Suncorp-Metway Ltd
ABN 66 010 831 722
Suncorp Centre
36 Wickham Terrace
BRISBANE QLD 4000

Chairman's Address
Suncorp Annual General Meeting
Wednesday 28 October 2009

Today's Annual General Meeting is the formal conclusion to what was an extremely challenging 2009 financial year for Suncorp.

It was a year that required us to make many difficult decisions, in response to unprecedented global economic conditions and a second successive year of extreme weather events.

It was a year that saw more of our customers than ever before rely on Suncorp to help them through the difficulties they were facing.

And, finally, it was a year that saw our company's share price and profit fall to levels that were unacceptable to all of us – the Board, management and shareholders.

Yet I stand here today with a sense of cautious optimism that the worst of the global financial crisis may be behind us, and that the decisive actions we have taken have put us on the path towards restoring this company's business performance and profitability.

Twelve months ago the global economy was on the verge of collapse.

Funding and credit markets were frozen, share markets tumbled as investor confidence collapsed and, in the United States and Europe, large financial institutions crumbled in quick succession.

Here in Australia, we were protected from the worst impacts by the timely intervention of Government and regulators, and by the fact that Australian financial institutions did not have the risk profiles of some of their overseas counterparts.

There were, however, significant consequences for Australia's financial services sector and, more broadly, for the real economy.

Some of these consequences will continue for many years to come, and have fundamentally reshaped the way we do business.

Australian banks, in particular, have traditionally been reliant on international markets for funding, and the higher cost of obtaining those funds has impacted upon the bottom line of every bank.

There is no doubt, however, that Suncorp's financial performance was affected more than most, by the combination of the global financial crisis and the cumulative effect of a second year of severe weather events and natural disasters.

This accumulation of adverse external factors had a major impact on the Group's financial result for the year to June 2009, with net profit after tax of $349 million, down 40 percent on the previous year.

On an underlying profit basis, the **Bank** performed solidly, supported by an intensive focus on cost control.

Profit before tax, bad debts and one-off items was $781 million for the year. This was, however, offset by a significant increase in bad debts, which rose to $710 million.

Despite outflows in September last year following the Lehman Brothers collapse, the Bank's focus on deposit gathering meant that core retail deposits increased by 13.2% over the year.

Lending growth moderated as expected, in line with the slowing domestic economy and our decision to run off non-core portfolios in an orderly manner.

The **General Insurance** business achieved an insurance trading result of $462 million. This was despite severe weather events and natural disasters, reducing profitability by around $255 million.

All insurance brands experienced healthy premium growth as markets hardened in both short and long-tail products, with gross written premium up by 6%.

Favourable claims experiences in long-tail classes, particularly CTP, resulted in higher than expected reserve releases.

Investment income from shareholders' funds increased to $130 million, following a loss of $232 million in the previous year. This was a result of our decision to reduce risk and remove exposure to equities in September 2008.

In our wealth management business, now re-named **Suncorp Life,** life insurance saw profit growth of 13 percent, a good performance which underlined our decision to focus on this portfolio as our core activity within this business.

Not surprisingly, given volatile markets, this was offset by a lower funds management profit. The contribution after tax for the Suncorp Life business was $115 million for the year.

The Group's net profit result, combined with the impact of the capital raising in February of this year, realised cash earnings per share of 47.2 cents, out of which we have paid a full year dividend of forty cents fully franked, a substantial reduction on that of prior years.

We accept that these outcomes were very disappointing.

The fact is, however, that the Group sustained extraordinary challenges during this period. We were put to the test, and we acknowledge, with the benefit of hindsight, there were areas where we could have done better.

At the same time, it is fair to acknowledge that the Group has prudently responded to the challenges we faced, and a huge amount has been achieved over the last twelve months.

We have significantly improved our capital position to the point where we now have some of the highest capital ratios in the industry.

We have reduced risk in a number of key areas, including the removal of exposure to equity markets ahead of the worst of the sharemarket volatility from September to December last year, and the increase of our reinsurance protection ahead of a challenging run of major weather events in the second half of the year.

We have reviewed and refreshed our risk management frameworks, elevating the risk function by creating a new executive role of chief risk officer.

In the Bank, we have made some very tough decisions, to refocus our strategy and to establish a sustainable, relatively low-risk banking model.

We have commenced running off portfolios that are now outside our revised risk tolerance, and that are no longer viable given the new cost base of our wholesale funding relative to the major banks.

We have lengthened our wholesale funding terms, to reduce reliance on short-term markets and to better align the funding timeframe for the non-core business.

And we have refreshed the Suncorp bank brand and restructured the expense base.

We have undertaken a significant program of change in the wealth management business during the course of the year, taking the decision to focus our core activities on life insurance.

We expect to see the benefits of this strategic decision become apparent over the next 12 months, and improve what has already been independently assessed as a very valuable business.

But what I am most proud of, in a very difficult year for the Group at a corporate level, was the way in which our frontline employees, across all of our businesses, helped our customers through the challenges that they faced.

Some market commentators lose sight of the fact that financial services companies are in business to help their customers through the tough times as well as the good times.

Yes, the events of the last 12 months have impacted the company’s profitability.

But the efforts of Suncorp people – whether in the Bank and Life businesses reassuring customers about the safety of their deposits and superannuation or in the insurance businesses helping customers recover from natural disasters – embodied the customer focussed culture of this company and the importance attached to long-term customer relationships.

Not only do these challenges have a major impact on our customers, but they influence the lives of our employees and their families.

In the aftermath of the Victorian bushfires in February this year, for example, many of our employees helped customers recover, while not knowing if their own property and possessions had been destroyed.

I would now like to play a short video which illustrates the wonderful support the Group's employees gave to our customers and their local communities following the bushfires in Victoria and widespread flooding in North Queensland.

We thought it particularly important to recognise the efforts of our front line employees when determining remuneration outcomes for the financial year.

Although the overall bonus pool was reduced in line with our financial performance, the cuts were proportionally greater for people higher within the organisation.

Therefore, at the most senior level, the Group's executive team received no short term bonuses for the financial year, and their base salaries were frozen at 2007 levels.

Similarly, the fees for Board members have not changed since 2007.

We think that this outcome was appropriately aligned with shareholders' interests. It recognises that senior level executives are responsible and accountable for the overall financial outcome, but acknowledges the efforts of the Group's front line employees.

I said at the beginning of this address that we are looking to the future with a sense of cautious optimism – there are a number of reasons for that.

Firstly, we are seeing a number of indications that global financial markets have turned the corner and a recovery is in progress, even though it still has some way to go.

We are starting to see the wholesale funding markets open up to the higher rated banks, while Suncorp recently completed an overseas issue of debt without the guarantee, its first since the onset of the financial crisis.

While it will still take some time for lower rated banks such as Suncorp to enjoy the same access to funds as the majors, we are more confident this will occur, and that our first foray into the unguaranteed market will help narrow spreads for future issues.

Until then, the Government's guarantee on wholesale funding will ensure that regional banks and other smaller lending institutions can access wholesale funds and compete, while not on a level playing field, on an acceptable playing field.

It must be said, though, that if Australia wants to re-establish a truly competitive regional banking sector to provide an alternative to the Big Four, the Federal Government and regulators must continue to look for ways to ensure the playing field is as level as possible.

This should not be seen as criticism of the Government's efforts to date.

Its intervention at the peak of the global financial crisis was timely and appropriate, and protected the entire Australian financial services sector from the worst impacts of the global financial crisis.

Our second reason for optimism is that this Group has responded to the challenges it faced, and we now have three businesses which are getting stronger as each day passes.

We have a market leading general insurance business, which owns some of the strongest and best-known financial services brands in Australia and New Zealand.

We have established a Bank which is low-risk and sustainable in the current funding markets. We have refocused our strategy and are gathering the deposit base to reduce our reliance on wholesale funding.

We have simplified the strategic focus of our Suncorp Life business and are competing extremely effectively in the life insurance market.

We have fantastic people who, as I have already mentioned today, excel in helping customers whatever the circumstances.

And, finally, in Patrick Snowball, we have an international calibre executive with extensive financial services, corporate and leadership experience.

Patrick is the right person to be leading the Group at this point in the economic cycle and, in a moment, will share with you his initial impressions of the Group and how he intends to approach the various challenges it faces.

I would now like to turn my attention to several specific shareholder issues.

Last year, I said that we would reduce the size of the Board and refresh its composition.

Since then, we have been working hard behind the scenes to do the preparatory work required for this to happen.

This has involved ongoing discussions with the State Government, the Opposition and regulators regarding the legislative and constitutional changes that will give us the flexibility to address these issues.

We have now received a firm indication that the Government will propose legislation to amend the Act.

Subject to a positive shareholder vote on today's proposed amendment, as well as Parliament passing the legislative change, it would be our intention for two existing directors to retire and to be replaced by two candidates with deep industry experience.

Also, at the conclusion of this meeting, the size of the Board will have reduced by two from where it was last year. I anticipate further reductions in the coming years that are consistent with the maintenance of continuity and experience.

In the financial year just passed, the Board approved a full year ordinary dividend of 40 cents per share.

This was significantly down on previous years and, in making the decision, we were very conscious of the impact it would have on those retail shareholders who depend on their dividend distributions.

It was, however, the concluded view of the Board that a reduced dividend was both appropriate and prudent, given the extraordinary environment in which we were operating.

Looking forward, we will continue to target dividend payments which are fair and equitable for shareholders, but mindful of the various factors than can influence our operations, including Australia's economic outlook, the state of global funding markets and the Board's views of the level of capital required to appropriately manage the business.

During the course of the last financial year, we undertook a major capital raising, which incorporated a one for five entitlements offer.

Many of you here today chose to participate in that offer, and we sought to ensure that retail shareholders were treated fairly and equitably throughout this process. We believe we achieved that, and we thank you for your support.

An area in which we are focused on reducing costs over the next 12 months is in the share registry.

We estimate that dividend mailouts, annual reports and the maintenance of the share registry cost around $15 per shareholder each year.

Our company secretary has commenced by writing to shareholders who have duplicate records.

This is where we have two shareholder numbers for the same name at the same address. On assumption that in each case it is the same shareholder, we are asking them simply to return a form to merge their holdings.

Additionally, we have around 12,000 shareholders with fewer than 100 shares. We will shortly be writing to those shareholders with less than a $500 marketable parcel and asking them to confirm if they wish to remain a Suncorp shareholder.

We will ensure that everyone has a reasonable time to respond, but, if they don't respond, their shareholding will be sold and they will receive the proceeds from the on-market sale of their shares without any charge for brokerage or transaction fees.

To reduce costs further, we will be looking to increase the number of shareholders that we communicate with online and via email.

And finally, after feedback at last year's AGM, I said I would ask the Suncorp businesses to look into the possibility of providing product offers to shareholders.

It was a reasonable idea and, accordingly, we have established a section on the Suncorp Group website for 'shareholder offers'.

As an example, we have a special 2-year term deposit offer that will provide a 6% return, 1% greater than that currently offered by Suncorp bank and the majors.

To take advantage of the various offers, I would encourage you to visit the website or your local branch. You will need to quote your SRN.

Before handing over to Patrick, I would like to thank all Suncorp people across Australia and New Zealand who have worked extraordinarily hard over the course of another challenging year.

Thanks also to my fellow Board members – even in the most difficult times, the Board has always had a unity of purpose and the determination to make decisions that will ultimately benefit this company, its shareholders, customers and employees.

And finally, my thanks to you, the shareholders, for your interest and your support. I would now like to ask Patrick Snowball to address the meeting.

John Story
Chairman
28 October 2009