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Start of Q&A session

Operator: The first phone question comes from Kieren Chidgey from Jarden.

Kieren Chidgey, Jarden: Morning guys. Couple of questions if I can. Perhaps starting just on pricing trends around a couple of portfolios. Home, you've obviously pushed rate up there seven and a half percent but still seeing a bit of volume decline. Interested in your thoughts around, whether or not you've been running ahead of market there and the future requirements you've got there to cover higher reinsurance cost and count budget coming through that book.

And then secondly, on commercial pricing, your thoughts on the outlook there. Particularly in light of the potential business interruption claims cost, following the court decision last year. And whether or not you've actually seen higher lodgements of claims come through around BI costs.

Steve Johnston, Group CEO: Thanks Kieren, I'll kick off and then I'll get Jeremy to jump in at the end. Firstly, it's good to have you back on the beat Kieren. It's good to hear your voice again. So, on the trends in both motor and home – I just want to make a couple of points on home first because I think this is the area the market is most focused on. Over the past 15-18 months, I think we've seen probably aggregate increases in reinsurance and natural hazard costs coming through of around $350 million dollars.

To give you a sense of our pricing strategy, and this is consistent with what we've said all along, we do price to recover underlying inflation in home and that's been running around at about four percent. A bit up and down, depending on the volatility and large loss fire and the like. So we price for that, and we've set ourselves the task over the past, probably 12-15 months of trying to recover some of those significant increases in natural hazards which we believe are critical to improving margins in homes and the overall underlying ITR.

We've set about that task; you can see that in the results coming through. We've probably increased pricing to recover that head of six percent over that time. But just want to make a couple of points. Only about 50% of that has been written today, given the nature of an insurance business. And probably around 20-25% that has been earned. So there is more to do. There is more embedded in earned premium that is going to flow through from the changes that we've already made and more changes that need to flow consistent with the adjustments over the past 12 months.

So that will come through in our view. I think the comforting thing which has been the question I guess on a lot of people's minds is, how to we do this and keep our market shares where they need to be and keep our unit count where it needs to be. There's a little bit of noise in the comparers on home because of the landlord piece and some of the remediation that we were doing through Vero broker. From the consumer side, but we had very small deterioration when you wash all of that out in the home book. So we're really confident as a team that those pricing changes are coming through. And will come through the benefit of margin, in home and across the whole portfolio.

I would make the point however, and we've made the point consistently; pricing can't do all the heavy lifting and you know, we see an opportunity here to improve margin through the things that I've talked about, so our best in class claims activity is designed to drive down the cost of claims. You know, our underwriting improvements are designed to improve our loss ratios.

We probably never had a consolidated attack on loss ratios in this group for probably maybe 10 years or so and we really need to get in and understand why our loss ratios are slightly higher than the rest of the market and through the analytics we're deploying in pricing. You know, some of the new pricing infrastructure that we're putting in place, the work Paul is doing on claims. We believe that will make a meaningful contribution to improved ITRs over time. So that's the home story.

Motor - look, motor has been - motor is an incredibly profitable portfolio for us in the sense of high ITRs, good cost of capital, good cost of capital returns. We've been, you know, very pragmatic. We know a lot of our customers on the motor side have been doing it tough. They haven't been able to drive so we provided support and encouragement for them to keep their premium on foot and so we've been reasonably cautious in our approach to pricing in that portfolio while frequency has been artificially suppressed through COVID, but we will continue to broadly manage our pricing strategy to offset inflation.

Commercial, look we've seen some pretty positive trends in commercial right across the board, whether that be in the package business - I mean again, we understand that there's a lot of stress in that SME market and we're providing the appropriate deferrals but if you work your way through commercial from the package business, the increases there are you know, 5% or even above in some cases depending on whether they're loss affected renewals or not.

Midmarket, you know, sort of running at high single digits into the double digits category and obviously the top end market is where we have very minimal exposure running at premium increases considerably higher than that. So we're very comfortable with the outlook.

You asked a question on business interruption. I think we've had around 600 claims in business interruption to date and you know, a minimal tick up after the Quarantine Act disclosures and court hearings, so we're well placed to manage that through as those court, legal matters are finalised. Jeremy, did you want to…

Jeremy Robson, Group CFO: The only thing I'd add Steve, on the commercial portfolio is the headline price increases actually belie the GWP outcome. So whilst GWP has grown 3%, little over 3%, the price increases have been particularly in the short tail and long tail businesses have been reasonably well ahead of that. What we've seen however is from an underwriting perspective, we have chosen to reduce some of our aggregates which then takes the pricing back down to GWP outcomes.

So you know, pricing in that commercial portfolio is still - has still been strong for us, our second year in a row or so and I'm not sure we'd see a lot of reason for that to change in the shorter term.

Kieren Chidgey, Jarden: Thanks and if I can just pick up on one comment Steve there which was sort of related to sort of my last question around your medium term FY23 underlying margin target of 10% to 12%. You know, if we look at the midpoint of that 11%, compared to the 8.4% you've delivered this half, you've got about sort of 260 basis points to make up. I presume you're not counting on bond yields picking up over that timeframe so I'm just wondering if you can talk at a high level around where the heavy lifting will come from within that expense management as opposed to claims initiatives relative to pricing.

Steve Johnston, Group CEO: Look, again I don't want to get into the granularity of it all. There's three components to it. There will be the earn that comes through or the pricing adjustments that we're already made. We will continue to assess the portfolio to see whether there's more pricing that's necessary to work its way through within the broad parameters of how we're trying to manage our unit count in the portfolio and then there will be the heavy lifting that will be done by Lisa and Paul around loss ratios.

Now you know, where we are today and where we want to get to, it may well be 50/50 between those two components but again, the pricing dynamic is one that we can prescribe in a future sense but we really have to be conscious of the market environment and we are very cautious around that to make sure that while we're putting pricing through, we don't want to see a deterioration in our market share to the extent that that puts our future franchise at any risk.

So we are very careful. The point I'm making is that pricing can't do all the heavy lifting. There are performance improvements that we need to embed through underwriting pricing, expenses and claims to lift that ITR to the targeted range.

Jeremy Robson, Group CFO: Steve the - in the OpEx chart we've shown today, yes we're looking for improvements in claims ratios, pricing, et cetera. We will also get improvement out of the operating expense ratio because holding costs flat at $2.7 billion on a growing business also gives us improved operational leverage which goes to improving that underlying ITR.

Kieren Chidgey, Jarden: Great, thank you guys.

Operator: Thank you. The next question comes from Andrei Stadnik from MS. Please go ahead.

Andrei Stadnik, Morgan Stanley: Good morning. I wanted to ask two questions please. Firstly, in terms of how you're thinking about the excess capital, but what are some of the signposts that, you know, shareholders should be looking out for in terms of how you're going to decide when to give back the excess capital and what are some of the initial timeframes? Is it June half or December half? Or is it more something into next year?

Steve Johnston, Group CEO: Let me give you some high-level parameters. The first one is we're usually reluctant historically and I think it's understandable that you know, we've historically not undertaken any capital management half year. That is right in the middle of our - typically in the middle of our natural hazard peak season so we're usually pretty cautious and that is the case this year as well.

I think there are some things that, markers that we need to take into account over the next six to 12 months, probably more in the six month period they'll be you know, the unwind of some of the Government support that's flowing through the economy now and I think it's appropriate for us right across our provisioning and into our balance sheet more broadly around our excess capital for us to be reasonably cautious about that and the broader economic outlook that flows from that.

Generally, our principle here is that you know we don't intend to be holding this level of capital obviously for an extended period of time. Our focus has always been to provide that consistent payout ratio between 60% and 80% and to date, even through the depths of the pandemic, we've been able to adhere to that which I think is something we're really proud of, to be able to have managed our business through this tumultuous period through the prism of our payout ratio.

Then the extent to which we don't need the excess capital, the operational businesses aren't demanding it, then our intention would be to return that to shareholders. Now whether that's in the next six months or the next 12 months, it's a bit difficult to be precise but that is our intent. We've demonstrated before and we'll do it again.

Andrei Stadnik, Morgan Stanley: Thank you and if I could ask a second question, just on the Bank, very strong outcomes in terms of margins, margin is up and basically provided some colour but just wanted to ask, the seven basis points benefit from lending funding spreads, can you explain a little bit more because generally speaking, seems that front book competition tends to be a bit of drag in terms of mortgages so where did the movement in lending funding spreads come from for you in this half and did you expect the benefit from the switch to local deposits to continue into the second half?

Jeremy Robson, Group CFO: Thanks Andrei. So I mean the seven basis points is largely due to yes, not passing on that cash rate earlier in the or later in last year and so we've seen mortgage rates hold up and funding costs come down effectively. That's what contributes to the seven basis points. You're right around the front book, back book - there are dynamics there but for this half we've just been through, that dynamic of the cash rate fall outweighed that. We'd expect to see some of that going through into the next half but on the other side of it, is what's happening with the deposit portfolio and we have seen over this half the deposit rates have come down. That will help us into next half.

Look, a key part of our differentiator relative to others we think has been our growth in the deposit accounts, particularly the transaction ones. Everyone I assume will have experienced the benefits from the - what's happening to the market rates but for us, it's been net growth in, growth in deposits and you know, that is still a key part of our strategy going forwards.

Andrei Stadnik, Morgan Stanley: Thank you.

Operator: Thank you. The next question comes from Andrew Buncombe from Macquarie. Please go ahead.

Andrew Buncombe, Macquarie: Hi guys, thanks for taking my questions. Just speaking with the Bank, differentials obviously have been very strong this half and then - and I've noticed that you haven't included your historical 185 to 195 range in the document. How should we be thinking about second half NIMs? Thanks.

Jeremy Robson, Group CFO: I think, you know at this stage - there's obviously a lot of moving parts in the margin line but at this stage, I don't know that we'd expect to see massive amounts of change. I think some of those dynamics will continue into the second half. We will see probably some of that back-book front book pricing play through but equally as I said before, we'll see some of that improve spread on deposits roll through.

So I don't know that we're going to be able to maintain a 204basis point margin but equally some of the dynamics are still supporting a margin that's probably a little bit above the top end of the range for the second half.

Steve Johnston, Group CEO: Yes and Andrew, don't read too much into us not including that margin metric in there. I think what we've tried to do in terms of, you know, the Bank - Bank strategy is very clear and Clive and the team are focused on executing to it and whichever way you look at it, whether it be through margin or expenses, the key to us to get to a Bank performance that we're satisfied with is built around a cost-to-income ratio of around 50% and that means we've got to be focused on the cost side and the expense side but also get the revenue growth that we expect to get through both our lending and deposit work.

So it's an effort to simplify it. The underlying metrics probably don't change too much below it.

Andrew Buncombe, Macquarie: Excellent and then just my other question was on New South Wales CTP. At a Group level your reserve releases have been very strong again this half. I understand it's broadly reflective of the Queensland the New South Wales CTP portfolio. Can you just remind us how you're accounting for those excess earnings in New South Wales and whether you're already putting aside provisions for excess returns? Thanks.

Jeremy Robson, Group CFO: Yes, so look, we - I mean we are still taking a reasonably conservative prudent position on the new scheme, New South Wales. We are reserving to below the caps so we don't need to provide for any surplus return beyond that, but obviously that's' something that we will continue to keep a watch on, but the reserving we do apply to the New South Wales new scheme is below the cap.

Steve Johnston, Group CEO: I'll just add to that just to reinforce the strength of our reserve position, across those long tail portfolios which probably differentiates us in the market, you know obviously we've got the exposure to Queensland CTP and the reserving position that we have there is very conservative and prudent and the extent to which the fundamental assumptions are embedded in that reserving where the underlying inflation or superimposed inflation doesn't flow through and it hasn't been. That's to the benefit of our release profile and again, the position in New South Wales where we have residual reserves that are sitting against the old New South Wales scheme that continue to see releases running through it.

It does - it is a big differentiator in the market. Obviously over time we expect those releases to come back to the 1.5% of NEP that we flagged but at the moment, it's pleasing that we are seeing those releases continue to be elevated relative to our longer term guidance.

Andrew Buncombe, Macquarie: Great, that's it from me. Thank you.

Operator: Thank you. The next question comes from Siddharth Parameswaran from JP Morgan. Please go ahead.

Siddharth Parameswaran, JP Morgan: Thank you very much. A couple of questions if I can. Firstly, just on the underlying margins, just a 7.1% figure for this half and the drop from 11% in the second half, excluding the COVID impact. Jeremy, you mentioned that there was some seasonality, but I'd asked the question six months ago whether there was any seasonality and you said no.

I'm just curious, has anything changed in your thinking around that, or is it just the drop that's made you, I suppose, attribute the drop to seasonality? I hope you can just give some comfort around whether there is or isn't seasonality in those numbers?

Jeremy Robson, Group CFO: Yes, look, it's obviously a good question, Sid, because we have seen more of a drop in that underlying margin from the second half exit point to the first half number. There were two or three key drivers to it to explain the difference.

One is what's happened with the investment income and particularly our inflation linked bond portfolio. So, we've had terrific market-to-markets on inflation linked bonds, but the carry on an inflation linked bond above risk free was very strong last half and has turned into the negative this half, which, as I've said, has been offset by strong management performance this half, but last half we had both. So, that's a relative negative, comparing the first half last year to the half-on-half number, which gives a larger drop, in terms of the exit margin to the 7.1%.

The other one is, look, there is, when we look back at particularly Home and we look back at things like fire, we have seen a little bit of what we think is seasonality in the Home portfolio. That's accounted for some of the residual difference between the two, PCP and half-on-half numbers. So, probably is a little bit in there around fire and a little bit from the investment market performance.

Steve Johnston, Group CEO: I think, Sid, the only other technical seasonality element in the underlying ITR calculation is that when you're doing the first half valuations, you're doing them effectively in September and rolling them forward to December. So, for the current year, margin impact, the actuaries are really only looking at three months of experience. Whereas the follow-on valuations in second half, they've got nine months to assess.

Now, when the business is performing well, as it is at the moment, obviously the first half versus second half can be slightly different.

Siddharth Parameswaran, JP Morgan: Okay. Thank you for that. Just some clarifications around what's happening with frequency on Motor. Yes, obviously there's a benefit in this half. Just and you mentioned also that you're being very careful on pricing as well, just on that portfolio.

So, maybe if you could just comment on whether we should expect a similar benefit in the second half and also whether we should expect higher prices to come through now on the Motor portfolio, to make up for the fact that you possibly weren't keeping up with underlying inflation?

Steve Johnston, Group CEO: Yes, look, it's a very competitive motor market, so I don't really want to say our intent on pricing, but clearly, the extent to which there's obviously a very high correlation between the extent of lockdown and frequency, I mean, that's understood.

So, through New Zealand and in through Australia, where we've had the broader lockdowns, but also the geographic regional lockdown, we've been able to track very deliberately frequency adjustments, relative to whether it's in stage four restrictions through to restriction level one. So, we're very familiar with that.

As a general principal, in most jurisdictions, as the economy starts to open up again, as people become more comfortable and the restrictions become less and the lockdowns become less, we're seeing frequency revert pretty quickly back to its pre-COVID levels, and in some areas slightly pick up above that. The explanation for that, as you would expect, is that people are deferring to private transport, as opposed to public transport during this period of time.

So, yes, there are quite significant movements in frequency, to some extent in this second half will depend on the extent of any restrictions or lockdowns. We hope there are none, but obviously it's very sensitive to that. Again, as I mentioned before, we're very sensitive to pricing in the period of time where people are using their vehicles less. But we do need to account of potentially increased frequency movements going forward.

Siddharth Parameswaran, JP Morgan: Thank you. Just one final question if I can, just on business interruption. You flagged that $2.7 billion of exposure for the Quarantine Act and certain prevention of access causes, could you just comment on what percentage of your total business interruption in business that actually relates to and also just why that you're confident there's no additional exposures to what's remaining?

Steve Johnston, Group CEO: Yes, Sid, look, maybe articulate it as the way we have approached the provisioning for business interruption, if I maybe say what we haven't provided for and what's not included in those exposure numbers. Obviously with the exposure numbers, there's complexity around making sure there's no double count between Wave 2 for Victoria and Wave 1 nationally.

But what we have not provided for, so what's not included, are exposures, policies that's got a Biosecurity Hazard Act exclusion. As I said, we feel very confident with those, given the Vanilla Lounge judgment late last year. So, we haven't included any provisioning for those, other than that general $20 million of provisioning for potential legal costs that we might need to cover as we go forwards.

Then the other key type of policies that we haven't provided for are prevention of access policies, where there is a requirement for physical damage to the property. Again, we feel quite confident around that, as an exclusion that works. Other than that, we've included everything in our provisioning, Quarantine Act, as I said, those other prevention of access policies that don't limit themselves to physical damage.

We've obviously made a number of assumptions around what sits in there, by way of industries, on each lockdown, et cetera, and made assumptions around JobKeeper. But, based on the views and positions we've got around the Biosecurity Hazard Act and prevention of access physical damage, we feel quite confident that those reserving numbers are pretty reasonable, in terms of the exposures that we've got.

Siddharth Parameswaran, JP Morgan: Just to be clear, nothing that's being tested in the second test case actually relates to those clauses that you're confident on, right? Because the industry's lost a lot of things they were confident on before, just want to be sure that there's nothing in the second test case that could change to your policies that you haven't accounted for?

Steve Johnston, Group CEO: A fair question, Sid. Look, there are some things that are being tested that would have a very modest impact on the numbers. So, put another way is that most of the things that are being tested wouldn't impact the number. So, it's possible there would be some specific ones that we won't go into, but some specific ones that might have an impact, but they would be modest.

Siddharth Parameswaran, JP Morgan: Okay, thank you. That's very clear. Thank you very much.

Operator: Thank you. The next question comes from Ashley Dalziell from Goldman Sachs. Please go ahead.

Ashley Dalziell, Goldman Sachs: Thanks and good morning. First question, just coming back to the excess capital discussion and some of the catalyst, I suppose, that you spoke to in and around potentially deploying that capital, I just wanted to be quite clear that we shouldn't be expecting closure, or finalisation of the business interruption legal process to be a major catalyst for you in your decision process around that excess cap?

Steve Johnston, Group CEO: Look, Ash, I think, no, I don't think, given the strength of our position, that it will be. Obviously, a bit reluctant to be definitive about any of these things. As Sid mentioned in his previous question, the law potentially has moved in interesting ways in its consideration of these things.

We are very strongly of the view that, as Jeremy just mentioned, the biggest variable for us in the business interruption piece was the Biosecurity Act and the test around that. We're very confident in our position.

So, I would describe that the answer is no, but again, I just put that caveat around that we have a very strong capital position, we've proven that through the whole process of the past 12 to 18 months. We'll always take a very cautious prudent approach to it, to make sure that we're well-covered for any potential outcome, as extreme as it might be.

Ashley Dalziell, Goldman Sachs: Okay, thanks. Second question, just on bank asset quality. I was hoping you might give us a bit of an update in how you're thinking about the CP overlay for COVID, particularly in the context of the macro assumptions that were underpinning that overlay and the trend and deferrals that you've seen through that half. Yes, thoughts on how you're tracking there and is that something that might be under review at the full-year result?

Steve Johnston, Group CEO: I think, a bit like our capital discussion, I think it's appropriate and prudent for us maintain that collective provision and aggregate. I think there's clearly more positivity flowing through some of the economic assumptions that we embedded in that model, probably in the depths of COVID. So, we have been through a process of reviewing them.

We've made some adjustments to probability distributions, which has sort of landed us in about the same position. It's a bit like the capital discussion we had, obviously there's a couple of interesting material changes to the economy that will flow through over the next six months and we'll be very conscious of them flowing through, see how the economy manages through that process, how credit quality moves through that process and review it at the full year. Jeremy, do you want to…

Jeremy Robson, Group CFO: No, I think that makes sense, Steve. Yes, look, we've got a prudent position and I think what we want to see is what happens after March and the government benefits come off and when the rest of the banks roll off their COVID deferral packages. I think it's sensible for us to wait and see what happens.

Ashley Dalziell, Goldman Sachs: Okay, thanks. Just a final one on the Bank, if I may. Obviously, a lot of discussion today about the strong margin, but you still seem to have aspirations to be growing lending again and turning that around pretty quickly.

Based on some of the early success you called out on the lodgement volumes, do you envisage a scenario where you can be growing, lending in this environment without too much detrimental impact to the margin?

Steve Johnston, Group CEO: Well, thanks, Ash. A great opportunity to ask Clive to jump over to the podium and for his first results presentation and go through the key elements of his winning in home lending strategy.

Clive van Horen, Banking & Wealth CEO: Yes, sure. Thanks, Steve and thanks for that question. So, certainly our goal is to be growing our home lending portfolio and we are encouraged by the increase in the early stage of the pipeline. We're tackling it in, as you would imagine, a very broad-fronted way. There's multiple elements to how we are tackling that, across the broker channels, distribution channels, our service levels and so on.

The home loan book has been shrinking, so negative 1.6% in the half. Certainly, our goal would be to see that turning positive in the next six months and we're working pretty hard to that.

Ashley Dalziell. Goldman Sachs: Okay, thanks, guys.

Steve Johnston, Group CEO: Thanks, Ash.

Operator: Thank you. The next question comes from Nigel Pittaway from Citi. Please go ahead.

Nigel Pittaway, Citigroup: Good morning. Just first of all, just trying to delve a little bit more into how we should be thinking about the underlying margin in the second half. I mean, presumably we take the starting point at

7.1%. You might get a little bit of motor frequency benefit, but sounds like nothing like the 130 that closed during in first half.

You've then got obviously the flow through into earned of the rate rises, particularly in the consumer portfolio and the commercial book and it sounds like a bit of increased expense, as well. Am I right on that last point and is there anything else we should be thinking of, in trying to think through how we roll through that margin into second half?

Steve Johnston, Group CEO: Yes, thanks, Nigel. I mean, if we look at the traditional way we've broken down that underlying margin movement, we'd obviously expect the natural hazard and reinsurance number to remain unchanged from the first half. Investment income, in terms of yields, obviously yields seemed to have bottomed.

Maybe there's a little bit of positivity from this inflation linked bond carry that might come through in the second half, relative to the first half. But I think the story will be on those two lines you've called out, which is the underlying margin and, as you've said, we should see some of that earn on Home coming through. We're not supposing at this stage that we'll get frequency on motor, and yes, we will have higher costs in the second half. You can see from the expenses chart we put out there that costs will be higher in the second half.

Nigel Pittaway, Citigroup: Okay. Then also on insurance, the one thing that just stands out is that you're still getting reserve releases from workers comp when obviously some of your competitors' industry commentary is suggesting increased claims duration, psychiatric claims, et cetera. Why do you think you're able to defy the industry trends so starkly in terms of that portfolio?

Jeremy Robson, Group CFO: I think Nigel, it in part comes down to the portfolios and the geographic location of those portfolios and releases. We've had some good experience in the Northern Territory, but we also equally had some poor experience a number of years ago, so we're probably just seeing some reversion of some of that. Then we've got exposure in Western Australia and the economy over there has been doing pretty well, and I think some of those things that you've referred to thus far have been less significant. It's something obviously that we're watching but it's definitely not something we've seen any particular trend on to date.

Steve Johnston, Group CEO: Heavily - disproportionately exposed to Western Australia, mining and we did a big piece of remediation work in the Northern Territory book 2.5 years ago. I think that's probably - add that all up, it's probably the reason why we're seeing different experience to the rest of the industry.

Nigel Pittaway, Citigroup: Okay. Then maybe just finally, turning to the Bank. Obviously, you've got this medium-term aspirational target of cost-to-income ratio of 50%. It's an aspiration you've held for a substantial time now. I take it obviously system growth is low at the moment and you are working on the cost, but the cost-to-income ratio went up again sequential half-on-half, so I'm sure there's going to be a lot of healthy scepticism about your ability to get there. Is there anything you can give us to give us some as to why it is actually achievable rather than just an aspiration that you hold for a while but never really get to?

Steve Johnston, Group CEO: Well, I think I'd add - I understand and I accept healthy scepticism and probably understandable scepticism, Nigel, given this commitment has been around for some period of time. I come at it from a very top-down approach which says for the Bank to earn above its cost of capital, it has to get cost-to-income ratios around 50%. It goes a bit beyond an aspiration; it's a precondition for the Bank to be generating the sorts of returns that we're looking for. It's a two-part story.

Now, one of the things that the organisational changes that we've made and the structural changes we have is that we are looking to stand the Bank as end-to-end as it can be, so that between Clive and Jeremy they can agree this is the cost base of the Bank and it will be as proximate as can be to its like-for-like competitors in regional banking land.

Then the other key theme is focused on revenue. We've done a good job on the deposit side of the book using digital, but we've got a lot more work to do on the lending side. Aspirationally, Suncorp Bank should be able to grow ahead of system, not multiples of system but ahead of system.

I think a focus on revenue growth, continuing to leverage the great work that's been done on the deposit side, utilising the digital infrastructure that we've put in place, transition that out of deposit side into lending with a focus on revenue growth there and this determination we have to right-size the Bank's cost base relative to its peers, I think puts us in a planned sense where we need to be.

Having had this commitment for a long period of time, I understand the scepticism. We ultimately won't be supported around our ability to get it until we get it or get on the pathway to deliver it. Execution is absolutely top of the list. Clive knows that; we all know that. We're all supporting him to do that and he's got his whole team aligned around this commitment. I understand the scepticism but it's where we need to get to.

Nigel Pittaway, Citigroup: Okay. Thank you very much.

Operator: Thank you. The next question comes from Matt Dunger from Bank of America. Please go ahead.

Matt Dunger, Bank of America: Thanks very much. If I could please just follow-up on the last question around the cost-to-income ratio. Why not look to an absolute cost target? If you could talk to us about the improving settlements, why isn't that translating to home loan growth, is there a retention issue in the book?

Steve Johnston, Group CEO: Yes. I might actually get Clive back up to talk to both those points, actually. I think we are very encouraged by the improved lodgement piece but in summary, there's been an advanced level of paydowns that I think the whole industry is seeing, and that means you've got to pedal very hard on lodgements to keep your balance sheet growing ahead of the repayment schedules. Clive, you might like to...

Clive van Horen, Banking & Wealth CEO: Yes, spot on Steve. Just to build on that, when we look at our run-off rates and run-off is a combination of a few things. There's customers repaying their loans as normal, there's customers refinancing loans away from Suncorp Bank, and it's properties being sold. When we look at the run-off rates for the last half, they were absolutely elevated and in the last quarter they were extremely elevated and if we were to normalise the run-off rates to the average of the last three years, then our book would have been flat for the last quarter. Clearly, that's not something we just put our hands up in the air and say woe is me.

We have a lot of work going on to address that run-off issue and proactively be there for customers when they do sell a property, for example, to make sure that we are in their consideration set for the next property that they may be purchasing, having sold their first one. Run-off is absolutely a big issue and the buoyance of the property markets, whilst it has many other benefits, does mean that there's more churn right across the industry and that's something that we're seeing at the moment.

To the earlier question about cost-to-income, yes, absolutely it's an income and it's a cost problem. The one point I'd add to what Steve mentioned earlier is around digital, the big shift to digital, and the store optimisation we're doing. We've moved from 160 stores or branches five or six years ago to 93 as we stand here. We've closed 20 in the last half, and doing that in a very careful way, very considered around access of those customers to other banking options, whether it's Australia Post or another Suncorp outlet. That's a process we will continue.

We will continue to optimise that footprint as the shift to digital happens. We've seen a massive reduction in customer transaction activity over the counter doing very simple, mundane things. We'd much rather that we do higher value-add activity in our stores and branches, home loans, small businesses and so on.

Matt Dunger, Bank of America: Thank you very much. If I could just follow-up on New Zealand Life insurance. If you could talk to the favourable mortality and income protection experience that you're seeing there, how sustainable will that be versus what's in your planned profit margins?

Steve Johnston, Group CEO: I'll hand to Jeremy in a minute, but we're delighted to see the performance of the New Zealand Life business. As an ex-CEO and CFO of the life business in Australia, Jeremy, you might like to come in on the favourable trends.

Jeremy Robson, Group CFO: Look, we obviously haven't changed our plan to profit margins in the numbers but yes, I think mortality has been a trend more broadly. I think what we put that down to is with COVID-19 the corollary of COVID is that people have been more distanced, there's been less colds and flus, et cetera, so that has had we think an impact on mortality. I wouldn't necessarily think that's an everlasting positive to our planned assumptions.

On income protection, maybe there is something there in the sense that we've worked hard at closing on claim policies so that is a management action, so maybe there is some positivity there and we'll review our plan margins going forward. I think it has been a very strong half for us in New Zealand Life. I'm not sure we're expecting that to repeat to that extent again.

Steve Johnston, Group CEO: I'm just reluctant to bring Jimmy in, given the technology, but that's pretty much what he would have said, I'm sure.

Matt Dunger, Bank of America: Thank you very much. That's great.

Operator: Thank you. The next question comes Matt Ingram from Bloomberg. Please go ahead.

Matt Ingram, Bloomberg: Hi there. Thanks, all. Sorry if I'm going over a bit of old ground given I'm at the end of the queue. I just wondered if we could just circle back on the provision expenses, obviously with a good normalisation this half. Just two questions on that.

The first is you said you had already revisited the general provision and you were happy. Just looking at the way things are rolling off from the deferred book and your expectations of how JobKeeper rolling off is going to impact that, to what extent are the overdue loans tracking better or worse than you thought as that deferred book rolls off, and to what extent are you assuming things get better rather than worse despite the JobKeeper rolling off sometime potentially this year?

Jeremy Robson, Group CFO: Well, I think it goes to the prudence with which we set the original assumption. In setting that original general provision assumption we had presumed there was quite a lot of migration of customers into hardship that hadn't necessarily happened at the time of setting the reserve. From a reserving perspective, we certainly don't think that any of the migration of customers into more sustained hardship once the COVID deferrals come off is going to impact at all on that provision.

Having said that, there's obviously still uncertainty ahead around what happens when JobKeeper, JobSeeker, et cetera comes off, but we do feel pretty confident that we've got those sorts of future outlooks, migrations et cetera, covered in the provisions we've got. We have seen quite a small number of customers who were originally on deferrals and have come off deferral and through into the hardship process and into overdues and arrears, but it's been a relatively small number. Of the residual customers we've got on deferrals, the 1%, 1.2%, here we would expect some of those to also go into hardship. We would expect that to be a smaller number based on the conversations we've been having with those customers.

Matt Ingram, Bloomberg: Okay, that's great. Thank you. If I have time for one quick final one, obviously the risk-free rate is now basically zero. I just wondered if you could clarify for us please what a cost of equity looks like with that risk-free rate of zero.

Jeremy Robson, Group CFO: We would estimate that the spot number at the moment is somewhere between 8.5% and 9%, depending on how the risk margin is moving to the risk free. It's worth noting that with the cost of equity - as everybody would probably know, the cost of equity certainly hasn't changed as much as the risk-free rate has changed over the last two or three years as the equity risk premium just increases to offset that lower discount rate. In point of fact, the cost of equity probably hasn't changed too considerably over the last three years, notwithstanding a considerable drop in yields.

Matt Ingram, Bloomberg: Okay, that's great. Thank you very much.

Operator: Thank you. The next question comes from Doron Kur from Credit Suisse. Please go ahead.

Doron Kur, Credit Suisse: Hi. Duron Kur, Credit Suisse. Congratulations on a great set of results today, but a few questions on the insurance business, please. Firstly, just on CTP. That's been coming down over the last few years. I saw that you commented that that has plateaued now, so should we expect that to be relatively flat going forward?

Steve Johnston Group CEO: I think to some extent the aggregate CTP numbers reflect the longstanding strong market share we've had in Queensland CTP where we have for previous periods had over 50% of those schemes. It was inevitable, I think, that we would see some deterioration. It's very pleasing that we've grown units in Queensland CTP. We do have ongoing discussions with the regulator around profitability there and making sure the assumptions that are embedded into the ceiling pricing and the Queensland CTP scheme are appropriate for the longer term.

For us to be able to grow into that book we need to get confidence around not only the reserving position that we take into the pricing but also the current year margins. It is good to see that market share stabilise and start to pick up a little bit.

Generally across the board we'll - in South Australia, you know, it's very sensitive to your NPS for your claims performance, which is quite an interesting phenomenon in a long tail scheme where pricing can be very similar across the three or four competitors in the market, but the fact that you might be rated number one or two in NPS for claims is a big differentiator for growth.

So again, very focused on making sure that our claims performance is putting us in that number one or two position. In New South Wales it is very - and ACT - very sensitive to your price point, not as prescribed a pricing regime as Queensland or South Australia are, so our aggregate position across the board is to see if we can grow. We are the number one statutory scheme performer in those personal injury businesses.

So our overall strategy there is to drive good top line growth, you know, appropriately balancing risk with unit count but the big challenge and the big opportunity is in Paul Smeaton's world which is claims. You know we continue to run particularly in Queensland at above 100% of the scheme average for our claims performance. Now if we can get that down below 100 which is our target, and we're on a good path and good trajectory to do that, then you'll see improvement in current year margins and releases out of those reserves.

So growing units profitably, bringing down costs, driving our performance relative to the scheme, opening up reserve opportunities and improving margins. That's the strategy in long tail.

Doron Kur, Credit Suisse: Thank you. That's very clear and if I can ask another one more generally on the commercial side of the business in SME, saw a comment there around some lower retention. That's typically quite a competitive space. How do you see that going forward specifically with when some of the stimulus comes off?

Steve Johnston, Group CEO: I might invite Lisa Harrison to come up to the podium.

Lisa Harrison, Insurance Product & Portfolio CEO: Thanks for that. Yes to your comment, it is a very competitive market that one. In terms of from our perspective, we are making investments to strengthen the proposition, help us be more competitive, appeal to both brokers and customers which should help us arrest some of the retention challenges that we have had in this half. That being said, I still think we've got competitive pricing, a good product and we'll continue to build on both product pricing and our underwriting capability to take us forward.

Doron Kur, Credit Suisse: Thanks that's great and do you think new business might still be challenging going forward? Just given the economic environment for insurers in general.

Lisa Harrison, Insurance Product & Portfolio CEO: So SME is competitive and I can't sit here and predict what's going to happen when things like JobKeeper comes off. Obviously the SME market was impacted quite significantly through COVID, however we have seen still good momentum in that portfolio. We've seen a little bit of rate go through. So I'm probably cautiously optimistic.

Doron Kur, Credit Suisse: Thank you very much. Sorry if I could ask just one more small more technical one maybe. I noticed commissions were lower. So this is more across the board for Australia and New Zealand. Sorry if that's a basic question, just wondering how you achieved lower commissions? Is it just through higher GWP or was there something else in there?

Jeremy Robson, Group CFO: Two key drivers. One has been the ongoing remediation if you like of our consumer broker portfolio. So we've seen units and growth shrink in that portfolio which inevitably comes with lower commissions so it's just a corollary of lower growth in the consumer channel here in Australia. Then the other element has been in New Zealand where we have seen some commission changes to some of our corporate partner arrangements during the half.

Doron Kur, Credit Suisse: Thank you very much.

Operator: Thank you. At this time, we're showing no further questions via the phones.

Steve Johnston, Group CEO: Okay. Well I thank everyone. I know it's a busy day with a number of reports again, thanks everyone for your participation. Thanks to the team again, we're very pleased with the result. We accept the fact that this is just one benchmark, very consistent with what we said we were going to do. I believe we're on the track to delivering to that but we know that there's a lot of work to do to execute to the ambition that we have over the next two years. So we thank you for your time and wish you all well. Thank you.

End of Transcript