



# Institutional & Business Bank Market Update

6 March 2008

**Paul Fegan**  
Managing Director & CEO

**Greg Bartlett**  
Group Executive



Institutional & Business Bank

# Agenda

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- **Group Update**  
Paul Fegan  
CEO & Managing Director
- Institutional & Business Bank Overview  
Greg Bartlett  
Group Executive
- IBB Sales & Distribution  
Greg Kenny, General Manager  
Sales & Distribution
- Anthony Poiner, General Manager  
Product & Commercial Businesses
- Capital Markets & Funding  
Jeff Sheehan, General Manager  
Capital Markets
- Closing Comments  
Greg Bartlett  
Group Executive
- Questions & Answers

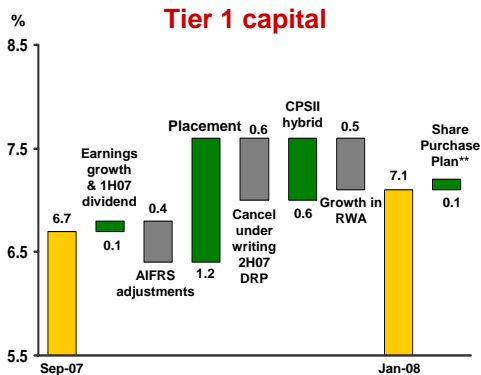


## Themes effecting St.George FY08 earnings profile

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- Strong volume growth in deposits, mortgages and business lending
- Wealth FUM impacted by deteriorating investment markets
- Overall credit quality strong with arrears performance particularly solid
- Reported margin impacted by higher levels of liquidity, underlying margin contraction expected to be around 10bps including the impact of higher funding costs
- Product repricing to have a full run rate period impact in 2H08
- Effective tax rate to benefit from Capital Gains Tax recoveries and other tax credits
- Disciplined approach to costs
- FY08 investment agenda maintained
- Strong capital base to support continued robust level of business growth
- Funding requirements on track

# Optimising the capital equation



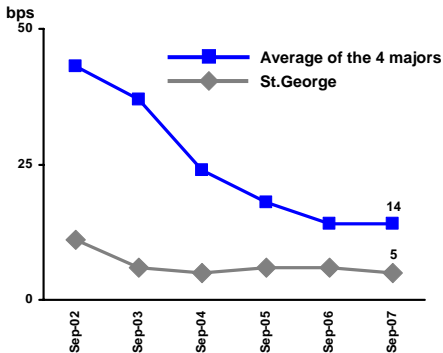
- Tier 1 capital currently >7%\*
- Lower Tier 1 minimum of 6.25% agreed by APRA in Dec-07
- Factors impacting 2009 capital requirements include:
  - 1 Jan-09 Basel II accreditation^
  - Growth in risk weighted assets
  - State of securitisation markets
  - DRP participation rate

**Sufficient capital to meet FY08 requirements and beyond**

\*As at 29 Feb 08. \*\*Share Purchase Plan to be completed in Mar-08. ^Accreditation subject to APRA approval

# Credit quality remains robust

## Net impaired assets/net receivables\*



- Credit quality in retail division remains excellent, with the arrears performance strong
- Overall credit quality in business banking remains strong, exposures to individual entities are being closely monitored
- No exposures to:
  - US or domestic sub-prime lending
  - CDOs
  - hedge funds
- Group remains appropriately provisioned for existing market conditions

**Bad and doubtful debts 0.18% of average total receivables**

\*Sep-05 onwards includes securitisation and bill acceptances

## In conclusion

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- Robust growth across all businesses continues
- We are actively managing the businesses to counter headwinds through:
  - Product repricing
  - Prudent cost disciplines
  - Focused reinvestment
  - Superior service offerings delivering market share gains
- An experienced management team is in place with further strengthening to be announced soon
- Sufficient capital in place to support business growth
- Overall credit quality remains solid
- Funding requirements on track
- Franchise is well diversified, solely domestically focused, growing and of high quality

**10% EPS growth guidance is reaffirmed\***

\*Targets exclude impact of hedging and derivatives and assumes a reasonably sound economic environment and no one-off material credit losses





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# A snapshot of Institutional & Business Bank

## People

Circa 1300 staff

## Business Lines

**Sales & Distribution:**

Corporate & Key, Business Customers, Specialist Sales

**Institutional & Financial Markets:**

Treasury & Financial Markets

**Capital Markets & Group Securitisation:**

Funding and securitisation

**Product & Commercial Businesses:**

Product Management, Marketing & Automotive Finance

**Risk Management & Compliance:**

Risk Management

**Business Support Services:**

Finance, Operations & IT

## Presence

National presence with 33 dedicated points of representation

## Customers

16,000 customers

## Book Size

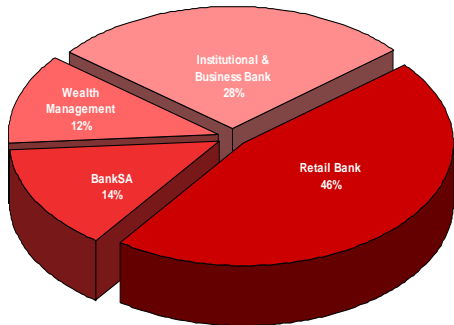
Assets \$30bn

Liabilities: \$14bn



# IBB is a key contributor to the St.George group

## Segmental earnings



- **Contributes 28% to FY07 group earnings**
- **Revenues up 64% to \$775M from September 2001**
- **Total commercial receivables have nearly trebled from \$10bn in FY01 to \$30bn in FY07**

**Growth engine for the group**

# IBB is a portfolio of businesses

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## Distribution

Sales & Distribution

Institutional &  
Financial Markets

Auto Finance

Capital Markets

## Product

Product & Marketing

## Operations & Support

Business Support  
Services

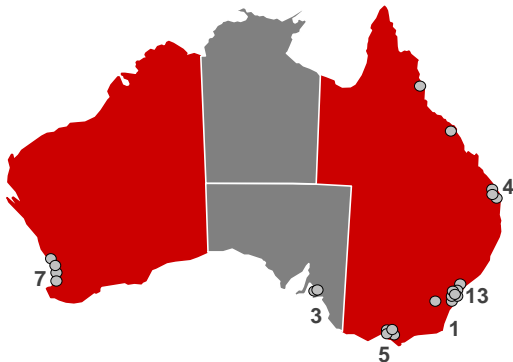
Risk Management  
& Compliance

Best Business  
Bank Technology  
Programme

Human Resources

# National representation and growing

## Business banking centres



### New South Wales

- Market St
- Chifley
- Bankstown
- Chatswood
- North Sydney
- Parramatta
- Wetherill Park
- Newcastle
- Gosford
- Kogarah
- Wollongong
- Liverpool
- Penrith

### Queensland

- Brisbane
- Gold Coast
- Cairns
- Townsville

### ACT

- Canberra

### Western Australia

- Perth
- Fremantle
- Kewdale
- Osborne Park
- Bunbury
- Mandurah
- Joondalup

### Victoria

- Melbourne
- Dandenong
- Preston
- Moorabbin
- Balwyn

### South Australia

- Adelaide
- Norwood
- Mile End

**IBB continues to invest in national expansion in 2008**

# A leader in business banking, 8 years after inception

## WINNER

Best Business Bank



## WINNER

Best Commercial Bank



## WINNER

Service Excellence Recognition



## WINNER

Business Bank of the Year



## WINNER

Business Banking Website of the Year



## WINNER

Best Business Bank



## Our vision

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To be Australia's most respected  
business bank known for  
outstanding customer advocacy

**We continue to implement the proven formula**

Engaged  
People

+

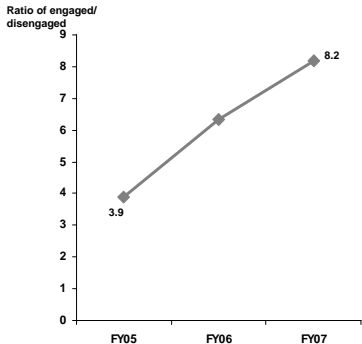
Great  
Customer  
Experience

=

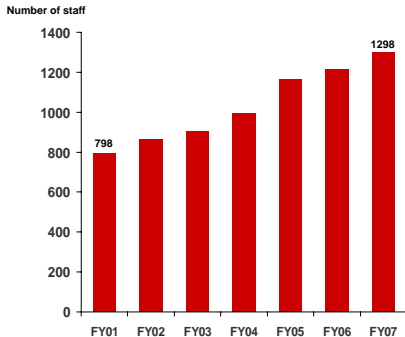
Superior  
Financial  
Results

# Engaged people

## Staff Engagement

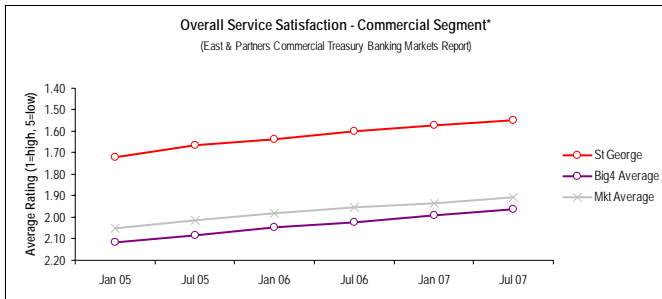


## Staff Numbers



**Market leading staff engagement ratio of 8.2 to 1**

# Great customer experience



**Ahead of all major banks on overall service**

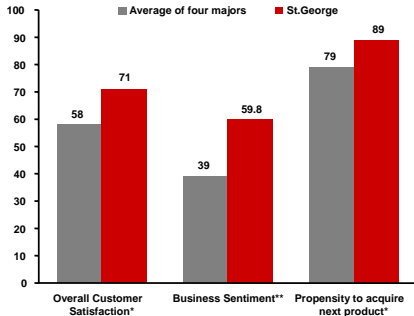
\*East & Partners





# Great customer experience

## Relationship management



## Customer advocacy\*

- 51% of St. George customers would “definitely recommend” their bank
- 29% of major bank customers would

## Expected churn\*\*

- 0% of St. George customers are considering changing banks in the next 6 months
- 17% of major bank customers are considering changing

**Ahead of all major banks on Middle Market service**

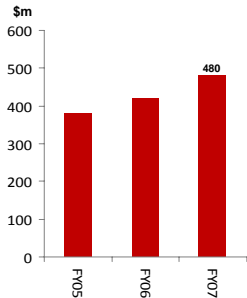
\*Source: Jones Donald Customer Satisfaction Survey Sep-07  
Jones Donald Competitor Satisfaction Survey Sep-07

\*\*East & Partners - Australian Commercial Transaction Banking Markets Survey Aug-07

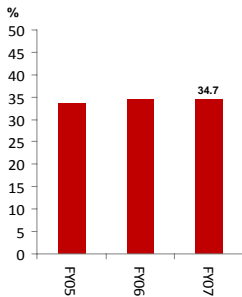
# Superior financial results

- Strong profit growth
- Market leading cost to income ratio driven through efficiency
- Primarily middle market focused

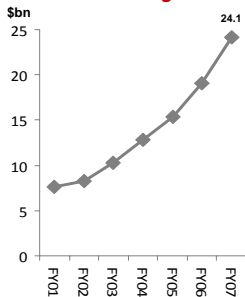
### NPBT



### Cost to Income Ratio



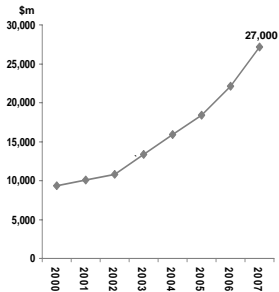
### Middle Market Receivables growth



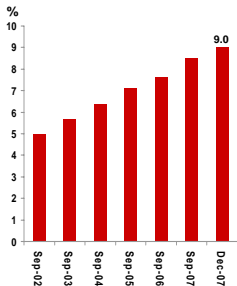
# Superior financial results

- Robust growth in commercial assets
- Significant increase in market share performance
- Sector leading asset quality

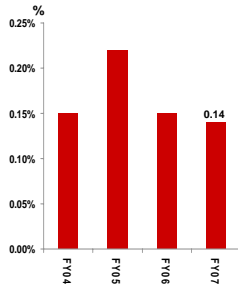
## Commercial Asset growth



## Market share assets^



## Impaired assets/total receivables\*



<sup>\*</sup>St.George Market Share of Middle Market assets including BSA

<sup>\*</sup> Includes BSA

## IBB focus for 2008

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- **Twice system growth in middle market, ie. >25%**
- **Maintain superior credit quality**
- **Continue to diversify income by geography, industry and segment**
- **Maintain and grow diversified funding sources in challenging markets**

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# Areas of focus

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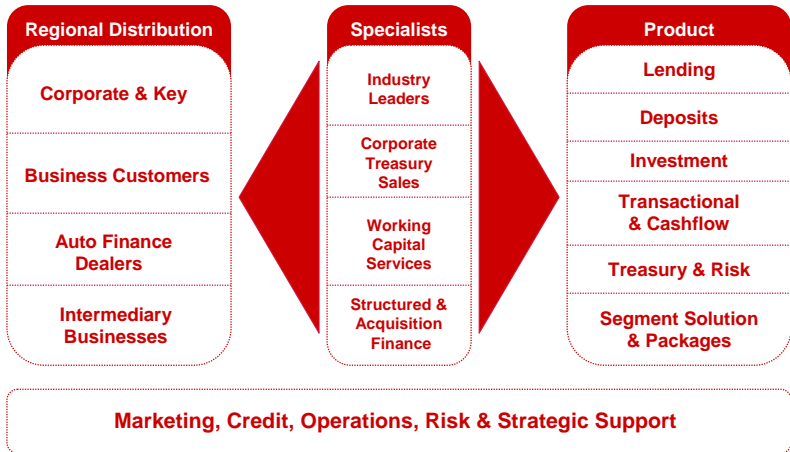
**1. Strong track record of growth and delivery – Greg Kenny**

**2. A broader and more diversified business – Greg Kenny**

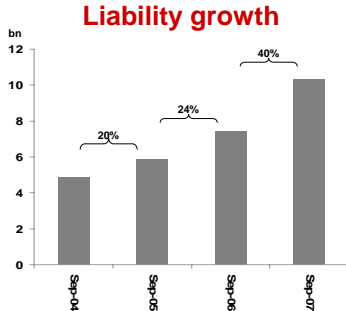
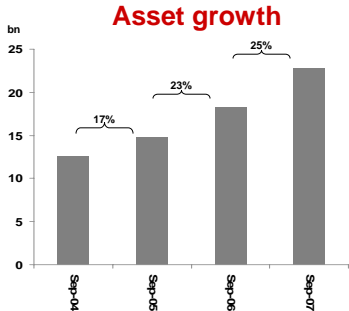
**3. Customer-centric capabilities – Anthony Poiner**

**4. Momentum and room to continue high growth – Anthony Poiner**

# Business overview



# Strong balance sheet growth



Strong growth in lending delivering above-budget income from Assets

Exceptional deposits growth together with steady margins have also ensured above-budget income received from Liabilities

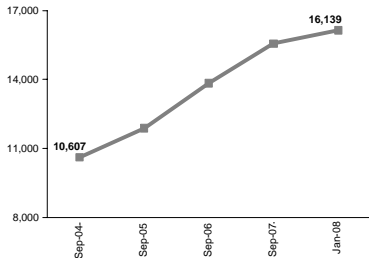
Note : Data excludes BSA and Auto Finance



# More customers and more business with existing ones

## Relationship managed customers

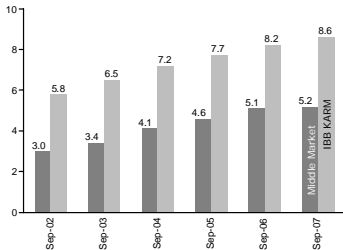
No. of customers



23% annualised growth in new customers\*

## Products per customer

No. of products

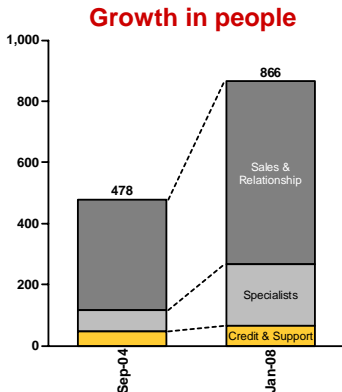


Deepening of relationships  
with existing customers

Note: KARM = Key Account Relationship Management

\* 23% growth since Sep-07 excluding BSA

# High growth in empowered frontline sales staff and specialists



## Local relationship teams

- Empowered regions (P&L accountability)
- Low ratio of customers to relationship managers
- Continuity of relationships
- Flat structure
- Credit embedded in regions

## Specialisation

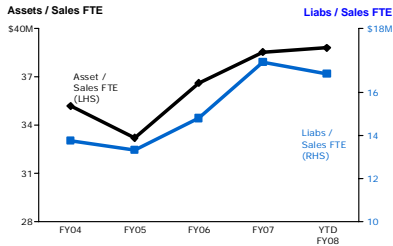
- Industry specialists embedded in the regions
- Access to centralised product & marketing team
- Access to deal capabilities
  - Transactional, including electronic banking, payment solutions, cash pickups & merchant
  - Treasury, including interest rate risk management, foreign exchange
  - Wealth, including corporate superannuation, financial planning, private banking
  - Trade, equipment finance, cashflow finance

**KARM – Key Account Relationship Management philosophy embedded across IBB in 2000**

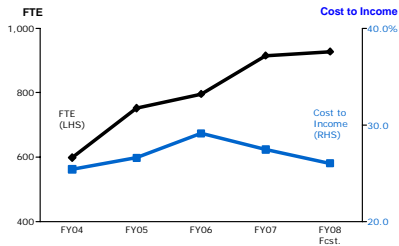
Note : FTE excludes BSA  
Sep-04 FTE excludes Scottish Pacific Factoring business which was sold in Sep-07

# Productivity and efficiency focus continues

## Productivity



## Efficiency

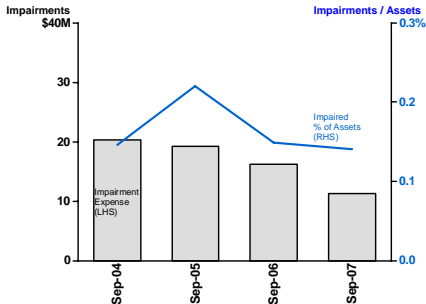


**Market leading cost to income ratio delivering highly productive growth**

Note : Data excludes BSA

# Strong credit disciplines

## Impairments continue at very low levels



## Credit Disciplines

- Local representation embedded in regions with delegations to \$20m
- Transactions outside local Delegated Risk Authorities escalated to Group Credit
- Management Credit Committee approval for sign-off above \$75m for highest rated customers, \$40m for lower rated customers
- Board Risk Management Committee approval for sign-off over \$100m for highest rated customers, \$50m for lower rated customers
- >90% of the portfolio is secured
- >80% secured by property
- 87% of the portfolio risk reviewed over the last 12 months
- Continuation of proactive credit inspections with 90% of the regions inspected in the last 12 months

Impaired Assets/total middle market receivables to Feb 08 remains excellent at 0.11%

Note : Data excludes BSA

## High balance sheet growth coupled with disciplined margin management delivers strong results

### Growth in key metrics\*

	2007
Assets	25%
Liabilities	40%
Revenue	15%
NPBT	20%

- Continuation of strong growth in lending
- Exceptional growth in commercial deposits
- Pricing disciplines will ensure continued delivery of strong profit results

Note: Data excludes BSA  
\* Growth in key commercial metrics



# Areas of focus

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**1. Strong track record of growth and delivery – Greg Kenny**

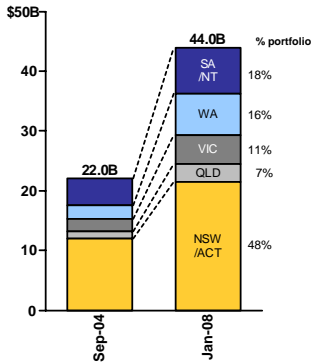
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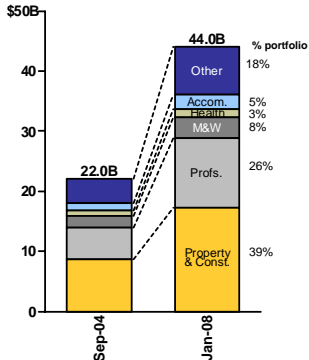
**4. Momentum and room to continue high growth – Anthony Poiner**

# A significant and diversified business

## Balance sheet growth by state<sup>^</sup>



## Balance sheet growth by industry<sup>^</sup>



**Target industries are professionals, manufacturing and wholesale, health, accommodation and property**

<sup>^</sup> Includes BSA commercial businesses

## We have grown with our customers

Loan size \$m	Sept 04 Proportion of balances	Jan-08 Proportion of balances
<1	19%	11%
1 – 5	31%	22%
5 – 10	17%	13%
10 – 20	15%	13%
20 – 50	13%	20%
50-100	5%	13%
100-150	0%	6%
150-200	0%	2%
>200	0%	0%
Total	100%	100%

- 60% of the large customers have been with us since 2004
- 79% of the total portfolio balances are <\$50m
- 90% of business >\$50m is in target industries
- Average new transaction size is circa \$6m
- Two customers with limits between \$200m and \$250m
- Four groups with exposures in aggregate above \$200m

**68% of new business is sourced from existing customers**

Note: Asset figures include IBB and BSA commercial balances



# Property exposure by state

## Percentage of total commercial exposures

State	<\$40M		>\$40M	
	C&D	Inv	C&D	Inv
NSW / ACT	4.2%	13.8%	1.5%	5.0%
QLD	0.8%	1.8%	0.6%	2.1%
VIC	0.7%	2.7%	0.3%	1.4%
WA	0.8%	4.2%	0.2%	1.7%
SA / NT	1.1%	5.9%	0.5%	0.4%
TOTAL	7.5%	28.4%	3.0%	10.7%

- Overall property exposure less than 40%
- Highest concentration is smaller investments in NSW
- Construction and development exposure >\$10M represents 6.7% of the total commercial book with average LVR at 66%
- Construction and development portfolio is spread over 85 different builders
- Total listed property trust exposure is ~\$2bn with an average loan to value ratio of <65% (maximum 70%)

**Property exposures well diversified**

Note: Asset balances include IBB and BSA commercial balances

C&D = Construction & Development

Inv = Investment

# Diversification by channel

## Syndications

- Significant growth in existing customers' businesses
- Leveraging increased people expertise
- Focus on smaller syndicate groups where opportunities exist for direct relationship
- Syndication exposure is less than 10% of commercial balance sheet
- 90% of exposure is within target industries

## Institutional Property

- Building on core strength of property
- Diversifying into more sophisticated markets with premium returns
- Security focus on underlying assets

## Acquisition Finance

- Supports existing customers by providing sophisticated debt solutions for acquisition and expansion
- Since formed in 2000, has provided over \$2bn in lending solutions for customers

# Diversification by channel

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## Intermediary Channel

- Value proposition based on relationship and service to both the introducer and their customers
- Accreditation is offered to select members of aggregator groups and specialist commercial brokers
- Centralised co-ordination of referrer relationships, business development strategy and channel management
- Focused on quality profitable new business, rather than quantity
- Currently accounts for circa 10% of new commercial portfolio introductions

## Working Capital Services

- Focused on high growth working capital products
- Key business streams - transactional, trade, equipment and cashflow financing
- Deepening existing relationships and broadening new business

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# Full range of highly rated products

## Transactional solutions

- Ranked No.1 for integrated e-banking, cash management, receivables and payables, and call accounts
- Ranked 'best bank overall' for transactional product satisfaction
- Our key focus is becoming MFI

## Borrowing

- Ranked No.1 for commercial bills, term lending, commercial paper
- Our customers are the most satisfied in the market when it comes to Relationship Manager attributes

## Working Capital

- Ranked No.1 for overdraft facilities, invoice discounting
- Working capital management is a priority for business

## Risk Management/ Treasury

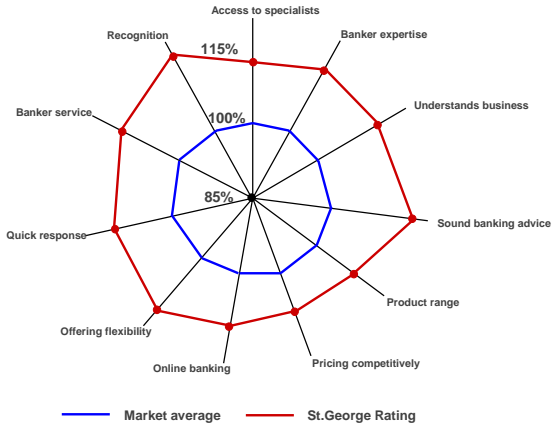
- Ranked above market for interest rate risk management and foreign exchange
- Our customers are the most satisfied in the market with our relationship management, loyalty to the relationship and customer support
- Competitors here include the majors but also global banks playing in this market

Source: East & Partners: Australian Commercial Transaction Banking Markets Report, August 2007: Australian Commercial Treasury Banking Markets Report, July 2007: Australian Working Capital and Receivables Funding Markets Report, September 2007



# Delivering superior service across the range of customer needs

## Medium size business ratings



- Rigorous recruitment and promotion criteria
- Low number of customers to relationship managers by industry standard
- Continuity of relationships maintained through team approach
- Consistent adherence to proven high touch relationship model

Source: TNS, 12 months to January 2007

# Specialist sales teams

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## Industry

- Property
- Manufacturing & Wholesale
- Health & Aged Care
- Professionals
- Pubs & Accommodation

## Treasury

- Treasury Sales
  - Regionally based
  - Treasury desk

## Working Capital Services

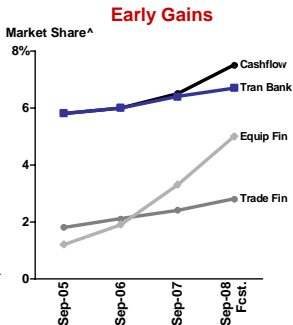
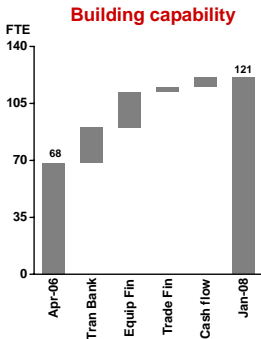
- Transaction banking
- Cash flow finance
- Equipment finance
- Trade finance

## Wealth

- Corporate super
- Private banking
- Financial planning



# Building capability – Working Capital Services



## Strong Revenue Growth

Revenue Growth	2006	2007	2008 Forecast
Trans. Banking	18.7%	30.6%	29.2%
Cashflow	23.6%	24.7%	20.3%
Equip. Finance	7.5%	8.2%	36.8%
Trade Finance	-2.0%	30.4%	29.3%
Total	17.0%	27.5%	29.2%

- Delivering broader business banking capability
- Located with frontline
- Supports geographic growth

- Positive market growth
- Further market share upside
- Strong and growing customer experience

- High growth forecast across all products for 2008
- Continued revenue growth
- Supports industry and revenue diversification

Source: Transaction Banking – East & Partners, Equipment Finance – AELA, Trade Finance – East & Partners, Cashflow – IFD

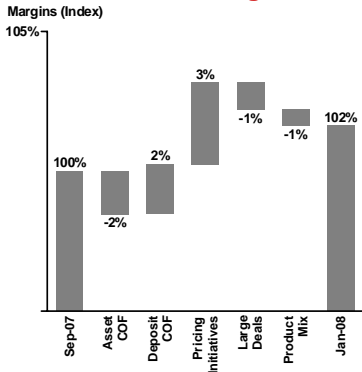
(Sept 07 – Sept 08 forecast represents St.George management estimates)

^ Market shares based on no. of clients, except equipment finance which is based on share of new business



# Strong pricing disciplines

## Product Margins



- Opportunity to improve asset pricing and offer higher rates on selected liabilities due to increased funding costs
- Multiple pricing strategies are in place
- Increase in bank bill rates (>60% of asset book) passes directly to customers

**New business margins are stronger**

Note : Data excludes BSA, COF = Cost of Funds

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# Structured and Acquisition Finance established to meet sophisticated needs

## Customer needs

- High growth customers
- Specialist finance requirements

- Project/construction finance
- Acquisition and term finance
- Wholesale receivables funding
- Secured property wholesale funding
- Bridge finance
- Leveraged finance
- Cashflow lending structures

## Sophisticated capabilities

- National team of experts
- Regional and national clients
- Managers with > 10 years' experience coming from professions such as
  - Valuers, lawyers, financial market experts, chartered accountants, fund managers
- Up-to-date understanding of market and structures
- Complex quantitative financial analysis
- Specialist credit and compliance capabilities embedded

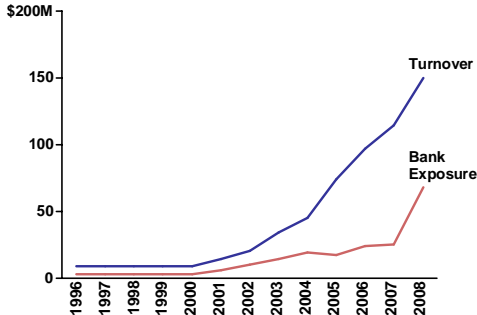
Central team assembled in 2000 has grown to >30 staff today

# Acquisition Finance example

## Healthcare Distribution Co.

- Private business of distributing over the counter products to pharmacy and grocery channels

### Growing with the customer



## Customer strategy and needs

- Purchase under performing brands from multinationals and reinvigorate marketing and rebuild brand sales
- Make multiple acquisitions secured by the cash flow generated from the 'brand value' or 'brand goodwill'
- Debt structure required a cash flow lending focus as opposed to a traditional asset backed debt facility

## St.George solution

- Provided brand by brand acquisition finance supported by strong cash flows.
- Initial acquisition property secured until growth model proven
- Restructured total debt facilities to a non property recourse corporate lending structure that was secured against the cash flows of the business
- Leveraged working capital finance to provide additional support for each acquisition

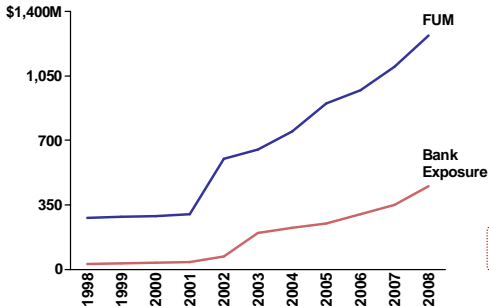
St.George earnings up >50 times

# Institutional Property example

## Direct Property Co.

- Invest in commercial property and development of brownfields

### Growing with the customer



## Customer strategy and needs

- Commenced as closed offer for investors with 2-3 projects per year
- Extended into commercial asset investment and holding
- Listed upon achieving critical scale
- Requires wholesale finance at secured head level

## St.George solution

- Project/asset specific finance 1998
- Funding of multiple non-aggregated facilities
- Wholesale finance of fund including debt underwriting and development cashflow finance

St.George earnings up >50 times

# Strong momentum and room to grow

---

## Balance sheet growth

- New customer acquisition
- Continue growing at 2x market (assets)
- Maintain high growth in liabilities
- Focus on target industries
- 'Core' and interstate geographies

## Grow with customers

- Continue increasing products per customer at 1 more product every 2 years
- Increased borrowings
- Matching sophisticated range of needs

## Productivity & efficiency

- Best Business Bank Technology investment
- Continued productivity improvements
- Maintain market leading cost to income ratio

# Agenda

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- Group Update  
Paul Fegan  
CEO & Managing Director
- Institutional & Business Bank Overview  
Greg Bartlett  
Group Executive
- IBB Sales & Distribution  
Greg Kenny, General Manager  
Sales & Distribution
- Anthony Poiner, General Manager  
Product & Commercial Businesses
- **Capital Markets & Funding**  
Jeff Sheehan, General Manager  
Capital Markets
- Closing Comments  
Greg Bartlett  
Group Executive
- Questions & Answers





# Areas of focus

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**1. Diversification of funding sources**

**2. Current market scenario**

**3. St.George strategic positioning and responses**

**4. Outlook**

# Positioned to fund growth

---

- A strong retail and business deposit base, complemented by a diversified wholesale funding platform
- 18.1%\* growth in retail and business deposit balances to Jan 08
- St.George is attractive for debt investors:
  - No US or domestic sub-prime or hedge fund exposure
  - Low risk, domestically-focused organic growth strategy
  - Superior asset quality, strong financial performance and solid capital position
- Active marketing and communication strategies over the last 23 years have ensured global investors are supportive of St.George issues
- Highly skilled and experienced funding team across a range of wholesale funding and securitisation markets

**FY08 growth in retail deposits matching growth in retail assets**

\*annualised YTD Jan 08

# Well established funding base

## Total funding by source as at Jan 2008

	\$bn
Retail	50.7
Short term wholesale	28.8
Long term wholesale**	14.9
Securitisation^	17.4
Subordinated debt**	1.9
Preference shares	0.7
<b>Total</b>	<b>114.4</b>

- Strong base of retail deposits accounting for:
  - 64% of all retail lending\*
  - 52% of total funding excluding securitised assets
  - 44% of total funding including securitised assets
- Securitisation accounts for 14.4% of total funding and lowers the current balance of unsecured wholesale funding
- Term funding and securitisation is 54% of total wholesale funding – reduces NIM impact in the short term

**Committed funding including locked-in securitisation reduces near term funding requirement and repricing pressure on Net Interest Margin**

\*Including securitised assets

^Including circa A\$1.0bn of asset backed conduit funding

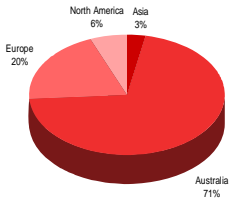
Source: St.George data as at 31 Jan 2008

\*\*Together referred to as 'term funding'

# Strong and diverse sources of funding

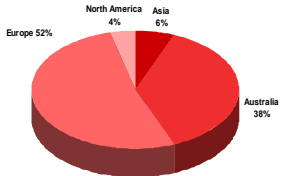
- Proven ability to deal in a range of international markets and currencies
- Long standing pursuit of investor diversification and active investor communication strategy

Strong access to domestic investor base through Bank Bills and NCD's – growing offshore demand



Origin of short term investors

Strong credit profile in international markets, with depth and diversity in markets and investors



Origin of medium term investors

# Long-established global funding program

## Euro Market - London

EUR 15,000,000,000 Euro Note Program  
Established in 1996

## Asia / Euro Market - Hong Kong Based

USD 8,000,000,000 Debt Instrument Program  
Established in 1991

## US Market

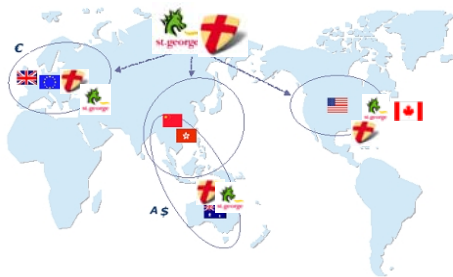
USD 3,000,000,000 Commercial Paper Program  
Established in 2004

## Australian Market

St.George Issuance Program  
Established in 1998

## Global Securitisation

Crusade RMBS/ABS Program  
Established 1997

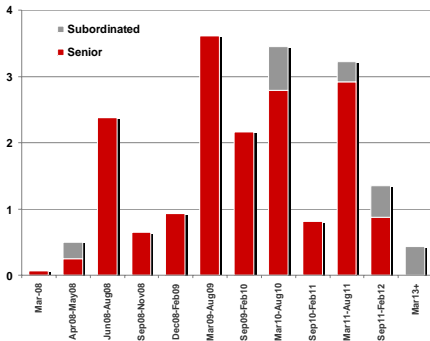


### Establishing in 2008:

- US Rule 144a program
- Japanese Samurai program

# Diversity by tenor

## \$m Term Funding Maturity Profile



- Committed term funding represents 36% of total unsecured wholesale funding
- Funding policy minimum for committed term funding is 30%
- Average weighted maturity of committed funding is 26 months
- Maturities over the next 12 months are less than 23% of the portfolio

**Maturities over the next 6 months are less than 15% of the portfolio**

\* Source: St.George data as at 29 February 2008, callable subordinated debt is aged based on the first call date

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## Current market scenario

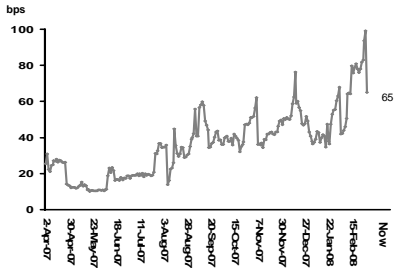
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- Ongoing dislocation in international market reducing issuance volumes
- Global mortgage-backed securities market access substantially reduced for all banks
- St.George is assuming in its plan that no securitisation issues occur
- Short-term funding remains open, robust, readily accessible in substantial volumes
- Cash to 90 day differential impacted by both interest rate outlook and increased demand
- Increased investor discernment between risk ratings of borrowers
- St.George expects to benefit from increased investor risk discernment due to underlying quality of assets and businesses

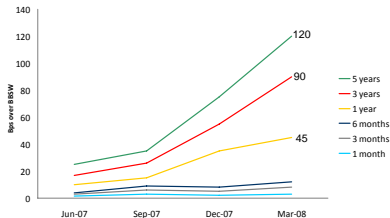


# Market disruption impacting cost of funds

## Cash/90 day differential



## Short and Medium Term Curves Widening



**Market conditions increasingly challenging**

\* Source: Internal, funding management heads

# Higher cost of funds

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- Total additional expense to the group from higher funding cost is circa \$30m for 1H08
- Mitigants include:
  - Stronger growth in retail and commercial deposits
  - Increased spread on retail deposits
  - >60% of business customers priced relative to bank bill rates
  - Active management of asset product spreads
  - Specific hedging of cash/90 day risk

# Areas of focus

---

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# Strategic responses to current market conditions

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## Short term funding

- Balance growth through short term funding of \$3.6bn\* since Sept 2007
- Lengthened tenor from 44 days in July-07 to 69 days
- Maintaining increased liquidity
- USCP investor roadshow – increasing investor limits

## Medium term funding

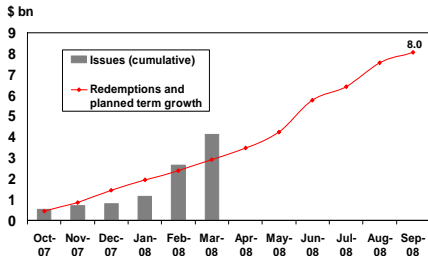
- Issuance into term markets of \$4.1bn since Sept 2007
- Strategic decision to focus on shorter tenor, greater frequency for term issuance and private placement transactions
- Developing new capacity in the US and Japan
- Investor communication stepped up across Australia, Europe and Asia

**Increasing flexibility and diversity to counter challenging market conditions**

\* As at 31 January 2008

# St.George term funding raisings ahead of schedule

## Term issuance above planned growth and redemptions



\$8bn requirement reduced from original FY08 plan target of \$10bn due to above plan growth in retail deposits and impact of free funds from recent equity raisings

## FY08 Committed Funding Schedule

Maturing debt	\$3bn
Funding additional growth*	\$5bn
FY08 total funding requirement	\$8bn
Issued to date	\$4.1bn
Remaining funding required	\$3.9bn

**Over 50% of planned funding achieved YTD**

\* Includes growth previously funded by securitisation

# Higher levels of liquidity management

---

- Focus on:
  - Access to funding in a range of market conditions
  - Maintaining a core holding of high quality, readily liquefiable assets
  - Ensuring ample cash surplus above forecast and stress scenario requirements
- Liquidity ratio increased to 12% or \$13bn – well above the APRA agreed minimum ratio of 8%
- 86% of liquid assets are RBA Repo Eligible
- Changes to RBA repo eligible criteria, including acceptance of RMBS, increased St.George's RBA repo eligible liquidity holdings from 70% to 86%
- Consistent communication with APRA and RBA on market conditions

**Liquidity ratio is expected to be maintained at 11-12%**

# Areas of focus

---

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# Looking forward – broader funding platform

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## Funding diversity

- Establish new debt programs
- Continue diversification in funding through currency, tenor, markets
- Maintain and diversify securitisation capability

## Investor communication

- Update existing investor relationships on St.George's strong credit fundamentals and funding plans
- Target new investors through briefings in new markets

## Regulator

- Maintain on-going communication with regulators

## Prudent maturity profile

- Maintain prudent maturity profile and lengthen short term maturities



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## IBB positioning for 2008

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- **Strong growth outlook**
- **Superior credit quality**
- **Proven funding capability**





# Institutional & Business Bank Market Update

6 March 2008

Questions &  
Answers



Institutional & Business Bank



# Institutional & Business Bank Market Update

6 March 2008

Appendix

# Agenda

## 1. Evolution of Institutional & Business Bank

### 2. Key areas of focus

- People
- Customers
- Best Business Bank Technology program
- Strategic Priorities

### 3. Key areas of interest

- Institutional & Financial Markets
- Property construction policy
- Syndicated lending exposure
- Specific provisions
- Collective provisioning
- FY08 term issuances
- Crusade CP No. 1 - asset backed commercial paper conduit
- Automotive finance
- Centro

### 4. Economy

- NSW economy
- National economy

# Evolution of Institutional & Business Bank

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**1999**

- IBB created through the merger of Commercial and Group Treasury & Capital Markets in Nov 1999
- Relationship banking model identified as our key differentiator
- \$2.5bn in assets

**2000**

- Key Account Relationship Management (KARM) strategy introduced
- BEST BANK Program begins

**2001**

- Corporate and Business Bank established
- Customer satisfaction measure and prioritised
- \$7.6bn assets

**2002**

- Business Banking Online launched
- 3 products per customer
- Corporate & Key customer segment formed
- Staff satisfaction 3.69

**2003**

- Advocacy is the new customer measure
- 902 staff
- Expanded into Victoria

# Evolution of Institutional & Business Bank

---

**2004**

- Business Bank of the Year: CFO Magazine
  - Best Business Banking Website: Personal Investor Magazine
  - BEST BUSINESS BANK Program begins
  - 6 industry segments named
- 

**2005**

- New front line support model rolled out
  - Express saver launched
  - Product specialist deployed in regions
  - \$15.3bn assets
  - 4.6 products per customer
  - Expanded presence now into Queensland
- 

**2006**

- Further interstate expansion
  - \$24.5bn in assets
  - Increased focus on Working Capital Services solutions
- 

**2007**

- Expanded operations in Western Australia
- Named "Best Business Bank" by Australian Banking & Finance Magazine



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# People are a key focus

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## Right people, right roles

Rigorous recruitment and selection process ensuring optimal fit in skill, attitude and culture.

## On Boarding

Rapid progression to productivity through the enhancement of the on-boarding experience for all staff.

## Talent Management

Increasing capability at all levels through the identification, development and retention of key talent

## Career Development Framework

Build internal pipeline of talent for key relationship management roles through rigorous development frameworks

## Sales Leadership

Implement effective sales leadership to support our high touch relationship banking model

# Valuing and investing in our people

## 2007 HR Awards

### Winner

Employer of  
Choice \*\*\*

### Winner

Excellence in  
People Management^

### Winner

Innovation in  
Phased Retirement^

### Winner

Best In-house  
Recruitment Team\*\*

### Winner

National Gold Award  
Flexible and Family  
Friendly\*

### Winner

Innovation in  
Recruitment and  
Retention\*\*\*

## Investment through training

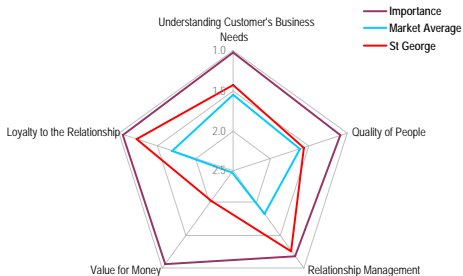
- Ascent – middle management leadership
- Lead – senior management leadership
- HIPEC – Developing high performance culture
- KEY ACCOUNT RELATIONSHIP MANAGEMENT – St.George unique customer orientation
- ISS – Integrated sales and service

^^St.George Workplace Survey 2007. \*National Work and Family Awards.

\*\*Fairfax Employment Marketing Awards. ^Australian HR Institute Awards. \*\*\*Australian HR Awards

# Customers are a key focus

## Customer needs matrix



### Sector leadership in:

- Understanding customer's business needs
- Quality of people
- Loyalty to the relationship
- Value for money
- Relationship management

**Ahead of all major banks on what customers see as important**

Source: East and Partners Pty Ltd Business Banking Market Briefing, April 2007

# Why Best Business Bank Technology program

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- Middle market segment has seen a period of sustained growth driven by strategic business expansion in footprint, industries and channels
- Now taken the opportunity to fully review our commercial processes and systems
- Key objectives of the program:
  - Simplification, standardisation and automation of our commercial processes and systems
  - Focus on the training and engagement of our staff
- Strong benefits from the program equivalent to hiring ~70 frontline staff
- Risk managed implementation using existing technologies delivered in multiple tranches

# End to end improvements – a key success factor

## SALES

- Pre-Lead
- Lead
- Meet & Greet
- Need Analysis
- Cross Sell
- Initial Financial Analysis
- Indicative Offer

## CREDIT

- Pricing
- Deal Structure
- Full Financial Evaluation
- Credit Application
- Credit Decision
- Letter of Offer

## SERVICE

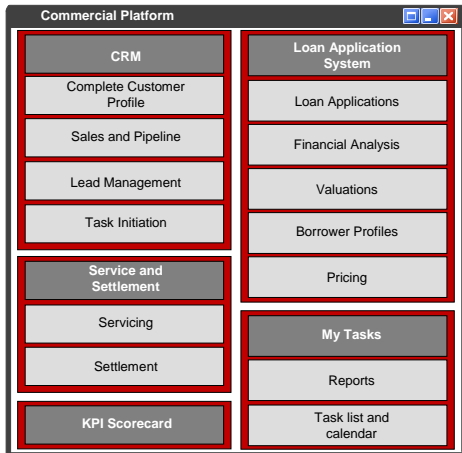
- Variations
- Excesses
- Discharges
- Annual Reviews
- Rollovers
- Regular Reporting
- Covenant Monitoring
- Customer Contact

## SETTLE

- Legals
- Valuation
- Preconditions
- Account Opening
- Settle

Greater efficiency gained through the credit, settle and service processes will free up more time for sales

# Technology – an enabler to increased efficiency & productivity



## Business Services

Shared Functions  
(eg. Policy and Compliance, Customer Notification, Customer Profile, Pricing, Securities)

## Group Reporting System

Centralised Reporting

## BPM

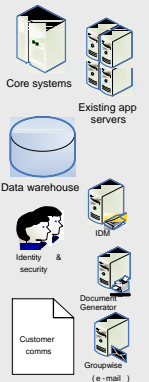
Overall Process Management (eg. Lead to Approval, Settlement)

Document Workflow (eg. Credit Approval, Report Delivery)

Document Imaging

Account Servicing (eg. Discharges, Annual Reviews)

Task Queues



# Strategic priorities 2008

## Actively develop and retain our people

- Right people right roles
- Career and skill development
- Retention, recruitment and recognition

## Disciplined financial management and productivity improvement

- Revenue growth through margin & fees
- Best Business Bank Technology program local ownership
- Improve compliance awareness & focus
- Continued focus on cost to income management

## True sales leadership delivering customer advocacy

- Continued focus on Key Account Relationship Management
- Reinforce Integrated Service & Sales principles and local marketing
- Customer Advocacy Increase program

## Acceleration of diversified growth

- Drive product per customer
- Drive product innovation across commercial and IFM
- Accelerate industry growth
- Additional liability growth

## Effective teaming and collaboration

- One Team One Bank
- Consistent engagement of specialists in each region
- Cross sell of wealth management / corporate superannuation and private banking products

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- Institutional & Financial Markets
- Property construction policy
- Syndicated lending exposure
- Specific provisions
- Collective provisioning
- FY08 term issuances
- Crusade CP No. 1 - asset backed commercial paper conduit
- Automotive finance
- Centro

## 4. Economy

- NSW economy
- National economy



# Institutional & Financial Markets

## Institutional & Financial Markets

Institutional  
Client  
Management

Financial  
Markets

Debt Capital  
Markets

Customer  
Securitisation

Conduit &  
Institutional  
Client Services

Structured  
Investments

## Activities

Interbank &  
Institutional  
Relationships

Money Market  
Debt Markets  
FX & FX  
Options  
Swaps  
Proprietary  
Trading  
Debt Markets

Short Term  
Funding  
Origination  
Distribution

Third Party  
Asset  
Warehousing

Crusade CP  
Conduit  
Management &  
Associated  
Services

Mezzanine  
Debt  
Leveraged  
Leasing

## We don't participate in

- Commodities
- Energy
- Equity

**Trading performance on track, offsetting credit revaluation impacts**

# Property construction policy

---

- Maximum prudential exposure limit to any one project or property is \$125m
- General policy sets as a maximum:
  - Funding of 80% of total development cost
  - 75% of 'on completion' LVR
  - Maximum LVR for land banks without DA is 50%
  - Market risk must be mitigated via acceptable level of presales or pre- leasing and /or other income or security support from guarantors
- Industry concentration limits set by Board are:
  - Property Investment 45% of the commercial portfolio – actual <40%
  - Construction 16% of the commercial portfolio – actual circa 10%
- The Bank monitors its exposure to any one builder for completion risk
- As at 31/1/08 we have no impaired property construction or investment exposures greater than \$10m

# Syndicated lending exposure

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## Why syndicates

- Significant growth in existing client businesses
- Balance sheet significantly larger
- Leveraging increased people expertise
- Syndicated lending must comply with normal lending guidelines and policies

## Which syndicates

- Focus on smaller syndicate groups/where opportunity exists for direct relationship
- Syndication limit exposure less than 15% of total commercial portfolio
- <10% of current book
- 90% of exposure is within target industries

## Specific provisions

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- St.George uses a number of specific risk grades for impairment including default, non accrual, restructured and provisioned
- Impaired assets are disclosed on a net basis, i.e. the gross exposures less the amount of interest and specific provision which is calculated based on the expected recovery from available security, after all costs
- As at 31 Jan-08 the net impaired commercial loans >\$100k was at historical low levels of \$33.6m
- Specific provisions are assessed on an individual basis using expert judgement
- All provisions over \$250k are reported to the Board Risk Management Committee
- All write off's greater than \$5m not covered by a specific provision are approved by Board Risk Management Committee

# Collective provisioning

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- St.George collective provisioning scheme is in accordance with IFRS Accounting Standards and is subject to annual audit
- All commercial exposures are allocated a probability of default risk grade at origination. The calculation of the probability of default is an integral part of the St.George commercial lending process
- A collective provision is automatically raised and posted following a downgrade in the probability of default risk grade
- Collective provision is equal to the calculated increase in the expected loss amount. This is a function of:
  - Increase in the probability of default estimate
  - Exposure at default estimate
  - Loss given default estimate
- Group Collective Provisions as at Sep-07 were \$290.7m

## Crusade CP No.1 – Asset backed commercial paper conduit

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- A customer securitisation program
- Currently \$1.3bn on issue\*
- Diversified and highly rated portfolio with:
  - 58% rated AAA
  - 40% rated AA
  - 2% rate A
- Contains no CDO's and has no exposure to offshore markets
- Remains fully funded and has not to date drawn liquidity

\* as at 25 February

# FY08 term issuances

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**We have issued \$4.1 bn of Medium Term Funding issues YTD\*:**

- AUD Domestic issues
  - \$500m of 3 year Fixed and Floating TDs in October 2007
  - \$900m of 1.5 year Floating Rate TDs in February 2008
  - \$1,000m of 1 year Floating Rate TDs in February 2008
  - \$150m of 1 year NCDs in February 2008
- CHF 250m of 2 year Notes – St.George's first public Swiss Francs issue
- \$1,260m equivalent of private placement in HKD, SGD, NZD, JPY, EUR, AUD, USD

\*YTD as at 29 February 2008



# Automotive Finance

## Business Description

- Auto is one of our six chosen industry segments
- Financier to quality auto dealers
- Wholesale finance and banking services for dealers and retail finance for vehicles bought at dealerships
- National presence with operations across Australia

## Strong financial delivery in a low growth market

	2006-07	2007-08F
Asset growth	10%	10%
Revenue growth	10%	10%
Profit growth	16%	13%

- Market share of dealers estimated at 20% (equal market leader)
- Very high levels of satisfaction and customer advocacy with 95% of dealers likely to recommend St.George
- Full financial services offering to dealers with over 6 products per customer
- Strong financial disciplines including margin management and cost and impairments controls in place
- Significant investment in systems over the past 3 years to support future growth
- Strategic focus to continue to grow the business profitably:
  - Grow market share with chosen segment (new car dealers) increasing wholesale and retail balance sheet and revenue streams
  - Continue to increase dealer product penetration
  - Grow the retail book through improving retail retention rates and cross-sales to retail customers



# Centro exposure

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## What we did

- Prior relationships with Thomco & MCS pre Centro acquisition
- Centro has been a customer of the bank since 2002
- Centro \$458m exposure is spread over 5 legal entities
- Each entity is a bankruptcy remote trust
- Fully secured with LVRs all below 70%
- All exposures are within prudential and internal policy guidelines

## What we didn't do

- We have not lent to the Group holding company
- No US and international trusts
- No unsecured exposure

Note: There is no exposure to the following Centro entities, Centro Properties Group (CNP), Other Centro MCS Syndicates, Centro Direct Property Fund, Centro Direct Property Fund International (DPFI), Centro America Fund (CAF), Centro Australia Wholesale Fund (CAWF) and Centro Premium Fund No.1 (CPF No.1)

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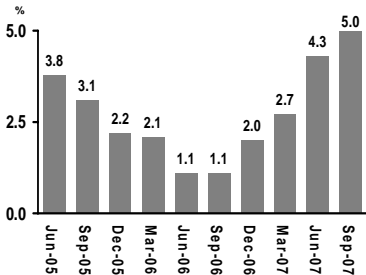
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# NSW economy - remains strong and resilient

## NSW state final demand\* (GDP equivalent^)



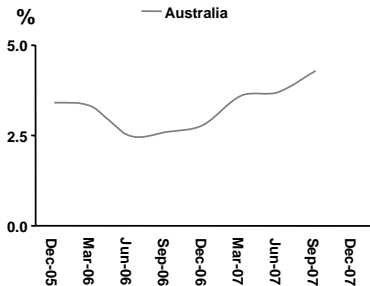
- NSW contributes 32% of national GDP
- NSW unemployment rate at 4.5% is near long term lows
- Residential vacancy rates remain tight at 1.4%, encouraging property investment
- Sydney's median house price rose by 8% in 2007
- Overseas immigration is strong at 50,000pa
- State government supportive of business and public sector investment has accelerated
- Private capital expenditure now growing at double digit annual rate

**NSW economy has displayed a convincing rebound**

\*12 month annual percentage change, seasonally adjusted ^Excludes import and export data. Source: ABS

# National economy

## AUSTRALIA (annual GDP growth\*)



- 2007 Australian GDP growth of 3.8% well ahead of advanced economy average of 2.6%^
- Housing market upswing in place after 2003-05 downturn. National house price increased 12.3% in 2007
- Trade patterns have changed. China now 2<sup>nd</sup> largest export market. Japan 1<sup>st</sup>, India 6<sup>th</sup> and United States 7<sup>th</sup>
- Commodity price support for the economy continues with coal, iron ore and gold (top 3 merchandise exports) at or near record prices

**Decoupling: Economist 2008 GDP forecast for Australia 3.5%\***

\*Data Sources: EcoWin, The Economist 09-Feb-07. ^ Data Source: IMF. Aus 2007 estimate includes forecast for Q4 07

## Institutional & Business Bank executive team

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# Visit [www.stgeorge.com.au](http://www.stgeorge.com.au)

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The material in this presentation is general background information about the Bank's activities current at the date of the presentation. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice when deciding if an investment is appropriate.

For further information visit:

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