

EXPLANATORY STATEMENT

Item of Business 2 – Remuneration Report

The Remuneration Report is set out on pages 29-32 of the Company's 2005 Annual Report.

Pursuant to section 250R(2) of the Corporations Act 2001, a resolution that the Remuneration Report be adopted must be put to the vote at the Company's Annual General Meeting. The vote on the proposed resolution is advisory only and does not bind the Directors or the Company. However, the Board will take the outcome of the vote into consideration when reviewing remuneration practices and policies.

The chairman of the Annual General Meeting will allow a reasonable opportunity for members to ask questions about, or make comments on, the Remuneration Report.

Item of Business 3 – Fees Payable to Directors

The Directors seek your approval to increase the maximum aggregate sum payable in any financial year by the Company and its subsidiaries to the non-executive Directors of the Company and subsidiaries from \$750,000 to \$825,000.

The fees paid to individual non-executive Directors were last increased in 2004. The Board's Remuneration and Nomination Committee recently engaged two independent consultants to review the remuneration of non-executive Directors. The advice to Directors from the independent consultants is that a 10% increase will maintain the Company's competitive position regarding Directors' fees. This proposed increase is also referred to in the Remuneration Report (on pages 29-32) of the Company's 2005 Annual Report).

If the proposal is approved, it will allow for the appointment of another Director during the financial year, or for any other contingency. The Board has agreed to receive the proposed fee increase in the form of Adelaide Bank shares (purchased on market) in lieu of cash.

Item of Business 4 – Amendment of Constitution

As an item of special business, it is proposed that the Company amend its constitution at its 2005 Annual General Meeting.

Introduction

The current constitution of the Company ("**Constitution**") was adopted by the Company at the 2004 Annual General Meeting held on 5th November 2004. The Constitution replaced the previous Memorandum of Association and Articles of Association ("**Old Articles**") of the Company (which were adopted by the Company when it was first incorporated on 1st January 1994 on the conversion of the Co-operative Building Society to Adelaide Bank Limited).

The Constitution provides for certain share ownership restrictions in the Old Articles to continue to apply. Prior to the 2004 Annual General Meeting, on 28 October 2004 the Board announced that it would recommend to remove the share ownership restrictions as soon as practicable, and if no extraordinary general meeting was called in the meantime, this would be considered at the 2005 Annual General Meeting. Accordingly, the removal of the share ownership restrictions is to be considered at this Annual General Meeting.

Share Ownership Restrictions

Certain provisions from the Old Articles imposing a restriction on share ownership in the Company are retained in the current Constitution. Article 25.8 of the Constitution provides that Articles 2.5, 2.6 and

2.7 of the Old Articles (as set out in Schedule 1 to the Constitution) (the “**Share Ownership Restrictions**”) continue to apply as they did immediately prior to the adoption of the Constitution. Various other supporting provisions (Schedule 2 to the Constitution) and definitions and aids to interpretation (Schedule 3 to the Constitution) from the Old Articles are also retained under Article 25.8.

The Share Ownership Restrictions are intended to prevent any person (together with their associates) from owning more than 10% of the issued voting shares in the Company (“**the 10% limit**”). They operate by:

- prohibiting any shareholder from exceeding the 10% limit;
- prohibiting the Directors from issuing shares to any person if such issue would result in that person exceeding the 10% limit;
- requiring the Directors to decline to register any transfer of shares if such transfer would result in the transferee exceeding the 10% limit;
- prohibiting the Directors from issuing securities that are convertible into shares unless the terms and condition of issue provide that the securities may not be converted into shares if such conversion would result in a person exceeding the 10% limit;
- providing that any shares held in excess of the 10% limit do not carry any voting rights or rights to any dividends or distributions;
- requiring any person who receives any distribution from the Company in respect of shares held in excess of the 10% limit to refund that payment to the Company (unless the Directors believe that the person was unaware that they had exceeded the 10% limit);
- giving the Company a first and paramount lien over any shares held in excess of the 10% limit in respect of which a distribution is paid; and
- requiring shareholders to immediately notify the Directors if they exceed the 10% limit.

If the Directors believe that a shareholder has exceeded the 10% limit, they may give notice to that shareholder requiring them within one month to dispose of the number of shares held by them in excess of the 10% limit. If the shareholder fails to comply with the notice, the Company may sell the shares (on terms determined by the Directors) on behalf of the shareholder and retain from the proceeds the costs and expenses of doing so.

The Share Ownership Restrictions are the subject of waivers from ASX from compliance with ASX Listing Rules 6.10 and 6.12. Prior to adoption of the Constitution at the 2004 Annual General Meeting, ASX confirmed that the waivers would continue to apply provided that the Share Ownership Restrictions were not amended in any way upon the adoption of the Constitution (and they were not). There is nothing in the ASX waivers or ASX Listing Rules preventing the Company from abolishing the Share Ownership Restrictions.

Proposed Amendments

It is proposed to amend the Constitution to remove the Share Ownership Restrictions and the other supporting provisions, definitions and aids to interpretation carried over from the Old Articles. This is achieved by deleting Article 25.8 and Schedules 1, 2 and 3 of the Constitution. Several other incidental amendments follow from the deletion of these provisions:

- Article 5.1 of the Constitution provides for shareholders to indemnify the Company against various costs incurred by the Company in respect of their shares. This includes (in paragraph (h)) costs incurred in relation to the disposal of shares by the Company pursuant to the Share Ownership Restrictions. It is proposed that this paragraph be deleted as the Company will incur no further costs in respect of such disposals.
- Once Articles 5.1 and 25.8 are deleted, the definition of “Old Articles” in Article 25.1 of the Constitution is no longer required and can be deleted.
- The reference to Article 25.8 in Article 25.7 can be deleted.

The consequence of the proposed amendments is that there will no longer be any prescribed limit in the Constitution on the number of shares in the Company that any one shareholder (and their associates) may own. This means it is possible that a single shareholder (and their associates) could acquire a controlling interest in the Company if the proposed amendments are made.

That said, the ability of a shareholder to acquire such a controlling interest is regulated other than by way of the Constitution. In particular, it is noted that:

- the *Financial Sector (Shareholdings) Act 1998* imposes a 15% limit on the ownership of authorised deposit-taking institutions (such as the Company) by any person (and their associates) which can only be exceeded with the approval of the Federal Treasurer and where it is in the national interest; and
- Chapter 6 of the *Corporations Act 2001* (“**Corporations Act**”) generally limits a person’s ownership or control of shares to 20% (including shares owned or controlled by associates) and provides permitted means for making takeover bids for companies and regulates the takeover process to make acquisition above the 20% level.

Adopting Proposed Amendments

Item of Business 4 in the Notice of Annual General Meeting seeks shareholder approval for the amendment of the Constitution because the Company may only repeal or modify its current constitution by its shareholders passing a special resolution to that effect (subsection 136(2) of the Corporations Act). This means that the resolution must be passed by a 75% majority of votes of the shareholders present (in person, by proxy or representative) and voting.

ASX Listing Rule 15.1.1 requires that a company proposing to amend its constitution must submit the proposed new constitution to ASX for approval prior to it being approved by shareholders. The form of the amended Constitution has been submitted to the ASX and the Company has been informed by ASX that ASX has no objections to the document.

In accordance with section 139 of the Corporations Act, copies of the current Constitution are available to shareholders upon request.

Board Recommendation

Until December 2003 the 10% share ownership restriction was “entrenched” by virtue of super quorum and super majority hurdles for changing the 10% limit. The entrenchment provisions required two hurdles to be satisfied for any change to the 10% shareholding restriction:

- A quorum of shareholders holding not less than 75% of all shares in the Bank (in person)
- Approval by a majority of shareholders holding not less than 95% of all shares in the Bank.

In December 2003 the entrenchment provisions lapsed, but the 10% restriction remained. When preparing the Company’s new constitution in 2004 it was considered unnecessary to remove the restriction, which can still be removed by a vote of shareholders. The current requirement to remove the restriction is for a majority of 75% of the votes cast at a meeting where that item of business is considered. Therefore the current requirement is not an onerous requirement.

Some shareholders take the view that there is no benefit in retaining the 10% restriction, which is considered by some to amount to an anti-takeover mechanism. While the Board does not believe that this is the case because the restriction can be removed at the time of a takeover by a vote of shareholders, it has decided to recommend to shareholders that the 10% limit be removed to avoid any misunderstanding between the former entrenchment provisions and the 10% shareholding restriction. At the time of preparing this Notice the Board has not received and is not aware of any takeover offer for the Company.

Item of Business 5 – Re-Election of Directors

Dr Patricia Crook and Mr Roger Cook each retire by rotation and offer themselves for re-election. Mr Steve Crane also retires, having been appointed since the last Annual General Meeting, and offers himself for re-election. The following information is provided about Dr Crook, Mr Cook and Mr Crane for shareholders:

Dr P A Crook AO. JP
MAICD

Dr Crook is a leading South Australian businesswoman who joined the Board in March 2000. She is Managing Director of Adelaide-based therapeutic goods manufacturer, Dynek Pty. Ltd. (and Dynek International), a company she co-founded in 1974. The President and a Board Member of Business SA, Dr Crook is also a Board Member of the State Supply Board, Amrac Corporation, Transition Technologies Corporation Pty. Ltd., Repromed Pty. Ltd. and the UniSA Council.

Mr R A Cook
FREI, AAICD

Mr Cook is an International commercial real estate authority who joined the Board in 1997. Mr Cook was a founder of Colliers International and became Chief Executive Officer of Colliers Jardine, based in Hong Kong, for the Asia - Pacific region. Mr Cook is Chairman of the SA Motor Sport Board and Urban Construct Pty. Ltd. He is also a Member of the Motor Accident Commission (SA). Mr Cook is Chairman of the Governance, Remuneration and Nomination Committee. If re-elected, Mr Cook will become Deputy Chairman of the Board upon the retirement of the current Chairman of the Board, Mr R McKay, on 28 October 2005.

Mr S Crane
FAIB, FAIM

Mr Steve Crane, who is a Member of the Advisory Council and a former Chief Executive Officer of ABN AMRO Australia, joined the Board in April 2005. Mr Crane is a Director of Foodland Associated Limited and the Australian Chamber Orchestra. He is Chairman of Global Valve Technology Pty. Ltd and Deputy Chairman of and Executive in Residence (Commerce and Economics) at the University of NSW. Mr Crane joined ABN AMRO in 1988 as Head of Sales and Trading (equities) and held several different positions with the organisation until being appointed Chief Executive Officer in 1996, a position he held until 2003.

The Board recommends the re-election of each of Dr Crook, Mr Cook and Mr Crane.