

**Group Chief Executive Officer's Report to Shareholders
Suncorp Group Limited Annual General Meeting
Thursday 25 October 2012**

The recent Suncorp result marked my third full-year financial results presentation as Group CEO.

At the time of my appointment I noted our key challenges were to:

- restore the credibility of the Group;
- regain the confidence of the market; and
- to really drive the cultural benefits out of being one single company.

It was clear that the Global Financial Crisis had seriously tested the Group's business model. The balance sheet was in need of repair, and the culture of the Group was built around brands and business units.

Despite these issues it was obvious that:

- we had valuable assets and plenty of opportunity;
- we had strong and recognisable brands that customers trusted and supported; and
- we had capable people with a bias to getting things done, and while there had been heavy investment following the merger with Promina, the integration had not been properly completed.

Therefore, my key objective was to enable the Group to once again control its own destiny.

We needed to win back the support and confidence of the market and create the environment in which to best manage the business. In fact, you might recall at my first Annual General Meeting I even had to remind potential predators to get their tanks off our lawn.

Our immediate priorities at the time were to:

- stabilise the balance sheet;
- build an experienced and capable executive team;
- settle on a business model;
- start the process of simplifying our business; and
- outline a credible three-year plan that the market would support.

To facilitate this plan, we created what we call the building blocks for success. These building blocks would allow us to create:

- a single view of our pricing and claims in our General Insurance business;
- a single view of our customers;
- a single view of our financial structure;
- and, probably most importantly, a single set of terms and conditions for our people.

I'm delighted to report that our most recent financial results confirm that we have delivered as we said we would. Whilst I appreciate the absolute profit is not where we'd want it to be, if one excludes the major weather events, we're making good headway.

For the last financial year, we recorded profit after tax of \$724 million, up 60 per cent, while profit from business lines increased by 23 per cent. And at the same time we have built the capital and operational foundation that will serve us well in the future.

All our businesses continue to grow successfully in proportion to market conditions.

Importantly, we have been able to achieve growth while continuing to deliver stable or improving margins across our business.

I don't think there are many businesses in this environment that can show top line growth, with strong stable margins and appropriate pricing with a flat expense base - at the same time as improving customer satisfaction and increasing employee engagement. However, I'm the first to recognise that for many reasons outside of our control we've had to impose significant premium increases on many of our policyholders. It's a fact that globally, the cost of insurance has increased for both consumers and insurers. This is a factor of the environment - natural and economic - in recent years.

Turning to dividends - in a very challenging environment, we've taken the appropriate steps and the outcome is a stable and growing company delivering improved dividends as the Chairman has outlined.

In spite of all the natural and economic challenges we've faced, we're proud of the fact that over the past three years we have:

- paid out \$1.6 billion in ordinary and special dividends to shareholders;
- paid back over \$1 billion in debt thereby significantly reducing the gearing levels of our balance sheet; and
- also increased the market capitalisation of the company by more than \$2.5 billion.

Looking ahead, let me leave you in absolutely no doubt - there is plenty more gas in the tank. We've only just scratched the surface in terms of the benefits of simplifying the business and there's a lot more work for us to do yet.

In May this year we outlined the next phase of our agenda to the market which continues to focus on simplification involving five key projects which are designed to:

- make our policy systems more efficient;
- further simplify our general insurance licences through consolidation;
- ensure our people are able to focus on high-value work by using business partners for transactional activities; and
- finally, enhance our risk management under the Basel Advanced Accreditation program, underscoring our Bank's positioning as the only credible alternative to the major banks.

In the Life business, we continue to drive growth in the markets where we have natural competitive advantage - the direct and advisory markets. We remain focussed on our core business and have divested those operations which are not core, including Tyndall Investments and New Zealand Guardian Trust. Our focus is on simplification, as demonstrated by moving the business onto one operating licence, removing cost and complexity. The market remains challenging but the Life team is focussed on the controllable levers which are giving us traction.

I'd now like to take a few minutes to talk about our Bank which three years ago was the focus of a lot of attention.

As you'll recall there remains still the rump of property exposures that we've called our Non-core Bank. These are the assets we ring fenced and provisioned for runoff back in 2009. We're committed to seeing the Non-core Bank reduce to under \$3 billion by June 2013.

The portfolio has already been significantly de-risked and is now 75 per cent smaller than it was at inception and it now represents just 9.0 per cent of the Bank and 5.0 per cent of the Group's assets.

Hopefully, I feel the market has become more comfortable with the way this book is being managed.

Turning now to the Core Bank – we're seeing good, profitable growth. The Bank is central to our business, it's increasingly a significant contributor to the Group result and is a critical part of the current and future banking landscape in Australia.

I'm very proud of the work that David Foster and the team have done to transform this business and of how his team and the insurance teams worked together to support our customers during all of the major weather events which have impacted our communities in recent years.

I do approach the topic of weather with considerable trepidation. For the first two and a half years I was in Australia I didn't seem to see the sun at all. I'm now assured that weather patterns are normalising. And with it, our insurance business is stabilising, as are reinsurance costs, meaning we're hopeful of seeing a return to the revenue and profit we'd expect from a business of this scale.

Let me share with you some interesting insight into what has happened in our insurance business in recent years.

Over the past five years we've incurred more than \$1 billion in additional reinsurance costs and about \$1.2 billion in claims above that which we'd normally budget for major events and catastrophes. That \$2.3 billion equates to about \$1.80 per share, some of which would otherwise have flowed through to you as shareholders. As owners and managers of an insurance company we understand and accept the volatility implied by weather cycles and natural hazards. However, this point is one our industry needs to continually reinforce with policymakers, particularly if we are fortunate enough to get a break in the weather and profitability improves.

Let me quickly give you now a sense of what the Suncorp of today looks like. We're unashamedly focussed on Australia and New Zealand, with geographic diversity across all our business lines.

We sell simple, easy to understand products that are essential to building and protecting the assets of middle Australia and New Zealand.

We have about nine million customers and in fact about 42 per cent of Australians have at least one product provided by the Group. People increasingly need the products that we offer.

We employ 16,000 people across Australia and New Zealand. Our people are engaged and passionate about what they do. I'd like to recognise the huge contribution our people have made to our company. Our progress is a credit to these dedicated people who deliver for our customers but also continue a fine tradition of involvement in the communities where they live and work.

We invest heavily in these communities, through corporate giving, volunteering and sponsorships at all levels.

Our Brighter Futures Community Giving program, launched late last year, has raised over \$350,000 for causes which are close to the hearts of our people.

We continue to assist customers and communities with road safety programs, storm preparedness, flood mitigation and financial literacy. Our Bank has this year partnered with Australian Year of the Farmer, supporting a number of events and activities designed to connect people in our cities with those on the land.

I believe it's important we not only achieve our financial goals but also contribute to improving social standards and conditions in the communities where we do business. We're committed to taking a responsible approach and I'm delighted to report that our company has been recognised in a number of ways:

- Firstly, the Equal Opportunity for Women in the Workplace Agency has granted Suncorp an Employer of Choice for Women citation because we've taken action to promote gender equality in the workplace through recruitment, development and working conditions.
- Secondly, we've been included in the FTSE4Good index which recognises our Group as socially responsible and highlights us to ethical and sustainable investment funds around the world.
- Finally, we've just reported an 11 per cent reduction in greenhouse gas emissions year on year, reflecting our concerted efforts around energy use and fuel consumption.

These are all things I am tremendously proud of as they make a significant contribution and represent our company, our people, our brand and all we stand for in the community.

Our purpose is to create brighter futures for all our stakeholders.

In conclusion, I'm now confident we're demonstrating the strength of our business strategy and model. As one company – the Group working together - we're delivering more for our brands and our customers.

While we are clearly a large, trans-Tasman company, we remain proudly headquartered in Queensland.

We are very conscious of our history and the loyalty shown by our customers and shareholders.

We acknowledge there have been many ups and downs but we are now very much focussed on restoring our credentials with shareholders and rewarding those who have stayed loyal to Suncorp.

I'd like to thank all of you, our shareholders, for your patience and perseverance as we've worked hard to transform the Group and improve the returns we deliver to you.

I'm proud to report that we continue to control that which is controllable and we continue to cope well with those things outside our control. The outcome of this is a company that truly believes in its strategy, is focussed on delivering and is proud of its achievements to date.

I feel this is the year where we have been able to, for the first time since the Global Financial Crisis, clearly demonstrate the value and potential this Group has to our shareholders.

Patrick Snowball