ASX Announcement

Conference Call Transcript
SUN.AX - SUNCORP-METWAY LIMITED Conference Call
Event Date/Time: Nov 16, 2010 / 10.00am AEDT

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Suncorp teleconference.

I must advise you that this conference is being recorded today, Tuesday 16 November 2010. I would now like to hand the conference over to your first speaker today, Suncorp Group CEO Mr Patrick Snowball. Thank you, Sir, please go ahead.

Patrick Snowball ***- Suncorp-Metway Limited - CEO***

Good morning and thank you for joining this teleconference. You will know that earlier this morning we announced completion of the strategic review of our asset management business, with the proposed sale of Tyndall to Nikko. We have also today released our September quarter APS330 disclosures, so this is an opportunity for us to provide you with a brief update on both matters and to take questions.

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I am joined today by John Nesbitt, our CFO; Geoff Summerhayes, CEO of Suncorp Life; and David Foster, CEO of Suncorp Bank.

Before I hand over to Geoff and David, I thought it would be useful to remind you of our key priorities and how today's announcement fits in with our overall agenda.

During 2009/10 we outlined our five key priorities and reported on our progress at the full year result in August. As you know, our businesses have been stabilised, our balance sheets strengthened, and we have in place an executive team that has detailed and extensive industry experience. We have also made good progress in simplifying the business by investing with LJ Hooker, completing the sale of two of our joint venture interests to the respective motor clubs, and completing the first two stages of our legal entity review. We have also achieved an upgrade in the last six weeks to A plus for the bank from S&P.

But the process of simplification is ongoing and will remain a key priority for the year 2010/11. You've already seen that we've announced a shareholder vote on a NOHC structure with a view to obtaining court approval for the Scheme of Arrangement by the end of the calendar year. And at the same time, as a key part of our simplification module, our proposal to move to a single standard set of terms and conditions across Suncorp Australia will be voted on by our people later this month.

Today's asset management announcement is another important step in simplifying the Group and ensuring our Life business remains 100% focused on its life risk strategy. The key priority for the Group over the coming 12 months will be in executing our organic plans. There is significant change underway across the whole Group through both our Building Blocks programs of work and as each of our business gears up to deliver to the commitments we made to the market last May/June.

When we report in February we will be able to demonstrate real progress and this will give you a further insight into what this business is capable of delivering.

So let me now hand over to Geoff to briefly talk through the sale of Tyndall.

Geoff Summerhayes *- Suncorp-Metway Limited - CEO Suncorp Life*

Thanks Patrick and moving to slide 3. This time last year we reshaped our core Life Insurance operations and focused on our complementary businesses of Super & Investments. We are pleased with the progress we are making in those core businesses around leadership in the IFA market and building a direct distribution business of scale.

We also conducted a strategic review to determine the optimum strategy for the management of Suncorp Group's investments going forward. Our review concluded that finding a strong and dedicated external investment manager to manage Suncorp's funds was the optimum approach. Clearly, in assessing any potential counterparties, there was a broad range of complex objectives that needed to be developed. Having committed to that approach and spoken to a range of highly qualified potential counterparties, we are confident Nikko Asset Management is a strong fit for the Tyndall Investment team and for Suncorp, as the manager of its funds.

Turning to slide 4… The sale achieves all of Suncorp's key objectives of securing a strong partner to manage its funds, ensuring appropriate flexibility in relation to the future allocation of funds, managing sale proceeds and shareholder value in that context, and minimizing business disruption. Suncorp will remain Tyndall Investment's major client, creating an important strategic partnership going forward. Approximately AUD18 billion of Suncorp directed funds will continue to be managed by Tyndall Investments.

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Nikko Asset Management is a long established pan Asian business that has a highly experienced investment management team and is a strong investment management partner for Suncorp. Partnering with an investment management company of Nikko Asset Management's depth, pedigree and scale means Suncorp's shareholders and clients can access enhanced capabilities with genuine international reach, global best practice and specialist investment expertise. The transaction also positions Tyndall Investments for future growth as Nikko Asset Management has strong distribution capabilities in the pan-Asian region.

Suncorp is committed to pay Nikko Asset Management a minimum level of fees over the next three years and have the option to extend this commitment for a further three years. Importantly, the sale does not impact the day to day activities of Tyndall Investments, which remains focused on managing client portfolios and continues to be highly rated by the research community for its approach process and performance track record.

Turning to slide 5… The potential value package for all stakeholders is up to AUD128.5 million, including an AUD80 million upfront cash consideration to Suncorp. This delivers a strong financial return to Suncorp shareholders, particularly in the context of the flexible arrangements struck with Nikko Asset Management in respect of the future management of Suncorp's funds.

On a normalised profit basis, including reflecting revised fee arrangements in respect of Suncorp's funds, Tyndall investments generated a profit after tax, in FY10, of AUD10.2 million. The sale implies a multiple of up to 12.6 times normalised profits in that year.

Due to the structure of the consideration being provided, AUD85 million will be recognised by Suncorp at the completion - that being AUD80 million in an upfront payment and a further AUD5 million distribution access fee, with the additional AUD30 million at the end of year three, should the option be exercised by Suncorp. This is based on current revenue estimates and could be higher or lower depending on actual revenue for the period.

So, with that, I'd now like to hand to David to talk you through the APS330 disclosures.

David Foster ***- Suncorp-Metway Limited - CEO Banking***

Thanks, Geoff, and good morning everyone.

Let me start with the core bank, which is covered on page 7 of the pack. After reaching the top end of our deposit to loan ratio target, we've been in a strong position to recover some margin in a very competitive retail deposit market. While deposit growth has fallen below system levels in recent months, at 71.7% our deposit ratio is still comfortably at the top end of our target range.

Steady growth in core lending assets has continued over the quarter, with growth primarily coming from the housing segment of the book, both proprietary and broker. In May of this year, we outlined our goal of returning to system growth in home lending by the end of calendar 2010.

It's pleasing to see that we've reached these levels with the pipeline indicating that we can maintain those levels through to the end of the calendar year and beyond.

To credit quality in the core bank now, which is on page 8 of the slide pack.

Retail arrears to gross loans have levelled off over the past six months, and we remain very comfortable with the credit quality of the retail book. The graph on the top right of the page shows the trend in core gross NPLs.

An increase in impaired assets comprised four secured agri and commercial accounts of less than $20 million each. Although it's not a significant amount on its own, the amount is accentuated by the fact that there is only a small number of core impaired accounts.

Non-performing loans in the core bank comprise only 0.52% of total gross loans. The migration to impaired assets of these accounts is reflected in the movement from collective to specific provision on the bottom left of the page.

Total impairment loss for the quarter in the core book was $12 million or an annualised 21 basis points to credit risk weighted assets.

To non-core assets on page 9 and run-off of $1.5 billion for the quarter was, again, ahead of expectations. While this is good news, we would again caution that the gap between the achieved runoff and the expected line on the graph may move around as we run-off the book over the time horizon.

There are three key reasons for this and we have been through them in the past. Firstly, it is a closed book and it is in runoff. By its nature it will behave differently to the open books of some of our competitors.

Secondly, there are major scarcities of alternate funding sources in the market and, importantly, given the strength of the Group capital and funding positions, we are well-placed to manage the portfolio to extract maximum shareholder value across both performing and impaired assets.

Moving now to credit quality in the non-core bank, and I'm on page 10 now. You can see in the waterfall chart in the top left that while there's been an increase in the impaired asset balance during the quarter, it's largely explained by the move into impaired of the Austexx exposure, which we flagged at the year end.

Now, the factors that have driven this asset into impairment, and its likely workout, have been well-canvassed, but it again demonstrates the volatility that can occur and why it's important not to get too distracted by quarter to quarter movements.

At the macro level, the trends around the non-core performing book remain positive. Beyond Austexx, four smaller accounts moved from watch list oversight to impaired, with no new accounts emerging. Past due loans continue to moderate.

Specific provision increases largely reflect further provisioning against known exposures and some undeveloped land holdings where lower levels of demand and rising interest rates have fundamentally changed the development equation.

Non-core write-offs, while ticking up slightly from the June quarter, were broadly in line with our expectations, given the composition of the book and the progress through the credit cycle.

We've clearly had limited success in disposing of impaired assets over the quarter. As we've previously outlined, we are well capitalised and, as such, we are managing these impaired assets to extract maximum shareholder value over time.

If I move to slide 11 now, and briefly to funding - the non-core book continues to be match funded through to maturity, and we are well placed to meet the upcoming maturity requirements, which you can see on the graph at the bottom of the slide.

In addition, the recent upgrade to A plus will improve funding flexibility over the long term, and we will continue to take advantage of opportunities in the market as they emerge.

With that summary, I'll now hand over to John Nesbitt to cover off capital disclosures.

John Nesbitt *- Suncorp-Metway Limited - Group CFO*

Thanks David. Turning to capital and slide 12 -- as you'll recall in now seeing the full year results of 30 June 2010, we announced three decisions that emphasise Suncorp's strong capital position.

Firstly, we paid a dividend at the top end of our 50% to 60% payout ratio. Secondly, we removed the discount to the DRP and bought the requisite shares on market to remove any dilutionary impact. Finally, we announced we were calling AUD220 million of subordinated debt.

After these changes, our bank capital position remains strong, with a Tier 1 ratio at over 13% and an adjusted fundamental Tier 1 just under 7%.

The waterfall chart on the top left shows the movement in risk weighted assets, and you can see that the significant reduction in non-core lending has been substantially offset by core lending growth and a number of one-off items.

These one-offs include adjustments made when finalising June returns, higher liquid asset holdings to meet the impending term debt maturities, and an intercompany receivable balance. The latter two impacts are likely to reverse by the time we report our half-year result.

These one-offs and other group related capital impacts means that our Adjusted Fundamental Tier 1 ratio has fallen marginally despite the fact that the bank generated an underlying increase in AFT1 of 18 basis points for the September quarter.

All of this, again, demonstrates that quarterly capital numbers can be misleading and why moving to a NOHC structure will provide a clearer and more consistent view of both group and bank capital.

Finally, it's also worth noting that the General Insurance Group capital position remains very strong, with an MCR coverage at over 1.9 times at the end of September.

Turning to slide 13 -- finally, I'd like to outline the accounting treatment of the Tyndall transaction. The financial outcome is a positive one for our shareholders. The AUD80 million upfront payment is well above the net tangible assets of the Tyndall operations and, accordingly, is capital accretive.

As a result of a write-down of allocated goodwill of AUD85 million, the current year reported loss on sale after tax is expected to be approximately AUD30 million.

If the option is exercised, this will result in an additional AUD21 million profit after tax in the year 3.

Now I'd like to hand back to Patrick.

Patrick Snowball *- Suncorp-Metway Limited - CEO*

John, thank you very much. At this point, we'll open up the lines to questions.

QUESTION AND ANSWER

Nigel Pittaway *- Citigroup - Analyst*

Morning Patrick, John, David, Geoff. Two questions if I could. First of all, just on page 12, the 0.4, obviously negative movement in AFT1. Can you maybe just give us a feel for how much of the 0.4 relates to those two one-off items you outlined, John, rather than the adjustment to June returns?

John Nesbitt *- Suncorp-Metway Limited - Group CFO*

Certainly. Thank you, Nigel. Look, the greater part of that 0.4 are tiny things like intercompany and dividends flowing through the book. So, around 75% of the 0.4 is related to those tiny adjustments. Looking through to October, the book is back up over 7 already, so that tiny adjustment flows through quite promptly.

Nigel Pittaway *- Citigroup - Analyst*

All right. Secondly, obviously, you mentioned that the core bank is back up to system growth levels. You obviously had that target at 1 to 1.3 times by 31 December. Can you just give us a feel for how confident you're feeling about that at the current time?

David Foster *- Suncorp-Metway Limited - CEO Banking*

Thanks, Nigel. David here. Certainly, we're seeing some softening in the system itself, back to around an annual growth rate of more like 6 to 7 for housing, but we've got a very strong pipeline and at the latest months we were growing at around about 1.3 times system, and certainly our outlook through our pipeline is still strong; it will maintain that relativity over the next period. So we're very confident through to the end of the year and beyond.

Nigel Pittaway *- Citigroup - Analyst*

Great. Maybe just one final question. Just in terms of obviously the AUD1.5 billion of runoff in the non-core bank for the quarter, did any of that actually come from portfolio sales?

David Foster *- Suncorp-Metway Limited - CEO Banking*

Through the quarter, we only had one asset sale of a corporate banking asset, a performing corporate banking asset circa around the AUD100 million, but that was the only sale through the quarter.

Nigel Pittaway *- Citigroup - Analyst*

Great. Okay, thank you very much.

Patrick Snowball *- Suncorp-Metway Limited - CEO*

Thank you, Nigel.

Stewart Oldfield *- E.L. & C. Baillieu Stockbroking Ltd - Analyst*

Good day everyone. Just a question on GI and then the Bank if I could. How's the rollout of the new pricing engine going and any reaction from customers?

Patrick Snowball *- Suncorp-Metway Limited - CEO*

Actually, it's very early days. We've got about 80% of our motor book on it now, which went on line about two weeks ahead of schedule, ,with AAMI going across to it first. But the early indications are the conversion is up and the pricing is going where we wanted. We're very pleased.

Stewart Oldfield *- E.L. & C. Baillieu Stockbroking Ltd - Analyst*

And when's Home?

Patrick Snowball *- Suncorp-Metway Limited - CEO*

Home is not due yet, because, as I said, as far as I remember we talked about home by about April next year.

Stewart Oldfield *- E.L. & C. Baillieu Stockbroking Ltd - Analyst*

Okay. And just on the bank, there was some press about a couple of large residential projects in the Gold Coast with the major banks had exposure to them. Have you guys got exposure to those? There was reference to pre-sales falling over and the like.

David Foster *- Suncorp-Metway Limited - CEO Banking*

I'll just talked about the development book overall and then narrow in on your question. Through the last quarter, we've seen the development book run off by just shy of AUD500 million. And as I flagged at the year end, if you look at that in two parts.

On the small end of the development, we've largely completed all the development of that and that's working its way through. On the corporate end, there's some residual development risk of a small number of projects that are working their way through.

Within that bucket we do have a couple of larger unit developments that are nearing completion and in sell off. For the majority of the portfolio, as I flagged before, the pre-sale performance has been strong with less than 10% drop off. But there is some noise emerging in a couple of these residual ones which we're continuing to watch. But they're fairly early in their evolution. But they're in the tail of the portfolio.

Stewart Oldfield *- E.L. & C. Baillieu Stockbroking Ltd - Analyst*

All right, thank you.

Craig Turton - ***Macquarie Bank - Analyst***

Good morning. You mentioned on the undeveloped land portfolio that interest rates are affecting the valuations there and ability to sell. I'm just wondering about collateral values that underpin the provisioning levels in the non-core bank. I notice the coverage keeps falling and I just wonder whether that comment suggests that your collateral values need downwardly adjusting at some point in time.

David Foster - ***Suncorp-Metway Limited - CEO Banking***

Thanks Craig. Just to give you a little bit more colour around the write off charges for the quarter and then I'll talk specifically about land over the period of time.

So if you look at the impairment charge for the quarter, basically you can slice it in two broadly. Half of it relates to IFRS adjustments and adjustments to existing provisions which include things like receivers' charges and fees going through and some tweaks to valuation.

The other half relates to that issue around vacant land and some industrial parcels. There's not a specific blanket that you can throw over that portfolio. And if I just give you a little bit of colour for how that's tracked in recent - in the last say six months.

In the vacant land [englobo parcel] we had about AUD1 billion in April which has worked its way down through either re-finance, payout et cetera down to about AUD500 million. Some of the issues that we've seen in the last quarter are site specific and developer specific, whether it be particular development equations - in particular geography, zoning changes in a couple of cases and other examples where we've actually gone through all of that portfolio and reassessed, whether it be valuations or development equations and the like and work their way through.

As I said, that portfolio's down to about AUD500 million; about half of that already is within our - that we've done as part of that review - sits within our impaired category. And of the industrial development land where we had about AUD220 million or AUD230 million, all of that's washed its way through and there's nothing left on that bucket. So, again, it's a bit of a cleanup of some residual site-specific issues on that portfolio.

Craig Turton - ***Macquarie Bank - Analyst***

Got it. And if I could just follow up on the Austexx's exposure. What type of coverage level have you got against that exposure?

David Foster - ***Suncorp-Metway Limited - CEO Banking***

I'm not going to go into specifics about the exposure but we have - obviously it is impaired and has provisioning against that. It's got a number of different assets that make up that exposure which have all got different parties and different timelines involved in terms of outcomes which still are being worked through. But we're obviously working closely with the balance of the banking syndicate in the case of the South Wharf assets and continue to manage that through.

Craig Turton - ***Macquarie Bank - Analyst***

Excellent. Thanks very much.

TS Lim ***- Southern Cross Equities - Analyst***

Could I get a view of margins in the core bank and the non-core bank? And also do you see the funding costs sort of tapering off in 2011?

David Foster ***- Suncorp-Metway Limited - CEO Banking***

Just a quick overview on the margin story across the book. If I talk about the non-core we were 71 basis points at the last half. We flagged that we expected a step down in margin in non-core this half due to a number of different influences including the run off pace and the mix, ramp up in our liquidity position to pre-fund the maturity towers and the obviously the pricing of the towers that actually would run off during the course of the quarter. Likewise the ongoing impact of interest not brought to account on impaired assets.

So we flagged that we expected a step down during the course of this half which we've seen. We expect stabilisation and some improvement of that in the second half as we flagged at the year end.

In the core bank, we provided some range of expectation of around 1.76 to 1.84 as the broad range. And, again, there was a number of variables impacting that including deposit pricing - and I'm happy to talk about that in a moment - asset growth and mix. And, of course, any repricing initiatives.

So if I just go through each of those briefly in turn. We flagged at the year-end that we had a couple of segments within our deposit base that provided us some flexibility to manage our deposit to loan ratio, where we got up to around 73%. But we had that flexibility to manage a couple of those segments which we've been doing to improve contribution to margin and recoup some of the funding costs that we've seen.

The second one, obviously, on the mortgage side, we've seen growth. The business book has had some modest growth but fairly flat across that period. And then you may have picked up yesterday, albeit there hasn't much coverage on it which is good, we repriced our standard variable rate by 39 basis points yesterday.

So all of those factors were factors that we've taken into account when looking at that expected range of 1.76 to 1.84 and we expect to continue to track within that range.

Brett Le Mesurier ***- Axiome Equities***

In the waterfall chart on capital, you had an 18 basis point increase for underlying bank capital generation. Do we interpret that that there's a profit of AUD67 million for the quarter?

John Nesbitt ***- Suncorp-Metway Limited - Group CFO***

No, that is primarily run off of the book, it's not an indicator of profit.

Brett Le Mesurier ***- Axiome Equities - Analyst***

Okay. The watch list exposures, can you comment on how they're tracking?

David Foster *- Suncorp-Metway Limited - CEO Banking*

Sure Brett, it's David here. I think I mentioned in there that we continue to see stability in that impaired watch list bucket. It's been pretty flat for the quarter with no new exposures coming into that bucket which provides us some confidence, obviously, around the forward picture.

Brett Le Mesurier *- Axiome Equities - Analyst*

Is that true separately for the core and the non-core bank or is one different to the other?

David Foster *- Suncorp-Metway Limited - CEO Banking*

That comment's specific to the non-core bank Brett. In the core bank it's, as I flagged, we had four accounts move from the watch list to impaireds. I think we flagged at the half year. Just given where the status that we're at with the economic cycle, whether it be due to interest rates or underlying economic conditions, we expected this calendar year to be the peak of the cycle for that core book and certainly with increasing interest rates and ongoing lack of confidence in underlying business, we'd expect still to be some challenges there. But obviously they're off a very, very low base and at AUD12 million for the quarter, it was a pleasing performance in the core book.

Brett Le Mesurier *- Axiome Equities - Analyst*

So those material new impaireds in the core bank, they were already in your watch list exposures, is--

David Foster *- Suncorp-Metway Limited - CEO Banking*

Correct.

Brett Le Mesurier *- Axiome Equities - Analyst*

Okay great, thank you.

Daniel Toohey *- CLSA Limited - Analyst*

Thank you. Good morning. Just a couple of questions on capital. Firstly have you run what would be the implication of Basel III for your core Tier 1 capital position? Just wondering if you can provide any comment or view on that as to, you know, where it sits today at 6.8%.

John Nesbitt *- Suncorp-Metway Limited - Group CFO*

Look clearly we've been tracking through how Basel III is going to flow through and there'll be clarification coming from the Reserve Bank in December. So there's still a little bit of uncertainty about how that's going to flow through and other things like accounting standards and how that'll all play into it.

Our view interpreting through that is that where we're sitting, we're comfortably placed to be able to address Basel III. But there's some uncertainty about where it's actually going to land.

Daniel Toohey ***- CLSA Limited - Analyst***

Okay. So you feel comfortable that you'll be at the, sort of the minimum of 7%?

John Nesbitt ***- Suncorp-Metway Limited - Group CFO***

In broad terms,..

Daniel Toohey ***- CLSA Limited - Analyst***

And then just I was wondering if you could also comment, obviously the quantitative impact study on the GI capital standards is finished at 31 October. You know, you're sitting at a 1.9 times MCR there. Just any comments as to, you know, your expectations on how that will wash through based on the preliminary findings on that.

David Foster ***- Suncorp-Metway Limited - CEO Banking***

Thanks Daniel. And look the GI business is sitting well at 1.9 times as I've just mentioned. We haven't gone and won't go public on the specific outcomes of the QIS except to say that we think there's a lot of discussion to be held with APRA about how that's going to flow through. And there's general concerns across the industry about the potential impact that could flow from that.

However, in our view, we're well placed to address the issues that will flow through there. But there's some time to travel before that gets settled.

Patrick Snowball ***- Suncorp-Metway Limited - CEO***

Well thank you very much for joining us this morning. I just I'd guess like to sum up very quickly. At a Group level, we continue to travel really well and we're either meeting or beating the milestones that we've been talking to you about over the last year.

As you know, we have achieved a significant amount in that time. The Building Block delivery, which is the simplification programs, are on track and we're making good progress towards the NOHC and in getting all our people onto a sort of standard set of terms and conditions.

These initiatives, in my view, are crucial to the future of this Group. The Tyndall announcement today is yet another step in the simplification story.

The core bank, as you've heard this morning, is in good shape, supported by the credit rating upgrade. Strength in the franchise has been proven with the speed in which we've met both our deposit and lending growth targets.

By adjusting our headline variable rate in the last 24 hours, we're now in a position to recover some of our increased funding costs.

As you heard David talk, we keep stressing that the non-core bank is lumpy, particularly on a quarter by quarter view. But I'm comfortable with the way David and the team are managing the run-off.

The end game has not changed. As a group, we are in a position to manage this book through a run-off, with a view to maximising shareholder returns. That remains our priority and we see nothing to divert us from those objectives.

We look forward to updating you on the progress across the whole group when we come together again in February. So, again, thank you very much for joining us this morning.