
SUNCORP
Financial results for the full year ended 30 June 2021
Release date 9 August 2021
SUNCORP GROUP LIMITED
ABN 66 145 290 124
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Good morning and welcome.

Let me begin by acknowledging the Yugera, Turrbal and Gadigal people, who are the traditional owners of the lands on which we meet today, and pay our respects to all Elders, past, present and emerging.

Taking into account the current COVID restrictions that are in place across much of Australia, today's presentation is being delivered using our in-house infrastructure, rather than through an external provider. While the production quality may not be as high as normal, this setup significantly reduces the number of team members in our offices. I'm sure you will understand why this is the case.

I am joining you from Brisbane, while Jeremy Robson, our CFO, is in the Sydney office.

Jimmy Higgins, the CEO of Suncorp New Zealand, is joining from our offices in Auckland.

Reflecting the current lockdowns and restrictions, the other Australian based members of the leadership team will join us via teleconference from their respective homes in Brisbane and Sydney.

Group FY21 result

	FY21 ($m)	FY20 ($m)	Change (%)
Insurance (Australia)	547	384	42.4
Banking	419	248	69.0
New Zealand	200	245	(18.4)
Cash earnings	**1,064**	**749**	**42.1**
Group NPAT	**1,033**	**913**	**13.1**
Ordinary dividend (cps)	66	36	83.3
Payout ratio – cash earnings (%)	79.3	60.7	
Group excess CET1 (post dividend)	773	823	

FY21 Results

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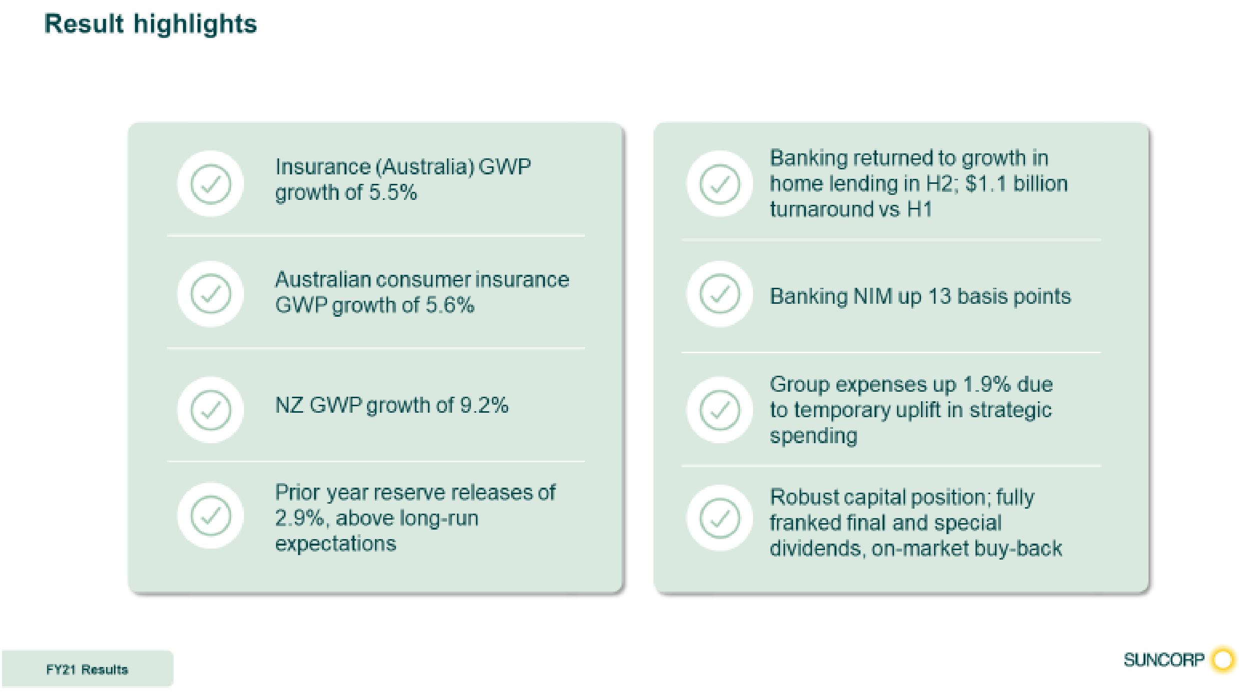
Turning to the result, and this slide presents the high-level P&L for the year.

The Group’s cash earnings are up 42.1%, with strong underlying performance in each of the three businesses.

The improving performance of the Australian GI business has been supported by mark to market gains on the investment portfolio.

Along with improved profit in the Bank, this more than offsets the impact of increased natural hazard costs on our New Zealand business.

Pleasingly we have finished the year with a very strong capital position and I will discuss this in more detail in a moment.



On this slide I have called out some of the key financial highlights embedded in the result, and most importantly the momentum we have as we move into FY22.

Our Australian Insurance business has delivered headline premium growth of 5.5% for the full year, the best full year revenue performance in almost a decade. Growth in the second half was particularly strong, up 7.1% versus the pcp.

In consumer, adjusting for the portfolio exits, premium growth was 7.0%, driven by both rate and unit count.

Commercial GWP increased by 5.3%, taking into account the construction portfolio exit.

In CTP, we have improved customer numbers across Qld, NSW and the ACT – the strongest growth in many years.

Prior year reserve releases, excluding the BI provisions, were 2.9% of NEP – well above our long term assumption.

In New Zealand, premium growth remains strong - at 9.2% for the full year and over 13% for the second half.

In the Bank, we have returned to growth in the home lending portfolio; at call transactions and Savings accounts both grew by over 16% and NIM improved by 13 basis points to be 2.07% for the year.

All of this resulted in profit before impairments increasing by 5%.

And finally, Group expenses increased by 1.9%, landing in line with the guidance we provided at the first half result.

Capital Management

Commitment to returning capital which is surplus to business needs

- Fully franked final ordinary dividend of 40 cps
- Fully franked special dividend of 8 cps
- On-market share buyback of up to $250m
- Pro-forma excess CET1 capital held at Group of $387m

FY21 Results

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Now to the capital management initiatives we have announced.

As you know, Suncorp has a long-held commitment to return to shareholders any capital that is surplus to the needs of the business.

We entered COVID with a strong balance sheet, giving us confidence and flexibility throughout the early stages of the pandemic. Unlike many of our competitors, we have not had to raise discounted equity, and we have been able to maintain our dividend within our target payout ratio range.

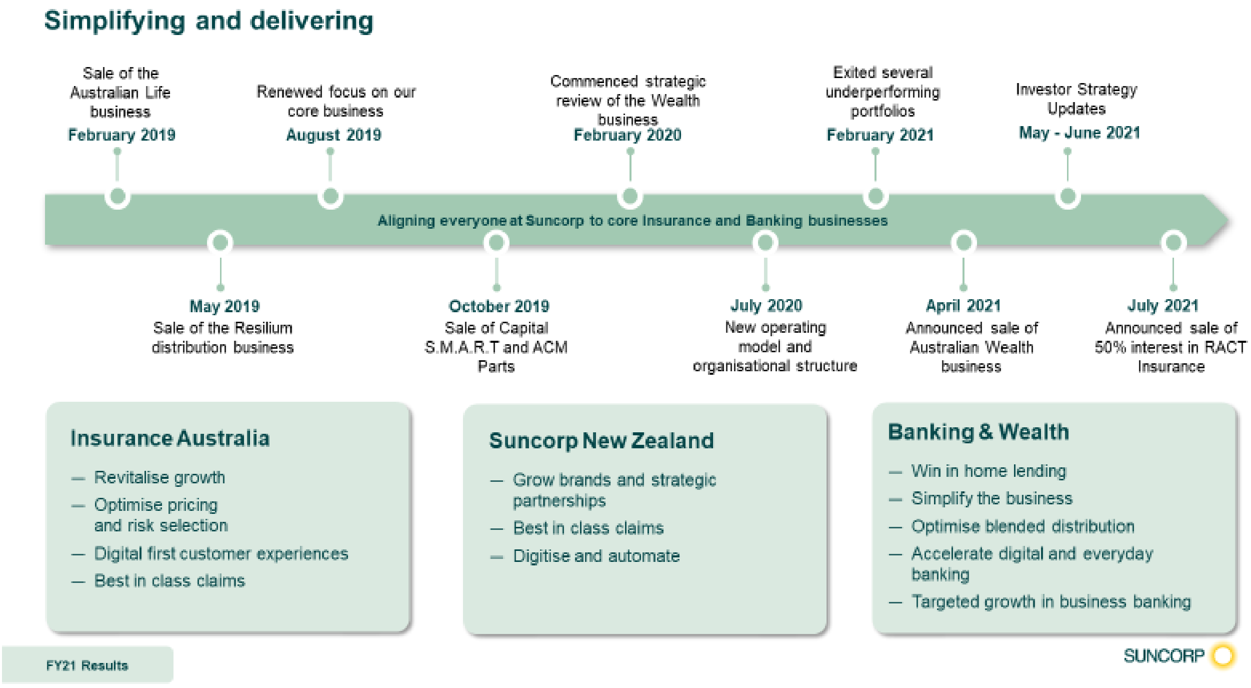
While there is still risk associated with the external operating environment, the outlook for the business and the economy is more positive and we have reviewed our balance sheet position through this lens.

Our final fully franked ordinary dividend of 40 cps means that we have effectively delivered a payout ratio at the top end of our target range for the full year.

In addition, we have declared a fully franked special dividend of 8 cps which takes advantage of the modest amount of surplus franking credits that are available.

Today we are also announcing an on-market share buyback of up to $250 million, to be completed over the next six months.

Following these activities, we will continue to hold a robust capital buffer of almost $400 million above our conservative board agreed targets. This will enable us to continue navigating the ongoing uncertainty with confidence.



Before handing over to Jeremy, I would like to make the point that today's result should be seen in the context of the Group's three year plan which we first outlined to the market in February and stepped through in detail during the investor series in May.

The plan builds on the work we started when I was first appointed as Group CEO. Two years ago – almost to the day – I said my priority was to align everyone at Suncorp around improving the way we deliver insurance and banking products to our customers in Australia and New Zealand.

To do this we set about simplifying our portfolio of assets and our products, to enable management to focus on driving improved performance in our core businesses.

At the top of this slide I've set out some of the key milestones.

Following the sale of the Australian Life business, and Capital SMART, we completed a strategic review of the Wealth business, subsequently announcing the sale of that business to LGIAsuper. Post balance date we have continued our progress with the sale of our 50% interest in RACT Insurance in Tasmania.

We believe each of these divestments has made strong strategic sense, representing good outcomes for shareholders, customers and employees.

We have also exited a number of underperforming portfolios and while this will have a short-term impact on revenues it will ultimately be accretive to margins.

On the slide, I have also included our 12 key strategic initiatives. These should be familiar to you following the investor series.

In Insurance Australia, our priorities are: revitalising growth, optimising pricing and risk selection, digital first in distribution, and best in class claims.

In New Zealand, we will: grow our brands and strategic partnerships, digitise and automate our processes, and as in Australia, deliver best in class claims outcomes.

And in Banking, we are focused on winning in home lending, simplifying our products and processes, optimising distribution, accelerating digital and everyday banking, and driving targeted growth in business banking.

The initiatives we have are clear and simple and we believe the results we are presenting today confirm the good progress we are making.

I'll return to this later in the presentation, but first let me hand over to Jeremy to run through the financials in more detail.


Jeremy Robson
Group Chief
Financial Officer
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Overview

- Strong result - delivering on our strategic priorities and demonstrating momentum
- Growth improving across the business lines
- Disciplined cost management while continuing to invest in our strategic priorities
- Confidently on track to deliver our FY23 plan
- Balance sheet and capital position very strong enabling a range of capital management initiatives

FY21 Results

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Thanks Steve.

Good morning everyone and welcome, and I do acknowledge it's a pity we can't be doing this in person this morning.

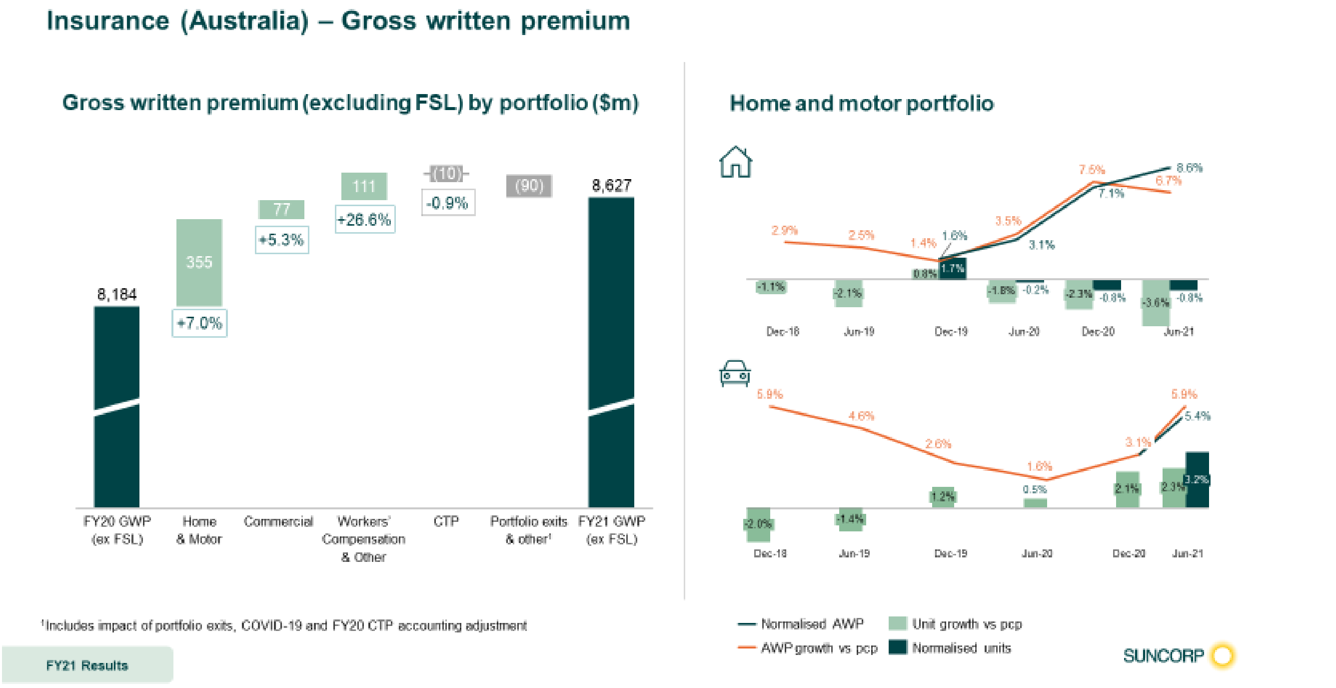
I'd like to start by reinforcing Steve's comments about the quality of the result we're presenting today.

We're pleased with the performance of the business, and the momentum this result demonstrates as we deliver on our strategy.

It supports the confidence we have in achieving our Plan and reflects the robust and disciplined approach to delivering each of our strategic priorities.

The business is being well managed with strong prior year reserve releases and finalisation of the pay and leave review in line with expectations.

And our balance sheet and capital position remain very strong which has allowed us to announce a range of capital management initiatives for our investors today.



I'll now run through the result in more detail, starting with the Insurance Australia business.

GWP finished the year up 5.5% on a headline basis with strong growth across most of our portfolios.

As you'd be aware, headline GWP growth has been impacted by a number of factors including portfolio exits and last year's embargo on landlord insurance. To help better explain our GWP growth, the numbers in the chart adjust for these impacts.

And on this basis, total GWP grew by 6.7%, which is the strongest growth we've reported since 2013.

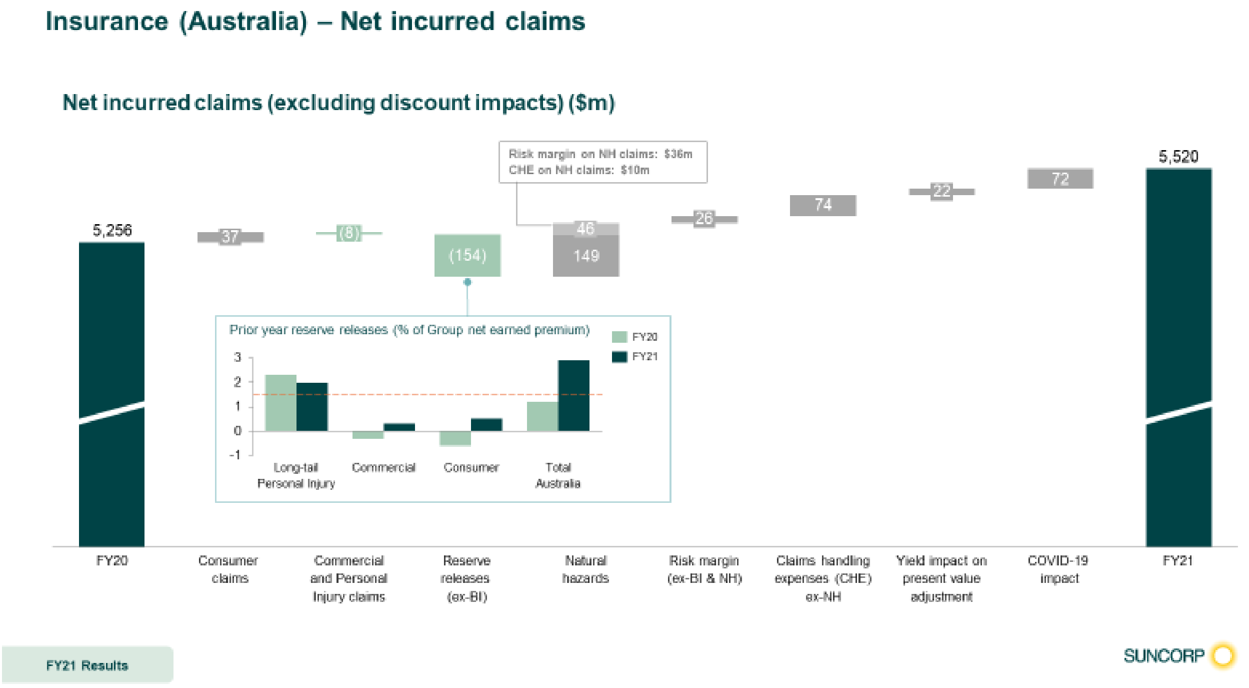
The Home portfolio grew by 7.0% as we continued to re-price the portfolio for higher natural hazards and reinsurance costs. But with a small decline in units as we focus on margin remediation.

Motor was also up 7.0% supported by both average written premium increases and unit growth - reflecting our targeted approach to marketing and improved customer offers. Pricing remains consistent with underlying claims inflation.

In Commercial, we continued to see the portfolio grow. This reflects a combination of ongoing premium rate momentum and solid retention rates, particularly in the fleet and NTI portfolios. But this was partly offset in Resilium with lower retention and new business volumes, although retention rates did stabilise somewhat in the second half.

Workers Compensation was up strongly across all states driven by higher retention and large multi-year renewals combined with wage growth adjustments and new business growth.

The small decline in CTP reflects market pricing dynamics as the impact of scheme reform continues to become clearer. Pleasingly though, we achieved unit growth in Queensland and NSW through the motor dealer channel and an improved digital experience.



Turning next to claims and I've included the usual undiscounted claims waterfall on the slide.

In Consumer, Motor claim costs reflect both growth in the portfolio and underlying inflation. While Suncorp continues to benefit from its preferred repairer network, cost increases were driven by higher parts prices and a higher proportion of total loss claims. We saw some frequency benefits in the first half, but frequency largely returned to pre-covid levels in the second half.

Home working claims were lower, with benign frequency in theft and relatively stable water claims. While some parts of home claims have experienced inflationary pressures, underlying inflation has remained around mid-single-digit levels.

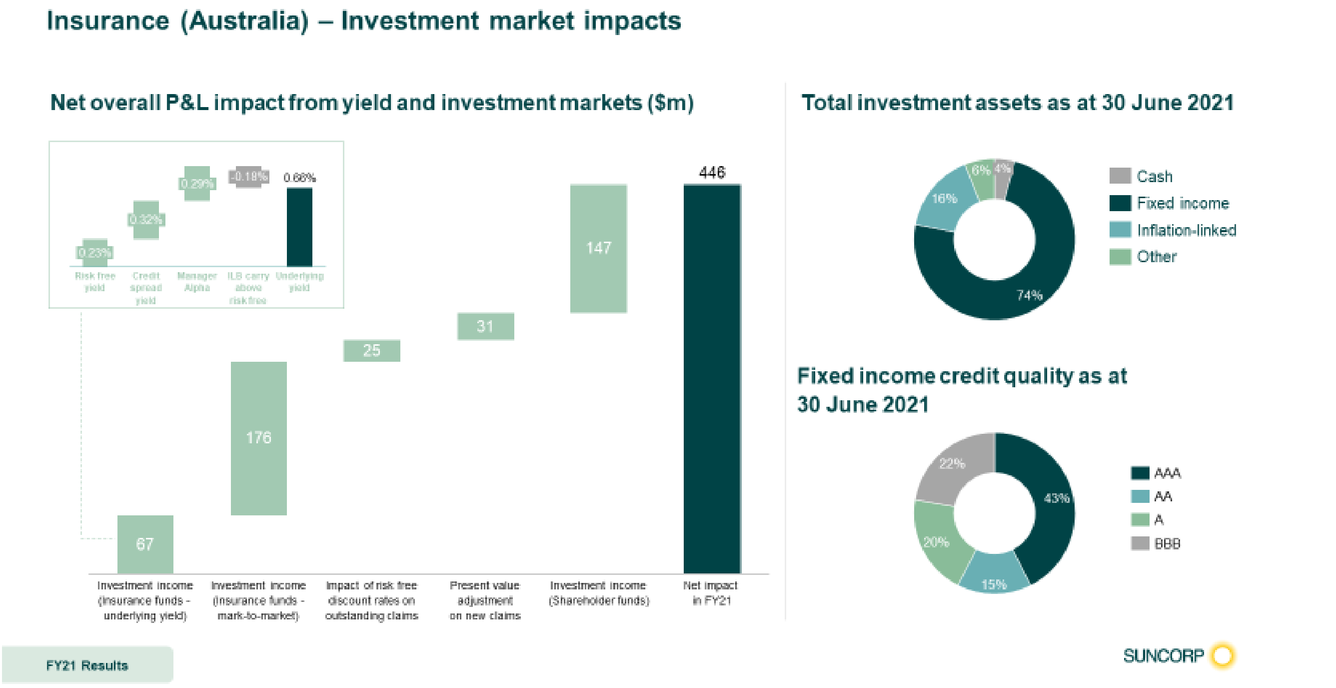
In Commercial, the reduction in claims reflects reduced frequency and benign large loss experience. Elsewhere, claims were largely driven by the growth in Workers Compensation, offset by an improvement in CTP reflecting our focus on claims process improvements.

Prior year reserve releases were above our long run expectations at 2.9% of Group NEP, excluding business interruption movements. We saw continued releases in CTP, across both NSW and Qld, and we had small releases from the short tail Consumer and Commercial portfolios. We also saw a modest strengthening in the long tail personal injury portfolio.

Natural hazard experience was slightly above the allowance and up on the prior period. Reinsurance was only utilised on one event this year, which means we held higher risk margins compared to the previous year.

Excluding natural hazards, risk margin increased by $26m and CHE by $74m. The majority of this risk margin increase relates to portfolio growth. The increase in CHE reflects the costs supporting both the delivery of key projects, including best in class claims, and implementation and ongoing compliance of our regulatory program of work.

Covid-19 impacts added $72m to net incurred claims. The key movement was the additional business interruption provisions recognised in the first half, with similar working claims benefits across both years.



Moving now to investment performance.

Our portfolio delivered strong returns, supported by the rebound in breakeven inflation and equities. I remind you that we have approximately 21% (or $2.2bn) of our technical reserves in ILB's, designed to provide some hedge against inflation in our long tail claims portfolio.

We are proud of the capability of our investment team and the work we have done on both strategic asset allocations and the selection of our investment manager partners.

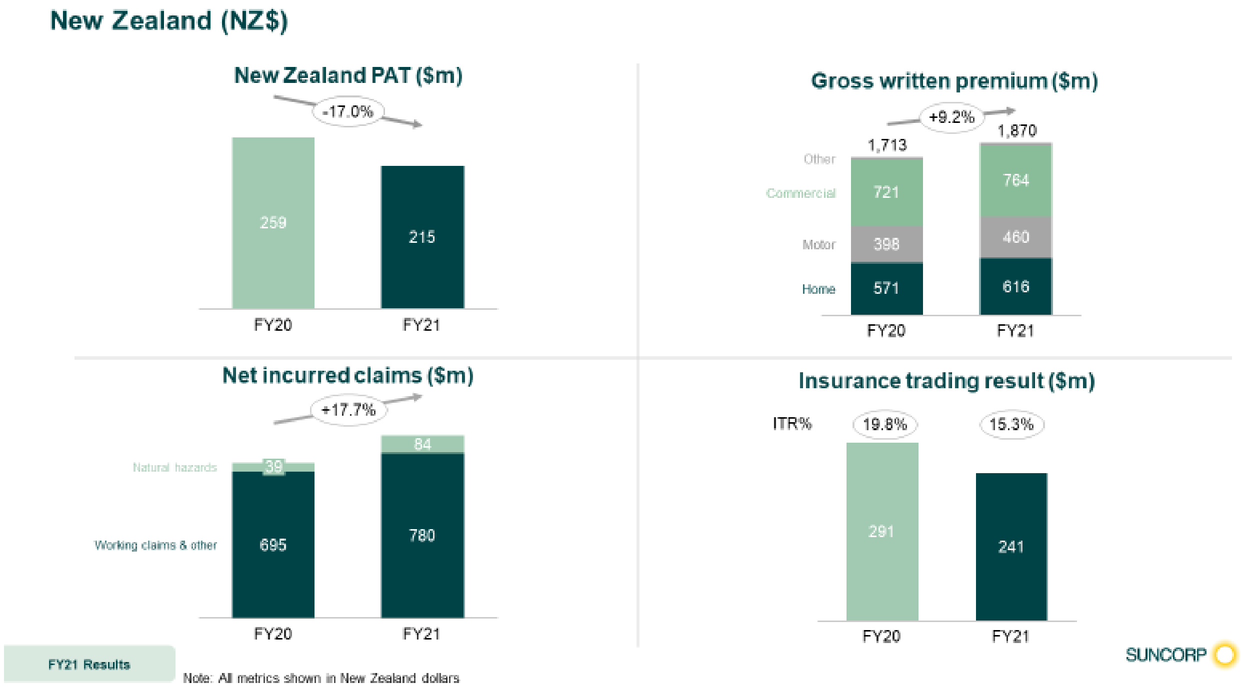
The underlying yield on insurance funds was 66 basis points, approximately 45bps above risk free. This is below our expected 60-80 basis points, and reflects strong manager performance, but with headwinds from lower credit spreads and ILB carry.

I would also like to update you on our recent strategic asset allocation review – where we've made some modest changes. The overall objective has been to optimise ROE, but with a view on managing P&L volatility:

- In Insurance Funds we've increased our allocation to high quality credit by approximately 3%, largely from cash.
- And in SHF, we've increased our equities portfolio back to medium-term weights by approximately 6%.

We're also continuing to assess the optimal level of inflation hedging through the ILB portfolio, as well as SHF allocations to a more diversified portfolio of growth assets.

I note that these changes may result in a modestly higher asset risk charge, and emphasise that we retain the overall quality bias in our investment portfolio that has served us so well in recent times.



Turning now to New Zealand.

After consistently strong results over the past few years and strong top-line growth this year, profit has been impacted by higher natural hazard costs and lower investment income.

GWP grew over 9.0%, led by the direct AA insurance channel, with strong new business growth and good retention. We also saw good growth in Vero Commercial.

Net incurred claims were up almost 18%. Natural hazard costs were the highest in the last 5 years, driven by six events over $5 million, following two years of benign experience.

Working claims costs increased primarily due to unit growth as well as motor claims normalising following the COVID lockdowns experienced in FY20. While we are closely watching for any evidence of inflation emerging in the supply chain, inflation overall was relatively benign through the year.

The operating expense ratio improved, with top line growth outpacing a modest increase in expenses.

Investment income was lower, with the increase in rates impacting on the fixed income portfolios, particularly in the second half.

The Life result was broadly unchanged, reflecting an improved claims experience offset by unfavourable interest rate movements, particularly in the second half.

Natural hazards and reinsurance

FY21 Natural hazards summary	$m
Natural hazard event costs[1]	748
Natural hazard attritional claims	262
Total natural hazard costs	**1,010**
Less: Natural hazard allowance	(950)
Natural hazard costs above allowance	**60**
Reinsurance recoveries[2]	**32**

Gross Natural Hazard Costs	No. of events in FY21	No. of events in FY20
$5m - $50m	20	11
$50m - $100m	1	1
$100m +	2	4
Total Events	**23**	**16**

- FY21 natural hazard costs of $1,010 million, $60 million over allowance, up $190 million vs pcp.
- The natural hazard allowance reflects medium-term expectations for retained natural hazard costs.
- La Nina (confirmed Oct'20) resulted in a higher number of smaller natural hazard events during FY21.
- The FY22 natural hazard allowance will increase to $980 million (FY21: $950 million).
- FY22 reinsurance program structure is unchanged.
- FY22 natural hazard allowance and reinsurance pricing are consistent with assumptions embedded in the Group's three-year plan.

FY21 Results

[1] FY21 events reflect costs greater than $5m.
[2] Relates to property catastrophe program

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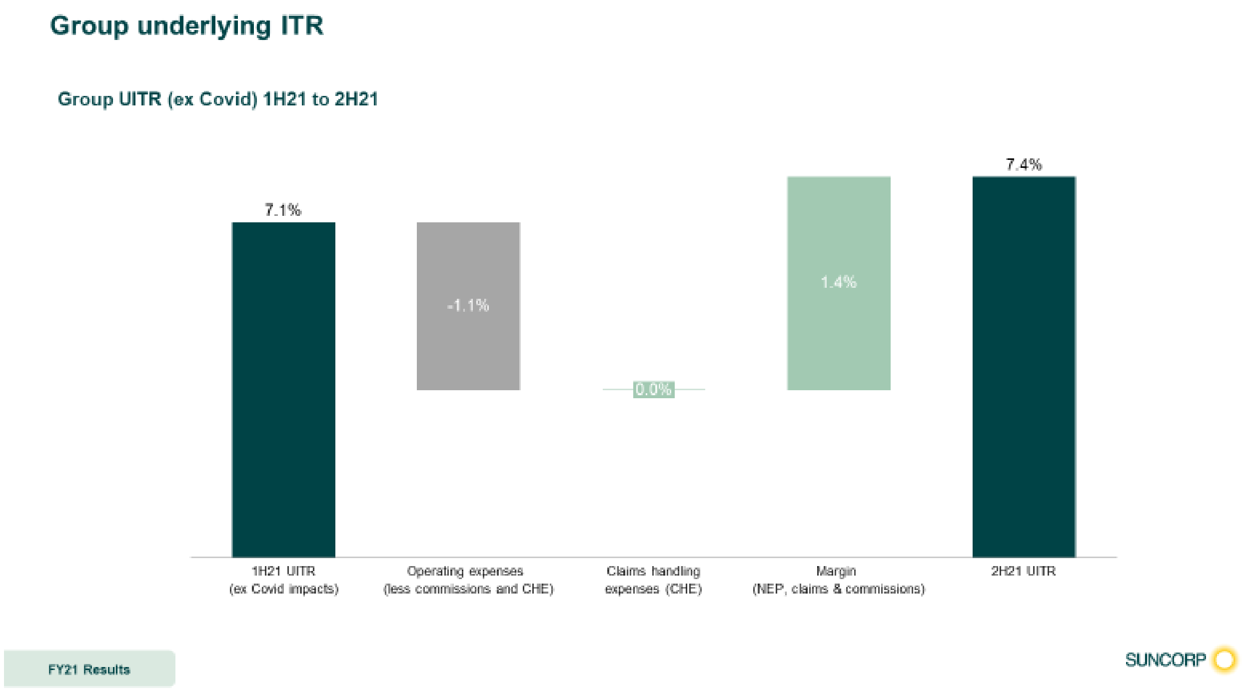
Natural hazard costs for the year exceeded our allowance by $60 million. While disappointing, this is in the context of the La Nina weather pattern, with a significant number of smaller events. Only one event resulted in a modest reinsurance recovery this year.

We announced in July that we've successfully placed our FY22 reinsurance program with the structure unchanged from FY21. The Group's maximum event retention will remain at $250 million with an upper limit of $6.5 billion. Limits for the dropdown and AXL treaties have also been maintained.

The natural hazard allowance will increase to $980 million in FY22, reflecting portfolio growth, inflation and a modest strengthening in assumptions, offset by the impact of the exited portfolios.

We believe the reinsurance program and natural hazard allowance strike the right balance between ROE optimisation, and earnings and capital volatility protection.

Pleasingly, the cost of reinsurance and the increase in natural hazard allowance for FY22 are in line with the assumptions embedded in our three-year plan.



Now to the Group underlying ITR.

As you know we seek to neutralise volatility of natural hazards, investment markets and reserve releases from this metric to provide a sense of the underlying performance of the business over time.

I note, however, that some inherent volatility remains, in particular, the timing and quantum of current year valuations, and residual investment market impacts.

The starting point for the chart is the 1H21 underlying ITR of 7.1% excluding COVID-19 impacts, consistent with our recent strategy materials.

The movement in UITR over the half was largely in-line with our expectations, with a modest improvement driven by improved working loss ratios, partly offset by our temporary investment in strategic initiatives.

The majority of the increase in expenses was from the strategic initiatives, but also with some additional investment in marketing and technology as we drive for growth.

The margin bar on the right of the slide captures the movements in our working loss ratios, and largely reflects three key elements:

Firstly, that we've seen margin improvement across most of our portfolios. In particular, the Home portfolio is benefitting from repricing for higher natural hazard and reinsurance costs; and Commercial margins have improved with pricing momentum and benign claims experience.

Secondly, NZ margins declined due to the normalisation of working loss ratios to more sustainable levels, including some mix impact from the higher growth in the AA motor portfolio.

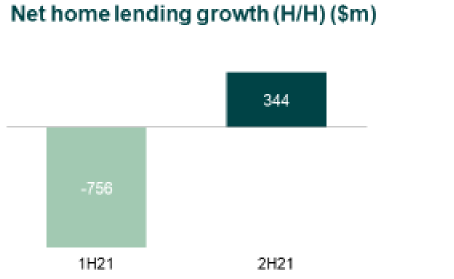
And lastly, to my earlier point about inherent volatility, we also saw favourability from current year CTP releases and commercial large losses.

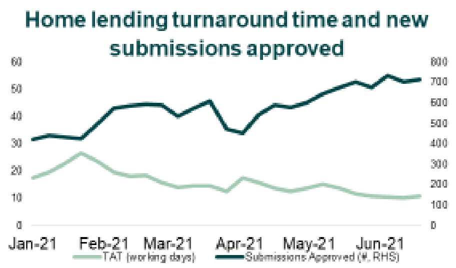
Looking ahead, we expect the UITR in 1H22 to remain broadly in line with or better than 2H21, but with overall margin improvement to accelerate in the second half of FY22, as the benefits of our strategic initiatives kick in. This will demonstrate a clear pathway to hit our 10-12% target in FY23.

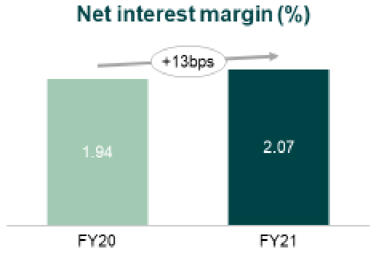
In this outlook we haven't included the impact of the recent lockdowns on motor frequency given the level of uncertainty around this.

Banking & Wealth

	FY21 ($m)	FY20 ($m)	Change (%)
Net interest income	1,242	1,191	4.3
Other operating income	39	40	(2.5)
Operating expenses	(731)	(705)	3.7
Profit before impairments	**550**	**526**	**4.6**
Impairment release/(expense)	49	(171)	n/a
Income tax	(180)	(106)	69.8
Banking profit after tax	**419**	**248**	**69.0**
CTI	**57.1%**	**57.3%**	







FY21 Results

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Now to Banking, which delivered a profit of $419 million, reflecting a strong net interest margin and the release of some of our collective provision balance.

Profit before impairments increased 4.6% to $550 million, reflecting improved net interest income and a stable cost to income ratio.

Despite a reduction in lending over the year, one of the most pleasing elements of the Banking result has been the momentum and growth in mortgage lending in the 2H.

As Steve mentioned earlier, lodgements and settlements have increased significantly while sustained improvements in mortgage processing turnaround times have been maintained and are now better than most of the major banks. Lodgements over the second half of the year were up 71% vs pcp, culminating in mortgage growth of $182 million in the month of June.

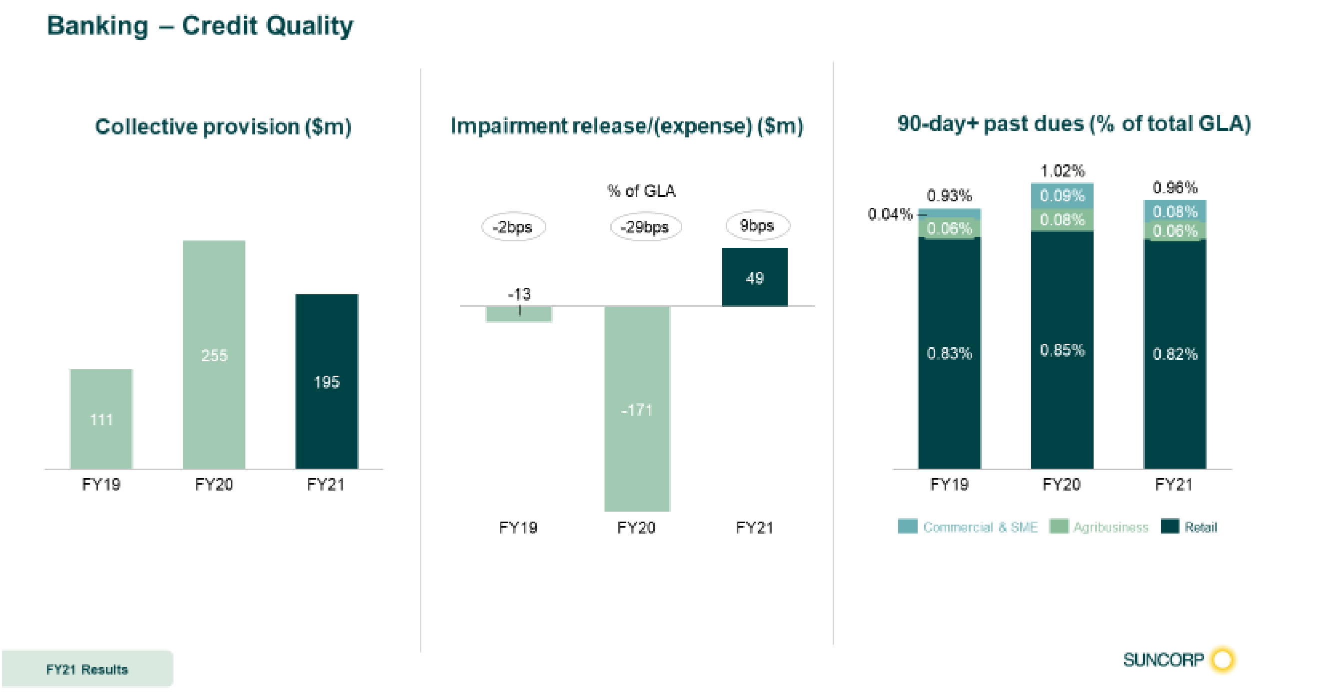
We've continued to see high levels of loan repayments, increased property sales and elevated refinancing activity. But importantly, we remain better than the market in terms of retention.

Net interest margin increased 13 basis points over the year, underpinned by ongoing growth in transaction accounts and lower funding costs including the term funding facility. The full year NIM of 207 bps is well above our target range of 185 – 195 bps and we expect it to trend back to within the range over the next few years reflecting industry funding and pricing dynamics.

Banking operating expenses increased 3.7%, largely from the temporary investment in strategic initiatives with the cost to income ratio holding broadly flat at 57.1%.

We continue to target a cost to income ratio of around 50% in FY23 with momentum in home lending and emerging cost efficiencies giving us confidence we will achieve this target.

The Wealth business reported a flat result and I remind you that the sale of the Wealth Business to LGIA Super remains on track for completion in FY22.

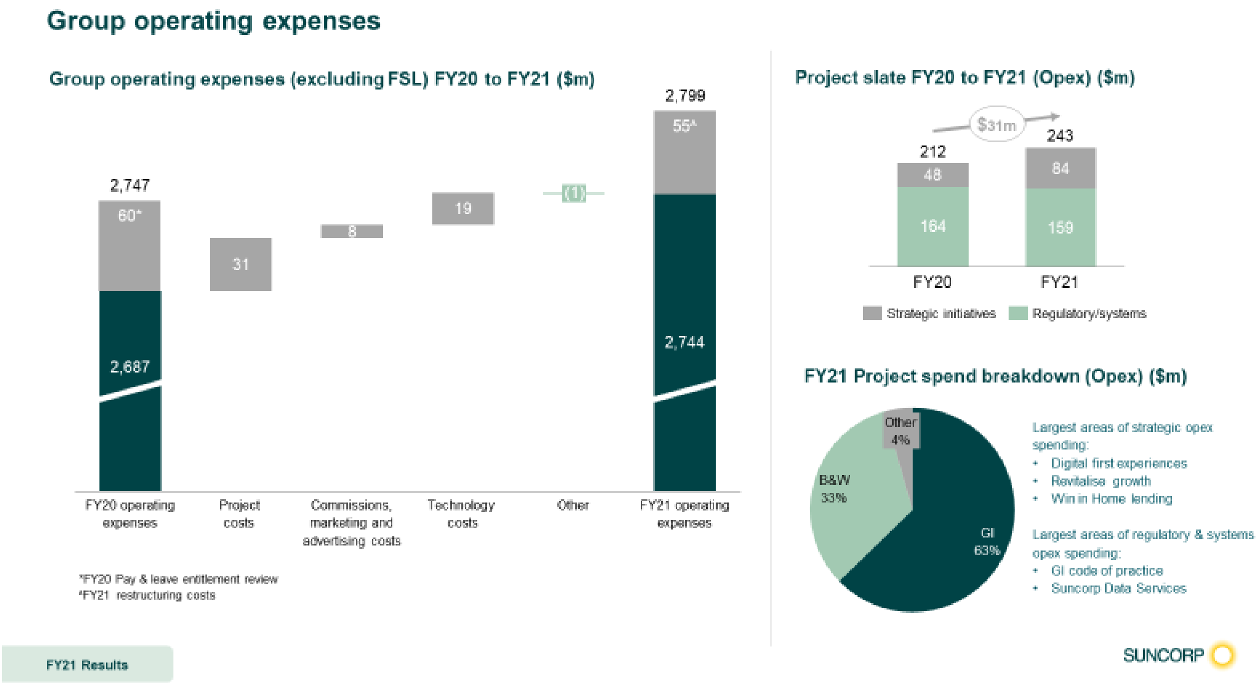


The credit quality of the bank's lending portfolio remains strong, with 80% of the book in residential mortgages with a dynamic LVR of 61%.

Past due loans have reduced over the year, but with an increase during the second half. The movement reflects typical seasonality from Christmas spending patterns along with the transition of some COVID deferrals into hardship.

The majority of customers who received COVID support last year have now returned to performing. In respect of the current lockdowns, while it is still early days, we have only seen a small number of customers apply for relief.

We've reviewed the key economic assumptions which underpin our collective provision, and this has led to a release of $60 million. This results in a year-end balance of $195 million, which continues to incorporate a prudent set of assumptions reflecting the uncertainty around ongoing lockdowns as well as the vaccine rollout.



Now to Group expenses which were $2.80 billion for the year, consistent with what we flagged at the recent investor series.

Project costs have increased over the year, primarily due to the temporary step up in spending on strategic initiatives. The majority of spending this half has been on digital first experiences and revitalising growth in insurance. In Banking, our investment has been focused on winning in home lending.

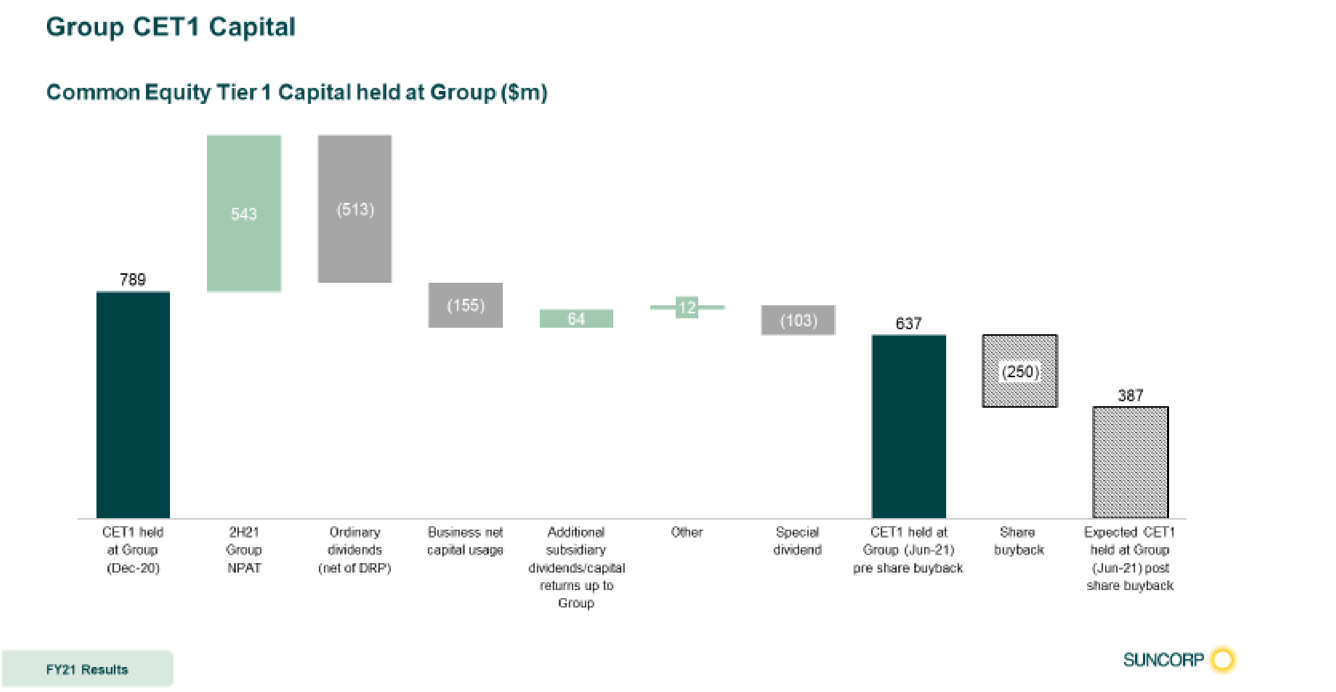
We also saw a modest increase in growth related costs, with increased marketing offset by lower commissions.

Technology costs increased mostly in relation to the new telephony platform and increased cloud hosting costs from digitising the business.

I also note that we incurred $55 million of restructuring costs which are included within cash profit, and have been reported in the Other profit after tax line. These reflect costs associated with implementing our new operating model as well as real estate and store optimisation costs.

We have delivered the benefits we expected from our operating model changes, which have offset inflation and other cost increases.

Looking ahead, operating expenses in FY22 are expected to remain around $2.8 billion, before returning to $2.7 billion in FY23.



Finally, moving onto capital – and I've shown in this chart the movement in CET1 held at Group over the half.

Steve has already talked to the key elements of capital management we are undertaking. In total, the Group will have declared almost $1.2 billion in capital returns to shareholders in FY21.

The chart shows CET1 held at Group of $637 million before the share buyback, the proforma capital position after the buyback of $387 million.

The capital usage was largely a result of an increase in targets from some adjustments to our models, and changes to strategic asset allocations in GI; and risk weighted asset growth in the Bank.

Additional dividends were also returned to the Group from the NZ and Banking subsidiaries.

We plan to hold a modest buffer of franking credits to ensure we continue to fully frank our ordinary dividends, while allowing for some of the inherent volatility in our franking account balance.

Our dividend policy remains unchanged, with the Group aiming to pay annual dividends based on a target payout ratio of 60% to 80% of cash earnings. We also remain committed to returning any surplus capital to shareholders, which we will continually reassess taking into account the needs of the business, the economic outlook, and any regulatory guidance.

I would now like to pass back to Steve.


Steve Johnston
Group CEO
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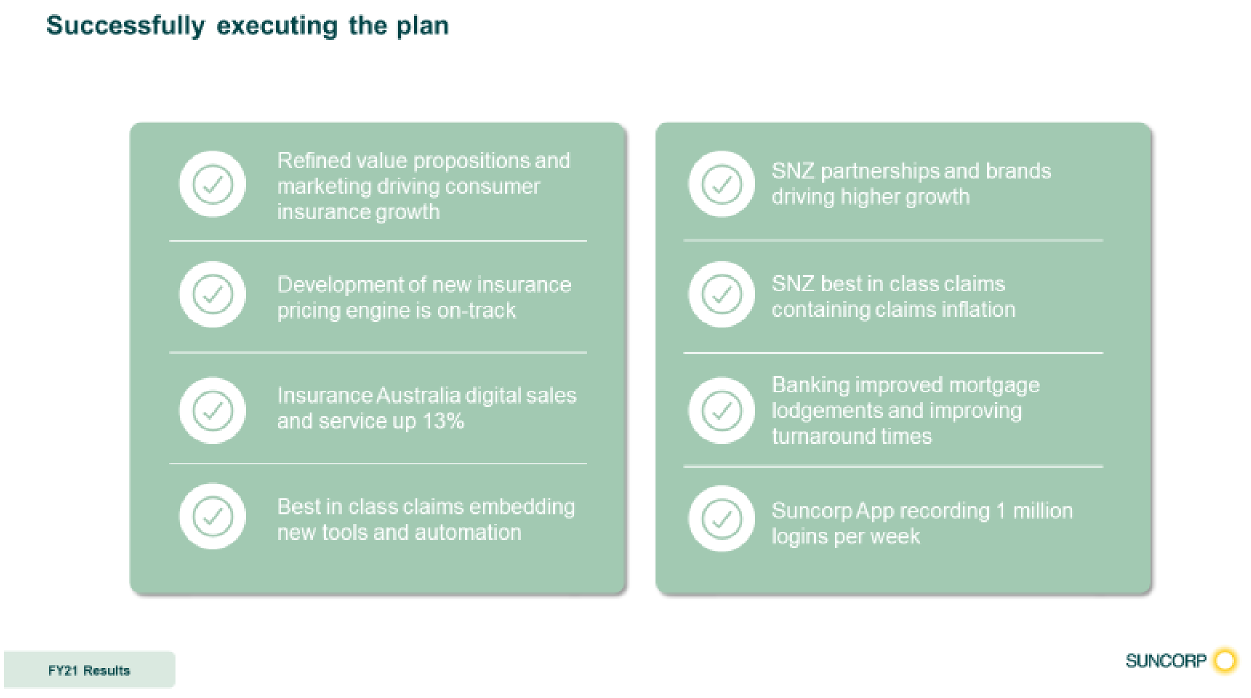


Thanks Jeremy, I would like to take a moment now to highlight some of the key proof points that demonstrate our progress against the plan and the 12 key initiatives.

In the Australian Insurance business, our activities to reinvigorate our brands, refine our customer value propositions and improve our marketing are translating to stronger growth that's evident in today's numbers.

In pricing and risk selection, we have continued to re-price our portfolios to account for higher industry input costs. We are also making good progress with the roll-out of our new pricing engine. We expect the first deployment of CAPE across the home portfolio before the end of the year.

In distribution, we are effectively leveraging our previous investments in digital and data, and meeting our customers increased appetite to interact with us digitally. Digital sales and service levels grew by over 13% in the past year and now account for 33% of all sales and service transactions. We are well on our way to our long-term target of 70% digital/30% voice in insurance sales and service.

Our best in class claims program has achieved a number of critical milestones in recent months with the deployment of Claims Centre 10 and the implementation of several new assessment tools and automation initiatives. Our building panel is currently being reviewed and is expected to be settled by November.

In New Zealand, we have made good progress growing our brands and partnerships. Again, you can see that in these numbers. Our best in class claims program is progressing and we are continuing to automate, reduce manual processes, and simplify our customers' claims journey.

In the Bank, you can see that Clive and the team are making good progress on their five key priorities.

Winning in home lending is the top priority and here we define success against three targets. Our first priority was to get positive home loan growth. We've achieved that. Our second target is to achieve market share growth, ahead of our ultimate objective, which is to consistently match best in market for home loan origination.

Digital engagement at the Bank has also increased markedly with now over 600k digitally active customers and over 1 million Suncorp App logins recorded every week.

So, in summary, our priorities are simple and clear. The team and I are focused on executing these 12 initiatives which, as you know are the cornerstones of our FY23 aspirations.

However, achieving the financial outcomes embedded in the Plan relies on everyone at Suncorp understanding and living our purpose, and, in turn delivering for our customers and the communities we live and work in.

This slide, which we first shared with the market at our investor series in May, provides a framework for how we see value being created at Suncorp. It's very different to the way a financial services organisation would have historically presented to a shareholder audience.

We believe Purpose is central to everything we do at Suncorp. We know it will ultimately be a key differentiator for our organisation and underpins our future as a sustainable, investable and growing business, just as it is for those companies that can truly be defined as global leaders in their respective fields.

Nowhere has that Purpose been more apparent than in our response to the multiple natural hazard events we have managed over the last couple of years.

In FY21 we dealt with 23 separate events, around 50,000 event claims and over $1 billion in natural hazard claims costs. On the left of the slide, I have recapped our 4-point plan for building a more resilient Australia in the face of a changing climate. Our advocacy has been supported by our One House initiative and the new "build it back better" product feature.

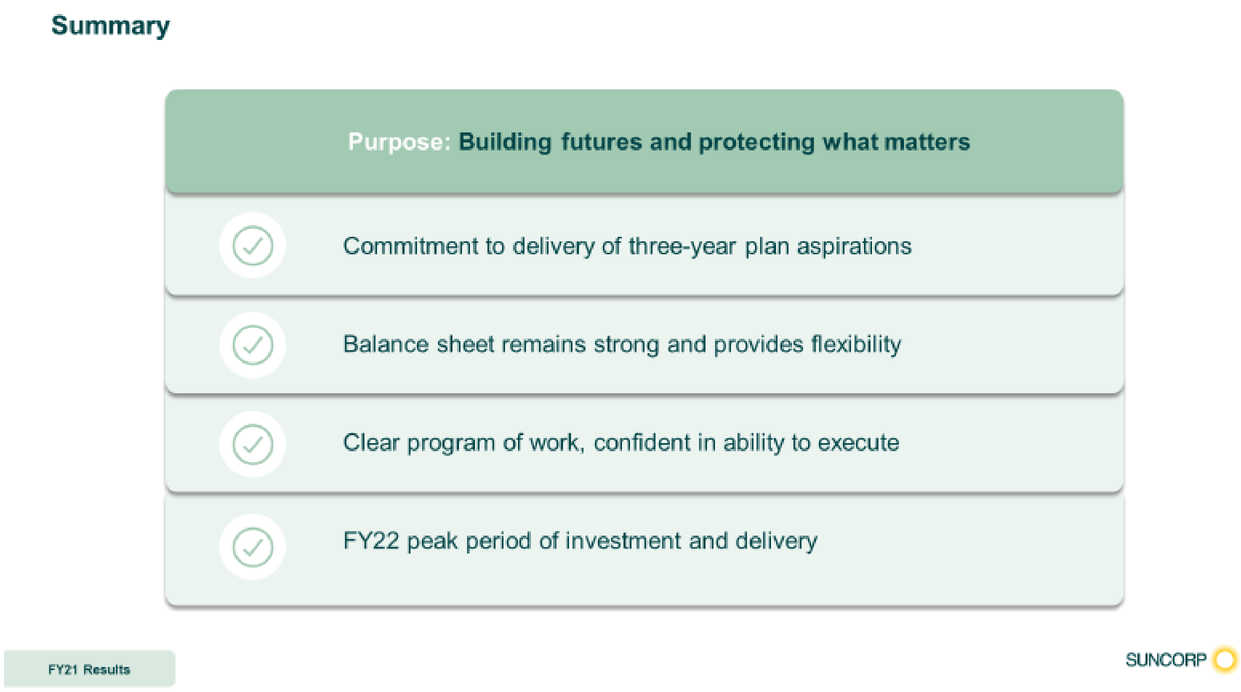
Our Purpose has also been front of mind as we deal with the continuing impact of COVID. Since the beginning of the pandemic we have prioritised the safety and wellbeing of our people and provided relief and support to over 85,000 insurance and banking customers.

We know that short term relief can go a long way, and in light of the current lockdowns, we have reinstated the banking & insurance support packages that were a feature of the initial lockdowns.

Along with the support we provide to customers, Suncorp has a proud heritage of supporting communities.

In FY21 we contributed $9 million to a range of community organisations across Australia and New Zealand, including the Queensland and Victorian SES, Australian Road Safety and Shine in NZ.

As I discussed in the last slide, supporting and advocating for customers and our communities ultimately contributes to improves outcomes for shareholders.



So, in conclusion

We are pleased with the results we have reported today

They reflect the hard work and dedication of all Suncorp people. Collectively, they have rallied around our Purpose and focused on our customers.

While the uncertainty from COVID is far from over, we have good momentum, a sensible plan and a capable and aligned team.

We look forward to answering your questions.


Questions
SUNCORP
Building futures and protecting what matters

There being no further questions, let me briefly mention vaccines before we go.

All members of the Board and the Australian based members of the ELT are either fully vaccinated or are awaiting their second dose. Jimmy is in the queue in New Zealand.

I received my second dose of Astra Zeneca last month

My colleagues and I are advocating for all Suncorp people to get vaccinated as soon as they can as a means of protecting themselves, their family and friends, their colleagues, our customers and the community.

The Chairman and I have taken this more broadly via an open letter in today's newspapers.

So in wrapping up today, stay safe and when you are able, please get vaccinated.

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FY21 Results

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