



**October 28, 2005**

**ADELAIDE BANK 2005 ANNUAL GENERAL MEETING**

**Chairman's Address – Mr Dick McKay**

Good morning ladies and gentlemen and a very warm welcome to the 12<sup>th</sup> Annual General Meeting of Adelaide Bank Limited.

As usual, I would like to commence proceedings by introducing my fellow Directors.

In making this introduction I might add that this is the last occasion I will have this opportunity of introducing my colleagues as I will retire at the end of this meeting when Dr Adele Lloyd will assume the role of Chairman.

But more of that later.

In a few minutes I will call on the business of the day. First I plan to spend time providing an overview of the Bank's performance, the economic climate in which it operates and the important role it plays in our community.

**OVERVIEW**

On the surface it seems little has changed in the world since I stood here one year ago – yet much has changed.

The bloodshed in Iraq continues to be highlighted almost nightly on our television screens, the recent horrors of hurricane-hit America has brought home to us all the frailty of life, while terrorists continue to play out their deadly games throughout the Middle East and, most recently, in the United Kingdom.

However, on the plus side, the first faint steps have been taken towards achieving some kind of peace between opposing religions and beliefs between Israel and its neighbors while democratic elections have been staged in Afghanistan with minimal disruptions.

Economically we continue to receive mixed messages from the United States – with costs associated with the recent hurricane adding a new dimension of instability to that economy.

On the other hand, China continues to emerge as a powerful and growing economy, the economic uncertainty that has plagued Japan appears to have abated and India is continuing to grow its presence on the world economic radar screen.

While we are not totally isolated, Australia is still performing very well.

Our economy continues to be in excellent shape, exports continue to grow, the Australian dollar remains relatively high and inflation has been kept well in check through prudent monetary restraint exhibited by the Reserve Bank of Australia.

Recently the International Monetary Fund delivered a very positive outlook for our economy – forecasting higher growth, lower inflation and a narrowing current account deficit.

Importantly, the IMF forecast the best is still to come – with oil prices expected to temporarily lift inflation, but with a lid firmly held on interest rates.

Therefore it is a little surprising that some surveys indicate business confidence in the future may be weakening – particularly for the longer term. Greatest concern appears to be in Victoria and NSW

However, interest rates have remained steady for some time, continuing to encourage investment.

Latest predictions suggest economic growth of 2.25% in 2005, while the current account deficit is expected to fall to under 5% as export volumes pick up in line with strong investment in the mining sector.

Unemployment has hit record low levels in recent months.

However, even with near record low employment, we face one major problem – youth unemployment.

Levels of youth unemployment of above 20% continue to be a blight on our nation.

We are now seeing third generation unemployment in too many families – this must be rectified before it becomes endemic and ingrained in our psyche.

While nationally we have a well-performing and sound economy, it is pleasing to note the South Australian economy is in the best shape it has been for many years.

South Australia's excellent credit rating continues to assist in maintaining business confidence and attracting new ventures.

The significant achievement in winning the major slice of the Australian Navy's Air Warfare destroyer contract is a major fillip for the State – with the potential to generate many jobs and deliver billions of dollars to the State through infrastructure development.

BHP Billiton is beginning to significantly upgrade operations at Roxby Downs – again generating jobs, infrastructure investment and income to SA.

The long-awaited Adelaide International Airport is operating for International flights and within days will be fully operational.

Anyone who has seen it can be confident this facility will provide a vibrant and attractive new gateway to SA – having been commissioned ahead of schedule and within budget.

The new Mitsubishi 380 has been launched, holding the promise of a more certain future for one of our major car manufacturers.

However, GMH has been forced to reduce operations to more appropriate levels as it feels the effects of a worldwide downturn in passenger vehicle production.

A late, but good, start to the season has raised hopes of another good year for our important rural sector, while exports of meat, wine, grain, wool and seafood continue to provide excellent returns to producers.

We are fighting above our weight in exports to the United States, United Kingdom, the Middle East, China, South-East Asia and Canada.

As a State we continue to be a relatively strong exporter of manufactured and processed goods to developed markets and less reliant on the export of raw materials to developing and Asian markets.

These are all excellent signs. However, we cannot afford to become complacent.

South Australia is performing very well – and now we must concentrate on building for the future – especially in the area of infrastructure.

From a banking industry perspective we have seen the “soft landing” in demand for housing finance I predicted one year ago.

Real estate prices locally have remained relatively stable and demand has continued at very slightly reduced levels.

Some of the “boom” has gone from the housing and real estate sectors on the eastern seaboard, but this was anticipated.

The Bank believes price stability will continue as we head into 2006.

Interest rates should remain around their current low levels – with small incremental upward movements likely to be the only change over the next year.

There seems little – or no – chance of reverting to double-digit interest rate levels in the foreseeable future.

As a result, the Bank expects little to change in the year ahead. Competition will continue to be strong, but with sound fundamentals in place and an attitude of achievement the future looks exciting.

## **THE BANK'S PERFORMANCE**

The stable economic climate of the past year was one factor in Adelaide Bank's record performance over 2004-05.

Proven growth strategies continued to pay dividends as the Bank fulfilled its key commitments to you, our shareholders.

Our record-breaking result saw:

- Underlying earnings increased by 24% to \$131.0 million
- Profit before tax and significant items was also up 24% to \$116.3 million.
- Profit after tax before significant items -- was \$80.4 million, which was an increase of 23%.

This resulted in achieving growth in fully diluted cash earnings per share of 15.4 per cent from 67.63 cents to 78.03 cents.

As a result, the Adelaide Bank Board approved a fully franked Final Dividend Payment to Shareholders of 29 cents – a four-cent increase on the corresponding dividend of last financial year.

I am sure all shareholders have appreciated receiving this dividend in recent days.

This payment took the full dividend for 2004-05 to 53 cents per share -- compared with 44 cents for 2003-04 – an increase over the full year of 20%.

Our dividend payout ratio for the year was 75%, which was slightly above the Board's long term objective of achieving a dividend payout ratio around 70%.

Importantly, this marks the third consecutive year in which dividends have been significantly increased and your Board hopes these increases are in line with your expectations.

The Bank achieved a return on equity – prior to amortisation of margin lending acquisition costs -- of 18.7%, compared with 17.6% in the previous year and well above the Bank's target of 15%.

I do not plan to further expand on the Bank's performance, as this was detailed in our 2005 Annual Report.

In addition, our Group Managing Director and Chief Executive Officer, Mr Barry Fitzpatrick, will further detail the Bank's future direction a little later in this meeting.

## **OUR COMMUNITY**

While we have been achieving good results for our shareholders, we have also been playing a significant role in our community.

Again, many of the Bank's varied community activities are detailed in the Annual Report.

But some are worth highlighting today.

As shareholders would be aware, the Bank contributes a percentage of profits to the Adelaide Bank Charitable Foundation each year.

In 2004-05 that contribution was well in excess of \$400,000 – allowing the Foundation to continue its great work.

Since it was first formed in 1981, the Foundation has provided more than \$5.57 million in assistance to the needy in our community.

This year it will break new ground. The Bank has provided the Foundation with a special \$700,000 grant to assist with the funding of a special “affordable housing” project in the South-East corner of the Adelaide city precinct.

This project is the first affordable housing joint venture between private enterprise and the State Government of South Australia, with the Adelaide City Council also entering into the partnership.

It could well pave the way for more projects of its kind – a partnership aimed at assisting those who cannot afford housing of their own to get a roof over their head and have a chance to lead a greatly improved life and become a more valuable member of our society.

The Bank has also extended its sponsorship for the Adelaide Bank Festival of Arts – right through until at least 2012 – with sponsorship of the 2006 Adelaide Bank Festival of Arts set at \$660,000.

As a result, the 2006 Adelaide Bank Festival of Arts is shaping up to be one of the finest yet held – firmly placing our Festival back on the world stage as a pre-eminent arts festival.

The Bank has also expended its sponsorship of the Adelaide Bank Emergency Services Helicopter Service for a further three years.

This has allowed this service to commission a third helicopter for later this year as it continues to provide vital logistic support to the work of the SA police, ambulance, fire and emergency services.

Coupled with a number of smaller sponsorships, these significant Bank sponsorships should lead shareholders to be proud of the efforts made by their Bank to support our community.

## **DIRECTORS AND STAFF**

As previously mentioned, Mr Steve Crane joined the Board during the year, while Mr John Hill resigned to pursue other interests.

On her re-election to the Board later in this meeting, Dr Lloyd will become the first woman chairman of an Australian bank, with Mr Roger Cook as Deputy Chairman.

The Board has long been an advocate of careful succession planning and the appointments of Dr Lloyd and Mr Cook reflect this planning.

Both have given great service already to our Bank and both are widely recognised as successful business leaders.

They have also established a strong working relationship with the Executive team at Adelaide Bank.

I am fully confident that, under their guidance, Adelaide Bank will continue to grow from strength to strength.

I have spent 12 rewarding years on the Board of Adelaide Bank, having assumed the mantle of Deputy Chairman in 1999 and becoming your Chairman in February 2001.

I have never worked with a better team – either at Board or Executive level within the Bank.

I take this opportunity to extend my thanks to all Board members for their diligence, hard work and commitment throughout my tenure on the Board, and particularly through my past four years as Chairman.

I know they will continue to contribute to the growth of the Bank.

Our Bank is poised to go forward, backed by a revamped strategic plan that will be outlined to you shortly by Barry Fitzpatrick.

As a shareholder and, soon to be, past Chairman, I am confident the Bank is in excellent hands.

On that note, it gives me great pleasure to call on our Group Managing Director and Chief Executive Officer, Mr Barry Fitzpatrick, to address the meeting.

### **Barry Fitzpatrick Presentation**

Thank you Barry for that incisive and highly informative presentation.

Before turning to the formal business of this meeting, are there any questions from shareholders.