NEWS RELEASE

August 27, 2004

Suncorp declares record $ 618 million annual profit

Diversified financial services group Suncorp today reported a 61 per cent increase in net profit to a record $618 million for the year to June 2004.

The group declared a final dividend of 40 cents per share, up from 30 cents for the June half of 2003, taking the full year dividend to 70 cents per share fully franked, representing a 25 per cent increase for the full year.

“We achieved record profits for the company as a whole, record results in each of our operating divisions and announced a record dividend, so by any measure this is an outstanding financial performance,” said Chairman John Story.

“It was a year of consolidation where the organisational and structural roles were comprehensively reviewed and detailed operational improvements were introduced across the organisation,” said Mr Story.

“The company, led by chief executive John Mulcahy, is now making substantial headway in extracting cost savings and revenue enhancements from operating each of the three business lines. This result, driven by the stellar performances of the general insurance and banking divisions, demonstrates the significant progress we have made on the diversified financial services strategy we outlined in June last year.

“Suncorp is now emerging as a great Australian company,” he said.

Mr Mulcahy said the year had been a significant period in the history of Suncorp.

“2004 has been a year of transition. The company’s performance has been turned around as we have reaped the full benefits of the GIO acquisition, set ourselves a clear strategic path, lifted the performance of our banking business and driven new disciplines and improved practices throughout the group,” he said.

Financial performance summary

Profits increased substantially across each of the operating divisions with net profit in the June half up 47 per cent to $337 million.

Underlying profit, which reflects the core operating performance of the company before tax, goodwill and investment income on general insurance shareholder funds, increased by 34.7 per cent to $784 million.

	Year ended		
	Jun-04 $m	**Jun-03 $m**	**Variance %**
Profit Overview, $M			
Banking	371	318	16.7
General Insurance	465	233	99.6
Wealth Management	66	41	61.0
Other	42	9	364.1
Profit before tax and goodwill	944	601	57.1
Goodwill amortisation	(60)	(62)	(3.2)
Tax	(266)	(155)	71.6
Net profit	**618**	**384**	**60.9**

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Mr Mulcahy said the group’s strong result demonstrated the business was now well positioned to accelerate its plans for sustained growth.

“We now have a clearly charted path for improved performance underpinned by a sharp focus on providing customers with great products delivered with first-class service by a great team,” he said.

“We are already well on track this year with the launch of two new growth initiatives set to start this weekend. These include the national roll-out of our Every Day Options Account, which comes on the back of the product’s enormous success in Queensland, and the launch of an exciting new marketing program set to reinvigorate the GIO brand,” he said.

Profits by division

Banking

The banking profit of $371 million, before tax, was up 16.7 per cent on the previous year. The result is above the market’s expectation for the banking sector as a whole with the highlights including a rapid recovery in home lending, the continued outperformance of the business banking operations, increased net interest margins, and strong credit quality.

Total lending, including securitised assets, increased by 20.2 per cent for the year, compared with 15.5 per cent growth for the banking industry as a whole, leading to increased market share.

Home lending was a stand out performer. The book grew by 18.5 per cent in the year to June 2004 which was almost double the 9.4 per cent growth recorded for the previous year. On a monthly basis, home lending has consistently exceeded industry growth rates since February.

Business lending continued to grow at a faster rate than the market, increasing 23.5 per cent to $12.2 billion.

Retail deposits grew well in advance of the market – up 15 per cent, while total sector retail deposits rose 8.3 per cent.

Net interest margins increased six basis points to 2.30 per cent in the second half due to good growth in higher margin business and the restoration of deposit margins through increases in official interest rates.

General Insurance

The biggest increase in earnings was achieved in general insurance where pre-tax profit rose 99.5 per cent to a record $465 million for the full year. This was largely driven by revenue growth, improved claims experience in the long tail classes of insurance like Compulsory Third Party, and increased investment returns.

This was partially offset, however, by lower profits in the short tail businesses, notably home and motor insurance, due to above average storm activity during the year.

The Insurance Trading Result (ITR), which is the profit derived from the underlying insurance business excluding investment returns on shareholders funds, increased by 50.7 per cent to a record $315 million for the full year. This is equal to 14.4 per cent of premium revenue, which is the strongest full year margin reported by the company since 1997.

The result also benefited from continued improvement in investment earnings on shareholder funds which rose to $130 million from $11 million the previous year with the strong improvement mainly attributed to the strength of the domestic equities market.

“Operating conditions in the industry have recovered significantly over the past two years as insurers have adopted more disciplined pricing practices, and as legislative reforms have reined in escalating claims costs, particularly in the areas of compulsory third party insurance, workers compensation and commercial liability,” said Mr Mulcahy.

"In fact, in some classes, premium prices have been reduced during the year as the benefits of legislative changes have been shared with consumers. An example of that is in Queensland CTP where prices have been cut by around six per cent, or $21 per ordinary policy, in the 12 months to June, and prices will fall another $9 from October," he said.

Wealth Management

Profit before tax for the wealth management division increased 61 per cent to $66 million for the year due to increased investment returns, and improvements in the underlying business performance.

Investment returns exceeded industry benchmarks in all major investment classes for the year, with funds benefiting from the global strength of equity markets.

"While wealth management is only a relatively small part of our business, it is important to us to be able to offer a comprehensive suite of products to our customers. We remain very committed to the wealth management and funds management businesses and look forward to growing more strongly in the current year as investor confidence increases," Mr Mulcahy said.

Outlook

CEO John Mulcahy said the company was optimistic about the current year and was focused on profitable growth rather than growth for growth's sake.

"You can see this in our track record, and we have a number of continuing and new initiatives to ensure we continue to deliver. We have announced a good set of results today and on the back of our strategies and the momentum we have established, we see a strong outlook for the 2004-05 financial year," he said.

"In banking, while there has been a slowdown in home lending and increased competition may lead to some deterioration in margins in the industry, we will be focused on profitable growth and we do expect to deliver a percentage increase in profit greater than single digits.

"In general insurance, we do not see any signs of irrational pricing re-emerging in the classes of insurance we operate and we remain confident that improvements we are making in our business will enable us to win market share from our competitors, increase efficiency and lift profitability. So while we previously had a stated insurance trading margin range of 10 – 13 per cent, with this result we are increasing the expected margin to 11 – 14 per cent. This assumes no unusual claims events.

"In wealth management, the recovery in equity markets has led to significant improvement in profitability so assuming this equity market is sustained, we should see some recovery in sales and we therefore would expect to see double-digit improvement in underlying profit in wealth management.

"At group level this should translate to further good improvements in underlying profit in the current year," Mr Mulcahy said.

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