



In March, 1999 Adelaide Bank Board Members and the Executive team met to reassess the strategic direction of the Bank, mindful of International trends which saw segmentation of the finance industry moving towards specialisation in three distinct competencies – manufacturing of products, processing of products and product distribution.

Building partnerships – the new Adelaide Bank Plus branches share facilities with our partners

The specialisation process is particularly advanced in the United States, where many specialist institutions now operate in one or more of these three fields.

Since that time, Adelaide Bank has tracked its performance in all three areas and, in the immediate future, will continue to develop competencies in all three.

Within South Australia, Adelaide Bank provides a full range of retail banking services to individual customers and businesses.

Outside its home State, the Bank is a wholesale processor and manufacturer of home loans and deposit products.

As detailed in last year's Annual report, it has adopted six key strategic aims:

- Becoming a significant supplier of housing finance nationally.
- Becoming a significant national provider of investment products.
- Becoming an efficient processor of housing loans.
- Diversification of revenue streams.
- Expansion of Business Banking activities.
- Ensuring all distribution channels and products provide superior economic returns.

BUILDING VALUE THROUGH PARTNERSHIPS

Adelaide Bank has worked to develop strategic alliances and partnerships throughout Australia to further diversify its income base and to expand its business.

This is a core component of its strategic plan for the next three years.

The Bank has built strong alliances with 23 mortgage origination organisations throughout Australia that, during the year, provided the Bank with loan applications totalling \$2.39 billion.

With mortgage origination alliance partners spread evenly throughout Australia, this diversifies the risk base for the Bank.

To augment traditional Bank deposit raising and to assist with funding the Bank's lending growth, a number of alliances have been established with major organisations using Adelaide Managed Fund's Cash Management Trust (CMT) as a vehicle.

Adelaide Managed Fund's CMT, coupled with Bank's technology enables delivery of cash management facilities that are superior to other trusts. The resulting relationships include:

- A strategic alliance with Credit Suisse Asset Management (Australia) which sees Adelaide Bank provide the administration and banking services for the Credit Suisse Cash Management Trust.
- An agreement with Australia's largest accounting-based advisory group, Count Wealth Accountants, which sees that group recommending the Adelaide Managed Funds Cash Management Trust as its preferred cash management trust.
- An agreement to provide a badged



Cash Management Trust for Australia's second largest on-line stockbroking group, TD Waterhouse.

- Provision of a badged Cash Management Trust to Summit Master Trust, which is a subsidiary operation of the AXA Group in Australia.

Complementing this strategy, the Bank has also developed alliances with major national and international organisations that allow it to use its technical expertise in the area of loan processing and product development to expand its fee income base.

These alliances include:

- An agreement to support AWB Limited (formerly the Australian Wheat Board) in delivering financial products and services to its 45,000 grower shareholders. Under the agreement Adelaide Bank is providing AWB and its growers with a Harvest Loan Administration System and a deposit taking system to handle AWB grain payments and loans to its growers.
- Adelaide Bank has entered into an agreement with GE Mortgage Solutions Ltd., a subsidiary of GE Capital Finance Australasia Pty. Ltd., to provide the processing facilities for that organisation's entry into the non-prime mortgage market.

These alliances and agreements are successful examples of Adelaide Bank's strategy of developing relationships with national organisations as it expands its deposit gathering and lending services beyond its traditional base of South Australia.

As enunciated in our strategies, they provide the Bank with new sources of

cost-effective deposit raising and additional fee income.

The February 1, 2000 acquisition of one of Australia's largest margin lenders, Leveraged Equities Limited, added a further dimension by further diversifying the Bank's income base and, at the same time, provide additional products with which to build relationships with stockbrokers and financial advisers.

The Bank also moved to improve retail efficiencies within South Australia, first with the introduction of shared branch accommodation with Mutual Community and then with the introduction of full one-stop financial services shopping centres -- Adelaide Bank Plus.

These new generation facilities were first established in key regional metropolitan centres at Modbury and Glenelg, with Adelaide Bank offering services alongside Mutual Community, Unibooks and American Express, resulting in significant savings and boosted customer traffic for all involved.

In addition, Adelaide Bank has continued to develop strong ties with financial brokers and funds managers, further expanding its ability to raise deposits to fund lending activities.

In coming months it is anticipated further strategic alliances and agreements

Building partnerships – providing infrastructure funding for the SA wine industry

will be reached to diversify revenue streams.

PERFORMANCE

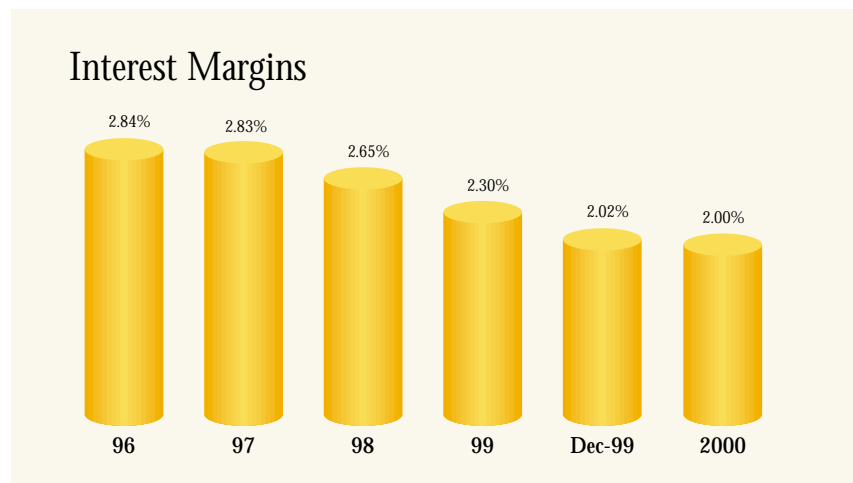
The 1999-2000 financial year was one of the most difficult experienced by the Bank.

Intense competition, coupled with four increases in official interest rates totalling 1.25%, had a major impact in eroding the margin from 2.3% to 2.0%.

At the beginning of the year, the Bank predicted profit would be flat and this proved to be the case.

However, after a difficult first half in which underlying earnings dropped by 14% compared with the first half of 1998-99, Adelaide Bank delivered a solid result to its shareholders.

The strong second half saw Adelaide Bank post record home lending figures and a strong performance from the recently acquired margin lending business, Leveraged Equities Limited.





Building partnerships – working with South Australians to finance home purchase

Underlying earnings rebounded strongly in the second half with \$27.1 million achieved. This was a 36% increase when compared with \$19.9 million in the first half.

Underlying earnings for the year were \$47.0 million, compared with \$46.3 million for 1998-99 – an increase of 2% – while 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.

The successful integration of Leveraged Equities, plus the bedding down of strategies and improved lending and deposit raising performances positions the Bank well for the future and it is looking to a double-digit profit growth in 2000-2001.

LEVERAGED EQUITIES

To help fulfil its strategy of becoming a significant national provider of investment products to stockbrokers and financial advisers, Leveraged Equities Limited was acquired by Adelaide Bank in February 2000 for \$47 million and in

its first five months of operations exceeded profit targets.

Leveraged Equities returned a pre-tax profit of \$3.6 million and is on line to return our target of \$8 million for its first 12 months of operation under the Adelaide Bank banner.

At June 30, 2000 the Leveraged Equities loan portfolio had reduced slightly from the \$810 million when the acquisition was announced to \$804 million, largely due to the depressed share market from April to June.

Since acquisition a capital efficient securitisation structure has been put in place to fund the loan book.

This program limits exposure and requires 95% of stocks be held in the nation's top 200 listed companies.

With new floats imminent and the final installment payments of Telstra II shares due during the coming year, Leveraged Equities has the potential to continue to grow.

It is anticipated that returns from Leveraged Equities will be a major factor in growth of earnings and profit in the year ahead.

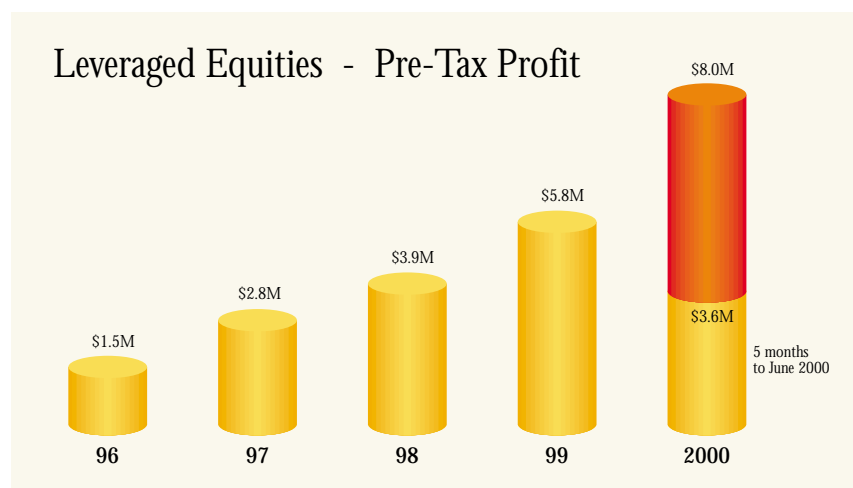
LENDING

Loan processing excellence, combined with system flexibility has allowed Adelaide Bank to achieve major advances in its Adelaide Loan Centre during the year.

The Bank introduced credit scoring on home loans in July 1999, and a home loan originator extranet in November 1999. Both these innovations have enabled the Bank to achieve significant productivity gains.

Importantly, they contribute to Adelaide Bank having the lowest cost to asset ratio

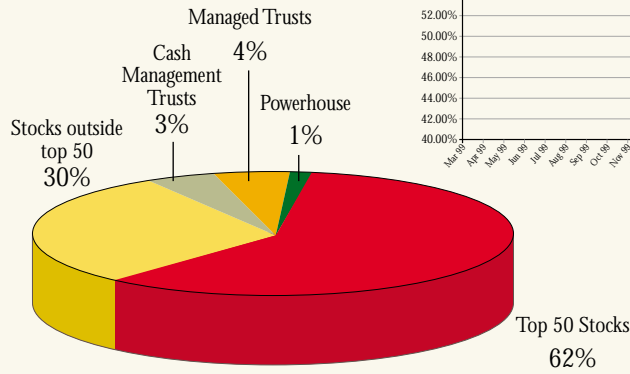
Building partnerships – providing extranet services to the Bank's home loan originators



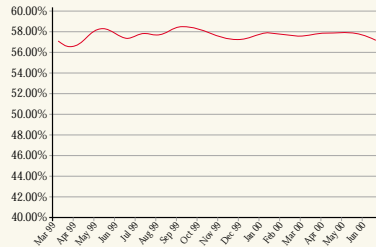


Leveraged Equities

Portfolio Concentration



Average LVR



of any Australian bank while positioning the Bank to be able to offer loan-processing facilities to others.

As a result, Adelaide Bank has entered into an agreement with GE Mortgage Solutions Ltd., a subsidiary of GE Capital Finance Australasia Pty. Ltd., to provide the processing facilities for that organisation's entry into the sub-prime mortgage market.

Loan approvals totalled \$3.21 billion for the year – a 35% increase on the \$2.37 billion approved for 1998-99 and a record for the Bank.

Of this \$2.39 billion was drawn from outside of the Bank's traditional base of South Australia, with Interstate loan approvals representing more than 75% of all approvals.

Major increases were achieved in Queensland (up 97%) and New South Wales (up 55%) with less significant growth achieved in the other States.

Demand for the Bank's Homebuyer Power equity line product increased by 83% when compared with 1998-99, with demand for the product spread throughout Australia.

During the year, total loans under management increased by 48% to \$7.15 billion, with loans on balance sheet increasing to \$4.59 billion, compared with \$4.15 billion at the end of the previous financial year – an increase of 11%.

Credit quality continues to be in the top quartile, with 78% of loans covered by mortgage loss insurance.

At the end of the financial year Interstate lending, excluding margin loans provided through Leveraged Equities, represented 52% of total loans under management by the Bank, compared with 46% at the end of the 1998-99 financial year.

This spread of loans throughout Australia ensures that the Bank has a diversity of risk and that it is not exposed to any unforeseen downturns that might occur in any one region.

At year end loans under management comprised \$5.32 billion in residential lending, \$825 million in business lending, \$205 million in consumer lending and \$804 million in lending through Leveraged Equities.

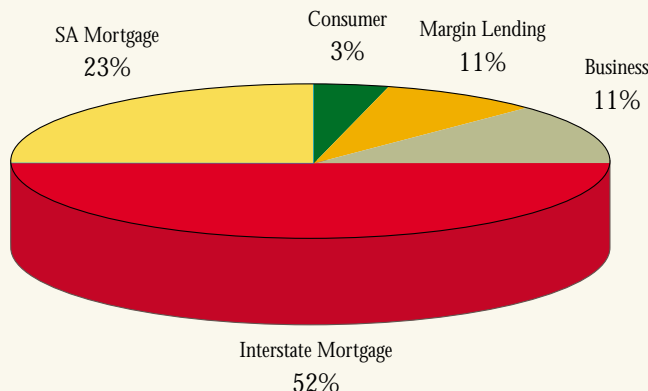
RETAIL DEPOSITS

The successful operation of Cash Management Trusts, especially those offered through strategic partners, assisted the Bank to significantly increase retail deposits throughout the year.

Deposits grew from \$2.6 billion at the end of 1998-99 to \$3.4 billion at the end of 1999-2000, an increase of 32%.

Following this increase of \$817 million in 1999-2000, the deposit base is expected to grow significantly further in 2000-2001, as alliances with TD Waterhouse and AXA come fully on-stream.

Loans Under Management



Building partnerships – funding for vineyard development



the securitisation issue are detailed elsewhere in this report.

CREDIT RATING

Adelaide Bank maintained its "BBB" long-term and "A2" short-term debt ratings by Standard & Poor's. Following the acquisition of Leveraged Equities, Standard & Pooers downgraded the Bank's outlook to "negative."

Following the release of the 1999-2000 results, Standard & Pooers upgraded the outlook to "stable," commenting "The revision of the Bank's outlook reflects the improvement in recent performance, in addition to the continued integration of Leveraged Equities.

"The combination of these two factors addresses concerns raised by Standard & Pooers when the Bank's ratings were

initially placed on negative outlook in February, 2000.

"Adelaide Bank has demonstrated a material turnaround in operating performance during the second fiscal half of 2000.

Moody's provided a "Baa3" rating with a stable outlook for deposits, while senior non deposit debt was rated at "Ba1."

COSTS

Operating costs for the year for the Bank, excluding Leveraged Equities, were \$80 million. This was a 3% increase on the previous year and was largely impacted by a 2.5% rise in wages as part of the staff enterprise agreement.

Streamlined back-office operations, cost reductions in loan processing,

Building partnerships – providing cost efficient home loan services through the call centre

ASSETS

Total assets under management grew to \$8.28 billion, compared with \$5.56 billion at the end of 1998-99.

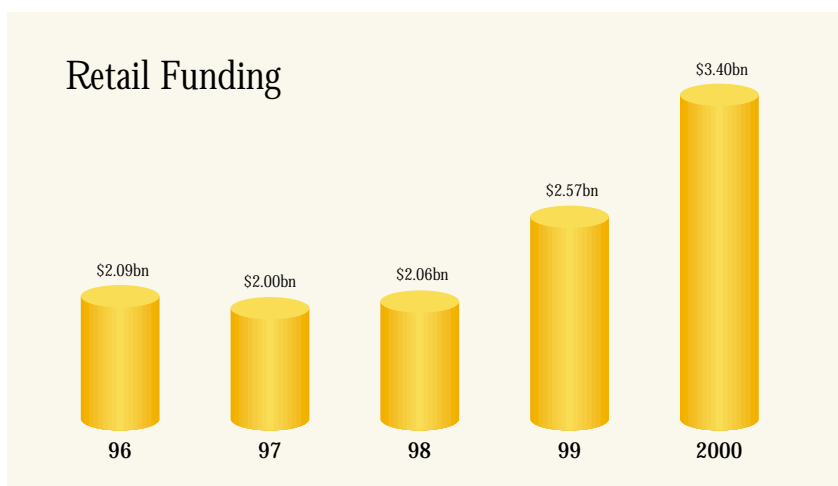
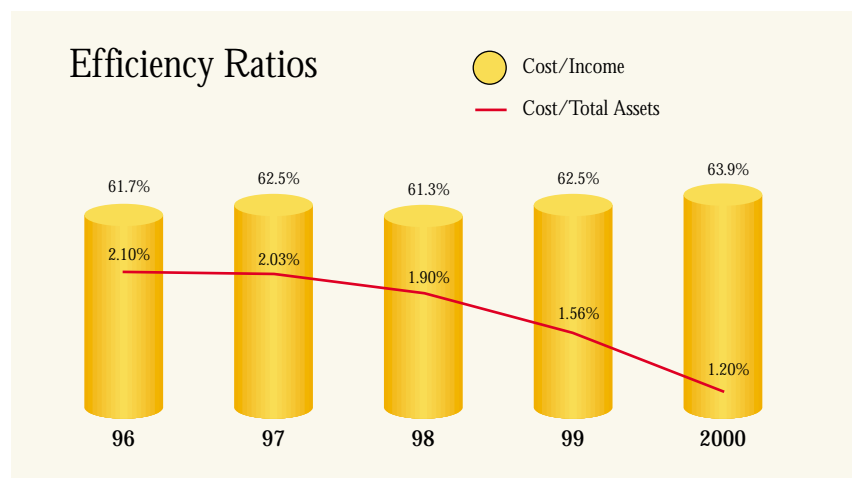
This represents an increase of 49% over the year. Excluding Leveraged Equities, total assets under management increased by 35%.

CAPITAL

At June 30, 2000, the Bank's Capital Adequacy Ratio stood at 12.9%, compared with 12.7% at the end of the 1998-99 financial year.

Tier One Capital stood at 7.1%, compared with 6.9% one year earlier. The increased Capital Adequacy Ratio reflects the offshore securitisation issue and the issue of new equity associated with the Leveraged Equities acquisition.

The purchase of Leveraged Equities and



establishment of the Originator Extranet (see Technology) and the automation of credit approval for home loans have all contributed to cost savings.

At the beginning of 1999 the cost of each loan approval performed by the Bank was \$220. This cost has now been reduced to less than \$120—a reduction of 45% – with the Bank aiming over the next two years to reduce this to \$100.

At the same time the annual cost of servicing an existing loan has been



reduced – from more than \$60 at the start of 1999, to \$58 by June last year and this is now down to \$50.

This is a reduction of nearly 14% in a year, with further reductions expected to occur as the loan centre optimises the use of technology.

The key cost criteria – the operating expense to average assets ratio -- has been further reduced, standing at 1.20% at June 30 2000, compared with 1.56% at the end of 1998-99 and 1.90% at the end of 1997-98.

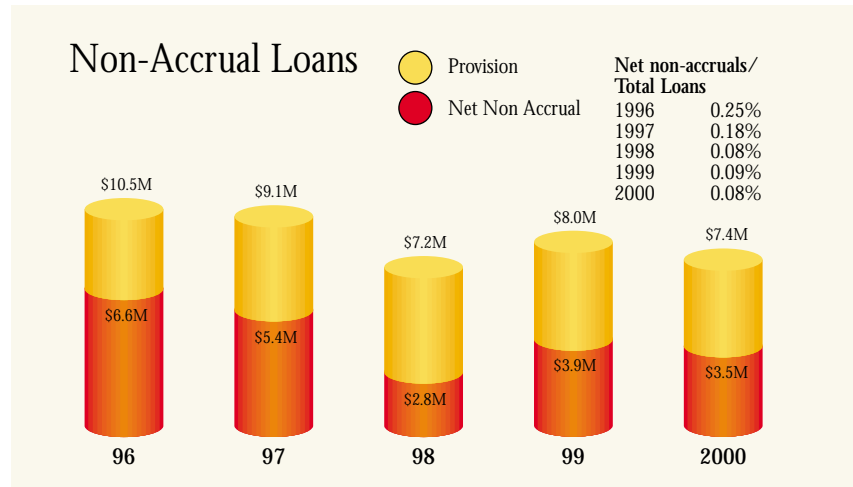
The effect of margin squeeze, from 2.3% to 2.0%, on bottom line profits is reflected in the increase in the expense to income ratio, which rose from 62.54% at the end of 1998-99 to 63.92% at the end of 1999-2000.

PROVISIONS

Adelaide Bank has always had a relatively high level of provision coverage for bad and doubtful debts.

The Bank's prudent lending policies have seen the ratio of gross non-accruals as a percentage of total loans reduce from 0.19% at the end of June 1999 to 0.16% at the end of June 2000.

Net non-accruals as a percentage of total loans reduced from 0.09% to 0.08% at the end of June 2000.



These key ratios are low by Australian banking standards. They reflect the Bank's continued focus on credit quality and risk management.

SECURITISATION

In May 2000, the Bank undertook a \$1.25 billion offshore securitisation issue – the biggest for the bank and its first global securitisation issue.

The structure of the securitisation issue provided Adelaide Bank with access to global markets in both Europe and the United States and has paved the way for Adelaide Bank to use offshore markets in the future for securitisation.

Such issues allow the Bank to diversify its funding base and achieve securitisation volumes that cannot be accessed in domestic markets.

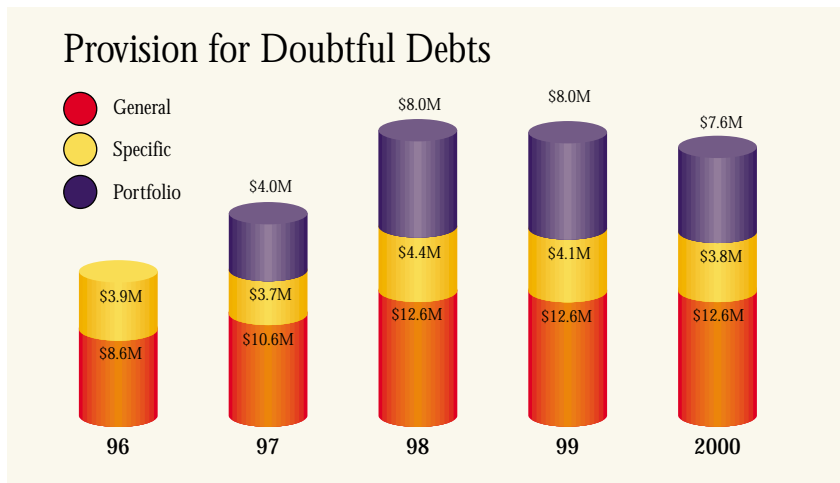
This \$1.25 billion issue provides Adelaide Bank an increasingly wide range of options to fund its expanding home lending business as the offshore securitisation complements the Bank's established Australian issues and the Bank's access to warehousing facilities.

The Bank can now parcel loans for securitisation very efficiently and quickly, with the capability of packaging loans within five to seven days.

Importantly, the offshore securitisation issue reduced the Bank's wholesale funding ratio from around 35% to 24%.

The Bank's longer-term aim is to maintain the wholesale funding ratio under the 30% level.

ABN Amro acted as lead manager for the offshore issue, with CS First Boston and Morgan Stanley Dean Witter as co-managers.



TECHNOLOGY

The overall strategy of Adelaide Bank since bank conversion in January 1994 has not to become a "me-too" bank, realising that to grow outside of its home base of South Australia it needed to depart from the traditional bricks-and-mortar branch development strategy.

The Bank realised that technology provided it with opportunities if it



Building partnerships – a funding partner for the development of SA infrastructure

moved quickly – but it had to be a blend of old and new technology.

Instead of a small branch network becoming a handicap it has proved an advantage. In 1993 more than 60% of transactions were conducted in branches. Today it is closer to 10%.

Adelaide Bank was the first bank in Australia to adopt a Java-based Internet website that allows customers to log on directly and perform normal banking transactions.

Today nearly 10% of the client base are registered users -- many other banks have not broken the 5% barrier -- and 3% are regular users.

In 1999, the Bank's on-line home loan site was voted the best in Australia by the influential "Your Mortgage Magazine."

Today on-line banking is being used to capture relationships with stockbrokers – as an example the Star GBST link is used to deliver the Bank's Cash Management Trust to alliance partners.

The \$3 million committed by the Bank to the implementation of state-of-the-art WorkFlow and Document Imaging technology in 1998-99 is now paying dividends, greatly enhancing the Bank's ability to process home loans more quickly and cost effectively in the future, including over the Internet.

In late 1999 the Bank introduced an automatic credit scoring system for loan applications. This has seen the time for loan approvals cut from eight hours to

four with the Bank now exploring opportunities to further expand its home loan-processing centre to process home loans for other organisations.

It is the Bank's aim to become the most efficient mortgage-processing centre in the country.

In 1999 the Bank also introduced an on-line home loan originator extranet service – a leading edge tool among financial institutions in Australia.

The new service completely tracks each home loan application from around Australia.

Home loan originators are provided with personalised home pages, with direct links to key Adelaide Bank contact staff, cutting telephone calls and disruptions dramatically.

The originator extranet service tracks loans, updating status every 10 minutes, along with providing information on loan arrears, commissions, reports and product information.

By providing this extranet service to originators the Bank has freed up staff, thus gaining cost efficiencies in loan processing.

The Internet will be a major delivery channel for financial products in the future – that is the way business will be done.

To this end, I am chairing a taskforce established within Adelaide Bank to implement the Bank's Internet services.

Building partnerships – providing leading edge technology to assist the Bank's home lending partners

RETIREMENT SERVICES

The Bank's retirement sector marketing and management arm, Co-operative Retirement Services (CRS), was sold in June 2000 to Victorian-based Prime Life Corporation Limited for a base price of \$1.2 million, less costs.

Over the next three years further payments will be received from Prime Life, subject to the future profitability of the business.

The sale of the final components of CRS reflects the move by the Bank back to core banking activities in line with its strategic plan.

Adelaide Bank will continue to be very much committed to the retirement industry in lending and financial advisory services.

LOOKING FORWARD

The direction Adelaide Bank is taking, both in wholesale and retail operations, differentiates us from our peers.

The strategy of manufacturing and processing for alliance partners will provide a major differentiation point for the market.

The acquisition and integration of Leveraged Equities into Adelaide Bank has gone smoothly and that division is set to provide increased profit to the Bank's bottom line.

The Bank is confident that it can increase profitability by double digit figures in 2000-2001 and should be well on track to increasing shareholder returns in the year ahead.

B.F. Fitzpatrick
GROUP MANAGING DIRECTOR