2007 Annual Report

Adelaide Bank

Corporate Directory

Registered Office

Adelaide Bank Limited
ABN 54 061 461 550

169 Pirie Street
Adelaide, SA 5000

Telephone: (08) 8300 6000
Facsimile: (08) 8300 6720
Ausdoc: DX 169 Adelaide
Internet: www.adelaidebank.com.au

Regional Offices

Queensland
Ground Floor
143 Coronation Drive,
Milton, Queensland 4064

New South Wales
Level 3, 24 York Street
Sydney, NSW 2000

Victoria
Level 33, 101 Collins Street
Melbourne, Victoria 3000

Western Australia
Level 34 Exchange Plaza
No 2 The Esplanade
Perth, WA 6000

Company Secretary

Andrew Kamm
Adelaide Bank Limited
169 Pirie Street
Adelaide, SA 5000

Auditors

Ernst & Young Chartered Accountants

91 King William Street
Adelaide, SA 5000

Registry

For Ordinary Shares, Floating Rate
Capital Notes, Reset and Step-Up
Preference Shares

Computershare Investor
Services Pty. Limited

Level 5, 115 Grenfell Street
Adelaide, SA 5000

Telephone: 1300 556 161

Facsimile: (08) 8236 2305

Email: www.computershare.com

Positive people plus
positive products and service
equals positive profit

2006 / 2007: making it all add up

Contents

Adelaide Bank has enjoyed a year of consolidation, growth and record profitability.

Profit
The Bank posted its seventh consecutive record profit of $104.3 million on a comparable cash basis ($101.0 million on a statutory basis).

Earnings per Share
Cash earnings per share were up 9.1% to 96.78 cents per share.

Dividends
The Bank declared total dividends of 65 cents per share fully franked.

New Organisational Design
The Bank announced a new organisational design in June 2007, which better aligns the business with its customers and partners, and provides for greater levels of management accountability and transparency. These business units are:

- Wholesale Mortgages
- Business Lending
- Retail Banking
- Wealth Management

Wholesale Mortgages
Profit before tax for the year was $37.6 million, representing 23% of Group profit.

Business Lending
Contribution to profit before tax increased by $12.7 million to $42.3 million, representing 26% of Group profit.

Retail Banking
Contribution to Group profit before tax was $40.4 million, up 31% on the previous period.

Wealth Management
Wealth Management, including the Bank's margin lending business, continued to grow strongly and contributed $41.7 million to profit before tax – or 26% of Group profit.

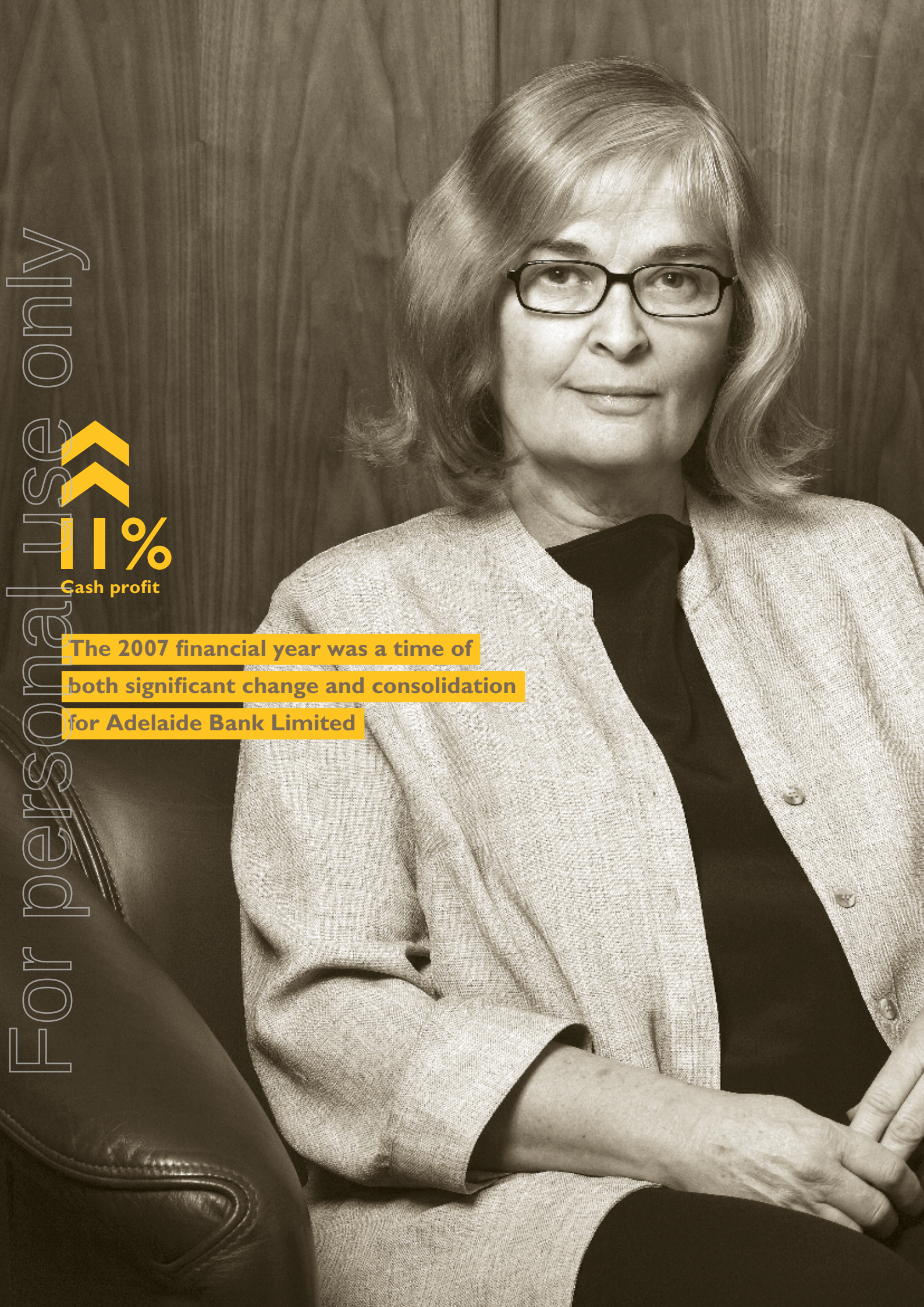
Innovation
During the year the *Smart*Suite product range was launched to deliver a competitive, simple and streamlined offering for national mortgage brokers distributing Adelaide Bank loans.

Leadership
Adelaide Bank became the first Australian bank to offer a shared equity home loan by launching the Equity Finance Mortgage in conjunction with funds manager Rismark International.

Recognition
Adelaide Bank's margin lending business, Leveraged Equities, gained a 5-star rating from independent agency Cannex – the highest rating possible.

Our innovative Equity Finance Mortgage, offered in conjunction with our business partner Rismark, was awarded "Best New Product" for 2007 by Your Mortgage magazine.

Credit Ratings
The Bank has solid independent ratings of A2/P1 from Moody's, and BBB+/A2 from Standard and Poor's.



11%

Cash profit

The 2007 financial year was a time of both significant change and consolidation for Adelaide Bank Limited

9.1%

Cash earnings per share

Overview

The 2007 financial year was a time of both significant change and consolidation for Adelaide Bank Limited. During the year the Bank welcomed a new Group Managing Director in Jamie McPhee, unveiled a new organisational design, and delivered its seventh consecutive record profit.

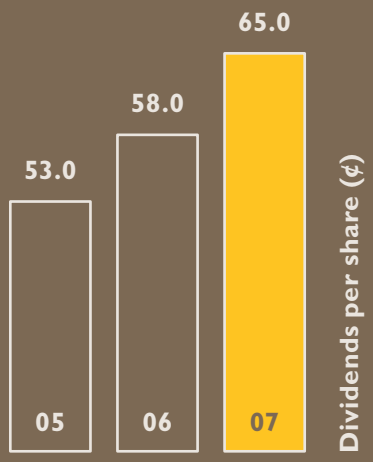
These achievements have occurred in a period of intense competition in the Australian financial services sector, and are reflective of the commitment and quality of all Adelaide Bank staff.

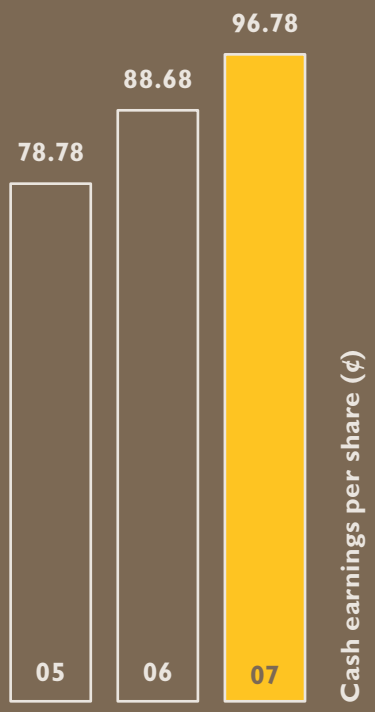
Profit on a comparable cash basis for the year was $104.3 million, an 11% increase on the previous record posted last year and a strong result for shareholders. This result reflects an increasingly diversified income stream, strong lending growth and sound loan quality across the Group's operations.

Fully diluted cash earnings per share (pre individually material item) increased by 9.1%, rising from 88.68 cents in 2006 to 96.78 cents in 2007.

9.1%

Cash earnings per share





Shareholder returns

As a result of the Bank's continued strong financial performance in 2007, the Adelaide Bank Board approved a four cent increase for the final dividend payment to shareholders of a fully franked 36 cents. This resulted in a full dividend for 2007 of 65 cents per share, compared with 58 cents for 2006, an increase of 12.1%.

The 36 cent final dividend will be paid on 15 October, 2007 and represents a pleasing return to shareholders, reinforcing the strong management and performance of the Bank over the past year. The total dividend represents a payout ratio for the year of 70%, which is in line with the Board's long-term dividend payout ratio objective.

12.1%

Total dividend

Our leadership

In December we welcomed Jamie McPhee to the role of Group Managing Director. Jamie has already enjoyed a long and successful career with Adelaide Bank, and the Board is confident he will provide strong leadership for the Bank and its shareholders.

Jamie's appointment was followed by the June announcement of a new organisational design which simplified and clarified the business structure of the Bank.

The new organisational design reflects the diversity of Adelaide Bank's business today and contains four main revenue generating business units – Retail Banking, Wholesale Mortgages, Business Lending, and Wealth Management.

This new structure promotes simplicity, efficiency and management accountability, while clearly aligning the operation of each business with the needs of its customers and partners.

Complementing this revised organisational design was the introduction of a new management structure and the appointment of a revised Executive team. This is already positioning the business to meet the significant opportunities and challenges that lie ahead.

Fundamental to this is the Board's desire to make people across the organisation accountable for their performance and reward them accordingly, which will be critical if the Bank is to continue to meet the needs and expectations of our shareholders, customers, partners and staff.

The Board has great confidence in this dynamic and energetic team, and its ability to continue to grow the business and drive shareholder returns for the future.

These achievements are reflective of the commitment and quality of Adelaide Bank staff members

Charitable Foundation

Adelaide Bank was a corporate philanthropy pioneer in Australia, being one of the first financial institutions nationally to establish a charitable fund. Adelaide Bank has a very long and proud history as a South Australian-based corporation and when the Adelaide Bank Charitable Foundation was established in 1981 by the Co-op Building Society, corporate social responsibility was virtually unheard of. Since that time the Foundation has assisted in excess of 370 worthy South Australian causes to the tune of more than $7 million.

The 2007 financial year was a benchmark period for the Charitable Foundation, with more than $1.3 million contributed to community projects and charities, including $700,000 for Adelaide Bank Court, which is currently being built in Logan Street in Adelaide. Adelaide Bank Court will provide local disabled and disadvantaged people with access to long-term accommodation in the form of 16 one and two-bedroom units. The development is the first joint venture of its kind between private enterprise and the South Australian Government and also includes the support of the Adelaide City Council and the Multi Agency Community Housing Association.

We take very seriously our role as a good corporate citizen and contributor to the South Australian community which also includes our sponsorship of the Adelaide Bank Festival of Arts and the Adelaide Bank State Rescue Helicopter Service. In line with this, considerable work was done during the year on the development of a more formal framework to manage Adelaide Bank's corporate social responsibility.

While the Bank has previously shown leadership in many areas – such as corporate governance and employee assistance – it has not done so formally under the banner of corporate social responsibility. We see this not as a short-term focus but a permanent commitment as Adelaide Bank looks to formally link the social and environmental activities it undertakes with the success of the business. This link is a source of opportunity and innovation.

In the coming year a Corporate Social Responsibility (CSR) Steering Committee will be established to understand the current footprint of the Bank and set the overall strategic direction and planning of the Bank's CSR program. From this, a CSR framework and policy will be developed and a working group formed with responsibility for implementation and championship of the program. The Charter of the Bank's Governance, Remuneration and Nomination Commitee has already been amended to include this commitment to CSR practices.

Merger proposal

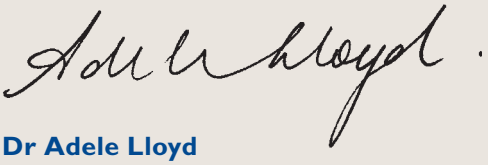
Notwithstanding the goals and aspirations for the Bank outlined previously, the coming year presents a unique opportunity for shareholders in the form of a proposed merger with Bendigo Bank.

The Board announced a proposed merger with Bendigo Bank in August 2007 and at the time of writing this report significant work was being undertaken to put this merger proposal to a vote of Adelaide Bank shareholders on 12 November 2007. This proposal provides the opportunity to create a substantial Australian bank with a market capitalisation of approximately $4 billion and more than 380 branches across Australia.

The merger proposal is explained to you in detail in a Scheme Book, delivered to every Adelaide Bank shareholder. On behalf of the Board we hope you read the contents of the Scheme Book and take the opportunity to vote in favour of this exciting merger proposal.

Looking forward

On behalf of the Board of Adelaide Bank I am proud to present this Annual Report, and look forward to the many challenges that lie ahead. We are entering into an exciting time and the Board and management of Adelaide Bank look forward to meeting these challenges and delivering value to our shareholders.



Dr Adele Lloyd
Chairman
Adelaide Bank Limited
27 September 2007

13%

Underlying earnings

The 2006-07 reporting period saw new levels of financial performance by the Bank and its business units

Overview

Adelaide Bank is committed to developing the frameworks that will deliver strong returns for shareholders, through growth and innovation, continuing to position us as a trusted and respected member of the Australian business community. This commitment will provide our shareholders with sustainable earnings, and an appropriate return on their investment.

Adelaide Bank is now of a sufficient size to be recognised as a significant business within the financial services industry while having the structure and capability that allows us to be flexible and quickly respond to changing market needs and desires.

We have a respected retail brand, which is complemented by a strong distribution network through our valued partners.

Our unique position in the Australian financial services sector is reflective of our history of innovation which was illustrated clearly this year by the successful launch of the Equity Finance Mortgage in conjunction with our business partner, Rismark International. This loan is the first of its type in Australia, and was awarded the prestigious "Best New Product" for 2007 by Your Mortgage magazine.

Integral to Adelaide Bank's business model is our new organisational design based on the four business units of Retail Banking, Wholesale Mortgages, Business Lending and Wealth Management. All four business units operate in growth market sectors with the potential for increased profitability. They have each contributed between 23% and 26% of pre-tax profit to the Group this year. This relative equality of profit contribution provides shareholders with diversity of income and greater protection from volatility of earnings.

In line with the revised organisational design, a new management structure was put in place and a new look Executive team formed, with the appointment of a Chief General Manager for each business unit – Stephen Small (Retail Banking), Tim Piper (Wholesale Mortgages), Philip Riquier (Business Lending) and Anthony Baum (Wealth Management).

An appropriate corporate governance framework was also established in the form of a Corporate Services division to ensure the business can succeed and to protect shareholder interests.

Overview

The Chief General Managers of each of the four corporate services units are also members of the Executive team:

- Finance and Information Services (David Hughes) which provides the finance, treasury, information services, and investor relations functions.
- Shared Services (Julian Carne) is responsible for the people and performance (human resources), marketing, product development, and strategic sourcing.
- Risk Management and Legal (Andrew Kamm) focuses on risk management, legal services, internal audit, secretarial and asset management.
- Group Strategy (Richard Fennell) provides the strategy framework, mergers and acquisitions, business transformation, and project management for the Bank.

The 2007 reporting period saw a record level of financial performance by the Bank and its business units. Underlying earnings lifted to $177.2 million for the full year, a 13% increase on the previous year's result. This was driven by strong portfolio growth and fee income, combined with disciplined cost management.

Net interest income increased despite margin contraction across the banking sector. This is indicative of asset growth across the business, and of the Bank's success at generating new business.

Adelaide Bank continues to provide a fee structure for our customers that is fair and reasonable. This has been reflected in an increase in other income of $8.8 million.

Operating expenditure continues to decrease as a percentage of operating income. This is a continuation of a long-term trend for the Bank. However, recent Bank initiatives and the introduction of lean manufacturing principles means management expects a further decrease in the cost to income ratio in the coming years.

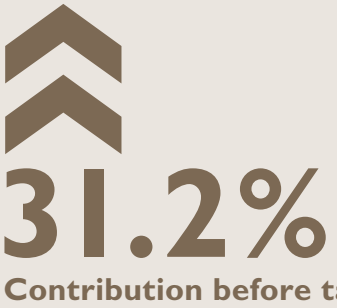
Maintaining credit quality was a priority during the year. While impaired loans increased by $7.4 million over the year to $31.0 million, gross impaired loans represented 0.22% of gross non-securitised loans. This figure is only slightly greater than the 0.20% level of June 2006.

Adelaide Bank is very much built on a wholesale banking model with a strong focus on our partners and customers and an emphasis on simplicity

8.8M

Other income

Retail Banking



Retail Banking comprises the branch network of Adelaide Bank, which is predominantly in metropolitan Adelaide, with one branch in regional Mt Gambier. It also includes Business Banking for South Australian customers and telephone and Internet banking.

Net interest income increased slightly to $65.8 million due to increased volumes in the residential lending portfolio, although this was partly offset by reduced margins. Improved margins in retail deposits also contributed to the increased income. Operating costs reduced by $5.3 million to $45.9 million due mainly to efficiencies realised in the business over the course of the year. Contribution before tax was $40.4 million, up 31.2% on the previous period.

The South Australian economy continues to perform strongly and this is providing solid trading conditions for the Retail Banking business. Macro-economic conditions are expected to remain buoyant and stable, providing a positive environment for 2007/08. In particular, the South Australian economy is experiencing the early stages of a resources and mining-led boom, providing excellent conditions for the Retail Banking division of Adelaide Bank.

Both staff and customer satisfaction levels are at industry leading levels, and this is providing strength to the quality of earnings. The division has more than 180,000 customers representing a solid 14% market share, with considerable potential for future growth.

Adelaide Bank had the highest customer satisfaction rating of all banks in South Australia, according to regular Roy Morgan surveys conducted throughout the financial year. The SA Customer Satisfaction Reports throughout the year showed that more than 84% of those surveyed were "very satisfied" or "fairly satisfied" with Adelaide Bank, testament to the Bank's focus on providing diverse banking products supported by outstanding customer service.

This loyal customer base provides considerable leveraging potential and an excellent opportunity to further deepen the relationships we form with our Retail Banking consumers. There is also a strong level of staff engagement, with an internal survey showing that 94% of staff would promote Adelaide Bank as a good place to work.

	June 07 $M	June 06 $M	Change $M	Change %
Net interest income	65.8	63.3	2.6	4.1
Other income	22.7	21.6	1.1	5.1
Operating costs	45.9	51.2	(5.3)	(10.3)
Underlying earnings	42.6	33.7	8.9	26.5
Contribution before tax	40.4	30.8	9.6	31.2

Operating costs

10.3%

Wholesale Mortgages

The Wholesale Mortgages business unit manufactures and processes residential home loans which are distributed through mortgage brokers and mortgage managers.

Net interest income for the year was $63.5 million, down 25% on the previous year's result of $84.6 million and reflecting intense market competition and margin pressure.

While interest margins are expected to continue to contract in the coming financial year, it is believed this will be at a slower, more manageable and predictable rate. Other income fell by $1.5 million to $29.7 million, a decrease of 4.7% and mainly due to reduced income from third party processing, which is no longer a key focus of the Bank's business. This change in focus also saw a $3.6 million reduction in operating costs to $46.2 million.

These challenges resulted in a reduction in the business unit's contribution before tax of 37.8% to $37.6 million. The business was the subject of a complete strategic review during the year, prompted by this decline in contribution to group profit.

Following the completion of the strategic review, management is now in the process of implementing the recommendations of that review – primarily in the areas of cost reduction and yield improvement. While these initiatives are in their infancy, initial efforts have been successful in reversing the downward profit trends of the business in the last half of the financial year.

During the year the *Smart*Suite product was launched to deliver a competitive, simple and streamlined offering for national mortgage brokers distributing Adelaide Bank loans. This has been well received by our partners and will be an excellent tool in the future to allow the Bank to provide exceptional service at reduced operational costs.

The Australian housing market continues to show great resilience to price increases and interest rate rises. Despite further predicted increases in interest rates, the Bank expects the growth in demand for mortgage products to continue.

	June 07 $M	June 06 $M	Change $M	Change %
Net interest income	63.5	84.6	(21.2)	(25.0)
Other income	29.7	31.1	(1.5)	(4.7)
Operating costs	46.2	49.9	(3.6)	(7.2)
Underlying earnings	46.9	65.9	(19.0)	(28.8)
Contribution before tax	37.6	60.5	(22.9)	(37.8)

The Australian housing market continues to show great resilience to price increases and interest rate rises

Business Lending

The Business Lending division comprises portfolio funding and specialised lending.

The business experienced strong year-on-year profit growth. This was reflected in increased revenue for the reporting period, up by more than 50% on the previous year to $55.1 million. The business' contribution to profit before tax increased by $12.7 million to $42.3 million.

The Bank expects the buoyant national and local economies and consistent consumer spending will provide strong and stable business conditions for the Business Lending division in the coming years.

In particular, the continued diversification and fragmentation of the retailing of financial services and products will provide new and unique opportunities for the business. Portfolio funding is a solution-based business and Adelaide Bank has a reputation for having the knowledge and skills to develop flexible solutions for its business customers, providing the ideal foundation for future growth.

42.8%

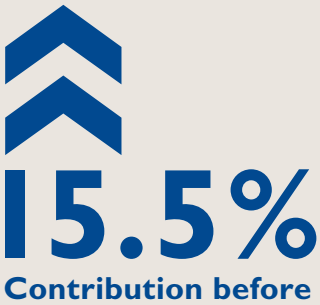
Contribution before tax

	June 07 $M	June 06 $M	Change $M	Change %
Net interest income	55.1	36.5	18.6	50.9
Other income	8.0	4.8	3.1	65.1
Operating costs	19.3	11.4	7.9	69.1
Underlying earnings	43.8	29.9	13.9	46.3
Contribution before tax	42.3	29.6	12.7	42.8

46.3%

Underlying earnings

Wealth Management



The Wealth Management business unit includes Adelaide Bank's margin lending businesses Leveraged Equities and Adelaide Equity Finance and our funds management arm, Adelaide Managed Funds.

Net interest income increased by $10.6 million during the 2006-07 financial year as a result of strong portfolio growth, although this was partially offset by a reduced interest margin. Other income increased by $3.8 million to $5.2 million, primarily due to increased fee income from the funds management activities of Adelaide Managed Funds.

Operating costs increased by $6.9 million to $33.1 million due mainly to growth in the margin lending business, particularly as a result of investment in process efficiencies and redesign. Conversely, the 2006-2007 cost increase is expected to produce efficiencies in the coming financial year. There was a solid increase in the contribution before tax of 15.5% to $41.7 million from last year's figure of $36.1 million.

Despite being a relatively new business, Adelaide Managed Funds has developed into a meaningful business for Adelaide Bank, with $3.2 billion in funds under management. Adelaide Managed Funds provides niche opportunities not normally available to retail investors, with an emphasis on yield rather than growth products in the form of cash and enhanced cash funds, listed funds and structured products. The outlook for Adelaide Managed Funds is viewed as being particularly strong, with significant growing interest in yield products as the baby boomers retire and seek fixed income producing investments.

Australia has the fourth largest funds management industry in the world, with more than $1.2 trillion under management and long-term historical growth of nearly 15% per annum. An ageing population, across-the-board increases in wages and a low unemployment rate will only provide further stimulus to the market and will underpin performance in the Wealth Management business as a whole.

Adelaide Bank's margin lending businesses currently enjoy strong market share. The Wealth Management businesses have developed strong relationships with stockbrokers, however there is considerable scope to increase exposure in the financial planning market. This represents an exciting opportunity.

During the year Leveraged Equities gained a 5-star rating from independent agency Cannex – the highest rating possible.

	June 07 $M	June 06 $M	Change $M	Change %
Net interest income	71.4	60.8	10.6	17.5
Other income	5.2	1.5	3.8	259.6
Operating costs	33.1	26.2	6.9	26.4
Underlying earnings	43.5	36.1	7.5	20.7
Contribution before tax	41.7	36.1	5.6	15.5

There is much about our future that should excite all involved with Adelaide Bank

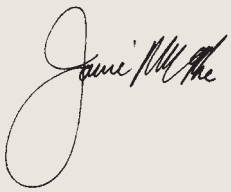
The future

There is much about our future that should excite all involved with Adelaide Bank.

While proud of our achievements to date, we recognise there is still much to be done to capitalise on the opportunities that we have created and to further cement our reputation as an innovator within the Australian financial services industry. Just as importantly, we are extremely motivated at the prospect of further contributing to South Australian community and business life.

In addition, Adelaide Bank shareholders have the opportunity to support a proposed merger with Bendigo Bank in the coming months. This exciting opportunity is unanimously supported by me, and your Board.

I would like to thank the Board for their support during the year and the Adelaide Bank team for their outstanding efforts.



Jamie McPhee
Group Managing Director
Adelaide Bank Limited

Board of Directors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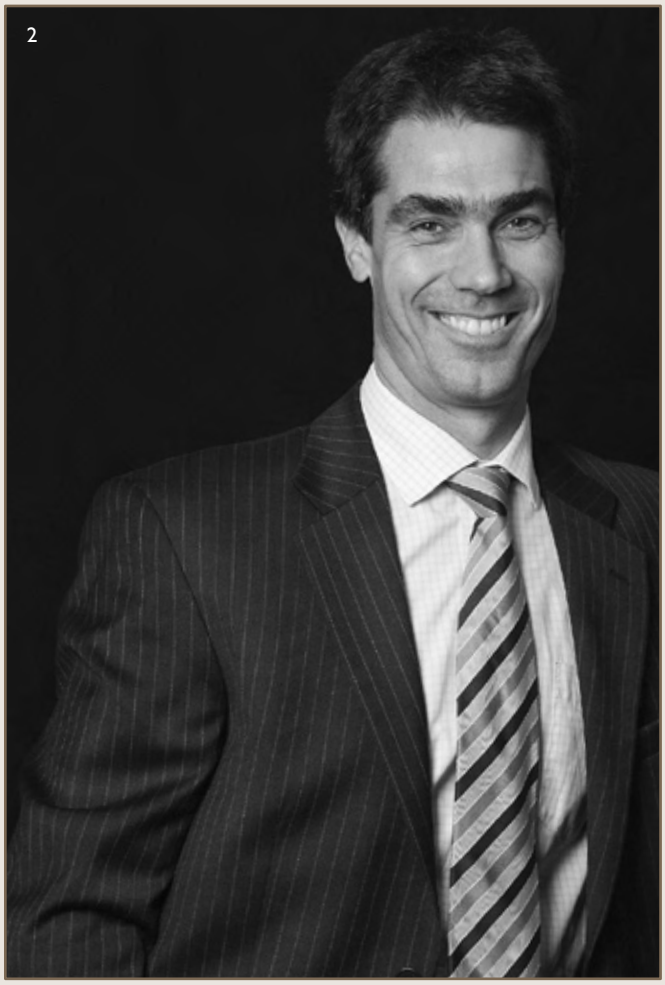
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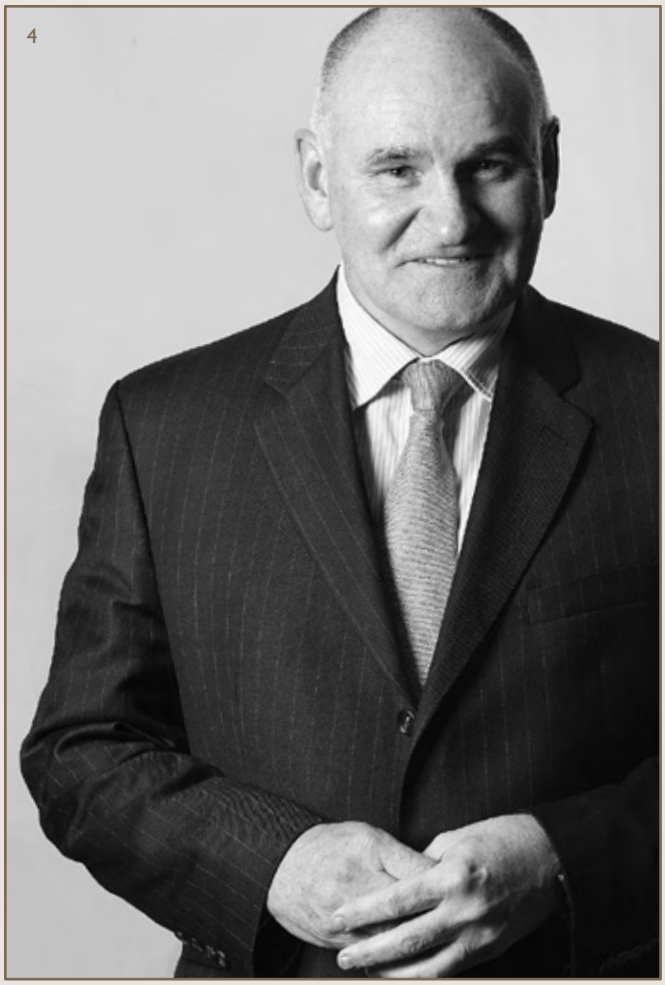
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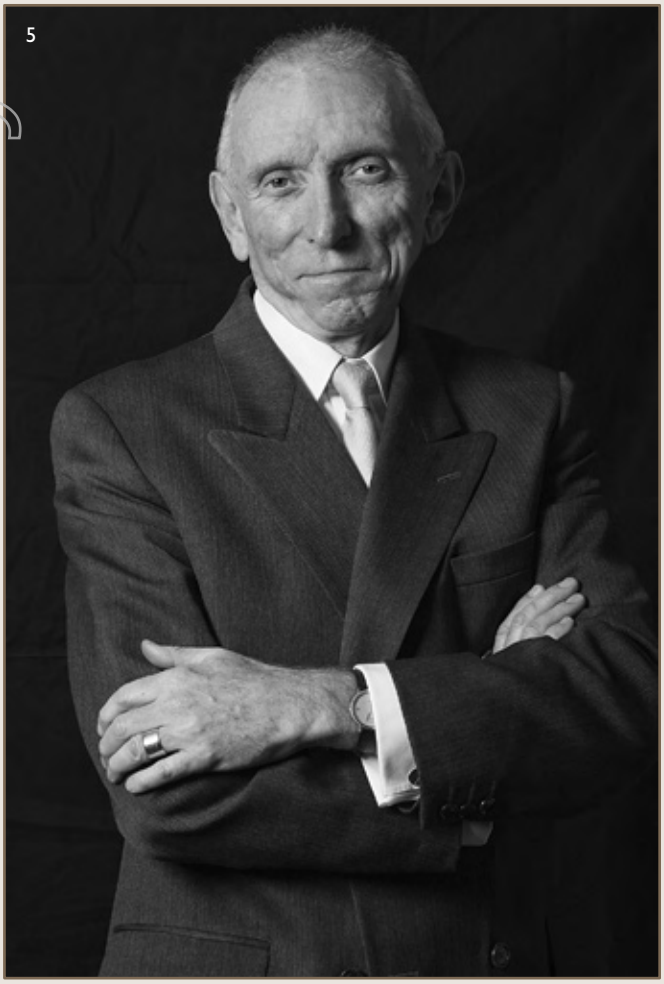

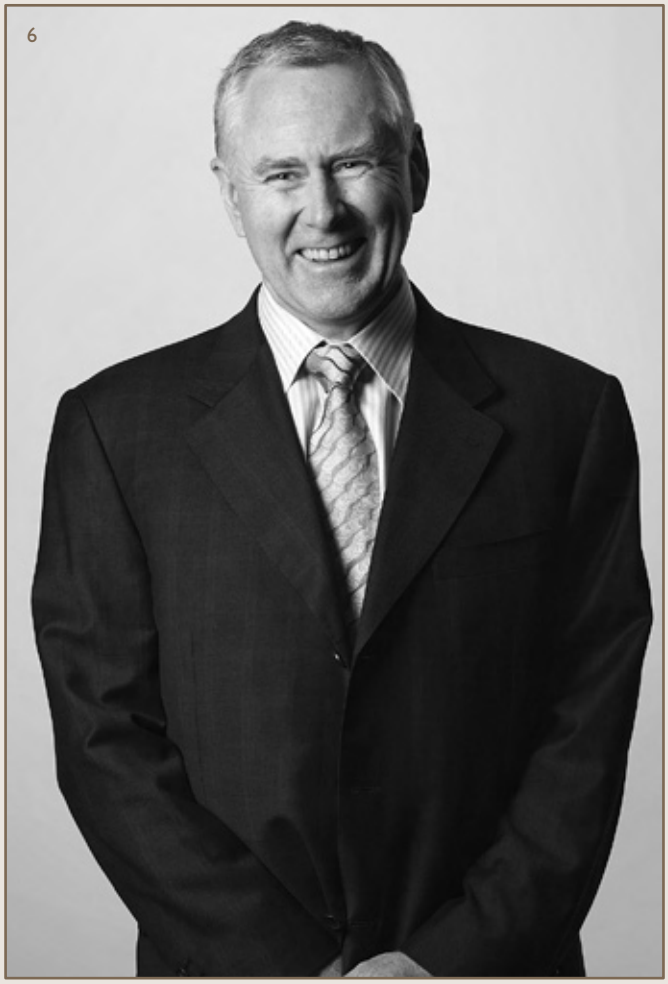

1. Dr Adele Lloyd
2. Mr Jamie McPhee
3. Mr Roger Cook
4. Mr Kevin Osborn
5. Mr Kevin Abrahamson
6. Mr Steven Crane
7. Dr Patricia Crook AO JP

Dr Adele Lloyd, Chairman
(appointed 1997 and 2001)
PhD, MEd Admin, BA (Hons), DipT

Dr Lloyd joined the Adelaide Bank Board in 1997. She was appointed Deputy Chairman of Adelaide Bank in March 2003 and Chairman in October 2005. Dr Lloyd has a number of family business interests. She holds a Masters and Doctorate in Administration and Management and is currently a member of the Council of the University of South Australia. Dr Lloyd is also on the board of Adelaide Managed Funds Ltd.

Directorships of other listed companies: Nil
Special responsibilities: Board member, Adelaide Managed Funds Ltd.

Mr Roger Cook AM, Deputy Chairman
(appointed 1997)
FREI, MAICD

Mr Cook is an international commercial real estate authority who joined the Adelaide Bank Board in 1997 and was appointed Deputy Chairman in 2005. He is the Chairman of the SA Motor Sport Board, Urban Construct Pty Limited and the Motor Accident Commission (SA). Mr Cook is a director of V8 Supercars Australia Pty Limited, TEGA Pty Limited and a number of other private companies.

Directorships of other listed companies: Nil
Special responsibilities: Chairman, Governance, Remuneration and Nomination Committee

Mr Jamie McPhee
Group Managing Director
(appointed December 16, 2006)
BEng (Hons), MBA, GAICD

Mr McPhee started his career with Adelaide Bank in 1988 within the Treasury function, and was appointed Group Managing Director in December 2006. Mr McPhee began his financial services career in the dealing room of merchant bank Wallace Smith Trust Company based in London. He returned to Adelaide in 1988 and joined The Co-operative Building Society of South Australia Limited (which later became Adelaide Bank).

Mr McPhee has held various positions within the organisation prior to his appointment as Group Managing Director. He has completed a civil engineering degree with Honours, and an MBA from the University of Adelaide.

Directorships of other listed companies: Nil
Special responsibilities: Board member, Adelaide Managed Funds Ltd.

Mr Kevin Osborn
(appointed 2003)
FAICD, FPNA

Mr Osborn was appointed to the Adelaide Bank Board in 2003. He was formerly the Chief Executive of Bank One in Australia (now part of JPMorgan Chase). Mr Osborn is a Director of the Economic Development Board of South Australia, and was formerly a Director of the American Chamber of Commerce in Australia. He is a Director of ABB Grain Limited and the Leadership Institute of South Australia. Mr Osborn is a Fellow of the National Institute of Accountants and a Foundation Fellow of the Australian Institute of Company Directors.

Directorships of other listed companies:
ABB Grain Ltd, 2004-current
Special responsibilities: Chairman, Risk Management Committee

Dr Patricia Crook AO JP
(appointed 2000)
MAICD

Dr Crook joined the Adelaide Bank Board in March 2000 and is the Managing Director of Adelaide based therapeutic goods manufacturer Dynek Pty Limited, a company she co-founded in 1974. In addition to her role with Adelaide Bank, she is a member of the State Procurement Board and a Director of Amrac Corporation and Transition Technologies Corporation.

Directorships of other listed companies: Nil
Special responsibilities: Nil

Mr Kevin Abrahamson
(appointed 2000)
BSc (Hons), MA, MBA, FAICD, SFFin, FAIM

Mr Abrahamson is an Australian finance sector specialist and consultant who has been on the Adelaide Bank Board since 2000. As a specialist in the area of corporate strategy and information technology, he has worked as a consultant to the financial sector since 1997 as the head of KD Abrahamson Consultants. From 1988 to 1997, he held the position of General Manager, Group Services with Advance Bank and St George Bank. Mr Abrahamson was also a director of Fiducian Portfolio Services Limited between 2000 and 2004.

Directorships of other listed companies:
Fiducian Portfolio Services Ltd.
Special responsibilities: Chairman, Audit Committee

Mr Steven Crane
(appointed 2005)
BCom, FAIM, MAICD, SFFin

Mr Crane is a former Chief Executive Officer of ABN AMRO Australia, a position he held until 2003, before joining the Adelaide Bank Board in 2005. He is the Deputy Chairman of the Australian Chamber Orchestra and Chairman of Global Valve Technology Pty Limited. He has previously held the position of Executive in Residence at the University of NSW (Economics and Commerce). Mr Crane was a director of Foodland Associated Limited between 2003 and 2005 and Chairman of Investa Property Group from 2006 to 2007.

Directorships of other listed companies:
Foodland Associated Limited, 2003-2005,
Chairman of Investa Property Group
from 2006 to 2007.
Special responsibilities: Chairman, Adelaide Managed Funds Ltd.

Mr Barry Fitzpatrick, AM
(retired 15 December 2006)
Former Group Managing Director and
Chief Executive Officer
FCPA, FCIS, SFFin, FAIM, FAICD

Mr Fitzpatrick began his career with Adelaide Bank Limited in 1974 and, after working in various financial positions within the company, was appointed Chief Executive Officer in 1985 and Group Managing Director in 1987. Mr Fitzpatrick retired as Chief Executive Officer and Group Managing Director on 15 December 2006. At the time of his retirement. Mr Fitzpatrick was a Board Member of the Australian Bankers' Association Council and a Member of the Financial Sector Advisory Council. Mr Fitzpatrick continues to serve as a Trustee of the Adelaide Festival Centre Trust and Telstra Sale Company Ltd. At the time of retirement, Mr Fitzpatrick was the longest serving Chief Executive Officer of a financial institution in Australia. In January 2006 Mr Fitzpatrick was made a member of the Order of Australia (AM) for services to the finance industry and the community and for his support of the Arts and charitable work in South Australia.


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1. Mr Tim Piper
2. Mr Philip Riquier
3. Mr Richard Fennell
4. Mr Stephen Small
5. Mr Julian Carne
6. Mr Frank Lupoi
7. Mr David Hughes
8. Mr Bruce Speirs
9. Mr Andrew Kamm
10. Mr Anthony Baum

Mr Tim Piper
Chief General Manager, Wholesale Mortgages
BBus (Banking & Finance), FFin

Mr Piper joined Adelaide Bank in 2005 following nearly 18 years with National Australia Bank. During a career spanning nearly 30 years, he has had direct experience with most facets of banking, from personal finance, through to middle and large commercial lending, and credit risk. In particular, his credit risk experience has seen him closely involved with asset restructuring and international capital and debt markets. He held global responsibilities – with a strong Asian focus – for three years of his career. He initially joined Adelaide Bank as the General Manager of Credit Risk, and recently assumed responsibility for Wholesale Mortgages as Chief General Manager, Wholesale Mortgages.

Mr Philip Riquier
Chief General Manager, Business Lending
BBus, MBA, FFin, ACPA

Mr Riquier has had a career in the financial services sector spanning more than 20 years. His experience includes commercial and corporate banking with Westpac Banking Corporation prior to joining Adelaide Bank in 1993. Mr Riquier has held several positions, including Head of Products, Head of National Business Lending, and more recently as General Manager of Portfolio Funding.

Mr Anthony Baum
Chief General Manager, Wealth Management
BEcon, FFin

Mr Baum has more than 17 years experience in the banking sector. He was appointed to his current role of Chief General Manager, Wealth Management in May 2007. Mr Baum is responsible for Adelaide Bank's growing Wealth Management businesses, which includes margin lending, investment and structured products through Adelaide Bank's subsidiary Adelaide Managed Funds Ltd. Prior to his current role, Mr Baum was the Chief General Manager of Financial Markets for Adelaide Bank. Mr Baum, who is also a former Group Treasurer of Adelaide Bank, joined the business in May 2000 from BNP Paribas in London.

Mr Stephen Small
Chief General Manager, Retail Banking

Mr Small has been with Adelaide Bank for seven years, gaining experience across a large component of the customer and partner interfacing operations of Adelaide Bank. The majority of Mr Small's time has been spent in the Retail and Wholesale Mortgages business units. He was appointed to the position of Chief General Manager, Retail Banking in May 2007. Prior to joining Adelaide Bank, Mr Small undertook a variety of roles within the retail sector culminating in the position of National Sales and Marketing Manager with Australia's largest book chain, Angus & Robertson.

Mr Bruce Speirs
Chief Executive Officer,
Adelaide Managed Funds Ltd
BComm, ACA, AFin

Mr Speirs was appointed Chief Executive Officer of Adelaide Managed Funds in February 2007, and also sits on the Adelaide Bank Executive Committee. Prior to joining the Adelaide Bank Group, Mr Speirs spent nine years with the Audit and Corporate Finance divisions of Ernst & Young with a financial services industry focus. This position included secondments to the United Kingdom and the United States.

Mr David Hughes
Chief General Manager,
Finance and Information Services
BA (Accounting), CPA, MAICD

Mr Hughes came to Adelaide Bank in June 2007 after seven years as Chief Financial Officer and Company Secretary for Codan Limited, an Adelaide based designer and manufacturer of communications equipment. Prior to Codan Limited, Mr Hughes was Executive General Manager – Information Services for Normandy Mining Limited and held global responsibility for information services across the group. Mr Hughes also has experience in senior roles with Southcorp Limited and James Hardie Industries Limited. Mr Hughes has led a number of large business system implementations and business process redesign projects, as well as senior finance roles across a number of diverse industries.

Mr Julian Carne
Chief General Manager, Shared Services
BBus, MBA

Mr Carne has spent the past 17 years in a range of senior management roles. These have primarily been as the General Manager of Human Resources, and more recently have included broader management roles. His most immediate role prior to joining Adelaide Bank was as General Manager of Stegbar Pty Limited for South Australia and the Northern Territory. He worked for Tenneco (a large publicly listed company in the United States) for eight years, three of them managing manufacturing plants with a combined full time equivalent of more than 520 staff. Mr Carne also spent more than three years at Codan Limited, an Adelaide based designer and manufacturer of communications equipment, as General Manager of Human Resources.

Mr Richard Fennell
Chief General Manager, Group Strategy
BEcon, CA

Mr Fennell joined Adelaide Bank in March 2007 after an 18 year career in management consulting, primarily with PricewaterhouseCoopers. As a partner with PricewaterhouseCoopers in Australia and Hong Kong, Mr Fennell managed change programs with banks and other financial services organisations, in Australia and across South East Asia. Following the acquisition of PricewaterhouseCoopers Consulting by IBM, Mr Fennell led IBM's Finance and Administration Outsourcing business for the Asia Pacific region.

Mr Andrew Kamm
Chief General Manager, Risk Management and Company Secretary
LLB, FCIS

Mr Kamm joined the organisation in 1988 as a solicitor. In 1993, he was appointed Chief Legal Officer and Company Secretary to the Adelaide Bank Board. As Chief General Manager, Risk Management and Company Secretary, he is responsible for risk management, legal services, internal audit and secretarial for the group.

Mr Frank Lupoi
Chief Financial Officer
BA(Acc), CPA

Mr Lupoi commenced work with Adelaide Bank in 1989 as the Financial Accountant. During his career he has overseen various areas of Adelaide Bank including Treasury, Credit Risk and Corporate Sourcing. He currently holds the position of Chief Financial Officer and is responsible for the finance and accounting functions of the Adelaide Bank Group.

1.0 Framework and approach

Adelaide Bank is committed to observing the highest standards of corporate governance. In pursuing this commitment, the Board monitors developments in this field. Any improvements identified in the review of developments are considered for inclusion in the Bank's corporate governance practices.

Adelaide Bank's corporate governance practices take into account the "Principles of Good Corporate Governance and Good Practice Recommendations" published in November 2006 by the ASX Corporate Governance Council (ASXCGC) and the Corporations Act 2001. Adelaide Bank has complied with the Recommendations of the ASXCGC throughout the financial year.

Adelaide Bank's Corporate Governance statement is available on the Bank's web site at www.adelaidebank.com.au//about_adelaide_bank/corporate_governance.html.

2.0 Board of Directors

2.1 Roles and responsibilities

The Board is accountable to shareholders for Adelaide Bank's performance and its responsibilities include:

- approval of the Bank's strategy and monitoring of the achievement of strategic objectives;approval of budgets and monitoring of financial performance;
- appointment and removal of the Group Managing Director;
- ratification of the appointment and removal of key Executives;
- approval of the Executive structure and associated succession plans;
- approval of Group Managing Director's and Senior Executives' remuneration on recommendation of the Governance, Remuneration and Nomination Committee;
- monitoring of the exercise of powers delegated to management;
- approval of expenditure beyond limits delegated to management;
- approval of acquisitions or disposals of businesses;
- approval of Adelaide Bank's risk management strategy and monitoring its effectiveness;
- monitoring of the systems of internal control; and
- appointment of the Bank's external and internal audit service providers.

The Board has delegated a number of these responsibilities to its Committees. The responsibilities of these Committees are detailed in section 3 of this statement. Responsibility for the day to day operations of Adelaide Bank has been delegated to the Group Managing Director.

2.2 Board size and composition

There are six independent Non-executive Directors and one Executive Director on the Board. Adelaide Bank's Constitution sets the minimum number of Directors at five and maximum at eleven. The Constitution also states that the number of Executive Directors must not exceed one for every two Non-executive Directors.

The Governance, Remuneration and Nomination Committee assesses the Board's composition and size from time to time and recommends any changes to the Board. The Governance, Remuneration and Nomination Committee also assesses the skills required to discharge the Board's duties, having regard to Adelaide Bank's business mix, financial position and strategic direction, including specific skills that the Committee believes are necessary for one or more of the Directors to possess.
A copy of Adelaide Bank's Constitution is available in the corporate governance section of the Bank's web site at www.adelaidebank.com.au//about_adelaide_bank/corporate_governance.html.

2.3 Membership and expertise of Board

The Board has a broad range of relevant financial and other skills, experience and expertise to meet its objectives. The current Board composition, with details of each Director's background, is set out elsewhere in this report.

2.4 Selection and the role of Chair

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

- leading the Board;
- ensuring that the Board receives such information as Directors may require to discharge their duties;
- representing the Board in public;
- conducting Board meetings; and
- reviewing the performance of the Board and individual Directors.

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

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

Materiality is assessed on a case by case basis and includes quantitative and qualitative criteria.

2.6 Avoidance of conflicts of interest
The Board has a procedure for all Directors to disclose to the Board any interests or relationships that they may have which relates to the affairs of the Bank. This includes the requirement for Directors to notify changes in their relevant interests in Adelaide Bank shares. In addition, the Board has adopted a practice whereby the independence of its Non-executive Directors is assessed annually.

2.7 Meetings of the Board and their conduct
The Board's business is largely conducted by a program of 11 monthly meetings, together with such additional meetings as may be required from time to time. A substantial part of the Board's business is conducted by Committees of the Board. Generally, the Committees and the Board meet for two days per month. The role of the Committees is set out in Section 3.

2.8 Succession planning
The Governance, Remuneration and Nomination Committee reviews and provides recommendations to the Board on succession planning.

2.9 Review of Board performance
A performance evaluation of the Board and its members is conducted on an annual basis. An evaluation was conducted during the reporting period.

The evaluation takes the form of a series of statements concerning performance of the Board, its members and its committees. Each Director is required to complete the evaluation and discuss the same individually with the Chair of the Board. The results of the evaluation are subsequently reviewed and discussed at a Board meeting. The evaluation statements are reviewed annually to ensure that they remain current.

2.10 Nomination and appointment of new Directors
When a vacancy exists, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Governance, Remuneration and Nomination Committee will seek and consider candidates and recommend an appropriate person to the Board for appointment. Any Director so appointed must retire at the Annual General Meeting following his or her appointment and then will be eligible for re-election by shareholders.

2.11 Term in office and retirement and re-election of Directors
At least one third of the Directors retire each year, by rotation, as required by the Bank's constitution and the ASX Listing Rules. The Constitution also states that any Director who has been appointed during the course of the year must retire at the next Annual General Meeting.

Eligible Directors who retire each year may offer themselves for re-election by the shareholders at the next Annual General Meeting. Board policy requires that Directors must retire at the age of 70.

2.12 Director education
The Bank has a comprehensive induction program for new Directors. The program includes meetings with Executives and Senior Managers. The Bank has a commitment to providing continuing information to its Directors in relation to industry issues and trends.

2.13 Board access to information and advice
All Directors have unrestricted access to Adelaide Bank's records and information and receive regular detailed financial and operational reports from management to enable them to carry out their duties.

The Chairman and other Non-executive Directors regularly consult with the Group Managing Director, and other executives, and may consult with and request additional information from any Adelaide Bank employee. Through the office of the Chair, Directors are able to take independent professional advice at the Bank's expense.

2.0 Board of Directors (continued)

2.14 Company Secretary

The Company Secretary of Adelaide Bank is Andrew Kamm. Andrew is the Chief General Manager, Risk Management. Andrew Kamm joined Adelaide Bank in 1988 and was appointed to his current role in February 2007 with responsibility for management of operational and credit risk within the Bank and the delivery of company secretarial, legal and governance advice and support to the Adelaide Bank Board, executive and business. Andrew's qualifications include LLB and FCIS.

Responsibilities of the secretarial function include providing advice to Directors and officers on corporate governance and regulatory matters, developing and implementing Adelaide Bank's governance framework and giving practical effect to the Board's decisions. All Directors have access to advice from the Chief General Manager, Risk Management.

3.0 Board Committees

3.1 Board Committees and membership

The Board currently has three standing Board Committees. The Committee charters describe their roles and powers as approved by Board. The three Board Committees and their membership are set out elsewhere in this report.

The minutes of each Committee are circulated to all Directors and the agenda and papers of each meeting are available to all Directors. The Chair of each Committee provides a verbal report about the business of each Committee meeting to the next meeting of the Board.

Executives and other senior managers are required to attend and present at Board and Committee meetings and to answer questions from Directors. The Chair of each Committee also meets separately with relevant Executives, particularly in preparation for Committee meetings. In addition, the minutes of Executive Committee meetings (chaired by the Group Managing Director) and selected other management committees are circulated to all Directors.

3.2 Audit Committee

The Audit Committee provides assistance to the Board in fulfilling its corporate governance and oversight responsibilities in relation to the Adelaide Bank's financial reporting, internal control structure, and the internal and external audit functions.

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

Integrity of the financial statements

The Audit Committee considers whether the accounting methods applied by management are consistent and comply with applicable accounting standards and concepts.

The Committee reviews and assesses:

- significant or unusual transactions and accounting estimates;
- implementation of steps taken to address the taxation compliance issues associated with any major transaction or arrangement considered by the Board;
- the effectiveness of the Bank's financial reporting; and
- whether the financial report represents a true and fair view of the Bank's financial position and performance and complies with regulatory requirements.

External Audit

The Audit Committee is responsible for making recommendations to the Board concerning the appointment of Adelaide Bank's external auditor and the terms of engagement. The Committee reviews the performance of the external auditor and regularly reviews the independence of the external auditor in accordance with its policy. The Committee is also responsible for ensuring that the external auditor is not engaged to provide services that impair or appear to impair judgement or independence. The external auditor receives all Audit Committee papers and attends all relevant meetings.

Internal Audit

The Audit Committee is responsible for making recommendations to the Board concerning the appointment of Adelaide Bank's internal auditor and the terms of engagement. The Committee reviews the performance of the internal auditor and regularly reviews the independence of the internal auditor in accordance with its policy. The Committee is also responsible for ensuring that the internal auditor is not engaged to provide services that impair or appear to impair judgement or independence.

Compliance with financial reporting and related regulatory requirements
The Audit Committee is responsible for ensuring compliance with applicable financial reporting and related regulatory requirements.

The Audit Committee, among other things:
- discusses with management the policies and risk management framework, as it relates to financial reporting and regulatory requirements, that have been implemented in order to ensure that the Bank's risks are identified and assessed and that controls are adequate, in place and functioning properly;
- discusses with management and the external auditor the half-yearly and annual financial statements; and
- discusses with the external auditor their report regarding significant findings in the conduct of their audit and the adequacy of management response

3.3 Risk Management Committee
The Risk Management Committee reviews and approves the risk appetite of the Bank, establishes and maintains policies which reflect the risk appetite and monitors the management of credit risk, liquidity risk, market risk, operational risk and compliance risk. The Committee assists the Board in fulfilling the risk management component of its corporate governance responsibilities. The Bank's ability to identify, measure, monitor and report about risk is fundamental to its performance.

From the perspective of specific types of risk, the Risk Management Committee's role includes:
- for credit risk – monitoring of the risk profile, performance and management of Adelaide Bank's portfolios and considering any applications for credit facilities that fall outside of delegated lending authorities;
- for market risk – monitoring of the market risk profile, approving the Bank's value at risk and net interest income at risk limits;
- for liquidity risk – reviewing Adelaide Bank's funding plan and liquidity requirements;
- for operational risk – monitoring of the operational risk profile, performance of operational risk management and controls and development and ongoing review of operational risk policies; and
- for compliance risk – overseeing Adelaide Bank's compliance with applicable laws, regulations and regulatory requirements.

Each of the Bank's internal auditor and external auditor have free and unfettered access to the Risk Management Committee to ensure that the auditor may raise matters with the Committee without reference to other Directors or senior management. Members of the Committee shall be available to meet with the Australian Prudential Regulation Authority on request.

3.4 Governance, Remuneration and Nomination Committee
The Governance, Remuneration and Nomination Committee assists the Board in fulfilling its responsibilities in relation to:
- the governance of the Bank;
- the remuneration of Directors and Executives;
- the nomination and appointment of Directors; and
- the corporate social responsibilities of the Bank.

The responsibilities of the Governance, Remuneration and Nomination Committee include:
- for governance – review and recommendation of appropriate governance frameworks and policies;
- for remuneration – review of Executive performance and recommendation of Board and Executive remuneration;
- for nominations – review and recommendation of Board composition and succession; and
- for corporate social responsibilities – review of the Bank's objectives and strategies and oversight of the implementation of a supporting framework and policies.

Details of Adelaide Bank's remuneration practices are contained in the Remuneration Report, which appears elsewhere in the Annual Report.

4.0 Audit Governance and independence

4.1 Approach to Audit Governance
The Board is committed to a set of core principles:
- that Adelaide Bank's financial reports present a true and fair view;
- that Adelaide Bank's accounting methods are comprehensive, relevant and comply with applicable accounting rules and policies; and
- that the external auditor is independent and serves the interests of shareholders.
- developments are monitored and practices reviewed accordingly.

4.2 Engagement and rotation of external auditor
Adelaide Bank's external auditor is Ernst & Young. Ernst & Young was appointed by shareholders at the 1992 Annual General Meeting.

The Board has a policy that the responsibilities of the lead audit partner cannot be performed by the same people for longer than five years. The present lead audit partner for Adelaide Bank's audit is Colin Dunsford, who assumed this responsibility in 2005. The Board requires a minimum two years intermission before the lead is allowed back onto the audit team.

4.3 Certification and discussion with the external auditor on independence
The Audit Committee requires the external auditor to confirm annually that they have maintained their independence and have complied with independence standards as promulgated by Australian professional bodies. The Audit Committee meets separately with the external auditor without Executive management being present at least annually. Certification is provided in the Non-audit Services and Independence declaration in the Directors' Report elsewhere in this Report.

4.4 Relationship with External Auditor
Adelaide Bank's current policies on employment and other relationships with its external auditor include the following:
- the audit partners and any employee of the external audit firm are prohibited from being an officer of Adelaide Bank;

4.0 Audit Governance and independence (continued)

- an immediate family member of an audit partner or any employee of the external audit firm is prohibited from being a Director or an officer in a significant position at Adelaide Bank;
- any former external audit partner or external audit firm's former employees who have participated in Adelaide Bank audits are prohibited from becoming a Director or an officer in a significant position at Adelaide Bank for a period of two years and after the two years can have no continuing financial relationship with the audit firm;
- members of the audit team and audit firm are prohibited from having a business relationship with Adelaide Bank or any officer of Adelaide Bank unless the relationship is clearly insignificant to both parties;
- the external audit firm, its partners and its employees who are members of the audit team on the Adelaide Bank audit and their immediate family members are prohibited from having loans or guarantees with Adelaide Bank or from having a direct or material indirect investment in Adelaide Bank;
- officers of Adelaide Bank are prohibited from receiving any remuneration from the external audit firm;
- the external audit firm is prohibited from having a financial interest in any entity with a controlling interest in Adelaide Bank; and
- the audit team in any given year cannot include a person who has been an officer of Adelaide Bank during that year.

4.5 Restrictions on non-audit services by the external auditor

To avoid possible independence or conflict issues, the external auditor is not permitted to carry out certain types of non-audit services for Adelaide Bank, including:

- preparation of accounting records and financial statements;
- financial systems design and implementation;
- appraisal or valuation services or other corporate finance activities;
- internal audit services;
- temporary or permanent staff assignments, or performing any decision-making or ongoing monitoring or management functions;
- broker or dealer, investment adviser or investment banking;
- legal, litigation or other expert services;
- actuarial services;
- recruitment services for managerial, executive or Director positions; and
- certain taxation services to individual employees involved in a financial reporting oversight role of the preparation of the financial statements.

For all other non-audit services, use of the external audit firm will be considered by the Audit Committee. The breakdown of the aggregate fees billed by the external auditor in respect of each of the two most recent years for audit, audit-related, tax and other services is provided in the Annual Report.

4.6 Attendance at Annual General Meeting

Adelaide Bank's external auditor is requested to attend the Annual General Meeting and to be available to answer questions about the conduct of the audit and preparation and content of the Auditor's Report.

4.7 Internal Audit

The Board has engaged an internal audit service provider to review internal controls. The internal audit service provider is independent of the external auditor. The internal audit service provider has full access to the records of the Bank's risk and control assessments, particularly for the purpose of internal audit planning and the conduct of internal audit reviews.

The internal audit service provider reports to the Board and management and has full access to management and the right to seek information and explanations about issues identified during reviews. The Board has established an Audit Committee (as outlined in section 3.2), the charter of which includes the oversight of the internal audit service.

5.0 Controlling and managing risk

5.1 Approach to risk management

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

- credit risk – the risk of loss arising from a counterparty defaulting in meeting its contractual obligations;
- operational risk – the risk of loss from failed internal processes, people and systems, or from external events;
- liquidity risk – the risk that the Bank will have insufficient funds to meet its obligations in an orderly manner; and
- market risk – the risk that changes in market interest rates and other variables will negatively affect the Bank's earnings.

In setting the risk appetite of the Bank, the Board has adopted policies in relation to the identification, assessment, management and monitoring of the above risks. All Board policies, including those concerning risk management, are subject to annual review, thereby ensuring that they remain appropriate for the risks applicable to the Bank's business.

5.2 Risk management roles and responsibilities

The Bank's Executives have been allocated responsibility for management of the risks set out above. Risk management procedures and processes have been implemented in all aspects of the Bank's business. Whilst central policy units have been charged with the responsibility for ensuring that the Bank has an appropriate infrastructure for the identification and assessment of risk, day to day risk management clearly rests with line managers. The Board has a Risk Management Committee, the charter of which includes monitoring and review of compliance with Board risk management policies. Further details of this Committee are included in section 3.3. Relevant Executives provide detailed reporting to the Executive and other management committees, and Risk Management Committee regarding risk management.

5.3 Group Managing Director, Chief Financial Officer and Chief General Manager, Risk Management assurance

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

5.4 Compliance framework

The Compliance Framework has been developed to:

- ensure that the business operates in compliance with the legal and regulatory requirements, industry standard, internal policies and procedures which govern the Banks activities; and
- provide the necessary tools to assist management and staff adhere to compliance practices.

Primary responsibility for managing compliance risk resides with business line management, who are required to attest that they have effective processes in place consistent with Adelaide Bank's Compliance Framework. There is a dedicated operational risk and compliance function within each major business area, with specific responsibilities designed to guide compliance within that business as part of the business unit risk management team.

There is also an Operational Risk and Compliance function, led by the Chief General Manager, Risk Management, which supports the Compliance Framework. This team provides the infrastructure to facilitate compliance planning and reporting, and provides specialist advice on the implementation of regulatory initiatives and policies and the establishment of compliance programs. It also provides analytical tools and advice for independent oversight of areas of compliance risk and reports on potential weaknesses and risk events across the Adelaide Bank Group. The Compliance Framework is overseen by the Risk Management Committee, which receives regular reports from the Chief General Manager, Risk Management on the status of compliance across the Adelaide Bank Group.

6.0 Promoting Ethical and Responsible Behaviour

6.1 Code of Conduct

The Board has adopted a Code of Conduct for Directors and Executives. The Code reflects the standards of behaviour expected of the Bank's senior people. A copy of the Code can be obtained from the Bank's web site at www.adelaidebank.com.au//about_adelaide_bank/corporate_governance.html.

The Board has a procedure to enable Directors to disclose any interest that may potentially conflict with the interests of the Bank.

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

The Code requires Adelaide Bank's business to be conducted in a manner which will enhance the value of shareholders' investments.The Code refers to the importance of the Bank's customers and their assets, the provision of competitive products, the provision of service that meets the needs of the Bank's customers and compliance with the principles set out in the Code of Banking Practice.

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

- the business of Adelaide Bank is conducted in a way to comply with relevant laws and ethical standards;
- employees behave as professionals;
- employees do not accept gifts of significant value;

6.0
Promoting ethical and responsible behaviour (continued)

- employees do not disclose (without appropriate consent) confidential information regarding customers or the Bank; and
- employees will not place themselves in a position of conflict of interest in their dealings on behalf of the Bank.

In relation to the community at large, the Code refers to the Bank's obligation to contribute to the wellbeing of the community, to demonstrate social responsibility, to be honest in business dealings, to exercise prudential financial management, and to engage in activities which are not detrimental to the environment.

6.2 Internal policies and procedures
In addition to its internal codes of conduct Adelaide Bank also complies with a range of external industry codes including the Code of Banking Practice.

Adelaide Bank has a number of key policies to manage its compliance and human resources requirements. There are a range of guidelines, communications, training processes and tools to support these policies.

6.3 Concern reporting and whistleblowing
Employees, officers, contractors and business partners are encouraged to openly communicate their concerns about any issue relating to the Bank's business, including any concerns about any wrongdoing by the Bank or an individual. In February 2007 the Bank introduced new policies to facilitate this communication.

A report by an employee or officer may be made to the person's immediate manager, senior manager or relevant Executive, or directly to the Whistleblower Protection Officer. A report by a contractor or business partner may be made at any contact point of the Bank and will be referred to the Whistleblower Protection Officer. The Whistleblower Protection Officer is the Senior Manager, People and Performance. Reports may be made anonymously or alternatively to a relevant external authority. The Bank's policy provides protection to any person who in good faith reports suspected inappropriate or improper conduct.

6.4 Insider trading and trading in Adelaide Bank securities
Directors are required to hold a minimum parcel of 500 shares in Adelaide Bank. Details of Directors' holdings are set out elsewhere in this report. All staff are encouraged to hold shares in Adelaide Bank and the Bank acquires or allocates shares pursuant to incentive schemes.

The Board has established a policy in relation to trading in Adelaide Bank and related entity securities by Directors and staff. The key features of the policy, aimed at ensuring appropriate practice by Directors and staff, are:

1. a Director or employee must not subscribe for or trade in Adelaide Bank or related entity securities when to do so would breach the law concerning insider trading;
2. subject to the preceding requirement, Executives and Directors may subscribe or trade in the period of six weeks commencing the business day after the public release of interim or full year financial results, or after obtaining appropriate authority. In the case of Executives that authority is required from the Group Managing Director and in the case of Directors, after first obtaining authority of the Board;
3. all trades by an Executive or Director are to be notified to the Company Secretary and, in the case of Directors, are recorded in the minutes of the next Board meeting;
4. the Company Secretary is required to provide Directors and Executives with up to date guidelines in relation to the law on insider trading; and
5. the policy extends to Adelaide Bank shares, debentures, managed investment schemes, options and financial products created over, or in respect of, such securities.

All dealings in Adelaide Bank securities by a Director must be reported to the Australian Securities Exchange.

"Adelaide Bank securities" includes shares, hybrid securities, debentures (including convertible notes), interests in a managed investment scheme, options, financial products created over such securities by a third party and products which operate to limit the economic risk of a security holding in the Bank.

7.0 Remuneration framework

Full details of Adelaide Bank's remuneration policies and practices for Non-executive Directors and Executives are contained in the Remuneration Report, which is contained elsewhere in this report.

8.0 Market disclosure

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

The Board policy includes a commitment to compliance with the spirit, intention, purpose and substance of the continuous disclosure obligations imposed by the Listing Rules and the Corporations Act. Adelaide Bank's procedures have been adopted by the Board as part of its compliance system and all Directors and Executives are required to observe the requirements of the system. A summary of the procedures is available on Adelaide Bank's web site at www.adelaidebank.com.au//about_adelaide_bank/corporate_governance.html.

9.0 Shareholder communications and participation

The Board encourages communication between Adelaide Bank and the holders of its securities. The Board acknowledges the importance of security holders receiving accurate and timely information about Adelaide Bank. The Board's strategy to promote effective communication with security holders consists of the following elements:

- regular announcements are made to the market;
- all announcements made to the market and all related information (such as information provided to analysts or media during briefings) are accessible from Adelaide Bank's web site after they have been released to the ASX;
- the full text of all notices of meeting and explanatory material are placed on the web site;
- addresses made by the Chairman and the Group Managing Director to the Annual General Meeting are placed on the web site;
- financial reports and major announcements made in the past three years are available on the web site; and
- Adelaide Bank is considering how to use electronic communication (such as email) in a cost effective manner for the benefit of the holders of securities.

	AIFRS			
	Including Significant Item 2007 $000's	Significant Item 2007 $000's	Excluding Significant Item 2007 $000's	2006 $000's
Income Statement				
Net interest income	265,051	-	265,051	250,080
Add: Securitisation income	-	-	-	-
Less: Fees to intermediaries/Direct costs	-	-	-	-
Add other revenue	70,412	-	70,412	61,607
Net operating income	335,463	-	335,463	311,687
Less bad and doubtful debt expense	17,903	-	17,903	11,825
Other expenses	171,925	6,568	165,357	161,554
Profit before income tax expense	145,635	(6,568)	152,203	138,308
Income tax expense	44,610	(1,970)	46,580	43,884
Profit after income tax expense	101,025	(4,598)	105,623	94,424
Hybrid dividends	5,606	-	5,606	5,180
Profit after tax and hybrid dividends	95,419	(4,598)	100,017	89,244
General reserve movement (after tax)	2,767	-	2,767	2,273
Profit available to ordinary shareholders	92,652	(4,598)	97,250	86,971
Add back amortisation of acquisition costs	7,074	-	7,074	7,074
Profit after tax on a comparable cash basis	99,726	(4,598)	104,324	94,045
Balance Sheet Information at 30 June				
Total assets	31,570,715			26,211,453
Net loans and advances	27,534,756			23,758,644
Retail funding	11,290,509			10,102,043
Total equity	748,494			734,656
Total assets under management	31,570,715			26,365,991

Continued on next page.

			Previous AGAAP			
Including Significant Item 2005 $000's	Significant Item 2005 $000's	Excluding Significant Item 2005 $000's	Including Significant Items 2004 $000's	Significant Items 2004 $000's	Excluding Significant Items 2004 $000's	2003 $000's
327,408	-	327,408	216,458	-	216,458	167,506
-	-	-	53,146	(2,469)	55,615	56,833
103,695	-	103,695	86,637	5,862	80,775	62,783
59,326	1,272	58,054	53,224	9,573	43,651	39,552
283,039	1,272	281,767	236,191	1,242	234,949	201,108
10,567	-	10,567	7,906	-	7,906	6,711
152,517	-	152,517	133,014	-	133,014	120,114
119,955	1,272	118,683	95,271	1,242	94,029	74,283
36,670	382	36,288	27,043	(1,854)	28,897	22,958
83,285	890	82,395	68,228	3,096	65,132	51,325
9,840	-	9,840	6,016	-	6,016	3,551
73,445	890	72,555	62,212	3,096	59,116	47,774
n/a	n/a	n/a	n/a	n/a	n/a	n/a
73,445	890	72,555	62,212	3,096	59,116	47,774
2,734	-	2,734	3,600	-	3,600	3,600
76,179	890	75,289	65,812	3,096	62,716	51,374
21,528,229			10,439,826			8,752,167
18,920,217			8,962,137			7,576,349
9,361,588			7,784,968			6,430,425
732,847			501,849			427,620
21,528,229			15,614,670			12,254,798

Key Ratios and Other Information	AIFRS Including Significant Item 2007	AIFRS Excluding Significant Item 2007	2006
Profitability			
Return on Ordinary Equity (%)	16.04	16.84	16.02
Return on Ordinary Equity – Cash Basis (%)[1]	17.27	18.06	17.29
Return on Average Assets (%)[2]	0.35	0.37	0.40
Net Interest Margin (on Average Interest Earning Assets) (%)	1.01	1.01	1.16
Efficiency			
Operating Expenses to Operating Income (%)[1]	50.19	48.27	50.68
Operating Expenses to Average Assets (%)[1][2]	0.60	0.57	0.68
Earnings per Ordinary Share			
Earnings Per Share – Fully Diluted (cents)	88.52	92.79	84.16
Earnings Per Share – Fully Diluted – Cash Basis (cents)[1]	92.52	96.78	88.68
Dividends on Ordinary Share			
Dividends Per Share (cents)	65.00	65.00	58.00
Payout Ratio (%)	74	70	70
Other			
Net Tangible Assets Per Share ($)	5.66	5.66	5.59
Capital Adequacy (%)	10.88	10.88	10.77
Number of Branches	25		25
Staff (Full Time Equivalent)	1,185		1,151
Share Price as at June 30 ($)	15.24		12.98
• Year High ($)	15.95		13.75
• Year Low ($)	12.14		11.27

		Previous AGAAP		
Including Significant Item 2005	Excluding Significant Item 2005	Including Significant Items 2004	Excluding Significant Items 2004	2003
18.30	18.08	17.41	16.57	15.67
18.98	18.76	18.41	17.57	16.86
0.41	0.41	0.49	0.47	0.45
1.24	1.24	2.23	2.23	2.20
54.07	54.32	54.79	55.08	57.94
0.80	0.80	0.93	0.93	1.01
76.85	75.92	67.09	63.75	54.34
79.71	78.78	n/a	n/a	n/a
53.00	53.00	44.00	44.00	37.00
72	73	66	70	68
4.82	4.82	4.10	4.10	3.52
11.06	11.06	11.42	11.42	11.12
25		25		25
1,174		1,079		979
11.47		8.29		8.00
11.68		8.90		8.75
8.10		7.24		6.65

(1) Excludes amortisation costs associated with the purchase of Leveraged Equities Limited and Adelaide Equity Finance Pty Ltd.

(2) Includes securitised assets.

The Directors present their report on the results of Adelaide Bank Limited ("the Bank" or "Adelaide Bank") and the consolidated entity for the year ended 30 June 2007 and the state of affairs of the Bank and the consolidated entity at that date.

Directors

The Directors of the Bank at any time during or since the end of the financial year are:

A. Lloyd (Chairman)

R. A. Cook (Deputy Chairman)

P. A. Crook

K. D. Abrahamson

K. G. Osborn

S. Crane

B. F. Fitzpatrick (retired from Board 15 Dec 2006)

J. L. McPhee (appointed as Group Managing Director 16 Dec 2006)

All the above Directors were in office from the beginning of the financial year until the date of this report other than as noted above. Particulars of the Directors' qualifications, experience and special responsibilities are set out in the Board of Directors section of the Annual Report, on pages 30-31.

As at the date of this report, the interests of the Directors in the Ordinary Shares, Reset Preference Shares ("RPS") and Step up Preference Shares ("SPS") of the Bank were:

	Ordinary Shares		RPS	SPS
	Fully Paid	Staff Plan	Fully Paid	Fully Paid
A. Lloyd	3,951	-	-	-
R.A. Cook	3,068	-	-	-
P.A. Crook	5,078	-	-	-
K.D. Abrahamson	14,703	-	129	180
K.G. Osborn	7,477	-	-	-
S. Crane	11,129	-	-	-
J.L. McPhee	10,000	496,496	-	-

No share options are on issue.

Directors' Meetings

The number of Board meetings including Board Committee meetings held and attended by each of the Directors of the Bank during the financial year were:

	Board of Directors		Risk Management Committee		Audit Committee		Governance, Remuneration and Nomination Committee	
	Number Eligible	Number Attended	Number Eligible	Number Attended	Number Eligible	Number Attended	Number Eligible	Number Attended
A. Lloyd	14	14	18	18	6	6	4	4
R.A. Cook	14	13	18	16	6	6	4	4
P.A. Crook	14	14	-	17	-	6	4	4
K.D. Abrahamson	14	14	18	18	6	6	-	4
K.G. Osborn	14	13	18	16	6	5	-	4
S. Crane	14	13	18	17	-	6	4	4
B.F. Fitzpatrick	7	5	10	6	-	3	-	1
J.L. McPhee	7	7	8	8	-	3	-	2

'Number eligible' reflects the number of meetings held during the period the Director was a member of the Board or relevant committee. Directors may attend meetings of Committees of which they are not members. These attendances are included in the above table.

Results and Dividends

The net profit after income tax for the Bank and consolidated entity for the year was $101.025 million (2006: $94.424 million). The results of the operations of the Bank and the consolidated entity during the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature other than the individually material item disclosed in Note 5. A review of these results is contained in the Chairman's Report and the Group Managing Director's Report in the Annual Report.

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

Dividend on Ordinary Shares	Cents Per Share	Franked	Total Dividend	Payment Date
Final dividend paid (for year ended 30 June 06)	32 cents	100%	$34.319m	13 Oct 06
Interim dividend paid (for year ended 30 June 07)	29 cents	100%	$31.274m	30 Mar 07
Final dividend declared (for year ended 30 June 07)	36 cents	100%	$38.994m	15 Oct 07

Fully franked dividends on step up preference shares paid by the Bank since the end of the previous financial year were:

Dividend on Hybrid Shares	Franked	Total Dividend	Payment Date
Step up preference shares	100%	$1.300m	10 Jul 06
Step up preference shares	100%	$1.360m	10 Oct 06
Step up preference shares	100%	$1.410m	10 Jan 07
Step up preference shares	100%	$1.410m	10 Apr 07
Step up preference shares	100%	$1.440m	10 Jul 07

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

Corporate Structure

Adelaide Bank is a company limited by shares that is incorporated and domiciled in Australia.

Nature of Operations and Principal Activities

The principal activities of the Bank and the consolidated entity during the year were the provision of Wholesale Mortgages, Business Lending, Wealth Management and Retail Banking services. There were no significant changes in the nature of these activities during the financial year.

Employees

The consolidated entity had 1,185 full-time equivalent ("FTE") employees as at 30 June 2007 (2006: 1,151 FTE employees).

Significant Changes in the State of Affairs

The state of affairs of the consolidated entity was not affected by any significant change during the year.

Significant Events after the Balance Date

Proposed Merger of Adelaide Bank Limited and Bendigo Bank Limited

On 9 August 2007, a proposed merger between Adelaide Bank and Bendigo Bank Limited ("Bendigo Bank") was announced. The proposed merger will be implemented by a Scheme of Arrangement of Adelaide Bank which will require approval by Adelaide Bank shareholders at a meeting planned for November 2007. Adelaide Bank shareholders will receive 1.075 Bendigo Bank shares per Adelaide Bank share. The Directors of Bendigo Bank and Adelaide Bank unanimously support the proposed merger. The Adelaide Bank Directors' recommendation is subject to the absence of a superior proposal and the opinion of an independent expert that the proposed merger is in the best interests of Adelaide Bank shareholders. The proposed merger is also subject to regulatory approvals. The proposed name of the merged entity is Bendigo and Adelaide Bank Limited.

The Boards of both Bendigo Bank and Adelaide Bank will each be reduced by two Directors when the companies are merged. This will result in a Board of twelve, including two Executive Directors.

Mr. Robert Johanson, Chairman of Bendigo Bank, will be the Chairman of the proposed merged group. Mr. Kevin Osborn, Non-Executive Director of Adelaide Bank will become the Deputy Chairman. Mr. Rob Hunt, Group Managing Director of Bendigo Bank, will lead the proposed merged entity as Group Managing Director until 1 July 2009. Mr. Jamie McPhee will be appointed to the Board of the proposed merged entity as an Executive Director and be responsible for the proposed merged entity's Wholesale Banking services. With Mr. Hunt's retirement in July 2009, Mr. McPhee will be well placed to succeed him as Group Managing Director.

As at the date of this report, the Australian Competition and Consumer Commission ("ACCC") has formally advised Adelaide Bank that it does not intend to oppose the proposed merger.

Significant Events after the Balance Date (continued)

Global Credit Issue

Since August 2007, global credit markets have been affected by developments that originated in the United States sub-prime mortgage industry. These developments have led to an increase in the cost of wholesale funds throughout global markets including Australia and in some cases a reduction in the availability of some offshore funding sources. As Adelaide Bank utilises a range of funding sources including wholesale funding, Adelaide Bank's overall cost of funds has increased as a consequence.

As a result of these events, Adelaide Bank has reviewed and continues to review its pricing models to ensure it is appropriately pricing its products to have regard to this cost increase to seek to maintain net interest margins. Adelaide Bank has adjusted certain interest rates for a number of categories of its loan products as a consequence.

Likely Developments and Expected Results

Details of likely developments in the operations of the consolidated entity in subsequent financial years are disclosed as considered appropriate in the Chairman's Report and Group Managing Director's Report in the Annual Report.

In the opinion of the Directors, disclosure of any further information would be prejudicial to the consolidated entity's interests.

Insurance and Indemnification of Directors and Officers

The Directors and Officers of the Bank have been indemnified against personal losses arising from their respective positions within the Bank. The Bank has the benefit of a Directors' and Officers' Insurance policy for each of the periods from 31 July 2006 to 30 July 2007 and from 31 July 2007 to 30 July 2008. Both policies insure the Bank for wrongful acts committed by Directors and Officers, subject to the policies' requirements and conditions.

In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

No liability has arisen under these indemnities as at the date of this report.

Company Secretary

Andrew Kamm LLB, FCIS

Mr. Kamm has been the Company Secretary of Adelaide Bank since 1993, having joined the organisation in 1988 as a solicitor.

This report outlines the remuneration arrangements in place for Directors and Executives of Adelaide Bank, including the Group Managing Director and the Chief General Managers. The information in this remuneration report includes remuneration disclosures that are required under Accounting Standard *AASB 124 Related Party Disclosures*. The disclosures have been transferred from the Financial Report and have been audited.

Remuneration Policy

The performance of the Bank depends on the quality of its Directors, Executives and key employees.

The Bank's remuneration policy links remuneration and performance and believes that paying for performance is imperative to achieve its vision and to attract and retain the right talent.

Remuneration is viewed as both an incentive and a reward mechanism. Variable reward is a key and increasing component of the pay mix.

The Bank ensures appropriate governance and administrative processes are in place to ensure the development and management of the remuneration framework.

Adelaide Bank adopts an approval and review process for remuneration decisions that reflects appropriate governance and transparency required for such decisions. For example, the Board approves the remuneration structures and outcomes of the Group Managing Director and Chief General Managers, and the Group Managing Director approves remuneration structures and outcomes for the direct reports to the Chief General Managers.

The Bank's remuneration practices have been developed with regard to the ASX corporate governance guidelines and are consistent with industry best practice.

The following principles are embodied in the Bank's remuneration framework:

- provide competitive reward opportunities to attract high calibre Executives
- link Executive rewards to shareholder value and strategic imperatives
- having a significant portion of Executive remuneration as a variable component which is subject to meeting pre-determined stretch performance hurdles
- establish appropriate, demanding performance hurdles in relation to variable Executive remuneration
- rewards linked to the performance of the Bank, business unit and the individual
- regular, independent reviews of the Bank's remuneration framework and levels of remuneration for Directors and Executives
- Executives earning and maintaining personal interest in the Bank through share ownership requirements
- Executives will be provided with a remuneration and reward framework that provides a mix of short and long-term incentives and reward.

Governance, Remuneration and Nomination Committee

The Governance, Remuneration and Nomination Committee of the Board of Directors is responsible for, amongst other things, reviewing and making recommendations to the Board on remuneration arrangements for the Directors, Group Managing Director and Executives.

The Committee reviews the nature and amount of Directors and Executives remuneration on a periodic basis by reference to relevant market conditions. The Committee's overall objective is to ensure maximum stakeholder benefit from the retention of a high quality Board and Executive team. It obtains independent advice in relation to the framework and management of fixed and variable remuneration (short-term and long-term incentives) for Executives and the remuneration of Directors.

The main functions of the Committee relating to remuneration include reviewing and making recommendations about:

- Policies for Executive remuneration and remuneration packages
- The Group Managing Director's remuneration
- Design of incentive schemes
- Remuneration issues relating to the recruitment and termination of Executives
- Superannuation arrangements
- The remuneration framework for Directors.

Other Committee functions relate to Board succession plans, the appointment and removal of Directors and competency requirements for Board members. Details of Committee meetings for the 2007 financial year are set out in the Directors' Meetings section of this Directors' Report.

The Committee's Charter is available in the Corporate Governance section of the Bank's website, www.adelaidebank.com.au

Review of Executive and Group Managing Director Remuneration effective from July 2007

In the second half of the 2007 financial year, the Governance, Remuneration and Nomination Committee conducted a full review of the Group Managing Director and Executive remuneration policy, strategy and framework with the assistance of an external consultant.

The Governance, Remuneration and Nomination Committee received advice with respect to the Executive remuneration policy, strategy and framework at Adelaide Bank. The process of review was lengthy and thorough and included direct input and review from committee members on a range of issues associated with the process.

The Board resolved to adopt the final recommendations of the review in June 2007.

Review of Executive and Group Managing Director Remuneration effective from July 2007 (continued)

Principles applied during the review and the development of the new Executive remuneration framework will be applied in reviewing the remuneration and reward policy, strategy and framework for all other employees in the 2008 financial year.

The Executive remuneration review considered the structure and mix of the framework, which includes:

- fixed remuneration
- variable reward
  - short-term incentive
  - long-term incentive.

The main issues considered in undertaking the review were:

- the new strategic direction and associated organisational structure of the Bank
- contemporary Australian executive remuneration practice
- appropriate competitive target markets and positioning within those markets
- the target mix between fixed and variable reward
- appropriate governance and administrative practice and design
- ensuring all Executives participated using the same principles within the remuneration framework.

The review confirmed the fundamentals of the existing remuneration policy, strategy and framework, but with changes to the short-term incentive ("STI") and long-term incentive ("LTI") programmes to improve:

- links with the Bank's strategic direction, imperatives and structure
- flexibility and simplicity within the design of the elements of the framework
- transparency of approach
- rewarding with reference to the Bank, business unit and individual performance
- the performance measures used to ensure that measurement is multifaceted and balanced (e.g. incorporating risk compliance measures within overall financial measures)
- the market competitiveness of the design of the framework components and the potential payouts
- alignment between the interests of Bank shareholders and Executives
- links with internal planning processes.

Non-Executive Director Remuneration

Objective

The Board seeks to set aggregate remuneration at a level which allows the Bank to attract and retain Directors of the highest calibre, and at a level that is cost effective and reasonable by reference to the marketplace.

Structure

In accordance with best practice corporate governance, the structure of Non-Executive Director remuneration is separate and distinct from Executive remuneration.

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount approved is then divided as agreed by the Board. The latest determination was at the Annual General Meeting held on 3 November 2006 when shareholders approved an aggregate remuneration of $1,075,000 per year.

The amount of aggregate remuneration and the manner in which it is apportioned amongst Directors is reviewed annually by the Board having regard to advice from external consultants and the fees paid to Non-Executive Directors of comparable companies when undertaking the annual review process.

Each Director receives a fee for being a Director of the Bank. To recognise the additional time commitments required, the fees for the Chair and Deputy Chair of the Board are higher than the fees for the other Non-Executive Directors. Directors who chair a Board committee also receive additional fees but additional fees are not paid for membership of a Board committee.

Each Non-Executive Director is required by the Bank's constitution to hold a minimum of 500 shares in the Bank to ensure a community of interest with shareholders and a clear understanding of the impact of policies on them. These shares are purchased by the Directors on market.

Non-Executive Directors are not entitled to performance-based bonuses or share options. Non-Executive Directors who joined the Board prior to 1 April 2003 are entitled to participate in the Banks' Directors' and Staff Superannuation Scheme, which requires Directors to salary sacrifice a portion of their fees; the Bank does not make any additional contributions to the fund. Directors appointed to the Board after 1 April 2003 receive superannuation at the minimum statutory level via salary sacrifice contributions from their fees. Directors' total fees are not adjusted to compensate for these differences in superannuation contributions. The Bank does not maintain any other retirement benefit scheme for Non-Executive Directors.

The remuneration of Non-Executive Directors for the period ending 30 June 2007 is detailed in Table 1 on page 71 of this Director's Report.

Group Managing Director and Executives

Remuneration Strategy

The key elements of the Bank's Executive remuneration strategy are:

- To provide moderate fixed reward around the 60th percentile level of the competitive target market
- To provide Total Target Reward, being total fixed reward plus long-term incentive plus short-term incentive, at a higher positioning in the competitive market, where good performance produces higher payouts under the STI and LTI Plans
- To provide above-target rewards for above-target performance through the STI Plan
- The performance measures used for Executive remuneration and reward will be a combination of internal and external measures that are linked to the Bank's strategic planning processes
- Executive remuneration will be provided through a combination of cash and shares, with flexible salary packaging facilities available.

Remuneration Framework

As noted above, the 2007 review confirmed the Executive remuneration framework but with changes to the STI and LTI plans to ensure that they are consistent with the Executive remuneration policy and strategy. The components of Executive remuneration remain as:

- fixed remuneration
- short-term incentive (generally with a 1-year timeframe)
- long-term incentive (generally with a 3-year timeframe).

Remuneration Mix

For the 2008 financial year the pay mix for Executives (as a percentage of Total Target Reward) will be as follows:

Position	Fixed Remuneration	STI	LTI	Total Target Reward
Group Managing Director	40%	30%	30%	100%
Chief General Managers	50%	25%	25%	100%

The pay mix has not changed for the Group Managing Director role. The 'at risk' component of the remuneration for the Chief General Managers has been increased as a proportion of Total Target Reward from their previous 60/20/20 pay mix.

Note that employees who have been promoted or recruited to an Executive role since 1 July 2005 have not participated in the July 2005 to June 2008 LTI plan, but were offered STI opportunity for the 2007 financial year based on key result areas on an individual basis. From 1 July 2007 all Executives will be remunerated in accordance with the new framework.

Fixed Remuneration

Objective

Fixed reward is set at a moderate and fair level relative to the competitive market within which the Bank operates. Fairness is assessed with reference to both the internal and external environment.

Structure

Fixed remuneration is reviewed annually by the Governance, Remuneration and Nomination Committee having regard to:

- Bank-wide, business unit and individual performance
- relevant comparative market remuneration
- internal and, where appropriate, external advice on policies and practices.

The Board reviews fixed remuneration for Executives each year in July for implementation effective 1 September.

Fixed remuneration is paid monthly, and Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. Any fringe benefit tax cost is borne by the Executive and not the Bank.

Fixed Remuneration Review effective from July 2007

The review of fixed remuneration as a component of the 2007 executive remuneration review specifically included consideration of:

- identifying the competitive market and establishing a target position within that market
- position matching against similar roles in similar organisations
- evaluation of the roles with reference to job sizing methodology
- the broader remuneration mix, and positioning of fixed remuneration within the mix with gearing towards variable reward.

The range mid point for fixed remuneration is generally aligned near the market 60th percentile at the beginning of the review period. Starting out marginally above the market median ensures that a median position is maintained over the 12 month period.

Variable Remuneration

Short-term Incentive

Objective

The objective of the STI program is to provide a link between the achievement of the Bank's operational targets and the remuneration received by the Executives responsible for achieving those targets.

Structure

The total potential STI available is set at a level that provides sufficient incentive to Executives to achieve the targets while ensuring that the cost to the Bank is reasonable in the circumstances.

The level of STI payments granted to each Executive depends on the extent to which specific operational targets set at the beginning of the financial year are met. The targets cover both financial and non-financial measures of performance.

The aggregate of annual STI payments available for Executives across the Bank is subject to the approval of the Governance, Remuneration and Nomination Committee. Payments are made annually in September each year in cash or in shares (purchased on market) at the election of the Executive.

Each year the Governance, Remuneration and Nomination Committee reviews the performance measures used in the STI plan for each Executive for the year ahead.

STI Plan for July 2006 to June 2007

Under the 2007 STI Plan, a two-step process was used to determine the bonus received by a participating Executive:

Step One

The maximum potential STI payable to an Executive for the 2007 year was determined by comparing Adelaide Bank's cash EPS growth performance with the minimum threshold figure equal to the predicted growth in average normalised cash EPS (excluding individually material items) of seven comparator banks (ANZ Bank, Westpac, Commonwealth Bank, National Australia Bank, St George Bank, Bank of Queensland and Bendigo Bank), calculated on a consistent accounting basis. This comparator group comprises all ASX-listed banks, excluding investment bank Macquarie Bank and banking/insurance group Suncorp-Metway.

The predicted growth in the simple average normalised cash EPS was sourced from the median forecasts of nine major, independent brokers. The maximum potential STI was then calculated as follows:

Adelaide Bank EPS Performance	Proportion of Maximum STI Bonus Potentially Payable
When threshold cash EPS growth is not met	0% of the Executive's STI component
When threshold cash EPS growth is met	80% of the Executive's STI component
When budgeted cash EPS growth is met	100% of the Executive's STI component
When budgeted cash EPS growth is exceeded	120% of the Executive's STI component

Variable Remuneration (continued)

The cash EPS measure has been considered to be appropriate for the banking sector, and therefore most relevant to the Bank.

Step Two

The proportion of the maximum potential STI bonus payable to an Executive was determined according to the extent to which the nominated corporate performance measures and the Executive's individual performance measures were satisfied. The Board has overriding discretion to approve STI payments. This includes the capacity to compensate for abnormal events impacting on incentive plan outcomes. Such events would be exceptional and outside of the Executive's control. This discretion exists to avoid any excessive focus by Executives on short-term Bank strategy or performance, therefore protecting the long-term interests of shareholders.

New STI Plan effective from July 2007

Objective

The STI plan will link a significant proportion of total Executive reward to annual organisation, business unit and individual performance. The STI plan will ensure that good performance is well-rewarded, and will provide competitive Executive remuneration to assist with the retention and attraction of Executive employees.

The focus of the STI plan is to tie any payment of variable reward for achievement against overall performance categories and clearly defined and quantified (where possible) key performance indicators ("KPIs"), measures and hurdles. Hurdles will be stretch and must be met to achieve target STI outcomes.

The Executive STI plan is designed to complement the new LTI Plan.

Key Principles

- The STI plan structure and calibration are designed to measure and reward for "whole of job" performance
- STI plan rewards will be based on aggregate performance scores against performance categories, and KPIs
- Business unit Executives have a strong weighting in incentive to grow underlying earnings and on achievement can exceed the targeted STI payment
- Payments in excess of the target level (i.e. the maximum available as a right for specified performance) will only be made at the discretion of the Board
- All payments under the STI plan are ultimately at the discretion of the Board.

Variable Remuneration (continued)

Structure

The main changes in the STI for 2008 have increased the links to:

1. overall Adelaide Bank financial performance
2. business unit financial performance (for Executives with responsibility for a profit centre business unit)
3. individual performance in accordance with balanced scorecard and key strategies/projects.

The key features are as follows:

- the STI performance period is based on a financial year
- performance categories and KPIs, measures, hurdles and weighting will be established and agreed in June each year, prior to the commencement of each performance period
- for the Group Managing Director, performance categories, KPIs, measures, hurdles and weighting will be approved by the Board
- for members of the Executive Team, the Board will approve performance categories and overall KPIs
- for members of the Executive Team, the Group Managing Director will set individual measures and hurdles against the KPIs
- progress towards hurdles will be discussed during the year in performance meetings
- review of performance against hurdles and recommendations about STI plan reward will occur no later than 31 July each year
- the STI plan design will be reviewed each year by the Board
- offers to participate in the Plan will be made on a year by year basis
- participants can elect to receive payment in cash or shares
- payments will be made on a graduated basis after assessment by the Governance, Remuneration and Nomination Committee and the Board.

Variable Remuneration (continued)

Long-term Incentive

Objective

Key objectives to be achieved through the LTI Plan include:

- Providing an incentive for sustainable growth
- Aligning the rewards and interests of participants with the Bank's growth and success including increasing share price
- Providing an incentive and attraction and retention mechanism for participants
- Enhancing strategic performance of the Bank
- Encouraging participants to hold Adelaide Bank equity.

Structure

July 2005 to June 2008 LTI Plan

Executives employed as at 1 July 2005 received grants of performance shares to provide the LTI element of their remuneration for the period 1 July 2005 to 30 June 2008. The shares were acquired on market and held in trust for Executives in the Deferred Employee Share Plan. The shares vest to participating Executives if the performance hurdles set by the Board are satisfied and subject to approval by the Board.

The performance measure for the 2005-2008 LTI Plan compares growth in Adelaide Bank's normalised cash EPS (excluding individually material items) with the normalised cash EPS growth of ANZ Bank, Westpac Bank, Commonwealth Bank, National Australia Bank, St George Bank, Bank of Queensland and Bendigo Bank, calculated on a consistent accounting basis, over the period 1 July 2005 to 30 June 2008. Cash EPS was considered to be an appropriate performance hurdle because it is directly impacted by Executives.

The LTI performance hurdles established for the 3 year period July 2005 to June 2008 are as follows:

If cash EPS growth is less than the comparator group average	No shares vest
If cash EPS growth matches or exceeds comparator group average by up to 9.99%	50% of shares vest
If cash EPS growth exceeds comparator group average by 10% to 19.99%	75% of shares vest
If cash EPS growth exceeds comparator group average by 20% or greater	100% of shares vest

No provision is made for any extension of any performance period, although the Board has overriding discretion to approve LTI payments, including the capacity to compensate for abnormal events outside the control of Executives that impact on incentive plan outcomes. This discretion exists to protect the long-term interests of shareholders by avoiding any excessive focus by Executives on short-term Bank strategy or performance.

Variable Remuneration (continued)

New LTI Plan effective from 1 July 2007

A new 'performance rights' LTI plan was introduced for all Executives with effect from 1 July 2007. Under this plan, Executives will receive annual grants of performance rights. For each performance right for which the specified performance conditions are satisfied (i.e. that 'vests'), an Executive will have one fully paid ordinary Adelaide Bank share allocated to an account held in the Executive's name by the plan Trustee. Executives are not required to pay for any performance rights they may be granted or for any shares that may be allocated to their account under the plan.

The key features of the offer under the new LTI plan are:

- The number of performance rights granted to an Executive was determined by dividing the LTI component of an Executive's annual remuneration by the weighted average price of Adelaide Bank shares over the five ASX trading days prior to 1 July 2007 ($15.53)
- The total number of performance rights granted to an Executive is split into two equal tranches
- The performance period for Tranche 1 is the 2 year period from 1 July 2007 to 30 June 2009; the performance period for Tranche 2 is the 3 year period from 1 July 2007 to 30 June 2010
- Two separate performance conditions will be used to determine the number of performance rights that vest to an Executive, with each performance condition applying to 50% of the total number of performance rights granted to the Executive (and to 50% of the performance rights in each tranche)
- The first performance condition is based on the Bank's relative Total Shareholder Return ("TSR") compared with the TSR performance of a comparator group of companies over the relevant performance period (see further details below)
- The second performance condition requires that the Bank's normalised cash EPS (excluding individually material items) to increase at least at an average compound annual growth rate of 8% over the relevant performance period (see further details below)
- The comparator group for the relative TSR test consists of the entities in the S&P/ASX 200 Financials index as at 1 July 2007, excluding real estate entities and property trusts
- Any Tranche 1 performance rights that do not vest over the period to 30 June 2009 will be re-tested over the 3 year period to 30 June 2010 and will vest to the extent that the relevant performance condition is satisfied and performance is higher than over the 2 year test period.

Variable Remuneration (continued)

- Subject to the ASX Listing Rules, the Board has the power to waive a performance condition in whole or in part and on terms it considers appropriate when determining how many performance rights will vest
- Executives cannot sell, transfer, hedge or otherwise deal with performance rights (breach of this provision will result in the performance rights lapsing immediately)
- Performance rights lapse if an Executive ceases employment during a performance period other than by reason of redundancy, death or total and permanent disablement after the first 12 months of the performance period
- If an Executive ceases employment by reason of redundancy, death or total and permanent disablement after the first 12 months of a performance period and the relevant performance conditions have been satisfied, the Board may at its discretion direct that a pro rata number of the performance rights held by the Executive will vest
- On a change of control or similar event, the Board has the discretion to direct that some or all of the performance rights held by an Executive will vest. Unless the Board determines otherwise, the number of performance rights that vest will be the pro-rated number of rights for which the performance conditions have been satisfied
- All performance rights and shares allocated to an Executive's account will be forfeited if the Executive: is dismissed for cause; in the Board's reasonable opinion acts fraudulently, dishonestly, is in serious breach of duty to the Bank or has brought the Bank into serious disrepute; or commits an act of harassment or discrimination.

The Performance Conditions for the 2007 LTI Offer (effective from 1 July 2007)

Total Shareholder Return

TSR measures growth in shareholder value – essentially movement in share price plus the value of dividends (assuming reinvestment) – over the relevant performance period.

The vesting scale for the relative TSR test is summarised in the following table:

Percentile Ranking of the Bank at the End of the Relevant Relative TSR Performance Period	Percentage of Performance Rights to Which the Relative TSR Performance Condition is Being Applied That Vest
Below 50th percentile	No performance rights vest
50th percentile	50% of performance rights vest
51st percentile to 74th percentile	Performance rights to vest increase by an additional 2% for each percentile increase
75th percentile or above	100% of performance rights vest

Variable Remuneration (continued)

Cash EPS Growth

The 'Cash EPS Growth Rate' is the average compound annual growth in the Bank's normalised cash EPS (excluding individually material items) over the relevant performance period, using the 2007 financial year as the base year.

The vesting scale for the EPS Growth test is summarised in the following table:

EPS Growth Rate Over the Relevant Performance Period*	Percentage of Performance Rights Subject to the EPS Growth Performance Condition That Vest
Less than 8%	No performance rights vest
8%	25.0%
9%	37.5%
10%	50.0%
11%	62.5%
12%	75.0%
13%	87.5%
14%	100.0%

** Note that the number of performance rights that vest increases by 1.25% for each additional 0.1% increase in the Bank's EPS Growth Rate.*

Holding Requirements for LTI Plan Shares

All Executives and the Group Managing Director are required to retain shares obtained under the plan, until the total value of those shares exceeds a specified dollar value. This has been set at a minimum $500,000 for the Group Managing Director and $250,000 for other Executives, and is subject to Board discretion. Once these minimum thresholds have been met, Executives may trade the shares in accordance with the terms and conditions of the plan, and with respect to all relevant laws and regulations, but are required to maintain shares at or above this minimum dollar value at all times. In addition, shares are required to remain in the plan for a minimum period of 12 months after vesting.

July 2005 to June 2008 Long-term Incentive Plan Transition

Eligible Executives, including the Group Managing Director, who are currently participating in the July 2005 to June 2008 LTI plan will transition to the new LTI plan with effect from 1 July 2007. They will receive a one-off award capped at 33% of the maximum number of shares available to them under the plan.

Employment Contracts

Group Managing Director

Former Group Managing Director – Mr. Barry Fitzpatrick

The former Group Managing Director retired on 15 December 2006. Details of payments associated with the retirement of Mr. Fitzpatrick are provided in Note 5.

Group Managing Director – Mr. Jamie McPhee

Mr. Jamie McPhee was appointed as Group Managing Director on 16 December 2006. The key terms of his employment contract are as follows:

Term

The term of appointment of Mr. McPhee commenced with effect from 16 December 2006, and subject to earlier termination under the Agreement, continues for a five year period from that date.

Remuneration

The Group Managing Director's remuneration is split into three parts: a fixed component (40%), STI target (30%), and LTI target (30%).

The fixed component of $800,000 per annum covers salary, fringe benefits tax and superannuation (to be reviewed annually).

The STI target is $600,000 (75% of the fixed component) per annum. The actual STI awarded will be determined at the discretion of the Board, based on Adelaide Bank and the Group Managing Director's performance against annual performance targets.

The LTI target is $600,000 (75% of the fixed component) per annum. The LTI performance criteria are based on two parts; 50% dependent on growth in normalised cash EPS (excluding individually material items) measured against a target set by the Board, having regard to a comparator group of companies; and 50% dependent on Total Shareholder Return, which will be measured against a group of peer companies in the financial services sector.

Participation in STI and LTI Plans

The Group Managing Director will participate in the LTI and STI plans on the same terms as other Executives.

Approvals

It is intended that any necessary shareholder approvals for the Group Managing Director's remuneration package will be sought at the 2007 Annual General Meeting. If any required shareholder approval for participation in the STI or LTI plans is not obtained, the Board will use reasonable endeavours to develop suitable alternative arrangements in consultation with the Group Managing Director.

Employment Contracts (continued)

Termination

The employment agreement may be terminated in the circumstances described below with the remuneration consequences as noted below, to the extent permitted by the *Corporations Act 2001*.

- Termination immediately by written notice from the Bank with payment of 12 months total fixed remuneration or, if there is less than 12 months of the term left to run, the value of the total fixed remuneration for the unexpired term*
- Termination by the Bank with 12 months written notice or, if there is less than 12 months of the term left to run, written notice of a period equal to the unexpired term (or payment in lieu of such notice)*
- Termination by Mr. McPhee with six months written notice or, if there is less than six months of the term left to run, written notice of a period equal to the unexpired term
- Termination by Mr. McPhee immediately by written notice if there is a change in Mr. McPhee's duties or responsibilities without his agreement which could reasonably be regarded as having materially changed his status or authority*
- Termination by the Bank immediately without notice in circumstances warranting summary dismissal.

On termination in all circumstances, untaken leave entitlements, unpaid salary and unpaid superannuation contributions will also be paid. Mr. McPhee will also be entitled to retain any vested entitlements under the LTI plans in which he participates and in some circumstances performance rights may vest on termination, as detailed in this report.

* On termination in these circumstances, Mr. McPhee is also entitled to a cash payment of 58/52 of his total fixed remuneration, increasing each year by 3/52 of total fixed remuneration to a maximum of 90/52 of total fixed remuneration, in recognition of his 18 years of previous service at the time of his appointment as Group Managing Director. These payments are in accordance with existing Bank policy.

Restraints

A six month post-employment restraint on Mr. McPhee engaging in any competitive business activity that materially damages or is likely to materially damage the Bank's reputation or business, engaging in work in any capacity in competition with the Bank, soliciting customers, interfering with the relationship between the Bank and its customers, employees and suppliers and inducing employees to leave their employment with the Bank.

While employed, protection of the Bank's intellectual property rights, avoidance of conflicts of interest and confidentiality must be maintained.

Employment Contracts (continued)

Executives

The contracts of employment of all Executives are not for fixed terms.

The principal terms of the Service Agreements of Executives other than the Group Managing Director include:

- The Agreements are on-going, but subject to termination by the Bank with six months written notice and by the Executive with three months written notice (or payment in lieu at the Bank's discretion)
- The components of remuneration as outlined in this report, including participation in the STI and LTI plans
- The Bank may make a payment in lieu of requiring the service of the notice period. In case of redundancy the Bank is required to give six weeks notice or pay in lieu of notice, and to pay seven weeks pay for the first year of service and three weeks for each year thereafter, to a maximum of 90 weeks pay
- Upon termination of employment, the Executives are also entitled to receive their statutory entitlements to accrued annual and long service leave
- Upon termination of employment, the Board has a discretion to direct the forfeiture, or to pay the benefit of, any award to be made under either the STI or LTI plan that remain subject to the satisfaction of any performance or other criteria.

Table 1 Remuneration Information Relating to the 2007 Financial Year

Remuneration of Directors and Executives

		Base Salary	Short Term Incentive	Long Term Incentive	Super-annuation	Share Loans	Total	Accumulated Superannuation Benefits as at 30 June 2007
		$	$	$	$	$	$	$
Directors								
			(a)	(b)	(c)	(d)		(e)
A. Lloyd (Chairman)	2007	194,720	-	-	38,945	-	**233,665**	272,047
	2006	141,250	-	-	28,250	-	**169,500**	156,645
R.A. Cook (Deputy Chairman)	2007	127,609	-	-	25,522	-	**153,131**	221,607
	2006	81,500	-	-	46,300	-	**127,800**	166,457
P.A. Crook	2007	78,204	-	-	15,641	-	**93,845**	100,280
	2006	73,500	-	-	14,700	-	**88,200**	78,140
K.D. Abrahamson	2007	92,201	-	-	18,440	-	**110,641**	192,462
	2006	86,666	-	-	17,334	-	**104,000**	87,249
K.G. Osborn	2007	106,245	-	-	9,562	-	**115,807**	39,508
	2006	100,000	-	-	9,000	-	**109,000**	27,019
S. Crane	2007	164,078	-	-	14,767	-	**178,845**	21,500
	2006	80,917	-	-	7,283	-	**88,200**	8,441
B.F. Fitzpatrick (former Managing Director)	2007	8,143,431	-	-	676,907	2,934	**8,823,272**	-
Retired 15 Dec 2006	2006	973,733	990,000	-	122,400	20,154	**2,106,287**	4,766,968
J.L. McPhee (Managing Director)	2007	622,681	656,657	427,000	73,257	32,687	**1,812,282**	1,338,566
Appointed 16 Dec 2006 ^	2006	511,785	512,400	-	60,210	38,020	**1,122,415**	1,062,766
Total Remuneration: Directors	**2007**	**9,529,169**	**656,657**	**427,000**	**873,041**	**35,621**	**11,521,488**	**2,185,971**
	2006	**2,049,351**	**1,502,400**	**-**	**305,477**	**58,174**	**3,915,402**	**6,353,685**
Executives								
F. Lupoi	2007	343,944	92,250	115,000	42,385	6,396	**599,975**	500,058
	2006	312,546	138,000	-	40,560	7,385	**498,491**	390,041
A. Kamm	2007	303,683	134,400	107,000	38,174	10,285	**593,542**	645,645
	2006	290,903	128,400	-	36,567	11,952	**467,822**	567,166
A. Baum	2007	300,645	134,400	97,000	52,400	-	**584,445**	441,637
S. Small	2007	278,278	75,750	97,000	42,385	-	**493,413**	252,302
T. Piper	2007	289,944	80,400	64,000	42,385	-	**476,729**	89,693
P. Riquier	2007	199,877	75,000	28,667	23,515	-	**327,059**	371,225
J. Carne (commenced 28 Sep 2006)	2007	146,115	75,000	-	25,467	-	**246,582**	21,737
R. Fennell (commenced 19 Mar 2007)	2007	82,136	41,000	-	14,316	-	**137,452**	13,349
D. Hughes (commenced 18 Jun 2007)	2007	10,929	-	-	1,905	-	**12,834**	-
Total Remuneration: Executives	**2007**	**1,955,551**	**708,200**	**508,667**	**282,932**	**16,681**	**3,472,031**	**2,335,645**
	2006	**603,449**	**266,400**	**-**	**77,127**	**19,337**	**966,313**	**957,207**

^ Includes remuneration for full year.

Notes to Table 1 Remuneration Information relating to the 2007 financial year

The format has changed from last year (including comparatives) to better reflect the remuneration that relates to the respective financial years.

(a) 2007 STI amounts are based on short-term performance objectives being met for the year ended 30 June 2007. Board discretion was exercised in vesting these benefits. STI amounts vesting were taken in shares or cash and have been recognised as an expense in the Income Statement for the year ended 30 June 2007.

(b) 2007 LTI amounts represent a one-off award to eligible Executives who were participating in the July 2005 to June 2008 LTI plan and have transitioned to the new LTI plan with effect from 1 July 2007. These amounts were capped at one-third of the maximum amount available to them under the July 2005 to June 2008 plan and have been recognised as an expense in the Income Statement for the year ended 30 June 2007. An amount of $1.3 million has been accrued in the 2007 financial year relating to this one-off payment. The 2007 Income Statement also contains a $2.9 million credit adjustment being the reversal of the accrued expense relating to the July 2005 to June 2008 plan. The comparison figures for 2006 have been disclosed as nil. The Income Statement for the year ended 30 June 2006 included an accrued expense amount of $2.9 million that reflected the July 2005 to June 2008 LTI plan that has been reversed in the 2007 financial year, in line with the transition to the new LTI plan effective 1 July 2007.

(c) Superannuation is based on contributions made by the Bank to accumulation and defined benefit funds to provide for superannuation benefits.

(d) Interest free loans have been granted to various Executives and Directors to fund share entitlements under a previous Executive Share Plan. The amounts included in the table above are calculated as the annual cost based on the cost to the Bank.

(e) Superannuation benefits show the entitlement of Directors and Executives as at 30 June 2007 if they were to retire at that date.

(f) No options were granted during the year and no options are currently on issue.

Environmental Regulation

The consolidated entity is not subject to any specific environmental regulation under any Australian law. However, it may become subject to environmental regulation in enforcing securities over land for the recovery of loans.

Auditor Independence

The Directors received an auditor's independence declaration from the auditor of Adelaide Bank. This is contained on page 76 of this Report.

Non Audit Services

The following non-audit services were provided by the Bank's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received the following amounts for the provision of non-audit services during the financial year:

Tax compliance and advice	$970,748
Assurance related accounting advice	$230,286

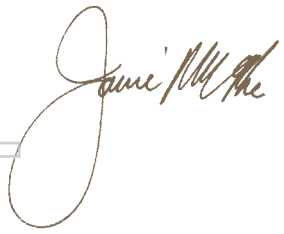
Corporate Governance

Details of main corporate governance practices adopted by the Bank are set out on pages 36-43 of this Annual Report. Unless otherwise stated, all these practices were in place for the entire year.

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). 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.



J.L. McPhee
Group Managing Director
Adelaide, South Australia
27 September 2007

Independent Audit Report to Members of Adelaide Bank Limited

ERNST & YOUNG

We have audited the accompanying Financial Report of Adelaide Bank Limited and the entities it controlled during the year, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' Declaration.

The Bank has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of *AASB 124 Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report" on pages 55 to 72 of the Directors' Report, as permitted by Corporations Regulation 2M.6.04.

Directors' Responsibility for the Financial Report

The Directors of the Bank are responsible for the preparation and fair presentation of the Financial Report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the Financial Report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the Directors also state that the Financial Report complies with International Financial Reporting Standards. The Directors are also responsible for the remuneration disclosures contained in the Directors' Report.

Auditor's Responsibility

Our responsibility is to express an opinion on the Financial Report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the Financial Report is free from material misstatement and that the remuneration disclosures comply with Accounting Standard *AASB 124 Related Party Disclosures*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Report. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the Financial Report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Bank's preparation and fair presentation of the Financial Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Financial Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Audit Report to Members of Adelaide Bank Limited (continued)

ERNST & YOUNG

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the Directors of the Bank a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. In addition to our audit of the Financial Report and the remuneration disclosures, we were engaged to undertake the services disclosed in the Notes to the Financial Statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. the Financial Report of Adelaide Bank Limited is in accordance with:
   - (a) the *Corporations Act 2001*, including:
     - (i) giving a true and fair view of the financial position of Adelaide Bank Limited and the consolidated entity at 30 June 2007 and of their performance for the year ended on that date; and
     - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations); and
   - (b) other mandatory financial reporting requirements in Australia.
2. the Financial Report also complies with International Financial Reporting Standards as disclosed in Note 2.
3. the remuneration disclosures that are contained within the Directors' Report comply with Accounting Standard *AASB 124 Related Party Disclosures*.

Ernst & Young

Ernst & Young

C Dunsford
Partner
Adelaide, South Australia
27 September 2007

ERNST & YOUNG

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

In relation to our audit of the Financial Report of Adelaide Bank Limited for the financial year ended 30 June 2007, 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

Ernst & Young

C Dunsford
Partner
Adelaide, South Australia
27 September 2007

Director's Declaration

In the opinion of the Directors of Adelaide Bank Limited:

(1) (a) the Financial Report and the additional disclosures included in the Directors' Report designated as audited, of the Bank and of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Bank's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards and Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

(2) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial period ending 30 June 2007.

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

J.L. McPhee
Group Managing Director
Adelaide, South Australia
27 September 2007

Income Statement
For the Year Ended 30 June 2007

	Note	Consolidated 2007 $000's	Consolidated 2006 $000's	Bank 2007 $000's	Bank 2006 $000's
Interest income		1,912,673	1,476,873	1,656,393	1,314,894
Less Interest expense		1,647,622	1,226,793	1,513,275	1,211,934
Net interest income		265,051	250,080	143,118	102,960
Add Securitisation income		-	-	60,665	88,239
Add Other income	3	70,412	61,607	104,990	59,342
Net operating income		335,463	311,687	308,773	250,541
Less Bad and doubtful debt expense	3	17,903	11,825	16,101	11,824
Less Other expenses	3	171,925	161,554	140,772	145,979
Profit before income tax expense		**145,635**	**138,308**	**151,900**	**92,738**
Income tax expense	4	44,610	43,884	33,850	28,737
Profit after income tax expense		**101,025**	**94,424**	**118,050**	**64,001**

Basic and fully diluted earnings per share (cents)	7	88.52	84.16
Fully franked ordinary dividends per share (cents)		65.00	58.00

Balance Sheet
As at 30 June 2007

	Note	Consolidated 2007 $000's	Consolidated 2006 $000's	Bank 2007 $000's	Bank 2006 $000's
Assets					
Cash		78,409	41,580	54,816	35,412
Money at call		523,417	179,565	472,432	92,702
Balances due from other banks	8	251,546	167,130	251,546	167,130
Available for sale financial assets	9	3,000	-	3,000	-
Held for trading financial assets	9	2,511,009	1,408,408	2,511,009	1,308,462
Held to maturity investments	9	171,331	338,236	2,576	30,844
Derivative financial assets	30	168,820	28,305	113,002	28,305
Loans and receivables – investment	10	802,391	452,410	802,391	452,410
Net loans and receivables	10	26,732,365	23,306,234	21,604,654	18,457,114
Investment in controlled entities	13	-	-	816,226	1,021,390
Property, plant and equipment	14	29,935	34,421	17,247	21,228
Intangible assets	15	38,431	37,899	4,551	4,019
Deferred tax assets	4	70,500	38,226	17,596	16,595
Other assets	16	189,561	179,039	234,704	267,930
Total assets		**31,570,715**	**26,211,453**	**26,905,750**	**21,903,541**
Liabilities					
Deposits	17	15,624,742	12,087,329	15,656,350	12,099,120
Notes payable		13,846,921	12,454,378	-	-
Loans payable to securitisation trusts		-	-	9,209,986	8,075,358
Balances due to other banks	18	175,362	121,443	175,362	121,443
Provisions	19	17,419	16,711	17,419	16,711
Current tax liabilities	4	6,679	14,403	6,679	14,519
Deferred tax liabilities	4	30,152	19,986	28,070	19,480
Other liabilities	20	464,873	316,424	476,741	435,860
Derivative financial liabilities	30	184,228	4,742	127,337	-
Reset preference shares		99,845	99,381	99,845	99,381
Subordinated debt	21	372,000	342,000	372,000	342,000
Total liabilities		**30,822,221**	**25,476,797**	**26,169,789**	**21,223,872**
Net assets		**748,494**	**734,656**	**735,961**	**679,669**
Equity					
Ordinary share capital	22(a)	400,274	386,278	400,274	386,278
Step up preference share capital	22(b)	97,451	97,451	97,451	97,451
Treasury shares / employee benefits reserve	22	(3,506)	(6,085)	(3,506)	(6,085)
Reserves	22	23,885	21,123	47,599	19,408
Retained earnings	22	230,390	235,889	194,143	182,617
Total equity		**748,494**	**734,656**	**735,961**	**679,669**

	Consolidated		Bank	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Net gain / (loss) on cash flow hedge taken to equity	(50,097)	33,206	(13,769)	30,756
Income tax on cash flow hedge	15,029	(9,962)	4,131	(9,227)
	(35,068)	23,244	(9,638)	21,529
Actuarial gain on superannuation defined benefits plan	829	890	829	890
Income tax on superannuation defined benefits plan	(249)	(267)	(249)	(267)
	580	623	580	623
Available for sale revaluation	2,750	-	2,750	-
Income tax on available for sale revaluation	(825)	-	(825)	-
	1,925	-	1,925	-
Net income / (loss) recognised directly in equity	**(32,563)**	**23,867**	**(7,133)**	**22,152**
Profit for the year	101,025	94,424	118,050	64,001
Total recognised income and expenses for the period	**68,462**	**118,291**	**110,917**	**86,153**
Attributable to equity holders of Adelaide Bank Limited	68,462	118,291	110,917	86,153

Cash Flow Statement
For the Year Ended 30 June 2007

	Note	Consolidated 2007 $000's	Consolidated 2006 $000's	Bank 2007 $000's	Bank 2006 $000's
Cash flows from operating activities					
Net interest income		289,614	257,412	222,277	111,279
Dividend from controlled entities		-	-	40,000	-
Loan fees and other income		71,410	59,579	69,904	142,147
Operating expenses		(176,330)	(165,064)	(165,222)	(147,658)
Income taxes paid		(60,435)	(48,599)	(50,007)	(24,252)
Net cash flows from operating activities	**23(b)**	**124,259**	**103,328**	**116,952**	**81,516**
Cash flows from investing activities					
Acquisition of property, plant & equipment		(2,775)	(8,082)	(2,775)	(8,048)
Proceeds from sale of non-current assets		896	427	896	427
(Increase) in investments		(1,079,211)	(529,582)	(1,261,976)	(223,582)
(Increase) in due from other banks		(84,416)	(11,965)	(84,416)	(11,965)
Decrease in inter-company advances		-	-	205,164	415,020
(Increase) in loan advances		(6,519,639)	(7,401,129)	(5,345,382)	(6,461,309)
(Increase) in other assets		(1,867)	(3,266)	(1,867)	(3,266)
Net cash flows used in investing activities		**(7,687,012)**	**(7,953,597)**	**(6,490,356)**	**(6,292,723)**
Cash flows from financing activities					
Proceeds from subordinated note issue		30,000	30,000	30,000	30,000
Increase in notes payable		4,378,696	6,991,530	-	-
Increase in loans payable to securitisation trusts		-	-	3,187,983	5,496,917
Payment of shares issue costs		(27)	(19)	(27)	(19)
Increase in due to other banks		53,919	12,561	53,919	12,561
Increase in deposits		3,537,877	319,907	3,557,694	330,704
Payment of dividends on hybrid shares		(5,480)	(5,200)	(5,480)	(5,200)
Payment of dividends on ordinary shares		(51,551)	(19,274)	(51,551)	(19,274)
Net cash flows from financing activities		**7,943,434**	**7,329,505**	**6,772,538**	**5,845,689**
Net increase / (decrease) in cash held		380,681	(520,764)	399,134	(365,518)
Opening cash		221,145	741,909	128,114	493,632
Closing cash	**23(a)**	**601,826**	**221,145**	**527,248**	**128,114**

Note 1 Corporate Information

The Financial Report of Adelaide Bank Limited for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the Directors on 27 September 2007.

Adelaide Bank Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange. The ultimate parent entity is Adelaide Bank Limited.

The nature of the operations and principal activities of the Group are described in Note 37 Segment Information.

Note 2 Summary of Significant Accounting Policies

A summary of the significant accounting policies adopted by the consolidated entity is set out in this note.

(a) Basis of Preparation of Financial Statements

The 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 and other mandatory professional reporting requirements.

This Financial Report has been prepared on a historical cost basis, except for derivative financial instruments and available for sale investments which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

(b) Basis of 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.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

A list of controlled entities is shown in Note 39.

Note 2 Summary of Significant Accounting Policies (continued)

(c) 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:

(i) Impairment of Goodwill

The Group determines whether goodwill is impaired at least annually. 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 2(d) and Note 15.

(ii) 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 2(l) and Note 36.

(iii) 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 Group's policy for calculation of loan loss allowances is disclosed in Note 2(w).

(d) Intangibles

Goodwill represents the excess of the cost of business combinations over the acquirer's 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.

Capitalised software costs that are not an integral part of the associated hardware are classified as intangibles, and are amortised over the useful life of the asset and assessed for impairment whenever there is an indication that the asset may be impaired. The amortisation of the intangible asset is recognised as an expense in the Income Statement.

Note 2 Summary of Significant Accounting Policies (continued)

(e) Income Tax

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.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to calculate the amount are those that are enacted or substantively enacted by the Balance Sheet date.

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

Deferred tax liabilities are recognised for all taxable temporary differences except:

- when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary difference 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, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Note 2 Summary of Significant Accounting Policies (continued)

(f) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office ("ATO") in which case the GST is recognised as part of the cost of acquisition of the asset or as an expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from or payable to the ATO is included as part of receivables or payables in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to the ATO, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the ATO.

(g) Loans and Advances

Loans and Advances include all forms of lending and direct finance provided to customers such as term loans, margin loans, overdrafts, credit card advances, lease finance and other facilities.

Loans and Advances are carried at amortised cost.

Credit Assessment

All loans are subject to strict credit assessment and are graded according to the assessed level of credit risk using the Bank's credit risk grading systems.

(h) Loan Securitisation

The parent entity, through its loan securitisation program, securitises mortgage loans to the Torrens Trusts and Lighthouse Trusts ("the Trusts") which in turn issue rated securities to investors. Leveraged Equities Limited and its controlled entity through its loan securitisation program, securitises margin loans to the Lighthouse Trusts ("the Trusts") which in turn issue rated securities to investors. Fees are received for various services provided to the Trusts on an arms-length basis, including servicing fees and management fees and are reported in the Income Statement. The parent entity also provides arms-length interest rate swaps and loan facilities to the Trusts.

Costs incurred in the establishment of a securitisation issue are amortised over the life of the issue.

(i) 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 included in Net Loans and Receivables in the Balance Sheet. These fees are amortised over the expected life of the asset and recorded in the Income Statement as a yield adjustment to Net Interest Income or written off at the time of discharge if earlier.

Note 2 Summary of Significant Accounting Policies (continued)

(j) Leases

Lease expenditure relating to operating leases is recognised as an expense in the Income Statement over the lease term. No finance leases have been entered into.

(k) Property, Plant and Equipment

Cost

Property, plant and equipment are measured at cost.

Depreciation

Depreciable assets are depreciated at rates based upon their expected useful economic lives, using the straight line method.

Major depreciation periods are:

	2007	2006
Freehold Buildings	40 years	40 years
Plant and Equipment	2 to 10 years	2 to 10 years

Impairment

The carrying values of property, plant and equipment are reviewed for impairment at each reporting date, with recoverable amounts being estimated when events or changes in circumstances indicate that the carrying value may be impaired. An impairment exists when the carrying value of an asset exceeds its estimated recoverable amount. The asset is then written down to its recoverable amount.

(l) 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 employment 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 2 Summary of Significant Accounting Policies (continued)

(m) Earnings per Share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted for hybrid dividends, divided by the weighted average number of ordinary shares during the financial year.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for hybrid dividends, divided by the weighted average number of ordinary shares (both issued and potentially dilutive) during the financial year.

(n) Equity

Ordinary and hybrid share capital is recognised at the fair value of the consideration received by the Bank.

Any transaction costs arising on the issue of ordinary shares or hybrid shares, are recognised directly in equity as a reduction of the share proceeds received.

(o) Cash and Cash Equivalents

Cash and cash equivalents in the Balance Sheet comprise cash at bank and in hand and short-term deposits at call. For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(p) Securitisation and Special Purpose Vehicles ("SPVs")

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

(q) Share Based Payments

Long-term Incentive Plan (July 2005 to June 2008 plan)

The Bank purchases the required 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 three year plan. The shares purchased are disclosed as Treasury Shares within the Equity section of the Balance Sheet and an expense is recognised in the Income Statement over the vesting period (three years) with a corresponding entry to Employee Benefits Reserve (Equity).

Short-term Incentive Plan

The Bank purchases the required 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 (one year) with a corresponding entry to Employee Benefits Reserve (Equity).

Note 2 Summary of Significant Accounting Policies (continued)

Allocation Scheme

The Bank's current practice involves purchasing the required 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, 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).

(r) Loan Portfolio Premium

The Loan portfolio premium is included as part of Net Loans and Receivables 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.

(s) Investments and Other Financial Assets

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.

(t) Operating Revenue

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 as deferred income in the Balance Sheet and is reported in the Income Statement on a yield adjusted basis over the expected term of the loan.

(u) Derivative Financial Instruments and Hedging

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to net profit or loss for the year. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

Note 2 Summary of Significant Accounting Policies (continued)

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or
- cash flow hedges when they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction.

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

(i) Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured to fair value and gains and losses from both are taken to profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Note 2 Summary of Significant Accounting Policies (continued)

(ii) Cash Flow Hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in Equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to Equity are transferred to the Income Statement when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the Income Statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the Income Statement.

Hedges that do not meet the strict criteria for hedge accounting have any ineffectiveness recognised directly in the Income Statement.

(v) Hybrid Capital Instruments

Reset Preference Shares

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

These instruments are classified as Equity and the distributions are classified as dividends.

(w) Loan Provisioning

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 and the underlying value of the security.

Note 2 Summary of Significant Accounting Policies (continued)

Collective Impairment Provision

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, current available information for assets with similar risk characteristics and objective evidence, the appropriate collective impairment provision is raised.

All personal loan, revolving credit and visa arrears are fully provided as a collective impairment provision 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.

(x) Dividends

Revenue is recognised when the Group's right to receive the payment is established. Inter-company dividends paid from wholly-owned subsidiaries to the parent entity are recorded as 'Other income' and are eliminated on consolidation.

(y) Comparatives

Where appropriate, amounts shown for prior periods have been reclassified to facilitate comparison.

(z) Statement of Compliance

The consolidated 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").

(aa) Foreign Currency Transactions and Balances

Both the functional and presentation currency of Adelaide Bank and its subsidiaries is Australian dollars ("AUD"). Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates on the date of the transaction.

Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange at that date. Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the Income Statement.

Note 2 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 year ending 30 June 2007. The table below outlines each of these amended standards and the expected change in accounting policy when applied, if any.

Reference	Title	Summary	Application Date of Standard*	Impact on Group Financial Report	Application Date for Group*
AASB 2005-10	Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]	Amending standard issued as a consequence of *AASB 7 Financial Instruments: Disclosures*	1 January 2007	AASB 7 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However, the amendments will result in changes to the financial instrument disclosures included in the Group's financial report.	1 July 2007
AASB 2007-1	Amendments to Australian Accounting Standards arising from AASB Interpretation 11 [AASB 2]	Amending standard issued as a consequence of AASB Interpretation 11 *AASB 2 – Group and Treasury Share Transactions*.	1 March 2007	This is consistent with the Group's existing accounting policies for share-based payments, so the amendments are not expected to have any impact on the Group's financial report.	1 July 2007
AASB 2007-2	Amendments to Australian Accounting Standards arising from AASB Interpretation 12 [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 & AASB 139]	Amending standard issued as a consequence of AASB Interpretation 12 *Service Concession Arrangements*.	1 January 2008	The Group currently has no service concession arrangements or public-private-partnerships (PPP), so the amendments are not expected to have any impact on the Group's financial report.	1 July 2008
AASB 2007-3	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]	Amending standard issued as a consequence of *AASB 8 Operating Segments*.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However the amendments may have an impact on the Group's segment disclosures as segment information included in internal management reports is more detailed than is currently reported under *AASB 114 Segment Reporting*.	1 July 2009

*designates the beginning of the applicable annual reporting period

Note 2 Summary of Significant Accounting Policies (continued)

Reference	Title	Summary	Application Date of Standard*	Impact on Group Financial Report	Application Date for Group*
AASB 2007-4	Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments [AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023 & 1038]	Amendments arising as a result of the AASB decision that, in principle, all options that currently exist under IFRSs should be included in the Australian equivalents to IFRSs and additional Australian disclosures should be eliminated, other than those now considered particularly relevant in the Australian reporting environment.	1 July 2007	These amendments are expected to reduce the extent of some disclosures in the Group's financial report.	1 July 2007
AASB 2007-5	Amendments to Australian Accounting Standard – Inventories Held for Distribution by Not-for-Profit Entities [AASB 102]	This Standard makes amendments to *AASB 102 Inventories*.	1 July 2007	This amendment only relates to Not-for-Profit Entities and as such is not expected to have any impact on the Group's financial report.	1 July 2007
AASB 2007-6	Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]	Amending standard issued as a consequence of revisions to *AASB 123 Borrowing Costs*	1 January 2009	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised. The Group has no borrowing costs associated with qualifying assets and as such the amendments are not expected to have any impact on the Group's financial report.	1 July 2009

*designates the beginning of the applicable annual reporting period

Note 2 Summary of Significant Accounting Policies (continued)

Reference	Title	Summary	Application Date of Standard*	Impact on Group Financial Report	Application Date for Group*
AASB 2007-7	Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]	Amending standards for wording errors, discrepancies and inconsistencies.	1 July 2007	The amendments are minor and do not affect the recognition, measurement or disclosure requirements of the standards. Therefore the amendments are not expected to have any impact on the Group's financial report.	1 July 2007
AASB 7	*Financial Instruments: Disclosures*	New standard replacing disclosure requirements of *AASB 130 Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and *AASB 132 Financial Instruments: Disclosure and Presentation.*	1 January 2007	Refer to AASB 2005-10 above.	1 July 2007
AASB 8	*Operating Segments*	New standard replacing *AASB 114 Segment Reporting,* which adopts a management approach to segment reporting.	1 January 2009	Refer to AASB 2007-3 above.	1 July 2009
AASB 123 (amended)	*Borrowing Costs*	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset must be capitalised.	1 January 2009	Refer to AASB 2007-6 above.	1 July 2009
AASB Interpretation 10	*Interim Financial Reporting and Impairment*	Addresses an inconsistency between *AASB 134 Interim Financial Reporting* and the impairment requirements relating to goodwill in *AASB 136 Impairment of Assets* and equity instruments classified as available for sale in *AASB 139 Financial Instruments: Recognition and Measurement.*	1 November 2006	The prohibitions on reversing impairment losses in AASB 136 and AASB 139, which are to take precedence over the more general statement in AASB 134, are not expected to have any impact on the Group's financial report.	1 July 2007

*designates the beginning of the applicable annual reporting period

Note 2 Summary of Significant Accounting Policies (continued)

Reference	Title	Summary	Application Date of Standard*	Impact on Group Financial Report	Application Date for Group*
AASB Interpretation 11	*AASB 2 – Group and Treasury Share Transactions*	Addresses whether certain types of share-based payment transactions with employees (or other suppliers of good and services) should be accounted for as equity-settled or as cash-settled transactions under *AASB 2 Share-based Payment.* It also specifies the accounting in a subsidiary's financial statements for share-based payment arrangements involving equity instruments of the parent.	1 March 2007	Refer to AASB 2007-1 above.	1 July 2007
AASB Interpretation 12	*Service Concession Arrangements*	Clarifies how operators recognise the infrastructure as a financial asset and/or an intangible asset – not as property, plant and equipment.	1 January 2008	Refer to AASB 2007-2 above.	1 July 2008
IFRIC Interpretation 13	*Customer Loyalty Programmes*	Deals with the accounting for customer loyalty programmes, which are used by companies to provide incentives to their customers to buy their products or use their services.	1 July 2008	The Group does have customer loyalty programmes, however this interpretation is not expected to have any impact on the Group's financial report.	1 July 2008
IFRIC Interpretation 14	*IAS 19 – The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements*	Aims to clarify how to determine in normal circumstances the limit on the asset that an employer's balance sheet may contain in respect of its defined benefit pension plan.	1 January 2008	The Group does have a defined benefit superannuation plan and as such this interpretation may have an impact on the Group's financial report. The Group has not yet determined the extent of the impact, if any.	1 July 2008

*designates the beginning of the applicable annual reporting period

Note 3 Revenue and Expenses

	Consolidated		Bank	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Other income				
Insurance commissions	3,741	4,329	3,741	4,329
Loan fees	25,039	20,032	25,039	20,032
Transaction fees	10,208	9,271	10,208	9,271
Account service fees	10,242	9,728	10,242	9,728
Visa income	3,285	3,535	3,285	3,535
Dividends from controlled entities	-	-	40,000	-
Other income	17,897	14,712	12,475	12,447
	70,412	**61,607**	**104,990**	**59,342**
Bad and doubtful debts expense				
Bad debts written off	9,415	5,976	9,414	5,519
Specific provisions	12,527	6,131	10,726	6,131
Collective impairment provision	2,666	2,893	2,666	2,893
Less Reversal of specific provisions	4,946	1,844	4,946	1,388
Less Bad debts recovered	1,759	1,331	1,759	1,331
	17,903	**11,825**	**16,101**	**11,824**
Other expenses				
Staff expenses	99,733	98,419	80,287	86,735
Occupancy expenses	9,151	9,055	8,194	8,911
Technology costs	10,953	12,233	8,575	11,289
Depreciation and amortisation	7,590	6,706	7,084	6,202
Communications, printing and stationery	7,456	8,398	6,064	8,116
Professional fees	16,540	14,385	14,052	13,458
Former Group Managing Director's retirement payment (refer Note 5)	6,568	-	6,568	-
Other expenses	13,934	12,358	9,948	11,268
	171,925	**161,554**	**140,772**	**145,979**

Note 4 Income Tax

	Consolidated		Bank	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Reconciliation of the prima facie income tax with the income tax expense provided in the financial statements is as follows:				
Prima facie income tax expense calculated at 30% on accounting profit before income tax	43,690	41,492	45,570	27,821
Non-deductible reset preference share dividend	1,800	1,800	1,800	1,800
Non-deductible loan portfolio premium amortisation	2,122	2,122	-	-
Non-deductible expenses	297	1,354	288	1,032
Other deductible items	(1,041)	(665)	(831)	(456)
Non-assessable income / capital profit	(993)	(470)	(12,000)	-
	45,875	45,633	34,827	30,197
Income tax (over) provided for in prior year	(1,265)	(1,749)	(977)	(1,460)
Income tax expense reported in the income statement	**44,610**	**43,884**	**33,850**	**28,737**
The major components of income tax expense are:				
Current income tax				
Current income tax charge	53,640	48,859	30,968	28,978
Adjustments in respect of current income tax on previous years	(2,788)	(1,867)	(1,743)	(1,578)
Deferred income tax				
Relating to origination and reversal of temporary differences	(6,242)	(3,108)	4,625	1,337
Income tax expense reported in the income statement	**44,610**	**43,884**	**33,850**	**28,737**
Statement of recognised income and expense				
Deferred income tax related to items charged or credited directly to equity:				
Net gain / (loss) on revaluation of cash flow hedges	(15,029)	9,962	(4,131)	9,227
Actuarial gain on superannuation defined benefits plan	249	267	249	267
Revaluation of investment	825	-	825	-
Income tax expense reported in equity	**(13,955)**	**10,229**	**(3,057)**	**9,494**
Current tax liabilities				
Current tax payable	6,679	14,403	6,679	14,519
Total current tax liabilities	**6,679**	**14,403**	**6,679**	**14,519**

Note 4 Income Tax (continued)

	Consolidated			
	Balance Sheet		Income Statement	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Deferred tax assets				
Provisions	14,790	11,444	3,274	(1,905)
Accrued expenses	1,207	1,680	(688)	24
Share based payments	(109)	814	(392)	376
Prepaid interest	33,461	22,341	(11,120)	(4,638)
Cashflow hedge reserve	18,518	-	-	-
Other temporary differences	2,633	1,947	(1,344)	1,264
Deferred income tax assets	**70,500**	**38,226**		
Deferred tax liabilities				
Capital items	393	557	(244)	(191)
Leasing	9,018	5,046	3,061	2,070
Cashflow hedge reserve	12,540	9,054	-	-
Superannuation defined benefits	2,116	1,866	-	-
Other temporary differences	6,085	3,463	1,211	(108)
Deferred income tax liabilities	**30,152**	**19,986**		
Deferred tax expense / (benefit)			**(6,242)**	**(3,108)**

	Bank			
	Balance Sheet		Income Statement	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Deferred tax assets				
Provisions	14,702	11,430	3,274	(2,041)
Accrued expenses	942	1,560	(618)	10
Share based payments	(109)	814	(392)	376
Other temporary differences	2,061	2,791	(1,794)	1,264
Deferred income tax assets	**17,596**	**16,595**		
Deferred tax liabilities				
Capital items	393	557	(244)	(191)
Leasing	9,000	5,046	3,098	2,070
Cashflow hedge reserve	11,811	9,054	-	-
Superannuation defined benefits	2,116	1,866	250	-
Other temporary differences	4,750	2,957	1,051	(151)
Deferred income tax liabilities	**28,070**	**19,480**		
Deferred tax expense / (benefit)			**4,625**	**1,337**

Note 4 Income Tax (continued)

Tax Consolidation

Adelaide Bank Limited and its 100% owned subsidiaries have formed a tax consolidated group, effective 1 July 2003. The head entity of the tax consolidated group is Adelaide Bank Limited. Members of the group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this arrangement on the basis that the possibility of default is remote.

Tax Effect Accounting by Members of the Tax Consolidated Group

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. Members of the tax consolidated group have entered into a tax funding agreement that provides for the allocation of current taxes to members of the tax consolidated group using an adjusted stand-alone taxpayer method that is consistent with the principles of *AASB 112 Income Taxes* and *Urgent Issues Group 1052 Tax Consolidation Accounting*. Allocations under the tax funding agreement are made at the end of each quarter. The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the subsidiaries' intercompany accounts with the tax consolidated group head company, Adelaide Bank Limited.

Note 5 Individually Material Item

	Consolidated		Bank	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Final payment to retired Group Managing Director	6,568	-	6,568	-
Income tax expense / (benefit) relating to individually material item	(1,970)	-	(1,970)	-
Net expense from individually material item after income tax	**4,598**	**-**	**4,598**	**-**

Mr. B. Fitzpatrick retired from the Bank as Group Managing Director and Chief Executive Officer on 15 December 2006, after a period of 21 years as its CEO.

Mr. J. McPhee (formerly Chief Operating Officer) was appointed to replace Mr. B. Fitzpatrick on 16 December 2006.

While earlier than the anticipated date of June 2008, which was canvassed when the Bank's current 3 year Strategic Plan was adopted in June 2005, the Board believed that December 2006 was the optimum time for a change in leadership.

In deliberating about Mr. Fitzpatrick's retirement payment the Board have had regard to Mr. Fitzpatrick's unique and outstanding long service and contribution to the Bank's performance and growth. This has included:

- Increasing the Bank's assets from $715 million at the time he first headed the organisation to in excess of $27 billion at December 2006.
- Increasing the market capitalisation of the Bank since listing in 1992 from $80 million to in excess of $1.4 billion at December 2006.
- Outperforming every other leading financial institution in Australia in terms of total shareholder return over several years.
- Mr. Fitzpatrick's development of an outstanding leadership team including providing for his own succession leading to the appointment of Mr. McPhee.

In recognition of his past service, the Bank's performance and his current salary and performance incentive agreement with the Bank, Mr. Fitzpatrick received a retirement payment of $8.300 million.

In determining the retirement payment, reference was made to Mr. Fitzpatrick's remuneration entitlements to the end of the Bank's current strategic plan (June 2008), including fixed remuneration, short and long-term incentives and related superannuation entitlements.

Upon his retirement in December, Mr. Fitzpatrick also received payment relating to his statutory entitlements to accrued annual and long service leave and superannuation retirement benefits.

Note 5 Individually Material Item (continued)

The Board sought independent advice in relation to this settlement having regard to Mr. Fitzpatrick's outstanding service and the Bank's relative performance compared to other leading financial institutions, particularly over the past decade.

The $6.568 million disclosed separately as an individually material item consists of the following:

Amount determined by reference to fixed remuneration and short and long-term incentive plans	$6.056 million
Amount determined by reference to superannuation benefits, past performance and other factors	$2.244 million
Less Release of accrual previously taken up re LTI and STI	($1.732 million)
Pre-tax 2007 profit impact	**$6.568 million**
Tax effect	$1.970 million
Post-tax 2007 profit impact	**$4.598 million**

The individually material item amount has been calculated based on the amount that was paid at December 2006 less any amount that would normally have been paid or accrued for in the normal course of physical tenure up until 15 December 2006.

Note 6 Dividends

	Bank	
	2007 $000's	2006 $000's
Dividends on ordinary shares paid by the Bank are:		
(i) fully franked interim dividend paid: 29 cents (2006: 26 cents)	31,274	27,712
(ii) fully franked prior year final dividend paid: 32 cents (2006: 29 cents)	34,319	30,219
	65,593	**57,931**
Dividends on hybrid shares paid by the Bank are:		
(i) fully franked dividends paid on step up preference shares	5,480	5,200
Total dividends paid	**71,073**	**63,131**
Fully franked final dividend on ordinary shares declared and not recognised as a liability: 36 cents (2006: 32 cents)	38,994	34,319

Dividend Reinvestment Plan ("DRP")

The DRP is optional and offers ordinary shareholders the opportunity to acquire fully paid ordinary shares calculated at the weighted average market price over the pricing period. The Board has discretion to approve a discount to the prevailing market price at each issue and for the final dividend payable on 15 October 2007 has decided that no discount will apply.

As defined in the DRP plan rules for Adelaide Bank, the pricing period will be over 10 business days from 24 September 2007 to 8 October 2007 inclusive.

The last date for shareholders to lodge their election notice to participate in the DRP for the 2007 final dividend was 21 September 2007 (record date).

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

Note 6 Dividends (continued)

Franking Credit Balance

The tax rate at which dividends paid have been franked is 30% (2006: 30%). Dividends declared will be franked at 30% (2006: 30%).

The amount of franking credits available for the subsequent financial year are:

	Bank	
	2007 $000's	2006 $000's
Franking account balance as at the end of the financial year at 30% (2006: 30%)	77,659	50,381
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	5,500	15,262
Franking debits that will arise from the payment of the final dividend	(16,712)	(14,708)
	66,447	**50,935**

Restrictions which limit the payment of dividends

Except as imposed by law, there are presently no restrictions on the payment of dividends from controlled entities to the parent entity and no restrictions on payment of dividends by the parent entity other than the reduction of shareholders' equity through the payment of cash dividends which is monitored having regard to the regulatory requirements to maintain a specified capital adequacy ratio. In particular, the Australian Prudential Regulation Authority has advised Australian banks that a bank under its supervision must consult with it before declaring a dividend if the bank has incurred a loss, or proposes to pay dividends which exceed the level of profits earned in the current year.

Note 7 Earnings per Share

	Consolidated		
	2007 Excluding Individually Material Item	2007 Including Individually Material Item	2006
Earnings per share – basic and fully diluted (cents per share)	**92.79**	**88.52**	**84.16**
Earnings reconciliation:			
Profit after income tax expense ($000's)	101,025	101,025	94,424
Add back: Individually material item after tax ($000's)	4,598	-	-
Profit after income tax expense ($000's)	105,623	101,025	94,424
Less: Hybrid dividends ($000's) (accruals based)	5,606	5,606	5,180
Earnings used in the calculation of EPS ($000's)	**100,017**	**95,419**	**89,244**
Weighted average number of ordinary shares used in the calculation of EPS:			
Number of ordinary shares on issue at beginning of year	107,248,240	107,248,240	104,202,414
Issue of 592,562 ordinary shares from 2006 final dividend DRP. Weighting based on issue date of 13 Oct 2006 (2006: Issue of 2,380,333 ordinary shares from 2005 final dividend DRP. Weighting based on issue date of 17 Oct 2005.)	423,722	423,722	1,676,015
Issue of 475,767 ordinary shares from 2007 interim dividend DRP. Weighting based on issue date of 30 Mar 2007 (2006: Issue of 665,493 ordinary shares from 2006 interim dividend DRP. Weighting based on issue date of 31 Mar 2006.)	121,223	121,223	165,917
Weighted average number of ordinary shares used in the calculation of EPS	**107,793,185**	**107,793,185**	**106,044,346**

The number of potential ordinary shares (6,561,680)[1] related to hybrid shares are not considered dilutive.
[1] Based on $100 million of Step up Preference shares on issue and a 30 June 2007 closing ordinary share price of $15.24.

Note 8 Balances Due from Other Banks

	Consolidated		Bank	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Due from other banks	251,546	167,130	251,546	167,130
Maturity analysis based on remaining term to maturity at 30 June:				
At call	251,546	167,130	251,546	167,130

Note 9 Available for Sale Financial Assets/ Held for Trading Financial Assets / Held to Maturity Investments

	Consolidated		Bank	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Available for sale financial assets	**3,000**	**-**	**3,000**	**-**
Held for trading financial assets:				
- Bank discount securities	1,198,066	414,933	1,198,066	414,935
- Other discount securities	833,142	394,309	833,142	394,309
- Floating rate notes	479,801	599,166	479,801	499,218
	2,511,009	**1,408,408**	**2,511,009**	**1,308,462**
Held to maturity investments:				
Other investments (at amortised cost)	**171,331**	**338,236**	**2,576**	**30,844**
Maturity analysis based on remaining term to maturity at 30 June				
Available for sale financial assets:				
- Three months or less	3,000	-	3,000	-
	3,000	**-**	**3,000**	**-**
Held for trading financial assets:				
- Three months or less	1,717,782	780,473	1,717,782	780,473
- Over three months to twelve months	457,405	224,428	457,405	195,240
- Over one year to five years	335,822	403,507	335,822	332,749
	2,511,009	**1,408,408**	**2,511,009**	**1,308,462**
Held to maturity investments:				
- Three months or less	171,331	338,236	2,576	30,844
	171,331	**338,236**	**2,576**	**30,844**
Concentration of credit risk				
Available for sale financial assets:				
- Other	3,000	-	3,000	-
	3,000	**-**	**3,000**	**-**
Held for trading financial assets:				
- Banks	1,042,746	384,431	1,042,746	384,201
- Asset backed securities: Trustee companies	1,066,282	761,001	1,066,282	691,566
- Other	401,981	262,976	401,981	232,695
	2,511,009	**1,408,408**	**2,511,009**	**1,308,462**
Held to maturity investments:				
- Banks	171,331	311,676	171,331	4,516
- Asset backed securities: Trustee companies	-	26,560	-	26,328
	171,331	**338,236**	**171,331**	**30,844**

Note 10 Loans and Receivables

	Consolidated		Bank	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Loans and Receivables – investments	**802,391**	**452,410**	**802,391**	**452,410**
Residential loans – securitised	9,232,601	9,292,165	9,232,601	8,090,792
Residential loans – not securitised	10,516,898	8,342,660	10,516,898	8,342,660
Business loans	1,584,812	1,713,252	1,583,862	1,711,947
Margin lending – securitised	4,298,237	2,642,045	-	-
Margin lending – not securitised	745,357	929,641	-	-
Personal loans	115,257	132,680	114,562	131,665
Credit card advances	120,007	115,722	120,007	115,722
Gross loans and receivables	26,613,169	23,168,165	21,567,930	18,392,786
Less Provision for doubtful debts				
- Specific provisions	13,616	6,035	11,772	5,992
- Collective impairment provision	22,979	20,313	22,479	19,813
Refer Note 12	36,595	26,348	34,251	25,805
Add Deferred costs	103,126	90,133	70,975	90,133
Add Loan portfolio premium				
- Margin lending	42,309	49,383	-	-
- Residential lending	10,356	24,901	-	-
	52,665	74,284	-	-
Net loans and receivables	**26,732,365**	**23,306,234**	**21,604,654**	**18,457,114**

The components of 'Loans and receivables' has been separated between 'Loans and receivables – investments' and 'Gross loans and receivables'. The comparative results have been restated to more accurately reflect the nature of the assets.

Maturity analysis based on anticipated remaining term to maturity at 30 June:

Overdraft	120,007	124,718	120,007	124,718
Three months or less	4,724,870	3,566,152	215,251	305,570
Over three months to twelve months	734,938	489,732	250,640	171,488
Over one year to five years	2,031,527	876,680	1,990,861	800,002
Over five years	19,804,218	18,563,293	19,793,562	17,443,418
Total loans and receivables	**27,415,560**	**23,620,575**	**22,370,321**	**18,845,196**

Note 10 Loans and Receivables (continued)

	Consolidated		Bank	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Concentration of credit risk for loans and receivables				
Agriculture	706,279	794,646	706,279	794,646
Mining	5,979	8,848	5,979	8,848
Manufacturing	16,964	20,602	16,964	20,602
Transport and storage	94,752	116,991	94,752	116,991
Construction	33,869	38,510	33,869	38,510
Wholesale/retail trade	37,005	43,829	37,005	43,829
Finance and industry services	113,492	60,205	113,492	60,205
Property				
- residential	19,749,499	17,634,825	19,749,499	16,433,452
- other	437,557	476,122	437,557	476,122
Hotels / accommodation	18,288	22,469	18,288	22,469
Cultural and recreational services	1,079	8,096	1,079	8,096
Health	254,032	159,670	254,032	159,670
Retirement	300,743	253,869	300,743	253,869
Personal	235,264	257,398	235,264	256,383
Margin lending	5,043,594	3,571,686	-	-
Other	367,164	152,809	365,519	151,504
Total gross loans and receivables	**27,415,560**	**23,620,575**	**22,370,321**	**18,845,196**

Note 11 Asset Quality

	Consolidated		Bank	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Impaired loans	31,012	23,619	29,212	23,619
Less Specific provisions	13,616	6,035	11,772	5,992
Less Collective impairment provision (consumer)	2,132	2,613	2,132	2,613
Net impaired assets	**15,264**	**14,971**	**15,308**	**15,014**
Accruing loans past due 90 days or more				
These amounts are not classified as impaired assets and therefore are not included within the above summary	78,260	65,251		
Ratios	%	%	%	%
Gross impaired assets as a % of non-securitised loans	0.22	0.20	0.22	0.22
Write-offs as a % of total non-securitised loans	0.07	0.05	0.07	0.05

Note 12 Provisions for Doubtful Debts

	Consolidated		Bank	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Specific Provisions				
Balance at beginning of year	6,035	4,710	5,992	4,211
Provided during year in income statement	12,527	6,131	10,726	6,131
Transfer of consumer from specific to collective impairment on transition to AIFRS	-	(2,962)	-	(2,962)
Reversal of specific provisions	(4,946)	(1,844)	(4,946)	(1,388)
Balance at end of year	**13,616**	**6,035**	**11,772**	**5,992**
General Provision				
Balance at beginning of year	-	39,039	-	39,039
Transferred to retained earnings on adoption of AIFRS	-	(39,039)	-	(39,039)
Balance at end of year	**-**	**-**	**-**	**-**
Collective Impairment Provision				
Balance at beginning of year	20,313	-	19,813	-
Provided during year in income statement	2,666	2,893	2,666	2,893
Transferred from retained earnings on adoption of AIFRS	-	14,458	-	13,958
Transfer of consumer from specific to collective impairment on transition to AIFRS	-	2,962	-	2,962
Balance at end of year	**22,979**	**20,313**	**22,479**	**19,813**
Total provisions for doubtful debts	**36,595**	**26,348**	**34,251**	**25,805**
Ratios	**%**	**%**	**%**	**%**
Provisions as a % of total non-securitised loans and receivables				
Specific provisions	0.10	0.05	0.09	0.06
Collective impairment provision	0.17	0.17	0.17	0.18

Note 13 Investment in Controlled Entities

		Consolidated		Bank	
		2007 $000's	2006 $000's	2007 $000's	2006 $000's
Shares in controlled entities (at cost)	(Refer Note 39)	-	-	260,269	260,269
Amounts due from controlled entities		-	-	555,957	761,121
		-	**-**	**816,226**	**1,021,390**

The components of the total in the comparative results have been restated to more accurately reflect the substance of transactions of the parent entity.

Note 14 Property, Plant and Equipment

	Consolidated		Bank	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Freehold land	2,000	2,000	-	-
Building on freehold land	16,464	16,464	-	-
Accumulated depreciation on building	(5,776)	(5,271)	-	-
	10,688	11,193	-	-
Total land and building	12,688	13,193	-	-
Plant and equipment – at cost	73,437	73,210	73,410	73,183
Accumulated depreciation	(56,190)	(51,982)	(56,163)	(51,955)
Total plant and equipment	17,247	21,228	17,247	21,228
Total property, plant and equipment - net book value	**29,935**	**34,421**	**17,247**	**21,228**

Reconciliations

Reconciliation of the carrying amounts for each class of property, plant and equipment are set out below:

Freehold land				
Carrying amount at beginning of the financial year	2,000	2,000	-	-
Carrying amount at end of the financial year	**2,000**	**2,000**	**-**	**-**
Building on freehold land				
Carrying amount at beginning of the financial year	11,193	11,663	-	-
Additions	-	34	-	-
Depreciation expense	(505)	(504)	-	-
Carrying amount at end of the financial year	**10,688**	**11,193**	**-**	**-**
Plant and equipment				
Carrying amount at beginning of the financial year	21,228	19,469	21,228	19,469
Additions	2,729	7,623	2,729	7,623
Disposals	(800)	(455)	(800)	(455)
Depreciation expense	(5,910)	(5,409)	(5,910)	(5,409)
Carrying amount at end of the financial year	**17,247**	**21,228**	**17,247**	**21,228**

Note 15 Intangible Assets

	Consolidated		Bank	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Goodwill	33,880	33,880	-	-
Capitalised software development costs	21,350	19,471	21,350	19,471
Accumulated amortisation	(16,799)	(15,452)	(16,799)	(15,452)
	4,551	4,019	4,551	4,019
Total intangible assets	**38,431**	**37,899**	**4,551**	**4,019**
Reconciliations				
Goodwill				
Carrying amount at beginning of the financial year	33,880	33,880	-	-
Carrying amount at end of the financial year	**33,880**	**33,880**	**-**	**-**
Capitalised software development costs				
Carrying amount at beginning of the financial year	4,019	1,732	4,019	1,732
Additions	1,879	3,266	1,879	3,266
Amortisation expense	(1,347)	(979)	(1,347)	(979)
Carrying amount at the end of the financial year	**4,551**	**4,019**	**4,551**	**4,019**

Impairment Testing of 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. The balance of Goodwill has arisen from the acquisition of Leveraged Equities Limited and Adelaide Equity Finance Pty Ltd, the Bank's margin lending business.

Capitalised Software Development Costs

Software development costs have been capitalised at cost. This intangible asset has been assessed as having a finite life and is amortised over the expected useful life of the asset (generally between two and five years). If an impairment indication arises, the recoverable amount is estimated and an impairment loss recognised as an expense in the Income Statement to the extent that the recoverable amount is lower than the carrying amount.

Note 16 Other Assets

	Consolidated		Bank	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Accrued interest	70,137	67,941	70,305	68,110
Other assets	119,424	111,098	164,399	199,820
	189,561	**179,039**	**234,704**	**267,930**

Other assets predominantly comprised of receivables due from securitised trusts and other securities with the majority being settled within 30 days.

Note 17 Deposits

	Consolidated		Bank	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Retail deposits – controlled entities	-	-	31,607	11,791
Retail deposits – other	9,957,176	8,802,076	9,957,177	8,802,076
Wholesale deposits	5,568,007	3,105,753	5,568,007	3,105,753
Wholesale other	99,559	179,500	99,559	179,500
	15,624,742	**12,087,329**	**15,656,350**	**12,099,120**
Maturity analysis based on remaining term to maturity at 30 June				
At call	4,064,202	3,294,697	4,095,810	3,306,488
Three months or less	7,892,954	5,720,623	7,892,954	5,720,623
Over three months to twelve months	2,310,965	2,447,700	2,310,965	2,447,700
Over one year to five years	1,287,517	614,747	1,287,517	614,747
Over five years	69,104	9,562	69,104	9,562
	15,624,742	**12,087,329**	**15,656,350**	**12,099,120**

- **Retail and Wholesale deposits** include at call and term deposits, certificates of deposit, transferable deposits and fixed and floating rate transferable term deposits.
- **Wholesale other** are fixed and floating rate medium term notes.
- Deposits of the consolidated entity are well diversified across industries. The main industry classes are personal depositors, banking and finance and government bodies.

Note 18 Balances Due to Other Banks

	Consolidated		Bank	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Due to other banks	175,362	121,443	175,362	121,443
Maturity analysis based on remaining term to maturity at 30 June				
At call	175,362	121,443	175,362	121,443

Note 19 Provisions

	Consolidated		Bank	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Hybrid dividends	2,300	2,174	2,300	2,174
Annual leave	4,619	6,534	4,619	6,534
Long service leave	10,500	8,003	10,500	8,003
	17,419	**16,711**	**17,419**	**16,711**

The long service leave provision includes $2.320 million expected to be settled in a period greater than 12 months.

Note 20 Other Liabilities

	Consolidated		Bank	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Accrued interest	311,278	211,840	158,310	104,628
Other payables	153,595	104,584	318,431	331,232
	464,873	**316,424**	**476,741**	**435,860**

Other payables are predominately comprised of collections made on behalf of securitisation trusts and payables relating to securities with the majority being settled within 30 days.

Note 21 Subordinated Debt

	Consolidated		Bank	
	2007	2006	2007	2006
	$000's	$000's	$000's	$000's
Subordinated notes	297,000	267,000	297,000	267,000
Capital notes	75,000	75,000	75,000	75,000
	372,000	**342,000**	**372,000**	**342,000**
Maturity analysis based on remaining term to maturity at 30 June				
Over five years	372,000	342,000	372,000	342,000

Subordinated notes were issued for a term of ten years maturing 2011 to 2017 with an option to redeem at par after five years subject to Australian Prudential Regulation Authority approval. Interest is payable quarterly in arrears at the floating rate.

In August 1998, the Bank issued $75 million in Floating Rate Capital Notes, which are unsecured perpetual subordinated notes with a face value of $100 per Note. Interest is payable quarterly based on the 90 Day Bank Bill rate plus a margin of 0.75% per annum with the margin increasing to 1% per annum after ten years.

The rights of Subordinated Noteholders in the winding up of the Bank are subordinated in priority to the claims of all unsubordinated creditors of the Bank including depositors but in priority to claims of Ordinary and Hybrid Shareholders. In accordance with banking regulations, these notes form part of the Bank's Tier 2 capital.

Note 22 Equity

	Consolidated		Bank	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
(a) Ordinary Shares				
107,248,240 (2006: 104,202,414) fully paid ordinary shares at beginning of year	386,278	347,640	386,278	347,640
Issue of 592,562 (2006: 2,380,333) fully paid ordinary shares from Dividend Reinvestment Plan relating to 2006 final dividend.	7,672	30,206	7,672	30,206
Issue of 475,767 (2006: 665,493) fully paid ordinary shares from Dividend Reinvestment Plan relating to 2007 interim dividend.	6,351	8,451	6,351	8,451
Costs associated with issue	(27)	(19)	(27)	(19)
108,316,569 fully paid shares at end of year (2006: 107,248,240)	**400,274**	**386,278**	**400,274**	**386,278**

In October 2006, the Bank issued 592,562 ordinary shares under the Dividend Reinvestment Plan at an issue price of $12.95. In March 2007, 475,767 ordinary shares were issued under the DRP at an issue price of $13.35.

(b) Step up Preference Shares				
1,000,000 step up preference shares at beginning of year	97,451	97,451	97,451	97,451
1,000,000 step up preference shares at end of year	97,451	97,451	97,451	97,451
Total Contributed Equity	**497,725**	**483,729**	**497,725**	**483,729**

In September 2004, the Bank issued 1,000,000 Step up Preference Shares at $100 per share. SPS are a class of preference share that entitle holders to non-cumulative, fully franked dividends which are to be paid in preference to any dividends paid on ordinary shares. SPS rank in priority to ordinary shares for any return of capital in the event of a winding up. SPS are perpetual but may require exchange on or after the first step up date of 10 October 2014. The rate is calculated on payment date as the BBSW 90 day rate plus a margin of 1.75% multiplied by 1 minus the Australian corporate tax rate applicable to the franking account of the Bank, currently 30%. The payment dates are quarterly on 10 July, 10 October, 10 January and 10 April.

(c) Employee Share Plan

The Bank operates an employee share plan whereby shares are allotted from time to time to eligible staff who elect to take up their entitlement. The price is generally set at market price and funded with an interest free loan from a controlled entity. The plan is linked to remuneration and the last allocation of shares made under the plan was in 2001. As at 30 June 2007, 7 staff participated in the plan holding 406,600 shares which were issued at various prices ranging from $1.65 per share to $5.68 per share.

Note 22 Equity (continued)

(d) Allocation Scheme

The allocation scheme allows Directors to allocate a percentage of pre-tax operating profit each year towards the acquisition of shares for non-executive employees. The percentage of profit will, at the discretion of Directors, be between 2% and 5%. An amount of $3.256 million (2006: $3.383 million) was allocated during the year representing 2.4% of profit and has been charged as an expense in the Income Statement. As at 30 June 2007, 1,157 (2006: 1,106) employees held 1,013,265 (2006: 945,250) shares allocated under the plan.

(e) Deferred Employee Share Plan ("DESP")

The Bank operates a deferred employee share plan for senior and executive staff whereby that part of total remuneration allocated to short-term incentive and long-term incentive are received by way of shares held in the DESP. The shares are bought on market and the related cost is recognised as an expense in the Income Statement over the period the benefit is earned.

Nature and Purpose of Reserves

Treasury Shares / Employee Benefits Reserve

This reserve is used to record the value of equity benefits provided to employees and Directors. Refer to Note 2 (q) and the Remuneration Report for further details of these plans.

Cash Flow Hedge Reserve

This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

Available for Sale Revaluation Reserve

This reserve records the unrealised gains and losses due to movements on available for sale financial assets.

General Reserve

The general reserve for credit losses is maintained to cover risks inherent in the loan portfolios. Movements in the general reserve are recognised as an appropriation of retained earnings. Australian Prudential Regulation Authority requires that banks maintain a general reserve at a minimum level to adequately cover uncertainty and all relevant risks inherent in the activities of the bank. Certain collective provisions can be included in this assessment.

The general reserve at 1 July 2006 was $33.1 million, which was an appropriation from retained earnings. The increase in the general reserve for the 2007 year was $2.8 million, bringing the general reserve to $35.9 million at 30 June 2007. This combined with the $14.6 million in collective impairment provisions gives a combined total general reserve for credit losses of $50.5 million, which is 51 basis points of risk weighted assets on a post-tax basis.

Note 22 Equity (continued)

	Consolidated							
	Ordinary Share Capital	Treasury Shares / Employee Benefits Reserve	Step up Preference Share Capital	Cashflow Hedge Reserve	Available for sale Revaluation Reserve	General Reserve	Retained Earnings	Total
	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's
Total equity as at 1 July 2005	**347,640**	**(82)**	**97,451**	**(2,121)**	**-**	**-**	**206,128**	**649,016**
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 2,380,333 fully paid ordinary shares from dividend reinvestment plan relating to 2005 final dividend	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 (Ordinary and SPS)	-	-	-	-	-	-	(34,001)	(34,001)
Total equity as at 31 December 2005	**377,831**	**(4,750)**	**97,451**	**15,977**	**-**	**-**	**213,582**	**700,091**
Profit for the half-year to 30 June 2006	-	-	-	-	-	-	53,035	53,035
Net change in cash flow hedges	-	-	-	5,146	-	-	-	5,146
Issue of 665,493 fully paid ordinary shares from dividend reinvestment plan relating to 2006 interim dividend	8,451	-	-	-	-	-	-	8,451
Costs associated with issue of ordinary shares	(4)	-	-	-	-	-	-	(4)
Cost of share based payments	-	(2,085)	-	-	-	-	-	(2,085)
Movement in employee benefits reserve	-	750	-	-	-	-	-	750
Transfer of superannuation defined benefits surplus to retained earnings	-	-	-	-	-	-	(446)	(446)
Equity dividends (Ordinary and SPS)	-	-	-	-	-	-	(30,282)	(30,282)
Total equity as at 30 June 2006	**386,278**	**(6,085)**	**97,451**	**21,123**	**-**	**-**	**235,889**	**734,656**

Note 22 Equity (continued)

	Consolidated							
	Ordinary Share Capital	Treasury Shares / Employee Benefits Reserve	Step up Preference Share Capital	Cashflow Hedge Reserve	Available for sale Revaluation Reserve	General Reserve	Retained Earnings	Total
	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's
Total equity as at 30 June 2006	**386,278**	**(6,085)**	**97,451**	**21,123**	**-**	**-**	**235,889**	**734,656**
Profit for the half-year to 31 Dec 2006	-	-	-	-	-	-	43,222	43,222
General reserve for credit losses 1 July 2006	-	-	-	-	-	33,137	(33,137)	-
General reserve for credit losses appropriated during the half year	-	-	-	-	-	2,503	(2,503)	-
Net change in cash flow hedges	-	-	-	30,850	-	-	-	30,850
Issue of 592,562 fully paid ordinary shares from dividend reinvestment plan relating to 2006 final dividend	7,672	-	-	-	-	-	-	7,672
Costs associated with issue of ordinary shares	(15)	-	-	-	-	-	-	(15)
Movement in employee benefits reserve	-	3,724	-	-	-	-	-	3,724
Transfer of superannuation defined benefits surplus to retained earnings	-	-	-	-	-	-	168	168
Equity dividends (Ordinary and SPS)	-	-	-	-	-	-	(37,080)	(37,080)
Total equity as at 31 December 2006	**393,935**	**(2,361)**	**97,451**	**51,973**	**-**	**35,640**	**206,559**	**783,197**
Profit for the half-year to 30 June 2007	-	-	-	-	-	-	57,803	57,803
General reserve for credit losses appropriated during the half year	-	-	-	-	-	265	(265)	-
Net change in cash flow hedges	-	-	-	(65,918)	-	-	-	(65,918)
Issue of 475,767 fully paid ordinary shares from dividend reinvestment plan relating to 2007 interim dividend	6,351	-	-	-	-	-	-	6,351
Costs associated with issue of ordinary shares	(12)	-	-	-	-	-	-	(12)
Movement in employee benefits reserve	-	(1,145)	-	-	-	-	-	(1,145)
Revaluation increment relating to available for sale financial asset	-	-	-	-	1,925	-	-	1,925
Transfer of superannuation defined benefits surplus to retained earnings	-	-	-	-	-	-	412	412
Equity dividends (Ordinary and SPS)	-	-	-	-	-	-	(34,119)	(34,119)
Total equity as at 30 June 2007	**400,274**	**(3,506)**	**97,451**	**(13,945)**	**1,925**	**35,905**	**230,390**	**748,494**

Note 22 Equity (continued)

	Ordinary Share Capital	Treasury Shares / Employee Benefits Reserve	Step up Preference Share Capital	Cashflow Hedge Reserve	Bank Available for sale Revaluation Reserve	General Reserve	Retained Earnings	Total
	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's
Total equity as at 1 July 2005	**347,640**	**(82)**	**97,451**	**(2,121)**	**-**	**-**	**183,279**	**626,167**
Profit for the half-year to 31 Dec 2005	-	-	-	-	-	-	27,523	27,523
Net change in cash flow hedges	-	-	-	18,098	-	-	-	18,098
Issue of 2,380,333 fully paid ordinary shares from dividend reinvestment plan relating to 2005 final dividend	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 (Ordinary and SPS)	-	-	-	-	-	-	(34,001)	(34,001)
Total equity as at 31 December 2005	**377,831**	**(4,750)**	**97,451**	**15,977**	**-**	**-**	**176,867**	**663,376**
Profit for the half-year to 30 June 2006	-	-	-	-	-	-	36,478	36,478
Net change in cash flow hedges	-	-	-	3,431	-	-	-	3,431
Issue of 665,493 fully paid ordinary shares from dividend reinvestment plan relating to 2006 interim dividend	8,451	-	-	-	-	-	-	8,451
Costs associated with issue of ordinary shares	(4)	-	-	-	-	-	-	(4)
Cost of share based payments	-	(2,085)	-	-	-	-	-	(2,085)
Movement in employee benefits reserve	-	750	-	-	-	-	-	750
Transfer of superannuation defined benefits surplus to retained earnings	-	-	-	-	-	-	(446)	(446)
Equity dividends (Ordinary and SPS)	-	-	-	-	-	-	(30,282)	(30,282)
Total equity as at 30 June 2006	**386,278**	**(6,085)**	**97,451**	**19,408**	**-**	**-**	**182,617**	**679,669**

Note 22 Equity (continued)

	Ordinary Share Capital	Treasury Shares / Employee Benefits Reserve	Step up Preference Share Capital	Cashflow Hedge Reserve	Bank Available for sale Revaluation Reserve	General Reserve	Retained Earnings	Total
	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's
Total equity as at 30 June 2006	**386,278**	**(6,085)**	**97,451**	**19,408**	**-**	**-**	**182,617**	**679,669**
Profit for the half-year to 31 Dec 2006	-	-	-	-	-	-	32,820	32,820
General reserve for credit losses 1 Jul 2006	-	-	-	-	-	33,137	(33,137)	-
General reserve for credit losses appropriated during the half year	-	-	-	-	-	2,503	(2,503)	-
Net change in cash flow hedges	-	-	-	250	-	-	-	250
Issue of 592,562 fully paid ordinary shares from dividend reinvestment plan relating to 2006 final dividend	7,672	-	-	-	-	-	-	7,672
Costs associated with issue of ordinary shares	(15)	-	-	-	-	-	-	(15)
Movement in employee benefits reserve	-	3,724	-	-	-	-	-	3,724
Transfer of superannuation defined benefits surplus to retained earnings	-	-	-	-	-	-	168	168
Equity dividends (Ordinary and SPS)	-	-	-	-	-	-	(37,080)	(37,080)
Total equity as at 31 December 2006	**393,935**	**(2,361)**	**97,451**	**19,658**	**-**	**35,640**	**142,885**	**687,208**
Profit for the half-year to 30 Jun 2007	-	-	-	-	-	-	85,230	85,230
General reserve for credit losses appropriated during the half year	-	-	-	-	-	265	(265)	-
Net change in cash flow hedges	-	-	-	(9,889)	-	-	-	(9,889)
Issue of 475,767 fully paid ordinary shares from dividend reinvestment plan relating to 2007 interim dividend	6,351	-	-	-	-	-	-	6,351
Costs associated with issue of ordinary shares	(12)	-	-	-	-	-	-	(12)
Movement in employee benefits reserve	-	(1,145)	-	-	-	-	-	(1,145)
Revaluation increment relating to available for sale financial asset	-	-	-	-	1,925	-	-	1,925
Transfer of superannuation defined benefits surplus to retained earnings	-	-	-	-	-	-	412	412
Equity dividends (Ordinary and SPS)	-	-	-	-	-	-	(34,119)	(34,119)
Total equity as at 30 June 2007	**400,274**	**(3,506)**	**97,451**	**9,769**	**1,925**	**35,905**	**194,143**	**735,961**

Note 23 Cash Flow Statement

(a) Reconciliation of Cash

Cash as at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

	Consolidated		Bank	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Cash balance comprises:				
Cash	78,409	41,580	54,816	35,412
Money at call	523,417	179,565	472,432	92,702
Closing cash balance	**601,826**	**221,145**	**527,248**	**128,114**

(b) Reconciliation of Profit from Ordinary Activities after Income Tax to Net Cash Flows from Operating Activities

Profit after tax	101,025	94,424	118,050	64,001
Depreciation and amortisation	14,664	13,780	7,084	6,202
(Profit) / Loss on sale of plant and equipment	(84)	25	(84)	25
Changes in assets and liabilities:				
Increase in interest payable	62,535	14,553	53,682	9,332
(Increase) in interest receivable	(2,196)	(6,257)	(2,195)	(6,426)
(Increase) / Decrease in accounts receivable	(8,339)	(1,225)	(16,239)	838
Increase / (Decrease) in accounts payable	(38,350)	(15,421)	(36,217)	(5,969)
Increase in provision for bad debts	10,247	7,180	8,446	7,136
Increase / (Decrease) in provision for long service leave	2,497	(46)	2,497	(46)
Increase / (Decrease) in provision for annual leave	(1,915)	1,938	(1,915)	1,938
(Increase) / Decrease in deferred tax assets	(15,825)	(5,623)	(16,157)	4,485
Net cash flows from operating activities	**124,259**	**103,328**	**116,952**	**81,516**

(c) Non-cash Financing and Investing Activities

Dividend Reinvestment Plan

Under the terms of the DRP, $14,023,000 (2006: $38,657,000) of dividends were paid via the issue of 1,068,329 (2006: 3,045,826) fully paid ordinary shares.

Note 24 Average Balance Sheet and Interest Rates

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

	2007			2006		
	Average Balance $000's	Interest $000's	Average Rate %	Average Balance $000's	Interest $000's	Average Rate %
Interest earning assets						
Investments	1,844,487	118,305	6.41	1,414,733	84,907	6.00
Net loans and advances	25,023,281	1,801,442	7.20	20,829,539	1,399,040	6.72
Total interest earning assets	**26,867,768**	**1,919,747**	**7.15**	**22,244,272**	**1,483,947**	**6.67**
Provision for doubtful debts	(30,408)			(20,960)		
Other assets	525,300			376,053		
Total assets	**27,362,660**	**1,919,747**	**7.02**	**22,599,365**	**1,483,947**	**6.57**
Interest bearing liabilities						
Retail deposits	9,252,807	536,225	5.80	9,162,348	485,928	5.30
Wholesale deposits / other	4,566,710	290,906	6.37	2,481,066	143,269	5.77
Notes payable	11,850,452	789,127	6.66	9,564,059	570,641	5.97
Reset preference shares/ issue costs	99,629	6,464	6.49	99,159	6,465	6.52
Subordinated debt	352,647	24,900	7.06	313,833	20,490	6.53
Total interest bearing liabilities	**26,122,245**	**1,647,622**	**6.31**	**21,620,465**	**1,226,793**	**5.67**
Other liabilities	502,259			323,272		
Total liabilities	**26,624,504**	**1,647,622**	**6.19**	**21,943,737**	**1,226,793**	**5.59**
Equity	**738,156**			**655,628**		
Total liabilities and equity	**27,362,660**	**1,647,622**	**6.02**	**22,599,365**	**1,226,793**	**5.43**
Net interest margin		**272,125**	**1.01**		**257,154**	**1.16**
Net interest margin and interest spread						
Interest earning assets	26,867,768	1,919,747	7.15	22,244,272	1,483,947	6.67
Interest bearing liabilities	26,122,245	1,647,622	6.31	21,620,465	1,226,793	5.67
Net interest spread			**0.84**			**1.00**
Net free liabilities and equity	745,523		0.17	623,807		0.16
Net interest margin		**272,125**	**1.01**		**257,154**	**1.16**

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.

Note 25 Interest Rate Risk

The following table represents the interest rate risk as at 30 June based on repricing dates of the consolidated entity's assets, liabilities and off-balance sheet instruments.

Sensitivity to interest rates arises from mismatches in the period to repricing of assets and liabilities. These mismatches are managed as part of the overall asset and liability management process.

	Consolidated							
As at 30 June 2007	**Less than 3 Months $000's**	**Between 3 and 6 Months $000's**	**Between 6 and 12 Months $000's**	**Between 1 and 5 Years $000's**	**After 5 Years $000's**	**Not Interest Bearing $000's**	**Total $000's**	**Weighted Average Rate %**
Liquid assets and due from other banks	801,889	-	-	-	-	51,483	853,372	6.33
Available for sale financial assets	-	-	-	-	-	3,000	3,000	-
Held for trading financial assets	2,182,650	328,359	-	-	-	-	2,511,009	6.34
Held to maturity investments	171,331	-	-	-	-	-	171,331	6.34
Net loans and advances	17,803,830	823,948	2,280,584	6,481,022	26,176	119,196	27,534,756	7.84
Other assets	-	-	-	-	-	497,247	497,247	-
Hedges	8,346,721	(414,238)	(1,186,099)	(6,725,034)	(21,350)	-	-	-
Total assets	**29,306,421**	**738,069**	**1,094,485**	**(244,012)**	**4,826**	**670,926**	**31,570,715**	
Deposits, notes payable and due to other banks	27,050,642	1,432,811	851,499	227,096	9,460	175,362	29,746,870	6.16
Other liabilities	-	-	-	-	-	703,351	703,351	-
Subordinated debt	372,000	-	-	-	-	-	372,000	7.06
Total liabilities	**27,422,642**	**1,432,811**	**851,499**	**227,096**	**9,460**	**878,713**	**30,822,221**	
Shareholders' funds	-	-	-	-	-	748,494	748,494	
Interest sensitivity gap								
- net	1,883,779	(694,742)	242,986	(471,108)	(4,634)	(956,281)	-	
- cumulative	1,883,779	1,189,037	1,432,023	960,915	956,281	-	-	

Note 25 Interest Rate Risk (continued)

As at 30 June 2006	Consolidated							
	Less than 3 Months	Between 3 and 6 Months	Between 6 and 12 Months	Between 1 and 5 Years	After 5 Years	Not Interest Bearing	Total	Weighted Average Rate
	$000's	$000's	$000's	$000's	$000's	$000's	$000's	%
Liquid assets and due from other banks	346,695	-	-	-	-	41,580	388,275	5.54
Held for trading financial assets	1,408,408	-	-	-	-	-	1,408,408	5.90
Held to maturity investments	366,541	-	-	-	-	-	366,541	5.03
Net loans and advances	16,355,338	1,124,220	1,507,172	4,615,845	18,001	138,069	23,758,644	7.41
Other assets	-	-	-	-	-	289,585	289,585	-
Hedges	3,252,941	605,605	(366,468)	(3,492,037)	(42)	-	-	-
Total assets	**21,729,923**	**1,729,825**	**1,140,704**	**1,123,808**	**17,959**	**469,234**	**26,211,453**	
Deposits, notes payable and due to other banks	21,969,481	1,560,862	987,680	135,560	9,567	-	24,663,150	5.68
Other liabilities	-	-	-	-	-	471,647	471,647	-
Subordinated debt	342,000	-	-	-	-	-	342,000	6.51
Total liabilities	**22,311,481**	**1,560,862**	**987,680**	**135,560**	**9,567**	**471,647**	**25,476,797**	
Shareholders' funds	-	-	-	-	-	734,656	734,656	
Interest sensitivity gap								
- net	(581,558)	168,963	153,024	988,248	8,392	(737,069)	-	
- cumulative	(581,558)	(412,595)	(259,571)	728,677	737,069	-	-	

Note 25 Interest Rate Risk (continued)

	Bank							
As at 30 June 2007	**Less than 3 Months $000's**	**Between 3 and 6 Months $000's**	**Between 6 and 12 Months $000's**	**Between 1 and 5 Years $000's**	**After 5 Years $000's**	**Not Interest Bearing $000's**	**Total $000's**	**Weighted Average Rate %**
Liquid assets and due from other banks	727,311	-	-	-	-	51,483	778,794	6.33
Available for sale financial assets	-	-	-	-	-	3,000	3,000	-
Held for trading financial assets	2,182,650	328,359	-	-	-	-	2,511,009	6.34
Held to maturity investments	2,576	-	-	-	-	-	2,576	6.34
Net loans and advances	13,308,148	807,447	1,810,410	6,428,471	15,845	36,724	22,407,045	7.63
Other assets	-	-	-	-	-	1,203,326	1,203,326	-
Hedges	7,189,703	(410,144)	(1,157,800)	(5,600,409)	(21,350)	-	-	-
Total assets	**23,410,388**	**725,662**	**652,610**	**828,062**	**(5,505)**	**1,294,533**	**26,905,750**	
Deposits, notes payable and due to other banks	22,497,240	1,403,298	833,960	222,418	9,265	175,362	25,141,543	6.15
Other liabilities	-	-	-	-	-	656,246	656,246	-
Subordinated debt	372,000	-	-	-	-	-	372,000	7.06
Total liabilities	**22,869,240**	**1,403,298**	**833,960**	**222,418**	**9,265**	**831,608**	**26,169,789**	
Shareholders' funds	-	-	-	-	-	735,961	735,961	
Interest sensitivity gap								
- net	541,148	(677,636)	(181,350)	605,644	(14,770)	(273,036)	-	
- cumulative	541,148	(136,488)	(317,838)	287,806	273,036	-	-	

Note 25 Interest Rate Risk (continued)

	Bank							
As at 30 June 2006	**Less than 3 Months $000's**	**Between 3 and 6 Months $000's**	**Between 6 and 12 Months $000's**	**Between 1 and 5 Years $000's**	**After 5 Years $000's**	**Not Interest Bearing $000's**	**Total $000's**	**Weighted Average Rate %**
Liquid assets and due from other banks	245,685	-	-	-	-	49,559	295,244	5.54
Held for trading financial assets	1,308,462	-	-	-	-	-	1,308,462	5.90
Held to maturity investments	30,844	-	-	-	-	-	30,844	5.03
Net loans and advances	12,268,643	641,943	1,230,140	4,686,092	18,378	64,328	18,909,524	7.41
Other assets	-	-	-	-	-	1,359,467	1,359,467	-
Hedges	3,235,376	604,070	(359,700)	(3,479,704)	(42)	-	-	-
Total assets	**17,089,010**	**1,246,013**	**870,440**	**1,206,388**	**18,336**	**1,473,354**	**21,903,541**	
Deposits, notes payable and due to other banks	17,697,059	1,563,512	989,357	135,791	9,584	-	20,395,303	5.68
Other liabilities	-	-	-	-	-	486,570	486,570	-
Subordinated debt	342,000	-	-	-	-	-	342,000	6.51
Total liabilities	**18,039,059**	**1,563,512**	**989,357**	**135,791**	**9,584**	**486,570**	**21,223,873**	
Shareholders' funds	-	-	-	-	-	679,669	679,669	
Interest sensitivity gap								
- net	(950,049)	(317,499)	(118,917)	1,070,597	8,752	307,116	-	
- cumulative	(950,049)	(1,267,548)	(1,386,465)	(315,868)	(307,116)	-	-	

Note 26 Net Fair Value of Financial Instruments

Accounting Standard *AASB 132 Financial Instruments – Disclosure and Presentation* requires disclosure of the net fair value of the consolidated entities financial instruments. Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction. Net fair value is the fair value adjusted for transaction costs.

Quoted material prices, where available, are adjusted for material transaction costs and used as the measure of net fair value. In cases where market values are not available, net fair values are based on present value estimates or other valuation techniques. For the majority of short-term financial instruments, defined as those which reprice or mature in 90 days or less, with no significant change in credit risk, the net fair value is assumed to equate to the carrying amount in the consolidated entity's Balance Sheet.

The fair values are based on relevant information available as at 30 June 2007. While judgment is used in obtaining the net fair value of financial instruments, there are inherent weaknesses in any estimation technique. Many of the uncertainties and matters of significant judgement and changes in underlying assumptions could significantly affect these estimates. Furthermore, market prices or rates of discount are not available for many of the financial instruments valued and surrogates have been used which may not reflect the price that would apply in an actual sale. The use of estimates and assumptions together with calculations based on information available at a particular point in time (being year end) result in the net fair values disclosed being highly subjective and subject to change and are not representative of the underlying value of the consolidated entity.

The following table provides details of both carrying value and net fair value of on-balance sheet financial instruments as at 30 June. The estimated net fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments. Non-financial instruments excluded from the disclosure include property, plant and equipment, intangibles, deferred expenditure, income tax liabilities and provisions.

Note 26 Net Fair Value of Financial Instruments (continued)

	Consolidated			
	Carrying Value 2007 $000's	Net Fair Value 2007 $000's	Carrying Value 2006 $000's	Net Fair Value 2006 $000's
Assets				
Cash and liquid assets	601,826	601,826	221,145	221,145
Due from other banks	251,546	251,546	167,130	167,130
Available for sale financial assets	3,000	3,000	-	-
Held for trading financial assets	2,511,009	2,511,009	1,408,408	1,408,408
Held to maturity investments	171,331	171,331	338,236	338,236
Loans and receivables	27,415,560	27,447,401	23,620,575	23,656,833
Other assets	189,561	189,561	179,039	179,039
Liabilities				
Due to other banks	175,362	175,362	121,443	121,443
Deposits	15,624,742	15,624,467	12,087,329	12,082,076
Notes payable	13,846,921	13,846,921	12,454,378	12,454,378
Other liabilities	464,873	464,873	316,424	316,424
Subordinated debt	372,000	372,000	342,000	342,000

Note 26 Net Fair Value of Financial Instruments (continued)

Methodologies

The following methodologies and assumptions have been used to determine net fair values:

Cash, Liquid Assets and Due from Other Banks

Cash, liquid assets and due from other banks includes cash at branches, ATMs, money at short call and cash at bank. The carrying value of these financial instruments is considered to approximate their net fair value as they are short-term in nature or are receivable on demand.

Available for Sale Financial Assets / Held for Trading Financial Assets / Held to Maturity Investments

Investment securities and financial assets are recorded at fair value or at amortised cost. Investments valued at amortised cost are those investments that are normally held to maturity. Fair value is generally based on quoted market prices, broker or dealer price quotations.

Loans and Receivables

The net fair value for loans and receivables is based on discounted cash flow models which calculate the sum of the present values of expected principal and interest cash flows using repricing dates.

Other Assets

The carrying value of other assets, including accrued interest, other investments and other receivables, maturing within 12 months approximates their fair value.

Due to Other Banks

The carrying value of "due to other banks" approximates fair value as these instruments are generally short-term in nature and repayable on demand.

Deposits and Subordinated Debt

The net fair value of non-interest bearing, at call and variable rate deposits equates to the carrying value. Discounted cash flow models have been used to determine the net fair value for other deposits based on maturity, with terms generally ranging from one month to five years.

The net fair value of subordinated debt has been calculated using a discounted cash flow model based on a yield curve appropriate to the remaining term to maturity of the instruments.

Note 26 Net Fair Value of Financial Instruments (continued)

Other Liabilities

Other liabilities include accrued interest, sundry creditors and other payables. The carrying value for these liabilities approximates net fair value. Items not considered financial liabilities include taxation and other provisions.

Commitments and Contingencies

The consolidated entity's credit related commitments and contingent liabilities are outlined in Note 27, Note 28 and Note 29 to the Financial Statements. These financial liabilities are not generally sold or traded. Fees are charged for the granting of these commitments, taking into account maturity and interest rates, together with any change in the credit worthiness of the counterparty. The net fair value of these commitments is not considered material.

Derivative Financial Instruments

The net fair value of derivative financial instruments is separately disclosed in Note 30 of the Financial Statements and has been calculated using market prices, discounted cash flow models and option pricing models as appropriate.

Note 27 Commitments

	Consolidated		Bank	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Operating lease commitments				
Non-cancellable operating lease commitments not provided for and payable :				
- not later than one year	6,263	5,332	4,793	4,347
- later than one year but not later than five years	7,425	7,217	3,982	3,622
- later than five years	-	6	-	6
	13,688	**12,555**	**8,775**	**7,975**

Operating leases relate to the rental of accommodation for offices, branches and ATMs. The average lease term for branches and offices is 1.8 years and 1.7 years for ATMs. Most leases are subject to annual reviews, with increases subject to set percentages or CPI. Where appropriate, a right of renewal has been incorporated into the lease agreement. There are no material restrictions imposed on these lease arrangements.

Other Commitments not later than one year				
Loans approved not advanced	864,124	1,259,225	864,124	1,259,225
Unused credit facility	1,209,125	1,253,207	1,209,125	1,253,207
	2,073,249	**2,512,432**	**2,073,249**	**2,512,432**

Note 28 Standby Arrangements and Uncommitted Credit Facilities

	Consolidated		Bank	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
Uncommitted credit facilities				
Amount available:				
Offshore borrowing facility	4,705,882	2,702,703	4,705,882	2,702,703
Domestic note program	5,000,000	1,500,000	5,000,000	1,500,000
Amount utilised:				
Offshore borrowing facility	2,121,970	664,000	2,121,970	664,000
Domestic note program	1,487,000	614,000	1,487,000	614,000
Amount not utilised:				
Offshore borrowing facility	2,583,912	2,038,703	2,583,912	2,038,703
Domestic note program	3,513,000	886,000	3,513,000	886,000

The Bank had a $US3,000 million Euro Commercial Paper Program of which $US1,804 million was drawn down at 30 June 2007, and a $US1,000 million Euro Medium Term Note Program which was not drawn down as at 30 June 2007. The Bank also had a $5,000 million Domestic Note Program of which $1,487 million was issued as at 30 June 2007.

Note 29 Contingent Liabilities

The details and estimated maximum amounts of contingent liabilities, classified according to the party from whom the contingent liability arises, are set out below:

	Consolidated		Bank	
	2007 $000's	2006 $000's	2007 $000's	2006 $000's
In respect of the Bank				
Guarantees entered into in the normal course of business	11,173	12,460	11,173	12,460

Australian Taxation Office Audit

Since December 2006 the Australian Taxation Office has been conducting a tax audit in relation to three transactions undertaken by members of the Adelaide Bank Group. The three transactions were undertaken during 1999 and 2000 and involved primary tax of up to $16 million.

These transactions were undertaken in accordance with external advice received at the time by the Adelaide Bank Group. The existence of the tax audit has previously been disclosed to Adelaide Bank shareholders by way of a contingent liability note in the financial statements for the half-year ended 31 December 2006.

At the date of this report the ATO has not concluded the tax audit nor issued an amended assessment. Adelaide Bank is unable to make an assessment of the amount of the additional liability (if any) that may result from the tax audit. It is not expected that the implementation of the proposed merger with Bendigo Bank will have a material impact on the likely outcome of the tax audit or the amount of any additional liability in connection with the tax audit.

In Respect of Service Agreements

No material contingent liability exists in relation to termination benefits.

Fiduciary Activities

The Banks fiduciary activities consist of investment management and other fiduciary activities conducted as manager, custodian or trustee for a number of investments and trusts including approved deposit funds, wholesale and retail investment trusts, cash management trusts and securitisation trusts. The aggregate amount of funds concerned which are not included in the Bank's Balance Sheet are as follows:

	Consolidated	
	2007 $000's	2006 $000's
Funds under management	3,737,645	2,685,008
Funds under custody and investment administration	408,977	484,837
	4,146,622	**3,169,845**

Note 30 Risk Management and Derivative Financial Instruments

The Bank in its daily operations is exposed to a number of market risks. The more significant of these risks are:

- Interest rate risk
- Foreign exchange risk
- Liquidity risk
- Credit risk
- Operational risk.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates might adversely affect net interest income of the Bank.

Interest rate risk is carefully managed, within defined limits set by the Risk Management Committee, with the primary objective being to stabilise and enhance the performance of net interest income over time. This risk is managed by limiting the mismatch in the repricing dates of the Bank's assets and liabilities and through the use of interest rate hedging products such as swaps.

The swaps used to manage interest rate exposure are purchased with the intent of being held to maturity, and satisfy hedge accounting requirements.

Foreign Exchange Risk

Foreign exchange risk is the risk to earnings the Bank may suffer due to an adverse movement in foreign exchange rates. The Bank hedges all foreign exchange risk in relation to offshore investment and borrowings.

Liquidity Risk

Balance sheet liquidity risk is the risk of being unable to meet financial obligations as they fall due. Liquidity risk is managed within defined limits set by the Risk Management Committee. The Bank holds a portfolio of high quality liquid assets as protection against an unexpected outflow of funds. In addition, the Bank has actively diversified its funding base to ensure undue reliance is not placed on any one funding source.

Note 30 Risk Management and Derivative Financial Instruments (continued)

Credit Risk

Credit risk is the potential of loss arising from failure of a debtor or counterparty to meet their contractual obligations, and is managed within defined policy set by the Risk Management Committee. Credit risk arises from lending activities, financial market transactions and other associated activities. The Bank has a credit risk framework in place to provide a structured and disciplined approach to all lending activities.

Operational Risk

Operational risk is the risk of loss from failed internal processes, people and systems, or from external events. The Bank has an appropriate infrastructure to manage operational risk, where line managers are responsible for the daily operational risk identification, analysis and assessment, a centralised operational risk department responsible for the framework, and reporting through to the Risk Management Committee and Board.

Derivative Financial Instruments

The consolidated entity enters into derivative financial instruments for hedging purposes and deals in interest rate and foreign exchange contracts, options and swaps which enable it to manage interest rate risk and eliminate foreign exchange exposures. The consolidated entity manages the exposures related to these instruments as part of its overall interest rate and foreign exchange risk management.

Each derivative is classified as either held for "trading" purposes or for "hedging" purposes. Where hedge accounting has not been applied these items have been classified as held for "trading" purposes. Some derivative financial instruments may qualify as either cash flow or fair value hedges. The accounting treatment of these hedges is outlined in Note 2(u).

The table below shows the fair values of the derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor credit risk.

Note 30 Risk Management and Derivative Financial Instruments (continued)

	Consolidated					
	Assets Fair Value 2007 $000's	Liabilities Fair Value 2007 $000's	Notional Value 2007 $000's	Assets Fair Value 2006 $000's	Liabilities Fair Value 2006 $000's	Notional Value 2006 $000's
Derivatives held for trading						
Interest rate swaps	66,758	(65,849)	21,134,224	-	110	13,288,616
	66,758	**(65,849)**	**21,134,224**	**-**	**110**	**13,288,616**
Derivatives held as fair value hedges						
Interest rate swaps	3,947	(1,954)	773,593	(77)	1,434	1,542,596
Embedded derivatives	1,590	-	1,935	-	1,131	1,962
	5,537	**(1,954)**	**775,528**	**(77)**	**2,565**	**1,544,558**
Derivatives held as cash flow hedges						
Interest rate swaps	83,164	(76)	10,198,566	28,480	1,715	5,692,691
Cross currency swaps	-	(43,208)	1,361,449	-	(9,132)	965,958
Foreign exchange contracts	13,361	(73,141)	2,039,970	(98)	-	583,846
	96,525	**(116,425)**	**13,599,985**	**28,382**	**(7,417)**	**7,242,495**
Total derivative financial instruments	**168,820**	**(184,228)**	**35,509,737**	**28,305**	**(4,742)**	**22,075,669**

Note 31 Securitisation

The Bank and Leveraged Equities Limited, through its loan securitisation program, securitises housing mortgage loans and margin loans ("the loans") to the Torrens Trust and Lighthouse Trust ("the Trusts") which in turn issue rated securities to investors. The balance of securitised assets as at 30 June is as follows:

	2007 $000's	2006 $000's
Residential loans	9,232,601	9,292,165
Margin loans	4,298,237	2,642,045
Total securitised assets	**13,530,838**	**11,934,210**

The Bank and Leveraged Equities Limited hold income and capital units in the Trusts. These income and capital units are held at nominal values. The income units entitle both entities to receive excess income, if any, generated by the securitised assets, whilst the capital unitholder receives, upon termination of the trust, the capital value remaining after all other outgoings have been paid. Investors in the Trusts have no recourse against the Bank or Leveraged Equities Limited if cash flows from the securitised loans are inadequate to service the obligations of the Trusts.

The securities issued by the Trusts do not represent liabilities of the Bank. Neither the Bank nor any of its subsidiaries stand behind the capital value and/or performance of the securities or assets of the Trusts.

The parent entity however does receive payment for services provided to the Trusts, including servicing and management functions, interest rate swaps, loan redraw and liquidity facilities. All these transactions are entered into on an arm's length basis between the Bank and Leveraged Equities Limited and the Trusts.

The consolidated entity does not invest in any of its own securitisation programs other than the margin loan Lighthouse Trust where the Bank holds a senior subordinated note equivalent to $93 million as at 30 June 2007. The Bank does invest in other securitisation programs unrelated to the Bank as part of normal investment activities.

A summary of the transactions between the consolidated entity and the Trusts during the year is as follows:

	2007 $000's	2006 $000's
Proceeds from securitisation of loans	4,378,696	6,991,530
Servicing fees received	33,335	27,842
Management fees received	2,866	2,653
Excess income received	168,446	77,095
Other	125	99

Note 32 Significant Events after the Balance Date

Proposed merger of Adelaide Bank Limited and Bendigo Bank Limited

On 9 August 2007, a proposed merger between Adelaide Bank Limited and Bendigo Bank Limited was announced. The proposed merger will be implemented by a Scheme of Arrangement of Adelaide Bank which will require approval by Adelaide Bank shareholders at a meeting planned for November 2007. Adelaide Bank shareholders will receive 1.075 Bendigo Bank shares per Adelaide Bank share. The Directors of Bendigo Bank and Adelaide Bank unanimously support the proposed merger. The Adelaide Bank Directors' recommendation is subject to the absence of a superior proposal and the opinion of an independent expert that the proposed merger is in the best interests of Adelaide Bank shareholders. The proposed merger is also subject to regulatory approvals. The proposed name of the merged entity is Bendigo and Adelaide Bank Limited.

The Boards of both Bendigo Bank and Adelaide Bank will each be reduced by two Directors when the companies are merged. This will result in a Board of twelve, including two Executive Directors.

Mr. Robert Johanson, Chairman of Bendigo Bank, will be the Chairman of the proposed merged group. Mr. Kevin Osborn, Non-executive Director of Adelaide Bank will become the Deputy Chairman. Mr. Rob Hunt, Group Managing Director of Bendigo Bank, will lead the proposed merged entity as Group Managing Director until 1 July 2009. Mr. Jamie McPhee will be appointed to the Board of the proposed merged entity as an Executive Director and be responsible for the proposed merged entity's Wholesale Banking services. With Mr. Hunt's retirement in July 2009, Mr. McPhee will be well placed to succeed him as Group Managing Director.

As at the date of this report, the Australian Competition and Consumer Commission has formally advised Adelaide Bank that it does not intend to oppose the proposed merger.

Global credit issue

Since August 2007, global credit markets have been affected by developments that originated in the United States sub-prime mortgage industry. These developments have led to an increase in the cost of wholesale funds throughout global markets including Australia and in some cases a reduction in the availability of some offshore funding sources. As Adelaide Bank utilises a range of funding sources including wholesale funding, Adelaide Bank's overall cost of funds has increased as a consequence.

As a result of these events, Adelaide Bank has reviewed and continues to review its pricing models to ensure it is appropriately pricing its products to have regard to this cost increase to seek to maintain net interest margins. Adelaide Bank has adjusted certain interest rates for a number of categories of its loan products as a consequence.

Note 33 Director and Key Management Personnel Disclosures

Details of Directors and Key Management Personnel

Directors

A. Lloyd	Director (Chairman)
R.A. Cook	Director (Deputy Chairman)
P.A. Crook	Director
K.D. Abrahamson	Director
K.G. Osborn	Director
S. Crane	Director
B.F. Fitzpatrick (retired 15 December 2006)	Group Managing Director
J.L. McPhee (appointed 16 December 2006)	Group Managing Director

Key Management Personnel

F. Lupoi	Chief Financial Officer
A. Kamm	Chief General Manager, Risk Management
A. Baum	Chief General Manager, Wealth Management
T. Piper	Chief General Manager, Wholesale Mortgages
D. Hughes (commenced 18 June 2007)	Chief General Manager, Finance and Information Services
R. Fennell (commenced 19 Mar 2007)	Chief General Manager, Group Strategy
J. Carne (commenced 28 Sept 2006)	Chief General Manager, Shared Services
P. Riquier	Chief General Manager, Business Lending
S. Small	Chief General Manager, Retail Banking
J. van Ruth (ceased employment 12 Feb 2007)	Chief Information Officer

Note 33 Director and Key Management Personnel Disclosures (continued)

Shareholdings of Directors and Key Management Personnel

Shares held in Adelaide Bank Limited	Balance 1 July 2006			Granted as Remuneration ^			Net Change Other			Balance 30 June 2007		
	Ord	RPS	SPS	Ord	RPS	SPS	Ord	RPS	SPS	Ord	RPS	SPS
Directors												
A. Lloyd	3,774	-	-	-	-	-	177	-	-	3,951	-	-
R.A. Cook	2,968	-	-	-	-	-	100	-	-	3,068	-	-
P.A. Crook	5,078	-	-	-	-	-	-	-	-	5,078	-	-
K.D. Abrahamson	14,044	129	180	-	-	-	659	-	-	14,703	129	180
K.G. Osborn	7,142	-	-	-	-	-	335	-	-	7,477	-	-
S. Crane	11,129	-	-	-	-	-	-	-	-	11,129	-	-
J.L. McPhee	460,217	-	-	36,279	-	-	-	-	-	496,496	-	-
Key Management Personnel												
F. Lupoi	88,869	-	-	9,771	-	-	-	-	-	98,640	-	-
A. Kamm	149,110	-	-	9,091	-	-	(2,984)	-	-	155,217	-	-
A. Baum	37,198	-	-	8,241	-	-	-	-	-	45,439	-	-
T. Piper	-	-	-	5,438	-	-	-	-	-	5,438	-	-
D. Hughes (commenced 18 June 2007)	-	-	-	-	-	-	-	-	-	-	-	-
R. Fennell (commenced 19 Mar 2007)	-	-	-	-	-	-	-	-	-	-	-	-
J. Carne (commenced 28 Sept 2006)	-	-	-	-	-	-	-	-	-	-	-	-
P. Riquier	500	-	-	-	-	-	-	-	-	500	-	-
S. Small	25,169	-	-	5,769	-	-	-	-	-	30,938	-	-
Total	**805,198**	**129**	**180**	**74,589**	**-**	**-**	**(1,713)**	**-**	**-**	**878,074**	**129**	**180**

^ Relates to the 2006 financial year STI, where the shares vested in the 2007 financial year.

Note 33 Director and Key Management Personnel Disclosures (continued)

Loans to Directors and Key Management Personnel

(i) Details of aggregates of loans to Directors and Key Management Personnel are as follows:

		Opening Balance $000's	Interest Charged $000's	Interest Not Charged $000's	Write-off $000's	Closing Balance $000's	Number in Group $000's
Directors	2007	1,979	74	33	-	898	1
	2006 *	710	17	20	-	427	1
Key Management Personnel	2007	1,775	156	16	-	3,265	5
	2006 *	2,982	116	57	-	2,930	4
Total Directors and Key Management Personnel	**2007**	**3,754**	**230**	**49**	**-**	**4,163**	**6**
	2006*	**3,692**	**133**	**77**	**-**	**3,357**	**5**

(ii) Details of individuals with loans above $100,000 in the reporting period are as follows:

	Opening Balance $000's	Interest Charged $000's	Interest Not Charged $000's	Write-off $000's	Closing Balance $000's	Highest Owing in Period $000's
Directors						
J. L. McPhee	1,979	74	33	-	898	2,103
	1,979	**74**	**33**	**-**	**898**	**2,103**
Key Management Personnel						
A. Kamm	184	-	10	-	139	184
F. Lupoi	116	-	6	-	85	116
A. Baum	194	47	-	-	799	959
T. Piper	1,109	78	-	-	1,296	1,304
S. Small	172	31	-	-	946	974
	1,775	**156**	**16**	**-**	**3,265**	**3,537**

Other than those specified above, there were no other transactions with Directors and Key Management Personnel during the financial year.

* Group totals in respect of the financial year ended 2006 do not necessarily equal the sums of individual amounts disclosed for 2006 for individuals specified in 2007, as there have been changes in Directors and Key Management Personnel.

Compensation by category: Key Management Personnel

	Consolidated	
	2007 $	2006 $
Short-term	1,972,232	622,786
Post Employment	282,930	77,127
Share-Based payments	1,216,867	266,400
	3,472,029	**966,313**

Note 34 Auditors' Remuneration

	Consolidated		Bank	
	2007	2006	2007	2006
	$	$	$	$
Amounts received or due and receivable by Ernst & Young for:				
Auditing and assurance	591,575	768,722	535,749	742,691
Assurance related accounting advice	230,286	311,880	204,536	311,880
Tax compliance and advice	970,748	520,026	964,493	484,903
	1,792,609	**1,600,628**	**1,704,778**	**1,539,474**

It is the Bank's policy to employ Ernst & Young on assignments additional to their statutory audit duties where their expertise and experience with the Bank are important. Auditing fees include fees relating to the statutory audit as well as other audit related services that are consistent with the role of auditor. These include regulatory and prudential reviews requested by the Bank's regulators such as the Australian Prudential Regulation Authority. Ernst & Young or any of its related practices may not provide services that are in conflict with the role of an independent auditor.

Note 35 Related Party Disclosures

Australian banks have been exempted (subject to certain conditions), under an ASIC Class Order 98/110 dated 10 July 1998 and amendment 04/665 dated 15 July 2004, from making disclosure of:

- any loan made, guaranteed or secured by a bank to related parties (other than Directors); and
- financial instrument transactions (other than shares and share options), of a bank where a Director of the relevant entity is not a party and where the loan or financial instrument transaction is lawfully made and occurs in the ordinary course of banking business on either:
  - an arms-length basis, or
  - with approval of a general meeting of the relevant entity and its ultimate chief entity.

The exemption does not cover transactions which relate to the supply of goods and services to a bank.

The Class Order does not apply to a loan or financial instrument transaction which any Director of the Bank should be reasonably aware that, if not disclosed, would have the potential to adversely affect the decisions made by users of the financial statements about the allocation of scarce resources.

This exemption is subject to the Bank lodging with ASIC, a statutory declaration made by two Directors, confirming compliance with the provisions of the Class Order. The Bank will be lodging such a declaration with ASIC in its Annual Return in respect of the year ended 30 June 2007.

Note 35 Related Party Disclosures (continued)

Wholly Owned Group Transactions

During the year, the Bank entered into transactions with controlled entities and all transactions were in the ordinary course of business based on normal commercial terms.

These transactions arise from the provision of banking services and other associated financial activities. Support services are provided by the Bank, such as accounting and processing services, and are charged to the respective entity at commercial rates. All loans with controlled entities have been made in the ordinary course of business. All transactions with controlled entities have been eliminated for consolidation purposes.

	Bank	
	2007 $000's	2006 $000's
Bank subsidiaries:		
Current tax payable / (refundable) assumed from wholly-owned tax consolidated entities	(23,446)	(3,235)
Dividend income	40,000	-
Retail deposit from wholly-owned consolidated entities	31,607	11,790

Director Transactions

Financial instrument transactions (including credit card facilities) with the Directors of the Bank occur in the ordinary course of business of the Bank on an arms-length basis. Details of aggregate loans to Directors are disclosed in Note 33.

Equity Instruments of Directors

Details of Directors' shareholdings are as set out in the Directors' Report.

Note 36 Superannuation Commitments

The Bank has a legally enforceable obligation to contribute to a superannuation plan for employees either on an accumulation basis (including the Superannuation Guarantee Charge) or on a defined benefits basis which provides benefits on retirement, disability or death based on years of service and final average salary. Employees contribute to the plan at a fixed percentage of remuneration. The Bank's contribution is determined by the Trustee after consideration of actuarial advice and an actuarial review is carried out every three years. The last actuarial review was carried out as at 1 July 2006 by Kathryn Daniels B.Sc, FIAA of Mercer Human Resource Consulting Pty Ltd. The value of accrued benefits from this Actuarial review was $62.469 million. At balance date, the Directors believe that funds available were adequate to satisfy all vested benefits under the Plan.

Accounting Policy

Actuarial gains and losses are recognised in retained earnings.

Plan Information

Defined benefit members receive lump sum benefits on retirement, death, disablement and withdrawal. The defined benefit section of the Plan is closed to new members. All new members are entitled to become members of the accumulation categories of the fund.

Fair Value of Plan Assets

The fair value of Plan assets includes Adelaide Bank shares to the value of $3,153,000 as at 30 June 2007 and $2,605,000 at 30 June 2006.

Actual return	**2007 $000's**	**2006 $000's**
Actual return on plan assets	3,235	2,987

Principal actuarial assumptions	**2007**	**2006**
Discount rate	5.10% pa	4.90% pa
Expected rate of return on Plan assets	7.20% pa	6.70% pa
Expected salary increase rate	4.50% pa	4.50% pa

Reconciliation of the present value of the defined benefit obligation	**2007 $000's**	**2006 $000's**
Present value of defined benefit obligations at beginning of the year	**16,582**	**15,009**
Add Current service cost	1,031	982
Add Interest cost	827	650
Add Contributions by Plan participants	262	249
Add Actuarial gains / (losses)	884	820
Less Benefits paid	6,520	602
Less Taxes, premiums & expenses paid	520	527
Add Transfers in / (out)	(79)	1
Present value of defined benefit obligations at end of the year	**12,467**	**16,582**

Note 36 Superannuation Commitments (continued)

Reconciliation of the fair value of plan assets	2007 $000's	2006 $000's
Fair value of plan assets at beginning of the year	**22,802**	**19,029**
Add Expected return on plan assets	1,522	1,277
Add Actuarial gains	1,713	1,710
Add Employer contributions	1,608	1,665
Add Contributions by plan participants	262	249
Less Benefits paid	6,520	602
Less Taxes, premiums & expenses paid	520	527
Add Transfers in / (out)	(79)	1
Fair value of plan assets at end of the year	**20,788**	**22,802**

Reconciliation of the assets and liabilities recognised in the balance sheet	2007 $000's	2006 $000's
Defined benefit obligation *	12,467	16,582
Less Fair value of plan assets	20,788	22,802
Net superannuation surplus (asset)	**(8,321)**	**(6,220)**

* Includes contributions tax provision

Movements in Liability / (Asset) Recognised in the Balance Sheet	2007 $000's	2006 $000's
Net superannuation (asset) at start of year	**(6,220)**	**(4,020)**
Add Expense recognised in income statement	(493)	(535)
Less Employer contributions	1,608	1,665
Net superannuation (asset) at end of year	**(8,321)**	**(6,220)**

Expense recognised in income statement	2007 $000's	2006 $000's
Service cost	1031	982
Interest cost	827	650
Expected return on assets	(1,522)	(1,277)
Superannuation expense	**336**	**355**
Gain recognised directly in equity		
Actuarial (gain)	(829)	(890)
Cumulative gain recognised directly in equity		
Actuarial (gain)	(2,156)	(1,327)

Note 36 Superannuation Commitments (continued)

Plan Assets

The percentage invested in each asset class at the balance sheet date:

	2007^	2006
Australian equity	46%	44%
International equity	23%	25%
Fixed income	12%	13%
Property	7%	6%
Cash	12%	12%

^ Asset allocation as at 30 June 2007 is currently unavailable. Asset allocation at 30 April 2007 has been used.

Funding Arrangements for Employer Contributions

Surplus/Deficit

The following is a summary of the most recent financial position of the Adelaide Bank Staff Superannuation Plan. Note that the figures below relate to the Plan as a whole, including the accumulation section.

	1 July 2006 $000's
Accrued benefits	62,469
Net market value of plan assets	67,511
Net surplus	5,042

Contribution Recommendations

The current contribution recommendations, as set out in the report of the most recent actuarial valuation of the Plan as at 1 July 2006, are $115,060 per month in respect of defined benefit members and the expenses for accumulation members for the period to 30 June 2007, nil thereafter; plus 20.0% of salaries for Accumulation Executives, 17.5% of salaries for Accumulation Senior Managers and at the superannuation guarantee rate for all other Accumulation Members. The Bank is currently contributing at these rates.

Funding Method

The method used to determine the employer contribution recommendations at the last actuarial review was the Attained Age Normal method. The method adopted affects the timing of the cost to the Bank.

Under the Attained Age Normal method, a "normal cost" is calculated which is the estimated employer contribution rate required to provide benefits in respect of future service after the review date. The "normal" cost is then adjusted to take into account any surplus (or deficiency) of assets over the value of liabilities in respect of service prior to the review date. Any surplus or deficiency can be used to reduce or increase the "normal" employer contribution rate over a suitable period of time.

Note 36 Superannuation Commitments (continued)

Economic Assumptions

The long-term economic assumptions adopted for the last actuarial review of the Plan as at 1 July 2006 were:

Expected rate of return on assets (discount rate)	7.20% pa
Expected salary increase rate	4.50% pa

Nature of Asset

Adelaide Bank has recognised an asset in the Balance Sheet (under Other assets) in respect of its defined benefit superannuation arrangements. If a surplus exists in the Plan, Adelaide Bank may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Plan's actuary.

The Adelaide Bank Staff Superannuation Plan, a sub-plan of the Mercer Super Trust, does not impose a legal liability on Adelaide Bank to cover any deficit that exists in the Plan. If the Plan were wound up, there would be no legal obligation on the Bank to make good any shortfall. The rules of the Plan state that if the Plan winds up, the remaining assets are to be distributed amongst the Members as determined by the Trustee of the Plan.

The Bank may at any time terminate its contributions by giving one month's notice in writing to the Trustee.

Historical Information

	30 June 2007 $000's	30 June 2006 $000's	30 June 2005 $000's
Present value of defined benefit obligation	12,467	16,582	15,009
Fair value of plan assets	20,788	22,802	19,029
(Surplus)/deficit in plan	(8,321)	(6,220)	(4,020)
Experience adjustments (gain)/loss – plan assets	(1,713)	(1,710)	(1,417)
Experience adjustments (gain)/loss – plan liabilities	1,164	1,105	(38)

Expected Contributions

Financial year ending	30 June 2008 $000's
Expected employer contributions	-

Note 37 Segment Information

	Year Ended 30 June 2007				
	Wholesale Mortgages $000's	Wealth Management $000's	Business Lending $000's	Retail Banking $000's	Consolidated $000's
Operating income					
Net interest income	63,474	71,364	55,116	65,848	255,802
Other income	29,663	5,228	7,979	22,689	65,559
Total operating income	**93,137**	**76,592**	**63,095**	**88,537**	**321,361**
Bad and doubtful debt expense	(9,269)	(1,800)	(1,455)	(2,219)	(14,743)
Other expenses	(46,249)	(33,081)	(19,326)	(45,911)	(144,567)
Segment result	**37,619**	**41,711**	**42,314**	**40,407**	**162,051**
Unallocated revenue less unallocated expense (including individually material item)					(16,416)
Net profit before income tax expense					**145,635**
Balance sheet figures as at 30 June 2007:					
Segment assets	17,366,185	5,084,103	2,851,216	2,233,252	27,534,756
Unallocated assets					4,035,959
Total assets					**31,570,715**
Segment liabilities	-	4,762,365	30,191	2,621,753	7,414,309
Unallocated liabilities					23,407,912
Total liabilities					**30,822,221**

Wholesale Mortgages

The Wholesale Mortgages business unit manufactures and processes residential home loans which are distributed through mortgage brokers and mortgage managers.

Wealth Management

The Wealth Management business unit includes Adelaide Bank's Margin Lending business (based in Sydney and Melbourne), as well as Adelaide Managed Funds. It also includes the Wealth Deposit business.

Business Lending

The Business Lending business unit comprises predominantly the Portfolio Funding and Specialised Lending businesses of the Bank.

Retail Banking

The Retail Banking business unit comprises the 25 branch network of Adelaide Bank, which is predominantly in metropolitan Adelaide, with one branch in the regional centre of Mt Gambier.

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

Note 37 Segment Information (continued)

	Year Ended 30 June 2006				
	Wholesale Mortgages $000's	Wealth Management $000's	Business Lending $000's	Retail Banking $000's	Consolidated $000's
Operating income					
Net interest income	84,631	60,761	36,513	63,283	245,188
Other income	31,119	1,454	4,832	21,591	58,996
Total operating income	**115,750**	**62,215**	**41,345**	**84,874**	**304,184**
Bad and doubtful debt expense	(5,374)	72	(291)	(2,917)	(8,510)
Other expenses	(49,851)	(26,164)	(11,427)	(51,167)	(138,609)
Segment result	**60,525**	**36,123**	**29,627**	**30,790**	**157,065**
Unallocated revenue less unallocated expense					(18,757)
Net profit before income tax expense					**138,308**
Balance sheet figures as at 30 June 2006:					
Segment assets	15,325,902	3,621,069	2,486,394	2,325,278	23,758,644
Unallocated assets					2,452,809
Total assets					**26,211,453**
Segment liabilities	-	4,300,556	35,823	2,492,685	6,829,064
Unallocated liabilities					18,647,733
Total liabilities					**25,476,797**

Note 38 Share Based Payments

Share based payments vested during the year ended 30 June 2007 were as follows:

Short-term Incentive Plan

The objective of the STI program is to provide a link between the achievement of the Bank's operational targets and the remuneration received by the Executives responsible for achieving those targets.

The total potential STI available is set at a level that provides sufficient incentive to Executives to achieve the targets while ensuring that the cost to the Bank is reasonable in the circumstances.

The level of STI payments granted to each Executive depends on the extent to which specific operational targets set at the beginning of the financial year are met. The targets cover both financial and non-financial measures of performance.

The aggregate of annual STI payments available for Executives across the Bank is subject to the approval of the Governance, Remuneration and Nomination Committee. Payments are made annually in September each year in cash or in shares (purchased on market) at the election of the Executive.

A total of 165,736 shares vested during the year ended 30 June 2007 that were issued as part of the STI plan for the 2006 financial year. These shares were purchased on market at $11.77.

An amount of $1.3 million has been expensed in the Income Statement under personnel costs for the year ended 30 June 2007 in relation to the 2007 STIs.

Long-term Incentive Plan

July 2005 to June 2008 LTI Plan

Executives employed as at 1 July 2005 received grants of performance shares to provide the LTI element of their remuneration for the period 1 July 2005 to 30 June 2008. The shares were acquired on market and held in trust for Executives in the Deferred Employee Share Plan. The shares vest to participating Executives if the performance hurdles set by the Board are satisfied and subject to approval by the Board.

The performance measure for the 2005-2008 LTI Plan compares growth in Adelaide Bank's normalised cash EPS (excluding individually material items) with the normalised cash EPS growth of ANZ Bank, Westpac Bank, Commonwealth Bank, National Australia Bank, St George Bank, Bank of Queensland and Bendigo Bank, calculated on a consistent accounting basis, over the period 1 July 2005 to 30 June 2008. Cash EPS was considered to be an appropriate performance hurdle because it is directly impacted by Executives.

Eligible Executives, including the Group Managing Director, who are currently participating in the July 2005 to June 2008 LTI plan will transition to the new LTI plan (discussed in the Remuneration Report) with effect from 1 July 2007. They will receive a one-off award capped at 33% of the maximum number of shares available to them under the plan. An amount of $1.3 million has been expensed in the Income Statement for 30 June 2007 to reflect this expense.

Note 39 Controlled Entities

	Class of Share	Interest Held		Bank's Investment at Cost	
		2007 %	2006 %	2007 $000's	2006 $000's
Adelaide Bank Limited	Ord	-	-	-	-
Co-operative Member Services Pty Ltd	Ord	100	100	*	*
Co-operative Financial Services Pty Ltd	Ord	100	100	500	500
REI Finance Pty Ltd	Ord	100	100	115	115
Hindmarsh Financial Services Ltd	Ord	100	100	10,560	10,560
Hindmarsh Adelaide Property Trust	Unit	100	100	*	*
Adelaide Investment Services Holdings Ltd	Ord	100	100	*	*
ABL Advisory Services Pty Ltd	Ord	100	100	200	200
AB Management Pty Ltd	Ord	100	100	100	100
Adelaide Managed Funds Ltd	Ord	100	100	250	250
AB Investment Services Pty Ltd	Ord	100	100	100,587	100,587
Leveraged Equities Ltd	Ord (2)	100	100	47,113	47,113
Pirie Street Custodian Ltd (formerly Leveraged Equities Nominees Ltd)	Ord (3)	100	100	*	*
Pirie Street Nominees Pty Ltd (formerly Leveq Nominees Pty Ltd)	Ord	100	100	*	*
ABL Securities Pty Ltd	Ord	100	100	100,844	100,844
ACN 010 846 152 Pty Ltd	Ord (1)	100	100	*	*
Lutre Pty Ltd	Ord	100	100	*	*
ABL Custodian Services Pty Ltd	Ord	100	100	*	*
ABL Staff Superannuation Fund Pty Ltd	Ord	100	100	*	*
ABL Nominees Pty Ltd	Ord (3)	100	100	*	*
ABL NIM Pty Ltd	Ord (3)	100	100	*	*
			260,269	**260,269**	

* Denotes subsidiaries with investment value less than $1,000.

All companies incorporated in South Australia except:

(1) Incorporated in Queensland

(2) Incorporated in New South Wales

(3) Incorporated in Victoria

Capital Adequacy

Australian Prudential Regulation Authority ("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 30 June 2007 and 30 June 2006 is summarised below:

	Consolidated	
Qualifying capital	**2007 $000's**	**2006 $000's**
Tier 1		
Issued and paid up ordinary capital	400,274	386,278
Reserves	24,052	27,889
Retained earnings	198,553	148,531
Innovative Tier 1 capital	155,633	140,675
Investment in managed funds and securitisation subsidiaries	(350)	(350)
Gross Tier 1 capital	**778,162**	**703,023**
Deductions from Tier 1 capital:		
Goodwill	33,880	32,561
Deferred tax assets	27,539	14,959
Loan portfolio premium	42,309	-
Superannuation defined benefits plan surplus	8,321	-
Cashflow hedge reserve	27,558	-
Capitalised expenses	76,021	90,133
Total deductions from tier 1 capital	215,628	137,653
Add back Other adjustments approved by APRA	63,103	-
Total Tier 1 capital	**625,637**	**565,370**
Tier 2		
Asset revaluation reserve	1,238	-
Step up preference shares	41,664	54,454
Subordinated debt	372,000	342,000
General reserve for credit losses	50,497	31,869
Other adjustments approved by APRA	3,000	-
Total Tier 2 capital	**468,399**	**428,323**
Total Qualifying capital	**1,094,036**	**993,693**
Less Deductions	7,491	34,038
Total capital	**1,086,545**	**959,655**
Total risk weighted assets	**9,986,250**	**8,907,278**
Tier 1 capital ratio	**6.26%**	**6.35%**
Total capital adequacy ratio	**10.88%**	**10.77%**

Capital Adequacy (continued)

	Consolidated			
	Gross Assets	Risk Weight	Risk Weighted	
	2007		2007	2006
	$000's	%	$000's	$000's
Risk weighted assets				
On balance sheet assets				
Cash, balances with the RBA, other claims on the Commonwealth Government, claims on State Governments	70,270	-	-	-
Claims on Local Governments, public sector entities and organisation for economic co-operation and development banks	482,753	20	96,551	51,175
Loans secured by residential real estate which are 50% risk weighted	9,831,619	50	4,915,810	3,978,877
All other assets	4,230,788	100	4,230,788	3,983,108
Total on balance sheet assets – credit risk			**9,243,149**	**8,013,160**

	Face Value	Credit Equivalent Amount	Risk Weighted	
	2007	2007	2007	2006
	$000's	$000's	$000's	$000's
Off balance sheet exposure				
Direct credit substitutes	11,173	11,173	11,173	12,460
Commitments	2,073,249	864,124	512,379	727,810
Foreign exchange, interest rate and other market related transactions	27,104,412	194,531	38,906	24,209
Total off balance sheet exposure			**562,458**	**764,479**
Risk weighted assets – credit risk			9,805,607	8,777,639
Risk weighted assets – market risk			180,643	129,639
Total risk weighted assets and off balance sheet exposures			**9,986,250**	**8,907,278**
Risk weighted capital adequacy ratio				
Tier 1			6.26%	6.35%
Tier 2			4.69%	4.81%
Deductions			(0.07%)	(0.39%)
Total capital ratio			**10.88%**	**10.77%**

Fully Paid Ordinary Shares

Top 20 Shareholders as at 31 August 2007

		No. of Fully Paid Ordinary Shares	% held of Issued Capital
1	J P Morgan Nominees Australia Limited	8,078,669	7.46
2	National Nominees Limited	4,063,872	3.75
3	HSBC Custody Nominees (Australia) Limited	3,224,729	2.98
4	Citicorp Nominees Pty Limited	3,114,994	2.88
5	ANZ Nominees Limited (Cash Income a/c)	2,768,036	2.56
6	Milton Corporation Limited	1,364,300	1.26
7	Argo Investments Limited	1,297,501	1.20
8	HSBC Custody Nominees (Australia) Limited – a/c 2	1,251,558	1.16
9	Cogent Nominees Pty Limited	1,112,506	1.03
10	Cooperative Member Services Pty Ltd (Number 2 a/c)	978,850	0.90
11	Cooperative Member Services Pty Ltd (Number 4 a/c)	850,450	0.79
12	HSBC Custody Nominees (Australia) Limited – a/c 3	809,672	0.75
13	Carlton Hotel Limited	700,000	0.65
14	Merrill Lynch (Australia) Nominees Pty Limited	569,426	0.53
15	Citicorp Nominees Pty Limited (CFSIL CFS WS Small Comp a/c)	506,890	0.47
16	Yarabie Estates Pty Ltd (Yarabie Super Fund a/c)	473,181	0.44
17	Citicorp Nominees Pty Limited (CFS Future Leaders Fund a/c)	443,092	0.41
18	UBS Nominees Pty Ltd	437,442	0.40
19	Roville Holdings Pty Ltd	424,000	0.39
20	Cooperative Member Services Pty Ltd	406,600	0.38
	Total Top Holders Balance	**32,875,768**	**30.39**

Distribution of Shareholdings as at 31 August 2007

Range	Numbers of Holders	Numbers of Shares
1 - 1,000	12,564	7,090,578
1,001 - 5,000	12,858	30,262,397
5,001 - 10,000	1,884	13,852,059
10,001 - 100,000	946	19,724,381
100,001 - over	46	37,387,154
Total	**28,298**	**108,316,569**

Unmarketable parcels as at 31 August 2007

Minimum parcel size 31	Holders	Units
Minimum $500.00 parcel at $15.60 per unit	270	3,139

Reset Preference Shareholder Information

Top 20 Holders of Reset Preference Shares as at 31 August 2007

		Units	% held of Issued Capital
1	ANZ Nominees Limited (Cash Income a/c)	20,330	2.03
2	M F Custodians Ltd	19,426	1.94
3	Takeda Pty Ltd (R J Walker Family a/c)	17,300	1.73
4	Bayeux Capital Pty Ltd	15,300	1.53
5	Citicorp Nominees Pty Limited	12,976	1.30
6	Questor Financial Services Limited (TPS RF a/c)	10,561	1.06
7	Cogent Nominees Pty Limited	8,131	0.81
8	Citicorp Nominees Pty Limited (CFSIL CFS WS ENH Yield a/c)	6,382	0.64
9	IPS Archibald Pty Ltd (Sophie Archibald S/F a/c)	4,598	0.46
10	Faete Holdings Pty Ltd	3,555	0.36
11	Baker Custodian Corporation	3,390	0.34
12	Mr Ian William Bailey and Mrs Gloria Jean Bailey (Bailey Family Super Fund a/c)	3,350	0.34
13	Reece Superannuation Pty Ltd (Reece Super Fund a/c)	3,194	0.32
14	Mr Jeffrey Frederick Edwards and Mrs June Rose Edwards	3,151	0.32
15	The Synod of the Diocese of Adelaide of the Anglican Church of Australia Incorporated	3,000	0.30
16	Invia Custodian Pty Limited (Plumbolah Pty Ltd a/c)	2,905	0.29
17	Mrs Aileen Malcolm Dowling	2,700	0.27
18	Ayers Super Management Pty Ltd	2,600	0.26
19	Netwealth Investments Limited (Super Services a/c)	2,508	0.25
20	Comil Australia Pty Ltd (Forbes Family a/c)	2,500	0.25
	Total Top Holders Balance	**147,857**	**14.80**

Distribution of Reset Preference Shareholdings as at 31 August 2007

Range	Total Holders	Units
1 - 1,000	4,288	757,669
1,001 - 5,000	71	131,925
5,001 - 10,000	2	14,513
10,001 - 100,000	6	95,893
100,001 - over	-	-
Total	**4,367**	**1,000,000**

Unmarketable parcels as at 31 August 2007

Minimum parcel size 5	Holders	Units
Minimum $500.00 parcel at $101.70 per unit	1	1

Step-up Preference Shareholder Information

Top 20 Holders of Step-up Preference Shares as at 31 August 2007

		Units	% held of Issued Capital
1	J P Morgan Nominees Australia Limited	51,020	5.10
2	National Nominees Limited	50,000	5.00
3	Argo Investments Limited	17,000	1.70
4	ANZ Nominees Limited (Cash Income a/c)	15,908	1.59
5	RBC Dexia Investor Services Australia Nominees Pty Limited (MLCI a/c)	11,932	1.19
6	Returned Services League of Australia (Queensland Branch)	10,000	1.00
7	Questor Financial Services Limited (TPS RF a/c)	8,284	0.83
8	Petlind Pty Ltd	7,430	0.74
9	Laidlaw Family Investments Pty Ltd (Laidlaw Family Invest a/c)	4,865	0.49
10	M F Custodians Ltd	4,240	0.42
11	Rogand Pty Ltd (Rogand Unit a/c)	4,220	0.42
12	Aileendonan Investments Pty Ltd	4,000	0.40
13	Baker Custodian Corporation	3,893	0.39
14	Moladi Pty Ltd (Kahrisky Super Fund a/c)	3,526	0.35
15	Peroda Nominees Pty Limited (Berman Super Fund a/c)	3,504	0.35
16	Reece Superannuation Pty Ltd (Reece Super Fund a/c)	3,270	0.33
17	Acland Street Investments Pty Ltd (Acland Investments S/F a/c)	3,000	0.30
18	The Synod of the Diocese of Adelaide of the Anglican Church of Australia Incorporated	3,000	0.30
19	Mr Brett McPherson Tulloch	3,000	0.30
20	Equity Trustees Limited (Garnet – Allocated Pension)	2,750	0.28
	Total Top Holders Balance	**214,842**	**21.48**

Distribution of Step-up Preference Shareholdings as at 31 August 2007

Range	Total Holders	Units
1 - 1,000	3,384	695,948
1,001 - 5,000	65	132,478
5,001 - 10,000	3	25,714
10,001 - 100,000	5	145,860
100,001 - over	-	-
Total	**3,457**	**1,000,000**

Unmarketable parcels as at 31 August 2007

Minimum parcel size 5	Holders	Units
Minimum $500.00 parcel at $101.30 per unit	2	2

Ordinary shareholders are entitled to one vote per fully paid share at a general meeting of Adelaide Bank. Some items of business at a general meeting may be voted upon by a show of hands of shareholders present and entitled to vote.

Step-up Preference Shares do not carry a right to vote at general meetings of Adelaide Bank other than in limited circumstances, including on a proposal that affects rights attaching to SPS. When voting is permitted, SPS holders are entitled to one vote per SPS.

Reset Preference Shares do not carry a right to vote at general meetings of Adelaide Bank other than in limited circumstances, including on a proposal that affects rights attaching to RPS. When voting is permitted, RPS holders are entitled to one vote per RPS.