2004 Full Year Results

27 August 2004

Introduction by Joe Dowling.

Welcome to those people joining via the video conference and the webcast.

The agenda today will be similar to previous results presentations.

We will have an introduction and overview from John Mulcahy, then he will hand over to the CFO, Chris Skilton who will run through the divisional results, and then John will come back at the end to speak a little about strategy and the outlook for the next year.

Please turn off mobile phones

Agenda

- **Introduction & Overview - CEO John Mulcahy**
- Divisional performance - CFO Chris Skilton
  - Banking
  - General Insurance
  - Wealth Management
- Capital - CFO Chris Skilton
- Outlook - CEO John Mulcahy

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Thank you Joe and good morning ladies and gentlemen.

Thanks for joining us this morning here in Sydney and those of you listening in from Melbourne, Brisbane and others on the web-cast.

Most of you would have had a chance to see the result already this morning.

It is an excellent result, and it reflects the great progress this team has made over the past two years……….. strategically, operationally and culturally.

Our business improvement has not come by chance.

We have systematically focused on our key business imperatives and developed the right strategies to respond.

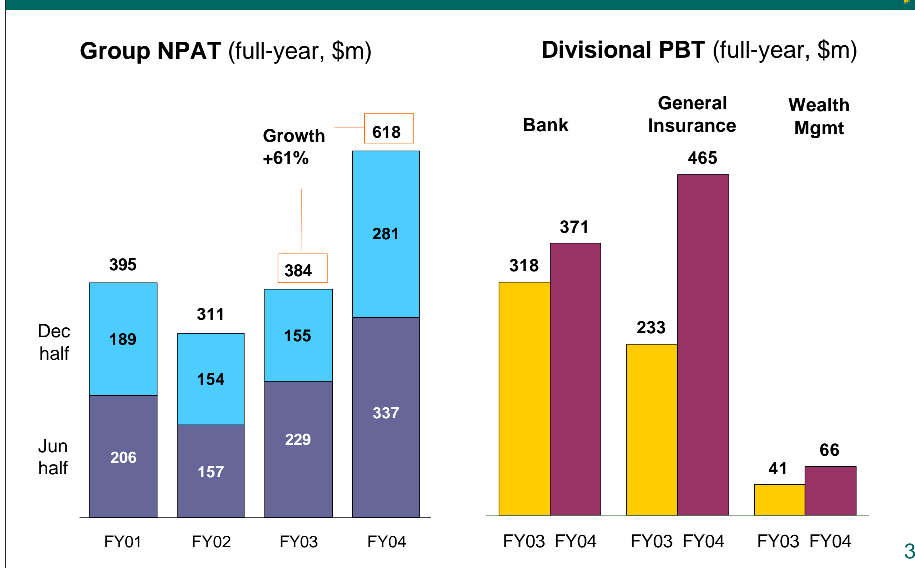
We have executed those strategies with strong discipline and embedded a high performance, team-based, customer focused culture throughout the organisation.

At the Group level, our diversified financial services strategy requires us to do two things:

- to deliver excellent stand alone line of business results
- and extract the synergies our business mix creates

Today's results clearly reflect the success we have had in implementing this strategy and the concentrated hard work of people right across our organisation.

So to begin with, let me take you through the highlights.



SLIDE

Net profit for the year to 30 June was up 61% to a record $618 million. For the June half, net profit was $337 million, which was up 47% on the prior corresponding period.

You can see that the profitability of the company has been turned around as we have reaped the full benefits of the GIO acquisition, set ourselves a much clearer strategic path, lifted the performance of our banking business and driven new disciplines and improved practices through the group.

From the graph on the **right**, you can see that we were able to achieve significant profit increases across all three of our business lines.

In **Banking**, profit increased 17% to $371 million, which is an excellent performance, featuring a good recovery in home lending, excellent deposit growth, improved efficiency, strong margins and low bad debts.

General Insurance delivered the biggest improvement in profit before tax, increasing 100 percent to $465 million. That was driven by a combination of steady revenue growth…. improved claims experience and increased investment income. It also is partly due to the healthy improvement in profitability in the general insurance industry, which is now achieving appropriate returns for the risks being assumed, following an extended period of very poor results.

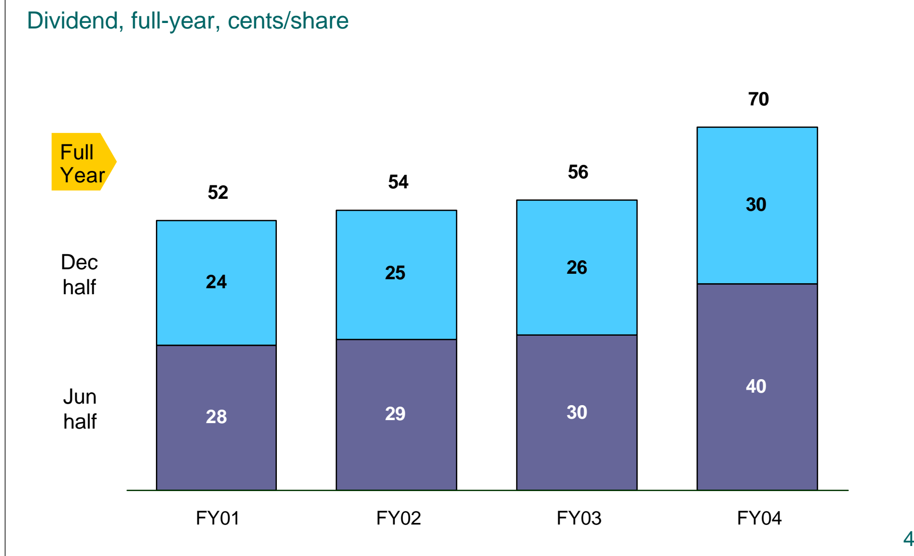
I think the improved profitability of the industry is a real positive for consumers, because they can now be sure that their insurance company will be there to pay claims when needed. In some classes, we are also seeing reduced claims costs flowing through into reduced prices for consumers.

Wealth Management profit rose by a healthy 61% to $66 million, mainly due to improved investment returns. We have also lifted funds under management, and increased the value of new business . So Wealth Management is making good progress.

And these are a very clean set of numbers.

Dividend increased

Dividend, full-year, cents/share



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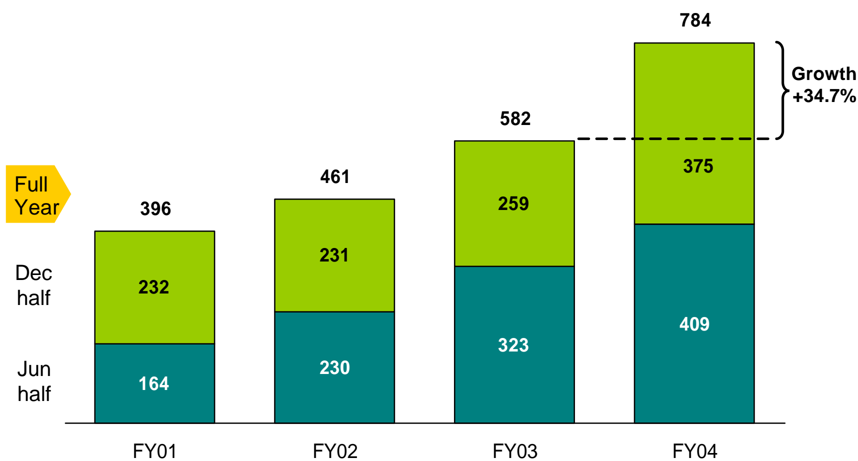
The strength of the result and the sustained improvement in the underlying business was sufficient for us to lift the final dividend by 10 cents per share to 40 cents, fully franked.

That takes the full year dividend to 70 cents, which is up 25% from 56 cents per share in the previous year.

Our pay out ratio for the full year remains conservative at 63%, which is a prudent position having regard to our capital needs for the future and our goal of delivering good returns for shareholders.

We are very confident that the improvements we have made in our business ensures that this is a sustainable increase.

Underlying* profit growth



*Profit before tax, amortisation of goodwill, investment income on GI shareholder funds & one-off items

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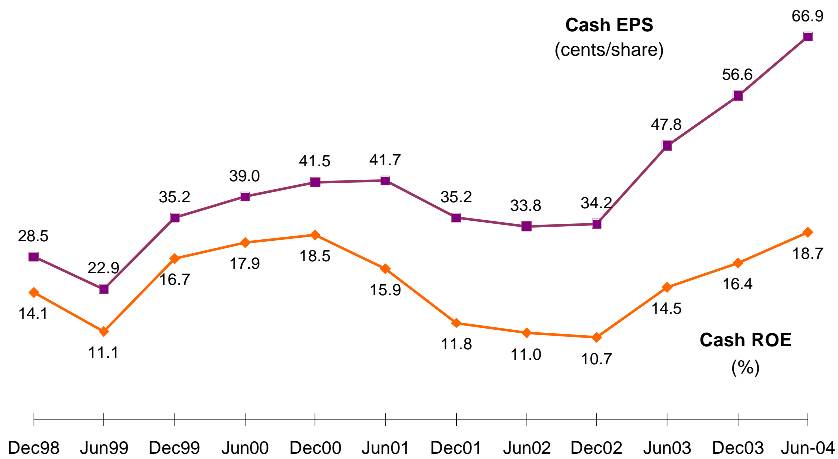
Looking now at underlying profit .which excludes tax, goodwill, one-off items and investment income on general insurance shareholders funds... you can see that the core operating performance of the company has continued to improve.

The underlying profit for the year increased by 34.7% to $784 million which even exceeded our own expectations.

That continues a very healthy upward trend which has been evident for the last four years.

Earnings ratios

Diluted, half-year



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As always, this is perhaps one of the most important charts we show because of the impact that these numbers have in terms of driving a higher share price and increased shareholder wealth.

You can see that both earnings per share and ROE have improved dramatically over the past few halves.

Cash EPS, which excludes goodwill, increased to a record 67 cents per share in the second half taking EPS for the full year to $1.24, which is up 51%.

Cash ROE increased to a healthy 18.7% in the second half.

You can see the ratios dipped following the GIO acquisition because the company was bearing the integration and acquisition costs prior to the benefits being released to the bottom line.

Those strong earnings are now flowing through, EPS is much higher than it was prior to the acquisition.

So we can say the acquisition and other changes we have made to improve the business
are clearly evident in the ratios.

Strategic imperatives

- Instill a high performance culture
- Continually enhance our customer focused culture
- Set platform for continued growth in all lines of business
- Maximise benefits from Diversified Financial Services Model

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At the start of the 2003/04 financial year, we identified some strategic imperatives.

Having introduced structural change to clarify accountabilities…. we needed to strengthen the performance culture of the organisation. So we introduced new performance management systems and revamped our remuneration and reward systems to align to our business goals.

Whilst we already had strong customer focus… it is an area in which we sought further improvement.

Our restructure was designed to to give primacy to the customer. We have enhanced our segmentation strategies deepened our research capability and leveraged our business mix to generate superior solutions to meet customers needs.

We also needed to set the platform for growth in each of our lines of business not only to deliver a quality result in the short term, but to ensure that we have the momentum and fundamentals in place to sustain that growth into the future.

We have turned around our retail bank, improved the diversification of the business bank, rebuilt core capabilities in GI and improved our product mix and efficiency in Wealth Management.

MORE TO COME

Strategic imperatives

- Instill a high performance culture
- Continually enhance our customer focused culture
- Set platform for continued growth in all lines of business
- Maximise benefits from Diversified Financial Services Model

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One of our key challenges, in the eyes of the market, was to maximise the returns from our diversified financial services model particularly through demonstrating our ability to extract synergies across the Group.

While we acknowledge that more remains to be done we have made very pleasing progress on this front in this financial year.

We continued to demonstrate excellent capture of cost synergies as shown in our line of business performance.

We are now seeing strong referral growth throughout all of our distribution channels and, in a number of cases, we have doubled our sales conversion rates. In the last 6 months we have grown average customer values by 6% and increased the number of our Tier One business customers by 13%.

And, at the current run rate we anticipate that we will deliver a meaningful proportion of our NPAT uplift in the current financial year from our existing customer base.

I will now turn over to Chris who will provide you further details of our line of business results and the underlying initiatives and strategies we put in place throughout the year.

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Thank you John and good morning everyone.

Well it's a pleasure to stand here today and be able to present these numbers to you.

It's obviously a very good result - one of very high quality and it demonstrates clear improvement in performance in all three of our core businesses.

We said in early June, in our market update, that we expected an increase in underlying profit of "at least 25%" for the full year and in fact we delivered a 34.7% improvement.

The outperformance relative to guidance was mainly due to a favourable outcome from outstanding claims valuations at the year end.

But it also reflects the excellent progress we have made in lifting profitability right across the group as a whole.

As usual, I will now run through the results of each of our three divisions and then touch briefly on capital.

Beginning with banking.

Banking profit

Full-year, $m

	Jun 03	Jun 04	%
Net Interest Income	592	656	+10.8
Non Interest Income	155	177	+14.2
Total Revenue	**747**	**833**	**+11.5**
Operating Expenses	(380)	(414)	+ 8.9
Bad Debt Charge	(49)	(48)	(2.0)
Pre Tax Profit	**318**	**371**	**+16.7**

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The banking profit before tax increased by 16.7% to a record $371 million for the year, which is a solid result, and compared favourably with our major competitors.

The second half profit before tax was $194 million, which, again, is a record half year result.

Asset growth was very strong during the year, exceeding industry growth, and featuring a good recovery in housing.

Retail deposit growth was also well above system, and I think importantly, net interest margins held up during the year actually rising in the second half.

Consequently we had solid net interest income growth of 10.8%

Non-interest income also had a healthy increase for the year although it was flat, half on half and I'll go into more detail later in the presentation.

Operating expenses increased by 8.9% to $414 million for the year, but were relatively flat in the second half.

As a consequence, the cost to income ratio reduced to 48.8%.

Overall credit quality remains very sound.

Strategic imperatives

- **Rebuild home lending**
- **Grow retail deposit base**
- **Continue to diversify through disciplined growth outside Queensland**
- **Continue to grow property finance profitably, but accelerate growth of commercial lending**

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What I would like to emphasize is that this performance was no accident.

It was a result of specific initiatives introduced during the year as we identified our strategic imperatives and took decisive action, and I think it demonstrates our ability to execute, which we believe is a competitive advantage

Our first priority was to lift performance in **housing**, where we had been losing market share, and at the same time to grow our retail deposits to improve our funding mix
and reduce our reliance on more expensive wholesale funding.

We also wanted to maintain our growth momentum outside of Qld, thereby improving the diversity of our loan book and increasing our penetration of the larger southern markets.

In **business banking**, clearly we have an expertise in property finance, and we continue to leverage off that by growing the book and taking advantage of the robust margins available in that sector.

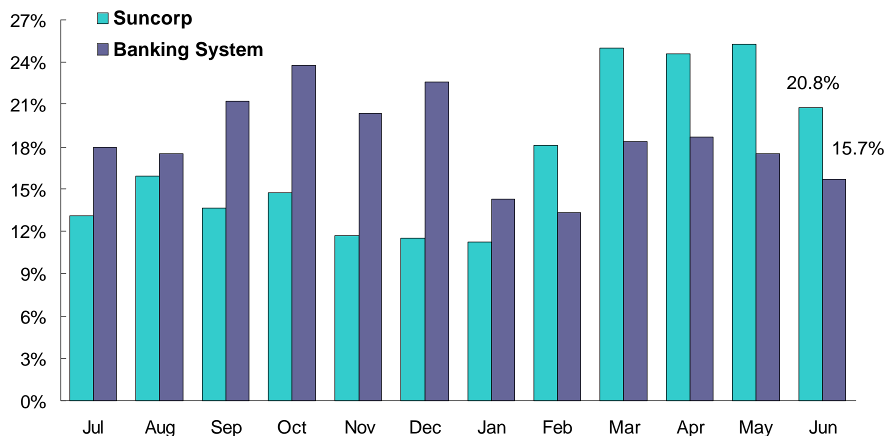
But we also identified a major opportunity to grow our **commercial lending** business,
which is focused on small to medium sized enterprises as well as our corporate book.

Growing those segments at a faster rate will have the impact of gradually rebalancing the portfolio away from property.

I am pleased to say that we have made tremendous progress against each of these imperatives.

Home lending growth

Annualised monthly growth in assets, %



Source: RBA, SUN (Includes securitised assets)

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SLIDE

From the pack you can see that in the 12 months to the end of June, the rate of increase of the total lending book, including securitised balances, was 19.7% compared to system growth of 15.5%.

Importantly, our **home lending** performance has recovered rapidly during the year. At the start of the financial year we were well behind the eight ball in this market. As we explained at the half year results, our performance had suffered for a variety of reasons. But through identifying the right strategies to meet the challenge, we have now significantly improved our position and in the 12 months to June, our growth had improved to 18.5%, compared with market growth of 20.5%.

Perhaps more importantly, we are now actually exceeding market growth rates on a monthly basis. As this slide shows, we have consistently exceeded system growth since February.

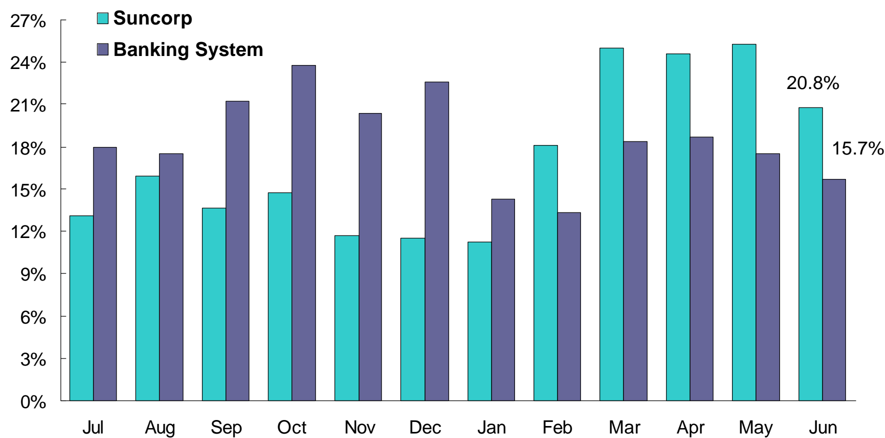
We have achieved this turnaround through a number of changes to our home lending processes and distribution. We have lifted **acquisition** rates by improving our sales and service capabilities, introducing specialist lending teams and streamlining our intermediary processes.

Acknowledging that brokers are a legitimate distribution channel which some customers will always choose, we adopted an enhanced broker distribution model. As a consequence, our home loan products are now available through most of the larger brokers.

MORE TO COME

Home lending growth

Annualised monthly growth in assets, %



Source: RBA, SUN (Includes securitised assets)

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CONTINUED...

Broker channel disbursements grew by 42% to $3.1 billion during the year, and now account for 35% of home loan receivables, compared with 27% at June 03.

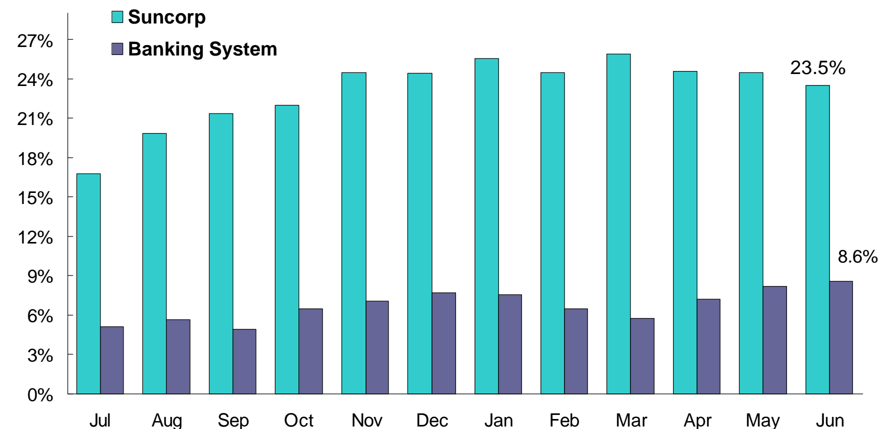
We have also improved our servicing by reducing our turnaround times, streamlining approval and loan variation processes and being generally much more customer focused.

We continue to generate improved home loans solutions for our customers with enhancements to our product suite.

And finally, we successfully attacked retention through systematically identifying borrowers at risk of leaving us and implementing, amongst other things, an outbound calling program to protect the business.

Business lending exceeds system

Annual growth in assets, rolling 12 months, %



Source: RBA Financial Aggregates, Suncorp

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Business lending has continued to grow strongly. Total business banking assets grew by 23.5%, compared with 8.6% for the system. This is a great result and continues to demonstrate the value of our relationship management strategies and targeted industry participation.

We have clearly established a successful reputation in the business banking market through our strategic approach, our differentiated execution capability and the quality of our people.

Overall growth tempered in the second half of the year, with assets increasing by 8.5% from December to June, reflecting the impact of increases in official interest rates late in November and December.

However, economic conditions remain favourable and conducive to continued growth, particularly in our core markets in South East Queensland.

Within business banking, we recorded solid asset growth across all segments of the portfolio.

Most pleasing was the excellent growth in commercial lending, consistent with our strategy to diversify our lending book.

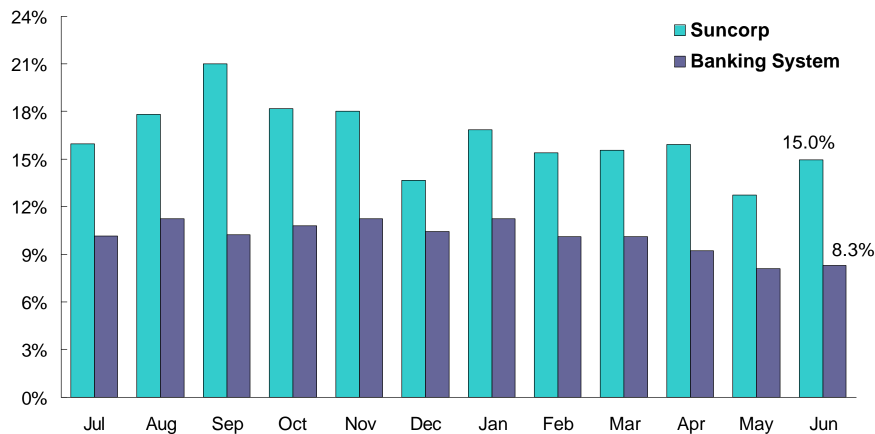
Commercial lending, which is mainly lending to the SME market, increased by 33% to $2.7 billion, which shows the benefits of extensive efforts we have made in recent years to develop our business distribution network, our relationship banking skills and our business banking branding.

We also have had good success in developing revenue synergies in business banking. For example, we have systematically increased sales of general insurance and wealth management products to our business customers.

The economic value of these sales has increased 20% in the past year.

Retail deposits growth

Annual growth in liabilities, rolling 12 months, %



Source: RBA, SUN

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Turning now to the **funding** side of the balance sheet, Suncorp, for purely historical reasons associated with its origins in government ownership, has a relatively large proportion of funding sourced from wholesale markets.

Our total funding requirement is some $30 billion, and of that, approximately 55% is borrowed on wholesale markets.

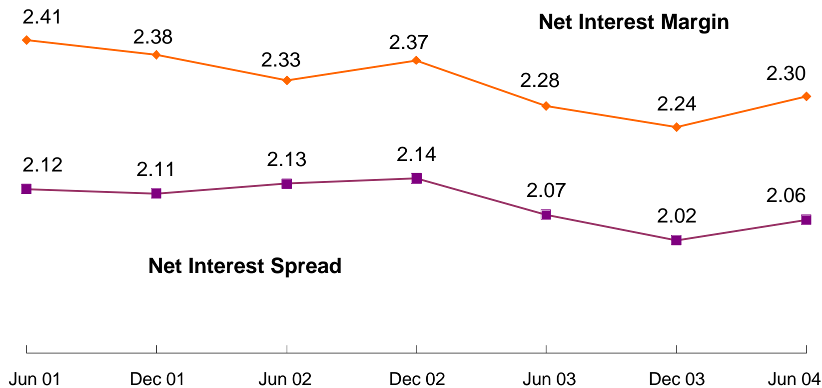
During the year we improved our wholesale borrowing capacity through gaining a ratings upgrade from Standard & Poors to a single “A”, which gave us access to a much larger pool of funds and has marginally reduced our cost of borrowing as well.

One of our strategic imperatives during the year was to grow our retail deposits, which is obviously lower cost funding than wholesale, and you can see that in the 12 months to June, we grew retail deposits by 15%, compared with 8.3% for the market.

One of the more significant initiatives was the introduction of our Everyday Options account. We deliberately constructed this product to have strong on-line functionality to meet customer demands.

The response rate has been excellent and significantly exceeding our expectations.
As at June, our account had attracted close to $500 million in deposits, since its launch in March. And of that, significant amounts are new money from existing customers, and hence evidence of our revenue synergies at work.

The Everyday Options Account, and our Smart Saver Account, have today been awarded three gold medals between them at the Personal Investor Magazine Awards for Excellence in Financial Services 2004. ….



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If we turn now to interest margin and spread.

For the full year, margins eased 5 basis points to 2.27%, but you can see from the slide, that we were actually able to increase margins by 6 basis points in the last six months to June, which sets us apart from many of our competitors.

There were a number of dynamics that affected margins in the second half. However, the dominant ones were:

• Product mix:
particularly the growth in the property development book and the reduction in the proportion of introductory home loans written

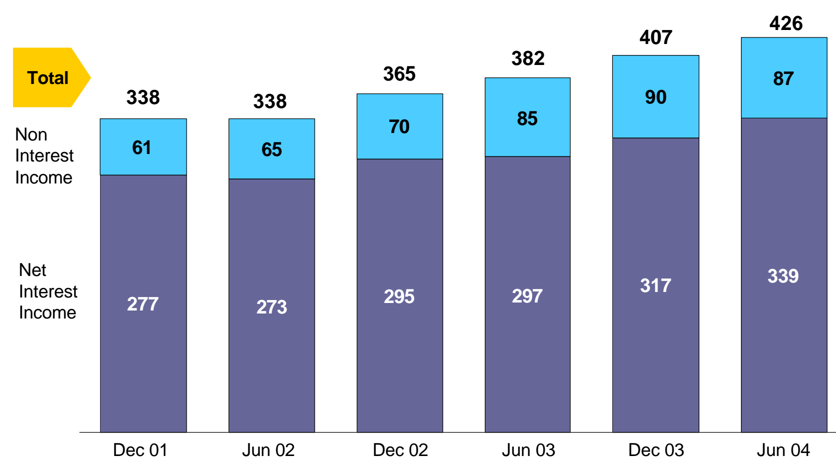
• Improved deposits spreads were achieved after rate rises in November and December

• Those rising interest rates also had a positive impact on the value of the free funds on the balance sheet.

•These positives were offset by the well publicised impact of the negative spread between cash and 90 day bank bills

But nevertheless a strong result

Increased competition in the current year is widely expected to maintain pressure on margins, although if we can continue to improve our retail / wholesale funding mix this will provide a dampening effect.



SLIDE

The combination of improved margins and increased lending volumes pushed up net interest income in the June half by 7% to $339 million (compared with the December half).

That is a pretty good performance, and you need to keep in mind that securitisations in the period reduced **net interest income.**

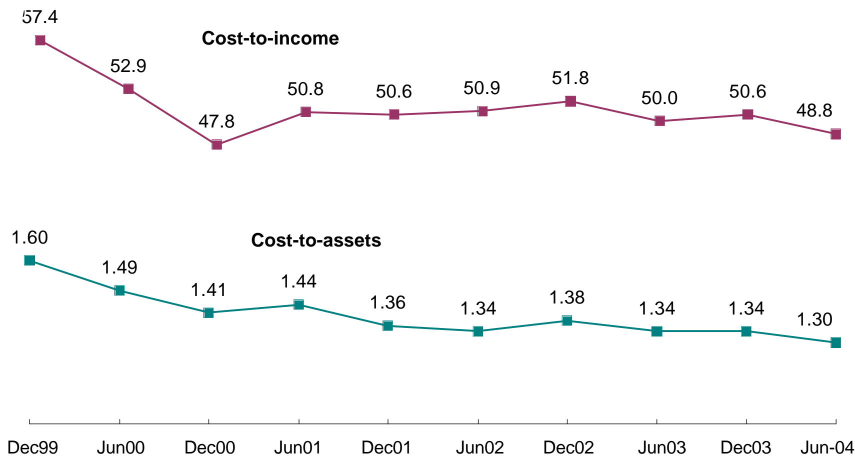
Excluding securitisations, underlying growth was approximately 9% in the June half, and 12.2% for the year.

Non-interest income was fairly steady on the December half, at $87 million.

However, the main component of that, which, of course, is **fee income**, was down slightly in the June half due to a combination of:
1) a reduction in break fees resulting from improved retention rates
2) increases in total commission expenses paid due to higher lending volumes through the broker channel, AND
3) reduced interchange fees

Bank efficiency

Half-year, %



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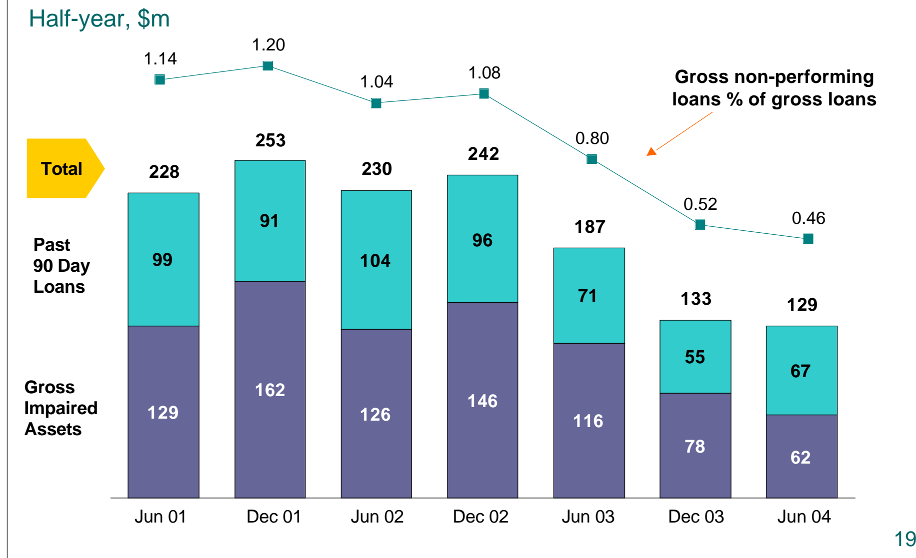
The bank's operational efficiency continued to improve during the year, with the cost to income ratio reducing to 48.8% in the second half.

Operating expenses increased by 9% for the year, principally due to higher staff related costs, additional redundancies in the first half and increased expenses relating to the launch of the Clear Options Visa card.

The increase in expenses was mainly felt in the first half, with second half expense growth restricted to 1% compared with the December half.

Arrears declining



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Turning now to credit,

Credit conditions in the Australian banking industry are the best they have been for a long time.

Our credit quality remains extremely sound, with gross impaired assets reducing by 47% to $62 million, equivalent to just 22 basis points of gross loans, advances and other receivables.

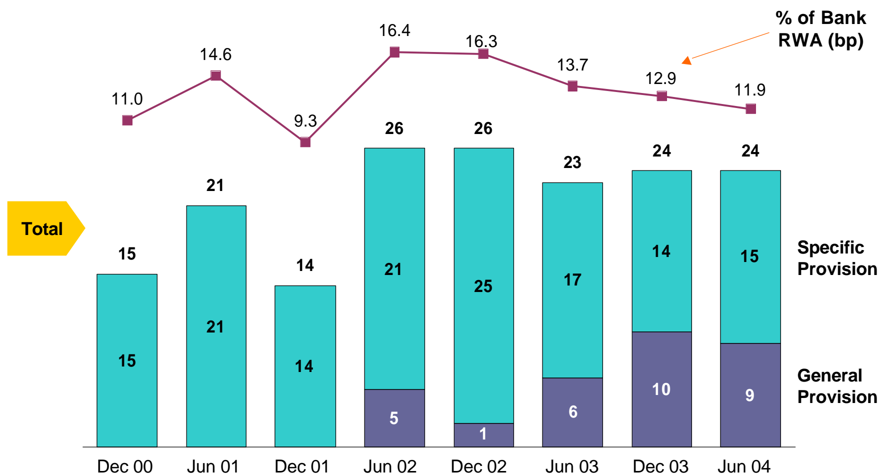
Of the $62 million in impaired assets, $46 million is in the Agri sector, reflecting the impact of drought and the strength of the Australian dollar.

Whilst conditions are beginning to improve with drought breaking rains in some parts of the country, we continue to adopt a conservative approach to provisioning in this portfolio and we remain well secured.

Total non-performing loans reduced to just 46 basis points of gross loans, advances and other receivables, while total provisioning cover increased to 263%.

Sound credit quality

Charge for bad & doubtful debts, half-year, $m



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The charge for bad and doubtful debts was $24 million for the June half, which is consistent with the previous four halves and amounts to just 12 basis points of RWA.

Of that, $9 million was required to maintain the GP at 58bp (or 64bp on a fully tax effected basis)

The consistently low bad debt charge reflects strong overall credit conditions, conservative lending policies, solid security values and effective management of impaired positions.

So, in Banking we have achieved excellent growth in the housing and business portfolios without any lessening of credit standards or undue margin contraction.

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Turning now to general insurance......

General Insurance profit

Excluding discount rate adjustment, $m

	Jun 03	Jun 04	△%
Gross Written Premium	2,262	2,430	+7.4
Net Earned Premium	2,012	2,184	+8.5
Net Incurred Claims	(1,546)	(1,620)	+4.8
Operating Expenses	(433)	(480)	+10.9
Investment Income – Tech Provs	176	231	+31.3
Insurance Trading Result	**209**	**315**	**+50.7**
Other Insurance Income	32	39	+21.9
Investment Income – SHF	11	130	Large
Interest on Subordinated Debt	(19)	(19)	--
Pre Tax Profit (GI)	**233**	**465**	**+99.6**

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We have delivered a very strong profit uplift in General Insurance with the contribution before tax rising by 100% to $465 million.

Conditions in the general insurance industry have improved dramatically over the past few years as the industry has restructured and rationalised, and as the major players have adopted a more disciplined approach to pricing, focussing on delivering appropriate returns for shareholders.

That has been evident in increases in premium income in recent years, although the increases were much less pronounced in 2004.

Looking at premium income, gross written premium (GWP) for the full year increased by 7.4% to $2.43 billion, with growth recorded broadly across product classes, primarily due to increases in sums insured, inflation and other price adjustments.

But we also saw good growth in risks in force and market share in most classes in the second half of the year, in response to the various improvements that have been made to the business.

Importantly, we are confident that the new premium levels are sustainable.

There have been concerns raised in recent months that we were going to see irrational price competition re-emerging. While there has been some intense competition in some of the top end commercial classes, these are not segments in which we operate.

We are focused on personal lines and SME business, and while competition is strong, pricing remains disciplined, and we are not seeing anyone prepared to take losses in an attempt to grab market share.

MORE TO COME

General Insurance profit

Excluding discount rate adjustment, $m

	Jun 03	Jun 04	△%
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Insurance Trading Result	**209**	**315**	**+50.7**
Other Insurance Income	32	39	+21.9
Investment Income – SHF	11	130	Large
Interest on Subordinated Debt	(19)	(19)	--
Pre Tax Profit (GI)	**233**	**465**	**+99.6**

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CONTINUED...

Certainly, it is true to say that the step up in pricing that we have seen in the last couple of years, particularly in commercial classes such as public liability, has now run its course.

In the future, we would expect price increases to be more modest, in line with claims inflation. And in some classes, we expect to see some reductions in premium rates, as the benefits of reforms are shared with consumers.

For example, in Qld CTP, prices reduced by 6% during the year, and are expected to fall further, but profitability in the scheme was improved, and it is now much more stable and secure.

Changes to the laws surrounding negligence and personal injury, which have helped to restore some balance to damages awards, have also put the industry on a much more stable footing, at the same time ensuring that consumers have access to insurance at reasonable prices.

Those changes were reflected in claims experience in the period.

As you can see, the loss ratio for the year fell to 74% despite a decision to lift risk margins in the second half.

It's therefore been a good period to be in the insurance business, and that perhaps demonstrates the portfolio benefits of our diversified financial services strategy.

In contrast to some of our competitors, who are somewhat hostage to a single profit stream, we have the benefit of exposure to three complimentary cashflows.

Strategic imperatives

- **Transition from integration and transformation to focus on growth**
  - **- Build growth capability and focus, including hire of appropriate leadership**
  - **- Leverage bank customers for cross-sell**
  - **- Commence program to rebuild GIO brand strength**
- **Implement more refined risk assessment and pricing capability**

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This year has been a year of transition for General Insurance as we emerged from the completion of the GIO merger, and started to refocus externally on our customers, on growing the business, lifting risks in force and driving profitable growth.

To achieve this we needed to bring new talent into the organisation with the skills required to expand and grow the business. This year we appointed Diana Eilert as Group Executive, and a number of experienced “growth oriented” General Managers. This team has brought a focus on growth, and 2nd half results have already shown improvement in all major lines of business

We are also generating revenue synergies within the insurance business through our successful multi policy packages, such as our home and motor insurance package, and natural fit packages, including our home loan / home insurance combinations.

And in the last six months we have thoroughly reviewed the attributes and values of the GIO brand. In the coming weeks we will launch an exciting, major new campaign aimed at refreshing and leveraging the appeal of this brand and its products outside of Queensland giving added emphasis to our growth momentum.

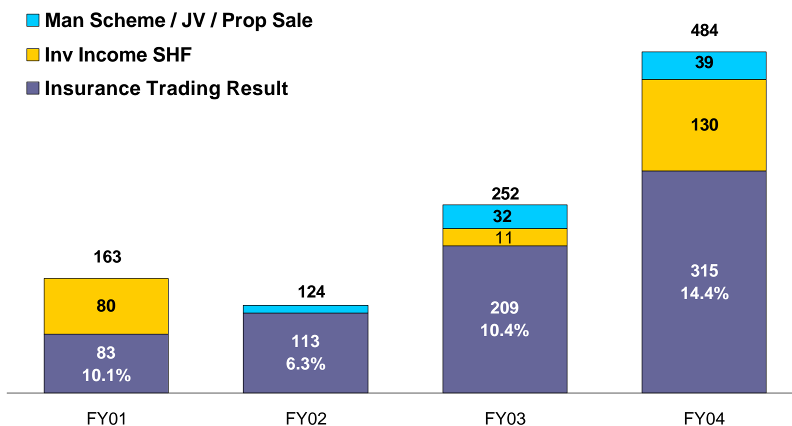
Finally, in tandem with our focus on growth, we have fundamentally renewed our core capabilities in pricing. We now have an improved ability to assess risks on a customer by customer basis and price more accurately.

And while the implementation of these outcomes is only in its early stages, the emerging results are very encouraging, and we are confident that we have established the fundamentals to deliver our growth requirements.

So from a strategic standpoint, it has been a very successful year, and we are now well positioned for continued growth.

GI profit growth

Profit before tax and funding costs, full-year, $m



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SLIDE

Looking now at the all important insurance trading result, which is the best indicator of underlying performance, you can see from this slide the consistently improving trend in insurance trading profits over the last few years - the purple bars on the chart.

That outcome has been driven by a combination of improved industry fundamentals, as well as significantly enhanced efficiency through the integration.

I can remember at the time of the GIO acquisition experts counselled that ITR margins of 10% were not achievable.

In fact, with this result, our ITR was 14.4% for the year, and reached 15.3% in the second half, which is an excellent outcome, but we would acknowledge, slightly above our longer term ITR margin expectations.

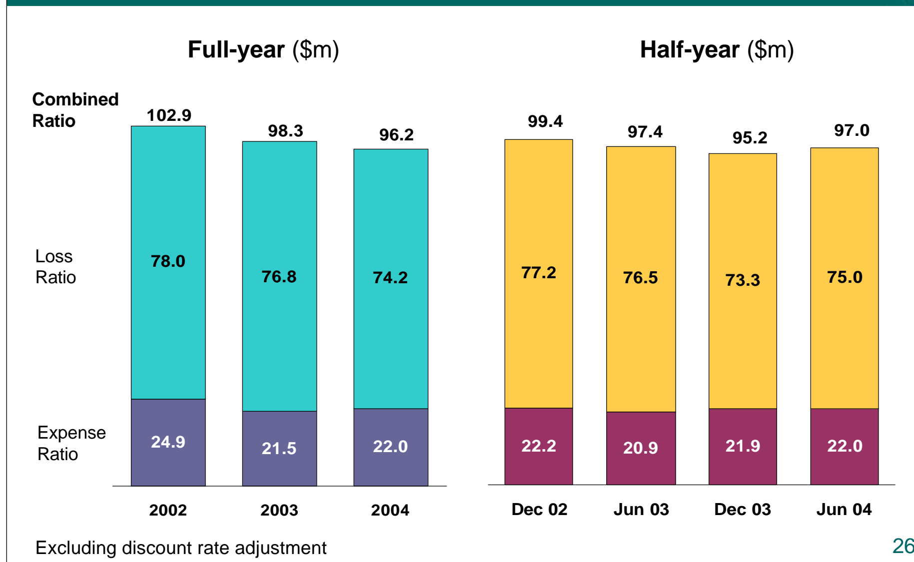
Looking at the other components of the pre-tax profit, in addition to the ITR of $315 million, we saw a continued improvement in investment income on General Insurance shareholders funds, which increased to $130 million, compared with $11 million in the prior December half, due mainly to the recovery in equity markets.

Managed scheme income also increased from $7 million to $20 million, mainly because the prior year's result was held back by an $8 million one-off cost in the period.

Eliminating the impact of that one-off expense, profit increased from $15 million to $20 million due to improved business performance leading to higher fee income in NSW Workcover and the NSW Government's Treasury Managed Funds business.

The equity accounted contribution from the company's 50% interests in two joint venture insurance operations carried on with motoring clubs in Queensland and South Australia increased to $19 million, again reflecting the favourable conditions in the industry.

General Insurance ratios



Excluding discount rate adjustment

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SLIDE

This slide looks at our main insurance ratios excluding the impact of discount rate adjustments which affects claims expense. We have prepared this slide on a full year and a half year basis to give you a better understanding of what happened in the year.

Looking first at the full year, you can see that the combined ratio has trended down for the past three years, as the industry has focused more intently on delivering underwriting profits and as the benefits of the GIO acquisition have flowed through to our ratios.

Looking first at the expense ratio on the bottom, you can see it ticked up slightly to 22.0% from 21.5% in 2003.

Operating expenses increased by 10.9% over the year, with the bulk of the growth in the first half. In the six months to June, net operating expenses rose by 3.4% compared with the December half. Importantly, the annual increase was mainly due to higher acquisition costs associated with business growth, higher commissions and additional marketing expenses, rather than operating overheads.

The expense ratio remains amongst the lowest in Australia for a business of our mix, especially in the context of the reinvestment being undertaken in the period to grow the business.

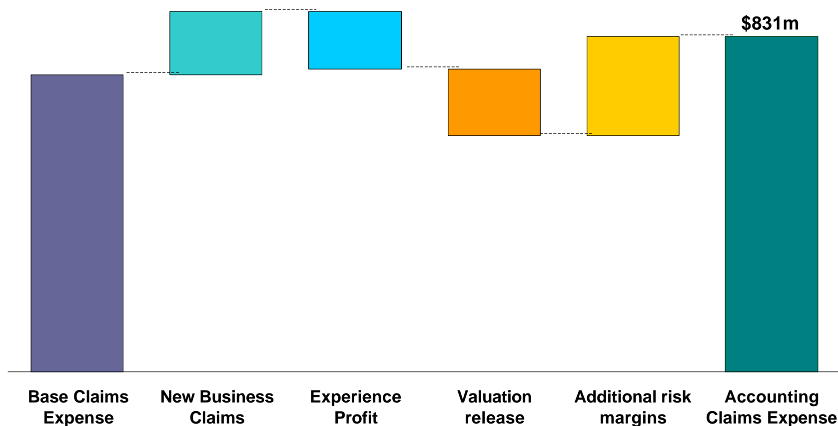
The loss ratio was down year on year, falling to 74.2%, reflecting the generally improved claims experience, despite some additional storm activity during the year.

However, if you look at the loss ratio on a half year basis, which is the chart on the right, you will see that it increased slightly in the second half, which might surprise you in view of the fact that we have stated that claims experience has generally been favourable.

It is important that you understand that there are a lot of factors that feed into the ultimate claims expense number and therefore the loss ratio.

Claims expense analysis

Not drawn to scale - indicative only
Half-year, $m



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SLIDE

Given that, we have prepared this slide, which is indicative only, and not drawn to scale,
to help explain the claims expense outcome in the second half.

The key factors which have affected claims in the June half were first, a steady growth in the book, leading to higher claims.

Also, during the half, a number of claims were settled at levels which were well below our provisioning, reflecting the improved claims environment during the period.

So, that led to experience profits.

Because of that improved experience, we were also in a position to reduce reserving across those segments of the book, because of lower expected future claims costs, hence the valuation release.

At the same time, however, we have taken the opportunity to increase risk margins by $75 million in the second half.

This is a conservative approach recognizing that although conditions currently appear favourable it still takes several years for actual claims outcomes to fully develop and for medium term trends in long tail classes to be confirmed.

Over the whole portfolio we have increased our prudential margins and have a level of sufficiency comfortably in excess of 90%.

So, the ultimate net outcome of all of those factors was an increase in claims costs and therefore the claims ratio.

Agenda

- Introduction & Overview - CEO John Mulcahy
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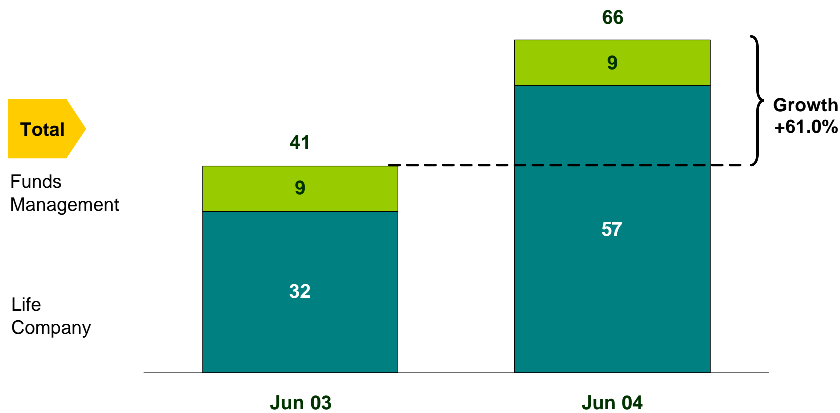
SLIDE

Now I will turn to Wealth Management.

Wealth Management profit

Excluding Life Insurance Policy Owners' interests, full-year, $m



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SLIDE

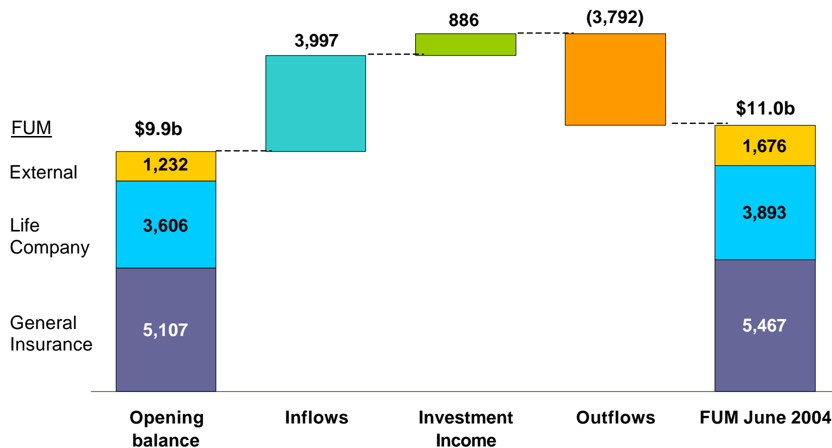
Profit in Wealth Management increased by 61% to $66 million for the year, which was a solid improvement in profits.

The increase was mainly due to investment performance during the year, but we also improved the value of new sales through changing our business mix towards sales of higher margin products.

We saw a solid increase in the embedded value of the life company, which increased to $439 million and funds under management increased 11% to $11 billion…………...

Funds under management

Funds managed, full-year, $m



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SLIDE

…………….As you can see from this slide.
This was due to net inflows of $205 million and investment income of $886 million.

The chart also shows the source of funds for the funds management operations, and you will see that of that $11 billion, almost half is derived from the provisions and shareholder funds in the general insurance business.

That is one of the clear benefits of our diversified financial services strategy, in the sense that it helps us achieve scale in funds management.

Strategic imperatives

- **Improve product suite and value proposition**
- **Broaden advice platform / enhance distribution**
- **Grow funds under management, increase scale**
- **Continue to deliver strong investment returns and enhance sales credentials**

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SLIDE

Consistent with our diversified financial services strategy, Wealth Management remains very important to us in terms of being able to offer a comprehensive suite of products to our customers.

Our strategic imperatives for this business are therefore relatively straight forward.

We seek to continuously improve our product offer to ensure that we can offer our client base the widest possible choice, while retaining competitive, core Suncorp products.

Key to this strategy was to gain ASSIRT ratings for our key product lines. We achieved this with our flagship Australian Shares Funds being given a “4-star” rating, which was followed by Van Eyk awarding an “A” rating.

We also introduced Easy Invest, a new wrap platform service, enhanced our Easy Super product and developed a new risk protection package for personal loan customers.

As with each of our business lines, operating efficiency is one of the core strategic imperatives for Wealth Management.

We are delivering improved operating efficiencies by leveraging our experience in banking and insurance to refine key processes such as risk applications and claims handling,
streamlining operational processes and rationalising multiple workflow systems.

In a targeted cross sell program, we lifted the strike rate for sales of consumer credit insurance into personal loan customers to 50% in the second half and in the last quarter we have seen a 26% increase in referrals of customers to our financial planners from other lines of business.

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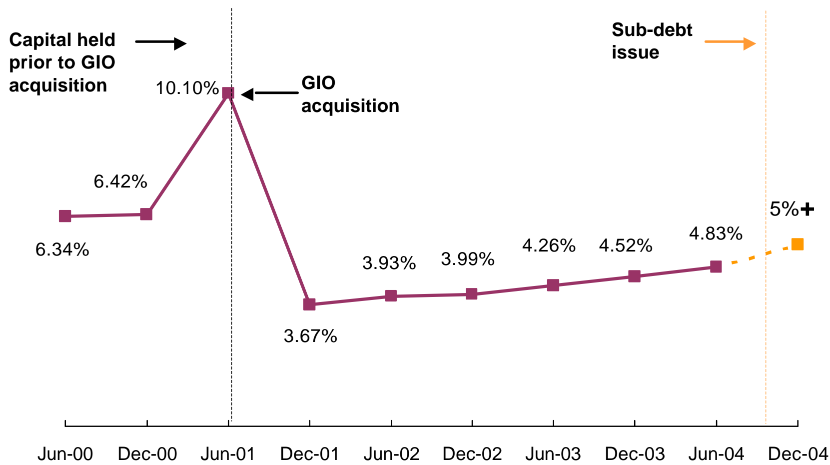
SLIDE

Now I would like to turn to capital for a moment.

Bank ACE ratio



SLIDE

The capital adequacy ratio of the bank remains very healthy at 10.3%, comfortably within our target range of between 10% and 10.5%.

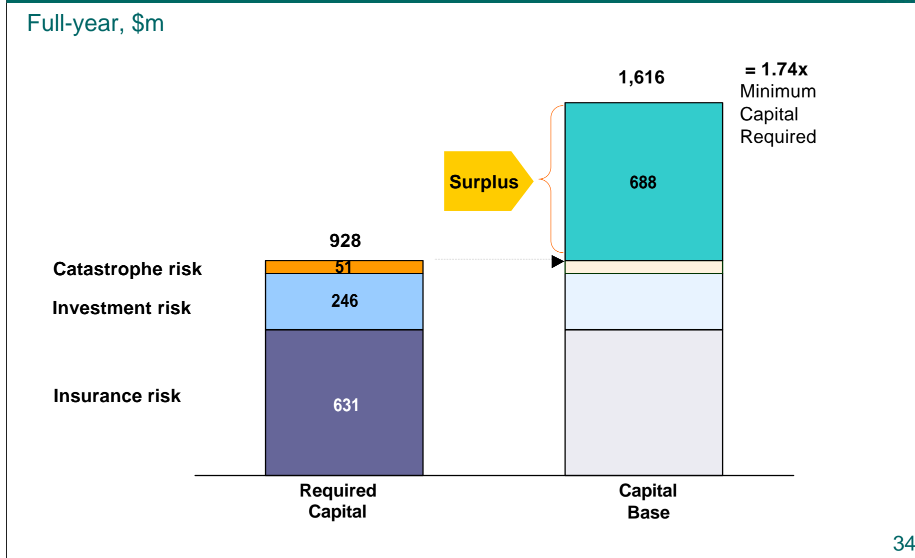
The ratio is up slightly from 10.2% at December.

We have today announced plans to issue approximately $200 million in subordinated debt in the general insurance company.

We will upstream the proceeds through a special dividend from the insurer to the bank parent.

The impact of this will be to provide additional Tier One capital in the bank which will lift the ACE ratio towards 5.5% from its current position of 4.83%.

Prudent solvency position



SLIDE

If we look now at the general insurer, you can see that at June we held a surplus of approximately $688 million over the minimum capital requirement, so our total capital was equal to 1.74 times the MCR, up from 1.49 at December.

That is above our target range of 1.35 to 1.5 times, and reflects the strength of our provisioning.

The sub debt issue I just referred to will introduce a conservative level of gearing to the general insurance company for the first time, leading to an increase in capital efficiency and improved return on equity.

The size of the issue, at $200 million, falls well within the ratings agency and regulatory limits of subordinated debt which is able to be counted for capital purposes in the general insurer.

The insurer's capital ratios therefore will not be affected by the issue.

The increasing strength of our overall capital position will allow us to consider further capital management options in the next 12-18 months. So that brings to a close my part of the presentation.

I think in summary, it is a strong result.

And one of high quality.

It reflects the excellent progress we have made in terms of the implementation of our strategy and the various initiatives we have put in place to position us for growth in the current year.

John........

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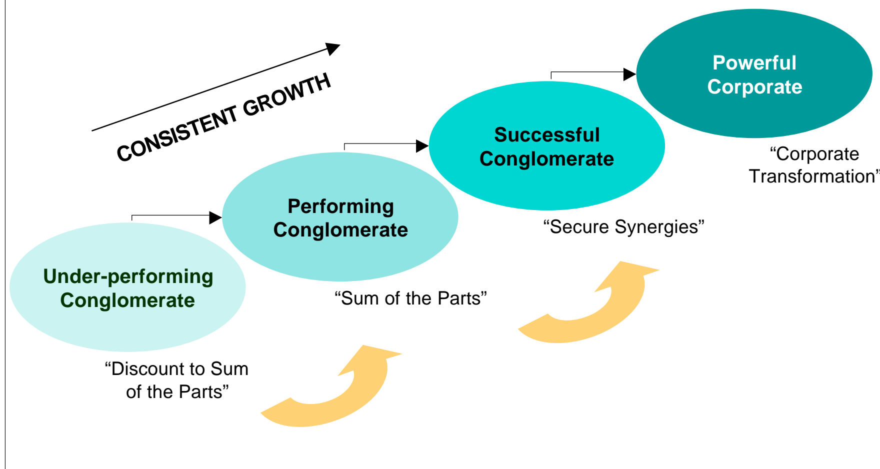
SLIDE

Thank you Chris.

I would now like to briefly conclude with our strategic direction and outlook

Growing stakeholder value

Vision: "To be the most desirable financial services company in Australia for our customers, shareholders, employees and the communities we are part of"



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SLIDE

18 months ago, when we established our vision of being Australia's most desirable financial services company, it was clearly aspirational.

But it served to give the whole organisation the same goal, a strong sense of purpose and a catalyst for action.

At the same time, we also provided the organisation with a clear road map of how we were going to achieve our vision.

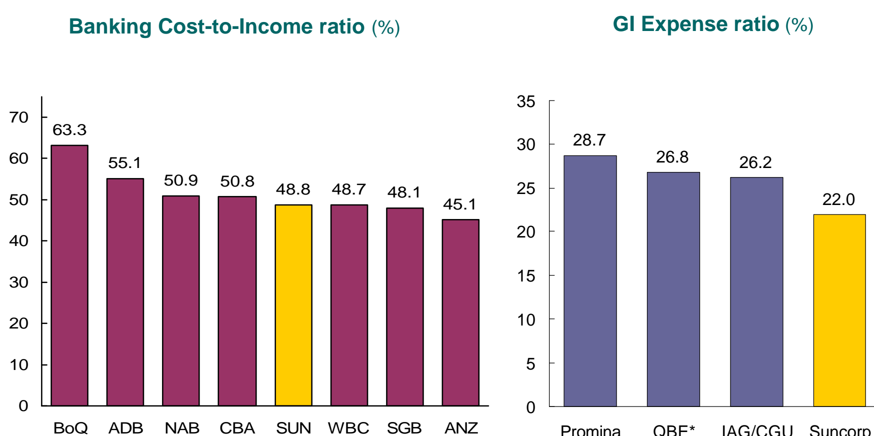
And that was:
fix our underlying businesses embed sustained strong performance on a stand alone basis and secure group synergies.

We have clearly responded and made significant gains.

The power of over 8000 people pulling in the same direction and knowing what they need to do, has established significant momentum.

We believe we have the right strategy, operating fundamentals, culture and team to achieve our goal and to continue to drive strong shareholder value growth.

Cost synergies



Source: Latest available company annual/half-year accounts, annual reports, presentations.
*QBE's Australian operations only

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SLIDE

And we believe our diversified financial services strategy will support that growth moving forward.

I will take just a few moments to outline some of the ways we are differentiating our growth potential through leveraging the synergies of the Group.

Our competitive cost position in banking and insurance, which you can see on this slide, is directly attributable to the synergies our business mix creates.

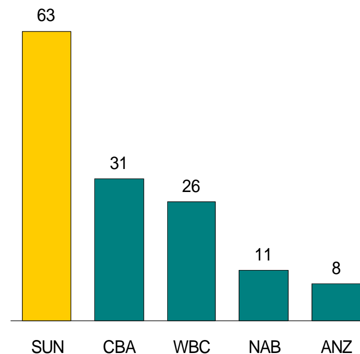
Our team based culture allows us to develop single solutions and implement common systems across the Group minimising development costs and maximising investment returns.

This is true in areas like IT, people systems, customer segmentation systems, planning systems and project management, to name just a few.

So clearly, from a cost perspective, we are in a strong position to differentiate our growth moving forward.

Revenue synergies

- Established centralised approach to capture opportunities across group
- Targets and incentives established to drive growth
- Significant progress evident



Source: Roy Morgan Research. Proportion of institution's home loan customers with a home insurance at that institution. Period: Apr03 to Mar04

SLIDE

Similarly, we have a unique advantage to grow the value of our customer base faster than our competitors. In the last 12 months we have adopted a more systematic and disciplined team based approach to capturing revenue synergies.

We have created a central role charged with the responsibility to work with the business lines to identify opportunities and measure progress.
Within each line of business we have established aspirational targets to increase customer value, reduce attrition, increase product cross holdings and lift referral conversion rates.

We have put in place appropriate incentives for our people, so they are rewarded not only for what they deliver to their own line of business, but also what they deliver to other parts of the group.
And we recently provided specialised training for approximately 2000 customer-facing staff that emphasised the financial solutions our business mix generates.

We are seeing good progress.
Throughout today's line of business results Chris provided several examples of our revenue synergy activity.

Another example is demonstrated in this chart where we are achieving sales of home insurance to 63% of Suncorp Queensland home loan customers, which is twice as high a penetration rate as the next best competitor.

So as you can see, we are also exceptionally well positioned to differentiate our growth potential by growing the value of our customers.

We know that more can be done, but we are confident the right fundamentals are in place.
We have meaningful momentum, and we have ability to execute on our strategies.
I look forward to giving you further updates in future presentations.

Strategies for growth

Suncorp Strategic Levers

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SLIDE

This slide shows the strategic levers, on which we focus to grow our business. They are similar to those of our competitors, but our size, culture and business mix give us the edge when it comes to successful implementation. Let me briefly talk to each of these strategic levers. We have a relentless desire to meet our customers needs and provide them with the right solution.

We have what we believe to be a unique competitive advantage in our proprietary customer knowledge, segmentation and measurement systems, which give us deep insights into customer needs and helps us to prioritise areas where we need to improve. In addition, our proven relationship management model delivers value to our customers so that we are less reliant on price competition.

Our aim is to have a distribution network including branches, intermediaries, call centres and internet facilities that give customers what they want in the most cost effective way. Together with our strong Queensland Branch network Suncorp has over 35 branches outside Queensland. Most of these sites were created as a result of Suncorp's acquisition of GIO. We continually review our branch network to ensure we meet the needs of our customers, and over the next 18 months we're embarking on a program of growth in our banking footprint both inside and outside Qld.

We do expect to expand into high growth corridors in Qld and via a cluster approach in specific local markets interstate. The rate and degree of the growth will constantly be reviewed against market conditions. Over the next 5 years, we expect to grow our overall branch network nationally and the proportion of Qld to Interstate branches is likely to shift from 80/20 to 60/40.

MORE TO COME

Strategies for growth

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CONTINUED ..

We are actively attracting, retaining and developing a high performance team. Our people must be customer focussed, be strongly committed to performance and they must be team players. We have very robust systems in place to ensure our people get great enjoyment and reward from working at Suncorp . And we see this evidenced in the way they have responded to enormous change, unified behind our strategies and delivered such a significant turnaround.

One of the key defining characteristics of Suncorp is our ability to execute with excellence. From our Transformation 1 and 2 experiences, Black Belt expertise, through to turning around our home lending performance in the last 12 months,we have a proven execution capability. We will continue to enhance and apply this excellence to allow continuous improvement.

Finally, as a Group, our focus is on growing profitably. You can see this in our track record, and we have a number of continuing and new initiatives to ensure that we sustain this profitable growth. We know that more remains to be done. But we know how we are going to do it, and with our culture and execution skills, we know we can do it, without the need for massive one-off investments. We simply do it as business as usual. We have delivered a good set of results today, and on the back of our strategies and the momentum we have established, we see a strong outlook for this current financial year.

FY05 outlook

- **Banking**
  - **Profit before tax to increase by a percentage higher than single digit**
- **General Insurance**
  - **ITR of 11-14% (assumes no unusual claims events)**
- **Wealth Management**
  - **Double digit growth in underlying profit**
- **Group**
  - **Further good growth in underlying profit**

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SLIDE
Turning to the Outlook …..

In **Banking**, while there has clearly been a slowdown in housing lending, which is also reflected in property development lending, overall credit growth continues to be quite resilient. We would therefore expect to see total lending grow by around 10% in the current year. Increased competition in banking may lead to some deterioration in margins in the industry, however, we will be focused on profitable growth.

So, in banking, we expect to deliver a percentage growth in profit before tax better than single digits.

In **General Insurance**, we do not see any signs of irrational price competition emerging in the classes of insurance in which we operate, and we remain confident that the improvements we are making to our business will enable us to win market share from our competitors, increase efficiency and lift profitability.

We also remain cautiously confident that the improvement in claims experience will be sustained. While this will lead to benefits for consumers in the form of reduced prices in some classes, it also will lead to greater stability and appropriate returns for insurers.

Therefore, in General Insurance we would expect that the profitability evident in the 2004 results will be largely sustainable in the future.

While we previously had a stated insurance trading margin range of 10-13%, with this result we are increasing the expected margin to 11-14%. As always, this assumes no unusual claims events.

MORE TO COME

FY05 outlook

- Banking
  - Profit before tax to increase by a percentage higher than single digit
- General Insurance
  - ITR of 11-14% (assumes no unusual claims events)
- Wealth Management
  - Double digit growth in underlying profit
- Group
  - Further good growth in underlying profit

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CONTINUED ..

In **Wealth Management**, the recovery in equity markets has led to a significant improvement in profitability. Assuming this equity market performance is sustained, we should see some recovery in sales in the current year. We therefore expect to see a double-digit improvement in Wealth Management profit before tax and investment income on capital and retained earnings in the statutory funds.

At a **group level**, this should translate to further good improvements in underlying profits in the current year.

END.