news release

29 October 2008

St.George announces record cash[1] profit of $1,321 million, up 13.9%

St.George Bank today announced a record cash profit result of $1,321 million, up 13.9 per cent from 30 September 2007. The cash profit, which excludes significant items, represents earnings per share growth of 8.3 per cent.

The statutory net profit of the Group, including significant items and preference share dividends, was $1,174 million compared to $1,163 million last year.

Key highlights of the result on a cash basis are as follows:

	Sept 2008	Sept 2007	% Change
Cash profit	**$1,321M**	$1,160M	13.9
Earnings per share – basic	**237.0 cents**	218.9 cents	8.3
Total income	**$3,579M**	$3,272M	9.4
Total operating expenses	**$1,386M**	$1,390M	(0.3)
Expense to income ratio	**38.7%**	42.5%	-
Total dividends	**213 cents**	168 cents	26.8

Mr John Curtis, Chairman of St.George Bank said; “This is a solid result, in a very challenging external environment. As a result of this record profit, the Board has increased the final dividend from 86 cents in September 2007 to 94 cents. In addition, the Board has also declared a special dividend of 31 cents, making a total fully franked dividend of 125 cents for the second half of 2008. This takes the total full year dividend to 213 cents, up 45 cents on last year.”

Mr Paul Fegan, Managing Director & Chief Executive Officer said; “It is extremely pleasing to be able to present these record results today as they reflect the quality of the St.George franchise.”

“To be able to report a record profit and sound credit quality as at September 2008; the completion of a large percentage of our 2009 year term funding; a sub 40 per cent cost-to-income ratio; a 20 per cent growth in deposits; and a sound capital position, underpin the core strength of the organisation. This is important to all our stakeholders.”

“The Directors unanimously recommend the proposed merger with Westpac at the Scheme Meeting on 13 November 2008, in the absence of a superior proposal. St.George is expected to contribute significantly to the new entity, of which St.George shareholders will own approximately 28 per cent.”

In regard to specific areas:

Customers - The Group has consistently focussed on delivering excellent service to its customers as demonstrated by the continued high levels of absolute and relative customer satisfaction levels

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

in our businesses. This is reflected in the Bank's retail bank customer satisfaction score[1] of 75.5 per cent compared to an average score of 69.9 per cent for the major banks.

Cash Profit - The 30 September 2008 year cash profit result includes three material non-recurring items, being a profit on sale of Visa shares and the receipt of a payment from AIG in relation to insurance arrangements, offset by the establishment of an economic overlay within the Group's Collective Provision for Impairment.

Capital - The Group's Tier 1 capital adequacy ratio was 6.6 per cent and total capital adequacy ratio was 10.4 per cent at 30 September 2008, in excess of its regulatory minimum requirements of 6.25 per cent and 9.5 per cent respectively. As previously signalled, the Board has decided to move the Group's minimum Tier 1 capital adequacy ratio target closer to 7 per cent by 31 March 2009.

Funding - During 2008, the Group raised $12.6 billion of wholesale term funding. Retail deposits have grown by a very strong 20.0 per cent, during the year to $57.3 billion, which reduced the reliance on wholesale funding. Prudently, the Group has proactively increased its liquidity by 37.2 per cent or $5.8 billion to $21.4 billion, representing 14.5 per cent of total assets, up from 12.4 per cent at 30 September 2007.

Credit Quality – As at 30 September 2008, credit quality remains sound reflecting the quality of the Bank's residential and business lending portfolios and its prudent through the cycle credit culture and policies. The loan impairment expense, as a percentage of average assets increased from 0.16 to 0.22 per cent. Non-performing loans as a percentage of net receivables were 0.12 per cent compared to 0.10 per cent last year. Having regard to the economic events that have emerged globally and domestically, the Group has decided to recognise an economic cycle adjustment within the Collective Provision for Impairment, notwithstanding that it has a lower risk profile than the major Australian banks driven by the product mix and the geographic exposure being only to the Australian market.

Moreover, the recognition of a $48 million Economic Overlay is in addition to the existing Collective Provision that uses more conservative assumptions such as Downturn Loss Given Default rates rather than Average rates.

The addition of the Economic Overlay will result in the Collective Provision coverage increasing from 0.27 percent to 0.31 percent of gross receivables. This is in addition to the existing general reserve for credit losses of $205 million (after tax).

The Collective Provision now provides coverage for 2.3 years of average historical losses, and when aggregated with the General Reserve, this coverage increases to 4.1 years, which compares favourably to our competitors.

Retail Deposits - St.George grew its retail deposit balances by 20.0 per cent to $57.3 billion from $47.8 billion last year, compared to system growth[2] of 14.8 per cent. Annualised growth in the second half 2008 was a strong 24.2 per cent from $51.1 billion to $57.3 billion, compared to annualised system growth[3] of 14.0 per cent.

Home Loans - The Bank's growth in residential loans (including securitised loans) for the twelve months to 30 September 2008 was 9.1 per cent to $75.5 billion. In New South Wales, growth was in line with system growth. At an aggregate level, growth was below system, reflecting St.George's geographic weighting across Australia.

Middle Market Business Loans - The Group continues to perform well in the Middle Market segment, with receivables growth of 29.3 per cent to $30.8 billion since 30 September 2007. Annualised growth since 31 March 2008 was 23.6 per cent. Around 90 per cent of the commercial lending portfolio is secured. Overall market share increased from 8.6 to 9.8 per cent since 30 September 2007.

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[1] Roy Morgan Research August 2008 rolling 3 month average.

[2] APRA retail deposits data based on growth from August 2007 to August 2008.

[3] APRA retail deposits data based on annualised growth from April to August 2008.

Wealth Management - During the year, the Group continued to achieve positive net flow in managed funds, with the reduction in balances entirely attributable to market movements. Managed funds were $40.6 billion, down from $49.7 billion in September 2007. Asgard maintained its market position of fifth ranking in terms of funds under administration and fourth ranking based on annual net flows.

Interstate Growth - Victoria, Queensland and Western Australia grew home loans by a total of 13 per cent and Middle Market loans by 32 per cent. These numbers reflect the success of our interstate growth strategy.

Interest Margin - The Group's interest margin during the year reduced by 10 basis points from 2.01 to 1.91 per cent, largely driven by holding higher liquidity and the increased cost of attracting longer-term retail deposits. The increase in wholesale funding costs during the year has been largely offset through product repricing initiatives.

Expenses – While still investing, expenses have been carefully managed, decreasing by 0.3 per cent compared to last year. Operating expenses decreased in second half 2008 by 6.4 per cent, reflecting benefits from the Group's optimisation program. The expense to income ratio reduced to 38.7 per cent from 42.5 per cent last year and remains industry leading.

Significant Items - The Group has incurred $17 million (after tax) of merger related costs in second half 2008. As previously reported, in the first half 2008 result, significant items comprised a $54 million gain from the partial sale of Visa shares, a $30 million restructuring charge, and a $117 million tax expense from a dispute with the Australian Tax Office relating to a 1997 transaction. While the Group is appealing the Federal Court decision, it considered it prudent to provide for the full amount. All figures are after tax. These items are excluded from cash profit.

Summary

Mr Paul Fegan said; "Going forward, the outlook for the economy remains uncertain as the effects of the global credit crisis continue to spread and impact the Australian economy, consumer confidence, liquidity and access to funding. Central banks and governments around the world, including Australia, have announced and commenced to implement a number of measures to help limit the impact of the credit crisis and any subsequent downside risks to the economy.

"St.George fully supports the Australian government's response to the credit crisis and its fiscal stimulus package. This package includes announced measures for the government to guarantee deposits in Australian banks, building societies and credit unions. These measures are extremely helpful but there are still many issues to be resolved and the situation continues to be uncertain. We believe the government will closely monitor the situation and may need to take further actions."

Mr John Curtis said; "The Board believes that the proposed merger with Westpac will create an even stronger bank with a vision to create Australia's leading financial services company. The combined 10 million customers will continue to be serviced by their existing banking relationships. We believe customers will have access to enhanced banking services, in terms of a larger banking network and a wider range of financial services.

"Post merger, Westpac is expected to have a AA credit rating which ensures the merged group to be well positioned in the current challenging environment," he concluded.

In October 2008, the Federal Treasurer approved the proposed merger with Westpac, another important milestone ahead of the St.George shareholder vote on 13 November.

Ends….

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