

CHAIRMAN'S REPORT



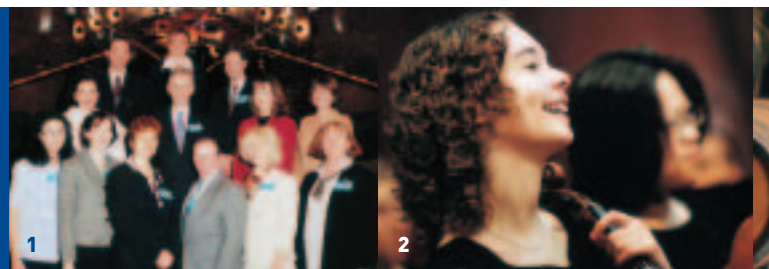
R. J. McKay
Chairman,
Adelaide Bank Limited

Adelaide Bank Limited has recorded the most successful year in its 100-plus year history. Lending growth, asset growth, a strong focus on costs and a clear strategic focus have combined to provide shareholders with record returns. It achieved these excellent results in a year of strong competition.

1 Loyal Bank staff – more than 14% with 15+ years experience.

2 Adelaide Bank assists young SA artists to fulfil their potential.

3 Business bankers know their clients' business.



Importantly, the Bank has continued the execution of the growth strategies put in place over four years ago and reaffirmed in 2002, while fulfilling its key commitments to shareholders.

Today the Bank is well positioned to continue to expand its role as a national provider of financial products. At the same time it continues to maintain a strong presence within its head office State of South Australia.

This is best exemplified by the Bank's loan book diversity established through the development of strategic alliances throughout Australia. At the end of 2002-03, Adelaide Bank had moved from 2.1% of national loan approvals to 2.3% over the year.

At year's end interstate lending represented 67% of total loans under management, with this ratio steadily increasing from 62% since the adoption of the current strategic plan in 1999-2000.

During the past financial year all sectors of the Bank's operations made significant contributions to bottom line profit.

The strong focus on operating expenses saw Adelaide Bank report a record low

expense to income ratio at year's end, thus ensuring an improved return to shareholders.

SHAREHOLDERS

The excellent results for 2002-03 exceeded most analysts' expectations with underlying earnings of \$84.59 million, up 22% on the \$69.55 million posted for 2001-02.

Also at the high end of market expectations was profit after tax of \$51.33 million compared with \$41.24 million in 2001-02. This represented a 24% increase.

Profit before tax was \$74.28 million, a 21% increase on the \$61.27 million posted in 2001-02.

As a result of the excellent performance, the Adelaide Bank Board approved a fully franked final dividend payment to shareholders of 21 cents – an increase of three cents over the final dividend for 2001-02. The final dividend is to be paid on October 15, 2003.

This payment takes the year's fully franked dividend to 37 cents. This represents a 16% increase over the 32 cents in dividends paid in 2001-02.

The Board believed this significant increase in dividend was both prudent and warranted and would satisfy the expectations of most shareholders.

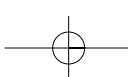
It represents a dividend payout ratio for the year of 68%, which is consistent with the Board's aim of achieving a ratio of around the 70% level.

At the same time shareholders continued to see growth in the price of their shares. At the beginning of the financial year the share price stood at \$7.29. At June 30, 2003 it had risen to a closing price of \$8.00. This represented an increase of just below 10% over the year.

For the year the Bank achieved a return on equity (pre amortisation) of 16.86% compared with 15.58% in the previous year.

Fully diluted earnings per share were 54.34 cents, compared with 46.97 cents for 2001-02. This represents an increase of 16%.

In summary, 2002-03 was a year in which shareholders received a significant boost to the value of their investment with Adelaide Bank.



CORPORATE GOVERNANCE AND EXECUTIVE REMUNERATION

Corporate Governance remains a critical focus for the Adelaide Bank Board. This reflects a general government, industry and public focus that has intensified over the past 12 months.

Following the issue of new corporate governance guidelines by the Australian Stock Exchange Corporate Governance Council (ASXCGC), Adelaide Bank undertook a complete analysis of the guidelines and found that it was largely compliant in all major areas.

It then acted to ensure that full compliance was achieved in those minor areas that were not fully and appropriately in accord with the new guidelines. This matter is fully covered in the Corporate Governance Statement in this Annual Report.

Adelaide Bank's accounting policies remain prudent and are consistent with the highest industry standards. The Board insists on total transparency in all accounting matters. All accounts are fully audited while revenue recognition matters are consistent with best industry practice and standards.

The Bank's securitisation programs remain the only material off-balance sheet item, other than derivatives entered into for hedging purposes. All are treated consistently with industry practice and standards.

Last year the Board implemented a new long-term incentive scheme for executive remuneration.

All executive remuneration has been expensed through the statement of financial performance (profit and loss account).

All short-term incentive-based remuneration is made by way of cash or performance-based shares while long-term incentive-based remuneration is made by way of performance-based shares. Such shares have been bought on market and expensed through the profit and loss account. No options have been issued.

This policy is in line with the ASXCGC guidelines.

The Board has continued to use the services of external consultants when determining remuneration for its executives, thus ensuring remuneration packages made available to them are comparable to those provided by similar organisations and private sector companies within Australia.

Only non-Executive Directors are members of the Audit Committee and the Remuneration and Nomination Committee.

CREATING COMMUNITY

Adelaide Bank plays a vital role in supporting the South Australian community and helping that community to grow, both through sponsorships and through its own Adelaide Bank Charitable Foundation.

The Bank has adopted very clear guidelines in the areas of community support and sponsorship to ensure that it invests wisely in helping to develop the cultural and community standards that are the cornerstones of modern society.

In a major step, Adelaide Bank signed a long-term agreement during 2002-03 to be the major and naming rights sponsor for the Adelaide Festival of Arts. In the future the two-week

event will be called the Adelaide Bank Festival of Arts.

This is by far the biggest single sponsorship arrangement in the Bank's history and has been widely applauded by the community at large.

The Adelaide Festival of Arts is the pre-eminent arts festival in the nation and the Bank's commitment to its future has ensured the success of the Festival in 2004 and beyond.

Adelaide Bank sees the sponsorship of the Adelaide Bank 2004 Festival of Arts as an important positioning tool for Adelaide Bank as we continue to grow.

It is our belief that this sponsorship of a major South Australian event of significant importance to South Australia assists in reinforcing the position of Adelaide Bank as a major player in the social and economic fabric of South Australia.

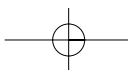
In addition, this sponsorship has reduced the Bank's reliance on costly corporate advertising, thus providing the Bank with a considerable upside.

Coupled with our sponsorship of the Adelaide Bank State Rescue Helicopter and the excellent work undertaken by the Adelaide Bank Charitable Foundation, this sponsorship ensures that Adelaide Bank is providing financial support to a wide cross section of services and events that benefit the entire community.

The Bank's sponsorship of the Adelaide Bank Rescue Helicopter Service is now in its third year. The Adelaide Bank Rescue Helicopter Service has a proud and distinguished record of saving life and ensuring the safety of the community.

During 2002-03, the second year of our sponsorship, the Adelaide Bank Rescue helicopters flew more than 1,080 hours on missions in rescue work, patient retrieval and for the police and fire services.

During 2002-03 the Bank continued to provide significant sponsorship to the family-orientated Oakbank Easter Race Carnival and the Clipsal 500 car race, enabling these events to continue as major generators of tourism dollars.



Other sponsorships benefited the arts in South Australia, including The Festival Centre Trust, State Opera, the Australian Business Arts Foundation and the Helpmann Academy, which assists young artists to reach full potential.

Adelaide Bank has strongly supported the Society of Auctioneers, the Home Show and provided financial and office accommodation assistance to SA Great and Business Vision 2010 – two organisations working hard to promote the State and the businesses within South Australia.

The Adelaide Bank Charitable Foundation continued with vital philanthropic work aiding the needy throughout the year. Adelaide Bank provided the bulk of funding for the Foundation during 2002-03 with a grant of \$270,000 from its profits.

In addition it paid salaries and provided office accommodation, etc. to enable the Foundation to operate – a total contribution of around \$400,000.

During 2002-03 the Foundation provided 77 financial grants totalling more than \$461,000 to assist the needy.

Since formation in 1981 to provide financial assistance to charitable organisations, community support groups and the needy the Foundation has provided more than \$4.5 million in assistance.

DIRECTORS AND STAFF

The Adelaide Bank Board changed during the 2002-03 financial year, significantly boosting financial sector expertise and appointing its first female Deputy Chairman.

Dr Adele Lloyd was appointed Deputy Chairman in late March 2003, having first joined the Adelaide Bank Board in 1997.

Dr Lloyd is Non-Executive Director of The National Jet Systems Group and a Director of the South Australian Museum Board and a Consultant to the Board of Coriole Vineyards Pty Ltd.

Her appointment, replacing Mr Chris Harris, was well-earned recognition of her strong business and academic background.

Mr Harris relinquished his Board role after nine years in a step aimed at lessening his public company Board commitments.

He played a significant role during a period of considerable growth for Adelaide Bank and on behalf of the Board and shareholders I take this opportunity to pay tribute to his significant contribution as a Board Member for nine years and as Chairman of the Bank's Audit Committee.

In April 2003 two new appointments were made to the Board bringing with them considerable additional expertise in the finance sector.

The new Board appointments were the former Chief Executive in Australia for Bank One, Mr Kevin G. Osborn, and the former Deputy Under Treasurer for South Australia, Mr John T. Hill.

Both Mr Osborn and Mr Hill are highly regarded professionals from disparate backgrounds, but both provide exceptional financial and management acumen to the Board, which is strong in business, technology, and corporate skills.

As the former Chief Executive of Bank One in Australia – The United States fifth largest bank - Mr Osborn presided over the Australian growth of the Bank One business from 1986 to 2002.

During that time he helped build it to serve a significant proportion of US companies operating in Australia and many Australian multinational corporations that invested in North America and other major International markets.

From 1998 – 2000 he was Chairman and a Director of the American Chamber of Commerce in Australia and has assisted the South Australian Government on various finance Boards and advisory roles.

Mr Hill was a career public servant, having served in the finance sector of the State Government since 1966. He held senior positions in the State Government's Treasury and Finance Department since 1980 and served on a wide variety of Government Boards.

These included Chairing the SA Government Financing Authority, the SA Asset Management Corporation, the SA Government Insurance Corporation and a number of other important Government authorities and boards.

Mr Hill also served on a wide range of Government boards and commissions including the State Transport Authority, State Government Insurance Commission, Lotteries Commission, Motor Accident Commission and the Adelaide Festival Corporation. He is also a Member of the Audit and Compliance Committee of the University of Adelaide.

In the New Year's Honours for 2001, Mr Hill was awarded the Public Service Medal for sustained outstanding service in the field of public sector finance.

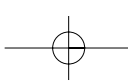
I also place on record the Board's gratitude to the Executive, Management and Staff of Adelaide Bank for an excellent effort during 2002-03.

Their efforts have contributed greatly to the finest results yet announced by Adelaide Bank.

Your Board is confident the Bank has the structures and staff in place to continue to fulfil its commitments outlined in its strategies and provide increased returns to its shareholders.



R. J. McKay
Group Chairman



Diversified sponsorship. The Adelaide Bank Rescue Helicopter is a major sponsorship.

1 Supporting major events – Oakbank Racing Carnival

