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Managing Director's Address
Suncorp Annual General Meeting
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Good afternoon.

I join our Chairman in welcoming you here today.

I also thank you for your continued support during a very challenging year for Suncorp.

The challenge has come from the unprecedented combination of a global financial crisis, an extraordinary sequence of weather events and slower economic growth in Australia.

Any of these issues individually would have had a significant impact on our operations and profit for the year. Yet we have had to deal with all of them in the same year.

We have also been managing one of Australia's largest and most complex mergers.

When you take all of these very challenging conditions into account, I believe our Group and its people have been very resilient during the past year.

Group result

At the Group level, Suncorp's net profit for the year was $556 million, well down on the previous year. This top-line result was below expectations and clearly affected by the external events.

It has tended to shift attention from the quality of the underlying performance of the Group and the excellent progress we continue to make on the integration of Promina.

This underlying strength and the prospect of a better than expected integration outcome are two factors that continue to provide us with confidence about our outlook.

With that in mind, I will now briefly comment on the results of each of the lines of business.

Banking overview

The Chairman has noted the recent interest expressed in Suncorp's banking business. That reflects the quality of the Suncorp Bank operations, particularly in growth areas such as Queensland.

The Bank increased profit before tax by 11.2 per cent to $633 million for the year. This was a good result given the impact of higher funding costs as a result of the global financial crisis and a slower domestic economy.

Suncorp's banking strategy focuses on the benefits to be obtained from a well designed distribution network and high levels of customer satisfaction.

This strategy was refreshed during the year.

One result of that was the expansion of the Bank branch network in Queensland and Western Australia to take advantage of economic growth there.

A particularly pleasing outcome during the year was customer satisfaction levels close to 80 per cent, well above the average for all Australian banks. That assisted Suncorp to increase deposits and lending.

The Bank has also focussed on cost containment. It reported a cost-to-income ratio of 44.7 per cent and remained competitive with Australia's major banks.

We have begun a major program to further improve the cost management of the Bank through the consolidation of its Retail and Business Banking areas into a single organisation.

The global and local financial problems have led to sustained market and media interest in the quality of the lending portfolios of all Australian banks.

The total of Suncorp's non-performing loans increased during the year – although to a level that is still below historical peaks.

We do take a more conservative approach than others to the amount of equity we require from borrowers and the type of lending we provide.

General Insurance overview

Major weather events and volatile investment markets took their toll on General Insurance with reported profit before tax of $307 million.

What has distinguished the past year has been the frequency, intensity and spread of major weather events. Our usual provision for weather events is $200 million per annum which has been more than adequate in the past. However, last year, weather events cost $415 million.

Volatile share markets also had a serious impact on the results of our general insurance business.

We held equities, bonds and other investments in our shareholders funds supporting our capital position. Last financial year, the fall in the share market resulted in a loss of $232 million on these holdings.

We also have large holdings of bonds and other investments used to provide reserves to enable us to meet insurance claims payments.

Accounting rules also required us to adjust our fixed interest investments to prevailing market prices or rates. Last year, this adjustment resulted in an unrealised loss of $140 million.

This adjustment is purely an accounting and timing issue and will reverse as these high quality investments redeem or as credit spreads contract.

Despite the difficult economic conditions, our insurance businesses grew, reflecting the high standing of the various insurance brands within the Suncorp Group.

During uncertain economic times, we believe people seek brands they know and can trust.

Our gross written premium level rose to $6.4 billion. Suncorp is now the largest general insurer in Australia in terms of gross written premiums. Our home portfolio grew 7.8 per cent and our motor portfolio 4.7 per cent.

Our strong brands also enable us to recover some of our higher operating costs through premium increases.

We are conscious of the fact that insurance is fundamentally important in protecting the assets of our customers and enabling them to recover from losses.

We therefore make every effort to achieve a balance between what we need to charge to ensure we have viable business and what customers can afford.

The Insurance Trading Ratio is an indicator of the underlying performance of a general insurance business. Our ITR was 10.3 per cent of net earned premium and reflected the larger than expected claims costs during the year.

Wealth Management overview

The past year has been very challenging for all Wealth Management businesses in Australia and Suncorp was no exception.

Local and global share markets have fallen to levels not seen for decades. This has reduced both the returns and demand for investment products.

The underlying profit of our Wealth Management business was lower at $136 million.

While we need to make allowances for the challenging external environment, we also need to ensure this business makes the changes necessary to improve its competitive position.

A program is underway to simplify Suncorp Wealth Management strategies, structure and operations.

The aim is to gain the full potential of the quality products and distribution channels within this business.

Suncorp Promina integration

Despite the pressures on our Group during the year, the integration of the Suncorp and Promina businesses continues to be a success. More than half of the integration has been completed and the benefits are already apparent.

The benefits realised during the year were $104 million, slightly ahead of target. We expect to achieve $241 million of synergy benefits on an annualised basis by the end of this financial year and $325 million by 2010.

Corporate resilience

It is clear that the global financial crisis is far from over and it looks likely to affect the general economy.

For most Australians, this is the worst financial crisis they have experienced. For most companies, it means the strategies and operating methods of the past may not be suited to what is now a fundamentally more challenging environment.

We cannot discount the prospect of more economic shocks. That is why there will be a concerted effort to increase the resilience of banks and financial services companies in Australia and elsewhere.

Suncorp sees resilience as the ability of a company to withstand major external shocks and quickly return to normal operations.

Improving corporate resilience is one avenue to regaining much needed investor, customer and community confidence. It also increases the confidence of companies in their ability to achieve their current and long term objectives.

Suncorp is well into a comprehensive program to improve its resilience.

This involves work on our strategies, operational effectiveness and organisational culture. It also includes attention to costs, liquidity and capital management.

We have not changed our strategic focus on building a portfolio of financial services brands that are clear leaders in their respective fields.

However, we are being flexible in assessing the current and future value of all of the assets in that portfolio.

Our recent discussions regarding the possible sale of our banking and wealth management assets are examples of that.

We are also stepping up the pace of the changes required to fully integrate Promina.

The heritage Suncorp and Promina businesses will operate on a fully integrated business model basis ahead of our previous schedule.

To achieve the economies of scale and shared services benefits of that model, we need to streamline structures and reduce costs across our Group. All Business Units are currently well advanced in this and the expense reduction benefits are already evident.

Ensuring adequate funding is another key aspect of increasing the resilience of banks.

The global financial crisis has affected the ability of Australia's banks to secure the funds required for business operations.

That is why the Federal Government recently announced it would guarantee all deposits held in Australian financial institutions for three years.

The Government has also guaranteed wholesale funding by Australian banks operating in international markets.

It correctly recognised that guarantees provided by other governments for their banks might make it harder for Australian banks to compete for funds.

Over time, we would also expect them to reduce the impact of the global financial crisis on the cost of obtaining funds.

Outlook

The efforts of all Suncorp people to further improve the resilience of our company have already taken effect, with our first quarter results indicating a strong start to the current financial year.

This gives us confidence we are on track to achieve our full year earnings guidance for each of our businesses.

For the Bank, this is high single digit growth in profit before tax and bad debts compared to the 07/08 result.

In our banking operations, the decision to merge the retail and business divisions has assisted in removing duplication of resources – maintaining the competitive position of the bank.

Given the deteriorating external environment, there has been a lot of interest in our outlook for bad debts.

Over the past six months, we have appointed a high-calibre team to comprehensively review our lending book – modelling the security we hold against a range of scenarios.

That review continues to provide us with confidence that actual write-offs as a percentage of total lending will continue to be below the average of our major bank competitors.

Outside of the bank, the underlying performance of both General Insurance and Wealth Management remains strong, with both businesses benefiting from the expense initiatives being carried out at the Group level.

Therefore, we are confident in reaffirming our guidance in General Insurance of ITR in the 10 to 12% range, including integration benefits.

This, of course, assumes weather events remain within our normal provisioning and there is no further widening of credit spreads across our technical reserves portfolio.

In wealth management we expect conditions will remain challenging for all market participants as investment market volatility continues. While this volatility makes it difficult to accurately forecast, we remain committed to achieving underlying profit similar to that reported last financial year.

In conclusion, the past year has been one of the most difficult in recent financial services history.

No company has been spared from the combined impacts of the global financial crisis, slower economic growth and volatile share markets.

Our Group had the added burden of an unprecedented series of major weather events.

Despite these factors, the underlying performance of our Group was solid. We retained customers, expanded into new areas and increased sales.

We progressed the largest and most complex financial services merger in Australia and achieved higher than expected benefits.

Despite the general community concerns, we achieved very high levels of customer satisfaction with our service levels.

It would not be unreasonable to expect a fall in employee morale given the difficult operating conditions of the past year.

A survey of Suncorp people showed the opposite with an employee engagement level of over 80 per cent. This is well above Australian and global standards.

It is a testimony to the commitment of Suncorp people and I express my thanks to them.

We are building a more resilient organisation because we are fully aware that the challenges of this year are likely to be repeated.

We are ready to meet those challenges.

I thank you for joining us here today and for your continued support and loyalty.

John Mulcahy
Chief Executive Officer
28 October 2008