ASX announcement

One Company Many Brands SUNCORP GROUP

20 February 2013

SUNCORP REPORTS INCREASED HALF-YEAR PROFIT OF $574 MILLION

Key Points

- Group net profit after tax (NPAT) of $574 million (HY12: $389 million)
- Interim dividend of 25 cents per share fully franked, up 25%
- General Insurance NPAT of $564 million (HY12: $162 million)
- Increase in the underlying insurance trading result (ITR) to 13.4% (HY12: 11.1%)
- Core Bank NPAT of $144 million (HY12: $156 million). Net interest margin of 1.83%
- Suncorp Life NPAT of $51 million (HY12: $133 million)
- Non-core Bank loss after tax of $140 million (HY12: $54 million). Portfolio reduced to $3.4 billion and impaired assets reduced to $1.6 billion
- $1.27 billion of capital in excess of operating targets

Suncorp Group Limited (Suncorp) today reported net profit after tax of $574 million for the half year to 31 December 2012, up from $389 million in the prior corresponding period.

Operational efficiencies, top line growth, favourable investment markets and relatively benign weather conditions all contributed to the improved result.

Suncorp Chairman, Dr Ziggy Switkowski, said the Group's financial and operating performance had allowed the Board to declare a fully franked interim dividend of 25 cents per share, an increase of 25% on the prior period. The dividend will be paid on 2 April 2013.

Dr Switkowski said the results demonstrated Suncorp's delivery against its three-year corporate strategy.

"The transformation of the Suncorp Group has been achieved despite protracted global economic volatility and unprecedented natural hazard impacts," he said.

"I'm pleased with progress and confident the business will continue to deliver for its customers and shareholders."

Suncorp Chief Executive Patrick Snowball said the Group's '*One Company. Many Brands*' business model and re-focussed core businesses had delivered growth across the Group and stable expense ratios at a time of significant business investment.

"While this result does reflect more benign weather conditions and improved investment markets, our business is in good shape. We are better positioned than ever to support our customers while delivering an improved financial performance," Mr Snowball said.

"The Group's 'Building Blocks' initiatives are in place and delivering targeted financial benefits of $235 million per annum. The new simplification program, outlined in May 2012, is on track to provide an additional $200 million in annualised benefits by the 2016 financial year.

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"The Group has positive momentum across all lines of business and will continue to deliver on the three-year growth trajectory," Mr Snowball said.

Performance over three years

The following table provides a comparison of the Group financials over three years.

	Dec-12	Dec-09	Change
Net Profit After Tax ($m)	574	364	57.7%
Interim dividend (cents per share)	25	15	66.7%
General Insurance GWP ($m)	4,225	3,490	21.1%
General Insurance reported ITR (%)	18.6	12.8	up 5.8%
General Insurance underlying ITR (%)	13.4	8.0	up 5.4%
Core Bank loans ($m)	45,763	36,577	25.1%
Core Bank net interest margin (%)	1.83	1.76	up 7 bps
Suncorp Life individual risk premiums ($m)	739	602	22.8%
Suncorp Life planned profit margin release ($m)	49	40	22.5%
Non-core Bank loans ($m)	3,422	15,645	(78.1%)
Non-core Bank impaired assets ($m)	1,644	2,077	(20.8%)
Total Group operating expenses ($m)	1,332	1,294	2.9%

General Insurance

General Insurance achieved an after tax profit of $564 million for the half year to 31 December 2012. The Insurance Trading Result (ITR) was $669 million, representing an ITR ratio of 18.6%. The result was driven by operational efficiencies, positive investment markets and fewer natural hazard events.

On an underlying basis, the ITR ratio was 13.4%, up from 11.1% in the prior corresponding period. This reflects the benefits from the delivery of the Building Blocks program and a continued focus on margin improvement. The business remains committed to delivering underlying ITR at or above 12% despite the impact of lower investment returns, a competitive market and a continuation of historically high reinsurance costs and natural hazard allowances.

Gross Written Premium (GWP) increased 9.6% to $4,225 million.

Personal Insurance experienced growth across both Home (up 14.5%) and Motor (up 5.2%), product lines. Commercial Insurance GWP increased 10.1%, with growth across all major product lines.

Suncorp's New Zealand business contributed an insurance trading result of $37 million (HY11: $13 million). GWP growth of 12.1% was achieved through all distribution channels and both personal and commercial lines.

Suncorp Bank

The Core Bank reported net profit after tax of $144 million for the half year to 31 December 2012.

Growth in mortgages continued with the portfolio increasing by 5.9% over the half year.

The Bank's loan to value ratio for new business remains in line with historic trends and reflects the Bank's conservative appetite for owner-occupier mortgages. The average home loan size in the portfolio remains below $300,000.

The Bank has retained its conservative retail funding position with a deposit to loan ratio of 66%.

The net interest margin has reduced to 1.83% but remains near the top of the Bank's target range of 1.75% to 1.85%. The market-wide impetus to increase retail deposit funding continues to restrain margins.

Operating expenses are broadly in line half on half, although have increased on the corresponding prior period. This reflects the Core Bank's investment in system replacement activity, the Basel II accreditation program and Group simplification initiatives.

Bad debt charges were $32 million, with impairment losses to credit risk weighted assets holding steady at 27 basis points.

The Non-core Bank recorded a loss after tax of $140 million. The portfolio is now in advanced stages of run-off with outstanding balances of $3.4 billion at December 2012. The portfolio reduced by $1.1 billion or 24% over the half and is on track to reach a target of $2.7 billion in outstanding balances by year end. At that time the Group will be well placed to review its strategic options regarding the Non-core Bank.

Suncorp Life

Suncorp Life's after tax profit was $51 million for the six months ended 31 December 2012. Underlying profit was $61 million.

Life Risk new business growth was maintained at 18% as the business continues to leverage the General Insurance customer base. Inforce growth continues (up 7%) with new business growth and inforce increases offsetting policy lapses. Funds under administration were $7.2 billion.

A prolonged period of economic uncertainty continues to impact consumer confidence and is having a material impact on the Life Insurance industry.

Embedded Value (EV) is $2,430 million, down 7%. The key driver is a material change in lapse assumptions ($168 million) reflecting structural elements of experience.

Capital and Dividend

Capital levels have improved with more than $1.2 billion of capital held in excess of operating targets. The General Insurance Group MCR coverage is 1.70 times and the Bank Net Tier 1 ratio is 10.1%. $776 million of core capital is held at the Non-Operating Holding Company (NOHC) level.

Cash earnings per share, forming the basis of the Group's dividend payout calculation, are 48.2 cents, up 41.3%. The interim ordinary dividend of 25 cents per share equates to a payout ratio of 52% of cash earnings.

Consistent with prior years, the Group maintains a prudent approach to balance sheet management at the half year. The Board considers the potential impact of the summer natural hazard period when declaring an interim dividend.

The Group remains committed to its full-year target dividend payout ratio of 60% to 80% of cash earnings and returning to shareholders any capital deemed surplus to the needs of the business.

Ex-Tropical Cyclone Oswald

Ex-Tropical Cyclone Oswald caused considerable damage across Queensland and New South Wales in late January 2013. As previously disclosed, the current estimate, after taking into account the Group's Queensland home portfolio quota-share arrangement, is that the event will cost between $200 million to $220 million. Other natural hazards costs during January were $50 million, and this means that at 31 January, the Group's natural hazard claims for the year to date were between $397 million and $417 million, against a full-year allowance of $520 million. Suncorp Bank has conducted a preliminary assessment of the impact of ex-Tropical Cyclone Oswald on its portfolios and there is no material financial impact.

** 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 half year ended 31 December 2012, which is available on www.suncorpgroup.com.au or www.asx.com.au.*

Analyst briefing – 10:30am
Australia dial-in: 1800 801 825
International dial-in: +61 (0)2 8524 5042
Conference ID: 6786095
Webcast: www.suncorpgroup.com.au

Media conference – 2:00pm
Australia dial-in: 1800 801 825
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Conference ID: 6275875

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