

# NEWS RELEASE



Friday 27 February 2004

## SUNCORP ANNOUNCES RECORD \$281 MILLION INTERIM PROFIT

Integrated financial services group Suncorp has reported an 81% increase in net profit to a record \$281 million for the six months to December 2003, and has lifted its interim dividend by four cents to 30 cents per share fully franked.

Each of Suncorp's lines of business – banking, general insurance and wealth management – exceeded initial management forecasts, highlighting the progress of the group's diversified financial services strategy.

"Importantly, the result demonstrates that Suncorp has made significant progress in achieving its strategic goals," said Chairman John Story.

"When we unveiled our diversified financial services strategy in June, we said the starting point was to ensure that each of our underlying businesses was operating at least as well as its competitors. This result demonstrates that our business lines have each achieved significant improvement in performance.

"From that strong base we can now focus more attention on growth by extracting the revenue benefits available from operating as a diversified financial services company," he said.

### Financial performance summary

The increase in earnings reflects the benefits of a range of initiatives introduced over the past 12 months to lift operating performance and drive improved customer service.

The completion of the integration of the GIO business also contributed significantly to the improved results, as did favourable operating conditions in all of the group's major markets.

Underlying profit, which reflects the core operating performance of the company before tax, goodwill and investment income on general insurance shareholders funds, increased by 45% to \$375 million.

Profit improved across all operating divisions, building on the foundations that were set in the six months to June 2003. Compared with the June result, profits increased by 23%.

The financial results are summarised in the following table:

Profit Overview, \$M	Half-year to			Change	
	Dec 03	Jun 03	Dec 02	Dec 03 vs Dec 02	%
Banking	177	168	150		18
General Insurance	215	161	72		199
Wealth Management	36	24	17		112
Other	6	5	4		50
<b>Profit before tax and goodwill</b>	<b>434</b>	<b>358</b>	<b>243</b>		<b>79</b>
Goodwill amortisation	(30)	(32)	(30)		0
Tax	(123)	(97)	(58)		112
<b>Net profit</b>	<b>281</b>	<b>229</b>	<b>155</b>		<b>81</b>

(Excluding Life Insurance Policyholders Funds)

"This is a very pleasing result," said Mr Story. "Financially, operationally, strategically and culturally, Suncorp is now moving forward in leaps and bounds.

"Since John Mulcahy's appointment as chief executive in January last year Suncorp has been through tremendous change. We have restructured the group, refined the corporate strategy, comprehensively reviewed our staff skills and leadership roles, and made a host of detailed operational improvements in each of our business lines. All of that in just 12 months," he said.

Chief Executive John Mulcahy said the result showed the company was also well on track for further growth and improvement.

"The important changes we have made in the past year, which refocus our staff squarely on meeting the needs of customers, underpinned our strong first half performance," he said. "That is also the key to sustaining growth – a sharp focus on providing customers great products at reasonable prices and with excellent service."

"Our diverse business mix also means we are positioned to take advantage of favourable conditions in the sector and build on them to produce a strong profit performance for the full year.

"Looking to the future, we are now in growth phase, growing each business in its own right and extracting the cross-sales and cost savings synergies from the operation of the three integrated financial services businesses," he said.

## **Profits by Division**

### **Banking**

Banking profit before tax and goodwill of \$177 million was up 18% on the prior December result. A feature of the result was the improvement in lending performance in the period. Total lending, including securitised assets, was up 16% to \$27.7 billion, which exceeded growth for the banking industry as a whole.

The strongest growth was in business banking, where assets grew by 24% to \$11.3 billion. Recent changes to home lending processes have led to significant improvements in performance with assets increasing by 13.3% to \$15.5 billion.

Overall credit quality remains very favourable, with no signs of any deterioration in the group's bad debts position. Non-performing loans continue to decline, and are now equal to just 0.5% of the total loan book.

### **General Insurance**

The biggest increase in earnings was achieved in general insurance, where profit before tax and goodwill rose to \$215 million from \$72 million at December 2002.

The key number in general insurance is the insurance trading result (ITR), which is the profit derived from the underlying insurance business excluding investment returns on shareholders funds. ITR increased by 81% to \$145 million. That is equal to a 13.5% profit margin on premium revenue, above previous management guidance of 10 – 13% for the full year ITR.

Additionally, the investment income we earned on our shareholders funds increased to \$59 million, from a loss of \$17 million in December 2002, so the bottom line improved 199% to \$215 million.

Mr Mulcahy said solid premium growth and more favourable claims experience, particularly in the long tail classes of insurance like CTP, all contributed to the pleasing general insurance result.

He said investment income generated from technical reserves, as well as growth in income on shareholder funds due to strong Australian equities performance, also added to the results.

## **Wealth Management**

Wealth Management lifted profits by 112% to \$36 million, which represents 8% of the group's pre-tax earnings.

The better investment climate, particularly the improved sharemarket, led to a recovery in sales of investment products which was a major contributor to the increased result. After falling 18% in the June half of 2003 due to sharemarket volatility, sales rebounded in the December half, rising 10% to \$297 million.

"A major step forward in growing our wealth management business was the accolades received recently from influential fund management researchers ASSIRT and van Eyk for the performance of our Australian equities fund," said Mr Mulcahy.

"The fund was awarded a 4-star rating from ASSIRT and an A rating from van Eyk which verifies our good performance in funds management to date."

## **Outlook**

"The strength of the first half profit has put the company on track for a good full year profit," said Chairman John Story.

"The economy, both nationally and in our main markets of Queensland and NSW, continues to show consistent growth. Inflation remains in check, unemployment is at its lowest level in decades and interest rates, while increasing, are still relatively low and unlikely to reach punitive levels."

Mr Story said there remained some uncertainties, particularly with regard to the impact of drought and the rising Australian dollar on the agricultural sector. He also said the company was adopting a cautious view towards the property sector, ensuring that Suncorp is well positioned in the event of any downturn in housing lending.

"All things considered, the outlook for the company remains very positive, so we have increased our forecasts for full year earnings. In summary, at the full year, we expect to be able to report that the underlying profit, before tax, goodwill and investment income on shareholders funds has increased by a percentage in the mid 20s. That prediction, as usual, assumes normal conditions in insurance and investment markets," he said.

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