies holding 1500 or more fully paid Bendigo Bank Limited shares or 120 Bendigo Bank Limited Preference Shares, who currently hold an open and valid account with Bendigo Bank Limited and who are current customers of Bendigo Bank Limited.

The listed privileges can be redeemed at most Bendigo Bank branches throughout Australia.

All of the offers listed in this brochure are valid until 31 December 2008, with the exception of Bendigo Online Share Trading which expires on 30 November 2008. If you would like further information please contact Customer Help on 1300 361 911.

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You should obtain a copy of the relevant Terms and Conditions document or Product Disclosure Statement (PDS) and consider them before making a decision whether to acquire or continue to hold any of these products or use any of these services.

The Bendigo Shareholder Passbook Account, Bendigo Shareholder Everyday Account, Bendigo Shareholder Cheque Account, and Bendigo Term Deposit accounts are issued by Bendigo Bank Limited, ABN 11 068 049 178, of The Bendigo Centre, Bendigo Vic 3550. The Terms and Conditions for each of these products and services are available from your nearest Bendigo Bank branch or online at [bendigobank.com.au](http://bendigobank.com.au).

BBL Insurance is a registered business name of Bendigo Bank Limited. House and contents insurance, travel insurance and car insurance are issued by CGU Insurance Limited ABN 27 004 478 371, of 485 Latrobe Street, Melbourne Vic 3000, an IAG Company. You can get a Product Disclosure Statement (PDS) for these products from any BBL Insurance office or CGU. Bendigo Bank Limited is authorised by CGU Insurance Limited to distribute its products. Bendigo Bank Limited receives a commission based on a proportion of your insurance premium. This is included in the amount that you pay for the product. More detailed information can be found in the Bendigo Bank Limited Financial Services Guide.

Financial planning services are provided by Bendigo Financial Planning Limited, ABN 81 087 585 073 of Level 5, 120 Harbour Esplanade, Docklands, Melbourne, Vic 3008, a subsidiary of Bendigo Bank Limited.

