Suncorp delivers underlying business momentum and growth in 1H22

Insurance Australia Gross Written Premium ↑ 7.5%[1,2]	New Zealand Gross Written Premium ↑ 14%	Bank growth in home lending ↑ $1.2 billion
Group cash earnings $361m ↓ 29.1%	Group net profit after tax $388m ↓ 20.8%	Interim ordinary dividend, fully franked and CET1 capital held at Group 23cps | $492m

Suncorp's (ASX: SUN|ADR: SNMCY) results for the six months to 31 December 2021 demonstrate strong underlying business momentum despite higher claims costs from natural hazards and lower investment market returns.

Group net profit after tax was down 20.8% to $388 million and cash earnings of $361 million decreased by 29.1% as the Group responded to 19 separate weather events and more than 50,000 natural hazard claims during the half. This resulted in natural hazard claims costs of $695 million - $205 million more than expected for the first half of the financial year. Profit in the Bank increased to $200 million and accounted for 55% of Group cash earnings for the half, demonstrating the benefit of having diversified sources of profit.

The strong underlying business momentum and the protection provided by the Group's reinsurance program allowed the Board to determine a fully franked interim ordinary dividend of 23 cents per share to shareholders – at the top end of the 60% to 80% payout range.

Group CEO, Steve Johnston said: "While we have been challenged by the La Niña climate pattern and the operational impacts of COVID-19, we continue to deliver against our strategic priorities and have good momentum as we move into the second half of FY22.

"I am particularly proud of how we have supported our customers and communities during this time. Despite the many challenges of COVID-19 our teams have mobilised quickly to get our customers back on their feet.

"GWP growth in Australia and New Zealand is a standout, and the Group's underlying ITR increase to 8.0% shows we are delivering.

"Across all three businesses we are growing, becoming more efficient and improving how we serve our customers."

Financial results

Insurance Australia Gross Written Premium (GWP) growth of 7.5% (excluding portfolio exits) was driven by a continued focus on revitalising growth, including the launch of new product features and continued refinement of digital customer experiences.

Bank home lending grew by 2.7% in the half (5.3% annualised). This reflects credit assessment efficiency, consistent competitive offerings and improved customer and broker experiences. Customer deposits grew by 7.8% over the half to $44.8 billion, driven by at-call transaction accounts. NIM decreased 12 bps from 2H21 to 1.97%.

New Zealand GWP grew 14.0%, with strong growth across all consumer and commercial lines, partly offset by higher natural hazard costs, working claims and lower investment returns.

The net impact of investment markets on the result was $61 million. This was down significantly with volatility across yields, breakeven inflation, credit spreads and equity markets across the year.

The Group's underlying ITR increased to 8.0% (excluding COVID-19 impacts) in 1H22, which represents strong progress towards the target of 10.0-12.0% in FY23. The increase in this key underlying performance metric was driven by the Consumer portfolio, reflecting the benefits of rate increases and improvements from working claims driven by lower frequency and Best in Class Claims.

Group operating expenses were $1.4 billion, up $42 million on pcp, largely due to the temporary increase in spending on strategic initiatives, and higher growth-related costs with increased commissions and marketing.

The Group continues to respond proactively to COVID-19, including supporting customers experiencing hardship, providing rapid testing for customer-facing employees, and proactively addressing supply chain challenges.

	Dec-21 (AU $m)	Dec-20 (AU $m)	Change (%)
Insurance (Australia)	114	258	(55.8)
Banking	200	190	5.3
New Zealand	81	120	(32.5)
PAT from ongoing functions	**395**	**568**	**(30.5)**
Cash earnings	**361**	**509**	**(29.1)**
Group NPAT	**388**	**490**	**(20.8)**
Total ordinary dividend (cps)	23	26	
Payout ratio – cash earnings (%)	80	65	
CET1 held at Group (post dividend)	492	789	

1. All changes refer to the prior corresponding period unless otherwise stated.
2. Insurance Australia GWP excluding portfolio exits

Insurance Australia

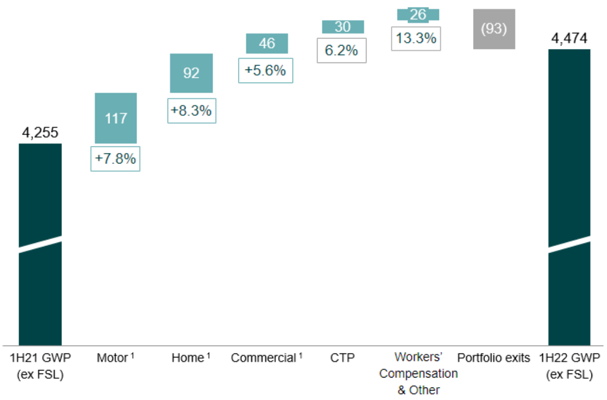
Insurance Australia PAT	Gross Written Premium (GWP) (ex FSL)	Digital sales
$114m ↓ 55.8%	$4,474m ↑ 7.5%[2]	60.0% ↑ from 51.0%

Despite strong top-line growth and improved working claims performance, Insurance Australia reported a 55.8% decrease in Profit After Tax to $114 million. The result was primarily impacted by adverse natural hazards experience and lower investment returns.

Growth

Insurance Australia continued to make good progress against its strategic priorities, which contributed to improved growth.

Gross written premium (excluding FSL) by portfolio ($m)



[1]Excludes impact of portfolio exits

Home GWP growth excluding portfolio exits was 8.3%, reflecting a 7.5% increase in AWP and 0.8% increase in units. In 1H22, Home GWP benefited from ongoing strategic investment in AAMI marketing and enhanced digitisation of the sales process. Growth was also supported by product enhancements such as accidental damage cover and a nil excess window glass cover.

Motor GWP growth excluding the exit of small intermediated portfolios was 7.8%, reflecting AWP growth of 4.9% and unit growth of 2.9%. Unit growth was broad-based across both mass and niche brands, driven by improved retention that was partly offset by lower new business reflecting the lockdowns on the eastern seaboard.

GWP benefited from ongoing strategic investment that saw the proportion of insurance digital sales for mass brands, across home, motor and CTP products, increase to 60.0% in 1H22, up from 51.0% in 1H21.

CaPE, Suncorp's new pricing engine, was deployed across the mass brands in Home portfolio in the first half of FY22 and will be rolled out to the other portfolios in subsequent periods. CaPE is expected to significantly improve Suncorp's risk selection.

Commercial GWP increased by 5.6% excluding portfolio exits. The Compulsory Third Party (CTP) portfolio experienced unit growth of 9.9% while Workers Compensation and other GWP increased by 13.3% reflecting strong retention, wage growth and rate increases.

Claims and operations

Net incurred claims (ex-discount movements) increase of 4.4% was largely due to higher natural hazard costs and the impact of portfolio growth in the statutory classes. In the Consumer portfolio, working claims performance was strong due to lower frequency and cost management.

Best in Class Claims initiatives continue to be embedded across the supply chain, including refreshed repair panels and technology changes to engage repair allocations and outcomes. The ongoing focus on digital claims experience contributed to online Motor and Home lodgements increasing to 41% and 36% in 1H22, up from 21% and 18% respectively in 1H21.

Banking & Wealth

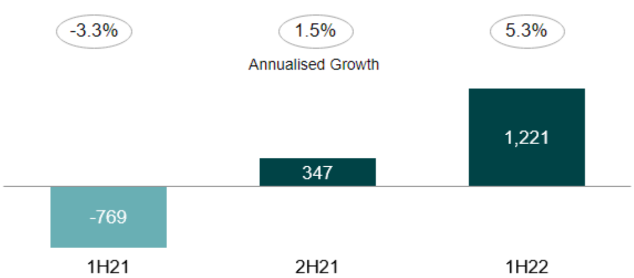
Banking PAT	Home lending annualised growth	Net Interest Margin (NIM)
$200m ↑ 5.3%	5.3% ↑ over the half	1.97% ↓ 12 bps

Banking Profit After Tax rose 5.3% to $200 million, driven by growth in loan balances and a net impairment release, partly offset by a lower NIM and increased expenses to support strategic investment and volume growth.

NIM decreased 12 bps from 2H21 to 1.97%, due to reduced home lending margins from increased competition and movements in market rates, higher fixed rate home lending mix, partly offset by active management of customer deposits pricing.

The Bank is making good progress on its key strategic initiative to win in home lending, with annualised growth of 5.3% over the half. This reflects ongoing investment in enhancing the efficiency of the origination process and improving broker and customer experiences.

Net home lending growth ($m)



Business lending declined 1.2%, predominantly driven by an increase in seasonal grain and mixed farming repayments in the Agribusiness portfolio, which was down 2.9% over the half.

A net impairment release of $16 million reflected a $15 million reduction in the Collective Provision due to the improvement in economic conditions since the outbreak of COVID-19.

Operating expenses increased by 1.1%, due to the temporary increase in spending on strategic initiatives. The cost-to-income ratio rose slightly to 57.6%, this reduces to 56.8% when investment project spend is normalised to FY23 expected levels.

The Bank remains focused on its strategic initiative to optimise distribution. The branch network, which remains an important part of the distribution strategy, will continue to be reviewed as customers use more digital services and less cash.

The at-call transaction portfolio grew 12.8% on 2H21 supported by a strong customer proposition and digital offering. The Bank launched its Buy Now Pay Later product, Suncorp PayLater, to provide additional flexibility to customers. The Bank completed its migration of personal customers to the Suncorp App, with average monthly logins per customer up 10% to 23.4.

The Bank's capital position remains strong with a CET1 ratio of 9.91%, above the target operating range of 9.00%-9.50%.

New Zealand

New Zealand PAT	Gross Written Premium (GWP)	Life insurance PAT
NZ$84m ↓ 34.9%	NZ$1,052m ↑ 14.0%	NZ$6m ↓ 79.3%

New Zealand Profit After Tax was down 34.9% to NZ$84 million.

General Insurance PAT of NZ$78 million declined 22.0% on pcp reflecting adverse investment market impacts and elevated natural hazard experience.

Gross Written Premium grew by 14% through a combination of unit growth and targeted pricing increases to offset inflationary pressures on claims in both intermediated and direct channels.

Net incurred claims grew by 17.6%, reflecting unit growth, several large commercial claims and higher natural hazard costs, with the half year allowance exceeded by NZ$41 million. This was partially offset by reduced Motor claims frequency due to lockdowns.

Suncorp New Zealand continues to make good progress on key strategic priorities of growing brands and strategic partnerships, delivering Best in Class Claims, and investing in the digital and data capability of core systems.

Operating expenses were up 8.7% to NZ$250 million, supporting growth across the business and investment in strategic initiatives.

NZ Life Insurance PAT of NZ$6 million reflected growth in underlying profit margin but was offset by significant adverse market adjustment impacts from interest rate movements, increased IFRS17 implementation costs and adverse claims experience compared to the pcp.

Group Outlook

(Summary - full version available in Investor Pack)

Operating environment: While the operating environment has continued to improve, the outlook remains uncertain, noting emerging operating impacts and supply chain issues associated with the Omicron variant of COVID-19.

Suncorp's FY23 plan: The plan aims to deliver a growing business with a sustainable return on equity above the through-the-cycle cost of equity. The General Insurance business is targeting an underlying ITR in FY23 of between 10 - 12%, and a Bank cost-to-income ratio of around 50%.

The Group is on track to achieve this by investing in 12 strategic initiatives, with the benefits of this program being realised in the form of accelerating top line growth momentum, reduced claim numbers, lower loss and expense ratios and improved productivity.

Natural hazards and reinsurance: In FY21, the Group increased its natural hazard allowance for FY22 to $980 million. However, reflecting the Group's natural hazard experience during the half, the full year outlook for natural hazard costs is around $1.075 billion.

The Group's operating performance in the second half of the year is expected to benefit from its comprehensive reinsurance program with full coverage available under the AXL treaty and other reinsurance covers. Suncorp's AXL cover and three dropdown covers and reinstatements remain intact and an additional $75m of AXL cover was purchased in December 2021, a 50% placement of a $150m layer above the existing AXL.

Capital: The Group will maintain its prudent capital management strategy, including holding an appropriate CET1 buffer at Group.

Group CEO commentary

"This year will be critical for the Group as we continue to deliver on our FY23 plan and strategic initiatives. We have momentum across our three businesses and our focus is on continued execution to ensure we hit our targets," Mr Johnston said.

"The work we have done over the last couple of years – digitising, rejuvenating brands, investing in underwriting systems and best in class claims – is starting to pay off and is behind the improvements in the business' underlying strength. Fundamentals are strong and we are in a good position to continue momentum through the second half.

"As we approach the federal election, I am pleased we have already seen the issue of disaster resilience receive more consideration.

"While we welcome this start, more is needed to make Australia safer against extreme weather events.

"We stand ready to help all levels of government and stakeholders to prioritise projects for communities most in need. Of course, all insurers must contribute and factor any reduced risk into pricing.

"While we must tackle the underlying risk of natural hazards through targeted infrastructure, we can't continue to ignore other factors driving affordability pressures in high-risk regions.

"Inefficient taxes and charges built into insurance premiums are in some cases adding more than 40% to the cost of home insurance. This unfairly impacts those in higher-risk locations, and it needs to be addressed as part of a wider reform of the tax system."

Authorised for lodgement with the ASX by the Board.

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