



# Appendix 4D

# Profit Announcement

for the half year ended 31 March 2008

Released 6 May 2008

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# news release



6 May 2008

## St.George announces record cash<sup>1</sup> profit of \$603 million, up 6.2%

St.George Bank today announced a record cash profit result of \$603m, up 6.2 per cent from March 2007.

The cash profit, which excludes significant items, represents earnings per share growth of 2.1 per cent.

Importantly, due to initiatives already in place, including the full second half benefits of asset and fee repricing, cost control and a reduction in volatility in investment earnings, the Group expects a significantly stronger second half.

Mr John Curtis, Chairman of St.George Bank said; "This is a strong result, notwithstanding the very challenging external environment. As a result of this record profit, the Board has increased the interim dividend from 82 cents in March 2007 to 88 cents."

Mr Paul Fegan, Managing Director & Chief Executive Officer said; "Overall, the underlying performance is excellent and the financial position of the Group has been strengthened. Despite the challenging environment, we have costs under control with a cost to income ratio at 42.5 per cent (underlying 41.7 per cent). In addition, our net interest margin has only reduced by 5 basis points and our asset quality remains very sound. However, the volatility in global equity markets has resulted in a reduction of earnings of the Group's mortgage insurance investment portfolio of \$55m pre tax compared to 31 March 2007. Excluding this impact, earnings per share growth would have increased by 8.8 per cent and profit by 13.2 per cent."

**Capital** - The Group's capital position remains strong. As at March 2008, the Group's Tier 1 ratio was 6.97 per cent, which is approximately \$500m above its regulatory minimum ratio of 6.25 per cent. While the Group does not have an immediate need for capital this financial year, it has taken the opportunity to offer a 2.5 per cent discount on the Dividend Reinvestment Plan, given its expected growth in assets in the 2009 financial year.

**Funding** - The Group continues to have access to a well-diversified funding base. As at 2 May 2008, the Group has completed 84 per cent of its entire 2008 funding requirements. In addition, retail deposits have grown by a very strong 14 per cent on an annualised basis, which reduced the reliance on wholesale funding.

In addition, the Group has substantially increased its liquidity by more than 80 per cent or \$7.9b to \$17.7b, representing 13 per cent of total assets up from 9 per cent at 31 March 2007.

**Credit Quality** - Credit quality remains very sound, with the loan impairment expense, as a percentage of average assets, increasing marginally from 0.17 to 0.18 per cent.

The 90-day past due arrears for housing loans improved from 0.36 to 0.24 per cent.

The Group has taken an individual provision of \$20m before tax against a margin loan secured by Octaviar Ltd (Formerly MFS Limited) shares. This exposure has been previously disclosed to the market. Other exposures to Centro entities and Allco continue to be performing and therefore do not require specific provisions.

1. Cash basis excludes significant items, goodwill impairment and hedging and non-trading derivatives volatility.

**Retail Deposits** - As indicated, deposits grew on an annualised basis by 14 per cent to \$51.1b. This is above system growth with market share increasing to 8.2 per cent at March 2008.

**Home Loans** - Home loans grew by an annualised 10 per cent for the six months to March 2008. This growth reflects the New South Wales housing market, which represents 56 per cent of the Group's total home lending.

**Middle Market Business Loans** - Loans for the Middle Market grew by an annualised 31 per cent, which is an outstanding result. Greater than 90 percent of this portfolio is secured. Overall market share increased from 8.1 to 9.1 per cent.

**Wealth Management** - Managed funds have been impacted heavily by the negative performance of equity markets. Managed funds were \$43.9b, down from \$44.3b in March 2007. Pleasingly, gross inflows increased by 4.7 per cent, which was above the market average.

**Interstate Growth** - Victoria, Queensland and Western Australia grew home loans by a total of 16 per cent and Middle Market loans by 43 per cent. These numbers reflect the success of our interstate growth strategy. The Group continues to invest to develop these opportunities with a further eight new branches planned for the second half.

**Interest Margin** - As mentioned earlier, the Group's interest margin during the half reduced by 5 basis points from 1.97 to 1.92 per cent, largely driven by holding increased liquidity. Given the increase in funding costs, this is a strong result in a highly competitive environment.

**Expenses** - Expenses have been carefully managed, increasing by only 4.8 per cent compared to March 2007. Compared to the September 2007 half, expenses increased by 1.3 per cent. The expense to income ratio reduced from 42.6 to 42.5 per cent compared to March 2007 and remains industry leading. At the underlying level, it reduced from 43.1 per cent to 41.7 per cent.

**Significant Items** - The Group has recognised \$93m after tax of significant items for the half. This comprises a \$54m gain from the sale of Visa, a \$30m restructuring charge, and a \$117m tax expense from a dispute with the Australian Tax Office relating to a 1997 transaction. While the Group is appealing the decision, it considers it prudent to provide for the full amount. All figures are after tax.

The net profit for the Group including these significant items (and preference dividends) is \$514m, which is down 10.1 per cent compared to the same period last year.

## Outlook

Mr Paul Fegan said; "On the back of this strong performance, the Group continues to pursue its organic, customer-focused growth strategy. To accelerate this process the Group will be undertaking a major restructuring program over the next few years that will see substantial improvements in efficiencies. A \$30m after tax provision has been recognised to fund this major program."

As previously advised, St.George's EPS target of 10 per cent assumed no one-off material credit losses and a reasonably sound economic environment.

As a result of recognising a \$20m credit loss on a margin loan during the half and as the effects of the turmoil in global financial markets flow through to the domestic economy, the Group has revised its EPS growth target accordingly to a range of 8 to 10 per cent for 2008, on the basis of no further unexpected material credit losses.

"Against the back drop of a challenging operating environment, the financial position of the Group has been strengthened while delivering record profits. Even with some moderation in the domestic economy, the Group expects to benefit from a significantly stronger second half. St.George is confident in its growth prospects despite the challenging environment, given its strong business momentum, conservative business mix and sound asset quality. The Bank's solid capital position puts us in great shape to capitalise on the profitable growth opportunities that we are seeing across our core businesses" he concluded.



**St.George Bank Limited**

ABN 92 055 513 070

**RESULTS FOR ANNOUNCEMENT  
TO THE MARKET**

for the half year ended  
**31 March 2008**

# **1 Financial Summary**

## **1.1 Introduction**

The Group's financial results have been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS). Comparative figures have been prepared on a consistent basis.

The requirement to fair value derivatives and certain other financial instruments, together with the requirement to recognise hedge "ineffectiveness" in the profit and loss may result in higher levels of profit volatility. To provide a better indication of the Group's underlying performance, volatility associated with these items, together with any significant items and goodwill impairment, where applicable, have been reversed to arrive at "cash" profit.



**1.2 Appendix 4D Results****Results for announcement to the market – statutory result**

These results are based on the Group's Consolidated Financial Statements. Comparative figures relate to the 31 March 2007 half year.

<b><i>Financial performance</i></b>	
Revenues from ordinary activities	Up 9.7% to \$1,767m
Cash profit	Up 6.2% to \$603m
Profit attributable to members from ordinary activities after tax, significant items and before preference dividends	Down 9.6% to \$529m
Net profit for the half year attributable to members after preference dividends and significant items	Down 10.1% to \$514m
<b><i>Dividend</i></b>	
Interim dividend – fully franked (cents per share)	88 cents
<b><i>Earnings per ordinary share (after significant items)</i></b>	
Basic	Down 13.6% to 93.5 cents
Diluted	Down 12.8% to 93.6 cents

Refer page 71 for further Appendix 4D disclosures required under ASX listing rules.

## 1.3 Results at a Glance

### Net Profit

	Half Year			Movement Mar 08 vs Mar 07 %
	Mar 08 \$M	Sep 07 \$M	Mar 07 \$M	
Net interest income	1,192	1,115	1,078	10.6
Non interest income	498	559	533	(6.6)
<b>Total income</b>	<b>1,690</b>	<b>1,674</b>	<b>1,611</b>	<b>4.9</b>
Loan impairment expense	118	85	93	26.9
Operating expenses	716	707	683	4.8
<b>Profit before tax</b>	<b>856</b>	<b>882</b>	<b>835</b>	<b>2.5</b>
Income tax expense	234	275	250	(6.4)
Minority interests	-	2	-	-
Preference dividends	15	14	13	15.4
<b>Net profit before significant items</b>	<b>607</b>	<b>591</b>	<b>572</b>	<b>6.1</b>
Significant items expense (net of tax)	93	-	-	large
<b>Net profit</b>	<b>514</b>	<b>591</b>	<b>572</b>	<b>(10.1)</b>

### Cash basis

Net profit has been adjusted to exclude significant items and profit volatility relating to the fair value recognition of hedging and non-trading derivatives as follows:

	Half Year			Movement Mar 08 vs Mar 07 %
	Mar 08 \$M	Sep 07 \$M	Mar 07 \$M	
Net profit	514	591	572	(10.1)
Add: Significant items expense (net of tax)	93	-	-	large
<b>Net profit before significant items</b>	<b>607</b>	<b>591</b>	<b>572</b>	<b>6.1</b>
Less: Hedging and non-trading derivatives (net of tax) <sup>1</sup>	4	(1)	4	-
<b>Cash basis net profit</b>	<b>603</b>	<b>592</b>	<b>568</b>	<b>6.2</b>

1. September 2007 half includes a \$6 million tax expense relating to a non-deductible fee paid on the redemption of the Group's US\$250 million depositary capital securities in June 2007.

### Cash basis net profit comprises the following items:

	Half Year			Movement Mar 08 vs Mar 07 %
	Mar 08 \$M	Sep 07 \$M	Mar 07 \$M	
Net Interest income	1,192	1,115	1,078	10.6
Non interest income				
Underlying result	526	540	505	4.2
SGIA Investment portfolio trading result <sup>(1)</sup>	(33)	12	22	
Total non interest income	493	552	527	(6.5)
<b>Total income</b>	<b>1,685</b>	<b>1,667</b>	<b>1,605</b>	<b>5.0</b>
Loan impairment expense	118	85	93	26.9
Operating expenses	716	707	683	4.8
<b>Profit before tax</b>	<b>851</b>	<b>875</b>	<b>829</b>	<b>2.7</b>
Income tax expense	233	267	248	(6.0)
Minority interests	-	2	-	-
Preference dividends	15	14	13	15.4
<b>Cash basis net profit</b>	<b>603</b>	<b>592</b>	<b>568</b>	<b>6.2</b>

(1) Reflects only the mark to market component of the return within this portfolio.



## 1.3 Results at a Glance (continued)

### Underlying cash profit

The Group's 31 March 2008 half year result has been impacted by the instability in global credit markets that is driving higher funding costs and a downturn in equity markets. The higher net funding costs of \$13 million (\$9 million after tax) comprise a \$28 million pre tax expense due to the widening spread between official cash rates and 90 day bank bill rates and a \$7 million pre tax expense due to the higher cost of wholesale debt. This has been substantially recouped with a \$22 million pre tax benefit obtained from repricing housing loans over and above the cash rate.

The SGIA investment portfolio was impacted by volatile financial markets and as a result, recorded a pre tax \$33 million (\$23 million after tax) unfavourable fair value movement during the half. This represents a \$55 million (\$38 million after tax) reduction in investment income compared to 31 March 2007. Dividend and net interest income on the SGIA investment portfolio has remained relatively stable during the half compared to prior periods. Income derived from the SGIA investment portfolio during the half included net interest income of \$7 million, dividend income of \$3 million and unfavourable fair value movements of \$33 million. The effect of equity markets on the Bank's Wealth Management business has not been adjusted when calculating underlying cash profit below.

If the Group's cash profit is adjusted for the impact of the SGIA investment portfolio, the underlying cash profit result would be as follows:

	Half Year			Movement	
	Mar 08	Sep 07	Mar 07	Mar 08 vs Mar 07	
	\$M	\$M	\$M	Profit %	EPS %
Underlying cash profit	626	584	553	13.2	8.8
- SGIA investment portfolio trading result (net of tax)	(23)	8	15		
<b>Cash basis net profit</b>	<b>603</b>	<b>592</b>	<b>568</b>	<b>6.2</b>	<b>2.1</b>

Underlying cash profit increased by 13.2% to \$626 million during the half compared to 31 March 2007, with EPS growth of 8.8%.

### Summary Balance Sheet

As at	31 Mar 2008 \$M	30 Sep 2007 \$M	31 Mar 2007 \$M
<b>Assets</b>			
Cash and liquid assets	3,035	2,081	1,188
Receivables from other financial institutions	477	1,244	1,180
Financial assets at fair value	16,764	13,539	8,301
Loans and receivables (including bank acceptances)	113,410	106,227	98,724
Other	2,623	2,709	2,587
<b>Total Assets</b>	<b>136,309</b>	<b>125,800</b>	<b>111,980</b>
<b>Liabilities</b>			
Retail funding and other borrowings	118,960	108,005	97,152
Bank acceptances	5,050	6,348	5,456
Derivative liabilities	3,049	3,440	2,202
Other	2,390	2,123	1,558
<b>Total Liabilities</b>	<b>129,449</b>	<b>119,916</b>	<b>106,368</b>
<b>Total Shareholders' Equity</b>	<b>6,860</b>	<b>5,884</b>	<b>5,612</b>

## 1.4 Group Highlights

		Half Year		
		Mar 08	Sep 07	Mar 07
Total on-balance sheet assets	\$M	<b>136,309</b>	125,800	111,980
Securitised receivables (included in on-balance sheet assets)	\$M	<b>16,585</b>	18,752	19,214
Managed funds	\$M	<b>43,893</b>	49,745	44,311
Cash basis profit				
Before preference dividends	\$M	<b>618</b>	606	581
After preference dividends	\$M	<b>603</b>	592	568
Return on average assets (before preference dividends) <sup>(1)</sup>				
Cash basis	%	<b>0.95</b>	1.03	1.07
Return on average ordinary equity (after preference dividends) <sup>(1)</sup>				
Cash basis	%	<b>20.35</b>	23.08	23.24
Expenses as % of average assets <sup>(1)</sup>				
Cash basis	%	<b>1.10</b>	1.20	1.25
Expense to income ratio				
Cash basis	%	<b>42.5</b>	42.4	42.6
Underlying basis <sup>(2)</sup>	%	<b>41.7</b>	42.7	43.1
Interest margin <sup>(1)</sup>	%	<b>1.92</b>	1.97	2.07
Ordinary dividend (fully franked)	(cents)	<b>88.0</b>	86.0	82.0
Earnings per ordinary share <sup>(1)</sup>				
Basic - Cash basis	(cents)	<b>219.4</b>	223.0	214.9
Diluted - Cash basis	(cents)	<b>217.8</b>	221.1	213.4
Net tangible assets per ordinary share	(\$)	<b>8.95</b>	7.63	7.16
Capital adequacy Tier 1 ratio	%	<b>7.0</b>	6.7	7.2
Adjusted common equity ratio	%	<b>5.2</b>	4.9	4.7

(1) Annualised.

(2) Excludes impact of investment markets volatility on the SGIA investment portfolio.

## **1.4 Group Highlights (continued)**

### **Financial performance – Cash<sup>(1)</sup> basis**

- Net profit was \$603 million (31 March 2007: \$568 million), an increase of 6.2%. An increase of 1.9% compared to the 30 September 2007 half.
- Net interest income increased by 10.6% to \$1,192 million. The interest margin was 1.92% compared to 1.97% in the 30 September 2007 half.
- Non interest income was \$493 million (31 March 2007: \$527 million).
- Loan impairment expense was \$118 million (31 March 2007: \$93 million).
- Operating expenses increased by 4.8% to \$716 million compared to the 31 March 2007 half year. An increase of 1.3% compared to the 30 September 2007 half. The expense to income ratio decreased to 42.5% from 42.6% in the 31 March 2007 half year. The underlying expense to income ratio adjusted for financial markets volatility was 41.7% compared to 43.1% at 31 March 2007.
- Annualised basic earnings per ordinary share was 219.4 cents (31 March 2007: 214.9 cents), an increase of 2.1%.
- Annualised return on average ordinary equity was 20.35% (31 March 2007: 23.24%).

(1) before significant items, goodwill impairment and hedging and non-trading derivatives volatility.

### **Financial position**

- Total assets were \$136.3 billion (31 March 2007: \$112.0 billion), an increase of 21.7%.
- Lending assets were \$113.4 billion (31 March 2007: \$98.7 billion), an increase of 14.9%.
- Residential receivables were \$72.6 billion (31 March 2007: \$65.3 billion), an increase of 11.2%.
- Commercial loans (including bank acceptances) were \$33.8 billion (31 March 2007: \$25.9 billion), an increase of 30.3%.
- Consumer loans (including bank acceptances) were \$7.1 billion (31 March 2007: \$7.1 billion).
- Retail funding was \$51.1 billion (31 March 2007: \$44.8 billion), an increase of 14.1%.
- Liquid assets (including treasury securities) were \$17.7 billion (31 March 2007: \$9.8 billion), representing 13.0% of total assets (31 March 2007: 8.7%).

### **Dividends**

- A higher interim ordinary dividend of 88 cents per ordinary share, fully franked (31 March 2007: 82 cents) has been declared by the Board, an increase of 7.3%. This represents a dividend payout ratio (cash basis) of 81.8% for the half year.
- The Dividend Reinvestment Plan (DRP) will operate for the interim dividend with a 2.5% discount. The fully franked interim dividend will be paid on 2 July 2008.

## **1.4 Group Highlights (continued)**

### **Funding**

- 50.6% of total funding<sup>1</sup> is from retail deposits.
- As at 2 May 2008, only 15.3% of wholesale term funding matures in the next six months.
- Average maturity of wholesale term funding is 26 months.
- As at 2 May 2008, 84% of 2008 financial year wholesale term funding requirement has been completed.
- Securitised loans reduced from \$19.2 billion in March 2007 to \$16.6 billion in March 2008.

### **Other**

- Managed funds were \$43.9 billion (31 March 2007: \$44.3 billion). Gross inflows were \$4,065 million (31 March 2007: \$3,884 million).
- Loan impairment expense as a percentage of average assets was 0.18% compared to 0.17% at 31 March 2007 on an annualised basis.
- The Group's Tier 1 capital adequacy ratio was 7.0% (31 March 2007: 7.2%) and Tier 2 ratio was 3.2% at 31 March 2008 (31 March 2007: 3.3%). The Group is holding \$499 million of excess capital over its Tier 1 capital regulatory minimum requirement.
- The Group completed a number of capital initiatives during the half year, raising \$1.3 billion in Tier 1 capital. Refer Capital Management section on page 21 for further details.

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<sup>1</sup> Excluding securitisation, asset-backed conduit funding and preference shares.

## **2 Business Summary**

### **2.1 Strategic Overview**

The St.George Group's low-risk, domestic organic growth strategy has consistently delivered superior results for shareholders. This strategy is best reflected in the core strategic framework developed in 2002:

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

Against this framework, the Group has over the past several years, prioritised the following key areas:

- People and customers
- Home Loans
- Deposits
- Middle Market
- Wealth Management
- Productivity Management
- Victoria, Queensland and Western Australia Expansion

Significant progress has been made in all of these areas since 2002, accompanied with material levels of investment.

The Group has achieved a shift from being product centric to customer centric, focussed on full service relationship banking. It has prioritised particular customer segments and has focussed on delivering differentiated levels of service to these customer groupings. The broader management team has been substantially strengthened both through training and development and through key talent selection and recruitment. Sales and business development skills have substantially improved while commercial disciplines and risk management frameworks have been further embedded.

Targeted and focussed expansion has occurred, not only in Victoria, Queensland and Western Australia, but also in the Bank's core markets of New South Wales, South Australia and the Australian Capital Territory.

The Group has driven a programme of continuous productivity improvements through investment in people, in technology and the application of new business processes and tools. The Group's core cultural heritage of being team-based and genuinely focussed on improving the customer experience remains a priority, with initiatives in place to further deliver on this objective.

## **2.1 Strategic Overview (continued)**

Substantial further work and investment to strengthen this platform, enhance consistency and deliver improved customer experience outcomes continues to be undertaken, and specifically include:

- Re-engineering key business processes and systems, including mortgages and business lending;
- Enhancing the process and experience for new customers to the Bank;
- Leveraging the Group's wealth platforms, products and capabilities to deepen customer relationships, across retail and business segments;
- Continued expansion in Victoria, Queensland and Western Australia;
- Further investment and capability build within the Middle Market segment;
- Continuing refinement and extension of sales and service disciplines within retail;
- Investment to upgrade technology platforms to enhance functionality and performance. These include credit cards, Asgard and business lending systems;
- Grow the life insurance business by expanding the product range.

Overall our core technology platforms continue to perform well and have the capacity to meet the growing needs of the business.

Customer satisfaction remains a priority and continues to be enhanced through the development of staff, productivity improvements and tailored service levels for different customer segments. St.George has a 75.9% customer satisfaction score at 31 March 2008 (Source: Roy Morgan Research). This is 6.1% above the average of the major banks.

The senior management team has been significantly strengthened with key appointments during the half year. Mr Les Matheson, formerly from Citibank, has been appointed to the role of Group Executive, Retail Bank. Also, the roles of Head of Strategy and Deputy Chief Financial Officer, and Group Treasurer have been filled.

## **2.2 Operational Update – Business Priorities**

### **2.2.1 Home Loans**

The Bank's growth in residential loans (including securitised loans) for the six months to 31 March 2008 was 9.9% annualised to \$72.6 billion.

Product development continued over the six months with a focus on continued enhancements to the Bank's Advantage Package product launched in January 2007. As a result of these enhancements this product was recently awarded a "5 Star" rating by Cannex, the highest rating possible.

In addition, the Bank continued its end-to-end review of its mortgage process with improvements delivered to increase levels of automation, speed of approval and documentation delivery together with lower rework rates to significantly improve service to customers and mortgage brokers.

The third party broker proportion of new settlements for the half year was 46% compared to 43% in the 31 March 2007 half and 44% in the 30 September 2007 half.

In terms of margin management, the Bank has continued to actively maintain a low level of introductory loans, which remain at 1% of total balances. Consistent with customer preferences, demand for fixed rate home loans remained strong with standard fixed rate balances growing by 34% over the half year on an annualised basis. Standard fixed rate loans represent 21% of total home loan balances.

The Bank continues to focus on improving the performance of both its proprietary and third party channels. Initiatives include faster approval processes, new lender induction programs and an increase in the branch and mobile lender sales force including Mortgage Connect, "owner operators".

The Bank's home loan runoff rate was relatively stable at 16% in the six months to 31 March 2008 despite an increased level of additional customer repayments evident over the period. The key drivers of ongoing low runoff levels continue to be lower levels of introductory loan business, improved product design, stronger customer relationships and the benefits of the Bank's ongoing customer retention program.

Despite increases in interest rates, credit quality remains excellent, reflecting the quality of the housing portfolio and prudent credit assessment policies. Both arrears levels and loan impairment charges remain at low levels.



## **2.2 Operational Update – Business Priorities (continued)**

### **2.2.2 Retail Deposits**

In the March 2008 half, St.George grew its retail deposit balances by 14.1% to \$51.1 billion from \$44.8 billion at 31 March 2007. Annualised growth since 30 September 2007 was 14.0%. System growth was 12.6%<sup>1</sup> annualised.

Retail funding accounts for 50.6% of total funding and other borrowings excluding securitisation, asset-backed conduit funding and preference shares as at 31 March 2008 compared to 53.8% as at 30 September 2007. Fixed term and direct saver products have grown strongly since 31 March 2007. Fixed term balances grew by 19.7% to \$17.7 billion and direct saver grew by 18.4% to \$8.7 billion compared to 31 March 2007. Transaction balance growth was impacted by seasonality as well as consumer behaviour in this current economic environment.

Retail deposits are an important source of funding and are the core of our business, particularly as access to term wholesale funding has become more expensive as a result of the global credit crisis. While the branch network and contact centre are key distribution sources for retail deposits, additional flows in the 2008 half were generated from the online channel as a result of:

- On-line applications for retail deposits launched in October 2007;
- Increased customer demand for low risk banking products;
- Enhancement of the Bank's marketing strategy to affiliate channels; and
- Targeted regional pricing strategies.

From 1 April 2008, the Bank is rolling out Secure Code (second factor authentication) that provides increased security to our growing number of internet banking users.

Opening and activating transaction accounts remains a focus to drive value in retail deposits. Of new customers establishing deposit products online, 64 per cent opened a Freedom transaction account. Cross selling remains a key strategy. The cross-sell of transaction accounts to new direct saver customers has been doubled through work practice management and limited time campaign offers. In Victoria, Queensland and Western Australia, 35 per cent of customers who have opened Power Saver Accounts in branches have also opened a Freedom Transaction Account. The focus on Queensland, Victoria and Western Australia has resulted in 20 per cent of new flows coming from these states during the half.

Other factors driving growth include:

- Local Market Model implemented in the branch network enabling local discretion pricing and local marketing initiatives;
- Promotional pricing of on-line high interest savings accounts incorporating direct saver and Asgard's eCash, supported by marketing through multiple media channels;
- Term Deposits are now available on Asgard's Mastertrust, with plans on track for eWrap by end of May 2008, and further enhancements scheduled on Asgard and other platforms by September 2008;
- Targeted promotional advertising of transaction accounts; and
- Use of more effective sales management strategies and techniques.

1. APRA Retail Deposits, March 2008.

## **2.2 Operational Update – Business Priorities (continued)**

### **2.2.3 Middle Market**

The Group continues to perform well in the Middle Market segment, with receivables growth of 31.2% annualised to \$27.6 billion since 30 September 2007. Queensland, Victoria and Western Australian markets continue to perform strongly with average annualised growth of 38.6% in the half year, and the Bank's core market of NSW also growing at a strong rate of 30.2%. The Bank's customer relationship model continues to provide exceptional customer service. East and Partners rank St.George as leading the major banks on overall customer service<sup>1</sup>. The business is focused around six key industry segments – manufacturing and wholesale, professionals, leisure and hospitality, health, property and construction, and automotive finance.

Customer loyalty and satisfaction continue to be key differentiators for St.George in the Middle Market segment with no customers indicating they are likely to change banks compared to an average of 17% for the four major banks according to East and Partners<sup>2</sup>. The high service levels provided to these customers result in stronger customer loyalty, minimal customer churn and a propensity for customers to broaden their relationship with St.George. These high customer satisfaction levels have driven exceptional customer advocacy with 51% of main bank customers indicating they would definitely recommend St.George<sup>3</sup>. This has also resulted in an increase to 5.4 products per customer in March 2008 from 5.2 in September 2007.

The Bank continues to invest in driving sales and productivity gains via its Best Business Bank Technology programme, which focuses on improving systems and processes and maintaining superior customer service. The programme is progressing well with a number of improvements already implemented to date.

Strong credit disciplines together with targeted focus in the upper middle market segment, continued interstate and industry diversification has resulted in a broader and more diversified business which not only has great momentum but is also in a strong position to effectively compete in this market and continue to outperform market growth.

The middle market portfolio remains conservatively positioned with an average loan size of \$6 million and over 90% of balances secured. It is pleasing to note that over 69% of new business is sourced from existing customers.

1. East and Partners – Australian Commercial Treasury Banking Markets July 07

2. East and Partners – Australian Commercial Transaction Banking Report August 2007.

3. Jones Donald Customer Satisfaction Program, September 2007

## **2.2 Operational Update – Business Priorities (continued)**

### **2.2.4 Wealth Management**

Wealth Management comprises superannuation and wealth management administration platforms, financial planning, investment management and packaging, licensee services, margin lending, direct shares, private banking and life and general insurance.

Wealth Management remains focussed on its strategy of accelerated growth, evidenced by Asgard's number five ranking in the most recent Plan for Life report (December 2007).

Despite domestic equity markets (ASX200) experiencing negative growth of 19.1% since October 2007, total managed funds of \$43.9 billion were only marginally down (1%) on 31 March 2007 balances. Inflows were \$4,065 million during the half compared to \$3,884 million in the 31 March 2007 half. Net inflows were also strong relative to other participants in the market due to effective distribution and retention.

There was a significant impact on the margin lending business as its performance is directly related to market performance and investor confidence. Margin lending receivables were \$2.5 billion compared to \$3.0 billion at 31 March 2007.

Maintaining sales levels, product enhancements, service improvements and tight expense management have countered some of the impact of the extreme negative and volatile performance of equity markets.

During the 31 March 2008 half, inflows of \$4.1 billion were \$181 million or 4.7% up on the 31 March 2007 half year, and above market average.

To assist and improve both service delivery and cost competitiveness, Asgard's Operations area successfully commenced an outsourcing strategy with IBM during the half year.

The recruitment campaigns for the Securitor financial planning group and St.George Financial Planning delivered an 11.4% increase across both businesses. Numbers of authorised representatives in licensee services also increased by 8.5%.

The Asgard and Mercer strategic alliance was renewed for a third consecutive time for another four year period.

AdviserNETgain, Asgard's award winning integrated financial planning and practice technology, increased the number of participating practices by 30% to 190 over the first half of the financial year.

The Investment Trends 2007 report released in January 2008 ranked AdviserNETgain as the number one solution in the 'hybrid' category for its ability to deliver integrated financial planning and practice management technology. This award was won for the second consecutive year.

Insurance sales also remained strong during the half, experiencing growth of 59% in internal life insurance gross written premiums compared to the March 2007 half.

Private Bank achieved 10.6% growth during the half in deposits, up 17.8% compared to March 2007.

## 2.2 Operational Update – Business Priorities (continued)

### 2.2.5 Interstate Expansion

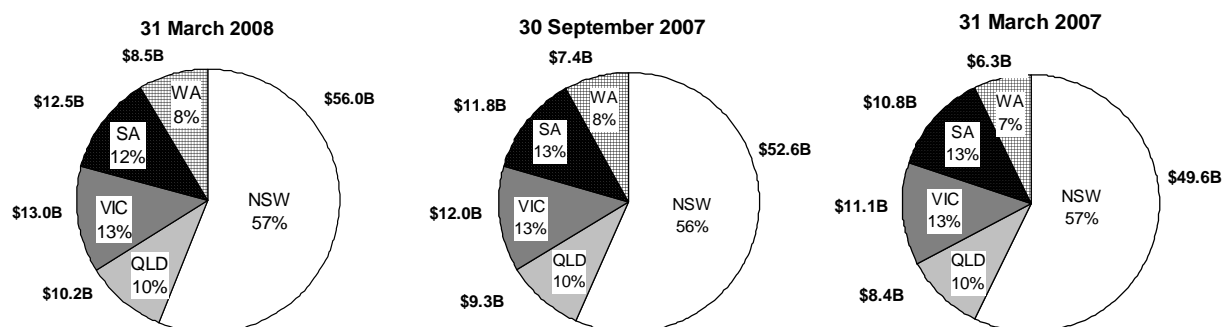
The Bank continued its strategy of accelerated growth in key customer segments in Victoria, Queensland and Western Australia. Strong growth was achieved over the last 12 months in these segments with middle market and residential receivables growing by 43% and 16% respectively.

	Residential Receivables				Middle Market			
	Mar 2008 \$B	Sep 2007 \$B	Mar 2007 \$B	Growth <sup>(1)</sup> %	Mar 2008 \$B	Sep 2007 \$B	Mar 2007 \$B	Growth <sup>(1)</sup> %
Victoria	9.7	9.2	8.7	11	3.3	2.8	2.4	37
Queensland	8.0	7.3	6.7	19	2.2	2.0	1.7	36
Western Australia	5.3	4.8	4.3	22	3.2	2.6	2.0	57
	23.0	21.3	19.7	16	8.7	7.4	6.1	43
New South Wales	41.0	39.6	37.8	9	15.0	13.0	11.8	27
South Australia	8.6	8.3	7.8	11	3.9	3.5	3.0	27
Total	72.6	69.2	65.3	11	27.6	23.9	20.9	32

(1) The above percentages are based on balances rounded to the nearest million dollars.

### Receivables by State<sup>(2)</sup>

(2) Middle market and residential loans



During the half year, the Bank continued to expand its distribution network by growing staff numbers, increasing ATMs and branches. One new branch was opened in Western Australia and Queensland respectively that service both retail and commercial customers. A further eight branches are planned in second half 2008, with five in Queensland, one in Western Australia and two in Victoria. Existing automated banking branches in Victoria are in the process of being converted to full service branches during the 2008 year. The alliance with BP has accelerated the Bank's ATM expansion strategy, with total ATMs increasing by 250 to 1,129 since 31 March 2007. In Western Australia, Queensland and Victoria, ATMs increased by 133 to 259 since 31 March 2007. The number of staff in these interstate locations has increased by 137 to 1,011 since 31 March 2007. The interstate expansion strategy also involves leveraging the third party broker channel and expanding the Bank's mobile lending force to further develop the Group's lending capability in these locations.

St.George's strategy is focussed on growing its target high value customer segments in these interstate markets and positioning St.George as an effective alternative to the major banks.

## **2.2 Operational Update – Business Priorities (continued)**

### **2.2.6 Risk Management**

In preparation for Basel II, the Bank has introduced a broad range of enhancements to its risk management framework. Significant business benefit has been derived from the new methodologies and risk management practices.

St.George is targeting Advanced status for the calculation of capital requirements under Basel II.

Accreditation for the Advanced approaches under Basel II is subject to APRA approval. The Bank will remain subject to Basel I during 2008.

### **2.2.7 Credit Quality**

Overall credit quality across all lending portfolios remains strong. A small number of the Bank's middle market and margin lending customers have been significantly impacted by market volatility and international credit turmoil. These include a \$458 million fully secured by property exposure to Centro Property Group; a \$60 million unsecured exposure to Allco Group (both of which are performing loans) and a \$25 million margin loan secured by Octaviar Limited (formerly MFS Ltd) shares and personal guarantees. A \$20 million specific provision has been raised on a single margin lending loan. Collective provisioning impacts for these exposures are not material, as either a specific provision has been raised where necessary or minimal loss is expected.

Residential lending arrears improved during the half compared to both 30 September 2007 and 31 March 2007. The residential past due 90 day loan ratio as a percentage of residential receivables improved compared to levels at 30 September 2007 and 31 March 2007. Other receivables past due 90 day loans (which include unsecured consumer loans) as a percentage of other receivables were 0.86% compared to 0.75% at 31 March 2007.

St.George does not have any direct or indirect exposure to United States or domestic sub-prime lending, collateralised debt obligations or hedge funds.

Total provisions and reserves for loan impairment were \$550 million at 31 March 2008 (31 March 2007: \$452 million). This comprises a collective provision of \$313 million, a specific provision of \$58 million and a general reserve for credit losses of \$179 million. When taken together, the after tax balance of the eligible portion of the collective provision and the balance of the general reserve for credit losses represent 0.5% of risk weighted assets. The portion of the after tax equivalent balance of the collective provision at 31 March 2008 that is eligible to meet APRA's expected future loss requirements is \$172 million, up from \$153 million at 31 March 2007.

The loan impairment expense was \$118 million (31 March 2007: \$93 million) and comprises a collective provision charge of \$22 million and a specific provision charge of \$96 million. The general reserve for credit losses was increased by \$26 million during the half year through an appropriation from profits reflecting growth in risk-weighted assets. The collective provision movement is primarily driven by arrears levels and changes in loan credit risk ratings on commercial facilities.

Total impaired assets (net of specific provisions) were \$70 million, compared to \$59 million at 31 March 2007. This represents 0.06% of net receivables and is steady compared to 31 March 2007.

Loan impairment expense, excluding the movement in the general reserve for credit losses, as a percentage of average gross loans and receivables was 0.22% compared to 0.20% at 31 March 2007.



## **2.3 Operational Update - Other**

### **2.3.1 Capital Management**

The Group's Tier 1 capital adequacy ratio was 7.0% and total capital adequacy ratio was 10.1% at 31 March 2008. In December 2007, APRA approved a reduction in the Group's minimum Tier 1 capital adequacy ratio to 6.25% from 7.0% reflecting the Group's overall low risk profile. APRA also approved a reduction in the Group's total capital adequacy ratio to 9.5% from 10.0%. Risk weighted assets increased by \$12.6 billion to \$69.7 billion since 31 March 2007, reflecting strong growth in lending assets.

The following capital management initiatives were completed during the half year:

- 2.2 million ordinary shares were issued under the Bank's Dividend Reinvestment Plan (DRP) raising \$76 million of capital;
- 4 million Converting Preference Shares (CPS II) were issued raising \$392 million (net of issue costs) in non-innovative Tier 1 capital. For accounting purposes, the CPS II are classified as debt with distributions included in interest expense. The CPS II replace USD250 million of depositary capital securities redeemed in June 2007;
- 21.9 million ordinary shares were issued pursuant to a private placement, raising \$759 million (net of issue costs) of Tier 1 capital;
- 3.5 million ordinary shares were issued under a Share Purchase Plan, raising \$85 million of Tier 1 capital.

At 31 March 2008, the Group's adjusted common equity to risk weighted assets (ACE ratio) was 5.2% (31 March 2007: 4.7%).

The Bank has a very strong capital position that provides both flexibility and capacity for future growth. The DRP will operate for the interim dividend with a 2.5% discount.

### **2.3.2 Group Executive Team**

Mr Paul Fegan was appointed the Group's Chief Executive Officer on 14 November 2007. Mr Fegan was appointed the Group's Managing Director on 7 February 2008.

The appointment of Mr Les Matheson to the role of Group Executive, Retail Bank was announced in April 2008. Mr Matheson will commence in June 2008.

### **2.3.3 Depositary Capital Securities (DCS)**

As previously reported to the market, St.George has been in a long standing dispute with the Australian Taxation Office relating to interest deductions claimed by St.George for the tax years 1998 to 2003 in respect of the subordinated debentures ("the Debentures") issued to St.George Funding Company, LLC ("LLC") as part of the DCS transaction completed in June 1997.

The Federal Court heard this matter on 25-27 July 2007 and its decision was handed down on 11 April 2008. The Federal Court held that the interest payments made by St.George under the Debentures were not deductible for tax purposes.

The financial impact to St.George of the Federal Court's decision is an expense of \$117 million (after tax) representing primary tax of \$84 million and interest of \$24 million (after tax) and a \$9 million tax benefit recognised in the 2004 year relating to interest expense on the debentures. The recognition of this expense resulted in a 17 basis point reduction in the Group's Tier 1 capital adequacy ratio.

St.George has reviewed the judgement carefully. St.George has appealed the decision to the Full Federal Court. In the meantime, St.George has recognised a \$117 million charge to its profit and loss for the half year ended 31 March 2008. This impact is disclosed as a significant item.

## **2.3 Operational Update – Other (continued)**

### **2.3.4 Visa Inc. Shareholding**

In March 2008, the Bank recognised a pre-tax gain of \$77 million (\$54 million after tax) following receipt of 1,901,719 shares in Visa Inc. as part of Visa's initial public offering (IPO). This gain represents the sale of 56.19% or 1,068,491 shares into the IPO and the fair value of 833,228 shares that continue to be held. The fair value reflects applicable trading restrictions on the remaining shares held.

The shares are classified as "Available for Sale Investments" in the Balance Sheet. The \$77 million gain from Visa Inc. has been treated as a significant item.

## **2.4 Future Prospects**

Economic growth in Australia was a solid 3.9% in 2007 despite the volatility in world financial markets. While there were still wide divergences amongst the states, NSW showed a significant improvement over the previous year.

The business environment was buoyant while credit growth expanded strongly and capital city house prices were up by over 12% nationally. Employment growth across the nation accelerated and domestic demand increased significantly, which in turn has fuelled inflationary pressures. In response, the Reserve Bank has raised the official cash rate from 6.25% to 7.25% since 31 March 2007.

On the global front, the United States is now considered to be heading towards negative growth as the turmoil in the housing market spreads through the rest of the economy. However, emerging economies (in particular China and India) continue to grow at a rapid rate, supporting commodity rich nations such as Australia.

Looking ahead, the downturn in the United States will have a dampening effect on the global economy. The International Monetary Fund has downgraded estimates for global growth to 3.7% in 2008, from 4.9% in 2007, and still see downside risks. Domestically, some signs of weakness are evident in the local economy with a drop in consumer confidence, softer retail sales and an easing in business survey results from high levels. However, other areas of the economy such as the labour force, capital expenditure and the resource sector remain strong. Given these offsetting forces, it is expected that domestic economic growth will ease, but remain moderate at 2.9% for 2008. Within this, the New South Wales economy should also settle back to around 3% real growth, supported by the finance, property and business sectors.

Global credit markets and equity markets are expected to remain volatile as the effects of the global credit crisis continue to be felt.

St.George is targeting home loans receivables growth of 10%, subject to the impact from the realignment of third party broker commissions. St.George is targeting Middle Market business growth well in excess of peers. Retail deposits are expected to grow in line with system. Wealth Management net inflows are expected to exceed system.

On the back of the strong first half performance, the Group continues to pursue its organic, customer-focused growth strategy. To accelerate this process the Group will be undertaking a major restructuring program over the next few years that will see substantial improvements in efficiencies. A \$30 million after tax provision has been recognised to fund this major program.

As previously advised, St.George's EPS target of 10 per cent assumed no one-off material credit losses and a reasonably sound economic environment. As a result of recognising a \$20 million credit loss on a margin loan during the half and as the effects of the turmoil in global financial markets flow through to the domestic economy, the Group has revised its EPS growth target accordingly to a range of 8 to 10 per cent for 2008, on the basis of no further unexpected material credit losses.

Against the back drop of a difficult operating environment, the financial position of the Group has been strengthened while delivering record profits. The Group expects to benefit from a significantly stronger second half. St.George is confident in its growth prospects despite the challenging environment, given its strong business momentum, conservative business mix and sound asset quality. The Bank's solid capital position puts us in great shape to capitalise on the profitable growth opportunities that we are seeing across our core businesses.



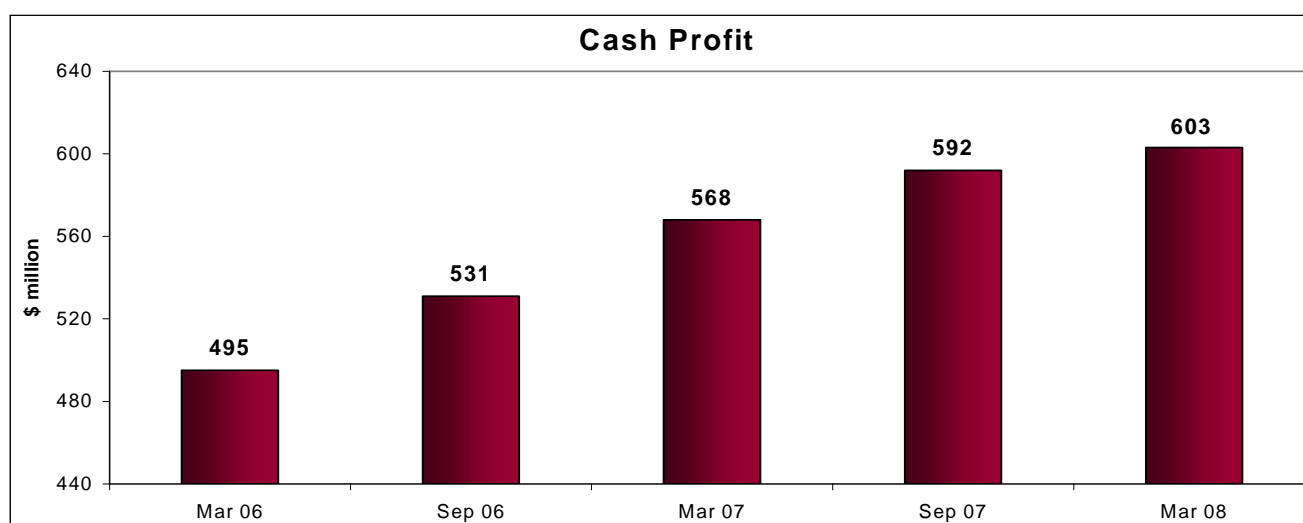
### 3 Financial Analysis

#### 3.1 Group Performance Summary – Cash Basis

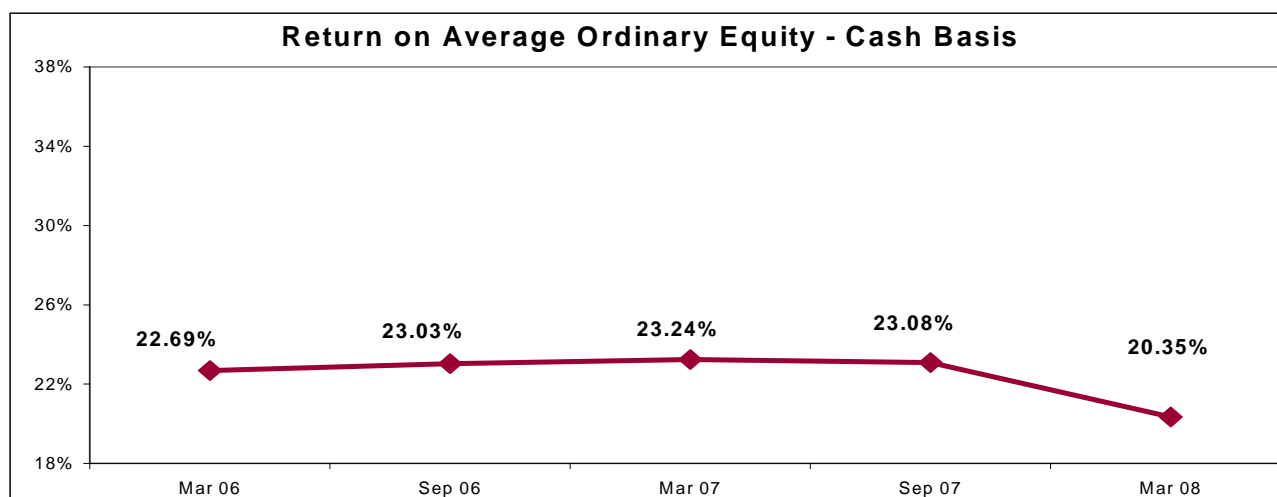
	Half Year		
	Mar 08 \$M	Sep 07 \$M	Mar 07 \$M
Interest income	4,965	4,297	3,906
Interest expense	3,773	3,182	2,828
<b>Net interest income</b>	<b>1,192</b>	<b>1,115</b>	<b>1,078</b>
Non interest income	493	552	527
<b>Total income</b>	<b>1,685</b>	<b>1,667</b>	<b>1,605</b>
Loan impairment expense <sup>(1)</sup>	118	85	93
Operating expenses	716	707	683
<b>Profit before income tax</b>	<b>851</b>	<b>875</b>	<b>829</b>
Income tax expense	233	267	248
<b>Profit after income tax</b>	<b>618</b>	<b>608</b>	<b>581</b>
Minority interests	-	2	-
<b>Profit after tax and minorities</b>	<b>618</b>	<b>606</b>	<b>581</b>
Preference dividends: (SAINTS)	11	10	9
- Step-up Preference Shares (SPS)	4	4	4
<b>Net cash profit <sup>(2)</sup></b>	<b>603</b>	<b>592</b>	<b>568</b>

(1) In addition to this charge, there is a \$26 million (31 March 2007: \$13 million) increase in the general reserve for credit losses, driven by strong growth in risk weighted assets. This amount is not distributable to shareholders.

(2) Operating profit after income tax, preference dividends, minorities and before significant items and hedging and non-trading derivative fair value movements.



### 3.1 Group Performance Summary – Cash Basis (continued)



Return on average ordinary equity was 20.35% compared to 23.24% in the 31 March 2007 half. This is the eleventh consecutive half year of above 20% return on equity. The 31 March 2008 half has been impacted by the decision to carry a higher level of ordinary equity.

### 3.1.1 Significant Items

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

The following significant items are contained in the Group's half year net profit result and are excluded from the Cash result.

	Half Year		
	Mar 08 \$M	Sep 07 \$M	Mar 07 \$M
<b>Significant item income</b>			
(i) gain from Visa Inc. shareholding	77	-	-
<b>Significant item expense</b>			
(ii) restructure costs	43	-	-
Net significant items gain before tax	34	-	-
<b>Income tax expense on significant items</b>			
(i) income tax expense on gain from Visa Inc. shareholding	23	-	-
(ii) income tax benefit on restructure costs	(13)	-	-
(iii) income tax expense on depositary capital securities	117	-	-
Total income tax expense on significant items	127	-	-
<b>Net significant items expense after tax</b>	(93)	-	-

#### March 2008 Half

- (i) In March 2008, the Bank recognised a gain of \$77 million (after tax \$54 million) following 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 continue to be held as an Available for Sale Investment in the Balance Sheet. The fair value reflects the applicable trading restrictions on the remaining shares held.

- (ii) Restructuring costs totalling \$43 million (\$30 million after tax) have been recognised during the half year. These restructure costs primarily represent staff redundancy costs relating to the restructuring of certain back-office business processes and consolidation of sites over the 2008 and 2009 financial years.
- (iii) In April 2008, the Federal Court held that the interest payments for the years 1998 to 2003 made by St. George on subordinated debentures issued as part of the depositary capital securities transaction completed in June 1997, were not deductible for income tax purposes.

#### September and March 2007 Half Years

There were no significant items during these periods.

### 3.1.2 Net Interest Income – Cash basis

Net interest income is derived from the Group's lending activities (including securitised loans and bank acceptances), trading securities, certain available for sale investments, hedging instruments and deposits and borrowings (including certain preference share capital).

Net interest income for the half year was \$1,192 million (31 March 2007: \$1,078 million), an increase of 10.6%.

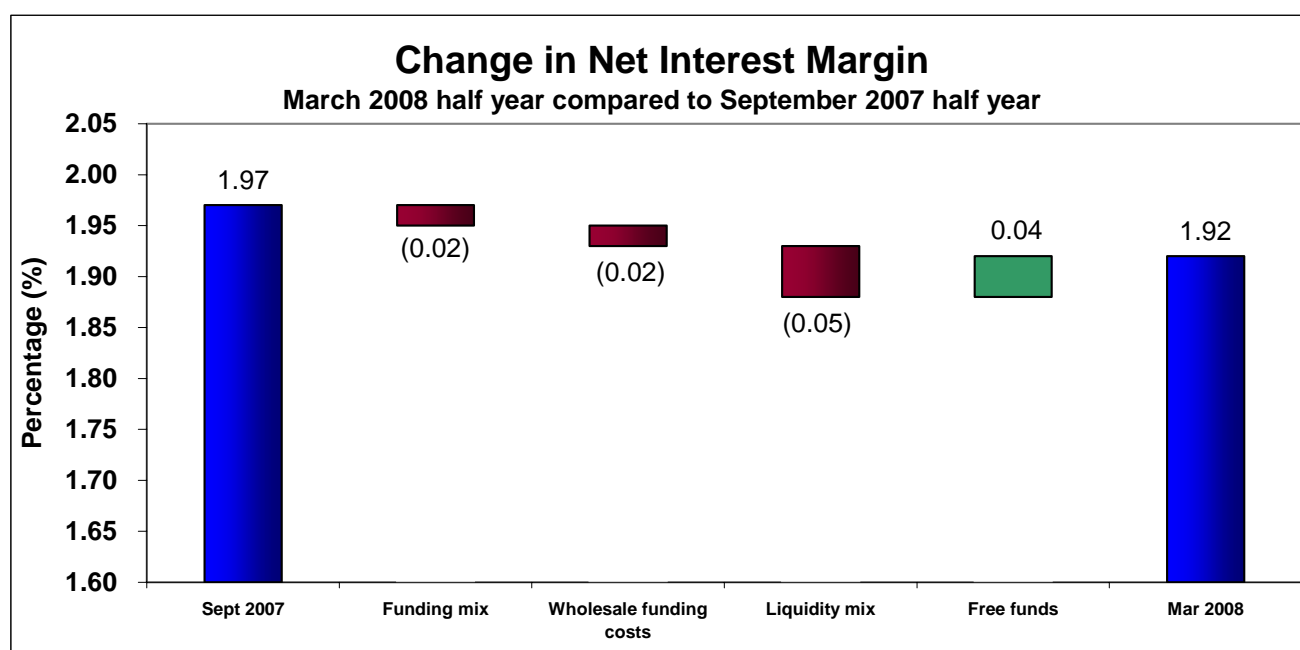
	Half Year					
	Mar 08		Sep 07		Mar 07	
	Balance \$M	Rate %	Balance \$M	Rate %	Balance \$M	Rate %
Net interest income	1,192		1,115		1,078	
Average						
Interest earning assets	124,443	7.98	113,100	7.60	104,367	7.49
Interest bearing liabilities	119,642	6.31	108,936	5.84	100,522	5.63
Interest spread <sup>(1)</sup>		1.67		1.76		1.86
Interest margin <sup>(1)</sup>		1.92		1.97		2.07

(1) Annualised

The increase in net interest income was primarily due to solid growth in average interest earning assets of 20.1% (annualised) since 30 September 2007, offset by a 5 basis point reduction in net interest margin to 1.92%. The reduction in net interest margin is primarily due to higher wholesale funding costs, a widening of the spread between official cash rates and the 90-day bank bill rate, and holding significantly more liquidity. The Bank has effectively managed this impact by increasing its home loan standard variable interest rates by 30 basis points over and above official cash rate rises during the half. A further 10 basis point lending rate increase occurred in April 2008. The official cash rate increases together with the ordinary share capital raisings completed have provided a free funds benefit during the half, with the full benefit to flow through to the second half of this year.

The growth in average interest earning assets during the half year is due to a \$6.9 billion or 13.6% (annualised) increase in the average balance of loans and receivables and an increased holding of liquid assets. This result is driven by solid growth in the Bank's residential loan portfolio and strong growth in its commercial loan portfolio.

### 3.1.2 Net Interest Income – Cash basis (continued)



The net interest margin was impacted by the following factors:

(a) Funding mix

Growth in average lending and liquidity balances during the half year exceeded growth in average retail deposit balances, resulting in an increased proportion of average wholesale funding from 58.7% in the 30 September 2007 half to 59.6% in the 31 March 2008 half.

(b) Wholesale funding costs

The global credit crisis has resulted in an increase in wholesale funding costs due to a lack of liquidity in term markets. This has also caused a widening of the spread between official cash rates and the 90 day bank bill rate. The Bank has effectively managed this impact by raising home loan standard variable rates by 30 basis points over and above official cash rate rises during the half year. The net impact of higher funding costs in the half was \$13 million.

(c) Liquidity mix

As a prudent response to the global credit crisis, the Bank is holding a higher level of liquid assets that represent 13.0% of total assets. This has a neutral impact on profit.

(d) Free funds

Reflects improved returns on equity as a result of three increases in official cash rates during the half year providing a 2 basis point benefit and the benefit gained from raising \$844 million of ordinary share capital under the Bank's Private Placement and Share Purchase Plan providing a further 2 basis point benefit.

(e) Weighting between 2008 half years

It is expected that the benefit obtained during the March 2008 half from the official cash rate rises and the lending rate rises over and above the official cash rate rises will be greater in second half 2008. A further 10 basis point increase in the standard variable home loan rate occurred in April 2008.

## 3.1.3 Non Interest Income

	Half Year		
	Mar 08 \$M	Sep 07 \$M	Mar 07 \$M
<b>Non Interest Income</b>			
Gain/(loss) from trading and investment portfolios			
- treasury	44	35	34
- mortgage insurance business investment portfolio	(33)	12	22
Product fees and commissions			
- lending	82	80	71
- deposit and other accounts	122	114	113
- electronic banking	104	113	105
Managed funds fees	143	154	142
Factoring and invoice discounting income	3	10	10
Net profit on disposal of land and buildings	9	9	1
Profit on sale of businesses	-	3	-
Trust distributions	3	6	4
Rental income	2	3	3
Profit on sale of shares	-	-	8
Dividend income	3	5	3
Other income	11	8	11
<b>Non interest income before significant items and hedging and non-trading derivatives - cash basis</b>	<b>493</b>	<b>552</b>	<b>527</b>
Less: Equity markets volatility on mortgage insurance business investment portfolio	(33)	12	22
<b>Non interest income - underlying basis</b>	<b>526</b>	<b>540</b>	<b>505</b>
<b>Cash Basis</b>	<b>493</b>	<b>552</b>	<b>527</b>
Add: Hedging and non-trading derivatives volatility	5	7	6
Add: Gain on Visa inc. shareholding	77	-	-
<b>Non interest income after significant items and hedging and non-trading derivatives</b>	<b>575</b>	<b>559</b>	<b>533</b>

Non interest income on a cash basis was \$493 million compared to \$527 million in the March 2007 half.

Excluding the impact of equity markets volatility, the underlying increase in non interest income was 4.2% to \$526 million (31 March 2007: \$505 million).

Non interest income was impacted by volatile investment markets. As a result, the trading result from the Group's mortgage insurance business investment portfolio was a loss of \$33 million compared to a gain of \$22 million in the March 2007 half. Managed funds income was also impacted with fee income increasing marginally compared to 31 March 2007 and falling compared to the 30 September 2007 half.

### 3.1.3 Non Interest Income (continued)

#### Trading and investment income

Trading portfolios generate net interest income and non interest income. Details are as follows:

	Half Year		
	Mar 08 \$M	Sep 07 \$M	Mar 07 \$M
<b>Net Interest Income</b>			
Treasury trading	10	16	18
Mortgage insurance business investment portfolio	7	7	5
Total net interest income	17	23	23
<b>Non Interest Income</b>			
Treasury trading	44	35	34
Mortgage insurance business investment portfolio	(33)	12	22
Total non interest income	11	47	56
Total trading income	28	70	79

Total treasury trading income, incorporating both net interest income and non interest income, was \$54 million (31 March 2007: \$52 million). Total trading income from the mortgage insurance investment portfolio was a loss of \$26 million (31 March 2007: a gain of \$27 million), reflecting a negative return from equity markets of \$33 million due to unusually volatile equity markets and net interest income of \$7 million. The mortgage insurance business also derived \$3 million of dividends during the half year that are included in dividend income (31 March 2007: \$3 million).

#### Non trading derivatives

Non trading derivatives represent the impact of hedge ineffectiveness and the fair value movement in the Group's Depositary Capital Securities ("DCS") and related swaps. The DCS were redeemed in June 2007.

The non trading derivatives gain was \$5 million for the half year compared to a \$6 million gain in the 31 March 2007 half year. This item is excluded from cash profit.

#### Product fees and commissions

Product fees and commissions – income increased by 6.6% to \$308 million (31 March 2007: \$289 million).

Lending – fees increased by 15.5% to \$82 million from \$71 million last half year. This reflects increased lending volumes.

Deposits and other accounts – fees increased by 8.0% to \$122 million (31 March 2007: \$113 million) reflecting growth in transaction accounts.

Electronic banking – fees were \$104 million compared to \$105 million in the 31 March 2007 half. This reduction is due to lower merchant transaction volumes and increased interchange fees charged by Visa and Mastercard on EMV chip transactions.



### **3.1.3 Non Interest Income (continued)**

#### **Managed funds fees**

Fee income from managed funds was \$143 million compared to \$142 million in the 31 March 2007 half. The result has been impacted by a fall in equity markets that reduced managed funds balances by 0.9% to \$43.9 billion since 31 March 2007. Gross inflows for managed funds grew by 4.7% during the half compared to 31 March 2007. Gross inflows were \$4,065 million compared to \$3,884 million in the 31 March 2007 half.

#### **Factoring and invoice discounting income**

Fee income was \$3 million during the half compared to \$10 million in the 31 March 2007 half. The Bank disposed of its factoring business in September 2007.

#### **Profit on sale of land and buildings**

The Bank's ongoing branch sale and leaseback program generated a profit of \$9 million for the half year (31 March 2007: \$1 million).

#### **Other income**

Other income remained steady at \$11 million (31 March 2007: \$11 million) during the half.

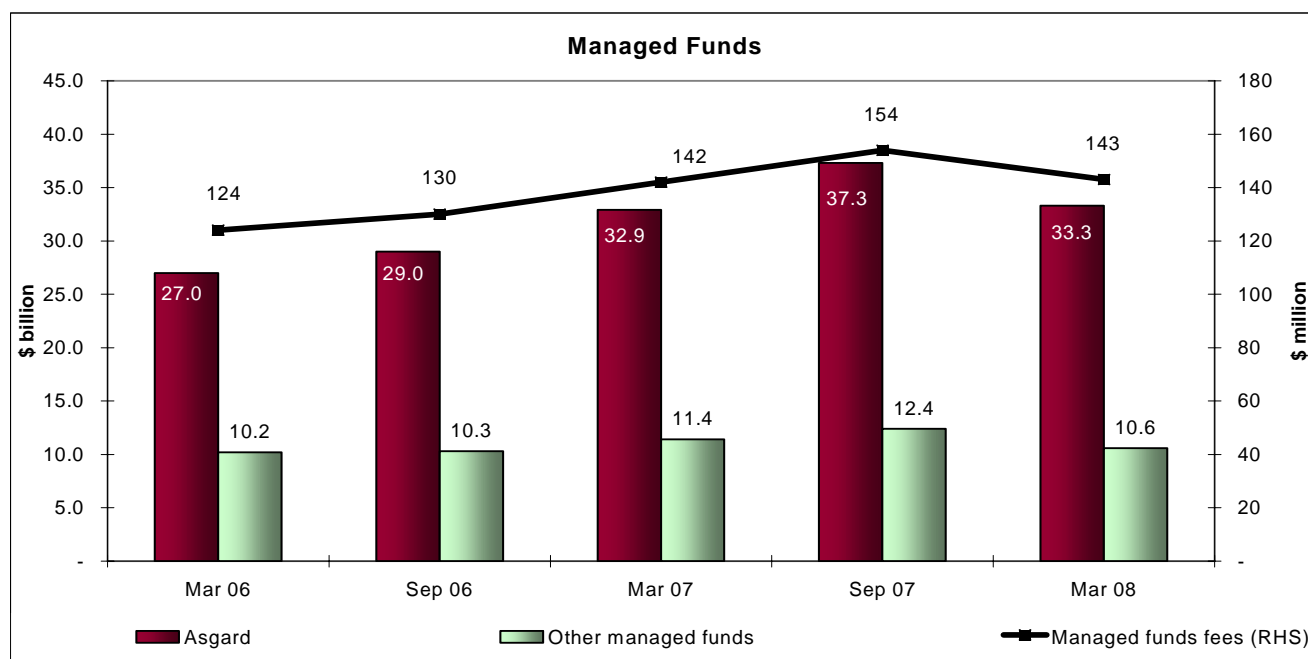
### 3.1.4 Managed Funds

The Group's managed funds comprise funds under management, funds under administration and funds under advice.

Half year ended	31 Mar 2008 \$M	30 Sep 2007 \$M	31 Mar 2007 \$M
<b>Income</b>			
Managed funds fees for the half year	143	154	142
<b>Managed funds</b>			
Funds under administration (Asgard)	33,270	37,347	32,934
Funds under management	7,323	8,489	8,007
Funds under advice	3,300	3,909	3,370
<b>Total managed funds</b>	<b>43,893</b>	<b>49,745</b>	<b>44,311</b>

Despite the negative performance of equity markets, managed funds were only marginally lower at \$43.9 billion compared to \$44.3 billion at 31 March 2007. Asgard's funds under administration rose by 1.0% to \$33.3 billion compared to 31 March 2007. Managed funds gross inflows have grown by 4.7% in the six months compared to the 31 March 2007 half.

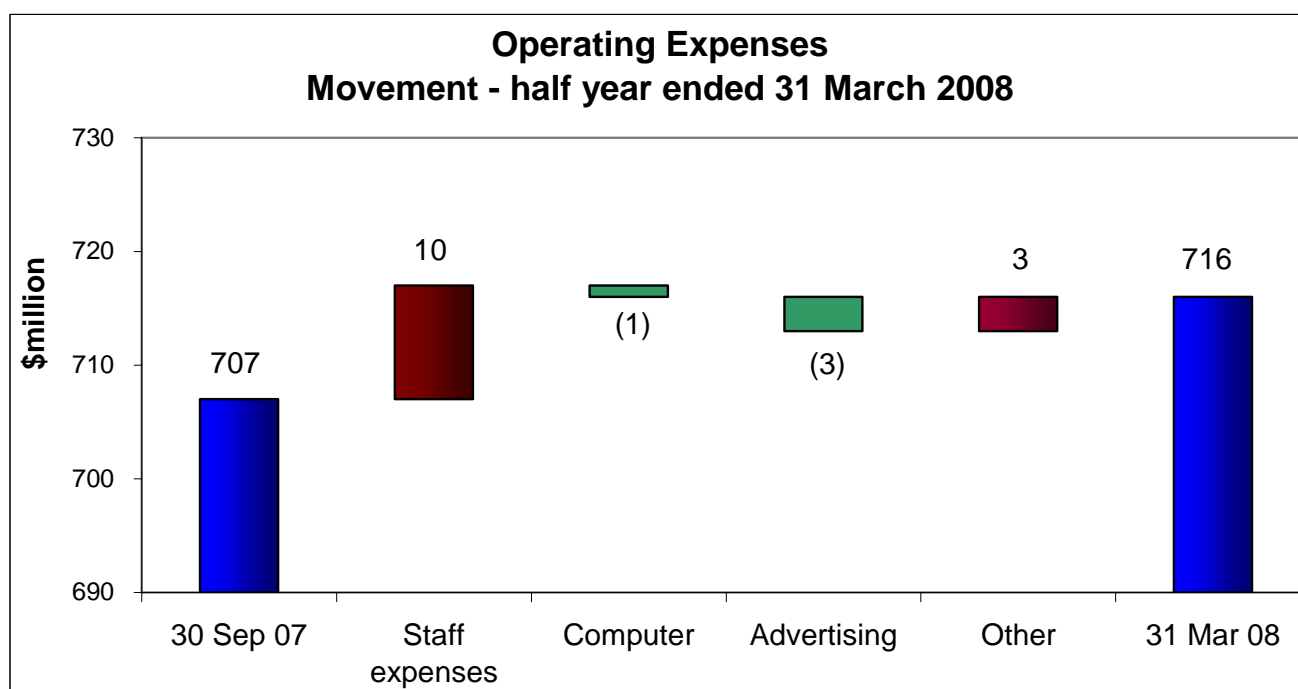
Funds under management were \$7.3 billion compared to \$8.0 billion at 31 March 2007, which relates to Advance Funds Management, an established investment packaging business. Funds under advice (Financial Planning and Private Bank) were \$3.3 billion compared to \$3.4 billion at 31 March 2007.



## 3.1.5 Operating Expenses - Cash basis

	Half Year		
	Mar 08	Sep 07	Mar 07
	\$M	\$M	\$M
<b>Staff expenses</b>			
Salaries	328	330	322
Contractors' fees	10	5	2
Superannuation	33	31	29
Payroll tax	23	21	21
Fringe benefits tax	1	4	3
Share based compensation	8	5	7
Other <sup>(1)</sup>	18	15	13
Total staff expenses	421	411	397
<b>Computer and equipment costs</b>			
Depreciation	17	17	18
Amortisation - intangible assets	19	15	16
Rental on operating leases	1	2	2
Other <sup>(2)</sup>	35	39	38
Total computer and equipment costs	72	73	74
<b>Occupancy costs</b>			
Depreciation	15	13	13
Rental on operating leases	44	44	42
Other <sup>(3)</sup>	21	23	19
Total occupancy costs	80	80	74
<b>Administration expenses</b>			
Advertising and public relations	26	29	30
Consultants	15	15	7
Fees and commissions	18	16	16
Postage	10	10	10
Printing and stationery	17	18	18
Subscription and levies	6	5	5
Telephone	5	5	5
Other <sup>(4)</sup>	46	45	47
Total administration expenses	143	143	138
<b>Operating expenses before significant items</b>	716	707	683
<b>Ratios - cash basis</b>			
Operating expenses as a % of average assets (annualised)	1.10%	1.20%	1.25%
Expense to income ratio	42.5%	42.4%	42.6%
Expense to income ratio - underlying basis	41.7%	42.7%	43.1%

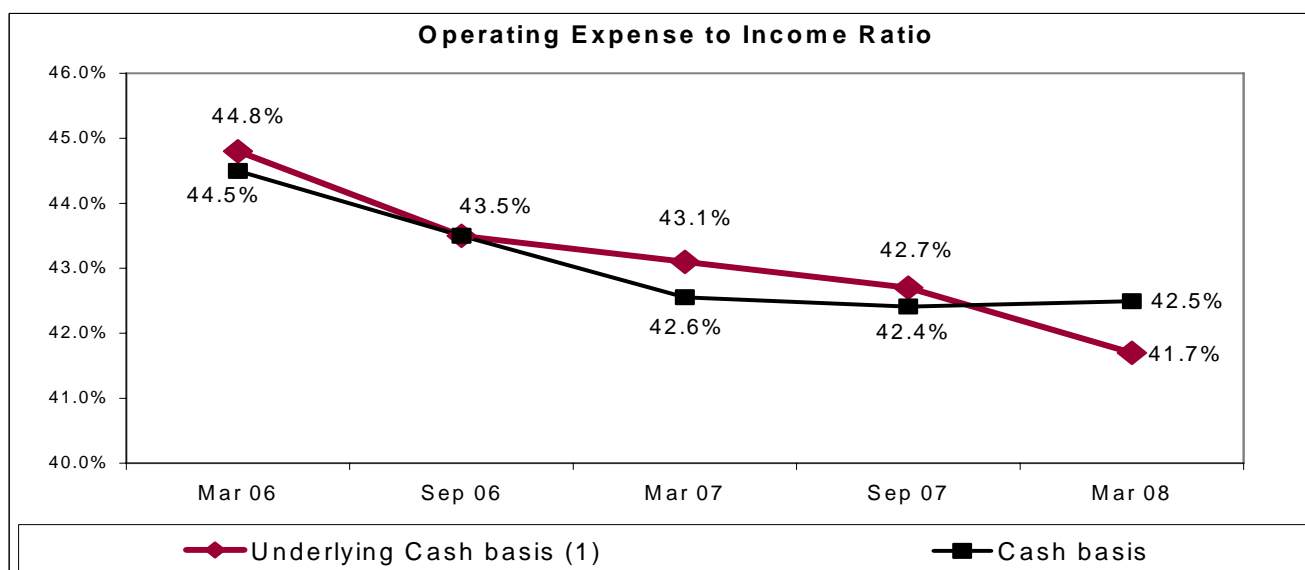
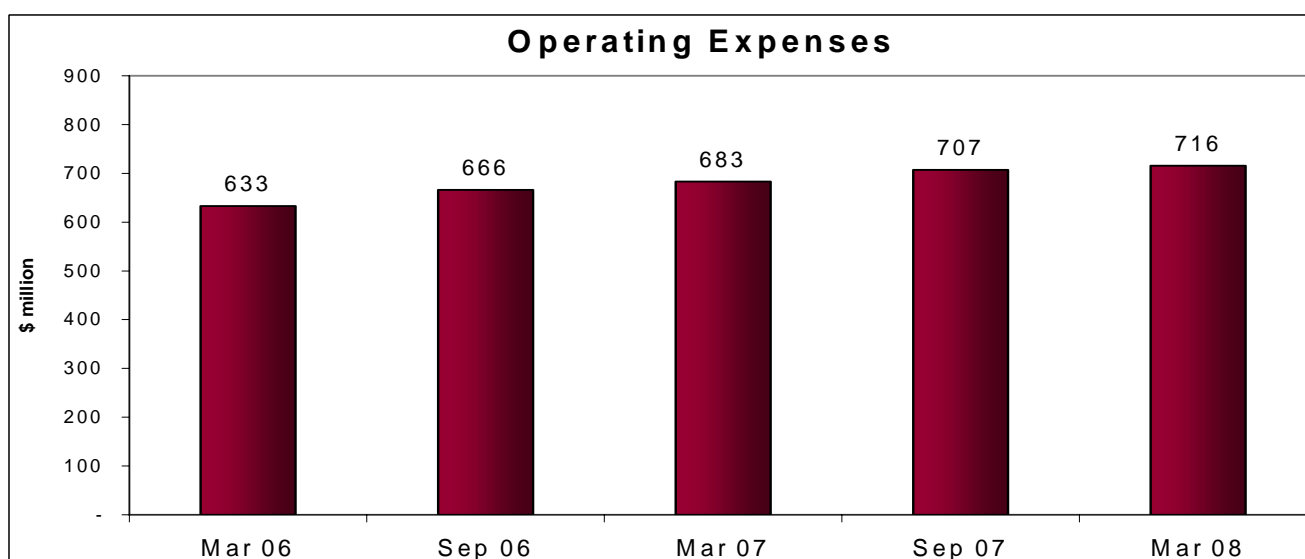
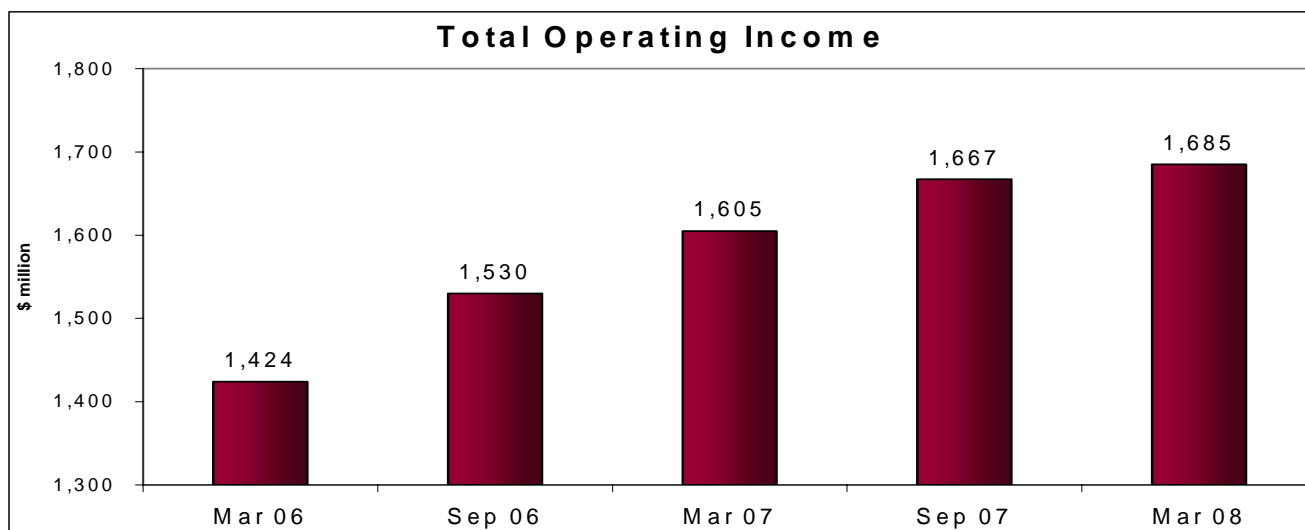
- (1) Other staff expenses primarily comprise recruitment fees, workers compensation insurance and staff welfare expenses.
- (2) Other computer and equipment costs primarily comprise software and hardware maintenance and data line communication costs.
- (3) Other occupancy costs primarily comprise management fees paid for property facility management and security services.
- (4) Other administration expenses primarily comprise audit and related service fees, legal services, travel costs, non-lending losses and financial charges.

**3.1.5 Operating Expenses - Cash basis (continued)**

Operating expenses were up 1.3% compared to the September 2007 half year. The expense to income ratio was 42.5% compared to 42.4% in the 30 September 2007 half reflecting effective cost control and lower growth in total revenue. The \$10 million increase in staff expenses comprises a 4% average wage increase effective 1 October 2007 and an average increase of 49 staff on a full-time equivalent basis during the half.

Expenditure on the Group's Basel II and Anti-Money Laundering compliance projects totalled \$10.4 million (30 September 2007 half: \$9.3 million) during the half of which \$6.8 million (30 September 2007 half: \$5.8 million) was recognised as an expense.

## 3.1.5 Operating Expenses - Cash basis (continued)



(1) Cash profit excluding equity markets volatility on the mortgage insurance business investment portfolio

### **3.1.5 Operating Expenses - Cash basis (continued)**

#### **Total operating expenses**

Operating expenses are classified into the broad categories of staff, computer and equipment, occupancy and administration. Total operating expenses before significant items were \$716 million for the half year (31 March 2007: \$683 million), an increase of 4.8%. Operating expenses increased by 1.3% compared to September 2007 half. These results reflect effective cost management and continued investment in the distribution network, technology systems and the brand to drive future growth and operating efficiencies. Risk management processes continue to be enhanced through the implementation of Basel II and the Anti Money Laundering program.

The Group launched a business optimisation program during the half. The program involves centralisation of specialist head office functions, renegotiation of supplier contracts and review of information technology projects. Cost savings of \$16 million are expected to be realised in second half 2008. The Bank also recognised a \$43 million restructuring provision in respect of restructuring certain business support processes. This amount has been recognised as a significant item and is expected to deliver further operating efficiencies in the 2008 and 2009 years.

#### **Staff expenses**

Staff expenses increased by \$24 million or 6.0% to \$421 million compared to 31 March 2007. This increase includes an average wage increase of 4%, effective 1 October 2007 and increased staff across retail, business banking and financial planning businesses to deliver on the Group's strategic growth priorities. Total staff increased to 8,173 from 7,889 at 31 March 2007 on a full time equivalent basis (excluding Scottish Pacific), an increase of 284 staff. Staff expenses increased by 2.4% compared to the 30 September 2007 half.

#### **Computer and equipment costs**

Computer costs of \$72 million were lower compared to \$74 million in the 31 March 2007 half. The balance of deferred expenditure at 31 March 2008 was \$158 million (31 March 2007: \$118 million). Investments during the half year included the development of a new credit card processing platform and investment in technology platforms to support business banking.

#### **Occupancy costs**

Occupancy costs increased by \$6 million or 8.1% to \$80 million, primarily reflecting new branches opened and the expansion of the Group's ATM network through its partnership with BP. Total branches increased to 400 from 390 at 31 March 2007. ATM's increased to 1,129 from 879 at 31 March 2007.

#### **Administration expenses**

Administration costs increased by \$5 million to \$143 million compared to \$138 million in the 31 March 2007 half. This increase primarily relates to additional spend on consultants that is due to the implementation of Basel II and Anti Money Laundering requirements.

## 3.1.6 Loan Impairment Expense – Cash basis

	Half Year		
	Mar 08 \$M	Sep 07 \$M	Mar 07 \$M
<b>Specific provisions (net of recoveries)</b>			
Residential loans	4	5	10
Consumer loans	48	48	50
Margin lending	20	-	-
Commercial loans	24	24	18
<b>Total</b>	<b>96</b>	<b>77</b>	<b>78</b>
<b>Collective provision</b>	<b>22</b>	<b>8</b>	<b>15</b>
<b>Loan impairment expense</b>	<b>118</b>	<b>85</b>	<b>93</b>
<b>Movement in general reserve for credit losses</b>	<b>26</b>	<b>23</b>	<b>13</b>
Loan impairment expense (annualised):			
As a percentage of average gross loans	0.22%	0.17%	0.20%
As a percentage of average risk weighted assets	0.35%	0.28%	0.34%
As a percentage of average assets	0.18%	0.14%	0.17%

The loan impairment charge was \$118 million compared to \$93 million in the March 2007 half and \$85 million in the September 2007 half. The increase primarily reflects a specific provision charge on a single margin lending loan. Loan impairment expense as a percentage of average gross loans was 0.22% compared to 0.20% in the 31 March 2007 half and 0.17% in the 30 September 2007 half.

The specific provision charge was \$96 million compared to \$78 million in the March 2007 half and \$77 million in the September 2007 half. The charge was impacted by a \$20 million specific provision recognised on a margin lending loan during the half. Both consumer loan and residential loan specific provision charges either improved or were steady during the half when compared to both the March 2007 and September 2007 half years. Overall loan losses remain low, reflecting prudent lending policies and the low risk business mix of the lending portfolio.

The collective provision charge was \$22 million compared to \$15 million in the March 2007 half and \$8 million in the September 2007 half. The increase primarily relates to portfolio growth and loan risk rating downgrades on certain commercial loans. Over 90% of the Group's commercial lending portfolio is secured and has a low loan to valuation ratio. The collective provision charge benefited from an improvement in unsecured consumer loan and home loan arrears.

The general reserve for credit losses increased by \$26 million reflecting strong growth in risk weighted assets during the half.

At 31 March 2008 the Group is well provisioned with the \$179 million balance of the general reserve for credit losses together with the \$172 million eligible portion of the collective provision not relating to incurred losses (after tax), representing 0.5% of risk weighted assets.



## 3.1.7 Income Tax Expense – Cash basis

	Half Year		
	Mar 08 \$M	Sep 07 \$M	Mar 07 \$M
Income tax expense shown in the results differs from prima facie income tax payable on pre-tax operating profit for the following reasons:			
Cash profit before tax	851	875	829
Prima facie income tax payable calculated at 30% of cash profit	255	262	249
Add: tax effect of differences which increase tax payable			
Preference dividends classified as interest expense	5	4	6
Share based payments expense	2	2	2
(Overprovision)/Underprovision for income tax in prior period	(4)	2	(3)
Other	1	3	-
Less: tax effect of differences which reduce tax payable			
Non assessable income	(2)	-	(2)
Deduction allowable on shares issued to employees	(1)	(1)	(1)
Difference between accounting profit and assessable profit on sale of assets	1	(4)	-
Rebatable dividends	(1)	(1)	(1)
Recognition of capital gains tax losses	(5)	-	-
Recognition of tax losses	(10)	-	-
Tax consolidation benefit	(8)	-	-
Other	-	-	(2)
<b>Total income tax expense</b>	<b>233</b>	<b>267</b>	<b>248</b>
Effective tax rate %	27.4	30.5	29.9

The income tax expense for the 31 March 2008 half year was \$233 million (31 March 2007: \$248 million) with an effective tax rate of 27.4% compared to 29.9% in the 31 March 2007 half. The lower effective tax rate is primarily due to a tax benefit gained from a controlled entity entering the tax consolidated group and consequently remeasuring the tax cost value of the entity's assets and the recognition of tax losses relating to the Bank's discontinued New Zealand supermarket banking joint venture in 2006.

### **3.1.8 Segmental Results - Cash basis**

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

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

## 3.1.8 Segmental Results - Cash basis (continued)

	Retail Bank \$M	Institutional & Business Banking \$M	Bank SA \$M	Wealth Management \$M	Consolidated \$M
<b>Half year ended 31 March 2008</b>					
Net interest income	594	370	179	49	1,192
Non interest income					
Underlying	227	94	51	154	526
SGIA investment portfolio trading result	(29)	-	(4)	-	(33)
	198	94	47	154	493
Total income	792	464	226	203	1,685
Bad and doubtful debts	66	23	8	21	118
Operating expenses	376	147	91	102	716
Total segment expenses	442	170	99	123	834
Profit before tax	350	294	127	80	851
Expense to income ratio - cash	47.5%	31.7%	40.3%	50.2%	
Expense to income ratio - underlying	45.8%	31.7%	39.6%	50.2%	
<b>Half year ended 30 September 2007</b>					
Net interest income	580	321	166	48	1,115
Non interest income					
Underlying	245	86	49	160	540
SGIA investment portfolio trading result	11	-	1	-	12
	256	86	50	160	552
Total income	836	407	216	208	1,667
Bad and doubtful debts	67	14	4	-	85
Operating expenses	380	142	86	99	707
Total segment expenses	447	156	90	99	792
Profit before tax	389	251	126	109	875
Expense to income ratio - cash	45.5%	34.9%	39.8%	47.6%	
Expense to income ratio - underlying	46.1%	34.9%	40.0%	47.6%	
<b>Half year ended 31 March 2007</b>					
Net interest income	572	298	162	46	1,078
Non interest income					
Underlying	229	80	44	152	505
SGIA investment portfolio trading result	20	-	2	-	22
	249	80	46	152	527
Total income	821	378	208	198	1,605
Bad and doubtful debts	73	12	7	1	93
Operating expenses	370	131	86	96	683
Total segment expenses	443	143	93	97	776
Profit before tax	378	235	115	101	829
Expense to income ratio - cash	45.1%	34.7%	41.3%	48.5%	
Expense to income ratio - underlying	46.2%	34.7%	41.7%	48.5%	

### **3.1.8 Segmental Results - Cash basis (continued)**

#### **Retail Bank (RB)**

- RB's contribution to profit before tax decreased by 7.4% to \$350 million (31 March 2007: \$378 million) as a result of a \$29 million loss from the Group's mortgage insurance investment portfolio and higher funding costs.
- Net interest income increased by 3.8% to \$594 million reflecting growth in home loans and strong growth in retail deposits. Net interest income has, however, been impacted by the widening spread between official cash rates and the 90 day bank bill rate, despite the Bank's lending repricing initiatives.
- Non interest income decreased by 20.5% to \$198 million. Non interest income was primarily impacted by a negative contribution from the Group's mortgage insurance business investment portfolio during the 2008 half that is \$49 million lower compared to 31 March 2007 which is the major portion of the \$55 million impact this had on the Group. In the March 2007 half, a \$7 million gain on the sale of Mastercard shares was recognised.
- Operating expenses were effectively controlled, increasing by 1.6% to \$376 million from \$370 million in the 31 March 2007 half. The expense to income ratio was 47.5% compared to 45.1% in the 31 March 2007 half, primarily due to the fall in total income during the half.
- Loan impairment expense fell to \$66 million compared to \$73 million in the 31 March 2007 half, reflecting a downward trend in residential and unsecured consumer loan arrears levels. The percentage of the Group's past 90 day due other receivables that includes unsecured consumer loans was 0.86% (31 March 2007: 0.75%).

#### **Institutional & Business Banking (IBB)**

- IBB's contribution to profit before tax was \$294 million (31 March 2007: \$235 million), an increase of 25.1%. IBB comprises the Middle Market segment, auto and equipment lending and financial markets. There has been strong growth in Middle Market receivables during the half year, assisted by increasing the number of relationship managers, interstate expansion and the industry leading customer satisfaction position held by St.George in this segment.
- Net interest income increased by 24.2% to \$370 million, reflecting strong growth in commercial loans and business deposits during the half year.
- Non interest income increased by 17.5% to \$94 million, reflecting strong lending, and business deposit growth together with an increased contribution from treasury trading activities.
- Operating expenses increased by 12.2% to \$147 million compared to \$131 million in the 31 March 2007 half. The increase is due to investment in the number of relationship managers and interstate expansion. The expense to income ratio decreased to 31.7% from 34.7% in the 31 March 2007 half.
- Loan impairment expense increased to \$23 million compared to \$12 million in the 31 March 2007 half, reflecting strong growth in the middle market loan portfolio and an increase in the rate of downgrades to loan credit risk grades.

### **3.1.8 Segmental Results - Cash basis (continued)**

#### **Bank SA (BSA)**

- BSA's contribution to profit before tax was \$127 million (31 March 2007: \$115 million), an increase of 10.4%.
- Net interest income increased by 10.5% to \$179 million reflecting strong growth in its commercial loan portfolios, solid growth in retail deposits and the impact of higher wholesale funding costs.
- Non interest income increased by 2.2% to \$47 million impacted by a negative contribution from the Group's mortgage insurance investment portfolio.
- Operating expenses increased by 5.8% to \$91 million compared to the 31 March 2007 half. The expense to income ratio fell to 40.3% from 41.3% in the 31 March 2007 half, reflecting prudent cost management.

#### **Wealth Management (WM)**

- WM's contribution to profit before tax was \$80 million (31 March 2007: \$101 million), a decrease of 20.8%. Managed funds and margin lending balances have been impacted by the extremely negative and volatile performance of equity markets. The result has also been impacted by a \$20 million loan impairment charge on a margin loan.
- Net interest income increased by 6.5% to \$49 million and was impacted by volatile equity markets that have led to a decline in margin lending balances.
- Non interest income increased by 1.3% to \$154 million. Growth has been impacted by a significant decline in equity markets, resulting in relatively flat managed funds balances and fee income compared to the 31 March 2007 half.
- Loan impairment expense was \$21 million compared to \$1 million in the 31 March 2007 half. This charge mainly represents a provision raised against a margin lending facility.
- Operating expenses increased by 6.3% to \$102 million from \$96 million in the 31 March 2007 half. The expense to income ratio was 50.2% compared to 48.5% in the 31 March 2007 half.

### **3.1.9 Mortgage Insurance**

St.George Insurance Australia Pty Limited (SGIA) is a wholly owned lender's mortgage insurance subsidiary of the Bank.

The outstanding balance of loans insured by the Bank's mortgage insurer as at 31 March 2008 had a total value of \$38.3 billion. The latest actuarial assessment completed as at 30 September 2007 has determined that the reserves held to meet potential claims are conservative when compared to the minimum requirements as prescribed by APRA.

Based on reinsurance arrangements, SGIA has a limit of liability for each policy year for loans with a loan to valuation ratio (LVR) exceeding 80% based upon the amount of loans originated in the policy year.

From 1 October 2006, new reinsurance arrangements also cover "Low Doc" loans with LVRs between 60% and 80% and "No Deposit" loans in addition to Standard loans.

Under the various reinsurance arrangements, SGIA retains the first risk in the range of 0.5% to 0.78% according to the policy year. Loans are reinsured to a limit of between 1.4% and 5% for non-securitised loans, and 5% for securitised loans.

SGIA also provides mortgage insurance cover for Standard and No Deposit loans with LVRs below 80% and Low Doc loans with LVRs below 60%. This cover is capped to \$2 million in claims for each policy year.

During its history, the mortgage insurer has not made a claim under its reinsurance treaties.

The mortgage insurer's investment portfolio consists of equities, fixed interest securities and term deposits. Two external fund managers independently manage the portfolio, with the performance regularly monitored by the mortgage insurer and the Bank.

The mortgage insurer is not reported as a separate segment in the Group's segmental results. Its results are included within the Retail Bank and BankSA segments. Due to the significance of the mortgage insurer's operations, a summary of its contribution to the Group is disclosed in the following table:

**3.1.9 Mortgage Insurance (continued)****Performance Summary – Contribution to Group Result**

	Half Year		
	31 Mar 2008 \$M	30 Sep 2007 \$M	31 Mar 2007 \$M
Net interest income			
- mortgage insurance	27	24	21
- investment portfolio	7	7	5
Non-interest income			
- investment portfolio fair value movement	(33)	12	22
- dividends	3	5	3
Claims	(4)	(2)	(4)
Other expenses	(5)	(5)	(3)
Profit before tax	(5)	41	44
Income tax expense	2	(11)	(11)
Profit after tax	(3)	30	33
Total assets	380	397	370
Investment portfolio	358	381	359
Profit before tax by source			
* Mortgage Insurance	% NA	45.45	33.18
* Investment Portfolio	% NA	54.55	66.82

Loan risk fees collected by the Bank in respect of SGIA's mortgage insurance activities are regarded as fees that are integral to those loans and recognised as an adjustment to the yield of the loan. Such fees are deferred and amortised to interest income over the estimated life of the loan using the effective interest rate method.

SGIA's contribution to the Group's profit before tax was a loss of \$5 million compared to a gain of \$44 million in the 31 March 2007 half. Net interest income derived from mortgage insurance increased to \$27 million (31 March 2007: \$21 million), due to growth in home loan balances. Mortgage insurance claims were \$4 million (31 March 2007: \$4 million), reflecting the quality of the loan portfolio. Investment income was a loss of \$23 million (31 March 2007: gain of \$30 million) due to the extreme negative and volatile performance of equity markets.

The Group plans to rebalance the mix of the investment portfolio with a view to minimising volatility in future and the impact of new capital adequacy rules effective from 1 July 2008 that increase the capital required for equity investments.

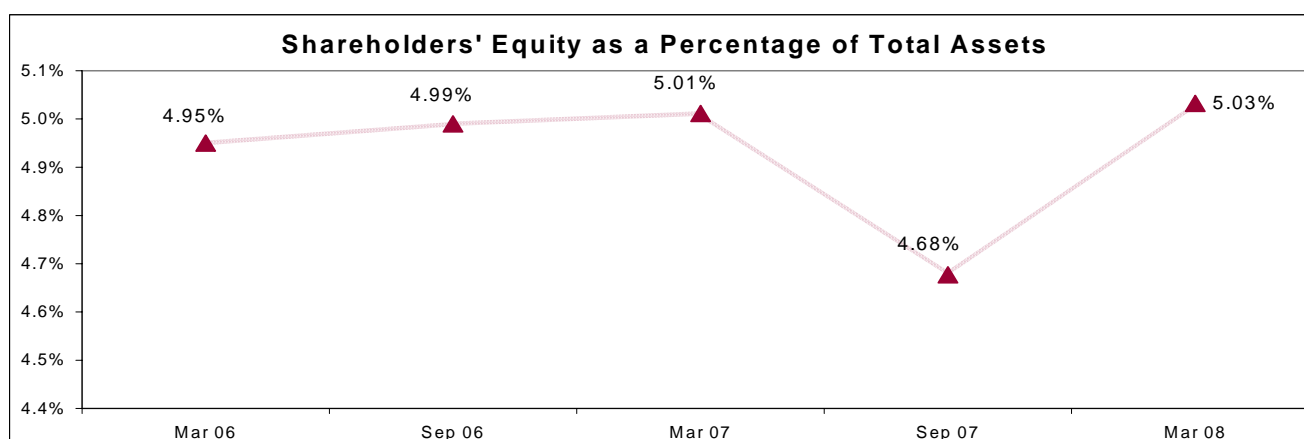
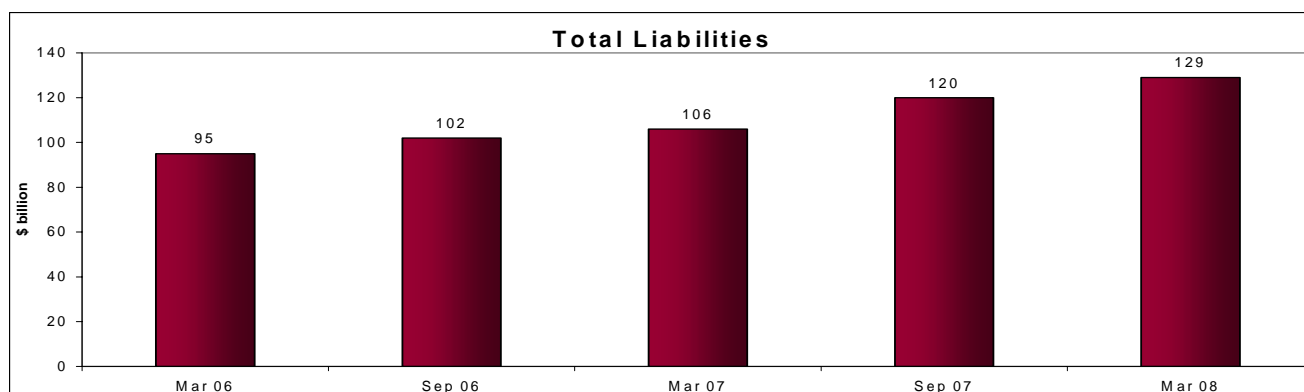
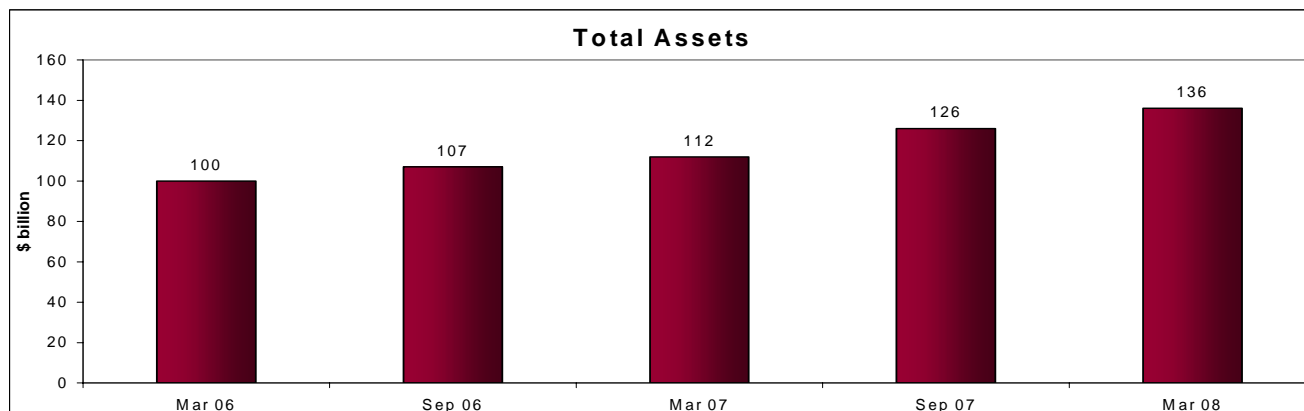


## 3.2 Group Position Summary

As at	31 Mar 2008 \$M	30 Sep 2007 \$M	31 Mar 2007 \$M
<b>Assets</b>			
Cash and liquid assets	3,035	2,081	1,188
Receivables due from other financial institutions	477	1,244	1,180
Assets at fair value through the income statement	13,314	11,339	6,043
Derivative assets	2,621	1,271	877
Available for sale investments	829	929	1,381
Loans and other receivables	93,636	89,884	85,144
Bank acceptances of customers	19,774	16,343	13,580
Property, plant and equipment	336	345	332
Intangible assets	1,344	1,323	1,305
Other assets	943	1,041	950
<b>Total Assets</b>	<b>136,309</b>	<b>125,800</b>	<b>111,980</b>
<b>Liabilities</b>			
Retail funding and other borrowings	118,960	108,005	97,152
Payables to other financial institutions	965	1,013	473
Bank acceptances	5,050	6,348	5,456
Derivative liabilities	3,049	3,440	2,202
Bills payable and other liabilities	1,425	1,110	1,085
<b>Total Liabilities</b>	<b>129,449</b>	<b>119,916</b>	<b>106,368</b>
<b>Net Assets</b>	<b>6,860</b>	<b>5,884</b>	<b>5,612</b>
<b>Shareholders' Equity</b>			
Share capital	5,480	4,549	4,467
Reserves	259	243	176
Retained profits	1,115	1,086	951
Minority interests in controlled entities	6	6	18
<b>Total Shareholders' Equity</b>	<b>6,860</b>	<b>5,884</b>	<b>5,612</b>
Shareholders' equity as a percentage of total assets	5.03%	4.68%	5.01%
Net tangible assets per ordinary share issued	\$8.95	\$7.63	\$7.16
Number of ordinary shares issued (000's)	560,728	532,231	529,888

### 3.2.1 Total Assets

Total assets were \$136.3 billion at 31 March 2008 (31 March 2007: \$112.0 billion), an increase of 21.7%. This reflects growth of 14.9% in lending assets (including bank acceptances and securitised loans) to \$113.4 billion since 31 March 2007 and an increased holding of liquid assets.



The decline in the ratio to 4.68% at 30 September 2007 was due to the strong growth in total assets during that half and the timing of the ordinary share capital raisings that occurred in the March 2008 half.

### 3.2.2 Lending Assets

Lending assets increased to \$113.4 billion (31 March 2007: \$98.7 billion), an increase of 14.9%. Annualised growth since 30 September 2007 was 13.5%.

As at	31 Mar 2008 \$M	30 Sep 2007 \$M	31 Mar 2007 \$M
<b>Residential</b>			
Housing loans	34,205	28,681	25,095
Securitised housing loans	16,249	18,752	19,214
Home equity loans	22,189	21,781	21,033
<b>Total Residential</b>	<b>72,643</b>	<b>69,214</b>	<b>65,342</b>
<b>Consumer</b>			
Personal loans <sup>(1)</sup>	2,975	2,821	2,688
Line of credit	1,639	1,512	1,408
Margin lending	2,524	3,169	2,984
<b>Total Consumer</b>	<b>7,138</b>	<b>7,502</b>	<b>7,080</b>
<b>Commercial</b>			
Commercial loans	11,004	10,298	10,070
Bank bill acceptances	19,533	15,976	13,229
Hire purchase <sup>(2)</sup>	2,629	2,367	2,171
Leasing <sup>(3)</sup>	627	538	461
<b>Total Commercial</b>	<b>33,793</b>	<b>29,179</b>	<b>25,931</b>
<b>Foreign exchange cash advances</b>	<b>82</b>	<b>41</b>	<b>57</b>
<b>Structured financing <sup>(4)</sup></b>	<b>67</b>	<b>582</b>	<b>597</b>
<b>Gross lending assets</b>	<b>113,723</b>	<b>106,518</b>	<b>99,007</b>
<b>Collective provision</b>	<b>313</b>	<b>291</b>	<b>283</b>
<b>Net lending assets</b>	<b>113,410</b>	<b>106,227</b>	<b>98,724</b>
<b>Lending assets are comprised of:</b>			
Net loans and receivables	93,636	89,884	85,144
Bank acceptances - commercial	19,533	15,976	13,229
Bank acceptances - margin lending	241	367	351
<b>Net lending assets</b>	<b>113,410</b>	<b>106,227</b>	<b>98,724</b>

(1) Includes \$121m of securitised personal loans as at 31 March 2008  
(2) Includes \$174m of securitised hire purchase loans as at 31 March 2008  
(3) Includes \$41m of securitised leases as at 31 March 2008  
(4) The reduction in structured finance lending is primarily due to the termination of a single loan during the half.

### **3.2.2 Lending Assets (continued)**

Residential loans increased by 11.2% to \$72.6 billion from \$65.3 billion as at 31 March 2007. Despite the relatively weaker performance of the New South Wales housing market to other states, solid growth in home loan balances was achieved. This reflects the success of the Bank's expansion strategy into Western Australia, Queensland and Victoria, where it has invested in its distribution network and effectively utilised third party mortgage brokers to deliver strong lending growth in these target markets. There are encouraging signs in the New South Wales market with economic measures such as the New South Wales state final demand figures steadily improving over the last twelve months.

Consumer loans remained flat at \$7.1 billion compared to 31 March 2007 and comprise margin loans, credit cards and personal loans. Credit cards grew by 16.4% to \$1.6 billion (31 March 2007: \$1.4 billion) reflecting the success of the Bank's cross sell initiatives and award winning "Vertigo" credit card. Margin lending receivables were \$2.5 billion compared to \$3.0 billion at 31 March 2007. The portfolio has been impacted by falling equity markets and resulting margin calls.

Commercial loans grew by 30.3% to \$33.8 billion from \$25.9 billion at 31 March 2007. Annualised growth in commercial loans since 30 September 2007 was a strong 31.6%, despite intense competition in this market. Middle market receivables grew by 32.0% to \$27.6 billion since 31 March 2007 and recorded an annualised increase of 31.2% since 30 September 2007. This strong growth reflects the success of St.George's business bank that consistently delivers exceptional industry leading levels of customer service.

### 3.2.3 Impaired Assets

Total impaired assets (net of specific provisions) were \$70 million at 31 March 2008 (31 March 2007: \$59 million).

Past due 90 day loans were \$226 million compared to \$241 million at 31 March 2007. Residential past due 90 day loans as a percentage of total residential loans (excluding securitised loans) were 0.24% compared to 0.36% at 31 March 2007. The ratio fell to 0.19% (31 March 2007: 0.26%) including securitised loans. These loans are well secured and minimal losses are expected as the properties have either low loan to valuation ratios or are mortgage insured. Residential past due 90 day loans have reduced when compared to both 30 September 2007 and 31 March 2007, reflecting the excellent quality of the portfolio.

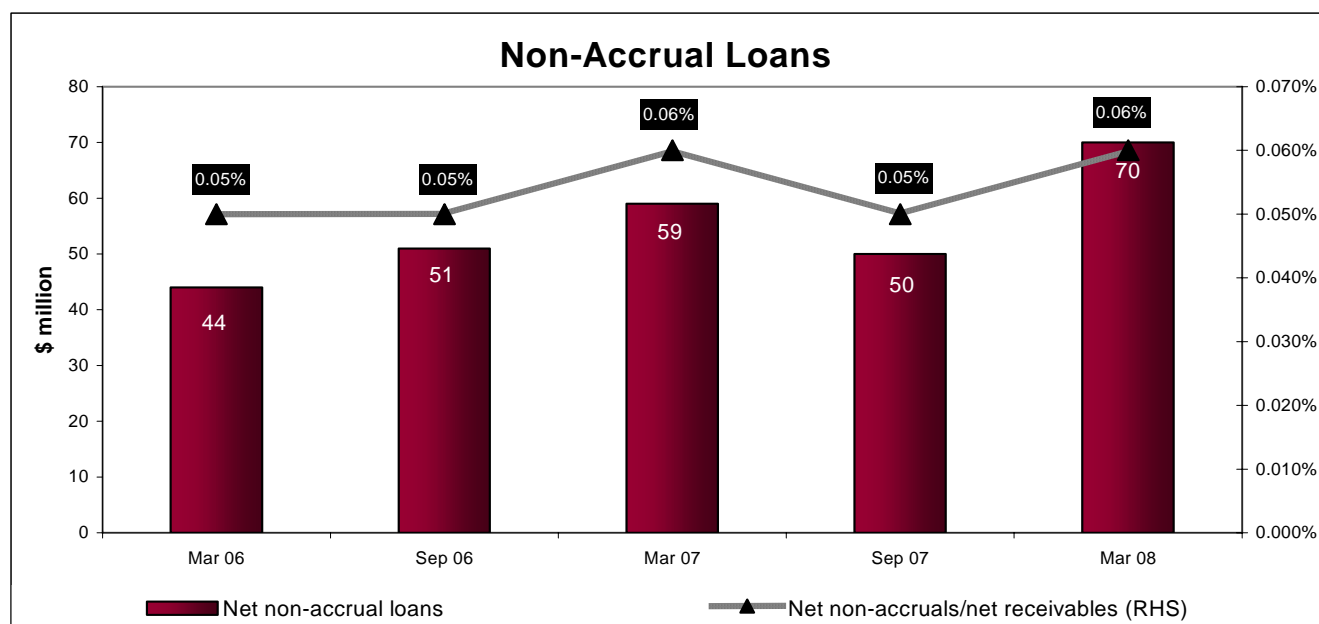
Past due 90 day other receivables were 0.86% compared to 0.75% at 31 March 2007.

As at	31 Mar 2008 \$M	30 Sep 2007 \$M	31 Mar 2007 \$M
<b>Section 1 - Non-Accrual Loans</b>			
With provisions:			
Gross Loan Balances	118	69	87
Specific Provisions	50	28	36
Net Loan Balances	68	41	51
Without provisions:			
Gross Loan Balances	2	9	8
Total Non-accrual Loans:			
Gross Loan Balances	120	78	95
Specific Provisions	50	28	36
Net Loan Balances	70	50	59
<b>Section 2 - Restructured Loans</b>			
Without provisions:			
Gross Loan Balances	-	-	-
<b>Section 3 - Assets acquired through security enforcement</b>			
Other Real Estate Owned	-	-	-
<b>Total impaired assets <sup>(1)</sup></b>	<b>70</b>	<b>50</b>	<b>59</b>
<b>Section 4 - Past Due Loans <sup>(2)</sup></b>			
Residential loans	137	153	168
Other	89	72	73
Total	226	225	241

(1) These balances consist of commercial impaired assets and other facilities that have been individually provisioned.

(2) These balances consist of retail and commercial loans which are managed on a portfolio basis and are 90 or more consecutive days in arrears.

## 3.2.3 Impaired Assets (continued)



As at	31 Mar 2008	30 Sep 2007	31 Mar 2007
Specific provision coverage for non-accruals	41.67%	35.90%	37.89%
Gross non-accruals / Net receivables	0.11%	0.07%	0.10%
Net non-accruals / Net receivables	0.06%	0.05%	0.06%

**Past due items**

As at	31 Mar 2008	30 Sep 2007	31 Mar 2007
Residential / Net residential receivables <sup>(1)</sup>	0.24%	0.30%	0.36%
Other / Net other receivables <sup>(2)</sup>	0.86%	0.69%	0.75%

(1) Excludes securitised loans. If securitised loans were included, the ratio would decrease to 0.19% at 31 March 2008 (31 March 2007: 0.26%).

(2) Other receivables comprise hire purchase, leasing and unsecured consumer loans.

## 3.2.4 Loan Impairment Provisions and General Reserve for Credit Losses

	Half Year		
	Mar 2008 \$M	Sep 2007 \$M	Mar 2007 \$M
<b>Collective provision</b>			
Balance at the beginning of the period	291	283	268
Net provision movement during the period	22	8	15
Balance at the end of the period	313	291	283
<b>Specific provision</b>			
Balance at the beginning of the period	34	39	31
Net provision movement during the period	96	77	78
Bad debt write offs (net)	(72)	(82)	(70)
Balance at the end of the period	58	34	39
<b>General reserve for credit losses</b>			
Balance at the beginning of the period	153	130	117
Appropriation from profits during the period	26	23	13
Balance at the end of the period	179	153	130
<b>Total provisions and general reserve for credit losses</b>	<b>550</b>	<b>478</b>	<b>452</b>

Collective and specific provisions are raised where there is objective evidence of impairment. For collective impairment, a provision is raised even where the impairment event cannot be attributed to individual exposures. The required provision is estimated on the basis of historical loss experience.

At 31 March 2008, \$172 million of the after tax equivalent of the collective provision is considered to satisfy APRA's general provision definition which, when taken together with the \$179 million balance of the general reserve for credit losses, represents 0.5% of risk weighted assets.

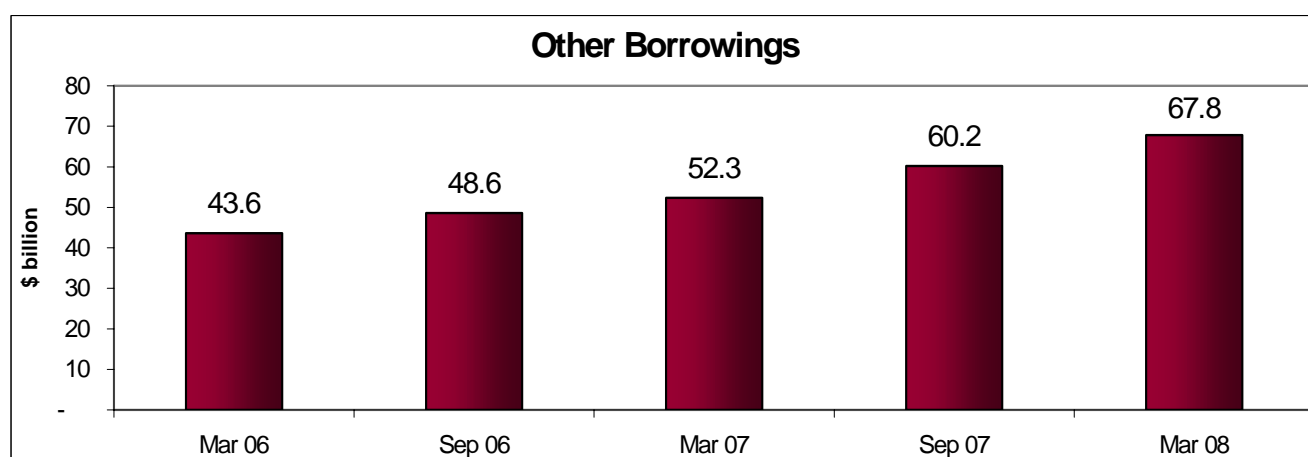
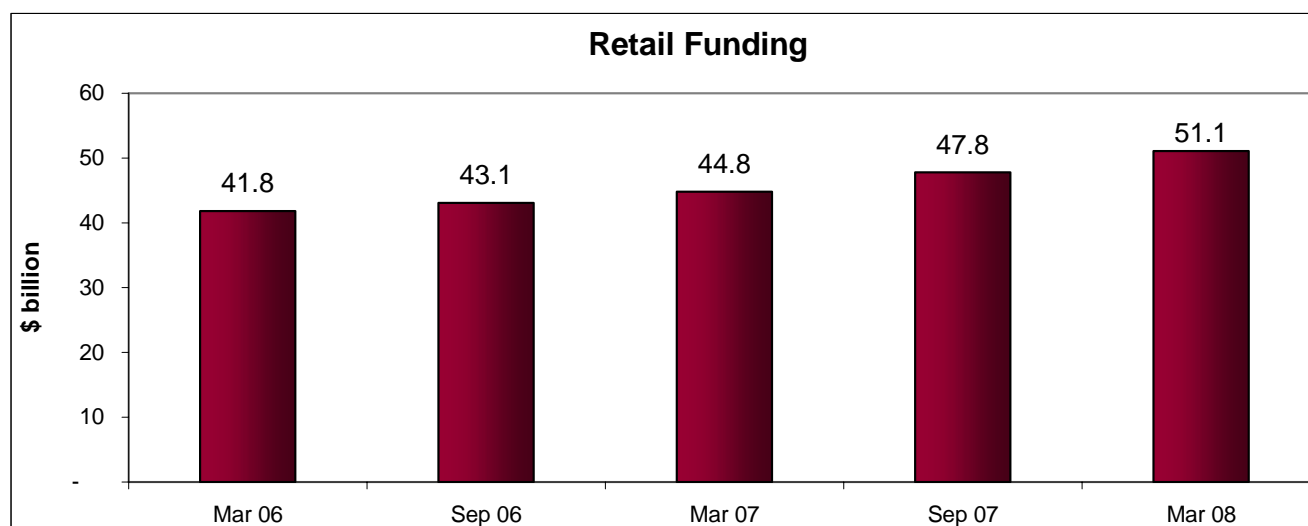


### 3.2.5 Retail Funding and Other Borrowings

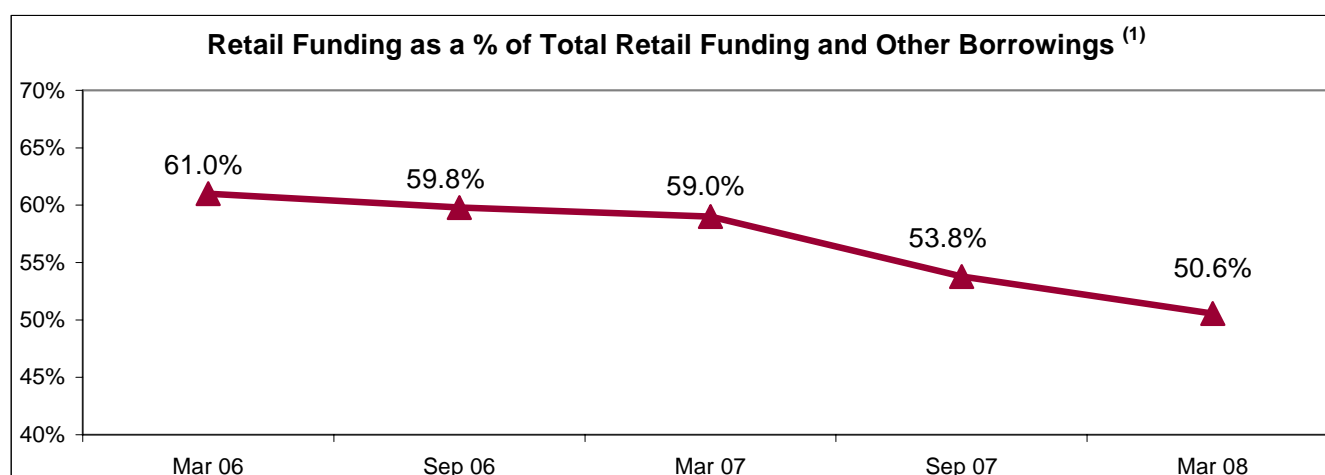
Total retail funding and other borrowings have increased to \$119.0 billion at 31 March 2008, an increase of 22.4% since 31 March 2007.

As at	31 Mar 2008 \$M	30 Sep 2007 \$M	31 Mar 2007 \$M
Retail funding	51,134	47,779	44,824
Other deposits	18,545	15,640	10,935
Offshore borrowings	21,556	17,024	14,136
Domestic borrowings	8,010	6,392	4,260
Subordinated debt	1,906	1,909	1,760
Preference shares	718	322	708
Securitisation and asset-backed conduit funding	17,091	18,939	20,529
Total	118,960	108,005	97,152
Retail funding as a % of Total Retail Funding and Other Borrowings <sup>(1)</sup>	50.6%	53.8%	59.0%

(1) Excluding securitisation, asset-backed conduit funding and preference shares.



### 3.2.5 Retail Funding and Other Borrowings (continued)



(1) Excludes securitisation funding, asset-backed conduit funding and preference shares.

#### Retail funding

Retail funding has grown by 14.1% to \$51.1 billion since 31 March 2007 and accounts for 50.6% of total funding and other borrowings excluding securitisation, asset-backed conduit funding and preference shares (31 March 2007: 59.0%). Annualised growth since 30 September 2007 was 14.0%. All major product categories recorded good inflows.

As at	31 Mar 2008 \$M	30 Sep 2007 \$M	31 Mar 2007 \$M
Transaction	17,505	17,441	15,389
Savings	557	582	475
Fixed Term	17,654	14,855	14,749
Direct Saver	8,677	7,871	7,326
Investment	6,741	7,030	6,885
<b>Total Retail Funding</b>	<b>51,134</b>	<b>47,779</b>	<b>44,824</b>

Since 31 March 2007, transaction accounts have grown 13.8% to \$17.5 billion, direct saver accounts grew by 18.4% to \$8.7 billion, fixed term accounts grew 19.7% to \$17.7 billion, and investment accounts, which comprise the Portfolio Cash Management Account, the Powersaver Account and the Investment Cash Account were \$6.7 billion compared to \$6.9 billion at 31 March 2007. The Group's business deposit accounts have grown by 17.1% to \$7.0 billion since 31 March 2007. Cash investment accounts of Asgard investors held with the Bank increased 46.6% to \$3.9 billion from \$2.6 billion at 31 March 2007.

The strong lending growth achieved in the Middle Market segment has contributed to the growth in retail deposits as the Bank actively enhances customer relationships by increasing products per customers. Growth in retail deposits has also resulted from the expansion of the Bank's branch network, rising interest rates and investor preferences for lower risk investment products. Annualised growth in fixed term deposit accounts since 30 September 2007 was a strong 37.7%. Product pricing is continually reviewed and revised where appropriate to ensure profitable growth is achieved in this intensely competitive market. Strong balance sheet growth, a deliberate strategy to hold a higher level of liquid assets and lower securitisation have resulted in an increase in the proportion of wholesale funding. As a result, the retail funding ratio reduced to 50.6% from 59.0% at 31 March 2007.

### 3.2.5 Retail Funding and Other Borrowings (continued)

#### Other borrowings

Other borrowings excluding securitisation, asset-backed conduit funding and preference shares increased to \$50.0 billion from \$31.1 billion at 31 March 2007. Debt issues during the half year included the following:

- In March 2008, the Bank issued AUD 1.2 billion of one-year term funding comprising AUD 1 billion of floating rate transferable deposits and AUD 150 million of certificates of deposit. The majority of the paper was placed with domestic investors.
- In March 2008, the Bank issued CHF 250 million of floating rate notes, maturing in March 2010. This is the first public issue by St.George in the Swiss market.
- In February 2008, the Bank issued AUD 900 million of floating rate transferable deposits, maturing in August 2009.
- In October 2007, the Bank issued AUD 200 million of fixed rate and AUD 300 million of floating rate transferable deposits, maturing in July 2010.

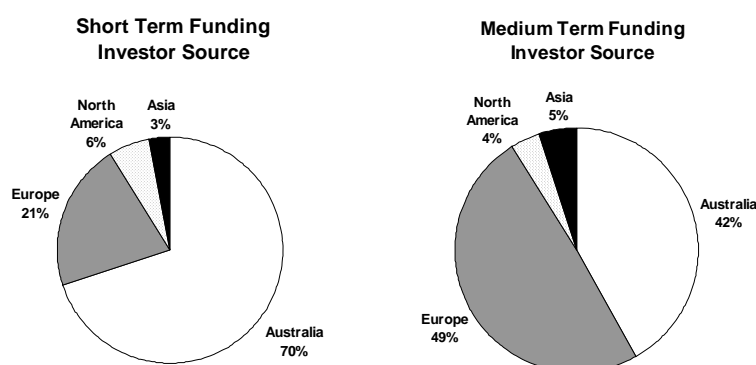
In December 2007, the Bank issued four million Converting Preference Shares (CPS II) for \$100 each, raising \$392 million (net of issue costs) in Tier 1 capital. The CPS II are classified as debt for accounting purposes with distributions recognised as an interest expense.

The above issues demonstrate the continuing demand from investors for quality bank paper.

The Group has a diversified wholesale funding base. St.George maintains strong relationships with its investors in Australia, Europe, Asia and the United States through regular communication and marketing investor relations activities. St.George remains an attractive investment proposition for debt investors due to its low risk, domestic organic growth strategy, excellent asset quality and strong capital position.

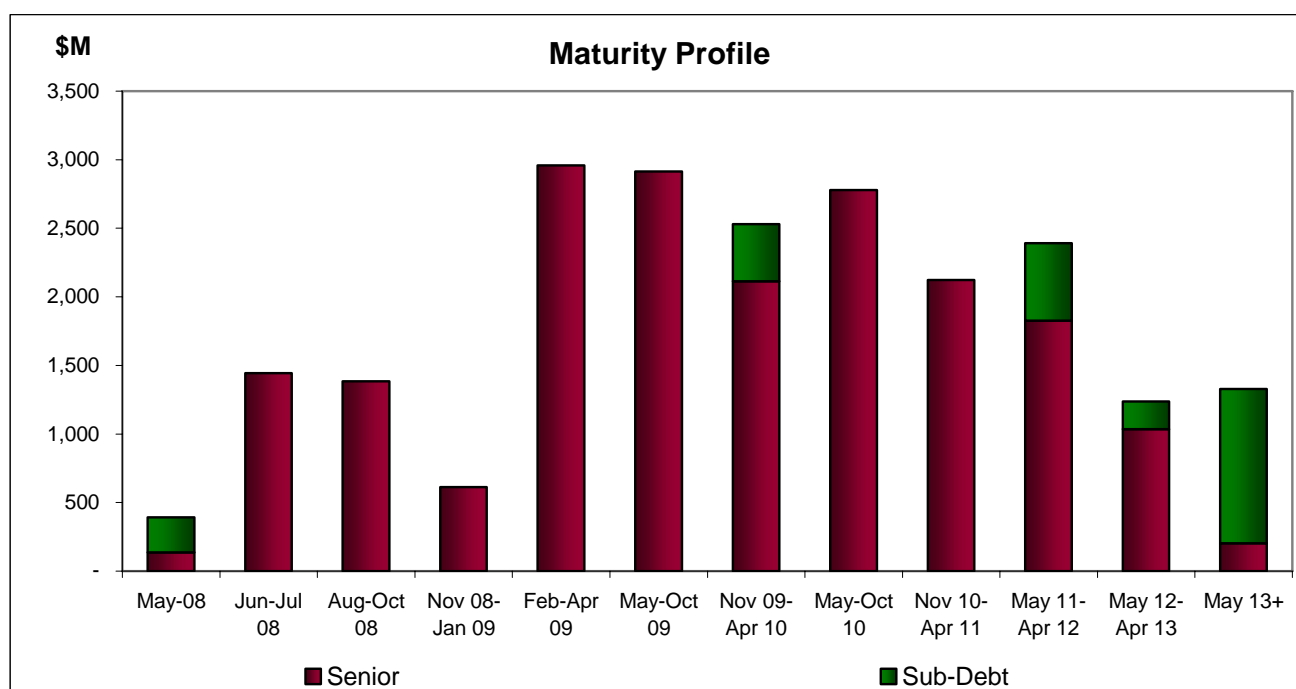
St.George maintains a prudent level of term wholesale funding that provides flexibility in managing funding requirements and reduces funding cost pressures. Committed term and securitisation funding represents 54.7% or \$37.0 billion of other borrowings. The average maturity period of securitisation funding is 36 months. As at 2 May 2008, the average maturity period of term funding is 26 months. Maturities of term funding in the next six months represents 15.3% of total term funding.

The Bank has \$16.1 billion of securitisation funding in place (31 March 2007: \$19.3 billion). In March 2008, the Bank completed a \$336 million securitisation of auto finance loans. Securitisation funding enhances the Group's term funding profile with the maturity profile matching the securitised loans.



### 3.2.5 Retail Funding and Other Borrowings (continued)

The maturity profile of term funding as at 2 May 2008 is as follows:



### 3.2.6 Shareholders' Equity

Shareholders' equity of \$6,860 million represents 5.0% of total assets as at 31 March 2008. Shareholders' equity is comprised of the following items:

As at	31 Mar 2008 \$M	30 Sep 2007 \$M	31 Mar 2007 \$M
Ordinary share capital			
- Ordinary equity	4,982	4,051	3,969
- Treasury shares	(10)	(10)	(10)
Total ordinary share capital	4,972	4,041	3,959
SAINTS	345	345	345
Step-up preference shares	148	148	148
Retained profits	1,115	1,086	951
General reserve	15	15	15
General reserve for credit losses	179	153	130
Foreign currency translation reserve	(1)	(1)	(1)
Cash flow hedge reserve	31	47	6
Equity compensation reserve	49	41	36
Depositors' and borrowers' redemption reserve	2	2	2
Available for sale reserve	(1)	1	3
Minority interests	6	6	18
Shareholders' equity	6,860	5,884	5,612

### 3.2.6 Shareholders' Equity (continued)

Below is a table detailing the movements in ordinary equity during the half year.

	\$M	Number of shares
Balance as at 1 October 2007	4,041	532,231,095
Shares issuance:		
Share purchase plan	85	3,452,467
Private placement (net of issuance costs)	759	21,900,000
Dividend Reinvestment Plan - 2007 final ordinary dividend	76	2,203,980
Employee Reward Share Plan	-	191,802
Executive Performance Share Plan	-	244,994
Executive Option Plan	11	503,891
Balance as at 31 March 2008	4,972	560,728,229

## 3.3 Other Financial Analysis

### 3.3.1 Dividends

#### Ordinary Shares

The Board has declared an interim dividend of 88 cents per ordinary share, an increase of 7.3% or 6 cents compared to the 2007 year interim dividend. This represents a dividend payout ratio (cash basis) of 81.8% for the half year.

100% of the dividend payment will be franked at 30% and will be paid on 2 July 2008. Ordinary shares will trade ex-dividend on 2 June 2008. The Group's capability to continue to frank dividends remains strong. The adjusted franking account balance was \$738 million at 31 March 2008 (31 March 2007: \$409 million), after allowing for the impact of the interim dividend.

Registrable transfers received by St.George at its share registry<sup>1</sup> by 5.00 pm Sydney time on 6 June 2008 if paper based, or by end of the day on that date if transmitted electronically via CHESS, will be registered before entitlements to the dividend are determined.

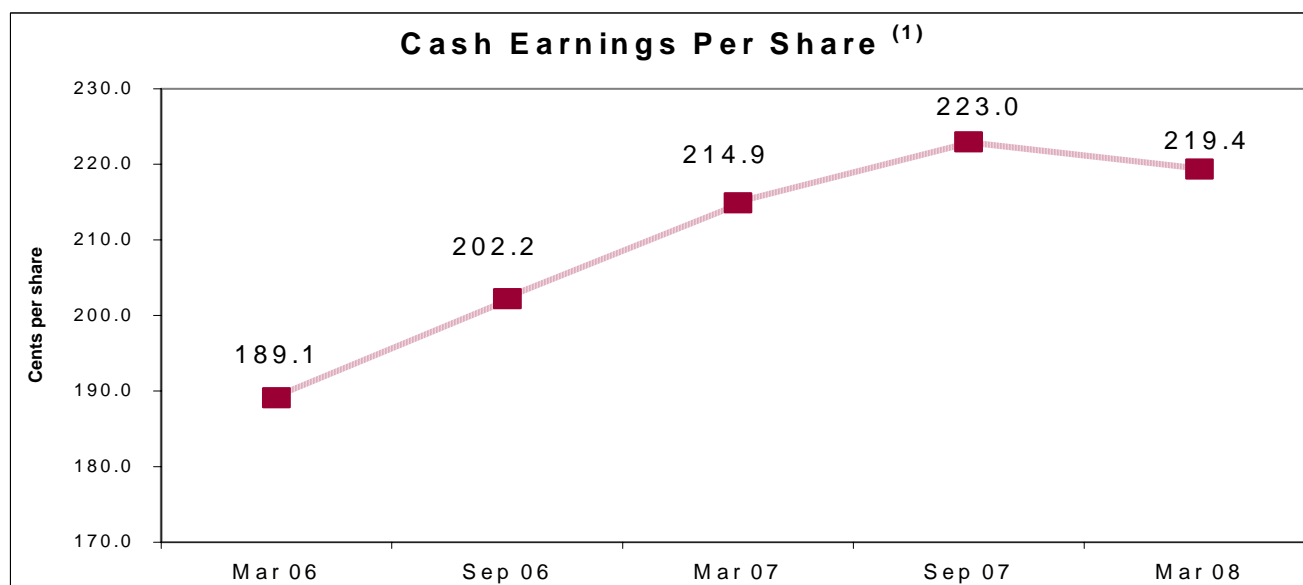
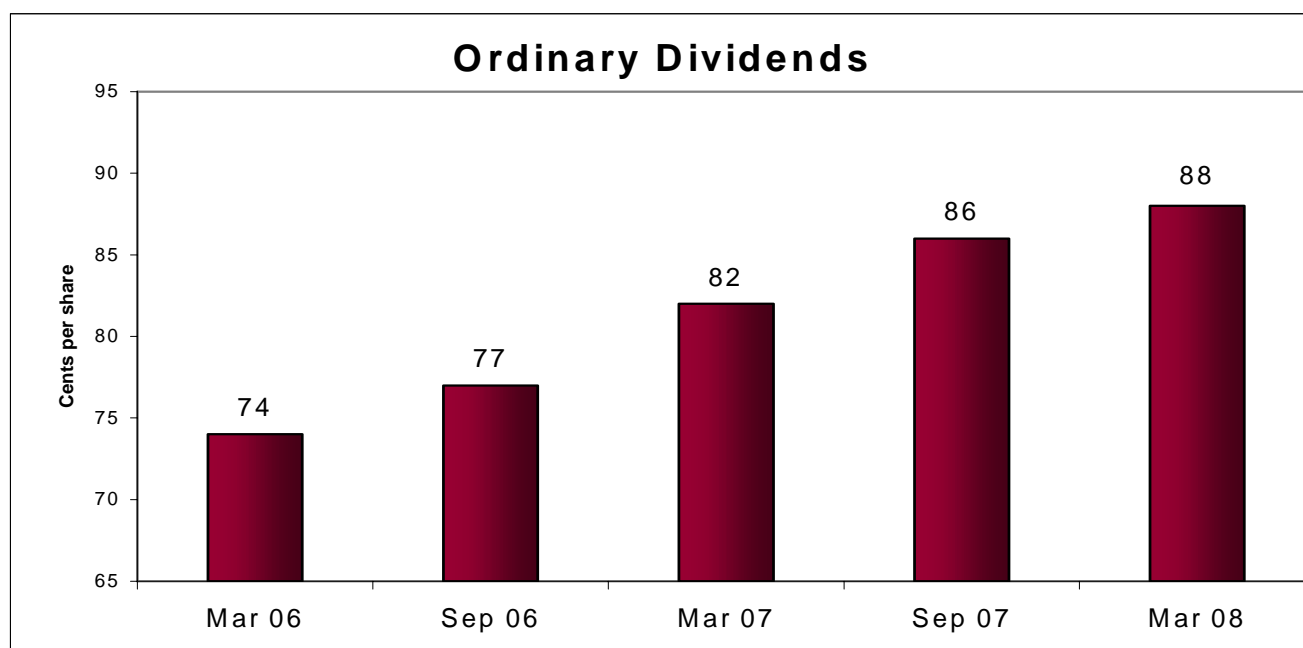
#### Dividend Reinvestment Plan (DRP)

The DRP will operate for the interim dividend with a 2.5% discount. Participation will be from a minimum of 100 ordinary shares without a cap on participation by individual shareholders. For applications under the DRP to be effective, they must be received at the Bank's Share Registry<sup>1</sup> by 5:00pm on 6 June 2008. DRP application forms are available from the Share Registry.

The DRP will be priced during the 15 days of trading commencing 11 June 2008 through to 1 July 2008. A combined DRP advice/holding statement will be despatched to DRP participants on 9 July 2008.

1. Computershare Investor Services Pty Ltd, Level 3, 60 Carrington Street, Sydney. Tel: 1800 804 457

## 3.3.1 Dividends (continued)



(1) Annualised

The lower March 2008 EPS result reflects the investment income loss from SGIA's investment portfolio and the decision to increase ordinary share capital.

**3.3.1 Dividends (continued)****Preference Shares**

The following table outlines the dividend entitlements relating to each class of Preference Share.

Period	Payment date	Amount \$M	Franked
<b>SAINTS (Classified as equity)</b>			
1 October 2007 - 19 November 2007	20 November 2007	3	100% franked at 30%
20 November 2007 - 19 February 2008	20 February 2008	5	100% franked at 30%
20 February 2008 - 31 March 2008	20 May 2008	3	100% franked at 30%
		<u>11</u>	
<b>STEP-UP PREFERENCE SHARES (Classified as equity)</b>			
1 October 2007 - 19 November 2007	20 November 2007	1	100% franked at 30%
20 November 2007 - 19 February 2008	20 February 2008	2	100% franked at 30%
20 February 2008 - 31 March 2008	20 May 2008	1	100% franked at 30%
		<u>4</u>	
<b>CONVERTING PREFERENCE SHARES (Classified as a liability)</b>			
1 October 2007 - 19 November 2007	20 November 2007	3	100% franked at 30%
20 November 2007 - 19 February 2008	20 February 2008	5	100% franked at 30%
20 February 2008 - 31 March 2008	20 May 2008	2	100% franked at 30%
		<u>10</u>	
<b>CONVERTING PREFERENCE SHARES II (Classified as a liability)</b>			
28 December 2007 - 19 February 2008	20 February 2008	4	100% franked at 30%
20 February 2008 - 31 March 2008	20 May 2008	3	100% franked at 30%
		<u>7</u>	



### 3.3.2 Capital Adequacy

The Group has a Tier 1 capital adequacy ratio of 7.0% (31 March 2007: 7.2%) and a total capital adequacy ratio of 10.1% (31 March 2007: 10.5%).

The Tier 1 capital adequacy ratio was impacted during the half year primarily by the issuance of 4 million Converting Preference Shares (CPS II) in December 2007 raising \$392 million (net of issue costs) in Non-Innovative Tier 1 capital, the issuance of 21.9 million ordinary shares in November 2007 under a private placement raising \$759 million and the issuance of 3.5 million ordinary shares in March 2008 under the Share Purchase Plan, raising \$85 million.

As at	31 Mar 2008 \$M	30 Sep 2007 \$M	31 Mar 2007 \$M
<b>Tier 1</b>			
Share capital	4,972	4,041	3,959
General reserve	15	15	15
Borrowers' and depositors' redemption reserve	2	2	2
Converting Preference Shares (CPS)	320	320	320
Converting Preference Shares (CPSII)	392	-	-
SAINTS	345	345	345
Perpetual notes	-	-	34
Step-up preference shares	148	148	148
Depository capital securities	-	-	310
Minority interests	6	6	(16)
Other reserves	10	1	1
Equity compensation reserve	49	41	36
Retained earnings	1,115	1,086	951
Less: Expected dividend <sup>(1)</sup>	(345)	-	(354)
Capitalised expenses	(412)	(358)	(313)
Goodwill and other APRA deductions	(1,762)	(1,701)	(1,579)
Add: AIFRS APRA transition adjustments <sup>(2)</sup>	-	261	261
<b>Total Tier 1 capital</b>	<b>4,855</b>	<b>4,207</b>	<b>4,120</b>
<b>Tier 2</b>			
Asset revaluations	21	23	24
Subordinated debt	1,887	1,890	1,583
General reserve for credit losses/collective provision	351	313	283
Add: APRA AIFRS transition adjustment <sup>(2)</sup>	-	7	7
<b>Total Tier 2 capital</b>	<b>2,259</b>	<b>2,233</b>	<b>1,897</b>
<b>Deductions</b>			
Investment in non-consolidated entities net of goodwill and Tier 1 deductions	48	27	27
Other	6	1	1
<b>Total deductions from capital</b>	<b>54</b>	<b>28</b>	<b>28</b>
<b>Total qualifying capital</b>	<b>7,060</b>	<b>6,412</b>	<b>5,989</b>
<b>Risk weighted assets</b>	<b>69,693</b>	<b>63,226</b>	<b>57,117</b>
	%	%	%
<b>Risk weighted capital adequacy ratio</b>			
Tier 1	7.0	6.7	7.2
Tier 2	3.2	3.5	3.3
Deductions	(0.1)	-	-
<b>Total capital ratio</b>	<b>10.1</b>	<b>10.2</b>	<b>10.5</b>

(1) Net of estimated reinvestment under the dividend reinvestment plan.  
(2) APRA AIFRS transitional relief expired on 1 January 2008.

**3.3.2 Capital Adequacy (continued)**

The Adjusted Common Equity (ACE) Ratio is 5.2% compared to 4.7% at 31 March 2007.

<b>As at</b>	<b>31 Mar 2008 \$M</b>	<b>30 Sep 2007 \$M</b>	<b>31 Mar 2007 \$M</b>
<b>Adjusted Common Equity Ratio</b>			
Tier 1 Capital	4,855	4,207	4,120
Less: SAINTS	345	345	345
Step-up preference shares	148	148	148
Converting preference shares (CPS)	320	320	320
Converting preference shares (CPS II)	392	-	-
Depository capital securities	-	-	310
Perpetual notes	-	-	34
Investment in non-consolidated entities net of goodwill and Tier 1 deductions	48	27	27
APRA transition adjustments	-	261	261
<b>Adjusted Common Equity</b>	<b>3,602</b>	<b>3,106</b>	<b>2,675</b>
<b>Risk Weighted Assets</b>	<b>69,693</b>	<b>63,226</b>	<b>57,117</b>
<b>Adjusted Common Equity Ratio</b>	<b>5.2%</b>	<b>4.9%</b>	<b>4.7%</b>

## 3.3.3 Average Balances and Related Interest

Average Balances and Related Interest For the Half Year Ended 31 March 2008	Average Balance \$M	Interest \$M	Average Rate <sup>(1)</sup> %
<b>Interest earning assets</b>			
Cash and liquid assets	1,840	50	5.43%
Receivables from other financial institutions	1,408	44	6.25%
Assets at fair value	12,471	426	6.83%
Loans and other receivables	108,724	4,445	8.18%
Total interest earning assets	124,443	4,965	7.98%
<b>Non interest earning assets</b>			
Bills receivable	46		
Property, plant and equipment	342		
Other assets	6,032		
Provision for doubtful debts	(338)		
Total non interest earning assets	6,082		
<b>Total assets</b>	130,525		
<b>Interest bearing liabilities</b>			
Retail funding	48,291	1,274	5.28%
Other deposits	17,698	615	6.95%
Payables to other financial institutions	1,083	31	5.72%
Bank acceptances	5,248	184	7.01%
Securitisation <sup>(2)</sup>	19,106	697	7.30%
Loan capital	1,899	69	7.27%
Other borrowings <sup>(2) (3)</sup>	26,317	903	6.86%
Total interest bearing liabilities	119,642	3,773	6.31%
<b>Non interest bearing liabilities</b>			
Bills payable	546		
Other non interest bearing liabilities	3,913		
Total non interest bearing liabilities	4,459		
<b>Total liabilities</b>	124,101		
<b>Shareholders' equity <sup>(4)</sup></b>	6,424		
<b>Total liabilities and shareholders' equity</b>	130,525		
<b>Interest Spread <sup>(5)</sup></b>			1.67%
<b>Interest Margin <sup>(6)</sup></b>			1.92%

(1) Annualised.  
 (2) Includes foreign exchange swap costs.  
 (3) Includes the impact of Balance Sheet Management activities.  
 (4) Basic weighted average number of ordinary shares outstanding for the half year were 549.8 million.  
 (5) Interest spread represents the difference between the average interest rate earned on assets and the average interest rate paid on funds.  
 (6) Interest margin represents net interest income as a percentage of average interest earning assets.

## 3.3.3 Average Balances and Related Interest (continued)

Average Balances and Related Interest For the Half Year Ended 30 September 2007	Average Balance \$M	Interest \$M	Average Rate <sup>(1)</sup> %
<b>Interest earning assets</b>			
Cash and liquid assets	1,179	29	4.92%
Receivables from other financial institutions	1,510	43	5.70%
Assets at fair value	8,619	272	6.31%
Loans and other receivables	101,792	3,953	7.77%
Total interest earning assets	113,100	4,297	7.60%
<b>Non interest earning assets</b>			
Bills receivable	34		
Property, plant and equipment	329		
Other assets	4,973		
Provision for doubtful debts	(330)		
Total non interest earning assets	5,006		
<b>Total assets</b>	118,106		
<b>Interest bearing liabilities</b>			
Retail funding	45,010	1,098	4.88%
Other deposits	11,710	369	6.30%
Payables to other financial institutions	611	16	5.24%
Bank acceptances	6,866	221	6.44%
Securitisation <sup>(2)</sup>	21,145	708	6.70%
Loan capital	1,966	66	6.71%
Other borrowings <sup>(2) (3)</sup>	21,628	704	6.51%
Total interest bearing liabilities	108,936	3,182	5.84%
<b>Non interest bearing liabilities</b>			
Bills payable	210		
Other non interest bearing liabilities	3,326		
Total non interest bearing liabilities	3,536		
<b>Total liabilities</b>	112,472		
<b>Shareholders' equity <sup>(4)</sup></b>	5,634		
<b>Total liabilities and shareholders' equity</b>	118,106		
<b>Interest Spread <sup>(5)</sup></b>			1.76%
<b>Interest Margin <sup>(6)</sup></b>			1.97%

(1) Annualised.

(2) Includes foreign exchange swap costs.

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

(4) Basic weighted average number of ordinary shares outstanding for the half year were 531.0 million.

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

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

## 3.3.3 Average Balances and Related Interest (continued)

Average Balances and Related Interest For the Half Year Ended 31 March 2007	Average Balance \$M	Interest \$M	Average Rate <sup>(1)</sup> %
<b>Interest earning assets</b>			
Cash and liquid assets	959	23	4.80%
Receivables from other financial institutions	1,428	39	5.46%
Assets at fair value	7,270	219	6.02%
Loans and other receivables	94,710	3,625	7.65%
Total interest earning assets	104,367	3,906	7.49%
<b>Non interest earning assets</b>			
Bills receivable	10		
Property, plant and equipment	337		
Other assets	4,628		
Provision for doubtful debts	(315)		
Total non interest earning assets	4,660		
<b>Total assets</b>	109,027		
<b>Interest bearing liabilities</b>			
Retail funding	42,432	990	4.67%
Other deposits	9,738	296	6.08%
Payables to other financial institutions	402	10	4.98%
Bank acceptances	5,970	187	6.26%
Securitisation <sup>(2)</sup>	19,160	620	6.47%
Loan capital	1,932	63	6.52%
Other borrowings <sup>(2) (3)</sup>	20,888	662	6.34%
Total interest bearing liabilities	100,522	2,828	5.63%
<b>Non interest bearing liabilities</b>			
Bills payable	177		
Other non interest bearing liabilities	2,930		
Total non interest bearing liabilities	3,107		
<b>Total liabilities</b>	103,629		
<b>Shareholders' equity <sup>(4)</sup></b>	5,398		
<b>Total liabilities and shareholders' equity</b>	109,027		
<b>Interest Spread <sup>(5)</sup></b>			1.86%
<b>Interest Margin <sup>(6)</sup></b>			2.07%

(1) Annualised.  
 (2) Includes foreign exchange swap costs.  
 (3) Includes the impact of Balance Sheet Management activities.  
 (4) Basic weighted average number of ordinary shares outstanding for the half year were 528.6 million.  
 (5) Interest spread represents the difference between the average interest rate earned on assets and the average interest rate paid on funds.  
 (6) Interest margin represents net interest income as a percentage of average interest earning assets.

### 3.3.4 Volume and Rate Analysis

The table below allocates changes in interest income and interest expense between changes in volume and rate for the half years ended 31 March 2008 and 30 September 2007. 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.

#### Half year movements

	March 2008 over September 2007			September 2007 over March 2007		
	Change due to			Change due to		
	Volume \$M	Rate \$M	Total \$M	Volume \$M	Rate \$M	Total \$M
<b>Interest earning assets</b>						
Cash and liquid assets	18	3	21	5	1	6
Receivables due from other financial institutions	(3)	4	1	2	2	4
Assets at fair value	132	22	154	43	10	53
Loans and other receivables	283	209	492	275	53	328
<b>Change in interest income</b>	<b>430</b>	<b>238</b>	<b>668</b>	<b>325</b>	<b>66</b>	<b>391</b>
<b>Interest bearing liabilities</b>						
Retail funding	87	89	176	63	45	108
Other deposits	208	38	246	62	11	73
Payables due to other financial institutions	14	1	15	5	1	6
Bank acceptances	(57)	20	(37)	29	5	34
Securitisation	(74)	63	(11)	66	22	88
Loan capital	(2)	5	3	1	2	3
Other borrowings	161	38	199	24	18	42
<b>Change in interest expense</b>	<b>337</b>	<b>254</b>	<b>591</b>	<b>250</b>	<b>104</b>	<b>354</b>
<b>Change in net interest income</b>	<b>93</b>	<b>(16)</b>	<b>77</b>	<b>75</b>	<b>(38)</b>	<b>37</b>

### 3.3.5 Derivatives

The major categories of risk managed by the Group are credit risk, market risk, liquidity risk and operational risk. The Group uses derivatives as a cost effective way of managing market risk. Derivatives incur extremely low transaction costs in comparison to the face value of the contract. Prudent management of market risk involves the use of derivatives to transfer all or part of the risk to counterparties who are willing to accept it. Derivatives therefore provide protection to income streams from volatile interest and foreign exchange rates in the financial markets.

The following table provides details of the Group's outstanding derivatives used for trading and hedging purposes.

	31 March 2008				31 March 2007			
	Contract/ Notional Amount	Fair values			Contract/ Notional Amount	Fair values		
\$M		Assets	Liabilities	Net		Assets	Liabilities	Net
<b>Derivatives held for trading</b>								
Futures	25,836	-	-	-	32,833	4	(1)	3
Forward rate agreements	24,959	4	(2)	2	20,965	2	(1)	1
Interest rate swaps	111,605	845	(783)	62	77,673	307	(279)	28
Interest rate options	712	2	(5)	(3)	715	1	(1)	-
Foreign exchange	19,643	447	(203)	244	15,258	183	(279)	(96)
Cross currency swaps	1,749	148	(86)	62	2,986	93	(110)	(17)
Foreign exchange options	1,981	19	(18)	1	2,683	10	(13)	(3)
	<b>186,485</b>	<b>1,465</b>	<b>(1,097)</b>	<b>368</b>	<b>153,113</b>	<b>600</b>	<b>(684)</b>	<b>(84)</b>
<b>Derivatives held for cash flow hedging</b>								
Interest rate swaps	37,231	550	(124)	426	18,716	157	(57)	100
	<b>37,231</b>	<b>550</b>	<b>(124)</b>	<b>426</b>	<b>18,716</b>	<b>157</b>	<b>(57)</b>	<b>100</b>
<b>Derivatives held for fair value hedging</b>								
Interest rate swaps	1,580	56	(11)	45	1,255	8	(21)	(13)
Cross currency swaps	23,456	550	(1,817)	(1,267)	26,613	112	(1,440)	(1,328)
	<b>25,036</b>	<b>606</b>	<b>(1,828)</b>	<b>(1,222)</b>	<b>27,868</b>	<b>120</b>	<b>(1,461)</b>	<b>(1,341)</b>
<b>Total</b>	<b>248,752</b>	<b>2,621</b>	<b>(3,049)</b>	<b>(428)</b>	<b>199,697</b>	<b>877</b>	<b>(2,202)</b>	<b>(1,325)</b>



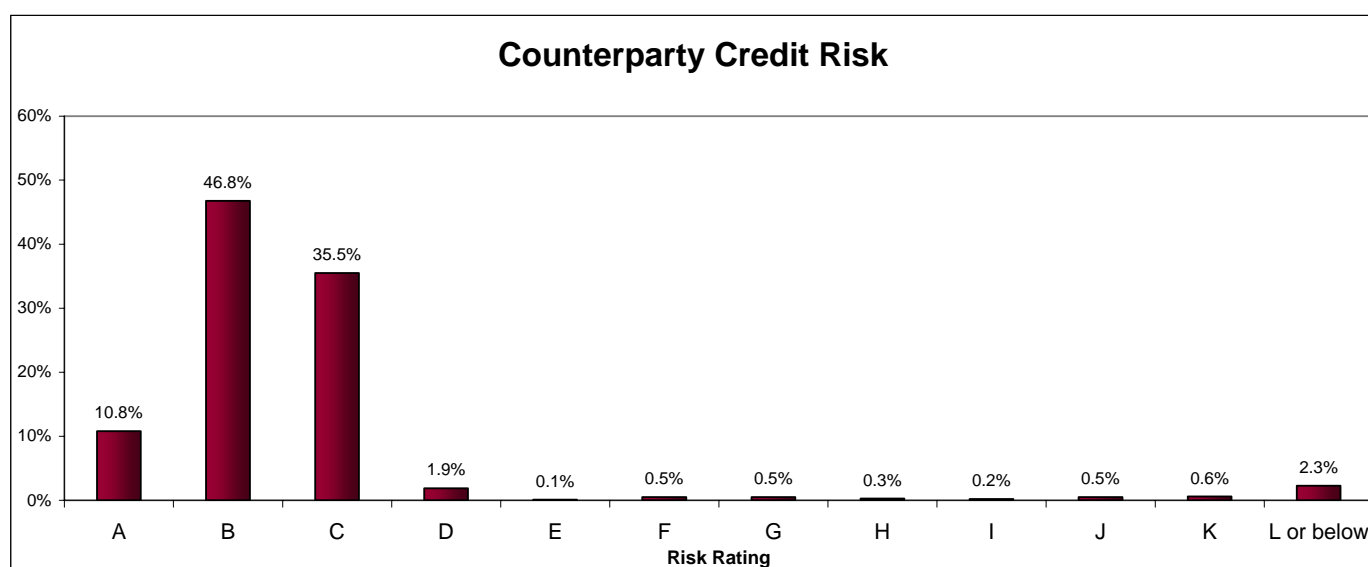
### 3.3.5 Derivatives (continued)

The Group has credit risk on derivative transactions that have a positive value (an asset). More than 95% of derivative transactions, by notional contract value, are with counterparties that are rated investment grade quality.

The St.George risk rating system has twelve levels of classification. The levels are:

<u>Level</u>	<u>International Rating</u>
A	AAA
B	AA+ to AA
C	AA-
D	A+
E	A
F	A-
G	BBB+
H	BBB
I	BBB-
J	BB+
K	BB+
L or below	BB or below

The graph below shows the percentage counterparty risk exposure on derivatives on a notional contract basis totalling \$248.8 billion as at 31 March 2008 (31 March 2007: \$199.7 billion).



### 3.3.5 Derivatives (continued)

#### Market Risk from Trading Activities

Market Risk is split into two components: general and specific market risk. General market risk is the potential for losses arising from the adverse movements in the general level of market factors such as foreign exchange rates, interest rates, exchange rate volatilities and interest rate volatilities. Specific risk is the potential for losses resulting from issuer specific factors. In St.George's case specific risk only relates to debt security positions.

Market risk is controlled by an overall risk management framework that incorporates a number of market risk measurements including Value at Risk (VaR). VaR is a statistical estimate of losses due to general market price movements, calculated at St.George to a 99% confidence level. This means that losses greater than our VaR estimate should not occur more than once in 100 days on average. In an extreme event, losses could well exceed the VaR amount.

St.George uses Monte Carlo simulation to calculate VaR. This model takes into account relevant market variables. It is approved by APRA for regulatory purposes and is operated within the overall framework outlined in the APRA Prudential Standards.

The following table provides a summary of VaR by total room and by trading unit for the half years ended 31 March 2008, 30 September 2007 and 31 March 2007.

Six months ended	31 March 2008		30 September 2007		31 March 2007	
\$'000	High	Average	High	Average	High	Average
Total Room Risk	3,619	965	1,308	586	1,165	526
Domestic VaR	3,290	906	1,359	545	1,087	485
Foreign Exchange VAR	1,296	306	682	220	694	207

Note: the table above incorporates all options risk. VaR is calculated at a 99% confidence interval for a 1 day-holding period using end of day trading positions.

The increase in VaR for the 31 March 2008 reporting period is due to an increase in volatility in markets in general, a widening of credit spreads and an increased holding of liquid assets held in the trading book.

As part of the model validation process, actual and hypothetical profit and loss outcomes are monitored against VaR on a daily basis. Hypothetical profit and loss uses the same portfolio as the VaR estimate to test the predictive accuracy of the model.

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

## 4 Supplementary Information

### 4.1 Earnings Per Share Calculations – Cash basis

	Half Year		
	Mar 08	Sep 07	Mar 07
Weighted average number of shares			
Basic ('000)	549,765	531,035	528,644
Weighted average number of potential dilutive shares			
Options on ordinary shares ('000)	132	444	530
SAINTS ('000)	11,356	10,144	10,248
SPS ('000)	4,867	4,347	4,392
CPS I ('000)	10,385	9,419	5,385
CPS II ('000)	6,636	-	-
	33,376	24,354	20,555
Weighted average number of shares used in dilutive earnings per share	583,141	555,389	549,199
	\$M	\$M	\$M
Cash basis earnings used in basic earnings per share calculation	603	592	568
add: preference share distributions on potential dilutive issues			
SAINTS	11	10	9
SPS	4	4	4
CPS I	10	8	5
CPS II	7	-	-
Cash basis earnings used in dilutive earnings per share calculation	635	614	586

## 4.2 Economic Profit

Economic Profit is defined as:

- cash earnings; less
- capital charge (calculated at the Group's cost of capital multiplied by average ordinary equity); plus
- 90% of the estimated value of franking credits paid to shareholders.

Economic Profit is used by the Bank as an additional measure to assess performance at a Group and divisional level. Capital is allocated based on the outputs of Group's internal Economic Capital model, which is used to assess and quantify the risk capital requirement across risk types within the Group.

The capital charge is calculated at 12% of average ordinary equity in the March 2008 half and 11% in prior periods.

The higher capital charge reflects the increase in the cost of capital rate to 12% and the higher level of average ordinary equity due to the completion of a number of ordinary share capital issues during the half.

St.George's cost of capital provides an estimate of investors required rate of return for a given level of risk. Key inputs include the risk free rate, a market risk premium and a measure of St.George stock price volatility relative to the Market. In the half year, the cost of capital increased as a result of Global Market uncertainty and this has affected St.George's economic profit result.

Details of economic profit are as follows:

	Half Year			Movement
	Mar 08 \$M	Sep 07 \$M	Mar 07 \$M	Mar 08 vs Mar 07 %
Cash profit	603	592	568	6.2
Dividend imputation	191	177	168	13.7
Adjusted profit	794	769	736	7.9
Capital charge	(356)	(282)	(269)	32.3
Economic profit	438	487	467	(6.2)
Average ordinary equity	5,927	5,129	4,888	

### 4.3 Branches

As at	Mar 2008	Sep 2007	Mar 2007
New South Wales	200	201	200
Australian Capital Territory	13	13	13
Queensland	28	27	23
Victoria	37	37	38
South Australia	109	109	109
Western Australia	9	8	3
Northern Territory	4	4	4
Total	400	399	390
Assets per branch - \$M	341	315	287
Net Profit per branch (annualised)			
- Cash basis profit before preference dividends \$ '000	3,090	3,038	2,979

Investment has continued in the interstate distribution network with one branch opened in Western Australia and one branch in Queensland during the half.

A further five branches are planned in Queensland, one in Western Australia and two in Victoria in second half 2008.

### 4.4 Staffing (full time equivalents)

	Mar 2008	Sep 2007	Mar 2007
New South Wales	5,107	5,057	4,964
Australian Capital Territory	159	151	159
Queensland	377	349	304
Victoria	424	419	407
South Australia	1,224	1,221	1,208
Western Australia	210	192	163
Northern Territory	37	37	37
	7,538	7,426	7,242
Asgard	635	648	647
Scottish Pacific	-	-	106
Total Permanent and Casual Staff	8,173	8,074	7,995
Assets per staff - \$M	16.7	15.6	14.0
Staff per \$m assets - No.	0.06	0.06	0.07
Net Profit per average staff (annualised)			
- Cash basis profit before preference dividends \$'000	156	151	146
Total Group Workforce <sup>(1)</sup>	8,801	8,722	8,727

(1) The total Group workforce comprises permanent, casual and temporary staff and contractors.

## 4.5 Dates and Credit Ratings

### Financial Calendar

<u>Date</u>	<u>Event</u>
20 May 2008	Payment date of SAINTS, SPS, CPS and CPS II dividends
20 May 2008	Victorian Shareholders' Presentation
2 June 2008	Ex-dividend trading for interim ordinary share dividend
6 June 2008	Record date for interim ordinary share dividend
1 July 2008	DRP pricing period ends
2 July 2008	Payment of interim ordinary share dividend
9 July 2008	Mailing DRP statements
30 September 2008	Financial year end

### Proposed Dates

<u>Date</u>	<u>Event</u>
29 July 2008	Ex-dividend trading for SAINTS, SPS, CPS and CPS II dividends
5 August 2008	Record date for SAINTS, SPS, CPS and CPS II dividends
20 August 2008	Payment date of SAINTS, SPS, CPS and CPS II dividends
29 October 2008	Ex-dividend trading for SAINTS, SPS, CPS and CPS II dividends
29 October 2008	Announcement of financial results and final ordinary share dividend declared
5 November 2008	Record date for SAINTS, SPS, CPS and CPS II dividends
17 November 2008	Ex-dividend trading for final ordinary share dividend
20 November 2008	Payment date of SAINTS, SPS, CPS and CPS II dividends
21 November 2008	Record date for final ordinary share dividend
15 December 2008	DRP pricing period ends
16 December 2008	Payment of final ordinary share dividend
17 December 2008	Annual General Meeting
23 December 2008	Mailing DRP statements

### Credit Ratings

	<u>Short term</u>	<u>Long term</u>
Standard & Poor's	A-1	A+
Moody's	P-1	Aa2
Fitch Ratings	F1	A+

### Further Information

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**ST.GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES  
CONSOLIDATED INTERIM INCOME STATEMENT  
FOR THE HALF-YEAR ENDED 31 MARCH 2008**

	<b>Half-Year to</b>		
	<b>31 March</b>	<b>30 Sept</b>	<b>31 March</b>
	<b>2008</b>	<b>2007</b>	<b>2007</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
Interest income	<b>4,965</b>	4,297	3,906
Interest expense	<b>3,773</b>	3,182	2,828
Net interest income	<b>1,192</b>	1,115	1,078
Other income	<b>575</b>	559	533
Total operating income	<b>1,767</b>	1,674	1,611
Bad and doubtful debts expense	<b>118</b>	85	93
Operating expenses	<b>759</b>	707	683
<b>Profit before income tax</b>	<b>890</b>	882	835
Income tax expense	<b>361</b>	275	250
<b>Profit after income tax</b>	<b>529</b>	607	585
Minority interests	-	2	-
<b>Net profit attributable to shareholders of the Bank</b>	<b>529</b>	605	585
Dividends per ordinary share (cents)			
Final dividend paid	<b>86</b>	-	77
Final dividend proposed	-	86	-
Interim dividend paid	-	82	-
Interim dividend proposed	<b>88</b>	-	82
Earnings per share			
Basic (cents)	<b>93.5</b>	111.3	108.2
Diluted (cents)	<b>93.6</b>	110.4	107.4



**ST.GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES**  
**CONSOLIDATED INTERIM BALANCE SHEET**  
**AS AT 31 MARCH 2008**

	<b>As at</b>		
	<b>31 March</b>	<b>30 Sept</b>	<b>31 March</b>
	<b>2008</b>	<b>2007</b>	<b>2007</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
<b>ASSETS</b>			
Cash and liquid assets	3,035	2,081	1,188
Receivables due from other financial institutions	477	1,244	1,180
Assets at fair value through the income statement	13,314	11,339	6,043
Derivative assets	2,621	1,271	877
Available for sale investments	829	929	1,381
Loans and other receivables	93,636	89,884	85,144
Bank acceptances of customers	19,774	16,343	13,580
Investment in associated companies	29	28	28
Property, plant and equipment	336	345	332
Intangible assets	1,344	1,323	1,305
Deferred tax assets	232	215	198
Other assets	682	798	724
<b>TOTAL ASSETS</b>	<b>136,309</b>	<b>125,800</b>	<b>111,980</b>
<b>LIABILITIES</b>			
Deposits and other borrowings	78,713	70,803	61,296
Payables due to other financial institutions	965	1,013	473
Liabilities at fair value through the income statement	-	-	386
Derivative liabilities	3,049	3,440	2,202
Bank acceptances	5,050	6,348	5,456
Provision for dividends	4	2	3
Current tax liabilities	44	101	121
Deferred tax liabilities	136	123	169
Other provisions	154	116	126
Bonds and notes	37,623	34,971	33,388
Loan capital	2,624	2,231	2,082
Bills payable and other liabilities	1,087	768	666
<b>TOTAL LIABILITIES</b>	<b>129,449</b>	<b>119,916</b>	<b>106,368</b>
<b>NET ASSETS</b>	<b>6,860</b>	<b>5,884</b>	<b>5,612</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	5,480	4,549	4,467
Reserves	259	243	176
Retained profits	1,115	1,086	951
<b>Equity attributable to shareholders of the Bank</b>	<b>6,854</b>	<b>5,878</b>	<b>5,594</b>
Equity attributable to minority interests	6	6	18
<b>Total Shareholders' Equity</b>	<b>6,860</b>	<b>5,884</b>	<b>5,612</b>

**ST.GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES**  
**CONSOLIDATED INTERIM STATEMENT OF RECOGNISED INCOME AND EXPENSE**  
**FOR THE HALF-YEAR ENDED 31 MARCH 2008**

	<b>Half-Year to</b>		
	<b>31 March</b>	<b>30 Sept</b>	<b>31 March</b>
	<b>2008</b>	<b>2007</b>	<b>2007</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
<b>Cash flow hedge reserve</b>			
Gains and losses on cash flow hedging instruments (net of tax)			
Recognised in equity	(17)	40	6
Transferred to the income statement	1	1	-
<b>Available for sale reserve</b>			
Gains and losses on available for sale investments (net of tax)			
Recognised in equity	(2)	(2)	(1)
<b>Defined benefit plan actuarial gains (net of tax)</b>	-	2	-
<b>Net income/(expense) recognised directly in equity</b>	<b>(18)</b>	<b>41</b>	<b>5</b>
Profit for the period	<b>529</b>	<b>607</b>	<b>585</b>
<b>Total recognised income and expense for the period</b>	<b>511</b>	<b>648</b>	<b>590</b>
<b>Total recognised income and expense for the period attributable to:</b>			
Shareholders of the Bank	511	646	590
Minority interests	-	2	-
	<b>511</b>	<b>648</b>	<b>590</b>

**ST. GEORGE BANK LIMITED AND ITS CONTROLLED ENTITIES  
CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS  
FOR THE HALF-YEAR ENDED 31 MARCH 2008**

	<b>Half-Year to</b>		
	<b>31 March 2008 \$M</b>	<b>30 Sept 2007 \$M</b>	<b>31 March 2007 \$M</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received	4,820	4,397	3,892
Interest paid	(3,925)	(3,199)	(2,860)
Other income received	583	492	423
Operating expenses paid	(657)	(653)	(639)
Income taxes paid	(361)	(342)	(266)
Purchase of available for sale investments	(43)	(117)	(267)
Proceeds from sale and redemption of available for sale investments	126	537	468
Net (increase)/decrease in assets			
- Balance due from other financial institutions (not at call)	207	(153)	156
- Assets at fair value through the income statement	(2,088)	(5,321)	130
- Loans and other receivables	(7,294)	(7,697)	(5,370)
Net increase/(decrease) in liabilities			
- Balance due to other financial institutions (not at call)	557	4	(108)
- Deposits and other borrowings	6,641	10,546	4,878
- Bonds and notes	1,213	2,484	(24)
<b>Net cash (used in)/provided by operating activities</b>	<b>(221)</b>	<b>978</b>	<b>413</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of controlled entity	-	27	-
Dividends received	3	5	3
Restructure related payments	(7)	(12)	1
Proceeds from sale of shares	50	-	8
Payments for property, plant and equipment	(40)	(55)	(36)
Proceeds from sale of property, plant and equipment	31	21	8
Net (increase)/decrease in other assets	72	(119)	(100)
<b>Net cash provided by/(used in) investing activities</b>	<b>109</b>	<b>(133)</b>	<b>(116)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net increase/(decrease) in liabilities			
- Other liabilities	(109)	66	(30)
- Liabilities at fair value through the income statement	-	(390)	-
- Loan capital	1	167	(199)
Net proceeds from the issue of Converting Preference Shares	392	-	320
Proceeds from the issue of shares	864	1	16
Share issue costs	(9)	-	-
Dividends paid (excluding Dividend Re-Investment Plan)	(397)	(381)	(344)
<b>Net cash provided by/(used in) financing activities</b>	<b>742</b>	<b>(537)</b>	<b>(237)</b>
<b>Net increase in cash and cash equivalents</b>	<b>630</b>	<b>308</b>	<b>60</b>
<b>Cash and cash equivalents at the beginning of the half-year</b>	<b>1,775</b>	<b>1,467</b>	<b>1,407</b>
<b>Cash and cash equivalents at the end of the half-year</b>	<b>2,405</b>	<b>1,775</b>	<b>1,467</b>

## **Compliance Statement**

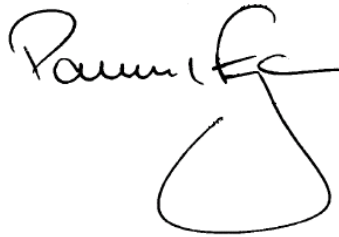
This interim report for the half year ended 31 March 2008 is prepared in accordance with the ASX listing rules. It should be read in conjunction with any announcements to the market made by the Bank during the half year.

The preliminary report has been prepared in accordance with Accounting Standards in Australia.

The financial statements of St.George have been reviewed by its auditor, KPMG.



.....  
J S Curtis  
Chairman  
6 May 2008



.....  
P A Fegan  
Managing Director and Chief Executive Officer