

**Attention ASX Company Announcements Platform  
Lodgement of Open Briefing**



Adelaide Bank Limited  
Level 5  
169 Pirie Street  
Adelaide SA 5000

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**Title:** Open Briefing. Adelaide Bank. CEO on Record \$51M Profit

**Record of interview:**

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Adelaide Bank Limited reported a 22 percent increase in underlying earnings to \$84.6 million and a 24 percent increase in net profit to \$51.3 million for the full year ending June 30. What growth in lending did you achieve in 2003 and how did that translate into market share?

**CEO Barry Fitzpatrick**

Loan approvals grew 22 percent to \$5.3 billion and our market share of approvals increased to 2.3 percent. Loans under management increased 17.4 percent to \$11.1 billion and that comfortably exceeded our target of 15 percent growth and the Australian average of 12.8 percent. Our relatively low Australian market share highlights our ongoing growth potential.

**corporatefile.com.au**

What factors are driving your above system growth and is that trend sustainable?

**CEO Barry Fitzpatrick**

We have a laser-like focus on execution and the service, processing systems and products we provide to our 25 mortgage managers are pivotal to our success. That focus on execution won't change and we expect sustained growth from the originators.

We also expect growth from the mortgage broker segment, which represents nearly 30 percent of all new loans in the Australian market. We haven't been a

player in that space historically and our entry will be formalised in coming weeks when we announce alliances with two major broker groups.

**corporatefile.com.au**

How do mortgage managers differ from mortgage brokers and do conflicts exist between the two segments that could undermine your growth?

**CEO Barry Fitzpatrick**

I don't believe there are any conflicts that'll undermine the strategy. We will be handling the majority of the administration on loans generated by the mortgage brokers and our technology advantage and ability to service the brokers in a timely fashion give us a lot of confidence we'll be successful in growing our share of their business.

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The Reserve Bank has recently cautioned investors about relatively high property values. What measures have you taken to ensure you will not suffer in the event property prices decline?

**CFO John Patton**

Our asset quality has never been better and as at June 30 the net non-accruals ratio was 0.00 percent of gross loans. Conservative lending policies are the key, particularly in relation to mortgage insurance and valuations.

We require mortgage insurance when the Loan to Value Ratio (LVR) exceeds 80 percent or, in the case of inner city apartments, 70 percent. Overall, 65 percent of our portfolio is mortgage insured and the average LVR on the residential portfolio is 63 percent.

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Is the LVR based on value at the time the mortgage was issued?

**CEO Barry Fitzpatrick**

Yes, the original value. Obviously, given the strong uplift in housing prices over the past couple of years, our LVR on current property prices would be substantially lower. We have a very conservative book.

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A feature of the result for the year ended June 2003 was a strong rise in your net interest margin to 2.2 percent from 1.93 percent in 2002. It is the highest annual net interest margin since 1999 when you achieved 2.3 percent. What factors drove the improvement in your net interest margin over the past year?

**CFO John Patton**

A number of factors were important including the stable interest rate environment, the product mix and particularly the success of "Line of Credit", the \$100 million reset preference share issue and the ongoing growth of retail funding which was up \$1.3 billion or 25 percent.

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What targets have you set for growth in retail funding?

**CEO Barry Fitzpatrick**

We expect similar growth. Total retail deposits now stand at \$6.4 billion largely due to the success of the cash management accounts and the cash management trusts. Our national approach to retail deposits and the specific desire to grow assets outside South Australia has been an important component of our growth strategy.

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To what extent is your net interest margin vulnerable to a sharp rise in interest rates?

**CFO John Patton**

We're not greatly exposed to major movements in interest rates because 80 percent of our residential portfolio is now variable rate. Also, we've substantially reduced our exposure to wholesale funding following the significant increase in retail deposits. Our reliance on wholesale funding has reduced to 17 percent from 35 percent some years ago.

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What's your view on the interest rate outlook?

**CEO Barry Fitzpatrick**

It's fair to say the Australian economy remains very robust and has performed exceptionally well against other OECD countries. With the probability of a stronger US economy in the coming year, I'd expect interest rates to trend upward in the medium term.

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The record profit was driven by your success in mortgage lending. To what extent are you satisfied with the contribution from "other income" which was virtually flat at \$39.6 million?

**CFO John Patton**

There was no increase in other income primarily due to the reduction in loan fees due to special no-fee offerings during the year. We'd expect fees to grow at a modest level but to remain at around 20 percent of total income.

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The contribution from your margin lending business, Leveraged Equities, was also relatively flat with pre-tax profit up 4 percent to \$7.65 million. What is the strategy for growing this business?

**CFO John Patton**

At the start of last year, we felt there was a fairly high probability that the equity markets would be relatively flat. Consequently, we took the opportunity to focus on improving the efficiency of the back-office operations. We've invested in

imaging technology and the core Mocom system to establish a platform that can facilitate significant future growth.

Last year, the size of our loan book increased 14 percent and it's our intention to continue to grow as equity markets improve. Specifically, we'll be seeking to grow our exposure to managed funds.

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Adelaide Bank's operating expenses increased 12.4 percent to \$116.5 million and your cost to income ratio dropped to 57.94 percent from 59.84 percent. What is the outlook for both?

**CEO Barry Fitzpatrick**

We expect costs to increase at a lower rate than income and we're forecasting a cost to income ratio of 56 percent by June 2004.

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Capital adequacy was 11.1 percent at year end versus 11.8 percent previously. During the year you issued \$100 million in reset preference shares. Given your growth ambitions do you perceive the need for additional capital?

**CFO John Patton**

Yes, the strong growth is expected to continue and therefore we will need to optimise the level of capital required through increased securitisation or increased capital levels. At this stage, we're planning a securitisation issue of approximately \$600 million in September.

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It is expected that the calculations of Australian bank capital adequacy will change if APRA adopts the international standards as dictated by "Basel 2". Can you explain the major changes foreshadowed?

**CFO John Patton**

The changes may result in some capital relief as the risk rating for housing loans reduces from 50 percent to 35 percent. But, this benefit is expected to be offset by a new operational risk charge equivalent to 12 percent of revenue. And potentially a new capital impost in relation to the proposed treatment of capitalised costs. The net result is likely to be neutral.

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Will there be any need to raise additional capital as a result of the proposed change in capital treatment of capitalised costs?

**CFO John Patton**

We don't believe so as we expect APRA to provide concessional relief in relation to timing so that any change in capital treatment for capitalised costs can be implemented in conjunction with the Basel 2 requirements.

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When will APRA's position be clear?

**CFO John Patton**

I would expect over the next three to six months.

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In 2003, diluted EPS increased 15 percent to 54 cents and the annual dividend was up 16 percent to 37 cents fully franked. Would you expect dividends to match EPS growth going forward?

**CEO Barry Fitzpatrick**

Yes. The board has a long stated objective to pay out 70 percent of profit.

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What has been the recent trading trend and what are your 2004 performance targets?

**CEO Barry Fitzpatrick**

We've had excellent growth in July and August and we expect full-year growth in assets of 15 percent. Regarding shareholder returns, we stand by all the predictions associated with our 2002 to 2005 strategic plan, that is, we expect return on equity of 15 percent, EPS growth of 10 percent and a cost to income ratio of 55 percent by June 2005.

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Thank you Barry and John

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