



July 27, 2006

**RECORD PROFIT AND DIVIDEND AS DIVERSIFICATION
STRATEGIES CONTINUE TO SUCCEED**

Adelaide Bank Limited today announced a record profit and shareholder dividend for the 2005-06 financial year as the Bank's diversification strategies continued to reap benefits.

The strong result saw underlying earnings lift from \$126.0 million in 2004-05 to \$157.2 million -- which is an increase of 25 per cent – while the Bank achieved growth in fully diluted cash earnings per share (prior to amortisation of acquisition costs and adjusted for General Reserve) of 13 per cent, up from 78.78 cents to 88.68 cents.

Profit after tax on a comparable cash basis increased by 25 per cent – up from \$75.3 million to \$94.0 million.

Details of the 2005-06 Adelaide Bank performance were announced jointly to the Australian Stock Exchange by the Adelaide Bank Chairman, Dr Adele Lloyd, and Group Managing Director and Chief Executive Officer, Mr Barry Fitzpatrick, AM.

In announcing the results, Dr Lloyd said: “The Adelaide Bank results for 2005-06 make it clear the strategic direction taken by the Bank in recent years has been correct.

“In a year when we have seen the retail lending market come under extreme pressure Australia wide, the Bank has continued to grow as its diversification strategies provide growing income streams.

“We have achieved our clearly enunciated targets, including earnings per share growth in excess of 10 per cent and this has enabled us to deliver increased shareholder value through a further increase in dividends.”

Shareholder Returns

Dr Lloyd announced the Adelaide Bank Board had approved a three-cent increase for the Final Dividend Payment to Shareholders, taking this payment to a fully franked 32 cents.

“This takes the full dividend for 2005-06 to 58 cents per share, compared with 53 cents for 2004-05 – an increase over the full year of nine per cent,” Dr Lloyd said.

“The 32 cent Final Dividend will be paid on October 13, 2006.

“This increased return to our shareholders represents a dividend payout ratio for the year of 70 per cent, which is in line with the Board's long-term dividend payout ratio objective.

“During 2005-6 the Bank achieved a return on equity (prior to amortisation of acquisition costs) of 17.29 per cent, compared with 18.76 per cent in the previous year.

“This short-term fall was a result of the acquisition of the Goldman Sachs JBWere margin lending business and the additional \$45 million deduction from capital relating to capitalised loan origination costs.”

Key Achievements

Key achievements of the 2005-06 financial year included:

- Total assets under management grew by 22 per cent for the year - up from \$21.3 billion to \$26.4 billion.
- Loans under management increased by 25 per cent – or \$4.8 billion -- from \$19.0 billion to \$23.8 billion.
- Assets under management in the Bank’s Portfolio Funding business reached \$1 billion.
- Funding from retail deposits increased by \$740 million—or eight per cent, while funding from wholesale deposits increased by 30 per cent.
- The Margin Lending portfolio increased from \$2.64 billion to \$3.57 billion – an increase of 35 per cent.

Lending

Loan approvals for the year were, as predicted, more subdued as a result of a general slow-down in the housing finance market in the first half of the year.

Home loan approvals reduced from \$8.45 billion in 2004-05 to \$7.83 billion.

As a result of this decrease, Adelaide Bank’s share of the national mortgage market eased to 3.2 per cent for the 11 months to May 31, compared with 3.9 per cent for the same period of the previous year, according to latest Australian Bureau of Statistics figures.

Commenting, Mr Fitzpatrick said: “Management is committed to ensuring there is no long-term slide in residential lending market share. Our aim is to achieve 1.5 times systems growth and we are committed to obtaining 5 per cent market share in the medium term.

“We have initiated a five point action plan which will assist the Bank in building market share in the future”

“Business lending significantly increased its lending portfolio over the year from \$1.57 billion to \$2.17 billion, an increase of 38 per cent, largely impacted by the growth in Portfolio Funding.

Margin Lending

Adelaide Bank's Margin Lending business generated \$30 million in pre-tax profit for the year, compared with \$12.8 million in 2004-05 and \$8.6 million for 2003-04. This is an increase of 134 per cent over the year, with a significant contribution coming from the new business brought into the operation with the acquisition of the Goldman Sachs JBWere Equity Finance business in late 2004-05.

Commenting, Mr Fitzpatrick said: "Margin Lending has become a significant profit producer for Adelaide Bank.

"Today Adelaide Bank has the second largest margin lending operation in Australia with a total margin lending portfolio under management in excess of \$3.57 billion (\$2.64 billion at June 30, 2005) – and more than 15 per cent market share of national margin lending.

"The growth in loans under management of 35 per cent during the year has seen the Bank's Margin Lending business become a significant contributor for the Bank and one that will continue to generate a considerable part of the Bank's profit into the future.

Asset Quality

Overall loan quality remains very sound despite an increase in gross non-accrual loans from \$6.3 million at the end of 2004-05 to \$23.6 million at the end of 2005-06.

This increase was driven by the transfer of a small number of residential loans to non-accrual status as part of the Bank's prudent approach to risk management, with non-accrual residential loans now totaling \$19.7 million. No systemic issues were evident in the portfolio.

Based upon current valuations, the Bank is confident that no significant loss will be incurred on these loans.

Total non-accrual loans represent only 0.20 per cent of gross loans, with net non-accrual loans representing 0.13 per cent of gross loans, reflecting the Bank's sound security position.

The write-off of residential loans remained at low levels, increasing from \$1.3 million in 2004-05 to \$1.4 million on 2005-06, representing 0.02 per cent of the portfolio balance.

Non-securitised residential accruing loans past due 90 days and over increased from 0.66 per cent in June 2005 to 0.77 per cent in June 2006 in line with general trend reported by the rating agencies.

Business Banking write-offs were a nominal \$0.18 million in 2005-06.

Consumer write-offs increased slightly during the year, from \$3.88 million in 2004-05 to \$3.98 million in 2005-06, but remained within historic levels. The ratio of write-offs to the average size of the portfolio over the year increased from 1.37 per cent in 2004-05 to 1.52 per cent in 2005-06, largely as a result of the reduction in the size of the portfolio over the year.

Summarising, Mr Fitzpatrick said: "The quality of the Bank's portfolio remains very sound with only 24 non-securitised mortgage loans in arrears for 90 days or more, having a loan-to-historic-value ratio of

greater than 85 per cent and not subject to lenders' mortgage insurance. Those represent 0.02 per cent of our total loan book and no significant loss is expected based upon current valuations for these loans.

"The change to AIFRS reporting standards means that the former general provision for doubtful debt is no longer allowed. As a result a notional General Reserve for Loan losses has been allowed for to cover unexpected losses. Under the Australian Prudential Regulatory Authority's guidelines this General Reserve is not available for distribution.

"Collective impairment provisions / General Reserve have been increased from \$39 million at June 30, 2005 to \$45.5 million at June 30, 2006, representing 0.51 per cent of risk weighted assets and maintaining this ratio at the same level as the previous year."

Funding

Adelaide Bank continued to increase its level of funding from retail deposits over the year.

Retail deposits and AAA Saver increased from \$9.4 billion at the end of 2004-05 to \$10.1 billion – growth of eight per cent.

The AAA Saver account performed strongly, closing the year with a balance of \$1.3 billion.

In addition, a continuation of successful securitisation issues -- with a \$2 billion issue in October 2005 -- saw funding from securitisation increase from \$6.6 billion at June 2005 to \$9.3 billion at June 2006.

Capital

Capital Adequacy stood at 10.77 per cent at the end of 2005-06, with Tier 1 Capital at 6.35 per cent.

This strong Tier 1 ratio (up from 6.31 per cent) was boosted by the Bank's Dividend Reinvestment Plan during the year. In July 2006, the Bank executed an innovative securitisation transaction that removed a portion of the Bank's capitalised payments to originators from the balance sheet for capital adequacy purposes.

Costs

During 2005-06 the Bank's operating costs increased by 7.9 per cent, from \$149.8 million to \$161.6 million, reflecting the inclusion of the newly acquired Goldman Sachs JBWere margin lending business, the Bank's strong growth, additional compliance costs and the conservative treatment of software development costs.

Excluding the \$4.7 million of operating costs that related to the Goldman Sachs JBWere margin lending business, operating costs increased by 4.7 per cent.

Staff costs grew by 17 per cent year on year. Excluding the acquisition of the Goldman Sachs JBWere margin lending business, staff costs increased by 14.6 per cent.

Occupancy and technology costs were the other major contributors to the increase in overall costs.

Mr Fitzpatrick said: “It is important to note the Bank continues to ensure costs grow at a lower rate than both loans under management and operating income.

“This ensures continued improvement in the Bank’s cost-to-assets and cost-to-income ratios – the two key efficiency measures for the Bank.

“The operating costs to operating income ratio was further reduced over the year – dropping from to 54.32 per cent to 50.68 per cent – placing the Bank well on track to achieve its target ratio of 46 per cent by June 2008.

“The cost to assets ratio was also further reduced – falling from 0.80 per cent at June 30, 2005 to 0.68 per cent at June 30, 2006 and consolidating the Bank’s position at the leading edge of performance for Australian retail banks.”

Margin

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

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

Total Net interest income rose by \$39.5 million over 2005-06 from \$217.7 for 2004-05 to \$257.2 for 2005-06 – an increase of 18 per cent.

The overall margin on an AIFRS basis fell by eight basis points over the year – dropping from 1.24 per cent to 1.16 per cent, which was a slightly better performance than had been predicted.

The Way Ahead

Detailing the Bank’s strategic direction for the future Mr. Fitzpatrick said: “We have clearly defined strategies for future growth and careful execution of those strategies is the key to future growth.

“Our strategic direction has four key elements – national distribution through alliances, achieving best-in-class processing capabilities, leveraging our technology base and maintaining a strong market share in South Australia.

“We are committed to alliance distribution and ensuring we are not in competition with our partners while focusing on providing them with the best in service.

“To achieve best-in-class processing our key focus must be on providing service to our partners, making it simple to deal with Adelaide Bank, supporting them with technology and ensure we achieve further productivity gains in processing.

“To achieve this we must leverage our technology base, while at all times investing wisely in our technology choices.

Looking Forward

Analysing the results for 2005-06, Mr. Fitzpatrick said: “This is the best performance yet achieved by Adelaide Bank.

“We aimed to achieve an increase in fully diluted cash earnings per share of greater than 10 per cent and achieved an increase of 13 per cent – with fully diluted cash earning per share up from 78.78 cents to 88.68 cents.

“We said we would continue to reduce the operating expenses to operating income ratio to our target of 46 per cent by June 2008 and we have demonstrated we are well down that path with the 50.68 per cent level achieved with two years to go.

“We said we would diversify our earnings base, and we have achieved that aim. While mortgage lending remains a cornerstone of the Bank’s operations, it provided only 38 per cent of profits in 2006 and we expect that percentage will continue to fall.

“This will be due to the growth we are experiencing in areas like Margin Lending, Business Banking and Portfolio Funding.

“It must be remembered we are a small player in large markets so any incremental increase in market share represents a large increase in business for Adelaide Bank.

“We will achieve those incremental increases by remaining focused on our national distribution through partners, providing quality products at competitive prices and continuing to run an efficient business model.

“As a result, I am more than confident Adelaide Bank will achieve its key targets for the next year.

They are to again grow cash earnings per share in excess of 10 per cent and to continue towards achieving a cost to income ratio of 46 per cent by June 2008, all the while maintaining asset quality in the top quartile of Australian retail banks.

“Achieving these targets will further reward our shareholders with strong profit growth.”

**Further comment can be obtained from Mr. Fitzpatrick at Adelaide Bank.
Telephone (08) 8300 6818.**

Issued on behalf of Adelaide Bank by Greg Reid Marketing Communications Pty. Ltd. Telephone (08) 8300 6449.