Media Release

SUNCORP REPORTS $155 MILLION INTERIM PROFIT

Suncorp Metway has reported a net profit of $155 million for the six months to December 2002 and an increase in dividend per share from 25 cents to 26 cents fully franked.

The result is up by $1 million on the profit of $154 million reported for the previous corresponding period, despite lower investment returns and the absence of one-off gains which boosted the result for the prior comparable period.

Underlying profit before tax, goodwill, one-off gains and investment earnings on shareholders' funds, increased by 12.6% to $260 million.

The highlight of the result was the strong improvement in general insurance profit before tax, which increased by 67% to $72 million. This offset lower earnings in the Wealth Management division, which reported a profit of $17 million, compared with $36 million in the prior corresponding period. The banking result was down by $3 million at $150 million.

The increase in general insurance profit was mainly due to the improvements being implemented through the integration of the GIO business, acquired in June 2001.

The integration program, called Transformation, has now achieved savings and benefits worth $206 million in a full year, exceeding earlier expectations. The company is on track to achieve the target of $240 million by June this year.

The improvements made up to the end of December increased group profit by $69 million, compared to the base at the time of the acquisition.

Chairman John Lamble said the underlying improvement in earnings was a satisfactory performance.

"The strong growth in general insurance profit is particularly encouraging and demonstrates the anticipated benefits of the GIO acquisition are now flowing through to the profit," he said.

"Clearly, the company has made good progress in the half year."

The new Chief Executive Officer, John Mulcahy, who took up his position on January 6, said the solid result demonstrated the company was in good shape.

"Clearly, the performance for the period was affected by the poor investment climate. But the result confirms that the company is moving forward in a determined, deliberate way. It is a strong base to build on for the future," he said.

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	Half Year Ended			
	Dec 02 $m	Jun 02 $m	Dec 01 $m	Jun 01 $m
Banking	150	140	153	134
General insurance	72	67	43	82
Wealth management	17	22	36	39
Other activities	4	4	4	3
Profit from ordinary activities before goodwill and income tax	243	233	236	258
Amortisation of goodwill	(30)	(30)	(30)	(5)
Income tax expense relating to ordinary activities, excluding life insurance policyholders' interests	(58)	(46)	(52)	(47)
Net profit attributable to members of the parent entity	155	157	154	206

PROFIT BY DIVISION

General Insurance

Net premium income increased by a healthy 14.5% to $1.0 billion for the half year, reflecting both an increase in business volumes and significant premium rate increases during the past 12 months. Claims experience during the half year was reasonably stable. Bushfires and storms, whilst often tragic for customers, were within normal expectations during the period.

While premium was up 14.5%, operating expenses rose by 3.7% to $222 million. Expenses were contained because of the Transformation program, which delivered savings worth $41 million since December 2001. The expense ratio, which measures operating expenses as a proportion of premium income, improved to 22.1% from 24.4% at the prior December.

This meant that the insurance trading result, which excludes investment income on shareholders funds, and is the best indicator of underlying insurance operational performance, increased by 90.5% to $80 million. This is equivalent to 8% of premium income, and is a satisfying outcome.

The contribution from other insurance operations also increased strongly, from $8 million to $18 million. This includes income from the managed scheme business, which administers insurance schemes for various external parties without taking the underwriting risk, and also the group's interests in the automobile club joint ventures in Queensland and South Australia.

Altogether, operational insurance earnings therefore almost doubled to $98 million.

Unfortunately, this was offset by the impact of falling equity markets. Investment returns on GI shareholder funds was a loss of $17 million, compared with a loss of $3 million in the prior corresponding period.

Banking

Banking recorded a profit before tax of $150 million, down 2% on the prior corresponding period. Underlying profit before bad debts increased by 5% to $176 million, underpinned by solid lending growth, stable net interest margins and increased non-interest income.

Total loans, advances and other receivables, including securitised assets, rose by a healthy 11.5%, which slightly exceeded asset growth for the industry as a whole. The growth was mainly in commercial lending, which was up 16% to $9.1 billion.

Housing lending was more subdued, rising 8% to $13.7 billion, which was slower than system growth. This was mainly because the most rapid growth in housing lending across the industry was through mortgage brokers, which is a channel that Suncorp has not previously chosen to use vigorously given the higher costs of writing broker business.

Because of growth in higher margin commercial business and increases in official interest rates in May and June last year, net interest margins improved to 2.37%, compared with 2.33% in June.

Non interest income rose 23% to $65 million, boosted by increased fees from securitised home loans, improved fee collection processes and less fee waivers.

Banking expenses increased by 11%, however the cost to income ratio remains competitive at 51.8%.

The bad debt charge increased from $14 million to $26 million, largely because of a single bad debt which caused a $9 million increase in provisions. Underlying credit quality remains sound, with gross impaired assets falling 10% to $146 million.

Wealth Management

The Wealth Management division has suffered from the sharp slowdown in funds flowing into the industry in the wake of falling equity markets. The division recorded a profit of $17 million in the half year to December, compared with $36 million in the prior corresponding period. However, the previous result benefited from an $8 million one-off profit on the restructuring of the group's property investment division.

Excluding this one-off gain, the $17 million profit for the half to December 2002 compares with a $28 million profit in the previous December half. The reduction was due to lower planned profit margins, lower experience profits and a $3 million fall in the value of Life company subsidiaries. These are all partially a reflection of the generally poor investment climate, which has led to reduced Wealth Management sales and lower investment income.

Outlook

Mr Lamble said that the results indicated an improving underlying trend, particularly in general insurance.

"Given that our transformation efforts involved quite an amount of one-off expenditure to achieve recurring savings, we should show further improvement in the next 6 months. In saying this, I make the normal reservation about forecasts – at the time of writing the position in Iraq has not been resolved; the economic "weather" is very hard to forecast; and Australia is in the midst of its worst drought for a long time," he said.

Mr Mulcahy said the company's immediate priority was to finalise Transformation.

"At the same time, each of our business lines is focussed on improving customer service, developing our people and their skills, capitalising on growth opportunities and driving operational efficiencies," he said.

"Assuming no global shocks, or sharp deterioration in the Australian economy or stock market, we would expect to see continued profit growth during the rest of this financial year.

"In Banking, while commercial lending is expected to remain strong, we are clearly confronted with a slowing housing market. In response, we are focusing on improving the skills of lending staff, and refining our service levels to lift retention rates. We are expecting reasonable revenue growth and moderate expense growth in the current half, with credit quality to remain sound. This should produce an increase in pre-tax profit of 8-10% for the year.

"General Insurance profit will benefit from premium growth and further GIO integration improvements, although earnings in the current half will be affected by the claims relating to the Canberra bushfires, which may total up to $30 million. We continue to expect to achieve an insurance trading margin of 9-12% for the year, assuming no major claims events.

"Wealth Management profits are expected to remain flat in the second half due in the absence of a recovery in equity markets and improved investor sentiment.

"Overall, we are expecting to achieve an increase in underlying operating profit, before goodwill, tax and investment income on shareholders funds, of approximately 20% for the year," he said.

Mr Mulcahy also paid tribute to Mr Lamble, who steps down as Chairman in March, to be replaced by Mr John Story.

"John Lamble has clearly provided strong leadership to Suncorp over the past six years. He has guided the team using his refined leadership skills and excellent industry knowledge.

"I congratulate John on his wonderful career and achievements. I offer him my deepest sympathies over the recent death of his wife, and wish him good health and happiness in the future," he said.

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