

## HIGHER NATURAL HAZARDS AND LOWER INVESTMENT RETURNS IMPACT 1H19 RESULT. UNDERLYING PERFORMANCE STILL STRONG

While the interim result includes natural hazard costs significantly above our allowance, as well as the impact of volatile investment markets, our underlying business remains resilient. We have achieved solid top-line growth, operating expenses are well controlled and the Business Improvement Program has again exceeded targets. The core of our insurance portfolios are performing well and in Banking, strong deposit growth and very low losses helped to counter the slow down in lending across the industry.

Natural hazards, investment performance and unforeseen regulatory costs will impact our full year Cash ROE. However the business is well-placed on an underlying basis to perform in-line with our original expectations.

The financial services industry today faces a great deal of change. This includes future policy settings, shifts in regulation, and material impacts on business and distribution models. I acknowledge the importance of the Royal Commission process, and accept that Suncorp has, at times, fallen short of community expectations.

The work we've done on our business model and strategy, will allow us to navigate the changes ahead. I believe we have the right foundations for sustainable growth. "

**MICHAEL CAMERON**  
CEO & Managing Director



## Outlook and Targets

- Suncorp's FY19 underlying operational performance is tracking in line with expectations.
- The external operating environment, including natural hazards above allowance, investment performance and unforeseen regulatory costs, have impacted the Group's 1H19 result and will impact FY19 Cash ROE.
- Investment in regulatory projects and system enhancements in FY19 is expected to exceed the original estimate of ~\$90m by \$50m. In addition to the \$50m increase in regulatory costs in FY19 it is likely Suncorp will also increase its investment in regulatory projects in FY20 to meet community and customer expectations.
- Suncorp will increase its natural hazard allowance from \$720m to \$820m in FY20 and purchase an additional \$200m natural perils reinsurance cover to sit on-top of the allowance providing a further level of cover that will work in conjunction with Suncorp's main catastrophe program and natural hazard aggregate protection program. This is expected to result in a medium-term impact to underlying ITR from FY20.



## Financial Highlights

Reported net profit after tax

**\$250m**

↓ 44.7% from \$452m in 1H18

- Write down of Life goodwill of \$145m
- Investment market impact of \$140m<sup>1</sup>
- Natural hazard increase of \$167m<sup>1</sup>
- Reserve release increase of \$47m<sup>1</sup>
- Doubling of regulatory project costs to \$39m<sup>1</sup>
- Prior period included \$36m<sup>1</sup> accelerated investment in strategic programs

Cash earnings

**\$413m**

↓ 12.5% from \$472m in 1H18

Fully franked ordinary dividend

**26 cps**

Total payout ratio

**81.4%**

Group underlying insurance trading ratio

**12.2%**

↑ from 9.4% in 1H18

Group top-line growth

**3.2%**

- AU Home and Motor Insurance GWP growth of 3.0%
- Bank lending growth 2.4%
- NZ General Insurance GWP growth of 9.2%

BIP net benefits

**\$95m**



## Result Highlights

- 1 Core Insurance portfolios **performing well**
- 2 **Stable** Bank earnings amid industry slow down
- 3 Business Improvement Program **exceeding targets**
- 4 Digital to drive **retention and new business**
- 5 **Resilient** underlying business

## Insurance (Australia)



“ We achieved Motor & Home GWP growth of 3% and reduced operating expenses by 3.8% (excluding FSL). We delivered a world-class response to the Sydney hailstorm, with a high level of digital claims lodgements, delivering a seamless customer experience.” MICHAEL CAMERON

	1H 19 (\$M)	1H 18 (\$M)	1H 19 vs 1H 18 (%)
General Insurance GWP	4,101	4,004	2.4
Net earned premium	3,689	3,643	1.3
Net incurred claims	(2,855)	(2,724)	4.8
Total operating expenses	(769)	(773)	(0.5)
Insurance trading result	190	266	(28.6)
Insurance (Australia) NPAT	133	234	(43.2)

- Insurance (Australia) profit after tax decreased 43.2%, with an improvement in underlying margins offset by an increase in natural hazard claims costs and the negative impact of investment market movements.
- The Home and Motor portfolios achieved GWP growth of 3.0%, with increases in average written premium more than offsetting a reduction in units.
- While CTP GWP decreased by 5.7% due to schemereform, national market share has been maintained.
- Net incurred claims increased by 4.8% driven by higher natural hazard costs and the impact of risk free rate movements, partly offset by continued benefits from BIP and improvements in working claims loss ratios.
- Net reserve releases of \$170m, well above the long-run expectations of 1.5% of net earned premium.
- Total investment income was \$122m, representing an annualised return of 2.0% for the half year.

### Australian Life Business held for sale

- The Australian Life Business held for sale after tax profit of \$23m, down 45.2%, reflects reduced experience profits, partially offset by one-off adjustments in the Wealth business.
- Suncorp continues to target a completion date of 28 February 2019 for the sale of the business to TAL Dai-ichi Life Australia Pty Limited, subject to the receipt of regulatory approvals.
- As previously disclosed, the sale is expected to result in an after tax non-cash loss on sale of approximately \$880m, to be reflected in the FY19 result.
- Following completion of the sale, Suncorp intends to return approximately \$600m of capital to shareholders.
- Suncorp will also commence a 20-year strategic alliance with TAL to offer market-leading life insurance solutions through Suncorp's Australian distribution channels.

## Banking & Wealth



“ Our investment in enhancing digital capability and self-service, as well as our recently announced five-year partnership deal with Australia Post, is part of our ongoing commitment to make it easy for customers to interact with us on their terms.” MICHAEL CAMERON

	1H 19 (\$M)	1H 18 (\$M)	1H 19 vs 1H 18 (%)
Banking profit after tax	182	191	(4.7)
Wealth profit after tax	1	(6)	n/a
Banking & Wealth profit after tax	183	185	(1.1)
Total housing loans	47,982	46,940	2.2
Total consumer lending	162	250	(35.2)
Total business lending	11,026	10,569	4.3
Total lending	59,170	57,759	2.4
Total customer funding	39,357	38,022	3.5

- Strong at-call deposit growth materially above system, underpinned by investment in digital capability.
- Home lending grew 2.2% within a competitive and slowing mortgage market. Business lending grew 4.3%, reflecting growth in commercial lending and a reduction in the agribusiness portfolio.
- NIM of 1.79% reflects strong growth in at-call deposits, offset by a sustained elevation of funding costs and strong competition within a slowing mortgage market.
- Banking impairment losses of 2bps of GLA, below the long-run operating range of 10 to 20 bps, reflects the sound credit quality of the lending portfolio.
- Wealth profit after tax increased \$7m following the completion of the Super Simplification Program in FY18.

# New Zealand



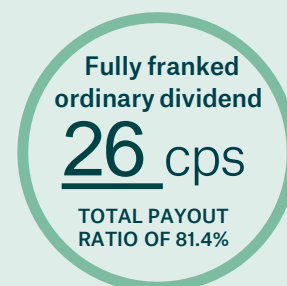
“ Strong top-line growth across all portfolios has driven an 82% improvement in New Zealand NPAT. The result reflects the benign weather and favourable working claims experience. The outlook for our New Zealand business is positive, with market growth expected to moderate over the medium term. ” MICHAEL CAMERON

	1H 19 (\$M)	1H 18 (\$M)	1H 19 vs 1H 18 (%)
General Insurance GWP	768	703	9.2
Net earned premium	641	564	13.7
Net incurred claims	(315)	(319)	(1.3)
Total operating expenses	(201)	(182)	10.4
General Insurance NPAT	95	46	106.5
Life Insurance NPAT	16	15	6.7
New Zealand NPAT	111	61	82.0

- Improvement in the General Insurance result was driven by strong top-line growth and favourable natural hazard and working claims experience.
- Reported insurance margins improved with an ITR of 20.6%, up from 12.4% in 1H18.
- GWP grew by 9.2% to A\$768m, driven by premium increases across all portfolios and supported by unit growth.
- New Zealand Life in-force premium grew 4%, supported by strong policy retention.

## Capital and Dividend

- Suncorp maintains a strong capital position with all businesses holding CET1 in excess of targets. The Group's excess to CET1 target is \$434m after adjusting for the interim dividend.
- Suncorp's cash earnings and strong balance sheet position has led to a fully franked interim ordinary dividend of 26 cents per share. This equates to a payout ratio of 81.4% of cash earnings.
- As announced on 4 September 2018, following completion of the sale of the Australian Life Business, Suncorp intends to return approximately \$600m of capital to shareholders.
- Suncorp remains committed to returning excess capital to shareholders.



## FY19 Outlook

“ External factors including natural hazard costs above allowance, investment market volatility and higher than expected regulatory costs post Royal Commission have impacted the Group's 1H19 result and expectations for the FY19 reported Cash ROE. Our underlying performance demonstrates that we are well positioned to deliver strong and sustainable shareholder returns. ” MICHAEL CAMERON

- Group top-line growth of 3 - 5%.
- Investment in regulatory projects and system enhancements expected to exceed the original estimate of ~\$90m by \$50m, as a consequence of an increase in regulatory projects and following a preliminary assessment of the Royal Commission recommendations.
- Underlying ITR of at least 12% to be supported by BIP and earnings impact of repricing and unit growth throughout FY18.
- Elevated funding costs and a competitive and slowing credit market will impact the Bank's ability to meet its CTI and NIM targets. CTI for FY19 is now forecast to be consistent with 1H19 and NIM expected to be at or just below the 1.8%-1.9% target range.
- Reserve releases are expected to remain above 1.5% of NEP, provided the benign inflationary environment continues.
- Suncorp will seek to maintain an ordinary dividend payout ratio of 60% to 80% of cash earnings and remains committed to returning surplus capital to shareholders.
- The BIP program is expected to exceed its original target for FY19 of \$195m. Net benefits are now expected to be in excess of \$225m in FY19.
- Suncorp remains well placed to mitigate the impact of further natural hazard events in 2H19 through a combination of its main catastrophe program, dropdown aggregate protection and natural hazard aggregate protection.

# Contribution to profit by function

	Half Year Ended			Dec-18	Dec-18
	Dec-18	Jun-18	Dec-17	vs Jun-18	vs Dec-17
	\$M	\$M	\$M	%	%
<b>Insurance (Australia)</b>					
Gross written premium	4,101	4,133	4,004	(0.8)	2.4
Net earned premium	3,689	3,548	3,643	4.0	1.3
Net incurred claims	(2,855)	(2,333)	(2,724)	22.4	4.8
Operating expenses	(769)	(733)	(773)	4.9	(0.5)
Investment income - insurance funds	125	138	120	(9.4)	4.2
Insurance trading result	190	620	266	(69.4)	(28.6)
Other income	(15)	20	62	n/a	n/a
Profit before tax	175	640	328	(72.7)	(46.6)
Income tax	(42)	(193)	(94)	(78.2)	(55.3)
<b>Insurance (Australia) profit after tax</b>	<b>133</b>	<b>447</b>	<b>234</b>	<b>(70.2)</b>	<b>(43.2)</b>
<b>Banking &amp; Wealth</b>					
Net interest income	585	583	598	0.3	(2.2)
Net non-interest income	23	26	34	(11.5)	(32.4)
Operating expenses	(341)	(332)	(347)	2.7	(1.7)
Profit before impairment losses on loans and advances	267	277	285	(3.6)	(6.3)
Impairment losses on loans and advances	(7)	(14)	(13)	(50.0)	(46.2)
Banking profit before tax	260	263	272	(1.1)	(4.4)
Income tax	(78)	(79)	(81)	(1.3)	(3.7)
<b>Banking profit after tax</b>	<b>182</b>	<b>184</b>	<b>191</b>	<b>(1.1)</b>	<b>(4.7)</b>
<b>Wealth profit after tax <sup>(1)</sup></b>	<b>1</b>	<b>-</b>	<b>(6)</b>	<b>n/a</b>	<b>n/a</b>
<b>Banking &amp; Wealth profit after tax</b>	<b>183</b>	<b>184</b>	<b>185</b>	<b>(0.5)</b>	<b>(1.1)</b>
<b>New Zealand</b>					
Gross written premium	768	719	703	6.8	9.2
Net earned premium	641	604	564	6.1	13.7
Net incurred claims	(315)	(363)	(319)	(13.2)	(1.3)
Operating expenses	(201)	(190)	(182)	5.8	10.4
Investment income - insurance funds	7	5	7	40.0	-
Insurance trading result	132	56	70	135.7	88.6
Other income	2	13	(3)	(84.6)	n/a
Profit before tax	134	69	67	94.2	100.0
Income tax	(39)	(16)	(21)	143.8	85.7
<b>General Insurance profit after tax</b>	<b>95</b>	<b>53</b>	<b>46</b>	<b>79.2</b>	<b>106.5</b>
<b>Life Insurance profit after tax</b>	<b>16</b>	<b>21</b>	<b>15</b>	<b>(23.8)</b>	<b>6.7</b>
<b>New Zealand profit after tax</b>	<b>111</b>	<b>74</b>	<b>61</b>	<b>50.0</b>	<b>82.0</b>
<b>Profit after tax from ongoing functions</b>	<b>427</b>	<b>705</b>	<b>480</b>	<b>(39.4)</b>	<b>(11.0)</b>
<b>Australian Life Business held for sale profit after tax</b>	<b>23</b>	<b>36</b>	<b>42</b>	<b>(36.1)</b>	<b>(45.2)</b>
<b>Profit after tax from functions</b>	<b>450</b>	<b>741</b>	<b>522</b>	<b>(39.3)</b>	<b>(13.8)</b>
Marketplace acceleration investment	-	(110)	(36)	(100.0)	(100.0)
Other profit (loss) before tax <sup>(2)</sup>	(40)	(32)	(31)	25.0	29.0
Income tax	3	27	17	(88.9)	(82.4)
<b>Other profit (loss) after tax</b>	<b>(37)</b>	<b>(115)</b>	<b>(50)</b>	<b>(67.8)</b>	<b>(26.0)</b>
<b>Cash earnings</b>	<b>413</b>	<b>626</b>	<b>472</b>	<b>(34.0)</b>	<b>(12.5)</b>
Acquisition amortisation (after tax) <sup>(3)</sup>	(163)	(19)	(20)	n/a	n/a
<b>Net profit after tax</b>	<b>250</b>	<b>607</b>	<b>452</b>	<b>(58.8)</b>	<b>(44.7)</b>

1. Wealth profit after tax comparatives have been restated to adjust for the participating Wealth business included in the Australian Life Business held for sale. 2. 'Other' includes investment income on capital held at the Group level (Dec-18: \$13m, Jun-18: \$7m), consolidation adjustments and transaction costs (Dec-18: loss \$11m, Jun-18: loss \$8m), non-controlling interests (Dec-18: loss \$9m, Jun-18: loss \$4m), net external funding expense (Dec-18: \$33m, Jun-18: \$27m). 3. Acquisition amortisation includes a \$145m write down of goodwill relating to the sale of the Australian Life business.