



# NEWS RELEASE

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## **SUNCORP DECLARES UNDERLYING PROFIT GROWTH OF 7.2%**

Diversified financial services group Suncorp today reported a 7.2% increase in underlying profit\* to \$491 million for the six months to December 2005.

The group also declared an interim dividend of 47 cents per share, fully franked. This is up 12% on the dividend for the first half of 2005.

Highlights of the result include:

- Net profit growth of 2.9% to \$454 million.
- Bank profit contribution before tax up 16.4% to \$255 million, with strong lending, margin and operating cost performance, and solid credit quality.
- General Insurance profit before tax of \$330 million with a trading margin (ITR) of 17%, driven by underlying premium growth and favourable claims outcomes.
- Wealth Management profit before tax of \$42 million, with positive sales momentum and inflows to funds under administration continuing.
- No material impact from the adoption of AIFRS.

Suncorp Chairman, John Story described the result as particularly pleasing given the current operating environment, with all areas of the business experiencing intense levels of competitor activity during the period.

"The operational improvements put in place by John Mulcahy over the past three years have allowed Suncorp to perform strongly despite the tougher market conditions. Three years ago the company would not have been equipped to withstand the level of competition experienced during the first half of this financial year.

"We have a clear strategy, a strong sense of purpose and the right people across the business to execute our plans."

CEO John Mulcahy said all Suncorp people had contributed to the result and continue to embrace the company strategy of integrating its three businesses into a diversified financial services powerhouse.

"There are examples right across the company where our businesses have come together to provide the sort of solutions our customers want. We still have more to do to achieve all the revenue and cost benefits that are available to us, but the momentum being generated is encouraging."

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\* Operating profit before tax, investment income on Shareholder Funds (General Insurance, General Insurance share of joint ventures and Wealth Management), investment income on capital and retained earnings in Wealth Management and one-off items

"Our first half results prove we can match, and beat, the competition whether it be from the major players, the regionals, or others seeking to earn short to medium term market share."

Mr Mulcahy said Suncorp would continue to capitalise on its Queensland base while at the same time building its business outside of the state.

### Financial Performance Summary

Mr Mulcahy said the company continued to perform well across all its businesses.

The financial results are summarised in the following table:

	Half-Year Ended			
	Dec-05	Jun-05	Dec-04	Dec-05 vs Dec-04
	\$m	\$m	\$m	%
<b>Profit Overview</b>				
Banking	255	235	219	16.4
General Insurance	330	316	344	(4.1)
Wealth Management	42	52	41	2.4
LJ Hooker and other	6	4	5	20.0
Consolidation	(6)	(5)	(5)	20.0
<i>Profit before tax</i>	627	602	604	3.8
Tax	(173)	(162)	(163)	6.1
<b>Net profit</b>	<b>454</b>	<b>440</b>	<b>441</b>	<b>2.9</b>
<b>Underlying profit</b>	<b>491</b>	<b>479</b>	<b>458</b>	<b>7.2</b>

### Profits by Division

#### Banking

At a time of increasing competition, banking profit rose by 16.4% to \$255 million, reflecting steady net interest margins, operating cost containment and low bad debt write-offs and provisions.

Lending growth grew by 11.9% with good increases across home and business lending receivables. Mr Mulcahy said that while the lending growth was below system for the period, the Bank maintains a focus on driving profitable growth, and has very carefully managed the price and volume mix of the book in order to optimise total income.

"You can see this in our strong revenue and margin performance for the period, but we also continued to focus on cost savings initiatives thereby further improving our efficiency. We have put ourselves in a very solid position to react to market pressures going forward."

The Bank's underlying net interest margin was down just one basis point from December 2004 (prior to AIFRS adjustments) at 2.3%, and expenses increased by just 1.4% to \$225 million. Revenue growth far outweighed expense growth resulting to a reduction in the banking cost to income ratio to 45.5%.

Growth in retail deposits continued, with core retail deposits (excluding Treasury) up by 12.6% to \$13.6 billion at December, outperforming the industry retail deposit system growth of 10.5% for the period.

### **General Insurance**

General Insurance pre-tax profit contribution was down marginally to \$330 million, but featured good topline growth with a 2.8% increase in gross written premium, as well as favourable claims experience. The division continues to achieve growth in risks in force but, as expected, this is offset somewhat by declining rates in the sizeable compulsory third party (CTP) insurance portfolio. These declining rates provide real benefits to customers. For example, Suncorp's headline CTP premium rate in Queensland has declined by 6% over the past 12 months.

Mr Mulcahy said the Insurance Trading Result (ITR), which gives you the best indication of underlying performance, was equal to a substantial margin of 17.0% on net earned premium, which is well above the long term range of 11% - 14%.

During the period the business also invested in acquisition and customer service initiatives, aimed at supporting ongoing growth. These include further investment in the GIO brand followed by a series of product based offer campaigns which have been successful in increasing new business volumes.

### **Wealth Management**

Wealth Management contributed a solid \$42 million in profit before tax in the December half, with higher planned profits offset by slightly lower investment income compared to the prior period.

Sustained confidence in equity markets and legislative changes continue to support growth in new business sales, which increased 10.8% to \$400 million. Funds under administration grew by 10% from June 2005 to reach \$5.7 billion with a strong increase in net inflows of \$181 million, and favourable investment earnings.

### **Strategy**

Mr Mulcahy said the company had made good progress during the half in implementing its strategy.

"While we continue to focus on our six strategic levers, during the half we paid particular attention to enhancing the capabilities of our High Performing team, improving our Customer Focus and capturing the Group Synergies available through our unique Suncorp model."

"We continue to see good results flowing from the programs we have put in place and the pilots we have underway."

"For example, our year to date conversion of referrals to sales has increased by 15% over the year, reflecting improved staff skills, lead quality and more relevant solutions for customers."

"Our pilot program between our General Insurance and banking call centres has shown great promise with a 30% improvement in conversion rates. We are now moving to implement this program across our Suncorp and GIO call centre teams."

"We are confident that our unique business model and strategy will give us a competitive advantage and provide increasing value to all our stakeholders."

## Outlook

Mr Mulcahy said that at a Group level he expected another strong result for 2005/06 with an increase in underlying profit and ordinary dividend growth of at least 10% for the year.

"In **Banking**, we expect to continue to grow revenues by balancing of the price and volume mix. We do, however, expect to see some margin contraction whilst achieving increased volume growth. We see nothing on the horizon that will see a material increase in our bad debts expense."

"In **General Insurance** we are confident that we will continue to grow risks in force and deliver GWP growth for the period, despite increasing pricing pressure in key products, particularly CTP and commercial insurance. We expect claims experience in long tail classes to remain favourable."

"In the absence of any major events, we expect that the ITR for the year will be above our long term range of 11% - 14%."

"We expect to see continued good sales growth and an increase in underlying profits in **Wealth Management**."

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