SUNCORP

ASX announcement

15 February 2018

Suncorp delivers solid top line growth, declares 33c interim dividend, payout ratio 90%

Key Points

- Group net profit after tax (NPAT) of $452 million (HY17: $537 million) includes the impact of the Victorian hail storm, investment in strategic programs and increased regulatory costs
- Group top line growth of 2.5% driven by strong momentum in both Consumer General Insurance and Banking:
  - Australian Home and Motor Insurance Gross Written Premium (GWP) up 3.9%
  - Bank lending growth 8.7%, well above system
  - Australian Life Insurance underlying profit after tax increased to $39 million, up 56%
  - New Zealand General Insurance achieved GWP growth of 7.6%
- HY18 Combined Australia and New Zealand General Insurance, underlying insurance trading ratio (ITR) 10.2%, adjusted for Business Improvement Program costs
- Natural hazards were $395 million, which is $65 million above the allowance for the period, driven primarily by the Victorian hail storm
- Stronger outlook for second half, with favourable operating conditions expected to continue and the strategic programs to support growth and deliver cost efficiencies
- Specific guidance for FY19 of a cost base of $2.7 billion, an underlying ITR of at least 12%, Banking cost to income ratio of around 50%, Net Interest Margin (NIM) of between 1.80% - 1.90%, producing a cash Return on Equity (ROE) of 10%
- Interim dividend of 33 cents per share, reflecting the expectation of strong future returns from the strategic programs underway
- Sustainable dividend payout ratio of 60-80% for future years and a commitment to return excess capital

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Suncorp Group Limited (Suncorp) today announced Group top line growth of 2.5 per cent, driven by good momentum across Home and Motor Insurance and Banking in HY18.

Reported net profit after tax (NPAT) of $452 million for the six months to 31 December 2017 was down 15.8 per cent on the prior corresponding period, due to the impact of natural hazards and timing of investments, including the Business Improvement Program and increased regulatory costs. The Group has forecast a stronger full year result.

Chairman Dr Ziggy Switkowski said the Board of Suncorp had determined an interim dividend of 33 cents per share fully franked (HY17: 33 cents).

“The interim dividend reflects the confidence we have in generating strong future returns from the strategic programs being undertaken this year,” Dr Switkowski said.

Suncorp CEO and Managing Director Michael Cameron said an increased focus on Suncorp’s four strategic priorities, in particular, elevating the needs of customers, had helped deliver solid top line performance.

“In the first half, Australian Motor and Home Insurance GWP grew by 4.7 per cent and 2.9 per cent respectively, while the Bank achieved 8.7 per cent lending growth, well above system growth,” Mr Cameron said.

"Our work over the past 18 months on driving efficiencies in our claims processes, improvements in our customer experience, a hardening insurance market and our strategic investment programs, position the business well for the second half."

Total operating expenses increased 3.3 per cent, excluding the Business Improvement Program, and 5.7 per cent when including the net investment in the program. The Business Improvement Program will deliver net benefits of $10 million, $195 million and $329 million over FY18, FY19 and FY20 respectively, and will drive the Group's operating cost base back to $2.7 billion in FY19.

"With a gross benefit run rate of $124 million already locked in, we are well positioned to achieve our net targets," Mr Cameron said.

Insurance (Australia)

NPAT of $264 million was down 28.5 per cent as solid growth in net earned premiums was offset by higher natural hazard costs and the impact of investment in the Business Improvement Program.

GWP growth for Home and Motor Insurance was 3.9 per cent, driven by unit growth and price increases, while GWP growth in Commercial lines was 1.5 per cent for HY18. CTP premium growth was impacted by scheme reform in NSW and Queensland.

"Our intense focus on working claims performance, and repricing, has led to solid underlying margin expansion for our Home and Motor Insurance lines," Mr Cameron said.

Net incurred claims costs were up 14.7 per cent, reflecting higher natural hazard costs.

Australian Life Insurance underlying profit after tax was $39 million, up 56 per cent for the half, reflecting benefits of repricing and the ongoing focus of the optimisation program.

"Pleasingly, optimisation of the Australian Life Insurance business is progressing well. Meanwhile, we continue to explore strategic alternatives, which include a partnership, sale or reinsurance. The focus is on providing great customer outcomes and delivering better returns for our shareholders," Mr Cameron said.

Banking & Wealth

Banking & Wealth delivered an NPAT of $197 million for the half, down 5.3 per cent on HY17, with good top line growth, offset by investment in the Business Improvement Program. Lending growth of 8.7 per cent reflected strong consumer and commercial lending momentum within Suncorp's risk appetite.

"Growth in the Bank throughout the half was very strong, which continues the momentum from last year," Mr Cameron said.

Net interest margin (NIM) of 1.86 per cent remained strong supported by asset repricing and efficient funding.

"Suncorp continues to maintain disciplined lending practices and new business credit quality was strong over the period. Impairment losses of $13 million, representing 4 basis points, remain well below the long-run range."

New Zealand

New Zealand achieved a profit after tax of NZ$67 million (A$61 million) for the half year, an improvement of 81 per cent over the prior corresponding period. GWP growth was 7.6 per cent (in NZ dollar terms), with good performance across all channels (on a like for like basis, excluding the impact of the sale of Autosure in FY17, GWP increased 10.4%). Strong new business and retention rates delivered in-force premium growth of 5 per cent (in NZ dollar terms).

Capital and Dividend

The Board has determined a fully franked interim dividend of 33 cents per share, representing a dividend payout ratio of 90.1 per cent of cash earnings. This is well above Suncorp's historical interim ratios, and is consistent with the commitment to shareholders for this financial year.

After payment of the dividend, the franking account balance will be $158 million. The Group is well capitalised with $381 million in CET1 capital held above its operating targets. Suncorp remains committed to returning excess capital to shareholders.

Strategy

Suncorp is focused on driving increased shareholder returns through its four strategic priorities to Elevate the customer, Create the marketplace, Maintain momentum & grow the business, and Inspire our people.

"Key to meeting these priorities is the digitisation of the business. By building the capability quickly we are seeing faster adoption by customers, and faster delivery of business benefits. Zero touch claims now cover one-third of the Group's online motor claims portfolio, while digital interactions are up by 19 per cent since this time last year, and customer complaints are down 10 per cent," Mr Cameron said.

"In the next six months we will launch our new app, which will bring together the offerings of our Insurance, Banking & Wealth, and third-party products, which will support the creation of our marketplace."

A key focus will continue to be the delivery of the three-year, company-wide Business Improvement Program. It is supporting the digitisation of customer experiences, as well as the optimisation of our sales and services channels, redesigning of the claims supply chain, smarter procurement and continued streamlining of the business.

Beyond the focus on implementing our key programs and strategy, Suncorp is continuing to work closely with the Government and regulators on a number of important reforms, including its participation in the Royal Commission into Banking, Superannuation and Financial Services.

Outlook

Suncorp's NPAT is expected to be higher for the six months ending 30 June 2018, compared to the six months ended 31 December 2017.

The progress Suncorp is making, underpins the Company's confidence to provide specific guidance for FY19:

— Group top line growth of 3% to 5%, driven by strategic initiatives and targeted growth in selected product classes

— An underlying ITR of at least 12%, supported by the Business Improvement Program, in particular, the benefits of claims supply chain redesign, and the earned impact of repricing and unit growth throughout FY18

— Banking cost to income ratio of around 50% and NIM of 1.80% - 1.90%, supported by Business Improvement Program initiatives including channel optimisation, and targeted growth initiatives within risk appetite

— Expense base of $2.7 billion as smarter procurement and streamlining, in addition to other Business Improvement Program benefits, more than offset underlying inflation and growth-related investment

We expect these targets to produce a cash ROE of 10 per cent.[1]

Reserve releases are expected to be above 1.5% of NEP, provided a benign inflationary environment continues.

The Board expects to maintain a dividend payout ratio of 60% - 80% of cash earnings and return surplus capital to shareholders.

"Today's result provides evidence that our strategy, our team, and our organisation will deliver an improved second half and a significant uplift in performance in FY19 and '20," Mr Cameron said.

Further information:

Presentation and Analyst briefing – 10.00am
Click here for the live audio webcast.

Media teleconference – 1:15pm
Dial-in number: 1800 558 698 or +61 2 9007 3187
Passcode: 122638

1 FY19 targets are subject to natural hazards at, or below, budget, movements in investment markets and unforeseen regulatory reform.

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