

CORPORATE GOVERNANCE STATEMENT

This section of our Annual Report sets out the corporate governance practices of Adelaide Bank as at the date of this Report. Our website www.adelaidebank.com.au also addresses this topic.

The Company is committed to observing the highest standards of corporate governance. The Company's Board will continue to review and improve the Company's corporate governance practices, and in doing so will monitor developments in this field. Our website will be updated from time to time as the relevant practices change.

The corporate governance practices described in this statement reflect the principles of good corporate governance and best practice recommendations published by the ASX Corporate Governance Council. At the date of this report Adelaide Bank complies with each of the best practice recommendations. Those recommendations are able to be viewed at www.asx.com.au/corporategovernance. Practices that are identified in *italics* were introduced in June 2003. All other practices applied throughout the reporting period.

THE ROLES AND RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

The Board is responsible for the overall corporate governance of the Company. Although responsibility for the operations of the Company's business is delegated by the Board to the Group Managing Director, the Board remains responsible for:

Approval of Management's recommended strategy and monitoring achievement of objectives and financial performance

Appointing and removing the Chief Executive Officer

Ratifying the appointment and removal of key Executives

Approving the Executive structure of the Company and associated succession plans

Approving CEO and Senior Executive remuneration on recommendation of the Remuneration and Nomination Committee

Monitoring the exercise of powers delegated to management

Approving expenditure beyond authority limits delegated to management

Monitoring large credit exposures, exercised through delegated authority of the Board Credit and Risk Committee

Monitoring the management of assets and liabilities exercised through delegated authority of the Board Asset & Liability Committee

Monitoring the management of risk and systems of internal control and internal and external compliance, exercised through delegated authority of the Board Audit Committee

Appointing the Company's external and internal audit service providers

The above division of responsibilities is documented in a statement adopted by the Board in June 2003.

THE STRUCTURE OF THE BOARD

Independence

The Board has adopted a practice whereby the independence of its non-executive Directors will be assessed annually.

Each non-Executive Director of the Company is considered by the Board after enquiry, to be an independent Director and as a consequence, the majority of the Board are independent Directors. For the purposes of the Board's enquiry, 1% of the Company's revenue has been chosen as a materiality threshold when assessing the Company's relationship with suppliers, customers, advisors and consultants with whom a Director may be associated.

The Board has adopted a procedure whereby Directors are entitled to take independent professional advice at the expense of the Company.

The roles of Chief Executive Officer and Chair are not exercised by the same person.

Short biographies of the Directors of the Company are set out in the pages immediately preceding this Corporate Governance Statement. The biographies contain details of the term of office of each director, together with details of relevant skills, experience and expertise.

Selection and Appointment of New Directors

The Board has established a Remuneration and Nomination Committee with one of its roles being to provide recommendations to the Board concerning the appointment of Directors. *The Committee consists of three members who are independent, non-executive Directors. The Chair of the Committee is not the Chair of the Board. The Committee operates under a Charter. A copy of the Charter is located on the Company's website.*

The composition of the Board is reviewed from time to time by the Remuneration and Nomination Committee to ensure the Board has an appropriate mix of expertise and experience. When a vacancy exists or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Committee will seek and consider candidates and recommend an appropriate person to the Board for appointment. Any Director so appointed must retire at the annual general meeting next following his or her appointment but will then be eligible for re-election by shareholders.

The Remuneration and Nomination Committee's policy for the appointment of Directors is that the Committee will regularly review the composition of the Board and seek to recruit additional Directors to meet the needs of the Company.

Details of membership of the Remuneration and Nomination Committee and of the attendance by members at Committee meetings are set out elsewhere in this Annual Report [page 22].

ETHICAL AND RESPONSIBLE DECISION-MAKING

The Board has adopted a Code of Conduct for Directors and Executives. The Code reflects the Company's attitude to the behaviour expected of its senior people. A copy of the Code of Conduct is located on the Company's website.

The Board also has a policy in relation to trading in the Company's securities

by Directors and staff. The key features of that policy are:

A Director or employee must not subscribe for or trade in Adelaide Bank securities when to do so would breach the law concerning insider trading.

Subject to that overriding requirement, Executives and Directors may subscribe or trade in the period of six weeks commencing the business day after the public release of interim or full year financial results, or after first obtaining appropriate authority. In the case of Executives that authority is required from the Group Managing Director and in the case of Directors, after first obtaining the authority of the Board.

All trades by an Executive or Director are to be notified to the Company Secretary and, in the case of Directors, are recorded in the minutes of the next Board meeting.

The Chief General Manager Risk Management is required to provide Directors and Executives with up to date guidelines in relation to the law on insider trading.

The policy extends to Adelaide Bank shares, debentures, interests in managed investment schemes, options and financial products created over or in respect of such securities.

INTEGRITY IN FINANCIAL REPORTING

The Board requires the Chief Executive Officer and the Chief Financial Officer to provide written confirmation to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results, and are in accordance with relevant accounting standards.

The Board has established an Audit Committee with one of its roles being review of the integrity of the Company's financial reporting. *The Committee consists of three members who are independent, non-executive Directors.*

The Chair of the Committee is not the Chair of the Board, although the Chair of the Board acted as Chair of the Committee for a part of the reporting period due to a vacancy in that role. The Committee operates under a Charter. *A copy of the Charter is located on the Company's website.*

Details of the names and qualifications of the members of the Audit

Committee and of the attendance by members at Committee meetings are set out elsewhere in this Annual Report [pages 14, 15 and 22].

Timely and Balanced Disclosure

In recognition of the Company's obligations to make ongoing disclosures to the market, the Company has developed a compliance system which consists of a Board policy and a set of procedures to be followed by Directors and Executives to ensure compliance with ASX Listing Rule requirements and accountability for compliance at senior management level.

The Board policy includes a commitment to compliance with the spirit, intention, purpose and substance of the continuous disclosure obligations imposed by the Listing Rules and the Corporations Act. The Company's procedures have been adopted by the Board as part of its compliance system and all Directors and Executives are required to observe the requirements of the system.

A summary of the procedures is located on the Company's website.

COMMUNICATIONS WITH SHAREHOLDERS

The Board encourages communications between the Company and the holders of its securities. The Board's strategy to promote effective communication with security holders consists of the following elements:

All announcements made to the market and all related information (such as information provided to analysts or media during briefing) are accessible from the website after they have been released to ASX.

The full text of all notices of meeting and explanatory material are to be placed on the website

The website includes the last three years of financial reports and major announcements from the last two years.

The Company is considering how to use electronic communication (such as web casting and the use of email) in a cost-effective manner for the benefit of shareholders.

The Company's external auditor is requested to attend the Annual General Meeting and to be available to answer questions about the conduct of the audit and preparation and content of the auditor's report.

RISK MANAGEMENT

The Company has the following policies and practices on risk oversight and management:

The Board has adopted policies in relation to the assessment, management and monitoring of Credit Risk, Operational Risk and Market Risk. Executives of the Company have been allocated responsibility for the management of those risks, by implementing procedures and processes to identify and manage risks in all aspects of our business.

The Board has established Credit and Risk and Asset and Liability Committees, the Charters of which include monitoring and review of compliance with relevant Board policies. *The Charters of these Committees are located on the Company's website.*

The Board has established an Audit Committee, the Charter of which includes the oversight of the risk management function and internal control system.

The Board has engaged an internal audit service provider to review internal controls. *The internal audit service provider is independent of the external auditor.*

The internal audit service provider reports to each of the Board and Management, and has full access to Management and the right to seek information and explanations about issues identified during their reviews.

The Chief Executive Officer, Chief Financial Officer and Chief General Manager Risk Management are required to provide written confirmation to the Board that the Company has a sound system of risk management and internal compliance and control which implements Board policy and which operates efficiently and effectively.

BOARD AND MANAGEMENT

PERFORMANCE

The Company recognises that the success of the Company depends in part upon the performance of its Board and senior management team.

The Company's process for enhancing Board and Management performance includes the following elements:

The company has a comprehensive induction process for new Directors and Executives

Through the office of the Chair, Directors are able to take independent professional advice at the Company's expense.

A performance evaluation for the Board and its members is conducted on an annual basis. An evaluation was conducted in the reporting period. The evaluation takes the form of a series of statements concerning the performance of the Board, its members, its committees and the Executives of the Company. Each Director is required to complete the evaluation and discuss the same individually with the Chair of the Board. The results of the evaluation are subsequently reviewed and discussed at a Board meeting. The evaluation questions are reviewed annually to ensure they remain current.

The performance of key Executives is evaluated in two ways. Each key Executive is set key performance indicators and performance is formally reviewed by the Chief Executive Officer on an annual basis. In addition, key Executives regularly attend meetings of the Board and its Committees, which enables the Board to evaluate their performance.

The Company has a commitment to providing continuing information to its Directors in relation to industry issues and trends, as well as to continuing development of its Executives.

REMUNERATION

The Bank's remuneration strategy is one of ensuring that staff are aware of the need for a demonstrated clear link between the Bank's performance and remuneration. The remuneration policy outlines that remuneration will be competitive in the marketplace, using annual benchmarking data; will be based on performance; and will increase equity ownership opportunities. Although the remuneration system was comprehensively reviewed in 2002, we have again reviewed the system in 2003 using 2 independent remuneration experts to ensure the appropriateness of the policy and that the methodology satisfies the remuneration policy standards required in terms of ASX Corporate Governance Principle 9.

The Bank has adopted the Total Reward Concept for Executive Remuneration based on fixed remuneration which is arrived at through job evaluation, market

matching and benchmarking, short term incentives (STI) which are available on meeting both the individual's and the Bank's performance targets, and the long term incentives (LTI) of performance shares (bought on market) based on the achievement of the set performance hurdles over the period 2002-2005 as outlined in the Directors' Report. Both the short and long term incentives are subject to Board approval and are capped at a percentage of the Total Reward formula. The Board does have the discretion to approve the amount of the STI and the LTI. The Bank has maintained Total Reward mix ratios for Group Managing Director of 50% fixed, 25% STI, 25% LTI, Chief General Managers 60% fixed, 20% STI, 20% LTI and for General Managers 70% fixed, 15% STI, 15% LTI.

On completion of the Executive performance reviews and the externally conducted annual remuneration review, the Executives' STI for the previous year and the fixed remuneration and short term incentives for the next year commencing September 1 are recommended to the Remuneration and Nomination Committee for consideration and then to the Board for approval.

As stated earlier in this corporate governance statement, the Board has established a Remuneration and Nomination Committee. *The Committee consists of three independent, non-executive Directors. The Chair of the Committee is not the Chair of the Board.*

RETIREMENT BENEFITS

Non-Executive Directors who joined the Board prior to 1st April 2003 are entitled to participate in the Company's Directors' and Staff Superannuation Scheme. Such participation requires salary sacrifice by those Directors of a portion of their shareholder approved fee entitlements. The Company does not make any additional contribution to the fund.

Directors who have joined the Board since 1st April 2003 are not entitled to participate in the fund. For these Directors, the Company will provide statutory superannuation contributions, with these contributions to be salary sacrificed from shareholder approved fee entitlements.

The Company does not maintain any other retirement benefit scheme for non-Executive Directors.

THE LEGITIMATE INTERESTS OF STAKEHOLDERS

The Company has a Code of Conduct which sets out the standards in accordance with which each executive, manager and employee of the Company is required to act. The requirement to comply with these ethical standards is communicated to all employees. The Code deals with standards of conduct for the Company's relationship with its shareholders, its customer, its staff and the community at large.

The Code requires the Company's business to be conducted in a manner that will enhance the value of shareholders' investments.

The Code refers to the importance of the Company's customers and their assets, the provision of competitive products, the provision of service which meets the needs of the Company's customers and compliance with the principles set out in the Code of Banking Practice.

The Code recognises the value of the company's employees and the importance of treating all staff with respect. The Code refers to equal opportunities for employees and the rights for appropriate conditions of employment, career development and job satisfaction. The Code refers to encouraging employee loyalty and commitment and to standards of behavior from employees that will ensure:

The business of the Company is conducted in a way to comply with relevant laws and ethical standards

Employees behave as professionals
Employees do not accept gifts of significant value

Employees do not disclose (without appropriate consent) confidential information regarding customers or the Company

Employees will not place themselves in a position of conflict of interest in their dealings on behalf of the Company

In relation to the community at large, the Code refers to the Company's obligation to contribute to the well being of the community to demonstrate social responsibility, to be honest in business dealings, to exercise prudent financial management and to engage in activities that are not detrimental to the environment.

FIVE YEAR HISTORY

	2003 \$000's	2002 \$000's	2001 \$000's	2000 \$000's	1999 \$000's
STATEMENT OF FINANCIAL PERFORMANCE					
Interest income	494,868	409,313	449,723	379,781	294,114
Interest expense	327,362	280,522	331,030	271,500	193,997
Net interest income	167,506	128,791	118,693	108,281	100,117
Add Securitisation income	56,833	52,468	31,810	17,082	6,730
Less fees to intermediaries	62,783	47,796	35,894	25,121	13,577
Add other income	39,552	39,728	34,051	31,163	30,280
Total operating income	201,108	173,191	148,660	131,405	123,550
Bad and doubtful debts	6,711	4,678	4,384	826	2,605
Operating expenses	120,114	107,239	93,684	85,776	77,268
Operating profit before abnormals	74,283	61,274	50,592	44,803	43,677
Abnormal items of profit / (loss)	n/a	n/a	n/a	n/a	(141)
Operating profit before income tax	74,283	61,274	50,592	44,803	43,536
Income tax expense	22,958	20,033	16,451	17,749	12,825
Operating profit after income tax	51,325	41,241	34,141	27,054	30,711
BALANCE SHEET INFORMATION					
Total assets	8,752,167	6,893,802	6,592,134	5,711,251	4,864,421
Net loans and advances	7,576,349	5,600,256	5,417,859	4,563,009	4,126,398
Retail deposits	6,430,425	5,122,884	4,595,522	3,424,215	2,607,101
Total equity	427,620	295,339	280,494	266,849	213,307
Total assets under management	12,254,798	10,729,197	9,032,977	8,274,678	5,561,021
KEY RATIOS					
Return on ordinary equity (%)	15.67	14.33	12.49	11.72	14.86
Return on ordinary equity - pre amortisation (%) (1)	16.86	15.58	13.81	12.32	14.86
Return on average assets (%) (2)	0.45	0.42	0.39	0.39	0.62
Operating expenses to operating income (%) (1)	57.94	59.84	60.60	64.21	62.54
Operating expenses to average assets (%) (1) (2)	1.01	1.05	1.04	1.22	1.56
Net interest margin (on average interest earning assets) (%)	2.20	1.93	1.96	2.00	2.30
Earnings per share (cents)					
-fully diluted	54.34	46.97	39.16	33.95	41.02
-fully diluted pre amortisation (1)	58.44	51.07	43.27	35.70	41.02
Dividends per share (cents)	37.00	32.00	30.00	30.00	30.00
Payout ratio (%)	68	68	76	94	73
Net tangible assets per share (\$)	3.52	3.11	2.96	2.84	2.88
Capital adequacy (%)	11.12	11.44	11.13	12.91	12.67
(1)Excludes amortisation costs associated with the purchase of Leveraged Equities Limited.					
(2)Includes securitised assets.					
OTHER INFORMATION					
Number of branches	25	25	25	28	30
Staff (Full time equivalent)	979	883	840	775	786
Share Price as at June 30 (\$)	8.00	7.29	5.75	4.78	5.70
-year high (\$)	8.75	7.68	5.95	5.80	6.85
-year low (\$)	6.65	5.50	4.66	4.36	5.25