AASB17 Update

Impacts of implementing AASB17: Insurance Contracts

11 December 2023

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AASB17 key messages

No material impact on business economics or strategy.

— **Financial reporting:** Differences from AASB1023 arise from the timing of profit and loss emergence and in presentation.

— **Comparability:** Improved transparency and consistency allowing better comparison.

— **Transition:** Reconciliations and key AASB1023 metrics will continue to be provided over a transition period.

AASB17 application date meaning financial statements prepared under AASB17 from FY24

1 July 2023

AASB17 update and pro-forma Investor Pack released with FY23 results restated under AASB17

11 December 2023

1H24 Results released reported under AASB17

26 February 2024

Implementation of AASB17

AASB17 update: Agenda

This presentation focuses on the following topics:

- General Insurance measurement changes
- Life Insurance measurement changes
- Balance sheet and Capital
- Approach to management reporting including key metrics
- Transitional reporting

AASB17 for General Insurance

KEY MEASUREMENT CHANGES

- All Suncorp General Insurance contracts will be reported using the Premium Allocation Approach (PAA), one of three measurement approaches prescribed under AASB17.
- The PAA is a simplified approach where insurance revenue is recognised over the term of the policy – predominantly twelve months for General Insurance.
- This approach is closely aligned to the revenue recognition profile under AASB1023.
- The key measurement changes that will impact the timing of profit recognition in the General Insurance businesses are outlined below:

Risk Adjustment

Probability of adequacy decreases from 90% to 75%

Replaces AASB1023 concept of risk margin and is an approach based on cost of capital.

Claims Discounting

Illiquidity premium of ~30bps added when discounting claims

Discount rate to include an illiquidity premium and is not expected to be volatile.

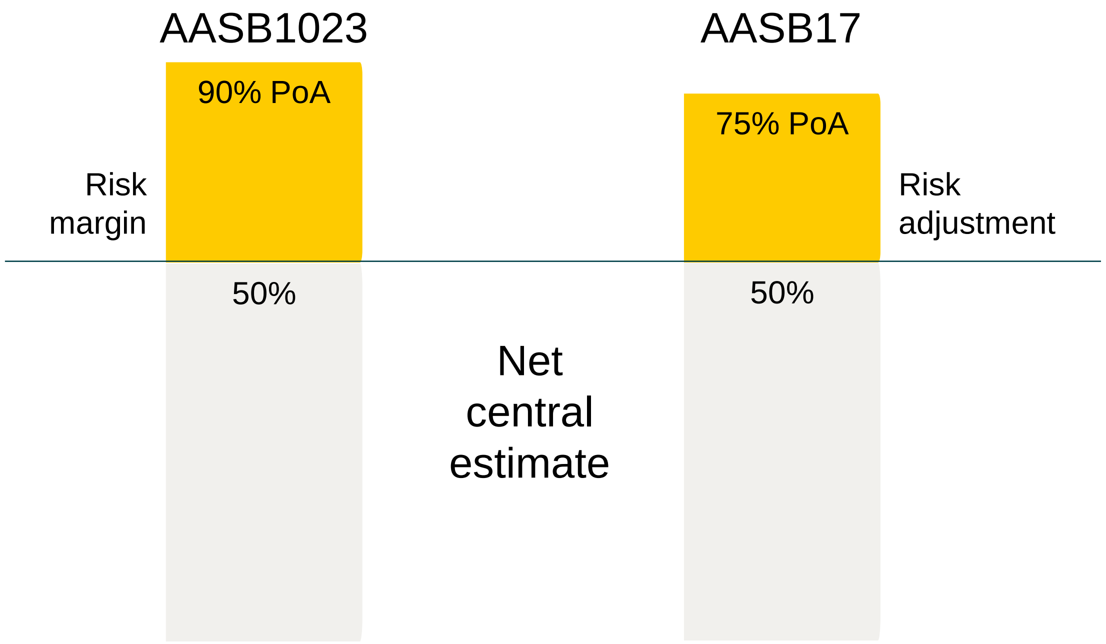
Onerous Contracts

Onerous contract assessment replaces LAT

More granular assessment with immediate P&L recognition of future expected losses.

Risk adjustment and reserving

AASB17 RISK ADJUSTMENT VS AASB1023 RISK MARGIN

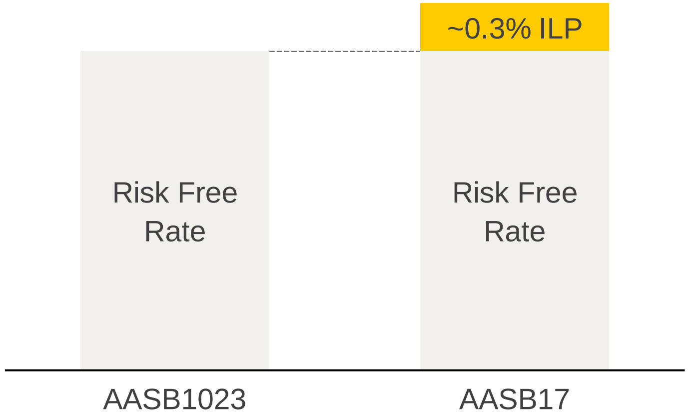


KEY CHANGES

- Under AASB17, Suncorp is using an approach based on cost of capital to determine a confidence level to calculate the Risk Adjustment. This is equivalent to a Probability of Adequacy (PoA) of 75% for reserving claims liabilities.
- The PoA has been applied consistently across all portfolios, and both outstanding claims and liability for remaining coverage calculations.
- The Risk Adjustment is expected to be relatively stable year to year.
- The impact of this change on transition is expected to be ~$500m (pre-tax), due to the reduction in the PoA from 90% to 75%, adjusted through retained earnings.
- The risk margin under AASB1023 was ~14% of the central estimate whilst the risk adjustment is ~7% of the central estimate under AASB17.

Illiquidity premium

KEY CHANGES TO DISCOUNTING CLAIMS



- The illiquidity premium (ILP) increases the discount rate which reduces the claims liability
- The ILP is calculated through the cycle, with reference to historical average credit spreads over a five-year period
- Transition adjustment through retained earnings and small
- Ongoing P&L impact broadly neutral with the PV adjustment offsetting the additional discount unwind

STATUTORY PRESENTATION CHANGE

- Under AASB17, the three claims discounting items remain:
  - a) Present value adjustment on new claims,
  - b) discount unwind, and
  - c) impact from changes in discount rates
- However, b) and c) will be reported outside the underwriting result called the Insurance Service Result (ISR)

AASB1023 Claims presentation	AASB17 Claims presentation (see slide 13)
Net incurred claims	**Within ISR in net incurred claims**
Present value adjustment (a)	Present value adjustment (a)
Discount unwind (b)	**Outside ISR**
Impact from changes in discount rates (c)	Discount unwind (b)
	Impact from changes in discount rates (c)

Onerous contracts

AASB1023 LIABILITY ADEQUACY TEST

Test based on overall Insurance portfolio

AASB17 ONEROUS CONTRACTS ASSESSMENT

Assessment based on multiple Insurance groups

ONEROUS CONTRACTS CALCULATION

Unearned premium (less DAC) − Discounted claims and expenses forecast at 75% PoA = Loss Component (if < 0)

KEY POINTS

- The onerous contract assessment is a granular adequacy assessment of unearned premium net of DAC.
- The calculation uses a probability of adequacy on claims in line with the risk adjustment at 75% and not best estimate.
- If a group is considered onerous then a loss component is recognised in the accounts.
- The onerous contract assessment is analogous to LAT with the following key differences:
  - Gross versus net of reinsurance
  - 75% vs 60% PoA
  - More granular.

Onerous contract impact on FY23 and FY24 financials

KEY POINTS

- Onerous contract provision at transition (1 July 2022) was $55m and adjusted through retained earnings.
- The balance was primarily driven by Motor and QLD CTP, both largely due to inflationary pressures.
- During FY23, the loss component provision on Motor increased, reflecting rising forecast claims costs on unearned premium.
- In FY24, we expect the Motor provision to reduce reflecting the earning of higher premiums and improved profitability; potentially offset by the impact of ongoing inflation.
- We expect Queensland CTP dynamics to continue with the impact of the RACQ portfolio transfer offset by the benefit from rising yields.

UNAUDITED LOSS COMPONENT BALANCE SHEET PROVISION (PRE-TAX)

Onerous group ($m)	1 Jul 2022	31 Dec 2022	30 Jun 2023
Loss component provision	-55	-75	-98

UNAUDITED LOSS COMPONENT P&L IMPACT (PRE-TAX)

$m	1H23	2H23	FY23
Loss component	-20	-23	-43

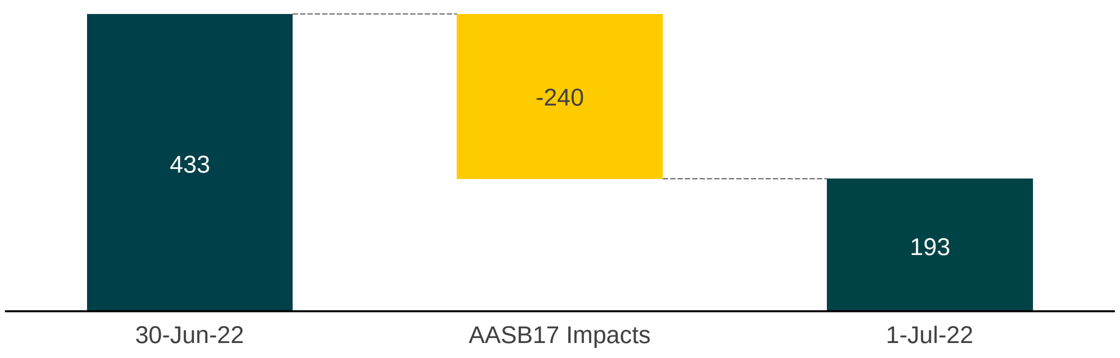
AASB17 for New Zealand Life Insurance

AASB17 MEASUREMENT MODELS

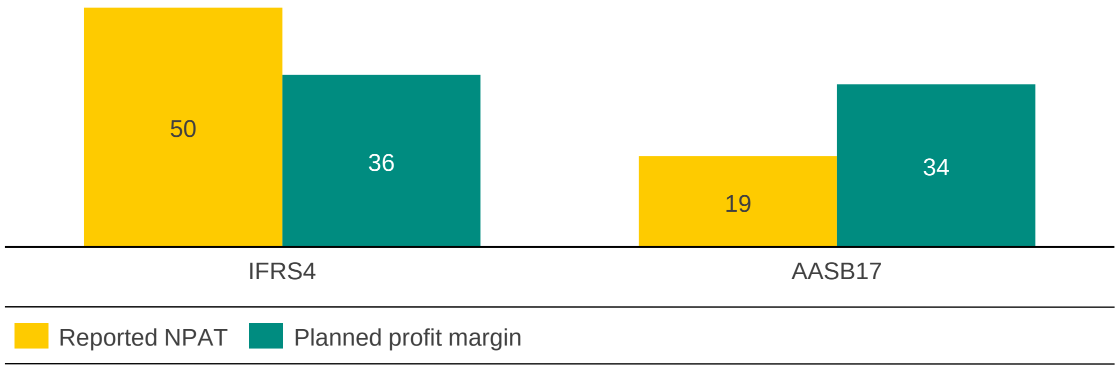
	General Measurement Model (GMM)	Premium Allocation Approach (PAA)	Variable Fee Approach (VFA)
Application at Suncorp	• Level premium and Group Life insurance business • Life Reinsurance • Annuities	• Stepped premium Life insurance business	• Legacy Life business
Proportion	• ~30%	• ~70%	• <1%

AASB17 for New Zealand Life Insurance

UNAUDITED RESTATEMENT OF NET ASSETS AT TRANSITON (NZ$m)



UNAUDITED RESTATEMENT OF FY23 REPORTED NPAT (NZ$m)

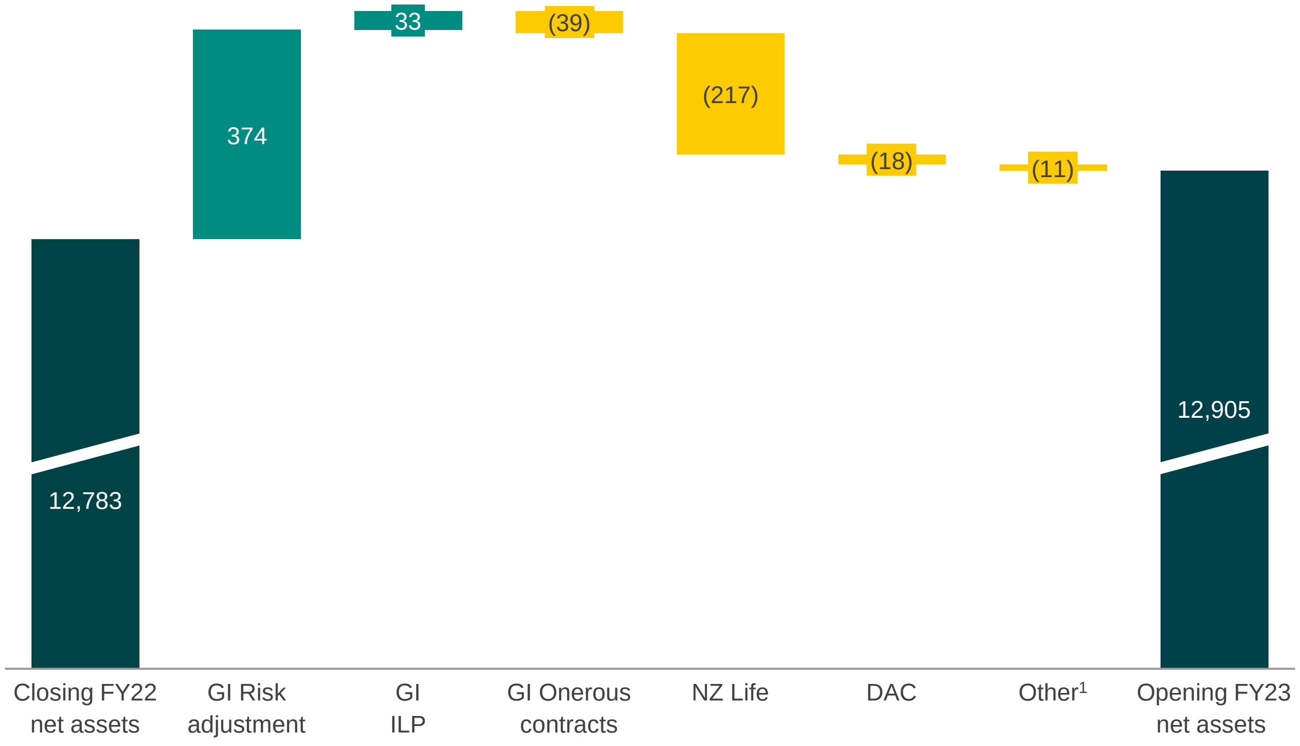


KEY POINTS

- AASB17 does not change the underlying economics or cashflows of the Life Insurance business. There is no impact to Embedded Value.
- The adoption of the accounting standard impacts on the timing of the emergence of profits, and retained earnings at transition.
- The key measurement changes that impact the Life Insurance business are:
  - Deferred acquisition costs – PAA acquisition costs to be capitalised and amortised using an agreed run off pattern
  - Contract boundary – PAA contract boundary materially shortened from a long-term, natural expiry contract boundary to a 12-month contract boundary under AASB17
  - Onerous contracts – upfront recognition with more granular assessment.
- No material capital impact expected.
- The reduction in AASB17 reported NPAT in FY23 primarily driven by the introduction of a shorter contract boundary for PAA business and the impact this has on experience profits.

Group Balance Sheet transition impacts

UNAUDITED OPENING FY23 PRO-FORMA NET ASSET TRANSITION IMPACT (POST TAX, $m)



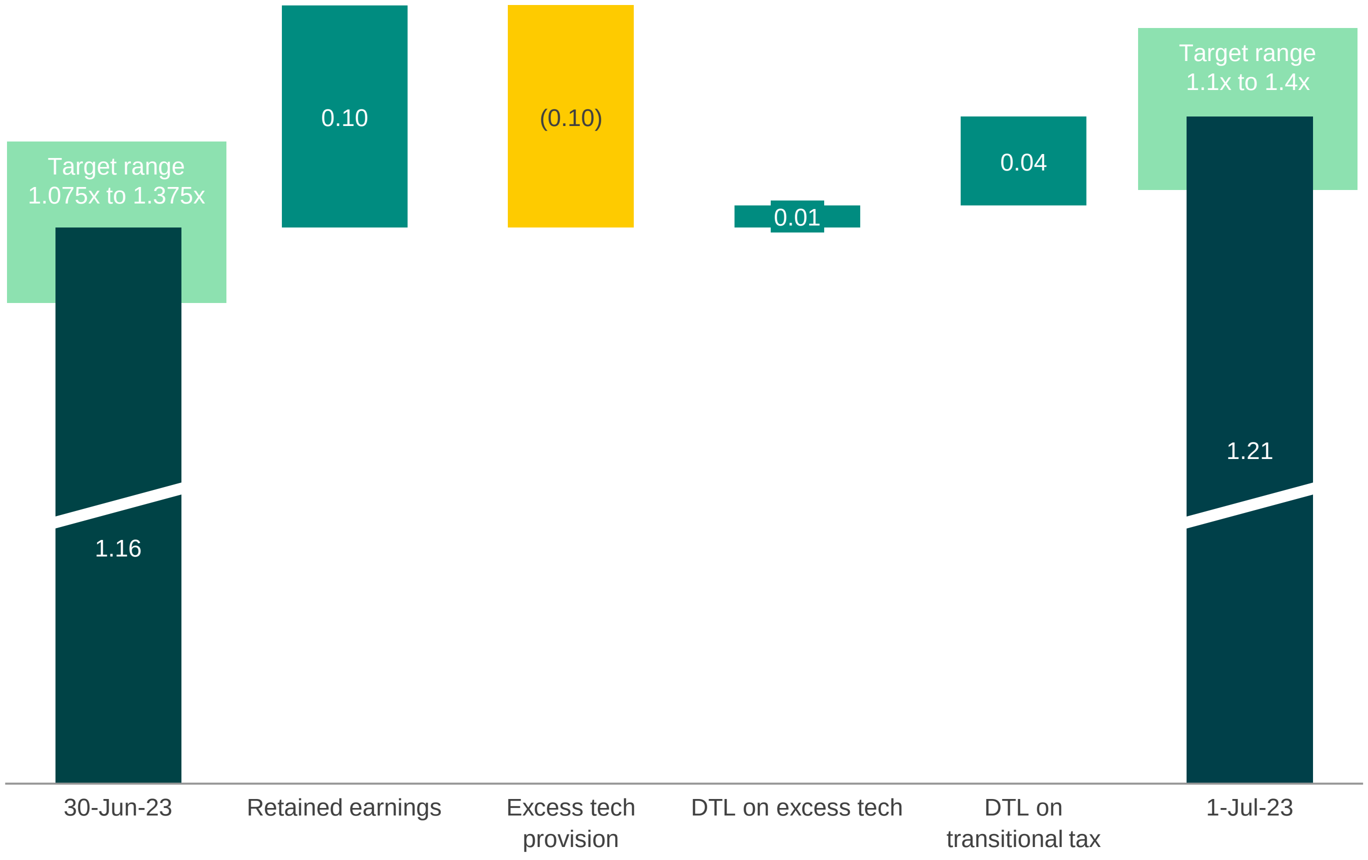
1. Other primarily relates to the write-off of intangible assets

IMPACT ON ADOPTION

- AASB17 will be applied retrospectively to the FY23 comparative result.
- A transition adjustment will be booked to opening retained earnings for FY23 to account for the retrospective application of the standard.
- On adoption Suncorp expects the impact to be an increase in retained earnings at 30 June 2022 of $122m.

Capital impacts – General Insurance

AASB17 CAPITAL IMPACTS ON ADOPTION



KEY DRIVERS

- Approx. 0.05x PCA increase in CET1 ratio:
  - Benefit from increase in retained earnings offset by reduction in Excess Tech Provisions
  - ~0.01x PCA benefit from Deferred Tax Liability on remaining Excess Provisions (change in APRA treatment on tax effect)
  - ~0.04x PCA benefit from transitional tax relief on tax liability on retained earnings adjustment (will unwind by ~0.01x PCA each 1 July for 4 years).
- Offset by 0.025x PCA increase in capital targets:
  - Change in APRA treatment of tax effect on Excess Tech Provisions generates additional DTAs in downside scenarios.

AASB1023 to AASB17 management reconciliation – GI only

UNAUDITED

AASB1023	FY23 ($m)
Net earned premium	10,342
Net incurred claims	-7,501
Operating expenses	-2,160
Investment income – insurance funds	365
Insurance trading result	**1,046**
Other income incl. SHF inv. inc.	110
Profit before tax	**1,156**
Income tax	-342
General Insurance profit after tax	**814**

Adjustments	From	$m	$m	To
Presentation changes				
RI exchange commissions and BDD	DOpEx	-91	91	NIR
RI broker fees	NIR	13	-13	DOpEX
Non-directly attributable claims expenses	NIC	8	-8	NDAE
Other expenses	DOpEx	4	-4	MJ&O
Measurement changes				
Illiquidity premium	NPAT adjustments		-2	NIC
Risk adjustment			16	NIC
Loss component			-43	NIC
Expense methodology			-55	DOpEx / NDAE
GI income tax			29	Income tax
Total NPAT adjustments			**-55**	

- The colours map the AASB1023 P&L line items to the AASB17 managements accounts.
- As part of applying AASB17 principles, the methodology for calculating DAC was simplified; additionally, fewer expenses qualify for deferral.
- Non-directly attributable expenses (NDAE) are primarily project expenses that can not be attributed to current insurance products. NDAE expected to be managed within overall cost targets.
- AASB1023 GI PAT of $814m + NPAT adjustments of -$55m = AASB17 GI PAT of $759m.

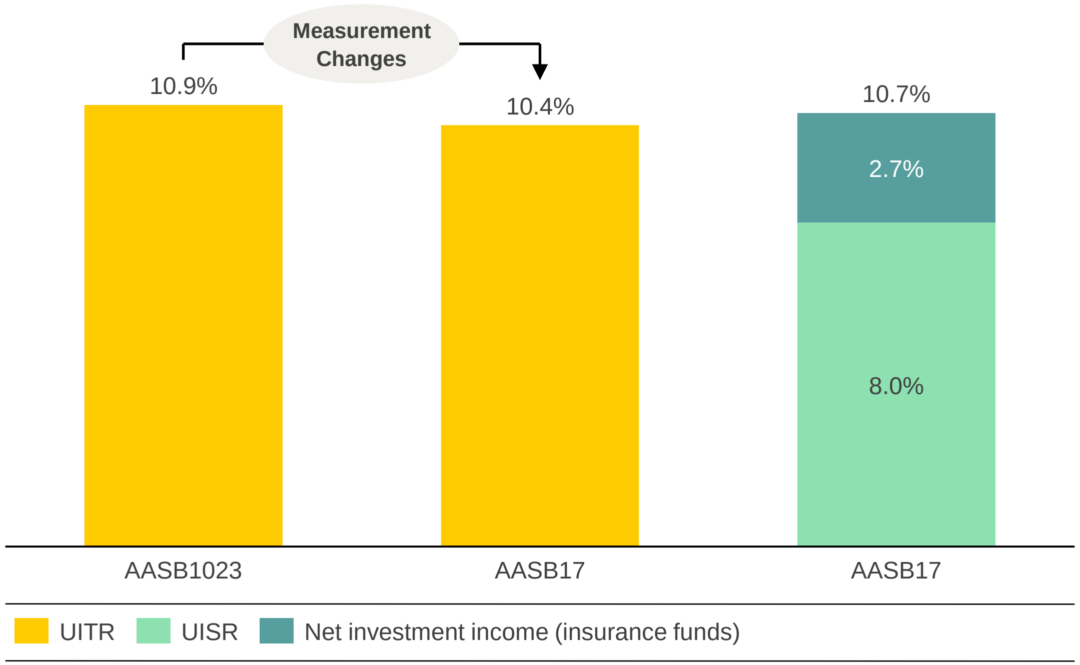
AASB17	FY23 ($m)
Net insurance revenue (NIR)	10,446
Net incurred claims (NIC)	-7,397
Direct operating expenses (DOpEx)	-1,688
Commission expenses (ComEx)	-594
Insurance service result	**767**
Investment income on insurance funds	365
Discount unwind on claims liabilities	-234
Market rate adjustments on claims liabilities	109
Non-directly attributable expenses (NDAE)	-40
Insurance trading result	**967**
Investment income on shareholders' funds	218
Managed schemes, JV and other (MJ&O)	-112
Profit before tax	**1,073**
Income tax	-314
General Insurance profit after tax	**759**

Key metrics

KEY METRIC CHANGES

- We will continue to report UITR under AASB17 with the measurement changes driving the differences to the AASB1023 version.
- We will also begin reporting Underlying Insurance Services Ratio (UISR) which reflects underwriting performance.
- Like UITR, UISR will be adjusted for items such as natural hazard experience variance to allowance and PYRR variance to long-term expectations.
- The key difference between UITR and UISR is the exclusion of investment income, the unwind of claims discounting and NDAE.

FY23 UITR AND UISR



Transitional reporting

We have provided today a pro-forma investor pack. Key changes to the document include:

— Updated 1H23, 2H23 and FY23 financials presented under AASB17 to align with ongoing reporting

— Financials aligned with the operating structure of the business – Consumer, Commercial & Personal Injury, New Zealand and Bank

— The presentation of an underlying P&L for General Insurance businesses.

We will continue to provide the below items over a transitional period:

— GWP

— Group GI UITR walk & analysis

— AASB17 NPAT to AASB1023 NPAT reconciliation.

Questions

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