



# news release

2 May 2006

## **St.George reports record interim profit of \$502 million, up 11.8%. Interim dividend of 74 cents, up 10.4%. EPS growth targets reaffirmed.**

Mr John Thame, Chairman of St.George Bank, today announced a record profit after tax of \$502 million for the half-year ended 31 March 2006, up 11.8% from March 2005. Mr Thame commented, "This is a quality result achieved against the backdrop of a competitive environment. St.George has a strong management team who continue to deliver".

A fully franked interim dividend of 74 cents has been declared, a 10.4 per cent increase on March 2005. The Dividend Reinvestment Plan will continue to operate for those shareholders who wish to participate.

Managing Director, Mrs Gail Kelly, commented, "I am very pleased with the performance of the Group over the period. Strong business performance is being achieved across all of our divisions. During the period we recorded several new milestones, including the Group's best ever ROE and expense to income ratio, as well as passing \$100 billion in total assets (a doubling of assets in less than seven years). I am confident in the momentum that we have leading into the second half of the year. We are well placed for another very good year".

"The results that have been achieved this half build on the organic growth strategy that we have been executing on for the past four years. Our strategic framework that was developed in 2002 remains in place and guides the investments that have been made in people, product and infrastructure".

The Group's business priorities outlined below form the engine-room for our growth:

**Our People** – Our people and culture are core to our differentiation in the market. St.George people are energetic, passionate about customer service and regularly demonstrate their preparedness to go the extra mile. Our recruitment, training, human resource policies and leadership behaviours all seek to support and maintain this difficult to replicate competitive advantage.

**Home Lending** – Over the past year, our portfolio of residential lending has grown 13 per cent and has reached over \$60 billion just after balance date. We are particularly pleased with this result given our structural exposure to New South Wales. It is important to note however, that the Group's progressive expansion into our 'non-core geographies,' namely Victoria, Queensland and Western Australia means that 28 per cent of the Group's overall receivables (residential and middle market) are now domiciled in these states.

**Deposits** – Our retail funding has improved by 13.5 per cent to \$41.8 billion. Given our sizeable retail deposits base, and the level of competition in this area, this growth is both robust and pleasing. Of particular note are our transaction account balances which have increased by 16.7 per cent to over \$14 billion, and our dragondirect on-line account which has enjoyed growth of over 20 per cent annualised over the half now standing at \$6.7 billion. The Group is attracting new customers and new flows through its targeted approach.

**Middle Market** – Our middle market business has continued to grow strongly over the half. Total middle market receivables increased by a pleasing 18.4 per cent for the year. Our significant investment in the Best Business Bank program is delivering improved cross-sell and productivity benefits. Our middle market customers remain the most satisfied and loyal in the market and increasingly advocate the Group and provide new sources of business.

**Wealth Management** – Our wealth management division has performed outstandingly over the period, with its balanced and profitable portfolio of businesses. Total managed funds grew by over 27 per cent annualised to over \$37 billion during the half, whilst Asgard has had its fastest growing 6 month period, achieving an increase in net inflows of 40%. Margin lending grew by more than an annualised 28 per cent and continues to maintain 5 star product and service status. Wealth management now contributes approximately 13 per cent of the Group's profit up from 7 per cent in 2003.

**Credit Quality** - Credit quality remains excellent and is a key differentiator for the Group reflecting the Bank's low risk lending assets, prudent credit policies and an overall positive credit environment. Impaired assets to total middle market receivables now stand at the exceptionally low level of, 0.18%, down from 0.22% in September 2005. Similarly, gross non-accrual loans as a percentage of net loans and receivables fell by 1 basis point to 0.13% during the year.

**Productivity and Cost Control** – St.George enjoys the lowest expense to income ratio in the industry at 44.1 per cent. This has come about as a result of excellent cost control combined with robust and consistent revenue growth. Our rolling program of productivity improvement initiatives and the consistent re-investment in systems and people has underpinned this outcome. We have a rigorous focus on cost control facilitated by strong levels of personal accountability throughout the business and at all levels of management.

### **Delivering on Targets whilst Investing for the Future**

The Group has established a track record of delivering on its targets, while building for the long run. For full year 2006 and 2007, St.George is targeting growth in EPS of 10%. St.George is on track to deliver on these targets. St.George continues to achieve a cost to income ratio at the lower end of its peer group; similarly, the Bank retains its positive differential to the majors with regard to both customer satisfaction and credit quality.

Significant investment has been made in the business over the past five years with clear benefits demonstrated by the Group's results. This program of investment has continued over the half and includes:

- Best Business Bank program;
- Deployment of CRM program;
- Installation of new auto and equipment financing system;
- Investment and upgrading of Contact Centre and Mortgage Processing centres;
- Delivery of new products, such as the Bank's new low rate "Vertigo" credit card, and;
- Enhancement of 'straight through processing' in Asgard.

In addition, St.George continues to invest in its people through management development and training. Over the six month period, the Group increased its number of staff by 200 and over 400 for full year.

### **Future Prospects**

The Australian economy has posted moderate growth rates over the past year, although there has been divergence across states, with commodity-based regions performing by far the best, while New South Wales has underperformed. The competitive environment is expected to remain intense, particularly in the area of residential lending, business lending and retail deposits.

The Bank has excellent momentum going into the second half and is well positioned to benefit from the expected future upturn in the New South Wales economy in 2007. St.George is aiming to grow its home loan portfolio in line with system and grow its Middle Market segment at twice system. In the area of Wealth Management, the objective is to maintain net inflows in excess of system.

Ends...

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**St.George interim profit \$502m, up 11.8%, interim dividend 74¢ up 10.4%,  
EPS growth targets reaffirmed**

<b>Profit Before Significant Items Half Year</b>	<b>March '06</b>	<b>Sept. '05</b>	<b>% Change</b>	<b>March '05</b>	<b>% Change</b>
Statutory AIFRS	\$502 m	\$466 m	7.7%	\$449 m	11.8%
Full AIFRS	\$502 m	\$443 m	13.3%	\$438 m	14.6%
Full AIFRS excluding hedging & derivatives	\$495 m	\$448 m	10.5%	\$444 m	11.5%

<b>Earnings Per Share</b>					
Statutory AIFRS	191.9 cents	179.5 cents	6.9%	175.5 cents	9.3%
Full AIFRS	191.9 cents	170.7 cents	12.4%	171.2 cents	12.1%
Full AIFRS excluding hedging & derivatives	189.1 cents	172.6 cents	9.6%	173.5 cents	9.0%

<b>Dividend</b>					
100% Fully Franked	74 cents	70 cents	5.7%	67 cents	10.4%

<b>Ratios</b>					
Return on Equity (Statutory AIFRS)	23.0%	22.0%		22.4%	
Return on Equity (Full AIFRS)	23.0%	20.9%		21.8%	
Expense to Income (Statutory AIFRS)	44.1%	46.7%		45.4%	
Expense to Income (Full AIFRS)	44.1%	48.0%		46.8%	