



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

**Half Yearly  
Consolidated Financial Report**

**31 December 2003**

## **Adelaide Bank Limited and Controlled Entities**

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### **DIRECTORS' REPORT**

The Directors present their report for the half-year ended 31 December 2003.

### **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)  
Dr A. Lloyd (Deputy Chairman)  
R.A. Cook  
Dr P.A. Crook  
K.D. Abrahamson  
J.T. Hill  
K.G. Osborn  
B.F. Fitzpatrick (Group Managing Director)

### **REVIEW OF RESULTS AND OPERATIONS**

The profit of the consolidated entity for the half-year after income tax was \$29.058 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 21 cents per share (100% franked) amounting to \$19.722 million in respect of the year ended 30 June 2003 was paid on 15 October 2003, and
- an interim dividend declared of 19 cents per share (100% franked) amounting to \$17.844 million in respect of the year ended 30 June 2004 payable on 31 March 2004.

Additionally, a fully franked dividend on reset preference shares amounting to \$3.023 million was paid on 1 November 2003.

The consolidated entity recorded a strong result in an extremely competitive environment over the past six months with profit before tax increasing 28% to \$42.3 million from \$33.1 million for the six months to December 2002.

Operating income grew by 15% over the previous half year to \$112.4 million for the six months to December 2003, which was a key driver in the result with net interest income growing strongly. The net interest margin for the six months was 2.27% compared to 2.12% for the corresponding period in the previous year.

Operating expenses (before amortisation of costs associated with the purchase of Leveraged Equities) grew by 8% to \$64.6 million reflecting the strong growth in lending experienced over the six months.

## **Adelaide Bank Limited and Controlled Entities**

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### **REVIEW OF RESULTS AND OPERATIONS (continued)**

Total assets under management grew by 12% to \$13.70 billion as at December 2003 compared to \$12.25 billion as at June 2003. Over the six month period lending reached record levels with loan approvals up 50% on the previous half. In total, loan approvals were \$3.85 billion for the six months compared with \$2.57 billion for the same period last year. This percentage increase surpasses recent record lending levels experienced by the Bank and reflects the 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 \$2.2 million to further increase the general provision from \$27.1 million at June 2003 to \$29.3 million at December 2003. As a result, provision for bad and doubtful debts expense for the six months amounted to \$3.6 million compared to \$2.8 million for the previous half year.

Profit after tax increased by 29% to \$29.1 million for the six months compared to \$22.5 million for the previous half year. Fully diluted earnings per share grew by 14% over the six months to 28.44 cents compared to 24.97 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 3 cents from 16 cents previously to 19 cents, which will be payable on 31 March 2004.

Contributed equity increased to \$341.55 million from \$291.97 million at 30 June 2003. The movement was a result of the Bank issuing 6,000,000 ordinary shares via a share placement. The shares were issued at an average of \$8.40 per share, raising \$50.4 million to strengthen the capital base of the Bank by increasing the Tier 1 capital ratio.

### **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 and Chief Executive Officer

Adelaide, South Australia  
29<sup>th</sup> January 2004

# **Independent review report to members of Adelaide Bank Limited**

## **Scope**

### *The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for the consolidated entity, for the half-year ended 31 December 2003. The consolidated entity comprises both Adelaide Bank Limited (the company) and the entities it controlled during that half-year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 1029 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

### *Review approach*

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, 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 the *Corporations Act 2001*, Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

## **Independence**

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. In addition to our review of the financial report, we were engaged to undertake other non-audit services. The provision of these services has not impaired our independence.

## **Statement**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the 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 financial position of the consolidated entity at 31 December 2003 and of 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*; and
- (b) other mandatory financial reporting requirements in Australia.

Ernst & Young  
Alan H Herald - Partner  
Adelaide, South Australia 29<sup>th</sup> January 2004  
Adelaide Bank Limited  
**and Controlled Entities**

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## **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 2003 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 and Chief Executive Officer

Adelaide, South Australia  
29<sup>th</sup> January 2004

**Adelaide Bank Limited  
and Controlled Entities  
Statement of Financial Performance  
For the Half-Year Ended 31 December 2003**

	Note	CONSOLIDATED	
		Dec 2003 \$000's	Dec 2002 \$000's
Operating income from ordinary activities			
Interest income	2	307,827	228,677
<i>Less</i> Interest expense	2	202,288	153,719
Net Interest income		<u>105,539</u>	<u>74,958</u>
<i>Add</i> Securitisation income		<u>24,082</u>	<u>31,345</u>
		129,621	106,303
<i>Less</i> Fees to intermediaries	2	39,706	29,536
<i>Add</i> Other revenue from ordinary activities	2	<u>22,441</u>	<u>20,740</u>
Net operating income from ordinary activities		112,356	97,507
<i>Less</i> Bad and doubtful debt expense	2	3,644	2,760
Other expenses from ordinary activities	2	<u>66,429</u>	<u>61,645</u>
<b>Profit from ordinary activities before income tax expense</b>		<b>42,283</b>	<b>33,102</b>
Income tax expense		13,225	10,571
<b>Profit from ordinary activities after income tax expense</b>		<b><u>29,058</u></b>	<b><u>22,531</u></b>
Costs associated with issue of ordinary shares		(817)	-
Costs associated with issue of reset preference shares		-	(2,316)
Increase in retained profits on adoption of revised accounting standard AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"		-	<u>15,825</u>
<b>Total revenues, expenses and valuation adjustments attributable to members of Adelaide Bank Limited and recognised directly in equity</b>		<b><u>(817)</u></b>	<b><u>13,509</u></b>
<b>Total changes in equity other than those resulting from transactions with owners as owners attributable to members of Adelaide Bank Limited</b>		<b><u>28,241</u></b>	<b><u>36,040</u></b>
Basic and Fully Diluted earnings per share (cents)		28.44	24.97
Fully franked ordinary dividend per share (cents)		19.00	16.00

**Adelaide Bank Limited  
and Controlled Entities  
Statement of Financial Position  
as at 31 December 2003**

	Note	CONSOLIDATED	
		As at December 2003 \$000's	As at June 2003 \$000's
<b>Assets</b>			
Cash		33,307	44,400
Money at call		61,907	48,588
Balances due from other banks		60,348	23,809
Investment securities and other investments	4	1,004,790	744,187
<b>Liquid Assets, Deposits and Investments</b>		<b>1,160,352</b>	<b>860,984</b>
Net loans and advances	5	8,406,533	7,576,349
Property, plant and equipment		33,666	30,412
Intangibles		20,090	20,720
Other assets		237,549	263,702
<b>Total Assets</b>		<b>9,858,190</b>	<b>8,752,167</b>
<b>Liabilities</b>			
Deposits	6	8,840,433	7,823,776
Balances due to other banks		59,876	3,747
Provisions		27,396	30,357
Other liabilities		251,969	271,667
Subordinated debt		195,000	195,000
<b>Total Liabilities</b>		<b>9,374,674</b>	<b>8,324,547</b>
<b>Net Assets</b>		<b>483,516</b>	<b>427,620</b>
<b>Equity</b>			
Ordinary share capital	7	243,872	194,289
Reset preference share capital	7	97,678	97,678
Reserves		27,889	27,889
Retained profits		114,077	107,764
<b>Total Equity</b>		<b>483,516</b>	<b>427,620</b>

**Adelaide Bank Limited  
and Controlled Entities  
Statement of Cash Flows  
For the Half-Year Ended 31 December 2003**

	CONSOLIDATED	
	Dec 2003 \$000's	Dec 2002 \$000's
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Interest received	299,372	252,963
Interest paid	(196,055)	(171,097)
Fees to intermediaries	(42,432)	(34,439)
Loan fees and other income	46,024	33,066
Salaries	(37,582)	(35,606)
Other expenses	(22,728)	(2,594)
Income taxes paid	(17,685)	(8,448)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>28,914</b>	<b>33,845</b>
 <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Acquisition of property, plant & equipment	(6,615)	(5,314)
Proceeds from sale of non-current assets	351	62
(Increase) in due from other banks	(36,539)	(7,531)
(Increase) / Decrease in investments and liquids	(260,603)	27,623
(Increase) in loan advances	(1,687,082)	(940,023)
(Increase) / Decrease in other assets	(591)	570
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(1,991,079)</b>	<b>(924,613)</b>
 <b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Increase / (Decrease) in securitisation funding	864,767	(114,356)
Increase in due to other banks	56,129	6,424
Proceeds from issue of preference shares	-	97,684
Proceeds from issue of ordinary shares	49,583	-
Increase in other interest bearing liabilities	-	30,001
Increase in deposits	1,016,657	875,065
Dividend paid to shareholders	(22,745)	(15,749)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>1,964,391</b>	<b>879,069</b>
 NET INCREASE / (DECREASE) IN CASH HELD	 2,226	 (11,699)
OPENING CASH	92,988	86,518
CLOSING CASH	95,214	74,819

**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 consolidated 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 2003 together with any public announcements made by Adelaide Bank Limited and its controlled entities during the half year ended 31 December 2003 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.

**Adelaide Bank Limited and Controlled Entities**  
**Notes to the Financial Statements for the Half-Year ended 31 December 2003**

	CONSOLIDATED	
	Dec 2003	Dec 2002
	\$000's	\$000's
<b>NOTE 2 PROFIT FROM ORDINARY ACTIVITIES</b>		
Profit from ordinary activities before income tax includes the following items of revenue and expense:		
<b>Interest Income</b>		
Interest from customer loans	279,129	202,798
Interest from investment securities	28,698	25,879
	<u>307,827</u>	<u>228,677</u>
<b>Interest Expense</b>		
Interest on retail deposits	147,770	119,003
Interest on wholesale deposits & borrowings	48,098	28,252
Interest on subordinated debt	6,420	6,464
	<u>202,288</u>	<u>153,719</u>
<b>Fees to Intermediaries</b>		
For loans	35,790	24,619
For deposits	3,916	4,917
	<u>39,706</u>	<u>29,536</u>
<b>Other Revenue from Ordinary Activities</b>		
Treasury income	777	(143)
Insurance commissions	1,507	1,361
Loan fees	8,035	8,557
Transaction & account keeping fees	5,383	4,679
Third party processing income	1,191	1,072
Visa income	2,769	2,897
Other	2,779	2,317
	<u>22,441</u>	<u>20,740</u>
<b>Bad and Doubtful Debts Expense</b>		
Bad debts written off	1,616	1,383
Specific provisions for doubtful debts	107	63
General provision for doubtful debts	2,200	1,500
Less: Bad debts recovered	(279)	(186)
	<u>3,644</u>	<u>2,760</u>

**Adelaide Bank Limited and Controlled Entities**  
**Notes to the Financial Statements for the Half-Year ended 31 December 2003**

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**NOTE 2 PROFIT FROM ORDINARY ACTIVITIES**  
**(continued)**

	CONSOLIDATED	
	Dec 2003	Dec 2002
	\$000's	\$000's
<b>Other Expenses from Ordinary Activities</b>		
Provision for employees' leave entitlement	3,487	2,924
Superannuation contributions to defined benefits plans	690	690
Other staffing costs	34,986	31,847
Directors' fees	301	248
Depreciation and amortisation	4,810	4,525
Rental expenses in respect of operating leases	2,069	1,982
Other accommodation costs	1,458	1,675
Communications, printing and stationery costs	3,975	4,079
Professional fees	3,901	3,485
Technology costs	4,096	3,764
Contribution to Adelaide Bank Charitable Foundation	285	270
Other	6,371	6,156
	<u>66,429</u>	<u>61,645</u>

**NOTE 3 DIVIDENDS**

Ordinary shares:

fully franked final dividend paid during the half-year	19,722	15,825
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Reset preference shares:

fully franked dividend paid during the half-year	3,023	-
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Total dividends paid during the half-year	<u>22,745</u>	<u>15,825</u>
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**Adelaide Bank Limited and Controlled Entities**  
**Notes to the Financial Statements for the Half-Year ended 31 December 2003**

	CONSOLIDATED	
	December 2003 \$000's	June 2003 \$000's
<b>NOTE 4 INVESTMENT SECURITIES AND OTHER INVESTMENTS</b>		
Investment securities (at market value)		
- Bank discount securities	89,621	94,518
- Other discount securities	254,494	109,573
- Fixed interest securities	61,546	80,571
- Floating rate notes	500,390	396,752
Other investments (at cost)	98,739	62,773
	<u>1,004,790</u>	<u>744,187</u>
Concentration of credit risk for investment securities and other investments:		
Banks	233,003	163,723
Asset backed securities: Trustee companies	713,060	441,770
Other	58,727	138,694
	<u>1,004,790</u>	<u>744,187</u>
<b>NOTE 5 NET LOANS AND ADVANCES</b>		
Residential loans	6,914,536	5,965,470
Business loans	1,011,132	1,053,028
Personal loans	187,820	189,637
Margin Lending	197,531	267,685
Credit card advances	112,356	106,244
Overdrafts	18,622	27,618
Gross loans and advances	<u>8,441,997</u>	<u>7,609,682</u>
Less: Provision for doubtful debts		
- specific	6,139	6,208
- general	29,325	27,125
	<u>35,464</u>	<u>33,333</u>
Net loans and advances	<u>8,406,533</u>	<u>7,576,349</u>

**Adelaide Bank Limited and Controlled Entities**  
**Notes to the Financial Statements for the Half-Year ended 31 December 2003**

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CONSOLIDATED  
December                  June  
2003                          2003  
\$000's                      \$000's

**NOTE 5 NET LOANS AND ADVANCES (continued)**

Concentration of credit risk for loans and advances

Agriculture	178,941	180,333
Mining	1,714	1,617
Manufacturing	20,843	19,882
Transport and storage	37,041	27,328
Construction	36,098	22,849
Wholesale/retail trade	48,148	67,638
Finance and industry services	71,725	32,116
Property		
- residential	6,914,536	5,965,470
- other	308,283	375,994
Hotels/accommodation	37,418	40,128
Cultural and recreational services	26,729	23,336
Health	17,191	14,206
Retirement	177,976	203,809
Personal	318,798	323,499
Other	246,556	311,477
Total gross loans and advances	<u>8,441,997</u>	<u>7,609,682</u>

**NOTE 6 DEPOSITS**

Retail deposits	7,188,050	6,430,425
Wholesale deposits	1,361,883	1,248,351
Wholesale other	290,500	145,000
	<u>8,840,433</u>	<u>7,823,776</u>

**Adelaide Bank Limited and Controlled Entities**  
**Notes to the Financial Statements for the Half-Year ended 31 December 2003**

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	CONSOLIDATED	
	December	June
	2003	2003
	\$000's	\$000's
<b>NOTE 7 CONTRIBUTED EQUITY</b>		
<b>Ordinary Shares:</b>		
87,914,350 (June 2003: 87,914,350) fully paid ordinary shares at beginning of year	194,289	194,289
6,000,000 fully paid ordinary shares issued to fund growth	50,400	-
Costs associated with issue	(817)	-
	<hr/>	<hr/>
93,914,350 (June 2003: 87,914,350) fully paid shares at end of year	243,872	194,289
<b>Reset Preference Shares:</b>		
1,000,000 shares at beginning of year	97,678	-
Issue of 1,000,000 reset preference shares at \$100 per share	-	100,000
Costs associated with issue	-	(2,322)
	<hr/>	<hr/>
1,000,000 reset preference shares at end of year	97,678	97,678
	<hr/>	<hr/>
<b>Total Contributed Equity</b>	<b>341,550</b>	<b>291,967</b>

**NOTE 8 CONTINGENT LIABILITIES**

Guarantees entered into in the normal course of business	<u>31,044</u>	<u>9,384</u>
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**Adelaide Bank Limited and Controlled Entities**  
**Notes to the Financial Statements for the Half-Year ended 31 December 2003**

**NOTE 9 SEGMENT REPORTING**

Half Year Ended 31 December 2003	Residential Lending \$000's	Business Lending \$000's	Margin Lending \$000's	Retail Funding \$000's	Other * \$000's	Elimination \$000's	Consolidated \$000's
Operating income							
Interest income	222,191	37,066	9,952	172,348	49,000	(182,730)	307,827
Interest expense	(166,819)	(27,903)	(6,857)	(147,770)	(35,669)	182,730	(202,288)
Net interest income	55,372	9,163	3,095	24,578	13,331	-	105,539
Securitisation income	17,964	-	9,692	-	(3,574)	-	24,082
	73,336	9,163	12,787	24,578	9,757	-	129,621
Fees to intermediaries	(33,938)	(63)	(1,736)	(3,916)	(53)	-	(39,706)
Other revenue	7,780	1,212	112	4,886	8,061	-	22,051
Unallocated revenue							390
Total operating income	47,178	10,312	11,163	25,548	17,765	-	112,356
Bad and doubtful debt expense	(165)	5	(122)	7	(1,170)	-	(1,445)
Other expenses	(21,098)	(4,334)	(7,526)	(13,618)	(10,637)	-	(57,213)
Segment result	25,915	5,983	3,515	11,937	5,958	-	53,308
Unallocated revenue less unallocated expense							(11,025)
Profit from ordinary activities before income tax expense							42,283
Segment assets	6,914,271	1,026,394	197,522	-	1,364,368		9,502,555
Unallocated assets							355,635
Total assets							9,858,190
Segment liabilities	-	-	-	7,188,050	1,847,383		9,035,433
Unallocated liabilities							339,241
Total liabilities							9,374,674
Securitised assets	2,705,829	-	1,138,212	-	-		3,844,041

\* Other includes Consumer Lending, Treasury, Insurance and Third Party Processing.

**Adelaide Bank Limited and Controlled Entities**  
**Notes to the Financial Statements for the Half-Year ended 31 December 2003**

**NOTE 9 SEGMENT REPORTING (continued)**

Half Year Ended 31 December 2002	Residential Lending \$000's	Business Lending \$000's	Margin Lending \$000's	Retail Funding \$000's	Other * \$000's	Elimination \$000's	Consolidated \$000's
Operating income							
Interest income	155,791	35,375	3,957	140,656	49,448	(156,550)	228,677
Interest expense	(117,692)	(26,275)	(2,847)	(119,003)	(44,452)	156,550	(153,719)
Net interest income	38,099	9,100	1,110	21,653	4,996	-	74,958
Securitisation income	20,848	-	10,091	-	406	-	31,345
	58,947	9,100	11,201	21,653	5,402	-	106,303
Fees to intermediaries	(24,041)	(24)	(1,368)	(4,103)	-	-	(29,536)
Other revenue	7,609	1,143	132	4,624	6,816	-	20,324
Unallocated revenue							416
Total operating income	42,515	10,219	9,965	22,174	12,218	-	97,507
Bad and doubtful debt expense	(77)	28	-	(67)	(1,144)	-	(1,260)
Other expenses	(16,978)	(3,889)	(6,278)	(13,773)	(10,936)	-	(51,854)
Segment result	25,460	6,358	3,687	8,334	138	-	43,977
Unallocated revenue less unallocated expense							(10,875)
Profit from ordinary activities before income tax expense							33,102
Segment assets	5,220,897	995,855	202,168	-	1,216,224		7,635,144
Unallocated assets							310,084
Total assets							7,945,228
Segment liabilities	-	-	-	5,793,657	1,429,318		7,222,975
Unallocated liabilities							306,699
Total liabilities							7,529,674
Securitised assets	2,535,174	-	887,317	-	-		3,422,491

\* Other includes Consumer Lending, Treasury, Insurance and Third Party Processing.