
# Financial results for the six months to 31 December 2010

23 February 2011

Suncorp Group Limited

## Agenda

1. Introduction and highlights – Patrick Snowball
2. Detailed results – John Nesbitt
   - General Insurance
   - Banking
   - Life
   - Capital
3. Update on recent events
   - New Zealand – Roger Bell
   - Personal Insurance – Mark Milliner
   - Commercial Insurance – Anthony Day
   - Bank – David Foster
   - Life – Geoff Summerhayes
4. Questions
5. Conclusion – Patrick Snowball

## Managing change and the impact of major events

**Progress on 5 key priorities**

- Stabilisation
- Balance sheet strength
- Simplification
- Executive team
- Plans for growth

**Major events impact profit**

- Natural hazard events in Australia and NZ
- Reinsurance reinstatement costs
- Additional Bank overlay

**CREDIBILITY CONFIDENCE CULTURE**



## Progress with priorities

| | |
|---|---|
| Stabilisation | • Bank reshaped and de-risked – non-core run-off ahead of schedule and match-funded<br>• Prudent reinsurance measures<br>• Credit rating upgrade |
| Balance sheet strength | • Capital levels improved<br>• Additional $35 million overlay to Bank collective provisions<br>• Liquidity levels remain high |
| Simplification | • Key building blocks programs on track<br>• NOHC transition completed<br>• Single enterprise agreement for all employees<br>• Tyndall and New Zealand Guardian Trust divested |
| Executive Team | • Completed executive team appointments<br>• Business model fully operational<br>• 'One Company. Many Brands' culture across Group |
| Plan for growth | • Execution of business plans underway |

## Continued focus on simplification

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**Building Blocks**
- Single enterprise agreement – One Team
- Single general ledger
- Customer data warehouse
- Single pricing engine – AAMI integrated
- Progress on Guidewire, Repairlink and SMART shops

**Divestments**
- Tyndall Investments
- New Zealand Guardian Trust

**NOHC**
- Shareholder vote December 2010
- Agreed and in place January 2011

**ONE** COMPANY. **MANY** BRANDS

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## Result highlights

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| A$m | HY11 |
|---|---|
| General Insurance profit after tax | 292 |
| Consolidated Bank profit after tax | 3 |
| Life profit after tax | 61 |
| **PROFIT AFTER TAX FROM BUSINESS LINES** | **356** |
| Tyndall / NZGT | (77) |
| Intangible amortisation & other | (56) |
| **GROUP NPAT** | **223** |

| | |
|---|---|
| Cash earnings per share excluding divestments | 27.7 cents |
| Interim dividend per share (fully franked) | 15 cents |

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## General Insurance overview

| A$m | HY11 |
|---|---|
| General Insurance profit after tax | 292 |

- GWP up 2.1% on a reported basis. 4.3% excluding portfolio exits
- Natural hazard claims above allowance by $182 million
- Reserve releases were $151 million above expectations
- Good momentum in underlying ITR improvement

Underlying ITR 10.5%

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## Gross Written Premium

| Product | HY11 | %Δ | Factors |
|---|---|---|---|
| Motor | 1,262 | 4.7 | Solid premium and net written unit growth |
| Home | 943 | 8.8 | Significant premium increases and resilient customer retention |
| Commercial | 840 | (6.3) | Rate increases across targeted channels, 2.3% increase excluding portfolio exits |
| CTP | 428 | 5.4 | Solid net written unit growth and renewal rates |
| Workers' comp and other | 90 | (22.4) | Premium reductions in Western Australia |
| **Total** | **3,563** | **2.1** | |

GWP up 4.3% excluding exited business

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## General Insurance claims

| Major natural hazard events | $m |
|---|---|
| VIC floods (Sept10) | 26 |
| Christchurch earthquake (Sept 10) | 47 |
| Brisbane storm/floods (Oct 10) | 12 |
| Eastern Australian storms (Oct 10) | 13 |
| Eastern Australian rain (Dec10) | 16 |
| South Australian storms (Dec 10) | 10 |
| QLD-NSW hail/rain (Dec 10) | 51 |
| Central & SW QLD flooding (Dec 10) | 143 |
| **Total major events** | **318** |
| Minor natural hazard events | 94 |
| Less: allowance for all natural hazards | (230) |
| **Natural hazards above allowance** | **182** |

**Other impacts on claims expense:**

- Positive experience in working loss claims
- Some claims inflation in Melbourne following major hail storms in March
- Reserve releases of $151m above long-run expectation of 1.5% of NEP

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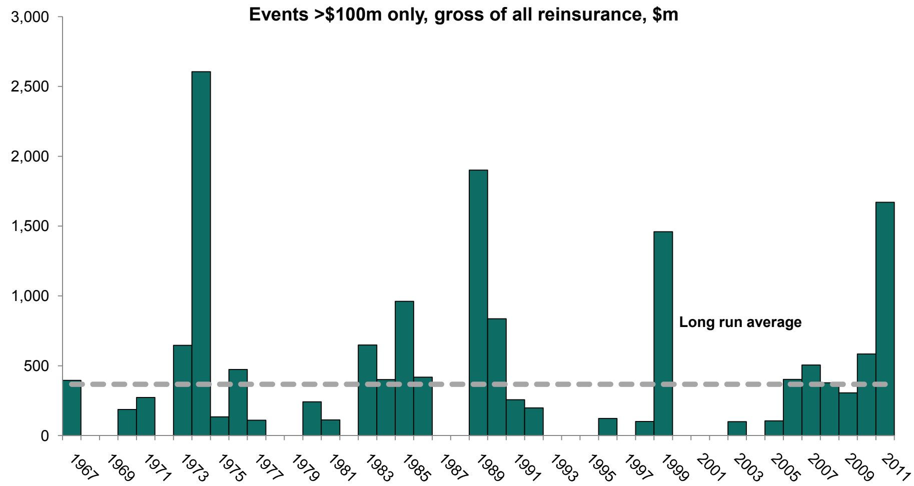
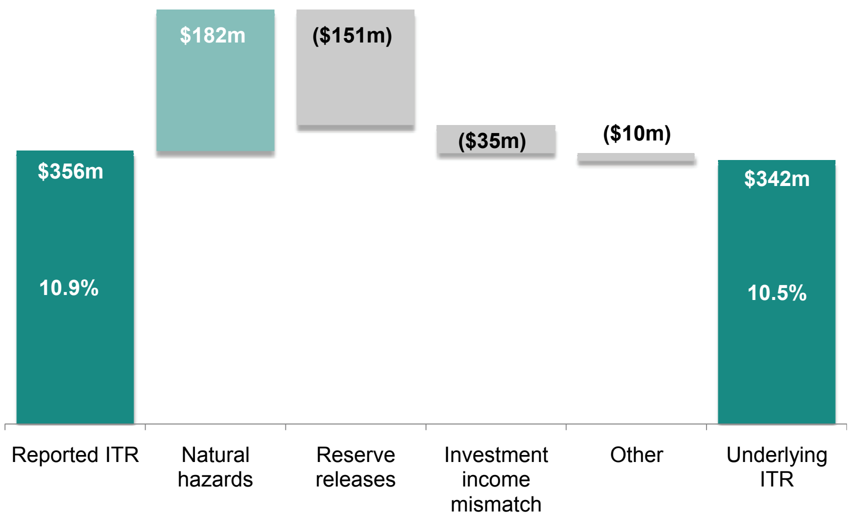
### Long-term catastrophic loss experience




Data supplied by Risk Frontiers (Macquarie University) using the Insurance Council database.



### General Insurance underlying margin

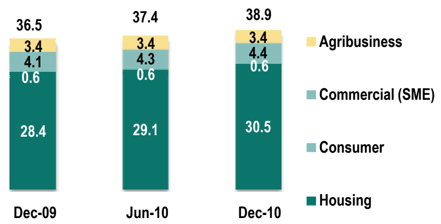


# Core deposits and lending assets

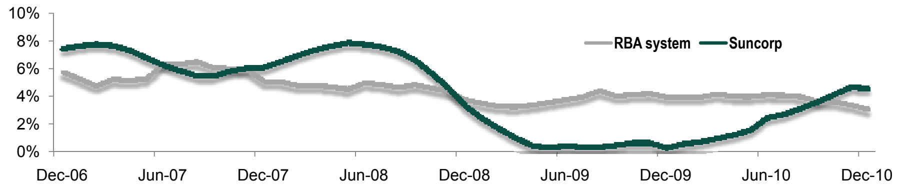
## Summary

- Deposit to loan ratio maintained at top end of target range
- Deposit growth moderated to match lending growth and provide support to margin
- Home lending growth returned to above system levels

## Core lending assets, A$bn



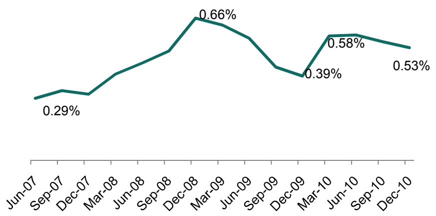

## Suncorp historical mortgage growth v RBA system (6 month rolling)



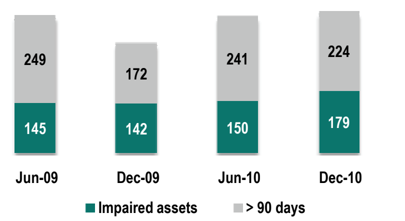



# Core bank credit quality

## Total retail arrears to gross loans (> 90 days)




## Core gross non-performing loans trends, A$m




## Impairment losses on loans and advances, $m

| A$m | 1H11 |
|---|---|
| Collective provision charge | (7) |
| Collective provision (QLD flooding) | 25 |
| Specific provision charge | 25 |
| Actual net write-offs | - |
| **Impairment loss** | **43** |

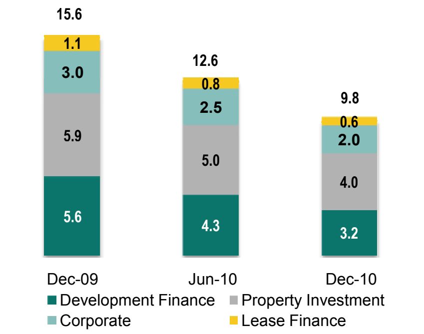
## Summary

- Collective provision increased by $25m to account for potential losses that might arise due to QLD flooding
- Four secured accounts (2 x agribusiness and 2 x SME) of less than $20m each moved to impaired status in Sept quarter

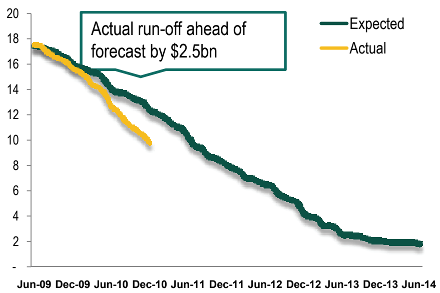
## Non-core assets

- Run-off of $2.8 billion for the half
- Refinancing opportunities have increased in the property and development finance markets
- Higher ratio of impaired assets, where interest is not brought to account, is having a significant impact on net interest income in the non-core book.

### Non-core assets, A$bn



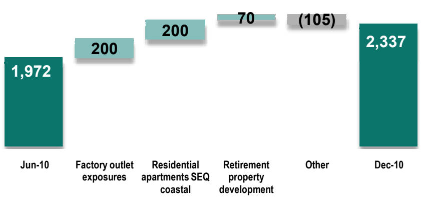

### Forecast run-off, A$bn






## Non-core bank credit quality

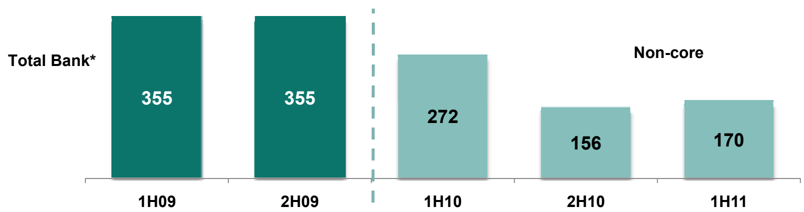
### Impaired asset movements, $m




### Impairment losses on loans and advances

| A$m | 1H11 |
|---|---|
| Collective provision charge | (41) |
| Collective provision (QLD flooding) | 10 |
| Specific provision charge | 191 |
| Actual net write-offs | 10 |
| **Impairment loss** | **170** |

### Impaired loss trends, A$m




** Reporting periods prior to Core/Non-core reporting split. Total Bank charges are materially Non-core*

## Life overview

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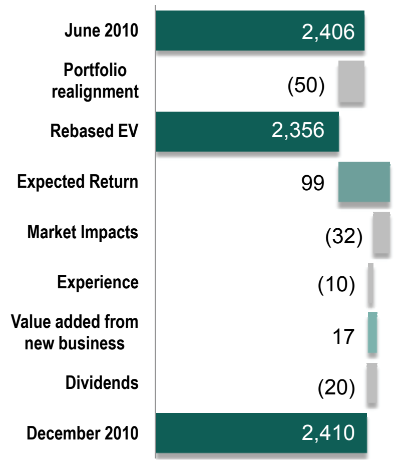
- Life underlying profit after tax of $71m, down 16.5%, impacted by:
  - Claims experience
  - Lapses
- New business momentum with sales up 16.7%
- Continued growth in in-force premiums, up 5.8%
- Good performance in S&I with profit after tax up 44.4%
- Simplification program continues with the divestments of Tyndall and NZGT completing by 30 March 2011.

**Movement in Embedded Value**






## Group Balance Sheet

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**Balance Sheet**

- Net assets stable at $13.9 billion
- Goodwill and intangibles reduced to $6.4 billion
- Net tangible assets increased to $7.5 billion

**Core Capital Levels**

**General Insurance**
**$3.1bn**

**Bank**
**$2.6bn**

**Life**
**$1.7bn**

**Group**
**$7.5bn***

* Includes non-regulated entities of $181 million

## Capital as at 31 December 2010

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**Group capital $10.8 billion**

### Bank

Total Capital $5.2 billion
Net Tier 1 Ratio 13.7%
Total Capital Ratio 14.2%
Target Total Capital Ratio 13%

### General Insurance

Total Capital $3.8 billion
MCR coverage 2.03 times
Target MCR coverage 1.70 times

### Life

Total Capital $1.7 billion
$105 million above target



## Capital under a pro-forma NOHC basis

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**Total Group capital remains at $10.8 billion**

### NOHC and Service entities

Total Capital $538 million
Pro-forma target $458 million includes 0.05 times GI MCR, 0.5% of Bank CAR and $120 million for service companies and unregulated Life entities

### General Insurance

Total Capital $3.4 billion
MCR coverage 1.81 times
Pro-forma Target MCR coverage 1.65 times

### Bank

Total Capital $5.0 billion
Net Tier One Ratio 9.32%
Total Capital Ratio 13.91%
Pro-forma Target Total Capital Ratio 12.5%

### Life

Total Capital $1.65 billion
$65 million above target

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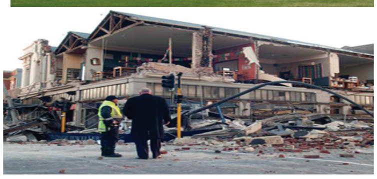
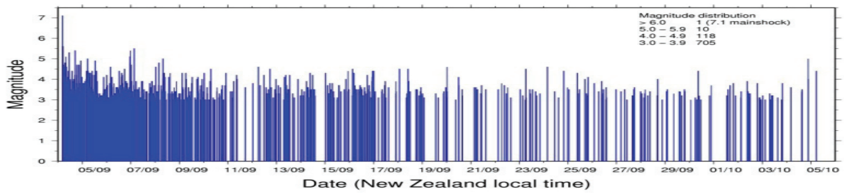
# New Zealand earthquake



- The earthquake and its aftershocks
- The unique structure of the New Zealand Insurance market and the role of the EQC
- Vero and AAI over 6,000 claims
- Collaboration: 'One Company. Many Brands'
- Partnering with MWH Mainzeal in rebuilding
- 22/02/2011 – event update

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## Personal Insurance delivers on improving underlying ITR

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### Progress since 2010 Investor Day

- Market growth from a portfolio of trusted brands that continue to meet customer needs
- Pricing for risk to drive further improvements in yield
- Leveraging scale within a single claims business model

### Building blocks support event response

Statistics for SEQ floods, Victorian floods Cyclone Yasi & Melbourne storms

| | |
|---|---|
| Claims lodged | > 40,000 |
| Estimated gross costs | > $1 billion |
| Assessments completed | ~ 85% |
| Timeframe for claims finalisation | 12-18 mths |

Implications:
- Building blocks already delivering improvements in underlying ITR
- Higher costs due to weather events will see premiums rise

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# Commercial Insurance

- Customer response delivered in collaboration with Personal Insurance
- Focus on insurance brokers - market leading positions on communication, assessment and repairs
- Building blocks well progressed

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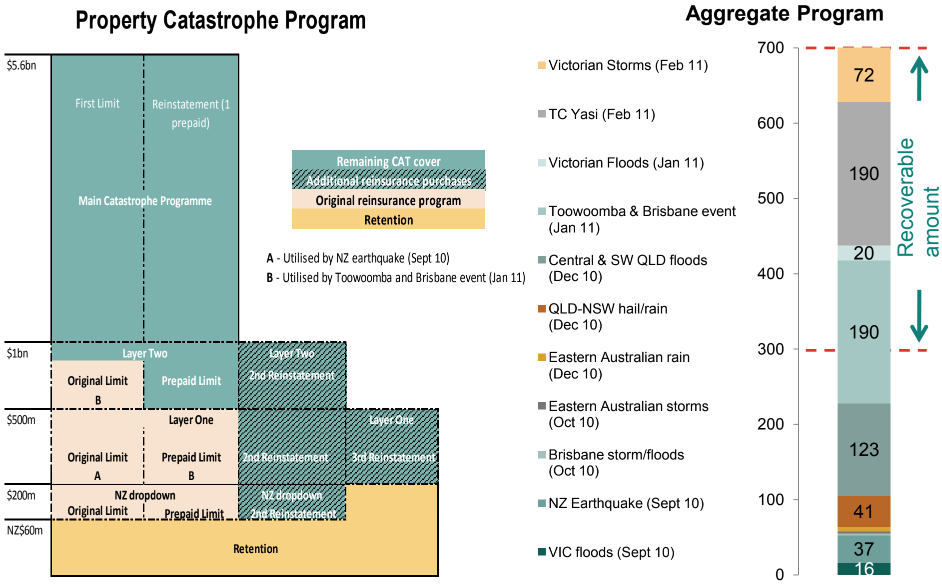
# 2010/11 Reinsurance program



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## Suncorp Bank operational response

### Supporting our affected communities

### Flood and cyclone events...

- Customer service maintained throughout
- More than 50 branches and 40 ATMS affected
- Call centres flood damaged
- Hundreds of staff lost homes and/or property

### Within 24 hours of events...

- 95% of the ATM network operational
- Bank and insurance staff on site
- All but two branches re-opened
- Financial hardship response team in place
- Customer financial relief assistance package launched

### Recovery support...

- More than $2.5 million raised for the Premier's Flood Appeal
- Suncorp Bank represented at the Premier's Building Revival Forum
- Disaster Recovery seminars held for agri and small business across Qld
- Financial and emotional support for impacted staff

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## Natural hazard impacts on Suncorp Bank

- The Bank has undertaken extensive modelling of the likely impact on credit quality of portfolio following events
- Whilst actual historical loss experience from natural hazard events is immaterial, the Bank has taken a prudent approach given the scale of the dislocation.
- Factors assessed include location, insurance coverage, severity of loss, mortgage insurance and loan equity levels.
- Analysis covered both direct and indirect impacts of 4 key events:
  - Regional Queensland
  - Toowoomba / Lockyer Valley
  - Brisbane / Ipswich
  - NSW / Victoria

**Core Bank**

$25 million allowance added to collective provision in 1H11

**Non-core Bank**

$10 million allowance added to collective provision in 1H11

**Medium to long-term will provide opportunities**

- Water tables replenished
- Full dams will improve growing conditions for future seasons
- Increase in business activity as rebuild is undertaken

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## Suncorp Life

- Relatively minor impact to Suncorp Life
- Short term new business impact on:
  - Direct Life channel
  - Adviser channels
- Re-directed focus to markets not impacted

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# Building momentum …commitments

**Single Group view of employees, finances and customers**
**NOHC approved to provide clarity around capital**

### General Insurer

- At least 3% increase in underlying GI margin by FY12 **(U/L margin up to 10.5% HY11 from 9% FY10)**
- $235m benefit from the building blocks program
- One functionally aligned, customer focused PI team, delivering portfolio growth & scale in pricing and claims
- CI targeting market share growth of 3% over the next 3 years
- Double Group's scale and profit footprint in NZ over the next 3 years

**Personal Insurance** | **Commercial Insurance** | **Vero NZ**

### Regional Bank

- 1 to 1.3 times system housing lending growth by Dec 2010 **(Surpassed in HY11 with mortgage growth @ 1.5x system)**
- Sustained RoE >15% in Core Bank
- By 2013:
  - Over 1m customers
  - Increase main bank customers by 50%
  - Treble customers & double branches in WA & NSW
  - Cost to Income mid 40's

### Niche Life Insurer

- 3 year focus:
  - Double new business volume **(new business up 16.7% HY11)**
  - Reduce acquisition expenses as % of new business premium
  - Reduce expenses as % of in-force premium
  - Double digit in-force premium growth, with focus on retention
  - Improve disability claims experience

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