

16 November 2020

Suncorp Group Update

Suncorp (ASX: SUN | ADR: SNMCY) today provided an update in relation to the expected impacts of COVID-19 on its General Insurance and Banking businesses, New Zealand capital requirements, and the APRA September quarter General Insurance statistics.

The impact of COVID-19 across Suncorp's General Insurance portfolio for the first half of the FY21 financial year is expected to be broadly neutral. The net impact includes the Group's assessment for potential business interruption (BI) claims in relation to COVID-19 in FY21 from the second Victorian lockdown, temporary short-term reductions in motor claims frequency, continued relief measures including discounts and three month premium waivers, and ongoing costs incurred as a result of on-shoring a range of critical business processes.

As reported in the APS 330 on 10 November, Suncorp Bank's credit quality remains strong with total impairment losses of \$3 million for the September quarter. The Bank's collective provision remained unchanged at 30 September 2020 following a review of the economic assumptions which underpin the Group's conservative base case economic outlook. As at 30 September, Suncorp Bank had \$3.0 billion of loans under temporary loan deferral arrangements, representing 4.0% of the housing portfolio and 7.6% of the SME portfolio.

Suncorp remains focused on supporting its insurance and banking customers and assisting them through the COVID-19 crisis with a range of targeted measures.

Business Interruption Insurance Provisioning

Suncorp remains confident the intention of its BI policies is clear and that policies do not respond to pandemics. Notwithstanding, the Group adopts a prudent approach to provisioning and reserves to a 90% confidence level. As a result, the Group's BI provisioning is sufficient to cover claims costs in 90% of possible outcomes, including in the event of an unfavourable judgement for the Insurance Council of Australia BI industry test case. This is considerably in excess of the expected outcome.

In assessing provisioning for BI, the Group has considered its exposure to BI claims. Within this, the Group has considered the wide range of industries and geographies affected by COVID-19. Some allowance has been made for factors that could mitigate BI claims costs, including government stimulus measures, rental reductions, and alternative revenue streams.

Consistent with the Group's prudent reserving policy, at the FY20 financial results a provision of \$70 million (pre-tax) was recognised for potential BI claims in relation to COVID-19 up to 30 June 2020.

The Group has now assessed the potential for BI claims in relation to COVID-19 from the second Victorian lockdown, commencing on 8 July, adopting a consistent prudent valuation approach to the initial provision.

Taking into account the breadth and depth of the Victorian lockdown, the Group now expects to recognise a further \$125 million (pre-tax) provision for potential BI claims for the first half of the FY21 financial year, assuming no further material COVID-19 outbreaks. This will take the Group's total provision for potential BI claims in relation to COVID-19 to \$195 million (pre-tax).

Suncorp awaits the NSW Court of Appeal's judgement on the Insurance Council of Australia's BI test case. The test case is considering the issue of policy wordings that refer to the Quarantine Act. Given the Group's prudent reserving approach, the industry test case outcome is not expected to affect the total BI provision.

New Zealand Capital Requirements

Suncorp Group welcomes the Reserve Bank of New Zealand's (RBNZ) updated guidance in relation to the payment of dividends. Consistent with the RBNZ's guidance, Suncorp Group will maintain its conservative approach to capital management. As at 30 June 2020, Suncorp New Zealand held NZ\$78 million of excess CET1 above the top end of its target range.

APRA September 2020 Quarterly General Insurance Statistics

On 26 November 2020, the Australian Prudential Regulation Authority (APRA) will publish institution-level financial statistics for the general insurance industry, based on regulatory filings, for the quarter ended September 2020. This includes statistics for AAI Limited (AAI), a wholly-owned subsidiary of Suncorp Group.

The APRA statistics do not include the impact to the profit & loss statement of several key adjustments, particularly the valuation of the Group's long tail insurance portfolio which is conducted on a half yearly basis and included in the Group's regular financial disclosures.

Included within the regulatory filing are the results of AAI's Liability Adequacy Test (LAT) for the September quarter. The LAT is conducted to test whether unearned premium liabilities on the balance sheet as at reporting date are sufficient to cover the cost of expected future claims.

There is significant seasonality in the quarterly LAT calculation, with premiums earned on a straight-line basis, while future claims reflect the seasonality of natural hazards. The September quarter typically records the weakest LAT outcome with the Group exposed to the upcoming summer season. The deficit also reflects the increased natural hazard allowance for FY21 and the impact from lower yields. The LAT deficit is recognised in the profit and loss statement through a write-down in deferred acquisition costs.

Similar to September 2019, the September 2020 quarterly APRA statistics will reflect a deficiency for the LAT for AAI. The deficit of \$173 million is expected to have substantially unwound by 31 December 2020, and to be profit neutral for FY21. The impacts from the LAT are removed for the purposes of calculating the underlying ITR.

Authorised for lodgement with the ASX by the Suncorp Disclosure Committee.

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