

9 February 2017

## Suncorp half year profit of \$537 million, 10% increase in interim dividend

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### Key Points

- Group net profit after tax (NPAT) of \$537 million (HY16: \$530 million)
- Profit after tax from business lines of \$613 million (HY16: \$544 million)
- Cash earnings of \$584 million (HY16: \$556 million) resulting in a Cash Return on Equity (ROE) of 8.5% (HY16: 8.3%)
- Interim dividend of 33 cents per share fully franked (HY16: 30 cents)
- 4.3% top line growth
- Flat operating expenses of \$1,360 million (HY16: \$1,360 million)
- Underlying Insurance Trading Ratio (ITR) of 11.0% (HY16: 10.1%)
- Insurance (Australia) NPAT of \$369 million (HY16: \$259 million)
- Banking & Wealth NPAT of \$208 million (HY16: \$207 million)
- New Zealand NPAT of \$36 million (HY16: \$78 million)
- Home and Motor working claims performance improved
- Performed well against the Group's three priorities of Maintaining Stability and Momentum, Elevating the Customer and Recalibrating Costs

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Suncorp Group Limited (Suncorp) today reported net profit after tax (NPAT) of \$537 million (HY16: \$530 million) for the six months to 31 December 2016. Profit after tax from business lines increased 12.7% to \$613 million (HY16: \$544 million).

Chairman Ziggy Switkowski said shareholders will receive an interim dividend of 33 cents per share fully franked (HY16: 30 cents) representing a payout ratio of 72% of cash earnings.

"The increased interim dividend reflects the Group's strong capital position, improved cash earnings and confidence in the earnings outlook," Dr Switkowski said.

Suncorp CEO and Managing Director Michael Cameron said that over the past 12 months, the Group has been significantly repositioned.

"We have achieved a lot, and the next 12 months will be about settling into a different way of working, and fully embedding the plan into the organisation to enable disciplined execution of our strategy," Mr Cameron said.

The result included natural hazard claims costs of \$350 million (HY16: \$362 million), Investment earnings of \$79 million (HY16: \$133 million), reserve releases of \$131 million (HY16: \$137 million) and a loss on sale of Autosure of \$25 million.

## **Insurance (Australia)**

Insurance (Australia) NPAT increased 42.5% to \$369 million due to top line growth, lower claims costs and disciplined expense management.

Gross Written Premium (GWP) growth of 6.2% was primarily driven by the CTP portfolio. Consumer Insurance benefited from industry stabilisation with Home and Motor GWP increasing 2.4% and 1.6% respectively. The Commercial Insurance market continues to be highly competitive with GWP growth of 0.4% reflecting a prudent approach to pricing and risk selection.

CTP GWP increased 27.3% due to Suncorp's successful entry into the South Australian market and growth in New South Wales which was supported by improving claims metrics. Insurance (Australia) reserve releases of \$149 million reflect the benign inflationary environment and Suncorp's management of long-tail claims.

Mr Cameron said remediating Home and Motor claims cost issues has been the Group's top priority.

"Our turnaround program in claims is seeing some success, but there is clearly more to do. In both Home and Motor, we have reduced the number of active claims to more normal levels. The underlying ITR has improved from 10.1% to 11%, and we are on track to achieve 12%," Mr Cameron said.

Australian Life Insurance was impacted by an industry deterioration in lapse and claims trends, however Suncorp's conservative approach to setting assumptions has resulted in minimal impacts to experience.

Offering customers a broad range of Life insurance solutions through direct and intermediary channels is core to Suncorp's financial services Marketplace strategy. Following a portfolio review, Suncorp is implementing an Optimisation program for its Australian Life insurance business. This is designed to improve competitiveness and achieve better outcomes for customers and intermediaries.

Alongside this program, Suncorp is exploring strategic alternatives for this business to better meet customer needs and maximise shareholder value.

## **Banking & Wealth**

The Banking & Wealth business delivered NPAT of \$208 million reflecting improved operating expenses and strong credit quality. In response to some unsustainable competitor pricing, the Bank focused on profitable growth through the optimisation of price and volume.

Lending grew 2.5% over the past 12 months. Following a targeted campaign in December, the housing loan portfolio is expected to grow in the second half.

The net interest margin (NIM) of 1.78% was impacted by the lower cash rate and aggressive competition, however it remains within the target range of 1.75% to 1.85%.

Operating expenses improved by 5.8% resulting in a reduction in the cost to income ratio from 53.0% to 51.4%.

Gross non-performing loans improved by 14.3% over the past six months resulting in impairment losses of \$1 million (less than 1bps), well below the target range of 10bps to 20bps of gross loans and advances.

## **New Zealand**

New Zealand NPAT of NZ\$37 million was impacted by the Kaikoura earthquake and aftershocks (NZ\$23 million) and new 'over-cap' claims from the 2010/11 Canterbury earthquakes (NZ\$18 million) being notified by the Earthquake Commission (EQC). GWP growth of 4.8% was delivered primarily from the Home and Motor portfolios.

Included in the result was the New Zealand Life Insurance NPAT of NZ\$18 million reflecting a 41.2% increase in underlying profits, and positive claims and lapse experience of NZ\$5 million.

## **Capital and Dividend**

The Group's balance sheet remains strong and the Board has determined a fully franked interim dividend of 33 cents per share representing a dividend payout ratio of 72%.

After accounting for the interim dividend, the Suncorp Group's Common Equity Tier 1 (CET1) is \$448 million above the operating targets. The General Insurance CET1 is 1.23 times the Prescribed Capital Amount and Bank CET1 is 9.20%.

The Group has \$230 million of franking credits available after the payment of the interim dividend.

## **Strategy**

In addition to announcing the half year profit result, Mr Cameron said Suncorp had performed well against the three priorities of Maintaining Stability and Momentum, Elevating the Customer and Recalibrating Costs.

"Continued top line growth and further improvement in the underlying ITR will help maintain the stability and momentum of the business. Our program of delivering additional Marketplace capabilities will accelerate, driving growth as we deepen the relationships we have with our customers. This activity will be funded by an ongoing focus on our costs," Mr Cameron said.

"The significant repositioning we have undertaken over the past six months will enable us to 'Create a better today' for all of our stakeholders," Mr Cameron concluded.

## **Outlook**

Across its business portfolio, Suncorp's outlook is for margin growth.

Insurance's GWP growth, remediation of working claims and strong focus on claims management is expected to deliver an improvement in the underlying ITR in the second half. New Zealand's pricing response to the Kaikoura earthquake will mitigate the impact of additional reinsurance reinstatement costs.

Suncorp Bank's recent increase in mortgage rates, combined with less aggressive competitor behaviour is expected to deliver an improved second half NIM.

Life planned margins are expected to remain stable, however lapse and claims experience will continue to be impacted by volatile industry trends.

In the medium term, Suncorp's key targets are:

- Broadening customer relationships;
- Flat cost base in FY17 and FY18;
- Improving underlying NPAT; and
- Sustainable ROE of at least 10%, which implies an underlying ITR of at least 12%.

The Group continues to target a dividend payout of 60% to 80% of cash earnings and remains committed to returning surplus capital to shareholders.

## Further information

Further information about Suncorp's results, including an explanation of statutory and non-statutory financial information, is contained in the Analyst Pack and Data Pack available at [www.suncorpgroup.com.au](http://www.suncorpgroup.com.au). This information is also available via the Suncorp Investor Relations App.

### **Analyst briefing – 10:30am (Sydney time)**

Australia dial-in: 1800 558 698

International dial-in: +61 (0)2 9007 3187

Conference ID: 807448

Webcast: [www.suncorpgroup.com.au](http://www.suncorpgroup.com.au)

### **Media conference – 1:45pm (Sydney time)**

Australia dial-in: 1800 558 698

International dial-in: +61 (0)2 9007 3187

Conference ID: 842528

## Ends

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