



ASX Announcement

23 February 2011

SUNCORP REPORTS HALF YEAR NPAT OF \$223 MILLION

- Group NPAT of \$223 million (\$364 million pcp), impacted by previously disclosed major weather events and goodwill write downs.
- Building Blocks program ahead of schedule – single employee, customer, and financial systems delivered; insurance claims and pricing systems well advanced.
- Simplification agenda progressing through implementation of non-operating holding company and sale of non-core businesses.
- General insurance NPAT of \$292 million (\$347 million pcp).
- Core Bank after tax profit of \$110 million (\$154 million pcp) offset by an after tax loss of \$107 million (\$150 million pcp) on the non-core portfolio.
- Non-core portfolio run-off \$2.5 billion ahead of forecast and impairment losses moderated.
- Suncorp Bank provision of \$35 million to cover Queensland floods impact.
- Suncorp Life after tax profit of \$61 million (\$105 million pcp).
- Interim ordinary dividend of 15 cents per share, fully franked.
- Dr Ziggy Switkowski endorsed as Suncorp's next Chairman.

Suncorp Group Limited has reported net profit after tax and abnormal items (NPAT) of \$223 million for the half year to 31 December 2010. The result was down from \$364 million in the prior corresponding period due to a succession of previously disclosed natural disasters throughout Australia and New Zealand and goodwill write downs following asset sales.

Group chief executive Patrick Snowball said the business had performed well on an underlying basis and Suncorp was making good progress on its strategic Building Blocks and simplification programs.

"This result should be seen from two perspectives – firstly, the progress made with the key priorities identified 12 months ago and secondly, the impact of natural disasters on our first half profit," he said.

"Our Group is considerably stronger and far more stable than this time last year. However, the half-year results from our insurance and banking operations have been adversely impacted by claims costs as a result of two massive insurance events – the Queensland floods and Christchurch earthquake – as well as a string of smaller weather events."

Mr Snowball said, while disappointing, the impact of these weather events would have been far greater were it not for the progress made with the overall Group transformation and simplification program.

"The building blocks program is progressing ahead of schedule with a single enterprise employee agreement approved, and single systems for managing the Group's finances and customer base already in place.

"In general insurance, we are at an advanced stage of transitioning all of our brands to single pricing and claims systems," Mr Snowball said.



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“Simplification has also been achieved through the successful implementation of the non-operating holding company structure approved by shareholders in December and the sale of the non-core Tyndall Investments and New Zealand Guardian Trust businesses.”

Mr Snowball said improvement in Suncorp’s core banking business and the continued run-off of the non-core portfolio had resulted in Standard and Poor’s credit rating for Suncorp Bank being upgraded to ‘A+’ with a stable outlook during the half.

General Insurance

General Insurance recorded an after tax profit of \$292 million for the half year to 31 December 2010.

The reported Insurance Trading Ratio (ITR) of 10.9% resulted from improvement in the management of long tail claims being offset by natural hazard claims that were \$182 million above budget. A combination of premium increases and early benefits from implementing claims and pricing initiatives improved the underlying ITR to 10.5% from 9% in the year to June 2010.

Australian short-tail classes grew with Home up 8.8% and Motor up 4.7%. Premium rates in these classes increased following ongoing adverse weather experience and higher reinsurance costs.

Commercial insurance gross written premium increased 2.3% on an underlying basis. This was driven by favourable new business experience along with rate increases across targeted channels.

The New Zealand business performed well on an underlying basis, although its profit was impacted by the Christchurch earthquake.

Suncorp Bank

Core Bank performance for the half year improved with a return to system growth levels in home lending, stable net interest margins and the maintenance of the deposit to core loan ratio at the top end of the 60% - 70% target range. Run-off of the non-core portfolio ahead of schedule provided further support to the Group’s future capital outlook.

The Core Bank’s profit after tax was \$110 million, with a half year net interest margin of 1.83% and a margin against lending assets of 2.10% for the half. Both measures improved when compared to the December 2009 half year.

The non-core portfolio incurred an after-tax loss of \$107 million. The run-off of the portfolio progressed ahead of expectations with total lending reducing 22% or \$2.8 billion over the half year. Impairment losses were significantly lower than the December 2009 half.

Suncorp Life

Suncorp Life’s after tax net profit for the half was \$61 million, down 42% on the first half last year. Underlying profit after tax was \$71 million, impacted by higher than expected claims and policy lapses.



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Significant progress was made against Suncorp Life's strategy as a life insurance specialist with growth in new business sales through the independent financial adviser and direct distribution channels and further simplification achieved through divestment of the Tyndall Investments and New Zealand Guardian Trust businesses.

The embedded value of Suncorp Life was stable at \$2,410 million.

Post reporting date events update

The first six weeks of the second half have seen further natural hazard events in South-East and North Queensland and Victoria.

Suncorp is dealing with approximately 40,000 claims as a result of these events and has engaged additional resources to assist in the processing and assessment of claims and the management of repair activity.

The Group's comprehensive reinsurance program, including a property catastrophe treaty and aggregate cover, has significantly limited the net financial costs associated with these events. Approximately \$1.5 billion of reinsurance protection has been provided through these arrangements.

Given the frequency and severity of recent natural hazard events, the Group has purchased additional reinsurance coverage for the full year. Following the purchase of this additional reinsurance cover, the Group's property catastrophe treaty will be restored to provide a similar level of coverage in place at the beginning of the financial year.

As a consequence of the recent events, the Group has fully utilised the \$400 million of capacity under its aggregate reinsurance cover.

The Group also estimated the potential financial impact of all weather events on Suncorp Bank's balance sheet and the credit quality of the book. Accordingly, an allowance of \$35 million has been included in the first half collective provision to cover potential impacts on credit quality.

Dividend/capital

Suncorp will pay an interim dividend of 15 cents per share fully franked, towards the midpoint of its stated 50% - 60% target range. Cash earnings per share excluding divestments, the basis of the Group's dividend payouts, were 27.7 cents.

Chairman John Story said that, while the Group's capital levels remained strong, it was prudent to retain capital beyond stated internal targets while the weather remained volatile and until global and domestic regulatory uncertainty was resolved for the financial services sector.

"Assuming that many of these uncertainties will be resolved over the course of the coming year, our priority will be to specify capital targets that reflect the new regulatory environment and the needs of our businesses," he said.

"This will allow us to lay out a capital management program that appropriately balances business needs with the expectations of our shareholders. I again reiterate the Board's firm view that capital, surplus to the needs of the business, should be returned to shareholders."



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Board succession

Mr Story confirmed his intention to retire at Suncorp's Annual General Meeting in October 2011 and advised that Dr Ziggy Switkowski has been endorsed by the Board as Suncorp's next Chairman.

"Ziggy is a distinguished Australian business leader and, having served on the Board for over five years, will ensure continuity as we focus on executing the plans outlined to the market," Mr Story said.

Mr Story said it is anticipated a further director, based in Queensland, would be appointed in conjunction with his retirement.

Ends

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Teleconference details

Analyst briefing 10:30am AEDST
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Media briefing: 12:30pm AEDST
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