SUNCORP

ASX announcement

9 February 2021

Suncorp delivers 39.5% uplift in 1H21 cash profit

1H21 key points:

- **Group cash earnings** of $509 million, up 39.5 per cent on the prior comparative period (pcp), driven by higher earnings across all businesses: Insurance (Australia), Banking & Wealth, and Suncorp New Zealand.
- **Group net profit after tax** (NPAT) of $490 million, down 23.7 per cent on the pcp (which included the $293 million gain on sale of Capital S.M.A.R.T and ACM Parts businesses in October 2019).
- **Fully franked interim dividend of 26 cents per share**, reflecting a payout ratio of 65 per cent of cash earnings.
- **Strong top-line growth** in the Consumer and Commercial portfolios in both the Australian and New Zealand insurance businesses, higher investment returns and prior year reserve releases.
- **Banking & Wealth** delivered a strong net interest margin (NIM) of 2.04 per cent, up 8 basis points (bps) over the half, and annualised impairment charges of 3 bps of Gross Loans and Advances.
- **COVID-19 impact broadly neutral** on the 1H21 result, with increased provisions and risk margins to cover potential Business Interruption claims largely offset by reduced claims frequency.
- **Strong capital position** maintained with Group excess common equity tier 1 capital (CET1) of $1,026 million after adjusting for dividends; Group will continue to reassess its capital requirements taking into account the needs of the business, the economic outlook, and any regulatory guidance.
- **Three-year plan** focused on delivering for customers, further digitising and automating the core businesses, driving growth and generating sustainable returns above the through-the-cycle cost of equity.

	1H21	**1H20**	**Change (%)**
Insurance (Australia) profit after tax ($m)	258	123	109.8
Banking & Wealth profit after tax ($m)	190	171	11.1
New Zealand profit after tax ($m)	120	102	17.6
Profit after tax from ongoing functions ($m)	568	396	43.4
Other profit (loss) after tax ($m)	(59)	(32)	84.4
Cash earnings ($m)	509	365	39.5
Net profit after tax ($m)	490	642	(23.7)
Ordinary dividend per share (cps)	26	26	n/a
Payout ratio – Cash earnings (per cent)	65.2	89.5	n/a

Group overview

Suncorp has delivered a strong 1H21 result with cash earnings of $509 million, up 39.5 per cent versus the pcp. This reflects higher earnings from all three business lines, with strong top-line performance and higher investment returns. The positive performance was driven by a greater focus on the core businesses and stronger alignment across the organisation on strategic priorities. The Group has implemented a new operating model and refreshed the executive team, providing clearer accountability for results.

Suncorp Group CEO Steve Johnston said the 1H21 result demonstrates that the focus on the core businesses and digitisation is yielding positive results.

“Over the past year, we have refocused our strategy, continued to implement the ongoing regulatory program of work, improved our customer service, reinvigorated our brands, further digitised our business and become more efficient,” Mr Johnston said.

“I am proud of how the Group has delivered on these commitments and been true to our purpose in a challenging year.

"We are seeing improved momentum in our Australian and New Zealand insurance businesses as evidenced by strong top-line growth, while our Bank is also delivering improved performance."

The Suncorp Board has declared the payment of a fully franked dividend of 26 cents per share, flat on the pcp. This represents a payout ratio of 65 per cent of cash earnings.

Suncorp remains well capitalised with $1,026 million of excess CET1 after adjusting for half year dividends, with all businesses holding CET1 at the top or in excess of targets, and $789 million held at Group.

Group operating expenses, excluding fire service levies, were in line with the prior period at $1.34 billion, including higher employee costs from salary inflation and a rise in technology costs, reflecting the enterprise-wide telephony upgrade. An additional $36 million expense was reported within Group cash earnings, reflecting costs associated with the implementation of the new operating model.

Suncorp has also provided an update on its three-year plan, which has a focus on further digitisation and automation of the core businesses to drive growth and improvement in key operational ratios.

The plan aims to drive growth and deliver a sustainable return on equity above the through-the-cycle cost of equity by FY23. This implies the General Insurance business delivers an underlying ITR of between 10-12 per cent, and the Bank Cost-to-income ratio falls to around 50 per cent.

For Insurance (Australia), initiatives include:

- Renewed brand strategy, marketing and product innovation;
- Further investments in analytics to improve pricing and risk selection decisions; and
- Digital-first approach to customer channels and a focus on optimising the claims supply chain.

In New Zealand, growth in SME and Consumer markets through broker, adviser and corporate partner channels will be pursued with further investments in core systems including digitisation.

For the Bank, in addition to ongoing cost management, there will be a focus on replicating the success of deposit channel growth in the home lending portfolio, while taking a targeted approach to business banking.

The Group is continuing to simplify its operations through disciplined portfolio management and a sharper focus on sustainable growth and returns. Simplification initiatives announced today include:

- Vero will exit from Australian consumer and construction policies via Australian intermediated partners (this has no impact on New Zealand);
- Suncorp Bank will no longer offer personal loans, enabling greater focus on home lending; and
- The Group will permanently cease underwriting travel insurance under all brands. Current customer policies will not be impacted by this announcement.

The financial impact of these exits is immaterial.

Suncorp has also today lodged its inaugural Modern Slavery Statement for the financial year ended 30 June 2020, identifying key risks and the actions the Group is taking to address these risks.

Divisional performance

Insurance (Australia)

Insurance (Australia) has delivered strong growth in the Consumer portfolio, higher investment returns and prior period reserve releases, with profit after tax up 109.8 per cent on the pcp to $258 million.

Home and Motor Gross Written Premium (GWP) grew 5.2 per cent with positive unit count and rate growth. Commercial GWP growth was 3.2 per cent, driven by premium rate momentum partially offset by lower retention in SME packages. Workers Compensation GWP increased 13.7 per cent, reflecting large multi-year account renewals and strong retention. The reduction in CTP of 5 per cent was primarily due to an accounting change made in 2H20. On a like-for-like basis, CTP GWP growth was broadly flat.

Excluding discount rate movements, net incurred claims increased by 0.8 per cent. The increase was due to higher natural hazard costs, with an additional provision for Business Interruption claims largely offset by a reduction in claims frequency. Prior year reserve releases also increased versus pcp.

Strong mark-to-market gains resulted in higher investment income of $305 million, which is up 124 per cent on the pcp.

Home and Motor digital policy sales grew by 10 per cent on the pcp. Suncorp and AAMI apps were updated to include additional security features and new online account opening capabilities through chatbot technologies.

The Group has maintained a prudent approach to provisioning for potential Business Interruption claims. The Business Interruption provision has been increased by $19 million to $214 million (previous market update in November: $195 million), reflecting the finalisation of interim reserve valuations and includes an allowance for the possibility of further legal costs.

Suncorp New Zealand

The New Zealand business recorded another positive result reflecting strong growth in both general insurance and life businesses, with profit after tax of NZ$129 million, up 19.4 per cent on the pcp.

General Insurance GWP grew 5.4 per cent to NZ$923 million, driven by strong performance in the direct Motor and Home portfolios. Motor GWP growth of 8.6 per cent was primarily driven by unit growth in the AA Insurance direct channel, as a result of strong new business sales and favourable retention. Home GWP growth of 6.4 per cent was driven by new business and favourable renewals supported by strong retention rates.

Net incurred claims were up 6 per cent on the pcp, largely due to higher natural hazard experience. Working claims experience in 1H21 has been higher than the pcp, mainly driven by unit growth.

The NZ Life Insurance business delivered profit after tax of NZ$29 million, NZ$15 million above the pcp, driven by improved claims experience and favourable investment market returns.

General Insurance

Total natural hazard costs across Australia and New Zealand were $561 million, $86 million above the allowance for the half and $42 million above the pcp. 12 events occurred during 1H21, including October's QLD and NSW hail event (net cost of $195 million). The first half event losses have not yet triggered reinsurance recoveries but continue to erode the aggregate deductible on several reinsurance treaties including the Aggregate Excess of Loss (AXL) treaty.

The Group underlying ITR has decreased from 9.3 per cent in 1H20 to 8.4 per cent in 1H21, reflecting the expected increase in the Group's natural hazard allowance, reinsurance costs as well as lower underlying investment income, partly offset by margin expansion across the portfolios.

Prior year reserve releases excluding Business Interruption reserves were $144 million representing 3.2 per cent of Group Net Earned Premium (NEP), primarily driven by the statutory portfolios. Total releases including higher prior year Business Interruption reserves were $93 million, representing 2.1 per cent of Group NEP.

Banking & Wealth

Banking & Wealth profit after tax was $190 million, up 11.1 per cent on the pcp. The strong improvement in net interest margin (NIM) and non-interest income was partially offset by a small increase in impairment charges versus the pcp and a small contraction in the lending portfolio.

Net interest income of $618 million for the half was up 4 per cent on the pcp. The Bank delivered a strong NIM of 2.04 per cent, up 8 bps over the half, reflecting continuing strong at-call deposit growth and significantly lower benchmark rates in the market.

The home lending portfolio contracted by 1.6 per cent over the half, with improved application volumes more than offset by higher levels of customer repayments, property sales and refinancing. New applications lodged were up over 30 per cent on the pcp. The Bank has continued to streamline its home lending process to simplify and speed up its origination process and improve the customer and broker experience. The proportion of home lending initiated via the digital channel almost doubled to 13.9 per cent in 1H21, compared to 7.1 per cent in 1H20.

Business lending grew 0.7 per cent over the half, with growth in commercial lending to select commercial property investment clients partially offset by a contraction in the agribusiness portfolio. The contraction in agribusiness lending reflects seasonable paydowns, partially offset by increased cropping activity, restocking and asset purchases.

The at-call deposits portfolio continued to achieve above-system growth, increasing by $3.7 billion or 13.1 per cent over the half. This is enabling the Bank to continue to optimise its funding mix, including running off $2.3 billion of term deposits.

Impairment losses of 3 bps to Gross Loans and Advances (annualised) were below the lower end of the through-the-cycle operating range, primarily due to the conservative provision taken in the previous half for the impacts of COVID-19. The

Bank's collective provision was flat through the half at $255 million, with moderate improvement in the underlying economic assumptions offset by adjustments to the management overlays.

The Bank's COVID-19 deferrals continued to exhibit an improving trend. At 31 December 2020, there were 2,645 Bank customer loan accounts under temporary loan deferral arrangements, representing $0.64 billion in lending across home (1.2 per cent of the portfolio) and SME customers (0.8 per cent of the portfolio). This is down from 14,408 customer accounts representing $4.83 billion as at 30 June 2020.

Group outlook

While the operating environment has improved, the outlook remains uncertain given the COVID-19 pandemic and its economic impact.

The executive team has developed a three-year plan to drive growth and further efficiencies across the core businesses. The Group's operating expense base including restructuring charges is expected to be around $2.8 billion in FY21 and FY22. The FY23 operating expense base is expected to return to around $2.7 billion, with efficiency gains effectively offsetting inflation and the costs of investing in growth over the three-year period.

The Group's regulated entities are expected to remain well capitalised, with significant excess capital held at the Group level. The Board remains committed to maintaining a dividend payout ratio of 60-80 per cent of cash earnings and returning to shareholders capital that is excess to the needs of the business. The Group will continue to reassess its capital requirements taking into account the needs of the business, the economic outlook, and any regulatory guidance.

The Group also maintains a robust reinsurance program to provide protection from natural hazard costs. The Group's catastrophe reinsurance covers remained fully intact at 31 December 2020, available to be used for the remainder of FY21.

Suncorp will continue to advocate for governments to support mitigation programs that increase community resilience to natural disasters and to remove inefficient taxes applied to insurance products. Suncorp will also advocate for statutory scheme reform to deliver improved customer outcomes and to ensure the long-term sustainability of the schemes. Fairer treatment of bank regulatory capital remains a priority.

Group CEO commentary

"Suncorp enters the second half of FY21 in good shape, with momentum starting to build across our businesses and our balance sheet remaining very strong," Mr Johnston said.

"The Group's three-year plan addresses customers' growing preference for digital and evolves how we work and serve our customers as technology changes.

"Most importantly, we are focused on delivering for our people, our customers, our communities and our shareholders."

Recent research commissioned by Suncorp and undertaken by SGS Economics showed regional Australia is most vulnerable to natural disasters and is prone to economic downturn many years after.

"Suncorp will keep advocating for an urgent co-ordinated response from all levels of government to make our communities more resilient to natural disasters and ensure that insurance is affordable and accessible. We are calling on the Federal Government to invest in well-chosen infrastructure projects that can protect communities in the long-term and provide a kick-start to jobs in the short-term," Mr Johnston said.

Webcast details

A live audio webcast hosted by Suncorp's Group CEO Steve Johnston and Group CFO Jeremy Robson will commence at 10.45am (AEDST) and will be available on the Suncorp Group website.

Authorised for lodgement with the ASX by the Board.

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