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Adelaide Bank Limited  
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Adelaide Bank Limited today announced revised earnings guidance for the year ending 30<sup>th</sup> June 2007. Growth in cash EPS before significant items is now expected to be in the range of 6 to 9 percent compared with the previous target of 10 percent. What has changed in the mortgage market since balance date? Is the change structural or cyclical?

**CEO Elect Jamie McPhee**

Competition in the banking sector, in particular in the mortgage market, has continued to intensify this financial year. As a consequence our mortgage portfolio is being repriced at a faster rate than we had expected when we formulated our FY07 budgets in May.

Although margins will not revert to where they were, I believe the intensity of this competition is cyclical. At the moment some financial institutions are pricing mortgage loans for market share growth rather than pricing for risk. Adelaide Bank will not pursue this pricing philosophy. We will not write unprofitable business.

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Why have you dropped mortgage market share as an internal target?

**CEO Elect Jamie McPhee**

When we set the mortgage market share target of 5 percent in FY04 a market share target was an appropriate objective as, at the margins then prevailing, growth in market share effectively equated to growth in profitability. That's no longer the case. With the squeeze in margin and certain mortgage products now being priced at a loss, the pursuit of a market share target is no longer appropriate.

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Your gross non-accrual loans increased to \$23.6 million at 30 June 2006 compared with \$6.3 million at 30 June 2005. What impact have the latest changes in the mortgage market had on your credit quality?

**CEO Elect Jamie McPhee**

Our credit quality remains high. Our gross non-accrual loans have remained stable since June. The percentage of mortgage loans in arrears for 90 days and over is moving more in line with historic levels. Write-offs are in line with budgeted expectations. At the moment we are not seeing any signs of deterioration in credit quality due to the recent increases in interest rates.

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How do you see the Bank's earnings mix evolving? What will be the drivers of future growth?

**CEO Elect Jamie McPhee**

We now think of Adelaide Bank as a manager of a portfolio of businesses whose contribution to profits varies depending on the dynamics operating in each at any point in time. The portfolio of businesses includes Mortgages, Margin Lending, Business Banking, Portfolio Funding and Adelaide Managed Funds (AMF).

The Mortgages business's contribution to the Bank's overall profit in FY06 was 38 per cent; down from 51 percent in the previous year. As the mortgage business is experiencing very strong competitive pressures at the moment, its contribution to overall group earnings is expected to decline again this year.

Reflecting the benefits of having focussed in recent times on the diversification of our income streams, we're seeing strong growth at sound margins from some of our newer businesses, notably Margin Lending and Portfolio Funding. As these businesses grow so will their profit contribution enabling the Bank's profit and EPS to continue to grow in the future.

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How will these diversification initiatives impact current year earnings?

**CEO Elect Jamie McPhee**

Other than mortgages, all the other businesses are forecast to achieve or exceed budget due either to strong volume growth or better than budgeted margins.

Our focus is on investing in opportunities in the growth businesses to provide a foundation for future sustainable growth in earnings per share. We see strong growth potential for our Managed Funds business; however, we will have to make investments in the short term to take advantage of those opportunities that will generate returns in the future. In the current year, Margin Lending and Portfolio Funding will continue to increase their contribution to our overall earnings.

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Are you on track this year to reduce your cost to income ratio from 50.7 percent achieved in FY06?

**CEO Elect Jamie McPhee**

Yes, we're on track to report a lower cost to income ratio than last year. Firstly, continuous improvement in efficiency is paramount to the long term prosperity of the Bank and we're committed to aggressively pursuing this goal. We believe in taking the "lean manufacturing" philosophy which has been around for years in the manufacturing industry into financial services. Secondly, our focus is on growing our income at a faster rate than our costs.

We're making good progress on removing costs from the bank's businesses, specifically the Mortgage business which accounts for the lion's share of our costs.

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Retiring CEO Barry Fitzpatrick is receiving a retirement payment of \$8.3 million. How will the Bank account for this payment?

**CEO Elect Jamie McPhee**

As we disclosed in our Annual Report, the profit impact of a net negative \$6.6 million will be disclosed separately as a significant item. Our earnings guidance of cash EPS growth of 6 to 9 percent excludes this amount.

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In FY06 you grew dividend per share by 9 percent to 58.0 cents representing a payout ratio of 70 percent. Will the lower EPS growth rate in FY07 affect future dividend payments?

**CEO Elect Jamie McPhee**

The dividend distribution is a Board decision. However, as the Bank's policy is to maintain a payout ratio of around 70 per cent excluding significant items, I expect the dividend per share to increase this year.

While our EPS growth rate in the short term will be dampened by our investment in initiatives to generate stronger EPS growth in the medium term, these investments will result in future dividend growth at a faster rate than if we did not make the investments. It is worth noting that in excess of 50 percent of the Bank's profits this year will be derived from two businesses (Margin Lending and Portfolio Funding) and one product (Lo Doc) that the Bank was not involved with at the beginning of 2000.

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Thank you Jamie.

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