News Release

28 February 2008

Suncorp reports half year NPAT of $382 million, good underlying result impacted by external factors

Key points

- NPAT of $382 million, with good underlying business performance impacted by a combination of external factors.
- Ordinary interim dividend payment maintained at 52 cents per share fully franked.
- Integration firmly on track with annualised synergy benefits upgraded by $100 million to $325 million.

Leading diversified financial services group Suncorp today reported a net profit after tax (NPAT) of $382 million for the half year to 31 December 2007.

Despite good underlying performances from each of the Group's businesses, NPAT was down 27.5% on last year's result due to the impacts of the global credit crunch, volatile international markets and an unusually high number of severe weather events in Australia and New Zealand.

Each business line achieved growth, with highlights of the result including:

- Bank profit contribution before tax and bad debts up 9.9% to $323 million (1H07: $294 million), in line with market guidance despite the credit crunch. The result featured strong lending and deposit growth, as well as excellent ongoing control of expenses.
- General Insurance half year profit before tax of $172 million (1H07: $383 million). GWP growth was offset by the $280 million cost of severe weather events and global share market volatility having a short term accounting impact on the investment return of insurance funds.
- Wealth Management underlying profit of $85 million (Pro-forma 1H07: $78 million), an increase of 9% in line with market guidance.

Suncorp chairman John Story said the headline result had to be considered in the context of extraordinary local and global events during the past six months.

"Suncorp has performed creditably through one of the most difficult operating periods in the company's history," Mr Story said.

"The significant negative impact of external events on this result should not overshadow the very real progress being achieved within our lines of business and the full extent of the substantial increase in synergy benefits which we are confident can be expected as a consequence of our merger with Promina."

I am pleased to report that the Board has maintained an interim dividend of 52 cents per share fully franked, despite the impact of these events on our retained earnings," he said.

Given the impact of extraordinary events on the first half, and in order to provide capital flexibility and fund banking growth into the future, the Board has decided to partially underwrite the interim dividend reinvestment plan."

Suncorp chief executive John Mulcahy said the Group's underlying profitability and performance was solid and in line with guidance provided to the market.

"It reflects highly on the overall quality of Suncorp's businesses, management team and employees, that we were able to respond to the challenges of the half, while also maintaining business growth and successfully progressing a highly complex and demanding merger," Mr Mulcahy said.

"The portfolio of high-profile, trusted brands we offer across our business lines are performing well, delivering innovative customer-focused products and services to a steadily growing customer base," he said.

Integration update

Mr Mulcahy said great progress had been made on integrating the Group's businesses following the completion of the Promina transaction.

"Everything we have learned about our combined businesses throughout integration has underscored the significant new opportunities now available to Suncorp as a result of the merger," Mr Mulcahy said.

"Our new business model, combining the best of both organisations, is in place and rigorous analysis, involving more than 400 people, has enabled us to upgrade annualised synergies by $100 million to $325 million."

"We now expect to deliver more synergy benefits by June 2009 than we otherwise would have expected to deliver – in total – at the end of June 2010," he said.

"The management team has, through the integration work they have completed and their efforts in maintaining business momentum, proved their ability to execute a complex integration, while our employees have maintained the customer focus that was a trademark of both legacy organisations."

Outlook

Mr Mulcahy said external factors such as volatility in global credit and equity markets and weather events are likely to impact the Group's outlook for the full financial year.

"We expect that global credit markets will remain volatile in the short term with little prospect of immediate contraction in credit spreads. In the event credit spreads widen further it is likely the banking sector will move to adjust its lending rates to appropriately reflect the increased cost of funds," he said.

"This gives us confidence that the full year impact of the credit crunch will be no more than our October 2007 forecast of $10 million to $15 million pre tax."

News Release

Mr Mulcahy said the Bank was in a position to upgrade its full year profit before tax and bad debts outlook to 10 - 12%, despite the impacts of the credit crunch.

In general insurance, it is expected premiums will rise following the increasing incidence of major weather events and increased claims frequency due to generally wetter weather conditions.

Overall GWP growth for the full year will continue to be impacted by recent regulated rate reductions in compulsory third party insurance. However, there is some evidence these premium rates may begin to trend upwards.

Mr Mulcahy said the full year insurance trading ratio for the general insurer was now expected to be in the 7.5% - 10.5% range. This excludes the impact of major weather events outside of normal provisioning and integration benefits which are expected to contribute approximately $90 million for the full year.

The revised guidance includes the costs associated with the February 2008 flooding in Mackay and North Queensland, which Suncorp anticipates will cost $100 million net of reinsurance recoveries. It also assumes that, outside of the Mackay floods, any events in the second half are within normal allowances.

Under its reinsurance program, Suncorp's maximum event retention for non-cyclone and non-earthquake losses now drops to $50 million for the remainder of the current financial year.

In wealth management, Suncorp expects growth in funds under management through increased sales and customer retention. On an underlying basis, which excludes investment returns on shareholder funds, the wealth management business is on track to achieve its full year forecast of profit growth of greater than 10%.

The Group had previously flagged it would consider its capital position by the end of June 2008. However, given the impact of external factors in the first half, regulatory changes and the ongoing operational needs of the business, a capital return could be ruled out in the short term.

Mr Mulcahy also said the decision to partially underwrite the interim dividend reinvestment plan would fund future growth and protect the Group's capital position in a volatile external environment.

ENDS

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