

ASX Announcement

One Company
Many Brands



13 August 2014

Suncorp Group Limited

Appendix 4E

Attached for immediate release is the Suncorp Group Ltd **Appendix 4E** – Preliminary final report.

The following associated documents will be provided separately for lodgement:

- Media Release
- Analysts Pack - 30 June 2014

A handwritten signature in dark ink, appearing to read "D C Solomon".

D C Solomon
Company Secretary



Suncorp Group Limited ABN 66 145 290 124

Appendix 4E

Preliminary final report

for the financial year ended 30 June 2014

**One Company
Many Brands**



Appendix 4E

Preliminary final report

For the financial year ended 30 June 2014

The following sets out the requirements of Appendix 4E with the stipulated information either provided here or cross-referenced to the Suncorp Group Limited Directors' Report and Financial Statements 2013/14, which are enclosed.

1. Company details

Suncorp Group Limited and subsidiaries (the **Suncorp Group**)

ABN 66 145 290 124

Reporting period: 30 June 2014

Previous corresponding reporting period: 30 June 2013

2. Results for announcement to the market

The Suncorp Group has delivered a full year profit after tax of \$730 million. This result includes a \$496 million after tax write-down of Suncorp Life goodwill and intangible assets and adjustments to policy liabilities following a material revision of claims and lapse assumptions. Further discussion on the assumption changes is included in section 14 Commentary on the results – Suncorp Life.

Profit after tax from the business lines was \$1,330 million. This is represented by the General Insurance business area profit after tax of \$1,010 million, the Banking business area profit after tax of \$228 million, and the Life business area profit after tax and before policy adjustments of \$92 million. This strong business line result has been achieved by prioritising margins ahead of growth and delivering operational efficiencies.

The Suncorp Group has continued to focus on its balance sheet strength during the financial year with a number of initiatives, including increased life reinsurance arrangements, issuance of preference shares and subordinated debt and good progression on the Risk Based Capital program of work. These initiatives further support the Group's commitment to maintain a de-risked balance sheet while delivering shareholders high yield and above system growth.

Suncorp shareholders continue to receive improved returns with a final ordinary dividend of 40 cents per share, up 10 cents. Total ordinary dividends for the 2014 financial year are 75 cents per share, an increase of 20 cents. A special dividend of 30 cents per share has been declared, an increase of 10 cents. Dividends for the full year total \$1.05 per share.

The Group's financial performance demonstrates the success of its transformation strategy under the 'One Company. Many Brands' business model in a competitive environment. A continued focus on building a simple, low-risk financial services group through operational efficiencies and cost control is evident across all business lines.

Measured growth has been delivered across all business lines with:

- General Insurance gross written premium (**GWP**), excluding the impact of Fire Service Levies (**FSL**), up 5.1% to \$8,725 million
- Suncorp Bank retail and business lending up 5.0% to \$49,828 million; and
- Life Risk individual in-force premium up 8.5% to \$852 million.

2. Results for announcement to the market (continued)

Operational efficiencies and a focus on cost control ensure the Group's business lines are all delivering solid margins.

Comparison to previous corresponding period	Increase / Decrease	%	To \$m
Revenue from ordinary activities	Increase	1.14	16,370
Net profit from ordinary activities after tax attributable to owners of the Company	Increase	48.68	730
Net profit for the period attributable to owners of the Company	Increase	48.68	730

Dividends

	Amount per share	Franked amount per share
Ordinary Shares (SUN)		
2014 Interim ordinary dividend – paid	35 cents	35 cents
2014 Final ordinary dividend – payable on 1 October 2014	40 cents	40 cents
2014 Special dividend – payable on 1 October 2014	30 cents	30 cents
Convertible Preference Shares (SUNPC)		
17 June 2013 to 16 September 2013 – paid	\$1.3111	\$1.3111
17 September 2013 to 16 December 2013 – paid	\$1.2612	\$1.2612
17 December 2013 to 16 March 2014 – paid	\$1.2496	\$1.2496
17 March 2014 to 16 June 2014 – paid	\$1.2871	\$1.2871
17 June 2014 to 16 September 2014 – payable on 17 September 2014	\$1.2959	\$1.2959
Convertible Preference Shares (SUNPE)		
8 May 2014 to 16 June 2014 – paid	\$0.4667	\$0.4667
17 June 2014 to 16 September 2014 – payable on 17 September 2014	\$1.0754	\$1.0754

Record dates for determining entitlements to the above dividends payable are as follows:

Ordinary shares (SUN)	22 August 2014
Suncorp Convertible Preference Shares (SUNPC)	10 September 2014
Suncorp Convertible Preference Shares (SUNPE)	3 September 2014

3. Statement of comprehensive income with notes to the statement

Refer Suncorp Group Limited Directors' Report and Financial Statements 2013/14 enclosed

Consolidated statement of comprehensive income

Notes to the consolidated financial statements as shown

4. Statement of financial position with notes to the statement

Refer Suncorp Group Limited Directors' Report and Financial Statements 2013/14 enclosed

Consolidated statement of financial position

Notes to the consolidated financial statements as shown

5. Statement of changes in equity with notes to the statement

Refer Suncorp Group Limited Directors' Report and Financial Statements 2013/14 enclosed

Consolidated statement of changes in equity

Notes to the consolidated financial statements as shown

6. Statement of cash flows with notes to the statement

Refer Suncorp Group Limited Directors' Report and Financial Statements 2013/14 enclosed

Consolidated statement of cash flows

Note 25 to the consolidated financial statements

7. Dividends

Refer Suncorp Group Limited Directors' Report and Financial Statements 2013/14 enclosed

Note 4 to the consolidated financial statements

There is no attributed conduit income.

8. Dividend reinvestment plan

Ordinary shareholders will be able to participate in the Company's Dividend Reinvestment Plan in respect of the 2014 final ordinary and special dividends. The last date for receipt of an election notice is 22 August 2014.

9. Net tangible assets per security

	2014 \$	2013 \$
Net tangible assets per security	6.32	6.11

10. Entities over which control has been gained or lost during the period

There was no material acquisition or disposal of subsidiaries during the financial year.

11. Details of associates and joint ventures

Associate / Joint Venture	2014		2013	
	Holdings %	Profit Contribution \$	Holdings %	Profit Contribution \$
RACT Insurance Pty Ltd	50	Not material	50	Not material
NTI Limited	50	Not material	50	Not material
AA Life Services Ltd	50	Not material	50	Not material
Capital Managers Pty Ltd	40	Not material	40	Not material
AA Warranty Ltd	–	Not material	50	Not material

The profit contribution from any one of these joint ventures or associates is not material to the Suncorp Group's profit for the period or the previous corresponding period.

12. Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position

All significant information has been included elsewhere in this document or in the Suncorp Group Limited Directors' Report and Financial Statements 2013/14 enclosed.

13. For foreign entities, which set of accounting standards is used in compiling the report

Not applicable.

14. Commentary on the results

The Suncorp Group recorded a net profit after tax and non-controlling interests for the financial year ended 30 June 2014 of \$730 million, compared to \$491 million in the prior financial year. The divisional operating profit before income tax is as follows:

	2014		2013	
	Profit (loss) before		Profit (loss)	Profit (loss) ¹
	Life write-down	Life write-down		
	\$m	\$m	\$m	\$m
General Insurance	1,434	-	1,434	1,249
Suncorp Bank	326	-	326	(475)
Suncorp Life	162	(250)	(88)	110
Corporate	(114)	(383)	(497)	(115)
Other / eliminations	-	-	-	(3)
Profit (loss) before income tax	1,808	(633)	1,175	766
Income tax (expense) benefit	(575)	137	(438)	(270)
Profit (loss) after income tax	1,233	(496)	737	496
Profit attributable to:				
Owners of the Company			730	491
Non-controlling interests			7	5
Profit (loss) after income tax			737	496

Note

1. There was no Life write-down in 2013.

General Insurance

General Insurance achieved a profit before tax of \$1,434 million for the year to 30 June 2014 (2013: \$1,249 million).

The Insurance Trading Result was \$1,195 million (2013: \$959 million), representing an Insurance Trading Ratio (ITR) of 15.5% (2013: 13.1%). The key drivers were premium growth, favourable natural hazard and investment experience and a continued focus on claims and expense management.

FSL were removed from Victorian policies during the financial year. Excluding FSL, GWP increased 5.1% to \$8,725 million. Inclusive of FSL, GWP increased 3.3% to \$8,870 million. Personal lines GWP, excluding FSL, increased across both Home (up 6.3%) and Motor (up 2.6%), primarily driven by increases in average written premiums.

Commercial lines GWP increased 6.8% to \$2,329 million. Retention rates have remained strong as intermediaries and customers see value in the broad product offering. Compulsory Third Party (CTP) increased 7.4% following further growth in both the Queensland and New South Wales markets and the entry of Suncorp into the Australian Capital Territory CTP market.

Net incurred claims were \$5,240 million (2013: \$4,919 million), with a loss ratio of 67.8% (2013: 67.4%). Natural hazard claims were \$538 million, \$27 million below long run allowances. Reserve releases of \$109 million were primarily attributable to a benign wage inflation environment and proactive management of long-tail claims, offset by strengthening in the estimation of the February 2011 Canterbury earthquake claims costs.

Total operating expenses remained relatively stable. Investment income on insurance funds was \$487 million (2013: \$334 million). Gains from narrowing credit spreads offset the impact of sustained lower risk-free and credit spread yields. Investment income on Shareholder Funds of \$269 million (2013: \$313 million) was supported by narrowing credit spreads and improved returns from equity investments.

Interest expense for the General Insurance business remained flat at \$33 million.

14. Commentary on the results (continued)

Suncorp Bank

Suncorp Bank delivered a profit before tax of \$326 million (2013: loss before tax of \$475 million).

The 2014 financial year was one of transition for Banking. It consolidated operations and addressed legacy funding and cost positions related to the former 'Non-core' portfolio, laying the foundations for sustainable, profitable growth.

Banking continues to strengthen its risk management in line with the Basel II Advanced Accreditation agenda. Improving the credit quality and diversification of lending assets remains a key focus, supported by enhanced risk culture and improved underwriting standards.

Banking loans, advances and other receivables increased to \$49,781 million, representing a \$1,782 million increase from 2013. Growth across the retail and business lending portfolios of 5% is slightly below target. It reflects a considered approach to lending in an intensely competitive mortgage environment and challenging agribusiness trading conditions.

Asset growth is supported by a conservative funding strategy with 66% of lending assets funded by retail deposits. Transaction deposit growth of 24% over the year demonstrates the strength of the franchise. An 'A+/A1' credit rating and access to a broad range of wholesale funding markets complements the Bank's funding capability. The Common Equity Tier One (**CET1**) Capital ratio increased 94 basis points to 8.53%.

Net interest income was \$1,011 million (2013: \$986 million). Net interest margin for the year improved 8 basis points to 1.72% benefiting from maturity of legacy 'non-core' funding and moderation of term deposit pricing.

The cost to income ratio reduced 2% to 57.4%. Profit before losses on loans and advances increased 8.4% to \$463 million, underpinned by revenue growth of 11.1%. Operating expenses have been held broadly flat year on year.

Banking continues to invest in its transformation program with good progress achieved in the delivery of Project Ignite and Basel II Advanced Accreditation initiatives. Further investment occurred in advertising and promotion as the Bank continues its focus on the Queensland market.

Impairment losses on Banking loans, advances and other receivables for the financial year were \$124 million (2013: \$375 million). Total provisions for Banking loans, advances and other receivables were \$226 million (2013: \$300 million). This reflects appropriate provisioning for heightened stress across the agribusiness segment resulting from ongoing drought conditions and a subdued rural property market. The result includes a prudent approach to provisioning given expectations of continued drought conditions into the 2015 financial year.

The Bank exits this transitional year with a stronger balance sheet, a simplified business, and improved financial metrics, leaving it well positioned to deliver its strategic targets.

14. Commentary on the results (continued)

Suncorp Life

SUNCORP LIFE	2014		2013	
	Profit (loss) before Life write-down: policy adjustments	Life write-down: policy adjustments	Profit (loss)	Profit (loss) ¹
	\$m	\$m	\$m	\$m
Profit (loss) before income tax	162	(250)	(88)	110
Income tax (expense) benefit	(70)	74	4	(50)
Profit (loss) after income tax	92	(176)	(84)	60

Note

1. There was no Life write-down in 2013.

The \$92 million profit after tax and before policy adjustments comprises a \$47 million (2013: \$89 million) profit after tax from Life Risk, \$37 million (2013: \$31 million) profit after tax from Superannuation and \$8 million profit after tax (2013: \$60 million loss after tax) arising from market adjustments.

The decrease in Life Risk profit after tax was attributable to a \$30 million reduction in planned profit margin release to \$69 million for the 2014 financial year. This reflects the increase in reinsurance coverage and the impact of strengthening claims and lapse assumptions.

Market adjustments comprise balance sheet revaluations of policy liabilities and shareholder investment assets, which are expected to neutralise through the cycle. The impact from risk-free rate movements on the discounting of Life Risk policy liabilities is \$9 million profit after tax (2013: \$37 million loss after tax) for the financial year. Investment income experience resulted in a \$3 million (2013: \$21 million) loss after tax for the year. During the 2013 financial year, Suncorp Life experienced significant losses as yields on government bonds increased. During the 2014 financial year, there has been considerable volatility in yields with increases in the first half reversing during the second half of the financial year.

The Embedded Value (**EV**) is \$1,759 million (2013: \$2,569 million). The reduction in EV has been driven by the rebasing of disability, group and trauma claims assumptions, together with the adoption of 'forward-looking' lapse assumptions and return of capital.

Life has changed from the traditional industry practice of setting assumptions using 'historical averages' to a more forward-looking basis. The revised approach explicitly reflects the time Suncorp Life believes it will take to work through the industry structural challenges, which include product design, premium structures and independent financial adviser (**IFA**) remuneration. It recognises the potential for dislocation as the industry transitions and then recovers in the medium term. Consequently, this resulted in:

- policy adjustments for loss recognition on some products and other reserving adjustments to policy liabilities resulting in a \$250 million loss before tax (\$176 million loss after tax), and
- a write-down of associated intangible assets resulting in a \$383 million loss before tax (\$320 million loss after tax), which is included in the Corporate divisional profit or loss. This comprises an impairment loss on goodwill and the customer contract intangible asset before tax of \$156 million and \$191 million respectively and an accelerated amortisation expense of \$36 million from revision of the remaining useful lives of brands and distribution relationships intangible assets.

Life has four key lines of business – IFA, Direct Life, Superannuation and New Zealand. The impact of the assumption changes is largely in the IFA business, with only nominal adjustments across the other business lines, including New Zealand.

During the financial year, Life delivered a number of key priorities:

- capital efficiency initiatives with \$535 million of capital released to the Company, representing over a quarter of the starting capital base of \$2.1 billion (CET1 plus deferred acquisition costs)
- bringing the Direct Life business in-house, with all new policies now sold and serviced by Suncorp employees on Suncorp systems, rather than through an external partner
- improved sustainability in the advice channel through an increased proportion of IFA new business written electronically and on hybrid commission, and
- strong momentum in Suncorp Everyday Super (EDS), with approximately 80% of EDS customers holding a Suncorp Bank account.

14. Commentary on the results (continued)

Suncorp Life (continued)

Annual in-force premium increased by 8% to \$911 million with strong growth in New Zealand. Individual new business volumes fell by 5%, with the Australian IFA channel sales down 10% on the previous year driven by constrained market growth and a prioritisation of value over volume.

Direct sales via General Insurance brands were up 4% over the financial year reflecting the emphasis of putting the customer at the forefront and providing the wider Suncorp Group customers with propositions aligned to their needs. This resulted in improved conversion rates in the Direct Life business.

EDS continues to gather momentum with funds under administration increasing to \$150 million supported by strong new business flows.

Corporate

Corporate loss before tax and Life write-down of \$114 million comprises investment income on capital held at Group level of \$67 million, amortisation of acquisition intangible assets of \$101 million; interest expense on convertible preference shares (SUNPC & SUNPE) and subordinated notes (SUNPD) of \$79 million, and other expenses of \$1 million.

The \$383 million loss before tax from the Life write-down comprises a \$191 million impairment loss on the customer contracts intangible asset; \$156 million impairment loss on goodwill; and \$36 million amortisation expense on other intangible assets following a reassessment of the remaining useful lives

Earnings per share

Basic and diluted earnings per share (**EPS**) for the financial year ended 30 June 2014 was 57.11 cents (2013: 38.42 cents).

Returns to shareholders

There were no returns to shareholders during the financial year other than dividends. Refer section 7 above.

15. Status of audit

The enclosed consolidated financial statements and notes for the financial year ended 30 June 2014 has been audited.

16. Dispute or qualification if not yet audited

Not applicable.

17. Dispute or qualification if audited

None.