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## **RECORD FIRST HALF AND DIVIDEND FOR ADELAIDE BANK**

Adelaide Bank Limited today announced a strong first half for 2002-2003, posting record underlying earnings and an increased dividend for its shareholders.

The record result was built on a combination of record lending levels, strong growth in deposits and improvement in the net interest margin.

Adelaide Bank posted underlying earnings of \$37.7 million, up 22 per cent on the \$30.8 million in underlying earnings for the first half of the 2001-02 financial year.

Profit before tax was also a record \$33.1 million, an increase of 21 per cent on the \$27.3 million recorded in the first half of 2001-2002, with after tax profit also increasing by 21 per cent to \$22.5 million, compared with \$18.6 million for the first half of last year.

The record performance, posted just under a year before restrictive articles relating to the Bank's shareholding are removed on January 1, 2004, led the Bank's Board to increase the first half fully franked dividend by two cents to 16 cents.

This is the first rise of more than one cent for an interim dividend since Bank conversion on January 1, 1994, and reflects the Board's confidence in the first half performance that has seen all key indicators improve.

The record first half result was reported to the Australian Stock Exchange today by the Bank's Chairman, Mr Dick McKay, and Group Managing Director, Mr Barry Fitzpatrick.

In making the announcement, Mr McKay said: "Adelaide Bank has again delivered double digit profit growth in line with market expectations and our own forecasts.

"Again we have achieved one of our key objectives with a return on equity of more than 15 per cent (pre amortisation costs), with improved returns to our shareholders.

"All indications are that the strong first half will continue through the remainder of this financial year.

"It was in this climate, and with a very positive outlook for the future that the Board decided to increase shareholder returns with a lift in our fully franked dividend of two cents to 16 cents for the first half.

"In recent years the second six months of the financial year have proved the stronger half for Adelaide Bank and we anticipate this trend will continue in 2002-03, with double digit profit growth expected to be achieved for the full year."

## **SHAREHOLDERS' RETURNS**

The fully franked 16 cent interim dividend will be paid to shareholders on March 31, 2003.

This represents a dividend payout ratio of 65 per cent, compared with 66 per cent last year. This ratio is in line with the Bank's desired ratio.

The first half return on equity ratio was 15.65 per cent (pre-amortisation costs) compared with 14.21 per cent last year.

Fully diluted earnings per share for the six months were 24.9 cents, compared with 21.2 cents for the same period of 2001-02. This represents an increase of 18 per cent.

## **ASSET GROWTH AND QUALITY**

Total loans under management by the Bank grew to \$10.1 billion – up seven per cent on the \$9.5 billion at June 30, 2002. This puts Adelaide Bank on track to achieve an increase in total loans under management for the full year of 15 per cent, which is in line with set targets.

Total assets under management increased from \$10.6 billion at June 30, 2002 to \$11.2 billion at December 31, 2002 – an increase of six per cent.

Non-accrual loans stood at \$7.7 million at December 31, 2002, compared with \$8.1 million at December 31, 2001.

Gross non-accruals as a percentage of the total loan portfolio stood at 0.12 per cent at December 31, 2002, compared with 0.15 per cent at December 31, 2001. Net non-accruals as a percentage of the total loan portfolio were 0.03 per cent at December 31, 2002 compared with 0.06 per cent at December 31, 2001.

“These ratios continue to be among the lowest in the Australian banking sector,” Mr Fitzpatrick commented.

“They reflect a continuing tough stance in the area of credit quality taken by Adelaide Bank in all areas of lending.

“This stance ensures that Adelaide Bank has very few loans on its loan book that cause any concerns in both residential and commercial lending areas.

“Adelaide Bank has had no exposure to the major corporate collapses that have impacted on the finance sector in the past 18 months and close scrutiny of the Bank's loan portfolio confirms risks are minimal.

“However, in a continuation of the Bank's long established prudent approach to risk management, a further general provision of \$1.5 million has been made.

“This opportunity was available to the Bank given the very strong first half performance and the positive outlook for the future.

“The additional \$1.5 million in provisions takes general provisions to \$25.6 million, from the \$24.1 million in place at June 30, 2002.”

## **LENDING**

Adelaide Bank broke all lending records in the first six months of 2002-03.

Loan approvals totalled \$2.57 billion for the period, compared with \$2.27 billion for the same period of the 2001-02 financial year.

This increase of 13 per cent compares favorably with the boom lending conditions experienced in the previous year and reflected strong activity in the real estate and housing sectors Australia wide, with demand continuing to be strong leading into the second half of the year.

## **DEPOSITS AND FUNDING**

Retail deposits grew by \$671 million over the first six months from \$5.1 billion at June 30,2002 to nearly \$5.8 billion at December 31,2002 – an increase of 13 per cent.

In November, Adelaide Bank launched a highly successful \$100 million issue of Reset Preference Shares (RPS), which was heavily over-subscribed.

The successful RPS issue has provided Adelaide Bank with a very cost-effective option to fund continuing balance sheet growth.

Mr Fitzpatrick commented: “Cost effective funding through the RPS issue has enabled Adelaide Bank to boost its Tier 1 capital base and has also lowered its cost of capital.

“In initiating this RPS issue the Bank went to considerable lengths to accommodate the needs of our shareholders and capital noteholders.

“Nearly 70 per cent of our shareholders and noteholders who applied for RPS via the \$20 million shareholder preferred pool were allocated the full amount of RPS that they requested.”

## **CAPITAL**

The RPS issue had an immediate effect on the Bank’s Capital Adequacy Ratio. At December 31, 2002 the Capital Adequacy Ratio stood at 12.76 per cent compared with 11.57 per cent at the end of 2001.

Tier I capital stood at 7.98 per cent. These ratios place the Bank in a very strong capital position and will enable the Bank to continue to grow over the next year without the need for additional equity raising or to securitise assets to the same extent as in the past.

## **OPERATING EFFICIENCIES**

Adelaide Bank continued to keep operating cost ratios at levels that rank among the best for any regional bank in Australia.

Mr Fitzpatrick said: “It is the Bank’s aim to continue to be in the top quartile for cost efficiency in the Australian banking sector.

“We are achieving that outcome with the Bank’s cost to income ratio reducing from 63.08 per cent in the first half of 2001-02 to 61.38 per cent in the first half of 2002-03.

“This is despite staff number increases necessitated by the increased lending volumes.

“We are confident that we will have the cost to income ratio at around the 59 per cent mark for the full year.

“The three year objective is to have this key ratio down to 55 per cent.

“The Bank's operating expense to average total assets ratio also reduced slightly, coming down from 1.11 per cent at December 31, 2001 to 1.09 per cent at December 31, 2002.

“While margins continued to be under pressure, Adelaide Bank was able to achieve a lift during the past six months.

“At December 31, 2002, the net interest margin stood at 2.12 per cent, compared with 1.91 per cent At December 31, 2001, and 1.93 per cent at June 30, 2002.

“The improvement achieved in the net interest margin is expected to continue through this financial year but longer term the Bank expects to see downward pressure on margins generally.”

## **LEVERAGED EQUITIES**

In the first six months of 2002-03 Leveraged Equities contributed \$3.7 million in pre-tax profit, compared with \$3.0 million for the same period of the 2001-02 financial year. This represents an increase of 22 per cent in a very competitive and tight environment,

Despite the continued impact of the downturn in world stock markets, including those in Australia, Leveraged Equities was able to build its portfolio of loans under management from \$947 million at December 31, 2001 to \$1.09 billion at December 31, 2002.

This was below the level of \$1.18 billion at June 30, 2002, due to the loan portfolio being impacted by the downturn in the Australia stock market as it followed world trends.

Commenting, Mr Fitzpatrick said: “Leveraged Equities has continued to perform at levels we had set.

“Obviously events outside its control have impacted on growth, but we are confident it will continue to perform to meet the Bank’s required performance hurdle of a 15 per cent return on equity.”

## **SUMMARY**

Mr Fitzpatrick said: “Record lending levels over the past six months, the successful RPS capital raising and continued focus on increased efficiency of operations have combined to provide a very pleasing result for the first six months of 2002-03.

“Adelaide Bank has the strategies in place to continue sustainable growth and profitability in the foreseeable future.

“It continues to reap the fruits of its strategic partnerships developed throughout Australia, aided by the integration of the Bank’s OLAS (On-line Loan Approval Service) into the operations of many of its national origination partners.

“Adelaide Bank is now well positioned for future growth – growth that will continue to increase returns to its shareholders.

“We are very confident of meeting our stated aim of full-year double digit profit growth, while continuing to achieve a return on equity of more than 15 per cent.”

**Further comment is available from Mr Fitzpatrick on (08) 8300 6818.**

**Issued on behalf of Adelaide Bank by Greg Reid Marketing Communications Pty. Ltd.**  
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