EMBARGOED 10.30 a.m. (CST) THURSDAY, AUGUST 28, 2003

RECORD PROFIT AND DIVIDEND POSTED BY ADELAIDE BANK

Adelaide Bank Limited today posted a record profit for the 2002-03 financial year, with record home lending, lower cost ratios and improved margins contributing to a record final dividend for the year.

The excellent results exceed analysts' expectations with underlying earnings of $84.60 million, up 22 per cent on the $69.55 million posted for 2001-02.

The record result reflects Adelaide Bank's strong focus on delivering increased shareholder value and fulfils its commitment to achieve double digit profit and earnings per share growth coupled with a continuing reduction in its cost to income ratio.

Also coming in at the high end of market expectations, profit after tax was $51.33 million compared with $41.24 million in 2001-02, a 24 per cent increase.

Profit before tax was $74.28 million, a 21 per cent increase on the $61.27 million posted in 2001-02.

Details of the record-breaking Adelaide Bank performance were announced jointly to the Australian Stock Exchange by the Adelaide Bank Chairman, Mr. Dick McKay, and Group Managing Director and Chief Executive Officer, Mr. Barry Fitzpatrick.

In announcing the results, Mr McKay said: "Adelaide Bank has posted its best performance to date.

"It has achieved these excellent results in a year of strong competition.

"Importantly, the Bank has continued the execution of the growth strategies put in place over four years ago and re-endorsed in 2002, while fulfilling its key commitments to shareholders.

"As a result, the Adelaide Bank Board has approved a fully franked Final Dividend Payment to Shareholders of 21 cents – an increase of three cents over the final dividend for last year.

"The final dividend will be paid on October 15, 2003.

"This takes the year's fully franked dividend to 37 cents – which is a 16 per cent increase over the 32 cents in dividends paid in 2001-02.

"This significant increase in dividend should please all shareholders and it represents a dividend payout ratio for the year of 68 per cent, which is consistent with the Board's aim of achieving a ratio of around the 70 per cent level."

Highlights of the year included:

- A strong increase in assets under management. At the end of the 2002-03 financial year assets under management stood at $12.25 billion, compared with $10.73 billion at the end of 2001-02. This represents an increase of 14 per cent.

- Loans under management were $11.1 billion, an increase of 17 per cent on the 2001-02 figure of $9.5 billion.
- Loan approvals of $5.3 billion, compared with $4.3 billion in 2001-02, an increase of 22 per cent.
- Strong growth in retail deposits, which rose 25 per cent from $5.1 billion to $6.4 billion.
- A record low for the Bank's operating expenses to income ratio, with this key ratio reducing to 57.94 per cent, compared with a ratio of 59.84 per cent for 2001-02.
- A return on equity (pre amortisation) of 16.86 per cent compared with 15.58 per cent in the previous year.
- Fully diluted earnings per share of 54.34 cents, compared with 46.97 cents for 2001-02 – an increase of 16 per cent.
- Capital adequacy stood at 11.12 per cent, with 6.89 per cent Tier 1 capital.
- Improved margins, with the net interest margin of 2.20 per cent compared with 1.93 per cent for 2001-02.

Strategy

Detailing the Bank's performance, Mr. Fitzpatrick said: "Clearly defined and enunciated strategies are the key to Adelaide Bank's success.

"Adelaide Bank has not followed a "me too" bricks-and-mortar strategy in expanding our business outside of our home base of South Australia.

"Our results have vindicated this strategy and we are confident that our key strategies for the future will provide Adelaide Bank with further growth, while achieving our prime objectives in the areas of costs, shareholder returns and bottom line profits.

Lending

"All sectors of Adelaide Bank's operations have made significant contributions to bottom line profit.

"Leading the way has been our mortgage lending business which increased loan approvals by 22 per cent to $5.3 billion during 2002-03. This followed an increase of more than 60 per cent during the previous financial year, off a much lower base.

"The increase saw Adelaide Bank move from 2.1 per cent of national loan approvals to 2.3 per cent over the year.

"The growth was largely driven by home lending, with the home loan portfolio increasing from $7.06 billion to $8.50 billion, a rise of 21 per cent.

"Given this growth, Adelaide Bank has carefully monitored its loan book and applied stringent lending criteria to ensure the Bank has few non-performing loans on its books.

"The mix of owner-occupied homes versus investment properties was 65 per cent to 35 per cent with 65 per cent of all loans mortgage insured.

"The loan to valuation ratio across the residential portfolio was 63 per cent, and the Bank is very comfortable with these levels.

“At the end of 2002-03 Interstate lending represented 67 per cent of total loans under management by the Bank.

“This ratio has steadily grown from 62 per cent at the end of the 1999-2000 financial year and provides a good indicator of the success of the Bank’s strategic thrust in developing business partners outside of its home State of South Australia as it grows its lending operations.”

Funding

Retail deposits grew from $5.1 billion at the end of 2001-02 to $6.4 billion – an increase of 25 per cent.

This significant growth was stimulated by strategic alliances developed over the past four years.

Mr Fitzpatrick said: “These alliances have seen Adelaide Bank take significant steps to becoming a national provider of investment products.

“Cash Management Trust (CMT) relationships continued with Credit Suisse Asset Management (Australia), Count Wealth Accountants, Summit Master Trust and Equity Trustees.”

Capital

“During the latter part of 2002 Adelaide Bank issued $100 million of Reset Preference Shares (RPS) in an offer that closed heavily over-subscribed,” Mr Fitzpatrick said.

“The RPS issue was a new funding mechanism introduced by the Bank as part of its ongoing capital management strategy.

“This highly successful issue provided Adelaide Bank with a very cost effective option to fund its continuing balance sheet growth.

“This RPS issue achieved two major objectives – it enabled the Bank to boost its Tier 1 capital base and to lower its cost of capital.”

Costs

During 2002-03 the Bank’s operating costs increased by 12 per cent to $116.51 million.

The operating cost increases were largely impacted by an increase in staff numbers to service lending growth.

Despite these increases, the Bank’s operating expenses to operating income ratio was further reduced.

Having reduced this ratio to below 60 per cent for the first time in 2001-02, the Bank reported this ratio was reduced to 57.94 per cent for 2002-03.

“Our aim is to reduce this key ratio to 55 per cent by June 2005,” Mr Fitzpatrick said.

“While reducing this ratio we were also able to reduce the operating expenses to average assets ratio from 1.05 per cent to 1.01 per cent.

“As part of normal business the Bank has continued to examine ways in which we can be more efficient and to further contain costs as we head towards June 2005.

Asset Quality

During the year the Bank was able to further reduce its non-accrual loans from $7.4 million to $6.4 million.

As a result the gross non-accruals to total loans ratio stood at 0.08 per cent, compared with 0.13 per cent at the end of 2001-02.

Net non-accruals to total loans stood at 0.00 per cent, compared with 0.03 per cent at the end of the previous financial year, with these ratios among the lowest in Australian banking.

Notwithstanding these excellent ratios, Adelaide Bank continued its policy of a prudent approach, increasing overall general provisions by $3 million to $27.1 million.

Mr Fitzpatrick added: "Provisioning in the profit and loss account was increased from $4.7 million last financial year to $6.7 million this year.

"This was largely due to the increase in general provisions and in our consumer loan provisioning which reflected a movement back to more historic levels from low levels last year."

Margins

During the year Adelaide Bank's net interest margin increased from 1.93 per cent in 2001-02 to 2.20 per cent in 2002-03.

Mr Fitzpatrick commented: "Improved margins have been one of the driving forces behind the increased bottom line profits for the past year.

"The improved margins are a direct result of the interest rate environment in Australia, coupled with the Bank's product mix, with increasing numbers of customers opting for equity line products."

Capital Adequacy

"The current levels of Capital Adequacy at 11.12 per cent, with 6.89 per cent Tier One capital are considered reasonable," Mr Fitzpatrick said.

"However, new rules foreshadowed by the Australian Prudential Regulation Authority (APRA) are designed to see capitalised costs treated as a deduction from Tier One capital from July 2004.

"The requirements foreshadowed by APRA would require a $50 million deduction from Adelaide Bank's Tier one capital base, equating to a reduction of this ratio of approximately one per cent.

"Adelaide Bank expects the introduction of the Basle II standardised recommendations adopted in 2007 will result in a 10 per cent reduction of capital adequacy requirements.

"It is anticipated that the charge for operational risk under the standardised method will be just over 12 per cent of gross revenue.

"It is anticipated that the net result of all the above will have a neutral impact on the capital adequacy standing of the bank.

"Adelaide Bank will be making submissions to APRA in this regard and will be seeking a "grandfathering" provision for existing assets."

Margin Lending

Adelaide Bank's margin lending business generated $7.65 million in pre-tax profit during 2002-03.

This compared with $7.33 million in 2001-02 and represents an increase of four per cent.

The pre-tax profit level was adversely affected by $115,000 in write-offs due to operational errors during the year and the cost incurred in the integration of the Hartleys Limited margin lending book into the Leveraged Equities Limited operation.

Despite global uncertainty in stock markets the margin lending portfolio increased from $1.18 billion to $1.23 billion over the year, a growth of four per cent.

Looking Forward

Mr. Fitzpatrick said: "Adelaide Bank has just posted its best results to date.

"Those results have been built on a strong foundation of a clearly enunciated strategic plan and consistent execution of that plan.

"We are now one year into strategies that we have defined until 2005 – strategies and objectives that set out three very clear goals.

"We aimed to achieve a return on equity (ROE) of 15 per cent – and posted an ROE of 16.86 per cent.

"We aimed to generate an increase in earnings per share of 10 per cent and achieved an increase of 16 per cent.

"At the same time we aimed to reduce our operating expenses to operating income ratio to well below 60 per cent and we achieved this with a ratio of 57.94 per cent.

"As we head towards 2004 it must be expected that the housing market will begin to slow. However, with interest rates remaining low, we can expect this slow-down might not be as severe as some have predicted.

"We are confident that Adelaide Bank will continue to provide its shareholders with double digit profit growth for 2004 and 2005, while also achieving its other key objectives of further cost to income ratio reductions and earnings per share growth."

Further comment can be obtained from Mr. Fitzpatrick at Adelaide Bank.
Telephone (08) 8300 6818.

Issued on behalf of Adelaide Bank by Greg Reid Marketing Communications Pty. Ltd. Telephone (08) 8300 6449.