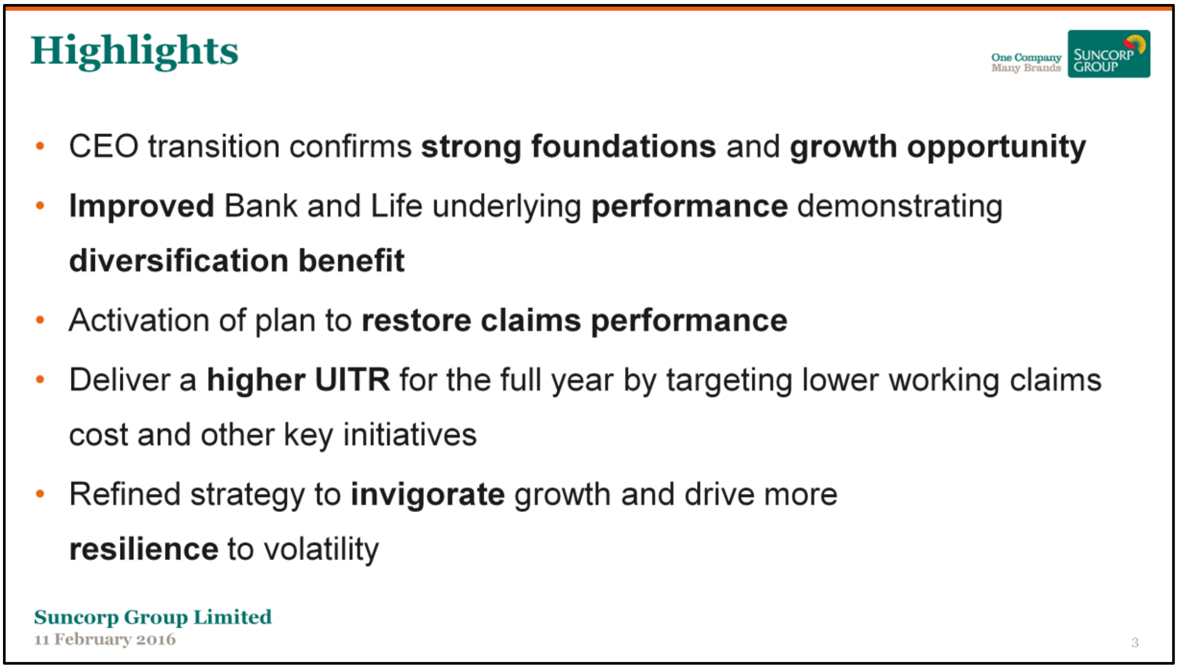

Suncorp Group Limited
Release date: 11 February 2016
One Company
Many Brands
SUNCORP
GROUP
Financial results
for the half year ended
31 December 2015
“Creating value for
our customers”


Good morning everyone and thank you for joining us today for my first results presentation as CEO.




The end of my first 100 days signalled the completion of the transition phase, and I'm really pleased it has confirmed strong foundations and growth opportunities.

Our Banking and Life businesses delivered improved underlying performance for the first half of the year demonstrating one of the benefits of maintaining a diversified financial services group.

The increase in working claims cost that we reported in mid December was obviously disappointing. We have moved quickly with an intervention strategy designed to restore performance. Our target is to deliver a lower working claims cost, which together with other initiatives, will drive a higher underlying ITR for the full year.

We recognise the global uncertainty created by financial markets, climate change and other factors such as cyber security. Today, I will introduce the refinements being made to our strategy to invigorate growth and drive more resilience to volatility.

## HY16 results overview ($m)

### Natural hazards and investment income impact on the GI NPAT

| | HY16 | HY15 | % change |
|---|---|---|---|
| General Insurance | 297 | 419 | (29) |
| Bank | 194 | 176 | 10 |
| Suncorp Life | 53 | 86 | (39) |
| **Business lines NPAT** | **544** | **681** | **(20)** |
| Other | 12 | (21) | - |
| **Cash earnings** | **556** | **660** | **(16)** |
| Acquisition amortisation | (26) | (29) | - |
| **Reported NPAT** | **530** | **631** | **(16)** |

| External impacts: | Pre-tax | Post-tax | Pre-tax | Post-tax |
|---|---|---|---|---|
| Investment returns | 133 | 93 | 348 | 244 |
| Natural hazards | (362) | (253) | (470) | (329) |
| Reserve releases | 137 | 96 | 214 | 150 |
| Suncorp Life market adjustments | - | (5) | - | 34 |

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The General Insurance business experienced material impacts from natural hazard claims and investment income. Natural hazard costs of $362 million were $28 million above the allowance and total investment income of just $133 million represented an annualised return of only 2.2%.

The Bank profit of $194 million was up 10%, helped by the very low level of impairment losses which is consistent with industry experience. This reflects the high quality of the loan portfolio and the use of our Advanced Accreditation tools.

The Life profit of $53 million has reduced but this is entirely due to investment market volatility. On an underlying basis, the Life result increased over 11%.

On this slide I have also shown the impacts of the external factors.

**The reported profit for the half of $530 million is well short of what this Group can deliver.**

## Underlying ITR impacts

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| Key drivers (HY15 v HY16) | $m | % UITR impact |
|---|---|---|
| Increase in Natural Hazard allowance | (36) | (0.9) |
| Home average claims size | (57) | (1.5) |
| Motor parts increase (A$ impact) | (38) | (1.0) |
| Commercial Insurance large losses | (22) | (0.6) |
| CTP pricing | (11) | (0.3) |
| Investment Income | (13) | (0.3) |
| Vero New Zealand | (13) | (0.3) |
| Operating Expenses | 8 | 0.2 |
| **Total** | **(182)** | **(4.7)** |

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Today we are providing further detail on the pre-tax movements in the underlying ITR between the December 2014 half of 14.8%, and this result of 10.1%.

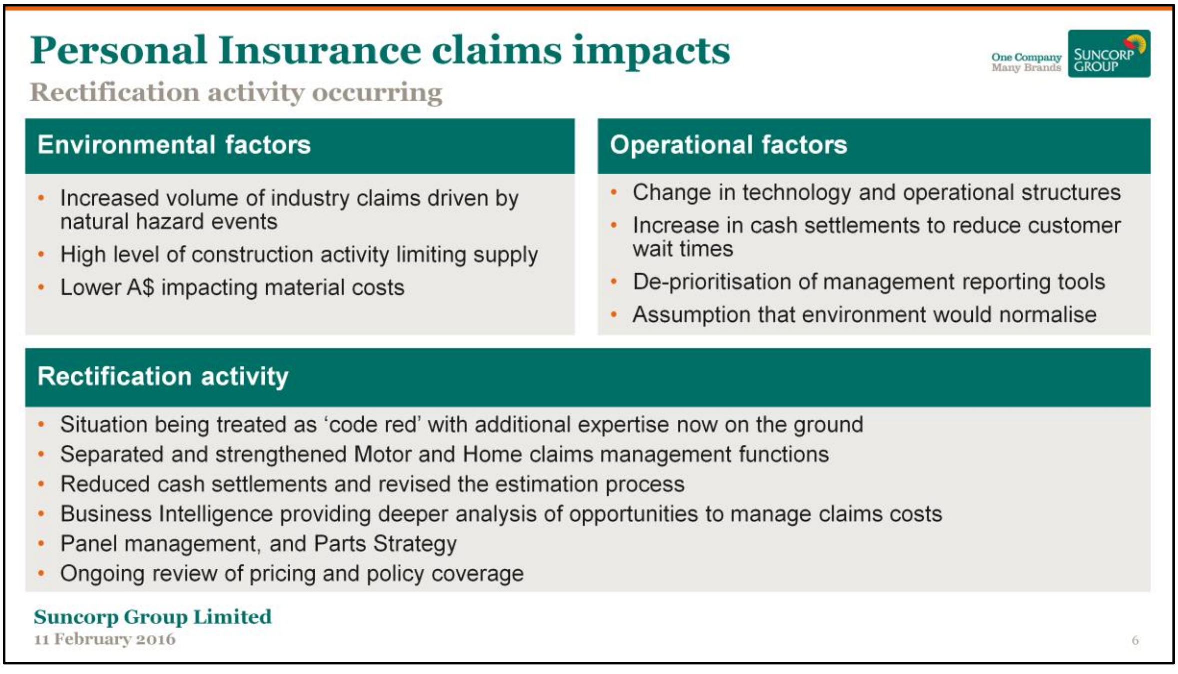
Last year we announced a $75 million increase in the Natural hazard allowance for the full year reflecting our experience. This equates to $36m for the half.

I will explain the Home and Motor movements on the next slide. The combined impact was $95m.

There was an increase in large losses in Commercial of $22m, and a lag effect of prices in CTP of $11m.

Underlying investment income was $13 million lower for the period. Vero New Zealand was also impacted by higher commercial large losses, reducing profitability by $13m.

This was partially offset by favourable expenses which provided a benefit to the ITR of $8m.




The claims result has been affected by both environmental and operational factors.

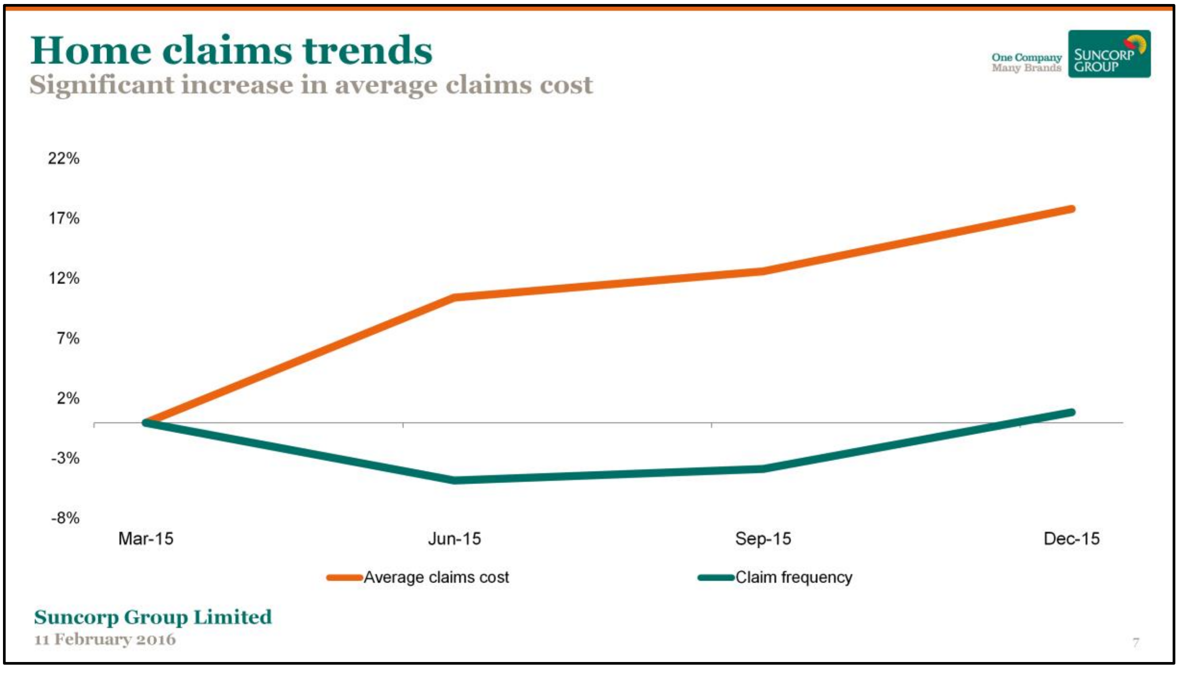
Last year the industry experienced $4 billion of natural hazard claims. Together with a high level of construction activity along the eastern seaboard, the supply of skilled workers was reduced. There was an incorrect assumption that this situation would normalise and building costs would reduce.

In motor, we saw a steady increase in the cost of parts as the Australian dollar continued to weaken.

Internally, our business has been in transition with new technology, changed resourcing levels and new role descriptions. There were a number of initiatives launched that were designed to reduce customer wait times, including higher cash settlements.

My number one priority has been resolving these issues. Additional expertise was put on the ground, we have separated the senior claims function between home and motor, started reducing the proportion of cash settlements, and revised the estimation process. We are using data intelligence to better understand the causes of the increased costs and to design the solutions. We have also reviewed our pricing and our policy coverage.

The next few graphs show the facts.




The most material impact is in the Home portfolio.

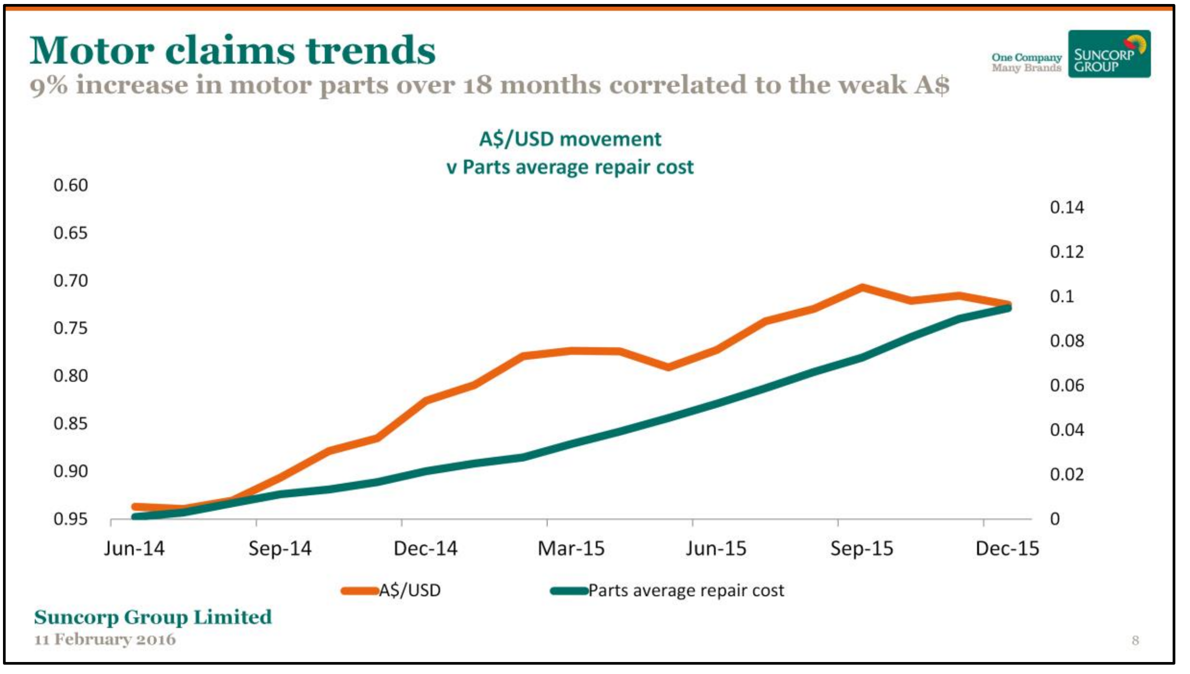
This graph highlights that the material increase in average repair cost is the key driver.

In response to the worsening trends, a comprehensive program of rectification activities commenced immediately.

A builder performance management program has been implemented. This involves a consolidation of the builder panel to drive an uplift in performance. We have aligned our rates to control builder costs, and have enhanced the audit function to ensure compliance.

Since December we have introduced a new process for cash settlements. This will better validate costs and enforce the repair/replacement option.

A review of external providers will allow us to manage cost and rectification times on losses over $100,000.




The biggest contributor to Motor cost increases is parts which make up about half of a repair cost, and the average price of parts is up 9% in the past 18 months.

The fall in the A$, and the increase in parts prices are highly correlated.

To counter the cost increase we have refined our assessment procedures and vehicle pathing, which will deliver material benefits.

In addition,  the recent opening of a further 7 SMART facilities across Australia and New Zealand will mean that we are on track to repair over 150,000 cars in our own network this year.  In 2017 this increases to 170,000 or over 40% of our total repairs.

Repairing cars in a SMART facility provides a significant saving per vehicle.

Our pricing and policy reviews are ongoing. There are positive signs that sales conversion and renewal rates have been maintained.

In January, we also saw positive lead indicators emerging as a result of our claims initiatives.

**As I said, resolving the home and motor issues has been my absolute focus and we've been very decisive in our actions.**

Now over to Steve who will provide more detail on the financial results.


Thanks Michael and good morning everyone.

In addition to our usual disclosures, you will have noticed that today we have prepared a supplementary pack which provides a lot of additional data about the result and the performance of each of the businesses.

With that in mind I will focus on the key drivers of the P&L and update you on the Group's capital position.

# General Insurance

## Claims inflation and lower investment returns reducing profitability

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| | HY16 | HY15 | %change |
|---|---|---|---|
| GWP | 4,417 | 4,357 | 1.4 |
| Net earned premium | 3,992 | 3,947 | 1.1 |
| Net incurred claims | (2,822) | (2,805) | 0.6 |
| Operating expenses | (892) | (902) | (1.1) |
| Underwriting result | 278 | 240 | 15.8 |
| Investment income – insurance funds | 99 | 266 | (62.8) |
| Insurance trading result | 377 | 506 | (25.5) |
| Investment income –shareholder funds | 34 | 82 | (58.5) |
| Managed schemes, JVs and funding costs | 1 | 6 | (83.3) |
| Income tax | (115) | (175) | (34.3) |
| **NPAT** | **297** | **419** | **(29.1)** |

**Key highlights**

- GWP up 1.4%
- Return to top-line growth across all portfolios
- Claims inflation challenges reducing underlying margin
- Underlying ITR 10.1%
- Lower investment returns and MTM adjustments
- Reserve releases of $137 million or 3.4% of NEP

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Starting with General Insurance.. and Michael has already discussed the key drivers of the fall in the underlying ITR and our rectification program.

In addition to the working claims issues, reported profitability has also been impacted by lower investment returns and mark to market adjustments which, as you know, are a by-product of volatile investment markets.

Over the half, falls in risk free rates have been more than offset by a widening of credit spreads and the underperformance of Inflation Linked Bonds, relative to nominal bonds. This volatility cost us $59 million in this result.

Of course, to some extent the flip side of the low yield, low inflation environment is the continuation of higher than anticipated reserve releases. Net releases of $137 million were well above our long run expectation of 1.5% of NEP, even when you take into account $72 million of short-tail strengthening.

As you know our reserving assumes significantly higher levels of underlying and superimposed inflation than is currently being observed. To the extent this continues, you should see us report releases above our long run expectations.

## Gross Written Premium

### Top-line positive in a very competitive market

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| Product | HY16 ($m) | %change | Factors |
|---|---|---|---|
| Motor | 1,413 | 1.7 | Increase in average written premium rates partly offset by a small loss of units |
| Home | 1,287 | 1.3 | Increase in average written premium rates partly offset by a small loss of units |
| Commercial | 1,115 | (1.3) | Growth in most commercial lines offset by a 33% reduction in the Workers Compensation segment |
| CTP | 567 | 6.8 | Growth across NSW, Qld and ACT portfolios |
| Other | 35 | (5.4) | |
| **Total** | **4,417** | **1.4** | |
| Australia | 3,796 | 1.2 | |
| New Zealand | 621 | 2.6 | 2.7% in NZ$ terms |

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Turning briefly to premium and we are pleased with the top line performance in GI with overall premium growth of 1.4%.

It's important to point out that over the past twelve months we have exited a number of corporate partner relationships. In most cases, these were deliberate business decisions based on the lower quality underlying trends from these books of business. If we were to exclude the impact of these exits, the overall growth on pcp would have been over 2 per cent.

In Motor we have been able to increase pricing without any discernible impact on retention, confirming our view of industry stabilisation. While retention rates remain strong, new business remains tough reflecting the fact that the whole industry is working hard to protect their existing customer bases.

In the Home market, it's a similar story. Here we have seen inflationary sized increases in average premiums with a small loss of units.

The headline premium result in Australian Commercial Lines has been impacted by the WA workers compensation portfolio, with premium reductions reflecting slowing economic growth in that state. Growth of 3.3% across the remainder of the Australian portfolio has been achieved through improved retention, particularly in SME.

In the CTP portfolio the business is performing well in all markets. We retain around 50% in Qld, have been growing profitably in NSW and have picked up over 30% of the ACT market. Heading into next year we will have the benefit of recent premium increases that reflect the lower yield environment and we'll also have a significant share of the recently privatised South Australian market.
Finally, I'll call out our profitable and successful New Zealand business that grew premium 2.7% in Kiwi $ terms.

# Suncorp Bank

## Improving credit quality driving improved profit

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| | HY16 | HY15 | %change |
|---|---|---|---|
| Net interest income | 566 | 553 | 2.4 |
| Net non-interest income | 49 | 64 | (23.4) |
| Total income | 615 | 617 | (0.3) |
| Total operating expenses | (326) | (322) | 1.2 |
| Profit before impairment losses | 289 | 295 | (2.0) |
| Impairment losses on loans and advances | (11) | (43) | (74.4) |
| Bank profit before tax | 278 | 252 | 10.3 |
| Income tax | (84) | (76) | 10.5 |
| **Suncorp Bank NPAT** | **194** | **176** | **10.2** |

### Key highlights

- 5.1% lending growth
- Ongoing improvement in credit quality with non-performing loans down 15.1%
- NIM of 1.85% at the top end of the target range
- Cost to income reducing to 53%
- Good progress with key projects, Ignite and Advanced accreditation

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Moving now to the Bank, which delivered a profit of $194 million, up 10%, clearly demonstrating the earnings diversification it provides to the Group.

The market is very competitive yet the Bank has delivered solid lending growth without compromising credit standards. Impairment losses of just 4 basis points are well below the Bank's normal operating range and are a direct result of the significant investment in risk management, including the Advanced Accreditation program. We expect credit quality metrics to remain strong as we effectively operate as an advanced Bank with a focus on prudent lending.

Net interest income improved 2.4% with the NIM now sitting at 1.85%, as market-wide repricing offset headwinds from increased funding costs and competition.

Lending growth was again driven by successful campaigns in the home segment. The portfolio continues to diversify, with 60% of new business coming from outside of Queensland. Reflecting our disciplined approach to lending, 88% of all new loans written had an LVR of 80% or less. An equally disciplined approach to investor lending saw growth of below 10% over the year. Non Housing lending contracted slightly as Agri customers took advantage of favourable operating conditions to pay down debt, while the market's increased appetite to take on new credit has provided an opportunity for managed removal of commercial exposures that sit outside of our risk appetite.

The cost to income ratio improved to 53% for the half, moving closer to our target of sub-50% which we expect to achieve following the completion of Project Ignite. Ignite remains on track to be fully implemented by the end of FY16, with final customer migrations and decommissioning to follow in the first half of FY17.

## Suncorp Life Insurance

### Underlying profit increase of 11.5%

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| | HY16 | HY15 | %change |
|---|---|---|---|
| Planned profit margin release | 22 | 17 | 29.4 |
| Claims experience | 3 | 6 | (50.0) |
| Lapse experience | 5 | 1 | 400.0 |
| Other experience | (6) | (5) | 20.0 |
| Underlying investment income | 16 | 15 | 6.7 |
| Superannuation | 18 | 18 | - |
| **Suncorp Life underlying profit after tax** | **58** | **52** | **11.5** |
| Market adjustments | (5) | 34 | n/a |
| **Suncorp Life NPAT** | **53** | **86** | **(38.4)** |

**Key highlights**

- In-force premium growth of 5.2%
- Direct growth via GI brands up 20%
- Embedded Value of $1,936 million up 4.9%
- Value of One Year Sales up 28% to $23 million
- Third successive half of positive claims and lapse experience

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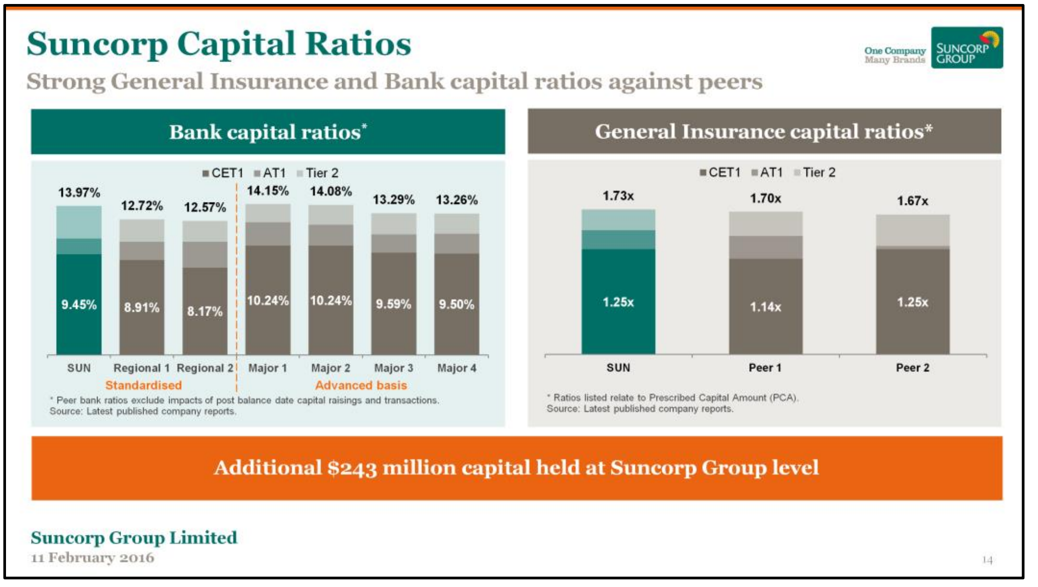
To Suncorp Life, where profit after tax was $53 million. Underlying profit was $58 million, up 11.5%. A reduction in long dated risk free rates has resulted in a negative market adjustment and therefore a lower reported profit when compared to the prior period.

In what has been a turbulent time of regulatory change, Life had a third consecutive reporting period of positive experience for both lapses and claims. This gives us continued confidence that our assumptions are appropriate and position us well to deal with the ongoing risk of disruption.

As expected, IFA new business was below historical levels as a result of pricing changes put in place to improve product profitability. However, lower industry-wide churn means in-force premiums benefit from lower than expected lapse rates.

In-force premium for products sold direct through GI showed strong growth, increasing by 20%. Direct Life remains a core strategic priority and to that end we are focused on designing new products and improving access to those products through our multiple distribution channels.




On this slide I've shown our capital position relative to our peers in both Banking and General Insurance. It shows that Suncorp remains well positioned in terms of total capital and Common Equity Tier 1 or shareholder's equity. I continue to believe that the inherent diversification across our business lines means that, over time, we should be holding lower levels of total capital than our peers.

Additionally, and to emphasise this point, we have $243 million of capital held at the NOHC level that is not counted in the business line ratios shown on the slide.

The interim dividend of 30 cents per share, fully franked, represents a payout ratio of just under 70% of cash earnings. As you know, we tend to be more prudent with the payout at the half-year as we're in the middle of the hazard season. Once again, shares required to satisfy the dividend reinvestment plan will be purchased on market, setting us apart from most of our peers.

After payment of the dividend, we will continue to hold $506 million of capital above the mid point of our targets. This is a very good outcome given that we have materially strengthened our force loss ratios to take account of the higher working claims costs. As I pointed out at our December update, this flows through premium liabilities on the balance sheet and the excess tech provisions calculation of regulatory capital.

While there will be some capital demands in the second half, for example, funding our expansion into South Australian CTP, we remain committed to returning to shareholders any capital that is surplus to the needs of the business.

## Key medium-term targets

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1. Broadening of customer relationships
2. Improving underlying NPAT
3. Sustainable ROE of at least 10%, which implies an underlying ITR of at least 12%
4. Maintaining a dividend payout ratio of 60% to 80% of cash earnings
5. Returning excess capital

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Finally, in line with Michael's earlier comment that the focus of the business has been - and will continue to be - on rectifying the claims issues identified in the first half. While much of this effort has been in the claims area, we are challenging expenditure items and areas of duplication right across the business.  We are confident these initiatives, and the pricing adjustments already in place, will drive an improving ITR profile through the second half.

I'll now hand back to Michael.

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# Strategy update

Michael Cameron
Suncorp Group CEO

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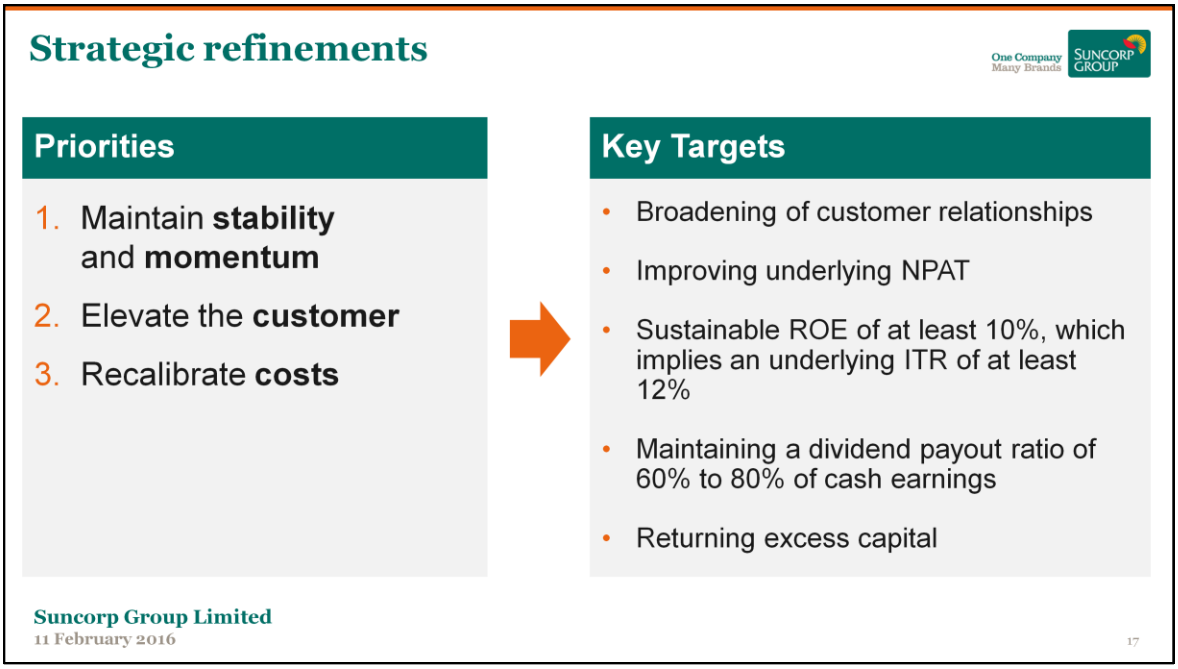
Thanks Steve.

To reinforce what Steve covered:

- We are comfortable that we have identified the causes and
- We are well on top of the claim rectification process
- There is more work to do and
- We will continue the focus until its resolved.

Today I will give you a taste of the refinements to our strategy that will deliver value for our customers rather than from our customers.

**At the May Strategy Update, we will provide more substantial detail on how our customers will engage with Suncorp in a way that is different to other financial service Groups.**



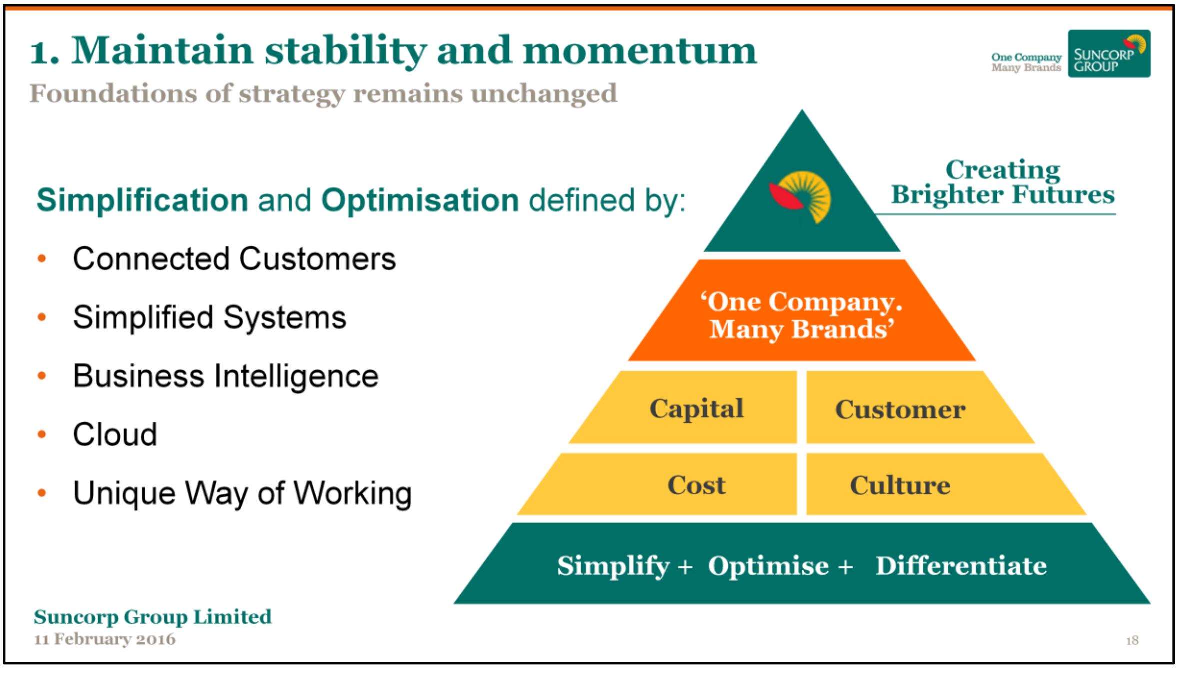

My priority is to maintain the stability of the organisation and to keep the momentum to deliver our commitments made to investors, customers and employees.

To achieve this, we will increase our resilience against an environment of higher volatility.

Increasing our resilience will be achieved by two streams of activity, elevating the role of the customer and recalibrating our costs.

Elevating the role of our 9 million customers and improvement of underlying NPAT will ultimately deliver a ROE of greater than 10%. This implies an UITR of at least 12% which remains a key objective of the insurance business.

The Board and I are committed to maintaining a full year dividend payout ratio of between 60-80% and returning excess capital to shareholders.



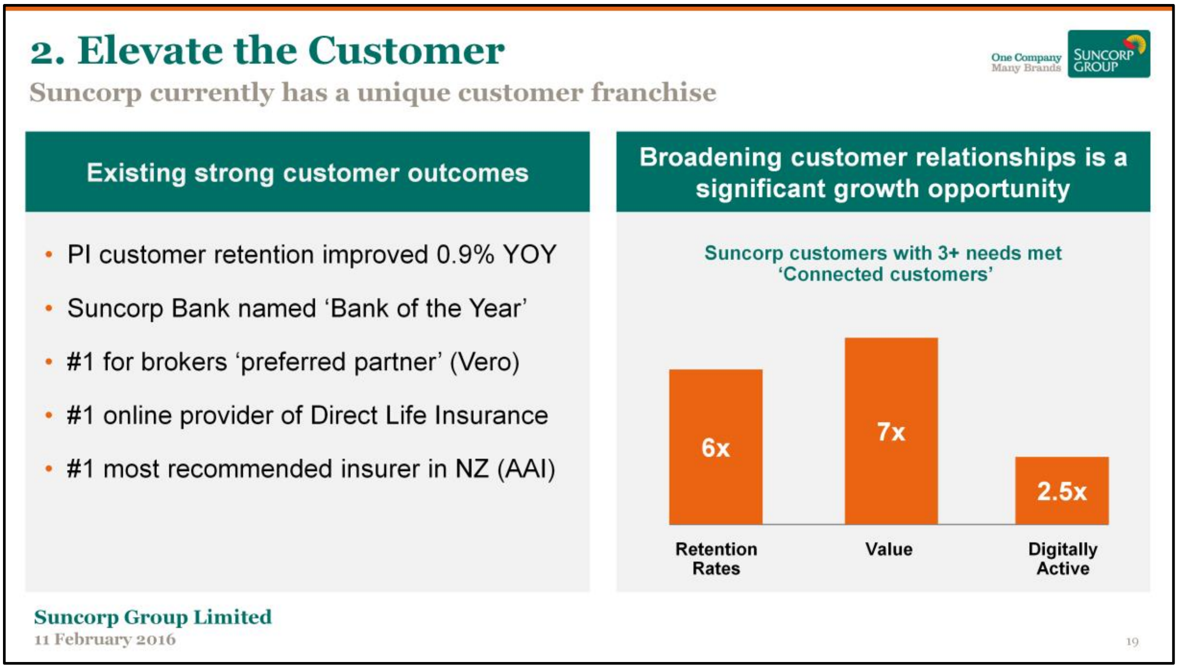

The foundations of our strategy remain unchanged. The journey of simplification and optimisation has been successful, and will remain very relevant.

You would have seen in previous presentations that Simplification and Optimisation are enabling us to have connected customers, simplified systems, the use of business intelligence, and the cloud, and a unique way of working.

Suncorp has created enormous value by focusing on the strategic assets of Capital, Cost, and Culture. We have also made advancements on the Customer front. This has typically been within each line of business. **Mastering the Customer capabilities across our business remains our greatest opportunity.**

We have achieved One Company. Many Brands internally in relation to Capital, Cost and Culture. We will now achieve One Company. Many Brands externally for our customers.

**The most sustainable and successful companies create value <u>for</u> their customers.**



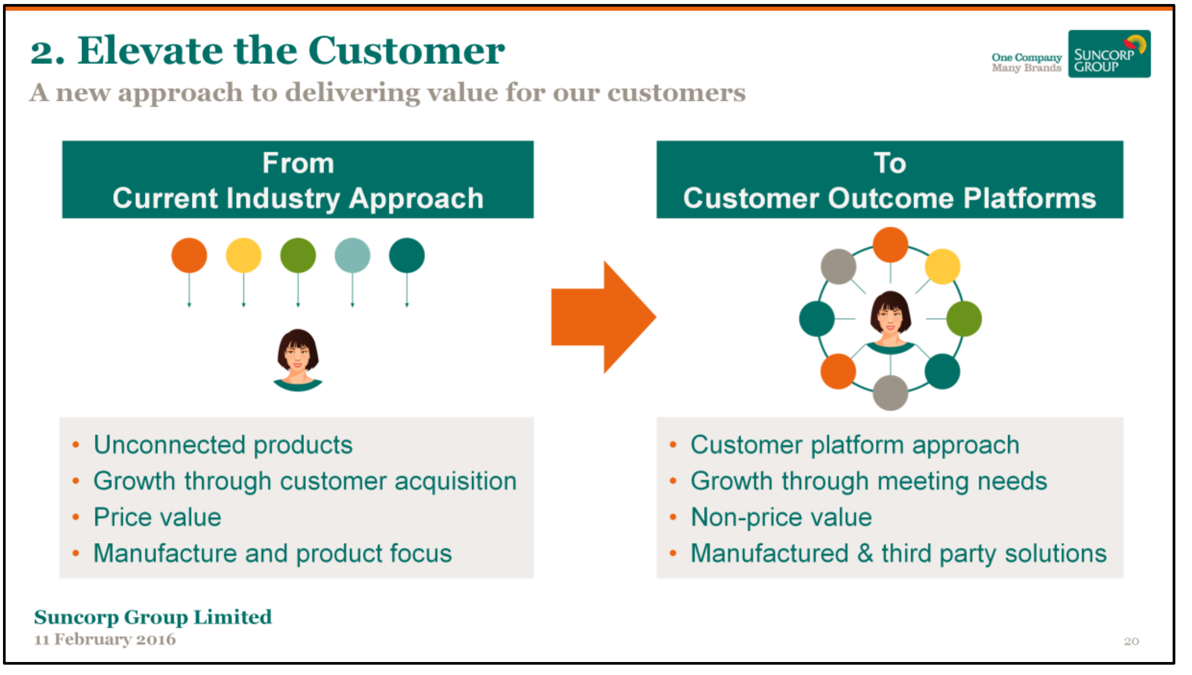

Suncorp has a unique franchise, positioned to deliver stronger customer outcomes. In the face of aggressive market competition, Personal Insurance retention has improved and our bank was named 'Bank of the Year' by Money magazine.

Our Commercial Insurance business is ranked as the preferred partner by our brokers, our Direct Life Insurance online offer is ranked #1, and our NZ business is the most recommended.

**Our strategy is focused on broadening and deepening the relationship with existing customers. It is not reliant on increasing the number of customers.**

When a customer has 3 or more needs met they are connected. Connected customers have 6 times higher retention, they are 7 times more valuable and are typically 2.5 times more active with our organisation.

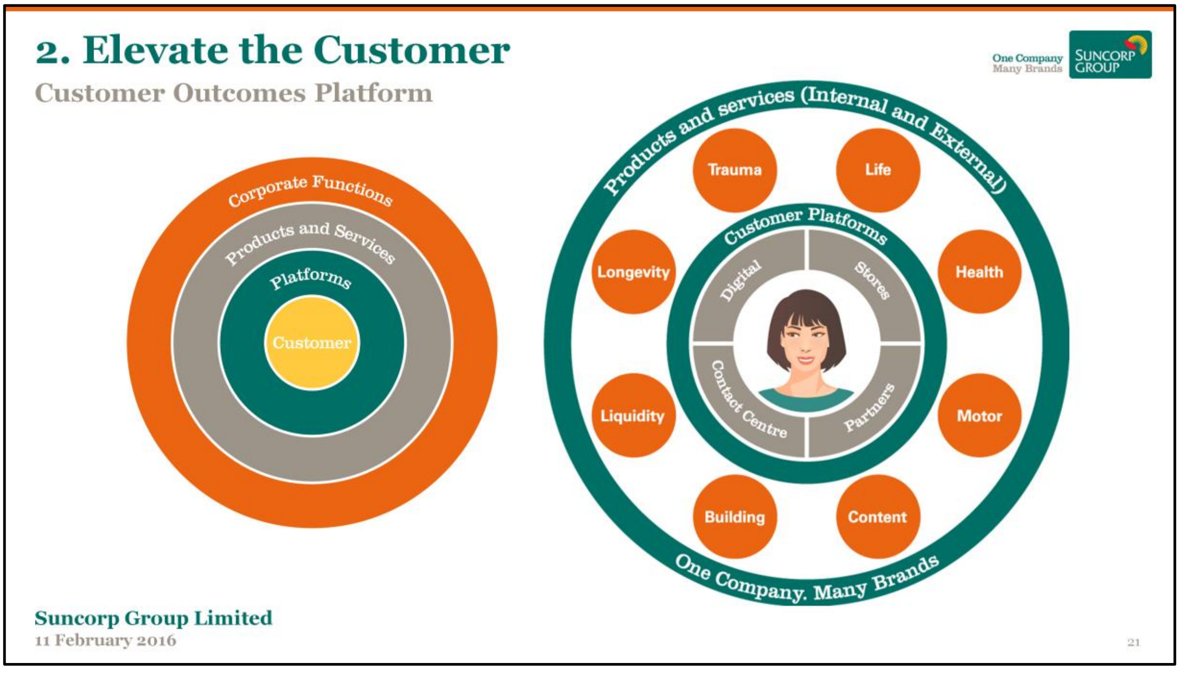
**This is how we elevate the role of the customer in Suncorp.**




The approach to deliver value for our customers means a shift from the current industry approach.

- Instead of selling unrelated products or unconnected products to customers, we will take a 'Customer Platform' approach.
- Instead of only growing by acquiring new customers, we will grow by meeting the needs of our existing customers more fully.
- If all a company can offer is low price, or 'price' value, it is not a sustainable model. We will provide 'non-price' value.
- Suncorp will not simply manufacture products to sell, we will meet the needs of customers by providing access to products and services from us, and from selected third parties.

We will provide and measure outcomes to customers from our platform.




Our model is based on platforms that provide ‘outcomes’ for our customers. To deliver this we will need to re-align our operating model and changes will be announced shortly.

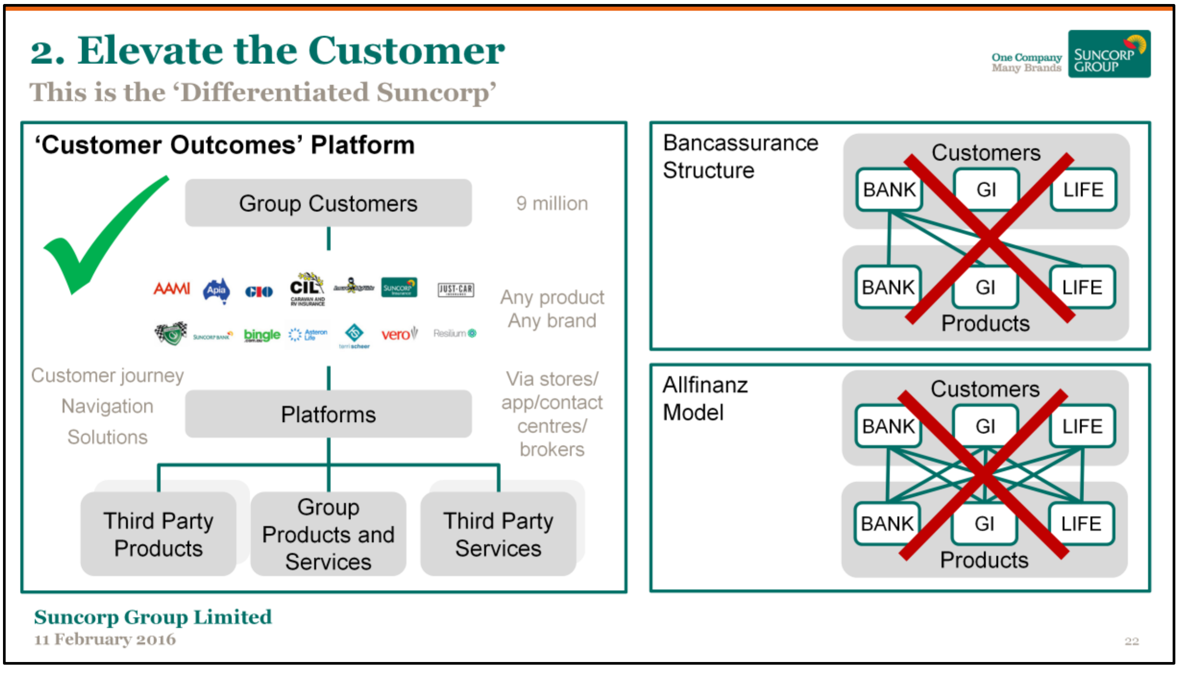
We already have some of the platforms to provide a broad range of solutions and we have commenced an omni-channel approach that allows our customers to interact with us in a way that suits them and their lifestyle.

- Customers can interact with us through our many branches (or stores), our contact centres, via digital including apps or online, and by using our trusted partners in the broker, advisor and intermediary world.
- Suncorp’s reach with significant scale in General Insurance, Life Insurance and Banking, means we can uniquely meet customers needs in relation to Motor, Contents, Building, Liquidity (banking), Longevity (superannuation), Trauma, Life and Health.

Customers should be able to navigate with easy tools, have linkages to meet needs, and satisfy their requirements through their individual and family life journeys.

**This is our ‘One Company. Many Brands’ approach for the customer.**

What I call, the ‘differentiated Suncorp’.




The 'customer outcomes' platform is different to the traditional bancassurance and allfinanz models that have dominated the strategies of international financial groups with mixed success.

Our customers will be able to buy any component and any Suncorp brand from our new platform. They can choose to talk with us in multiple ways.

The obvious question is why will our 'Customer Outcomes' platform be more successful than Bancassurance and Allfinanz?

- Bancassurance involves the sale of insurance products to bank customers.
- Allfinanz involves the sales of multiple sub-industry products to multiple sub-industry customer groups – cross sell.
- The Suncorp Customer Platform is more like the concept of the Apple platform, with its app store and iTunes. Our 9 million customers will satisfy their needs by accessing any of our products and services, any brand, via our stores, our contact centres, via intermediaries and increasingly digitally. This will include products and services from selected third parties, currently outside of Suncorp.

Customers will be 'connected' to our platform in many ways, as we help them create outcomes they value.


In addition to elevating the customer, the second component of creating a more resilient business is to recalibrate our costs. The delivery of this objective will also allow reinvestment for growth.

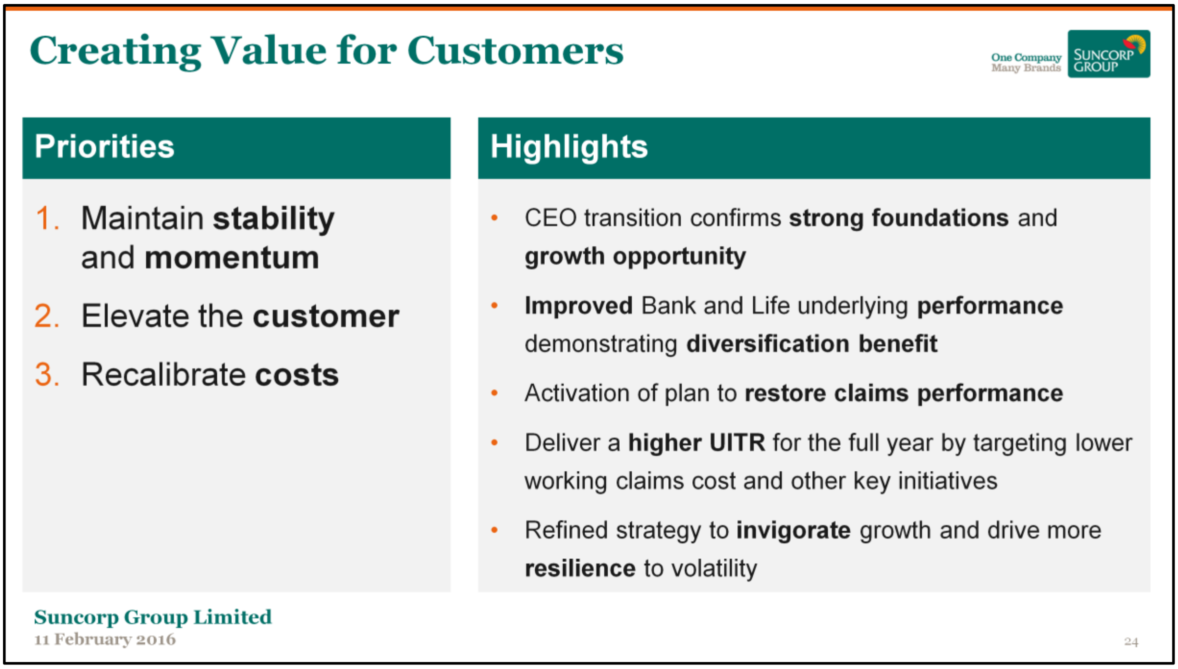
Immediate actions include an adjustment to discretionary spending. We will also develop a plan to rebase our corporate functions.

Our brands will be rationalised and we will ensure that we realise the project benefits from past and current investments. This includes the $170 million Optimisation benefits due in 2018 which will both flow to shareholders and also provide reinvestment opportunities.

It is also critical to accelerate our journey to digitise the entire Group.

As I have demonstrated previously, these initiatives will be carefully planned and executed to avoid unintended consequences to the smooth operation of the business.

Our presentations at the May Investor Day will provide more details on each item.




The Group's priority is to maintain stability of the organisation and to keep momentum to deliver our commitments.

We will increase our resilience in an environment of higher volatility. We will do this by elevating the customer and recalibrating our costs.

The highlights today are:

- My transition has confirmed strong foundations and growth opportunities
- The underlying performance of the Bank and Life business demonstrate the benefit of operating a diversified financial services Group
- We have activated a plan to restore our insurance claims performance
- We are targeting lower working claims cost which, together with other initiatives, will drive a higher underlying ITR for the full year
- And, our refined strategy will invigorate growth and drive more resilience to volatility

**This is an exciting time for Suncorp, creating value <u>for</u> our customers, rather than <u>from</u> our customers.**

Thank you.

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# Questions