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# Merger of Adelaide Bank and Bendigo Bank



# Agenda

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- 1. Introduction** – Adele Lloyd
- 2. Strategic Rationale** – Robert Johanson
- 3. The Combined Group** – Rob Hunt and Jamie McPhee
- 4. Synergies** – Jamie McPhee
- 5. Process and Timing** – Robert Johanson

# Details of Merger

## Both Boards unanimously recommend the merger

<b>Proposal</b>	<ul style="list-style-type: none"><li>■ Merger of Adelaide Bank Ltd (Adelaide) and Bendigo Bank Ltd (Bendigo)</li><li>■ Scrip for scrip merger via Adelaide scheme of arrangement - subject to Adelaide shareholder approval</li></ul>
<b>Exchange Ratio</b>	<ul style="list-style-type: none"><li>■ 1.075 Bendigo shares per Adelaide shares</li><li>■ Bendigo shareholders will own approximately 55% and Adelaide 45% of the merged group</li></ul>
<b>Name</b>	<ul style="list-style-type: none"><li>■ Bendigo and Adelaide Bank Ltd</li><li>■ Name change will be proposed at an EGM of the merged group following the merger</li></ul>
<b>Governance</b>	<ul style="list-style-type: none"><li>■ Robert Johanson (Chairman)</li><li>■ Kevin G Osborn (Deputy Chairman)</li><li>■ Rob Hunt (Managing Director)</li><li>■ Jamie McPhee (Executive Director)</li><li>■ Both Boards will each be reduced by two directors, resulting in a Board of twelve, including two executive directors</li></ul>
<b>Conditions</b>	<ul style="list-style-type: none"><li>■ Regulatory approvals (including Treasurer / APRA, ACCC)</li><li>■ Adelaide shareholder approval</li><li>■ No prescribed occurrences</li><li>■ No material adverse changes</li><li>■ Mutual break fee of \$15m</li></ul>



# Strategic Rationale

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## 1 **Bendigo and Adelaide are the right partners**

- ▶ Merger combines two successful companies to create a unique customer and partner focused financial services organisation
  - ▶ Strong cultural alignment
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## 2 **Combination of two distinctive but complementary businesses**

- ▶ Adelaide excels in partnering with a range of distribution partners as a specialist wholesale finance provider, while Bendigo is Australia's pre-eminent service-focused retail bank
  - ▶ Retaining both brands to support multi-channel distribution strategy
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## 3 **Enhances value proposition for customers, partners, communities and staff**

- ▶ Customers gain access to more products, branches and ATMs
- ▶ Preserving and continuing to invest in Community Bank® and wholesale partnership models
- ▶ Greater career opportunities for staff through a larger and more diversified company
- ▶ Head office functions split between existing locations

# Strategic Rationale

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## 4 Merged group is financially stronger and better positioned to grow and innovate

- ▶ Expanded national presence in every State and Territory in Australia
  - ▶ Improved scale/operating efficiency
  - ▶ Enlarged balance sheet
  - ▶ Diversified business mix
  - ▶ Increased funding flexibility
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## 5 Creates significant value for Bendigo and Adelaide shareholders

- ▶ Cost synergies estimated at \$60m - \$65m pre-tax
- ▶ Potential for substantial revenue synergies through product cross-sell to enlarged retail customer base
- ▶ High confidence in integration due to cultural alignment
- ▶ Cash EPS accretive<sup>1</sup> to both sets of shareholders in the first full financial year
- ▶ Scrip for scrip capital gains tax rollover relief expected to be available to Adelaide shareholders



1. Excluding one-off items and merger integration costs.



# Summary of Adelaide Results

## Results Summary

	2007	2006	Change
<b>Reported NPAT (\$m)</b>	105.6	94.4	11.9%
<b>Cash Earnings (\$m)</b>	104.3	94.0	10.9%
<b>Cost to Income Ratio</b>	48.3%	50.7%	2.4 pts
<b>Cash EPS (cents)</b>	96.8	88.7	9.1%
<b>Dividend Per Share (cents)</b>	65.0	58.0	12.1%

## Drivers

- Strong business growth and diversified earnings
- Sound and improving asset quality
- Return to double-digit EPS growth 2007-2008

# Summary of Bendigo Results

## Results Summary

	2007	2006	Change
<b>Reported NPAT (\$m)</b>	121.8	116.7	4.4%
<b>Cash Earnings (\$m)</b>	118.5	102.5	15.6%
<b>Cost to Income Ratio</b>	64.6%	66.6%	2.0 pts
<b>Cash EPS (cents)</b>	82.9	73.2	13.3%
<b>Dividend Per Share (cents)</b>	58.0	52.0	11.5%

## Drivers

- Continued progress reflects consistent focus and investment
- Substantial improvement in Cash ROE – up 0.9% to 15.4%
- Exceeded cash EPS guidance
- Strong margin reflects brand strength
- Strong business growth
- Excellent credit quality

# Bendigo and Adelaide are the Right Partners

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- Merger based on partnership approach
- Alignment of culture is key
- Complementary businesses, channels, products, and capabilities
- Revenue diversification and geographic extension rather than overlap
- Significant value creation through synergies, scale and cost efficiency
- High confidence in integration
- Commitment to preserve brands and head office functions in existing locations
- Common core banking systems

# Combination of Complementary Businesses

## Leveraging the strengths of both companies

	<b>Bendigo Capabilities</b>	<b>Adelaide Capabilities</b>		<b>Competitive Advantages of Merged Group</b>
<b>Service</b>	<ul style="list-style-type: none"> <li>■ Strong customer service culture – high customer advocacy</li> <li>■ Trusted brand</li> </ul>	<ul style="list-style-type: none"> <li>■ Leading partner service and processing capabilities</li> <li>■ Strong specialist brands</li> </ul>	▶	<ul style="list-style-type: none"> <li>■ <b>Leading customer service proposition across retail and wholesale</b></li> </ul>
<b>Distribution</b>	<ul style="list-style-type: none"> <li>■ 357 retail branches</li> <li>■ 1.1 million retail customers</li> <li>■ Community Bank® branches</li> </ul>	<ul style="list-style-type: none"> <li>■ Expansive third party distribution network</li> <li>■ 25 retail branches (SA)</li> <li>■ 180,000 retail customers</li> <li>■ 46 wholesale partners</li> </ul>	▶	<ul style="list-style-type: none"> <li>■ <b>Multi-channel distribution platform</b> <ul style="list-style-type: none"> <li>▶ 1.3 million customers</li> <li>▶ 382 branches</li> <li>▶ 46 wholesale partners</li> <li>▶ Expanded, national footprint</li> </ul> </li> </ul>
<b>Product</b>	<ul style="list-style-type: none"> <li>■ Retail product suite</li> <li>■ Wealth management offering</li> </ul>	<ul style="list-style-type: none"> <li>■ Wholesale product suite</li> <li>■ Strong history of product innovation</li> <li>■ Leader in margin lending</li> </ul>	▶	<ul style="list-style-type: none"> <li>■ <b>Full retail and wholesale product offering</b> <ul style="list-style-type: none"> <li>▶ Supported by product innovation / specialist knowledge</li> </ul> </li> </ul>
<b>Administration / Back Office</b>	<ul style="list-style-type: none"> <li>■ Scale advantages</li> </ul>	<ul style="list-style-type: none"> <li>■ Lean manufacturing and servicing</li> <li>■ Best in class efficiency</li> <li>■ Low cost:income</li> </ul>	▶	<ul style="list-style-type: none"> <li>■ <b>Back office excellence</b> <ul style="list-style-type: none"> <li>▶ Scale and improved cost efficiency</li> </ul> </li> </ul>
<b>Culture</b>	<ul style="list-style-type: none"> <li>■ Community and partner based</li> </ul>	<ul style="list-style-type: none"> <li>■ Partnership approach</li> </ul>	▶	<ul style="list-style-type: none"> <li>■ <b>Community and partnership driven culture</b></li> </ul>



# Enhanced Proposition for All Stakeholders

	Proposition	Commitment
<b>Customers &amp; Community</b>	<ul style="list-style-type: none"> <li>■ Superior customer service supported by an improved product and service offering</li> <li>■ Access to more products, branches and ATMs through expanded national network</li> </ul>	<ul style="list-style-type: none"> <li>■ Preserve and continue to invest in the Community Bank® model and retail branch network</li> <li>■ Retain and grow both Bendigo and Adelaide brands</li> </ul>
<b>Partners</b>	<ul style="list-style-type: none"> <li>■ Greater variety of product, improved services and customised financial solutions</li> <li>■ Backed by the greater scale and scope of the merged group</li> </ul>	<ul style="list-style-type: none"> <li>■ Preserve partnership model and relationships</li> <li>■ Maintain channel independence</li> </ul>
<b>Shareholders</b>	<ul style="list-style-type: none"> <li>■ Ownership of a unique company with an enhanced financial profile</li> <li>■ Significant value and cash EPS accretion<sup>1</sup> to both sets of shareholders in the first full financial year</li> <li>■ Pre-tax cost synergies estimated at \$60m - \$65m</li> <li>■ Potential for substantial revenue synergies</li> </ul>	<ul style="list-style-type: none"> <li>■ Continue track record of both organisations in creating sustainable shareholder value</li> </ul>
<b>Staff</b>	<ul style="list-style-type: none"> <li>■ Enhanced career opportunities through a larger and more diversified company</li> <li>■ Improved training and career development</li> <li>■ Greater ability to attract and retain top talent</li> <li>■ Combined entity will have more than 4,000 staff across every state and territory of Australia</li> </ul>	<ul style="list-style-type: none"> <li>■ Head office functions will be split between existing locations</li> </ul>

1. Excluding one-off items and merger integration costs.



# Merged Group is Financially Stronger

	Bendigo	Adelaide	Merged Group
<b>Market Cap (\$bn) before synergies<sup>1</sup></b>	2.4	1.6	<b>3.9</b>
<b>ASX 200 position (#)<sup>2</sup></b>	96	114	<b>Top 70</b>
<b>Shareholders (#)</b>	53,500	28,500	<b>82,000</b>
<b>Customers (#)</b>	1,126,000	180,000	<b>1,306,000</b>
<b>Branches (#)</b>	357	25	<b>382</b>
<b>2007 Cash NPAT (\$m) before synergies</b>	119	104	<b>223</b>
<b>Estimated synergies pre tax (\$m)<sup>3</sup></b>	-	-	<b>60 – 65</b>
<b>Loans Under Mgmt (\$bn)<sup>4</sup></b>	15.8	27.4	<b>43.2</b>
<b>Funds Under Mgmt (\$bn)<sup>4</sup></b>	3.4	3.5	<b>6.9</b>
<b>Credit Rating</b>	BBB+	BBB+	<b>Potential for upgrade</b>

1. Based on shares outstanding and share prices of \$16.50 for Bendigo and \$14.40 for Adelaide as at 8 August 2007.

2. Source: IRESS as at 8 August 2007.

3. Excluding synergy integration costs.

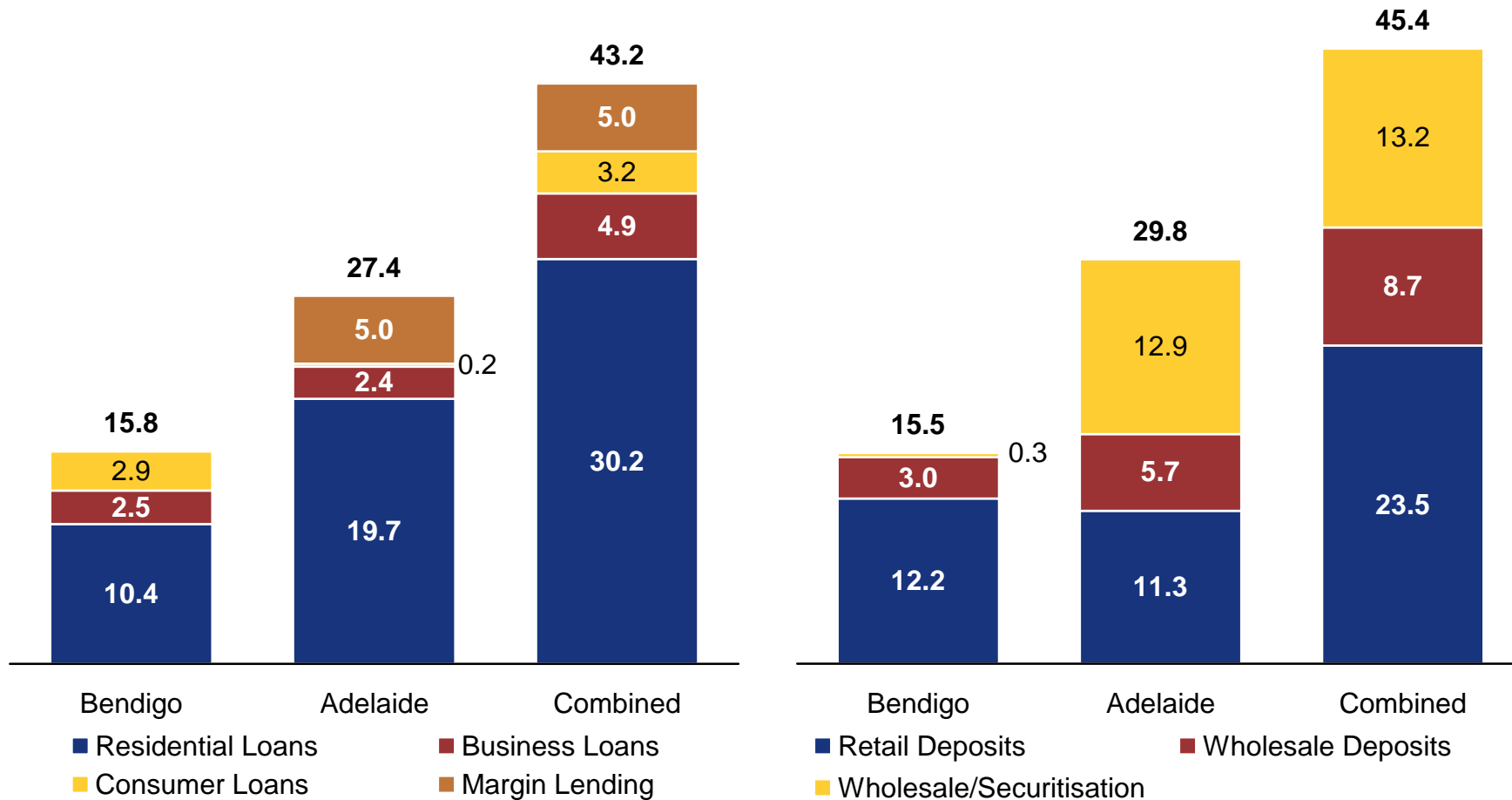
4. As at 30 June 2007.



# Enlarged Balance Sheet

Loan Mix (\$bn)

Funding Mix (\$bn)



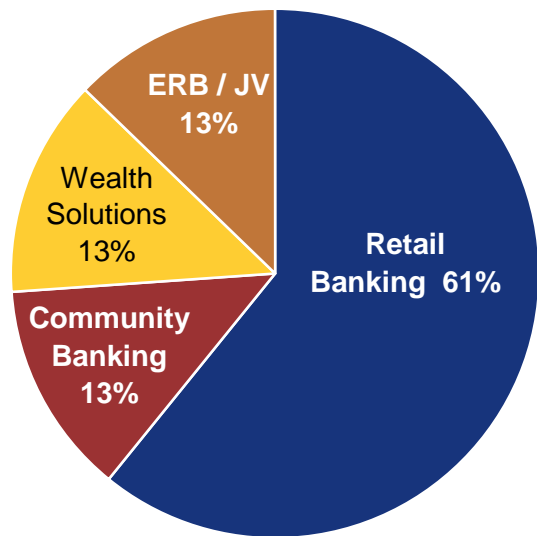
Source: 30 June 2007 Results



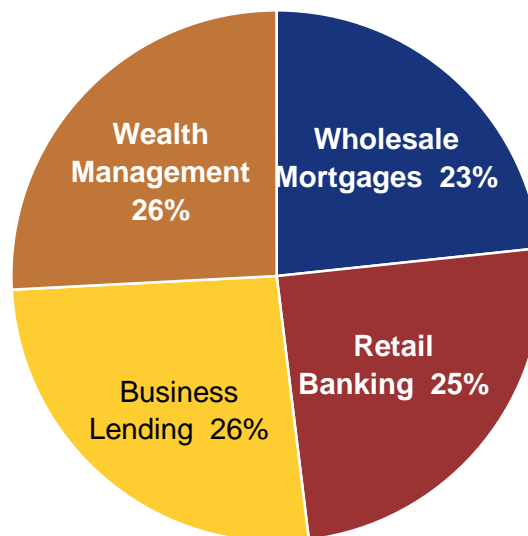
# Diversified Business Mix



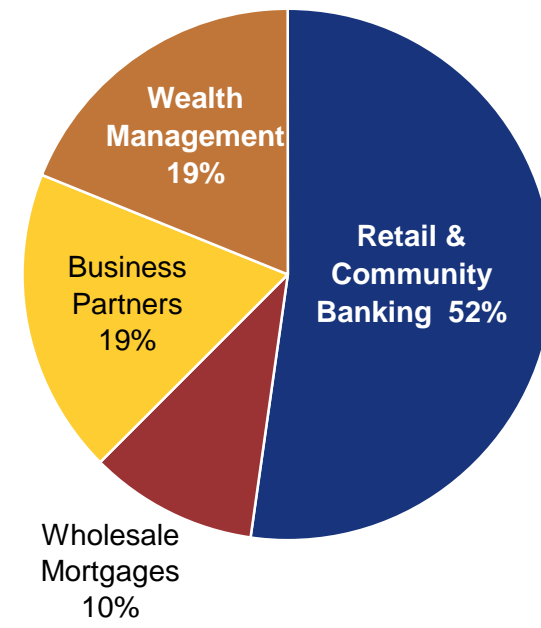
**Bendigo (PBT)<sup>1</sup>**



**Adelaide (PBT)<sup>1</sup>**



**Merged Group  
(Pro Forma PBT)**



1. Profit contribution before tax and unallocated corporate support costs and significant items.

Source: 30 June 2007 Results



# Capital Position

## Standalone Position (as at 30 June 2007)

	<b>Bendigo</b>	<b>Adelaide</b>
<b>ACE</b>	5.42%	5.50%
<b>Tier 1</b>	7.98%	6.26%
<b>Total</b>	10.24%	10.88%

## Capital Management Plan

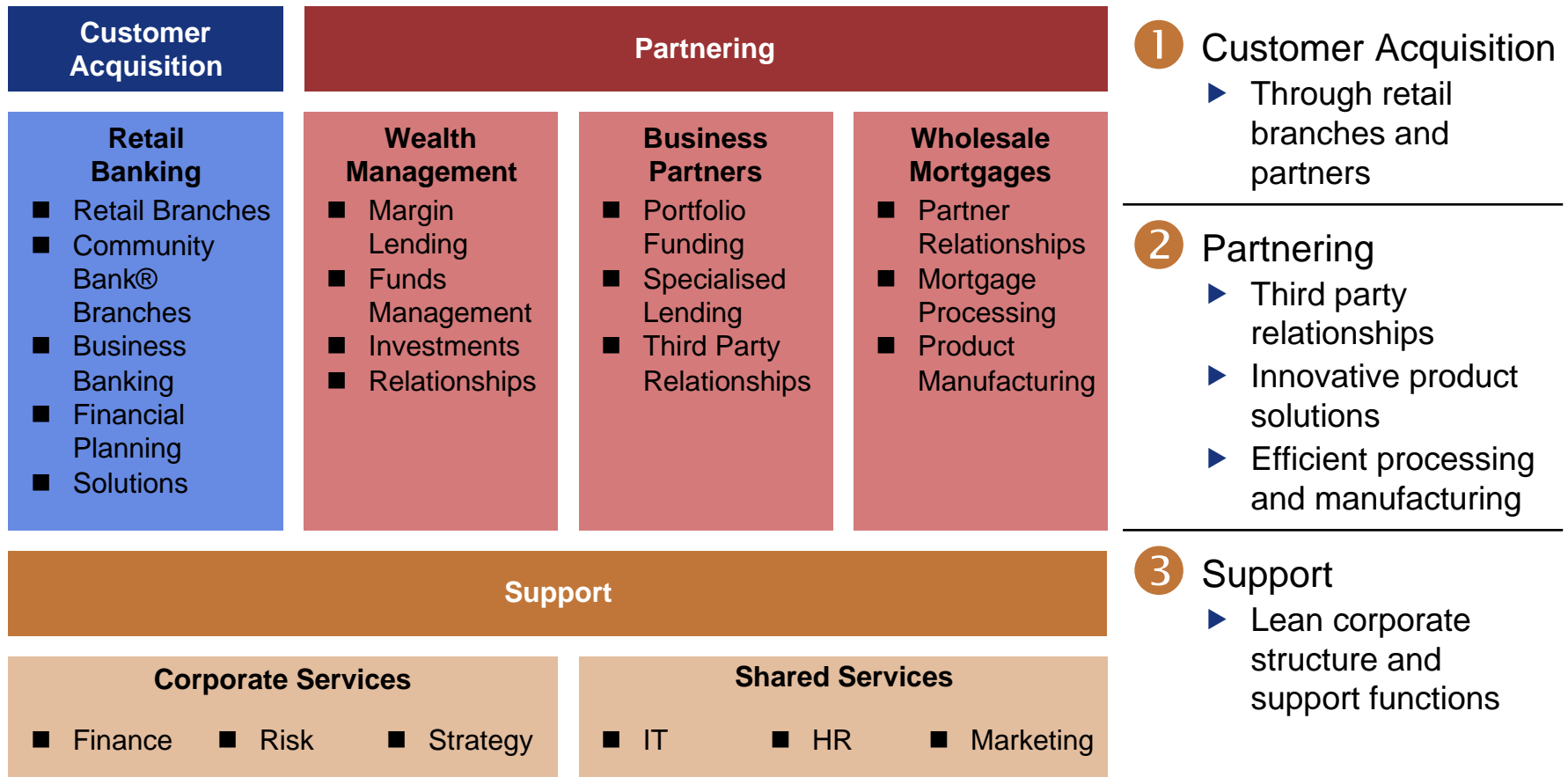
- Maintenance of dividend payout of 70%
- Ongoing dividend reinvestment plan
- Active capital management plan for merged group
- The proposal for dealing with the Adelaide Reset Preference Shares is to be determined
- The Adelaide Step-Up Preference Shares will be subject to a separate Scheme, the terms of which are to be determined



Source: 30 June 2007 Results

# Better Positioned to Grow and Innovate

## Focused business units to drive growth



# Retail Banking

- Creating a national retail distribution network, comprising:
  - ▶ 357 Bendigo Community Bank® and corporate branches
  - ▶ 25 Adelaide retail branches
  - ▶ Financial planning
  - ▶ 1.3 million customers
- Continued growth in the branch network
  - ▶ Further investment in the South Australian branch network
  - ▶ Continued focus on Community Bank® model
  - ▶ Plan to open a further 25 branches in 2007/08
- Product suite drawn from capabilities of whole organisation
- Enhanced funding flexibility – retail deposits, securitisation, wholesale funding, mortgage fund
- Leverage Bendigo's payment systems

# Wealth Management

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- Combining Adelaide's Margin Lending and Managed Funds business with Bendigo's Sandhurst Trustees, equity portfolio investments and alliances
  - ▶ \$6.9bn funds under management
- Improved customer access through expanded distribution network, including Bendigo's financial planner network and Adelaide's partner relationships
- Broader positioning in wealth management value chain with manufacturing and distribution capability
- Focus on product development/innovation and penetration
  - ▶ Provision of margin lending product to Bendigo customer base
- End to end linkage between structured products, asset sourcing and securitisation expertise

# Business Partners

- Combining Adelaide's Portfolio Funding and Specialised Lending, with Bendigo's Elders Rural Bank Joint Venture and SME offerings (including Oxford Funding)
  - ▶ \$5.8bn<sup>1</sup> loans under management
- Leverages risk, securitisation and specialist skills
- Product portfolio enhanced for corporate customers
- Increased exposure to attractive SME segment given wider customer base and enhanced offering



1. Excludes ERB loans under management of \$3.2bn.



# Wholesale Mortgages

- Combining Adelaide's wholesale mortgage business and Bendigo's NMMC operation
- Focus on process efficiency and margin management to drive synergies for combined group
- Partnership model for mortgage managers and brokers is key and will remain intact
  - ▶ \$16.9bn loans under management
  - ▶ Potential for product portfolio enhancement for SME commercial lending
- Track record of continual product innovation provides competitive advantage, e.g.
  - ▶ Lo-Doc
  - ▶ Equity Finance Mortgages
  - ▶ Equity Release Mortgages
  - ▶ SmartSuite
- Potential to expand into business process outsourcing for other industry participants

# Synergies

## Potential pre-tax cost synergies of \$60m - \$65m

Type	Description
<b>Cost Synergies</b>	<ul style="list-style-type: none"><li>■ Functional overlap<ul style="list-style-type: none"><li>▶ Focus on back office overlap</li><li>▶ Leveraging staff across business lines</li><li>▶ Based on merit</li></ul></li><li>■ IT savings<ul style="list-style-type: none"><li>▶ Both run on same core banking systems</li><li>▶ Low IT integration risk</li></ul></li><li>■ Funding benefits<ul style="list-style-type: none"><li>▶ Improved access to wholesale funds due to scale</li></ul></li><li>■ Consolidation of corporate costs<ul style="list-style-type: none"><li>▶ Listing costs, regulatory fees</li><li>▶ Board</li><li>▶ Shared consulting services</li></ul></li><li>■ \$60m - \$65m (pre-tax) cost synergies</li><li>■ 80% expected to be realised by second full year of operation</li></ul>
<b>Revenue Synergies</b>	<ul style="list-style-type: none"><li>■ Potential for significant revenue synergies<ul style="list-style-type: none"><li>▶ Increased product and service offering to enlarged customer base</li></ul></li><li>■ Revenue synergies not factored into merger economics</li></ul>

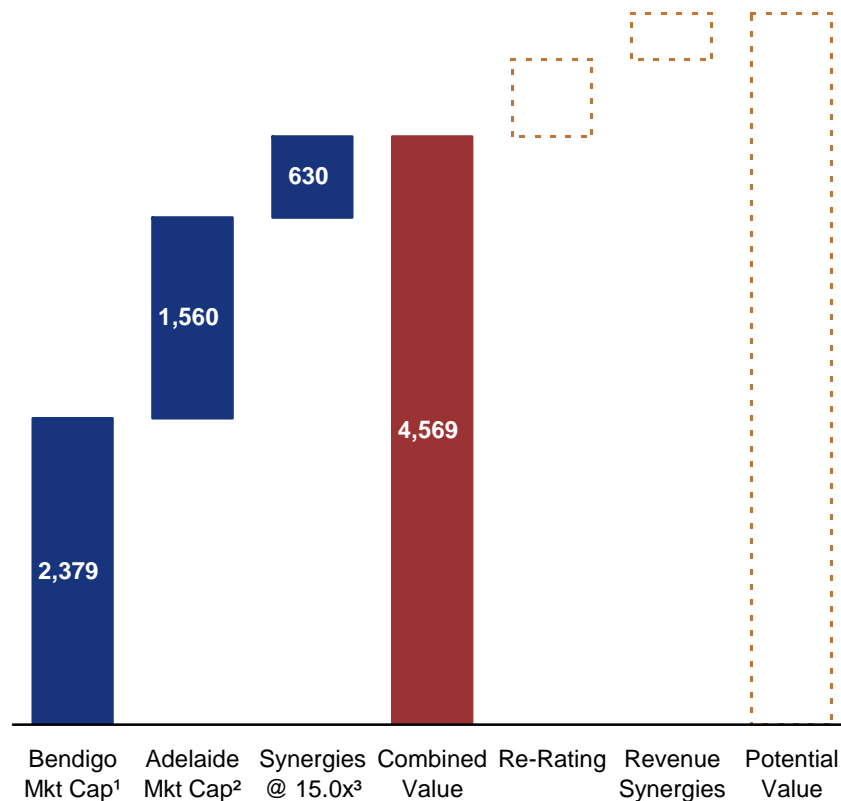
# High Confidence in Successful Integration

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- Cultural alignment of the two organisations is strong
- Commitment to maintain Bendigo and Adelaide headquarters with a split of functions
- Both brands will be maintained and grown
- No change to Community Bank® or partnership models
- Continuing investment in Community Bank® branches to underpin strategy and growth of the retail bank
- Investment in Adelaide SA branches
- Continuing investment in partnerships

# Potential Value Creation from the Merger is Significant

## Potential Value Creation (\$m)



## Key Drivers

- Strong underlying momentum in both businesses
- Reaping benefits of prior years' investments
- Significant cost synergy potential (\$60m-\$65m pre-tax)
- Potential re-rating due to stronger growth profile of combined business
- Identified opportunities for revenue synergies but not factored into merger economics

1. Based on Bendigo share price of \$16.50 and shares outstanding of 144.2m as at 8-Aug-2007.  
 2. Based on Adelaide share price of \$14.40 and shares outstanding of 108.3m as at 8-Aug-2007.  
 3. Illustrative purposes only – assumes cost synergies of \$60m (pre tax) capitalised at 15.0x (around blended PE). Excludes integration costs.



# Key Steps and Timing

## The merger is anticipated to be implemented by November 2007

- |   |              |
|---|--------------|
| ■ Merger Implementation Agreement signed                  | 9-Aug-2007   |
| ■ Finalise due diligence and address conditions precedent | Aug-Sep 2007 |
| ■ Scheme Booklet sent to Adelaide shareholders            | Oct-2007     |
| ■ Adelaide shareholder vote                               | Nov-2007     |
| ■ Implementation date                                     | Nov-2007     |

Note: This timetable is subject to change and could be influenced by many factors outside the control of Bendigo and Adelaide.



# In Summary

**Merged group will have high quality earnings and growth profile**

	<b>Adelaide Shareholders</b>	<b>Bendigo Shareholders</b>
<b>Product and Channel Diversification</b>	✓	✓
<b>Geographic Diversification</b>	✓	✓
<b>Increased Scale and Efficiency</b>	✓	✓
<b>Funding Flexibility</b>	✓	✓
<b>Platform for Expansion/Acquisitions</b>	✓	✓
<b>Synergies</b>	✓	✓
<b>Value Creation</b>	✓	✓