

Interim Results 2005

3 May 2005

Agenda

Result highlights:

Gail Kelly

Financial overview:

Steve McKerihan

Strategy overview:

Gail Kelly

Result Highlights

Gail Kelly
Managing Director

Quality and consistency

- Robust revenue growth
- Disciplined interest margin management
- Effective cost management
- Excellent credit quality
- Superior return on equity
- Focused execution of strategy

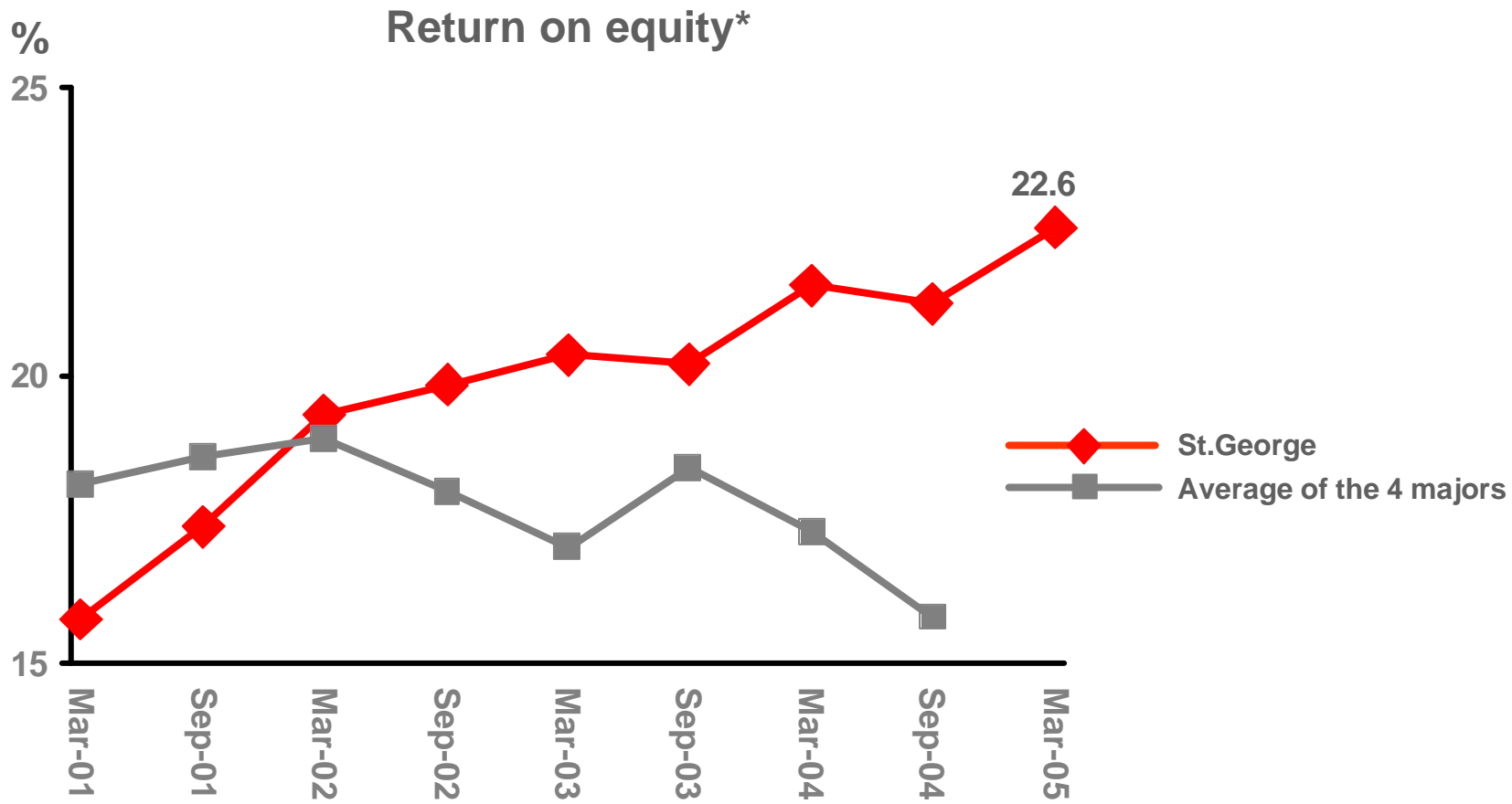
Profit result

	Mar-05	Mar-04	% Change
Profit before significant items	\$405m	\$354m	14.4
Profit after significant items	\$416m	\$354m	17.5
Earnings per share*	178.1¢	160.0¢	11.3
Return on equity*	22.6%	21.6%	
Expense to income*	44.9%	48.1%	
Dividend	67¢	60¢	11.7



*Calculated before goodwill amortisation and significant items

Outstanding return on equity

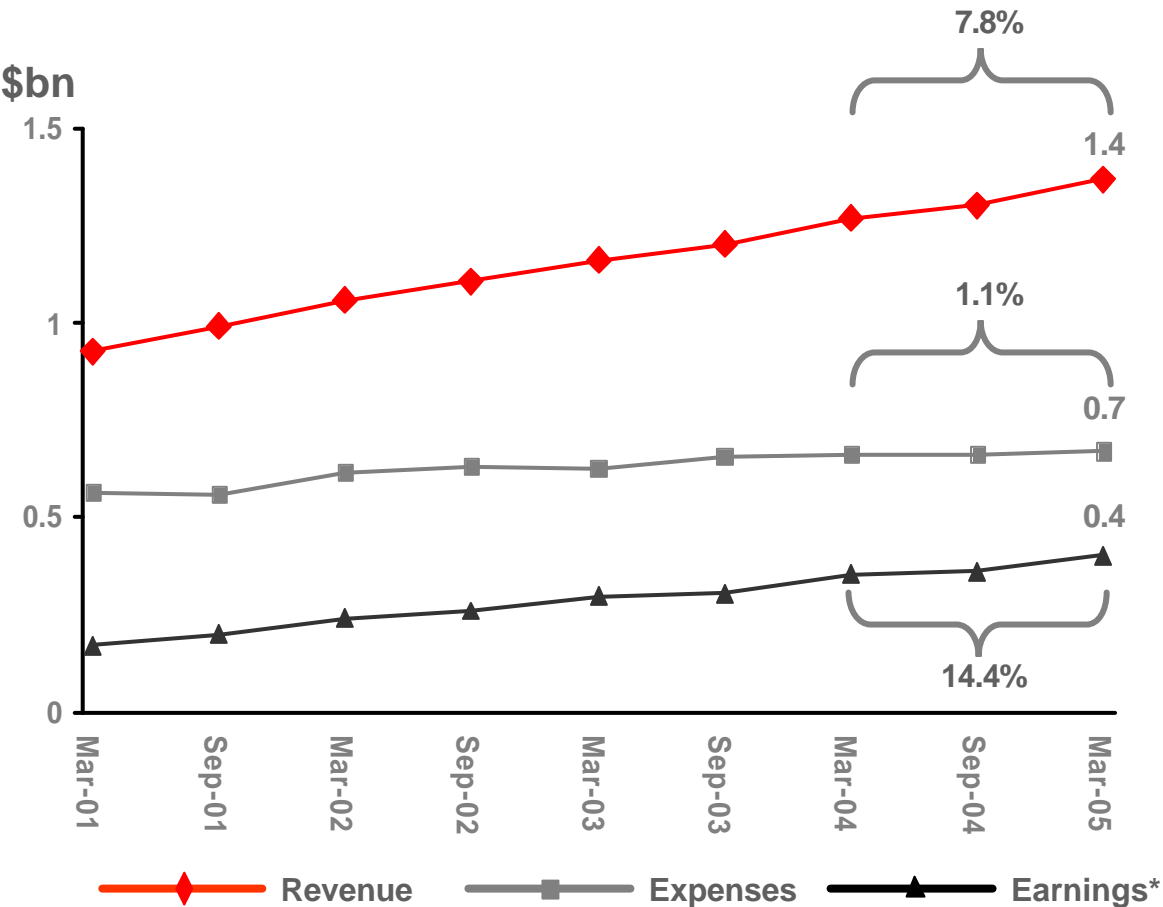


Focused on sustainable, high quality earnings



*After preference dividends and before significant items and goodwill

Earnings driven by strong revenues



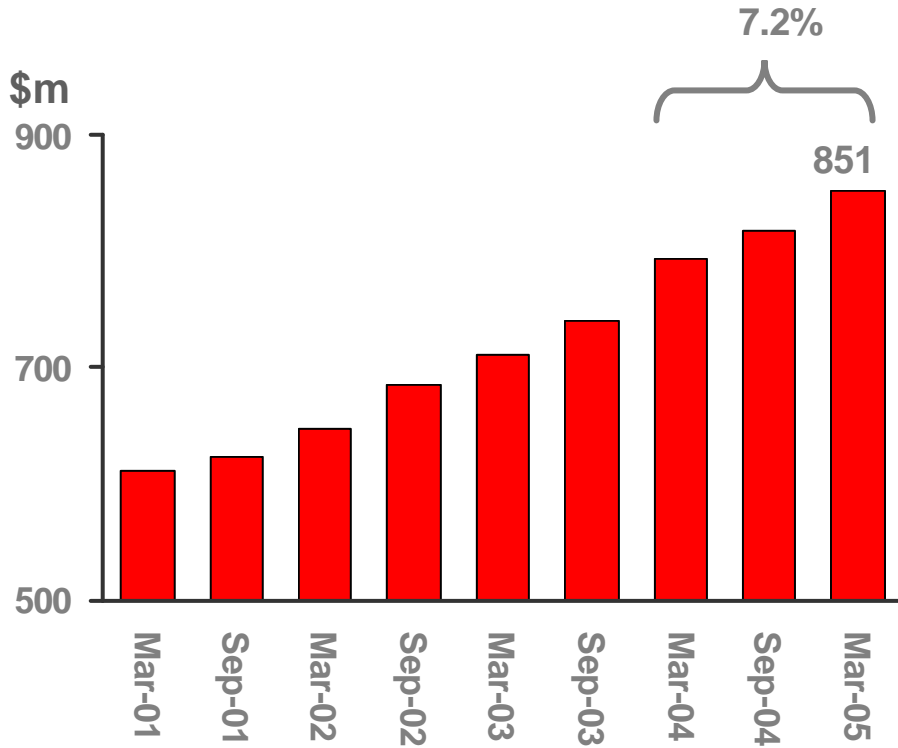
	5 year CAGR
Revenue	10.3%
Expenses	4.0%
Earnings	24.4%

High single digit revenue growth + low single digit expense growth
= double digit EPS growth

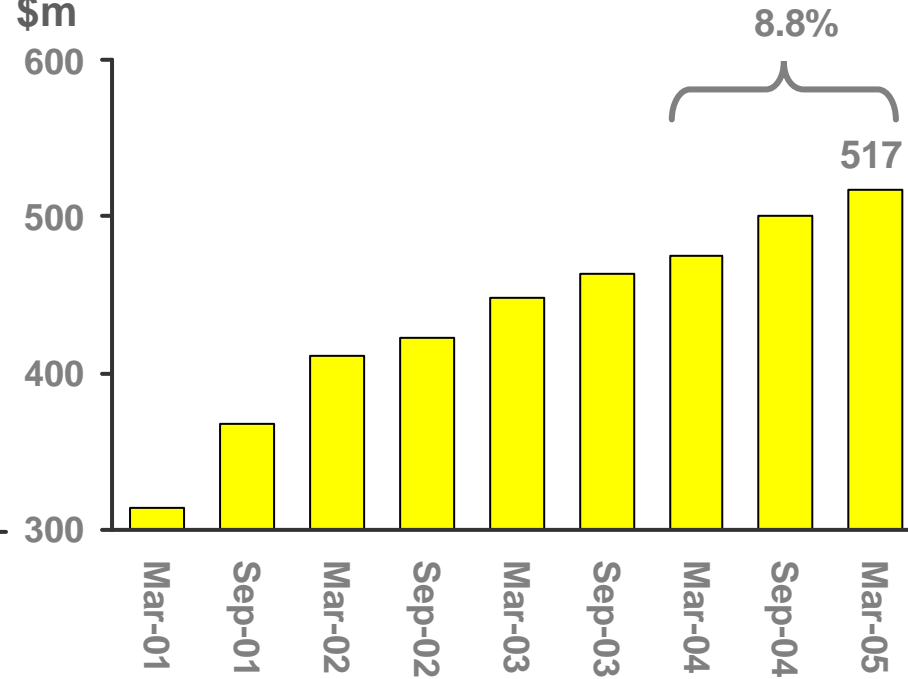


Strong revenue growth

Net-interest income



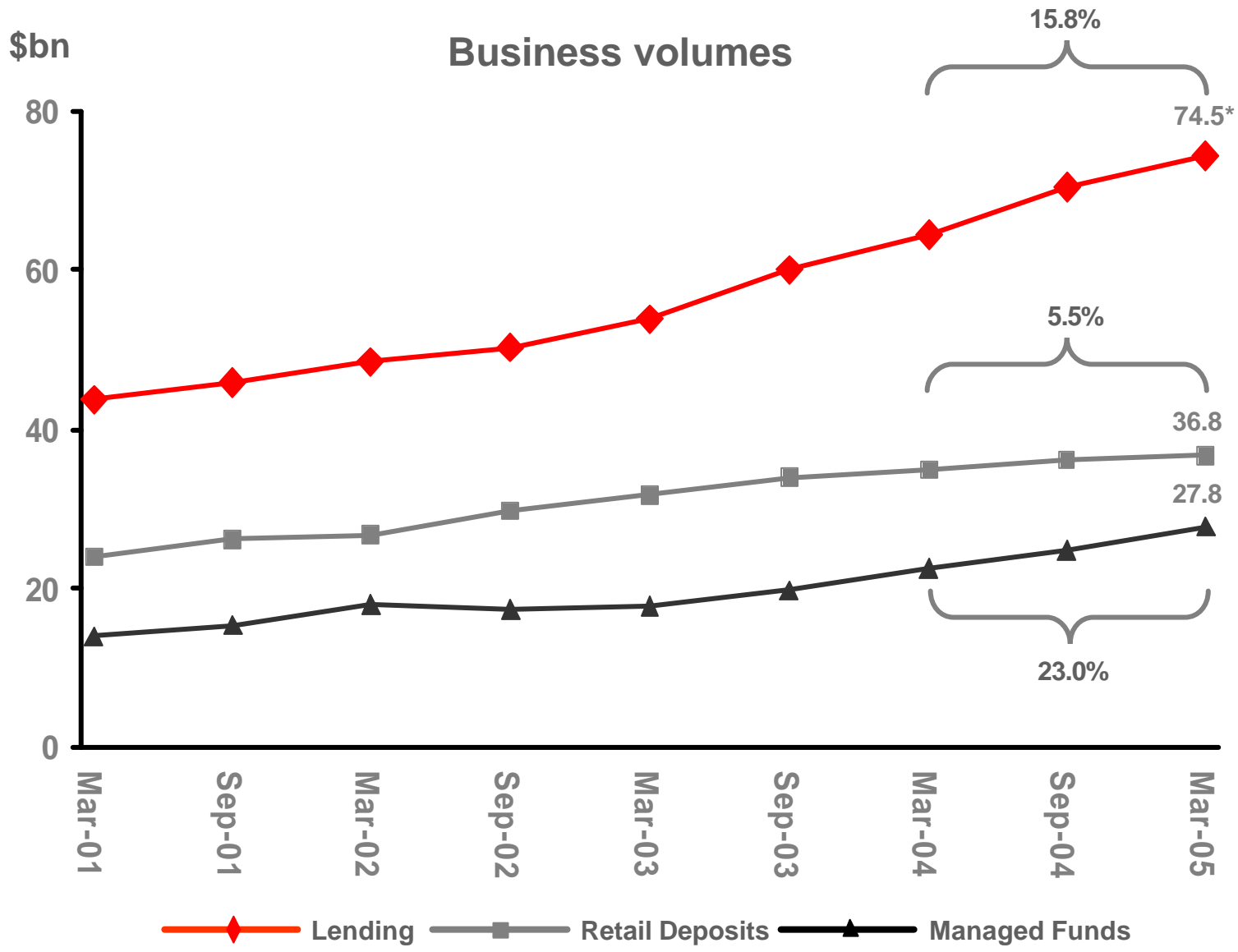
Non-interest income



Total revenue growth 7.8%

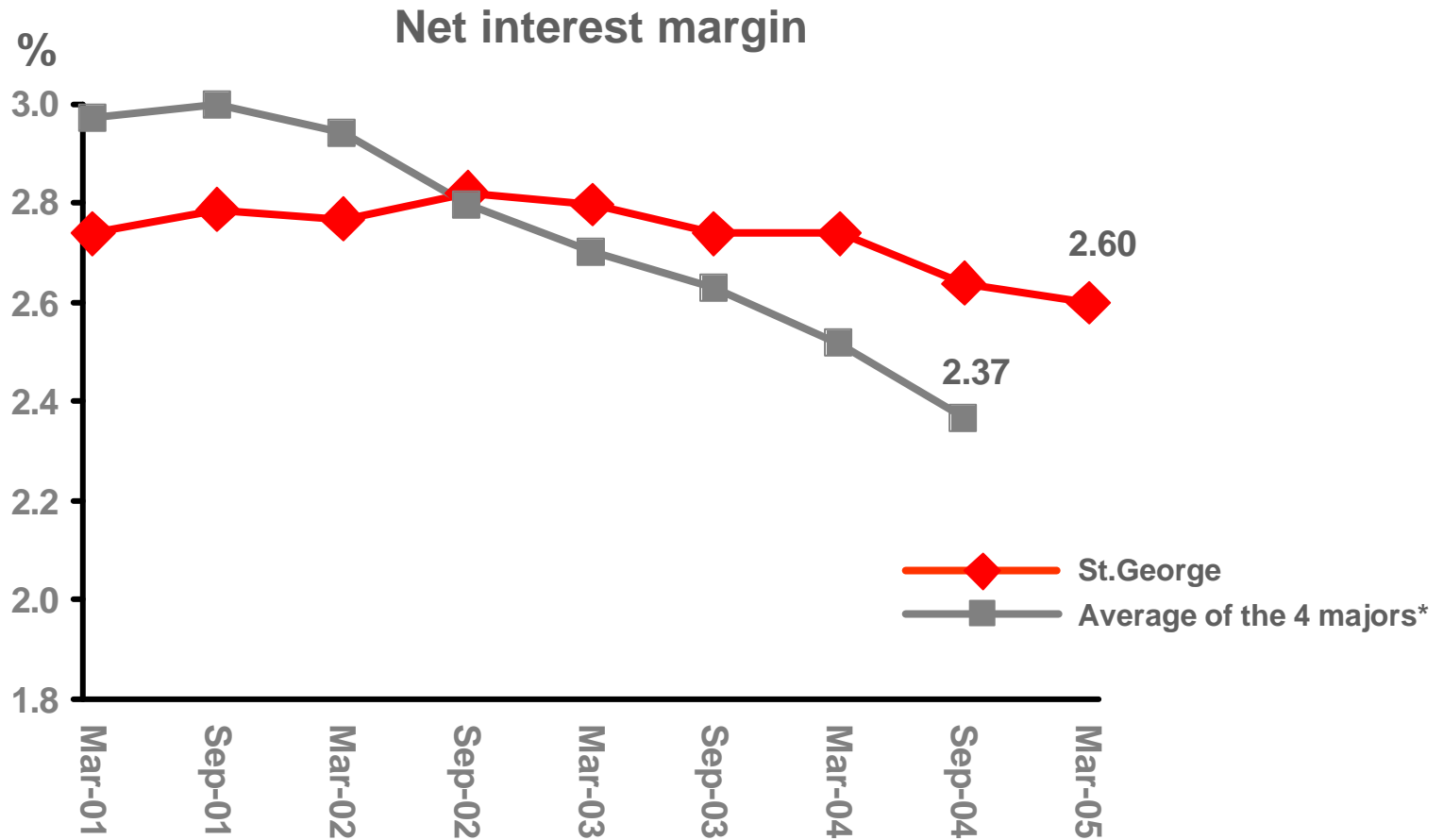


Supported by growing business volumes



Percentages Mar-04 to Mar-05. *Includes securitised loan balances and bill acceptances

Margin management remains a strength



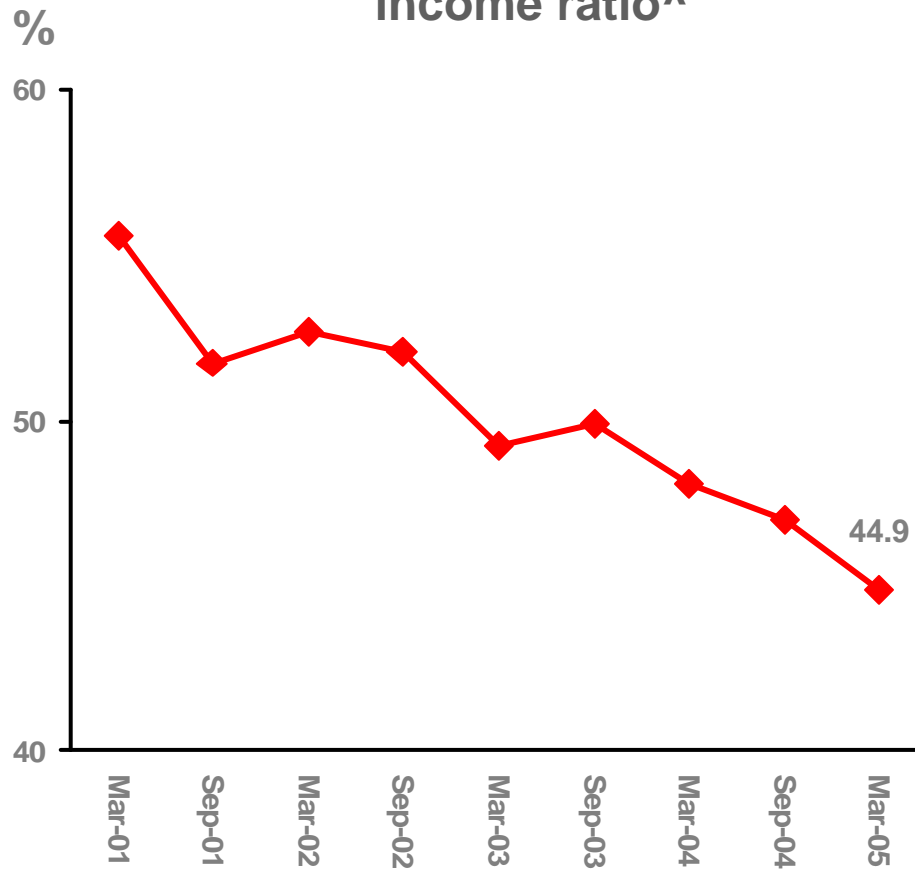
4 basis points reduction 1H05 on 2H04



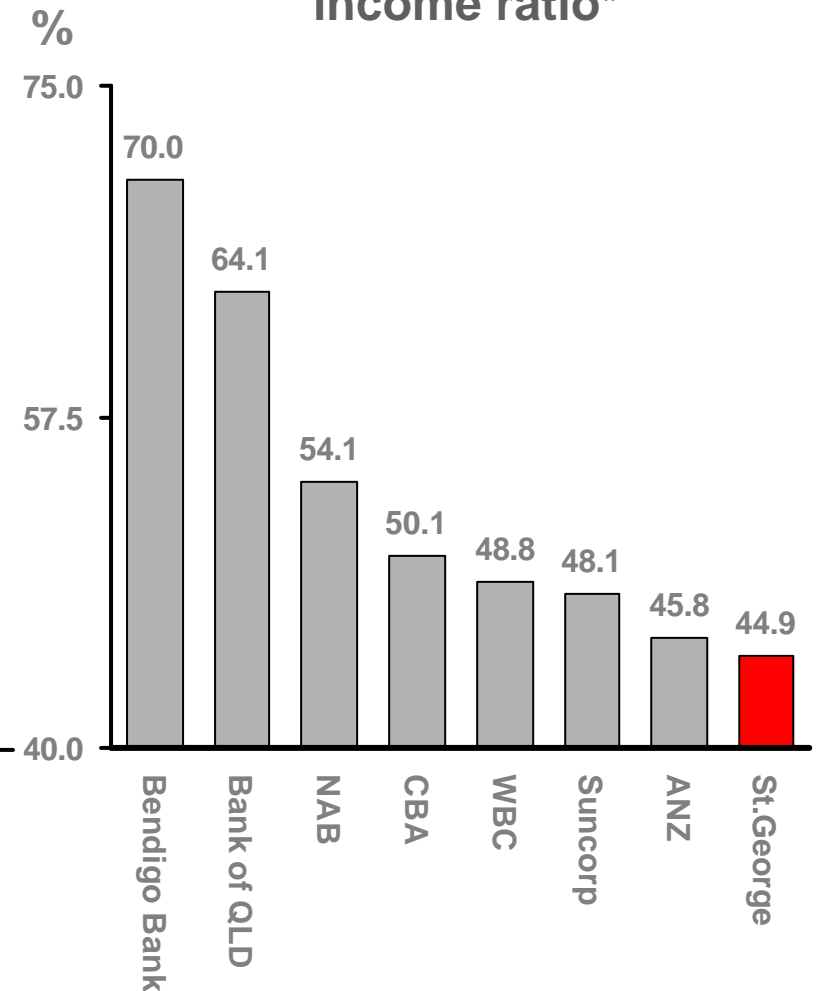
*Domestic margins

Effective cost management

St.George group expense to income ratio[^]



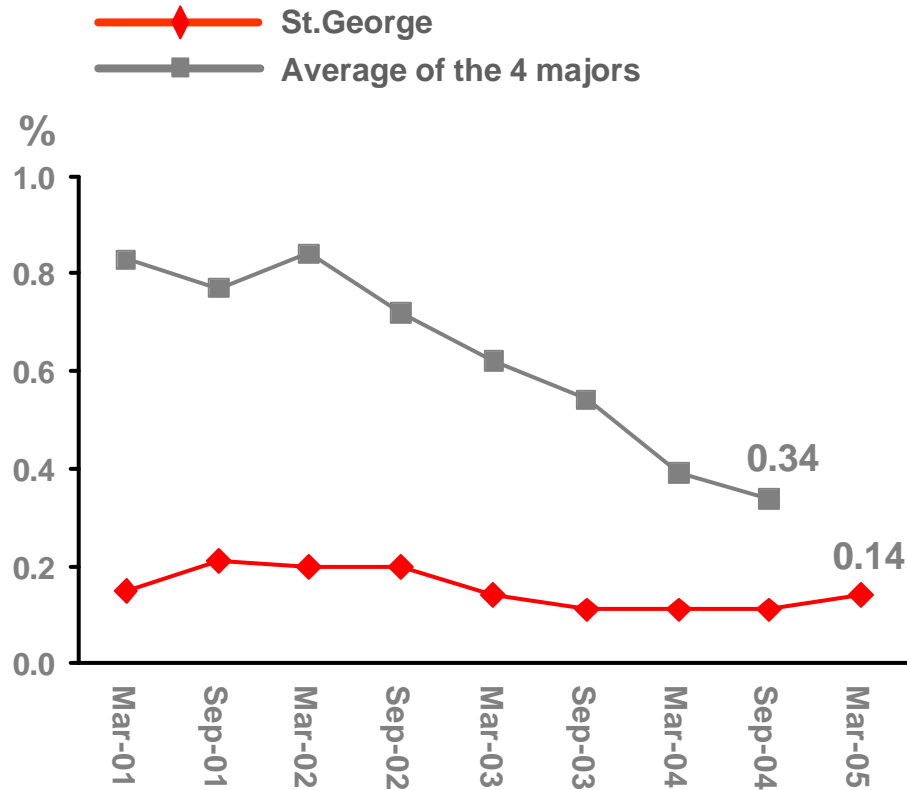
Peer group expense to income ratio*



[^]Excluding goodwill and before significant items. *Ratios as at the companies last reporting date

Excellent credit quality

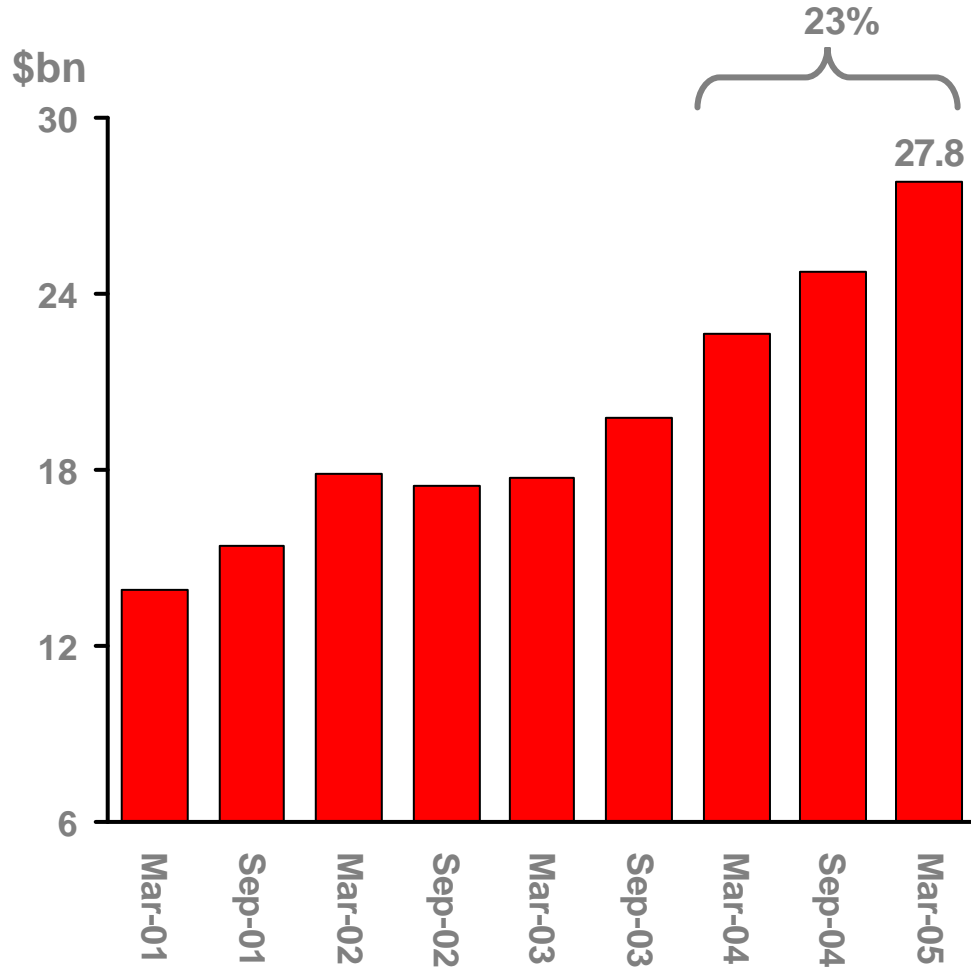
Non-accruals/total receivables



- Bad debts/average total assets stable at 0.16%*
- Low risk business mix
- Excellent track record

Strong managed funds growth

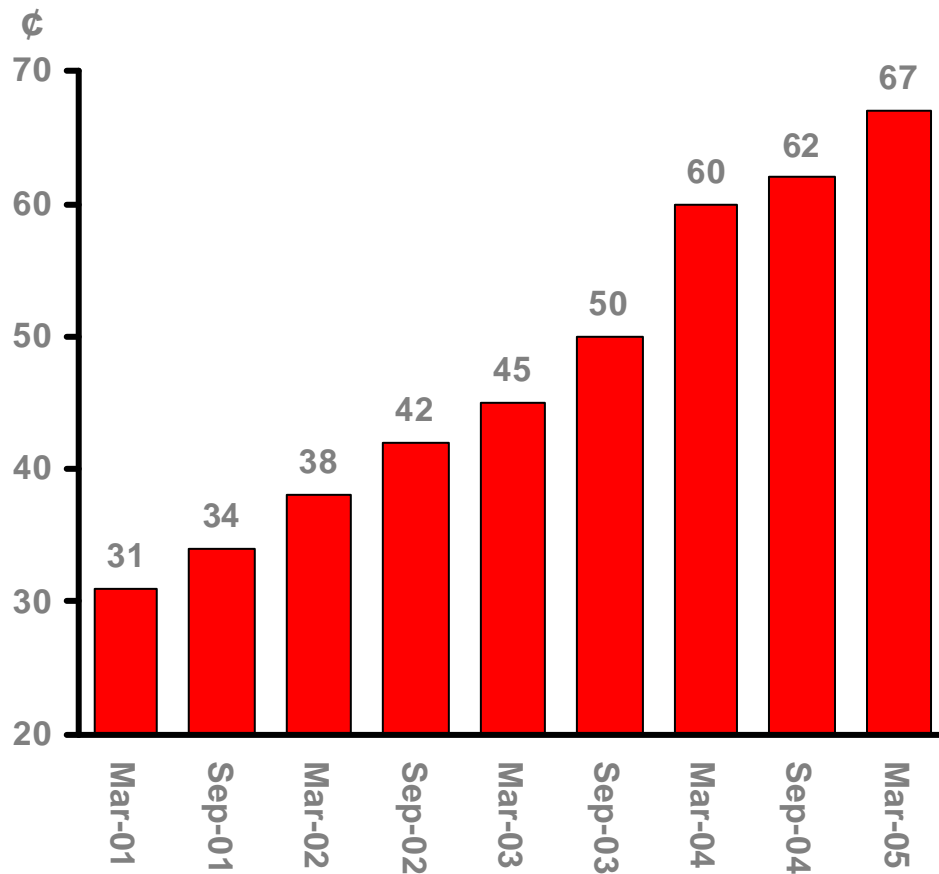
Total managed funds



- SEALCORP funds under administration up 24%
- Advance funds under management up 22%



Sustainable dividend payout



- Dividend payout sustainable under IFRS
- Dividends fully franked
- Dividend reinvestment plan continues

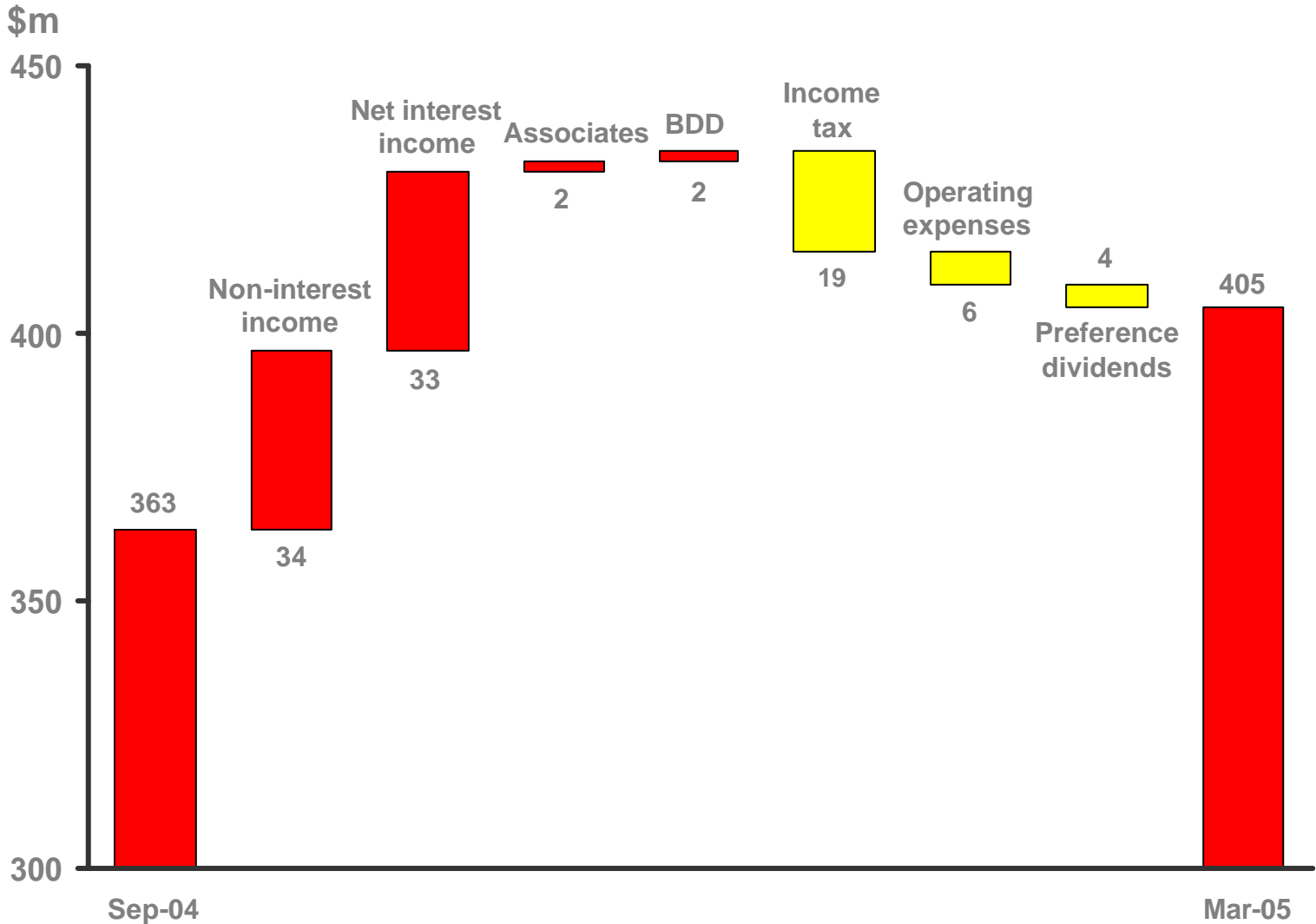
5 year CAGR 20.8%

Financial Overview

Steve McKerihan
Chief Financial Officer

Strong operational result

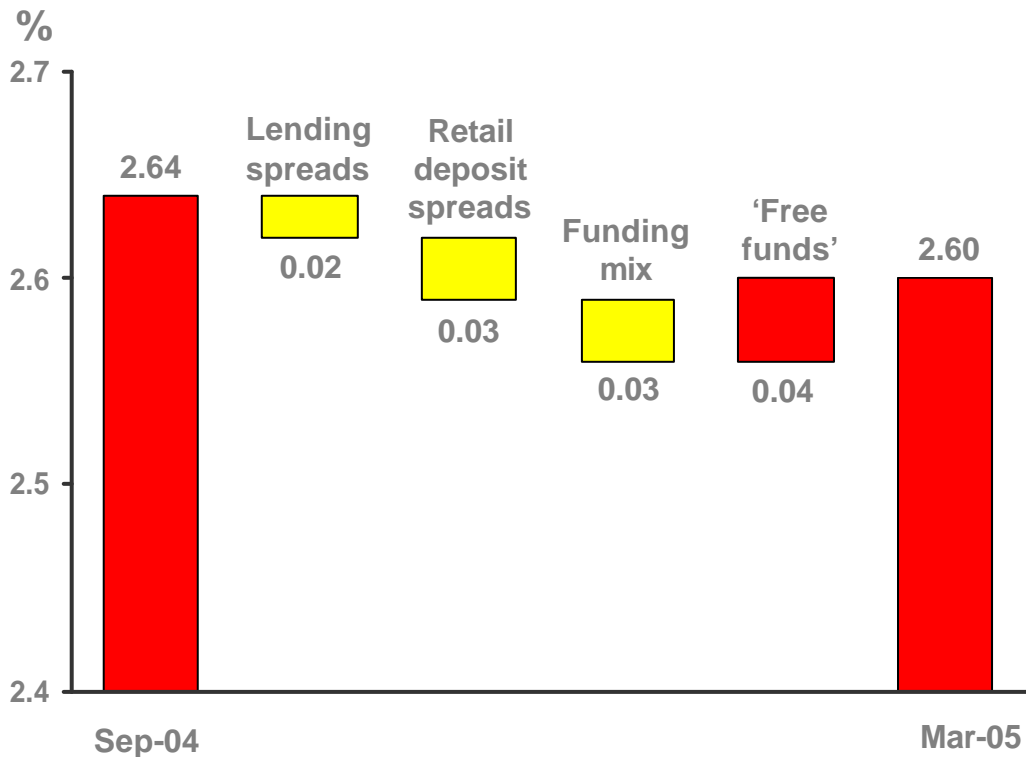
Group NPAT performance



Before significant items

Effective management of net interest margin

Net interest margin 1H05 on 2H04



Factors contributing:

- Modest compression of commercial lending spreads
- Stronger growth in high yielding deposit accounts
- Increased competition for direct deposits
- Lending growing more rapidly than retail deposits
- 'Free funds' impacted by SAINTS capital raising and increased interest rates

FY05 EPS target factors in more than 10bp reduction in net interest margin



Solid momentum in non-interest income

	Mar-05 \$m	Sep-04 \$m	Mar-04 \$m
Product fees and commissions			
- Lending	32	29	34
- Electronic banking	95	96	91
- Deposits and other accounts	120	115	103
Managed funds	107	103	94
Financial markets	34	27	34
Securitisation	51	42	42
Bill acceptance fees	42	35	31
Property sales	3	1	19
Other	33	35	27
Total	517	483	475



Factors impacting non-interest income

Lending fees

- 43% of residential loans broker sourced, down from 47% in 2H04

Electronic banking fees

- Sale of non-branded ATMs in Dec-04 reduced ATM interchange fee revenue

Managed fund fees

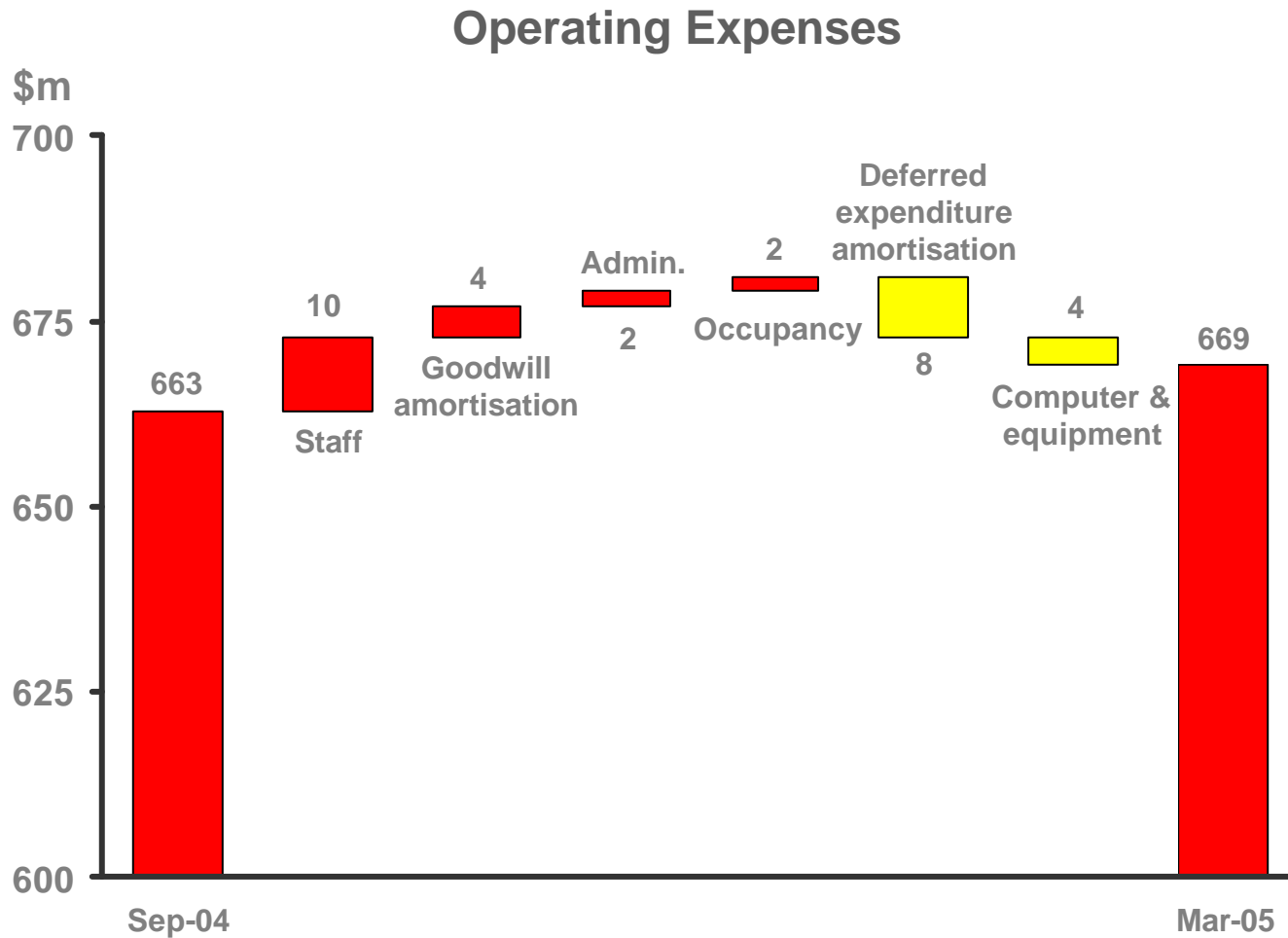
- Fee growth has not matched growth in managed funds due to:
 - strong inflows into new product offerings such as ASGARD 'Elements' mastertrust, 'eWrap' and the 'Advance Mortgage Fund'
 - successful penetration of new and expanded channels such as corporate superannuation and institutional business

Property

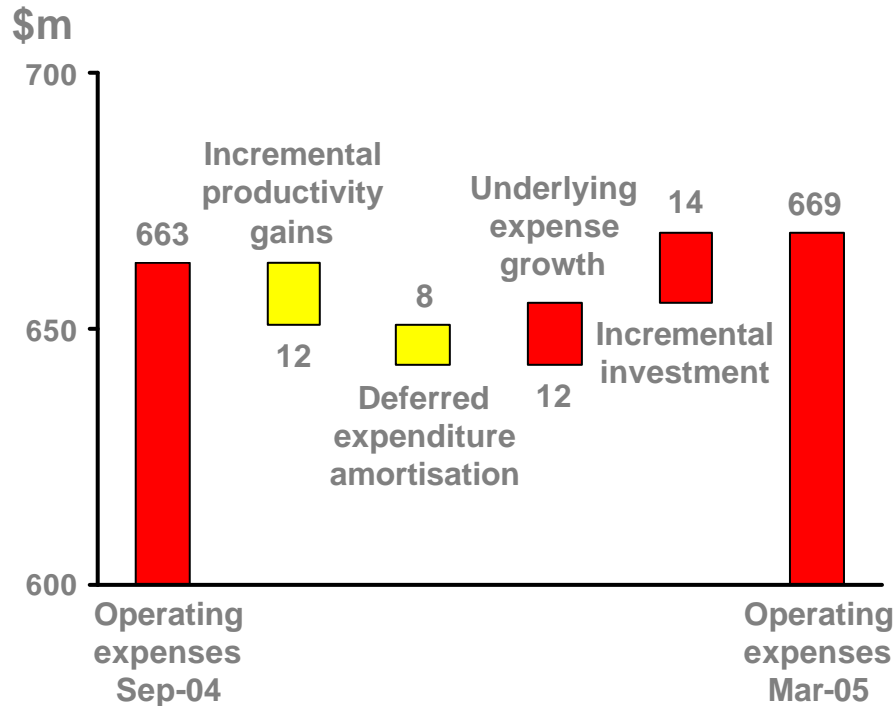
- Negligible property sales in 1H05



Controlling expenses, while investing for the future ²⁰



Reinvestment driving sustainable growth



Incremental investment includes:

- 175 additional staff including 49 additional business bankers
- Increased training and skilling

Productivity gains include:

- Organisational realignment benefits
- Improvement in IT sourcing including telecommunications

Segmental profits - all divisions contributing

	Profit before tax Mar-05 \$m	Change* %	Cost to income ratio Mar-05 %	Contribution to segment profit %
Retail Bank	329	15	48.4	47
Institutional & Business Banking	205	11	34.1	29
BankSA	91	11	44.5	13
Wealth Management	74	35	52.5	11

Captive mortgage insurer

St.George Insurance Pte Ltd

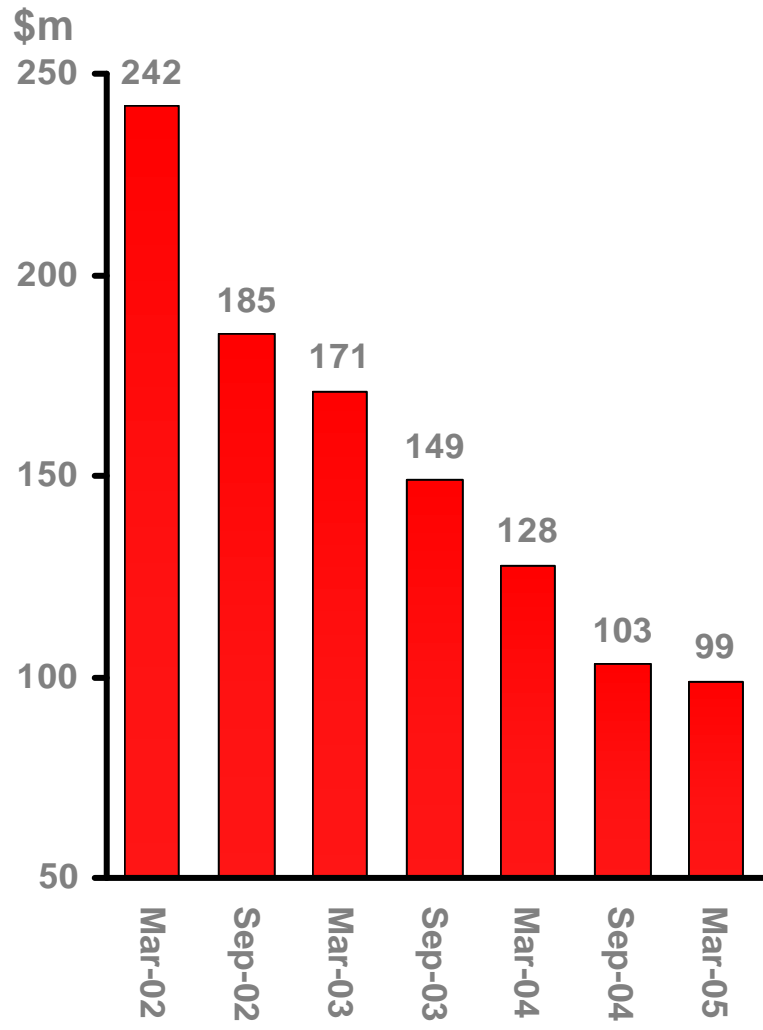
- Profit after tax of \$28m, up from \$17m in Mar-04
- Only provides mortgage insurance cover to St.George
- Excess of loss reinsurance in place
- Strongly capitalised with \$197m of shareholder funds
- Rated A, A2, AA- by S&P, Moody's and Fitch respectively

Prudential regulation

- Domicile to move from Singapore to Australia
- Two year transitional timeframe will ensure a cost-effective move

It is expected that the amount of capital currently held in the captive insurer will be more than sufficient to meet new APRA guidelines

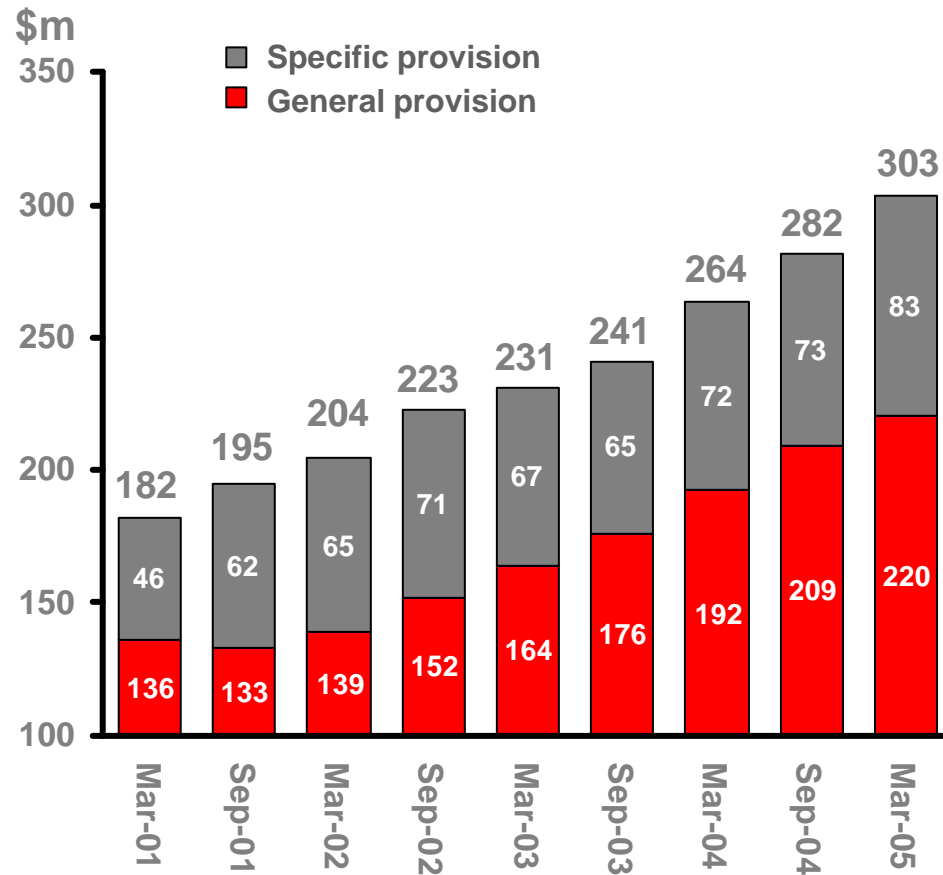
Deferred expenditure decline continues



	\$m
Sep-04 balance	103
New spend	15
Amortisation	(19)
Mar-05 balance	99



Prudent level of provisioning



- General provision and LMI unearned income of \$14m represent 0.52% of RWA

Provisioning conservative in the light of low risk business mix

Significant items

	Mar-05 \$m
Profit on sale of non-branded ATM network	27
Write-off of portion of deferred broker commissions*	(11)
	<hr/>
Total before tax	16
Tax expense	(5)
	<hr/>
Total after tax	11 <hr/>



*Relates to third party broker commissions on the introductory loan portfolio

Depository Capital Securities

- Amended assessments total \$164m for the period 1998 to 2004 inclusive
- St.George is strongly contesting the ATO's view
- No amounts due under the amended assessments will be charged to the profit and loss account
- From 2005 onwards, deductions will not be claimed, leading to an additional tax expense of \$6m per annum
- Additional tax expense has been included in the 1H05 result and factored into targets going forward

Basel II program on schedule

- Application for advanced status to be lodged with APRA in Sep-05 quarter
- Two year parallel run period for advanced credit to commence from Jan-06 and for advanced operational risk from Jan-07
- Estimated total program cost \$35m, with the major component of work to be completed in FY05

Basel II processes and systems expected to be substantially in place by Sep-05

International Financial Reporting Standards

Areas affected are:

Derivatives and hedging

Transaction fees and costs

Loan impairment

Goodwill and asset impairment

Financial instruments

Taxation

Property, plant and equipment

Securitisation

Leveraged leases

Hybrid financial instruments

Share based payments

Employee benefits

Timetable

- International Financial Reporting Standards (IFRS) preparations well advanced
- First IFRS accounts 31 Mar-06

Cost

- Estimated total project cost \$5m

Active capital management

- Tier one capital 7.4%
- Dividend reinvestment plan raised \$70m of capital in Dec-04
- Tier two capital subordinated note issue raised €250m in Mar-05
- \$2.5bn of residential loans securitised in Mar-05
- PRYMES reset date 21 Feb-06 – no decision yet on conversion

Internal capital generation expected to match organic growth

Outlook

Sector outlook

- Moderation in home loan market growth underway
- Solid growth in business lending and investment
- Competitive environment remains intense, particularly in retail deposits
- Interest rates expected to be relatively stable

St.George outlook

- Deposit volumes currently below system but expected to lift
- Home loan portfolio expected to grow at or around FY05 system growth
- Middle market on track to deliver well in excess of system growth
- Wealth management inflows expected to exceed system growth
- Solid earnings momentum across the Group

FY05 EPS growth target upgraded to 11%

FY06 double digit EPS growth target reaffirmed

Strategy Overview

Gail Kelly
Managing Director

Business priorities update

Differentiating on customer service

Management targets

Strategic framework

Deepen and strengthen customer relationships in chosen markets

Leverage specialist capabilities for growth

Creatively differentiate on customer service

Accelerate and empower relationship-selling

Optimise cost structure

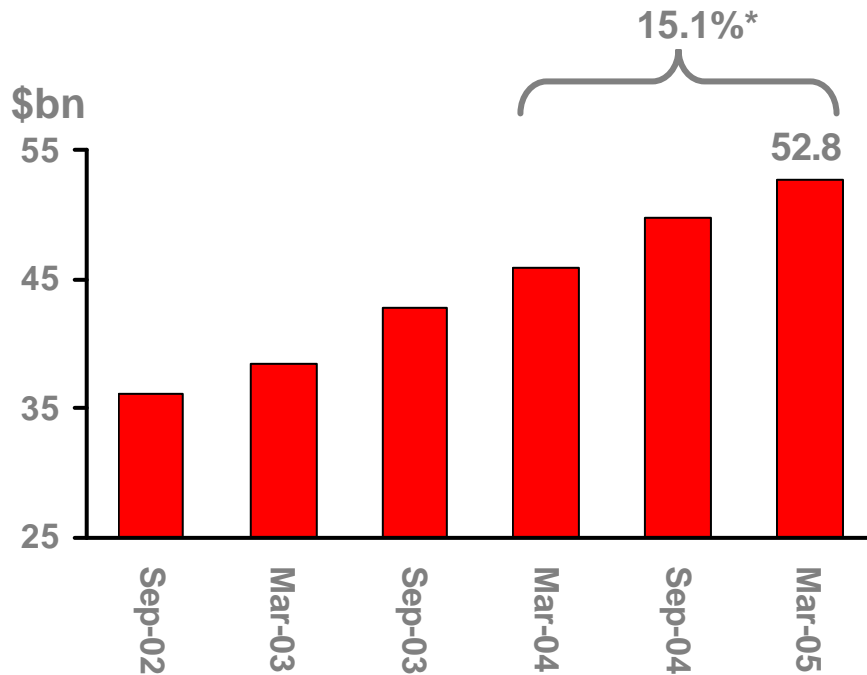
Build team and performance culture

Business priorities

Customer service	Integrated program of work well underway, driving differentiation
Home loans	Actively manage volumes and mix, with objective of achieving profitable growth in line with system
Deposits	Actively manage volumes and margin, with objective of achieving profitable growth
Middle market	Achieve at least twice system growth
Wealth management	Within top 5 in net funds inflow
Team	Maintain high quality and aligned teams at every level
Victoria and Queensland	Continue targeted growth strategy, capturing market share in key segments
Productivity management	Rolling program of efficiency initiatives, facilitating reinvestment

Home Loans - meeting the challenges

Residential receivables



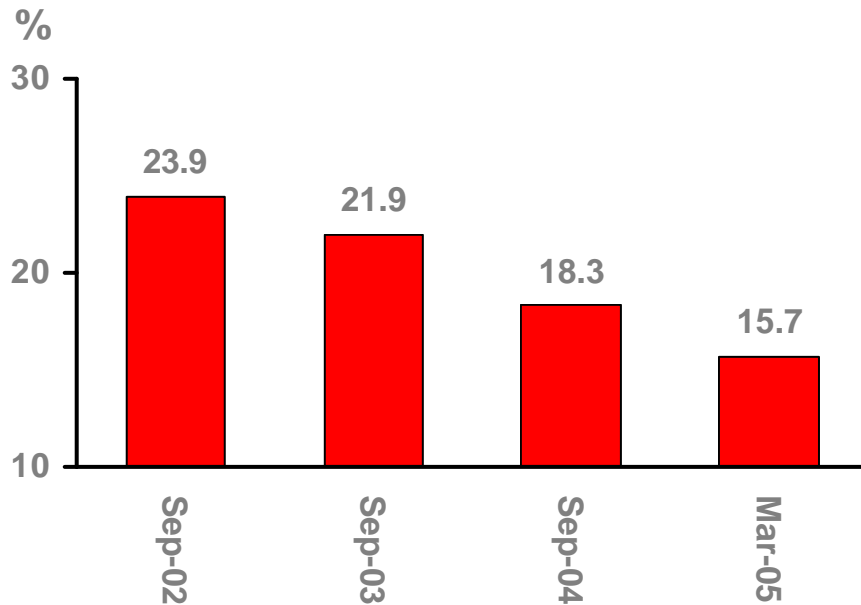
- 12.1% annualised growth in 1H05
- Expecting FY05 growth to be around system
- Stable margin performance supported by mix management
- Brokers – 43% of new flows
- Focusing on improving proprietary channel sales and productivity performance

- LVR of mortgage book is 39.5%
- LVR of mortgages written in 1H05 is 66.2%



Home Loans - improving retention

Run-off rate*



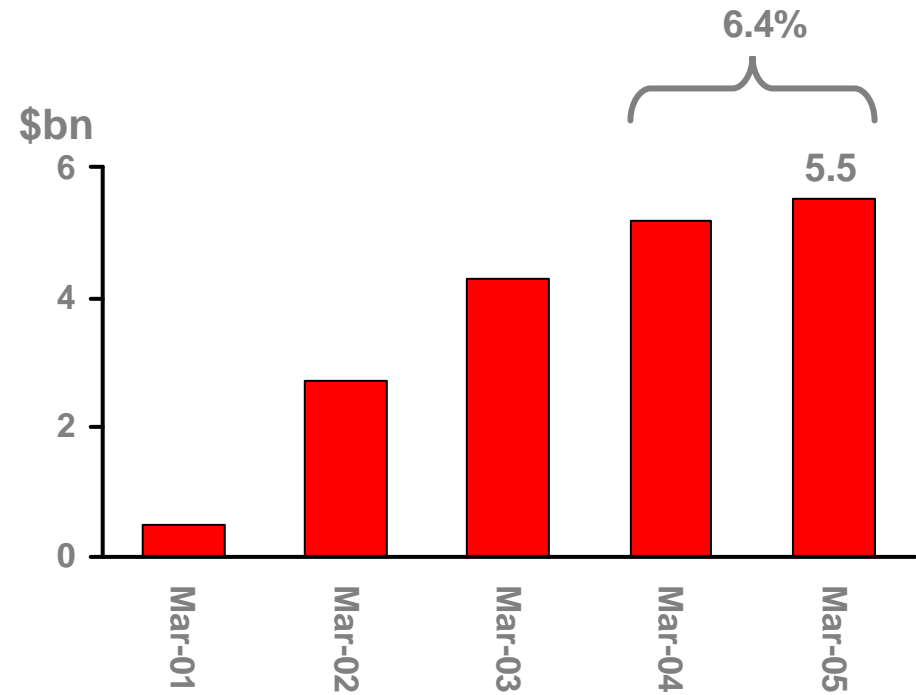
- Active relationship management focus
- Dedicated retention team
- Mixture of central and locally executed campaigns
- Retention result supported by slowing housing market and interest rate rise

Home Loans - product mix actively managed

	Receivables	Settlements			
	Mar-05 %	1H05 %	FY04 %	FY03 %	FY02 %
Introductory	1.6	4.0	8.0	20.4	39.9
Portfolio	32.8	31.3	34.7	34.0	30.2
Standard variable and Basic	45.8	42.7	37.3	31.1	21.3
Fixed	13.0	9.0	7.8	9.6	8.6
Low Doc	4.3	8.4	8.5	2.2	0.0
No deposit	1.8	3.7	2.8	2.1	0.0
Seniors Access	0.7	0.9	0.9	0.6	0.0
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Deposits - disciplined margin/volume management

directsaver account balances

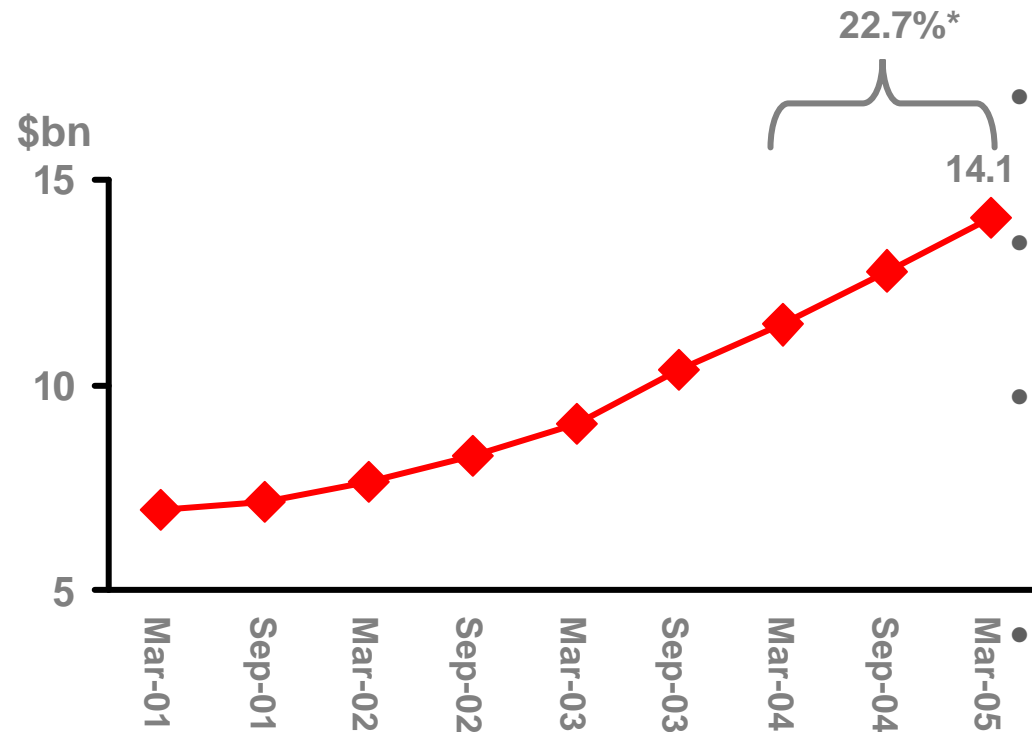


- Competition increasing as:
 - new competitors enter the market
 - established players respond
- Strategic focus on profitable growth:
 - transaction account balances defended
 - new products 'Powersaver' and 'Freedom Plus' launched in Apr-05
- Group wide focus and targeted strategy in place



Middle Market - high quality growth

Total middle market receivables



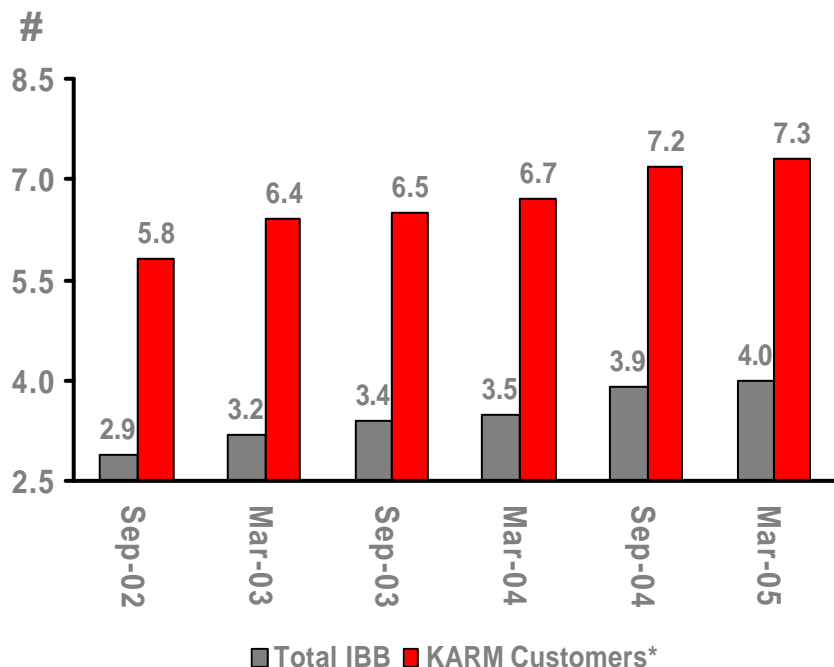
- 20.2% annualised growth in 1H05
- Relationship model delivering
- Impaired assets/total middle market receivables at 0.23%
- Named 'Business Bank of the Year'^

	3 year CAGR	5 year CAGR
Middle market receivables	22.5%	17.6%

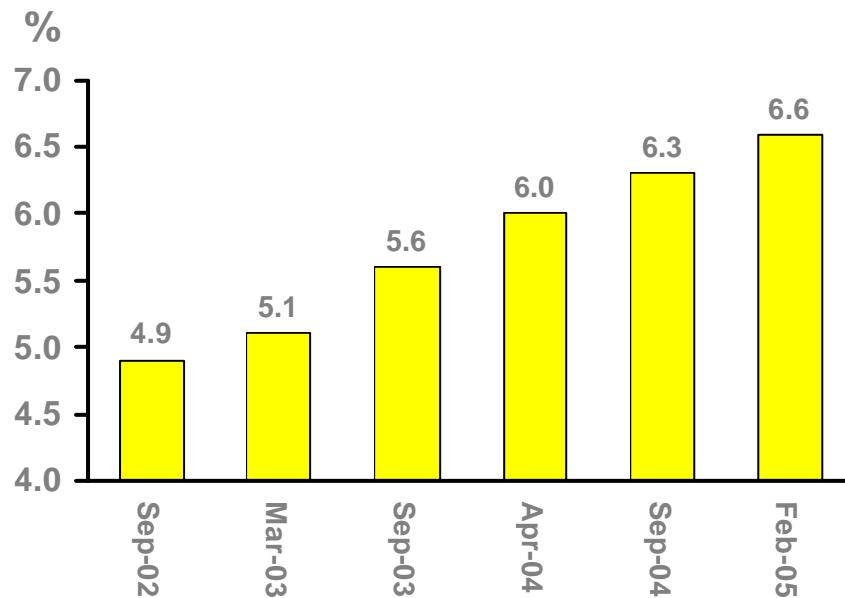


Middle Market - growing customer relationships

Products per customer



Market share

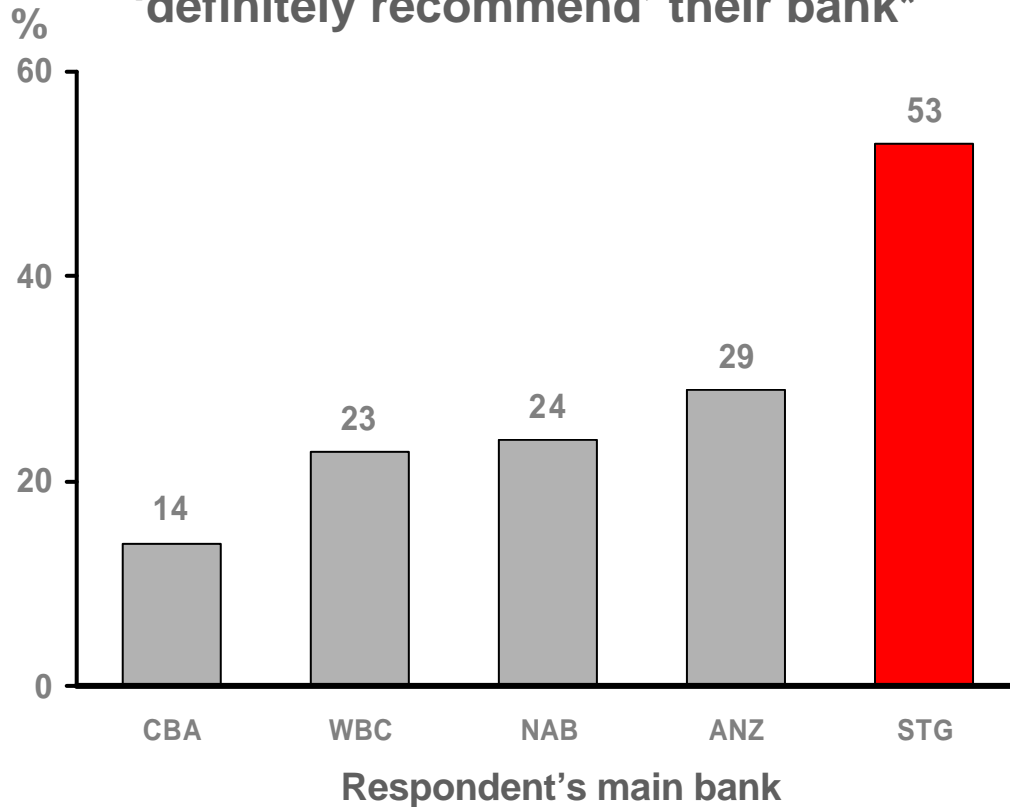


- 67% of new business sourced from existing customers
- 90% of new business sourced from 6 target industries



Middle Market - power of customer advocacy

Respondents who would
'definitely recommend' their bank*



Expected churn^

- 19% of major bank customers are considering changing banks in the next 6 months
- 0% of St.George customers are considering changing

41% of customers who said that they would
'recommend' confirmed they actually did

*Jones Donald customer survey C&BB Sep-04



st.george

^East & Partners: Australian Mid-Corporate Transaction Banking Markets as at Feb-05 (refers to main transaction bank)

Middle Market - Best Business Bank program

Objectives

Increase customer numbers

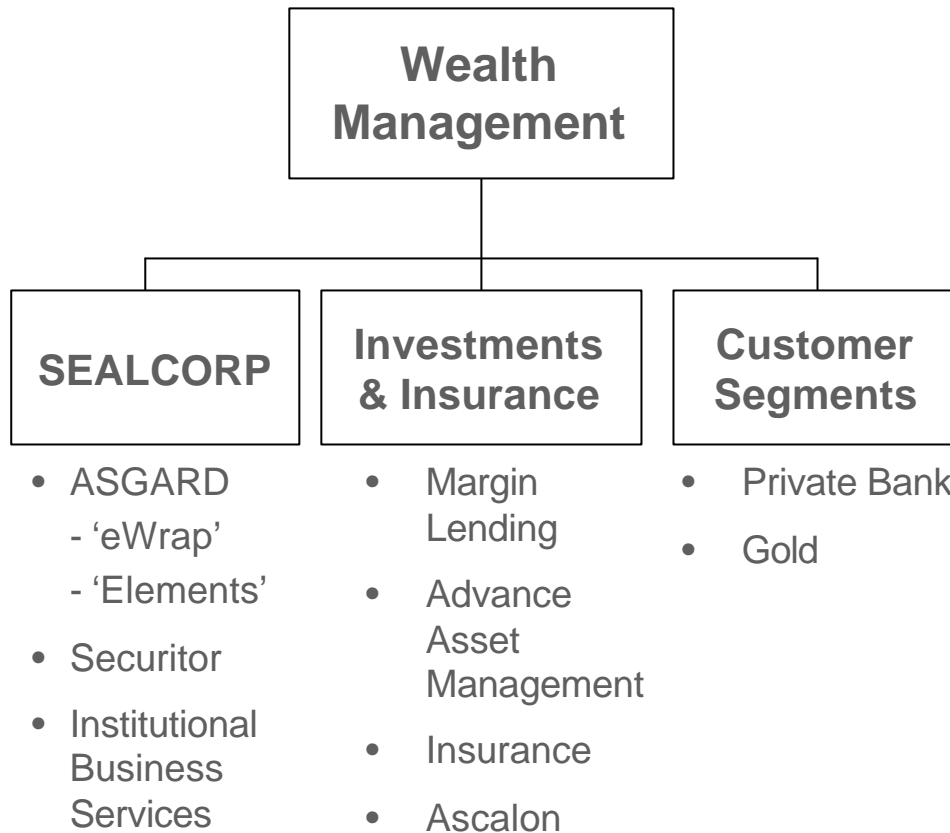
Maintain high customer and employee engagement

Expand capability in selected industries

Maintain at least twice system growth

Imperatives

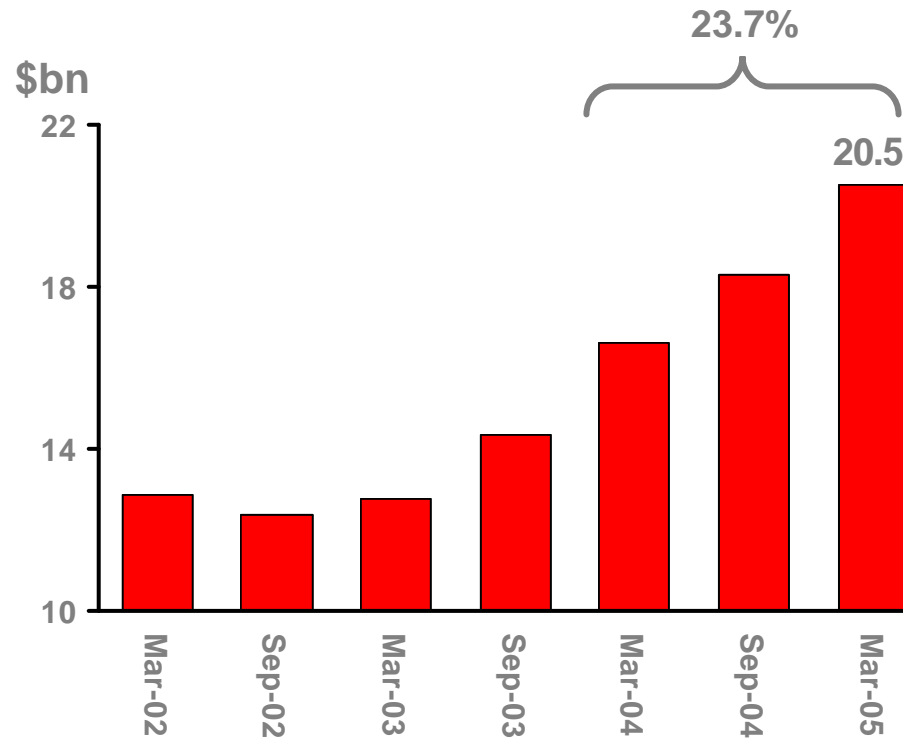
- Improve productivity at front line
- Increase resources and expand footprint in core geographies – NSW, ACT, SA
- Expand resources and footprint in non-core geographies – VIC, QLD, WA
- Leverage full potential of \$250k-\$1m segment
- Maintain superior credit quality
- Improve product delivery and credit processes
- Planned increase of over 100 new middle market staff this year
- Over 50 staff involved in program delivery



- Wealth now contributing more than 10% of Group segmental earnings
- All businesses contributing strongly
- Growing and broadening distribution through:
 - greater penetration of IFA dealer groups, corporate super and institutional businesses
 - improved internal planner productivity

SEALCORP - profitable growth

Funds under administration

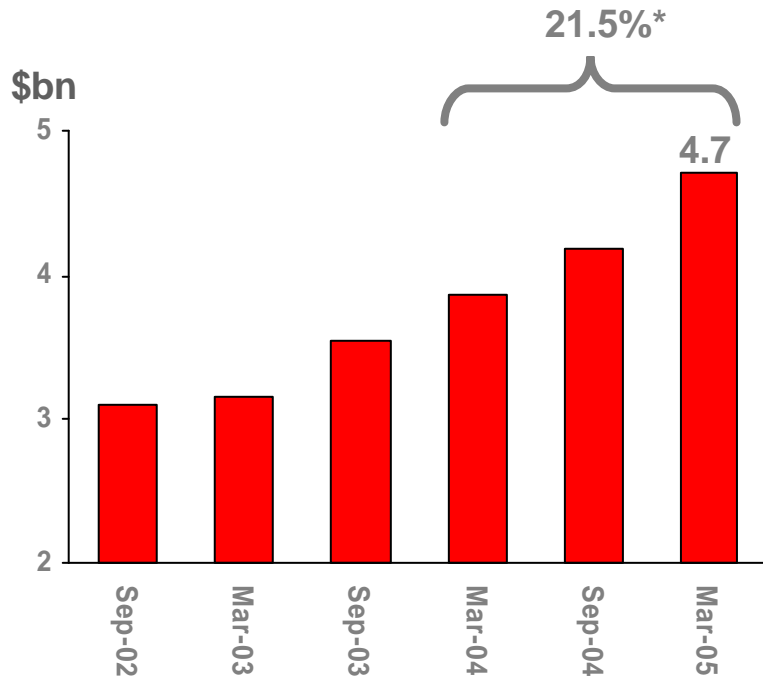


- ASGARD – preferred platform for top 50 dealer groups*
- FUA up \$3.9bn due to strong net inflows and favourable market conditions
- ASGARD ‘Elements’ mastertrust and ‘eWrap’ now comprise 12% of FUA
- Inflows from institutional alliances exceeding expectations and targets
- Continued investment in underlying infrastructure

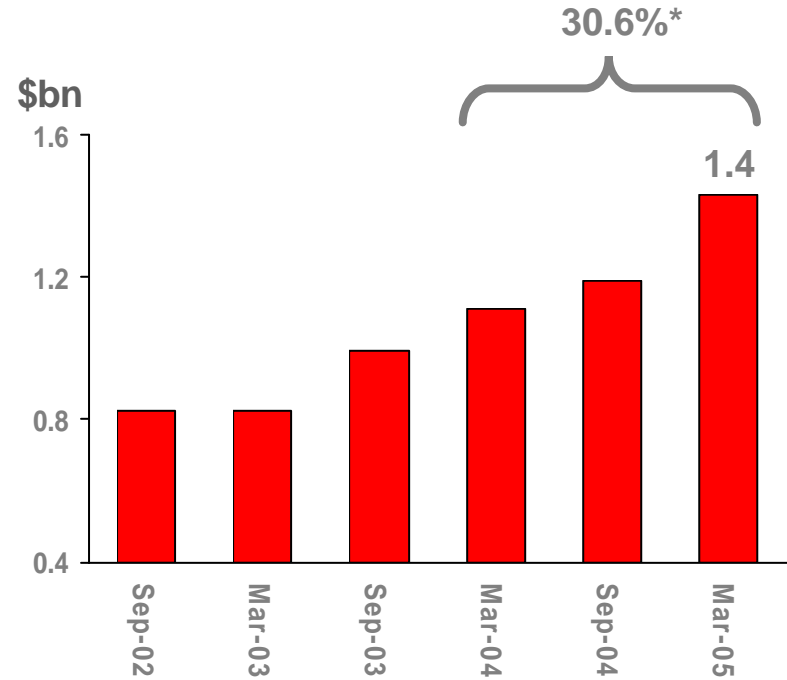


Wealth Management: portfolio of growth businesses 46

Advance FUM



Margin lending receivables



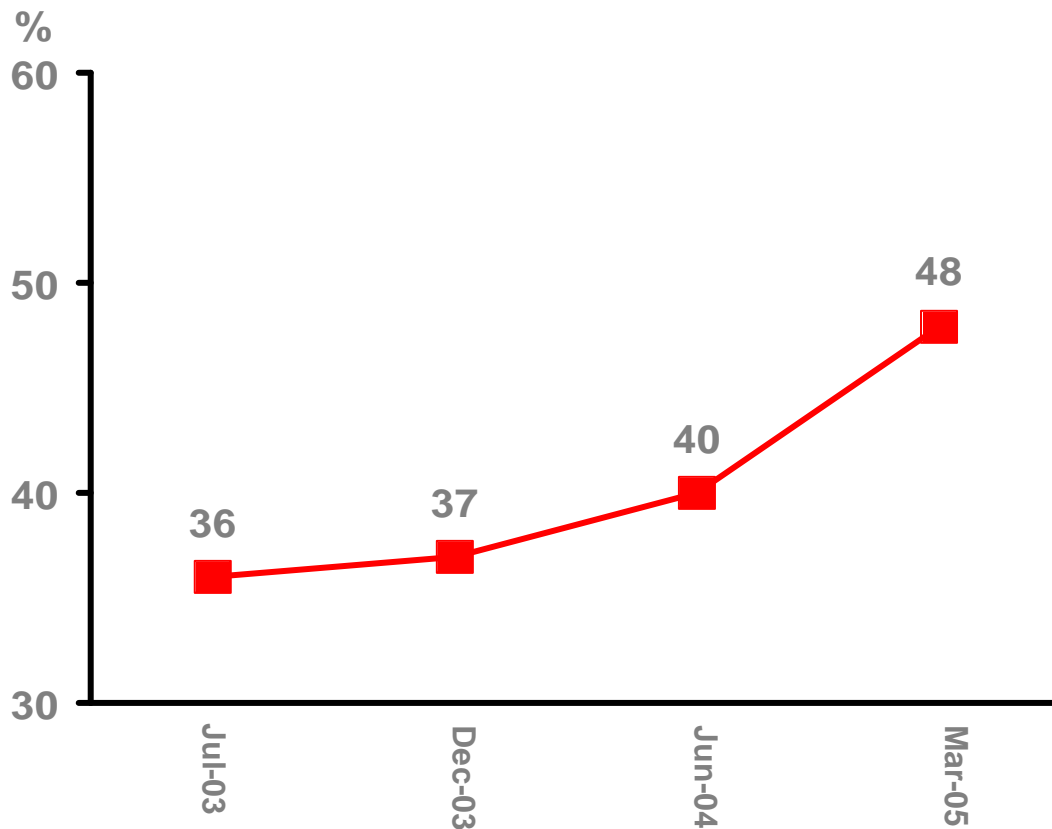
- Gross flows up 11.3%^
- New products including the 'Advance Mortgage Trust' and 'Australian Smaller Companies Fund' contributing to strong inflows

- A quality, scalable business
- Product and service excellence
 - 'Margin Lender of the Year' for 2nd consecutive year[#]
 - Cannex 5 star rating



GOLD - customer advocacy strengthening

GOLD customers who would 'definitely recommend St.George'



- Customer numbers up 23% to 170,000 since Mar-04
- 1 in 4 GOLD customers 'absolutely delighted'*
- Customer retention remains high at 98%



Interstate growth strategy

Business volumes growth

	Residential	Middle Market	Total Asset Growth
	%	%	%
VIC	34	30	33
QLD	23	16	22
WA	19	27	22

Victoria – targeted growth, steady build

- Measured build of infrastructure and capability:
 - 31 retail branches
 - 5 business banking centres
- 83 additional people since Sep-03

Queensland – area of focus

- General Manager appointed Nov-04
- Additional investment planned
- 15 additional people since Sep-04

Organic growth momentum building



Continuous productivity improvement

Redesigning our processes from the customer perspective

- Simplification of data capture
- Reduction in paper flow
- Streamlining of credit processes
- Embedding a culture of productivity and service disciplines

Group wide productivity management

- Continued emphasis on rigorous financial analysis
- Cross divisional review of investments and portfolios
- Ongoing review of property, procurement and IT sourcing
- Discipline through internal charging and ongoing productivity improvements

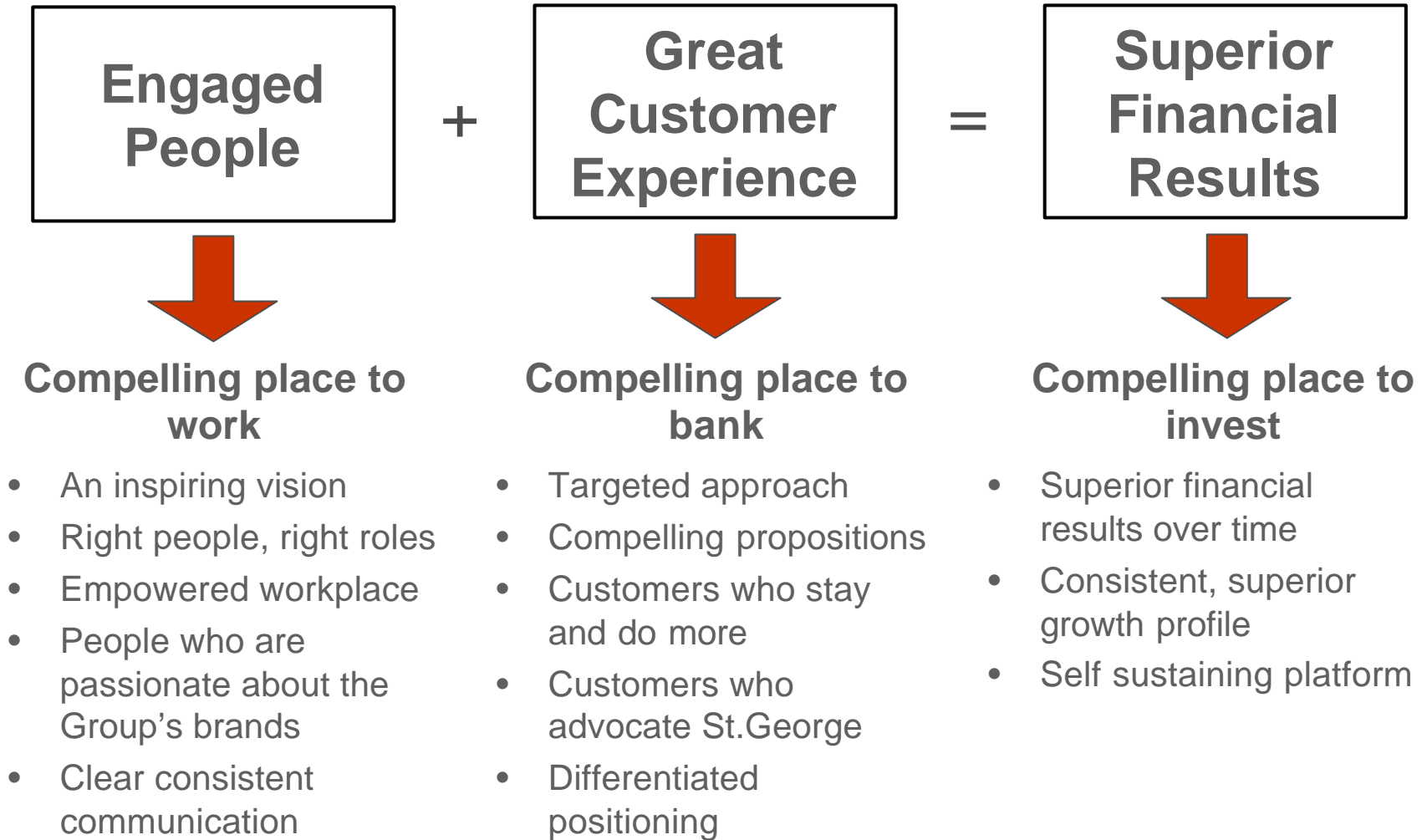
Productivity benefits funding reinvestment initiatives

Business priorities update

Differentiating on customer service

Management targets

Our customer service formula



2005 - key areas of investment

New retail organisational
model

Integrated Sales and
Service program (ISS)

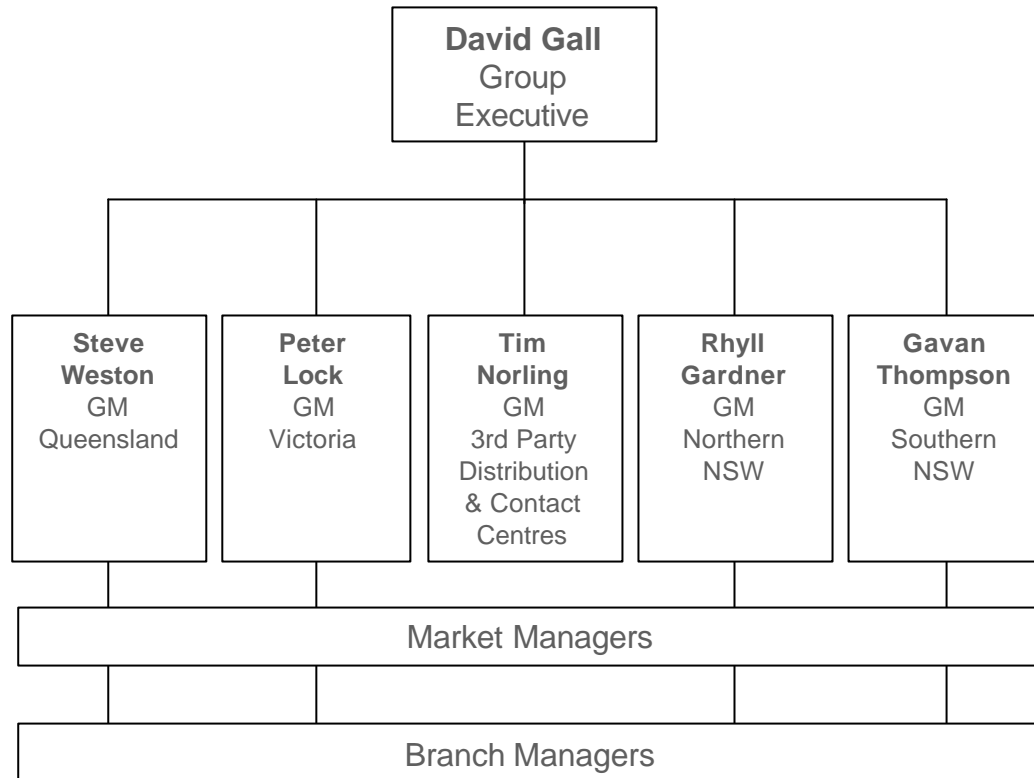
Engaged people

Customer segmentation
and value propositions

Customer Relationship
Management

Accelerating front line ownership and accountability ⁵³

New retail distribution structure



- Realignment driving local market empowerment
- 5 new general managers ensuring accountability for sales and service outcomes
- Enhanced MIS supporting revenue and productivity focus
- Significant investment in training and development
- Integrated Sales and Service reviewed, refined and being accelerated

Targeting leadership in sales and service

ISS scorecard	
New tools and processes	In place
Support/buy-in for new approach	Strong
Skilled application/usage	Inconsistent
Sales and service uplift	Improving

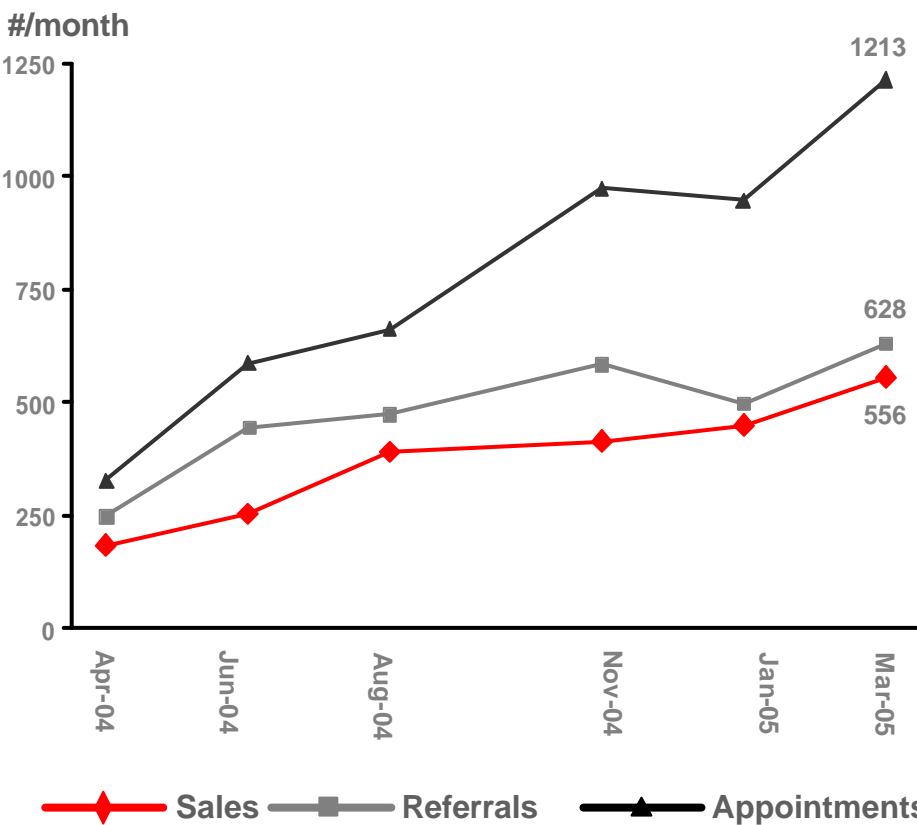
Actions underway

- Simplification of measures and reward structures
- Enhanced revenue and productivity metrics
- Additional skilling and coaching
- Reinforcement of best practice

Retail realignment accelerating ISS implementation

BankSA - ISS key to strong sales performance

ISS performance indicators



- Growing market share from a leading position in a mature market
- Rigorous and disciplined approach to sales management
- 73,000 outbound calls made
- Customer satisfaction levels up 5%
- Market share:
 - up 3% in deposits to 25%
 - up 4% in personal loans to 14%
 - up 3% in commercial loans to 16%
 - home loans stabilised at 18%



*Since Sep-03

Engaged people - strong culture of commitment

New staff

- Recruiting for attitude, values alignment
- 4 week customer service induction program

Sales and service leadership program

- 12 month program
- 75 frontline managers to graduate in mid-05
- 100 managers to complete program in 2nd rollout

Customer service accreditation

- Specific customer service training program
- Leaders to undergo more intensive accreditation

Leadership programs

- Intensive programs designed for three different layers of management
- Over 850 staff completed programs to date

HR Magazine Awards*

Best HR team

Best HR director

Best overall use of HR technology

HR Institute Awards^

Excellence in people management (NSW)

Excellence in people management (National)



Program of work driving great customer experiences⁵⁷

Deliver service excellence

- Focus on behaviours that lead to advocacy, retention and expansion
- Measure and minimise servicing failures

Target customer segments

- Phased roll-out of new customer welcome program
- Increase new customer product penetration and improve retention

Enhance customer value propositions

- Develop differentiated service propositions for customers emphasising
 - customer value
 - retention risk
 - potential value

Tailor marketing campaigns

- Execute event based campaigns both centrally and locally
 - 31 customer event based campaigns since Mar-04, another 59 by Sep-05
 - new CRM platform to provide additional capability

Actionable customer relationship management

Sep-04

Lead
Management
System

ENACT frontline
ISS software

+

Comprehensive
data warehouse

Integrated Sales
and Service
program

+

Segment
marketing

New teller
platform



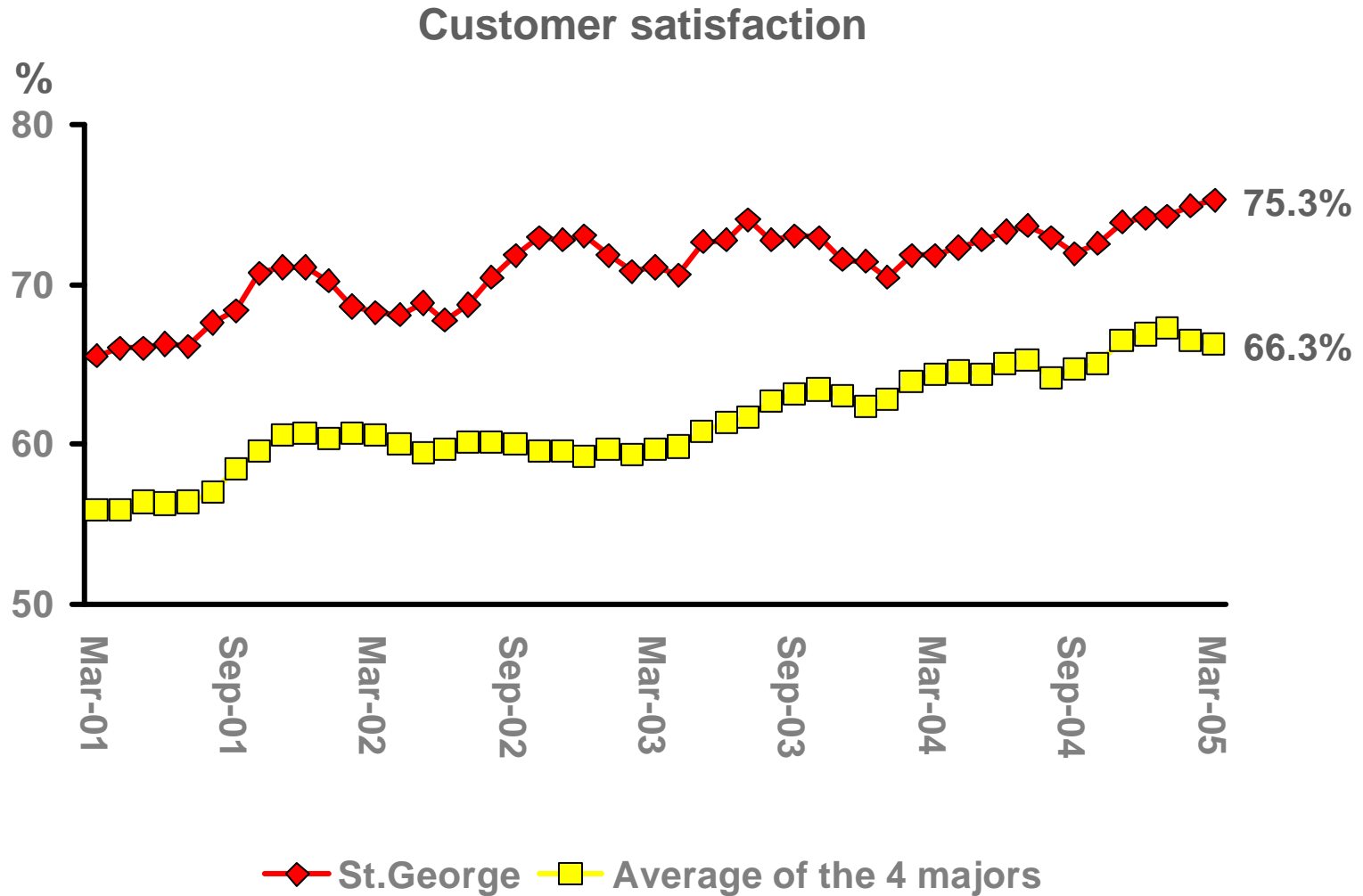
Sep-05

One customer view

- Simple screen display of key customer data
- Cross-channel view of customer interactions
- Events/needs based marketing
- Improved customer service through real time interaction
- Integrated leads management and referral system

On track for delivery

A differentiated customer experience



Business priorities update

Differentiating on customer service

Management targets

Targets: FY05 and FY06

EPS growth FY05	Up from 10% to 11%
EPS growth FY06	Double digit
Cost to income	Manage to lower end of peer group
Capital	Tier one 7.0-7.5%
Credit quality	Maintain positive differential to majors
Customer satisfaction	Maintain positive differential to majors

In conclusion

- Measured, disciplined and consistent strategy delivering
- Continued focus on enhanced customer service differentiation
- Meeting the challenges of increasing competition
- Strong execution track record
- Investing for the future
- Focus on sustainable, high quality earnings



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