news

release

21 February 2008

Update on St.George Bank's Operational and Financial Performance prior to the St.George Share Purchase Plan pricing period

On Thursday 21 February 2008 the pricing period for the St.George Share Purchase Plan commences. The following information is made available:

EPS Target

St.George remains on track to meet its EPS growth target of 10 per cent in 2008. St.George reaffirms its target notwithstanding the impact of the increased cost of funding and the current investment markets volatility on the investment portfolio of St.George Insurance Australia Pty Limited (the lender's mortgage insurance subsidiary of the Bank) and our Wealth Management division. This target continues to exclude the impact of hedging and derivatives and assumes a reasonably sound economic environment. This target also assumes no one-off material credit losses.

Business Volumes

Retail deposit balances are experiencing robust growth. Growth for the four months ended 31 January 2008 is 18.1% annualised.

Residential receivables growth for the four months ended 31 January 2008 is 10.1% annualised which has led to continued market share growth in NSW. Nationally, St.George is on track to grow broadly in line with system. St.George expects system growth to be around 10-12% for the full year.

Middle market receivables growth for the four months ended 31 January 2008 is 31% annualised, with a robust pipeline that suggests growth for the full year will be in excess of 25%. Market share in the Middle Market segment is now 9%, up from 8.5% in September 2007 and 5% in September 2002 with around 65% of this growth coming from existing customers. St.George's business lending book continues to be prudently managed with greater than 90% of the book currently secured.

Managed funds balances have fallen during the four months ended 31 January 2008 by 8.8% over the period. While gross inflows have grown at 14% over the period, deteriorating investment markets have impacted overall balance growth.

Capital
Following St.George Bank's recent capital initiatives, the Bank is well capitalised with its Tier 1 capital adequacy ratio currently in excess of 7%. St.George Bank's minimum Tier 1 regulatory capital ratio is 6.25%. This provides capacity to continue the expansion of our lending book. A further review of the Bank's minimum capital adequacy ratio will be undertaken by APRA in 2008 as part of the Bank's transition to Basel II.

Funding and Liquidity
Domestic and global debt markets remain accessible and receptive to St.George issuances, albeit at wider spreads. Since 1 October 2007, St.George has issued $2.3bn of committed term funding. St.George has $2.6bn or 16% of its committed term funding maturing in the next six months. The average weighted maturity of total committed term funding is 28 months. The Bank is operating on the assumption that securitisation markets will remain closed.

The Bank is maintaining higher than normal levels of liquidity, currently around 12%. This will have a neutral impact on earnings but will reduce the reported net interest margin. Excluding this impact margin compression is expected to be in line with previous guidance of around 10bps.

Credit Quality
Credit quality in the retail banking division remains excellent, with the arrears performance strong.

St.George has no exposure to US or domestic sub-prime lending, CDOs or hedge funds.

While overall credit quality in business banking remains strong, St.George Bank continues to carefully monitor its exposure to individual entities. Details of three exposures under particular attention are outlined below:

- **Centro Property Group.** As previously disclosed, St.George has a total exposure of $458m to various Centro Property Group entities. St.George has no exposure to Centro Property Group Pty Ltd. All of these exposures are fully secured, with LVRs between 40%-70%, by direct first mortgages over portfolios of Australian and New Zealand shopping centres. St.George expects to recover its exposure in full.

- **Allco Finance Group.** St.George has a $60m participation in an $850m unsecured syndicated facility. St.George expects to recover its exposure in full.

- **MFS Group.** St.George has a margin loan of $25m secured by MFS Ltd shares and personal guarantees. These shares are currently suspended and recovery of this exposure will be dependent on arrangements with the borrower and the outcome of the current asset sale program/strategic review being undertaken by MFS Ltd.

  St.George also has a facility drawn to $37.5m by MFS Child Care Property Trust. This facility is fully secured and St.George does not expect to incur any loss from this exposure.

No specific provisions have been raised for these exposures. Collective provisioning impacts for these exposures are not material.

Depositary Capital Securities
St.George has previously disclosed to the market the accounting treatment in respect of its dispute with the Australian Taxation Office relating to deductions claimed on subordinated debentures issued as part of its Depositary Capital Securities transaction undertaken in 1998. St.George continues to maintain that the accounting treatment adopted was correct and its auditors concur with this treatment. Since our full year results announcement on 31 October 2007 there have been no further developments. St.George is awaiting a decision from the Federal Court. St.George has adequate capital to allow for the full range of possible outcomes.

Upcoming Market Briefings
On 6 March 2008 St.George is hosting a market briefing detailing the operational and financial performance of its Institutional and Business Banking division. St.George is also presenting at a number of offshore investor conferences during March. Additional updates of St.George's financial and operational performance and current funding status will be released at those times.

St.George Bank's 2008 Interim Results will be announced on 6 May 2008.

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