
Financial Results for the half year ended 31 December 2019
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SUNCORP GROUP LIMITED
ABN 66 145 290 124
SUNCORP
Photo: Insurance Community Relationships Manager, Scott Cooper with Suncorp's Storm Season ambassador Johnathan Thurston in Townsville - December 2019


Good morning everyone

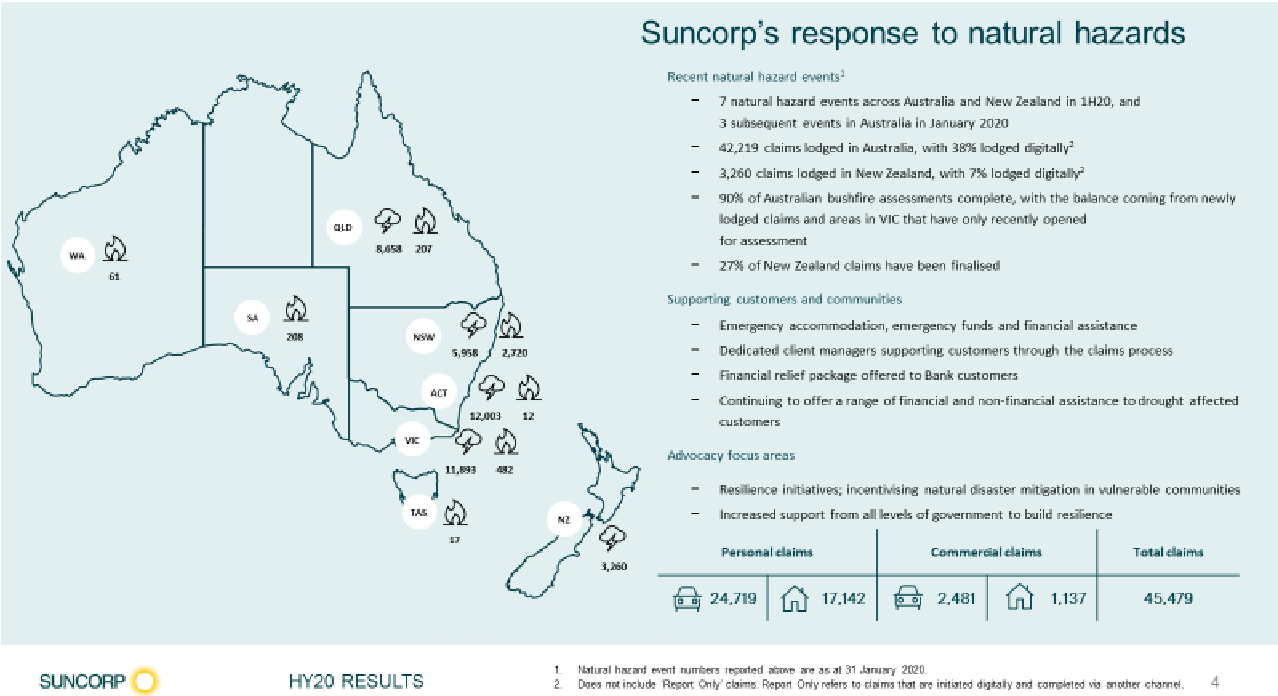
On behalf of all present I would like to begin by acknowledging the Gadigal people of the Eora Nation, the traditional custodians of this land, and pay my respects to all Elders past, present and emerging.

Today I am joined on stage by our CFO, Jeremy Robson. Jeremy's appointment as CFO was confirmed in December and followed a selection process that considered a strong field of internal and external candidates. I congratulate him and look forward to continuing to work with him in this important role.

We are also joined in the front row by members of the SLT. As you know, David Carter left Suncorp last month. I thank David for his service over 14 years and wish him well for the future. I'm delighted that Lee Hatton, most recently CEO of UBank, will join us next week and I'm sure there will be plenty of opportunities for you to meet Lee over the course of 2020 and beyond. While we await Lee's arrival, Bruce Rush, who heads our Deposits and Transactions team, has been acting in the Banking & Wealth CEO role, and Bruce joins us for today's presentation.


The agenda for today follows our usual format, and of course we are keen to take your questions after the presentation.

However, before we move to the numbers I think it's important we take a few moments to reflect on the broader implications of an extraordinary summer in Australia.




It's understandable in the context of a results presentation that we will narrow our focus to a discussion around claims costs, reinsurance, and profit.

However, such a narrow discussion seems out of place against a backdrop of loss of life and property, the widespread destruction of wildlife and a drought that seemingly never ends.

I'd like to take a brief moment to widen the conversation.

Just as Suncorp exists to be there in the moments that matter, the fundamental obligation of any government has to be the protection of its citizens at home and in ensuring our communities are both resilient and safe.

Against a scorecard of lives lost, properties destroyed and saved, and communities torn apart, it continues to be abundantly clear that more needs to be done.

For some time, our company has been arguing for a national response to improve the robustness of our private infrastructure and incentives to make our communities more resilient in the face of a changing climate.

We've been arguing it's wiser to mitigate risk than pay out the substantial and increasing cost of repair and rebuild. We know that 97% of disaster funding is spent on repairs, and only 3% is spent on prevention. And these figures don't take into account the community devastation and the incalculable impact on the psychological wellbeing of those involved.

Let's not allow the passage of time to distract us from acting on an issue that has, for too long, been placed in the too hard basket. We believe it's now time for a well-funded, multi-year resilience building program.

At Suncorp our focus has been on supporting our customers through what will be a protracted process of rebuilding and repair.

In times like these, quality franchises differentiate themselves and long-term value can be won, or lost. We saw this in Queensland following the 2011 floods, where our coverage and the discretionary efforts of our team created a point of difference.

The enormity of the events, as outlined on this slide, have required a similar commitment from our team and my thanks go to them.

It’s easy to describe financial services products as commodities, and they may well be perceived that way at the point of purchase. But it can be far from that at claims time or when a customer seeks a credit extension to maintain their livestock. I’m confident that the calibre of our team and the quality of our products will again come to the fore, enhancing the long-term value of our franchise.

And finally, beyond lives saved, the financial outcomes we report today would indeed be worse had it not been for the heroic efforts of our volunteer firefighters and emergency services personnel. We admire and thank them for their extraordinary sacrifices.

## Group result overview

- 1H20 NPAT **$642m** (1H19: $250m)
- Result includes:
  - Gain on sale of Capital SMART & ACM Parts $293m
  - Natural hazards $519m[1] (1H19: $580m)
  - Lower net reserve releases of $58m[1] (1H19: $172m)
  - Investment markets positive impact up $72m[1] on pcp
  - Regulatory project costs increased to $72m[1]
- Ordinary dividend payout ratio of 89.5%, reflecting strong capital position

| | 1H20 ($m) | 1H19 ($m) | Change (%) |
|---|---|---|---|
| Insurance (Australia)[2] | 123 | 128 | (3.9) |
| Banking & Wealth | 171 | 183 | (6.6) |
| New Zealand | 102 | 111 | (8.1) |
| **PAT from ongoing functions** | **396** | **422** | **(6.2)** |
| Profit after tax from discontinued business[3] | 1 | 28 | (96.4) |
| Other profit (loss) after tax[4] | (32) | (37) | (13.5) |
| **Cash earnings** | **365** | **413** | **(11.6)** |
| Net profit (loss) on sale of ceased operations (after tax)[5] | 293 | (145) | n/a |
| Acquisition amortisation (after tax) | (16) | (18) | (11.1) |
| **Reported NPAT** | **642** | **250** | **156.8** |
| Interim dividend (cps) | 26 | 26 | n/a |

1. Pre-tax impact
2. Insurance (Australia) comparatives adjusted for the sale of Capital SMART and ACM Parts
3. Includes performance of Capital SMART and ACM Parts and the contribution from the Australian Life business (1H19 only)
4. 'Other' includes Australian Life Business stranded costs net of Transitional Services Arrangement revenue of $11m (1H20). For a full definition refer page 5 of the Investor Pack
5. Includes a gain on sale of Capital S.M.A.R.T and ACM Parts of $293m (1H20) and the write down of goodwill related to the loss on the sale of the Australian Life Business. For a full definition refer page 5 of the Investor Pack

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So, to the numbers, and on this slide I've shown the high-level P&L for the Group.

We have reported net profit after tax of $642m, cash earnings of $365m, and an interim ordinary dividend of 26 cents per share, fully franked.

On the left side of the slide I've called out the key factors that have contributed to the result and the movements versus the prior period. Most of these will be familiar to you and Jeremy will cover them in more detail in his presentation.

## Result highlights

1. Returned to unit growth in Australian Consumer Insurance
2. Digital channels driving strong new business growth
3. New Zealand GWP growth continued; driven by direct and partner channels
4. Banking NIM stable, low impairments and continued growth in at-call deposits
5. Sale of Capital SMART and ACM Parts
6. Strong balance sheet providing capital flexibility

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There are, however, some key highlights I'd like to call out up front:

- First, after years of market share losses, our Australian home and motor portfolios have returned to growth;
- Digital – which is our future – is starting to deliver;
- New Zealand posted another impressive result;
- The Bank result includes NIM improvement, growth in at-call deposits and a negligible credit charge;
- We completed the sale of Capital S.M.A.R.T (SMART) and ACM Parts and posted a gain on sale of just under $300 million; and
- Again, we have ended the half with a very strong capital position.


This slide is a reminder of the key priorities I outlined at the full year result in August.

Our focus then, and now, is on delivering improved performance in each of our three businesses; better leveraging our investments in digital and data, embracing regulatory change, and driving operational excellence.

To achieve these priorities we needed to make some adjustments to the structure of the business which we did in August last year. These changes were designed to improve accountability, reduce duplication and create better alignment across the Group. We also needed to lift engagement and re-energise the team. Inevitably there is more that needs to be done, but I am comfortable with the progress that has been made to date and remain confident that delivering against these priorities will lead to better outcomes for all our stakeholders, in particular our shareholders.

Over the next couple of slides I will provide an update on our progress against each of these priority areas.

## 1. Improving the performance of our core business - Insurance (Aus & NZ)

| Actions | Progress |
|---|---|
| Reinvigorate multi brand strategy | Improved consumer unit momentum in direct and digital channels<br>Virtual brand teams clarifying brand propositions and improving execution<br>Refreshed state-based marketing campaigns |
| Disciplined underwriting | Commercial portfolio continues to be remediated<br>Risk-based pricing in New Zealand |
| Innovation in products and distribution | New investments; launched Bingle Go and Car Next Door<br>Rollout of intelligent virtual assistants |
| Best-in-class claims | Completion of SMART and ACM Parts sale and protection of long term strategic advantage<br>Coordinated organisation-wide response to Bushfires<br>Focus on water claims and long-tail personal injury claims |
| Resilient earnings | Strengthened reinsurance program provides confidence in FY20 natural hazards costs<br>Strong capital position provides flexibility |

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Starting with Insurance and the areas of focus are outlined on the left of the slide.

Reinvigorating our multi-brand strategy is crucial to our long-term success. Suncorp has at its disposal a suite of brands that are well segmented by market, geography and customer need. Efficiently deploying these brands allows us to access a larger share of the insurance market.

The virtual brand teams we put in place last year have assisted us in clarifying the propositions underpinning our main brands and have significantly improved our tactical execution. This has contributed to the meaningful uptick in volumes you can see in the numbers we have reported today.

Underwriting discipline is at the core of any insurance business. That has been evident in the leadership position we have taken in commercial insurance pricing in Australia, while in New Zealand the team has resisted the temptation to cede margin as competition intensifies.

The most material growth opportunity for our insurance business over the coming decade will be to embed digital and data into product design and in doing so offer our customers more modern, personalised products to meet their evolving needs. Bingle Go and Car Next Door are examples of this new approach but I readily admit we have plenty more to do to capitalise on this opportunity.

Turning to claims, and this is where our purpose really comes to life. You see it in the bushfire response – our people leaning in, supporting customers and making a difference. Yet it still remains an area of material opportunity for us. Achieving best-in-class claims, which is our objective, requires continuing investments in automation and process redesign, alongside digital, data and AI and it requires us to leverage our scale more effectively.

And finally, we continue to seek ways of reducing earnings volatility, especially through the use of reinsurance. I expect our purchase of additional cover this year will serve us well, and moving though the renewal we will continue to explore alternative means of protecting our balance sheet and reducing P&L volatility.

## 1. Improving the performance of our core business - Bank

| Actions | Progress |
|---|---|
| **Win Queensland** | Targeted local area marketing and engagement<br>Expand and leverage community presence in Queensland<br>Strong support for agriculture customers through difficult conditions |
| **Improve Broker service** | More targeted relationship-based approach to broker servicing<br>Greater automation of loan processing to improve turnaround times<br>Increased use of digital to improve broker application process |
| **Digital first** | Strong at-call deposits growth via digital channels<br>Ongoing updates to the Suncorp App, delivering improved banking functionality |
| **Open Banking** | Opportunity to develop new services and deliver greater personalisation<br>Program in-flight and on-track for implementation |

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Moving to the Bank, and the challenges facing the sector are well known and have been widely discussed. Our focus remains on four key priorities that play to our strengths and further help differentiate us from our competitors. Leveraging our strong brand, distribution reach and community presence to 'win Queensland' is an area of focus. To support this, we have recently introduced targeted local area campaigns, as well as expanded our footprint in key areas in Brisbane.

Improving the Bank's performance in the broker market is a big priority. We have a comprehensive program of work underway to improve the speed, quality and consistency of our service to brokers.

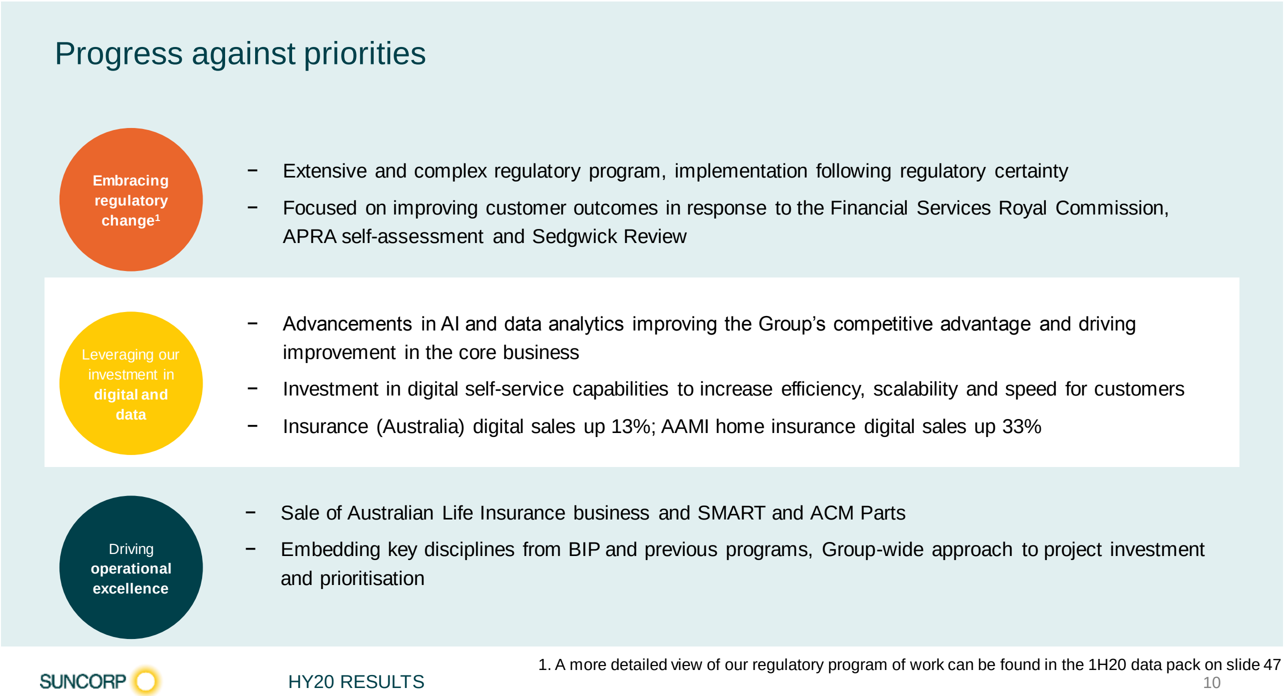
This includes:

- a more targeted and relationship-based approach. Forging deeper relationships with a smaller universe of brokers leads to less rework and faster approvals;
- we are also providing more flexibility at the point of loan assessment – effectively going back to basics and allowing bankers to apply expertise and judgement in the approval process;
- we will automate and reduce the number of processes from lodgement to settlement; and
- we are using digital to improve the broker on-line application process.

I know that across the broker market there is goodwill towards our brand and a continuing desire to do business with us. We know we need to do better and we will.

Equally, I know it will take some time to win back the support of this important distribution channel.

In digital, the story is a positive one. Over the past six months our digital assets have helped drive a transformation in our liability funding mix and this has flowed through to margin. A digital-first mindset is now well entrenched in the day-to-day operations of the Bank. Open Banking, and Lee's imminent arrival, will serve to further speed up our progress.




As I said last August, it is essential that all our people and all our programs of work, are aligned to improving the performance of our core businesses.

It also means our regulatory, digital and operational excellence programs need to deliver improved customer and business outcomes.

I've already touched on areas where we have successfully leveraged our digital investments across our insurance businesses and the Bank. The number of digital users across the Group increased 19% over the period and digital sales in the Australian Insurance business are up 13% on this time last year. Similarly, AAMI home insurance digital sales were up 33% and nearly 60% of the growth in new at-call deposit accounts originated online.

Our regulatory program of work is extensive, and while the pace of implementation is somewhat dependant on regulators or the passage of new or amended legislation, we are pushing ahead with change where it makes sense. We have included more details on the regulatory program in the Data Pack and it remains a key priority for the business.

And while our first half operating expense outcome underscores the progress we have made in driving efficiencies through the business, there is more we can do.

I will now hand over to Jeremy who will run through the details of the financials, and then I will return to provide some commentary on the outlook for the remainder of the financial year.


Thanks Steve and good morning everyone.

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Thanks Steve and good morning everyone.

Steve has already given an overview of the Group results, so I'll now run through each business in a little more detail, covering the Insurance businesses, including an update on Natural Hazards and the Group UITR, followed by the Banking and Wealth results and finally Group Expenses and Capital.

## Insurance

INSURANCE (AUSTRALIA)

- PAT down 3.9% to $123m
- GWP up 1.9% to $4.1bn; Home and Motor GWP up 3.1% with units up 1.1% supported by new business growth and strong renewal rates
- Natural hazards $489m, $104m above 1H20 allowance (1H19: $573m, $233m above allowance)
- Reserve releases $65m, 1.8% of Australia NEP (1H19: $170m, 4.6% of NEP), impacted by one-offs and lower CTP releases
- Net overall investment markets positive $70m on pcp, with pcp impacted by breakeven inflation losses and credit spread widening

**Net FSL and discounting of outstanding claims[1]**

| | 1H20 ($m) | 1H19 ($m) | Change (%) |
|---|---|---|---|
| Gross written premium | 4,103 | 4,025 | 1.9 |
| Net earned premium | 3,611 | 3,605 | 0.2 |
| Net incurred claims[1, 2] | (2,826) | (2,715) | 4.1 |
| Operating expenses | (701) | (685) | 2.3 |
| Investment income - insurance funds[1] | 64 | (14) | n/a |
| **Insurance trading result** | **148** | **191** | **(22.5)** |
| Investment income – shareholder funds | 37 | (3) | n/a |
| **Insurance (Australia) PAT[2]** | **123** | **128** | **(3.9)** |

1. Excludes the impact of mark-to-markets and yield on outstanding claims; and the offsetting impact on investment assets
2. Comparatives adjusted to reflect the sale of Capital SMART and ACM Parts

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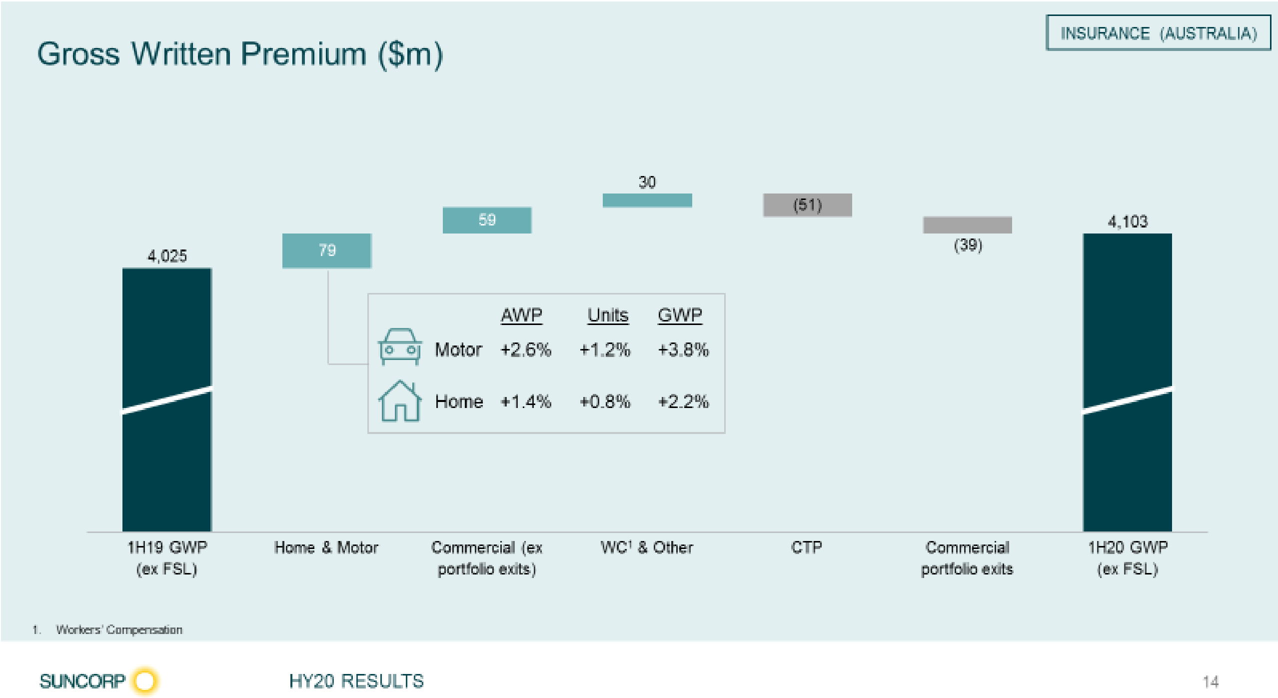
So, starting with the Australian Insurance business which delivered a profit of $123 million, broadly in line with the prior period. The key features of the result include:

- Positive unit and premium growth in Consumer;
- Natural hazard costs were $104m higher than our allowance;
- Prior year reserve releases were subdued; and
- UITR has decreased as expected, in line with the impact of the key items we flagged last year.

I'll now cover the key drivers in more detail over the next few slides.




I have shown here the usual waterfall breaking down our GWP growth for the year.

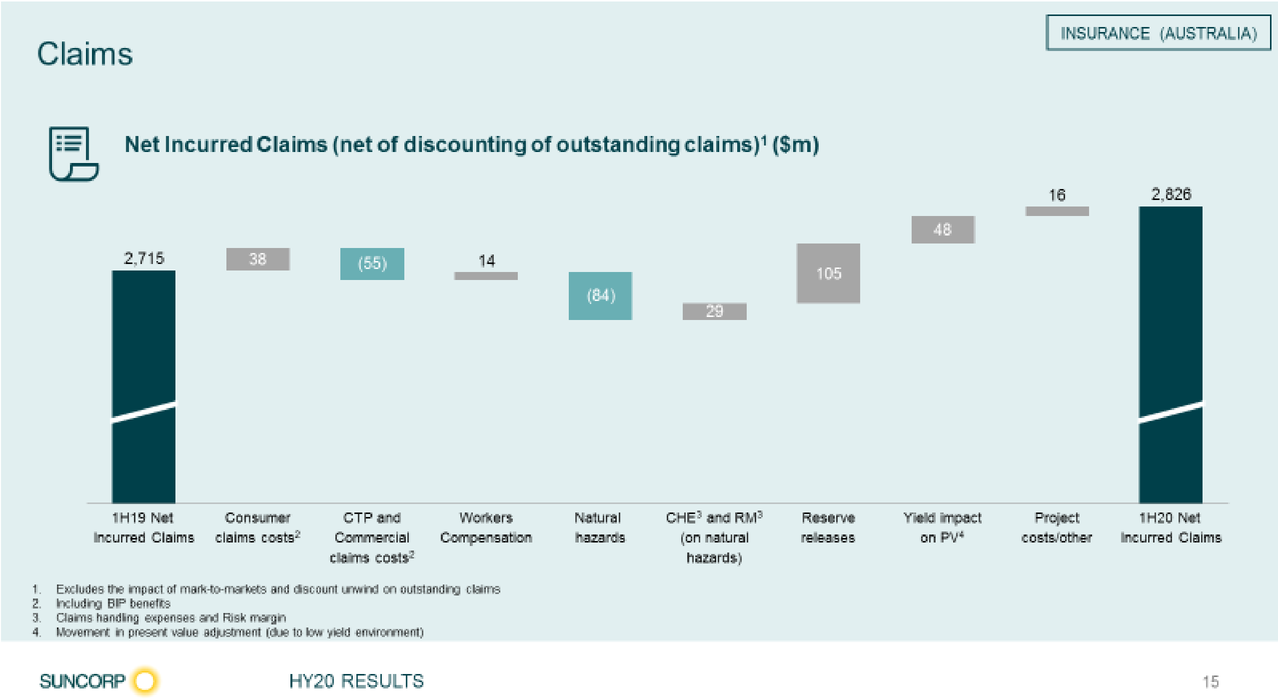
Pleasingly, we saw solid growth in the Home and Motor portfolios, supported by both rate and units– with new business growth being a key driver, along with stable retention rates.

In Home, we continue to remediate our broker-introduced book and excluding this impact, Home units were up 1.7% with GWP up 3.3%.

Commercial GWP increased 2.5% at a headline level and 7.7% after taking into account the deliberate portfolio exits. This was driven by continued strong premium rate increases, as well as volume growth in our Commercial fleet business and our NTI joint venture.

The growth in Workers Compensation has been driven by a combination of strong retention and salary pool increases.

Overall CTP decreased by $51 million, driven primarily by market pricing dynamics in ACT, SA and NSW. We do expect ongoing heightened competition across the portfolio during this period of scheme reform.




Turning to claims.

The increase in consumer reflects continued pressure from water damage and large fire losses in the Home book. However, we have seen a stabilisation in water claims costs relative to last half following actions to improve our claims processes. Motor claims costs continue to benefit from BIP and the Suncorp preferred repairer network.

The improvement in CTP mainly reflects the impact of scheme reforms. And the improvement in Commercial reflects the impact of portfolio exits and improved claims performance.

Workers Compensation claims have increased in line with premium growth.

Natural hazard costs, albeit above our allowance, were significantly lower than the prior period. However, this has been partially offset by an increase in claims handling expenses and risk margin as events in the first half were under our reinsurance deductibles, unlike in the prior period.

I will cover reserve releases in some detail on the next slide.

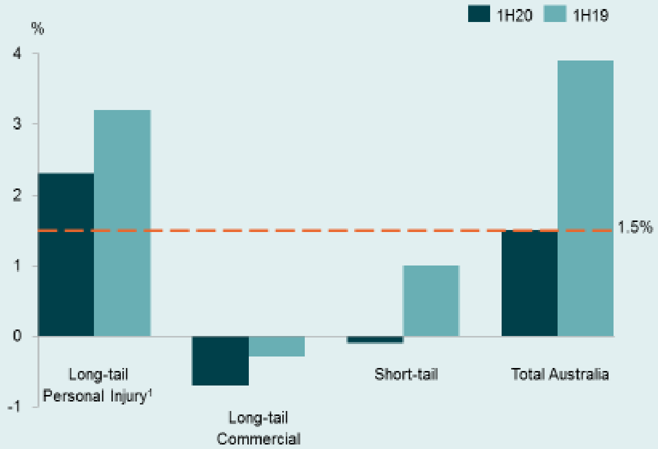
And the lower PV adjustment of $48 million reflects the reduced benefit from the impact of lower yields when discounting new claims.

INSURANCE (AUSTRALIA)

## Reserve Releases

- Insurance (Australia) reserve releases ~1.5% of Group NEP
- 1H20 Personal Injury long-tail releases 2.3% of Group NEP. Lower releases in line with scheme reform
- 1H20 one-off strains in Commercial long-tail impacted by a review of the bodily injury portfolio (~$20m) and a single large claim (~$10m)
- Natural volatility in short-tail book with modest strengthening across a range of prior natural hazard events
- FY20 reserve releases expected to be above 1.5% of Group NEP

**Prior year AU reserve releases (% of Group NEP)**




1. Includes CTP and Workers Compensation

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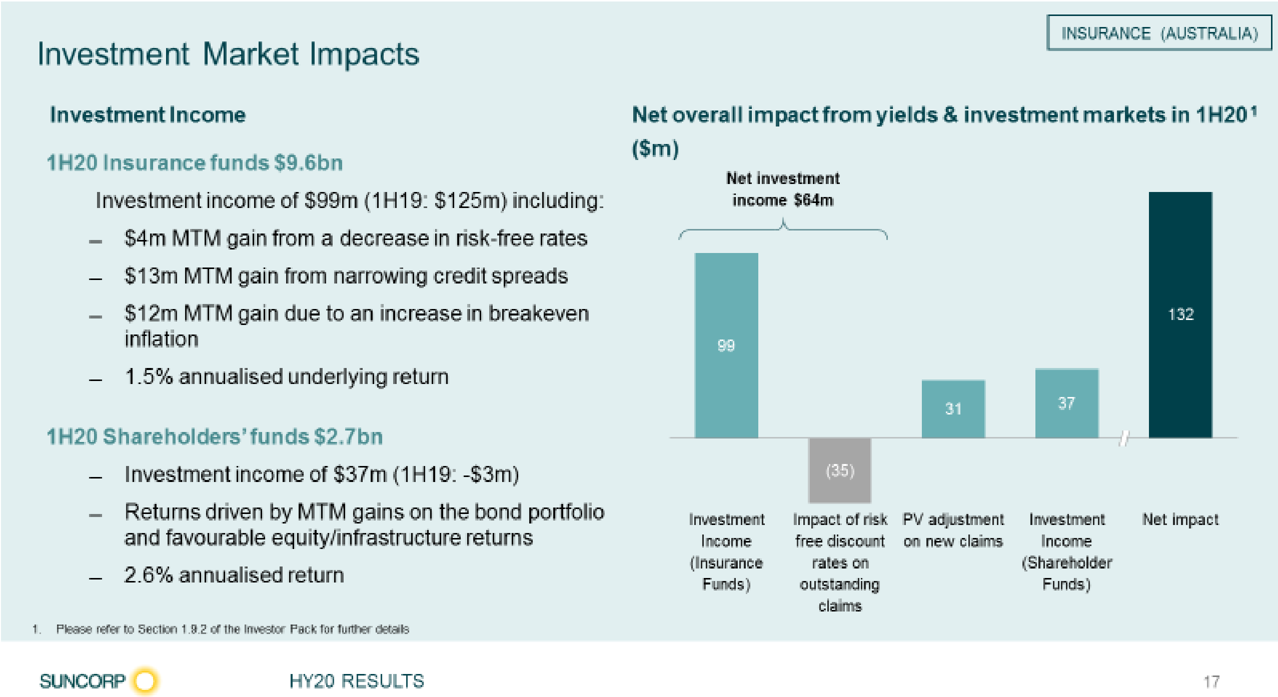
As flagged, prior year reserve releases for the half were subdued.

Prior year releases in the personal injury book were 2.3% of NEP, compared to 3.2% in the prior period. We saw lower CTP releases across most of the schemes in line with reforms aimed at lowering premiums and driving more certainty in claims outcomes.

The Commercial long-tail strengthening was driven by a circa $20 million one-off valuation adjustment following a review of long-dated cases within the bodily injury portfolio, as well as a single large liability claim.

In the short-tail portfolio, the first half of 2019 benefitted from strong reserve releases primarily due to favourable experience within the Commercial portfolio.

Looking forward, we continue to expect FY20 reserve releases to be above 1.5%, provided inflation remains relatively benign.




Moving on to the investment portfolio.

The underlying yield on Insurance Funds was 1.5%, down significantly on pcp, but in line with our expected range above risk-free rates.

The shareholders' funds returned a positive $37 million, supported by narrowing credit spreads and positive returns from equities and infrastructure assets.

Given the ongoing low yield environment and outlook, I have also outlined the overall net impact of yields and investment markets on both the Investment income and claims lines in the P&L.

The net income on Insurance Funds of $64 million (as seen on the slide) represents income from:
credit spreads and breakeven inflation a risk-free component on the assets backing the unearned premiums liabilities and a small mismatch component.

Further details on this are set out in a new table in the Investor Pack.

NEW ZEALAND

## New Zealand

- PAT decreased 10.0% to NZ$108m
- GWP up 5.4% to $876m; Growth driven by premium rate increases across all portfolios
- Net incurred claims up 16.8%, reflecting:
  - Natural hazards NZ$32m, NZ$5m above 1H20 allowance (1H19: NZ$8m, NZ$15m below allowance)
  - Unit growth across the home and motor portfolios in AAI
- Life in-force premium up 4.2%, supported by strong retention

| | 1H20 (NZ$m) | 1H19 (NZ$m) | Change (%) |
|---|---|---|---|
| Gross written premium | 876 | 831 | 5.4 |
| Net earned premium | 744 | 693 | 7.4 |
| Net incurred claims | (397) | (340) | 16.8 |
| Operating expenses | (230) | (217) | 6.0 |
| Investment income - insurance funds | 6 | 7 | (14.3) |
| **Insurance trading result** | **123** | **143** | **(14.0)** |
| **General Insurance PAT** | **94** | **103** | **(8.7)** |
| **Life Insurance PAT** | **14** | **17** | **(17.6)** |
| **New Zealand PAT** | **108** | **120** | **(10.0)** |

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Next to New Zealand, which delivered profit of NZ$108 million, reflecting a more normalised claims experience.

As flagged at the FY19 results, GWP growth, while still strong, is lower than the increases seen over the last two years.
1H20 includes remediation provisions of NZ$8 million relating to the incorrect application of customer discounts. Excluding this impact, GWP growth was 6.4%, driven by premium increases across all portfolios and unit growth in the Direct business.

Following a relatively benign weather environment last year, net incurred claims were up 16.8%, largely reflecting unit growth and increased natural hazards costs.

The increase in operating expenses was driven by higher commissions as a function of strong premium growth combined with an increase in technology and regulatory compliance costs.

The New Zealand Life result was lower primarily due to adverse claims experience.

GROUP

## Natural Hazards and Reinsurance

– Natural hazard costs $109m above 1H20 allowance
– 3 events to date in 2H20 – continuation of VIC/NSW/TAS Bushfires, South East States Hail and SEQ/NSW Heavy Rain; Net natural hazard costs for these events following reinsurance recoveries is expected to be capped at $300m
– Strong reinsurance protection available for FY20 through a combination of main CAT program, Drop Down and NZ buydown covers, NHAP and ASL
– $150m to $170m remaining capacity under NHAP as at 31 January 2020
– $200m remaining capacity under ASL

**Natural hazard costs ($m)**

| # | Date | Event | Net costs |
|---|---|---|---|
| 1 | Nov-19 | NSW/QLD Bushfires | 35 |
| 2 | Nov-19 | South East QLD Hail | 88 |
| 3 | Nov-19 | Northern Sydney Storms | 22 |
| 4 | Nov-19 | NZ Canterbury Storms | 18 |
| 5 | Dec-19 | South East QLD/Northern NSW Hail | 18 |
| 6 | Dec-19 | NSW/SA Bushfires (15 – 21 Dec) | 34 |
| 7 | Dec-10 | VIC/NSW/TAS Bushfires (30 – 31 Dec) | 145 |
| **Total events over $10m as at 31 Dec 2019** | | | **360** |
| Other natural hazard attritional claims | | | 159 |
| **Total natural hazards as at 31 Dec 2019** | | | **519** |
| Less: allowance for natural hazards | | | (410) |
| **Natural hazards above allowance** | | | **109** |
| **Expected net cost of events from 1 January 2020[1]** | | | |
| 7 | Jan-20 | VIC/NSW/TAS Bushfires (1 – 5 Jan) | |
| 8 | Jan-20 | South East States Hail | 155 |
| 9 | Jan-20 | SEQ/NSW Heavy Rain | |

1. Reflects preliminary assessment of expected costs as losses still developing

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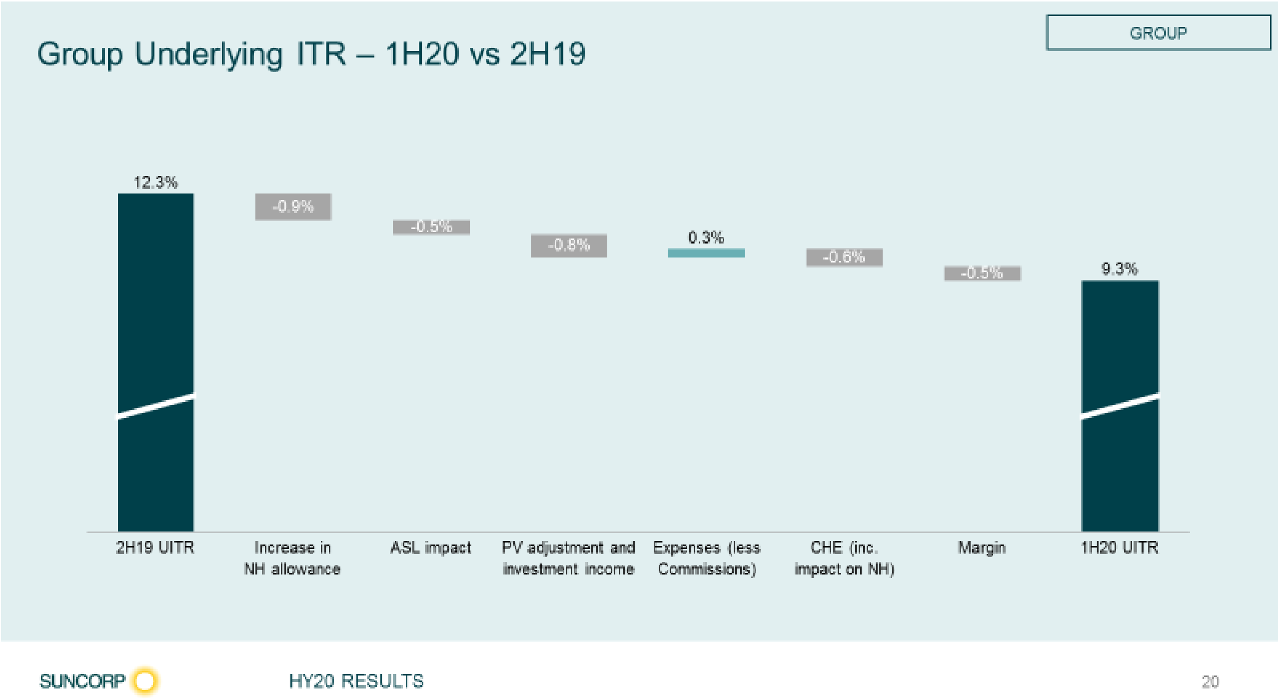
Turning to Natural Hazards and we have already provided an update on the impact of natural hazard events in January. In addition, the East Coast of Australia is currently being impacted by a significant weather event. While it is still relatively early to quantify the gross costs of these subsequent events, we expect the net retained cost for them to be capped at $300m.

Given the reinsurance program in place for FY20, we currently expect our natural hazard cost should remain within the allowance of $820 million. This includes:

– Significant capacity remaining on the pre-paid dropdown covers, noting we have a prepaid reinstatement of dropdown 2 and 3;
– We have residual cover under the NHAP of approximately $150-$170m post the 3 events in January; and
– The remaining $200m capacity under the new ASL, which provides ground-up cover in excess of the natural hazard allowance.




Now to the Group underlying ITR, which, as expected, is lower than 2H19.

The higher natural hazard allowance and the additional ASL cost impacted UITR by almost a 150 basis points. Lower yields have driven a further 80 basis point reduction primarily driven by the lower present value adjustment on the discounting of new claims (which I covered earlier).

We have also seen an increase in the claims handling expense as a result of the natural hazard experience seen in the first half and the impact of higher regulatory costs. This has been partially offset by lower expenses as a proportion of NEP.

The margin compression shown in the last bar reflects a slight decrease in Commercial, albeit within our targeted range, while CTP margins continue to see downward pressure as a result of scheme reform and increased competition. Pleasingly, both Australian Consumer and New Zealand margins remained broadly in line with the last half.

## Banking & Wealth

- Home lending contracted 1.4% to $47.2bn
- At-call deposit growth of 11.8% to $25.2bn
- NIM of 1.92% (2H19: 1.90%)
- Operating expenses up 5.9% reflecting increased regulatory/ compliance costs and investment in digital; CTI ~60% taking into account contraction in lending
- Impairment losses 0 bps of GLA
- Strong capital position with CET1 ratio of 9.69%, above targeted range (post "unquestionably strong" benchmarks)

| | 1H20 ($m) | 1H19 ($m) | Change (%) |
|---|---|---|---|
| Net interest income | 594 | 585 | 1.5 |
| Net non-interest income | 12 | 23 | (47.8) |
| Operating expenses | (361) | (341) | 5.9 |
| Profit before impairment losses | 245 | 267 | (8.2) |
| Impairment losses | (1) | (7) | (85.7) |
| Income tax | (73) | (78) | (6.4) |
| **Banking PAT** | 171 | 182 | (6.0) |
| **Wealth PAT** | - | 1 | n/a |
| **Banking & Wealth PAT** | **171** | **183** | **(6.6)** |

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Turning now to Banking & Wealth, which delivered a profit of $171 million.

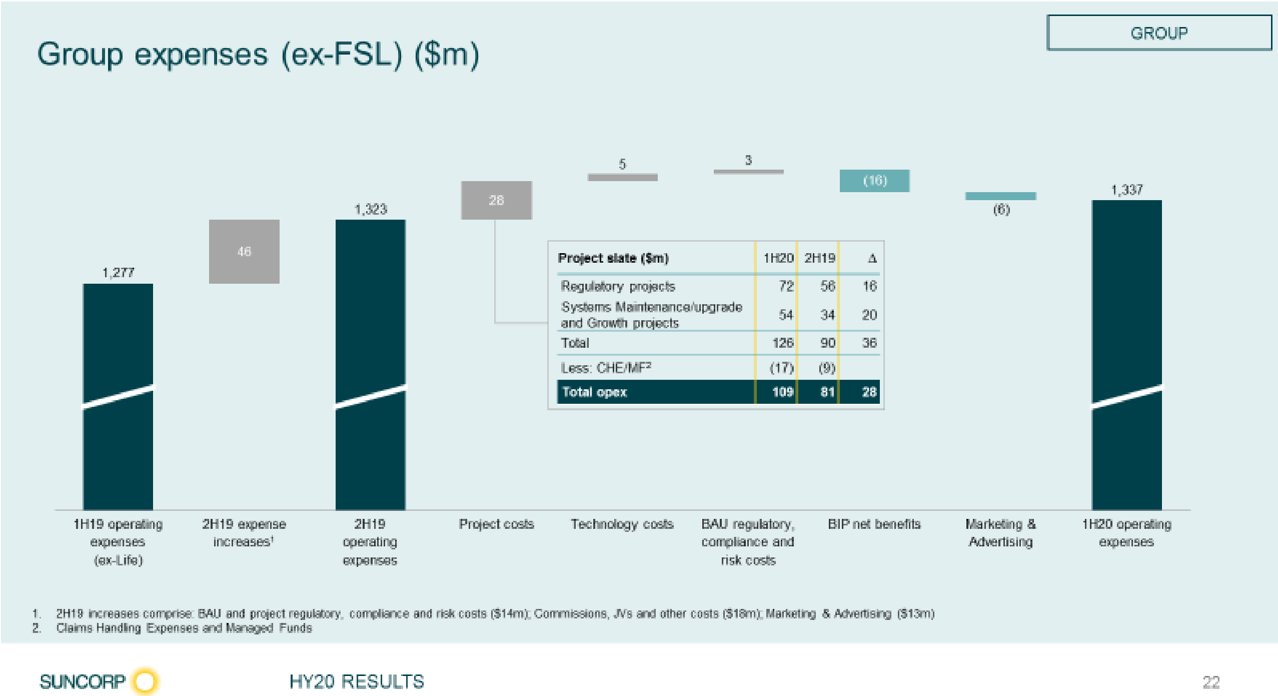
Home lending contracted 1.4% over the half, principally reflecting low system growth and elevated processing times, particularly in the broker channel. As Steve said, improving our performance in the broker channel is a key priority for us.

The strong momentum in at-call deposit growth continued and had a positive effect on NIM, which is up 2 basis points.

Non-interest fee income is lower reflecting the impact of a one-off historical GST adjustment, as well as normal volatility in the Bank's trading portfolios.

Operating costs increased 5.9% reflecting higher regulatory and compliance costs as well an increase in technology spend.

We continue to prioritise the credit quality of the portfolio with virtually no impairment losses for the half. And we have reduced our through-the-cycle target range for impairment losses to 5-15bps, reflecting the changing composition and risk profile of the lending portfolio.




| Project slate ($m) | 1H20 | 2H19 | Δ |
|---|---|---|---|
| Regulatory projects | 72 | 56 | 16 |
| Systems Maintenance/upgrade and Growth projects | 54 | 34 | 20 |
| Total | 126 | 90 | 36 |
| Less: CHE/MF[2] | (17) | (9) | |
| **Total opex** | **109** | **81** | **28** |

Now to Group expenses where I have shown the cost base over the last two halves after adjusting for the sale of the Australian Life business.

As flagged in the FY19 results, expenses increased $46 million in the second half of last year driven by:
an increase in regulatory projects costs higher commissions, predominantly in New Zealand and increased investment in marketing to drive growth.

Moving into 1H20, expenses were up $14 million mainly due to higher spend on systems and growth projects as well as continued elevation in regulatory project costs as expected.

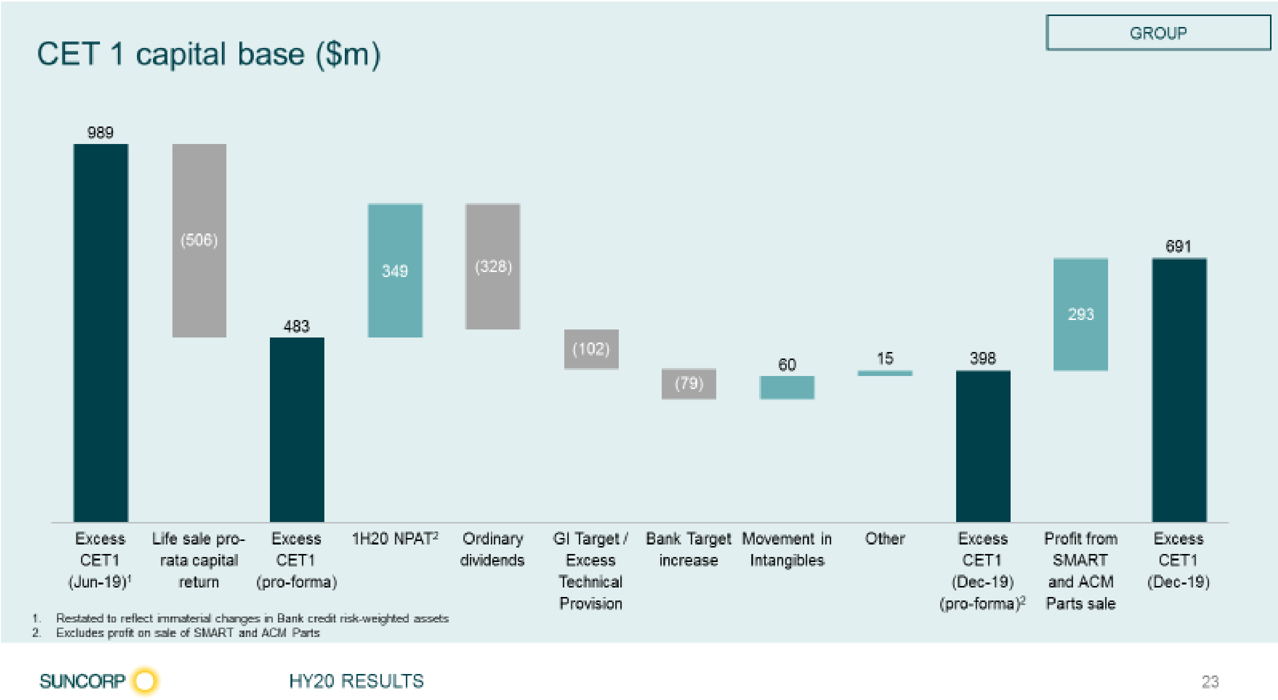
The FY20 spend on regulatory project costs is expected to be $155 million, in line with our forecast. However, we anticipate these costs to decline more gradually than previously expected, reflecting ongoing regulatory change.

Incremental net BIP benefits were $16 million, while the reduction in marketing spend in 1H20 is timing related and expected to revert in 2H20 as we continue to drive growth.

I expect the overall Group cost base in FY20 to be around $2.7 billion (ex FSL), in line with our previous guidance. I note costs will be skewed to the second half with an expected increase in both regulatory project and BAU costs and other timing impacts including marketing spend.

Lastly, I confirm that the customer remediation program of work remains largely on track with our expectations, noting the new provisions in New Zealand this half.

And I confirm that we remain on track to remove the Life stranded costs for FY21.




Finally, moving on to capital where we continue to maintain a very strong capital position.

The Board has declared a fully franked interim dividend of 26 cents per share, equivalent to a payout ratio of about 90%. While this is above our target range, it reflects our confidence in the reinsurance protection we have in place for FY20.

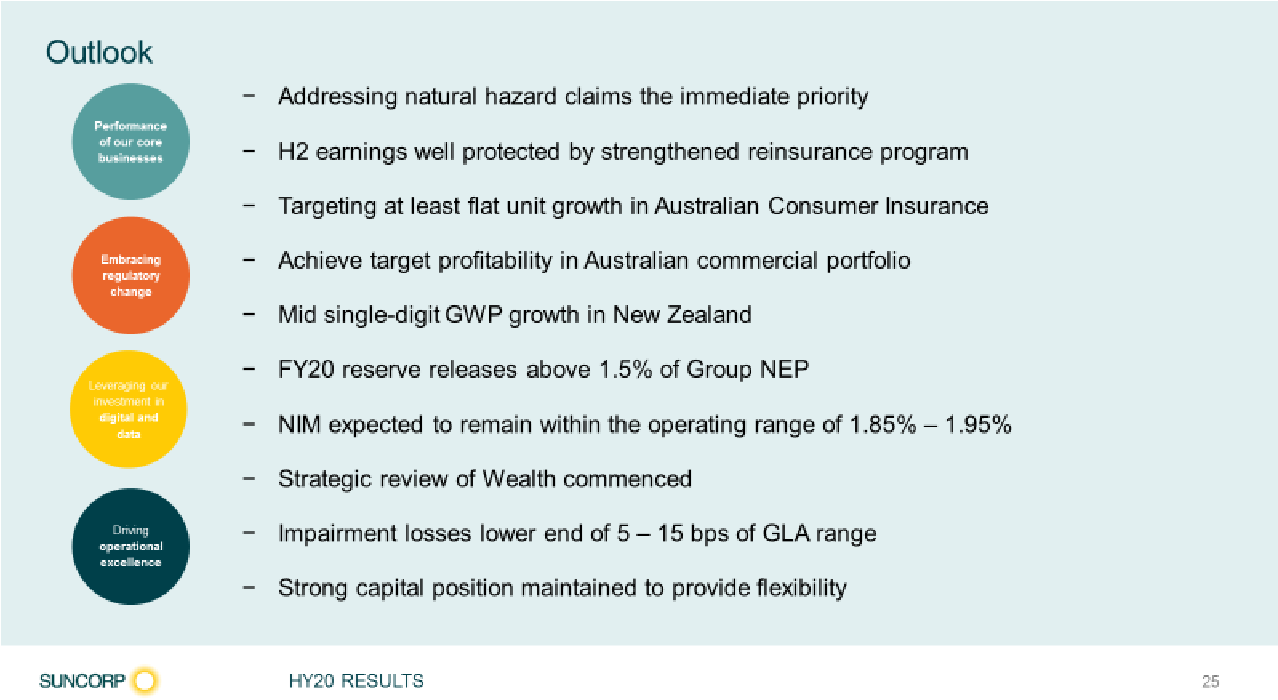
Looking at the waterfall, the reduction in the GI excess mainly reflects the impact of normal seasonality and higher outstanding claims liabilities.

In the Bank, the reduction was driven by the final 25bps increase to meet APRA’s “unquestionably strong” benchmarks.

The excess CET1 position has also benefitted from the profit on the sale of Capital SMART and ACM Parts, which takes the Group’s excess CET1 to just over $690 million.

And with that, I’ll hand back to Steve.


Thanks Jeremy.




Turning to the outlook and from an operational perspective our priority is to leverage our scale to address the large volume of natural hazard claims.

While dealing with the events we will not lose sight of working claims and will continue to focus on the four priorities I have talked about today.

On this slide I've summarised the key financial metrics for the second half. They are also well articulated in the investor pack so I'll just highlight a few that I know will be of interest.

With momentum restored across home and motor we are now in a position to balance price and volume to improve margin. It's a similar story in commercial, with further pricing required to consolidate profitability within our target range.

I know the outlook for reinsurance rates has been a topic of keen interest off the back of recent events. But I make the following points: capacity is still there, our program is well supported, and this region remains attractive to reinsurers from a diversification perspective.

I've already outlined the priorities in the Bank and acknowledge we have more work to do. To make a meaningful improvement to the cost to income ratio we need to return the portfolio to growth and our strong margin performance gives us a solid base to do this.

And finally, I know there is a lot of interest in our capital position and, in particular, what we will do with the proceeds from the sale of SMART. I accept that some would like to see that money returned to shareholders as quickly as possible. And while I completely respect that view, I feel we will be better informed about the medium-term investment needs of the business at the conclusion of our annual planning process in May.

It also makes sense for us to retain maximum capital flexibility as we negotiate our FY21 reinsurance renewal.

We do, however, reiterate our long-standing policy of returning to shareholders any capital that is not required by the business. That policy has seen us return around $1.8 billion of capital over the past eight years while continuing to maintain a very strong balance sheet. I remain committed to updating you on this topic by the end of the financial year.

## A resilient Suncorp

| Priorities | *Delivering for our:* Customers | Shareholders |
|---|---|---|
| **Improve performance of our core businesses** | Put customer at the core of what we do and deliver better outcomes | Drive improved financial performance through volume and margin growth |
| **Embracing regulatory change** | Embrace change, remediate where necessary, strengthen trust | Increase stability and lower financial, reputational and operational risk |
| **Leveraging our investment in digital & data** | Digital first approach, making it easier for our customers to interact with us | Winning new business through the emerging channel of choice |
| **Driving operational excellence** | Leveraging existing operational excellence capability to simplify how we do business | Efficiency savings will drive improved financial returns for shareholders |

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So, in conclusion, I'm very comfortable with the progress we have made over the past six months. We recognise that we have pushed into some strong headwinds and that we have more work to do. But I believe we have demonstrated that by aligning the whole of Suncorp around our three businesses, by restoring energy and enthusiasm across the group and by putting customers at the core of all our activities, we are improving performance.

And that over time that improved performance will be recognised in improved outcomes for the owners of our business.

Thank you and let's move to questions

## Questions

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**Photo:** *Members of the Suncorp Bank team, Yoshio Bui, Brooke Frew and Ben Lin in Brisbane – July 2019*