

# Interim Results 2007

1 May 2007

# Agenda

**Result highlights:**

**Gail Kelly**

**Financial overview:**

**Steve McKerihan**

**Strategy, business performance  
and outlook:**

**Gail Kelly**

# Result Highlights

**Gail Kelly**  
**Managing Director & CEO**

# 1H07 – overview

- High quality result
- Excellent revenue growth
- All businesses performing strongly and growing
- Fresh momentum supports confidence
- Organisation aligned to deliver

FY07 target upgraded, FY08 target re-affirmed

# Profit result

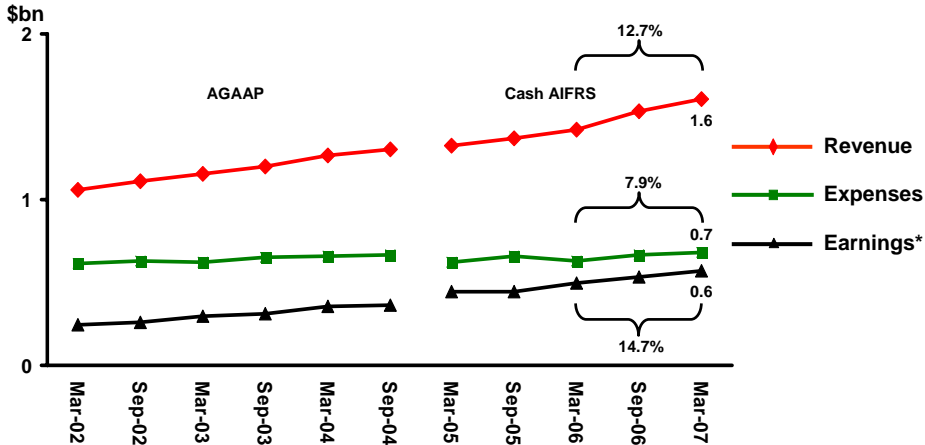
	Mar-07	Mar-06	Change %
Net profit <sup>^</sup>	\$572m	\$502m	13.9
Cash profit*	\$568m	\$495m	14.7
Earnings per share*	214.9¢	189.1¢	13.6
Return on equity*	23.2%	22.7%	
Expense to income*	42.6%	44.5%	
Dividend	82¢	74¢	10.8

<sup>^</sup>Net profit includes hedging and derivatives and significant items

\*Cash basis excludes these items. EPS and ROE numbers are annualised



# High quality earnings

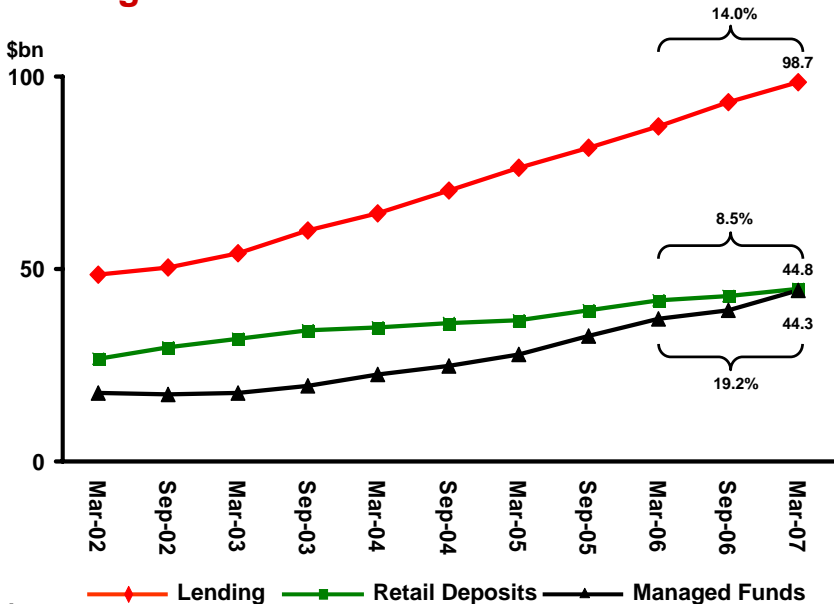


18% earnings CAGR since Mar-02

\*After tax expense and preference dividends. Percentages Mar-06 to Mar-07



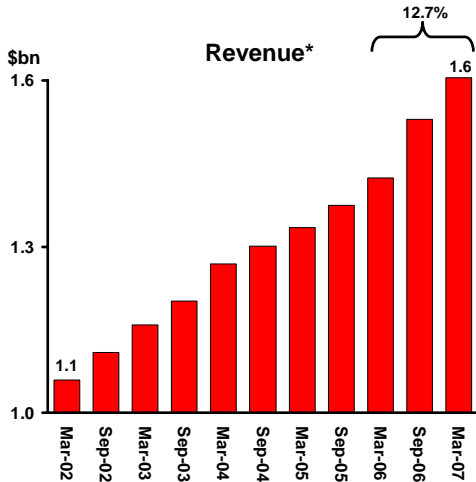
# Growing business volumes



Percentages Mar-06 to Mar-07 excluding St. George New Zealand



# Strong revenue performance



- 4.9%<sup>^</sup> 1H07 revenue growth
- Revenue growth benefiting from:
  - strong contributions from all business divisions
  - solid underlying growth in recurrent non-interest income

9% revenue CAGR since Mar-02

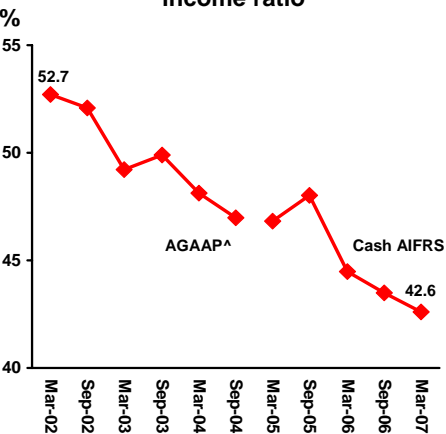
\*AGAAP to Sep-04, cash AIFRS from Mar-05. <sup>^</sup>1H07 on 2H06



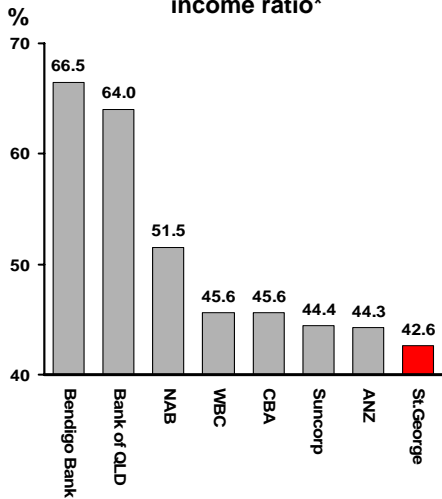


# Effective cost management

## St.George expense to income ratio



## Peer group expense to income ratio\*

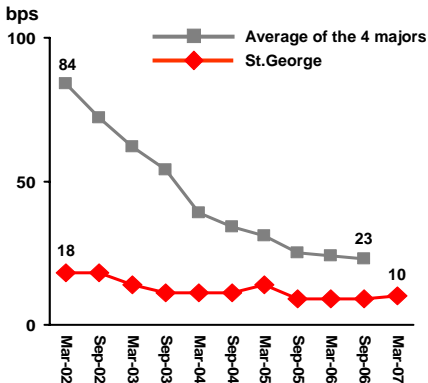


^Excluding goodwill and before significant items. \*Ratios as at the companies last reporting date



# Maintaining excellent credit quality

## Gross non-accruals/total receivables\*



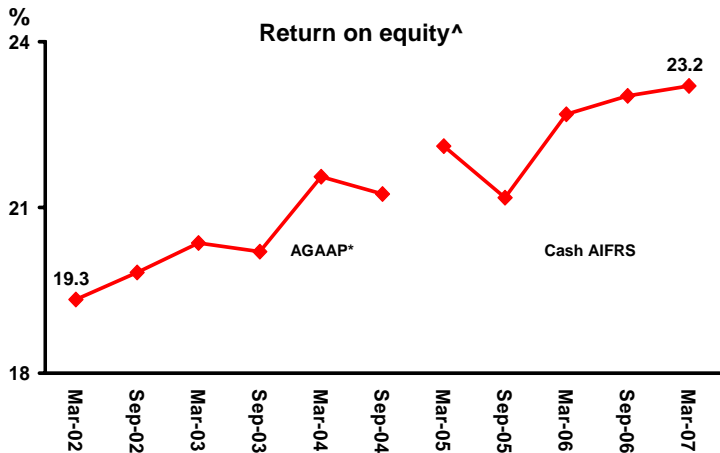
- Business lending credit quality remains excellent
- Unsecured consumer lending write-offs at similar levels to 2H06
- Increase in residential arrears in line with industry trends, still at very low absolute levels
- Do not participate in sub-prime lending

Bad and doubtful debts 0.20% of average total receivables<sup>^</sup>

\*Sep-05 onwards includes securitisation and bill acceptances. <sup>^</sup>Annualised



# Outstanding return on equity



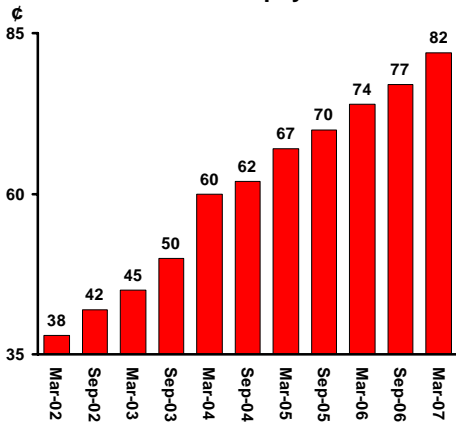
Industry leading ROE

\*After preference dividends, before significant items and goodwill. ^Annualised

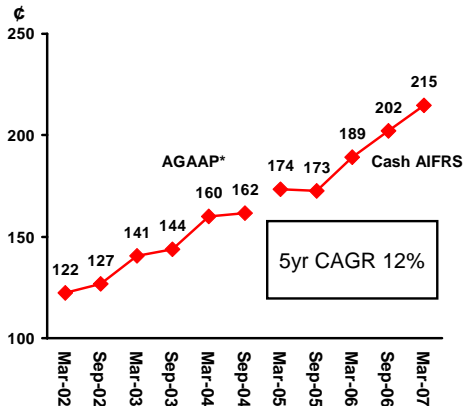


# Strong and consistent dividend growth

## Dividend payout



## Earnings per share<sup>^</sup>



Dividend payout 5yr CAGR 17%

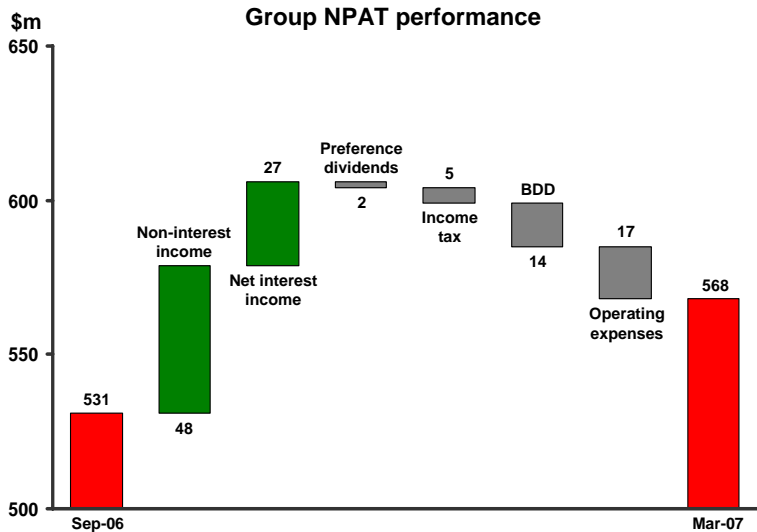


# Financial Overview

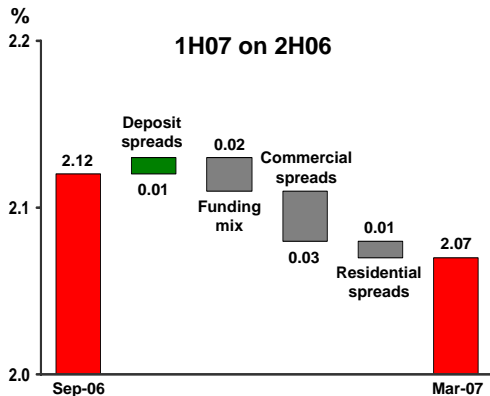
**Steve McKerihan**  
**Chief Financial Officer**



# Strong operational result – 1H07 on 2H06



# Tightly managed margin performance



- Deposit margins benefiting from mix management and the rise in official interest rates
- Funding mix impacted by increase in wholesale funding
- Residential and commercial lending spreads effected by competitive intensity
- Commercial lending spreads also impacted by growth in larger size loans to highly rated customers

Margin compression in FY07 expected to be around 10bps



## Strong momentum in non-interest income

	Mar-07 \$m	Sep-06 \$m	Mar-06 \$m
Product fees and commissions:			
- Deposits and other accounts	113	109	99
- Lending	70	65	60
- Electronic banking	105	104	98
Managed funds	141	130	124
Treasury trading	34	36	22
Mortgage insurance investment portfolio	22	-	12
Factoring and invoice discounting	10	10	10
Sale of shares	8	-	10
Property sales	1	5	2
Other	23	20	23
<b>Total</b>	<b>527</b>	<b>479</b>	<b>460</b>





# Factors impacting non-interest income

## Product fees and commissions

- Increased by 12% since Mar-06 due to:
  - fee initiatives effective during 2H06, full run rate impact in 1H07
  - focus on building retail and business transaction account balances
  - increased transactions by retail customers
  - improved cross-sell to retail and business customers

## Managed funds

- Growth driven by:
  - strong net flows into Asgard platform
  - continued strength of investment markets

## Mortgage insurance

- Contribution reflects favourable investment markets

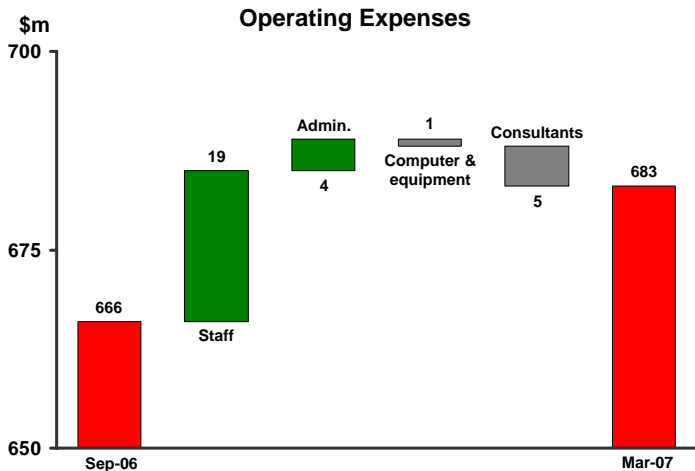
## Profit on sale of shares

- Represents gain on sale of Group's equity investment in MasterCard

Solid underlying growth in recurrent non-interest income



# Disciplined cost management – 1H07 on 2H06

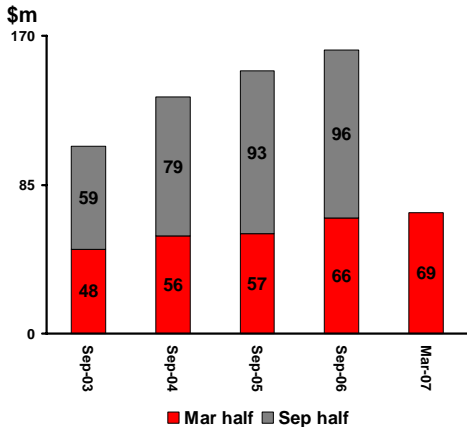


Continuing to invest in people while remaining disciplined on costs



# 1H07 – sustained and growing investment

## Project investment expenditure\*



## 1H07 completed initiatives:

- New home loan 'packaged' and 'basic' products launched Feb-07
- Redesigned Asgard client desktop interface launched Apr-07
- Redesigned internet banking platform rolled out
- Integration of HSBC margin lending book
- c.90 additional front line staff^

FY07 investment expected to exceed FY06 levels

\*Includes capitalised and P&L project expenditure and excludes marketing, people and training ^Sep-06 to Mar-07



# FY07 investment agenda

- Developing new credit cards processing system
- Re-engineering the mortgage process
- Further developing CRM capability
- Simplifying frontline processes and systems in middle market
- Further improving contact centre capabilities
- Investing in Wealth's underlying infrastructure and customer interface
- Ongoing Basel II and anti-money laundering projects
- Continuing to invest in skilling and development of retail front line staff
- Increasing number of business bankers and financial planners
- Establishing 4 new banking sites\* in QLD and 5 new banking sites in WA

\*Includes combined retail and business sites and all scheduled for 2H07



## Bad and doubtful debts expense

	1H07 \$m	2H06 \$m
Specific provisions		
Residential	10	7
Consumer	50	43
Commercial	18	22
Total	<u>78</u>	<u>72</u>
Collective provision	15	7
<b>Bad and doubtful debts expense</b>	<u><b>93</b></u>	<u><b>79</b></u>

### Residential

- Absolute levels remain low
- Impacted by lower property prices in some regions of NSW

### Consumer

- Impacted by:
  - growth in underlying lending portfolios
  - deterioration in household finances
  - accelerated write-off of loans in arrears

### Commercial

- Improvement in 1H07 specific provision reflects quality of portfolio

### Collective Provision

- Impacted by seasonal trends
- In line with \$16m charge in Mar-06



# Non-accrual and past due loans

## Non-accrual loans

- Net non-accrual loans \$59m compared to \$51m in Sep-06 and \$44m in Mar-06
- Exposures well secured and prudently provisioned
- Quality of commercial loan portfolio remains excellent

## Past due loans

- Residential 90 day arrears \$168m compared to \$128m, representing 0.36%\*\* of the portfolio up from 0.29%\*
- Houses in possession stable over past 6 months at 85, representing 0.02% of total portfolio
- Other^ 90 day arrears \$73m compared to \$76m, representing 0.75% of the portfolio down from 0.96%\*
- Arrears impacted by deterioration in household finances and subdued NSW economy

## Appropriation to general reserve

- Appropriation for 1H07 is \$13m reflecting growth in risk weighted assets

\*In Mar-06. ^Comprises hire purchase, leasing and unsecured consumer loans. \*\*Excludes securitised loans, if securitised loans were included, the ratio would decrease to 0.30% as at Mar-07 and 0.24% as at Mar-06



# Mortgage insurance

- \$24m contribution in 1H07 to Group profit after tax, up from \$17m in 2H06
- \$30m investment income in 1H07 reflects strong investment markets
- Reduction in underwriting income is primarily due to:
  - more conservative premium income recognition pattern
  - changes in quantum and mix of lending underwritten
- Strongly capitalised with \$227m of shareholder funds
- Moved operations from Singapore to Australia in Oct-06

No claims have been made under reinsurance treaties since captive was established in 1989



# Active capital management

## 1H07

- Tier 1 ratio within 7.0 – 7.5% range following \$320m non innovative convertible preference share issuance in Dec-06
- \$3.7bn of residential loans securitised
- \$75m of capital raised through DRP\*

## 2H07

- Depositary Capital Securities of US\$250m to be redeemed in Jun-07
- Temporary reduction in tier 1 capital allowed by APRA
- Continued operation of DRP and securitisation program





# Basel II

- St.George committed to achieving advanced Basel II status
- Application for Advanced Retail Credit Risk and Foundation Corporate Credit Risk lodged in Sep-05
- Application for Advanced Operational Risk lodged in Sep-06
- Advanced Corporate Credit Risk to be addressed subsequent to initial accreditation
- Accreditation applications for Securitisation and Interest Rate Risk in the Banking Book to be submitted during 2007\*
- Business benefits being delivered through enhanced risk management processes
- Program budget c.\$50m, 100% expensed
- Accreditation and timing subject to APRA approval

\*Subject to APRA timetable and guidelines



## Segmental profits - all divisions contributing

	Profit before tax Mar-07 \$m	Change* %	Revenue Mar-07 \$m	Change* %	Cost to income ratio Mar-07 %
Retail Bank	381	15	826	12	45.0
Institutional and Business Banking	232	14	373	13	34.6
BankSA	115	14	208	14	41.3
Wealth Management	101	13	198	14	48.5
Underlying^	101	25	198	19	

\*Mar-06 to Mar-07 ^Excluding \$8m profit on sale of Ascalon Capital Managers in Mar-06



# Segmental profits - all divisions contributing

## Retail Bank

- 46% contribution to segmental profit
- Strong revenue growth reflects:
  - growth in home loans, deposits and consumer lending
  - increased mortgage insurance contribution

## Institutional and Business Banking

- 28% contribution to segmental profit
- Strong revenue and receivables growth reflects:
  - Best Business Bank investment
  - industry leading customer advocacy and retention
  - adherence to proven relationship model

## BankSA

- 14% contribution to segmental profit
- Segmental profit CAGR 14% since Mar-02

## Wealth Management

- 12% contribution to segmental profit, up from 6% in Mar-02
- Increase in underlying revenue growth reflects strong growth in FUA\* and margin lending



# Strategy, Business Performance and Outlook

**Gail Kelly**  
**Managing Director & CEO**



## **Strategy overview**

**Business priorities update**

**Management outlook and targets**



# Our competitive advantage

- People and culture
- Customer goodwill and advocacy
- Room to grow – geography, segments and products
- Clearly focused agenda
- Execution capability

Big enough to compete in our chosen markets,  
yet small enough to remain agile, flexible, innovative and connected



# Key features – 2002 to 2007

- Low risk organic growth strategy
- Business model shift – product to customer centric
- People strength and capability significantly enhanced
- Substantive investment in infrastructure, business tools and people
- Robust commercial disciplines and risk management frameworks in place
- Warm, friendly, team-based culture enhanced and strengthened

Consistent delivery of high quality results



# Prioritised work program – 2007 and beyond

- Leveraging the Group's wealth platform, products and capabilities to deepen customer relationships across retail and business segments
- Enhancing the on-boarding experience for customers
- Redesigning key business processes improving service and efficiency
- Continued expansion in Victoria, Queensland and Western Australia
- Further investment and capability build within the Middle Market segment
- Refinement, extension and acceleration of the retail 'local markets' model

New organisational model supports strategic imperatives



## Strategy overview

**Business priorities update**

**Management outlook and targets**



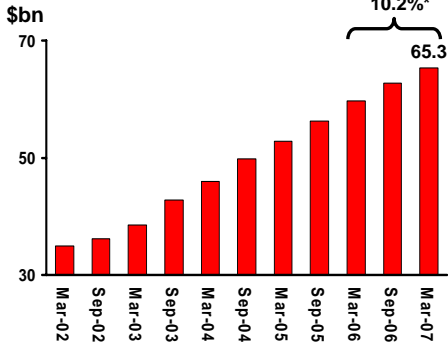
# Business priorities

<b>Home Loans</b>	Manage volumes and mix, with objective of achieving profitable growth at or around 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>	Accelerated 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>	Retaining and strengthening high quality and aligned teams at every level



# Home Loans – improving momentum

## Residential receivables



- 8.4% annualised growth 1H07
- NSW economy remains subdued
- Strong pipeline supported by:
  - launch of new 'packaged' and 'basic' products
  - momentum in proprietary and broker channels
- Broker introduced flows stable at 43%\*\*
- Run-off rate<sup>^</sup> stable at 15%\*\*

Strong 2Q07 performance driving 2H07 momentum

\*Percentage Mar-06 to Mar-07 excluding St.George New Zealand \*\*1H07

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



# Home Loans - product mix

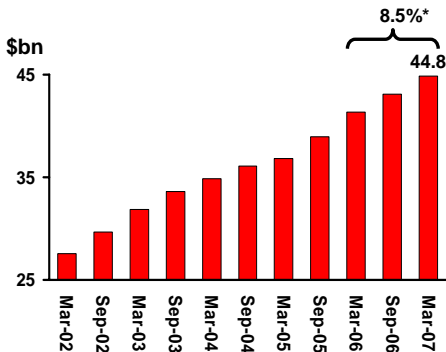
	Receivables		Settlements			
	Mar-07	1H07	FY06	FY05	FY04	FY03
	%	%	%	%	%	%
Introductory	0.9	3.4	2.8	3.6	8.0	20.4
Portfolio	30.7	27.3	29.2	29.9	34.7	34.0
Standard variable and basic	41.5	30.0	40.2	42.2	37.3	31.1
Fixed	15.9	20.4	13.3	10.4	7.8	9.6
Low doc	6.0	11.9	8.2	8.3	8.5	2.2
No deposit	4.2	6.7	5.8	4.7	2.8	2.1
Seniors access	0.8	0.3	0.5	0.9	0.9	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

73.8% LVR for mortgages written in 1H07, 38.8% for mortgage book



# Deposits – consistent, sustainable growth

## Retail deposit balances



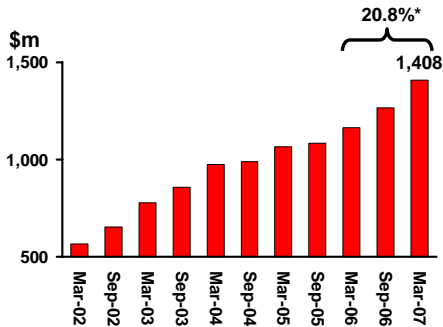
- 8.0% annualised growth 1H07
- 5.4%<sup>^</sup> increase in average transaction account balances
- 16.8%\* growth in business deposits
- Improved revenue performance due to:
  - margin management
  - higher average balances
  - redesign of transaction accounts
  - introduction of suite of new flat fee, Visa debit transaction accounts
- Well positioned for cash injection from changes to super legislation

Successfully balancing growth and profitability



# Credit cards - balancing growth and risk

## Credit card balances



24.1% of customers now hold a St. George credit card, up from 22.7% in Mar-06\*\*

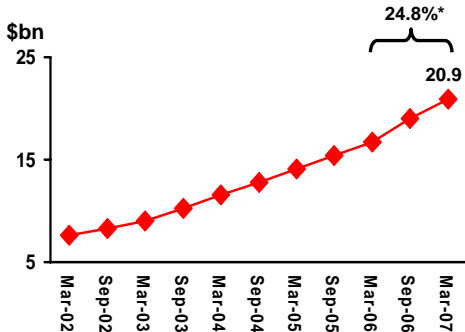
- 22% annualised growth 1H07
- Premium cards^ represent 21% of portfolio, up from 8% in Mar-05
- Vertigo MasterCard launched May-06:
  - c.60k new accounts
  - >\$220m in balances
  - 70% of sales to existing customers
  - higher average credit score than total portfolio
- 35% of new Vertigo MasterCard accounts are 0% balance transfers, profitable within 7 months
- Industry leading revolve and retention rate
- Credit quality remains sound and within expected ranges

\*Percentage Mar-06 to Mar-07. \*\*Excludes customers under 18 years of age. ^Gold and Platinum card balances



# Middle Market – excellent performance

## Total middle market receivables



- 19% annualised growth 1H07
- 24% annualised growth 1H07 in NSW
- Strong performance due to:
  - significant investment since launch of Best Business Bank in Sep-04
  - robust NSW performance despite subdued economy
  - consistent adherence to proven relationship model
- Impaired assets/total middle market receivables 0.18%

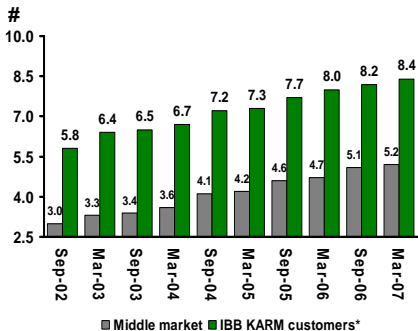
22% 5yr CAGR in middle market receivables

\*Percentage Mar-06 to Mar-07

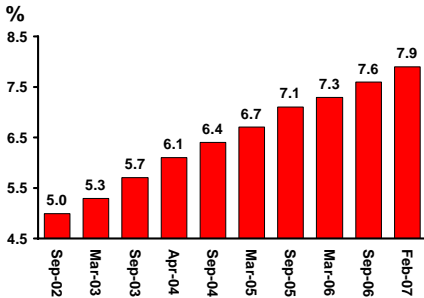


# Middle Market – deepening customer relationships

## Products per customer



## Market share<sup>^</sup>



Average borrowings per customer \$5m, up 15% since Mar-06

\*KARM – Key account relationship management

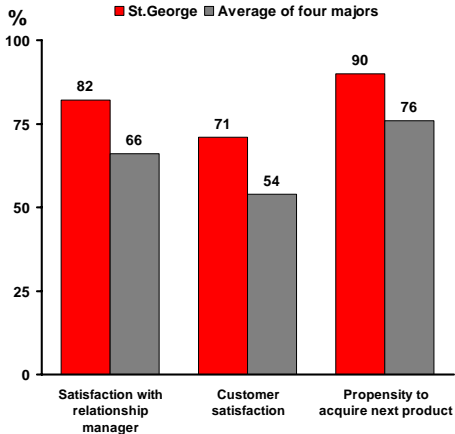
<sup>^</sup>Cannex derived market share. Mar-06, Sep-06 and Feb-07 exclude impact of large leveraged buy out transactions





# Middle Market - leading customer advocacy

## Relationship management\*



## Expected churn\*\*

- 0% of St. George customers are considering changing banks in the next 6 months
- 20% of major bank customers are considering changing

## Customer advocacy\*

- 54% of St. George customers would 'definitely recommend' their bank
- Only 29% of major bank customers would

'Top rated franchise by a clear margin^'

\*Source: Jones Donald Customer Satisfaction Survey Sep-06

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

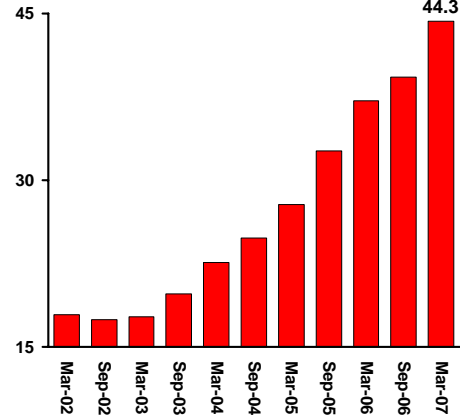
^Source: TNS Business Finance Monitor and Merrill Lynch Business Franchise Review Apr-07



# Wealth Management – an important growth business

## Total managed funds

\$bn



- 26% annualised growth 1H07
- Wealth segmental profit CAGR 27% since Mar-02
- Cost to income 48.5%, down from 77.5% in Mar-02
- Asgard, Advance, Insurance and financial planning businesses all contributing strongly
- Additional opportunity in 2H07 and FY08 due to changes in super legislation

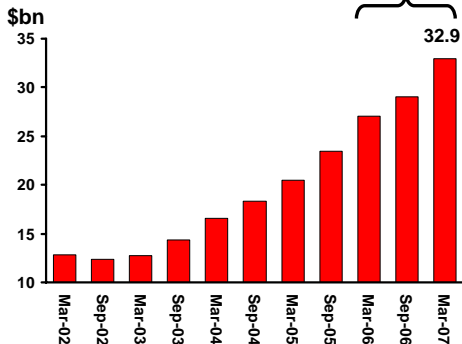
Aug-06 restructure has established a stronger foundation for growth across all Wealth businesses

\*Percentage Mar-06 to Mar-07



# Asgard – outstanding performance

## Funds under administration



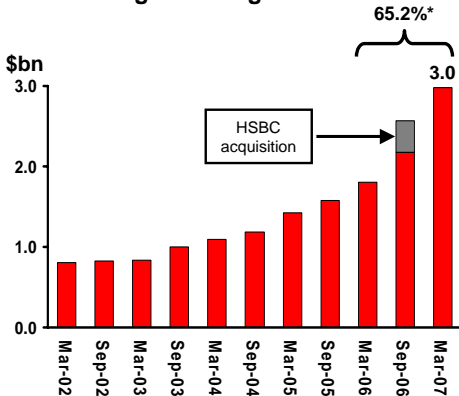
- 27% annualised growth 1H07
- Distribution team realigned around regional markets
- \$16m to be invested in underlying infrastructure during FY07
- AdviserNET gain:
  - launched Apr-07
  - only fully integrated front end solution in the market for financial planners
- Industry leading levels of customer service and retention

Strong net inflows driving market share to 10%, up from 9.2%<sup>^</sup>



# Margin lending – profitable growth

## Margin lending receivables



- 32% annualised growth 1H07
- 32% increase in direct contribution 1H07 on 2H06
- HSBC acquisition:
  - successfully integrated
  - portfolio continues to grow
- Cannex 5 star rating
- Credit quality remains excellent

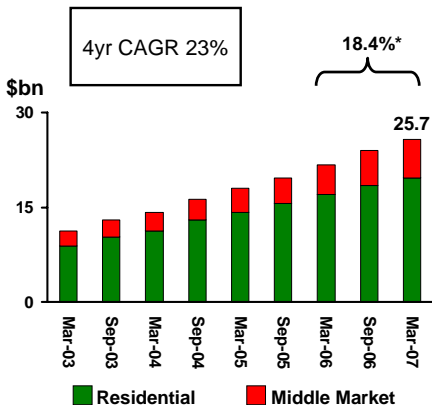
30% 5yr CAGR in margin lending receivables

\*Percentage Mar-06 to Mar-07 and includes \$398m acquisition of HSBC Australia margin lending portfolio in Aug-06



# VIC, QLD and WA - building on the opportunity

## Residential and Middle Market receivables\*\*

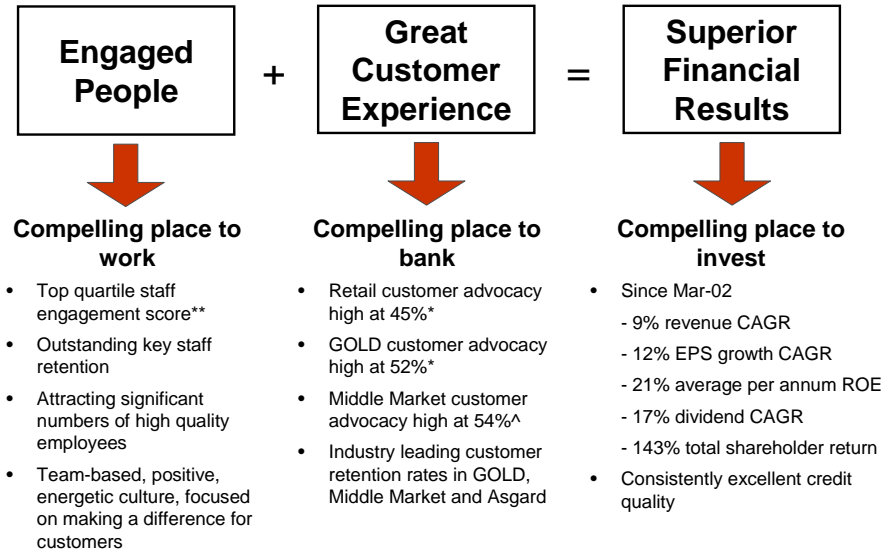


- Residential lending up 16%\*
- Middle Market lending up 32%\*
- Retail deposits up 21%\*
- Continued measured investment in proprietary infrastructure during 2H07:
  - 4 new sites^ in QLD
  - 5 new sites^ in WA
- Growing distribution through broker channels, 'Mortgage Connect' owner operated model and trusted 3<sup>rd</sup> party partnerships

VIC, QLD and WA represents  
30% of residential receivables and 29% of Middle Market receivables



# Delivering on our customer service formula



\*Source: Jones Donald Customer Satisfaction Survey Mar-07

\*\*The Gallup Organization Staff Survey 2006, Engagement Index Australian Top Quartile

^Source: Jones Donald Customer Satisfaction Survey Sep-06. Customers who would 'definitely recommend'



**Strategy overview**

**Business priorities update**

**Management outlook and targets**



# Outlook

## Sector outlook

- National home loan credit growth stable at around 12%
- National business lending growth to remain solid
- Markets expecting official interest rates to remain stable in the medium term
- NSW economic growth to remain subdued throughout 2007
- Competitive environment to remain intense

## St.George outlook

- Home loans targeting growth at around 10-12% over the full year
- Middle market targeting twice system growth over the full year
- Deposit volumes managed with focus on profitable growth
- Wealth management net inflows to exceed system growth

On track to meet FY07 (upgraded) and FY08 EPS targets





# Targets: FY07 and FY08

<b>EPS growth FY07</b>	<b>Up from 10% to 11-12%*</b>
<b>EPS growth FY08</b>	<b>10%*</b>
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

\*Targets exclude impact of hedging and derivatives

^Temporary reduction to 6.7% allowed by APRA pending transition to Basel II



## In conclusion

- Core strengths of people and culture
- Focused program of investment
- Proven, low risk organic growth strategy in place and delivering
- Organisation aligned to accelerate uplift in revenue and service performance
- Strong management team with excellent track record of execution
- Strong momentum going into 2H07 and FY08

Positioned to continue to produce sustainable, high quality earnings





# Appendix

**Strategy overview**

**Organisation alignment**

**Management targets FY03 to FY07**

# 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

Caring and engaged people delivering great customer experiences, driving high levels of customer retention and advocacy



# Strategy overview - Retail

- Trusted financial services brand
- Friendly, caring people delivering great customer experiences
- Full suite of innovative products and solutions to meet customer needs
- Building local market teams that are accessible and responsive
- Creating full service relationships with customers who stay longer, do more and refer
- Growing the business through trusted partnerships with 3<sup>rd</sup> party distribution channels
- Accelerating investment in high growth segments and geographies



# Strategy overview - BankSA

- Growing market share from a leading position in a mature and stable market
- Largest distribution network in SA delivering consumer, business and rural banking solutions
- Ensuring management is accessible and engaged with the local community
- Adopting a rigorous and disciplined approach to sales and service
- Employing and retaining local people who care about their customers and communities



# Strategy overview – Middle Market

- Delivering a high touch relationship management model that creates loyal customers who stay, do more and recommend
- Recruiting experienced business bankers and building skilled and stable teams
- Creating local teams that offer expertise and are responsive, accessible and flexible
- Adding value by understanding our customer businesses
- Building expertise in targeted industries
- Growing market share in all geographies



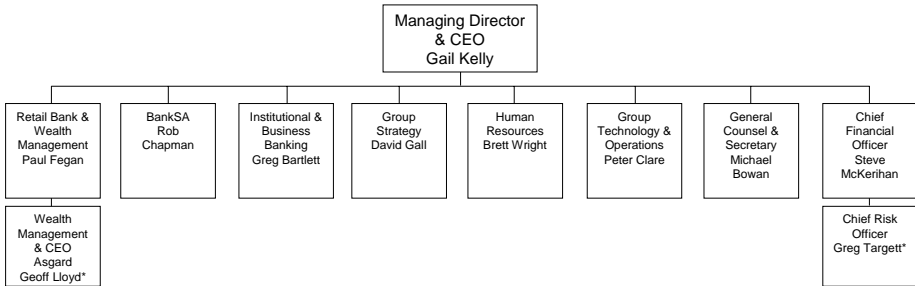


# Strategy overview – Wealth Management

- Leading provider of wealth management solutions focusing on platform, packaging and distribution
- Strengthening and integrating insurance, margin lending, private banking and asset management
- Increasing and broadening distribution through:
  - IFA dealer groups
  - Securator and internal planners
  - institutional partnerships
- Providing a fully integrated front end dealer management service
- Creating industry leading levels of customer service and retention



# Organisation alignment



- Two new divisions created:
  - Retail Bank and Wealth Management
  - Group Technology and Operations

Organisation aligned to accelerate revenue growth,  
drive productivity and improve customer experiences



# Management targets

	Target	Outcome
<b>FY03 EPS growth</b>	Nov-02: 10%	14.0%
<b>FY04 EPS growth</b>	Nov-03: 10-11%	13.1%
<b>FY05 EPS growth</b>	Nov-04: 10%	12.1%
<b>FY06 EPS growth</b>	Nov-05: 10% AGAAP >10% AIFRS	10.3% AGAAP 13.1% Cash AIFRS
<b>FY07 EPS growth</b>	Nov-06: 10% May-07: upgraded to 11-12%	
<b>Cost to income</b>	Sep-04: sub 50% Manage to lower end of peers	47.5% in FY04 42.6% in 1H07
<b>Capital</b>	Tier one 7.0-7.5%	Consistently in range*
<b>Credit quality</b>	Maintain positive differential to the majors	Consistently achieved
<b>Customer satisfaction</b>	Maintain positive differential to the average of the majors	Consistently achieved

\*Temporary reductions allowed by APRA pending transition to Basel II



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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