NEWS RELEASE

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Suncorp declares record $413 million interim profit

Diversified financial services group Suncorp has reported a 47 per cent increase in net profit to $413 million for the six months to December 2004.

The group also declared an interim dividend of 42 cents per share fully franked, up from 30 cents for the first half of 2004.

Suncorp chairman John Story said the first half of the 2005 financial year had been a very rewarding period for Suncorp.

“This is an excellent set of results, exceeding expectations at the start of the year,” Mr Story said. “Supported by the solid external environment, CEO John Mulcahy and his management team have made operational improvements over the past two years that are now flowing strongly to the bottom line.

“Each of the business lines – banking, insurance and wealth management - is now performing well. The problems that the group was experiencing two years ago have been fixed and the company is now fit and competitive,” he said. “I remain confident our unique diversified financial services model will allow us to consistently outperform the market and, in fact, has already contributed strongly to our improved financial performance.”

Mr Mulcahy said the six months to December had been a period of real operational progress for the group.

“Having defined clearly what we want to achieve and how we plan to do it, we are intent on making it happen,” he said. “The competitive environment in financial services is tough, and only getting tougher, but we are now well positioned to confront the challenges and are making excellent progress, as our results for the period testify.”

Financial performance summary

Mr Mulcahy said the company’s financial performance demonstrated that each of the lines of business were delivering consistent growth in profitability.

The financial results are summarised in the following table:

	Half-Year ended				Dec-04
	Dec-04	Jun-04	Dec-03	Jun-03	vs Dec-03
	$m	$m	$m	$m	%
Profit Overview					
Banking	220	194	177	168	24.3
General Insurance	341	250	215	161	58.6
Wealth Management	42	30	36	24	16.7
Other	5	37	6	5	(16.7)
Profit before tax and goodwill	608	511	434	358	40.1
Goodwill amortisation	(31)	(30)	(30)	(32)	3.3
Tax	(164)	(144)	(123)	(97)	33.3
Net profit	**413**	**337**	**281**	**229**	**47.0**

Profits by Division

Banking

The banking profit was up 24 per cent to $220 million, driven by good growth in lending and deposits, increased margins, tight cost control and low bad debts.

Despite a slowing home lending market, the company has consolidated the strong improvement in home loan sales of the June half and is now outperforming the market. Home loan receivables were up 18.8 per cent to $18.5 billion from the prior December, compared with 14.9 per cent growth for the home lending market as a whole.

Business Banking delivered growth of 19.7 per cent in assets – more than double the market growth of 8.9 per cent in the 12 months to December. The highlight was a 23 per cent increase in commercial lending growth attributed to the implementation of a more sophisticated broker distribution model and the development of specialist status in key market segments.

Achievements in banking included: the success of initiatives to grow retail deposits, with the high-interest bearing Every Day Options Account attracting around $1.5 billion in business since its launch in March 2004, and strong margin performance which, compared with the prior December half, increased by seven basis points to 2.31 per cent.

General Insurance

General insurance delivered a good improvement in profit before tax, increasing 59 per cent to $341 million. This was driven by a combination of good revenue growth, improved claims experience and increased investment income.

The Insurance Trading Result (ITR) – which is the basic insurance profit – increased by 47 per cent to $213 million, equal to an insurance margin of 17.8 per cent of net earned premium.

The six months to December were also a period of important cultural transition in the insurance business as new sales and growth emphasis were embedded after an extended focus on integration and cost reduction following the GIO acquisition in 2001.

Wealth Management

The Wealth Management profit increased from $36 million to $42 million, driven largely by the strong investment environment and improved sales. A highlight was the strength of investment returns particularly those recorded in the Australian equity and fixed interest portfolios for the first half. Our flagship diversified portfolio, the Suncorp Balanced Fund, has achieved first quartile returns over 1,3 and 5 years as measured by Intech in their January Growth Funds survey.

New business sales were up 21.5 per cent on the corresponding period continuing the trend experienced in the last quarter of the 2004 financial year. The value of sales increased by 32 per cent in comparison to the corresponding period.

Funds under Management grew 17.5 per cent to reach $12 billion at December 2004, benefiting from net inflows of $246 million for the period.

Strategy

Mr Mulcahy said in addition to the individual business line successes, the group had also made good progress in delivering the revenue and cost advantages of the diversified financial services model.

“Cross-group forums have been established to enable opportunities to be identified for improved customer outcomes, and new products are being designed and manufactured,” he said.

“For example, a new package for customers buying a car, which combines a personal loan, car insurance, CTP and consumer credit insurance is now on the market.

"A similar home loan package for first home buyers is planned for release next month, along with a small business package later in the year."

Mr Mulcahy said underpinning the success of the group's diversified financial services model was the sharp focus on customer service.

"We are striving for industry best practice in our ability to understand and meet our customers needs. I believe we are unique among our peers in being able to boast a full suite of financial products and services that enable us to design total customer solutions.

"We have recently made significant in-roads in enhancing the customer experience with research from independent researcher Roy Morgan showing that Suncorp is now receiving higher satisfaction ratings than any of its major competitors*.

Outlook

Mr Mulcahy said, at a group level, he expected a substantial increase in underlying earnings for the current year, given the many improvements made to the business and the strong first half performance.

"The first half profit was clearly a very strong result, and while we will be working hard to maintain that profit growth momentum in the current half, there were some factors in the first six months, like strong investment returns, that may not be repeatable," he said.

"In **Banking**, while we anticipate the economy will continue to perform well, credit growth may slow in some of the key sectors in which we operate, particularly the property development and investment segments. Additionally, margin pressure will persist as a result of the highly competitive environment. However, we remain confident that we will outperform the market in the current period. For the full year, we would expect profit before tax to increase by a percentage in the high teens, up from our previous expectations of an increase greater than single digits.

"In **General Insurance**, the results for the first half were excellent and while we see no signs of deterioration in industry fundamentals, we would not expect to see the strong claims experience of the first half continue indefinitely

"Legislation aimed at reining in the escalating costs of personal injury claims is ensuring that consumers have access to affordable insurance while insurers achieve appropriate returns for the risks they underwrite. This reduction in claims costs has led to improved profitability and it continues to deliver premium reductions for consumers. For example in Queensland Compulsory Third Party insurance, prices have fallen by 9% over the 12 months to December and are expected to fall further in the current year."

Investment market returns also are expected to moderate in the current period.

"Nevertheless, we continue to expect that over the longer term, the sustainable ITR for the company will be between 11 and 14 per cent. However, given the strength of the first half result, we would expect the full year profit this year to be above the 11 to 14 per cent range, subject to no unusual claims events.

"In **Wealth Management**, equity market returns are unlikely to match the strong first half performance. Underlying earnings, however, should show an improvement in the order of 10 per cent for the full year."

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* Source: Roy Morgan Research Pty Ltd., Melbourne, Australia.
Base: Australians aged 14+ with at least a transaction account at that institution. Overall satisfaction is measured ("very" or "fairly satisfied").
Time period: 6-months moving averages to December 2004 (preliminary).