22 August 2012

SUNCORP REPORTS INCREASED PROFIT, DECLARES SPECIAL DIVIDEND

Key Points

- Group net profit after tax of $724 million (2011: $453 million). Cash earnings of $819 million (2011: $636 million).
- Final ordinary dividend of 20 cents per share fully franked.
- Special dividend of 15 cents per share fully franked, taking total dividend payments for the year to 55 cents per share fully franked (2011: 35 cents).
- Target dividend payout ratio increased to between 60% and 80% of cash earnings.
- Top line growth of between 8% and 10% across all business lines, margins maintained or improved.
- Building Blocks delivering planned benefits and resulting in targeted 3% improvement in underlying Insurance Trading Ratio.
- General insurance after tax profit of $493 million (2011: $392 million), underlying ITR up from 10.8% to 12.1%.
- Combined Bank net profit after tax of $26 million (2011: $84 million).
- Core Bank after tax profit of $289 million (2011: $259 million) with stable net interest margin of 1.91% (2011: 1.90%).
- Non-core bank loss after tax of $263 million. Run-off of the portfolio ahead of schedule at $4.5 billion (from $7.3 billion at 30 June 2011). Gross non-performing loans reduced $0.5 billion to $1.9 billion.
- Suncorp Life after tax profit of $251 million (2011: $149 million).

Suncorp Group Limited (Suncorp) today reported a net profit after tax of $724 million for the full year to 30 June 2012. Cash earnings were $819 million.

The Group performed well on an underlying basis despite a challenging external environment. Each business achieved top line growth of between 8% and 10% and maintained or improved margins.

Dr Ziggy Switkowski, Suncorp Chairman, said the improved balance sheet and confidence in the Group’s future prospects had allowed the Board to declare a final dividend of 20 cents per share and a special dividend of 15 cents per share. Both dividends will be fully franked and paid on 1 October 2012.

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He said the decision to declare a special dividend was consistent with the Board's commitment to return to shareholders any capital deemed surplus to the needs of the business.

"These financial results demonstrate Suncorp's ability to successfully balance a major transformation program and numerous external challenges while also rebuilding shareholder value," Dr Switkowski said.

"I am both pleased with the progress the Group is making and confident we have the strategy, management team, organisational and balance sheet strength to further grow our businesses and respond to any future external challenges that may arise."

Chief executive Patrick Snowball said the progress of the Group's strategic transformation program had placed it in a strong position.

"Over the last three years, Suncorp has been transformed with the establishment of a 'One Company. Many Brands' business model and refocussed core operating businesses," Mr Snowball said.

"The non-operating holding company structure has improved capital transparency, we have disposed of non-essential operations and the non-core banking portfolio has been reduced by more than 75 percent."

"The Group's 'Building Blocks' are in place and delivering their targeted financial benefits and we have announced a new simplification program that will deliver its full $200 million in annualised benefits by the 2016 financial year."

"As a result, we enter the current financial year in a position that many companies would envy – with improved profits, stable or growing margins and reduced costs."

Mr Snowball said Suncorp's transformation should be seen in the context of the challenges the Australian financial services sector has faced over the past three years with global and domestic uncertainty, volatile investment markets and weak asset growth.

In addition, the insurance sector has withstood an unprecedented sequence of natural hazard events and increased reinsurance costs.

General Insurance

General Insurance posted an after tax profit of $493 million (2011: $392 million) for the year to 30 June 2012. While adverse natural hazard experience and increased reinsurance costs impacted the headline result, underlying performance was positive across the business.

Gross written premium (GWP) for the year increased 9.3% to $7,955 million (2011: $7,280 million) with strong contributions from all product lines.

The underlying insurance trading ratio for the year increased to 12.1% (2011: 10.8%), realising the 3% underlying margin improvement that was targeted when Building Blocks launched in 2010.

In personal insurance, the home and motor portfolios increased 17.6% and 3.2% respectively, with net written units and average premiums increasing across both lines.

In commercial insurance, GWP growth of 11.7% for the full year was driven by a combination of strong retention, rate increases and new business volumes. In statutory classes, premium increases did not fully cover deteriorating bond rates.

The Christmas Day hailstorm in Melbourne, a series of storms and flooding across Queensland and northern New South Wales and higher attritional events resulted in natural hazard claims being $278 million above allowance.

Suncorp's New Zealand operations contributed an insurance trading result of $18 million (2011: $203 million loss). The business' solid underlying performance featured a return to profitability and strong GWP growth of 21.7% on the prior year.

The allowance for natural hazard events has been increased to $520 million for the financial year ending 30 June 2013. This represents a 12% increase when the benefits of the Group's innovative reinsurance program, which includes a Queensland quota share agreement, are taken into account.

Suncorp Bank

Suncorp Bank reported net profit after tax of $26 million for the year to 30 June 2012 (2011: $84 million) in challenging market conditions.

In the core bank, profit after tax was $289 million (2011: $259 million). Lending momentum built over the year with total lending increasing by 9.5%. Residential and business lending were up 9.6% and 10.7% respectively. Net interest income increased 7%, in line with growth in average lending assets. Net interest margin was stable at 1.91% due to asset repricing offsetting retail funding margin pressure.

Suncorp Bank's deposit to loan ratio remains at the top end of its 60% to 70% target range and the Group's 'A+' credit rating ensures a diversity of alternative funding sources. This includes access to the newly formed covered bond market, which the Bank recently issued into for $1.6 billion of funding.

The non-core bank continued to exceed run-off targets during the year, down $2.8 billion to $4.5 billion. Gross non-performing loans reduced by $0.5 billion to $1.9 billion.

The non-core bank loss after tax for the year was $263 million (2011: $175 million loss). This reflected higher impairment charges due to impaired asset write-downs and write-offs in underperforming market segments.

As at 30 June 2012, the non-core bank had provisions for impairments totalling $408 million as well as $671 million of capital supporting the portfolio.

The Bank will continue to manage the non-core portfolio run-off and maximise the amount of capital available to the Group. By June 2013, total non-core bank loans are expected to be under $3 billion with less than $1.5 billion in impaired exposures.

Suncorp Life

Suncorp Life's after tax profit for the full year was $251 million (2011: $149 million), while underlying profit after tax was $146 million (2011: $147 million).

The embedded value of Suncorp Life increased 9.5% to $2,604 million.

Suncorp Life made good progress against its strategy to grow the IFA and Direct channels. Individual Life Risk new business was $105 million, an increase of 15.4% on the prior year.

Direct Life sales increased by 30.4% as Suncorp Life successfully leveraged the Group's assets to drive business volumes with 80% of all sales made to existing Suncorp Group customers.

Capital

Capital levels across the Group remained stable with the GI Group MCR coverage at 1.61 times and Bank Net Tier 1 ratio at 9.64%.

After ordinary and special dividend payments are made, the Group's capital position will remain robust, with $468 million of core capital held at the non-operating holding company level and $792 million of capital held in excess of operating targets.

Dividend policy

Basic cash earnings per share, forming the basis of the Group's ordinary dividend payout calculation, were 64.1 cents. The final dividend represented a payout ratio of 62.4% of full year cash earnings, within the Group's target ratio of 50% to 70%.

In recognition of the significant improvement in the Group's strength of earnings and balance sheet over the past three years, the dividend policy has been amended with the target payout ratio increasing to between 60% and 80% of cash earnings.

** Further information regarding Suncorp's results, including an explanation of statutory and non-statutory financial information, is set out in the Group's financial results announcement for the full year ended 30 June 2012, which is available on www.suncorpgroup.com.au or www.asx.com.au.*

Ends

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Teleconference details

Analyst briefing – 10:30am
Australia dial-in: 1800 801 825
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Conference ID: 6712605
Webcast: www.suncorpgroup.com.au

Media conference – 2:00pm
Australia dial-in: 1800 801 825
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Conference ID: 5236218