
**St.George Bank** Concise Annual Report 2006

# "We have a unique culture centred on engaged people who genuinely care about customers and each other. Our people and our culture are our competitive advantage and enable us to deliver great service to our customers."

Gail Kelly, Managing Director & CEO

Contents

**I am delighted to report an outstanding result for the St.George Group, with cash profit after tax increasing 14.5 per cent and exceeding $1 billion for the first time in its history.**

Our profits have grown significantly from $376 million in 2001. This has enabled us to increase dividends by 132.3 per cent, from 65 cents in that year to $1.51 this year.

A further major milestone achieved during the year was exceeding $100 billion in assets, compared to $52 billion in 2001. Earnings per share were up 13.1 per cent and our return on equity was its best ever at 22.9 per cent.

These achievements are the result of substantial investment in our business, a consistent organic growth strategy and the dedication of St.George's people. Looking forward, we are well positioned to continue delivering superior returns to shareholders.

## Highlights for the year

**(All ratios are based on cash AIFRS(1))**

- Revenue growth of 9 per cent, with a particularly strong second half performance.
- Increased return on equity to 22.91 per cent from 22.10 per cent in 2005.
- Industry leading expense to income ratio at 44.0 per cent.
- Total lending assets increased by 15.4(2) per cent to $93.4 billion.
- Home loans increased by 12.2(2) per cent to $62.7 billion.
- Middle Market commercial receivables increased by 23.9 per cent to $19.0 billion.
- Managed funds increased by 20.3 per cent to $39.3 billion.
- Retail deposits increased by 10.7(2) per cent to $43.1 billion.
- Robust credit quality – bad and doubtful debts 0.23 per cent of average gross receivables.

(1) Cash AIFRS excludes significant items, hedging and non-trading derivatives volatility and goodwill impairment. Comparative figures are prepared on a consistent basis.

(2) Excluding New Zealand.

## Strategic direction

These results continue the Bank's strong and consistent record of achievement. Over the past six years we have delivered robust earnings per share growth and continue to develop our reputation for sustainable, high-quality earnings.

The strategy that underpins our performance is one of differentiation based on people and customer experience. Our culture is a strong one, based on genuine caring. We value transparency, flexibility, responsiveness and 'going the extra mile'. The following simple formula assists us in driving our strategy:

**engaged people + great customer experience = superior financial results**

# Good with p

Left: Gail handing out presents at the Childcare Centre's Christmas Party.

Right: Happy Dragon joins a team at the St.George Foundation Golf Day.


eople


To continue building this warm and friendly culture and achieve organic, low-risk growth, we remain focused on implementing the core strategic framework outlined in 2002:

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

Within this framework, the Group is focused on the key business areas of home loans, retail deposits, middle market commercial banking and wealth management. We are also maintaining our focus on productivity, customer service and continuing to expand beyond our traditional core markets of New South Wales, South Australia and the Australian Capital Territory.

# Good with

## People

Our people are our competitive advantage. During 2006, we have continued our strong emphasis on strengthening our capability and our performance culture.

We have invested heavily in learning and development to ensure staff members are well equipped to further build on our reputation for customer service. We have done this through numerous sales and service initiatives, with a focus on leadership skills, lending skills and overall relationship management skills.

The Bank delivers these development programs through recently upgraded classroom facilities in conjunction with our award winning e-learning system, *e-luminate*. We also identify and develop talent at all levels and maintain a robust succession plan.

St.George takes particular care in recruiting and has advanced methods in place to employ high-quality people across the Group who fit with our values. For Branch Managers, this includes a comprehensive induction process that prepares them for actual, in-role challenges and includes business acumen development.

We also participate in the community. Across Australia, St.George people regularly pitch in to help others. Many contribute to local charities and our Foundation, both financially and through practical support. The St.George Foundation this year provided $1.2 million to fund projects for children in need. This money was raised through a range of fundraising activities and events made possible by our people.

## Service expansion

In line with our growth strategy, we opened six branches in Queensland, Victoria and the Australian Capital Territory. We also expanded our business banking centres nationwide, including opening our second centre in Western Australia. We increased our customer-facing staff by 269 full-time equivalent employees. Over the past five years, we have added over 1,000 staff to the Group.

## Business improvement

The Group has implemented a range of major programs aimed at improving customer service, streamlining operations and enhancing productivity.

# money

Left: Gail at the opening of Kawana Branch on the Sunshine Coast.

Right: Celebrating at the Long Service Awards Night.

In the past year, we continued this investment through initiatives including:

- the Best Business Bank program;
- further enhancing the usage of the Customer Relationship Management (CRM) program;
- installation of a new auto and equipment financing system;
- upgrades to our Contact Centre and Mortgage Processing Centres;
- the Operational Breakthrough program within Asgard, focused on adding value to customers by improving operations, process management and service quality; and
- extending our local market approach within retail banking.

We also renegotiated with key suppliers as part of a wider review of procurement operations and announced a partnership with IBM to provide selected back office processing functions.

IBM has centres around the world, including India. It is respected globally for its best practice in operational areas. This initiative will improve both our service levels to customers and our efficiency. It will allow us to enhance our focus in the areas of customer contact, such as our branches and call centres, and will ensure further investment.

## Innovation

The Bank unveiled three concept 'branches of the future' in Sydney and Glenelg, South Australia. These branches feature an inviting retail environment, new ticketing systems to better manage queue times and other state-of-the-art technology.

Through Advance, St.George was the first bank to introduce Internet Banking in 1995 and one of the first to market with the launch of its dragondirect online transaction account. This year, we substantially upgraded our Internet Banking platform and introduced a range of SMS message services to improve customer convenience and security.

In recent years, the Bank has launched a range of consumer-friendly products. These include Low Doc home loans and the low interest rate Vertigo credit card. We also relaunched our No Deposit home loan, which won 'Best New Product' at the Australian Banking and Finance Industry Awards in July 2006.

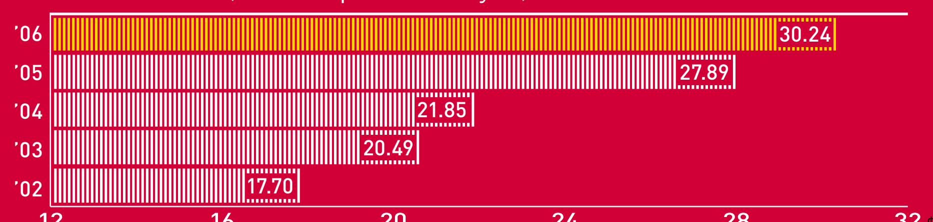
In November 2006, we launched a new suite of Freedom transaction accounts featuring Visa Debit cards, which we believe will be attractive to both new and existing customers.

## Review of operations

St.George performed strongly across all major areas of its business this year. We also saw healthy expansion in the Group's growth areas of Victoria, Queensland and Western Australia. These markets now account for 30 per cent of Group lending receivables and 19 per cent of Group retail deposits.

# Good results

Share Price (as at 30 September each year)



**Home lending:** Our portfolio of residential lending grew 12.2 per cent (excluding New Zealand), reaching $62.7 billion at year end. This was particularly pleasing given that New South Wales loans comprise 59 per cent of our total home lending and the state experienced a slower growth rate than other states. The result was complemented by strong gains in Victoria, Queensland and Western Australia, which grew receivables 13 per cent, 18 per cent and 26 per cent respectively. The broking channel is important to us, remaining around 45 per cent of new loan approvals, but we have also focused on increasing the productivity of St.George's own distribution. Credit quality remains excellent.

**Deposits:** Retail deposits grew 10.7 per cent (excluding New Zealand) in a highly competitive market, while business deposits surged 16.2 per cent to reach $5.9 billion. It was pleasing to see strong growth in transaction accounts, which were up 14.8 per cent for the year, as well as a rise in average account balances. Our dragondirect online service was particularly robust, growing at 9.3 per cent and bringing many new customers to the Bank.

**Middle Market:** Our banking solution for small and medium-sized businesses remains a standout performer and key to our growth strategy. In the past year, total Middle Market receivables increased by 23.9 per cent to reach $19.0 billion. We grew at above system levels in New South Wales while seeing particularly strong increases in Queensland, Victoria and Western Australia. The Middle Market team also maintained industry leading customer satisfaction and advocacy, and increased average products per customer.

**Wealth Management:** Managed funds grew by a very pleasing 20.3 per cent during the year, placing St.George fifth in the industry for net inflows. Profit before tax for the year was $180 million, or 12 per cent of Group earnings. Wealth Management continues to expand faster than the broader industry, driven by the strength of our award winning Asgard and Margin Lending groups.

## Outlook

The Australian economy registered solid growth over the past year, supported by the resources boom, strong business investment and a healthy labour market. The housing market generally weakened, however, and the economies of New South Wales and South Australia grew more slowly than the national average. While growth in New South Wales and South Australia is expected to continue to be below the national average, St.George anticipates that these economies will remain resilient.

St.George's home loan receivables are targeted to grow in line with the system, which is expected to be in the 10 to 12 per cent range. St.George's Wealth Management and Middle Market businesses are anticipated to exceed and double system growth, respectively. In retail deposits, we will continue to manage for profitable growth.

Assuming a reasonably robust economic environment, St.George is targeting 10 per cent earnings per share growth for both 2007 and 2008 on a cash AIFRS basis.

On behalf of the management team and everyone at St.George, thank you very much for your support. We look forward to the future and enter the year ahead with confidence.

# for everyone

Gail Kelly, Managing Director & CEO

Gail Kelly

"The Bank has never been in a stronger position. This year we celebrated passing $100 billion in assets, we have a sound strategy and management team, and we have room to grow in both new and existing markets."

**St.George has performed very strongly and achieved an excellent result for the financial year to 30 September 2006. We managed competitive and economic challenges to record our sixth straight year of double-digit earnings per share growth.**

Cash profit was 14.5 per cent higher at $1,026 million. Earnings per share increased by 13.1 per cent.

These figures, including prior year comparatives, are all based on new international accounting standards. Under previous accounting standards, earnings per share before goodwill amortisation and significant items increased by 10.3 per cent – in accordance with our stated target.

The Group's performance in the second half of the year was stronger than the first half. This reflected continued growth in lending volumes and deposits, success in funds management and administration, and effective cost control.

The Directors were pleased to declare a fully-franked final dividend of 77 cents per share. The total dividend for the full year rose by 10.2 per cent to $1.51. The Bank has rewarded shareholders with a 132.3 per cent increase in dividends since 2001.

The Dividend Reinvestment Plan will operate for the 2006 final dividend for those shareholders who wish to participate.

## Capital management

The introduction of the global regulatory capital regime known as Basel II from January 2008 is changing the way banks are managing capital. The system will provide a more sophisticated means of determining how much regulatory capital is required for each financial institution.

The Bank has applied to APRA to use the advanced measurement approaches for Credit Risk and Operational Risk. Final accreditation will be subject to satisfying the regulator's requirements.

Capital management initiatives during the year included:

- an off market buyback of $300 million worth of ordinary shares, completed in February 2006;
- securitisation of $8 billion in residential loan receivables through the *Crusade Securitisation Program*;
- conversion of $300 million of PRYMES into ordinary shares;
- issue of an innovative Tier-1 capital instrument to raise $150 million in June 2006, being followed by a non-innovative Tier-1 capital issue of $300 million in December 2006; and
- 6.5 million ordinary shares issued under the Bank's Dividend Reinvestment Plan, raising $186 million in capital.

## Transactions

St.George Bank completed a number of transactions during the year. The largest was the acquisition of the margin lending assets of HSBC Bank Australia in August 2006. This portfolio had loan receivables of around $398 million, which contributed to the increase in our margin loan book to $2.6 billion.

In March, St.George disposed of its 100 per cent equity interest and subsequently subscribed for a 50 per cent equity interest in Ascalon Capital Managers, the funds management incubator the Bank founded in 2000. The sale to Kaplan Equities Limited delivered a post-tax profit of $8 million to St.George.

## International accounting standards

A major difference you will notice in this year's financial results is that the Bank has moved to the new Australian equivalents to International Financial Reporting Standards (AIFRS) as the basis for its accounting. This has led to changes in the determination of reported profits and more significant changes to the balance sheet, particularly with securitised loans being included in the balance sheet.

Special care needs to be taken when comparing the Group's current year result to 2005 year comparative figures contained in the audited financial statements because comparative figures have not been adjusted for international accounting standards dealing with financial instruments. To assist shareholders in assessing the Group's performance relative to last year, 2005 year comparative figures in the Shareholder Friendly Financials section of this report have been adjusted for the full impact of these financial instrument standards.

## Outlook

Australia's economy grew solidly over the past year, though New South Wales and South Australia grew more slowly than resource intensive regions. We expect growth in these states to remain below the national average, but both economies to remain resilient. This outlook factors in the likelihood of another interest rate rise.

While the banking environment can be expected to remain highly competitive, the Bank has never been in a stronger position. This year we celebrated passing $100 billion in assets, we have a sound strategy and management team, and we have room to grow in both new and existing markets. Assuming a reasonably robust economic environment, we are targeting 10 per cent earnings per share growth for both 2007 and 2008 on a cash AIFRS basis.

## Thank you

We are grateful for your continued support as shareholders. On behalf of the Directors, I would also like to recognise the outstanding achievements of Mrs Gail Kelly, her senior management team and all St.George staff in what has been another excellent year.

John M Thame, Chairman

Cash profit
Up by
14.5%

$1,026m

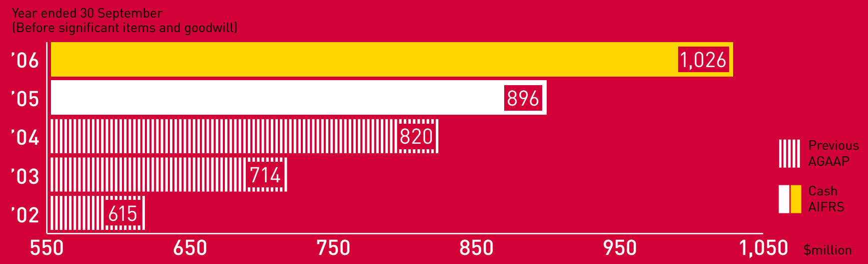
Expense to income
Down from
47.1%

44.0%

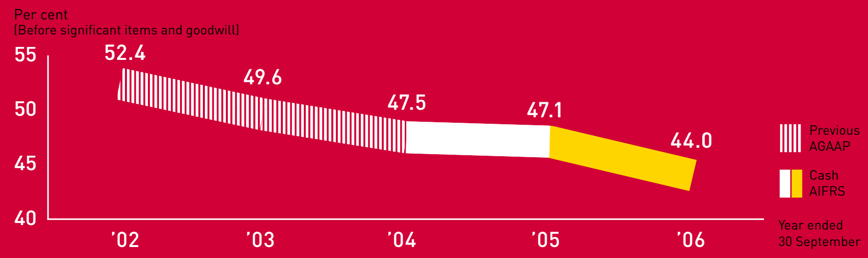
Dividends per share
Up by
10.2%

$1.51

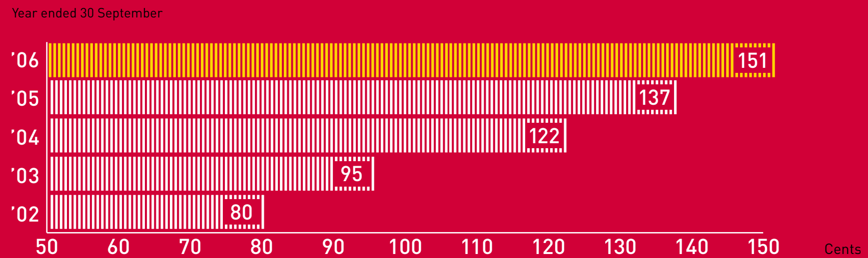
Cash profit after tax and before significant items was $1,026 million, up 14.5 per cent

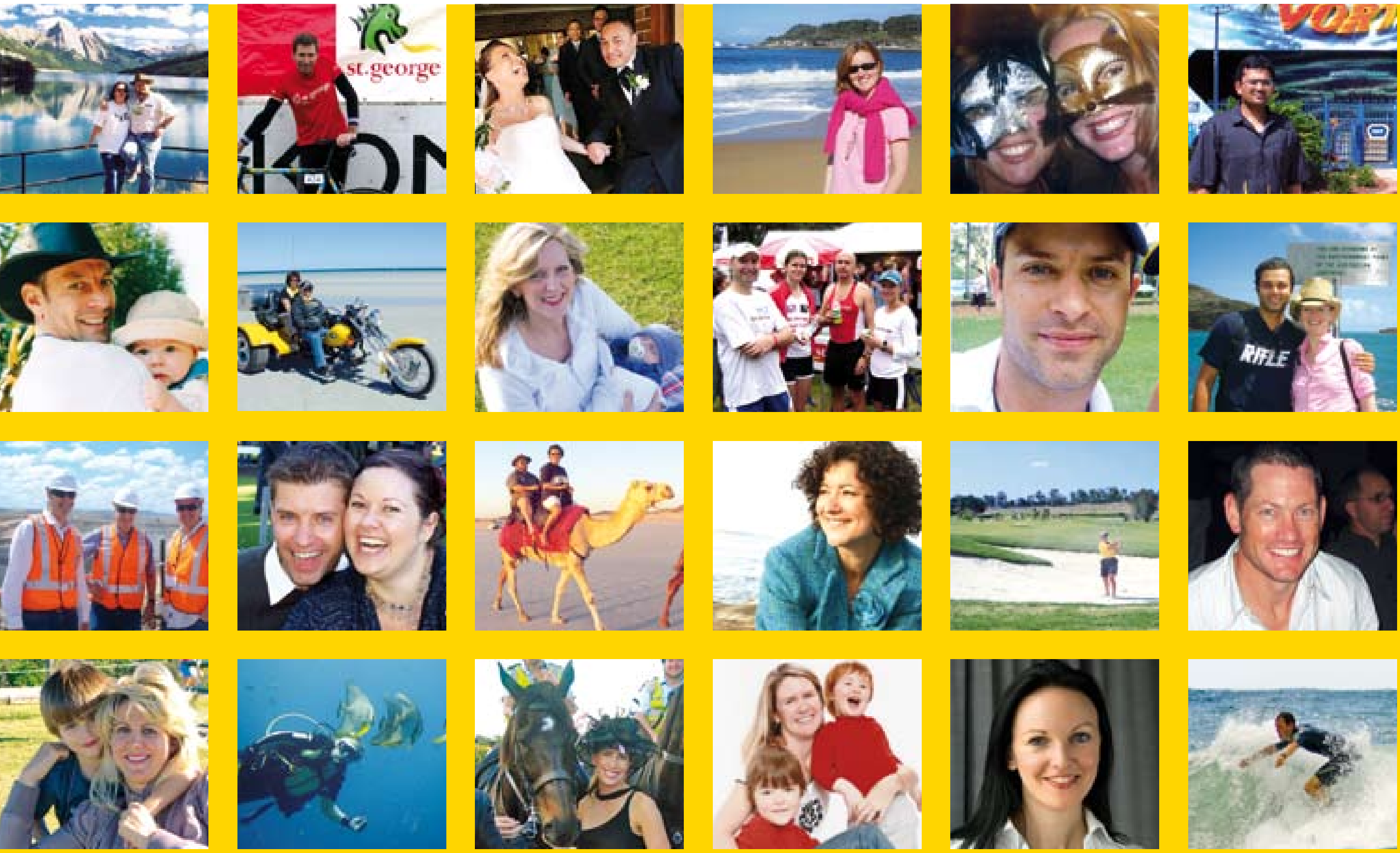



Expense to income ratio is an industry leading 44.0 per cent, down from 47.1 per cent the previous year




The total dividend per share increased by 10.2 per cent to $1.51 from the previous year






# We're with St.George because it's a great place to work.

These pictures have been supplied by St.George staff and customers.


No

# Training staff to deliver great customer experience.

## We’re with St.George

**We’re with St.George** because of the fantastic level of training we receive. From the moment we came on board, we were provided with all the learning tools needed to ensure our customers receive the highest level of customer service. All customer-facing staff receive over four full weeks of training before beginning their careers in the branches, meaning they are able to immediately assist with customer needs. Career development is strongly encouraged at St.George, allowing us to grow on both a personal and professional level.

# We're with St.George

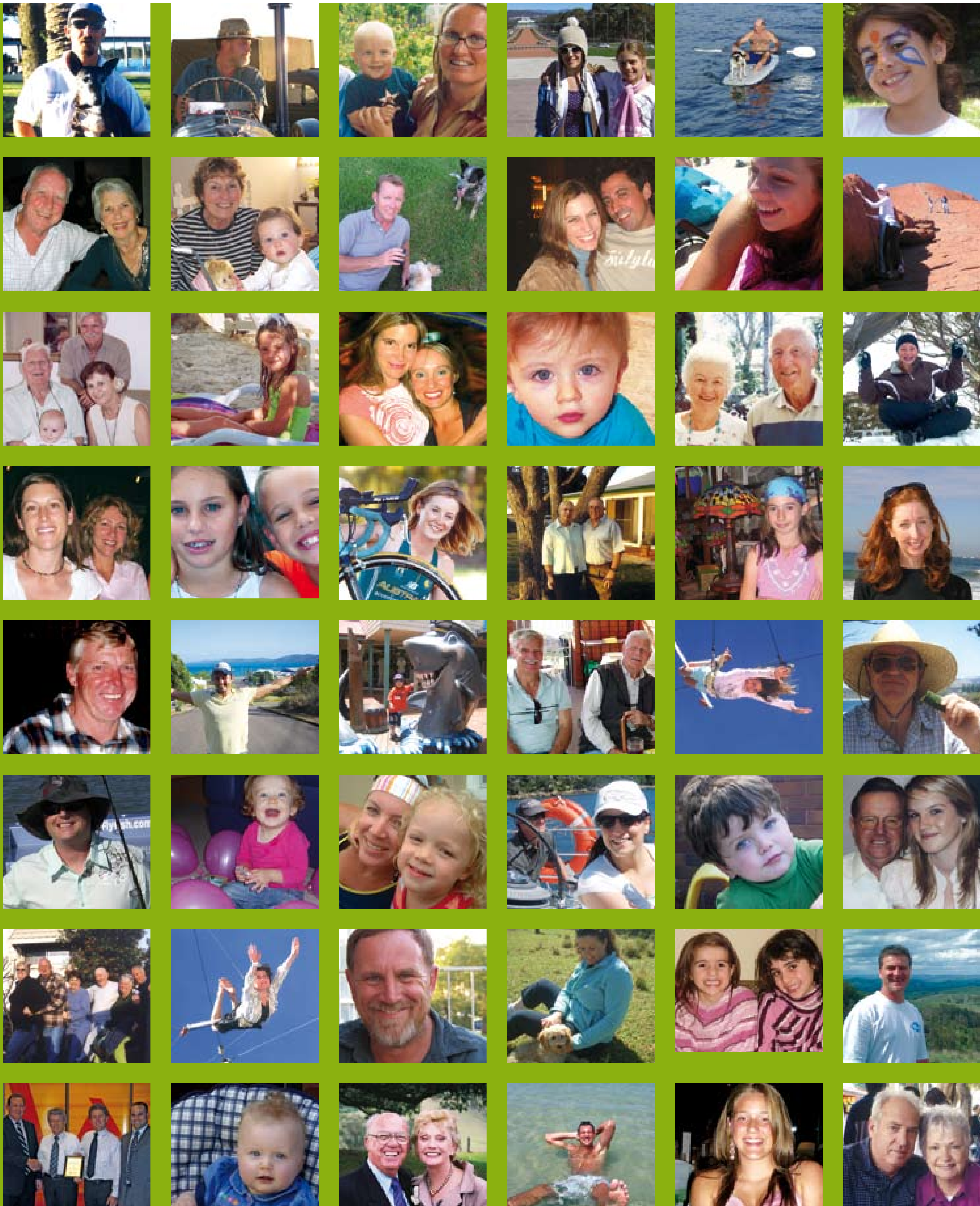
"We're with St.George because they care. Funds we have received from the St.George Foundation have enabled us to offer support to children with additional needs and families experiencing difficulties. St.George's funding assisted children in our Steps to School Program. This program works directly with disadvantaged and vulnerable children, aged 0-5, to develop the skills necessary for early success at school."

**Jennifer Evans, CEO, The Infants' Home, Ashfield, NSW**

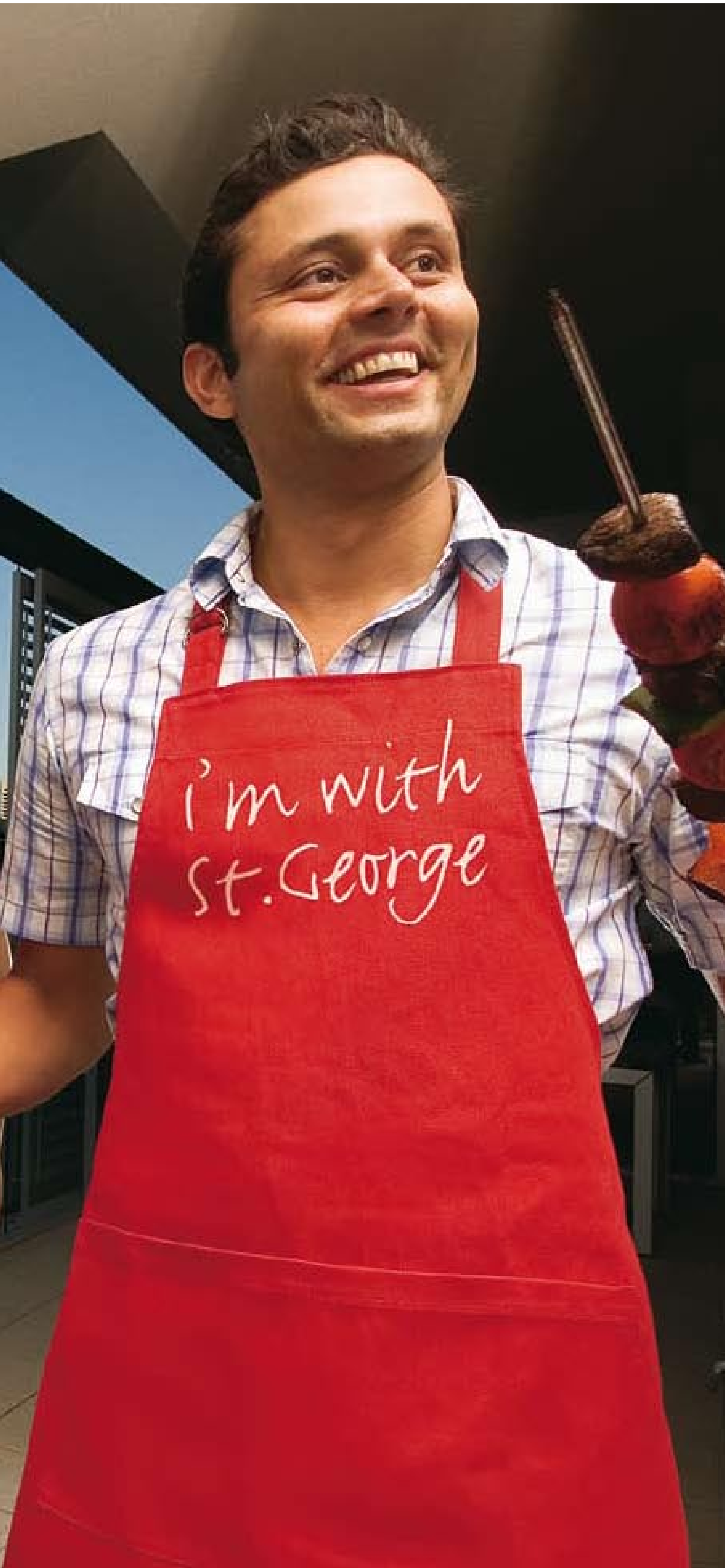

# Supporting children in need through the St.George Foundation.

# We’re with St.George.

These pictures have been supplied by St.George staff and customers.



# Home loans to get everyone started.




## We're with St.George

**We're with St.George** because of the great products on offer. St.George's complete range of home loans allowed us to buy our first home earlier than anticipated. St.George offers innovative and affordable solutions that are especially designed for first home buyers. The No Deposit home loan was perfect for us because it allowed us to buy the apartment of our dreams and still have money left over for the government and legal costs. The loan comes packed with features including Repayment Redraw and Interest Offset, so it meets our current and future needs.


# Creatively differentiating on customer service.

## I'm with St.George

"I'm with St.George because of the exceptional level of customer service I receive. Nothing is ever too much trouble. Our customer service representative, Shadey, has really taken the time to understand my business and consistently goes the extra mile to ensure I am a satisfied customer. I can relax and concentrate on my customers knowing that my business needs are in safe hands. I have learnt a lot from Shadey about how to relate to and communicate with my own customers."

**Nicole Petrovic, Manager, Everafter Beauty, Enfield, NSW**


# Innovative technology ensuring enhanced service.

## We’re with St.George

**We’re with St.George** because of the innovative products and services available. We love the convenient new service that enables us to locate the nearest St.George ATM wherever we are, saving us the cost of using another bank’s ATM. This is particularly helpful to us when we are on holidays or interstate. All we have to do is SMS the suburb and state we are currently in to 199 44 ATM (286) and we receive an instant SMS back with details of the closest ATM*. Now that’s what we call service!

* This service costs $0.40 per SMS, billed by the customer’s mobile phone carrier.

# Executive Directory

## Gail Kelly
### Managing Director & Chief Executive Officer

Gail Kelly DipEd BA MBA (with distinction) SF Fin became St.George Group Managing Director & Chief Executive Officer in January 2002. She came to St.George from the Commonwealth Bank of Australia, where she was head of the Customer Service Division. Mrs Kelly migrated to Australia in 1997 after holding a number of senior management positions with one of South Africa's major banks, Nedcor. She is a Fellow of the Financial Services Institute of Australasia.

## Steve McKerihan
### Group Executive Finance and Risk Management

Steve McKerihan BComm (Hons) CPA MBA is Group Executive responsible for Finance and Risk Management. He has been with the St.George Group since 1985, holding a range of positions including Chief Manager, Financial Development, and Chief Manager, Balance Sheet Risk and Capital Markets. Before working at St.George, he worked at the Commonwealth Bank of Australia.

## Peter Clare
### Group Executive Strategy

Peter Clare BComm MBA MAICD ACIS F Fin FCPA became Group Executive Strategy in February 2002. He is responsible for Group Strategy, Corporate Relations and Group Property and Procurement. He came from the Commonwealth Bank of Australia, where he was head of the Strategy Implementation Group, responsible for the integration of Colonial Limited, following a number of senior operational roles. His earlier experience encompasses management consulting, corporate reconstruction and insolvency.

## John Loebenstein
### Group Executive Information Technology

John Loebenstein FCII joined St.George's Executive Management team in 1995, having previously worked in insurance broking, underwriting and risk management in South Africa, the UK and Australia. He brings more than 30 years experience in information technology, with a particular focus on business systems and customer requirements, achieved through efficient project management.

## Brett Wright
### Group Executive Human Resources

Brett Wright BE (Hons) M EngSc MBA PhD joined the St.George Group in July 2000. He has a PhD in organisational behaviour and an extensive background in human resource management derived from working in a range of line management, academic and consulting roles. He is responsible for all aspects of the people strategy covering the Group's more than 8,500 employees.

## Rob Chapman
### Managing Director BankSA

Rob Chapman Assoc Dip Bus MAICD A Fin became Managing Director of BankSA in July 2002 after an extensive career in the financial services industry. Most recently, he was the Regional General Manager of the Commonwealth Bank of Australia's operations in South Australia, Northern Territory and Western Australia. Earlier he filled a number of senior roles with Colonial State Bank and Prudential Corporation Australia. Rob is the President of Business SA, South Australia's formal Business Association. He received the 2005 SA Great Award for Business.

## Greg Bartlett
### Group Executive Institutional and Business Banking

Greg Bartlett was appointed Group Executive Institutional and Business Banking in 1999 after roles as Group Treasurer and Chief General Manager, Group Treasury and Capital Markets. He has been a member of St.George's Executive Management Committee for 17 years and has more than three decades of experience in the financial services industry.

## David Gall
### Group Executive Retail Business

David Gall BSc BBus MBA (Exec) F Fin was appointed Group Executive Retail Business in 2005 after 15 years with the Group, including five years with Barclays Bank Australia. He has worked in senior roles in Institutional and Business Banking, including Head of Corporate and Business Bank in Victoria and General Manager Sales and Distribution of the Corporate and Business Bank. In 2000 and 2001, he played a leading role in the design and implementation of the successful *Best Bank* program.

## Paul Fegan
### Group Executive Wealth Management and Retail Financial Services

Paul Fegan MBA F Fin GAICD was appointed Group Executive Wealth Management in June 2002 and assumed responsibility for Retail Financial Services in November 2004. Prior to joining St.George, Mr Fegan was based in the United Kingdom as Chief Operating Officer of Yorkshire Bank. Mr Fegan was a Director of both Yorkshire Bank and Clydesdale Bank. Mr Fegan's career covers a range of senior appointments in Australia, the US, Hong Kong, the UK and Ireland.

# Retail Bank

**The Retail Bank comprises the Retail Business and Retail Financial Services business units. Retail Business covers all customer contact points including retail branches, call centres, ATMs, mobile lenders, St.George financial planners and third parties such as home loan brokers. Retail Financial Services includes product management, customer segment management, Group brand and retail marketing, risk management, operations and finance.**

**David Gall**
Group Executive Retail Business

**Paul Fegan**
Group Executive Wealth Management and Retail Financial Services

## Highlights

- **Profit before tax for the Retail Bank increased by 16.4 per cent to $697 million, contributing 46 per cent of the Group's total profit.**
- **Costs, measured as an expense to income ratio, fell to a record low of 46.6 per cent.**
- **Total Group home loans increased by 12.2 per cent.(1)**
- **Total Group retail deposits rose 10.7 per cent(1) despite market competition.**
- **Bad and doubtful debts for the Group remain low at 0.23 per cent of average gross receivables.**

(1) Excluding New Zealand.

## Awards

- **Best new product: No Deposit home loan** – Australian Banking & Finance Awards
- **Credit Card Issuer of the Year** – Money magazine
- **Best Call Centre** – Australian Teleservices Association
- **Call Centre of the Year** – Customer Service Institute of Australia
- **Widest Product Range** – InfoChoice.

## Results

The Retail Bank again performed very strongly as a whole despite the slower rate of growth in the New South Wales economy relative to the other states.

Profit before tax rose 16.4 per cent as key productivity and sales management programs implemented by the Bank over the past few years are bearing fruit. These include our successful local market strategy to empower and train Branch Managers and other front-line staff to be more responsive to customers' needs.

## Group home loans

Home loans grew 12.2 per cent this year, increasing total residential lending to $62.7 billion, representing a very solid performance for the year.

This result was particularly pleasing given that 59 per cent of our residential lending is in New South Wales. The Bank also grew strongly in Victoria, Queensland and Western Australia, which grew home lending receivables 13 per cent, 18 per cent and 26 per cent, respectively.

Our Low Doc home loan and the award winning No Deposit home loan have proved successful and represented 8.2 per cent of home loan settlements in the year. Credit quality has been preserved through targeted policies and strategies.

The Retail Bank's product mix remained relatively stable this year, with fixed rate products showing some increase due to the rising interest rate environment.

The percentage of new loans originated through the broker channel has also remained stable, at 45 per cent for the year.

During the year, we launched an additional distribution channel called Mortgage Connect, to increase our reach and ensure our suite of home loan products is readily accessible to customers. This initiative will provide additional mobile lenders who can visit customers in their homes, or any location, and at the time that suits them best.

## Group deposits and consumer lending

Our position in the highly competitive retail deposit market remained strong with balances growing 10.7 per cent to $43.1 billion as at 30 September 2006.

Particularly strong growth was achieved in business deposits, which grew 16.2 per cent during the year. Online account deposits through dragondirect rose by 9.3 per cent, while transaction account balances increased 14.8 per cent to $15.2 billion.

The Bank continued its track record of innovation, unveiling a new Internet Banking platform, multilingual ATMs, three 'branches of the future' and SMS updates when a customer's credit card is used. In November we launched a suite of Freedom transaction accounts featuring Visa Debit cards with flat fees to meet people's changing needs and attract new customers.

The Group boosted its position in credit cards with the launch of the Vertigo card, targeted at existing customers. This strategy has seen St.George exceed overall market growth since May.

Total Group consumer lending, including credit cards, margin loans and personal loans, increased by 27.8 per cent for the year to reach $6.4 billion.

## People and service

The Bank further developed its customer relationship management systems to give staff the real-time information needed to best service customers.

We introduced an updated rostering system across the network to ensure we have the right staff in our branches at the right time. The Bank is further empowering Branch Managers to help customers by making more decisions locally, and training them in how to run branches as small businesses.

# Institutional and Business Banking (IBB)

**St.George continues to be a growing force in business banking. The Institutional and Business Banking (IBB) division provides a full range of banking products and services to its corporate and business customers. It is also responsible for automotive finance and financial markets, which includes liquidity and risk management, foreign exchange and international trade, securitisation, wholesale funding and capital markets.**

**Greg Bartlett**
Group Executive IBB

## Highlights

- **Recognised as 'Business Bank of the Year' in *Money* magazine's Consumer Finance Awards in June 2006.**
- **Profit before tax for IBB increased by 11.1 per cent to $421 million, contributing 28 per cent of the Group's total profit.**
- **Middle Market loans increased 23.9 per cent to $19.0 billion.**
- **Strong rise in retail deposits, to $10.9 billion.**
- **Significant strengthening in transactional business banking.**
- **Continuing excellent credit quality with bad and doubtful debts expense at 0.13% of gross receivables.**

## Results

St.George has continued its exceptional market share growth in the Middle Market segment. This was achieved in 2006, despite the relative weakness of the New South Wales economy and property sector.

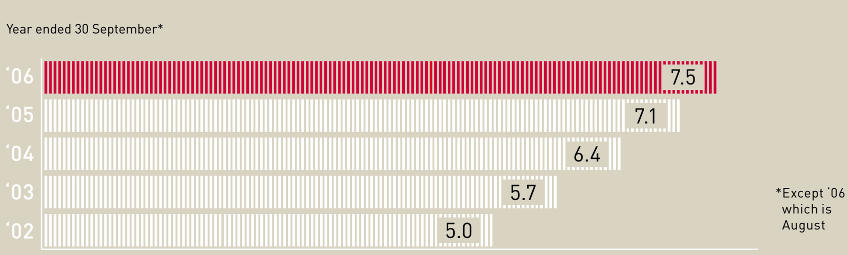
Revenue for IBB grew by 8.6 per cent to $704 million. Group Middle Market business loans increased by 23.9 per cent – well above the industry as a whole.

This success has come from strengthening relationships with existing customers, winning new business and expanding in new geographies. Over the past two years, Middle Market customer numbers have increased by 30 per cent. In the latest year, Queensland middle market receivables increased 48 per cent, Victoria was up 32 per cent and Western Australia increased by 39 per cent. In our Automotive Finance business, we increased our dealer relationships by 11 per cent.

IBB's intense focus on customer service and relationship banking also led to very high rates of customer retention and effective cross-selling. In a recent survey, zero per cent of St.George business customers said they were considering changing banks, compared to 18 per cent of major bank customers. The number of products per customer increased to 5.1 and to 8.2 for our key accounts.

Our strong customer service focus led to the expansion of our Working Capital Services team, which includes our transactional banking, cash flow financing and business and equipment finance businesses.

### Middle Market – market share




## Best Business Bank

Since late 2004, the Best Business Bank program has been central to achieving growth through productivity, new sales tools, new products, industry specialisation, growth in the corporate and business banking team and extending our geographic reach.

During the year, we opened four new business banking sites and expanded three centres. The division was also reorganised around two units: IBB Product and Commercial Business, and Sales and Distribution. This is a more logical alignment that is driving team collaboration, sales effectiveness and increased cross-selling activities.

## Capital Markets

Our Capital Markets group completed several key funding transactions totalling $12.2 billion during a busy year, including:

- St.George's largest-ever issue of AUD fixed and floating rate transferable deposits, worth $1.3 billion;
- GBP375 million and Euro 600 million in floating rate note benchmarks, both oversubscribed by UK, European and Asian investors;
- a $300 million subordinated notes issue, our first domestic Tier-2 capital raising since 2003; and
- a record volume of $8.2 billion in home loans securitised through the Crusade Securitisation Program in 2005/06.

St.George continues to be Australia's largest issuer of mortgage-backed securities.

Ratings upgrades were received from two key rating agencies, Standard & Poor's and Moody's, improving the Group's wholesale funding capacity in global markets.

# BankSA

**BankSA is the largest financial institution in South Australia. It employs more than 1,220 staff and has an extensive network comprising 113 branches, 180 ATMs and 114 electronic agencies across South Australia and the Northern Territory.**

**Rob Chapman**
Managing Director BankSA

## Highlights

- **Profit before tax for BankSA increased by 14.5 per cent to $213 million, contributing 14 per cent of the Group's total profit.**
- **Revenue rose 9.4 per cent, reflecting strong growth in lending assets.**
- **Expense to income ratio was down to 42.3 per cent from 45.2 per cent in 2005.**
- **Total lending (including securitised loans) increased 15 per cent to $12 billion.**

## Results

Even as a leader in South Australia, BankSA has increased its market share and in many areas of the business grew faster than the state's banking sector as a whole. This outstanding performance was achieved through a localised business strategy with a focus on service excellence and a disciplined approach to costs.

The Bank has strategically repositioned the business by building the commercial banking division, which now represents 41 per cent of total lending assets. This deliberate shift created new business opportunities at a time of intense competition in retail banking and during a softer housing market.

BankSA's growth also came from BankSA Private Bank. Launched in July 2005, the premier banking service has grown 44 per cent.

For the year, BankSA's total assets grew by 15 per cent to $12.0 billion, while deposits increased by 8 per cent to $5.8 billion. Operating expenses increased by 2.5 per cent to $163 million.

## Investment

Key to BankSA's success is its close relationship with customers, sustained through regular conversations and face-to-face contact. BankSA continues to employ more people to deal directly with customers through its branch network, which is the largest in South Australia.

During 2006, BankSA invested in maintaining and improving its network. This included opening a specialist business banking centre at Mile End, a 'branch of the future' at Glenelg and investing in staff development with the opening of a purpose-built training facility called 'The Learning Zone'. This is in addition to its ongoing roll-out of branch renovations, an increase in branch security measures and expansion of its regional New South Wales and Victorian rural business banking.

At the same time, customers are benefiting from leading technology, enjoying new Internet Banking facilities and SMS banking alerts – an industry first.

Other investments that have contributed to the Bank's performance this year include implementation of the Group's Best Business Bank program, Customer Relationship Management (CRM) program and improvements to the Customer Call Centre to reduce waiting times and improve service.

## Community

With a more than 150-year history, BankSA prides itself on being an important part of the local community.

In addition to supporting hundreds of grass-roots events throughout the year, the Bank recommitted to BankSA CrimeStoppers and will provide $1.5 million over five years to help fund the program.

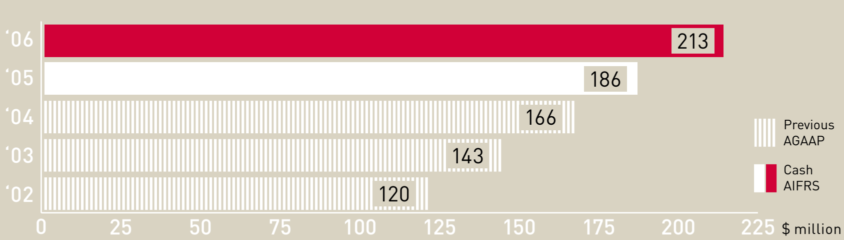
It became the Principal Partner to the Adelaide Fringe international arts festival, with a $1.6 million sponsorship until 2010. BankSA also received the prestigious Australian Business Arts Foundation National Business Arts Partnership of the Year Award for its successful partnership with the Adelaide Fringe.

The Bank has also reaffirmed its commitment to regional South Australia, launching the BankSA People's Choice Rural Business Awards presented by the *Stock Journal*.

Since World War II, staff have also made a direct contribution to the community through the BankSA and Staff Charitable Fund. This tradition remains strong. In the past year, $192,000 sourced from staff and the Bank was donated to more than 110 local charitable organisations.

### Profit before tax

Year ended 30 September



# Wealth Management

**Wealth Management includes funds management and administration, financial planning and dealer group solutions, margin lending, private banking and general and life insurance. Key brands include Asgard Wealth Solutions (formerly SEALCORP), Ascalon Capital Managers, Advance Funds Management, St.George Margin Lending and St.George Private Bank.**

**Paul Fegan**
Group Executive Wealth Management and Retail Financial Services

## Highlights

- **Profit before tax for Wealth Management increased by 25.0 per cent to $180 million, contributing 12 per cent of the Group's total profit.**
- **Total managed funds rose to $39.3 billion – an increase of 20.3 per cent over 2005.**
- **Margin lending receivables increased by 62.8 per cent to $2.6 billion.**

## Awards

- **Margin Lender of the Year –** Smart Investor **magazine (third consecutive year)**
- **Margin Lender of the Year –** Money **magazine**
- **Platform of the Year – AFR** Smart Investor **Blue Ribbon Awards 2006, for Asgard eWRAP Super/Pension**
- **Assirt/Wealth Insights Service Level Survey 2006 – Winner Asgard eWRAP**
- **Best online service for financial advisers –** Investment Trends**.**

## Results

In an outstanding year for Wealth Management, profit before tax increased by 25.0 per cent to $180 million.

The division also achieved strong net inflows, with total managed funds growing by $6.6 billion to $39.3 billion. St.George is now the fifth largest player in the Australian platform market and fifth in terms of net inflows.

The Wealth Management division provides products and solutions that enable investors to feel inspired by their financial future, and be confident that they can plan for and live comfortably in retirement.

## Asgard Wealth Solutions

Asgard Wealth Solutions had its fastest growing 12-month period over the year, with total funds under administration increasing 23.9 per cent to $29.0 billion. This reflects favourable market conditions and Asgard's strength in sales, service and distribution management.

The past year saw significant growth and rebranding within funds management. SEALCORP (which incorporates the award winning wealth management platform Asgard and our highly-regarded financial adviser dealer group Securitor) was rebranded to Asgard Wealth Solutions.

## Margin Lending, Insurance and Private Bank

The Bank's margin lending receivables increased by 62.8 per cent in 2006 to $2.6 billion. This included around $398 million in loan receivables gained from buying HSBC's margin lending assets.

Income from life and general insurance products increased by 10.5 per cent during the year, assisted by the launch of new products such as Home Loan Protect.

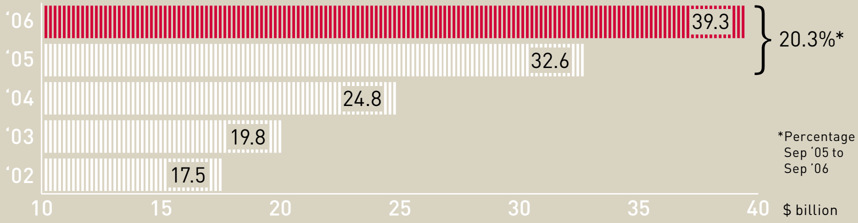
The Private Bank grew assets by 3.9 per cent, deposits 6.8 per cent and funds under advice 5.2 per cent to $311 million.

## Advance Funds Management

Advance is the specialist investment management arm of the St.George Group. Under its strategy to be a 'manager of managers', it has now formed strategic partnerships with 21 leading boutique and specialist funds managers. During 2006, Advance grew funds under management by 10.2 per cent to $7.1 billion.

### Total managed funds

Year ended 30 September



# People and Service

St.George is Australia's fifth largest bank and one of the country's top 20 publicly listed companies. Our award winning Human Resources division works with our business units to build a customer focused, performance driven organisation.

## Highlights

- Launched careers@stgeorge, taking full control of recruitment to ensure we are identifying and selecting the best people.
- Upgraded and implemented our StaffSmart program to ensure optimum staffing of retail branches.
- Followed the launch of new learning facilities at Kogarah with the opening of a state-of-the-art learning environment in Adelaide.
- Empowered our Branch Managers to better meet customer needs.

## Results

At St.George, our people are our competitive edge. They care about customers and the organisation and we continue to employ people who fit into our warm, friendly culture.

This year we focused more than ever on customer service. We enhanced our recruitment, training and customer service systems to ensure that the special human touch of St.George continues to win new customers and to deepen our relationship with existing customers.

In line with its increased focus on the customer, the Group expanded its business banking centres nationwide and increased the number of its customer-facing staff during the year.

## Leveraging in-house recruitment expertise

The launch of careers@stgeorge in July involved setting up a team of expert, in-house recruitment consultants. This new approach allows us to more effectively manage our talent and recruitment needs across the Group, ensuring we are identifying and attracting the best candidates for our current and future needs.

"I'm with St.George because of the fantastic childcare facilities on-site. A sensible work/life balance is really encouraged, which is rare in today's fast paced environment."

Al Pastor, Operations Analyst, IT Production

Further benefits of careers@stgeorge include reducing the time required to fill vacancies, strengthening our recruitment practices and employment brand, reducing costs and expanding the Group's multiple sourcing strategy. For example, a new website lists permanent job vacancies and invites candidates to register their interest in working for St.George or apply for jobs online. This is creating a ready talent pool.

## Customer service is the key

Once we have found the right people, we have an extensive and demanding induction process that gives them the information and tools to perform to our high standards.

We operate on the principle of 'engaged people + great customer experience = superior financial results'. In keeping with this powerful equation, we have upgraded StaffSmart. This is our system for optimising rostering in branches to ensure we have the right people available at the right time to meet customer demands and expectations, thus building on our reputation for high quality, friendly and personalised service.

Our Star Awards recognise individuals in the Group who go above and beyond what is expected of them to provide truly exceptional service. Those who are selected as 'SuperStars' are recognised at special functions attended by their teams and senior management.

Customer Service Officers have excellent career progression opportunities, with many career paths open to them and the possibility of progressing to senior roles.

## Better learning facilities

Following on from the launch of new learning facilities at Kogarah in early 2005, we have opened a new learning environment in Adelaide. This offers the latest in facilities and supplements our award winning *e-luminate* online learning system.

The development of our managers and leaders remains a high priority. We have three main development programs that offer comprehensive learning experiences and have direct relevance to real work challenges.

## Power to the branches

Branch Managers have been empowered to make more decisions to help customers, including increased credit authority to better meet the needs of their local communities.

Under this local market strategy, we are training Branch Managers to be able to run their branches as businesses, and employing managers who previously ran their own businesses. This enables them to better relate to our customers, including business people.

A new induction program aimed at better equipping Branch Managers is largely based on scenarios and case studies depicting real-life challenges and activities. This has proven to be highly successful in having new managers work-ready from day one.

**"I'm with St.George because the values of the organisation reflect my own personal values. The commitment to people, change and culture from the most senior level was critical for me in terms of deciding where I wanted to work."**

Kellie Tomney, Executive Manager, Recruitment and Branding Strategy

**"I'm with St.George because of the continual opportunities for career development. I have recently completed one of three management development programs run in-house, which has equipped me with the strategies and skills I need to effectively manage my team. In addition to developing my own skills, it's also important to ensure I can help my team to develop their own skills."**

Ian Parkes, Chief Manager, Group Financial Control

# Community Support

St.George Bank is not only good with people and good with money, it is a good corporate citizen. We are open and honest in the way we do business, environmentally aware and play a helping role in the community by supporting charities, the arts, sporting clubs, business programs and disaster relief initiatives. We also seek to make a positive impact as a major employer and caring financial services provider.

## Highlights

- $1.2 million donated to 60 charitable organisations across Australia by the St.George Foundation.
- A substantial increase in the number of our people becoming payroll donors of the St.George Foundation.
- Special assistance to our customers who were victims of Cyclone Larry.
- Multilingual ATMs introduced to cater for the needs of a diverse range of customers.
- Continued support for the Sydney Symphony Orchestra and the BRW Corporate Triathlon National Series.
- St.George OpenAir Cinema was the NSW winner in the Sponsorship category of the Australian Marketing Institute's 2006 Awards for Marketing Excellence.
- Strengthened relationship with the local community through various initiatives including continued major sponsorship of the St.George-Illawarra Dragons.

## St.George Foundation

Founded in 1990 with an initial donation of $1 million from St.George Bank, the St.George Foundation has provided over $8 million to projects for disadvantaged children or those with disabilities.

Over the last financial year, the Foundation distributed $1.2 million to over 60 organisations across Australia. These funds were raised through events such as the Foundation Golf Classic and Gala Dinner in Sydney, donations from Foundation sponsors and support from our people on Happy Hat Day.

Money raised by the Foundation has helped change the lives of hundreds of young people through funding early intervention programs, respite care, drug and alcohol rehabilitation programs, and activity days and holiday programs for children with disabilities.

St.George Bank absorbs all the administration costs, meaning 100 per cent of the money raised goes to young Australians in need.

### Funding growth

The Foundation's income increased 40 per cent this year, partly thanks to an increase in the number of employees making payroll donations. We also saw a 40 per cent increase in grants, assisted by the introduction of an online grants application system.

A fresh look and website were launched for the Foundation, and its 2005 annual report was produced as a calendar to generate additional income.

## Sponsorships

We are proud of the strong relationships we have forged with people and organisations from different sectors of the community.

St.George is proud to sponsor the Taronga Park Zoo 'St.George Zoomobile', which helps educate the community about Australian wildlife by providing hands-on experiences to over 16,000 people each year.

The Bank supports several arts initiatives, business programs, sporting and community events. In 2006, we entered our fourth year as major sponsor of the St.George-Illawarra Dragons Rugby League team, deepening a relationship between parties with so much in common.

The award winning St.George OpenAir Cinema, running for 36 nights in January and February, has become one of Sydney's most popular summer events. Set against a backdrop of the Sydney Opera House, Harbour Bridge and the city skyline, the event is a celebration of film and the outdoor Sydney lifestyle. February 2007 will see the launch of a St.George OpenAir Cinema in Melbourne.

We also support the Wesley Mission Credit Line counselling service for families in financial difficulty and a Taronga Park Zoo 'Zoomobile'. This goes to schools and other venues to showcase native animals and encourage environmental conservation.

## Disaster relief

We are committed to helping Australian communities through times of hardship. Following the devastating impact of Cyclone Larry in Queensland in March, we helped our customers by offering deferrals on home loan repayments, emergency credit limit increases and the ability to restructure business loans.

## Auction support

Over the past four years, we have offered silent auction technology developed by the Bank's IT department to various charities across Australia. Using a highly efficient bidding system involving portable PCs linked by a wireless network, this has contributed to the success of charity events in Sydney and Adelaide.

In addition to using the system at St.George events, our volunteers helped set up and run silent auctions at:

- Pink Ribbon Ball (Flinders Medical Research Centre, Adelaide)
- NISAD – Sparks of Genius Ball (Schizophrenia research, Sydney)
- Adelaide Crows Gala Auction (Adelaide Crows Foundation)
- SA Olympic Appeals Committee (Adelaide)
- Ronald McDonald Children's Charities Gala Dinner (Sydney)
- Autism Spectrum Australia (ASPECT) (Sydney)
- Cure Cancer Australia (Sydney)
- Redkite (formerly Malcolm Sargent Cancer Fund for children) (Sydney)
- Cystic Fibrosis NSW (Sydney).

## Making life easier

Making our services accessible to all Australians is part of our caring culture. We actively participate in the Disabled Access Working Group of the Australian Bankers' Association, ensuring that our branches, ATMs and other facilities are accessible to the disabled.

We have launched a new Internet Banking platform featuring many improvements and increasing the range of functions which customers can perform online.

We are also the first bank in the country to introduce an SMS service to help people locate their nearest St.George ATM. The introduction of multilingual ATMs reflects our desire to cater for a diverse range of customers.

## A greener dragon

St.George is committed to being a greener dragon. We are working with government agencies and business partners to reduce our consumption of energy, water and waste.

Last year, St.George appointed a new property services contractor to manage its properties across Australia. Under this new contract, we expect to see reductions in energy and water usage. It is also anticipated that an upgrade of our critical infrastructure will deliver savings.

While environmentally sustainable business practices are vital, our people play a pivotal role. They are helping us to implement a range of initiatives focused on better ways of recycling waste, sourcing more energy efficient office equipment and encouraging wider community involvement.

Picture courtesy of St.George-Illawarra Dragons/ Action Photographics.

In-screen image from 'Mad Hot Ballroom' courtesy of Icon Film Distribution.

## We think financials should be easy to understand.

As in previous years, to enable shareholders to better understand the financial results of the Group, the following explanations and tables have been provided.

### 1. Australian Equivalents to International Financial Reporting Standards (AIFRS)

The financial results of St.George have, for the first time this year, been prepared in accordance with AIFRS.

Comparative figures for 2005 contained in St.George's audited financial statements do not reflect the impact of all AIFRS standards and hence care should be taken when comparing current year results to the 30 September 2005 financial year.

To assist shareholders in assessing the underlying performance of St.George compared to the 30 September 2005 year, comparative figures contained in these Shareholder Friendly Financials have been adjusted for all AIFRS standards.

### 2. Key AIFRS impacts on St.George are as follows:

**(i) Profitability – Under AIFRS, St.George's reported profit is calculated differently due to the following:**

(a) Goodwill amortisation – under AIFRS, goodwill is no longer amortised. This is a significant change, as previously St.George charged approximately $100 million each year to its profit and loss for goodwill amortisation.

(b) Share based compensation – under AIFRS, St.George is required to expense the value of options and shares offered to staff after 7 November 2002 under its various incentive equity compensation plans. The value of these options and shares is charged evenly to the profit and loss over the applicable vesting period, which is generally between two to three years. An expense of $12 million has been recognised in the 30 September 2006 year for share based compensation.

(c) Derivatives and certain financial instruments are required to be recognised at their fair value. The fair value of these instruments changes in accordance with movements in interest rates and also foreign currency exchange rates where derivatives relate to the Group's overseas borrowings. These derivative contracts are entered into by the Bank to protect the Bank's earnings from volatility arising primarily from movements in the fair value of loans and borrowings used to fund these loans. These derivatives are designed to offset the volatility that arises from these assets and liabilities. Such derivatives are referred to as hedges. Under AIFRS, where derivatives do not satisfy strict hedging rules, the fair value movement is recognised in the profit and loss. This may lead to more volatility in St.George's earnings. In the 30 September 2006 year, a $14 million gain was recognised in other income in respect of fair value movements in derivatives and certain financial instruments that did not satisfy strict hedging rules. This result will vary depending upon movements in interest rates and exchange rates and may switch from a gain to a loss in any particular year, depending upon how these factors move. This volatile item is excluded when calculating the Group's 'cash AIFRS per share' performance measure, as the volatility cannot be directly controlled by management.

(d) Bad and doubtful debts – under previous accounting rules, bad debt expense comprised movements in specific provisions for doubtful debts and the general provision for doubtful debts. Specific provisions were raised where an individual loan was in default and it was doubtful that the full amount would be repaid by the borrowers. A general provision was raised for loans and receivables that were not in default at balance date but, based on past loan loss experienced by St.George, may default in the future. Hence, St.George made provision for both loans actually in default and loans on its balance sheet which may default in future.

Under AIFRS, bad and doubtful debts, particularly as they relate to the general provision, are calculated differently. Under AIFRS, the general provision is called a collective provision and a collective provision is only raised where there is evidence of deterioration in the credit quality of the loan, such as a deterioration in economic conditions.

As a result of this different methodology, there is a lower level of provisions for future expected losses under AIFRS compared to previous requirements. To satisfy APRA's prudential loan loss provisioning requirements, St.George established and maintains a General Reserve for Credit Losses to ensure its collective provision and general reserve for credit losses represent 0.5 per cent of risk weighted assets on an after tax basis. This level of loan loss provision and reserve is consistent with the level held under previous accounting rules.

**(ii) Classifications of income – under AIFRS, the classification of items included in net interest income and non-interest income changes significantly as follows:**

(a) Bill acceptance fee income – under previous accounting rules, this type of income was included in non-interest income. Under AIFRS, such income is included in net interest income. In the year ended 30 September 2005, St.George had $93 million in bill acceptance fee income.

(b) Securitisation fee income – under previous accounting rules, this type of income was included in non-interest income. Under AIFRS, securitised loans are brought back on to St.George's balance sheet. Income from these loans is classified as net interest income.

(c) Loan fee income and origination costs – under previous accounting rules, upfront fees charged to customers taking out loans with the Bank were classified as non-interest income. This fee income was recognised at the time of the origination of the loan. Where loans were introduced to the Bank by mortgage brokers, any upfront fees paid were deferred against non-interest income over the average life of the loan.

Under AIFRS, upfront loan fees are netted against the loan balance and recognised as interest income over the estimated life of the loan. Upfront fees paid to mortgage brokers are recognised on the same basis.

**(iii) Balance sheet**

(a) Consolidation – St.George securitises or assigns some of its residential mortgages to trusts on a periodical basis. Securitisation represents an important source of funding for the Bank.

Under previous accounting rules, when loans were securitised, they were no longer recognised as loans and receivables on St.George's balance sheet. Under AIFRS, trusts holding securitised loans and certain other entities are required to be consolidated on to St.George's balance sheet.

At 30 September 2006, total assets include $19.5 billion of assets, and total liabilities include $19.1 billion of funding relating to these trusts and entities. This change has had no impact on St.George's net profit.

(b) Depositary Capital Securities (DCS) – under previous accounting rules, the DCS were classified as Minority Interests in St.George's balance sheet. Under AIFRS, the DCS are regarded as debt rather than equity instruments and have been reclassified to 'liabilities at fair value through the income statement' in the balance sheet. Distributions on the DCS have also been reclassified from preference share dividends to interest expense.

(c) Preferred Resetting Yield Marketable Equity Securities (PRYMES) – under previous accounting rules, PRYMES were classified as equity in St.George's balance sheet. Under AIFRS, PRYMES are classified as 'bonds and notes'. The PRYMES were converted into ordinary shares in February 2006. Distributions on the PRYMES have been reclassified from preference share dividends to interest expense.

(d) Trading securities – under AIFRS, trading securities have been reclassified to 'assets at fair value through the income statement'.

(e) Derivative assets and derivative liabilities – under previous accounting rules, the movement in the market value of derivatives held for trading purposes, and also gains/losses on derivatives used for hedging purposes, were recognised in other assets when favourable. Any unfavourable movements were recognised in other liabilities.

Under AIFRS, these items have been reclassified from other assets/other liabilities to derivatives assets and derivative liabilities respectively on the face of the balance sheet.

(f) Available for sale investments – investment securities and equity investments have been reclassified from investment securities and other investments respectively to a new asset category called 'available for sale investments'. Assets held by entities involved in customer asset securitisations which were not previously consolidated by St.George are now recognised as available for sale investments. These entities are not involved in the securitisation of St.George's residential loans, which are disclosed as part of loans and other receivables.

For further information on the impact of AIFRS refer to Note 8.

## Group Profitability Summary

The following summary has been prepared on a cash AIFRS basis. The 30 September 2005 figures have been adjusted on the same basis. These comparative figures do not agree with the financial statements, which have been prepared on a statutory AIFRS basis, which exclude the impact of AIFRS financial instrument standards. Cash AIFRS is a definition of profit used by St.George when reporting its financial results to the media and the Australian Stock Exchange. Cash AIFRS normalises St.George's profit result by excluding items that are volatile or not within the control of management. On this basis, Cash AIFRS excludes significant items, volatility arising from non-trading derivatives and hedging and goodwill impairment. Cash AIFRS is determined after dividends paid on preference share capital.

| For the year ended 30 September | **2006 $m** | 2005 $m |
|---|---|---|
| Operating income | | |
| Net interest income | **2,015** | 1,861 |
| Other income | **939** | 848 |
| Total operating income | **2,954** | 2,709 |
| Operating expenses | **1,299** | 1,276 |
| Bad and doubtful debts | | |
| – collective provision | **23** | 28 |
| – specific provision | **121** | 100 |
| Add: Share of profit of equity accounted associates | **-** | 3 |
| Profit before income tax | **1,511** | 1,308 |
| Income tax expense | **466** | 400 |
| Profit after income tax | **1,045** | 908 |
| Add: Minority interests | **1** | 5 |
| Profit after income tax and minority interests | **1,046** | 913 |
| Preference dividends | **20** | 17 |
| **Profit available to ordinary shareholders** | **1,026** | 896 |

## Net interest income

Net interest income – comprises interest income earned on lending, including securitised loans, bill acceptances, investments and trading securities classified as "Assets at Fair Value through the Income Statement".

Interest income also includes certain upfront loan origination fee income net of fees paid for broker introduced loans.

Interest expense is recognised on deposits and other borrowings, loan capital, securitisation funding, depositary capital securities and PRYMES.

Net interest income grew by 8.3% during the year to $2,015 million (2005: $1,861 million) reflecting 13.5% growth in average interest earning assets. This growth was partially offset by a 10 basis point decrease in the interest margin.

## Other income

| For the year ended 30 September | **2006 $m** | 2005 $m |
|---|---|---|
| Financial markets income | **70** | 60 |
| Product fees and commissions | **535** | 500 |
| Managed funds | **254** | 223 |
| Other | **80** | 65 |
| **Other income before significant items** | **939** | 848 |

Other income before significant items and volatility from non-trading derivatives and hedging was $939 million, an increase of 10.7% compared to last year. This increase reflects strong growth in managed funds, growth in customer transaction accounts, increased Treasury trading income and revised product fee structures introduced in the second half of the year to align with market.

## Operating expenses

The Group's total operating expenses were $1,299 million (2005: $1,276 million), an increase of 1.8%.

| For the year ended 30 September | **2006 $m** | 2005 $m |
|---|---|---|
| Staff expenses | **738** | 690 |
| Computer and equipment expenses | **150** | 158 |
| Occupancy expenses | **142** | 138 |
| Administration and other expenses | **269** | 290 |
| **Total operating expenses before goodwill impairment and significant items** | **1,299** | 1,276 |

These results reflect tight cost control, together with disciplined investment in future growth by increasing staff in customer facing functions. The small increase in operating expenses was achieved by controlling non-staff related expenses, which overall decreased by $25 million, mainly driven by lower computer and equipment expenses and a fall in administration and other expenses.

Staff costs before significant items are mainly comprised of salaries and wages, superannuation, payroll tax and share based compensation expense. Staff costs increased by 7% to $738 million compared to last year. This increase reflects an average salary and wage increase of 4.3%, effective 1 October 2005 and increased staff numbers to drive business growth.

## Bad and doubtful debts

Bad and doubtful debts expense (net of recoveries) for the 2006 year was $144 million. This includes a collective provision charge of $23 million (2005: $28 million) and a specific provisioning charge of $121 million (2005: $100 million). The increase in the specific provisioning charge primarily reflects growth in lending assets, increases in the size of loss experienced on default for residential loans and the adoption of an earlier time frame for transferring problem unsecured loans between collective and specific provisions.

## Significant items

Significant items are income and expense items that have an unusual impact on the Group's results due to their size or nature. They are generally of a non-recurring nature and are separately identified to help readers assess the Group's underlying results. Details of significant items excluded from the Group's Cash AIFRS profit result are as follows:

| | **2006 $m** | 2005 $m |
|---|---|---|
| **Significant income items** | | |
| – profit on sale of land and buildings | **41** | – |
| – profit on sale of fixed assets | **-** | 27 |
| | **41** | 27 |
| **Significant expense items** | | |
| – intangible assets impairment loss | **32** | 16 |
| – restructure costs | **16** | – |
| – loss from discontinued operation | **6** | – |
| | **54** | 16 |
| **Significant income tax items** | | |
| – income tax benefit on profit on sale of land and buildings | **(10)** | – |
| – income tax benefit on intangible assets impairment loss | **(10)** | (5) |
| – income tax benefit on restructure costs | **(5)** | – |
| – income tax expense on profit on sale of fixed assets | **-** | 8 |
| | **(25)** | 3 |
| Net significant income | **12** | 8 |

Refer Note 2 in the Concise Financial Statements for further information on significant items.

## Dividends

A final dividend of 77 cents (2005: 70 cents) has been declared by Directors. This increase reflects the Group's growth in Cash Earnings per share.

| | **2006** | 2005 |
|---|---|---|
| **Cents per share** | | |
| Interim dividend | **74** | 67 |
| Final dividend | **77** | 70 |
| | **151** | 137 |

## Ratio analysis

Ratios are a useful aid in understanding the Bank's financial performance. Each of the following three ratios are calculated on a cash AIFRS basis.

### Earnings per ordinary 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 prior year profits.

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

| | **2006** | 2005 |
|---|---|---|
| Cash AIFRS profit ($m) | **1,026** | 896 |
| Divided by: Weighted average number of ordinary shares (millions) | **524.281** | 517.762 |
| Equals: | | |
| Cash AIFRS earnings per share (cents) | **195.8** | 173.1 |

### Return on ordinary equity (ROOE)

The ROOE shows profit as a percentage of ordinary equity, that is, the return on each dollar invested in the Bank's ordinary shares. The improved profitability of the current year is reflected in our ROOE, as shown in the table below.

| | **2006** | 2005 |
|---|---|---|
| Cash AIFRS profit ($m) | **1,026** | 896 |
| Divided by: Average ordinary equity ($m) | **4,479** | 4,055 |
| Equals: | | |
| Cash AIFRS ROOE (%) | **22.9** | 22.1 |

### Expense to income ratio

The expense to income ratio is calculated by dividing operating expenses by operating income. This ratio measures the efficiency of the Bank's operations. It demonstrates the amount of expenses incurred in generating income. A lower ratio means the Bank is more efficient. This year the ratio has decreased to 44.0% (2005: 47.1%), reflecting the Bank's commitment to both cost containment and revenue growth and improving shareholder value.

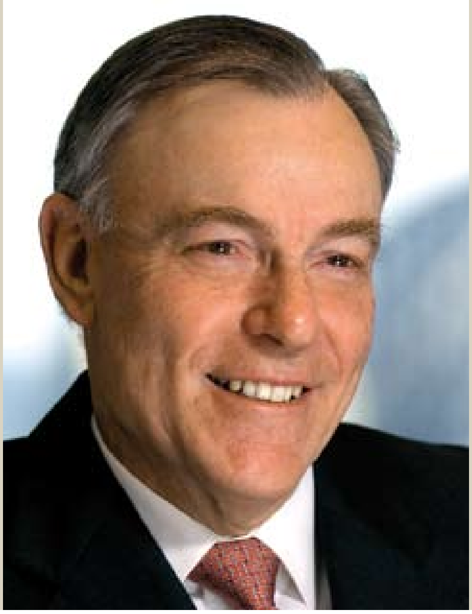
| | **2006** | 2005 |
|---|---|---|
| Operating expenses ($m) | **1,299** | 1,276 |
| Divided by: Operating income ($m) | **2,954** | 2,709 |
| Equals: | | |
| Cost to income ratio (%) | **44.0** | 47.1 |

# Board of Directors







## John Michael Thame AAIBF FCPA
## Chairman

John Thame, aged 64, 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. He was appointed Deputy Chairman in September 2004 and Chairman in December 2004. Mr Thame is a Director of Reckon Limited, Abacus Property Group and The Village Building Co Limited (Group). Mr Thame was also a Director of Permanent Trustee Company Limited from 1997 to 2003, Chairman of The Trust Company of Australia Limited from 2002 to 2003 and a Director of AWB Limited from 1999 to 2005. He is a member of the Bank's Board Risk Management Committee and is Chairman of St.George Life Limited and St.George Insurance Australia Pty Limited.

## Gail Patricia Kelly
DipEd BA MBA (with distinction) SF Fin
## Managing Director & Chief Executive Officer

Gail Kelly, aged 50, was appointed as the Bank's Chief Executive Officer in December 2001 and Managing Director in January 2002. Mrs Kelly was previously with the Commonwealth Bank of Australia as Head of its Customer Service Division and a member of its Executive Committee. Prior to that, she served with Nedcor Bank, one of the largest banks in South Africa, as General Manager, Cards and General Manager, Personal Banking. Mrs Kelly is a Director of the Bank's funds administration subsidiary, Asgard Wealth Solutions Limited, and a Governor of the St.George Foundation. Mrs Kelly is also a Director of Melbourne Business School Limited and a member of the Financial Sector Advisory Council.

## John Simon Curtis BA LLB (Hons)

John Curtis, aged 56, 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 and the Chairman of Merrill Lynch Australia Advisory Board. He is also the Chairman of Sydney Cancer Centre Foundation Limited. Prior to 1987, Mr Curtis was responsible as a Chief Executive for the operations of Wormald International Limited at various times in Australia, Europe and the Americas. Mr Curtis was also a Director of Perpetual Trustees Australia Limited from 1995 to 2004. He is a Director of the Bank's funds administration subsidiary, Asgard Wealth Solutions Limited, and is a member of St.George Bank's Board Audit, Due Diligence and Nomination and Remuneration Committees.

## Terry James Davis

Terry Davis, aged 49, is currently the Chief Executive and Managing Director of Coca-Cola Amatil Limited. He was appointed to this role in 2001 and prior to this was with the Foster's Brewing Group in various positions, including Managing Director of Beringer Blass Wine Estates, the wine division of Foster's. Between 1987 and 1997, he was with the Cellarmaster Wines Group as Managing Director. He joined the St.George Board on 17 December 2004. He is currently a member of the University of New South Wales Council and the Business Council of Australia. Mr Davis is Chairman of the Bank's Board Nomination and Remuneration Committee.

## Richard Anthony Fountayne England FCA MAICD

Richard England, aged 56, is a professional company director and chartered accountant. He joined the St.George Board in September 2004. Mr England is currently Chairman of GroPep Limited and Deputy Chairman of Ruralco Holdings Limited. He is also a Director of Choiseul Investments Limited, Healthscope Limited, ITL Limited and KH Foods Limited. He has over 30 years experience in insolvency and management advisory work and is a former partner of Ernst & Young. Mr England was also a Director of Peter Lehmann Wines Limited from 1998 to 2003 and ABB Grain Limited from 2003 to 2004. Mr England is a member of the Bank's Board Audit, Due Diligence and Risk Management Committees.

## Paul Dean Ramsbottom Isherwood AO FCA

Paul Isherwood, aged 67, 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. He is Chairman of Globe International Limited and Stadium Australia Management Limited and is a Director of Australand Holdings Limited Group. Mr Isherwood is also Chairman of St.George Bank New Zealand Limited and St.George Bank Limited's Board Audit and Due Diligence Committees.

## Linda Bardo Nicholls BA (Econ) MBA (Harvard)

Linda Nicholls, aged 58, was appointed to the Board in August 2002. She is Deputy Chairman of Healthscope and a Director of Sigma Pharmaceutical Group and Insurance Manufacturers of Australia. Mrs Nicholls is also a Member of Council of the Walter and Eliza Hall Institute of Biomedical Research, the Board of Trustees of The Conference Board in New York and a Director of The Smith Family. Mrs Nicholls was a Director of Australian Postal Corporation from 1989 to 2006 and was its Chairman from 1997 to 2006. She was a Director of Perpetual Trustees Australia Limited from 1996 to 2005 and of the General Sir John Monash Foundation from 2004 to 2006. Mrs Nicholls has over 25 years experience as a senior executive and company director in banking, insurance and funds management in Australia, New Zealand and the United States. She was a member of the Wallis Inquiry into the financial services industry in 1996. She is Chairman of the Bank's Board Risk Management Committee.

## Graham John Reaney BComm CPA

Graham Reaney, aged 63, was appointed to the Board in November 1996. Mr Reaney's business experience spans 30 years, during which time he has held a number of senior corporate appointments, including as Managing Director of National Foods Limited. Other former positions included Managing Director of Industrial Equity Limited, where Mr Reaney had responsibility for managing a range of businesses in the food and beverage and resource and service sectors. He is Chairman of PMP Limited and a Director of the Australian Gas Light Company Limited. Mr Reaney is a member of the Bank's Board Risk Management Committee, Nomination and Remuneration Committee and the BankSA Advisory Board.

# Corporate Governance Statement

## Overview

The Australian Stock Exchange (ASX) Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (the Recommendations) require listed entities to include a statement in their annual report disclosing the extent to which they have followed the Recommendations during the reporting period. We confirm that, as at the date of this report, St.George was in compliance with all of the Recommendations during the reporting period.

## The Board of Directors

The Board of Directors is responsible for St.George's overall performance and governance. The functions, responsibilities, composition and procedures of the Board are set out in the Board Charter. Under the Board Charter, the Board's responsibilities include:

- overseeing the performance and activities of the Bank through agreed goals and strategy;
- assessing performance against Board-approved budgets, targets and strategies;
- overseeing the management of the Bank's business;
- overseeing appropriate controls, systems and procedures within the Bank to manage the risks of its businesses and compliance with all regulatory and prudential requirements including, without limitation, occupational health and environmental issues;
- reviewing matters of general corporate governance;
- appointing and removing the Managing Director;
- ratifying the appointment and, where appropriate, the removal of the Company Secretary;
- monitoring senior management's performance and implementation of the Board-approved strategies and ensuring appropriate succession planning is in place;
- approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;
- approving and monitoring material financial and other reporting; and
- setting delegated spending limits.

## Board composition and skills

There are currently seven Non-Executive Directors and the Managing Director on the St.George Board. St.George's Constitution provides that there must be a minimum of five and a maximum of nine Directors and the Board Charter provides that the Board will only appoint one executive Director to the Board, that being the Managing Director. At the Bank's 2006 Annual General Meeting, the Board will recommend to shareholders that they vote to increase the maximum number of directors to 10.

It is St.George's policy that the Chairman of the Board must be an independent Director and is not the Managing Director. The Board comprises a majority of independent Directors.

Mr Len Bleasel retired as a St.George Bank Director on 16 December 2005. The Bank will seek to fill the vacancy on the Board caused by Mr Bleasel's retirement during 2007.

Each Director is assessed regarding their independence in light of interests disclosed by them and on the basis of criteria defined in the Board Charter. Directors are required to provide the Board with all relevant information to assess their independence.

For the purposes of determining a director's independence, the Board applies criteria that are based on those suggested by the Recommendations. A Director will be considered to be independent if that Director:

(a) is a Non-Executive Director (i.e. is not a member of management);

(b) has not been a substantial shareholder of the Bank or an officer of, or otherwise associated directly with, a substantial shareholder of the Bank;

(c) has within the last three years not been employed in an executive capacity by the Bank or another Group member, or been a Director after ceasing to hold any such employment;

(d) has within the last three years not been a principal of a material professional adviser or a material consultant to the Bank or another Group member, or an employee materially associated with the service provided;

(e) has not been a material supplier or customer of the Bank or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;

(f) has no material contractual relationship with the Bank or another Group member other than as a Director of the Bank;

(g) has not served on the Board for a period which could, or could reasonably be perceived to, interfere materially with the Director's ability to act in the best interests of the Bank; and

(h) has been free from any interest and any other business relationship which could, or could reasonably be perceived to, interfere materially with the Director's ability to act in the best interests of the Bank.

Materiality is defined, for the purposes of paragraphs (d), (e) and (f) above, as a contractual relationship pursuant to which payments are made representing greater than 5 per cent of the revenues of the supplier/adviser/consultant/counterparty, or greater than 5 per cent of the costs of the customer/counterparty in the relevant party's financial year. Materiality for the purposes of paragraphs (g) and (h) will be construed by the Board as it deems appropriate in shareholders' best interests as relevant circumstances arise.

The Board has this year assessed each of the Directors in office at the date of this report against the above criteria and considers that all of the Non-Executive Directors are independent. The names of the Directors can be found on page 43.

The Board is satisfied that Mr John Thame is an independent member of the Board. Mr Thame's executive roles at Advance Bank, including as Managing Director, ended 10 years ago when Advance and St.George merged. As a result, Mr Thame's current role as Chairman does not involve the review of the strategies or processes developed by him or his former management team.

Directors are required to have a broad range of commercial expertise and experience, particularly in a field which is complementary to the Bank's activities and strategy, or to have appropriate professional qualifications, to provide value to the Board's deliberations. Board members must have proven ability and capacity to make a meaningful contribution to Board strategy and policy and participate in the overseeing of the proper functioning of management. As set out on page 43, all of the current members of the Board have the skills, experience and expertise relevant to their position.

## Performance review

Each year, the Board reviews the performance of the Board, the Board Committees, the Bank, its senior executives, the relationship between the Board and management and matters of general corporate governance.

In addition, the Chairman of the Board conducts an annual questionnaire and interview with each Non-Executive Director as part of the review of the performance and contribution to the Board of each Non-Executive Director. The last review of the Board was conducted in September 2006. The Board as a whole reviews the performance of the Managing Director at least annually. The Chairman of the Nomination and Remuneration Committee facilitates an evaluation by all Directors of the performance of the Chairman of the Board. The Nomination and Remuneration Committee Chairman determines the performance criteria to be considered in these reviews.

## Directors' retirement and re-election

One third of the Directors (excluding the Managing Director) must retire each year at the Annual General Meeting, but may stand for re-election.

St.George policy is that no Director can be appointed to the Board if he or she is aged 65 years or over, and a Director must retire at the conclusion of the Annual General Meeting following that Director reaching the age of 72 years. 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 years when appointed.

Details of the current Directors serving on the Board are provided on page 43.

## Remuneration of Directors and Senior Executives

The Nomination and Remuneration Committee considers and makes recommendations to the Board regarding the composition and remuneration of the Board and on any proposed Board performance criteria. Details of the remuneration paid to the Directors (executive and Non-Executive) and specified senior executives are set out in the Remuneration Report contained in the Directors' Report on pages 54 to 66.

In accordance with section 250R of the Corporations Act 2001, the agenda for the 2006 Annual General Meeting of the Bank will include a resolution for the adoption of the Remuneration Report. The vote on the resolution is advisory only and does not bind the Directors or the Bank.

## Retirement benefits

The Board of Directors terminated its retirement benefits scheme for Non-Executive Directors, effective from 30 September 2003, following the approval of shareholders at the 2003 Annual General Meeting. Non-Executive Directors appointed after 30 September 2003 are not entitled to retirement benefits. Payment of retirement benefits for Directors in office at 30 September 2003 will not exceed the amount accrued in respect of that Director as at 30 September 2003.

## Independent professional advice

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

## Market disclosure policy

St.George is committed to best practice disclosure policy, with properly detailed and timely disclosure to the market of relevant information about St.George. It recognises that keeping the investor community fully informed and resisting pressure to give preferential access to analysts, institutions or others enhances corporate credibility and investor confidence, with a positive influence on share price.

This commitment is reflected in St.George's Company Disclosure Policy and Communications Strategy, a copy of which is available on the St.George website. These written policies have been designed to ensure compliance with ASX Listing Rule disclosure requirements and the Recommendations.

The policy provides that all material information is to be immediately notified to the investor community through the ASX, without preferential access to any individual or group. To ensure best practice in disclosure, all new information in the first instance will be released to the ASX. The General Counsel and Secretary of the Bank is primarily responsible for communicating with the ASX and for ensuring all information is clear, objective and factual and that no material information is omitted. 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 which could potentially require disclosure is reported promptly to the Managing Director through relevant senior executives for assessment by the Managing Director with the Group Executive, Strategy, and/or 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 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 the widest possible dissemination of information in a timely manner. All ASX announcements are posted to the St.George website and the Bank's announcement of its yearly and half-yearly financial results and shareholders' meetings are webcast.

All media enquiries relating to issues material to St.George are coordinated by the Group Executive, Strategy, in consultation, if appropriate, with the Chief Financial Officer, with only certain nominated senior staff authorised to make media comments.

## Committees of the Board

The Board's structure of Board Committees assists it in managing its responsibility for oversight and control. The Board has established four Committees to assist in the execution of its responsibilities. These are the Audit Committee (previously known as the Audit and Compliance Committee), the Nomination and Remuneration Committee, the Due Diligence Committee and the Risk Management Committee.

Each of these Committees operates under Board-approved Charters which are reviewed regularly by the Board. The Charters deal with the purpose, membership, responsibilities and authorities of each Committee, together with the quorum and frequency of meetings. Copies of these Charters are available on the St.George website. Additional committees may be formed from time to time to deal with specific matters.

Minutes of Committee meetings and Committee recommendations are provided to the Board.

## Audit committee

### Role

Previously, this committee had both an audit and compliance role. The compliance role as from July 2006 was transferred to the Board Risk Management Committee.

In discharging its audit role, the Committee receives and considers reports and recommendations from the Bank's management and makes recommendations to the Board in respect of the Bank's financial reporting, Australian Prudential Regulation Authority reporting, systems for internal control and both internal and external audit processes.

In addition, the Audit Committee reviews major disclosure documentation prior to the issue to the market, such as financial results disclosure and other significant disclosures made to the market.

### Composition

The Audit Committee has a membership of at least three Non-Executive Directors, the majority of whom are independent. The Audit Committee Chairman is independent and is not the Chairman of the Board.

The current members are J S Curtis, R A F England and P D R Isherwood (who is the Chairman).

The qualifications of the members of the Audit Committee are set out on page 43.

At the end of each reporting period, the Audit 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 Committee, with the external auditor also having a direct line of communication to the Board's Chairman. The external auditor is invited to attend Audit Committee meetings each quarter and addresses the Audit Committee in the absence of members of management. In addition, the external auditor is invited by the Audit Committee to attend the Annual General Meeting of the Bank and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report. The Audit Committee is also responsible for making recommendations to the Board regarding the nomination of external auditors to the Group and reviewing the adequacy of existing external audit arrangements.

KPMG was appointed the Bank's external auditor at its Annual General Meeting in December 1998 and continues in this role. The responsible audit partner must be rotated at least every five years and cannot work on the Bank's audit for a period of two years following a rotation. The Bank's previous responsible audit partner, Mr John Teer, rotated away from the Bank's audit in 2005/06 and was replaced by Mr Paul Reid, also of KPMG. Details of the total fees paid to the auditor are set out in Note 38 of the Full Financial Report.

### Audit independence

St.George has a policy for the provision of non-audit related services by the Bank's auditor under which the prior approval of the Chairman of the Audit Committee is required where non-audit services are sought from the Bank's auditor for which the proposed fee exceeds a specified level. The annual fees payable to the Bank's auditor for non-audit services for which, under the policy, the Audit Committee Chairman's approval is not required, are reviewed by the Audit Committee above specified levels. The fees payable to the Bank's auditor for non-audit services are also set out in Note 38 of the Full Financial Report. The auditor cannot be engaged to provide non-audit services that may materially conflict with its obligations and responsibilities as the Bank's auditor. In addition, the policy prohibits audit firm partners and professional staff (and their families) from directly investing in the Bank's shares, borrowing from the Bank or being a Director or holding an executive position in the Bank which is of significance to the audit.

It is one of the functions of the Audit Committee to assess the performance and independence of the Bank's external auditor and whether the independence of this function is maintained, having regard to the provision of non-audit related services.

## Nomination and Remuneration Committee

### Role

The Nomination and Remuneration Committee meets as required to consider and make recommendations to the Board on the composition of the Board, appropriate criteria for Board membership and performance, the tenure of Directors generally, the remuneration framework for Directors and, where required, the suitability of nominations for the position of Director.

Recommendations are also made by the Nomination and Remuneration Committee to the Board regarding the Bank's recruitment, retention and termination policies and procedures for senior executives.

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 Nomination and Remuneration 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 Nomination and Remuneration Committee makes determinations as required of it under the rules of St.George's employee share/option plans. The Managing Director does not attend parts of meetings which relate to the assessment of the Managing Director's remuneration.

### Composition

The Nomination and Remuneration Committee has a minimum of three members, the majority being independent Directors and is chaired by the Chairman of the Board, or an independent Director.

The current members are J S Curtis, T J Davis (who is the Chairman) and G J Reaney.

### Remuneration policies

The Bank's remuneration policies are set out in the Remuneration Report on pages 54 to 66 of the Directors' Report.

## Due Diligence Committee

### Role

The Due Diligence Committee meets for the purposes of reviewing the planning, memorandum and/or other procedures proposed by the Bank's management for determining the content of disclosure documents to be issued in connection with capital raising or other major transactions proposed to be undertaken by the Bank. It oversees the due diligence and verification conducted in relation to such disclosure documents and recommends to the Board whether such disclosure documents can be issued and monitors compliance with the regulatory regime applicable to such documents.

### Composition

The Due Diligence Committee comprises the members of the Audit Committee; membership is three Non-Executive Directors. The Chairman of the Due Diligence Committee is the Director who holds the position of the Chairman of the Audit Committee.

## Risk Management Committee

### Role

As from July 2006, the compliance role of the Audit and Compliance Committee (as it was then known) was transferred to the Risk Management Committee.

The Risk Management Committee oversees and monitors policies and procedures in relation to credit, liquidity, market, balance sheet and operational risks. In the area of credit risk, the Risk Management 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 and liquidity risks, as well as the strategies and positions taken to manage interest rate risk and the Bank's balance sheet. It oversees and monitors the Bank's compliance with regulatory capital requirements, the compliance systems in place by which management discharges its legal obligations in respect of the Bank's business and the compliance systems and procedures within the Bank by which appropriate disclosure can be made to the Board of the risks just described.

### Composition

The Risk Management Committee has a membership of four Non-Executive Directors.

The current members are R A F England, L B Nicholls (who is the Chairman), G J Reaney and J M Thame.

## Attendance record of Board and Board Committees for 2005/06

| **Board**<br>(Total number of meetings held: 15) | Attended |
|---|---|
| G P Kelly | 15 |
| L F Bleasel (Retired as a Director on 16 December 2005) | 4/5 |
| J S Curtis | 15 |
| T J Davis | 15 |
| R A F England | 15 |
| P D R Isherwood | 14 |
| L B Nicholls | 15 |
| G J Reaney | 14 |
| J M Thame | 15 |

| **Audit Committee**<br>(Total number of meetings held: 5) | Attended |
|---|---|
| L F Bleasel (Resigned as a member on 16 December 2005) | 1/2 |
| J S Curtis | 5 |
| R A F England | 4 |
| P D R Isherwood | 5 |

| **Nomination and Remuneration Committee**<br>(Total number of meetings held: 4) | Attended |
|---|---|
| L F Bleasel (Resigned as a member on 16 December 2005) | 2/2 |
| J S Curtis | 4 |
| T J Davis | 4 |
| G J Reaney | 4 |

| **Due Diligence Committee**<br>(Total number of meetings held: 6)<br>(This Committee considered matters via three (3) circulated resolutions during the period.) | Attended |
|---|---|
| L F Bleasel (Resigned as a member on 16 December 2005) | 0/2 |
| J S Curtis | 5 |
| R A F England | 6 |
| P D R Isherwood | 5 |

| **Risk Management Committee**<br>(Total number of meetings held: 12*) | Attended |
|---|---|
| R A F England | 12 |
| L B Nicholls | 11 |
| G J Reaney | 11 |
| J M Thame | 12 |

* There have been numerous individual proposals circulated to the Risk Management Committee for approval between meetings, which have required consideration of up to two days per month in time for Directors on that Committee.

During the year, Mr Isherwood attended eight (8) Board meetings of St.George Bank New Zealand Limited and Mr Reaney attended four (4) meetings of the BankSA Advisory Board. Mr Curtis attended five (5) Board meetings of the Bank's wealth management subsidiary, Asgard Wealth Solutions Limited, and Mr Thame attended three (3) Board meetings of the Bank's life insurance subsidiary, St.George Life Limited.

## Company Secretary

The Company Secretary, Michael Bowan (BA, LLB (Hons) ANU), was admitted as a New South Wales solicitor in December 1989 and was appointed to his current role as General Counsel and Secretary of St.George Bank on 1 October 2000.

## 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, balance sheet, and liquidity risks are outlined in the Risk Management section of this Annual Report.

## Compliance, ethics and integrity

The Board has a Code of Ethics which sets out the expectations of St.George for 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, avoidance of any conflicts of interest and observance of the law. Particularly, staff members should maintain required records with integrity, reflecting transactions in an accurate and timely manner.

The Code of Ethics also encourages staff to report in good faith suspected unlawful/unethical behaviour in others, and provides an avenue of communication through the General Counsel and Secretary for staff to report suspected offences.

In addition, St.George has a Whistleblower Policy which sets out the procedure for dealing with reports of suspected improper conduct within the St.George Group, and the protection of the individuals making those reports. All St.George staff have a responsibility and are encouraged to report any known or suspected incidences of improper conduct by making a protected disclosure in accordance with the Whistleblower Policy. It is the responsibility of all St.George personnel to ensure the welfare of the whistleblower, by refraining from any activity that is, or could be perceived to be, victimisation or harassment of the whistleblower.

In compliance with Section 195 of the Corporations Act 2001, any Director who has a material personal interest in a matter that is being considered at a Directors' meeting must not be present while that matter is being considered and must not vote on the matter. Furthermore, any Director who has a conflict of interest regarding any matter being considered by the Directors will not receive a copy of the paper dealing with the matter.

## St.George trading policy

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 financial products by Directors and senior officers. A copy of the St.George Trading Policy is available on the St.George website.

Directors and employees are encouraged to be long-term holders of the Bank's financial products. Directors, senior management and those members of staff with access to market-sensitive information, however, are only permitted to deal in the Bank's financial products in certain window 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 or the issue of a prospectus.

Any Director or employee wishing to buy or sell the Bank's financial products or exercise options over the Bank's financial products must advise the Chairman (in the case of Directors) or the Bank's Secretary (in the case of an employee) of their intention to do so before buying or selling the financial products or exercising options. Any employee who is a member of the Bank's Group Executive Management team or its equivalent must obtain the Bank's Managing Director's consent before entering into any financial products which operate to limit the economic risk of a holding in the Bank's securities.

Directors and employees must not buy or sell the financial products or exercise their options until approval has been given by the Chairman, the Bank's Secretary or the Managing Director (as the case may be).

The Bank is also obliged to advise the ASX of Directors' dealings in its financial products.

For the purposes of this Policy, 'financial products' includes the Bank's shares and debt securities, financial products issued or created over its securities by third parties, and associated products which operate to limit the economic risk of a holding in the Bank's securities.

Directors are required to have shareholdings in the Bank. Under the Constitution, a Director's required shareholding is no less than 500 shares.

## Further information

As part of its commitment to achieving best practice in corporate governance, St.George regularly reviews its corporate governance policies and, where appropriate, updates them. St.George has a Corporate Governance section on its website at www.stgeorge.com.au, where there is information on its corporate governance arrangements, including copies of the relevant St.George policies and the Board and Committee Charters.

# Risk Management

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

Credit processes are typically structured so that loan origination, approval, document 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 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.

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

Various prudential limits are in place to assist with the diversification of the portfolio. These include limits on counterparties, individual securities or developments, industries and geographies. Prudential limits are approved by the Bank's Board Risk Management Committee.

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 $25 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 to policies and strategies determined by the Bank's Asset and Liability Committee (ALCO).

These include:

- 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;
- maintaining a diversified used funding capacity in wholesale and retail markets; and
- monitoring liquidity flows while quickly identifying any anomalies.

## 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 availability.

To minimise funding risk, the consolidated entity raises wholesale funds from well diversified sources encompassing 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. Movements in interest rates can affect earnings and the value of the consolidated entity. Interest rate risk management policy aims to minimise fluctuations in earnings over time from volatility in movements in interest rates while maximising shareholder value.

### (i) Interest rate risk in non-trading activities

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

The 'gap position' between on and off balance sheet assets and liabilities repricing is managed with derivative products, particularly swaps and options, and on balance sheet strategies.

Interest rate risk also arises from the impact of interest rate changes on pricing relationships between retail and wholesale assets and liabilities. The risk is monitored through simulation modelling which estimates the impact on net interest earnings and value due to changes in interest rates and/or the size and mix of the balance sheet.

The simulation model integrates risk parameters, product design and pricing policies and balance sheet and yield curve forecasts. 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 is the potential for losses arising from adverse movements in the level of market factors such as foreign exchange rates, interest rates or exchange rate volatilities. Trading activities give rise to market risk. This risk is controlled by an overall risk management framework that incorporates a number of market risk measurements including value at risk (VaR). VaR is a statistical estimate of the potential loss that could be incurred if the Bank's trading positions were maintained for a defined period of time. A confidence level of 99 per cent is used at St.George; this implies that for every 100 days, the loss will not exceed the VaR limit of 99 of those days. VaR is not an estimate of the maximum loss the trading activities could incur from an extreme market event.

VaR measurements are supplemented by a series of stress tests that are used to capture the possibility of extreme events or market shocks. Additionally, the market risk framework includes enforcing stoploss limits on all portfolios, basis point sensitivity limits, specific options limits and control of large or unusual trading activity.

St.George uses Monte Carlo simulation to calculate VaR. This model takes into account all relevant market variables. It is approved by APRA for regulatory purposes and is operated within the overall framework outlined in the APRA Prudential Standards. Actual and hypothetical profit and loss outcomes are monitored against VaR on a daily basis as part of the model validation process. Hypothetical profit and loss involves holding a portfolio constant, thereby excluding any intraday trading activity.

## Operational risk

Operational risk is the risk of loss, including reputation, resulting from failed internal processes, people and systems or from external events. The operational risk management function ensures the Group has appropriate controls to mitigate potential operational risks.

Various techniques are utilised by the operational risk management functions to manage, mitigate, monitor and report on operational risk exposures, related controls and the trends associated with various key risk indicators. A documented framework includes policy and procedures expected of the operational risk management functions within the Bank.

The operational risk function facilitates informed decision making and promotes a consistent risk culture within the Group. The Group intends to implement the Advanced Measurement Approach under Basel II to calculate operational risk capital.

## Derivative financial instruments

### Definition

A derivative is a financial instrument providing 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

Business continuity management is a key component of St.George's sustainability, ensuring the Group can respond to and recover from major incidents. The Bank's Business Recovery Plans document a coordinated response to facilitate the recovery of critical business processes and services in the event of major damage or loss of service.

# 5 Year Financial Summary

| | | Full AIFRS | | Previous GAAP | | |
|---|---|---|---|---|---|---|
| | | **2006** | 2005 | 2004 | 2003 | 2002 |
| **Statement of Financial Performance** | | | | | | |
| Interest Income | $m | **6,814** | 5,916 | 4,116 | 3,434 | 3,064 |
| Interest Expense | $m | **4,799** | 4,055 | 2,504 | 1,983 | 1,731 |
| Net Interest Income | $m | **2,015** | 1,861 | 1,612 | 1,451 | 1,333 |
| Other Income | $m | **994** | 860 | 975 | 910 | 852 |
| Bad and Doubtful Debts Expense | $m | **144** | 128 | 112 | 102 | 87 |
| Operating Expenses | $m | **1,356** | 1,296 | 1,342 | 1,278 | 1,429 |
| Share of Net Profit/(Loss) of Equity Accounted Associates | $m | **-** | 3 | 2 | (3) | (1) |
| Profit before Income Tax | $m | **1,509** | 1,300 | 1,135 | 978 | 668 |
| Income Tax Expense | $m | **445** | 399 | 372 | 325 | 240 |
| Profit after Income Tax | $m | **1,064** | 901 | 763 | 653 | 428 |
| Net (Loss)/Profit Attributable to Minority Interests | $m | **(4)** | (5) | (4) | (5) | 1 |
| Net Profit Attributable to Members of the Bank | $m | **1,068** | 906 | 767 | 658 | 427 |
| Preference Dividends | $m | **20** | 17 | 50 | 52 | 58 |
| Profit Available to Ordinary Shareholders | $m | **1,048** | 889 | 717 | 606 | 369 |
| Return on Average Assets | | | | | | |
| – before goodwill impairment/amortisation, significant items and non-trading derivatives | % | **1.05** | 1.03 | 1.30 | 1.31 | 1.26 |
| – after goodwill impairment/amortisation, significant items and non-trading derivatives | % | **1.07** | 1.03 | 1.14 | 1.13 | 0.80 |
| Return on Average Ordinary Equity | | | | | | |
| – before goodwill impairment/amortisation, significant items and non-trading derivatives | % | **22.91** | 22.10 | 21.42 | 20.30 | 19.54 |
| – after goodwill impairment/amortisation, significant items and non-trading derivatives | % | **23.40** | 21.92 | 18.73 | 17.23 | 11.73 |
| Return on Average Risk Weighted Assets | % | **2.03** | 2.00 | 1.92 | 1.91 | 1.38 |
| Operating Expenses as a % of Average Assets (1) | % | **1.31** | 1.45 | 1.82 | 2.00 | 2.13 |
| Expense to Income Ratio (1) | % | **44.0** | 47.1 | 47.5 | 49.6 | 52.4 |
| (1) Before goodwill impairment/amortisation, significant items and non-trading derivatives | | | | | | |
| Net interest margin | % | **2.11** | 2.21 | 2.70 | 2.76 | 2.80 |

| | | Full AIFRS | Statutory AIFRS | | Previous GAAP | |
|---|---|---|---|---|---|---|
| **Statement of Financial Position** | | | | | | |
| Total Assets | $m | **107,002** | 92,359 | 69,960 | 62,714 | 55,004 |
| Liquids and Treasury Securities | $m | **9,996** | 9,451 | 7,166 | 6,523 | 6,822 |
| Loans and Other Receivables | $m | **81,516** | 72,949 | 54,782 | 48,904 | 42,767 |
| Other Assets | $m | **15,490** | 9,959 | 8,012 | 7,287 | 5,415 |
| Total Liabilities | $m | **101,659** | 86,972 | 64,931 | 58,349 | 51,166 |
| Deposits and Other Borrowings | $m | **54,633** | 49,175 | 46,083 | 45,291 | 38,394 |
| Bonds and Notes and Loan Capital | $m | **36,625** | 27,874 | 11,388 | 6,628 | 8,305 |
| Other Liabilities | $m | **10,401** | 9,923 | 7,460 | 6,430 | 4,467 |
| Total Shareholders' Equity | $m | **5,343** | 5,387 | 5,029 | 4,365 | 3,838 |
| Shareholders' Equity as % of Total Assets | % | **4.99** | 5.83 | 7.19 | 6.96 | 6.98 |
| Capital Adequacy | | | | | | |
| – Tier 1 Capital | % | **6.9** | 7.3 | 7.3 | 7.2 | 7.5 |
| – Tier 2 Capital | % | **4.0** | 3.9 | 3.9 | 3.2 | 3.4 |
| – Less: Deductions | % | **(0.1)** | (0.1) | (0.1) | (0.1) | (0.1) |
| Total | % | **10.8** | 11.1 | 11.1 | 10.3 | 10.8 |
| Risk Weighted Assets | $m | **52,982** | 47,864 | 42,581 | 36,903 | 32,495 |
| **Receivables** | | | | | | |
| Residential | $m | **62,697** | 56,292 | 39,273 | 34,991 | 30,527 |
| Commercial | $m | **12,323** | 11,981 | 11,447 | 10,202 | 8,975 |
| Consumer | $m | **6,120** | 4,719 | 4,070 | 3,610 | 3,104 |
| Other | $m | **644** | 176 | 201 | 277 | 313 |
| Receivables before Collective/General Provision | $m | **81,784** | 73,168 | 54,991 | 49,080 | 42,919 |
| Collective/General Provision | $m | **268** | 219 | 209 | 176 | 152 |
| Net Loans and Other Receivables | $m | **81,516** | 72,949 | 54,782 | 48,904 | 42,767 |

| | | Full AIFRS | | Previous GAAP | | |
|---|---|---|---|---|---|---|
| **Share Information** | | | | | | |
| Dividend per Ordinary Share | | | | | | |
| – Interim | Cents | **74** | 67 | 60 | 45 | 38 |
| – Final | Cents | **77** | 70 | 62 | 50 | 42 |
| Total | Cents | **151** | 137 | 122 | 95 | 80 |
| Earnings per Ordinary Share | | | | | | |
| Basic | | | | | | |
| – before goodwill impairment/amortisation, significant items and non-trading derivatives | Cents | **195.8** | 173.1 | 160.8 | 142.2 | 124.7 |
| – after goodwill impairment/amortisation, significant items and non-trading derivatives | Cents | **199.9** | 171.7 | 140.6 | 120.7 | 74.8 |
| Diluted | | | | | | |
| – before goodwill impairment/amortisation, significant items and non-trading derivatives | Cents | **194.4** | 171.8 | 160.0 | 141.7 | 124.1 |
| – after goodwill impairment/amortisation, significant items and non-trading derivatives | Cents | **198.4** | 170.5 | 140.3 | 120.8 | 76.0 |
| Dividend Payout Ratio | % | **75.7** | 80.0 | 87.4 | 79.2 | 107.6 |
| Net Tangible Assets per Ordinary Share | $ | **6.73** | 6.01 | 5.58 | 4.86 | 3.68 |
| **Other Statistics** | | | | | | |
| Branches | | **390** | 390 | 391 | 404 | 406 |
| Staff | | **7,949** | 7,880 | 7,541 | 7,325 | 7,342 |
| Assets per Staff | $m | **13.5** | 11.7 | 9.3 | 8.6 | 7.5 |
| Staff per $m Assets | | **0.07** | 0.09 | 0.11 | 0.12 | 0.13 |

St.George Bank Limited and its Controlled Entities

# Concise Financial Report

For the year ended 30 September 2006

## Contents

Page



The financial statements and other specific disclosures are an extract of, and have been derived from the St.George Bank Limited and its Controlled Entities ("Group") Full Financial Report for the financial year. Other information included in the Concise Financial Report is consistent with the Group's Full Financial Report.

The Concise Financial Report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the Full Financial Report.

A copy of the Group's 2006 Full Financial Report, including the independent audit report, is available to all shareholders, and will be sent to shareholders without charge upon request.

# Directors' Report

For the year ended 30 September 2006

The Directors of St.George Bank Limited present their report together with the Concise Financial Report of the consolidated entity ("the Group"), being St.George Bank Limited ("the Bank") and its controlled entities, for the year ended 30 September 2006.

## Directors

The names of the Directors of the Bank at any time during the financial year or since the end of the financial year together with details of current Directors' qualifications, experience and special responsibilities are contained in the "Board of Directors" information in the Concise Financial Report.

Mr Len Bleasel, a former Director of the Bank, retired on 16 December 2005.

## Directors' Meetings

The number of Directors' meetings (including meetings of committees of Directors) held during the financial year that Directors were eligible to attend and attended are set out in the Corporate Governance Statement in the Concise Financial Report.

This information is to be regarded as incorporated into this report.

## Company Secretary

The qualifications, experience and date of appointment of the Company Secretary are contained in the Corporate Governance Statement in the Concise Financial Report.

## Remuneration Report

This report sets out the remuneration disclosure requirements of Accounting Standard AASB 124: "Related Party Disclosures" that have been audited. The report also contains details of remuneration required by section 300A(1) of the Corporations Act 2001 and the Corporations Regulations 2001, that have not been audited.

The Remuneration Report comprises the following items:

A1 – Nomination and Remuneration Committee

A2 – Key Management Personnel (KMP) and Other Senior Executives

A3 – Executive Remuneration Strategy

A4 – Executive Remuneration Structure

A5 – Relationship of Incentives to the Group's Financial Performance

A6 – Service Agreements – Group Executives

A7 – Remuneration of Group Executives

A8 – Non-Executive Directors' Remuneration Policy

A9 – Remuneration of Executive and Non-Executive Directors

A10 – Performance Conditions for Options and Awards.

### A1 – Nomination and Remuneration Committee (Committee) – audited

The Committee is responsible for overseeing the Group's remuneration arrangements. The key functions of the Committee are:

- to consider and make recommendations to the Board on the composition of the Board, appropriate criteria for Board membership and performance, the tenure of Directors generally, the remuneration framework for Directors and where required, the suitability of nominations for the position of Director;
- to review and make recommendations to the Board for Board succession plans;
- to review and make recommendations to the Board with respect to the remuneration to be paid by the Group to its Managing Director and Group Executives;
- to review and make recommendations to the Board regarding the Group's recruitment, retention and termination policies and procedures for senior executives;
- to review and make recommendations to the Board on the various material remuneration, incentive and reward programs within the Group; and
- to make determinations and recommendations, as appropriate, in accordance with the rules of the Group's various employee and executive share and option plans.

Composition

Minimum of three members, the majority being independent Directors.

Chairman

Chaired by the Chairman of the Board or an independent Director.

Other Usual Attendees at Meetings

Managing Director

Group Executive, Human Resources

Company Secretary (Committee Secretary)

Meetings

At least four times a year. The Committee may also meet at such other times as considered appropriate.

Quorum

Three members.

Availability of Documents

The following material is publicly available, and updated as required, by posting the material on the Group's website in a clearly marked corporate governance section:

- a description of the procedure for the selection and appointment of new Directors to the Board;
- the charter of the Committee and a summary of the role, rights, responsibilities and membership requirements for that Committee; and
- the Committee's policy for the appointment of Directors.

### A2 – Key Management Personnel (KMP) and Other Senior Executives – audited

This report covers the remuneration arrangements for Directors, Group Executives and other senior executives.

Directors include the Bank's Managing Director and Non-Executive Directors of the Bank.

Group Executives are those executives with the greatest authority for managing and setting the strategic direction of the Group and include the five highest paid executives of the Group for the 30 September 2006 financial year.

Other senior executives are those executives who are participants of the Group's Medium Term Incentive Plan (MTIP).

### A3 – Executive Remuneration Strategy – audited

The Committee recognises that the Group operates in a competitive environment where the key to achieving sustained improvements in the Group's performance is through its people.

The key principles of the Group's Executive Remuneration Strategy are:

- alignment with the interests of and creation of value for shareholders;
- the application of rigorous individual and corporate performance measures including financial and non-financial measures;
- a focus on short, medium and long term performance outcomes; and
- the delivery of competitive performance based rewards designed to attract, motivate, reward and retain key executives.

## Remuneration Report continued

### A4 – Executive Remuneration Structure – audited

St.George operates a Total Reward Opportunity (TRO) structure for executives. The TRO consists of two components:

- base (fixed) remuneration; and
- at risk remuneration (including short, medium and long term incentives).

The Committee reviews and recommends to the Board the TRO for the Managing Director and Group Executives annually. The Group Executives review and in turn recommend to the Managing Director the TRO for other senior executives annually.

The TRO for each executive is set having regard to independent advice from external consultants, Egan Associates, on competitive market practice for that position. When reviewing the TRO, each component is reviewed with a view to ensuring that the right balance is achieved between fixed and at risk remuneration.

The executive's TRO is targeted at the 75th percentile of comparable positions, and will only be achieved if the individual executive's and the Group's performance targets are met.

The Group has endorsed a move to a greater component of at risk remuneration for executives, where it is competitive within the market to do so. The Committee has set targets for the proportion of at risk remuneration to be achieved as a proportion of TRO. These indicative targets and prevailing market data for the position may vary depending upon the level and the nature of the executive's position.

#### Base (Fixed) Remuneration

Base remuneration provides fixed remuneration on a total cost-to-company basis, which includes any fringe benefits tax charges relating to employee benefits and also employer superannuation contributions. The amount of base remuneration is established with reference to independent market research, considering the scope and nature of the role and the executive's individual performance and experience.

There are no guaranteed increases to base remuneration in any of the service agreements of the Managing Director, Group Executives or other senior executives.

The base remuneration of the Managing Director and Group Executives for the 30 September 2006 and 30 September 2005 years is disclosed in sections A7 and A9 of this report. Base remuneration is generally reviewed annually and applies for the period 1 October to 30 September each year.

#### At Risk Remuneration

At risk remuneration comprises Short, Medium and Long Term incentives.

*Short Term Incentive (STI)*

Short term incentives may be delivered in two forms:

- Annual (STIA) – An annual cash incentive opportunity that is subject to the achievement of targets (Key Performance Indicators (KPIs)) set at the beginning of the financial year. The STIA can be paid in cash, or salary sacrificed and received as shares or as a superannuation contribution (at the individual's election).
- Deferred (STID) – A deferred incentive opportunity that is also an outcome of the KPI achievements and is subject to tenure based restrictions. The STID may be satisfied (depending on the level of the participant) by the granting of awards under the Performance Plan or paid as cash, or salary sacrificed and received as shares or as a superannuation contribution (at the individual's election).

*Medium Term Incentive (MTI)*

MTIs are delivered by the granting of an award under the Performance Plan. The award represents a right to an ordinary share in the Bank that is restricted and at risk subject to the achievement of applicable performance conditions and tenure.

*Long Term Incentive (LTI)*

LTIs are delivered by the granting of options under the Option Plan and awards under the Performance Plan. The options or awards represent a right to ordinary shares in the Bank, subject to the achievement of applicable tenure and performance conditions. In the case of options, the exercise price must be paid by the holder to exercise the option. The exercise price represents the market value of the Bank's ordinary shares at the grant date. The market value represents the volume weighted average price (VWAP) traded during the five trading days prior to and including the grant date, calculated in accordance with the Performance and Option Plan rules.

#### Managing Director's Remuneration

The service agreement of the Managing Director, Mrs G P Kelly, was amended on 17 November 2004 from a five-year fixed term agreement to an agreement that will continue indefinitely until terminated in accordance with its notice periods specified in point 10 below. The Managing Director commenced employment on 14 January 2002.

Each year, the Committee reviews and recommends to the Board the TRO and KPIs in the form of a Balanced Scorecard to apply to the Managing Director for the coming year and determines the STI to be awarded based on performance achievements over the past financial year.

The remuneration of the Bank's Managing Director comprises base remuneration and at risk remuneration. At risk remuneration includes both short and long term incentives.

The at risk remuneration of the Managing Director forms a substantial part of the TRO for that position and is contingent on the achievement of Group and individual goals set by the Board, including Financial, Customer, People, Risk and Compliance and Strategy outcomes. The Managing Director does not participate in the Committee's deliberations on her own remuneration.

The principal features of the remuneration arrangements for the Bank's Managing Director for the year ended 30 September 2006 are as follows:

(1) base annual remuneration of $1,770,000 and an STI opportunity of up to 120% of base annual remuneration that is subject to the achievement of KPIs (as determined by the Board of Directors);

(2) where the STI outcome exceeds 100% of the base annual remuneration in the Bank's 30 September 2006, 30 September 2007 or 30 September 2008 financial years, the Bank will satisfy this component through the granting of awards under the Performance Plan. Shares to satisfy this grant are purchased on market, held in trust and restricted for a period of three years from the grant date (shareholders having approved at the 2005 Annual General Meeting the use of up to 100,000 ordinary shares over the three year period for this purpose). The Managing Director will be entitled to receive dividend distribution payments following the Board's determination on awards granted. The number of awards to be granted will be determined using the VWAP traded during the five trading days prior to and including the commencement of the remuneration year, i.e. 1 October 2005 for the 2005/06 financial year. The grant date will be 1 October each year, being the commencement of the performance period, though the Managing Director must remain an employee of the Bank for the duration of the three year period in order for a beneficial interest in the

**Remuneration Report** continued

shares to be transferred to the Managing Director. The awards will be forfeited if the Managing Director leaves her employment with the Bank before the end of the three year period and the dividend payments will cease. In circumstances where the Board exercises its discretion to waive this condition, for example, redundancy, retirement or death, the shares held on trust will be transferred to her at the end of the relevant three year period or earlier at the Board's discretion;

(3) payment of termination benefits – there is no specific entitlement to receive a payment if the Bank is acquired, except for a bona fide takeover where the options and awards become exercisable (refer point (4)) or where there is a material diminution in the Managing Director's role or responsibilities (refer point (8)). STI shares held in trust may be transferred to the Managing Director at the Board's discretion (refer point (2));

(4) 1,000,000 options were granted on 12 December 2001, subject to performance conditions and vest over 4.5 years from the grant date. The first tranche of 250,000 options vested and were exercised on 23 November 2004. The second tranche of 250,000 options vested and were exercised on 7 November 2005. The third tranche of 500,000 options vested and were exercisable from 12 June 2006. On 1 October 2004, 500,000 options and 57,600 awards were granted, subject to performance conditions as outlined in section A10. The first tranche of 125,000 options and 14,400 awards vested and were exercisable from 30 September 2006. The second tranche of 125,000 options and 14,400 awards will be assessed on 30 September 2007 and the final tranche of 250,000 options and 28,800 awards will be assessed on 30 September 2008. These options and awards are exercisable at the discretion of the Board if a bona fide takeover bid for the Bank becomes unconditional;

(5) should the Managing Director terminate the service agreement (unless she does so because there has been a material diminution in her role and responsibilities), she will only receive statutory entitlements;

(6) should the Bank terminate the service agreement because of a breach by the Managing Director, only statutory entitlements will be payable;

(7) should the Bank terminate the service agreement for reasons other than a breach by the Managing Director, an amount equal to the base annual remuneration then applying is payable by the Bank;

(8) should the Managing Director terminate the contract because there has been a material diminution in her role and responsibilities, an amount equal to twice her base annual remuneration then applying will be payable by the Bank as well as statutory entitlements;

(9) in situations (7) and (8), the Bank must also pay the Managing Director an amount as approved by the Board to reflect both the Managing Director's performance and that of the Bank against the KPIs established by the Board for paying her STI. In addition, should situation (7) or (8) occur, then within 12 months of that occurrence, the Managing Director will also be entitled to exercise some or all of those awards and options referred to in point (4) above, subject to satisfaction of relevant performance conditions relating to Earnings Per Share (EPS) and/or Total Shareholder Return (TSR) as applicable;

(10) the notice periods for termination without cause of the agreement relating to the Managing Director's employment are:

(a) by the Board – twelve months; and

(b) by the Managing Director – six months.

Group Executives' At Risk Remuneration
The remuneration of the Group Executives comprises base remuneration and at risk remuneration. At risk remuneration includes both short and long term incentives. The Long Term Incentive (LTI) is delivered under the Executive Performance Share Plan (Performance Plan) and Executive Option Plan (Option Plan).

STIA and STID
Each year, the Managing Director sets the KPIs in the form of a Balanced Scorecard for the Group Executives that the Committee recommends for approval by the Board. The KPIs generally include measures relating to the Group, the Division and the individual, and include Financial, Customer, People, Risk and Compliance and Strategy outcomes. The KPIs have been chosen because they directly align the individual's rewards to the key performance drivers of the Group that are set at the beginning of the financial year. In all cases, these KPIs are transparent, challenging and relevant to the Group's strategy and performance.

At the end of the financial year, the Committee assesses the actual performance of the Group, the Division and the individual against the KPIs set at the beginning of the financial year. Based on the outcome, the Committee then recommends the STIA and STID to be paid to the Group Executives for approval by the Board. This method of assessment was chosen as it provides the Committee with an objective assessment of the Group Executives' performance.

Once the Board has approved the STIA and STID amounts, the STIA is paid to the participant as cash or salary sacrificed into superannuation or shares (at the individual's election). The STID is satisfied through the granting of an award under the Performance Plan. Shares to satisfy this grant are purchased on market, held in trust and restricted from sale for a period of three years from the grant date. The Group Executive will be entitled to receive dividend distribution payments following the Board's determination. The grant date for the STID is 1 October each year, being the commencement of the STID performance period, though the Group Executive must remain an employee of the Bank for the duration of the three year period in order for the beneficial interest in the shares to be transferred to the Group Executive. The STID will be forfeited if the Group Executive leaves the Bank before the end of the three year vesting period and the dividend distribution payment will cease. In circumstances where the Board exercises its discretion to waive this condition, for example, redundancy, retirement or death, the shares held on trust will be transferred at the end of the relevant three year period or earlier at the Board's discretion.

LTI
LTIs are provided by participation in the Performance and Option Plans, both approved by shareholders on 3 February 1998. LTI allocations are subject to tenure and performance hurdles established by the Committee and approved by the Board from time to time.

The existing performance conditions are based on the achievement of EPS and TSR outcomes over the measurement period, and provide for substantial growth in St.George's EPS as well as an appropriate market focused TSR hurdle.

An overview of the performance conditions for each grant of awards and options impacting remuneration in the 2006 and 2005 years are outlined in section A10.

## Remuneration Report continued

### Other Senior Executives – At Risk Remuneration

Other senior executives' remuneration comprises base and at risk remuneration. At risk remuneration includes both Short and Medium Term Incentives (MTI). The MTI is delivered under the Performance Plan.

Each year, participants have KPIs established in the form of a Balanced Scorecard. The KPIs include measures relating to St.George and the individual and include Financial, Customer, People, Risk and Compliance and Strategy outcomes.

The performance against the Balanced Scorecard is used to determine both the quantum of the STIA and STID to be paid and the number of awards that will be granted to the executive under the MTI. The grant date for purposes of establishing the five day VWAP of St.George shares awarded under the MTI is 1 October each year, being the commencement of the performance period that the MTI is being assessed against.

Individual performance outcomes against Balanced Scorecard KPIs are assessed at the end of the financial year and payment recommendations submitted to the Managing Director for approval. Once the Managing Director has approved individual STIA and STID outcomes, the STIA is paid to the participant as cash or salary sacrificed into superannuation or shares at the individual's election. The STID will only be paid if the executive remains employed one year from the end of the performance period.

The MTI component of the incentive plan is subject to the same performance measures outlined in the LTI, being EPS and TSR. The exercise conditions provide for substantial growth in St.George's EPS as well as market based comparative TSR performance.

### A5 – Relationship of Incentives to the Group's Financial Performance – unaudited

Performance conditions for payment of any STIA or STID comprise a mix of financial and non-financial measures. The financial measures include targets for operating profit after tax, revenue growth, cost control, and financial ratios, and are tailored to the executive's responsibilities and accountabilities.

LTI performance conditions comprise the Group's financial measures including EPS and/or TSR hurdles. The hurdles are measured from the grant date and are tested over the vesting period. If the hurdles are not achieved on the prescribed exercise date, they are capable of being retested up to the final prescribed exercise date of the final tranche of the options or awards.

The Board considers that the above incentives are linked to and foster the achievement of the desired financial outcomes for the Group. The success of these incentive arrangements is demonstrated by the Group's strong growth in operating profit after tax in recent years and improvements in key financial ratios, resulting in increases in shareholder returns.

The improved financial performance and benefits for shareholder wealth derived from the Group's executive incentive arrangements are demonstrated in the following results:

| Year Ended 30 September | **2006** (iii) | 2005 (iv) | Previous AGAAP 2004 | Previous AGAAP 2003 | Previous AGAAP 2002 |
|---|---|---|---|---|---|
| EPS (i) (cents) | **195.8** | 177.5 | 160.8 | 142.2 | 124.7 |
| Annual EPS Growth (i) (%) | **10.3** | 10.4 | 13.1 | 14.0 | 22.7 |
| Dividends per Share (cents) | **151** | 137 | 122 | 95 | 80 |
| Share Price Increase (ii) ($) | **2.35** | 6.04 | 1.36 | 2.79 | 2.52 |

i) Before goodwill impairment and significant items. The 30 September 2006 year also excludes non-trading derivatives and hedging fair value movements.
ii) Share price movement during the financial year.
iii) EPS and EPS growth are not measured on a like for like basis as 30 September 2005 EPS excludes the impact of AIFRS financial instruments standards adopted from 1 October 2005.
iv) EPS and EPS growth are not measured on a like for like basis compared to 30 September 2004, which has been prepared on a previous GAAP basis.

### A6 – Service Agreements – Group Executives – audited

The Bank has entered into service agreements with each Group Executive that provide for the payment of benefits where the service agreement is terminated by the Bank or the Group Executive. The service agreements are not fixed term and generally provide for the following:

(1) where the Bank terminates the service agreement other than for misconduct, then a payment of between 12 and 15 months base remuneration is payable by the Bank depending upon the conditions of each individual service agreement as well as statutory entitlements;

(2) where the Group Executive terminates the service agreement because of a material diminution in his/her role or responsibility, then in addition to point (1) a further amount will be payable by the Bank as detailed below:

(a) 7 weeks base remuneration in respect of the first year of the Group Executive's service or part thereof; and
(b) 4 weeks base remuneration for each additional year's service between 2-10 years; and
(c) 3 weeks base remuneration for each additional year's service between 11-16 years; and
(d) 2 weeks base remuneration for each additional year's service between 17-25 years; and
(e) an additional 1 week's base remuneration for each year of service where the executive is age 45 years or more;
provided any such payment does not exceed the maximum of 104 weeks of base remuneration;

(3) where the Group Executive is terminated immediately and without notice for misconduct, statutory entitlements only are payable.

Group Executives who exit the Bank during a given performance year (1 October to 30 September) will generally not receive an STIA or STID payment for that year except in the circumstances of redundancy, retirement or death. In those circumstances a pro-rata payment may be made based upon the length of service during the performance year and their performance.

**Remuneration Report** continued

LTI grants are generally forfeited where the Group Executive resigns or is dismissed. In circumstances of redundancy, retirement or death, the Group Executive or their estate, may be entitled to exercise some or all of the awards and options that have been granted, subject to satisfaction of relevant performance conditions relating to EPS and/or TSR as applicable.

The name, position held, employment commencement date and resignation date (where applicable) of the Bank's Group Executives are as follows:

| Name | Position | Employment Commencement Date |
|---|---|---|
| **Current** | | |
| G Bartlett | Group Executive – Institutional and Business Banking | 8 March 1982 |
| R Chapman | Managing Director BankSA | 1 July 2002 |
| P Clare | Group Executive – Strategy | 25 February 2002 |
| P Fegan | Group Executive – Wealth Management and Retail Financial Services | 22 July 2002 |
| D Gall | Group Executive – Retail Business | 17 April 1989 |
| J Loebenstein | Group Executive – Information Technology | 20 February 1995 |
| S McKerihan | Chief Financial Officer | 4 November 1985 |
| B Wright | Group Executive – Human Resources | 3 July 2000 |
| **Former** | | |
| A Thorburn | Group Executive – Personal Customers (resigned 1 December 2004) | 24 June 2002 |

**A7 – Remuneration of Group Executives – audited**

Details of the nature and amount of each major element of remuneration for St.George's Group Executives are as follows:

| | Short Term Benefits | | | Long Term Benefits | Post Employment Benefits | Share Based Payments | | |
|---|---|---|---|---|---|---|---|---|
| $ '000 | Base Remuneration (A) | Short Term Incentive (B) | Non Monetary Benefits (C) | Long Service Leave (D) | Superannuation Contributions (E) | Options (F) | Shares (G) (H) | Total |
| **2006** | | | | | | | | |
| G Bartlett (E) (I) | 706 | 650 | 10 | 49 | 12 | 102 | 253 | 1,782 |
| R Chapman | 503 | 450 | – | 15 | 12 | 81 | 139 | 1,200 |
| P Clare (I) | 631 | 450 | – | 13 | 12 | 134 | 117 | 1,357 |
| P Fegan (I) | 733 | 743 | – | 14 | 12 | 106 | 333 | 1,941 |
| D Gall (I) | 626 | 450 | 2 | 35 | 12 | 93 | 123 | 1,341 |
| J Loebenstein | 626 | 400 | – | 19 | 12 | 55 | 179 | 1,291 |
| S McKerihan (E) (I) | 830 | 550 | – | 46 | 12 | 89 | 288 | 1,815 |
| B Wright | 571 | 375 | – | 13 | 12 | 107 | 82 | 1,160 |
| | 5,226 | 4,068 | 12 | 204 | 96 | 767 | 1,514 | 11,887 |
| **2005** | | | | | | | | |
| G Bartlett (E) (I) | 597 | 600 | 9 | 28 | 12 | 106 | 137 | 1,489 |
| R Chapman | 468 | 400 | – | 16 | 12 | 78 | 63 | 1,037 |
| P Clare (I) | 501 | 400 | – | 11 | 12 | 114 | 58 | 1,096 |
| P Fegan (E) (I) | 637 | 650 | – | 13 | 12 | 97 | 186 | 1,595 |
| D Gall | 321 | 305 | 3 | 53 | 7 | 23 | 59 | 771 |
| J Loebenstein (I) | 536 | 360 | – | 18 | 12 | 45 | 125 | 1,096 |
| S McKerihan (I) | 726 | 475 | – | 35 | 12 | 70 | 194 | 1,512 |
| B Wright | 524 | 325 | – | 12 | 12 | 86 | 45 | 1,004 |
| | 4,310 | 3,515 | 12 | 186 | 91 | 619 | 867 | 9,600 |
| A Thorburn (resigned 1 December 2004) | 131 | – | – | – | 2 | – | – | 133 |

**Remuneration Report** continued

(A) Base remuneration comprises cash salary, available salary package options grossed-up by related fringe benefits tax where applicable and annual leave expense.

(B) The Short Term Cash Incentive relates to the Group Executives' performance in the nominated financial year.

(C) Includes the benefit relating to an interest free loan provided to Mr G Bartlett and Mr D Gall. Excludes insurance premiums paid in respect of officers' liability insurance contracts. The premium paid has not been allocated to individual officers covered by the insurance policy as, based on all available information, the Directors consider that no reasonable basis for such allocation exists.

(D) Represents the long service leave expense recognised during the financial year.

(E) Includes applicable Superannuation Guarantee Charge. For Group Executives with defined benefit fund entitlements, includes the allocation of the expense for the year determined in accordance with AASB 119: Employee Benefits. Mr G Bartlett and Mr S McKerihan are members of the defined benefit section of the Bank's defined contribution superannuation plan. Their contributions are presently funding their entitlements under this Plan.

(F) The fair value of options is calculated at the grant date using the Binomial method. The number of options used to determine the share based remuneration value is adjusted for estimated forfeiture and then further adjusted for actual forfeiture over the vesting period. The resultant expense is allocated evenly to each reporting period over the period from the grant date to the prescribed exercise date. The following factors were used in determining the fair value of options on the grant date:

| Grant Date | Date first exercisable | Fair value per option $ | Exercise price $ | Price of shares on grant date $ | Estimated volatility % | Risk-free interest rate % | Dividend yield % | Expected life (years) |
|---|---|---|---|---|---|---|---|---|
| 1-Oct-2003 | 30-Sep-2006 | 2.10 | 20.40 | 20.32 | 17.20 | 4.92 | 4.28 | 3.5 |
| 1-Oct-2003 | 30-Sep-2007 | 2.12 | 20.40 | 20.32 | 17.20 | 4.98 | 4.28 | 4.5 |
| 1-Oct-2004 | 30-Sep-2006 | 1.92 | 21.70 | 22.01 | 15.00 | 5.25 | 5.70 | 2.5 |
| 1-Oct-2004 | 30-Sep-2007 | 2.07 | 21.70 | 22.01 | 15.00 | 5.25 | 5.70 | 3.5 |
| 1-Oct-2004 | 30-Sep-2008 | 2.21 | 21.70 | 22.01 | 15.00 | 5.25 | 5.70 | 4.5 |
| 1-Mar-2005 | 30-Sep-2006 | 2.14 | 24.56 | 24.67 | 15.00 | 5.50 | 5.30 | 2.0 |
| 1-Mar-2005 | 30-Sep-2007 | 2.44 | 24.56 | 24.67 | 15.00 | 5.50 | 5.30 | 3.0 |
| 1-Mar-2005 | 30-Sep-2008 | 2.61 | 24.56 | 24.67 | 15.00 | 5.50 | 5.30 | 4.0 |
| 1-Oct-2005 | 30-Sep-2007 | 2.34 | 28.01 | 27.89 | 14.50 | 5.28 | 5.03 | 2.5 |
| 1-Oct-2005 | 30-Sep-2008 | 2.63 | 28.01 | 27.89 | 14.50 | 5.30 | 5.03 | 3.5 |
| 1-Oct-2005 | 30-Sep-2009 | 2.87 | 28.01 | 27.89 | 14.50 | 5.32 | 5.03 | 4.5 |

In accordance with the election available under AASB 2: Share Based Payments, only options granted on or after 7 November 2002 that vest on or after 1 January 2005 have been included in remuneration.

(G) The fair value of awards is determined as follows:

(1) Awards granted on 1 October 2003

– Awards with non-market related performance condition components have their fair value determined using the share price on the grant date.

– Awards with market related performance condition components have their fair value determined using the binomial method at the grant date.

(2) Awards granted after 1 October 2003

– These awards require either an EPS or TSR performance hurdle to be satisfied. The fair value is determined using the share price at the grant date. The fair value is discounted for the present value of dividends not received during the vesting period.

The number of shares used to determine share based remuneration is adjusted for estimated forfeiture at the grant date and then further adjusted over the vesting period for actual forfeiture. The resultant expense is allocated evenly to each reporting period over the period from the grant date to the prescribed exercise date.

In accordance with the election available under AASB 2: Share Based Payments, only awards granted on or after 7 November 2002 that vested on or after 1 January 2005 have been included in remuneration.

(H) Includes the fair value of shares allotted under the Employee Reward Share Plan (Reward Plan) during the year. The Reward Plan provides eligible employees with up to $1,000 of ordinary shares per annum at no cost.

(I) Five highest paid officers of the Bank.

In the year ended 30 September 2006, Group Executives became entitled to receive between 100% and 113% of their STIA opportunity and between 100% and 113% of their STID opportunity for that year (30 September 2005: entitlement was between 100% and 115% of the STIA opportunity for those Group Executives who had not departed the Bank).

## Remuneration Report continued

### Details of Remuneration – unaudited

#### (1) Short Term Incentives Annual (STIA)

Details of the vesting profile of the STIA awarded to each Group Executive on 26 October 2006 in respect of their performance in the 2006 year are as follows:

| Group Executive | Included in remuneration $ '000 (A) | % Vested in year | % Forfeited in year (B) |
|---|---|---|---|
| G Bartlett | 650 | 100 | – |
| R Chapman | 450 | 100 | – |
| P Clare | 450 | 100 | – |
| P Fegan | 743 | 100 | – |
| D Gall | 450 | 100 | – |
| J Loebenstein | 400 | 100 | – |
| S McKerihan | 550 | 100 | – |
| B Wright | 375 | 100 | – |

(A) Amounts included in remuneration for the financial year represent the amount that vested during the financial year based on the achievement of performance criteria established at the beginning of the financial year. No amounts vest in future financial years in respect of the 2006 STIA.

(B) There were no amounts forfeited due to performance criteria not being satisfied during the 2006 financial year.

#### (2) Short Term Incentives Deferred (STID)

Details of the vesting profile of the STID awarded to each Group Executive on 26 October 2006 in respect of their performance in the 2006 year are as follows:

| Group Executive | Included in remuneration $ (A) | Vesting date | % Vested in year | % Forfeited in year | Value yet to vest ($)(B) Min | Max |
|---|---|---|---|---|---|---|
| G Bartlett | 71,092 | 30-Sep-2008 | – | – | – | 213,276 |
| R Chapman | 35,545 | 30-Sep-2008 | – | – | – | 106,635 |
| P Clare | 53,318 | 30-Sep-2008 | – | – | – | 159,954 |
| P Fegan | 104,264 | 30-Sep-2008 | – | – | – | 312,792 |
| D Gall | 63,192 | 30-Sep-2008 | – | – | – | 189,576 |
| J Loebenstein | 39,500 | 30-Sep-2008 | – | – | – | 118,500 |
| S McKerihan | 63,192 | 30-Sep-2008 | – | – | – | 189,576 |
| B Wright | 31,600 | 30-Sep-2008 | – | – | – | 94,800 |

(A) The STID plan was introduced with effect from 1 October 2005. An STID opportunity amount is established at the beginning of the financial year for each Group Executive. Actual entitlement is determined at the end of the financial year subject to satisfying predetermined KPIs. The STID is satisfied through the granting of an award under the Performance Plan. Shares to satisfy this grant will be purchased on market and held in trust and restricted from sale for a period of three years from the grant date. The Group Executive must be an employee of the Bank at the end of this three year period in order for the beneficial interest to be transferred to the Group Executive.

(B) The minimum value of the STID yet to vest is $nil as the Group Executive will not receive their STID if they do not satisfy applicable tenure hurdles.

The maximum amount represents the fair value of the STID entitlement, calculated in accordance with AASB 2: Share Based Payment that relates to future years.

#### (3) Share Based Payments

Details of the vesting profile of options and awards granted as remuneration to each Group Executive that affect remuneration in the 30 September 2006 year or future financial years is as follows:

Options

| Group Executive | Number granted | Date | % Vested in year | % Forfeited in year | Vesting date | Value yet to vest ($) Min | Max |
|---|---|---|---|---|---|---|---|
| G Bartlett | 38,548 | 1-Oct-2003 | 50 | – | 30-Sep-2006 | – | 40,475 |
| | 38,548 | 1-Oct-2003 | – | – | 30-Sep-2007 | – | 81,722 |
| | 18,000 | 1-Oct-2004 | 100 | – | 30-Sep-2006 | – | – |
| | 18,000 | 1-Oct-2004 | – | – | 30-Sep-2007 | – | 37,260 |
| | 18,000 | 1-Oct-2004 | – | – | 30-Sep-2008 | – | 39,780 |
| | 14,564 | 1-Oct-2005 | – | – | 30-Sep-2007 | – | 34,080 |
| | 12,500 | 1-Oct-2005 | – | – | 30-Sep-2008 | – | 32,875 |
| | 11,364 | 1-Oct-2005 | – | – | 30-Sep-2009 | – | 32,615 |

St.George Bank Limited and its Controlled Entities

# Directors' Report

For the year ended 30 September 2006

## **Remuneration Report** continued

Options

| Group Executive | Number granted | Date | % Vested in year | % Forfeited in year | Vesting date | Value yet to vest ($) Min | Max |
|---|---|---|---|---|---|---|---|
| R Chapman | 25,184 | 1-Oct-2003 | 50 | – | 30-Sep-2006 | – | 26,443 |
| | 25,184 | 1-Oct-2003 | – | – | 30-Sep-2007 | – | 53,390 |
| | 16,668 | 1-Oct-2004 | 100 | – | 30-Sep-2006 | – | – |
| | 16,668 | 1-Oct-2004 | – | – | 30-Sep-2007 | – | 34,503 |
| | 16,668 | 1-Oct-2004 | – | – | 30-Sep-2008 | – | 36,836 |
| | 12,136 | 1-Oct-2005 | – | – | 30-Sep-2007 | – | 28,398 |
| | 10,418 | 1-Oct-2005 | – | – | 30-Sep-2008 | – | 27,399 |
| | 9,470 | 1-Oct-2005 | – | – | 30-Sep-2009 | – | 27,179 |
| P Clare | 30,838 | 1-Oct-2003 | 50 | – | 30-Sep-2006 | – | 32,380 |
| | 30,838 | 1-Oct-2003 | – | – | 30-Sep-2007 | – | 65,377 |
| | 30,334 | 1-Oct-2004 | 100 | – | 30-Sep-2006 | – | – |
| | 30,334 | 1-Oct-2004 | – | – | 30-Sep-2007 | – | 62,791 |
| | 30,334 | 1-Oct-2004 | – | – | 30-Sep-2008 | – | 67,038 |
| | 22,654 | 1-Oct-2005 | – | – | 30-Sep-2007 | – | 53,010 |
| | 19,446 | 1-Oct-2005 | – | – | 30-Sep-2008 | – | 51,143 |
| | 17,678 | 1-Oct-2005 | – | – | 30-Sep-2009 | – | 50,736 |
| P Fegan | 30,104 | 1-Oct-2003 | 50 | – | 30-Sep-2006 | – | 31,609 |
| | 30,104 | 1-Oct-2003 | – | – | 30-Sep-2007 | – | 63,820 |
| | 22,000 | 1-Oct-2004 | 100 | – | 30-Sep-2006 | – | – |
| | 22,000 | 1-Oct-2004 | – | – | 30-Sep-2007 | – | 45,540 |
| | 22,000 | 1-Oct-2004 | – | – | 30-Sep-2008 | – | 48,620 |
| | 16,992 | 1-Oct-2005 | – | – | 30-Sep-2007 | – | 39,761 |
| | 14,584 | 1-Oct-2005 | – | – | 30-Sep-2008 | – | 38,356 |
| | 13,258 | 1-Oct-2005 | – | – | 30-Sep-2009 | – | 38,050 |
| D Gall | 15,786 | 1-Mar-2005 | 100 | – | 30-Sep-2006 | – | – |
| | 15,786 | 1-Mar-2005 | – | – | 30-Sep-2007 | – | 38,518 |
| | 15,786 | 1-Mar-2005 | – | – | 30-Sep-2008 | – | 41,201 |
| | 25,890 | 1-Oct-2005 | – | – | 30-Sep-2007 | – | 60,583 |
| | 22,224 | 1-Oct-2005 | – | – | 30-Sep-2008 | – | 58,449 |
| | 20,204 | 1-Oct-2005 | – | – | 30-Sep-2009 | – | 57,985 |
| J Loebenstein | 12,336 | 1-Oct-2003 | 50 | – | 30-Sep-2006 | – | 12,953 |
| | 12,336 | 1-Oct-2003 | – | – | 30-Sep-2007 | – | 26,152 |
| | 12,000 | 1-Oct-2004 | 100 | – | 30-Sep-2006 | – | – |
| | 12,000 | 1-Oct-2004 | – | – | 30-Sep-2007 | – | 24,840 |
| | 12,000 | 1-Oct-2004 | – | – | 30-Sep-2008 | – | 26,520 |
| | 9,710 | 1-Oct-2005 | – | – | 30-Sep-2007 | – | 22,721 |
| | 8,334 | 1-Oct-2005 | – | – | 30-Sep-2008 | – | 21,918 |
| | 7,576 | 1-Oct-2005 | – | – | 30-Sep-2009 | – | 21,743 |
| S McKerihan | 18,724 | 1-Oct-2003 | 50 | – | 30-Sep-2006 | – | 19,660 |
| | 18,724 | 1-Oct-2003 | – | – | 30-Sep-2007 | – | 39,695 |
| | 19,000 | 1-Oct-2004 | 100 | – | 30-Sep-2006 | – | – |
| | 19,000 | 1-Oct-2004 | – | – | 30-Sep-2007 | – | 39,330 |
| | 19,000 | 1-Oct-2004 | – | – | 30-Sep-2008 | – | 41,990 |
| | 16,992 | 1-Oct-2005 | – | – | 30-Sep-2007 | – | 39,761 |
| | 14,584 | 1-Oct-2005 | – | – | 30-Sep-2008 | – | 38,356 |
| | 13,258 | 1-Oct-2005 | – | – | 30-Sep-2009 | – | 38,050 |
| B Wright | 23,128 | 1-Oct-2003 | 50 | – | 30-Sep-2006 | – | 24,284 |
| | 23,128 | 1-Oct-2003 | – | – | 30-Sep-2007 | – | 49,031 |
| | 23,334 | 1-Oct-2004 | 100 | – | 30-Sep-2006 | – | – |
| | 23,334 | 1-Oct-2004 | – | – | 30-Sep-2007 | – | 48,301 |
| | 23,334 | 1-Oct-2004 | – | – | 30-Sep-2008 | – | 51,568 |
| | 19,824 | 1-Oct-2005 | – | – | 30-Sep-2007 | – | 46,388 |
| | 17,014 | 1-Oct-2005 | – | – | 30-Sep-2008 | – | 44,747 |
| | 15,468 | 1-Oct-2005 | – | – | 30-Sep-2009 | – | 44,393 |

# Directors' Report

For the year ended 30 September 2006

## **Remuneration Report** continued

Awards

| Group Executive | Number granted | Date | % Vested in year | % Forfeited in year | Vesting date | Value yet to vest ($) Min | Max |
|---|---|---|---|---|---|---|---|
| G Bartlett | 1,840 | 1-Oct-2003 | 50 | – | 30-Sep-2006 | – | 12,558 |
| | 1,840 | 1-Oct-2003 | – | – | 30-Sep-2007 | – | 29,836 |
| | 4,840 | 1-Oct-2004 | 100 | – | 30-Sep-2006 | – | – |
| | 4,840 | 1-Oct-2004 | – | – | 30-Sep-2007 | – | 106,528 |
| | 4,840 | 1-Oct-2004 | – | – | 30-Sep-2008 | – | 106,528 |
| | 2,500 | 1-Oct-2005 | – | – | 30-Sep-2007 | – | 62,975 |
| | 2,500 | 1-Oct-2005 | – | – | 30-Sep-2008 | – | 59,825 |
| | 2,500 | 1-Oct-2005 | – | – | 30-Sep-2009 | – | 56,875 |
| | 34 | 18-Nov-2005 | 100 | – | 18-Nov-2005 | – | – |
| R Chapman | 1,202 | 1-Oct-2003 | 50 | – | 30-Sep-2006 | – | 8,204 |
| | 1,202 | 1-Oct-2003 | – | – | 30-Sep-2007 | – | 19,490 |
| | 1,920 | 1-Oct-2004 | 100 | – | 30-Sep-2006 | – | – |
| | 1,920 | 1-Oct-2004 | – | – | 30-Sep-2007 | – | 42,259 |
| | 1,920 | 1-Oct-2004 | – | – | 30-Sep-2008 | – | 42,259 |
| | 2,084 | 1-Oct-2005 | – | – | 30-Sep-2007 | – | 52,496 |
| | 2,084 | 1-Oct-2005 | – | – | 30-Sep-2008 | – | 49,870 |
| | 2,084 | 1-Oct-2005 | – | – | 30-Sep-2009 | – | 47,411 |
| | 34 | 18-Nov-2005 | 100 | – | 18-Nov-2005 | – | – |
| P Clare | 1,472 | 1-Oct-2003 | 50 | – | 30-Sep-2006 | – | 10,046 |
| | 1,472 | 1-Oct-2003 | – | – | 30-Sep-2007 | – | 23,868 |
| | 1,498 | 1-Oct-2004 | 100 | – | 30-Sep-2006 | – | – |
| | 1,498 | 1-Oct-2004 | – | – | 30-Sep-2007 | – | 32,971 |
| | 1,498 | 1-Oct-2004 | – | – | 30-Sep-2008 | – | 32,971 |
| | 716 | 1-Oct-2005 | – | – | 30-Sep-2007 | – | 18,036 |
| | 716 | 1-Oct-2005 | – | – | 30-Sep-2008 | – | 17,134 |
| | 716 | 1-Oct-2005 | – | – | 30-Sep-2009 | – | 16,289 |
| | 34 | 18-Nov-2005 | 100 | – | 18-Nov-2005 | – | – |
| P Fegan | 3,350 | 1-Oct-2003 | 50 | – | 30-Sep-2006 | – | 22,863 |
| | 3,350 | 1-Oct-2003 | – | – | 30-Sep-2007 | – | 54,320 |
| | 5,914 | 1-Oct-2004 | 100 | – | 30-Sep-2006 | – | – |
| | 5,914 | 1-Oct-2004 | – | – | 30-Sep-2007 | – | 130,167 |
| | 5,914 | 1-Oct-2004 | – | – | 30-Sep-2008 | – | 130,167 |
| | 2,916 | 1-Oct-2005 | – | – | 30-Sep-2007 | – | 73,454 |
| | 2,916 | 1-Oct-2005 | – | – | 30-Sep-2008 | – | 69,780 |
| | 2,916 | 1-Oct-2005 | – | – | 30-Sep-2009 | – | 66,339 |
| | 34 | 18-Nov-2005 | 100 | – | 18-Nov-2005 | – | – |
| D Gall | 2,286 | 1-Oct-2003 | 50 | – | 30-Sep-2006 | – | 15,602 |
| | 718 | 1-Mar-2005 | 100 | – | 30-Sep-2006 | – | – |
| | 718 | 1-Mar-2005 | – | – | 30-Sep-2007 | – | 17,713 |
| | 718 | 1-Mar-2005 | – | – | 30-Sep-2008 | – | 17,713 |
| | 1,072 | 1-Oct-2005 | – | – | 30-Sep-2007 | – | 27,004 |
| | 1,072 | 1-Oct-2005 | – | – | 30-Sep-2008 | – | 25,653 |
| | 1,072 | 1-Oct-2005 | – | – | 30-Sep-2009 | – | 24,388 |
| | 34 | 18-Nov-2005 | 100 | – | 18-Nov-2005 | – | – |
| J Loebenstein | 3,204 | 1-Oct-2003 | 50 | – | 30-Sep-2006 | – | 21,867 |
| | 3,204 | 1-Oct-2003 | – | – | 30-Sep-2007 | – | 51,952 |
| | 3,226 | 1-Oct-2004 | 100 | – | 30-Sep-2006 | – | – |
| | 3,226 | 1-Oct-2004 | – | – | 30-Sep-2007 | – | 71,004 |
| | 3,226 | 1-Oct-2004 | – | – | 30-Sep-2008 | – | 71,004 |
| | 1,668 | 1-Oct-2005 | – | – | 30-Sep-2007 | – | 42,017 |
| | 1,668 | 1-Oct-2005 | – | – | 30-Sep-2008 | – | 39,915 |
| | 1,668 | 1-Oct-2005 | – | – | 30-Sep-2009 | – | 37,947 |
| | 34 | 18-Nov-2005 | 100 | – | 18-Nov-2005 | – | – |

## Remuneration Report continued

Awards

| Group Executive | Number granted | Date | % Vested in year | % Forfeited in year | Vesting date | Value yet to vest ($) Min | Max |
|---|---|---|---|---|---|---|---|
| S McKerihan | 4,862 | 1-Oct-2003 | 50 | – | 30-Sep-2006 | – | 33,183 |
| | 4,862 | 1-Oct-2003 | – | – | 30-Sep-2007 | – | 78,837 |
| | 5,108 | 1-Oct-2004 | 100 | – | 30-Sep-2006 | – | – |
| | 5,108 | 1-Oct-2004 | – | – | 30-Sep-2007 | – | 112,427 |
| | 5,108 | 1-Oct-2004 | – | – | 30-Sep-2008 | – | 112,427 |
| | 2,916 | 1-Oct-2005 | – | – | 30-Sep-2007 | – | 73,454 |
| | 2,916 | 1-Oct-2005 | – | – | 30-Sep-2008 | – | 69,780 |
| | 2,916 | 1-Oct-2005 | – | – | 30-Sep-2009 | – | 66,339 |
| | 34 | 18-Nov-2005 | 100 | – | 18-Nov-2005 | – | – |
| B Wright | 1,104 | 1-Oct-2003 | 50 | – | 30-Sep-2006 | – | 7,535 |
| | 1,104 | 1-Oct-2003 | – | – | 30-Sep-2007 | – | 17,901 |
| | 1,152 | 1-Oct-2004 | 100 | – | 30-Sep-2006 | – | – |
| | 1,152 | 1-Oct-2004 | – | – | 30-Sep-2007 | – | 25,356 |
| | 1,152 | 1-Oct-2004 | – | – | 30-Sep-2008 | – | 25,356 |
| | 626 | 1-Oct-2005 | – | – | 30-Sep-2007 | – | 15,769 |
| | 626 | 1-Oct-2005 | – | – | 30-Sep-2008 | – | 14,980 |
| | 626 | 1-Oct-2005 | – | – | 30-Sep-2009 | – | 14,242 |
| | 34 | 18-Nov-2005 | 100 | – | 18-Nov-2005 | – | – |

The maximum value represents the proportion of the fair value of the options and awards granted in the 30 September 2006 year and prior financial years that relates to future financial years. The minimum value of options and awards yet to vest is $nil as the applicable performance hurdles may not be satisfied and consequently the options or awards may not vest.

(4) Proportion of Remuneration at Risk

Details of the proportion of remuneration at risk for each Group Executive are shown in the table below. This table shows the short term incentive payment and equity compensation as a percentage of their total remuneration.

| Group Executive | Proportion of remuneration at risk (%) 2006 | 2005 | Value of options as a proportion of remuneration (%) 2006 | 2005 |
|---|---|---|---|---|
| G Bartlett | 56.4 | 56.6 | 5.7 | 7.1 |
| R Chapman | 55.8 | 52.2 | 6.8 | 7.5 |
| P Clare | 51.7 | 52.2 | 9.9 | 10.4 |
| P Fegan | 60.9 | 58.5 | 5.5 | 6.1 |
| D Gall | 49.7 | 50.2 | 6.9 | 3.0 |
| J Loebenstein | 49.1 | 48.4 | 4.3 | 4.1 |
| S McKerihan | 51.1 | 48.9 | 4.9 | 4.6 |
| B Wright | 48.6 | 45.4 | 9.2 | 8.6 |

### A8 – Non-Executive Directors' Remuneration Policy – audited

The Bank's Constitution provides that the Directors shall be paid an aggregate remuneration as is determined by shareholders at the Annual General Meeting. The fees are determined having regard to advice from external consultants, Egan Associates, on competitive market practice. The amount so determined is divided between the Directors at their discretion. The last determination made was at the Annual General Meeting held on 16 December 2005, where shareholders approved an aggregate amount to not exceed $2,500,000 per annum, such sum being inclusive of all statutory superannuation guarantee contributions that the Bank makes on behalf of Directors.

The remuneration of Non-Executive Directors is a total package, which comprises fees, superannuation, prescribed benefits and cost of shares acquired under the Non-Executive Directors' Share Purchase Plan.

Until December 2003, the Bank's Constitution made provision for the maximum retirement allowance that the Board may approve for a Director by reference to the maximum amount permitted to be paid under the Corporations Act 2001. However, at the Annual General Meeting held on 19 December 2003, shareholders approved an amendment to the Constitution such that no retirement benefits will be payable to any Non-Executive Directors appointed after 30 September 2003 and the entitlements of each Non-Executive Director in office at 30 September 2003 will not increase from that amount accrued to the Non-Executive Director on 30 September 2003.

# Directors' Report

For the year ended 30 September 2006

## Remuneration Report continued

### A9 – Remuneration of Executive and Non-Executive Directors – audited

Details of the nature and amount of each major element of remuneration for St.George's Directors are as follows:

| | Short Term Benefits (D) | | Long Term Benefits | Post Employment Benefits | Share Based Payments | | | |
|---|---|---|---|---|---|---|---|---|
| $'000 | Base Fee/ Remuneration (A) (B) | Short Term Incentive (C) | Long Service Leave (E) | Superannuation Contributions (F) | Options (G) | Shares (H) | Total | Retirement Provision (I) |
| **2006** | | | | | | | | |
| **Executive Director** | | | | | | | | |
| G P Kelly (MD and CEO) | 1,729 | 1,770 | 37 | 12 | 286 | 497 | 4,331 | – |
| **Non-Executive Directors** | | | | | | | | |
| J M Thame (Chairman) | 503 | – | – | 12 | – | – | 515 | 348 |
| J S Curtis | 224 | – | – | 12 | – | – | 236 | 340 |
| T J Davis | 195 | – | – | 12 | – | – | 207 | – |
| R A F England | 216 | – | – | 12 | – | – | 228 | – |
| P D R Isherwood | 229 | – | – | 12 | – | – | 241 | 342 |
| L B Nicholls | 213 | – | – | 12 | – | – | 225 | 145 |
| G J Reaney | 223 | – | – | 12 | – | – | 235 | 367 |
| L F Bleasel (retired) | 46 | – | – | 3 | – | – | 49 | – |
| | 1,849 | – | – | 87 | – | – | 1,936 | 1,542 |
| **2005** | | | | | | | | |
| **Executive Director** | | | | | | | | |
| G P Kelly (MD and CEO) | 1,527 | 1,725 | 31 | 12 | 286 | 386 | 3,967 | – |
| **Non-Executive Directors** | | | | | | | | |
| J M Thame (Chairman) | 443 | – | – | 14 | – | – | 457 | 348 |
| J S Curtis | 200 | – | – | 14 | – | – | 214 | 340 |
| T J Davis | 135 | – | – | 12 | – | – | 147 | – |
| R A F England | 193 | – | – | 14 | – | – | 207 | – |
| P D R Isherwood | 207 | – | – | 14 | – | – | 221 | 342 |
| L B Nicholls | 195 | – | – | 14 | – | – | 209 | 145 |
| G J Reaney | 214 | – | – | 14 | – | – | 228 | 367 |
| L F Bleasel | 198 | – | – | 14 | – | – | 212 | 346 |
| F J Conroy (retired) | 102 | – | – | 3 | – | – | 105 | – |
| | 1,887 | – | – | 113 | – | – | 2,000 | 1,888 |

MD and CEO: Managing Director and Chief Executive Officer.

(A) Base fees for Non-Executive Directors are inclusive of the cost of shares acquired under the Non-Executive Directors' Share Purchase Plan. During the year, 13,299 shares were acquired and allocated to 4 Directors under this plan. Brokerage of $778 was paid by the Bank in acquiring these shares.

(B) Base remuneration for Mrs G P Kelly comprises cash salary, available salary package options grossed-up by related fringe benefits tax, where applicable, and annual leave expense.

(C) The short term incentive relates to Mrs G P Kelly's performance in the 30 September 2006 year. Mrs Kelly's STI opportunity for the 30 September 2006 year was 120% of her base remuneration. Based on the Group's and Mrs Kelly's performance during the year, Mrs Kelly became entitled to receive 100% of her STI opportunity. As approved by shareholders at the Bank's 2005 Annual General Meeting, any STI payable to Mrs Kelly which exceeds 100% of her base remuneration will be granted to Mrs Kelly as an award with shares to satisfy this grant held in trust for a period of three years from the effective grant date of 1 October 2005. Subject to remaining employed by the Bank, the shares will be transferred to Mrs Kelly three years from the grant date.

(D) Remuneration in respect of short term benefits excludes insurance premiums paid by the Group in respect of Directors' and officers' liability insurance contracts. These contracts cover both current and former Directors and officers. Under the terms of the insurance policy, the Group is prohibited from disclosing the total premium paid. The premium has not been allocated to individuals covered by the insurance policy as, based on all available information, the Directors consider that no reasonable basis for such allocation exists.

(E) Represents the long service leave expense recognised during the financial year.

(F) Includes superannuation guarantee charge applicable to Directors under 70 years of age.

St.George Bank Limited and its Controlled Entities

# Directors' Report

For the year ended 30 September 2006

## Remuneration Report continued

(G) In the case of the Managing Director, the fair value of options is calculated at the grant date using the Binomial method. The number of options used to determine share based remuneration is adjusted for estimated forfeiture and then further adjusted for actual forfeiture over the vesting period. The resultant expense is allocated evenly to each reporting period over the period from the grant date to the prescribed exercise date. The following factors were used in determining the fair value of options on the grant date:

| Grant date | Date first exercisable | Fair value per option $ | Exercise price $ | Price of shares on grant date $ | Estimated volatility % | Risk free interest rate % | Dividend yield % | Expected life (years) |
|---|---|---|---|---|---|---|---|---|
| 1-Oct-2004 | 30-Sep-2006 | 1.92 | 21.70 | 22.01 | 15.0 | 5.25 | 5.70 | 2.5 |
| 1-Oct-2004 | 30-Sep-2007 | 2.07 | 21.70 | 22.01 | 15.0 | 5.25 | 5.70 | 3.5 |
| 1-Oct-2004 | 30-Sep-2008 | 2.21 | 21.70 | 22.01 | 15.0 | 5.25 | 5.70 | 4.5 |

(H) In the case of the Managing Director, the fair value of awards, comprising rights over unissued shares granted under the Performance Plan, has been determined using the share price of the Bank's ordinary shares on the grant date. The number of shares used to determine share based remuneration is adjusted for estimated forfeiture at the grant date and then further adjusted over the vesting period for actual forfeiture. To determine the amount disclosed as remuneration in each year, the fair value is allocated evenly to each reporting period over the period from the grant date to the prescribed exercise date.

(I) At the Bank's Annual General Meeting on 19 December 2003, shareholders approved a resolution that Non-Executive Directors appointed after 30 September 2003 would not be entitled to retirement benefits. Payment of retirement benefits that have already been accrued will not exceed the entitlement at 30 September 2003.

The value of options included in remuneration as a percentage of total remuneration for Mrs G P Kelly in the 2006 year is 6.6% (2005: 7.2%). The proportion of total remuneration at risk for Mrs G P Kelly in the 2006 year was 58.9% (2005: 60.4%).

### Share Based Payments – unaudited

No options or shares have been granted to Non-Executive Directors.

Details of the vesting profile of options and awards granted as remuneration to Mrs G P Kelly that affect her remuneration in the 30 September 2006 year or future financial years is as follows:

| | Number granted | Date | % Vested in year | % Forfeited in year | Vesting Date | Value yet to vest ($) Min | Value yet to vest ($) Max |
|---|---|---|---|---|---|---|---|
| **Options** | | | | | | | |
| G P Kelly | 125,000 | 1-Oct-2004 | 100 | – | 30-Sep-2006 | – | – |
| | 125,000 | 1-Oct-2004 | – | – | 30-Sep-2007 | – | 258,750 |
| | 250,000 | 1-Oct-2004 | – | – | 30-Sep-2008 | – | 552,500 |
| **Awards** | | | | | | | |
| G P Kelly | 14,400 | 1-Oct-2004 | 100 | – | 30-Sep-2006 | – | – |
| | 14,400 | 1-Oct-2004 | – | – | 30-Sep-2007 | – | 316,944 |
| | 28,800 | 1-Oct-2004 | – | – | 30-Sep-2008 | – | 633,888 |

The maximum value represents the proportion of the fair value of the options and awards granted in the 30 September 2006 year and prior financial years that relates to future financial years. The minimum value of options and awards yet to vest is $nil as the applicable performance hurdles may not be satisfied and consequently the options or awards may not vest.

### A10 – Performance Conditions for Options and Awards – audited

1. Managing Director – Options and Awards granted on 1 October 2004

500,000 options were granted to the Managing Director on 1 October 2004, which vest in three tranches, comprising two tranches of 125,000 options and one tranche of 250,000 options. 57,600 awards were granted to the Managing Director on 1 October 2004, which vest in two tranches of 14,400 awards and one tranche of 28,800 awards.

Subject to tenure, each tranche will fully vest if:

- the Group achieves greater than or equal to 10% compound growth in EPS over the financial years from the grant date until the first prescribed exercise date or, if not achieved at that date, inclusive of each subsequent financial year until the final prescribed exercise date of the relevant tranche; or
- TSR for the Group meets or exceeds the 75th percentile of the S&P ASX 50 Accumulation Index over the period from the grant date until the first prescribed exercise date or, if not achieved at that date, on the last trading day of any subsequent month until the final prescribed exercise date of the relevant tranche.

**Remuneration Report** continued

If neither of the above outcomes are achieved and:

- TSR for the Group meets or exceeds the S&P ASX 50 Accumulation Index either at the first prescribed exercise date or on the last trading day of any subsequent month until the final prescribed exercise date of the relevant tranche, then half of that tranche will vest; or
- 10 percent growth in EPS is achieved in the financial year prior to the prescribed exercise date then that tranche will fully vest.

2. Group Executives – Options and Awards granted on 1 October 2003

EPS Entitlement
Subject to tenure, half of the relevant tranche's options and awards will vest if the following EPS conditions are satisfied:

*Half of Tranche 1*
EPS for the year ended 30 September 2005 must exceed:

(a) the EPS for the year ended 30 September 2004 by more than 10 percent; or

(b) that figure which EPS would have reached had EPS for the year ended 30 September 2003 grown at an annual rate of 10 percent compounded annually.

If the half of tranche 1 does not vest it is carried forward and retested with tranche 2.

*Half of Tranche 2*
EPS for the year ended 30 September 2006 must exceed:

(a) the EPS for the year ended 30 September 2005 by more than 10 percent; or

(b) that figure which EPS would have reached had EPS for the year ended 30 September 2003 grown at an annual rate of 10 percent compounded annually.

If the tranche 1 and tranche 2 halves have not vested they are carried forward and retested with tranche 3.

*Half of Tranche 3*
EPS for the year ended 30 September 2007 must exceed:

(a) the EPS for the year ended 30 September 2006 by more than 10 percent; or

(b) that figure which EPS would have reached had EPS for the year ended 30 September 2003 grown at an annual rate of 10 percent compounded annually.

*Final Test*
If the tranche 1, 2 and 3 halves remain unvested they will vest where:

EPS for the year ended 30 September 2008 either:

(a) exceeds EPS for the year ended 30 September 2007 by more than 10 percent; or

(b) at least equals the figure EPS would have reached had EPS for the year ended 30 September 2003 grown at an annual rate of 10 percent compounded annually.

TSR Entitlement
Subject to tenure, the remaining 50% of the Tranche 1, 2 and 3 options and awards will vest if the Group's TSR is equal to or exceeds the S&P ASX 50 Accumulation Index over the period from the grant date until the first prescribed exercise date if not achieved at that date, on any subsequent month until the final prescribed exercise date of 30 September 2008, as measured on that date.

3. Group Executives – Options and Awards granted on 1 October 2004

Subject to tenure, each tranche will fully vest if:

- The Group achieves greater than or equal to 10 percent compound growth in EPS over the financial years from the grant date until the first prescribed exercise date or, if not achieved at that date, inclusive of each subsequent financial year until the final prescribed exercise date of the relevant tranche; or
- TSR for the Group meets or exceeds the 75th percentile of the S&P ASX 50 Accumulation Index over the period from the grant date until the first prescribed exercise date or, if not achieved at that date, on the last trading day of any subsequent month until the final prescribed exercise date of the relevant tranche.

If neither of the above outcomes are achieved and:

- TSR for the Group meets or exceeds the S&P ASX 50 Accumulation Index either at the first prescribed exercise date or on the last trading day of any subsequent month until the final prescribed exercise date of the relevant tranche, then half of that tranche will vest; or
- 10 percent growth in EPS is achieved in the financial year prior to the prescribed exercise date then that tranche will fully vest.

4. Group Executives – Shares granted under the Employee Reward Share Plan on 18 November 2005

The performance hurdles for the 2005 year subject to Board discretion were:

(1) EPS (before goodwill and significant items) equals or exceeds the EPS of the previous year by 10 percent or more, then 50% of the shares will vest; and

(2) Customer Service

  (a) obtaining an overall Group Customer Satisfaction rating of at least 78%, then 25% of the shares will vest; and

  (b) divisions achieving their service targets, then the remaining 25% of the shares will vest.

5. Group Executives – Options and Awards granted on 1 October 2005

Subject to tenure, each tranche of options and awards will vest if, as measured from the grant date:

- the Group achieves greater than or equal to 10 percent compound growth in EPS either at the prescribed measurement date or on subsequent measurement annually over the vesting period; or
- TSR for the Group is greater than or equal to the 75th percentile of the S&P ASX 50 Accumulation Index at the prescribed measurement date or on subsequent monthly measurement during the vesting period.

If neither of the above outcomes are achieved, half of the tranche will vest if, as measured from the grant date:

- TSR for the Group is greater than the S&P ASX 50 Accumulation Index at the prescribed measurement date or on subsequent monthly measurement during the vesting period.

As per the rules of the Share and Option Plans, the Board retains overall discretion to waive all or part of the exercise conditions of awards and options. For example, the Board could exercise its discretion where certain events occur, such as redundancy, retirement, death, where a bona fide takeover offer becomes unconditional or where it forms the view that the exercise conditions do not properly reflect the financial performance of the Group over the performance period.

St.George Bank Limited and its Controlled Entities

# Directors' Report

For the year ended 30 September 2006

### Directors' Shareholdings

The relevant interest of each Director in the share capital of the Bank at the date of this report is outlined in the following table. Each interest is held beneficially by the relevant Director.

| Name | Fully paid ordinary shares | SAINTS | Options granted over ordinary shares | Awards (1) |
|---|---|---|---|---|
| J M Thame | 150,216 | – | – | – |
| G P Kelly | 525,000 | 208 | 1,000,000 | 57,600 |
| J S Curtis (2) | 22,541 | 318 | – | – |
| T J Davis | 11,623 | – | – | – |
| R A F England | 2,601 | – | – | – |
| P D R Isherwood | 27,948 | 263 | – | – |
| L B Nicholls | 5,819 | – | – | – |
| G J Reaney | 47,516 | – | – | – |

(1) Awards granted under the Executive Performance Share Plan that represent a right over ordinary shares.

(2) Mr J S Curtis also holds an interest in 15,000 instalment warrants in fully paid ordinary shares of the Bank.

### Directors' Interests

Details of the interests held by Directors of the Bank in registered schemes offered by the Group at the date of this report are as follows:

| Name | Registered scheme | Units held |
|---|---|---|
| J M Thame | Advance Imputation Fund | 27,981 |

### Share Options

On 1 October 2005, 366,142 options were granted to 8 Group Executives. No options have been granted since the end of the financial year and up to the date of this report. 513,522 ordinary shares were issued as a result of exercising options granted under the Executive Option Plan. The number of options outstanding at the date of this report is 2,407,503.

## Corporate Governance

The Managing Director and Chief Financial Officer have provided a written statement to the Board that in their respective opinions:

(i) the financial records of the Group have been properly maintained in accordance with section 286 of the Corporations Act 2001;

(ii) the financial statements and accompanying notes comply with accounting standards and give a true and fair view of the financial condition and operational results of the Group and the Bank for the year ended 30 September 2006;

(iii) the financial statements of the Group are founded on a sound system of risk management and internal compliance which implement the policies adopted by the Board; and

(iv) the risk management, compliance and control framework adopted by the Group as it relates to financial reporting is operating effectively and efficiently, in all material respects.

## Non-Audit Services

During the year, KPMG, the Bank's auditor performed certain non-corporate statutory audit services for which they were paid $4.528 million (2005: $4.033 million).

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Board Audit Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

(i) all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Board Audit Committee to ensure that they do not impact the integrity and objectivity of the auditor;

(ii) the non-audit services provided do not undermine the general principle relating to auditor independence as set out in the Accounting and Professional Ethical Standards Board's APES 110 "Code of Ethics for Professional Accountants" which replaces Professional Statement F1 Professional Independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

The lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 is attached to and forms part of the Directors' Report.

## Principal Activities of the Group

The principal activities of the Group during the financial year were undertaken by the following business segments:

### Retail Bank (RB)

RB is responsible for residential and consumer lending, provision of personal financial services including transaction services, call and term deposits and small business banking and financial planners. This division manages retail branches, call centres, agency networks and electronic channels such as EFTPOS terminals, ATMs and Internet banking.

### Institutional and Business Banking (IBB)

IBB is responsible for liquidity management, securitisation, wholesale funding, capital markets, treasury market activities including foreign exchange, money market and derivatives, corporate and business relationship banking, international and trade finance banking services, leasing, hire purchase, automotive finance, commercial property lending and cash flow financing including factoring and invoice discounting.

### BankSA (BSA)

BSA is responsible for providing retail banking and business banking services to customers in South Australia and the Northern Territory. These services have been extended into country New South Wales and Victoria. Customers are serviced through branches, electronic agencies, ATMs, call centres, EFTPOS terminals and Internet banking.

### Wealth Management (WM)

WM is responsible for providing wealth management administration, asset management, dealer group services, margin lending, investment advice, private banking services and general and life insurance.

## Group's Objective

The Group's low-risk, organic growth strategy continues to deliver superior returns to shareholders, and the Strategic Framework developed in 2002 is still guiding the Group today:

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

Building on this framework, the Group has remained focused on a number of key areas:

- Home Loans
- Middle Market
- Wealth Management
- Productivity Management
- Customer Service
- Victoria, Queensland and Western Australia Expansion
- Engaged People.

Emphasis continues to be placed on the Group's customer service strategy, founded on the basic principles of:

Engaged People + Great Customer Experience = Superior Financial Outcomes

The Group's focus remains on developing and empowering staff, whilst ensuring that new recruits possess the skills, attitude and values that support the warm and friendly culture that underpins the Group's strategy.

The Group has continued to deliver a differentiated customer experience to its key chosen segments of Middle Market, Business and Enterprise Customers, Private Bank and Gold Customers. The Group has also strived to attract new customers through its third party partners, Mortgage Brokers and Independent Financial Planners. The 2006 year has seen specific programs targeting further improvements in customer experience via expansion and refurbishment of the branch network, targeted efficiency improvements in processing and contact centre channels. The Group continues to invest in its Best Business Bank, Local Market Retail Model, Customer Relationship Management (CRM) and Integrated Sales and Service tools.

## Operating and Financial Review

### Overview of the Group

The net profit of the Group for the financial year after income tax, minority interests, goodwill impairment, significant items and before preference dividends was $1,068 million (2005: $978 million). The net profit available to ordinary shareholders was $1,048 million (2005: $915 million).

## Operating and Financial Review continued

The solid increase in net profit is driven from increased profit contributions from all business segments as demonstrated below:

| | Net profit before tax (1) | | |
|---|---|---|---|
| Business Segment | **2006 (3) $m** | 2005 (2) $m | Increase % |
| Retail Bank | **701** | 661 | 6.1 |
| Institutional and Business Banking | **421** | 404 | 4.2 |
| BankSA | **213** | 189 | 12.7 |
| Wealth Management | **180** | 146 | 23.3 |
| | **1,515** | 1,400 | |

(1) Before goodwill impairment and significant items.

(2) Does not reflect impact of AIFRS financial instrument standards adopted from 1 October 2005.

(3) Before goodwill impairment, significant items and hedging and non-trading derivatives volatility.

The following table provides details of returns to shareholders over the past five years:

| | | **2006** | 2005 (3) | Previous GAAP 2004 | Previous GAAP 2003 | Previous GAAP 2002 |
|---|---|---|---|---|---|---|
| Net profit available to shareholders | $m | **1,048** | 915 | 717 | 606 | 369 |
| Basic earnings per share (1) | Cents | **197.6** | 177.5 | 160.8 | 142.2 | 124.7 |
| Dividends per share | Cents | **151** | 137 | 122 | 95 | 80 |
| Share price (2) | $ | **30.24** | 27.89 | 21.85 | 20.49 | 17.70 |

(1) Before goodwill amortisation/impairment, significant items and after preference share dividends.

(2) Share price at 30 September.

(3) Does not reflect impact of AIFRS financial instrument standards adopted from 1 October 2005.

## Review of Financial Condition

St.George's shareholders' equity decreased from $5.4 billion to $5.3 billion. This decrease is primarily due to the reclassification of the Group's $334 million Depositary Capital Securities from equity to debt in accordance with AIFRS requirements applicable from 1 October 2005 and the issuance of $150 million of Step-up Preference Shares in June 2006. The final dividend for the year ended 30 September 2006 has not been provided for in the financial statements and as a result has not been deducted from retained earnings.

St.George's capital position remains strong with a total capital adequacy ratio of 10.8% at 30 September 2006 (2005: 11.1%). This ratio is above APRA's minimum requirement of 10.0%. At 30 September 2006, St.George's Adjusted Common Equity (ACE) ratio was 5.0% (2005: 5.1%).

## Dividends

Information regarding dividends paid or declared by the Bank since the end of the previous financial year is included in Note 3.

## Review of Operations

A review of the operations of the Group is contained in the "Chairman's Report", "Managing Director & CEO's Report" and "Shareholder Friendly Financials". These sections are to be regarded as incorporated into this report.

## State of Affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

### Securitisation

The Bank securitised a total of $8.2 billion of housing loans in March, June and September 2006 through the Crusade Program (2005: $5.6 billion). The total value of securitised receivables outstanding at 30 September 2006 was $17,998 million (2005: $13,225 million).

### Borrowing Transactions

In January 2006, the Bank issued GBP 375 million of floating rate notes, maturing in January 2011.

In April 2006, the Bank issued A$900 million of floating rate and A$400 million of fixed rate transferable deposits, maturing in April 2011.

In June 2006, the Bank issued EUR 600 million of floating rate notes, maturing in June 2011.

# Directors' Report

For the year ended 30 September 2006

## State of Affairs continued

In July 2006, the Bank issued A$300 million of subordinated notes that qualify as Tier 2 capital for capital adequacy purposes, maturing in July 2016.

### Capital Management

In February 2006, the Bank converted $300 million of Preferred Resetting Yield Marketable Equity Securities (PRYMES) into 10,309,170 ordinary shares based on a conversion price of $29.07.

In February 2006, the Bank completed a buy back of 11,677,657 ordinary shares at a price of $25.69 per share. In June 2006, the Bank issued 1,500,000 Step-up Preference Shares (SPS) at an issue price of $100 per share, raising $148 million (net of associated costs). The Bank may elect to redeem, cancel, buy back or convert the SPS on 20 August 2016 or any dividend payment date thereafter.

SPS are classified as Innovative Tier 1 capital for APRA capital adequacy purposes.

### Margin Lending Acquisition

Effective August 2006, the Bank acquired HSBC Australia's $398 million margin lending business.

### Credit Ratings

In January 2006, Standard & Poor's upgraded its long term counterparty credit rating on St.George to A+ from A. The A-1 short term counterparty credit rating was reaffirmed. At the same time, Standard & Poor's upgraded its Bank Fundamental Strength rating on St.George to B+ from B. St.George Insurance Pte Limited, the Bank's captive mortgage insurance subsidiary, had its credit rating raised to A+ from A.

In May 2006, Moody's upgraded St.George's long term deposit and debt rating to A1 from A2 and its Bank Financial Strength rating to B- from C+.

St.George Insurance Pte Limited had its rating raised to A1 from A2.

### St.George Bank New Zealand (SGBNZ)

In August 2006, St.George announced it would cease its supermarket banking venture in New Zealand with Foodstuffs. SGBNZ's residential loan portfolio was sold in August 2006. SGBNZ's retail deposits were either transferred to Kiwibank or repaid to customers by September 2006, in accordance with customer preferences.

## Environmental Regulation

Other than stated below, the operations of the Bank and its controlled entities are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory. The Bank may however become subject to environmental regulation when enforcing securities over properties to recover outstanding debts.

The Bank plans to submit to the New South Wales government a strategy of energy use reduction in conformity with the Energy Administration Amendment (Water and Energy Savings) Act 2005.

## Events Subsequent to Reporting Date

Since 30 September 2006, the Bank has proposed a final dividend on ordinary shares (Note 9). The Bank intends to issue a $300 million Non-Innovative Tier 1 capital instrument in December 2006.

Directors are not aware of any other matter or circumstance that has occurred since the end of the financial year that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

## Likely Developments

The Bank's risk management framework continues to be enhanced as it progresses with the implementation of the Basel II advanced approaches for credit and operational risk. The Basel II framework contains three approaches for calculating the capital requirements for credit risk, being the standardised, foundation and advanced approaches. St.George lodged its application with APRA in September 2005 to apply the advanced approach for credit risk with regard to its retail lending portfolio and the foundation approach for credit risk with regard to its corporate lending portfolio.

The Basel II framework introduces a capital requirement for operational risk under three options being basic, standardised and advanced approaches. St.George is aiming to adopt the advanced approach for operational risk and in September 2006 lodged its application with APRA. For both credit and operational risk, the timing of adoption of these approaches are subject to satisfying APRA's advanced level Basel II accreditation requirements.

Further details of likely developments in the operations of the Group in subsequent financial years are contained in the 'Chairman's Report' and the 'Managing Director & CEO's Report'. These sections are to be regarded as incorporated into this report.

Further information regarding likely developments in the operations of the Group and the expected results thereof, has not been included in this report because the disclosure of the information would be likely to result in unreasonable prejudice towards the interests of the Group.

## Indemnification and Insurance of Directors and Officers

The Bank's Constitution provides for an indemnity to each person who is or has been a Director, principal executive officer or the secretary of the Bank against any liability which results directly or indirectly from facts or circumstances relating to the person serving or having served in that capacity, incurred on or after 1 April 1994 to any person whether or not arising from a prior contingent liability and, which does not arise out of conduct involving a lack of good faith and conduct known to the person to be wrongful.

In addition, such indemnity also extends to costs and expenses incurred by the person in defending civil or criminal proceedings in which judgement is given in favour of the person or in which the person is acquitted or the courts grant relief.

The Constitution also provides, to the extent permitted by law, for the Directors to authorise the Bank to enter into any documentary indemnity in favour of, or insurance policy for, the benefit of a person who is or has been a Director, executive officer, secretary, auditor, employee or other officer of the Bank, which indemnity or insurance policy may be in such terms as the Board of Directors approves.

St.George Bank Limited and its Controlled Entities

# Directors' Report

For the year ended 30 September 2006

## Directors' and Officers' Insurance

The Bank has paid a premium in respect of a contract of insurance insuring certain officers of the Bank and its controlled entities against those liabilities for which insurance is permitted under the Corporations Act 2001. Such officers consist of the Directors named earlier in this report, the company secretaries, executive officers, Bank officers appointed on the Bank's behalf to external directorships, and all persons deemed to be officers of the Bank and related bodies corporate under the provisions of the Corporations Act 2001, together with all other former and future Directors, company secretaries and officers. Disclosure of the nature of the liabilities and the amount of the premium is prohibited under the conditions of the contract of insurance.

## Rounding of Amounts

The Bank is a company of the kind referred to in Australian Securities and Investments Commission class order 98/100, as amended by class order 04/667 dated 15 July 2004 and 05/641 dated 26 July 2005. Accordingly, amounts in this report and the accompanying Concise Financial Statements have been rounded to the nearest one million dollars except where otherwise indicated.

Signed in accordance with a resolution of the Directors.

**J M Thame**
Chairman

Gail Kelly

**G P Kelly**
Managing Director and Chief Executive Officer

Signed at Sydney, New South Wales
7 November 2006

KPMG

***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To: the directors of St. George Bank Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 September 2006 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG
KPMG

P M Reid
P M Reid
Sydney
7 November 2006

KPMG, an Australian partnership, is part of the KPMG International network. KPMG International is a Swiss cooperative.

St.George Bank Limited and its Controlled Entities

# Consolidated Income Statement

For the year ended 30 September 2006

| | Note | Consolidated 2006 $m | 2005 $m |
|---|---|---|---|
| Interest income | | **6,781** | 5,474 |
| Interest expense | | **4,768** | 3,677 |
| Net interest income | | **2,013** | 1,797 |
| Other income | 2 | **994** | 988 |
| Total operating income | | **3,007** | 2,785 |
| Bad and doubtful debts expense | | **144** | 109 |
| Operating expenses | 2 | **1,341** | 1,279 |
| Share of profit of equity accounted associates | | **-** | 3 |
| Goodwill impairment | | **-** | 4 |
| **Profit before income tax** | | **1,522** | 1,396 |
| Income tax expense | 2 | **445** | 413 |
| **Profit after tax and before loss of discontinued operation** | | **1,077** | 983 |
| Loss of discontinued operation, net of tax | 2 | **13** | 10 |
| Net loss of discontinued operation attributable to minority interest | 2 | **(5)** | (5) |
| Minority interest – continuing operations | | **1** | – |
| **Net profit attributable to shareholders of the Bank** | | **1,068** | 978 |
| Dividends per ordinary share (cents) | | | |
| Interim dividend paid | 3 | **74** | 67 |
| Final dividend proposed | 3, 9 | **77** | 70 |
| Earnings per share from continuing operations: | | | |
| Basic (cents) | 4 | **201.4** | 177.7 |
| Diluted (cents) | 4 | **199.9** | 176.2 |

The consolidated income statement should be read in conjunction with the accompanying notes. Comparative figures exclude the impact of AASB 132 and AASB 139 financial instrument accounting standards, which were adopted from 1 October 2005.

St.George Bank Limited and its Controlled Entities

# Consolidated Balance Sheet

As at 30 September 2006

| | Note | Consolidated 2006 $m | 2005 $m |
|---|---|---|---|
| **Assets** | | | |
| Cash and liquid assets | | **1,081** | 1,184 |
| Receivables due from other financial institutions | | **1,182** | 1,111 |
| Assets at fair value through the income statement | | **6,192** | 6,007 |
| Derivative assets | | **1,093** | – |
| Available for sale investments | | **1,541** | – |
| Investment securities | | **–** | 1,149 |
| Loans and other receivables | | **81,516** | 72,949 |
| Bank acceptances of customers | | **11,908** | 7,098 |
| Investment in associated companies | | **28** | – |
| Other investments | | **–** | 45 |
| Property, plant and equipment | | **334** | 452 |
| Intangible assets | | **1,291** | 1,268 |
| Deferred tax assets | | **193** | 93 |
| Other assets | | **643** | 1,003 |
| **Total assets** | | **107,002** | 92,359 |
| **Liabilities** | | | |
| Deposits and other borrowings | | **54,633** | 49,175 |
| Payables due to other financial institutions | | **401** | 91 |
| Liabilities at fair value through the income statement | | **390** | – |
| Derivative liabilities | | **1,190** | – |
| Bank acceptances | | **7,287** | 7,098 |
| Provision for dividends | | **3** | 12 |
| Current tax liabilities | | **160** | 157 |
| Deferred tax liabilities | | **172** | 217 |
| Other provisions | | **125** | 109 |
| Bonds and notes | | **34,593** | 25,918 |
| Loan capital | | **2,032** | 1,956 |
| Bills payable and other liabilities | | **673** | 2,239 |
| **Total liabilities** | | **101,659** | 86,972 |
| **Net assets** | | **5,343** | 5,387 |
| **Shareholders' Equity** | | | |
| Share capital | 5 | **4,376** | 4,105 |
| Reserves | | **151** | 23 |
| Retained profits | 6 | **798** | 906 |
| **Equity attributable to shareholders of the Bank** | | **5,325** | 5,034 |
| Equity attributable to minority interests | | **18** | 353 |
| **Total Shareholders' Equity** | | **5,343** | 5,387 |

The consolidated balance sheet should be read in conjunction with the accompanying notes. Comparative figures exclude the impact of AASB 132 and AASB 139 financial instrument accounting standards, which were adopted from 1 October 2005.

St.George Bank Limited and its Controlled Entities

# Consolidated Statement of Recognised Income and Expense

For the year ended 30 September 2006

| | Consolidated 2006 $m | Consolidated 2005 $m |
|---|---|---|
| **Foreign currency translation reserve** | | |
| Foreign exchange translation differences (net of tax) | **(5)** | 2 |
| **Cash flow hedge reserve** | | |
| Gains on cash flow hedging instruments (net of tax) | | |
| Recognised in equity | **20** | – |
| Transferred to the income statement | **(1)** | – |
| **Available for sale reserve** | | |
| Losses on available for sale investments (net of tax) | | |
| Recognised in equity | **(1)** | – |
| **Net income recognised directly in equity** | **13** | 2 |
| Profit for the year | **1,064** | 973 |
| **Total recognised income and expense for the year** | **1,077** | 975 |
| Total recognised income and expense for the year attributable to: | | |
| Members of the Bank | **1,081** | 980 |
| Minority interests | **(4)** | (5) |
| **Total recognised income and expense for the year** | **1,077** | 975 |
| Effect of change in accounting policy – financial instruments | | |
| Net decrease in retained profits | **(131)** | – |
| Net increase in reserves | **54** | – |
| | **1,000** | 975 |

The consolidated statement of recognised income and expense should be read in conjunction with the accompanying notes. Comparative figures exclude the impact of AASB 132 and AASB 139 financial instrument accounting standards, which were adopted from 1 October 2005.

St.George Bank Limited and its Controlled Entities

# Consolidated Statement of Cash Flows

For the year ended 30 September 2006

| | Consolidated 2006 $m | Consolidated 2005 $m |
|---|---|---|
| **Cash flows from operating activities** | | |
| Interest received | **6,746** | 5,508 |
| Interest paid | **(4,813)** | (3,692) |
| Other income received | **850** | 891 |
| Operating expenses paid | **(1,201)** | (1,168) |
| Income tax paid | **(457)** | (456) |
| Proceeds from sale and redemption of investment securities | **–** | 285 |
| Purchase of available for sale investments | **(1,715)** | – |
| Proceeds from sale and redemption of available for sale investments | **1,330** | – |
| Net increase in assets | | |
| – balance due from other financial institutions (not at call) | **(82)** | (335) |
| – trading securities/assets at fair value through the income statement | **(181)** | (802) |
| – loans and other receivables | **(13,332)** | (7,726) |
| Net increase/(decrease) in liabilities | | |
| – balance due to other financial institutions (not at call) | **135** | (42) |
| – deposits and other borrowings | **5,515** | 2,021 |
| – bonds and notes | **7,624** | 6,121 |
| **Net cash provided by operating activities** | **419** | 605 |
| **Cash flows from investing activities** | | |
| Proceeds from disposal of controlled entity | **23** | – |
| Increase in investment in associated companies | **(25)** | – |
| Dividends received | **6** | 5 |
| Payments for shares | **(1)** | (2) |
| Proceeds from sale of shares | **8** | 20 |
| Proceeds from sale of other investments | **–** | 7 |
| Proceeds from sale of businesses | **4** | 47 |
| Payments for property, plant and equipment | **(59)** | (68) |
| Proceeds from sale of property, plant and equipment | **158** | 39 |
| Net increase in other assets | **(142)** | (148) |
| **Net cash used in investing activities** | **(28)** | (100) |
| **Cash flows from financing activities** | | |
| Net increase/(decrease) in liabilities | | |
| – other liabilities | **(20)** | 19 |
| – loan capital | **34** | 495 |
| Net proceeds from the issue of perpetual notes | **3** | 2 |
| Net proceeds from the issue of Step-up Preference Shares | **148** | – |
| Proceeds from the issue of shares | **9** | 6 |
| Buy back of shares | **(300)** | – |
| Issue costs | **(1)** | – |
| Dividends paid (excluding Dividend Reinvestment Plan) | **(585)** | (594) |
| Net purchase of Treasury shares | **(10)** | – |
| **Net cash used in financing activities** | **(722)** | (72) |
| **Net (decrease)/increase in cash and cash equivalents** | **(331)** | 433 |
| **Cash and cash equivalents at the beginning of the year** | **1,738** | 1,305 |
| **Cash and cash equivalents at the end of the year** | **1,407** | 1,738 |

The consolidated statement of cash flows should be read in conjunction with the accompanying notes. Comparative figures exclude the impact of AASB 132 and AASB 139 financial instrument accounting standards, which were adopted from 1 October 2005.

# Notes to the Financial Statements

For the year ended 30 September 2006

## Note 1: Basis of Preparation of the Concise Financial Report

The Concise Financial Report has been prepared in accordance with the Corporations Act 2001, Accounting Standard AASB 1039 Concise Financial Reports and applicable Urgent Issues Group Consensus Views. The financial statements and specific disclosures required by AASB 1039 have been derived from the Group's Full Financial Report for the financial year. Other information included in the Concise Financial Report is consistent with the Group's Full Financial Report. The Concise Financial Report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the Full Financial Report. As noted below, comparative figures have not been adjusted for the impact of financial instrument accounting standards AASB 132 and AASB 139.

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading, financial instruments classified as available for sale, assets and liabilities at fair value through the income statement and defined benefit plan assets and liabilities.

The significant accounting policies adopted in the preparation of this Concise Financial Report have been consistently applied to all periods, unless otherwise stated.

A full description of the accounting policies adopted by the Group may be found in the Group's Full Financial Report.

The presentation currency is Australian dollars.

The Group has applied the exemption available under AASB 1 First-time adoption of Australian Equivalents to International Financial Reporting Standards to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 October 2005. The transition adjustments recognised in respect of these standards at the transition date of 1 October 2005 are disclosed in Note 8 Explanation of Transition to AIFRS.

St.George Bank Limited and its Controlled Entities

# Notes to the Financial Statements

For the year ended 30 September 2006

## Note 2: Significant Items

In accordance with accounting standard AASB 101, items of income and expense which are material by quantum or nature are disclosed separately to assist in understanding the financial performance of the Group.

| | Consolidated | |
|---|---|---|
| | **2006 $m** | 2005 $m |
| **Non-interest income** | | |
| Non-interest income before significant items | **953** | 972 |
| Significant items | | |
| – profit on sale of land and buildings (i) | **41** | – |
| – profit on sale of fixed assets (v) | **-** | 27 |
| – write-off of deferred home loan broker commissions (vi) | **-** | (11) |
| | **41** | 16 |
| Total non-interest income | **994** | 988 |
| **Operating expenses** | | |
| Operating expenses before significant items | **1,293** | 1,263 |
| Significant items | | |
| – intangible assets impairment (ii), (vii) | **32** | 16 |
| – restructure costs (iv) | **16** | – |
| | **48** | 16 |
| Total operating expenses | **1,341** | 1,279 |
| **Income tax** | | |
| Income tax expense before significant items | **470** | 413 |
| Significant items | | |
| – income tax benefit on profit on sale of land and buildings (i) | **(10)** | – |
| – income tax benefit on intangible assets impairment loss (ii), (vii) | **(10)** | (5) |
| – income tax benefit on restructure costs (iv) | **(5)** | – |
| – income tax expense on profit on sale of fixed assets (v) | **-** | 8 |
| – income tax benefit on write-off of home loan broker commissions (vi) | **-** | (3) |
| | **(25)** | – |
| Total tax expense | **445** | 413 |
| **Discontinued operation** | | |
| Exit costs associated with discontinued operation (iii) | **9** | – |
| Minority interest applicable to discontinued operation (iii) | **(3)** | – |
| | **6** | – |
| **Summary of significant items** | | |
| Total pre-tax (loss) from significant items | **(7)** | – |
| Add: total tax benefit attributable to significant items | **25** | – |
| Less: net (loss) of discontinued operation | **(6)** | – |
| Net income from significant items | **12** | – |

### 2006 Year

(i) In September 2006, the Group completed the sale and leaseback of its head office building at Kogarah. As a result of the sale, the Group recognised a profit of $41 million before tax ($51 million after associated tax benefit).

(ii) During the year, a $32 million ($22 million after tax) impairment was recognised on intangible assets relating to capitalised computer software. This impairment comprises software that has been developed internally where the timing of realisation of associated benefits is uncertain or the value of future benefits are not expected to be fully realised. The impairment also includes software systems that have become obsolete during the year.

(iii) As a result of intense competition in the New Zealand market, the Bank and its joint venture partner Foodstuffs agreed in August 2006 to discontinue their supermarket banking joint venture. Costs associated with the discontinuation of this business totalled $9 million before and after tax. A $3 million minority interest loss has been recognised in respect of these costs, reflecting Foodstuffs' share of loss. The total loss incurred in respect of the joint venture (including these costs) amounted to $13 million, of which an amount of $5 million was attributable to the minority interests.

# Notes to the Financial Statements

For the year ended 30 September 2006

## Note 2: Significant Items continued

(iv) A $16 million ($11 million after tax) restructure provision has been recognised during the year in respect of staff redundancies. The redundancies are primarily attributable to downsizing information technology development teams in line with reduced business demand, consolidating interstate loan servicing sites and outsourcing certain administrative functions.

### 2005 Year

(v) The Bank sold its non-core unbranded ATM network to Customers Ltd. The sale resulted in a profit on sale before tax of $27 million ($19 million after tax).

(vi) From 1 October 2004, the Bank ceased to defer home loan broker commissions on new introductory loan business and has recognised an adjustment of $11 million ($8 million after tax) during the year that represents the unamortised balance of deferred commissions relating to this loan portfolio.

(vii) The Bank recognised a $6 million ($4 million after tax) write-off of obsolete systems or systems in the process of being decommissioned and a $10 million ($7 million after tax) write-off representing a refinement of St.George's deferred expenditure policy to write-off deferred expenditure whereby the unamortised balance of deferred expenditure is written off immediately when the carrying value reduces to $500,000.

## Note 3: Dividends Provided for or Paid

| Type | Cents per share | Consolidated $m | Date of payment | Franking rate % | Percentage franked |
|---|---|---|---|---|---|
| **2006** | | | | | |
| Interim 2006 – ordinary shares | 74.0 | 388 | 4-Jul-2006 | 30 | 100 |
| Final 2005 – ordinary shares | 70.0 | 364 | 14-Dec-2005 | 30 | 100 |
| Subordinated adjustable income non-refundable tier 1 securities (1) | | 2 | 21-Nov-2005 | 30 | 100 |
| Subordinated adjustable income non-refundable tier 1 securities | | 4 | 20-Feb-2006 | 30 | 100 |
| Subordinated adjustable income non-refundable tier 1 securities | | 5 | 22-May-2006 | 30 | 100 |
| Subordinated adjustable income non-refundable tier 1 securities | | 5 | 21-Aug-2006 | 30 | 100 |
| Subordinated adjustable income non-refundable tier 1 securities (2) | | 2 | 20-Nov-2006 | 30 | 100 |
| Step-up preference shares (3) | | 1 | 21-Aug-2006 | 30 | 100 |
| Step-up preference shares (4) | | 1 | 20-Nov-2006 | 30 | 100 |
| | | 772 | | | |
| **2005** | | | | | |
| Interim 2005 – ordinary shares | 67.0 | 347 | 4-Jul-2005 | 30 | 100 |
| Final 2004 – ordinary shares | 62.0 | 319 | 17-Dec-2004 | 30 | 100 |
| Depositary capital securities (6) (10) (11) | | 6 | 31-Dec-2004 | – | – |
| Depositary capital securities | | 14 | 30-Jun-2005 | – | – |
| Depositary capital securities (5) | | 7 | 31-Dec-2005 | – | – |
| Preferred resetting yield marketable equity securities (8) (11) | | 7 | 21-Feb-2005 | 30 | 100 |
| Preferred resetting yield marketable equity securities | | 10 | 22-Aug-2005 | 30 | 100 |
| Preferred resetting yield marketable equity securities (7) | | 2 | 20-Feb-2006 | 30 | 100 |
| Subordinated adjustable income non-refundable tier 1 securities (9) | | 3 | 22-Nov-2004 | 30 | 100 |
| Subordinated adjustable income non-refundable tier 1 securities | | 4 | 21-Feb-2005 | 30 | 100 |
| Subordinated adjustable income non-refundable tier 1 securities | | 4 | 20-May-2005 | 30 | 100 |
| Subordinated adjustable income non-refundable tier 1 securities | | 4 | 22-Aug-2005 | 30 | 100 |
| Subordinated adjustable income non-refundable tier 1 securities (1) | | 2 | 21-Nov-2005 | 30 | 100 |
| | | 729 | | | |

(1) A total dividend of $4 million was paid of which $2 million relates to the 2006 financial year and $2 million related to the 2005 financial year.

(2) A total dividend of $4 million will be payable on 20 November 2006 of which $2 million relates to the 2006 financial year.

(3) 1,500,000 Step-up Preference Shares were issued on 20 June 2006 at an issue price of $100 each, raising $148 million (net of associated costs).

(4) A total dividend of $2 million will be payable on 20 November 2006 of which $1 million relates to the 2006 financial year.

(5) A total distribution of $14 million was paid of which $7 million is classified as interest expense and relates to the 2006 financial year and $7 million is a dividend related to the 2005 financial year.

(6) A total dividend of $14 million was paid of which $6 million related to the 2005 financial year and $8 million related to the 2004 financial year.

(7) A total distribution of $8 million was paid of which $2 million is a dividend related to the 2005 financial year and $6 million is classified as interest expense related to the 2006 financial year.

(8) A total dividend of $9 million was paid of which $7 million related to the 2005 financial year and $2 million related to the 2004 financial year.

(9) A total dividend of $4 million was paid of which $3 million related to the 2005 financial year and $1 million related to the 2004 financial year.

# Notes to the Financial Statements

For the year ended 30 September 2006

## Note 3: Dividends Provided for or Paid continued

(10) Distributions paid on Depositary Capital Securities (DCS) will be paid by St.George Funding Company LLC to the holders of the securities, out of profits to which no franking credits are attached.

(11) In accordance with AIFRS, PRYMES and DCS have been reclassified as liabilities and distributions are included in interest expense from 1 October 2005. The PRYMES were converted into 10,309,170 ordinary shares in February 2006.

**Dividend franking account**

It is anticipated that the balance of the consolidated franking account will be $506 million (30 September 2005: $555 million) after adjusting for:

(i) franking credits that will arise from the payment of income tax payable as at the end of the year;

(ii) franking debits that will arise from the payment of dividends recognised as a liability;

(iii) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date; and

(iv) franking credits that the Group may be prevented from distributing in the subsequent year.

After also allowing for the 30 September 2006 final ordinary dividend, the consolidated franking account will be $332 million (30 September 2005: $401 million).

## Note 4: Earnings Per Share

| | Consolidated | |
|---|---|---|
| | **2006** | 2005 |
| Basic – ordinary (cents) | | |
| – from continuing operations | **201.4** | 177.7 |
| – from discontinued operation | **(1.5)** | (1.0) |
| Diluted – ordinary (cents) | | |
| – from continuing operations | **199.9** | 176.2 |
| – from discontinued operation | **(1.5)** | (0.9) |
| Weighted average number of shares | | |
| Basic ordinary (‘000) | **524,281** | 517,762 |
| Diluted ordinary (‘000) | **542,285** | 542,416 |

There were 244,574 (30 September 2005: nil) weighted average ordinary Treasury shares outstanding during the year which have been excluded when calculating basic and diluted earnings per share. Treasury shares relate to shares purchased on behalf of employees that are held in trust to satisfy grants under the Group’s Executive Performance Plan.

## Note 5: Share Capital

| | Consolidated | | | |
|---|---|---|---|---|
| | **2006 $m** | 2005 $m | **2006 No. of shares** | 2005 No. of shares |
| **Capital** | | | | |
| Fully paid ordinary shares (1) | **3,878** | 3,454 | **526,578,573** | 520,407,464 |
| Treasury shares | **(10)** | – | **(331,213)** | – |
| Fully paid PRYMES (2) | **-** | 291 | **-** | 3,000,000 |
| Fully paid SAINTS | **345** | 345 | **3,500,000** | 3,500,000 |
| Fully paid SPS (3) | **148** | – | **1,500,000** | – |
| General reserve | **15** | 15 | | |
| | **4,376** | 4,105 | | |
| **Issued and uncalled capital** | | | | |
| Borrowers’ shares unpaid (4) | **-** | – | **3,382** | 4,088 |
| Depositors’ shares unpaid (4) | **-** | – | **236,981** | 256,180 |
| | **-** | – | | |

## Note 5: Share Capital continued

(1) In February 2006, the Bank completed its off market buy back of ordinary shares. A total of 11,677,657 ordinary shares were bought back at a price of $25.69, a total cost of $300 million. An amount of $6.54 per share of the consideration paid to buy back the shares was charged to share capital (total $76.7 million including associated buy back costs). The difference between the buy back price of $25.69 and the capital component of $6.54 was deemed to be a fully franked dividend for tax purposes and charged to retained earnings ($223.6 million).

For capital gains tax purposes, the deemed disposal price applicable to shareholders (other than corporate tax entities) participating in the buy back is $10.59 for each share sold into the buy back.

(2) In February 2006, the Bank's 3,000,000 PRYMES were converted into 10,309,170 ordinary shares at a price of $29.07.

(3) In June 2006, the Bank issued 1,500,000 Step-up preference share (SPS) at an issue price of $100 each, raising $148 million after related issue costs.

(4) These shares were originally issued to borrowers and depositors when the Bank was a building society to enable them to open a loan or deposit account. Borrowers and depositors shareholders have certain rights as set out in the Constitution, including the right to vote on issues that affect their rights, and have certain obligations on a winding up.

## Note 6: Retained Profits

| | Consolidated | |
|---|---|---|
| | **2006 $m** | 2005 $m |
| Opening balance | **906** | 619 |
| AIFRS transition adjustments (1) | **(131)** | 38 |
| Operating profit attributable to members of the Bank | **1,068** | 978 |
| Total available for appropriation | **1,843** | 1,635 |
| Transfer to general reserve for credit losses | **(49)** | – |
| Buy back | **(224)** | – |
| Interim dividend – cash component | **(329)** | (282) |
| Interim dividend – dividend reinvestment plan | **(59)** | (65) |
| Final dividend – cash component | **(237)** | (249) |
| Final dividend – dividend reinvestment plan | **(127)** | (70) |
| Preference share dividends | **(20)** | (63) |
| Closing balance | **798** | 906 |

(1) AIFRS transition adjustments include:
- recognition of defined benefit plan deficit
- deferral of leveraged lease income
- recognition of share based payment expense
- transfer of asset revaluation reserve (net of tax) to retained earnings
- deferral of previously recognised fee income
- fair value recognition of financial assets and liabilities
- fair value recognition of derivatives
- recognition of share issue and conversion costs
- implementation of AIFRS loan impairment methodology including establishment of a general reserve for credit losses.

Refer Note 8 for further details.

St.George Bank Limited and its Controlled Entities

# Notes to the Financial Statements

For the year ended 30 September 2006

## Note 7: Segmental Results

(a) Business Segments

Business segments are based on the Group's organisational structure. The Group comprises four business divisions, namely:

- Retail Bank (RB) – responsible for residential and consumer lending, provision of personal financial services including transaction services, call and term deposits, small business banking and financial planners. This division manages retail branches, call centres, agency networks and electronic channels such as EFTPOS terminals, ATMs and Internet banking.
- Institutional and Business Banking (IBB) – responsible for liquidity management, securitisation, wholesale funding, capital markets, treasury market activities including foreign exchange, money market and derivatives, corporate and business relationship banking, international and trade finance banking services, leasing, hire purchase, automotive finance, commercial property lending and cash flow financing including factoring and invoice discounting.
- BankSA (BSA) – responsible for providing retail banking and business banking services to customers in South Australia and Northern Territory. These services have extended into country New South Wales and Victoria as part of the Group's initiative to expand rural banking. Customers are serviced through branches, electronic agencies, ATMs, call centres, EFTPOS terminals and Internet banking.
- Wealth Management (WM) – responsible for providing funds management and administration, margin lending, investment advice, private banking services and general and life insurance.

  Segmental results are not comparable to prior periods as comparative figures do not reflect the impact of AIFRS financial instrument accounting standards that have been adopted from 1 October 2005.

| For the year ended 30 September 2006 | Retail Bank $m | Institutional & Business Banking $m | BankSA $m | Wealth Management $m | Other $m | Consolidated $m |
|---|---|---|---|---|---|---|
| **Segment revenue** | | | | | | |
| Net interest income | 1,063 | 569 | 303 | 78 | – | 2,013 |
| Non-interest income | 436 | 135 | 82 | 286 | 14 | 953 |
| Significant item | – | – | – | – | 41 | 41 |
| **Total segment revenue** | 1,499 | 704 | 385 | 364 | 55 | 3,007 |
| **Segment expenses** | | | | | | |
| Bad and doubtful debts | 105 | 29 | 9 | 1 | – | 144 |
| Operating expenses | | | | | | |
| – Other provisions | 27 | 27 | 6 | 14 | – | 74 |
| – Depreciation | 49 | 7 | 9 | 2 | – | 67 |
| – Deferred expenditure amortisation | 24 | 3 | 4 | 1 | – | 32 |
| – Other expenses | 593 | 217 | 144 | 166 | – | 1,120 |
| Total operating expenses | 693 | 254 | 163 | 183 | – | 1,293 |
| Significant items | – | – | – | – | 48 | 48 |
| **Total segment expenses** | 798 | 283 | 172 | 184 | 48 | 1,485 |
| Profit before income tax expense from continuing operations | 701 | 421 | 213 | 180 | 7 | 1,522 |
| Income tax expense | | | | | | 445 |
| Profit after income tax from continuing operations | | | | | | 1,077 |
| Loss of discontinued operation after tax | | | | | | 13 |
| Minority interest – continuing operations | | | | | | 1 |
| Minority interest – discontinued operation | | | | | | (5) |
| **Profit after income tax and minority interests** | | | | | | 1,068 |
| **Segmental Balance Sheet As at 30 September 2006** | | | | | | |
| Investment in Associates | – | – | – | – | 28 | 28 |
| Other Assets | 54,237 | 33,267 | 12,029 | 4,834 | 2,607 | 106,974 |
| Total Assets | 54,237 | 33,267 | 12,029 | 4,834 | 2,635 | 107,002 |
| Total Liabilities | 26,002 | 65,600 | 7,771 | 1,025 | 1,261 | 101,659 |

# Notes to the Financial Statements

For the year ended 30 September 2006

## Note 7: Segmental Results continued

| For the year ended 30 September 2005 | Retail Bank $m | Institutional & Business Banking $m | BankSA $m | Wealth Management $m | Other $m | Consolidated $m |
|---|---|---|---|---|---|---|
| **Segment revenue** | | | | | | |
| Net interest income | 1,057 | 409 | 267 | 64 | – | 1,797 |
| Non-interest income | 366 | 258 | 90 | 258 | – | 972 |
| Significant items | – | – | – | – | 16 | 16 |
| **Total segment revenue** | 1,423 | 667 | 357 | 322 | 16 | 2,785 |
| **Segment expenses** | | | | | | |
| Bad and doubtful debts | 67 | 29 | 9 | 4 | – | 109 |
| Operating expenses | | | | | | |
| – Other provisions | 24 | 25 | 8 | 13 | – | 70 |
| – Depreciation | 50 | 7 | 9 | 1 | – | 67 |
| – Deferred expenditure amortisation | 30 | 3 | 4 | 1 | – | 38 |
| – Other expenses | 591 | 202 | 138 | 157 | – | 1,088 |
| Total operating expenses | 695 | 237 | 159 | 172 | – | 1,263 |
| Significant item | – | – | – | – | 16 | 16 |
| Goodwill impairment | – | – | – | – | 4 | 4 |
| **Total segment expenses** | 762 | 266 | 168 | 176 | 20 | 1,392 |
| Share of profit of investment in associates | – | 3 | – | – | – | 3 |
| **Profit/(loss) before income tax expense from continuing operations** | 661 | 404 | 189 | 146 | (4) | 1,396 |
| Income tax expense | | | | | | 413 |
| Profit after income tax from continuing operations | | | | | | 983 |
| Loss of discontinued operation after tax | | | | | | 10 |
| Minority interest – continuing operations | | | | | | – |
| Minority interest – discontinued operation | | | | | | (5) |
| **Profit after income tax and minority interests** | | | | | | 978 |
| **Segmental Balance Sheet As at 30 September 2005** | | | | | | |
| Total Assets | 48,778 | 26,530 | 10,441 | 3,806 | 2,804 | 92,359 |
| Total Liabilities | 24,802 | 53,307 | 6,785 | 1,027 | 1,051 | 86,972 |

(b) Geographical segments
The Group predominantly operates in Australia.

## Note 8: Explanation of Transition to AIFRS

These are the Group's first consolidated annual financial statements to be prepared in accordance with AIFRS.

The policies set out in the significant accounting policies section of the Full Financial Report have been applied in preparing the financial statements for the year ended 30 September 2006. With the exception of accounting standards dealing with financial instruments, the comparative figures in respect of the 30 September 2005 year and opening AIFRS balance sheet at 1 October 2004 have been prepared in accordance with AIFRS.

The Group has taken the exemption available under AASB 1 First-time Adoption of Australian equivalents to International Financial Reporting Standards (AIFRS) to only apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement, from 1 October 2005. Accordingly, AIFRS adjustments relating to these standards have only been included in the 1 October 2005 balance sheet reconciliation.

In preparing its opening AIFRS balance sheet and comparative period results, amounts reported previously in financial statements prepared in accordance with the previous basis of accounting (previous GAAP) have been adjusted. An explanation of how the transition from previous GAAP to AIFRS has affected the Group's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

In explaining the impact of adopting AIFRS, adjustments have been categorised into reclassifications of existing assets, liabilities and equity, consolidation of new entities into the Group and changes in the recognition and measurement of items in the income statement and balance sheet.

### (i) Reclassifications

In accordance with AIFRS classification requirements, assets and liabilities reported under previous GAAP have been reclassified.

Key items reclassified for periods prior to 1 October 2005 include:

- Deferred computer software expenditure has been reclassified from other assets to intangible assets (refer note (ix)).
- Deferred tax assets and liabilities have been separately identified within the balance sheet (refer note (vii)).

Key items reclassified from 1 October 2005 include:

- Derivative assets and liabilities recognised under previous GAAP have been reclassified from other assets and other liabilities to derivative assets and derivative liabilities respectively (refer note (xii)).
- Trading assets and part of other investments have been reclassified to assets at fair value through the income statement (refer note (xiv)).
- Investment securities and part of other investments have been reclassified to available for sale investments (refer note (xiv)).
- Deferred origination costs previously recognised within other assets have been reclassified to loans and other receivables (refer note (xi)).
- Reclassification of Depositary Capital Securities included within minority interests under previous GAAP to liabilities at fair value through the income statement (refer note (x)).
- Reclassification of Preferred Resetting Yield Marketable Equity Securities included within shareholders' equity under previous GAAP to bonds and notes (refer note (x)).
- Reclassification of income earned on bank acceptances from other income to interest income (refer note (xvi)).

### (ii) Consolidation

AIFRS has resulted in the consolidation of both St.George's securitised assets and certain asset-backed conduit vehicles. The consolidation of these vehicles from 1 October 2004 results in a "gross-up" of the balance sheet and income statement, however there is no significant impact on profit or shareholders' equity.

### (iii) Recognition and measurement

AIFRS has required a change from previous GAAP recognition and measurement practices for both income statement and balance sheet items.

Key items for periods prior to 1 October 2005 include:

- Goodwill is no longer amortised, instead being subject to an annual assessment for impairment.
- The fair value of equity instruments granted to employees after 7 November 2002 which are unvested at 1 January 2005 is recognised as an expense over the vesting period.
- Leveraged lease income is recognised over the lease term on an effective pre-tax yield basis.
- Land and buildings are recognised at deemed cost, with the previous asset revaluation reserve transferred to retained earnings and the recognition of a deferred tax liability.
- The defined benefit plan deficit is recognised as a liability.
- Certain items previously included within deferred expenditure are no longer eligible for recognition within intangible assets and have been written off.
- Income tax deferred assets and liabilities are recognised based upon a "balance sheet approach".

Key items from 1 October 2005 include:

- Share issue and redemption costs relating to the PRYMES are included in the measurement value of the liability.
- Certain fees previously recognised as income are deferred and recognised on an effective yield basis.
- All derivatives are recognised at fair value, with hedge accounting applied in circumstances where strict criteria are satisfied.
- Loan provisioning methodologies have changed, resulting in the write back of general provisions under previous GAAP and the recognition of AIFRS collective provisions.
- Certain financial instruments have been recognised as available for sale investments at fair value with changes in fair value recognised in an equity reserve.
- Depositary Capital Securities and related derivatives are fair valued through the income statement.

## Note 8: Explanation of Transition to AIFRS continued

### Income statement reconciliation

The following table reconciles comparative income statement figures from previous GAAP to AIFRS.

| | | ← AIFRS transition adjustments [1] | | → | | |
|---|---|---|---|---|---|---|
| **Year ended 30 September 2005** | AGAAP Group $m | Consolidation $m | Recognition and measurement $m | Total AIFRS transition $m | Reclassification of discontinued operation $m | AIFRS Group $m |
| Interest income | 4,686 | 819 | – | 819 | (31) | 5,474 |
| Interest expense | 2,979 | 725 | – | 725 | (27) | 3,677 |
| Net interest income | 1,707 | 94 (iii) | – | 94 | (4) | 1,797 |
| Other income | 1,084 | (96) (iii) | – | (96) | – | 988 |
| Total operating income | 2,791 | (2) | – | (2) | (4) | 2,785 |
| Bad and doubtful debts expense | 110 | – | – | – | (1) | 109 |
| Operating expenses | 1,279 | (2) (iii) | 15 (ii),(v) | 13 | (13) | 1,279 |
| Share of profit of equity accounted associates | 3 | – | – | – | – | 3 |
| Goodwill amortisation and write-off | 105 | – | (101) (i) | (101) | – | 4 |
| **Profit before income tax** | 1,300 | – | 86 | 86 | 10 | 1,396 |
| Income tax expense | 414 | – | (1) (v) | (1) | – | 413 |
| **Profit after income tax** | 886 | – | 87 | 87 | 10 | 983 |
| Loss from discontinued operation | – | – | – | – | (10) | (10) |
| Profit after tax and discontinued operation | 886 | – | 87 | 87 | – | 973 |
| Attributable to: | | | | | | |
| Minority interests | (5) | – | – | – | – | (5) |
| Equity holders | 891 | – | 87 | 87 | – | 978 |

(1) Further explanation of AIFRS transition impacts is set out on pages 90 to 91.

# Notes to the Financial Statements

For the year ended 30 September 2006

## **Note 8: Explanation of Transition to AIFRS** continued

### Balance sheet reconciliation

| | | ← AIFRS transition adjustments (1) | | → | | |
|---|---|---|---|---|---|---|
| **1 October 2004** | AGAAP Group $m | Reclassification $m | Consolidation $m | Recognition and measurement $m | Total AIFRS transition $m | AIFRS Group $m |
| **Assets** | | | | | | |
| Cash and liquid assets | 1,180 | – | – | – | – | 1,180 |
| Receivables due from other financial institutions | 371 | – | 631 | – | 631 | 1,002 |
| Assets at fair value through the income statement | 5,200 | – | – | – | – | 5,200 |
| Investment securities | 415 | – | 1,022 | – | 1,022 | 1,437 |
| Loans and other receivables | 54,782 | – | 10,552 | (13) (iv) | 10,539 | 65,321 |
| Bank acceptances of customers | 5,132 | – | – | – | – | 5,132 |
| Investments in associated companies | 2 | – | – | – | – | 2 |
| Other investments | 76 | – | (22) | – | (22) | 54 |
| Property, plant and equipment | 472 | – | – | – | – | 472 |
| Intangible assets | 1,165 | 103 (ix) | – | (3) (ix) | 100 | 1,265 |
| Deferred tax assets | – | 86 (vii) | – | 2 (vi) | 88 | 88 |
| Other assets | 1,165 | (189) (vii), (ix) | (50) | – | (239) | 926 |
| **Total assets** | 69,960 | – | 12,133 | (14) | 12,119 | 82,079 |
| **Liabilities** | | | | | | |
| Deposits and other borrowings | 46,083 | – | 1,049 | – | 1,049 | 47,132 |
| Payables due to other financial institutions | 758 | – | – | – | – | 758 |
| Bank acceptances | 5,132 | – | – | – | – | 5,132 |
| Provision for dividends | 12 | – | – | – | – | 12 |
| Income tax liability | 365 | (365) (vii) | – | – | (365) | – |
| Current tax liability | – | 154 (vii) | – | – | 154 | 154 |
| Deferred tax liability | – | 211 (vii) | – | 22 (iv),(v),(vii),(ix) | 233 | 233 |
| Other provisions | 106 | – | – | – | – | 106 |
| Bonds and notes | 9,769 | – | 10,347 | – | 10,347 | 20,116 |
| Loan capital | 1,619 | – | – | – | – | 1,619 |
| Bills payable and other liabilities | 1,087 | – | 737 | 5 (vi) | 742 | 1,829 |
| **Total liabilities** | 64,931 | – | 12,133 | 27 | 12,160 | 77,091 |
| **Net assets** | 5,029 | – | – | (41) | (41) | 4,988 |
| **Shareholders' Equity** | | | | | | |
| Share capital | 3,964 | – | – | – | – | 3,964 |
| Reserves | 87 | – | – | (79) (ii),(v) | (79) | 8 |
| Retained profits | 619 | – | – | 38 (ii),(iv),(v),(vi),(vii),(ix) | 38 | 657 |
| Shareholders' equity attributable to members of the Bank | 4,670 | – | – | (41) | (41) | 4,629 |
| Minority interests in controlled entities | 359 | – | – | – | – | 359 |
| **Total shareholders' equity** | 5,029 | – | – | (41) | (41) | 4,988 |

(1) Further explanation of AIFRS transition impacts is set out on pages 90 to 91.

# Notes to the Financial Statements

For the year ended 30 September 2006

## Note 8: Explanation of Transition to AIFRS continued

### Balance sheet reconciliation

| 30 September 2005 | AGAAP Group $m | Reclassification $m | Consolidation $m | Recognition and measurement $m | Total AIFRS transition $m | AIFRS Group $m |
|---|---|---|---|---|---|---|
| | | ← AIFRS transition adjustments (1) | | | → | |
| **Assets** | | | | | | |
| Cash and liquid assets | 1,184 | – | – | – | – | 1,184 |
| Receivables due from other financial institutions | 529 | – | 582 | – | 582 | 1,111 |
| Assets at fair value through the income statement | 6,295 | – | (288) | – | (288) | 6,007 |
| Investment securities | 18 | – | 1,131 | – | 1,131 | 1,149 |
| Loans and other receivables | 59,687 | – | 13,275 | (13) (iv) | 13,262 | 72,949 |
| Bank acceptances of customers | 7,098 | – | – | – | – | 7,098 |
| Investments in associated companies | – | – | – | – | – | – |
| Other investments | 67 | – | (22) | – | (22) | 45 |
| Property, plant and equipment | 459 | – | – | (7) (v) | (7) | 452 |
| Intangible assets | 1,060 | 110 (ix) | – | 98 (i),(ix) | 208 | 1,268 |
| Deferred tax assets | – | 91 (vii) | – | 2 (vi) | 93 | 93 |
| Other assets | 1,192 | (201) (vii), (ix) | 12 | – | (189) | 1,003 |
| **Total assets** | 77,589 | – | 14,690 | 80 | 14,770 | 92,359 |
| **Liabilities** | | | | | | |
| Deposits and other borrowings | 48,149 | – | 1,026 | – | 1,026 | 49,175 |
| Payables due to other financial institutions | 91 | – | – | – | – | 91 |
| Bank acceptances | 7,098 | – | – | – | – | 7,098 |
| Provision for dividends | 12 | – | – | – | – | 12 |
| Income tax liability | 353 | (353) (vii) | – | – | (353) | – |
| Current tax liability | – | 157 (vii) | – | – | 157 | 157 |
| Deferred tax liability | – | 196 (vii) | – | 21 (iv),(v),(vii),(ix) | 217 | 217 |
| Other provisions | 109 | – | – | – | – | 109 |
| Bonds and notes | 13,139 | – | 12,779 | – | 12,779 | 25,918 |
| Loan capital | 1,956 | – | – | – | – | 1,956 |
| Bills payable and other liabilities | 1,349 | – | 885 | 5 (vi) | 890 | 2,239 |
| **Total liabilities** | 72,256 | – | 14,690 | 26 | 14,716 | 86,972 |
| **Net assets** | 5,333 | – | – | 54 | 54 | 5,387 |
| **Shareholders' Equity** | | | | | | |
| Share capital | 4,105 | – | – | – | – | 4,105 |
| Reserves | 94 | – | – | (71) (ii),(v) | (71) | 23 |
| Retained profits | 781 | – | – | 125 (i),(ii),(iv),(v),(vi),(vii),(ix) | 125 | 906 |
| Shareholders' equity attributable to members of the Bank | 4,980 | – | – | 54 | 54 | 5,034 |
| Minority interests in controlled entities | 353 | – | – | – | – | 353 |
| **Total shareholders' equity** | 5,333 | – | – | 54 | 54 | 5,387 |

(1) Further explanation of AIFRS transition impacts is set out on pages 90 to 91.

# Notes to the Financial Statements

For the year ended 30 September 2006

## Note 8: Explanation of Transition to AIFRS continued

### Balance sheet reconciliation

| | | | <AIFRS transition adjustments (2)> | | | |
|---|---|---|---|---|---|---|
| **1 October 2005** | AGAAP Group $m | Total AIFRS Adjustments(1) $m | Reclassification $m | Recognition and measurement $m | Total AIFRS transition $m | AIFRS Group $m |
| **Assets** | | | | | | |
| Cash and liquid assets | 1,184 | – | – | – | – | 1,184 |
| Receivables due from other financial institutions | 529 | 582 | – | – | 582 | 1,111 |
| Assets at fair value through the income statement | 6,295 | (288) | (1,313) (xiv),(xvi) | (2) (xiv) | (1,603) | 4,692 |
| Derivative assets | – | – | 368 (xii) | 99 (xii) | 467 | 467 |
| Available for sale investments | – | – | 1,170 (xiv) | 7 (xiv) | 1,177 | 1,177 |
| Investment securities | 18 | 1,131 | (1,149) (xiv) | – | (18) | – |
| Loans and other receivables | 59,687 | 13,262 | 73 (xi) | (113) (xi),(xiii) | 13,222 | 72,909 |
| Bank acceptances of customers | 7,098 | – | 1,337 (xvi) | (29) (xvi) | 1,308 | 8,406 |
| Investments in associated companies | – | – | – | – | – | – |
| Other investments | 67 | (22) | (45) (xiv) | – | (67) | – |
| Property, plant and equipment | 459 | (7) | – | – | (7) | 452 |
| Intangible assets | 1,060 | 208 | – | – | 208 | 1,268 |
| Deferred tax assets | 91 | 2 | – | 155 (x),(xi),(xii) (xiii),(xvi) | 157 | 248 |
| Other assets | 1,101 | (98) | (441) (xi),(xii) | (3) (x),(xii) | (542) | 559 |
| **Total assets** | 77,589 | 14,770 | – | 114 | 14,884 | 92,473 |
| **Liabilities** | | | | | | |
| Deposits and other borrowings | 48,149 | 1,026 | – | – | 1,026 | 49,175 |
| Payables due to other financial institutions | 91 | – | – | – | – | 91 |
| Liabilities at fair value through the income statement | – | – | 382 (x) | 17 (x) | 399 | 399 |
| Derivative liabilities | – | – | 1,558 (xii) | 109 (xii) | 1,667 | 1,667 |
| Bank acceptances | 7,098 | – | – | (28) (xvi) | (28) | 7,070 |
| Provision for dividends | 12 | – | – | – | – | 12 |
| Income tax liability | 353 | (353) | – | – | (353) | – |
| Current tax liability | – | 157 | – | – | 157 | 157 |
| Deferred tax liabilities | – | 217 | – | 47 (xi),(xii) (xiv),(xvi) | 264 | 264 |
| Other provisions | 109 | – | – | – | – | 109 |
| Bonds and notes | 13,139 | 12,779 | 293 (x) | 12 (x),(xii) | 13,084 | 26,223 |
| Loan capital | 1,956 | – | – | – | – | 1,956 |
| Bills payable and other liabilities | 1,349 | 890 | (1,608) (x),(xii) | 34 (xii) | (684) | 665 |
| **Total liabilities** | 72,256 | 14,716 | 625 | 191 | 15,532 | 87,788 |
| **Net assets** | 5,333 | 54 | (625) | (77) | (648) | 4,685 |
| **Shareholders' Equity** | | | | | | |
| Share capital | 4,105 | – | (291) (x) | – | (291) | 3,814 |
| Reserves | 94 | (71) | – | 54 (xii) (xiii),(xiv) | (17) | 77 |
| Retained profits | 781 | 125 | – | (131) (x),(xi),(xii) (xiii),(xiv) | (6) | 775 |
| Shareholders' equity attributable to members of the Bank | 4,980 | 54 | (291) | (77) | (314) | 4,666 |
| Minority interests in controlled entities | 353 | – | (334) (x) | – | (334) | 19 |
| **Total shareholders' equity** | 5,333 | 54 | (625) | (77) | (648) | 4,685 |

(1) Represents the AIFRS impact as at 30 September 2005 of the application of all AIFRS standards from 1 October 2004 except AASB 132 and 139.

(2) Represents AIFRS transition impacts for AASB 132 and 139 which have been adjusted as at 1 October 2005 (these are explained on pages 91 to 94).

## Note 8: Explanation of Transition to AIFRS continued

### Reconciliation of Shareholders' Equity

The following table summarises the AIFRS transition impact on the components of shareholders' equity at each balance date shown.

| | Note | As at 1 Oct 2004 $m | Year ended 30 Sept 2005 $m | As at 1 Oct 2005 $m | Total $m |
|---|---|---|---|---|---|
| **Retained earnings** | | | | | |
| AIFRS transition adjustments: | | | | | |
| Goodwill | (i) | – | 101 | – | 101 |
| Share based payments | (ii) | (4) | (13) | – | (17) |
| Leveraged leases | (iv) | (9) | – | – | (9) |
| Property, plant and equipment | (v) | 54 | (1) | – | 53 |
| Employee benefits | (vi) | (3) | – | – | (3) |
| Income tax | (vii) | 2 | – | – | 2 |
| Intangibles | (ix) | (2) | – | – | (2) |
| Hybrid financial instruments | (x) | – | – | (28) | (28) |
| Transaction fees and costs | (xi) | – | – | (86) | (86) |
| Hedging | (xii) | – | – | (20) | (20) |
| Loan provisioning | (xiii) | – | – | 73 | 73 |
| Loan provisioning | (xiii) | – | – | (68) | (68) |
| Financial instruments | (xiv) | – | – | (2) | (2) |
| | | 38 | 87 | (131) | (6) |
| **Share capital** | | | | | |
| AIFRS transition adjustments: | | | | | |
| Hybrid financial instruments | (x) | – | – | (291) | (291) |
| | | – | – | (291) | (291) |
| **Other reserves** | | | | | |
| AIFRS transition adjustments: | | | | | |
| Share based payments | (ii) | 4 | 13 | – | 17 |
| Property, plant and equipment | (v) | (83) | (5) | – | (88) |
| Hedging | (xii) | – | – | (19) | (19) |
| Financial instruments | (xiv) | – | – | 5 | 5 |
| General reserve for credit losses | (xiii) | – | – | 68 | 68 |
| | | (79) | 8 | 54 | (17) |
| **Total AIFRS adjustments to equity attributable to members of the Bank** | | **(41)** | **95** | **(368)** | **(314)** |
| **Minority interests** | | | | | |
| AIFRS transition adjustments: | | | | | |
| Hybrid financial instruments | (x) | – | – | (334) | (334) |
| | | **–** | **–** | **(334)** | **(334)** |

# Notes to the Financial Statements

For the year ended 30 September 2006

## Note 8: Explanation of Transition to AIFRS continued

### Reconciliation of Statement of Cash Flows

The adoption of AIFRS has impacted the statement of cash flows. The main differences to previous GAAP arise due to the consolidation of special purpose entities (refer Note (iii)) and the reclassification of certain cash flows from investing and financing activities to operating activities.

The impact of AIFRS is reflected below:

| For the year ended 30 September 2005 | Previous GAAP $m | Adjustments $m | AIFRS $m |
|---|---|---|---|
| Cash flows (used)/provided by operating activities | (99) | 704 | 605 |
| Cash flows (used in) investing activities | (4,622) | 4,522 | (100) |
| Cash flows provided by/(used in) financing activities | 5,203 | (5,275) | (72) |
| Cash movement | 482 | (49) | 433 |
| Cash at the beginning of the year | 674 | 631 | 1,305 |
| Cash at the end of the year | 1,156 | 582 | 1,738 |

## Note 8: Explanation of Transition to AIFRS continued

### AIFRS impacts from 1 October 2004

(i) Goodwill

In accordance with the election available under AASB 1, the Group has not restated any business combinations that occurred prior to 1 October 2004.

Goodwill is recognised under AIFRS at cost less accumulated amortisation as at 1 October 2004 and is subject to an annual assessment for impairment. If there is any goodwill impairment, it will be recognised immediately in the income statement. There is no goodwill impairment in existence as at 1 October 2004, 30 September 2005 or 30 September 2006.

Goodwill will no longer be subject to periodic amortisation and the goodwill amortisation charge recognised under previous GAAP has been reversed. This has resulted in an increase in profit after tax of $101 million for the year ended 30 September 2005. In addition, the carrying amount of goodwill has been increased by $101 million as at 30 September 2005.

(ii) Share based compensation

The Group did not recognise an expense in relation to its employee share and options schemes under previous GAAP. Following transition to AIFRS, the fair value of equity instruments granted to employees has been calculated and recognised as an expense through amortisation over the relevant vesting period, adjusted for the expected and actual level of vesting for non-market related vesting conditions.

In accordance with the election available under AASB 1, the Group has only applied AASB 2 "Share-Based Payment" to equity instruments granted after 7 November 2002 that vested after 1 January 2005.

Upon transition to AIFRS, a reduction of $4 million to retained earnings at 1 October 2004 was recognised, representing the expensing of employee equity grants over the vesting period to this date. In addition, an expense of $13 million was recognised to restate the result for the year ended 30 September 2005. In conjunction with the recognition of an expense for employee equity grants, a corresponding increase is recognised within an equity compensation reserve.

(iii) Consolidation

AIFRS introduces new requirements for the recognition of financial assets, including those transferred to a special purpose vehicle as part of securitisation transactions. Existing securitisations, both of St.George's assets and assets held in asset-backed conduit vehicles, had not been consolidated within the St.George Group under previous GAAP. However, under AIFRS the Group is considered to control these special purpose vehicles and therefore is required to consolidate these entities.

The new AIFRS consolidation requirements have resulted in a gross-up of assets and liabilities within the balance sheet as at 1 October 2004 of $11.1 billion (30 September 2005: $13.6 billion) in relation to the securitisation of St.George's assets and $1.0 billion (30 September 2005: $1.1 billion) in relation to asset-backed conduit vehicles.

The consolidation of these vehicles has no net profit impact however, it does result in a reclassification of items within the income statement. For the year ended 30 September 2005, net interest income increased by $94 million, non-interest income decreased by $96 million and operating expenses decreased by $2 million.

In addition, certain asset-backed conduit vehicle assets recognised upon consolidation are classified as available for sale investments, with movements in their fair value recognised in an available for sale reserve within equity from 1 October 2005.

The consolidation of the Ascalon Funds Seed Pool Trust has resulted in a reclassification of $22 million from other investments to investment securities.

(iv) Leveraged leases

Income from leveraged leases was recognised under previous GAAP progressively over the lease term on an effective yield after tax basis, with related upfront fee income recognised upon receipt.

Under AIFRS, all income on leveraged leases is recognised progressively over the lease term on an effective pre-tax yield basis.

A transitional adjustment was recognised at 1 October 2004 to increase unearned income by $13 million and decrease deferred tax liabilities by $4 million, resulting in a $9 million reduction to retained earnings.

There has been no significant impact on net profit during 2005 as a result of the revised AIFRS income recognition methodology.

(v) Property, plant and equipment

The Group recognised land and buildings under previous GAAP at revalued amounts, with revaluation increments and decrements recorded in an asset revaluation and realisation reserve.

In accordance with the election available under AASB 1, the Group has used the revalued amount for land and buildings under previous GAAP as at 1 October 2004 as "deemed cost" under AIFRS. The balance of the asset revaluation and realisation reserve of $83 million at 1 October 2004 has been transferred to retained earnings and together with the recognition of a deferred tax liability of $29 million, has resulted in an increase in retained earnings of $54 million. In addition, the movement in the asset revaluation reserve under previous GAAP of $7 million (prior to decrements recognised in the asset revaluation reserve of $2 million) for the year ended 30 September 2005 has been reversed. At 30 September 2005, this resulted in a decrease in land and buildings of $7 million, a decrease in the asset revaluation and realisation reserve of $5 million and a decrease in retained earnings of $2 million due to the recognition of an impairment loss on land and buildings, as discussed below.

## Note 8: Explanation of Transition to AIFRS continued

The previous GAAP results for the year ended 30 September 2005 has been reduced by $1 million after tax under AIFRS, reflecting the combined impact of the recognition of land and buildings impairment that was not reflected in the previous GAAP Statements of Financial Performance but was recognised in an asset revaluation reserve of $2 million and the reversal of a deferred tax liability of $1 million on buildings sold during 2005.

(vi) Employee benefits
The Group did not recognise an asset or liability in its balance sheet for the net position of the defined benefit section of the defined contribution superannuation plan sponsored by the Group.

On adoption of AIFRS, a deficit of $5 million within the Group's defined benefit section of the defined contribution superannuation plan was recognised as a liability, together with a $2 million increase in deferred tax assets and a decrease in retained earnings at 1 October 2004 of $3 million.

The revised AASB 119 (issued in December 2004) permits a number of options for recognising actuarial gains and losses on an ongoing basis. The Group has adopted the revised AASB 119 and has elected to apply the option to recognise actuarial gains and losses directly in retained earnings.

(vii) Income tax
Upon transition to AIFRS, the Group has changed from the liability method to a "balance sheet approach" to tax effect accounting that requires deferred tax balances to be recognised where there is a difference between the carrying value of an asset/liability and its tax base. In addition, under AIFRS the tax effect follows the underlying transaction and hence can be recognised in equity or as an income tax expense.

The tax adjustments to deferred tax assets and liabilities that arise on transition to AIFRS as at 1 October 2004, comprise an increase of $2 million in deferred tax assets associated with the defined benefit superannuation deficit, a decrease in deferred tax liabilities of $1 million associated with the write-off of intangible assets relating to capitalised software, an increase of $29 million in deferred tax liabilities representing the tax effect of the balance of the asset revaluation reserve transferred to retained earnings and a decrease of $4 million in deferred tax liabilities relating to the change in revenue recognition for leveraged leases.

In addition, a net transitional adjustment decrease to deferred tax liabilities of $2 million and a $2 million increase to retained earnings at 1 October 2004 arises from the change in method of accounting for income taxes from an income statement approach to a balance sheet approach for items not previously required to be recognised. This represents the tax effect of tax and accounting carrying value base differences on buildings of $8 million.

Deferred tax assets have been separately recognised on the face of the balance sheet, resulting in a decrease in other assets of $86 million at 1 October 2004 and $91 million at 30 September 2005. Current and deferred tax liabilities, previously recognised within income tax liability, have been separately recognised on the face of the balance sheet.

(viii) Life insurance accounting
On transition to AIFRS, the asset representing the Excess of Net Market Value over Net Assets (EMVONA) of a life insurance entity's controlled entities can no longer be recognised. As the Group's life insurance entity did not recognise any EMVONA, this requirement has had no impact.

(ix) Intangible assets
On transition to AIFRS, certain items previously included within deferred expenditure are no longer eligible for recognition within intangible assets and have been written off. As at 1 October 2004, this resulted in a reduction in intangible assets of $3 million, a reduction in deferred tax liabilities of $1 million and a decrease to retained earnings of $2 million.

In addition, the Group's deferred expenditure has been reclassified to intangible assets, resulting in a decrease in other assets and a corresponding increase in intangible assets of $103 million at 1 October 2004 and $110 million at 30 September 2005.

### AIFRS impacts from 1 October 2005

(x) Hybrid financial instruments
PRYMES and DCS, which were classified as equity under previous GAAP, are reclassified as debt under AIFRS. This resulted in a $625 million decrease in shareholders' equity on transition. The dividends payable (where applicable) on these instruments are classified as interest expense under AIFRS. The SAINTS and the Perpetual Notes will continue to be classified as equity under AIFRS.

The DCS include a number of embedded derivatives that are required under AIFRS to be carried at fair value. The Group has elected to measure the DCS from 1 October 2005 at fair value to the income statement in accordance with the available alternative in AASB 139, resulting in all changes in fair value of the DCS and its embedded derivatives being recognised in the income statement. The impact on the income statement will be partially offset by the fair value recognition on the balance sheet of the derivative that was entered into at the time of the issue of the DCS, whose changes in fair value are also recognised within the income statement. At 1 October 2005, a fair value adjustment to increase the DCS liability by $17 million was recognised together with a deferred tax asset of $5 million, resulting in the reduction in retained earnings of $12 million. In addition, $48 million of associated derivative liabilities and distribution provisions have been reclassified from other liabilities to liabilities at fair value through the income statement.

# Notes to the Financial Statements

For the year ended 30 September 2006

## Note 8: Explanation of Transition to AIFRS continued

PRYMES are measured at fair value net of transaction costs at initial recognition and amortised cost in subsequent periods.

Share issue costs relating to PRYMES have been netted against the proceeds from the issue of these securities and classified as equity under previous GAAP. Under AIFRS, share issue costs are deferred and recognised as an adjustment to the yield of the instrument. At 1 October 2005, $15 million of share issue costs and a redemption premium have been recognised as a reduction to retained earnings. In addition, the amounts payable to holders of the PRYMES of $2 million have been reclassified and included within the underlying liability balance.

Share issue costs relating to the DCS had been deferred and amortised under previous GAAP. Following the election to recognise the DCS under the fair value option, the remaining balance of deferred costs have been recognised as a reduction to retained earnings of $1 million at 1 October 2005.

### (xi) Transaction fees and costs

AIFRS requires fee income that is integral to an instrument to be recognised as an adjustment to the yield of that instrument. AIFRS also requires the deferral of directly attributable incremental loan origination costs and their recognition as a yield adjustment net of any fees received. The Group deferred and amortised certain home loan broker origination costs under previous GAAP.

On transition, certain fees previously recognised as income, have been deferred in the balance sheet with a corresponding adjustment to retained earnings. This adjustment on transition at 1 October 2005 has resulted in a decrease in loans and receivables of $122 million, an increase in deferred tax assets of $42 million, an increase in deferred tax liabilities of $6 million, and a reduction in retained earnings of $86 million.

In addition, deferred origination costs recognised within other assets under previous GAAP of $73 million have been reclassified within loans and other receivables from 1 October 2005.

The classification of certain fee income and loan origination costs that are integral to the yield of an instrument will change from non-interest income under previous GAAP to interest income under AIFRS.

### (xii) Derivatives and hedging

Under AIFRS, all derivatives contracts, whether used as hedging instruments or otherwise, will be measured at fair value at initial recognition and at each subsequent reporting date in the balance sheet, with a corresponding entry to the income statement or an equity reserve. Under previous GAAP, St.George recognised trading derivatives on a mark to market basis on balance sheet and hedging derivatives on an accruals basis.

AIFRS introduces new requirements in relation to the application of hedge accounting for derivative contracts. Amongst those requirements, hedging instruments must satisfy hedge effectiveness tests.

To the extent hedges are considered ineffective, AIFRS requires such ineffectiveness to be reflected in the income statement. Where ineffectiveness is outside a prescribed range, AASB 139 precludes the use of hedge accounting, which may result in volatility in the income statement. St.George has adopted cash flow hedging and a combination of fair value and cash flow hedging methods in relation to its interest rate and currency hedges respectively. To the extent the fair value hedges are effective, the fair value movement of the derivative instrument will largely offset the movement in the fair value of the underlying hedged item for the risks hedged, which will also be recorded in the income statement. To the extent that cash flow hedges are effective, the fair value movements in derivative instruments will be taken to equity rather than the income statement.

Certain derivatives used to manage short-term balance sheet structural interest rate risks in the banking book will not be eligible for hedge accounting such as Overnight Index Swaps and Forward Rate Agreements. To the extent these and any other non-trading derivatives do not qualify for hedge relationships, additional volatility will arise.

On transition at 1 October 2005, derivative assets of $368 million have been reclassified from other assets and separately recognised and derivative liabilities of $1.558 billion have been reclassified from other liabilities and separately recognised. In addition, the recognition of all derivatives at fair value, together with the application of fair value and cash flow hedging, resulted in an increase in derivative assets and derivative liabilities of $99 million and $109 million respectively, an increase in deferred tax assets and liabilities of $35 million and $31 million respectively, a hedge fair value adjustment reducing bonds and notes by $3 million, a decrease of other assets of $2 million and an increase in other liabilities of $34 million. This has resulted in a decrease in retained earnings of $20 million and the recognition of a cash flow hedging reserve of $19 million after tax.

### (xiii) Loan provisioning

AIFRS adopts an approach known as “incurred losses” for loan provisioning and provides guidance on measurement of incurred losses. Provisions are raised for losses that have already been incurred for loans that are known to be impaired. The estimated cash flows on these impaired loans are then discounted to their present value to determine their recoverable amount and the associated provision. As this discount unwinds, there is a resulting recognition of interest in the income statement during the period between recognition of impairment and recovery of the written down amount.

# Notes to the Financial Statements

For the year ended 30 September 2006

## Note 8: Explanation of Transition to AIFRS continued

Loans found not to be individually impaired are placed into pools of similar assets with similar risks characteristics to be collectively assessed for impairment. A collective impairment provision may be required where impairment events have occurred but these events cannot be attributed to individual exposures at the reporting date. The collective impairment loss is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data.

The general provision under previous GAAP, based on 0.5% of risk weighted assets, together with certain portfolio provisions on retail loans, have been written back against retained earnings and replaced by a provision based on collective assessment in accordance with AIFRS that has been tax effected. Specific provisions will continue but will be measured based on AIFRS requirements.

A portion of the specific provision of $35 million, an associated deferred tax asset of $10 million, and the general provision of $219 million, which was recognised under previous GAAP, has been reversed to retained earnings. This has resulted in an increase in retained earnings of $244 million.

In accordance with the requirements of AASB 139, a collective provision of $245 million, together with a deferred tax asset of $74 million, has been recognised under AIFRS. This has resulted in a decrease in retained earnings of $171 million.

The difference between the after tax equivalent of the former AGAAP general provision (based on 0.5% of risk weighted assets) and the after tax equivalent of the collective provision has been appropriated from retained earnings to a general reserve for credit losses at 1 October 2005. This has resulted in a $68 million increase in the general reserve for credit losses and a corresponding decrease in retained earnings. This decrease in retained earnings offsets a net increase in retained earnings of $73 million, which resulted from the write-back of AGAAP loan provisions, and the recognition of AIFRS loan provisions.

### (xiv) Financial instruments

Financial assets carried at fair value and amortised cost under previous GAAP, have been reclassified to assets at fair value through the income statement, with unrealised changes in fair value recognised within the income statement. Included within the reclassification of these securities are trading assets of $6,295 million and other investments of $24 million as at 1 October 2005.

The use of quoted bid prices in the calculation of the fair value of trading securities has, on transition at 1 October 2005, resulted in a decrease in assets at fair value through the income statement and a corresponding decrease in retained earnings of $2 million.

Financial assets carried at amortised cost under previous GAAP, have been reclassified under AIFRS to Available for Sale (AFS) securities, with unrealised changes in fair value recognised within an equity reserve. Included within the reclassification of these securities are investment securities of $1,149 million and other investments of $21 million as at 1 October 2005. On transition at 1 October 2005, this has resulted in an increase in available for sale investments of $7 million, the recognition of a deferred tax liability of $2 million, and the recognition of an AFS equity reserve of $5 million.

### (xv) Income tax

Additional tax effects have arisen in respect of the 1 October 2005 AIFRS transitional adjustments. The recognition of the Depositary Capital Securities (DCS) at fair value resulted in an increase of $5 million in deferred tax assets and $nil in deferred tax liabilities. The deferral of transaction fees and costs resulted in an increase in deferred tax assets of $42 million and deferred tax liabilities of $6 million. The recognition of hedging derivatives and existing hedging derivatives not eligible for AIFRS hedge accounting resulted in the recognition of deferred tax assets of $35 million and an increase in deferred tax liabilities of $31 million. The recognition of assets and liabilities at fair value resulted in the recognition of a deferred tax liability of $2 million for available for sale investments. The write back of loan provisions under previous GAAP and recognition of AIFRS collective loan provisions resulted in an increase in deferred tax assets of $64 million. The restatement of the bank acceptance assets and liabilities to an amortised cost basis resulted in a $9 million increase in deferred tax assets and an $8 million increase in deferred tax liabilities.

## Note 8: Explanation of Transition to AIFRS continued

(xvi)Bank acceptances

Under previous GAAP, the Group accepted and discounted bills for customers, classifying these within trading securities at their market value. Upon their "on-sale", customer discounted bills were reclassified to bank acceptance assets and recognised at their face value. A corresponding liability was recognised representing the Group's obligation to the holder of the on-sold bill. Interest income on discounted bills was recognised within interest income and bill acceptance fee income recognised within other income.

Under the recognition requirements of AASB 139, all bank accepted bills (including both discounted and on-sold bills) and the associated liability for on-sold bills are recognised at amortised cost, with interest income and expense recognised using the effective yield methodology. Fee income on bill acceptances is recognised on an effective yield basis within interest income.

At 1 October 2005, the Group's bank accepted and discounted bills recognised within trading securities of $1,337 million under previous GAAP have been reclassified to bank acceptances.

In addition, bank acceptance assets and liabilities have been restated to an amortised cost basis. As at 1 October 2005, this has resulted in a decrease in the bank acceptance asset of $29 million, with the recognition of an associated deferred tax asset of $9 million, and a decrease in the bank acceptance liability of $28 million, with the recognition of an associated deferred tax liability of $8 million. There is no significant impact on retained earnings for these adjustments.

## Note 9: Events Subsequent to Balance Date

### Final dividend

On 1 November 2006, the Directors declared a final dividend of 77 cents per ordinary share, amounting to $405 million. This dividend has not been brought to account in the Group's financial statements for the year ended 30 September 2006.

### Capital raising

The Bank intends to issue a $300 million Non-Innovative Tier 1 capital instrument in December 2006.

St.George Bank Limited and its Controlled Entities

# Directors' Declaration

For the year ended 30 September 2006

In the opinion of the Directors of St.George Bank Limited, the remuneration disclosures that are contained in the Remuneration Report on pages 54 to 66 of the Directors' Report are in accordance with the Corporations Act 2001. The accompanying Concise Financial Report of the Group, comprising St.George Bank Limited and its controlled entities for the year ended 30 September 2006, set out on pages 72 to 94:

(a) has been derived from or is consistent with the Full Financial Report for the financial year; and

(b) complies with Australian Accounting Standard AASB 1039: "Concise Financial Reports".

For and on behalf of the Board of Directors and in accordance with a resolution of the Directors.

**J M Thame**
Chairman

Gail Kelly

**G P Kelly**
Managing Director and Chief Executive Officer

Dated at Sydney, New South Wales
7 November 2006

St.George Bank Limited and its Controlled Entities

# Independent Audit Report on Concise Financial Report

For the year ended 30 September 2006
To the Shareholders of St.George Bank Limited

## Scope

We have audited the Concise Financial Report of St.George Bank Limited ("the Bank") and its controlled entities for the financial year ended 30 September 2006, consisting of the income statement, statement of recognised income and expense, balance sheet, statement of cash flows, accompanying notes 1 to 9, and the Directors' Declaration set out on pages 72 to 95. We have audited information disclosed by the Bank, as permitted by the Corporations Regulations 2001, about the remuneration of Directors and executives ("remuneration disclosures") required by Australian Accounting Standard AASB 124 Related Party Disclosures, under the heading "Remuneration Report" in the Directors' Report and not in the Concise Financial Report. The Bank's Directors are responsible for the Concise Financial Report and the remuneration disclosures. We have conducted an independent audit of the Concise Financial Report and the remuneration disclosures in order to express an opinion on them to the shareholders of the Bank.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the Concise Financial Report is free of material misstatement. We have also performed an independent audit of the Full Financial Report and the remuneration disclosures of St.George Bank Limited and its controlled entities for the year ended 30 September 2006. The Remuneration Report also contains information not required by Australian Accounting Standard AASB 124 which is not subject to our audit. Our audit report on the Full Financial Report was signed on 7 November 2006, and was not subject to any qualification.

Our procedures in respect of the audit of the Concise Financial Report included testing that the information in the Concise Financial Report is consistent with the Full Financial Report and examination, on a test basis, of evidence supporting the amounts, and other disclosures which were not directly derived from the Full Financial Report. These procedures have been undertaken to form an opinion whether, in all material respects, the Concise Financial Report is presented fairly in accordance with Australian Accounting Standard AASB 1039 Concise Financial Reports.

The audit opinion expressed in this report has been formed on the above basis.

## Audit opinion

In our opinion the Concise Financial Report of St.George Bank Limited and its controlled entities for the year ended 30 September 2006 complies with Australian Accounting Standard AASB 1039 Concise Financial Reports.

KPMG

**KPMG**

P. M. Reid

**P M Reid**

Sydney
7 November 2006

St.George Bank Limited and its Controlled Entities

# Supplementary Information

For the year ended 30 September 2006

## Capital Adequacy

Capital adequacy has been calculated in accordance with APRA's AIFRS regulatory requirements that applied from 1 July 2006. In accordance with APRA's transitional arrangements, the $261 million Tier 1 regulatory capital shortfall calculated as the difference between the Group's previous GAAP capital base at 30 June 2006 and AIFRS capital base at 1 July 2006, is subject to transitional relief until 31 December 2007.

## Qualifying capital

| | Consolidated | |
|---|---|---|
| | **2006 $m** | 2005 $m |
| **Tier 1** | | |
| Share Capital | **3,868** | 3,454 |
| General Reserve | **15** | 15 |
| Borrowers' and depositors' redemption reserve | **2** | 2 |
| PRYMES | **-** | 291 |
| SAINTS | **345** | 345 |
| Perpetual notes | **34** | 31 |
| Step-up preference shares | **148** | – |
| Depositary capital securities | **335** | 328 |
| Minority interests | **(16)** | (12) |
| Asset realisation reserve | **-** | 33 |
| Other reserves | **2** | 5 |
| Equity compensation reserve | **29** | – |
| Retained earnings | **798** | 781 |
| Less: Expected dividend[(1)] | **(344)** | (237) |
| Capitalised expenses[(2)] | **(295)** | (184) |
| Goodwill and other APRA deductions | **(1,513)** | (1,366) |
| Add: APRA AIFRS transition adjustments[(3)] | **261** | – |
| **Total Tier 1 capital** | **3,669** | 3,486 |
| **Tier 2** | | |
| Asset revaluations | **28** | 55 |
| Subordinated debt | **1,835** | 1,600 |
| General provision for doubtful debts | **-** | 219 |
| General reserve for credit losses/collective provision | **265** | – |
| Add: APRA AIFRS transition adjustments[(3)] | **7** | – |
| **Total Tier 2 capital** | **2,135** | 1,874 |
| **Deductions** | | |
| Investment in non-consolidated entities net of goodwill and Tier 1 deductions | **27** | 27 |
| Other | **1** | 1 |
| **Total deductions from capital** | **28** | 28 |
| **Total qualifying capital** | **5,776** | 5,332 |
| **Total risk weighted assets** | **52,982** | 47,864 |
| **Capital Adequacy Ratios** | **%** | % |
| Tier 1 | **6.9** | 7.3 |
| Tier 2 | **4.0** | 3.9 |
| Less deductions | **(0.1)** | (0.1) |
| **Total capital ratio** | **10.8** | 11.1 |

(1) Net of estimated reinvestment under the dividend reinvestment plan.

(2) In accordance with APRA's AIFRS regulatory capital requirements, capitalised software costs are also required to be deducted from Tier 1 capital from 1 July 2006.

(3) Transitional relief adjustment approved by APRA to apply to 31 December 2007. In accordance with APRA's AIFRS regulatory requirements applicable from 1 July 2006, the difference between the Group's previous GAAP capital base at 30 June 2006 and AIFRS capital base at 1 July 2006 is subject to transitional relief.

# Supplementary Financial Information

For the year ended 30 September 2006

## Shareholder Information

### Classes of Shares on Issue

The Bank has five classes of shares on issue: fully paid ordinary shares, SAINTS (Subordinated Adjustable Income Non-refundable Tier 1 Securities) SPS (Step-Up Preference Shares) (non-cumulative unsecured preference shares), unpaid borrower shares and unpaid depositor shares. Further details are contained within the accompanying 'Notes to and forming part of the accounts' and later in this section.

The rights and restrictions attaching to all classes are contained within the Bank's Constitution, consisting of its Memorandum and Articles of Association, a copy of which is available to any shareholder on written request to either St.George's share registry (Computershare Investor Services Pty Limited), or its registered office. Contact details are inside the back cover of this report.

### Voting Rights

Subject to the Bank's Constitution, at general meetings of the Bank:

(a) each ordinary shareholder entitled to vote may either vote in person, by proxy, by attorney or, where a body corporate, by representative;

(b) on a show of hands, each ordinary shareholder present in person, by proxy, attorney or representative has one vote;

(c) on a poll, each ordinary shareholder present in person, by proxy, representative or attorney shall have one vote for every ordinary share held by that shareholder. In the case of joint holdings, only one joint holder may vote and if both joint holders attend the meeting only the first named in the register of shareholders may vote.

SAINTS and SPS holders will be entitled to attend general meetings of the Bank, but will not be entitled to speak or vote except in limited circumstances prescribed by the ASX Listing Rules. Borrower and depositor shareholders will be entitled to attend general meetings, but will not be entitled to speak or vote. Full details of voting entitlements for all classes of shareholder are contained within the Bank's Constitution.

### Voting by Proxy

The Board strongly encourages shareholders who are not able to attend meetings to participate in the decision making process through the completion and return of proxies. If a shareholder appoints a proxy and still attends the meeting, they may not vote unless he or she revokes the proxy prior to the commencement of the meeting.

Corporate shareholders may:

- appoint a representative; or
- appoint a proxy;

to represent them at meetings.

If a representative of a corporate securityholder or proxy is to attend the meeting, the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the company's share registry and must be returned to either the Bank's share registry or its registered office (or by specified facsimile numbers at such places), no later than 48 hours before the meeting.

### Australian Stock Exchange Listing

The Bank's ordinary shares, SAINTS and SPS are quoted on the Australian Stock Exchange ('ASX') with Sydney being the Bank's home exchange. The stock codes under which these shares trade are:

- 'SGB' for ordinary,
- 'SGBPC' for SPS,
- 'SGBPA' for SAINTS.

Trading results are published in most Australian daily newspapers.

Option contracts against the ordinary shares of the Bank are traded on the ASX Derivatives Market. Further information can be obtained from ASX Derivatives or a stockbroker.

In the United States, the Bank's ordinary shares may be traded in the form of American Depository Receipts issued through Deutsche Bank. Further enquiries should be directed to Deutsche Bank. Contact details are inside the back cover of this report.

Shareholders or other interested parties wishing to trade in St.George shares on the ASX must do so through a stockbroker. The Corporate Relations office of the ASX can arrange a referral for persons who have had no prior dealings with a stockbroker.

Investor Information on the Internet

Visit our Shareholder Centre section on the St.George website www.stgeorge.com.au for comprehensive shareholder information such as the Annual Reports, profit announcements, News and ASX releases, current share price as well as access to your shareholding on-line.

### Receive Only the Information You Need

Shareholders not requiring a copy of the Concise Annual Report should advise the St.George share registry in writing, quoting their Shareholder Reference Number or Holder Identification Number. All other mailings will still be received if this option is selected.

Alternatively, shareholders may opt to receive the End of Year Update, a brief version of the Concise Annual Report. All reports are available via email. To change your current selection or to request a copy of the 2005 Full Financial Report, contact the Bank's share registry, Computershare on 1800 804 457.

St.George Bank Limited and its Controlled Entities

# Supplementary Financial Information

For the year ended 30 September 2006

## Information Regarding Shareholdings

### (i) Range Of Shares as at 30 September 2006

(a) Ordinary Shares

| Range of Shareholdings | Number of Shareholdings | Number of Ordinary Shares | Percentage of Total |
|---|---|---|---|
| 1 – 1000 | 82,465 | 38,050,546 | 7.23 |
| 1,001 – 5000 | 53,015 | 117,322,243 | 22.28 |
| 5,001 – 10,000 | 8,168 | 57,224,539 | 10.87 |
| 10,001 – 100,000 | 5,226 | 113,109,276 | 21.48 |
| 100,001 – 9,999,999,999 | 188 | 200,871,969 | 38.14 |
| **Total** | **149,062** | **526,578,573** | **100.00** |

There were 1,182 shareholders who held less than a marketable parcel of ordinary shares that equates to a market value of less than $500 based on the market price as at 30 September 2006.

(b) SAINTS

| Range of Shareholdings | Number of Shareholdings | Number of Preference Shares | Percentage of Total |
|---|---|---|---|
| 1 – 1000 | 8,112 | 1,426,110 | 40.75 |
| 1,001 – 5000 | 219 | 455,559 | 13.02 |
| 5,001 – 10,000 | 21 | 167,007 | 4.77 |
| 10,001 – 100,000 | 17 | 597,252 | 17.06 |
| 100,001 – 9,999,999,999 | 2 | 854,072 | 24.40 |
| **Total** | **8,371** | **3,500,000** | **100.00** |

(c) SPS

| Range of Shareholdings | Number of Shareholdings | Number of Preference Shares | Percentage of Total |
|---|---|---|---|
| 1 – 1000 | 862 | 303,648 | 20.24 |
| 1,001 – 5000 | 70 | 184,106 | 12.27 |
| 5,001 – 10,000 | 13 | 103,233 | 6.88 |
| 10,001 – 100,000 | 15 | 567,297 | 37.83 |
| 100,001 – 9,999,999,999 | 2 | 341,716 | 22.78 |
| **Total** | **962** | **1,500,000** | **100.00** |

### (ii) Limitation on Share Ownership

The Constitution of the Bank imposes a prohibition on the ownership of more than ten percent (10%) of the issued shares in the Bank. From 1 July 2002, an amendment to the Constitution relating to the ten percent (10%) shareholding limitation, may be effected by a special resolution of shareholders holding seventy-five percent (75%) or more of the Bank's ordinary shares voting in favour of the amendment whether in person or by proxy.

The Financial Sector (Shareholdings) Act also contains shareholding limitations.

# Supplementary Financial Information

For the year ended 30 September 2006

**(iii) Listings**

The ordinary and preference shares of the Bank are traded on the Australian Stock Exchange (ASX), with Sydney being the Bank's home exchange. The symbol under which the ordinary shares and SAINTS and SPS are traded is "SGB", "SGBPA" and "SGBPC" respectively. Share details of trading activity are published in most daily newspapers. The Bank also has the following two Transferable Deposit issues listed on the ASX:

A$400 million Fixed Rate 6.00% Transferable Deposits due April 2011 under code SGBHA
A$900 million Floating Rate Transferable Deposits due April 2011 under code SGBHB

St.George also has a US$10 billion Euro Note Programme listed on the London Stock Exchange Limited. The following Notes under the St.George US$10 billion Euro Note Programme are listed on the London Stock Exchange:

EUR500 million Floating Rate Notes due January 2007
EUR50 million Floating Rate Notes due February 2007
GBP45 million Floating Rate Notes due March 2007
GBP200 million Floating Rate Notes due March 2007
EUR500 million Floating Rate Notes due June 2007
EUR50 million Floating Rate Notes due December 2007
GBP50 million Floating Rate Notes due April 2008
EUR100 million Floating Rate Notes due June 2008
EUR500 million Floating Rate Notes due June 2008
GBP70 million Floating Rate Notes due July 2008
GBP45 million Floating Rate Notes due March 2009
EUR750 million Floating Rate Notes due August 2009
US$500 million Floating Rate Notes due February 2010
EUR750 million Floating Rate Notes due June 2010
EUR250 million Floating Rate Subordinated Notes due October 2015
GBP375 million Floating Rate Notes due January 2011
EUR600 million Floating Rate Notes due June 2011

**(iv) Substantial Shareholders**

St.George Bank has not been provided with a Notice of substantial shareholding during its 2005/2006 financial year.

**(v) Top 20 Shareholders as at 30 September 2006**

(a) Ordinary Shares

| Shareholder | Number of Ordinary Shares Held | Percentage of Shares Held |
|---|---|---|
| JP Morgan Nominees Australia Limited | 48,614,699 | 9.31 |
| National Nominees Limited | 28,098,953 | 5.38 |
| Citicorp Nominees Pty Limited | 18,352,509 | 3.51 |
| Westpac Custodian Nominees Limited | 18,226,066 | 3.49 |
| RBC Global Services Australia Nominees Pty Limited | 15,245,816 | 2.92 |
| Cogent Nominees Pty Limited | 8,692,361 | 1.66 |
| Queensland Investment Corporation | 5,490,578 | 1.05 |
| ANZ Nominees Limited | 5,410,712 | 1.04 |
| Westpac Financial Services Limited | 2,623,941 | 0.50 |
| Australian Foundation Investment Company Limited | 2,543,663 | 0.49 |
| Argo Investments Limited | 2,431,137 | 0.47 |
| AMP Life Limited | 2,049,762 | 0.39 |
| Milton Corporation Limited | 1,807,121 | 0.35 |
| Bonds Street Custodians Limited | 1,605,847 | 0.31 |
| PSS Board | 1,520,965 | 0.29 |
| Djerriwarrh Investments Limited | 1,371,998 | 0.26 |
| Perpetual Trustee Company Limited | 1,369,683 | 0.26 |
| McCusker Holdings Pty Limited | 1,212,749 | 0.23 |
| UBS Private Clients Australia Nominees Pty Limited | 1,182,930 | 0.23 |
| Australian Reward Investment Alliance 1 | 922,656 | 0.18 |

St.George Bank Limited and its Controlled Entities

# Supplementary Financial Information

For the year ended 30 September 2006

(b) SAINTS

| Shareholder | Number of Ordinary Shares Held | Percentage of Shares Held |
|---|---|---|
| JP Morgan Nominees Australia Limited | 650,630 | 18.59 |
| AMP Life Limited | 203,442 | 5.81 |
| Cogent Nominees Pty Limited | 99,617 | 2.85 |
| UBS Private Clients Australia Nominees Pty Limited | 86,766 | 2.48 |
| Westpac Custodian Nominees Limited | 86,306 | 2.47 |
| Goldman Sachs J B Were Pty Limited | 45,913 | 1.31 |
| Citicorp Nominees Pty Limited | 43,355 | 1.24 |
| ANZ Nominees Limited | 41,393 | 1.18 |
| Cambooya Pty Limited | 36,550 | 1.04 |
| RBC Global Services Australia Nominees Pty Limited | 25,602 | 0.73 |
| Australian Executor Trustees Limited | 21,830 | 0.62 |
| Cryton Investments No.9 Pty Ltd | 21,050 | 0.60 |
| Australian National University | 20,000 | 0.57 |
| Questor Financial Services Limited | 19,841 | 0.57 |
| Elise Nominees Pty Limited | 18,594 | 0.53 |
| Hastings Funds Management Limited | 15,000 | 0.43 |
| Bond Street Custodians Limited | 12,994 | 0.37 |
| Argo Investments Limited | 12,000 | 0.34 |
| Cambooya Pty Limited Foundation A/C | 10,831 | 0.31 |
| Kayteal Pty Limited | 10,000 | 0.29 |

(c) SPS

| Shareholder | Number of Ordinary Shares Held | Percentage of Shares Held |
|---|---|---|
| JP Morgan Nominees Australia Limited | 238,716 | 15.91 |
| National Nominees Limited | 103,000 | 6.87 |
| RBC Dexia Investor Services Australia Nominees Pty Limited | 79,800 | 5.32 |
| ANZ Nominees Limited | 62,500 | 4.17 |
| Australian National University | 60,000 | 4.00 |
| Dimbulu Pty Ltd | 51,000 | 3.40 |
| UCA Cash Management Fund Limited | 50,000 | 3.33 |
| UBS Private Clients Australia Nominees Pty Limited | 49,774 | 3.32 |
| Goldman Sachs J B Were Capital Markets Ltd | 46,744 | 3.12 |
| Meriton Property Finance Pty Ltd | 29,000 | 1.93 |
| OHJ Holdings Pty Ltd | 25,650 | 1.71 |
| Questor Financial Services Limited | 22,787 | 1.52 |
| Citicorp Nominees Pty Limited | 22,500 | 1.50 |
| Invia Custodian Pty Limited | 20,000 | 1.33 |
| Cogent Nominees Pty Ltd | 18,100 | 1.21 |
| Fortis Clearing Nominees Pty Limited | 17,634 | 1.18 |
| Elise Nominees Pty Limited | 12,973 | 0.86 |
| Baptist Community Services | 10,000 | 0.67 |
| Invia Custodian Pty Ltd | 10,000 | 0.67 |
| M F Custodians Ltd | 9,817 | 0.65 |

# Supplementary Financial Information

For the year ended 30 September 2006

## (vi) Domicile of Shareholdings as at 30 September 2006

### (a) Ordinary Shareholdings

| Locality | Number of Shareholders | Total Number of Shares Held |
|---|---|---|
| Australian Capital Territory | 2,635 | 8,253,047 |
| New South Wales | 41,647 | 312,737,612 |
| Northern Territory | 123 | 226,243 |
| Queensland | 6,803 | 26,999,412 |
| South Australia | 4,671 | 16,413,455 |
| Tasmania | 609 | 1,972,868 |
| Victoria | 16,654 | 112,349,210 |
| Western Australia | 2,868 | 7,502,320 |
| **Domestic Total** | **76,010** | **486,454,167** |
| **Overseas Total** | **695** | **2,618,639** |
| **Total** | **76,705** | **489,072,806** |

### (b) SAINTS

| Locality | Number of Shareholders | Total Number of Shares Held |
|---|---|---|
| Australian Capital Territory | 172 | 51,855 |
| New South Wales | 2,511 | 1,667,158 |
| Northern Territory | 7 | 338 |
| Queensland | 366 | 69,760 |
| South Australia | 261 | 81,316 |
| Tasmania | 51 | 5,296 |
| Victoria | 900 | 441,119 |
| Western Australia | 201 | 33,670 |
| **Domestic Total** | **4,469** | **2,350,512** |
| **Overseas Total** | **5** | **410** |
| **Total** | **4,474** | **2,350,922** |

### (c) SPS

| Locality | Number of Shareholders | Total Number of Shares Held |
|---|---|---|
| Australian Capital Territory | 6 | 63,320 |
| New South Wales | 107 | 638,165 |
| Northern Territory | – | – |
| Queensland | 12 | 16,170 |
| South Australia | 10 | 22,050 |
| Tasmania | 1 | 95 |
| Victoria | 65 | 465,331 |
| Western Australia | 5 | 348 |
| **Domestic Total** | **206** | **1,205,479** |
| **Overseas Total** | **–** | **–** |
| **Total** | **206** | **1,205,479** |

St.George Bank Limited and its Controlled Entities

# Supplementary Financial Information

For the year ended 30 September 2006

### Five Year History of Share Issues and Dividends

History of Ordinary Shares Issued

| Date of Issue | Details | Shares Issued | Issue/ DRP Price ($) |
|---|---|---|---|
| 28/03/01 | Share Buy-Back (Cancelled Shares) | (22,790,119) | 16.50 |
| 29/03/01 | Conversion of Preference Shares | 28,168,842 | |
| Jan 01 | Employee Reward Share Plan | 479,534 | 13.90 |
| 29/06/01 | Dividend Reinvestment Plan | 732,044 | 15.52 |
| Aug 01 | Primary STRYPES Receipts Exchange | 18,440,000 | 13.9861 |
| Oct 00 – Sep 01 | Exercise of Employee Options | 3,110,000 | Various |
| Oct 00 – Sep 01 | Exercise of Employee Awards | 248,200 | Various |
| 14/12/01 | Dividend Reinvestment Plan | 8,299,338 | 16.28 |
| 11/01/02 | Employee Reward Share Plan | 340,312 | 17.79 |
| 02/07/02 | Dividend Reinvestment Plan | 3,598,233 | 19.22 |
| Oct 01 – Sep 02 | Exercise of Employee Options | 1,768,333 | Various |
| Oct 01 – Sep 02 | Exercise of Employee Awards | 263,473 | Various |
| 22/11/02 | Employee Reward Share Plan | 348,516 | 18.30 |
| 13/12/02 | Dividend Reinvestment Plan | 2,547,485 | 18.18 |
| 02/07/03 | Dividend Reinvestment Plan | 3,205,169 | 21.48 |
| Oct 02 – Sep 03 | Exercise of Employee Options | 455,000 | Various |
| Oct 02 – Sep 03 | Exercise of Employee Awards | 938,725 | Various |
| 21/11/03 | Employee Reward Share Plan | 312,571 | 20.07 |
| 19/12/03 | Dividend Reinvestment Plan | 3,250,056 | 19.44 |
| 02/07/04 | Dividend Reinvestment Plan | 3,985,496 | 22.02 |
| Oct 03 – Sep 04 | Exercise of Employee Options | 30,000 | Various |
| Oct 03 – Sep 04 | Exercise of Employee Awards | 617,111 | Various |
| 19/11/04 | Employee Reward Share Plan | 288,763 | $24.25 |
| 17/12/04 | Dividend Reinvestment Plan | 2,893,267 | $24.45 |
| 04/07/05 | Dividend Reinvestment Plan | 2,496,221 | $26.02 |
| Oct 04 – Sep 05 | Exercise of Employee Options | 338,270 | Various |
| Oct 04 – Sep 05 | Exercise of Employee Awards | 602,893 | Various |
| 18/11/2005 | Employee Reward Share Plan | 241,366 | $29.03 |
| 14/12/2005 | Dividend Reinvestment Plan | 4,482,131 | $28.38 |
| 21/02/2006 | Share Buy-back (Cancelled Shares) | (11,677,657) | $25.69 |
| 21/02/2006 | Conversion of PRYMES | 10,309,170 | $29.82 |
| 04/07/2006 | Dividend Reinvestment Plan | 2,033,263 | $28.93 |
| Oct 05 – Sep 06 | Exercise of Employee Options | 513,522 | Various |
| Oct 05 – Sep 06 | Exercise Of Employee Awards | 269,314 | Various |
| | **Balance as 30 September 2006** | **526,578,573** | |

St.George Bank Limited and its Controlled Entities

# Supplementary Financial Information

For the year ended 30 September 2006

## History of Ordinary Dividends

| Date Paid | Type | Franking | Rate (cents) | DRP ($) |
|---|---|---|---|---|
| 05/01/98 | Final | 36% | 26 | 7.99 |
| 02/07/98 | Interim | 36% | 26 | 9.83 |
| 18/12/98 | Final | 36% | 26 | N/A |
| 01/07/99 | Interim | 36% | 26 | N/A |
| 17/12/99 | Final | 36% | 26 | N/A |
| 03/07/00 | Interim | 34% | 26 | N/A |
| 15/12/00 | Final | 34% | 29 | N/A |
| 29/06/01 | Interim | 34% | 31 | 15.52 |
| 14/12/01 | Final | 30% | 34 | 16.28 |
| 02/07/02 | Interim | 30% | 38 | 19.22 |
| 13/12/02 | Final | 30% | 42 | 18.18 |
| 02/07/03 | Interim | 30% | 45 | 21.48 |
| 19/12/03 | Final | 30% | 50 | 19.44 |
| 02/07/04 | Interim | 30% | 60 | 22.02 |
| 17/12/04 | Final | 30% | 62 | 24.45 |
| 04/07/05 | Interim | 30% | 67 | 26.02 |
| 14/12/05 | Final | 30% | 70 | 28.38 |
| 04/07/06 | Interim | 30% | 74 | 28.93 |

## History of SAINTS

| Date | Details |
|---|---|
| 13/08/03 | Initial issue of 3,500,000 SAINTS. Issue price $100.00. |
| 22/11/04 | Quarterly Dividend of $1.3146, fully franked at 30% |
| 21/02/05 | Quarterly Dividend of $1.1677, fully franked at 30% |
| 20/05/05 | Quarterly Dividend of $1.2033, fully franked at 30% |
| 22/08/05 | Quarterly Dividend of $1.2412, fully franked at 30% |
| 21/11/05 | Quarterly Dividend of $1.2268, fully franked at 30% |
| 20/02/06 | Quarterly Dividend of $1.2289, fully franked at 30% |
| 22/05/06 | Quarterly Dividend of $1.1868, fully franked at 30% |
| 21/08/06 | Quarterly Dividend of $1.2774, fully franked at 30% |
| 20/11/06 | Quarterly Dividend of $1.3268, fully franked at 30% |

## History of SPS

| Date | Details |
|---|---|
| 20/06/06 | Initial issue of 1,500,000 SPS. Issue price $100.00 |
| 21/08/06 | Quarterly Dividend of $0.8277, fully franked at 30% |
| 20/11/06 | Quarterly Dividend of $1.2827, fully franked at 30% |

## ABN

St.George Bank Limited
ABN 92 055 513 070
AFSL 240997

## Key Dates

Annual General Meeting (Sydney)
20 December 2006

Shareholder Information Meeting
(Melbourne)
27 June 2007*

## Announcement of Results and Ordinary Dividend

- Interim (half year ended 31 March 2007)
  2 May 2007*
- Final (year ended 30 September 2007)
  30 October 2007*

## Ordinary Shares

Final Dividend (2006) paid
19 December 2006

- Ex-dividend trading 29 November 2006
- Record date 5 December 2006

Interim Dividend (2007) paid 3 July 2007*

- Ex-dividend trading 13 June 2007*
- Record date 19 June 2007*

## SAINTS and SPS

Payment date 20 February 2007*

- Ex-dividend trading 30 January 2007*
- Record date 5 February 2007*

Payment date 21 May 2007*

- Ex-dividend trading 30 April 2007*
- Record date 4 May 2007*

Payment date 20 August 2007*

- Ex-dividend trading 30 July 2007*
- Record date 3 August 2007*

Payment date 20 November 2007*

- Ex-dividend trading 30 October 2007*
- Record date 5 November 2007*

* Proposed dates only.

## Contact Details

**St.George Registered Office**
St.George House
4-16 Montgomery Street
Kogarah NSW 2217, Australia
Telephone (02) 9236 1111
International (612) 9236 1111
Facsimile (02) 9952 1000

**Secretary:** M H S Bowan

**St.George Share Registry**
Computershare Investor Services
Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000
Postal Address: GPO Box 4519
Melbourne VIC 3001, Australia
Telephone 1800 804 457
International (613) 9415 4000
Facsimile (613) 9473 2500

**BankSA**
97 King William Street
Adelaide SA 5000
Customer Service 13 13 76

**Advance Investor Services**
Level 10, 182 George Street
Sydney NSW 2000
Customer Service 1800 819 935

**Asgard Wealth Solutions**
Level 12, 400 George Street
Sydney NSW 2000
Telephone (02) 9947 1255
Facsimile (02) 9511 2366

**Deutsche Bank**
(American Depository Receipts)
Depository Receipts Department
60 Wall Street
New York, NY 10005, USA
Telephone (1212) 602 3761

## Customer Services

| | |
|---|---|
| St.George Customer Service Centre | 13 33 30 |
| New Account Enquiries and Insurance | 13 33 30 |
| dragondirect | 1300 301 020 |
| Private Bank | (02) 9236 1882 |
| Business Direct | 13 38 00 |
| St.George Financial Advice Contact Centre | 1300 367 240 |
| St.George Margin Lending | 1300 304 065 |
| Automotive Finance and Business Equipment Finance | 1300 301 315 |
| Group Treasury and Capital Markets | (02) 9320 5555 |
| Advance Investor Services | 1800 819 935 |
| Asgard Investor Services | 1800 998 185 |
| Customer Relations | 1800 804 728 |

**Email/Internet**
Email: stgeorge@stgeorge.com.au
Internet: www.stgeorge.com.au

## Auditor

KPMG
10 Shelley Street
Sydney NSW 2000

## Credit Ratings

| | Short Term | Long Term |
|---|---|---|
| Standard & Poor's | A-1 | A+ |
| Moody's Investors Service | P-1 | A1 |
| Fitch Ratings | F1 | A+ |

## Full Financial Report (2006)

St.George's Full Financial Report is available on the St.George Bank website at www.stgeorge.com.au. Shareholders wishing to be mailed a copy of the St.George Full Financial Report should contact the St.George share registry, Computershare Investor Services, on 1800 804 457.

## Annual General Meeting

The Annual General Meeting will be held at the Tumbalong Auditorium (Level 2), Sydney Convention and Exhibition Centre South, Darling Harbour, on Wednesday, 20 December 2006 at 10:00 am (Sydney time).

## Shareholder Information Meeting

The Shareholder Information Meeting will be held at Crown Towers (Palladium A and B), 8 Whiteman Street, Melbourne on Wednesday, 27 June 2007*.

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# st.george Foundation

The St.George Foundation supports children's charities in Australia to improve the lives of disadvantaged and disabled kids. On behalf of the kids – we want to say "thanks" for all your support.

we just want to say thanks!

For more information, please contact the Foundation:
Telephone: (02) 9236 3534
Facsimile: (02) 9236 1576
Email: stgeorgefoundation@stgeorge.com.au

Applications for  nancial assistance:
Website: www.stgeorgefoundation.com.au