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**Title:** Open Briefing®. Adelaide Bank & Bendigo Bank Merger Update

**Record of interview:**

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Adelaide Bank Limited and Bendigo Bank Limited announced plans to merge in early August 2007. How have plans for the merger progressed since then?

**MD Jamie McPhee**

There has been a period of intense activity, including due diligence and preparing scheme and court documents, since the initial merger announcement on 9 August, 2007. Most of this activity will culminate in a court appearance this Friday (October 5, 2007) in the Federal Court in Adelaide, where we will seek court approval for the Scheme Meetings to be convened.

Subject to the approval of the Court, we will then be able to proceed with printing the Scheme Book, which will contain the relevant information and voting papers for shareholders relating to the proposed merger.

Our plan is to post the Scheme Book and relevant documentation to shareholders by the middle of next week, and for the Scheme Meetings (one for each of the three classes of Adelaide Bank shares) to be held in Adelaide on November 12, 2007.

**corporatefile.com.au**

Has your recently completed due diligence process altered your perceptions of the benefits of the merger to shareholders and/or the merger rationale?

**MD Jamie McPhee**

Our perception of the merger and the advantages it will bring for our shareholders has not changed in the weeks since it was first announced. The proposed merger will bring together specialist skills in wholesale and retail banking that have been separately developed.

We are aiming to create a business with complementary products and business streams; Adelaide Bank's wholesale mortgages, margin lending and portfolio funding businesses, and Bendigo Bank's community focused retail banking business.

We believe the merger will allow us to deliver these businesses more cost effectively to customers and partners. In addition, we believe a merged Group will be a stronger organisation with a more diverse and flexible funding mix.

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Adelaide Bank and Bendigo Bank have different business models. You are a specialist wholesale bank and Bendigo Bank is a service focused retail bank. What progress have you made towards implementing the merger of these two businesses?

**MD Jamie McPhee**

Throughout this process we have maintained high expectations of a smooth merger and integration process, and this has certainly been our experience in the planning process so far.

There are two main reasons for our confidence. The first is due to the fact that our core businesses have very little overlap, and this means that our customer and partner facing divisions will experience little or no change as a result of the merger. Consequently, there is very little chance of disaffecting or upsetting our customers and staff in those particular businesses.

The second is that our business cultures and philosophies are very similar. Both Banks come from building society backgrounds, and have pursued unique business models in the Australian financial services sector that have customer and partner service as key platforms for success.

The specifics of the merger implementation are being progressively planned for. A working group headed by Bendigo Bank Managing Director, Rob Hunt, has been established to plan for the implementation process. Rob is being supported by Bendigo Bank's Chief Operating Officer, Mike Hirst, and me, as the Group Managing Director of Adelaide Bank.

As a group we have adopted a strict principle of ensuring the merged Bank retains the optimum mix of skills, resources, talent and capability through this process, and we are confident of being able to achieve this.

**corporatefile.com.au**

When announcing the merger you identified cost synergies estimated at \$60 to \$65 million pre-tax and the potential for revenue synergies. Can you update us on the magnitude and timing of the realisation of cost and revenue synergies?

**MD Jamie McPhee**

We have been working through the specific synergies predicted and believe the original estimate of \$60 to \$65 million is both realistic and achievable<sup>1</sup>.

We believe 80 per cent of these synergies will be realised by the second full year of operation for the merged Group. The synergies are expected to be realised principally from the consolidation of technology platforms and common head office and back office functions. These include:

- a. Technology: Reduced spending on desktops, IT applications, communications, software licenses and data processing as IT systems and processes are rationalised and migrated onto common platforms.
- b. 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).
- c. Personnel: Staff cost savings through the removal of duplicated functions.

We also anticipate that the merger will potentially generate revenue synergies through opportunities to leverage 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 our wholesale partners.

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You have recently received confirmation that the ACCC will not oppose the merger. What regulatory hurdles remain? What are the next steps in the Scheme of Arrangement processes and when do you anticipate the merger will be effective?

**MD Jamie McPhee**

Our next significant milestone is a court hearing, which is scheduled to be held in the Federal Court in Adelaide this Friday, October 5. We will seek to have the relevant documentation approved by the Court on Friday, so we can then proceed to print and post the Scheme book to all Adelaide Bank shareholders next week.

We are still reliant on the Treasurer's approval for the merger, as well as the relevant Court approvals before we put the merger to a vote of Adelaide Bank shareholders. The shareholder vote is planned for November 12 at the Convention

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<sup>1</sup> Excluding one-off merger and integration costs. The realisation and timing of synergies is subject to integration and other risks.

Centre at Adelaide, South Australia. Specific details of the Scheme meeting will be contained in the Scheme Book which will be sent to all shareholders.

If our shareholders support the merger on November 12, there will be a final Court hearing to approve the Scheme. It is assumed that the merger is expected to take effect sometime in late November or early December 2007.

**corporatefile.com.au**

With shareholders likely to receive a Scheme Book on the merger proposal within days, can you provide an update on Adelaide Bank's trading conditions for the September quarter?

**MD Jamie McPhee**

Issues relating to global credit markets have had a direct effect on all banks in the September quarter.

While the volatility in global credit markets has increased the average cost of funding across the group, we have actively managed these trading conditions and consequently see no reason to revise our previous earnings guidance for the 2008 financial year. Adelaide Bank will continue to monitor and manage the effects of volatility in the global credit markets.

Credit quality throughout the Bank's portfolios continued to improve in the September quarter. Our levels of 90-day in arrears in the mortgage portfolio continued to fall in July and August, and is now the lowest it has been since December 2005.

Despite the volatility in the equity markets there have been no credit losses across the margin lending portfolio. All margin calls are being met, and the loan to valuation ratio of the entire portfolio remains low.

As mentioned previously, the Bank continues to maintain a liquidity position well in excess of its statutory requirements.

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Thank you Jamie.

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