Create a better today

Financial results for the full year ended 30 June 2016

Good morning and welcome to Suncorp's financial results for the full year ended 30 June 2016.

I'd like to acknowledge the traditional owners of the land that we meet on here today, the Gadigal (Gadi-gall) people, and pay my respects to Aboriginal and Torres Strait Islander people both past and present

Reminder to please switch off mobile phones

In case of an emergency, please remain in your seats and follow directions from Suncorp fire wardens

This morning we have presentations from Suncorp CEO and Managing Director, Michael Cameron and our CFO Steve Johnston. Michael will start by outlining some of the highlights of the past six months before handing over to Steve to run through the detailed numbers. Michael will then cover off on the outlook before we open up for questions.

I'll now hand over to Michael to start proceedings.

Highlights

SUNCORP GROUP

1. Strategy reset to **deliver value to customers**
2. **Operating model aligned** to new strategy
3. Improvements in working claims to **benefit UITR**
4. **Positive top line momentum**
5. Building a more **resilient** business

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- Thank you Mark.
- Good morning everyone, and thank you for joining us today.
- In the last six months,
  - we reset our strategy to deliver value to our customers
  - aligned the operating model to the new strategy, and
  - worked hard to achieve improvements in working claims as we move towards restoring UITR
- In a very competitive market, I'm pleased to report top line growth across all of our businesses, and
- we continue to make positive steps in building a more resilient business. For example, managing the impact of natural hazards with additional cover for the coming year.

Result Overview

Diversified business model provides earnings stability

	FY16 ($m)	FY15 ($m)
General Insurance	624	756
Bank	393	354
Suncorp Life	142	125
Business Lines NPAT	**1,159**	**1,235**
Other(1)	(70)	(44)
Cash earnings	**1,089**	**1,191**
Acquisition amortisation	(51)	(58)
Reported NPAT	**1,038**	**1,133**
Ordinary dividend (per share fully franked)	68 cents	76 cents

(1) Includes investment income and interest expense for capital held at the Group level, consolidation adjustments, Tyndall disposal, non-controlling interests, transaction costs, and operating model restructuring costs.

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- The NPAT result of $1,038 million reflects lower returns from investment markets and a reduction in reserve releases.
- Our Bank delivered 11% growth in NPAT and the Life business 14% growth, highlighting the quality of these businesses and the benefits of diversification.
- Included in these numbers is a significant contribution of $182 million from New Zealand.
- Dividends of 68 cents per share fully franked, reflect a payout ratio of 80% of cash earnings.

FY16 Result Overview

	FY16 ($m)	FY15 ($m)
	1,047	1,146
Natural Hazards (after tax)	(511)	(748)
Investment Earnings (after tax)	298	436
Reserve Releases (after tax)	243	299
Restructure Provision (after tax)	(39)	-
Reported NPAT	**1,038**	**1,133**

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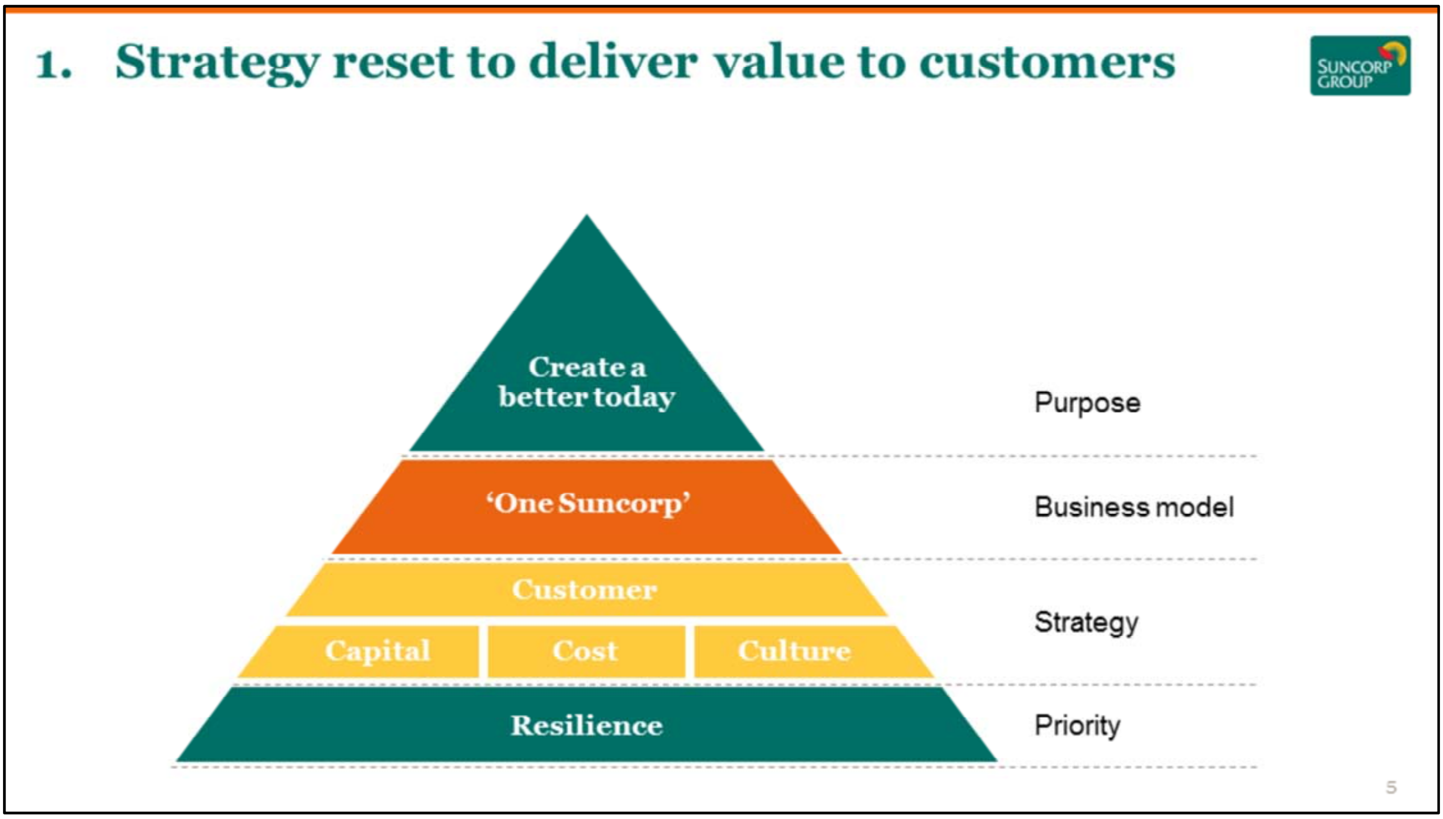
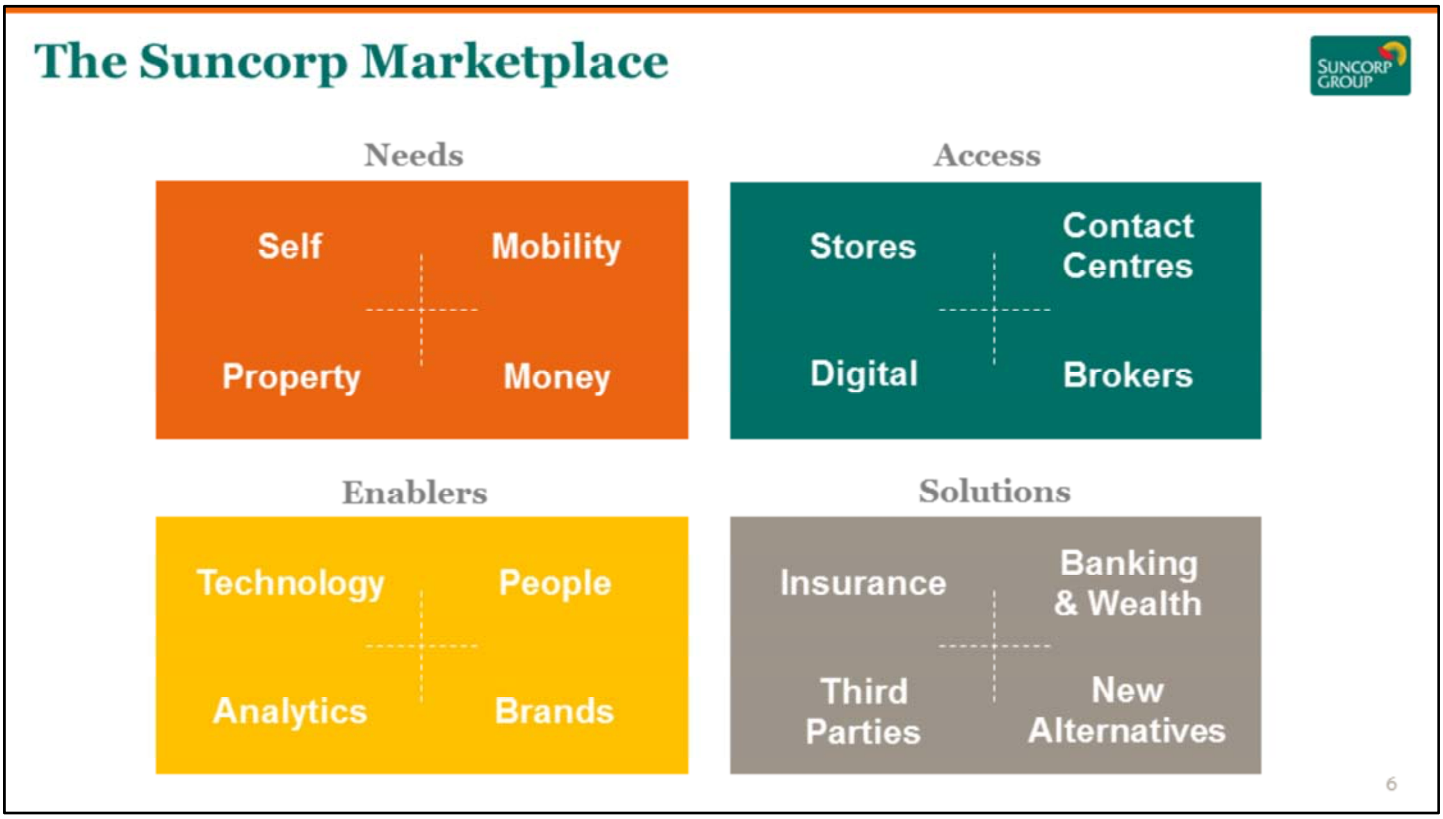
- Included in the Result are a number of major items:
  - On an after tax basis, the impact of natural hazards was $237 million lower than the prior year, and
  - Investment earnings in General Insurance and Life were $138 million lower and
  - While Reserve releases were still well in excess of the long term average, the after tax benefit was $56 million lower this year.
  - At our Investor Day in May, we indicated the creation of a $55 million provision for restructure ($39 million after tax). This initiative will generate at least $80 million of recurring benefits in the coming year
  - I'll talk about working claims in a moment, but Home, Motor and Commercial were $156 million after tax higher.



- Suncorp's strategy is now well understood externally and internally.
- Our Marketplace approach will connect more customers to Suncorp by providing access to all products, all services and all brands through any channel.
- Elevating the customer, and aligning our cost base will deliver a more resilient business.
- The stability and momentum of Suncorp remains a high priority.

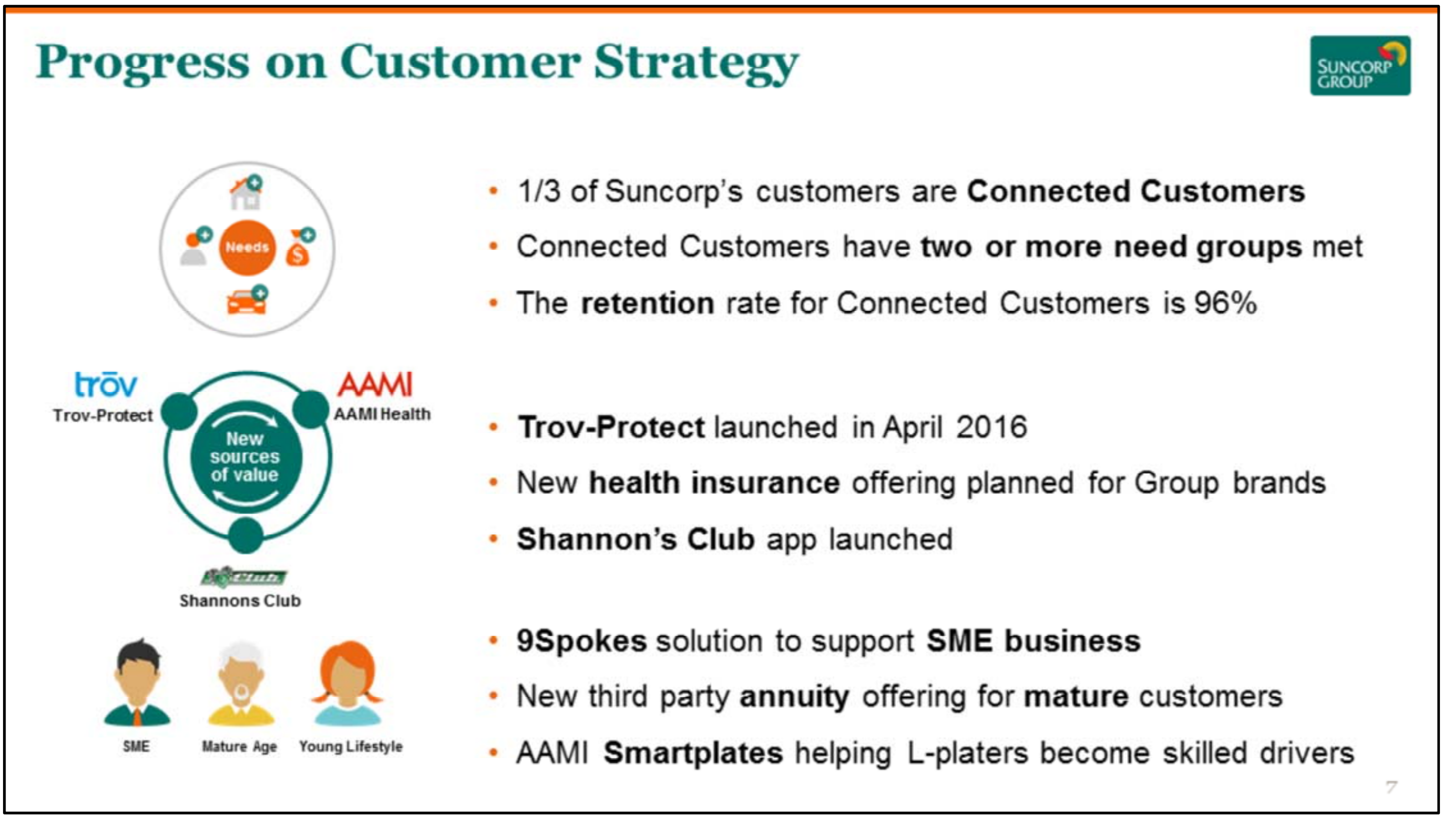


- The Marketplace strategy breaks customer's Needs into four Groups:
  - Self – health and wellbeing
  - Mobility – buying and protecting your car
  - Property – buying and protecting property assets
  - Money – liquidity, longevity and transactions

- We provide Access for our customers via:
  - Stores
  - Contact centres
  - Digital
  - Brokers and advisers

- Key Enablers for the Marketplace include:
  - Leading technology
  - Our people and the way we work
  - Data and analytics; and
  - Our trusted brands

- Our Solutions include:
  - Insurance
  - Banking and Wealth
  - Third party products and services, and
  - New alternatives

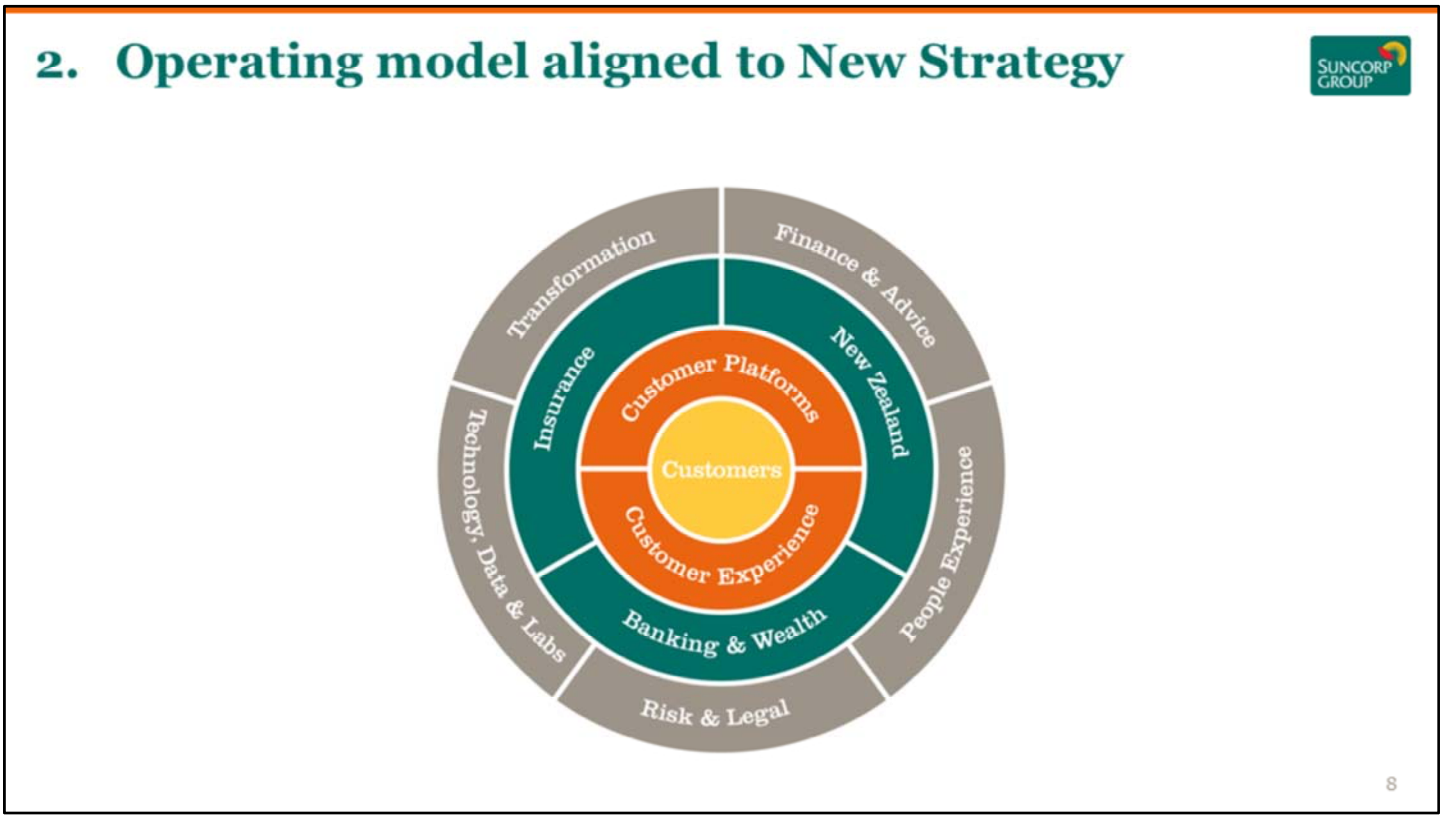


- Since our last update, we've made good progress in introducing new solutions and propositions into our target markets.

- We launched Trov in April, launched the Shannons Club app in June, and will shortly be announcing an exciting new health offer.

- Also new, will be the 9Spokes solution for small business, a third party annuity offering for mature customers, and AAMI Smartplates for Learner drivers.

- 1/3 of customers are Connected, meaning we meet two or more of their need groups. Given the retention rate of Connected Customers is 96% versus 75% for non-connected – our goal is to increase the number of Connected Customers.



- Our new organisational structure was completed on 4 July.

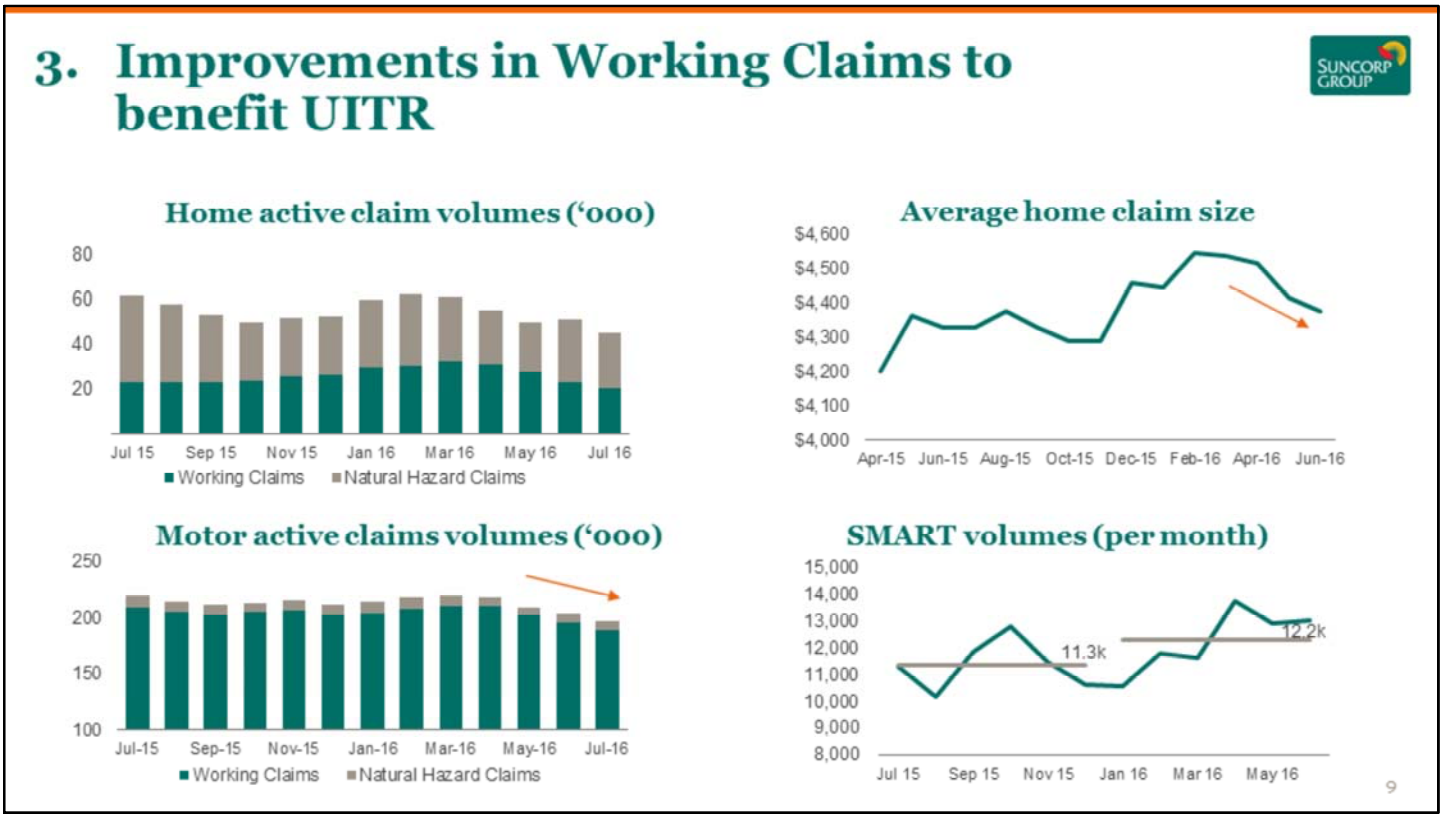
- It's more than just a new structure, 'One Suncorp' is an operating model to drive the customer strategy.

- By creating a single Customer Experience function and one Customer Platform function for the Group, we have put the customer at the centre of everything we do. This will allow Suncorp to better satisfy needs, and provide integrated solutions to Group customers.

- Key to our success has been the:
    - alignment of the organisation;
    - a deep understanding of the vision by our people; and
    - changes in management systems to remove constraints, and to influence behaviours.

- There has been a rapid translation of the vision into priorities.

- We are already working in a different way with,
    - increased conversations about customers;
    - more logical prioritisation of decisions; and
    - cross organisation collaboration.



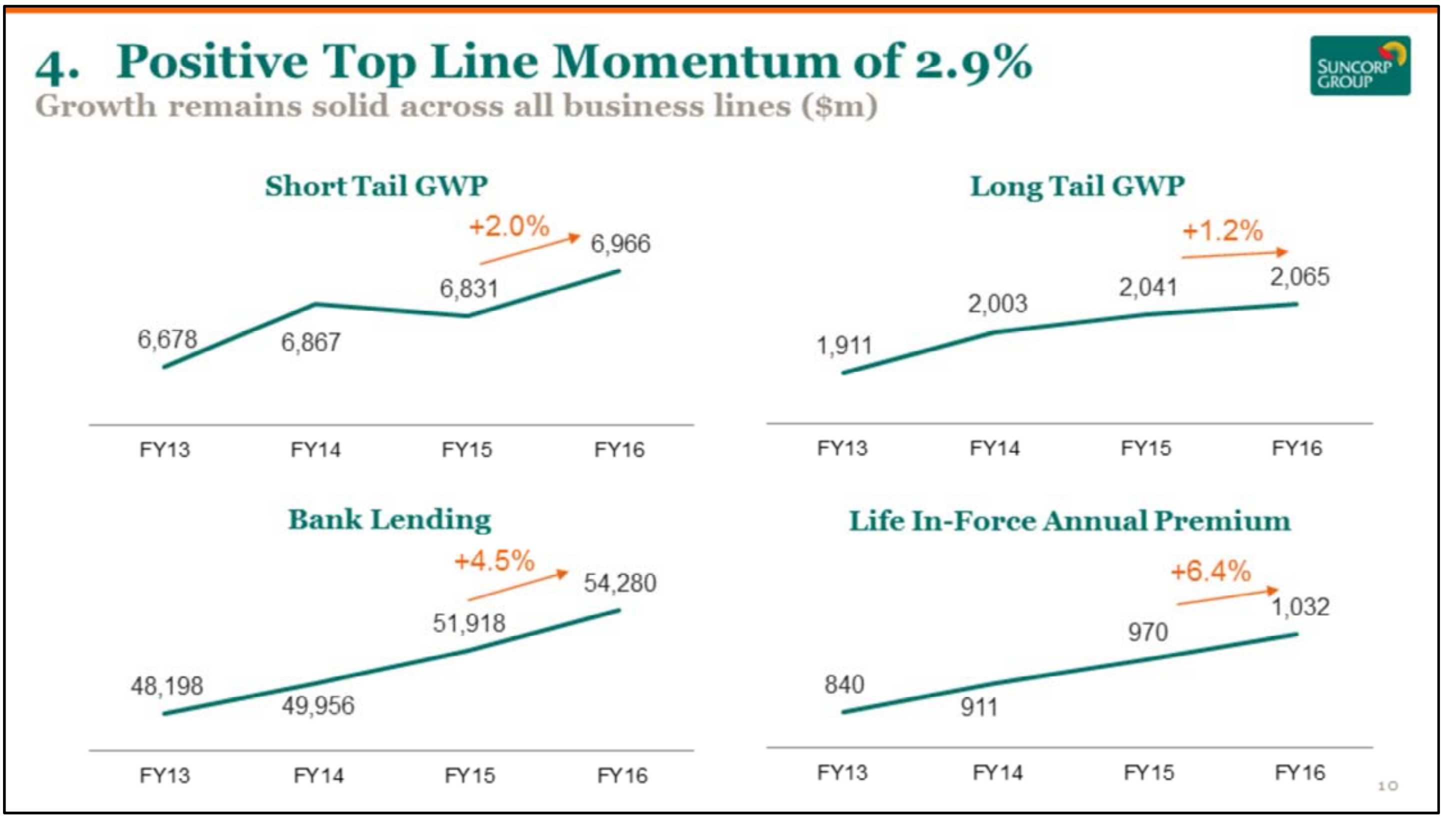
- We are working intensely towards returning UITR to 12%.

- Home claims volumes and average claim costs have reduced since December 2015.

- In motor, active claims volumes have also reduced with an increase in the number of vehicles repaired in the SMART shops each month. We now have 36 SMART facilities with a further five planned to open in FY17.

- Reducing the working claims cost has been my highest priority. It is critical to improve the customer experience.

- I'm confident that the positive lead indicators, together with price increases, will translate to further improvements in margins in the coming year. We're happy to provide more details in Q&A.



- We have delivered growth of 2.9% across the Group despite a period of significant change.

- I'm pleased with the positive top line momentum, particularly in motor at 2.9% and home at 1.8%.

- Bank lending growth was 4.5% while maintaining credit quality and margin, and

- The Life in-force business increased by 6.4%.

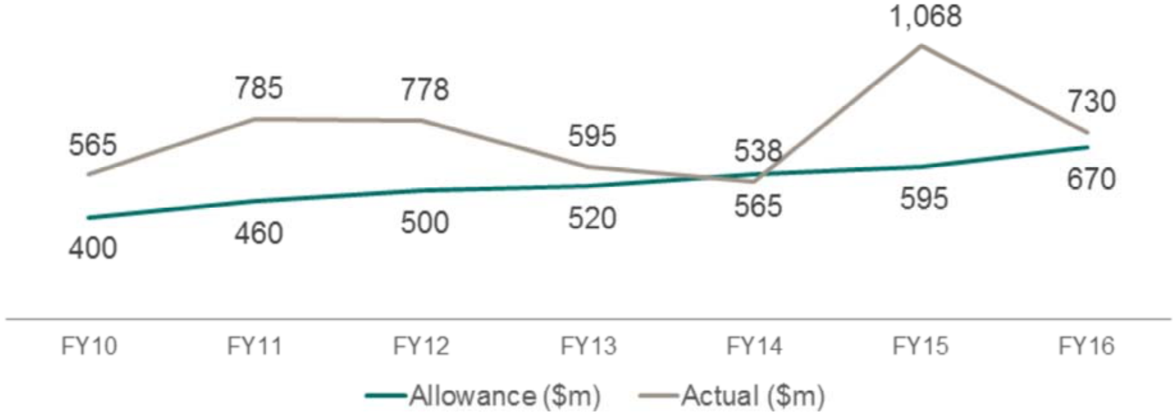
- These encouraging results position us well for a strong year ahead.

5. Building a more resilient business

SUNCORP GROUP

New Natural Hazard Aggregate Cover in place for FY17

- $300 million cover for natural hazards events greater than $5 million in size, once the total retained cost of these events reaches $460 million
- Additional protection results in FY17 natural hazard budget reduction to $620 million



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- Reinsurance has traditionally protected our capital position but still allowed volatility in earnings, particularly from the accumulation of medium sized events.

- A new aggregate cover for $300 million for events greater than $5 million is now in place. It applies after the total retained cost reaches $460 million. It’s important to note, this additional protection will result in the allowance reducing to $620 million. It will also drive lower earnings volatility.

- Before I talk about the outlook, I’ll hand over to Steve who will provide details of the financials.

General Insurance

Positive underwriting result, impacted by volatility in investment markets

	FY16 ($m)	FY15 ($m)	Change (%)
GWP	9,031	8,872	1.8
Net earned premium	7,938	7,865	0.9
Net incurred claims	(5,661)	(5,587)	1.3
Operating expenses	(1,749)	(1,783)	(1.9)
Underwriting result	528	495	6.7
Investment income - insurance funds	254	399	(36.3)
Insurance trading result	782	894	(12.5)
Investment income - shareholder funds	101	163	(38.0)
Managed schemes, JVs and funding costs	(8)	3	n/a
Income tax	(251)	(304)	(17.4)
NPAT	**624**	**756**	**(17.5)**

Key highlights

- GWP growth across all business units resulting in solid underlying growth
- Underlying ITR of 10.6%
- Operating expenses ratio of 22.0%
- Impacted by lower investment returns and MTM adjustments
- Reserve releases of $347m or 4.4% of NEP

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- Thanks Michael and good morning everyone.

- Today I'll start with our General Insurance business and Michael has touched on some of the progress we are making in remediating the claims issues. At the top line, we have spoken about a stabilisation in key markets and we are pleased with overall GWP growth for the year.

- The net incurred claims line is only up by 1.3% despite the working claims issues in Personal Insurance, a number of large claims in Commercial lines and natural hazards again being above our allowance. On the positive side we have again been able to deliver strong reserve releases, in total a net $347 million, well above our longer-term expectation of 1.5% of net earned premium. This outcome can be attributed to the proactive management of long-tail claims and a benign wage and super-imposed inflationary environment.

- I'd point out that the reserve release has included a benefit from a change in actuarial assumptions around wage inflation for the next two years. We continue to believe that wage inflation will be around 4% over the longer-term and our assumptions step back to this level in FY19. In addition to wage inflation we also include an allowance for superimposed inflation of between 2.5% and 3.5% and I'm sure you'll agree that, in aggregate, this approach to reserving remains extremely prudent.

- Operating expenses continue to decrease as we maintain our focus on costs and simplification. We do have a $25 million benefit in this result from the adjustment to short-term incentives that we outlined in February, which we have now expensed back to the business lines in the full year accounts. I do acknowledge that this creates some noise for those of you tracking the half on half movements in the underlying ITR. However, we are confident that there has been an improvement in the underlying performance of the GI business in the second half. While the extent of the operational improvements that we clearly see are not yet apparent across the P&L, we still believe underlying ITRs of 12% remain achievable in the medium term.

Gross Written Premium

Solid growth across all major classes

Products	FY16 ($m)	Change (%)	
Motor	2,858	2.9	Low single digit premium increases with stable retention
Home	2,585	1.8	Direct channel growth of 3.7% offset by a reduction in intermediated channels
Commercial	2,079	0.0	1.7% growth in Australia offset by a 4.9% decline in New Zealand
CTP	1,215	9.2	Growth across NSW, Qld and ACT portfolios
Workers Compensation and Other	294	(19.0)	Impacted by WA Workers Compensation
Total	**9,031**	**1.8**	
Australia	7,803	1.8	
New Zealand	1,228	1.9	3.2% in NZ$ terms

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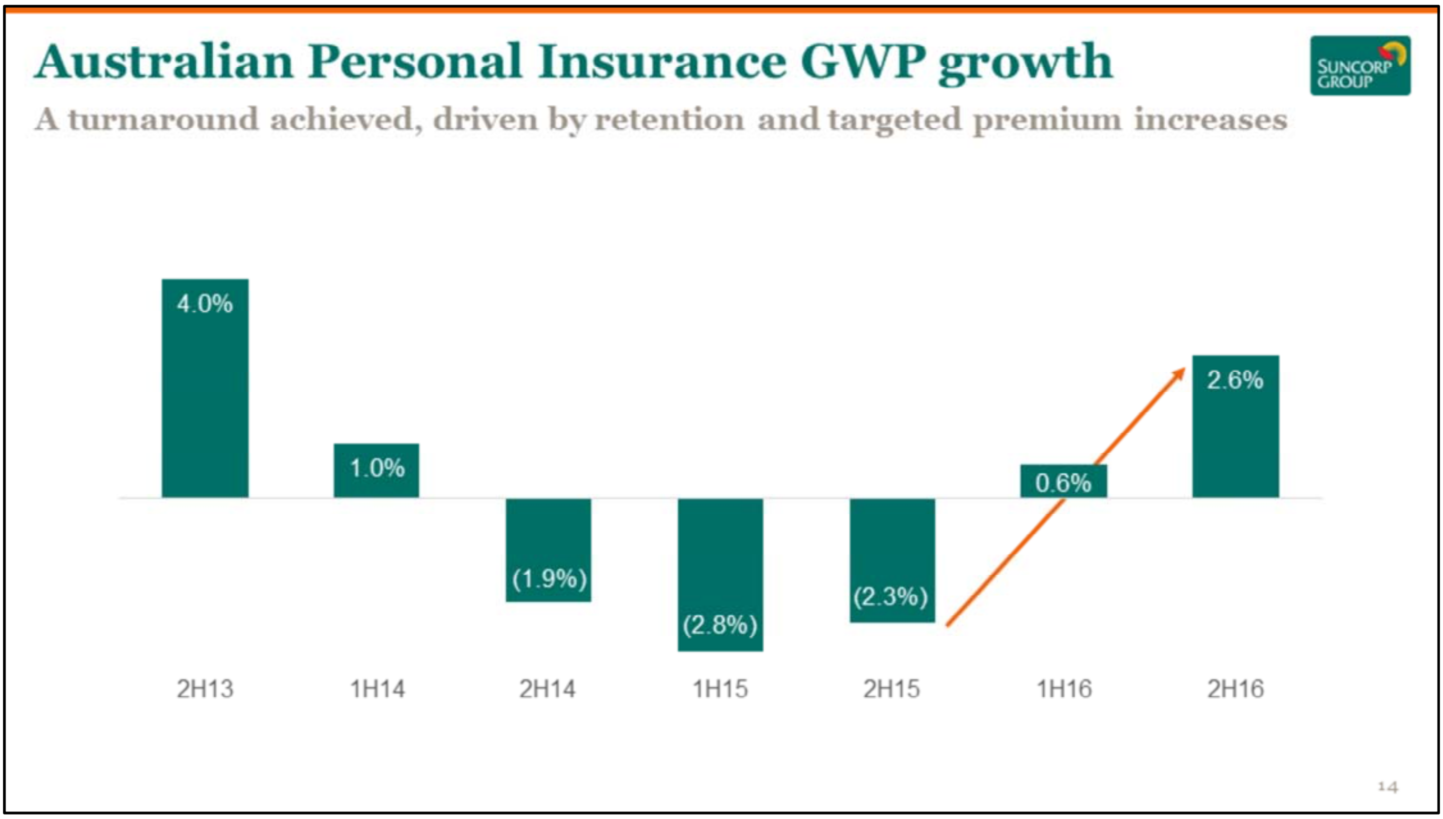
- Looking specifically at the premium trends and this slide shows written premium of just over $9 billion, an increase of 1.8% on the prior year. I'll return to this slide in a moment, but…



- First. I did want to call out the premium movements in personal lines as this has been a hot topic at our previous result presentations. I’ve included this slide which graphically displays the turnaround as the portfolio returns to growth. In my view, this indicates that not only is the market stable and rational, but that our competitors are experiencing some of the claims cost pressures that we have been flagging for some time.

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- Breaking out the PI portfolio and in Motor, single digit price increases have been achieved while retention rates have remained stable. Product enhancement continues particularly in the mass market brands, while growth in the specialist brands has again been strong.

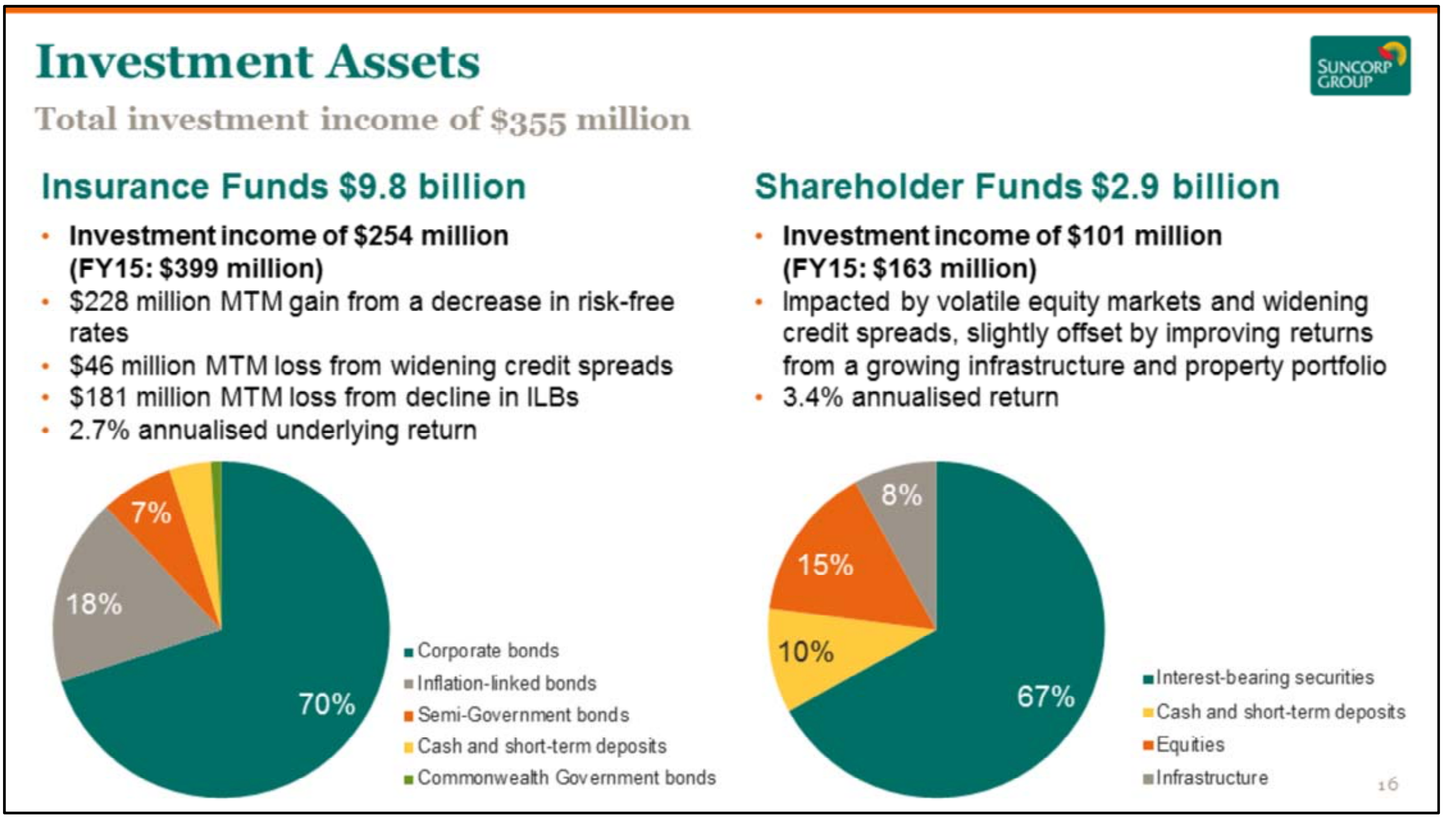
- In Home, a focus on direct distribution channels has delivered 3.7% GWP growth through mid single digit premium increases, with customer retention remaining high. As we flagged in February, there has been some loss of corporate partner business and that pulls the headline result down slightly.

- Our Commercial Insurance business across Australia and New Zealand was flat year-on-year, as we maintained underwriting discipline in a market that continues to be influenced by offshore capital flows.

- The CTP business has again performed well. We achieved good growth in the NSW and ACT markets and today we can confirm that on July 1 we entered the SA CTP market with a 30% market share. This presents a great opportunity for us to further cement our position as Australia's largest personal injury insurer.

- Unsurprisingly, the Workers Compensation and other portfolio reduced 19% to $294 million. While Workers Compensation policy retention remains high, the ongoing reduction in wages, soft market cycle and improved claims experience have resulted in lower overall premium levels.

- Last, but not least, I'd like to highlight the continued strength and performance of our New Zealand business, particularly in the personal lines, which has contributed to aggregate GWP growth of 3.2% in New Zealand dollar terms.



- Obviously one key factor in both the reduced headline and the underlying General Insurance result has been the impact of investment markets, which have had another volatile year.

- Income on the Insurance Funds was $254 million, with losses from widening credit spreads and the relative underperformance of inflation-linked bonds, partially offset by mark-to-market gains from a reduction in risk-free rates on the unmatched book.

- We regularly review the mix of our portfolio, especially in the context of the ongoing accounting losses from the ILBs. We remain convinced that the portfolio composition remains appropriate to mitigate the risks implicit in our long-tail liabilities. I'd remind you again that the performance of these bonds is inversely correlated to reserve releases, where the current benign inflation environment is delivering gains well above our 1.5% of NEP longer term assumption.

- Excluding mark-to-market impacts, the underlying yield income was $253 million, or 2.7% annualised. This is broadly in line with our expectation of an underlying yield of around 80 basis points above the three year risk-free rate.

- Investment income on Shareholders' Funds of $101 million was also below our expectation. This portfolio has also been impacted by the widening of credit spreads along with the lower than expected returns from our domestic and global equity portfolios.

Suncorp Bank

Another period of strong profitability

SUNCORP GROUP

	FY16 ($m)	FY15 ($m)	Change (%)
Net interest income	1,129	1,103	2.4
Net non-interest income	88	107	(17.8)
Total income	1,217	1,210	0.6
Total operating expenses	(639)	(646)	(1.1)
Profit before impairment losses on loans and advances	578	564	2.5
Impairment losses on loans and advances	(16)	(58)	(72.4)
Bank profit before tax	562	506	11.1
Income tax	(169)	(152)	11.2
NPAT	**393**	**354**	**11.0**

Key highlights

- 4.5% total lending growth
- NIM increased to 1.86%
- Cost to income ratio reduced to 52.5%
- Impairment losses reduced to 3 bps of gross loans and advances
- Core banking platform now in place

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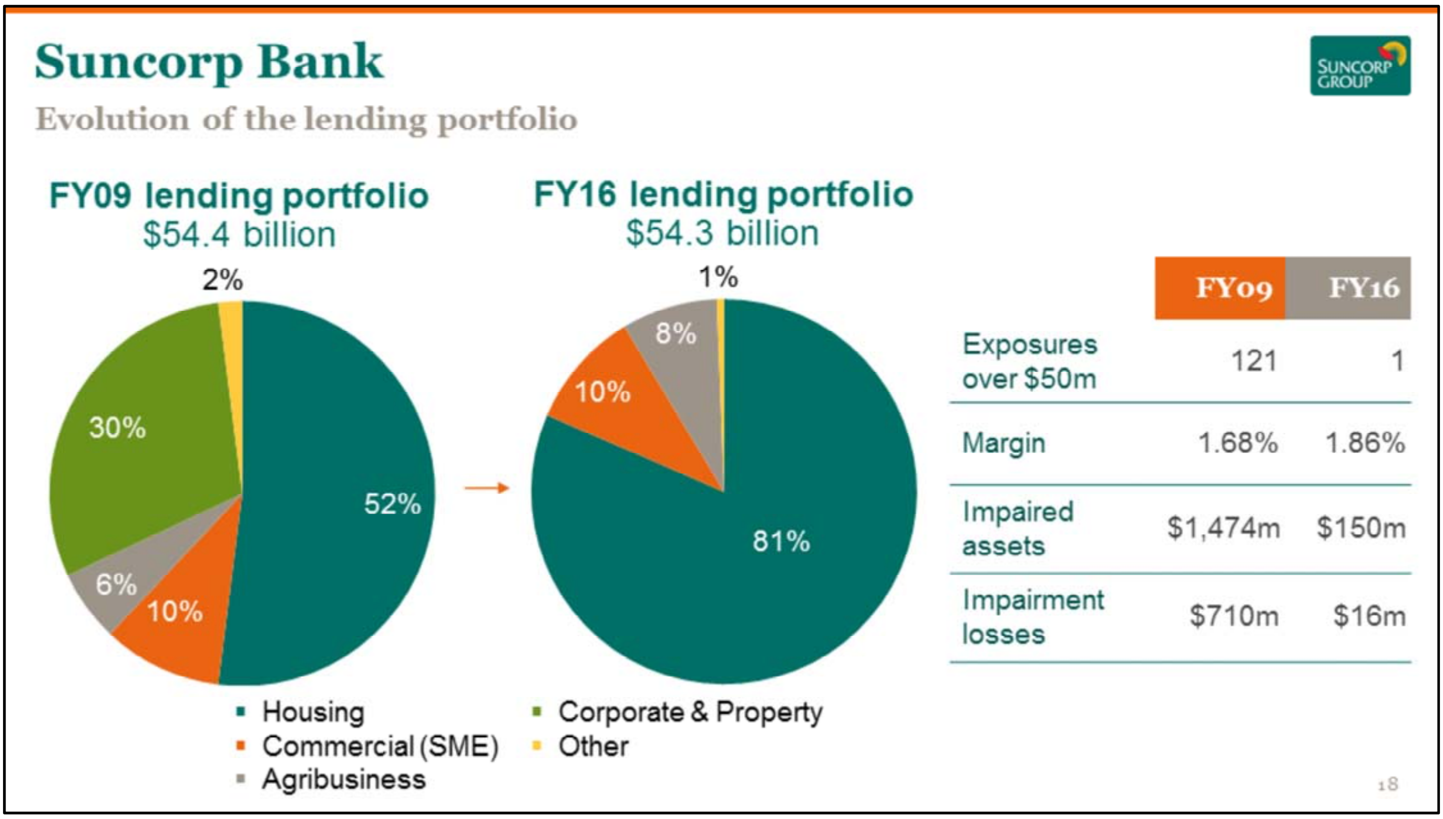
- Turning now to the Bank, where net profit after tax was $393 million, up 11% on FY15.
- Total lending assets grew by 4.5%, with retail lending increasing in line with system at 5.7%.
- The business lending portfolio returned to growth in the second half, reflecting our recent investment in distribution capability and reach. As you would expect we continue to focus on acquiring higher quality lending within our risk appetite. This is particularly the case in our approach to investment lending and property development where we have only minimal exposure to the inner city apartment market and mining or mining services lending.
- Net interest income for the period increased by 2.4% with the net interest margin ending the year at 1.86%, just slightly above the top end of our target range. This is a strong result in the context of cash rate reductions, increased competition and funding cost pressures.
- Disciplined cost management has resulted in lower operating expenses and a cost to income ratio of under 53%, and we remain on track to bring this down to under 50% as we extract the revenue and cost benefits of our new banking platform.
- And finally, a continued focus on credit and disciplined risk management has seen a further reduction in gross impaired assets and impairment losses of $16 million - equating to just 3 basis points of gross loans and advances.



- Those of us who were in this room seven years ago would never have envisaged such a credit outcome. This is a slide I have used before but today it is even more relevant given the Bank balance sheet is now equivalent in size to that pre-GFC. While economic and credit cycles have played a part there can be no disputing the transformation of the Bank and its current status as a low risk contributor to the Group's platform and marketplace strategies.

- It would be remiss of us not to acknowledge the efforts of John, and David Foster before him, and their teams, for putting us in this fantastic position, particularly at a time when the challenges facing all banks are increasing.

- With a modern technology platform coming on line; advanced accreditation imminent and the strength of the Group's A+ credit ratings, capital diversification and product offerings the Bank is now well placed to be the leading regional bank in Australian financial services.

Suncorp Life

Improvement due to $21 million of positive claims and lapse experience

	FY16 ($m)	FY15 ($m)	Change (%)
Planned profit margin release	45	38	18.4
Claims experience	6	8	(25.0)
Lapse experience	15	7	114.3
Other experience	(10)	(8)	25.0
Underlying investment income	31	31	-
Superannuation	37	37	-
Total Life underlying profit after tax	124	113	9.7
Market adjustments	18	12	50.0
NPAT	**142**	**125**	**13.6**

Key highlights

- In-force premium growth and benefits of repricing
- Sustainable growth as in-force premiums increased to $1.0 billion, with focus on value over volume
- Two successive years of positive claims and lapse experience

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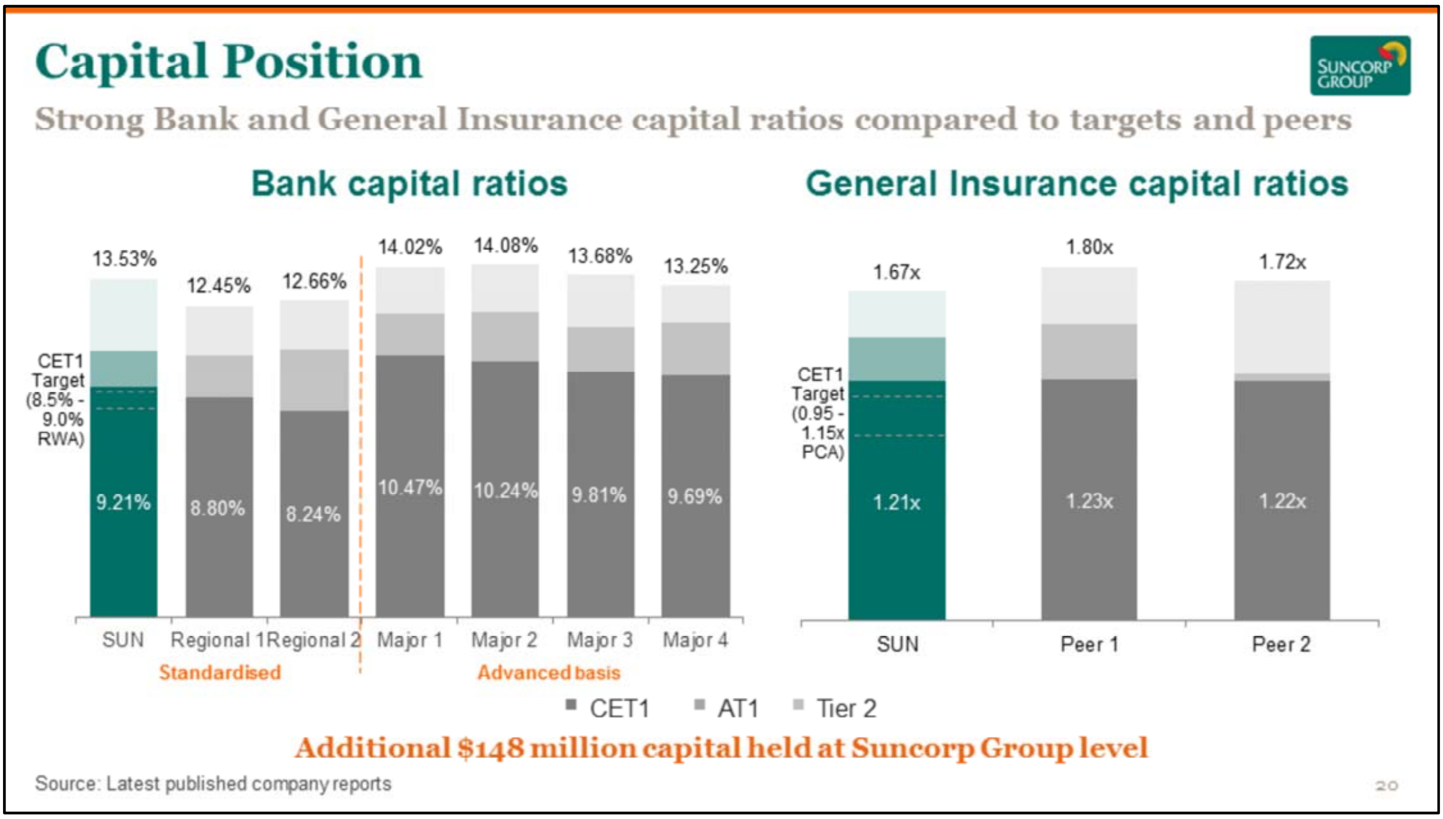
- Moving now to Suncorp Life and the business has delivered a 9.7% improvement in underlying profit. This included positive lapse and claims experience of $21 million.

- Suncorp Life continues to drive sustainable growth across the portfolio with a focus on value over volume. Total in-force premiums increased to just over $1 billion, up 6.4%. Embedded Value increased by 9.4%, now sitting just above $2 billion and the value of one year's sales remained steady.

- During the year, we revised a number of assumptions, reflecting an updated view of future expected experience in lapses and claims, based on new industry claims tables for income protection in Australia. Overall, these changes have had a minimal impact on the P&L and the value of one year's sales and still leave us well placed as the industry continues to transition.

- For the period, direct in-force premiums for products sold through our General Insurance brands continue to show strong growth, increasing by 14.3%. This presents a great opportunity for us under our new operating model.

- The IFA channel remains an important segment for our Life business. Despite regulatory reform being postponed, the market appears to have stabilised, positioning Suncorp well to deliver stable planned margins based on conservative experience assumptions.



- To capital now, and Suncorp continues to remain well capitalised against Common Equity Tier 1 and Tier 2 capital requirements for both the Bank and General Insurance businesses.

- The Bank's CET1 ratio at 9.21% was above its target operating range of 8.5% to 9.0% and the General Insurance CET1 position was 1.21 times the Prescribed Capital Amount, also above its target operating range.

- The Group's excess capital position on a year-on-year basis is comparatively lower. This is due to reduced insurance excess technical provisions, an increase in capital requirements across the business units and capitalised project costs, notably the core banking system. These reductions have been offset to some extent by retained profits, revised corporate level capital targets and a release of Bank reserves held for potential credit losses – the ERCL.

- Heading into FY17 we have had a capital impact from our entry into the South Australian CTP market on 1 July, as we assume the unearned premium liability. But given our capital levels remain above their target ranges, we can comfortably accommodate this small impost.

Medium Term Targets

SUNCORP GROUP

- **Broadening** of customer relationships
- **Cost base flat** in FY17 and FY18
- **Improving** underlying NPAT
- Sustainable **ROE of at least 10%**, which implies an underlying **ITR of at least 12%**
- Maintaining a dividend payout ratio of **60% to 80%** of cash earnings

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- Finally, I'd like to reiterate the medium-term financial targets, which we announced at our investor day in May.
- As Michael has stated, our strategy is focused on broadening our relationships with customers. This will be measured by the increasing number of connected customers, which as he indicated, are delivering retention rates around 96%.
- We expect the Group's operating cost base to remain flat in nominal terms in FY17 and FY18. This takes into account the ongoing benefits from the optimisation program, the operating model restructure and the incremental investment in critical elements of the customer strategy.
- We are focused on improving our underlying NPAT across our business, through driving margins in general insurance back to 12% and reducing the Bank's cost to income ratio. This, combined with moderate growth across the Group, will put us on track to achieving our ambition of a sustainable return on equity of at least 10%.
- Given our strong capital position, I believe that we'll continue to be at the top-end of the 60% to 80% payout ratio. Underpinning our position as one of the higher yielding securities on the ASX.
- I'll now hand back to Michael.

Outlook

'Create a better today'

- Australian economy **still in transition**
- **Global economy impacted** by volatility
- Suncorp is **well positioned** to drive growth and increase **resilience**
- A **'One Suncorp'** approach
- Creating value for **Connected Customers**

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- Turning to the outlook, Suncorp is well placed to deal with the change and volatility in the Australian and global economies.

- First, our investment strategy is being fine-tuned to meet the challenges. This is being led by our new Chief Investment Officer, Patrick Farrell.

- Secondly, our key priorities are to maintain stability and momentum, elevate the customer, and continue to recalibrate costs, and

- Thirdly, we are well capitalised and our diversified earnings base provides a strong foundation to create value, through our 'One Suncorp' business model.

Key Customer Initiatives for 2017

Right

Strengthening core business
- Customer Pathways
- Pain point elimination
- Efficiency

Better

Stretching core business
- New customer access points
- New propositions
- New sources of revenue

Different

Strategic response
- Individuals (not assets)
- Connected Home
- Modular Financial Services

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- As you know, customers are at the heart of our strategy for growth.

- We have structured and balanced our near term customer priorities.

- **Doing it Right** by strengthening our core business.
  We intend to do this through
  - *having holistic conversations to create customer pathways*
  - *removing pain points, particularly around claims, responsiveness and simplicity, and*
  - *efficiencies in technology, people, capital and investments.*

- **Doing it Better**, which is about stretching our core business.
  This means
  - *new ways for customers to access solutions to their needs (stores and new digital platforms)*
  - *new customer propositions in growing markets, such as SMEs, the young and mature*
  - *generating new sources of revenue e.g. an AAMI health offering and a third party annuities offering.*

- **Doing it Differently**, which focuses on our strategic response to future industry disruption.
  - *insuring a person, not an asset*
  - *the Connected Home is the concept of 'The Internet of Things'*
  - *And lastly, the challenge of an increasingly fragmented financial services industry, where providers are becoming more modular.*

- These three streams of activity have been prioritised to 'Create a better today' for all our stakeholders.

Highlights

SUNCORP GROUP

1. Strategy reset to **deliver value to customers**
2. **Operating model aligned** to new strategy
3. Improvements in working claims to **benefit UITR**
4. **Positive top line momentum**
5. Building a more **resilient** business

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- To conclude, and as a backdrop to your questions, let me summarise our presentation today.
- In the last six months,
  - we reset our strategy
  - aligned the operating model, and
  - worked hard to achieve improvements in working claims.
- In a very competitive market, we've delivered top line growth across all of our businesses.
- The bottom line is, we are building a more resilient business.
- Thank you again for joining us today. I'll now hand back to Mark to facilitate our Q&A session.

Thanks Michael.

Reminder to please wait for the microphone before asking questions.

Important disclaimer

This report contains general information which is current as at 4 August 2016. It is information given in summary form and does not purport to be complete.

It is not a recommendation or advice in relation to the Group or any product or service offered by Suncorp or any of its subsidiaries. It is not intended to be relied upon as advice to investors or potential investors, and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice, when deciding if an investment is appropriate.

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The information in this report is for general information only. To the extent that the information may constitute forward-looking statements, the information reflects Suncorp's intent, belief or current expectations with respect to our business and operations, market conditions, results of operations and financial condition, capital adequacy, specific provisions and risk management practices at the date of this report. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks and uncertainties, many of which are beyond Suncorp's control, which may cause actual results to differ materially from those expressed or implied.

Suncorp undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date of this report (subject to ASX disclosure requirements)