



**Adelaide Bank Limited
and Controlled Entities**
ABN 54 061 461 550

**Half Yearly
Consolidated Financial Report**

31 December 2002

Adelaide Bank Limited and Controlled Entities

DIRECTORS' REPORT

The Directors submit their report for the half-year ended 31 December 2002.

DIRECTORS

The names of the Directors of the Bank in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

R. J. McKay (Chairman)
C. L. Harris (Deputy Chairman)
B. F. Fitzpatrick (Group Managing Director)
R. A. Cook
Dr P. A. Crook AO
K. D. Abrahamson
Dr A. Lloyd

REVIEW OF RESULTS AND OPERATIONS

The profit of the consolidated entity for the half-year after income tax was \$22.531 million.

The results of the operations of the consolidated entity during the half-year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

Dividends on ordinary shares paid or declared by the Bank since the end of the previous financial year were:

- a final dividend paid of 18 cents per share (100% franked) amounting to \$15.825 million in respect of the year ended 30 June 2002 was paid on 15 October 2002, and
- an interim dividend declared of 16 cents per share (100% franked) amounting to \$14.066 million in respect of the year ended 30 June 2003 payable on 31 March 2003.

The consolidated entity recorded a strong result in an extremely competitive environment over the past six months with profit before tax increasing 21% to \$33.1 million from \$27.3 for the six months to December 2001.

Operating income grew by 17% over the previous half year to \$97.5 million for the six months to December 2002, which was a key driver in the result with net interest income growing strongly. The net interest margin for the six months was 2.12% compared to 1.91% for the corresponding period in the previous year.

Operating expenses (before amortisation of costs associated with the purchase of Leveraged Equities) grew by 14% to \$59.8 million reflecting the strong growth in lending experienced over the six months.

Adelaide Bank Limited and Controlled Entities

REVIEW OF RESULTS AND OPERATIONS (continued)

Total assets under management grew by 6% to \$11.22 billion as at December 2002 compared to \$10.59 billion as at June 2002. Over the six month period lending reached record levels with loan approvals up 13% on the previous half. In total, loan approvals were \$2.57 billion for the six months compared with \$2.27 billion for the same period last year. This compares favourably with the boom conditions experienced in the previous year and reflected strong activity in the real estate and housing sectors Australia wide.

Asset quality remains excellent, however in the current environment the Board deemed it prudent to further increase provisions. Provisions for doubtful debts includes an allocation of \$1.5 million to further increase the general provision from \$24.1 million at June 2002 to \$25.6 million at December 2002. As a result, provision for bad and doubtful debts expense for the six months amounted to \$2.8 million compared to \$1.7 million for the previous half year.

Profit after tax increased by 21% to \$22.5 million for the six months compared to \$18.6 million for the previous half year. Fully diluted earnings per share grew by 18% over the six months to 24.88 cents compared to 21.16 cents for the same period last year. Based on the strong results for the six months and the outlook for the year the Board determined that the interim dividend should be increased by 2 cents from 14 cents previously to 16 cents, which will be payable on 31 March 2003.

Contributed equity increased to \$291.973 million from \$194.289 million at 30 June 2002. The movement was a result of the Bank issuing 1,000,000 Reset Preference Shares (RPS). The shares were issued at \$100 per share, raising \$100 million to strengthen the capital base of the Bank by increasing the Tier 1 capital ratio. The RPS issue will enable the Bank to continue to grow without raising additional equity capital via the issue of Ordinary shares or to rely on securitisation of assets to the same extent as in the past. The RPS issue will also increase the diversity and flexibility of the Bank's capital base and has enabled the Bank to lower its overall cost of capital.

ROUNDING OF AMOUNTS

The amounts contained in this report and in the half-year financial report have been rounded off to the nearest one thousand dollars in accordance with ASIC Class Order 98/0100. The Bank is an entity to which this class order applies.

Signed in accordance with a resolution of Directors.

B.F. FITZPATRICK
Group Managing Director

Adelaide, South Australia
30th January 2003

Adelaide Bank Limited and Controlled Entities

INDEPENDENT REVIEW REPORT

To the members of Adelaide Bank Limited

Scope

We have reviewed the financial report of Adelaide Bank Limited for the half-year ended 31 December 2002, set out on pages x to xx including the Directors' Declaration. The financial report includes the consolidated financial statements of the consolidated entity comprising Adelaide Bank Limited and the entities it controlled at the end of the half-year or from time to time during the half-year. The company's directors are responsible for the financial report. We have conducted an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia and statutory requirements and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. Our review was limited primarily to inquiries of the disclosing entity's personnel and analytical review procedures applied to financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Review Statement

As a result of our review, we have not become aware of any matter that makes us believe that the half-year financial report of Adelaide Bank Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2002 and its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001;
- (b) other mandatory professional reporting requirements in Australia.

Ernst & Young

A. H. Herald
Adelaide, South Australia
30th January 2003

**Adelaide Bank Limited
and Controlled Entities**

DIRECTORS' DECLARATION

In the opinion of the Directors of Adelaide Bank Limited:

- (a) the financial statements and notes of the consolidated entity:
 - (i) give a true and fair view of the consolidated entity's financial position as at 31 December 2002 and the performance for the half-year ended on that date; and
 - (ii) comply with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001, and

- (b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

Signed for and on behalf of the Board of Directors and in accordance with a resolution of the Directors.

B.F. FITZPATRICK
Group Managing Director

Adelaide, South Australia
30th January 2003

**Adelaide Bank Limited
and Controlled Entities
Statement of Financial Performance
For the Half-Year Ended 31 December 2002**

	Note	CONSOLIDATED	
		Dec 2002 \$000's	Dec 2001 \$000's
Revenues from ordinary activities			
Interest income	2	228,677	211,404
<i>Less</i> Interest expense	2	<u>153,719</u>	<u>147,330</u>
Net Interest income		74,958	64,074
<i>Add</i> Securitisation income		<u>31,345</u>	<u>22,346</u>
		106,303	86,420
<i>Less</i> Fees to intermediaries	2	29,536	22,803
<i>Add</i> Other revenue from ordinary activities	2	<u>20,740</u>	<u>19,849</u>
Net operating income from ordinary activities		97,507	83,466
<i>Less</i> Bad and doubtful debt expense	2	2,760	1,708
Other expenses from ordinary activities	2	<u>61,645</u>	<u>54,453</u>
Profit from ordinary activities before income tax expense		33,102	27,305
Income tax expense		<u>10,571</u>	<u>8,750</u>
Profit from ordinary activities after income tax expense		<u>22,531</u>	<u>18,555</u>
Net (decrease) in assets revaluation reserve		-	(134)
Increase in retained profits on adoption of revised accounting standard AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"		15,825	-
Total revenues, expenses and valuation adjustments attributable to members of Adelaide Bank Limited and recognised directly in equity		<u>15,825</u>	<u>(134)</u>
Total changes in equity other than those resulting from transactions with owners as owners attributable to members of Adelaide Bank Limited		<u>38,356</u>	<u>18,421</u>
Basic earnings per share (cents)		24.97	21.26
Diluted earnings per share (cents)		24.88	21.16
Fully franked dividend per share (cents)		16.00	14.00

**Adelaide Bank Limited
and Controlled Entities
Statement of Financial Position
as at 31 December 2002**

	Note	CONSOLIDATED	
		As at December 2002 \$000's	As at June 2002 \$000's
Assets			
Cash		35,477	26,732
Money at call		39,342	59,786
Balances due from other banks		16,653	9,122
Investment securities and other investments	4	889,750	917,373
Liquid Assets, Deposits and Investments		981,222	1,013,013
Net loans and advances	5	6,680,427	5,600,256
Property, plant and equipment		30,587	27,550
Intangibles		21,350	21,980
Other assets		83,883	90,736
Total Assets		7,797,469	6,753,535
Liabilities			
Deposits	6	6,871,297	5,996,232
Balances due to other banks		20,329	13,905
Other interest bearing liabilities		156,678	126,677
Provisions		28,810	42,582
Other liabilities		109,801	83,800
Subordinated debt		195,000	195,000
Total Liabilities		7,381,915	6,458,196
Net Assets		415,554	295,339
Equity			
Contributed equity	7	291,973	194,289
Reserves		27,889	27,889
Retained profits		95,692	73,161
Total Equity		415,554	295,339

**Adelaide Bank Limited
and Controlled Entities
Statement of Cash Flows
For the Half-Year Ended 31 December 2002**

	CONSOLIDATED	
	Dec 2002	Dec 2001
Note	\$000's	\$000's
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Interest received	252,963	206,601
Interest paid	(171,097)	(155,092)
Fees to intermediaries	(34,439)	(27,872)
Loan fees and other income	33,066	57,235
Salaries	(35,606)	(29,274)
Other expenses	(2,594)	(26,639)
Income taxes paid	(8,448)	(7,279)
NET CASH FLOWS FROM OPERATING ACTIVITIES	33,845	17,680
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Acquisition of property, plant & equipment	(5,314)	(1,938)
Proceeds from sale of non-current assets	62	47
(Increase) / Decrease in due from other banks	(7,531)	12,497
(Increase) / Decrease in investments and liquids	27,623	(111,510)
Decrease in inventories	226	522
(Increase) in loan advances	(940,023)	(1,032,272)
(Increase) / Decrease in other assets	344	(147)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(924,613)	(1,132,801)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from issue of subordinated notes	-	20,000
Increase / (Decrease) in securitisation funding	(114,356)	1,081,687
Increase / (Decrease) in due to other banks	6,424	(14,378)
Proceeds from issue of preference shares	97,684	-
Increase / (Decrease) in other interest bearing liabilities	30,001	(72,535)
Increase in deposits	875,065	89,278
Dividend paid to shareholders	(15,749)	(14,847)
NET CASH FLOWS FROM FINANCING ACTIVITIES	879,069	1,089,205
NET (DECREASE) IN CASH HELD	(11,699)	(25,916)
OPENING CASH	86,518	72,722
CLOSING CASH	74,819	46,806

NOTE 1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the economic entity as the full financial report.

It is recommended that the half-year financial report is read in conjunction with the Annual Financial Statements of Adelaide Bank Limited as at 30 June 2002 together with any public announcements made by Adelaide Bank Limited and its controlled entities during the half year ended 31 December 2002 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of accounting

The half-year financial report is a general purpose financial report that has been prepared in accordance with the requirements of the Corporations Act 2001, the accounts provisions of the Banking Act, applicable Accounting Standards including AASB 1029 "Interim Financial Reporting", Urgent Issues Group Consensus Views and other mandatory professional reporting requirements.

The financial report has been prepared under the convention of historical cost accounting except for freehold properties (valued at fair value) and investment securities (valued at market value or cost).

For the purposes of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Accounting policies

The accounting policies adopted are consistent with those applied in the previous financial year and corresponding interim reporting period, other than a change relating to the accounting for dividend provisions as a result of the Bank adopting the new Accounting Standard AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets".

Previously, the consolidated entity recognised a provision for dividend based on the amount that was proposed or declared after the reporting date. In accordance with the requirements of the new standard, a provision for dividend will only be recognised at the reporting date where the dividends are declared, determined or publicly recommended prior to the reporting date. The effect of the revised policy has been to increase consolidated retained profits and decrease provisions at the beginning of the half-year by \$15,825,000. In accordance with the new standard, no provision for ordinary or reset preference share dividend has been recognised for the half-year ended 31 December 2002. The change in accounting policy has had no effect on the basic or diluted EPS.

Adelaide Bank Limited and Controlled Entities
Notes to the Financial Statements for the Half-Year ended 31 December 2002

CONSOLIDATED

Dec 2002 Dec 2001

\$000's \$000's

NOTE 2 PROFIT FROM ORDINARY ACTIVITIES

Profit from ordinary activities before income tax includes the following items of revenue and expense:

Interest Income

Interest from customer loans	202,798	185,001
Interest from investment securities	25,879	26,403
	<u>228,677</u>	<u>211,404</u>

Interest Expense

Interest on retail deposits	86,030	76,054
Interest on certificates of deposit and borrowings	61,225	65,500
Interest on subordinated debt	6,464	5,776
	<u>153,719</u>	<u>147,330</u>

Fees to Intermediaries

For loans	24,619	19,428
For deposits	4,917	3,375
	<u>29,536</u>	<u>22,803</u>

Other Revenue from Ordinary Activities

Treasury income	(143)	50
Insurance commissions	1,361	1,175
Loan fees	8,557	8,260
Transaction & account keeping fees	4,679	4,388
Visa income	2,897	2,646
Other	3,389	3,330
	<u>20,740</u>	<u>19,849</u>

Bad and Doubtful Debts Expense

Bad debts written off	1,383	689
Specific provisions for doubtful debts	63	226
General provision for doubtful debts	1,500	1,000
Less: Bad debts recovered	(186)	(207)
	<u>2,760</u>	<u>1,708</u>

Adelaide Bank Limited and Controlled Entities
Notes to the Financial Statements for the Half-Year ended 31 December 2002

NOTE 2 PROFIT FROM ORDINARY ACTIVITIES
(continued)

	CONSOLIDATED	
	Dec 2002	Dec 2001
	\$000's	\$000's
Other Expenses from Ordinary Activities		
Provision for employees' leave entitlement	2,924	2,348
Superannuation contributions to defined benefits plans	690	690
Other staffing costs	31,847	26,723
Directors' fees	248	269
Depreciation and amortisation	4,525	4,635
Rental expenses in respect of operating leases	1,982	1,731
Other accommodation costs	1,675	1,971
Communications, printing and stationery costs	4,079	3,647
Professional fees	3,485	2,869
Technology costs	3,764	2,851
Contribution to Adelaide Bank Charitable Foundation	270	250
Other	6,156	6,469
	<u>61,645</u>	<u>54,453</u>

NOTE 3 DIVIDENDS PAID OR PROVIDED FOR

Ordinary shares:

(i) fully franked dividend paid during the half-year	15,825	14,849
(ii) fully franked interim dividend proposed and recognised as a liability	-	12,231
	<u>15,825</u>	<u>27,080</u>

Adelaide Bank Limited and Controlled Entities
Notes to the Financial Statements for the Half-Year ended 31 December 2002

	CONSOLIDATED	
	December	June
	2002	2002
	\$000's	\$000's
NOTE 4 INVESTMENT SECURITIES AND OTHER INVESTMENTS		
Investment securities (at market value)		
- Bank discount securities	54,904	54,697
- Other discount securities	104,642	109,586
- Fixed interest securities	68,350	12,663
- Floating rate notes	422,678	502,889
- Semi-Government securities	59,748	-
- Government securities	-	29,664
Other investments (at cost)	179,428	207,874
	<u>889,750</u>	<u>917,373</u>
Concentration of credit risk for investment securities and other investments:		
Banks	201,481	205,896
Government	59,748	29,664
Asset backed securities: Trustee companies	355,604	462,165
Other	272,917	219,648
	<u>889,750</u>	<u>917,373</u>
NOTE 5 NET LOANS AND ADVANCES		
Residential loans	5,221,024	4,251,888
Business loans	974,882	936,615
Personal loans	184,040	171,746
Margin Lending	202,300	144,862
Credit card advances	105,308	99,497
Overdrafts	23,983	25,195
Gross loans and advances	<u>6,711,537</u>	<u>5,629,803</u>
Less: Provision for doubtful debts		
- specific	5,485	5,422
- general	25,625	24,125
	<u>31,110</u>	<u>29,547</u>
Net loans and advances	<u>6,680,427</u>	<u>5,600,256</u>

Adelaide Bank Limited and Controlled Entities
Notes to the Financial Statements for the Half-Year ended 31 December 2002

CONSOLIDATED
December June
2002 2002
\$000's \$000's

NOTE 5 NET LOANS AND ADVANCES (continued)

Concentration of credit risk for loans and advances

Agriculture	122,008	127,632
Mining	1,758	1,806
Manufacturing	19,171	20,395
Transport and storage	24,170	21,952
Construction	18,205	12,876
Wholesale/retail trade	65,300	64,246
Finance and industry services	35,667	37,067
Property		
- residential	5,221,023	4,251,888
- other	366,069	355,538
Hotels/accommodation	38,907	43,758
Cultural and recreational services	19,983	13,804
Health	13,604	13,771
Retirement	202,433	181,304
Personal	301,142	284,147
Other	262,097	199,619
Total gross loans and advances	<u>6,711,537</u>	<u>5,629,803</u>

NOTE 6 DEPOSITS

Retail deposits	4,415,445	4,000,797
Certificates of deposit		
- Retail	1,378,212	1,122,087
- Wholesale	1,077,640	873,348
	<u>6,871,297</u>	<u>5,996,232</u>

Adelaide Bank Limited and Controlled Entities
Notes to the Financial Statements for the Half-Year ended 31 December 2002

	CONSOLIDATED	
	December	June
	2002	2002
	\$000's	\$000's
NOTE 7 CONTRIBUTED EQUITY		
Ordinary Shares:		
87,914,350 (2001: 86,889,123) fully paid ordinary shares at beginning of year	194,289	192,341
Nil (2001: 1,025,227) fully paid ordinary shares issued to convertible noteholders upon conversion of convertible notes	-	1,948
	<u>194,289</u>	<u>194,289</u>
Reset Preference Shares:		
Nil (2001: nil) at beginning of year	-	-
New issue to fund growth	100,000	-
Associated transaction costs	2,316	-
1,000,000 reset preference shares at end of year	<u>97,684</u>	<u>-</u>
	<u>291,973</u>	<u>194,289</u>
Total Contributed Equity	<u>291,973</u>	<u>194,289</u>

The Bank issued \$100 million in reset preference share capital as part of the funding for future growth. They were issued on 27 November 2002 and listed on 28 November 2002. Transaction costs relating to the issue totalled \$2.316 million. The Bank will pay a fixed distribution of 6.0% fully franked for the five year period to 1 November 2007 when the dividend rate will be reset. The payment dates are 1 May and 1 November of each year. To the extent that the dividend is not fully franked, the Bank will increase the dividend to compensate holders for the unfranked amount.

NOTE 8 CONTINGENT LIABILITIES

Guarantees entered into in the normal course of business	<u>10,522</u>	<u>10,469</u>
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During the half-year a legal claim has been made by a borrower against a subsidiary of the Bank which the Bank will strongly defend and will also lodge a counterclaim for the recovery of funds from the borrower. It is not expected that the outcome of this claim will have a material impact on the performance of the Bank in the current financial year.

Adelaide Bank Limited and Controlled Entities
Notes to the Financial Statements for the Half-Year ended 31 December 2002

NOTE 9 SEGMENT REPORTING

Industry segments	Residential Lending \$000's	Business Lending \$000's	Margin Lending \$000's	Retail Funding \$000's	Other \$000's	Consolidated \$000's
Half-Year Ended 31 December 2002						
Operating revenue						
Operating revenue from outside the consolidated entity	42,513	10,219	9,965	22,175	12,226	97,098
Unallocated revenue						409
Total revenue	<u>42,513</u>	<u>10,219</u>	<u>9,965</u>	<u>22,175</u>	<u>12,226</u>	<u>97,507</u>
Segment result	<u>25,460</u>	<u>6,359</u>	<u>3,687</u>	<u>8,335</u>	<u>(38)</u>	<u>43,803</u>
Unallocated revenue less unallocated expense						(10,701)
Consolidated entity operating profit before tax						<u>33,102</u>
Segment Assets	5,221,024	974,882	202,300	-	1,191,998	7,590,204
Unallocated Assets						<u>207,265</u>
Total Assets						<u>7,797,469</u>
Segment Liabilities	-	-	-	5,793,657	1,429,318	7,222,975
Unallocated Liabilities						<u>158,940</u>
Total Liabilities						<u>7,381,915</u>
Securitised Assets	2,535,174	-	887,317	-	-	<u>3,422,491</u>
Half-Year Ended 31 December 2001						
Operating revenue						
Operating revenue from outside the consolidated entity	34,754	9,400	8,521	20,975	8,946	82,596
Unallocated revenue						870
Total revenue	<u>34,754</u>	<u>9,400</u>	<u>8,521</u>	<u>20,975</u>	<u>8,946</u>	<u>83,466</u>
Segment result	<u>19,841</u>	<u>5,544</u>	<u>3,012</u>	<u>7,666</u>	<u>(1,028)</u>	<u>35,035</u>
Unallocated revenue less unallocated expense						(7,730)
Consolidated entity operating profit before tax						<u>27,305</u>
As at 30 June 2002						
Segment Assets	4,251,777	937,504	144,862	-	1,188,616	6,522,759
Unallocated Assets						<u>230,776</u>
Total Assets						<u>6,753,535</u>
Segment Liabilities	-	-	-	5,122,884	1,194,925	6,317,809
Unallocated Liabilities						<u>140,387</u>
Total Liabilities						<u>6,458,196</u>
Securitised Assets	2,803,729	-	1,031,666	-	-	<u>3,835,395</u>