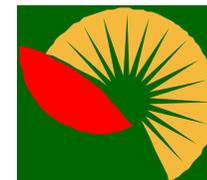




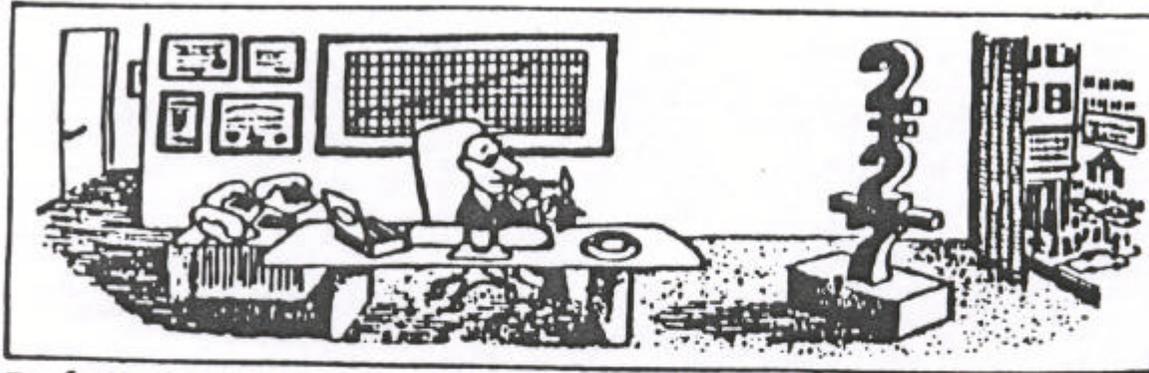
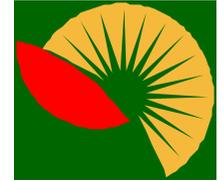
SUNCORP METWAY



MERGING FINANCIAL INSTITUTIONS WHAT WORKS, WHAT DOESN'T

**Peter Johnstone
Group General Manager
Operations & IT
Suncorp Metway**

**SSB Conference
28 September, 2000**



Before

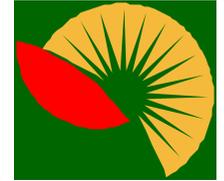


"What the hell happened?"



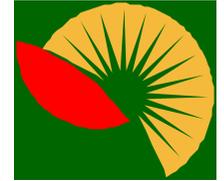
After

Mergers are a risky proposition

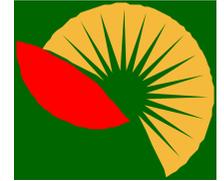


- Up to 60% of mergers fail to deliver an increase in shareholder value
 - Revenue enhancements are elusive
 - Cost reductions are often not achieved
 - Integration and cultural change not achieved
- There is no correlation between success and the premium paid

What leads to value creation?



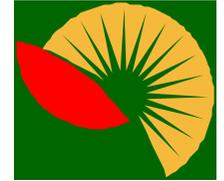
- A strategically formulated vision
 - where the company is going, how the deal fits
 - acquisition should not be the strategy but a step in achieving a vision
- Detailed pre-merger planning
 - where will benefits be achieved
 - how will value be captured
- Post-merger integration



The SME path to success

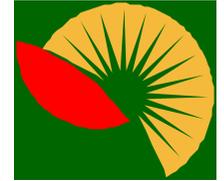
- Strategic analysis undertaken by McKinsey & Co and accepted by Board-elect
- Pre-merger planning identified operational and cost efficiencies
- Protection of the customer base central to integration plan

Strategy for customers

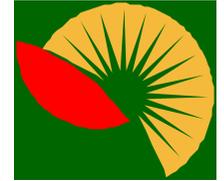


- McKinsey study highlighted different approaches
 - Metway Bank - high service “push” approach
 - Suncorp - low service “pull” approach coupled with a strong insurance brand
- In the end the equation was simple:
 - the loss of flows of new home loan business could outweigh the benefits of rapid integration of the 220 strong branch network

Strategy for customers



- Adopted strategy:
 - Retain two brands for up to 2 years
 - Drive cost savings by integrating “above branch”
 - Use back office integration as basis for systems integration
 - Within self-contained business lines and support areas, integrate and generate synergy benefits as rapidly as possible
- End result: No loss of customers, achievement of synergies and successful integration



Keys to integration

Establish the power structure

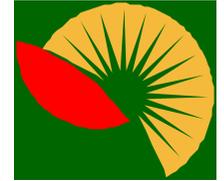
Develop the Integration strategy

Integrate systems, operations, overheads

Keep managing the institution

People and communication

- The existence of a single leadership, clear and explicit from day 1 of the merger, is critical
- Establish a single line of command throughout the organisation no later than the merger day in a way that is considered, by the entire management team, as acceptable for maintaining the balance



Keys to integration

Establish the power structure

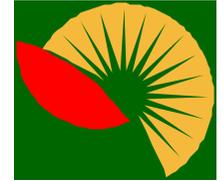
Develop the Integration strategy

Integrate systems, operations, overheads

Keep managing the institution

People and communication

- Central support and control with executive management accountability
- Implementation responsibility through business unit managers
- Minimise complexity - focus on critical areas leaving optimisation until later
- Attack high value, low risk areas first
- Measure, track, report and maintain accountability at all levels
- Be flexible but unrelenting in the final objective



Keys to integration

Establish the power structure

Develop the Integration strategy

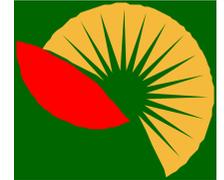
Integrate systems, operations, overheads

Keep managing the institution

People and communication

- Select entire blocks of existing systems and operational procedures and minimise new developments. This approach has outperformed others in:
 - Implementation costs
 - Integration speed
 - Customer service impact
- Postpone optimisation and development until after the main integration effort
- Integrate centre of power in 'one of the headquarters' very early in the process

Keys to integration



Establish the power structure

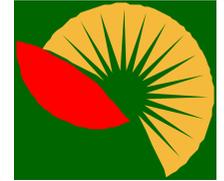
Develop the Integration strategy

Integrate systems, operations, overheads

Keep managing the institution

People and communication

- Management focus will shift away from performance management towards integration and problem solving. Avoid 'leave of absence' from market.
- Balance requires
 - > Stable leadership and organisation at all levels
 - > Shared understanding of where merger benefits will come from
 - > Definition of clear, measurable market targets
- When integration has moved into final phase, large re-energising effort required, and clear communication that 'the merger is over'



Keys to integration

Establish the power structure

Develop the Integration strategy

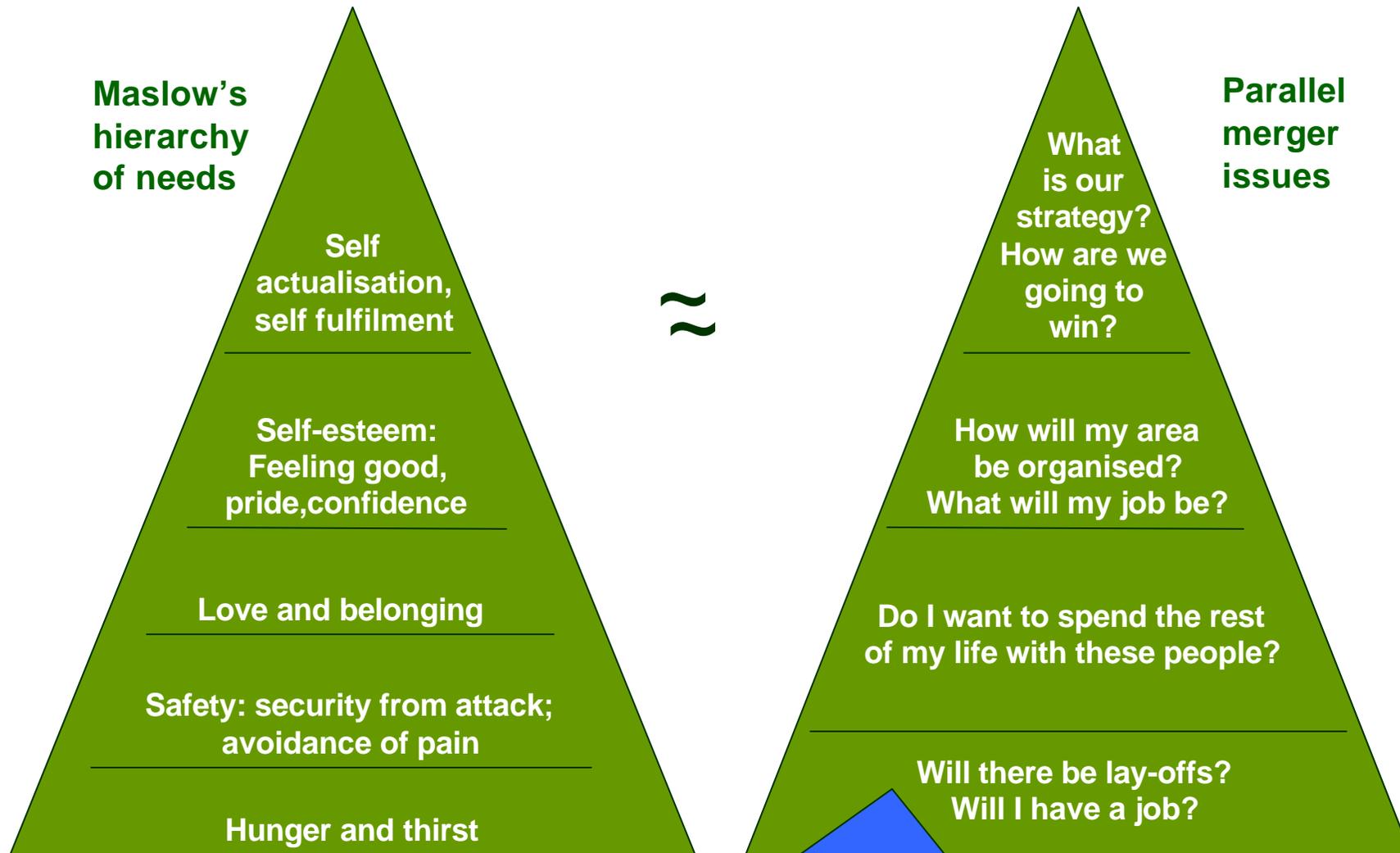
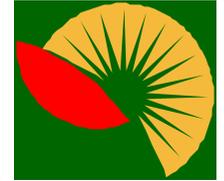
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Keep managing the institution

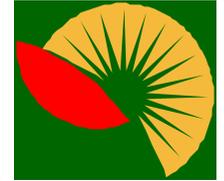
People and communication

- CEO takes leadership position
- Deal with 'What about me?'
- Ongoing through merger

Take care of people's needs

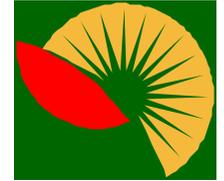


Melding cultures at SME



- Consistency with message
Integrate → Transform → Invest + Grow
- Early distribution of employee shares
- Single non-union agreement
- Moved to performance pay
- Achieved benchmarked employee commitment approaching best practice

Suncorp Metway outcome



- Captured more than projected synergies
- Systems integration and enhancements completed successfully
- ROE increased from 15.8% to 22.34%
- NPAT lifted from \$233 to \$335m