

29 January 2024

Update on Ex-Tropical Cyclone KIRRILY and 1H24 results

Suncorp (ASX: SUN | ADR: SNMCY) today provided an update on ex-Tropical Cyclone KIRRILY as well as a preliminary update on the key financial metrics impacting the 1H24 results including top line growth, natural hazards, investment markets and prior year reserve strengthening.

Ex-Tropical Cyclone KIRRILY

As of last night, just over 500 claims have been received from customers impacted by the cyclone, almost all home claims.

Suncorp Group CEO Steve Johnston said the insurer had teams right across the country to support customers impacted by recent extreme weather events, including TC KIRRILY.

“Communities in the path of ex-TC KIRRILY were largely spared the worst of the wind and rain as the system downgraded and quickly headed further inland,” Mr Johnston said.

“While this means we have seen less damage than expected in the more densely populated coastal communities in North Queensland, we are seeing significant rainfall and storms in southern parts of the state, and we will be closely monitoring the movements of the system over coming days.

“Since late November we have experienced a series of extreme weather events right along the East Coast, with teams continuing to progress customer claims across Queensland, New South Wales and Victoria.

“As a national insurer we are leveraging our full supply chain and expanded builder panel to make emergency repairs, assess the damage and start the rebuild and recovery process.”

“We are also continuing to ensure our teams are on the ground, meeting face-to-face with our customers in the most impacted areas, including Cairns and the Gold Coast.”

Tropical Cyclone KIRRILY made landfall north of Townsville as a category 2 cyclone on Thursday evening and was declassified to a tropical low on Friday. The Cyclone Reinsurance Pool provides cover for the property impacts resulting from a cyclone, and related flooding for 48 hours after the cyclone ends.

Natural hazard costs

The total cost of natural hazard events for 1H24 is expected to be \$568 million. There were six significant events during the period, which have been outlined in the table below. These estimates exclude any associated risk margin or claims handling expenses.

| Date | Event | Net estimated costs |
|--|---------------------------|---------------------|
| | | \$ million |
| Nov 23 | November Rain and Storms | 24 |
| Dec 23 | December Hail and Rain | 51 |
| Dec 23 | Cyclone Jasper | 56 |
| Dec 23 | Southern States Storms | 22 |
| Dec 23 | SE QLD NSW Storms | 15 |
| Dec 23 | East Coast Holiday Storms | 212 |
| Total events over \$10 million | | 380 |
| Other natural hazards | | 188 |
| Total natural hazards from 1 July 2023 - 31 December 2023 | | 568 |

Suncorp's natural hazard allowance for FY24 is \$1,360 million.

Suncorp has a comprehensive reinsurance program in place for major events. The maximum event retention on the main catastrophe program is \$350 million for the first event. There is also dropdown aggregate protection which provides additional cover for medium sized events and a 30% quota share arrangement relating to the Queensland Home portfolio.

The full limits remain available on all of the Group's reinsurance covers going into the second half of the financial year. The Group will recover approximately \$14 million as part of the reinsurance arrangements with the Federal Government's Cyclone Reinsurance Pool, in relation to Cyclone Jasper.

Reserving update

Prior year reserves were strengthened across several portfolios in 1H24 by a total of \$107 million pre-tax, net of the impact of loss component movements.

Mr Johnston said the reserve strengthening was driven by the combination of a broad series of external challenges facing the insurance industry.

"We have continued to see inflationary pressures from drivers such as supply chain capacity constraints and higher third-party settlements in Motor, and water damage and large fires in our Home portfolio," Mr Johnston said.

In Motor, \$56 million of reserve strengthening was offset by a \$54 million loss component release under IFRS17. The reserve strengthening was driven by higher repair costs and extended repair times associated with the tail of Covid related supply chain issues, especially in relation to third party settlements, as well as an increased level of total loss claims. These supply chain impacts have since started to moderate. A high volume of the third-party settlements had a claims period that exceeded twelve months, significantly increasing costs from initial estimates. The loss component release from the 30 June 2023 position was driven by improved profitability as the inflationary related pricing response is reflected in renewals.

In the Home portfolio, reserves were strengthened by \$32 million, primarily driven by water damage claims. There was also strengthening across an abnormally high number of large fire claims that occurred late in FY23. Pricing has been updated to reflect the recent experience in water claims and the severity of recent fire events.

Natural Hazards reserve strengthening of \$32 million mostly related to the development of the Newcastle Hail event from May 2023, along with a range of other events.

Commercial & Personal Injury experienced net strengthening of \$18 million which was largely attributable to an increase in reserving on lump sum costs in Workers Compensation in Western Australia reflecting the ongoing impact of historical regulation changes, as well as a modest increase in claims in run-off long tail portfolios. Fleet also experienced strengthening with similar dynamics to the Consumer Motor portfolio. These items were partially offset by a \$24 million release in CTP, primarily in NSW. The CTP release has moderated, largely driven by broad-based superimposed inflation in Queensland, including in medical and legal costs.

Strengthening in New Zealand totalled \$24 million, driven by large developments on a small number of fire claims, as well as the impact on claims capacity of the two weather events in early 2023.

Strong top line growth and underlying margins in line

The 1H24 result will be supported by strong top line growth across the general insurance businesses, with gross written premium growth ahead of guidance.

"We continue to closely manage insurance pricing to respond in line with input costs such as reinsurance and inflation on repairing homes and cars, while also being mindful of the affordability challenges facing our customers.

"Pleasingly, in the first half we have seen more insurance customers choosing our home and motor products, with strong unit growth in both key portfolios."

FY24 underlying margins are expected to be in line with previous guidance of around the midpoint of the 10-12% range, with the first half at the lower end of that range, as expected.

Investment income in line with expectations

Investment income for both insurance funds and shareholders' funds are expected to be materially in line with previously communicated sensitivities for both yield and mark-to-market. The 1H24 numbers are presented in the table below.

| | \$ million |
|--|------------|
| Investment income on insurance funds | 409 |
| Investment income on shareholders' funds | 199 |
| Total investment income | 608 |

Suncorp Bank sale separation costs

Subject to regulatory and government approvals, the targeted completion of the sale of Suncorp Bank to Australia and New Zealand Banking Group Limited remains the middle of the 2024 calendar year.

As it is likely that completion will occur in the new financial year, there is a change to the phasing of separation costs with approximately \$70 million post-tax expected to be incurred in each of 1H24 and 2H24.

Suncorp will present its 1H24 result on 26 February 2024.

Authorised for lodgement with the ASX by the Suncorp Disclosure Committee.

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