

ASX announcement

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Many Brands



8 May 2015

The Manager
Market Announcements Office
ASX Limited
Level 4
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Macquarie Australia Investment Conference Presentation

Please find attached a copy of the Suncorp Group's presentation to be delivered today by Mr Steve Johnston (Group CFO) at the Macquarie Australia Investment Conference.

A handwritten signature in black ink that reads "Darren Solomon".

Darren Solomon
Company Secretary
Suncorp Group Limited

attach.



Good morning and thank you.

Today I will provide you with an update on the Suncorp story, spend some time talking through our quarterly bank disclosures, while also addressing some topical general insurance issues.

Suncorp's shareholder promise

Simplified, de-risked financial services group

Yield

- Dividend payout ratio of **60%** to **80%** and return of surplus capital
- Organic strategy, focused exclusively in Australia and New Zealand
- De-risked and simplified business model



Growth

- Efficiency-led profit growth
- FY15 top-line growth of 'low single digits'
- Multi-brand, multi-channel approach leveraging the Group's 9 million customers

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But I will start this presentation the same way I start all presentations relating to the Suncorp Group, and that is with our Shareholder promise.

The Suncorp shareholder promise centres around our objective to build a simple, low-risk, financial services group that delivers both high yield and above system growth.

I want to spend a few minutes at the start of this presentation giving you a sense of why this shareholder promise has been so critical to the transformation of Suncorp.

Suncorp Shareholder promise

Simplified, de-risked financial services group

Simplification

Streamlined legal structures and systems

Yield

Increased dividend over the past 4 years
Commitment to return excess capital to shareholders

Shareholder Promise

De-risking

Non-core Bank resolution
Life balance sheet reset

Growth

Real opportunities for targeted growth

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There are four key elements to the way we describe our company to shareholders – simplification, de-risking, yield and growth.

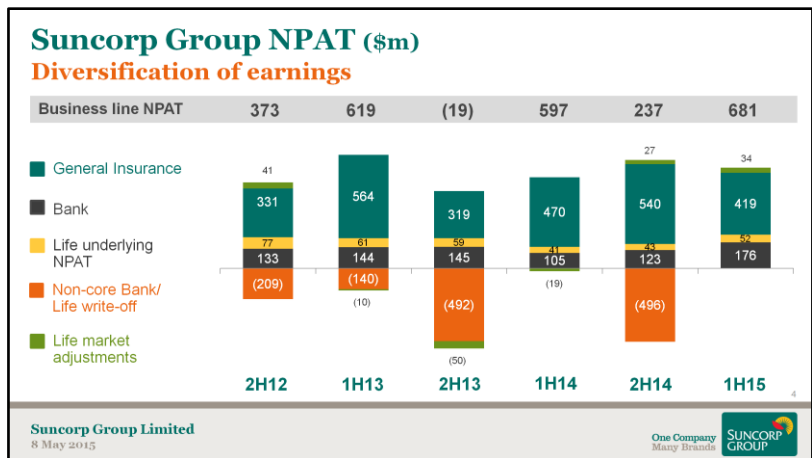
Over the past five years Suncorp has become a far simpler business for you to understand and value. The Group's legal structures have been streamlined under the NOHC; we have collapsed six GI licenses to one and we now have one platform managing all our pricing, claims, finance and people systems. We are well advanced in decommissioning more than a dozen legacy policy administration systems and by 2017 we will be one of the first banks in the world to turn off the outdated Hogan banking platform.

Simplification, in turn, has been the catalyst for the de-risking of Suncorp. In financial services, complexity often implies risk and with every step of the simplification journey we have been better able to understand our business and the link between risk and capital. We have also addressed challenging legacy issues; such as running-off the Non-core Bank, re-setting the Life balance sheet, reducing aggregate home insurance exposure in Queensland and selling businesses that were not core to our future. We have invested heavily in risk capability right across the Group and our balance sheet is now among the strongest in Corporate Australia.

We proudly identified ourselves as a yield focussed business well before it became market practice to do so. We have done this not by constraining investment but, rather, by adhering to a simple principle: if we have capital that is excess to that which we need to run the business then it should be returned to shareholders.

In 2012, we were the first financial services company to pay a special dividend and we backed this up in 2013 and 2014. Our share count has remained flat since 2011 as we satisfied the DRP through on-market purchases. Together, these capital management initiatives account for over \$1.3 billion that has been returned to shareholders, above and beyond the high yield implied by our ordinary dividend policy.

At the same time as delivering high yield, the combination of our businesses also means we have the ability to deliver a growth story and I will return to this in a moment.



But first let me address a point that is often overlooked in the analysis of our business, particularly when that analysis is exclusively focussed on the insurance cycle.

As a diversified financial services group, Suncorp has multiple sources of profit that ultimately support dividend and yield. This slide provides a graphical example of how this has played out over the past six half year periods, corresponding with a time when we took steps to address legacy issues such as the Non-core and Life write downs.

During that period it was the strength of the transformed general insurer that underpinned profit and provided shareholders with satisfactory returns.

But with their legacy issues now addressed, the Bank, as you will hear today, and Life business emerge as meaningful contributors to Group profits – and they now do so as simpler, de-risked businesses.

As we come through the full year we'll be able to demonstrate the improving profit profile of these two businesses and the solid base they provide in underpinning the more volatile general insurance profits.

You have also heard us talk of the natural hedges that protect our business from volatility in investment markets.

These are unique to Suncorp because of our business model and put us in a far stronger position than our monoline competitors.

Take life market adjustments as a case in point. This is effectively the revaluation of the DAC based on movements at the 10 year point of the yield curve. As discount rates fall profit increases and vice versa. A monoline life insurer would ascribe no value to this accounting profit given its propensity to unwind.

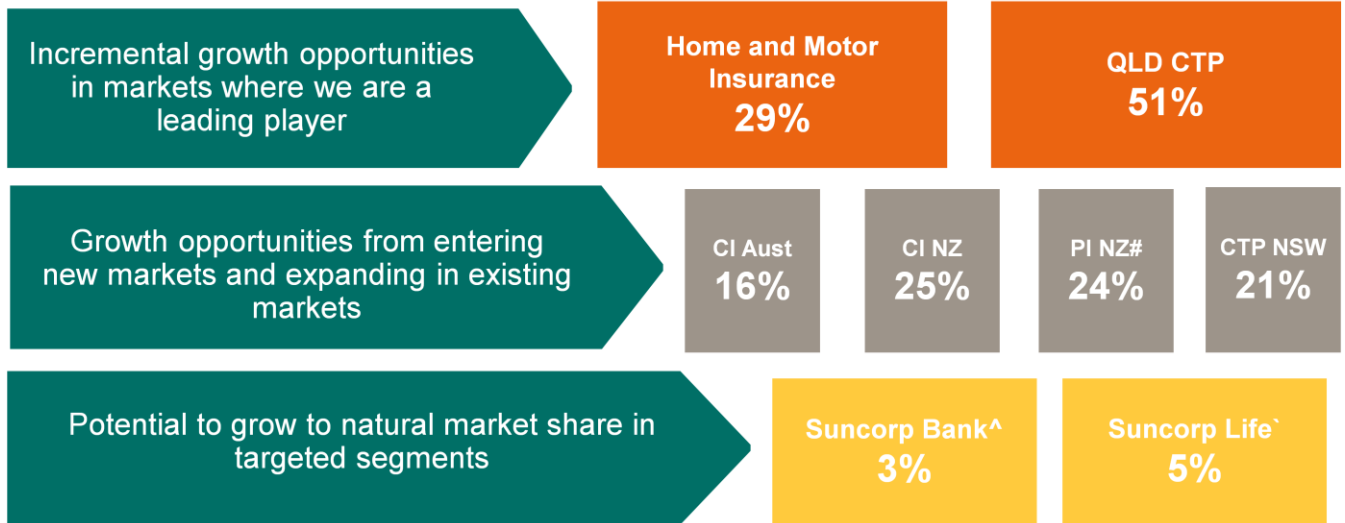
However, as CFO of this diversified group, I know that a downward movement in 10 year discount rates and the resulting increase in Life profits is sometimes accompanied by similar reductions in the 10 year breakeven inflation. In this instance inflation-linked bonds would underperform nominal bonds driving general insurance accounting losses.

Again, the reverse usually occurs as discount rates increase.

There are many other examples of this diversification across our business.

Suncorp market shares*

Growth opportunities



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*As at 30 June 2014 #Vero and AAI
^Residential mortgages `In-force individual risk premiums Australia.



We are also often asked how we justify our view that we can deliver high yield while still growing strongly.

The answer again lies in our unique business model and our five businesses operating in different parts of the financial services industry, with different shares of their respective markets.

This slide graphically captures the real growth opportunity available to Suncorp.

It is true that in our personal insurance business, and some statutory classes, growth opportunities will be constrained by dint of our significant market shares. Our goal here should be to leverage our scale and manage price and volume to grow at or about system.

However, across much of CI and in NZ, market structures are conducive to us being able to grow profitably - and we are doing this today.

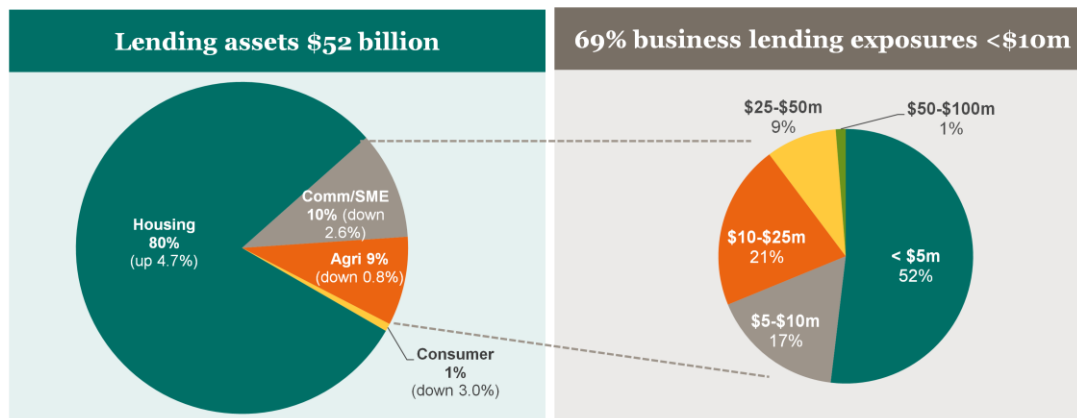
Our Bank, with a national market share in mortgages of just 3%, has an ability to grow consistently ahead of system, limited of course by risk appetite and capital consumption.

And in Life, with 5 million GI customers to address, we can grow the more profitable direct product.

Therefore, it is possible for yield and growth to co-exist within Suncorp. With Integration, Building Blocks, Simplification and the new banking platform, Ignite, either complete or nearing completion, the peak investment phase is now behind us. We can now leverage this optimised platform for profitable, lower cost growth.

Suncorp Bank lending portfolio

80% mortgage lending



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Turning to today's disclosures and in particular to the Bank's quarterly update on credit quality and growth.

At the half year result we pointed to an improving growth profile for the Bank following a period of consolidation and margin improvement.

While much of that growth sat off-balance sheet at the half year, at March 31 you can start to see this improved profile more clearly.

Total lending assets grew \$1.7 billion or 3.3% for the quarter to \$52 billion, with around 80% of the book represented by low-risk Australian mortgages.

Home lending was up 4.7% over the quarter on the back of a very successful and targeted campaign launched late last year.

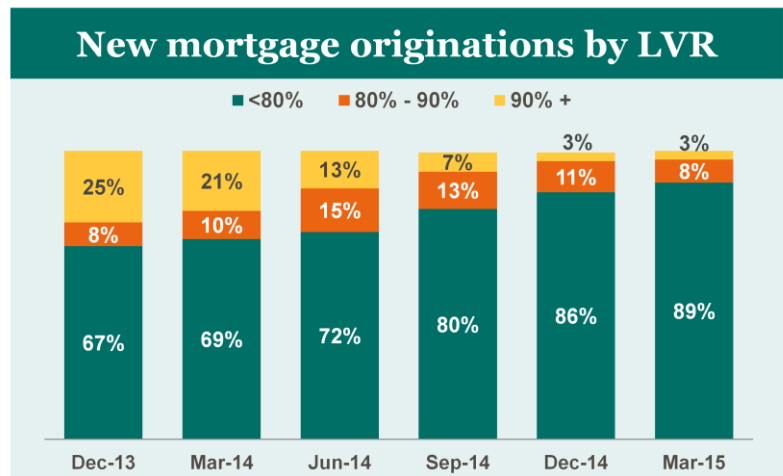
The Agri and SME books contracted marginally over the quarter.

A targeted rebalancing of portfolio concentrations drove the Agri decline while the SME portfolio was impacted by the deliberate exit of exposures that are outside the Bank's conservatively-set risk appetite.

Risk position

Improved LVR mix

- Ongoing improvement in quality of new home lending
- 89% of new loans written over the quarter were at or below 80% LVR
- Portfolio LVR mix has shifted notably toward sub-80% lending
- Loss experience consistent at 0.03%



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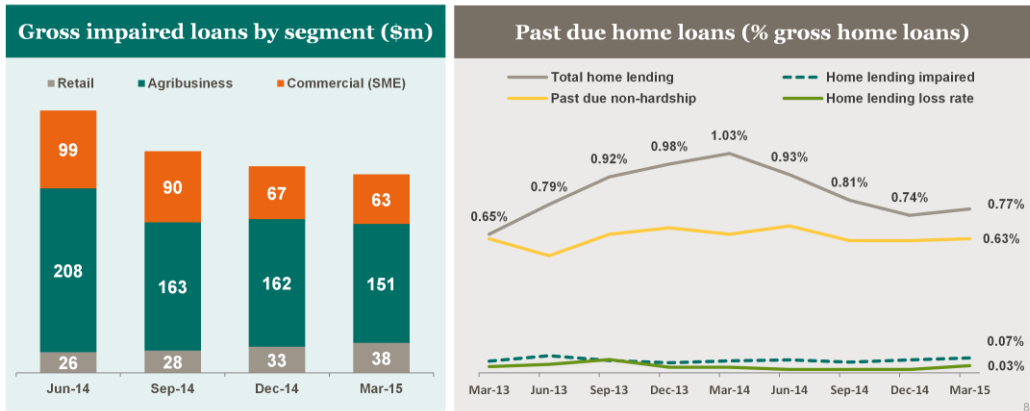
Perhaps the most pleasing aspect of this strong quarterly growth has been its origination profile with over 89% of new loans written at, or below, 80% loan-to-valuation ratio.

The graph on the slide demonstrates the significant improvement in the disbursement profile that has occurred over the past three quarters, marking a turning point for the Bank.

At the same time, we are improving the diversification of the Bank's lending profile because over 85% of this quarterly growth was outside of our home state of Queensland.

Credit quality

Gross impaired and past due home loans



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The Bank also retains a strong focus on serviceability - ensuring credit quality is of paramount importance.

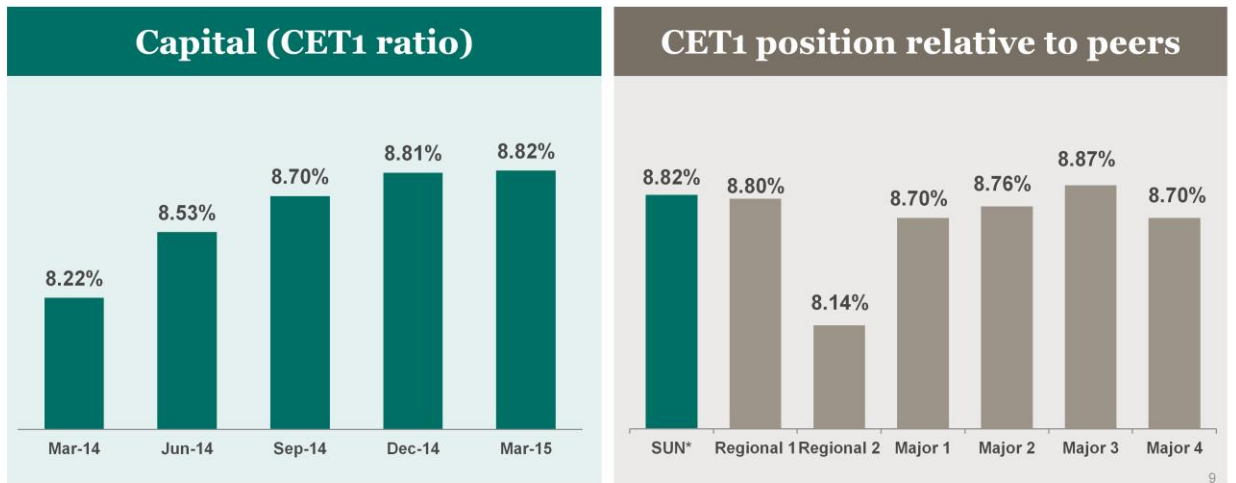
Gross impaireds are tracking in the right direction - down 3.8% for the quarter and representing just 48 basis points of gross loans and advances.

The marginal increase in retail impaireds and past due loans reflects the usual January to March seasonality.

Overall, gross non-performing loans, which comprise both impaired and past due loans, are down 80 basis points over the quarter.

Capital

Strong capital position



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Source: Latest company reports.



To Bank capital, and at 8.82%, CET1 has stabilised this quarter and remains comfortably within the Bank's revised target range.

You will recall at the half year we took the prudent step to increase the Bank's CET1 target to a range of 8.5% - 9%.

We remain very comfortable with this target, which I would point out, has been informed by comprehensive stress testing and our new risk based capital models.

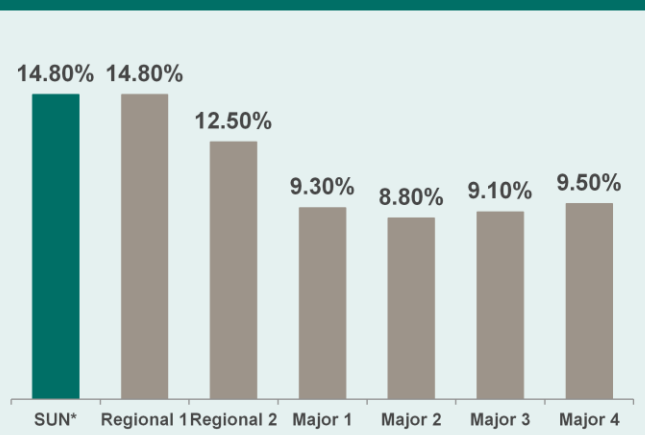
We feel our actions in proactively increasing the capital target set the Bank up for the medium to long-term.

You can see on the right of the slide, Suncorp Bank more than holds its own when compared to the industry.

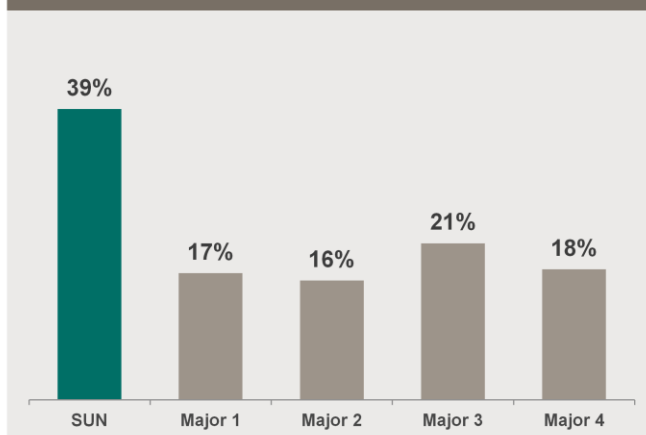
Bank Capital

Strong capital position

S&P Risk Adjusted Capital ratio



Mortgage risk weighted assets to peers



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Source: Latest company and S&P reports.
*SUN based on internal estimate at December 2014.



However, along with the other regionals, the absolute amount of capital held is far greater when you wash through the distortion of differential risk weightings as rating agency S&P do when they calculate their risk adjusted capital ratio.

And, don't forget, our Bank sits alongside a general insurer, in a non-operating holding company structure, providing it with access to organically generated capital in times of severe stress.

This makes it arguably one of the strongest regional banks in the world from a capital perspective.

Suncorp Bank

Contributing sustainable earnings to the Group

Key targets

NIM **1.75% to 1.85%**

Retail deposit to lending ratio **60% to 70%**

Disciplined cost management driving down **cost to income ratio**

Sustainable retail lending growth of **1 to 1.3 times system**

Australia's leading regional bank

Basel II **Advanced Accreditation**

New banking platform – **Project Ignite**

A+/A1 credit rating

Excellent customer **satisfaction**

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In summary, we feel this quarterly disclosure demonstrates the Bank's ability to grow in a sustainable and disciplined manner.

I would, however, caution against taking this quarterly growth and simply annualising it.

We remain committed to growing our mortgage book at 1 to 1.3 times system and expect us to finish the year within that range. At the same time, we expect our Net Interest Margin to remain towards the top end of our guidance range as we come through the full year.

This disclosure underscores the re-emergence of the Bank as a meaningful contributor to Group revenues and earnings. And there is more upside to come. Our new digitally enabled platform is just around the corner, and this will further differentiate us from our regional competitors and set us up as a truly viable alternative to the Majors.

General Insurance

Update 2011 Reinsurance and FY16 Reinsurance program

2011 Reinsurance

- Reinsurance issue relating to 2011 Catastrophe program
- Purchase of additional cover after Christchurch earthquake, Brisbane Floods and Cyclone Yasi
- Highly complex and technical issue heading towards a commercial resolution

FY16 Reinsurance program

- **Favourable** reinsurance markets
- Suncorp program unlikely to change dramatically
- **Exploring options** for additional P&L protection
- Quota share **protection covers 30%** of Queensland Home insurance through to 2018

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To General Insurance now and I'd like to update you on a few topical issues.

The first is an update on a 2011 reinsurance issue that emerged on the eve of the half year result.

We have been working with our reinsurance partners and advisers to address an issue that is both highly complex and technical. Good progress has been made and we are confident that there will be a commercial resolution in the near future.

In terms of the FY16 program, we expect to benefit from a favourable market with significant capacity. The FY16 program is unlikely to dramatically change, however, we will be exploring options for additional P&L protections.

The second topical issue is that of natural hazards.

Natural hazard allowance

Three key components

Attritional

- 17 years of Suncorp inflated and adjusted data
- Higher weighting to most recent 5 years



\$5m - \$100m

- 19 years of Suncorp data
- Modelled using frequency and size approach
- Frequency a blend of industry and internal data
- Size based on internal data



\$100m+

- Multiple catastrophe models, both internal and external
- 45 years of industry data

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This has been an exceptional year for weather events and has again called into question the adequacy of natural hazard allowances across the industry.

By way of background our natural hazard allowance is an actuarial calculation across three categories of claims using an array of data available to us – internal, industry and catastrophe models.

We are able to model smaller, 'attritional' events using 17 years of internal data. In recent years we have increased the weighting applied to more recent experience in this category of claims and we are now broadly comfortable that this is a better reflection of likely experience.

For events in the \$5 million to \$100 million range we utilise both internal and industry data. Similar to the attritional claims, an indexed 19 year history is assessed and this is combined with industry data to provide a more accurate distribution. Again, recent experience in this category has played out broadly in accordance with the allowance.

Losses above \$100 million are notoriously hard to model and for this reason we use a combination of industry data and catastrophe models to form our view. Each peril: cyclone, hail, flood etc, is modelled and considered separately in this process.

General Insurance

Event costs as at 8 May 2015

Date	Event	Gross costs \$m	Net Costs \$m
Sep 2014	Melbourne Storms	18	18
Oct 2014	Sydney Storms	25	25
Nov 2014	Brisbane Hailstorms	350	250
Dec 2014	East Coast storms	40	40
Feb 2015	Cyclone Marcia	150	150
Apr 2015	NSW storms	240	135
Apr 2015	ANZAC Day Hail	up to 105	50 to 70
May 2015	Brisbane storms	up to 55	30 to 50
Year to date	Other smaller natural hazards events	circa 300	circa 300
Year to date total		up to 1,283	998 to 1,038
Less: full year allowance for natural hazards			595
Natural hazards costs above allowance (year to date)			403 to 443

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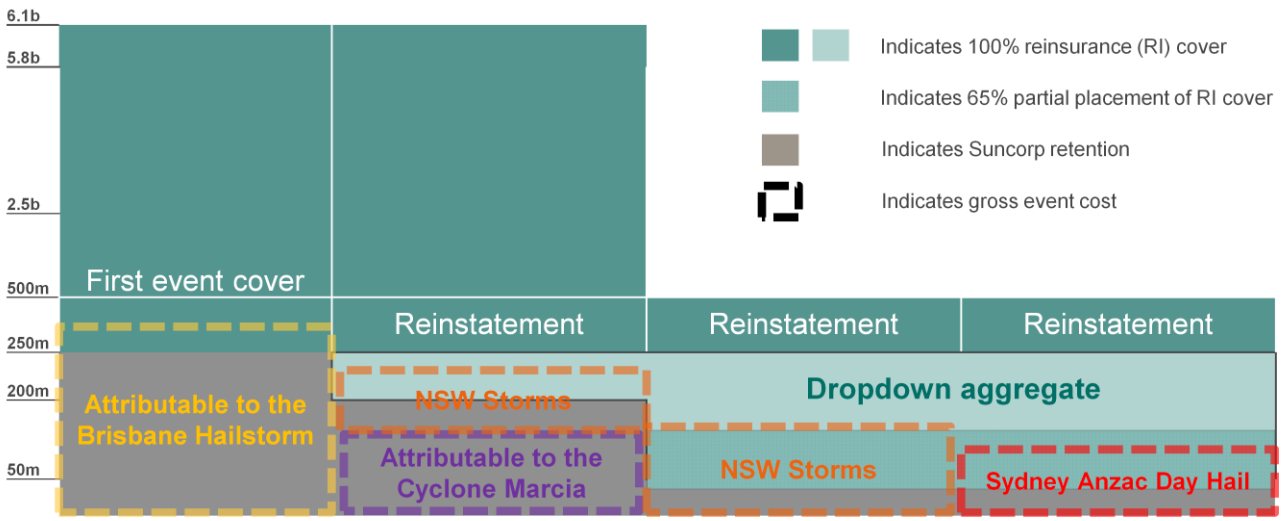


I've shown on this slide the events that have us heading towards \$1 billion in natural hazard claims this financial year. The most recent event, in Brisbane last Friday, is expected to cost up to \$55 million.

To put the full year outcome in perspective, last year, our natural hazard claims were around half this at \$538 million.

In the past three months, we've had three events in the \$100 million to \$250 million range when we would normally be expecting only one per year and this will be a key area of focus as we move to reset our natural hazard allowance for 2016.

FY15 Reinsurance program



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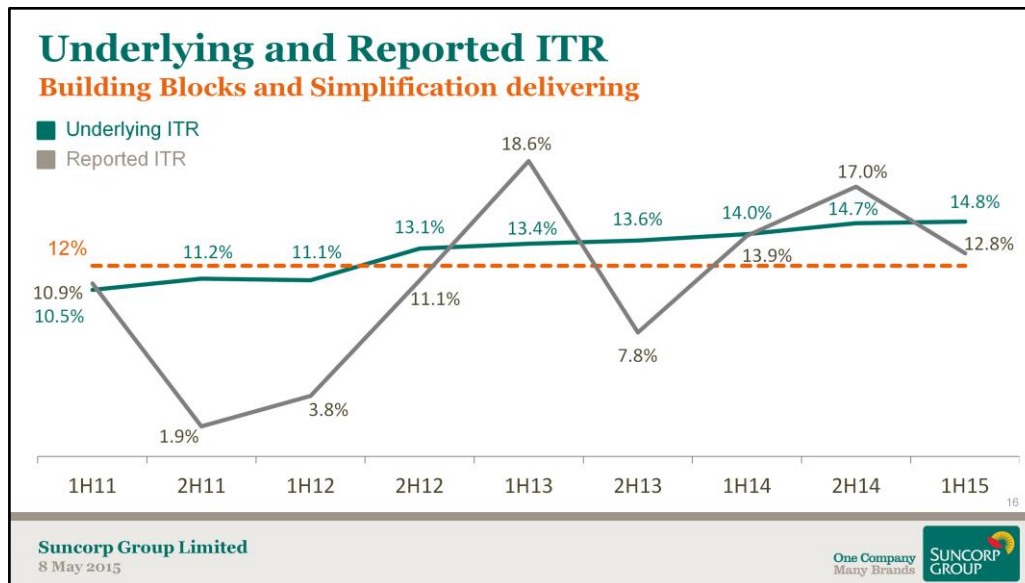
This slide shows how the major events have impacted our reinsurance program.

For those of you not familiar with reinsurance it can take a bit of explaining but essentially the areas in green represent layers of reinsurance protection we have purchased. The areas in grey represent our retention, or in more common language, our excess.

We buy reinsurance to protect the balance sheet for events up to \$6.1 billion and we also buy what we call 'sideways' cover to protect the P&L against multiple events. This approach has historically been very effective. It was particularly challenged in 2011 when we were dealing with the Christchurch earthquake, Cyclone Yasi and the Brisbane floods. The gross costs of these events were over \$6 billion yet we still reported a profit for our insurance business in that year.

Turning back to 2015 and, as you can see, we still have the vast majority of the reinsurance program intact for any major events between now and 30 June. Our maximum event retention, or excess, on a further event is \$120 million.

As I said earlier, we expect the 2016 renewal to benefit from a continuing favourable market particularly given the unprecedented natural hazard experience this year has had little impact on our reinsurers.



Finally, I'd like to address the topical subject of the general insurance 'cycle'.

A lot has been written about this and I'll reiterate Suncorp's position. Over the past four years we have had two major programs of work, Building Blocks and Simplification, that have significantly improved the efficiency of our insurance operations. This is demonstrated by the consistent improvement in the underlying and reported insurance margins as we passed the majority of these benefits through to our shareholders.

During this time, there has been the emergence of new entrants who, along with established challengers, have sought to capitalise on the favourable industry dynamics. Of course, they do not have the sophistication of our pricing engines, so there are some customers that they have under-priced and we are comfortable to lose. Having said that, as the longer-term custodians of the business, the protection of our franchise should always be our key priority.

Over the past six months, Suncorp has been reinvesting the incremental benefits of the Simplification program into the front of the business. This has meant that we have been able to pass on premium reductions on renewal for home and motor customers as well as increasing our marketing for new business. This has been working and we have seen a significant increase in renewal rates with the GI underlying margin remaining well above our 12% through the cycle guidance.

New business volumes continue to be lower than we would expect, however, the improved retention means that we have experienced positive unit growth across PI in the March quarter.

For the remainder of the year and heading into 2016, we will continue to manage price and volume to broadly maintain market share.

We can do this, and still deliver improved shareholder outcomes, because we continue to see benefit emerging from our Simplification and supply-chain initiatives, along with the industry-wide benefits of lower reinsurance costs and improved frequency rates. Specifically for Suncorp, there are more material benefits still to be realised as we leverage our scale and this will be the focus of our Investor Day at Riverwood on May 27.

General Insurance

Three key industry impacts

	Event	Est gross cost to industry (\$m)*	Est gross cost to SUN (\$m)	Est net cost to SUN (\$m)
1. Increased frequency and severity of natural hazards	Brisbane Hailstorms (Nov)	1,400	350	250
	Cyclone Marcia (Feb)	500	150	150
2. A lower A\$ impact on car parts	NSW Storms (Apr)	1,000	240	135
	ANZAC Day Hail (Apr)	400	up to 105	50 to 70
3. Lower yields	Brisbane Storms (May)	150	up to 55	30 to 50
	Total	3,450	up to 900	615 to 655

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* Source: Suncorp internal estimates



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There are three other key factors that I believe may impact on the insurance industry and run counter to those that believe there is a 'race to the bottom'.

Firstly, as I outlined earlier, FY15 is looking like the worst year for medium-sized weather events in recent history. This is likely to have a material impact on competitors who, by and large, have a less sophisticated approach to risk-based pricing and reinsurance. You can see from the slide that for the five major events alone, there is over \$2.5 billion of non-Suncorp claims that are being borne by our competitors and their reinsurers. This will no doubt test the depth of their pockets and their claims management capability. At the very least, I expect it will lead to a stabilisation in some of the more aggressive pricing activities.

Secondly, the lower Aussie dollar is having a significant impact on the terminal price of car parts. Here, we have seen an increase of between 6% and 8% over the past six months. To some extent, Suncorp is more quarantined from this impact than our competitors as we roll-out our parts importation and recycling business with our partner, LKQ. We spend around \$450 million a year on car parts and we know the mark-ups are around 400%. We have only begun to scratch the surface in tackling the obvious opportunity. Again, there will be more on this at our Investor Day.

Finally, although there is some capital flowing into the top-end of the Commercial Insurance market, the lower bond yields do reduce the returns for long-tail portfolios. Some insurance business have operated on the basis that, for every \$100 of premium they receive, they pay \$100 in claims and expenses. Their only profit came from investment returns. Suncorp does not follow that approach and aims to deliver significant underwriting profits. Nevertheless, investment returns are an important component in pricing long-tail products. The 3-year rates are the most relevant for Suncorp because 3 years is the average duration of long-tail claims provisions. This year has seen a continuation of the extraordinary fall in yields and the 3 year Government bond rate has fallen from 2.68% to under 2%.

All of this means that the simplistic talk of 'cycles' is much more complex and nuanced and I'm confident that we have the appropriate strategies to address the challenges. Thank you for your attention and I'm now happy to take your questions.

Important disclaimer

This report contains general information which is current as at 8 May 2015. It is information given in summary form and does not purport to be complete.

It is not a recommendation or advice in relation to the Group or any product or service offered by Suncorp or any of its subsidiaries. It is not intended to be relied upon as advice to investors or potential investors, and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice, when deciding if an investment is appropriate.

This report should be read in conjunction with all other information concerning Suncorp filed with the Australian Securities Exchange (ASX).

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 intent, belief or current expectations with respect to our business and operations, market conditions, results of operations and financial condition, capital adequacy, specific provisions and risk management practices at the date of this report. Such forward-looking statements are not guarantees of future performance and involve 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.

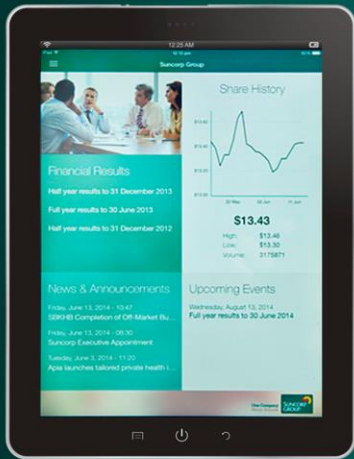
Suncorp undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date of this report (subject to ASX disclosure requirements).

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Investor Relations App

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