Financial Results for the half year ended 31 December 2018

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Create a better today

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SUNCORP GROUP LIMITED
ABN 66 145 290 124

SUNCORP

Michael Cameron

CEO & Managing Director

Good morning everyone and thank you for joining us today. I'll first provide an overview of the result. Steve will provide details on the financials. And then, before taking questions, I will make some comments on the outlook.

The interim result includes natural hazard costs significantly above our allowance, as well as the impact of volatile investment markets. These, together with increasing regulatory costs, will impact our ability to deliver our full year Cash ROE target. In addition, the result shows:

- We are making good progress on executing our strategy
- We've achieved solid top-line growth
- Operating expenses are well controlled and the Business Improvement Program has again exceeded targets.

The financial services industry today faces a great deal of change. This includes future policy settings, shifts in regulation, and material impacts on business and distribution models. I acknowledge the importance of the Royal Commission process, and accept that Suncorp has at times fallen short of community expectations. The work we've done on our business model and strategy, will allow us to navigate the changes ahead. I believe we have the right foundations for sustainable growth.

We've given a great deal of thought to how we will manage the business through this period. We are stepping up our regulatory investment to better serve our customers and to maintain our licence to operate. We will explain our plans for an increase in next year's natural hazard allowance later in the presentation.

Let's now turn to the result highlights.

Result overview

- 1H19 NPAT **$250m** (1H18: $452m)
- Result includes:
  - Write down of Life goodwill $145m
  - Investment market impact $140m[1]
  - Natural hazards increase of $167m[1]
  - Reserve release increase of $47m[1]
  - Doubling of regulatory project costs to $39m[1]
  - Prior period included $36m accelerated investment in strategic programs[1]
- Dividend payout ratio of 81%, reflecting strong capital position

	HY19 ($m)	HY18 ($m)	Change (%)
Insurance (Australia)	133	234	(43.2)
Banking & Wealth	183	185	(1.1)
New Zealand	111	61	82.0
Australian Life Business held for sale	23	42	(45.2)
NPAT from functions	**450**	**522**	**(13.8)**
Other [2]	(37)	(50)	(26.0)
Cash earnings	**413**	**472**	**(12.5)**
Acquisition Amortisation	**(18)**	(20)	n/a
Write-down of Goodwill	**(145)**	-	n/a
Reported NPAT	**250**	**452**	**(44.7)**
Interim dividend (cps)	**26 cps**	33 cps	

1. Pre tax impact
2. 'Other' includes: Investment income on capital held at Group level (Dec-18: $13m, Jun-18: $7m), consolidation adjustments and transaction costs (Dec-18: loss $11m, Jun-18: loss $8m), non-controlling interests (Dec-18: loss $9m, Jun-19: loss $4m), net internal funding expenses (Dec-18: $33m, Jun-18: $27m), income tax expense (Dec-18: $3m, Jun-18 $17m), Marketplace accelerated investment (Dec-18: nil, Jun-18: $36m).

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Net profit after tax for the half of $250m includes the previously announced write-off of the Life Company goodwill, higher Natural Hazard costs, lower investment returns, and a doubling of regulatory project costs.

Reserve releases are up in the half, benefitting from low inflation.

The dividend of 26cps represents an 81% payout ratio, supported by a robust capital position.

Result highlights

1. Core Insurance portfolios **performing well**
2. **Stable** Bank earnings amid industry slow down
3. Business Improvement Program **exceeding targets**
4. Digital to drive **retention and new business**
5. **Resilient** underlying business

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The core of our Insurance portfolios are performing well. GWP growth was 3.4% and operating expenses were 1.6% lower.

In Banking, strong deposit growth, and very low losses, helped to counter the abrupt slow down in lending across the industry.

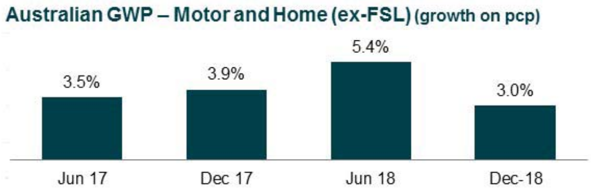
Our Business Improvement Program has outperformed in the first half. It is on track to exceed the targets for the full year as well.

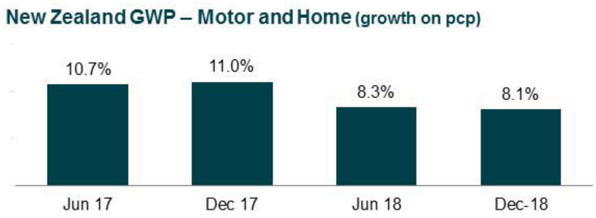
Following the investment made in technology foundations and digital capability, our focus has shifted to strengthening relationships with our customers and attracting new business.

Performance against our key metrics shows that our underlying business remains resilient.

1. Core Insurance portfolios **performing well**

- **Australian** Motor & Home GWP grew 3%
- **New Zealand** Motor & Home GWP grew 8%
- Improved performance from **Commercial** in Australia and NZ following portfolio remediation
- **Positive contribution from BIP** to claims and expenses
- **Australian NPAT** impacted by natural hazards and investment markets
- Insurance (Australia) operating expenses (excluding FSL) **reduced by 3.8%**
- Further improvement in **General Insurance UITR**
- World class response to Sydney Hailstorms
- **Strong New Zealand NPAT** growth of 82% reflecting benign weather and working claims improvement





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Consumer GWP has grown at 3% in Australia, and 8% in New Zealand. This was achieved through premium increases with some loss of units. Retention remains stable, with increases in margins across almost all parts of the business.

We continue to be successful in reducing operating and claims costs, while improving customer experience.

There have been four major natural hazard events declared in Australia in the first half, followed by the more recent North Queensland floods. The Sydney hailstorm on 20 December has generated 31,000 claims and currently has a gross loss of approximately $370m. As you know, our exposure is capped at $250m.

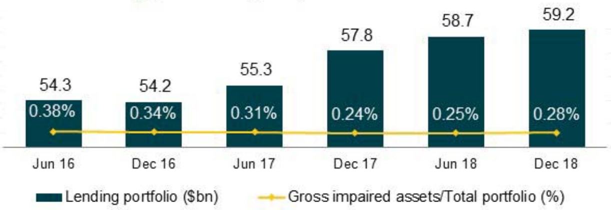
Around 40% of the claims were lodged electronically using our zero touch digital capability, delivering efficiency and meaningful customer benefits.

In January I visited one of our specialist assessment centres where up to 600 vehicles were being processed each day. This is a world class response capability. I was very impressed with the pride and dedication shown by our people.

2. Stable Bank earnings amid industry slow down

- **Home lending** grew below system reflecting competition and ongoing focus on credit selection
- **At-call deposits grew 5.1%,** materially above system, underpinned by new digital capabilities
- **Agribusiness portfolio** performing well in current environment
- Selective growth in the Commercial sector
- **Impairment losses of 2bps** reflects quality of portfolio
- Conservative home lending book (total retail book):
  - Owner Occupied 72%
  - Principal & Interest 79%
  - LVR < 80%, 78%
- **Operating expenses** of $341m (pcp $347m), CTI 56.1%
- NIM of 1.79% reflects elevated BBSW and aggressive price competition

Total lending portfolio ($bn)



At-call deposit portfolio ($bn)

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The Banking and Wealth business produced stable earnings.

The slow down in system growth, and our early adoption of tighter responsible lending controls, have resulted in a further moderation in home lending growth. This has impacted our CTI ratio, despite the reduction in bank expenses that we achieved.

Competition and higher funding costs have put pressure on our NIM but we remain disciplined. We are prioritising margin over volume.

Deposits on the other hand have grown well above system, reflecting improved digital capabilities. Our customers responded strongly to the new Growth Saver deposit account. Over 50% of these were opened online.

We are concentrating on maintaining a profitable, low risk home loan book. We have a bias towards Owner Occupied, Principal and Interest, and lower LVR loans.

3. Business Improvement Program **exceeding targets**

- Net BIP benefits for FY19 expected to exceed original target of $195m. New target is at least $225m
- Locked in gross annualised benefits of $296m ($187m at 30 June 2018)
- Operating expenses for the 1H19 contained to $1.3bn

Pre-tax ($m)	Cost		Benefit		Net Benefit	
	Target	Actual	Target	Actual	Target	Actual
Actual 1H19	51	42	116	137	65	95
Actual FY18	97	**104**	107	**144**	10	**40**
Target FY19	79	-	304	-	225[1]	-
Target FY20	62	-	391	-	329	-

1. Target upgraded from $195m to $225m

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The Business Improvement Program is delivering operational efficiencies and improved customer experiences.

For the first six months of this year, the net P&L benefit was $95m, which is $30m above our target.

As at December 2018, we have locked in gross annualised benefits of $296m. We now expect to deliver at least $225m in net benefits for FY19.

With BIP embedded and delivering, we are far better placed to address the increased investment in regulatory compliance facing the industry.

4. Digital to drive **retention and new business**

- Investment in digitisation drives customer benefits
  - Digital users increased 17% in the half
  - 8% increase in online origination of at-call deposits
  - Home and Motor digital claims increased to 14.3%
- App downloads and active users increasing as additional functionality improves experience
- Reward & Recognition platform now has +500,000 registrations, 2% uplift in retention amongst active users
- Investment in frontline systems and functionality delivering enhanced capability to assist with customer inquiry
- Foundations now established to convert better customer experiences into higher revenue
- Robust governance to capture value creation

	HY19	FY18
Connected customers		
Proportion of customers with multiple needs met (%)	**35**	35
Consumer Net Promotor Score (NPS)	**+5.8**	+7.3
Business Net Promotor Score (NPS)	**+1.2**	+2.7
Customer engagement via digital channels		
Number of digital users (m)	**3.20**	2.74
Proportion of digital claims (%)	**15**	12
Proportion of 'zero touch' digital claims (%)	**36**	33
Proportion of digital Insurance sales (%)	**24**	25
Proportion of digital Banking sales (%)	**33**	25

Refer to definitions and calculations in the 1H19 Investor pack Customer Section 1.6

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We also now have the opportunity to convert better customer experiences into improved metrics, and higher revenue. This includes maximising the returns on our previous digital investments.

The Marketplace component of our strategy increases customer awareness of our products, services and brands, and makes them easy to access and use.

We are continually refining elements of our strategy in response to feedback. Our customers are responding positively to new functionality:

- Digital users are up 17% since June, and as I said earlier, 40% of the December hailstorm claims were made digitally
- 500k customers are registered to use the R&R program, with active users seeing retention up 2% and early signs of an uplift in products purchased
- The Suncorp App has been downloaded 300k times since August, and the take-up rate is high for new customers to the Group.

5. Resilient underlying business

Metric	HY19	HY18
Group top line growth[1] (%)	3.2	1.6
Expense base[2] ($bn)	1.3	1.4
UITR (%)	12.2	9.4
CTI (%)	56.1	54.9
NIM (%)	1.79	1.86
Cash ROE (%)	6.0	6.8
Ordinary dividend payout ratio[3] (%)	81.4	90.1

1. Excluding the impact of FSL and CTP, 1H19 growth was 3.7%
2. The forecast is ex FSL which is a pass through
3. Cash earnings excluding special dividend

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Against the prior comparative period, our key performance metrics reflect the resilience of our business.

Top-line growth remains solid and within our target range of 3 – 5%.

Expenses were $1.3bn. This reflects our commitment to fund growth and absorb regulatory costs and inflation, while maintaining a flat expense base.

The trajectory of the Underlying ITR is positive.

While bank expenses are well managed, industry slowdown in lending and higher funding costs have impacted progress on improving our CTI ratio. This has also put pressure on the NIM.

I will talk about the Cash ROE after Steve takes you through the details on the financials.

Steve Johnston
Chief Financial Officer

Thank you Michael and good morning.

Before I step you through the usual results commentary, let me provide a brief update on the sale of the Australian Life business.

Sale of Australian Life business on track

- Suncorp continues to target a completion date of 28 February 2019 subject to regulatory approvals being received
- Consideration approximately $725m, non cash write off of $880m, goodwill component of $145m recognised in HY19 result
- Approximately $600m of capital to be returned to shareholders
- 20 year strategic alliance
- Annualised stranded costs of ~$30m pre-tax will be addressed immediately post sale by Program Excellence Office, and plans are in place to remove by the end of FY20. Impact in FY19 expected to be ~$10m
- Transition Service Arrangement's (TSA) currently being finalised will run across 2-3 years. Costs covered by TSA's will be progressively removed

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The transaction remains on track with all internal workstreams nearing completion. Both the Suncorp and TAL teams are working together to ensure a smooth day one transition. We continue to target completion on 28 February, however, this assumes receipt of all relevant regulatory approvals – the timing of which is largely out of our control.

As previously disclosed, consideration is made up of:

- $640m in cash payable on completion; and
- Completion adjustments to net worth based on mechanisms and timelines agreed under the share sale deed

Based on our latest forecast of adjusted net worth, total consideration remains unchanged at approximately $725m. After taking into account separation and transaction costs, hybrid capital and other provisions, we anticipate returning approximately $600m to shareholders.

Our preferred means of distributing this capital is via a pro-rata return of share capital and share consolidation, however, we may combine this with a small special dividend, as this will utilise some of our franking credit balance.

As previously disclosed, as the business is classified as held for sale under accounting standards, we have included the $145m goodwill write-down in the first half result, with the remaining $735m non-cash loss on sale, to be recognised in the second half.

The stranded costs as a result of the transition to TAL amount to approximately $30m on an annualised basis and largely comprise personnel, real estate and supplier costs. These costs will form part of the 2020 Business Improvement Program, with work currently underway to neutralise them on a run-rate basis by the end of the FY20 year.

Other costs covered by the various Transition Service Agreements will be removed following the completion of each service agreement.

Insurance (Australia) NPAT

- NPAT down 43.2% to $133m
- Insurance trading result $190m (HY18: $266m)
- GWP up 2.4% to $4.1bn
- Home and Motor GWP up 3.0%
- Natural hazards $573m (HY18: $395m)
- Reserve releases of $170m (HY18: $129m)
- Underlying investment yield of 2.5%

	HY19 ($m)	HY18 ($m)	Change (%)
Gross written premium	4,101	4,004	2.4
Net earned premium	3,689	3,643	1.3
Net incurred claims	(2,855)	(2,724)	4.8
Operating expenses	(769)	(773)	(0.5)
Investment income - insurance funds	125	120	4.2
Insurance trading result	190	266	(28.6)
Investment income – shareholder funds	(3)	72	n/a
Insurance (Australia) NPAT	**133**	**234**	**(43.2)**
Australian Life Business held for sale profit after tax	23	42	(45.2)

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Turning to the results now and starting with the Australian Insurance business which delivered a net profit after tax of $133m.

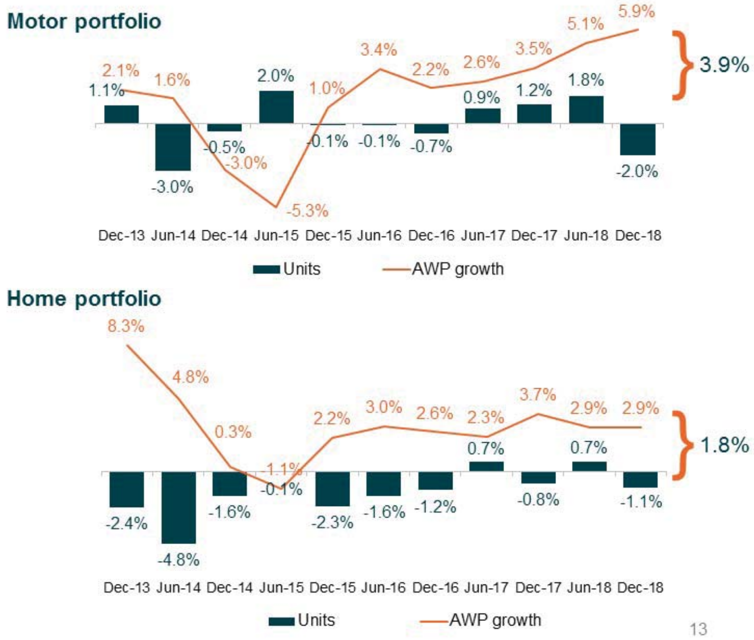
While this is a reduction on the prior period, the underlying margin trend was positive with GI continuing to benefit from the investments in the BIP program.

The Australian life business delivered an after tax profit of $23m reflecting reduced experience profits, partially offset by a one-off tax adjustment in the participating book.

Over the next few slides I will cover premiums, claims and investments and later in the presentation I will cover the underlying ITR.

Home and Motor portfolio

- Positive momentum in premium growth across the consumer portfolio
- Home and motor positive premium rates partially offset by unit losses
- Lower new business volumes partially offset by strong retention
- Improved consumer unit growth expected over the remainder of FY19 and into FY20



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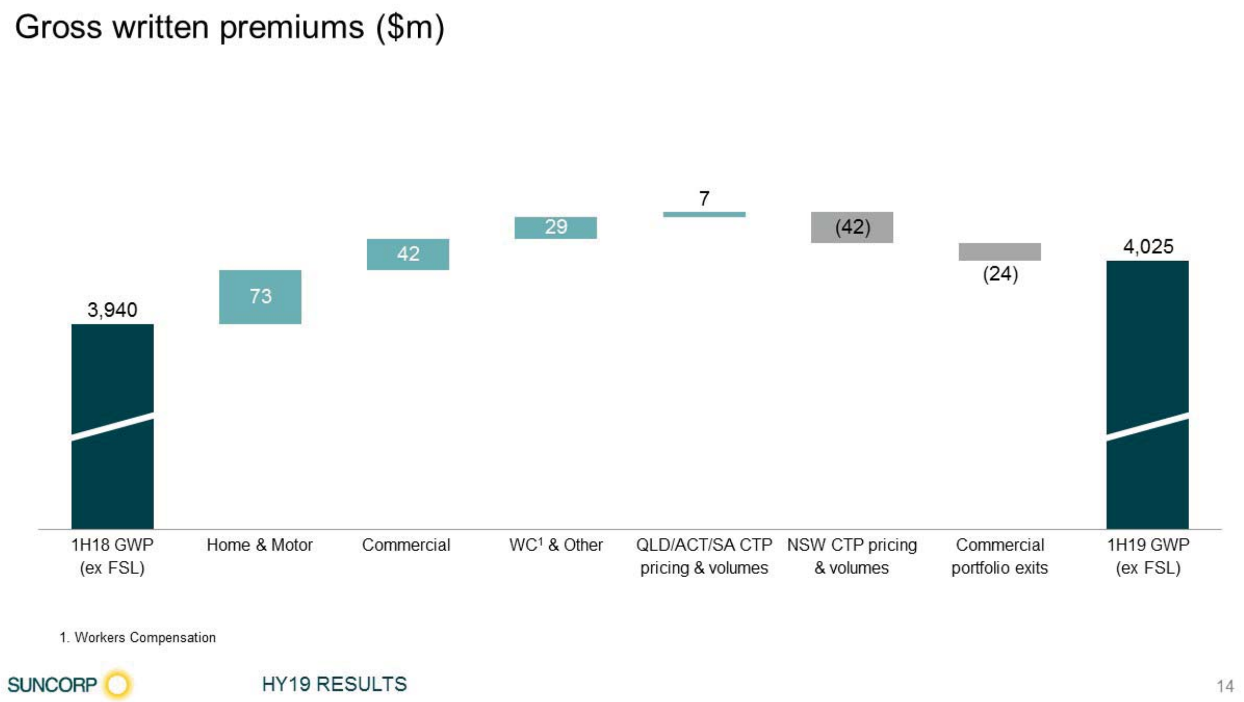
First to premiums, and the positive momentum in our consumer portfolios has continued into the first half of the year, albeit with a slightly different volume/rate mix.

You can see in the motor portfolio we have continued to achieve strong premium rate increases, although units have contracted 2% in the half.

The premium rate increases across the home portfolio were less pronounced and in line with the last half, with units down by 1.1%.

The contraction in units reflects a moderation of premium increases across the industry. As a result, new business volumes are lower, although this has been partially offset by strong retention.

We would expect to see improved consumer unit growth over the second half of this year and into 2020 on the back of a number of customer initiatives and our ongoing investment in digital capabilities.



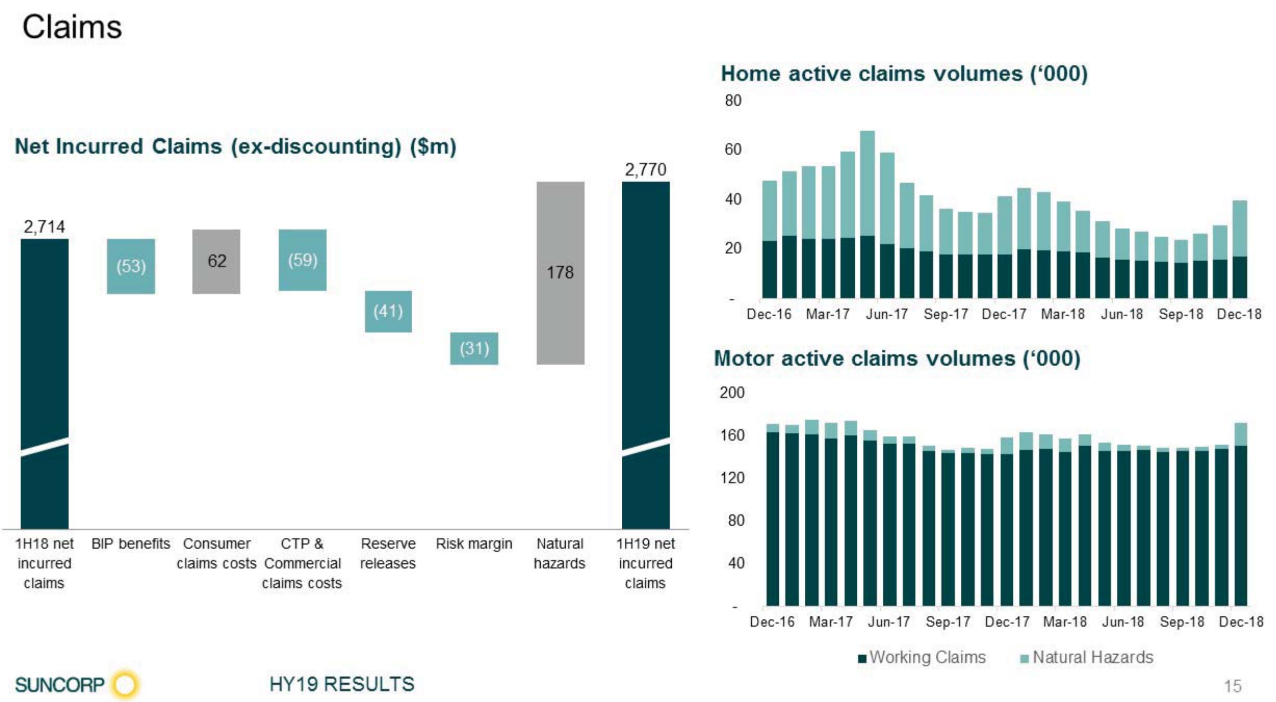
The growth in the home and motor portfolios was the largest contributor to the overall increase in GWP, which I have shown in this waterfall.

Commercial GWP increased $42m, or 3.6% after taking into account the impact of portfolio exits. Again, this reflects our disciplined approach to growth in this market with premium rate increases supported by the retention of high quality accounts.

The headline GWP result has been impacted by a number of regulatory changes in our CTP portfolios. In NSW, the scheme reforms, which came into effect on 1 December 2017, have driven a $42m reduction in GWP. This reflects a combination of lower average premiums and a reduction in units due to Suncorp's active strategy to move away from a price-led position while we monitor the performance of the scheme over the transition period.

In Queensland CTP, GWP growth was flat with reductions in the ceiling price offset by an increase in units.

Modest growth in both premium rates and units was seen in the ACT and SA schemes.



Turning to claims and on the left I have included the usual undiscounted view of net incurred claims. This clearly shows the impact of the significant natural hazard events seen in the half as well as the ongoing positive effect of BIP which is helping offset inflation in underlying claims costs.

The improvement in CTP and Commercial claims costs reflects the impact of scheme reforms in CTP and the benefits from realignment of the Commercial portfolio. The higher level of reserve releases were driven by favourable claims experience in the short tail portfolio and the continuance of lower than assumed average weekly earnings inflation and little, or no, evidence of superimposed inflation across the CTP portfolio.

On the right side of the slide you can see that working claims volumes have remained fairly stable with the natural hazards seen in the last three months of the half driving the uplift in overall volumes.

Investments

Insurance funds $9.1bn

- **Investment income of $125m (HY18: $120m)**
- $62m MTM gain from a decrease in risk-free rates
- $5m MTM loss from narrowing credit spreads
- $46m MTM loss from underperformance of ILBs
- 2.5% annualised underlying return

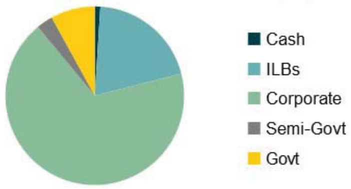
Shareholders' funds $3.0bn

- **Investment income of $(3)m (HY18: $72m)**
- -0.2% annualised return
- Returns driven primarily by weak equity markets

Key investment market indicators

	8-Feb 19	31-Dec-18	Δ
ASX200 Accum	63,132	58,710	+7.5%
MSCI World ex-Aus Hedged	1,623	1,514	+7.2%
3 year AA credit spread	90	88	+2bp
10 year breakeven calculation	1.59	1.64	-5bp
3 year bond	1.61	1.85	-24bp
10 year bond	2.10	2.32	-22bp

Insurance funds Mix at 31 Dec 2018 (%)



Shareholders' funds Mix at 31 Dec 2018 (%)

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Moving to the investment portfolio and investment income on the insurance funds was $125m.

The headline result was supported by mark-to-market gains from a decrease in risk-free rates, partially offset by the relative underperformance of inflation-linked bonds.

I'd again remind you that we hold inflation-linked bonds to enhance capital efficiency and as an economic hedge against inflation. As a result, the performance of these bonds is inversely correlated to reserve releases, where the current benign inflation environment is delivering gains well above our 1.5% of NEP longer term assumption.

The underlying yield on the portfolio was 2.5%, slightly below our expectation of 60 – 80 basis points above the risk-free rate.

The shareholders' funds returned a negative $3m. Weak returns from equity markets and alternative asset classes, combined with a degree of relative manager underperformance were the main drivers of the result.

Obviously the results reflect the 31 December position across the key market indicators that drive the mark to market outcome. I have summarised these in the table on the top right of the slide and you can see there has been some improvement in the first six weeks of calendar 2019.

Banking & Wealth NPAT

- Lending growth of 1.5% (annualised)
- At-call deposit growth of 5.1%
- NIM of 1.79% (2H18: 1.82%)
- Impairment losses 2 bps of GLA
- Strong capital and balance sheet
- Awaiting release of draft standards incorporating Basel III reforms and APRA's unquestionably strong benchmarks
- Wealth PAT of $1m

	HY19 ($m)	HY18 ($m)	Change (%)
Net interest income	585	598	(2.2)
Net non-interest income	23	34	(32.4)
Operating expenses	(341)	(347)	(1.7)
Profit before impairment losses	267	285	(6.3)
Impairment losses	(7)	(13)	(46.2)
Income tax	(78)	(81)	(3.7)
Banking profit after tax	**182**	**191**	**(4.7)**
Wealth profit after tax	**1**	**(6)**	**n/a**
Banking & Wealth NPAT	**183**	**185**	**(1.1)**

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Turning now to Banking and Wealth, which delivered a net profit after tax of $183m, broadly in line with the prior period.

Total lending grew by 1.5% annualised, principally reflecting a moderation in home lending within a highly competitive and slowing mortgage market, as well as Suncorp's early adoption of increased serviceability and verification requirements.

Net interest margin compressed 3 basis points to 1.79% with the positive impact from strong growth in at-call deposits more than offset by the sustained elevation in the BBSW and intense price-driven competition in the mortgage market.

As I explained at the full year 2018 results, the Bank has sought to reduce and remove a range of customer fees in line with customer demand for low fee banking, with the full effect of those actions seen in the non-interest income line this half.

We continue to prioritise the credit quality of the portfolio with impairment losses representing just 2 basis points of gross loans and advances, well below the through the cycle operating range of 10 to 20 basis points.

Despite a significant uplift in regulatory spend and continued investment in digital capabilities, costs in the bank are lower and reflect the benefits from the BIP program. Taking into account the effect of slower lending growth results in a cost-to-income ratio of 56.1%, well above our target of around 50%.

Regarding the pursuit of Advanced Accreditation, further consideration will be required to quantify the impacts of the Basel III reforms and APRA's unquestionably strong benchmarks.

You will recall that following the sale of the Australian Life business and transitioning Wealth activities, the continuing wealth business principally reflects our superannuation customer offering known as Brighter Super. The improved return versus pcp was largely due to the completion of the Super Simplification Program in FY18, however the business's ability to deliver its usual run rate contribution has been impacted by the increased industry-wide regulatory costs incurred over the half.

New Zealand NPAT

- NPAT increased 79.1% driven by strong top-line growth
- GI GWP grew 8.2%, driven by premium rate increases and unit growth
- Favourable natural hazards and working claims experience
- Life in-force premium up 4.0%, supported by strong policy retention

	HY19 (NZ$m)	HY18 (NZ$m)	Change (%)
Gross written premium	831	768	8.2
Net earned premium	693	616	12.5
Net incurred claims	(340)	(348)	(2.3)
Operating expenses	(217)	(199)	9.0
Investment income – insurance funds	7	7	-
Insurance trading result	143	76	88.2
General Insurance profit after tax	**103**	**50**	**106.0**
Life Insurance profit after tax	**17**	**17**	**-**
New Zealand NPAT	**120**	**67**	**79.1**

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To New Zealand which has delivered a very pleasing result driven by GWP growth across all portfolios and disciplined expense management.

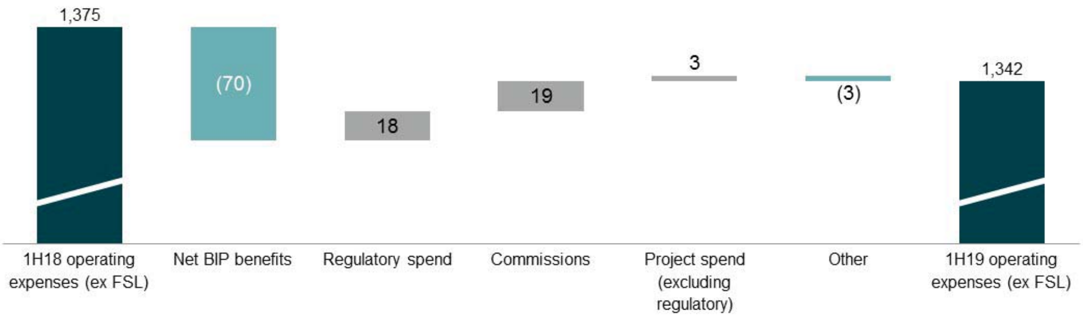
Net incurred claims were $340m, down 2.3% on the prior period reflecting favourable natural hazards experience and improved working claims management.

Settlements continue to progress on the Canterbury and Kaikoura earthquakes with 98% of Canterbury claims and 99% of Kaikoura domestic property claims now settled.

The increase in operating expenses was mainly due to higher commissions paid as a function of the strong premium growth.

The New Zealand Life result was stable with solid growth in in-force supported be strong policy retention.

Group operating expenses (ex-FSL) ($m)



Group operating expenses: BIP net cost / (benefits) ($m)

	1H19	1H18	Δ
Insurance net cost / (benefit)	(24)	19	(43)
B&W net cost / (benefit)	(14)	13	(27)
Total BIP net cost / (benefit)	(38)	32	(70)
Total Group operating expenses	**1,342**	**1,375**	**(33)**

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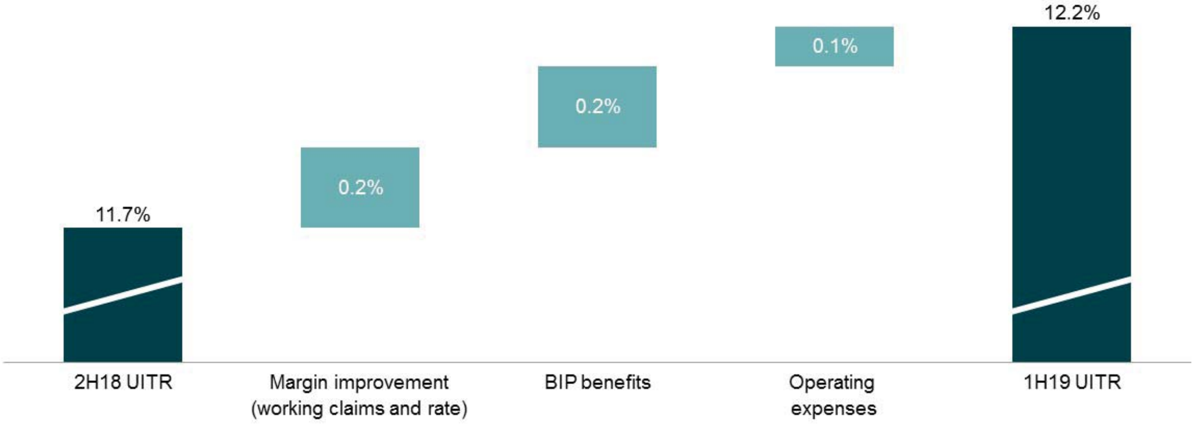
Now to Group expenses, presented here net of FSL, which decreased to $1.34bn mainly due to the net benefits from the BIP program. The net benefit in this half was $38m, resulting in an improvement of $70m on the prior period.

As flagged at the full year results, spending on regulatory projects continues to increase with the majority of anticipated spend likely to be incurred in the second half. More on this in a moment.

Finally, the increase in commissions should not come as a surprise. This was mainly due to the strong GWP growth in New Zealand.

GI Underlying ITR – 1H19 vs 2H18



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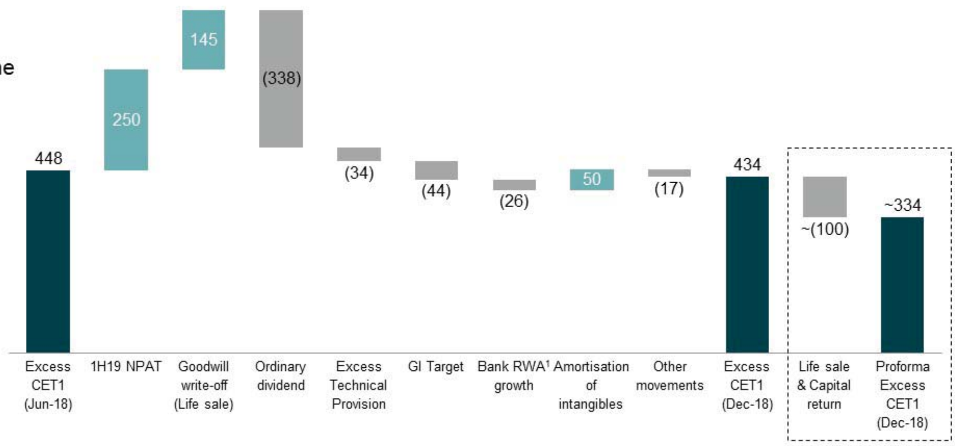
Briefly moving on to the General Insurance underlying ITR margin – presented here on a sequential half year basis. Improvements in the underlying ITR continue, reaching 12.2% for the December half.

As the waterfall shows, the key drivers of the uplift in the UITR relate to an improvement in underwriting margins, the net benefits of BIP and good expense control, despite the impact of heightened regulatory costs.

CET1 capital base ($m)

- CET1 excess of $434m
- 1H19 NPAT of $250m
- Goodwill write-off relating to the Australian Life business sale
- Reduction in GI Excess Technical Provisions due to normal seasonality
- Higher GI target largely as a result of December weather events
- The sale of the Life business and return of capital is expected to reduce Excess CET1 by ~$100m



1. Risk-weighted assets

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To capital and we continue to maintain a very strong capital position with the waterfall chart here highlighting the key movements over the half.

As you can see, the non-cash goodwill write-down from the Life sale is backed out of the excess CET1 calculation. Going forward, the Life divestment will further lighten the capital demands of the Group and reduce volatility. The reduction to capital from the tech provision primarily reflects normal seasonality and the higher GI target is a result of the December natural hazard events.

Despite the effect of adverse investment markets and natural hazard costs being above our allowance, the Board has declared an interim ordinary dividend of 26 cents resulting in a payout ratio of 81%, slightly above our target pay-out ratio of 60 to 80% of cash earnings. Even after accounting for the payment of the dividend, equivalent to $338m, we continue to hold a robust surplus with a CET1 excess of $434m.

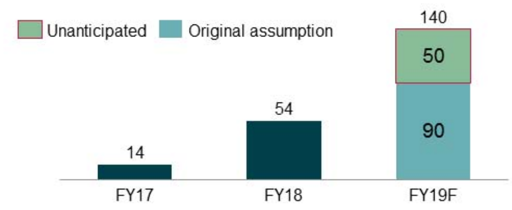
It is important to point out that this reported excess includes around $100m of surplus capital held in the Australian life business which will ultimately be paid out as part of the expected capital return. I have highlighted this at the right of the waterfall.

Before I hand back to Michael, I wanted to cover two specific topics.

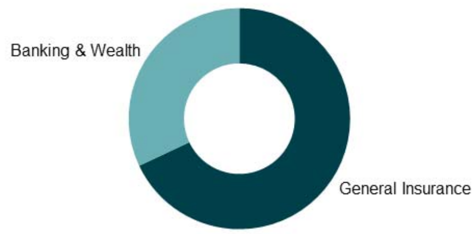
Regulatory project costs above expectations

- Projects over the half include:
  - Responding to the Royal Commission inquiries
  - CTP scheme changes across ACT, SA, Queensland and NSW
  - Delivery of ASIC requirements in the Wealth regulatory environment
  - Additional training and compliance costs associated with call centres
- Regulatory project spend expected to be $140m in FY19 ahead of expectation of ~$90m. Key projects include:
  - Responding to the Royal Commission report
  - Continuation of payment schemes data security compliance
  - Commencement of IFRS 17 compliance project
  - Code of Practice changes for both Banking and Insurance
  - Continuation of CTP scheme reforms
- FY20 likely to require elevated levels of spend to support Royal Commission recommendations

Regulatory project spend* ($m)



Indicative Regulatory project portfolio* (%)



* Forecast regulatory project spend

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First, the outlook on regulatory costs.

As Michael mentioned earlier, we had seen a doubling of regulatory costs in the first half compared to the prior period. The key projects over the half include: responding to the Royal Commission hearings, addressing CTP changes and meeting new ASIC requirements in Wealth. I've laid this all out on this slide.

At the full year results, I indicated that we had budgeted for $90m in regulatory project costs for the FY19 year.

We do anticipate further increases in regulatory costs in FY19 as the scope of projects increases, new projects emerge and as we implement the recommendations of the Royal Commission. Our preliminary estimate of these costs is around $50m pre tax, of which $10m has already been expensed in the first half, bringing FY19 regulatory project costs to around $140m.

Now I would point out that these costs relate to specific regulatory projects and in no way reflect the full costs to the Group of the increased regulatory focus.

Natural Hazards and Reinsurance

- Natural hazards costs $220m above 1H19 allowance
- NSW & SEQ hailstorm impact limited to $250m pre-tax under maximum first event retention
- Well protected against further natural hazard events in H219
  - Following Townsville floods, the remaining $97m aggregate deductible under the NHAP has been eroded
  - No recoveries made under Dropdown aggregate cover as at H119

Date	Event	Net costs ($m)
Oct 2018	Wide Bay Burnett	63
Nov 2018	NSW Severe Low	19
Dec 2018	East Coast Low	75
Dec 2018	NSW & SEQ Hailstorm	250
	Total events over $10m	**407**
	Other natural hazards attritional claims	173
	Total natural hazards	**580**
	Less: allowance for natural hazards	(360)
	Natural hazards costs above allowance	**220**
Feb 2019	Townsville Floods	97

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And finally, I wanted to spend some time covering off the impacts of the natural hazard events in the first half of the year and how this rolls forward into the second half in the context of our natural hazard allowance and reinsurance program.

As you can see from the table, we had four events in the half, each with claims costs above $10m. The total claims costs from the NSW & SEQ Hailstorm in late December have exceeded the maximum first event retention within our Reinsurance program which caps the financial impact of this event to $250m pre-tax.

These events, along with $173m in attritional natural hazard claims mean we have exceeded the first half allowance by $220m. However, as we move into the second half our natural hazards aggregate and the dropdown covers of our main CAT program, provide us with significant P&L protection.

For example, while it’s still too early to estimate the gross costs of the Townsville floods we know our costs are capped at $97m.

To further highlight this point with a worked example. If you assume second half attritional events are similar to the $173m in the first half and we do not exceed the $300m of cover under the NHAP, then full year natural hazard costs would land $130m over the allowance – a significant improvement on the first half outcome.

Moving into FY20 we propose to address natural hazards protection through a combination of increased allowance and a reinsurance stop loss cover.

Our proposal is to increase the allowance to around $820m and buy $200m of cover atop that, for all natural hazard costs, thereby effectively moving the allowance to $1,020m. Obviously an increase of this magnitude cannot be fully priced to customers in the first year, therefore resulting in a medium term impact on the underlying ITR.

With that I’ll hand back to Michael.

SUNCORP

Michael Cameron

CEO & Managing Director

Outlook – Royal Commission

- Preliminary assessment; Overarching observation is the recommendations focus on the lifecycle of customer interactions across the financial services sector
- 76 Recommendations (Banking - 17; Insurance - 15; Financial advice - 10; Super - 9; Culture - 7; Reg - 14; Other - 4)

10 Key Recommendations with potential impact	Suncorp relevant activity – completed or underway
1. Culture, remuneration, compliance, accountability	Establishment of Customer Advocate, Board Customer Committee, implementing Sedgwick recommendations
2. Mortgage broker remuneration and obligations	Seeking to preserve competition, customer choice & transparency
3. Compensation of last resort scheme / AFCA extension	Increasing capacity to respond to customer concerns
4. Regulatory approach	Addressing increased complexity of twin peaks model
5. Unfair contract terms	Continue discussions already on-foot with Government
6. Claims handling exemption	Working with industry & Government to obtain details, and determine any potential unintended consequences
7. Sales practices – Hawking	Seeking greater clarity
8. BEAR for insurance and superannuation	ADI progressing towards implementation on 1 July 2019. Well placed to extend to insurance and superannuation.
9. Codes of practice	Support in principle; seeking clarity on enforceable provisions
10. Agri lending reforms	Current practices largely align with recommendations

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Despite extensive media and market commentary around the 76 Royal Commission recommendations, it is still early days in our detailed assessment of the practical implications for Suncorp.

On the slide, we have included what we currently believe are the top 10 issues based on their potential impact to Suncorp. Against these, we have shown relevant activity that is either already completed, or we are undertaking.

Undoubtedly it will take the industry, government and regulators time to work through, and we will engage with all groups to ensure optimal outcomes for customers.

The bottom line of the Royal Commission recommendations is that companies need to put customers at the centre of the business.

This has been exactly the core of our strategy for the past three years.

Outlook – Customer

- **Foundations are now established** to convert better customer experiences into broader and more frequent customer interactions, and higher revenue
- Key to success is our growing ability to **segment and tailor propositions** to suit our customers
- **Top 5 priorities are:**
  - Consolidate to a single app for banking customers
  - Promote and leverage the reward and recognition platform to drive retention
  - Embed a single customer view across all assisted channels
  - New payments platform, open banking, transparency & choice
  - Enhancing our digital sales capability, making it easier for customers to buy online
- Well placed to deliver a **return on our investment**

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In the data pack you will see a slide that details the work we have done that will enable Suncorp to better address customer needs.

The foundations are now established to convert better customer experiences into broader and more frequent customer interactions, and higher revenue.

In short, we are now well placed to deliver a return on the investment we made.

This slide details the five key areas of capability that we have built, that will facilitate growth into the future. Any further investment will be incorporated within operational expenditure.

- In digital, we have delivered new and enhanced capability, including the Suncorp App. This is supported by an API layer that gives us exceptional flexibility. Our focus now is on New Payments Platform, open banking and making it easier for our customers to buy online.
- The reward & recognition program will incorporate location based services, tiered status, and behavioural rewards.

Key to the success of all of this, is our growing ability to segment and tailor propositions to suit our customers.

Outlook – Insurance (Australia)

Results in 2H19 will benefit from the following actions:

- **Consumer** portfolio team implemented a plan to drive **unit growth** over the remainder of FY19 and into FY20
- Investment in claims function will continue to **improve customer experience** and **claims metrics**
- **Commercial** portfolio will continue to improve **profitability** through rate increases and targeted growth
- **CTP** will leverage the benefits of a national portfolio by **optimising growth and profit** through targeted opportunities
- **Workers Compensation** to exercise **discipline in pricing** to achieve rate increases across the book
- **Reserve releases** are expected to remain **above the long-run expectation** of 1.5% of Group NEP, provided inflation remains below current average assumptions
- **Well protected** against the impact of further **natural hazard** events in 2H19 through a combination of the main catastrophe program, dropdown aggregate protection and natural hazard aggregate protection

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Turning to the outlook for the Australian Insurance business for the remainder of the year.

Our focus on retention and new business is expected to improve consumer units in the second half.

Operating expenses and claims will benefit from BIP initiatives.

Commercial will again improve profitability, while CTP and workers comp will seek disciplined growth.

Reserve releases are expected to remain above 1.5% provided the current level of inflation is stable.

Importantly, as Steve has indicated, we are well protected from the impact of further natural hazard events in 2H19.

The completion of the Australian Life Company sale will occur shortly, followed by a capital return to shareholders. We are confident of a long and successful partnership with TAL.

Our organisations are very compatible, and a combination of our distribution capabilities, and TAL's product manufacturing, will produce good outcomes for customers. Life insurance products are a natural adjacency for our business.

Outlook – Banking & Wealth

- The outlook for Banking & Wealth will be influenced by **shifts in regulatory focus, external funding pressures** and market dynamics
  - We expect **NIM to be at, or just below the bottom of our 1.8% - 1.9% range**, given elevated funding costs and heightened competition. Continued focus on at-call deposit growth and flexible funding options
- We will continue to target:
  - Sustainable lending growth, and deposit **growth above system**
  - A stable and diverse funding profile with a **NSFR above 105%**
  - A **return on CET1 capital of 12.5% to 15%**
- Impairment losses are expected to remain **at or below the bottom of the 'through the cycle'** operating range of 10-20 basis points
- Regulatory cost increases are expected to continue throughout 2H19, and combined with the competitive credit market, we anticipate **FY19 CTI to be consistent with 1H19**
- Wealth will focus on a program of regulatory change, remediation and stabilisation

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The outlook for Banking & Wealth will be influenced by shifts in regulatory focus, external funding pressures and market dynamics.

The results for 1H reflect our decision to be a leader in implementing higher standards for responsible lending. We expect the industry to align in due course.

Our digital investment will see a continuation of above-system deposit growth and that will help funding costs.

The quality of our book, and the strength of our balance sheet, will result in low loss rates.

NIM will remain under pressure, and our Cost to Income ratio will be impacted by low mortgage growth and regulatory spend, consistent with the industry.

The Wealth business will focus on regulatory change, remediation and stabilisation.

Outlook – New Zealand

- **Positive outlook** for New Zealand, market **growth expected to moderate** to lower single digit levels over the medium term
- **GWP growth** is expected to **remain above system** benefiting from corporate partner and direct channels, supported by new initiatives
- **BIP (NZ) is underway**, driving operational excellence and delivering improved customer outcomes
- **Motor claims cost inflation is moderating** across the industry. SUN will continue to address claims inflation with product changes, pricing and claims process efficiency initiatives
- **Life Underlying profit** levels are expected to be **maintained** with no significant movements in experience. Life in-force premium growth is expected to be maintained with an ongoing focus on sustainable commissions, intermediary relationships and retention
- Industry conduct and culture is under **increased regulatory scrutiny**

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The outlook for our New Zealand business is positive, off the back of high growth in the past six months.

GWP is expected to be above system, and we anticipate broader benefits from the NZ BIP program.

Motor claims inflation is moderating, in-line with industry. At the same time the team is implementing product and pricing changes and driving claims efficiencies, which will underpin strong margins.

The NZ Life business is expected to maintain its current level of profitability, as we focus on sustainable levels of commissions, and the maintenance of strong distribution relationships.

The recent Life Industry conduct and culture review in New Zealand, will lead to positive behaviour and process changes across the industry.

Outlook and FY19 Targets

- Higher Natural Hazards and volatile investment markets have dampened an otherwise solid 1H19 result
- Adjusting for these items, Cash ROE for the 1H19 would have been 9.7%
- FY19 regulatory costs, including Royal Commission impacts, expected to be circa $140m, compared with original guidance of $90m
- **For the full year, the business is well placed on an underlying basis to perform in line with original guidance**
- Maintaining a dividend payout ratio of 60% to 80% of cash earnings and returning surplus capital to shareholders

	HY19	FY19[1]
Cash Earnings ($m)	413	
Natural Hazards above allowance ($m)	220	Following the Townsville flood the remaining $97m under the NHAP has been eroded triggering recoveries under the $300m cover
GI Investment market volatility ($m)[3]	134	Subject to market movements
Regulatory costs higher than anticipated ($m)[3]	10	50
Less: Tax ($m)	(109)	tbd
Cash Earnings (including Life) – adjusted ($m)	**668**	**1,380+[4]**
Average Shareholder Equity ($m)	13,709	-
Adjusted ROE (%)	9.7	10+
Life Sale adjustments[2] ($m)	-	(31)
Loss on sale ($m)	-	(880)

1. Subject to Natural Hazards, investment performance and unforeseen regulatory costs
2. Assumes sale occurs at 28 February 2019 reflects earnings for remaining 4 months of FY19 included in original budget
3. Forecast costs for regulatory projects (including Royal Commission impacts) and investment market movements above the original unadjusted full year forecast for FY19 cash earnings
4. The $1,380m+ represents the original unadjusted full year forecast for FY19 cash earnings

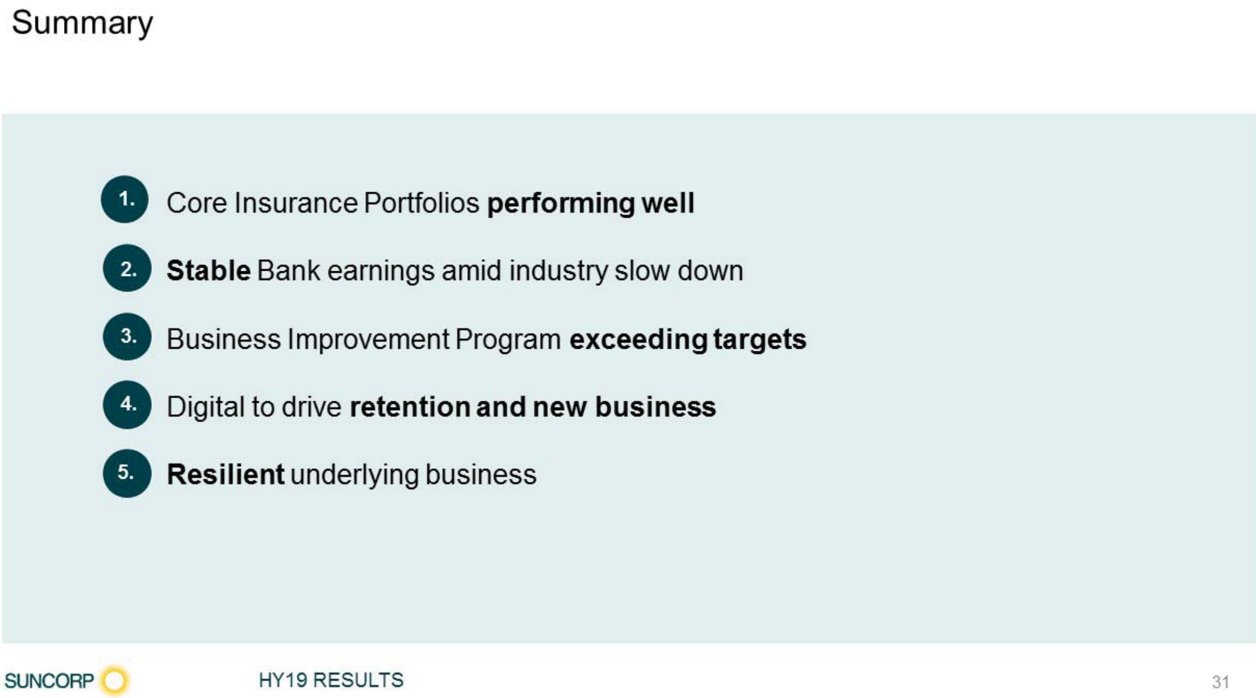
As I mentioned at the beginning of the presentation, natural hazards, investment performance and unforeseen regulatory costs will impact our full year Cash ROE.

In the first half, adjusting for these items, the Cash ROE would have been 9.7%. For the full year, the business is well-placed on an underlying basis to perform in-line with our original expectations.

We are intensely focused on driving the momentum of the business for the remainder of the year.

As we have said, we will adopt a more conservative Natural Hazard allowance for FY20. In addition to regulatory costs being $50m above forecast this year, it is likely we will also experience elevated levels of regulatory projects in FY20 to better serve our customers.

We will seek to quantify these items for FY20, together with the impact on our Cash ROE, at our full year result.



Before closing, I must acknowledge the enormous effort of our teams over the past six months.

Suncorp remains resilient in a time of intense investment market volatility and regulatory change.

The underlying performance of the business demonstrates that we know our customers' needs. It shows that we are improving the delivery of products and services in the way our customers want us to. As a result, Suncorp remains well positioned to deliver strong and sustainable shareholder returns.

Thank you for joining us today. I now invite your questions.

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