SUNCORP

Suncorp Group Limited
ABN 66 145 290 124

Level 23, 80 Ann Street
Brisbane Qld 4000
suncorpgroup.com.au

ASX Announcement
1H23 Financial Results

8 February 2023

1H23 result delivers continued top-line growth and margin expansion; FY23 targets reaffirmed

- Group net profit after tax up 44.3%[i] to $560 million, cash earnings up 62.9% to $588 million
- Interim fully franked ordinary dividend of 33 cents per share, representing a payout ratio of 71% of cash earnings
- Insurance Australia gross written premium of $4.8 billion, up 9.0%[ii], driven by the pricing response to inflation and increased natural hazard and reinsurance costs
- Suncorp New Zealand gross written premium of NZ$1.2 billion, up 12.2% benefitting from price momentum
- General Insurance underlying insurance trading ratio of 10.0%, up from 8.0% (excluding COVID-19 impacts)
- Suncorp Bank home lending up $2.6 billion over the half or 10.4% (annualised). Net interest margin of 2.03%, up 13 basis points, and cost-to-income ratio reduced to 49.9%
- Common Equity Tier 1 held at Group of $290 million, with increased levels of capital held across the business units
- FY23 financial targets reaffirmed
- Sale of Suncorp Bank on track, subject to regulatory and government approvals

Suncorp Group Limited (ASX: SUN | ADR: SNMCY) today reported improved earnings, with continued strong top-line growth across the Group, improved underlying margins and positive investment returns. The result also benefitted from the release of $150 million of the provision for potential business interruption claims, following the resolution of the second industry test case.

Group net profit after tax of $560 million, was up by 44.3%, while cash earnings increased 62.9% to $588 million. The Group has reaffirmed its FY23 targets.

The Group reported gross written premium (GWP) growth of 9.0%, excluding Emergency Services Levies (ESL) and portfolio exits, in its Australian general insurance business, and 12.2% in New Zealand. The Group's underlying Insurance Trading Ratio (ITR) increased from 8.0% (excluding COVID-19 impacts) in 1H22 to 10.0% in 1H23. The improved ratio was supported by strong top-line growth, improving expense ratios and an increase in investment yields but impacted by increased natural hazards, reinsurance costs and claims inflation.

In the Bank, annualised growth in home lending of 10.4% provided further evidence of the continued turnaround in performance. The Bank's cost-to-income ratio decreased to 49.9% from 57.6%, driven by revenue growth and cost management.

While the underlying business demonstrated strong momentum, the Group's results were impacted by elevated natural hazard activity. The prevailing La Niña weather pattern across Australia and New Zealand led to eight separate weather events and around 53,000 natural hazard claims for 1H23. This resulted in the Group exceeding its natural hazard allowance by $99 million. The Group's full year natural hazard allowance is $1,160 million and the Group retains strong protection through its comprehensive reinsurance program.

Volatility continued in investment markets in the half, although the impact of higher running yields more than offset any mark-to-market losses across the Group's $15.0 billion investment portfolio. The net gain from yields and investment markets was $287 million compared to $61 million in 1H22.

Group operating expenses[iii] fell by 3.1% to $1,349 million, largely reflecting efficiency benefits from the strategic program of work, as well as a decrease in project investment relative to the prior period, more than offsetting the impact of the inflationary environment.

The Board has determined to pay a fully franked interim ordinary dividend of 33 cents per share. The Group's half year dividend payout of 71% of cash earnings is towards the middle of the target payout ratio range of 60% to 80%.

Appropriate capital buffers have been maintained in the heightened risk environment, in-line with the Group's prudent approach to capital management. The Common Equity Tier 1 (CET1) held at Group improved to $290 million from $248 million at the end of the previous half, with increased levels of capital also held within the General Insurance and Bank businesses.

The sale of Suncorp Bank to ANZ Banking Group remains on track and is expected to complete in the second half of calendar year 2023, subject to approvals.

Suncorp Group CEO Steve Johnston said the Group had delivered a strong set of results for the half despite ongoing economy-wide inflationary pressures and the impacts of eight natural hazard events, largely due to the La Niña climate pattern.

"Suncorp's priority has been supporting our customers impacted by these severe weather events, while also continuing to work hard to return customers to their homes following the Australian East Coast floods almost one year ago," Mr Johnston said.

"In addition, through a dedicated focus on executing our strategic initiatives as outlined to the market two years ago, our three businesses have continued to build on the good momentum achieved over this time to deliver top-line growth with improved margins and productivity," he said.

"Our Australian and New Zealand businesses have achieved strong growth in premiums, while unit growth across our consumer portfolio demonstrates the value of our products and brands, particularly in an inflationary environment. Our Best-in-Class claims program has allowed us to be more disciplined in leveraging scale to deliver lower aggregate inflation outcomes. The Bank continued to grow its home and business lending portfolios and customer deposits.

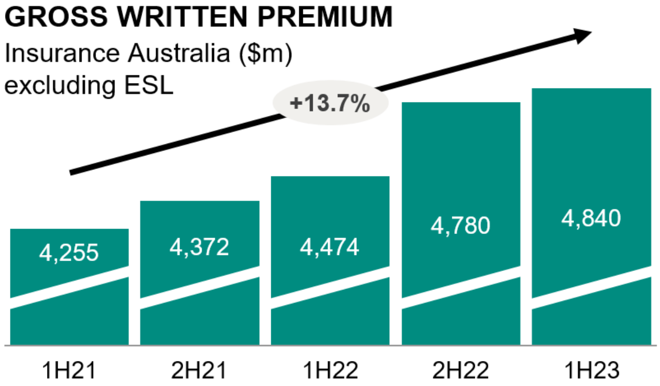
"Pleasingly, we remain on track to achieve our FY23 targets, which is testament to the strength and resilience of our business amid significant headwinds, and demonstrates our ability to create long-term shareholder value while meeting the evolving needs of our customers and other stakeholders.

"We firmly believe our ability to continue to manage the risks associated with a changing climate, drive a more resilient Australia and New Zealand through our products and advocacy and create further long-term shareholder value will be enhanced as a dedicated Trans-Tasman insurance company. We continue to engage constructively with the relevant regulatory and government stakeholders as the bank sale process remains underway."

	1H23 ($m)	1H22 ($m)	Change (%)
Insurance Australia	276	114	142.1
Suncorp Bank	256	200	28.0
Suncorp New Zealand	83	81	2.5
Profit after tax from ongoing functions	**615**	**395**	**55.7**
Profit after tax from discontinued business	-	(1)	n/a
Other profit (loss) after tax	(27)	(33)	18.2
Cash earnings	**588**	**361**	**62.9**
Group net profit after tax	**560**	**388**	**44.3**

Insurance Australia

Insurance Australia profit after tax	GWP (excluding ESL)
$276m up 142.1%	**$4,840m up 9.0%[iv]**



Insurance Australia delivered profit after tax of $276 million, up 142.1%. The result reflected strong top-line growth, reduced operating expenses and a turnaround in investment income. Increased claims costs were mitigated by stronger pricing and higher prior year reserve releases which included a one-off release of the provision for business interruption.

Growth was largely driven by the Consumer business. The Home portfolio grew 12.1%[iv], with average written premium (AWP) up 10.7%, reflecting firmer pricing in response to higher natural hazard and reinsurance costs, and inflation. Unit growth was 1.4%.

Motor GWP increased by 11.7%[iv], reflecting AWP growth of 8.9% and unit growth of 2.8%. The AWP increase reflected pricing for higher working claims and sum insured inflation.

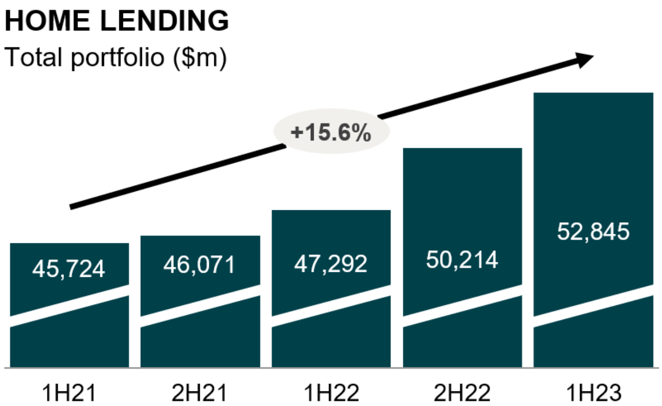
In Commercial, GWP grew 6.9%[iv], with growth across short-tail underwriting partly offset by a decrease in Packages.

Compulsory Third Party GWP decreased by 1.3% as growth within the Queensland scheme was offset by a reduction in GWP across other states. The leading national market share position continues to be maintained.

Net incurred claims increased by 9.3% to $3,196 million. Excluding discount movements, the increase was 6.4%, reflecting the impact of portfolio growth, more normal levels of claims frequency and persistent inflation. This was partially offset by a $150 million release of business interruption provision. Prior year reserve releases, excluding transitional excess profits and losses (TEPL) provision and business interruption provision release, were 1.6% of Group Net Earned Premium (NEP), in-line with the Group's long-run expectation of 1.5%.

Suncorp Bank

Suncorp Bank profit after tax	Net interest margin
$256m up 28.0%	**2.03% up 13 basis points**



Suncorp Bank profit after tax increased 28.0% to $256 million, driven by solid volume growth and higher margin.

The net interest margin (NIM) increased 13 basis points over the half to 2.03%, supported by higher cash rates and strategic deposit pricing actions, but partly offset by competitive pressures in home lending pricing.

The decrease in the cost-to-income ratio to 49.9%, from 57.6%, was enabled by asset growth and higher NIM along with disciplined cost management.

Growth momentum continued in the half with $2.6 billion of home lending growth. The Bank continues to maintain a high quality and conservatively positioned home lending portfolio. Business lending grew 1.8% in the half, predominantly driven by commercial lending across several industries.

Total customer funding was $51.0 billion, up 6.0% over the half, with growth primarily driven by term deposits as customers respond to higher interest rates.

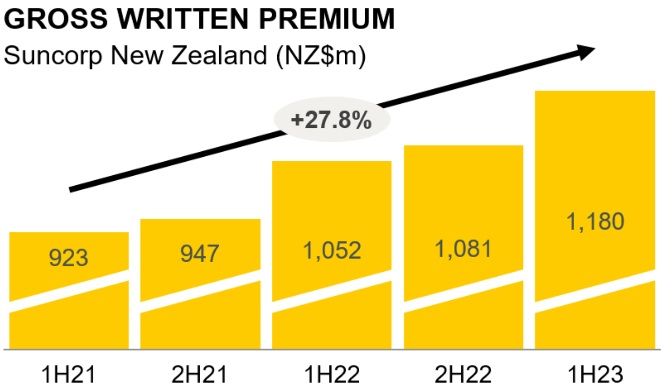
Asset quality remained sound. A net impairment charge of $2 million reflected small specific provision movements across several exposures. The collective provision remains prudently calibrated at $180 million.

Suncorp New Zealand

Suncorp New Zealand profit after tax	GWP
NZ$91m up 8.3%	**NZ$1,180m up 12.2%**

Suncorp New Zealand profit after tax of NZ$91 million increased 8.3%.

General Insurance profit after tax of NZ$75 million decreased 3.8%. The General Insurance business benefitted from strong top-line performance although profit was moderated by elevated claims experience and increased operating expenses to support growth.



GWP of NZ$1,180 million increased 12.2%. Intermediated and direct channels recorded strong growth through targeted pricing increases to offset inflationary pressures on claims and increased reinsurance costs.

Net incurred claims of NZ$583 million increased 17.8%. Higher working claims costs were driven by unit growth, inflationary pressures and the COVID-19 related motor frequency benefits in 1H22. Working claims were also impacted by several large loss property claims from home fires during the first quarter.

Prior year reserves were strengthened by NZ$12 million to reflect a combination of Canterbury earthquake claims and development on property claims.

Life Insurance profit after tax of NZ$16 million increased 166.7% supported by growth in planned profit margins and favourable experience. In-force premium grew by 4.4%, supported by Consumer Price Index and age-related premium growth.

Group Outlook

Operational outlook: The operating environment continues to remain challenging. While some supply chain pressures have eased, global geopolitical events remain uncertain, and inflationary pressures persist. Central banks have raised interest rates aggressively in response to decades-high inflation and these policy settings are expected to remain in the near-term. Economic growth is projected to moderate.

The Group's modelling of natural hazard risk indicates a modest upward trend in the frequency of natural hazard events but the more recent La Niña conditions appear to be turning neutral. However, indications are that global reinsurance markets remain in a hardening cycle with higher return hurdles and capital constraints impacting the cost of reinsurance and risk retention.

Suncorp's FY23 plan: The FY23 plan aims to deliver a growing business with a sustainable return on equity above the through-the-cycle cost of equity.

- Growth: In General Insurance, GWP growth is expected to be primarily driven by increases in AWP as the business responds to increased input costs, including from reinsurance, natural hazards and supply chain inflation. For the full year, the Bank is expected to grow slightly above system, which is expected to moderate.
- Underlying ITR: The Group's underlying ITR is impacted by factors such as higher reinsurance and natural hazard costs and claims inflation. These are expected to be offset by higher pricing, and the benefits from higher investment yields and strategic initiatives focused on efficiency improvements. Investment yields are expected to moderate as market expectations for economic growth ease. The 10% to 12% target for FY23 is reaffirmed.
- Operating expenses: Operating expenses are expected to be in-line with previous guidance of around $2.7 billion, with the second half impacted by seasonality and restructuring costs.
- Bank cost-to-income: The cost-to-income ratio target of around 50% by the end of FY23 has been achieved ahead of schedule as the benefits of rising rates, increased growth, and the strategic program of work to reduce costs were realised. The 2H23 cost-to-income ratio is expected to increase slightly due to ongoing competition in lending and deposits causing margins to compress. However, it will remain in a narrower range around 50% than in previous years.

Key dynamics over the medium term for insurance are expected to include headwinds from natural hazards and reinsurance costs; ongoing higher pricing that should broadly offset higher claims; broadly neutral impact from operating expenses; moderating investment income in-line with forward market expectations for rates; and moderating prior year reserve releases.

Key dynamics over the medium term for the Bank include moderating growth in-line with system, pressure from margins from increased competition in lending and deposits, and modestly higher expenses to fund growth.

Suncorp announced the sale of the Bank to ANZ on 18 July 2022. The sale is progressing according to plan with completion targeted in the second half of calendar year 2023, subject to several approvals. The sale is expected to yield net proceeds of approximately $4.1 billion. As previously announced, the Group remains committed to returning to shareholders any capital that is excess to the needs of the business.

The New Zealand Earthquake Commission has increased its cap for house policies by $150,000, effective October 2022. The net impact from this change is not expected to be material.

Suncorp continues to work closely with governments and regulators to finalise entry into the reinsurance pool for cyclones and related flood damage across Australia, due to be implemented on 30 June 2023.

The Group will maintain its prudent capital management strategy, including holding an appropriate CET1 buffer at Group. The Group maintains its commitment to a 60% to 80% dividend payout ratio.

New Zealand weather event

On 30 January 2023, the Group provided an update on flooding experienced across the North Island in New Zealand. The impact of this weather event is still being assessed. As of close of business 7 February 2023, the Group has received in excess of 8,000 claims and the gross event cost is yet to be determined. The Group's comprehensive reinsurance program provides additional protection for New Zealand losses. The losses from this event will be capped at NZ$50 million, net of reinsurance cover. Post this event, the Group maintains significant prepaid reinsurance cover and the approach to any reinstatement of cover utilised in this event will be determined once the full impact of the event is known.

Authorised for lodgement with the ASX by the Suncorp Group Board

Analysts/Investors

Neil Wesley
+61 498 864 530
neil.wesley@suncorp.com.au

Kyran McGushin
+61 438 087 980
kyran.mcgushin@suncorp.com.au

Media

Amy McDonald
+61 403 058 462
amy.mcdonald@suncorp.com.au

[i] All changes refer to the prior corresponding period unless otherwise stated.
[ii] Excluding emergency services levies and portfolio exits.
[iii] Excludes emergency services levies, transitional excess profits and losses provision and Wealth expenses.
[iv] Excludes portfolio exits.