



***Adelaide Bank Limited and Controlled Entities***  
***ABN 54 061 461 550***

***Report for the Half-Year ended 31 December 2005***

***Results for announcement to the market***

*Release date 2<sup>nd</sup> February 2006*

*Prepared in accordance with ASX Listing Rule 4.2A.3  
Appendix 4D*

This interim financial report is the first Adelaide Bank Consolidated interim financial report to be prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS). *AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

It is recommended that the half-year financial report is read in conjunction with the Annual Financial Statements of Adelaide Bank Limited as at 30 June 2005 together with any public announcements made by Adelaide Bank Limited and its controlled entities during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.



Results for announcement to the market  
*Appendix 4D*

*Adelaide Bank Limited and Controlled Entities ABN 54 061 461 550*

***Report for the Half-year ended 31 December 2005***

*(previous corresponding period 31 December 2004)*

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|   |    |     |    |               |
|---|----|-----|----|---------------|
| Net Revenue from Ordinary Activities (\$000's)  | up | 13% | to | \$153,145     |
| Profit from Ordinary Activities after tax attributable to members of Adelaide Bank Limited (\$000's)<br>(24% increase on a comparable December 04 basis per page 3<br>12% increase reflects statutory income statement per page 31) | up | 12% | to | \$41,389      |
| Net profit after tax attributable to members of Adelaide Bank Limited (\$000's)<br>(24% increase on a comparable December 04 basis per page 3<br>12% increase reflects statutory income statement per page 31)                      | up | 12% | to | \$41,389      |
| Proposed 2006 interim dividend per ordinary share fully franked at 30% (previous corresponding period 24 cents fully franked at 30%)  |    |     |    | 26 cents      |
| Final 2005 dividend paid per ordinary share fully franked at 30% (previous corresponding period 25 cents fully franked at 30%)  |    |     |    | 29 cents      |
| Record date to determine entitlements to the 2006 interim dividend on ordinary shares   |    |     |    | 16 March 2006 |
| Payment date for the proposed 2006 interim dividend   |    |     |    | 31 March 2006 |

***Business comment***

- Record profit for half year
- Strong lending growth
- Loan quality remaining very sound





**Release 10.30 a.m. (Central Summer Time) Thursday, February 2, 2006**

**INCREASED DIVIDEND AS PROFIT CONTINUES TO RISE**

Adelaide Bank Limited today continued its recent trend with another first half record profit for 2005-06, built on continued strong lending and good retail funding growth, plus improvements in key efficiency ratios.

The 2005-06 interim financial report is the first by Adelaide Bank to be prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS).

Profit before tax was a record \$62.45 million, which was an increase of 25 per cent on the \$50.07 million recorded in the first half of 2004-05.

After tax profit increased by 24 per cent to a record \$41.39 million, compared with \$33.45 million for the first half of last financial year.

The Bank posted underlying earnings of \$71.15 million, which was an increase of 21 per cent on the \$58.75 million posted for the first half of the 2004-05 financial year.

On the back of this performance Adelaide Bank's Board increased the first half fully franked dividend two cents to 26 cents, which represents an increase of eight per cent and reflected the Board's confidence in the future following a performance that saw the major key indicators improve.

The record first half result was reported to the Australian Stock Exchange today by the Bank's Chairman, Dr Adele Lloyd, and Group Managing Director and Chief Executive Officer, Mr Barry Fitzpatrick, AM.

In making the announcement, Dr Lloyd said: "Adelaide Bank has continued to deliver a strong performance for its shareholders.

"Importantly, the Bank has continued to deliver on its key shareholder promise with cash earnings per share growth of more than 10 per cent."

**SHAREHOLDERS' RETURNS**

The Bank delivered a return on ordinary equity (prior to amortisation of acquisition costs) of 16.14 per cent.

This compared with an 17.15 per cent ROE posted in the corresponding six months of 2004-05 and the 18.35 per cent ROE posted for the six months ending June 30, 2005. The short term fall resulted from the need to raise capital to cover the acquisition of the Goldman Sachs



JBWere margin lending business as well as the deduction of capitalised loan acquisition costs for regulatory purposes.

Increased profitability translated into fully diluted cash earnings per share (prior to amortisation of acquisition costs) of 40.24 per cent.

This was a 13 per cent increase on the 35.48 per cent fully diluted cash earnings per share recorded at December 31, 2004. The increase was boosted by changes to debt provisioning under AFRIS. Without these changes the increase would have been 12 per cent.

As a consequence the fully franked 26-cent interim dividend will be paid to shareholders on March 31, 2006.

This represents a dividend payout ratio on ordinary shares of 71 per cent, compared with 70 per cent for the first half of last year. This is in line with the Bank's long-stated desired ratio of around 70 per cent.

## **ASSET GROWTH AND QUALITY**

The Bank's total assets under management grew to \$23.4 billion over the first six months of 2005-06, representing a nine per cent increase on the \$21.50 billion at June 30, 2005. This represents an annualised rate of growth of 18 per cent.

Total loans under management grew by \$2.1 billion to \$21.1 billion from \$19.0 billion at June 30, 2005. This represented an increase of 11 per cent – or an annualized rate of growth of 22 per cent. Excluding an acquired residential portfolio of \$580 million, organic growth was eight per cent for the six months, or 16 per cent annualised.

Loan quality remained sound with gross non-accrual loans standing at \$8.6 million. This represents 0.08 per cent of gross loans with net non-accrual loans representing 0.03 per cent of gross loans and 0.43 per cent of ordinary equity plus non-specific provisions.

Business lending non-accruals fell to 0.07 per cent of the portfolio, with only one Business lending loan in non-accrual status.

Commenting, Mr Fitzpatrick said: "Adelaide Bank continues to report credit quality in the top quartile of Australian retail banks.

"Non-accrual consumer loans remained at normal levels over the six month period, dropping from 1.08 per cent of the portfolio to 0.97 per cent over the past six months.

"Non-securitised residential performing loans past due 90 days and over rose slightly from 0.66 per cent at June 30, 2005 to 0.78 per cent at December 31, 2005.

"The quality of the Bank's portfolio remains strong, with only 11 non-securitised mortgage loans in arrears for 90 days or more having a loan-to-historic-valuation ratio of greater than 85 per cent and not subject to Lenders' Mortgage Insurance.

"Adelaide Bank continues to be vigilant in the area of risk management.



“At June 30, 2005 it had in place \$39 million in general provisions and \$4.7 million in Specific Provisions (a total of \$43.7 million).

“It should be noted the change to AIFRS reporting standards means the former general provision for doubtful debts is no longer allowed. A General Reserve for Loan losses is notionally allowed for in the calculation of the Bank’s Capital Adequacy for regulatory purposes.

“Under the AIFRS reporting standards it now has \$3.3 million in Specific Provisions, \$22.7 million in a notional General reserve for loan losses and \$18.5 million in Collective Impairment Provisions (a total of \$44.5 million).

## **LENDING**

Adelaide Bank saw a slowing in housing loan approvals for the first six months of 2005-06, after two years of strong growth.

Loan approvals for the first six months of the financial year totalled \$3.96 billion, compared with \$4.37 billion for the same period of the 2004-05 financial year and \$4.78 billion for the first half of the 2005 calendar year.

Mr Fitzpatrick said: “Adelaide Bank was selective in those areas in which it competed during a period of intense price competition in the home loan market.

“Latest Australian Bureau of Statistics figures indicate the Bank’s market share of national housing loan approvals reduced as a result, from 3.6 per cent in the first five months of 2004-05 to 3.1 per cent in the first five months of 2005-06, contributing to a short-term profit impact from residential business.

“Profit before tax from residential lending operations was reduced by \$4.1 million for the first six months of the financial year.

“This was more than offset by significant pre-tax contributions from Business Lending (up \$3.6 million or 39 per cent as a result of the contribution from Portfolio Funding), Margin Lending (up \$9.1 million or 182 per cent) and Retail Funding (up \$2.5 million or 18 per cent).

“From these figures it can be seen that the Bank’s diversification strategies have strongly contributed at a time when the Bank’s traditional business of residential lending has slowed.

“Management is committed to ensuring there is no long-term slide in residential lending market share.

“The Bank has increased expenditure on technology platforms, focused on control of front-end costs, increased spending on product improvements and related technology and increased expenditure on risk management and compliance.

“These measures will assist in building market share in the future”

## **FUNDING**

Retail deposits grew by \$700 million over the first six months of 2005-06 from \$9.4 billion at June 30, 2005 to \$10.1 billion at December 31, 2005 – an increase of more than seven per cent. This represents annualised growth of 15 per cent.

Growth was boosted by a strong performance by the Bank's new AAA Saver Account, which closed the period at \$908 million, having been launched shortly before the end of the 2004-05 financial year.

## **CAPITAL**

The Bank's Capital Adequacy Ratio stood at 11.3 per cent at December 31, 2005, with Tier I capital at 6.7 per cent.

This compared with a Capital Adequacy Ratio of 11.2 per cent at December 31, 2004, with Tier I capital at 5.8 per cent and 11.1 per cent at June 30, 2005, with Tier 1 capital at 6.3 per cent.

The strong Tier 1 ratio was boosted by underwriting the Bank's Dividend Reinvestment Plan during the period.

## **OPERATING EFFICIENCIES**

Adelaide Bank continues to be strongly focused on a growth strategy designed to deliver improved operating efficiencies.

Staff expenses rose by 23 per cent over the year from \$43.5 million to \$53.5 million, impacted significantly by increased staff numbers (FTE rose from 1,097 in December 2004 to 1,183 at December 2005, including 26 as a result of the Goldman Sachs JBWere margin lending acquisition).

As a result, operating costs rose by 17 per cent during the year, reflecting the inclusion of the newly acquired margin lending business, Bank's strong growth profile, compliance costs and the conservative treatment of software development costs.

Excluding the \$2.9 million in operating costs that related to the newly acquired Goldman Sachs JBWere margin lending business, overall costs increased by 13 per cent

Mr Fitzpatrick commented: "Despite these increases, the Bank continued to ensure costs grew at a lower rate than both loans under management and operating income.

"This has ensured continuing improvement in the Bank's key cost-to-assets and cost-to-income ratios.

"The Bank's operating expenses to operating income ratio continues to be reduced. At December 31, 2004, it stood at 55.42 per cent and was reduced to 54.59 per cent at December 31, 2005 – a one per cent reduction.

"The Bank's operating expense to average total assets ratio was also significantly reduced, dropping from 0.86 per cent at December 2004 to 0.75 per cent at December 2005 – a reduction of 12 per cent.



“The Bank is comfortable with the improvement in these ratios but believes even more efficient operations are required to prosper in the very competitive financial services sector.

“As predicted, Adelaide Bank’s net interest margin has narrowed, reducing by 0.04 per cent on a year-on-year basis to 1.18 per cent. It is important to note this margin is inclusive of securitised assets and all direct costs.

“Excluding these, the Bank’s margin increased slightly from 2.18 per cent at December 31, 2004, to 2.22 per cent at December 31, 2005 and this is in line with our prediction that we could experience a contraction in margin of between 10 and 15 basis points over the year.”

### **LOOKING FORWARD**

Mr Fitzpatrick said: “The Bank’s strategic direction has been charted for the next three years.

“The Adelaide Bank strategies have not changed dramatically – nor will they over the period ahead.

“Those strategies have been well articulated and are well understood and they remain strategies that will continue to provide sustainable growth and increased profitability.

“Our focus in the months ahead will be to maintain the momentum in our growing businesses and ensure our residential lending business continues to grow market share in a profitable manner.

“That drive will not jeopardize our commitment to credit quality and for the Bank to maintain its position with asset quality that ranks in the top quartile of Australian retail banks.

“Traditionally, the second half of the each financial year has proven at least as strong as the first half and the Board is confident Adelaide Bank will meet its strategic commitment by delivering cash earnings per share growth in excess of 10 per cent for the full 2005-06 financial year.”

“The results from the first half of 2005-06 indicate we are well down the path of achieving those key objectives.”

**Further comment is available from Mr Fitzpatrick on (08) 8300 6818.**

**Issued on behalf of Adelaide Bank by Greg Reid Marketing Communications Pty. Ltd.**  
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## Key Ratios and other information - AIFRS Dec 2005 to Comparable Dec 2004

|   | AIFRS<br>Dec 2005<br>Group | Comparable<br>Dec 2004<br>Group | Increase/<br>(Decrease)<br>% |
|---|----------------------------|---------------------------------|------------------------------|
| <b>Profitability</b>  |                            |                                 |                              |
| Profit after Tax (before Significant Item) (\$000's)                                    | \$41,389                   | \$33,445                        | 24                           |
| Net Interest Margin   | 1.18%                      | 1.24%                           | (5)                          |
| Return on Average Assets*   | 0.36%                      | 0.40%                           | (10)                         |
| Return on Ordinary Equity   | 14.79%                     | 16.55%                          | (11)                         |
| Return on Ordinary Equity - Pre amortisation of acquisition costs                       | 16.14%                     | 17.15%                          | (6)                          |
| <b>Efficiency Ratios</b>  |                            |                                 |                              |
| Operating Expenses/Average Total Assets*  | 0.75%                      | 0.86%                           | (12)                         |
| Operating Expenses/Operating Income   | 54.59%                     | 55.42%                          | (1)                          |
| <b>Earnings per Ordinary Share</b>  |                            |                                 |                              |
| Earnings per Share - Fully Diluted  | 36.88¢                     | 34.23¢                          | 8                            |
| Earnings per Share - Fully Diluted (Annualised)   | 73.15¢                     | 67.91¢                          | 8                            |
| Earnings per Share - Fully Diluted - Pre amortisation of acquisition costs              | 40.24¢                     | 35.48¢                          | 13                           |
| Earnings per Share - Fully Diluted - Pre amortisation of acquisition costs (Annualised) | 79.82¢                     | 70.38¢                          | 13                           |
| <b>Dividends on Ordinary Shares</b>   |                            |                                 |                              |
| Interim Dividend (Fully franked at 30%)   | 26.00¢                     | 24.00¢                          | 8                            |
| Payout Ratio (ordinary shares) **   | 71%                        | 70%                             | 2                            |
| <b>Other</b>  |                            |                                 |                              |
| NTA per Share   | \$5.32                     | \$4.16                          | 28                           |
| Ordinary shares on issue  | 106,582,747                | 93,914,350                      | 13                           |
| FTE staff numbers   | 1,183                      | 1,097                           | 8                            |

**NOTE: The above ratios are exclusive of Significant Item**

### Ratios including Significant Item (where different from above)

|   |        |        |      |
|---|--------|--------|------|
| Return on Ordinary Equity   | 14.79% | 16.79% | (12) |
| Return on Ordinary Equity - Pre amortisation of acquisition costs                       | 16.14% | 17.39% | (7)  |
| Operating Expenses/Operating Income   | 54.59% | 55.14% | (1)  |
| Earnings per Share - Fully Diluted  | 36.88¢ | 34.72¢ | 6    |
| Earnings per Share - Fully Diluted (Annualised)   | 73.15¢ | 68.88¢ | 6    |
| Earnings per Share - Fully Diluted - Pre amortisation of acquisition costs              | 40.24¢ | 35.97¢ | 12   |
| Earnings per Share - Fully Diluted - Pre amortisation of acquisition costs (Annualised) | 79.82¢ | 71.35¢ | 12   |
| Payout Ratio (ordinary shares) **   | 71%    | 69%    | 3    |

Where appropriate ratios have been annualised

\* Includes securitised assets.

\*\* Based on interim dividend declared

## Key Ratios and other information (continued)

### Balance Sheet Information

|                                      | <i>Consolidated</i>         |                             |                             | <i>Increase /<br/>(Decrease)</i> | <i>Increase /<br/>(Decrease)</i>         |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------------|----------------------------------|--|
|                                      | <i>Dec 2005<br/>\$000's</i> | <i>Jun 2005<br/>\$000's</i> | <i>Dec 2004<br/>\$000's</i> |                                  |  |
|                                      |                             |                             |                             | <i>Dec 05 to<br/>Dec 04</i>      | <i>Dec 05 to Jun 05<br/>(Annualised)</i> |
|                                      |                             |                             |                             | <i>%</i>                         | <i>%</i>                                 |
| <b>Loans Under Management</b>        |                             |                             |                             |                                  |  |
| Residential                          | 15,930,394                  | 14,480,708                  | 12,728,612                  | 25                               | 20                                       |
| Business                             | 1,357,906                   | 1,258,895                   | 1,175,757                   | 15                               | 16                                       |
| Portfolio Funding                    | 627,373                     | 307,422                     | 140,832                     | 345                              | 206                                      |
| Margin Lending                       | 2,905,207                   | 2,642,933                   | 1,525,086                   | 90                               | 20                                       |
| Consumer                             | 263,348                     | 274,008                     | 298,780                     | (12)                             | (8)                                      |
|                                      | <b>21,084,228</b>           | <b>18,963,966</b>           | <b>15,869,067</b>           | <b>33</b>                        | <b>22</b>                                |
| <b>Securitised Loans</b>             |                             |                             |                             |                                  |  |
| Residential                          | 7,962,385                   | 6,552,804                   | 4,475,580                   | 78                               | 43                                       |
| Margin Lending                       | 2,086,804                   | 1,345,937                   | 1,204,798                   | 73                               | 109                                      |
|                                      | <b>10,049,189</b>           | <b>7,898,741</b>            | <b>5,680,378</b>            | <b>77</b>                        | <b>54</b>                                |
| <b>Funding</b>                       |                             |                             |                             |                                  |  |
| Retail Deposits (includes AAA Saver) | 10,084,928                  | 9,361,588                   | 8,435,823                   | 20                               | 15                                       |
| Wholesale Deposits                   | 2,505,587                   | 2,526,834                   | 2,050,334                   | 22                               | (2)                                      |

## Detailed Profit & Loss Account - AIFRS Dec 2005 to Comparable Dec 2004

For the half-year ended 31 December 2005

|  |      | AIFRS<br>Dec 2005<br>Group<br>\$000's | Comparable<br>Dec 2004<br>Group<br>\$000's | Increase/<br>(Decrease)<br>% |
|--|------|---------------------------------------|--|------------------------------|
|  | NOTE |                                       |  |                              |
| <b>OPERATING INCOME</b>                                |      |                                       |  |                              |
| Non securitised interest margin                        | (1)  | 136,180                               | 117,671                                    | 16                           |
| Securitised interest margin                            |      | 52,831                                | 35,033                                     | 51                           |
| Less Fees to intermediaries / Direct costs             |      | 61,258                                | 48,858                                     | 25                           |
| Less Other interest                                    | (2)  | 325                                   | 345  | (6)                          |
| <b>Net Interest Income</b>                             |      | <b>127,428</b>                        | <b>103,501</b>                             | <b>23</b>                    |
| <b>Add Other Income:</b>                               |      |                                       |  |                              |
| Insurance Commissions                                  |      | 1,713                                 | 1,661                                      | 3                            |
| Loan Fees  |      | 9,422                                 | 9,318                                      | 1                            |
| Transaction Fees                                       |      | 4,766                                 | 4,553                                      | 5                            |
| Account Service Fees                                   |      | 4,767                                 | 4,617                                      | 3                            |
| Visa Income  |      | 1,822                                 | 1,770                                      | 3                            |
| Processing Income                                      |      | 4,306                                 | 4,037                                      | 7                            |
| Other Income   |      | 2,458                                 | 2,329                                      | 6                            |
| <b>Total Other Income</b>                              | (3)  | <b>29,254</b>                         | <b>28,285</b>                              | <b>3</b>                     |
| <b>Total Operating Income</b>                          |      | <b>156,682</b>                        | <b>131,786</b>                             | <b>19</b>                    |
| <b>OPERATING EXPENSES</b>                              |      |                                       |  |                              |
|  |      | <i>% of Total</i>                     | <i>% of Total</i>                          |                              |
| Staff Expenses   |      | 53,461 62%                            | 43,508 61%                                 | 23                           |
| Occupancy Expenses                                     |      | 4,490 5%                              | 3,848 5%                                   | 17                           |
| Technology Costs                                       |      | 5,997 7%                              | 4,667 6%                                   | 28                           |
| Depreciation & Amortisation                            |      | 3,224 4%                              | 4,607 6%                                   | (30)                         |
| Communications, Printing and Stationery                |      | 4,259 5%                              | 3,978 5%                                   | 7                            |
| Professional Fees                                      |      | 6,686 8%                              | 6,117 8%                                   | 9                            |
| Other Expenses   |      | 7,420 9%                              | 6,307 9%                                   | 18                           |
| <b>Total Operating Expenses</b>                        |      | <b>85,537</b>                         | <b>73,032</b>                              | <b>17</b>                    |
| <b>Underlying Earnings</b>                             |      | <b>71,145</b>                         | <b>58,754</b>                              | <b>21</b>                    |
| Less Amortisation of acquisition costs                 | (4)  | 3,537                                 | 1,170                                      | 202                          |
| Less Bad & doubtful debt expense                       | (5)  | 5,161                                 | 7,516                                      | (31)                         |
| <b>Profit before Tax (before Significant Item)</b>     |      | <b>62,447</b>                         | <b>50,068</b>                              | <b>25</b>                    |
| Income Tax Expense (before Significant Item)           |      | 21,058                                | 16,623                                     | 27                           |
| <b>Profit after Tax (before Significant Item)</b>      |      | <b>41,389</b>                         | <b>33,445</b>                              | <b>24</b>                    |
| <b>Significant Item</b>                                |      |                                       |  |                              |
| Other Income - Profit from sale of Cashcard investment |      | -                                     | 658  | (100)                        |
| <b>Significant Item before Tax</b>                     |      | <b>-</b>                              | <b>658</b>                                 | <b>(100)</b>                 |
| Income Tax Expense                                     |      | -                                     | 197  | (100)                        |
| <b>Significant Item after Tax</b>                      |      | <b>-</b>                              | <b>461</b>                                 | <b>(100)</b>                 |
| <b>Profit before Tax (including Significant Item)</b>  |      | <b>62,447</b>                         | <b>50,726</b>                              | <b>23</b>                    |
| Income Tax Expense (including Significant Item)        |      | 21,058                                | 16,820                                     | 25                           |
| <b>Profit after Tax (including Significant Item)</b>   | (6)  | <b>41,389</b>                         | <b>33,906</b>                              | <b>22</b>                    |
| Step up Preference share dividend (SPS)                |      | 2,600                                 | 1,295                                      | 101                          |
| <b>Profit after Tax and SPS dividend</b>               |      | <b>38,789</b>                         | <b>32,611</b>                              | <b>19</b>                    |

### NOTES:

- (1) Includes Reset preference share dividend / Issue costs of \$3.257 million (Dec 2004 \$3.025 million)
- (2) Interest cost relating to superannuation defined benefit fund
- (3) Includes fee income from securitised loans
- (4) Amortisation of acquisition costs reported as part of Net interest income in Statutory Income Statement.
- (5) Dec 2005 includes a Collective allowance expense of \$1.1 million, whereas the Dec 2004 comparative includes a General Provision expense of \$5.4 million
- (6) Profit after tax for Dec 2004 (\$33.906 million) differs from the Statutory Income Statement (\$36.931 million), which excludes the Reset preference share dividend of \$3.025 million.

## Detailed Profit & Loss Account - AGAAP Dec 2004 to Comparable Dec 2004

For the half-year ended 31 December 2004

|  |     | AGAAP          |                 | Comparable     |
|--|-----|----------------|-----------------|----------------|
|  |     | Dec 2004       | Adjustments     | Dec 2004       |
|  |     | Group          | Group           | Group          |
| <u>NOTE</u>  |     | <u>\$000's</u> | <u>\$000's</u>  | <u>\$000's</u> |
| <b>OPERATING INCOME</b>                                |     |                |                 |                |
| Interest Income  |     | 390,150        | 151,266         | 541,416        |
| Less Interest Expense                                  |     | 269,454        | 168,461         | 437,915        |
| <b>Net Interest Income</b>                             |     | <b>120,696</b> | <b>(17,195)</b> | <b>103,501</b> |
| <b>Add Securitisation Income</b>                       |     | <b>38,225</b>  | <b>(38,225)</b> | <b>-</b>       |
|  |     | <b>158,921</b> | <b>(55,420)</b> | <b>103,501</b> |
| <b>Less Fees to Intermediaries / Direct costs</b>      |     | <b>48,858</b>  | <b>(48,858)</b> | <b>-</b>       |
| <b>Add Other Income:</b>                               |     |                |                 |                |
| Insurance Commissions                                  |     | 1,661          | -               | 1,661          |
| Loan Fees  |     | 7,547          | 1,771           | 9,318          |
| Transaction Fees                                       |     | 4,063          | 490             | 4,553          |
| Account Service Fees                                   |     | 3,713          | 904             | 4,617          |
| Visa Income  |     | 1,770          | -               | 1,770          |
| Processing Income                                      |     | 4,037          | -               | 4,037          |
| Other Income   |     | 2,302          | 27              | 2,329          |
| <b>Total Other Income</b>                              |     | <b>25,093</b>  | <b>3,192</b>    | <b>28,285</b>  |
| <b>Total Operating Income</b>                          | (1) | <b>135,156</b> | <b>(3,370)</b>  | <b>131,786</b> |
| <b>OPERATING EXPENSES</b>                              |     |                |                 |                |
| Staff Expenses   | (2) | 44,330         | (822)           | 43,508         |
| Occupancy Expenses                                     |     | 3,848          | -               | 3,848          |
| Technology Costs                                       |     | 4,667          | -               | 4,667          |
| Depreciation & Amortisation                            |     | 4,607          | -               | 4,607          |
| Communications, Printing and Stationery                |     | 3,978          | -               | 3,978          |
| Professional Fees                                      |     | 6,117          | -               | 6,117          |
| Other Expenses   |     | 6,307          | -               | 6,307          |
| <b>Total Operating Expenses</b>                        |     | <b>73,854</b>  | <b>(822)</b>    | <b>73,032</b>  |
|  |     | <b>61,302</b>  | <b>(2,548)</b>  | <b>58,754</b>  |
| <b>Underlying Earnings</b>                             |     | <b>61,302</b>  | <b>(2,548)</b>  | <b>58,754</b>  |
| Less Amortisation of acquisition costs                 | (3) | 1,800          | (630)           | 1,170          |
| Less Bad & doubtful debt expense                       |     | 7,516          | -               | 7,516          |
| <b>Profit before Tax (before Significant Item)</b>     |     | <b>51,986</b>  | <b>(1,918)</b>  | <b>50,068</b>  |
| Income Tax Expense (before Significant Item)           | (4) | 16,480         | 143             | 16,623         |
| <b>Profit after Tax (before Significant Item)</b>      |     | <b>35,506</b>  | <b>(2,061)</b>  | <b>33,445</b>  |
| <b>Significant Item</b>                                |     |                |                 |                |
| Other Income - Profit from sale of Cashcard investment |     | 658            | -               | 658            |
| <b>Significant Item before Tax</b>                     |     | <b>658</b>     | <b>-</b>        | <b>658</b>     |
| Income Tax Expense                                     |     | 197            | -               | 197            |
| <b>Significant Item after Tax</b>                      |     | <b>461</b>     | <b>-</b>        | <b>461</b>     |
| <b>Profit before Tax (including Significant Item)</b>  |     | <b>52,644</b>  | <b>(1,918)</b>  | <b>50,726</b>  |
| Income Tax Expense (including Significant Item)        |     | 16,677         | 143             | 16,820         |
| <b>Profit after Tax (including Significant Item)</b>   |     | <b>35,967</b>  | <b>(2,061)</b>  | <b>33,906</b>  |

The above Profit & Loss Account shows the reclassification of Securitisation income (\$38.225 million) to Net interest income (\$35.060 million) and Fee income (\$3.165 million). These are reclassifications only and do not affect profit after tax. The adjustments affecting profit after tax are as follows:

- (1) \$0.345 million Superannuation Defined Benefits Plan interest expense,  
\$3.025 million Reset preference share dividend reclassified to Net interest income.
- (2) \$0.889 million in Superannuation Defined Benefits Plan staff expenses benefit,  
\$0.067 million additional cost of short term incentives expense.
- (3) \$0.630 million in Goodwill amortisation transferred to Retained earnings.
- (4) \$0.143 million Income tax expense adjustment relating to superannuation adjustments and short term incentives.

## Key Ratios and other information - AGAAP Dec 2004 to Comparable Dec 2004

|   | AGAAP<br>Dec 2004<br>Group | Comparable<br>Dec 2004<br>Group |
|---|----------------------------|---------------------------------|
| <b>Profitability</b>  |                            |                                 |
| Profit after Tax (before Significant Item) (\$000's)                                    | \$35,506                   | \$33,445                        |
| Net Interest Margin   | 2.18%                      | 1.24%                           |
| Return on Average Assets*   | 0.43%                      | 0.40%                           |
| Return on Ordinary Equity   | 16.06%                     | 16.55%                          |
| Return on Ordinary Equity - Pre amortisation of acquisition costs                       | 16.99%                     | 17.15%                          |
| <b>Efficiency Ratios</b>  |                            |                                 |
| Operating Expenses/Average Total Assets*  | 0.89%                      | 0.86%                           |
| Operating Expenses/Operating Income   | 54.64%                     | 55.42%                          |
| <b>Earnings per Ordinary Share</b>  |                            |                                 |
| Earnings per Share - Fully Diluted  | 33.21¢                     | 34.23¢                          |
| Earnings per Share - Fully Diluted (Annualised)   | 65.87¢                     | 67.91¢                          |
| Earnings per Share - Fully Diluted - Pre amortisation of acquisition costs              | 35.12¢                     | 35.48¢                          |
| Earnings per Share - Fully Diluted - Pre amortisation of acquisition costs (Annualised) | 69.67¢                     | 70.38¢                          |
| <b>Dividends on Ordinary Shares</b>   |                            |                                 |
| Interim Dividend (Fully franked at 30%)   | 24.00¢                     | 24.00¢                          |
| Payout Ratio (ordinary shares) **   | 72%                        | 70%                             |
| <b>Other</b>  |                            |                                 |
| NTA per Share   | \$4.19                     | \$4.16                          |
| Ordinary shares on issue  | 93,914,350                 | 93,914,350                      |
| FTE staff numbers   | 1,097                      | 1,097                           |

NOTE: The above ratios are exclusive of Significant Item

### Ratios including Significant Item (where different from above)

|   |        |        |
|---|--------|--------|
| Return on Ordinary Equity   | 16.29% | 16.79% |
| Return on Ordinary Equity - Pre amortisation of acquisition costs                       | 17.22% | 17.39% |
| Operating Expenses/Operating Income   | 54.38% | 55.14% |
| Earnings per Share - Fully Diluted  | 33.70¢ | 34.72¢ |
| Earnings per Share - Fully Diluted (Annualised)   | 66.85¢ | 68.88¢ |
| Earnings per Share - Fully Diluted - Pre amortisation of acquisition costs              | 35.61¢ | 35.97¢ |
| Earnings per Share - Fully Diluted - Pre amortisation of acquisition costs (Annualised) | 70.65¢ | 71.35¢ |
| Payout Ratio (ordinary shares) **   | 71%    | 69%    |

Where appropriate ratios have been annualised

\* Includes securitised assets.

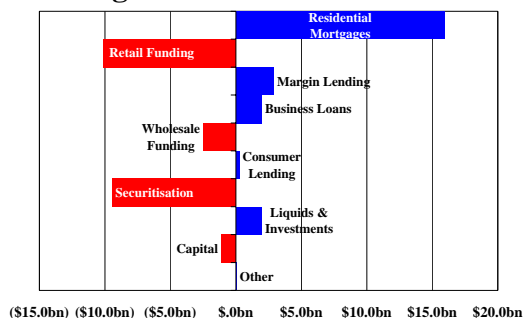
\*\* Based on interim dividend declared

## MANAGEMENT COMMENTARY ON RESULTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

### Assets & Liabilities Under Management

Total assets under management grew by 8.8% (annualised growth of 17.5%) in the six months to close at \$23.4 billion.

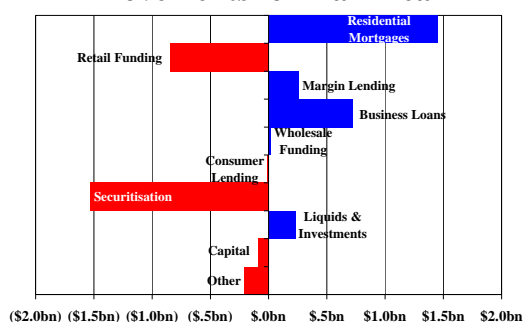
### Assets & Liabilities Under Management at 31 December 2005



Continuing growth in retail funds (including AAA Saver) and an ongoing securitisation programme supported strong growth in residential lending.

Growth in Business Loans was assisted by continuing growth in the Portfolio Funding Business.

### Movements for Half-Year



### Loans Under Management

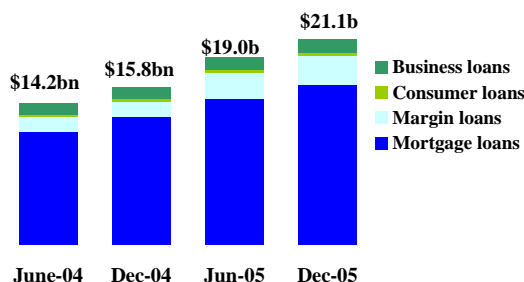
Loans under management grew by \$2.1 billion during the half, an annualised rate of growth of 22.2%.

Excluding the acquisition of a \$580 million mortgage portfolio organic growth was at an annualised rate of 16.2%

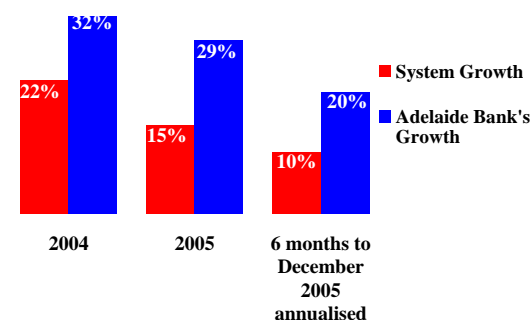
Adelaide Bank has maintained growth in mortgage loans above the overall level of growth in the market.

Market share of mortgage loans grew by 10 basis points over the period to 2.22% at the end of December 2005. Growth was boosted by the purchase of a \$580 million portfolio of loans. Excluding this transaction annualised growth would have been 12% and market share 2.14%.

The Bank has been selective in which areas it chose to compete during a period of intense price competition in the home loan market.



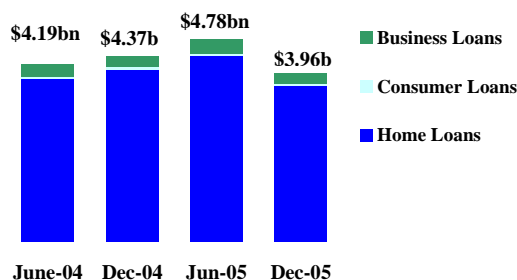
### Growth in Mortgage Loans (Loans under management)



(Source: Reserve Bank of Australia: Lending & Credit Aggregates; Company data)

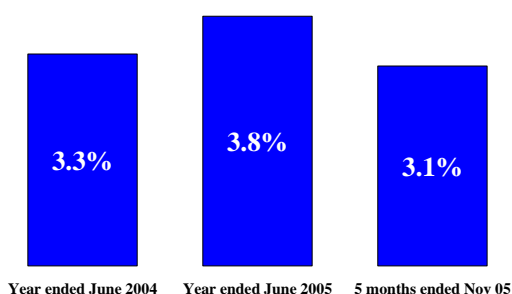
## Loan Approvals

Loan approvals for the year were more subdued as a result of a general slowdown in the housing finance market.



The market share of housing loan approvals eased, with market share of approvals for the five months ended 30 November of 3.1% compared with 3.6% for the same period in 2004. (Source: Australian Bureau of Statistics; Company data)

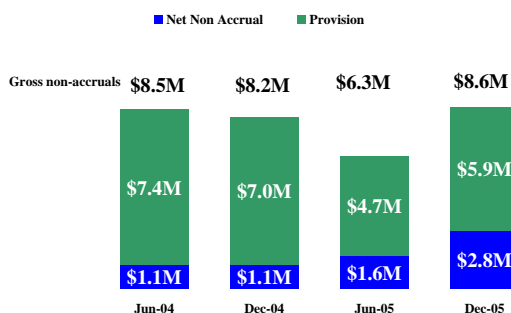
## Market Share of Mortgage Loan Approvals



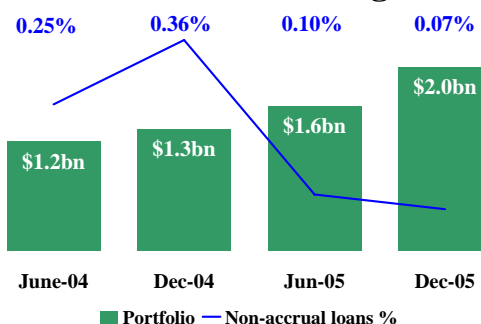
## Asset Quality

Loan quality remained sound with gross non-accrual loans standing at \$8.6 million. The total represented 0.08% of gross loans, with net non-accrual loans representing 0.03% of gross loans and 0.43% of ordinary equity plus non-specific provisions.

## Non-Accrual Loans

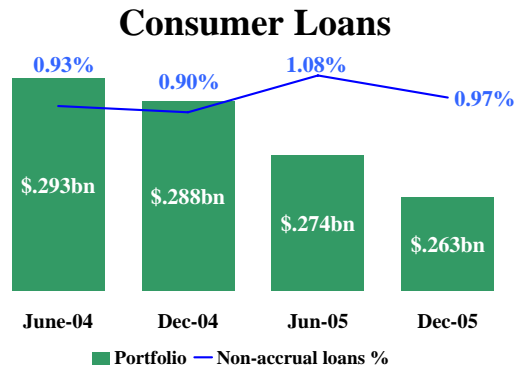


## Business Lending

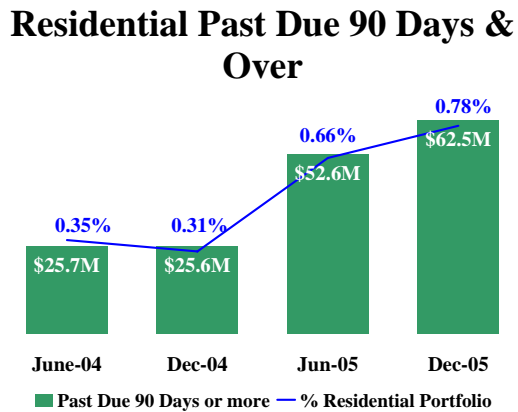


Business Lending non-accruals fell to 0.07% of the portfolio. There was only one Business Banking loan in non-accrual status.

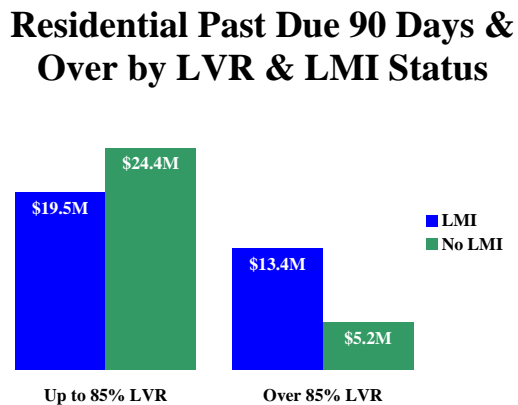
Non-accrual consumer loans remained at normal levels over the period.



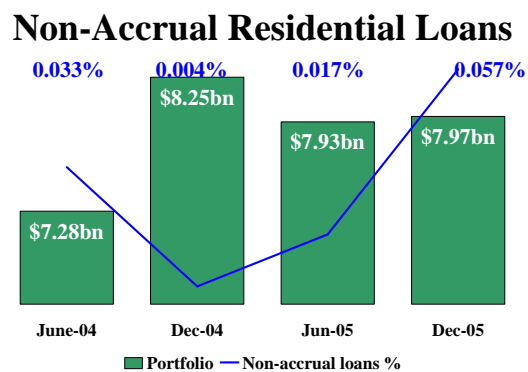
Non-securitised residential performing loans past due 90 days and over increased to 0.78% from 0.66% in June 2005.



The quality of the Bank's portfolio remains strong, with only eleven non-securitised mortgage loans in arrears for 90 days or more, having a loan-to-historic-valuation ratio of greater than 85% and not subject to Lender's Mortgage Insurance.

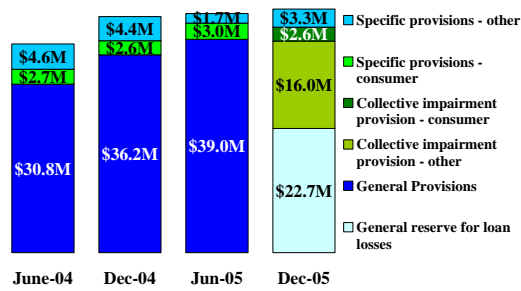


Non-securitised residential loans in non-accrual status remain at low levels.



The change to AIFRS reporting standards means that the former general provision for doubtful debts is no longer allowed. A General Reserve for Loan Losses is notionally allowed for in the calculation of the Bank's capital adequacy for regulatory purposes.

## Provisions

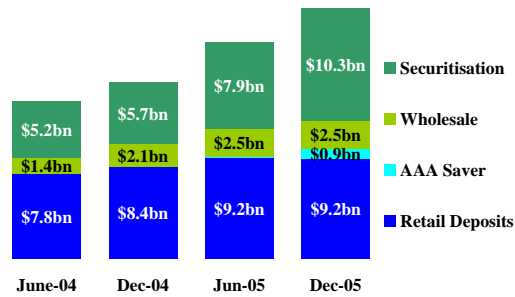


## Funding

Adelaide Bank made further progress in increasing the level of funding from retail deposits (including AAA Saver), with an increase of \$0.7 billion (annualised growth of 14.9%) in the period.

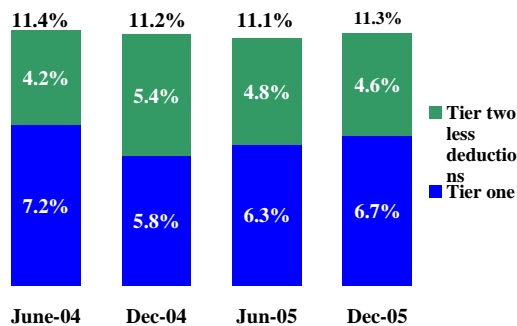
Growth was boosted by strong performance from the new AAA Saver account, which closed the period at \$908 million

## Sources of Funding



## Capital

The tier one ratio remains strong, and was boosted by the Bank's Dividend Reinvestment Plan during the period.



## Profitability

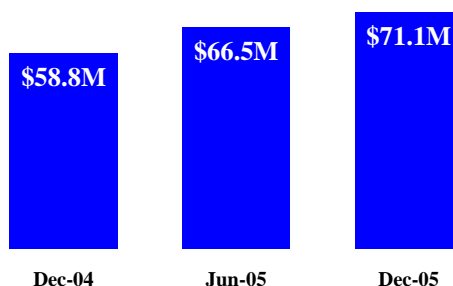
|   | Half Year    | Half Year    | Change      |              | Half Year    | Change       |               |
|---|--------------|--------------|-------------|--------------|--------------|--------------|---------------|
|   | Dec-05       | Dec-04       | \$M         | %            | Jun-05       | \$M          | %             |
| NII on Non-securitised assets and liabilities         | 139.4        | 120.7        | 18.7        | 15.5%        | 131.3        | 8.1          | 6.2%          |
| Other interest  | (0.3)        | (0.3)        | 0.0         | (5.8%)       | (0.3)        | 0.0          | (5.5%)        |
| Reset Preference Shares - distributions & issue costs | (3.3)        | (3.0)        | (0.2)       | 7.7%         | (3.0)        | (0.3)        | 9.5%          |
| NII on Securitised assets and liabilities             | 52.8         | 35.0         | 17.8        | 50.7%        | 40.3         | 12.5         | 30.9%         |
| Fees to intermediaries/ direct costs                  | 188.7        | 152.4        | 36.3        | 23.8%        | 168.4        | 20.3         | 12.1%         |
| <b>Total net interest income</b>                      | <b>61.2</b>  | <b>103.5</b> | <b>23.9</b> | <b>23.1%</b> | <b>113.5</b> | <b>13.9</b>  | <b>12.2%</b>  |
| Other income  | 29.3         | 28.3         | 1.0         | 3.4%         | 29.8         | (0.5)        | (1.7%)        |
| <b>Total operating income</b>                         | <b>156.7</b> | <b>131.8</b> | <b>24.9</b> | <b>18.9%</b> | <b>143.3</b> | <b>13.4</b>  | <b>9.3%</b>   |
| Operating expenses                                    | 85.5         | 73.0         | 12.5        | 17.1%        | 76.8         | 8.8          | 11.4%         |
|   | <b>71.1</b>  | <b>58.8</b>  | <b>12.4</b> | <b>21.1%</b> | <b>66.5</b>  | <b>4.6</b>   | <b>6.9%</b>   |
| Amortisation of acquisition costs                     | 3.5          | 1.2          | 2.4         | 202.3%       | 1.6          | 1.9          | 121.1%        |
| Bad & doubtful debts                                  | 5.2          | 7.5          | (2.4)       | (31.3%)      | 3.1          | 2.1          | 69.2%         |
| <b>Profit before tax and significant items</b>        | <b>62.4</b>  | <b>50.1</b>  | <b>12.4</b> | <b>24.7%</b> | <b>61.9</b>  | <b>2.5</b>   | <b>4.0%</b>   |
| Income tax  | 21.1         | 16.6         | 4.4         | 26.7%        | 19.7         | 1.4          | 7.0%          |
| <b>Profit after tax before significant items</b>      | <b>41.4</b>  | <b>33.4</b>  | <b>7.9</b>  | <b>23.8%</b> | <b>42.2</b>  | <b>(0.8)</b> | <b>(1.9%)</b> |
| Significant items after tax (gain)/loss               | 0.0          | (0.5)        | 0.5         | (100.0%)     | (0.4)        | 0.4          | (100.0%)      |
| Step Up Preference share dividends                    | 2.6          | 1.3          | 1.3         | 100.8%       | 2.5          | 0.1          | 2.2%          |
| <b>Profit available to ordinary shareholders</b>      | <b>38.8</b>  | <b>32.6</b>  | <b>6.2</b>  | <b>18.9%</b> | <b>40.1</b>  | <b>(1.3)</b> | <b>(3.3%)</b> |

### Calculation of Cash Underlying Earnings

|   |             |             |             |              |             |            |              |
|---|-------------|-------------|-------------|--------------|-------------|------------|--------------|
| Profit before tax and significant items | 62.4        | 50.1        | 12.4        | 24.7%        | 61.9        | 0.6        | 0.9%         |
| <b>Add:</b>                             |             |             |             |              |             |            |              |
| Bad & doubtful debts                    | 5.2         | 7.5         | (2.4)       | (31.3%)      | 3.1         | 2.1        | 69.2%        |
| Amortisation of acquisition costs       | 3.5         | 1.2         | 2.4         | 202.3%       | 1.6         | 1.9        | 121.1%       |
|   | <b>8.7</b>  | <b>8.7</b>  | <b>0.0</b>  | <b>0.1%</b>  | <b>4.7</b>  | <b>4.0</b> | <b>87.0%</b> |
| <b>Cash Underlying Earnings</b>         | <b>71.1</b> | <b>58.8</b> | <b>12.4</b> | <b>21.1%</b> | <b>66.5</b> | <b>4.6</b> | <b>6.9%</b>  |

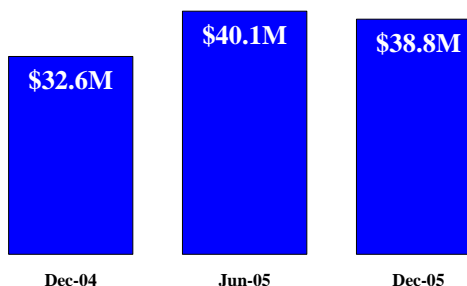
## Underlying Earnings

Underlying earnings lifted to \$71.1 million, a 21.1 percent increase on the result for 2004 and 6.9 percent up on the half-year ended 30 June 2005.



## Profit Available to Ordinary Shareholders

Continued growth allowed the Bank to deliver net profit available to ordinary shareholders of \$38.8 million, an increase of \$6.2 million (18.9%) on 2004.



The Bank delivered a return on ordinary equity (prior to amortisation of margin lending acquisition costs) of 16.14% a short-term fall as a result of the acquisition of the margin lending business of Goldman Sachs JBWere and the additional \$42 million deduction from capital relating to capitalised loan origination costs.

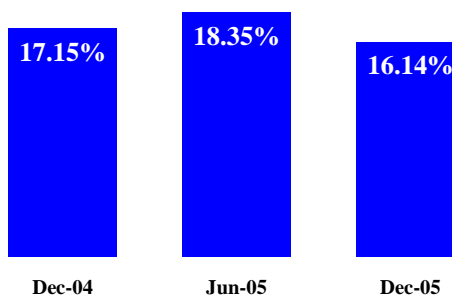
Increased profitability translated into fully diluted cash earnings per share (prior to amortisation of acquisition costs) of 40.24 cents, up from 35.48 cents in 2004 – an increase of 13.4%. As a consequence the Bank has lifted its interim dividend by two cents to 26 cents per share. This represents a dividend payout ratio of 71% in line with the Bank’s long-term objective of around 70%.

Earnings per share were boosted by changes to debt provisioning under AIFRS. Without these changes the increase would have been 12%.

The cost to income ratio continued to improve on a year-on-year basis. The ratio for the first half of a financial year is typically higher than that for the second half due to accounting for bonus payments and salary increases in the first half of the year. These items also impact on the comparison of other performance ratios (such as earnings per share, return on equity, etc) between the first and second half of a financial year.

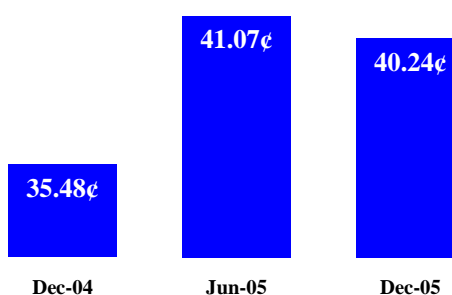
## Return on Equity

(Cash Basis- excluding significant items)

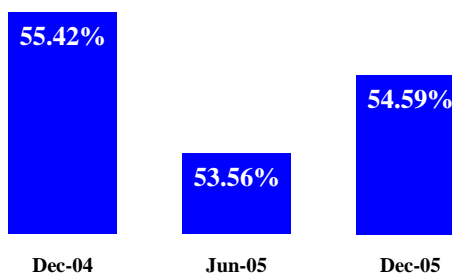


## Earnings Per Share

(Cash Basis- excluding significant items)

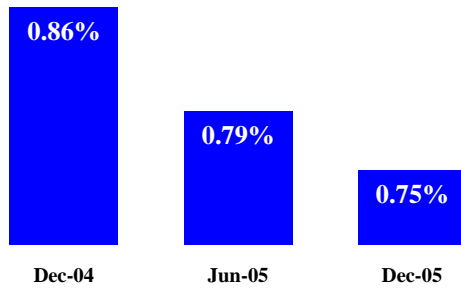


## Cost to Income

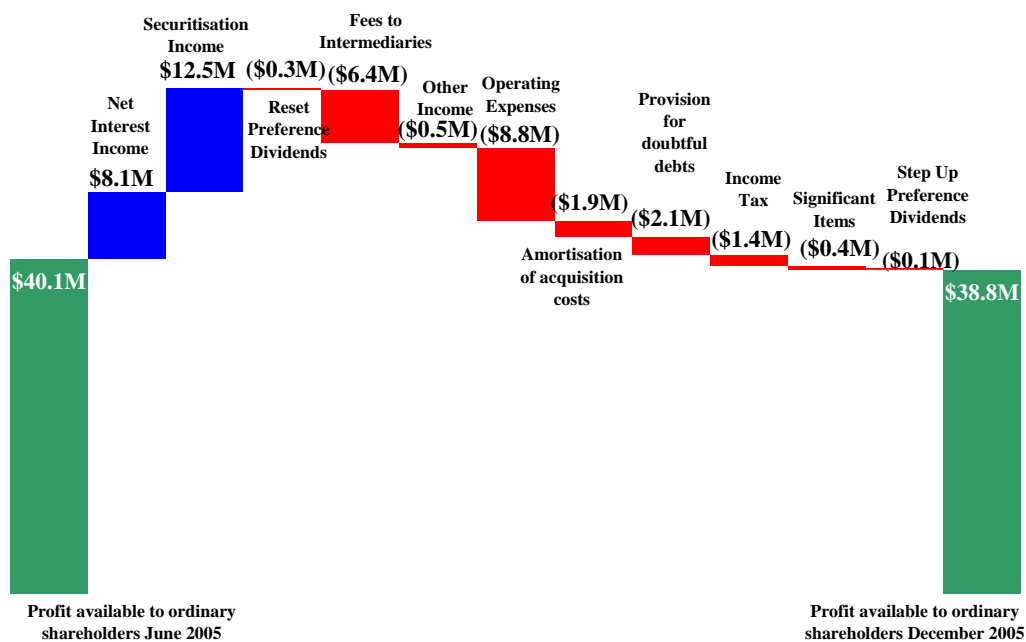
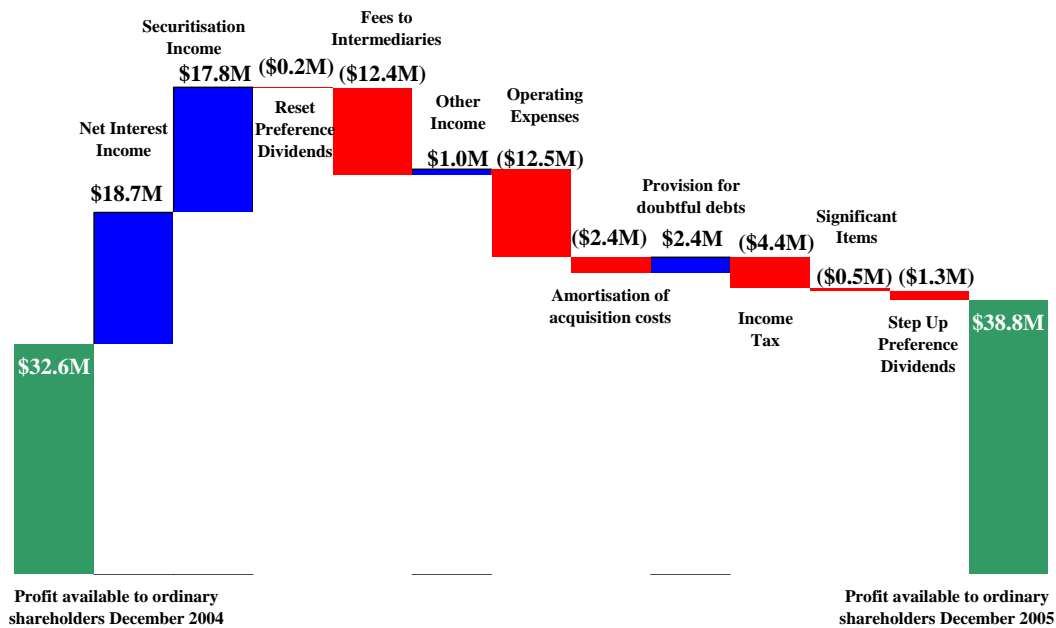


## Cost to Assets

The cost to asset ratio fell once again consolidating the Bank's position at the leading edge of performance for Australian retail banks.



The following charts show the contributing factors in the movement of profit between December 2004 and 2005 and between June 2005 and December 2005. Comments on individual items follow.



## Net Interest Income

The adoption of AIFRS has resulted in a change in the components of Net Interest Income, with securitised assets now included and fees to intermediaries and other direct costs deducted.

Reset Preference Shares have also been reclassified as debt finance with a consequential adjustment to issue costs previously offset against the funds raised in the issue.

The table below shows the component parts of Net Interest Income on a comparable basis.

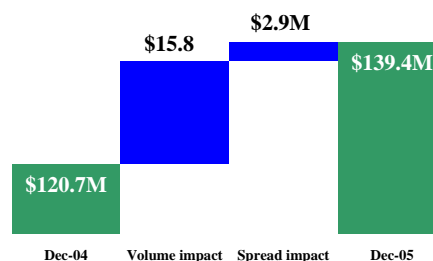
|   | Half Year    | Half Year    | Change      |              | Half Year    | Change      |              |
|---|--------------|--------------|-------------|--------------|--------------|-------------|--------------|
|   | Dec-05       | Dec-04       | \$M         | %            | Jun-05       | \$M         | %            |
| NII on Non-securitised assets and liabilities     | 139.4        | 120.7        | 18.7        | 15.5%        | 131.3        | 8.1         | 6.2%         |
| Other interest                                    | (0.3)        | (0.3)        | 0.0         | (5.8%)       | (0.3)        | 0.0         | (5.5%)       |
| Reset Preference Shares - dividends & issue costs | (3.3)        | (3.0)        | (0.2)       | 7.7%         | (3.0)        | (0.3)       | 9.5%         |
| NII on Securitised assets and liabilities         | 52.8         | 35.0         | 17.8        | 50.7%        | 40.3         | 12.5        | 30.9%        |
|   | 188.7        | 152.4        | 36.3        | 23.8%        | 168.4        | 20.3        | 12.1%        |
| Fees to intermediaries/ direct costs              | 61.2         | 48.9         | 12.4        | 25.3%        | 54.8         | 6.4         | 11.7%        |
| <b>Total net interest income</b>                  | <b>127.4</b> | <b>103.5</b> | <b>23.9</b> | <b>23.1%</b> | <b>113.5</b> | <b>13.9</b> | <b>12.2%</b> |

The following table shows the movement from margin on an AGAAP basis to that under AIFRS.

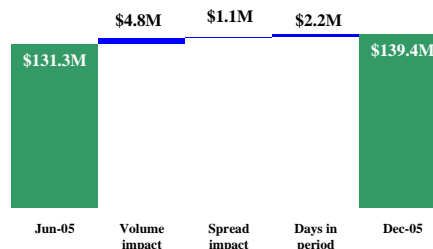
|  | Dec-05                     |              | Jun-05                     |              | Dec-04                     |              |
|--|----------------------------|--------------|----------------------------|--------------|----------------------------|--------------|
|  | Average Earning Assets \$M | Rate         | Average Earning Assets \$M | Rate         | Average Earning Assets \$M | Rate         |
| <b>Margin under AGAAP</b>                          | <b>12,450</b>              | <b>2.22%</b> | 12,016                     | 2.20%        | 11,005                     | 2.18%        |
| Impact of securitised assets recognition           | 8,808                      | (0.44%)      | 6,457                      | (0.33%)      | 5,450                      | (0.31%)      |
| Impact of hybrid capital - dividends & issue costs |                            | (0.03%)      |                            | (0.03%)      |                            | (0.04%)      |
| Impact of fees to intermediaries/ direct costs     | 91                         | (0.57%)      | 73                         | (0.60%)      | 70                         | (0.60%)      |
| Other items (minor items relating to AIFRS)        |                            | (0.00%)      |                            | 0.00%        |                            | 0.00%        |
| <b>Margin under AIFRS</b>                          | <b>21,349</b>              | <b>1.18%</b> | <b>18,546</b>              | <b>1.25%</b> | <b>16,526</b>              | <b>1.24%</b> |

## Net Interest Income on Non-securitised Assets

Net interest income on non-securitised assets grew by 15.5% year-on-year to \$139.4 million.



Growth from the half-year ended 30 June 2005 was 6.2%.

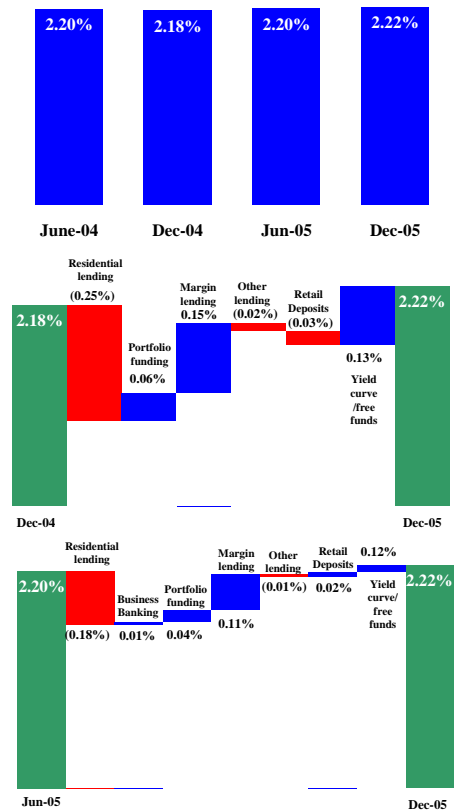


The Bank's net interest margin on non-securitised assets grew by four basis points from 2004 to 2.22%.

The margin increased in spite of a fall in the interest spread due to the increased contribution from free-funds.

In the period from June to December the increase was two basis points. The fall in the margin on residential loans was offset by gains in other areas and by an increased contribution from free funds and changes in the yield curve.

## Net Interest Margin

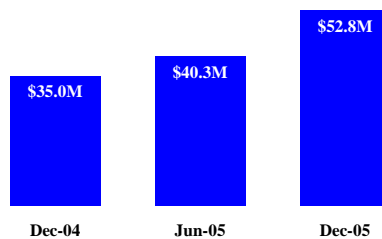


## Net Interest Income on Securitised Assets

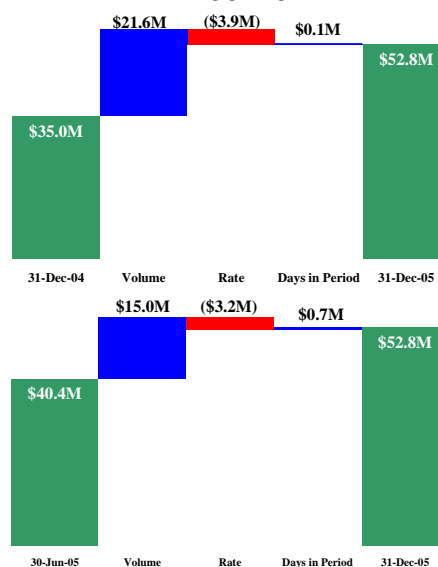
Securitisation income increased by \$17.8 million (50.7%) on a year-on-year basis and by 30.9% from June 2005.

The increase in securitisation income was driven by an increase of \$3.4 billion in average balances on a year-on-year basis. The volume gain was offset by a 9 basis point reduction in spread.

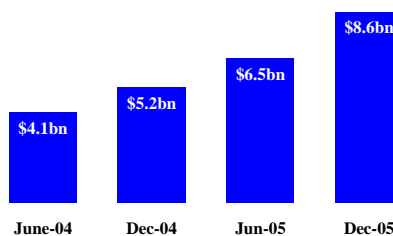
## Securitisation Income



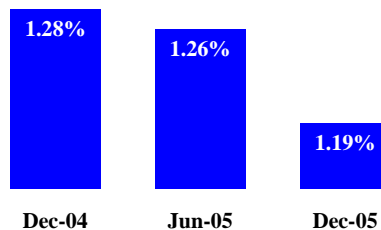
## Movement in Securitisation Income



## Average Securitised Assets



## Margin on Securitised Assets



## Fees to Intermediaries/Other Direct Costs

Fees rose largely in line with the increasing volume of business written through intermediaries.

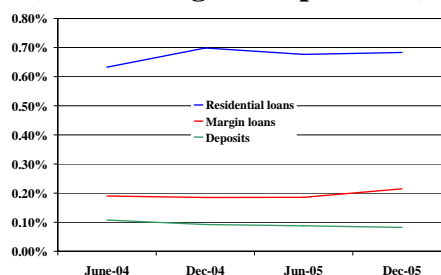
Total costs include frequent flyer points on the Margin Flyer account and mortgage loss insurance premiums.

The rate of commission on margin loans lifted by 2 basis points to 0.21%.

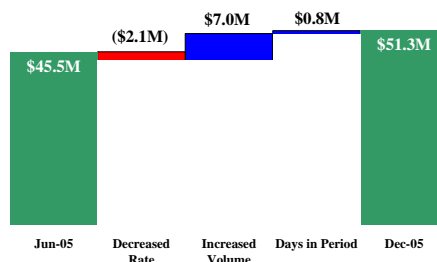
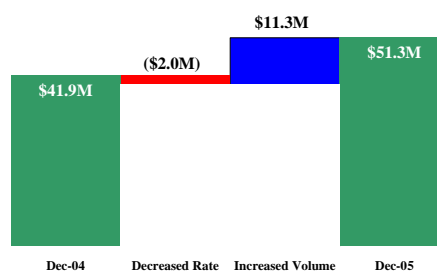
The reduction in the rate of commission on deposits was as a result of renegotiation of some rates of commission and a greater proportion of deposits being written through the AAA Saver account.

The rate of commission on residential loans, taking only those written through intermediaries, fell over the year.

## Fees to Intermediaries (% of average total portfolio)

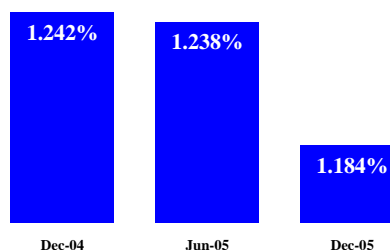


## Fees on Residential Loans



## Margin on an AIFRS Basis

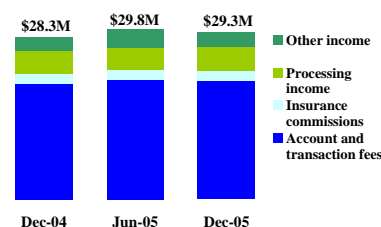
The overall margin on an AIFRS basis fell by four basis points over the year.



## Other Income

|                                    | Half Year   | Half Year   | Change     |             | Half Year   | Change       |               |
|------------------------------------|-------------|-------------|------------|-------------|-------------|--------------|---------------|
|                                    | Dec-05      | Dec-04      | \$M        | %           | Jun-05      | \$M          | %             |
| Processing income                  | 4.3         | 4.0         | 0.3        | 6.7%        | 3.8         | 0.5          | 12.4%         |
| Loan fees                          | 9.4         | 9.3         | 0.1        | 1.1%        | 9.8         | (0.4)        | (4.3%)        |
| Transaction & account-keeping fees | 9.5         | 9.2         | 0.4        | 4.0%        | 9.5         | 0.0          | 0.4%          |
| Other income                       | 2.5         | 2.3         | 0.1        | 5.5%        | 3.3         | (0.8)        | (25.4%)       |
| Visa income                        | 1.8         | 1.8         | 0.1        | 2.9%        | 1.7         | 0.2          | 10.3%         |
| Insurance commissions              | 1.7         | 1.7         | 0.1        | 3.1%        | 1.7         | 0.1          | 3.6%          |
| <b>Total</b>                       | <b>29.3</b> | <b>28.3</b> | <b>1.0</b> | <b>3.4%</b> | <b>29.8</b> | <b>(0.5)</b> | <b>(1.7%)</b> |

Other income grew by 3.4% on a year-on-year basis to \$29.3 million. Solid growth in processing income and increases in fees accounted for the majority of the growth.



## Operating Costs

|                                       | Half Year   | Half Year   | Change      |              | Half Year   | Change     |              |
|---------------------------------------|-------------|-------------|-------------|--------------|-------------|------------|--------------|
|                                       | Dec-05      | Dec-04      | \$M         | %            | Jun-05      | \$M        | %            |
| Staff expenses                        | 53.5        | 43.5        | 10.0        | 22.9%        | 40.6        | 12.9       | 31.7%        |
| Occupancy expenses                    | 4.5         | 3.8         | 0.6         | 16.7%        | 4.0         | 0.4        | 11.1%        |
| Technology costs                      | 6.0         | 4.7         | 1.3         | 28.5%        | 5.4         | 0.6        | 11.9%        |
| Depreciation & amortisation           | 3.2         | 4.6         | (1.4)       | (30.0%)      | 4.0         | (0.8)      | (19.3%)      |
| Communications, printing & stationary | 4.3         | 4.0         | 0.3         | 7.1%         | 4.2         | 0.0        | 0.9%         |
| Professional fees                     | 6.7         | 6.1         | 0.6         | 9.3%         | 8.7         | (2.0)      | (23.0%)      |
| Other                                 | 7.4         | 6.3         | 1.1         | 17.6%        | 9.9         | (2.4)      | (24.7%)      |
| <b>Total</b>                          | <b>85.5</b> | <b>73.0</b> | <b>12.5</b> | <b>17.1%</b> | <b>76.8</b> | <b>8.8</b> | <b>11.4%</b> |

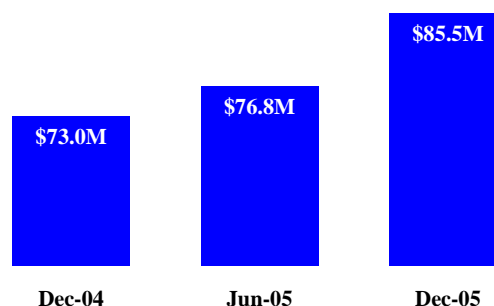
Operating costs rose by 17.1% during the year, reflecting the inclusion of the newly acquired Goldman Sachs JBWere margin lending business, the Bank's strong growth profile, compliance costs and conservative treatment of software development costs.

Excluding the \$2.9 million operating costs that relate to the Goldman Sachs JBWere margin lending business operating costs increased by 13.2%.

It is important to note that the bank continues to ensure that costs grow at a lower rate than both loans under management and operating income. This ensures continuing improvement in the Bank's cost to asset and cost to income ratios.

The 17.1% increase in costs between December 2004 and December 2005 was impacted by the timing of key items of expense in those two periods. The increase for the year ended 30 June 2006 is expected to be around half this rate.

## Operating Costs



Comments on individual items are:

- **Staff expenses** grew by 22.9% year on year. \$1.3 million of the increase year-on-year was due to the acquisition of the margin lending business of Goldman Sachs JBWere. Excluding the acquisition of this business staff costs increased by 19.9%

Full time equivalent (FTE) staff numbers rose by 86 over the year. 26 of the total related to the margin lending business of Goldman Sachs JBWere. Information Services increased by 28 FTE as the Bank continued to invest in improvements to its processing and partner management systems. The Bank's Portfolio Funding business increased its FTE by 17 with a balance between risk management and sales staff. The Corporate Credit and Operational Risk areas increased staff numbers by 10 FTE.

- **Occupancy expenses** grew by 16.7%, primarily as a result of an increased level of rental accommodation required to house the Bank's growing operations, including the new margin lending operations.
- **Technology costs** grew by 28.5% largely reflecting increased costs relating to software development and licence fees.
- **Depreciation and amortisation** fell by 30.0% as a result of a high level of assets reaching the end of their useful life in the six months ended 31 December 2004. This related to personal computers which were due to be replaced under the Bank's upgrade of its desktop environment and to software.
- **Communications, printing and stationary** expenses were well controlled with only 7.1% growth.
- **Professional fees** grew by 9.3% largely reflecting increased costs in respect of regulatory compliance in respect of Basle II, AIFRS and Taxation.
- **Other expenses** grew by 17.6%, with contribution to the Adelaide Bank Festival of Arts being higher than in prior periods. Increases in travel and accommodation reflected the increasing national focus of the Bank's business.

## SEGMENT RESULTS

|                     | Half Year   | Half Year   | Change     |              | Half Year   | Change       |               |
|---------------------|-------------|-------------|------------|--------------|-------------|--------------|---------------|
|                     | Dec-05      | Dec-04      | \$M        | %            | Jun-05      | \$M          | %             |
| Residential Lending | 32.1        | 36.1        | (4.1)      | (11.2%)      | 37.0        | (4.9)        | (13.3%)       |
| Business Lending    | 12.7        | 9.2         | 3.6        | 38.7%        | 12.0        | 0.7          | 5.8%          |
| Margin Lending      | 14.0        | 5.0         | 9.1        | 181.8%       | 7.8         | 6.2          | 79.7%         |
| Retail Funding      | 16.0        | 13.6        | 2.5        | 18.1%        | 12.3        | 3.8          | 30.8%         |
| Other               | 3.7         | 4.3         | (0.5)      | (12.4%)      | 6.2         | (2.4)        | (39.1%)       |
| Unallocated         | (16.2)      | (15.0)      | (1.1)      | 7.6%         | (9.7)       | (6.5)        | 67.1%         |
| <b>Total</b>        | <b>62.4</b> | <b>53.1</b> | <b>9.3</b> | <b>17.6%</b> | <b>65.6</b> | <b>(3.1)</b> | <b>(4.8%)</b> |

## Residential Lending

|                                    | Half Year   | Half Year   | Change       |                | Half Year   | Change       |                |
|------------------------------------|-------------|-------------|--------------|----------------|-------------|--------------|----------------|
|                                    | Dec-05      | Dec-04      | \$M          | %              | Jun-05      | \$M          | %              |
| Residential lending                |             |             |              |                |             |              |                |
| NII & Securitisation Income        | 105.9       | 93.2        | 12.7         | 13.7%          | 104.5       | 1.3          | 1.3%           |
| Fees to Intermediaries             | 53.4        | 42.9        | 10.5         | 24.5%          | 49.0        | 4.4          | 9.0%           |
|                                    | 52.5        | 50.2        | 2.2          | 4.5%           | 55.5        | (3.1)        | (5.5%)         |
| Other income                       | 11.5        | 10.7        | 0.8          | 7.7%           | 15.5        | (3.9)        | (25.4%)        |
| <b>Total Income</b>                | <b>64.0</b> | <b>60.9</b> | <b>3.1</b>   | <b>5.0%</b>    | <b>71.0</b> | <b>(7.0)</b> | <b>(9.8%)</b>  |
| Operating Costs                    | 29.9        | 24.5        | 5.4          | 21.9%          | 33.7        | (3.8)        | (11.3%)        |
| <b>Underlying Earnings</b>         | <b>34.1</b> | <b>36.4</b> | <b>(2.3)</b> | <b>(6.3%)</b>  | <b>37.3</b> | <b>(3.2)</b> | <b>(8.6%)</b>  |
| Provision for Bad & Doubtful Debts | 2.0         | 0.3         | 1.8          | 680.7%         | 0.3         | 1.7          | 619.6%         |
| <b>Contribution Before Tax</b>     | <b>32.1</b> | <b>36.1</b> | <b>(4.1)</b> | <b>(11.2%)</b> | <b>37.0</b> | <b>(4.9)</b> | <b>(13.3%)</b> |

|  |                 |                 |                |              |                 |                |              |
|--|-----------------|-----------------|----------------|--------------|-----------------|----------------|--------------|
| <b>Average Assets Under Management</b>       | <b>14,905.2</b> | <b>11,919.1</b> | <b>2,986.1</b> | <b>25.1%</b> | <b>12,822.4</b> | <b>2,082.8</b> | <b>16.2%</b> |
| NII & Securitisation Income / Average Assets | 1.41%           | 1.55%           |                |              | 1.53%           |                |              |
| Cost to income                               | 46.71%          | 40.26%          |                |              | 47.46%          |                |              |
| Cost to assets                               | 0.40%           | 0.41%           |                |              | 0.49%           |                |              |

Strong growth in loans under management gave a significant boost to net interest income and securitisation income, but was offset to an extent by a reduction in margins over the period.

Growth in fees to intermediaries reflected growth in loans under management.

Costs were well controlled and reflect front-end costs associated with new business volumes and increased expenditure on the Bank's technology platform, providing a new desktop environment and improved processing and partner management systems.

Product improvements and related technology expenditure accounted for cost increases of \$2.8 million. It is expected that these improvements will contribute to the profitability of Residential Lending in future periods. If these costs had not been incurred the segment would have shown a small increase in underlying earnings.

Increased expenditure on risk management and compliance accounted for \$0.7 million.

The lift in the provision for bad and doubtful debts relates to a small number of loans and is not indicative of any general deterioration in the credit quality of the Residential portfolio. The charge reflects the Bank's conservative stance on loan provisions.

## Business Lending (includes Business Banking & Portfolio Funding)

| Business Lending                             | Half Year      | Half Year      | Change       |              | Half Year      | Change       |              |
|--|----------------|----------------|--------------|--------------|----------------|--------------|--------------|
|  | Dec-05         | Dec-04         | \$M          | %            | Jun-05         | \$M          | %            |
| NII & Securitisation Income                  | 18.8           | 12.3           | 6.5          | 53.0%        | 13.0           | 5.8          | 44.3%        |
| Fees to Intermediaries                       | 0.0            | 0.0            | (0.0)        | (70.3%)      | 0.0            | (0.0)        | (38.9%)      |
|  | 18.8           | 12.3           | 6.5          | 53.4%        | 13.0           | 5.8          | 44.4%        |
| Other income                                 | 2.0            | 2.8            | (0.8)        | (27.1%)      | 2.5            | (0.4)        | (16.9%)      |
| <b>Total Income</b>                          | <b>20.9</b>    | <b>15.1</b>    | <b>5.8</b>   | <b>38.4%</b> | <b>15.5</b>    | <b>5.4</b>   | <b>34.7%</b> |
| Operating Costs                              | 7.8            | 5.4            | 2.4          | 45.1%        | 6.0            | 1.8          | 30.8%        |
| <b>Underlying Earnings</b>                   | <b>13.0</b>    | <b>9.7</b>     | <b>3.4</b>   | <b>34.7%</b> | <b>9.5</b>     | <b>3.5</b>   | <b>37.1%</b> |
| Provision for Bad & Doubtful Debts           | 0.3            | 0.5            | (0.2)        | (44.1%)      | (2.5)          | 2.8          | (111.6%)     |
| <b>Contribution Before Tax</b>               | <b>12.7</b>    | <b>9.1</b>     | <b>3.6</b>   | <b>39.2%</b> | <b>12.0</b>    | <b>0.7</b>   | <b>5.8%</b>  |
| <b>Average Assets Under Management</b>       | <b>1,976.7</b> | <b>1,325.0</b> | <b>651.7</b> | <b>49.2%</b> | <b>1,459.6</b> | <b>517.0</b> | <b>35.4%</b> |
| NII & Securitisation Income / Average Assets | 1.89%          | 1.84%          |              |              | 1.77%          |              |              |
| Cost to income                               | 37.58%         | 35.85%         |              |              | 38.69%         |              |              |
| Cost to assets                               | 0.79%          | 0.81%          |              |              | 0.81%          |              |              |

Strong growth in the portfolio was reflected in increased revenue, with interest margins also improving modestly.

The Portfolio Funding business provided a solid contribution to growth, with the average portfolio growing from \$231 million for the six months ended 31 December 2004 to \$627 million in 2005.

Credit quality remains sound, with only one Business Banking loan classified as non-accrual.

## Margin Lending

| Margin Lending                               | Half Year      | Half Year      | Change         |               | Half Year      | Change         |              |
|--|----------------|----------------|----------------|---------------|----------------|----------------|--------------|
|  | Dec-05<br>\$M  | Dec-04<br>\$M  | \$M            | %             | Jun-05<br>\$M  | \$M            | %            |
| NII & Securitisation Income                  | 26.9           | 14.2           | 12.7           | 89.0%         | 17.3           | 9.6            | 55.3%        |
| Fees to Intermediaries                       | 3.7            | 2.1            | 1.6            | 78.4%         | 2.6            | 1.1            | 43.1%        |
|  | 23.2           | 12.2           | 11.1           | 90.8%         | 14.8           | 8.5            | 57.4%        |
| Other income                                 | 0.2            | 0.0            | 0.2            | 408.1%        | 0.1            | 0.1            | 198.4%       |
| <b>Total Income</b>                          | <b>23.4</b>    | <b>12.2</b>    | <b>11.2</b>    | <b>91.8%</b>  | <b>14.8</b>    | <b>8.6</b>     | <b>58.0%</b> |
| Operating Costs                              | 9.5            | 7.2            | 2.3            | 32.3%         | 7.0            | 2.5            | 35.5%        |
| <b>Underlying Earnings</b>                   | <b>14.0</b>    | <b>5.1</b>     | <b>8.9</b>     | <b>175.9%</b> | <b>7.8</b>     | <b>6.1</b>     | <b>78.0%</b> |
| Provision for Bad & Doubtful Debts           | (0.1)          | 0.1            | (0.2)          | (191.3%)      | 0.0            | (0.1)          | (343.3%)     |
| <b>Contribution Before Tax</b>               | <b>14.0</b>    | <b>5.0</b>     | <b>9.1</b>     | <b>181.8%</b> | <b>7.8</b>     | <b>6.2</b>     | <b>79.7%</b> |
| <b>Average Assets Under Management</b>       | <b>2,793.7</b> | <b>1,484.6</b> | <b>1,309.2</b> | <b>88.2%</b>  | <b>1,663.4</b> | <b>1,130.4</b> | <b>68.0%</b> |
| NII & Securitisation Income / Average Assets | 1.91%          | 1.90%          |                |               | 1.89%          |                |              |
| Cost to income                               | 40.39%         | 58.56%         |                |               | 47.11%         |                |              |
| Cost to assets                               | 0.67%          | 0.96%          |                |               | 0.83%          |                |              |

Average loans under management grew by 88.2% in the year, reflecting strong growth in equity investment and the acquisition of the Goldman Sachs JBWere portfolio. Excluding the impact of the Goldman Sachs JBWere portfolio growth in the portfolio was 25.8% on a year-on-year basis.

Cost increases were largely due to the acquisition of Goldman Sachs JBWere portfolio, with costs in the Leveraged Equities business falling by 8.6% on a year-on-year basis.

## Retail Funding (excluding AAA Saver)

| Retail Funding                     | Half Year      | Half Year      | Change         |              | Half Year      | Change       |              |
|------------------------------------|----------------|----------------|----------------|--------------|----------------|--------------|--------------|
|                                    | Dec-05<br>\$M  | Dec-04<br>\$M  | \$M            | %            | Jun-05<br>\$M  | \$M          | %            |
| NII                                | 29.4           | 27.6           | 1.8            | 6.6%         | 26.9           | 2.5          | 9.2%         |
| Fees to Intermediaries             | 3.9            | 3.8            | 0.1            | 1.6%         | 3.8            | 0.1          | 1.9%         |
|                                    | 25.5           | 23.8           | 1.8            | 7.4%         | 23.1           | 2.4          | 10.4%        |
| Other income                       | 5.0            | 4.9            | 0.1            | 1.8%         | 4.8            | 0.2          | 3.5%         |
| <b>Total Income</b>                | <b>30.5</b>    | <b>28.7</b>    | <b>1.9</b>     | <b>6.5%</b>  | <b>28.0</b>    | <b>2.6</b>   | <b>9.2%</b>  |
| Operating Costs                    | 14.5           | 15.1           | (0.6)          | (4.0%)       | 15.7           | (1.2)        | (7.7%)       |
| <b>Underlying Earnings</b>         | <b>16.0</b>    | <b>13.6</b>    | <b>2.5</b>     | <b>18.1%</b> | <b>12.3</b>    | <b>3.8</b>   | <b>30.8%</b> |
| Provision for Bad & Doubtful Debts | -              | -              | -              | -            | -              | -            | -            |
| <b>Contribution Before Tax</b>     | <b>16.0</b>    | <b>13.6</b>    | <b>2.5</b>     | <b>18.1%</b> | <b>12.3</b>    | <b>3.8</b>   | <b>30.8%</b> |
| <b>Average Deposits</b>            | <b>9,362.9</b> | <b>8,212.2</b> | <b>1,150.7</b> | <b>14.0%</b> | <b>8,486.6</b> | <b>876.2</b> | <b>10.3%</b> |
| NII / Average Deposits             | 0.62%          | 0.67%          |                |              | 0.62%          |              |              |
| Cost to income                     | 47.51%         | 52.69%         |                |              | 56.19%         |              |              |
| Cost to deposits                   | 0.31%          | 0.37%          |                |              | 0.36%          |              |              |

Continuing strong growth in retail funding resulted in growth in net interest income, whilst fees to intermediaries remained reasonably stable as a result of renegotiation of commission rates and a greater proportion of funds being acquired directly.

## Other

| Other                  | Half Year  | Half Year  | Change       |                | Half Year  | Change       |                |
|------------------------|------------|------------|--------------|----------------|------------|--------------|----------------|
|                        | Dec-05     | Dec-04     | \$M          | %              | Jun-05     | \$M          | %              |
| Consumer lending       | (0.9)      | (1.0)      | 0.1          | (11.6%)        | (2.0)      | 1.0          | (53.0%)        |
| Insurance              | 0.3        | 0.3        | (0.0)        | (4.4%)         | 0.4        | (0.0)        | (13.0%)        |
| Third party processing | 1.5        | 2.1        | (0.6)        | (28.3%)        | 1.7        | (0.2)        | (9.4%)         |
| Treasury/ALCO          | 1.5        | 1.6        | (0.1)        | (8.7%)         | 3.0        | (1.5)        | (49.5%)        |
| Other                  | 1.3        | 1.2        | 0.1          | 8.6%           | 3.1        | (1.8)        | (57.0%)        |
| <b>Total</b>           | <b>3.7</b> | <b>4.3</b> | <b>(0.5)</b> | <b>(12.4%)</b> | <b>6.2</b> | <b>(2.4)</b> | <b>(39.1%)</b> |

Consumer lending comprises term loans and credit cards with a portfolio totalling \$263 million at the end of December 2005. The portfolio fell by \$10.7 million (3.9%) during the half, reflecting diminishing demand for traditional personal loans. The Bank has decided not to actively pursue growth in consumer lending as it does not believe that growth can be justified on a risk/return basis.

The Bank acts as a commission agent for the sale of various general and consumer insurance products.

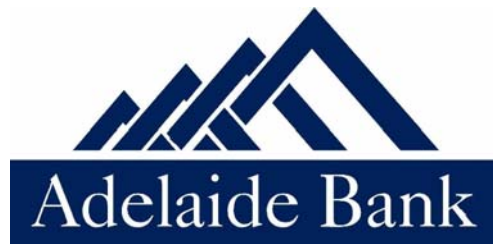
Third party processing profit is derived from the processing of loans on behalf of GE Money, Homeloans Ltd and UBS.

Treasury/ALCO is responsible for managing the Bank's liquidity, wholesale funding and securitisation operations. Treasury does not undertake trading operations and all liquids are independently marked to market on a daily basis. Adelaide Bank's foreign exchange transactions are limited to hedging.

## KEY CHANGES UNDER AIFRS FOR HALF YEAR

| ITEM   | Profit Impact Dec-04  | Cash EPS Impact Dec-04 | Profit Impact Dec-05 | Cash EPS Impact Dec-05 |
|--|-----------------------|------------------------|----------------------|------------------------|
| <b>Reset preference shares</b> - reclassified as debt from 1 July 05   | Nil                   | Nil                    | (\$3.3M)             | Nil                    |
| <b>Goodwill</b> - no longer amortised  | \$0.6                 | Nil                    | \$0.6M               | Nil                    |
| <b>Employee benefits</b> - defined benefits superannuation   | \$0.4                 | 0.45¢                  | \$0.4                | 0.42¢                  |
| <b>Consolidation of securitisation vehicles</b> - loan assets increased and noteholder liabilities increased by \$10 billion.  | Nil                   | Nil                    | Nil                  | Nil                    |
| <b>Hedge accounting</b> from 1 July 05   | Nil                   | Nil                    | Minor                | Minor                  |
| <b>Loan provisioning</b> - General provision replaced by collective impairment provision and notional general reserve.   | Can not be determined | Nil                    | \$0.8M               | 0.77¢                  |
| <b>Fee revenue</b> - large front-end fee income deferred and amortised   | Nil                   | Nil                    | Minor                | Minor                  |
| <b>Payments to intermediaries/other direct costs</b> – reclassified from other assets to net loans and advances with the amortisation expense shown as an adjustment to net interest income                          | Nil                   | Nil                    | Nil                  | Nil                    |
| <b>Loan portfolio premium</b> (on acquisition of businesses) - will continue to be amortised, but reclassified from other assets to net loans and advances and amortisation expense shown as an adjustment to yield. | Nil                   | Nil                    | Nil                  | Nil                    |
| <b>Share based payments</b> - cost of shares have always been expensed. Shares held for employees reclassified from other assets to equity.  | Minor                 | Minor                  | Minor                | Minor                  |
| <b>Taxation</b> - balance sheet approach to be adopted   | Nil                   | Nil                    | Minor                | Minor                  |
| <b>Treasury Shares</b> - shares held for employees reclassified from other assets to equity.   | Nil                   | Nil                    | Nil                  | Nil                    |
| <b>Total Impact on Cash EPS</b>  |                       | <b>0.45¢</b>           |                      | <b>1.19¢</b>           |

|  | Dec-04 | Dec-05 |
|--|--------|--------|
| Cash earnings per share as reported        | 35.48¢ | 40.24¢ |
| AIFRS impact (as above)                    | 0.45¢  | 1.19¢  |
| Adjusted cash earnings per share           | 35.03¢ | 39.06¢ |
| Growth in adjusted cash earnings per share |        | 12%    |



*Adelaide Bank Limited and Controlled Entities*

*Half Yearly  
Consolidated Financial Report*

*31 December 2005*

## *Adelaide Bank Limited and Controlled Entities*

### **DIRECTORS' REPORT**

The Directors present their report for the half-year ended 31 December 2005.

### **DIRECTORS**

The names of the Directors of the Bank in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Dr A. Lloyd (Chairman)  
R.A. Cook (Deputy Chairman)  
R.J. McKay (resigned from Board 28 Oct 2005)  
Dr P.A. Crook  
K.D. Abrahamson  
S. Crane  
K.G. Osborn  
B.F. Fitzpatrick (Group Managing Director)

At the 2005 Annual General Meeting held on 28 October 2005, Mr McKay retired as Chairman and resigned from the Board.

Dr Lloyd was appointed Chairman (previously Deputy Chairman) and Mr Cook was appointed Deputy Chairman.

### **REVIEW OF RESULTS AND OPERATIONS**

Where appropriate, amounts shown for prior periods have been reclassified to facilitate comparison and to comply with Australian Equivalents to International Financial Reporting Standards (AIFRS).

The profit of the consolidated entity for the half-year after income tax was \$41.389 million.

The results of the operations of the consolidated entity during the half-year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

Fully franked dividends on ordinary shares paid or declared by the Bank since the end of the previous financial year were:

- An interim dividend declared of 26 cents per share (100% franked) amounting to \$27.712 million in respect of the year ended 30 June 2006 payable on 31 March 2006; and
- A final dividend paid of 29 cents per share (100% franked) amounting to \$30.219 million in respect of the year ended 30 June 2005 paid on 17 October 2005.

Fully franked dividends on hybrid shares paid or declared by the Bank since the end of the previous financial year were:

- Fully franked dividends on reset preference shares, amounting to \$3.025 million were paid on 1 November 2005.
- Fully franked dividends on step up preference shares were paid as follows: \$1.310 million paid on 11 July 2005, \$1.300 million paid on 10 October 2005 and \$1.300 million paid on 10 January 2006.

The consolidated entity recorded a strong result in an extremely competitive environment over the past six months with profit before tax increasing 16% to \$62.447 million from \$53.751 million for the six months to December 2004.

Operating income for the six months to December 2005 grew by 13% over the previous half-year to \$153.145 million.

**REVIEW OF RESULTS AND OPERATIONS (continued)**

Operating expenses grew by 15% to \$85.537 million reflecting increased staffing costs and increased investment in technology.

Total assets grew by 9% to \$23.430 billion as at December 2005 compared to \$21.528 billion at June 2005.

Asset quality remains excellent. Provisions for doubtful debts expense includes an increase to the collective allowance of \$1.123 million taking the provision to \$18.543 million. Specific provisions expense increased \$1.675 million from the previous half-year to \$2.249 million and write-offs were \$2.135 million (\$1.845 million for the half year to Dec 2004). As a result, provision for bad and doubtful debts expense for the six months amounted to \$5.161 million compared to \$7.516 million for the previous half year. The comparison figure for the prior year included a \$5.374 million expense relating to the increase in the general provision.

Profit after tax increased by 12% to \$41.389 million for the six months compared to \$36.931 million for the previous half year. Fully diluted earnings per share grew by 6% over the six months to 36.88 cents compared to 34.72 cents for the same period last year. Based on the strong results for the six months and the outlook for the year the Board determined that the interim dividend should be increased by 2 cents from 24 cents previously to 26 cents, which will be payable on 31 March 2006.

Total equity moved to \$700.091 million from \$732.847 million at 30 June 2005. The movement includes an increase of \$30.2 million in ordinary equity as a result of a fully underwritten dividend reinvestment plan and AIFRS equity adjustments detailed in Note 8 'Equity' and Note 11 'Impact of adoption of AIFRS'.

**AUDITOR'S INDEPENDENCE**

The auditor's review of the financial report is in accordance with the following declaration 'Auditor's Independence Declaration to the Directors of Adelaide Bank Limited'.

**ROUNDING OF AMOUNTS**

The Bank is of a kind referred to in ASIC Class Order 98/0100 (and amended by Class Order 04/667 dated 15 July 2004 and 05/641 dated 26 July 2005), and amounts in this report and the accompanying consolidated financial statements have been rounded to the nearest one thousand dollars in accordance with this class order unless otherwise indicated.

Signed in accordance with a resolution of the Directors.

**B.F. FITZPATRICK**  
Group Managing Director and Chief Executive Officer

Adelaide, South Australia  
2 February 2006

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*Auditor's Independence Declaration to the Directors of Adelaide Bank Limited*

In relation to our review of the financial report of Adelaide Bank Limited for the half year ended 31 December 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Colin Dunsford - Partner  
Adelaide, South Australia  
2 February 2006

**Scope***The financial report and directors' responsibility*

The financial report comprises the balance sheet, income statement, cash flow statement, statement of recognised income and expense and accompanying notes to the financial statements for the consolidated entity comprising both Adelaide Bank Limited (the company) and the entities it controlled during the half year ended 31 December 2005, and the directors' declaration for the company, for the half year ended 31 December 2005.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

*Review approach*

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange (ASX) and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 1034 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

**Independence**

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration a copy of which is included in the Directors' Report. In addition to our review of the financial report, we were engaged to undertake other non-audit services. The provision of these services has not impaired our independence.

**Statement**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report, as defined in the scope section, of Adelaide Bank Limited and the entities it controlled during the half year ended 31 December 2005 is not in accordance with:

- (a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the half year ended on that date; and
  - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.

Ernst & Young  
Colin Dunsford - Partner  
Adelaide, South Australia 2 February 2006

**DIRECTORS' DECLARATION**

In the opinion of the Directors of Adelaide Bank Limited:

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and
  - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001, and
  
- (b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

Signed for and on behalf of the Board of Directors and in accordance with a resolution of the Directors.

B.F. FITZPATRICK  
Group Managing Director and Chief Executive Officer

Adelaide, South Australia  
2 February 2006

*Adelaide Bank Limited and Controlled Entities*  
*Consolidated Income Statement for the Half -Year ended 31 December 2005*

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|  |      | CONSOLIDATED         |                      |
|--|------|----------------------|----------------------|
|  | Note | Dec 2005<br>\$000's  | Dec 2004<br>\$000's  |
| <u>Continuing Operations</u>                                       |      |                      |                      |
| Interest income  | 2    | 714,296              | 586,454              |
| Less Interest expense  | 2    | <u>590,405</u>       | <u>431,070</u>       |
| Net Interest income  |      | 123,891              | 155,384              |
| <i>Less</i> Fees to intermediaries / Direct costs                  | 2    | -                    | 48,858               |
| <i>Add</i> Other revenue   | 2    | <u>29,254</u>        | <u>28,943</u>        |
|  |      | 153,145              | 135,469              |
| <i>Less</i> Bad and doubtful debt expense                          | 2    | 5,161                | 7,516                |
| Other expenses   | 2    | <u>85,537</u>        | <u>74,202</u>        |
| <b>Profit from continuing operations before income tax expense</b> |      | <b>62,447</b>        | <b>53,751</b>        |
| Income tax expense   |      | 21,058               | 16,820               |
| <b>Profit from continuing operations after income tax expense</b>  |      | <b><u>41,389</u></b> | <b><u>36,931</u></b> |
| Basic and Fully Diluted earnings per share (cents)                 |      | 36.88                | 34.72                |
| Fully franked ordinary dividend per share (cents)                  |      | 26.00                | 24.00                |

**Adelaide Bank Limited and Controlled Entities**  
**Consolidated Balance Sheet as at 31 December 2005**

|   | Note | CONSOLIDATED                 |                              |
|---|------|------------------------------|------------------------------|
|   |      | As at<br>Dec 2005<br>\$000's | As at<br>Jun 2005<br>\$000's |
| <b>Assets</b>                               |      |                              |                              |
| Cash  |      | 27,490                       | 49,559                       |
| Money at call                               |      | 352,627                      | 692,350                      |
| Balances due from other banks               |      | 79,674                       | 155,165                      |
| Investment securities and other investments | 4    | -                            | 1,245,367                    |
| Held for trading financial assets           | 4    | 1,433,690                    | -                            |
| Held to maturity investments                | 4    | 92,552                       | -                            |
| Net loans and advances                      | 5    | 21,220,405                   | 18,920,217                   |
| Property, plant and equipment               |      | 35,739                       | 33,132                       |
| Intangibles                                 |      | 35,583                       | 35,431                       |
| Deferred tax assets                         |      | 25,749                       | 39,736                       |
| Other assets                                | 6    | 126,767                      | 357,272                      |
| <b>Total Assets</b>                         |      | <b>23,430,276</b>            | <b>21,528,229</b>            |
| <b>Liabilities</b>                          |      |                              |                              |
| Deposits                                    | 7    | 11,682,515                   | 11,767,422                   |
| Notes payable                               |      | 10,338,481                   | 8,059,756                    |
| Balances due to other banks                 |      | 54,708                       | 108,882                      |
| Provisions                                  |      | 16,201                       | 12,645                       |
| Current tax liabilities                     |      | 2,147                        | 20,750                       |
| Deferred tax liabilities                    |      | 6,842                        | 5,415                        |
| Other liabilities                           |      | 218,142                      | 508,512                      |
| Reset preference shares                     |      | 99,149                       | -                            |
| Subordinated debt                           |      | 312,000                      | 312,000                      |
| <b>Total Liabilities</b>                    |      | <b>22,730,185</b>            | <b>20,795,382</b>            |
| <b>Net Assets</b>                           |      | <b>700,091</b>               | <b>732,847</b>               |
| <b>Equity</b>                               |      |                              |                              |
| Ordinary share capital                      | 8    | 377,831                      | 347,640                      |
| Step up preference share capital            | 8    | 97,451                       | 97,451                       |
| Reset preference share capital              | 8    | -                            | 97,678                       |
| Treasury shares / Employee benefits reserve | 8    | (4,750)                      | (82)                         |
| Reserves                                    | 8    | 15,977                       | -                            |
| Retained earnings                           | 8    | 213,582                      | 190,160                      |
| <b>Total Equity</b>                         |      | <b>700,091</b>               | <b>732,847</b>               |

*Adelaide Bank Limited and Controlled Entities*  
*Consolidated Statement of Recognised Income and Expense for the Half-Year ended 31 December*  
*2005*

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|   | CONSOLIDATED         |                      |
|---|----------------------|----------------------|
|   | Dec 2005<br>\$000's  | Dec 2004<br>\$000's  |
| Net gain / (loss) on cash flow hedge taken to equity            | 18,098               | -                    |
| Actuarial gain / (loss) on superannuation defined benefits plan | <u>1,069</u>         | <u>410</u>           |
| <b>Net income recognised directly in equity</b>                 | <b>19,167</b>        | <b>410</b>           |
| Profit for the half-year  | <u>41,389</u>        | <u>36,931</u>        |
| <b>Total recognised income and expenses for the period</b>      | <b><u>60,556</u></b> | <b><u>37,341</u></b> |
| Attributable to equity holders of Adelaide Bank Limited         | <u>60,556</u>        | <u>37,341</u>        |

**Adelaide Bank Limited and Controlled Entities**  
**Consolidated Statement of Cash Flows for the Half-Year Ended 31 December 2005**

|  | CONSOLIDATED                 |                              |
|--|------------------------------|------------------------------|
|  | Dec 2005                     | Dec 2004                     |
|  | \$000's                      | \$000's                      |
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b> |                              |                              |
| Interest received                                  | 776,415                      | 576,728                      |
| Interest paid                                      | (588,540)                    | (423,670)                    |
| Fees to intermediaries                             | (56,774)                     | (54,428)                     |
| Loan fees and other income                         | 25,488                       | 23,710                       |
| Salaries   | (49,597)                     | (42,845)                     |
| Other expenses                                     | (38,025)                     | (23,721)                     |
| Income taxes paid                                  | (31,109)                     | (21,341)                     |
| <b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>    | <b><u>37,858</u></b>         | <b><u>34,433</u></b>         |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b> |                              |                              |
| Acquisition of property, plant & equipment         | (3,816)                      | (2,180)                      |
| Proceeds from sale of non-current assets           | 140                          | 4                            |
| Proceeds from sale of Cashcard shares              | -                            | 658                          |
| Decrease in due from other banks                   | 75,491                       | 75,592                       |
| (Increase) in investments                          | (281,105)                    | (334,030)                    |
| (Increase) in loan advances                        | (3,159,248)                  | (2,384,494)                  |
| (Increase) in other assets                         | (333)                        | (1,406)                      |
| <b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b> | <b><u>(3,368,871)</u></b>    | <b><u>(2,645,856)</u></b>    |
| <b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b> |                              |                              |
| Increase in notes payable                          | 3,113,937                    | 1,325,175                    |
| Payment for capital note redemption                | -                            | (40,000)                     |
| Proceeds from subordinated note issue              | -                            | 70,000                       |
| (Decrease) in due to other banks                   | (54,174)                     | (33,705)                     |
| Proceeds from issue of step up preference shares   | -                            | 97,451                       |
| (Decrease) / Increase in deposits                  | (84,907)                     | 1,260,084                    |
| Payment of interest / dividends on hybrid shares   | (5,635)                      | (3,025)                      |
| Payment of dividends on ordinary shares            | (22,012)                     | (23,479)                     |
| Proceeds from issue of ordinary shares             | 22,012                       | -                            |
| <b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>    | <b><u>2,969,221</u></b>      | <b><u>2,652,501</u></b>      |
| <b>NET INCREASE / (DECREASE) IN CASH HELD</b>      | <b>(361,792)</b>             | <b>41,078</b>                |
| <b>OPENING CASH</b>                                | <b><u>741,909</u></b>        | <b><u>191,031</u></b>        |
| <b>CLOSING CASH</b>                                | <b><u><u>380,117</u></u></b> | <b><u><u>232,109</u></u></b> |

## **NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report is read in conjunction with the Annual Financial Statements of Adelaide Bank Limited as at 30 June 2005 together with any public announcements made by Adelaide Bank Limited and its controlled entities during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

### **(a) Basis of preparation of half-year financial report**

The half-year financial report is a general purpose financial report that has been prepared in accordance with the requirements of the Corporations Act 2001, the accounts provisions of the Banking Act, applicable Accounting Standards including *AASB 134 Interim Financial Reporting* and other mandatory professional reporting requirements.

This financial report has been prepared under the historical cost convention, as modified by the revaluation of investment securities held for trading and other certain assets and liabilities (including derivative instruments) at fair value through the Income Statement or at amortised cost where appropriate.

For the purposes of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

This interim financial report is the first Adelaide Bank Consolidated interim financial report to be prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS). *AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

The financial statements of the Bank until 30 June 2005 had been prepared in accordance with previous Australian Accounting Standards and UIG abstracts (AGAAP), which differ in certain respects from AIFRS. In preparing the Bank's interim financial report for the half-year ended 31 December 2005, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures were restated to reflect these changes. The Group has undertaken the exemption available under AASB 1 to only apply *AASB 132 Financial Instruments: Disclosure and Presentation* and *AASB 139 Financial Instruments: recognition and Measurement* from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous Australian Accounting Standards and UIG Abstracts to AIFRS are detailed in Note 11.

### **(b) Changes in Accounting Policies**

The accounting policies adopted are consistent with those applied in the previous financial year and corresponding interim reporting period, with the exception of changes resulting from the adoption of AIFRS. Where an accounting policy has been changed as a result of the adoption of AIFRS, the AIFRS compliant policy is set out below in sections (c) to (r).

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(c) Consolidation**

The consolidated financial statements include those of the Bank and all entities controlled by it, Special Purpose Vehicles relating to the securitisation of certain Bank assets and other securitisation vehicles. Where controlled entities have been acquired during the year, their operating results have been included from the date of acquisition. All inter-company transactions and balances have been eliminated including any unrealised profit.

**(d) Goodwill**

Goodwill represents the excess of the cost of business combinations over the acquirers interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill is not amortised, but is subject to impairment testing at least annually. Where the balance exceeds the value of expected future benefits, an impairment loss is recognised in the Income Statement.

**(e) Taxation**

The consolidated entity has adopted the Balance Sheet liability method of tax-effect accounting, which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Balance Sheet or a tax-based Balance Sheet.

Deferred tax assets and liabilities are recognised for temporary differences, except where the deferred tax asset / liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, effects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that the future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

**(f) Employee Benefits**

Provision is made for long service leave and annual leave estimated to be payable to employees on the basis of statutory and contractual requirements. In accordance with accounting standard AASB 119 *Employee Benefits*, the consolidated entity provides for annual leave based on remuneration rates which are expected to be paid when the liability is settled and for long service leave, based on the present value of the estimated future cash outflows to be made resulting from services provided by employees to balance date and having regard to the probability that employees as a group, will remain in the entity's employ for the period of time necessary to qualify for long service leave.

In respect of the consolidated entity's defined benefits superannuation plan, any contributions made to the superannuation fund by entities within the consolidated entity are added to the superannuation asset in the Balance Sheet. Any actuarial gains or losses are applied to the retained earnings with other fund movements being recognised in the Income Statement.

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(g) Share Based Payments**

*Long Term Incentive Plan* - The Bank purchases the shares on market at the commencement of the three year period to which the incentive plan relates. If the set performance hurdles are met, the shares vest in September following the end of the 3 year plan. The shares purchased are disclosed as Treasury Shares within the Equity section of the Balance Sheet and an expense is posted to the Income Statement over the vesting period (3 years) with a corresponding entry to Employee Benefits Reserve (Equity).

*Short Term Incentive Plan* - The Bank purchases the shares on market at the commencement of the one year period to which the incentive plan relates. If the set performance hurdles are met, the shares vest in the September following the financial year to which the plan relates. The cost of the shares is recorded as Treasury Shares within the Equity section of the Balance Sheet. An expense is recorded in the Income Statement over the vesting period (1 year) with a corresponding entry to Employee Benefits Reserve (Equity).

*Allocation Scheme* - The Bank's current practice involves purchasing the shares on market. The cost of these shares is recognised as Treasury Shares within the Equity section of the Balance Sheet. Shares are issued to staff annually in December, at the discretion of the Board. The shares are not related to individual staff performance and are expensed in the year purchased. An expense is recorded in the Income Statement with a corresponding entry to Employee Benefits Reserve (Equity).

**(h) Securitisation and Special Purpose Vehicles (SPVs)**

Special purpose vehicles for securitisation are consolidated in the Bank's Balance Sheet and Income Statement, as the Bank is exposed to the majority of the residual risk associated with these SPV's.

*For the following Accounting policies (i) to (m), the Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Group has applied previous AGAAP in the comparative information within the scope of AASB 132 and AASB 139. Hence, the affected line items within these financial statements will not be comparable. For further information on previous AGAAP refer to the annual report for the year ended 30 June 2005.*

**(i) Classification of Financial Instruments**

***From 1 July 2004 to 30 June 2005***

The Bank has applied previous AGAAP in the comparative information on financial assets within the scope of AASB 132 and AASB 139. Under AGAAP, measurement of financial instruments is at amortised cost and market value, with certain derivative financial instruments not recognised on-Balance Sheet.

***Adjustment on transition date: 1 July 2005***

The nature of the main adjustments to comply with AASB 132 and AASB 139 are the classification of Available for sale financial assets, Held to maturity investments and Reset Preference Shares. At the date of transition, any changes to carrying amounts were recognised directly in retained earnings. Under AIFRS, all derivative contracts are recorded at fair value in the Balance Sheet.

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***From 1 July 2005***

Financial instruments are classified into one of five categories, which will in turn determine the accounting treatment of the item. The classifications are:

- Loans and receivables- measured at amortised cost,
- Held to maturity financial assets - measured at amortised cost,
- Held for trading financial assets - measured at fair value with fair value changes charged to net profit or loss,
- Available for sale financial assets - measured at fair value with fair value changes taken to equity, and
- Non-trading liabilities - measured at amortised cost.

All derivative contracts are recorded at fair value in the Balance Sheet.

**(j) Hedge Accounting**

***From 1 July 2004 to 30 June 2005***

The Bank uses derivatives to hedge its interest rate risk and its foreign exchange risk. These derivative instruments are accounted for on the same basis as the underlying exposure. The premiums or periodic payments related to off-balance sheet instruments are amortised over the life of the instrument to match revenue arising from the hedged asset or liability. Realised gains and losses are brought to account as and when they occur.

Interest rate swaps that are hedges of the balance sheet positions are accounted for on an accruals basis. Interest receipts and payments made under a hedging swap are recognised in the Income Statement when they are receivable or due to be paid.

***Adjustment on transition date: 1 July 2005***

As at 1 July 2005, the Bank recorded a deficit to cash flow reserve within Equity of \$2.121 million representing the cumulative hedge effectiveness of all cash flow hedge relationships.

***From 1 July 2005***

The consolidated entity is required to meet the following criteria in order to achieve a qualifying hedge:

- Identify the type of hedge - fair value or cash flow,
- Identify the hedged item or transaction,
- Identify the nature of the risk being hedged,
- Identify the hedging instrument,
- Demonstrate that the hedge has and will continue to be highly effective, and
- Document the hedging relationship, including the risk management objectives and strategy for undertaking the hedge and how effectiveness will be tested.

Fair value and cash flow hedge accounting can only be used where effectiveness tests have been satisfied.

Adelaide Bank has established that hedge accounting criteria will be met, and will use both fair value and cash flow hedging. The Bank predominantly uses cash flow hedging in respect of its interest rate risk.

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(k) Operating Revenue**

*From 1 July 2004 to 30 June 2005*

Interest income, interest expense and fee income is brought to account on an accruals basis in the Income Statement.

*Adjustment on transition date: 1 July 2005*

The nature of the main adjustments to comply with AASB 132 and AASB 139 is the Bank's yield related fee income. At the date of transition, the adjustment to retained earnings has been deemed immaterial and as such no adjustment has been recorded.

*From 1 July 2005*

Interest income, interest expense and yield related loan fee income is brought to account on an effective interest method in the Income Statement. The yield related fee income is initially recognised in the Balance Sheet and is reported in the Income Statement on a yield adjusted basis over the expected term of the loan.

**(l) Hybrid Capital Instruments**

*From 1 July 2004 to 30 June 2005*

The Bank currently has on issue two types of hybrid financial instruments: Reset Preference Shares (RPS) and Step up Preference Shares (SPS). These instruments are classified as Equity within the Balance Sheet and distributions to the holders are treated as Dividends. The costs with the issue of the hybrid dividends are applied against Equity.

*Adjustment on transition date: 1 July 2005*

Step up Preference Shares (SPS) - There is no change to the current treatment of the SPS under AIFRS compared to AGAAP. The instrument will be classified as Equity and the distributions will be classified as Dividends.

Reset Preference Shares (RPS) - Under AIFRS these instruments are reclassified as debt within the Balance Sheet. This resulted in a decrease in Equity of \$100 million, and a corresponding increase in Liabilities. Distributions to the holders are treated as interest expense in the Income Statement and are not deductible for tax purposes.

The costs associated with the issue of the RPS were previously applied against the \$100 million issued. Under AIFRS, an amount of \$1.239 million has been transferred to Retained Earnings, with the remaining \$1.083 million to be charged to the Income Statement on an effective yield basis.

*From 1 July 2005*

Reset Preference Shares (RPS) - These instruments are classified as debt within the Balance Sheet and distributions to the holders are treated as interest expense in the Income Statement.

Step up Preference Shares (SPS) - These instruments are classified as Equity and the distributions are classified as dividends.

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(m) Loan Provisioning**

***From 1 July 2004 to 30 June 2005***

All loans are kept under regular review and provisions made for all identified doubtful debts as and when they arise.

All personal loan, revolving credit and visa arrears past due 90 days are fully provided for. Residential loan arrears are provided for to the extent that the loan amount outstanding less security value is not covered by mortgage insurance. All business loans are reviewed on an account by account basis and where repayment is doubtful provision is made for any shortfall between the loan amount outstanding less mortgage insurance and the underlying value of the security.

A general provision is maintained to allow for potential bad debts not yet identified in the loan portfolios. To the extent required the general provision may be used to create or increase specific provisions for potential problem loans. The level of the general provision is determined having regard to asset growth, economic conditions and other general risk factors. For tax purposes the general provision is tax effected.

A loan is regarded as non-accrual when it is three months or more in arrears or there is sufficient doubt as to the full recovery of loan and interest. However, a loan that is three months or more in arrears may be treated as performing if there is no doubt as to the full recovery of the loan and interest based on security valuation.

***Adjustment on transition date: 1 July 2005***

On transition to AIFRS on 1 July 2005, the General Provision of \$39.039 million has been reversed to Retained Earnings and a Collective allowance has been taken up in the Balance Sheet for \$17.420 million.

***From 1 July 2005***

*Specific provisions*

Specific provisions are raised for losses that may be incurred for loans that are known to be impaired. Estimated losses on these impaired loans are discounted to their present value.

Residential and Margin loans are specifically provided for to the extent that the loan amount outstanding less security value is not covered by mortgage insurance.

All Business loans are reviewed and where repayment is doubtful a specific provision is made for any shortfall between the loan amount outstanding less mortgage insurance and the underlying value of the security.

*Collective allowance*

Loans that are not known to be impaired are grouped together according to their risk characteristics and are then assessed for impairment. Based on historical loss data and current available information for assets with similar risk characteristics, the appropriate collective allowance is raised.

All personal loan, revolving credit and visa arrears are fully provided as a collective allowance once they are past due 90 days. From analysis undertaken, this benchmark has been consistent with the historical level of bad debts experienced in these portfolios.

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(n) Loan Portfolio Premium**

*From 1 July 2004 to 30 June 2005*

The acquisition controlled entities included a loan portfolio premium related to the discounted future value of net income arising from the loan portfolios purchased. The loan portfolio premium is being amortised over a period not exceeding ten years, and is classified in Other assets.

*Adjustment on transition date: 1 July 2005*

The loan portfolio premium has been reclassified from Other assets to Net loans and advances in the Balance Sheet. The amortisation of the loan portfolio premium is charged to the Income Statement on an effective yield basis, and is included in Net interest income.

*From 1 July 2005*

The loan portfolio premium is being amortised on an effective yield basis.

**(o) Fees to Intermediaries**

Payments are made to intermediaries for the introduction and management of loans and deposits. A component of these payments is made upfront upon the introduction of the loan and is amortised over the expected life of the asset, or written off at time of discharge if earlier.

In line with *AASB 139 Financial Instruments: Recognition and Measurement*, Fees to intermediaries have been reclassified in the Income Statement as a yield adjustment to Net interest income and the balance has been reclassified from Other assets to Net loans and advances effective 1 July 2005.

**(p) Comparatives**

Where appropriate amounts shown for prior periods have been reclassified to facilitate comparison and to comply with AIFRS. As previously stated, the Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Group has applied previous AGAAP in the comparative information within the scope of AASB 132 and AASB 139. Hence, the affected line items within these financial statements will not be comparable.

**(q) Significant accounting judgements, estimates and assumptions**

*Significant accounting judgements*

In the process of applying the Group's accounting policies, management has made judgements, apart from those involving estimations, which have had an impact on the amounts recognised in the financial statements. No judgements have been determined to be individually significant.

*Significant accounting estimates and assumptions*

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of Goodwill**

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. The Bank's policy on goodwill is disclosed in note 1 (d) and note 11.

**Superannuation Defined Benefit Plan**

Various actuarial assumptions are required when determining the Group's superannuation obligations. The Bank's policy on the superannuation defined benefit plan is disclosed in note 1(f) and note 11.

**Loan Provisioning**

The Group determines whether loans are impaired on an ongoing basis. This requires an estimation of the value of the future cash flows. The Bank's policy for calculation of loan loss allowances is disclosed in note 1 (m) and note 11.

**(r) Statement of Compliance**

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of *AASB 132 Financial Instruments: Presentation and Disclosure* and *AASB 139 Financial Instruments: Recognition and Measurement*, as the Group has adopted the exemption under *AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards* to apply AASB 132 and AASB 139 from 1 July 2005. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in note 11.

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Australian Accounting Standards that have recently been amended but are not yet effective, have not been adopted for the half-year ending 31 December 2005. The table below outlines each of these amended standards and the expected change in accounting policy when applied, if any.

| AASB Amendment | Affected Standard(s)  | Nature of change to accounting policy    | Application date of standard * | Application date of Group |
|----------------|---|--|--------------------------------|---------------------------|
| 2005-1         | AASB 139: <i>Financial Instruments: Recognition and Measurement</i>   | No change to accounting policy required. | 1 January 2006                 | 1 July 2006               |
| 2005-5         | AASB 1: <i>First-time adoption of AIFRS</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i>   | No change to accounting policy required. | 1 January 2006                 | 1 July 2006               |
| 2005-6         | AASB 3: <i>Business Combinations</i>  | No change to accounting policy required. | 1 January 2006                 | 1 July 2006               |
| 2005-10        | AASB 132: <i>Financial Instruments: Presentation</i> , AASB 101: <i>Presentation of Financial Statements</i> , AASB 114: <i>Segment Reporting</i> , AASB 117: <i>Leases</i> , AASB 133: <i>Earnings per Share</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 1: <i>First-time adoption of AIFRS</i> , AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts</i> and AASB 1038: <i>Life Insurance Contracts</i> | No change to accounting policy required. | 1 January 2007                 | 1 July 2007               |
| New standard   | AASB 7 <i>Financial Instruments: Disclosures</i>  | No change to accounting policy required. | 1 January 2007                 | 1 July 2007               |

\* Application date is for the annual reporting periods beginning on or after that date with early adoption permitted for annual reporting periods beginning on or after 1 January 2005.

The following amendments are not applicable to the Group and therefore have no impact.

| AASB Amendment | Affected Standard(s)   |
|----------------|--|
| 2005-4         | AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> , AASB 1: <i>First-time adoption of AIFRS</i> , AASB 1023: <i>General Insurance Contracts</i> and AASB 1028: <i>Life Insurance Contracts</i> |
| 2005-9         | AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> and AASB 132: <i>Financial Instruments: Disclosure and Presentation</i>   |
| 2005-12        | AASB 1038: <i>Life Insurance Contracts</i> and AASB 1023: <i>General Insurance Contracts</i>   |
| 2005-13        | AAS 25: <i>Financial Reporting by Superannuation Plans</i>   |

|  | CONSOLIDATED   |                |
|--|----------------|----------------|
|  | Dec 2005       | Dec 2004       |
|  | \$000's        | \$000's        |
| <b>NOTE 2 REVENUE AND EXPENSES</b>   |                |                |
| Profit from continuing operations before income tax includes the following items of revenue and expense: |                |                |
| <b>Interest income</b>   |                |                |
| Interest from customer loans   | 418,016        | 357,147        |
| Interest from investment securities  | 41,526         | 40,996         |
| Interest from securitised loans  | 321,866        | 191,247        |
| <i>Less</i> Fees to intermediaries - loans   | (54,508)       | -              |
| <i>Less</i> Securitisation costs   | (5,631)        | (2,936)        |
| <i>Less</i> Other direct costs   | (2,705)        | -              |
| <i>Less</i> Loan Portfolio Premium amortisation  | (4,268)        | -              |
|  | <u>714,296</u> | <u>586,454</u> |
| <b>Interest expense</b>  |                |                |
| Interest on retail deposits  | 247,594        | 206,542        |
| Interest on wholesale deposits & borrowings  | 58,077         | 54,407         |
| Interest on subordinated debt  | 10,309         | 8,505          |
| Interest on securitisation funding   | 266,798        | 161,271        |
| Reset Preference Share Dividend / Issue costs  | 3,257          | -              |
| Fees to intermediaries - deposits  | 4,045          | -              |
| Other interest   | 325            | 345            |
|  | <u>590,405</u> | <u>431,070</u> |
| <b>Net interest income</b>   | <u>123,891</u> | <u>155,384</u> |
| <b>Fees to intermediaries / Direct costs</b>   |                |                |
| Loans - Fees to intermediaries   | -              | 42,747         |
| - Other direct costs   | -              | 2,291          |
| Deposits - Fees to intermediaries  | -              | 3,820          |
|  | <u>-</u>       | <u>48,858</u>  |
| <b>Other revenue</b>   |                |                |
| Insurance commissions  | 1,713          | 1,661          |
| Loan fees  | 9,422          | 9,318          |
| Transaction fees   | 4,766          | 4,553          |
| Account service fees   | 4,767          | 4,617          |
| Third party processing income  | 4,306          | 4,037          |
| Visa income  | 1,822          | 1,770          |
| Profit from sale of Cashcard shares  | -              | 658            |
| Other  | 2,458          | 2,329          |
|  | <u>29,254</u>  | <u>28,943</u>  |

**NOTE 2 REVENUE AND EXPENSES (continued)**

|   | CONSOLIDATED  |               |
|---|---------------|---------------|
|   | Dec 2005      | Dec 2004      |
|   | \$000's       | \$000's       |
| <b>Bad and doubtful debt expense</b>                |               |               |
| Bad debts written off                               | 2,135         | 1,845         |
| Specific provisions                                 | 2,249         | 574           |
| General provision                                   | -             | 5,374         |
| Collective allowance                                | 1,123         | -             |
| Less: Bad debts recovered                           | (346)         | (277)         |
|   | <u>5,161</u>  | <u>7,516</u>  |
| <b>Other expenses</b>                               |               |               |
| Provision for employees' leave entitlement          | 3,967         | 3,165         |
| Other staffing costs                                | 49,494        | 40,343        |
| Directors' fees                                     | 342           | 326           |
| Depreciation and amortisation                       | 3,224         | 5,777         |
| Rental expenses in respect of operating leases      | 2,618         | 2,050         |
| Other accommodation costs                           | 1,872         | 1,798         |
| Communications, printing and stationery costs       | 4,259         | 3,978         |
| Professional fees                                   | 6,686         | 6,117         |
| Technology costs                                    | 5,997         | 4,667         |
| Contribution to Adelaide Bank Charitable Foundation | 150           | 180           |
| Other   | 6,928         | 5,801         |
|   | <u>85,537</u> | <u>74,202</u> |

CONSOLIDATED

|   | Dec 2005<br>\$000's | Dec 2004<br>\$000's |
|---|---------------------|---------------------|
| <b>NOTE 3 DIVIDENDS</b>   |                     |                     |
| Dividends on ordinary shares paid by the Bank:<br>fully franked prior year final dividend paid  | 30,219              | 23,479              |
| Fully franked dividends paid on reset preference shares   | - *                 | 3,025               |
| Fully franked dividends paid on step up preference shares                                       | 2,610               | -                   |
| Total dividends paid  | <u>32,829</u>       | <u>26,504</u>       |
| Fully franked dividend on SPS declared and recognised as a liability<br>(paid 10 January 2006)  | 1,173               | 1,295               |
| Fully franked interim dividend proposed on ordinary shares and not<br>recognised as a liability | 27,712              | 22,539              |

\* Note: Distributions on reset preference shares have been classified as interest expense under AIFRS for the December 2005 half-year, and are not disclosed in the above note.

The Bank's Dividend Reinvestment Plan (DRP) commenced in October 2004 and will be available to shareholders for the March 2006 dividend payment. Ordinary shareholders have been requested to register their participation in the DRP for the March 2006 dividend prior to record date on 16 March 2006.

The tax rate at which dividends paid have been franked is 30%.

|  | CONSOLIDATED      |                   |
|--|-------------------|-------------------|
|  | Dec 2005          | Jun 2005          |
|  | \$000's           | \$000's           |
| <b>NOTE 4 HELD FOR TRADING FINANCIAL ASSETS / HELD TO MATURITY INVESTMENTS / INVESTMENT SECURITIES AND OTHER INVESTMENTS</b> |                   |                   |
| Investment securities (at market value)  |                   |                   |
| - Bank discount securities   | 421,255           | 331,870           |
| - Other discount securities  | 521,082           | 359,105           |
| - Fixed interest securities  | 15,127            | 25,335            |
| - Floating rate notes  | 476,226           | 499,679           |
| Other investments (at cost)  | 92,552            | 29,378            |
|  | <u>1,526,242</u>  | <u>1,245,367</u>  |
| Concentration of credit risk for investment securities and other investments:  |                   |                   |
| Banks  | 475,392           | 311,375           |
| Asset backed securities: Trustee companies   | 872,748           | 734,445           |
| Other  | 178,102           | 199,547           |
|  | <u>1,526,242</u>  | <u>1,245,367</u>  |
| <b>NOTE 5 NET LOANS AND ADVANCES</b>   |                   |                   |
| Residential loans - securitised  | 7,962,385         | 6,552,804         |
| Residential loans - not securitised  | 7,968,009         | 7,927,904         |
| Business loans   | 1,346,082         | 1,246,410         |
| Portfolio funding  | 627,373           | 307,422           |
| Personal loans   | 144,791           | 157,552           |
| Margin lending - securitised   | 2,086,804         | 1,345,937         |
| Margin lending - not securitised   | 818,403           | 1,296,996         |
| Credit card advances   | 118,557           | 116,456           |
| Overdrafts   | 11,824            | 12,485            |
| Gross loans and advances   | <u>21,084,228</u> | <u>18,963,966</u> |
| Less: Provision for doubtful debts   |                   |                   |
| - Specific provisions  | 3,307             | 4,710             |
| - Collective allowance   | 18,543            | -                 |
| - General provision  | -                 | 39,039            |
|  | <u>21,850</u>     | <u>43,749</u>     |
| Add: Deferred expenditure  |                   |                   |
| - Intermediary payments  | 63,863            | -                 |
| - Securitisation costs   | 15,489            | -                 |
| - Other  | 11,537            | -                 |
| Add: Loan portfolio premium  | 67,138            | -                 |
| Net loans and advances   | <u>21,220,405</u> | <u>18,920,217</u> |

CONSOLIDATED  
 Dec 2005      Jun 2005  
 \$000's      \$000's

**NOTE 5 NET LOANS AND ADVANCES (continued)**

Concentration of credit risk for loans and advances

|                                    |                   |                   |
|------------------------------------|-------------------|-------------------|
| Agriculture                        | 246,041           | 254,527           |
| Mining                             | 8,608             | 5,672             |
| Manufacturing                      | 23,833            | 24,052            |
| Transport and storage              | 111,806           | 86,744            |
| Construction                       | 51,723            | 49,087            |
| Wholesale/retail trade             | 55,902            | 57,353            |
| Finance and industry services      | 61,864            | 55,687            |
| Property                           |                   |                   |
| - residential                      | 15,930,394        | 14,480,708        |
| - other                            | 475,533           | 403,782           |
| Hotels/accommodation               | 23,633            | 19,218            |
| Cultural and recreational services | 8,911             | 9,488             |
| Health                             | 18,471            | 18,036            |
| Retirement                         | 223,347           | 226,754           |
| Personal                           | 275,172           | 286,493           |
| Margin Lending                     | 2,905,207         | 2,642,933         |
| Portfolio Funding                  | 627,373           | 307,422           |
| Other                              | 36,410            | 36,010            |
| Total gross loans and advances     | <u>21,084,228</u> | <u>18,963,966</u> |

**NOTE 6 OTHER ASSETS**

|                         |                |                |
|-------------------------|----------------|----------------|
| Loan portfolio premium  | -              | 56,457         |
| Deferred expenditure:   |                |                |
| - Intermediary payments | -              | 68,247         |
| - Securitisation costs  | -              | 11,630         |
| - Other                 | -              | 10,030         |
| Accrued interest        | 69,314         | 41,719         |
| Other receivables       | 57,346         | 169,082        |
| Other investments       | 107            | 107            |
|                         | <u>126,767</u> | <u>357,272</u> |

**NOTE 7 DEPOSITS**

|                    |                   |                   |
|--------------------|-------------------|-------------------|
| Retail deposits    | 9,176,928         | 9,240,588         |
| Wholesale deposits | 2,326,087         | 2,338,834         |
| Wholesale other    | 179,500           | 188,000           |
|                    | <u>11,682,515</u> | <u>11,767,422</u> |

|  | CONSOLIDATED   |                |
|--|----------------|----------------|
|  | Dec 2005       | Jun 2005       |
|  | \$000's        | \$000's        |
| <b>NOTE 8 EQUITY</b>   |                |                |
| <b>Ordinary Shares:</b>  |                |                |
| 104,202,414 (June 2004: 93,914,350) fully paid ordinary shares at beginning of year                      | 347,640        | 243,872        |
| Nil (June 2005: Issue of 9,803,922 fully paid ordinary shares from Share Placement on 5 May 2005)        | -              | 100,000        |
| Issue of 2,380,333 fully paid ordinary shares from Dividend Reinvestment Plan (DRP) (June 2005: 484,142) | 30,206         | 5,186          |
| Costs associated with issue  | (15)           | (1,418)        |
| 106,582,747 fully paid shares at end of half-year (June 2005: 104,202,414)                               | 377,831        | 347,640        |
| <b>Reset Preference Shares:</b>  |                |                |
| 1,000,000 fully paid reset preference shares at beginning of year  | 97,678         | 97,678         |
| Transferred to Liabilities on adoption of AIFRS at 1 Jul 2005  | (97,678)       | -              |
| Nil (June 2005: 1,000,000 fully paid reset preference shares at end of year)                             | -              | 97,678         |
| <b>Step up Preference Shares:</b>  |                |                |
| 1,000,000 fully paid step up preference shares at beginning of year                                      | 97,451         | 100,000        |
| Costs associated with issue  | -              | (2,549)        |
| 1,000,000 step up preference shares at end of year   | 97,451         | 97,451         |
| <b>Total Contributed Equity</b>  | <b>475,282</b> | <b>542,769</b> |

**Adelaide Bank Limited and Controlled Entities**  
**Notes to the Financial Statements for the Half-Year ended 31 December 2005**

**NOTE 8 EQUITY (continued)**

|  | Ordinary<br>Share<br>Capital<br>\$000's | Treasury Shares /<br>Employee<br>Benefits Reserve<br>\$000's | Reset<br>Preference<br>Share Capital<br>\$000's | Step up<br>Preference Share<br>Capital<br>\$000's | Cashflow<br>Hedge Reserve<br>\$000's | Retained<br>Earnings<br>\$000's | Total<br>\$000's |
|--|---|--|---|---|--------------------------------------|---------------------------------|------------------|
| <b>Total Equity as at 1 July 2004</b>                                    | 243,872                                 | (1,324)  | 97,678  | -   | -                                    | 161,248                         | 501,474          |
| Profit for the half-year to 31 Dec 2004                                  | -                                       | -  | -   | -   | -                                    | 36,931                          | 36,931           |
| Issue of Step up preference share capital (SPS)                          | -                                       | -  | -   | 100,000   | -                                    | -                               | 100,000          |
| Costs associated with issue of SPS                                       | -                                       | -  | -   | (2,549)   | -                                    | -                               | (2,549)          |
| Transfer of Superannuation Defined Benefits surplus to Retained earnings | -                                       | -  | -   | -   | -                                    | 410                             | 410              |
| Equity Dividends   | -                                       | -  | -   | -   | -                                    | (27,800)                        | (27,800)         |
| <b>Total Equity as at 31 December 2004</b>                               | <b>243,872</b>                          | <b>(1,324)</b>   | <b>97,678</b>                                   | <b>97,451</b>                                     | <b>-</b>                             | <b>170,789</b>                  | <b>608,466</b>   |
| Profit for the half-year to 30 June 2005                                 | -                                       | -  | -   | -   | -                                    | 46,354                          | 46,354           |
| Issue of Ordinary Shares   | 105,186                                 | -  | -   | -   | -                                    | -                               | 105,186          |
| Costs associated with issue of ordinary shares                           | (1,418)                                 | -  | -   | -   | -                                    | -                               | (1,418)          |
| Movement in Employee Benefits Reserve                                    | -                                       | 1,242  | -   | -   | -                                    | -                               | 1,242            |
| Transfer of Superannuation Defined Benefits surplus to Retained earnings | -                                       | -  | -   | -   | -                                    | (104)                           | (104)            |
| Equity Dividends   | -                                       | -  | -   | -   | -                                    | (26,879)                        | (26,879)         |
| <b>Total Equity as at 30 June 2005</b>                                   | <b>347,640</b>                          | <b>(82)</b>  | <b>97,678</b>                                   | <b>97,451</b>                                     | <b>-</b>                             | <b>190,160</b>                  | <b>732,847</b>   |
| Initial application of Cash Flow Hedge accounting                        | -                                       | -  | -   | -   | (2,121)                              | -                               | (2,121)          |
| Reversal of General Provision  | -                                       | -  | -   | -   | -                                    | 27,327                          | 27,327           |
| Take up of Collective Allowance  | -                                       | -  | -   | -   | -                                    | (10,121)                        | (10,121)         |
| Reclassification of Reset preference shares (RPS) / Issue costs          | -                                       | -  | (97,678)  | -   | -                                    | (1,238)                         | (98,916)         |
| <b>Total Equity as at 01 July 2005</b>                                   | <b>347,640</b>                          | <b>(82)</b>  | <b>-</b>  | <b>97,451</b>                                     | <b>(2,121)</b>                       | <b>206,128</b>                  | <b>649,016</b>   |
| Profit for the half-year to 31 Dec 2005                                  | -                                       | -  | -   | -   | -                                    | 41,389                          | 41,389           |
| Net change in Cash Flow Hedges   | -                                       | -  | -   | -   | 18,098                               | -                               | 18,098           |
| Issue of Ordinary Shares   | 30,206                                  | -  | -   | -   | -                                    | -                               | 30,206           |
| Costs associated with issue of ordinary shares                           | (15)                                    | -  | -   | -   | -                                    | -                               | (15)             |
| RPS Dividend Accrual   | -                                       | -  | -   | -   | -                                    | (1,003)                         | (1,003)          |
| Cost of Share Based Payments   | -                                       | (6,851)  | -   | -   | -                                    | -                               | (6,851)          |
| Movement in Employee Benefits Reserve                                    | -                                       | 2,183  | -   | -   | -                                    | -                               | 2,183            |
| Transfer of Superannuation Defined Benefits surplus to Retained earnings | -                                       | -  | -   | -   | -                                    | 1,069                           | 1,069            |
| Equity Dividends   | -                                       | -  | -   | -   | -                                    | (34,001)                        | (34,001)         |
| <b>Total Equity as at 31 December 2005</b>                               | <b>377,831</b>                          | <b>(4,750)</b>   | <b>-</b>  | <b>97,451</b>                                     | <b>15,977</b>                        | <b>213,582</b>                  | <b>700,091</b>   |

**NOTE 9 CONTINGENT LIABILITIES**

**CONSOLIDATED**

|  | Dec 2005 | Jun 2005 |
|--|----------|----------|
|  | \$000's  | \$000's  |
| Guarantees entered into in the normal course of business | 13,161   | 12,916   |

*Adelaide Bank Limited and Controlled Entities*  
*Notes to the Financial Statements for the Half-Year ended 31 December 2005*

**NOTE 10 SEGMENT REPORTING**

| Half-Year Ended 31 December 2005             | Residential Lending<br>\$000's         | Business Lending<br>\$000's         | Margin Lending<br>\$000's         | Retail Funding<br>\$000's         | Other *<br>\$000's         | Consolidated<br>\$000's         |
|--|--|-------------------------------------|-----------------------------------|-----------------------------------|----------------------------|---------------------------------|
| Operating income                             |  |                                     |                                   |                                   |                            |                                 |
| Interest income                              | 284,078                                | 49,323                              | 51,319                            | 276,448                           | 86,568                     | 493,279                         |
| Interest expense                             | (231,617)                              | (30,515)                            | (28,089)                          | (250,922)                         | (78,109)                   | (364,795)                       |
| Net interest income                          | 52,461                                 | 18,808                              | 23,230                            | 25,526                            | 8,459                      | 128,484                         |
| Other revenue                                | 11,538                                 | 2,043                               | 188                               | 5,015                             | 10,470                     | 29,254                          |
| Total operating income                       | 63,999                                 | 20,851                              | 23,418                            | 30,541                            | 18,929                     | 157,738                         |
| Bad and doubtful debt expense                | (2,022)                                | (293)                               | 73                                | -                                 | (1,389)                    | (3,631)                         |
| Other expenses                               | (29,897)                               | (7,837)                             | (9,459)                           | (14,511)                          | (13,791)                   | (75,495)                        |
| <b>Segment result</b>                        | <b>32,080</b>                          | <b>12,721</b>                       | <b>14,032</b>                     | <b>16,030</b>                     | <b>3,749</b>               | <b>78,612</b>                   |
| Unallocated revenue less unallocated expense |  |                                     |                                   |                                   |                            | (16,165)                        |
| Net profit before income tax expense         |  |                                     |                                   |                                   |                            | 62,447                          |
| Segment assets                               | 15,920,313                             | 1,976,670                           | 2,904,602                         | -                                 | 1,771,164                  | 22,572,749                      |
| Unallocated assets                           |  |                                     |                                   |                                   |                            | 857,527                         |
| Total assets                                 |  |                                     |                                   |                                   |                            | 23,430,276                      |
| Segment liabilities                          | -                                      | -                                   | -                                 | 9,176,928                         | 13,156,068                 | 22,332,996                      |
| Unallocated liabilities                      |  |                                     |                                   |                                   |                            | 397,189                         |
| Total liabilities                            |  |                                     |                                   |                                   |                            | 22,730,185                      |
| <b>Half-Year Ended 31 December 2004</b>      | <b>Residential Lending<br/>\$000's</b> | <b>Business Lending<br/>\$000's</b> | <b>Margin Lending<br/>\$000's</b> | <b>Retail Funding<br/>\$000's</b> | <b>Other *<br/>\$000's</b> | <b>Consolidated<br/>\$000's</b> |
| Operating income                             |  |                                     |                                   |                                   |                            |                                 |
| Net interest income                          | 93,153                                 | 12,268                              | 14,229                            | 27,582                            | 8,497                      | 155,729                         |
| Fees to intermediaries                       | (42,931)                               | (37)                                | (2,055)                           | (3,820)                           | (15)                       | (48,858)                        |
| Other revenue                                | 10,710                                 | 2,828                               | 37                                | 4,928                             | 9,086                      | 27,589                          |
| Total operating income                       | 60,932                                 | 15,059                              | 12,211                            | 28,690                            | 17,568                     | 134,460                         |
| Bad and doubtful debt expense                | (259)                                  | (524)                               | (80)                              | -                                 | (1,279)                    | (2,142)                         |
| Other expenses                               | (24,531)                               | (5,387)                             | (7,151)                           | (15,118)                          | (12,008)                   | (64,195)                        |
| <b>Segment result</b>                        | <b>36,142</b>                          | <b>9,148</b>                        | <b>4,980</b>                      | <b>13,572</b>                     | <b>4,281</b>               | <b>68,123</b>                   |
| Unallocated revenue less unallocated expense |  |                                     |                                   |                                   |                            | (14,372)                        |
| Net profit before income tax expense         |  |                                     |                                   |                                   |                            | 53,751                          |
| Segment assets                               | 12,716,251                             | 1,315,730                           | 1,525,087                         | -                                 | 1,409,328                  | 16,966,396                      |
| Unallocated assets                           |  |                                     |                                   |                                   |                            | 777,354                         |
| Total assets                                 |  |                                     |                                   |                                   |                            | 17,743,750                      |
| Segment liabilities                          | -                                      | -                                   | -                                 | 8,435,823                         | 8,234,836                  | 16,670,659                      |
| Unallocated liabilities                      |  |                                     |                                   |                                   |                            | 464,625                         |
| Total liabilities                            |  |                                     |                                   |                                   |                            | 17,135,284                      |

\* Other includes Consumer Lending, Treasury, Insurance and Third Party Processing.

The consolidated entity's operations and assets are in the banking and finance industry in Australia. Activity outside this industry is not material and has not been separately disclosed.

**NOTE 11 IMPACT OF ADOPTION OF AIFRS**

***Reconciliation of Balance Sheet reported under previous AGAAP to Balance Sheet under AIFRS***  
***At the date of transition to AIFRS : 1 July 2004***

|   | AGAAP<br>As at<br>30 Jun 2004<br>\$000's | <i>Consolidated</i><br>Effect of<br>transition to<br>AIFRS<br>\$000's | AIFRS<br>As at<br>1 Jul 2004<br>\$000's |
|---|--|---|---|
| <b>Assets</b>                               |  |   |   |
| Cash  | 32,421                                   | -   | 32,421                                  |
| Money at call                               | 51,606                                   | 107,004 (a)   | 158,610                                 |
| Balances due from other banks               | 131,405                                  | -   | 131,405                                 |
| Held for trading financial assets           | -  | -   | -                                       |
| Held to maturity investments                | -  | -   | -                                       |
| Investment securities and other investments | 977,266                                  | 241,963 (e)   | 1,219,229                               |
| Net loans and advances                      | 8,962,137                                | 5,206,261 (f)   | 14,168,398                              |
| Property, plant and equipment               | 33,413                                   | -   | 33,413                                  |
| Intangibles                                 | 19,460                                   | 1,045 (j)   | 20,505                                  |
| Deferred tax assets                         | 29,218                                   | -   | 29,218                                  |
| Other assets                                | 202,900                                  | 8,423 (m),(n),(p),(r)   | 211,323                                 |
| <b>Total Assets</b>                         | <b>10,439,826</b>                        | <b>5,564,696</b>  | <b>16,004,522</b>                       |
| <b>Liabilities</b>                          |  |   |   |
| Deposits                                    | 9,226,073                                | -   | 9,226,073                               |
| Notes payable                               | -  | 5,531,904 (t)   | 5,531,904                               |
| Balances due to other banks                 | 96,418                                   | -   | 96,418                                  |
| Provisions                                  | 11,242                                   | -   | 11,242                                  |
| Current tax liabilities                     | 13,574                                   | (340) (u)   | 13,234                                  |
| Deferred tax liabilities                    | 2,870                                    | 746 (v)   | 3,616                                   |
| Other liabilities                           | 342,800                                  | 32,761 (w)  | 375,561                                 |
| Reset preference shares                     | -  | -   | -                                       |
| Subordinated debt                           | 245,000                                  | -   | 245,000                                 |
| <b>Total Liabilities</b>                    | <b>9,937,977</b>                         | <b>5,565,071</b>  | <b>15,503,048</b>                       |
| <b>Net Assets</b>                           | <b>501,849</b>                           | <b>(375)</b>  | <b>501,474</b>                          |
| <b>Equity</b>                               |  |   |   |
| Ordinary share capital                      | 243,872                                  | -   | 243,872                                 |
| Reset preference share capital              | 97,678                                   | -   | 97,678                                  |
| Step up preference share capital            | -  | -   | -                                       |
| Treasury shares / Employee benefits reserve | -  | (1,324) (aa)  | (1,324)                                 |
| Reserves                                    | 27,889                                   | (27,889) (ac)   | -                                       |
| Retained earnings                           | 132,410                                  | 28,838 (ae),(af),(aj)   | 161,248                                 |
| <b>Total Equity</b>                         | <b>501,849</b>                           | <b>(375)</b>  | <b>501,474</b>                          |

**NOTE 11 IMPACT OF ADOPTION OF AIFRS (continued)**

**Reconciliation of Balance Sheet reported under previous AGAAP to Balance Sheet under AIFRS  
 At the end of the last half-year reporting period under previous AGAAP: 31 December 2004**

|   | AGAAP<br>As at<br>31 Dec 2004<br>\$000's | <i>Consolidated</i><br>Effect of<br>transition to<br>AIFRS<br>\$000's | AIFRS<br>As at<br>31 Dec 2004<br>\$000's |
|---|--|---|--|
| <b>Assets</b>                               |  |   |  |
| Cash  | 40,861                                   | -   | 40,861                                   |
| Money at call                               | 117,344                                  | 73,904 (a)  | 191,248                                  |
| Balances due from other banks               | 55,813                                   | -   | 55,813                                   |
| Held for trading financial assets           | -  | -   | -  |
| Held to maturity investments                | -  | -   | -  |
| Investment securities and other investments | 1,124,391                                | 186,905 (e)   | 1,311,296                                |
| Net loans and advances                      | 10,134,215                               | 5,680,378 (f)   | 15,814,593                               |
| Property, plant and equipment               | 33,047                                   | -   | 33,047                                   |
| Intangibles                                 | 18,830                                   | 2,891 (j), (k)  | 21,721                                   |
| Deferred tax assets                         | 28,064                                   | -   | 28,064                                   |
| Other assets                                | 236,640                                  | 10,467 (m),(n),(p),(r)  | 247,107                                  |
| <b>Total Assets</b>                         | <b>11,789,205</b>                        | <b>5,954,545</b>  | <b>17,743,750</b>                        |
| <b>Liabilities</b>                          |  |   |  |
| Deposits                                    | 10,486,157                               | -   | 10,486,157                               |
| Notes payable                               | -  | 5,930,493 (t)   | 5,930,493                                |
| Balances due to other banks                 | 62,713                                   | -   | 62,713                                   |
| Provisions                                  | 13,225                                   | -   | 13,225                                   |
| Current tax liabilities                     | 7,421                                    | (359) (u)   | 7,062                                    |
| Deferred tax liabilities                    | 2,870                                    | 1,085 (v)   | 3,955                                    |
| Other liabilities                           | 334,351                                  | 22,328 (w)  | 356,679                                  |
| Reset preference shares                     | -  | -   | -  |
| Subordinated debt                           | 275,000                                  | -   | 275,000                                  |
| <b>Total Liabilities</b>                    | <b>11,181,737</b>                        | <b>5,953,547</b>  | <b>17,135,284</b>                        |
| <b>Net Assets</b>                           | <b>607,468</b>                           | <b>998</b>  | <b>608,466</b>                           |
| <b>Equity</b>                               |  |   |  |
| Ordinary share capital                      | 243,872                                  | -   | 243,872                                  |
| Reset preference share capital              | 97,678                                   | -   | 97,678                                   |
| Step up preference share capital            | 97,451                                   | -   | 97,451                                   |
| Treasury shares / Employee benefits reserve | -  | (1,324) (aa)  | (1,324)                                  |
| Reserves                                    | 27,889                                   | (27,889) (ac)   | -  |
| Retained earnings                           | 140,578                                  | 30,211 (ad),(ae),(af),(ag),(aj)                                       | 170,789                                  |
| <b>Total Equity</b>                         | <b>607,468</b>                           | <b>998</b>  | <b>608,466</b>                           |

**NOTE 11 IMPACT OF ADOPTION OF AIFRS (continued)**

**Reconciliation of Balance Sheet reported under previous AGAAP to Balance Sheet under AIFRS  
 At the end of the last reporting period under previous AGAAP: 30 June 2005**

|   | <i>Consolidated</i>                      |  |  |
|---|--|--|--|
|   | AGAAP<br>As at<br>30 Jun 2005<br>\$000's | Effect of<br>transition to<br>AIFRS<br>\$000's | AIFRS<br>As at<br>30 Jun 2005<br>\$000's |
| <b>Assets</b>                               |  |  |  |
| Cash  | 49,559                                   | -  | 49,559                                   |
| Money at call                               | 460,884                                  | 231,466 (a)                                    | 692,350                                  |
| Balances due from other banks               | 155,165                                  | -  | 155,165                                  |
| Held for trading financial assets           | -  | -  | -  |
| Held to maturity investments                | -  | -  | -  |
| Investment securities and other investments | 1,245,137                                | 230 (e)  | 1,245,367                                |
| Net loans and advances                      | 11,021,476                               | 7,898,741 (f)                                  | 18,920,217                               |
| Property, plant and equipment               | 33,132                                   | -  | 33,132                                   |
| Intangibles                                 | 32,380                                   | 3,051 (j),(k)                                  | 35,431                                   |
| Deferred tax assets                         | 39,736                                   | -  | 39,736                                   |
| Other assets                                | 358,951                                  | (1,679) (m),(n),(p),(r)                        | 357,272                                  |
| <b>Total Assets</b>                         | <b>13,396,420</b>                        | <b>8,131,809</b>                               | <b>21,528,229</b>                        |
| <b>Liabilities</b>                          |  |  |  |
| Deposits                                    | 11,767,422                               | -  | 11,767,422                               |
| Notes payable                               | -  | 8,059,756 (t)                                  | 8,059,756                                |
| Balances due to other banks                 | 108,882                                  | -  | 108,882                                  |
| Provisions                                  | 12,645                                   | -  | 12,645                                   |
| Current tax liabilities                     | 21,109                                   | (359) (u)                                      | 20,750                                   |
| Deferred tax liabilities                    | 4,208                                    | 1,207 (v)                                      | 5,415                                    |
| Other liabilities                           | 440,519                                  | 67,993 (w)                                     | 508,512                                  |
| Reset preference shares                     | -  | -  | -  |
| Subordinated debt                           | 312,000                                  | -  | 312,000                                  |
| <b>Total Liabilities</b>                    | <b>12,666,785</b>                        | <b>8,128,597</b>                               | <b>20,795,382</b>                        |
| <b>Net Assets</b>                           | <b>729,635</b>                           | <b>3,212</b>                                   | <b>732,847</b>                           |
| <b>Equity</b>                               |  |  |  |
| Ordinary share capital                      | 347,640                                  | -  | 347,640                                  |
| Reset preference share capital              | 97,678                                   | -  | 97,678                                   |
| Step up preference share capital            | 97,451                                   | -  | 97,451                                   |
| Treasury shares / Employee benefits reserve | -  | (82) (aa)                                      | (82)                                     |
| Reserves                                    | 27,889                                   | (27,889) (ac)                                  | -  |
| Retained earnings                           | 158,977                                  | 31,183 (ad),(ae),(af),(ag),(aj)                | 190,160                                  |
| <b>Total Equity</b>                         | <b>729,635</b>                           | <b>3,212</b>                                   | <b>732,847</b>                           |

**NOTE 11 IMPACT OF ADOPTION OF AIFRS (continued)**

**Reconciliation of Balance Sheet reported under AIFRS as at 30 June 2005 to changes under AIFRS effective 1 July 2005**

|   | <i>Consolidated</i>                      |   |   |
|---|--|---|---|
|   | AIFRS<br>As at<br>30 Jun 2005<br>\$000's | Effect of AASB<br>132/139 on<br>transition to<br>AIFRS<br>\$000's | AIFRS<br>As at<br>1 Jul 2005<br>\$000's |
| <b>Assets</b>                               |  |   |   |
| Cash  | 49,559                                   | -   | 49,559                                  |
| Money at call                               | 692,350                                  | -   | 692,350                                 |
| Balances due from other banks               | 155,165                                  | -   | 155,165                                 |
| Held for trading financial assets           | -  | 1,215,302 (b)   | 1,215,302                               |
| Held to maturity investments                | -  | 30,065 (c)  | 30,065                                  |
| Investment securities and other investments | 1,245,367                                | (1,245,367) (d)   | -                                       |
| Net loans and advances                      | 18,920,217                               | 171,247 (g),(h), (i)  | 19,091,464                              |
| Property, plant and equipment               | 33,132                                   | -   | 33,132                                  |
| Intangibles                                 | 35,431                                   | -   | 35,431                                  |
| Deferred tax assets                         | 39,736                                   | (7,374) (l)   | 32,362                                  |
| Other assets                                | 357,272                                  | (148,065) (o),(q)   | 209,207                                 |
| <b>Total Assets</b>                         | <b>21,528,229</b>                        | <b>15,808</b>   | <b>21,544,037</b>                       |
| <b>Liabilities</b>                          |  |   |   |
| Deposits                                    | 11,767,422                               | (1,242) (s)   | 11,766,180                              |
| Notes payable                               | 8,059,756                                | -   | 8,059,756                               |
| Balances due to other banks                 | 108,882                                  | -   | 108,882                                 |
| Provisions                                  | 12,645                                   | -   | 12,645                                  |
| Current tax liabilities                     | 20,750                                   | -   | 20,750                                  |
| Deferred tax liabilities                    | 5,415                                    | -   | 5,415                                   |
| Other liabilities                           | 508,512                                  | 1,964 (x)   | 510,476                                 |
| Reset preference shares                     | -  | 98,917 (y)  | 98,917                                  |
| Subordinated debt                           | 312,000                                  | -   | 312,000                                 |
| <b>Total Liabilities</b>                    | <b>20,795,382</b>                        | <b>99,639</b>   | <b>20,895,021</b>                       |
| <b>Net Assets</b>                           | <b>732,847</b>                           | <b>(83,831)</b>   | <b>649,016</b>                          |
| <b>Equity</b>                               |  |   |   |
| Ordinary share capital                      | 347,640                                  | -   | 347,640                                 |
| Reset preference share capital              | 97,678                                   | (97,678) (z)  | -                                       |
| Step up preference share capital            | 97,451                                   | -   | 97,451                                  |
| Treasury shares / Employee benefits reserve | (82)                                     | -   | (82)                                    |
| Reserves                                    | -  | (2,121) (ab)  | (2,121)                                 |
| Retained earnings                           | 190,160                                  | 15,968 (ah),(ai)  | 206,128                                 |
| <b>Total Equity</b>                         | <b>732,847</b>                           | <b>(83,831)</b>   | <b>649,016</b>                          |

**NOTE 11 IMPACT OF ADOPTION OF AIFRS (continued)**

**Reconciliation of profit reported under previous AGAAP to profit under AIFRS  
For the Half-Year ended 31 December 2004**

|  | AGAAP<br>31 Dec 2004<br>\$000's | <i>Consolidated</i><br>Effect of transition to<br>AIFRS<br>\$000's | AIFRS<br>31 Dec 2004<br>\$000's |
|--|---------------------------------|--|---------------------------------|
| Continuing Operations  |                                 |  |                                 |
| Interest income  | 390,150                         | 196,304 (ak)   | 586,454                         |
| <i>Less</i> Interest expense   | 269,454                         | 161,616 (al),(am)  | 431,070                         |
| Net Interest income  | 120,696                         | 34,688   | 155,384                         |
| <i>Add</i> Securitisation income   | 38,225                          | (38,225) (an)  | -                               |
|  | 158,921                         | (3,537)  | 155,384                         |
| <i>Less</i> Fees to intermediaries / Direct costs  | 48,858                          | -  | 48,858                          |
| <i>Add</i> Other revenue   | 25,751                          | 3,192 (ao)   | 28,943                          |
| Net operating income   | 135,814                         | (345)  | 135,469                         |
| <i>Less</i> Bad and doubtful debt expense  | 7,516                           | -  | 7,516                           |
| Other expenses   | 75,654                          | (1,452) (ap),(aq),(ar),(as)  | 74,202                          |
| <b>Profit from continuing operations before<br/>income tax expense</b>   | <b>52,644</b>                   | <b>1,107</b>   | <b>53,751</b>                   |
| Income tax expense   | 16,677                          | 143 (at),(au),(av)   | 16,820                          |
| <b>Profit from continuing operations after<br/>income tax expense</b>  | <b>35,967</b>                   | <b>964</b>   | <b>36,931</b>                   |
| Costs associated with issue of shares  | (2,549)                         | -  | (2,549)                         |
| <b>Total revenues, expenses and valuation<br/>adjustments attributable to members of<br/>Adelaide Bank Limited and recognised<br/>directly in equity</b>       | <b>(2,549)</b>                  | <b>-</b>   | <b>(2,549)</b>                  |
| <b>Total changes in equity other than those<br/>resulting from transactions with owners as<br/>owners attributable to members of<br/>Adelaide Bank Limited</b> | <b>33,418</b>                   | <b>964</b>   | <b>34,382</b>                   |

**NOTE 11 IMPACT OF ADOPTION OF AIFRS (continued)**

**Reconciliation of profit reported under previous AGAAP to profit under AIFRS  
For the Year ended 30 June 2005**

|  | AGAAP<br>30 Jun 2005<br>\$000's | <i>Consolidated</i><br>Effect of transition to<br>AIFRS<br>\$000's | AIFRS<br>30 Jun 2005<br>\$000's |
|--|---------------------------------|--|---------------------------------|
| <b>Continuing Operations</b>   |                                 |  |                                 |
| Interest income  | 819,371                         | 429,820 (ak)   | 1,249,191                       |
| <i>Less</i> Interest expense   | 567,340                         | 354,443 (al),(am)  | 921,783                         |
| Net Interest income  | 252,031                         | 75,377   | 327,408                         |
| <i>Add</i> Securitisation income   | 83,072                          | (83,072) (an)  | -                               |
|  | 335,103                         | (7,695)  | 327,408                         |
| <i>Less</i> Fees to intermediaries / Direct costs  | 103,695                         | -  | 103,695                         |
| <i>Add</i> Other revenue   | 52,320                          | 7,006 (ao)   | 59,326                          |
| Net operating income   | 283,728                         | (689)  | 283,039                         |
| <i>Less</i> Bad and doubtful debt expense  | 10,567                          | -  | 10,567                          |
| Other expenses   | 155,555                         | (3,038) (ap),(aq),(ar),(as)  | 152,517                         |
| <b>Profit from continuing operations before<br/>income tax expense</b>   | <b>117,606</b>                  | <b>2,349</b>   | <b>119,955</b>                  |
| Income tax expense   | 36,361                          | 309 (at),(au),(av)   | 36,670                          |
| <b>Profit from continuing operations after<br/>income tax expense</b>  | <b>81,245</b>                   | <b>2,040</b>   | <b>83,285</b>                   |
| Costs associated with issue of shares  | (3,967)                         | -  | (3,967)                         |
| <b>Total revenues, expenses and valuation<br/>adjustments attributable to members of<br/>Adelaide Bank Limited and recognised<br/>directly in equity</b>       | <b>(3,967)</b>                  | <b>-</b>   | <b>(3,967)</b>                  |
| <b>Total changes in equity other than those<br/>resulting from transactions with owners as<br/>owners attributable to members of<br/>Adelaide Bank Limited</b> | <b>77,278</b>                   | <b>2,040</b>   | <b>79,318</b>                   |

**Adelaide Bank Limited and Controlled Entities**  
**Notes to the Financial Statements for the Half-Year ended 31 December 2005**

**NOTE 11 IMPACT OF ADOPTION OF AIFRS (continued)**

|     | <i>Balance Sheet Line Item</i>              | <i>Description</i>  | <i>1 Jul 2005<br/>\$000's</i> | <i>30 Jun 2005<br/>\$000's</i> | <i>31 Dec 2004<br/>\$000's</i> | <i>1 Jul 2004<br/>\$000's</i> |
|-----|---|---|-------------------------------|--------------------------------|--------------------------------|-------------------------------|
| (a) | Money at Call                               | <i>AASB 139 Financial Instruments: Recognition and Measurement</i> , details the de-recognition requirements of financial assets under AIFRS, including those transferred to special purpose vehicles for securitisation. SPV's relating to the securitisation of certain Bank assets and other securitisation vehicles have been consolidated under AIFRS, including cash accounts held in securitised vehicles.   |                               | 231,466                        | 73,904                         | 107,004                       |
| (b) | Held for trading financial assets           | <i>Under AASB 139 Financial Instruments: Recognition and Measurement</i> , the Bank has reclassified Held for trading financial assets that were previously classified under Investment securities and other investments, under AGAAP.  | 1,215,302                     |                                |                                |                               |
| (c) | Held to maturity investments                | <i>Under AASB 139 Financial Instruments: Recognition and Measurement</i> , the Bank has reclassified Held to maturity investments that were previously classified under Investment securities and other investments, under AGAAP.   | 30,065                        |                                |                                |                               |
| (d) | Investment securities and other investments | <i>Under AASB 139 Financial Instruments: Recognition and Measurement</i> , the Bank has reclassified Held to maturity investments and Held for trading financial assets that were previously classified under Investment securities and other investments, under AGAAP.   | (1,245,367)                   |                                |                                |                               |
| (e) | Investment securities and other investments | <i>AASB 139 Financial Instruments: Recognition and Measurement and UIG 112 Consolidation - Special Purpose Entities</i> , details the de-recognition requirements of financial assets under AIFRS, including those transferred to special purpose vehicles for securitisation. SPV's relating to the securitisation of certain Bank assets and other securitisation vehicles have been consolidated under AIFRS, including Investment securities and other investments.   |                               | 230                            | 186,905                        | 241,963                       |
| (f) | Net loans and advances                      | <i>AASB 139 Financial Instruments: Recognition and Measurement and UIG 112 Consolidation - Special Purpose Entities</i> , details the de-recognition requirements of financial assets under AIFRS, including those transferred to special purpose vehicles for securitisation. SPV's relating to the securitisation of certain Bank assets and other securitisation vehicles have been consolidated under AIFRS. Securitised Net loans and advances have been consolidated within the Bank's Balance Sheet.   |                               | 7,898,741                      | 5,680,378                      | 5,206,261                     |
| (g) | Net loans and advances                      | <i>Under AASB 139 Financial Instruments: Recognition and Measurement</i> , provisions are raised for losses that have already been incurred for loans that are not yet known to be impaired. Estimated losses on these impaired loans are to be discounted to their present value. Loans that are not impaired are grouped together according to their risk characteristics and are then assessed for impairment. Based on the historical loss data and current available information for assets with similar risk characteristics, the appropriate provision is raised. As a result of this change, the General Provision of \$39.039 million as at 1 July 2005 maintained by the Bank under AGAAP has been transferred to Retained Earnings, net of Deferred tax asset adjustment, and a Collective allowance has been recorded of \$14.458 million. (Net effect of \$24.581 million). Note that the opening Collective allowance of \$17.420 million at 1 Jul 2005 includes \$2.962 million of Personal and Visa provisions that were previously recognised as Specific provisions, and have been reclassified as Collective allowances under AIFRS. | 24,581                        |                                |                                |                               |

**Adelaide Bank Limited and Controlled Entities**  
**Notes to the Financial Statements for the Half-Year ended 31 December 2005**

**NOTE 11 IMPACT OF ADOPTION OF AIFRS (continued)**

|     | <i>Balance Sheet Line Item</i> | <i>Description</i>   | <i>1 Jul 2005<br/>\$000's</i> | <i>30 Jun 2005<br/>\$000's</i> | <i>31 Dec 2004<br/>\$000's</i> | <i>1 Jul 2004<br/>\$000's</i> |
|-----|--------------------------------|--|-------------------------------|--------------------------------|--------------------------------|-------------------------------|
| (h) | Net loans and advances         | Under AASB 139 <i>Financial Instruments: Recognition and Measurement</i> fair value and cash flow hedge accounting can only be used where effectiveness tests have been satisfied. Adelaide Bank has established that hedge accounting criteria will be met, and uses both fair value and cash flow hedging. The Bank predominantly uses cash flow hedging in respect of its interest rate risk. The \$0.301 million increase to Net loans and advances represents the application of fair value hedging and the recognition of the adjustment to the fair value of the underlying instrument.   | 301                           |                                |                                |                               |
| (i) | Net loans and advances         | Under AASB 139 <i>Financial Instruments: Recognition and Measurement</i> , Deferred expenditure (upfront fees to intermediaries of \$68.248 million, securitisation costs of \$11.630 million and other deferred expenditure of \$10.030 million) has been reclassified from Other Assets to Net Loans and Advances and is amortised over the expected life of the loan. The Banks Loan Portfolio Premium related to the discounted future value of net income arising from the loan portfolio has been reclassified from Other assets to Net loans and advances and is being amortised on an effective yield basis to the Income Statement. The balance as at 1 Jul 2005 was \$56.457 million.  | 146,365                       |                                |                                |                               |
| (j) | Intangibles                    | Under AASB 138 <i>Intangible Assets</i> , software that is not an integral part of the associated hardware is treated as an intangible asset. This has resulted in a reclassification of Software Capitalised from Other Assets to Intangibles.  |                               | 1,732                          | 2,261                          | 1,045                         |
| (k) | Intangibles                    | Under AASB 3 <i>Business Combinations</i> goodwill is longer amortised but instead is subject to impairment testing at least annually. This has resulted in a change in the group's previous accounting policy, which amortised goodwill over its useful life, but not exceeding 20 years. Under the new policy, amortisation is no longer charged to the Income Statement, thereby reducing operating expenses in the Income Statement. Goodwill will be written down to the extent it is impaired. No impairment adjustment to opening Retained Earnings has arisen as at 1 July 2004 in respect of this issue. During the AIFRS comparative financial year ended 30 June 2005, goodwill amortisation of \$1.319 million was recognised under AGAAP. This amount has been reversed in the AIFRS comparative Income Statement, thereby increasing the Goodwill balance by \$1.319 million. (\$0.630 million for the 31 Dec 2004 half-year). |                               | 1,319                          | 630                            |                               |
| (l) | Deferred tax assets            | Adjustment to Deferred tax asset as a result of reversal of the \$39.039 million (tax effect of \$11.711 million) General Provision and the take up of the \$14.458 million (Tax effect of \$4.337 million) Collective allowance, detailed in note (g) above.  | (7,374)                       |                                |                                |                               |
| (m) | Other assets                   | Under AASB 119 <i>Employee Benefits</i> , employer sponsors are required to recognise the net surplus or deficit in their employer sponsored defined benefit funds as an asset or liability, respectively. This has resulted in a change in the group's AGAAP accounting policy, which did not previously recognise the net assets/liabilities of the defined benefit fund. Under the AIFRS policy, Adelaide Bank Limited will recognise an asset of the defined benefit fund for the net surplus based on an actuarial calculation of the position of the fund.   |                               | 4,020                          | 3,615                          | 2,486                         |

**Adelaide Bank Limited and Controlled Entities**  
**Notes to the Financial Statements for the Half-Year ended 31 December 2005**

**NOTE 11 IMPACT OF ADOPTION OF AIFRS (continued)**

|   | Balance Sheet Line Item | Description   | 1 Jul 2005<br>\$000's | 30 Jun 2005<br>\$000's | 31 Dec 2004<br>\$000's | 1 Jul 2004<br>\$000's |
|---|-------------------------|---|-----------------------|------------------------|------------------------|-----------------------|
| (n)   | Other assets            | <p><i>AASB 2 Share Based Payments</i> applies to all share based payments issued after 7 November 2002 which have not vested as at 1 January 2005. As at 1 July 2004, an initial reclassification of Treasury Shares for Share Based Payments of \$5.233 million has been transferred to Treasury Shares as Equity and an initial recognition of \$2.778 million as Employee Benefits Reserve for amortisation relating to Treasury Shares has been reclassified as Equity in the Balance Sheet (Net effect of \$2.455 million). At Dec 2004 \$1.131 million was reclassified to Treasury shares relating to short term incentives. At June 2005 a net movement in Treasury Shares of \$0.375 million was recognised and \$0.867 million in Employee Benefits Reserve (Net effect of \$1.242 million).</p> <p><i>Long Term Incentive Plan</i> - The Bank's current practice involves purchasing the shares on market at the commencement of the three year period to which the bonus relates. If the set performance hurdles are met, the shares vest in September following the end of the 3 year plan. The shares purchased will be disclosed as Treasury Shares within the Equity section of the Balance Sheet and an expense will be posted to the Income Statement over the vesting period (3 years) with a corresponding entry to an Employee Benefits Reserve (Equity). The current accounting treatment of expensing the cost over the vesting period is consistent with AIFRS, and as such an adjustment to Retained Earnings is not required.</p> <p><i>Short Term Incentive Plan</i> - The Bank's current practice involves purchasing the shares on market at the commencement of the one year period to which the bonus relates. If the set performance hurdles are met, the shares vest in the following September after the financial year to which the plan relates. Under AIFRS, the cost of the shares will be recorded as Treasury Shares within the Equity section of the Balance Sheet. An expense will be recorded in the Income Statement over the vesting period (1 year) with a corresponding entry to Employee Benefits Reserve (Equity). Current accounting practice expenses the shares at vesting date, being the September following the end of the financial year to which the bonuses relate. As such, the Dec 2004 (and June 2005) comparative financial years will require an adjustment to Retained Earnings of \$1.197 million (\$0.838 million after tax).</p> <p><i>Allocation Scheme</i> - The Bank's current practice involves purchasing the shares on market. The cost of these shares will be recognised as Treasury Shares within the Equity section of the Balance Sheet. An expense will be recorded in the Income Statement with a corresponding entry to Employee Benefits Reserve (Equity). Shares are issued to staff annually in December, at the discretion of the Board. The shares are not related to individual staff performance and are expensed in the year purchased. The current accounting treatment of expensing the shares in the year purchased is consistent with AIFRS, and as such an adjustment to Retained Earnings is not required.</p> |                       | (82)                   | (1,324)                | (2,455)               |
| (o)   | Other assets            | Under <i>AASB 139 Financial Instruments: Recognition and Measurement</i> , Deferred expenditure (upfront fees to intermediaries, securitisation costs and other deferred expenditure) and the Banks Loan Portfolio Premium has been reclassified to Net loans and advances as detailed in note (i).   | (146,365)             |                        |                        |                       |
| (p)   | Other assets            | Under <i>AASB 138 Intangible Assets</i> , software that is not an integral part of the associated hardware is treated as an intangible asset. This has resulted in a reclassification of Software Capitalised from Other Assets to Intangibles.   |                       | (1,732)                | (2,261)                | (1,045)               |
| (q)   | Other assets            | Under <i>AASB 139 Financial Instruments: Recognition and Measurement</i> fair value and cash flow hedge accounting can only be used where effectiveness tests have been satisfied. Adelaide Bank has established that hedge accounting criteria will be met, and uses both fair value and cash flow hedging. The Bank predominantly uses cash flow hedging in respect of its interest rate risk. The adjustment of \$1.700 million in Other assets represents the application of fair value hedge accounting, being the adjustment to the fair value of the underlying instrument and cashflow hedge accounting being the recognition of the gain or loss on the hedging instrument that is determined to be effective.   | (1,700)               |                        |                        |                       |
| (r)   | Other assets            | <i>AASB 139 Financial Instruments: Recognition and Measurement</i> and <i>UIG 112 Consolidation - Special Purpose Entities</i> , details the de-recognition requirements of financial assets under AIFRS, including those transferred to special purpose vehicles for securitisation. SPV's relating to the securitisation of certain Bank assets and other securitisation vehicles have been consolidated under AIFRS. Securitised trust receivables have been consolidated within the Bank's Balance Sheet.   |                       | (2,688)                | 11,634                 | 9,437                 |
| <b>Total Adjustments for "Total Assets"</b> |                         |   | <b>15,808</b>         | <b>8,131,809</b>       | <b>5,954,545</b>       | <b>5,564,696</b>      |

**Adelaide Bank Limited and Controlled Entities**  
**Notes to the Financial Statements for the Half-Year ended 31 December 2005**

**NOTE 11 IMPACT OF ADOPTION OF AIFRS (continued)**

|  | <i>Balance Sheet Line Item</i> | <i>Description</i>   | <i>1 Jul 2005<br/>\$000's</i> | <i>30 Jun 2005<br/>\$000's</i> | <i>31 Dec 2004<br/>\$000's</i> | <i>1 Jul 2004<br/>\$000's</i> |
|--|--------------------------------|--|-------------------------------|--------------------------------|--------------------------------|-------------------------------|
| (s)  | Deposits                       | Under AASB 139 <i>Financial Instruments: Recognition and Measurement</i> fair value and cash flow hedge accounting can only be used where effectiveness tests have been satisfied. Adelaide Bank has established that hedge accounting criteria will be met, and uses both fair value and cash flow hedging. The Bank predominantly uses cash flow hedging in respect of its interest rate risk. The adjustment of \$1.242 million in Deposits represents the application of fair value hedge accounting, being the adjustment to the fair value of the underlying instrument.   | (1,242)                       |                                |                                |                               |
| (t)  | Notes payable                  | AASB 139 <i>Financial Instruments: Recognition and Measurement</i> and UIG 112 <i>Consolidation - Special Purpose Entities</i> details the de-recognition requirements of financial assets under AIFRS, including those transferred to special purpose vehicles for securitisation. SPV's relating to the securitisation of certain Bank assets and other securitisation vehicles have been consolidated under AIFRS, including Notes payable relating to securitised vehicles.  |                               | 8,059,756                      | 5,930,493                      | 5,531,904                     |
| (u)  | Current tax liabilities        | Tax effect of transfer from Treasury Shares to Retained Earnings relating to the Short term incentive plan, as detailed in note (n)  |                               | (359)                          | (359)                          | (340)                         |
| (v)  | Deferred Tax Liabilities       | Deferred tax liability arising from Superannuation Defined Benefits surplus detailed in note (m).  |                               | 1,207                          | 1,085                          | 746                           |
| (w)  | Other liabilities              | AASB 139 <i>Financial Instruments: Recognition and Measurement</i> and UIG 112 <i>Consolidation - Special Purpose Entities</i> details the de-recognition requirements of financial assets under AIFRS, including those transferred to special purpose vehicles for securitisation. SPV's relating to the securitisation of certain Bank assets and other securitisation vehicles have been consolidated under AIFRS, including Other liabilities relating to securitised vehicles.  |                               | 67,993                         | 22,328                         | 32,761                        |
| (x)  | Other liabilities              | Under AASB 139 <i>Financial Instruments: Recognition and Measurement</i> fair value and cash flow hedge accounting can only be used where effectiveness tests have been satisfied. Adelaide Bank has established that hedge accounting criteria will be met, and uses both fair value and cash flow hedging. The Bank predominantly uses cash flow hedging in respect of its interest rate risk. The adjustment of \$1.964 million in Other liabilities represents the application of fair value hedge accounting, being the adjustment to the fair value of the underlying instrument and cashflow hedge accounting being the recognition of the gain or loss on the hedging instrument that is determined to be effective. | 1,964                         |                                |                                |                               |
| (y)  | Reset preference shares        | Under AASB 132 <i>Financial Instruments: Disclosure and Presentation</i> , substance over the legal form governs the classification by the issuer of a financial instrument. An instrument will be classified as a liability when the issuer is or can be required to deliver either cash or another financial asset to the holder. This critical feature distinguishes a liability from equity. An instrument is classified as equity when it represents a residual interest in the net assets of the issuer. The Banks Reset Preference Shares (RPS) have been reclassified as debt within the Balance Sheet on 1 July 2005. Distributions to the holders are treated as interest expense in the Income Statement.         | 98,917                        |                                |                                |                               |
| <b>Total Adjustments for "Total Liabilities"</b> |                                |  | <b>99,639</b>                 | <b>8,128,597</b>               | <b>5,953,547</b>               | <b>5,565,071</b>              |
| <b>Total Adjustments for "Net Assets"</b>        |                                |  | <b>(83,831)</b>               | <b>3,212</b>                   | <b>998</b>                     | <b>(375)</b>                  |

**NOTE 11 IMPACT OF ADOPTION OF AIFRS (continued)**

|      | <i>Balance Sheet Line Item</i>              | <i>Description</i>  | <i>1 Jul 2005<br/>\$000's</i> | <i>30 Jun 2005<br/>\$000's</i> | <i>31 Dec 2004<br/>\$000's</i> | <i>1 Jul 2004<br/>\$000's</i> |
|------|---|---|-------------------------------|--------------------------------|--------------------------------|-------------------------------|
| (z)  | Reset preference shares                     | Under AASB 132 <i>Financial Instruments: Disclosure and Presentation</i> , substance over the legal form governs the classification by the issuer of a financial instrument. An instrument will be classified as a liability when the issuer is or can be required to deliver either cash or another financial asset to the holder. This critical feature distinguishes a liability from equity. An instrument is classified as equity when it represents a residual interest in the net assets of the issuer. The Banks Reset Preference Shares (RPS) have been reclassified as debt within the Balance Sheet on 1 July 2005. Distributions to the holders are treated as interest expense in the Income Statement. The costs associated with the issue of the RPS were initially applied against the \$100 million issued. Under AIFRS, an amount of \$1.239 million has been transferred to Retained Earnings, with the remaining \$1.083 to be charged to the Income Statement on an effective yield basis. | (97,678)                      |                                |                                |                               |
| (aa) | Treasury shares / Employee benefits reserve | Recognition of Treasury shares in Equity section of Balance Sheet, as detailed in note (n).   |                               | (82)                           | (1,324)                        | (1,324)                       |
| (ab) | Reserves                                    | Under AASB 139 <i>Financial Instruments: Recognition and Measurement</i> fair value and cash flow hedge accounting can only be used where effectiveness tests have been satisfied. Adelaide Bank has established that hedge accounting criteria will be met, and uses both fair value and cash flow hedging. The Bank predominantly uses cash flow hedging in respect of its interest rate risk. The adjustment of \$2.121 million in Reserves represents the application of fair value hedge accounting, being the adjustment to the fair value of the underlying instrument and cashflow hedge accounting being the recognition of the gain or loss on the hedging instrument that is determined to be effective.   | (2,121)                       |                                |                                |                               |
| (ac) | Reserves                                    | Transfer of Reserves to Retained Earnings relating to historical General Reserve and Asset Realisation Reserve.   |                               | (27,889)                       | (27,889)                       | (27,889)                      |

**Adelaide Bank Limited and Controlled Entities**  
**Notes to the Financial Statements for the Half-Year ended 31 December 2005**

**NOTE 11 IMPACT OF ADOPTION OF AIFRS (continued)**

|   | <i>Balance Sheet Line Item</i> | <i>Description</i>  | <i>1 Jul 2005<br/>\$000's</i> | <i>30 Jun 2005<br/>\$000's</i> | <i>31 Dec 2004<br/>\$000's</i> | <i>1 Jul 2004<br/>\$000's</i> |
|---|--------------------------------|---|-------------------------------|--------------------------------|--------------------------------|-------------------------------|
| (ad)  | Retained earnings              | Retained earnings adjustment arising from Superannuation Defined Benefits surplus recognition, as detailed in note (m).   |                               | 306                            | 410                            |                               |
| (ae)  | Retained earnings              | Transfer of Reserves to Retained Earnings relating to historical General Reserve and Asset Realisation Reserve.   |                               | 27,889                         | 27,889                         | 27,889                        |
| (af)  | Retained earnings              | Under AASB 119 <i>Employee Benefits</i> , employer sponsors are required to recognise the net surplus or deficit in their employer sponsored defined benefit funds as an asset or liability, respectively. This has resulted in a change in the group's AGAAP accounting policy, which does not currently recognise the net assets/liabilities of the defined benefit fund. Under the AIFRS policy, Adelaide Bank Limited will recognise an asset of the defined benefit fund for the net surplus based on an actuarial calculation of the position of the fund.  |                               | 2,507                          | 2,120                          | 1,740                         |
| (ag)  | Retained earnings              | Under AASB 3 <i>Business Combinations</i> goodwill is no longer amortised but instead is subject to impairment testing at least annually. This has resulted in a change in the group's previous accounting policy, which amortises goodwill over its useful life, but not exceeding 20 years. Under the new policy, amortisation is no longer charged, thereby reducing operating expenses in the Income Statement. Goodwill will be written down to the extent it is impaired. No impairment adjustment to opening Retained Earnings has arisen as at 1 July 2004 in respect of this issue. During the AIFRS comparative financial year ended 30 June 2005, goodwill amortisation of \$1.319 million was recognised under AGAAP (\$0.630 million for the half year ended 31 December 2004). These amounts have been reversed in the AIFRS comparative Income Statement, thereby increasing the Goodwill balance by \$1.319 million and \$0.630 million respectively. |                               | 1,319                          | 630                            |                               |
| (ah)  | Retained earnings              | Under AASB 132 <i>Financial Instruments: Disclosure and Presentation</i> , the Banks Reset Preference Shares (RPS) have been reclassified as debt within the Balance Sheet on 1 July 2005. The costs associated with the issue of the RPS were previously applied against the \$100 million issued. Under AIFRS, an amount of \$1.239 million has been transferred to Retained Earnings, with the remaining \$1.083 million to be charged to the Income Statement on an effective yield basis.  | (1,239)                       |                                |                                |                               |
| (ai)  | Retained earnings              | Under AASB 139 <i>Financial Instruments: Recognition and Measurement</i> , provisions are raised for losses that have already been incurred for loans that are known to be impaired. Estimated losses on these impaired loans are to be discounted to their present value. Loans that are not impaired are grouped together according to their risk characteristics and are then assessed for impairment. Based on the historical loss data and current available information for assets with similar risk characteristics, the appropriate provision is raised. As a result of this change, the General Provision of \$39.039 million as at 1 July 2005 maintained by the Bank under AGAAP has been transferred to Retained Earnings, net of Deferred tax asset adjustment, and a Collective allowance has been recorded of \$14.458 million.  | 17,207                        |                                |                                |                               |
| (aj)  | Retained earnings              | Transfer from Treasury Shares to Retained Earnings as detailed in note (n).   |                               | (838)                          | (838)                          | (791)                         |
| <b>Total Adjustments for "Total Equity"</b> |                                |   | <b>(83,831)</b>               | <b>3,212</b>                   | <b>998</b>                     | <b>(375)</b>                  |

**Adelaide Bank Limited and Controlled Entities**  
**Notes to the Financial Statements for the Half-Year ended 31 December 2005**

**NOTE 11 IMPACT OF ADOPTION OF AIFRS (continued)**

|      | <i>Income Statement line item</i> | <i>Description</i>  | <i>30 Jun 2005 \$000's</i> | <i>31 Dec 2004 \$000's</i> |
|------|-----------------------------------|---|----------------------------|----------------------------|
| (ak) | Interest income                   | <i>AASB 139 Financial Instruments: Recognition and Measurement and UIG 112 Consolidation - Special Purpose Entities</i> details the de-recognition requirements of financial assets under AIFRS, including those transferred to special purpose vehicles for securitisation. SPV's relating to the securitisation of certain Bank assets and other securitisation vehicles have been consolidated under AIFRS, including Interest income.   | 429,820                    | 196,304                    |
| (al) | Interest expense                  | <i>AASB 139 Financial Instruments: Recognition and Measurement, and UIG 112 Consolidation - Special Purpose Entities</i> details the de-recognition requirements of financial assets under AIFRS, including those transferred to special purpose vehicles for securitisation. SPV's relating to the securitisation of certain Bank assets and other securitisation vehicles have been consolidated under AIFRS, including Interest expense.   | 353,754                    | 161,271                    |
| (am) | Interest expense                  | <i>AASB 119 Employee Benefits</i> , interest expense relating to the defined benefit superannuation fund.   | 689                        | 345                        |
| (an) | Securitisation income             | <i>AASB 139 Financial Instruments: Recognition and Measurement and UIG 112 Consolidation - Special Purpose Entities</i> details the de-recognition requirements of financial assets under AIFRS, including those transferred to special purpose vehicles for securitisation. SPV's relating to the securitisation of certain Bank assets and other securitisation vehicles have been consolidated under AIFRS to Interest income, Interest expense and Other revenue.                               | (83,072)                   | (38,225)                   |
| (ao) | Other revenue                     | <i>AASB 139 Financial Instruments: Recognition and Measurement, and UIG 112 Consolidation - Special Purpose Entities</i> details the de-recognition requirements of financial assets under AIFRS, including those transferred to special purpose vehicles for securitisation. SPV's relating to the securitisation of certain Bank assets and other securitisation vehicles have been consolidated under AIFRS, including Other revenue. These amounts relate to fee income from securitised loans. | 7,006                      | 3,192                      |
| (ap) | Other expenses                    | <i>AASB 3 Business Combinations</i> : Reversal of Goodwill charged to Income Statement as detailed in note (k).   | (1,319)                    | (630)                      |
| (aq) | Other expenses                    | <i>AASB 119 Employee Benefits</i> , Operating expense relating to the defined benefit superannuation fund.  | (1,786)                    | (889)                      |
| (ar) | Other expenses                    | <i>AASB 2 Share Based Payments</i> : Share Based Payments relating to Short Term Incentives as detailed in note (n).  | 1,197                      | 1,197                      |
| (as) | Other expenses                    | <i>AASB 2 Share Based Payments</i> : Share Based Payments relating to Short Term Incentives as detailed in note (n).  | (1,130)                    | (1,130)                    |
| (at) | Income tax expense                | <i>AASB 119 Employee Benefits</i> , tax expense relating to the defined benefit superannuation fund.  | 329                        | 163                        |
| (au) | Income tax expense                | <i>AASB 2 Share Based Payments</i> : Share Based Payments relating to Short Term Incentives as detailed in note (n).  | (359)                      | (359)                      |
| (av) | Income tax expense                | <i>AASB 2 Share Based Payments</i> : Share Based Payments relating to Short Term Incentives as detailed in note (n).  | 339                        | 339                        |
|      | <b>Profit after tax impact</b>    |   | <b>2,040</b>               | <b>964</b>                 |

*Adelaide Bank Limited and Controlled Entities*

*Supplementary Financial Information*

*The following supplementary information has not been subject to review by the Bank's auditors - Ernst & Young.*

### **Average Balance Sheet and Interest Rates**

The following sets out the major categories of interest earning assets and interest bearing liabilities of the economic entity. Averages used are predominantly daily averages. Non-accrual loans are included under the interest earning asset category 'loan advances'.

|  | <i>Half-year to 31 Dec 2005</i> |                 |                         | <i>Half-year to 30 Jun 2005</i> |                 |                         | <i>Half-year to 31 Dec 2004</i> |                 |                         |
|--|---------------------------------|-----------------|-------------------------|---------------------------------|-----------------|-------------------------|---------------------------------|-----------------|-------------------------|
|  | <i>Average<br/>Balance</i>      | <i>Interest</i> | <i>Average<br/>Rate</i> | <i>Average<br/>Balance</i>      | <i>Interest</i> | <i>Average<br/>Rate</i> | <i>Average<br/>Balance</i>      | <i>Interest</i> | <i>Average<br/>Rate</i> |
|  | <i>\$000's</i>                  | <i>\$000's</i>  | <i>%</i>                | <i>\$000's</i>                  | <i>\$000's</i>  | <i>%</i>                | <i>\$000's</i>                  | <i>\$000's</i>  | <i>%</i>                |
| <b>INTEREST EARNING ASSETS</b>                 |                                 |                 |                         |                                 |                 |                         |                                 |                 |                         |
| Investments - Securitised                      | 132,340                         | 3,394           | 5.09%                   | 137,340                         | 4,316           | 6.34%                   | 310,552                         | 7,993           | 5.11%                   |
| Investments - Non Securitised                  | 1,276,619                       | 38,132          | 5.93%                   | 1,240,475                       | 36,636          | 5.96%                   | 1,140,551                       | 33,003          | 5.74%                   |
| Loan Advances - Securitised                    | 8,663,634                       | 316,234         | 7.24%                   | 6,319,566                       | 229,200         | 7.31%                   | 5,139,291                       | 188,311         | 7.27%                   |
| Loan Advances - Non Securitised                | 11,270,808                      | 360,073         | 6.34%                   | 10,848,873                      | 341,558         | 6.38%                   | 9,935,230                       | 312,109         | 6.23%                   |
| <b>TOTAL INTEREST EARNING ASSETS</b>           | <b>21,343,401</b>               | <b>717,833</b>  | <b>6.67%</b>            | <b>18,546,254</b>               | <b>611,710</b>  | <b>6.65%</b>            | <b>16,525,624</b>               | <b>541,416</b>  | <b>6.50%</b>            |
| Provision for doubtful debts                   | (19,272)                        |                 |                         | (43,181)                        |                 |                         | (38,524)                        |                 |                         |
| Other assets                                   | 416,628                         |                 |                         | 446,499                         |                 |                         | 338,007                         |                 |                         |
| <b>TOTAL ASSETS</b>                            | <b>21,740,757</b>               | <b>717,833</b>  | <b>6.55%</b>            | <b>18,949,572</b>               | <b>611,710</b>  | <b>6.51%</b>            | <b>16,825,107</b>               | <b>541,416</b>  | <b>6.38%</b>            |
| <b>INTEREST BEARING LIABILITIES</b>            |                                 |                 |                         |                                 |                 |                         |                                 |                 |                         |
| Retail Deposits                                | 9,402,328                       | 251,964         | 5.32%                   | 8,796,958                       | 229,441         | 5.26%                   | 8,235,406                       | 210,707         | 5.08%                   |
| Wholesale Deposits / Other                     | 1,994,313                       | 58,077          | 5.78%                   | 2,256,157                       | 63,505          | 5.68%                   | 1,940,600                       | 54,407          | 5.56%                   |
| Notes Payable                                  | 8,899,553                       | 266,798         | 5.95%                   | 6,548,179                       | 192,483         | 5.93%                   | 5,465,569                       | 161,271         | 5.85%                   |
| Reset Preference Shares/ Issue Costs           | 99,033                          | 3,257           | 6.52%                   | 97,678                          | 2,975           | 6.14%                   | 97,678                          | 3,025           | 6.14%                   |
| Subordinated Debt                              | 312,000                         | 10,309          | 6.55%                   | 278,495                         | 9,094           | 6.58%                   | 256,774                         | 8,505           | 6.57%                   |
| <b>TOTAL INTEREST BEARING LIABILITIES</b>      | <b>20,707,227</b>               | <b>590,405</b>  | <b>5.66%</b>            | <b>17,977,467</b>               | <b>497,498</b>  | <b>5.58%</b>            | <b>15,996,027</b>               | <b>437,915</b>  | <b>5.43%</b>            |
| Other Liabilities                              | 408,884                         |                 |                         | 347,368                         |                 |                         | 291,234                         |                 |                         |
| <b>TOTAL LIABILITIES</b>                       | <b>21,116,111</b>               | <b>590,405</b>  | <b>5.55%</b>            | <b>18,324,835</b>               | <b>497,498</b>  | <b>5.47%</b>            | <b>16,287,261</b>               | <b>437,915</b>  | <b>5.33%</b>            |
| <b>EQUITY</b>                                  | <b>624,646</b>                  |                 |                         | <b>624,737</b>                  |                 |                         | <b>537,846</b>                  |                 |                         |
| <b>TOTAL LIABILITIES and EQUITY</b>            | <b>21,740,757</b>               | <b>590,405</b>  | <b>5.39%</b>            | <b>18,949,572</b>               | <b>497,498</b>  | <b>5.29%</b>            | <b>16,825,107</b>               | <b>437,915</b>  | <b>5.16%</b>            |
| <b>NET INTEREST MARGIN</b>                     |                                 | <b>127,427</b>  | <b>1.18%</b>            |                                 | <b>114,212</b>  | <b>1.24%</b>            |                                 | <b>103,501</b>  | <b>1.24%</b>            |
| <b>NET INTEREST MARGIN AND INTEREST SPREAD</b> |                                 |                 |                         |                                 |                 |                         |                                 |                 |                         |
| Interest earning assets                        | 21,343,401                      | 717,833         | 6.67%                   | 18,546,254                      | 611,710         | 6.65%                   | 16,525,624                      | 541,416         | 6.50%                   |
| Interest bearing liabilities                   | 20,707,227                      | 590,405         | 5.66%                   | 17,977,467                      | 497,498         | 5.58%                   | 15,996,027                      | 437,915         | 5.43%                   |
| <b>Net Interest spread</b>                     |                                 |                 | <b>1.01%</b>            |                                 |                 | <b>1.07%</b>            |                                 |                 | <b>1.07%</b>            |
| Net free liabilities and equity                | 636,174                         |                 | 0.17%                   | 568,787                         |                 | 0.17%                   | 529,597                         |                 | 0.17%                   |
| <b>NET INTEREST MARGIN</b>                     |                                 | <b>127,428</b>  | <b>1.18%</b>            |                                 | <b>114,212</b>  | <b>1.24%</b>            |                                 | <b>103,501</b>  | <b>1.24%</b>            |

*Note: The above Average Balance Sheets have all been restated under AIFRS for comparative purposes only, as certain standards are only effective from 1 July 2005.*

**Interest spread** is the difference between the average interest rate earned on interest earning assets and the average interest rate paid on interest bearing liabilities.

**Interest margin** is the net interest income as a percentage of average interest earning assets.

## **Capital Adequacy**

Under Australian Prudential Regulation Authority's (APRA) risk based framework, balance sheet assets and off-balance sheet exposures are weighted according to broad categories of relative risk, based largely on the return of the counterparty. There are four categories of risk weights (0%, 20%, 50%, 100%). APRA guidelines stipulate banks must maintain a ratio of qualifying capital to risk-weighted assets of at least 8% with Tier 1 capital not less than 4% and Tier 2 capital not exceeding Tier 1. The position with respect to these ratios as at 31 December 2005, 30 June 2005 and 31 December 2004 is summarised below:

|   | <i>Consolidated</i> |                  |                  |
|---|---------------------|------------------|------------------|
|   | <b>Dec 05</b>       | <b>Jun 05</b>    | <b>Dec 04</b>    |
|   | <b>\$000's</b>      | <b>\$000's</b>   | <b>\$000's</b>   |
| Qualifying Capital  |                     |                  |                  |
| <b>Tier 1</b>   |                     |                  |                  |
| Issued and Paid up Ordinary Capital                                   | 377,831             | 347,640          | 243,872          |
| Reserves  | 27,889              | 27,889           | 27,889           |
| Retained Profits  | 137,637             | 128,758          | 117,033          |
| Reset Preference Shares   | 97,678              | 97,678           | 97,198           |
| Step up Preference Shares   | 38,162              | 28,394           | -                |
| Less : Goodwill   | (32,561)            | (32,380)         | (18,830)         |
| Less : Future income tax benefit                                      | (17,456)            | (23,816)         | (14,334)         |
| Less : Investment in managed funds and<br>securitisation subsidiaries | (350)               | (350)            | (350)            |
| Less: Capitalised expenses  | (90,889)            | (48,452)         | (41,924)         |
| <b>TOTAL TIER 1 CAPITAL</b>   | <b>537,941</b>      | <b>525,361</b>   | <b>410,554</b>   |
| <b>Tier 2</b>   |                     |                  |                  |
| Reset Preference Shares   | -                   | -                | 480              |
| Step up Preference Shares   | 59,289              | 69,057           | 97,451           |
| Subordinated Debt   | 312,000             | 312,000          | 275,000          |
| General Provision for Doubtful Debts                                  | 28,890              | 27,327           | 25,339           |
| <b>TOTAL TIER 2 CAPITAL</b>   | <b>400,179</b>      | <b>408,384</b>   | <b>398,270</b>   |
| <b>TOTAL QUALIFYING CAPITAL</b>                                       | <b>938,120</b>      | <b>933,745</b>   | <b>808,824</b>   |
| Less deductions   | 28,838              | 13,147           | 12,258           |
| <b>TOTAL CAPITAL</b>  | <b>909,282</b>      | <b>920,598</b>   | <b>796,566</b>   |
| <b>TOTAL RISK WEIGHTED ASSETS</b>                                     | <b>8,058,965</b>    | <b>8,321,021</b> | <b>7,093,401</b> |
| <b>TIER 1 CAPITAL RATIO</b>   | <b>6.68%</b>        | <b>6.31%</b>     | <b>5.79%</b>     |
| <b>TOTAL CAPITAL ADEQUACY RATIO</b>                                   | <b>11.28%</b>       | <b>11.06%</b>    | <b>11.23%</b>    |

## **Earnings per Share**

The number of potential ordinary shares related to reset preference shares and step up preference shares are not considered dilutive.

|   | Dec 2005    | Dec 2004                          |                         |                                   |
|---|-------------|-----------------------------------|-------------------------|-----------------------------------|
|   |             | <i>Including Significant Item</i> | <i>Significant Item</i> | <i>Excluding Significant Item</i> |
| Earnings per Share - Fully Diluted (cents per share)  | 36.88       | 34.72                             | 34.23                   |                                   |
| Earnings per Share - Fully Diluted (cents per share) <i>Annualised</i>  | 73.15       | 68.88                             | 67.91                   |                                   |
| Earnings per Share - Fully Diluted (pre amortisation of acquisition costs) (cents per share)                              | 40.24       | 35.97                             | 35.48                   |                                   |
| Earnings per Share - Fully Diluted (pre amortisation of acquisition costs) (cents per share) <i>Annualised</i>            | 79.82       | 71.35                             | 70.38                   |                                   |
| <b>Earnings reconciliation:</b>   |             |                                   |                         |                                   |
| Net Profit after tax (\$000's)  | 41,389      | 36,931                            | 461                     | 36,470                            |
| <i>Less:</i> reset preference share dividend (\$000's)  | -           | 3,025                             | -                       | 3,025                             |
| <i>Less:</i> step up preference share dividend (\$000's) ( <i>accruals basis</i> )  | 2,600       | 1,295                             | -                       | 1,295                             |
| Earnings used in the calculation of EPS (\$000's)   | 38,789      | 32,611                            | 461                     | 32,150                            |
| Amortisation of acquisition costs (\$000's)   | 3,537       | 1,170                             | -                       | 1,170                             |
| Earnings used in the calculation of EPS (pre amortisation of acquisition costs) (\$000's)                                 | 42,326      | 33,781                            | 461                     | 33,320                            |
| <b>Weighted average number of ordinary shares used in the calculation of EPS:</b>   |             |                                   |                         |                                   |
| Number of ordinary shares on issue at beginning of year   | 104,202,414 | 93,914,350                        |                         | 93,914,350                        |
| Issue of 2,380,333 million ordinary shares from dividend reinvestment plan (Weighting based on issue date of 17 Oct 2005) | 983,181     | -                                 |                         | -                                 |
| Weighted average number of ordinary shares used in the calculation of EPS   | 105,185,595 | 93,914,350                        |                         | 93,914,350                        |

### ***Non-Securitised Loans Portfolio Analysis***

|                     | <b>Total Loans</b>          |     |                             |     | <b>Non-Accrual Loans</b>    |                             |
|---------------------|-----------------------------|-----|-----------------------------|-----|-----------------------------|-----------------------------|
|                     | <b>Dec 2005<br/>\$000's</b> |     | <b>Jun 2005<br/>\$000's</b> |     | <b>Dec 2005<br/>\$000's</b> | <b>Jun 2005<br/>\$000's</b> |
| Residential Lending | 7,968,009                   | 73% | 7,927,904                   | 72% | 4,547                       | 1,344                       |
| Consumer Lending    | 263,348                     | 2%  | 274,008                     | 2%  | 2,555                       | 2,962                       |
| Margin Lending      | 818,403                     | 7%  | 1,296,996                   | 12% | 105                         | 455                         |
| Portfolio Funding   | 627,373                     | 6%  | 307,422                     | 3%  | -                           | -                           |
| Business Lending    | 1,357,906                   | 12% | 1,258,895                   | 11% | 1,423                       | 1,518                       |
|                     | <u>11,035,039</u>           |     | <u>11,065,225</u>           |     | <u>8,630</u>                | <u>6,279</u>                |

#### **Provision for Doubtful Debts**

|                            | <b>Dec 2005<br/>\$000's</b> | <b>Jun 2005<br/>\$000's</b> |
|----------------------------|-----------------------------|-----------------------------|
| <b>Specific Provisions</b> |                             |                             |
| Residential Lending        | 2,093                       | 434                         |
| Consumer Lending           | -                           | 2,962                       |
| Margin Lending             | 105                         | 455                         |
| Business Lending           | 1,109                       | 859                         |
|                            | <u>3,307</u>                | <u>4,710</u>                |
| Collective Allowance       | 18,543                      | -                           |
| General Provision          | -                           | 39,039                      |
| <b>Total Provisions</b>    | <u>21,850</u>               | <u>43,749</u>               |

#### **Non-Accrual Loans**

|                                 | <b>Dec 2005<br/>\$000's</b> | <b>Jun 2005<br/>\$000's</b> |
|---------------------------------|-----------------------------|-----------------------------|
| Gross Non-Accrual Loans         | 8,630                       | 6,279                       |
| Specific Provisions             | 3,307                       | 4,710                       |
| Collective allowance - consumer | 2,555                       | -                           |
| Net Non-Accrual Loans           | <u>2,768</u>                | <u>1,569</u>                |

#### **Accruing Loans past due 90 days or more**

|                     | <b>Dec 2005<br/>\$000's</b> | <b>Jun 2005<br/>\$000's</b> |
|---------------------|-----------------------------|-----------------------------|
| Residential Lending | 62,478                      | 52,578                      |
| Business Lending    | 102                         | 636                         |
|                     | <u>62,580</u>               | <u>53,214</u>               |

|   |        |        |
|---|--------|--------|
| Specific Provisions as a % of Non-Accrual Loans (1)                       | 54.44% | 75.01% |
| General Reserve / Collective Provision as a % of Risk Weighted Assets (2) | 0.51%  | 0.51%  |
| Gross Non-Accruals as a % of Total Loans                                  | 0.08%  | 0.06%  |
| Net Non-Accruals as a % of Total Loans                                    | 0.03%  | 0.01%  |

(1) Consumer loan non-accruals have been excluded from Gross non-accrual loans for Dec 2005 for this calculation. These loans are provided for on a collective impairment basis and are included in the collective allowance.

(2) A General Reserve has been notionally allowed for in the calculation of the Bank's capital adequacy for regulatory purposes. The notional general reserve stands at \$22.7 million, and together with the amount from the collective allowance, gives a combined total of \$41.2 million. The June 2005 calculation was adjusted for the anticipated securitisation of the acquired margin lending portfolio, which was achieved by December 2005.

## ***Compliance Statement***

The consolidated financial report for the half-year ended 31 December 2005 has been prepared in accordance with Accounting Standards including *AASB 134 Interim Financial Reporting* and other mandatory professional reporting requirements or other standards acceptable to ASX.

The consolidated financial report uses the same accounting policies as disclosed in the most recent annual report, with the exception of the changes resulting from the adoption of AIFRS and disclosed in note 1.

This report gives a true and fair view of the matters disclosed.

The information contained in the consolidated financial report has been reviewed by the Group's auditors, Ernst & Young.

The entity has a formally constituted audit committee.

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**Barry F. Fitzpatrick**

***Group Managing Director and Chief Executive Officer***

***2 February 2006***