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SUNCORP GROUP

11 February 2015

SUNCORP REPORTS INCREASED HALF-YEAR PROFIT AND INTERIM DIVIDEND

Key Points

- Group net profit after tax (NPAT) of $631 million (HY14: $548 million)
- Profit after tax from business lines of $681 million (HY14: $597 million)
- Interim dividend of 38 cents per share fully franked (HY14: 35 cents)
- General Insurance NPAT of $419 million (HY14: $470 million)
- Increase in the underlying insurance trading ratio (UITR) to 14.8% (HY14: 14.0%)
- Bank NPAT of $176 million (HY14: $105 million). Net Interest Margin of 1.86% (HY14: 1.66%) and Cost to Income ratio of 52.2% (HY14: 59.6%)
- Suncorp Life NPAT of $86 million (HY14: $22 million) with an underlying NPAT of $52 million (HY14: $41 million) and positive claims and lapse experience
- An easing in growth across Suncorp's key markets, particularly mortgage lending, has reduced the top-line growth target to 'low single digits' (from 4% to 6%)
- Capital levels remain very strong with GI CET1 at 1.44 times PCA and Bank CET1 at 8.82%. After payment of the dividend and following the increase in the Bank's capital target by 50 bps, the Suncorp Group will still be holding $627 million of CET1 capital above its conservative operating targets
- Suncorp continues to target a return on equity of at least 10% in the 2015 financial year despite the impact of the $250 million Brisbane Hailstorm

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Suncorp Group Limited (Suncorp) today reported net profit after tax (NPAT) of $631 million (HY14: $548 million) for the six months to 31 December 2014. Profit after tax from business lines was $681 million (HY14: $597 million).

Chairman Ziggy Switkowski said Suncorp has declared an increased interim dividend of 38 cents per share fully-franked (HY14: 35 cents) representing a payout of 73.6% of cash earnings.

"The improved half-year profit and interim dividend reflects the Group's earnings diversification across insurance and banking. This result clearly demonstrates the benefits of the business model in delivering a consistent and reliable earnings base," Dr Switkowski said.

Suncorp Group CEO Patrick Snowball said the Group would continue to target a return on equity of at least 10% for the 2015 financial year despite the $250 million impact of the Brisbane Hailstorm.

"In addition to improving shareholder returns, Suncorp has been providing exceptional customer service. We have received accolades for our management of Brisbane Hailstorm claims and we're reducing customer premiums by passing on efficiency benefits and lower reinsurance costs. This has led to a significant increase in retention rates and very high customer satisfaction scores," Mr Snowball said.

Suncorp has adopted a conservative approach to Bank lending and this, combined with an easing in growth in the general insurance market, has resulted in the Group revising its top-line growth target from '4% to 6%' to 'low single digits'.

Suncorp Group Limited – ABN 66 145 290 124 – GPO Box 1453, Brisbane QLD 4001
www.suncorpgroup.com.au

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General Insurance

General Insurance profit after tax was $419 million, despite net claims of $250 million from the Brisbane Hailstorm in November 2014. The result reflects ongoing focus on claims and expense management, with improvements in long-tail claims processes resulting in reserve releases of $214 million.

Personal Insurance Gross Written Premium (GWP) reduced by 2.6% primarily due to the benefits of simplification, reduced reinsurance rates and supply chain efficiencies being selectively passed onto customers. A number of customer initiatives, such as AAMI roadside assist, have improved customer retention and resulted in unit growth in the December quarter. Commercial Insurance GWP grew by 0.7% with a strong focus on quality risk selection.

The reported ITR was 12.8% and the underlying ITR increased to 14.8%. The Simplification program continues to deliver increased efficiency across the Group. Suncorp is also benefiting from improved claims management following vertical integration initiatives such as SMART, ACM Parts and the re-engineering of long-tail claims processes.

Reinsurance protections limit the cost of any further major natural hazard to $200 million for an Australian event and $50 million for a New Zealand event.

Suncorp Bank

Suncorp Bank delivered an after tax profit of $176 million. The result was achieved through an improved Net Interest Margin (NIM), a reduced cost to income ratio and lower impairment charges.

Home Lending growth of 2.0% reflects the Bank's conservative approach and a focus on the 'below 80%' loan to valuation ratio (LVR) market.

The NIM has significantly improved over the year to 1.86%, an increase of 20 bps. The NIM benefited from the moderation of term deposit pricing, improvements in funding composition and the maturity of the legacy funding program.

The Bank Cost to Income ratio fell to 52.2% due to revenue growth, a strong focus on cost control and a one-off favourable $19 million legal settlement.

Gross impaired assets reduced by 21.3%. Total gross non-performing loans reduced by 15.0% and credit impairment losses were $43 million, or 17 bps of gross loans.

Suncorp Life

Suncorp Life's profit after tax for the half year was $86 million. Underlying profit was $52 million, up 20.9% for the half. The underlying result supports the decision made in May to rebase the balance sheet and materially revise key valuation assumptions. Profit after tax benefited from a reduction in long-term interest rates.

Life's underlying profit has stabilised following the revision of key assumptions. Overall claims and lapse experience was $7 million favourable. Total Life in-force annual premiums are up 8.6% reflecting Life's continued focus on retention and value over volume, ensuring new business is written on a more sustainable footing.

Capital and Dividend

The Group's balance sheet remains strong and the Board has declared a fully franked interim dividend of 38 cents per share representing a dividend payout ratio of 73.6%.

The strength of the Group's balance sheet has allowed it to increase the Bank's CET1 target by 50 basis points putting it in a very strong position ahead of anticipated increases in Bank regulatory capital.

After accounting for the interim dividend and the increased Bank CET1 target, the Group's total capital position remains strong with CET1 capital of $627 million held above Group's conservative operating targets. The General Insurance CET1 is 1.44 times PCA and the Bank CET1 is 8.82%.

Suncorp expects strong levels of organic capital generation to continue. The Group has also made further progress with Risk Based Capital, proving the potential capital diversification benefit inherent in the Group. Suncorp remains committed to returning surplus capital to shareholders.

The Group will also have $168 million of franking credits available after the payment of the interim dividends.

Board update

Suncorp confirmed that Christine McLoughlin has commenced as a non-executive director effective today.

Chairman Dr Ziggy Switkowski said he was extremely pleased to welcome Christine to the Suncorp Board. He said her extensive legal, strategic, human resources and communications experience, primarily within the insurance sector, will supplement the Board's broad range of financial services expertise.

Potential reinsurance recovery issue

On 9 February 2015, Suncorp was advised of a potential issue relating to the 2011 catastrophe reinsurance program which could impact on expected recoveries. This potential issue is contrary to Suncorp's understanding of its additional reinsurance purchases made in 2011. This issue is of a technical nature and relates to the placement of reinsurance cover after the combination of the September 2010 Christchurch earthquake, the Brisbane floods and Cyclone Yasi.

It is uncertain whether this will have any financial impact; however, Suncorp's maximum exposure will not exceed $118 million after-tax. Suncorp has not recognised any financial impact in the preparation of its results for the six months to 31 December 2014.

Suncorp will provide a further update on this issue after detailed consultation with its reinsurance brokers and advisors.

Outlook

Suncorp will continue to prioritise stable margins which will be supported by the ongoing benefit of the Group's Simplification program and supply chain initiatives. Simplification initiatives will deliver $225 million in cost savings in the 2015 financial year and $265 million in the 2016 financial year.

Continued delivery of Simplification and integration benefits provide the foundation for the Group's updated market commitments:

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1. A combination of increased market competition, low interest rates and reduced reinsurance costs mean Group growth is now likely to be low single digits for the 2015 financial year;
2. The Group will continue to target a return on equity of at least 10% in the 2015 financial year despite the $250 million impact of the Brisbane Hailstorm;
3. General Insurance will 'meet or beat' an underlying ITR of 12% through the cycle;
4. The ordinary dividend payout ratio will be 60% to 80% of cash earnings; and
5. The Group will continue to return surplus capital to shareholders.

Further information

Further information about Suncorp's results, including an explanation of statutory and non-statutory financial information, is contained in the Analyst Pack available at www.suncorpgroup.com.au. This information is also available via the Suncorp Investor Relations App. Search 'Suncorp IR' in the App Store.

Analyst briefing – 12:30pm (Sydney time)
Australia dial-in: 1800 801 825
International dial-in: +61 (0)2 8524 5042
Conference ID: 9787896
Webcast: www.suncorpgroup.com.au

Media conference – 2:30pm (Sydney time)
Australia dial-in: 1800 801 825
International dial-in: +61 (0)2 8524 5042
Conference ID: 6962261

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For more information contact:

Media:	Mary-Jane Bellotti on 0418 718 779
Analysts/Investors:	Mark Ley on 0411 139 134