



November 5, 2004

**ADELAIDE BANK 2004 ANNUAL GENERAL MEETING**

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

Good morning ladies and gentlemen and a very warm welcome to you all to the 11<sup>th</sup> Annual General Meeting of Adelaide Bank Limited.

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

Many of you will have noticed the Bank's recent announcement regarding our succession plans for the Board and I take particular pleasure in introducing our current Deputy Chairman and Chairman-elect, Dr Adelaide Lloyd, and Deputy Chairman elect, Mr Roger Cook.

In a few minutes I will call on the business of the day. Before that I will spend time reviewing the Bank's performance, the economy and the important role our Bank plays in our community.

**OVERVIEW**

Last year I reflected on the turmoil engulfing our world – unfortunately nothing has changed in this regard.

The Middle East conflict continues with much bloodshed in Iraq, while the threat of terrorism is ever present.

Adding further uncertainty to conflict and terrorism is instability in many economies of the world, including some of the major “engines” of commerce and industry, like the United States, Japan and even China.

Australia has weathered these woes well – yet we cannot stand in isolation immune from the problems besetting other countries.

Fortunately there are plusses for Australia. Our economy is in excellent shape – unemployment has been further reduced, inflation is contained and interest rates remain low.

Record high World oil prices are of concern, eroding the incomes of most Australian families, but it is not a problem that Australian can address in isolation.

The recent Federal Election -- with the Coalition returned for a fourth term and given a strong mandate for the future – should also provide additional stability.

Closer to home, the South Australian economy is in the best shape it has been for some years – in fact since the State Bank disaster.

Recently the State was upgraded to Triple-A credit rating status by international ratings agency, Standard & Poors.

This is a major achievement, as it reduces the cost of funding and borrowings, boosts business confidence and should act as an incentive for business ventures to consider South Australia as a viable option.

This rating upgrade is the latest indicator in a general trend that has become increasingly evident in the State over the past two years.

Today South Australia is a “Can Do” State. The long-awaited Adelaide Airport reconstruction is up and running and ahead of schedule.

Much needed major bypass expressways are under construction to the west of the city.

South Australia is high in the running to win a sizeable share of the Australian Navy’s destroyer construction program – a program that could deliver billions of dollars to the State through employment and infrastructure.

Our motor vehicle manufacturing industry is back in top gear. GMH is in expansion mode to meet increased local and International demand while the future seems a little more certain at Mitsubishi, albeit at a reduced level of activity.

The rural economy remains strong despite a disappointing finish to the grain season.

Latest export figures are also more than encouraging. Our State is fighting above its weight in its share of Australian exports to the United States, United Kingdom, Saudi Arabia, Malaysia and Canada.

Over the past year the State has accounted for a high share of beverages, motor vehicles, fish, cereals, fruit and non-ferrous metals exported from Australia.

Compared with the rest of Australia, South Australia today is a relatively strong exporter of manufactured and processed goods to developed markets and is less reliant of the export of raw materials to developing and Asian markets.

These are all good signs. Balancing the good news is the fact that employment – particularly among our young -- is still at unacceptably high levels.

Business must do more to create job opportunities – particularly for young people. Too often we hear of families where two to three generations are not working.

From a banking industry perspective we have seen a flattening off in demand for housing finance occurring throughout the nation over the past few months.

This is the long-predicted end to the housing boom. However, as predicted last year it is no “bust” but a soft landing that has seen demand drop slightly and prices stabilise after two to three years of spectacular growth.

The Bank anticipates real estate price stability will continue as we head into 2005.

Interest rates are expected to remain low – perhaps moving up or down by small increments but not getting back to the days of double digit interest rate levels.

Demand will stabilise, thus making competition among financial institutions stronger and impacting slightly on margins.

In short, we expect little to change in the year ahead. However, with a strongly performing local economy, sound fundamentals and a “can do” attitude the future continues to look extremely bright.

## **THE BANK'S PERFORMANCE**

The climate that I have just described helped Adelaide Bank to post a record performance in 2003-04.

As it continued to execute its proven growth strategies, the Bank also fulfilled its key commitments to our shareholders.

The record result exceeded most analysts' expectations with underlying earnings of \$105.54 million -- which is an increase of 25% on the \$84.59 million posted for 2002-03 -- with earnings per share growing by 17%.

Also at the high end of market expectations was profit after tax of \$68.23 million, which was a 33% increase on the \$51.33 million recorded for 2002-03.

Profit before tax was \$95.27 million, compared with \$74.28 million for the previous year -- an increase of 28%.

As a result, the Adelaide Bank Board approved a fully franked Final Dividend Payment to Shareholders of 25 cents, a four-cent increase on the previous year.

This was paid on October 15 and took the full dividend for 2003-04 to 44 cents, compared with 37 cents for 2002-03 -- an increase over the full year of 19%.

This increased return to our shareholders represents a dividend payout ratio for the year of 70%, which is in line with the Board's long stated policy.

Importantly, this marks the second year in a row that dividends have been significantly increased and your Board is confident that these increases are in line with your expectations.

The profit represents a return on equity of 17.57% compared with 16.86% in the previous year while the fully diluted earnings per share of 63.75 cents compare with 54.34 cents for 2002-03.

I earlier mentioned the upgrade in the credit rating for South Australia. Adelaide Bank has also received favorable upgradings from the major rating agencies in recent weeks.

In early October Moody's rating agency upgraded Adelaide Bank's long-term deposit rating from Baa2 to Baa1 and its long-term senior unsecured debt rating from Baa3 to Baa2.

Three days later Standard & Poor's Ratings Services announced it had raised its counterparty credit ratings on Adelaide Bank to 'BBB+' from 'BBB' and affirmed the short-term rating at 'A-2'. The outlook was revised to stable from positive.

These are significant achievements by the Bank, providing greater opportunities for cost-effective fund raising, and reflect the increased standing Adelaide Bank has in the financial community.

## **CAPITAL MANAGEMENT**

I will now spend some time on capital management issues and how they affect our shareholders.

Continuing strong asset growth, coupled with rule changes to the capitalisation of up front origination costs and the risk weighting applied to certain types of mortgage loans by the Australian Prudential Regulatory Authority (APRA) have meant the Bank required additional capital in order to meet its ongoing prudential obligations.

From July 2004 APRA requires that all Banks deduct from Tier 1 Capital the amount of capitalized origination costs or brokerage held on balance sheet up to a maximum of 5% of eligible capital.

From July 2005 this rule changes further with APRA removing the 5% cap and the full amount of these capitalized costs will be deducted from Tier 1 capital.

From 1 October the risk weighting on Lo doc mortgages increased from 50% to 100% if the loan to valuation ratio on those mortgages was greater than 60% and if the Loan was not mortgage loss insured.

Put simply, these APRA rule changes required Adelaide Bank to raise additional capital.

The Board reviewed all available options for meeting the Bank's capital needs and the decision was taken to:

- Buy back the \$40M million of fixed rate capital notes issued in 1997;
- Issue \$105 million of Subordinated Debt to institutions;
- Undertake the \$100 million Step Up Preference Share issue;
- Reintroduce a dividend reinvestment plan; and
- To continue the Bank's securitisation program.

These decisions ensured the prudential position of Adelaide Bank remained extremely robust while maximising the return to our shareholders.

Return on equity and earnings per share are the key measures of shareholder interests used by the Board.

Effective capital management played an important role in maximizing these returns in 2004.

The Fixed Rate Capital Notes Buyback may have impacted investors whom bought the notes in the secondary market at a premium because the yield prior to the buyback was 8.4%.

What must be understood is that, while the Bank re-financed at a slightly lower rate than this, the return to investors would have fallen anyway from the time this fixed rate became floating on July 15 this year.

This was made clear in the original prospectus.

Consequently the Board reached the decision that, in the best interest of Shareholders, it would buyback these notes and issue replacement capital that was both cheaper and which had a longer maturity profile.

The Step-Up Preference Share (SPS) issue was very successful, with the great majority of the 2,300 eligible shareholders who sought these investment options gaining their allocations.

In fact 86% of shareholders who applied for SPS had their requests filled in full, with only those shareholders who applied for more than 280 -- or \$28,000 worth of SPS -- subject to any scaling of their application.

The methodology employed by the Bank to scale back larger applications by a great amount than smaller applications is consistent with the methodology used on prior hybrid issues and reflects market practice.

Following many requests from Shareholders, the Board is pleased to announce the introduction of a new dividend reinvestment plan.

This will provide all eligible shareholders with the opportunity to reinvest their dividends in Adelaide Bank for the March 2005 and subsequent dividends.

It is the Boards intention to initially adopt a discount of 2.5% to the weighted average share price during the pricing period.

This discount is at the upper end of those offered by other Australian Banks.

Of the six other listed Australian Banks offering a DRP three offer no discount to participating shareholders while the others offer a 2.5% discount.

The Board is conscious not all shareholders are in a position to participate in the DRP and therefore set the discount so that it is fairly rewards those shareholders who are in a position to participate whilst not materially prejudicing those shareholders who cannot, or do not, participate.

I will not go further into the Bank's performance as this has been detailed in our Annual Report, and 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.

## **WORKING FOR OUR COMMUNITY**

However, there is another area of the Bank's activities that I believe deserves mention – and that is the Bank's role in our community.

Many of the Bank's varied community activities are detailed in the Annual Report.

However, there are several I wish to highlight today.

Each year the Bank contributes a percentage of profits to the Adelaide Bank Charitable Foundation.

In 2003-04 that contribution amounted to more than \$400,000.

However, as a result of the strong performance last financial year the Bank has decided to significantly increase its commitment in 2004-05, providing the Foundation with a special grant of \$700,000.

This grant has been earmarked to fund a special project aimed to provide shelter for those most in need. A decision on the recipient organisation is expected shortly.

As most will be aware, Adelaide Bank had the naming rights sponsorship for the Adelaide Bank 2004 Festival of Arts.

It was pleasing to see the Bank's support enabled the nation's pre-eminent arts Festival to regain its status and the Bank's support for the next Festival in 2006 is already helping to lay the foundations for even greater success.

Coupled with sponsorships of the Helpmann Academy, the Festival Centre Trust and State Opera, the Bank is doing more than its share to assist the arts – and importantly providing young South Australians with opportunities to make their name on the world stage.

The Bank assists the community at large by funding the Adelaide Bank Rescue Helicopter Service.

This vital service provides critical logistic support to the work of the SA police, ambulance, fire and emergency services.

These sponsorships, coupled with support for major SA events and business organisations close to the finance industry, should ensure shareholders can be proud of the efforts made by their Bank to support our community.

## **DIRECTORS AND STAFF**

While there were no changes to the Adelaide Bank Board during 2003-04, changes have been foreshadowed for next year.

As mentioned earlier, plans are now in place for Dr Lloyd to become the first woman chairman of an Australian bank next October.

Mr Roger Cook will join her as Deputy Chairman.

Your Board believes succession planning is an integral and vital part of successful business in Australia today.

We believe it is essential to keep shareholders, staff and the market informed of our plans for the future and the seamless transition to a new Chairman.

Dr Lloyd and Mr Cook are both recognised widely as successful business leaders and both have 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 would like to take this opportunity to thank all Board members for their diligence, hard work and commitment throughout 2003-04 and look forward to their continuing contribution to the growth of the Bank.

It is also fitting to place on record the Board's gratitude to the Executive, Management and Staff of Adelaide Bank for their great efforts, which have been reflected in the record-breaking results, achieved during the year.

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 I turning to the formal business of this meeting, are there any questions from shareholders?