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RECORD LENDING AND DIVIDEND FOR ADELAIDE BANK

Adelaide Bank Limited today announced a record first half performance for 2003-04 on the back of record lending, increased market share and improved efficiencies, resulting in a significant increase in its interim dividend to shareholders.

Adelaide Bank posted underlying earnings of \$47.7 million, up 27 per cent on the \$37.7 million posted for the first half of the 2002-03 financial year.

Profit before tax was also a record \$42.3 million, an increase of 28 per cent on the \$33.1 million recorded in the first half of 2002-03, with after tax profit increasing by 29 per cent to \$29.1 million, compared with \$22.5 million for the first half of last year.

The record performance led the Adelaide Bank's Board to increase the first half fully franked dividend by three cents to 19 cents.

The significant increase in the interim dividend was the largest yet provided for a first half and reflects the Board's confidence in the future following a performance that saw all major 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 and Chief Executive Officer, Mr Barry Fitzpatrick. The half year results announcement comes less than one month after the entrenching provisions in the restrictive articles relating to the Bank's shareholding were relaxed on January 1.

In making the announcement, Mr McKay said: "Adelaide Bank has again delivered on its promises with a first half performance that has exceeded the predictions of most finance sector analysts.

"We have continued to deliver a return on equity of more than 15 per cent (pre amortisation costs), double digit profit growth and improved returns to our shareholders.

"The Bank's Board is confident that the robust performance of the first half will continue throughout 2003-04, despite an expected cooling in the property market throughout Australia.

"Our very positive outlook for the future allowed the Board to increase shareholder returns with a lift in our fully franked dividend of three cents to 19 cents for the first half. Based on a final dividend paid last year of 21 cents, this would represent an increase in the annual dividend from 37 cents to 40 cents.

“Recent history indicates the second half of the financial year should prove at least as strong as the first half and we have full confidence that we will again deliver double digit profit growth for the full 2003-04 financial year.”

SHAREHOLDERS' RETURNS

The fully franked 19-cent interim dividend will be paid to shareholders on March 31, 2004.

This represents a dividend payout ratio of 69 per cent, compared with 65 per cent last year. This ratio is in line with the Bank's long-stated desired ratio of around 70 per cent.

The first half return on equity ratio was 16.26 per cent (pre-amortisation costs) compared with 15.65 per cent last year.

Fully diluted annualised earnings per share were 56.57 cents, compared with 49.54 cents for the same period of 2001-02. This represents an increase of 14 per cent.

ASSET GROWTH AND QUALITY

Total loans under management by the Bank grew to \$12.3 billion over the first six months of 2003-04, representing an 11 per cent increase on the \$11.1 billion at June 30, 2003. This puts Adelaide Bank on track to achieve an increase in total loans under management for the full year of 15 per cent.

In addition to the impressive growth in the Bank's residential lending portfolio, the Bank also experienced strong growth in its margin lending business.

Leveraged Equities' loan portfolio increased from \$1.23 billion at June 30, 2003 to \$1.34 billion at December 31, 2003 – an increase of eight per cent.

Non-accrual loans were further reduced to \$6.0 million at December 31, 2003 from a level of \$7.7 million at December 31, 2002.

Gross non-accruals as a percentage of the total loan portfolio stood at 0.07 per cent at December 31, 2003, compared with 0.12 per cent at December 31, 2002. Net non-accruals as a percentage of the total loan portfolio were 0.00 per cent at December 31, 2003 (the same level as at the end of the 2002-03 financial year) compared with 0.03 per cent at December 31, 2002

Commenting, Mr Fitzpatrick said: “These ratios are among the lowest in the Australian banking sector and reflect the Bank's laser like focus on credit quality in all areas of lending.

“Adelaide Bank has less than a handful of loans on its loan book that cause any concerns in both residential and commercial lending areas.

“The balance of loans past due 90 days or more was \$27.8 million at December 31, 2003, compared with \$32.0 million at June 30, 2003. The majority of these loans are mortgage insured and are not expected to impact on credit quality.

“They represent 0.33 per cent of the loan portfolio, compared with 0.42 per cent at June 30, 2003.

“A further indicator of the quality and strength of the Bank’s loan book can be found in the Australian Prudential Regulation Authority’s stress test which recently analysed all bank loan portfolios and allowed for a 30 per cent fall in property values.

“The study showed Adelaide Bank could withstand such a reduction in property values, with the Bank’s default rate calculated at four per cent, compared with an industry average of 5.1 per cent.

“That survey showed Adelaide Bank adopted a more conservative stance than other banks in relation to mortgage insurance.

“Indicative of the prudent approach Adelaide Bank takes in the area of credit, the survey showed only three per cent of Adelaide Bank’s loans which exceeded the loan to valuation ratio of 80 per cent were not mortgage insured, compared with an industry average of 25 per cent.”

“However, Adelaide Bank has never been complacent in the area of risk management and has always adopted a conservative philosophy.

“Given the strong performance in the first half of 2003-04, the Bank has continued with its long established prudent approach to risk management and increased its general provision by \$2.2 million.

“The additional \$2.2 million in provisions takes general provisions to \$29.325 million from the \$27.125 million in place at June 30, 2003.”

LENDING

Adelaide Bank set new lending records in the first six months of 2003-04, including a record month of \$814 million for loan approvals in October.

Loan approvals totalled \$3.85 billion for the six-month period, compared with \$2.57 billion for the same period of the 2002-03 financial year.

This increase of 50 per cent is a strong indicator of the boom lending conditions that prevailed during much of 2003.

Importantly Adelaide Bank took advantage of those conditions and, aided by new alliances in the mortgage origination and mortgage broking sectors increased market share of mortgage loan approvals from 2.1 per cent at June 30, 2003 to 3.1 per cent at November 30, 2003, according to latest Australian Bureau of Statistics figures.

“This is a significant increase in market share as an increase of 0.1 per cent translates into an additional \$20 million in home loan approvals each month for Adelaide Bank,” Mr Fitzpatrick said.

“All indications are that interest rates will continue to rise in small increments over 2004, and naturally this will have a cooling effect on the national home loan market.

“The size of the market coupled with Adelaide Bank’s growth in market share and the fact that approximately 80 per cent of the Adelaide Bank loan book is variable rate, suggest that the expected cooling of the market is not expected to negatively impact on Bank profitability.

“As a result, we confidently predict Adelaide Bank is comfortably on track to achieve its stated target of 15 per cent asset growth in 2003-04 and beyond.”

Adelaide Bank was today given a “Strong” (highest) rating by Standard & Poors for its residential lending servicing capability.

In its rating S&P commented: “The ranking reflects the strength of the fully integrated technology- and workflow based loan-servicing platform, the depth of management experience, the sound risk management, and the compliance and quality assurance frameworks.

“The Bank’s strong customer service focus and a commitment to achieving defined performance measures and benchmarks are based on world’s best practice.

“The strategic objectives and business plans of Adelaide Bank are clearly defined and include its goal to be a world-class loan processor.”

Further in its assessment, S&P comments: “The loan origination and servicing platform is cost-efficient, technologically advanced and configured to deliver an exceptional level of customer service to meet the service standards of the Bank and its clients.

“Adelaide Bank is well positioned to build on its existing businesses, in particular, its residential loan origination and third-party servicing operations, by targeting its growth areas in the market whilst utilising its economies of scale and the central processing platform.”

DEPOSITS AND FUNDING

Retail deposits grew by \$758 million over the first six months from \$6.43 billion at June 30,2003 to \$7.19 billion at December 31,2003 – an increase of 12 per cent.

CAPITAL

The Bank’s Capital Adequacy Ratio stood at 11.16 per cent at December 31, 2003, with Tier I capital at 7.52 per cent.

From July 1, 2004, the new Australian Prudential Regulation Authority (APRA) ruling on capitalised expenses is anticipated to affect capital management, but not the Bank’s earnings-per-share forecasts.

As a result, it is anticipated Adelaide Bank will require approximately \$33 million to be deducted from capital at July 1, 2004, with a further \$25 million deducted at July 1, 2005.

Commenting, Mr Fitzpatrick said: “We will need to run our capital a little tighter and we may look at accelerating our securitisation programs to ensure we comply with the APRA ruling.”

OPERATING EFFICIENCIES

Adelaide Bank has continued its strong focus on operating efficiencies, despite increased staff numbers necessitated by increased lending volumes.

As a result the Bank’s operating expenses to operating income ratio has been continually reduced. At December 31, 2002, it stood at 61.38 per cent and was reduced to 57.94 per cent at June 30, 2003.

“At December 31, 2003, this key ratio had been further reduced to 57.52 per cent and we are aiming to move it down to 56 per cent by June 30, 2004,” Mr Fitzpatrick said.

“This trend is in line with our stated aim of achieving an operating expenses to operating income ratio of 55 per cent by June 30, 2005.

“The Bank's operating expense to average total assets ratio has also been further reduced.

“At December 31, 2002 it stood at 1.09 per cent and was reduced to 1.01 per cent by June 30, 2003. A further reduction sees this key ratio at 0.99 per cent at December 31, 2003.

“These key measures of operational efficiency continue to rank well against industry peers. While margins continue to be under pressure, Adelaide Bank has achieved a lift during the past year.

“At December 31, 2002, the net interest margin stood at 2.12 per cent. By June 30, 2003 this had increased to 2.20 per cent. At December 31, 2003 we achieved a net interest margin of 2.27 per cent.

“The improvement achieved in the net interest margin has been a significant factor in our record performance.

“We are confident margins in 2003-04 will be similar to the previous year. Longer term the Bank expects to see continued pressure on margins and any reduction in margins will need to be countered by improved efficiencies.”

LOOKING FORWARD

Mr Fitzpatrick said: “Record lending levels and the continued focus on increased efficiency of operations have combined to provide a very pleasing result for the first six months of 2003-04.

“Adelaide Bank strategies are now well articulated and better understood and they are strategies that will provide sustainable growth and increased profitability.

“Despite the anticipated cooling in the property and real estate markets, Adelaide Bank is very confident of meeting its key objectives.

“The first half results show we are well on track to achieve full-year double digit profit growth.

“We will also achieve our target of a return on equity exceeding 15 per cent and, with the increased dividend for the first half are fulfilling our promise of greater returns to our shareholders.

“As we move forward, grow our asset base and further improve operating efficiencies, we are confident we will also deliver in the area of reducing our operating expenses to operating income ratio towards our targeted 55 per cent by June 2005.

“In summary, Adelaide Bank is in excellent condition and well positioned to continue the growth it has experienced in recent years while delivering on its promises.”

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

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