news release

6 May 2008

St.George announces record cash[1] profit of $603 million, up 6.2%

St.George Bank today announced a record cash profit result of $603m, up 6.2 per cent from March 2007.

The cash profit, which excludes significant items, represents earnings per share growth of 2.1 per cent.

Importantly, due to initiatives already in place, including the full second half benefits of asset and fee repricing, cost control and a reduction in volatility in investment earnings, the Group expects a significantly stronger second half.

Mr John Curtis, Chairman of St.George Bank said; "This is a strong result, notwithstanding the very challenging external environment. As a result of this record profit, the Board has increased the interim dividend from 82 cents in March 2007 to 88 cents."

Mr Paul Fegan, Managing Director & Chief Executive Officer said; "Overall, the underlying performance is excellent and the financial position of the Group has been strengthened. Despite the challenging environment, we have costs under control with a cost to income ratio at 42.5 per cent (underlying 41.7 per cent). In addition, our net interest margin has only reduced by 5 basis points and our asset quality remains very sound. However, the volatility in global equity markets has resulted in a reduction of earnings of the Group's mortgage insurance investment portfolio of $55m pre tax compared to 31 March 2007. Excluding this impact, earnings per share growth would have increased by 8.8 per cent and profit by 13.2 per cent."

Capital - The Group's capital position remains strong. As at March 2008, the Group's Tier 1 ratio was 6.97 per cent, which is approximately $500m above its regulatory minimum ratio of 6.25 per cent. While the Group does not have an immediate need for capital this financial year, it has taken the opportunity to offer a 2.5 per cent discount on the Dividend Reinvestment Plan, given its expected growth in assets in the 2009 financial year.

Funding - The Group continues to have access to a well-diversified funding base. As at 2 May 2008, the Group has completed 84 per cent of its entire 2008 funding requirements. In addition, retail deposits have grown by a very strong 14 per cent on an annualised basis, which reduced the reliance on wholesale funding.

In addition, the Group has substantially increased its liquidity by more than 80 per cent or $7.9b to $17.7b, representing 13 per cent of total assets up from 9 per cent at 31 March 2007.

Credit Quality - Credit quality remains very sound, with the loan impairment expense, as a percentage of average assets, increasing marginally from 0.17 to 0.18 per cent.

The 90-day past due arrears for housing loans improved from 0.36 to 0.24 per cent.

The Group has taken an individual provision of $20m before tax against a margin loan secured by Octaviar Ltd (Formerly MFS Limited) shares. This exposure has been previously disclosed to the market. Other exposures to Centro entities and Allco continue to be performing and therefore do not require specific provisions.

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

Retail Deposits - As indicated, deposits grew on an annualised basis by 14 per cent to $51.1b. This is above system growth with market share increasing to 8.2 per cent at March 2008.

Home Loans - Home loans grew by an annualised 10 per cent for the six months to March 2008. This growth reflects the New South Wales housing market, which represents 56 per cent of the Group's total home lending.

Middle Market Business Loans - Loans for the Middle Market grew by an annualised 31 per cent, which is an outstanding result. Greater than 90 percent of this portfolio is secured. Overall market share increased from 8.1 to 9.1 per cent.

Wealth Management - Managed funds have been impacted heavily by the negative performance of equity markets. Managed funds were $43.9b, down from $44.3b in March 2007. Pleasingly, gross inflows increased by 4.7 per cent, which was above the market average.

Interstate Growth - Victoria, Queensland and Western Australia grew home loans by a total of 16 per cent and Middle Market loans by 43 per cent. These numbers reflect the success of our interstate growth strategy. The Group continues to invest to develop these opportunities with a further eight new branches planned for the second half.

Interest Margin - As mentioned earlier, the Group's interest margin during the half reduced by 5 basis points from 1.97 to 1.92 per cent, largely driven by holding increased liquidity. Given the increase in funding costs, this is a strong result in a highly competitive environment.

Expenses - Expenses have been carefully managed, increasing by only 4.8 per cent compared to March 2007. Compared to the September 2007 half, expenses increased by 1.3 per cent. The expense to income ratio reduced from 42.6 to 42.5 per cent compared to March 2007 and remains industry leading. At the underlying level, it reduced from 43.1 per cent to 41.7 per cent.

Significant Items - The Group has recognised $93m after tax of significant items for the half. This comprises a $54m gain from the sale of Visa, a $30m restructuring charge, and a $117m tax expense from a dispute with the Australian Tax Office relating to a 1997 transaction. While the Group is appealing the decision, it considers it prudent to provide for the full amount. All figures are after tax.

The net profit for the Group including these significant items (and preference dividends) is $514m, which is down 10.1 per cent compared to the same period last year.

Outlook

Mr Paul Fegan said; "On the back of this strong performance, the Group continues to pursue its organic, customer-focused growth strategy. To accelerate this process the Group will be undertaking a major restructuring program over the next few years that will see substantial improvements in efficiencies. A $30m after tax provision has been recognised to fund this major program."

As previously advised, St.George's EPS target of 10 per cent assumed no one-off material credit losses and a reasonably sound economic environment.

As a result of recognising a $20m credit loss on a margin loan during the half and as the effects of the turmoil in global financial markets flow through to the domestic economy, the Group has revised its EPS growth target accordingly to a range of 8 to 10 per cent for 2008, on the basis of no further unexpected material credit losses.

"Against the back drop of a challenging operating environment, the financial position of the Group has been strengthened while delivering record profits. Even with some moderation in the domestic economy, the Group expects to benefit from a significantly stronger second half. St.George is confident in its growth prospects despite the challenging environment, given its strong business momentum, conservative business mix and sound asset quality. The Bank's solid capital position puts us in great shape to capitalise on the profitable growth opportunities that we are seeing across our core businesses" he concluded.

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