Westpac and St George Bank
Terms of the opening bid...

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.
**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 manage 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

<table>
<thead>
<tr>
<th></th>
<th>SGB</th>
<th>WBC</th>
<th>Merged Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branches</td>
<td>400</td>
<td>830</td>
<td>1,230</td>
</tr>
<tr>
<td>ATMs</td>
<td>1,129</td>
<td>1,683</td>
<td>2,812</td>
</tr>
<tr>
<td>Planners</td>
<td>500</td>
<td>540</td>
<td>1,040</td>
</tr>
</tbody>
</table>

Source: WBC/SGB release

### Table 2: Branch numbers

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>1,230</th>
</tr>
</thead>
<tbody>
<tr>
<td>WBC/SGB branches</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CBA branches</td>
<td></td>
<td>1,010</td>
</tr>
<tr>
<td>NAB branches</td>
<td></td>
<td>790</td>
</tr>
<tr>
<td>ANZ branches</td>
<td></td>
<td>788</td>
</tr>
</tbody>
</table>

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**

![Market Share Chart]

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**

![Deposit Market Share Chart]

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.
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

<table>
<thead>
<tr>
<th></th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
</tr>
</thead>
<tbody>
<tr>
<td>WBC</td>
<td>3,855</td>
<td>4,378</td>
<td>4,839</td>
</tr>
<tr>
<td>SGB</td>
<td>1,297</td>
<td>1,430</td>
<td>1,567</td>
</tr>
<tr>
<td>Group NPAT - pre synergies ($m)</td>
<td>5,152</td>
<td>5,808</td>
<td>6,406</td>
</tr>
<tr>
<td>WBC</td>
<td>1,878</td>
<td>1,878</td>
<td>1,878</td>
</tr>
<tr>
<td>SGB</td>
<td>735</td>
<td>735</td>
<td>735</td>
</tr>
<tr>
<td>Total shares on issue (m)</td>
<td>2,613</td>
<td>2,613</td>
<td>2,613</td>
</tr>
<tr>
<td>Potential synergies - after tax ($m)</td>
<td>150</td>
<td>250</td>
<td>350</td>
</tr>
</tbody>
</table>

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

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

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

<table>
<thead>
<tr>
<th>Revenue growth (%)</th>
<th>5.3</th>
<th>10.9</th>
<th>6.1</th>
<th>6.0</th>
<th>7.7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total expenses</td>
<td>2,229</td>
<td>2,314</td>
<td>2,409</td>
<td>2,419</td>
<td>2,507</td>
</tr>
<tr>
<td>Other expenses</td>
<td>697</td>
<td>661</td>
<td>695</td>
<td>694</td>
<td>716</td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>1,223</td>
<td>1,334</td>
<td>1,378</td>
<td>1,441</td>
<td>1,488</td>
</tr>
<tr>
<td>Amortisation of goodwill</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

#### STATEMENT OF FINANCIAL PERFORMANCE ($M) FY06(a) FY07(a) FY08(e) FY09(e) FY10(e)

<table>
<thead>
<tr>
<th>Description</th>
<th>FY06(a)</th>
<th>FY07(a)</th>
<th>FY08(e)</th>
<th>FY09(e)</th>
<th>FY10(e)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Interest Income</td>
<td>3,089</td>
<td>3,224</td>
<td>3,470</td>
<td>3,571</td>
<td>3,725</td>
</tr>
<tr>
<td>Net banking operating income</td>
<td>9,173</td>
<td>10,173</td>
<td>10,794</td>
<td>11,444</td>
<td>12,323</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fees and commissions</td>
<td>905</td>
<td>927</td>
<td>966</td>
<td>1,001</td>
<td>1,034</td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>115</td>
<td>114</td>
<td>115</td>
<td>116</td>
<td>116</td>
</tr>
<tr>
<td>Amortisation of goodwill</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Net profit</strong></td>
<td>2,448</td>
<td>2,265</td>
<td>2,678</td>
<td>2,382</td>
<td>2,195</td>
</tr>
</tbody>
</table>

#### STATEMENT OF FINANCIAL POSITION ($M) FY06(a) FY07(a) FY08(e) FY09(e) FY10(e)

<table>
<thead>
<tr>
<th>Description</th>
<th>FY06(a)</th>
<th>FY07(a)</th>
<th>FY08(e)</th>
<th>FY09(e)</th>
<th>FY10(e)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net profit</strong></td>
<td>2,448</td>
<td>2,265</td>
<td>2,678</td>
<td>2,382</td>
<td>2,195</td>
</tr>
</tbody>
</table>

#### PERFORMANCE RATIOS FY06(a) FY07(a) FY08(e) FY09(e) FY10(e)

<table>
<thead>
<tr>
<th>Description</th>
<th>FY06(a)</th>
<th>FY07(a)</th>
<th>FY08(e)</th>
<th>FY09(e)</th>
<th>FY10(e)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue growth (%)</strong></td>
<td>5.3</td>
<td>10.9</td>
<td>6.1</td>
<td>6.0</td>
<td>7.7</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>2,229</td>
<td>2,314</td>
<td>2,409</td>
<td>2,419</td>
<td>2,507</td>
</tr>
<tr>
<td><strong>Other expenses</strong></td>
<td>697</td>
<td>661</td>
<td>695</td>
<td>694</td>
<td>716</td>
</tr>
<tr>
<td><strong>Personnel expenses</strong></td>
<td>1,223</td>
<td>1,334</td>
<td>1,378</td>
<td>1,441</td>
<td>1,488</td>
</tr>
<tr>
<td><strong>Amortisation of goodwill</strong></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Net profit</strong></td>
<td>2,448</td>
<td>2,265</td>
<td>2,678</td>
<td>2,382</td>
<td>2,195</td>
</tr>
</tbody>
</table>

#### VALUATION

- Cost of equity: 15.96
- Nominal terminal growth rate: 5.00
- Nominal terminal growth rate: 5.00
- Nominal terminal growth rate: 5.00
- Nominal terminal growth rate: 5.00
- Nominal terminal growth rate: 5.00

#### CASH EARNINGS

<table>
<thead>
<tr>
<th>Description</th>
<th>FY06(a)</th>
<th>FY07(a)</th>
<th>FY08(e)</th>
<th>FY09(e)</th>
<th>FY10(e)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net profit</strong></td>
<td>2,448</td>
<td>2,265</td>
<td>2,678</td>
<td>2,382</td>
<td>2,195</td>
</tr>
</tbody>
</table>

#### DIVIDENDS

- Full year dividend (cents): 21.00
- Full year dividend (cents): 21.00
- Full year dividend (cents): 21.00
- Full year dividend (cents): 21.00
- Full year dividend (cents): 21.00

#### CAPITAL RATIOS FY06(a) FY07(a) FY08(e) FY09(e) FY10(e)

- **Tier 1 capital** (cents): 180,000
- **Tier 2 capital** (cents): 180,000
- **Total capital** (cents): 180,000
- **Tier 1 capital** (cents): 180,000
- **Tier 2 capital** (cents): 180,000

#### EQUITIES RESEARCH REPORT | WESTPAC AND ST GEORGE BANK

- **Revenue growth (%)**:
- **Total expenses**:
- **Other expenses**:
- **Net banking operating income**:
- **Fees and commissions expense**:
- **Claims and policyholder liability expense**:
- **Amortisation of goodwill**:
- **Amortisation of other intangibles**:
- **Depreciation**:
- **Total expenses**:
- **Change for bad and doubtful assets**:

#### STATEMENT OF FINANCIAL PERFORMANCE ($M) FY06(a) FY07(a) FY08(e) FY09(e) FY10(e)

- **Revenue growth (%)**:
- **Total expenses**:
- **Other expenses**:
- **Personnel expenses**:
- **Amortisation of goodwill**:
- **Depreciation**:
- **Total expenses**:
- **Change for bad and doubtful assets**:

#### STATEMENT OF FINANCIAL POSITION ($M) FY06(a) FY07(a) FY08(e) FY09(e) FY10(e)

- **Revenue growth (%)**:
- **Total expenses**:
- **Other expenses**:
- **Personnel expenses**:
- **Amortisation of goodwill**:
- **Depreciation**:
- **Total expenses**:
- **Change for bad and doubtful assets**:
## Statement of Financial Performance ($M)

<table>
<thead>
<tr>
<th>Period</th>
<th>Interest income</th>
<th>Net profit attributable to members of the Bank</th>
<th>Ordinary share capital</th>
<th>Preference dividend</th>
<th>Earnings per share (cents)</th>
<th>Net assets</th>
<th>Cash earnings - company reported</th>
<th>Cash earnings - company reported growth on pcp (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY06(a)</td>
<td>1,050,119</td>
<td>1,089,131</td>
<td>5,578</td>
<td>17</td>
<td>143.4</td>
<td>5,343</td>
<td>5,884</td>
<td>5,793</td>
</tr>
<tr>
<td>FY07(a)</td>
<td>1,119,139</td>
<td>1,139,131</td>
<td>5,578</td>
<td>17</td>
<td>143.4</td>
<td>5,343</td>
<td>5,884</td>
<td>5,793</td>
</tr>
<tr>
<td>FY08(e)</td>
<td>1,159,139</td>
<td>1,159,131</td>
<td>5,578</td>
<td>17</td>
<td>143.4</td>
<td>5,343</td>
<td>5,884</td>
<td>5,793</td>
</tr>
<tr>
<td>FY09(e)</td>
<td>1,159,139</td>
<td>1,159,131</td>
<td>5,578</td>
<td>17</td>
<td>143.4</td>
<td>5,343</td>
<td>5,884</td>
<td>5,793</td>
</tr>
<tr>
<td>FY10(e)</td>
<td>1,159,139</td>
<td>1,159,131</td>
<td>5,578</td>
<td>17</td>
<td>143.4</td>
<td>5,343</td>
<td>5,884</td>
<td>5,793</td>
</tr>
</tbody>
</table>

## Performance Ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>FY06(a)</th>
<th>FY07(a)</th>
<th>FY08(e)</th>
<th>FY09(e)</th>
<th>FY10(e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost/Income (%)</td>
<td>43.3</td>
<td>42.3</td>
<td>42.3</td>
<td>41.6</td>
<td>40.8</td>
</tr>
<tr>
<td>Net profit attributable to members of the Bank</td>
<td>5,343</td>
<td>5,884</td>
<td>5,793</td>
<td>8,426</td>
<td></td>
</tr>
<tr>
<td>Cash Earnings - company reported</td>
<td>5,343</td>
<td>5,884</td>
<td>5,793</td>
<td>8,426</td>
<td></td>
</tr>
<tr>
<td>Cash Earnings - company reported growth on pcp (%)</td>
<td>11.8</td>
<td>13.2</td>
<td>(1.6)</td>
<td>5.8</td>
<td>8.7</td>
</tr>
<tr>
<td>Cash flow per share (cents)</td>
<td>193.4</td>
<td>218.9</td>
<td>215.4</td>
<td>227.8</td>
<td>247.6</td>
</tr>
<tr>
<td>Cash EPS (cents)</td>
<td>151.0</td>
<td>168.3</td>
<td>168.3</td>
<td>174.0</td>
<td>187.0</td>
</tr>
<tr>
<td>Cash EPS - diluted shares (cents)</td>
<td>151.0</td>
<td>168.3</td>
<td>168.3</td>
<td>174.0</td>
<td>187.0</td>
</tr>
<tr>
<td>Cash EPS - diluted shares (cents) per share</td>
<td>151.0</td>
<td>168.3</td>
<td>168.3</td>
<td>174.0</td>
<td>187.0</td>
</tr>
</tbody>
</table>

## Capital Ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>FY06(a)</th>
<th>FY07(a)</th>
<th>FY08(e)</th>
<th>FY09(e)</th>
<th>FY10(e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total capital ratio (%)</td>
<td>10.9</td>
<td>9.6</td>
<td>11.0</td>
<td>11.2</td>
<td>11.4</td>
</tr>
<tr>
<td>Total tier 1 capital ($m)</td>
<td>3,669</td>
<td>3,863</td>
<td>5,073</td>
<td>5,749</td>
<td>6,422</td>
</tr>
<tr>
<td>Total tier 2 capital ($m)</td>
<td>2,135</td>
<td>2,233</td>
<td>2,878</td>
<td>3,183</td>
<td>3,434</td>
</tr>
<tr>
<td>Tier 1 ratio (%)</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Tier 2 ratio (%)</td>
<td>3.9</td>
<td>3.9</td>
<td>3.9</td>
<td>3.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Tier 1 capital ratio (%)</td>
<td>3.9</td>
<td>3.9</td>
<td>3.9</td>
<td>3.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Tier 2 capital ratio (%)</td>
<td>3.9</td>
<td>3.9</td>
<td>3.9</td>
<td>3.9</td>
<td>3.9</td>
</tr>
</tbody>
</table>

## Equity Information

<table>
<thead>
<tr>
<th>Dividend Information</th>
<th>FY06(a)</th>
<th>FY07(a)</th>
<th>FY08(e)</th>
<th>FY09(e)</th>
<th>FY10(e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preference dividend</td>
<td>20.0</td>
<td>27.0</td>
<td>31.0</td>
<td>34.0</td>
<td>37.0</td>
</tr>
<tr>
<td>Ordinary dividend</td>
<td>151.0</td>
<td>168.3</td>
<td>168.3</td>
<td>174.0</td>
<td>187.0</td>
</tr>
<tr>
<td>Full year dividend</td>
<td>151.0</td>
<td>168.3</td>
<td>168.3</td>
<td>174.0</td>
<td>187.0</td>
</tr>
<tr>
<td>PAT attributable to members of the Bank</td>
<td>1,056</td>
<td>1,190</td>
<td>1,139</td>
<td>1,331</td>
<td>1,467</td>
</tr>
<tr>
<td>Ordinary share capital</td>
<td>3,868</td>
<td>4,041</td>
<td>5,093</td>
<td>5,330</td>
<td>5,578</td>
</tr>
<tr>
<td>Preference share capital</td>
<td>493</td>
<td>493</td>
<td>504</td>
<td>504</td>
<td>504</td>
</tr>
<tr>
<td>Common share capital</td>
<td>1,181</td>
<td>1,181</td>
<td>1,181</td>
<td>1,181</td>
<td>1,181</td>
</tr>
</tbody>
</table>

## Financial Position ($M)

<table>
<thead>
<tr>
<th>Period</th>
<th>Assets</th>
<th>Liabilities</th>
<th>Shareholders' Equity</th>
<th>PV of terminal value ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY06(a)</td>
<td>15,677</td>
<td>5,343</td>
<td>5,325</td>
<td>9,987</td>
</tr>
<tr>
<td>FY07(a)</td>
<td>15,677</td>
<td>5,343</td>
<td>5,325</td>
<td>9,987</td>
</tr>
<tr>
<td>FY08(e)</td>
<td>15,677</td>
<td>5,343</td>
<td>5,325</td>
<td>9,987</td>
</tr>
<tr>
<td>FY09(e)</td>
<td>15,677</td>
<td>5,343</td>
<td>5,325</td>
<td>9,987</td>
</tr>
<tr>
<td>FY10(e)</td>
<td>15,677</td>
<td>5,343</td>
<td>5,325</td>
<td>9,987</td>
</tr>
</tbody>
</table>
Disclosure and Disclaimer Appendix

All Investors: Commonwealth Securities Limited ABN 60 067 254 399 AFSL 238814 ("CommSec"), is a wholly owned, but non-guaranteed, subsidiary of the Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 ("the Bank"). The Bank and CommSec are incorporated in Australia with limited liability. The Bank and its subsidiaries, including CommSec, Commonwealth Australia Securities LLC, CBA Europe Ltd and Commonwealth Research, are domestic or foreign entities or business areas of the Commonwealth Bank Group of Companies (CBGOC). CBGOC and their directors, employees and representatives are referred to in this Appendix as “the Group". This report is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy any securities or financial instruments. This report has been prepared without taking account of the objectives, financial situation and capacity to bear loss, knowledge, experience or needs of any specific person who may receive this report. No member of the Group does, or is required to, assess the appropriateness or suitability of the report for recipients who therefore do not benefit from any regulatory protections in this regard. All recipients should, before acting on the information in this report, consider the appropriateness and suitability of the information having regard to their own objectives, financial situation and needs, and, if necessary seek the appropriate professional, foreign exchange or financial advice regarding the content of this report.

We believe that the information in this report is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this report. Any opinions, conclusions or recommendations set forth in this report are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by the Group. We are under no obligation to, and do not, update or keep current the information contained in this report. The Group does not accept any liability for any loss or damage arising out of the use of all or any part of this report. Any valuations, projections and forecasts contained in this report are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. The Group does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met. Past performance is not a reliable indicator of future performance. The Group has provided, provides, or seeks to provide, investment banking, capital markets and/or other services, including financial services, to the companies described in the report and their associates. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject any entity within the Group to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to the Group. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior written permission of the appropriate entity within the Group. In the case of certain products, the Bank or one of its related bodies corporate is or may be the only market maker. The Group, its agents, associates or clients have or have had long or short positions in the securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in such interests or securities as principal or agent, including selling to or buying from clients on a principal basis and may engage in transactions in a manner inconsistent with this report.

European Investors: This report is published, approved and distributed in the UK by the Bank and by CBA Europe Ltd ("CBAE"). The Bank and CBAE are both registered in England (No. BR250 and 0567023 respectively) and authorised and regulated in the UK by the Financial Services Authority (“FSA”). This report does not purport to be a complete statement or summary. For the purpose of the FSA rules, this report and related services are not intended for retail customers and are not available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this report. Any opinions, conclusions or recommendations set forth in this report are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by the Group. We are under no obligation to, and do not, update or keep current the information contained in this report. The Group does not accept any liability for any loss or damage arising out of the use of all or any part of this report. Any valuations, projections and forecasts contained in this report are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. The Group does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met. Past performance is not a reliable indicator of future performance. The Group has provided, provides, or seeks to provide, investment banking, capital markets and/or other services, including financial services, to the companies described in the report and their associates. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject any entity within the Group to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to the Group. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior written permission of the appropriate entity within the Group. In the case of certain products, the Bank or one of its related bodies corporate is or may be the only market maker. The Group, its agents, associates or clients have or have had long or short positions in the securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in such interests or securities as principal or agent, including selling to or buying from clients on a principal basis and may engage in transactions in a manner inconsistent with this report.

Singapore Investors: This report is distributed in Singapore by Commonwealth Bank of Australia, Singapore Branch (company number F03137W) and is made available only for persons who are Accredited Investors as defined in the Singapore Securities and Futures Act and the Financial Advisers Act. It has not been prepared for, and must not be distributed to or replicated in any form, to anyone who is not an Accredited Investor.

Hong Kong Investors: This report was prepared, approved and published by the Bank, and distributed in Hong Kong by the Bank's Hong Kong Branch. The Hong Kong Branch is a registered institution with the Hong Kong Monetary Authority to carry out the Type 1 (Dealing in securities) and Type 4 (Advising on securities) regulated activities under the Securities and Futures Ordinance. Investors should understand the risks in investments and that prices do go up as well as down, and in some cases may even become worthless. Research report on collective investment schemes which have not been authorized by the Securities and Futures Commission is not directed to, or intended for distribution in Hong Kong.

All investors - Analyst Certification and Disclaimer: Each research analyst, primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the report. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing, and interpreting market information. Directors or employees of the Group may serve or may have served as officers or directors of the subject company of this report. The compensation of analysts who prepared this report is determined exclusively by research management and may engage in transactions in a manner inconsistent with this report. No inducement has or will be received by the Group from the subject of this report or its associates to undertake the research or make the recommendations. The research staff responsible for this report receive a salary and a bonus that is dependent on a number of factors including their performance and the overall financial performance of the Group, including its profits derived from investment banking, sales and trading revenue. Unless agreed separately, we do not charge any fees for any information provided in this presentation. You may be charged fees in relation to the financial products or other services CommSec provides, these are set out in the CommSec Financial Services Guide (FSG) and relevant Product Disclosure Statements (PDS). Our employees may be eligible for an annual bonus payment. Some representatives’ bonus payments may be up to 50% of initial fees, and 10% of ongoing fees and commissions that CommSec receives from the placement of a financial product. Bonus payments are discretionary and based on objectives that include business outcomes, customer service, people engagement, special tasks and people principals. Our employees may also receive benefits such as tickets to sporting and cultural events, corporate promotional merchandise and other similar benefits. If you have a complaint, CommSec’s dispute resolution process can be accessed on 131519.
# Equities Research

## Banking & Insurance
- **Peter Ephraums** Senior Analyst 02 9312 0780 0414 491 956
- **Andrew Adams** Senior Analyst 02 8223 7904 0408 401 824
- **Jay Mertens** Associate Analyst 02 9312 0088 0411 125 079

## Basic Materials & Energy
- **Pieter Bruinstroop** Senior Analyst 03 9675 6582 0400 3159 35
- **Jin Dong** Analyst 03 9675 7443 0417 124 596

## Metals
- **Rob Sebek** Analyst 03 9675 6056 0407 007 522

## Commodities
- **Lachlan Shaw** Analyst 03 9675 8616 0417 124 596

## Economics
- **Craig James** Chief Equities Econ. 02 9312 0265 0419 695 082
- **Savanth Sebastian** Equities Economist 02 8223 7130 0414 188 171

## Emerging Companies
- **Sean Cooney** Senior Analyst 02 9312 4858 0410 664 749
- **Prasanna Shan** Associate Analyst 02 9312 5319 0403 203 242

## Healthcare
- **Natalie Kelly** Senior Analyst 03 9675 7107 0413 963 150
- **Bruce Du** Associate Analyst 03 9675 6244 0418 434 717

## Industrials
- **Cassandra Meagher** Senior Analyst 02 9312 0223 0439 304 108
- **Adrian Lemme** Analyst 02 9312 7136 0438 246 117

## Media & Gaming
- **Craig Shepherd** Senior Analyst 03 9675 9792 0406 402 646
- **Sacha Krien** Analyst 03 9675 6933 0422 688 471

## Retailing, Food & Beverages & Agriculture
- **Grant Salgari** Senior Analyst 02 9312 4133 0406 402 645
- **Eugene Tan** Analyst 02 9312 3331 0422 287 575
- **Jordan Rogers** Associate Analyst 02 9312 9295 0401 197 440
- **Belinda Santh** Associate Analyst 02 9312 2875 0434 503 697

## Utilities & Toll Roads
- **Paul Johnston** Senior Analyst 03 9675 7101 0414 200 902
- **Wei-Sun Teh** Associate Analyst 03 9675 7275 0413 565 298

## Distribution & Compliance
- **Louisa Raven** Administration Mgr 02 9312 4116
- **Hayley Greensmith** Research Editor 02 9312 7016
- **Natasha Meuli** Desktop Publisher 02 9312 0334
- **Rachel Paterson** Research Assistant 02 9312 0354
- **Silvana Palmieri** Research Assistant 03 9675 7106
- **Fax** Sydney 02 9312 4170
- **Fax** Melbourne 03 9675 7622

## Quantitative Research & Investment Strategy
- **Gary Morris** Developer 03 9675 7685 0432 213 425
- **Jason Schyschow** Analyst 02 9312 4614
- **Fax** Sydney 02 9312 4170
- **Fax** Melbourne 03 9675 7622

To contact any of our staff via email, type their first name.surname@cba.com.au

*Except following staff:  
Paul Johnston – paul.a.johnston@cba.com.au  
Casey Girardi – cgirardi.cas@cba.com.au  
Gary Morris – gary.s.morris@cba.com.au  
Ai-Quynh Mac - maca@cba.com.au

---

# Research Sales

## Electronic Trading
- **Suzie Toohey** 02 9312 0237 0414 326 920
- **Andrew Millward** 02 9312 7061 0422 900 890

## Equities Sales
- **Christine Leonard** 02 9312 0533 0414 372 495
- **Cheri Mears** 02 9312 0951 0433 882 133
- **Rod Hardwick** 02 9312 0663 0407 477 625
- **Amanda Chamberlin** 02 9312 0239 0404 044 175

## Equity & Derivative Sales
- **Johnny Cattell** 02 9312 0273 0414 382 505
- **Matt Bromfield** 02 9312 0273 0416 252 590

## Sales Trading
- **Rick Cole** 02 9312 0275 0401 993 757
- **Grant Maze** 03 9675 6618 0418 461 361
- **Rod Ellis** 02 9312 0267 0405 500 980
- **Mark Preston** 02 9312 0260 0414 707 482
- **Trent Mackie** 02 9312 0270 0410 434 072
- **Gavin Long** 02 9312 0349 0439 718 880
- **Paul Welsh** 02 9312 0245 0414 364 957
- **Andrew Tyrell** 02 9312 0263 0413 740 551
- **Jeremy Weber** 03 9675 6615 0422 291 376

## Asian Sales
- **Wai Hoey** 03 9675 6967 0419 882 225
- **Toll Free (HK)** 800 901 636
- **Toll Free (Sing)** 800 616 1949
- **Leo Au** +652 8284 7535

## European Sales
- **James Scott** +44 (0)20 7710 3573 +44 (0)7921 687 305

## US Sales
- **Casey Girardi** +1 (1)212 336 7749
- **Fax** Sydney 02 9312 0934
- **Fax** Melbourne 02 9675 7622

## Global Markets Research

### Commodities
- **David Moore** Commodity Strategist 02 9312 0398

### Currencies
- **Richard Grace** Chief Currency Strategist 02 9312 4080
- **Joseph Capurso** Currency Strategist 02 9312 0429
- **Sara Hoenig** Associate Economist 02 8223 9728

### Debt
- **Adam Donaldson** Head of Debt Research 02 9312 2841
- **Divyang Shan** Chief Strategist (London) +44 (0)20 7710 3866
- **Jarrod Kerr** Interest Rate Strategist 02 9312 4118
- **Michael Bors** Credit Research Analyst 02 9312 4134
- **Steve Shoobert** Credit Research Analyst 02 9312 0130
- **Winnie Chee** Securitised Product 02 9312 0182
- **Taliy Dewan** Quantitative Research Analyst 02 9312 4614
- **Aaron Ball** Senior Development Analyst 03 9675 6791

### Economics
- **Michael Blythe** Chief Economist 02 9312 4135
- **Michael Workman** Senior Economist 02 9312 0197
- **John Peters** Senior Economist 02 9312 0112
- **Martin Arnold** Economist 02 9312 4118
- **Nicola Chadwick (UK)** International Economist +44 (0)20 7710 3631
- **Chris Tennent-Brown** NZ Economist +64 (0)3 374 8819
- **Nick Tuffley** ASB Chief Economist +64 (0)3 374 8604

### Delivery Channels & Publications
- **Monica Eley** Internet/Intranet 02 9312 0853
- **AI-Quynh Mac** Information Services 02 9312 4132
- **Fax** Sydney 02 9312 0304