

11 February 2016

Suncorp reports half-year profit of \$530 million and interim dividend of 30 cents per share fully franked

Key Points

- Group net profit after tax (NPAT) of \$530 million (HY15: \$631 million)
- Profit after tax from business lines of \$544 million (HY15: \$681 million)
- Interim dividend of 30 cents per share fully franked (HY15: 38 cents)
- Solid top-line growth in all of Suncorp's business lines
- General Insurance NPAT of \$297 million (HY15: \$419 million) with an underlying insurance trading ratio (UITR) of 10.1% (HY15: 14.8%)
- Bank NPAT increased to \$194 million (HY15: \$176 million) as a result of improving credit quality and very low impairment losses. Net Interest Margin (NIM) of 1.85% (HY15: 1.86%) and Cost to Income ratio of 53.0% (HY15: 52.2%)
- Suncorp Life NPAT of \$53 million (HY15: \$86 million) with underlying NPAT increasing to \$58 million (HY15: \$52 million) following the third consecutive period of positive claims and lapse experience
- After payment of the dividend, the Suncorp Group's Common Equity Tier 1 (CET1) capital will be \$506 million above its operating targets. Capital levels remain strong with GI CET1 at 1.25 times the Prescribed Capital Amount (PCA) and Bank CET1 at 9.45%
- Activation of plan to restore working claims performance
- Strategic refinements announced to invigorate growth and drive more resilience to volatility. Increasing Suncorp's resilience will be achieved by two streams of activity, elevating the role of the customer and recalibrating costs

Suncorp Group Limited (Suncorp) today reported net profit after tax (NPAT) of \$530 million (HY15: \$631 million) for the six months to 31 December 2015. Profit after tax from business lines was \$544 million (HY15: \$681 million).

Chairman Ziggy Switkowski said Suncorp has declared an interim dividend of 30 cents per share fully-franked (HY15: 38 cents) representing a payout of 69% of cash earnings.

"The interim dividend reflects positive earnings contribution from across the Group's diversified insurance and banking businesses. The half year net profit after tax of \$530 million demonstrates the benefits of a financial services conglomerate with the Banking and Life operations delivering improved underlying profits at a time when General Insurance earnings have been impacted by external headwinds and operational issues," Dr Switkowski said.

Suncorp Group CEO Michael Cameron said the end of his first 100 days in the CEO role signalled the completion of the transition phase and he was pleased it had confirmed strong foundations and growth opportunities.

"My key objective is to maintain the stability of the organisation and to keep the momentum to deliver our commitments made to investors, customers and employees. We recognise the global uncertainty created by financial markets, climate change and other factors such as cyber security. Refinements are being made to our strategy to invigorate growth and drive more resilience to volatility. Increasing our resilience will be achieved by two streams of activity, elevating the role of the customer and recalibrating our costs," Mr Cameron said.

General Insurance

General Insurance net profit after tax was \$297 million with a reported ITR of 9.4%. After adjusting for the impact of higher than expected natural hazards, investment market volatility and the continuation of strong prior year reserve releases, the underlying ITR was 10.1%.

Personal Insurance Gross Written Premium (GWP) returned to growth, increasing by 0.6% as a result of increases in average premiums offset by the exit of some corporate partner relationships. Customer retention remained strong, demonstrating the strength of the Group's brands and stabilisation in the personal insurance market.

Commercial Insurance GWP grew by 2.2% with a strong growth across the compulsory third party (CTP) portfolio, partially offset by a negative impact from the Western Australian Workers Compensation portfolio.

Mr Cameron said the working claims performance, as reported in the General Insurance update on 14 December 2015, was obviously disappointing. He stated that the personal insurance claims result had been affected by both environmental and operational factors.

"My number one priority has been resolving these issues. We have moved quickly with an intervention strategy designed to restore performance. Our target is to deliver lower working claims costs, which together with other initiatives, will drive a higher underlying ITR for the full year." Mr Cameron said.

Suncorp Bank

Suncorp Bank delivered an after tax profit of \$194 million, supported by strong credit quality experience and a continued focus on sustainable, quality lending in a highly competitive environment.

Home Lending grew 3.0% over the half, with strong intermediary relationships resulting in 60% of new business originating outside the traditional Queensland market. The Bank has maintained a disciplined approach to responsible lending practises demonstrated by 88% of new home loans written during the half having a loan to valuation ratio (LVR) of 80% or less.

The NIM has improved to sit at the top of the target range at 1.85%, with market-wide repricing offsetting increased funding costs and heightened competition.

The Bank Cost to Income ratio was 53.0% for the half, underpinned by disciplined cost management to support investment in strategic programs.

Gross impaired assets reduced by 32.8%. Total gross non-performing loans reduced by 15.1% and impairment losses were \$11 million or 4 bps of gross loans and advances, well below the target range of 10bps to 20bps of gross loans and advances.

Suncorp Life

Suncorp Life's net profit after tax for the half year was \$53 million with the underlying profit increasing over 10% to \$58 million. The profit after tax was impacted by investment market volatility with actual returns being lower than longer-term assumptions.

Life's underlying profit has stabilised following the revision of key assumptions in 2014. Overall claims and lapse experience was \$8 million favourable. Life's total in-force annual premiums are up 5.2% 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 30 cents per share representing a dividend payout ratio of 69%.

After accounting for the interim dividend, the Group's total capital position remains strong with CET1 capital of \$506 million held above the Group's operating targets. The General Insurance CET1 is 1.25 times PCA and the Bank CET1 is 9.45%.

The Group has \$156 million of franking credits available after the payment of the interim dividends.

Strategy

In addition to announcing the half year profit result, Mr Cameron said the foundations of the Suncorp strategy remain unchanged and that the journey of simplification and optimisation had been successful and will remain very relevant.

"Suncorp has created enormous value by focusing on the strategic assets of Capital, Cost, and Culture. We have also made advancements on the Customer front which has typically been within each line of business. Mastering the Customer capabilities across our business remains our greatest opportunity. The most sustainable and successful companies create value for their customers."

"Suncorp has a unique franchise, positioned to deliver stronger customer outcomes. In the face of aggressive market competition, Personal Insurance retention has improved and our Bank was named 'Bank of the Year' by Money magazine. The Commercial Insurance business is ranked as the 'preferred partner' by brokers, our Direct Life Insurance online offer ranked #1 and our New Zealand business is the most recommended."

Mr Cameron said that the Suncorp Group has approximately 9 million customers and the strategy is focused on broadening and deepening the relationship with existing customers. It is not reliant on increasing the number of customers. The approach to deliver value for our customers means that Suncorp will take a 'Customer Platform' approach – providing and measuring outcomes to customers from the platform.

"Our customers will satisfy their needs by accessing any of our products and services, any brand, via our branches, our contact centres, via intermediaries and increasingly digitally. This will include products and services from selected third parties currently outside of Suncorp. Suncorp's reach with significant scale in General Insurance, Life Insurance and Banking, means we can uniquely meet customers' needs in relation to Motor, Contents, Building, Liquidity, Longevity, Trauma, Life and Health."

Mr Cameron said that delivery of the strategy will require some re-alignment of the operating model and changes will be announced shortly.

At the Investor Day on 25 May 2016, Suncorp will provide more substantial detail on how customers will engage in a way that is different to other financial services businesses.

Mr Cameron said that, in addition to elevating the customer, the second component of creating a more resilient business is to recalibrate costs. The delivery of this objective will allow reinvestment for growth.

"Immediate actions include an adjustment to discretionary spending. Our brands will be rationalised and we will ensure that we realise the project benefits from past and current investments including the \$170 million optimisation benefits expected in 2018. These benefits will both flow to shareholders and

also provide re-investment opportunities. These initiatives will be carefully planned and executed to avoid unintended consequences to the smooth operation of the business.”

“This is an exciting time for Suncorp, creating value for our customers, not from our customers,” Mr Cameron concluded.

Outlook

In the medium term, the Suncorp’s key targets are:

- Broadening of customer relationships;
- Improving underlying NPAT;
- Sustainable ROE of at least 10%, which implies an underlying ITR of at least 12%.

The Group also targets a dividend payout of 60% to 80% of cash earnings and, given the strong capital levels, Suncorp remains committed to returning 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 and Data Pack available at www.suncorpgroup.com.au. This information is also available via the Suncorp Investor Relations App.

Analyst briefing – 11:00am (Sydney time)

Australia dial-in: 1800 558 698
International dial-in: +61 (0)2 9007 3187
Conference ID: 750956
Webcast: www.suncorpgroup.com.au

Media conference – 2:00pm (Sydney time)

Australia dial-in: 1800 558 698
International dial-in: +61 (0)2 9007 3187
Conference ID: 438746

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