

Macquarie Equities Conference

May 2009

David Foster, Group Executive Banking



Good morning and thank you for joining this presentation on Suncorp's banking operations.

This presentation details the decisions that Suncorp has made to derisk and refocus our banking business as a consequence of the dramatically altered external environment.


The financial world has significantly changed in the past two years and I'll outline how Suncorp has determined the various parts of our banking operations that will be 'core' to a sustainable business for our 'A' rated Australian bank.

I'll also outline the segments of the market that we no longer consider appropriate for us to participate in, and how we are running-off these 'non-core' portfolios.

These strategic changes will ensure that Suncorp bank has a viable core with a less volatile profitability dynamic into the future.

I'm conscious that there are people in the market who will be anxious to hear a detailed update on the credit quality, and impairment charges, in our banking operations. However, today's presentation is focused on our strategic direction and you'll have to wait until 26 May when we'll be providing a full update as part of our regular scheduled Basel II Pillar 3 reporting.

The only comments I will make today are that, like other Australian banks, we are experiencing the impacts of a deteriorating economy and declining property values, however what we're seeing is broadly consistent with our expectations when we updated the market in early February. Our review and monitoring processes, put in place over the last few months, have ensured no surprises and, to date, we haven't experienced any new large single name exposures. We haven't had any significant direct exposures to any of the recent high profile financial collapses including Kleenmaid, Storm Financial, and Austcorp Property Group.



Our heritage and growth in Banking

Creation of Suncorp-Metway (1996)

Metway Bank

- Listed on ASX in 1988
- Previously Metropolitan Permanent Building Society

Suncorp

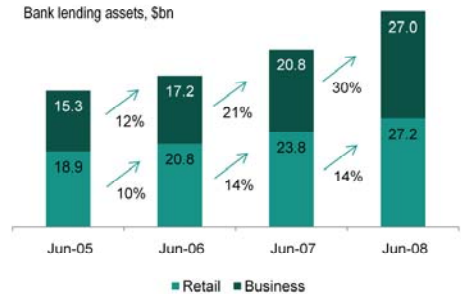
- Renamed in 1986
- Previously State Govt Insurance Office

QIDC

- Business Banking
- Agribusiness lender

Strong lending growth

Bank lending assets, \$bn



Period	Retail (\$bn)	Business (\$bn)	Total (\$bn)
Jun-05	18.9	15.3	34.2
Jun-06	20.8	17.2	38.0
Jun-07	23.8	20.8	44.6
Jun-08	27.0	27.2	54.2

This resulted in a Bank with:

- Strong retail banking operations
- Predominantly QLD franchise
- Core capability in Development Finance
- Expertise in Agribusiness
- Reliance on wholesale funding for lending growth

Significant lending growth in the context of:

- Buoyant economic conditions and business system growth
- Spread differential between 'A' and 'AA' not significant
- 'A+' with a positive outlook and on a path to 'AA' status

It's appropriate, in explaining our future strategy, to understand Suncorp's banking history.

Our history stems from Metway Bank and the previously State Government owned, QIDC. We have grown from an Agribusiness Bank, established in the early 1900s, and a Building Society with core markets in Queensland consumer lending & deposits, Agribusiness, Commercial/SME and small to medium size property development.

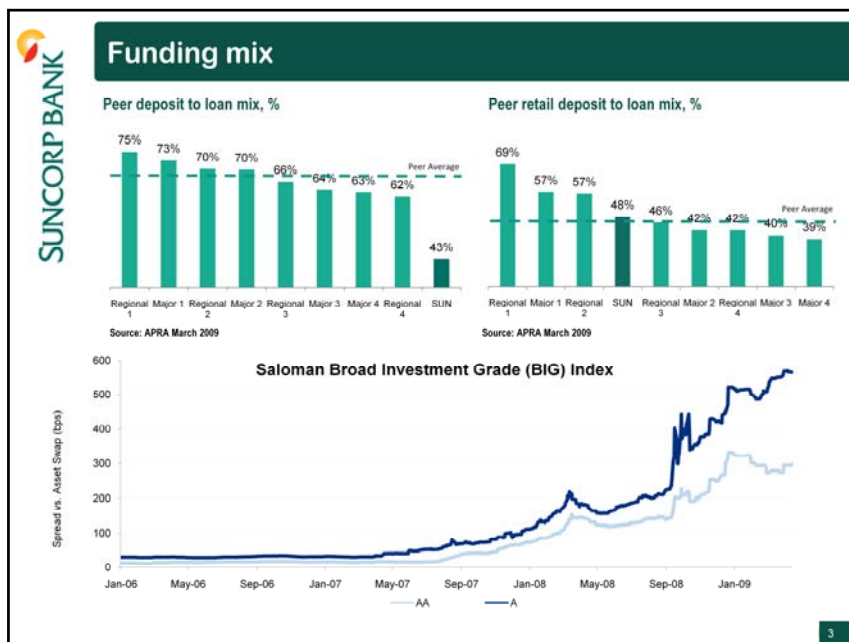
In 2007 and 2008, the Bank grew beyond its traditional core markets in business lending which delivered strong growth in revenue and profitability in an environment of strong economic growth coinciding with a period where wholesale funding was both freely available and relatively cheap.

Business lending expanded to larger and more complex deals leveraging industry specialisation in property and development. It also meant an expansion into corporate banking to take advantage of opportunities for growth. This has meant we have a higher proportion of lending in relatively more volatile segments and we have expanded into markets that are not 'deposit rich'.

In March 2007, the Bank's credit rating was placed at 'A+' with a positive outlook post the Promina merger by Standard & Poor's and was rated in the double AA equivalent category by Moody's. The rating was on a path to 'AA' status, post bedding down the integration, and this would have ensured a strong funding position that would be competitive with the majors. This has obviously not occurred.

This expansion was funded largely through wholesale markets. At the time, the potential liquidity provided by the large volume of prime residential mortgages on the balance sheet provided an offsetting factor against the bank's reliance on wholesale funding. Nobody foresaw the impact of the sub-prime crisis which essentially shut down securitisation markets and removed this release valve.

2



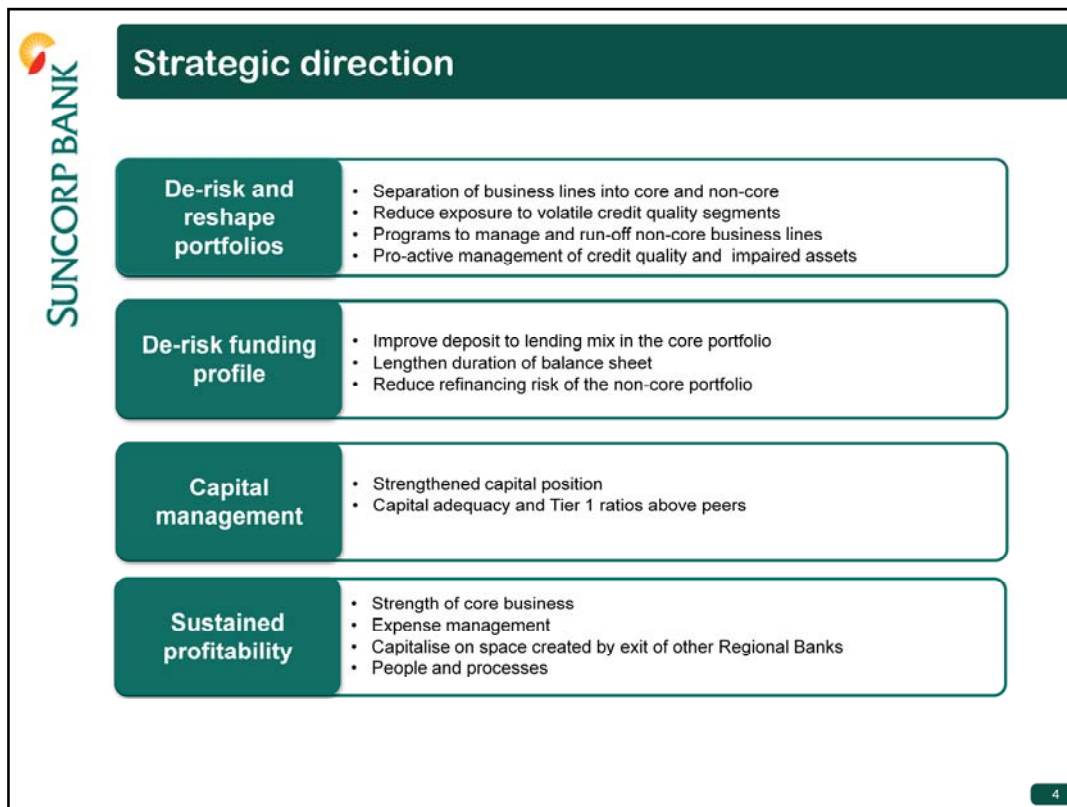
A consequence of our history is a relatively low proportion of deposit funding in our banking business, highlighted in the first chart. However, as the second chart demonstrates, when looking purely at our retail franchise, our deposit to loan mix is not out of line with the rest of the industry.

Suncorp’s historical structural distinction was not a disadvantage until the credit crunch really started to bite in late 2007. We have historically been able to use wholesale markets, both short and long-term, as well as securitisation, to fund our lending growth. Historically, both the access to funding and the differential pricing between an ‘A’ rated bank and a ‘AA’ rated major was not competitively significant for our business.

As you know, since late-2007 and, particularly since the collapse of Lehman Brothers in September 2008, funding markets have changed demonstrably. The cost of raising funds in wholesale markets is considerably greater, and, as the Saloman BIG Index on the chart shows, while all banks are paying greater spreads for their funding, the spread between single A and double A issuers has widened appreciably.

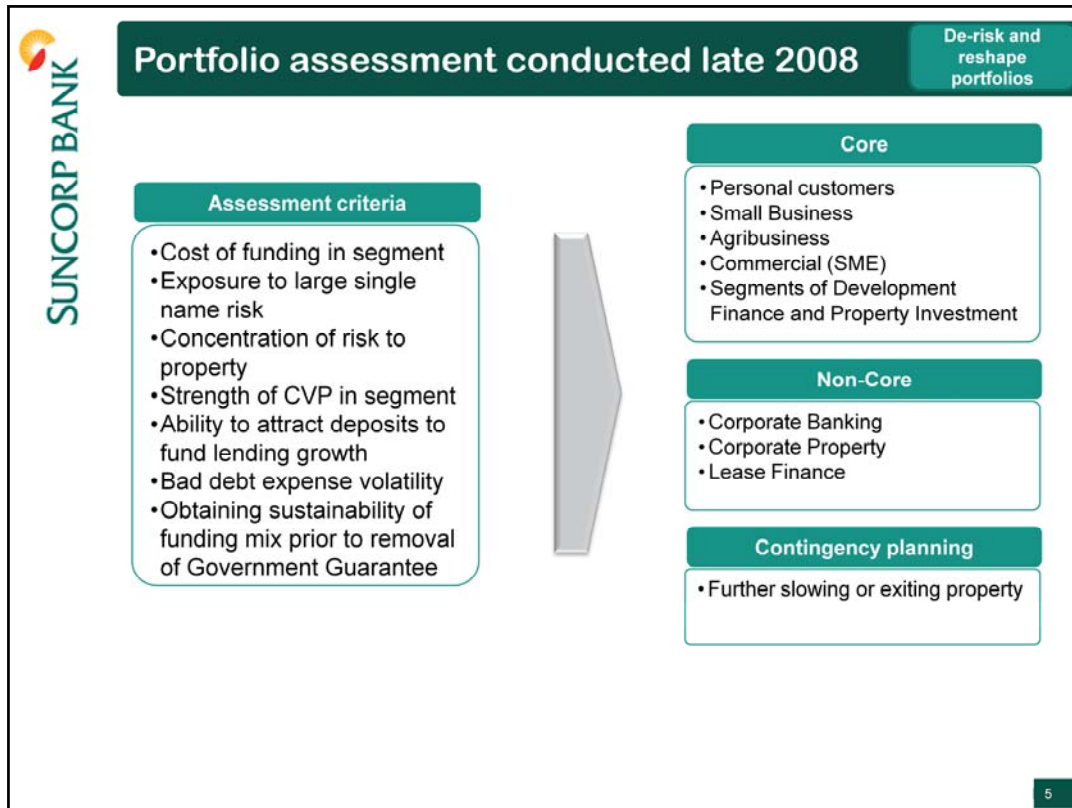
The government guarantee for wholesale funding has stabilised Australia’s banking system and provided an injection of confidence into the system. Unfortunately for the regional banks, there is a “double” differential on the cost. This is because debt investors are further differentiating between ‘AAA’ rated Government guaranteed paper issued by a major bank, and the ‘AAA’ rated Government guaranteed paper issued by regionals such as ourselves. This market spread is around 20 to 30 basis points and, when combined with the extra 30 basis points that we pay the Government for the guarantee, produces a significant disadvantage in funding costs.

Our strategy into the future is to re-shape the bank to place it in a position with a sustainable funding base that will be attractive to depositors, wholesale funding markets and equity investors. The measures we have taken prepare our Bank for a point in the future when the Australian government no longer provides the guarantee for wholesale funding.



This context of a significant change in the funding and risk environment has prompted a fundamental review of the Bank's strategic direction. The key elements of that direction are:

1. De-risking and reshaping the portfolios. We first announced towards the end of 2008 that we would separate the banking business into core and non-core portfolios and proceed to run-off the non-core portfolios over time. We have since then refined that delineation and set in place separate management to manage the run-off. The core business will have lower sector and single name concentration, with substantially reduced bad debt expense volatility.
2. De-risk funding profile. In parallel with the de-risking activity, we are repositioning the funding mix of the balance sheet. This is being done through increasing the deposit to loan mix in the core book, reducing reliance on wholesale funding and actively progressing the elimination of refinancing risk of the non-core portfolio through term funding issuance utilising the government guarantee.
3. We have focused on significantly strengthening the capital position of the Bank, which now has Capital Adequacy and Tier 1 ratios well above its peers.
4. And, in terms of delivering sustained profitability, we are taking advantage of the strength of our core business and the space created by the exit of other Regionals, as well as tightly managing our costs and further enhancing our people and process capability.



In November 2008, we undertook an extensive analysis of each of our banking portfolios. The strategy of determining which lending portfolios were defined as non-core and were to be placed into run-off was based upon the assessment of numerous criteria, including:

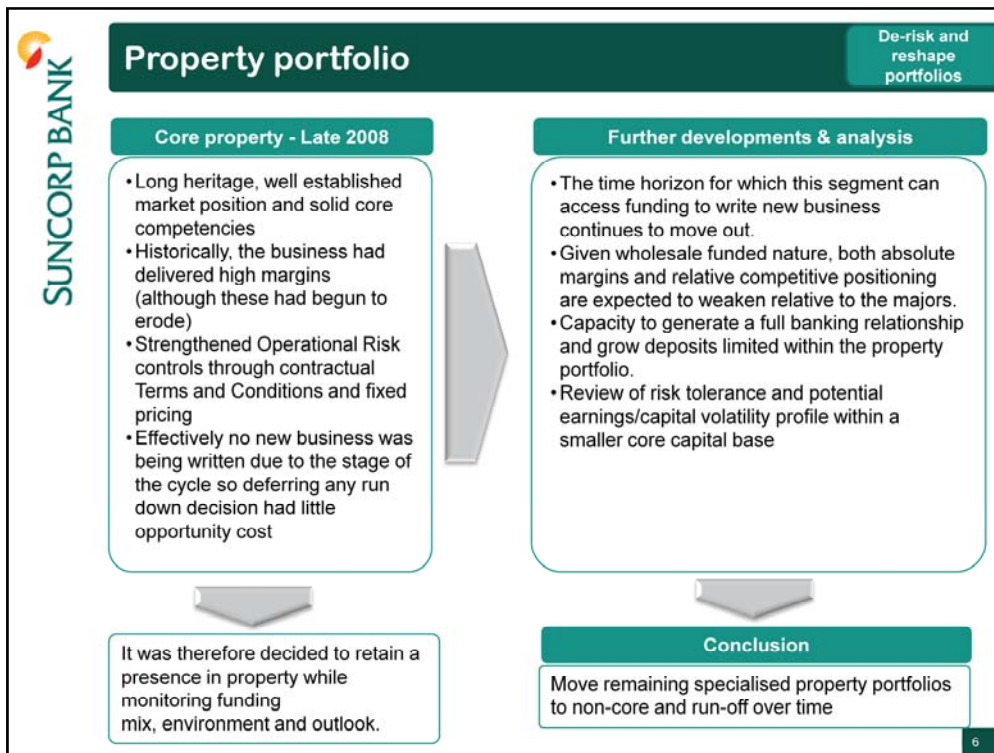
- Identification of portfolios where the widening spread differential to the AA banks would make the cost of funding uneconomic in the new environment of risk pricing
- Requirement to reduce exposure to large single name risk
- Requirement to reduce overall concentration of risk to property
- Identification of portfolios where the bank had a strong customer value proposition
- The degree to which portfolio segments could successfully attract deposits in line with lending growth
- Reducing bad debt expense volatility; and
- Developing a strategy to ensure the funding mix was sustainable prior to the removal of the government guarantee

This assessment resulted in the Bank categorising its lending book between core and non-core.

Non-core portfolios are those that are largely transaction driven, not relationship based and while they may have delivered reasonable returns in the past are no longer viable given the new capital and funding dynamics. Accordingly, the Bank has ceased lending to new customers in the non-core businesses of corporate banking, corporate property and lease finance and will work with existing customers to reduce exposures to these portfolios over time.

The core portfolios were defined as those in which Suncorp has a competitive advantage and a strong market position. These are Suncorp's traditional core businesses of personal customers, commercial/SME and agribusiness.

At the time of the initial assessment in late 2008, traditional middle market development finance and property investment were included in the core portfolio although our contingency planning identified the possibility of needing to further slow growth in, or exit, the property business.



I think it's worth going into more detail on our decision making process around the property segments.

Firstly, to summarise the position we took in relation to retaining a core property presence late last year.

- The property business has a long heritage, a well established market position and solid core competencies
- Historically, the business had delivered high margins, although this had begun to erode through increased competition for customers.
- The business had more recently expanded into larger exposures at the top end of the market which was placed into the non-core portfolio.
- The position taken late last year was to retain a presence in core property in the sub \$50 million market.
- No new business was being written in this segment due to the stage of the property cycle. This meant that deferring any decision to place this business into run-off had little opportunity cost

It was therefore decided to retain a presence in property while we monitored the actual credit experience and indicative pricing levels as they emerged, our success in repositioning the bank's funding mix, refined the risk appetite of the core bank and considered the longer term outlook.

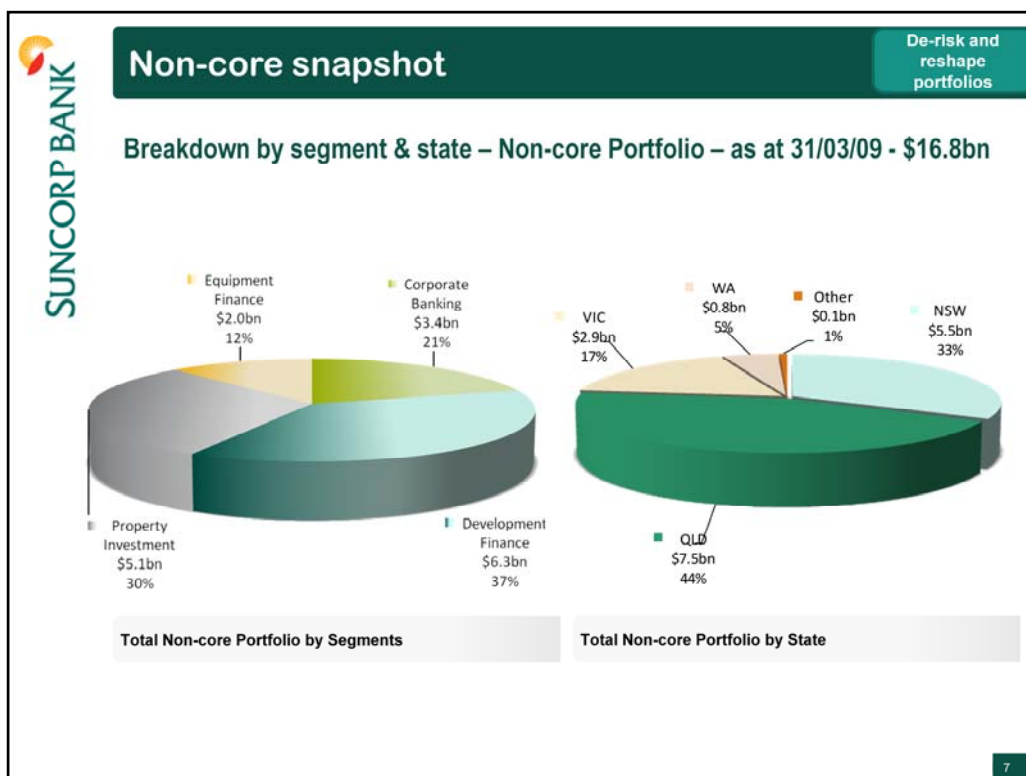
Developments since then have prompted further analysis.

- During this time, the core property team has remained focussed on managing the existing exposures; however the time horizon for which this business can have the funding available to write new business continues to move out due to the state of the property credit cycle.
- The competitive position as to where margins will restore in property is yet to be determined.
- As this portfolio is almost entirely wholesale funded, it is likely that both our absolute margins and competitive positioning will weaken relative to the majors.
- We've completed further work in the bank on risk tolerance and the desired profile for earnings and capital volatility, and having an increased reliance on retail funding necessitates a reduction in volatility.

So, to conclude, the decision has been taken to move the property portfolio to non-core and run it off over time.

It is important to stress that this is not a 'good bank'/'bad bank' distinction. The decision on the components of core and non-core has been made purely on strategic decisions around funding, industry dynamics and deposit gathering capacity. As I look at the respective portfolios today there will be some small segments within the 'core' book that have some impaired assets. Equally, within the non-core portfolio there will some components that, from a credit quality perspective, are pristine.

For personal use only

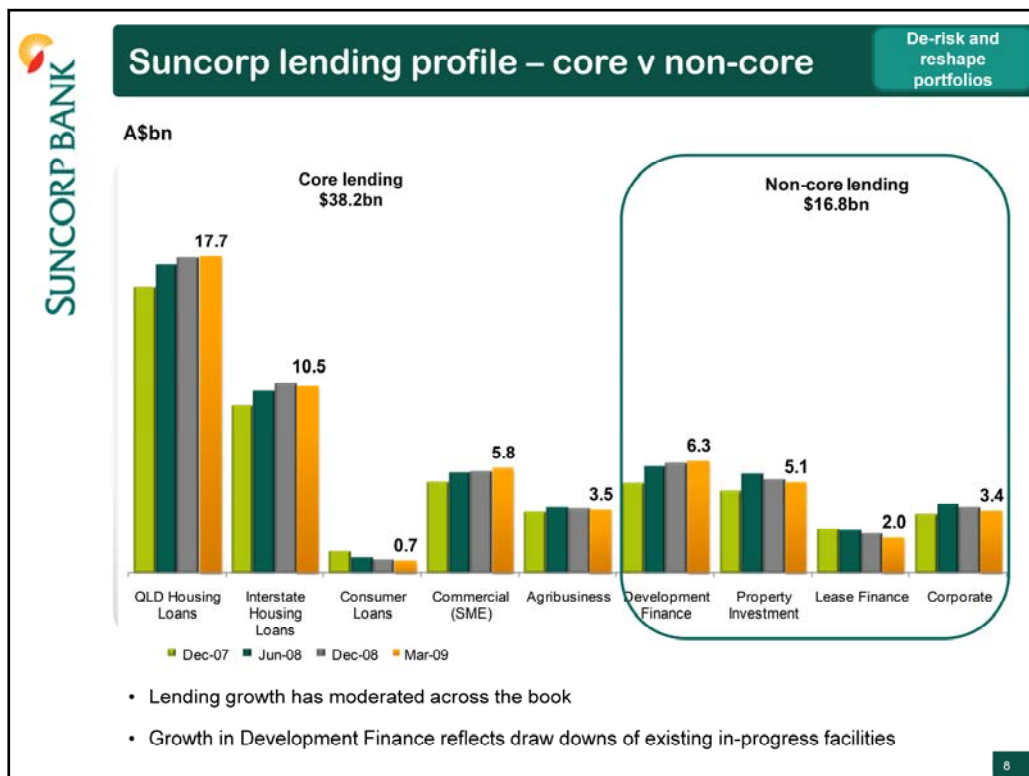


The non-core portfolio essentially comprises four of Suncorp’s business banking segments. These are \$6.3 billion in development finance, \$3.4 billion in corporate banking, \$5.1 billion in property investment and equipment finance of \$2.0 billion. This is a total of \$16.8 billion. The entire portfolio is 100% risk-weighted for capital purposes.

By geography, you’ll note that almost a half is located in Queensland and around a third in New South Wales.

In terms of the margins on the segments, there are a number of variables, predominantly around the allocation of funding costs that will impact on the margins between core and non-core. Given the steps we have undertaken towards eliminating refinancing risk on the non-core portfolio, which I’ll elaborate on later, the margins on the non-core portfolio will likely be substantially lower than the margins on the core portfolio.


We will provide greater details on margins, and the appropriate costs associated with the non-core portfolio as part of the full year results on 25 August.



This slide provides a high level view of the relative size and growth of our non-core and core portfolios.

You'll note that all non-core portfolios have reduced during the March quarter, with the exception of development finance which has increased by around \$200 million. The increase in Development Finance represents drawdowns by existing customers against limits, rather than new lending, and we have seen the size of undrawn commitments reduce by over \$400 million in the last quarter.

The size of the non-core book is now at its peak. While it is obviously difficult to predict the expected level of repayments, sales and refinancing activities as well as stage of development of many of our property projects, we expect that our non-core balances will continue to reduce from March onwards. Further we believe that the development finance portfolio will now contract from the current levels of \$6.3bn.



Management of non-core book

De-risk and reshape portfolios

- Specialist teams**
 - Experienced banking professionals
 - Have capability and appropriate incentives
 - Focus on optimising run-off and minimising risks of franchise damage and asset impairment
- Customer management approach**
 - Approx 25 client groups per relationship manager (Property) and approx 16 client groups per relationship manager (Corporate)
 - Relationship management approach focused on managing client and portfolio risks and achieving an orderly run-off
 - Communication with clients about our desire to exit (thereby increasing churn)
- Run-off activity**
 - Pricing increases
 - Covenant breaches
 - Non support of additional funding requests
 - Project completion and sale
 - Portfolio opportunities being monitored

9

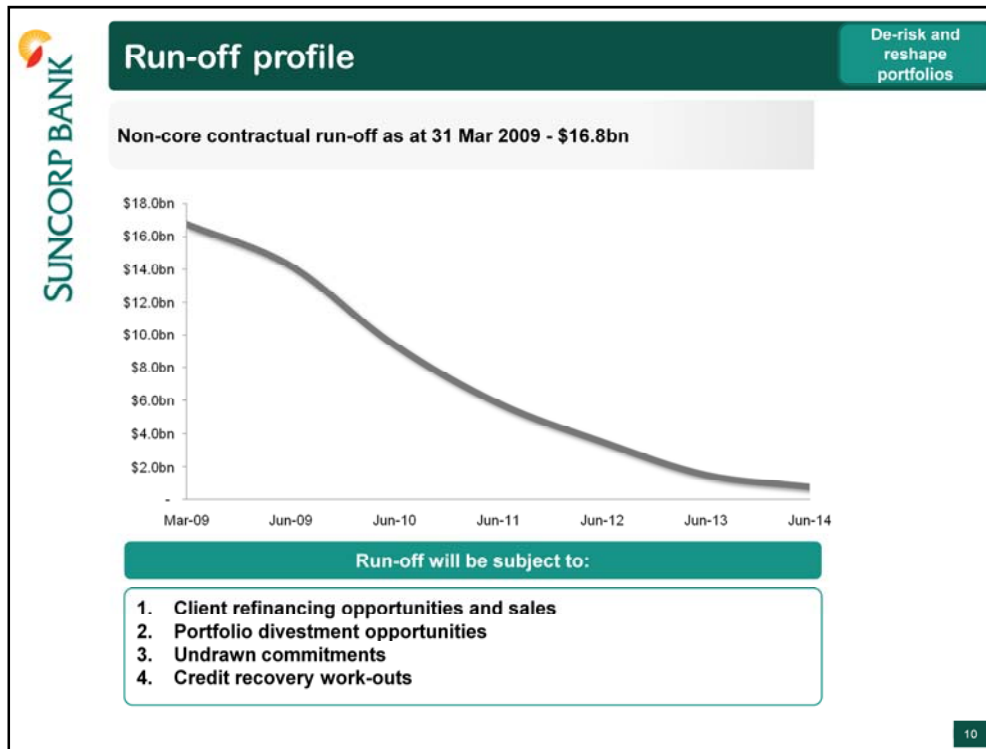
I want to give you an overview now of the approach we are taking to manage the non-core book.

Firstly, we have appointed specialist teams of experienced bankers to manage the process and work closely with customers. They have the appropriate delegations, accountabilities and incentives to run-down the Bank's Non-Core portfolio in a timely and prudent manner.

In the property portfolios there will be approximately 25 client groups per relationship manager and in Corporate, about 16 per relationship manager. These managers are supported by teams who will work to manage the run-off portfolio.

The team looks for opportunities to run-off, including pricing increases to reflect higher funding costs and proactively managing the customer based on their circumstances. In the property portfolio, pre-sales and project completion provide opportunities to reduce asset balances.

We are also monitoring opportunities for divestment of individual assets or portfolios and will continue to do so as market conditions change.



I've provided a contractual run-off profile of the non-core book, but stress that this should be treated with extreme caution.

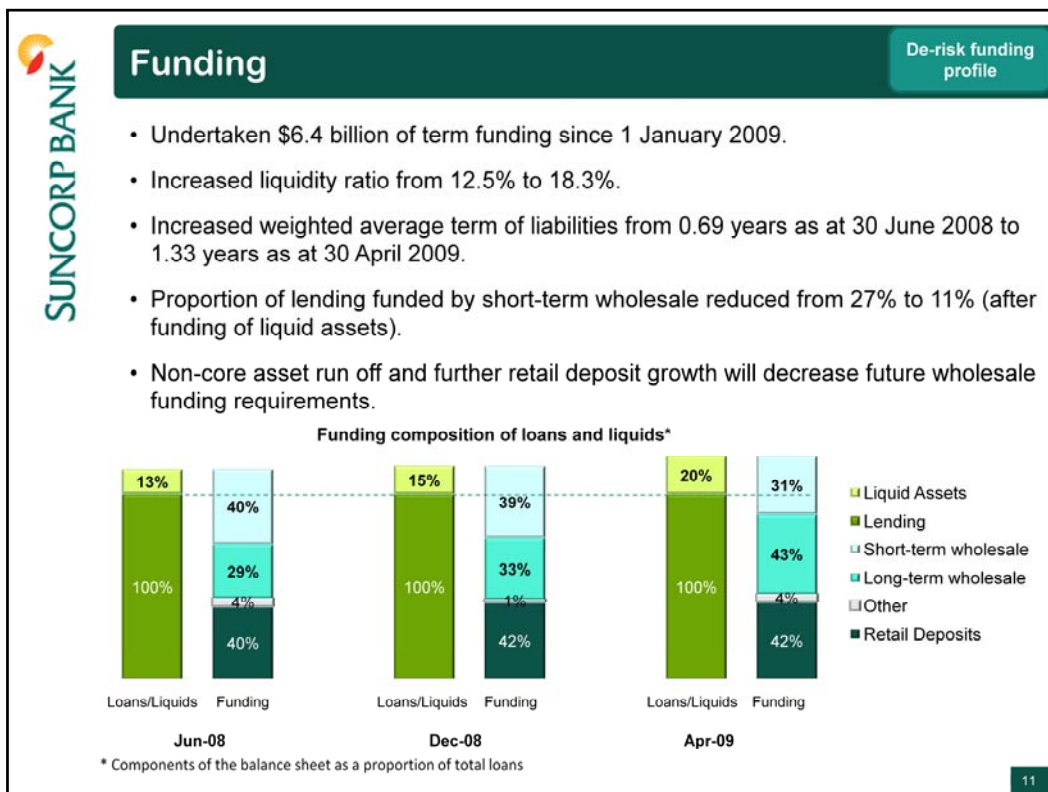
This slide represents only the contractual run-off. The actual run-off will depend upon a range of environmental factors and will crucially be dependant upon the ability of customers to refinance. For accounts that are being managed by credit recovery, it includes an estimation of the expected timeframe for workout.

The run-off will also obviously be significantly impacted by any portfolio divestment that may occur.

The contractual estimate includes a forecast for undrawn commitments in development finance. This is the primary reason why the contractual run-off profile is not overly steep in the upcoming twelve months, however, on a contractual basis, the non-core book could be down to around \$6 billion by June 2011.

Again, however, I'd stress that this is purely a contractual view of the run-off. We would expect that there will be an additional behavioural overlay that would lengthen the duration of the run-off, particularly during the next 12 to 18 months.

For personal use only

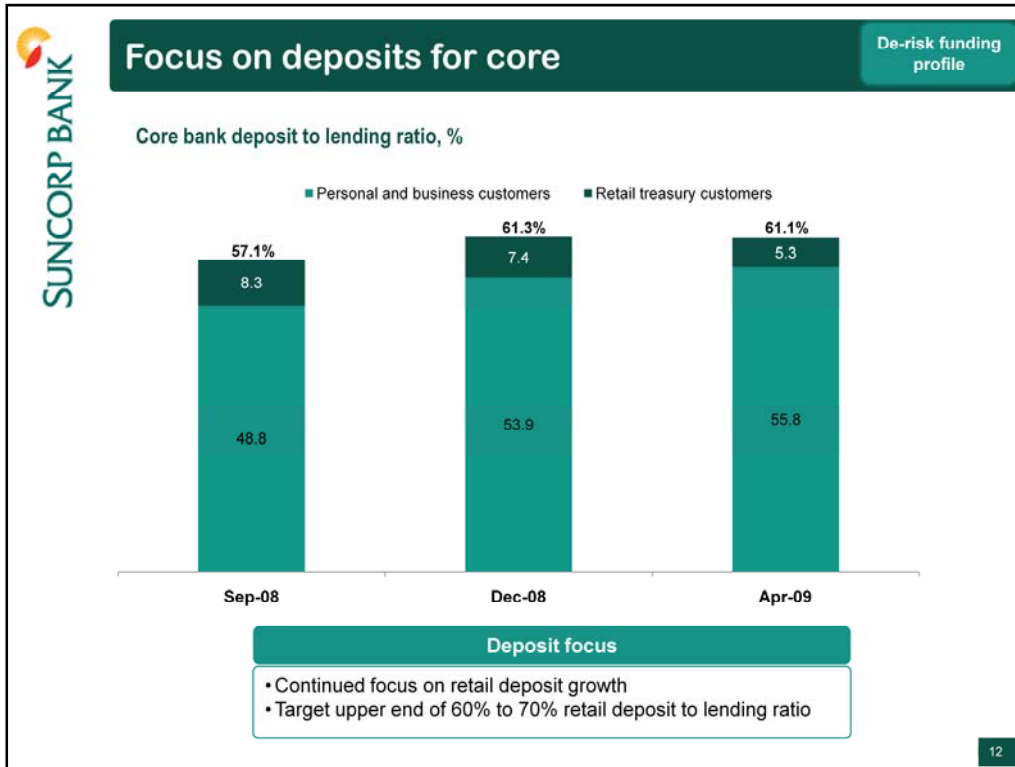


Our steps to de-risk the bank have continued with our progress in actively reducing our reliance on short term wholesale funding.

We have increased our liquid assets ratio from 12.5% to 18.3% through to the end of April. We have completed approximately six and a half billion of term funding since January and have lengthened the weighted average term of liabilities from 0.69 years to 1.33 years during this financial year.

The bank has always placed significant importance on diversifying its wholesale funding sources and minimising geographical risk across the funding base. We continue to develop and explore additional regions for funding opportunities. The Bank recently re-entered the US markets through a Section 144A placement and we have also completed the documentation for a possible Samurai placement.

As at 30 June 2008, short-term wholesale funding, net of liquid assets, funded 27% of loans. At the end of April 2009 we have reduced this figure to 11%. Future term funding requirements will be heavily subject to the behavioural amortisation profile of the non-core book and our success in deposit gathering.



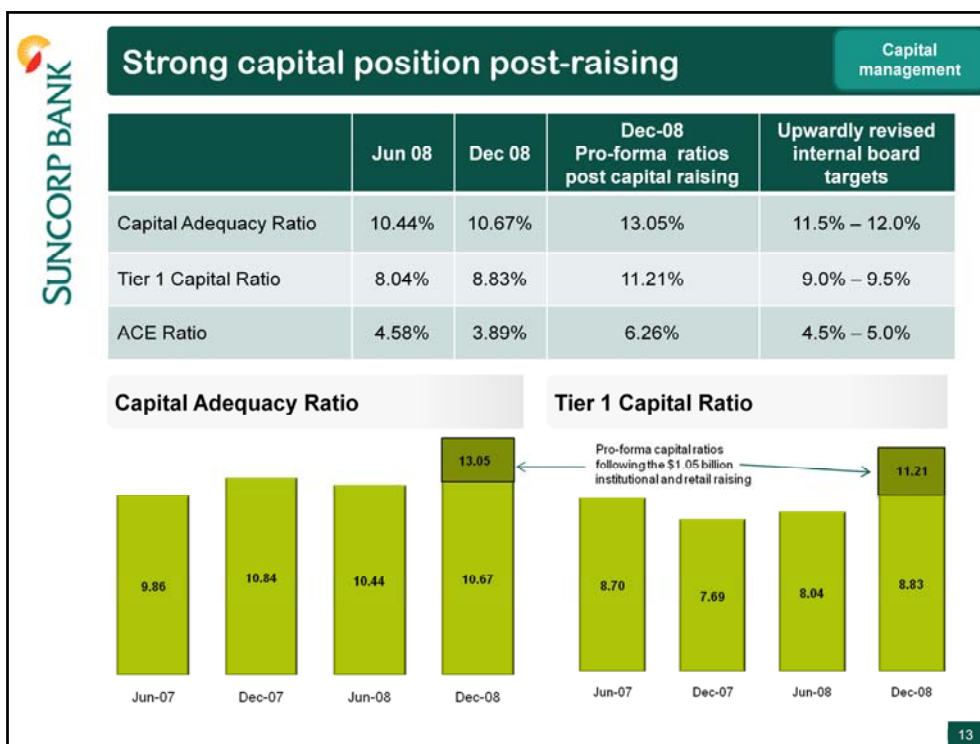
A significant part of the de-risking activities is the refocus on increasing share of retail deposits across the Bank. Deposit acquisition activities have focused not only on increasing our share of household retail deposits to equivalent levels of our regional bank competitors but also increasing our share of business customer deposits where we have been underweight relative to our competitors.

Our growth in retail deposits has been strong during the past six months. Our investments in increasing branch footprint, customer service and Cannex 5 star deposit products continues to show good growth. While the Bank, along with all regional banks, suffered in September from the systemic crisis across the international financial markets, we have shown to be resilient to withstand these shocks and return to our normal growth trajectory in deposit gathering.

The strategy to increase deposits is tracking well, with deposits to core lending in April of 61.1%. Strong growth in the core franchise retail and business customer deposits has been achieved during this period, however, there has been some contraction in the volume of deposits from more sophisticated retail investors who are managed within our Treasury operations.

As I have discussed earlier the movement away from the corporate banking, structured finance, equipment finance and property lending - which have been largely transaction based - will assist the Bank in increasing our ratio of retail deposits to lending. We are now able to concentrate more resources towards deeper relationships in the smaller end business market, capturing larger amounts of transactional banking relationships.

These steps, added together, will project the Bank towards its desired goal towards the upper end of a target of 60% to 70% retail funding to core loans. This level gives the Bank reduced dependence on debt markets, with a core portfolio with substantially reducing earnings volatility enabling it to operate with a sustainable funding profile.



The third plank to our revised strategy has been to significantly strengthen our capital position to provide considerable buffers for any extreme deterioration in the economy.

The Board has increased our internal targets for capital adequacy from 10-10.5% to 11.5 - 12%. The decision was taken to raise capital in February this year, and as a result of the institutional placement and the institutional and retail entitlement offer, over \$1 billion was raised.

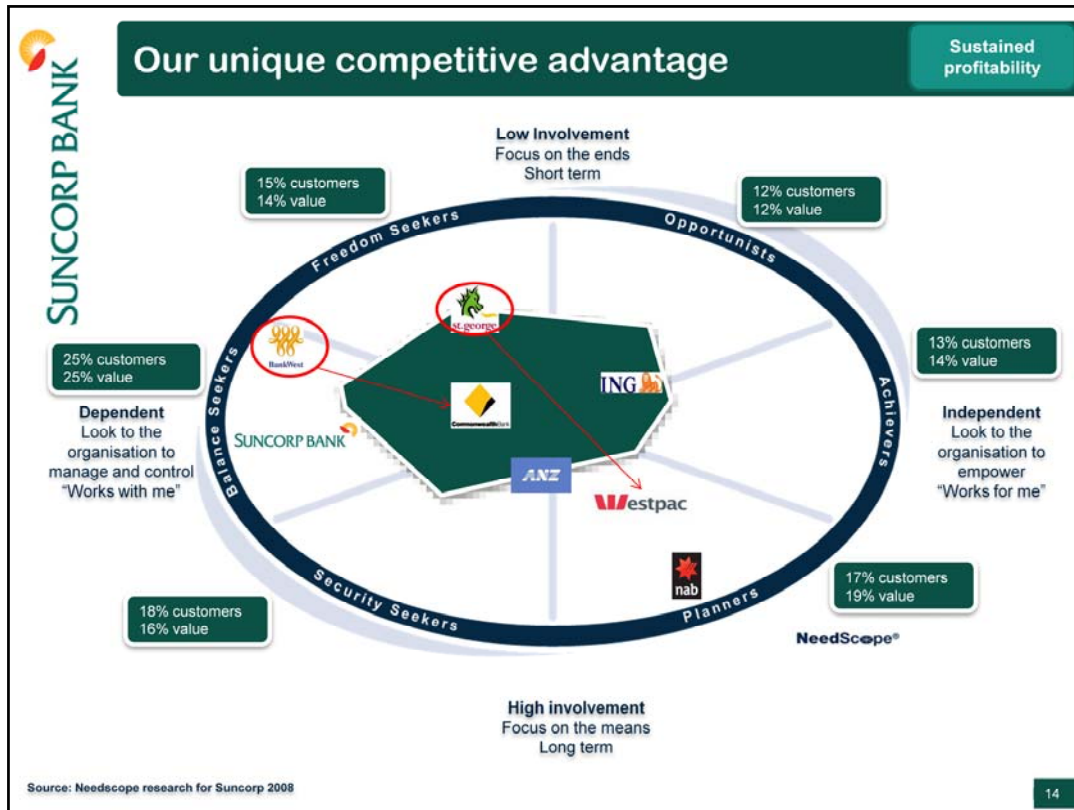
As you'll note, we now have capital ratios considerably above those revised internal targets, and well above our banking industry peers.

As a result of the capital raising, the December 2008 CAR increases substantially to 13.06%, well above our industry peers who are around the 11% level.

Similarly, our Tier 1 capital ratio on a pro-forma basis is at 11.21%, again above other banks who are around 8 to 9%.

The ACE ratio has also significantly increased to 6.26%, well above our long term target range of 4.5% to 5.0%. We will give you a full update on capital levels at the time of our APS330 disclosures on the 26th May.

Its also worth noting that, although our decision to run-off 'non-core' portfolios was primarily driven by funding and margin considerations, an ancillary benefit will be the capital release associated with the run-off. The assets involved in the run-off have a risk weighting of 100%, so when complete, the \$16.8 billion in non-core portfolios will further contribute to this strong capital story.



This slide illustrates some research we commissioned with Needscape late last year. It shows customer affiliation with the various bank brands.

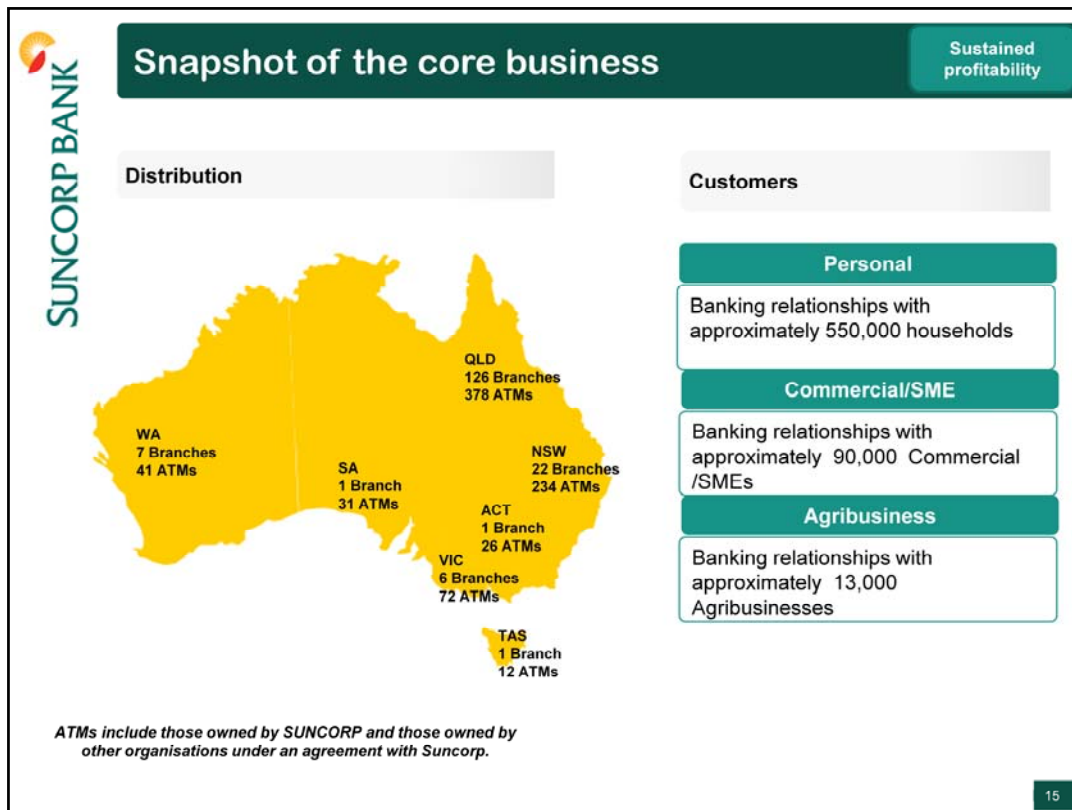
The total market is shown skewed to the left, more toward the regional and community bank brands.

Suncorp is well positioned in the lefthand sector, a mark occupied largely by 30 to 49 year olds with an average household income of \$100,000 – a market which represents 25% of the value of the total market.

Importantly, we don't have to shift our brand to meet this market. We have the opportunity to take more share of an attractive market which is consistent with our brand promise and proposition.

And market consolidation has opened up new opportunities with Suncorp well positioned to capitalize on the space vacated by the exit of competitors in the regional space.

This creates a white space for us to target and grow our customer base with a well established service proposition that appeals to a specific and substantial part of the market.



The map shows our distribution footprint around the country, with over 160 branches, the bulk of which are located in QLD.

We also have almost 800 branded ATMs.

In terms of our strategy for the direct distribution channel, we will export our Queensland success to targeted interstate micro geographies and team this with branch and ATM clusters in micro markets as well as local area marketing and promotional activity.

A good example of this strategy is the work we've done in Western Australia, with targeted new branches and ATMs. This has enabled us to capture a niche in the market and position us well with those customers who are seeking an alternative to the majors.

In all of the regions in which we operate we employ a local area model, where the regional manager is empowered to operate his or her business at the local level, with targeted deposit acquisition strategies and MFI market share targets at the local level.

By way of a quick snapshot of who our core customers are, we have banking relationships with approximately :

- 550,000 households
- 90,000 commercial (SME) businesses; and
- 13,000 Agribusinesses



This slide shows MFI customer satisfaction and share of wallet in the national market.

As you can see, Suncorp is a very strong performer ranking third in terms of National Satisfaction while also capturing the highest percentage of our customers wallets. This highlights the strength of our core personal banking business and the opportunity that's available to us.

SUNCORP BANK

Banking brand

Sustained profitability

- Refreshed brand supports vision for Suncorp's Core Bank and seeks to capitalise on opportunity created by exit of several Regionals.
- Program includes press, outdoor, online, TV and local area marketing activities.
- Signage for branches, business centres and ATMs to be updated with the new logo.

Capability of a big bank. Personal touch of a small one.

Now that's bright banking.

When you're with Suncorp Bank, you're with the 5th largest bank in Australia. Yes, we know it's an in-between sort of number, but we believe that's a good thing. It means we're able to offer you the capability of a big bank, convenience of plenty of ATMs and branches, but also the attention and care you might enjoy from a smaller bank. Now doesn't that sound like a great position to be in?

Call 13 10 50
www.suncorp.com.au
Visit your local branch

SUNCORP BANK

* Suncorp is Australia's 5th largest listed bank. Banking products are issued by Suncorp - Mitsui Ltd ABN 66 010 631 722

17

As I mentioned earlier, the exit of regional competitors has opened up new opportunities and, with strong customer satisfaction and share of wallet performance, Suncorp is well positioned.

We've recently launched a refreshed brand program that highlights the customer value proposition: *Capability of a big bank. Personal touch of a small one.*

The program includes a range of advertising and marketing activities.

The slide features the Suncorp Bank logo on the left and the text 'Expense management' in a dark green header. A 'Sustained profitability' badge is in the top right. The main content is a box titled 'Expense management focus' containing a bulleted list of four items. A small '18' is in the bottom right corner.

SUNCORP BANK

Expense management

Sustained profitability

Expense management focus

- Structural adjustments to the workforce
- Selective sourcing
- Expenses reduced in line with exit of portfolios
- Reduction in the Bank's cost base

18


Since merging the Retail and Business Banks last September, we have undertaken a significant program to reduce the Bank's expense base in response to the prevailing economic environment. Our program of process simplification has seen an annualised reduction in costs of \$30m this year through the reduction of discretionary spend, selective sourcing and simplification.

We will provide a detailed breakdown of the appropriate expenses that relate to the core and non-core portfolios as part of our full year results reporting on 25 August.

The review of the property portfolios and additional opportunities from the simplification program are likely to see additional savings next year, although it is too early to give definitive values of the savings possible.

The Bank was able to record a leading cost to income ratio in the first half through its focus on costs and higher revenues. The run-off of non core portfolios is likely to see the total bank move to a higher cost to income ratio over coming periods. The non core portfolios are largely lower cost portfolios with lower cost to income ratios. Over time we expect that cost to income will rise somewhat closer to the 50% cost to income level. In saying this though we believe we will be able to extract additional synergies through our simplification process in the separation of the non-core books.

We would also note that the changed product mix of the core portfolio to lower risk weighted assets (compared to the average of the majors) suggests a higher cost to income ratio is still able to produce market leading returns on risk weighted assets.



Our people and processes

Sustained profitability

- Staff**
 - In March 2009, a survey of Suncorp banking staff showed over 90% of our staff were
 - clear about the rationale and need to change.
 - clear about our core purpose, mission and the steps to get there.
- Our sales & service culture**
 - Local market execution
 - Being a part of local communities through local partnerships
 - Service excellence and understanding of customer needs
- Lender to Banker program**
 - Program to drive behavioral change to achieve MFI relationships
 - Enhance customer profitability and leverage value of customer advocacy
 - Upgraded sales and service processes and tools
- Risk management**
 - Alignment of risk management accountabilities for the Bank
 - Improvements in reliability and transparency of data and reporting

19

Despite an incredibly challenging twelve months, Suncorp's banking staff have demonstrated their resilience. In an environment of job cuts and ongoing media speculation about the future of Suncorp's Bank, our staff moral and engagement figures have held up reasonably well. A survey of our staff in March showed that:

- 93% of respondents are clear about the rationale and need to change and are clear about our core purpose, mission and the steps to get there.
- 82% of respondents feel engaged and motivated by the strategy

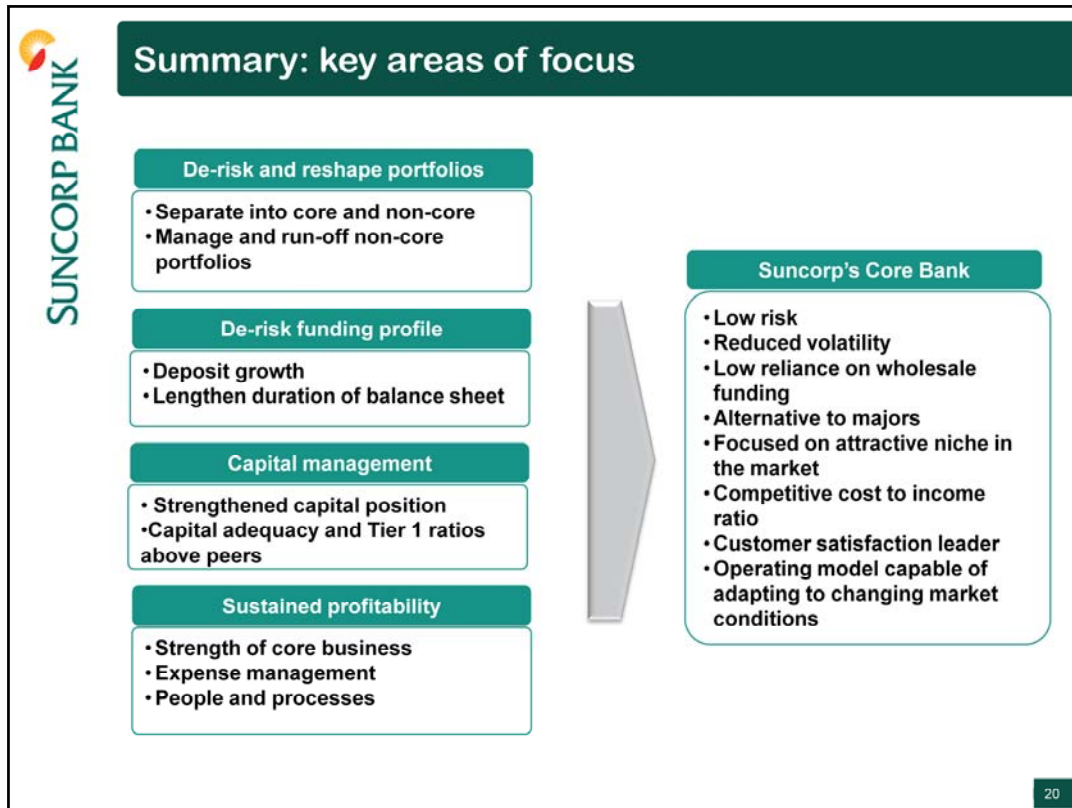
This is obviously a key strength of our Bank and, as part of our core strategy and rebranding, we will be genuinely connecting with our customers and provide a superior sales and service model.

Particularly, in Queensland, we are part of our local communities through partnerships such as Queensland Institute of Medical Research.

We have also initiated a 12 month program to drive behavioural change to achieve MFI relationships with our business customers through proactive fulfilment of customer needs.

Finally, we are establishing clear end to end accountability in the Bank for all facets of risk management within the Group framework. This involves alignment of all risk management capabilities with the Group Executives accountabilities.

Personally, this ensures that I have accountability for maintaining and enhancing sufficient capability in risk management, credit control and financial management, including Treasury. Previously these responsibilities have been shared with group centre units.



In conclusion, the segregation of our Bank into 'core' and 'non-core', and the respective strategies to manage these portfolios, has created a Bank that has considerably less risk than was prevalent when we entered this financial crisis.

Our focus on increasing deposits and eliminating refinancing risk in the non-core business will reduce our exposure to future periods of volatility in wholesale debt markets.

We have considerably strengthened our capital ratios, to levels well in excess of internal targets and our banking peers.

From a customer perspective, our refreshed branding will enhance our customer value proposition and we expect to continue to see satisfaction levels considerably above that of our major competitors.

Whilst our cost to income ratio will inevitably increase, the measures we've taken to manage our expenses will ensure we maintain a significant advantage over our regional competitors. We also have the scale and operating model that allows us to adapt to changing market conditions.

On that note, I'll take questions.....



Disclaimer

This presentation contains general information which is current as at 7 May 2009.

It is not a recommendation or advice in relation to Suncorp-Metway Limited or any product or service offered by the Suncorp Group.

This report should be read in conjunction with all other information concerning Suncorp-Metway Limited filed with the Australian Securities Exchange.

The information in this report is for general information only. To the extent that the information may constitute forward-looking statements, the information reflects Suncorp's current views at the date of this report and is subject to known and unknown risks and uncertainties, many of which are beyond Suncorp's control, which may cause actual results to differ materially from those expressed or implied. Suncorp undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date of this report (subject to stock exchange disclosure requirements).

The information is also not financial product advice. Investors should seek appropriate advice on their own objectives, financial situation and needs.

For personal use only

