



ASX release

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Adelaide Bank Board approves new remuneration scheme

The Board of Adelaide Bank has approved a new remuneration scheme for senior executives and Group Managing Director, Jamie McPhee.

The new scheme is designed to align the performance and incentives of executives with the goals and objectives of the bank as set by the Board. It also allows executives who do not currently have an opportunity to participate in a Long Term Incentive (LTI) plan to do so.

Adelaide Bank's remuneration scheme is designed to support the new organisational design as announced by the Group Managing Director on June 13, 2007. The new scheme is in line with industry best practice and ASX corporate governance guidelines, and has been developed with regard to those guidelines. The Board has also received the benefit of external advice from specialist remuneration and benefits consultants, and comparison with Australian and industry benchmarks.

Key remuneration terms – Jamie McPhee, Group Managing Director

Term

- The employment contract is for a period of five years, commencing on the date of Mr McPhee's appointment as Group Managing Director on December 16, 2006.

Remuneration

- Group Managing Director's remuneration is split into three parts; a fixed component (40%), Short Term Incentive (STI) target (30%), and LTI target (30%).
- The fixed component (or TFR) of \$800,000 per annum covers salary, fringe benefits tax and superannuation (to be reviewed annually).
- The STI target is \$600,000 (75% of the fixed component) per annum. The actual STI awarded will be determined at the discretion of the Board, based on Adelaide Bank and the Group Managing Director's performance against annual performance targets.
- The LTI target is \$600,000 (75% of the fixed component) per annum. The LTI performance criteria are based on two parts; 50% dependent on growth in normalised cash Earnings Per Share (excluding significant items) measured against a target set by the Board, having regard to a comparator group of companies; and 50% dependent on Total Shareholder Return, which will be measured against a group of peer companies in the financial services sector.

Participation in STI and LTI Plans

- The Group Managing Director will participate in the LTI and STI plans on the same terms as other Executives. See below under "Description of STI and LTI plans".

Approvals

- Any necessary shareholder approvals for the Group Managing Director's remuneration package will be sought at the 2007 Annual General Meeting. If any required shareholder approval for participation in the STI or LTI plans is not obtained, the Board will use reasonable endeavors to develop suitable alternative arrangements in consultation with the Group Managing Director.

Termination

- The employment agreement may be terminated in the circumstances described below with the remuneration consequences as noted below, to the extent permitted by the Corporations Act.
 1. **Resignation by the Group Managing Director on 6 months notice.** The Board may elect to make payment of TFR for all or part of the period of notice.
 2. **Resignation following material change in status or authority.** The Group Managing Director will be entitled to receive 12 months TFR (winding down in the last year of the contract).
 3. **Termination by Adelaide Bank.** The notice period is 12 months, winding down in the last year of the contract. The Board may elect to pay TFR for the period in lieu of notice.
 4. **Termination without notice by Adelaide Bank for material breach of contract or other misconduct.** The Group Managing Director will receive any payments as required under current statutory entitlements, any unpaid TFR, and any unpaid entitlements under the STI and LTI.
 5. **Death, redundancy or incapacity.**

In each case, untaken leave entitlements, unpaid salary and unpaid superannuation contributions will also be paid and in the case of redundancy, resignation under point 2 above or termination under point 3 above (except for incapacity) a payment of 58/52 of TFR increasing each year by 3/52 of TFR to a maximum of 90/52 of TFR, recognizing the Group Managing Director's 18 years of previous service at the time of appointment. These payments are in accordance with existing company policy.

In each case, the Group Managing Director will be entitled to retain any vested entitlements under the LTI plan and in some circumstances performance rights may vest on termination (as described below – see "Description of STI and LTI plans").

Restraints

- For a period of 6-months after ceasing employment with Adelaide Bank, Mr McPhee may not engage in a Competitive Business Activity (as defined) that materially damages Adelaide Bank's reputation or business; engage in work in competition with Adelaide Bank; solicit Adelaide Bank's customers; or induce any employee to leave Adelaide Bank.

Key remuneration terms – executives

- All executives will operate under the same STI and LTI plans as the Group Managing Director, with the same peer analysis and performance targets for the LTI plan.
- All executives will have their remuneration split into three parts; a fixed component (50%), STI component (25%), and LTI component (25%).

- All executives, including the Group Managing Director, who are currently participating in the existing LTI plan (Deferred Employee Share Plan 2005-2008) will transition to the new LTI plan, with effect from July 1, 2007.
- All participants, including the Group Managing Director, will transition to the new LTI scheme, and will be given a one-off award calculated by reference to the potential entitlement available under the existing plan. The Board has capped this award at 33% of their potential entitlement for the three-year period.

Details: Contact Will Rayner, Head of Investor Relations, Adelaide Bank. 08 8220 7764 or 0437 794 366

Description of STI and LTI plans

STI plan

The STI plan involves cash payments based on achievement of targets determined by the Board. Employees are encouraged to use payments to purchase Adelaide Bank shares but are not required to do so.

LTI plan

The LTI plan is a three year program offered on an annual basis involving the issue of performance rights which vest on achievement of targets and can be converted into Adelaide Bank shares or sold by the LTI plan trustee once vesting has occurred after the earliest of:

- 10 years after the offer the performance rights;
- termination of employment (subject to forfeiture in certain circumstances – see below);
- a capital event occurs (see below);
- the consent of the Board.

The number of performance rights is determined by dividing the participant's LTI target by the weighted average Adelaide Bank share price over the five trading days prior to the date of the offer to participate.

Generally performance rights are performance tested at the end of the 3 year period after they are issued, except in the case of the initial offer under the LTI plan where 50% of the performance rights granted to each participant will be tested after 2 years, and retested at the end of the 3 year initial period.

All executives and the Group Managing Director are required to retain shares obtained under the plan, until the total value of those shares exceeds a specified dollar value. This has been set at a minimum A\$250,000 for executives and A\$500,000 for the Group Managing Director, and is subject to Board discretion. Once these minimum thresholds have been met, participants may trade the shares in accordance with the terms and conditions of the plan, and with respect to all relevant laws and regulations, but are required to maintain shares at or above this minimum dollar value at all times.

On termination of employment, an LTI plan participant's entitlements will be dealt with as follows:

- all shares that have been released by the LTI plan trustee can be retained or sold;
- all vested performance rights will remain vested and corresponding shares will be released to the participant on termination of employment, unless the participant is dismissed for cause, acts fraudulently or dishonestly is in serious breach of duty, commits any act of harassment or coercion (in the Board's reasonable opinion) or has brought Adelaide Bank into serious disrepute (in the Board's reasonable opinion) in which case all entitlements will be forfeited (unless the Board decides otherwise);
- all unvested performance rights will lapse unless the termination occurs more than 12 months after the start of a three year performance period and is due to death, total and permanent disability or redundancy (or another reason determined by the Board) in which case the Board may permit pro-rata vesting of the performance rights based on performance testing at the time of termination.

In the case of a capital event (being a transaction under which a person acquires a relevant interest in more than 50% of Adelaide Bank's shares) the Board may permit pro-rata vesting of the performance rights based on performance testing at the time of the capital event.