

Introduction

This section of the 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. Adelaide Bank complies with each of the best practice recommendations. Those recommendations are able to be viewed at www.asx.com.au/corporategovernance.

All practices described in this statement applied throughout the reporting period.

The Roles & Responsibilities of the Board & 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:

- Approving Management's recommended strategy and monitoring achievement of objectives
- Approving budgets and monitoring 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 Governance, Remuneration and Nomination Committee

- Monitoring the exercise of powers delegated to management
- Approving expenditure beyond authority limits delegated to management
- Monitoring large credit exposures and the management of risk and compliance, exercised through delegated authority of the Board Risk Management Committee
- Monitoring systems of internal control, 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.

The governance of the Company includes a variety of Board policies, many of which are referred to in this statement. All Board policies are subject to annual review.

The Structure of the Board

Short biographies of the Directors of the Company are set out on pages 16 and 17. The biographies contain details of the term of office of each Director, together with details of relevant skills, experience and expertise.

Independence

The Board has a procedure for all Directors to disclose to the Board any interests or relationships they may have which relate to the affairs of the Company. This includes the requirement for Directors to notify changes of their relevant interests in Company shares. In addition, the Board has adopted a practice whereby the independence of its Non-Executive Directors is assessed annually.

The Board considers each current Non-Executive Director of the Company, after enquiry, to be an independent Director and as a consequence, the majority of the Board are independent Directors. No Non-Executive Director:

- Is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company (a "substantial shareholder" is a shareholder who has an interest in 5% or more of the voting shares in the Company)
- Acts as a nominee or representative of any particular shareholder
- Has been employed in an Executive capacity by the Company
- Within the last 3 years has been a material professional adviser or material consultant to the Company
- Is a material supplier or customer of the Company
- Has a material contractual relationship with the Company (other than as a Director)
- Has served on the Board for a period that could, or could reasonably be perceived to, materially interfere with his or her ability to act in the best interests of the Company.

Materiality must be assessed on a case by case basis and include quantitative and qualitative criteria.

The Role of the Chair

The Chair is selected by the Board from the Non-Executive Directors. Accordingly the same person does not exercise the roles of Chief Executive Officer and Chair.

The role of the Chair includes:

- Leading the Board
- Ensuring the Board receives such information as Directors may require to discharge their duties
- Representing the Board in public
- Conducting Board meetings
- Reviewing the performance of the Board and individual Directors.

Retirement and Re-election of Directors

At least one third of the Directors retire each year, by rotation, as required by the Company's Constitution and the ASX Listing Rules. The Constitution also states that any Director who has been appointed during the course of the year must retire at the next Annual General Meeting. Eligible Directors who retire each year may offer themselves for re-election by the shareholders at the next Annual General Meeting.

Board policy requires that Directors must retire at the age of 70.

Selection and Appointment of New Directors

The Board has established a Governance, 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 and its Committees is reviewed from time to time by the Governance, Remuneration and Nomination Committee to ensure the Board has an appropriate mix of expertise and experience given the nature of the business of the Company and the markets in which it operates. 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 Governance, 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 Governance, Remuneration and Nomination Committee and of the attendance by members at Committee meetings are set out elsewhere in this Annual Report (page 24).

Board Meetings

The Board's business is largely conducted by a program of 11 monthly meetings, together with such additional meetings as may be required from time to time. A substantial part of the Board's business is conducted by committees of the Board. Generally, the Committees and the Board meet for one day a month.

The Board currently has three standing Board Committees, with the role of each being described as follows:

Risk Management Committee

The Risk Management Committee shall review and approve the risk appetite of the Company, establish and maintain policies which reflect the risk appetite and monitor the management of credit risk, liquidity risk, market risk and operational risk. In so doing the Committee shall provide assistance to

the Board in fulfilling the risk management component of its Corporate Governance responsibilities. The Company's ability to identify, measure, monitor and report about risk is fundamental to its performance.

The Company's internal auditor has free and unfettered access to the Risk Management Committee to ensure the auditor may raise matters with the Committee without reference to other Directors or senior Management.

Members of the Committee shall be available to meet with the Australian Prudential Regulation Authority on request.

Audit Committee

The Audit Committee shall provide assistance to the Board in fulfilling its Corporate Governance and oversight responsibilities in relation to the Company's financial reporting, internal control structure, and the internal and external audit functions.

In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books and records of the Company. The members of the Committee have free and unfettered access to senior management, the internal auditor, the head of all risk management functions and the Bank's external auditor at all times, and vice versa. Each of the internal auditor and the external auditor may raise matters with the Committee without reference to other Directors or senior management. The Committee has authority to engage independent advisors as it determines necessary to carry out its duties.

Governance, Remuneration & Nomination Committee

The Governance, Remuneration and Nomination Committee shall provide assistance to the Board in fulfilling its responsibilities relating to:

- the governance of the Company;
- the remuneration of Directors and Executives;
- the nomination and appointment of Directors.

During the period Directors generally attended the meetings of the Risk Management and Audit Committees, regardless of whether they are members of those Committees. The minutes of each Committee meeting are circulated to all Directors and the agenda and papers for each meeting are available to all Directors. The Chair of each Committee provides a verbal report about the business of each Committee meeting to the next meeting of the Board.

Executives and other senior managers are required to attend and present at Board and Committee meetings and to answer questions from Directors. The Chair of each Committee also meets separately with relevant Executives, particularly in preparation for Committee meetings.

In addition, the minutes of Executive Committee meetings (chaired by the Group Managing Director) are circulated to all Directors.

Ethical & 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 has a procedure to enable Directors to disclose any interest that may potentially conflict with the interests of the Company.

Share Ownership & Trading

Directors are required to hold a minimum parcel of 500 shares in the Company. Details of Directors' holdings are set out on page 24 of this Annual Report.

All staff are encouraged to hold shares in the Company and the Company acquires or allocates shares pursuant to incentive schemes.

The Board has a policy in relation to trading in the Company's securities by Directors and staff. The key features of the policy, aimed at ensuring appropriate practice by Directors and Staff, 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 Company Secretary 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.

Each dealing in the Company's securities by a Director must be reported to the Company's Board and notified by the Company to the Australian Stock Exchange, whilst each dealing by an Executive must be reported to the Company Secretary.

Access to Information and Independent Advice

The Board has adopted a procedure whereby Directors are entitled to take independent professional advice at the expense of the Company. In addition, the Board has full access to Company records.

Integrity in Financial Reporting

The Company is committed to integrity and quality in its 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. Commentary on the Company's financial performance is made in the reports of the Chairman and the Chief Executive Officer in the Annual Report, and in regular releases to the market.

As referred to earlier, the Board has an Audit Committee with one of its roles being review of the integrity of the Company's financial reporting. The Committee reviews the half yearly and annual financial statements. 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 Charter of the Committee specifies a number of duties for the Committee, including:

- To assess the appropriateness of the Company's accounting policies and principles and disclosures and any changes to them

- To review significant or unusual transactions and accounting estimates
- To discuss with management and the external auditor the internal controls regarding financial information so as to review the integrity of the Company's financial reporting
- To discuss with management and the external auditor the financial report
- To assess whether the financial report represents a true and fair view of the Company's financial position and performance and complies with regulatory requirements
- To review and approve the scope of the external audit plan and work program
- To ensure the external auditor is not engaged to provide services that may impair or appear to impair judgement or independence
- To review the implementation of steps taken to address the taxation compliance issues associated with any major transaction or arrangement considered by the Board.

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 (page 24).

Timely & 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 acknowledges the importance of security holders receiving

accurate and timely information about the Company. The Board's strategy to promote effective communication with security holders consists of the following elements:

- Regular announcements are made to the market
- All announcements made to the market and all related information (such as information provided to analysts or media during briefings) are accessible from the website after they have been released to ASX
- The full text of all notices of meeting and explanatory material are placed on the website
- Addresses made by the Chairman and the Chief Executive Officer to the Annual General Meeting are 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 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

In the conduct of its business the Company is exposed to a wide variety of risks and accordingly the Company's ability to identify, assess, manage and report on those risks is a key component of the Company's success. The principal risks can be described as:

- Credit Risk — the risk of loss from a counterparty defaulting in meeting its contractual obligations
- Operational Risk — the risk of loss from failed internal processes, people and systems, or from external events
- Liquidity Risk — the risk that the Company will have insufficient funds to meet its obligations in an orderly fashion
- Market Risk — the risk that changes in market interest rates and other variables will negatively affect the Company's earnings.

Policies

- In setting the risk appetite of the Company the Board has adopted policies in relation to the identification, assessment, management and monitoring of the above risks. All Board policies, including those concerning risk management, are subject to annual review, thereby ensuring the same remain appropriate for the risks applicable to the Company's business.
- Executives of the Company have been allocated responsibility for the management of those risks, by implementing procedures and processes in all aspects of our business. Whilst there are central policy units charged with responsibility for ensuring the Company has appropriate infrastructure for identification and assessment of risk, day to day risk management clearly rests with line managers.
- During the reporting period the Board had a Risk Management Committee, the Charter of which included monitoring and review of compliance with relevant Board risk management policies. The Charter of the Risk Management Committee is located on the Company's website.
- Relevant Executives provide detailed reporting to the Executive Committee and the Board Committees regarding risk management.
- 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 has full access to the records of the Company's risk and control assessments, particularly for the purpose of internal audit planning and the conduct of internal audit reviews.
- The internal audit service provider reports to 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 Board has established an Audit Committee, the Charter of which includes the oversight of the internal audit service.
- 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 & 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 program for new Directors and Executives. The program for Directors includes meetings with Executives and Senior Managers
- Through the office of the Chair, Directors are able to take independent professional advice at the Company's expense
- A performance evaluation of the Board and its members is conducted on an annual basis. An evaluation was conducted during 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 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

Full details of the Company's remuneration policies and practices for Non-Executive Directors and Executives are contained in the Remuneration Report at pages 26 to 31 of this Annual Report.

Political Donations

The Board has a policy in relation to donations to political parties, which is to consider any application for such a donation on its merits. The Board reviews its policy from time to time. In the reporting period, the Bank made donations totaling \$57,550. Of this total \$25,000 was donated to the Australian Labour Party and \$25,000

to the Liberal Party of Australia. The balance of the funds were for attendance at political party functions.

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 customers, its staff and the community at large.

The Code requires the Company's business to be conducted in a manner which 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 behaviour from employees which 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 which are not detrimental to the environment.