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**Start of Q&A session**

**Operator:** The first phone question comes from Andrew Buncombe with Macquarie.

**Andrew Buncombe, Macquarie Group**: Hi. Thanks for taking my questions. Congratulations on the result. Just two from me, please. The first one, you've indicted your medium-term targets and NIMs are going to step back to within the 185 to 195 range. But it would be helpful if you could give us a bit more colour on how you're thinking about them for FY22, please. Thank you.

**Steve Johnston, Group CEO**: Okay. I might get Jeremy to answer that?

**Jeremy Robson, Group CFO:** Yes. Thanks, Steve. So, Andrew, I think it's fair to say that margins are elevated in FY21 for a couple of factors. One of them being the lending book in the first half of '21, where we had the cash rate reduction, which didn't all flow through into the - given where the funding rates were.

So, I think, what we will see out into '22 is some of the ongoing dynamics of improved run-rate benefits on the funding side of things. So, you get a full-year benefit on things like term funding facility and some of the hard work we've done on repricing the deposit portfolio. But on the other side of the equation, we think we'll see some market pressure coming through on the mortgage side of the book.

Net, we think that will mean that the margin will track down from the current elevated levels, not necessarily flagging that we'll get to within that target range in FY22, that will be over a number of years. So, it will still be elevated, but it will be below where it is today.

**Steve Johnston, Group CEO:** Andrew, I'd just add to that, just turn people's mind to the progress around our liability mix that we've achieved over the past two or three years. Again, that's been driven by digital and very much biased to transaction banking accounts, running off expensive term deposits.

So, we've got now a very strong liability mix in the banking business. Again, we continue to have the comfort and security of that A-plus rating that we go to the market with on the wholesale side, as and when it's needed.

**Andrew Buncombe, Macquarie:** Yes, that makes sense. Then my second question, please. Just interested in a bit of colour as to why you're changing your pricing engine for home and motor? Thanks.

**Steve Johnston, Group CEO:** Okay. I might kick off and I'll see if Lisa wants to add anything to it. I think if you go back to 2004/2005, with the introduction of GIPE, which was a leading pricing engine infrastructure at the time, that created a very strong competitive advantage for us. It allowed us to price down to the individual home on the Home portfolio and created a huge amount of data for us to be able to improve our risk selection and pricing.

I guess, over time, like any technology or any infrastructure, it's overtaken in the market. I think some of the more modern and contemporary pricing engines, particular the CAPE pricing engine that we looked at first in 2015, have superseded what was a very good pricing engine in GIPE.

I think it's the evolution of our business, our ability to focus end to end on loss ratios. Loss ratios are everything from your marketing, your branding, your pricing engine, right through to claims and that end-to-end view that we have and we felt an appropriate investment in new pricing infrastructure and capability was a necessary part of the program of work that we have in place.

So, it's not to disavow or talk down the infrastructure that we had previously, it's just the next generation and the sophistication of pricing that some of our competitors already are utilising that we can now very much take off the shelf, a very de-risked environment, and implement, which is driving confidence in our ability to improve loss ratios over time. Lisa, did you want to add anything to that, if I can push the technology to see if we can bring you in?

**Lisa Harrison, CEO Insurance Product & Portfolio:** Yes, thanks, Steve. Thanks, Andrew. I think Steve summed it up well. The pricing engine, CAPE, that we'll be putting in is a more modern engine. We've been using it for the last couple of years, as Steve said, in an offline environment. We know that today we have limitations on our ability to incorporate new data sets at speed and the volume of that. CAPE essentially takes away a lot of those constraints, allowing us to continue to invest in data and pricing risk selection.

**Andrew Buncombe, Macquarie Group:** Thanks.

**Steve Johnston, Group CEO:** Thanks, Andrew.

**Operator:** Thank you. Your next question comes from Kieren Chidgey with Jarden. Please go ahead.

**Kieren Chidgey, Jarden:** Morning, guys. Just a couple of questions, maybe starting on GWP. I think I saw $115 million flagged as a drag for portfolio exits through FY22. Just confirming that is the full number and whether or not there's any additional remedial actions planned in terms of remaining portfolios or you think you've come to the end of remediation costs? Things like intermediated personal lines and construction?

**Steve Johnston, Group CEO:** Yes, look, I'll get Jeremy, Kieren, to add to the answer. But there's nothing foreshadowed at the moment, other than to say that I think you've seen and hopefully appreciated a discipline that we have in reassessing our portfolios and taking the difficult decisions that need to sometimes be taken when portfolios aren't delivering the necessary rate of return or aren't delivering the appropriate level of customer outcomes.

They're decisions, I think, have been wandering around the business for probably five or six years that we've taken, which I think were very appropriate. Of course, they do have a drag on revenues. They create a lot of noise around how we adjust and normalise to get a real like-for-like underlying improvement in our written premium, but they were necessary to take and ultimately will be accretive to margin. Jeremy, did you want to add anything to that?

**Jeremy Robson, Group CFO:** No, just to confirm that you've picked out that right number, Kieren, it's $115 million is what we're calling out as the impact in FY22.

**Kieren Chidgey, Jarden:** Okay. Steve, just on Home, I mean, you've had good unit growth in Motor, do you think with the introduction of the new pricing engine, that we will move back into unit growth outcome to Home through '22?

**Steve Johnston, Group CEO:** Yes, look, Kieren, I think in an environment where we've had to materially readjust pricing in the Home portfolio to take account of the adjustments that we've had to make through our natural hazard allowance and the increased cost of reinsurance, we have had to push, unfortunately, through some reasonably material increases through that portfolio.

There's always going to be a disconnect, as you know, between various of the insurers, in terms of the timing of those reinsurance renewals. So, I guess, we probably front-end load a lot of those price increases and have to maintain a discipline through that process to get them in and get them earning.

So, I guess, the way we've looked at the portfolio over the last couple of years is that we don't want to see material reductions in unit count and we don't want to see a deterioration in the franchise. So, we're managing it very carefully and pushing through the appropriate amounts of increases, at the same time as keeping our unit count on a like-for-like basis, in the 0% to 1%/1.5% reduction territory, which is where it's landed.

I do have high hopes for CAPE. It's just not me saying that, I talk to people embedded in our business who've been doing pricing and risk selection for many, many years and I can see the glimmer of excitement in their eyes around having this new technology and this new infrastructure available to us.

It will significantly improve the sophistication of how we do price across the portfolio. I'm very confident that if, along with the natural evolution of the pricing cycle in insurance, we'll see that unit count start to normalise back to flat and then ultimately to in the 0% to 2% positive range, which I think is where we probably want to land it over the longer term.

**Jeremy Robson, Group CFO:** Steve, I'll just add to that - sorry, can I just add to that on the Home units, I think FY22 will be a little bit of a transition year for us, in the sense that we've called out that we had to do some margin remediation on Home. So, we've put through reasonably significant price increases through that portfolio, ahead of what we consider to be the more sustainable margin remediation over the longer term, which is the strategic initiative benefits.

So, in FY22, what we expect to see is some of that blunter pricing coming off and then some of the strategic initiatives' benefits starting to come in towards the second half. So, with that transition, we'd also then expect to see some reversion to hopefully getting into positive unit growth territory.

**Kieren Chidgey, Jarden:** Thanks. Just a final question. You called out the rate increases, I think 4.5% in Motor, around 7% in Home. Can you give us a feeling for what the average rate rise across the Commercial portfolio was? You've also previously, in recent times, said you think that portfolio's now close to targeted ITR margin. So, just wondering why you're not pushing that a little bit harder on volume, if you're still seeing rate and you're already at the targeted profitability levels?

**Steve Johnston, Group CEO:** Yes. Look, let me - I mean, there's obviously a risk as I mentioned that sits in that discussion, as well. Obviously, we're always readjusting our capacity on various lines of business that we're writing and whether we want to lead or whether want to follow. So, there's always adjustment that comes through the renewal.

If I were to talk to it in the way that I traditionally talked to it, and hopefully everyone's familiar with it, in terms of the packaged SME business rate increase, through that portfolio of 4% to 6% in the mid-market, the mid-market there's high single-digit increases probably on non-loss-affected business and higher for loss-affect business.

Then in the Property portfolio, the top end, again I'll just caveat that by saying that that's not a market that we're that heavily represented it, or represented much at all for that matter, that's 15% to 20% increases across some of those portfolios and confirming our margin position is pretty much where we would like it to be, so 10% to 12% in those portfolios. I guess to the extent that you're not seeing unit count and volume increases, there's a couple of factors for that.

Obviously in the package business that has been the part of the business that has been most impacted by some of the COVID issues and we're very conscious of that and the current situation there. We are investing in some digital infrastructure there both in terms of our direct proposition and our growth proposition and then it's an adjustment based on risk around some of the capacity that we deploy into some of the lines of business that we are writing, but we are very comfortable that the margin is where it needs to be and that the pricing that we are getting through is holding up pretty well.

**Jeremy Robson, Group CFO:** Thanks Steve. Sorry, can I just add on that one that when you look at the GWP growth in commercial of around that 5%, as Steve said, packages have been impacted by COVID but also by some of the changes in the broker book for us around Resilium. If you look at the more traditional short and long tail portfolios, we have seen GWP growth of heading on 10% in FY21. Sorry, 9%. Given that we, as Steve said, we're not doing too much in the large end of property, there's some pretty significant and attractive improvements in GWP portfolio growth as we called out across motor and the NTI portfolio.

**Kieren Chidgey, Jarden:** That's great. Thank you.

**Operator:** Thank you. Your next question comes from Andrei Stadnik with Morgan Stanley. Please go ahead.

**Andrei Stadnik, Morgan Stanley:** Good morning. I wanted to ask two questions. First if I can ask on the underlying insurance margins excluding the COVID benefits. Given how strong pricing has been for some time, so should now be earned or been earned, and investment yield has already normalised at low levels, why wouldn't you expect the underlying margin to improve in the first half of 2022? What are some of the potential headwinds that you are keeping in mind?

**Steve Johnston, Group CEO:** Jeremy, I might get you to run through that.

**Jeremy Robson, Group CFO:** Yes, thanks Steve. Look, we can certainly see the improved margin coming through those price increases in home. As I flagged, we would look at 2022 as a bit of a transition there. We can't continue to put through those sorts of price increases through the portfolio over the long term so they will start to come off and start to be earned through. So, 75% of those price increases that we put through to remediate natural hazards and reinsurance costs, the historic increases there, will have earned into the book up to the end of 2021 and then 95% by the end of December.

So, they will start to come off. Still coming through, but start to come off. We will start to see some improvement in things like expense ratios next year. As we have said, you can see costs will be relatively flat with the elevated strategic spend still in there, but with NEP growth that obviously improves the - we get better leverage around expenses. Maybe a little bit on CHE. I mean there's things around the margin but maybe a little bit around CHE.

The rest of the portfolios we probably expect to be relatively flattish and I called out in the presentation some of that volatility, particularly thinking about CTP current year releases that we got in FY21. They're not big numbers but I think net across all of that we get to a relatively level outcome in first half 2022. We said in line with or better than so it's around but hopefully a little bit better before they start to accelerate in second half 2022 as the benefits of these strategic initiatives really start to kick in.

**Andrei Stadnik, Morgan Stanley:** Thank you and just to clarify, better than the 7.1 or the 7.4?

**Jeremy Robson, Group CFO:** The 7.4. Whether 7.4 is exactly the right exit rate, that's what we're talking to, is we're talking to the development from 7.1 to 7.4 to in line or better than that at 7.4. Importantly, all these numbers exclude the benefit of potential benefit going forwards of COVID motor frequency.

**Andrei Stadnik, Morgan Stanley:** Thank you and for my second question I'm wanting to ask around your capital management priorities. Given you retain a very healthy buffer and you've shown an appetite to return to shareholders, so when we think of from this point onwards that you want to maintain some sort of buffer, but otherwise you would be prepared to pay 100% of earnings back to shareholders.

**Steve Johnston, Group CEO:** Look, I think it's a good question and probably an obvious one and one that we're probably not going to answer to your satisfaction today because as we stare into the future, I mean there is still uncertainty. I think we have put ourselves in a very strong position here to be able to undertake capital management initiatives and before that to not have discounted equity to prop up that balance sheet through the initial stages of COVID.

We are very careful in striking the right balance and not only that, in the form of the instruments that we have used or are using to return capital to shareholders and we do have still some uncertainty in the external outlook. I guess the commitment that we have is that as we come through the full year, I mean the starting point would be to trim up our ordinary dividend to 80% payout ratio for the full year.

Beyond that we will do a very pragmatic assessment of the needs of the business going forward and any uncertainty that might be sitting in the market that we might want to be prepared for, any investment that we might want to make in the business, but beyond that, our commitment after those things are taken into account, is to return excess surplus capital to shareholders in the most efficient form we can.

**Andrei Stadnik, Morgan Stanley:** Thank you.

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

**Ashley Dalziell, Goldman Sachs:** Thanks. Morning Steve and Jeremy. Just an initial question on the margin guidance you have given for the first half of 2022. I guess if we roll back to the insurance invested you were talking to a flat margin FY22 on FY21 and now you are suggesting a flat margin sequentially into the first half and then improvement in the second half.

I guess it's a nuanced but that is a bit of an upgrade on the outlook in a relatively short amount of time. Just I guess a question on where is the improved confidence coming from? Is it more external factors, the pricing that you're seeing, the cycle benefits, or is it more around the internal projects where you're building momentum and confidence?

**Steve Johnston, Group CEO:** Well, yes, look I mean it is all nuanced and it's all very difficult to in a COVID world, to really get everyone level set on what the dynamics are. What we do know unequivocally, is you can see that the business is performing strongly at the written premium level. I think the first priority that I always felt we needed to do was make sure our brands were working well and so we, you know, we didn't have the infrastructure in place to really fix that overnight. What we did first, that was create virtual brand teams to align the whole organisation around improving the way that we landed the brands in the market. I think we have done a great job on that.

I think that is reflected in the overall premium outcome, but most importantly I think that the brand or the portfolio that is most leveraged to the health of your brand and the way that you are marketing and the way that you are segmenting your customers is in the motor portfolio and there has been some tremendous outcomes there in that motor portfolio.

The business is performing well and that is giving us a huge amount of confidence. At the same time, the deeper we go into the program of work, the more committed we are to understand that these 12 things that we are focused on are the important things to drive margin improvement across both the Australian business, Australian insurance business and New Zealand and in the bank.

So yes, we are getting more confident around the program of work. We still have a lot of execution to do and we are monitoring that very closely. There is an improving disposition within the business around the program of execution and the alignment of the organisation which is flowing through to increasing confidence. Jeremy, do you want to add anything to that?

**Jeremy Robson, Group CFO:** I would just reinforce Steve that it is a bit nuanced when we said broadly in line with 2022, broadly in line with 2021. So yes, look on balance, we are probably, you know, it doesn't mean it is going to be exactly the same, but I think broadly in line with is not a bad starting point. Maybe on balance we have got a little bit more optimistic, but what we see is we see relatively flat 2021 into 2022, a little bit of early green shoots in 2022, but we will see that acceleration coming through back half of 2022 and into 2023.

**Ashley Dalziell, Goldman Sachs:** Thanks and just a second one partially related. In terms of thinking about the building blocks on the margin into 2022, last year you gave us a pretty granular guidance around the insurance expense. Obviously, we can see where the allowance has reset to and in its own right, I mean that doesn't present a huge headwind to the margin. Just wondering what you saw through and whether you can give us any help in understanding the trajectory on the reinsurance expense.

**Steve Johnston, Group CEO:** Yes, look, I think I'll hand to Jeremy in a minute. Jeremy is running the reinsurance program these days alongside a really great team that have leaned into that renewal for us. I think that the reinsurance renewal took a potential concern off the table for us and I guess for the market more generally. I think there were plenty of people having doomsday predictions as we were working our way through around a multiyear material reset and reinsurance margins. We had not contemplated that in our roll forward of our FY23 plan and I think we were pretty open to market around that.

We were delighted that the program landed where it did and it's a function of a couple of things. Firstly, there is still plenty of capacity in the reinsurance markets more broadly and we saw that coming through the renewal. Australia and New Zealand are still very attractive places for reinsurers to park their capital. It provides a necessary diversification benefit for them and that's important for them because it elevates their credit ratings which are very important for getting on programs around the world.

Those two dimensions continue to roll through and I think generally, and I don't say this is a Suncorp specific issue, but they do appreciate the underwriting capability and sophistication that is sitting in the Australian market and I think are very comfortable with Suncorp as a counter party. The macro outcomes were all positive and so we were able to land the balance sheet outcomes first up as you would expect and pre-book, pre-buying a number of them through the period from February through to May and then landed the residual balance sheet covers and also the aggregate covers as we had the drop downs as we came into the latter part of June.

I know I'm not giving you a perfect set of circumstances other than to say that the combination of the reinsurance program and the increased allowances are consistent with those that we applied in the FY23 plan, so haven't needed for us to restate anything relative to what we have already put in the market. Jeremy, did you want to add anything to that?

**Jeremy Robson, Group CFO:** I would just add, Steve, because the recoveries against the reinsurance program are always an important part of that renewal process and as we said this FY21 we only had one relatively small modest recovery against the program which also helped get us to where we need to get to. I think when we gave the investor series update, I think in Q&A, we said that the expectation was that we would land around in line with where we're pricing the portfolios for inflation, which is sort of where we've landed. Steve said that it takes away one of those potential headwinds to - took away one of those potential headwinds to margin.

**Steve Johnston, Group CEO:** Okay. Next question. We will move on. The next question, if there's nothing more.

**Operator:** Thank you. Your next questioner is Nigel Pittaway with Citi.  Please go ahead.

**Nigel Pittaway, Citi:** Thank you.  Good morning guys.  Just first of all if I could delve a little more into what's happening on motor.  I mean you've said obviously pricing remains consistent with underlying claims inflation. But at the same time, you have mentioned that frequency moved around a fair bit with obviously COVID-related impacts.

So I mean how are you addressing that in terms of pricing?  In terms of periods where frequency is a bit lower? And, you know, should we be factoring in any sort of adjustment moving forward for what's going on currently?

**Steve Johnston, Group CEO:** It's a good question Nigel and obviously one we pay a lot of attention to because understandably, when people aren't able to use their vehicles, your ability to reprice is reduced.  I mean that's just an honest reflection of where things are in the depth of lockdowns.

What we saw through the course of last year, and again, we're pretty data-rich in terms of understanding mobility trends.  Obviously through the prism of frequency and accident rates, and severity and frequency data is very available to us.  So we did see, if you move from say full restrictions all the way back down to stage one, movements in frequency.

And I guess our assessment is while - I guess when you're in lockdowns, mobility is reduced, accidents are reduced, severity moves around a little bit.  But the progress out of lockdown, it's either pretty rapid acceleration in mobility and a rapid acceleration in claims frequency.

And in some jurisdictions, not all, but certainly some, we saw frequency rates go above the 100%.  Bearing in mind, 100% represented pre-COVID levels and so it did move around.

So in terms of the portfolio, again, we have to step back from what's going in a particular week or any particular month and look at the longer term outcomes for the portfolio, inflation in motors. So we're running 4% to 5% I think on an underlying basis.

We might be doing a little bit better than that given the fixed price arrangements that we have across a big part of our book and we'd maintain a consistent and a disciplined approach to pricing to that through the cycle or through the immediate cycle.

And again, we need to step back from it and look at it over a longer period of time and understand what's happening with supply chains, what's happening with behavioural changes for consumers, et cetera, and the stop of vehicles on the road.

But generally, in a nutshell, we'll look at a longer run view of inflation, underlying inflation, and price to that consistently through the 12-month period.

**Nigel Pittaway, Citi:** Okay, thanks for that. And then maybe if I could just follow up on, I think it was Keiren's question earlier. I mean it is quite interesting in the commercial space because you're saying you're sort of happy with your margins as they currently stand which I don’t think is a common refrain across the industry.

So does that actually give you an opportunity to sort of target slightly faster growth in that commercial space moving forward given where you are vis-à-vis your competitors?

**Steve Johnston, Group CEO:** I mean yes, it does. I mean it does allow us to do that. But by the same token, we are - we have got a reputation hard won around discipline underwriting. And again, we have to be very comfortable with the risk that we're taking on in those portfolios. We've got to be comfortable that we've got the capability to write that risk. And we will move around as I mentioned before.

So you know, we will have an appetite to deploy a significant amount of capacity into some lines of business and we'll want to reduce others. So I think at the moment, it's a case by case scenario. We're not going to do anything that undermines the overall risk profile of that portfolio. Nor are we going to price at anything that's below our targeted margin range at this point in the cycle.

That's not really what we want to do. So we'll be disciplined. We'll maintain margins in that range and the extent that we can get incremental growth, as you suggest, we will take it. But again, it has to be within our risk appetite.

**Jeremy Robson, Group CFO:** Steve, I'll just add to that. You know, where we see a good growth opportunity in commercial packages space and as Steve said, the precursor to that growth in packages is really around the investment that we need to make which we're getting on with. The investment in digitising the pipes into the platforms et cetera, underwriting tools in that part of the business.

So we see opportunity there but we just need to get on and deliver to our investment which is part of that strategic initiative process we've spoken about.

**Nigel Pittaway, Citi:** Okay and then maybe just - I mean you mentioned you had a small top up obviously in bodily injury. I mean I realise it's pretty small for you but it probably does have wider market implications. So are you convinced that that's just a modest thing and not something that we should worry about in a go forward position? Or is there a risk that a small top up this time sort of blows into a bigger one moving forward?

**Steve Johnston, Group CEO:** Jeremy, do you want to?

**Jeremy Robson, Group CFO:** Do you want me to - yeah. Look, Nigel, I think - look, our suspicion is that others have seen this as well and it's what others have called out. This is not the first time we've strengthened bodily injury. In fact, I think this is probably the third half.

And look, the first strengthening's were a little bit more significant. This one is relatively modest. And at the end of the day, it's a relatively small portfolio for us. So yes, maybe there is some pluses and minuses going forwards. But I'm not sitting here concerned that we've got a major potential headwind facing us in that portfolio.

**Nigel Pittaway, Citi:** Maybe just finally focusing then on Queensland CTP. You've obviously had some improvement there in claims. Can we now say the current accident year combined in Queensland CTP is below 100?

**Steve Johnston, Group CEO:** I'll get Jeremy to answer the specifics of the current year performance but I would call out embedded in this result again, probably two of the most relevant group points I would identify around the improvement in the franchise over the last little while have been the motor performance I talked to previously but also the Queensland CTP performance.

As you know, over the past decade we've taken our market share there from mid to high 50s to sort of low to mid 40s. And that's been a gradual deterioration over time. And this is the first result I can recall in Queensland where we have turned around that trend and we've grown our unit count.

And that's simply because we've got a very focused and aligned team around doing the things that are always very obvious, to cross sell opportunity that sat there between comprehensive motor and CTP. The digital opportunity that we know is there. And also our ability to attract a greater share of the new car market which is a critical enabler for obviously average claims cost to improve over time.

Again, we've seen some movements in regulator pricing needs. So that obviously drives some written premium - written premium trajectory. But equally, we're deeply working ferociously at the movement around improving our average claims cost in the Queensland scheme.

And again, a huge program of work that's embedded in the best in class claims initiative to improve outcomes for customers in that very problematic end of our claims management. You know, get people off claim and get them back to living and back to work as quickly as we can so that we can improve the outcome for the customer and improve the average claims cost.

That program of work is really going well and we think that over time, that will be reflected in improved valuation and our ultimate goal of having our average claims cost sitting at below the scheme average.

So if you can get your average claims cost in a scheme like Queensland CTP sitting below the average of the scheme, with 45% share, it's a very good outcome for customers and shareholders.

Jeremy, do you want to talk to some of the current year dynamics?

**Jeremy Robson, Group CFO:** Yeah, look Steve, I think - I mean we're still a little bit ahead of industry average on claims costs. But there is a good news story in there in the sense that we are tracking down a little bit.

But the reason why it's not tracking down as fast as a headline as we can see in underlying is with a lot of that work the team has done, we have closed out a lot of older claims. So we've taken people off claim, which is a good thing. But that just means then that it slightly elevates that claims loss ratio.

But it elevates it in a good way and we can see some good underlying momentum, as Steve said, to get us back down to below industry average.

**Nigel Pittaway, Citi:** Okay, great. Thank you.

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

**Matt Dunger, Bank of America:** Yes, thank you for taking my questions. Jeremy mentioned the inflation being benign. I'm just wondering specifically on home whether there was any change in the mid-single digit inflation you've previously talked to? What benefits you're getting from the supply chain optimisation versus labour and material costs associated with COVID moving?

**Jeremy Robson, Group CFO:** Yes. So in home we are - inflation is around that 3% to 4% at a loss cause level. Whilst the strategic initiative benefits really start accelerate in the second half of '22, we still see a little bit of them at the moment with the work that Paul and the team have done on some of the sourcing and some of the data modules that have been put in place.

So that's helped to keep a lid on some of that average claims cost inflation. But what we have seen in home is frequency improvements across the entire set of loss caused, theft, fire, et cetera, we've seen improved frequency.

Maybe there's an element of that that's related to COVID but that improved frequency is therefore offset to a large extent, that inflation we're seeing in the home portfolio. And we're seeing - the team has called out some of the impacts around timber pricing and labour costs et cetera but we're still seeing cost inflation in that home portfolio in line with where the industry bodies are calling out inflation in home construction.

**Matt Dunger, Bank of America:** Great. Thank you very much. And I was just wondering, a second question if I could ask, around the banking net income falling to $2 million from $12 million in the prior half. Despite the pick-up in home loan volumes. Is this due to the lower - the personal loans exit and where will you derive future income from? What's the outlook for that line item please?

**Jeremy Robson, Group CFO:** Yes. Thanks Steve. Thanks Matt. Look, there are two key elements driving that reduction in fee income in the bank. One of them is around our everyday banking products. So we have made that fee free and we've effectively just seen a full run rate impact of that coming through.

We think that's a virtue. You know, the economics of removing those fees stacks up for us in terms of we can see that - the other side to that sitting in margins. The improved margin from the transaction account growth. So we think that stacks up and it gives us a very strong offer relative to the rest of the market.

Then in terms of - the other element to it is break fees. So an element of the fee income that we saw in the last couple of halves has been pre-payment break fees which have come off. We've also - I mean a pretty modest amount, a couple of million dollars. We've also, in the second half, moved those into net interest income which is where the other side of the equation sits.

So there's been a little bit of rebalancing there. In terms of fees - fee income, there's not a lot more fee income to run off than $2 million a half. Again, we think that's a positive that - particularly in the consumer space. We've now removed large elements of our fees so that we don't have the head winds of those fees coming off in the future.

So those are the dynamics at play around the fee income line.

**Matt Dunger, Bank of America:** Excellent. Thank you Jeremy. Thank you Steve.

**Steve Johnston, Group CEO:** Thanks Matt.

**Operator:** Thank you. Your next question comes from Doron Kerr with Credit Suisse. Please go ahead.

**Doron Kerr, Credit Suisse:** Hi. Thank you for taking my questions and congratulations on a strong result. Most have been answered, just looking at a bit more nuance around motor inflation side and claims there. Just wondering if there's a difference in the New Zealand market dynamics to Australia while you had - you know, like has there been benign? And also, anything around the increasing in total loss claims now, something specific. Presumably those claims would be higher now with the higher classes so maybe that would moderate it going forward.

**Steve Johnston, Group CEO:** Well, inevitably there are nuances between Australia and New Zealand, particularly in motor claims. I'll get Jeremy to run through some of the dynamics.

**Jeremy Robson, Group CFO:** Yes. I wouldn't read too much into the use of the word benign in New Zealand. The reference there was I think some people, some others have called out inflation being reasonably significant in New Zealand motor but we haven't seen that was the reference to benign, particularly in New Zealand. The motor average claims costs between Australia and New Zealand is probably roughly the similar amount.

We've seen cost inflation of in our book 3%, 4% against an industry inflation of 5% and when we look at that breakdown, yes, we've seen higher average parts prices, we have seen a little bit more total loss mix. Maybe that's due to in the first earlier parts less cars on the road, higher speeds, more significant collisions when they happen, but we have seen more total loss claims as well.

But then offsetting that for us has been our preferred repairer network, so we do have an element of fixed pricing in our supplier network for motor that just helps moderate some of those input inflation elements to that inflation level of around that 3% to 4% I called out.

**Steve Johnston, Group CEO:** Just to add to that, just in terms of inflation more broadly, we are watching it like a hawk. Again, we haven't seen much evidence of it flowing through the portfolio other than in those particular areas that Jeremy has talked to around roofing materials and some timber. But we are watching it like a hawk, and just to remind everyone, in terms of an insurance business like ours we watch inflation under four categories.

Obviously, there's the broader CPI basket that we track; there's the claims costs, some of which is consumed within, or subsumed within that CPI basket; average weekly earnings, which are very important in terms of the long-tail book; and the superimposed inflation, which is a concept that's very relevant for the schemes that we're working in. So, inflation as it manifests itself does come through those particular portfolios and it would be remiss of me not to make a point, having lived with inflation-linked bonds from 2011 when I was first Deputy CFO.

It's been a bit like following your favourite football team and they disappoint and they disappoint and they disappoint; well, this year I think having that portfolio of ILBs has been a material differentiator for us and underscores the reason why they have sat in the portfolio for such a long period of time. We will reassess based on where they have reset to, or breakeven has reset to, we will reassess the volume and the weight of them that we have in the portfolio.

But just to let everyone know and give everyone confidence that inflation as a concept more broadly is something that we track very, very carefully, not only with the reported data but with the forward indicators that you would expect us to have built into the business.

**Jeremy Robson, Group CFO:** Sorry, Steve, I'd just also add that inflation through to pricing is again a little nuanced. Obviously, we think about inflation in home, timber, et cetera. That's one element, that input cost element to inflation. There's then mix, so what's the mix of claims doing over time, and then there's frequency. Those three key inputs go through then to what we need to price for inflation. So just be careful, it's not a straight line between the inflation on input costs through to how we need to price the product through - couple of other important elements in there as well.

**Doron Kerr, Credit Suisse:** Great. Thank you. Just on the home inputs side, a lot of overseas insurers talk to more the wage/labour input cost being a bigger element than the actual raw materials. Is that the way you look at it here as well or is it a bit more equally balanced?

**Steve Johnston, Group CEO:** Yes, I think just generally if you take a step back from it as an insurance company in the supply chain interaction with an insurance company, obviously, motor insurance you are a big part of the supply chain. So, as an insurer your ability to influence that supply chain is probably greater than it does sit in the home portfolio, and that was ultimately the reason why we built our own smash repair network and ultimately divested it to let it continue to grow.

On the home side, there's obviously a lot more demand in the market, so an insurer is competing with the new construction market, the new home building market, the renovation market, the commercial market. So, we're not as bigger part of that input cost. What we do have as a scale insurer, and what Paul is really focused on at the moment, is making sure we leverage our scale as efficiently as we can. That means us having a view on invoices, on rates of procurement of all the products so that we've got a quality view across all of our suppliers.

As I mentioned in the presentation, the big focus in the next - for this half year will be refreshing and reassessing our building panel. So, we do look to our suppliers on a through-the-cycle basis, not to any particular demand-and-supply imbalance that might be there at any particular point in time. We do take a through-the-cycle view, but we are very much focused on leveraging the scale that we've got to make sure that we get better outcomes for our customers and shareholders.

**Doron Kerr, Credit Suisse:** Thank you.

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

**Siddharth Parameswaran, JP Morgan:** Good morning, gentlemen. A couple of questions if I can. Firstly, just on the margin trajectory into FY22. Jeremy, six months ago you commented on seasonality that you think is there between the first half and second half. Could you just comment on whether that doesn't apply this result and if so, why? Noting that I think you've flagged before that reserve releases play a part and we've seen some pretty strong reserve releases again in the second half.

Just a question on seasonality and whether that should influence our thinking about the starting point on margins. And another question on margin trajectory, which is just around run yields. Where are those likely to be over the next year given you're risking up your book?

**Jeremy Robson, Group CFO:** On the seasonality question, Sid, I recall well your questions at the last briefing. Look, I think the key element of I call it volatility, we try what we can do to take all volatility out of the underlying ITR so that it represents a true trajectory, but that's not always possible. So, we do call out that current year losses and obviously in the first half generally speaking we've got three months' worth of experience versus nine months in the second half. So, to the extent that there are reserve strengthening or release strengthens, or releases for that matter, they tend to be amplified more in the second half than the first half, but not always the case.

Then to seasonality, there are elements of potential seasonality but they're a little bit hard to pinpoint with degrees of accuracy. Maybe there are some elements around fire, what happens to fire claims getting ready for winter, maybe there's some seasonality in New Zealand, but the key one that we call out really is in terms of that inherent volatility that's residual in the underlying ITR. Maybe there is a bit of noise around seasonality but it is in that current year loss outlook, and a little bit on investment markets. With the current year losses, the one we've called out **-** the two we've called really has been CTP current year releases and some of the large losses in commercial. In the scheme of 140 basis points of margin expansion, they largely offset **-** the benefits there largely offset the retraction in New Zealand, so reasonably modest and offset by what we're seeing in New Zealand.

In terms of the trajectory, do you just want to clarify that question for me?

**Siddharth Parameswaran, JP Morgan:** Just to be clear, you are saying there is an impact on the underlying, which is basically New Zealand offsetting some inherent seasonality in the starting point. Does the New Zealand trajectory continue into next year? We should be starting from a lower number than the second half starting point, underlying margin at 7.4 and that's worth about 1.4%? Am I understanding that correctly?

**Jeremy Robson, Group CFO:** Look, we have had a retraction in New Zealand, which we have called out for a few halves now that we expect that working loss ratio in New Zealand to normalise to a more sustainable level and we've seen that come through in the second half. I would consider that to be a reset for New Zealand.

Where we see New Zealand margins exiting the second half of '21 is where we expect to see them going into '22. That current year loss reversal is pretty modest in the scheme of things. In our outlook I've presumed that most of that does not repeat in '22, but we've allowed for that in that outlook that I've given around the first half '22 in line or better, and then second half '22 seeing some acceleration.

**Siddharth Parameswaran, JP Morgan:** Okay. Thank you. Sorry, the second part of that question was just running yields into the next half, given that you're risking up a bit just what that should do to running yields.

**Jeremy Robson, Group CFO:** Sorry, on the investment portfolio. Look, the key driver to the investment portfolio is yes, that will help a little bit, but it's around the margin. The key driver is where credit spreads are and 65%, 70% of our portfolio is in credit spreads and with the term of our portfolio and quality they're around - we expect them to be around 45 basis points next year, so 60%, 70% of that is somewhere around 30.

We'd expect 15 to 20, and we would expect some of the ILB carry to revert to a positive given where CPI prints are in FY22 which might add another 8 to 10. So, given where credit spreads are, I don't think we'll get to 60 to 80 basis points in '22. We'll probably be at the bottom end of that, but it's really driven by credit spreads. So yes, a little bit better than where we might have been given that rebalance to credit, but it's around the margin.

**Siddharth Parameswaran, JP Morgan:** Okay, thanks. Thanks for that. My second question is just a couple of classes which perhaps we haven't had as much detail on. Just around the issue of claims inflation versus premium rates on CTP and commercial, could you comment on what's happening in the market and the differences between those two? I think you've given us good colour on motor or home but probably not the same colour on CTP and commercial.

Steve Johnston: Jeremy, do you want to go through those?

**Jeremy Robson, Group CFO:** Yes. CTP on Queensland, we have seen some net price reductions there. In terms of claims, I think claims are progressing as we'd expect in CTP Queensland and New South Wales, not too much to call out really. Claim size and frequency are running where we'd expect them to be, maybe a little bit better. On New South Wales, we're not reserving the new scheme to the full 10%, I think we've called that out before. There is discussion obviously that the new scheme, the first couple of years have got reasonably profitable outlooks for them.

We're not reserving to the 10% floor anyway so that net is upside for us in terms of where reserving goes. On pricing, we've seen some continued price reductions in ACT because of the scheme reform, we've seen some continued price pressure in New South Wales, again as scheme reform becomes clearer and people get more comfortable around the outlook for claims costs. Bearing in mind with New South Wales CTP 70%-odd of the outstanding reserves on the new scheme are in the common law category of claims, so there's still a degree out uncertainty outlook around there.  We're seeing favourable developments in the old scheme in New South Wales.

Then on commercial we're seeing a slightly better outcome than our forced loss ratios.  So we're seeing some margin improvement in commercial, which means that we are pricing ahead of inflation in those portfolios at the moment.  We have seen, as I say, some good claims experience relative to forced loss.  Some of that's frequency, and some of it is just relatively benign large losses.  But it's lumpy.  Commercial with large losses et cetera can be lumpy.

**Siddharth Parameswaran, JP Morgan:** Yes, okay then, thanks Steve.  Just a question related to that, a final one from me.  Just on superimposed inflation assumptions and AWE assumptions on the CTP, particularly in Queensland.  Could you just comment on whether those have changed over the year, and whether we should still be expecting that 1.5% of release on a go-forward basis?  That's assuming your underlying margin calculation.

**Jeremy Robson, Group CFO:** Yeah, so we're still expecting 1.5% as our sort of long-run outcome around reserve releases. We haven't changed substantively the superimposed or average weekly earnings assumptions in our CTP portfolio. Except to say, that we have - we had a stepped, a step-up in average weekly earnings increasing from 2.5% to 3.5%. What we have done is just modestly brought forward that acceleration.

So if anything we have taken a more conservative approach to inflation in the CTP portfolio. Which everything else being equal, and assuming that inflation remains relatively benign, we still expect to get those level of reserve releases.

**Siddharth Parameswaran, JP Morgan:** I'd just like to be clear on that, I mean you've increased your inflation assumption by, you're saying that profitability has slightly improved on CTP, is that right?

**Jeremy Robson, Group CFO:** Yeah, we have slightly, so we have slightly - we have made our reserving assumptions slightly more conservative on CTP. But we've done that in the face of an expectation that inflation picks up a little bit. So everything else being equal, therefore we would expect the reserve releases to be similar. Yes, there's been a little bit of price reduction, but that's not going to impact on those releases too significantly.

**Siddharth Parameswaran, JP Morgan:** Thank you very much.

**Steve Johnston, Group CEO:** Okay, we'll go to the next question.

**Operator:** Thank you. We have reached our allocated time for questions. I will now hand back to Mr Johnston for closing remarks.

**Steve Johnston, Group CEO:** Okay, thanks everyone. Just before we go let me just briefly mention vaccines, which are a very topical issue around the country at the moment. Just to reiterate that all members of the Board and the Australian ELT are either fully vaccinated or awaiting their second dose. Jimmy is in the queue over there in New Zealand. I had my second dose of AstraZeneca last month, and I'm really pleased to have done so.

At Suncorp we're advocating, all of the Leadership Team are advocating for all Suncorp people to get vaccinated as soon as they can. As a means of protecting themselves, their family, their friends, their colleagues, our customers, and of course the community more broadly. The Chairman and I have taken that message out more broadly to the market through an open letter in today's newspapers. You may have seen that.

So in wrapping up today, stay safe, and when you're able to, please get vaccinated. Thanks, and we'll talk over the next couple of weeks.

**End of Transcript**