SUNCORP-METWAY LIMITED APS 330 Market Announcement

24 November 2009

Host: Patrick Snowball, Group Chief Executive Officer

PRESENTATION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the APS 330 market announcement. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session. Please be advised that this conference is being recorded today, Tuesday 24 November 2009.

I would now like to hand the conference over to your speaker today, Mr Patrick Snowball. Thank you sir, please go ahead.

Patrick Snowball: Good morning and thank you for joining us. I'm joined in Sydney this morning by David Foster, the Chief Executive of Suncorp Bank; Clayton Herbert, the Acting CFO; and Geoff Summerhayes, the Chief Executive of Suncorp Life. Hopefully by now you will have had the opportunity to review our APS 330 disclosures. I thought it appropriate that we provide you with some further colour around these disclosures and I give you a brief update on what I have been doing since I arrived in Australia in September.

I would like to start by giving you a rundown of what I describe as Phase 1 of my program out here; which essentially was about familiarising myself and reviewing the business. And I will briefly reflect on some of my findings, particularly around the Bank.

I will then hand over to David, who will run through the APS disclosures in more detail. After that, I will come back and give you an update on the progress that we are making through Phase 2 of the program, before concluding with some high level commentary around each of the business lines. There will of course be an opportunity for you to ask questions at the conclusion of the presentation.

So first, to my early impressions - and this is on page 3. Slide 3 summarises the work I did to familiarise myself with the business from both an internal and external perspective, and to lay the foundations for the work that we need to do. You can see that I've spoken to a wide range of employees at all levels across the Group. I've also met with external stakeholders including State and Federal Governments, Regulators and members of both the analyst and investor communities, and I've had the opportunity to speak with many customers and consumers.

To fast track the review process, as you are probably aware, I also invited five independent advisers - UK operational executives with expertise in banking, general insurance, people, actuarial and technology - to help me cast a critical, but actually very objective, eye over all the businesses.

My review highlighted a number of key findings. Firstly and most importantly, the underlying businesses are fundamentally sound. The way I like to describe it is that – unlike most incoming CEOs - there is no transformational agenda that I need to embark upon. There are many things we need to do and our program of work will be full but I believe I have everything we need to get this company on a very positive trajectory.

A key focus of the review was around people. In a nutshell, we have great people but I think they were really looking for leadership and a clear direction. There has, however, been an imbalance, in my view, between specialists and generalists and you will have already seen me move to address this in my recent appointments.

Financial analysis was also a critical area of review. Here, there is still much work to do to move the business from its current short term focus to a more holistic view of financial planning over one, two and three year timeframes.

Integration of the general insurance business was another area of review. Although the GI integration has met its financial targets there is, from my perspective, much more that can to be done to maximise the benefits further. Not surprisingly, for a company that has evolved from multiple integrations, the organisation is, in my view, overly complex with duplicate systems and complicated processes. For example, we currently have multiple general insurance systems and views on pricing and a plethora of employment arrangements that makes people management far more complex than it needs to be.

One thing I've found is that technology is a real asset. We have a modern inventory of systems and technology available for immediate deployment and we're well advanced in AGILE program management.

Unsurprisingly, a key focus of the review was around the Bank. I'm now on page 5. I was supported by a senior banker with significant experience in UK regional banking. The review encompassed the Bank's strategy, its people capability, the competitive environment, as well as the likely regulatory and political environment after the global financial crisis. I have summarised the review findings on slide 6.

We found the de-risking strategy undertaken in the past 18 months to be a sound approach. The team is on top of the core/non-core split. We found that the core is fundamentally a low-risk regional bank with excellent prospects. The biggest threat to its prospects has been the continued speculation around a sale and you will have already seen me deal with this particular issue at the recent Annual General Meeting.

On the non-core side we have found that the funding position was and is secure but that we need to remain vigilant to ensure the run-off is orderly and well-managed. From an operational perspective the franchise has held up well. Suncorp Bank can be a strong competitor in the regional banking market and our employees and customers want to see the Bank grow.

Finally, we have all no doubt read the tea leaves that suggest that further consolidation in banking is unlikely to achieve regulatory and Government approval at least in the short term.

On that note it's probably appropriate now to hand over to David Foster to provide some colour on the APS 330 tables we have released to the market today.

David Foster: Thanks Patrick. And if you could turn to page 8, I'll start with the brief summary of the strategic positioning of the Bank. As has been outlined to the market on previous occasions, we've undertaken a program to de-risk the Bank. This has included a significant reduction in funding risk and a substantially lengthened balance sheet. We have also separated the Bank into a core sustainable franchise, which will be grown in line with deposit accumulation and a non-core bank which is being managed through the run-off process.

The overarching strategy for the non-core business is to deploy sufficient capital, funding and provisioning to cover the book as it progresses through run-off. The book is being carefully managed by a separate and specialist management team and we are capitalising on opportunities for re-pricing and asset disposal where it makes sense to do so.

Moving forward, we will present our reporting for the core and non-core separately so that you can get a good sense of how they're both performing.

So, let me now move straight to the core bank. So moving to page 9, Suncorp's core franchise provides a strong customer value proposition and is well positioned to capitalise on the opportunities available to it. The Bank continues to perform well on both customer satisfaction and share of wallet measures. In terms of customer satisfaction, Suncorp ranks equal second and ahead of each of the four major banks. This reflects the Bank's focus on customer service and will be a key differentiator as we move forward.

The share of wallet metric shows that the Bank has captured 56.2% of our customers' total dollars held in retail deposits, credit cards and loans. This ranks Suncorp equal second and is a pleasing result given our focus on being the Main Financial Institution for our customers. In addition, we refreshed the Bank brand in May 2009 to clearly position Suncorp as a true alternative to the Big 4 with a brand message of 'big bank capability and small bank connection'.

Six months on and the number of people who would consider Suncorp for their banking has increased. At the national level, 12% of people consider us for their banking up from around 10% in May; while in Queensland 43% of people now consider us for their banking up from around 39% in May.

With Suncorp's strong customer service commitment, a brand that's resonating with consumers, and the white space created by consolidation in the regional banking sphere, the Bank is well positioned to capture deposits and grow assets.

Moving to page 10, to retail deposits, and retail deposits grew to AUD24.2 billion as at 30 September, which represents continued improvement in the important metric of deposits to core lending which is now at 66% for the quarter. Total deposits growth equalled or exceeded system for 1, 3, 6 and 12 months.

We continue our conservative approach to lending growth, with core lending assets remaining flat over the quarter. Success in deposit accumulation now presents an opportunity to increase the rate of core lending growth.

Moving to credit quality on page 11 and the core bank is in very good shape. Housing arrears continued to decline over the quarter and are now at the same level as June 2008. Gross non-performing loans also improved with past due loans continuing to decline.

Impairment losses for the quarter were limited to AUD9 million, representing 18 basis points of core gross loans, advances and other receivables. And provisioning coverage is particularly strong, at more than 100% of impaired assets.

Moving to the non-core bank on page 12, and assets reduced by AUD900 million over the quarter. This was a pleasing reduction and ahead of our expectations by about AUD400 million. We have also successfully reduced net undrawn limits by about AUD500 million over the quarter.

We are seeing positive signs in the market for the Bank's ability to realise impaired assets or the collateral security underlying them. Trends in the refinance market are improving in line with the improvement in the economic outlook. However, the refinance market for larger exposures - so those above AUD30 million - does remain challenging at this stage of the recovery.

On to page 13. During the first quarter we've seen an increase in non-core impaired assets. This increase is primarily attributable to four large accounts that have previously been managed on our watchlist and now move into impairment.

The transition to impairment for these loans has been well understood and has occurred either as a result of a crystallising event or a further deterioration in the underlying collateral.

We do remain confident that the provisions raised against these new impairments are appropriate and reflect the expected level of loss, having regard for the underlying value of collateral held.

We also see continuing signs of overall improvement, and this is reflected in the less than 90 days arrears chart, where levels at 30 September are roughly half what they were at their June 2009 peak.

It's fair to say there is still stress evident in the commercial property market, and whilst macro trends are generally favourable and we've not seen any new single name exposures entering our watchlist. We remain cautious overall, particularly with one of our larger corporate exposures where the situation has been extremely fluid over recent weeks. Based on a range of possible outcomes, this may result in an increased provision being raised against this particular exposure in the second quarter.

Moving to page 14, and total impairment losses for the quarter were AUD126 million, which represents 282 basis points of credit RWA on an annualised basis. This is largely in line with our expectations and was most significantly impacted by the inclusion of a specific provision charge for the single name exposures that have now moved into the impaired category.

During the quarter, actual write-offs of AUD112 million represented the largest component of the total impairment charge of AUD126 million. Of the actual write-offs, the crystallisation of the Babcock & Brown International (BBI) loss contributed AUD104 million.

We have split the total provision charge of AUD7 million into three components. It includes AUD89 million for the four single name exposures mentioned in the previous slide. Outside of these four single names, the specific provision for other impaired assets increased AUD16 million. Offsetting this, though, was the removal of the BBI specific provision. This had been AUD98 million, meaning that net contribution to the impairment loss for the quarter from the realisation of the BBI debt was around AUD6 million.

The collective provision charge for the quarter was AUD7 million, reflecting the marginal increase in total arrears.

Moving on to page 15. The significant impacts in provisioning during the quarter were the realisation of BBI, which reduced the specific provision by around AUD100 million, as well as new specific provisions raised on the four new impaired assets discussed earlier. In net terms, specific and collective provision balances in non-core remained relatively flat period on period.

You may remember that at 30 June we introduced a new methodology to provide coverage for a total 'through-the-cycle' potential loss experience by increasing our Equity Reserve for Credit Losses (ERCL). Prior to this charge, we applied a regulatory General Reserve for Credit Loss (GRCL) calculated based upon a constant proportion of Risk Weighted Assets (RWA).

This methodology is continuing to be refined and, as a consequence, an increase of AUD133 million in the ERCL was booked during the quarter. This represents an AUD190 million increase in the pre-tax equivalent coverage. This new methodology has introduced a degree of dynamic coverage for credit exposure in the Bank.

Turning to page 16, further reduction in the Bank's reliance on short term wholesale funding was achieved during the quarter. You'll see at the top of the slide, we are essentially showing the balance sheet of the non-core book at 30 September. The asset side of the balance sheet is represented by the green bars, with 100% representing our non-core lending book and the 49% showing our liquid assets.

This proportion of liquid assets was obviously very high at 30 September, primarily due to a large term transaction that matured in early October. As you can see by the coloured bars on the right of that chart, as a proportion of lending assets, 103% is funded from long-term wholesale and a further 6% from hybrids. The short-term wholesale funding simply covers our liquid assets.

From a duration perspective, the non-core book now is more than fully funded from long-term sources based upon our expected amortisation profile. This is demonstrated by the chart on the bottom of the slide.

The expected amortisation of the book in quarterly brackets is shown in the green bars above zero. This is matched against the maturity profile of wholesale liabilities used to fund the book, which are shown in the yellow bars below zero. The red line then represents the cumulative net cash flow position between the two. As the red line demonstrates, if we achieve run-off as profiled, there will be little, if any, need for additional term funding until at least the fourth quarter of 2011.

Moving to page 17, and the Bank continued to maintain conservative capital adequacy ratios during the quarter. ACE remains steady at 6.2% and Tier 1 capital at 11.28%.

Overall, RWA remain constant at AUD41.6 billion, which may seem at odds with the progress we are making in running off the non-core. The key factors affecting risk weighted over the quarter, though, were:

- The closure of securitisation markets. Some securitised loans have been brought back on balance sheet. So approximately AUD1.5 billion of loans have returned to the balance sheet that were previously nil weighted. This added around AUD635 million to RWA;
- Growth in the core book increased RWA by AUD200 million, and whilst loan growth was steady, a change in mix and higher liquid balances have added to RWA;
- As detailed earlier, higher past due loans in non-core has added RWA, being risk weighted at 150% to 200%; and
- The run-off of the non-core book through reduction in on balance sheet exposures and cancelled facilities was the major driver in the reduction in RWA of AUD1.4 billion.

Certainly, over the coming periods we do expect to see further reductions in non-core RWA exposures, enabling capital to be freed up.

So with that summary, I'd like to hand back to Patrick.

Patrick Snowball: David, thank you. I'd like to take the opportunity now to stand back a bit and share with you the way that I am intending to run the whole of Suncorp Group going forward, and to give you an indication of the structure and the opportunities that I see.

So if we start on page 19, I outlined at the AGM that each of our banking, insurance and life businesses were core to our strategy and that the business model we'd adapt would be reflecting this.

Central to our new business model will be the five operating divisions, with each of these primarily focused on the individual and SME customer segments. Where we assume risk beyond this - as we do in Commercial Insurance - this will always be collared and cuffed with appropriate reinsurance arrangements. These businesses will have end-to-end accountability for outcomes, and they will have everything they need within their businesses to succeed.

This will of course require a number of changes. Consistent with the accountability I am driving into each business, the leaders of each of the operational units will assume the title of Chief Executive Officer for their respective business. This will give you a sense of what I expect of each of these leaders and the way they should holistically manage their businesses.

Whilst accountability and control will be enhanced for each business, there will still be activities that benefit from aggregation at Group level, where it can be clearly demonstrated that we can use scale to drive down unit costs. These will reside within a Group shared service function and will include our technology activities as well as real estate and procurement activities, other than claims procurement, which will sit in general insurance.

Now, I understand this is a very high level description of our business model, and at the end of February I'll be in a position to go into more detail about the financial metrics that will underpin each of our operating divisions, the cost structures applying to our corporate and shared service functions, and how this will aggregate at the Group level.

Looking at the businesses in more depth, the strategies and operating models of both the Bank and Life businesses have been significantly overhauled, as you're aware, over the past 12 months.

On page 20, you will see the organisation of the General Insurance businesses. An immediate priority for me has therefore been to focus on the general insurer, and ensure the business model and structures we adopt in that business sets us up for success. The enhanced business model for the two Australian general insurance businesses delivers structural simplification, back-office efficiency, as well as improved customer service and product offerings.

Firstly to the structure, and this has been simplified and streamlined, with Personal Insurance moving to a functional model rather than operating along brand lines. This functional realignment brings Personal Insurance into line with the operating model that has been deployed in Commercial Insurance since 2007.

Secondly, a suite of shared services across key functions - such as pricing, claims procurement and actuarial - will allow the general insurance business to achieve scale across its back office, unlock the inherent value of the business, and deliver on our 'one company many brands' approach. The plan was always to move to common systems and platforms across the general insurance business. This model will allow this to happen more quickly.

Thirdly, our brands will continue to meet customer needs as we do today, offering clear and distinct propositions based on specific needs. The opportunity, however, comes from shared best practice, more targeted brand strategies, scale efficiencies and streamlined operations. These factors will enable us to deliver benefits to the customer right throughout their experience with us, from pricing through to claims management.

On the people front, I've already announced some changes to my management team and this was all about ensuring that we had the correct capabilities in what I saw as key specialist roles.

In October we announced the appointment of Mark Milliner to the role of Chief Executive of Personal Insurance, and Anthony Day was appointed to the role of Chief Executive, Commercial Insurance. Scott Alomes has been recruited to head up Human Resources, and the search process is well advanced in relation to the roles of Chief Financial Officer and Chief Risk Officer. Indeed, the announcement of the CFO is imminent subject to final contracts. Along with David Foster, Geoff Summerhayes, Jeff Smith and Roger Bell, these positions will complete my management team, all of whom will have been appointed within the first 100 days of my arrival.

My goal, you will be pleased to hear, has always been to ensure that when this recruitment is complete, apart from myself and, of course, Roger Bell who runs Vero New Zealand, we will have an all Australian leadership team.

In terms of process, over recent weeks I've kicked off a number of key projects which we have internally described as our strategic building blocks and are laid out on page 22. As I pointed out earlier, an unfortunate legacy of the Group's many acquisitions is that we now live with multiple and complex sets of systems and layer upon layer of process. It became clear to me very early on that simplification was an immediate priority.

Once complete, the building block program will pave the way for a more consistent, reliable and single view of our people, customers, processes and our financials.

As I pointed out earlier, the technology to underpin these initiatives has already been purchased and is awaiting deployment, or budgets have been set aside within existing plans. We just need to get on with it now and that has been the message I have been delivering across the business since I arrived.

Again, I will be in a position to provide more detail around these projects, and the others within the building blocks programs, as we move through February and beyond.

Before I go onto to questions, I would like to take a brief moment to update you on our individual businesses.

In General Insurance, the first four months of the year have been free of major natural hazards and investment markets have generally been more positive than in recent reporting periods.

Premium increases are continuing to roll through the book and we expect to see solid aggregate gross written premium growth, although I would remind you that we have exited some minor, unprofitable products (including Covermore travel) and these collectively contributed around AUD110 million of gross written premium to the prior year first half result.

Although the GI business has benefited from generally more favorable weather, I don't need to remind any of you that we are about to enter the most volatile weather period across eastern Australia so its still far too early to be quantifying this benefit. As you know it can be washed away with one significant storm.

On the reserving side, we still need to understand the final actuarial assumptions but at this stage we are not anticipating any material reserving assumption adjustments such as those that provided a benefit to the P&L in recent halves.

Finally, credit spreads have contracted in the financial year to date and this may provide a benefit, however, again I am reluctant to quantify this benefit because it remains volatile and can be moved by several millions of dollars right up to balance day.

So, given all the variables at play, even at this late stage in the first half of this financial year, I don't propose to provide specific guidance around the ITR. What I can confirm is that in general insurance we are progressing well through the year to date. The businesses are performing solidly but with more possible upside once the program of work I have outlined today, and other initiatives I have in mind, have been fully implemented.

Turning to the Bank, and David has already been through the key details so I won't repeat them here.

Clearly at the consolidated Bank level, earnings are going to be impacted in the short-term by the effect of the de-risking program on the Net Interest Margin and the progression through the bad debts cycle. However, as we run down the non-core book, further reductions in risk weighted assets will provide significant capital benefits.

Now to Suncorp Life on page 26. In June Suncorp Life flagged its intention to focus on its core business, Life risk. There is no change to the strategy and the approach to delivering that strategy. Suncorp Life has increased its focus on intermediated sales through External Financial Advisers, a segment that makes up 60 to 70 per cent of the Life in-force premium, and the approach is working well.

The economic environment has put pressure on consumers and on industry lapse rates, so experience is likely to be negative this year compared to the prior corresponding period. There is also pressure on duration of disability claims.

In Funds Management, despite a recovery in equity markets, we are still seeing retail investors being cautious with flat year-on-year investment sales. That is somewhat mitigated by lower levels of redemptions compared to last year.

Planned profit is reduced due to the flow-on effect of the global financial crisis on the participating book, which was de-risked last year, reducing exposure to growth assets.

Market Adjustments, while not impacting our underlying performance, impact our net profit after tax, and are favourable year-to-date due to rising equity markets offset by increasing long-term bond yields.

Obviously these are merely estimates at this stage and are subject to investment markets and the half-year actuarial review of experience.

So, in closing, before I take questions, since 1 September I believe we have made significant progress. We are now well placed to continue this momentum through to the interim reporting period in February where we will be able to provide further colour around the key projects already underway, as well as the financial metrics that underpin our overall strategy and direction.

On that note, I have now got David Foster, Clayton Herbert and Geoff Summerhayes with me and we'd be happy to take your questions.

QUESTIONS AND ANSWERS

James Coghill, Deutsche Bank: Two questions on non-core run-off for David, perhaps? You said that it's running ahead of expectations, just looking at the composition I was interested to see that development finance book is still relatively stable at around AUD6 billion, so that really hasn't changed much. Has the composition been surprising to you, the composition of that run off?

David Foster: At an aggregate level what we are seeing is there's more movement at the smaller end in development finance. So whether it's being driven by refinancing; or in the case of development finance, the completion dates; the smaller development finance portfolio tends to be sooner than the corporate development finance business. Certainly, historically the margins in that smaller end, or what used to be called the development finance business, rather than the corporate did have higher margin. In addition to that we're obviously seeing the movement in the equipment finance business run off and amortise as per schedule and that tended to be one of the higher margin businesses in the non-core as well.

So, no, broadly as we expected in terms of the mix.

James Coghill, Deutsche Bank: Okay, David, and there were some comments in the media this morning that a vulture fund is showing an interest in your non-core loans. I was wondering if you could just provide an update on that. Is that a reference to the BBI loan that's off the books now or is there something more to that?

David Foster: No, not specifically. It's not new news as such, there's been interest since the day that we announced our non-core strategy, from a variety of parties. Similar to the trends in the re-finance market, there's probably been a closing of the gap between what people are interested in paying versus what the carry costs of those assets are, which is getting closer to being realistic but it's not new activity, as such.

Patrick Snowball: You used the term 'vulture fund', which kind of explains what we're trying to make certain that we avoid. We are focused on getting the timing of this right to make certain that we maximise the value of this book for our shareholders.

Ross Curran, UBS: You talked about merging the back ends and the personal insurance business; Promina has said that keeping silos separate helped them with the revenue. In terms of merging back ends, what do you expect for your revenue attrition as that comes through? Also, what's the cost of implementing that back end merger and do you extract cost out of it in the next few years?

Patrick Snowball: Firstly I believe that you can merge the back ends without affecting the revenue line. My experience is that when you're in high volume retail distribution then as long as you get the customer service and delivery at the front end correct, then you can drive a far more efficient operation behind.

I'd summarise it to say that we may have had three or four companies competing in the market, we now are going to have several brands but one company using its economies of scale to really drive the benefit that we believe you can get out of these businesses.

In terms of numbers, no, we are going to hold those and I will give you those in February.

Ben Koo, Goldman Sachs JB Were: Just a point of clarification in your comments, David. You said that there would be an increase in provisions, you might expect that in the second quarter. Can you just clarify did you mean an increase over the AUD126 million incurred in the first quarter, when you said an increase in provisions in the non-core bank?

David Foster: That comment related specifically to a corporate -- to a large single name exposure that is fairly fluid in terms of events happening at the moment; and depending on the outcome of that, that may require an increased provision to that specific account if it didn't relate to the broader portfolio.

Ben Koo, Goldman Sachs JB Were: And just a more broader question David, just on your comments around the funding mix of that business. What's the driver - how much do you want to see this deposit to loan ratio improve on that 70% potentially and what are you looking at in terms of deposit competition in the market right now? You seem to be at the pointier end of pricing versus a lot of the other peers out there. Is that something that you expect to be ongoing or is this just a short-term thing as you recalibrate your funding?

David Foster: There's two parts there, so on the funding mix to the core business, we flagged as part of our strategy that we wanted to operate between the 60% and 70% range of deposits to core loans and obviously we're tracking well into that. As I mentioned in the comments, we think now is an appropriate time given that we've had good flows and consistency in flows over that 12 month period that we're going to look to reinvest some of that deposit growth into growing our core balance sheet from now. But the ideal range to operate is towards that upper end of the 60 to 70 which is where we're now operating.

In terms of the deposit market, certainly that's a competitive market. It continues to be competitive. We're seeing competition from all sectors, whether it be the regional banks or building societies plus the major banks have been very aggressive at times. What you do tend to see is no competitor being constantly top of market, but different competitors at different times, including the majors get more aggressive at different times in their financial year.

We certainly continue to be competitive, but certainly not at the pointiest end consistently in that market, but we are seeing good growth and adequate returns for that at this point in time. But I expect the competition in that sector to continue as it has done over the last three to six months.

John Hegarty, RBS: Firstly just on the runoff profile, it looks to me, judging from the presentation you gave in August, that the runoff profile has changed substantially, For example, just looking at - it looks like you were aiming to be about AUD14 billion by June FY10 or 2010, whereas before that was in the sort of AUD10 billion to AUD11 billion mark. Can you just explain how and why that's changed?

David Foster: The slide that we provided earlier in the year was based on our contractual runoff profile for the non-core book and as we flagged at those various presentations that we felt that the actual runoff would be a flatter profile than the contractual runoff and we have seen that trend play out, albeit the runoff as we flagged is a little bit better than what we thought it would be. But that original slide related to the contractual runoff profile rather than the expected.

John Hegarty, RBS: Just a second question then on the level of provisions you've taken for the single and impaired assets for the quarter, looks like you're talking less than 25% whereas the write off for BBI was over 70%. Do you think you've taken a big enough provision there?

David Foster: The BBI exposure is a relatively unique exposure within our portfolio being one of the only corporate lends that we had. The majority of our portfolio is backed by predominantly real estate or some tangible security. So you can't really draw a parallel between BBI and provisioning in the rest of the portfolio. If I touch very briefly on the four main movers in impairments, they're obviously quite different in their makeup. We are pretty comfortable at this point that we have adequate provisioning. A couple of them have been included more for technical reasons rather than security coverage or expected loss, but certainly of the ones that we've had to provide for, we feel we've been prudent in that assessment.

Brett Le Mesurier, Axiome: A question on slide 17 - you showed that the ACE and Tier 1 capital ratios fell from June to September. Could you outline the reasons for that?

Clayton Herbert: The main reason for that is the transfer from Tier 1 to Tier 2 of the general reserve for credit losses, or the increase that David outlined in his commentary there, that you'll find that the total capital ratio has in fact increased.

Brett Le Mesurier, Axiome: So that transfer would have been of the order of 30 basis points, right, AUD133 million on AUD40 billion?

Clayton Herbert: Yes.

Brett Le Mesurier, Axiome: So that meant, apart from that, the ratio would have gone up substantially, indicating a profit of over AUD100 million for the quarter. Is that correct?

Clayton Herbert: Well we're looking at a bank-only capital ratio there and it's highly dependent on our assumptions around dividend accruals, which under prudential standards requires you to accrue progressively as opposed to the accounting standards which requires you to only accrue when declared. So your conclusion hinges quite significantly about the assumptions that we've made not only in terms of dividends we'll pay our shareholders, but also the dividends the Bank will receive from the general insurer and life companies.

Brett Le Mesurier, Axiome: Right, so there may be a mismatch, it may be that you're assuming that you'll get dividends from the general insurer but not be paying them out to shareholders?

Clayton Herbert: That's one possibility.

Stewart Oldfield, Baillieu: Perhaps another question on the Bank if I may -- David, just the reference to the large corporate exposure that you might have to take a second quarter charge against; without naming it, are you able to quantify the size of that exposure, total exposure?

David Foster: No it's one of our large exposures which by definition is greater than AUD50 million but I don't really want to go into specifics of the exposure.

Stewart Oldfield, Baillieu: Are you inclined to update us on the capital release side of things?

David Foster: Well I think we've been through the scenario, to give you a bit of flavour for the moving parts through the quarter. Obviously we did see some good movements due to the runoff of the non-core, but offset in part during this quarter through the shutdown of the securitisation warehouse and other activities.

Stewart Oldfield, Baillieu: Finally, you make reference to increased interest from vulture funds. But on the commercial bank side, are you getting increased interest, whether at portfolio level or syndicate level?

David Foster: The paper referred to vulture funds, as opposed to me. But the activity, as I mentioned that we're seeing, particularly around refinancing, which obviously does involve a number of the major commercial banks, is more active in the under AUD30 million debt level. It's probably a little bit more challenging in the larger exposures, but it is improving.

Arjan van Veen, Credit Suisse: A couple of questions on the non-bank divisions please. Firstly, in terms of premium growth in the insurance division, other than the AUD110 million you specifically mentioned which you've highlighted before at the full year results, is there any reason to assume why growth this year should be materially dissimilar to last year or not similar to last year?

Patrick Snowball: Not really, no.

Arjan van Veen, Credit Suisse: So the underlying trends are pretty similar?

Patrick Snowball: Yes.

Arjan van Veen, Credit Suisse: You're still a bit vague on the non-bank or any forward looking statements. From what you're saying, the first update we will get from you would be February next year in terms of more specific guidance and forward looking statements?

Patrick Snowball: Yes. It's not really in my DNA to give guidance. I guess I'd rather be focussing on delivering results. Certainly in February, as I outlined when I arrived in Australia in September, I will be in a position at the end of that six months to put some numbers and ambitions behind what we're looking at. But you'll appreciate at the moment that I'm still peeling back the onion and I want to make absolutely certain I've got all of the moving parts in place before we come to market. But we will be there in February.

Arjan van Veen, Credit Suisse: Okay, fair enough and one final question, in relation to the question earlier I think from Ross that the strategic project that you're undergoing, will there be an explicit charge for these reviews or are they sort of a bit of the usual expenses?

Patrick Snowball: It's all business as usual expense. I mean obviously I've inherited a budget for this year and I can confirm that the building blocks for projects we're putting in place will be met from within the existing budgets, but we're simply just stopping one or two things that are no longer necessary to focus on it. But I don't see any requirement for additional funding in this year's budget.

Andrew Lyons: Further to Ben Koo's question from earlier on, and your comment that you might start to look to grow the core book again, can you just make some comments on how you're seeing asset spreads at this point in time and just given what the pressures you're seeing on liabilities, how that reconciles back to your broader flat margin comment? Secondly, I know you did provide some comment during the teleconference earlier, but could you just provide some further clarity just around the net impact of the BBI loan during the quarter?

David Foster: Well, if we're just talking about margin, easily I think we're expecting that the outlook in the core book should be relatively stable from a margin point of view, bearing in mind the majority of that book is mortgage lending and obviously funded largely by deposits. On the non-core side of the business obviously we've made a deliberate strategy to de-risk that entirely from a funding point of view and clearly that's come at a price but one that we felt was worth the trade off and therefore we secured a large proportion of wholesale funding that has impacted the margin on the non-core.

Clearly we've got activities underway in that non-core book to reprice assets where possible, to close that gap, but that clearly did cause an impact on the margin in the non-core.

Andrew Lyons, Merrill Lynch: And just around the BBI impact, the net impact that you spoke of, just a bit more clarity on that please?

David Foster: The net impact was AUD6 million to the P&L. And it's essentially a simple transfer out of the specific provision of around AUD98 million to a write-off number of about AUD104 million or AUD105 million. It was a simple movement.

Ryan Fisher, Goldman Sachs JB Were: I've got two questions. The first one is in relation to the Non-Operating Holding Company (NOHC). Patrick, can we assume from our time today that this is something that's no longer a significant near term issue that you're thinking about, more something for down the track?

Patrick Snowball: It has obviously not been an immediate priority for my review given the completion of the legal entity review. And that's obviously taken us a long way down the path. Of course if you look at the operational structure that I put in place today, it would lead to a convergence rather than a divergence. But the short answer to your question is it remains on the agenda and we'll obviously keep you updated on progress, but not a day one priority for me.

Ryan Fisher, Goldman Sachs JB Were: Thank you, and finally just a question for David on the Bank. I just wanted to get some clarification, I think we might only have the margin splits for core and non-core for the fourth quarter of last year, so I was just wondering, your comments about stable in core and declining in non-core, is that relative to 4Q or is that relative to all of 2009?

David Foster: I think the best basis is to work off the Q4 numbers where we've got the split for the first time, Ryan.

Ian Rogers, The Sheet: I also wanted to talk about the Bank and Patrick, maybe I'll take you to slide six and one of the points on the opportunity for the Bank along the lines of, 'a competitive opportunity' will emerge. I suppose I'm just interested in your take about why it is that the Suncorp Banking Business has not really been able to penetrate regional markets outside of Queensland in the past. I mean, I realise that there's greater consolidation in banking now than there was a couple of years ago, but the Australian banking market was already quite concentrated and the Suncorp brand has never cut it outside Queensland. So why was that and what's going to be different this time?

Patrick Snowball: I'll hand over to David for some of the details. I mean, we've obviously been taking a long look at the role of the regional bank in Australia, and we had a long hard look at that, obviously before we made the statement that we did at the Annual General Meeting. We think there is a significant role for regional banks in Australia.

Obviously the heartland of the business is Queensland but the brand is travelling outside of Queensland. Now that we are gaining more confidence, we can travel further. But I think we've still got a long way to regain the full confidence, and therefore the assets, of people within the Queensland market. But it's the wider aspects that I'll hand over to David to discuss. He has been doing a lot more work than me on this.

David Foster: Just to quickly touch on this; historically, and even in our current portfolio mix, we do have a reasonable proportion of our balance sheet outside of Queensland, particularly on the asset side, which was driven through a broker strategy on the mortgage side, and through relationship managers on the business banking side. So we do have reasonable credence, and in addition to that we've got something in the vicinity of 35-40 bank branches, outside of Queensland, including eight new ones opened in Western Australia in the last 12 months.

I mentioned that we'd seen some good increases in our brand awareness and recognition and that's particularly noticeable in Western Australia where we've started at zero and are seeing brand consideration nearing double digits, as well as good balance sheet growth, particularly in deposits. Obviously over the last 12 months or so we've moderated our asset growth on the core book, and that included some dialling down on the broker business and the other parts of our small business and Agribusiness parts of the book. But given the success we've had on growing our deposits, now we're looking at opportunities to grow assets.

Obviously Queensland is our home market where we've got a very strong presence, but part of our strategy is exporting in chosen markets those capabilities that we have developed in Queensland, as we are doing in Western Australia. So we'll look to continue to do that on a measured basis.

Ian Rogers, The Sheet: What kind of market share gains are realistically available in other markets, David?

Patrick Snowball: I don't think we really want to start looking forward and forecasting at this stage growth targets and the like, as I said, we're really not looking to give guidance in that way. What I would say is that this is a very different bank to the one of two years ago. David and the team have really stripped it down; it's much more efficient, it's much leaner, and it really is focused on individuals and increasingly on SME. So we believe there's a very good niche. I guess in my short time in Australia I sense there is an appetite for a second tier banking system and Suncorp is probably the strongest bank in that sector. Therefore I believe that if we get the delivery and the service right, and the economics behind running it are correct, we've got a very good future.

Liam Walsh, The Courier Mail: One question in terms of the insurance with streamlining some of the back office stuff. Is there going to be any impact on jobs? Do you any idea how many jobs might be going?

Patrick Snowball: Liam, it's obviously always front of mind when there's any restructuring. The answer at this stage is no. Of course, it's something that we're very sensitive to and we'll keep the market and obviously the unions updated as we progress. But at the moment we've got to the level of seeing what systems, what processes, and are now working through the impact of all of that.

Liam Walsh, The Courier Mail: Just secondly, I was just wondering if there's any colour there. There seemed to be an increase in maybe the Agribusiness, some of the impaired assets. I'm just wondering if there's any sort of colour. Is it harder on the land or is there any driver behind that?

David Foster: Yes, there's nothing material. We did have one particular exposure which was a fairly significant one, which moved through the cycle but in terms of underlying trends that we're seeing, Agribusiness is still holding up pretty well, Liam.

Jamin Robertson, McMullan Conway (insurancenews.com.au): Patrick, you mentioned premium increases, does it include commercial lines, because brokers are telling us they're not seeing it. Is it possible to quantify how much premiums have risen for you?

Patrick Snowball: We are certainly getting net premium increases through the books in line with expectation. They aren't huge but we are seeing them come through.

Scott Russell, Morgan Stanley: I just had a quick question, probably for Patrick, on your comment about your early findings suggesting that Suncorp's insurers have the ability to out-compete not only the large incumbent insurers but also some of the smaller, newer market entrants. I'd just be interested to understand what gives you the confidence to make that conclusion? What competitive advantages have you seen early on, and does it depend on the efficiencies that you're targeting across the insurer?

Patrick Snowball: We're obviously not complacent about any of the new entrants, and we take each one of them pretty seriously. But I think we have a brand strategy, pricing and risk discipline and claims volumes benefits which mean that we really can compete head-on.

We're at or about the biggest general insurer in Australia, and we're really starting now to get our act together and to really use that scale, both in terms of ensuring that we get the best deals in the claims process, ensuring we get the best deals in our technology and, most importantly, we can provide the best customer service at the front end.

We've got a range of extremely valuable brands, with AAMI in particular. We are increasingly seeing the opportunities of becoming a lot more efficient behind those brands and really driving through the value at the back end.

Operator: There are no further questions at this time.

Patrick Snowball: I'll pause for one second to give them time. If there's one more question, we'll take it; otherwise we'll close down and I'll conclude.

Okay, well look, thank you so much for dialling in this morning. I'd just like to summarise. I hope that you're sensing that we are really stepping up the pace of change across the business. These changes are consistent with my view that the core assets of Suncorp Group are sound and worth retaining within the organisation.

To realise the full value of these assets we need to make significant changes and make them extremely quickly. The latest changes that I've talked about today are a new Group business model based on five banking, insurance and life businesses each headed by its own Chief Executive and supported by a lean, strong corporate centre.

Secondly, a new business model for personal insurance that operates on a functional rather than brand basis and is supported by a suite of shared services. It's worth remembering these PI changes follow on from the strategy and structure of the changes already well in place and proven in our Commercial Insurance business.

We're going for a simplified root structure, a concerted effort to reduce complexity and the many duplicate systems currently operating across the Suncorp Group. This effort is being driven by what I call the strategic building blocks program that is designed to provide a single and consistent view of the Group's people, customers, processes and, most importantly, finances.

As I mentioned at the recent AGM, Suncorp needs to address three broad challenges -- our credibility, the confidence of its chief stakeholders, and the need to create the conditions for a culture consistent with a ‘one company many brands approach’.

Today then, all that we have announced is aimed at meeting these challenges head on, and I look forward to talking to you all again at the end of February. Thank you very much.