news release

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St.George reports 18.8% increase in interim profit, 33.3% increase in the interim dividend and upgrades the 2004 EPS target

Mr Frank Conroy, Chairman of St.George Bank, today announced an interim profit after tax of $354 million for the half-year ended 31 March 2004, up 18.8% on the 2003 half-year. A fully franked interim dividend of 60 cents has been declared, a 33.3% increase on the March 2003 half.

The result highlights are as follows:

	March 2004	March 2003	% Change
Profit available to ordinary shareholders	$354m	$298m	18.8%
Earnings per share	160.0 cents	140.6 cents	13.8%
Return on equity	21.56%	20.36%	
Expense to income	48.1%	49.2%	
Interim ordinary dividend	60 cents	45 cents	33.3%

There were no significant items during the half-year. EPS, ROE & Expense to Income were calculated before goodwill amortisation. The above EPS and ROE figures are annualised.

Managing Director, Mrs Gail Kelly, commented, “I am pleased with the quality of this result and with the continuing excellent momentum in the business. Top line growth remains strong, the margin remains stable and costs are being well managed. The team remains focussed on the execution of our key priorities.”

Key drivers of the results are as follows:

Significant increase in lending and deposit volumes
- Total lending receivables (on and off balance sheet) increased by 19.4% to $64.4 billion.
- Retail funding increased by 9.5% to $34.9 billion.
- Commercial lending increased by 22% with middle market receivables increasing by 27%.
- Residential lending (including securitised loans) increased by 19.4% to $45.9 billion. Annualised growth for the March 2004 half was 14.7%.
- Interest margin of 2.74% (2.80% in the March 2003 half and 2.74% in the September 2003 half).

Solid increases in total revenue
- Total revenue increased by 9.5% to $1,269 million.
- Net interest income increased by 11.7% to $794 million due to increases in lending and deposit volumes and stable margins.
- Non-interest income increased by 6.0% to $475 million. Increases in a range of non-interest income items have been partially offset by the impact of credit and debit card interchange fee changes and higher home loan broker commissions.

Effective cost control

- Cost-to-income decreased from 49.2% in the March 2003 half to 48.1% in the March 2004 half.
- Deferred expenditure on balance sheet continues to decline, now standing at $128 million, 25% lower than March 2003 and 47% lower than March 2002.

Credit quality maintained

- Bad debts as a percentage of net receivables were 0.10% (31 March 2003: 0.11%).
- Net non-accrual loans, as a percentage of net receivables, decreased to 0.04% compared to 0.06% at 31 March 2003.

Continued Growth in Wealth Management

- Managed funds increased by 27.9% from March 2003 to $22.6 billion at March 2004 including Sealcorp funds under administration up $3.8 billion to $16.6 billion.

Capital Management

From 1 July 2004, APRA requires banks to deduct certain capitalised expenses from Tier 1 capital (for St.George this amounts to around $170m). To maintain the Tier 1 ratio at the target level of between 7% - 7.5%, the Group plans to raise $250m to $300m in new Tier 1 capital during July 2004.

The Group has made a step change in the interim dividend to 60 cents per share. The final dividend is expected to be at least equal to the interim dividend.

Outlook

Looking ahead, Mrs Kelly said, "St.George continues to differentiate itself in terms of its earnings profile and we remain focused on our low risk organic growth strategy. We have stepped up our focus on customer service, which has always been a key differentiator for St.George. We recognise that continuing to improve the Bank's customer service is critical to delivering superior earnings over the long term.

While a moderation in residential loan system growth is occurring as anticipated, St.George expects to exceed system growth for the 2nd half of 2004. We are also likely to continue to outstrip system growth in commercial lending. Prudent credit policies will be maintained.

Based upon our strong first half profit result, we have increased our EPS growth target for the full year 2004 from 10 - 11% to 11 - 13% while still targeting double digit EPS growth for 2005."

The revised EPS growth target for 2004 takes into account the impact of the steepening short term yield curve, increasing legal and regulatory compliance costs, continued investment to progress business priorities and no further sale of land and buildings being expected in 2004. Profits arising from the sale of the Bank's investment in Cashcard are excluded from the 2004 revised EPS growth target. A profit after tax of $12 million will be recognised in the second half of 2004 as a significant item in respect of the Cashcard sale.

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