It isn't about being the biggest...

CONCISE ANNUAL REPORT 2001

st.george

...it's about

being the best.

Table of Contents

Graphical Data

Annual General Meeting

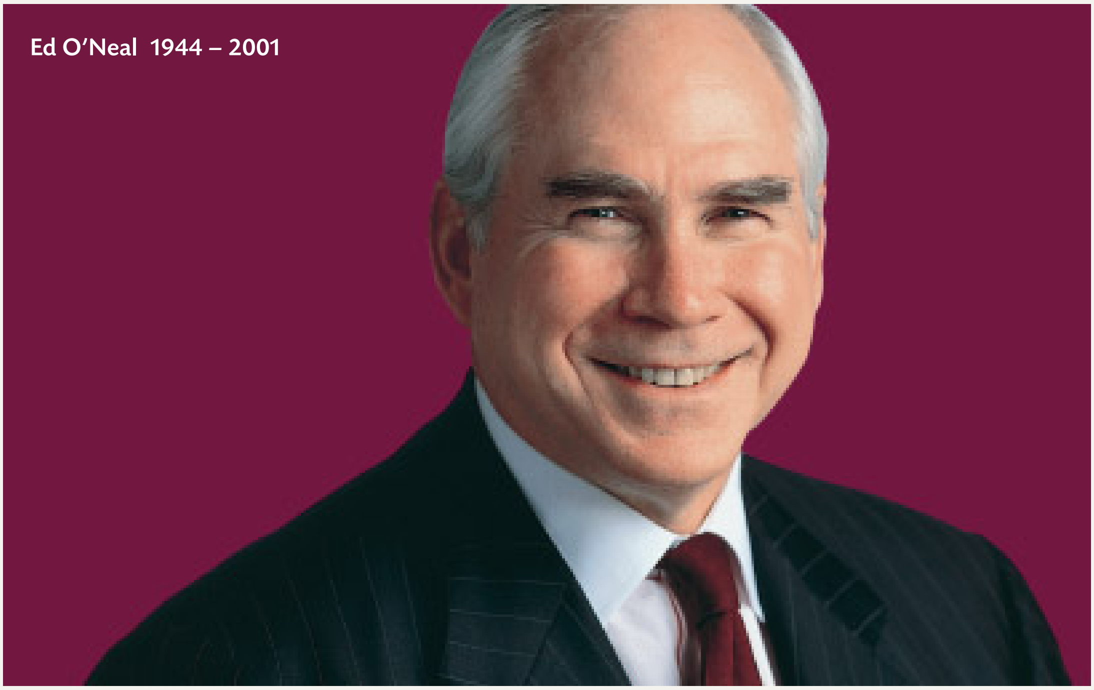
The Annual General Meeting of St.George Bank Limited ABN 92055 513 070 will be held at the Tumbalong Auditorium (Level 2), Sydney Convention and Exhibition Centre (South), Darling Harbour, Sydney on Friday 14 December 2001, commencing at 10.00am.

tribute to Ed O'Neal

The sudden death of St.George Bank's Managing Director and Chief Executive Officer, Edward Asbury O'Neal, in September 2001, shocked and saddened us all.

An inspirational leader, Ed was admired by everyone who had the privilege of meeting him. He stood apart through his charisma, congeniality, honesty, commitment and passion. He was an easy man to like and respect.

Ed was extremely popular with staff. He often remarked on their energy and motivation, skills, dedication and discipline. He introduced the Star Awards for employees who excelled in customer service. He actively joined staff activities and let them know he was just another part of the team.



Passionate about St.George customers, Ed was committed to deepening relationships with them. He genuinely believed that St.George was better placed than any Australian bank to provide customers with valuable lifestyle solutions.

He was also committed to creating the best bank St.George could be for shareholders, particularly the 110,000 or so small investors who rely on the Bank's solid returns to make a difference in their lives.

Most of all, Ed was a devoted family man. He and his wife Dianne had recently completed extensive renovations to their Sydney home. Together they spent weekends on their country property in the NSW Southern Highlands. As often as possible they would spend time with their only child, Edward, who is completing his schooling in the United States.

A career banker, Ed was appointed CEO and Managing Director of St.George in May 1998 after enjoying a distinguished banking career in the United States.

After 23 years with Chemical Bank, he went on to become Vice Chairman at the Bank of Boston.

He was the driving force behind St.George's structural and financial achievements over the past few years. He devoted his last years to making St.George Bank stand out as a genuine alternative in Australian banking.

Ed's popularity was clearly evidenced by the enormous number of tributes that flowed in from staff, friends and business leaders in Australia and from around the world. His family has taken great comfort from these messages.

The results of Ed's efforts to improve St.George's operations and share price are reflected strongly in the market place. Our sadness is that he didn't live to enjoy all the fruits of his endeavours. We are confident his positive contribution will continue to shine through.

Ed wrote the following words for the annual report. We know he would have wished them to be communicated to shareholders:

'*Our ownership restrictions – which have made us difficult to takeover, become easier to change in July next year.*

'*I welcome this change. I believe we need to be seen as standing on our own feet – without regulation – as a viable and independent financial institution offering a real alternative.*

'*I welcome the change because we're a robust company with strong growth potential.*

We're entering the new year with our best-ever financial performance. We've built a real momentum in our results. Our credit quality is strong. Our customer satisfaction is superior to that of our competitors.

'*The St.George brand is extremely strong. We stand for something different. And that's our goal. Not to be the biggest, but to be the best.*

'*St.George is delivering on its promises. We still have major challenges ahead, but I believe we're extremely well positioned for our shareholders to reap the rewards of our passion for customers and our commitment to achieving results.*'

...it's about achieving goals.

'We believe that our best course of action is to remain focused on continuing to improve our performance for shareholders, thereby strengthening our position in the market place.'

St.George is strongly positioned for a solid independent future, well beyond July 2002. The Bank has achieved genuine organic growth, robust earnings and a solid performance.

This is the result of the untiring focus and dedication of our late Managing Director, Ed O'Neal, his executive team and the staff of St.George. On behalf of the Board, I wish to thank them for their excellent contribution in bringing the Bank to such a healthy position.

The Board and staff were deeply saddened by the sudden loss of Ed O'Neal. He was an energetic leader and contributed immensely to the Bank's position. He will be greatly missed.

The Board has authorised an executive search to find an appropriate and committed leader for St.George in the future. In the interim, the Board has appointed me Executive Chairman. I have appointed BankSA Managing Director, Lou Morris, as St.George's Acting Chief Operating Officer to assist me. I should like to thank everyone for their support during this difficult time.

St.George's result to 30 September 2001 – the best in the Bank's history – comes from the dedicated efforts of all employees to make St.George a powerful alternative in Australian banking.

The profit available to ordinary shareholders was $336 million, an increase of 17.5 per cent on the previous year's record. The 2001 result was adversely impacted by significant items of $50 million ($40 million after tax). These items comprise write-downs of certain investments of $58 million ($46 million after tax) and write-backs of excess provisions of

Frank J Conroy
Executive Chairman

$8 million ($6 million after tax).

Earnings per share, before significant items and goodwill amortisation, grew by 22.8 per cent to 101.9 cents. The return on average ordinary equity was a commendable 16.56 per cent, against 13.86 per cent in 2000. This was achieved through profit improvements across key areas of the organisation, combined with major capital management initiatives undertaken in the first part of the year.

Shareholders will receive a final fully franked dividend of 34 cents per ordinary share, taking the total ordinary dividend for the year to 65 cents, an increase of 10 cents or 18.2 per cent on last year.

The Board is pleased to announce that the Dividend Reinvestment Plan (DRP) will operate for the final dividend. There will be a discount of 2.5 per cent and participation will be from a minimum of 100 shares with no cap. The DRP has been underwritten to ensure at least $120 million of the 2001 final dividend is reinvested in St.George.

The expense to income ratio, calculated after excluding goodwill and significant items, improved substantially. It fell to 53.6 per cent from 58.2 per cent. Improvement resulted from containing operating expenses, maintaining interest margins and strongly growing non-interest income.

Non-interest income grew by 23.6 per cent to $682 million (before significant items). This accounts for 35.6 per cent of total revenue, up from 32.0 per cent over the previous period. The growth came from healthier business volumes, better fee collection and some fee adjustments introduced as part of the Bank's value-based pricing policy.

The Best Bank redesign program contributed to substantial improvements in both operating expenses and revenue, the latter growing 11.2 per cent to $1.92 billion before significant items.

Despite intense competition in mortgage margins through the year, the interest margin increased slightly to 2.76 per cent from 2.70 per cent in the previous year.

Our excellent credit quality led to relatively low levels of provisioning and impaired assets. We had favourable outcomes in residential and consumer loans in both absolute and relative terms.

St.George is in a strong position at this point in the credit cycle due, in part, to our relatively small exposure to problematic loans to large corporations. Our net impaired assets at year end amounted to just 0.10 per cent of total assets.

Capital management initiatives

During the year, the Group's total assets increased to $50.8 billion from $49.6 billion at 30 September 2000. This was after taking into account two successful mortgage-backed securitisations, issued to the offshore and domestic markets in February and September, totalling $3.28 billion.

We also introduced a number of capital management initiatives. This was to maintain appropriate capital levels to support the Bank's operations, generally lowering the overall cost of capital and enhancing earnings per share.

In March, the Bank converted $360 million of convertible preference shares into 28.2 million ordinary shares. Holders of these securities were paid a pro-rata dividend of 44.8 cents for the period to the conversion date on 29 March 2001.

The Bank offered shareholders two innovative instruments to effect its share buy-back and new preference share issue in February and March. They were designed to benefit St.George shareholders as widely as possible and both proved extremely popular.

Our PRYMES (Preferred Resetting Yield Marketable Equity Securities) issue offered a preferred share with a highly competitive, fully franked dividend rate of 6.36 per cent. Our sell back rights gave shareholders the opportunity to participate in the generous buy-back price, whether or not they wished to sell shares back to the Bank.

Unfortunately, after lengthy discussions with the Australian Tax Office, we were informed in August that the sell back rights would be liable to income tax. Although we disagree strongly with the ATO ruling and have taken legal advice on shareholders' behalf, we immediately informed shareholders of the decision. We are committed to contest this issue in the courts and will keep shareholders informed of further developments.

Merger talks

During the year, St.George explored the opportunity to merge with BankWest. The advantages for us would have included increasing our customer base and geographic spread. It would have strengthened our national position with market leadership in both the South Australian and West Australian markets.

We recognised, however, that it was not a strategic imperative for St.George's independent future. We ceased negotiations in late August when we were unable to structure a deal that was sufficiently attractive to both sets of shareholders.

Ownership restrictions

From 1 July 2002, the Bank's ownership restriction that limits single shareholders to no more than 10 per cent of the Bank's shares will be able to be changed by shareholders special resolution. At that time, we will effectively assume a similar status to other companies with open share registers.

We believe that our best course of action is to remain focused on continuing to improve our performance for shareholders, thereby strengthening our position in the market place.

Theme

The theme of this year's annual report reflects elements of the Bank's new branding campaign that clearly positions St.George as recognisably different in the financial market place.

St.George is in a category of its own. With an asset base of more than $50 billion, we are ranked after the four major banks, but a long way ahead of Australia's regional banks. The Bank's goal is not to be the biggest, but to be the best in what we do.

We have over 400 banking centres with representation in every major Australian city. We have a concentrated position in New South Wales and the Australian Capital Territory under the St.George brand and in South Australia as BankSA. Our 7,000-plus employees provide the full spectrum of financial services to our 2.6 million retail, commercial and corporate customers, posting strong returns for our more than 110,000 shareholders, many of whom are small investors.

Strategic horizons

In previous reports, we outlined our efforts to satisfy fully customer and shareholder expectations. St.George has not lost sight of its key priorities. This year we introduced the Three Horizon Strategy to help place our strategies into a long term context.

The three horizons help focus us on becoming the best bank we can be through a series of concurrent activities over different time horizons.

The first horizon is to improve, extend and defend our core banking business. We see this as the main profitability driver over the next few years. The key components of this horizon are our Best Bank initiative and our focus on improving the amount of business we do with our customers.

The second horizon is to invest in high-growth and high-return complementary businesses that extend the depth and reach of our financial services businesses. Some key investments in this horizon include SEALCORP, WealthPoint, Scottish Pacific, the St.George Private Bank and Advance Asset Management.

Our third horizon is to invest conservatively in new business models and opportunities. All evidence shows that companies committed to exploring this horizon are the ones that have sustainable long-term growth.
With this strategy, we aim to acquire or develop a limited number of potentially high-growth businesses.

New horizons

We recognise that our most valuable resource is not financial capital, but human capital. The quality of our people and their commitment to the Bank are pivotal to us never losing sight of our key driver, customer focus.

While staff morale dipped slightly during the Best Bank process, it has lifted again as our people begin to see the benefits of the redesign and understand their importance in our reinvigorated organisation.

Our staff's commitment is vital in achieving a key first horizon objective – to do more business with our 2.6 million customers. The cost of acquiring customers is increasing, therefore retaining and building on our existing customer base makes economic sense.

During 2001, we improved our products-per-customer ratio to 1.9 up from 1.6 the previous year. We have room for further gains as we deepen customer relationships. This will be done with care and sensitivity. We are committed to listen carefully to our customers, to assess their requirements and respond to their needs.

Outlook

The Australian banking industry faces a more uncertain operating environment in the coming year. A global economic slowdown and some increased domestic credit quality concerns will impact on the industry's financial performance.

St.George is, however, relatively well placed for this challenging environment. This can be attributed to our conservative lending mix and approach to credit, plus the full year impact of the Best Bank redesign benefits. From this base, we can expect to again deliver double digit percentage growth in earnings per share.

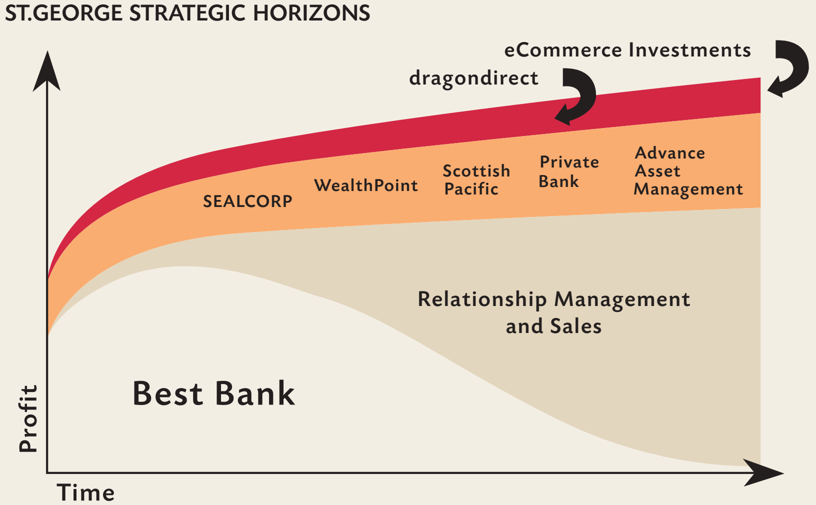
St.George's strategies for the future go well beyond July 2002. We are focused on creating an organisation with sustainable performance. Our consistently improving results highlight our ability to perform at the top end of market expectations. They reinforce our ability to drive shareholder value while delivering superior customer service and satisfaction.

Our aim is to become the most admired bank in Australia by consistently giving customers their best banking experience. Our goal is to build a customer base that is not only extremely satisfied, but also our best advertisement for quality.

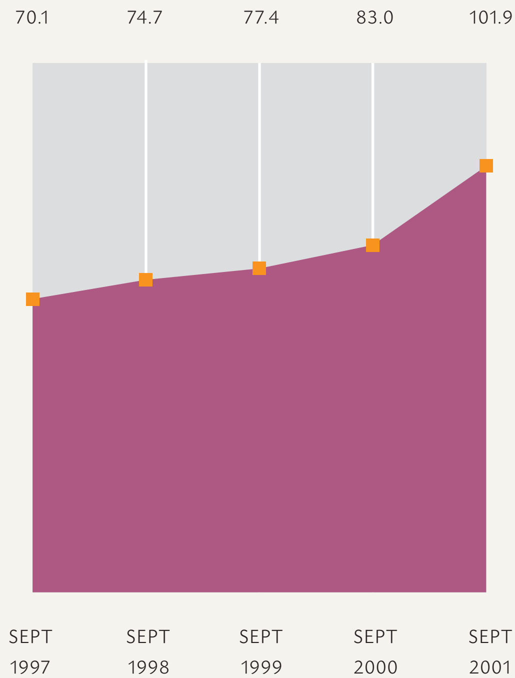
St.George has no illusions about how quickly we can achieve our goals. It will take time. As we make improvements every year, we will build one of the best performing independent banks in the country.

Frank J Conroy
Executive Chairman

ST.GEORGE STRATEGIC HORIZONS

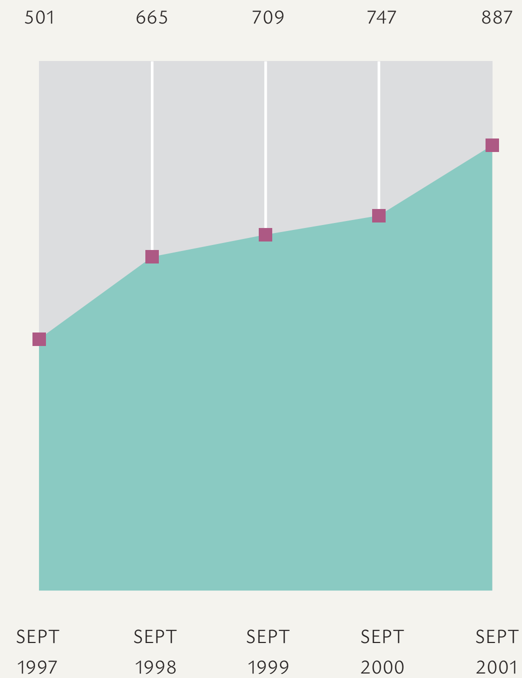


EARNINGS PER ORDINARY SHARE (CENTS)
(before goodwill amortisation and significant items)



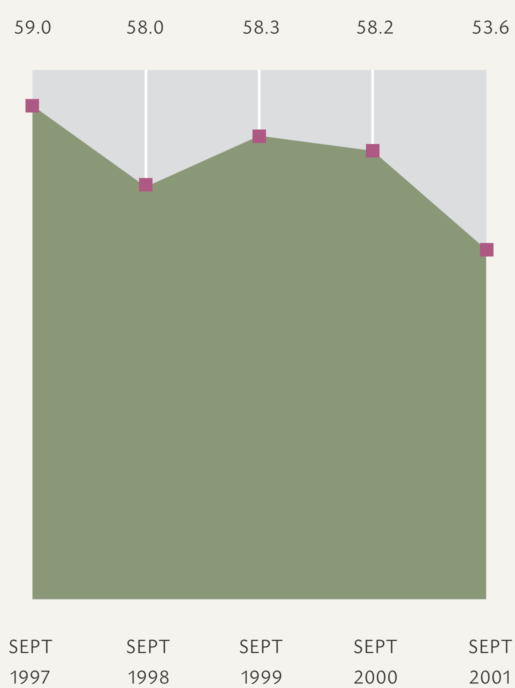
Basic earnings per ordinary share were 101.9 cents (before goodwill amortisation and significant items) and 72.1 cents (after goodwill amortisation and significant items).

OPERATIONAL PROFIT ($M)
UNDERLYING PROFIT



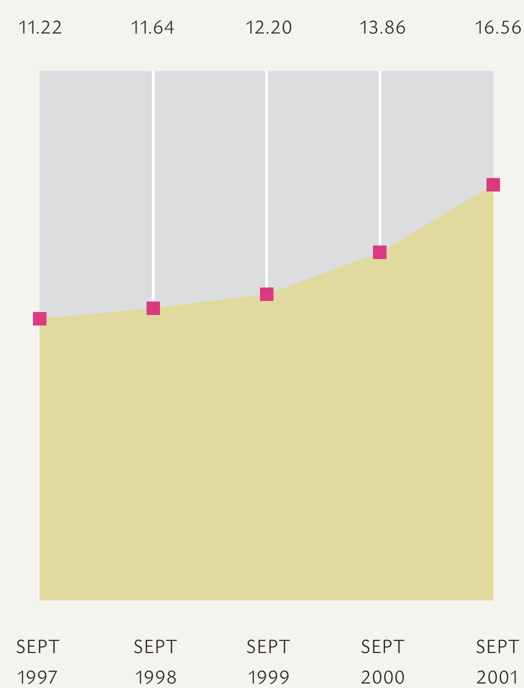
Excludes the effect of income tax, significant items, bad and doubtful debts expense, goodwill amortisation, Year 2000 compliance costs and GST implementation costs.
Underlying profit increased 18.8 per cent to $887 million from $747 million last year.

EXPENSE TO INCOME (%)



The expense to income ratio (before goodwill amortisation and significant items), was 53.6 per cent compared to 58.2 per cent last year.

RETURN ON AVERAGE ORDINAY EQUITY (%)



Return on average ordinary equity was 16.56 per cent (before goodwill amortisation and significant items) and 11.71 per cent (after goodwill amortisation and significant items).

...it's about providing satisfaction.

FOR DIGBY AND GWEN COOKE LIVING ABOARD THEIR OWN BOAT WHILE ISLAND-HOPPING THE WHITSUNDAYS HAS BEEN ONE OF THE MOST SATISFYING ADVENTURES OF A WELL EARNED RETIREMENT. BEING ABLE TO MANAGE THEIR RESPECTIVE BANKING AND INVESTMENTS WHILE AT SEA GIVES THEM THE FREEDOM TO PURSUE MANY OF THEIR DREAMS.

We made nearly 1000 improvements to our systems and processes. As a result we achieved our goals of meeting and, in some cases, exceeding our competitors' product and service capabilities.

In independent survey after survey, St.George continues to beat the majors on customer satisfaction nationally. But we have not become complacent. We believe there is always room to improve.

St.George's goal is to provide customers with the best service experience they can have with a bank. To help achieve this, in 1999 we introduced the Best Bank redesign program which we detailed in last year's annual report.

Consulting firm, Aston Associates, assisted St.George with the development of the successful redesign program.

We are pleased to announce that Best Bank was substantially completed by October 2001. We made nearly 1000 improvements to our systems and processes. As a result we achieved our goals of meeting and, in some cases, exceeding our competitors' product and service capabilities.

The redesign has enabled us to accelerate the realisation of operational savings and efficiency improvements. Best Bank's goal was to create a solid platform from which we could grow organically. In the process we achieved significant savings and revenue growth.

Around 60 per cent of Best Bank improvements came from streamlining and automating processes, eliminating duplicate activities and giving customers better access to the Group's full range of products and services. The other 40 per cent came from increasing revenue streams.

The two-year program delivered pre-tax benefits of $80 million in the 2001 year, better than our targeted $70 million. From next year, Best Bank is expected to deliver a new target of $145 million in pre-tax benefits, revised upwards by $25 million from the original target of $120 million.

Branch network changes

One Best Bank outcome was to implement a three-tier branch network to align service delivery with customer needs. The Group now has 40 Automated Banking Centres (ABCs) offering electronic services through the internet, telephone and ATMs.

We also have 50 Financial Service Centres (FSCs) offering a full range of banking and wealth management services. These complement the Group's 300 traditional branches nationally.

While many financial institutions are reducing their branch numbers, our Best Bank initiative did not pursue branch closures. As a result we are still providing face-to-face customer support in our sites. At ABCs, customers can both self-serve or seek help from our staff dedicated to showing them how to use electronic channels and the benefits of new products and services.

Customer feedback on ABCs has been positive. Contrary to conventional belief that only the young, technically adept use electronic banking, customers in their 90s are enjoying the experience. We have found that once customers of any age are shown how to use ATMs and the internet, they are comfortable using electronic banking.

Our Financial Service Centres create a 'one stop shop' for personal and business customers' full financial service needs. FSCs differ from traditional branches. They feature product specialists for customers to discuss their more complex financial affairs. Some have multiple queuing for either simple or more complex transactions. This significantly reduces the time customers with simple transactions need to spend in a branch.

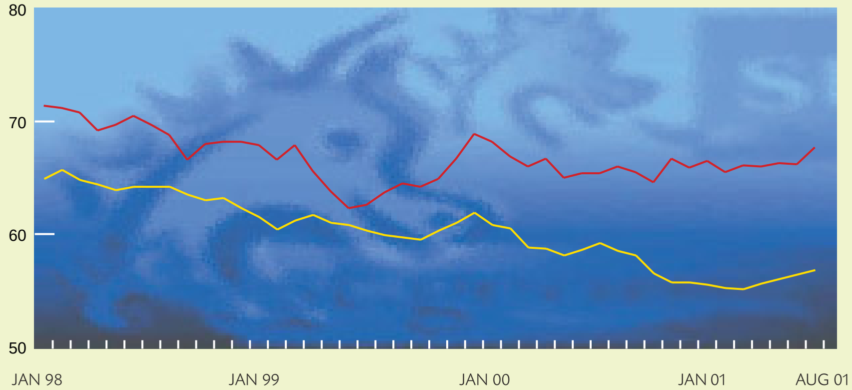
We have also improved all branch based technology platforms and processes. Many transactions can now be conducted more easily and quickly, giving staff more time to devote to customers and less to system needs.

MORE SATISFIED CUSTOMERS

Independent surveys continue to show St.George beating the majors on customer satisfaction nationally.

CUSTOMERS SATISFIED WITH FINANCIAL INSTITUTION

(% OF RESPONDENTS) Trend is based on a three month rolling average



Source: Roy Morgan

While many financial institutions are reducing their branch numbers, our Best Bank initiative did not pursue branch closures. As a result we are still providing face-to-face customer support in our sites.

Call centres

St.George is also differentiated from the majors by our world's best practice call centre technology. Our advanced systems now give staff the ability to view a customer's complete financial relationship on one screen. Staff can now better offer true solutions and enhance customers' experience of banking via telephone.

We have improved our data systems to enable quicker response times. Customers can use the 'touch tone' interactive voice recognition system to do most of their banking. Without needing to consult an operator, customers can transfer funds, pay bills, redraw on their mortgage payments, stop payments, issue interest instructions, order cheques and access cheque payment details.

Automating and outsourcing

From a catch-up perspective Best Bank has made some important inroads for the Group. We automated some manual processes, such as fee collection and aspects of cash balancing in branches. We outsourced some services, including staff recruitment, property management and facilities, cheque encoding, platform support and certain collection activities. By outsourcing activities previously conducted in branches, we are able to reduce costs while improving functionality.

Systems improvements

Savings from Best Bank are not just financial. For example, we found that across the network customers were averaging 2,400 requests each month for account interest details, but systems didn't allow branch staff to provide immediate answers in all cases. We have now rectified that.

By creating a bridge between our commercial and retail computer systems, for the first time we can offer commercial and private bank customers, internet, phone services and genuine transactional access through our 400 centres.

Streamlined processes

Many Best Bank achievements help reduce duplication, particularly in lending. While we have been careful to maintain our stringent lending criteria, customers gain from faster decisions on their loan applications and the Bank benefits from retaining or gaining new customers. In addition, St.George customers can also add onto their existing loans through more simplified procedures.

By introducing a lead management system, with automated tracking between business units, the Bank can better follow through on customer referrals and ensure applications are handled in a timely manner. The number of quality cross-divisional referrals and conversions into sales has increased significantly. The efficiency comes from reduced paperwork. Customers benefit from improved response time.

Positioning and pricing

In April 2001, the Group introduced value-based pricing to better match fees to the service channels customers choose. This resulted in slightly higher fees for some customers who need occasional services such as temporary overdrafts. However, most customers accessing the Bank's more cost-effective electronic channels are benefiting from our revised fee structure. Value-based pricing will continue to provide sustainable growth in non-interest income across a range of products and services.

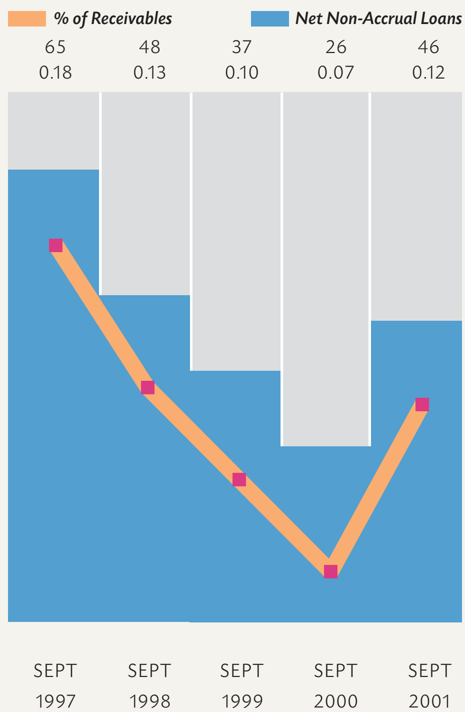
Through Best Bank we recognised we could better serve customers by further segmenting our business units. As a result, we established units dedicated to both small business and our premium personal customer segment we have called Gold. We deliberately started with a small pilot program to ensure our support services were established before extending Gold more broadly. This pilot was extremely successful. We now have 50,000 Gold customers. This initiative has led to greater customer retention and satisfaction.

Customer Satisfaction

Best Bank has given St.George the platform from which to grow organically. Customers will benefit through us investing in, and providing them with, the most appropriate services and channels for their needs. Staff will benefit by greater, more varied career opportunities and a sense of working for an organisation that has a clear direction. Shareholders will be rewarded through higher returns.

'GWEN HAD HER FIRST HOME LOAN WITH ST.GEORGE OVER 40 YEARS AGO AND I'VE HAD MY PERSONAL ACCOUNT FOR OVER 30 YEARS,' SAID DIGBY. 'BEING A BIT SMALLER THAN THE OTHER BANKS, ST.GEORGE OFFERS MORE PERSONALISED SERVICE AND THERE'S A CERTAIN SATISFACTION IN THAT.'

NON-ACCRUAL LOANS



Net non-accrual loans were $46 million compared to $26 million last year. Net non-accrual loans as a percentage of net receivables increased to 0.12 per cent from 0.07 per cent last year. The Bank's level of non-accrual loans is still low by industry standards.

...it's about offering solutions.

WHEN TERRY TZANEROS AND BROTHER STEVEN FIRST SAID 'TRUST US' TO THEIR ST.GEORGE BANK MANAGER THEY WERE STANDING ON A DUSTY, WINDSWEPT PATCH OF LAND, A SMALL TRUCKING COMPANY WITH A PORTABLE BUILDERS OFFICE.

THEY EXPLAINED THEIR VISION OF LARGE WAREHOUSES AND ROWS OF CONTAINERS FILLED WITH GOODS FROM INTERNATIONAL IMPORTERS AND EXPORTERS.

ST.GEORGE LISTENED.

We have a higher number of satisfied customers who perceive us as friendly, trustworthy, providing good-value products, having a high standard of customer service and helping them achieve their goals.

The Australian financial services market is concentrated and intensely competitive. Even with St.George's extremely high customer satisfaction levels, we recognise the need to remain proactive in continuing to meet our customers' developing needs.

St.George research shows that we are uniquely positioned in our customers' minds. More than any other major bank, we have a higher number of satisfied customers who perceive us as friendly, trustworthy, providing good-value products, having a high standard of customer service and helping them achieve their goals. Even non-customers perceive St.George as having friendly service and a greater proportion of satisfied customers. We are positioned well to consolidate and continue improving our offerings.

St.George is directing energy into expanding its value-based services and options. We are focused on offering customers what they want and what is valuable to them. We are helping them enhance their personal wealth and financial security.

The Bank's first horizon strategy – to improve, extend and defend our core banking business – has the strongest potential to drive profitability in the short-to-medium term. With more satisfied customers but lower cross-sell ratios than our competitors, we have a greater potential to increase our business volumes and revenue.

The Bank's lending business remains key for St.George. During the year the Reserve Bank progressively cut interest rates by 150 basis points, or 1.5 per cent, to shore up Australia against a worsening global economy. In September it announced the lowest official cash rate in nearly three years – 4.75 per cent – which had the effect of providing vigour to an already robust home lending market.

During this time of declining interest rates, St.George regained its market share of just under 11 per cent by competitively pricing and aggressively promoting our loans. JB Were's September 2001 Market Share Analysis reported that St.George 'generated the strongest absolute growth among the regionals.'

St.George-branded home lending increased to record levels each month in the last half of the year. Around a third of these lending volumes were in home equity lending through our popular Portfolio Loan. In the same period BankSA, which remains a market leader in owner-occupied and investment home loans in South Australia, also increased its lending volumes by 37 per cent.

More than 30 per cent of home lending each month is to new customers, expanding our already healthy customer base. More

than 80 per cent of home loan customers take at least one other Group product at the time of borrowing, be that a credit card, transaction account and/or home insurance.

Value based products

Even in traditional income streams such as credit cards, we have been enterprising and innovative in response to customers' needs. Earlier this year St.George launched the very popular Starts Low - Stays Low credit card with its 10.99 per cent interest rate. Our customer commitment in offering this 55-day interest-free MasterCard, is to guarantee an interest rate that stays low.

The card is extremely popular with customers and has won plaudits from the community. Cannex, an independent provider of data on financial institutions, judged it the best value credit card in the market place for customers with debts over $5000. It also won the gold medal for Credit Card of the Year from Personal Investor magazine – both examples of our success in providing valuable solutions and great service.

Our market-leading Portfolio Cash Management Account is yet another St.George customer solution. It is a fully functional, high-interest savings account that is extremely attractive to customers who are serious about saving and investment but want the availability of day-to-day transactions. This product has been a true success story of this year.

In keeping with the Bank's objective of developing good value product solutions, St.George introduced the Head Start home loan during the year. Customers were able to make immediate savings through this competitively priced product, its $1000 cash back offer, low cost insurance and low interest credit cards.

St.George's Starts Low-Stays Low credit card

- Personal Investor Magazine's Credit Card of the Year 2001
- 55 day interest free Mastercard
- Low 10.99 per cent interest rate
- Judged best value credit card in the marketplace for customers with debts over $5000

St.George is constantly assessing market gaps and looking at ways to improve the banking experience of all our customers.

Rural solutions

The St.George Group's rural market share is strategically valuable. Although it is a small part of our overall business, we remain focused on providing quality service to this sector.

St.George, primarily through BankSA, offers complete financial solutions to our rural customers, including the Australian Tax Office-approved Farm Management Deposit Account. This tax-effective product allows primary producers to set aside pre-tax income in the good years, establishing cash reserves to manage through low-income periods.

In South Australia, we have been actively involved in rural banking for more than 150 years. We are serving our South Australian and Victorian customers well with this product. We recently expanded this offering to primary producers in rural New South Wales.

Our rural customers are just some of the users of internet banking. Revenues from this channel continue to grow as customers right across the Group choose to bank at their own convenience.

This year, St.George has seen tremendous growth in internet banking. During 2001, our registered internet customers grew 117 per cent, transaction volumes increased by 113 per cent and unsecured lending applications rose by 148 per cent.

Business customer solutions

St.George is constantly assessing market gaps and looking at ways to improve the banking experience of all our customers. In April this year, we introduced an advanced online foreign exchange transaction service through Global Dealer. This product enables business customers to make foreign exchange transactions from their own computers during normal trading hours.

St.George designed and developed this product, which is provided free to our foreign exchange customers, mostly importers and exporters. It provides secure and convenient access to market information and foreign exchange transactions. Customers can make their own foreign currency trades, saving time and money that can be returned to their businesses. The system's unique capability enables them to view their transactional history, giving them more control over managing their portfolios.

Our purchase of Scottish Pacific in May 2000, just before the GST was introduced, is another example of providing solutions to the small to medium (SME) business market. The GST has affected some SME clients, resulting in severe cash flow constraints. Scottish Pacific, a specialist small business and cash flow financier, provides funds to help SMEs continue trading in tough times. It is a valuable service to the SME market and profitable to St.George.

Scottish Pacific and Global Dealer are two innovative and flexible offerings of our strategy to help business customers thrive in the competitive market. We will continue to develop similar services to strengthen our business customers' relationships.

Customer knowledge management

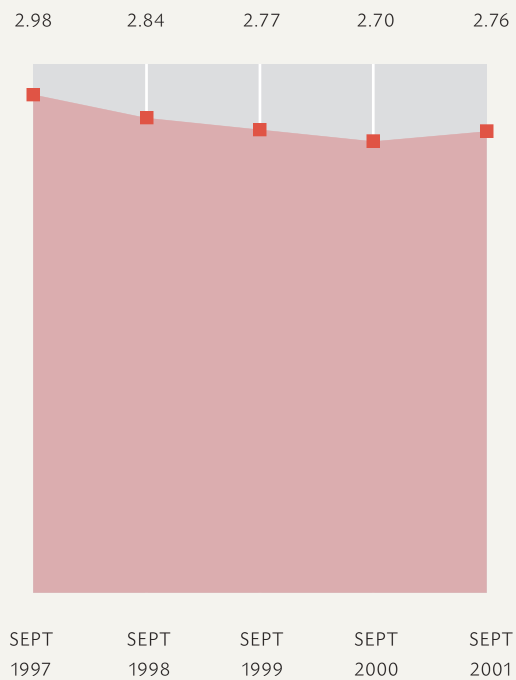
St.George has invested $5.5 million to improve our data warehousing capabilities. This has enhanced the Bank's ability to understand and deliver relevant solutions to our 2.6 million customers.

St.George's data warehouse holds information about customers and their relationship with the Bank. During the year we consolidated this data to allow us to provide timely service to our customers when they contact us for information on their accounts. In addition, this will allow us to offer suggestions on other products and services that may be beneficial to our customers. We are committed to maintaining customer privacy in all uses of this information.

A key driver in providing financial solutions is our clear and concerted focus on customers. St.George recognises that if we don't give customers what they want and need, then we can't expect them to make St.George their bank of choice. And this remains our goal. Not to be the biggest, but to be the best in providing solutions.

'ST.GEORGE BELIEVED IN US AND NOW, AFTER NINE YEARS, OUR FAMILY BUSINESS IS THE MARKET LEADER IN THE CONTAINER HANDLING FIELD,' SAID TERRY. 'SMITH BROS NOW EMPLOY OVER 350 PEOPLE THROUGHOUT OUR SYDNEY AND BRISBANE TERMINALS.' 'WE USE ST.GEORGE TO PROVIDE US WITH SOLUTIONS – REFINANCING, INVESTING AND TO HELP PAY OUR EMPLOYEES.
BUT MOST OF ALL WE STAY WITH ST.GEORGE BECAUSE WE TRUST THEM, AS THEY TRUSTED US.'

INTEREST MARGIN (%)



Interest margin improved to 2.76 per cent compared to 2.70 per cent last year.

…it's about being innovative.

FOR MANY OF RHONDA LANE'S CLIENTS, ST.GEORGE GAVE THEM A HOME LOAN AT A CRITICAL TIME IN THEIR LIFE. THAT SUPPORT HAS PROVED VERY POWERFUL BECAUSE WHEN THESE PEOPLE SOUGHT OUT A FINANCIAL ADVISER THEY RETURNED TO ST.GEORGE AND HAVE SHOWN ENORMOUS LOYALTY.

The fastest growing segment of the financial services market is wealth management.

To St.George, innovation is developing customer-focused propositions that underscore our difference, then delivering them to market long before our competitors.

Over the past few years, the Bank has made modest investments, many in alliance with other companies, to establish new business models for the future. We have quickly and successfully delivered customers a range of products and platforms that are truly innovative.

St.George recognises that some ideas, while well conceived, may not survive in their original form. Others, however, will become future profit drivers for the Group.

Innovation through alliances

With the right strategy, complementary business alliances and acquisitions can effectively realise goals more quickly and cost effectively. They can be tools for success, a means to achieving goals.

St.George's 100 per cent purchase of WealthPoint post-result date this year was one such acquisition. In 2000, we purchased eight per cent of WealthPoint's ordinary shares.

We also acquired a significant number of convertible preference shares in exchange for the sale of businesses to WealthPoint. This was done to facilitate it becoming the Bank's online wealth management solutions partner.

In October this year, we moved to outright ownership when we received their shareholders' approval to buy the remaining 52.4 million shares that St.George didn't already own, for 60 cents each.

We have great faith in WealthPoint. We firmly believe it is worth more to us in the future than was its recent market value. The company's mainstream functions – including the well regarded Assirt Ratings – create a total wealth management offering that fits well into our second horizon strategy.

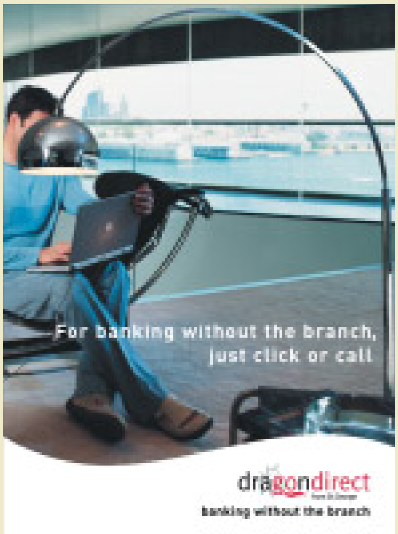
The fastest growing segment of the financial services market is wealth management. Market feedback has reinforced our view that privatising WealthPoint will give us a more stable and focused base from which to pursue wealth management technology developments and marketing strategies.

WealthPoint, strongly coordinating with Sealcorp, will enable us to give internal and external advisers a comprehensive online financial services platform. It will significantly improve St.George financial planners' productivity and control, enabling us to acquire more new clients.

The company's portal has already delivered value-add systems operating in St.George. Its first offering, as the St.George Private Bank website, is progressing well and is being used to attract customers. WealthPoint's first release, a new online adviser system, was delivered in July. The St.George branded versions are now being used by our Private Banking and Financial Planning business units.

We intend a further major release, before year-end, to provide more valuable portfolio management and plan creation tools. Early next year we will link this with our banking systems to support our total wealth management vision across investment and traditional banking.

WealthPoint's advantage is that ultimately, customers with their advisers or on their own, will have the research tools to analyse and manage their wealth online. It will consolidate customers' financial affairs, not just from St.George, but from all financial organisations they deal with. With their financial details in one place they can make relevant, personal decisions to guide their futures.



dragondirect

- Direct distribution strategy capitalises on convenience and price advantages of electronic delivery
- Two products available exclusively via internet and phone banking
- ***directsaver***– High interest, at call, online savings account
- ***directfunds***– Two top performing managed funds, with no entry or exit fees

St.George innovation

St.George takes an innovative approach to creating customer solutions. When Australian banks' customers were, in general, being attracted away from traditional deposit accounts into other, higher paying investments in 1999, we recognised the need to take action.

St.George is immensely nimble in bringing innovative products to market. Thirteen months ago, we devised a new customer proposition, dragondirect, that capitalises on St.George's strong brand without involving the traditional branch network. Launching dragondirect, to compete aggressively with competitors, has allowed us to achieve our strategic goals of both deepening existing customer relationships and acquiring new customers nationally.

The dragondirect platform is innovative. It offers products exclusively by direct distribution, that is, by the internet and phone, which customers can access from anywhere in the world.

The international market is hungry for quality assets. Our experience is that they particularly like the St.George story – our loan quality and the innovative way we package and market our products.

Our aim is to grow dragondirect by extending its range of offerings in addition to its already popular savings product. dragondirect recently launched managed fund products and in the future plans to offer a credit card, insurance, a transaction account and a mortgage product.

We recognise that the internet will not suit those customers looking for complex financial advice. But with dragondirect's $2 billion in retail funds, representing increased deposits from existing customers and 70 per cent from new customers, it is clear that customers looking for exceptional value are willing to embrace the convenience of banking through direct channels.

We recently researched dragondirect customers. More than 90 per cent told us they gained considerable advantage from it relative to other products, were satisfied and willing to continue using dragondirect, would buy additional products and services and refer it to friends and family.

Of overwhelming importance was that St.George was standing behind the product. We believe that from this strong base we will be able to successfully leverage future offerings.

Securitisation innovation

The international market is hungry for quality assets. Our experience is that they particularly like the St.George story – our loan quality and the innovative way we package and market our products.

While many banks securitise their loan portfolios (that is, sell loan packages to remove the loans from their balance sheets and free capital to be used for investing in their business), no Australian banks are doing it quite like St.George.

This year under St.George's Crusade brand, which is well known in the US and European markets, we successfully launched two international mortgage-backed securitisations. In February, we launched an innovative $1.78 billion mortgage-backed issue. Its efficient five-tranche Australian and US dollar structure appealed to a broad range of investors, including the short-term money market. The innovative package was quickly oversubscribed with new investors taking up 66 per cent of the offering.

In September, we launched our second Crusade global mortgage-backed securities issue for the year (and seventh overall) in New York. This was backed by $1.5 billion of St.George-originated residential mortgage loans and was quickly over-subscribed, again reflecting the excellent quality of our loan book.

These securitisations are complex and involve people with specific expertise across many parts of St.George – retail lending, finance, legal, capital and financial markets. We have now refined our cross-divisional processes to the point that we were able to bring the last issue to market faster than ever before.

Future innovations

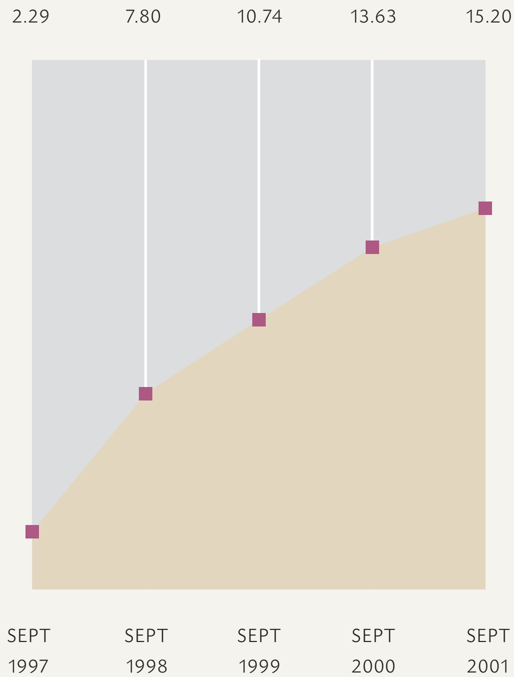
Our approach to innovation will provide St.George with high growth, high return businesses in future. We will continue to invest if we believe those investments will add value to our already strong customer offerings.

St.George's management is passionate about achieving results today and creating a superior business for tomorrow. We recognise that companies with a robust future keep an eye on the health of their core business while looking beyond the horizon, always alert to new opportunities.

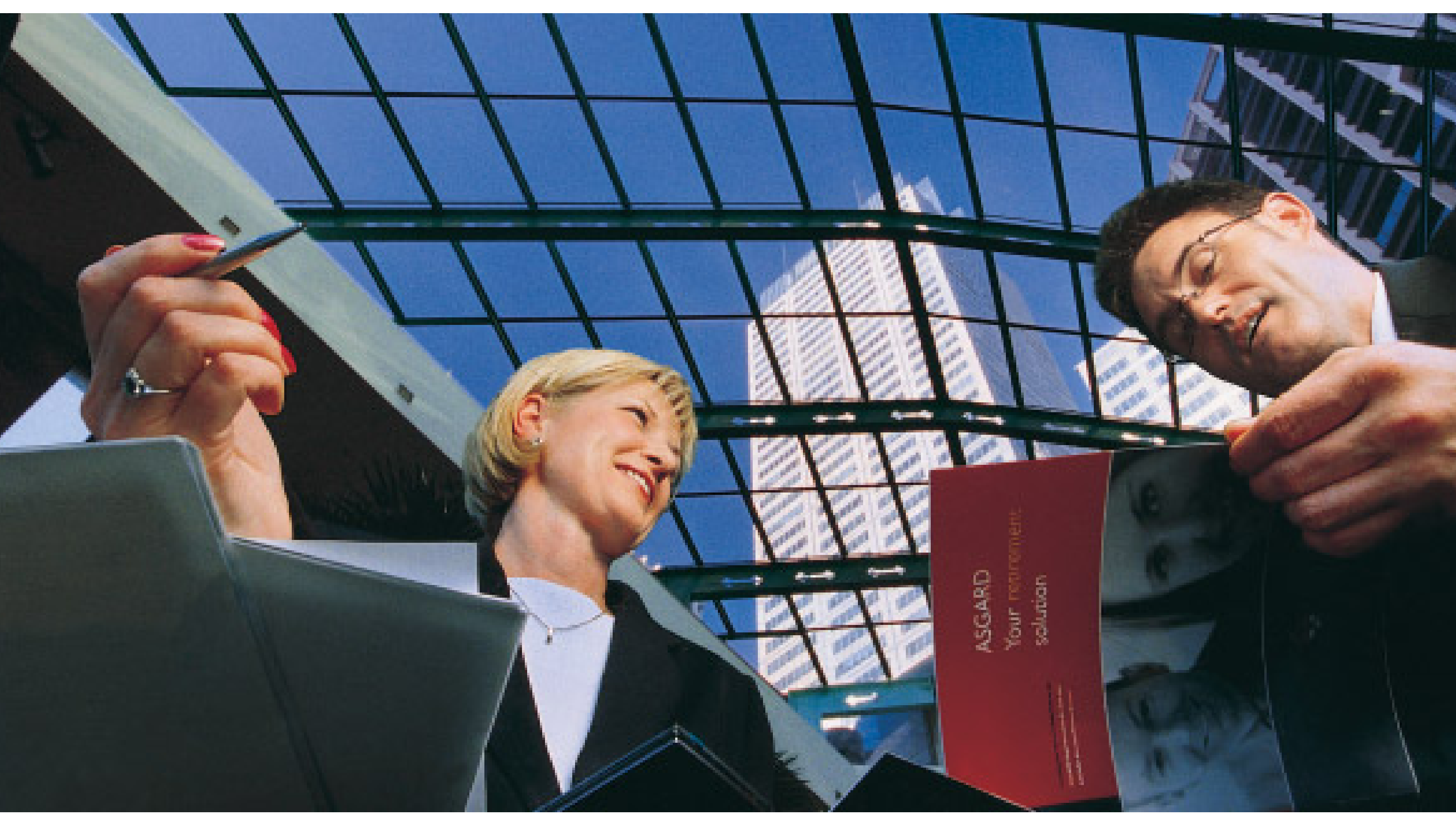
'EVEN THOUGH I WORK FOR ST.GEORGE I OFFER INDEPENDENT FINANCIAL ADVICE. I'M A CUSTOMER JUST LIKE ANYBODY ELSE AND RELY HEAVILY ON ST.GEORGE TO PROVIDE MY CLIENTS WITH INNOVATIVE AND SUCCESSFUL PRODUCTS SUCH AS ASGARD – OUR NATION'S LARGEST MASTER FUND.

EFFICIENT PRODUCTS MEAN I SPEND LESS TIME SHUFFLING PAPERWORK AND MORE TIME GIVING RELEVANT, QUALITY ADVICE. THANKS ST.GEORGE.'

MANAGED FUNDS (Billion)



Managed Funds increased 11.5 per cent to $15.2 billion this year.
SEALCORP funds increased to $11.0 billion from $9.3 billion last year.



...it's about delivering expertise.

SCOTT BUGDEN IS FUSSY ABOUT HIS STEAK. SO FUSSY HE KNOWS THE STATION IT WAS RAISED ON AND ITS AGE IN MONTHS. THE MENU AT HIS RENOWNED STEAKHOUSE CHA CHA CHAR IS AS EXTENSIVE AS HIS WINE LIST AND IS ONE REASON THE RESTAURANT RECENTLY SCOOPED THE PRESTIGIOUS NATIONAL RESTAURANT AND CATERERS ASSOCIATION AWARD FOR BEST INFORMAL DINING IN AUSTRALIA.

In this dynamic market place it is relatively easy to replicate products. What is not easy is replicating expertise.

The basic rules of the new economy haven't changed. Competitive companies need to focus on offering customers products and services they want and can't get elsewhere. In this dynamic market place it is relatively easy to replicate products. What is not easy is replicating expertise.

St.George prides itself on the quality of its people who manage the Bank's offerings. Over the past year, in particular, we have been developing our people's skills and knowledge to better leverage on our high growth businesses' specific services.

Sealcorp

Sealcorp is currently the most outstanding example of our high growth businesses. Sealcorp's strength is its ability to consolidate customers' financial affairs. Its expert staff have the investment skills and internet capabilities to provide their customers with the best possible solutions.

With its 3,200 adviser clients, Sealcorp has in excess of 20 per cent of Australia's advisory market. It provides advisers with quality services in superannuation, investment and insurance products, while adding value through strategic business alliances.

Sealcorp's main product, Asgard, is Australia's leading master trust, with $11 billion under administration for its 140,000 investors. Asgard provides consolidated investment reporting and transactions for managed funds, selected direct investments and insurance products. This includes providing unbranded products for several large institutional clients.

Sealcorp has a number of other offerings including Securitor and Pact. These products provide independent advisers with accreditation and individually branded financial planning support services. Overall, Sealcorp's staff expertise is generating quality products for our customers and quality revenue for the Group.

Wealth creation expertise

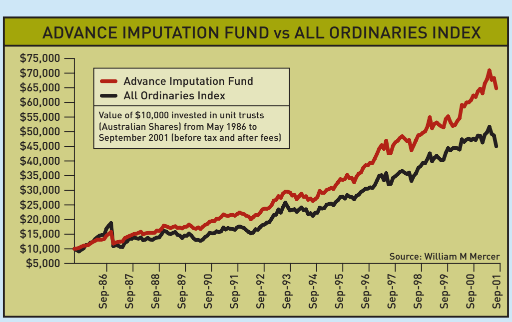
Customers are embracing the banking and wealth management solutions that St.George Private Bank offers. Our Private Bank differs from many of our competitors in that we assess both the assets and liabilities of customers before giving advice.

A significant number of new customers are moving from big name private banks to St.George on the basis of our own Private Bank customer referrals. These include successful business executives, professionals, sporting identities, wealth inheritors, retirees and self-made business owners.

Our new customers tell us that St.George has a more coherent view of private banking, that our proposition is true to its name. They are impressed with our service. They appreciate our staff, their integrity, their knowledge and responsiveness. With these kinds of recommendations, we believe St.George will become the pre-eminent Private Bank in Australia.

In September we purchased Deutsche Equity Lending Australia. This enhances our margin lending offerings to Private Bank and financial planning customers. It also gives us a new customer base from which to on-sell future products and services.

Over the past 18 months, we have continued to build a number of expert sales forces to enhance our product and service delivery. We have 50 financial planners. Our investment adviser team has grown to 110. These teams have achieved record sales in a tough market. We are continuing to develop our mortgage, insurance and financial planning sales forces to better serve our traditional retail customer base.



Advance
Funds Management
Member of the St.George Group

Advance Imputation Fund

Fund strategy:

- long term capital growth
- tax effective quarterly income
- a total return that outperforms the S&P/ASX 200 Accumulation Index over periods of five years or longer
- to invest in a wide range of shares and other securities chosen for their "fundamental value"
- favours shares providing imputation credits
- cash plays a part in reducing volatility

Advance Funds Management

Advance Funds Management is another specialist St.George business. It has strong expertise in providing its 100,000-plus investors access to premium fund managers. In 2000, Advance lost some ground, but quickly regained its position this year.

In 2001, Advance's sales volumes grew on average by more than 30 per cent, with the last six months of this year showing nearly 50 per cent growth.

Advance's performance improvement came from renewed customer focus and revitalised sales management processes. Its investment performance also improved when our management style – concentrating on value rather than high growth stock – came back into favour. Sales were also driven up by improved market recognition.

Early endorsement came in January 2001 with Taylor Management Consultants' independent Funds Management Customer Survey. The survey canvassed 10 fund managers and around 250 retail and adviser customers from each fund.

Our new customers tell us they are impressed with our service. They appreciate our staff, their integrity, their knowledge and responsiveness.

Advance was ranked second in post-sales and third in pre-sales against our major competitors. In addition, 80 per cent of surveyed Advance customers were satisfied or very satisfied with the overall service they receive.

In May, Assirt awarded 12 Advance products four stars, denoting 'a very good fund with strong management, a sound investment strategy and solid past performance'. Another 24 Advance funds were given three stars and placed on the Assirt recommended list.

Advance's most public recognition came in July this year when Personal Investor magazine announced that the Advance Imputation Fund was the Australian Share Fund of the Year and the Advance International Sharemarket Fund was the International Share Fund of the Year.

Rural expertise

Over the past three years we have leveraged on BankSA's particular expertise in managing the rural market. Our recent St.George branded, BankSA driven, expansion into five major Victorian regional centres has been successful. It has already generated good gains in banking business from Victorian rural and regional business customers. We replicated this expansion into seven major NSW regional cities and towns, to further improve our offerings to the largest regional market in Australia.

Our long term goal is to build a complete, superior and lasting financial services franchise in these States by providing seasonal finance, term loans, electronic banking packages and specific farming products. We are proud to be taking proactive steps to deliver both personal and business banking services to rural customers. It is another aspect of our strategy to be a genuine full service banking alternative in regional Australia.

Building expertise

We continue to develop the Group's expertise through a variety of training programs. In the Best Bank program, we introduced online computer-based training, which we are calling e-luminate, to compliment our traditional training programs.

This year our Institutional and Business Banking (IBB) division also put its entire relationship staff through a leading-edge training methodology known as Key Account Relationship Management training, or KARM. Its objective was to give staff a greater understanding of customers' overall needs and enhance their skills in managing customer relationships.

The training program took staff into customers' businesses to help them understand all facets of their operation and management. It gave staff the analytical tools to understand the intimate details of those businesses in order to add value.

KARM has helped enhance relationships with existing customers and is now being used extensively to acquire new customers. The result is significant new business from our competitors who don't provide this level of expertise, quality service and understanding to the middle market segment.

IBB staff's focus on understanding customers and responding effectively to their needs was publicly recognised in June. Every year, East & Partners poll the top 500 corporates by revenue. This year, their survey included 40 Australian banks.

St.George's IBB division came first in the Loyalty to Customer Relationships category and second in the Quality of People category. We were also ranked first for short-term domestic debt and second in long-term domestic debt, beating all the majors.

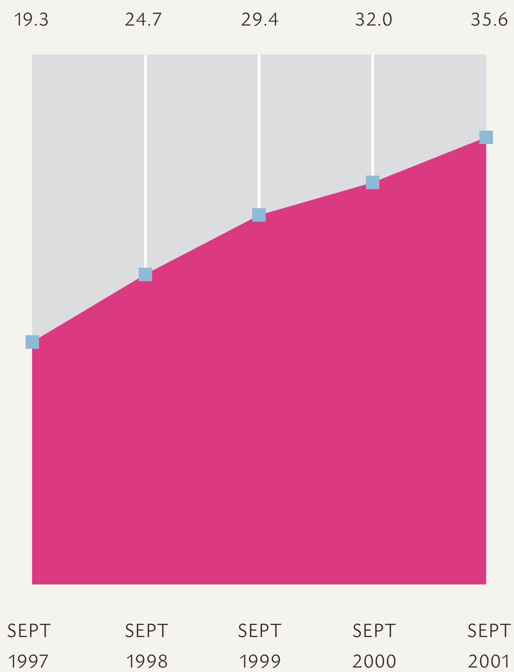
We all recognise that the road to success rarely goes in a straight line. We at St.George, however, are convinced that the expertise of our people and the quality of our offerings have set us on a steady course towards future growth and profitability.

AS CHA, CHA, CHAR GENERAL MANAGER, SCOTT IS ALSO FUSSY ABOUT HIS BANK. HE WANTED A UNIQUE RESTAURANT AND LOOKED TO ST.GEORGE FOR START UP CAPITAL AND SOPHISTICATED LOAN STRUCTURES.

'OUR RELATIONSHIP WITH ST.GEORGE HAS BEEN INCREDIBLE. WE ARE ALWAYS TALKING DIRECT TO THE MANAGER REGARDING OUR FINANCES. ST.GEORGE IS THE FIRST BANK TO NOT ONLY TAKE AN INTEREST IN THE NATURE OF OUR BUSINESS, BUT THE VERY INDUSTRY WE WORK IN.

WE'RE STRIVING TO BE LEADERS IN OUR FIELD AND WHEN WE NEED FINANCIAL ADVICE WE TURN TO ST.GEORGE TO PROVIDE THE EXPERTISE WE REQUIRE.'

OTHER INCOME TO TOTAL INCOME (%)
(before significant items)



Other income to total operating income before significant items increased to 35.6 per cent from 32.0 per cent last year.
This reflects continued growth in managed funds businesses and changes to the product fees and commissions structure as part of the Group redesign.

...it's about having values.

BEGINNING AS A ONE MAN OPERATION BEHIND A SMALL FRUIT SHOP, STEVE VERGOTIS PLANTED THE SEED FOR SUNRIPE AUSTRALIA – NOW ONE OF OUR NATION'S LARGEST PRIVATELY OWNED FRUIT AND VEGETABLE PROVIDORES. WITH PLENTY OF HARD WORK AND CLOSE SUPPORT FROM ST.GEORGE, SUNRIPE NOW SUPPLIES QUALITY PRODUCE TO MANY OF AUSTRALIA'S LEADING HOTEL CHAINS, RESORTS, UNIVERSITIES, RESTAURANTS AND MINING SITES.

St.George prides itself on providing affordable and accessible banking, having responsible lending practices and educating consumers to make more informed financial decisions.

Banks are increasingly under pressure to improve their customer relationships and demonstrate their social and community responsibilities.

St.George recognises that banks hold a privileged position in our society. We recognise that we have a responsibility to the community. While strong investor returns are a priority for St.George, we also recognise that you, our shareholders, want to invest in an organisation that is ethical towards its staff and the broader community.

We at St.George are driven by strong, innate values. What is special about St.George's values is that they are not qualities we aspire to, they form the very fabric of our organisation.

A sense of integrity drives these values. It is at the core of our Code of Ethics. Having integrity, to St.George, is about being sensitive and discreet with the personal financial information entrusted to us. It ensures our staff are fair, open and honest in their dealings with people every day.

Our values also include striving for excellence through effective teamwork, which comes from valuing each other. By valuing each other, we create an environment where our diverse talents, skills and abilities are nurtured to their full potential. By valuing each other, we respect our key stakeholders' needs: our staff's need for respect and recognition; our customers' need for privacy; and our shareholders' need for clear access to material information about the Bank.

St.George charter of social responsibility

St.George articulates its values internally to help our staff remain focused on consistent ethical behaviour. We intend to communicate these values more widely to our key stakeholders, in the form of St.George's social charter of community responsibility. It will fully articulate how, with our values, we 'walk the talk'.

We pride ourself on providing affordable and accessible banking, having responsible lending practices and educating consumers to make more informed financial decisions. The key points are covered below.

St.George has been actively involved with community issues since our days as a building society and is in an enviable position compared to the major banks. We have a much stronger and well-deserved image as a community-conscious bank. We continue to deliver high levels of customer service.

The St.George Foundation

The most visible example of our community support is the St.George Foundation, which we established 11 years ago. The St.George Foundation works closely with a diverse range of care and social welfare groups to support the rights and dignity of Australia's children. It enhances their quality of life by offering financial help and encouraging them to pursue excellence.

The Foundation has helped many children reach their full potential by providing financial assistance for new technologies, youth workers, research, equipment, mobility and learning aids, special children's camps, educational assistance, counselling and therapy programs.

Many St.George staff contribute actively to the Foundation's success through fundraising initiatives such as Happy Hat Day, which raised more than $50,000. Our suppliers, including accounting firms, solicitors, travel companies, hotels, public relations firms, advertising agencies, computer companies and a range of other businesses, also contribute strongly to the Foundation's fundraising activities.

We are very proud of our employees' and suppliers' commitment to this important objective.

Over the past year, the St.George Foundation has contributed more than $540,000 to charitable organisations around Australia, bringing the Foundation's overall community contribution to more than $5 million.

Other sponsorships

The Foundation is just one of many St.George Group initiatives that reflect our values. We are proud of our commitment to Australian society. As part of our long history of supporting the community, we have sponsored The Salvation Army Red Shield Appeal for more than 17 years. We support the Wesley Mission Credit Line by paying the wages of staff who provide free advice to those in financial crisis. St.George won a Community Award in 1996 for our contribution to this program.

Closer to our traditional home, we are proud to be one of the St.George Illawarra Rugby League Football Club's major sponsors. Our regional offices have also had long standing involvement with their local communities through donations, facilities and services.

The St.George Foundation

Thanks to the overwhelming generosity of St.George Bank staff, the St.George Foundation's inaugural Happy Hat Day fundraiser generated $50,054-over five times the original target.
These funds helped to give the gift of sound to three hearing impaired young Australians through the Children's Cochlear Implant Centre.

We are committed to social responsibility and honesty in our dealings because we recognise that both the Bank and the community benefit.

BankSA has its own sponsorship program, reflecting its strong community position and long history of supporting South Australians. Its core community involvements include BankSA Crime Stoppers, the Lights of Lobethal, BankSA Heritage Icons List, Royal Show Farmyard Nursery, SA Cricket Association, SA Basketball Association and the Art Gallery of South Australia.

Our community commitment

St.George is well known for recognising its community responsibilities. Our over-riding aim is to give customers value-based, convenient services for their needs. For example, we are an active member of the Australian Bankers Association's Disabled Access Working Group and have adopted its recommendations to assist customers with special needs.

Our product and service points of distribution, be they Financial Service Centres, Automated Banking Centres or traditional branches, provide ease of access for all customers. Most have wheelchair access and are designed to help people with disabilities use the services.

Our ATMs are configured to accommodate wheelchair users. We have re-branded our ATM signage and screens to help sight-impaired customers. Our staff are educated, as part of their induction-training program, in ways to help customers with special requirements.

We are committed to ongoing consumer education about our offerings, most particularly the latest banking methods such as internet banking and ATMs. Our commitment to serving regional Australia with banking services is reflected in our continued expansion into Victoria and NSW.

Specific community offerings

St.George offers customers a variety of products, services and platforms to give them choice in managing their day-to-day banking. Some St.George products provide exemptions for specific community groups. For instance, we do not have a minimum balance requirement on our Everyday Pensioner Account, available for all pensioner categories. Pensioners who have their home loan repayments automatically deducted from this account are also exempt from loan repayment transaction fees.

Customers with physical or intellectual disabilities, who need to rely on branch services due to their disability, are exempt from transaction fees on all Everyday transaction accounts.

BankSA has a longstanding school banking service, which aims to teach young people the value of saving money. St.George provides a fee free, Happy Dragon Account to customers under the age of 13. Our Everyday Student account provides 12 free transactions and has no account service fee or minimum balance requirements.

Our commitment to social responsibility extends to understanding our customers' financial capabilities. We are also committed to working on a case-by-case basis to help customers out of exceptional financial difficulties.

Responsibility to our employees

Recognising and respecting our staff is built into St.George's corporate values. Our social accountability extends to creating an environment where employees can operate at optimum levels.

Our commitment extends to the range of services and programs we provide staff. These include the St.George Social Club, the St.George Bank Child Care Centre, Star and Long Service Awards, occupational health and safety standards, anti-discrimination policies and work place diversity, training and development opportunities, employee entitlements and advice on aged care.

These are just a few of St.George's promises to customers and the broader community. We are committed to social responsibility and honesty in our dealings because we recognise that both the Bank and the community benefit. We believe that keeping the community fully informed will enhance our corporate credibility and investor confidence and, ultimately, will positively influence our share price.

...it's about understanding the results.

Many of you responded positively to our new initiative last year of explaining the financial results, so this year we're again including similar tables and explanations of our core financial items. We're sure these pages will once again help you to better understand the Group's achievements in the current year as reflected by our results.

Since we reported last year, a number of Australian Accounting Standards have changed. Some are cosmetic. For example, the Profit and Loss Statement is now called Statement of Financial Performance. The Balance Sheet is now called Statement of Financial Position. Other changes involved the re-statement of certain items, such as 'abnormal items'.

The Accounting Standards now prohibit the separate disclosure of these items after 'net profit'. Therefore, they are now included as revenue, or expense contributing to net profit. To help you understand this change we've included a table showing the impact on each category of revenue and expenses.

SELECTED FINANCIAL DATA As per the Statement of Financial Performance (page 46)	2001 $M	2000 $M
Operating income		
Net interest income	**1,235**	1,172
Other income	**690**	660
Total operating income	**1,925**	1,832
Operating expenses before goodwill amortisation	**1,085**	1,138
Share of net loss of equity accounted associates	**3**	-
Profit before bad debts and goodwill amortisation	**837**	694
Bad and doubtful debts	**77**	50
Goodwill amortisation	**99**	101
Profit after bad debts and goodwill amortisation	**661**	543
Income tax expense	**255**	189
Profit after income tax	**406**	354
Outside equity interest	**1**	-
Profit after income tax and outside equity interest	**405**	354
Preference dividends:		
- Preferred Resetting Yield Marketable Equity Securities (PRYMES)	**12**	-
- Depositary Capital Securities (DCS)	**41**	36
- Convertible Preference Shares (CPS)	**16**	32
Profit available to ordinary shareholders	**336**	286

Net interest income

The Group's net interest income comprises interest income earned from lending and investments, less the interest expense incurred on deposits and borrowings.

Net interest income grew by 5.4 per cent to $1,235 million (2000: $1,172 million). Essentially, interest income grew at a greater rate than interest expense. This was due to growth in our lending activities and a concerted effort to reduce our cost of borrowing. The growth demonstrates improvements in how we've managed our lending and borrowing activities.

Other income

This income category includes all sources other than interest income. The Group earns revenue on our lending activities, managed funds, other products and services, dividends, profit on the sale of treasury securities, foreign exchange and derivative gains, trading securities and from other sources such as rental income.

OTHER INCOME	2001 $M	2000 $M
Financial markets income	**31**	21
Product fees and commissions		
- Lending	**77**	79
- Other products	**310**	225
Managed funds	**152**	134
Other	**112**	93
Other income before significant items	**682**	552
Significant items	**8**	108
Total other income	**690**	660

Other income before significant items this financial year increased 23.6 per cent. We've continued to diversify our income sources with other income representing 35.6 per cent of total income (2000: 32.0 per cent).

Despite growth in lending volumes, lending fees and commissions marginally decreased due to some introductory offers. The success and growth of our electronic banking network and transaction accounts led to the increase noted in 'other product fees and commissions'.

St.George's managed funds' revenues are principally earned through Sealcorp, Advance Asset Management and St.George Wealth Management. An increase in managed funds to $15.2 billion (2000 $13.6 billion), helped boost income by 13.4 per cent to $152 million (2000: $134 million). We believe that the trend away from bank deposits to managed fund products will continue to provide strong growth opportunities for St.George.

Operating expenses

The Group's total operating expenses (before goodwill amortisation and significant items), were $1.03 billion (2000: $1.00 billion), an increase of 2.4 per cent. Other costs are primarily administration, marketing, telecommunication and finance charges.

We stabilised the Bank's core expenses despite inflationary pressures and the strong growth in business volumes. The result highlights the Group's success in focusing on improving efficiency.

OPERATING EXPENSES	2001 $M	2000 $M
Staff expenses	**507**	518
Computer and equipment expenses	**164**	159
Occupancy expenses	**116**	111
GST implementation expenses	**-**	17
Other expenses	**240**	198
Total operating expenses before goodwill amortisation and significant items	**1,027**	1,003
Significant items	**58**	135
Total operating expenses before goodwill amortisation	**1,085**	1,138

Staff expenses for 2001 decreased, reflecting efficiency improvements in line with completing a number of Best Bank initiatives. This decrease happened despite an average enterprise agreement wage increase of 4.5 per cent in October 2000.

The increase in computer and equipment expenses reflects extra spending on IT infrastructure as part of the Best Bank program. Other costs in this area relate to our customers' increased use of internet and phone banking services, thus increasing our telecommunication costs.

Increases in other expenses were due to additional marketing and promotion costs, plus increases in customer transaction volumes resulting in higher transaction costs and charges to the Bank.

Bad and doubtful debts

Bad and doubtful debts expense was $77 million (2000: $50 million) for the year. This expense was impacted by a $17.5 million provision on one of the Bank's larger exposures.

Goodwill and Goodwill amortisation

Goodwill is the difference between the amount we pay to buy a business and the fair value of that business's identifiable net assets. It represents such things as customer loyalty, market penetration, effective advertising and value generated from combining businesses.

Accounting standards require that goodwill be amortised, or spread out, over a period of not more than 20 years. Goodwill amortisation expense is an accounting entry only and not a cash payment. Therefore, many professional equity analysts believe that profit before goodwill amortisation better reflects a company's underlying performance.

Individually significant items

Individually significant items are specific revenues and expenses that have a large impact on the Group's results due to their size or nature. Items previously classified as 'abnormal' are an example of what now constitutes 'individually significant'.

Abnormal items in 2000 have been reclassified into normal income and expense categories. For comparability and clarity, we have reported these abnormal items as significant, then separately disclosed them with this year's individually significant items. See the table below.

INDIVIDUALLY SIGNIFICANT ITEMS		2001 $M	2000 $M
Income			
Other income before significant items		**682**	552
Significant items:			
Writeback of excess provisions	(i)	**8**	-
Profit on sale of businesses		**-**	85
Unrealised gains on revaluation of APF units		**-**	23
		8	108
Total other income per the Statement of Financial Performance		**690**	660
Expense			
Operating expense before goodwill and significant items		**1,027**	1,003
Significant items:			
Write-down of investment in WealthPoint Limited	(ii)	**22**	-
Write-down of investment in SMS Management and Technology Limited	(iii)	**6**	-
Write-down of other external investments	(iv)	**30**	-
Goodwill write-off		**-**	13
Redesign restructure costs		**-**	115
Write-off of investment in R&D syndicates		**-**	7
		58	135
Operating expenses per the Statement of Financial Performance		**1,085**	1,138
Income tax			
Income tax expense before significant items		**265**	219
Significant items:			
Income tax expense on write-back of excess provisions	(i)	**2**	-
Income tax benefit on write-down of investment in SMS Management and Technology	(iii)	**(2)**	-
Income tax benefit on write-down of other external investments	(iv)	**(10)**	-
Capital gains tax on profit on sale of business		**-**	2
Capital gains tax on revaluation of APF units		**-**	8
Income tax benefit on redesign restructure costs		**-**	(40)
		(10)	(30)
Income tax expense per the Statement of Financial Performance		**255**	189
Summary			
Total pre-tax loss from individually significant items		**(50)**	(27)
Less: tax benefit attributable to individually significant items		**(10)**	(30)
Net (cost of)/revenue of individually significant items		**(40)**	3

(i) Writeback of excess provisions

In prior years we set aside funds (a provision), for the costs relating to the Group redesign and all the write-off of our investments in research and development syndicates. These projects were completed during the year with funds remaining. These funds have been absorbed back into profit this year and we have separately identified them to better understand the Bank's actual performance.

(ii) WealthPoint

On 5 November 2001, WealthPoint became a wholly owned member of the St.George Group. The average cost of WealthPoint shares was 98 cents each. The directors decided that WealthPoint's value to the Group is 86 cents per share. Therefore St.George has written down WealthPoint's shares by $22 million, or 12 cents per share. With full ownership St.George can now help WealthPoint better develop its business and strategic purpose.

(iii) SMS Management and Technology (formerly Sausage Software)

The Group acquired a strategic share of SMS Management and Technology as part of its overall eCommerce plan. The Directors do not believe that this investment will now provide the returns originally anticipated. They have therefore elected to write down this investment to 38.5 cents per share, its market price at 30 September 2001. The gross write-down is $6 million with an associated income tax benefit of $2 million.

(iv) Other external investments

The carrying values of the Group's external investments have been reviewed and written down by $30 million ($20 million after tax), as at 30 September 2001. This action is consistent with the Group's prudent approach to investment portfolio management. St.George remains committed to its eCommerce and financial services strategy and these investments are integral to the success of that strategy. The Group intends to maintain its association with these entities to ensure future benefits are realised.

Dividends

The Directors announced that the final dividend would increase to 34 cents (2000: 29 cents) to reflect the Group's improved profit performance, outlook and commitment to adding value to you, our shareholders.

DIVIDENDS	2001 Cents per share	2000 Cents per share
Interim dividend	**31**	26
Final dividend	**34**	29
	65	55

Ratio analysis

Ratios are a useful method of understanding the Bank's financial performance. Each of the following three ratios is presented using profit both before and after goodwill amortisation and individually significant items.

Earnings per share (EPS)

EPS shows an ordinary shareholder's entitlement to current profits on a per share basis. EPS does not necessarily equal the dividend per share, as not all profits are paid out as dividends and some dividends can be paid out of previous year profits.

EPS is calculated by dividing the relevant profit figure by the weighted average number of ordinary shares.

EARNINGS PER SHARE	2001 $M	2000 $M
Profit available to ordinary shareholders (profit after goodwill amortisation and significant items)	**336**	286
Less: net (cost of)/revenue from individually significant items	**(40)**	3
Add: goodwill amortisation	**99**	101
Profit, significant items and goodwill	**475**	384
Divided by: Weighted average number of ordinary shares (millions)	**466.17**	462.99
	Cents	Cents
Equals:		
Earnings per share before significant items and goodwill amortisation	**101.9**	83.0
Earnings per share after significant items and goodwill amortisation	**72.1**	61.8

As the Group's profit has improved, the Group's EPS has increased. Therefore your entitlement to the Group's current profit is growing.

Return on ordinary equity (ROOE)

The ROOE shows profit as a percentage of ordinary equity, that is, the return on each dollar you invest in our ordinary shares. ROOE has grown due to our improved performance, as shown in the table below.

RETURN ON ORDINARY EQUITY	2001 $M	2000 $M
Profit before significant items and goodwill*	**475**	384
Profit available to ordinary shareholders (after goodwill and significant items)	**336**	286
Divided by: Average ordinary equity	**2,869**	2,771
	%	%
Equals:		
ROOE before individually significant items and goodwill amortisation	**16.56**	13.86
ROOE after individually significant items and goodwill amortisation	**11.71**	10.32

* As calculated in the EPS table.

Expense to income ratio

The expense to income ratio is calculated by dividing operating expenses by total operating income.

This ratio measures the efficiency of our operations. It demonstrates the expenses we incur in generating our income. A lower ratio means we are more efficient in creating profit. This year the ratio has decreased to 53.6% (2000: 58.2%), reflecting the success of our Best Bank project and our commitment to increasing the Group's value.

EXPENSE TO INCOME RATIO	2001 $M	2000 $M
Operating expenses (before goodwill amortisation and significant items)	**1,027**	1,003
Divided by: Operating income (before significant items)	**1,917**	1,724
	53.6%	58.2%

FIVE YEAR FINANCIAL SUMMARY

FOR THE YEAR ENDED 30 SEPTEMBER 2001

		1997	1998	1999	2000	**2001**
Statement of Financial Performance						
Interest Income	$m	2,688	2,979	2,833	3,194	**3,311**
Interest Expense	$m	1,704	1,821	1,694	2,022	**2,076**
Net Interest Income	$m	984	1,158	1,139	1,172	**1,235**
Other Income	$m	236	379	491	660	**690**
Bad and Doubtful Debts Expense	$m	45	47	45	50	**77**
Operating Expenses	$m	790	1,113	1,217	1,239	**1,184**
Share of Net Profit /(Loss) of						
Equity Accounted Associates	$m	-	-	-	-	**(3)**
Profit before Income Tax	$m	385	377	368	543	**661**
Income Tax Expense	$m	157	154	211	189	**255**
Profit after Income Tax	$m	228	223	157	354	**406**
Net Profit Attributable to Outside Equity Interests	$m	(1)	(1)	-	-	**(1)**
Net Profit Attributable to Members of the Bank	$m	227	222	157	354	**405**
CPS, DCS and PRYMES Dividends	$m	40	67	65	68	**69**
Profit Available to Ordinary Shareholders	$m	187	155	92	286	**336**
Return on Average Assets						
– before goodwill and significant items	%	0.84	0.91	0.94	0.95	**1.09**
– after goodwill and significant items	%	0.64	0.49	0.35	0.74	**0.81**
Return on Average Ordinary Equity						
– before goodwill and significant items	%	11.22	11.64	12.20	13.86	**16.56**
– after goodwill and significant items	%	8.15	5.29	3.13	10.32	**11.71**
Return on Average Risk Weighted Assets	%	1.06	0.82	0.62	1.34	**1.42**
Operating Expenses as a % of Average Assets (1)	%	2.02	1.98	2.09	2.11	**2.07**
Expense to Income Ratio (1)	%	59.0	58.0	58.3	58.2	**53.6**

(1) Excluding goodwill and significant items

		1997	1998	1999	2000	**2001**
Statement of Financial Position						
Total Assets	$m	45,060	44,261	45,017	49,610	**50,804**
Cash, Liquid Assets and Treasury Securities	$m	5,745	3,851	5,333	5,796	**5,583**
Loans and Other Receivables	$m	35,690	35,816	36,232	39,454	**39,699**
Other Assets	$m	3,625	4,594	3,452	4,360	**5,522**
Retail Funding	$m	22,347	21,971	22,263	22,903	**25,681**
Borrowings	$m	16,399	17,287	17,021	20,492	**18,403**
Other Liabilities	$m	2,695	1,219	2,078	2,574	**3,094**
Total Shareholders' Equity	$m	3,619	3,784	3,655	3,641	**3,626**
Shareholders' Equity as % of Total Assets	%	8.03	8.55	8.12	7.34	**7.14**
Capital Adequacy						
– Tier 1 Capital	%	7.0	8.0	8.2	7.7	**8.1**
– Tier 2 Capital	%	3.3	4.1	3.7	3.9	**3.1**
– Less: Deductions	%	-	(0.1)	(0.1)	(0.1)	**(0.1)**
Total	%	10.3	12.0	11.8	11.5	**11.1**
Risk Weighted Assets	$m	27,264	24,860	24,883	28,102	**29,226**
Receivables						
Residential	$m	25,747	25,749	25,962	27,971	**28,422**
Commercial	$m	7,738	7,600	7,967	9,054	**8,767**
Consumer	$m	1,749	2,007	1,808	2,079	**2,384**
Other	$m	585	586	618	482	**259**
Receivables before General Provision	$m	35,819	35,942	36,355	39,586	**39,832**
General Provision	$m	129	126	123	132	**133**
Net Loans and Other Receivables	$m	35,690	35,816	36,232	39,454	**39,699**
Share Information						
Dividend per Ordinary Share						
– Interim	Cents	26	26	26	26	**31**
– Final	Cents	26	26	26	29	**34**
Total	Cents	52	52	52	55	**65**
Earnings per Ordinary Share						
Basic						
- before goodwill and significant items	Cents	70.1	74.7	77.4	83.0	**101.9**
- after goodwill and significant items	Cents	51.0	34.0	19.9	61.8	**72.1**
Diluted						
- before goodwill and significant items	Cents	69.1	73.4	73.9	80.5	**101.6**
- after goodwill and significant items	Cents	52.4	37.0	23.7	61.5	**72.6**
Dividend Payout Ratio	%	123.8	154.2	260.9	86.7	**91.7**
Net Tangible Assets per Ordinary Share	$	2.58	2.39	2.68	2.90	**3.28**
Other Statistics						
Branches		513	437	421	413	**409**
Staff		6,988	7,447	7,886	7,619	**7,061**
Assets per Staff	$m	6.4	5.9	5.7	6.5	**7.2**
Staff per $m Assets		0.16	0.17	0.18	0.15	**0.14**

...it's about teamwork.

LOU MORRIS

Acting Chief Operating Officer

- Strategy and Internet
- Managing Director's Office
- Corporate Relations

STEVE McKERIHAN

Chief Financial Officer

- Finance
- Group Credit
- Property
- Group Audit
- Balance Sheet Management
- Legal and Secretariat
- Procurement
- Operational Risk

JOHN LOEBENSTEIN

Group Executive Information Technology

- Architecture and Planning
- Project Delivery
- Production
- IT Support Services

BILL OTT

Group Executive Personal and Small Business Banking

- Branch Banking
- Phone Banking
- Merchant Services
- Small Business Banking
- GOLD Banking
- Internet Marketing and Sales
- Card Products
- Liability Products
- dragondirect
- Insurance Products
- Residential Lending
- Consumer Lending
- Operations
- Business Technology
- Group Marketing

RICHARD CAWSEY

Group Executive Investment Services

- Advance Asset Management
- Private Banking
- Financial Planning
- SEALCORP
- WealthPoint
- Margin Lending
- ASSIRT Funds Research
- ASSIRT Equities Research
- Australia Clearing Services

GREG BARTLETT

Group Executive Institutional and Business Banking

- Corporate and Business Banking
- Commercial Finance
- Property Finance
- Structured Products
- Group Treasury
- Capital Markets
- International
- Securitisation
- Scottish Pacific

COLIN TAYLOR

Acting Managing Director BankSA

- Metropolitan Banking
- Rural Banking
- Commercial Banking (covering South Australia and Northern Territory)

...it's about direction.

J M THAME | J S CURTIS | F J CONROY | J J MALLICK

JOHN MICHAEL THAME AAIBF FCPA
John Thame, aged 59, was appointed to the Board in February 1997, having been the Managing Director of Advance Bank Australia Limited from October 1986 to January 1997. His career with Advance spanned 26 years during which time he held a variety of senior positions. Mr Thame is Chairman of Permanent Trustee Company Limited and is a director of AWB Limited, Centrelink, Reckon Limited, the Australian Geographic Group and The MBA Group Pty Limited. He is a member of the Board's Audit and Compliance and Risk Management Committees.

JOHN SIMON CURTIS BA LLB (Hons)
John Curtis, aged 51, was appointed to the Board in October 1997. Since 1987, he has been a professional company director and is currently the Chairman of Allianz Australia Limited, Caliburn Partnership Pty Limited and First Data Resources Australia Ltd Advisory Committee. He is a director of Perpetual Trustees Australia Limited and other public companies. Prior to 1987, Mr Curtis was a main board director of Wormald International Limited and was responsible as a Chief Executive for its operations at various times in Australia, Europe and the Americas. He is a member of the Board's Nomination and Remuneration Committee.

FRANK JOHN CONROY BComm MBA
Executive Chairman
Frank Conroy, aged 59, is a professional company director. A former career banker, he joined the St.George Board in August 1995 and was appointed Chairman in September 1996. Mr Conroy is Chairman of Australian Pharmaceutical Industries Limited and Orix Australia Corporation Limited. He is also a director of Futuris Corporation Limited and Santos Limited.

JOHN JAMES MALLICK AM FAII FIIC (Canada)
Deputy Chairman
John Mallick, aged 67, joined the Board in August 1993 and was appointed Deputy Chairman in September 1996. He has been involved in the insurance industry for 42 years and was the Managing Director of the Sun Alliance and Royal Insurance Group until his retirement in 1994. He continues to be a non-executive director of Royal & Sun Alliance Australia Holdings Limited, Royal & Sun Alliance Life Assurance Australia Limited and Royal & Sun Alliance Financial Services Limited. He is also a director of Tyndall Australia Limited, Tyndall Investment Management (Australia) Limited and Tyndall Superannuation Limited. Mr Mallick was President of the Insurance Council of Australia Limited in 1984 and Deputy President in 1981. He is also a past President of the Australian Insurance Institute. Mr Mallick is Chairman of the Board's Audit and Compliance Committee and a member of the Nomination and Remuneration Committee. He is a nominee of the Board of Directors on the Bank's various staff superannuation funds and is a director of the Bank's funds administration subsidiary, SEALCORP Holdings Limited. He is also a Governor of St.George Foundation Limited.

L F BLEASEL G ETTINGER P D R ISHERWOOD G J REANEY

LEONARD FRANCIS BLEASEL AM
Len Bleasel, aged 58, was appointed to the Board in May 1993. He was the Managing Director of the Australian Gas Light Company where his career spanned 42 years and was Chairman of Natural Gas Corporation Holdings Limited (New Zealand). Mr Bleasel is a director of QBE Insurance Group Limited and a member of the ABN Amro Advisory Council. He is also Chairman of the Zoological Parks Board of NSW and a member of the Advisory Board of the Salvation Army. Mr Bleasel is Chairman of the Board's Nomination and Remuneration Committee and is a member of the Audit and Compliance Committee.

GERI ETTINGER BA LLB
Geri Ettinger, aged 61, is a solicitor of the Supreme Court of NSW and High Court of Australia. She joined the St.George Board in 1987. Ms Ettinger is a Senior Member of the Administrative Appeals Tribunal (Commonwealth) and a Member of the Fair Trading Tribunal. She is a member of the Dispute Resolution Committee of the Law Society of New South Wales, a member of the New South Wales Product Safety Committee and a member of the New South Wales Medical Tribunal and Professional Standards Committees. Ms Ettinger was Chief Executive of the Australian Consumers' Association, publisher of Choice Magazine for 11 years and served on the board of the Australian Postal Commission from 1974 to 1982. She has also served on the Building Societies' Advisory Committee. Ms Ettinger is a member of the Board's Risk Management and Nomination and Remuneration Committees.

PAUL DEAN RAMSBOTTOM ISHERWOOD FCA
Paul Isherwood, aged 63, was appointed to the Board of Directors in October 1997. He is a former partner and National Chairman of Partners of Coopers & Lybrand, Chartered Accountants, his career with that firm spanning a period of 38 years. Mr Isherwood is Chairman of Stadium Australia Management Limited. He is also a director of Munich Reinsurance Company of Australasia Limited, NM Rothschild Australia Holdings Pty Limited, CRI Australia Holdings Limited and Globe International Limited. He is a member of the Bank's Board Risk Management Committee.

GRAHAM JOHN REANEY BComm CPA
Graham Reaney, aged 58, was appointed to the Board in November 1996. He is a director of the Australian Gas Light Company Limited, Queensland Cement Limited and So Natural Foods Limited and Chairman of Open Telecommunications Limited and Australian Rural Group Limited. Mr Reaney's business experience spans 30 years during which he has held a number of senior corporate appointments, including Managing Director of National Foods Limited. Formerly Operations Director and Managing Director of Industrial Equity Limited, Mr Reaney was responsible for managing a range of businesses in the food and beverage and resource and service sectors. Mr Reaney is Chairman of the Board's Risk Management Committee and is also a member of the Board's Audit and Compliance Committee and the BankSA Advisory Board.

The Board of Directors

The Board of Directors is responsible for St.George's overall performance and governance. The Board:

- oversees the operations of the Group through the setting of goals and strategy
- assesses performance against budgets and strategies
- monitors the management of the Group's business, and
- monitors the controls, systems and procedures within the Group to manage the risks of its businesses and compliance with regulatory and prudential requirements.

Board Composition

There are eight non-executive directors and one executive director, namely the Managing Director and Chief Executive Officer, on the St.George Board. One third of the directors (excluding the Managing Director) must retire each year at the Annual General Meeting but may stand for re-election.

At the date of this statement, the position of Managing Director and Chief Executive Officer is vacant and the Bank's Chairman is acting as Executive Chairman on a temporary basis until the position of Managing Director is filled. It is the Board's general policy that the Chairman, as well as a majority of directors on the Board, must not be executives.

Under St.George's Constitution, no director can be appointed to the Board if he or she is aged 65 or over and a director must retire at the conclusion of the Annual General Meeting following that director turning 72. The Board's policy (except in special circumstances, where the Board considers it important to retain valuable skills or knowledge) is that no director should be appointed to fill a casual vacancy if he or she would be over 60 when appointed.

Independent Professional Advice

To assist in the performance of their duties, directors may, in consultation with the Chairman, seek independent advice on any matter before the Board, with such advice being made available to all directors.

Board Committees

The Board's structure of Board committees assists it in its oversight and control. Minutes of committee meetings and committee recommendations are provided to the Board. The Chairman and Managing Director are entitled to attend the meetings of all Board committees.

Membership/2000-2001 Attendance Record of Board and Board Committees

Board

(Total number of meetings held: 17)	Attended
F J Conroy	15
J J Mallick	16
E A O'Neal	16 (16)*
L F Bleasel	17
JS Curtis	16
G Ettinger	17
P D R Isherwood	15
G J Reaney	17
J M Thame	17

Board Risk Management Committee

(Total number of meetings held: 17)	
G Ettinger	16
P D R Isherwood	15
G J Reaney	17
J M Thame	17

Audit and Compliance Committees

(Total number of meetings held: 4)	
L F Bleasel	3
J J Mallick	4
G J Reaney	4
J M Thame	4

Nomination and Remuneration Committee

(Total number of meetings held: 4)	
L F Bleasel	4
J S Curtis	3
G Ettinger	4
J J Mallick	4

Due Diligence Committee

(Total number of meetings held: 3)	Attended
L F Bleasel	1 (1)**
J J Mallick	3
G J Reaney	3
J M Thame	3

NB: Bracketed numbers denote the number of meetings held while the director was a member of the Board/Committee.

* Mr O'Neal died on 16 September 2001.

** Appointed as a member of the Due Diligence Committee on 27 August 2001.

Risk Management Committee

This Committee oversees and monitors policies and procedures in relation to credit, liquidity, operational and market risks and balance sheet management.

In the area of credit risk, the Committee reviews and approves loan applications and credit limits within levels delegated by the Board. In addition, it oversees and monitors the Bank's credit practices and reporting procedures to ensure adherence to policy. It also reviews the Group's credit portfolios and provisioning for bad and doubtful debts and the risk management policies and procedures for market, funding, liquidity and operational risks as well as the strategies and positions taken to manage interest rate risk and the Bank's balance sheet.

Audit and Compliance Committee

This Committee reviews and makes recommendations to the Board on the Bank's financial reporting, the systems for internal control established by management and the Board, and internal and external audit processes. It also reviews compliance, reporting and control structures throughout the Bank to ensure compliance with financial, regulatory and legal requirements. In addition, the Committee oversees the reporting systems within the Group to ensure that the Bank observes its disclosure requirements.

At the end of each reporting period, the Committee reviews the Group's half-yearly and yearly financial statements prior to submission to the Board.

The internal and external auditors have a direct line of communication to the Chairman of the Audit and Compliance Committee with the external auditor also having a direct line of communication to the Board's Chairman. The Committee is also responsible for making recommendations to the Board regarding the nomination of external auditors to the Group and for reviewing the adequacy of existing external audit arrangements.

Nomination and Remuneration Committee

This Committee meets as required to consider and make recommendations to the Board on the suitability of candidates for nomination for the position of director. This consideration will involve an assessment (with the assistance of external advice, if appropriate) of the qualifications, skills, experience and value which the person may bring to the Board and his or her ability to make a contribution to the Board's strategy, policy and effectiveness.

The Committee also reviews and makes recommendations to the Board on the various Group compensation, incentive and reward programs including the remuneration for the Managing Director and senior executives. In addition, the Committee makes determinations as required of it under the rules of St.George's employee share/option plans.

Due Diligence Committee

This Committee forms as and when St.George is involved in the issue of a fundraising or similar document. This Committee assists the Board in ensuring the appropriate disclosure of material matters in such documents.

Remuneration of Directors and Senior Executives

The policies and philosophy applicable to the remuneration of directors, the Managing Director and senior executives are set out in the Directors' Report on pages 41-45.

Identifying and Managing Significant Business Risks

The operational and financial performance of the Group is monitored by a reporting structure which includes the Board and its committees. The Board also monitors appropriate risk management strategies developed to mitigate the identified risks of the business. The Bank's policies and systems for dealing with market, credit and liquidity risks are outlined elsewhere in this Annual Report.

Ethical Standards

The Board has adopted a Code of Ethics which sets out the expectations of directors and staff in their business affairs and in dealings with customers. Among other things, the Code of Ethics requires high standards of personal integrity and honesty in all dealings, a respect for the privacy of customers, and observance of the law.

Other Governance Policies

The Board has established guidelines incorporating governance policies which deal, among other matters, with disclosure of interests by directors and limitations on dealing in the Bank's shares by directors and senior officers.

Directors, senior management and those members of staff with access to market sensitive information are only permitted to deal in the Bank's shares in certain periods (and then only if they are not in possession of unpublished price-sensitive information), namely within six weeks following the announcement of the Bank's interim and final results and within four weeks following the Bank's Annual General Meeting. In each case, directors must advise the Chairman of any proposed dealing once it has taken place and advise the ASX as required by Section 205G of the Corporations Act. The Bank is also obliged to advise the ASX of directors' dealings in its shares.

Directors are required to have shareholdings in the Bank. Under the Constitution, a director's qualification shareholding is 500 shares.

Disclosure Policy

St.George is committed to timely disclosure to the market of relevant information about St.George to ensure that all its legal disclosure obligations are met. This is reflected in St.George's Disclosure Policy which provides that all material information required to be notified to the market by ASX's Listing Rules is to be immediately notified to the investor community via the ASX without preferential access to any individual or group. The General Counsel and Secretary is primarily responsible for communicating with the ASX. The Policy also sets out guidelines relating to the announcement of future earnings or financial performance, meetings with investors and analysts, shareholder enquiries and inadvertent disclosure of information.

Procedures are in place to ensure that all information that could potentially require disclosure is promptly reported through to the Managing Director via relevant senior executives for assessment by the Managing Director with the Chief Financial Officer and General Counsel and Secretary. Compliance with the Disclosure Policy is monitored on a quarterly basis by the Board's Audit and Compliance Committee and the Policy is reviewed annually by that Committee.

St.George endeavours to improve access to information by investors by using, where reasonable, current technology to ensure timely and the widest possible dissemination. All ASX announcements are posted to the St.George website.

All media enquiries relating to market disclosure are coordinated by the Chief Financial Officer, with only certain nominated senior staff authorised to make media comments.

Risk Management

The consolidated entity in its daily operations is exposed to credit risk, liquidity risk, market risk and operational risk (including fraud, theft and property damage). These risks are managed through a number of specialised committees, which are responsible for policy setting, monitoring and analysing risk.

Credit Risk

Credit Risk is the potential for loss arising from a debtor or counterparty failing to meet their financial contractual obligations. This risk is inherent in the consolidated entity's lending activities as well as transactions involving derivatives and foreign exchange.

Credit risk is managed principally through embedded controls upon the individual lending divisions and business managers who are responsible for the lending. Lending is carried out within the parameters of lending policies (covering approvals, documentation and management), which have been developed having regard to statistical data and historical risk experience.

To maintain the quality of the lending portfolio, prudential standards and lending policies have been established throughout the consolidated entity. Certain core practices are followed in all lending situations.

Credit processes are structured so that loan origination, approval, documentation preparation, settlement and account monitoring and control are segregated to different individuals or areas. Credit must be evaluated against established credit policies and within authorities and be structured, particularly in terms of security, to be prudent for the risk incurred.

The Group Credit division assesses credit which is beyond the lending authorities of business divisions and/or outside normal Group Credit policies or guidelines. This division assesses specific provision requirements where loan default has occurred and also controls the Loans Management Unit which manages large impaired assets with the aim of achieving the optimum result from such assets.

Through its credit inspection function, Group Credit tests internal controls and adherence to credit policies and procedures which are standard throughout the Group and contained in credit manuals administered by Group Credit.

The consolidated entity applies standard credit risk assessment criteria to all extensions of credit from credit scoring systems for basic retail products to complete credit assessment for commercial and trade related transactions.

Standard risk grading methodologies for commercial lending are set at the transaction level and will drive pricing, provisioning and all risk associated components. The retail matrix is aimed at debt serviceability and security cover.

The portfolio maintenance function within Group Credit monitors and refines proprietary risk grading systems to ensure ongoing predictability.

Group Credit regularly reports to the Management Credit Committee and the Board Risk Management Committee on the status of large impaired assets, arrears and trend analysis, compliance reports, portfolio analysis and all approvals above $10 million.

Liquidity Risk

Liquidity Risk refers to the inability to meet financial commitments when they fall due. Liquidity risk arises from mismatches in the cash flows from financial transactions.

Liquidity is managed based upon policies and strategies determined by the Bank's Asset and Liability Committee (ALCO). This includes:

- maintaining a core of high quality and readily liquefiable securities;
- sourcing the majority of funds from the retail sector and committed medium term wholesale facilities;
- keeping diversified surplus sources of funding
- being able to closely monitor liquidity flows and quickly identify any anomalies.

The consolidated entity meets the APRA prudential requirements for liquidity.

Market Risk

a) Funding Risk

Funding Risk is the risk of over reliance on a particular funding source. The risks associated with such a concentration include volatility in funding costs or funding availability.

To minimise funding risk the consolidated entity has a policy of raising wholesale funds from well diversified sources which encompass both international and domestic capital markets.

b) Interest Rate Risk

Interest Rate Risk arises from a variety of sources including mismatches between the repricing periods of assets and liabilities. As a result, movements in interest rates can affect earnings or the value of the consolidated entity. The objective of the consolidated entity's interest rate risk management policies is to minimise fluctuations in earnings over time from volatility in movements in interest rates.

(i) Interest Rate Risk in Non-Trading Activities

Interest Rate Risk is monitored by the Bank's Balance Sheet Management unit to ensure that aggregate exposure to interest rate risk is contained within policy guidelines and defined limits set by ALCO.

The "gap position" between when assets, liabilities and synthetic instruments are contractually due to reprice are managed through the use of derivative products, particularly swaps and options.

Interest rate risk also arises from the impact of interest rate shifts on pricing relationships between asset and liability products of a retail or wholesale nature. The risk is monitored through simulation modelling which estimates the impact on net interest earnings due to changes in interest rates and/or the size and mix of the consolidated entity's balance sheet.

Through the use of this simulation model, ALCO oversees interest rate risk management by determining profit risk parameters, product design and pricing policies.

The model's key assumptions are regularly reviewed to take account of both historical relationships and the current competitive and interest rate environment.

ii) Market Risk from Trading Activities

Market Risk represents the risk to earnings from movements in price due to fluctuations in interest rates, exchange rates and market volatility. This is measured and reported by a segregated and independent body. A Value-at-Risk (VaR) based on variance-covariance methodology is used as the primary method to quantify potential gains or losses resulting from movements in market interest rates and underpins limit structures which are reported to the Board Risk Management Committee monthly.

The consolidated entity uses an internal model accredited by APRA for the calculation of VaR. For the unique risks relating to options, a contingent loss matrix, developed according to the specifications of Prudential Statement C3 ("PSC3"), issued by APRA, is used to generate delta-equivalent cash flows for use in the VaR model. Both models use a 99 per cent confidence interval and a one day holding period.

Stress testing and back-testing are conducted to ensure that the model is a viable predictor of actual trading losses. The daily market risk measurement for the financial year is shown graphically below.

Operational Risk

Operational risk is the risk attributable to the daily operations of the Bank which may result in financial or other loss. Particular areas where operational risk may arise include failure to comply with laws, regulations and internal policies, fraud or error and systems failures.

Operational risk is managed by the Bank through the documentation of procedures, disaster recovery and back up systems, extensive staff training programs, regular procedural reviews by internal audit and insurance.

Derivative Financial Instruments

Definition

A derivative is a financial instrument which provides the holder with the ability to participate in some or all of the price changes of an underlying financial asset, reference rate or index.

Swaps

A swap is an agreement between two parties to exchange obligations periodically based on an underlying financial asset, reference rate or index.

Options

An option is a contract that grants the holder the right but not the obligation to buy or sell the underlying asset at a specific price on a specified date.

Business Continuity and Planning

St.George's Business Recovery Policy

As part of St.George's strategy to build its franchise as a successful broad based financial services provider, the Bank has embraced Business Continuity Management to ensure it can respond to and recover from major incidents.

Business Continuity Management is seen as a significant step in ensuring the survival of St.George. By documenting a co-ordinated implementation response to an event of major damage or denial of service, Business Recovery Plans are being developed to facilitate the recovery of critical business processes and services supported at key Head Office locations.

With the implementation of such plans, St.George is putting in place strategies that will become an ongoing part of the Bank's risk management mind set.