Westpac and St George Bank

Terms of the opening bid…

ASX Code: WBC/SGB
Financials

14 May 2008, 9:39AM AEST

On Tuesday 13 May, Westpac (WBC) and St George (SGB) announced details of their merger agreement. They also took the opportunity to provide guidance as to next steps and the potential synergies that could result from the deal.

Details of the deal

- An offer price of 1.31 WBC shares for each SGB share represents a 28.5% premium to SGB's close price on Friday 9 May and a 24.1% premium to the preceding one month VWAP. This premium excludes SGB and WBC 1H08 dividends already announced.
- Initial synergy estimates were not provided however WBC indicated it expects the deal to be EPS positive by year three and NPV positive immediately.
- No details of the merger timeline were given however the deal is subject to regulatory approval (Federal Treasurer, APRA, ACCC), satisfactory due diligence and shareholder consent from SGB.

SGB has recommended the merger proposal in the absence of a better proposal. SGB has been given WBC a two week exclusivity period for due diligence to be carried out. SGB will also be conducting due diligence on WBC during that period.

CommSec's impression

An interesting aspect of this transaction is the apparent speed with which the SGB board and management have capitulated in the face of WBC's offer.

That fact that the board is prepared to accept a scrip bid for control at a lower price than its last equity raising in November ($35) is evidence of a *massive* reconsideration of SGB's potential to prosper or perhaps even survive as a standalone organisation.

While unable/unwilling to articulate why, SGB insisted in its analyst briefing yesterday that the WBC scrip offer was a good deal for shareholders

Recommendation*

Westpac

Short term call	ACCUMULATE
Long term call	MARKET PERFORM
Valuation	$25.40
12 mth price target	$27.75
52-week range	$20.34-$31.32
Current price	$25.11
Market Cap m	$47,163.16

Previous short term call	REDUCE
Previous long term call	MARKET PERFORM
Date of change	14 JUNE 2007

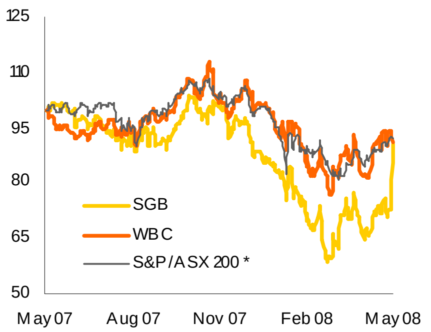
St George

Short term call	ACCUMULATE
Long term call	UNDER PERFORM
Valuation	$27.90
12 mth price target	$31.00
52-week range	$21.40-$38.50
Current price	$33.37
Market Cap m	$18,722.55

Previous short term call	ACCUMULATE
Previous long term call	MARKET PERFORM
Date of change	27 FEBRUARY 2008

*SHORT TERM (over the next 6 months we expect the share price to:) Buy – Appreciate by >10%, Accumulate – Increase between 2% and 10%, Reduce – Increase by less than 2% or fall by up to 5%,Sell– Fall by >5%, Rev – Company is under review - no recommendation available. LONG TERM (over the next 24 months we expect the total return to:) Outperform (O / P) – Exceed market return by >5%, Market Perform (M / P) – Be in line with market return, +/-5%, Under Perform (U / P) – Be less than market return by >5%, Rev – Company is under review – no recommendation available.

Price relatives



^The S&P/ASX200 has been re-based to the stock's starting share price.

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Why the sudden change of heart?

While the offer is certainly ahead of our valuation of SGB ($27.90) and we appreciate the context of the recent and major underperformance from banking stocks, it is still really interesting to observe such a significant change of view.

Perhaps SGB's change of heart has implications for the price of smaller banks that are rallying strongly on the industry rationalisation theme.

The value of the deal

Excluding synergy benefits and before considering the risks associated with the transaction, which include:

- WBC having to pay more for SGB (in response to a higher bid from a competitor),
- The risks associated with integrating the businesses, including what sounds like a simultaneous systems upgrade) and,
- The risk of losing SGB clients,.

CommSec estimates the deal will be 3.9% dilutive on our current FY09 forecast EPS of $2.05.

Of course there will be synergy benefits from the deal – for example, a 10% cost saving across the expected FY08 cost bases of the two companies which is equivalent to approximately $630m pa in savings. And if this savings was sustainable over three years it would see FY12 EPS only marginally higher than what we are forecasting without the deal.

Will the deal be successful?

The bid price implies a FY09 PE for SGB shares of 14.5 times which on our numbers places it well ahead of the average of the major Australian banks, though slightly behind BOQ. The price offered represents a 19% premium to our current valuation for SGB.

In the absence of a higher bid we suspect the offer will be sufficient given the board recommendation.

It was clear from the analyst briefing that there is a degree of consternation amongst investors that the board has agreed to sell the company for scrip at these levels. The SGB board might have to do some more work convincing shareholders about the attractiveness of swapping their SGB shares for WBC shares.

While the market will have plenty of opportunity to think about the upside benefits from the potential synergies that have been targeted, we expect that there will be an increased focus on the risks around this deal for WBC shareholders. We expect some rotation out of WBC into ANZ and NAB given the relatively lower PE multiples and (at present) lower acquisition risk.

Perhaps the first risk to be faced is a strategic counter-bid from one (or more) of the other majors (after the two week exclusivity period) when they have had the chance to fully consider all the implications of the bid. With the SGB franchise finally in play there will be an element of 'last chance' thinking with local competitors having an incentive to bid what it is worth for them if for no other reason than to make WBC pay a higher price and/or outlay some cash. No doubt, the SGB board will certainly be hoping somebody helps get the final price above $35.00!

What can we expect next?

The deal has implications for how the 4 pillars policy might eventually unwind, this will be particularly relevant for some banks thinking about how to respond to this bid.

On the regulatory front, CommSec is still of the view that the deal is likely to receive ACCC approval, though there could be some risk in the state markets for small business finance and perhaps even on a regional level should the ACCC choose to explore the nuts and bolts in more detail. Overall we expect the presence of other major banks, mortgage brokers and internet banking to provide comfort on the competitive front in most product categories

In the analyst briefing yesterday, WBC outlined its view on the result of the merger and how it can create a financial services firm with market leading positions in housing, personal and business lending, retail funds management and a second place position in retail deposits. The deal is expected to be EPS positive within three years.

Strategic rationale

The key difference with this proposal from earlier bank mergers is that WBC is proposing to carefully preserve and develop the brand equity in both businesses. It will essentially become a bank holding company that manages the Westpac, Bank SA, St George, BT and Asgard brands. In this way it hopes to minimise the customer attrition that has undermined the value of so many earlier mergers.

The merger will add some strong brands and bring scale benefits, the later is particularly important as the industry embarks on a period of significant IT investment relating to core platforms. CBA launched this process recently and the other banks have little choice but to try and respond. WBC appears to be hoping to capitalise by upgrading its systems while integrating the SGB businesses and arguably this adds a significant additional level of complexity in what is an already difficult process.

If the deal is successful, it will reduce WBC’s reliance on the New Zealand business as a proportion of the overall group.

Synergy opportunities exist in product manufacturing and support functions, head office expenses and eventually real estate costs in the medium term. The merger will allow a more efficient distribution of WBC and SGB branded branches.

The attraction of the deal for SGB management seems clear – somewhere in the past six months the credit squeeze has caused SGB’s board and senior management to dramatically downgrade their views of SGB’s value/viability as a stand alone business. From issuing stock at $35.00 in November to accepting a scrip bid (that was marked down 3.3%) is a big change of view and the board’s credibility now hangs on convincing shareholders of the wisdom of their actions.

Proposed structure

WBC outlined how it proposes to mange the business after the merger.

- **Retail (consumer and business banking):** The merged bank would retain the WBC and SGB brands with dedicated CEOs. Common product manufacturing and back office support are expected to provide improved scale advantages to each brand.
- **Institutional:** The merged bank would combine the two businesses under the WBC name with common infrastructure as SGB doesn't have a significant institutional presence.
- **Wealth:** The Wealth management businesses would be migrated into a single entity while still maintaining two distinct brands (BT and Asgard).
- **Support:** The two corporate support centres would be combined into one centre combining the best of both.

In maintaining the multi-brand strategy (which we think is imperative for achieving a positive outcome from the merger), the WBC leadership team will face a delicate challenge in managing the costs that could accumulate around the brand CEOs (support staff, marketing teams etc) as well as achieving the appropriate degree of competitive intensity between the operations.

In terms of the wealth management businesses, the pitch to retail advisers will be important in preserving the brand value in the BT and Asgard products given they will be operating in a single entity.

If the integration can be managed without significant customer attrition, the merger will offer the combined group the opportunity to enjoy a scale advantage over its competitors. Table 1 highlights the snapshot of the prospective combined branch, ATM and financial planner numbers. Table 2 compares the branch numbers to that of its competitors using APRA numbers released in June 2007.

Table 1: Merged Group scale

	SGB	WBC	Merged Group
Branches	400	830	1,230
ATMs	1,129	1,683	2,812
Planners	500	540	1,040

Source: WBC/SGB release

Table 2: Branch numbers

WBC/SGB branches	**1,230**
CBA branches	1,010
NAB branches	790
ANZ branches	788

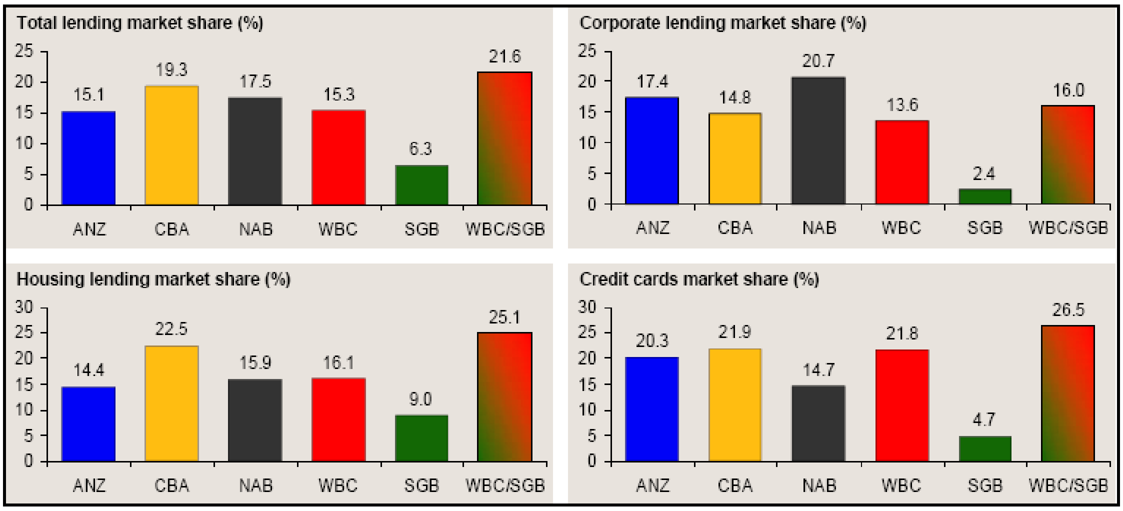
Source: WBC/SGB release, APRA

The merged bank would have a strong market share across all customer segments as discussed above. Figure 1 summarises the relative market shares published in WBC's presentation. It shows WBC/SGB having leading position across all lending segments with the exception of corporate lending (which is arguably the highest risk and lowest return segment in any case!).

The charts released in the presentation indicate that the merged WBC/SGB would only have a 16% market share in the corporate lending space, however potentially they would suffer from SGB's long running inability to report its business lending performance in a way that translates into APRA lending data.

SGB claimed a 9.1% business lending market share according in its 1H08 result, this implies that the merged bank would have an actual group market share of 23.6%, making WBC/SGB the largest in this segment as well.

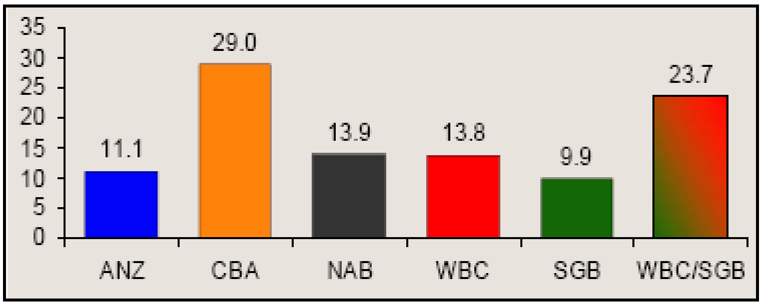
Figure 1: Relative market shares



Source: WBC/SGB release

As previously discussed, the merged Group would have 23.7% market share in retail deposits, putting it in second place behind CBA (Figure 2).

Figure 2: Household deposit market share



Source: WBC/SGB release

The wealth business would also be expected to benefit with the increasing strength across the business from investment management through to distribution.

Figure 3 shows the businesses which would be incorporated in the merged entity. The combination would combine two fast growing wrap platforms (Asgard and BT) while also providing access to the broader financial planner distribution network of approximately 1,040 planners.

The combination of the two will give total funds under management of $42.6b and funds under advice of $75.7b.

Figure 3: Wealth management value chain

	Investment Management	Product Manufacture	Bundling Platform	Distribution & Advice
BT	BT Investment management	BTFG BT partner series	Wrap Corporate super Super for Life	Westpac financial planning Magnitude
St.George		Advance	Asgard	St.George financial planning Securitor

Source: WBC/SGB release

Financial rationale

WBC stated the deal was EPS accretive for WBC shareholders within three years with strong accretion thereafter. It claimed the merged group would:

- benefit from significant revenue opportunities and cost synergies leading to a sub 40% cost to income ratio,
- have access to broader funding arrangements – presumably a benefit mainly for the SGB book,
- develop enhanced capital and risk disciplines (expect WBC is already stronger in this regard), and
- minimise customer attrition by maintaining of the various brands and relevant customer facing staff.

Revenue synergies are expected to be achieved through a broader distribution base, enhanced capability through wealth, insurance and institutional banking and a share of best practice between the two organisations.

WBC has publicly stated that it is looking to retain branches and frontline staff. Current cost synergy opportunities include:

- duplicated support infrastructure,
- common processing and support infrastructure,
- economies of scale in servicing platforms,
- renegotiation of procurements and service contracts,
- cancellation of a planned disaster recovery site, and
- scale benefits on current investment spend.

Synergy benefits and EPS impact

CommSec provides a sketch of the impact of $500m before tax (ie circa 7.6% of the of the expected FY09 cost base) by FY11. Based on our current forecast numbers, EPS accretion will be 1 cent in FY11 (Table 3).

We would not be surprised if a higher synergy benefit is eventually identified.

Table 3: EPS impact of merged group

	FY09	FY10	FY11
WBC	3,855	4,378	4839
SGB	1,297	1,430	1567
Group NPAT - pre synergies ($m)	**5,152**	**5,808**	**6,406**
WBC	1,878	1,878	1,878
SGB	735	735	735
Total shares on issue (m)	**2,613**	**2,613**	**2,613**
Potential synergies - after tax ($m)	150	250	350
assumes $350m after tax by FY11 (6.9% of total cost base)			
WBC current EPS ($)	**2.05**	**2.33**	**2.58**
Merged group EPS ($)	1.97	2.22	2.45
EPS impact of synergies ($)	0.06	0.10	0.13
Merged group EPS ($)	**2.03**	**2.32**	**2.59**

Source: CommSec

More detail on competition issues

Table 4 highlights expected market share percentages for *retail products* WBC/SGB would have after the merger. This information is based on Roy Morgan data and does not represent percentages of balances but percentage of accounts held. The data suggests the merger will not give rise to a significant lessening of competition.

Competition in the mortgage market is healthy with mortgage brokers controlling a large share of new business. This means customers have access to sufficient information that will allow them to obtain a competitive price.

In terms of deposits, while still driven through the presence of strong branch networks, this area of the market is increasingly influenced by internet banking. The ease of switching and ability to quickly compare interest rates means competition is functioning well in that segment.

Lastly, in credit cards and consumer lending, the ease of switching and the zero interest balance transfers allow for customers to access better rates on a regular basis.

Table 4: Market share by state

WBC & SGB	Aust	NSW	VIC	QLD	SA	WA	TAS
	Dec-07 %	Dec-07 %	Dec-07 %	Dec-07 %	Dec-07 %	Dec-07 %	Dec-07 %
MORTGAGES	19.9%	24.5%	20.0%	14.2%	24.0%	17.3%	7.1%
DEPOSITS AND TRANSACTION ACCOUNTS	19.2%	25.0%	16.9%	12.6%	23.9%	18.0%	11.0%
MAJOR CREDIT CARDS	20.4%	25.9%	18.1%	14.1%	24.5%	18.5%	16.5%
CONSUMER LENDING	12.9%	15.7%	13.2%	9.8%	16.4%	11.7%	6.7%

Source: Roy Morgan (Includes Australians aged 14+, data is number of products for 12 months to Dec07)

Additional competition comments – Natalie Kelly

In August 2007, the ACCC approved the Bendigo bank-Adelaide Bank merger. *This appears to be the most recent precedent.*

Market definitions

In its assessment, the ACCC concluded that there was a *national* market for home loans, a national market for margins loans and *state based* markets for personal loans, deposit/term products, transaction accounts, small business banking and the issue of credit cards.

The broad home loan market definition appears to be a positive for the WBC+SGB deal. However, the ACCC defined some other narrow geographical and product markets that may cause some competition concerns for the WBC/SGC deal after closer scrutiny (i.e. a state based small business banking market).

Competitive constraints

The most significant competitive constraint on the proposed merged entity will be the existing players - CBA, ANZ and NAB as well as the smaller regional banks and offshore banks. The ACCC was comfortable letting SUN-PMN merge with only IAG, Allianz and potentially the major banks in the general insurance space so one could argue that CBA, ANZ and NAB etc will provide a sufficient level of competition for the merged WBC/SGB.

Once again, the ACCC needs to have a good 'practical' case as well as a good 'theoretical' case when assessing a merger or acquisition. The ACCC may get the support of Banking and Finance Unions but their concerns will be around jobs whereas the ACCC looks at prices and service. This transaction is likely to encourage consolidation activity in the sector so CBA, ANZ and NAB are unlikely to jeopardise their chances of participating in similar activity by complaining about the deal.

Impact of the Dawson changes

In the AFR on Tuesday 13 May there was an article that discussed the Dawson changes that came into action on 1 January 2007. The changes mean that the ACCC will add the Formal Merger Clearance System to the Informal Merger Clearance System when considering mergers/acquisitions and the Australian Competition Tribunal (ACT) will take over the responsibility for Merger Authorisations from the ACCC.

In line with these changes, the applicant has opportunity to choose the system that is most likely to approve its proposed merger or acquisition. I believe that the *Informal Merger Clearance System* will remain the most likely system to approve a merger or acquisition and this explains why no merger or acquisition has proceeded down the Formal Merger Clearance path since it was introduced over a year ago.

The key features of the Formal Merger Clearance System are:

- The onus of proof is on the applicant. The ACCC will grant a clearance only when it is completely satisfied that the merger will not lead to a substantial lessening of competition.
- The Formal Merger Clearance System is less flexible. The application for clearance can not be altered during the ACCC's assessment and the process must be completed within 40 days. The short assessment timeframe is the most attractive feature of the Formal Merger Clearance System.
- A formal merger clearance gives the applicant immunity from legal action from the ACCC or a third party.
- The information submitted by the applicant and interested parties is publicly available on the ACCC's website.
- The ACCC's decision can be reviewed by the Australian Competition Tribunal.

Conclusion

We can see the appeal of the merger for WBC at the price it has agreed with the SGB board and at this stage CommSec *does not* anticipate that the deal will be blocked on competition grounds.

Risks

However given that WBC has now embarked upon this transaction, it faces a number of risks:

- A counter-bid from a competitor (local or OS based) that forces it to raise its bid to consummate the deal. This would be particularly interesting as such a bid, if it happens at all, is likely to occur after the 'reciprocal due diligence' process that is scheduled over the next two weeks. There is no rush for another bidder to show its hand, given the likely time that will elapse in bedding down the transaction details.
  - Investors might consider switching from WBC into SGB to try and benefit from a bidding war. However, this is risky given that a higher bid might not eventuate and there is still the risk that we could return to a worse credit market environment. At this stage while we believe WBC is very keen to consummate the deal, it is not final.
- Integration risks – include a number of factors ranging from identifying/keeping the right people while critical support functions are rationalised, through to the potential loss of management focus on the business as political positioning distracts executives from their main roles.
  - WBC appeared to say at its briefing that core system upgrades will be accomplished along with the SGB integration – this however adds an additional level of risk.
- Customer loss. While we agree that maintaining the separate brands is the best approach to minimising customer attrition, we are in somewhat uncharted waters. Financial services mergers are frequently a source of disappointment for shareholders due to customer loss.

Valuation and recommendation

CommSec sees considerable opportunity and risk for WBC in this transaction and retains its ACCUMULATE/MARKET PERFORM recommendation. *In light of these risks we are less confident in continuing to recommend it as our preferred banking exposure, notwithstanding that it retains its strong Australasian business focus in this transaction and is unlikely to suffer any serious detriment to the quality of its loan book by absorbing SGB assets.*

Investors might consider switching from WBC into NAB and/or ANZ. We suspect NAB is most likely of the majors to launch a counter-bid for SGB despite its recently stated organic growth strategy and already strong position in wealth management. In the circumstances management would be perfectly justified in responding given that SGB is now on the market.

While WBC has an advantage both in terms of a PE premium (12.8X) on FY09 earnings and Gail Kelly's knowledge of the SGB business, NAB is closest of the majors on 11.5x and has a circa AUD7b market cap advantage to help offset the dilution from an issue.

We appreciate of course that that none of the majors might make a move, preferring either to attempt to acquire the SUN or BOQ businesses, or merely position itself to try and rip as much market share out of WBC/SGB as possible as the merger progresses.

While we note that while the consolidation theme has had a strong positive influence on banking stocks in the last two days, some of the factors that influenced SGB's diminished view of the value of its own business may be equally or even more relevant for some of its competitors. In a difficult credit environment, CommSec continues to prefer the larger cap more highly rated major banks to more modestly rated and smaller competitors.

Within the regional banks, BOQ is preferred because of its strong origination model and exposure to the high growth QLD and WA economies. That said, we note as a result of the rally this week BOQ has almost achieved CommSec's DCF valuation of $17.35.

Westpac

STATEMENT OF FINANCIAL PERFORMANCE ($M)	FY06(a)	FY07(a)	FY08(e)	FY09(e)	FY10(e)
Interest income	18,091	22,075	28,134	31,024	33,781
Interest expense	12,449	15,762	21,093	23,513	25,796
Net interest income	**5,642**	**6,313**	**7,041**	**7,511**	**7,984**
Other revenue:					
Securitisation income	0	0	0	0	0
Fees and commissions	1,766	1,832	1,967	2,105	2,252
Life insurance premium & related revenue	0	0	0	0	0
Investment income	525	660	792	832	915
Funds management revenue	980	1,146	790	829	995
Residual revenue	260	222	204	167	177
Total other revenue	3,531	3,860	3,753	3,933	4,339
Net banking operating income	**9,173**	**10,173**	**10,794**	**11,444**	**12,323**
Fees and commissions expense	0	0	0	0	0
Claims and policyholder liability expense	0	0	0	0	0
Depreciation	113	318	282	228	206
Amortisation of goodwill	0	0	0	0	0
Amortisation of other intangibles	175	0	0	0	0
Personnel expenses	2,324	2,557	2,819	3,044	3,288
Property/occupancy expenses	326	310	339	356	373
Other expenses	1,357	1,358	1,389	1,431	1,474
Total expenses	**4,295**	**4,543**	**4,828**	**5,058**	**5,340**
Charge for bad and doubtful debts	375	482	880	793	643
Total expenses - inc BDD	**4,670**	**5,025**	**5,709**	**5,851**	**5,984**
Profit from ordinary activities before income tax	**4,503**	**5,148**	**5,085**	**5,593**	**6,340**
Income tax expense	1,409	1,630	1,363	1,678	1,902
Profit after tax	**3,094**	**3,518**	**3,722**	**3,915**	**4,438**
Equity profit from assoc. (after tax)	0	0	0	0	0
Outside equity interests in net profit	54	67	63	60	60
NPAT (before significant and extraordinary items)	**3,040**	**3,451**	**3,659**	**3,855**	**4,378**
Significant items	44	0	436	0	0
Tax on significant items (negative is a credit)	13	0	125	0	0
Significant items after tax	31	0	311	0	0
Net profit attributable to members of the Bank	**3,071**	**3,451**	**3,970**	**3,855**	**4,378**
Cash Earnings (before significant items)	**3,040**	**3,451**	**3,659**	**3,855**	**4,378**
Adjustments for WBC cash earnings	39	56	(52)	0	0
WBC reported cash earnings	**3,079**	**3,507**	**3,607**	**3,855**	**4,378**

STATEMENT OF FINANCIAL PERFORMANCE ($M)	1H07(a)	2H07(a)	1H08(a)	2H08(e)	1H09(e)
Interest income	10,429	11,646	13,699	14,435	15,265
Interest expense	7,340	8,422	10,229	10,864	11,539
Net interest income	**3,089**	**3,224**	**3,470**	**3,571**	**3,725**
Other revenue:					
Securitisation income	0	0	0	0	0
Fees and commissions	905	927	966	1,001	1,034
Life insurance premium & related revenue	0	0	0	0	0
Investment income	260	400	388	404	407
Funds management revenue	571	575	399	391	399
Residual revenue	84	138	135	69	81
Total other revenue	1,820	2,040	1,888	1,865	1,921
Net banking operating income	**4,909**	**5,264**	**5,358**	**5,436**	**5,646**
Fees and commissions expense	0	0	0	0	0
Claims and policyholder liability expense	0	0	0	0	0
Depreciation	153	165	159	123	117
Amortisation of goodwill	0	0	0	0	0
Amortisation of other intangibles	0	0	0	0	0
Personnel expenses	1,223	1,334	1,378	1,441	1,488
Property/occupancy expenses	156	154	177	162	186
Other expenses	697	661	695	694	716
Total expenses	**2,229**	**2,314**	**2,409**	**2,419**	**2,507**
Charge for bad and doubtful debts	232	250	433	447	445
Total expenses - inc BDD	**2,461**	**2,564**	**2,842**	**2,867**	**2,951**
Profit from ordinary activities before income tax	**2,448**	**2,700**	**2,516**	**2,569**	**2,695**
Income tax expense	773	857	592	771	809
Profit after tax	**1,675**	**1,843**	**1,924**	**1,798**	**1,887**
Equity profit from assoc. (after tax)	0	0	0	0	0
Outside equity interests in net profit	34	33	33	30	30
NPAT (before significant and extraordinary items)	**1,641**	**1,810**	**1,891**	**1,768**	**1,857**
Significant items	0	0	436	0	0
Tax on significant items (negative is a credit)	0	0	125	0	0
Significant items after tax	0	0	311	0	0
Net profit attributable to members of the Bank	**1,641**	**1,810**	**2,202**	**1,768**	**1,857**
Cash Earnings (before significant items)	**1,641**	**1,810**	**1,891**	**1,768**	**1,857**
Adjustments for WBC cash earnings	37	19	(52)	0	0
WBC reported cash earnings	**1,678**	**1,829**	**1,839**	**1,768**	**1,857**

STATEMENT OF FINANCIAL POSITION ($M)	FY06(a)	FY07(a)	FY08(e)	FY09(e)	FY10(e)
Assets					
Cash and liquid assets	3,132	2,243	3,514	4,450	5,476
Receivables due from other financial institutions	12,211	28,379	31,315	34,142	37,226
Trading & investment securities	17,811	24,505	28,184	30,728	33,503
Loans, advances and other receivables	234,484	272,545	313,151	341,421	372,259
Life insurance investment assets	14,281	15,456	14,077	15,226	16,311
Property, plant and equipment	466	489	467	422	381
Investment in associates	0	0	0	0	0
Intangible assets	2,952	2,989	3,071	3,071	3,071
Other assets (bank acceptances, regulatory deposits, other)	14,241	28,215	31,315	34,142	37,226
Total assets	**299,578**	**374,821**	**425,094**	**463,602**	**505,453**
Liabilities					
Deposits and public borrowings	167,741	199,222	231,056	252,319	273,170
Payables due to other financial institutions	12,051	9,133	15,658	17,071	18,613
Other accounts payable	0	0	0	0	0
Provision for dividend & other provisions	10,511	26,405	21,435	22,520	23,660
Subordinated debt	4,628	6,471	7,537	7,879	8,341
Other long term interest bearing liabilties	68,973	95,349	110,594	121,930	136,484
Long term interest bearing liabilties	74,930	103,053	118,131	129,808	144,825
Life insurance policyholder liabilities	13,476	14,392	13,056	13,717	14,412
Other liabilities	4,771	4,785	5,871	6,472	7,000
Total liabilities	**283,480**	**356,990**	**405,205**	**441,908**	**481,680**
Net assets	**16,098**	**17,831**	**19,889**	**21,694**	**23,772**
Shareholders' equity					
Ordinary share capital	5,468	6,011	6,616	7,223	7,860
Reserves	186	192	245	245	245
Retained profits	8,532	9,716	11,107	12,304	13,745
Other (including preference share capital)	0	0	0	0	0
Shareholder members' equity	**14,186**	**15,919**	**17,968**	**19,772**	**21,850**
Outside equity interests	1,912	1,912	1,921	1,922	1,923
Total shareholders' equity	**16,098**	**17,831**	**19,889**	**21,694**	**23,772**

DIVIDEND INFORMATION		FY06(a)	FY07(a)	FY08(e)	FY09(e)	FY10(e)
Full year dividend	(cents)	116	131	140	145	159
Franking per share	(%)	100	100	100	100	100
Implied payout	(%)	70	71	72	72	70

EARNINGS		FY06(a)	FY07(a)	FY08(e)	FY09(e)	FY10(e)
Cash EPS	(cents)	167.6	190.0	192.0	202.5	227.4
WBC cash EPS growth	(%)	10.3	13.3	1.1	5.5	12.3
Diluted cash EPS	(cents)	159.8	180.2	187.2	194.0	218.0
Diluted cash EPS growth on pcp	(%)	13.8	12.7	3.9	3.7	12.4

CAPITAL RATIOS		FY06(a)	FY07(a)	FY08(e)	FY09(e)	FY10(e)
Risk weighted assets	($m)	193,417	228,077	212,997	231,991	252,697
Total tier 1 capital	($m)	13,318	14,933	14,540	16,239	18,225
Total tier 2 capital	($m)	5,864	7,802	6,788	7,453	8,177
Tier 1 ratio	(%)	6.9	6.5	6.8	7.0	7.2
Tier 2 ratio	(%)	3.0	3.4	3.2	3.2	3.2
Deductions	($m)	680	989	-	-	-
Total capital ratio	(%)	9.6	9.5	10.0	10.2	10.4

PERFORMANCE RATIOS		FY06(a)	FY07(a)	FY08(e)	FY09(e)	FY10(e)
Revenue growth	(%)	5.3	10.9	6.1	6.0	7.7
Expense growth - exc BDD	(%)	3.3	5.8	6.3	4.8	5.6
Cost/Income	(%)	46.8	44.7	44.7	44.2	43.3
Cash ROE	(%)	21.9	22.9	21.6	20.4	21.0
Net Interest Margin	(%)	2.29	2.19	2.01	1.95	1.91
Fee Income/Total Income	(%)	19.3	18.0	18.2	18.4	18.3
Bad Debt Expense/Risk Weighted Assets	(%)	0.19	0.21	0.41	0.34	0.25

VALUATION		
Cost of equity	(%)	10.96
Nominal terminal growth rate	(%)	5.00
PV of forecast cash flows	($m)	16,329
PV of terminal value	($m)	31,481
Total firm value	($m)	47,810
Current shares on issue	(m)	1878.26
Value per share	($)	25.40

St George

STATEMENT OF FINANCIAL PERFORMANCE ($M)	FY06(a)	FY07(a)	FY08(e)	FY09(e)	FY10(e)
Interest income	6,814	8,203	10,209	11,201	12,079
Interest expense	4,799	6,010	7,806	8,704	9,478
Net interest income	**2,015**	**2,193**	**2,403**	**2,497**	**2,601**
Other revenue:					
Total Securitised Interest Income	0	0	0	0	0
Fees and commissions	535	596	621	662	715
Life insurance premium & related revenue	0	0	0	0	0
Investment income	95	129	81	136	144
Funds management revenue	254	296	282	295	340
Residual revenue	65	71	63	71	81
Total other revenue	949	1,092	1,046	1,164	1,280
Net banking operating income	**2,964**	**3,285**	**3,450**	**3,661**	**3,880**
Fees and commissions expense	26	32	37	39	41
Claims and policyholder liability expense	0	0	0	0	0
Depreciation	67	61	66	62	56
Amortisation of goodwill	0	0	0	0	0
Amortisation of other intangibles	32	31	38	38	38
Personnel expenses	738	808	857	897	933
Property/occupancy expenses	113	113	133	141	150
Other expenses	308	345	329	347	357
Total expenses	**1,284**	**1,390**	**1,459**	**1,525**	**1,574**
Charge for bad and doubtful debts	144	178	255	218	194
Total expenses - inc BDD	**1,428**	**1,568**	**1,714**	**1,743**	**1,768**
Profit from ordinary activities before income tax	**1,536**	**1,717**	**1,736**	**1,918**	**2,112**
Income tax expense	491	525	504	587	645
Profit after tax	**1,045**	**1,192**	**1,232**	**1,331**	**1,467**
Equity profit from assoc. (after tax)	0	0	0	0	0
Outside equity interests in net profit	1	2	0	0	0
NPAT (before significant and extraordinary items)	**1,044**	**1,190**	**1,232**	**1,331**	**1,467**
Significant items	(13)	0	34	0	0
Tax on significant items (negative is a credit)	(25)	0	127	0	0
Significant items after tax	12	0	(93)	0	0
Net profit attributable to members of the Bank	**1,056**	**1,190**	**1,139**	**1,331**	**1,467**
Preference dividend	20	27	31	34	37
Profit to ordinary shareholders	**1,036**	**1,163**	**1,109**	**1,297**	**1,430**
Cash earnings (before significant items)	**1,024**	**1,163**	**1,202**	**1,297**	**1,430**
Cash earnings - company reported	**1,014**	**1,160**	**1,198**	**1,297**	**1,430**

STATEMENT OF FINANCIAL PERFORMANCE ($M)	2H07(a)	1H08(a)	2H08(e)	1H09(e)	2H09(e)
Interest income	4,297	4,965	5,244	5,535	5,666
Interest expense	3,182	3,773	4,033	4,292	4,412
Net interest income	**1,115**	**1,192**	**1,211**	**1,243**	**1,254**
Other revenue:					
Total Securitised Interest Income	0	0	0	0	0
Fees and commissions	307	308	313	323	338
Life insurance premium & related revenue	0	0	0	0	0
Investment income	58	17	64	67	69
Funds management revenue	154	143	139	143	152
Residual revenue	40	30	33	35	36
Total other revenue	559	498	548	568	596
Net banking operating income	**1,674**	**1,690**	**1,760**	**1,811**	**1,850**
Fees and commissions expense	16	18	19	19	20
Claims and policyholder liability expense	0	0	0	0	0
Depreciation	30	32	34	32	30
Amortisation of goodwill	0	0	0	0	0
Amortisation of other intangibles	15	19	19	19	19
Personnel expenses	411	421	436	446	451
Property/occupancy expenses	52	65	68	70	72
Other expenses	183	161	168	172	175
Total expenses	**707**	**716**	**743**	**758**	**767**
Charge for bad and doubtful debts	85	118	137	111	107
Total expenses - inc BDD	**792**	**834**	**880**	**869**	**874**
Profit from ordinary activities before income tax	**882**	**856**	**880**	**942**	**976**
Income tax expense	275	234	270	288	298
Profit after tax	**607**	**622**	**610**	**654**	**677**
Equity profit from assoc. (after tax)	0	0	0	0	0
Outside equity interests in net profit	2	0	0	0	0
NPAT (before significant and extraordinary items)	**605**	**622**	**610**	**654**	**677**
Significant items	0	34	0	0	0
Tax on significant items (negative is a credit)	0	127	0	0	0
Significant items after tax	0	(93)	0	0	0
Net profit attributable to members of the Bank	**605**	**529**	**610**	**654**	**677**
Preference dividend	14	15	16	17	17
Profit to ordinary shareholders	**591**	**514**	**595**	**637**	**660**
Cash earnings (before significant items)	**591**	**607**	**595**	**637**	**660**
Cash earnings - company reported	**592**	**603**	**595**	**637**	**660**

STATEMENT OF FINANCIAL POSITION ($M)	FY06(a)	FY07(a)	FY08(e)	FY09(e)	FY10(e)
Assets					
Cash and liquid assets	1,081	2,081	3,359	3,819	2,863
Receivables due from other financial institutions	1,182	1,244	672	743	803
Trading & investment securities	7,733	12,268	15,124	14,851	15,061
Loans, advances and other receivables	81,516	89,884	99,278	109,444	120,379
Life insurance investment assets	0	0	0	0	0
Property, plant and equipment	334	345	319	288	260
Investment in associates	0	28	29	29	29
Intangible assets	1,291	1,323	1,325	1,287	1,249
Other assets (bank acceptances, regulatory deposits, other)	12,772	18,627	23,827	26,267	27,687
Total assets	**107,002**	**125,800**	**143,933**	**156,727**	**168,331**
Liabilities					
Deposits and public borrowings	54,633	70,803	82,649	89,393	95,945
Payables due to other financial institutions	401	1,013	336	371	402
Other accounts payable	0	0	0	0	0
Provision for dividend & other provisions	1,190	3,782	3,387	3,387	3,387
Subordinated debt	1,835	1,890	2,273	2,564	2,803
Other long term interest bearing liabilties	42,537	41,660	46,999	51,816	55,609
Long term interest bearing liabilties	44,372	43,550	49,273	54,380	58,411
Life insurance policyholder liabilities	0	0	0	0	0
Other liabilities	1,063	768	1,196	1,447	1,751
Total liabilities	**101,659**	**119,916**	**136,840**	**148,978**	**159,895**
Net assets	**5,343**	**5,884**	**7,093**	**7,749**	**8,436**
Shareholders' equity					
Ordinary share capital	3,868	4,041	5,093	5,330	5,578
Reserves	166	258	274	274	274
Retained profits	798	1,086	1,216	1,583	1,977
Other (including preference share capital)	493	493	504	557	601
Shareholder members' equity	**5,325**	**5,878**	**7,087**	**7,743**	**8,430**
Outside equity interests	18	6	6	6	6
Total shareholders' equity	**5,343**	**5,884**	**7,093**	**7,749**	**8,436**

DIVIDEND INFORMATION		FY06(a)	FY07(a)	FY08(e)	FY09(e)	FY10(e)
Full year dividend	(cents)	151	168	168	174	187
Franking per share	(%)	100	100	100	100	100
Implied payout	(%)	78	77	79	77	76

EARNINGS		FY06(a)	FY07(a)	FY08(e)	FY09(e)	FY10(e)
Cash EPS	(cents)	193.4	218.9	215.4	227.8	247.6
Cash EPS - company reported growth on pcp	(%)	11.8	13.2	(1.6)	5.8	8.7
Cash EPS - diluted shares	(cents)	188.8	210.6	204.6	215.2	234.0
Cash EPS - diluted shares growth on pcp	(%)	15.3	11.5	(2.8)	5.1	8.8

CAPITAL RATIOS		FY06(a)	FY07(a)	FY08(e)	FY09(e)	FY10(e)
Risk weighted assets	($m)	52,982	63,226	71,958	79,566	85,843
Total tier 1 capital	($m)	3,669	3,863	5,073	5,749	6,422
Total tier 2 capital	($m)	2,135	2,233	2,878	3,183	3,434
Tier 1 ratio	(%)	6.9	6.1	7.0	7.2	7.5
Tier 2 ratio	(%)	4.0	3.5	4.0	4.0	4.0
Deductions	($m)	28	28	55	58	61
Total capital ratio	(%)	10.9	9.6	11.0	11.2	11.4

PERFORMANCE RATIOS		FY06(a)	FY07(a)	FY08(e)	FY09(e)	FY10(e)
Revenue growth	(%)	9.4	10.8	5.0	6.1	6.0
Expense growth	(%)	0.5	8.3	5.0	4.5	3.3
Cost/Income	(%)	43.3	42.3	42.3	41.6	40.6
Cash ROE	(%)	20.8	22.8	20.1	18.8	19.1
Net Interest Margin	(%)	2.11	2.01	1.88	1.77	1.67
Fee Income/Total Income	(%)	18.0	18.1	18.0	18.1	18.4
Bad Debt Expense/Risk Weighted Assets	(%)	0.27	0.28	0.35	0.27	0.23

VALUATION		
Cost of equity	(%)	11.01
Nominal terminal growth rate	(%)	5.00
PV of forecast cash flows	($m)	5,691
PV of terminal value	($m)	9,987
Total firm value	($m)	15,677
Current shares on issue	(m)	561.06
Value per share	($)	27.90

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