SUNCORP

ASX announcement

3 August 2017

Suncorp reports full-year profit of $1,075 million, 7.4% increase in total dividend

Key Points

- Group net profit after tax **(NPAT) of $1,075 million** (FY16: $1,038 million) up 3.6%
- **Total dividend of 73 cents per share** (FY16: 68 cents). Final dividend of 40 cents per share fully franked (FY16: 38 cents)
- **Insurance (Australia) NPAT up 30% to $723 million** (FY16: $558 million) with gross written premium (GWP) up 3.9% to $8,111 million (FY16: $7,803 million)
- **Banking & Wealth NPAT of $400 million** (FY16: $418 million). Net Interest Margin (NIM) of 1.83% (FY16: 1.86%) and Cost to Income ratio of 52.7% (FY16: 52.5%)
- **New Zealand NPAT of A$82 million** (FY16: A$183 million) impacted by the Kaikoura earthquake and additional claims from the 2010/11 Canterbury earthquake
- General Insurance **underlying insurance trading ratio (ITR) of 11.5%** (FY16: 10.6%)
- **Capital levels remain strong** with Bank Common Equity Tier 1 (CET1) capital ratio of 9.23% and General Insurance CET1 of 1.32 times the Prescribed Capital Amount (PCA), both above the top end of their target ranges
- Suncorp's **purpose is to *create a better today*** for its customers, shareholders, employees and communities. The Group's key priorities are to inspire our people, elevate the customer, build the Marketplace, and maintain momentum and grow
- The refreshed strategy, led by a substantially new leadership team, is gaining momentum. There has been a **net increase of 399,000 new customers**
- **Group-wide Business Improvement Program** to improve customer experience and deliver material cost base reductions from the 2019 financial year
- **Additional investment of up to $100 million after-tax** in FY18 to deliver the key components of the Marketplace. Payout ratios increased to eliminate the impact to dividends

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Suncorp Group Limited (Suncorp) today reported NPAT of $1,075 million (FY16: $1,038 million) for the 12 months to 30 June 2017, an increase of 3.6%.

Chairman Dr Ziggy Switkowski said Suncorp has determined a final dividend of 40 cents per share fully franked, bringing the total dividend to 73 cents per share (FY16: 68 cents) which represents a payout ratio of 81.9% of cash earnings.

"The final dividend reflects momentum in growth driven by Suncorp's refined strategy and focus on the customer, as well as evidence of a hardening insurance market," he said.

"The Group remains well capitalised and has a diversified earnings base that continues to provide a strong foundation to create value for our customers, shareholders, employees and communities."

Suncorp CEO & Managing Director Michael Cameron said the result reflects top-line growth of 3.6% across the Group, disciplined management of margin, and a sensible balance between reducing overheads and investing in future growth.

"Insurance, Banking & Wealth and New Zealand delivered strong performances, demonstrating the value of operating a diversified business model with multiple earning streams," Mr Cameron said.

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"Our focus on elevating the customer has resulted in an increase in total customers, driven by improved volumes and better retention. During FY17 we have turned the outflows around growing customer numbers by 147,000 organically, with a further 252,000 acquired through the entry into the South Australian CTP scheme.

"Broadening and deepening relationships with our customers will unlock significant future value for shareholders.

"With a substantially new Senior Leadership Team now settled in, our focus is on implementing our winning strategy. We have a sustainable business for the future."

Insurance (Australia)

The Insurance business delivered NPAT of $723 million, up 30%, due to strong top-line growth and lower claims costs.

The General Insurance business continued to see strong progress in remediating claims cost issues in the Home and Motor portfolios.

Mr Cameron said the focus on remediating the Home and Motor claims cost issues had resulted in working claims now being under control, achieving an underlying ITR for the second half of 12%.

GWP increased by 3.9% following strong growth in New South Wales CTP, premium increases in Home and Motor products and the successful entry into the South Australian CTP scheme. Commercial insurance GWP reduced 2.2% as pricing increases and strong retention in the SME segment was offset by lower retention in the Corporate segment.

Reserve releases of $301 million (FY16: $348 million) remain well above long-term expectations of 1.5% of Group net earned premium (NEP).

Life Insurance planned margins and underlying profits remained stable.

"Offering our customers a range of Life insurance solutions through direct and intermediated channels remains core to Suncorp's Marketplace strategy," Mr Cameron said.

"We are continuing to explore strategic alternatives to better meet customer needs, ensuring the Life business remains competitive and sustainable in a rapidly evolving market, while delivering the appropriate returns for our shareholders."

Reinsurance program

Suncorp's additional reinsurance aggregate cover purchased for FY17 created significant shareholder value and increased resilience to natural hazards.

Given the success in FY17, a similar cover has been purchased for FY18. The new cover provides $300 million of cover once the retained portion of natural hazard events greater than $10 million exceeds a total of $475 million. The retained natural hazards allowance has increased to reflect the higher natural hazards costs experienced in recent years.

The upper limit on Suncorp's main catastrophe program, which covers the Group's Home, Motor and Commercial Property portfolios for major events, will remain unchanged at $6.9 billion for the 2018 financial year.

Banking & Wealth

The Banking & Wealth business delivered NPAT of $400 million, impacted by investment in the Core Banking and Wealth platforms to support Suncorp's strategy.

The Banking business achieved NPAT of $396 million with a focus on sustainable profitable growth while adapting to changing economic and regulatory dynamics. Lending growth of 1.9% reflected improved momentum in the second half of the financial year. NIM of 1.83% reflects targeted repricing of mortgage rates.

The cost to income ratio of 52.7% was a result of stable operating expenses and the subdued growth environment. Impairment losses reduced to $7 million, representing 1 basis point of gross loans and advances.

The Wealth business NPAT of $4 million reflects the cost of completing the Super Simplification Program and lower investment returns. Funds under management and administration increased by 0.8%.

New Zealand

New Zealand achieved NPAT of A$82 million, impacted by claims costs associated with the Kaikoura earthquake and the associated reinsurance reinstatement expense.

New Zealand General Insurance profit reduced to A$45 million, however underlying ITR was above the Group's target of 12%. GWP growth of 6.3% was primarily driven by the Motor and Home portfolios.

New Zealand Life Insurance delivered NPAT of A$37 million with a stable underlying profit of A$39 million, offset by negative market adjustments.

During the financial year, the New Zealand business disposed of its Autosure motor insurance business. The sale resulted in a release of capital of A$30 million and will be accretive to the New Zealand long-term return on equity. A goodwill write-off of A$25 million has been included as a non-cash item in the Group result.

Capital and Dividend

The Board has determined a fully franked final dividend of 40 cents per share. This brings total ordinary dividends for the 2017 financial year to 73 cents per share, up 7.4%. This represents a dividend payout ratio of 81.9% of cash earnings, slightly above the top end of the 60% to 80% dividend payout range and reflects the Board's confidence in the outlook for the Group.

After accounting for the final dividend, the Suncorp Group's Common Equity Tier 1 (CET1) is $377 million above its operating targets. The General Insurance CET1 is 1.32 times the Prescribed Capital Amount and Bank CET1 is 9.23% are above the top end of their target ranges.

The Group has $235 million of franking credits available after the payment of the final dividend.

Strategy

Over the past year, the One Suncorp operating model has driven improved growth and increased resilience to volatility.

"Our vision *to be the destination for the moments that matter* focuses on services being bought to better meet the needs of our customers, not products sold to meet targets," Mr Cameron said.

"Suncorp's strategic priorities are to elevate the customer, create the Marketplace, maintain momentum and grow, and inspire our people.

"Suncorp has commenced a Group-wide Business Improvement Program (BIP) which will improve customer experience through operational excellence, removing pain points and designing innovative customer solutions. This program is expected to deliver material reductions in the Group's cost base from the 2019 financial year.

"Given our confidence that our strategy will create significant shareholder value, Suncorp will make an additional investment of up to $100 million after-tax to deliver the key components of the Marketplace. This investment will be fully expensed in the 2018 financial year and will be reported in the 'Other profit (loss) after tax' line of the Group profit and loss."

The investment will:

— Bring together for the first time a single digital experience for the entire Suncorp network through a new Suncorp Marketplace app

— Complete the Suncorp brand refresh and commence building national awareness and differentiation

— Accelerate the connection of new third-party partnerships into the Marketplace to enhance speed and delivery of new services and solutions

Outlook

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

— Broadening of customer relationships

— Improving underlying NPAT

— Sustainable ROE of at least 10%, which implies an underlying ITR of at least 12%

— Suncorp remains committed to returning surplus capital to shareholders and maintaining a dividend payout ratio of 60% to 80% of cash earnings

For the 2018 financial year, the Board intends to increase the dividend payout ratio above the top end of the usual range to offset the impact on cash earnings of the additional investment to accelerate the delivery of key components of the Marketplace.

Further information

Suncorp will deliver its 2017 full year results via a recorded webcast at 9am on Thursday, 3 August. Hosted by CEO & Managing Director, Michael Cameron, and CFO, Steve Johnston, the result presentation will be available on-demand **here.**

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.**

Analyst Q&A teleconference – 10.30am

Dial-in number: 1800 558 698 or +61 2 9007 3187
Passcode: 591155
Note: Please view the **webcast** before joining the Q&A.

Media teleconference – 1:15pm

Dial-in number: 1800 558 698 or +61 2 9007 3187
Passcode: 299738
Note: For pre-registration please click **here.**

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