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SUNCORP POSTS RECORD \$1 BILLION UNDERLYING PROFIT, FLAGS CAPITAL RETURN TO SHAREHOLDERS

KEY POINTS

- 10.1 percent increase in pre-tax underlying profit to a record \$1.04 billion, the first time Suncorp has topped \$1 billion.
- Return of surplus equity to shareholders late 2006.
- Bank profit contribution before tax up 11.5 percent to \$506 million.
- General insurance full year profit before tax of \$691 million with a record insurance trading ratio for the full year of 19.3 percent.
- Wealth management profit before tax of \$81 million.
- Ordinary final dividend payment of 50 cents per share.

Diversified financial services group Suncorp today reported a record underlying profit of \$1.04 billion for the full year to 30 June 2006 and flagged a return of surplus equity to shareholders later this year.

The group achieved its 10.1 percent increase in pre-tax underlying profit despite intense competition in the financial services sector. Other highlights of the result included:

- Bank profit contribution before tax up 11.5 percent to \$506 million, underpinned by improving volumes in home and business lending, strong operating cost performance and continuing credit quality.
- General insurance full year profit before tax of \$691 million with a record insurance trading ratio (ITR) for the full year of 19.3 percent – well above the company's long term range of 11 to 14 percent.
- Wealth management profit before tax of \$81 million.
- An ordinary final dividend payment of 50 cents per share, taking the full year ordinary dividend to 97 cents per share, up 11 percent on the previous year.

Suncorp chairman John Story said the strength of Suncorp's balance sheet allowed the company to embark on the next phase of its capital management program.

"Less than 18 months after we returned more than \$400 million to shareholders through a 75 cent special dividend, our strong operating performance and prudent capital management will allow us to again make a capital return to our shareholders," Mr Story said.

The company is considering returning surplus equity to shareholders through a share buyback in the December 2006 quarter. This would be accompanied by subordinated debt transactions in the general insurer and Bank, as well as the issue of a hybrid instrument by the Bank.

Suncorp chief executive John Mulcahy said the company had performed strongly in FY06 despite intensifying competition in all of its key markets and was generating positive momentum across the business as it moved into the new financial year.



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"The 2006 financial year was a difficult one for all financial services organisations, with increasing competition, margin pressure and slowing credit formation in particular sectors," Mr Mulcahy said.

"In this challenging environment, during which we also had to deal with Cyclone Larry, Suncorp responded in a measured and disciplined way to ensure its three businesses are well placed to compete head to head with their competitors."

"Our bottom line performance is testament to the way we managed our response – our fundamentals, particularly around credit and risk, have not been compromised and we have, through ordinary dividends and our capital management program, again delivered excellent returns to our shareholders."

"In addition, we implemented a number of new and innovative products and initiatives during the second half and are now seeing the results of that hard work flowing through to increasing volumes and improving market shares."

Mr Mulcahy said it was significant that, on Suncorp's tenth anniversary, the company's pre-tax profit had topped \$1 billion for the first time.

"In Suncorp's first year of operations in 1997, underlying profit was around \$130 million," he said.

"Today's \$1 billion profit puts into context the company's strong growth and performance over the last 10 years. It is an outstanding achievement and a great result for our shareholders, customers, staff and management."

Outlook

Mr Mulcahy said macroeconomic conditions remained sound although future interest rate increases, if they occurred, would impact on lending growth in the retail mortgage sector and competition would continue to be intense in the financial services sector as the economy and growth slowed.

"Given our strong business fundamentals, and assuming there are no major changes in market conditions, we would expect to grow underlying profit before tax and bad debts in our banking business by around 10 percent in the coming financial year."

Suncorp has also forecast that, in the event of the current favourable claims environment continuing in its long-tail business, its full year ITR will be in the 16 – 19 percent range for FY07 and FY08 (assuming no major weather events). Ordinary dividend is forecast to grow by at least 10 percent for the year.

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