ASX announcement

One Company Many Brands SUNCORP GROUP

Chairman's Report to Shareholders
Suncorp Group Limited Annual General Meeting
Thursday 25 October 2012

This is the first Suncorp Group Annual General Meeting that I have addressed as Chairman and I would like to start by reviewing the forces and decisions of recent years which have shaped today's Suncorp. Three events stand out.

Firstly, the merger of Suncorp with Promina in 2007 has produced the ***One Company, Many Brands*** business model of today. It has taken five years but we are now realising the scale advantages in claims, pricing and access to a customer base of around nine million.

Each of the Group's core businesses has been refocussed in their markets and a Non-Operating Holding Company (NOHC) structure introduced to improve capital transparency and management.

We continue to further streamline and simplify our policy systems, legal entity structures and technology platforms.

This has proven to be a very complex business integration project and we've been well served by our Group CEO, Patrick Snowball, and his executive team.

Secondly, the Global Financial Crisis of 2008 highlighted the risks of Suncorp Bank's dependence upon wholesale funding from offshore and our overexposure to property development projects particularly in New South Wales and Queensland.

As a result, major changes have been made to our risk management processes and lending practices.

The industry regulator, APRA, has been closely and constructively involved and today's Suncorp is a better structured, more secure and confident financial services company as a result.

Thirdly, we've lived through an atypical period of natural hazard events - extreme weather and other events familiar to many of you in this audience.

Over these past five years of above-trend natural hazards - floods, cyclones, New Zealand earthquakes, bushfires, hailstorms - Suncorp and the insurance industry in general have incurred hazard claims and reinsurance costs three times more than during the drier and more benign years earlier in the decade.

Of course, such is the nature of climate volatility across our continent, and such is the purpose of the insurance products and services we provide.

But any return to 'normality', assuming such a concept is actuarially meaningful, suggests the promise of better returns for our shareholders in the future to balance the financial hits we've taken in recent years.

Still, the strength of our balance sheet and capital reserves has meant that we've been able to serve our policyholders while simultaneously increasing dividend returns to shareholders.

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The transformation of Suncorp should be seen in the context of these challenges which today extend to global and domestic economic uncertainty, volatile investment markets and weak asset growth.

We've successfully traversed an extraordinary period where the character of the company, its people and partners, was regularly tested and found to have integrity.

And, I am pleased to be able to say that the Group delivered against its strategy and strengthened its competitive position over the course of the 2012 financial year.

The CEO will address the financial results and current trajectory of improvement in his comments shortly.

For the Board, one of the more satisfying aspects of the 2012 result was the fact that we were able to recognise the loyalty and support of you, our shareholders, with improved returns including a final dividend of 20 cents per share and a special dividend of 15 cents per share, taking total dividends over the year to 55 cents per share full franked.

This was an increase of 57 per cent on last year's dividends.

We have significantly improved the quality and the quantity of our capital as earnings have been retained, the Non-core Bank has run-off and hybrid instruments have been repaid.

And, with a NOHC structure in place, the market and shareholders have far greater visibility and understanding of capital flows within the Group, removing some of the uncertainty of previous years.

In our ongoing Board discussions, given market volatility over the last few years, we had taken a deliberately conservative approach to balance sheet management, maintaining capital in excess of our operating targets.

However, with operational improvements really kicking in across all of the businesses and increased certainty in emerging global regulatory rules such as the Life and General Insurance Capital (LAGIC) and Basel frameworks, we felt the time was right to return some excess capital to shareholders.

Organic earnings growth, continued Non-core Bank run-off and a number of other initiatives should further support the capital position over the course of 2013.

Accordingly, the Board decided to adjust the target annual dividend payout ratio to 60 per cent to 80 per cent of cash earnings, up from 50 per cent to 70 per cent.

This is one area where Suncorp's transformation efforts have directly benefited shareholders and is a tangible demonstration of confidence in the Group's capital position.

It means the management team is 100 per cent focussed on driving the business organically, focusing upon our Australian and New Zealand operations, with improvements in earnings flowing through to shareholders in the form of additional dividends.

The Board has also reaffirmed its policy of returning to shareholders any capital that is surplus to the needs of the business after ordinary dividends are paid. We will not hoard capital.

Therefore, we will continue to consider special dividends or share buy-backs as mechanisms to achieve this objective.

I would also make the point that we now feel that our current level of balance sheet gearing is about right at around 20 per cent to 25 per cent of targeted capital.

Going forward, we will look to replace maturing instruments.

We recently announced an offer of convertible preference shares which will enable the Group to maintain its strong capital position and further enhance the quality and mix of regulatory capital.

Full details of the offer are now available through a variety of channels, including our shareholder website, and I encourage you to read this material and if necessary seek advice about whether this is an opportunity which is appropriate for you to invest in.

Over the course of the financial year, we continued the Board renewal process begun by the former chairman, John Story, and appointed three new directors.

The appointments of Michael Cameron, Audette Exel, and Doug McTaggart have brought valuable new skills to the Board and ensured its composition reflects the Group's own geographical and business diversity.

I will get a chance later in this meeting to introduce each of these directors to you but briefly: Mr Cameron brings banking and property development experience to the Board; Ms Exel has international insurance, banking and legal experience and she is the founder of the ISIS Group which provides services to people in poverty in the developing world; and most of you will be aware that Dr McTaggart recently stepped down as CEO of the Queensland Investment Corporation. He has a deep understanding of Queensland's economic environment and of Australian and international investment markets.

The Suncorp Board now has deep expertise in financial services, and only Bill Bartlett and I pre date the Promina transaction of 2007.

The company very much appreciates the ongoing support of its shareholders and I would like to thank all of you on behalf of the Board.

I would also like to thank Suncorp's executive team and all of its employees across Australia and New Zealand for their significant contributions towards Suncorp's strategic progress and improved financial results, and in managing through the challenges that nature periodically throws at us.

Dr Ziggy Switkowski