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Adelaide Bank Limited today reported growth of 10.9 percent in profit after tax on a comparable cash basis to \$104.3 million for the year ended 30 June 2007 compared with the previous year. How did you achieve this growth when, reflecting the industry trend, your net interest margin fell 15 basis points over the year?

MD Jamie McPhee

We grew our total loans under management by 16 percent to more than compensate for margin contraction and deliver net interest income growth of 6 percent. Growth in loans was led by growth of 41 percent in margin loans and a 12 percent increase in Residential loans. Fee income on loans, transactions and account services totaled \$45.5 million; a rise of 16 percent. Our revenue streams are becoming increasingly diversified across our four business units, giving us greater income certainty, as well as fuelling growth.

Our cost management has been even more disciplined this year. Our cost to income ratio fell over the year by another 2.4 percent to 48.3 percent. We're confident of achieving substantial future cost savings from the introduction of lean manufacturing principles earlier this year.

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Bad and doubtful debts rose by 51.4 percent to \$17.9 million for the FY07 year with the provision in the half year ended 30 June 2007 rising 46.3 percent year on year to \$9.8 million. What drove the bad and doubtful debt provision higher in the second half of FY07? Has there been any impairment in asset quality?

MD Jamie McPhee

Some two thirds of the increase in the provision was the result of fraud and valuation issues in a handful of residential loans which have been classified as impaired. We've made a number of changes to policies and processes over the past 12 to 18 months that will prevent the recurrence of similar exposures in the future. A rigorous review of the Bank's portfolio has confirmed that this is not a systemic issue.

A provision of \$1.8 million in the Wealth Management Unit in the June half was due to an isolated incident which impacted a small number of loans. Changes have been made to prevent this recurring. There's a strong chance we'll recover the debt as a result of legal proceedings.

Asset quality is a strength of the Bank. We're very comfortable with credit quality across our key portfolios. The ratio of bad debt write-offs to loans is eight basis points which is low and compares favorably with other banks. Our residential loan arrears 90 plus days overdue are at the lowest level since December 2005 indicating that the initiatives we've taken are working.

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You announced in June an organisational redesign into a portfolio of four businesses: Retail, Wholesale Mortgages, Business Lending and Wealth Management. What is the rationale for the new structure? What benefits do you expect from the redesign?

MD Jamie McPhee

Our previous structure was product centric. We're now taking a customer or market segment view of our four business units.

There are two key benefits of the new structure. It's easier to explain the organisation of the Bank and the markets in which we operate both externally and internally, and as there is a key executive who is responsible for the profitability of each unit, we have sharper executive focus.

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Business Lending, now your largest and fastest growing unit, lifted pretax profit 42.8 percent in FY07 to \$42.3 million compared with FY06 with net income rising 52.6 percent to \$63.1 million. What is your strategy for growing Business Lending? Is the growth momentum sustainable?

MD Jamie McPhee

Business Lending comprises two key businesses: Portfolio Funding and Specialised Lending. Both operate in large markets with ample opportunities for growth considering our low market shares.

In Portfolio Funding, in particular, we're building on our expertise in both securitisation and partner management. The pipeline of growth in that business is very strong. In Specialised Lending, loan applications, particularly in the retirement and aged care sector, have risen strongly in the past few months. We're confident of further growth in 2007 and 2008.

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The Wholesale Mortgage Unit pretax profit of \$37.6 million in FY07 was 37.8 percent lower than in FY06 on a 19.5 percent decline in net interest and other income. The decline in profitability prompted a strategic review. What changes have been made as a result of the review? What is the current trend in the profitability of the Unit?

MD Jamie McPhee

The major part of that profit decline was the faster than expected repricing of Lo Doc loans, which were written at a premium, due to rising discounting in the market. That repricing is now complete and the rate of margin decline has been arrested. Nevertheless, we conducted a full strategic review earlier this year because the profit contribution decline was severe and sector wide.

The strategic review showed that the market is still growing solidly. So we're now focused on profitable growth by pricing our loans for economic return rather than market share. We've reviewed our fee structure, compared it with our competitors' and put in place one that's more in line with the market. We've introduced new products to our SmartSuite range. Our improved fraud detection tools have improved credit quality. Lastly, costs have been reduced by our adoption of lean manufacturing principles and we believe that further cost reductions can be achieved.

We're seeing a significant turnaround in the trend of the last few years and return on assets has already improved. Profit contribution increased in the second half and we're expecting this profit growth trend to continue in FY08.

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There are growing defaults in the US mortgage market. Are there any similarities in the Australian mortgage market? Will there be any flow-on impact on mortgage margins?

MD Jamie McPhee

There's no comparison between the US and Australian mortgage markets. We've no exposure to US sub-prime mortgages.

The impact to date has been in interest rate volatility which will take some time to settle down. While it's difficult to predict where the margin on the mortgage-

backed securities is going to settle, as our mortgages are rated AAA and we have a significant product pipeline, we're confident that we'll not be negatively affected.

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The Wealth Management Unit increased net interest income by 17.5 percent while underlying earnings before tax grew by 20.7 percent to \$43.5 million. What were the key drivers of the unit's growth?

MD Jamie McPhee

Assisted by rising share prices, we saw strong growth in Wealth Lending, previously called Margin Lending, which outweighed some minor margin compression. Our portfolio exceeded \$5 billion at the end of the financial year compared with \$3.9 billion at 31 December 2006 and we've not incurred any credit loss in our margin lending business during the recent investment market volatility. We're confident of future growth in the business.

The second business in the unit, Adelaide Managed Funds, grew strongly last year. We launched two new funds during the year. The Asset Backed Yield Trust listed on the ASX in August of last year raising \$200 million with the second \$100 million call being in August of this year. We also launched our first structured product, a global opportunities fund, which raised over \$20 million. We've gained experience in establishing managed funds and expect the funds management to generate solid growth.

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Retail Banking had a strong June half year taking annual growth in pretax profit to \$40.4 million, up 31.2 percent for the full year on income growth of 4.3 percent. How were you able to achieve the 10.3 percent decrease in operating costs that delivered the growth? Can you maintain the momentum?

MD Jamie McPhee

Processing efficiencies in lending and deposit processing during the year were the primary drivers of the cost savings. We've worked very hard at streamlining processes and eliminating waste so that all steps in the process add value.

We expect that profit momentum to be maintained, not just driven by cost efficiencies, but by the strong platform from which we can leverage Retail revenue growth. We have 180,000 customers, the highest level of customer service in any bank in South Australia and a high level of staff engagement. Ninety three percent of staff recommend Adelaide Bank as a good place to work.

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The Bank's APRA/AIFRS transitional capital relief of \$66 million from APRA expires on 1 January 2008. How do you plan to meet this additional capital requirement?

CFO Frank Lupoi

The Bank is looking at a range of options, including the use of the Dividend Reinvestment Plan (DRP), the potential for some of our Reset Preference Shares converting to ordinary shares and increased securitisation. While we're analysing

these options, we are working through the finer details of the implications of Basle II and also working with APRA on the potential for transitional relief for Innovative Tier One capital. The outcome of these discussions and our analysis will determine how much, if any, additional capital the Bank will require over and above its normal DRP take -up. We'll achieve the best EPS outcome whilst maintaining the appropriate level of capital.

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EPS on a comparable growth basis in FY07 rose by 9.1 percent to 96.8 cents and DPS has grown 12.1 percent to 65.0 cents, a payout ratio 70 percent. What is your earnings and dividend guidance for FY08?

MD Jamie McPhee

Our EPS growth last year was at the upper end of our range. We're committed to returning to double digit growth in EPS in FY08 with a payout ratio of around 70 percent.

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Thank you Jamie

For more information about Adelaide Bank, please view www.adelaidebank.com.au. Or contact Will Rayner, Head of Investor Relations on 08 8220 7764, or 0437 794 366 or wrayner@adelaidebank.com.au

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