Start of Q&A session

Kelly Hibbins, Head of Investor Relations: Thanks Michael. So if I can just remind people to announce where they're from and their name before they ask the questions. We'll go to the room first. Andrew?

Andrew Buncombe, Macquarie Securities: Andrew Buncombe, Macquarie Securities, two questions on the bank please. I noticed that the cost to income guidance of around 50% has been removed and in this half at least it ticked the opposite way, loan growth probably isn't coming through as quickly as you would have thought. How should we be thinking about the cost to income guidance in the bank for the medium to longer term?

Michael Cameron, CEO & Managing Director: Now we're still pursuing the 50% target, but given the increase in regulatory costs in the current period and the slow loan growth, we see the outcome that we have at the moment. If I think about the balance of this year, I would expect the second half to be similar to the first half. But over time, of course, regulatory costs will taper off and as we continue to pursue growth in the business, we would still be targeting the 50%.

Andrew Buncombe, Macquarie Securities: Excellent and then the other question was on the agriculture portfolio, I notice one of your big competitors in the agri lending space took a provision for that at their result one or two weeks ago. Just how are you thinking about that drought on the east coast at the moment?

Michael Cameron, CEO & Managing Director: Yes, we've got a $20 million collective provision over the top, but having gone through the book, the team have done a great job at just assessing our overall exposure. We continue to be very comfortable with the level of cover. We continue to anticipate reasonably or relatively low loss rates.

Of course in recent times, the issue of the flood (sic) has become less of an issue and been replaced with some fairly severe flooding, particularly in northern Queensland and we are working with those farmers to help them through that process. But the headline comment to your question is we're comfortable with where the book is at the moment.

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

Operator: Please go ahead.

James Coghill, UBS: Good morning everyone. Michael just a question firstly on your guidance. I'm just looking at slide 30 here and your statement in bold is that you still expect to perform on an underlying basis in line with original guidance, but I haven't heard you talk about a 10% ROE at all and I can't see 10% ROE being reiterated anywhere other than on that slide where you say 10 plus. But there are a lot of caveats and comments about past budgets, et cetera. So is 10% still a relevant number for you and should we be thinking about 10% into financial 2020 as well, 10% ROE?

Michael Cameron, CEO & Managing Director: Thanks James. We haven't restated any of our guidance for this year, given that it's an interim result and look, I acknowledge that natural hazards and investment performance is a core part of our business. However, we've provided this slide to assist in understanding firstly the strength of the underlying business and the impact that natural hazards, regulatory costs and the investment markets have had on firstly the half year result, but also indicating that clearly they will have an impact on us achieving the 10% cash ROE on the full year.

James Coghill, UBS: Fair enough, but can I just - I mean the previous group outlook statement, the first line is that you're targeting a 10% cash ROE in financial 2019, so I mean you're saying to me now that you haven't changed any of your assumptions, but you have actually taken that overarching core and assumption out. I mean I get that on an adjusted basis you did 9.7% in the first half, so I'm just struggling to understand why you're still not comfortable with an adjusted cash ROE at 10% in the second half, sorry, for the full year.

Michael Cameron, CEO & Managing Director: Well if I'm hearing your question correctly, what you're suggesting is excluding the impact of those external factors, the underlying business is going to generate a cash ROE of 10%. If that's what you're saying, I'm happy to confirm that that's correct.

James Coghill, UBS: Yeah. Okay, but that's still the number for the full year?

Michael Cameron, CEO & Managing Director: Yes and hopefully you can see our natural hazard position and Steve's provided, I think, a lot of detail about the strength of the cover in the second half, clearly $220 million over allowance for the first half has a big impact on our ability on an absolute basis to deliver that. But underlying business is still strong, resilient and we make the comment there that we expect the underlying business to perform in line with our original guidance.

James Coghill, UBS: Okay, that's great. Just a quick question on this higher natural perils allowance of $100 million listed there, could you perhaps just take us through the process that was applied to arrive at that? I mean this has been a recurring, ongoing debate for Sun for a number of years and you've always pushed back on criticism that it was too low. What changed in the process to assess that perils budget over the last few months that led to that $100 million increase?

Michael Cameron, CEO & Managing Director: Yes, well ironically last year of course we came in pretty close or just under the allowance and that did give us some confidence. But I'd have to say, after the first half, we see a repeat of an increased level of severity, an increased level of frequency. Our calculations previously have evaluated over a reasonably long period of time. What's changed is we've now taken probably a shorter term view of the history and had a good look at expectations about the future and factored those things in to come up with what clearly has been an issue for some time, that we've moved up the allowance of $100 million. But I think probably more importantly, the additional $200 million of cover over and above that puts us into a strong position.

James Coghill, UBS: Okay and just on that last cover that you put in place there, that's likely to be a very expensive layer to fill, are you in a position yet to comment about a 12% underlying margin into financial 020 once the new perils allowance and that reinsurance cost is absorbed?

Michael Cameron, CEO & Managing Director: Sure. The cost of the $200 million of cover, we think, will be somewhere in that sort of $40 million to $50 million range, so hopefully that's helpful. The allowance of course, you understand the impact there.

James Coghill, UBS: Yes.

Michael Cameron, CEO & Managing Director: So as we go into FY20, there are a number of other factors, we're just sort of in the business planning process at the moment. The big issue really is to get a feel over the next few months of what the sort of ongoing regulatory costs will be.

Now there is a component of the 150 that we've talked about today which is a one-off, but clearly we'll know a lot more once the regulators, government and the industry have gone through some of those issues that came out and the recommendations and we'll be in a much stronger position. But the regulatory costs is probably the biggest uncertainty in forecasting what the number might be for FY20, but the 12%, is still a number that we will be working towards into the future.

Steve Johnson, Chief Financial Officer: James, just to follow through on the ITR question and the reinsurance issue, I think one of the ways to look at it and I'm very familiar with your most recent research where you roll forward an allowance of around 790 for FY20, so it's a sort of $30 million incremental upside to that number, plus the $45 million of reinsurance costs on it is around 75 basis points of ITR going forward based on the numbers that you've published.

James Coghill, UBS: Sure. Okay, thanks for that.

Kelly Hibbins, Head of Investor Relations: David.

David Ellis, Morningstar: David Ellis from Morningstar. Michael, can we go back to the Royal Commission slide that you had up in the presentation and I mean obviously it's very, very early days and there's a lot to come out as far as the implementation of some of these recommendations, but I'm particularly interested in the Royal Commissioner's recommendation on broker remuneration. So I've got a few questions around that.

So the first one is a simple one about what's the proportion of Suncorp Bank's mortgages that are originated through broker channel?

Michael Cameron, CEO & Managing Director: Sixty-eight per cent.

David Ellis, Morningstar: Sixty-eight, thank you. But the other questions are more longer term. Obviously the recommendations cover both trail and upfront commissions and obviously the government has announced a ban on trail commissions from July 2020, and then a further review in a couple of years after that on the upfront commission and whether to move towards a customer or borrower paid fee to the brokers, away from the current lender paid fee or lender paid commission.

So my questions are do you think in July 2020 when trail commissions are banned that the upfront commission at that time will be increased to approximately offset for loss of trail income or trail commissions? Then the next question is after the stated review in a couple of years after that do you think that the likely outcome is that the industry structure will move to borrower paid upfront fees away from lender paid commissions, or do you think that the current system may be retained, and most importantly what do you think is the likely impact on Suncorp from either alternative?

Michael Cameron, CEO & Managing Director: Yes, of course and whilst the recommendations only came out a little over a week ago this is not a new issue. It's been around for many years and we've given a great deal of thought. A couple of high level comments. I don't think it's anyone's intention to see the market power that the major banks have to see that increase, so that's the first issue in going through a process of change.

We're supportive of the general direction of reviewing this because we want to see increased transparency over the process. We also want to see any conflicted remuneration or incentives removed out of the process to create a fairer outcome for customers.

But it's very, very difficult at this point to answer any further questions about how it might play out. Now we're particularly concerned about churn in the industry from a removal of those trail commissions, and it's difficult to understand the impact on customers and their willingness to pay an upfront fee to brokers.

It's an important distribution process for us and for the industry and for customers. I believe they are valued by customers and we're just going to have to work with government and the industry to try to avoid any of the unintended consequences of producing an outcome. How it's implemented and what the adjustments are is really hard to make a call on at the moment, David.

David Ellis, Morningstar: Thank you.

Kelly Hibbins, Head of Investor Relations: Might go back to the phones.

Operator: Thank you. The next phone question comes from Ross Curran from Deutsche Bank. Please go ahead.

Ross Curran, Deutsche Bank: Hi gents, just a couple of quick questions. The first is on the volume loss in personal loans. Can you give us a bit more clarity just around where you're seeing it and is it brand-specific?

Michael Cameron, CEO & Managing Director: Sure. If I look at that part of the business, firstly the pleasing thing is retention has held up well. It's been very stable. The real issue has been new business opportunities. When I think of the external factors, yes, there's been a dramatic slowdown in the sale of new vehicles year-on-year which may come as a surprise. Also of course the volume of new homes and sales has dropped off as well.

So those external factors have an issue, but for us we have been repricing the book right across the motor and home portfolio and that has definitely had an impact. We expected the rest of the industry to price in the claims inflation that's occurring. That hasn't been as evident as we thought across the industry. As we go into the

second half we will be doing targeted repricing and looking to reinforce our marketing spend in that period to turn around that unit loss which is critical.

I suspect in the mass brands is probably where we've seen some of the biggest impact. A lot of that's been driven by some of our marketing choices and we've now stepped up. You may have seen a bit of an increase in the volume of advertising around those mass brands which we expect will deliver a better outcome in the second half. But overall a GWP growth in both motor and home was quite pleasing, notwithstanding the loss of units.

Ross Curran, Deutsche Bank: I assume that increase in that spend is included in the guidance?

Michael Cameron, CEO & Managing Director: I just missed what you said sorry.

Ross Curran, Deutsche Bank: I'm assuming that increased advertising cost that's included in the guidance.

Michael Cameron, CEO & Managing Director: Oh, yes, absolutely right and it's very much around where it's directed and how it's spent and the timing of those, and whether they're campaigns or master brand promotions and those sorts of things. But, no, it doesn't reflect an increase.

Ross Curran, Deutsche Bank: Sure. The second question's around the Bank. Can you give us an update on the core banking platform migration.

Michael Cameron, CEO & Managing Director: Yes. Well just for everyone's background who doesn't know the detail, we're currently running two systems - Hogan for deposits and transaction and Oracle for everything else. That is inefficient because Hogan costs us about $11 million per annum to run so it's not a great situation.

The process we've been going through is to wait for an opportunity to move those deposits and transactions onto Oracle in a low risk way with a stable system, and you can imagine from a transactional perspective the last thing we want to do is to create a situation where it's not stable.

We've been looking to Oracle to provide evidence around the world or within Australia of a successful deployment of that module. When we see that we will then move forward with following another bank in deploying that module, which will allow us to close down the Hogan system and get that benefit of the saving.

But at the moment I suspect most of the Australian banks are going to be very distracted in other areas, and that possibly will slow down some of the implementations that may have been proposed.

Ross Curran, Deutsche Bank: Thank you.

Michael Cameron, CEO & Managing Director: Thanks Ross.

Kelly Hibbins, Head of Investor Relations: Questions on the phone?

Operator: Thank you. The next phone question comes from Matthew Dunger from Bank of America Merrill Lynch. Please go ahead.

Matthew Dunger, Bank of America Merrill Lynch: Thank you very much, it's Matt Dunger here. Just a question on your reinsurance arrangements. What does the higher CAT allowance imply for your reinsurance renewal? Will you continue - will you look to retain a similar program to what you have historically? Is there any potential to do quota shares to reduce some specific exposures?

Michael Cameron, CEO & Managing Director: We look at the whole structure and the coverage of firstly the natural allowance and the NHAP and then stop loss and then the CAT cover. So as you know, it's complex, but that additional cover shouldn't impact the level of CAT cover that we have in place. So you should anticipate a similar structure to what we've had in the past, except for the addition of that additional stop loss cover over and above the allowance.

Matthew Dunger, Bank of America Merrill Lynch: Okay. On the underlining ITR, the impact from the higher reinsurance cost, to what extent do you think you can price for this into FY20?

Michael Cameron, CEO & Managing Director: Well it certainly won't be in year one and it really just depends on the overall market and how it can withstand those sorts of changes, so I would expect multiple years. We're

doing a three year plan at the moment. I would expect towards the end of that we would see a situation where we could fully price that in, but it will depend on what happens with competitors over that period of time.

I go off the back of fairly significant hailstorm in Sydney and the devastation in Townsville. It certainly does put pressure on claims inflation generally and provides probably a little bit of kick along for the hardening market.

Matthew Dunger, Bank of America Merrill Lynch: Okay, thanks very much. Just lastly, on the non-interest income in the Bank, are you able to take us through some of the drivers of the fee declines and lower commissions that you're talking to.

Michael Cameron, CEO & Managing Director: Yes. David Carter normally has an opportunity to say at least one thing at these so I'd hate to miss that opportunity today. But generally what you'll see is when we dropped off the ATM transaction fees, that is the lion's share of that and that had a big impact on our non-interest income.

We've also been pulling back on other fees and charges just in line with community expectations and consistency with the banking industry. But David is there something you need to add? Have I left something out?

David Carter, CEO Banking and Wealth: The key other one specifically would be the honour fees for overdrawn accounts [unclear].

Matthew Dunger, Bank of America Merrill Lynch: Thank you very much.

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

Nigel Pittaway, Citigroup: Morning guys, a few questions if I could please. Just first of all on New South Wales CTP, are you earning above the new cap there and therefore having to provide for an amount to go back to the regulator?

Michael Cameron, CEO & Managing Director: I might just get Gary to make a comment on that. It's probably going to be no, but -

Gary Dransfield, CEO Insurance (Australia): That's correct Michael. We've taken a fairly conservative view at the moment so our position's different to the one that was reported last week by another insurer.

Nigel Pittaway, Citigroup: Alright, okay, alright. Secondly, just on the outlook for New Zealand, you make the comment there that the outlook's positive, but presumably the first half benefited from some benign large non-hazards. Would that be fair to say, that it might be unlikely to repeat?

Michael Cameron, CEO & Managing Director: That's right. The 80% uplift definitely reflects a very benign period. Having said that though, GWP growth continues to remain strong at 8%, expenses are under control and we're very pleased with where New Zealand is, and fingers crossed that benign period continues into the second half.

Nigel Pittaway, Citigroup: Okay, and then maybe just finally on the Life sale, I mean it's only 14 days to go yet you are saying that's still very much out of your hands in terms of regulatory approval. It doesn't sound as though you're totally confident. Am I reading that correctly?

Michael Cameron, CEO & Managing Director: Well let me just say we're confident that the completion will occur by the 28th and I can't speak for APRA and I can't speak for the treasurer, but based on what I do know, I think we can sit here with a level of confidence that that will be completed on time.

Nigel Pittaway, Citigroup: Okay, thank you.

Michael Cameron, CEO & Managing Director: Thanks Nigel.

Operator: Thank you. The next phone question comes from Daniel Toohey from Morgan Stanley. Please go ahead.

Daniel Toohey, Morgan Stanley: Oh thanks guys, just a couple of questions. Firstly, if I roll in $100 million higher allowance and $45 million higher reinsurance fee, the FY20 underlying headwind would be around about 160 basis points. So just wanted to get some comfort around the capacity for continuing rate increases,

particularly across the Home and Motor, given that you've seen some fall in unit growth in the second half, on the basis that rates have sort of probably been a little – rolling through a little too high.

Michael Cameron, CEO & Managing Director: Yeah. You would have seen the pricing increases for us are about 6% in motor, about 3% in home. As you know, Dan, we traditionally say 3% to 5% going forward. But given where claims inflation is at the moment, I think that's still supportive of those sorts of levels and we just need to be responsible in that process and continue to monitor the reaction of the market to the situation we're in.

Daniel Toohey, Morgan Stanley: I guess just sort of clawing that back, the 160 basis points, is that a medium term - I mean, does the 12% underlying ITR then become sort of a medium-term proposition?

Michael Cameron, CEO & Managing Director: We'll be working towards 12%. I made the comment a little bit earlier that the regulatory costs, there is a component of one offs this year. Ultimately, they will taper off, but we don't know when at the moment, and that repricing will occur over time. I specifically called out that when we get to the full year we'll be in a very strong position to be able to answer some of those questions.

But where we are at the moment, it's a fair period of time out. It's just - there's just too many moving parts at the moment to be confident in making firm commitments. But I think the underlying part of your question is how we feel about 12%, and that remains our target.

Steve Johnson, Chief Financial Officer: I think Michael's sort of given you the ups and the downs there in terms of how that might flow through. The only other point to make is that when you report - as we've seen this over many years, when you look at the underlying ITR in a sequential basis, there is some seasonality in it, particularly around the long tail book. The valuations for current year profitability in the CTP portfolios only reflect three months of experience when you do a valuation in September.

When you do the full year valuation in March, they tend to put more weight on the current year. So historically, over the past three to four years, the first half underlying ITRs been depressed relative to the second half, and I'd expect that to continue. There's good momentum flying through the earned line across most of the portfolios. Particularly in New Zealand where written premium is tapering off a bit, as you would expect, the earn of that premium is starting to flow through very strongly.

I think there's lots of variables that we have to work through in our planning process but 12% still looks to be a reasonable target over the medium term.

Daniel Toohey, Morgan Stanley: In the current accident year margin - underlying margin headwinds in Queensland, is that from the repricing of the trend and repricing - that continues to be a headwind as well as that right?

Steve Johnson, Chief Financial Officer: It does on an earn basis for sure. But pleasingly, the most recent filing from the regulator was flat. So there's been no further reduction for the 1 April filing, so that's good news. Although we continue to believe that there is room for filing increases given the way the scheme is performing and the generally low investment returns that we're getting off those portfolios.

Daniel Toohey, Morgan Stanley: Okay. Apologies if I may have missed this, Michael, but I was just wondering if you had some more detail or specific measures on retention just across the portfolio?

Michael Cameron, CEO & Managing Director: It's been very, very stable right across the board actually. I've got 82 as a number in my head, which is where it was 12 months ago, that's where it was six months ago. Line by line which is really pleasing in an interesting market at the moment. So if we can continue and improve that, that will be fantastic. That's our plan. If we can see some turnaround in the units across the consumer portfolio, again, that will also be pleasing and that's also our plan.

Daniel Toohey, Morgan Stanley: Okay. Is that tracking to where you thought things would progress in light of your strategy?

Michael Cameron, CEO & Managing Director: Retention is a key part of the strategy. Ironically, if you step back and look at the recommendations that come out of the Royal Commission, and I think what they do is they reinforce the relevance of our strategy around the customer, and they also reinforce the importance of implementing, at pace, a digital - a large digital component in your business model going forward. That's what we're delivering. We're seeing big improvements in customer experience.

But, of course, the opportunity now, as we go into the second half into the next year, is to convert those improved levels of experience into better levels of retention, better levels of new business. Some of the other customer metrics that we provide. Then, of course, more revenue. I'm confident we're on the right path, I know we've got a sustainable business model. The underlying performance of the business is strong. I just think it's all working well. There's been a couple of major factors this year of course, and this half which weren't pleasing around the natural hazards and the investment performance. Of course, I think we're making the right decisions about the natural hazard allowance in the future, and we're being very prudent in our approach to the regulatory costs. Now, we may not spend that money, we may. But I think to call it out today as an expectation is a prudent thing to do.

Daniel Toohey, Morgan Stanley: Okay. So retention's holding. What about products per - has there been any increase in products per customer?

Michael Cameron, CEO & Managing Director: Yeah. We see it in our reward and recognition program. Against the users, there's been a very visible uplift in retention around 3%. Also, a good increase in the amount of products that are being purchased by our customers off the platform, which is good.

So the opportunity, as I said, now is to roll that experience out across our nine million customers and really get that uplift in performance that I know you've been looking for. Now, we only just finished the investment last year. We continue to refine elements of the program, and it's performing well. But we obviously need to deliver a lot more, which is what you want to see.

Daniel Toohey, Morgan Stanley: Okay, thank you.

Michael Cameron, CEO & Managing Director: Yeah, thanks Dan.

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

Siddharth Parameswaran, JP Morgan: Good morning gentlemen. Just a couple of questions if I can. Firstly, just on reserve releases, they were pretty strong again in this result. I was hoping you could just make a comment about the likelihood of these being sustained going forward. But also, just the validity of the 1.5% normalised allowance going forward given that New South Wales CTP presumably going forward that won't be a source of reserve releases?

Michael Cameron, CEO & Managing Director: Yeah, it's almost a standard answer as you would expect. But 1.5% continues to be a sensible long-term level. We will eventually get to that point. We've had a ridiculously low level of inflation in the most recent period. That has cost us from an investment perspective in relation to our portfolio. But of course, the precise reason we did that was to offset the risks. What we see as a result of that offsetting it is the high level of increases.

Look, as long as inflation remains low in the second half we would expect a continuation of a higher level than 1.5%. But eventually, as you know very well, we would expect that to taper back. At the same time that occurs, we'd also expect to see stronger investment performance on those inflation linked bonds, et cetera. Steve, anything you want to add?

Steve Johnson, Chief Financial Officer: No, but I think that's a very good summary. We would never be in a position to predict what the reserve releases do. It's an independent piece of work by the valuation actuaries. We'd never also give up on the potential to improve the claims performance.

So the various factors that go into that realise number are the absence or otherwise of underlying inflation, average weekly earnings inflation, super imposed inflation. But you also can improve the performance of the scheme through managing your claims as efficiently as you can.

That's one area certainly that BIP programmed in the first half of this year and certainly through the residual of the BIP will be very focused on personal injury claims cost and the extent that we can achieve better performance than the scheme averages, then we will start to see those - the outcome of that coming through in reserve releases over time. So if we maintain lower levels of inflation, no super imposed inflation, we continue to improve the way we manage claims, then we can continue to expect releases potentially well above the 1.5%.

The only caveat always is to say that at some point you will expect and can expect the re-emergence of super imposed inflation. It hasn't been there for a decade of longer. But we've got to be very conscious that at some time it could emerge. When it does emerge, if it does emerge - let's hope it doesn't, but if it does it comes at a rate far greater than 1.5% in any one year.

Siddharth Parameswaran, JP Morgan: Okay. I suppose you're painting quite a rosy picture even though, I suppose, half your sources of reserve releases may not be available going forward. But I take your point, perhaps there's still potentially something on Queensland CTP and maybe other long-tail portfolios.

I might just move on. Just a question around pricing versus claims inflation. Could you just comment on just your key classes? I think you mentioned rate increases of 6% in motor 3% in home. Could you just comment also just on commercial; what rate increases you're getting and also how, on these classes, it compares versus your current forecast of inflation.

Michael Cameron, CEO & Managing Director: On a commercial side, as you know, there's three categories. We continue to get 4% or 5% increases in the small end. But in the medium to large end, we're still in that mid to high teens from a pricing perspective. So we've been quite selective in that pricing and focus very much on rate rather than volume. As you will see, the GWP was up 3.6% I think.

We're very pleased with that outcome that translates to a stronger business overall. The specific question on the consumer book, I'm not sure how deep you want to go into that. I made some comments already just on the claims inflation and the pricing on each of the books. Gary, is there something else that you think that we can add just to put some extra colour on that question or answer to the question?

Gary Dransfield, CEO Insurance (Australia): On the Consumer?

Michael Cameron, CEO & Managing Director: Yeah

Gary Dransfield, CEO Insurance (Australia): Yeah, look, there are plenty of moving parts still in consumer claims between Home and Motor. We were very keen to make sure we were trying to take account of as many of those moving parts between large loss frequency, total loss frequency in Motor due to some regulatory changes.

I think we're very comfortable that we've priced appropriately for all of those inflation factors, and that we think that sets us pretty well for where we're seeing inflation heading now and starting to moderate somewhat.

Michael Cameron, CEO & Managing Director: So that Motor claims inflation that we've experienced. I think we were talking last half around 1% to 2%. That's kicked up a little bit. It really just - one of the big factors in that really reflects the change in approach to payouts on total losses.

With a motor vehicle, historically, they would have been paid out at the market value, and we now pay out on the insured value. That's had quite an impact on the overall cost of claims in the motor vehicle portfolio, and that sort of moved it up from 2% to probably more like 4%.

Gary Dransfield, CEO Insurance (Australia): If I just add a little bit, Michael, on the commercial book because it does tend to get a bit lost in - given the portfolio exists and the like. We are seeing good momentum in terms of commercial pricing trends. Certainly in the mid-market increases and mid-teen type increases going through with improving levels of intention and 3% to 5% in that SME area.

I think for the first time we're starting to see improvement in margin, in underlying margin. It's going to be as obvious in the underlying waterfall walk this half. But going forward, we're starting to see those margins getting back to where they need to be in terms of our expected level of margin for the profitability we assume in those portfolios.

So that is I think a story that could get lost in the commentary because of the various portfolio exits and the like.

Siddharth Parameswaran, JP Morgan: Thank you very much.

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

Ashley Dalziell, Goldman Sachs: Thanks and good morning. Guys, I apologise if I've missed, but I just couldn't find any reference this morning in the material to the $2.7 billion cost base target for FY19.

I realise your performance in the half is well within that guidance range. But is that still officially a feature of the guidance for the full year?

Michael Cameron: As you point out, Ashley, the $1.3 billion for the first half indicates a pretty good trajectory there. The costs associated with regulatory will increase in the second half. But we're still confident of the $2.7 billion target and achieving that.

Ashley Dalziell, Goldman Sachs: Okay, great. Then to the extent that you can, thinking through into FY20. I take your point that some of these reg and compliance costs are project related which might drop out at some point. But are there enough Opex BIP benefits coming through into FY20 to kind of hold that $2.7 billion for another year?

Michael Cameron, CEO & Managing Director: You would have seen the success we've had in the Business Improvement Program. In fact exceeding our targets again this half. We expect to exceed the targets on the full year. So that goes a long way.

But as you'll go towards FY20, $2.7 billion is still a goal and we just need to wait and see where we get to on the regulatory costs. That will be the big swinger. It may be significantly less, which would be good. It may be more, it might be about the same. But we still target $2.7 billion as a goal.

Ashley Dalziell, Goldman Sachs: Thank you.

Michael Cameron, CEO & Managing Director: The concept of absorbing growth and inflation and those sorts of things into a relatively flat cost base is fundamental to the strategy going forward.

Ashley Dalziell, Goldman Sachs: Thanks guys.

Operator: Thank you. The next question comes from Brett Le Mesurier from Shaw and Partners. Please go ahead.

Brett Le Mesurier, Shaw and Partners: Thanks. Just on the bank, the gross impaired assets has increased by 20% over the past year. But we only - well, we've seen an 8% reduction in the specific provision which had an impact on your bad debt charge presumably and one reason why it's low at $7 million. Can you comment on why you think you should be holding less specific provisions as your impaireds increase?

Michael Cameron, CEO & Managing Director: I might let David make a comment, that's a lot of numbers Brett.

David Carter, CEO Banking and Wealth: Yeah, so the composition Brett of the impaireds has changed over time. We've seen a fairly large reduction in the non-retail, which tends to be where you have the relatively high specific provisions.

Then on the retail portfolio we did actually see that moderate in the half. We actually increased the provisions on that as we have taken into account some falling or softening market conditions coming through.

We had a couple of recoveries in this last half on some longstanding commercial, or non-retail, exposures where we had a provision put aside and we didn't need to rely upon it to the extent we had expected.

Brett Le Mesurier, Shaw and Partners: Your commercial lending impaireds increased by 69% in the year from $39 million to $66 million. The only category that fell was agri, which fell from $50 million to $37 million, and retail went up from $27 million to $61 million. It doesn't sound like a great deal of mix change going on.

David Carter, CEO Banking and Wealth: Well, we're happy with where it's at. The outcome is the outcome on the provisions. So it's - there's new ones come in, there's old ones go out. We're happy with where the provisioning is at.

Michael Cameron, CEO & Managing Director: Brett, maybe we can take it offline and go…

Brett Le Mesurier, Shaw and Partners: Okay.

Michael Cameron, CEO & Managing Director: …from through it there. There's a fair bit of detail there. Maybe we sit down separately and take you through that answer.

Brett Le Mesurier, Shaw and Partners: Thanks. I have a question on deposits as well. The deposit costs are up five basis points from the June half the December half. You've had a reasonable amount of growth out of that, about 3%. But the five basis points increase is a little bit more than we're seeing some other banks. Do you have a reason as to why, an understanding as to why your deposit costs are increasing a little bit more than the others?

Michael Cameron, CEO & Managing Director: Yeah, I think it's reflective of the significant increase in the growth saver account, which is slightly higher interest rate, which is purely mix. But that's seen our funding ratio increase by 1.5%, so from a retail perspective, which has been a big plus. But David, is that the right answer?

David Carter, CEO Banking and Wealth: Yeah, again it's the mix as you said Michael. We're seeing customers prefer higher interest rate bearing products. So I think you're seeing a mix of performances across the market. We're observing a mix in pricing strategies across the market.

Michael Cameron, CEO & Managing Director: Yeah.

Brett Le Mesurier, Shaw and Partners: Great, thank you.

Michael Cameron, CEO & Managing Director: Thank you.

Kelly Hibbins, Head of Investor Relations: Okay, great. Well, we might leave it there. Thank you all for joining us and we will speak to you over the next few weeks.

Michael Cameron, CEO & Managing Director: Great, thanks everyone.

End of Transcript