news release

12 August 2008

Update on St.George's operational and financial performance to 31 July 2008

St.George Bank today announced the Group is on track to meet its EPS growth target of 8-10% in 2008. The unaudited cash profit* was $1,073 million for the ten months to 31 July 2008, 12.5% ahead of July 2007.

Taking into account the major non-recurring items and the change in SGIA revaluations between 2007 and 2008, the underlying earnings are broadly in line with the Cash NPAT growth over the period. During the period there were no changes to the Group's accounting policies.

St.George Bank's Managing Director & CEO, Paul Fegan said; "Against the back drop of a challenging operating environment St.George continues to perform well with strong growth across its core businesses and product lines, sound asset quality and effective cost control. I am particularly pleased that we have completed 100% of our 2008 term wholesale funding requirements and already raised $3.3 billion of the estimated $11-$12 billion term wholesale funding requirements for 2009."

Retail deposit balances are continuing to experience positive growth due to continued focus on product offering and consumer 'flight to quality'. Growth for the ten months ended 31 July 2008 was 18.9% annualised and exceeds growth in retail lending, providing a funding offset.

Residential receivables growth for the ten months ended 31 July 2008 has slowed to 10.0% annualised. St.George is on track to grow broadly in line with system, with focus on profitable segments.

Middle market receivables growth has also slowed but continues to be strong at 30.1% annualised for the ten months ended 31 July 2008 leading to further gains in market share. Market leading customer satisfaction and retention rates are continuing to drive strong momentum in our middle market business.

Managed funds balances have fallen during the ten months ended 31 July 2008 by 15.6%. Balances have decreased by 4.4% to $42 billion since 31 March 2008, and Asgard remains in the top four for net flows. This is a solid performance given the disruption in investment markets.

St.George recently announced that it had formed a partnership with global insurer American International Group, Inc. (AIG) to be its new Life Insurance partner.

AIG will provide a range of services to St.George Life and will also be the insurance partner for St.George Wealth's superannuation and platform business, Asgard Wealth Solutions.

This announcement is part of the Group's accelerated growth plans for its Life Insurance businesses.

Due to the reduced exposure to equities and effective hedging, revaluations of the mortgage insurance investment portfolio contributed $2 million to pre tax profit in the first four months of the second half compared to a pre tax loss of $33 million in the first half. This $31 million net loss for the ten months to July 2008 compares to a $28 million pre tax profit in the ten months to July 2007. Given the deliberate rebalancing of the portfolio, volatility will be substantially reduced going forward.

St.George is continuing to extend its service leadership in this challenging environment. St.George's customer satisfaction** stood at 77.2% in June 2008, up from 74.2% in March 2007. This exceeds the average of the major banks by 8%, up from 4% in March 2007.

Credit quality

Overall credit quality remains very good, reflecting the high quality of the Bank's residential and business lending portfolios and its prudent credit culture and policies. St.George's balance sheet is conservative, with a low risk mix of businesses focused predominantly in Australia with no offshore operations.

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

Loan impairment expense for the period was in accordance with expectations reflecting the Group's asset quality and no material losses were experienced on single name exposures to date in the second half. The loan impairment expense and 90-day past due arrears for housing loans are within an acceptable range and well below long term averages.

Overall credit quality in business banking remains strong. Approximately 95% of the business banking portfolio is secured, with more than 80% secured by property. Market Risk from trading activities is controlled by an overall risk management framework that incorporates low relative Value at Risk (VaR) limits and usage.

In the first half, the Group recognised an individual provision of $20 million before tax against a margin loan secured by Octaviar Ltd (formerly MFS Limited) shares. The remaining balance of $5 million has now also been fully provided. This exposure has been previously disclosed to the market. Other exposures, also previously announced to the market, to Centro entities (fully secured) and Allco continue to be performing and therefore do not require specific provisions. As a result of asset sales and reductions of limits, the Allco exposure has reduced from $60 million to $37 million.

Funding

Since 1 October 2007, St.George has raised $11.3 billion of committed term funding. St.George has now completed 100% of its 2008 financial year term wholesale funding requirements and has already raised $3.3 billion of its estimated $11-$12 billion term wholesale funding requirements for 2009.

St.George has 15% of its committed term funding maturing in the next 6 months. The average weighted maturity of its committed term funding is over two years.

As at the last reporting date, 31 March 2008, St.George's average cost of total funding was 6.31% compared to an average of 6.28%[1] for the majors.

In addition, St.George has the best efficiency ratio of all Australian banks, 42.5% at March 2008 compared to the average of the major banks of 45.7%[1]. For the ten months to July 2008, St.George's efficiency ratio was 40.5%. This advantage over the major banks allows St.George to absorb additional funding costs.

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1 Based on the most recent half year profit announcements.

Notwithstanding the success to date in completing the Group's funding program, access to markets and pricing will continue to be challenging for all sector participants due to the expected volatility and possible worsening of the funding markets. It is difficult to accurately forecast the impact due to the uncertainty going forward.

Capital and Liquidity

St.George is well capitalised with a Tier 1 capital adequacy ratio of 6.74% as at 31 July 2008. St.George's minimum Tier 1 capital adequacy ratio is 6.25%. $335 million of excess capital is held, which is sufficent to support $9 billion of risk weighted asset growth over the remainder of calendar 2008. We continue to hold high levels of liquidity at 13% with approximately $5 billion excess over the minimum requirement.

Update on proposed merger

The proposed merger process continues to progress with the ACCC Statement of Issues released 23 July and a final decision expected 20 August 2008.

The Board intends to recommend the merger proposal subject to it remaining in the best interests of St.George shareholders compared to the position when the proposed merger was announced on 13 May 2008, and no superior proposal emerging. This recommendation will also be subject to an Independent Expert's report confirming the proposal is in shareholders' best interests.

It is expected that 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 in late September 2008, subject to relevant regulatory approvals, and that St.George shareholders will vote on the proposed merger in early November 2008, with finalisation of the proposed merger scheduled for late November 2008.

Outlook and targets

St.George remains on track to meet its EPS growth target of 8-10% for the 2008 financial year. This target continues to exclude the impact of hedging and non-trading derivatives volatility and significant items; assumes a reasonably sound economic environment and no further one-off material credit losses. Global credit markets continue to negatively impact access and pricing of wholesale funds for Australian and overseas banks and it is possible that the situation may worsen in the short term. From a position of strength the Australian economy continues to slow with subdued retail spending levels and tighter labour market conditions expected. Official cash rates are now more likely to reduce before the end of calendar 2008.

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's 2008 Full Year results will be announced on 29 October 2008.

Ends…

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*Cash profit after tax excludes hedging and non-trading derivatives volatility and significant items.
** Roy Morgan Research, Aust 14+, 3 month moving average