

# Interim Results 2006

**2 May 2006**



# Agenda

**Result highlights:**

**Gail Kelly**

**Financial overview:**

**Steve McKerihan**

**Strategy, business performance  
and outlook:**

**Gail Kelly**

# Result Highlights

**Gail Kelly**  
**Managing Director**



# Profit result

	Mar-06	Sep-05	Change %*	Mar-05	Change %^
<b>Profit before significant items</b>					
Statutory AIFRS	\$502m	\$466m	7.7	\$449m	11.8
Full AIFRS	\$502m	\$443m	13.3	\$438m	14.6
Full AIFRS excluding hedging and derivatives	\$495m	\$448m	10.5	\$444m	11.5
<b>Profit after significant items</b>					
Statutory AIFRS	\$502m	\$455m	10.3	\$460m	9.1
Full AIFRS	\$502m	\$432m	16.2	\$449m	11.8
<b>Dividend</b>	74¢	70¢	5.7	67¢	10.4

Percentages \*Sep-05 to Mar-06 ^Mar-05 to Mar-06



# Key financial ratios

## Earnings per share

	Mar-06	Sep-05	Change %*	Mar-05	Change %^
Statutory AIFRS	191.9¢	179.5¢	6.9	175.5¢	9.3
Full AIFRS	191.9¢	170.7¢	12.4	171.2¢	12.1
Full AIFRS excluding hedging and derivatives	189.1¢	172.6¢	9.6	173.5¢	9.0

## Return on equity

Statutory AIFRS	23.0%	22.0%		22.4%	
Full AIFRS	23.0%	20.9%		21.8%	

## Expense to income

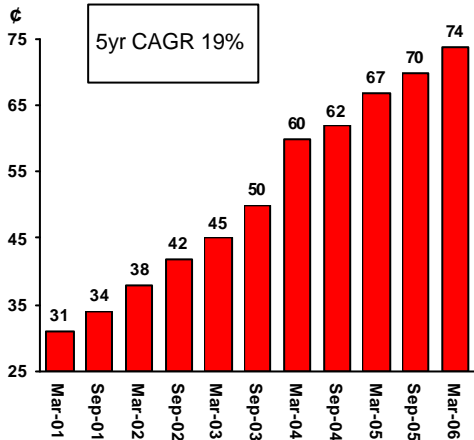
Statutory AIFRS	44.1%	46.7%		45.4%	
Full AIFRS	44.1%	48.0%		46.8%	

Percentages \*Sep-05 to Mar-06 ^Mar-05 to Mar-06. Before significant items and goodwill

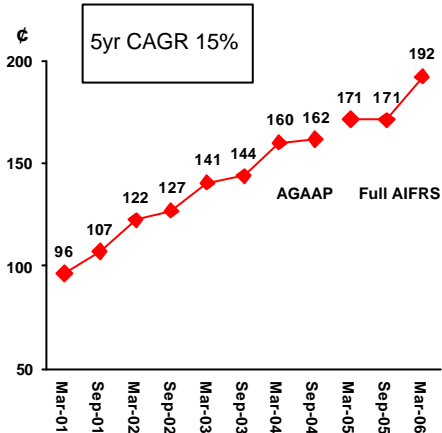


# Strong dividend growth

## Dividend payout



## Earnings per share\*



Dividends growing in line with earnings per share

\*Before significant items and goodwill



# 1H06 – result highlights

- Quality result – clean, robust performance
- Solid growth in home lending, middle market, retail deposits and consumer lending
- Outstanding performance in managed funds
- Excellent cost management and credit quality
- Continued investment in the future
- Focused management team, track record of achievement
- Strong 2H06 expected



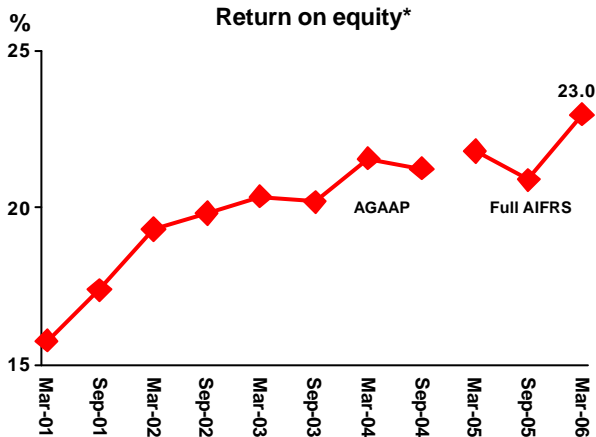
# Financial Overview

**Steve McKerihan**  
**Chief Financial Officer**





# Superior return on equity

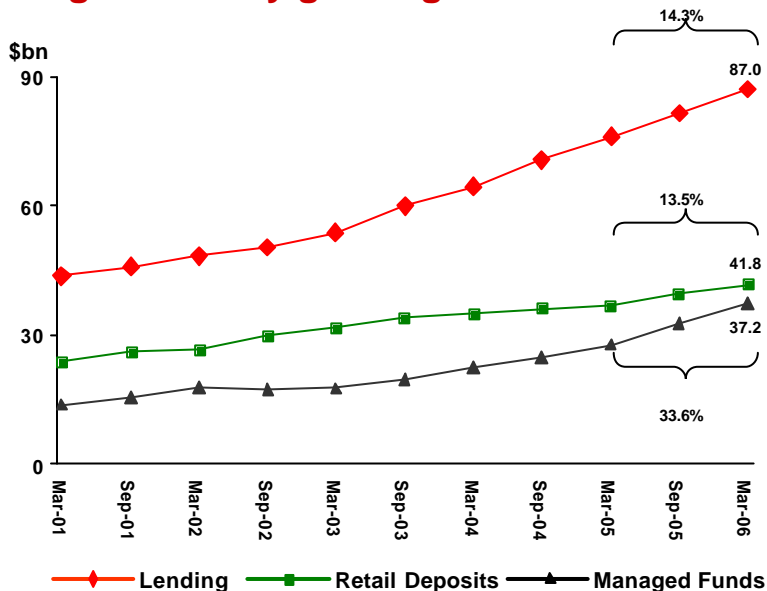


Focused on sustainable, high quality earnings

\*After preference dividends and before significant items and goodwill



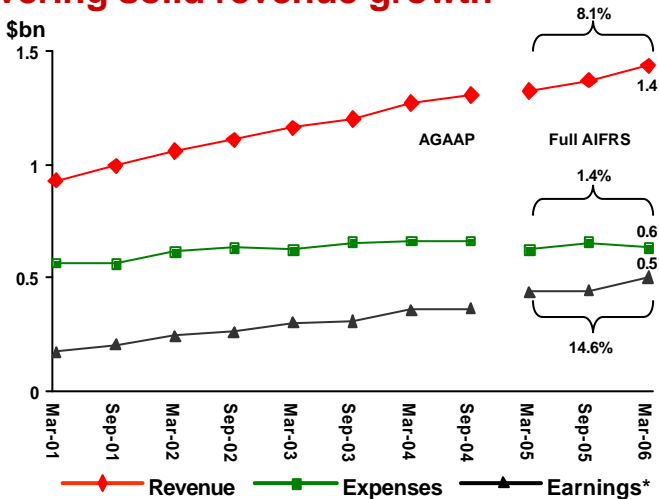
# Earnings driven by growing business volumes



Percentages Mar-05 to Mar-06



# Delivering solid revenue growth

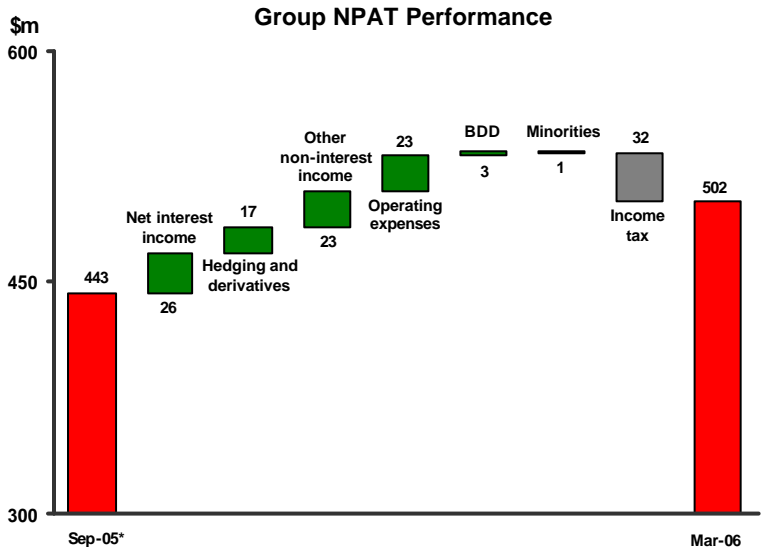


High single digit revenue growth + low single digit expense growth  
= double digit EPS growth

\*After tax expense and preference dividends. Percentages Mar-05 to Mar-06. Before significant items



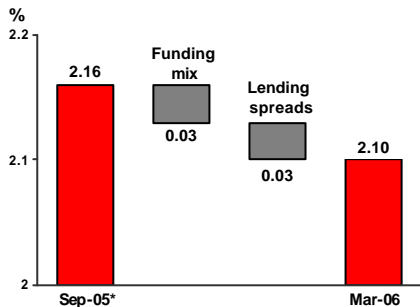
# Strong operational result – 1H06 on 2H05



\*Full AIFRS comparative. Before significant items



## Net interest margin – 1H06 on 2H05

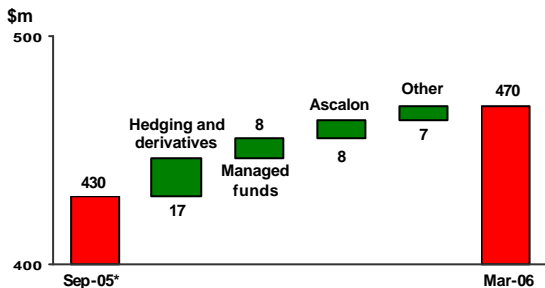


- Retail funding spreads impacted by stronger growth in high yielding deposit accounts
- Modest compression in lending spreads despite strong competition in residential and commercial lending
- AIFRS margin impacted by inclusion of securitised loans, bank acceptances and preference shares

Full AIFRS margin compression 6bps

\*Full AIFRS comparative. Before significant items

# Non-interest income – 1H06 on 2H05



## Hedging and derivatives

- Reflects the movement in hedge ineffectiveness and the net fair value of the DCS<sup>^</sup>

## Managed funds

- Driven by strong net inflows and favourable investment markets

## Ascalon

- Represents profit on sale of Ascalon Capital Managers Ltd. St.George retains 50% ownership in the business

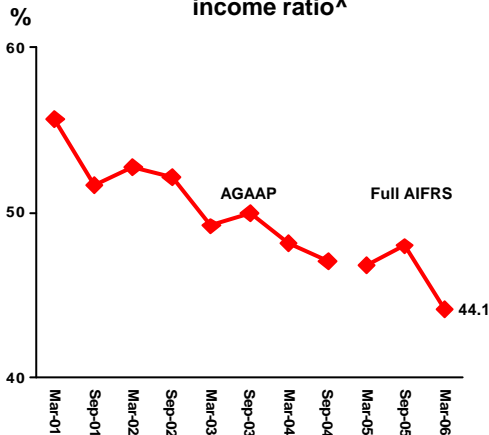
## Other

- Fee revenue on lending, deposits and electronic banking stable despite increased levels of price competition. Improved momentum expected in 2H06

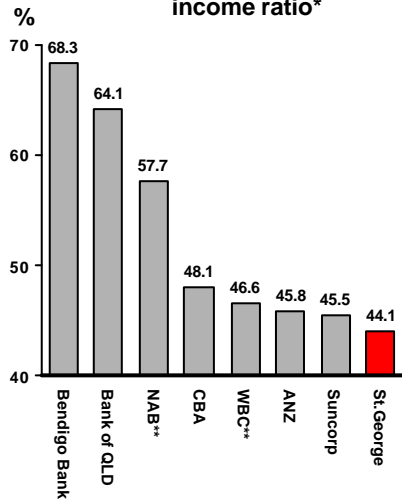


# Effective cost management

## St.George group expense to income ratio<sup>^</sup>



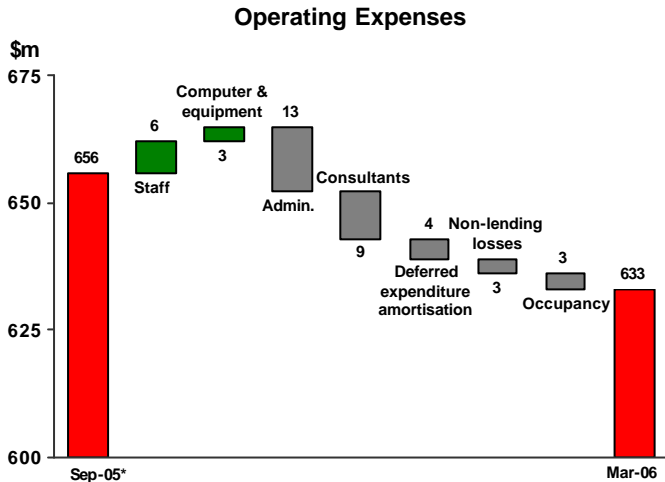
## Peer group expense to income ratio<sup>\*</sup>



<sup>^</sup>Excluding goodwill and before significant items. <sup>\*</sup>Ratios as at the companies last reporting date. <sup>\*\*</sup>AGAAP



# Effective cost management – 1H06 on 2H05



\*Full AIFRS comparative. Before significant items





## Segmental profits - all divisions contributing

	Profit before tax Mar-06 \$m	Change* %	Cost to income ratio Mar-06 %	Contribution to segment profit %
Retail Bank	329	10	47.2	45
Institutional and Business Banking	206	5	37.2	28
BankSA	100	14	42.9	14
Wealth Management	91	26	48.6	13

# Segmental profits - all divisions contributing

## Retail Bank

- Profit up 15% 1H06 on 2H05
- Strong momentum in business volumes
- 'Local markets' strategy boosting productivity

## Institutional and Business Banking

- Revenue in middle market up 11%
- Stable revenue from financial markets and auto finance, which together contribute one third of IBB profits
- Operating expenses up 10% impacted by the significant investment in people undertaken through the Best Business Bank program

## BankSA

- Revenue up 8% reflecting strong growth in lending assets
- Expense to income ratio down to 42.9% from 45.6%

## Wealth Management

- Revenue up 15% due to strong growth in managed funds and margin lending



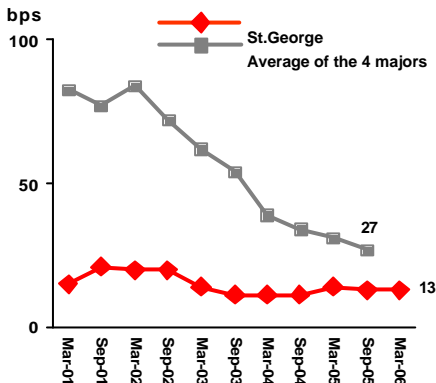
# St.George Insurance Pte Ltd - quality performance

- 1H06 profit after tax \$32m, up from \$28m in 2H05
- Contribution to Group profit after tax is \$22m
- Contribution is lower than SGI profit due to the elimination of intercompany transactions and the different tax rates in Singapore and Australia
- Additionally under AIFRS premium income is reclassified as interest income and recognised over an extended period
- Movement of domicile from Singapore to Australia by Sep-07 on track
- Strongly capitalised with \$188m of shareholder funds. Dividend of \$40m paid by SGI to St.George in Mar-06
- S&P rating lifted to A+ from A in Jan-06\*



# Excellent credit quality

## Gross non-accruals/total receivables



Bad and doubtful debts 0.21%\*  
of average total receivables

## Non-accruals loans

- Net non-accrual loans \$44m down from \$51m in Sep-05<sup>^</sup>
- Largest exposure <\$10m
- Next 2 largest net exposures total c.\$12m
- Remaining top 20 non-accrual loans range from \$0.2m to \$2.5m
- Specific provision coverage for non-accruals is 44.3%, up from 33.8% in Sep-05
- Exposures well secured and prudently provisioned
- Low risk business mix
- Proven, consistent track record

\*Annualised <sup>^</sup>Non-accrual loans net debt >\$100k



## Basel II – on track and costs effectively managed

- Estimated total program cost c.\$40m with majority already spent, \$17m invested during FY05 and \$15m to be invested in FY06
- Application for Internal Ratings Based Approach to Credit Risk s ubmitted to APRA in Sep-05
- Application to adopt the Advanced Measurement Approach for Operational Risk to be submitted in Sep-06
- Two year parallel run period for Advanced Credit Risk commencing from Jan-06 and for advanced operational risk from Jan-07
- Basel II underpins the Group's risk management processes and is progressively transitioning to 'business as usual'

# AIFRS – regulatory capital impact

- AIFRS impacts on regulatory capital are currently being finalised in conjunction with APRA
- Capital adequacy continues to be calculated in accordance with AGAAP until 30 Jun-06
- From 1 Jul-06 capital adequacy will be measured in accordance with APRA's proposed regulatory approach to AIFRS
- Tier 1 regulatory capital expected to be impacted by capitalised expenses, loan impairment and AIFRS transition adjustments to retained earnings including taxation, derivatives, fair value hedging and share issue costs
- AIFRS tier 1 transition adjustments are expected to total \$194m, with transitional arrangements in place until Dec-07
- New innovative hybrid equity limits to apply from Jan-08



# AIFRS – provisioning impact

- APRA requires a General Reserve of 0.5% of risk weighted assets\* under AIFRS
- An additional deduction from Tier 1 capital will be required to the extent the General Reserve is greater than the collective provision

	Mar-06 \$m
AIFRS collective provision	261
Less tax effect	<u>(78)</u>
AIFRS collective provision net of tax	183
Total APRA required General Reserve <sup>^</sup>	255
Additional General Reserve transfer from retained profits	72

	Mar-06 \$m
Reversal of AGAAP provisions net of tax	
- Specific provisions	28
- General provision	228
Recognition of AIFRS collective provisions net of tax	(183)
General reserve for credit losses	<u>(72)</u>
Net impact on tier 1 capital	1

\*Net of tax <sup>^</sup>Calculated as 0.5% of risk weighted assets



# AIFRS – 1H06 appropriation to general reserve

<b>General reserve for credit losses</b>	<b>\$m</b>
Balance as at 1 Oct-05	68
Balance as at 31 Mar-06	72
	<hr/>
<b>Appropriation for current period</b>	<b>4</b>
	<hr/>

This appropriation to a non distributable reserve could be viewed as an additional charge against profits



# Active capital management

## 1H06

- DRP on FY05 final dividend underwritten to 35% raising \$127m in Dec-05
- \$3.1bn of residential loans securitised
- \$300m PRYMES converted to ordinary shares in Feb-06 at a price of \$29.07
- \$300m buy back of ordinary shares completed in Feb-06 at a price of \$25.69

## 2H06

- Innovative Tier 1 issuance of around \$150m planned for May/June 2006
- DRP on 1H06 interim dividend will not be underwritten
- Non-innovative Tier 1 issuance of around \$250m planned for second half of calendar year 2006 after the release of APRA's final prudential standards



# 10% AGAAP EPS growth target on track

	Mar-06	Sep-05	Change %*
Profit before significant items	\$451m	\$423m	13.2
Profit after significant items	\$451m	\$412m	18.9
Earnings per share^	191.4¢	182.2¢	10.1
Return on equity^	23.2%	22.6%	
Expense to income^	43.5%	46.1%	
Dividend	74¢	70¢	11.4

\*Annualised percentages Sep-05 to Mar-06 ^Before significant items



# Strategy, Business Performance and Outlook

**Gail Kelly**  
**Managing Director**



## **Business priorities update**

## **Management outlook and 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

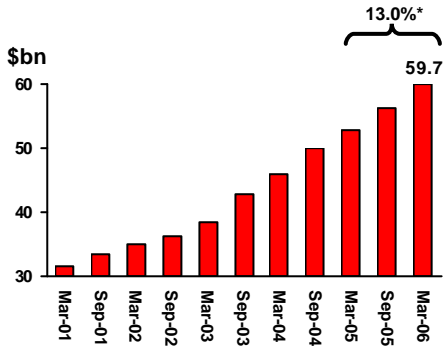
Established in 2002 and remains relevant today

# Business priorities

<b>Home loans</b>	Manage volumes and mix, with objective of achieving profitable growth in line with system
<b>Deposits</b>	Manage volumes and margin, with objective of achieving profitable growth
<b>Middle market</b>	Targeting twice system growth
<b>Wealth management</b>	Within top five for net funds inflow
<b>VIC, QLD and WA</b>	Continue targeted growth strategy, capturing market share in key segments
<b>Productivity management</b>	Rolling program of efficiency initiatives, facilitating reinvestment in revenue growth
<b>Team</b>	Maintain high quality and aligned teams at every level

# Home Loans – strong growth in tough environment

## Residential receivables



Growth	QLD	VIC	WA
Home loans**	18%	15%	22%

- 12.2% annualised growth in 1H06
- National market share stable despite NSW loans comprising 60% of portfolio
- Margin impact of increased competition minimised by product mix management
- Proprietary lenders productivity improving
- 15.4% run-off rate, down from 23.9% in Sep-02<sup>^</sup>
- 46% of new flows broker introduced
- Credit quality remains excellent

\*Percentage Mar-05 to Mar-06. Includes securitised loans \*\*Annualised percentages Sep-05 to Mar-06

<sup>^</sup>Annualised run-off rate includes contractual repayments, discharges and pre-payments



# Home Loans - product mix actively managed

	Receivables	Settlements			
	Mar-06	1H06	FY05	FY04	FY03
	%	%	%	%	%
Introductory	0.9	3.0	3.6	8.0	20.4
Portfolio	31.9	27.9	29.9	34.7	34.0
Standard variable and basic	45.2	45.9	42.2	37.3	31.1
Fixed	13.3	11.1	10.4	7.8	9.6
Low doc	4.8	5.7	8.3	8.5	2.2
No deposit	3.1	5.9	4.7	2.8	2.1
Seniors access	<u>0.8</u>	<u>0.5</u>	<u>0.9</u>	<u>0.9</u>	<u>0.6</u>
Total	100.0	100.0	100.0	100.0	100.0

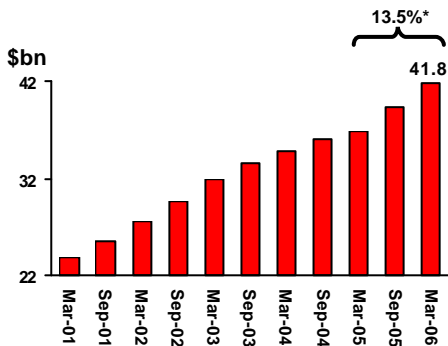
LVR of mortgage book 38.8%, for mortgages written in 1H06 67.0%





# Deposits – balancing growth and profitability

## Retail deposit balances



12.1% annualised growth in 1H06

## Transaction accounts

- 17%^ growth, balances now \$14.3bn
- Average account balances up by 7%\*\*
- 123,000 new accounts in 1H06

## Dragondirect

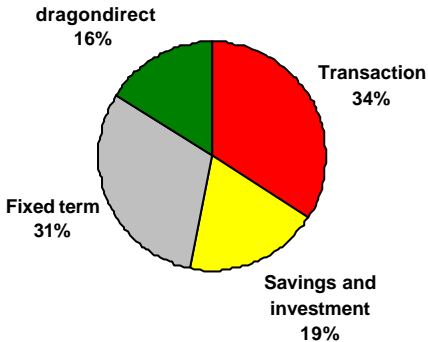
- 21%^ growth, balances now \$6.7bn
- 79% of flow new to the bank

Meeting the challenges of increased competition from new entrants and major banks



# Deposits – well balanced portfolio

Total retail funding mix  
\$41.8bn\*



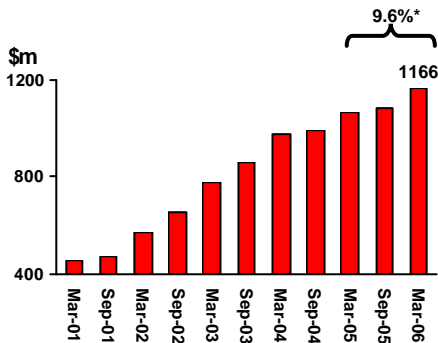
## Targeted strategy in place

- Branch network targeting transaction accounts
- Direct channel targeting internet accounts
- Utilising differential pricing in core and new geographies
- New products and enhanced focus in wealth and commercial banking
- New products and processes to attract small business customers

Managing volumes and product mix to achieve profitable growth

# Credit cards – opportunity to grow

## Credit cards balances



Only 20% of customers hold a St. George credit card, targeting 40% by 2010

- 15.1% annualised growth 1H06
- Sales of new cards per month have doubled since Jan-05
- Lender cross-sell ratio improving, up 13.5% since Mar-05
- Industry leading revolve and retention rates

## New 'Vertigo' card

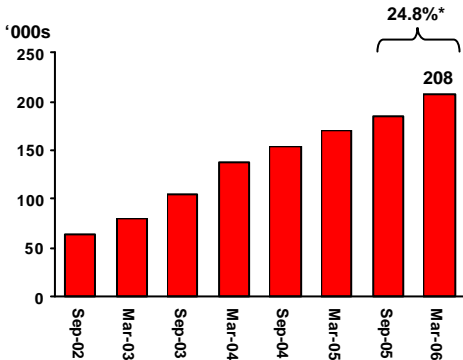
- Launched 1 May-06
- Low rate card, 0% balance transfer for launch
- Market leading position in low rate offerings
- Interest rate 8.99% and low annual fee of \$45
- Unique, vertical design

\*Percentage Mar-05 to Mar-06



# GOLD – stable, proven model delivering

## Number of GOLD customers



## GOLD customers

- 'Likely to recommend' consistently high at 85%
- 1 in 2 have actually positively recommended St.George in the last few months
- 78% nominate St.George as their 1<sup>st</sup> choice for their next product<sup>^</sup>
- High levels of customer retention
- 13% increase in product cross-sell 1H06 on 1H05

Stable and mature model successfully leveraging multiple channels

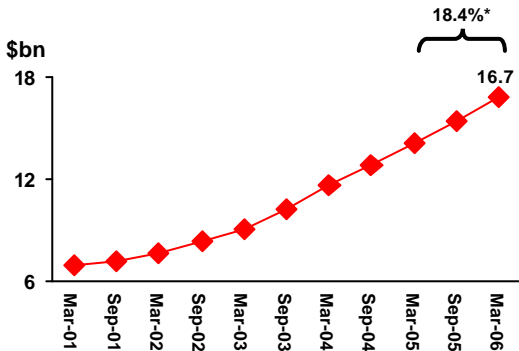
\*Annualised percentage Sep-05 to Mar-06

Source: Jones Donald Customer Experience Program Mar-06. <sup>^</sup>First choice financial institution



# Middle Market - resilient relationship model

Total middle market receivables



Growth	QLD	VIC	WA
Middle market receivables**	33%	26%	24%

- 17.6% annualised growth 1H06
- NSW economic growth lower than national average, property sector particularly impacted
- Commercial lending book:
  - 52% of balances in NSW
  - 40% in property investment
  - 11% in property construction and development
- Strong pipeline of new deal flow
- 19% growth in targeted sectors excluding property<sup>^</sup>
- Impaired assets/total middle market receivables 0.18%, down from 0.22% in Sep-05

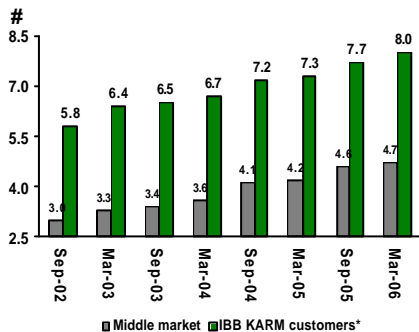
\*Percentages Mar-05 to Mar-06 \*\*Annualised percentages Sep-05 to Mar-06

<sup>^</sup>Targeted sectors include manufacturing & wholesaling, professionals, accommodation and health

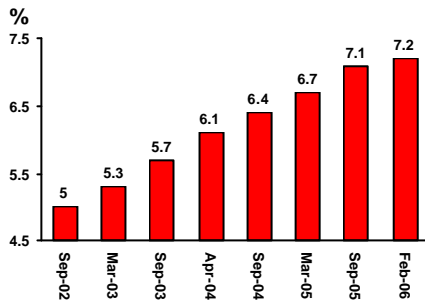


# Middle Market – growing customer relationships

## Products per customer



## Market share^

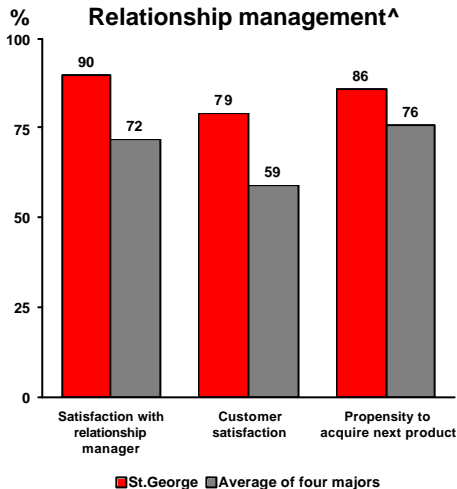


87% of new business sourced from target industries^^  
 31% increase in Middle Market customers since Sep-04

\*KARM – Key account relationship management. ^Cannex derived middle market market share ^^Mar-05 to Mar-06



# Middle Market: driving customer advocacy



## Customer advocacy

- 49% of St. George customers would 'definitely recommend' their bank
- Only 23% of major bank customers would<sup>^</sup>
- 38% of all St. George customers confirmed they have actually recommended the Bank<sup>^</sup>

## Expected churn

- 0% of St. George customers are considering changing banks in the next 6 months
- 18% of major bank customers are considering changing\*

<sup>^</sup>Source: Jones Donald Customer Satisfaction Survey Sep-05

\*East & Partners - Australian Commercial Transaction Banking Markets Survey Feb-06

# Middle Market – Best Business Bank program

## Delivered during 1H06

- Focus on productivity improvements for new and experienced managers
- 8 industry specific value propositions developed
- New sales support tools introduced eg customer sales software and industry databases
- New debenture lending product developed for manufacturing and wholesaling segment
- 44 additional business bankers in 1H06; 167 net additional business bankers since Sep-04
- 4 new and 1 expanded business sites in 1H06; 12 new and 5 expanded sites since Sep-04

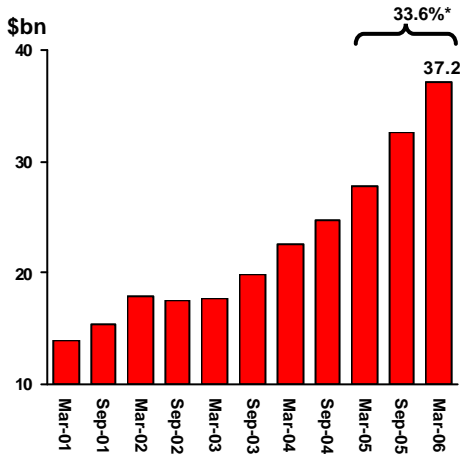
Relationship model and Best Business Bank program delivering





# Wealth Management – strong momentum

## Total managed funds



- 27.7% annualised growth 1H06
- Wealth segmental earnings up 3 times since Mar-02
- Wealth contribution to Group segmental earnings now 13%, up from 7% since Mar-02
- Excellent inflows reflecting strong platform sales and quality investment offerings

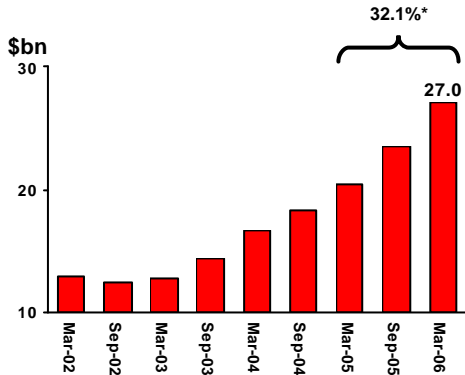
Portfolio of robust businesses well positioned to continue delivering

\*Percentage Mar-05 to Mar-06



# Asgard – accelerated growth

## Funds under administration



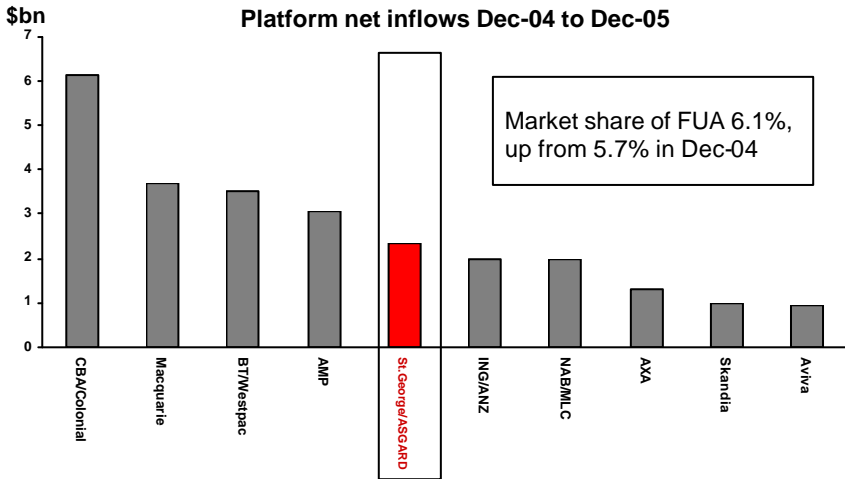
- 30.7% annualised growth 1H06
- Fastest growing 6 month period, net inflows up 40% 1H06 on 1H05
- Strong, diversified distribution channels with >800 owned and aligned planners
- Continued investment in underlying infrastructure
- Inflow up across all products and channels

Strong net inflows driving market share gains

\*Percentage Mar -05 to Mar -06



# Asgard - market share gains



10.8% market share of net inflows

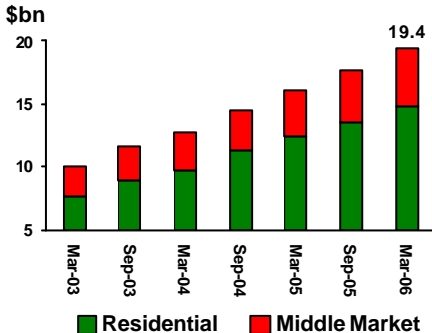


# VIC, QLD and WA – organic momentum building

## Residential and Middle Market receivables<sup>^</sup>

3yr CAGR 25%

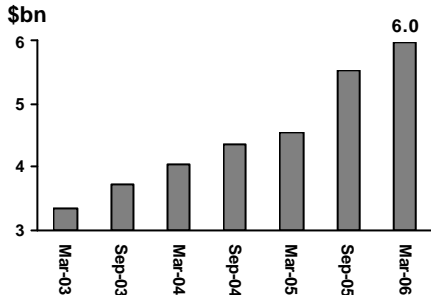
19.6%\*



## Total retail deposits<sup>^</sup>

3yr CAGR 21%

31.7%\*



28% of Group lending receivables and 15% of Group retail deposits balances now reside in VIC, QLD and WA

\*Percentages Mar-05 to Mar-06. <sup>^</sup>Includes VIC, QLD and WA



# Productivity management – 1H06

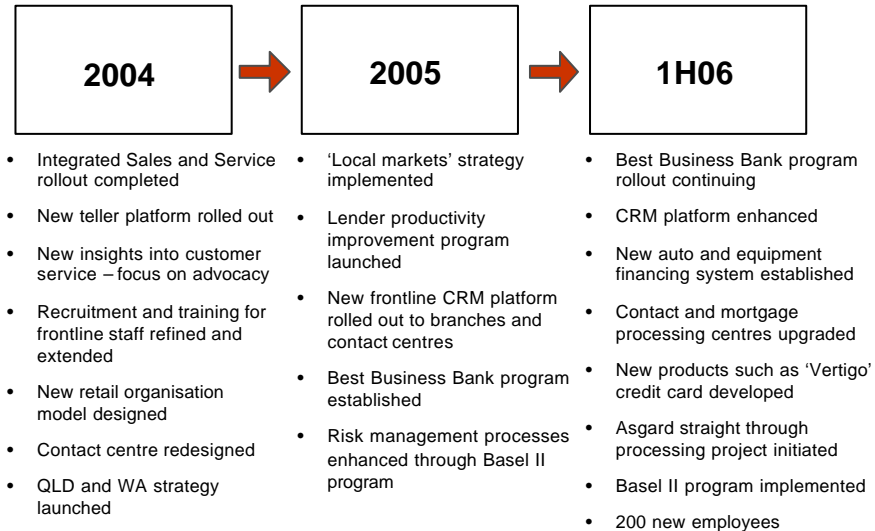
- Implemented a systematic approach to rostering across top 70 branches
- Enhanced teller platform - further reducing processing times, simplifying functionality and lifting front line productivity
- Redesigned contact centres delivering:
  - 19% increase in customer contacts per employee per day
  - 30% increase in customers self authenticating
  - improvements in quality and productivity due to new rostering system
- Continued rollout of imaging workflow technology including 'virtual' security packets for home lending
- Installed electronic valuation for standardised home loans with low LVRs
- Reviewed support functions, eliminating duplication
- Realised benefits from outsourcing property and facilities management contract negotiated in Nov-05

# Continuous program of reinvesting



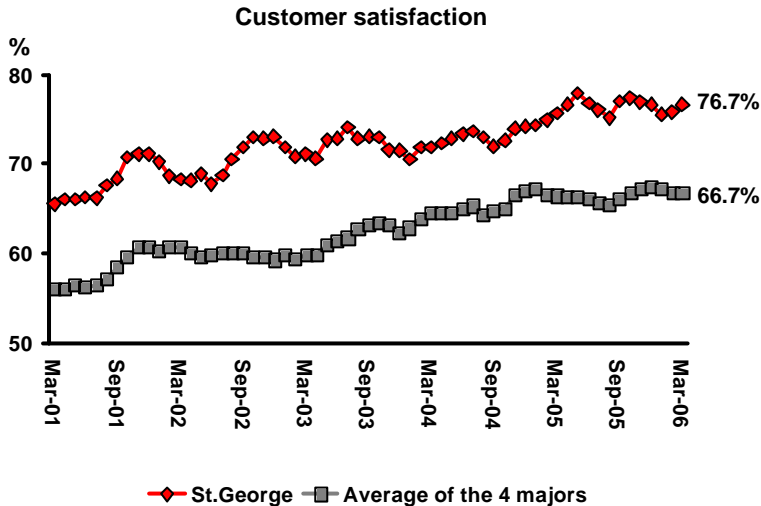
- Best Bank implemented
- Residential and consumer lending system developed
- GOLD model introduced
- Group data warehouse established
- E-luminate on-line computer training program launched
- Key Account Relationship Management training introduced for all business bankers
- New management team
- Customer centric business model introduced
- Organic strategy designed
- Portfolio of businesses reviewed
- 'Even Better Bank' program scoped and initiated
- Business and investment disciplines introduced
- Integrated Sales and Service program launched
- Even Better Bank savings achieved
- Segmentation focus introduced
- GOLD model enhanced
- VIC strategy launched
- Product range in deposits, lending and wealth broadened

# Continuous program of reinvesting



8,640 staff as at Mar-06, up 12% since Sep-01

# A differentiated customer experience



Source: Roy Morgan Research Mar-06 rolling 3-mth average Respondents (aged14+) with transaction accounts at institution





# People and culture - our competitive advantage

## People who are:

- Positive, energised and passionate about customer service
- Proud to be St.George employees
- Connected and engaged in their local communities
- Supported by a stable, strong and committed management team

## A culture which is:

- Willing to go the extra mile
- Caring, involved and team based
- Responsive, flexible and accessible
- Encouraging and supportive of innovation

## Business priorities update

**Management outlook and targets**

# Focus on sustainable, high quality earnings

- Low risk, proven organic growth strategy in place and delivering
- High levels of investment over last 5 years
- Business model delivering
- Productivity management ingrained in culture
- Room to grow across geographies, products and customer segments
- People and culture are core strengths

Group better positioned than ever before to deliver quality and sustainable financial results

# Outlook

## Sector outlook

- National home loan credit growth to continue at around present levels
- National business lending growth to remain solid with some localised softness
- NSW economy expected to remain subdued for 2006 with uplift expected in 2007
- Interest rates to be relatively stable
- Competitive environment to remain intense

## St.George outlook

- Home loan portfolio to grow in line with system
- Middle market targeting twice system growth
- Deposit volumes and mix managed with focus on profitable growth
- Wealth management net inflows to exceed system growth

We are positioned to deliver

# Targets: FY06 and FY07

EPS growth FY06	10% AGAAP and >10% Full AIFRS*
EPS growth FY07	Restated to 10% AIFRS*
Cost to income	Manage to low 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

\*AIFRS targets exclude impact of hedging and derivatives

^Temporary reduction allowed by APRA until issuance of guidelines on innovative/non-innovative hybrids





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.

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# AIFRS – supplementary information

## Statutory AIFRS

- Statutory comparative figures have been presented for Mar-05 and Sep-05 on an AIFRS basis and exclude the impacts of AASB 132 and 139

## Full AIFRS

- Supplementary comparative figures have been presented for Mar-05 and Sep-05 and reflect the unaudited impact of all AIFRS standards including AASB 132 and 139

## AIFRS

- Mar-06 figures include the impacts of all AIFRS standards

## AGAAP

- Unaudited AGAAP information has been provided for Mar-06 to enable comparison to previously stated performance targets

