SUNCORP

ASX announcement

21 August 2020

Suncorp announces FY20 Results

FY20 key points:

- **The Suncorp Group Board has determined a fully franked final ordinary dividend of 10 cents per share**, bringing total FY20 ordinary dividends to 36 cents per share, reflecting a payout ratio of 60.7% of cash earnings.
- **The Group remains well capitalised** with excess common equity tier 1 (CET1) of $823 million adjusting for the final dividend, with all businesses holding CET1 within their target operating ranges.
- Suncorp recently confirmed a **new leadership team structure** and will continue to embed recent changes to its **operating model** to further reduce duplication, clarify accountabilities and enable greater efficiency and innovation.
- **The Group has continued to leverage its investment in digital and data** with 14% growth in digital users and continued increases in new business sales and claims lodgements through digital channels.
- **Group net profit after tax of $913 million** includes a $285 million after-tax profit from the sale of the Capital SMART and ACM Parts businesses, and the $89 million non-cash impairment charge relating to the core banking platform.
- **Cash earnings of $749 million** were down 32.8% on the prior comparative period (pcp) as a result of reduced profit from Insurance (Australia) (down 33.9%) and Banking & Wealth divisions (down 33.5%), and New Zealand in-line with the pcp.
- **The COVID-19 pandemic has had a range of impacts on the Group's financial performance.** The FY20 impact on the general insurance businesses is estimated to be broadly neutral [1], excluding the impacts of investment markets, and the Bank has been impacted by higher COVID-19-driven impairment losses.
- **Insurance (Australia) has recognised $85 million in additional claims provisions and risk margins** to cover COVID-19 uncertainty, including landlord loss of rent and potential business interruption claims.
- **The Bank's collective provision** has increased to $255 million at 30 June, up from $233 million at 31 March, reflecting conservative economic assumptions and additional overlays given the uncertain outlook. As at 31 July 2020, 5% of the home lending portfolio is under temporary loan deferral arrangements, down from 8% at 30 June.
- **Group General Insurance underlying insurance trading ratio (ITR) was 11.1%,** down from 12.3% in the pcp, as a result of a higher natural hazard allowance and reinsurance costs, lower investment income and higher expenses.
- **Group natural hazard costs were in-line with the FY20 allowance of $820 million** despite the significant natural hazards that occurred during the year, benefitting from the Group's strengthened reinsurance program and protecting shareholders from $1 billion in claims costs.
- **Group prior year reserve releases** were $103 million, representing 1.2% of Group net earned premium (NEP). Personal injury prior year reserve releases were 2.3%, above the Group's long-term expectation of 1.5% of NEP.
- **Operating expenses increased 2.3%** on the pcp. Excluding costs associated with the Australian Life business, expenses increased 5.7% as a result of one-off COVID-19 costs, the $60 million provision relating to the ongoing pay and leave entitlements review, higher project and technology costs, commissions and marketing.

	FY20	FY19	Change (%)
Insurance (Australia) profit after tax ($m)	384	581	(33.9)
Banking & Wealth profit after tax ($m)	242	364	(33.5)
New Zealand profit after tax ($m)	245	245	-
Profit after tax from ongoing functions ($m)	**871**	**1,190**	**(26.8)**
Other profit (loss) after tax ($m)	(123)	(105)	17.1
Cash earnings ($m)	**749**	**1,115**	**(32.8)**
Net profit after tax ($m)	**913**	**175**	**421.7**
Ordinary dividend per share (cps)	**36**	**70**	**(48.6)**
Payout ratio – Cash Earnings (%)	60.7	81.2	

[1] The broadly neutral outcome is indicative of key items related to COVID-19 and does not capture all impacts.

Group CEO commentary

Group CEO Steve Johnston said: “It has been a challenging 12 months for Suncorp and for the customers and communities we support: first a season of extreme weather conditions, and then the global COVID-19 pandemic which will result in long-lasting economic disruption and fundamentally change the way we live.

“Suncorp entered the COVID-19 crisis in a solid position and responded quickly to keep our people safe and our customers in need protected through access to financial relief measures. At the same time, we have maintained the financial and operational strength of our business.

“The strength of our balance sheet has enabled the Board to determine a fully franked final ordinary dividend of 10 cents per share. It is pleasing we are able to deliver on our commitment to shareholders by paying a modest final dividend.”

“While our financial performance, particularly in the second half, has not been immune from the negative impacts of COVID-19, there were a number of highlights which demonstrate the Group has solid foundations.

“Digital channels helped drive favourable growth in our Australian motor and home insurance portfolios, and natural hazard costs remained in-line with allowance as a result of our strengthened reinsurance program.

Mr Johnston said that while the COVID-19 pandemic would have long-lasting health and economic implications, it had presented opportunities to accelerate the pace of organisational transformation.

“The growing preference for digital and reliance on technology is shifting the way we work and the way we support customers. Our teams embraced more agile ways of working to fast-track digital solutions including enhanced webchat capabilities, online claims functionality and virtual claims assessments,” he said.

“This period has fundamentally changed our perspective on what’s possible, and how quickly and efficiently we can adapt to deliver new customer experiences and drive greater efficiencies within the organisation.”

On 1 July 2020, Suncorp announced a new operating model to improve the performance of the core insurance and banking businesses. This model aims to reduce duplication, embed more efficient ways of working and embrace opportunities for greater innovation.

Mr Johnston said that while governments had rightly responded swiftly to deal with the impacts of the COVID-19 crisis, it was critical that the nation did not lose sight of the significant risks posed by the changing climate.

“Suncorp has long argued for a national, coordinated response to disaster mitigation and natural hazard resilience to deal with the impacts of climate change,” he said.

“This can no longer remain in the too-hard basket. Now is the time for governments at all levels to work with businesses, big and small, and to invest in a nation-building program encompassing infrastructure, incentives, improved building standards and the removal of inefficient taxes and charges.

“This will not only reduce the impact of natural disasters on our communities; it will provide much-needed economic stimulus at a time when it is desperately needed, particularly in regional communities.”

Mr Johnston reaffirmed his confidence in the company’s ability to deliver sustainable shareholder returns over the long-term.

“The health and economic headwinds of COVID-19 will continue to be felt for some time but the lessons of the past year position us to withstand future challenges and to continue executing against our key priorities. These priorities include improving the performance of our core businesses, improving operational efficiency, leveraging our investments in data and digital and embracing regulatory change.”

Group financial results overview

Group net profit after tax of $913 million, up $738 million or 421.7% on the pcp, included the profit after tax on the sale of Capital S.M.A.R.T and ACM Parts to AMA Group Limited of $285 million and the $89 million non-cash impairment charge relating to the core banking platform.The pcp was impacted by a $910 million after tax non-cash loss on the sale of the Australian Life business.

Cash earnings of $749 million, down 32.8% on the pcp, were impacted by lower prior year reserve releases; higher reinsurance costs and the impact of the low yield environment in the general insurance businesses; significantly higher credit provisioning in the Bank; and higher Group operating expenses which includes a $60 million provision relating to the ongoing pay and leave entitlement review.

The Group General Insurance underlying ITR was 11.1%, down from 12.3% in the pcp. This reflects the impact of a higher natural hazard allowance, an increase in reinsurance costs, higher expenses, and the impact of lower yields, partially offset by underlying margin expansion and reduced claims frequency as a result of COVID-19 mobility restrictions.

Group natural hazard costs remained in-line with the FY20 allowance of $820 million, despite the significant natural hazards that occurred during the year, benefitting from the Group's strengthened reinsurance program.

Net reserve releases of $103 million, representing 1.2% of net earned premium, were below the pcp. Personal injury reserve releases were 2.3%, above the Group's long-term expectation of 1.5% of NEP. This was partially offset by strengthening of prior period claims in the commercial and consumer portfolios which were largely one-off in nature.

Total Group operating expenses were up 2.5% on the pcp on a like-for-like basis, excluding costs associated with the Australian Life business which was sold in FY19, the $22 million of one-off costs associated with COVID-19 and the $60 million provision relating to the ongoing pay and leave entitlements review in FY20.

Capital and dividends

The Group adopted a conservative approach to capital management during the year in order to maintain a strong position in a period of heightened uncertainty.

At 30 June, the Group's excess to CET1 target was $823 million after adjusting for the final dividend, with all businesses holding CET1 within their target operating range and $605 million held at Group.

Taking into account the Group's robust balance sheet and recent regulatory guidance, the Board has determined a fully franked final ordinary dividend of 10 cents per share equating to a cash payout ratio of 60.7 per cent for the full year.

COVID-19 operational impacts

Following the introduction of restrictions, Suncorp transitioned 90% of its workforce to working remotely and implemented a range of hygiene measures to protect the health and safety of customers and team members. A significant number of employees were redeployed to customer-facing and business-critical roles to assist with the significant increase in call volumes and online enquiries from customers.

Suncorp has worked alongside industry bodies, governments and regulators to ensure a well-coordinated approach to delivering financial relief for customers impacted by COVID-19. Since March 2020, Suncorp has provided financial relief to customers in the form of premium waivers, discounts, temporary loan repayment deferrals and practical measures based on the individual needs of customers, including:

- 9,800 customer loans were under temporary loan repayment deferral arrangements as at 31 July (30 June: 14,400). Bank customers received access to a range of support options including removing fees, lowering overdraft limits and deferring repayments.
- 31,000 motor and home insurance customers received three-month premium waivers or discounts as at the end of June.
- 26,000 doctors, nurses, hospital staff and first responders received free AAMI roadside assist as at 31 July.
- Access to free counselling as part of the Insurance Peace of Mind package aimed at providing practical measures to support customers facing hardship.

As the impacts of COVID-19 continue, Suncorp is working closely with customers to ensure they have the right support available to them.

Key estimated COVID-19 financial impacts

COVID-19 had an approximately $140 million pre-tax negative impact on the Group's FY20 result. The table below provides details of the impacts on each of the businesses.

	Impact (Pre-tax)	Description
Insurance (Australia)[2]	~$20m	– Lower motor claims frequency due to mobility restrictions – Lower new business volumes and impact of customer relief packages – Provision, including risk margin, to cover COVID-19 uncertainty (including landlord insurance and business interruption) – Increase in operating expenses for activities such as the roll back of some offshore processes
Banking & Wealth	~($160m)	– COVID-19 impairment losses driven by a significant increase in the collective provision
New Zealand[2]	~$0m	– Lower motor claims frequency due to mobility restrictions – Pass-through to customers of reduced risk of motor claims via provisions for premium relief / hardship funds
Total Group	**~($140m)**	– Excludes investment income impact from market volatility due to COVID-19

Divisional performance

Insurance (Australia)

Insurance (Australia) delivered profit after tax of $384 million, down 33.9% on the pcp, primarily due to lower prior year reserve releases, higher reinsurance costs and the impact of the low yield environment.

GWP increased 1.0%, reflecting 2.5% growth in the consumer home and motor portfolios, partially offset by declines in the commercial and CTP portfolios.

The net impact of COVID-19 on the Insurance (Australia) business in FY20 was broadly neutral[2], excluding the impact of investments, as reduced motor claims costs were largely offset by customer relief programs, embargoes and lower new business volumes, increased claims provisions and risk margins.

Banking & Wealth

Banking & Wealth delivered profit after tax of $242 million, down 33.5% on the pcp, primarily due to higher impairment charges driven by the impacts of COVID-19. Profit before impairment losses was $526 million, down 0.9% on the pcp.

The home lending portfolio contracted 2.8%, reflecting slower system growth and an extended period of elevated loan processing turn-around times. The Bank's targeted program of work in retail lending resulted in improved turn-around times in the fourth quarter. Business lending grew 0.4% over the year with growth in agribusiness lending offset by a contraction in commercial lending.

At-call deposits grew 27.5% driven by the Bank's digital capabilities and supported an improvement in the NIM of 4 basis points to 1.94%, towards the top end of the target operating range.

Wealth reported an underlying loss of $6 million, reflecting reduced fee revenue as a result of COVID-19 and elevated regulatory costs.

Suncorp New Zealand

Suncorp New Zealand delivered profit after tax of NZ$259 million, broadly in-line with the pcp. The New Zealand General Insurance business delivered profit after tax of NZ$219 million, up 0.9%. On an underlying basis in New Zealand dollar terms,

[2] The broadly neutral outcome is indicative of key items related to COVID-19 and does not capture all impacts.

GWP grew 5.0% driven by moderate premium increases in the commercial portfolio and unit growth primarily in the direct business.

COVID-19 has had a broadly neutral impact[3] on the New Zealand result. The result benefited from reduced motor claims frequency during the period of COVID-19 mobility restrictions. These benefits have been largely offset by a provision recognised to reflect the reduced risk of motor claims being passed back to customers.

The New Zealand Life Insurance business delivered profit after tax of NZ$40 million, down NZ$4 million on the pcp.

Group outlook

The operating environment remains highly uncertain as a result of the COVID-19 pandemic and the associated economic impacts.

The Group's base case economic assumptions allow for a sharp deterioration in forecast macroeconomic conditions before the economy is assumed to begin recovery from 2021. Economic assumptions will be reviewed on an ongoing basis to take into account any major changes to the outlook including, for example, the impact of Victoria's recently imposed mobility restrictions.

The Group will retain a conservative bias in its assumption setting and stress testing in order to ensure key funding, liquidity and balance sheet metrics remain adequate for a range of scenarios. The Group's three businesses will remain well capitalised, with significant excess capital continuing to be held at the Group level.

While the Board remains committed to its long-standing ordinary dividend payout ratio policy of 60-80% of cash earnings, future distributions will be informed by the outlook for the economy, the results of stress testing and the operational needs of the business.

In addition to the impacts of COVID-19, the Group assumes continued volatility in the frequency and intensity of natural hazard events. To address this, the Group has increased its FY21 natural hazard allowance by $130 million to $950 million and, in addition to the main catastrophe program, has purchased an Aggregate Excess of Loss (AXL) reinsurance cover. The AXL provides $400 million of cover for events in excess of $5 million, once the retained cost of these events reaches $650 million. The Group will continue to adjust pricing to account for increases in natural hazard costs.

In this environment of economic uncertainty, the Group remains focused on its strategic priorities and speeding up the pace of transformation. The priorities remain: improving the performance of the core insurance and banking businesses; leveraging investments in data and digital; embedding operational excellence programs across the Group; and embracing regulatory change.

Webcast details

A live audio webcast hosted by Suncorp's Group CEO Steve Johnston and Group CFO Jeremy Robson will commence at 10:00am and will be available on the Suncorp Group website.

Authorised for lodgement with the ASX by the Board.

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