

ASX Announcement



24 August 2011

FULL YEAR RESULTS ANNOUNCEMENT **For Cross Release: SUN / SBK**

Key Points

- Group net profit after tax of \$453 million (2010: \$780 million), impacted by costs associated with natural disasters.
- More than 100,000 natural hazard claims worth an estimated gross cost of \$4 billion being managed across Australia and New Zealand.
- Building Blocks program substantially delivered, non-operating company structure in place and enhanced Group balance sheet and capital position.
- General insurance after tax profit of \$392 million (2010: \$557 million), underlying ITR up from 9% to 10.8%.
- Core Bank after tax profit of \$259 million (2010: \$268 million) with an improved net interest margin of 1.90% (2010: 1.80%).
- Non-core Bank run-off well ahead of schedule at \$7.7 billion (from \$12.6 billion at 30 June 2010).
- Suncorp Life after tax profit of \$149 million (2010: \$222 million).
- Final ordinary dividend of 20 cents per share fully franked, bringing total dividend for the year to 35 cents per share fully franked (2010: 35 cents).
- Target dividend payout ratio increased to 50% to 70% of cash earnings (excluding divestments).

Suncorp Group Limited (Suncorp) today reported a net profit after tax of \$453 million for the full year to 30 June 2011. The headline profit, down from \$780 million in the previous financial year, reflected the impact of the worst period of natural disasters in the region's history.

Despite the financial and operational challenges associated with these events and broader economic volatility, Suncorp's businesses performed well on an underlying basis and the Group is on track to achieve the strategic targets it has outlined to the market and shareholders.

Chairman John Story said, over the course of the financial year, Suncorp had progressed as a stronger, more sustainable Group capable of withstanding the most significant external crises.

"During the past year, management has built a Group that is financially and operationally stronger, less complex and more efficient," he said.

"It is a credit to all involved that this strategic transformation, and a credible financial result, were delivered while also responding to the worst series of natural hazard events in the history of Australia and New Zealand.

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“All of this work has prepared Suncorp well for the coming year and beyond when the value and benefits of the Group’s portfolio of insurance and bank businesses will begin to emerge.”

Chief executive Patrick Snowball said the results for the year to 30 June 2011 confirmed the substantial improvement in the underlying strength and performance of Suncorp’s businesses.

“Despite the additional workload created by natural hazard events, our General Insurance business is on track to deliver the \$235 million in ITR benefits from the Building Blocks projects and this supports our confidence in delivering a 3 percent increase in underlying ITR,” Mr Snowball said.

“The Core Bank continued to show its potential by achieving system lending, increasing its footprint and expanding margin in a challenging environment while the non-core Bank run off continues ahead of schedule.

“Suncorp Life’s profit was impacted by higher claims, policy lapses and the divestment of businesses but growth in the direct channel, which now accounts for about a quarter of all new business, was very encouraging.”

Mr Snowball also said that delivering operating and capital strength as Suncorp had done during the past year was a prerequisite for building stakeholder confidence in an uncertain external environment.

General Insurance

General Insurance recorded an after-tax profit of \$392 million for the year to 30 June 2011 (2010: \$557 million). Natural hazard claims were \$325 million above expectations and additional reinsurance protection cost \$232 million.

During the year, the Group managed more than 100,000 flood, cyclone, earthquake and other natural hazard claims at an estimated gross cost of around \$4 billion. Improvements in pricing and claims delivered through the Building Blocks program significantly enhanced the Group’s ability to respond to such devastating events.

The underlying insurance trading result (ITR) improved from 9% to 10.8% as benefits from claims and pricing initiatives flowed through. The general insurance business remains committed to increasing its underlying margin by at least 3% by June 2012.

Premium income increased 5.2% on a like for like basis to \$7.28 billion with the home and motor portfolios up 11.5% and 4.4% respectively.

The commercial insurance portfolio experienced increased competition in small-medium broker business. Larger corporate property risks faced less competition, with rate hardening evident in the second half as a consequence of natural hazard events and increased reinsurance costs.

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Suncorp's New Zealand operations reported a pre-tax insurance trading loss of \$203 million (2010: \$70 million profit). Although the Group's comprehensive reinsurance program ensured substantial protection against A\$2.5 billion in claims arising from the Christchurch earthquake, substantial costs were incurred purchasing additional reinsurance cover for New Zealand during the year.

Although the succession of natural hazard events in the region significantly increased the cost of Group's reinsurance program for the current financial year and required its natural hazards allowance to be increased from \$460 million to \$500 million, Suncorp is confident its new pricing engine and premium increases it has already applied will cover this additional cost.

Suncorp Bank

Suncorp's Core Bank reported a profit after tax of \$259 million (2010: \$268 million). Gross loans increased 6.1% to \$39.8 billion (2010: \$37.5 billion) with good growth coming in all sectors. During the year, the Core Bank net interest margin improved to 1.90% (2010: 1.80%).

Bad debt expense remained stable at \$51 million despite the impact of the Queensland and Brisbane floods. The Bank took the prudent step of including a \$25 million provision for additional impaired loans arising from the floods but, to date, actual losses have been immaterial.

The non-core Bank incurred an after tax loss of \$175 million (2010: \$224 million loss). The run-off of this portfolio progressed ahead of expectations with total lending reducing to \$7.7 billion, down \$4.9 billion for the year. Impairment losses reduced significantly to \$274 million (2010: \$428 million).

Suncorp Life

Suncorp Life's profit after tax was \$149 million (2010: \$222 million). Underlying profit after tax of \$147 million was impacted by higher than expected claims incidences, policy lapses and divested businesses.

Life in-force premiums increased 4.3% to \$818 million (2010: \$784 million). There was strong growth of 43.8% in the sale of life products directly to the Group's existing customer base.

Disability claims and lapse experience continued to impact the Suncorp Life result but, in both areas, the second half experience showed improvement over the first half down from \$15 million to \$5 million half-on-half and \$13 million to \$8 million half-on-half respectively.

The Embedded Value of Suncorp Life was stable at \$2.4 billion.

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Capital and dividend

Mr Snowball said the Group's balance sheet and capital position had strengthened considerably over the financial year due to the implementation of the non-operating holding company structure and the continued run-off of the non-core Bank portfolio.

"The considerable amount of work we have done to improve the Group's balance sheet and capital position means we were, and will continue to be, very well protected against the impact of natural disasters and volatile economic conditions," Mr Snowball said.

"This provides funding flexibility and assists stakeholder confidence, which is important given continuing global and local financial market uncertainty."

The Board's confidence in the underlying performance of the business had resulted in a final ordinary dividend of 20 cents per share fully franked, taking the full year ordinary dividend to 35 cents per share fully franked (2010: 35 cents).

Given the strength of the Group's capital position, the Board has increased the target dividend payout ratio to 50% to 70% of cash earnings (excluding divestments). The final dividend of 20 cents meant the total dividend payout for the year was at the top end of the increased payout ratio.

In a letter to shareholders, Suncorp Chairman John Story reiterated the Board's policy that capital excess to the operational needs of the business would be returned to shareholders when it was prudent to do so.

"We originally anticipated a return of capital to shareholders at this result but, given the recent upheavals on global financial markets, the Board has decided to retain the full amount of our surplus capital as a further protection against short term uncertainty and volatility," Mr Story said.

"This position will be reviewed as markets stabilise and, in doing so, the Board will be mindful of the high balance of franking credits that we currently hold on behalf of shareholders."

Ends

For more information, analysts/investors should contact Mark Ley – 0411 139 134.

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Teleconference details

Analyst briefing – 1030 AEST

Webcast: www.suncorpgroup.com.au
Australia dial-in: 1800 554 798
International dial-in: +61 2 8113 1401
Conference ID: 6835756

Media conference – 1300 AEST

Australia dial-in: 1800 554 798
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Conference ID: 7855991