

14 November 2017

## UBS Australian Companies Conference Presentation

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Attached is a copy of the presentation made by Suncorp Chief Financial Officer, Steve Johnston, at the UBS Australian Companies Conference today.

The presentation provides a brief update on the operating environment and Suncorp's two major strategic programs, the Marketplace Acceleration and the Business Improvement Program.

**Ends**

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Good afternoon. Thank you to James and the UBS team for hosting this conference.

In this presentation I will provide a brief operational update for each of our business lines, as well as going through our two major strategic programs of work, accelerating the Marketplace and the Business Improvement Program.

And, of course, I'll save some time at the end of the presentation for your questions.

## Banking growth

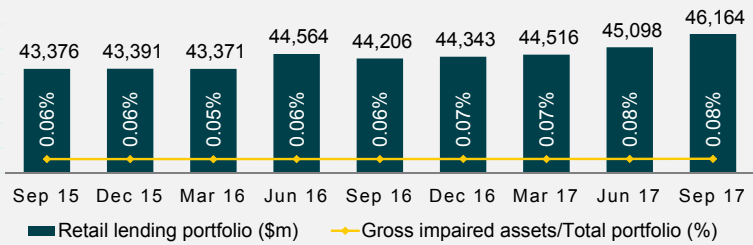
### RETAIL LENDING

- Significant growth over the quarter
- Continued focus on a high quality lending portfolio
- 68% owner occupied vs 32% investor
- Investor year-on-year lending growth of 7.6%

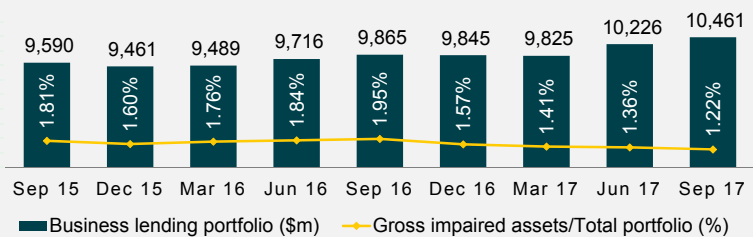
### BUSINESS LENDING

- 71% of business lending exposures <\$10 million
- Well secured, within risk appetite and targeted industry sectors

### Retail lending portfolio



### Business lending portfolio



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Beginning with the Bank, we released our quarterly disclosures on 2 November as required under APS 330.

September quarter lending growth of 2.4% was around 2 times system, and is a continuation of the strong lending growth we experienced at the back end of FY17.

Home lending has benefitted from the implementation of the new lending platform, with faster and easier loan application processes translating to higher application volumes and lower refinancing rates.

While mortgage lending increased, the Bank has retained its commitment to high quality lending and is utilising models developed under our Advanced Accreditation program to further improve the quality of the book.

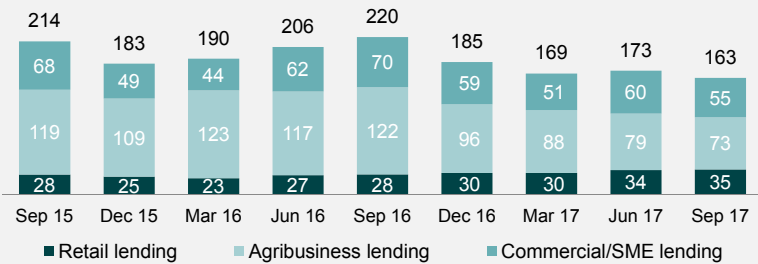
We also remain well placed within macro-prudential caps, with year-on-year investor lending growth of 7.6% and new interest-only of 29% achieved in the quarter.

The business portfolio saw growth in the SME portfolio, which is a pleasing result following an extended period of de-risking. Exposures to inner-city apartment developments and mining exposures have been extensively reviewed and we remain comfortable with the limited credit exposures we have in these segments.

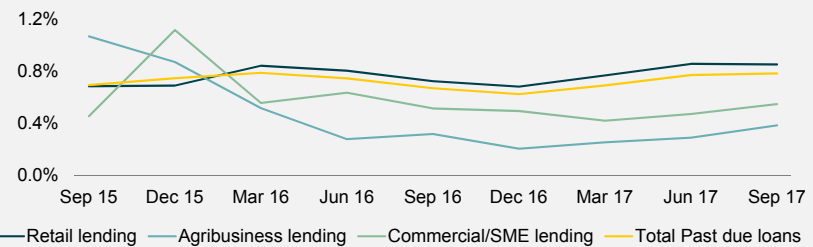
## Banking credit quality

- Improvement in gross impaired loans in Commercial and Agribusiness portfolios
- Retail lending past due loans grew by \$7 million over the quarter reflecting slightly higher home lending past due loans in QLD and NSW
- Past due loans under Hardship status reduced during the quarter, in line with expectations

Gross impaired loans by segment (\$m)



Past due loans by segment (% of segment GLA)



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Credit quality was again strong, with 4 basis points of impairments to gross loans. Gross impaired assets also declined as business customers benefitted from improved conditions and repaid working capital accounts. We continue to believe impairment charges in the 10 - 20 basis point range remains an appropriate medium term expectation but see nothing on the near term horizon that would see us returning to that range.

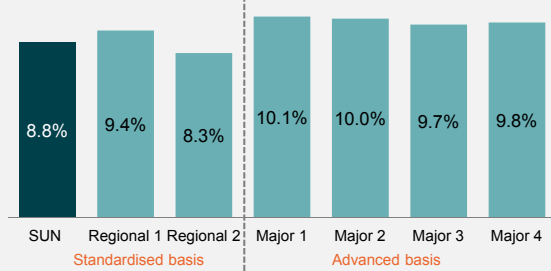
The Bank maintained its measured approach to funding, growing transaction accounts and leveraging our A+ credit rating to successfully fund balance sheet growth. As the only A+ rated bank in Australia, we have access to a full range of wholesale funding markets and, during the quarter, successfully completed a \$1.5 billion RMBS transaction which further supports funding stability. You will also have seen that in recent weeks, we completed a senior deal under our US 144a program – again at very favourable spreads.

Net interest margin has been supported by stable funding and mortgage repricing so we continue to expect 1H18 margins at the upper end of our target range of 1.75 – 1.85 basis points even though competition in our key owner occupied market has been intense.

## Banking capital

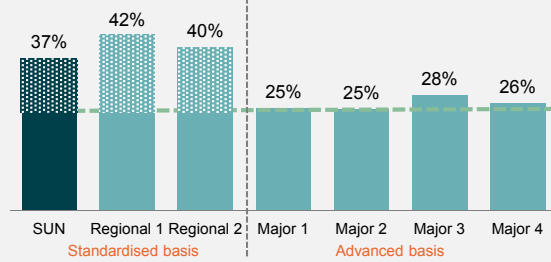
- Strong capital levels maintained to support growth
- Well positioned for regulatory change
- Working closely with APRA in pursuit of Advanced Accreditation

### CET1 ratio vs peers



Suncorp data as at 30 September 2017 for the Level 2 Banking Group  
Source: Latest peer financial reports available as at 16 October 2017

### Residential mortgages risk weight %



IRB Banks 25% risk weighting requirement  
Source: Latest peer financial reports available as at 16 October 2017



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To Bank Capital and the common equity tier 1 ratio was 8.77% following the payment of dividend from the Bank up to the Group. This puts capital at the mid-point of the Bank's 8.50 – 9.00% range.

Capital will remain a key area of focus as 'unquestionably strong' and Basel III are clarified, and we determine how it will interact with our application for Advanced Accreditation.



## Insurance (Australia)

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- Home & Motor base rate increases of 3 – 5%
- Continue to drive greater volumes through SMART and aligned repairer channels
- Commercial underwriting discipline with some positive pricing momentum
- CTP portfolio performing well



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Now to the Australian General Insurance business and trends across the consumer and commercial portfolios have remained broadly consistent with what we discussed at our results in August.

Consumer lines have continued to see base rate increases of 3 - 5%, as claims inflation continues to be seen across both home and motor classes.

Motor claims inflation is being driven by a range of factors including parts prices, advanced technology in cars and the more recent issue of credit hire companies. All of this has impacted average claims cost across the industry.

We have been relatively less affected by claims inflation than our competitors as a result of our intensive focus on claims processes over the past two years. Through our recoveries and settlements we can see average claims costs are increasing for the rest of the industry at a faster rate than in our own portfolio. This imported inflation is having some impact but is well covered by our pricing initiatives.

We have been able to offset claims inflation by putting more vehicles through our SMART and aligned repairer channels. SMART volumes have been consistently tracking ahead of our 45% target with a further 10% of volume being delivered at fixed rate pricing from our aligned repairer panel.

Credit hire companies like Right2drive are also having an impact on claims costs, but we continue to improve our processes to contain these costs. We are beginning to see an industry response to the provision of hire cars and we have the benefit of learning from the UK experience in what not to do.

There is also underlying inflation in the home portfolio. Here too, we have a number of initiatives which have enabled us to control our claims costs. In particular we have created a specialist function for water damage claims which has been one of the key drivers of claims inflation across the industry.

All in all, our consumer claims function is running well with active claims numbers at very low levels and the machine running well.

In terms of commercial lines, we saw improving rates and retention through the last part of FY17. However with industry profitability still very weak, we believe further price increases are warranted.

A key driver of pricing in high-end corporate commercial insurance is reinsurance markets. The recent major catastrophes in the northern hemisphere, including Irma and Maria, have led to speculation of hardening rates in commercial lines and reinsurance markets after a long period of decline. As you know our reinsurance program renews on 1 July and a proportion of our program is set on multi-year terms, so there is some time to go, however it is our view that the extent of any repricing for Australia and New Zealand is dependent on localised natural catastrophes, with Australia and New Zealand still providing diversification for global reinsurers.

Turning to the outlook for CTP, where we adopt a portfolio approach across the schemes. During FY17 we entered the SA scheme which has performed in line with our expectations and has assisted us counterbalancing the impact of reform across NSW and Queensland.

The NSW regulator is implementing a number of reforms to the scheme which will ultimately result in lower volatility. The reform has centred on implementing a hybrid defined benefit model to address the significant increases in exaggerated and fraudulent claims that have driven large increases in premiums.

A new Risk Equalisation Mechanism (REM) will also reduce cross subsidies between insurers without major impact to customer premiums. We expect that given our current mix of business the REM will be neutral for premium.

In Queensland, after a number of premium reductions based on retrospective insurer profits, the regulator has more recently increased the premium ceiling which is reflective of a slight increase in the frequency of small legally represented claims. We are proactively looking to address the issues as we did in NSW. We are also engaged with the regulator to encourage appropriate reform as well as immediate premium increases to ensure adequate sustainable returns.

## Australian Life Insurance

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- Australian Life insurance Optimisation Program is ongoing
- Review of strategic alternatives progressing

### Life Insurance Optimisation



Optimise efficiencies in claims and expense management



Streamline processes under new operating model



Improve customer connectivity



Product and claims innovation

**Life Insurance is a core component of the Suncorp financial services Marketplace, however, currently delivers sub-optimal ROE**

Life continues to operate a dual track process of Optimisation while considering strategic alternatives.

Optimisation is a suite of initiatives to streamline key business activities, enhance customer outcomes and improve overall performance.

The strategic alternative process is ongoing and we will keep the market informed as we progress.





## New Zealand

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- Strong underlying margins
- Industry claims cost inflation driven by frequency and severity
- SMART improving average repairs costs and customer turnaround times
- Tower Scheme Implementation Agreement terminated



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Now moving to New Zealand, which remains a very favourable market for us.

While the FY17 result was impacted by natural hazards, including the Kaikoura earthquake, the NZ business continues to deliver very strong underlying returns. Consumer lines are experiencing similar claims inflation issues to Australia, however, the motor claims costs are being compounded with record numbers of new cars on the road which has contributed to higher frequency and severity. These costs are being adequately dealt with in pricing.

Commercial lines are also seeing strong rate increases, both on underlying pricing and earthquake risk.

Lastly, you will have seen that we have withdrawn our appeal following the termination of our Scheme Implementation Agreement with Tower. We are now focused on maximising the value of our stake and to that end will support the capital raising which they announced yesterday.

## Operational Excellence – Business Improvement Program

“Owner’s Mindset”	Cost (\$m)			Benefit (\$m)		
	FY18	FY19	FY20	FY18	FY19	FY20
Digitisation of customer experience	21	22	8	1	27	38
Sales and Service channel optimisation	9	17	18	15	13	30
End-to-end process improvement	12	1	0	15	45	45
Claims supply chain re-design	24	26	13	39	122	196
Smarter procurement and streamlining our business	31	13	23	37	67	82
<b>Total</b>	<b>97</b>	<b>79</b>	<b>62</b>	<b>107</b>	<b>274</b>	<b>391</b>
<b>Net Benefits</b>				<b>10</b>	<b>195</b>	<b>329</b>



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We have recently spoken about our two major strategic programs of work.

The first program, the Business Improvement Program, is about driving operational excellence across our core businesses to ensure we drive efficiencies in all our key processes.

As you can see on the slide, there are five main streams focusing on digitising the business, optimising our sales and services channels, continuing process improvement, redesigning our claims supply chain, ensuring we maximise our procurement channels and continuing to streamline our business.

This program will deliver net benefits of \$10 million, \$195 million and \$329 million over the next three years and will see us return to our natural cost base of \$2.7 billion in FY19 and beyond.

By any measure, these are material reductions requiring careful and focused execution. To this end we have put in place appropriate oversight and governance under a Program Excellence Office, with a direct reporting line to the CEO. This has given us good line of sight to these benefits with clear accountability throughout the organisation. When considering the magnitude of these savings it is also worth remembering that our people costs are around \$1.5 billion, supplier costs are just over \$1 billion and claims costs are in excess of \$5 billion.

I’d also point out that while the program will deliver net benefits of \$10 million in FY18, about half of the \$97 million of costs will be invested in the first half, with the benefits to emerge in the second half of the financial year.

From a reporting perspective, the Business Improvement Program will flow through the business lines and as such will impact the cost to income ratio in the bank, and reported ITR for Insurance business.

## Suncorp Marketplace acceleration

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- Up to \$100m after tax one-off in FY18
- Expenses expected to return to ~\$2.7bn in FY19

	Accelerated Investment (\$m)	
	Pre-Tax	Post Tax
Single digital customer experience	23	16
National roll-out of brand refresh	24	17
Journeys and integrated offers	25	18
Third party partnerships	24	17
Customer reward and recognition program	7	5
Other (enabling technology)	39	27
<b>Total</b>	<b>142</b>	<b>100</b>



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Our Marketplace acceleration program will deliver benefits faster, execute sooner and ultimately future proof our business. We released details of each component of the additional Marketplace \$100 million after-tax investment at our AGM.

We're seeing pleasing progress on each of these components.

- The single digital customer experience will change the way our customers interact with us while also delivering additional value for them. We are on track to deliver the Suncorp-wide Marketplace app by June 2017
- You will have started to see our new branding being rolled out and this is helping drive growth in our core businesses
- We're also progressing new journeys around home and car and integrated offers which are an important component of the Marketplace strategy, and
- Our customer reward and recognition program work is well underway

And next month we will launch our new discovery store in the flagship site in the Pitt Street mall. This will provide a tangible view of the physical Marketplace and builds on the learnings of our concept stores in Parramatta and Carindale.

## Summary

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- Suncorp Bank delivering above-system lending growth while maintaining strong credit quality
- Insurance (Australia) top-line momentum continued for consumer and commercial portfolios
- New Zealand repricing for industry-wide claims inflation
- Business Improvement Program on track to deliver material benefits over the next three years, with FY18 benefits skewed to second half
- Marketplace Acceleration program well advanced, to deliver benefits faster, execute sooner and future proof our business



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So, in conclusion, the positive momentum we reported at June 30 has continued into FY18:

- The Bank has continued to deliver above-system lending growth while maintaining strong credit quality;
- The Australian General Insurance business has also seen continued top-line momentum for both the consumer and commercial portfolios;
- The New Zealand business is repricing for industry-wide claims inflation;
- The Business Improvement Program is on track to deliver material benefits over the next three years, noting the FY18 benefits will be skewed to second half; and
- The Marketplace Acceleration program is well advanced, and will deliver benefits faster, execute sooner and future proof our business.

I am now happy to take any questions.

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