

**Group Chief Executive Officer's Report to Shareholders
Suncorp Group Limited Annual General Meeting
Thursday 27 October 2011**

The last financial year was a difficult one from all our perspectives and a very challenging and demanding time for our Group and its people.

Our headline profit of \$453 million was, I am afraid, pretty average, due mostly to much higher costs associated with natural disasters in Queensland and New Zealand. However, we still delivered a result that was above market expectations, and all of our businesses increased revenue or improved efficiency.

Most of all, I believe we have re-established Suncorp's credibility and confidence with our stakeholders.

I am pleased to report that despite the need for premium rises we not only retained our customers, but in areas such as Queensland, increased our business due to the way we managed claims from floods and Cyclone Yasi.

Reinsurance costs will obviously have a significant influence on claims costs and margins. Given recent volatility in weather patterns and the increased frequency of major natural hazard events, I believe we have arranged appropriate reinsurance.

Our catastrophe program provides protection for natural hazards to a value of nearly \$6.0 billion with our exposure limited to the first \$250 million. We also have an additional \$200 million of cover protecting us against smaller events.

At the same time, we have publicly committed to improving the underlying margin of our general insurance business by at least 3.0 per cent by June 2012. Last year, the margin was 9.0 per cent, this year it was 10.8 per cent and by June we expect it to be at least 12 per cent.

At Suncorp Bank, we also had a good year with strong earnings growth. The return on equity of the Core Bank in the second half was over 15 per cent reflecting the excellent potential of what will be a relatively low risk business.

In Suncorp Life, we continued to reshape the business with the successful disposal of Tyndall and while coping with a number of economic and regulatory issues still increased new business sales by 21 per cent.

We are encouraged by the fact that direct distribution sales were up 44 per cent for the year demonstrating the value of using Suncorp Bank and general insurance channels to sell our life insurance products.



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Whilst ensuring our businesses performed well, we also set out to strengthen our Group balance sheet, complete key parts of our Strategic Building Blocks change programs, and make real progress with the simplification of our businesses.

In summary – we delivered our key change programs as planned and as promised.

In the ordinary course of events that might not seem significant – however, given continued economic and political instability, and an unprecedented series of natural hazard crises – I believe the Group's achievements have been more than commendable.

The timing of Suncorp's recovery is important because in today's uncertain conditions people are attracted to companies that have clear strategies, uncomplicated businesses and strong fundamentals such as quality brands and stable balance sheets.

They also want evidence that insurance companies and banks are creating real value for their stakeholders and the communities where they conduct business.

The extent and value of Suncorp's progress is being publicly recognised and I believe our contribution to the Queensland recovery from last summer's floods and Cyclone Yasi is an excellent example of the value our Group creates not only for our customers but also for the broader economy.

At any one time, our Group would expect to be actively managing 50,000 to 60,000 home claims. Between December of last year and February of this year the total number of our home claims under management jumped to 130,000 throughout Australia and New Zealand.

We have already processed over 30,000 Queensland flood and cyclone home insurance claims and invested \$631 million in the repair and rebuilding of more than 6000 homes throughout Queensland.

The money we provide to repair or replace what our customers have lost in floods, cyclones, storms or fires not only assists them – it also acts as an important economic stimulus to regional and State economies.

Suncorp recently commissioned the leading accounting firm Deloitte to assess the impact on Queensland of the flood and cyclone insurance claims paid by our Group. This detailed analysis estimates that in the first year of reconstruction about 3,700 full-time jobs will be generated through Suncorp's insurance claims payments.

Over a 10 year period as the benefits of the claims money continues to accrue, the overall impact to the Queensland economy is projected to be \$1.2 billion in present value terms.

This is a very significant stimulus and is just one example of the type of real value that our Group provides throughout Australia and New Zealand for our customers and the broader communities in which we operate.



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To be able to manage such a massive volume of claims and provide the funds for a very large economic stimulus for Queensland and other areas of Australia - we have had to substantially improve the efficiency of our insurance risk assessment, pricing and claims management processes.

Over the last five years, we have invested our own funds in flood mapping and improved risk assessment and pricing methods to enable us to pioneer the introduction of comprehensive flood insurance in Australia.

That has not only proved beneficial to thousands of property-owners throughout Queensland – it has also ensured we have retained our loyal customer base.

By introducing comprehensive flood cover we have been better able to manage the amount of policies we write in high flood risk areas protecting both our customer and shareholder interests.

To manage the immediate aftermath of crises we have learned how to deploy specialist customer response teams to the worst hit areas and back those teams up with assessors and event recovery task forces of up to 300 people.

We have also learned that poor emergency management and land planning are as much to blame for the impact of disasters as unpredictable weather.

Suncorp has been an active and highly vocal advocate of the need for improved disaster warning, mitigation, community risk assessment, and community education about protecting against natural hazards.

We have also argued that Australia needs a national inquiry into disaster management and that to effectively reduce the impact of natural hazards we need government, business and community to join forces.

I understand and accept the fact that governments need to quickly respond to community concerns. Yet when the facts are dispassionately analysed and the sheer scale of the response understood, I believe the only fair conclusion is that on the whole the insurance industry acquitted itself well.

There is obviously scope for improvement; however, I believe that is true for all involved in the disaster response and hopefully we will see comprehensive reform of Australia's disaster management rather than a patchwork response.

I believe business is always better placed to argue for major Government reforms when companies have first shown they have transformed their operations and achieved best practice standards.



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At Suncorp, we now have a clear strategy to gain both the scale benefits of our large group and the business benefits of our portfolio of well known and highly regarded insurance and bank brands.

The unique assets we have identified are our cost and capital management; our large customer base, and the capabilities of our people through a unified Suncorp culture. We believe we can achieve high quality standards in operating cost efficiency.

We are already effectively managing, harvesting and distributing the capital generated from our various businesses and our insurance and bank businesses combined have the same number of customer relationships as Australia's largest banks and financial services groups. In fact, 42% of Australians over the age of 15 have a product or service relationship with the Group.

The Building Blocks change programs we instigated last year are already delivering significant cost reductions and efficiency improvements in key areas including pricing; claims management; and information management.

These gains were instrumental in our ability to manage the massive increase in insurance claims during the past year.

At last year's Annual General Meeting, I explained the benefits we expected from the formation of a Non Operating Holding Company. I am delighted to report that the new structure has enabled us to better manage our capital and businesses.

We have been able to stabilise and strengthen the Suncorp balance sheet and build up capital reserves at a time when global capital supply is uncertain and the demands on financial services companies for larger capital reserves are increasing. Our current position is strong with around \$1.2 billion in capital surplus to our targets.

As John pointed out, not all this surplus capital is distributable as we have continued to pay down subordinated debt and will always need to retain capital above our targets to ensure we maintain our current credit ratings.

Given global and local economic uncertainty, a conservative approach, in our view, is the best option. Nonetheless, our latest dividend is at the top of our increased payout range and we remain committed to returning to shareholders any capital that is surplus to the needs of the business.

Last year I also said that another Group priority was to simplify our people systems and processes by moving from six separate and complex employment arrangements to one highly flexible approach.

I saw this as an important step forward in creating the conditions for a unified culture across the Group. We had overwhelming support for our Enterprise Agreement with 80% of eligible employees participating in the ballot and 72% voting in favour.



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Since then we have also been working hard to reduce the complexity that previously hindered the efficient operation of the Suncorp Group. During the past year, we closely studied the costs of all of our businesses.

Our individual businesses and brands have varying levels of efficiency - but we have found that total Group operating costs are still higher than those of the most efficient global financial services organisations.

Future growth in the Australian and New Zealand financial services markets will mostly come from existing customers or customer movement between major companies. To ensure we meet the needs of customers efficiently and at a competitive price, we must reduce operating costs.

This year we launched a series of projects we call Group Simplification designed to significantly reduce Group costs, process duplication and the time it takes us to introduce new products and services to the market.

We also need to ensure that we have our people in roles that are best suited to their capabilities and doing work that cannot be done more efficiently or at a lower cost elsewhere.

There has been some discussion and speculation about Suncorp's outsourcing plans. To clarify, the focus of outsourcing program, which has been running for the past four years, continues to be in non-customer facing activities.

We are placing our emphasis on back office functions, technology, and information management. There will inevitably be a small amount of routine customer interface but this will be relatively limited.

The key point here is that our entire Group strategy is based on the strength of our brands and the loyalty of our customers and we will do nothing that weakens that strength or reduces that loyalty.

As a result of all of the work we have done, I believe the last year has seen the emergence of Suncorp as a Group that is confident about its future; financially and operationally stronger; less complex; and more efficient.

In the coming year we will have two key challenges.

First, we will need to step up the pace of the transformation of the Suncorp Group to demonstrate the real benefits of our diversified financial services businesses and assets.

Second, we will need to be alert and responsive to the implications of the global and national economic, political and industry issues so evident today.



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I believe we should plan for continued volatility in financial markets, a protracted recovery in the United States and Europe and erratic global economic growth.

Over the next year at Suncorp we will continue with our simplification and process improvement work. In challenging environments, it is common for companies to seek solace in complex approaches to business strategy and operations.

That is not the Suncorp way and we will balance innovation with continued hard work on fundamental drivers such as customer service, cost control, and capital management.

We will ensure we fully exploit the potential of our unique cost, capital, customer and culture assets to improve the returns we deliver to our shareholders.

In conclusion, I am hopeful that the achievements of the last 12 months means there is no longer a 'leap of faith' required by shareholders to accept the fact that Suncorp has enormous potential and a bright future notwithstanding the challenging times ahead.

A key factor in that is the quality of the Group's leadership and the capability of our people and I publicly acknowledge their contribution during the past year.

I also acknowledge the remarkable support I have received from John Story and his enduring contribution to the recovery and transformation of Suncorp.

No major public company can achieve success without a respectful and productive working relationship between the Chairman of the Board and the Group Chief Executive. I have been fortunate to have that relationship with John and I personally thank him not only on my behalf - but also on behalf of all within Suncorp and all of our key stakeholders.

I wish him well in his life outside of Suncorp and look forward to future successful years with our incoming Chairman – Ziggy Switkowski.

Most importantly, I thank you - the shareholders of Suncorp - for your continued loyalty to our Group and for your confidence in our future.

Patrick Snowball