



**St.George Bank Limited  
and its Controlled Entities**

ABN 92 055 513 070

**ANNUAL REPORT**

for the year ended  
**30 September 2009**

**ST.GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES**  
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**FOR THE YEAR ENDED 30 SEPTEMBER 2009**

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## **DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS**

This Annual Report contains forward-looking statements, which appear in a number of places. Forward-looking statements are statements about matters that are not historical facts. Forward-looking statements appear in a number of places in this Annual Report and include statements regarding St.George Bank Limited and its controlled entities' ("St.George" or the "Group") intent, belief or current expectations with respect to St.George's business and operations, market conditions, results of operations and financial condition, including, without limitation, future loan loss provisions and financial support to certain borrowers. This Annual Report uses words such as 'will', 'may', 'expect', 'intend', 'seek', 'would', 'should', 'could', 'continue', 'plan', 'estimate', 'anticipate', 'believe', 'probability', 'risk', or other similar words to identify forward-looking statements. These forward-looking statements reflect St.George's current views with respect to future events and are subject to change, certain risks, uncertainties and assumptions which are, in many instances, beyond the Group's control and have been made based upon St.George's expectations and beliefs concerning future developments and their potential effect upon St.George. There can be no assurance that future developments will be in accordance with St.George's expectations or that the effect of future developments on St.George will be those anticipated by St.George. Actual results could differ materially from those expected, depending on the outcome of various factors. These factors include but are not limited to:

- impacts of the global financial crisis, including adverse conditions in funding, equity and asset markets;
- changes to Westpac Banking Corporation's ("Westpac") or St.George Bank Limited's credit ratings;
- inflation, interest rate, exchange rate, market and monetary fluctuations;
- market liquidity and investor confidence;
- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices and government policy, particularly changes to liquidity and capital requirements arising from the global financial crisis;
- changes in consumer spending, saving and borrowing habits in Australia;
- the effects of competition in the geographic and business areas in which St.George conducts its operations;
- the ability to maintain or to increase market share and control expenses;
- the timely development of and acceptance of new products and services and the perceived overall value of these products and services by users;
- technological changes;
- demographic changes and changes in political, social or economic conditions in any of the major markets in which St.George operates;
- stability of Australian and international financial systems and disruptions to financial markets and any losses St.George may experience as a result;
- St.George's ability to complete, integrate or process acquisitions and dispositions; and
- various other factors beyond St.George's control.

The above list is not exhaustive. For certain other factors that may impact on forward-looking statements made in this Annual Report, refer to the section on 'Principal risks and uncertainties' in the Directors' Report. When relying on forward-looking statements to make decisions with respect to St.George, investors and others should carefully consider the foregoing factors and other uncertainties and events.

St.George is under no obligation, and does not intend, to update any forward-looking statements contained in this Annual Report, whether as a result of new information, future events or otherwise, after the date of this Annual Report.

### **Web sites**

Information contained in or otherwise accessible through the web sites mentioned in this Annual Report does not form part of the report unless St.George specifically states that the information is incorporated by reference thereby forming part of the report. All references in this report to web sites are inactive textual references and are for information only.

## **ABOUT THIS REPORT**

On 1 December 2008 Westpac and St.George Bank Limited completed their merger by way of a scheme of arrangement (the "merger") under which Westpac acquired all the outstanding ordinary shares of St.George Bank Limited, with St.George Bank Limited shareholders receiving 1.31 ordinary Westpac shares for every one St.George Bank Limited ordinary share held on the record date. For accounting purposes, the merger became effective from the close of business on 17 November 2008 following the approval of the merger by the Federal Court of Australia.

As a result of the merger there have been a number of changes to the accounting methodologies adopted by St.George to align with those of Westpac. Included within these changes was the revision of the Group's methodology for calculating collective loan provisions to align with the methodology adopted by Westpac, which resulted in the recognition of a \$496 million loan impairment charge during the year ended 30 September 2009. In addition, costs associated with the merger have also been recognised during the year. St.George also reduced its holding of liquid assets and entered into a Master Funding Agreement with Westpac under which Westpac lends funds to St.George for general funding purposes. These changes have had a material impact on the Group's reported results during the year.

These factors impact on comparison of the results in these financial statements of the Group for the year ended 30 September 2009 with those in prior periods, which were not impacted by the merger or changes to methodologies following the merger.

The scope of the activities of the Group covered by this report and the Parent entity and Group's financial statements for the year ended 30 September 2009 does not correspond with the activities covered by the "St.George Bank" segment in Westpac's consolidated financial statements for Westpac and its consolidated entities (the "Westpac Group") for the year ended 30 September 2009 and associated market disclosures. For example, the Group's wealth businesses, including Asgard, Advance, Securitor and Private Banking is, for the Westpac Group segment reporting purposes, included with Westpac's other wealth businesses in the "BT Financial Group (Australia)" segment and not in the Westpac Group's "St.George Bank" segment, which relates to St.George's banking activities (excluding some institutional customers of St.George, which are included in Westpac Group's "Institutional Bank" segment).

**ST.GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES  
DIRECTORS' REPORT  
FOR THE YEAR ENDED 30 SEPTEMBER 2009**

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The Directors of St.George Bank Limited present their report together with the Annual Report of the consolidated entity (the "Group" or "St.George"), being St.George Bank Limited ("the Parent entity") and its controlled entities, for the financial year ended 30 September 2009.

**DIRECTORS**

The following persons were appointed as Directors of the Parent entity on 1 December 2008 and continue in office at the date of this report:

John Curtis (Chairman) <sup>(1)</sup>

Gregory Bartlett

Peter Hawkins <sup>(2)</sup>

Gail Kelly

Lindsay Maxsted

The following persons were Directors from the beginning of the financial year and resigned on 1 December 2008:

Paul Fegan (served as Managing Director and Chief Executive Officer until his resignation on 1 December 2008)

Terry Davis

Richard England

Roderic Holliday-Smith

Paul Isherwood

Linda Nicholls

Graham Reaney

<sup>(1)</sup> John Curtis was a Director and Chairman from the beginning of the financial year until his resignation on 28 November 2008. He was re-appointed Director and Chairman on 1 December 2008.

<sup>(2)</sup> Peter Hawkins was a Director from the beginning of the financial year until his resignation on 1 December 2008. He was re-appointed Director on 1 December 2008.

**PRINCIPAL ACTIVITIES OF THE GROUP**

The principal activities of the Group during the financial year ended 30 September 2009 were the provision of financial services including lending, deposit taking, payments services, investment portfolio management, insurance services, leasing and general financing.

**MERGER WITH WESTPAC BANKING CORPORATION**

Refer to the previous section – "About this report" for further details.

**ST.GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES  
DIRECTORS' REPORT  
FOR THE YEAR ENDED 30 SEPTEMBER 2009**

**DIVIDENDS**

Dividends paid to members during the financial year were as follows:

	<b>2009</b>	<b>2008</b>
	<b>\$M</b>	<b>\$M</b>
<b>Ordinary dividends</b>		
Final ordinary dividend for the year ended 30 September 2008 of 94 cents (2007 – Final dividend - 86 cents) per fully paid ordinary share on 18 December 2008 (fully franked).	533	459
Special ordinary dividend for the year ended 30 September 2008 of 31 cents (30 September 2007: nil) per fully paid ordinary share on 18 December 2008 (fully franked).	176	-
Interim dividend for the year ended 30 September 2009 of Nil (2008 – 88 cents) per fully paid ordinary share (fully franked).	-	494
<b>Other dividends (paid or provided for)</b>		
Subordinated Adjustable Income Non-Refundable Tier 1 Securities	3	22
Step-Up Preference Shares <sup>(1)</sup>	1	9
<b>Total Dividends</b>	<b>713</b>	<b>984</b>

<sup>(1)</sup> The Step-Up Preference Shares ("St.George SPS") were redeemed on 31 March 2009.

**REVIEW OF OPERATIONS**

**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 \$512 million (2008: \$1,205 million).

The table below shows the contribution from each division for 2009 and 2008.

<b>Business Segment</b>	<b>Net profit/(loss) after tax and minority interests</b>		
	<b>2009</b>	<b>2008</b>	<b>Decrease</b>
	<b>\$M</b>	<b>\$M</b>	<b>%</b>
St.George Bank	937	1,102	(15.0)
Other	(425)	103	(512.6)
	<b>512</b>	<b>1,205</b>	

**REVIEW OF FINANCIAL CONDITION**

The Group's shareholder's equity increased from \$7.0 billion to \$8.6 billion during the financial year. This increase was primarily due to \$2,125 million of ordinary shares issued to Westpac, offset by the redemption of \$150 million of St.George SPS.

**REVIEW OF AND RESULTS OF OPERATIONS**

The net profit for the year ended 30 September 2009 was \$512 million, compared to a net profit of \$1,205 million for the year ended 30 September 2008, mainly due to the impact of revising accounting methodologies to align with those of the Westpac Group, including the recognition of a \$496 million charge as a result of revisions to the methodology for calculating collective loan provisions, the recognition of costs associated with the merger with Westpac, a reduction in non-interest income and a significant underlying increase in loan impairment charges.

**Net Interest Income**

Net interest income for the financial year was \$2,908 million (2008: \$2,371 million), an increase of 23%. This is primarily due to an increase in the net interest margin during the financial year to 2.20% from 1.83% last year.



## **REVIEW OF OPERATIONS (CONTINUED)**

### **Non-interest income**

Non-interest income for the year was \$916 million (2008: \$1,192 million), a decrease of 23%. The reduction in non-interest income was mainly due to:

- a \$77 million gain on the recognition of the Visa Inc. shareholding included in the year ended 30 September 2008, which was not repeated in the year ended 30 September 2009;
- lower net trading and investment income resulting from a reduction in the liquidity portfolio and from the recognition of a loss of \$46 million on the sale during the year of securities previously recognised in the available for sale investment portfolio; and
- a reduction in managed funds fees of \$20 million due to volatile equity markets.

### **Operating expenses**

Operating expenses for the year were \$1,767 million (2008: \$1,419 million), an increase of 25%. The increase in operating expenses was mainly due to the recognition of an impairment charge of \$80 million in relation to the write-off of capitalised software costs and the recognition of staff, occupancy, non salary technology and other expenses of \$171 million (\$79 million included in Significant Items) associated with the merger with Westpac. Excluding the impact of significant items, operating expenses for the year ended 30 September 2009 were \$1,608 million.

### **Loan impairment charges**

Impairment charges were \$1,306 million, compared to \$282 million for the year ended 30 September 2008. The increase was due to a significant increase in individual loan impairment together with the recognition of a \$496 million charge associated with the revision of the collective loan provision calculation methodology following the merger to align with the methodology adopted by Westpac. The significant increase in individual loan impairment provisions on commercial and consumer loans, reflected further deterioration in market conditions.

The increase in the collective provision referred to above takes total provisioning above the 50bps of risk weighted assets industry benchmark on an after tax basis. Consequently the adjustment to the general reserve for credit losses of \$205 million previously maintained to comply with APRA requirements is no longer required and has been transferred to retained earnings. That transfer does not impact impairment charges or profit for the current financial year.

### **Income tax**

The income tax expense was \$239 million for the year compared to \$656 million last year. This movement in income tax is consistent with changes in profit before tax.

### **Total assets**

Total assets were \$140.2 billion, a decrease of \$7.1 billion compared to 30 September 2008. The decrease reflects a reduction in liquid assets following the merger with Westpac. This decrease in liquid assets was partly offset by an \$8.9 billion (or 7%) increase in loans and receivables reflecting increased demand for housing finance.

### **Deposits and borrowings**

Deposits and borrowings have decreased by \$24.0 billion to \$66.2 billion from \$90.2 billion last year. This reflects new wholesale funding arrangements pursuant to which Westpac lends funds to St.George under a Master Funding Agreement for general funding purposes. Within deposits and borrowings, retail funding grew by \$4.9 billion to \$62.2 billion reflecting customer demand for low risk investment products, an increased strategic focus on gathering deposits and better alignment of pricing to meet customer expectations.

### **Managed funds**

Managed funds increased by \$0.3 billion to \$40.9 billion reflecting positive net flows, partially offset by lower investment markets during 2009.

## **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

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

### **SIGNIFICANT DEVELOPMENTS RELATING TO THE MERGER WITH WESTPAC BANKING CORPORATION**

As noted above, the merger between Westpac and St.George was effected by way of a scheme of arrangement and completed on 1 December 2008. For accounting purposes, the merger became effective from the close of business on 17 November 2008.

In addition, the following significant developments arising from the merger occurred during the year:

- St.George Bank Limited issued to Westpac 927 million ordinary shares for a total consideration of \$2.125 billion as part of arrangements under the merger implementation agreement and to fund St.George's redemption of preference shares as set out below;
- The Group revised its accounting methodologies to align with those of Westpac and recognised costs associated with its merger with Westpac. The impact of these items are discussed in "Review of and Results of Operations" and Note 1 to these financial statements;
- The Group reduced its holding of liquid assets and entered into a Master Funding Agreement with Westpac, under which Westpac lends funds to St.George for general funding purposes;
- As at 30 September 2009, St.George had \$38.3 billion outstanding under its Master Funding Agreement with Westpac;
- On 31 March 2009 St.George redeemed its St.George SPS, which were previously included in Shareholders' Equity at their total face value of \$150 million, and its Converting Preference Shares (CPS) and Converting Preference Shares II (CPS II) which at 30 September 2008 were included in Loan Capital at their face value of \$325 million and \$400 million respectively; and
- On 29 September 2009, St.George Bank Limited was removed from the official list of ASX Limited.

## **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS (CONTINUED)**

### **GLOBAL FINANCIAL CRISIS, IMPAIRMENTS AND ONGOING REGULATORY RESPONSE**

In the first half of the 2009 financial year, the severity of the global financial crisis deepened, which created a period of extreme uncertainty that saw the near closure of financial and funding markets followed by the failure of a number of financial institutions globally, and with many of the world's major economies in recession. This environment had many impacts on the banking system, including a reduction in funding availability and dramatically increased wholesale funding costs, increased market volatility, declining values in asset markets, a weakening of operating conditions and an escalation in company stress and associated impairments.

Impairment charges increased significantly during the 2009 financial year driven initially by the immediate impacts of the global financial crisis and increased further with the subsequent economic slowdown. Refer to Note 4 in the notes to the financial statements for details on loan impairment charges.

Globally, there has been a rapid and ongoing regulatory response to the global financial crisis.

### **Australian Government Guarantee Schemes**

As an early response to the global financial crisis, with a view to promoting financial system stability in Australia and ensuring the continued flow of credit through the economy, the Australian Government announced that it would guarantee deposits held with eligible Australian authorised deposit-taking institutions ("ADIs") (including St.George) for a three year period from 12 October 2008. The guarantee applies to the first \$1 million of 'protected accounts' per customer per ADI without charge. The Australian Government also provided a guarantee facility for deposits of amounts over \$1 million and for wholesale funding of an eligible ADI, in return for a fee payable by the ADI, provided an eligibility certificate has been issued in respect of the liability. The fee applicable to St.George is currently 70 basis points (or 0.70%) of the amount guaranteed per annum.

### **Liquidity**

In addition, APRA is proposing to enhance the prudential standards for liquidity risk management for ADIs. The proposed changes include:

- enhancing qualitative requirements, consistent with the 'Principles for Sound Liquidity Risk Management and Supervision' issued by the Basel Committee on Banking Supervision in September 2008; and
- strengthening quantitative requirements to ensure ADIs meet a minimum acceptable level of resilience under normal and stress conditions.

APRA intends to issue final standards and reporting forms in the first half of 2010, although this timetable may be amended as international initiatives in this area evolve. A consultation process is currently being undertaken and details of the proposed liquidity enhancements may change throughout that process. Until there is greater clarity regarding the new prudential requirements, any impact on St.George cannot be determined.

### **Changes to accounting standards**

In further response to the global financial crisis, governments, regulators and accounting standard bodies are working to revise accounting standards. The objective is to achieve convergence towards a single set of high-quality, global and independent accounting standards. The specific areas that have been targeted include accounting for financial instruments, loan-loss provisioning, off-balance sheet exposures, and the impairment and valuation of financial assets. It is expected that there will be a number of new standards issued in calendar year 2010 that may require changes to St.George's current accounting approaches.

## **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS (CONTINUED)**

### **Further regulatory developments**

The Australian Government has embarked on a program of regulatory reform, which will affect St.George. This includes:

- credit law reform;
- the introduction of an unfair contracts regime in relation to contracts with consumers;
- margin lending reform;
- superannuation changes; and
- the introduction of a new regulatory framework for personal property securities.

St.George continues to review these developments and will be amending its systems, processes and operations to align with regulatory changes as they occur.

### **CHANGES TO EXCEPTION FEES**

On 3 August 2009, it was announced that St.George would reduce exception fees on consumer and business accounts and credit cards to \$9.00, effective 1 October 2009 following progressive reductions in exception fees over the preceding 18 months. The relevant fees include account overdrawn fees, outward dishonour fees, periodic payments not made, and credit card missed payment and over the limit fees. The reduction in fees is expected to impact St.George's results for the 2010 financial year by reducing revenue and net profit by approximately \$80 million and \$56 million, respectively.

## **EVENTS SUBSEQUENT TO REPORTING DATE**

Events that may significantly affect the operations of the Group are discussed in "Likely Developments in Future Financial Years" below.

The Directors are not aware of any other matter or circumstance that has arisen during the financial year or since 30 September 2009 which 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 future financial years.

## **LIKELY DEVELOPMENTS IN FUTURE FINANCIAL YEARS**

### **SINGLE AUTHORISED DEPOSIT-TAKING INSTITUTION**

St.George currently operates as a wholly owned subsidiary of Westpac, however, it is anticipated that Westpac and St.George will become a single ADI in the first half of the 2010 calendar year. This will involve transferring the assets, liabilities, business and undertaking of St.George Bank Limited to Westpac Banking Corporation (the "Transfer"). St.George Bank Limited will be deregistered as a separate company immediately after the Transfer. The move to a single ADI is driven by regulatory requirements and will not affect the continued operation of St.George Bank and Westpac as separate brands.

Under AASB 101 Presentation of Financial Statements, financial statements should be prepared on a going concern basis, unless management intends to liquidate the entity or cease trading. In the circumstances, the Directors have considered whether it is appropriate to prepare these financial statements on a going concern basis and are satisfied that this is the most appropriate basis, as all the St.George assets and liabilities will be recovered and settled at their carrying amounts at the date of the Transfer.

Other likely major developments in the operations of the Group in future financial years and the expected results of those operations are discussed under "Significant Changes in the State of Affairs" above, including the ongoing regulatory response to the global financial crisis, which has included the introduction of the government guarantee schemes in Australia and proposed changes to liquidity requirements, and the announcement of the reduction in exception fees effective 1 October 2009.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this Directors' report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.



## **ENVIRONMENTAL REGULATION**

The Group is required to comply with the NSW Energy Administration Amendment (Water & Savings) Act 2005 ("EAA"). St.George complies with its obligations pursuant to the EAA as a designated energy user and a designated water user through an Energy Savings Action Plan and a Water Savings Action Plan for the St.George House Building at Kogarah. Both plans were approved by the NSW Government during 2006 and require Annual Progress Reports (submitted to the NSW Government on 29 December 2008 and 31 October 2008 respectively). The Annual Progress Reports for each Action Plan are due in 2009 and subsequent years by 31 December. St.George complies with its obligations under the EAA and these Action Plans.

The National Greenhouse and Energy Reporting Act 2007 (Cth) ("National Greenhouse Act") came into effect in July 2008. Under the National Greenhouse Act, Westpac reported on greenhouse gas emissions, energy consumption and production on behalf of the Westpac Group, including St.George, for the period June 2008 through July 2009 and will continue to report annually thereafter. St.George complies with the National Greenhouse Act and Westpac submitted its first report to the Commonwealth Government on behalf of the Westpac Group, including St.George, in October 2009.

Following the merger between Westpac and St.George, the Westpac Group has exceeded the threshold for reporting requirements of the Energy Efficiency Opportunities Act 2006 (Cth) ("EEO"), which requires a report to be submitted to the Commonwealth Government identifying, evaluating and publicly reporting on cost effective energy savings opportunities. Westpac is required to submit the report on behalf of the Westpac Group, including St.George, by 31 December 2010. St.George complies with its obligations under the EEO.

St.George's operations are not subject to any other particular and significant environmental regulation under any law of the Commonwealth of Australia or of any State or Territory of Australia. St.George may, however, become subject to environmental regulation as a result of its lending activities in the ordinary course of business and St.George has policies in place to ensure that this potential risk is addressed as part of its normal processes.

St.George has not incurred any liability (including for rectification costs) under any environmental legislation.

## **LOANS TO DIRECTORS AND EXECUTIVES**

Information on loans to directors and executives are set out in Note 43 to the financial statements.

## **SHARES OPTIONS**

No options have been granted from the beginning of the financial year and up to the date of this report. No shares have been issued upon exercise of options during the year. Following the merger with Westpac, all outstanding St.George options were converted into restricted or unrestricted Westpac ordinary shares. There are no St.George options outstanding at the date of this report.

## **INDEMNIFICATION OF DIRECTORS AND OFFICERS**

### *Constitution and contractual indemnities*

#### **St.George Bank Limited Constitution**

St.George Bank Limited's Constitution provides, to the extent permitted by law, for an indemnity to each person who is or has been a Director, principal executive officer or the secretary of St.George Bank Limited 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 15 April 1994 to any person (other than St.George Bank Limited or a related body corporate) 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 expense incurred by the person in defending civil or criminal proceedings in which judgment is given in favour of the person or in which the person is acquitted or the courts grant relief.

Each of the Directors named in this Directors' report and the joint company secretaries of St.George Bank Limited has the benefit of this indemnity.

The Constitution also provides, to the extent permitted by law, for the Directors to authorise St.George Bank Limited 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, principal executive officer, secretary, auditor, employee or other officer of St.George Bank Limited, which indemnity or insurance policy may be in such terms as the Board approves.

#### **Westpac Constitution**

Pursuant to Westpac's constitution, unless the indemnity is prohibited by statute, Westpac must indemnify each of the:

- Directors and Company Secretaries of Westpac (and those of each of its related bodies corporate);
- each employee of Westpac or its subsidiaries; and
- each person acting as a responsible manager under an Australian Financial Services licence within Westpac or its wholly-owned subsidiaries

against every liability incurred by each such person in their capacity as director, secretary, employee or responsible manager, as the case may be; and all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings, whether civil or criminal or of an administrative or investigatory nature, in which the person becomes involved because of that capacity.

#### **Deed Poll**

Westpac also executed a deed poll in September 2009 providing indemnification equivalent to that provided under the Westpac constitution, as described above which applies to individuals acting as directors and other statutory officers of Westpac or any wholly owned subsidiary (including St.George). Some employees of related bodies corporate and responsible managers of Westpac and its related bodies corporate (including St.George) are also indemnified by a deed poll in similar terms which was executed by Westpac Banking Corporation in November 2004.

#### **Merger with Westpac**

As part of the merger with Westpac, the Parent entity indemnified each member of the Westpac Group and certain of their representatives, including their directors and officers, in respect of breaches of certain obligations and warranties provided by St.George in the Merger Implementation Agreement between the Parent entity and Westpac and also in respect of the inclusion or disclosure of certain types of information in disclosure or regulatory documents prepared by St.George. Those indemnities continue to apply to Westpac Banking Corporation directors some of whom are Directors of the Parent entity. The indemnity also applies to PricewaterhouseCoopers, as Westpac's auditor at the time of the merger.

Westpac agreed with St.George to provide indemnities in corresponding terms under the Merger Implementation Agreement, which also continue to apply.

No amount has been paid under any of these indemnities referred to above during the financial year ended 30 September 2009 or since that date.

## **DIRECTORS' AND OFFICERS' INSURANCE**

The Parent entity and Westpac have each paid a premium in respect of a contract of insurance insuring certain officers of the Parent entity and its controlled entities against those liabilities for which insurance is permitted under the Corporations Act 2001. Such officers include the Directors named earlier in this report, the company secretaries, Parent entity officers appointed on the Parent entity's behalf to external directorships, other officers of the Parent entity and its subsidiaries, together with all other former directors, future directors, company secretaries and officers. The insurance cover extends to amounts that the Parent entity and Westpac may have to pay under the constitutional and contractual indemnities that it provides to its directors and officers as described above.

St.George's policy was terminated on 1 December 2008 however, in accordance with the terms of the Merger Implementation Agreement, coverage was extended to "run-off" until 1 December 2015. The "run off" cover enables claims relating to "wrongful acts" (as defined in the policy) occurring prior to 1 December 2008 to be notified under St.George's policy for the 7 year "run off" period. The Parent entity has prepaid this insurance for the full "run off" period. Westpac's insurance policy applies in respect of claims relating to "wrongful acts" occurring after 1 December 2008.

The insurance policies prohibit the disclosure of the premium payable and the nature of the liabilities covered.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

### **Risk factors**

The business activities of the Group are subject to risks that can adversely impact its business, future performance and financial condition. If any of the following risks occur, its business, results of operations or financial condition could be materially adversely affected, with the result that the trading price of its debt securities could decline and investors could lose all or part of their investment. Investors should carefully consider the risks and the other information in this Annual Report before investing in the Group's debt securities. The risks and uncertainties described below are not the only ones the Group may face. Additional risks and uncertainties that the Group is unaware of, or that it currently deems to be immaterial, may also become important factors that affect the Group.

### **Risks relating to the Group's business**

***Adverse credit and capital market conditions may significantly affect the Group's ability to meet liquidity needs, adversely affect Westpac's access to domestic and international capital markets and increase the Group's cost of funding.***

Following the merger, the Group substantially relies on Westpac, its ultimate parent entity, to fund its wholesale funding requirements. Westpac and St.George have entered into a Master Funding Agreement (MFA) under which Westpac lends funds to St.George for its general funding purposes. Maturities of existing debt and new wholesale funding debt requirements are funded by Westpac by St.George drawing down funding from Westpac under the MFA.

Global credit and capital markets have experienced extreme volatility, disruption and decreased liquidity for more than two years. The timing of a sustained recovery in financial markets remains uncertain. As a result of the recent adverse global capital market conditions both Westpac's and the Group's funding costs have increased. The Group relies on Westpac being able to access credit and capital markets to fund its business. As of 30 September 2009, the Group obtained approximately 51% of its funding either directly from domestic and international wholesale markets or through Westpac under the MFA. A shift in investment preferences of businesses and consumers away from bank deposits toward other asset or investment classes would increase the Group's need for funding under the MFA or from wholesale markets (and would increase the Group's funding costs), as deposits are generally less costly than funding from wholesale markets. Since December 2008, Westpac has utilised the guarantee of the Commonwealth of Australia under the Australian government guarantee scheme to obtain a significant portion of its wholesale funding in the global capital markets. As at 30 September 2009, Westpac's wholesale funding balance was approximately \$165 billion<sup>1</sup>. Of this, approximately \$24 billion is guaranteed by the Commonwealth of Australia. In the second half of the 2009 financial year, wholesale markets began to be accessible without the Australian government guarantee. However, continued access to the unguaranteed market is dependent on investor appetite. The effect of terminating the Australian government guarantee scheme is uncertain and may materially adversely affect Westpac's ability to fund St.George in the future and St.George's cost of funding. Should conditions remain uncertain for a prolonged period, or deteriorate further, St.George's funding costs may increase further and may limit St.George's ability to replace, in a timely manner, its maturing liabilities, which could adversely affect St.George's ability to fund and grow its business or otherwise have a material adverse impact on St.George.

In the event that the Group's or Westpac's current sources of funding prove to be insufficient, the Group may be forced to seek alternative financing. The availability of such alternative financing, and the terms on which it may be available, will depend on a variety of factors, including prevailing market conditions, the availability of credit, St.George's and Westpac's credit ratings and the sovereign credit ratings in Australia and New Zealand, and credit capacity. Even if available, the cost of these alternatives may be more expensive or on unfavourable terms, which could adversely affect the Group's results of operations, liquidity, capital resources and financial condition. There is no assurance that the Group will be able to obtain funding at acceptable prices.

If the Group is unable to source appropriate funding, it may be forced to reduce its lending or begin to sell liquid securities. Such actions would adversely impact the Group's business, results of operations, liquidity, capital resources and financial condition.

***Failure to maintain St.George's and Westpac's credit ratings could adversely affect the Group's cost of funds, liquidity, competitive position and access to capital markets.***

The credit ratings assigned to St.George and Westpac by rating agencies are based on an evaluation of a number of factors, including the financial strength of Westpac and the financial strength of St.George. In light of the recent difficulties in the banking sector and financial markets, the rating agencies have indicated they are watching global developments closely and if conditions deteriorate further, they may adjust the ratings of some or all of the major Australian banks. Moody's has all the major Australian banks, including Westpac and St.George, on a negative outlook. A credit rating downgrade could also be driven by the occurrence of one or more of the other risks identified in this section or by other events.

If St.George fails to maintain its current credit ratings, this would adversely affect its cost of funds and related margins, liquidity and competitive position. If Westpac fails to maintain its current credit ratings, this would adversely affect Westpac's cost of funds and related margins, liquidity, competitive position and access to capital markets, which could in turn adversely affect the cost of funds that Westpac lends to St.George. In addition, any downgrade in the sovereign credit ratings of Australia and New Zealand may adversely affect Westpac's ability to raise funds that have the benefit of a government guarantee, or the cost of those funds. If Australia's sovereign debt is not AAA rated, there is likely to be less interest in Westpac sovereign guaranteed debt and it will also be more expensive. In turn, this could adversely affect the Group's cost of funds and therefore its earnings, liquidity and financial condition.

***A systemic shock in relation to the Australian or global financial systems could have adverse consequences for the Group that would be difficult to predict and respond to.***

In the current uncertain global economic environment, there is a risk that another major systemic shock could occur that causes a further adverse impact on the Australian or global financial systems. Such an event could have a material adverse effect on financial institutions such as St.George, including the undermining of confidence in the financial systems, reducing liquidity and impairing access to funding. The nature and consequences of any such event are difficult to predict and there can be no guarantee that the Group could respond effectively to any such event.

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<sup>1</sup> Comprised of wholesale funding net of excess liquid assets.

## **PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)**

### ***Further declines in asset markets could adversely affect the Group's operations or profitability.***

Declines in global asset markets, including equity, property and other asset markets have adversely affected and could continue to impact the Group's operations and profitability.

Declining asset prices impact the Group's wealth management business and other asset holdings. Earnings in the Group's wealth management business are, in part, dependent on asset values, such as the value of securities held or managed. A further decline in asset prices could further negatively impact the earnings of this business. Declining asset prices could also impact customers and the value of security the Group holds against loans, which may impact its ability to recover amounts owing to it if customers were to default.

### ***The Group's business is substantially dependent on the Australian economy and it can give no assurance as to the likely future state of this economy.***

The Group's revenues and earnings are dependent on economic activity and the level of financial services its customers require. In particular, lending is dependent on customer confidence, economic activity, the state of the home lending market and prevailing market interest rates.

The Group currently conducts its business in Australia. Consequently, its performance is influenced by the level and cyclical nature of business and home lending in Australia. These factors are in turn impacted by both domestic and international economic and political events. The dislocation in global credit and capital markets has impacted global economic activity, which has, in turn, impacted the Australian economy. This has led to a slowdown in credit growth and an increase in impaired assets. If the downturn continues for an extended period or becomes more severe, or there are declines in consumer and business confidence, the Group's results of operations, liquidity, capital resources and financial condition would be further adversely affected.

### ***An increase in defaults under the Group's loan portfolio could adversely affect its results of operations, liquidity, capital resources and financial condition.***

Credit risk is a significant risk and arises primarily from the Group's lending activities. The risk arises from the likelihood that some customers will be unable to honour their obligations to the Group, including the repayment of loans and interest. Credit exposures also include the Group's dealings with, and holdings of, debt securities issued by other banks and financial institutions whose conditions may be impacted to varying degrees by recent turmoil in the global financial markets.

The Group holds collective and individually assessed provisions for impaired assets. As a result of the recent market and economic conditions and revisions following the merger to the methodology for calculating collective loan provisions to align with the methodology adopted by Westpac, the Group has increased its impairment provisions. If economic conditions deteriorate further, some customers could experience higher levels of financial stress and the Group may experience a significant increase in defaults and write-offs, and be required to further increase its provisioning. Such actions would diminish available capital and would adversely affect its results of operations, liquidity, capital resources and financial condition.

For a discussion on the management of credit risk, refer to Note 38 in the notes to the financial statements.

### ***There can be no assurance that actions of the Australian, New Zealand, United States and other foreign governments and other governmental and regulatory bodies to stabilise financial markets will continue or not be modified.***

In response to the global financial crisis affecting the banking system and financial markets generally and deteriorating global financial conditions, stabilising actions have been taken by governments and regulatory bodies in Australia, New Zealand, the United States, United Kingdom, Europe and other jurisdictions. Westpac expects to continue to make selected use of the Australian and New Zealand government guarantee schemes to access the wholesale funding markets in the short to medium term.

The Australian and New Zealand government guarantee schemes may be changed or discontinued at any time. There can be no assurance that any changes to the Australian or New Zealand wholesale funding guarantee schemes will not have a materially adverse effect on Westpac's ability to obtain wholesale term funding in the future in reliance on these schemes. The ongoing effect of the stabilisation packages implemented by governments and regulators in other jurisdictions are equally uncertain. There can be no assurance as to what effect such regulatory actions will have on financial markets, consumer and investor confidence, or the levels of volatility in financial markets. Further declines in consumer and investor confidence and continued uncertainty and volatility could materially adversely affect the Group's business, financial condition and results of operations.

## **PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)**

### ***The Group's businesses are highly regulated and could be adversely affected by changes in regulations and regulatory policy.***

Compliance risk arises from the regulatory standards that apply to the Group as a financial institution. All of the Group's businesses are highly regulated. The Group is responsible for ensuring that it complies with all applicable legal and regulatory requirements (including accounting standards) and industry codes of practice, as well as meeting its ethical standards. The nature and impact of future changes in such policies are not predictable and are beyond the Group's control.

It is likely that the recent global financial crisis will lead to changes in regulation in most markets in which the Group operates, particularly for financial institutions. These changes may include, for example, changes in capital adequacy or other prudential requirements, accounting and reporting requirements, liquidity regulation, regulation relating to remuneration, consumer protection legislation, or changes in the oversight approach of regulators.

In the current economic conditions, it is also possible that governments in jurisdictions in which the Group does business or obtains funding might revise their application of existing regulatory policies that apply to, or impact, St.George's business, including for reasons relating to national and systemic stability.

St.George anticipates that the current uncertain economic environment may also result in increased litigation, which creates the potential for legal decisions that result in unanticipated changes in law and may result in regulators making material changes to existing regulatory policies to address or enforce such changes in law.

Changes in law, regulations or regulatory policy could adversely affect one or more of the Group's businesses, including limiting the Group's ability to do business, and could require the Group to incur substantial costs to comply or impact its capital and liquidity requirements. The failure to comply with applicable regulations could result in fines and penalties or limitations on the Group's ability to do business. These costs, expenses and limitations could have a material adverse effect on the Group's business, financial performance or financial condition.

For further information regarding accounting standards refer to 'Changes in accounting policies', 'Critical accounting estimates and significant judgments' and 'Future accounting developments' in Note 1 to the financial statements.

### ***The Group faces intense competition in all aspects of its business.***

The Group competes with asset managers, retail and commercial banks, investment banking firms, brokerage firms, and other investment service firms. In addition, the trend toward consolidation in the global financial services industry is creating competitors with broader ranges of product and service offerings, increased access to capital, and greater efficiency and pricing power. If the Group is unable to compete effectively in its various businesses and markets, its business, results of operations and financial condition would be adversely affected.

### ***The Group could suffer losses due to market volatility.***

The Group is exposed to market risk as a consequence of its trading activities in financial markets and through the asset and liability management of its overall financial position. In its financial markets trading business, it is exposed to losses arising from adverse movements in levels and volatility of interest rates and foreign exchange rates. The recent levels of market volatility increased its estimated earnings at risk as measured by value at risk (VaR)<sup>1</sup>. If the Group were to suffer substantial losses due to any market volatility, including the volatility brought about by the current global credit crisis, the results of the Group's operations, liquidity, capital resources and financial condition would be adversely affected. For a discussion on risk management procedures, refer to Note 38 in the notes to the financial statements.

### ***The Group could suffer losses due to operational risks or environmental factors.***

As a financial services organisation the Group is exposed to a variety of other risks including those resulting from process error, fraud, information technology instability and failure, system failure, security and physical protection, customer services, staff competence, external events (including fire, flood or pandemic) that cause material damage, impact on the Group's operations or adversely affect demand for the Group's products and services, and product development and maintenance. Operational risks can directly impact the reputation of the Group and businesses conducted by entities in the Group and result in financial losses, which would adversely affect the Group's financial performance or financial condition.

### ***Reputational damage could harm the Group's business and prospects.***

Various issues may give rise to reputational risk and cause harm to the business and prospects of the Group. These issues include appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, money laundering laws, trade sanctions legislation, privacy laws, information security policies, sales and trading practices and conduct by companies in which the Group holds strategic investments. Failure to address these issues appropriately could also give rise to additional legal risk, subject the Group to regulatory enforcement actions, fines and penalties, or harm the Group's reputation among its customers and its investors in the marketplace.

### ***Other risks***

Other risks that can adversely impact the Group's performance and its financial position include insurance risk, model risk, business risk and contagion risk.

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<sup>1</sup> VaR is the potential loss in earnings to a 99% confidence level from adverse market movements. For the trading book it is calculated using a Monte-Carlo simulation engine using two years of weighted historical rate data and a one-day time horizon. The VaR model for the non-trading activities has been aligned to Westpac's approach and is calculated to a 99% confidence level using a minimum of one year of historical rate data and a one-day time horizon.

**PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)**

**Risks relating to the integration of St.George and Westpac**

*The integration of the Group's operations and those of Westpac presents significant challenges that could impact St.George's performance.*

There are risks associated with the integration of two organisations of the size of Westpac and St.George. Particular areas of risk include: difficulties or unexpected costs relating to the integration of technology platforms, financial and accounting systems, and risk and other management systems of two organisations; difficulties or unexpected costs in realising synergies from the consolidation of head office and back office functions; higher than expected levels of customer attrition or market share loss arising as a result of the merger; unexpected losses of key personnel during or following the integration of the two businesses; possible conflict in the culture of the two organisations and decrease in employee morale; senior management time requirements and distraction from the day to day business; delays or difficulties in Westpac and St.George becoming a single Authorised Deposit-Taking Institution in the first half of 2010; and potential damage to the reputation of brands due to actions from competitors, media and lobby groups as a result of the merger.

If any of these risks should occur, or if there are unexpected delays in the integration process, it may adversely affect the Group's business, results of operations and financial condition.

**CREDIT RATINGS**

Following the merger with Westpac, St.George's credit ratings were upgraded to the following:

Rating Agency	Short-term	Long-term
Standard & Poor's	A-1+	AA
Moody's Investors Services	P-1	Aa1
Fitch Ratings	F1+	AA-

These credit ratings remain in effect as at the date of the Annual Report, however, the Moody's Investors Services long-term rating outlook is negative.

**AUDITOR'S INDEPENDENCE DECLARATION**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 15.

**ROUNDING OF AMOUNTS**

The Parent entity is a company of the kind referred to in Australian Securities and Investments Commission class order 98/100 dated 10 July 1998. Accordingly, amounts in this report and the accompanying Financial Statements have been rounded to the nearest one million dollars except where otherwise indicated.


**RESPONSIBILITY STATEMENT**

The Directors of St.George Bank Limited confirm that to the best of their knowledge:

- the consolidated financial statements, which have been prepared in accordance with the accounting policies described in Note 1 to the financial statements, being in accordance with A-IFRS, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and
- the Directors' Report includes a fair review of the information required by the Disclosure and Transparency Rules 4.1.8R to 4.1.11R of the United Kingdom Financial Services Authority.

Signed in accordance with a resolution of the Directors.

  
J Curtis  
Chairman

  
G Bartlett  
Director

Signed at Sydney, New South Wales

9 December 2009

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### Auditor's Independence Declaration

As lead auditor for the audit of St. George Bank Limited for the year ended 30 September 2009, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of St. George Bank Limited and the entities it controlled during the year.



Ian Hammond  
Partner  
PricewaterhouseCoopers

Sydney  
9 December 2009

**ST. GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES**  
**INCOME STATEMENTS**  
**FOR THE YEAR ENDED 30 SEPTEMBER 2009**

	NOTE	Consolidated		Parent	
		2009 \$M	2008 \$M	2009 \$M	2008 \$M
Interest income	2	8,554	10,652	7,969	9,320
Interest expense	2	5,646	8,281	5,507	7,158
Net interest income		<b>2,908</b>	2,371	<b>2,462</b>	2,162
Non-interest income	3,7	<b>916</b>	1,192	<b>1,214</b>	1,072
Net operating income before impairment charges and operating expenses		<b>3,824</b>	3,563	<b>3,676</b>	3,234
Loan impairment charges	4,7	<b>1,306</b>	282	<b>1,193</b>	264
Operating expenses	5,7	<b>1,767</b>	1,419	<b>1,647</b>	1,358
<b>Profit before income tax expense</b>		<b>751</b>	1,862	<b>836</b>	1,612
Income tax expense	6,7	<b>239</b>	656	<b>162</b>	581
<b>Net profit for the year</b>		<b>512</b>	1,206	<b>674</b>	1,031
Net profit attributable to minority interests		-	1	-	-
<b>Net profit attributable to shareholders of the Parent entity</b>		<b>512</b>	1,205	<b>674</b>	1,031
Dividends per ordinary share (cents)					
Interim dividend paid	8	-	88		
Final dividend paid	8	<b>94</b>	86		
Special dividend paid	8	<b>31</b>	-		
Final dividend proposed		-	94		
Special dividend proposed		-	31		

The Income Statements should be read in conjunction with the accompanying notes to the financial statements.



**ST.GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES**  
**BALANCE SHEETS**  
**AS AT 30 SEPTEMBER 2009**

	NOTE	Consolidated		Parent	
		2009 \$M	2008 \$M	2009 \$M	2008 \$M
<b>ASSETS</b>					
Cash and liquid assets	9	752	713	752	713
Receivables due from other financial institutions	10	3,519	10,485	3,518	10,365
Assets at fair value through the income statement	11	1,019	7,385	997	7,455
Derivative assets	40	2,266	3,389	2,250	3,010
Available for sale investments	12	633	2,810	11,872	6,255
Loans and other receivables	13	128,894	119,988	111,792	99,678
Amounts receivable from controlled entities		-	-	6,178	4,277
Investments in controlled entities	16	-	-	1,176	1,370
Investment in associated companies		15	29	11	25
Property, plant and equipment	17	303	331	287	312
Intangible assets	18	1,318	1,378	1,088	1,129
Deferred tax assets	19	520	234	503	211
Other assets		994	633	655	507
<b>TOTAL ASSETS</b>		<b>140,233</b>	<b>147,375</b>	<b>141,079</b>	<b>135,307</b>
<b>LIABILITIES</b>					
Deposits and other borrowings	20	66,232	90,201	67,591	90,213
Payables due to other financial institutions	21	230	1,786	230	1,786
Derivative liabilities	40	3,263	2,291	2,589	1,744
Bank acceptances		280	3,970	280	3,970
Amounts payable to controlled entities		-	-	11,515	5,505
Due to ultimate parent entity		38,843	-	38,376	-
Current tax liabilities		-	62	-	56
Deferred tax liabilities	19	-	19	-	-
Other provisions	22	138	143	129	134
Bonds and notes	23	18,873	37,760	8,040	21,160
Loan capital	24	2,424	3,245	2,424	3,245
Bills payable and other liabilities	25	1,331	895	1,331	740
<b>TOTAL LIABILITIES</b>		<b>131,614</b>	<b>140,372</b>	<b>132,505</b>	<b>128,553</b>
<b>NET ASSETS</b>		<b>8,619</b>	<b>7,003</b>	<b>8,574</b>	<b>6,754</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	26	7,618	5,631	7,618	5,641
Reserves	27	(255)	115	(182)	146
Retained profits	28	1,249	1,250	1,138	967
<b>Equity attributable to shareholders of the Parent entity</b>		<b>8,612</b>	<b>6,996</b>	<b>8,574</b>	<b>6,754</b>
Equity attributable to minority interests	29	7	7	-	-
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>8,619</b>	<b>7,003</b>	<b>8,574</b>	<b>6,754</b>

The Balance Sheets should be read in conjunction with the accompanying notes to the financial statements.



**ST.GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES  
STATEMENTS OF RECOGNISED INCOME AND EXPENSE  
FOR THE YEAR ENDED 30 SEPTEMBER 2009**

	NOTE	Consolidated		Parent	
		2009 \$M	2008 \$M	2009 \$M	2008 \$M
<b>Cash flow hedge reserve</b>					
Gains/losses on cash flow hedging instruments (net of tax)	27				
Recognised in equity		(95)	(167)	(111)	(174)
Transferred (to)/from the income statement		(2)	4	(2)	4
<b>Available for sale reserve</b>					
Gains/losses on available for sale investments (net of tax)	27				
Recognised in equity		(77)	(31)	-	(7)
Transferred from the income statement		9	-	-	-
<b>Defined benefit plan actuarial losses (net of tax)</b>	28	<b>(5)</b>	<b>(5)</b>	<b>(5)</b>	<b>(5)</b>
<b>Net expense recognised directly in equity</b>		<b>(170)</b>	<b>(199)</b>	<b>(118)</b>	<b>(182)</b>
Profit for the year		512	1,206	674	1,031
<b>Total recognised income and expense for the year</b>		<b>342</b>	<b>1,007</b>	<b>556</b>	<b>849</b>
<b>Total recognised income and expense for the year attributable to:</b>					
Shareholders of the Parent entity		342	1,006	556	849
Minority interests		-	1	-	-
<b>Total recognised income and expense for the year</b>		<b>342</b>	<b>1,007</b>	<b>556</b>	<b>849</b>

The Statements of Recognised Income and Expense should be read in conjunction with the accompanying notes to the financial statements.

**ST.GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED 30 SEPTEMBER 2009**

	NOTE	Consolidated		Parent	
		2009 \$M	2008 \$M	2009 \$M	2008 \$M
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Interest received		8,824	10,408	8,126	8,888
Interest paid		(6,141)	(8,165)	(5,308)	(6,897)
Other income received		1,141	1,045	845	775
Operating expenses paid		(1,540)	(1,293)	(1,491)	(1,402)
Income tax paid		(603)	(665)	(602)	(662)
Purchase of available for sale investments		(240)	(117)	(11,677)	(115)
Proceeds from sale and redemption of available for sale investments		155	275	4,054	-
Net (increase)/decrease in assets					
- Balance due from other financial institutions (not at call)		6,881	(3,798)	6,882	(3,797)
- Assets at fair value through the income statement		8,477	(2,719)	8,565	(2,600)
- Loans and other receivables		(10,239)	(13,990)	(13,314)	(17,446)
Net increase/(decrease) in liabilities					
- Balance due to other financial institutions (not at call)		(616)	767	(616)	767
- Deposits and other borrowings		(27,750)	16,935	(26,394)	17,287
- Due to ultimate parent entity		38,843	-	38,376	-
- Bonds and notes		(16,646)	(176)	(12,016)	2,417
<b>Net cash provided by/(used in) operating activities</b>	45 (a)	<b>546</b>	<b>(1,493)</b>	<b>(4,570)</b>	<b>(2,785)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Investment in controlled entities		-	-	(183)	(262)
Dividends received		1	6	328	69
Restructure related payments		(13)	(17)	(12)	(17)
Proceeds from sale of shares		-	93	-	93
Payments for property, plant and equipment		(65)	(83)	(62)	(76)
Proceeds from sale of property, plant and equipment		12	47	12	47
Net increase in amounts payable to controlled entities		-	-	6,010	465
Net (increase)/decrease in assets					
- Amounts receivable from controlled entities		-	-	(1,430)	1,482
- Investments in associates		2	-	2	-
- Other assets		(400)	4	(12)	(28)
<b>Net cash (used in)/provided by investing activities</b>		<b>(463)</b>	<b>50</b>	<b>4,653</b>	<b>1,773</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Net increase/(decrease) in liabilities					
- Other liabilities		115	(197)	235	(98)
- Loan capital		(726)	890	(726)	890
Redemption of Step-up Preference Shares		(150)	-	(150)	-
Proceeds from the issue of shares		2,125	863	2,125	863
Share issue costs		-	(8)	-	(8)
Dividends paid (excluding Dividend Re-Investment Plan)	45 (c)	(716)	(755)	(716)	(755)
<b>Net cash provided by financing activities</b>		<b>648</b>	<b>793</b>	<b>768</b>	<b>892</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>731</b>	<b>(650)</b>	<b>851</b>	<b>(120)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>(575)</b>	<b>75</b>	<b>(695)</b>	<b>(575)</b>
<b>Cash and cash equivalents at the end of the year</b>	45 (b)	<b>156</b>	<b>(575)</b>	<b>156</b>	<b>(695)</b>

The Statements of Cash Flows should be read in conjunction with the accompanying notes to the financial statements.



**ST.GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2009**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

St.George Bank Limited (the Parent entity) is incorporated and domiciled in Australia. The address of the Parent entity's registered office is 4-16 Montgomery Street, Kogarah, New South Wales, 2217, Australia. The annual report of the Parent entity for the year ended 30 September 2009 comprises information about the Parent entity and its controlled entities (the Group) and the Group's interest in associates.

The sole member and ultimate parent entity is Westpac Banking Corporation.

The annual report was authorised for issue by the Directors on 9 December 2009.

**(A) STATEMENT OF COMPLIANCE**

This annual report is a general purpose annual report which has been prepared in accordance with Australian Accounting Standards, the Corporations Act 2001 and the Banking Act 1959. International Financial Reporting Standards (IFRS) form the basis of Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board, and for the purpose of this report are called Australian equivalents to IFRS (AIFRS).

As a result of complying with AIFRS, the Group's annual report also complies with IFRS and interpretations adopted by the International Accounting Standards Board.

**(B) BASIS OF PREPARATION**

The accounting policies set out below have been applied consistently to all periods presented in this annual report and have been applied consistently by Group entities except for the changes as indicated in Note 1(HH).

The annual report has been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value;
- Financial instruments at fair value through the Income Statement are measured at fair value;
- Available for sale financial assets are measured at fair value;
- Defined benefit plan assets and liabilities are measured at fair value; and
- Recognised assets and liabilities that are subject to fair value hedges are fair valued to the extent of the hedged risk.

This annual report is presented in Australian dollars, which is the Parent entity's functional currency and the functional currency of the Group.

The Parent entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998. Accordingly, all financial information presented in Australian dollars has been rounded to the nearest million unless otherwise stated.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 1(JJ).

The Group adopted AASB 2008-10 Amendments to Australian Accounting Standards – Reclassification of Financial Assets with the effective date of 1 July 2008. This standard makes amendments to AASB 139 Financial Instruments: Recognition and Measurement and AASB 7 Financial Instruments: Disclosure. The amendment permits the reclassification of certain non-derivative financial assets, other than those designated at fair value through profit and loss upon initial recognition, out of the fair value through profit or loss category when the financial asset is no longer held for the purpose of selling or repurchasing in the near future and there are rare circumstances or it would otherwise have met the definition of a loan and receivable at initial recognition. No additional reclassifications have been made in the current period.

Other standards, interpretations and amendments that have been applied by the Group during the financial year commencing 1 October 2008 but which have not had a material impact on the financial results or position of the Group are:

- AASB Interpretation 4 Determining Whether an Arrangement contains a Lease, which is applicable to annual reporting periods beginning on or after 1 January 2008; and
- AASB Interpretation 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction is applicable to annual reporting periods beginning on or after 1 January 2008.

It is anticipated that Westpac and St.George will become a single Authorised Deposit-Taking Institution (ADI) in the first half of the 2010 calendar year. This will involve transferring the assets, liabilities, business and undertaking of St.George Bank Limited to Westpac Banking Corporation (the "Transfer"). St.George Bank Limited will be deregistered as a separate company immediately after the Transfer. Under AASB 101 Presentation of Financial Statements, financial statements should be prepared on a going concern basis, unless management intends to liquidate the entity or cease trading. In the circumstances, the Directors have considered whether it is appropriate to prepare these financial statements on a going concern basis and are satisfied that this is the most appropriate basis, as all the St.George assets and liabilities will be recovered and settled at their carrying amounts at the date of the Transfer.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(C) CONSOLIDATION**

The consolidated annual report comprises the annual report of the Parent entity and all entities that are controlled by the Parent entity. Under AASB 127 Consolidated and Separate Financial Statements, control exists when the Parent entity has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Under UIG 112 Consolidation – Special Purpose Entities, control exists where the Parent entity has the majority of the risks and benefits of the entity.

Where an entity commenced or ceased to be controlled during the year, its results are only included from the date control commenced or up to the date control ceased.

Associates are those entities for which the Group has significant influence, as defined in AASB 128 Investments in Associates, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of the Group's investment is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

All inter-entity balances and transactions between Group entities have been eliminated on consolidation.

Trusts involved in the securitisation of the Parent entity's assets and asset backed-conduit vehicles have been consolidated. The trusts have been consolidated on the basis that the Group has retained the majority of residual benefits from the trusts' activities and the majority of residual ownership risks related to the trusts' assets.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer Note 1(O)).

Investments in subsidiaries are accounted for at cost in the individual financial statements of the Parent entity. Investment in subsidiaries are subsequently held at the lower of cost and recoverable amounts.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

The interest of minority shareholders is stated as the minority's proportion of the net profit and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly, by St.George Bank Limited. Any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of St.George Bank Limited.

**(D) FOREIGN CURRENCY**

Transactions in foreign currencies are translated at the foreign exchange rate at the date of the transaction. All monetary assets and liabilities held in foreign currencies are shown in this annual report at the exchange rates prevailing at balance date. Foreign currency forwards, futures, swaps and options are valued at fair value using the appropriate market rates at balance date. Unrealised profits and losses arising from these revaluations are recognised in the Income Statement, subject to the application of hedge accounting (refer Note 1(I)).

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(E) TRANSLATION OF CONTROLLED FOREIGN ENTITIES**

The functional currency of the domestic operations of the Parent entity has been determined to be Australian dollars (AUD), as this currency best reflects the economic substance of the underlying events and circumstances relevant to the Parent entity. Each entity within the Group has also determined its functional currency based on its own primary economic indicators.

Assets and liabilities of foreign operations with an overseas functional currency are translated to AUD (the Group's presentation currency) at balance sheet date at the foreign exchange rates ruling at that date. Revenues and expenses of these entities are translated at average exchange rates prevailing during the period. All resulting exchange differences are recognised in the Foreign Currency Translation Reserve as a separate component of equity and are released to the Income Statement upon disposal.

**(F) CASH AND LIQUID ASSETS**

Cash and liquid assets are readily convertible to cash and subject to insignificant risk of change in value and comprise cash held in branches, ATMs, cash at bank, money at call, bills receivable and remittances in transit. Interest income on cash and liquid assets is recognised using the effective interest rate method in the Income Statement. Cash and liquid assets are recognised at the face value or the gross value of the outstanding balance.

For the purpose of the Cash Flow Statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in fair value. Such investments are normally those with an original maturity of less than three months. Cash and cash equivalents include cash and balances with the Reserve Bank, short term amounts included in receivables due from other financial institutions, payables due to other financial institutions and bills payable.

**(G) RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS**

Balances due from other financial institutions are loans and receivables. These include loans, nostro balances and settlement account balances due from other banks and negotiable certificates of deposits. They are measured at fair value at inception and subsequently measured at amortised cost using the effective interest rate method. Interest income is recognised using the effective interest rate method in the Income Statement.

**(H) ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT**

Assets at fair value through the Profit or Loss are described in these accounts as assets at fair value through the Income Statement.

Trading securities include debt instruments and securities purchased under agreement to resell. Trading securities are purchased without the intention of being held to maturity. The securities are recorded at fair value based on quoted market prices. Realised and unrealised gains and losses are recognised in the Income Statement. Interest on trading securities is included in net interest income. At acquisition, trading securities are recorded on a trade date basis.

Where available, quoted bid prices are used to account for the fair value of assets. Quoted mid prices are used to account for fair value of assets where there is an offsetting risk position in a portfolio. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Realised gains and losses on disposal and unrealised fair value adjustments are included in other income. Interest income on assets at fair value through the Income Statement is included within interest income using the effective interest rate method. Dividends continue to be reflected in other income when earned.

**(I) DERIVATIVE FINANCIAL INSTRUMENTS**

The Group makes use of the derivatives market for trading purposes and to hedge foreign exchange, interest rate risk and credit risk.

All derivatives that do not meet the hedging criteria under AASB 139 are classified as derivatives held for trading, with changes in fair value recognised immediately within the Income Statement.

Interest income and expense on derivatives, except those used to manage underlying assets and liabilities, are included within other income. Interest income and expense for derivatives used to manage underlying assets and liabilities are included with the interest flows of these items within interest income or expense where hedge accounting is applied.

Derivatives are initially recognised at trade date at fair value. Subsequent to initial recognition, derivatives are measured at fair value. The method of recognising the gain or loss on re-measurement of fair value depends on whether the derivative is designated as a hedging instrument, the nature of the item being hedged and whether the derivative qualifies for hedge accounting. A positive revaluation amount of a contract is disclosed as an asset and a negative revaluation amount of a contract is disclosed as a liability.

The Group has adopted cash flow hedging or a combination of cash flow and fair value hedging in respect of its asset and liability management activities.

Fair values are obtained from quoted market prices where there is a market and valuation techniques are used when there is no active market. Valuation techniques include discounted cash flow models and options pricing models as appropriate.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(I) DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

At the inception of the transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

**Fair value hedges**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the Income Statement within other income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the fair value hedge relationship is terminated, other than due to the de-recognition of the hedged item, fair value hedge accounting ceases and for interest earning assets or interest bearing liabilities, the fair value adjustment of the hedged item is amortised to the Income Statement over the remaining term of the hedged item.

**Cash flow hedges**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement. This represents the amount by which the changes in the fair value of the expected cash flow of the derivative differ from the fair value of the changes (or expected changes) in the cash flow of the hedged item.

Amounts from the cash flow hedge reserve are transferred to the Income Statement when the cash flows on the hedged item are recognised in the Income Statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is amortised to the Income Statement over the remaining term of the original hedge. Where the hedged item is derecognised, the cumulative gain or loss is recognised immediately in the Income Statement.

**Derivatives that do not qualify for hedge accounting**

Derivatives contracts entered into as economic hedges that do not qualify for hedge accounting are held at fair value through the Income Statement. Net interest income/expense on these derivative contracts is recognised within interest expense.

**Embedded derivatives**

A derivative may be embedded within a host contract. If the host contract is not already measured at fair value with changes in fair value reported in the Income Statement, the embedded derivative is separated from the host contract where the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. This is then accounted for as a stand-alone derivative instrument at fair value. Otherwise, the embedded derivative is accounted for on the same basis as the host contract.

**(J) INVESTMENTS AND OTHER FINANCIAL ASSETS**

Investment securities, shares in entities and other investments are classified as available for sale investments.

Available for sale investments are non-derivative assets intended to be held for an indefinite period of time, including debt instruments and equities. They may be sold in response to a need for liquidity or changes in interest rates and exchange rates.

Available for sale investments are initially recognised at fair value plus transaction costs. They are subsequently remeasured at fair value and gains and losses arising from changes in fair value are recognised in equity in the available for sale reserve until investments are sold, otherwise disposed of, or until such investments become impaired. Unquoted equities whose fair value cannot be reliably measured are carried at cost.

Interest income is recognised on available for sale investments using the effective interest rate method, calculated over the assets' expected life. Premiums and/or discounts arising on purchase are included in the calculation of their effective interest rate. Dividends are recognised in other income within the Income Statement when earned.

When a decline in the fair value of an available for sale investment has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in the Income Statement. When a subsequent event causes the amount of impairment loss on an available for sale debt instrument to decrease, the impairment loss is reversed through the Income Statement. Where the decrease in the impairment loss relates to an available for sale equity instrument, the reversal of the impairment loss is recognised directly in equity.

When available for sale investments are sold, cumulative gains or losses previously recognised in equity are recognised in other income within the Income Statement.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(K) LOANS AND OTHER RECEIVABLES**

Loans and other receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market.

Loans and receivables include residential, commercial, credit cards, overdrafts, bill financing and other personal loans, leasing, hire purchase, leveraged leases, margin lending, structured financing, securitised loans and asset-backed conduit vehicle receivables.

Loans and other receivables are initially recognised at fair value plus transaction costs. They are subsequently measured at amortised cost using the effective interest rate method.

Security is obtained if, based on an evaluation of the customer's credit worthiness, it is considered necessary for the customer's overall borrowing facility. Security would normally consist of assets such as cash deposits, receivables, inventory, plant and equipment, real estate or investments.

Loan products that have both a mortgage and deposit facility are presented on a gross basis in the balance sheet, segregating the loan and deposit component into the respective balance sheet line items. Interest earned on this product is presented on a net basis in the income statement as this reflects how the customer is charged.

Note 1(M) provides additional information with respect to loan impairment. For more details on revenue recognition, refer to Note 1(BB) revenue recognition.

**Finance lease receivables**

Finance leases in which the Group is the lessor are included in loans and other receivables. At the beginning of the lease term, the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value accruing to the lessor is recorded in the balance sheet. The recognition of finance income is based on a pattern reflecting a constant periodic return on the Group's net investment in the finance lease. Income attributable to the leases is brought to account progressively in the Income Statement over the lease term on an effective yield basis.

**Structured financing**

Structured financing by the Group includes participation in leveraged leases and is recorded at the amounts equal to the Group's participation and included in loans and other receivables in the Balance Sheet. Revenue is recognised in the Income Statement based on an effective yield basis.

**Securitisation**

The Group periodically sells loans (principally housing loans and automobile finance receivables) to special purpose trusts that issue securities to investors. Group entities act as manager, servicer and custodian to these trusts. The Group also provides redraw facilities and basis and interest rate swaps to the trusts. Securitised loans that do not qualify for de-recognition and the associated funding are included within the Parent entity's loans and other receivables and bonds and notes respectively.

The Group does not stand behind the capital value or the performance of the securities or the assets of the trusts. The Group does not guarantee the payment of interest or the repayment of principal due on the securities. The Group is not obliged to support credit losses that may be suffered by the investors and does not intend to provide such support.

The trusts involved in the securitisation of the Parent entity's assets and asset-backed conduit vehicles have been consolidated. Accordingly, securitised loans and other assets, together with associated funding within these trusts and entities, are included within the Group's loans and other receivables and bonds and notes respectively.

**(L) CLASSIFICATION OF IMPAIRED ASSETS**

The following criteria have been used by the Group in the classification of impaired assets.

**Non-performing**

Loans are classified as non-performing where:

- (a) contractual payments of principal and/or interest are outside contractual terms and where the value of security is insufficient to cover repayment of principal and interest;
- (b) a specific impairment provision has been raised; and/or
- (c) there is reasonable doubt about the ultimate collectability of principal or interest within an acceptable timeframe.

**Renegotiated Loans**

These are loans whose terms have been renegotiated and would otherwise be classified as past due or impaired. These loans are measured at amortised cost and interest and fees recognised as income using the effective interest rate method, whilst the customer complies with the modified terms and conditions.



**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets Acquired Through Security Enforcement**

This category comprises assets where ownership has been assumed in settlement of a debt. These assets are recorded in the Balance Sheet under Available for Sale Investments and are measured in accordance with the Group's intention for realisation of the asset.

**(M) IMPAIRMENT OF FINANCIAL ASSETS**

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment charges are recognised if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Group would not otherwise consider;
- (iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (v) the disappearance of an active market for that financial asset because of financial difficulties; or
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:
  - adverse changes in the payment status of borrowers in the Group; or
  - national or local economic conditions that correlate with defaults on the assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment on loans and receivables or held-to-maturity investments has been incurred, the amount of the charge is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets reflect, and are directionally consistent with, changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the charge for loan impairment in the income statement. If, in a subsequent period, the amount of the impairment charge decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment charge is reversed by adjusting the provision account. The amount of the reversal is recognised in the income statement.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(M) IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)**

**Assets carried at fair value**

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment charge on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment charge was recognised in the income statement, the impairment charge is reversed through the income statement. Subsequent reversal of impairment charges on equity instruments are not recognised in the income statement.

**Loans and receivables**

The Group's loan impairment provisions are established to recognise incurred impairment in its portfolio of loans. A loan is impaired when there is objective evidence that events occurring since the loan was recognised have affected expected cash flows from the loan. The impairment charge is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loans original effective interest rate. Provisions for loan impairment represent management's estimate of the charges incurred in the loan portfolios as at the balance date. Changes to the provisions for loan impairment and changes to the provisions for undrawn contractually committed facilities and guarantees provided are reported in the consolidated income statement as part of the impairment on loans.

*Individual component*

All impaired loans that exceed specified thresholds are individually assessed for impairment. Individually assessed loans principally comprise the Group's portfolio of commercial loans to medium and large businesses. Impairment is recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held (discounted at the loan's original effective interest rate). All relevant considerations that have a bearing on the expected future cash flows are taken into account, including the business prospects for the customer, the realisable value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. Subjective judgments are made in this process. Furthermore, judgments can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are taken.

*Collective impairment*

This is made up of two elements: loan impairment provisions for impaired loans that are below individual assessment thresholds (collective impaired loan provisions) and for loan impairments that have been incurred but have not been separately identified at the balance sheet date (incurred but not reported provisions). These are established on a portfolio basis taking into account the level of arrears, collateral, past loss experience and defaults based on portfolio trends. The most significant factors in establishing these provisions are the estimated loss rates and the related emergence periods. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, unemployment levels, payment behaviour and bankruptcy rates.

**(N) PROPERTY, PLANT AND EQUIPMENT**

Land and buildings were recognised at deemed cost upon transition to AIFRS, less any impairment losses and depreciation. Deemed cost represented the fair value of land and buildings at 1 October 2004. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred. Impairment is recognised as a part of operating expenses in the income statement.

Land is not depreciated and buildings are depreciated on a straight line basis over their estimated useful lives of 20 to 60 years.

Plant and equipment is recognised at cost less any accumulated impairment losses and accumulated depreciation calculated on a straight line basis to write off the assets over their estimated useful lives. The estimated useful lives of items of plant and equipment are between three and ten years and leasehold improvements are between one and ten years.

Depreciation rates for property, plant and equipment are reviewed periodically to ensure they appropriately reflect residual values and estimated useful lives.

All items of property, plant and equipment are periodically reviewed for impairment as part of the impairment testing conducted within cash generating units.

Gains and losses on the disposal of property, plant and equipment are determined by reference to their carrying value and are included in the income statement.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(O) INTANGIBLE ASSETS**

**Goodwill**

Goodwill represents the excess of the cost of an acquisition over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. Goodwill on acquisition of controlled entities is included in intangible assets in the balance sheet.

**Business combinations prior to 1 October 2004**

Goodwill is included on the basis of its deemed cost, which represented the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 October 2004 were not reconsidered in preparing the Group's opening AIFRS balance sheet at 1 October 2004.

**Business combinations since 1 October 2004**

All business combinations are accounted for by applying the purchase method. Goodwill represents the excess of the cost of the acquisition over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised directly in the Income Statement.

**Software**

Computer software costs that are not integral to associated hardware are recognised as an intangible asset where they are identifiable, can be reliably measured and it is probable that they will lead to future economic benefits to the Group. Certain internal and external costs directly incurred in acquiring and developing certain software have been capitalised and are being amortised over their useful lives, usually a period of three to five years. Capitalised software is carried at cost less amortisation and any impairment losses. Costs incurred on software maintenance are expensed as incurred. Impairment losses on capitalised software are recognised in the Income Statement when incurred.

**(P) DEPOSITS AND OTHER BORROWINGS**

Deposits and other borrowings comprise negotiable certificates of deposits, term deposits, saving deposits, cheque and other demand deposits, securities sold under agreements to repurchase.

Deposits and other borrowings are recognised at inception at fair value plus directly attributable transaction costs and subsequently at amortised cost. Interest and yield related fees are recognised in the Income Statement based upon the effective yield method.

Where the Group has utilised derivative instruments to hedge deposits and other borrowings, hedge accounting policies as outlined in Note 1(I) are applied.

**(Q) PAYABLES DUE TO OTHER FINANCIAL INSTITUTIONS**

Payables due to other financial institutions include deposits, settlement account balances and vostro balances. They are brought to account at inception at fair value plus directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised using the effective interest rate method in the Income Statement. Interest and yield related fees are taken to the Income Statement using the effective interest rate method.

**(R) BANK ACCEPTANCES**

The liability for on-sold bills is recognised at amortised cost, with interest income and expense recognised using the effective yield methodology.

**(S) EMPLOYEE BENEFITS**

**Wages, salaries, annual leave and non-monetary benefits**

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date. These liabilities are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

**Long service leave**

The Group's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating those of the Group's obligations.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(S) EMPLOYEE BENEFITS (CONTINUED)**

**Retirement benefit obligations**

The Group makes contributions to multiple superannuation funds in accordance with Superannuation Choice of Fund, including the employer sponsored fund, which has two defined benefit sections. The defined benefit sections provide defined lump sum benefits from aged 55, based on years of service and final average salary. The defined contribution section and fund receives fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

Obligations for contributions to defined benefit plans are recognised as an expense in the Income Statement as incurred.

In relation to defined benefit plans, any deficiency or surplus of the plan is recognised as a liability or asset respectively. Any deficiency or surplus is also recognised in retained earnings.

**Share-based payments**

The Group operated several equity settled, share-based compensation plans up until 1 December 2008. Information relating to these plans is set out in Note 31.

Where shares in the Parent entity were issued to satisfy grants, the fair value was recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options or shares.

At each balance date, the Group revises its estimated forfeiture and recognises the impact of any changes in the Income Statement.

The fair value of options or awards (with market related performance conditions) to be satisfied by the issuance of shares was determined using the binomial/monte carlo method at the grant date. The binomial/monte carlo method takes into account the terms and conditions upon which the options were granted. The fair value of awards with non-market related conditions was based on the share price on the grant date, which was discounted for the present value of dividends not received during the vesting period.

Where options or awards do not vest as a result of not achieving non-market performance hurdles, then any expense previously recognised was reversed.

From 1 December 2008, employees participate in share ownership schemes operated by Westpac. The fair value of these rights and shares are recognised as an employee benefit expense over the vesting period.

**Westpac Performance Plan (WPP)**

The value of performance share rights granted to employees for no consideration under the WPP is recognised as an expense over the performance period. The value of any ordinary shares issued to satisfy the obligation to employees is recognised through the intercompany account with Westpac, or if purchased on market, the obligation to employees is satisfied by delivering shares that have been purchased on market.

**Westpac Restricted share plan (RSP)**

The fair value of Westpac ordinary shares issued to employees for no consideration under the RSP is recognised as an expense over the vesting period. The fair value of ordinary shares issued to employees is measured at grant date and is recognised through the intercompany account with Westpac.

Westpac has formed a trust to hold any shares forfeited by employees until they are reallocated in subsequent grants to employees in the RSP. On market share acquisitions to fulfil allocations to St.George Bank Limited employees under the RSP, are recorded in an intercompany account with Westpac.

**Termination benefits**

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

**(T) PROVISION FOR DIVIDENDS**

The provision for dividend relating to SAINTS is calculated on a balance of \$350 million at a floating rate of interest calculated as 70% of the sum of the annualised 90 day Bank Bill Swap Rate plus a margin of 1.35%. Dividends are payable quarterly in August, November, February and May each year. From 1 December 2008, Westpac holds all SAINTS on issue and dividends are no longer payable.

The provision for dividends relating to Step-up Preference Shares (SPS) was calculated on a balance of \$150 million at a floating rate of interest calculated as 70% of the sum of the annualised 90 day Bank Bill Swap Rate plus a margin of 1.10%. Dividends were payable quarterly in August, November, February and May each year. The SPS were redeemed on 31 March 2009.

The provision for dividends relating to ordinary shares is recognised in the reporting period in which the dividends are declared. From 1 December 2008, Westpac holds all ordinary shares on issue.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(U) INCOME TAX**

Income tax expense in the Income Statement for the year comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for annual reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date that are expected to apply when the liability is settled or the asset is realised.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using a group allocation approach.

**Tax consolidation**

With effect from 31 March 2009, the Parent entity and its wholly owned Australian resident entities became part of the Westpac tax-consolidated group. Westpac Banking Corporation and its wholly owned Australian controlled entities implemented the tax consolidation legislation as of 1 October 2002. The head entity within the tax-consolidated group is Westpac Banking Corporation.

**Nature of tax funding arrangements and tax sharing arrangements**

St.George and its wholly owned Australian resident entities have acceded to the Westpac tax funding agreement under which the wholly-owned entities fully compensate Westpac Banking Corporation for any current tax payable assumed and are compensated by Westpac Banking Corporation for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Westpac Banking Corporation under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are settled on a quarterly basis in line with Westpac Banking Corporation obligations to pay tax instalments. Any unpaid amounts at balance date are recognised as current intercompany receivables or payables.

St.George and its wholly owned Australian resident entities have acceded to the Westpac tax sharing agreement which, in the opinion of the Directors, limits the joint and several liabilities of the wholly-owned entities in the case of a default by the head entity, Westpac Banking Corporation. No amounts have been recognised in the financial statements in respect of this agreement, as payment of any amounts under the tax sharing agreement is considered remote.

**(V) BONDS AND NOTES**

Bonds and notes comprise commercial paper and other fixed and floating senior debt securities issued under the Bank's debt instrument programme, euro note programme, US commercial paper programme and other private placements. Bonds and notes also include debt issues of consolidated trusts involved in the securitisation of the Parent entity's assets.

Bonds and notes are recognised at fair value plus directly attributable transaction costs at inception. Bonds and notes are subsequently measured at amortised cost. Interest and yield related fees are recognised in the Income Statement based on the effective interest rate method.

Where the Group has hedged the bonds and notes with derivative instruments, hedge accounting rules are applied (refer to Note 1 (I)).

**(W) LOAN CAPITAL**

Loan capital comprises preference shares and subordinated debt issued by the Group that qualifies for inclusion in regulatory capital in accordance with APRA prudential requirements.

Loan capital is recognised at fair value plus directly attributable transaction costs at inception. Loan capital is subsequently measured at amortised cost. Interest and yield related fees are recognised in the Income Statement based on the effective interest rate method. Where the Group has hedged loan capital with derivative instruments, hedge accounting rules are applied (refer Note 1(I)).

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(X) SHAREHOLDERS' EQUITY**

**1) Ordinary Share Capital – Issued and Paid Up**

Ordinary share capital is recognised at the value of the amount paid up net of directly attributable issue costs. Where a subsidiary purchased shares in the Parent entity as part of the Group's equity based compensation scheme, such shares were referred to as Treasury shares and deducted from equity at cost.

**2) Preference share capital**

Preference share capital is classified as equity if it is non-redeemable, any dividends are discretionary and it is redeemable only at the Group's option. Dividends on preference shares classified as equity are recognised as distributions within equity. Based on this policy, the Group's SAINTS are and the Step-up Preference Shares (SPS) were classified as equity. Converting Preference Shares comprising CPS and CPS II were classified as a liability.

Details of preference shares classified as equity are as follows:

**SAINTS**

On 13 August 2004, the Parent entity issued 3.5 million SAINTS at \$100 each. The issue netted \$345 million in Tier 1 regulatory capital after issue related expenses. Any dividends are payable at the Directors' discretion. The dividends, if declared, would be based on a floating rate determined each quarter by taking 70% of the sum of the annualised 90 day Bank Bill Swap Rate plus a margin of 1.35%. If declared, dividends are payable in arrears on a quarterly basis. On 20 November 2014 or any dividend payment date thereafter, subject to APRA approval, the Parent entity may convert the SAINTS to ordinary shares, redeem, buy-back or cancel the SAINTS for their face value or undertake a combination of these options. On 1 December 2008, Westpac became the holder of the SAINTS.

**SPS**

On 20 June 2006, the Parent entity issued 1.5 million SPS at \$100 each, raising \$148 million in Tier 1 regulatory capital after issue related costs. Holders of these securities were entitled to a floating rate dividend which was payable at the Directors' discretion. The floating rate was determined by taking 70% of the sum of the annualised 90 day Bank Bill Swap Rate plus a margin of 1.10%. If declared, dividends were payable quarterly in arrears. Had the SPS not been redeemed, on 20 August 2016 or any dividend payment date thereafter, the Parent entity could have converted the SPS into ordinary shares, or redeem, buy-back or cancel (subject to APRA approval) the SPS for their \$100 face value, or undertaken a combination of these options. The SPS were redeemed on 31 March 2009.

**3) Reserves**

- i) Depositors' and Borrowers' Share Redemption Reserve – The purpose of this reserve is to recognise the redemption of all Borrowers' and Depositors' shares. These shares were compulsory acquired by Westpac on 24 April 2009.
- ii) Foreign Currency Translation Reserve – The purpose of this reserve is to recognise exchange differences arising on translation of foreign currency assets and liabilities of foreign subsidiaries. Any offsetting gains or losses on hedging these balances, together with any tax effect are also reflected in this reserve, which may be either a debit or credit balance. Any credit balance in this reserve would not normally be regarded as being available for payment of dividends until such gains are realised.
- iii) Equity Compensation Reserve – In conjunction with the recognition of an expense for employee equity grants, a corresponding amount is recognised within the equity compensation reserve for shares granted under St.George plans up to the date of the merger.
- iv) General Reserve for Credit Losses – In accordance with APRA's regulatory treatment, at a minimum the difference between 0.5% of risk weighted assets and the after tax balance of the eligible portion of the collective provision, was appropriated from retained earnings to a non-distributable general reserve for credit losses up until the date of the merger. Following changes to the collective loan provision methodology during the year to align with the methodology adopted by Westpac, the total provisioning in the 30 September 2009 financial year exceeded 0.5% of risk weighted assets. Consequently the general reserve for credit losses previously maintained was transferred to retained earnings. That transfer does not impact impairment charges or profit for the current financial year.
- v) Cash Flow Hedge Reserve – The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised within the cash flow hedge reserve.
- vi) Available For Sale Reserve – Changes in the fair value of financial instruments designated as available for sale assets, net of tax, are recognised within the available for sale reserve. These changes are transferred to the income statement in non interest income when the asset is either derecognised or impaired.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(Y) LIFE INSURANCE BUSINESS**

The Group conducts life insurance business through its subsidiary St.George Life Limited (SGL). SGL is accounted for in accordance with the requirements of Accounting Standard AASB 1038: Life Insurance Contracts and AASB 139: Financial Instruments: Recognition and Measurement. Amounts included in the results of the Group in respect of SGL represent the total life business of SGL, which includes underlying amounts that relate to both policyholders, and shareholders of the life business.

All assets are carried at fair value through the Income Statement. Life insurance liabilities are measured as accumulated benefits to policyholders in accordance with AASB 139 and AASB 1038, which apply to investment contracts and assets backing insurance liabilities respectively.

**(Z) OPERATING LEASES**

Leases entered into by the Parent entity and Group as lessee are primarily operating leases. The total payments made under operating leases are charged to the Income Statement on a straight line basis over the period of the lease unless another systematic basis is more representative of the time pattern of the benefit received. Incentives received on entering into operating leases are recorded as liabilities and amortised as a reduction of rental expense over the lease term on a straight-line basis.

**(AA) OFFSETTING FINANCIAL INSTRUMENTS**

Financial assets and liabilities are offset and the net amount is reported on the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**(BB) REVENUE AND EXPENSE RECOGNITION**

**Interest income and expense**

Interest income and expense are recognised in the Income Statement for all interest earning assets and interest bearing liabilities based upon the effective interest rate on the instrument. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments and certain acquisition expenses through the expected life of the instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fee income and expense and acquisition costs that are an integral part of the effective interest rate.

Interest income and expense on derivative instruments that are used to manage underlying assets and liabilities are recognised together with the underlying item within interest income and expense.

Interest relating to impaired loans is recognised using the loan's original effective interest rate. This rate is also used to discount the future cash flows for the purpose of measuring impairment charges.

**Fee and commission income and expense**

Fee income and acquisition costs relating to loan origination are capitalised and included in the effective interest rate and recognised as interest income over the expected life of the loan. Other fee and commission income is generally recognised when the service has been provided. Asset management fees related to investment funds are recognised over the period the service is provided.

Fee expense is recognised when the service has been received.

Net trading income comprises all gains and losses from changes in the fair value of financial assets held for trading, all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value through the Income Statement, the impact of hedge ineffectiveness recognised in the Income Statement and all gains and losses from changes in the fair value of non-trading derivatives.

Dividend income is recorded as non-interest income as declared.

**Gain or loss on sale of property, plant and equipment**

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset, and is recognised as non-interest income.

**Impairment on loans and receivables carried at amortised cost**

The charge recognised in the income statement for impairment on loans and receivables carried at amortised cost reflects the net movement in the provisions for individually assessed and collectively assessed loans, write-offs and recoveries of impairments previously written-off.

**(CC) SEGMENTS**

The Group is organised into two business segments, Retail and Business Banking and Other. The Other segment comprises treasury, institutional, wealth and support functions.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(DD) DERECOGNITION OF FINANCIAL INSTRUMENTS**

The derecognition of a financial asset takes place when the contractual rights to the cash flows associated with the financial instrument expire or when the Group transfers the contractual rights, which is normally the case when the instrument is legally sold, or when all the cash flows attributable to the instrument are passed onto another party and the risks and rewards have substantially been transferred. The derecognition of a financial liability takes place when the contractual obligations are discharged, cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all or a portion of the risks and rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include securities lending and repurchase transactions and certain sales of home loans by the Parent entity to consolidated securitisation trusts.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Internal securitisations do not meet the criteria for derecognition. These transactions are recognised in the Parent entity and the applicable trusts. Refer to Note 1(HH) for further details.

**(EE) COMMITMENTS TO EXTEND CREDIT, LETTERS OF CREDIT AND GUARANTEES**

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events, or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised, but are disclosed, unless they are remote.

Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities, and to other parties in connection with the performance of customers under obligations related to contracts, advance payments made by other parties, tenders, retentions and the payment of import duties.

Financial guarantee contracts issued are initially recognised at fair value. Subsequent to initial recognition, financial guarantees are measured at the higher of the initial measurement amount, less amortisation calculated to recognise fee income earned, and the best estimate of the expenditure required to settle any financial obligation at the balance sheet date. Any increase in the liability relating to financial guarantees is recognised in the Income Statement.

**(FF) FIDUCIARY ACTIVITIES**

Certain controlled entities within the Group conduct investment management and other fiduciary activities as responsible entity, trustee, custodian or manager on behalf of individuals, trusts, retirement benefit plans and other institutions. These activities involve the management of assets in investment schemes and superannuation funds, and the holding or placing of assets on behalf of third parties.

Where controlled entities, as responsible entities or trustees, incur liabilities in respect of these activities, a right of indemnity exists against the assets of the applicable trusts. To the extent these assets are sufficient to cover liabilities, and it is not probable that the controlled entities will be required to settle them, the liabilities are not included in the consolidated financial statements.

The assets and liabilities of these funds and trusts are not included in the Group's balance sheet as it does not have the capacity to directly or indirectly control the funds and trusts for the Group's benefit and does not have the risks and rewards.

Commissions and fees derived by these controlled entities in respect of these activities are included within other income in the Income Statement.

At 30 September 2009 the aggregate total value of assets under discretionary management by the Group that have not been included in the consolidated financial statements was approximately \$40.9 billion (30 September 2008: \$40.6 billion) (refer to Note 39).

**(GG) REPURCHASE AGREEMENTS**

The Group enters into repurchase transactions where it sells securities under an agreement to repurchase and reverse repurchase transactions where it purchases securities under an agreement to resell. The securities subject to the repurchase or reverse repurchase transactions are not derecognised from the balance sheets of the respective parties, as the risks and rewards of ownership remain with the initial holder. Repurchase and reverse repurchase transactions are conducted on a collateralised basis. Where cash is provided as collateral, cash received from counterparties on a repurchase agreement is recorded within deposits and other borrowings and cash paid on a reverse repurchase agreement is recorded within cash and liquid assets.



**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(HH) CHANGES IN ACCOUNTING POLICIES**

The Group has adopted a change in its accounting policy in relation to mortgage insurance premium income. Amounts received from customers by the Group in relation to mortgage insurance were previously accounted for as a yield related fee under AASB 139 Financial Instruments: Recognition and Measurement and recognised on an effective yield basis within net interest income over the expected life of the underlying loan. The Group has changed its accounting for such income whereby it is recognised as insurance premium revenue in accordance with AASB 1023 General Insurance Contracts. This accounting policy change has been applied retrospectively and had no impact on profit after tax or retained earnings of prior periods, however it did result in the reclassification of certain income statement items for the year ended 30 September 2008. For the year ended 30 September 2008 this resulted in a decrease in interest income of \$58 million, an increase in non-interest income of \$49 million and a decrease in impairment charges of \$9 million.

The Parent entity has adopted a change in its accounting policy in relation to internal securitisation. Previously the Parent entity did not recognise funds received from internal securitisation activities in the Parent entity's assets and liabilities. Respectively, interest income and interest expense were not included in the Parent entity's income statement. The Parent entity has changed its policy whereby these assets and liabilities and their related profit and loss impact are now included. This change resulted in an increase in interest income and interest expense of \$143 million respectively, an increase in Available for Sale Investments and Amounts Payable to Controlled Entities of \$4,045 million respectively in the 30 September 2008 year.

**(II) CHANGE IN ACCOUNTING POLICY REGARDING INVESTMENT IN CONTROLLED ENTITIES IN ST.GEORGE BANK LIMITED FINANCIAL STATEMENTS**

The carrying value of investments in controlled entities and an intercompany receivable balance in the financial statements of St.George Bank Limited have been restated for the prior year. There is no impact on the St.George Group financial result. This restatement reflects historic reorganisations of businesses, which had not been recognised in St.George Bank Limited's financial statements and alignment with Westpac's accounting policies.

The restatement had the effect of reducing the carrying value of investments in controlled entities by \$297 million, reducing amounts receivable from controlled entities by \$32 million, reducing retained profits by \$152 million and increasing intangible assets by \$177 million.

**(JJ) CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT JUDGMENTS**

The preparation of the Group's financial statements requires management to use judgment, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those prepared using these judgments, estimates and assumptions. Estimates and underlying assumptions are reviewed on an ongoing basis.

An explanation of the judgments, estimates and assumptions that are significant to the Group's financial statements is provided below.

**(1) Goodwill**

Represents the excess of purchase consideration, including incremental expenses, over the fair value of the identified net assets of the acquired business.

Management judgment is involved in estimating the fair value of the acquired assets and liabilities and therefore goodwill, at the time of acquisition.

Judgment is also required in the Group's annual testing of goodwill for impairment. An impairment will be recognised if the carrying value of the cash generating unit to which goodwill has been allocated is in excess of its recoverable amount. The recoverable amounts of cash generating units are determined based upon "value in use" calculations, which involve the use of estimates and assumptions in relation to the cash flows and discount rates. Goodwill impairment testing for both 2009 and 2008 indicated that none of the Group's goodwill is impaired and there have been no indicators of impairment in the current period.

**(2) Fair value of financial instruments**

Assets at fair value through the income statement are recognised at fair value and changes in their fair value are recognised in the Income Statement. Derivative financial instruments are recognised at fair value and changes in their fair value are recognised in the Income Statement.

The Group classifies investment securities, shares in other entities and certain other investments as available for sale investments. Available for sale investments are measured at fair value and changes in their fair value are recognised in equity in the available for sale reserve until they are sold, otherwise disposed of, or until such investments become impaired.

Fair value represents the amount for which an asset could be exchanged or a liability settled in an arms-length transaction between knowledgeable willing parties. The Group uses quoted market prices as the measure of fair value. Where quoted market prices are not available, fair values are based on valuation techniques based upon observable market data or unobservable data.

The estimates of fair value are subjective and involve the exercise of judgment. Examples of the judgments involved include the selection of valuation techniques when market prices are not available, selection of discount rates and estimation of assumptions that may affect future cash flows of the asset. Changes in assumptions used could have a material impact on the valuation.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(JJ) CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT JUDGMENTS (CONTINUED)**

**(3) Income taxes**

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final outcome of these matters is different from the amounts initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Following the redemption of the St.George CPS, St.George CPS II and St.George SPS on 31 March 2009, St.George and all its wholly owned Australian entities have become part of the Westpac tax consolidated group. This will result in the reset of the tax base of certain of St.George's assets as of that date. The change in the tax base may result in material adjustments to certain deferred tax balances recognised by the Group with corresponding adjustments to the reported results of the Group.

In order to determine the impact of St.George joining the Westpac tax consolidated group, the market value of St.George and the market value of its identifiable assets and liabilities is being determined as at 31 March 2009. This requires management to make critical assumptions, judgments and estimates that are involved in determining the market value of identifiable assets and liabilities.

No adjustment has been made to estimate the reset tax base of St.George's assets for the purposes of preparing these financial statements, as the work to determine the financial effect of joining the Westpac tax consolidated group has not been finalised. Refer to Note 19 for details of the Group's deferred tax balances.

**(4) Provisions for loan impairment charges**

The Group's loan impairment provisions are established to recognise incurred impairment in its portfolio of loans. A loan is impaired when there is objective evidence that events occurring since the loan was recognised have affected expected cash flows from the loan. The impairment charge is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate. Provisions for loan impairment represent management's estimate of the charges incurred in the loan portfolios as at the balance date. There are two components to the Group's loan impairment provisions: individual and collective.

**Individual component**

All impaired loans that exceed specified thresholds are individually assessed for impairment. Individually assessed loans principally comprise the Group's portfolio of commercial loans to medium and large businesses. Impairment is recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held (discounted at the loan's original effective interest rate). All relevant considerations that have a bearing on the expected future cash flows are taken into account, including the business prospects for the customer, the realisable value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. Subjective judgments are made in this process. Furthermore, judgments can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are taken.

**Collective impairment**

This is made up of two elements: loan impairment provisions for impaired loans that are below individual assessment thresholds (collective impaired loan provisions) and for loan impairments that have been incurred but have not been separately identified at the balance sheet date (incurred but not reported provisions). These are established on a portfolio basis taking into account the level of arrears, collateral, past loss experience and defaults based on portfolio trends. The most significant factors in establishing these provisions are the estimated loss rates and the related emergence periods. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, unemployment levels, payment behaviour and bankruptcy rates.

**(5) Consolidation of special purpose entities**

The Group's consolidated financial statements include all entities that are controlled by St.George. When assessing whether the Group controls a special purpose entity (SPE), judgment is required about risks and rewards together with the Group's ability to make operational decisions for the SPE.

**(6) Superannuation obligations**

The Group operates a number of defined benefit plans as described in Note 36. For each of these plans, actuarial valuations of the plan's obligations and the fair value measurements of the plan's assets are performed at least annually in accordance with the requirements of AASB 119.

The actuarial valuation of plan obligations is dependent upon a series of assumptions, the key ones being price inflation, earnings growth, mortality, morbidity and investment returns assumptions. Different assumptions could significantly alter the amount of the difference between plan assets and obligations, and the superannuation cost charged to the income statement.

Refer to Note 36 for details of the Group's defined benefit deficit balances.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(KK) FUTURE ACCOUNTING DEVELOPMENTS**

The following new standards and interpretations have been issued, but are not yet effective and have not been early adopted by the Group:

A revised AASB 3, amended AASB 127 and AASB 2008-3 were issued by the AASB in March 2008. The revisions to the standards apply prospectively to business combinations and will be effective for the 30 September 2010 financial year end. The main changes under the standards are that:

- acquisition related costs are recognised as an expense in the income statement in the period they are incurred;
- earn-outs and contingent considerations will be measured at fair value at the acquisition date, however remeasurement in the future will be recognised in the income statement;
- step acquisitions, impacting equity interests held prior to control being obtained, are remeasured to fair value, with gains and losses being recognised in the income statement. Similarly where control is lost, any difference between the fair value of the residual holding and its carrying value is recognised in the income statement; and
- while control is retained, transactions with minority interests would be treated as equity transactions.

AASB 101 is a revised standard applicable to the Group in the 2010 financial year as is AASB 2007-8 and AASB 2007-10. The amendments affect the presentation of owner changes in equity and of comprehensive income. They do not change the recognition, measurement or disclosure of specific transactions and events required by other standards.

Amendments to AASB 132, AASB 101 and AASB 2008-2 were issued in February 2008 and will require some puttable financial instruments and some financial instruments, which impose on the entity an obligation to deliver to another party a pro rata share of the net assets on liquidation, to be classified as equity. The amendment will be applicable to the Group in the 2010 financial year and is not expected to have a material impact.

AASB 8 and AASB 2007-3 were issued in February 2007. The standard applies to the Group for the 2010 financial year. The standard replaces AASB 114 and will further align external operating segment reporting with internal reporting to key management personnel.

A revised AASB 123 and AASB 2007-6 were issued by the AASB in June 2007 and remove the option to expense borrowing costs for qualifying assets. The revisions will be applicable to the Group in the 2010 financial year and are not expected to have a material impact.

AASB 2008-1 was issued in February 2008 and will be applicable to the Group in the 2010 financial year. It clarifies for share-based payments that vesting conditions include only service conditions and performance conditions. It also amends the definition of performance conditions to require the completion of a service period in addition to specified performance targets and to specify that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

Due to the nature of Westpac's share-based payments, the initial application of the Standard is not expected to have a material impact.

AASB 2008-5 and AASB 2008-6 were issued in July 2008 relating to the Annual Improvements Project and have led to a number of changes, some of which are terminology only and some of which are substantive but are not expected to have a material impact. These changes will be applicable to the Group in the 2010 financial year.

AASB 2008-7 was issued in July 2008 and will be applicable to the Group in the 2010 financial year but is not expected to have a material impact. It removes the definition of the cost method from AASB 127 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor as well as requiring a new parent entity established in a group reorganisation to measure the cost of its investment at the carrying amount of equity of the original parent. It also amends AASB 136 to include recognising a dividend together with other evidence as an indication of impairment.

AASB 2008-8 was issued in August 2008 and will be applicable to the Group in the 2010 financial year. It provides clarification on the application of hedge accounting in certain circumstances and is not expected to have a material impact.

AASB 2009-2 was issued in April 2009 and requires enhanced disclosures for financial instruments regarding fair value measurement and liquidity risk. This will impact the related disclosures in the financial statements but have no other material impact. This will be applicable to the Group in the 2010 financial year.

AASB 2009-4 was issued in May 2009 and will be applicable to the Group in the 2010 financial year. It relates to the Annual Improvements Project and makes consequential amendments to AASB 2, AASB 138 and AASB Interpretation 9 arising from revised AASB 3. It also amends the restriction on the entity that can hold hedging instruments in AASB Interpretation 16. It is not expected to have a material impact.

AASB 2009-5 was issued in May 2009 and will be applicable to the Group in the 2011 financial year. It relates to the Annual Improvements Project and makes a number of changes some of which are terminology only and some of which are substantive but are not expected to have a material impact.

AASB 2009-6 was issued in June 2009 and makes additional amendments relating to the revised AASB 101. It is not expected to have a material impact. It will be applicable to the Group for the 2010 financial year.

AASB 2009-7 was issued in June 2009 and corrects errors in AASB 2008-12, AASB 2008-13 and Interpretation 17 and is not expected to have a material impact. It will be applicable to the Group for the 2010 financial year.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(KK) FUTURE ACCOUNTING DEVELOPMENTS (CONTINUED)**

AASB 2009-8 was issued in July 2009 and will be applicable to the Group in the 2011 financial year. It clarifies the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. It is not expected to have a material impact on the Group.

AASB 2009-10 was issued in October 2009 and will be applicable to the Group in the 2011 financial year. This standard clarifies that rights, options or warrants to acquire a fixed number of an entities own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. This is not expected to have a material impact on the Group.

AASB Interpretation 1 was issued in June 2007 and will be applicable to the Group in the 2010 financial year. It provides guidance on how to account for the effect of changes in the measurement of existing decommissioning, restoration and similar liabilities. It is not expected to have a material impact on the Group.

AASB Interpretation 12 was issued in June 2007 and provides guidance on the accounting by operators for public-to-private service concession arrangements. This will be applicable to the Group in the 2010 financial year but is not expected to have a material impact on the Group.

AASB Interpretation 15 was issued in August 2008 and will be applicable to the Group in the 2010 financial year. It applies to the accounting for revenue and associated expenses by entities that enter into agreements for the construction of real estate directly or through subcontractors. It is not expected to have a material impact on the Group.

AASB Interpretation 17 was issued in December 2008 and is applicable to the Group in the 2010 financial year. It provides guidance on how an entity should measure distributions of assets other than cash when it pays dividends to its owners, except for common control transactions. AASB 2008-13 was also issued in December 2008 and will be applicable to the Group in the 2010 financial year. It makes consequential amendments to AASB 5 and AASB 110. The amendments are in respect of the classification, presentation and measurement of non-current assets held for distribution to owners in their capacity as owners and the disclosure requirements for dividends that are declared after the reporting period but before the financial statements are authorised for issue, respectively. They are not expected to have a material impact on the Group.

IFRS 9 "Financial Instruments" was issued by the IASB in November 2009. If the standard is not early adopted it will be effective for the 30 September 2014 financial year end. The major changes under the standard are that:

- IFRS 9 replaces the multiple classification and measurement models in IAS 39 with a single model that has two classification categories: amortised cost and fair value.
- A financial asset is measured at amortised cost if two criteria are met:
  - a) The objective of the business model is to hold the financial asset for the collection of the contractual cash flows; and
  - b) The contractual cash flows under the instrument solely represent the payment of principal and interest.

If a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch.

- There will be no bifurcation of an embedded derivative where the host is a financial asset.
- Unquoted equity instruments must be measured at fair value however, an entity can elect on initial recognition to present the fair value changes on an equity investment directly in other comprehensive income.
- There is no subsequent recycling of fair value gains and losses to profit or loss; however dividends from such investments will continue to be recognised in profit and loss.
- If an entity holds a tranche in a waterfall structure it must determine the classification of that tranche by looking through to the assets ultimately underlying that portfolio and assess the credit quality of that tranche compared with the underlying portfolio. If an entity is unable to look through, then the tranche must be measured at fair value.

An assessment of the impact of this standard on the Group has not been completed.

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**NOTE 2: INTEREST**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
<b>Interest income</b>				
Cash and liquid assets	14	109	14	109
Receivables due from other financial institutions	229	615	211	595
Assets at fair value	118	445	82	365
Loans and other receivables	8,182	9,483	6,894	7,724
Due from ultimate parent entity	11	-	11	-
Due from controlled entities	-	-	757	527
<b>Total interest income <sup>(1)</sup></b>	<b>8,554</b>	<b>10,652</b>	<b>7,969</b>	<b>9,320</b>
<b>Interest expense</b>				
Retail funding and other deposits	2,750	4,119	2,741	4,104
Payables due to other financial institutions	59	72	59	72
Loan capital	169	169	169	169
Other borrowings	2,056	3,921	1,370	2,499
Due to ultimate parent entity	612	-	612	-
Due to controlled entities	-	-	556	314
<b>Total interest expense</b>	<b>5,646</b>	<b>8,281</b>	<b>5,507</b>	<b>7,158</b>

<sup>(1)</sup> Included within the total interest income for the Group is \$16 million (2008: \$Nil million) and for the Parent entity \$16 million (2008: \$Nil million) of interest income accrued on impaired financial assets.

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**NOTE 3: NON-INTEREST INCOME**

	Consolidated		Parent	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
Net trading income <sup>(1)</sup>	35	82	36	136
Net trading income/(loss) from controlled entities	-	-	83	(47)
Loss on sale of liquidity portfolio - ultimate parent entity	(46)	-	(46)	-
Dividend income				
- other persons	1	6	1	-
- controlled entities	-	-	327	69
Product fees and commissions				
- lending	201	169	146	126
- deposit and other accounts	218	217	212	210
- electronic banking	191	211	191	211
Managed funds fees	208	228	-	-
Insurance income	82	95	17	18
Net gain on sale of land and buildings	1	13	1	13
Gain from Visa Inc. shareholding	-	77	-	77
Profit on disposal of shares	-	25	-	25
Factoring and invoice discounting income	6	5	5	4
Rental income	4	5	4	5
Trust distributions	4	9	1	4
Securitisation services fee from controlled entities	-	-	127	41
Management fees from controlled entities	-	-	99	131
Other	11	50	10	49
<b>Total other income</b>	<b>916</b>	<b>1,192</b>	<b>1,214</b>	<b>1,072</b>

<sup>(1)</sup> Includes all gains and losses from changes in the fair value of financial assets and derivatives held for trading, all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value through the Income Statement, the impact of hedge ineffectiveness recognised in the Income Statement and all gains and losses from changes in the fair value of non-trading derivatives.

**NOTE 4: LOAN IMPAIRMENT CHARGES**

	Consolidated		Parent	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
<b>Individual impairment</b>				
Charge for the year	525	90	473	73
Recoveries	(23)	(28)	(17)	(24)
	<b>502</b>	<b>62</b>	<b>456</b>	<b>49</b>
<b>Collective Impairment</b>				
Movement during the year <sup>(1)</sup>	804	220	737	215
	<b>1,306</b>	<b>282</b>	<b>1,193</b>	<b>264</b>

<sup>(1)</sup> Movement in 2009 year includes a charge of \$496m in relation to methodology adjustment.

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**NOTE 5: OPERATING EXPENSES**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
<b>Employment expenses</b>				
Salaries and wages	712	648	657	597
Contractor fees	23	17	15	11
Superannuation contributions	68	69	63	64
Fringe benefits tax	7	3	7	3
Payroll tax	40	43	37	40
Share-based compensation	13	14	13	14
Other	97	74	94	71
	<b>960</b>	<b>868</b>	<b>886</b>	<b>800</b>
<b>Non-salary technology expenses</b>				
Depreciation of computer equipment	31	33	27	28
Amortisation of intangible assets	36	39	31	33
Impairment of intangible assets	80	-	60	-
Rental expense on operating leases	-	1	-	1
Other	67	72	64	70
	<b>214</b>	<b>145</b>	<b>182</b>	<b>132</b>
<b>Occupancy expenses</b>				
Depreciation of furniture, fittings and leasehold improvements	31	30	30	29
Rentals on operating leases	114	92	97	76
Rentals on operating leases payable to controlled entities	-	-	16	16
Other	80	43	73	37
	<b>225</b>	<b>165</b>	<b>216</b>	<b>158</b>
<b>Administration and other expenses</b>				
Advertising and public relations	65	51	60	46
Consultants	44	34	34	26
Fees and commissions	31	36	34	37
Fees and commissions payable to controlled entities	-	-	5	18
Fees and commissions payable to ultimate parent entity	30	-	30	-
Postage	18	19	18	19
Printing and stationery	34	34	30	29
Subscription and levies	14	11	12	9
Telephone	9	9	8	7
Other	123	47	119	67
Other - controlled entities	-	-	13	10
	<b>368</b>	<b>241</b>	<b>363</b>	<b>268</b>
<b>Total operating expenses</b>	<b>1,767</b>	<b>1,419</b>	<b>1,647</b>	<b>1,358</b>

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**NOTE 6: INCOME TAX EXPENSE**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
<b>a) Income tax expense</b>				
<b>Current tax expense</b>				
Current year	471	695	403	613
Adjustments for prior years	1	(6)	1	(3)
<b>Deferred tax expense</b>				
Origination and reversal of temporary differences	(233)	(33)	(242)	(29)
<b>Total income tax expense in income statements</b>	<b>239</b>	<b>656</b>	<b>162</b>	<b>581</b>
<b>b) Reconciliation of income tax expense to prima facie tax payable</b>				
Profit before tax	751	1,862	836	1,612
<b>Prima facie income tax calculated at 30% of profit before tax (2008: 30%)</b>	<b>225</b>	<b>559</b>	<b>251</b>	<b>484</b>
<b>Increase in income tax expense due to:</b>				
Share-based payments expense	-	3	-	3
Preference share dividends classified as interest expense	5	12	5	12
Under provision for income tax in prior year	1	-	1	-
Non-deductible expenditure - depositary capital securities	-	117	-	117
Forfeiture of tax losses previously recognised	5	-	-	-
Write-down of investment	4	-	4	-
Other	4	3	3	1
<b>Decrease in income tax expense due to:</b>				
Non-assessable income	-	(3)	-	(3)
Deduction allowable on shares issued to employees	(2)	(2)	(2)	(2)
Rebatable dividends	(1)	(2)	(99)	(21)
Recognition of capital gains tax losses	-	(4)	-	(4)
Recognition of tax losses	-	(10)	-	-
Tax consolidation benefit	-	(8)	-	-
Overprovision for income tax in prior year	-	(6)	-	(3)
Other	(2)	(3)	(1)	(3)
<b>Total income tax expense</b>	<b>239</b>	<b>656</b>	<b>162</b>	<b>581</b>
<b>(c) Amounts recognised directly in equity</b>				
Net deferred tax - credited directly to equity				
Cash flow hedges	(41)	(76)	(48)	(79)
Available for sale investments	(30)	(12)	(1)	(2)
Defined benefit plan	(1)	(2)	(1)	(2)
	<b>(72)</b>	<b>(90)</b>	<b>(50)</b>	<b>(83)</b>
<b>(d) Tax losses</b>				
Unused tax losses for which no tax benefit has been recognised	-	-	-	-
Potential tax benefit at 30%	-	-	-	-

There was no potential asset attributable to tax losses carried forward (2008: Nil) that has not been brought to account in the Group.



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**NOTE 7: SIGNIFICANT ITEMS**

In accordance with Accounting Standard AASB 101, items of income and expense that are material by quantum or nature are disclosed separately to assist users' understanding of the financial performance of the Group.

	Consolidated		Parent	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
<b>Non interest income</b>				
Non-interest income before significant items	962	1,115	1,260	995
<u>Significant items</u>				
(i) Gain from Visa Inc. shareholding	-	77	-	77
(ii) Loss on sale of liquidity portfolio	(46)	-	(46)	-
	<b>(46)</b>	<b>77</b>	<b>(46)</b>	<b>77</b>
Total non interest income	<b>916</b>	<b>1,192</b>	<b>1,214</b>	<b>1,072</b>
<b>Loan impairment charges</b>				
Loan impairment charges before significant item	810	282	697	264
<u>Significant item</u>				
(iii) Collective loan impairment	496	-	496	-
Total loan impairment charges	<b>1,306</b>	<b>282</b>	<b>1,193</b>	<b>264</b>
<b>Operating expenses</b>				
Operating expenses before significant items	1,608	1,352	1,508	1,291
<u>Significant items</u>				
(iv) Restructure costs	59	43	59	43
(v) Merger related costs	20	24	20	24
(vi) Deferred expenditure - write-off	80	-	60	-
	<b>159</b>	<b>67</b>	<b>139</b>	<b>67</b>
Total operating expenses	<b>1,767</b>	<b>1,419</b>	<b>1,647</b>	<b>1,358</b>
<b>Income tax</b>				
Income tax expense before significant items	450	536	367	461
<u>Significant items</u>				
(i) Income tax expense on gain on Visa Inc. shareholding	-	23	-	23
(ii) Income tax benefit on loss on sale of liquidity portfolio	(14)	-	(14)	-
(iii) Income tax benefit on collective loan impairment	(149)	-	(149)	-
(iv) Income tax benefit on restructure costs	(18)	(13)	(18)	(13)
(v) Income tax benefit on merger related costs	(6)	(7)	(6)	(7)
(vi) Income tax benefit on deferred expenditure	(24)	-	(18)	-
(vii) Income tax expense on depositary capital securities	-	117	-	117
	<b>(211)</b>	<b>120</b>	<b>(205)</b>	<b>120</b>
Total income tax expense	<b>239</b>	<b>656</b>	<b>162</b>	<b>581</b>
<b>Summary of significant items</b>				
Total pre-tax (loss)/gain from significant items	(701)	10	(681)	10
Less: total tax benefit/(expense) attributable to significant items	211	(120)	205	(120)
Net impact from significant items	<b>(490)</b>	<b>(110)</b>	<b>(476)</b>	<b>(110)</b>

**2009 Financial Year**

- (ii) The Group transferred the majority of its liquidity portfolio to Westpac and realised a loss on sale of \$46 million from this transaction.
- (iii) The Group adopted Westpac's methodology for formulating its collective provision. This change in methodology increased loan impairment charges by \$496 million.
- (iv) Restructure costs relate to staff redundancies arising from the merger.
- (v) Merger related costs include advisory fees.
- (vi) An impairment loss has been recognised in relation to capitalised computer software costs where the timing of realisation of benefits is uncertain or benefits are not expected to be realised in the future.

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**NOTE 7: SIGNIFICANT ITEMS (CONTINUED)**

**2008 Financial Year**

- (i) In March 2008, the Parent entity recognised a gain of \$77 million (\$54 million after tax) following the receipt of 1,901,719 shares in Visa Inc. as part of Visa's initial public offering (IPO).  
The gain represents the sale of 56.19% or 1,068,491 shares into the IPO and the fair value of 833,228 shares that were classified as an Available for Sale Investment in the Balance Sheet. The fair value reflects the applicable restrictions on the remaining shares held.
- (iv) Restructuring costs totalling \$43 million (\$30 million after tax) have been recognised. These restructure costs primarily represent staff redundancy costs relating to the restructuring of certain back-office business processes and consolidation of sites.
- (v) As part of the merger with Westpac, the Parent entity incurred a number of non-recurring merger related expenses.
- (vii) In April 2008, the Federal Court held that the interest payments for the years 1998 to 2003 made by the Parent entity on subordinated debentures issued as part of the depositary capital securities transaction completed in June 1997, were not deductible for income tax purposes.

**NOTE 8: DIVIDENDS PROVIDED FOR OR PAID**

Type	Cents per share	Consolidated \$M	Parent \$M	Date of payment
<b>2009</b>				
Final 2008 - ordinary shares	94.0	533	533	18-Dec-08
Special 2008 - ordinary shares	31.0	176	176	18-Dec-08
Subordinated adjustable income non-refundable tier 1 securities		3	3	20-Nov-08
Step-up preference shares		1	1	20-Nov-08
		<u>713</u>	<u>713</u>	
<b>2008</b>				
Interim 2008 - ordinary shares	88.0	494	494	02-Jul-08
Final 2007 - ordinary shares	86.0	459	459	18-Dec-07
Subordinated adjustable income non-refundable tier 1 securities		3	3	20-Nov-07
Subordinated adjustable income non-refundable tier 1 securities		5	5	20-Feb-08
Subordinated adjustable income non-refundable tier 1 securities		6	6	20-May-08
Subordinated adjustable income non-refundable tier 1 securities		6	6	20-Aug-08
Subordinated adjustable income non-refundable tier 1 securities		2	2	20-Nov-08
Step-up preference shares		1	1	20-Nov-07
Step-up preference shares		2	2	20-Feb-08
Step-up preference shares		2	2	20-May-08
Step-up preference shares		3	3	20-Aug-08
Step-up preference shares		1	1	20-Nov-08
		<u>984</u>	<u>984</u>	

All dividends paid during the year were fully franked at 30% (2008: Fully franked at 30%).

**Dividend franking account**

Following the entry of St.George Bank Limited and its wholly owned Australian resident entities into the Westpac tax consolidated group, the franking credits in St.George are now maintained by Westpac Banking Corporation.

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**NOTE 9: CASH AND LIQUID ASSETS**

	Consolidated		Parent	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
Notes, coins and cash at banks	261	219	261	219
Money at call	1	1	1	1
Bills receivable and remittances in transit	38	27	38	27
Clearing house balance	452	466	452	466
	<b>752</b>	<b>713</b>	<b>752</b>	<b>713</b>

**NOTE 10: RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS**

	Consolidated		Parent	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
Loans to other banks	683	305	682	185
Certificates of deposits	2,836	10,180	2,836	10,180
	<b>3,519</b>	<b>10,485</b>	<b>3,518</b>	<b>10,365</b>

**Maturity analysis based on remaining term to maturity at 30 September**

	Consolidated		Parent	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
At call	40	125	40	5
Less than 3 months	3,004	8,310	3,003	8,310
Between 3 months and 12 months	475	1,969	475	1,969
Between 1 year and 5 years	-	81	-	81
	<b>3,519</b>	<b>10,485</b>	<b>3,518</b>	<b>10,365</b>

Included within receivables due from other financial institutions are amounts for the Group and the Parent entity of \$641 million (2008: \$81 million) which are lodged with counterparties as collateral in relation to market valuation movements on counterparty transactions.

**NOTE 11: ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT**

	Consolidated		Parent	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
Government and semi-government securities	998	2,131	997	2,131
Bills of exchange - bank accepted/endorsed	-	1,995	-	1,995
Other marketable securities	21	1,300	-	733
Other marketable securities - controlled entities	-	-	-	637
Securities purchased under agreements to resell	-	1,959	-	1,959
	<b>1,019</b>	<b>7,385</b>	<b>997</b>	<b>7,455</b>

Assets at fair value through the income statement include assets sold under repurchase agreements, whose related liability is disclosed in Note 20: Deposits and Other Borrowings. The Group and the Parent entity have no (2008: \$4,297 million) assets at fair value through the income statement, which were provided as security in relation to the liability on these repurchase agreements.

The Group and the Parent entity hold no (2008: \$1,959 million) collateral from counterparties in relation to securities purchased under agreements to resell.

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**NOTE 12: AVAILABLE FOR SALE INVESTMENTS**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>\$M</b>	\$M	<b>\$M</b>	\$M
Unlisted equity securities	<b>29</b>	39	-	1
Listed equity securities	<b>22</b>	20	<b>22</b>	20
Mortgage backed securities	<b>159</b>	1,464	-	1,219
Mortgage backed securities - controlled entities <sup>(1)</sup>	-	-	<b>11,770</b>	4,162
Debt securities	<b>322</b>	1,278	<b>68</b>	853
Other securities	<b>101</b>	9	<b>12</b>	-
	<b>633</b>	2,810	<b>11,872</b>	6,255

**Maturity analysis based on remaining term to maturity at 30 September**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>\$M</b>	\$M	<b>\$M</b>	\$M
Less than 3 months	-	3	-	117
Between 3 months and 12 months	<b>143</b>	466	<b>42</b>	441
Between 1 year and 5 years	<b>124</b>	1,589	<b>121</b>	1,228
After 5 years	<b>214</b>	687	<b>11,675</b>	4,448
Non-maturing	<b>152</b>	65	<b>34</b>	21
	<b>633</b>	2,810	<b>11,872</b>	6,255

Available for sale investments include assets sold under repurchase agreements, whose related liability is disclosed in Note 20: Deposits and Other Borrowings. The Group and the Parent entity have \$156 million (2008: \$1,062 million) of available for sale investments, which were provided as security in relation to the liability on these repurchase agreements.

(1) Refer to Note 1(HH) for details regarding changes in accounting policy.

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**NOTE 13: LOANS AND OTHER RECEIVABLES**

	Consolidated		Parent	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
Housing loans <sup>(1)</sup>	84,682	75,546	73,978	61,460
Commercial loans <sup>(2)</sup>	10,594	12,078	10,036	10,877
Acceptances of finance	24,093	22,264	24,093	22,264
Personal loans <sup>(1)</sup>	4,749	5,019	2,872	3,579
Credit card receivables	1,935	1,720	1,935	1,720
Lease and commercial hire purchase <sup>(1)</sup>	4,083	3,621	5	9
Structured investments	67	68	67	68
Other	65	83	65	83
	<b>130,268</b>	<b>120,399</b>	<b>113,051</b>	<b>100,060</b>
Less: provisions for impairment (refer Note 14)	1,374	411	1,259	382
<b>Net loans and other receivables</b>	<b>128,894</b>	<b>119,988</b>	<b>111,792</b>	<b>99,678</b>

**Maturity analysis based on remaining term to maturity at 30 September**

	Consolidated		Parent	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
At call	30,564	32,089	30,386	31,338
Less than 3 months	6,562	4,821	6,467	4,745
Between 3 months and 12 months	6,234	5,913	5,856	5,561
Between 1 year and 5 years	21,992	21,966	16,770	17,411
After 5 years	64,624	55,569	53,296	40,967
Loans and receivables (net of specific provision)	<b>129,976</b>	<b>120,358</b>	<b>112,775</b>	<b>100,022</b>

<sup>(1)</sup> Includes securitised loans.

<sup>(2)</sup> Includes loans in asset backed conduit entities.

Loans and other receivables are at amortised cost unless stated otherwise.

The Group has sold housing loans, personal loans, hire purchase loans and lease receivables to special purpose securitisation trusts that issue securities to investors. These loans are normally derecognised from the Parent entity's balance sheet upon sale to the securitisation trust, with the trust in turn consolidated into the Group's results and financial position.

The Group has transferred certain housing loans to these securitisation trusts, but has retained substantially all of the credit and interest rate risk associated with these transferred loans. Accordingly, the Parent entity recognised \$Nil million of transferred housing loans within loans and other receivables at 30 September 2009 (30 September 2008: \$1,034 million) and \$Nil million of associated liabilities (30 September 2008: \$1,051 million). No securitisation activities were conducted during the 2009 year.

Securitisation trusts have been consolidated and the securitised loans and associated external funding are included within the Group's loans and other receivables and bonds and notes respectively.

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**NOTE 14: PROVISIONS FOR IMPAIRMENT**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>\$M</b>	\$M	<b>\$M</b>	\$M
<b>Collective provision</b>				
Opening balance	<b>370</b>	291	<b>344</b>	270
Net charge for the year	<b>804</b>	220	<b>737</b>	215
Write-off	<b>(150)</b>	(141)	<b>(150)</b>	(141)
Discount unwind	<b>58</b>	-	<b>52</b>	-
Closing balance	<b>1,082</b>	370	<b>983</b>	344
<b>Specific provision</b>				
Opening balance	<b>41</b>	31	<b>38</b>	28
Net charge for the year	<b>525</b>	90	<b>473</b>	73
Discount unwind	<b>(16)</b>	-	<b>(16)</b>	-
Bad debt write-offs	<b>(258)</b>	(80)	<b>(219)</b>	(63)
Closing balance	<b>292</b>	41	<b>276</b>	38
Total provision for impairment charges and credit commitments	<b>1,374</b>	411	<b>1,259</b>	382

Individually assessed provisions are raised where there is objective evidence of impairment and full recovery of principal is considered doubtful.

The provisions are established primarily based on estimates of the realisable fair value of security taken and are measured as the difference between the asset's carrying amount and the present value of the expected future cash flows, discounted at the financial asset's original effective interest rate. Short term balances are not discounted.

All loans and advances that do not have an individually assessed provision are assessed collectively for impairment. The collective provision is maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance sheet date. The evaluation process is subject to a series of estimates and judgments.

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**NOTE 15: CONCENTRATION OF CREDIT RISK**

Concentrations of credit risk arise when a number of counterparties operate in the same industry or geographical sectors and have similar economic characteristics so that their ability to meet contractual obligations is similarly affected by economic, political or other conditions.

The Group monitors concentrations of credit risk by industry sector, single large exposure policies and product exposure levels. An analysis of concentrations of credit risk, prior to considering collateral held or other credit enhancements, by industry sector at reporting date is shown in the following tables.

<b>Consolidated</b>						
	Assets at fair value through the income statement \$M	Derivative assets \$M	Available for sale investments \$M	Loans and other receivables \$M	Credit commitments and contingent liabilities <sup>(1)</sup> \$M	Total \$M
<b>2009</b>						
Accommodation, Cafes and Restaurants	-	28	-	2,904	149	3,081
Agriculture, Forestry and Fishing	-	7	-	1,469	261	1,737
Construction	-	5	-	1,962	534	2,501
Finance & Insurance	22	2,011	566	1,754	306	4,659
Government Administration & Defence	997	-	-	33	12	1,042
Manufacturing	-	15	-	1,775	276	2,066
Mining	-	1	-	303	36	340
Other	-	20	-	1,038	1,411	2,469
Property	-	131	-	16,850	4,590	21,571
Property Services & Business Services	-	8	-	2,291	351	2,650
Retail Lending	-	-	-	91,082	19,557	110,639
Services	-	12	-	3,173	549	3,734
Trade	-	24	-	4,214	1,694	5,932
Transport & Storage	-	4	10	1,279	149	1,442
Utilities	-	-	57	141	23	221
<b>Total</b>	<b>1,019</b>	<b>2,266</b>	<b>633</b>	<b>130,268</b>	<b>29,898</b>	<b>164,084</b>
Other risk concentrations						
Receivables due from other financial institutions						3,519
<b>Total gross credit risk <sup>(2)</sup></b>						<b>167,603</b>
<b>2008</b>						
Accommodation, Cafes and Restaurants	-	-	-	2,457	165	2,622
Agriculture, Forestry and Fishing	-	2	-	1,429	228	1,659
Construction	-	-	-	3,253	758	4,011
Finance & Insurance	4,957	3,344	2,639	1,562	445	12,947
Government Administration & Defence	2,131	2	-	35	12	2,180
Manufacturing	-	1	-	1,814	267	2,082
Mining	-	3	-	263	34	300
Other	297	-	171	1,294	1,528	3,290
Property	-	36	-	15,739	5,253	21,028
Property Services & Business Services	-	-	-	2,081	354	2,435
Retail Lending	-	-	-	82,063	16,447	98,510
Services	-	1	-	3,059	540	3,600
Trade	-	-	-	4,206	1,405	5,611
Transport & Storage	-	-	-	1,043	152	1,195
Utilities	-	-	-	101	18	119
<b>Total</b>	<b>7,385</b>	<b>3,389</b>	<b>2,810</b>	<b>120,399</b>	<b>27,606</b>	<b>161,589</b>
Other risk concentrations						
Receivables due from other financial institutions						10,485
<b>Total gross credit risk <sup>(2)</sup></b>						<b>172,074</b>

<sup>(1)</sup> Represents the face value of credit commitments and contingent liabilities.

<sup>(2)</sup> Prior to considering collateral held or other credit enhancements.

<sup>(3)</sup> For the purposes of this note, assets where the predominant risk is not credit risk have been included for completeness.



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**NOTE 15: CONCENTRATION OF CREDIT RISK (CONTINUED)**

<b>Parent</b>						
	Assets at fair value through the income statement \$M	Derivative assets \$M	Available for sale investments \$M	Loans and other receivables \$M	Credit commitments and contingent liabilities <sup>(1)</sup> \$M	Total \$M
<b>2009</b>						
Accommodation, Cafes and Restaurants	-	28	-	2,836	149	3,013
Agriculture, Forestry and Fishing	-	7	-	1,319	261	1,587
Construction	-	5	-	1,344	534	1,883
Finance & Insurance	-	2,015	11,805	1,449	943	16,212
Government Administration & Defence	997	-	-	14	12	1,023
Manufacturing	-	15	-	1,424	276	1,715
Mining	-	1	-	169	36	206
Other	-	-	-	368	1,408	1,776
Property	-	131	-	16,786	4,590	21,507
Property Services & Business Services	-	8	-	1,750	351	2,109
Retail Lending	-	-	-	78,529	18,443	96,972
Services	-	12	-	2,441	546	2,999
Trade	-	24	-	3,725	1,628	5,377
Transport & Storage	-	4	10	833	149	996
Utilities	-	-	57	64	23	144
<b>Total</b>	<b>997</b>	<b>2,250</b>	<b>11,872</b>	<b>113,051</b>	<b>29,349</b>	<b>157,519</b>
Other risk concentrations						
Receivables due from other financial institutions						3,518
<b>Total gross credit risk <sup>(2)</sup></b>						<b>161,037</b>
<b>2008</b>						
Accommodation, Cafes and Restaurants	-	-	-	2,413	165	2,578
Agriculture, Forestry and Fishing	-	2	-	1,285	228	1,515
Construction	-	-	-	2,719	758	3,477
Finance & Insurance	5,324	3,000	6,195	1,173	2,141	17,833
Government Administration & Defence	2,131	2	-	13	12	2,158
Manufacturing	-	1	-	1,434	267	1,702
Mining	-	3	-	144	34	181
Other	-	-	60	360	1,526	1,946
Property	-	1	-	15,672	5,253	20,926
Property Services & Business Services	-	-	-	1,669	354	2,023
Retail Lending	-	-	-	66,522	15,259	81,781
Services	-	1	-	2,246	540	2,787
Trade	-	-	-	3,750	1,371	5,121
Transport & Storage	-	-	-	628	152	780
Utilities	-	-	-	32	18	50
<b>Total</b>	<b>7,455</b>	<b>3,010</b>	<b>6,255</b>	<b>100,060</b>	<b>28,078</b>	<b>144,858</b>
Other risk concentrations						
Receivables due from other financial institutions						10,365
<b>Total gross credit risk <sup>(2)</sup></b>						<b>155,223</b>

<sup>(1)</sup> Represents the face value of credit commitments and contingent liabilities.

<sup>(2)</sup> Prior to considering collateral held or other credit enhancements.

<sup>(3)</sup> For the purposes of this note, assets where the predominant risk is not credit risk have been included for completeness.



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**NOTE 16: INVESTMENTS IN CONTROLLED ENTITIES**

	Parent	
	2009	2008
	\$M	\$M
Investment in controlled entities at lower of cost or recoverable amount.	1,176	1,370

The controlled entities of the Parent entity are:

Entity	Ownership Percentage		Entity	Ownership Percentage	
	2009	2008		2009	2008
Advance Asset Management Limited	100	100	Crusade Global Trust No 1 of 2002 <sup>(2),(3)</sup>	N/a	-
Advance Leasing Limited	100	100	Crusade Management Limited	100	100
Ascalon Funds Seed Pool Trust	100	100	Crusade Trust 1 of 2008 <sup>(2)</sup>	N/a	100
Asgard Capital Management Limited	100	100	Crusade Trust 1A of 2005 <sup>(3)</sup>	-	-
Asgard Wealth Solutions Limited	100	100	Crusade Trust 1P of 2008 <sup>(2)</sup>	N/a	100
Assirt Software Pty Limited	100	100	Crusade Trust 2P of 2008	100	N/a
Buchelin Pty Limited	100	100	Danaby Pty Limited	100	100
Canberra Advance Property Limited	100	100	Dragon Investment Services Limited	100	100
Crusade ABS Series 2008-1 Trust	100	100	Dysty Pty Limited	100	100
Crusade ABS Series 2008-2 Trust	100	100	Hitton Pty Limited	100	100
Crusade CP Management Pty Limited	100	100	Nationwide Management Pty Limited	100	100
Crusade CP No.1 Pty Limited <sup>(3)</sup>	-	-	Pact Accountants Investment Group Pty Limited	100	100
Crusade CP Trust (No 33) <sup>(2),(3)</sup>	N/a	-	Securitor Financial Group Limited	100	100
Crusade CP Trust (No 35) <sup>(2),(3)</sup>	N/a	-	St.George (Note Issuing Vehicle Only) Pty Limited	100	100
Crusade CP Trust (No 41) <sup>(3)</sup>	-	-	St.George APL Pty Limited	100	100
Crusade CP Trust (No 42) <sup>(2),(3)</sup>	N/a	-	St.George Bank Employee Share Trust <sup>(3)</sup>	-	-
Crusade CP Trust (No 44) <sup>(3)</sup>	-	-	St.George Business Finance Pty Limited	100	100
Crusade CP Trust (No 45) <sup>(2),(3)</sup>	N/a	-	St.George Commercial Credit Corporation Limited	100	100
Crusade CP Trust (No 48) <sup>(3)</sup>	-	-	St.George Crusade Investment Pty Limited	100	100
Crusade CP Trust (No 49) <sup>(3)</sup>	-	-	St.George Custodial Pty Limited	100	100
Crusade CP Trust (No 50) <sup>(3)</sup>	-	-	St.George Dragon Investment Pty Limited	100	100
Crusade CP Trust 52 <sup>(3)</sup>	-	-	St.George Equity Finance Limited	100	100
Crusade CP Trust 53 <sup>(3)</sup>	-	-	St.George Finance Holdings Limited	100	100
Crusade CP Trust 54 <sup>(3)</sup>	-	-	St.George Finance Limited	100	100
Crusade CP Trust 55 <sup>(3)</sup>	-	-	St.George Financial Investments 1 Pty Limited	100	100
Crusade CP Trust 56 <sup>(3)</sup>	-	-	St.George Financial Investments New Zealand Limited <sup>(1)</sup>	100	100
Crusade CP Trust No. 57 <sup>(3)</sup>	-	-	St.George Financial Services Limited	100	100
Crusade CP Trust No. 58 <sup>(3)</sup>	-	-	St.George Group Holdings Pty Limited	100	100
Crusade CP Trust No. 59 <sup>(2),(3)</sup>	N/a	-	St.George Insurance Australia Pty Limited	100	100
Crusade CP Trust No. 60 <sup>(3)</sup>	-	-	St.George Life Limited	100	100
Crusade Trust No 1A of 2002 <sup>(2),(3)</sup>	N/a	-	St.George Management Services Pty Limited	100	100
Crusade Euro Trust 1E of 2004 <sup>(3)</sup>	-	-	St.George Motor Finance Limited	75	75
Crusade Euro Trust 1E of 2006 <sup>(3)</sup>	-	-	St.George New Zealand Limited <sup>(1)</sup>	100	100
Crusade Euro Trust 1E of 2007 <sup>(3)</sup>	-	-	St.George Procurement Management Pty Limited	100	100
Crusade Global Trust 1 of 2003 <sup>(3)</sup>	-	-	St.George Pte Limited <sup>(1),(2)</sup>	N/a	100
Crusade Global Trust 1 of 2004 <sup>(3)</sup>	-	-	St.George Security Holdings Pty Limited	100	100
Crusade Global Trust 1 of 2005 <sup>(3)</sup>	-	-	St.George Wealth Management Pty Limited	100	100
Crusade Global Trust 1 of 2006 <sup>(3)</sup>	-	-	St.George WEL Pty Limited	100	100
Crusade Global Trust 1 of 2007 <sup>(3)</sup>	-	-	Value Nominees Pty Limited	100	100
Crusade Global Trust 2 of 2003 <sup>(3)</sup>	-	-	Votrant No. 1182 Pty Limited	100	100
Crusade Global Trust 2 of 2004 <sup>(3)</sup>	-	-	VS&L Insurance Agency Pty Limited	100	100
Crusade Global Trust 2 of 2005 <sup>(3)</sup>	-	-	VS&L Services Pty Limited	100	100
Crusade Global Trust 2 of 2006 <sup>(3)</sup>	-	-			

<sup>(1)</sup> St.George Pte Limited was incorporated in Singapore and was dissolved during the year. St.George Financial Investments New Zealand Limited and St.George New Zealand Limited (formerly St.George Bank New Zealand Limited) are incorporated in New Zealand. All other controlled entities are incorporated in Australia.

<sup>(2)</sup> These companies were deregistered, sold or terminated during the year.

<sup>(3)</sup> Control without ownership.

When assessing whether the Group controls a special purpose entity, judgment is required about risks and rewards together with the Group's ability to make operational decisions for the special purpose entity.

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**NOTE 17: PROPERTY, PLANT AND EQUIPMENT**

	<b>Consolidated</b>				
	Land	Buildings	Furniture, fittings and equipment	Leasehold improvements	Total
	\$M	\$M	\$M	\$M	\$M
<b>Balance at 30 September 2007</b>					
Cost (gross carrying amount)	63	164	713	16	956
Accumulated depreciation	-	(33)	(567)	(11)	(611)
Net carrying amount	63	131	146	5	345
<b>Year ended 30 September 2008</b>					
Opening balance <sup>(1)</sup>	63	131	146	5	345
Acquisitions during the year	-	-	80	3	83
Disposals during the year	(11)	(20)	(3)	-	(34)
Depreciation expense for the year	-	(3)	(58)	(2)	(63)
Closing balance <sup>(1)</sup>	52	108	165	6	331
<b>Balance at 30 September 2008</b>					
Cost (gross carrying amount)	52	138	739	19	948
Accumulated depreciation	-	(30)	(574)	(13)	(617)
Net carrying amount	52	108	165	6	331
<b>Year ended 30 September 2009</b>					
Opening balance <sup>(1)</sup>	52	108	165	6	331
Acquisitions during the year	-	-	61	4	65
Disposals during the year	-	(11)	(19)	(1)	(31)
Depreciation expense for the year	-	(3)	(57)	(2)	(62)
Closing balance <sup>(1)</sup>	52	94	150	7	303
<b>Balance at 30 September 2009</b>					
Cost (gross carrying amount)	52	109	357	10	528
Accumulated depreciation	-	(15)	(207)	(3)	(225)
Net carrying amount	52	94	150	7	303
	<b>Parent</b>				
	Land	Buildings	Furniture, fittings and equipment	Leasehold improvements	Total
	\$M	\$M	\$M	\$M	\$M
<b>Balance at 30 September 2007</b>					
Cost (gross carrying amount)	61	155	639	16	871
Accumulated depreciation	-	(30)	(503)	(11)	(544)
Net carrying amount	61	125	136	5	327
<b>Year ended 30 September 2008</b>					
Opening balance <sup>(1)</sup>	61	125	136	5	327
Acquisitions during the year	-	-	73	3	76
Disposals during the year	(11)	(20)	(3)	-	(34)
Depreciation expense for the year	-	(3)	(52)	(2)	(57)
Closing balance <sup>(1)</sup>	50	102	154	6	312
<b>Balance at 30 September 2008</b>					
Cost (gross carrying amount)	50	129	660	19	858
Accumulated depreciation	-	(27)	(506)	(13)	(546)
Net carrying amount	50	102	154	6	312
<b>Year ended 30 September 2009</b>					
Opening balance <sup>(1)</sup>	50	102	154	6	312
Acquisitions during the year	-	-	59	4	63
Disposals during the year	-	(11)	(19)	(1)	(31)
Depreciation expense for the year	-	(3)	(52)	(2)	(57)
Closing balance <sup>(1)</sup>	50	88	142	7	287
<b>Balance at 30 September 2009</b>					
Cost (gross carrying amount)	50	102	314	10	476
Accumulated depreciation	-	(14)	(172)	(3)	(189)
Net carrying amount	50	88	142	7	287

<sup>(1)</sup> Net of accumulated depreciation.

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**NOTE 18: INTANGIBLE ASSETS**

	Consolidated			Parent		
	Goodwill \$M	Computer software \$M	Total \$M	Goodwill \$M	Computer software \$M	Total \$M
<b>Balance at 30 September 2007</b>						
Cost (gross carrying amount)	1,937	424	2,361	1,618	355	1,973
Accumulated amortisation and impairment	(751)	(287)	(1,038)	(653)	(240)	(893)
Net carrying amount	<u>1,186</u>	<u>137</u>	<u>1,323</u>	<u>965</u>	<u>115</u>	<u>1,080</u>
<b>Year ended 30 September 2008</b>						
Opening balance <sup>(1)</sup>	1,186	137	1,323	965	115	1,080
Acquisitions - internally developed	-	59	59	-	51	51
Other acquisitions	-	35	35	-	31	31
Amortisation <sup>(2)</sup>	-	(39)	(39)	-	(33)	(33)
Closing balance <sup>(1)</sup>	<u>1,186</u>	<u>192</u>	<u>1,378</u>	<u>965</u>	<u>164</u>	<u>1,129</u>
<b>Balance at 30 September 2008</b>						
Cost (gross carrying amount)	1,937	508	2,445	1,618	428	2,046
Accumulated amortisation and impairment	(751)	(316)	(1,067)	(653)	(264)	(917)
Net carrying amount	<u>1,186</u>	<u>192</u>	<u>1,378</u>	<u>965</u>	<u>164</u>	<u>1,129</u>
<b>Year ended 30 September 2009</b>						
Opening balance <sup>(1)</sup>	1,186	192	1,378	965	164	1,129
Acquisitions - internally developed	-	32	32	-	26	26
Other acquisitions	-	24	24	-	24	24
Amortisation <sup>(2)</sup>	-	(36)	(36)	-	(31)	(31)
Impairment	-	(80)	(80)	-	(60)	(60)
Closing balance <sup>(1)</sup>	<u>1,186</u>	<u>132</u>	<u>1,318</u>	<u>965</u>	<u>123</u>	<u>1,088</u>
<b>Balance at 30 September 2009</b>						
Cost (gross carrying amount)	1,937	486	2,423	1,618	410	2,028
Accumulated amortisation and impairment	(751)	(354)	(1,105)	(653)	(287)	(940)
Net carrying amount	<u>1,186</u>	<u>132</u>	<u>1,318</u>	<u>965</u>	<u>123</u>	<u>1,088</u>

<sup>(1)</sup> Net of accumulated amortisation.

<sup>(2)</sup> The amortisation of computer software is included within operating expenses in the Income Statement.

**IMPAIRMENT TESTS FOR GOODWILL**

**Cash Generating Units (CGUs)**

Cash generating units have been combined at the segment level for the purposes of impairment testing. The carrying amount of goodwill has been allocated to operating segments as follows:

	Consolidated		Parent	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
St. George Bank	911	911	902	902
Other	275	275	63	63
Total	<u>1,186</u>	<u>1,186</u>	<u>965</u>	<u>965</u>

During the years ended 30 September 2009 and 30 September 2008, the Group determined that there was no impairment of goodwill.

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**NOTE 18: INTANGIBLE ASSETS (CONTINUED)**

The recoverable amounts for the CGUs have been determined based upon "value in use" calculations. These calculations use cash flow projections based upon financial budgets approved by senior management covering a three year period and are based upon key assumptions in relation to net interest income and fee income. Cash flows beyond the budgeted period have been extrapolated using a medium term GDP growth rate of 3.1%, which is reflective of management's expectations of growth in lending volumes and funds under management where applicable. The discount rates applied to projected cash flows are between 16% to 17%.

The Group has determined that the "value in use" calculations are most sensitive to changes in the assumptions identified above. Sensitivity analysis of these assumptions has been completed to determine whether changes in estimates would materially affect the carrying value of goodwill allocated to each CGU. This analysis has indicated that no material impairment issue is expected to arise from reasonably foreseeable changes in the key assumptions.

**NOTE 19: DEFERRED TAX ASSETS/LIABILITIES**

The tax assets have been applied against deferred tax liabilities to the extent they are expected to be realised in the same period, within the same tax paying entity.

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
<b>Deferred tax assets</b>				
Loans and other receivables	10	19	10	11
Other provisions	52	44	49	41
Property, plant and equipment	3	6	(1)	5
Provisions for impairment	418	125	385	115
Sundry creditors and accruals	32	28	29	25
Other	57	22	36	18
Set off of deferred tax liabilities pursuant to set off provisions	(52)	(10)	(5)	(4)
Total deferred income tax assets	<b>520</b>	<b>234</b>	<b>503</b>	<b>211</b>
<b>Deferred tax liabilities</b>				
Financial instruments	(97)	(95)	(58)	(100)
Loans and other receivables	119	93	57	59
Property, plant and equipment	34	41	7	42
Other	(4)	(10)	(1)	3
Set off of deferred tax liabilities pursuant to set off provisions	(52)	(10)	(5)	(4)
Total deferred income tax liabilities	<b>-</b>	<b>19</b>	<b>-</b>	<b>-</b>
Net deferred income tax assets	<b>520</b>	<b>215</b>	<b>503</b>	<b>211</b>
<b>Deferred tax recognised directly in equity</b>				
Cash flow hedges	(92)	(51)	(99)	(51)
Available for sale investments	(42)	(12)	(3)	(2)
Defined benefit plan	(3)	(2)	(3)	(2)
	<b>(137)</b>	<b>(65)</b>	<b>(105)</b>	<b>(55)</b>

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**NOTE 20: DEPOSITS AND OTHER BORROWINGS**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
Certificates of deposit	3,415	26,512	3,415	26,512
Term and other deposits	62,660	57,442	62,660	57,442
Term and other deposits with controlled entities	-	-	1,359	1,080
Securities sold under agreements to repurchase	157	5,128	157	5,128
Other borrowings	-	1,119	-	51
	<b>66,232</b>	<b>90,201</b>	<b>67,591</b>	<b>90,213</b>

**Maturity based on remaining term to maturity at 30 September**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
At call	37,629	36,430	38,987	37,459
Less than 3 months	13,159	28,005	13,159	26,988
Between 3 months and 12 months	12,977	21,388	12,977	21,388
Between 1 year and 5 years	2,464	4,374	2,465	4,374
After 5 years	3	4	3	4
	<b>66,232</b>	<b>90,201</b>	<b>67,591</b>	<b>90,213</b>

**NOTE 21: PAYABLES DUE TO OTHER FINANCIAL INSTITUTIONS**

**Maturity based on remaining term to maturity at 30 September**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
At call	48	988	48	988
Less than 3 months	182	26	182	26
Between 3 months and 12 months	-	1	-	1
Between 1 year and 5 years	-	771	-	771
	<b>230</b>	<b>1,786</b>	<b>230</b>	<b>1,786</b>

Included in payables due to other financial institutions are amounts lodged with the Group and the Parent entity of \$182 million (2008: \$771 million) as collateral in relation to market valuation movements on counterparty transactions.

**NOTE 22: OTHER PROVISIONS**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
Provision for annual leave	54	53	50	49
Provision for long service leave	64	61	60	57
Provision for restructuring costs	19	24	19	24
Provision for dividends	-	3	-	3
Other	1	2	-	1
	<b>138</b>	<b>143</b>	<b>129</b>	<b>134</b>

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**NOTE 23: BONDS AND NOTES**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
<b>Commercial paper by currency of denomination</b>				
AUD euro commercial paper	-	469	-	469
CAD euro commercial paper	-	23	-	23
CHF euro commercial paper	-	104	-	104
EUR euro commercial paper	-	3,055	-	3,055
GBP euro commercial paper	-	1,443	-	1,443
HKD euro commercial paper	-	302	-	302
JPY euro commercial paper	-	307	-	307
NZD euro commercial paper	-	82	-	82
SGD euro commercial paper	-	13	-	13
USD euro commercial paper	-	1,931	-	1,931
USD US commercial paper	-	1,945	-	1,945
	-	9,674	-	9,674
<b>Medium Term Debt by currency of denomination</b>				
AUD medium term debt	4,153	6,718	-	-
CAD medium term debt	11	12	11	12
CHF medium term debt	330	337	330	337
EUR medium term debt	9,673	13,033	6,125	7,892
GBP medium term debt	685	945	685	945
HKD medium term debt	100	445	100	445
JPY medium term debt	28	533	28	533
NZD medium term debt	116	172	116	172
SGD medium term debt	-	43	-	43
USD medium term debt	3,777	5,848	645	1,107
	18,873	28,086	8,040	11,486
<b>Total Bonds and Notes</b>	<b>18,873</b>	<b>37,760</b>	<b>8,040</b>	<b>21,160</b>

**Maturity analysis based on remaining term to maturity at 30 September**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
Less than 3 months	146	9,765	146	9,756
Between 3 months and 12 months	4,003	3,622	3,069	2,945
Between 1 year and 5 years	11,110	15,672	4,787	8,418
After 5 years	3,614	8,701	38	41
	18,873	37,760	8,040	21,160

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**NOTE 24: LOAN CAPITAL**

	Consolidated		Parent	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
<b>Tier 1 Capital</b>				
Converting Preference Shares (CPS)	-	323	-	323
Converting Preference Shares (CPS II)	-	396	-	396
	-	719	-	719
<b>Tier 2 Capital</b>				
EUR 250m floating rate notes due 2015 with first call in 2010 <sup>(1)</sup>	415	445	415	445
AUD 225m fixed rate notes due 2016 with first call in 2011 <sup>(2)</sup>	227	226	227	226
AUD 75m floating rate notes due 2016 with first call in 2011 <sup>(3)</sup>	76	76	76	76
AUD 200m floating rate notes due 2017 with first call in 2012 <sup>(4)</sup>	200	200	200	200
CAD 250m fixed rate notes due 2017 with first call in 2012 <sup>(5)</sup>	267	300	267	300
AUD 125m floating rate notes due 2018 with first call in 2013 <sup>(6)</sup>	126	127	126	127
AUD 625m fixed rate notes due 2018 with first call in 2013 <sup>(7)</sup>	647	647	647	647
USD 400m fixed rate notes due 2015 <sup>(8)</sup>	466	505	466	505
	<b>2,424</b>	<b>2,526</b>	<b>2,424</b>	<b>2,526</b>
<b>Total Loan Capital</b>	<b>2,424</b>	<b>3,245</b>	<b>2,424</b>	<b>3,245</b>

**Maturity analysis based on remaining term to maturity at 30 September**

	Consolidated		Parent	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
At call	-	43	-	43
Between 3 months and 12 months	415	-	415	-
Between 1 year and 5 years	1,543	2,745	1,543	2,745
After 5 years	466	457	466	457
	<b>2,424</b>	<b>3,245</b>	<b>2,424</b>	<b>3,245</b>

- (1) These bonds pay a floating rate coupon. They can be redeemed on 18 March 2010, or at quarterly interest payment dates thereafter.
- (2) These bonds pay a fixed rate coupon of 6.5%. These bonds can be redeemed on 26 July 2011, or at quarterly interest payment dates thereafter. If the notes are not called on 26 July 2011, they will continue to pay a floating rate until maturity or redemption date.
- (3) These bonds pay floating rate coupon. These bonds can be redeemed on 26 July 2011, or at quarterly interest payment dates thereafter. If the notes are not called on 26 July 2011, they will continue to pay a floating rate until maturity or redemption date.
- (4) These bonds pay a floating rate coupon. They can be redeemed on 20 June 2012, or at quarterly interest payment dates thereafter.
- (5) These bonds pay a fixed rate coupon of 4.65%. These bonds can be redeemed on 23 April 2012. If the notes are not called on 23 April 2012, they will continue to pay a floating rate until maturity or redemption date.
- (6) These bonds pay floating rate coupon. They can be redeemed on 9 May 2013, or at quarterly interest payment dates thereafter. If the notes are not called on 9 May 2013, they will continue to pay a floating rate until maturity or redemption date.
- (7) These bonds pay a fixed rate coupon of 10.00%. These bonds can be redeemed on 9 May 2013, or at quarterly interest payment dates thereafter. If the notes are not called on 9 May 2013, they will continue to pay a floating rate until maturity or redemption.
- (8) These bonds pay a fixed rate coupon of 5.30%.

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**NOTE 25: BILLS PAYABLE AND OTHER LIABILITIES**

	Consolidated		Parent	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
Bills payable	588	425	588	425
Sundry creditors and accruals	743	470	743	315
	<b>1,331</b>	<b>895</b>	<b>1,331</b>	<b>740</b>

**NOTE 26: SHARE CAPITAL**

	Consolidated		Parent	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
Fully paid ordinary shares	7,258	5,133	7,258	5,133
Treasury shares	-	(10)	-	-
3,500,000 fully paid SAINTS (2008: 3,500,000) <sup>(1)</sup>	345	345	345	345
1,500,000 Step-up preference shares (2008: 1,500,000) <sup>(2)</sup>	-	148	-	148
General reserve	15	15	15	15
	<b>7,618</b>	<b>5,631</b>	<b>7,618</b>	<b>5,641</b>

	Consolidated			
	2009 \$M	2008 \$M	2009 No. of shares	2008 No. of shares
<b>Issued and uncalled capital</b>				
Borrower shares unpaid <sup>(3)</sup>	-	-	1,966	2,213
Depositor shares unpaid <sup>(3)</sup>	-	-	187,851	193,654
<b>Movements in ordinary share capital</b>				
Opening balance	5,123	4,041	566,198,054	532,231,095
Issue of shares pursuant to share purchase plan	-	85	-	3,452,467
Issue of shares pursuant to private placement (net of issuance costs)	-	759	-	21,900,000
Issue of shares on 2 July 2008 pursuant to DRP at \$27.79	-	151	-	5,464,129
Issue of shares on 19 December 2007 pursuant to DRP at \$34.62	-	76	-	2,203,980
Issue of shares on exercise of options	-	11	-	503,891
Issue of shares pursuant to Employee Reward Share Plan <sup>(4)</sup>	-	-	292,980	191,802
Issue of shares pursuant to Executive Performance Share Plan <sup>(4)</sup>	-	-	39,386	250,690
Treasury share conversion	10	-	331,213	-
Issue of shares to Westpac	2,125	-	926,610,240	-
Closing balance	<b>7,258</b>	<b>5,123</b>	<b>1,493,471,873</b>	<b>566,198,054</b>

<sup>(1)</sup> The SAINTS were acquired by Westpac on 1 December 2008.

<sup>(2)</sup> The Step-up preference shares were redeemed on 31 March 2009 for \$150 million.

<sup>(3)</sup> On 24 April 2009, Westpac acquired 100% of the Borrower and Depositor shares.

<sup>(4)</sup> Equity value recognised in equity compensation reserve.



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**NOTE 27: RESERVES**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>\$M</b>	\$M	<b>\$M</b>	\$M
<b>Depositor and borrower redemption reserve</b>	<b>2</b>	2	<b>2</b>	2
<b>Foreign currency translation reserve</b>	<b>(1)</b>	(1)	-	-
<b>Cash flow hedge reserve</b>				
Opening balance	<b>(116)</b>	47	<b>(117)</b>	53
Gains and losses on cash flow hedging (net of tax):				
Recognised in equity	<b>(95)</b>	(167)	<b>(111)</b>	(174)
Transferred (to)/from income statement	<b>(2)</b>	4	<b>(2)</b>	4
Closing balance	<b>(213)</b>	(116)	<b>(230)</b>	(117)
<b>Equity compensation reserve</b>				
Opening balance	<b>55</b>	41	<b>53</b>	39
Current period movement	-	14	-	14
Closing balance	<b>55</b>	55	<b>53</b>	53
<b>Available for sale reserve</b>				
Opening balance	<b>(30)</b>	1	<b>(7)</b>	-
Losses on available for sale investments (net of tax):				
Recognised in equity	<b>(77)</b>	(31)	-	(7)
Transferred from the income statement	<b>9</b>	-	-	-
Closing balance	<b>(98)</b>	(30)	<b>(7)</b>	(7)
<b>General reserve for credit losses <sup>(1)</sup></b>				
Opening balance	<b>205</b>	153	<b>215</b>	177
Current period movement appropriated (to)/from retained profits	<b>(205)</b>	52	<b>(215)</b>	38
Closing balance	-	205	-	215
<b>Total reserves</b>	<b>(255)</b>	115	<b>(182)</b>	146

<sup>(1)</sup> The after tax equivalent balance of the "eligible" component of the collective provision and the balance of the general reserve for credit losses represents 0.81% of risk weighted assets (2008: 0.54%).

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**NOTE 28: RETAINED PROFITS**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
Opening balance	1,250	1,086	967	963
Defined benefit plan actuarial losses	(5)	(5)	(5)	(5)
Net profit attributable to shareholders of the parent entity	512	1,205	674	1,031
<b>Total available for appropriation</b>	<b>1,757</b>	<b>2,286</b>	<b>1,636</b>	<b>1,989</b>
Transferred from/(to) general reserve for credit losses	205	(52)	215	(38)
Interim dividend - cash component	-	(343)	-	(343)
Interim dividend - dividend reinvestment plan	-	(151)	-	(151)
Final dividend - cash component	(533)	(383)	(533)	(383)
Final dividend - dividend reinvestment plan	-	(76)	-	(76)
Special dividend	(176)	-	(176)	-
Preference share dividends				
Payable to ultimate parent entity	(1)	-	(1)	-
Payable to external parties	(3)	(31)	(3)	(31)
<b>Closing balance</b>	<b>1,249</b>	<b>1,250</b>	<b>1,138</b>	<b>967</b>

**NOTE 29: EQUITY ATTRIBUTABLE TO MINORITY INTERESTS**

	<b>Consolidated</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$M</b>	<b>\$M</b>
Share capital	2	2
Accumulated profit	5	5
	<b>7</b>	<b>7</b>
<b>Movements in accumulated profit</b>		
Opening balance	5	4
Minority share of profit for year	-	1
<b>Closing balance</b>	<b>5</b>	<b>5</b>

Minority interests in the results and equity of subsidiaries are shown separately in the Consolidated Income Statement and Balance Sheet respectively.

Minority interests comprise ordinary shares issued by St.George Motor Finance Limited.

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**NOTE 30: REMUNERATION OF AUDITORS**

During the year, PricewaterhouseCoopers assumed the role of the Parent entity's auditor from KPMG.

Details of the amounts paid to the auditors of the Parent entity, and their related practices, for audit and non-audit related services provided during the year are set out below.

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>\$ '000</b>	\$ '000	<b>\$ '000</b>	\$ '000
<b>PricewaterhouseCoopers</b>				
<b>Audit services</b>				
Amounts paid, or due and payable to auditors of the Parent entity for:				
Audit and review services of consolidated financial statements	<b>1,061</b>	-	<b>1,061</b>	-
Audit services in accordance with regulatory requirements	<b>409</b>	-	<b>391</b>	-
	<b>1,470</b>	-	<b>1,452</b>	-
<b>Other services</b>				
Other assurance services	<b>54</b>	-	<b>54</b>	-
Other	<b>187</b>	-	<b>28</b>	-
	<b>241</b>	-	<b>82</b>	-
<b>Total remuneration</b>	<b>1,711</b>	-	<b>1,534</b>	-

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>\$ '000</b>	\$ '000	<b>\$ '000</b>	\$ '000
<b>KPMG</b>				
<b>Audit services</b>				
Amounts paid, or due and payable to auditors of the Parent entity for:				
Audit and review services of consolidated financial statements	<b>288</b>	1,594	<b>288</b>	906
Audit and review of managed funds activities	<b>17</b>	1,510	-	-
Audit services in accordance with regulatory requirements	-	1,700	-	228
	<b>305</b>	4,804	<b>288</b>	1,134
<b>Other services</b>				
Other assurance services	<b>352</b>	959	<b>352</b>	959
Taxation compliance services in respect of managed funds	-	283	-	-
Taxation and compliance services in respect of consolidated entities	<b>982</b>	931	<b>982</b>	931
Other	<b>145</b>	839	<b>145</b>	839
	<b>1,479</b>	3,012	<b>1,479</b>	2,729
<b>Total remuneration</b>	<b>1,784</b>	7,816	<b>1,767</b>	3,863

The amounts paid for 'other services' are in accordance with the Group's policy regarding 'Pre-approval of engagement of PricewaterhouseCoopers for audit and non-audit services'. The Board Audit Committee has considered the other services provided by the auditors of the Parent entity and is satisfied that the nature of the services and the amount of fees paid are appropriate in terms of maintaining auditor independence.

Fees paid to KPMG relate to the period that they were auditors of St.George.

**NOTE 31: SHARE-BASED PAYMENTS**

**PRIOR TO MERGER**

St.George operated the following employee plans until the merger with Westpac:

**(A) EMPLOYEE REWARD SHARE PLAN (REWARD PLAN)**

The Reward Plan did not operate for the 2009 year. The Reward Plan provided eligible employees with up to \$1,000 worth of fully paid ordinary St.George Bank Limited shares per annum for nil consideration. Generally, shares were granted to employees annually in November, providing the performance targets for the preceding financial year to 30 September had been met.

Shares issued under the Reward Plan could not be sold for three years after allotment or at the time the participant ceased employment with the Group.

The number of shares allocated to each participant was calculated by taking \$1,000 divided by the volume weighted average share price (VWAP). The VWAP was based on the share price and trading volumes on the five trading days prior to the allotment date, rounded down to the nearest whole share.

Generally, full-time, part-time, fixed term and casual staff with 12 months or more service with the Group were eligible to participate in the Reward Plan each year, provided they were still employed by the Group on the relevant allotment date.

Allotments under the Reward Plan were subject to the achievement of predetermined performance targets as set by the Board and communicated to staff prior to the commencement of each financial year.

The performance targets in the 30 September 2008 year were as follows:

Subject to Board discretion,

- (1) Cash EPS (defined as profit after tax, preference dividends and minority interests before goodwill, significant items, hedging and non-trading derivatives) equals or exceeds the EPS of the previous year by 10% or more, then 60% of the shares were granted; and
- (2) Customer service: Obtaining an overall Group Customer Satisfaction rating of at least 74%, then 40% of the shares were granted.

Despite the EPS growth target not being achieved, the Board exercised its discretion on 27 October 2008 and approved a grant of \$1,000 worth of St.George shares be made to each eligible employee for performance during the 2008 year. The grants were made in November 2008.

The fair value of shares granted under the Reward Plan are recognised as an expense in the Group's Income Statement over the 12 month period commencing on 1 October each year. The fair value of shares granted was determined by discounting the share price at grant date by the dividends paid by the Parent entity during the vesting period when the participant does not receive them. The expense for the 30 September 2009 financial year was \$7.448 million (30 September 2008: \$6.105 million). In November 2008, 292,980 (November 2007: 191,802) shares were issued in relation to the Reward Plan. A total of 7,710 (November 2007: 7,377) staff participated in this offer, with each participant receiving 38 (November 2007: 26) fully paid ordinary shares based on the offer amount of \$1,000 for nil consideration. The shares had a volume weighted average price (VWAP) of \$25.75 per share (November 2007: \$37.17) at the allotment date.

**(B) EMPLOYEE SHARE PURCHASE PLAN (PURCHASE PLAN)**

Prior to the merger, permanent employees were eligible to participate in the Purchase Plan. Participants were previously given the opportunity to nominate an amount of their pre-tax remuneration to purchase fully paid ordinary shares in the Parent entity. Participants were able to nominate up to 20% of their Total Employment Cost (if they had continuous service of at least one year at any relevant share acquisition date) and 100% of their Short Term Incentive Opportunity (less any compulsory superannuation) towards the purchase of shares. Shares were acquired on market. Brokerage was subsidised by the Parent entity. Participants were able to elect to acquire shares under the Purchase Plan as unrestricted, restricted for 4 years or restricted for 10 years. Where the shares were restricted, they could not be sold or transferred until the period of restriction was lifted or at the time the participant ceased employment with the Group. Shares purchased under this Plan were expensed in the Group's Income Statement.

The Purchase Plan was not offered during the 2009 financial year. Details of ordinary shares allocated under the Purchase Plan during the previous year were as follows:

<b>Date of allocation</b>	<b>Number of ordinary shares allocated</b>	<b>Number of employees participating</b>	<b>Fair value of shares acquired \$</b>
<b>2008 year</b>			
22 November 2007	116,678	268	36.30
30 May 2008	14,620	64	32.75
<b>Total</b>	<b>131,298</b>	<b>332</b>	

**NOTE 31: SHARE-BASED PAYMENTS (CONTINUED)**

**PRIOR TO MERGER (CONTINUED)**

**(C) OVERVIEW**

Long Term Incentive (LTI) was delivered to the Managing Director and Group Executives in the form of Awards under the Executive Performance Share Plan (Performance Plan) and Options under the Executive Option Plan (Option Plan). Shareholders approved both plans on 3 February 1998.

Medium Term Incentive (MTI) was delivered to other senior executives in the form of Awards under the Performance Plan.

Deferred Short Term Incentive (STIDO) was also delivered to the Managing Director, Group Executives and senior executives in the form of Awards under the Performance Plan.

**(D) EXECUTIVE PERFORMANCE SHARE PLAN (PERFORMANCE PLAN)**

Awards were granted under the Performance Plan. An Award was a right to acquire an ordinary St.George share for nil consideration subject to specified hurdles being satisfied.

The Managing Director, Group Executives and other Senior Executives were eligible to be invited to participate in the Performance Plan to receive LTI, MTI or STIDO Awards.

LTI and MTI Awards were subject to tenure and performance hurdles approved by the Board from time to time and rewarded performance over periods of between two to four years. An overview of the performance hurdles for LTI Awards and Options and MTI Awards is outlined in the tables below. The existing performance conditions were based on the achievement of Cash EPS or Total Shareholder Return ("TSR") outcomes over the measurement period, and provided for substantial compound growth in St.George's Cash EPS as well as an appropriate market focussed TSR hurdle.

Awards were generally forfeited if a participant left the Group before the end of the relevant vesting period. In accordance with the rules of the Performance Plan the Board retained overall discretion to waive all or part of the exercise conditions of Awards. For example, the Board could exercise its discretion where certain events occur, such as redundancy, retirement or death.

STIDO Awards are deferred Short Term Incentive. Participants were entitled to receive dividend distribution payments following the Board's determination of their individual performance. The grant date for the STIDO was 1 October each year, being the commencement of the STIDO performance period, though the participant must remain an employee of the Group for the duration of a three year period in order for the beneficial interest in the shares to be transferred to them.

STIDO Awards were generally forfeited if a participant left the Group before the end of the three year vesting period and the dividend distribution payment ceased. In circumstances where the Board exercised its discretion to waive this condition, for example redundancy, retirement or death, the awards were transferred at the end of the relevant three year period or earlier at the Board's discretion.

In accordance with the rules of the Performance Plan and as approved by shareholders, share allocations to satisfy the exercise of Awards could have occurred by either allotment or by purchase on market. The Board determined the most appropriate basis of allocation.

The fair value of awards granted under the Performance Plan was recognised as an expense in the Group's Income Statement over the vesting period of the awards. The fair value was discounted for estimated forfeitures. The fair value was determined on the following bases:

- (1) Shares issued or shares purchased on market on satisfaction of non-market related performance hurdles – prevailing market price at grant date for grants before 1 October 2005. For grants after this date, the fair value was discounted for the present value of dividends paid by the Parent entity during the vesting period when they were not received by the participant.
- (2) Shares purchased or shares issued on satisfaction of market related performance hurdles – the fair value was determined using the binomial method at the grant date.

Awards were granted for no consideration at prevailing market prices.

The expense recognised during the period to merger in respect of the Performance Plan was \$0.920 million (30 September 2008: \$7.558 million), including \$0.277 million due to the impact of the modification to the terms of the Performance Plan due to the merger. The impact of the modifications on 9 September 2008 (being the date executives entered into a Deed of Cancellation dealing with the treatment of their Awards upon the implementation of the merger) and 1 December 2008 (being the implementation date of the Award Option Scheme of Arrangement for other Award holders) was the replacement of unvested Awards with Westpac restricted shares (which receive dividends) with the same vesting period, but which were not subject to performance hurdles. Since the Awards were valued prior to the merger assuming a 100% probability of meeting the performance hurdles, the only valuation difference as a result of the modification is the removal of the discount for the present value of future dividends paid by the Parent entity during the vesting period when they were not received by the participant.

**NOTE 31: SHARE-BASED PAYMENTS (CONTINUED)**

**PRIOR TO MERGER (CONTINUED)**

**(D) EXECUTIVE PERFORMANCE SHARE PLAN (PERFORMANCE PLAN) (CONTINUED)**

The following is a summary of movements in awards under this plan:

	Number of awards 2009	Number of awards 2008
Outstanding at start of financial year	632,627	666,965
Granted	-	269,300
Forfeited	(45,936)	(52,948)
Exercised by issue of share capital	(39,386)	(250,690)
Exercised by allocation of shares from share pool trust	(166,827)	-
Converted to Westpac Shares	(380,478)	-
Outstanding at end of financial year	-	632,627
Exercisable at end of financial year	-	140,827

For awards exercised during the financial year prior to merger, the weighted average share price at the date of exercise was \$25.21 (2008: \$35.96).

No Awards were granted during the financial year. Awards granted during the previous financial year had a weighted average fair value of \$32.09.

On 1 December 2008, all awards under this plan were converted into restricted (where tenure hurdles were applicable) and unrestricted Westpac Shares. The restricted Westpac Shares are not subject to performance hurdles.

There were no St.George awards outstanding at the end of the year. For awards outstanding at the end of the 2008 financial year, the weighted average remaining contractual life was 3.9 years.

**(E) EXECUTIVE OPTION PLAN (OPTION PLAN)**

Options were granted under the Option Plan. Options were a right to acquire an ordinary St.George share in the future upon the payment of an exercise price and subject to specified hurdles being satisfied. The exercise price represented the market value of the Parent entity's ordinary shares at the grant date. The market value was calculated using the Volume Weighted Average Price (VWAP) traded during the five trading days prior to and including the grant date.

The Managing Director and Group Executives were eligible to participate in the Executive Option Plan to receive LTI Options.

The LTI Options did not grant rights to the option holders to participate in a share issue of any other body corporate. Non-Executive Directors were not eligible to participate in the plan.

LTI Options were subject to tenure and performance hurdles approved by the Board from time to time and reward performance over periods of between of two to four years. An overview of the performance hurdles for LTI Awards and Options and MTI Awards was outlined in the tables below. The previous performance conditions were based on the achievement of Cash EPS or TSR outcomes over the measurement period, and provided for substantial compound growth in St.George's Cash EPS as well as an appropriate market focussed TSR hurdle.

The following is a summary of movements in options under this plan:

	Number of options 2009	Weighted average exercise price 2009 \$	Number of options 2008	Weighted average exercise price 2008 \$
Outstanding at start of financial year	1,087,489	29.19	1,465,311	24.92
Granted	-	-	364,833	35.71
Forfeited	(28,075)	30.65	(238,764)	27.23
Exercised by allocation of shares from share pool trust	(29,260)	20.96	(503,891)	22.44
Converted to Westpac Shares	(1,030,154)	29.37	-	-
Outstanding at end of financial year	-	N/A	1,087,489	29.19
Exercisable at end of financial year	-	N/A	516,985	24.33

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**NOTE 31: SHARE-BASED PAYMENTS (CONTINUED)**

**PRIOR TO MERGER (CONTINUED)**

**(E) EXECUTIVE OPTION PLAN (OPTION PLAN) (CONTINUED)**

The fair value of services received in return for options granted is based upon the fair value of options granted, measured using a binomial method. No options were granted during the financial year. Options granted in the previous financial year had a weighted average fair value of \$4.39. The fair value of options granted during the previous year was determined using the following inputs:

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)
<b>2009</b>								
No grants were made during the year								
<b>2008</b>								
01-Oct-07	30-Sep-09	3.84	34.99	35.40	15.70	6.46	5.06	2.50
01-Oct-07	30-Sep-10	4.34	34.99	35.40	15.70	6.47	5.06	3.50
01-Oct-07	30-Sep-11	4.75	34.99	35.40	15.70	6.45	5.06	4.50
13-Nov-07	30-Sep-09	4.05	37.18	37.42	16.20	6.71	4.82	2.38
13-Nov-07	30-Sep-10	4.72	37.18	37.42	16.20	6.62	4.82	3.38
13-Nov-07	30-Sep-11	5.05	37.18	37.42	16.20	6.49	4.82	4.39
02-Jun-08	30-Sep-09	4.07	32.75	31.95	23.70	6.83	5.51	1.83
02-Jun-08	30-Sep-10	4.83	32.75	31.95	23.70	6.72	5.52	2.83
02-Jun-08	30-Sep-11	5.28	32.75	31.95	23.70	6.63	5.52	3.83

The fair value of options granted is recognised as an expense in the Group's Income Statement over the vesting period. The expense recognised during the period to merger in respect of the Options Plan was \$0.492 million (30 September 2008: \$0.635 million), including \$0.267 million due to the impact of the modifications to the terms of the Options Plan as a result of the merger. The date of the modifications was 9 September 2008 (being the date executives entered into a Deed of Cancellation dealing with the treatment of their Options upon the implementation of the merger). The modifications led to the cancellation and replacement of unvested Options with 1.31 Westpac restricted shares (which receive dividends) multiplied by a "valuation percentage". The restricted shares had the same vesting period.

The "valuation percentage" was calculated as at 1 December 2008 by Ernst & Young and reflected the value of each Option. It was calculated using a binomial model for valuing options, using the following valuation inputs: (i) the exercise price; (ii) the Valuation Date; (iii) the VWAP of St.George Shares for the five Trading Days prior to the Valuation Date; (iv) an assumption that the Executive Option will be exercised midway during the possible exercise period; (v) a risk free rate of interest being a zero coupon government bond rate with a maturity midway through the possible exercise period; (vi) an assumed volatility of the underlying St.George Share of between 25% and 30%; (vii) an annual dividend yield assumption based on the actual St.George 2008 year Final Dividend, followed by dividends at a yield equal to the risk free rate for the expected life thereafter; and (viii) ignoring any performance hurdles.

During the financial year, 29,260 ordinary shares (2008: 503,891) were allocated/issued following the exercise of 29,260 options (2008: 503,891). No amounts remain unpaid on any of these shares. The market value of shares allocated/issued as a result of the exercise of these options as at 30 November 2008 was \$0.647 million (30 September 2008: \$14 million).

The market value of shares that could be issued from the exercise of outstanding options at 30 September 2009 is \$Nil (30 September 2008: \$31 million).

On 1 December 2008, all options under this plan were converted into restricted (where tenure hurdles were applicable) and unrestricted Westpac ordinary shares. The restricted Westpac ordinary shares were not subject to performance hurdles.

There were no St.George options outstanding at the end of the financial year. For options outstanding at the end of the 2008 financial year, the range of exercise prices was \$20.40 to \$37.18 and the weighted average remaining contractual life was 3.5 years.

**NOTE 31: SHARE-BASED PAYMENTS (CONTINUED)**

**PRIOR TO MERGER (CONTINUED)**

**(E) EXECUTIVE OPTION PLAN (OPTION PLAN) (CONTINUED)**

The previous performance hurdles for LTI and MTI Awards and Options are summarised in the tables below:

<b>Instrument</b>	<b>Performance Awards and Options granted from 1 October 2007</b>	
Performance measurement	EPS compound growth $\geq$ 10%	100% vests
	TSR $\geq$ 75 percent of the Financial Services Comparator Group (FSCG)	100% vests
	TSR = 50 percent of FSCG	50% only vests
	TSR > 50 percent but < 75 percent of FSCG	Additional 2% vest for each full 1% increase above the 50 <sup>th</sup> percentile (on a straight line basis) up to 100% at the 75 <sup>th</sup> percentile.
Performance testing	EPS – at the end of the performance period then annually until the fifth anniversary of the grant date.	
	TSR – at the end of the performance period then six monthly until the fifth anniversary of the grant date.	
Lapse of securities	Securities will lapse if a Group Executive leaves the Group due to resignation or dismissal before the vesting date. In circumstances of redundancy, retirement or death, the Group Executive or their estate may be entitled to exercise some or all of the securities, subject to the satisfaction of relevant performance conditions.	
Expiry date of securities	6 years from grant date.	
Comparator group	CBA, Westpac, NAB, ANZ, QBE, Macquarie Bank, AMP, Suncorp-Metway, AXA Asia Pacific Holdings, IAG, Bendigo and Adelaide Bank, Perpetual, Bank of Queensland. Weighted by market capitalisation.	

<b>Instrument</b>	<b>Performance Awards and Options granted between 1 October 2004 and 30 September 2007</b>	
Performance measurement	EPS compound growth $\geq$ 10%	100% vests
	TSR $\geq$ 75 <sup>th</sup> percentile of S&P ASX 50 index	100% vests
	TSR > S&P ASX 50 index but < 75 <sup>th</sup> percentile of S&P ASX 50 index	50% only vests
Performance testing	EPS – at the end of the performance period then annually until the fifth anniversary of the grant date.	
	TSR – at the end of the performance period then quarterly until the fifth anniversary of the grant date.	
Lapse of securities	Securities will lapse if a Group Executive leaves the Group due to resignation or dismissal before the vesting date. In circumstances of redundancy, retirement or death, the Group Executive or their estate may be entitled to exercise some or all of the securities, subject to the satisfaction of relevant performance conditions.	
Expiry date of securities	6 years from grant date.	
Comparator group	ASX top 50 companies.	

<b>Instrument</b>	<b>Performance Awards and Options granted from 1 October 2003 to 30 September 2004</b>	
Performance measurement	1. EPS compound growth $\geq$ 10%, or	50% vests
	EPS actual growth > 10% in year prior to exercise date only	50% vests
	2. TSR $\geq$ S&P ASX 50 index	Remaining 50% only vests
Performance testing	EPS – at the end of the performance period then annually until the fifth anniversary of the grant date.	
	TSR – at the end of the performance period then monthly until the fifth anniversary of the grant date.	
Lapse of securities	Securities will lapse if a Group Executive leaves the Group due to resignation or dismissal before the vesting date. In circumstances of redundancy, retirement or death, the Group Executive or their estate may be entitled to exercise some or all of the securities, subject to the satisfaction of relevant performance conditions.	
Expiry date of securities	6 years from grant date.	
Comparator group	ASX top 50 companies.	



**NOTE 31: SHARE-BASED PAYMENTS (CONTINUED)**

**PRIOR TO MERGER (CONTINUED)**

**(F) NON-EXECUTIVE DIRECTORS' SHARE PURCHASE PLAN (DIRECTORS' PLAN)**

All Non-Executive Directors were eligible to participate in the Directors' Plan. Each financial year, Non-Executive Directors were provided with the opportunity to contribute a part or all of their pre-tax remuneration from the Group to acquire fully paid ordinary shares in the Parent entity. Shares were acquired at prevailing market prices and brokerage fees were paid by the Parent entity. Shares purchased under the Directors' Plan were expensed in the Group's Income Statement.

During the year and prior to the merger, no (30 September 2008: 5) Non-Executive Directors were allocated St.George shares (30 September 2008: 14,793 - these shares were acquired on market at an average purchase price of \$36.30 per share).

**Modifications to terms of share based payment transactions**

As part of the merger with Westpac, the following modifications occurred to all St.George shares, awards and options on 1 December 2008:

- Holders of St.George shares received 1.31 Westpac ordinary shares per share;
- Holders of vested awards received 1.31 Westpac ordinary shares per award;
- Holders of unvested awards received 1.31 restricted Westpac ordinary shares per award subject to the original vesting period. The restricted Westpac ordinary shares were not subject to performance hurdles;
- Holders of vested and unexercised options received 1.31 Westpac ordinary shares for each option multiplied by a valuation percentage; and
- Unvested options received 1.31 restricted Westpac ordinary shares for each option multiplied by a valuation percentage and subject to the vesting period. The restricted Westpac ordinary shares were not subject to performance hurdles.

All the above plans were cancelled on 1 December 2008 and there were no outstanding St.George options and awards at 30 September 2009.

**POST-MERGER**

**Executive and Senior Officer equity plans**

Restricted shares and/or share rights are granted to certain St.George employees under the following Westpac schemes.

**(i) Westpac Performance Plan (WPP)**

The WPP is used to provide awards of performance options and/or performance share rights to senior executives and other key employees.

An option or share right under the WPP is the right to acquire a share in the future provided all conditions are met, with an exercise price generally set at the time the invitation is made. The exercise price for options is equal to the average market price of Westpac ordinary shares traded on the ASX over the five trading days up to the time the invitation is made. The exercise price for share rights is \$Nil.

*Performance options and performance share rights*

Performance options and performance share rights granted under the WPP vest after a period of two to five years, but only if the performance hurdle has been met. The performance hurdle compares Westpac's TSR against the TSR of a defined ranking group of other companies.

For grants made from December 2008, the ranking group is the top 10 of the largest 13 Australian banking and financial sector companies by market capitalisation at the commencement of the performance period (excluding Westpac).

Full vesting of performance options and performance share rights occurs when Westpac's relative TSR is at (or exceeds) the 75<sup>th</sup> percentile of the ranking group, scaling down to 50% vesting on a straight-line basis for median performance. Below median performance, no vesting occurs.

Upon exercising vested performance options or performance share rights, the executive has the right to take up his or her entitlement in whole or in part as fully paid ordinary shares. The exercise price is payable at that time. A performance option or performance share right lapses if it is not exercised prior to the end of its term.

The following table sets out details of outstanding performance share rights granted to St.George executives under the WPP:

Commencement dates	Latest dates for exercise	Granted during the year	Exercised during the year	Lapsed during the year	Total outstanding at 30 September 2009	Outstanding and exercisable at 30 September 2009
1 December 2008 to 1 March 2009	1 December 2018 to 1 March 2019	72,907	-	-	72,907	-

There were no performance options granted to St.George executives during the year under the WPP. The fair value at grant date of WPP performance share rights issued during the year was \$8.20. The remaining contractual life of outstanding performance share rights at 30 September 2009 was 1.9 years.

**NOTE 31: SHARE-BASED PAYMENTS (CONTINUED)**

**POST MERGER (CONTINUED)**

**(ii) Fair value assumptions**

The fair value of performance share rights granted during the year included in the table above have been independently calculated at grant date using a Binomial/Monte Carlo simulation pricing model.

- volatility has been assessed by considering the implied volatility of publicly traded options over Westpac's ordinary shares and the historic volatility of the market price of Westpac shares;
- other assumptions include volatilities of, and correlation factors between, share price movements of the ranking group members and Westpac, which are used to assess the impact of performance hurdles; and
- performance share rights have been valued assuming an expected life after the vesting date of up to one year.

**(iii) Westpac Restricted Share Plan (RSP)**

The RSP was approved by Westpac shareholders at the 2006 Westpac Annual General Meeting. It provides an instrument for attracting and retaining key employees within the Westpac Group. Under the RSP, Westpac shares may be allocated to eligible employees at no cost with vesting subject to remaining employed within the Westpac Group for a period determined by the Westpac Board. Shares in the RSP are held in the name of the employee and are restricted until satisfaction of the vesting conditions. Shares in the RSP rank equally with Westpac ordinary shares for dividends and voting rights, and may be held in the RSP for up to ten years from the date they are granted.

Westpac shares have been issued to fulfil the RSP requirements for the 2009 financial year with respect to St.George employees.

*Outstanding RSP awards*

The following table details outstanding awards of shares issued under the RSP to St.George employees since the merger:

<b>Allocation date</b>	<b>Granted during the period</b>	<b>Released</b>	<b>Forfeited during the period</b>	<b>Balance at 30 September 2009</b>
<b>January to June 2009</b>	68,363	-	-	68,363

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**NOTE 32: AVERAGE BALANCES AND RELATED INTEREST**

The following table shows the major categories of interest earning assets and interest bearing liabilities and the respective interest rates earned or paid by the Group for the years indicated. Averages are month-end averages, which are not materially different from daily averages.

	2009			2008		
	Average balance \$M	Interest \$M	Average rate %	Average balance \$M	Interest \$M	Average rate %
<b>Interest earning assets</b>						
Cash and liquid assets	504	14	2.78	1,921	109	5.67
Receivables due from other financial institutions	5,370	240	4.47	8,536	615	7.20
Assets at fair value	2,671	118	4.42	6,521	445	6.82
Loans and other receivables	123,377	8,182	6.63	112,417	9,483	8.44
<b>Total interest earning assets</b>	<b>131,922</b>	<b>8,554</b>	<b>6.48</b>	<b>129,395</b>	<b>10,652</b>	<b>8.23</b>
<b>Non interest earning assets</b>						
Bills receivable	46			43		
Property, plant and equipment	320			339		
Other assets	9,887			5,904		
Provision for doubtful debts	(959)			(361)		
<b>Total non interest earning assets</b>	<b>9,294</b>			<b>5,925</b>		
<b>Total assets</b>	<b>141,216</b>			<b>135,320</b>		
<b>Interest bearing liabilities</b>						
Retail funding and other deposits	67,854	2,750	4.05	67,983	4,119	6.06
Payables due to other financial institutions	2,128	59	2.77	1,234	72	5.83
Loan capital	2,575	169	6.56	2,093	169	8.07
Other borrowings <sup>(1) (2)</sup>	52,175	2,668	5.11	53,114	3,921	7.38
<b>Total interest bearing liabilities</b>	<b>124,732</b>	<b>5,646</b>	<b>4.53</b>	<b>124,424</b>	<b>8,281</b>	<b>6.66</b>
<b>Non interest bearing liabilities</b>						
Bills payable	553			555		
Other non interest bearing liabilities	8,201			3,694		
<b>Total non interest bearing liabilities</b>	<b>8,754</b>			<b>4,249</b>		
<b>Total liabilities</b>	<b>133,486</b>			<b>128,673</b>		
<b>Shareholders' equity</b>	<b>7,730</b>			<b>6,647</b>		
<b>Total liabilities and shareholders' equity</b>	<b>141,216</b>			<b>135,320</b>		
Interest spread <sup>(3)</sup>			1.95%			1.57%
Interest margin <sup>(4)</sup>			2.20%			1.83%

(1) Includes foreign exchange swap costs.

(2) Includes the impact of Balance Sheet Management activities.

(3) Interest spread represents the difference between the average interest rate earned on assets and the average interest rate paid on funds.

(4) Interest margin represents net interest income as a percentage of average interest earning assets.

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**NOTE 32: AVERAGE BALANCES AND RELATED INTEREST (CONTINUED)**

**VOLUME AND RATE ANALYSIS**

The table below allocates changes in interest income and interest expense between changes in volume and changes in rate for the years ended 30 September 2009 and 30 September 2008. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest earning assets and average interest bearing liabilities.

	2009 over 2008			2008 over 2007		
	Volume \$M	Rate \$M	Total \$M	Volume \$M	Rate \$M	Total \$M
<b>Interest earning assets</b>						
Cash and liquid assets	(39)	(56)	(95)	48	9	57
Receivables due from other financial institutions	(142)	(233)	(375)	(10)	12	2
Assets at fair value	(170)	(157)	(327)	407	78	485
Loans and other receivables	727	(2,028)	(1,301)	1,199	764	1,963
<b>Change in interest income</b>	<b>376</b>	<b>(2,474)</b>	<b>(2,098)</b>	<b>1,644</b>	<b>863</b>	<b>2,507</b>
<b>Interest bearing liabilities</b>						
Retail funding and other deposits	(5)	(1,364)	(1,369)	878	488	1,366
Payables due to other financial institutions	25	(38)	(13)	42	4	46
Loan capital	32	(32)	-	10	30	40
Other borrowings	(48)	(1,205)	(1,253)	361	414	775
<b>Change in interest expense</b>	<b>4</b>	<b>(2,639)</b>	<b>(2,635)</b>	<b>1,291</b>	<b>936</b>	<b>2,227</b>
<b>Change in net interest income</b>	<b>372</b>	<b>165</b>	<b>537</b>	<b>353</b>	<b>(73)</b>	<b>280</b>

**ST.GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES**  
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**NOTE 33: SEGMENTAL RESULTS**

**BUSINESS SEGMENTS**

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

- St.George Bank – responsible for sales and service for consumer, business and corporate customers in Australia under the St.George and BankSA brands.
- Other – responsible for institutional banking, wealth management activities and the Group's support functions.

**SEGMENT INCOME STATEMENT**

	2009			2008		
	St.George Bank \$M	Other \$M	Consolidated \$M	St.George Bank \$M	Other \$M	Consolidated \$M
Revenue from external customers	7,341	2,129	9,470	8,326	3,518	11,844
Internal revenue	4,346	(4,346)	-	5,625	(5,625)	-
<b>Total segment revenue</b>	<b>11,687</b>	<b>(2,217)</b>	<b>9,470</b>	<b>13,951</b>	<b>(2,107)</b>	<b>11,844</b>
Interest income	6,580	1,974	8,554	7,536	3,116	10,652
Interest expense	(2,222)	(3,424)	(5,646)	(2,858)	(5,423)	(8,281)
Internal charges	(1,768)	1,768	-	(2,386)	2,386	-
<b>Net interest income</b>	<b>2,590</b>	<b>318</b>	<b>2,908</b>	<b>2,292</b>	<b>79</b>	<b>2,371</b>
Non-interest income	670	246	916	637	555	1,192
Internal charges	5	(5)	-	25	(25)	-
	<b>675</b>	<b>241</b>	<b>916</b>	<b>662</b>	<b>530</b>	<b>1,192</b>
<b>Net operating income before operating expenses and impairment charges</b>	<b>3,265</b>	<b>559</b>	<b>3,824</b>	<b>2,954</b>	<b>609</b>	<b>3,563</b>
Depreciation and amortisation	-	98	98	-	102	102
Other non-cash expenses	42	75	117	34	45	79
Other operating expenses	694	858	1,552	655	583	1,238
Internal charges	560	(560)	-	459	(459)	-
<b>Total operating expenses before impairment charges</b>	<b>1,296</b>	<b>471</b>	<b>1,767</b>	<b>1,148</b>	<b>271</b>	<b>1,419</b>
Loan impairment charges	631	675	1,306	232	50	282
<b>Profit before income tax expense</b>	<b>1,338</b>	<b>(587)</b>	<b>751</b>	<b>1,574</b>	<b>288</b>	<b>1,862</b>
Income tax expense	401	(162)	239	472	184	656
Net profit attributable to minority interests	-	-	-	-	1	1
<b>Net profit attributable to shareholders of the Parent entity</b>	<b>937</b>	<b>(425)</b>	<b>512</b>	<b>1,102</b>	<b>103</b>	<b>1,205</b>

**SEGMENT ASSETS AND LIABILITIES**

	2009			2008		
	St.George Bank \$M	Other \$M	Consolidated \$M	St.George Bank \$M	Other \$M	Consolidated \$M
<b>Total Assets</b>	<b>121,126</b>	<b>19,107</b>	<b>140,233</b>	<b>110,401</b>	<b>36,974</b>	<b>147,375</b>
<b>Total Liabilities</b>	<b>81,381</b>	<b>50,233</b>	<b>131,614</b>	<b>76,148</b>	<b>64,224</b>	<b>140,372</b>

**GEOGRAPHICAL SEGMENTS**

The Group predominantly operates in Australia.



**ST.GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES**  
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**NOTE 34: DEED OF CROSS GUARANTEE**

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of annual reports, and Directors' reports.

It is a condition of the Class Order that the Parent entity and the four subsidiaries (listed below) together who represent a "closed group" enter into a Deed of Cross Guarantee ("Deed"). The effect of the Deed is that the Parent entity guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Parent entity will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Parent entity is wound up.

The subsidiaries subject to the Deed are:

- St.George Financial Services Limited
- Advance Leasing Limited
- Canberra Advance Property Limited
- Crusade Management Limited

A consolidated Income Statement and consolidated Balance Sheet, comprising the Parent entity and the controlled entities that are a party to the Deed, after eliminating all transactions between parties to the Deed, at 30 September is set out below:

**SUMMARISED INCOME STATEMENT AND RETAINED PROFITS**

	<b>Consolidated</b>	
	2009	2008
	\$M	\$M
For the year ended 30 September		
Profit before tax	1,102	1,764
Income tax expense	(295)	(626)
Profit after tax	<u>807</u>	<u>1,138</u>
Retained profits at the beginning of the year	1,091	980
Actuarial losses from defined benefit superannuation plan	(5)	(5)
Transfer to reserve	215	(38)
Dividends recognised during the year	(713)	(984)
Retained profits at the end of the year	<u>1,395</u>	<u>1,091</u>

**ST.GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 34: DEED OF CROSS GUARANTEE (CONTINUED)**

**BALANCE SHEET**

	Consolidated	
	2009	2008
	\$M	\$M
<b>ASSETS</b>		
Cash and liquid assets	752	713
Receivables due from other financial institutions	3,518	10,365
Assets at fair value through the Income Statement	1,008	7,469
Derivative assets	2,408	3,048
Available for sale investments	11,872	6,255
Loans and other receivables	111,792	99,678
Investment in controlled entities	975	1,169
Amounts receivable from controlled entities	6,178	4,277
Investments in associated companies	11	25
Property, plant and equipment	287	312
Intangible assets	1,088	1,129
Deferred tax assets	503	223
Other assets	731	649
<b>TOTAL ASSETS</b>	<b>141,123</b>	<b>135,312</b>
<b>LIABILITIES</b>		
Deposits and other borrowings	67,591	90,213
Payables due to other financial institutions	230	1,786
Derivative liabilities	2,589	1,826
Bank acceptances	280	3,970
Amounts payable to controlled entities	11,236	5,304
Payable to ultimate parent entity	38,376	-
Current tax liabilities	-	56
Deferred tax liabilities	46	-
Other provisions	129	134
Bonds and notes	8,040	21,160
Loan capital	2,424	3,245
Bills payable and other liabilities	1,351	740
<b>TOTAL LIABILITIES</b>	<b>132,292</b>	<b>128,434</b>
<b>NET ASSETS</b>	<b>8,831</b>	<b>6,878</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	7,618	5,641
Reserves	(182)	146
Retained profits	1,395	1,091
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>8,831</b>	<b>6,878</b>

**ST.GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 35: COMMITMENTS**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
<b>Capital commitments</b>				
Less than one year	<b>37</b>	10	<b>36</b>	10
<b>Non-cumulative operating leases expiring</b>				
Less than one year	<b>93</b>	90	<b>88</b>	84
Between one and five years	<b>240</b>	291	<b>226</b>	273
More than five years	<b>122</b>	161	<b>120</b>	158
	<b>455</b>	542	<b>434</b>	515
<b>Other expenditure commitments</b>				
Less than one year	<b>46</b>	20	<b>46</b>	20
Between one and five years	<b>73</b>	4	<b>73</b>	4
More than five years	<b>27</b>	1	<b>27</b>	1
	<b>146</b>	25	<b>146</b>	25

The Group leases a number of commercial buildings and computer hardware under operating leases. The lease terms typically run for a period of five years for buildings and three years for computer hardware.

**NOTE 36: LIABILITY FOR DEFINED BENEFIT FUND OBLIGATION**

The Group makes contributions to multiple superannuation funds in accordance with "Superannuation Choice of Fund", including the employer sponsored fund which has two defined benefit sections with 144 members in total. No new members are accepted into these defined benefit sections. All employees who are members of these defined benefit sections are entitled to benefits on retirement, disability or death. The defined benefit sections guarantee lump sum benefits based on years of service and final average salary. The defined contribution section of the fund receives fixed contributions from the Parent entity and certain controlled entities, and the Group's legal or constructive obligation is limited to these contributions.

The following sets out details in respect of the defined benefit sections only.

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
Present value of defined benefit obligation	<b>47</b>	53	<b>47</b>	53
Fair value of plan assets	<b>36</b>	45	<b>36</b>	45
Deficit in the plan	<b>11</b>	8	<b>11</b>	8

**NOTE 37: CONTINGENT LIABILITIES, ASSETS AND COMMITMENTS**

The Group is a party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers and in managing its own risk profile. These financial instruments include commitments to extend credit, bill endorsements, financial guarantees, standby letters of credit and underwriting facilities.

The Group's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract or notional amount of those instruments. However, some commitments to extend credit and provide underwriting facilities can be cancelled or revoked at any time at the Group's option.

The Group uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The Group takes collateral where it is considered necessary to support, both on and off-balance sheet, financial instruments with credit risk. The Group evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral taken, if deemed necessary, on the provision of a financial facility is based on management's credit evaluation of the counterparty.



**ST.GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 37: CONTINGENT LIABILITIES, ASSETS AND COMMITMENTS (CONTINUED)**

Off-balance sheet credit-risk related financial instruments are as follows:

	Consolidated		Parent	
	Contract or notional value		Contract or notional value	
	2009	2008	2009	2008
	\$M	\$M	\$M	\$M
<b>Credit-risk related instruments</b>				
Standby letters of credit and financial guarantees	1,062	1,077	1,062	1,077
Trade letters of credit	51	214	51	214
Non-financial guarantees	22	21	22	21
Commitments to extend credit:				
Residual maturity less than one year	18,912	19,358	18,835	19,317
Residual maturity greater than one year	8,835	6,222	7,723	5,035
Commitment to controlled entities	-	-	640	1,700
Other commitments	1,016	694	1,016	694
<b>Total credit-risk related instruments</b>	<b>29,898</b>	<b>27,586</b>	<b>29,349</b>	<b>28,058</b>
Contingent liabilities	-	20	-	20
<b>Total</b>	<b>29,898</b>	<b>27,606</b>	<b>29,349</b>	<b>28,078</b>

	Consolidated				
	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years	Total
	\$M	\$M	\$M	\$M	\$M
<b>2009</b>					
<b>Credit risk related instruments and contingent liabilities</b>					
Standby letters of credit and financial guarantees	586	18	17	441	1,062
Trade letters of credit	51	-	-	-	51
Non-financial guarantees	8	-	-	14	22
Commitments to extend credit	18,912	1,758	1,072	6,005	27,747
Other commitments	1,014	-	2	-	1,016
<b>Total</b>	<b>20,571</b>	<b>1,776</b>	<b>1,091</b>	<b>6,460</b>	<b>29,898</b>
<b>2008</b>					
<b>Credit risk related instruments and contingent liabilities</b>					
Standby letters of credit and financial guarantees	566	26	16	469	1,077
Trade letters of credit	214	-	-	-	214
Non-financial guarantees	8	-	-	13	21
Commitments to extend credit	19,358	1,753	1,301	3,168	25,580
Other commitments	691	-	3	-	694
Contingent liabilities	20	-	-	-	20
<b>Total</b>	<b>20,857</b>	<b>1,779</b>	<b>1,320</b>	<b>3,650</b>	<b>27,606</b>

The credit commitments shown in the above table also constitute assets. These commitments would be classified as loans and other assets in the balance sheet on the contingent event eventuating.

The Parent entity is subject to a credit risk exposure in the event that another financial institution fails to settle for its payments clearing activities, in accordance with the regulations and procedures of the following clearing systems of the Australian Payments Clearing Association Limited: The Australian Paper Clearing System (Clearing Stream 1), the Bulk Electronic Clearing System (Clearing Stream 2), The Consumer Electronic Clearing System (Clearing Stream3) and the High Value Clearing System (Clearing Stream 4, only if operating in bypass mode). This credit risk exposure is unquantifiable in advance, but is well understood, and is extinguished upon settlement at 9am each business day.

Service contracts were entered into with the former Managing Director and current and former Group Executives. The maximum contingent liability for termination benefits under these employment contracts that has not been provided for in the financial statements is \$1 million (2008: \$10 million).

**NOTE 37: CONTINGENT LIABILITIES, ASSETS AND COMMITMENTS (CONTINUED)**

**Litigation**

Contingent liabilities exist in respect of actual and potential claims and proceedings. An assessment of the Group's likely loss has been made on a case-by-case basis for the purpose of the financial statements and specific provisions have been made where appropriate within the credit litigation provision.

**NOTE 38: FINANCIAL RISK MANAGEMENT**

The St.George Board has provided a delegation to the Westpac Board Risk Management Committee (BRMC) for approving and maintaining an effective risk management framework and monitors that delegation.

Management of the Group's risks is integrated into Westpac's risk management strategy. Risk is managed on a business unit basis that comprises both the Group's and Westpac's operations where applicable. This strategy is approved by the Board and the Westpac Board and implemented through Westpac's Chief Executive Officer and the executive management team.

Westpac's Chief Executive Officer and executive management team are responsible for implementing the risk management frameworks approved by the BRMC and developing policies, controls, processes and procedures for identifying and managing risks arising from the Group's activities.

Westpac's Group Risk function plays a key role in the risk management framework. It is independent from business units and reports to Westpac's Chief Risk Officer.

Independent risk management units operate within each Westpac Group business unit (including those operated by entities in the Group) that have responsibility for both that business and the Group functions. They report to the Group Executive for that unit and the Chief Risk Officer. The business unit head of risk is responsible for identifying and quantifying the risks from their business and implementing appropriate policies, procedures and controls to manage those risks. They also ensure alignment with the Group Risk function.

An independent review of management performance is undertaken by Westpac's Group Assurance function. This function comprises the portfolio risk review unit, which is responsible for reviewing credit quality and assessing credit management process quality, credit policy appropriateness and compliance and adequacy of provisions. Internal Audit is responsible for independently evaluating the adequacy and effectiveness of management's control of operational risk.

The Group distinguishes the following types of risks:

Type of risk	Description
<b>Financial instrument risk</b>	<ul style="list-style-type: none"> <li>• <b>credit risk</b> – the risk of financial loss where a customer or counterparty fails to meet their financial obligations.</li> <li>• <b>market risk</b> – the risk to earnings from changes in market factors, such as interest rates, foreign exchange and equity price risk.</li> <li>• <b>operational risk</b> – the risk that arises from inadequate or failed internal processes, people and systems or from external events. This includes compliance risk – the risk of legal or regulatory sanction, financial or reputation loss arising from the Group's failure to apply the regulatory standards expected from a financial services group.</li> <li>• <b>liquidity risk</b> – the risk of not meeting the Group's payment obligations, which could arise as a result of mismatched cash flows generated by the Group's business.</li> </ul>
<b>Other related risks</b>	<ul style="list-style-type: none"> <li>• <b>insurance risk</b> – the risk of not being able to meet insurance claims arising from contracts issued by Group subsidiaries.</li> <li>• <b>model risk</b> – the risk of financial, reputation or operational losses arising because of a model.</li> <li>• <b>reputation risk</b> – the risk to earnings or capital arising from negative public opinion resulting from the loss of reputation or public trust and standing. This risk encompasses social, ethical and environmental risks arising out of areas such as people management, climate change governance, and supply chain management.</li> <li>• <b>business risk</b> – the risk associated with the vulnerability of a line of business to changes in the business environment.</li> <li>• <b>contagion risk</b> – the risk that problems arising in other Westpac/St.George Group members may compromise the financial and operating position of the Group.</li> </ul>

The Westpac Group takes an integrated approach to managing these interlinked risks.

**NOTE 38: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**CREDIT RISK**

Credit risk is the risk of financial loss that results from customers or counterparties failing to meet their financial obligations, including obligations that exist via direct loans, contingent liabilities and financial market activities.

(i) Credit risk management policy

The Parent entity governs and manages its credit risk management framework and responsibilities within the authorities and lending parameters adopted by the Westpac Group. This framework clearly defines roles and responsibilities, acceptable practices, lending policies and guidelines, provides asset concentration limits, customer exposure limits and policy definition for the treatment of exceptions.

The Risk Management Governance Framework describes the principles, methods, systems, roles and responsibilities, key reports and controls to manage credit within the Group. The Westpac Group rating system philosophy is used by the Group. Policies are held governing exposures to individual counterparties and specific industries (e.g. property).

The Group operates under a formal Delegated Risk Authority for approving credit, which is delegated by the Board to the Chief Risk Officer of the Westpac Group and by the Chief Risk Officer of the Westpac Group to the Group's General Manager Risk & Compliance. Decisions beyond this level of authority are referred to Westpac. The Group's General Manager Risk and Compliance is responsible for delegating credit approval authority to responsible individuals across the Group.

Credit Manuals for commercial lending are maintained for the Group by the independent Risk & Compliance unit. Decisions for changes to policy are provided by Westpac Group Risk as required. Retail Banking lending manuals are supported by Westpac Product and Operations.

The Group has established a Related Entity Risk Management Framework and supporting policies to govern the limits and management of exceptions for lending to related entities, so as to minimise contagion risk for the extended licensed entity and to ensure compliance with the prudential limits prescribed by APRA.

(ii) Provisions for loan impairment

Provisions for loan impairment represent management's best estimate of losses incurred in the loan portfolios as at the balance date. There are two components of the Group's loan impairment provisions, individually assessed provisions and collectively assessed provisions. In determining the individual component relevant considerations that have a bearing on the expected future cash flows are taken into account, for example business prospects of customer, the realisable value of the collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. These judgments and estimates can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are made.

The collective component is established on a portfolio basis taking into account the level of arrears, collateral, past loss experience and expected defaults based on portfolio trends. The most significant factors in establishing these provisions are estimated loss rates and related emergence period. The future credit quality of these provisions is subject to uncertainties that could cause actual credit losses to differ from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, unemployment levels, payment behaviour and bankruptcy rates.

(iii) Internal credit risk ratings system

The Group has adopted the Westpac credit risk rating systems. The principal objective of the credit risk rating system is to produce a reliable quantitative assessment of the credit risk to which the Group is exposed.

Westpac Group's internal credit risk rating system for transaction-managed customers assigns a Customer Risk Grade (CRG) to each customer, corresponding to their expected probability of default (PD). Each facility is assigned a loss given default (LGD). The Westpac Group risk rating system has 20 risk grades for non-defaulted customers and 10 risk grades for defaulted customers. Non-defaulted CRGs are mapped to Moody's and Standard and Poor's (S&P) external senior ranking unsecured ratings. Customers that are not transaction-managed (referred to as the program-managed portfolio) are segmented into pools of similar risk. Segments are created by analysing characteristics that have historically proven predictive in determining if an account is likely to go into default. Customers are then grouped according to these predictive characteristics and each segment assigned a PD and LGD.

The table below shows the current alignment between Westpac Group's CRGs and the corresponding external rating. Note that only high-level CRG groupings are shown and each segment is assigned a PD and LGD.

<b>Financial Statement Disclosure</b>	<b>Westpac CRG</b>	<b>Moody's Rating</b>	<b>S&amp;P Rating</b>
Strong	A	Aaa - Aa3	AAA - AA-
	B	A1 - A3	A+ - A-
	C	Baa1 - Baa3	BBB+ - BBB-
	D	Ba1 - B1	BB+ - B+
<b>Financial Statement Disclosure</b>	<b>Westpac CRG</b>	<b>Definitions</b>	
Weak	E	Watchlist	
	F	Special Mention	
Weak/Default	G - H	Substandard/Default	

**NOTE 38: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**CREDIT RISK (CONTINUED)**

(iii) Internal credit risk ratings system (continued)

Westpac Group's credit risk rating system is reviewed annually to confirm that the rating criteria and procedures are appropriate given the current portfolio and external conditions. The Board Risk Management Committee monitors the risk profile, performance and management of Westpac Group's credit portfolio and development and review of credit risk policies. All models materially impacting the risk rating process are validated in accordance with Westpac Group's model risk policy. Specific credit risk estimates (including PD, LGD and exposure at default (EAD) levels) are overseen and approved by Westpac's Credit Risk Estimates Committee (a subcommittee of Westpac's Group Credit Risk Committee). These estimates are reviewed annually.

(iv) Credit risk mitigation, collateral and other credit enhancements

The Group uses a wide variety of techniques to reduce the credit risk arising from its lending activities. The Group commonly obtains security for the funds advanced. The Group ensures that enforceable legal documentation is held which establishes the Group's direct, irrevocable and unconditional recourse to any collateral, security and other credit enhancements provided.

The table below describes the nature of collateral held for financial asset classes:

Cash and balances with central banks	These exposures are generally considered to be low risk due to the nature of the counterparties. Collateral is generally not sought on these balances.
Due from other financial institutions	These exposures are generally held to be low risk due to the credit risk grade of the counterparties. Collateral is generally not sought on these balances.
Derivative financial instruments	Where possible, credit risk is minimised through the use of netting agreements enabling derivative assets and liabilities with the same counterparty to be offset.  Collateral may also be sought where this is deemed prudent depending upon the nature of the transaction and the creditworthiness of the counterparty.
Trading assets	These exposures are carried at fair value, which reflects the credit risk. No collateral is sought directly from the issuer or the counterparty, however this may be implicit in the terms of the instrument.
Available for sale securities	Collateral is not sought directly with respect to these exposures: however collateralisation may be implicit in the structure of the asset.
Loans for consumer purposes	Loans for retail purposes may be secured, partially secured or unsecured depending on the product. Security is typically taken by a fixed and/or floating charge over the property or other assets.
Loans for business purposes <sup>(1)</sup>	Loans for business purposes may be secured, partially secured or unsecured. Security is typically taken by a fixed and/or floating rate charge over the property, business assets, or other assets. Other forms of credit protection may also be sought or taken out if warranted.
Due from subsidiaries	These exposures are generally considered low risk due to the nature of the counterparties. Collateral is generally not sought on these balances.

<sup>(1)</sup> This includes collateral held in relation to credit commitments.

The Group recognises the following as eligible collateral for credit risk mitigation by way of reduction:

- cash;
- bonds as issued by the Australian Commonwealth, State and Territory governments or their Public Sector Enterprises;
- securities issued by other specified AAA-rated sovereign governments; and
- credit-linked notes (provided the proceeds are invested in cash or other eligible collateral described above).

The Group facilitates the management of its credit exposures through:

- collateral valuation and management;
- credit portfolio management; and
- balance sheet netting.

**NOTE 38: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**CREDIT RISK (CONTINUED)**

(v) Collateral valuation and management

The Group revalues collateral related to financial markets positions on a daily basis to monitor the net risk position, and has formal processes in place to ensure calls for collateral top-up or exposure reduction are made promptly. An independent operational unit has responsibility for monitoring these positions. The collateralisation arrangements are documented via the Support Annex of the International Swaps and Derivatives Association (ISDA) dealing agreement.

(vi) Balance sheet netting

Risk reduction by way of current account set-offs is recognised for exposures to creditworthy customers. Customers are required to enter into formal agreements giving the Group unfettered right to set-off gross credit and debit balances in their nominated accounts to determine the Group's net exposure. Close-out netting is undertaken for off balance sheet financial market transactions with counterparties with whom the Group entered into master dealing agreements, which allow such netting. Close-out netting effectively aggregates pre-settlement risk exposure at time of default, thus reducing overall exposure.

(vii) Credit risk concentrations

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Group monitors its credit portfolio to manage risk concentrations. Exposures to businesses, governments and other financial institutions are classified into a number of industry clusters based on groupings of related ANZSIC codes and are monitored against industry exposure boundaries. The level of industry risks is measured on a dynamic basis. Exposures are actively managed from a portfolio perspective with risk mitigation techniques used to re-balance the portfolio.

**Maximum exposure to credit risk**

The following table presents the maximum exposure to credit risk of on balance sheet and off balance sheet financial instruments (including financial guarantees and loan commitments), before the benefit of any collateral or other credit enhancements, except where the requirements for offsetting financial assets and liabilities contained in Note 1(AA) have been satisfied. For on balance sheet financial assets, the exposure to credit risk equals their carrying amounts. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that would have to be paid if the guarantees are called upon. Loan commitments represent the unused portions of authorisations to extend credit in the form of loans. For loan commitments and other credit commitments that are irrevocable over the life of the facility, the maximum exposure to credit risk is the full amount of the committed facilities. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

	Consolidated		Parent	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
<b>On balance sheet</b>				
Cash and liquid assets	752	713	752	713
Receivables due from other financial institutions	3,519	10,485	3,518	10,365
Assets at fair value through the income statement	1,019	7,276	997	7,455
Derivative assets	2,266	3,389	2,250	3,010
Available for sale investments	578	2,747	11,838	6,234
Loans and other receivables (net of provisions)	128,894	119,988	111,792	99,678
Amounts receivable from controlled entities	-	-	6,178	4,277
	<b>137,028</b>	<b>144,598</b>	<b>137,325</b>	<b>131,732</b>
<b>Off balance sheet</b>				
Commitments	28,763	26,274	28,214	26,746
Other	1,135	1,312	1,135	1,312
	<b>29,898</b>	<b>27,586</b>	<b>29,349</b>	<b>28,058</b>
<b>Total exposure <sup>(1)</sup></b>	<b>166,926</b>	<b>172,184</b>	<b>166,674</b>	<b>159,790</b>

<sup>(1)</sup> Maximum credit exposure before considering collateral held or other credit enhancements available.

**NOTE 38: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**CREDIT RISK (CONTINUED)**

**Collateral and other credit enhancements**

The Group mitigates its credit risk through holding collateral against certain types of customer lending, which is an important mitigant of credit risk. The Group regularly reviews its policies and procedures in relation to the acceptability of specific classes of collateral or credit risk mitigant and their valuation guidelines. The principal types of collateral or other credit enhancements held by the Group include:

- Mortgages over residential properties.
- Charges over business assets or properties being financed for commercial lending.

The Group performs an assessment of the value of any collateral or other credit enhancements obtained as part of its credit risk evaluation processes prior to the establishment of a loan facility. In the event of a customer facility being classified as impaired, the Group performs an assessment of the value of all relevant collateral and other credit enhancements in order to determine the required amount of any individually assessed loan impairment provision. The Group does not disclose the fair value of collateral held as security or other credit enhancements for past due loans and receivables as it is not practicable to do so. The fair value of collateral held as security for impaired loans is disclosed at (iii) Impaired Financial Assets.

Debt securities and other treasury securities are generally unsecured with the exception of asset backed securities and similar instruments, which are secured by pools of financial assets.

The ISDA Master Agreement provides a contractual framework for derivatives dealing across a full range of over the counter products. This agreement contractually binds both parties to apply close out netting across all outstanding transactions covered by an agreement if either party defaults or other pre-agreed termination events occur.

**Credit quality**

The Westpac's Group's credit risk grading processes, which are used by the Group, are designed to identify exposures that require closer management attention due to their greater probability of default and potential loss.

In measuring credit risk, the Group calculates three components (i) the "probability of default" by the counterparty on its contractual obligations; (ii) the estimated loss amount should the counterparty default (the "loss given default"); and (iii) the estimated exposure amount should the counterparty default (the "exposure at default").

The Group assesses the probability of default, loss given default and exposure at default of individual counterparties using grading models and systems tailored to the various categories of counterparty. The grading models have been developed internally, their outputs are validated regularly and the models updated when required.

The Group's credit risk grading models and systems are fundamental to the management of credit risk. Probability of default, loss given default, and exposure at default are important inputs to collective provisioning and economic capital calculations and are used to inform pricing and other operational credit decisions.

**Impaired loans and advances**

For individually assessed accounts, loans are treated as impaired as soon as there is objective evidence that an impairment loss has been incurred. The criteria used by the Group to determine if there is any objective evidence of impairment includes:

- Known cash flow difficulties experienced by the borrower;
- Overdue contractual payments of either principal or interest;
- Breach of loan covenants or conditions;
- The actual or probable likelihood that the borrower will enter bankruptcy or other formal administration; and
- A significant downgrading in credit rating by an external credit rating agency.

When impairment losses are recognised, the carrying amount of loans and other receivables is reduced through the use of a provision for impairment.

All loans and advances that do not have an individually assessed provision are collectively assessed for impairment.

**NOTE 38: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**CREDIT RISK (CONTINUED)**

**Individually assessed impairment provisions**

Individual impairment provisions are determined by evaluating the exposure to loss on a case-by-case basis. In determining allowances on individually assessed accounts, the factors considered include:

- The Group's aggregate exposure to the customer;
- The viability of the customer's business model and their capacity to trade successfully out of financial difficulties, generating sufficient cash flow to service debt obligations;
- The amount and timing of expected receipts and recoveries;
- The extent of other creditors' commitments ranking ahead of, or pari passu, with the Group and the likelihood of other creditors continuing to support the company;
- The realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- The likely dividend available on liquidation or bankruptcy;
- The likely deduction of any costs involved in recovering amounts outstanding; and
- When available, the secondary market price of the debt.

Individual impairment provisions are established based primarily on estimates of the realisable value of security and are measured as the difference between the asset's carrying amount and the present value of the expected future cash flows, discounted at the asset's original effective interest rate.

Group policy requires the level of impairment allowances on individual facilities that are above materiality thresholds to be reviewed at least semi-annually, and more regularly where circumstances require. The review normally encompasses collateral held (including re-confirmation of its enforceability) and an assessment of actual and anticipated receipts. Individually assessed impairment allowances are only reversed when the Group has reasonable and objective evidence of a reduction in the established loss estimate.

**Collectively assessed impairment provisions**

The collective component is established on a portfolio basis taking into account the level of arrears, collateral, past loss experience and defaults based on portfolio trends. The most significant factors in establishing these provisions are estimated loss rates and related emergence period. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, unemployment levels, payment behaviour and bankruptcy rates.

**Credit quality of financial assets<sup>(1)</sup>**

The following table provides an overview of the credit quality of the Group's financial assets.

	<b>Consolidated</b>					
	Neither past due nor impaired \$M	Past due but not impaired \$M	Impaired \$M	Total \$M	Impairment provision \$M	Total carrying value \$M
<b>2009</b>						
Cash and liquid assets	752	-	-	752	-	752
Receivables due from other financial institutions	3,519	-	-	3,519	-	3,519
Assets at fair value through the income statement	1,019	-	-	1,019	-	1,019
Derivative assets	2,266	-	-	2,266	-	2,266
Available for sale investments	578	-	-	578	-	578
Loans	125,463	3,632	1,173	130,268	(1,374)	128,894
<b>Total financial assets</b>	<b>133,597</b>	<b>3,632</b>	<b>1,173</b>	<b>138,402</b>	<b>(1,374)</b>	<b>137,028</b>
<b>2008</b>						
Cash and liquid assets	713	-	-	713	-	713
Receivables due from other financial institutions	10,485	-	-	10,485	-	10,485
Assets at fair value through the income statement	7,276	-	-	7,276	-	7,276
Derivative assets	3,389	-	-	3,389	-	3,389
Available for sale investments	2,747	-	-	2,747	-	2,747
Loans	116,387	3,793	219	120,399	(411)	119,988
<b>Total financial assets</b>	<b>140,997</b>	<b>3,793</b>	<b>219</b>	<b>145,009</b>	<b>(411)</b>	<b>144,598</b>

(1) For the purposes of this note, financial assets have been excluded where the predominant risk is not credit risk.

**ST.GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES**  
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**NOTE 38: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**CREDIT RISK (CONTINUED)**

	<b>Parent</b>					
	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Impairment provision	Total carrying value
	\$M	\$M	\$M	\$M	\$M	\$M
<b>2009</b>						
Cash and liquid assets	752	-	-	752	-	752
Receivables due from other financial institutions	3,518	-	-	3,518	-	3,518
Assets at fair value through the income statement	997	-	-	997	-	997
Derivative assets	2,250	-	-	2,250	-	2,250
Available for sale investments	11,838	-	-	11,838	-	11,838
Loans	108,990	2,958	1,103	113,051	(1,259)	111,792
Amounts receivable from controlled entities	6,178	-	-	6,178	-	6,178
<b>Total financial assets</b>	<b>134,523</b>	<b>2,958</b>	<b>1,103</b>	<b>138,584</b>	<b>(1,259)</b>	<b>137,325</b>
<b>2008</b>						
Cash and liquid assets	713	-	-	713	-	713
Receivables due from other financial institutions	10,365	-	-	10,365	-	10,365
Assets at fair value through the income statement	7,455	-	-	7,455	-	7,455
Derivative assets	3,010	-	-	3,010	-	3,010
Available for sale investments	6,234	-	-	6,234	-	6,234
Loans	96,861	3,011	188	100,060	(382)	99,678
Amounts receivable from controlled entities	4,277	-	-	4,277	-	4,277
<b>Total financial assets</b>	<b>128,915</b>	<b>3,011</b>	<b>188</b>	<b>132,114</b>	<b>(382)</b>	<b>131,732</b>

**(i) Financial assets neither past due or impaired**

The credit quality of financial assets of the Group that are neither past due or impaired, have been assessed by reference to the credit risk rating system adopted internally:

	<b>Consolidated</b>							
	<b>2009</b>				<b>2008</b>			
	Strong	Good/ satisfactory	Weak	Total	Strong	Good/ satisfactory	Weak	Total
\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Cash and liquid assets	752	-	-	752	713	-	-	713
Receivables due from other financial institutions	3,419	100	-	3,519	9,846	639	-	10,485
Assets at fair value through the income statement	1,019	-	-	1,019	7,275	1	-	7,276
Derivative assets	2,008	218	40	2,266	3,198	190	1	3,389
Available for sale investments	514	64	-	578	2,663	84	-	2,747
Loans	2,106	119,160	4,197	125,463	109	114,605	1,673	116,387
<b>Total financial assets</b>	<b>9,818</b>	<b>119,542</b>	<b>4,237</b>	<b>133,597</b>	<b>23,804</b>	<b>115,519</b>	<b>1,674</b>	<b>140,997</b>
	<b>Parent</b>							
	<b>2009</b>				<b>2008</b>			
	Strong	Good/ satisfactory	Weak	Total	Strong	Good/ satisfactory	Weak	Total
\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Cash and liquid assets	752	-	-	752	713	-	-	713
Receivables due from other financial institutions	3,418	100	-	3,518	9,726	639	-	10,365
Assets at fair value through the income statement	997	-	-	997	7,455	-	-	7,455
Derivative assets	1,992	218	40	2,250	2,819	190	1	3,010
Available for sale investments	11,774	64	-	11,838	6,150	84	-	6,234
Loans	1,935	103,020	4,035	108,990	109	95,155	1,597	96,861
Amounts receivable from controlled entities	6,178	-	-	6,178	4,277	-	-	4,277
<b>Total financial assets</b>	<b>27,046</b>	<b>103,402</b>	<b>4,075</b>	<b>134,523</b>	<b>31,249</b>	<b>96,068</b>	<b>1,598</b>	<b>128,915</b>



**ST.GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES**  
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**NOTE 38: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**CREDIT RISK (CONTINUED)**

**(ii) Financial assets that were past due but not impaired**

Loans and other receivables where contractual interest or principal payments are past due and where the level of collateral available or the stage of collection supports the collectibility of the amount owed are not considered to be impaired. Examples of exposures designated as past due but not considered impaired include loans fully secured by cash collateral and residential mortgages in arrears more than 90 days, but where the value of collateral is sufficient to repay both the principal and potential interest for one year. The gross amount of loans and other receivables that were past due but not impaired were as follows:

	Consolidated							
	2009				2008			
	1 - 5 days \$M	6 - 89 days \$M	90+ days \$M	Total \$M	1 - 5 days \$M	6 - 89 days \$M	90+ days \$M	Total \$M
Loans								
Loans for consumer purposes	723	1,540	260	2,523	813	1,771	238	2,822
Loans for business purposes	84	502	523	1,109	134	533	304	971
<b>Total financial assets</b>	<b>807</b>	<b>2,042</b>	<b>783</b>	<b>3,632</b>	<b>947</b>	<b>2,304</b>	<b>542</b>	<b>3,793</b>

	Parent							
	2009				2008			
	1 - 5 days \$M	6 - 89 days \$M	90+ days \$M	Total \$M	1 - 5 days \$M	6 - 89 days \$M	90+ days \$M	Total \$M
Loans								
Loans for consumer purposes	569	1,222	235	2,026	614	1,385	202	2,201
Loans for business purposes	50	370	512	932	85	427	298	810
<b>Total financial assets</b>	<b>619</b>	<b>1,592</b>	<b>747</b>	<b>2,958</b>	<b>699</b>	<b>1,812</b>	<b>500</b>	<b>3,011</b>

The above ageing analysis includes past due loans and receivables that have collective impairment provisions to cover credit losses on loans that are in the early stages of arrears.

No receivables due from other financial institutions were past due as at 30 September 2009 or 30 September 2008.

It has not been practicable to determine the fair value of collateral held against past due loans for consumer or business purposes. The following analysis shows the collateral held in support of past due, but not impaired financial assets, determined based on the value of collateral on the date of origination. A financial asset is deemed to be fully secured where the loan to valuation ratio (LVR) is less than 100%, partially secured financial assets have an LVR more than 115%. Unsecured financial assets primarily include highly rated corporate loans, credit cards and personal loans. Financial assets that were past due, but not impaired can be disaggregated based on the level of collateral held as follows:

	Consolidated					
	2009			2008		
	Loans for consumer purposes %	Loans for business purposes %	Total %	Loans for consumer purposes %	Loans for business purposes %	Total \$M
Fully secured	82.3	58.8	75.1	84.8	67.5	80.4
Partially secured	0.2	23.7	7.4	0.2	25.4	6.7
Unsecured	17.5	17.5	17.5	15.0	7.1	12.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

	Parent					
	2009			2008		
	Loans for consumer purposes %	Loans for business purposes %	Total %	Loans for consumer purposes %	Loans for business purposes %	Total \$M
Fully secured	87.1	68.8	81.3	86.6	77.6	84.2
Partially secured	0.2	25.3	8.1	0.1	16.7	4.6
Unsecured	12.7	5.9	10.6	13.3	5.7	11.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

**ST.GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES**  
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**NOTE 38: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**CREDIT RISK (CONTINUED)**

**(iii) Impaired financial assets**

The breakdown of impaired loans and advances and associated impairment provisions are as follows:

Impaired loans	Consolidated		Parent	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
<b>Individually impaired</b>				
Gross loans	995	140	965	134
Less: impairment provision	(292)	(41)	(276)	(38)
Net non-performing loans	<b>703</b>	<b>99</b>	<b>689</b>	<b>96</b>
<b>Collectively impaired</b>				
Gross loans	178	79	138	54
Less: impairment provision	(75)	(26)	(57)	(23)
Net non-performing loans	<b>103</b>	<b>53</b>	<b>81</b>	<b>31</b>
<b>Renegotiated loans</b>				
Gross loans	-	-	-	-
Less: specific provisions	-	-	-	-
Net renegotiated loans	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Assets acquired through security enforcement</b>				
Gross loans	-	-	-	-
Net assets acquired through security enforcement	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net total impaired assets</b>	<b>806</b>	<b>152</b>	<b>770</b>	<b>127</b>

It has not been practicable to determine the fair value of collateral held against impaired loans for consumer or business purposes. The following analysis shows the collateral held in support of impaired financial assets, determined based on the value of collateral on the date of origination. A financial assets is deemed to be fully secured where the loan to valuation ratio (LVR) is less than 100%, partially secured financial assets have an LVR more than 115%. Unsecured financial assets primarily include highly rated corporate loans, credit cards and personal loans. Financial assets that were deemed to be impaired can be disaggregated based on the level of collateral held as follows:

	Consolidated					
	2009			2008		
	Loans for consumer purposes %	Loans for business purposes %	Total %	Loans for consumer purposes %	Loans for business purposes %	Total \$M
Fully secured	50.3	33.2	34.7	33.3	6.2	16.0
Partially secured	0.4	14.7	13.4	2.2	65.9	43.0
Unsecured	49.3	52.1	51.9	64.5	27.9	41.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
	Parent					
	2009			2008		
	Loans for consumer purposes %	Loans for business purposes %	Total %	Loans for consumer purposes %	Loans for business purposes %	Total \$M
Fully secured	56.5	30.5	32.6	35.3	6.1	16.3
Partially secured	0.3	15.1	13.9	0.9	66.6	43.6
Unsecured	43.2	54.4	53.5	63.8	27.3	40.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

**NOTE 38: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**CREDIT RISK (CONTINUED)**

**Renegotiated loans**

Renegotiated loans are facilities whose terms have been renegotiated and would otherwise be classified as past due or impaired. Renegotiation of customer loans is designed to maximise collection opportunities and, if possible, avoid foreclosure or repossession to maintain customer relationships. Renegotiated loan policies and processes are maintained and are product specific. At 30 September 2009, the Group and the Parent entity had \$Nil (2008: \$Nil) of renegotiated facilities.

**Collateral and other credit enhancements obtained**

The Group can obtain assets by taking possession of collateral held as security, or calling upon other credit enhancements.

Where a customer defaults on a facility, the associated security is usually held as mortgagee in possession and as a result, the Group does not usually hold real estate or other assets acquired through the enforcement of security.

Repossessed properties are sold as soon as practical, with the proceeds used to reduce or repay the outstanding loan balance. Where excess funds are available after the debt has been repaid, they are available either for other lower priority secured lenders or are returned to the customer.

As at 30 September 2009, the carrying amount of collateral or other credit enhancement obtained totalled \$Nil (30 September 2008: \$Nil) for the Group and the Parent entity.

**MARKET RISK**

Market risk is the potential for loss arising from adverse movements in the level and volatility of market factors such as foreign exchange rates and interest rates. The Group's exposure to market risk arises from its Financial Markets and Treasury activities which are managed in accordance with Westpac Group's policies.

The Group separates exposures to market risks into those arising from trading and non-trading activities. Trading risk include those positions arising from facilitating customer transactions. Non-trading risk primarily arises from the interest rate management of the Group's retail and commercial banking assets and liabilities.

The following sections discuss exposures to market risks on both trading and non-trading portfolios and the policies and processes employed to manage these risks.

**Market risks on trading portfolios**

Traded market risk arises from the facilitation of customer transactions, the risk management of liquid asset holdings and the wholesale funding task. Trading risk is managed in the Westpac and St.George dealing rooms by Financial Markets, Westpac Institutional Bank (FM WIB) and Group Treasury-Portfolio Risk Management (Treasury-PRM). These activities are controlled by a Board-approved market risk framework that incorporates a Board-approved Value at Risk (VaR) limit. VaR is the primary mechanism for measuring and controlling market risk and is supported with structural risk limits, scenario analysis and stress testing.

Market risk limits are allocated to business management based upon business strategies and experience, in addition to market liquidity and concentration risk. All trades are marked to market daily, using independently sourced or reviewed rates. Rates that have limited independent sources are reviewed at least on a monthly basis.

The Westpac Group's Market Risk Management unit is responsible for the daily measurement and monitoring of market risk exposures.

The St.George Bank VaR model is based upon a Monte Carlo approach using 2 years of time weighted historical data. VaR takes account of all material market variables that may cause a change in the value of the St.George trading portfolio, including interest rates, foreign exchange rates, volatility, and the correlation among these variables. Actual and hypothetical profit and loss outcomes are monitored against VaR on a daily basis to ensure that model integrity is maintained. Daily stress and scenario tests on the trading portfolios are performed to quantify the impact of extreme or unexpected movements in market factors beyond the 99% confidence interval.

**NOTE 38: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**MARKET RISK (CONTINUED)**

The following table provides a summary of VaR on St.George trading portfolios by total room and by trading unit for the years ended 30 September 2009 and 30 September 2008.

For the year ended 30 September (\$'000)	2009				2008			
	Year end	Low	High	Average	Year end	Low	High	Average
<b>Consolidated</b>								
Foreign exchange VaR	63	11	709	188	103	73	1,296	291
Domestic VaR	1,347	761	3,768	1,675	2,501	401	3,327	1,814
Total room risk	1,384	838	3,716	1,715	2,482	472	3,619	1,855
<b>Parent</b>								
Foreign exchange VaR	63	11	709	188	103	73	1,296	291
Domestic VaR	1,347	761	3,768	1,675	2,501	401	3,327	1,814
Total room risk	1,384	838	3,716	1,715	2,482	472	3,619	1,855

Note: The table above incorporates all options risk. VaR is calculated at a 99% confidence interval for a one day holding period using end of day trading positions.

**Market risks on non-trading portfolios**

Market risk on non-trading portfolios arises from a variety of sources, including mismatches between the repricing periods of assets and liabilities. The principal objective of market risk management on non-trading portfolios is to minimise earnings fluctuations from volatility in movements in interest income while maximising shareholder value.

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

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk arises from a variety of sources including mismatches between the repricing period of assets and liabilities. As a result of these mismatches, movements in interest rates can affect current and future period expected net interest income or value.

Interest rate risk is monitored by the independent Market Risk Management unit to ensure that aggregate exposure to interest rate risk is contained within policy guidelines and defined limits commensurate with overall "risk appetite" and strategic objectives set by the Westpac Board Risk Management Committee (BRMC). The Parent entity's non-traded interest rate risk position is reported to the Westpac Group Market Risk Committee (MARCO) at least monthly and to BRMC quarterly.

The non-traded interest rate risk management system integrates risk parameters, product design, pricing policies and forecasts of the balance sheet and yield curve. Key modelling assumptions are regularly reviewed to take into account both historical relationships and the current market environment. Measures used to monitor and report the interest rate risk for non-trading portfolios include VaR, being a statistical estimate of losses due to general market price movements, calculated to a 99% confidence level. This means that losses greater than the Group's VaR estimate should not occur more than once in 100 days on average. In an extreme event, losses could exceed the estimated VaR.

The VaR model assumes a 1 day "holding period". It also assumes that market moves occurring over this holding period will follow a similar pattern to those that have occurred over 1 day periods in the past. The assessment of past movements is based on a 1 year history of interest rate data. Historical changes in rates are applied directly to current positions – a method known as historical simulation. Following the merger between St.George and Westpac the holding period and data history previously applied were changed to be consistent with the methodology used by Westpac. The holding period measure was therefore moved from a 5-day to a 1-day basis and the data history used for historical simulation was changed from a 5-year to a 1-year period.

To supplement VaR monitoring processes, stress tests are used to provide an assessment of the impact of extreme events or market shocks, on both an earnings and value basis. Gap limits are set by Market Risk Management to control undue risk concentrations within the portfolio.

**NOTE 38: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**MARKET RISK (CONTINUED)**

The following table provides VaR for interest rate risk on non-trading portfolios. Prior period VaR results have been scaled from 5-day to 1-day for purposes of comparison with current results:

For the year ended 30 September (\$'000) <sup>1</sup>	2009				2008			
	Year end	Low	High	Average	Year end	Low	High	Average
<b>Consolidated</b>								
Domestic VaR	2,129	742	11,497	3,605	3,584	3,066	12,568	7,051
<b>Parent</b>								
Domestic VaR	2,129	742	11,497	3,605	3,584	3,066	12,568	7,051

1. For purposes of comparison with prior years, previous 5-day VaR results have been scaled back to 1-day VaR equivalents by dividing by the square root of 5.

**(ii) Foreign exchange risk in non-trading activities**

The Group's policy is to maintain a hedged position in relation to on-balance sheet foreign exchange positions.

**LIQUIDITY AND FUNDING RISK**

Liquidity risk is the potential inability to meet the Group's payment obligations, which could potentially arise as a result of mismatched cash flows generated by the business. This risk is managed through Westpac's BRMC-approved liquidity framework. The St.George Board oversees the management of liquidity and funding risk.

Responsibility for liquidity management is delegated to Westpac's Group Treasury, under oversight of the MARCO. Group Treasury manage liquidity on a daily basis and submit monthly reports to MARCO and quarterly reports to the BRMC. Monthly reports are provided to APRA. Group Treasury is also responsible for monitoring the Group's funding base and ensuring that it is prudently maintained and adequately diversified.

The liquidity risk management framework models the Group's ability to obtain funding under normal conditions and during a crisis situation. This approach is designed to ensure that the funding framework is sufficiently flexible to ensure liquidity under a wide range of market conditions. The global liquidity management framework is reviewed annually to ensure it is appropriate for the Group's current and planned activities. The annual review encompasses the funding scenarios modelled, the modelling approach, wholesale funding capacity, limit determination and minimum holdings of liquid assets. MARCO and GRRC review the liquidity framework prior to approval by the BRMC.

Group Treasury also undertakes an annual funding review that outlines the current funding strategy for the coming year. This review encompasses trends in global debt markets, peer analysis, wholesale funding capacity, estimation of the Group's upcoming funding requirements, and a funding risk analysis. MARCO and GRRC review the annual funding plan prior to approval by the BRMC.

Westpac maintain a Group contingency funding plan that details the broad actions to be taken in response to severe disruptions in St.George's ability to fund some or all of its activities in a timely manner and at a reasonable cost. This document is reviewed annually and defines a committee of senior executives to manage a crisis and allocates responsibility to individuals for key tasks. A media relations strategy and detailed contact lists are also incorporated into this document.

**Sources of liquidity**

Sources of liquidity are regularly renewed to maintain a wide diversification by currency, geography, product and term. Sources include, but are not limited to:

- deposits;
- funding from Westpac in accordance with the Master Funding Agreement (MFA);
- debt issues;
- proceeds from sale of marketable securities;
- repurchase agreements with central banks;
- principal repayments on loans;
- interest income; and
- fee income.

Other than the MFA, the Group does not rely on committed funding lines as a source of liquidity. In management's opinion, liquidity is sufficient to meet the Group's present and anticipated requirements.

**NOTE 38: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**LIQUIDITY AND FUNDING RISK (CONTINUED)**

**Wholesale funding and ultimate parent entity funding**

The Group does not undertake any further wholesale funding on its own account as principal. In accordance with the MFA entered into with Westpac on 1 December 2008, the Group obtains all its new wholesale funding from Westpac.

At 30 September 2009, approximately 49% of the Group's funding was provided by retail sources and 51% was provided by wholesale sources (including the MFA).

More detailed analysis of the Group's borrowings and outstandings can be found in other notes to the financial statements including Note 20, Note 21, Note 23 and Note 24.

**Credit ratings**

As at 30 September 2009 the Group's credit ratings were:

	2009			2008		
	Short	Long	Outlook	Short	Long	Outlook
<b>Standard &amp; Poor's</b>	A-1+	AA	Stable	A-1	A+	Rating watch positive
<b>Moody's Investors Services</b>	P-1	Aa1	Rating watch negative	P-1	Aa2	Under review – direction uncertain
<b>Fitch Ratings</b>	F1+	AA-	Stable	F-1	A+	Rating watch positive

A credit rating is not a recommendation to buy, sell or hold securities. Such ratings are subject to revision or withdrawal at any time by the assigning rating agency. Investors are cautioned to evaluate each rating independently of any other rating.

**Liquid assets**

The Group holds a minimum of \$2 billion (approximately \$13 billion including internal securitisations) in a portfolio of high quality liquid assets as a buffer against unforeseen funding requirements. These assets are typically held either in cash, government, semi-government, or highly rated investment grade paper, and are typically eligible for repurchase with a central bank. These assets are held domestically in Australia.

**Scenario analysis**

In fulfilling the Group's obligations under APRA's liquidity prudential standard, the Group performs scenario analysis on a daily basis. The 'going concern' and 'crisis' scenarios take the form of maturity profiles of cash flows, based on assumptions agreed with APRA.

The 'going concern' model measures liquidity requirements under normal business conditions. Wholesale debt maturities are added to planned net asset growth to provide an estimate of funding task across a range of time horizons. The cumulative liquidity mismatch is managed within a Board approved limit structure; with limits set at intervals from one week, to twelve months.

The 'crisis' scenario measures liquidity requirements during the first week of a bank-specific crisis. The crisis model reflects normal model flows plus expected sources and applications of funds under crisis conditions. Under a crisis scenario the Group is expected to experience a large net outflow against which liquid assets are held to ensure continued solvency. In this scenario, the cumulative mismatch must be positive out to five business days.

**NOTE 38: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**LIQUIDITY AND FUNDING RISK (CONTINUED)**

**Liquidity review**

The table below outlines the review performed by Westpac in managing the Group's liquidity:

<b>Frequency</b>	<b>Liquidity report</b>
Daily	<ul style="list-style-type: none"><li>• Produced by Finance</li><li>• Reviewed by Market Risk Management</li><li>• Monitored within Group Treasury</li></ul>
Monthly	<ul style="list-style-type: none"><li>• Submitted to the BBRC<sup>1</sup></li><li>• Submitted to the MARCO</li><li>• Submitted to APRA</li></ul>
Quarterly	<ul style="list-style-type: none"><li>• Submitted to the GRRC</li><li>• Submitted to the BRMC</li></ul>

<sup>1</sup> BBRC is the Banking Book Risk Committee, a sub-committee of MARCO, responsible for oversight of interest rate risk mismatches in the banking book.

**Contractual undiscounted cash flows**

The following table shows the cash flows payable by the Group on non-derivative financial liabilities and derivatives by remaining contractual maturities at balance sheet date.

The amounts disclosed for non-derivative liabilities are all contractual undiscounted cash flows, including both principal and future coupon payments, and will not agree directly to the amounts recognised in the balance sheet.

The amounts disclosed for trading derivatives are the amounts recognised within the balance sheet as a derivative asset, shown as an inflow, and a derivative liability, shown as an outflow. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement and will frequently be settled in the short term at fair value. The amounts disclosed for hedging derivatives are based upon the contractual cash flows.

The Group does not use contractual undiscounted cash flows for the purposes of managing liquidity risk, instead using expected undiscounted cash flows, which varies significantly from the analysis shown. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

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**NOTE 38: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**LIQUIDITY AND FUNDING RISK (CONTINUED)**

Cash flows payable under financial liabilities by remaining contractual maturity

<b>Consolidated</b>						
	On demand	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	After 5 years	Total
	\$M	\$M	\$M	\$M	\$M	\$M
<b>As at 30 September 2009</b>						
<b>Non derivative liabilities</b>						
Deposits and other borrowings	(37,652)	(9,821)	(17,050)	(2,673)	(2)	(67,198)
Payables due to other financial institutions	(182)	(49)	-	-	-	(231)
Bank acceptances	-	(255)	(26)	-	-	(281)
Due to ultimate parent entity	(38,843)	-	-	-	-	(38,843)
Bonds and notes	-	(970)	(5,495)	(12,623)	(1,260)	(20,348)
Loan capital	-	(35)	(525)	(1,915)	(589)	(3,064)
Bills payable	(588)	-	-	-	-	(588)
	<u>(77,265)</u>	<u>(11,130)</u>	<u>(23,096)</u>	<u>(17,211)</u>	<u>(1,851)</u>	<u>(130,553)</u>
<b>Derivatives</b>						
Trading	-	(1,658)	-	-	-	(1,658)
Hedging <sup>(1)</sup>						
- inflow	-	504	3,596	4,892	1,058	10,050
- outflow	-	(783)	(4,411)	(6,027)	(1,207)	(12,428)
	<u>-</u>	<u>(1,937)</u>	<u>(815)</u>	<u>(1,135)</u>	<u>(149)</u>	<u>(4,036)</u>
<b>Total undiscounted financial liabilities</b>	<u>(77,265)</u>	<u>(13,067)</u>	<u>(23,911)</u>	<u>(18,346)</u>	<u>(2,000)</u>	<u>(134,589)</u>
<b>Contingent commitments</b>						
Commitments to extend credit	(27,747)	-	-	-	-	(27,747)
Other commitments	(1,016)	-	-	-	-	(1,016)
<b>Total undiscounted contingent commitments</b>	<u>(28,763)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28,763)</u>
<b>As at 30 September 2008</b>						
<b>Non derivative liabilities</b>						
Deposits and other borrowings	(41,730)	(17,379)	(27,806)	(4,737)	(3)	(91,655)
Payables due to other financial institutions	(988)	(26)	(1)	(771)	-	(1,786)
Bank acceptances	-	(3,979)	(18)	-	-	(3,997)
Bonds and notes	-	(10,252)	(8,850)	(20,691)	(2,578)	(42,371)
Loan capital	(41)	(66)	(175)	(3,387)	(497)	(4,166)
Bills payable	(425)	-	-	-	-	(425)
	<u>(43,184)</u>	<u>(31,702)</u>	<u>(36,850)</u>	<u>(29,586)</u>	<u>(3,078)</u>	<u>(144,400)</u>
<b>Derivatives</b>						
Trading	-	(1,233)	-	-	-	(1,233)
Hedging <sup>(1)</sup>						
- inflow	-	2,139	5,771	17,169	1,884	26,963
- outflow	-	(2,255)	(5,708)	(17,481)	(1,861)	(27,305)
	<u>-</u>	<u>(1,349)</u>	<u>63</u>	<u>(312)</u>	<u>23</u>	<u>(1,575)</u>
<b>Total undiscounted financial liabilities</b>	<u>(43,184)</u>	<u>(33,051)</u>	<u>(36,787)</u>	<u>(29,898)</u>	<u>(3,055)</u>	<u>(145,975)</u>
<b>Contingent commitments</b>						
Commitments to extend credit	(25,580)	-	-	-	-	(25,580)
Other commitments	(694)	-	-	-	-	(694)
<b>Total undiscounted contingent commitments</b>	<u>(26,274)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,274)</u>

<sup>(1)</sup> Includes non-trading derivative transactions that are considered to be part of economic hedging relationships.



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**NOTE 38: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**LIQUIDITY AND FUNDING RISK (CONTINUED)**

**Cash flows payable under financial liabilities by remaining contractual maturity (continued)**

	<b>Parent</b>					
	On demand	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	After 5 years	Total
	\$M	\$M	\$M	\$M	\$M	\$M
<b>As at 30 September 2009</b>						
<b>Non derivative liabilities</b>						
Deposits and other borrowings	(39,008)	(9,748)	(17,050)	(2,673)	(2)	(68,481)
Payables due to other financial institutions	(182)	(49)	-	-	-	(231)
Bank acceptances	-	(255)	(26)	-	-	(281)
Amounts payable to controlled entities	(11,515)	-	-	-	-	(11,515)
Due to ultimate parent entity	(38,376)	-	-	-	-	(38,376)
Bonds and notes	-	(227)	(3,271)	(5,028)	(40)	(8,566)
Loan capital	-	(35)	(525)	(1,915)	(589)	(3,064)
Bills payable	(588)	-	-	-	-	(588)
	<u>(89,669)</u>	<u>(10,314)</u>	<u>(20,872)</u>	<u>(9,616)</u>	<u>(631)</u>	<u>(131,102)</u>
<b>Derivatives</b>						
Trading	-	(1,660)	-	-	-	(1,660)
Hedging <sup>(1)</sup>						
- inflow	-	33	2,320	1,808	481	4,642
- outflow	-	(214)	(2,761)	(2,315)	(564)	(5,854)
	<u>-</u>	<u>(1,841)</u>	<u>(441)</u>	<u>(507)</u>	<u>(83)</u>	<u>(2,872)</u>
<b>Total undiscounted financial liabilities</b>	<u>(89,669)</u>	<u>(12,155)</u>	<u>(21,313)</u>	<u>(10,123)</u>	<u>(714)</u>	<u>(133,974)</u>
<b>Contingent commitments</b>						
Commitments to extend credit	(27,198)	-	-	-	-	(27,198)
Other commitments	(1,016)	-	-	-	-	(1,016)
<b>Total undiscounted contingent commitments</b>	<u>(28,214)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28,214)</u>
<b>As at 30 September 2008</b>						
<b>Non derivative liabilities</b>						
Deposits and other borrowings	(41,738)	(16,067)	(27,806)	(4,737)	(3)	(90,351)
Payables due to other financial institutions	(988)	(26)	(1)	(771)	-	(1,786)
Bank acceptances	-	(3,979)	(18)	-	-	(3,997)
Amounts payable to controlled entities	(5,505)	-	-	-	-	(5,505)
Bonds and notes	-	(9,153)	(3,854)	(9,029)	(44)	(22,080)
Loan capital	(41)	(66)	(175)	(3,387)	(497)	(4,166)
Bills payable	(425)	-	-	-	-	(425)
	<u>(48,697)</u>	<u>(29,291)</u>	<u>(31,854)</u>	<u>(17,924)</u>	<u>(544)</u>	<u>(128,310)</u>
<b>Derivatives</b>						
Trading	-	(1,233)	-	-	-	(1,233)
Hedging <sup>(1)</sup>						
- inflow	-	1,181	3,472	10,716	607	15,976
- outflow	-	(1,192)	(3,178)	(10,638)	(545)	(15,553)
	<u>-</u>	<u>(1,244)</u>	<u>294</u>	<u>78</u>	<u>62</u>	<u>(810)</u>
<b>Total undiscounted financial liabilities</b>	<u>(48,697)</u>	<u>(30,535)</u>	<u>(31,560)</u>	<u>(17,846)</u>	<u>(482)</u>	<u>(129,120)</u>
<b>Contingent commitments</b>						
Commitments to extend credit	(26,052)	-	-	-	-	(26,052)
Other commitments	(694)	-	-	-	-	(694)
<b>Total undiscounted contingent commitments</b>	<u>(26,746)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,746)</u>

<sup>(1)</sup> Includes non-trading derivative transactions that are considered to be part of economic hedging relationships.

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**NOTE 39: TRUST ACTIVITIES**

Certain controlled entities within the Group conduct investment management and other fiduciary activities as responsible entity, trustee or manager on behalf of individuals, trusts, retirement benefit plans and other institutions. These activities involve the management of assets in investment schemes and superannuation funds, and the holding or placing of assets on behalf of third parties.

Where controlled entities, as responsible entities or trustees, incur liabilities in respect of these activities, a right of indemnity exists against the assets of the applicable trusts. As these assets are sufficient to cover liabilities, and it is not probable that the controlled entities will be required to settle them, the liabilities are not included in the consolidated financial statements.

The Group also manages life insurance statutory fund assets that are included in the consolidated financial statements.

The aggregate value of funds at 30 September, managed for each fiduciary activity is shown below:

	<b>Consolidated</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$M</b>	<b>\$M</b>
Trustee	<b>2,762</b>	3,035
Investment Manager	<b>38,100</b>	37,527
	<b>40,862</b>	40,562

**NOTE 40: DERIVATIVES**

**DEFINITION**

A derivative is a financial instrument that provides the holder with the ability to participate in some or all of the price changes of an underlying financial asset, reference rate or index. Derivatives are carried at fair value and shown in the balance sheet as assets and liabilities. Derivative assets and liabilities on different transactions are only set-off if the transactions are with the same counterparty, a legal right of set-off exists and the cash flows are intended to be settled on a net basis.

Common derivatives used by the Group are swaps, options, futures, forwards and foreign exchange contracts. The major characteristics of these are summarised below.

**Swaps:** An interest rate swap is an agreement between two parties to exchange interest obligations periodically based on an underlying notional principal. A cross currency swap involves a principal exchange of amounts in one currency for another currency and a re-exchange of the same principal amounts at maturity. Interest payments and receipts on the principal amounts are exchanged periodically throughout the term.

**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. A call option grants the holder the right but not the obligation to buy at a specified price whereas a put option grants the holder the right but not the obligation to sell at a specified price. The purchaser or holder of the option pays a premium upfront to acquire the rights in the option. The risk to the holder is limited to the premium whilst the risk to the seller of the option is unlimited.

**Futures:** A futures contract is a binding obligation to buy or sell a specific quantity of a specific type of goods at an agreed price. Every contract has a buyer and a seller. Most contracts dealt on exchanges are closed out prior to delivery date.

**Forwards:** A forward rate agreement (FRA) is an agreement to fix an interest rate on an agreed notional amount, term and date. The parties then settle the difference between the agreed interest rate and the market rate on the FRA settlement date.

**OBJECTIVES FOR HOLDING DERIVATIVE INSTRUMENTS**

The Group makes use of the derivatives market both for trading purposes and to manage balance sheet risk.

**Trading**

Derivatives held for trading include those used in proprietary trading activities and servicing selected client needs, and those instruments that are used for risk management purposes but which for various reasons do not meet the criteria for the application of hedge accounting. Gains and losses from changes in the fair value of "trading derivatives" and those relating to "non-qualifying" hedging derivatives are both reported in "trading income". Strict controls and trading limits are used to monitor the price risk resulting from interest rate and exchange rate fluctuations on net open positions. The credit risk associated with the instruments is limited to the current fair value, which represents a small portion of the notional amount.

**Hedging**

Derivatives provide protection to income streams in a volatile financial environment. Derivatives enable holders of actual or anticipated assets and liabilities (those with a value that may vary with changes in foreign exchange, interest or other market rates) to modify and eliminate the risk of varying values by transferring it to another entity that is willing to assume the risk.

The Group's objective when entering the derivative market for asset and liability management purposes is to protect future income streams in light of uncertain economic variables. The core operations of the Group are subject to the risk of interest rate fluctuations to the degree that the interest earning assets exceed the interest bearing liabilities or vice versa, in any given maturity or repricing period.

The accounting treatment of hedging derivatives varies according to whether they are fair value or cash flow hedges.



**NOTE 40: DERIVATIVES (CONTINUED)**

**OBJECTIVES FOR HOLDING DERIVATIVE INSTRUMENTS (CONTINUED)**

**Fair value hedges**

Fair value hedges consist of cross currency and interest rate swaps used to protect against changes in the fair value of foreign denominated debt issues. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged item that are attributable to the hedged risk.

The net fair value of the Group's cross currency and interest rate swaps was a liability of \$567 million at 30 September 2009 (30 September 2008: asset of \$499 million). The Group's loss on these hedging instruments were \$1,066 million (30 September 2008: gain of \$2,501 million) and the gain on the hedged items attributable to the hedged risk were \$1,083 million (30 September 2008: loss of \$2,519 million).

The net fair value of the Parent entity's cross currency and interest rate swaps was an asset of \$57 million at 30 September 2009 (30 September 2008: asset of \$713 million). The Parent entity's losses on these hedging instruments were \$656 million (30 September 2008: gain of \$1,260 million) and the gain on the hedged items attributable to the hedged risk were \$664 million (30 September 2008: loss of \$1,268 million).

**Cash flow hedges**

Cash flow hedges represent interest rate swaps used to protect against the variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates or which are expected to be refunded or invested in the future.

The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial asset and liability on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows across all portfolios over time form the basis for identifying gains and losses on the effective portions of derivatives designated as cash flow hedges of forecast transactions.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. This represents the amount by which the changes in the fair value of the expected cash flow of the derivative differ from the fair value of the changes (or expected changes) in the cash flow of the hedged item.

Amounts from the cash flow hedge reserve are transferred to the income statement when the cash flows on the hedged item are recognised in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is amortised to the income statement over the remaining term of the original hedge. Where the hedged item is derecognised, the cumulative gain or loss is recognised immediately in the income statement.

The Group's interest rate swaps with an aggregate notional principal amount of \$25,046 million (30 September 2008: \$40,601 million) and a net fair value liability of \$370 million (30 September 2008: asset of \$227 million) were designated as hedges of future cash flows from floating rate non-trading assets, loans and other receivables, customer deposits and wholesale borrowings. The ineffectiveness recognised in the income statement arising from these cash flow hedges was \$Nil for the 2009 year (2008 year: \$Nil).

The Parent entity's interest rate swaps with an aggregate notional principal amount of \$25,046 million (30 September 2008: \$40,601 million) and a net fair value liability of \$370 million (30 September 2008: asset of \$227 million) were designated as hedges of future cash flows from floating rate non-trading assets, loans and other receivables, customer deposits and wholesale borrowings. The ineffectiveness recognised in the income statement arising from these cash flow hedges was \$Nil for the 2009 year (2008 year: \$Nil).

There were no transactions for which cash flow hedge accounting had to be ceased in 2009 or 2008 as a result of the highly probable cash flows no longer being expected to occur.

**STRATEGIES FOR ACHIEVING OBJECTIVES OF HOLDING DERIVATIVE INSTRUMENTS**

The primary objective in asset and liability management is to provide the maximum level of income while maintaining prudent levels of interest rate, liquidity and funding risk. In order to achieve these objectives a variety of interest rate forwards, swaps and options as well as cross currency swaps are employed.

For all activities, the Group monitors future interest rate risk by simulating future net interest income resulting from applying a variety of different rate scenarios to a projected balance sheet. The Group also seeks to manage net interest income by hedging interest rate exposure arising from anticipated future transactions.

This process is controlled and managed through Westpac Group MARCO, which addresses risk exposures and hedging requirements on a monthly basis (or more frequently if required). Where an on-balance sheet solution cannot be employed to position the Balance Sheet effectively, the derivatives market is used.

The risks associated with derivatives are identical to the risks that are encountered by the Group for normal retail and commercial banking business (credit risk, market risk and liquidity risk). These risks are managed consistently in line with the Group's overall risk management policies.

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**NOTE 40: DERIVATIVES (CONTINUED)**

**HOLDINGS OF DERIVATIVE INSTRUMENTS**

The following table provides an overview of exchange rate and interest rate derivatives as at 30 September.

	<b>Consolidated</b>							
	Notional amount	2009			Notional amount	2008		
		Assets <sup>(1)</sup>	Liabilities <sup>(2)</sup>	Net		Assets	Liabilities	Net
\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	
<b>Derivatives held for trading</b>								
Futures	-	-	-	-	23,885	1	-	1
Forward rate agreements	63,957	10	(7)	3	34,412	11	(10)	1
Interest rate swaps	201,471	1,497	(1,532)	(35)	108,018	834	(835)	(1)
Interest rate options	1,293	5	(6)	(1)	2,317	-	(57)	(57)
Foreign exchange	1,338	54	(45)	9	18,954	657	(230)	427
Cross currency swaps	1,163	23	(60)	(37)	1,056	61	(68)	(7)
Foreign exchange options	379	9	(8)	1	1,565	40	(32)	8
	<b>269,601</b>	<b>1,598</b>	<b>(1,658)</b>	<b>(60)</b>	<b>190,207</b>	<b>1,604</b>	<b>(1,232)</b>	<b>372</b>
<b>Derivatives held for cash flow hedging</b>								
Interest rate swaps	25,046	153	(523)	(370)	40,601	564	(337)	227
<b>Derivatives held for fair value hedging</b>								
Interest rate swaps	1,270	96	-	96	1,351	34	(4)	30
Cross currency swaps	17,003	419	(1,082)	(663)	24,843	1,187	(718)	469
	<b>18,273</b>	<b>515</b>	<b>(1,082)</b>	<b>(567)</b>	<b>26,194</b>	<b>1,221</b>	<b>(722)</b>	<b>499</b>
<b>Total derivatives</b>	<b>312,920</b>	<b>2,266</b>	<b>(3,263)</b>	<b>(997)</b>	<b>257,002</b>	<b>3,389</b>	<b>(2,291)</b>	<b>1,098</b>

	<b>Parent</b>							
	Notional amount	2009			Notional amount	2008		
		Assets <sup>(1)</sup>	Liabilities <sup>(2)</sup>	Net		Assets	Liabilities	Net
\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	
<b>Derivatives held for trading</b>								
Futures	-	-	-	-	23,885	1	-	1
Forward rate agreements	63,957	10	(7)	3	34,412	11	(10)	1
Interest rate swaps	202,841	1,533	(1,534)	(1)	138,012	789	(836)	(47)
Interest rate options	1,293	5	(6)	(1)	2,317	-	(57)	(57)
Foreign exchange	1,338	54	(45)	9	18,954	657	(230)	427
Cross currency swaps	1,163	23	(60)	(37)	1,056	61	(68)	(7)
Foreign exchange options	379	9	(8)	1	1,565	40	(32)	8
	<b>270,971</b>	<b>1,634</b>	<b>(1,660)</b>	<b>(26)</b>	<b>220,201</b>	<b>1,559</b>	<b>(1,233)</b>	<b>326</b>
<b>Derivatives held for cash flow hedging</b>								
Interest rate swaps	25,046	153	(523)	(370)	40,601	564	(337)	227
<b>Derivatives held for fair value hedging</b>								
Interest rate swaps	1,270	96	-	96	1,351	34	(4)	30
Cross currency swaps	10,084	367	(406)	(39)	14,912	853	(170)	683
	<b>11,354</b>	<b>463</b>	<b>(406)</b>	<b>57</b>	<b>16,263</b>	<b>887</b>	<b>(174)</b>	<b>713</b>
<b>Total derivatives</b>	<b>307,371</b>	<b>2,250</b>	<b>(2,589)</b>	<b>(339)</b>	<b>277,065</b>	<b>3,010</b>	<b>(1,744)</b>	<b>1,266</b>

<sup>(1)</sup> Westpac Banking Corporation (St.George's ultimate parent entity) is the counterparty behind \$329 million of the total derivative assets (the Parent entity: \$329 million).

<sup>(2)</sup> Westpac Banking Corporation is the counterparty behind \$314 million of the total derivative liabilities (the Parent entity: \$314 million).

The notional amounts for derivatives do not represent derivative assets or liabilities on the balance sheet, but represent the basis for calculating net amounts from underlying reference rates. The Group's exposure to counterparty risk is, therefore, limited to the positive value attached to the derivative arising from favourable movements in the underlying reference rates.

The credit risk associated with futures contracts is negligible as contracts are collateralised by cash with any changes in market value of contracts being settled on a daily basis with the clearing house.

As the Group's primary reason for holding derivatives is for balance sheet hedging purposes, the majority of derivatives have been transacted with financial institutions of investment grade quality. The Group's credit policy and procedures ensures that exposures to counterparty risks are constantly monitored, and credit risk concentration to any individual counterparty is limited through risk limits approved by the Board.

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**NOTE 41: FAIR VALUES OF FINANCIAL INSTRUMENTS**

The following disclosures provide an analysis of the fair value of financial instruments. The fair values provided are stated at a specific date and may be significantly different to amounts paid or received on maturity of the financial instruments. As a result, the fair value shown does not reflect the value of these financial instruments to the Group on a going concern basis.

Fair value represents the amount for which an asset could be exchanged or a liability settled in an arm's-length transaction between knowledgeable willing parties. The value of the Group's relationship with customers together with non-financial instruments is not included in the disclosure below.

Quoted market prices are used as the measure of fair value. Where quoted market prices are not available, fair values are based on valuation techniques based upon observable market data. For financial instruments valued using valuation techniques the expected cash flows for each instrument is determined either directly by reference to actual cash flows implicit in observable market prices or through modelling cash flows using appropriate financial market's pricing models. Wherever possible these models use as their basis observable market prices and rates including, for example, interest rate yield curves, equities and commodity prices, option volatilities and currency rates. The process of calculating fair value on illiquid instruments or from a valuation model may require estimation of certain pricing parameters, assumptions or model characteristics. These estimates are calibrated against industry standards, economic models and observable transaction prices where possible. All long positions are marked at bid prices; short positions are marked at offer prices. The fair value of short-term financial instruments is estimated to equal their carrying value as these instruments reprice or mature in 180 days or less with no significant change in credit risk.

The estimates of fair value are subjective and involve the exercise of judgment. The values derived from applying valuation techniques are significantly affected by the choice of valuation model used and the underlying assumptions made regarding inputs such as timing and amounts of future cash flows, discount rates, credit risk, volatility and correlation. Changes in assumptions used could have a material impact on the amounts disclosed. As a result, it is difficult to make reasonable comparisons of the Group to other financial institutions due to the wide range of valuation techniques and numerous estimates that must be made.

	Consolidated				Parent			
	Carrying value		Fair value		Carrying value		Fair value	
	2009	2008	2009	2008	2009	2008	2009	2008
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
<b>Financial assets</b>								
<b>Cash and liquid assets</b>	<b>752</b>	<b>713</b>	<b>752</b>	<b>713</b>	<b>752</b>	<b>713</b>	<b>752</b>	<b>713</b>
<b>Assets at fair value through the profit and loss</b>								
Assets at fair value through the income statement	1,019	7,385	1,019	7,385	997	7,455	997	7,455
Derivative assets	2,266	3,389	2,266	3,389	2,250	3,010	2,250	3,010
	<b>3,285</b>	<b>10,774</b>	<b>3,285</b>	<b>10,774</b>	<b>3,247</b>	<b>10,465</b>	<b>3,247</b>	<b>10,465</b>
<b>Available for sale investments</b>	<b>633</b>	<b>2,810</b>	<b>633</b>	<b>2,810</b>	<b>11,872</b>	<b>6,255</b>	<b>11,872</b>	<b>6,255</b>
<b>Loans and receivables</b>								
Receivables due from other financial institutions	3,519	10,485	3,519	10,485	3,518	10,365	3,518	10,365
Loans and other receivables	128,894	119,988	129,020	119,651	111,792	99,678	111,830	99,299
Receivables from controlled entities	-	-	-	-	6,178	4,277	6,265	4,319
	<b>132,413</b>	<b>130,473</b>	<b>132,539</b>	<b>130,136</b>	<b>121,488</b>	<b>114,320</b>	<b>121,613</b>	<b>113,983</b>
<b>Total financial assets</b>	<b>137,083</b>	<b>144,770</b>	<b>137,209</b>	<b>144,433</b>	<b>137,359</b>	<b>131,753</b>	<b>137,484</b>	<b>131,416</b>
<b>Financial liabilities</b>								
<b>Financial liabilities at amortised cost</b>								
Deposits and other borrowings	66,232	90,201	66,492	90,138	67,591	90,213	67,851	90,150
Payables due to other financial institutions	230	1,786	230	1,786	230	1,786	230	1,786
Bank acceptances	280	3,970	280	3,970	280	3,970	280	3,970
Amounts payable to controlled entities	-	-	-	-	11,515	5,505	11,515	5,505
Bonds and notes	18,873	37,760	18,229	37,332	8,040	21,160	7,966	21,326
Due to ultimate parent entity	38,843	-	38,843	-	38,376	-	38,376	-
Loan capital	2,424	3,245	2,487	3,221	2,424	3,245	2,487	3,221
	<b>126,882</b>	<b>136,962</b>	<b>126,561</b>	<b>136,447</b>	<b>128,456</b>	<b>125,879</b>	<b>128,705</b>	<b>125,958</b>
<b>Financial liabilities at fair value through the profit and loss</b>								
Derivative liabilities	3,263	2,291	3,263	2,291	2,589	1,744	2,589	1,744
<b>Total financial liabilities</b>	<b>130,145</b>	<b>139,253</b>	<b>129,824</b>	<b>138,738</b>	<b>131,045</b>	<b>127,623</b>	<b>131,294</b>	<b>127,702</b>

The following approach has been adopted in determining the fair value for those financial instruments that are not recognised at fair value within the balance sheet.

**NOTE 41: FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)**

**Cash and liquid assets, receivables from other financial institutions and bank acceptances of customers**

The carrying value of cash and liquid assets and receivables due from other financial institutions and bank acceptances of customers approximate their fair value as they are short term in nature or are receivable on demand.

**Loans and other receivables**

The carrying value of loans and other receivables is net of specific and collective provisions for doubtful debts and unearned income. For variable rate loans the discount rate used is the current effective interest rate. The discount rate applied to fixed rate loans reflects the market rate for the maturity of the loan and the credit worthiness of the customers.

**Deposits and other borrowings**

Deposits by customers' accounts are grouped by maturity. Fair values for deposit liabilities payable on demand (interest free, interest bearing and savings deposits) approximate their carrying value.

The fair value of at call and variable rate deposits is the carrying value at 30 September. Fair values for term deposits are estimated using discounted cash flows applying either market rates, where applicable or current rates offered for deposits of similar remaining maturities.

**Payables due to other financial institutions**

The carrying value of balances due to other financial institutions is considered to approximate their fair value, as they are short term in nature or receivable on demand.

**Bonds and notes and loan capital**

The fair value of bonds and notes and loan capital was calculated based on quoted market prices where available. Where quoted market prices were not available, a discounted cash flow model using a rate appropriate to the instrument and the term of the issue was used.

**NOTE 42: CAPITAL MANAGEMENT**

APRA has responsibility for the prudential supervision of Authorised Deposit Taking Institutions (ADIs), life and general insurance companies and superannuation funds in Australia. St.George is an ADI.

Australia's risk-based capital adequacy guidelines are generally consistent with the approach agreed upon by the Basel Committee on Banking Supervision. APRA has exercised its discretion in applying the Basel framework to Australian ADIs. On balance, the applications of these discretions act to reduce reported capital ratios relative to those reported in other jurisdictions.

Australian banks are required to maintain a minimum ratio of capital to risk-adjusted assets of at least 8%. At least half of this capital must be in the form of 'tier 1' capital. Subject to certain limitations, tier 1 capital consists of paid-up share capital, retained profits, certain reserves, other equity instruments, less the deduction of certain intangible assets and retained earnings in insurance and funds management subsidiaries that are not consolidated for capital adequacy purposes. The balance of eligible capital is defined as 'supplementary' or 'tier 2' capital. Supplementary capital includes, subject to limitations, mandatory convertible notes, perpetual floating rate notes and like instruments, and term subordinated debt provided such term debt is not in excess of 50% of tier 1 capital. Certain deductions are made for holdings of other banks' capital instruments and the balance of capital invested in insurance and funds management controlled entities not already deducted at the tier 1 level. Deductions are made for any capital invested or guarantees or similar support provided to entities involved in securitisation not already deducted at the tier 1 level.

From 1 January 2009, St.George was accredited as a Standardised bank under Basel II.

**Capital management strategy**

Capital management strategy seeks to ensure that St.George is adequately capitalised as an ADI. The principles for the prudent management of St.George's balance sheet are as follows:

- absolute minimum capital requirements are determined and the specific consequences of breaching these requirements (e.g. debt rating downgrade, and/or prudential intervention) identified;
- capital is managed to a target minimum ratio;
- the target structure incorporates trigger points that are designed to minimise the risk of breaching the target minimum ratio in the normal course of business; and
- as a subsidiary of Westpac, there are additional levels of capital management flexibility available to St.George through adjusting the level of dividends repatriated to Westpac and the potential for additional capital support from Westpac.

The Group's target minimum ratios are summarised in the table below

<b>Capital measure</b>	<b>Target Minimum Ratio</b>
Group tier 1 ratio	7.00%
Group total regulatory capital ratio	10.00%

**NOTE 43: KEY MANAGEMENT PERSONNEL**

**DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL DISCLOSURES**

Compensation for all former and current key management personnel including the Executive Director and Non-Executive Directors of the Parent entity is shown in the following table.

	<b>Consolidated</b>		<b>Parent</b>	
	2009	2008	2009	2008
	\$ '000	\$ '000	\$ '000	\$ '000
Short term employee benefits	19,050	12,934	18,148	10,185
Other long term benefits	188	225	140	186
Post employment benefits	410	314	401	263
Termination benefits	4,050	-	3,205	-
Share based payments	11,387	3,390	10,409	2,695
	<b>35,085</b>	<b>16,863</b>	<b>32,303</b>	<b>13,329</b>

Key Management Personnel that are employed by Westpac do not receive any additional compensation in relation to their role in managing the Parent entity other than the remuneration paid by Westpac and disclosed in the 2009 Westpac Annual Report. It is not possible to make a reasonable apportionment of that remuneration to the Parent entity and, accordingly, the aggregate remuneration of the Parent entity's Key Management Personnel includes each of their total remuneration received from Westpac from 1 December 2008 to 30 September 2009.

**LOANS TO KEY MANAGEMENT PERSONNEL**

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the Group to key management personnel are as follows:

	<b>Consolidated</b>		<b>Parent</b>	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Loans	6,091	23,080	6,091	23,080

Current key management personnel that have outstanding loans from the Group are Messrs G. Bartlett and G.Targett. The 2008 year balance included \$14,054,000 relating to former key management personnel. With the exception of an interest free loan to Mr Bartlett of \$140,785 that was advanced in 1989, all loans to key management personnel have interest payable at prevailing market rates. With the exception of credit card facilities, all loans to key management personnel are secured. Interest charged on loans to key management personnel totalled \$688,000 (2008: \$1,980,000) for Group and the Parent entity. Interest not charged on Mr G. Bartlett's interest free loan was \$9,000 (2008: \$12,000). No amounts have been written down or provided for as loans are considered fully performing.

**OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES**

All other transactions with key management personnel (including their related parties) were conducted on an arms-length basis in the ordinary course of business and on normal terms and conditions for customers, employees or suppliers. These transactions consisted principally of normal personal banking and deposit transactions or the provision of financial or utility services.

**ST.GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2009**

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**NOTE 44: RELATED PARTIES**

**(a) DIRECTORS' INTERESTS IN CONTRACTS**

As required by the Corporations Act, some Directors have given notice that they hold office in specified companies and as such are regarded as having an interest in any contract or proposed contract, which may be made between St.George and those companies.

All other transactions with Directors, Director-related entities other than those noted in Note 43 and other related parties are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. These transactions were trivial or domestic in nature and principally involve the provision of financial and investment services.

**(b) ULTIMATE PARENT ENTITY**

The parent entity of the Group is St.George Bank Limited. The ultimate Australian parent entity is Westpac Banking Corporation, which at 30 September 2009 owns 100% of the issued ordinary shares of St.George Bank Limited, which it acquired on 1 December 2008. Transactions with the ultimate parent entity during the financial year are as follows:

- On 1 December 2008, Westpac and St.George entered into a Master Funding Agreement (MFA) under which Westpac lends funds to St.George for its general funding purposes. The facility is an open-ended multi-currency revolving loan facility with an initial maximum aggregate principal amount of \$60,000,000,000 priced on arm's length terms. Maturities of existing debt and new wholesale funding debt requirements are funded by Westpac by St.George drawing down funding from Westpac under this facility. St.George has drawn down \$38,275,976,000 as at 30 September 2009 on this facility. It is anticipated that St.George will obtain all of its future wholesale funding requirements under this agreement.
- On 1 December 2008, Westpac and St.George entered into a Master Services Agreement (MSA). The MSA provides for arms-length fee charging based on costs plus percentage margin on employee costs, services, assets and resources provided between Westpac and St.George. Fees totalling \$29,600,000 have been paid by St.George to Westpac during the year in accordance with this agreement.
- With effect from 31 March 2009, the Parent entity and its wholly owned Australian resident entities became part of the Westpac tax-consolidated group.
- St.George and its wholly owned Australian resident entities acceded to the Westpac tax funding agreement under which Westpac is compensated for any current tax payable assumed and Westpac compensates for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to it under the tax consolidation legislation. During the year \$282,476,000 has been transferred to Westpac.
- St.George and its wholly owned Australian resident entities acceded to the Westpac tax sharing agreement which, in the opinion of the directors, limits the joint and several liabilities of the wholly-owned entities in the case of a default by the head entity, Westpac. No amounts have been recognised in the financial statements in respect of this agreement, as payment of any amounts under the tax sharing agreement is considered remote.
- St.George transferred the majority of its liquidity asset portfolio to Westpac totalling \$1,601,711,000 and realised a loss on sale of \$45,578,000 from this transaction.
- St.George issued to Westpac 926,610,240 ordinary shares for a total consideration of \$2,125,000,000 as part of arrangements under the merger implementation agreement and to fund St.George's redemption of its SPS, CPS and CPS II hybrids.
- As a result of the merger, St.George terminated its life insurance agreement with AIG Life (Australia) and received a \$32,000,000 compensation payment from Westpac.
- As a result of the merger, Westpac became the holder of all the SAINTS with effect from 1 December 2008.
- St.George changed auditors to PricewaterhouseCoopers, the auditors of Westpac, from KPMG on 17 November 2008.

Details of amounts paid or received from the ultimate parent entity in the form of dividends or interest are set out in Notes 2 and 3.

**(c) SUBSIDIARIES**

Interests in Subsidiaries are set out in Note 16.

Transactions between St.George Bank Limited and its subsidiaries during the 2009 financial year have included the provision of a wide range of banking and other financial facilities, some of which have been on commercial terms and conditions, others have been on terms and conditions which represented a concession to the subsidiaries.

Other intragroup transactions, which may or may not have been on commercial terms, include the provision of management and administration services, staff training, data processing facilities, transfer of tax losses and leasing of properties, plant and equipment. Similar transactions between Group entities and other related parties have been almost invariably on commercial terms and conditions as agreed between the parties. Such transactions are not considered to be material, either individually or in aggregate.

The Parent entity's aggregate investment in amounts receivable from and amounts due to subsidiaries is disclosed in the balance sheet of the Parent entity.

Details of amounts paid or received from subsidiaries in the form of dividends or interest are set out in Notes 2 and 3.



**ST.GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 SEPTEMBER 2009**

**NOTE 45: NOTES TO THE STATEMENT OF CASH FLOWS**

**(a) Reconciliation of profit after tax to net cash provided by operating activities**

	Consolidated		Parent	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
Net profit attributable to shareholders of the Parent entity	512	1,205	674	1,031
Net profit on sale of land and buildings	(1)	(13)	(1)	(13)
Profit on disposal of shares	-	(102)	-	(102)
Dividends received	(1)	(6)	(328)	(69)
Treasury trading profit	11	(82)	(73)	(89)
Loan impairment charges	1,306	282	1,193	264
Share based compensation	13	14	13	14
Depreciation	62	63	57	57
Amortisation of deferred expenditure	36	39	31	33
Impairment of deferred expenditure	80	-	60	-
(Increase)/decrease in assets				
- interest receivable	416	(302)	299	(288)
- other income receivable	235	72	50	26
- balance due from other financial institutions (not at call)	6,881	(3,798)	6,882	(3,797)
- loans and other receivables	(10,239)	(13,990)	(13,314)	(17,446)
- available for sale investments	(85)	158	(7,623)	(115)
- assets at fair value through the income statement	8,477	(2,719)	8,565	(2,600)
- net position of deferred tax assets/(liabilities)	(305)	(122)	(292)	(112)
Increase/(decrease) in liabilities				
- interest payable	(637)	151	57	112
- accrued expenses and other provisions	319	170	270	(128)
- balance due to other financial institutions (not at call)	(616)	767	(616)	767
- provision for current income tax	(365)	(39)	(440)	(34)
- deposits and other borrowings	(27,750)	16,935	(26,394)	17,287
- due to ultimate parent entity	38,843	-	38,376	-
- bonds and notes	(16,646)	(176)	(12,016)	2,417
<b>Net cash (used in)/provided by operating activities</b>	<b>546</b>	<b>(1,493)</b>	<b>(4,570)</b>	<b>(2,785)</b>

**(b) Reconciliation of cash**

	Consolidated		Parent	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
Cash and liquid assets	752	713	752	713
Balances due from other financial institutions	40	125	40	5
Due to clearing houses	(48)	(988)	(48)	(988)
Bills payable	(588)	(425)	(588)	(425)
	<b>156</b>	<b>(575)</b>	<b>156</b>	<b>(695)</b>

**(c) Dividends paid**

There were no (30 September 2008: 7,668,109) shares issued pursuant to the Group's dividend reinvestment plan during the financial year raising \$Nil (30 September 2008: \$227 million). The dividend reinvestment plan was terminated upon the merger with Westpac.

**NOTE 46: EVENTS SUBSEQUENT TO REPORTING DATE**

Since 30 September 2009 there have been no other matters or circumstances not otherwise dealt with in the annual report that have 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 future financial years.

**ST. GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES  
DIRECTORS' DECLARATION  
FOR THE YEAR ENDED 30 SEPTEMBER 2009**

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In the opinion of the Directors of St. George Bank Limited:

- (1) (a) the financial statements and notes are in accordance with the Corporations Act 2001, including:
- (i) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the financial position of St. George Bank Limited and the Group as at 30 September 2009 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that St. George Bank Limited will be able to pay its debts as and when they become due and payable.
- (2) there are reasonable grounds to believe that St. George Bank Limited and the controlled entities identified in Note 34 will, as a group, be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between St. George Bank Limited and those controlled entities pursuant to ASIC Class Order 98/1418.

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

.....  
J Curtis  
Chairman

.....  
G Bartlett  
Director

Dated at Sydney, New South Wales

9 December 2009

## Independent auditor's report to the members of St.George Bank Limited

### *Report on the financial report*

We have audited the accompanying financial report of St.George Bank Limited, which comprises the balance sheet as at 30 September 2009, and the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both St.George Bank Limited (St.George Bank) and the St.George Bank Limited Group (the Consolidated Entity). The Consolidated Entity comprises St.George Bank and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of St.George Bank are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

**Independent auditor's report to the members of  
St.George Bank Limited (continued)**

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Independence***

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

***Auditor's opinion***

In our opinion:

- (a) the financial report of St.George Bank Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the St.George Bank Limited's and the Consolidated Entity's financial position as at 30 September 2009 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.



PricewaterhouseCoopers



Ian Hammond  
Partner

Sydney  
9 December 2009

**ST.GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES  
CONTACT DETAILS  
FOR THE YEAR ENDED 30 SEPTEMBER 2009**

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**ABN**

St.George Bank Limited  
ABN 92 055 513 070  
AFSL 240997

**CONTACT DETAILS**

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**Company secretaries:** Anna  
Sandham and Les Vance

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**ASGARD INVESTOR SERVICES**

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