



**October 5, 2004**

**RATING UPGRADE FOR ADELAIDE BANK**

Adelaide Bank today welcomed upgrades in its long-term deposit ratings by International ratings agency, Moody's.

Moody's has upgraded the Adelaide Bank's long-term deposit rating from Baa2 to Baa1 and its long-term senior secured debt rating from Baa3 to Baa2.

The bank's short-term deposit and debt ratings of Prime-2 and its Bank Financial Strength Rating of C- were not under review, and were not affected. The outlook for all the ratings is stable.

Adelaide Bank Chief General Manager Operations, Mr Jamie McPhee, said today: "These upgrades recognise the strong performance of Adelaide Bank in recent years, including our record results for 2003-04, and the Bank's unique strategies for growth through alliances.

"Moody's has recognised the prudent stance taken by Adelaide Bank in running its business, commenting on its strong deposit growth, its increased mortgage lending and its conservative lending.

"It has also recognised that all facets of the Bank's operations are operating well, including its business and margin lending businesses.

"Adelaide Bank is confident it can continue momentum in prudent financial management against key rating factors, including asset quality and capitalization and this could well lead to further upgrades in the near future."

In its statement Moody's said the upgrade reflected Adelaide Bank's improved market share and relatively low downside risk, despite being heavily dependent on Australia's slowing housing market.

Moody's commented: "Adelaide Bank has achieved high market share growth in Australia's residential mortgage market via third-party originators – principally mortgage managers.

"The bank is now starting to increase its relationships with the mortgage broker channel, which has been growing rapidly.

“Adelaide Bank has strong levels of customer service and technology that may give it an edge in acquiring and retaining such relationships. This may allow the bank to continue to grow its franchise – off its small base – even as Australia’s housing market slows.

“In terms of funding, the bank has shown strong deposit growth via intermediary channels. Similar to its lending activities, the bank is focussed on servicing the intermediary market to attract and retain such retail funding.”

Moody’s noted the Australian residential market was cooling after several years of vigorous growth, while household indebtedness has climbed substantially. Additionally, Adelaide Bank had achieved much of its growth through “Low Documentation” mortgages, a relatively new and untested product.

Commenting further, Moody’s said: “Nevertheless, the bank appears to have retained relatively conservative lending criteria, and has obtained insurance from highly rated counterparties for a substantial portion of the credit risk in its housing loan book.

“The Bank’s other businesses are performing well. Its margin lending operations have shown excellent credit quality throughout testing market conditions.

“The bank’s business lending book also exhibits very high asset quality. Some significant concentrations exist, but these are in specific sectors in which the bank has demonstrated expertise - and efforts are being made to increase diversification.

“Despite these positives, Adelaide Bank remains highly dependent upon interest income from its principal business line – residential mortgage lending.

“This is a commoditised product – and being effectively a wholesale lender, Adelaide Bank may be especially vulnerable to margin compression as the housing market slows.

“Furthermore, although asset quality risk is low, Adelaide Bank’s return on managed assets is relatively modest as compared to its peers.

“These considerations will likely cap the Bank’s ratings at their current levels until it has demonstrated an ability to build and retain profitable market share in a slower housing market.”

**Further Adelaide Bank comment from Mr McPhee on (08) 8300 6401.**

**Issued on behalf of Adelaide Bank by Greg Reid Marketing Communications Pty. Ltd. Telephone (08) 300 6449**