st.george

news release

26 June 2008

Update on St.George Bank's operational performance to 31 May 2008

Today St.George's Managing Director and CEO, Paul Fegan, is presenting at the UBS Australian Financial Services Conference 2008. The following information is made available:

Funding

Since 1 October 2007, St.George has issued $9.2 billion of committed term funding. St.George has now completed 100% of its 2008 financial year term wholesale funding requirements and has already raised 10% of its estimated $11-$12 billion term wholesale funding requirements for 2009.

St.George has 13% of its committed term funding maturing in the next 6 months. The average weighted maturity of its committed term funding is over two years.

Credit quality

Credit quality in the retail bank remains excellent, with arrears performance particularly strong.

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

Overall credit quality in business banking remains strong. Circa 95% of the portfolio is secured with greater than 80% secured by property.

Capital

St.George is well capitalised with its Tier 1 capital adequacy ratio of 6.75% as at 31 May 2008. St.George's minimum Tier 1 capital adequacy ratio is 6.25%.

Business volumes

Retail deposit balances are continuing to experience positive growth. Growth for the eight months ended 31 May 2008 was 12.4% annualised.

Residential receivables growth for the eight months ended 31 May 2008 was 10.1% annualised. St.George is on track to grow broadly in line with system. St.George expects growth to slow from current levels in line with the moderation in system growth.

Middle market receivables growth for the eight months ended 31 May 2008 was 30.3% annualised with a robust pipeline that suggests growth remains on track to exceed 25% in financial year 2008.

Managed funds balances have fallen during the eight months ended 31 May 2008 by 9.5%. While balances have increased by 2.5% since 31 March 2008, balance growth in financial year 2008 will continue to reflect the performance of investment markets.

Margins

In the 2008 Interim Results announcement St.George highlighted factors benefiting the margin outlook for the second half of 2008. They included the full run rate impacts of:

- November 07 capital placement free funds benefit,
- Benefit of repricing of all lending product categories, and
- Benefit of increased spreads on retail deposits following increases in official interest rates in first half 2008.

These factors continue to contribute according to expectations and the underlying margin outlook for the financial year 2008 is expected to be less than 10 basis points.

Lower exposure to equity markets within captive mortgage insurer

During May and June 2008 St.George Insurance Australia Ltd (SGIA) put in place hedges to reduce the effective equities exposure within the investment portfolio to less than 15%, down from 33% as at 31 March 2008 and 48% as at 30 September 2007.

As at 31 May 2008, SGIA maintained total assets of $391 million in its investment portfolio.

Customer satisfaction

St.George is continuing to extend its service leadership in this challenging environment.

St.George's customer satisfaction* currently stands at 77.5% in May 2008, up from 74.2% in March 2007. The difference to the average of the major banks is 8% up from 4% in March 2007.

Proposed merger with Westpac

On 26 May 2008, St.George and Westpac announced that, following the successful completion of due diligence by both organisations, they had signed a Merger Implementation Agreement (MIA).

The Board intends to recommend the merger proposal subject to it remaining in the best interests of St.George shareholders. This recommendation will also be subject to an Independent Expert's report confirming the proposal is in shareholders' best interests and no superior proposal emerging.

St.George shareholders will receive a scheme booklet, which will contain full details of the proposal, including the basis for the St.George Directors' recommendation and an Independent Expert's report. It is currently anticipated that this booklet will be dispatched to shareholders by early October 2008, subject to relevant regulatory approvals, and that St.George shareholders will vote on the proposed merger by early November 2008, with finalisation of the merger envisaged for late November 2008.

Outlook and targets

St.George remains on track to meet its EPS growth target of 8-10% in 2008. This target continues to exclude the impact of hedging and derivatives, assumes a reasonably sound economic environment and no further one-off material credit losses.

St.George remains on track to meet its other targets around cost to income, capital, credit quality and customer satisfaction as outlined in its 2008 interim results.

St.George also continues to experience solid momentum across core businesses and product lines.

Ends…

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* Source: Roy Morgan Research, Aust 14+, 3 month moving average