

Financial Results

**For the half year ended
31 December 2022**

8 February 2023

SUNCORP GROUP LIMITED | ABN 66 145 290 124



1H23 Overview

Steve Johnston

Group Chief Executive Officer

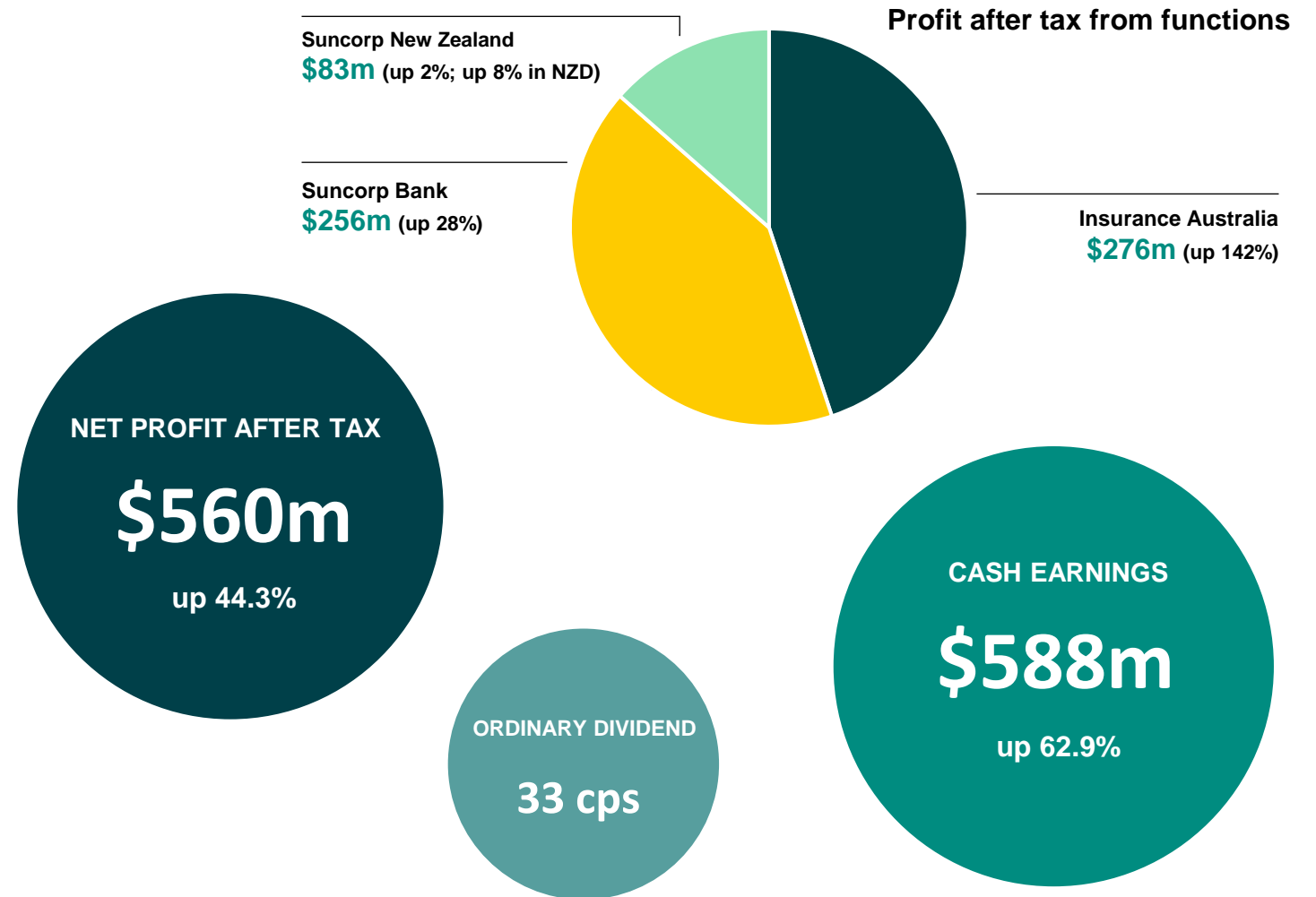
Purpose driven, delivering sustainable outcomes



Group result

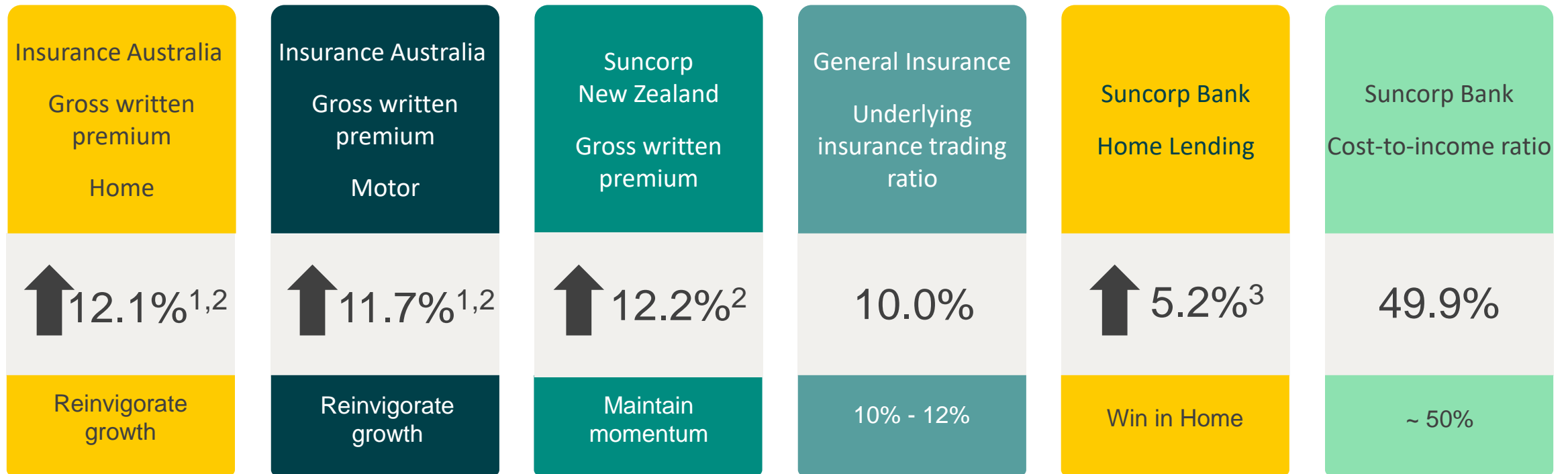
Strong top-line growth and continued margin expansion

- Strong top-line growth and underlying momentum across all businesses
- Impacts of high inflation persisting
- Ongoing elevated natural hazard activity
- Improved investment returns driven by higher running yields
- Fully franked ordinary dividend of 33 cents per share representing a payout ratio of 71% of cash earnings
- FY23 targets reaffirmed



Result highlights

Strong top-line growth and underlying momentum across the Group

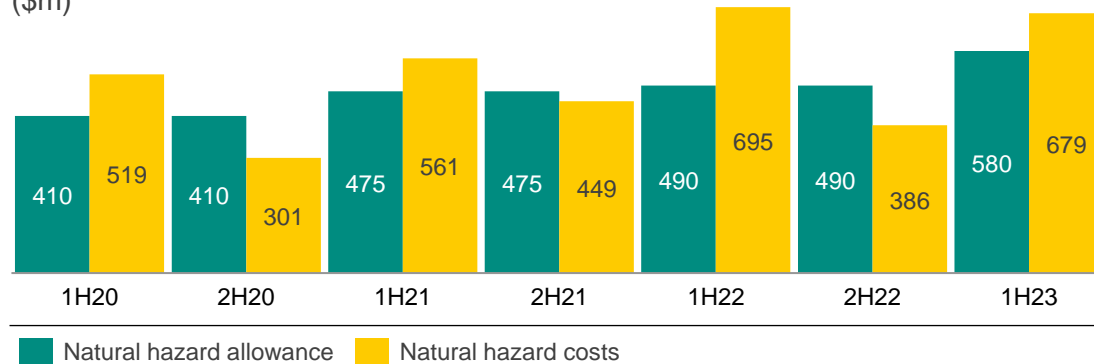


1. Excluding emergency services levies and portfolio exits; 2. Increase on prior corresponding period; 3. Growth in 1H23.

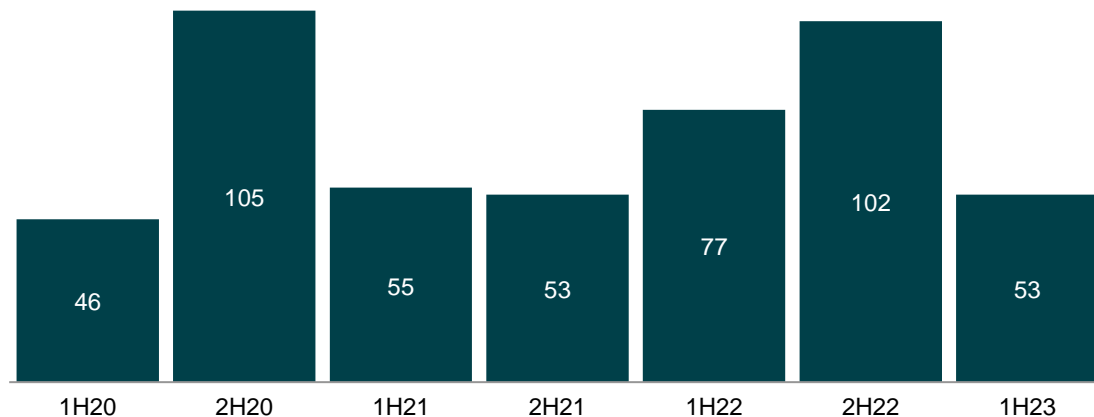
Operational spotlight – natural hazards

NATURAL HAZARD COSTS VS ALLOWANCE

(\$m)



NUMBER OF NATURAL HAZARD CLAIMS ('000)



FOUR-POINT PLAN TO ADDRESS NATURAL HAZARD RESILIENCE





- 1 Improve public infrastructure
- 2 Provide subsidies to improve the resilience of private dwellings
- 3 Address inadequate planning laws and approval processes
- 4 Remove inefficient taxes and charges from insurance premiums

GOVERNMENT COMMITMENTS TO RESILIENCE INVESTMENT





- \$800m Northern Rivers Resilient Homes Fund
- \$741m Queensland Resilient Homes Fund
- \$200m per annum Australian Government Disaster Ready Fund

Operational spotlight – inflation

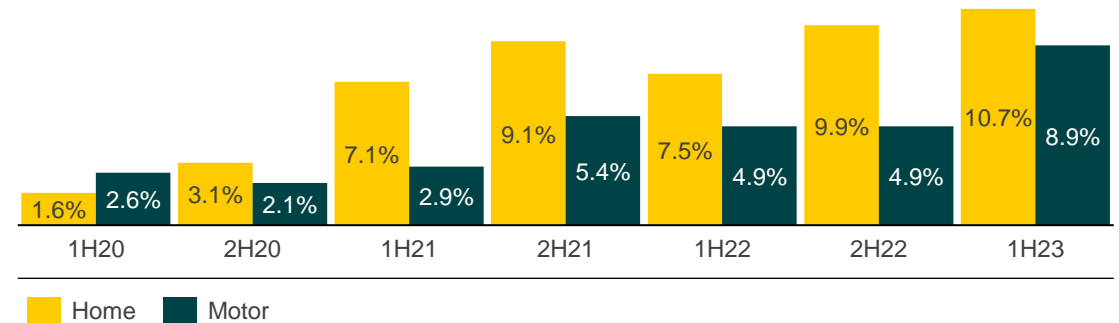
CLAIMS IMPACT

	Higher second hand car prices		Higher frequency
	Supply chain pressures		Hardening global reinsurance prices

SUNCORP RESPONSE

	Pricing to respond		Investment in additional repair capacity
	Digital capability uplift		Successful renewal of Home repairer panel

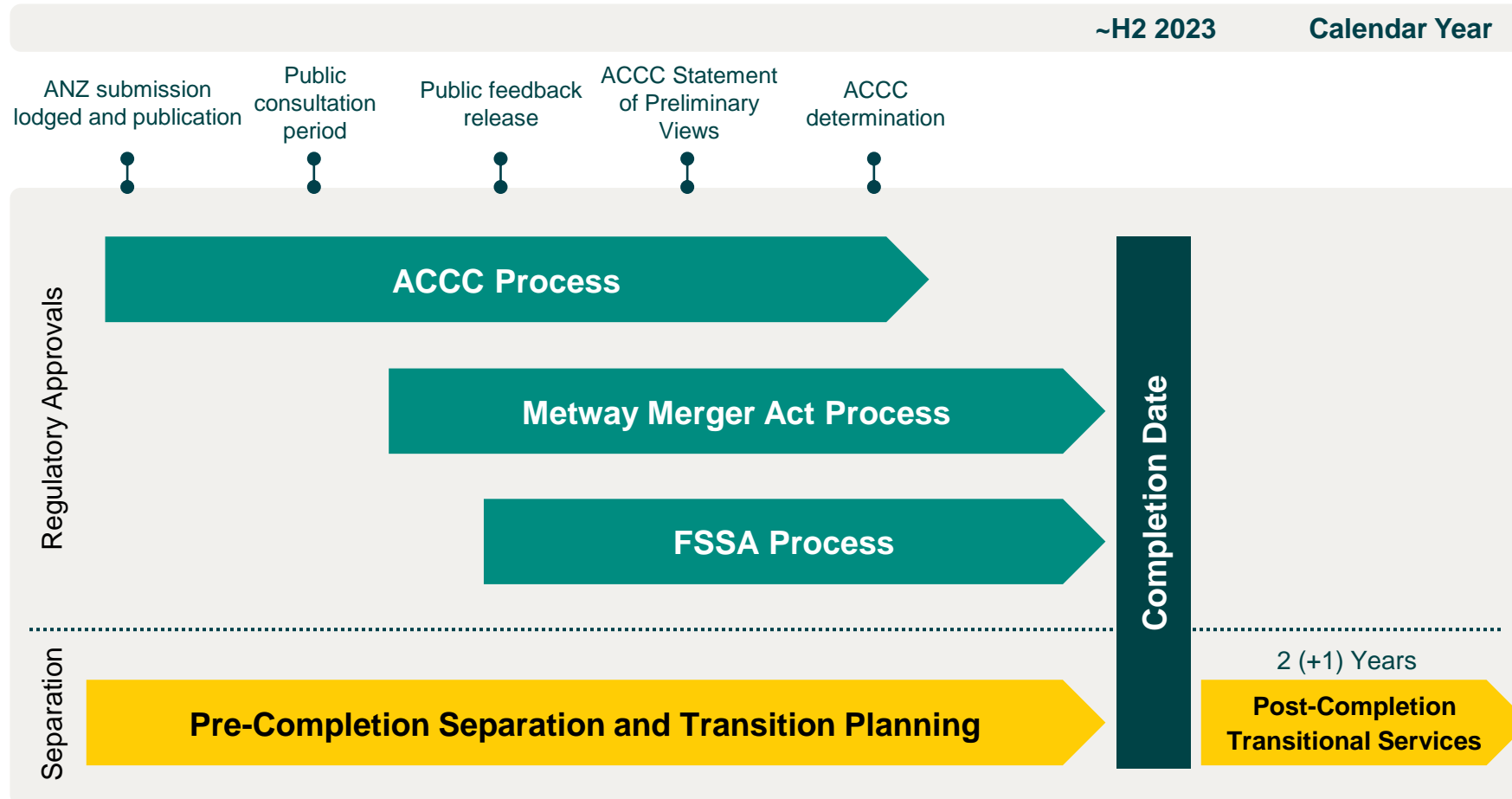
PRICING RESPONSE – NORMALISED AVERAGE WRITTEN PREMIUM



NOTES

- Higher reinsurance and natural hazards costs, and global supply chain constraints remain a challenge across Home and Motor
- Price rises in response to these pressures, with capacity for ongoing hardening, where necessary
- Some mitigation from the successful renewal of Home repairer panel and the relationship with motor repair specialists
- Operating expenses benefitting from strategic investments
- Inflation-Linked Bonds performing well
- Bank margin benefit but cost pressures exist
- Reserve releases to moderate

Pathway to Bank completion and transition



NOTES

- Bank sale process progressing subject to approvals
- We continue to work co-operatively with regulators and government
- Targeted completion remains second half 2023
- Expected financial outcomes relating to the sale are unchanged



1H23 Financial Results

Jeremy Robson

Group Chief Financial Officer

Group result overview

Continued margin expansion and strong top-line growth

	1H23 (\$m)	1H22 (\$m)	Change (%)
Insurance Australia	276	114	142.1
Suncorp Bank	256	200	28.0
Suncorp New Zealand	83	81	2.5
Cash earnings	588	361	62.9
Group net profit after tax	560	388	44.3
Ordinary dividend (cents per share)	33	23	43.5
CET1 held at Group	290		

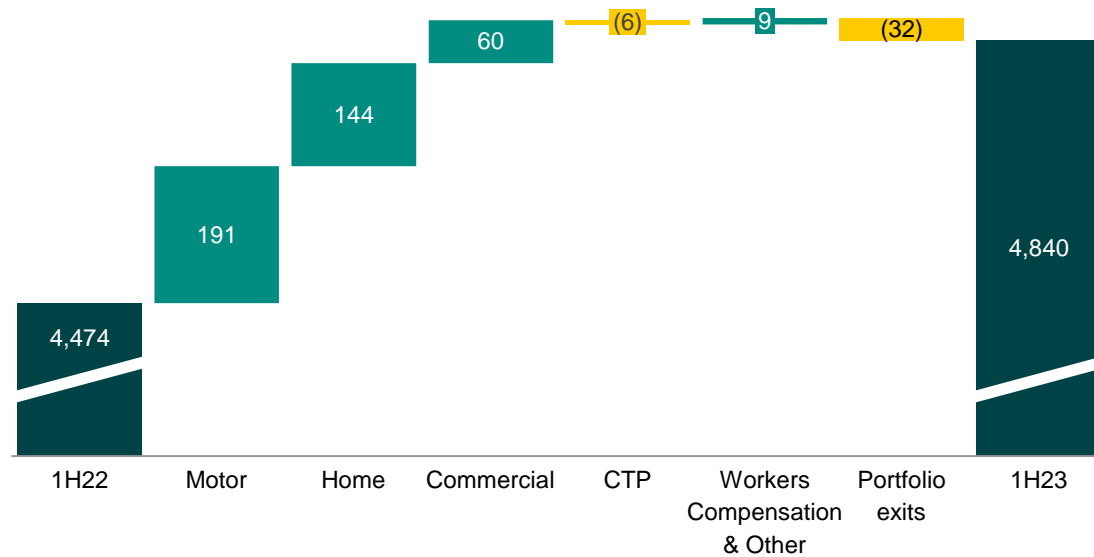
KEY MESSAGES

- Strong top-line growth and underlying momentum
- Inflationary pressures and natural hazard costs driving price increases
- Improved investment returns driven by higher running yields and ILBs
- Capital position improved as previous temporary impacts unwind
- FY23 targets reaffirmed

Insurance Australia – gross written premium

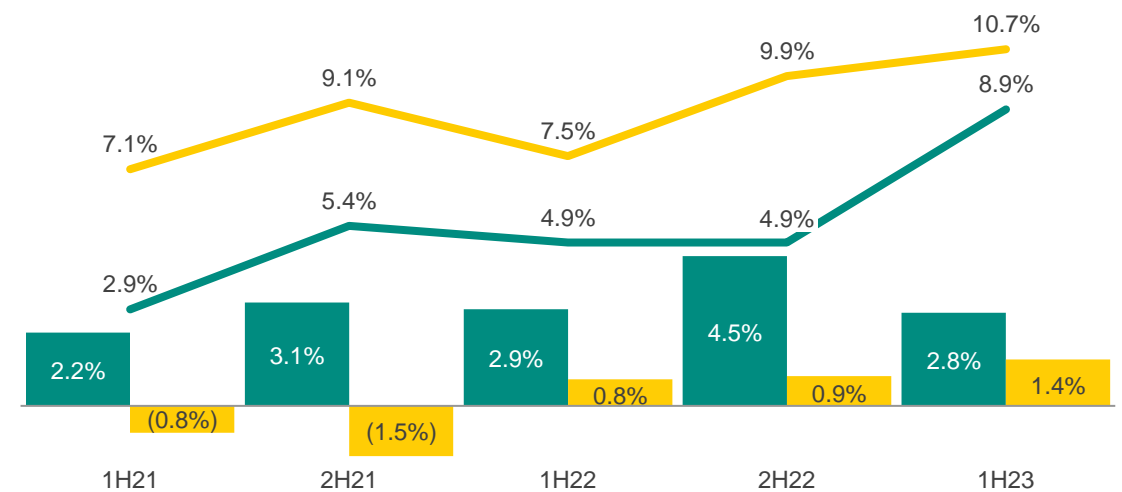
GROSS WRITTEN PREMIUM BY PORTFOLIO

(excluding ESL; \$m)

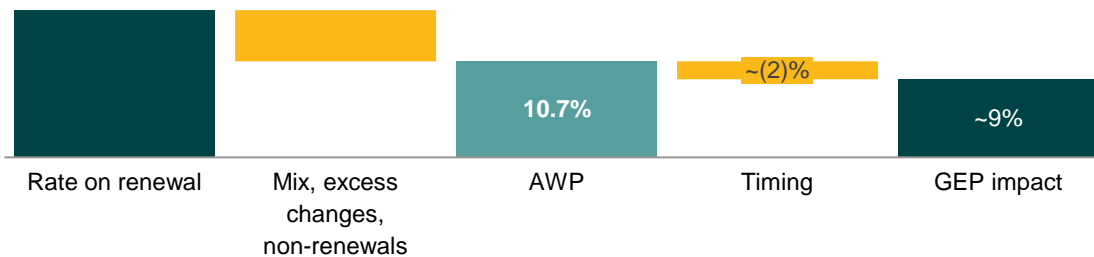


HOME AND MOTOR PORTFOLIO GROWTH

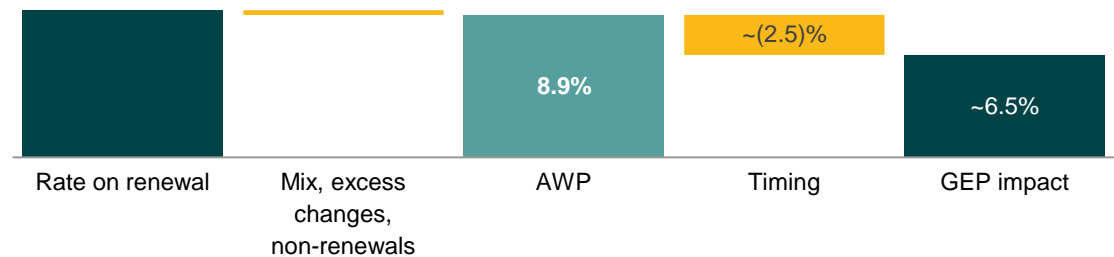
(versus pcp; normalised for portfolio exits)



HOME PREMIUM WALK

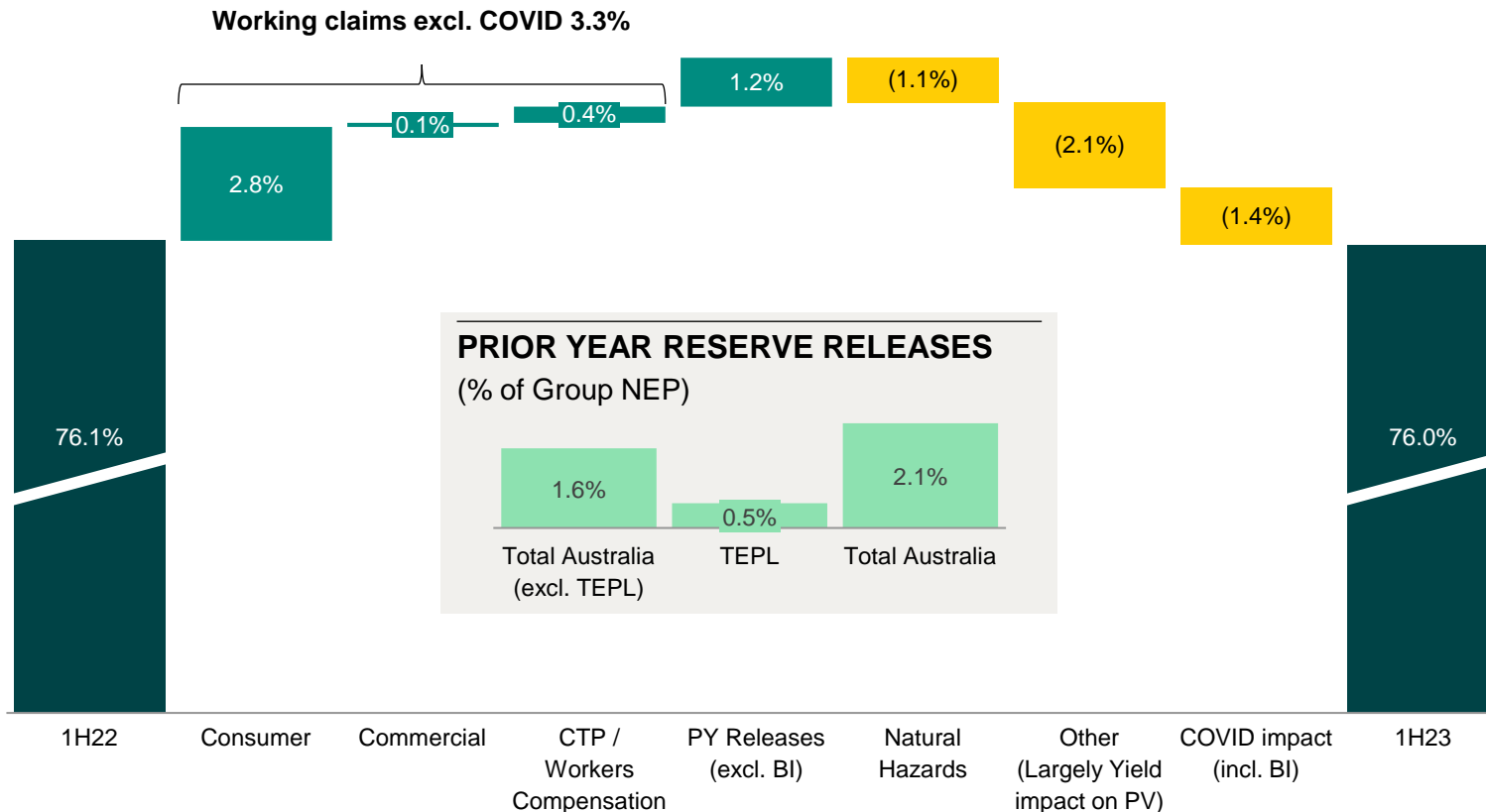


MOTOR PREMIUM WALK



Insurance Australia – net loss ratio

NET LOSS RATIO BY PORTFOLIO



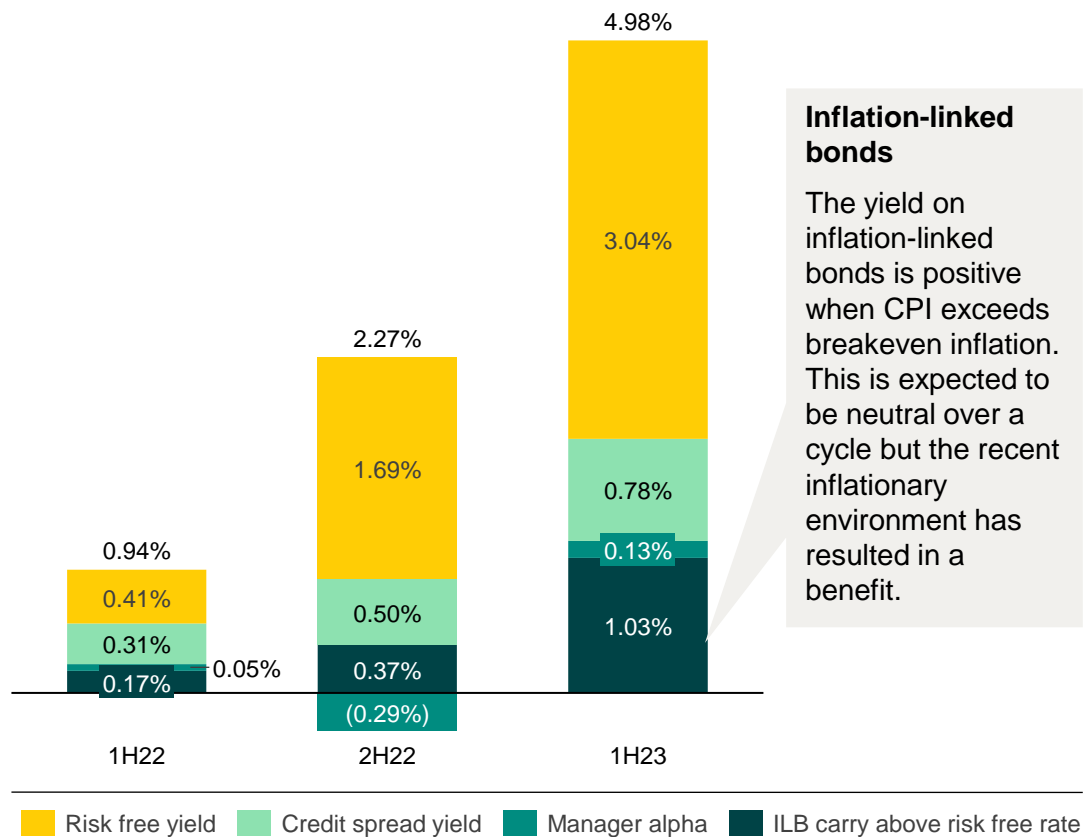
NOTES

- Deterioration in Consumer largely due to an increase in average claims size in the motor portfolio
- Increased loss ratio in Motor driven by both increased claims costs (second hand car prices, supply chain disruptions) and frequency
- Prior year reserve releases reduced (excluding BI) driven by lower prior year natural hazard adjustments and a lower TEPL adjustment
- Natural hazards costs positively impacted the net loss ratio due to rising premiums
- COVID impact includes the release of the majority of the BI provision, partially offset by a reversion to pre-COVID driving patterns

Insurance Australia – investment market impacts

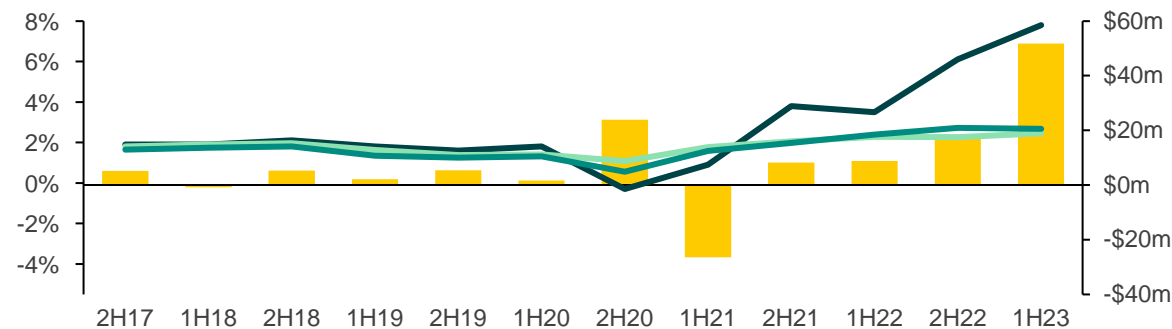
UNDERLYING YIELD ON INSURANCE FUNDS

(annualised)



Inflation-linked bonds
The yield on inflation-linked bonds is positive when CPI exceeds breakeven inflation. This is expected to be neutral over a cycle but the recent inflationary environment has resulted in a benefit.

ILB CARRY ABOVE RISK FREE / CPI VS BREAKEVEN INFLATION

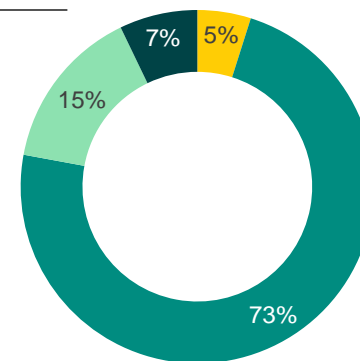


■ ILB Carry over RF (RHS) — CPI (LHS) — 5 Year Breakeven (LHS) — 10 Year Breakeven (LHS)

PORTFOLIO ASSET ALLOCATION

(% of total investment assets)

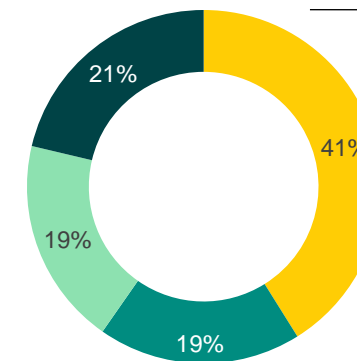
- Fixed income
- Cash
- Growth
- Inflation linked



FIXED INCOME INVESTMENT GRADE

(% of total fixed income)

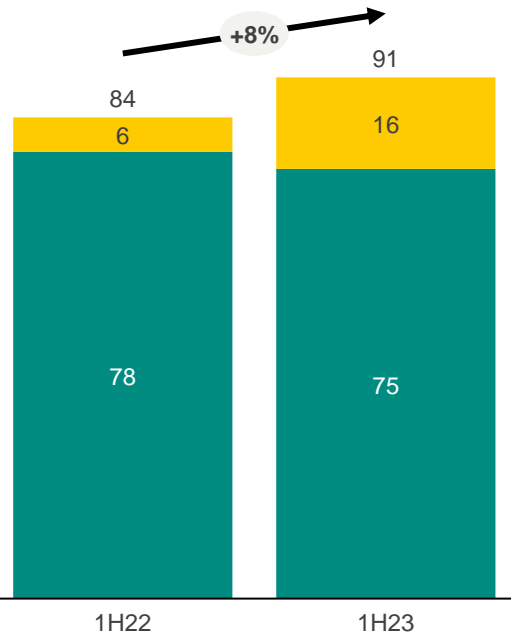
- AAA
- AA
- A
- BBB



New Zealand

NEW ZEALAND PAT

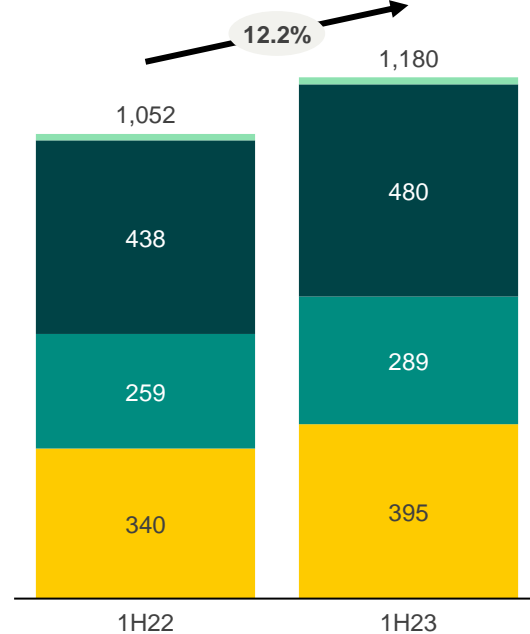
(NZ\$m)



Life Insurance
General Insurance

GROSS WRITTEN PREMIUM

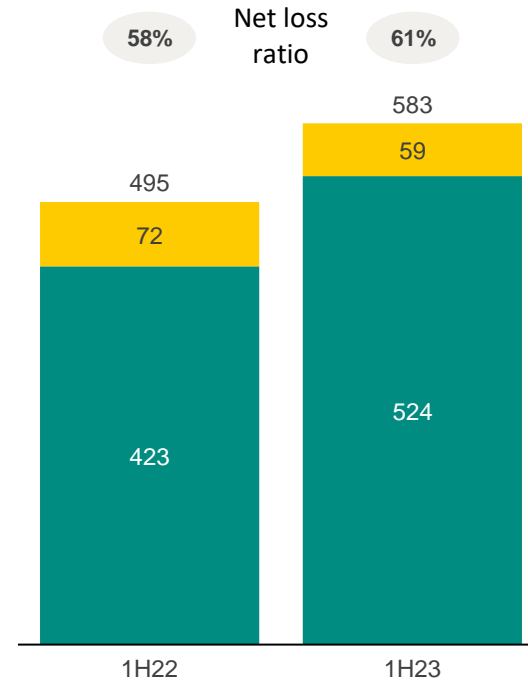
(NZ\$m)



Other
Commercial
Motor
Home

NET INCURRED CLAIMS

(NZ\$m)



Natural hazards
Working claims & other

NOTES

- Strong GWP growth with pricing reflecting inflationary pressures
- Increased market share
- General Insurance profit moderated by elevated property claims in Q1 and prior year reserve strengthening, with COVID-19 frequency benefits in the prior period
- Increased investment returns due to higher running yields
- Life Insurance profit increased due to growth in planned profit margins and favourable experience
- A significant flooding event occurred in January – the Group’s maximum retention is NZ\$50m

Group underlying ITR

FUNDAMENTAL UTR DRIVER ANALYSIS

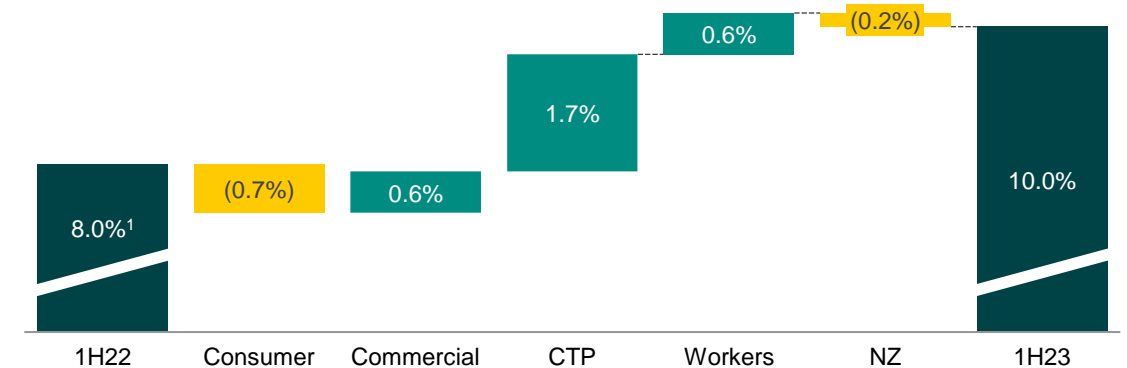
	Outlook dynamics		
	1H23 vs 2H22	2H23 vs 1H23	Medium term
2H22 UTR	9.9%		
Natural Hazards / Reinsurance	~(400)bps	Neutral	Headwind
Expenses	~100bps	Neutral ²	Neutral ²
Investment income	~300bps	Neutral	Moderating
GEP	~700bps	Tailwind	Tailwind
Claims	~(700)bps	Moderating	Moderating
1H23 UTR	10.0%		

1. Excludes COVID impact of 1.9%; 2. Expenses outlook on a ratio basis.

NOTES

- Underlying ITR was impacted in the half by an increase in the natural hazard allowance and reinsurance costs, as well as working claims, especially in Motor
- The pricing response to these impacts is reflected in the positive contribution of GEP, noting the timing differences as these increases earn through
- Investment income was positively impacted by higher running yields
- FY23 target remains at 10-12%

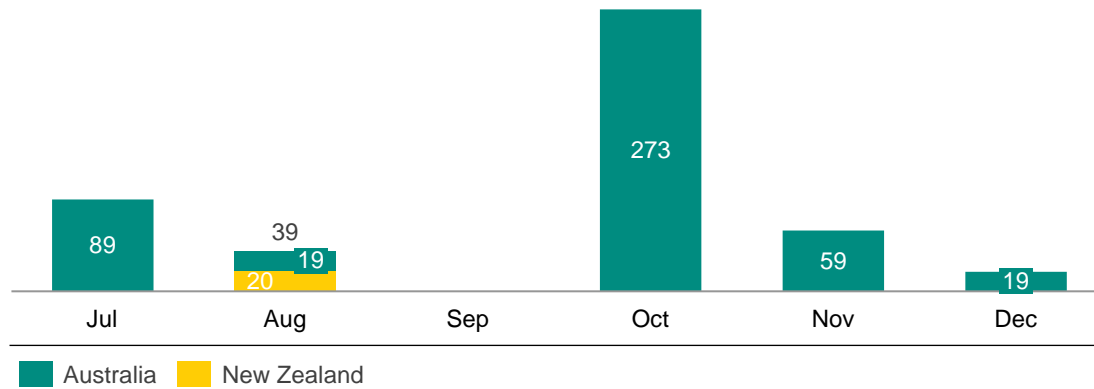
GROUP UNDERLYING INSURANCE TRADING RATIO 1H22 TO 1H23 (Portfolio view)



Natural hazards

EVENTS OVER \$10 MILLION BY MONTH

(\$m)

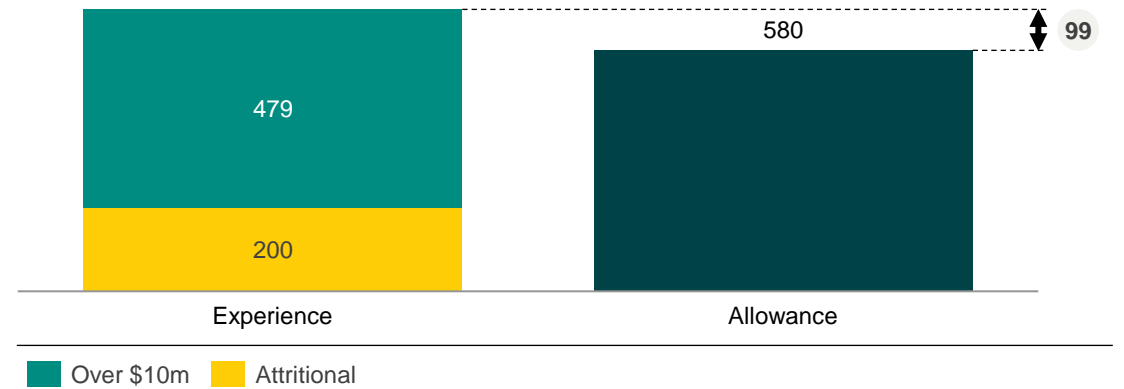


NOTES

- Natural hazard events in 1H23 reflected persisting La Nina weather pattern
- More neutral weather pattern now expected after 3 consecutive years of La Nina
- Expect to be within allowance for the full year
- Reinsurance market remains in hardening cycle ahead of FY24 renewal
- Suncorp continues to prepare for the implementation of the cyclone reinsurance pool in 2023
- The increased cap for house policies announced by the NZ Earthquake Commission is not expected to have a material impact

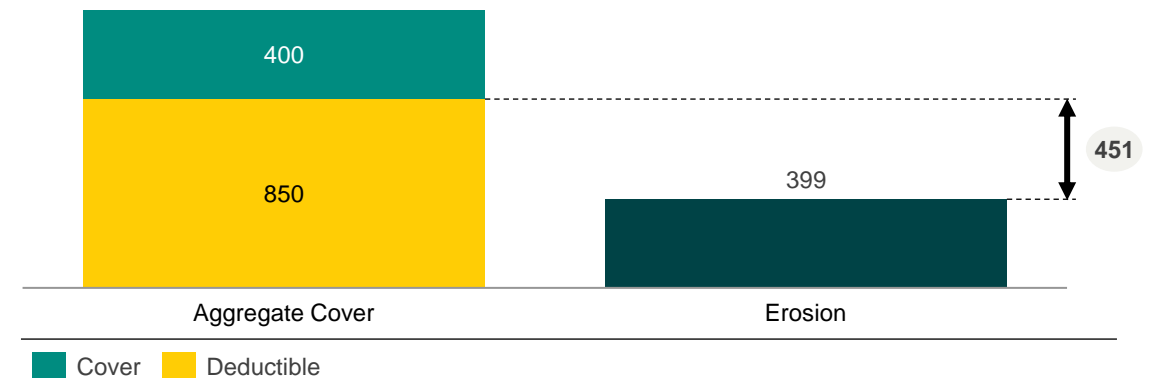
1H23 NATURAL HAZARDS VS ALLOWANCE

(\$m)



EROSION OF AGGREGATE EXCESS OF LOSS (AXL) DEDUCTIBLE

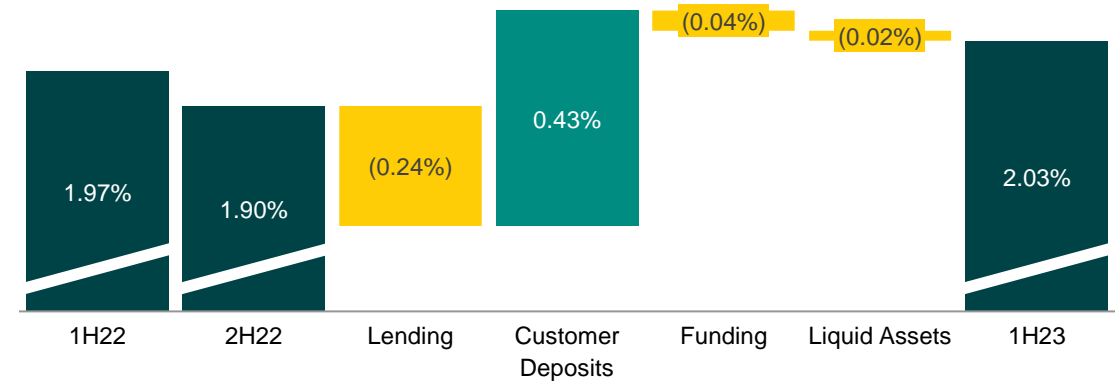
(\$m)



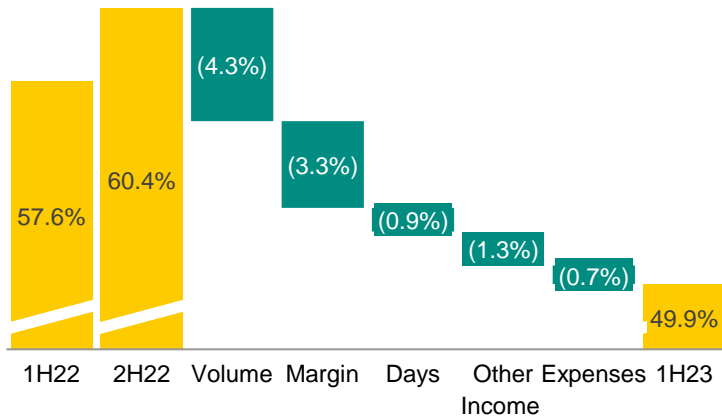
Suncorp Bank

	1H23 (\$m)	2H22 (\$m)	1H22 (\$m)	1H23 v 2H22 (%)	1H23 v 1H22 (%)
Net interest income	725	624	621	16.2	16.7
Other operating income	8	(11)	14	n/a	(42.9)
Operating expenses	(366)	(370)	(366)	1.1	-
Operating profit	367	243	269	51.0	36.4
Impairment release / (expense)	(2)	(2)	16	-	n/a
Income tax	(109)	(73)	(85)	(49.3)	(28.2)
Suncorp Bank profit after tax	256	168	200	52.4	28.0

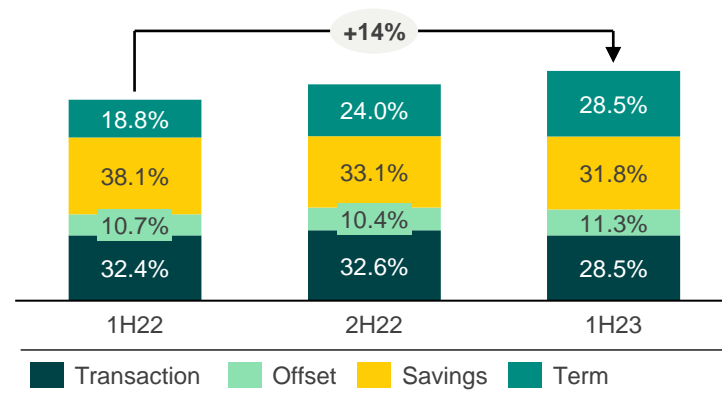
NET INTEREST MARGIN



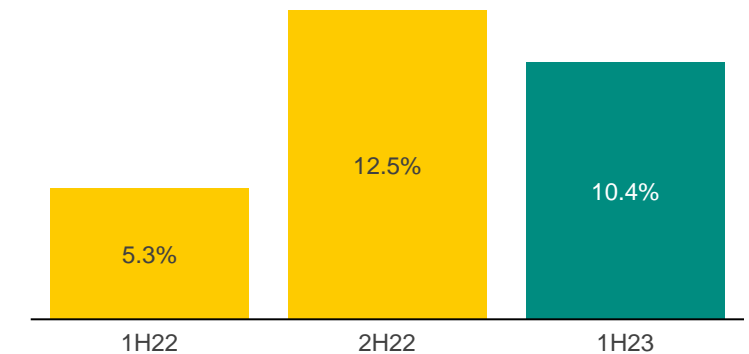
1H23 CTI DRIVERS



DEPOSIT GROWTH AND COMPOSITION

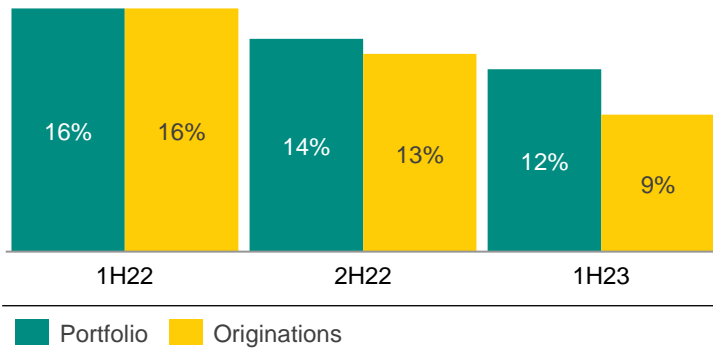


HOME LENDING GROWTH (Annualised)

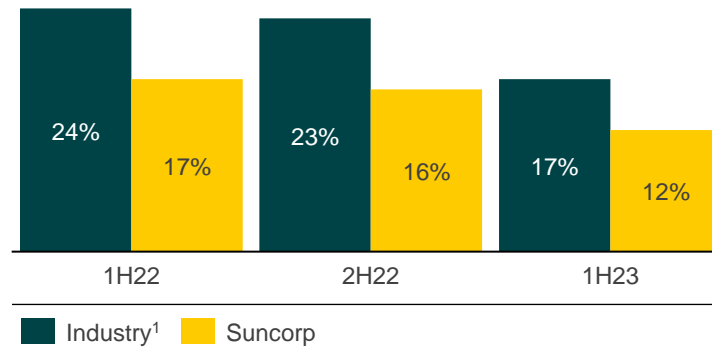


Suncorp Bank – credit quality

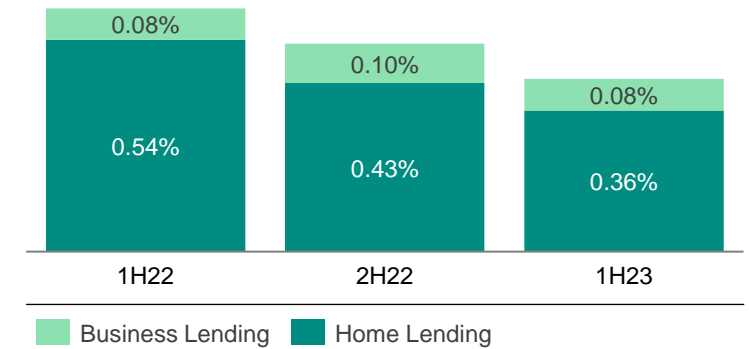
HOME LENDING: LOAN-TO-VALUE >80



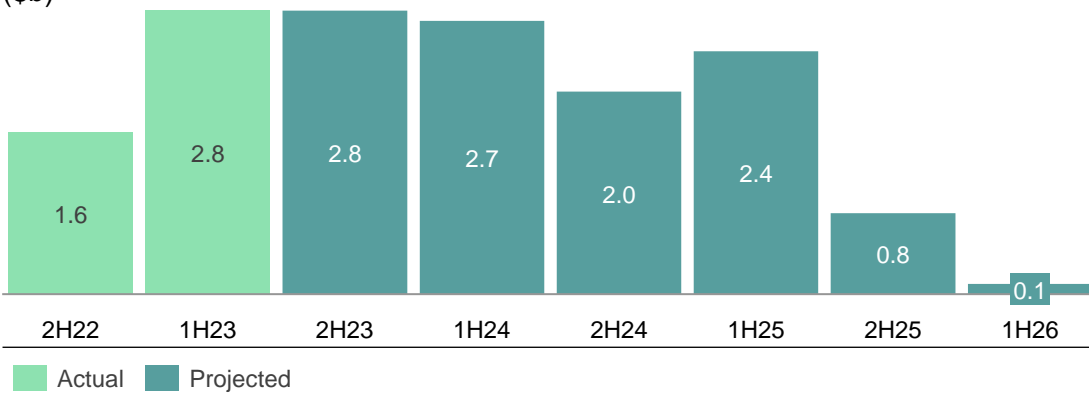
ORIGINATIONS: DEBT-TO-INCOME >6



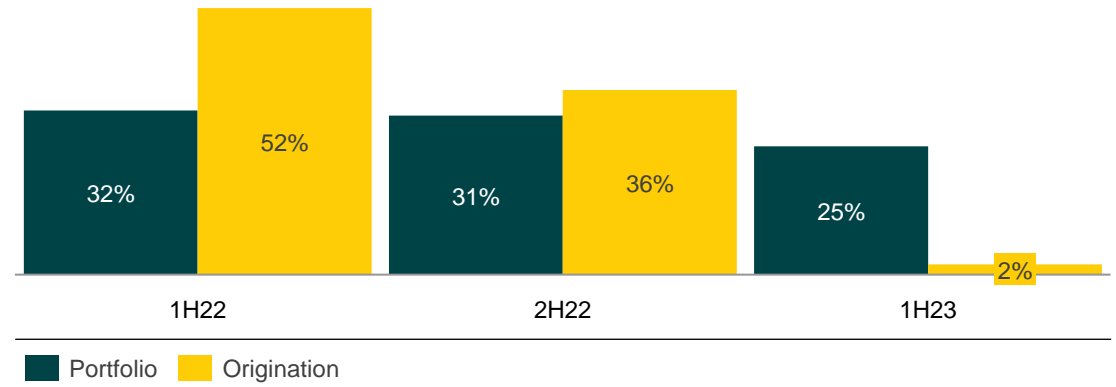
90+ DAYS PAST DUE
(% of total GLA)



FIXED LOAN MATURITIES
(\$b)



HOME LENDING: FIXED

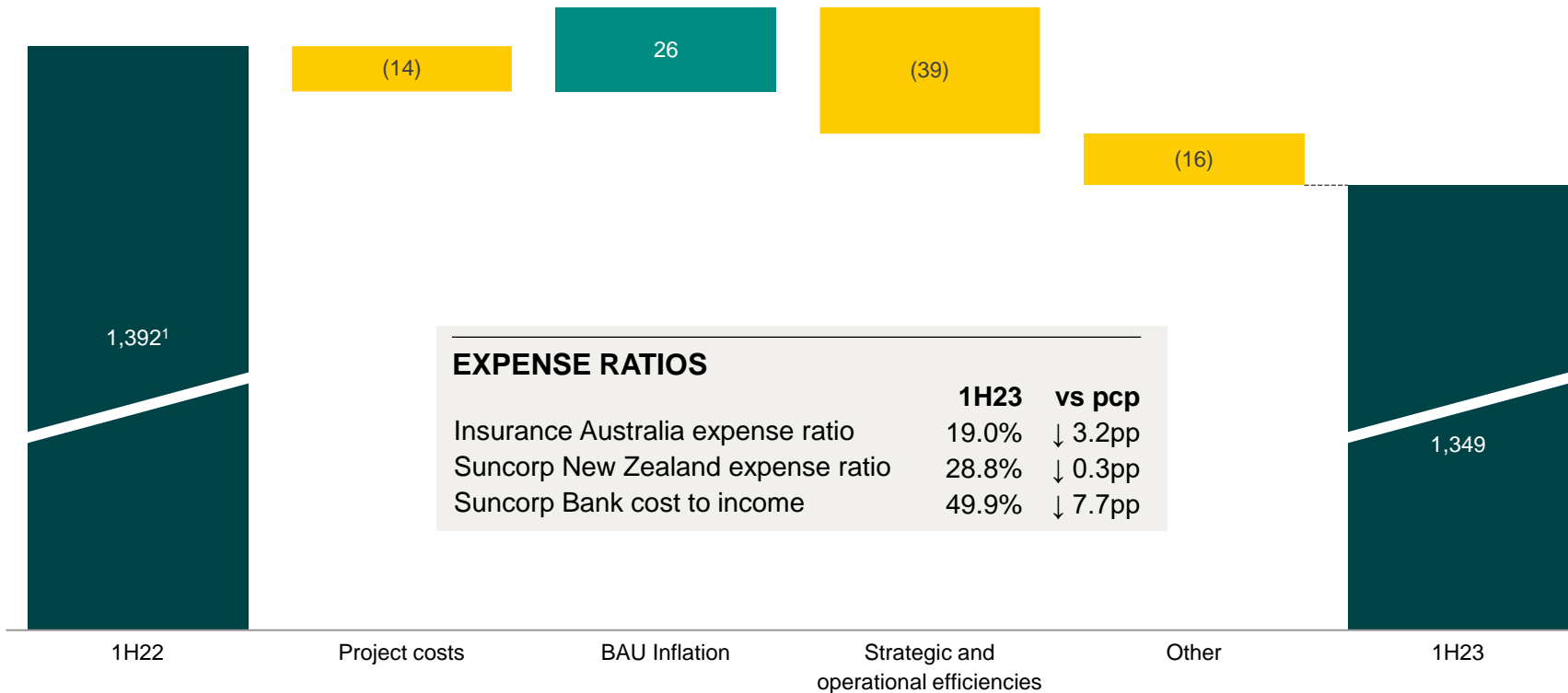


1. Source: APRA.

Group operating expenses

GROUP OPERATING EXPENSES 1H22 TO 1H23

(excluding ESL and TEPL; \$m)



EXPENSE RATIOS		
	1H23	vs pcp
Insurance Australia expense ratio	19.0%	↓ 3.2pp
Suncorp New Zealand expense ratio	28.8%	↓ 0.3pp
Suncorp Bank cost to income	49.9%	↓ 7.7pp

NOTES

- Reduced project spend in line with expectations, largely in regulatory and maintenance
- The expense base was impacted by economy-wide inflationary pressures
- Strategic and operational efficiencies driven by benefits from the delivery of strategic initiatives and business simplification
- Other contains lower commissions due to Vero portfolio exits and lower advertising and promotions due to timing

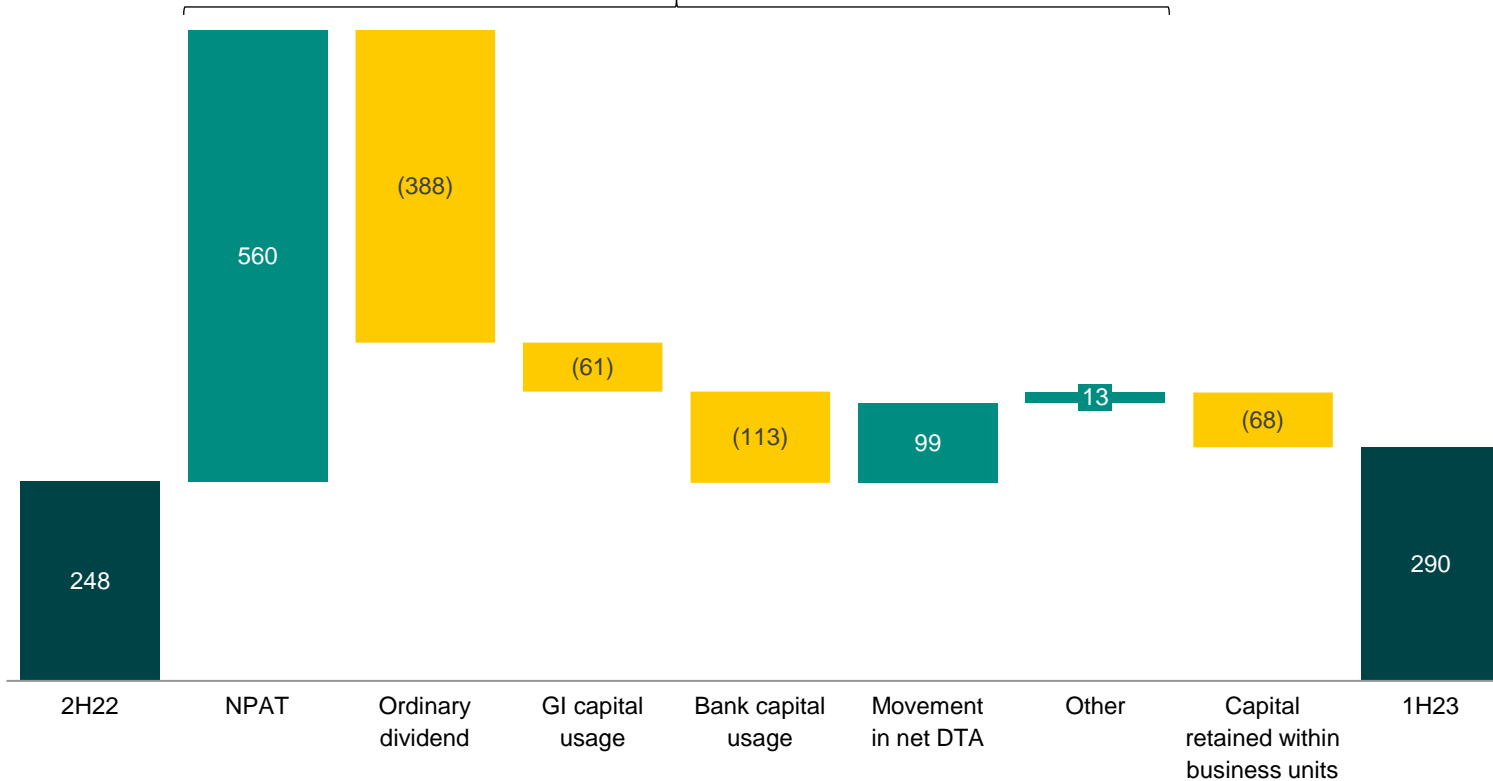
1. 1H22 figure presented excludes expenses related to the divested Wealth business (\$23m).

Group capital

COMMON EQUITY TIER 1 CAPITAL HELD AT GROUP

(\$m)

Net capital generation \$110m



NOTES

- Net capital generation of \$110m in 1H23:
 - Around \$100m reversal of previous Deferred Tax Asset (DTA)
 - Around \$70m benefit from pricing changes reversing previous impacts on Excess Tech Provisions from reinsurance and NHA
 - Partially offset by normal capital seasonality, motor claims deterioration and capital to fund business growth
- GI capital ratio returned to top half of target range, with CET1 target range lowered to reflect diversification benefits between Australia and NZ following APRA changes to NOHC Conditions
- 33 cps interim dividend, with a half year payout ratio of 71%
- Ongoing commitment to return capital in excess of the needs of the business



Strategic Outlook

Steve Johnston

Group Chief Executive Officer

FY23 Plan

 **Purpose**

Building futures and protecting what matters

 **Strategic pillars**

Customer led
Digital first and personalised customer experiences

Technology enabled
Automated processes and modernised technology platforms

Our people
Exceptional people empowered to make a difference every day

Advocacy
Building towards a fair and sustainable industry for our stakeholders

 **Strategic initiatives**

Insurance Australia
Revitalise growth
Optimise pricing and risk selection
Digital first customer experiences
Best in class claims

Suncorp New Zealand
Grow brands and strategic partnerships
Best in class claims
Digitise and automate

Suncorp Bank
Win in home
Seamless everyday banking
Grow business
Digital first
Customer service excellence

FY23 strategic targets

Return on equity

Cash return on equity above the through-the-cycle cost of equity

Dividends

Dividend payout ratio of 60% to 80% of cash earnings
Return any capital to shareholders that is excess to the needs of the business

General Insurance underlying insurance trading ratio

10% to 12% by FY23

Bank cost-to-income ratio

~50% by end of FY23

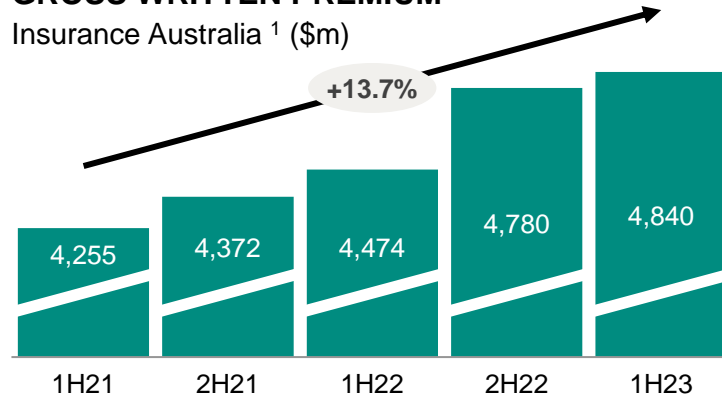
OPERATING ENVIRONMENT

- A geopolitical shock in Europe drove a further supply shock to the global economy
- Inflation rose to its highest level in decades
- Central banks rapidly tightened monetary policy
- The yield curve inverted sharply
- Reinsurance costs impacted by significant global weather events, with prices subsequently hardening in the sector

FY23 Plan progress – Suncorp Insurance

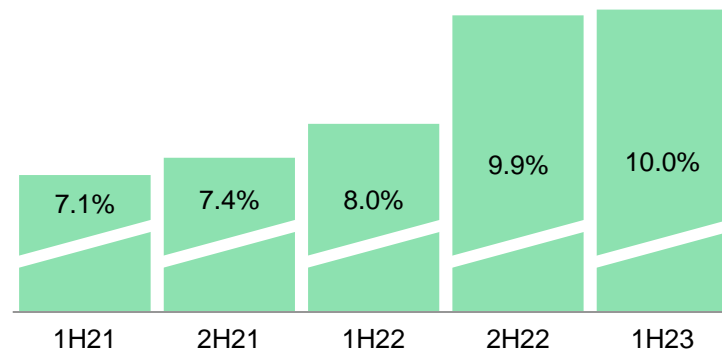
GROSS WRITTEN PREMIUM

Insurance Australia ¹ (\$m)



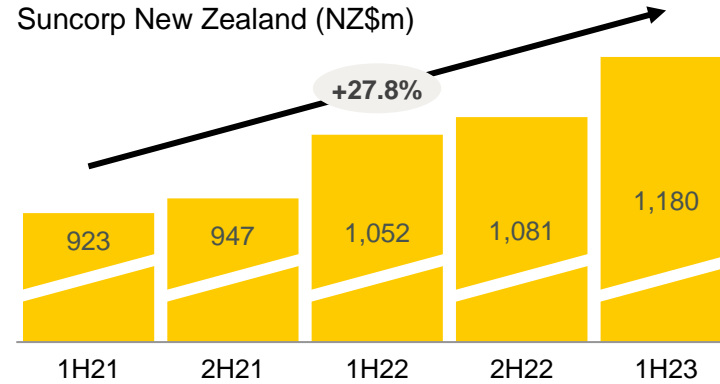
UNDERLYING INSURANCE TRADING RATIO

(excluding COVID-19 impacts)

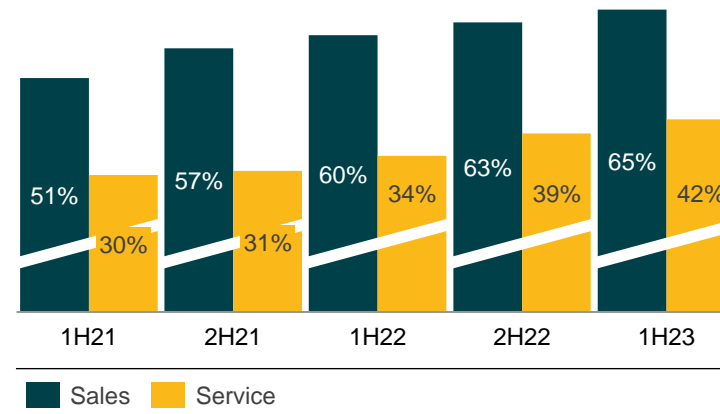


GROSS WRITTEN PREMIUM

Suncorp New Zealand (NZ\$m)



DIGITAL SALES & SERVICE TRANSACTIONS



PROGRESS AGAINST STRATEGIC INITIATIVES

- AAMI the most considered national insurance brand in Australia
- Increased market share to 25.5%² of New Zealand General Insurance market
- In Australia, analytics-driven pricing engine now deployed across Home mass brands and Motor mass brand deployment has commenced
- Increased digital sales and service transactions; streamlined digital purchasing process using geospatial imagery and artificial intelligence
- Elevated disaster readiness and ability to proactively support customers via Event Control Centre
- Simplified digital claim lodgement process
- Successful renegotiation of Home repair panel
- Delivered single claims platform for New Zealand

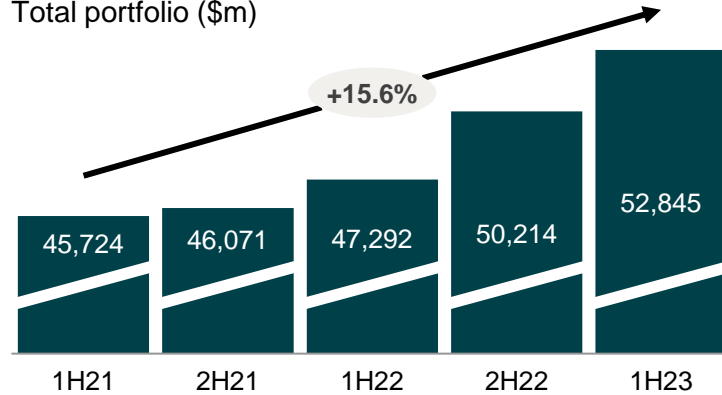
1. Excluding emergency services levies.

2. Source: Quarterly Insurance Council New Zealand (ICNZ) General Insurance statistical data.

FY23 Plan progress – Suncorp Bank

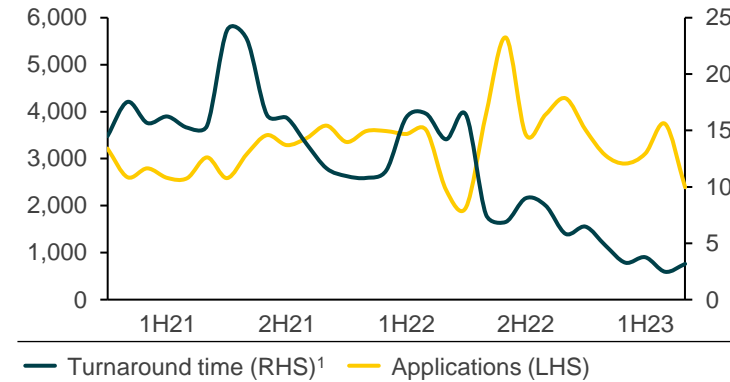
HOME LENDING

Total portfolio (\$m)



HOME LENDING

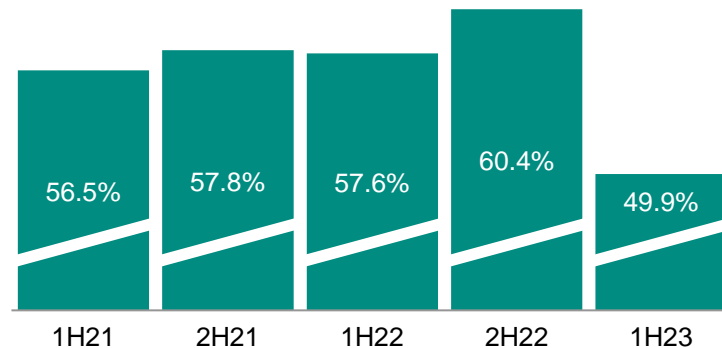
Turnaround times¹ (working days) / applications (#)



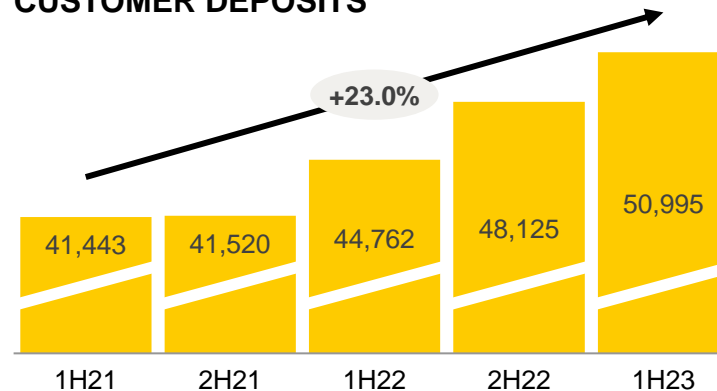
PROGRESS AGAINST STRATEGIC INITIATIVES

- Home lending growth of \$2.6b over the half
- Reduced median turnaround time and improvements in customer and broker Net Promoter Scores
- Growth in term deposit and savings portfolios
- Continued momentum in business lending, with targeted expansion across portfolios
- Improved capabilities within the Suncorp App and streamlined online origination processes
- Ongoing improvements in cross-channel customer service

COST-TO-INCOME RATIO



CUSTOMER DEPOSITS



1. Source: Australian Finance Group Ltd and Suncorp source data calculated as median working days from application to unconditional approval (excluding public holidays) for all home loan applications (including pre-approvals).

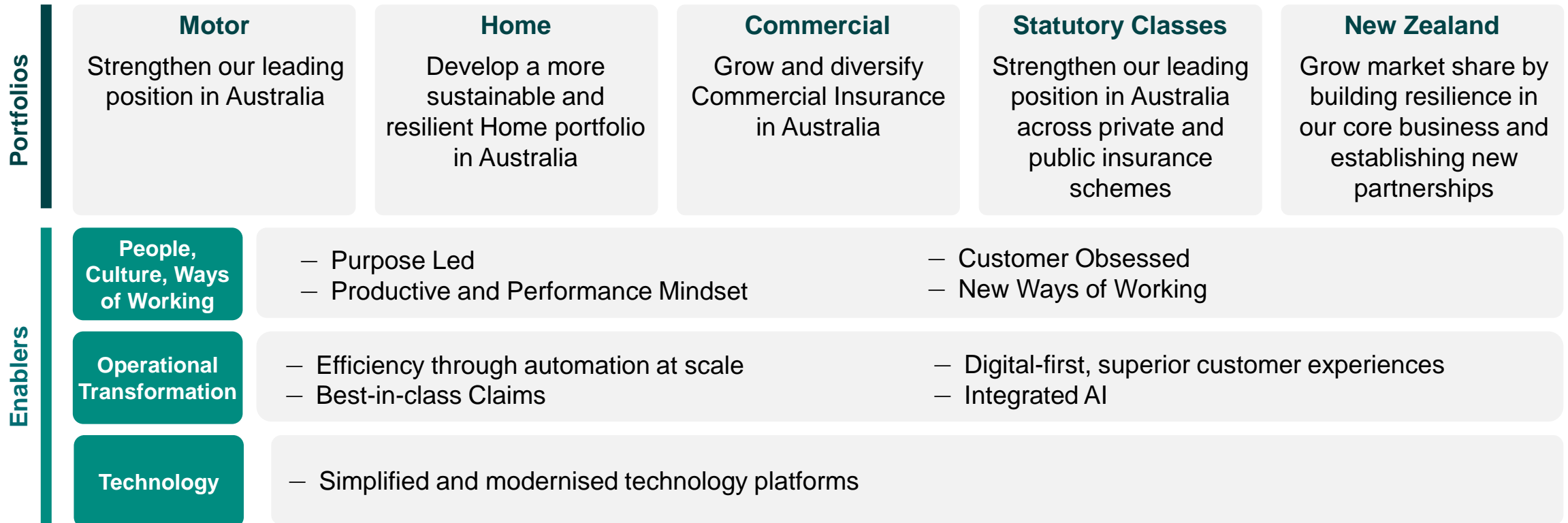
Outlook



-
- GWP growth in FY23 expected to be in the mid to high single digits
 - Pricing increases to reflect increasing reinsurance and natural hazards costs and inflationary environment
 - Unwind of mark-to-market investment losses to grow yield and support UTR, offset by lower running yield as the rate environment subsides
 - Prior year reserve releases expected to moderate
 - Transitory capital impacts will continue to unwind
 - FY23 strategic targets reaffirmed
 - Bank sale process on track, subject to approvals
-

Our long-term strategy will deliver value for our customers, people, shareholders and the broader community

Purpose | Risk Appetite | Financial Settings | Reinsurance Strategy | ESG



Questions

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