



ASX announcement

One Company
Many Brands



Chairman's Report to Shareholders Suncorp Group Limited Annual General Meeting Thursday 27 October 2011

Today's meeting represents a valuable opportunity for your Board to report to you on the fortunes of the Suncorp Group during the 2011 financial year.

Whichever way you look at it, it was an eventful year.

On the one hand, the full resources of Suncorp were galvanised in the support of our customers in their recovery from the worst series of natural disasters seen in the recent history of the region.

On the other hand, Suncorp successfully executed an ambitious and far-reaching transformation program across the Group.

These two areas of focus - each significant in its own right but incredibly challenging when occurring in parallel - were set against a backdrop of economic, political and regulatory uncertainty, which is still playing out and will continue to do so for some time.

Despite all of this, what is absolutely clear is that the last financial year was one from which the Suncorp Group emerged as a far stronger organisation.

It is now just over two years since the arrival of Patrick Snowball, and I would like to reflect on the profound transformation that has occurred during this short period.

The Insurance operations have responded to an extraordinary series of events in such a manner that the community standing of Suncorp has never been higher.

Confidence in the Bank has been restored; its recovery strategy has been progressively implemented; and the legitimacy of its role within the Group has been recognised and accepted by the market.

The objective of Suncorp Life to refine the previously disparate range of its activities has been confirmed and implemented; the potential value of its core businesses has been recognised; and the strategy to realise that value has been set.

Through it all, the Building Blocks program has been implemented. We must acknowledge both the degree of difficulty involved in that implementation, and the overwhelming significance of the program to Suncorp.

It has already delivered single claims and pricing systems across our insurance business; one view of our customers across all our businesses; a consistent and flexible approach to our financial management systems; and a single set of employment terms and conditions for employees.



ASX announcement

One Company
Many Brands



In each of its components, this program represents fundamental change, change that makes possible the full realisation of the value inherent in the corporate transactions that Suncorp has undertaken over the years.

The NOHC restructure has introduced a new dimension of transparency and simplicity and, in supremely trying times, the balance sheet has not only been stabilised but substantially strengthened.

As a consequence, there is today a resurgence of confidence in Suncorp, and there is tangible evidence and expression of that confidence within the markets, the rating agencies and the regulators.

The progress that was made in strengthening its business underpinned Suncorp's outstanding response to the succession of natural disasters in Australia and New Zealand, which commenced with the first earthquake in Christchurch in September 2010.

These events, which resulted in over 100,000 claims with a value of approximately \$4 billion, tested the organisation as never before, and I could not be more proud of the manner in which Suncorp people responded.

From the insurance and banking teams, who were on the ground in flood and cyclone affected regions within 24 hours, to the employees who took insurance claims from home when call centres were inaccessible due to rising flood waters, there are countless examples of Suncorp people going far beyond the everyday to help our customers in their time of need.

The occurrence of natural disasters through the course of the year has challenged the insurance industry generally.

While we at Suncorp were proud of the manner in which the comprehensive flood cover in the majority of our brands responded to the circumstances, improvements across the industry are called for.

Matters that must be addressed include the clarification of flood cover throughout the industry, the implementation and availability of comprehensive flood mapping, the introduction of effective flood mitigation and the application of comprehensive planning regulations that recognise and take into account unmitigated risks, whether of flood, bushfire or earthquake.

But with the lessons of the past year learnt, the insurance industry is well placed to provide the protection its customers seek. Government intervention and participation in the industry would be a backward and dangerous step.

The direct and associated costs of natural disasters inevitably had an impact on the Group's financial outcome for the year with net profit after tax of \$453 million, down from \$780 million last financial year.



ASX announcement

One Company
Many Brands



The businesses continued, however, to perform strongly and remain on track to achieve the growth plans we outlined to the market and shareholders in May 2010.

In General Insurance, profit after tax was \$392 million despite natural hazard claims that were \$325 million above allowances and additional reinsurance protections costing \$232 million.

The general insurance businesses completed their move to functionally aligned, customer-focused structures, delivering growth and using their scale to lead in pricing and claims response capability.

In the Core Bank, profit after tax was \$259 million, with the net interest margin and margin against lending assets both increasing. Lending growth was marginally above system level.

The non-core Bank run-off progressed ahead of expectations with total lending reducing by \$4.9 billion for the year to \$7.7 billion, in turn generating an increase in available capital. Impairment losses were also down significantly, from \$428 million to \$274 million for the year.

Suncorp Bank is on track to deliver the greater than 15% Return on Equity it has targeted in the Core Bank. It continued the roll out of new branches with 21 new sites opened as part of a commitment to double the branch footprint and treble the number of customers in New South Wales and Western Australia.

In Life Insurance, the after tax profit was \$149 million. Disability claims and lapse experience impacted the Suncorp Life result but, in both areas, the second half experience showed improvement over the first half.

The Board's confidence in the underlying performance of the business enabled us to increase the dividend payout ratio to 50% to 70% cash earnings excluding divestments and pay an ordinary dividend of 20 cents per share for the second half.

This took ordinary dividends for the full year to 35 cents per share, at the top end of our revised payout ratio. This payment was in line with the 2010 financial year, despite the impact of the natural hazard events on our net profit.

Nowhere is Suncorp's transformation more apparent than when considering the quantum and quality of capital supporting the Group's balance sheet. We concluded the 2011 financial year with the NOHC structure in place and capital levels well above the targets we set for the operating businesses and the Group.

The policy of the Board is that a prudent margin, depending on the circumstances, over and above those targets will still be retained, but capital surplus to those amounts will be returned to shareholders.



ASX announcement

One Company
Many Brands



As I said in my letter to shareholders in August, in more stable circumstances, we would have anticipated a return of capital at the full year but, given ongoing upheavals on global financial markets, the Board decided to retain the full amount of our surplus of capital as a further protection against short-term uncertainty and volatility.

This position will be reviewed as markets stabilise, and in doing so the Board will be mindful of the high balance of franking credits we currently hold on behalf of shareholders.

In August 2011, Stuart Grimshaw resigned from the Board to take up the role of CEO of the Bank of Queensland. We wish him well in that position.

Stuart brought past operational experience in the banking industry, and my retirement reduces the Queensland geographic representation on the Board. New appointments to address these matters are under consideration.

This is my last AGM as Chairman and a director of Suncorp.

The Suncorp of today bears little resemblance to the organisation that I joined in 1995 as a Director on the Metway Bank Board.

Since then, the Group has evolved from a Queensland-based and focused bank to a comprehensive financial services organisation with operations throughout Australia and New Zealand.

Suncorp remains with its heart in Queensland, but is now one of Australia's largest listed companies, with each of its businesses playing an important part in the financial landscape of Australia and New Zealand.

Suncorp has accomplished much over the past 16 years. It has, on occasions, been severely challenged, but it has always responded to those challenges with resilience and determination.

Today, the Group is strong. It is strong in its brands; it is strong in its processes; it is strong in its balance sheet; it is strong in its people and it is strong in its leaders.

I am proud to have played a role in its development and I have enormous confidence in its future.

Your incoming chairman, Ziggy Switkowski, is an experienced and effective leader who has proven himself in the corporate world and as a non-executive director, here at Suncorp and elsewhere.

He will provide great leadership to the Board and support to Patrick and his executive team as Suncorp continues to deliver on its undoubted potential.



ASX announcement

One Company
Many Brands



In conclusion I would like to thank my fellow Board members; Patrick Snowball and his executive team; and all Suncorp people.

And finally, my thanks to you, our shareholders, for your interest and your support.

John Story