

Explanatory Statement

Proposals to allow Adelaide Bank Limited to issue preference shares and to approve the proposed issue of preference shares paying non-cumulative dividends.

The Bank intends to raise up to \$100 million by issuing a maximum of 1,000,000 Reset Preference Shares (“RPS”) at \$100 each to investors.

The Board is proposing the issue of RPS as part of its ongoing capital management strategy. By way of background, the Bank is required under APRA prudential standards to have a minimum amount of Tier 1 capital. To date, the Bank has only issued ordinary shares as part of its Tier 1 capital. The Bank has carried out a review of its capital management strategy and has concluded it would be appropriate for a proportion of its Tier 1 capital to comprise RPS. The Board has received written confirmation from APRA that the RPS are eligible as Tier 1 capital. The Board believes that this will enable the Bank to maintain the required amount of Tier 1 capital and an appropriate risk profile while lowering its cost of capital. The Board will use the amount raised from the offer to increase its Tier 1 capital and to fund its continued growth.

RPS are a type of preference share which include an ability for the Bank to be able to reset certain terms in the future. The rights attached to ordinary shares will remain the same following the issue of the RPS, however, the RPS will have priority over ordinary shares for the payment of dividends and return of capital on a winding up. A summary of the terms of the RPS is included in Schedule 1 to this Explanatory Statement.

The Board intends to offer the RPS by way of a public offer pursuant to a prospectus if Resolution 3.1 is approved. The Board will not proceed with the offer of RPS if Resolution 3.1 is not approved.

Shareholders and other investors who would like to apply for RPS will need to complete the application form that will be in or will accompany the prospectus that may be issued following the AGM. If you would like to reserve a copy of the prospectus or would like a full set of the draft terms of the RPS, then please call our Information Line on 1800 003 940. There will be priority allocations available to shareholders and details of the priority allocation will be set out in the prospectus.

Agenda Item 3.1 - Amendment to the Constitution

The Corporations Act provides that a company’s constitution must set out certain rights of proposed preference shares for the company to issue such preference shares. Although the Bank’s constitution currently allows it to issue preference shares, the power is not sufficiently broad to allow for the issue of RPS.

Accordingly, Resolution 3.1 is being put to the Annual General Meeting to insert a general power to issue preference shares. While the new provision will enable the Bank to issue the RPS, it will also allow the Bank to issue other types of preference shares in the future. Subject to the requirements of the Listing Rules of Australian Stock Exchange, future issues of preference shares will be possible without further shareholder approval.

Agenda Item 3.2 - Approval of the Issue of RPS

Listing Rule 7.1 of the Listing Rules of Australian Stock Exchange allows the Board of a listed company to issue equity securities (including shares and options to acquire unissued shares) comprising up to 15% of its issued share capital in any 12 month period without the approval of shareholders. Any issue of equity securities beyond this percentage must be approved by shareholders.

The Bank, in working out the number of equity securities that it may issue, is required for the purposes of Listing Rule 7.1 to calculate the RPS as the number of ordinary shares into which the RPS may convert. While the issue of 800,000 RPS is likely to be within this limit, based on the Bank’s current share price, the Bank requires shareholder approval in order to accept all of the 200,000 oversubscriptions.

Accordingly, Resolution 3.2 is being put to Shareholders to obtain their approval for the Bank to issue up to \$100 million of RPS as outlined above. If this resolution is approved, the RPS issue will not restrict the Bank from issuing further shares during the next 12 months and will enable all oversubscriptions to be accepted.

In connection with this resolution and to comply with the Bank’s obligations under Listing Rule 7.3, further information regarding the proposed issue of RPS is set out in Schedule 2 to this Explanatory Statement.

Directors of the Bank will be able to participate in the proposed issue of RPS. ASX has granted the Bank a waiver from the requirement in Listing Rule 10.11 that shareholders approve participation by Directors on the following conditions:

- Directors (and their related parties) in aggregate are restricted to applying for no more than 0.2% of the number of RPS issued and their participation is on the same terms and conditions as other shareholders;
- the Bank announces the terms of the waiver to the market; and
- the Bank announces the total number of RPS issued to Directors (and their related parties) in aggregate.

Schedule 1 to Explanatory Statement

Reset Preference Shares

Summary Terms and Conditions

ISSUER	Adelaide Bank Ltd. (“Adelaide Bank”)
SHARES	Reset Preference Shares (“RPS”). The RPS are perpetual and therefore do not have any set maturity date.
ISSUE SIZE	Up to \$100 million.
ISSUE PRICE	\$100 per RPS.
MINIMUM SUBSCRIPTION	Investors must subscribe for a minimum of 30 RPS and then for multiples of 10 thereafter.
DIVIDEND RATE	The Dividend Rate for the first 5 years will be set at a fixed margin above the prevailing 5 year swap rate following the close of the offer of RPS.
FRANKING	The Bank anticipates that dividend payments will be franked and to the extent dividend payments are unfranked, the amount of the dividend will be grossed-up to compensate holders.
DIVIDEND PAYMENTS	<p>Dividend Payments will be made semi-annually, at this stage envisaged to be on 1 May and 1 November. The payment of Dividends on the RPS is subject to a number of conditions, including:</p> <ol style="list-style-type: none">1. The Directors determining a Dividend to be payable;2. The Bank complying with APRA’s then prevailing prudential standards and guidelines;3. Unless otherwise approved by APRA the amount of payments on Tier 1 securities not exceeding the profits of the Bank in the immediately preceding year less any dividend already paid in the current year on Tier 1 securities; and4. APRA not objecting to the payment of the Dividend or not having stated that if the proposed dividend is made the RPS will cease to be treated as Tier 1 capital. <p>If Dividends are not paid on the RPS, no dividends can be paid and no returns of capital can be made on ordinary shares unless the Bank takes certain actions. Non-payment of Dividends will not entitle the Holder to exchange their RPS.</p> <p>The Bank may deduct any withholding tax or other tax from the payment of Dividends which are required by law to be deducted from such payment.</p> <p>Dividends on the RPS are non-cumulative.</p>
RESET DATES	Subject to certain specified restrictions, on each Reset Date, the Bank may reset certain terms, including the next Reset Date, Dividend Rate and frequency and timing of payment of Dividends. The first Reset Date will be around five years from the date of issue, at this stage envisaged to be on 1 November 2007.
EXCHANGE BY THE BANK	The Bank may convert some or all RPS into ordinary shares on a Reset Date or earlier in respect of all of its RPS following the occurrence of a tax event or regulatory event, certain takeovers or schemes of arrangement. In addition, the Bank may exchange the RPS for their issue price subject to prior approval by APRA.
EXCHANGE BY A HOLDER	<p>A Holder may elect to exchange some or all RPS for ordinary shares on a Reset Date or earlier in respect of all RPS following the occurrence of certain takeovers or schemes of arrangement. On receipt of an election notice, the Bank may:</p> <ul style="list-style-type: none">• convert the RPS into ordinary shares; or• arrange a third party to acquire the RPS from the Holder for their issue price where the exchange is requested prior to a Reset Date; or• exchange the RPS for their issue price subject to prior approval by APRA.

CONVERSION RATIO	<p>The rate at which the RPS will convert into ordinary shares will be calculated by reference to the average of the daily volume weighted average sale price of ordinary shares sold on ASX during the 20 Business Days immediately preceding the date on which the RPS are converted.</p> <p>All conversions into ordinary shares, other than a Holder requesting conversion on a Reset Date, will receive a discount of 2.5% of the price used in calculating the number of ordinary shares to be issued on conversion.</p>
RANKING	<p>Dividends will be paid in priority to any dividends declared on ordinary shares.</p> <p>In the event of a winding up, the RPS will rank for repayment of capital (and any accrued but unpaid dividend amount) behind all creditors of the Bank, including depositors, but ahead of ordinary shares.</p>
PARTICIPATION	<p>The RPS do not carry a right to participate in issues of other securities or capital reconstructions.</p>
VOTING RIGHTS	<p>RPS will have a voting right in limited circumstances. In such circumstances, each holder of RPS will be entitled to one vote per RPS.</p>
LISTING	<p>The RPS will be quoted on ASX subject to the Bank's successful application. Quotation is not guaranteed or automatic.</p>

Schedule 2

Listing Rule 7.3 information

Requirement	Explanation
Maximum number of securities to be issued	1,000,000 RPS
Scheduled allotment date	It is intended that the RPS will be issued and allotted on 25 November following the close of the public offer and, in any event, within 3 months after the date of the AGM.
Issue Price	\$100 per RPS
Basis upon which the allottees will be determined	<p>The Directors of the Bank intend to raise \$80 million (with a right to accept up to \$20 million in over-subscriptions), through an offer to the Australian public, by way of a prospectus. The Bank will offer RPS to all holders of its ordinary shares, in priority to general applicants for part of the offer, and will issue the RPS in consultation with the Lead Manager to the offer, ABN AMRO Rothschild, in a fair and equitable manner.</p> <p>The Bank will have the absolute discretion to determine the method and extent of the priority entitlement. RPS set aside for firm allocations offered by the Lead Manager and co-managers to the issue will not be subject to shareholder priority.</p>
The terms of the shares	A summary of the general terms and conditions of the RPS is set out in Schedule 1 to this Explanatory Statement. A full set of the draft terms of the RPS is available from the Bank on request.
The intended use of the funds raised	The capital raising will be used to increase the Bank's Tier 1 capital and to fund its continued growth.