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Adelaide Bank Limited
Level 5
169 Pirie Street
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Adelaide Bank Limited today reported a 25 percent rise in underlying earnings to \$105.5 million during the year ended 30 June 2004, well above its stated target growth of at least 10 percent. What are the main factors which contributed to this result?

CEO Barry Fitzpatrick

There were three main factors which contributed to this excellent result. There was solid asset growth of 27 percent, a net interest margin increase by 3 basis points to 2.23 percent, and a reduction in our cost-to-income ratio from 58 percent to 55 percent which represents an improvement in operational efficiencies across all our businesses.

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Adelaide Bank's mortgage loan approvals of \$7.41 billion rose by 58 percent. Its share of the market for mortgage loan approvals rose to 3.47 percent in May 2004. In light of the slowdown in housing credit growth, is this growth sustainable?

CEO Barry Fitzpatrick

We do expect growth to moderate when compared to 2004. We are targeting growth in mortgage balances of around the 17 percent mark for the coming year. According to figures published by the Reserve Bank of Australia, the market's annual growth has exceeded 10 percent since deregulation. We expect to continue our record of above average growth.

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Growth in your loans is being driven by third party providers. How do you differentiate yourself from other banks in terms of quality and service you provide to mortgage managers and mortgage brokers?

CEO Barry Fitzpatrick

We have adopted a highly focused strategy. We recognise that the intermediaries who are our partners are also our customers, and we have a sophisticated partner management programme in place to foster these strategic relationships. We're not in direct competition with them and we continue to meet our objective of providing them both state-of-the-art technology and top quality products and to continuously monitor their customer satisfaction. The success of our strategies built around developing strong working partnerships is evidenced by our increased market penetration in mortgage lending and other areas.

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What is achievable in relation to your cost-to-income ratio?

CFO Frank Lupoi

Our 2002-2005 strategic plan targeted cost-to-income ratio of 55 percent by 2005, which we successfully achieved in 2004 and we are committed to continue to improve on this. The main drivers behind our ability to reach our target a year ahead are our strong growth and improved margins in 2004. We exceeded our targeted growth in overall volumes across all of our loan portfolios, achieved higher than expected Retail Deposit growth and a higher than expected proportion of premium priced products.

We're planning a strategic review in March and expect to refine our proven strategy. We will also commit to a range of financial targets for the three years covered by the plan.

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Adelaide Bank's \$3.1 billion Lo Doc lending portfolio accounts for 27 percent of its mortgage loans. What role do you expect Lo Doc to play in driving the bank's mortgage lending growth in future?

CEO Barry Fitzpatrick

We expect Lo Doc to remain a key product for Adelaide Bank. Strong market demand indicates that Lo Doc is a growing market amidst a growing number of self-employed people in Australia. Nonetheless we plan to introduce some new products, such as our new [Offset Account], which could reduce the proportion of Lo Doc loans in our total home lending portfolio in future.

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Competitors have suggested Lo Doc loans could lead to a deterioration in asset quality. What has been your experience to date and what do you expect in relation to asset quality?

CEO Barry Fitzpatrick

We've been in the Lo Doc market for about three-and-a-half years and our performance so far in this area has been in line with expectations and industry benchmarks. The Bank has had no losses or mortgage loss insurance (LMI) claims on Lo Doc loans.

All underwriting criteria applied in the market are not the same. We use sophisticated underwriting tests, such as obtaining asset and liability statements, reviewing bank statements to analyse cash flows, conducting business and company searches to determine the borrowers' financial standing, and conducting a specific reasonableness test in relation to the borrowers' assets versus income. In light of these very specific criteria and sophisticated tests that our bank uses, our Lo Doc lending is really prime lending and not sub-prime lending.

Information available in the market indicates that Lo Doc loans are 40 percent less likely to go to a mortgagee-in-possession and LMI claims are virtually nil due to the low LVR and full valuation policy.

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Retail Funding grew by 21 percent in FY04 to \$7.8 billion and 26 percent in FY03. Can you provide an insight into your strategy behind the development and growth of this business?

CEO Barry Fitzpatrick

As in the case of our mortgage business, we've applied a tightly focused strategy to our funding business. We have a range of strategic alliances with brokers and other intermediaries, with whom we're not in direct competition and to whom we provide our products. Our cash management and money market products have been very well received by the market.

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You achieved an improved net interest margin of 2.23 percent in FY04 compared with 2.20 percent the year before. What is your target net interest margin for the coming year?

CFO Frank Lupoi

We anticipate some margin pressure in the coming year and the market seems to indicate a decline of up to 10 basis points. We do anticipate a net interest margin decline of up to 10 basis points over the next 12 months and some downward pressure on our securitisation spreads by up to 15 to 20 basis points. We've budgeted an overall compression of up to 15 basis points over the next 12 months.

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Business Lending registered 9 percent growth during FY2004, reaching \$1.18 billion. What are your ambitions in relation to Business Lending?

CEO Barry Fitzpatrick

For many years, our business banking was sourced totally from within South Australia and our Business Lending has been very much focused on credit quality.

Whilst we do not have a strategy of overall lending on a national level, we plan to focus on businesses where we are able to offer our expertise, skills and quality service on a national basis. In the coming year we aim to expand in our niche markets of Aged Care, Rural and Structured Finance.

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The Leveraged Equities assets base of \$1.44 billion was up 18 percent compared with \$1.23 billion the previous year and \$810 million on acquisition in February 2000. How do you plan to grow your share of Australia's \$13 billion margin lending market?

CEO Barry Fitzpatrick

Over the last year we've increased our market share from 10.4 percent to 10.8 percent through product innovation and high quality service. We'll continue our objective of increasing our presence in the financial advisory market. Our belief is that one needs critical mass in this business of at least \$1 billion. We'll continue to look at small acquisitions and we've identified several small portfolios that we are interested in acquiring.

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The final dividend increased 4 cents to 25 cents per share, lifting the annual dividend 7 cents to 44 cents on fully diluted EPS of 63.75 cents versus 54.34 cents last year. What is the outlook for profit and dividends?

CEO Barry Fitzpatrick

2005 will be the final year of our three-year strategic plan and we're committed to grow earnings per share and underlying earnings in excess of 10 percent.

Our profit growth will very much depend on our ability to execute our key strategies. We now have a 1.9 percent share of the \$570 billion national mortgage lending market and our medium-term aim is to increase it to 5 percent. We are on track towards this target, having increased our market share of mortgage approvals from 2.1 percent to 3.5 percent over the past twelve months. Our higher than expected growth in our Retail Funds business enabled us to achieve a 1.6 percent market share of the \$500 billion Retail Deposit market and we are well placed to further grow our Retail Deposit taking operations. We also aim to grow our 10.8 percent market share of the \$13 billion margin lending market and have identified targeted growth areas in our business banking operations which should enable us to boost our share in the \$376 billion business lending market.

The dividend payout ratio will be maintained at around the 70 percent mark as it has been for many years, in line with the Board's long-stated dividend policy.

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Thank you Barry and Frank.

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For more information about Adelaide Bank, view www.adelaidebank.com.au.