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Lodgement of Open Briefing**



Adelaide Bank Limited
Level 5
169 Pirie Street
Adelaide SA 5000



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Title: Open Briefing. Adelaide Bank. MD on Record Interim Profit

Record of interview:

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Adelaide Bank Limited today reported a 28 percent increase in underlying earnings to \$61.3 million and a 22 percent rise in net profit after tax (excluding significant items) to \$35.5 million for the half year ended 31 December 2004. What factors drove the result?

MD Barry Fitzpatrick

The focused execution of the Bank's strategy, coupled with the efficiency of our electronic processing system, has enabled us to deliver a superior result. The strong result has been driven by annualised growth in loans under management of 23.3 percent, relatively stable net interest margins, tight cost controls and excellent credit quality.

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Loans under Management grew by \$1.7 billion to \$15.8 billion during the six months ended 31 December 2004. What factors contributed to this increase?

MD Barry Fitzpatrick

We have been successful in executing our strategy of growing the national mortgage broker market. Also, our business loan book has continued to grow, increasing by 13 percent, and our margin lending business, Leveraged Equities, has now grown to \$1.5 billion and generates a return on investment of 15 percent.

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Is mortgage lending growth sustainable given the reported slowdown in the home loan market?

MD Barry Fitzpatrick

Our strategy is to grow market share. In the latest six months the national broker market contributed 12.5 percent, about \$500 million, of our home loan approvals compared with 2 percent in the same period of last year. As we are a relatively new entrant to the national broker market we've plenty of scope to grow this channel. The national broker market contributes about 35 percent of the \$20 billion per month home loan approval market. Our share of the housing loan approval market over the latest period has risen from 2.8 percent in 2003 to 3.5 percent now.

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Given the strong level of lending growth, can you detail your performance in relation to credit quality?

CFO Frank Lupoi

Our non-accrual loans have fallen to \$8.2 million at the end of December compared with \$8.5 million at June and represent 0.08 percent of gross loans. We have only three non-accrual business loans. On a net basis non-accruals represent 0.01 percent of gross loans. There has also been an improvement in accrual loans past 90 days and over. They are running at 0.31 percent of residential loans, compared with 0.35 percent in June. Nevertheless, we have continued our prudent approach of maintaining general provisions at 0.51 percent of risk weighted assets and as a result general provisions increased by \$5.4 million.

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Retail Deposits increased by 8.2 percent to \$8.44 billion, representing an annualised growth of 15.3 percent for the full year. What are your plans to continue Retail Deposit growth?

MD Barry Fitzpatrick

The Retail Deposits market again is huge at \$500 billion and our share is 1.7 percent. We will continue to grow the deposit base through intermediaries, our private client area of the money market and the corporate desk.

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Net interest margin was 2.18 percent, down 9 basis points on a year-on-year basis. Is a further contraction likely to follow?

CFO Frank Lupoi

We have not deviated from our previous market guidance. This financial year we expect up to 10 basis point contraction on balance sheet and a fall of up to 15 basis points off balance sheet.

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Do you see the cost-to-income ratio tracking down from its current level of 54.64 percent?

CFO Frank Lupoi

It is certainly our intention to grow revenue faster than costs. We reached our 55 percent target one year earlier than planned. We may provide additional guidance on future targets after our next 3 year planning session.

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Your strategy planning session is due sometime in the first half, isn't it?

MD Barry Fitzpatrick

The next three year strategic review will begin on March 10. The executives will develop strategies to be presented to the Board in late June and after approval I'll communicate our plan to the market.

Over the last three years we've exceeded all our targets. We've maintained return on equity above our target of 15 percent, we've reduced the cost to income ratio from 60 percent to 55 percent and we've sustained annual EPS growth above 10 percent per annum, whilst maintaining credit quality in the top quartile. I'd like to think we will be similarly successful with our 2005 to 2008 strategy.

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You declared a fully franked interim dividend of 24 cents per share compared with 19 cents previously. What guidance can you give with respect to dividends for the full year ending 30 June 2005?

MD Barry Fitzpatrick

The Board will maintain its long standing policy of a dividend payout ratio of around 70 percent, so shareholders can expect dividends to increase in line with the Bank's earnings.

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Fully diluted EPS (excluding significant items) increased by 16 percent. Could you provide earnings guidance for the full year?

MD Barry Fitzpatrick

We stand by our previous forecasts and confirm that we will deliver growth in earnings per share in excess of 10 percent and a return on equity greater than 15 percent.

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Thank you Barry and Frank.

For previous Open Briefings with Adelaide Bank Limited, please view www.corporatefile.com.au.

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