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Michael Cameron: Good morning everyone. Welcome to everyone that's in the room and on the line. Hopefully you've had a chance to look at the pack that we distributed this morning. Probably more importantly I hope you've had a chance to view the pre-recorded commentary that we put together.

Joining me in the room today is obviously Steve Johnston our CFO and the rest of the SLT who are available for questions. Before we start the questions though I thought I would just make a brief couple of comments. Firstly, I'm very pleased with the result of $1,075 million. It's up 3.6% on the previous year. That's been driven by strong top line growth and also disciplined management of margins. The underlying ITR for the second half was 12% reflecting all the good work that's been happening with working claims. The dividend of $0.73 is a 7.4% increase on last year, with cash ROE at 8.4%.

During the year, we refreshed the strategy, embedded the Suncorp operating model. We also delivered customer growth which was pleasing as customers experienced some of the components of the new Marketplace. We also created significant shareholder value with the introduction of the aggregate reinsurance cover which we've extended into 2018. I think we now have a more resilient Suncorp. We have the confidence to invest now for growth in the future.

So, I'm very comfortable with where the business is. We've got terrific momentum going into 2018. Let me to pause there and open up for questions. We might start in the room before we go to the phones.

Dan Toohey: (Morgan Stanley, Analyst) Thanks. Dan Toohey from Morgan Stanley. I've got three questions. Firstly, just on the $100 million after tax spend on the Marketplace for FY18 I think when you announced the sort of initiative to move into that - to develop that strategy it was to be self-funded. There were still meaningful numbers rolling through from building blocks. The idea was that flat OpEx out for the next three years. Can you provide some insight into what has changed in your thinking?

Michael Cameron: Sure Dan. I put it under the heading of acceleration. I think we are very capable of going down and implementing the current strategy in a way that doesn't require us to spend additional funds. That will take us on a journey over a number of years but we are so confident - so confident of delivering significant shareholder value we would rather do that sooner than later. What we decided to do is to bring forward as a one-off, extra spend in this year to deliver all of the things that will generate improved retention, improved NPS.

We've demonstrated this year that components of the Marketplace are working. We can continue on a path or we can actually bring it forward and do it sooner and faster and execute in a way that will deliver benefits to the shareholder sooner. It's as simple as that.

So, as I said here, do we need to? The answer is no. Do we want to? On reflecting on the benefits and the speed that's required to deliver this and to seize the opportunity ahead of competitors we've made the decision to accelerate the implementation of the strategy and deliver those core components this year as opposed to over a couple of years.

Dan Toohey: (Morgan Stanley, Analyst) Okay. Just on the reserve releases, I think it's $337 million - there was a component of that was due to the change in superimposed inflation assumption to 2.5%. Can you quantify the impact or the benefit from the change?

Steve Johnston: It's around $50 million to the release number. Obviously, you get a small component of that in the current year so there's been a very small tailwind to the underlying ITR through that assumption change. Essentially the Queensland superimposed inflation assumption as many of you will know is around - was around 3.5%. We do review that annually. Haven't had any evidence of superimposed inflation rolling through the schemes for a number of years. That doesn't mean we're not very cautious about the potential for superimposed inflation over a longer period. We think that the 2.5% still represents a very conservative position.

Now the only other thing rolling forward is that the reduction in that will obviously reduce the quantum of releases slightly in future years. If we continue to have low inflation - low superimposed inflation - we still think we'll get releases well above the 1.5% of NEP.

Dan Toohey: (Morgan Stanley, Analyst) Just finally I can see that the qualifying events and interplay with the cap budget and the reinsurance has gone from 5 to 10. Can you give us sort of a 5 year and 10 year average of cap losses sub $10 million?

Steve Johnston: We could do that but probably for this afternoon or into the next couple of days as we go through the more detailed analysis. Clearly the revision of the terms and conditions or the attachment points of the new cover are slightly less favourable than the current year. It's still a commercially attractive outcome for us both from reducing P&L volatility and also from a capital consideration. So that's still a very attractive reinsurance cover for us, albeit on slightly adjusted terms.

Nigel Pittaway: (Citigroup, Analyst) It's Nigel Pittaway here from Citi. Just focusing first on the underlying margin for next year. There are quite a few moving parts. You've obviously got the Queensland CTP reduction, new scheme in New South Wales CTP, your $72 million higher cat allowance and then your price earned through sort of increased commercial pricing and whatever else there is on working claims. So there's quite a lot of moving parts in that. Can you help us unpick some of the magnitude of those items and what we might expect?

Steve Johnston: You summarised it all pretty well, Nigel, I think generally. Look, yes some of those will provide headwinds. The most material headwind for underlying ITR in 2018 is understandably the step change in that natural hazard allowance. That $72 million in one year was a big change. Clearly, we always look to adjust our pricing to reflect the adjustments to the assumptions. But a quantum of that level is a big step change for us to get the benefits through in one year.

So, if we were to try and price that through in one year that would mean significant pricing increases. We are already putting increases through to manage underlying inflation. So, that's probably the most material headwind to us, almost around 1% of margin. The CTP adjustments which came in three tranches through the course of the last 12 months has obviously had an impact on the second half, on our margins. It will also have an impact on the full year basis through FY 18; again a headwind.

We did get a tailwind this year through that superimposed inflation adjustment that Dan called out. That's probably provided a 0.2 of a benefit to the underlying ITR this year and will provide a similar sort of benefit into

next year. So that's a tailwind. So there are a lot of factors in there on the organic side. You pointed out the growth we're getting in home and motor, as we came through June that was building momentum.

At the half-year we talked about base rate increases with some loss of share. We flagged that we thought in the second half that that loss of share would reduce. In fact we've got unit growth in the last couple of months of the year. We see that flow through into July. It's significantly improved commercial renewal period in June. We would have been waiting for the renewal period. So they're a couple of tailwinds.

In summary, when you throw all of that into the mix, the 12% is very challenging for FY18 but is very achievable in FY19. The only other point I'd make is all our pricing engines and all of our - the way we manage the business - are all still predicated on 12% underlying ITRs or above.

Nigel Pittaway: (Citigroup, Analyst) Just obviously on the ag cover, you've mentioned obviously it goes up to events above $10 million. Is there any indication on any price differential in terms of - or this year vis-a-vis last year?

Michael Cameron: The cost of the program? It's pretty much in line with the pricing between FY17 and FY18.

Nigel Pittaway: (Citigroup, Analyst) So the whole program is it?

Michael Cameron: Yes, and also the aggregate cover. So that came in very close. It's really just the changes in the terms which, given the benefit that we received in 2017 probably is no surprise in 2018 to see the terms less favourable.

Nigel Pittaway: (Citigroup, Analyst) Maybe just finally, obviously on the Australian Life embedded value you've had the opportunity to at least sort of sound out the market. I mean clearly you've been talking about the Optimisation Program, reducing costs, repricing income protection. I mean are you basically saying that you think those initiatives will support the Australian Life embedded value as it currently exists? Or is your sounding of the market suggesting that that might be a little bit inflated currently?

Steve Johnston: Well obviously, I'm not going to go into too much detail around sounding of the market. Full divestment is one option of many. We benchmark everything against the Optimisation Program. We're very confident the Optimisation Program does involve all the things you talk about. Some of the benefits of that have started to flow through in the P&L in the FY17 year. We'll see them support the P&L. So I'll be more comfortable in saying that we think the Optimisation Program and continued remediation of the IP book, particularly from a pricing side, will support the underlying profitability of the business into 2018 and 2019.

Nigel Pittaway: (Citigroup, Analyst) From a P&L sense more than the valuations.

Steve Johnston: Yes.

Michael Cameron: It's critical regardless of what option or what combination of options we might go down, that the optimisation work gets more traction into FY18 and we deliver those benefits into the value of the business.

Nigel Pittaway: (Citigroup, Analyst) Thank you.

Ross Curran: (Deutsche Bank, Analyst) Thanks gents. It's Ross Curran from Deutsche Bank. Just - firstly questions on the bank, just on what's not disclosed today. You haven't made any mention about advanced

accreditation or timeframe there. Secondly, cost to income ratio targets for the bank. Can you talk through both and thoughts around that?

Michael Cameron: Okay, I might do the first one and Steve can make some quick comments on the cost of income. The advanced accreditation - at the moment as you know we've been running the bank as an advanced bank. So we've got enormous benefits. You see that come through in the loss ratios, et cetera.

We continue to work with APRA. There's obviously a lot of moving parts. We are in a strong position to make a submission and to get a response. Essentially, we're in APRA's hands. We would expect that to happen sometime in the FY18 year. APRA - their view is consistent with that. But again, we are a bit of a hostage to the processes at APRA and their timing. But we are ready to go.

Steve Johnston: On the cost income ratio, at the half year we talked about - that's continuing to be a target for the banking business. I think the caveat that we put there which is a similar one on the ITR is that we were never going to go aggressively into the market when we didn't see pricing to be favourable and we saw that in the first half. Some of that is unwound into the final quarter and we've got some growth coming through. So, the income side of that equation was always going to be a bit soft this year, given that we've taken that cautious approach.

On the costs side, the material delta to the cost number for this year has been additional costs that have been associated with the migration onto the new core banking platform, which is a very important part of our strategic objectives and will ultimately be a huge differentiator for us in the market.

But this has cost slightly more and the balance between capitalised and expensed costs has increased to the P&L, so we've expensed more than we otherwise had anticipated. We probably will carry the dual systems, the new Oracle platform and the old Hogan platform, for longer that we thought, so it's going to be challenging again. A bit like the ITR for FY18, but it continues to be one of the metrics that we continue to look at in terms of running the Bank.

Michael Cameron: I have to just add to that too just from a philosophical perspective, as we move further and further down the path of the Marketplace model, the concept of the cost to income ratio, whilst we're not walking away from the targets we've set, just doesn't apply to a Marketplace model if you look at the stores.

I know you've had a look at the new operations at Parramatta and Carindale, but as a Suncorp store that brings to life all of the brands, a range of products and services and third party products and services, they no longer are Bank branches that operate in bank hours. They're open seven days a week as a retail store.

So, overlaying a traditional banking model measure on top of those and they're distributing many more products than just a bank product. It then gets very blurred, but anyway we'll continue to report the metrics and help people understand.

Ross Curran: (Deutsche Bank, Analyst) Then I was disappointed with the Tower New Zealand judgment. What happens with the 20% holding there?

Michael Cameron: Yes, we were also disappointed obviously. We believe that the full acquisition of the business brings terrific benefits to all of the stakeholders. We also don't believe that in proceeding with the acquisition that it fundamental reduces competition in New Zealand.

The decision that was made came with a very large document with all the reasons, which we've just received. We'll go through that over the next week or two and just consider our position, but for the time being we're happy to hold a strategic stake of 19.9% and we'll see where that takes us.

Ross Curran: (Deutsche Bank, Analyst) Thanks very much.

Michael Cameron: So, one more in the room and then we might - oh maybe two more and then we might go to the phones.

James Coghill: (UBS, Analyst) Thank you James Coghill, UBS. These may have been covered before we walked in but the first question on claims trends and then just one on the commercial portfolio.

So, on claims, in the presentation you do show that those operational measures for Home and Motor have improved, they've come down, yet there's still quite a significant short-tail strengthening and you do flag that as average claim size costs in motor not too surprising but I'm interested to just get that unpacked in a bit more detail. If you could explain what's happening there because you're saying it's across consumer and commercial portfolios. Then you also refer to contracts works, home and large claim developments across property. You've got a mix of positive and negatives there. Can you just reconcile what that means for claims inflation.

Steve Johnston: Sure. Well look I think in terms of the working claims issue - that's the first point - we called that out 18 months ago and have spent a significant amount of time with the leadership team within the organisation of improving those metrics and focusing on those operational metrics.

We're very comfortable with the outstanding claims or active claims. We've got a water program in place which is delivering material benefits. We've got a large loss program in place which is showing our actual settlements to be significantly below our reserving position on the Home side.

On the Motor side we've got the pathing of the vehicles into the right part of the supply chain; 40% plus through smart well less than 20% going through our non-aligned repairs. So, the operational metrics are flowing through favourably. Absolute claims costs are coming down.

The variable that sits somewhat outside of our control, which is again a reflection of I think underlying claims inflation in the industry, is through our recoveries and settlements. So we've talked previously about exporting deflation and importing inflation into our book, and certainly that's the case in recoveries and settlements.

So about 70% to 75% of that's reserve strengthening has really come through the Motor book in terms of an increased assessment of recoverability or recoveries from third parties, whether that's either right to drive, credit organisations or whether it be our insurance repairs being done by our competitors.

So, we've had a position struck on the balance sheet in our reserving based on historical trends, and as we've come into this year we've seen that inflation pick up amongst our competitors which means the ultimate costs being recovered is higher than we had assessed in our reserving position. That's a large part of that story.

James Coghill: (UBS, Analyst) What can you do about the those?

Steve Johnston: Well we're spending a lot of time in the insurance business focusing on how we can identify the claim as early as we can, and that often involves training at the point of claim lodgement.

The key variable here for us is to make sure that we get as much detail from the claimant at the point of the motor vehicle accident before it gets disintermediated by a tow-truck driver or anyone else in the process.

So the biggest initiative that we've got in play at the moment is the front of the business; making sure that when we're in the claim lodgement process that we're identifying all parties to the claim, and then working with them as significantly as we can on the pathway through the claim.

James Coghill: (UBS, Analyst) Okay, and last one, just the standout premium number that was disappointing was commercial in the second half, down 4.7%. You do flag 10% rate increases in your commentary on the presentation in June so just interested to understand why it's fallen so much. Are you're getting that total between price and retention right?

Steve Johnston: Certainly, we've managed that volume pricing mix very closely through the course of the whole year. We've walked away from quite a deal of business, particularly the further up the premium pool, but the bigger ticket items particularly where the competition's been most aggressive.

We did see that start to moderate through the latter part of the second half; 70% of the premium is renewed in June. Top end of that market is still soft, but again we don't have huge exposure in that area. Towards the top end of our ticket pricing on commercial lines property we were seeing increases at the head of 10%.

Mid-market high single digits and down solid 3% to 5% in SME. So it's a good sign as we're coming into FY18. It does mean that the exit point is significantly stronger than either the second half or the full year.

Toby Langley: (Bank of America Merrill Lynch, Analyst) I'm wondering if you can reconcile the increase in your GI capital target given that you've got better belt and braces from a reinsurance perspective. What's pushed you over the line there?

Steve Johnston: Yes, certainly we continue to deploy risk-based capital modelling across the business and we've recently put another update to those models through. Clearly volatility in claims portfolio gets picked up by that modelling. The increase really relates to modelled assumptions that sit right out on the latter years of our risk profile, so years 40 through to 60.

I think it's quite a technical assessment of it, but it has risen and there has been increased volatility in that in the outer years of our development pattern. In the early years the reinsurance program, particularly the aggregate cover, kicks in to protect the balance sheet and the P&L quite significantly.

So, I look at the aggregate capital position and the balance sheet as a group. Our philosophy is to make sure that all operating businesses are appropriately capitalised relative to their peers. That means that the excess position can be used more strategically than otherwise might be the case if you need to provide support to individual lines of business for rating agencies or regulators or anyone else that might have an interest in it, and obviously, shareholders.

So, I think the balance sheet today with that increased capital, albeit that it has artificially or optically reduced the excess position, is stronger today than it might have been 12 months ago. It's a very strong balance sheet.

We've got flexibility around the excess capital position. We've shown that this half with a higher payout ratio. We've demonstrated that there's $100 million investment in FY18 that we can neutralise the impact on dividend of that through that very strong excess.

So it is outer years' model development right on the edge of our assessment of our insurance holding Company that is the most impacted.

Toby Langley: (Bank of America Merrill Lynch, Analyst) That's great. If I can ask a follow-up. When looking at that $377 million addition, can you help us to better understand how you've got your arms around Tower if you'd been successful in terms of financing that?

Steve Johnston: Again, I'm loathe to flag our financing strategies. Clearly the valuation of that business is well understood to you at the various share prices that we've pitched the bid at. We think it's a very attractive return proposition for the Group. We wouldn't be going down the path of seeking to acquire that business if the risk metrics and the assessment that we made around the reserving positions of that business aren't well understand. They are. We still see it as a very attractive proposition.

In terms of funding it, as you would be aware, there's a range of mechanisms that we could do that through placement, through underwritten DRPs, through dividend reinvestment plans, normal dividend reinvestment plans, and we'd have to consider that should that be successful in due course.

Caveat B - we like to keep a robust surplus in place at an excess level so that we can deploy that capital incrementally to support growth if that were to emerge or the support businesses if that were needed.

Toby Langley: (Bank of America Merrill Lynch, Analyst) Again, if I could ask one more question. You've commented on retention which is great, but one of your second tier competitors was pretty explicit in recent reporting saying that the market was irrational, and the implication was that you needed to see a much harder market in motor. Can you give us some sense as to where conditions currently sit and how you see pricing continuing to travel, because as you said earlier, a lot of the issue around inflation has probably not been in your own control anyway, and are you not better to start preparing for that.

Steve Johnston: Well certainly Motor - I mean the price increases that are going through the Motor book now in recent history are significantly higher, and that's reflective of the underlying claims. Some of that's structural. Toby you've talked about the cost of repair being materially higher these days with bumper bars and fences and all of the various elements of it. We just have to manage the book dynamically as you would expect at the appropriate level of price increases to reflect underlying inflation, and we've got to continue to improve the efficiently of our claims processes.

We have access to our own smash repair network which is delivering material benefits to our average claims costs and the equity that we generate out of that business rolls through the claims line as well. That's not available to any of our competitors. That provides a huge differentiator for us in managing motor claims costs at an aggregate level.

We will manage pricing dynamically. We think it's set about right at the moment for what we can see in today's book and what may well come through in the next three to five years.

Michael Cameron: It also goes to the heart of the Business Improvement Program which is targeting operational excellence around the various processes within the organisation. At the same time continuing to drive better customer outcomes, and in that environment, I think you've got a much better opportunity from a

pricing perspective to deliver value to the customers, retain them, but also end up with a win-win where all of the stakeholders' benefit from the outcomes of the work that you go through.

Brett Le Mesurier: (Velocity Trade, Analyst) Thanks. Brett Le Mesurier from Velocity Trade. A couple of questions. The reinsurance backup cover that you add back for your underlying ITR was there a benefit associated with that?

Steve Johnston: Thanks Brett. Welcome. You changed the format, but we still see you. Which is great. Well, first thing is that the backup covers, I think everyone would appreciate that when we burn through layers of our reinsurance program we need to replace them and we take a tactical decision through the course of the year depending on where we are relative to the renewal of the program whether it's the right thing to do.

We bought those covers. We didn't need to use them which is a good thing. So, we did get a benefit from it in terms of the protection that it provides the balance sheet. Had we not have repurchased them then we would have had to hold more capital to offset that hole that would've emerged in our reinsurance program.

So, yes we bought then. We have adjusted them through the underlying ITR calculation which we have done consistently through the years to get a like for like comparison on prior years. But we luckily didn't have to, have to use them.

Michael Cameron: At the heart of what we're doing is around resilience. I mean to not have that extra cover in just leaves us exposed to unnecessary volatility. So, whether you use them or you don't use them, it's probably a good outcome. But to have them there is necessary.

Brett Le Mesurier: (Velocity Trade, Analyst) Moving onto the banking business, you managed to get reasonable growth in commercial loans, but not residential loans. Why do you think you could grow commercial and not residential?

Michael Cameron: Well, David do you want to make a comment it might be ideal to throw to David.

David Carter: Look, we've for a little while now we've sort of looked at the different segments of the markets, at different times in the market cycle where it made sense for us to participate. So, we had a view in the first half of this financial year that residential was not working the way it needed to. Funding costs were at a high and loan prices were low. We've been building back into that commercial space for a couple of years now.

What you're seeing phased through this year is momentum that's been coming through for probably four or five halves in total. Within the commercial portfolio, we saw ag growth only slightly and some very good seasonal conditions for our farm customers, which is good for them. We continue to keep a very close eye and a very small exposure to development finance, particularly inner-city development finance.

So, its the non-ag, non-development book which has grown at about system and commercial, and that's really a focus we've had now for probably five halves in a row. On the residential side, Michael alluded to, we had growth coming through in the last quarter. That momentum continues into this quarter.

We've seen market conditions improve, and to some degree as the macro prudential changes have bitten and people have repriced investment interest only books which makes the margins reasonably attractive in different parts of the market.

Brett Le Mesurier: (Velocity Trade, Analyst) So, you're looking more at the investor book I presume for your growth?

David Carter: No, we are sitting under the cap with APRA. We had headroom when others perhaps didn't. But as a smaller bank we have to manage that carefully. So, we go into interest only under 30% as a precautionary measure and our investor book in the mid-single digits. So, we have a little bit of scope there. But we won't be growing aggressively in dollars in investor. We'll just be growing to our potential which is limited as everyone is.

Brett Le Mesurier: (Velocity Trade, Analyst) And given the great success you've had in customer satisfaction and the changes you're making, are you surprised that your at-call deposits aren't increasing?

David Carter: No, not particularly surprised. That has become very competitive. We again, if you have a look at our housing loan mix, for a little while we stepped away from an occupied market with offset accounts attached. There's been a lot of offset account growth in the industry which is good. It meets customer needs. But there's just a balance to be had there in terms of margin management.

We've now stepped back in towards that market, and we're seeing good growth again in transaction banking.

Brett Le Mesurier: (Velocity Trade, Analyst) Would it be fair to suggest that when growth picks up, that growth will only be funded by deposits given that wholesale funding is potentially more expensive.

David Carter: We continue to want to see a mix. Our funding cost relative to others has been coming in a little, and that's been helpful for us. But like everyone, we're very focussed on the transaction products. Actually, on the strategy point of view of the group, how we leveraged the products in banking to better engage our customers. So, that's becoming more of a driver now as to how we think about the funding.

Michael Cameron: Thanks David. That's good. We might go to the phones and see what questions are there and then come back to the room.

Operator: Thank you. If you wish to ask a question, please press star then one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star then two. If you're on a speaker phone, please pick up the handset to ask your question. Your first question comes from David Spotswood, with Shaw and Partners Limited. Please go ahead.

David Spotswood: (Shaw and Partners, Analyst) Thank you. There's a bit of feedback here. I just wanted to get a bit of clarity. So, the reserve releases were $337 million this year, and you're saying that it's a change in the super imposed inflation and you get a $50 million benefit from that.

So, all being equal does that mean that the reserve releases, which obviously it won't be, will be $287 million next year, or 3.3? The $50 million is that flowing through the underlying ITR? Are you getting a $50 million gain in 2016/2017, or the reduction or that? Or not or does that flow through into 2017 and 2018. That's the first question, and I've got a couple more.

Michael Cameron: David clearly there's a number of factors and we - 1.5% is the long-term average, with an expectation that we will return to that level at some point. We've had the benefit of a number of other factors in the short term. But trying to predict at this point what the number will be in 2018 is obviously problematic, and we'll continue to report on the way through at the half and give some guidance around some of the factors.

At this point, at the start of the year, we would expect the number to be better than 1.5%, but by how much, it's very very difficult to say.

Steve Johnston: It would be good to be able to be that precise around valuations and reserving, David. Again, I point to the reserve release number being a number that's net of the number of portfolios. So, clearly we've had good releases out of a number of portfolios which we've had to, as always is the case, provide some strengthening in some of the portfolios. Our home owners warranty portfolio being one this year.

In terms of the impact on the underlying ITR, I know the full $50 million doesn't come through. There's a prior year benefit that's achieved which is a large proportion of that $50 million, but a small benefit to the current accident year which I think probably would if you aggregate it up would be about 0.2 to the underlying ITR in the second half. A small benefit from that reset assumption.

Michael Cameron: With inflation hovering at 2.1% at the moment, that's really a major factor as you know.

David Spotswood: (Shaw and Partners, Analyst) I'll just ask you another couple of questions. I think you used to have flat cost guidance for the next two years. I'm not sure if I saw that in the pack or not. Is that, are you still going to that?

Steve Johnston: David, the first element is the guidance that we provided probably 18 months ago around the flat cost base. In my presentation, I provided a high-level reconciliation of that I think other than the adjustments that we made to the expense that was capitalised, a couple of the big projects we pretty much landed in that ball park.

Clearly the bring forward of the investment profile which will be, we anticipate, will be expensed through the P&L, albeit reported below the profit from business lines, or functional lines in the P&L, or analyst pack P&L. That will obviously have an impact on the direct cost base in FY18.

But the reason for doing that is that we have a Business Improvement Program in place and that will deliver, we think, a material benefit. Some growth benefits in FY18, but material benefit through FY19 and FY20 which will broadly allow us to return the cost base to these sorts of levels over that extended period time.

Again, we've demonstrated over the past four years that we managed the costs of this business very well, but $2.7[bn] that we're broadly reporting this year in FY17 has been the case since 2013. We've been very focussed on costs and if we do see an opportunity having realigned the business to drive further improvement from a customer position through the organisation.

David Spotswood: (Shaw and Partners, Analyst) Thanks. The last question. You're saying you've got $377 in excess capital, and there's some comment in there that gives you flexibility for the strategic initiatives. So, in the absence of M&A, I mean do you have any excess capital? Will you return some of that to shareholders, or not?

Michael Cameron: Well look, as a principle we're committed to a payout ratio of 60% to 80%. We've indicated that in 2018 we will increase above that level to maintain a dividend stream. But we are measured and rewarded on ROE. So, for us there's no incentive carrying additional capital on the balance sheet and where possible we will seek to return that to investors, having regard to maintaining a prudent level and the appropriate buffers.

David Spotswood: (Shaw and Partners, Analyst) Thank you.

Michael Cameron: Thanks David.

Operator: Thank you. Once again, if you wish to ask a question please press star then one on your telephone and wait for your name to be announced. Your next question comes from Ashley Dalziel with Goldman Sachs. Please go ahead.

Ashley Dalziel: (Goldman Sachs, Analyst) Morning guys. Just had a couple of questions on the bank. Firstly, I was hoping you could talk through the delta on the net interest margin into the second half, and then also maybe just provide a bit of colour on your thoughts in 2018.

I assume you're probably carrying a fair bit of momentum just from the mortgage repricing that's going through, slightly improved funding backdrop and also hedging costs. So, just potentially in the context of your 1.75 to 1.85 in target, is that still relevant into 2018, and how should we be thinking about that?

Michael Cameron: Ashely, the target is still 1.75 to 1.85. We indicated at the half year results that the second half would be significantly stronger than the first half as the result of pricing. That came through. We delivered a number of 1.83 for the full year. I think 1.87 for the second half. We go into FY18 at a very good spot from a trajectory perspective. Our goal would be to maintain the margin in that level. We saw some additional pricing come through in the last few days, and we'll see how the market goes. In relation to the hedging, David, did you want to make a quick comment?

David Carter: Very quickly, I think the exit trajectory in the second half is slightly lower than the second half average, just as context so, we say the top end of the range rather than going above it.

Investor interest only pricing clearly is going up in the market. We haven't moved as much particularly interest only as others. Then owner occupier pricing remains quite competitive. So, there's probably a little bit of down there. The hedging market, the funding markets, are an attractive place, more attractive than they were 12 months ago.

We've got the run into the NSFR, the Net Stable Funding Ratio, for 1 January. So, we expect a bit of irrational behaviour from some banks as they get ready for that. We are ready for that now. We feel comfortable to make the commitment so say we will be at the top end of the range from here.

Ashley Dalziel: (Goldman Sachs, Analyst) Okay, thanks. Just - I might ask squeeze in a couple more just on, I suppose, Project Ignite within the bank. Is the intention still to eventually switch off Hogan and is there going to be a step down in the expense base, I suppose, as you turn off those licences and platforms?

And then just around the journey to advanced. Would it be your thinking that post the recent announcement from APRA on unquestionably strong that you would be working towards a 9.5% target capital ratio as an advanced bank?

Michael Cameron: Yes. The approach to the core banking platform is really one around customer experience and the risks associated with development. Some components of our product and service at the moment - if we were to move that across to the current version of Oracle - just put at risk - or increase the risk of outages.

We've decided that we would maintain some of those products on the old system just to increase the chances of it being a much better customer experience. That comes with some costs, but it also comes with a better customer outcome. That will have a positive impact on things like NPS and our ability to retain customers.

The unquestionably strong point that you raise - we think the way forward for us is quite manageable, and we will work through further discussions and releases throughout the rest of the year. At this point we're certainly not concerned about the impact that it will have on our bank.

Ashley Dalziel: (Goldman Sachs, Analyst): Okay. Thanks.

Michael Cameron: Thanks Ashley.

Operator: Thank you. Your next question comes from Michelle Wrigglesworth with Milton Corporation. Please go ahead.

Michelle Wrigglesworth: (Milton Corporation, Analyst) I just wanted to ask about the Marketplace investment and how we can see in a year's time that it's been worth accelerating the program versus taking a bit more time about it, and also if you can just let us know what you expect to complete with the acceleration. Will all the digital and apps be complete within a year? How many more concept stores will you expect to roll out?

Michael Cameron: Yes, okay, a couple of questions there. We were really encouraged by the fact that this year, organically, we saw an increase of 147,000 customers in Australia. That is a turnaround story because, as you would have realised, for many years we've seen an outflow of customers. We've talked about that openly.

Even as a result of launching new apps, two concept stores, a huge amount of work across the network, we've seen the results of that work, and that's what's really energised us to accelerate the program and invest this year, firstly, in a single digital experience. I'd describe that loosely as a knock-out app that actually delivers access to all of our brands and delivers something quite special. We can talk about that more as we get through the year. That will be critical because whilst we've delivered new apps, a single digital experience is critical.

We've also got to support that - the rollout of the brand and the refresh of the stores. You'll see a lot more of the concept stores and stores that embrace the new branding and the components of the experiences that you saw at both Paramatta and up in Brisbane. We will also continue to introduce new journeys in integrated offers, which has already started to deliver success.

We've seen in '17 the introduction of two new third party arrangements with nib and Challenger. What you'll see this year is a much bigger offer, a much broader, deeper offer to supplement the products and services that we manage - or manufacture rather - and then, lastly, a rewards and recognition program for customers, which won't be a straightforward points system. It'll be something that, again, supports what I call a knock-out digital experience.

That was originally going to happen over a year or two. We've brought that back so that we will deliver those things this year. Our goal is to see a continuation on the improvement of customer numbers, retention, NPS, all of those things and, of course, revenue, and increased return on equity.

Michelle Wrigglesworth: (Milton Corporation, Analyst) Thank you.

Operator: Thank you. Your next question comes from David Humphreys with JCP Investment Partners. Please go ahead.

David Humphreys: (JCP Investment Partners, Analyst) Good morning, gentlemen. I've got a follow-up question on the shift in commercial lines, in terms of reducing by a couple of per cent. You've obviously stepped back

from a couple of portfolios. Can you comment on what they are and what, I guess, the impact might be on a full year basis, and whether there are any other portfolios you're considering whether or not to participate in?

Michael Cameron: All right. We probably won't give you names, but I'm sure Anthony's dying to add a bit of colour to the comments that we've already made.

Anthony Day: I think throughout the 12 months we've made a conscious decision to drive some price increases through. That's resulted in us reducing probably our share at the top end of the market quite a bit, David. I think that's where you - most of our reduction has come. That's because we didn't see that as supported as some of the price increases in the mid-markets and, certainly, SME.

We saw some growth in SME coming through, which was really positive. Mid-market we saw some growth coming through, but at that top end we've decided to pull back. There was also a couple of underperforming schemes that we pulled back from which is all part of getting that commercial business, delivering the ITR that we require.

Leading into June, what we saw was some of our competitors move as well. I was really encouraged with June where, in areas like property, we saw mid-teen type of increases coming through; certainly, in motor - commercial motor - as well as into the liabilities. We were seeing 9%, 10% increases coming through, and retentions were improving, which is showing the market has moved.

That's created momentum going into this year, and really gives me encouragement that we'll see some further improvement and the growth. Plus we've got some great initiatives coming through in the SME market, where we believe that we will get some growth this year.

David Humphreys: (JCP Investment Partners, Analyst) Just a follow-up question there. You've pulled back from certain lines. Are there financial lines you're no longer interested in? Or is it just account based?

Anthony Day: It's more account based, David. We haven't pulled back in any particular line. It is purely mainly at that top end of the market where we drove some price increases that weren't supported in the market.

David Humphreys: (JCP Investment Partners, Analyst) Okay.

Michael Cameron: There's no other calls, but probably a couple of more questions from the room. Sorry we missed you last time.

Kieren Chidgey: (UBS, Analyst) Thanks. Kieren Chidgey, UBS. Just a follow-up question on the natural perils. Just wanted to circle back to an earlier comment because it's not clear to me that we do have improvement in the level of protection or adequacy as we move into 2018. Your cap budget's up $70 million for next year, as you flag, but you're losing that $5 million to $10 million layer which - I think, just adding up the claims, you show that this year amounted to $60 million. I take it this year could have been an unusually bad year, but what degree of confidence do you have that the combination of the cap budget and reinsurance change into next year delivers a better outcome?

Steve Johnston: I know you know, Kieren, but it's very difficult to transpose a new set of terms and conditions over a program, last year's program, FY17 program. Again, we model this over in a more extended period of time to get a better sense of how it works.

There's a couple of elements that go into, obviously, that increase in the cap budget. It does accommodate the adjustment in the terms and conditions of the natural hazard aggregate cover, but it also does assume that we have made some adjustments for risk enforced and the growth in the portfolio.

We have also compressed some of the time lines that we consider for attritional losses as well, so we've typically modelled them over between seven and 17 years. We've compressed that to bring in more recent experience. We've looked at it from all the perspectives. We're comfortable, but the increase is net neutral to the additional changed terms and conditions of the NHAP.

Kieren Chidgey: (UBS, Analyst) Thanks. The second question - just a point of clarification, the 20 basis point impact you talked about from the superimposed inflation change on the current period in terms of the underlying insurance margin this period was - is that a second half or a full year impact? Is it double in the second half?

Steve Johnston: No. It's a second half impact, given the valuations are done six-monthly.

Kieren Chidgey: (UBS, Analyst) Okay. Thanks.

Andrew Buncombe: (Macquarie Securities, Analyst) Thanks. Andrew Buncombe, Macquarie Securities. Just a quick question on the reinsurance program. Is it still on a franchise basis? Or is it reverted back to an excess of loss, traditional style?

Michael Cameron: Still on a franchise basis.

Andrew Buncombe: (Macquarie Securities, Analyst) That’s perfect. Thank you.

David Ellis: (Morningstar) David Ellis from Morningstar. Michael, I was wondering if you could attempt to explain to me the apparent disconnect between macroeconomic conditions in Australia and the underlying business performance of Suncorp.

We're constantly bombarded with media reports of high household financial stress level, low wages growth, increased cost of living pressure, but yet, looking at the Suncorp numbers in the bank, loan losses are effectively zero, albeit there's a pick-up in retail arrears rates. I'm looking at the consumer insurance business. I've seen price increases in motor and house or home. I've seen a big increase in customer numbers, and in the commercial business in Australia we're seeing a pricing upgrade cycle.

As I say, there seems to be a disconnect between what we read and hear about across the broader economy - tough household financial conditions and the strong performance that we're seeing in your underlying business.

Michael Cameron: Sure. A couple of comments. Firstly, if I - you started with the comment about housing. I'm quite bullish on the Australian economy, although I think confidence is low. For a whole bunch of reasons things are happening outside of the country, but also some of the things that are happening in our political processes, which just makes people nervous and it translates to lower levels of confidence.

In reality, if I look at the ratio of interest rate costs on an average home compared to the disposable income, it's probably at the lowest level it has been for about 14 or 15 years. Affordability-wise the nation's in good shape.

Now, as far as debt versus the same ratio, then the entry points are a lot harder. People are saving to get deposits, but affordability, from my perspective, is in reasonably good shape. Now, we've got a very conservative book for a lot of reasons. We've been working on that for many, many years post-non-core bank. The loss rates

reflect a maybe overly conservative lending pattern for some time. But I think with unemployment 5.6%, with a steady flow of immigration, I think the backdrop is there for a reasonably stable environment where I wouldn't expect house prices to drop. I would expect the growth to slow, which is still a positive. Hence the need for the regulators to put in some regulations that slow down the availability of debt.

Those same factors around the unemployment levels, and the other things I mentioned, also support a good environment for people to protect their assets. Particularly in relation to consumer insurance, people want to - it's a product that's bought not sold. The idea of protecting those assets and being more conservative with the individuals' balance sheets I think is very consistent with the current environment that we see.

So we're happy to talk about a bit more offline, but that's just my sort of high level thoughts on what I'm seeing in the market place.

All right, I think we've got one more on the phone, and then we might - if there's no more in the room - we might wrap up actually.

Operator: Thank you. Your next question comes from Siddharth Parameswaran. Please go ahead.

Siddharth Parameswaran: (JP Morgan, Analyst) Hi gentlemen, I had a couple of questions if I can. Firstly, just on inflation, I just wanted to make sure that the AWE assumptions have not been changed. So, is it just superimposed inflation assumptions that you've changed on long-tail?

Steve Johnston: That's correct. We made the AWE assumption change maybe two halves ago. We haven't adjusted that for this valuation.

Siddharth Parameswaran: (JP Morgan, Analyst) Okay, and then if I can just ask about personal lines, just comparing what you're actually getting in terms of inflation at the moment versus the rate increases that you're getting. Could you just comment on just what you're putting through at the moment in terms of the difference between those two?

Steve Johnston: Yeah, look, in terms of pricing both in home and motor, we have talked about base rate increases of between 3% and 5%, that is still the fact, still the case. Now many of you will sort of wonder why that doesn't flow through perfectly through written premium and then into earned premium. Obviously in a rising rate environment, particularly on the home side, there's adjustments to deductibles and excesses which bring the premium down, but are also reflected in lower claims costs over time. Clearly the mix of the book when you're running multi-brands can sometimes change that premium profile and reduce what we talk about as 3% to 5% base rate increases don't necessarily flow through in written premium in that form. So there's a few factors there.

In aggregate we think that the written increases we're putting through, both home and motor, are sufficient to manage underlying inflation and claims costs. The delta that we get relative to the rest of the market is we think we can become more efficient in terms of the way we manage claims. We do have access to our own repair network which puts us in a materially better position in terms of average claims cost, particularly on the motor side.

So at the moment I think we're comfortable that the increases going through are sufficient. But like everything in those two portfolios, we manage it very closely.

Siddharth Parameswaran: (JP Morgan, Analyst) Then if I could ask one last question just on the adjustment to the underlying ITR for expenses. For the last three years, and probably for longer, we've had these adjustments come through, AUD $61 million this year. Are we still to expect something of that order going forward?

Steve Johnston: I'm reluctant to give perfect forecasts on the expense profile. But there will still be an expense adjustment in the underlying ITR calculation. Again the underlying ITR calculation is designed to create, or to identify performance of the business from one reporting period to the other. So we have - we use the same methodology around our expense calculations as we do around all the other metrics that we adjust in that portfolio.

So I think it still be - there will still be a number attached to that expense adjustment, I would expect it to be lower going into FY18 than it is in FY17.

Siddharth Parameswaran: (JP Morgan, Analyst) Just one last question on the Marketplace. The AUD100 million post-tax that you're bringing forward next year, should we expect your expenses to fall from FY19? So should we actually expect some benefits going forward?

Steve Johnston: Yes, again to reiterate the logic, we do - well, firstly we saw good momentum in the business. So that's the first principle that we would apply to it. The second one is we have this Business Improvement Program in place which in the last two months we've become a lot clearer around the benefits that we think we can realise over the next three years.

What we've decided to do in terms of the Marketplace investment is basically bring forward $100 million of that benefit into an investment profile in FY18. So the run rate benefits that we get in 2019 and 2020 should help reset the expense rates back to the level circa where they are today.

Siddharth Parameswaran: (JP Morgan, Analyst) Okay, great, thank you.

Michael Cameron: Great. All right, it's 11:30am, we might wrap up. Thank you so much for joining us today. As I said, we are very happy with where the business is positioned, and certainly excited about the momentum that we've got going into 18. We look forward to talking with many of you over the next week, going through a bit more of the story and a bit more of the detail on the financials.

So thanks for joining us today, and have a great day. Thank you.

End of Transcript