

Full Year Results 2004

1 November 2004



Agenda

Result highlights:

Gail Kelly

Financial overview:

Steve McKerihan

Strategy overview:

Gail Kelly

Result Highlights

Gail Kelly
Managing Director



We have delivered a quality result

- Strong revenue growth
- Costs effectively managed
- Disciplined interest margin management
- Excellent credit quality
- Focused execution of strategy
- Superior earnings performance

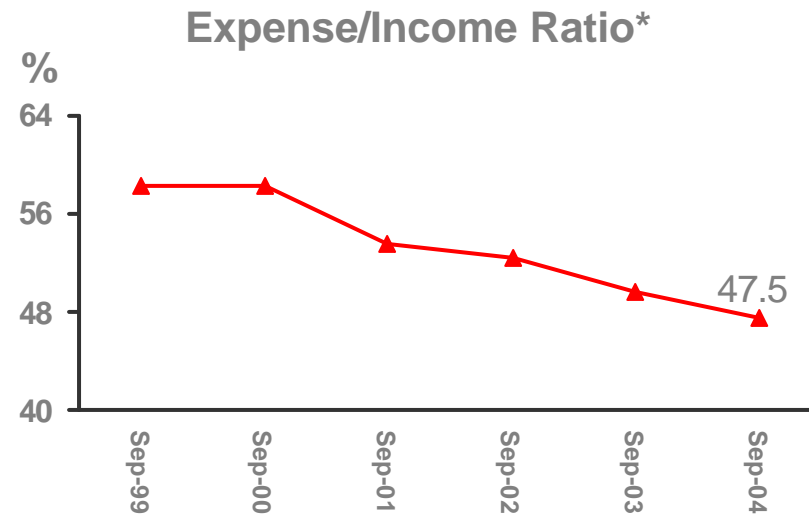
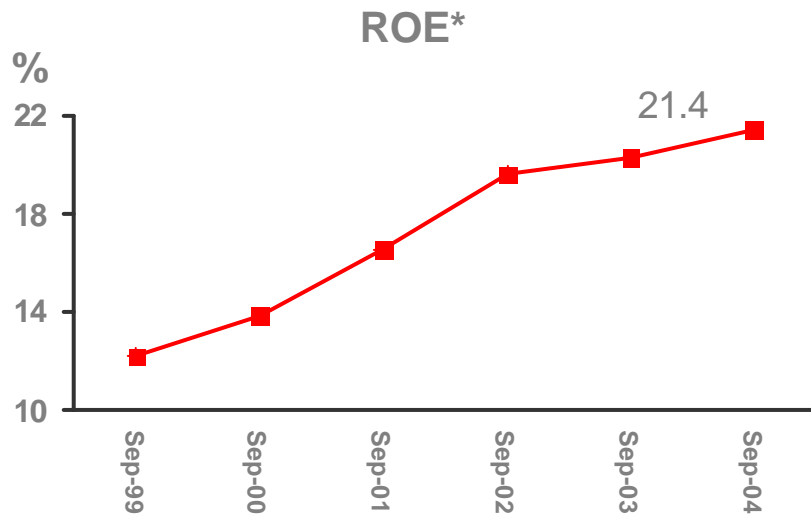
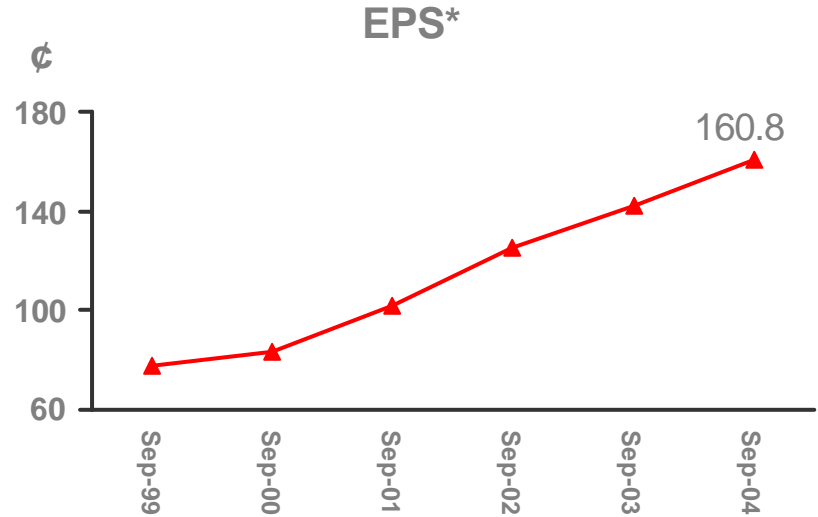
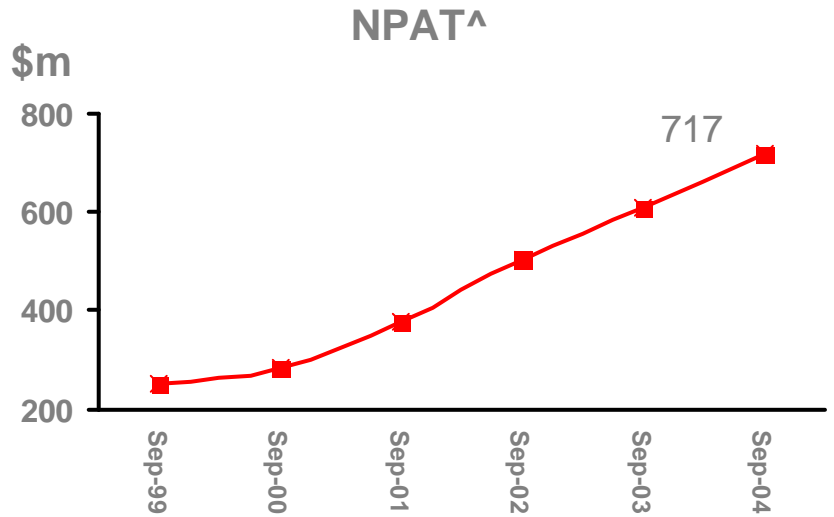
Profit result

	FY04	FY03	% Change
Profit available to ordinary shareholders	\$717m [^]	\$606m	18.3
Earnings per share*	160.8¢	142.2¢	13.1
Return on equity*	21.4%	20.3%	
Expense to income*	47.5%	49.6%	
Dividend	122¢	95¢	28.4

[^]After significant items

*Calculated before goodwill amortisation and significant items

Consistent financial performance

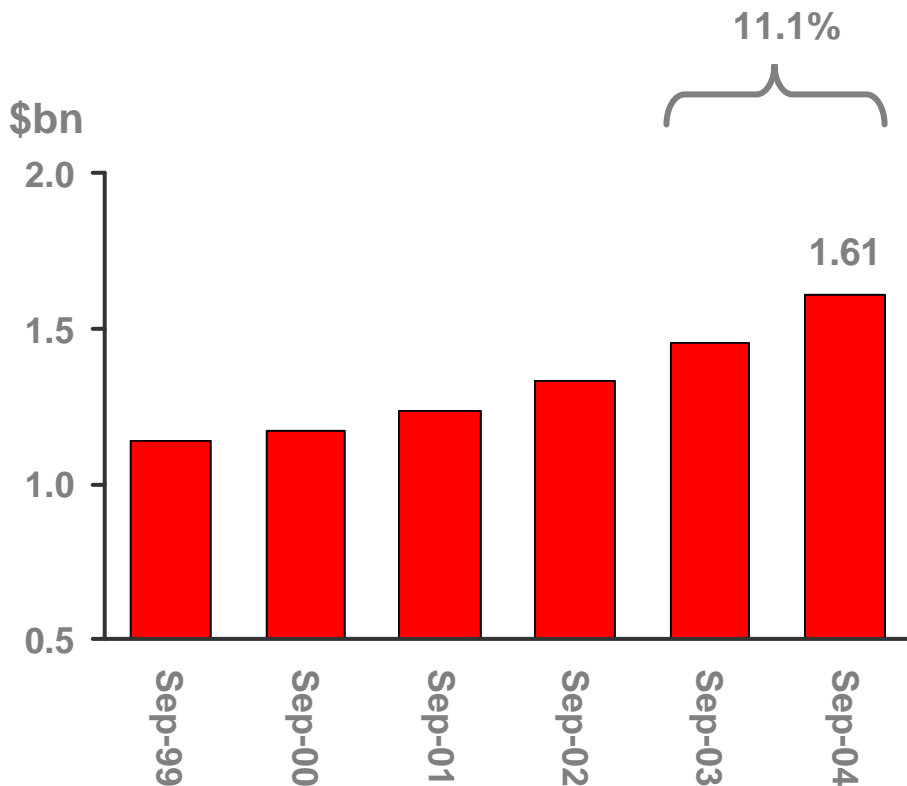


[^]After preference dividends and before significant items

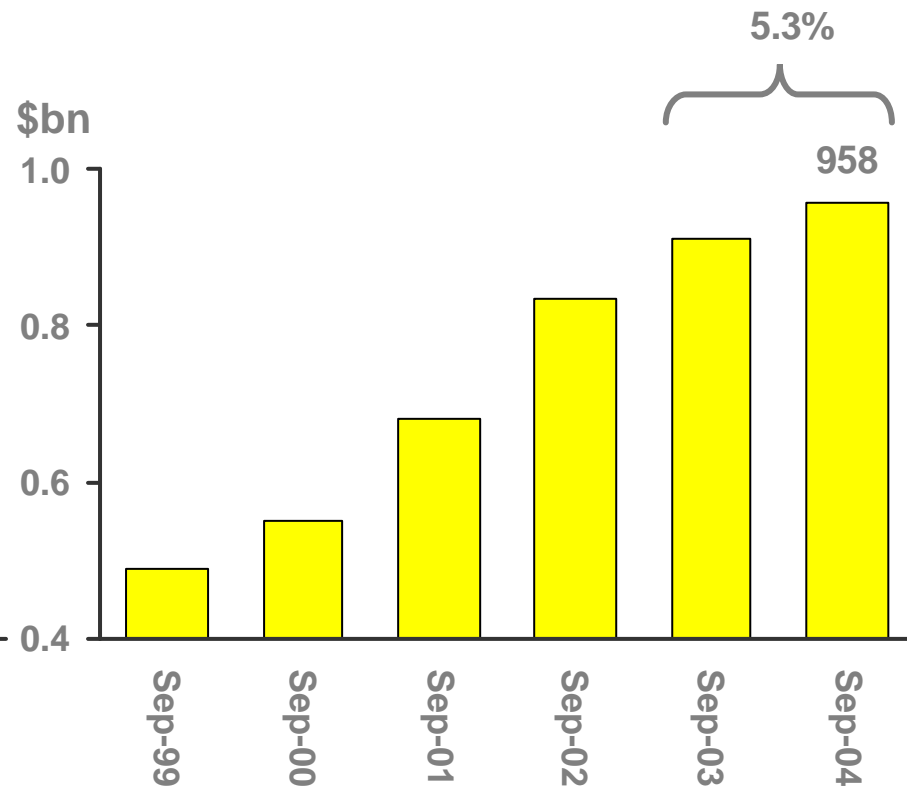
*Calculated before significant items and goodwill amortisation

Strong revenue growth

Net-interest income



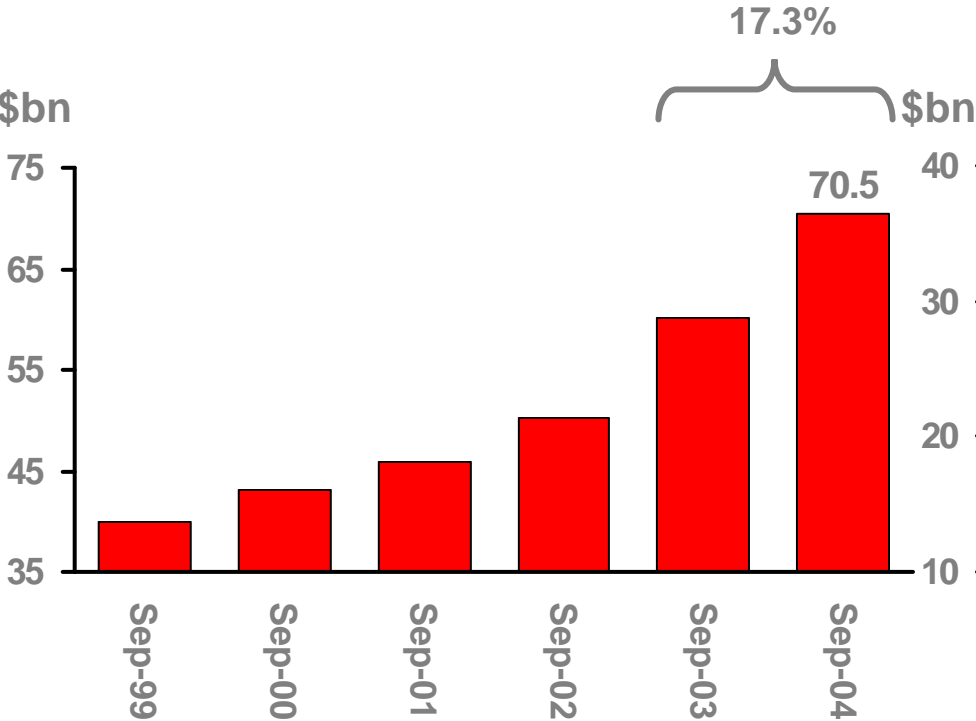
Non-interest income



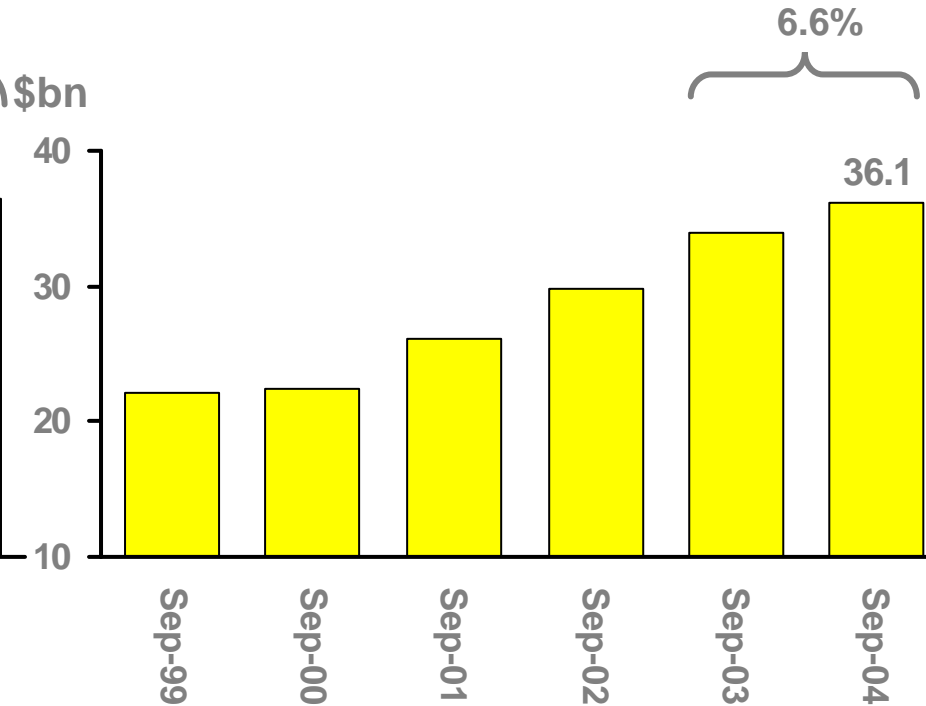
Total income growth 8.9%

Supported by growing business volumes

Total lending*

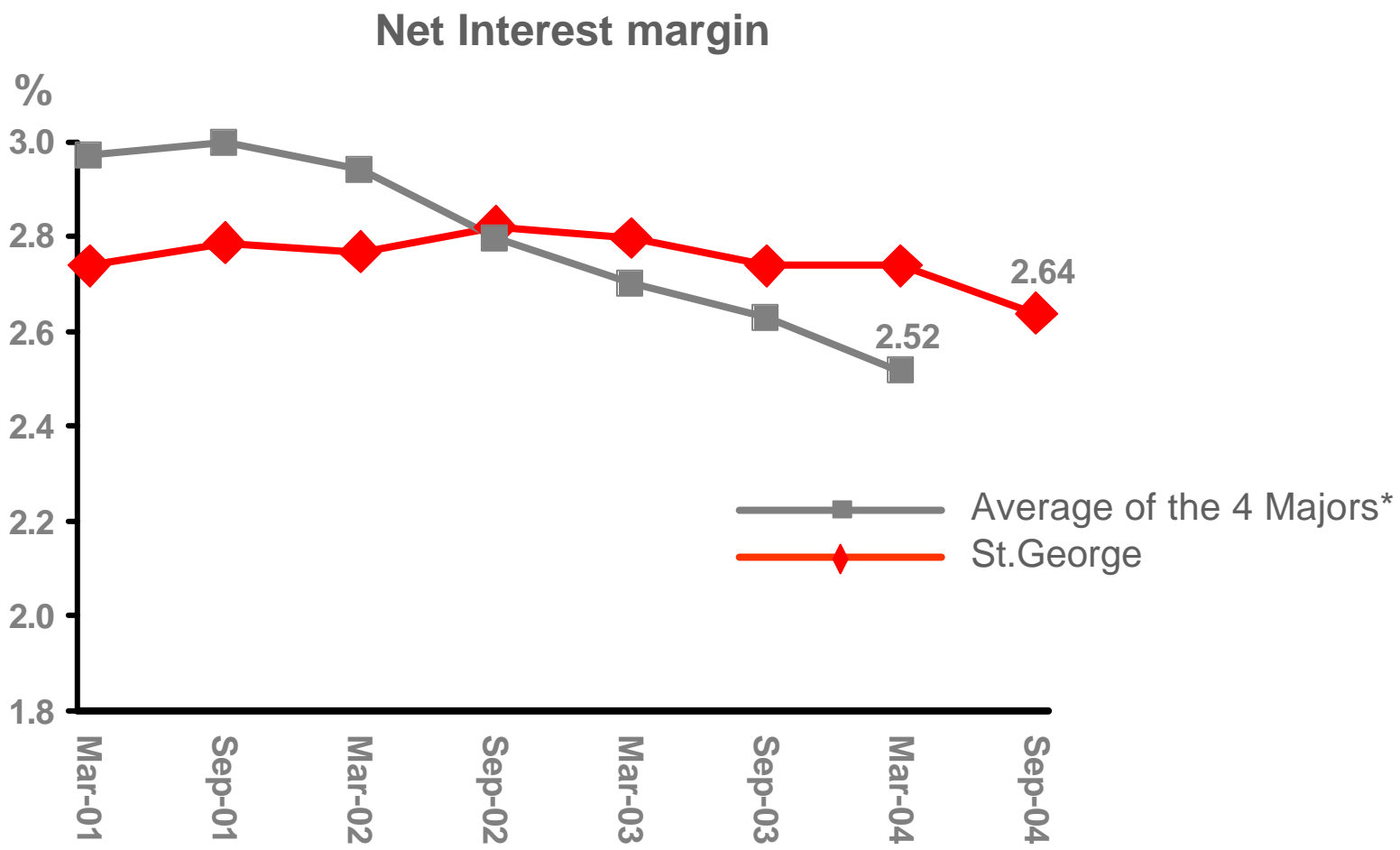


Total retail deposits



*On and off balance sheet
Percentages Sep-03 to Sep-04

Margin management remains a strength

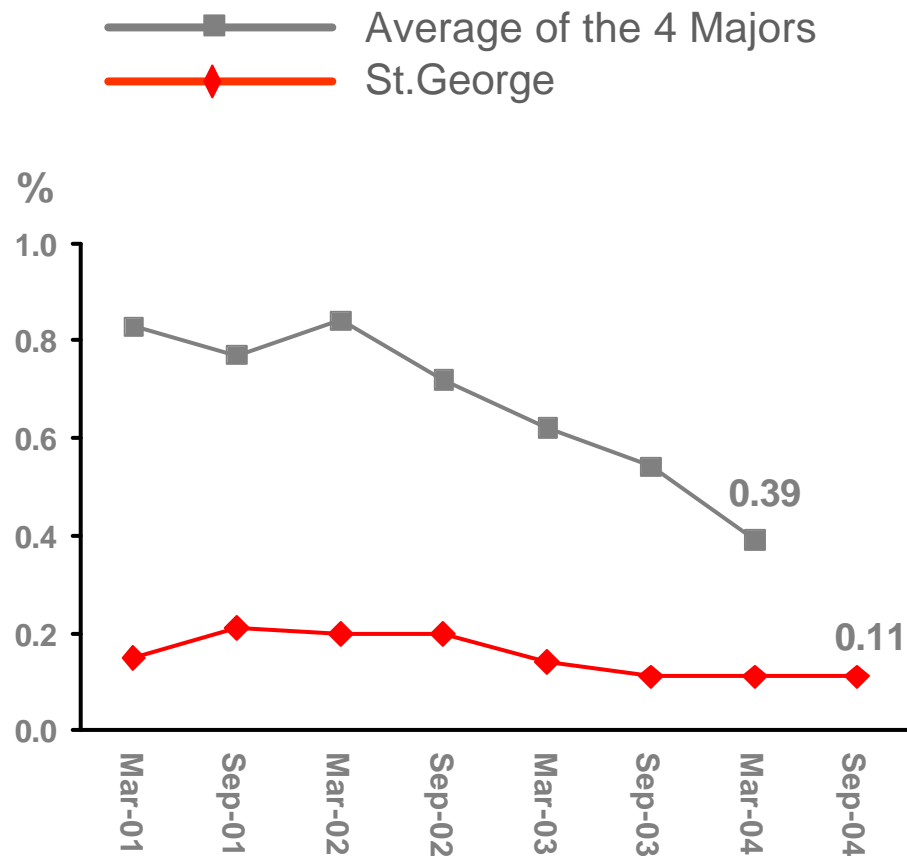


- 10 basis points reduction in 2H04
- 8 basis points reduction in FY04

*Domestic margins

Excellent credit quality

Non-accruals/Total receivables

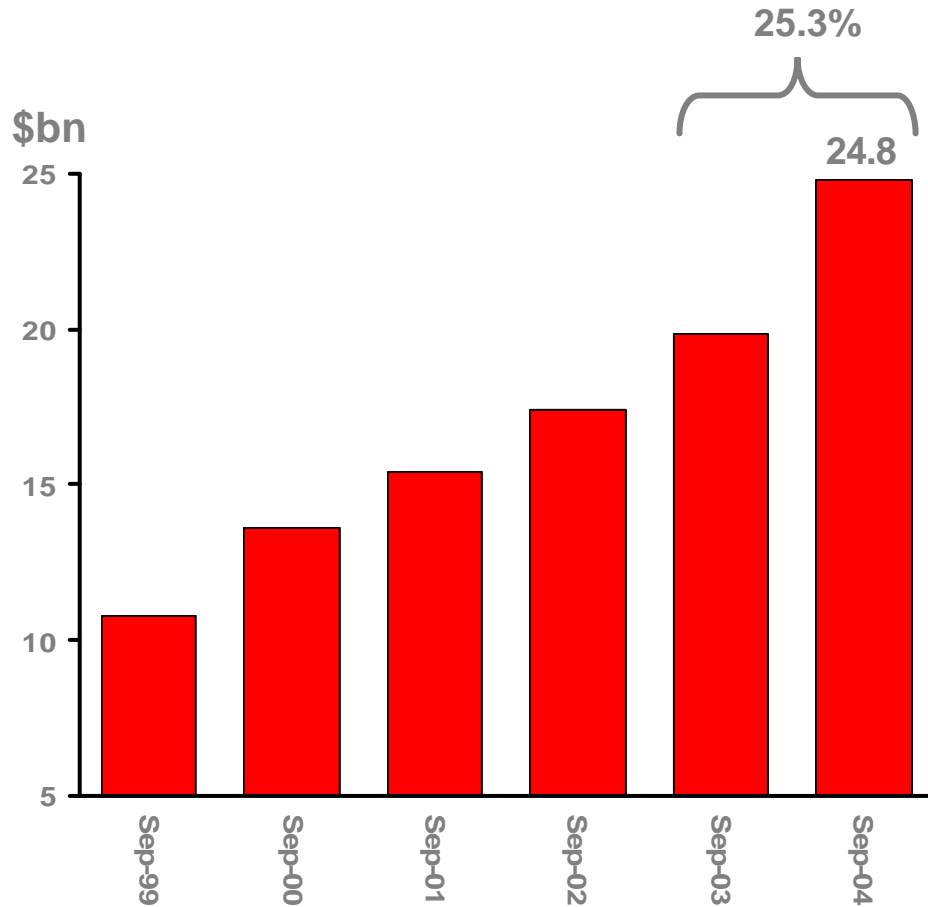


- Bad debts/average total receivables stable at 0.21%
- 15 non-accrual loans totalling \$19m largest \$5m, next largest is \$3m*

*Non-accrual loans above \$100k

Strong managed funds growth

Total managed funds



- SEALCORP funds under administration up 28%
- Advance funds under management up 18%

Consistently delivering on targets

	Target	Outcome
EPS Growth FY03	Sep-02: 10% May-03: 11-13% upgrade Aug-03: 13-14% upgrade	14.0%
EPS Growth FY04	Nov-03: 10-11% May-04: 11-13% upgrade	13.1%
Cost to Income	Sub 50% by FY04	49.9% in 1H03 47.5% in FY04
Capital	Tier one 7-7.5%	Consistently in range
Credit Quality	Maintain positive differential to the majors	Consistently achieved
Customer Satisfaction	Maintain positive differential to the majors	Consistently achieved

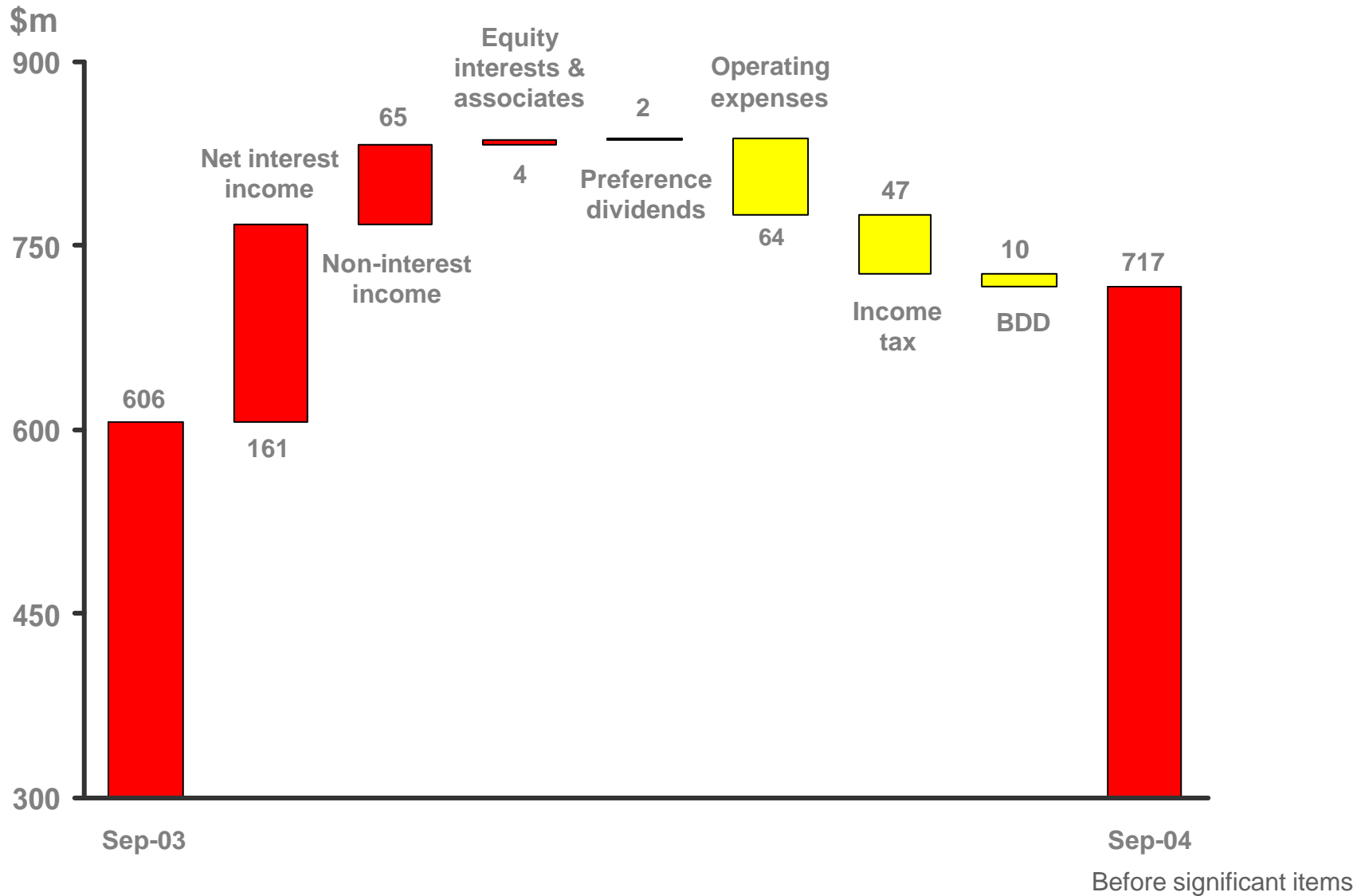
Financial Overview

Steve McKerihan
Chief Financial Officer



Clean operational result

Group NPAT Performance



Strong momentum in business volumes

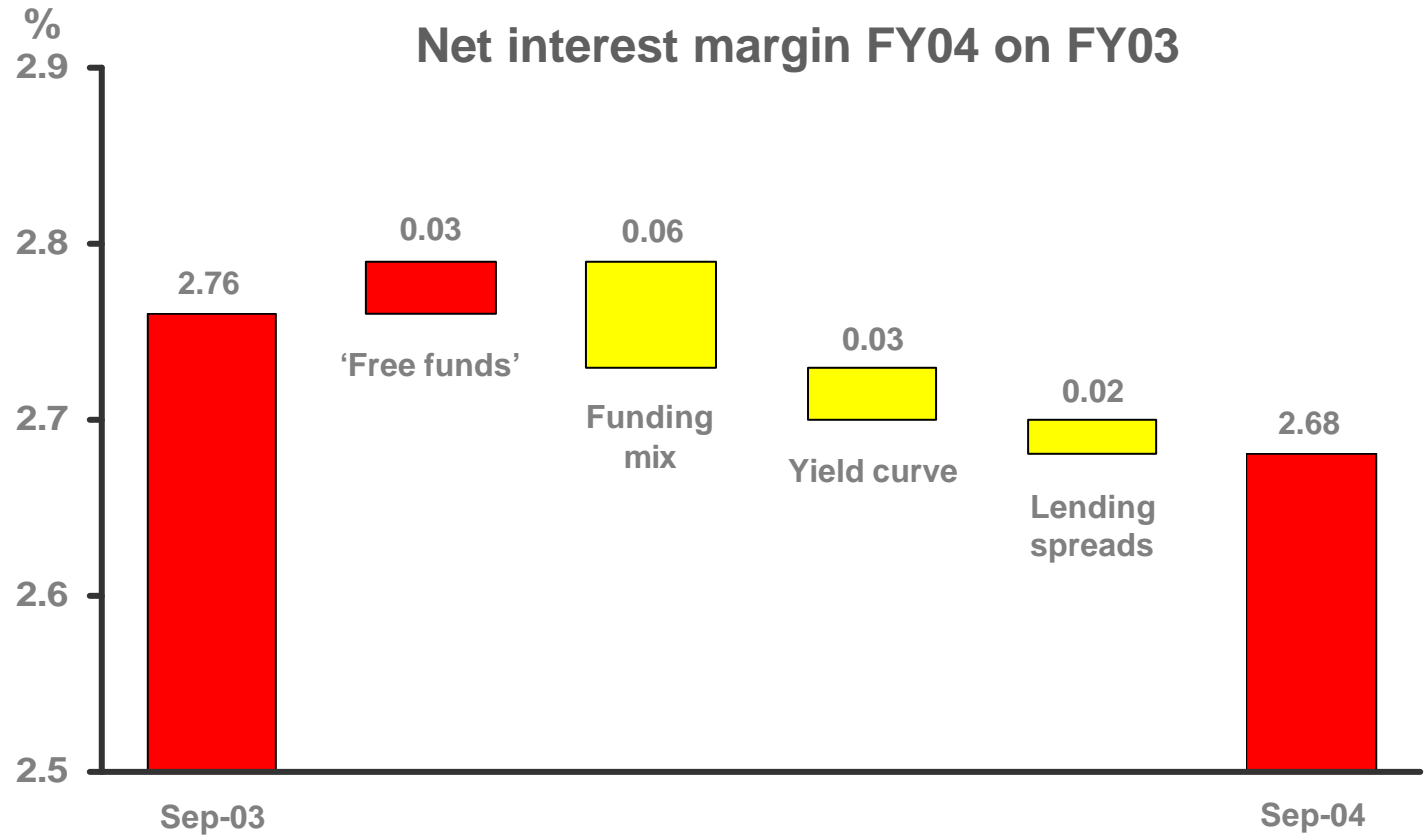
	FY04 \$bn	FY03 \$bn	Change %	Market Growth %
Total Lending**	70.5	60.1	17.3	14.4^
Retail deposits	36.1	33.9	6.6	7.9^
Managed Funds	24.8	19.8	25.3	15%*

^Source: RBA Bulletin

*Source: ABS Jun-03 to Jun-04

**Includes securitised loan balances and bill acceptances

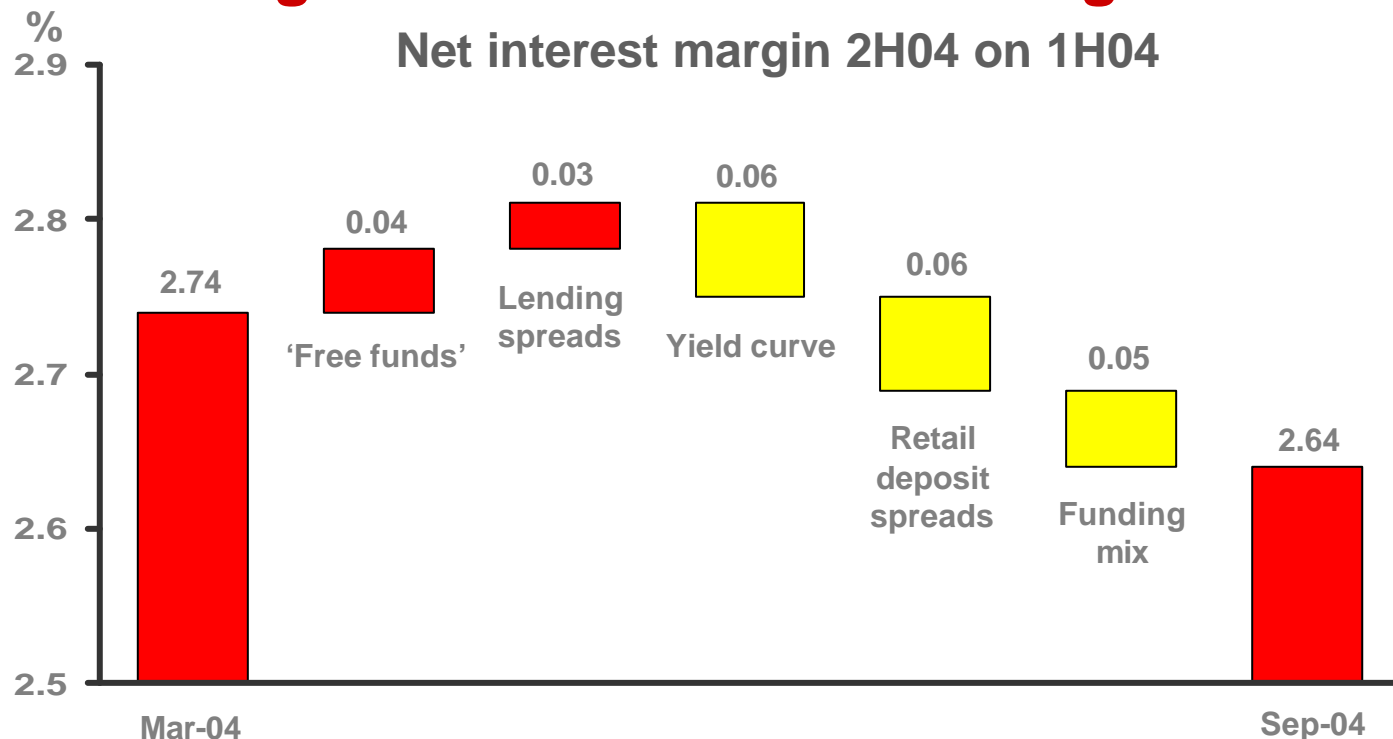
Effective management of net interest margin



Factors contributing to year on year performance include:

- Lending growing more rapidly than retail deposits
- Widening of the interest rate spread between cash and 90 days
- Retail deposit spreads unchanged due to tactical pricing of direct saver

Effective management of net interest margin



Factors contributing to half on half performance include:

- Lending spreads widening due to active management of home loan product mix
- Growth in commercial lending volumes
- Pressure on retail deposit spreads including:
 - Stronger growth in high yielding deposit products
 - Adjustment to interest paid on Deeming Accounts
 - Increased competition for direct deposits

Net interest margin management

Features of St.George net interest margin management:

- Commercial lending growth outperforming sector
- Consistent use of securitisation and bill financing
- Home loan product innovation and mix management
- Active management of deposit volumes and mix
- Group wide processes to support margin management

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

Underlying momentum in non-interest income

	FY04 \$m	FY03 \$m	Change %
Product fees and commissions			
- Lending	63	68	(7)
- Electronic Banking	187	182	3
- Deposits and other accounts	218	216	1
Managed funds	197	172	15
Financial markets	61	53	15
Securitisation	84	82	2
Bill acceptance fees	66	48	38
Sale of property	20	25	(20)
Other	62	64	(3)
Total	958	910	5

Before significant item

Underlying momentum in non-interest income

Lending fees

- Lending fees before broker commissions up 12%
- Total broker commissions up due to increased volumes and usage

Managed fund fees

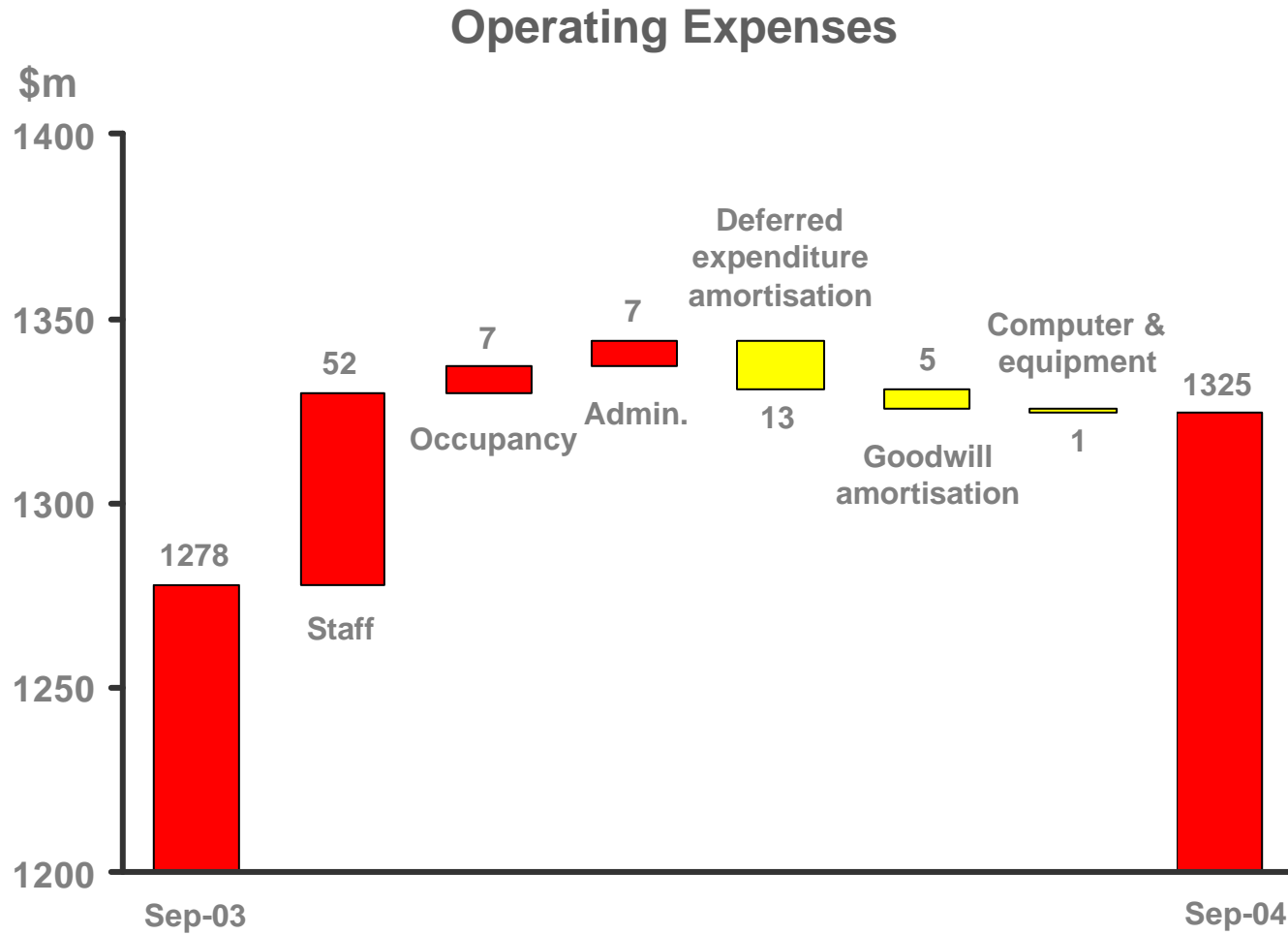
- Increase reflects 20% increase in average fund balances

Electronic banking fees

- Impact of regulatory changes to credit and debit cards \$20m over full year
- Underlying electronic banking fees up 14%*

*Before adjustment to interchange fees

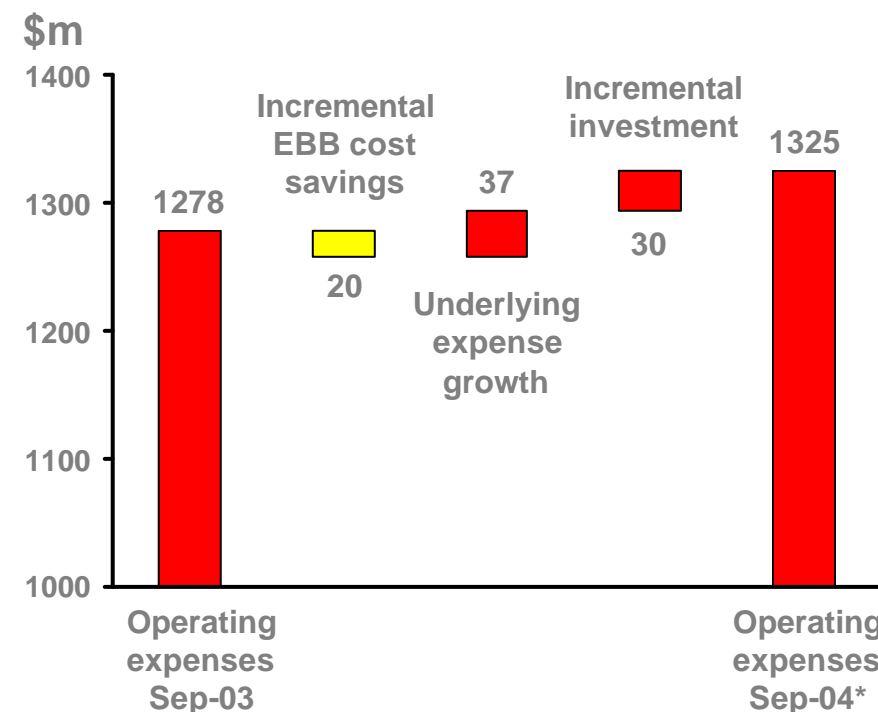
Controlling expenses, while investing for the future



Reinvestment driving sustainable growth

Incremental investment includes:

- Integrated Sales and Service program
- New teller system
- 61 new middle market relationship managers
- 27 new GOLD relationship bankers
- 60 new staff in Victorian operations
- Additional compliance and risk management expenditure



Targeted EBB cost savings of \$80m delivered in FY04

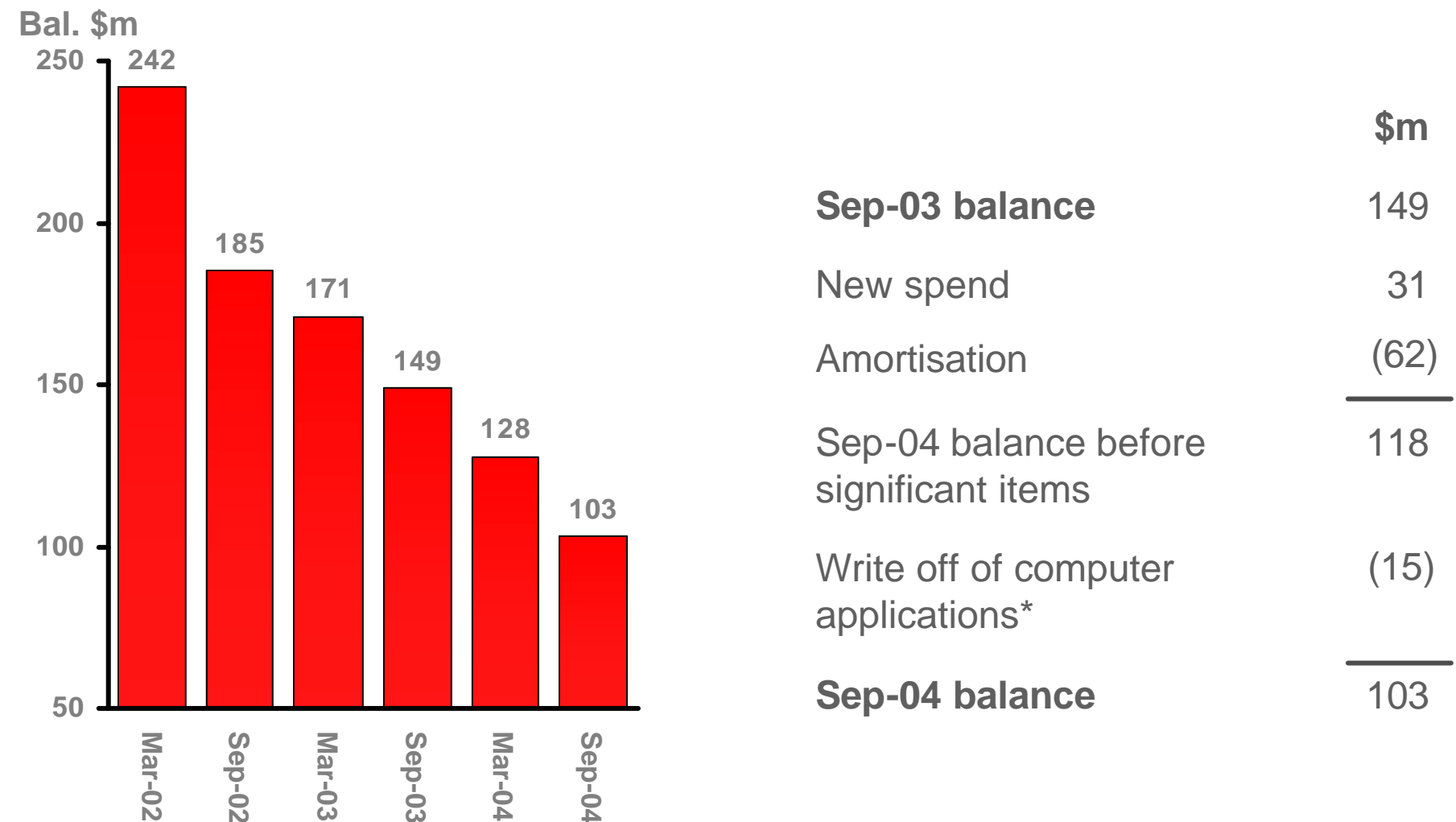
Segmental profits: All divisions contributing

	FY04 \$m	Change [^] %	Cost to income ratio FY04 %	Cost to income ratio FY03 %
Personal Customers	584	10	51.1	52.5
Institutional & Business Banking	381	14	32.9	33.3
BankSA	166	16	45.4	48.3
Wealth Management	107	41	64.1	70.8
Normalised*	100	31	65.7	

[^]Percentage Sep-03 to Sep-04

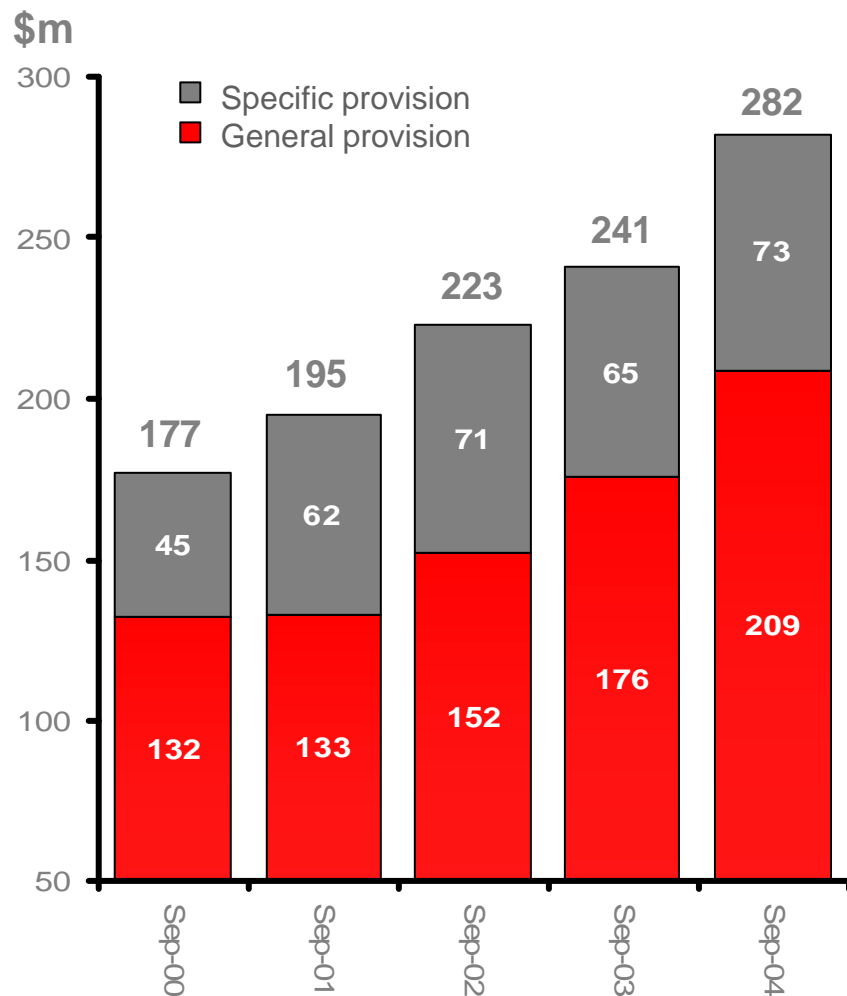
*After adjustment for \$7m one-off gain from Ascalon seed investment

Deferred expenditure decline continues



*Primarily relates to the bank's front-end lending platform (CLAS)

Prudent level of provisioning



- General provision and LMI unearned income of \$11m represents 0.52% of RWA
- General provision:
 - up 19%*
 - not tax effected
- Specific provision covers 64% of non-accruals

Provisioning conservative in the light of low risk business mix

*Sep-03 to Sep-04

Market risk well managed

	2H04		1H04	
	High \$m	Average \$m	High \$m	Average \$m
Domestic VaR	1.3	0.5	1.1	0.5
FX VaR	0.8	0.3	1.9	0.9
Total room risk	1.5	0.7	1.3	0.6

- Strong experienced team
- Monte Carlo simulation approved by APRA
- VaR measures supplemented by stress tests and other risk metrics

Risk management and compliance

- Risk management framework enhanced in FY04:
 - Improved credit risk grade model
 - New operational risk model
 - Additional staff employed
- BASEL II targets*:
 - Advanced approach for credit risk by 2008[^]
 - Advanced approach for operational risk by 2009
- IFRS preparations well advanced
- All compliance project costs expensed

*Subject to APRA accreditation

[^]In accordance with APRA ruling to extend implementation

Active capital management

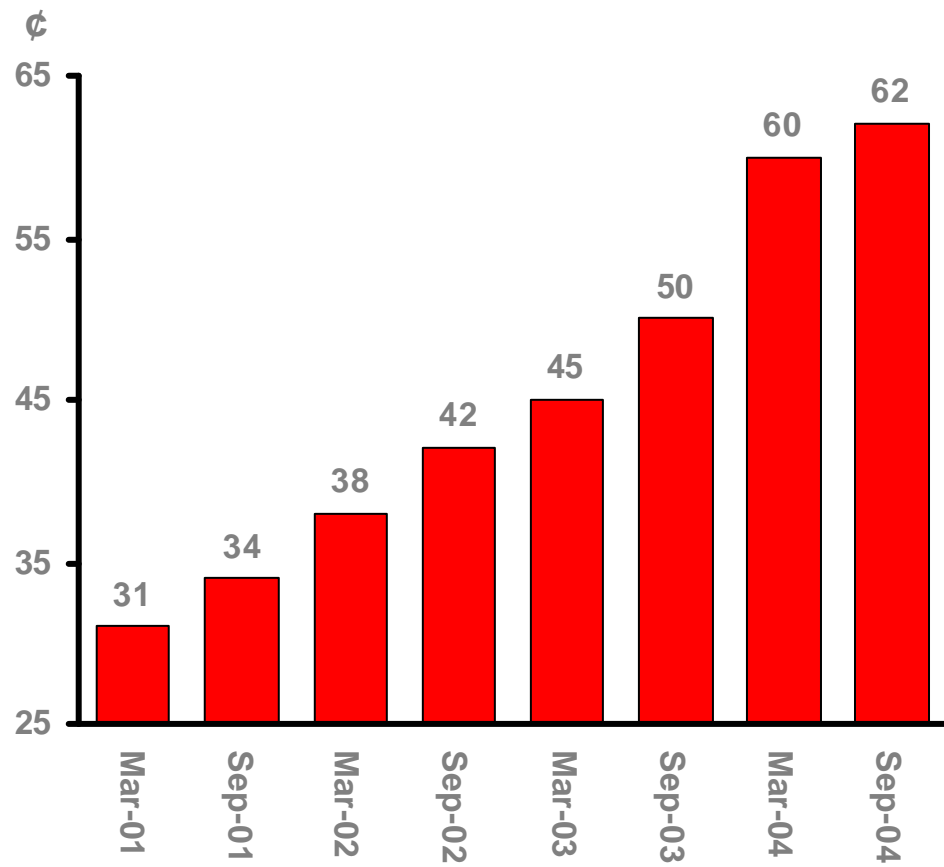
- Tier one capital 7.3%
- \$180m of capitalised expenses deducted from tier one^
- SAINTS tier one capital issue raises \$350m*
- \$5.7bn of residential loans securitised**
- Dividend reinvestment plan raised \$151m of capital
- Internal capital generation expected to match future growth

*\$345m after issue costs

^Due to new APRA treatment

**\$2bn, \$1.5bn and \$2.2bn in Feb, Jun and Sep respectively

Sustainable increase in dividend payout



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

Outlook

- Home loan system growth expected to slow
- St.George expects to match home loan system growth
- Demand for middle market credit expected to remain strong
- St.George expects to outperform system growth in middle market lending
- St.George expects revenue momentum and productivity improvements to offset margin pressure

Strategy Overview

Gail Kelly
Managing Director



Business priorities update

Differentiating on customer service

Management targets

Strategic framework

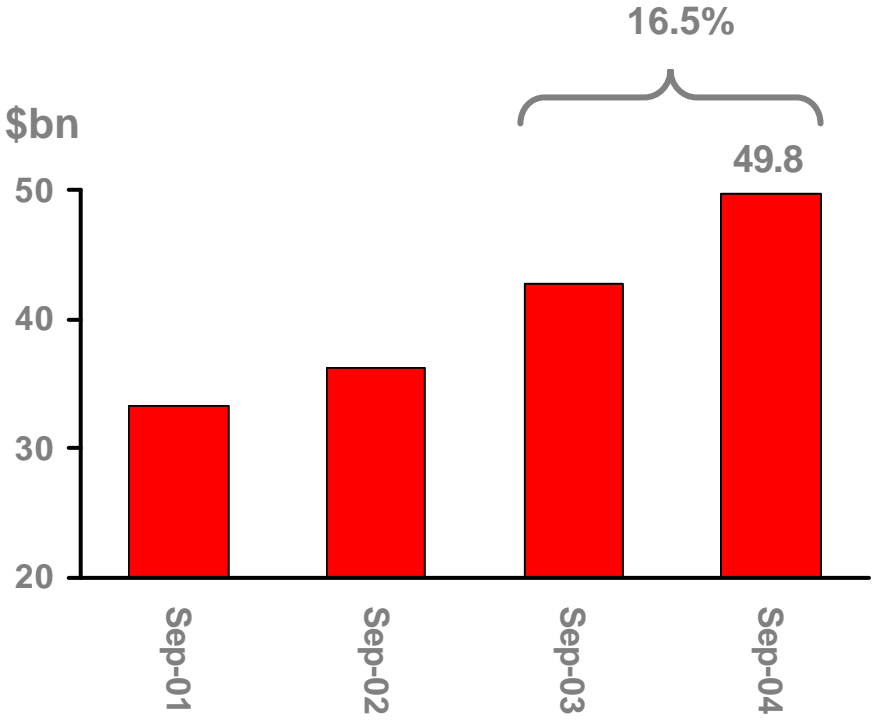
- Deepen and strengthen relationships with customers in our chosen markets
- Leverage specialist capabilities for growth
- Creatively differentiate on service
- Accelerate and empower relationship selling
- Build team and performance culture
- Optimise cost structure

2004: Delivering on our priorities

- Customer service - Integrated program of work underway
- Home loans - Actively managing volumes and mix
- Middle market - Continued high quality growth
- Wealth management - Strong inflows underpinning growth
- Productivity management - Rolling program of efficiency initiatives
- Team - Stable, high quality and aligned
- Victoria - Targeted growth strategy continues

Home Loans: Meeting the challenges

Residential receivables

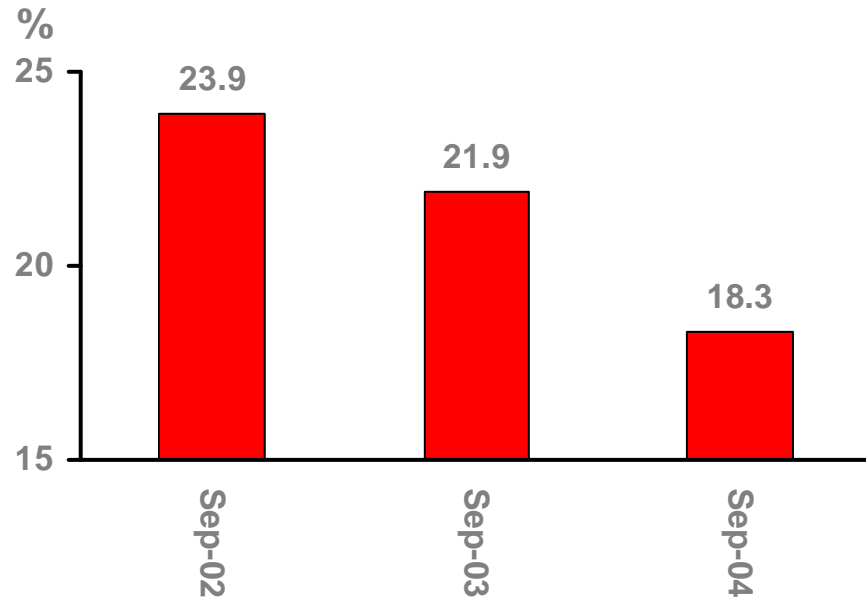


- 17%* growth in 2H04 exceeded system
- Effective mix management and product innovation
- 43% of new loans sourced from brokers
- Margins stable over year
- Service levels substantially improved

*Annualised
Includes securitised loans
Percentages Sep-03 to Sep-04

Home Loans: Improving retention

Run-off rate*



- Focus on service delivery and relationship management
- Repayment schedules impacted by 2003 interest rate rises
- Assisted by product mix and features
- Propensity modelling enhanced
- Retention for broker and proprietary loans similar

*Run-off rate includes contractual repayments, payouts, pre-payments and refinancings

Home Loans: Product mix actively managed

	Receivables		Settlements		
	Sep-04 %	Mar-04 %	FY04 %	FY03 %	FY02 %
Introductory	2.8	4.7	8.0	20.4	39.9
Portfolio	32.7	32.3	34.7	34.0	30.2
Standard variable and Basic	46.1	45.2	37.3	31.1	21.3
Fixed	12.7	14.1	7.8	9.6	8.6
Low Doc	3.6	1.8	8.5	2.2	0.0
No deposit	1.5	1.4	2.8	2.1	0.0
Seniors Access	0.6	0.5	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>

Home Loans: Credit quality outstanding

Total mortgage portfolio

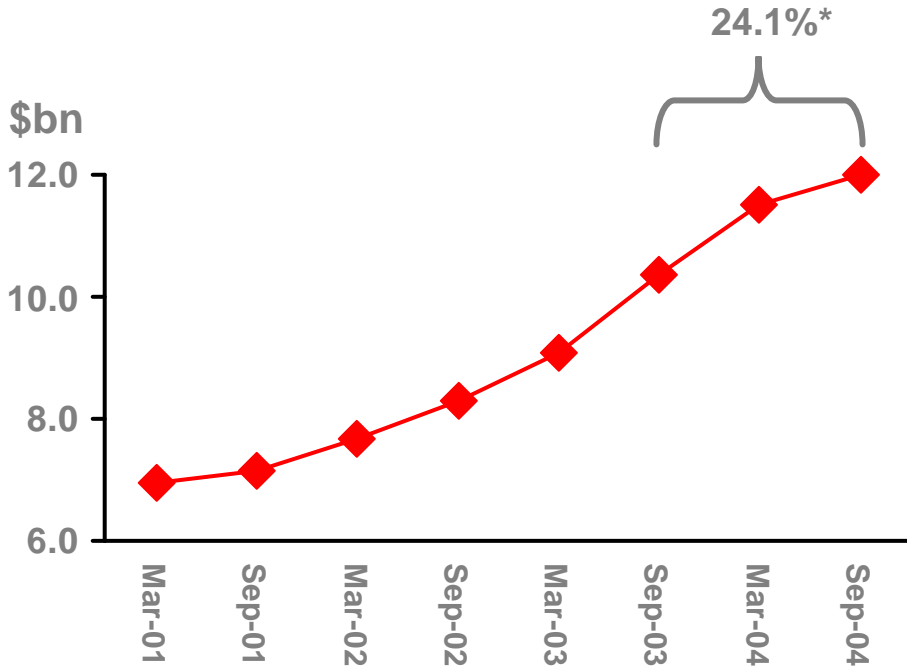
- LVR of mortgage book is 35%
- LVR of mortgages written in FY04 is 67%

Low doc mortgages

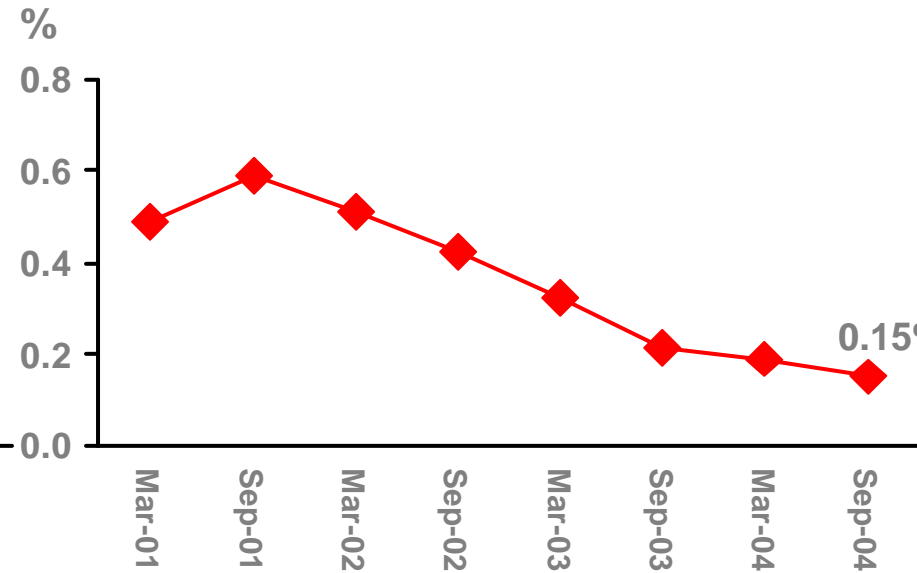
- Credit approvals and processes managed centrally
- Full valuations required on all 'low doc' loans with LVR > 50%
- Additional evidence of serviceability required eg. bank statements
- All low doc loans above 60% LVR mortgage insured, LVR limited to 80%
- Pricing for risk through higher LMI and additional interest margin

Middle Market: High quality growth

Total middle market receivables



Impaired assets/ total middle market receivables

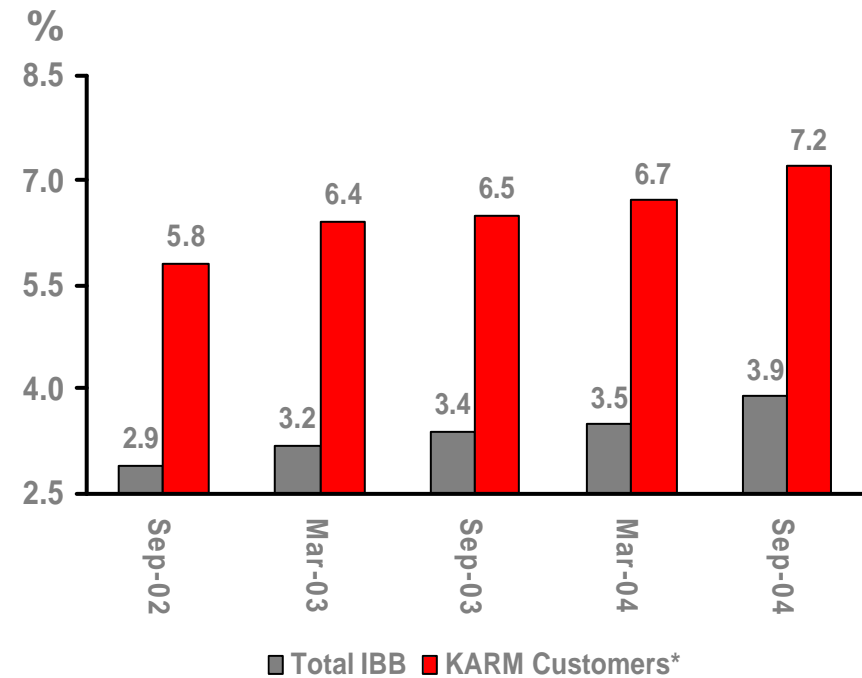


- 67% of new business sourced from existing customers
- 90% of new business sourced from 6 target industries
- Growth and margins maintained despite increased competition

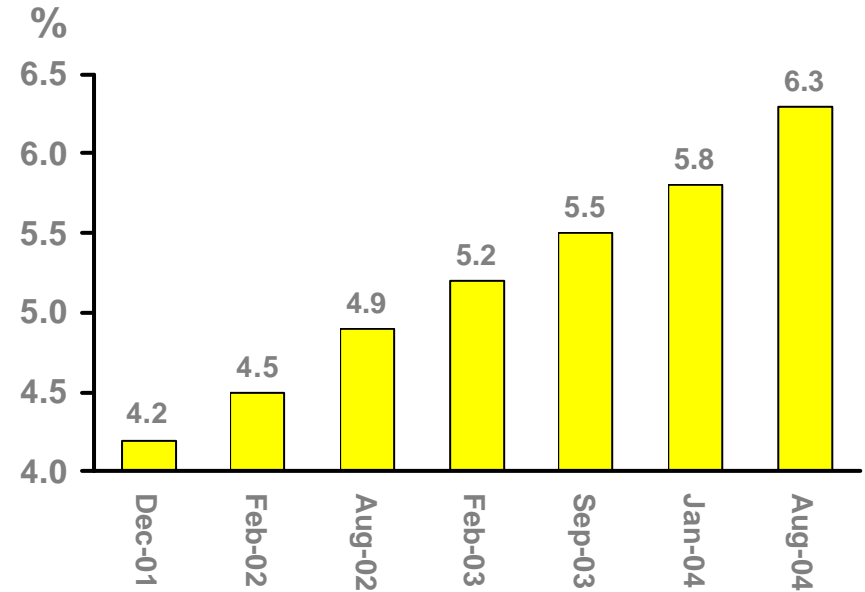
*Percentages Sep-03 to Sep-04
Middle market segment criteria unchanged

Middle Market: Growing customer relationships

Products per customer



Market share^

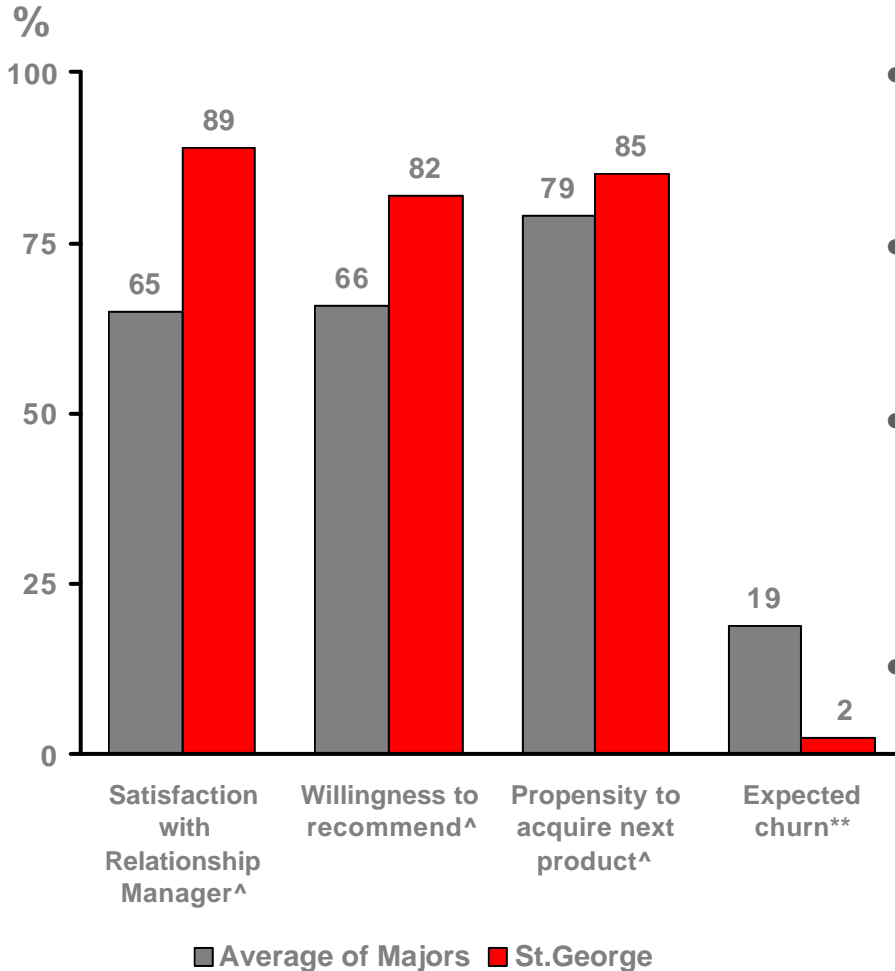


*KARM – Key account relationship management

^East & Partners Ltd – Australian Commercial Transaction Banking Markets

Middle Market: Focus on relationship model

Relationship management



- Superior relationship model
- Deep understanding of customer needs
- Significant investment in staff development and ISS program
- Named* 'Business Bank of the Year'

*CFO magazine 2004

^Source: Jones Donald Customer Satisfaction Survey Aug-04

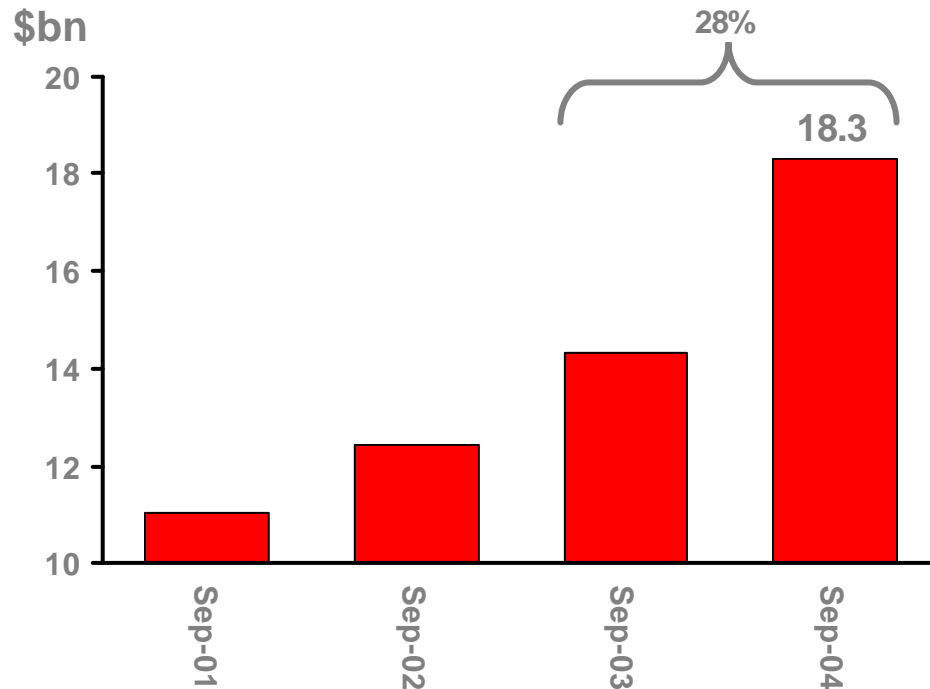
**East & Partners - Australian Mid-Corporate Transaction Banking Markets as at Sep-04

Wealth Management: An outstanding year

- All businesses contributing strongly
- Clean, focused portfolio
- Innovatively broadening distribution with tied, aligned and independent planners and 3rd party distribution
- Ongoing investment in new products and services
- A strong culture of risk management and compliance

SEALCORP: Profitable growth

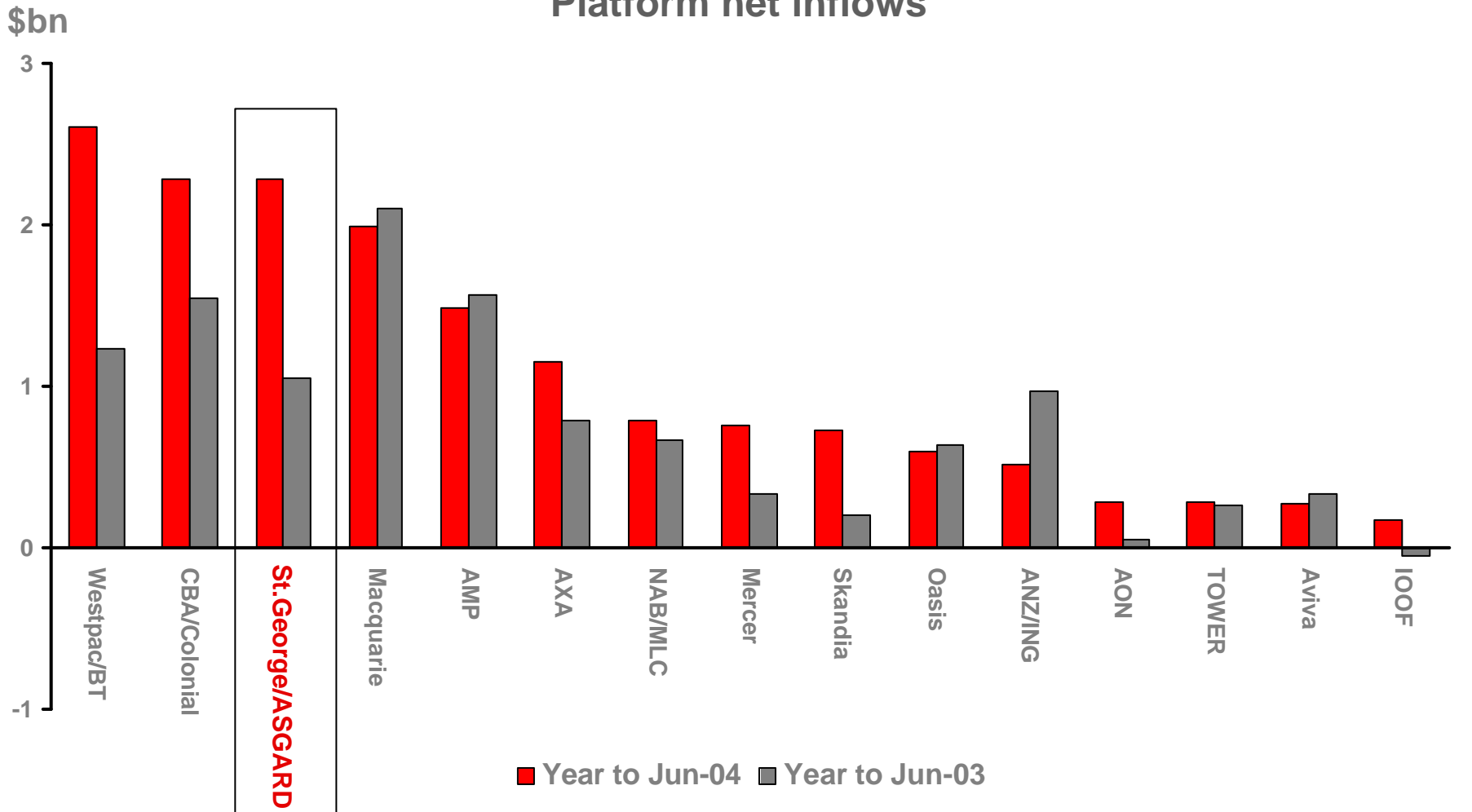
Funds under administration



- ASGARD top 3 for fund flows*
- Strong inflows from St. George planners and 3rd party distribution
- Wrap funds under administration increased to \$2.5bn
- Mastertrust experiencing steady growth and stable margins
- ASGARD Elements launched Apr-04

SEALCORP: Strong net inflows

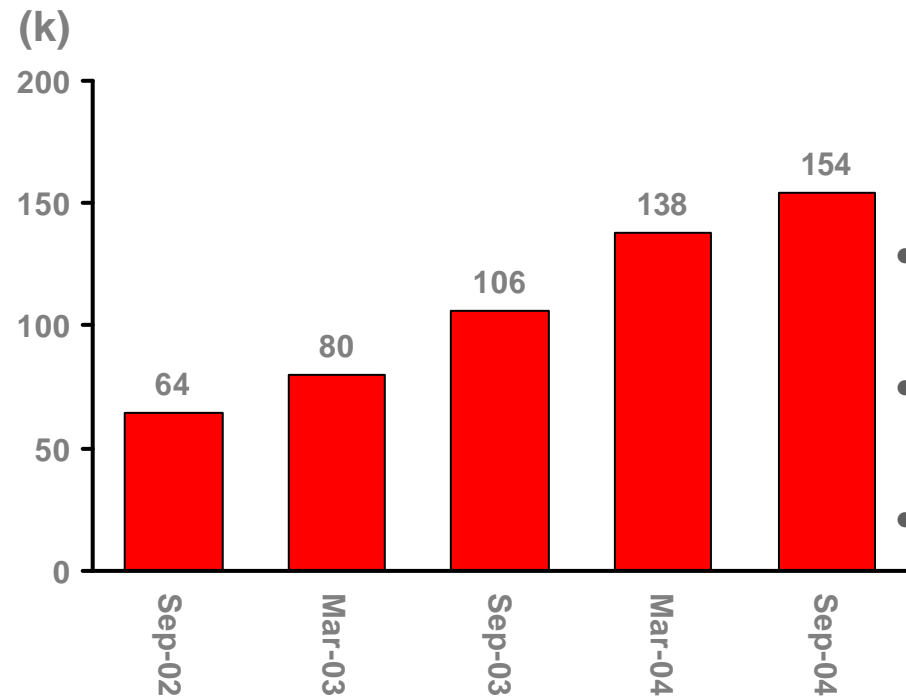
Platform net inflows



Source: Plan for Life Quarterly Jun-04

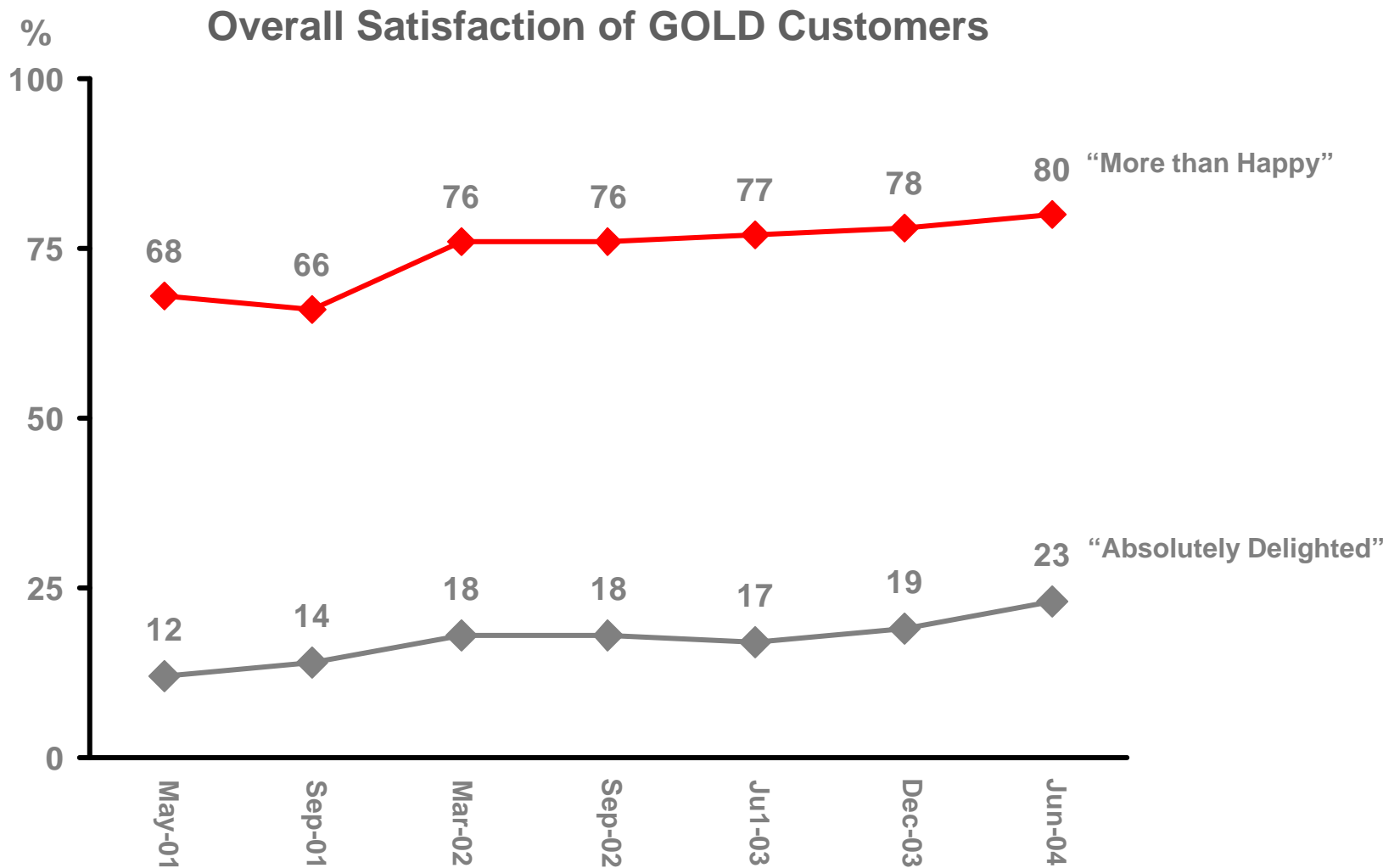
GOLD: Strategically targeted growth

Number of customers



- Scalable business model - leveraging branch network with dedicated contact centres
- Capturing broker-introduced business
- Customer retention remains high at 98%
- Customer acquisition focus in Victoria and Queensland

GOLD: Increasing satisfaction and advocacy



Interstate growth strategy

Victoria – targeted growth, steady build

- 25% growth in lending
- Business lending pipeline strong
- Measured build of infrastructure and capability
 - 6 new sites opened
 - 8 additional sites planned
- Customer satisfaction 83%, up from 71% since Sep-03

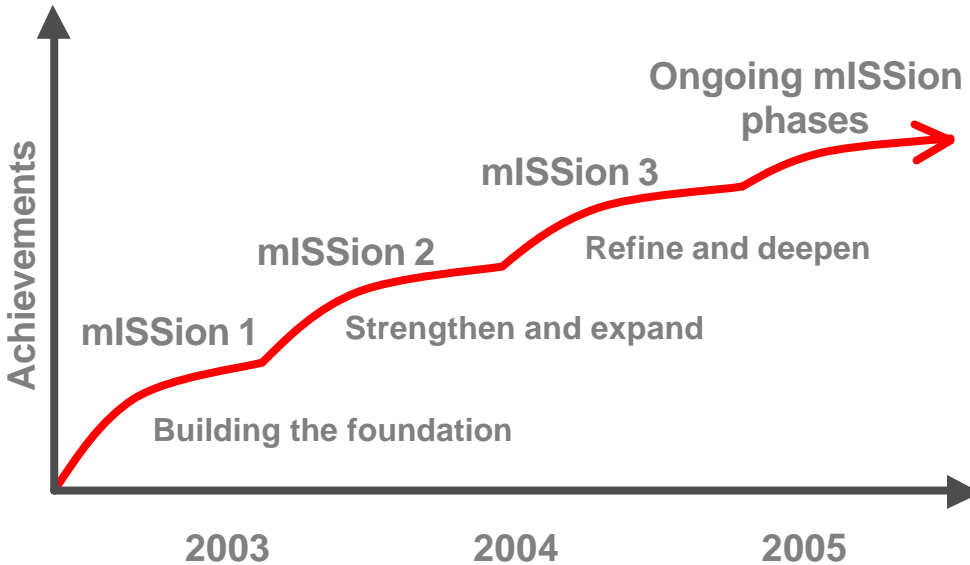
Queensland – new area of focus

- General Manager appointed
- Additional investment planned

Targeted customer segment approach

Integrated Sales and Service

ISS program



mISSion 2 & 3 – Launched FY04

- Strong sales and service platform in place across network
- Uplift in leads, sales and service outcomes

- 1 in 4 banking customers 'absolutely delighted'
- 50% increase in 'absolutely delighted' customers since Oct-00

Business priorities update

Differentiating on customer service

Management targets

Our customer service formula

**Engaged
People**



**Compelling place to
work**

- An inspiring vision
- Right people, right roles
- Empowered workplace
- People who are passionate about the Group's brands
- Clear consistent communication

+

**Great
Customer
Experience**



**Compelling place to
bank**

- Targeted approach
- Compelling propositions
- Customers who stay and do more
- Customers who advocate St.George
- Differentiated positioning

=

**Superior
Financial
Results**



**Compelling place to
invest**

- Superior financial results over time
- Consistent, superior growth profile
- Self sustaining platform

2004: Key insights

- Engaged staff is the first and fundamental step
- Differentiation lies in customer experience, not product or price
- Satisfaction is important, but customer advocacy is more powerful
- Need to improve 'base' level of service for all customers and differentiate further for target customers
- Customer needs are best served through 'local market' approach
- Practical, actionable CRM is a key enabler

2004: A year of further investment

Key initiatives include:

- Integrated sales and service (mISSion 1, 2 and 3)
- Enhanced relationship management focus - middle market and GOLD
- Leadership and management development accelerated
- New recruitment and selection model for front line
- Branch process simplification – frontline capacity boosted by equivalent of 150 FTEs
- New teller system – 100% deployed
- Major improvements to mortgage processes
- Significant enhancement to contact centre processes

2005: Continuing the investment agenda

- New organisational model accelerates front-line ownership and empowerment, driving 'local market' strategy
- Redesign of processes – improving the service levels for all customers
- Actionable CRM – step change in capability
- Enhancing middle market strategy through 'Best Business Bank' program
- Continued expansion in Victoria and Queensland
- Investing in the Brand

Actionable customer relationship management

Sep-04

Sep-05

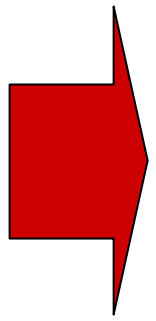
Lead Management System

'ENACT' frontline ISS software

+

Comprehensive data warehouse

Integrated Sales and Service program



+

Segment marketing

New teller platform

'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

Business priorities update

Differentiating on customer service

Management targets

Targets: FY05 and FY06

EPS growth FY05	10%
EPS growth FY06	Double digit
Cost to income	Continuing sub 50%
Capital	Tier one 7.0-7.5%
Credit quality	Maintain positive differential to majors
Customer satisfaction	Maintain positive differential to majors

In conclusion

- A superior earnings performance
- Focused execution of strategy
- Customer service journey taken to the next level
- Confidence in the future



st. george

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