Start of Q&A Session

Kelly Hibbins, Head of Investor Relations: Great. We'll take questions from the room. First, James?

James Coghill, UBS: Good morning. James Coghill, UBS. I'll start on the business improvement program Michael, if I can, and to ask the first fairly obvious question there, why was the basis for the $2.7 billion changed? The measurements of the $2.7 billion changed to exclude FSL?

Michael Cameron, CEO & Managing Director: Yes. Well firstly I'd point out the FSL cost moves fairly dramatically period on period. Secondly, I'm sure you'll agree, it's not appropriate to include them in the calculation of the total expenses. We may have been a little unclear on whether it was in or out in previous discussions but we are committed to $2.7 billion as an expense base for FY19. So, there's a key component in delivering in the 10% ROE for FY19, which we have confirmed today. So sorry if it's sort of misled you.

James Coghill, UBS: Okay I would - I mean the basis was made quite clear in your previous disclosures. It was always inclusive of FSL, so something - I mean something has changed. You haven't changed the dollar value of your savings that you expect to come through. So, the follow-on question to that is, if you're at $2.7 billion already ex FSL, why haven't you reduced the $2.7 billion target for financial 2019? Because you've still got OPEX benefits coming through that should reduce it?

Michael Cameron, CEO & Managing Director: Well there's obviously growth in the cost of the business around inflation and just volume growth incorporated in that. The goal of the business improvement program is to firstly improve customer services but also to deliver a significant savings which will allow us to maintain a flat expense base of $2.7 billion at the same time that the business continues to grow quite rapidly.

James Coghill, UBS: Okay, so what you're saying there is that there actually is other cost growth coming through that will offset the benefits. Because I mean the number - I don't want to forecast what FSL into next year is but it's $130-odd million in this past year. There's still going to be FSL there next year, okay, and…

Michael Cameron, CEO & Managing Director: Yes.

James Coghill, UBS: …we've got a cost base that's going up. So you've actually shifted the outlook for operating expenses in how you've disclosed it today.

Steve Johnston, Chief Financial Officer: Yes, look James, I reiterate Michael's point. I mean there's certainly no intention to mislead here and if I was to put one perspective from us back on the table, FSL has been a moving feast over the past 18 months to two years. It's been - the government indicated it was coming off, then for a period of time we were working towards that and then it came back on. So, it's been in and out. I think as Michael said, I don't think there's anything that's untoward about the logic of not including FSL in the expense base other than for the purposes that you're using it for, which is to model.

I mean we recognise that there is going to be underlying growth in the expense base from regulatory costs. I mean clearly they will increase year-on-year. Maintenance costs around all of our infrastructure continue to go up and we've got obviously increases in major inflation that are borne in any business. Now we obviously have got BIP commitments coming through.

They are a big tailwind to our OPEX base, but also our claims base and so our intention would be to drive that OPEX number down below $2.7 billion excluding FSL. It is one category of build-up of the financials that gets you to our ultimate target of 10% return on capital. So, it's one metric to look at in there and I accept the fact it's been difficult for you to model because of the way that you've looked at FSL over the past two years.

James Coghill, UBS: Is it possible to say what FSL will be approximately next year so that we can understand what the comparable…

Steve Johnston, Chief Financial Officer: Very happy to work through that with you this afternoon.

James Coghill, UBS: Okay and then one other question on the BIP. So, when I look at the improvements that have come through and exceeded your expectations by $40-odd million, they haven't really come through OPEX. They have come through claims. So, claims are running at about $70 million compared to $39 million was the expectation. So, the outlook there is around $30 million. So, is it fair to say that the improvements in BIP overall has been fairly narrow and focused in one particular area? Because when you comment on the claims, it's mostly about passing. So that's the first question. Is it fairly narrow? Is it really just the motor claims part that's driven your BIP improvement? Secondly, could you just comment on the sustainability of that number into next year around all the dynamics affecting passing in the motor business?

Steve Johnston, Chief Financial Officer: Look James, it's a three-year program and I think you've got to look at it over the totality of the three years and it will move around during that period of time. I think the best indication that we've been able to provide at the highest level is that we expect of the total BIP benefit stream, half of it will go to claims and half of it will go to OPEX.

It's true this year it was more biased, a little bit higher than that to claims and it may well be the case again in FY19, but over the totality of the program, the two things you've got to take into account, it will move over the three years, the timing of the programs that come in and out of the BIP program will impact claims and OPEX at different pace, and what you'll get in FY19 is a bit the same as what you got in FY18. When you're doing these big programs of work, you've got to invest up front to get the benefit in the second half. So, I'm expecting there will be some upfront investment again in FY19, even though the program is rolling through, that will drive higher cost in the first half with benefit realisation disproportionately the second half.

I still think over the three years of the program, we think it will still be largely 50/50 with the OPEX base allocated as per our usual rule, 70% to insurance, 30% to bank.

Michael Cameron, CEO & Managing Director: So, I think what you see today is clear evidence that the benefits of BIP are emerging. Had a major impact on our claims cost. You can see it in our expense line as well. We've got that $187 million run rate locked in for FY19. So, if we stop the program on 1 July, that would emerge in 2019.

James Coghill, UBS: I accept that Michael…

Michael Cameron, CEO & Managing Director: Yes.

James Coghill, UBS: …and there's a lot of good progress there, but just to make it very clear, the goalposts have shifted. You're not delivering a $2.7 billion target. It's something about $2.8 billion. I just wanted to make that point clear.

Michael Cameron, CEO & Managing Director: Okay.

Kelly Hibbins, Head of Investor Relations: Nigel?

Nigel Pittaway, Citi: Thanks. It's Nigel Pittaway from Citi. First question just on the Bank costs, I mean you're talking about those not coming through really in terms of savings to the second half, but somehow getting the Bank cost down does seem fairly key to delivering on the 10% ROE. So, is there - my first question is, is there anything else other than the BIP savings that will benefit the Bank in FY19? Does the dual running of a Hogan and Oracle end then or what else is going to be driving that Bank number next year?

Michael Cameron, CEO & Managing Director: Yes, well we saw an increase in the regulatory costs come through and you'll remember in the first half quite a bit investment into the digital banking. So, whilst we expect to see an increase in regulatory costs continue - we're planning for that - some of the investment in technology will obviously be less. Over time we'll see the benefits of Oracle in the system continue to play out.

But achieving the cost to income ratio as I mentioned will be challenging given the increase in regulatory costs. But that's a combination of growth in revenue and growth in - and managing those expenses. But the BIP impact in FY18 was a negative. It will be a positive in FY19. So that will provide a good shift year-on-year.

Nigel Pittaway, Citi: But the pressure on revenue in the Bank has probably increased against certain targets, correct? So, is there a risk there that that can't deliver? Or are you still confident that...

Michael Cameron, CEO & Managing Director: Now that's why I called out that it will be challenging. But we'll see a reduction in cost of income. We continue to update that each six months. But at the moment we still anticipate that it will be around 50%.

Nigel Pittaway, Citi: Second question then turning to insurance. You got reasonable growth in motor and home units or at least improvements in the trajectory there in the second half. How much of that do you think is being driven by the competitive environment as opposed to your initiatives?

Michael Cameron, CEO & Managing Director: Well definitely the claims inflation across the industry has allowed for that hardening market to benefit us. But looking through that if we are able to continue to keep our claims at the level that they are at the moment - we're seeing far less inflation we believe than is occurring across the rest of the industry - provides for some attractive dynamics for us going forward.

But definitely the market is hardening at the moment as you know and allowing us the ability to recover the costs associated with increased natural hazards and those things that are driving the underlying costs.

Steve Johnston, Chief Financial Officer: You're a tough marker Nigel. I mean they're pretty good growth numbers in the home and motor portfolio. If you roll that back through as Michael mentioned, back through claims I think with the impact of BIP we're seeing our inflation in motor being well below 1%.

In an industry that's seeing inflation ranging anywhere from 4% to 7% depending on which competitor that we look at through our recoveries and settlements it's a pretty good outcome for us. That's why we're getting such strong growth and why the growth is a very, very good mix of units written premium.

Nigel Pittaway, Citi: Okay maybe just finally just on the commercial and CTP books, I mean it's obviously hard to split those out. Is there anything you can give us to understand better the trajectory of underlying margins in those two portfolios?

Steve Johnston, Chief Financial Officer: Well on the commercial side the best measure that we've got there prospectively is the way we went through the June renewals. I think - I called out some of the high single digit to - into mid to high teen increases were going through that portfolio depending on the segment, depending on whether it was loss affected or otherwise.

So, I think our commercial underwriters have got a good sense. It does need to continue to reprice. Prospective profitability is not where it needs to be at this point in time. So, there are some - there is still pressure on margins across the whole commercial insurance industry. So, I think we move into FY19 with some confidence that we can continue to repair margin there.

On the CTP portfolios, I think our initial analysis of the New South Wales scheme and the reforms is quite favourable. Very early days is playing out where we expect it to be, although we're still waiting for some more clarity around the risk equalisation processes and the margin bounds that they're putting on the scheme.

Queensland probably - I guess we expected premiums to start to track up relative to the underlying performance of the scheme. That hasn't happened. I think there's another $7 scheme ceiling reduction scheduled for 1 October, 2018. So prospectively the margin - that will be a small headwind to margin going into FY19. But it's hard to argue that the scheme isn’t performing well given what you're seeing through our valuation frequency is probably back to where we expected it to be. All other aspects of the scheme seem to be working pretty well.

Nigel Pittaway, Citi: Thank you.

Kelly Hibbins, Head of Investor Relations: Dan?

Daniel Toohey, Morgan Stanley: Morning, Mike, Steve. Dan Toohey from, Morgan Stanley. Just maybe starting with the banking fee income keeps falling at a pretty high rate. I think you're down 34%. So, are we at a level - I mean what's been contributing to that? Are we at a level now where that should stabilise or will it continue to fall?

Michael Cameron, CEO & Managing Director: Yeah, similar to the rest of the industry for us the ATM fees was probably the biggest impact during the period. We've also had major adjustments to things like dishonour fees. We're just really following the trend of the industry in reducing the charges that go directly to customers. So that's reflected there. But as you point out the trend beyond now will continue. But there are very few fees and things to reduce going forward.

Daniel Toohey, Morgan Stanley: Okay, so it's sort of at a normalised...

Michael Cameron, CEO & Managing Director: Things like - well the ATM fee has - which you would have seen right across the sector has had a big impact.

Daniel Toohey, Morgan Stanley: On your - your new impaired loans are stable, pretty well stable, half-on-half. But your past due loans are up over 30%. So, stability there, shouldn't we see that as a leading indicator that that impairment charge...

Michael Cameron, CEO & Managing Director: Yeah, so the loss rates as you can see they're 5 basis points. It's well below our long-term range. What we saw during the period was a slightly different approach taken to the calculation on the 180 day and 90 day arrears to calculate hardship and how that's included. So, look I wouldn't rule out the fact that across the industry you see an increase in those arrears. But overall the main reason is the basis of the calculation. But again, I wouldn't even say that they're now at a rate that I'd be concerned about.

Daniel Toohey, Morgan Stanley: Just on the NIM, you were at 1.82 in the second half. You talk about any benefit from any recent repricing and residual impact from the higher BBSW? I mean just – 1.82 are we heading sub-1.80 I guess?

Michael Cameron, CEO & Managing Director: It certainly pushes us down towards the bottom end of the range. It really depends what happens into the next six months. If BBSW remains at an unusually, almost unexplainable level then that will continue to have a negative impact. From a pricing perspective we've got a large book of principal and interest loans.

So, if you put that on the backdrop of fairly fierce competition and fairly irrational pricing in many respects it certainly does put pressure on the NIM. But you would have seen a moderation in the volume of the business in the second half reflecting exactly that.

Daniel Toohey, Morgan Stanley: Okay. Just finally on Queensland CTP there has been some noise - I think you guys put out a release alongside RACQ talking about claim farming higher incidents of fraud etc, the lawyers moving north. Can you comment?

Steve Johnston, Chief Financial Officer: Given I'm in charge of the legal team here I won't criticise lawyers. But they - look we called this out some time ago. We've been alive to the potential for it given what we saw in New South Wales and the action that the whole industry needed to take to get that under control which will actually, ultimately manifest in the reforms that you're seeing in New South Wales.

We do think the Queensland scheme needs reform. We had seen a pick-up in frequency off the back of what we thought to be elements of this activity. I must say it hasn't deteriorated in our last valuation relative to some of the discussions that we had six months to 12 months ago. So, it doesn't appear to have deteriorated.

But the whole industry needs to be vigilant around that potential activity occurring. It's pleasing from our perspective that government has acknowledged it and will be working with the industry to make sure it doesn't squeeze profitability within the scheme.

Daniel Toohey, Morgan Stanley: Okay, thanks.

Kelly Hibbins, Head of Investor Relations: Brett.

Brett Le Mesurier, Shaw and Partners: Thanks. Brett Le Mesurier, Shaw and Partners, a couple of questions. The underlying ITR fell from 2017 to 2018. You provided details on that but there is only 0.5% benefit apparently from loss ratio and commercial insurance expenses. Given what I just heard about claims inflation being low for you for home and motor and you've been picking through the commercial insurance business to make sure you've got better risk so you'd think the margin would go up. How come we didn't get a better outcome given the commentary that you've given?

Steve Johnston, Chief Financial Officer: I think the commercial insurance activity is more around realignment of the portfolio. We've moved some of our distribution activities in commercial insurance from one expense line to the other, so the commission line. So that's one contributor there.

What we've shown in terms of the margin improvement this year is a full loss ratio view. At the first half, we showed it on a margin view. So, I think when you look at the improvement in loss ratios across the book - if you look at it from P&L perspective I think it's very strong. It will continue to be strong going into FY19 as that earned premium flows through to the - as the written premium flows through to earned. You can certainly see it on the balance sheet.

So, the net improvement in premium liabilities and the excess tech provision which has driven a positive delta across the year for the balance sheet is all indicative of a business that's moving back towards that 12% margin, absorbing many of the headwinds that we saw in the first half.

Brett Le Mesurier, Shaw and Partners: You don't have that reflected in your premium liabilities. That only had the $50 million reduction in claims.

Steve Johnston, Chief Financial Officer: I'm not going to get into the discussion around the premium liabilities at that level. But absolutely the loss ratios are improving. Margins are improving. Loss ratios are improving. The balance sheet is improving at the same time.

Brett Le Mesurier, Shaw and Partners: Another question I've got on your long-tail claims liabilities - your pricing and reserving bases are consistent I would presume?

Steve Johnston, Chief Financial Officer: Correct.

Brett Le Mesurier, Shaw and Partners: So that means that effectively you've got 20% pure premium in those - pure profit on those premiums given that you've got about 6% claims inflation, average life of a claim slightly less than four years. That would be correct?

Steve Johnston, Chief Financial Officer: Average life of claim - yes average life of claim would be less than four years - three years – three and a half years.

Brett Le Mesurier, Shaw and Partners: So, you're doing pretty well to only get a $7 reduction in ceiling in the CTP premiums in Queensland, aren't you?

Steve Johnston, Chief Financial Officer: Well that's assuming that the assumptions that are currently in the scheme play out. I think we've all become a little bit comfortable with an environment for the past 10 years where we've got low inflation and we've got no evidence of superimposed inflation.

I think the caution that we as insurers - that an insurance company would continue to make to both the government and the regulator is that at some point superimposed inflation will potentially emerge in some of these schemes. When it comes, it comes at a huge rate. So, the assumptions that we take on pricing are by definition over the medium to longer term. I expect - you can't really look at the profitability of these books in isolation in one year. You've got to look at them over an extended period of time.

Brett Le Mesurier, Shaw and Partners: You've had reserve releases on an underwriting year basis of the order of $300 million for many years now.

Steve Johnston, Chief Financial Officer: Yeah, that's because we price to 7% inflation which is a combination of underlying inflation and superimposed inflation. As you know the economy is not generating those levels of inflation. That's a good thing. But I would point out that if you look at the assets and the liabilities of this business we do have a significant inflation linked bonds portfolio to offset that factor.

So, while we do get these - this out-performance on the liabilities side we are marking the ILBs to market and have been marking them to market in a negative sense as an offset. So yes, we are getting a better outcome at the moment. But I think when you're running a business like this you've got to look at it over the medium term.

Kelly Hibbins, Head of Investor Relations: We might move to the phones now.

Operator: Your first question comes from David Humphries from JCP Investment Partners, please go ahead.

David Humphries, JCP Investment Partners: Good morning, I've got three questions on the Bank if I may. The first one is to follow up from Dan Toohey. Retail past dues have increased $99 million or 20% which you can observe, I guess the question from me is you've now got 1% of your mortgage book past due. To look at CBA's equivalent metric is 70 basis points, so your book is arguably 42% worse. Does it represent a deterioration in the quality of your loan book because you've grown it, so head of system over the past 12 months or is there a reflection of issues in Queensland?

Michael Cameron, CEO & Managing Director: I'll get David, just to make a couple of points on that.

David Carter, CEO Banking and Wealth: Hi, David. No, it's neither of those, so we made fundamental changes to the way we approach customers in financial hardship around about November last year. As a result the length of time people are spending in hardship and incurring out of hardship has lengthened from about three and a half months to a bit over six months. The offset to that is a dramatic shift in the number of complaints we've been dealing with and a better experience for customers. So our portfolio on arrears basis is performing at a state level very similarly to the figures that are being published by others in recent times.

David Humphries, JCP Investment Partners: The other thing is on the provisioning, you've chosen not to increase your collective provisions despite this trend that you've decided to move on.

David Carter, CEO Banking and Wealth: Again, so Michael touched on the advanced accreditation models we built, we put in a couple of years ago, we've continued to refine them and again we had to do a major piece of work over the last few months in getting ready for implementation of AASP9. When we first implemented those model's, we had a number of overlays as you do with a new model, we put in I think 20 to 25% order of magnitude was the size of the overlays. With the passage of time we can get more and more confident in the calibration of the models and we've been able to refine them. The quality of the book we've been writing in the last few years, both in commercial and in retail, is better than the quality of the book that has been running off.

David Humphries, JCP Investment Partners: Second question, you continue to expand your lending into property investment and construction in Queensland, that's a new initiative you've taken on in the last 12 months. Are you going to keep doing it given the rest of the market has stepped back materially?

David Carter, CEO Banking and Wealth: Yeah, we - if you think about the nature of our business, we deal with mum and dad, we don't do big trading businesses. It's normal that we would be growing in property and agriculture as well as small business. So, the Queensland economy is actually going along quite well, our

development books in inner city has actually not grown and the developers we deal with are actually becoming a little bit more cautious. It's the developers from interstate coming in now and we tend not to bank them into Brisbane.

We have had a limited expansion into New South Wales and Vic, so we, unlike some of the larger players who already have established markets that they may or may not be choosing to grow much in, we are taking a very small amount of very large markets and that's contributing to some of that growth. But there is good migration into south-east Queensland at the moment, it's fuelling demand for houses. A lot of that book is not high-rise apartments by any means, it's residential subdivisions dealing with good quality developers that we spend quite a bit of time with and we have over a long period of time.

David Humphries, JCP Investment Partners: Third question I've got is on your wholesale funding profile, at the moment you need to refinance 40% of your issuance in the next six months and indeed you're running very little maturity beyond three years. Can you give us some colour on how you plan to manage the length from the duration of your funding, whether the pricing action you've recently taken will be enough to accommodate the high funding costs that will come through with that?

David Carter, CEO Banking and Wealth: Yeah, it's a good question and we're just looking at that program, well we've been looking at it obviously for a while. We've got a fair bit of capacity on each of the funding programs, so the team has done a great job over a long period of time post GFC to build those out, so we've got good capacity in the covered bonds. We've got plenty of appetite for RMBS if we wanted to go down that path.

The US market is a little bit expensive at the moment, spreads have widened a little bit and obviously BBSW is playing into our thinking. So we will probably issue across the spectrum of funding programs. Whilst appetite has probably reduced a little bit in the market for 10 year covers at the moment we still see plenty of appetite for three and five and we factor that in, and the price of it, into what we're looking at for FY19.

But don't anticipate any issues at the moment in raising the funds. The current environment, there's lots of appetite to provide funding to banks, is what we're observing, it's just a price that we were dealing with.

David Humphries, JCP Investment Partners: Great, thanks, David.

Michael Cameron, CEO & Managing Director: That's a nice, deep dive into the Bank.

Operator: Thank you. Your next question comes from Ashley Dalziell from Goldman Sachs, go ahead.

Ashley Dalziell, Goldman Sachs: Thanks, and good morning, guys. I just had a question on the cost outlook, it does feel as though I guess the big pivot there in the story has been around the reg and compliance spend and I think you've called out a $90 million increase in those costs into next year. Just kind of thinking more medium term, can you give us a feel for how much of that reg and compliance spend that's gone into the business over the last 12 months and is likely to go in over the next 12 months is likely to be ongoing, versus say, one-off as you've had to prepare for some of these industry reviews and commissions etc?

Michael Cameron, CEO & Managing Director: I'm not sure I heard the second half of that question.

Steve Johnston, Chief Financial Officer: Yeah, I think what Ashley is looking for is a perspective view of the incremental increases in regulatory costs versus those that may well be sustained, and I guess the summary is

that there's some of them are reform specific and some of them are far broader and they will impact the future cost-base.

So, what do I mean by that? Well, when the New South Wales scheme reforms when fire service levies go on and off, there's a whole pile of work that we have to do to meet the new regulatory requirements and the regulators in those schemes and until the next set of reforms they sort of bed down a bit. So, there's an incremental aspect coming into '19 of that.

Then there's things like the Royal Commission which will be multi-faceted. So obviously we spend money to prepare ourselves and to present and support the commission's work and obviously there may well be some recommendations that come out of that that we may well have to deal with over the next two or three years.

So, I certainly don't think it will come back to the levels it was 12 months ago, I think that's very unlikely. I think there's probably a point at which it is slightly inflated into '19 and it may well ease back a bit in '20 but it will be I think a step change whichever way you look at it from FY16 through to FY19 and '20.

Ashley Dalziell, Goldman Sachs: Okay, thank you for that. I just had a follow up on the sort of mortgage arrears piece, maybe one for David. Your arrears rate on mortgages was up around 16 basis points in the year, just to help us with this hardship classification piece can you just quantity how much of that 16 basis point uplift was the hardship classification change, and just to follow up on that, I mean in terms of how you are now treating hardships can you give us a feel as to whether the method that you've moved to is any more or less onerous that what we've seen your peers move to over the past couple of years?

David Carter, CEO Banking & Wealth: So for the first part virtually all of increase is a result of increases in the number of customers who we are classifying as hardship. If we went back through a couple of years ago, if someone was approved essentially for hardship and was considered of good standing, I won't go into the detail of that, we didn't classify it as being in arrears because they had an agreed payment arrangement. The regulator worked with everyone and I think everyone has moved to a different methodology now where it's all classified as arrears. But the bulk of that impact was in the '17 year.

Essentially what we're doing is, in the process these customers are typically very vulnerable at that point, we're making it much easier for them and a lot less paperwork and allowing them a bit more time. I don't think everyone else is doing that yet, I believe there's one major who does it because we have consulted with the outside firm who helped them. So what we have done, and while I don't think everyone is doing it is our FOS complaints have reduced significantly compared to our peer group and the peer group average. So we just think the environment is such where it's really important that we are working closely with customers who are experiencing temporary periods of vulnerability.

Ashley Dalziell, Goldman Sachs: Okay, thank you.

Operator: Thank you. Your next question comes from David Spotswood from Airlie Funds Management. Please go ahead.

David Spotswood, Airlie Funds Management: Yes, congratulations on a strong result and a $0.08 dividend and the sale of Life. The $600 million potential capital management, could you provide any comments on whether that will be via a buy back or special dividends, and also there's high strong reserve releases again next

year, obviously the excess capital is still going to stay strong, so is there a potential for another sort of $0.08, whatever, $0.10 special dividend as well in 2019? Thanks.

Michael Cameron, CEO & Managing Director: David I'll break it into two parts, maybe Steve can make a comment on capital going forward. In relation to the return of capital post the sale of the Life business, at this stage we've signed a Heads of Agreement, our attention now will go on to concluding a share sale agreement this month. Once we've done that we will then work through the most appropriate way to return capital, so that by the time we get towards the completion process we can work out the best way and the best way to create value for our shareholders. So it will be some time before we disclose the final process but as I've said, at the moment the focus is on completing the sale.

Steve Johnston, Chief Financial Officer: David, just to franking credit balances. I think post the payment of the dividend around $150 million, so what we wouldn't like to do is put ourselves in a position where through some distribution off the back of an asset sale that we compromised our ability to fully frank our ordinary and any special dividends we might choose to do going forward. So it's more likely to be in mechanisms other than a special dividend for that part of it.

In terms of the balance sheet going forward, I spent a bit of time on that in the presentation just going through some of the tailwinds that were rolling through the balance sheet. Some of them are reasonably entrenched so if you look at the amortisation charge we're obviously taking cost to that through the P&L but that's rolling off the balance sheet. As that rolls off in a linear fashion over the next 10 years on the banking side with the core banking platform, those tailwinds will continue to emerge on the balance sheet.

Obviously we did two very capital efficient RMBS transactions through the course of the year so there may well be some more of them going forward but not as many as in FY18. The loss ratio improvement that I talked through with Brett just before, obviously as that earns - the premium earns through the book and we continue to manage claims well, those loss ratios will continue to improve. Albeit there will be a bit of seasonality first half verse second half with the excess tech provision unwind.

Then of course over time the lower volatility assumed in the New South Wales CTP scheme, which has obviously had a material reduction in premium, is having an equal offset in terms of claims experience, and ultimately that will be recognised by the actuaries in terms of a lower capital charge on New South Wales CTP.

So it is fair to say there's some very good tailwinds working our way through the balance sheet, so I'm not going to forecast any particular capital initiative off the back of that, but just to say that we're in a significantly stronger position, we've always been in a strong position with the balance sheet but we're even stronger this year than we were 12 months ago.

David Spotswood, Airlie Funds Management: Thank you.

Kelly Hibbins, Head of Investor Relations: We'll take one more from the phone.

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

Siddharth Parameswaran, JP Morgan: Good morning, gentlemen. A couple of questions if I can. Firstly just on the premium rates environment in general insurance, could you just give us an idea of what actually happened

with 30 June renewals in commercial and just what the exit rate was as well on the personal line side, in terms of rate increases in motor and home? [unclear]…

Steve Johnston, Chief Financial Officer: I think the exit rate in all portfolios was probably stronger than the average of the full year. I haven't had a huge opportunity yet to review the July numbers, but my assessment, and I think the assessment of Gary, is that that momentum has continued into July on the consumer portfolios.

On the commercial portfolios I think the best reference point we've got around that is the way that the whole commercial renewal process worked through June. I think we were very - we were supportive of that. We think it was a good outcome for us with a potential for us to continue to improve margin into FY19.

Siddharth Parameswaran, JP Morgan: Yes, okay, great. Just a second question from me just around reserve releases. Obviously another strong contributor as has been the case for the last few years. I just wanted to get your view on the sustainability of reserves into the future, given obviously particularly in New South Wales I think it will be very difficult to get reserve releases on that scheme going forward and obviously in Queensland as well with the rate reductions.

Presumably - I mean should I take it that there's - could there be any change, was there any change to your assumptions at all around superimposed inflation or the like?

Steve Johnston, Chief Financial Officer: No changes to the assumption, any of the assumptions in the scheme other than those that we had published previously and that was an adjustment to average weekly earnings, but stepping back to our 4% assumption over the next two years. So very incremental steps forward.

Again I think going into FY20 the valuations that we've just completed support our view at this point, and this is a management view, it's got to be proven up by the actuarial community, and I don't presuppose their assessment of any of this. But the trends we saw in FY18 continue to be there, i.e. no superimposed inflation and we're continuing to run well below the basis of the reserving.

So, you are absolutely correct, at some point they will mitigate or roll back to their 1.5% of NEP. I don't think it's going to be in FY19. But equally I don't think we're going to get the level of releases that we got in FY18 or FY17 pre-that.

So it's hard to predict, but the underlying performance of the schemes continue to be positive.

Siddharth Parameswaran, JP Morgan: Okay, and just one final question from me. It's just relating to the Life sale. How should we think about especially the P&L impact on this going forward in terms of reduction in earnings?

Also just how you will be treating that in terms of your cash ROE target of 10%?

Michael Cameron, CEO & Managing Director: Yes, maybe I can make - the most important comment is that our guidance for this year, for FY19, of 10% ROE is, we're confirming it today. The impact of the divestment of the Life business is likely to be a small positive in this year, and obviously be a positive going forward.

But no change in our guidance at all for this year. Obviously, maybe I'm stating the obvious, but ultimately there will be a return of capital and there will be a reduction in the earnings, and that will be accretive to our cash ROE given that at the moment the Life business is dilutive to our ROE.

Siddharth Parameswaran, JP Morgan: Yes, and P&L impact?

Michael Cameron, CEO & Managing Director: Well, there will be a slightly lower earnings from - as we release the capital and the business is no longer in there of course the earnings will reduce. I'm not sure that I can add too much to that.

But as far as providing more detail we'll wait until after we've concluded the sale.

Siddharth Parameswaran, JP Morgan: Okay, fair enough.

Kelly Hibbins, Head of Investor Relations: We might come back to the room, Kieran.

Kieran Chidgey, UBS: Thanks, Kieran Chidgey, UBS. Just two questions on the quality of the underlying ITR outlook for next year of 12%. The first one just on the cap budget which is up $30 million, but your ag retention is up $30 million, and your short-tail insurance book has grown about 4% over the year.

So have you not effectively taken sort of a reduction on a gross like-for-like basis to that cap budget into next year?

Michael Cameron, CEO & Managing Director: We take into account a whole bunch of factors in arriving at an appropriate allowance. As you know the allowance we set has no impact on our ultimate profit.

But the factors that you've pointed to, which is growth in the book, the increase in the aggregative cover now at $504 million, reflects our best estimate of what the natural hazard cost will be for '19. We're obviously going to be wrong, as you are each year.

We were very pleased that we came in slightly under in '19, and we'll be able to answer the question precisely in 12 months' time.

Steve Johnston, Chief Financial Officer: I mean I was hoping that you would at least give us one minute to bathe in the joy of having an allowance - actuals coming under the allowance in the natural hazard allowance. But within one second you're back to the next year, understandably.

Kieran Chidgey, UBS: But I mean it does seem like you've taken a reduction.

Steve Johnston, Chief Financial Officer: I don't know that I'd necessarily agree with your step-up in aggregate. I don't think it's any - it's $30 million. I thought, my understanding is it's around $20 million in terms of the step-up and the deductable.

Obviously there's growth in risk in-force across the books. So yes, there will be an increase and there is an increase in the allowance, and we continue to strike it based on a longer-run view of experience.

Kieran Chidgey, UBS: Right, and the second question just around the abnormal expenses that you adjust for in your underlying ITR. It's the third year in a row of $60 million – it's starting to look less abnormal. Should we just be pencilling in $60 million for long term?

Michael Cameron, CEO & Managing Director: Well, I think they have an underlying - Steve would make comments on the actual amounts. But I find the benefit in the underlying ITR calculation is the movements period-on-period. With those sorts of things you either agree with or don't agree with, you can take them out or

add them back in. But where there's a level of consistency period-on-period I think it highlights the movement between each period, and that's probably the important thing for me.

Kieran Chidgey, UBS: Okay, so we should expect another $60 million in '19, is that what you're saying?

Steve Johnston, Chief Financial Officer: I think you should expect that we'll calculate it based on the same set of inputs that we did this year. Whether it's $60 million or a number smaller than that we'll just wait and see. Thanks.

Kelly Hibbins, Head of Investor Relations: Okay, if there's not any more questions, we'll thank you for attending both in person and on the phone and we look forward to speaking to you over the next few weeks.

End of Transcript