# ASX announcement

27 May 2014

## Suncorp Group Update and Bank APS 330 Teleconference Script

Please find attached the transcript of Suncorp's market update today.

**D C Solomon**
Company Secretary


Suncorp Group Limited - ABN 66 145 290 124 - GPO Box 1453, Brisbane QLD 4001 www.suncorpgroup.com.au

# Suncorp Group update and Suncorp Bank APS330 for the quarter ended 31 March 2014

## Teleconference Script – 27 May 2014

**Start of Transcript**

**Operator:** Thank you for standing by and welcome to the Suncorp Group update, including Bank APS330 conference call. At this time, all participants are in a listen only mode. There will be a presentation followed by a question and answer session, at which time, if you wish to ask a question, you will need to press star, followed by the number one on your telephone keypad. I must advise you that this conference is being recorded today, Tuesday, 27 May 2014. I would now like to hand the conference over to your speaker today, Mr Mark Ley, Head of Investor Relations. Please go ahead, sir.

**Mark Ley:** Good morning and thank you all for joining us on this teleconference. Suncorp has provided an update to the ASX this morning and on this line we have Group CEO Patrick Snowball, Group CFO Steve Johnston, Suncorp Life CEO Geoff Summerhayes and Suncorp Bank CEO John Nesbitt. Patrick will be making some preliminary comments before handing over to Geoff, John and Steve. We'll then take some questions at the end. I'll now hand over to Patrick.

**Patrick Snowball:** Mark, thank you and good morning, everybody and thank you for joining this call at short notice. By now, you will have had a chance to read our ASX announcement. Today we're providing the market with an update on the Life business, as well as taking the opportunity to update you on General Insurance and the Bank as part of our quarterly disclosure obligation under APS330. From day one, I have talked about the need to strengthen our balance sheet, integrate the Group and simplify our businesses. I have talked about the need to extract the unique advantages and leverage the powerful points of differentiation that we have as a diversified financial service group. Through all of this, I have made it clear that I would take decisive action when it was needed.

As you'll recall, at our recent financial results we flagged the need to review our Life business profit assumptions, should the trend of deteriorating industry conditions continue. In recent years, we have seen better indicators in the second half, but unfortunately, conditions have continued deteriorated further in the second half of this year. In the meantime, we have finalised a review that was scoped to address the mounting industry and specific company challenges and as such, we have arrived at a point where we are able to provide the market with an update on the Life business's outlook and make the necessary adjustments to our balance sheet valuation to reflect that outlook.

Our revised expectation is that profits in the Life business will continue to be depressed for another three to four years. It will take time for the industry to revert to normal business conditions and for our strategic change program to generate the full benefits.

As such, we have re-based our valuation assumptions to a more forward looking view, rather than the historical experience approach traditionally taken. The accounting impact of this is a write-down of goodwill and intangibles in the Life business of approximately $500 million. Whilst the business has taken great strides in commencing execution of the refreshed strategy to arrest its underperformance, our previous carrying value did not appropriately reflect the profile of the remediation.

Let me stress, this has no impact on financial year '14 cash earnings. It has a minimal impact to our capital surplus of $27 million and it has no impact to our dividend and capital management planning. But it does reflect a more conservative outlook relative to where we have previously positioned expectations. Turning now to the Bank, where we have refreshed the leadership team and are already starting to see the outcome of a real focus on our core franchise. I advised the market last year that financial year '14 would be filled with noise as we resolve the last of the residual non-core loans and associated funding programs. In financial year '15 however, you will see a consolidated Bank with performance metrics that better resemble the Core Bank of financial year '13.

Leading into the APS330, we have reviewed the Bank and satisfied with the underlying performance. Growth across the loan book remained in our target range of 1 to 1.3 times system. Through further progressing the run-off of our non-core funding, we have also returned to a net interest margin within the target range of 1.75 to 1.85. There are two focus areas that we want to call out today, which do have an impact on some of our numbers. Firstly, we have dialled back lending in the higher than 90 per cent LVR range. This is a prudent step given heightened competition for lending from the majors and upward pressures on interest rates globally.

This impacts both lending growth and the net interest margin, but is an appropriate step to maintain a conservative approach to credit risk selection. Secondly, the prolonged drought conditions have had an impact on our agribusiness lending in the Queensland beef industry. This is a small but important part of our lending book and you can see the impact of this through our higher than forecast impairment charge of $30 million for the quarter. However, as we emerge from the wet season that never was and come into the drier months, we have resolved to address this issue head on. We have therefore decided to take a collective provision overlay to reIn-force the balance sheet in the event that the drought situation worsens next winter.

Hence, we expect to incur a fourth quarter impairment charge of between $35 million and $50 million, which includes this drought overlay. Turning to General Insurance where we continue to report very strong performance. The contrasting impact of the dry weather conditions is that we have begun to see a reducing frequency of large claims events due to weather hazards. For the four months to April, we are sitting at around $75 million favourable to our natural hazard allowance for the second half. At the same time, we're not seeing any signs of claims pressure in either our long-tail or short-tail books and we have maintained an ITR that well exceeds 12% in both an underlying and reported basis.

We're also seeing positive news on reinsurance pricing from our perspective. We have observed plenty of capacity in the market and expect to report lower reinsurance pricing upon finalising our renewal.

All of this means that insurance premiums can stay relatively stable into the future, which is welcome news for our customers, but also gives us certainty over the stability of our margins. Turning to the group overlay, with pricing growth across GI set to be subdued in the medium term, we have revised the group growth target to be in the range of 4% to 6%. This also reflects the conservative approach to credit risk in the Bank that we have outlined.

At a group rate of 4% to 6%, we will be growing at, or slightly above, system growth levels across the businesses, which is where we feel most comfortable given current industry conditions. Our surplus capital position continues to be extremely strong so we can increasingly be confident about another capital initiative at the full year subject to regulatory approval. At the same time, our margins are very healthy, with the GI business performing at well above the meet or beat 12% commitment and the Bank margin back well within the target range. Most importantly, we are re-affirming our target ROE of at least 10% to be achieved next year.

This is an important stake in the ground for Suncorp both internally and externally. It will stretch us as an organisation, but I am confident that we can achieve it. On that note, I'll hand over to Geoff for more detail on the Life assumption changes. Geoff.

**Geoff Summerhayes:** Thanks, Patrick. We are frustrated with the ongoing deterioration of the industry condition and our business performance. We have been transparent about the challenges and flagged at the first half results that we intend to review our assumptions at the full year. Catalysts for this change include the completion of a review of the Life business and clarification of industry outlook; continued industry deterioration in lapse and claims experience; Suncorp Life's poor second half experience and the finalisation of Life's FY15-17 business plan.

As a consequence we will be changing our key assumptions, largely on our IFA Australia business - for lapses, claims, unit costs, and expenses to reflect a more conservative volume outlook. As part of this change we are moving from a historical average basis for assumption setting to a more forward looking basis for both claims and lapse experience. Our current lapse experience is 1% above current historical lapse assumptions.

We are adding an additional short term shock impact of industry dislocation as remediation activities take effect of a further 1.5% for the next four years.

We anticipate improvements in experience in time, reflecting the impact of both Suncorp and industry actions. In the IFA market this will be gradual and we've assessed the recovery could take three to four years. These changes are illustrated in the charts within the announcement. This approach to assumption setting is similar to that used recently by AMP. The impact of these changes is expected to be a non-cash write-down of $500 million, comprising lost recognition in some products and associated policy adjustments of $150 million, write-down of goodwill and other intangibles of $350 million. There is minimal impact on the Group capital position from a $27 million increase in Life for strengthening of claims assumptions.

Embedded value is expected to be approximately $1.7 billion at 30 June and our underlying profit after tax for the 2014 year is expected to be in the range of $75 million to $85 million prior to market adjustments. These assumption changes predominantly impact the Australian IFA business. Our other businesses, being Direct Super and New Zealand, continue to perform broadly in line with expectations.

In the absence of compelling industry action, Suncorp has been getting on with it and executing areas within our control. This can be seen in the $535 million capital release at the half, the right sizing of our project portfolio and the realignment of our business model and resulting structural changes.

While the industry continues to recover, we'll continue to execute on the areas within our control, including customer engagement, product and distribution changes. Customer centricity is the significant change program underway. We call this customer at the forefront where we are considering the customer in everything we do. We are also industrialising our retention activities and applying a customer outcome focus to claims management. Details on what we have done and what we are doing is in the disclosures.

Product changes include implemented targeted repricing to address product economics, simplifying product and providing more flexible premium structures, and introducing risk-based pricing to the IFA range, leveraging the general insurance pricing engine.

Distribution changes include rolling out our new advisor value proposition premised on value over volume and changing commission mix and increased automation to lower acquisition costs. Finally, continuing to grow the Direct Life customer base which currently has over 90,000 customers.

I look forward to giving you more detail on our strategic initiatives at the Investor Day on Thursday. These actions outlined today deal with the past and reset the business for the future. I'm confident in our actions, however, cautious about the pace of industry reform, which is why we have applied a conservative four year shock assumption overlay.

I'll now pass over to John.

**John Nesbitt:** Thank you Geoff. Today we've released our quarterly APS330 disclosure as at 31 March 2014. Whilst the APS330 disclosure are specifically focused on credit risk and capital, it's a good opportunity to provide the market with an update on the progress of the Bank.

System credit growth has remained subdued during the third quarter, significantly below long term historical averages. Growth in the Bank's core retail and business segments grew in line with system, reflecting a cautious approach to credit in a challenging environment.

Lending growth is supported by a diversified funding strategy with the Bank having access to a range of stable retail and wholesale funding markets. The deposit to lending ratio remains well within the target range at 66%. The Common Equity Tier 1 Ratio increased to 8.22% and the Bank continues to hold strong levels of physical and contingent liquidity.

The Bank's impaired asset volumes increased to $485 million. During the quarter there was one Agribusiness and two commercial exposures totally $78 million move to impaired status. These exposures are adequately provisioned and the largest commercial exposure is very likely to be resolved by 30 June 2014.

We've largely a new team running the Bank and in the context of ongoing market conditions, have closely reviewed the quality of the balance sheet and business we are writing. As a result of this review and focus on pursuing Basel II advanced accreditation, we have strengthened risk management. In particular, we've taken a more conservative position in two key areas. Firstly, we've tightened underwriting standards in the residential mortgage book by focusing on the sub-80% loan to value business, an important move in a period of very low interest rates when the global expectation is that rates will increase over time.

Secondly, we've carried out a review of the Agri book, with particular focus on the impact of drought on the beef portfolio in North Queensland. This is a small but important part of the overall book.

Taking a view through the next 12 months and the possible impact from a continuing dry period, we've decided to take a prudent overlay provision in the fourth quarter. Accordingly, we expect to report a fourth quarter impairment charge of between $35 million and $50 million. This would result in impairment losses to gross loans for the full year of between 23 basis points and 27 basis points.

As advised previously, 2014 is our transitional year as we move the Bank on from the successful sale of the non-core portfolio in June 2013. We've made good progress towards having the Bank positioned to enter the 2015 year operating as we'd like. Our NIM is already back in its target range of 175 to 185 basis points, and we're on track to meet our other key targets for the 2015 year.

Steve, I'll hand over to you.

**Steve Johnston:** Thank you John, and obviously we're updating a number of items today so I thought I'd briefly clarify some of the impacts at the Group level.

Firstly and probably most importantly, we are treating the write-down of the intangible assets, whether they be goodwill, other intangibles or the DAC, as non-cash items, and therefore while there'll be an impact on statutory NPAT, there'll be no impact on FY14 cash earnings and our intention is to record this write-down separately, below the cash earnings line in the analyst pack P and L.

As you know our dividend policy is benchmarked against cash earnings so, subject to the necessary regulatory clearances, we remain committed to a payout ratio of between 60% to 80% of cash earnings for the full year. As Geoff's pointed out, there is a minimal impact of $27 million on the Group's very strong capital surplus.

In the material we provided day we've provided a pro forma balance sheet and capital tables. These adjust the 31 December financial position for three items.

Firstly, the impact of the assumption changes on the Life Company assets and liabilities, secondly, the successful completion of the CPS3 capital raising, and finally, the buyback of the Bank's floating rate capital notes which is currently underway.

I'd again emphasise that these adjustments are to the financial position at 31 December. They do not include the strong organic earnings profile generated by the business in the second half today. You can see from those disclosures that after those particular adjustments, our excess Common Equity Tier 1 position at over $1.1 billion remains exceptionally strong, and this means, as we've flagged today, we are well placed to consider further capital management at the time of the full year result in August.

Before handing back to Patrick, I'd remind you briefly about shareholder focus which is to build a simple, low risk financial services Group that delivers both high yield and above system growth. While today's announcements are complex and will take some time to digest, they are entirely consistent with that shareholder focus and over time I'm confident they will be recognised as such.

So over to you Patrick.

**Patrick Snowball:** Steve thank you. In summary, the Life write-down signifies major headwinds and challenges ahead, but I'm confident that it gives the business the platform it needs to properly execute its revitalised strategy.

Importantly, as Steve has explained, it won't impact on our capital or our dividends. Similarly in the Bank, we've been conservative with our assumptions and the drought overlay is a prudent approach to managing the business.

In financial year '15 we will focus on achieving growth of 4% to 6%, have strong margins, and we'll continue to revisit our surplus capital position. We will continue to extract the benefits of our unique integrated financial service model, and we will continue to relentlessly drive towards our 10% return on equity target.

So on that note, I'll hand back to Mark who can manage the questions. Mark?

**Mark Ley:** Yes we'll hand over to the line to take some calls if there are people on the line.

Operator: We will now begin the question and answer session. If you wish to ask a question, please press star, followed by the number one on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the star key followed by the number two. We'll now go to our first question in queue from the line of Charlie Green from Hunter Green. Please go ahead.

**Charlie Green:** (Hunter Green, Analyst) Oh hi guys, I'm in the car, I hope you can hear me okay. Can you refresh my memory please on what metric you're talking about the 4% to 6% and 7% to 9% line applying to, and secondly, and more problematic for me, just in that last, I don't know, couple of minutes Steve was talking about focus on shareholders and business above system, et cetera, et cetera and then Patrick chimes in and says the Life business is a piece of - you know, it's in difficult circumstances. Why would you keep the Life business if you've got that focus on the above system growth for shareholders, et cetera, et cetera? Does this write-down lay the platform for you to get rid of the Life business finally?

**Patrick Snowball:** Charlie good morning, let me start with the business model answering your question on Life. We outlined our strategy four years ago and we remain committed to that long term strategy and model.

Our integrated model, absolutely convinced, delivers better value than any alternatives and we certainly get the clear value benefits out of that. For instance, the Group A Plus rating, the earnings and capital risk diversification that you've seen over the last few years, cost savings through the economies of scale and other benefits and Suncorp Life remains core and strategic to the Group.

Interestingly enough, if you look at the capital flows around the Group, Life returned $535 million of capital this year, half of our existing surplus. So I'll now hand over to Steve on the growth side.

Steve Johnston: So Charlie on the growth side I think the calculation this is a Group growth target as was the 7% to 9% that we had previously had in the market. It's roughly calculated, it's an amalgamation of 65% of the calculation is that the GI GWP growth level, 25% is Bank lending assets and 10% is the Life In-force book.

So it's the same calculation that we used for the 7% to 9% and, as Patrick mentioned in his discussion, it reflects a number of factors and current market conditions that make it a reasonable readjustment. Again, I'd make the point that by any measure that is true to our commitment to deliver above system growth.

**Charlie Green:** (Hunter Green, Analyst) Yes, no problem, thanks for that guys, thank you.

Operator: Your next question comes from the line of Kieren Chidgey from Deutsche Bank. Please go ahead.

**Kieren Chidgey:** (Deutsche Bank, Analyst) Good morning guys. I've got a couple of questions. The first one, just starting on the Life business, Geoff can you just talk to the implications from rebasing these lapse assumptions and claims assumptions higher over the next few years, and then you've got an embedded improvement I can see in those charts going out into the future years.

What I'm just wondering from a profit recognition point of view, given those improvements are baked into the outer years, and you've flagged the profitability for the Life division next year on an underlying basis won't be materially higher than what it is this year, as you - well I should say, if you do get that improvement in lapse and claims activity comes through over the next three or four years as you're assuming, do the planned margins actually stay flat where they will be next year, given you've smoothed that benefit of a lapse improvement and claims improvement over time, into your Life profits already for next year?

**Geoff Summerhayes:** Thanks Kieren. The first thing is that in terms of guidance, we think we have outlined that the 75% to 85% underlying pre-market adjustment for the full year, and we've said marginally above that for next year. On planned margins, there are a number of moving parts given the capital initiatives at the half, and these assumption changes. So a guidance is really on the underlying, which as I said is marginally above the '14 year.

In terms of that - our planned margins going forward, we are taking a pricing through the cycle of those planned margins, is where we have priced our product. The shock overlay over the next four years, we have been conservative in our assumptions as we've been setting that.

**Kieren Chidgey:** (Deutsche Bank, Analyst) You know, I guess where my question is aimed, is if the world pans out in line with those revised assumptions you have, which do have an improvement profile built into them as you move post FY15, does the planned margin per dollar of enforced premium actually improve that percentage, or essentially are you taking - are you spreading that improvement benefit through time, and therefore the planned margin percentage and the ROE on that business don't actually improve, even as you get that lapse activity and claims activity improved through time?

**Geoff Summerhayes:** No the planned margins stay flat, Kieren, through that period.

**Kieren Chidgey:** (Deutsche Bank, Analyst) Yes, okay. The second thing, I was just hoping on a bit of clarification around, is going back to the revised Group growth guidance measures, previously you had given some indications around the different divisions. 6% to 8% on personal loans, and various other metrics across the other divisions. Can you give us a little bit more insight as to how that 4% to 6% is informed, and what we can expect, or what you're expecting, across the three key divisions?

Patrick Snowball: It's - Kieren it's Patrick here. Yes we are rebasing and emphasising that this is a Group target, whereas we don't actually give specific targets for each business. If I talk you through the profile of each of the businesses, I guess you can get a sense of where we are coming from.

So if you look at our PI business, with about 35% market share, you really wouldn't expect that to be growing very much, perhaps on the margin. In that business we really do balance margin against volume, and we have been reporting very strong margins. It may be over the period that we are rebalancing slightly between margin and volume. You're not going to get big growth out of that when there is no necessity to put up rates, either through natural hazard, investor markets or reinsurance.

We certainly said that we've got room to grow our CI business above system. We're confident, particularly in the emerging market over the next 18 months, two years, we can do that. Likewise in our New Zealand business.

With the Bank we talked about growing 1.0 to 1.3 times system, and we anticipate system being between 5% and 6% over the next year.

As we recalibrate Life business, we certainly will see growth in the In-force book.

So I guess that's the way you should really be looking at our businesses. As Steve sums it up, it basically gives you a good yield with an above system growth across the Group.

**Kieren Chidgey:** (Deutsche Bank, Analyst) Okay thanks. Just the last follow up on that commentary, the personal loans business where you had been targeting 6% to 8% previously, can you just talk about what has changed in the environment in the last six months, in your view, that has seen such a significant rebasing? I know reinsurance costs are coming down, therefore the need to price for that has reduced, but from a market point of view those things have seemed fairly obvious for the last six months. So is it more deterioration in the competitive landscape?

**Patrick Snowball:** So without going right down into a huge amount of detail, where we stand is - the first thing is that we have said for some time that we've moved our price-led growth through to efficiency-led growth. We're seeing the benefits coming through very substantially now of our fully [expensed] certification benefits. They run out over the next two to three years, and therefore will give us a different view perhaps a year down the track, on the need for increasing rates.

As you quite rightly say, we should not underestimate the impact of the natural hazard level, where we're - at the moment Suncorp remains within its natural hazard provision for this year. Of course investment markets are having a play in this, and as we said earlier on, reinsurance.

So the combination of all that leads us to be very strong on our margin at the moment, to the extent that we will be reporting at the full year the extent of that and the balance between margin and growth. Certainly, yes it is a more competitive market, but Suncorp is very strongly positioned in this market because of the roll-through of the simplification benefits next year and the year after.

**Kieren Chidgey:** (Deutsche Bank, Analyst) All right, thank you.

**Operator:** Your next question comes from the line of James Coghill from UBS. Please go ahead.

**James Coghill:** (UBS, Analyst) Morning guys. Just a follow-up to that last question, again looking at the outer years, particularly financial '15, perhaps you could just help us through some of the building blocks that allow you to arrive at the conclusion that profits will be slightly up on your rebased '14 numbers. So you did mention Geoff that superannuation was performing well, so that typically is roughly $40 million of profit and you've got investment income which is also another $40 million, I mean that takes you pretty much into that range. So could you just help me understand what is happening to Life profits because those numbers don't add up. Based on that simple analysis, the numbers should be higher than marginally above your revised '14 range.

**Geoff Summerhayes:** James, thank you. I mean the planned margins were at $35 million at the first half and you can take those through to sort of a doubling of $70 million for the full year. We have been reporting a negative experience, which again was $27 million at the first half. That will broadly offset the planned margins when we rebase the assumptions of the full year and yes, as you point out, we're getting interest income on the invested assets, although that does come off slightly with the rebasing of the capital and then the Super business continues to contribute through there. I'm happy to take that in more detail off-line. It's probably complex to go through it on the call.

**James Coghill:** (UBS, Analyst) Okay but the Life insurance numbers, from that $70 million planned margin, that would reduce, but you wouldn't have ongoing experience losses because you've obviously reset your assumptions to well above current experience, unless things deteriorate a lot worse than your rebased assumptions. So the planned margin should still come through at a reasonable level. Just the numbers don't seem to add up, but let's take that off-line.

Perhaps another question on the Life, the reserve top up to $150 million, part of your write-down. Perhaps you could just explain in a bit more detail what that's made up of? So if you are effectively recognising losses there and making some reserve adjustments, why don't you adjust for those reserve top ups, or why do you adjust for those reserve top ups in calculating your cash earnings whereas for the GI business when you have reserve releases, you don't make those adjustments for reserve releases in arriving at cash earnings. I guess the question is more forward-looking in nature. If at some point the Life business does perform well and you have reserve releases, I presume those reserve releases will be treated as one-off, because it's effectively a reversal of the write-downs that you're putting through today?

**Steven Johnston:** Look, it's Steve here James and I'll start that and Jeremy might, Jeremy Robson, the Life CFO might want to add to it.

But I think what we've done in this announcement, and it's obviously a complex announcement, it's got a number of activities to it including the loss recognition coming through, which will lead to a write-down of deferred acquisition costs. We have treated all of those initiatives as non-cash items, intangible assets, and felt that it was, given the complexity of the announcement, appropriate for them to be reset below the cash earnings line in the analyst pack, P and L. So it is a big announcement again as we work our way through the future. We will make decisions about how we present the numbers and we will be very transparent about how they're presented at the time. So no one will be under any misapprehension as to how the numbers play out either in this result or in any future result. Jeremy, I don't know if you want to...

**Jeremy Robson:** Yeah, I agree. Our view, James, is it's one package of assumption changes. Where those assumption changes impacted the balance sheet is subject to the extent of the vagaries of accounting. So for us it's one package of change, one P and L outcome, which we say $500 million is pretty significant and therefore below the line.

**James Coghill:** (UBS, Analyst) Okay, that's fine. One last quick question on those growth targets Patrick. Perhaps you can just outline how you would characterise commercial insurance, the environment there, and why you're confident that those growth rates would be quite high because running through the numbers, to get into that 4% to 6% range, if you're saying PI is broadly flat, commercial insurance obviously has to be growing at a reasonable pace to safely get into that new 4% to 6% range. How would you characterise the environment and were you factoring in any rate pressure in commercial insurance?

**Patrick Snowball:** James, I guess we have another opportunity in a couple of days to address this. I think it's important that you recall that our commercial business includes our statutory business, which is in extremely good shape having reengineered that business over the last three years. At the same time, we are seeing a disruption in the market particularly with the potential or the acquisition of Wesfarmers going through and we have reshaped that business very successfully over the last two years. It's a combination of all those which gives us confidence of our system growth in the commercial business.

**James Coghill:** (UBS, Analyst) Okay, thank you.

**Operator:** Your next question comes from the line of Ross Curran from Commonwealth Bank of Australia. Please go ahead.

**Ross Curran:** (CBA, Analyst) Hi gents. Perhaps most of the Life questions I have, have been answered. Perhaps on the Bank, you're talking about competing on lower LVR mortgages. I thought one of the points made in the financial services enquiry was that the regional Banks struggled to compete at those lower LVR mortgages. Just wondering how you compete there given your capital disadvantages and how you expect to grow faster than system in that part of the market? Thanks.

**Patrick Snowball:** Ross, yeah, I'll start off and then I'll hand over to John. You're absolutely right, as part of the financial service enquiry, we had pointed out very significantly the issue of the major Banks having a significant capital advantage at the lower LVR end of the market and I have talked about going for the man not the ball in this particular market. That's why we do emphasise that the market we're competing in is around the 80% LVR where we can start to compete on more equal terms with the majors.

John, do you want to pick up from that?

**John Nesbitt:** Yes, Patrick, and certainly Ross, it is somewhat of a feeding frenzy in that low LVR market with the majors having quite - and Macquarie Bank in particular. You've probably seen Macquarie grow there around 47%, so they're quite an outlier in that market.

Where our benefit comes from is Queensland and we're very focused at growing into Queensland. As we've mentioned previously, we've added lending resources in that region, as well as sharpened up our lending practices.

One of the other things that you'll see us doing from pretty well the last week is promoting the business, together with other Suncorp businesses, in Queensland to get our brand back to where it should be in that state, where there's good potential. So it is a busy market and we're competing effectively there at the moment, is where we're sitting.

**Ross Curran:** (CBA, Analyst) Thanks very much.

**Operator:** Your next question comes from the line of Daniel Toohey from Morgan Stanley. Please go ahead.

**Daniel Toohey:** (Morgan Stanley, Analyst) Yes, thanks guys, good morning. I just have a few questions. I wonder if you could just be a bit more specific in terms of what will be the planned margin going forward and what do you expect the In-force growth is on Life?

**John Nesbitt:** The In-force growth going forward?

**Daniel Toohey:** (Morgan Stanley, Analyst) Yes, the In-force growth on the Life book, what your expectation is with that. Are we thinking normal age and CPI and that's sort of it, or are you sort of trying to manage the book for value?

**John Nesbitt:** Look, we have been quite concerned - there have been plans that we've put to the Board in terms of the outlook for the IFA business in Australia. We are expecting a flat outlook for that business over - in terms of In-force growth because of the remediation that we'll be putting through the market and changing our focus from volume to value.

The Direct book will continue to grow and of course if repricing goes through the whole industry, that will grow the In-force.

**Daniel Toohey:** (Morgan Stanley, Analyst) Okay, and then the plan margin, obviously it's a long-run planned margin. You know, I mean, I guess we could sort of back engineer that off next year's suggestion around $75 million, underlying?

**John Nesbitt:** Yes, Daniel, the plan margin will grow as the In-force book grows as well.

**Daniel Toohey:** (Morgan Stanley, Analyst) The earnings will grow as the In-force grows?

**John Nesbitt:** Yes.

**Daniel Toohey:** (Morgan Stanley, Analyst) Yes. Just on that, I mean, perhaps Patrick, we - you know, going back 12 months, we said 7% to 9% topline growth in '14 and '15 and I guess we've been fairly sceptical on the ability to deliver the '15 number in any case so that's not too big a concern. But at that same update you made the point that in the medium-term SUN's targeting NPAT in the Bank in FY16 of $350 million to $400 million and in SUN Life of $150 million to $200 million.

So perhaps - I'm not sure if you can make any comments there - it would seem the Life would be aspirational. Can you make any comments on that and also I guess any follow-up on the Bank?

**Patrick Snowball:** Sure, I mean, we sat and we talked about the grade targets 7% to 9% aspirational - sorry, yes, and in fact in the first half I think we came in just underneath that range. Certainly in the planning period I'm very confident of the Bank hitting that target profit that we've talked about and it may be that we've got to stretch out by a year for the Life business but I'm still confident the Life can also achieve that within a plan period.

But the growth has changed significantly in the last year for a whole broad range of reasons but we do continue to stress our margin over volume and we are in an extremely strong position based on that as a Group. But as I said earlier on, as we go through different parts of the cycle so different parts of the business can grow more than the others.

Your major part of your business when it's achieving substantial margins and it has substantial market share is probably not going to grow, except on the basis that I said, which is very important to emphasise once again - is that all those benefits that we built in through the work we've done on integrating this Group are all coming through now and they are all expensed, and that expensing runs out this year.

**Daniel Toohey:** (Morgan Stanley, Analyst) Yes okay, and I'm wondering if you could - I mean, perhaps Jeremy where does the net asset sit for the Life company now?

**Jeremy Robson:** So we've called that out effectively in the pack there that we've taken $500 million off the net assets at 31 December, so net assets at 31 December were $2.2 billion.

**Daniel Toohey:** (Morgan Stanley, Analyst) Okay.

**Jeremy Robson:** And we've taken $500 million off that, so that's what happening.

**Daniel Toohey:** (Morgan Stanley, Analyst) Okay, so the EV and the NTA are now aligned so okay that's a positive. Alright.

I guess it's good to see where we're coming in all on track on the CAT budget, which is I guess some good news. I guess probably an interesting observation is that the drought overlay on the Bank effectively offsets the benefits that you're getting on the other hand from the drier weather. Do you think your conservatism in your CAT on one hand, is that appropriate, and I guess revisiting on the other side the conservatism in your Banking positioning in your Agri business?

**Patrick Snowball:** It's really good that someone's asking whether we're being conservative now in our natural hazard provisioning. It is early days. I think we're putting this down at the moment to something we're calling the El Niño diversification benefit.

But over time, certainly we believe that in this period we've got to look at those - that beef area of Queensland. We are comfortable. We put this forward-looking overlay into our provisioning and yet substantially the major impact on our Insurance business are Queensland driven events.

It's interesting that it looks like the last cyclone did as much damage in New Zealand as it did in Australia, so that's pretty perverse from our perspective as well.

So generally, we will plan next year that our natural hazard provision will continue to increase based on the long-run cycle that we're seeing but at the same time we're making certain that we really bed down the issues in the Agri business at the same time.

**Daniel Toohey:** (Morgan Stanley, Analyst) Okay, thank you.

**Operator:** Your next question comes from the line of Ryan Fisher from Goldman Sachs. Please go ahead.

**Ryan Fisher:** (Goldman Sachs, Analyst) Hi, thank you. Just a few questions, mainly just clarification. First of all, on General Insurance, and just coming back to some of the changes you mentioned, Patrick, when you talked about Personal Insurance and you said obviously difficult to achieve much growth, can I assume there that you're still expecting some growth in PI just no real rate change or nothing that different from basic inflation? Or are you actually talking flat?

**Patrick Snowball:** That we are planning to continue to grow in the PI business but at a marginal basis because, as I said, with a very strong underlying ITR we're now balancing that margin volume gain. Certainly, we're not seeing impact of inflation at the moment and, again, that's another driver for putting down - for the rates.

So look, we're really comfortable where that business is. It's in great shape and it is firing on all cylinders.

**Ryan Fisher:** (Goldman Sachs, Analyst) Great, thank you, and a couple of questions for John, please, on the Bank…

**Steve Johnston:** Ryan, it's Steve here, I think the point as well is that you're always going to see some growth in the PI books based on increased sums insured and the like. So there's always an incremental growth that's baked in there as we move from year to the next.

**Ryan Fisher:** (Goldman Sachs, Analyst) Okay, so I mean assume basic inflation but nothing that different.

**Steve Johnston:** Correct.

**Ryan Fisher:** (Goldman Sachs, Analyst) Okay, thank you, and John two quick questions on the Bank. Firstly, I suppose a good update that the NIM's back in that range already. I just wanted to clarify, is that sort of run rating up in that range as we get to the end of the year or is the second half actually trending in that range?

**John Nesbitt:** Certainly, that's the run rate now and trending back into the second half, so we're quite mindful of where we're headed but as we're sitting here today we're striking that NIM in the 175 to 185 point which is quite pleasing.

**Ryan Fisher:** (Goldman Sachs, Analyst) Okay, thank you and then I guess on a less positive front, the Commercial side of things, we saw - you've mentioned the impaireds. We saw a pick-up in Collectives there and you are growing that book reasonably rapidly, I guess by current growth standards. Could you just give us a bit more colour on where you're growing and, more particularly, where you're not growing? Is it all on the small side and why the significant increase in impaireds?

**John Nesbitt:** So look, it's very cautious growth, I might say, in the - across the whole book but particularly in the SME side, and it's very much more on the small side than the bigger end. We've basically moved right away from the bigger end and we're confident we'll continue to grow that but it's not going to be racy growth, Ryan. It's cautious steps as we go with very tightly defined risk appetite in that space as we press forward.

**Ryan Fisher:** (Goldman Sachs, Analyst) And John, can you just give us a bit more colour on the new impaireds there and what drove those and why you're so confident of reversals?

**John Nesbitt:** There were basically two new impaireds in the Commercial side and the larger one, $38 million, basically related to specific asset related in that particular asset class, and the loan's being serviced but as we came into the sale of that particular asset by that customer we found that the actual final value was marginally below what we held it on the book. So it's well covered and I'm expecting that to be cleaned out by the end of June but in the way the accounting works it's moved into impaired.

**Ryan Fisher:** (Goldman Sachs, Analyst) Okay, thanks.

**John Nesbitt:** And it's a relatively small specific issue so there's not systemic issue flowing across that book in any way.

**Ryan Fisher:** (Goldman Sachs, Analyst) Okay, thanks John.

**Operator:** Your next question comes from the line of Richard Coles from CIMB. Please go ahead.

**Richard Coles:** (CIMB, Analyst) G'day guys. Just asking one of the questions on planned profit margins a little differently, I mean, your guidance into next year when you pull out Investment income and Superannuation investments, basically implies that your planned profit margins are going to be zero unless your guidance is very low.

So does that basically mean you are making no profits at all on Life underwriting and, going forward, how does that mean at some point that the margins can't improve? Because it looks like your planned profit margins to average In-force are going from about 8% down to pretty much zero once you've done these adjustments. Is that the way to sort of think about it?

**Geoff Summerhayes:** No, that is not the case. The business will be making planned margins going forward. There is an offset between the experience and the reduction in the planned margin, although some of the losses going forward are effectively dealt with in the write-down so it's not an absolute swap of experience into planned margins.

**Richard Coles:** (CIMB, Analyst) Okay, so do you have a broad view on what your planned profit margins average in-force post-these adjustments is into next year as a sort of guidance number for it?

**Geoff Summerhayes:** Look, we are - we will be giving much fuller disclosure on all of that at the full year and because of the amount of moving parts with the capital initiatives at the first half and these adjustments, which is why we are steering you in the direction of the overall underlying result for the Life in the $75 million to $85 million range and expecting to be marginally ahead of that for the FY15 year.

**Richard Coles:** (CIMB, Analyst) Okay, thank you.

**Operator:** Your next question comes from the line of Brett Le Mesurier from BBY Stockbrokers. Please go ahead.

**Brett Le Mesurier:** (BBY Stockbrokers, Analyst) Thanks, a couple of questions. You mentioned, Geoff, that you were using risk based pricing.

**Geoff Summerhayes**: Yes, yes, yes.

**Brett Le Mesurier:** (BBY Stockbrokers, Analyst) - now in the Life business? What do you mean by that and weren't you using that already?

**Geoff Summerhayes**: Brett, we have always, in the Life business particularly, on [Life-based] business you price to the customer level, and we'll continue to do that. I guess we are benefitting from additional insights from the business intelligence data from across the Group, and leveraging the General Insurance pricing engine as another source of input into that pricing, which we are finding useful in terms of our risk assessment.

**Brett Le Mesurier:** (BBY Stockbrokers, Analyst) Can you give me an example of what you're talking about? Because it's not clear to me what the opportunity is.

**Geoff Summerhayes:** Well, it's just looking at cohorts of customers, looking at behaviours of those customers by postcodes, in terms of experience that we've seen elsewhere in the Group for both - for behaviour as relates to Motor and Home.

**Brett Le Mesurier:** (BBY Stockbrokers, Analyst) So are you looking at lapse rates there? Is that the concern? Or is it mortality? Or is it disability?

**Geoff Summerhayes:** It is looking at the general behaviour of those customers on all of those dimensions.

**Brett Le Mesurier:** (BBY Stockbrokers, Analyst) You also mentioned you were changing from volume to value. What do you mean by that?

**Geoff Summerhayes:** For our adviser value proposition we are looking at - with advisers, looking at the size of the relationship between their business and ours, the nature of their client base and the tenure of that client base, the turnover in that client base and the volume of business - new business - that they are writing.

So those four dimensions are giving us a better insight as to the behaviour of that adviser business and their value to us. Where necessary we have had, and are having, specific conversations with those advisers where their value is not aligned to our business and we're ceasing to do business with those advisers.

Importantly, a tool for us to be transparent with the adviser base about where value is being created and where it's not and having discussions with those advisers to modify behaviour as appropriate.

**Brett Le Mesurier:** (BBY Stockbrokers, Analyst) Thanks. Lastly, on to something else, on to the increase in impaired loans in commercial SME lending. There was a doubling in the impaireds in the last quarter. You said one of them related to a specific asset. What is the lending class that these two loans relate to? Is it commercial real estate? Or is it something else?

**John Nesbitt:** No, it's property investment, Brett.

**Brett Le Mesurier**: (BBY Stockbrokers, Analyst) And that's true for both?

**John Nesbitt:** They're backed by assets of good quality, the servicing. But with the current market values we've needed to move them to impaired and make a small provision again.

**Brett Le Mesurier:** (BBY Stockbrokers, Analyst) Are you talking about shopping centres or something else?

**John Nesbitt:** I'm not going to go into specifics - a mixture. Some are shopping centres and some are commercial buildings.

**Brett Le Mesurier:** (BBY Stockbrokers, Analyst) Great, thanks.

**Operator:** Once again, if you wish to ask a question, please press star one on your telephone keypad and wait for your name to be announced. Your next question comes from the line of Nigel Pittaway from Citigroup. Please go ahead.

**Nigel Pittaway:** (Citigroup, Analyst) Hi, guys. Apologies if you've answered this already, as I missed the start of the call. Have you actually explained the break-up of the $150 million after tax between capitalised losses and experience losses?

**Geoff Summerhayes:** I think we probably haven't got into that level of detail, but I think it's - Jeremy will correct me if I'm wrong - about $120 million of capitalised losses and $13 million of strengthening.

**Jeremy Robson:** The capitalised losses, Brett, are as a result of the experience losses in terms of the assumption charges, so the assumption charges come through the experience piece. Although, having said that, the experience losses themselves for the half are not going through this number. This is just the looking forwards impact of assumption changes.

**Nigel Pittaway:** (Citigroup, Analyst) Right, okay. So with the $120 million of capitalised losses, I mean can you say how many products have actually gone into loss recognition as a result of this?

**Geoff Summerhayes:** Two.

**Nigel Pittaway:** (Citigroup, Analyst) Two, right. You can't say what they are?

**Geoff Summerhayes:** I don't think we'll go into that detail. Might well work through that at full year result, Nige.

**Nigel Pittaway:** (Citigroup, Analyst) Okay. Thanks for that.

**Operator:** There appear to be no further questions in the queue at this time, gentlemen.

**Patrick Snowball:** So, again, thank you for joining us at short notice today. We're obviously going to be catching up with a lot of you in the next couple of days, which gives us a good sense-check. I just wanted to conclude by reinforcing the fact that this company, Suncorp, is in great shape. We're committed to our long term strategy, and our integrated model is already delivering better long term value than any of the alternatives.

If you - those of you who have travelled with me over the last four and a half years will know that we've successfully re-pointed our Personal Insurance business in Australia. We've re-pointed our commercial insurance business in Australia. We've resolved the Non-Core Bank. We have got Vero New Zealand up and running again. The Core Bank is re-pointed and up and running, and now we've re-pointed the Life business as well.

It's been a long journey, but I think I'm very happy to believe that it's been successfully executed, give or take some timing that we probably wouldn't have anticipated as we went through.

This Company has very clear direction. Our integrated approach is giving benefit. We have an extremely strong balance sheet, which is one of the early commitments I gave to the market, and our growth yield story remains central to our direction, as does our 10% ROE target for next year. As I just said before, we've got a lot more gas in the tank and we look forward to sharing that with you in a couple of days' time. Thank you all very much indeed.

**Operator:** That does conclude our conference for today. Thank you for participating. You may all disconnect.

**End of Transcript**