

Financial Results for the half year ended 31 December 2017



Create a better today



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SUNCORP GROUP LIMITED
ABN 66 145 290 124



Michael Cameron
CEO & Managing Director

Result Overview

- Includes the impact of Victorian hail storm
- Impacted by significant business investment
- Reflects good top line growth
- Payout ratio well above historical levels

	HY18 (\$m)	HY17 (\$m)	Change (%)
Insurance (Australia)	264	369	(28.5)
Banking & Wealth	197	208	(5.3)
New Zealand	61	36	69.4
NPAT from functions	522	613	(14.8)
Other	(50)	(29)	72.4
Cash earnings	472	584	(19.2)
Acquisition Amortisation	(20)	(47)	(57.4)
Reported NPAT	452	537	(15.8)
Interim dividend	33 cps	33 cps	–

Highlights

1. Business **growing with strong top line growth**
2. Digital transformation to drive **improved customer experience and efficiencies** is well progressed
3. Investment in the Business Improvement Program to improve processes and deliver a more resilient Suncorp model, **on track to deliver sustainable benefits**
4. **Dynamic regulatory environment** has driven short term costs and longer term growth opportunities
5. Outlook is for a **significant uplift in performance** in FY19 and FY20

1. Business growing with strong top line growth

- Australian Motor & Home GWP up 3.9%¹, unit growth up and market shares stabilised. Focus on Insurance claims processes has driven margin expansion
- Commercial has prioritised margin over growth in units
- Life business metrics lifted, 56% underlying NPAT improvement to \$39m
- Bank loan growth 8.7%, well above system, with strong margins and low loss rates, underpinned by improvements in customer experience and increased customer retention
- New Zealand Consumer GWP up 11%, driven by unit and premium growth, with NPAT up 81%

Result included the Business Improvement Program \$50m, Marketplace \$36m and Natural Hazards unfavourable \$65m.

1. Excludes emergency services levy.

2.

Digital transformation well progressed

- Innovation is improving the customer experience
 - Pilot of the Reward & Recognition program, 55,000 users
 - 33% of the Group’s online claims are now ‘zero touch’
- Adoption of digital platform continues to grow:
 - 67 million digital interactions with our customers up by 19%, while self service transactions up by 20%
 - 3.38m Connected Customers¹
- 10% reduction in customer complaints received by front line staff
- 82% customer retention maintained despite competition and price increases
- Increase in consumer NPS to 7.6

1. A customer is considered to be connected if they have two or more needs met across the need categories of Home, Self, Mobility and Money, or if they hold four or more Suncorp products.

3.

Investment in Business Improvement Program (BIP) on track to deliver benefits

- Investment in Business Improvement Program \$50m YTD, focused on:
 - Improving customer experience
 - Driving efficiencies
 - Embedding a culture of continuous improvement
- On track to deliver net benefits, with \$124m gross benefit annualised run rate already locked in

	Cost	Benefit	Net¹
FY18	\$97m	\$107m	\$10m
FY19	\$79m	\$274m	\$195m
FY20	\$62m	\$391m	\$329m

1. Pre tax benefits

4.

Dynamic regulatory environment has driven short term costs and longer term growth opportunities

- CTP structural change providing opportunities to enter new markets and improve share and returns over the longer term
- Banking has benefitted from opportunities created by regulatory focus on increasing competition in the sector and relative margin benefit

5.

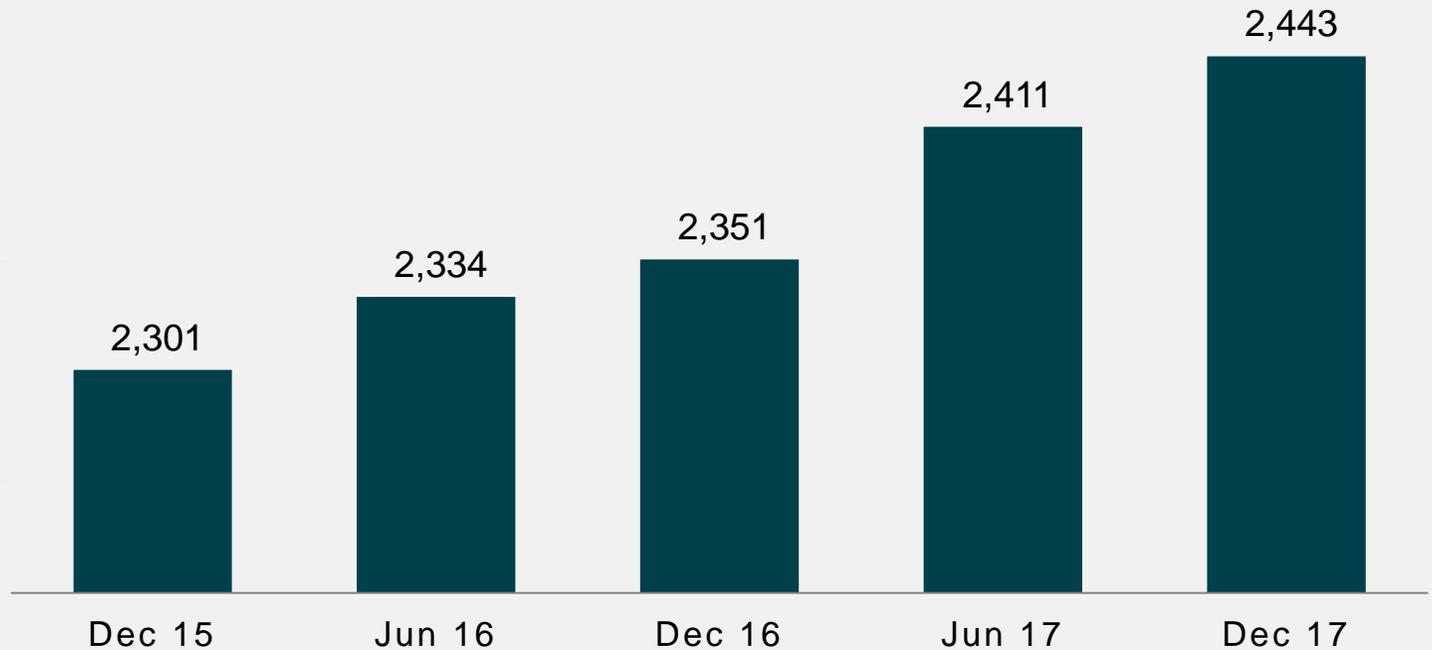
Outlook is for a significant uplift in performance in FY19 and FY20

- In FY19:
 - Business Improvement Program to drive annualised operating expenses back to \$2.7bn
 - Underlying ITR expected to return to at least 12%, with the Cost to Income ratio around 50%, and Net Interest Margin between 1.80-1.90%
 - Combined with the initial results from digital transformation, will produce a Cash ROE of 10%
- Plan to increase dividend payout ratio in FY18, then sustainable range of 60-80%
- Excess capital returned to shareholders

Insurance (Australia)

- GWP driven by unit growth and premium increases
- Working claims ratio improved reflecting benefits of operating efficiencies designed to offset inflation
- Business Improvement Program investment has impacted margins but will improve competitive position
- CTP reforms have short term impact on top line growth, long term benefits
- Life optimisation program delivering improvement in pricing

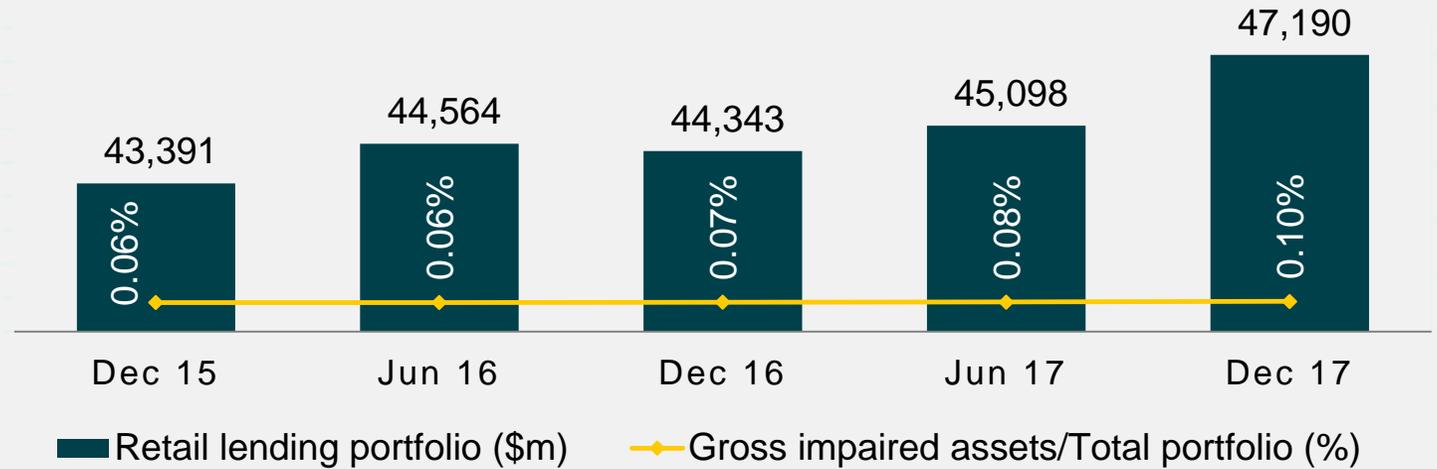
Gross Written Premium – Motor and Home (excluding FSL) (\$m)



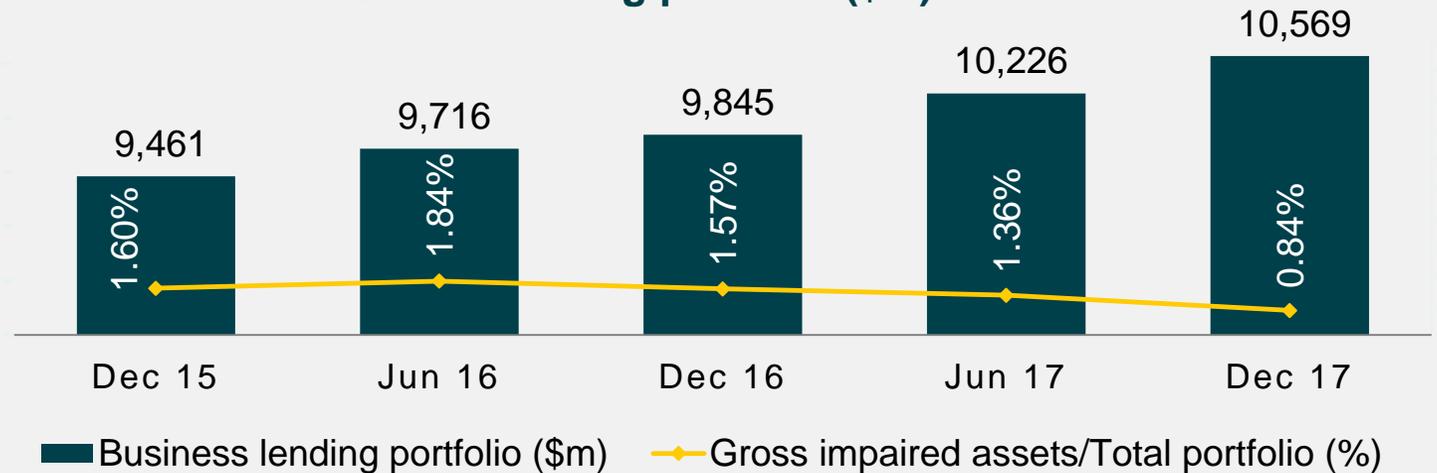
Banking & Wealth

- Growth in lending of 8.7% materially above system
- Simplified origination processes and higher customer retention contributed to growth
- Increased investment in the business in FY18 to drive margins and more competitive position in future periods

Retail lending portfolio (\$m)



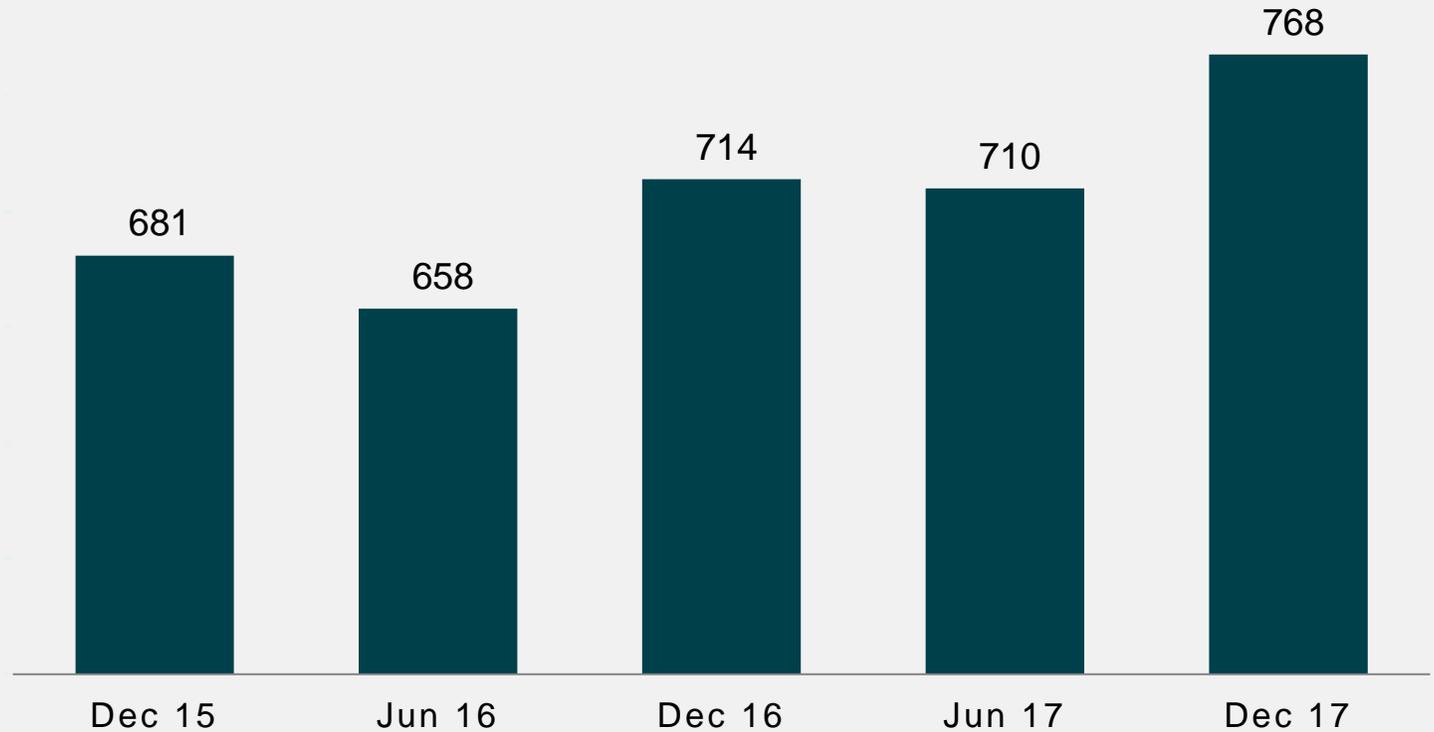
Business lending portfolio (\$m)



New Zealand

- Strong result driven by premium increases, unit growth, strong claims management and expense control driving an ITR of 12.3%
- Pricing changes implemented in prior periods have been effective in offsetting the impacts of increased reinsurance premiums and claims cost inflation
- The rollout of SMART repair centres has been an effective response to cost inflation

Gross Written Premium (NZ\$m)



SUNCORP



Steve Johnston

CFO



Insurance (Australia)

NPAT

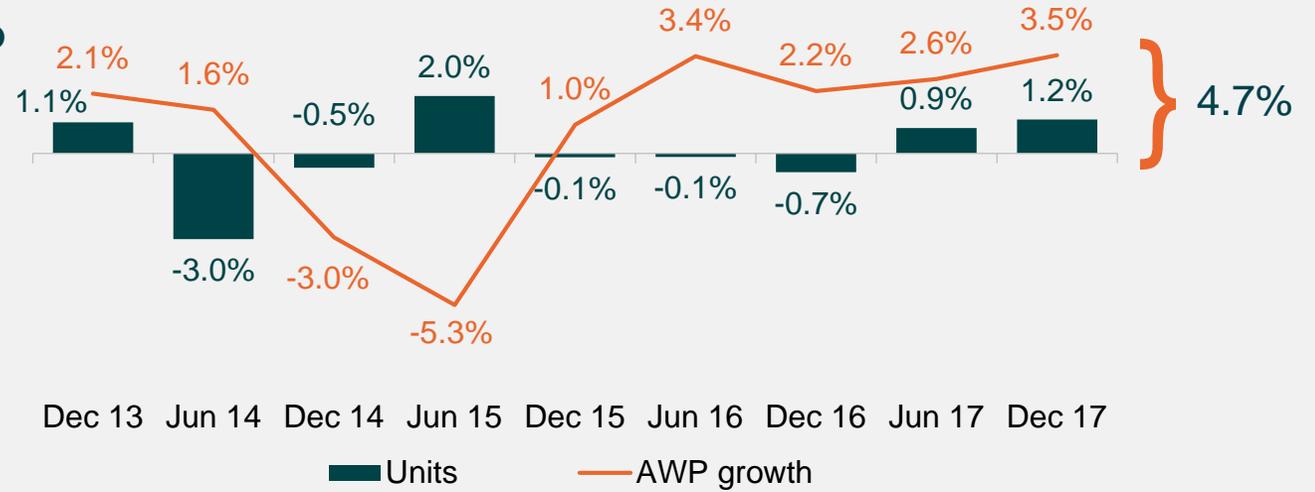
- NPAT down 28.5% to \$264 million
- GWP flat with strong consumer growth offset by reform headwinds
- Home and Motor loss ratios improved by 80bps and 290bps
- Natural hazards \$395 million (HY17: \$319 million)
- Reserve releases of \$129 million (HY17: \$149 million)
- Underlying investment yield of 2.3%

	HY18 (\$m)	HY17 (\$m)	Change (%)
Gross written premium	4,004	4,031	(0.7)
Net earned premium	3,643	3,552	2.6
Net incurred claims	(2,724)	(2,374)	14.7
Operating expenses	(773)	(722)	7.1
Investment income - insurance funds	120	35	242.9
Insurance trading result	266	491	(45.8)
General Insurance profit after tax	234	358	(34.6)
Life Insurance profit after tax	30	11	172.7
Insurance (Australia) NPAT	264	369	(28.5)

Home and Motor portfolio

- Positive momentum across Home and Motor
- Motor positive premium and unit growth
- Home positive premium growth offset by small unit losses

Motor portfolio



Home portfolio



Gross written premiums (\$m)

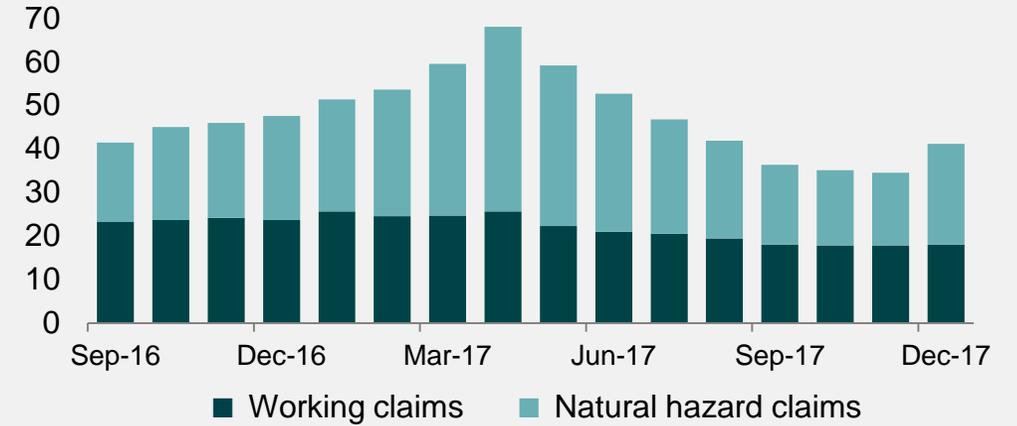


Claims

Net incurred claims (\$m)



Home active claims volumes ('000)



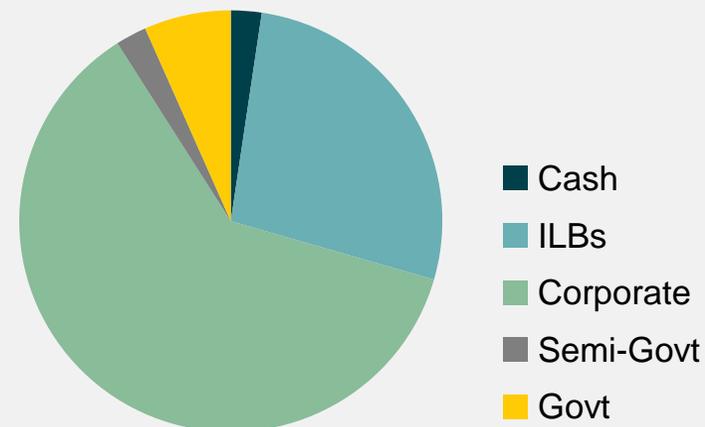
Motor active claims volumes ('000)



Investments

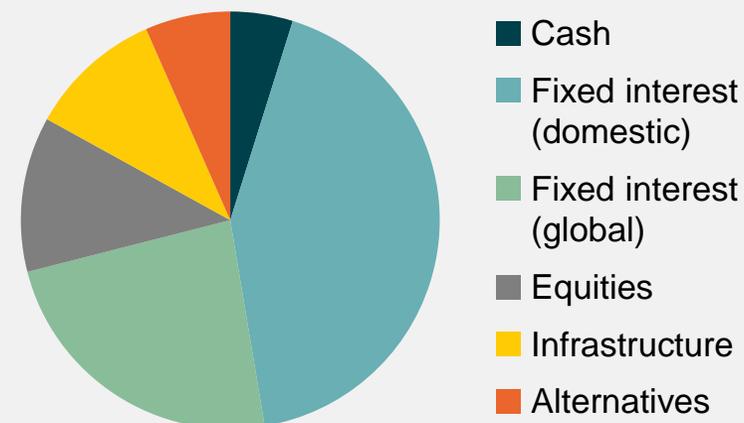
Insurance funds \$8.9 billion

- Investment income of \$120 million (HY17: \$35 million)
- \$24 million MTM loss from an increase in risk-free rates
- \$30 million MTM gain from narrowing credit spreads
- \$8 million MTM gain from outperformance of ILBs
- 2.3% annualised underlying return



Shareholders' funds \$2.9 billion

- Investment income of \$72 million (HY17: \$35 million)
- 5.1% annualised return
- Returns driven by improving equities and narrowing credit spreads



Life Insurance NPAT

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- Improving planned margins from repricing
- Optimisation program to deliver improved profitability
- Strategic review continuing

	HY18 (\$m)	HY17 (\$m)	Change (%)
Planned profit margin release	12	9	33.3
Experience	2	(2)	n/a
Other and investments	25	18	38.9
Underlying profit after tax	39	25	56.0
Market adjustments	(9)	(14)	(35.7)
Life Insurance NPAT	30	11	172.7
In-force annual premium	808	801	0.9
Total new business	32	33	(3.0)

Banking & Wealth NPAT

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- Annualised lending growth of 8.7%
- NIM of 1.86% (HY17: 1.78%)
- Sound credit quality
- Stable funding profile
- Strong capital and balance sheet

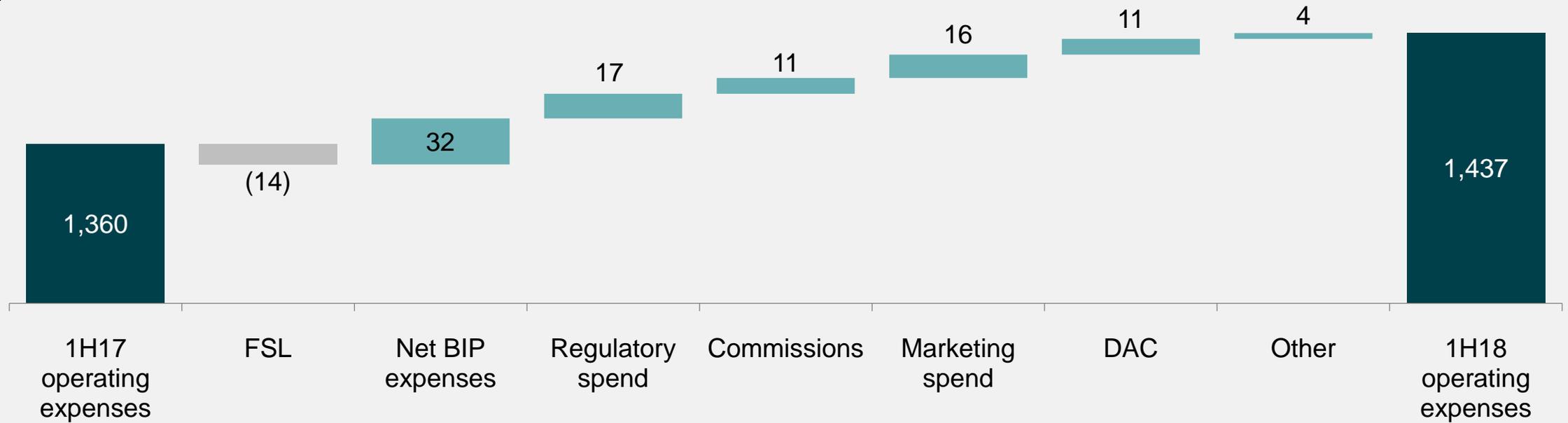
	HY18 (\$m)	HY17 (\$m)	Change (%)
Net interest income	598	558	7.2
Net non-interest income	34	39	(12.8)
Operating expenses	(347)	(307)	13.0
Profit before impairment losses	285	290	(1.7)
Impairment losses	(13)	(1)	n/a
Income tax	(81)	(86)	(5.8)
Banking profit after tax	191	203	(5.9)
Wealth profit after tax	6	5	20.0
Banking & Wealth NPAT	197	208	(5.3)

New Zealand NPAT

- GWP grew 7.6%, driven by all product classes
- Lower natural hazard costs
- New SMART centres improving claims costs

	HY18 (NZ\$m)	HY17 (NZ\$m)	Change (%)
Gross written premium	768	714	7.6
Net earned premium	616	586	5.1
Net incurred claims	(348)	(372)	(6.5)
Operating expenses	(199)	(196)	1.5
Investment income – insurance funds	7	4	75.0
Insurance trading result	76	22	245.5
General Insurance profit after tax	50	19	163.2
Life Insurance profit after tax	17	18	(5.6)
New Zealand NPAT	67	37	81.1

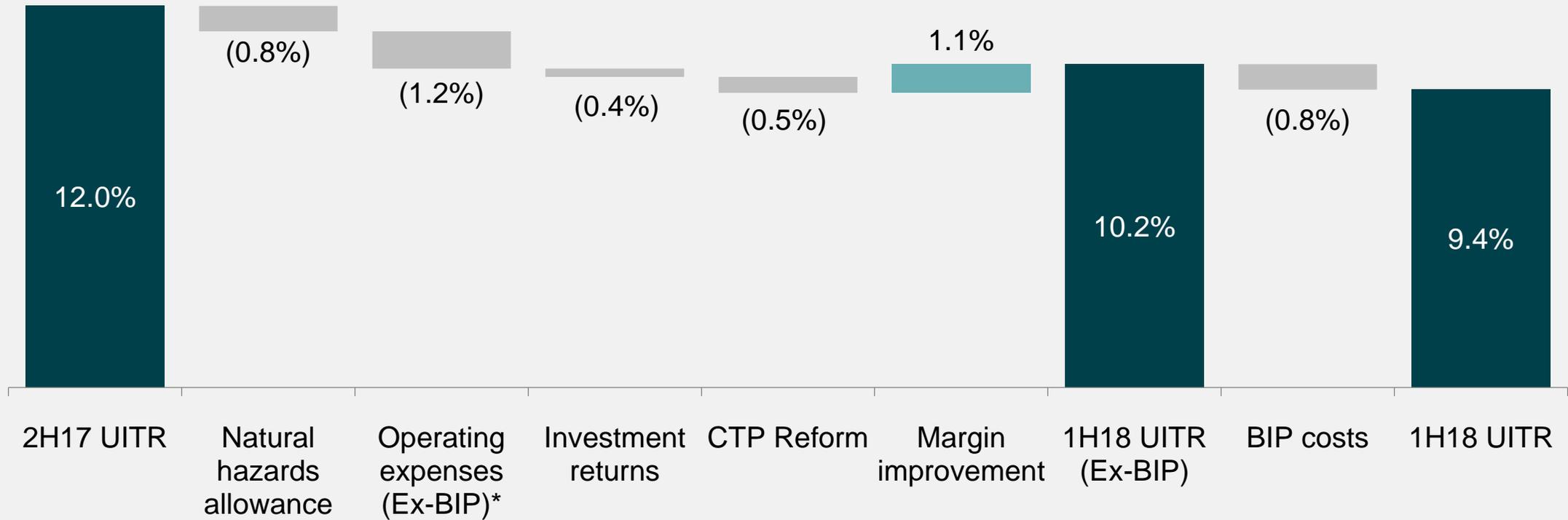
Group operating expenses (\$m)



BIP expenses (\$m)

1H18	Operating expenses	Claims expenses	Total
Expenses	(38)	(12)	(50)
Benefits	6	16	22
Net expenses	(32)	4	(28)

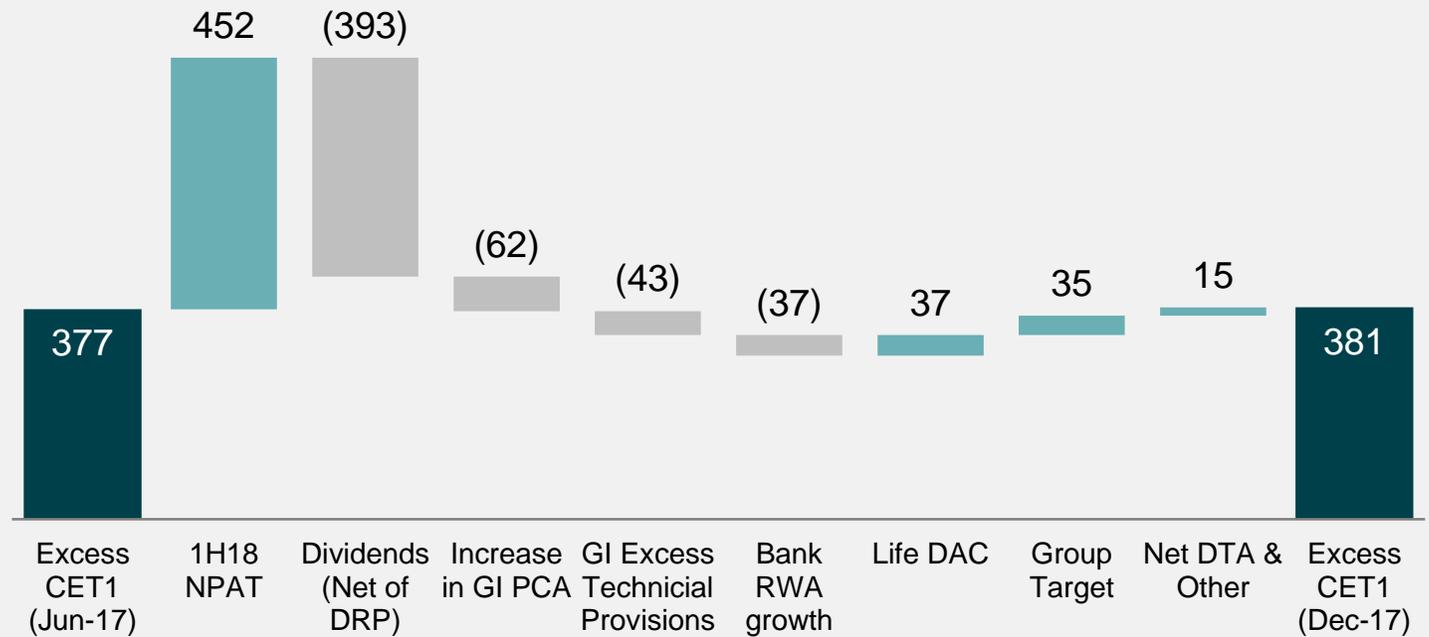
GI underlying ITR



* Refer to Group operating expense walk

Capital position (\$m)

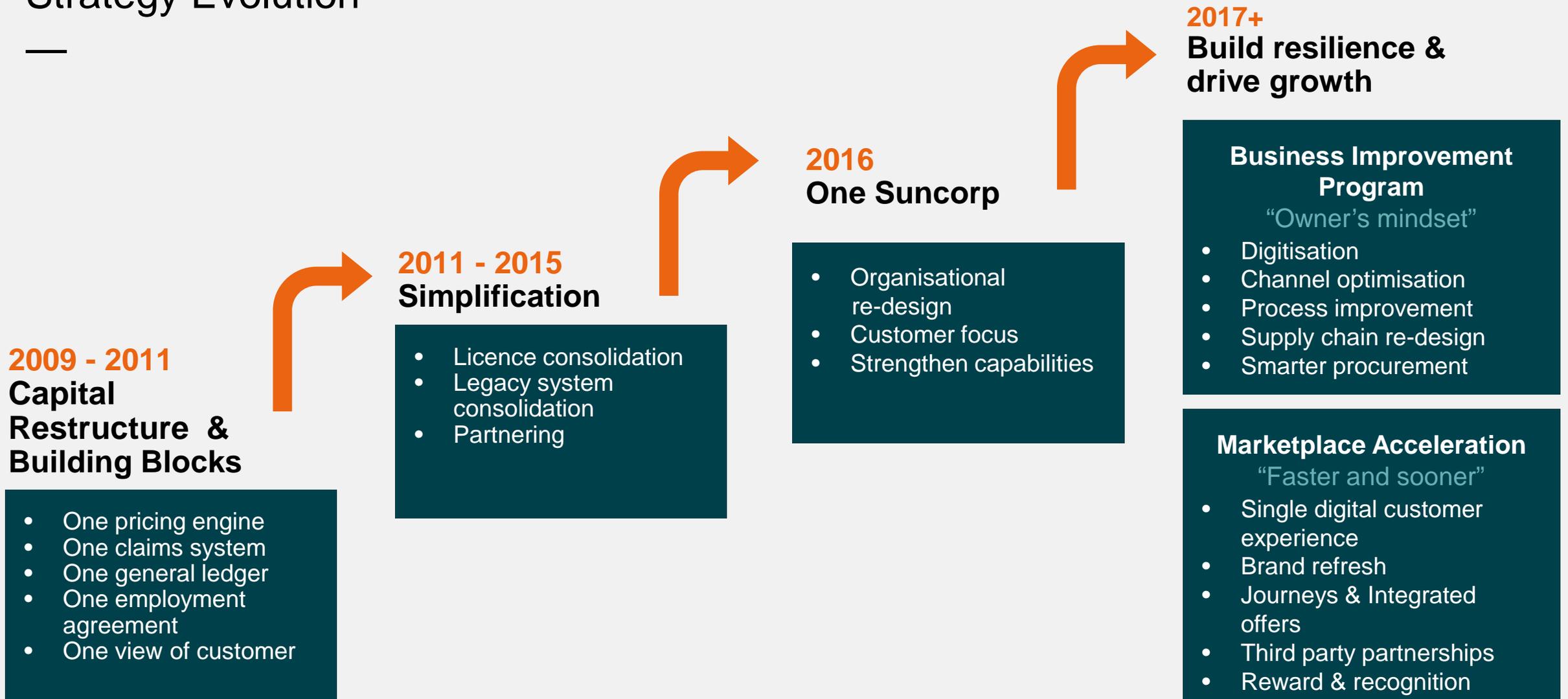
- CET1 excess of \$381 million
- Increase in GI PCA driven by both Insurance Risk Charge and Asset Risk Charge (ARC)
- Reduction in GI Excess Technical Provisions due to normal seasonality
- Bank growth in risk weighted assets offset by RMBS issuance
- Reduction in Life DAC
- Removal of temporary Group target for expected ARC movements





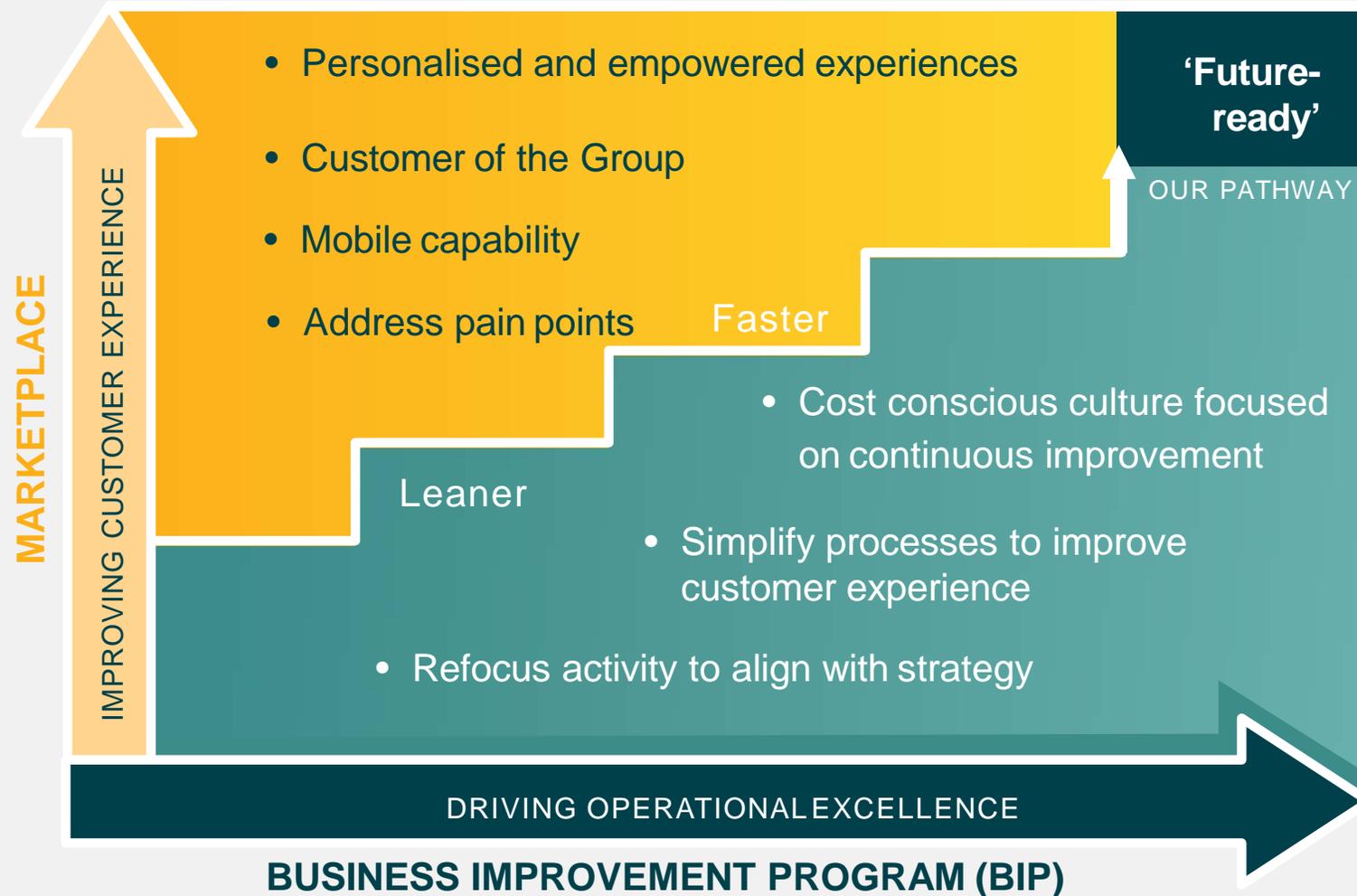
Michael Cameron
CEO & Managing Director

Strategy Evolution



Approach to delivering the strategy

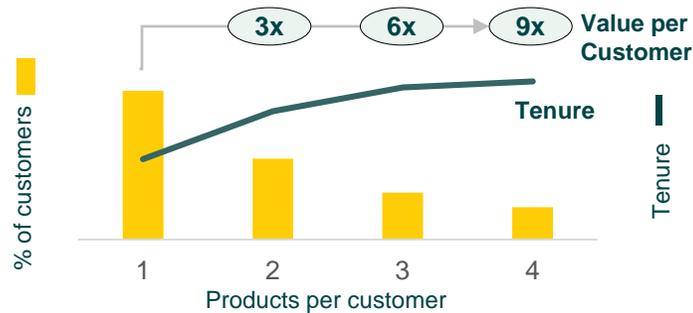
Simultaneously improve customer experience and operational excellence



Driving shareholder value

Drivers of Growth

Deeper relationships for longer



The majority of Australian personal customers hold one or two products.

Our strategy will deepen customer relationships with more products per customer which drives longer tenure and better outcomes for customers and shareholders.

Economic Model

Revenue sensitivity

+1 product for 25% of customers¹ = ~\$97m NPAT pa
 +5% GI Australia Retention = ~\$25m NPAT pa
 +Third party revenues

Products per customer and profit sensitivity

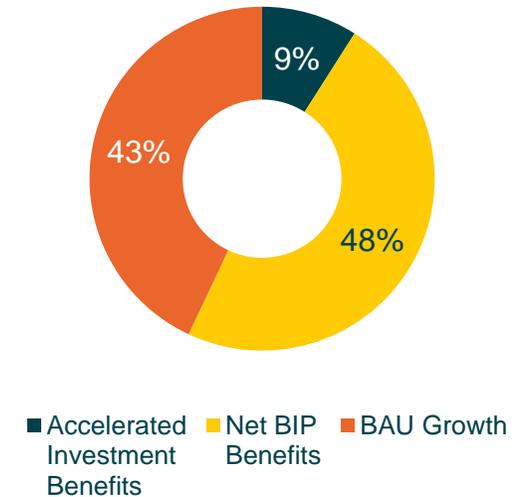


Expenses sensitivity

- a 5% reduction in opex costs = ~\$95m NPAT pa
- a 5% reduction in claims = ~\$195m NPAT pa

Value Creation

FY19 profit growth components²



More revenue, lower claims costs, flat operating expenses

1. Australian personal customers; 2. FY18 base normalised for accelerated investment in Marketplace

Engagement with our 9.6m Customers

	HY18
Increasing Connected Customers¹	
Proportion of Customers Holding Multiple Products Across Different Needs	35%
Consumer Net Promoter Score (NPS)	7.6
Driving customer engagement via digital channels	
Number of Digital ² Users	1,680,900
Proportion of Digital Claims	11.6%
Number of Digital Sales	359,100

1. A customer is considered to be connected if they have two or more needs met across the need categories of Home, Self, Mobility and Money, or if they hold four or more Suncorp products.
2. Digital users are unique visitors that have logged into our authenticated digital assets like internet banking, mobile banking app, insurance policy self-service web and mobile applications.

Senior Leadership Team – Deep Industry Experience Across Functions

Functions and Accountabilities

P&L, Balance Sheet, Claims



Gary Dransfield
Insurance



David Carter
Banking & Wealth



Paul Smeaton
New Zealand

Distribution, Sales and Service



Pip Marlow
Customer

Enabling Functions



Steve Johnston
Finance & Legal



Amanda Revis
People



Sarah Harland
Technology



Fiona Thompson
Risk



Lisa Harrison
Programs

Regulatory Environment

- Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry
- Banking Executive Accountability Regime (BEAR)
- New Industry Codes of Practice
- QLD CTP Scheme
- ACCC Northern Australia Insurance Inquiry
- Productivity Commission Review into Competition in the Australian Financial System

Outlook and FY19 Targets¹

Key FY19 targets are:

- Group top line growth of 3% to 5%
- Expense base of \$2.7bn
- An underlying ITR of at least 12%, Bank Cost to Income (CTI) of around 50%, and Net Interest Margin (NIM) of 1.80% to 1.90%
- Producing a Cash ROE of 10%

- Reserve releases above 1.5% of net earned premium (NEP)

- Maintaining a dividend payout ratio of 60% to 80% of cash earnings and returning surplus capital to shareholders

1. Subject to natural hazards at or below budget, movements in investment markets and unforeseen regulatory reform

Summary

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Thank you

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