



The year 2000 marks the centenary of the organisation which is today Adelaide Bank Limited. The Bank's proud history over the past 100 years has seen it become a major component of the economic fabric of South Australia. Importantly, Adelaide Bank and the organisations that preceded it – the Co-operative Building Society of South Australia, the Hindmarsh Adelaide Building Society and the REI Building Society – established their roots through providing financial assistance and services to many South Australians.

Today, Adelaide Bank is a far different organisation to that embryo organisation formed one year before Federation in January 1900.

It has grown from humble beginnings to become an organisation of which all South Australians can be proud.

These sentiments are best summed up by the Premier of South Australia, the Hon. John Olsen, in his foreword to the Bank's centenary history book "Banking On A Community" when he said: "South Australia has a richness of people and resources. Adelaide Bank is part of that richness, part of an ongoing story of growth and enterprise for the common good."

And it is growth and enterprise that Adelaide Bank has provided for its shareholders in the highly competitive environment being experienced in the financial sector in Australia.

Despite margin squeeze and rising interest rates, the Bank has continued its diversification and now commanding more than 2% of all new mortgage loan approvals in Australia.

It has become less reliant on the economic conditions and forces in its home state of South Australia through national lending and deposit raising and, following a year of consolidation which had been foreshadowed, is now positioned to provide improved returns to shareholders.

The immediate years ahead should be years of continued stability for Australia. In South Australia exports are growing, particularly in areas like the wine, mining, livestock and fishing industries and Australia is fast winning a reputation as a quality provider in the area of technology.

The SA motor vehicle industry has become an important cog in the world vehicle manufacturing business, while grain exports continue to grow.

Productivity is growing at over 2.5%, more than double the rate achieved during the 1970s and 1980s. Inflation is low and under control.

With a few exceptions, the economies of our neighbours and major trading partners have recovered from the economic downturn of the late 1990s. This recovery holds the promise of further growth in the immediate years ahead.

Adelaide Bank will continue to face new challenges as it proceeds down its carefully planned strategic path.

However, these challenges will be met and the Bank's Board and Executive are confident that the decisions made in the late 1990s and in 2000 stand the Bank in very good stead for the future.

SHAREHOLDERS

Adelaide Bank delivered reported underlying earnings for the year of \$47.0 million, compared with \$46.3 million for 1998-99 – an increase of 2%.

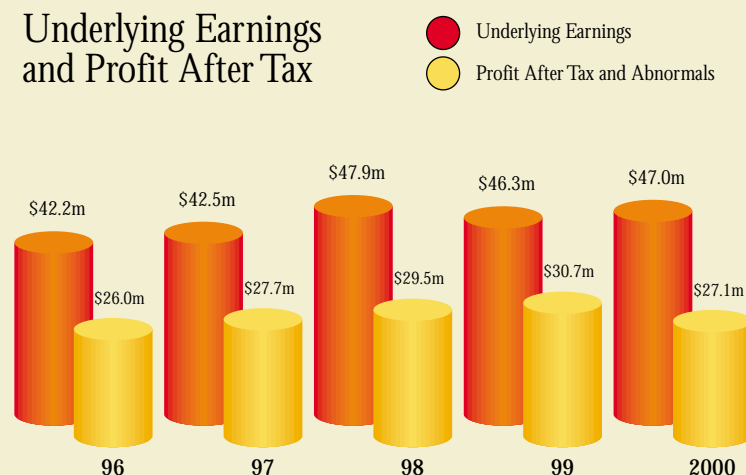
Profit before tax increased by 3% to \$44.8 million – up from \$43.5 million in 1998-99.

Profit after tax, but before abnormal tax and amortisation costs, was \$30.3 million, compared with \$30.7 million in 1998-99. This is in line with the Bank's stated objective of a \$30 million-plus profit after tax for the year.

A \$1.8 million abnormal tax adjustment was made to restate net future income tax benefits, as required by the Urgent Issues Group of the Australian Accounting



Underlying Earnings and Profit After Tax



Standards Board as a result of the reduction in the company tax rate from 36 cents to 30 cents in the dollar plus \$1.4 million amortisation costs associated with the purchase of Leveraged Equities Limited, making profit after tax and abnormals \$27.1 million.

Directors consider this to be a satisfactory result in a very competitive environment and in an economic climate that saw four rises in official interest rates totalling 1.25%.

As a result the Adelaide Bank Board determined the final dividend for 1999-2000 would be 17 cents per share, fully franked, payable on October 16, 2000. This is in line with the final dividend for 1998-99.

Together with the 13 cents interim dividend paid on March 31, 2000, the full year's dividend of 30 cents represents a dividend payout ratio of 94%, or 84% before abnormals. It is anticipated that in future years this ratio will revert back to the Bank's objective of around 70%.

The weighted average return on Shareholders' funds for 1999-2000 was 11.72%, which was lower due to abnormal items and the impact of new

equity associated with the Leveraged Equities acquisition.

Fully diluted earnings per share were 33.95 cents, compared with 41.02 cents in 1998-99 – a 17% decrease, largely due to margin squeeze and the difficult first half.

Net tangible assets at June 30, 2000 were \$2.84 per share.

DIVIDEND REINVESTMENT PLAN

During the year the Dividend Reinvestment Plan (DRP) was reintroduced to assist in the funding of the Leveraged Equities Limited purchase, with many shareholders taking up this opportunity.

The reintroduction of the DRP, which had been sought by a number of shareholders, saw shares offered at a 5% discount – making them available at \$4.72. This was part of a two-pronged capital-raising program to fund the \$47 million Leveraged Equities purchase price and included the private placement of 7.5 million shares at \$4.55 per share with a number of institutional investors throughout Australia.

Together, these two initiatives were the most cost effective and expedient way in which capital could be raised without the costly exercise of issuing a prospectus and with minimum impact on the share price.

PERPETUAL NOTES

In April 1997, Adelaide Bank issued a parcel of Perpetual Notes with a fixed rate of interest ending in July 2004. A second issue of floating rate Perpetual Notes was made in 1998. Both were attractive to investors at a time of low deposit interest rates because they offered a superior return.

The fixed rate Perpetual Notes have traded above their issue price for much of the time, while the floating rate Perpetual Notes have been discounted due to subsequent high returns being offered elsewhere in the market.

Redemption of either would be subject to Australian Prudential Regulation Authority (APRA) approval, and this could only occur if the Bank took action to replace the notes with some other form of capital.

The Board has considered the position and determined that any action to change current arrangements would be to the detriment of shareholders generally.

EXECUTIVE REMUNERATION

The Adelaide Bank Board has, for some years, used the services of outside consultants when determining remuneration for its executives.

This policy will continue. Annually, the Board obtains independent external advice from well-regarded professional remuneration advisers on these matters.

Our aim is to retain the services of our senior executives and, as a result, we ensure that the remuneration packages



made available to our executive officers are comparable to similar organisations and private sector companies within Australia.

COMMUNITY SUPPORT

As part of its centenary celebrations, Adelaide Bank was involved in a wide range of sponsorships of major events involving large sections of the South Australian community.

In 1999 Adelaide Bank was a major sponsor for the 7th Australian Masters Games. Staged in Adelaide during September and October, they returned an economic benefit to the State of \$21 million, making the event one of the most successful major events staged in South Australia in recent years.

In January 2000 the Bank was the sponsor of Skyshow 2000, a family-based celebration which attracted crowds in excess of 300,000 and was the largest yet staged in the State.

The Bank also provided sponsorship to the Oakbank Easter Race Carnival, an event which is a large generator of tourism dollars in the State. Without private sector support, Oakbank would find it difficult to stage the event each year.

In addition, the Bank was a sponsor for the successful 2000 Adelaide Festival of Arts and provided sponsorship support to the Adelaide Bank Suns Women's Hockey team in the national competition, plus several smaller, regionally based community events.

The Bank again provided the bulk of funding for the Adelaide Bank Charitable Foundation which was formed in 1981 to provide financial assistance to charitable organisations, community support groups and the needy.

During 1999-2000 the Foundation provided 64 financial grants totalling just under \$270,000. Since its inception, the Foundation has provided a wide range of organisations and charity groups with a little more than \$3.5 million in assistance.

DIRECTORS AND STAFF

The 1999-2000 year was one of change for the Board of Adelaide Bank Limited. In 1999 one of the Board's longest serving members, Mr Robert W. Piper, retired. He joined the Board of the organisation when it was the Co-operative Building Society of South Australia in 1976.

Deputy Chairman of the Board since 1992, Mr Piper was also the inaugural Chairman of the Board of the Co-operative Retirement Services from 1985.

A partner and consultant to the legal firm of Piper Alderman, Mr Piper held a number of Board positions outside Adelaide Bank and was also well recognised for his widespread involvement with charitable and other public organisations. He received the Officer of the Order of Australia Award (AO) in the January 2000 awards.

During his 24 years on the Adelaide Bank Board, Mr Piper served on many committees and I take this opportunity to pay tribute to his dedication and great contribution.

Mr Piper's replacement as Deputy Chairman was Mr Richard McKay, who joined the Board in 1993 after 40 years as an executive in the banking industry.

Shortly after Mr Piper's resignation, Mrs Adele Lloyd, who had served as a Director of Adelaide Bank for more than three years, decided to retire to attend to business interests in the United Kingdom.

Mrs Lloyd was replaced on the Board by leading South Australian businesswoman, Dr Patricia A Crook, AO.

Dr Crook is the Managing Director of Adelaide-based therapeutic goods manufacturer, Dynek Pty. Ltd., a company she co-founded in 1974 and is Deputy President of Business SA and brings to the Board a wealth of small business knowledge, both within South Australia and globally.

In May, 2000, the Board was brought back to full strength with the appointment of Mr Kevin Abrahamson, a leading Australian finance sector consultant.

Mr. Abrahamson is a specialist in the area of corporate strategy and information technology, having worked as a consultant to the banking industry as head of KD Abrahamson Consultants Pty. Limited since 1997 and prior to that for many years as General Manager of Group Services with Advance Bank.

Mr Abrahamson has worked as a specialist consultant to Adelaide Bank, and the Board has come to value his expertise and strategic planning abilities.

In a difficult year, Management and Staff have contributed diligently to attain the second half recovery that has marked 1999-2000.

I extend my congratulations to all involved and know that Adelaide Bank has the structures, staffing and strategic planning in place to grow in the future and to return increased benefits to its shareholders.

B.L. Sallis AO
GROUP CHAIRMAN