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INCREASED DIVIDEND AS PROFIT CONTINUES TO RISE

Adelaide Bank Limited today continued its recent trend with another first half record profit for 2005-06, built on continued strong lending and good retail funding growth, plus improvements in key efficiency ratios.

The 2005-06 interim financial report is the first by Adelaide Bank to be prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS).

Profit before tax was a record $62.45 million, which was an increase of 25 per cent on the $50.07 million recorded in the first half of 2004-05.

After tax profit increased by 24 per cent to a record $41.39 million, compared with $33.45 million for the first half of last financial year.

The Bank posted underlying earnings of $71.15 million, which was an increase of 21 per cent on the $58.75 million posted for the first half of the 2004-05 financial year.

On the back of this performance Adelaide Bank's Board increased the first half fully franked dividend two cents to 26 cents, which represents an increase of eight per cent and reflected the Board's confidence in the future following a performance that saw the major key indicators improve.

The record first half result was reported to the Australian Stock Exchange today by the Bank's Chairman, Dr Adele Lloyd, and Group Managing Director and Chief Executive Officer, Mr Barry Fitzpatrick, AM.

In making the announcement, Dr Lloyd said: "Adelaide Bank has continued to deliver a strong performance for its shareholders.

"Importantly, the Bank has continued to deliver on its key shareholder promise with cash earnings per share growth of more than 10 per cent."

SHAREHOLDERS' RETURNS

The Bank delivered a return on ordinary equity (prior to amortisation of acquisition costs) of 16.14 per cent.

This compared with an 17.15 per cent ROE posted in the corresponding six months of 2004-05 and the 18.35 per cent ROE posted for the six months ending June 30, 2005. The short term fall resulted from the need to raise capital to cover the acquisition of the Goldman Sachs JBWere margin lending business as well as the deduction of capitalized loan acquisition costs for regulatory purposes.

Increased profitability translated into fully diluted cash earnings per share (prior to amortisation of acquisition costs) of 40.24 per cent.

This was a 13 per cent increase on the 35.48 per cent fully diluted cash earnings per share recorded at December 31, 2004. The increase was boosted by changes to debt provisioning under AFRIS. Without these changes the increase would have been 12 per cent.

As a consequence the fully franked 26-cent interim dividend will be paid to shareholders on March 31, 2006.

This represents a dividend payout ratio on ordinary shares of 71 per cent, compared with 70 per cent for the first half of last year. This is in line with the Bank's long-stated desired ratio of around 70 per cent.

ASSET GROWTH AND QUALITY

The Bank's total assets under management grew to $23.4 billion over the first six months of 2005-06, representing a nine per cent increase on the $21.50 billion at June 30, 2005. This represents an annualised rate of growth of 18 per cent.

Total loans under management grew by $2.1 billion to $21.1 billion from $19.0 billion at June 30, 2005. This represented an increase of 11 per cent – or an annualized rate of growth of 22 per cent. Excluding an acquired residential portfolio of $580 million, organic growth was eight per cent for the six months, or 16 per cent annualised.

Loan quality remained sound with gross non-accrual loans standing at $8.6 million. This represents 0.08 per cent of gross loans with net non-accrual loans representing 0.05 per cent of gross loans and 0.43 per cent of ordinary equity plus non-specific provisions.

Business lending non-accruals fell to 0.07 per cent of the portfolio, with only one Business lending loan in non-accrual status.

Commenting, Mr Fitzpatrick said: "Adelaide Bank continues to report credit quality in the top quartile of Australian retail banks.

"Non-accrual consumer loans remained at normal levels over the six month period, dropping from 1.08 per cent of the portfolio to 0.97 per cent over the past six months.

"Non-securitised residential performing loans past due 90 days and over rose slightly from 0.66 per cent at June 30, 2005 to 0.78 per cent at December 31, 2005.

"The quality of the Bank's portfolio remains strong, with only 11 non-securitised mortgage loans in arrears for 90 days or more having a loan-to-historic-valuation ratio of greater than 85 per cent and not subject to Lenders' Mortgage Insurance.

"Adelaide Bank continues to be vigilant in the area of risk management.

"At June 30, 2005 it had in place $39 million in general provisions and $4.7 million in Specific Provisions (a total of $43.7 million).

"It should be noted the change to AIFRS reporting standards means the former general provision for doubtful debts is no longer allowed. A General Reserve for Loan losses is notionally allowed for in the calculation of the Bank's Capital Adequacy for regulatory purposes.

"Under the AIFRS reporting standards it now has $3.3 million in Specific Provisions, $22.7 million in a notional General reserve for loan losses and $18.5 million in Collective Impairment Provisions (a total of $44.5 million).

LENDING

Adelaide Bank saw a slowing in housing loan approvals for the first six months of 2005-06, after two years of strong growth.

Loan approvals for the first six months of the financial year totalled $3.96 billion, compared with $4.37 billion for the same period of the 2004-05 financial year and $4.78 billion for the first half of the 2005 calendar year.

Mr Fitzpatrick said: "Adelaide Bank was selective in those areas in which it competed during a period of intense price competition in the home loan market.

"Latest Australian Bureau of Statistics figures indicate the Bank's market share of national housing loan approvals reduced as a result, from 3.6 per cent in the first five months of 2004-05 to 3.1 per cent in the first five months of 2005-06, contributing to a short-term profit impact from residential business.

"Profit before tax from residential lending operations was reduced by $4.1 million for the first six months of the financial year.

"This was more than offset by significant pre-tax contributions from Business Lending (up $3.6 million or 39 per cent as a result of the contribution from Portfolio Funding), Margin Lending (up $9.1 million or 182 per cent) and Retail Funding (up $2.5 million or 18 per cent).

"From these figures it can be seen that the Bank's diversification strategies have strongly contributed at a time when the Bank's traditional business of residential lending has slowed.

"Management is committed to ensuring there is no long-term slide in residential lending market share.

"The Bank has increased expenditure on technology platforms, focused on control of front-end costs, increased spending on product improvements and related technology and increased expenditure on risk management and compliance.

"These measures will assist in building market share in the future"

FUNDING

Retail deposits grew by $700 million over the first six months of 2005-06 from $9.4 billion at June 30, 2005 to $10.1 billion at December 31, 2005 – an increase of more than seven per cent. This represents annualised growth of 15 per cent.

Growth was boosted by a strong performance by the Bank's new AAA Saver Account, which closed the period at $908 million, having been launched shortly before the end of the 2004-05 financial year.

CAPITAL

The Bank's Capital Adequacy Ratio stood at 11.3 per cent at December 31, 2005, with Tier I capital at 6.7 per cent.

This compared with a Capital Adequacy Ratio of 11.2 per cent at December 31, 2004, with Tier I capital at 5.8 per cent and 11.1 per cent at June 30, 2005, with Tier 1 capital at 6.3 per cent.

The strong Tier 1 ratio was boosted by underwriting the Bank's Dividend Reinvestment Plan during the period.

OPERATING EFFICIENCIES

Adelaide Bank continues to be strongly focused on a growth strategy designed to deliver improved operating efficiencies.

Staff expenses rose by 23 per cent over the year from $43.5 million to $53.5 million, impacted significantly by increased staff numbers (FTE rose from 1,097 in December 2004 to 1,183 at December 2005, including 26 as a result of the Goldman Sachs JBWere margin lending acquisition).

As a result, operating costs rose by 17 per cent during the year, reflecting the inclusion of the newly acquired margin lending business, Bank's strong growth profile, compliance costs and the conservative treatment of software development costs.

Excluding the $2.9 million in operating costs that related to the newly acquired Goldman Sachs JBWere margin lending business, overall costs increased by 13 per cent

Mr Fitzpatrick commented: "Despite these increases, the Bank continued to ensure costs grew at a lower rate than both loans under management and operating income.

“This has ensured continuing improvement in the Bank’s key cost-to-assets and cost-to-income ratios.

“The Bank’s operating expenses to operating income ratio continues to be reduced. At December 31, 2004, it stood at 55.42 per cent and was reduced to 54.59 per cent at December 31, 2005 – a one per cent reduction.

“The Bank's operating expense to average total assets ratio was also significantly reduced, dropping from 0.86 per cent at December 2004 to 0.75 per cent at December 2005 – a reduction of 12 per cent.

“The Bank is comfortable with the improvement in these ratios but believes even more efficient operations are required to prosper in the very competitive financial services sector.

“As predicted, Adelaide Bank’s net interest margin has narrowed, reducing by 0.04 per cent on a year-on–year basis to 1.18 per cent. It is important to note this margin is inclusive of securitised assets and all direct costs.

“Excluding these, the Bank’s margin increased slightly from 2.18 per cent at December 31, 2004, to 2.22 per cent at December 31, 2005 and this is in line with our prediction that we could experience a contraction in margin of between 10 and 15 basis points over the year.”

LOOKING FORWARD

Mr Fitzpatrick said: “The Bank’s strategic direction has been charted for the next three years.

“The Adelaide Bank strategies have not changed dramatically – nor will they over the period ahead.

“Those strategies have been well articulated and are well understood and they remain strategies that will continue to provide sustainable growth and increased profitability.

“Our focus in the months ahead will be to maintain the momentum in our growing businesses and ensure our residential lending business continues to grow market share in a profitable manner.

“That drive will not jeopardize our commitment to credit quality and for the Bank to maintain its position with asset quality that ranks in the top quartile of Australian retail banks.

“Traditionally, the second half of the each financial year has proven at least as strong as the first half and the Board is confident Adelaide Bank will meet its strategic commitment by delivering cash earnings per share growth in excess of 10 per cent for the full 2005-06 financial year.”

“The results from the first half of 2005-06 indicate we are well down the path of achieving those key objectives.”

Further comment is available from Mr Fitzpatrick on (08) 8300 6818.

Issued on behalf of Adelaide Bank by Greg Reid Marketing Communications Pty. Ltd. Telephone (08) 83006449