BELL POTTER

14 December 2015

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Suncorp Group (SUN)

Not exactly X'mas

Recommendation
Buy (unchanged)
Price
$11.77
Target (12 months)
$14.00 (previously $15.25)

Expected Return	
Capital growth	**18.9%**
Dividend yield	**6.9%**
Total expected return	**25.8%**
Company Data & Ratios	
Enterprise value	**n/m**
Market cap	**$15,143m**
Issued capital	**1,287m**
Free float	**100%**
Avg. daily val. (52wk)	**$64.6m**
12 month price range	**$11.71 - $14.95**
GICS sector	**Insurance**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	12.87	12.30	14.33
Absolute (%)	1.40	6.10	-8.93
Rel market (%)	3.16	5.94	-2.88

General insurance margin downgraded…

SUN now expects the residual effects of 2015's natural hazard events in addition to recent A$ movements to adversely flow through to insurance margins in 1H16. These would particularly impact Personal Insurance although other headwinds include a higher large loss experience in Commercial Insurance, higher NSW CTP claims frequency and lower investment returns on technical reserves. 1H16 underlying insurance margin is forecast to be ~10% vs. ~14.7% in 2015.

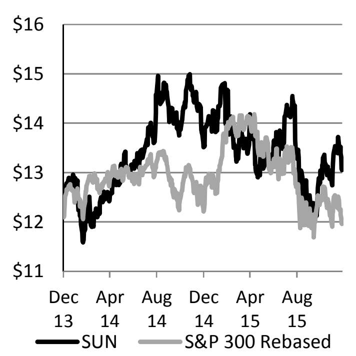
…although premium rises now more than justified

We believe today's announcement provides the necessary justification to finally increase general insurance premiums, something the insurer has been unable to do in the past 12 months. This is on top of stabilisation in the Australian pricing environment, unchanged retention levels, guidance that GWP growth in 1H16is expected to be positive (vs. flat growth and premium reductions in most portfolios in 2015) and management's view that the bottom of the cycle is approaching – positives that have been ignored today. We note today's margin downgrade also comes within the first 100 days of CEO Michael Cameron taking over the reins at SUN. This is usually a period of massive operational change under any incoming CEO and in which to reset expectations. Finally, all of SUN's positives appear to have been sidelined today. The bank and life businesses continue to perform well and the Group's balance sheet remains in great shape and there is now evidence of insurance premium growth.

Price target lowered to $14.00 but SUN remains a Buy

Earnings are lowered by 12% in 2016 and by 6% in subsequent years due to the above adjustments, and we now forecast flat ordinary dividend of 38cps in each of 1H16 and 2H16 plus 5cps special dividend (previously 10cps) in 2H16. The price target is reduced to $14.00 per share but the Buy rating is maintained. Today's share price overreaction provides a good opportunity to get back into a stock that is ultra-conservative in its risk settings and one that is now trading at close to book value.

Absolute Price



SOURCE: IRESS

Earnings Forecast

Year end 30 June	2015	2016e	2017e	2018e
NPAT (reported) (A$m)	1,133	1,151	1,300	1,425
NPAT (adjusted) (A$m)	1,191	1,221	1,364	1,460
EPS (adjusted) (A¢ps)	93	95	107	114
EPS growth (%)	-9%	2%	12%	7%
PER (x)	12.6	12.3	11.0	10.3
P/Book (x)	1.1	1.1	1.1	1.1
P/NTA (x)	2.0	1.9	1.8	1.8
Dividend (A¢ps)	88	81	83	80
Yield (%)	7.5%	6.9%	7.1%	6.8%
ROE (%)	8.9%	9.1%	10.0%	10.4%
ITR margin (%)	11.4%	10.4%	12.6%	13.4%
Franking (%)	100.0%	100.0%	100.0%	100.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Not exactly X’mas

General insurance margin downgraded…

SUN provided a general insurance update today. It now expects the residual effects of 2015’s natural hazard events (gross cost ~$4bn) in addition to recent A$ movements to significantly and adversely flow through to both reported and underlying margins in 1H16. In other words, the expected improvement in 2Q16 claims experience did not materialise. These effects would particularly impact Personal Insurance, in the form of higher working claims cost inflation for fire and water damage (primarily higher input costs of rectification/claims settlement from ongoing building services supply shortage as well as higher import costs due to a weaker A$).

SUN also expects margins to be clipped by $75m higher natural hazards allowance (although this was previously advised in August while YTD experience was tracking in line with allowance), a higher than anticipated large loss experience in Commercial Insurance, increased NSW CTP claims frequency and depressed investment returns on technical reserves of around 2.1% annualised.

As a result, SUN now expects an underlying insurance margin of ~10% in 1H16 (including expected reserve releases of $120-140m or 3.0-3.5% of NEP). This compares with 14.8% and 14.6% respectively in 1H15 and 2H15, with the variance attributable to:

1. $75m higher natural hazards allowance (1.0%);
2. Higher Personal and Commercial claims (3.0%); and
3. Lower investment income (0.5-1.0%).

…although premium rises now more than justified

It is SUN’s intention to rely on a range of claims and pricing initiatives and the Optimisation Program (on track to deliver $170m benefits by 2018) to offset higher volumes and cost of claims. More importantly, we believe today’s announcement provides the necessary justification to finally increase general insurance premiums, something the insurer has been unable to do in the past 12 months.

This comes on top of stabilisation in the Australian pricing environment, unchanged retention levels, guidance that GWP growth in 1H16 is expected to be positive (vs. flat growth and premium reductions in most portfolios in 2015) and management’s view that the bottom of the cycle is approaching – positives the shell-shocked market appears to have completely ignored today.

Guidance was not provided for the full year insurance margin but SUN reaffirmed the through-the-cycle underlying margin of at least 12%. In any case, we note today’s margin downgrade comes within the first 100 days of CEO Michael Cameron taking over the reins at SUN. This is usually a period of massive operational change under any incoming CEO and in which to reset expectations.

While disappointing at first glance, we feel the downgrade is largely to do with rebasing underlying assumptions over historical claims costs. There is also no new adverse weather events to date and today’s actions are very similar to banks taking on additional provisions whether incurred or not.

Finally, all of SUN’s positives appear to have been sidelined today. SUN Bank continues to perform well with upside risk to NIM and stable credit quality, the life business is rebounding, the Group’s balance sheet remains in great shape and there is now evidence of insurance premium growth.

Price target lowered to $14.00 but SUN remains a Buy

Our estimate changes reflect general insurance adjustments announced in today's trading update, namely higher claims cost (inclusive of $130m or 3.0-3.5% NEP reserve release in 1H16), lower investment income on technical reserves and lower dividend payments that reflect the target payout ratio of 60-80%. 1H16 reported and underlying insurance margin forecasts are 8.7% and 9.9% respectively (the latter in line with guidance of ~10.0%).

We see the higher claims cost as a timing issue of sorts and do not anticipate higher figures from 2017. However, we were probably too optimistic in projecting investment income on technical reserves and have lowered projections across the forecast horizon as well. These result in 12% lower earnings in 2016 and 6% lower earnings in subsequent years. Dividend expectations are also lowered and we now forecast 38cps ordinary dividend in 1H16 and 38cps ordinary and 5cps special dividend (previously 10cps, now spread out over two years) in 2H16. The 2017 dividend forecast is for a 1cps increase in ordinary dividend in each half and a 5cps special dividend in 2H17.

The valuation and price target is reduced to $14.00 per share but the Buy rating is maintained. Today's share price overreaction in our view provides a good opportunity to get back into a stock that has taken an ultra-conservative approach to operating assumptions and one that is now trading at close to book value.

Table 1 – Impact of estimate changes on shareholder value metrics

(A$m)	2016e		2017e		2018e		2019e	
	New	Change	New	Change	New	Change	New	Change
NPAT (cash)	1,221	-12%	1,364	-6%	1,460	-6%	1,534	-6%
ITR margin	10.4%	-3.1%	12.6%	-1.5%	13.4%	-1.5%	14.0%	-1.8%
EPS (cash) (cps)	95	-12%	107	-6%	114	-6%	120	-6%
EPS growth (%)	2%	-15%	12%	8%	7%	0%	5%	-1%
DPS (cps)	81	-12%	83	-3%	80	-11%	84	-11%
ROE (%)	9.1%	-1.2%	10.0%	-0.6%	10.4%	-0.5%	10.6%	-0.6%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 2 – Composite valuation

Composite Valuation	Value ($m)	Per share	Weighting	Composite value per share
DCF (plus XS capital)	20,239	$15.73	40%	$6.29
Dividend yield (sustainable)	17,778	$13.82	20%	$2.76
ROE (sustainable)	14,214	$11.05	20%	$2.21
Sum-of-Parts	17,781	$13.82	20%	$2.76
Total				**$14.03**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 3 – SOTP valuation (conservative)

SOP	2017e NPAT	Pros. PE (times)	Value ($m)	Per share
Core Bank	373	12.5	5,056	$3.93
Non-core Bank	0	nm	0	$0.00
General Insurance	838	12.5	10,478	$8.14
Life	153	9.0	1,373	$1.07
Adjustments & NOHC surplus capital	0	nm	874	$0.68
Total	**1,364**	**13.0**	**17,781**	**$13.82**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 4 – Estimate changes

Suncorp Group Y/e June 30 ($m)	2016e Current	2016e Previous	2016e Change	2017e Current	2017e Previous	2017e Change	2018e Current	2018e Previous	2018e Change	2019e Current	2019e Previous	2019e Change
Banking												
Net interest income	1,116	1,116	0%	1,175	1,175	0%	1,242	1,242	0%	1,313	1,313	0%
Other income	114	114	0%	122	122	0%	130	130	0%	139	139	0%
Total banking income	1,230	1,230	0%	1,297	1,297	0%	1,372	1,372	0%	1,452	1,452	0%
Operating expenses	-635	-635	0%	-659	-659	0%	-690	-690	0%	-736	-736	0%
Impairment expenses	-60	-60	0%	-104	-104	0%	-123	-123	0%	-144	-144	0%
One-off items	0	0		0	0		0	0		0	0	
Contribution before tax	**535**	**535**	**0%**	**533**	**533**	**0%**	**559**	**559**	**0%**	**571**	**571**	**0%**
General Insurance												
Gross written premium (GWP)	8,930	8,930	0%	9,079	9,079	0%	9,279	9,279	0%	9,486	9,486	0%
Less: Gross unearned premium	3	3	0%	3	3	0%	3	3	0%	4	4	0%
Less: Outwards reinsurance expense	-995	-995	0%	-1,012	-1,012	0%	-1,036	-1,036	0%	-1,060	-1,060	0%
Net earned premium (NEP)	7,938	7,938	0%	8,070	8,070	0%	8,247	8,247	0%	8,429	8,429	0%
Claims expense	-7,135	-7,047	-1%	-7,045	-7,083	1%	-7,126	-7,166	1%	-7,231	-7,251	0%
Reinsurance and other recoveries	1,514	1,514	0%	1,469	1,469	0%	1,501	1,501	0%	1,534	1,534	0%
Net incurred claims	-5,621	-5,532	-2%	-5,577	-5,614	1%	-5,625	-5,665	1%	-5,698	-5,718	0%
Acquisition expenses	-1,110	-1,110	0%	-1,090	-1,090	0%	-1,115	-1,115	0%	-1,142	-1,142	0%
Other underwriting expenses	-627	-627	0%	-637	-637	0%	-651	-651	0%	-666	-666	0%
Underwriting result	581	670	-13%	767	729	5%	855	815	5%	924	904	2%
Inv. income - insurance funds	242	403	-40%	248	410	-39%	253	417	-39%	258	426	-39%
Insurance trading result (ITR)	824	1,072	-23%	1,015	1,139	-11%	1,107	1,232	-10%	1,183	1,330	-11%
Mgd. schemes net contribution	23	23	n/m	23	23	n/m	23	23	n/m	23	23	n/m
JV and other income	4	4	n/m	4	4	n/m	4	4	n/m	4	4	n/m
Inv. income - s'holders' funds	178	178	0%	180	180	0%	184	184	0%	189	189	0%
Capital funding	-24	-24	0%	-24	-24	n/m	-24	-24	n/m	-24	-24	n/m
Contribution before tax	**1,005**	**1,254**	**-20%**	**1,197**	**1,322**	**-9%**	**1,294**	**1,419**	**-9%**	**1,374**	**1,522**	**-10%**
Wealth contb'n before tax	**204**	**204**	**0%**	**218**	**218**	**0%**	**232**	**232**	**0%**	**246**	**246**	**0%**
Other												
- LJ Hooker	0	0	n/m	0	0	n/m	0	0	n/m	0	0	n/m
- Consolidation/adjustments	0	0	n/m	0	0	n/m	0	0	n/m	0	0	n/m
Profit before tax & PMN items	**1,744**	**1,992**	**-12%**	**1,949**	**2,073**	**-6%**	**2,085**	**2,210**	**-6%**	**2,192**	**2,340**	**-6%**
Amortisation of PMN intangibles	-99	-99	n/m	-91	-91	n/m	-49	-49	n/m	-47	-47	n/m
DAC adjustment	0	0	n/m	0	0	n/m	0	0	n/m	0	0	n/m
Integration costs	0	0	n/m	0	0	n/m	0	0	n/m	0	0	n/m
Income tax	-493	-568	15%	-557	-595	7%	-611	-648	6%	-643	-688	7%
Minority interests	0	0	n/m	0	0	n/m	0	0	n/m	0	0	n/m
NPAT (statutory basis)	**1,151**	**1,325**	**-13%**	**1,300**	**1,387**	**-6%**	**1,425**	**1,513**	**-6%**	**1,501**	**1,605**	**-6%**
Non cash adjustments	69	69	0%	64	64	0%	34	34	0%	33	33	0%
NPAT (cash basis)	**1,221**	**1,394**	**-12%**	**1,364**	**1,451**	**-6%**	**1,460**	**1,547**	**-6%**	**1,534**	**1,638**	**-6%**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Suncorp Group

Company description

SUN is QLD's largest listed corporation with over 228,000 shareholders. It is also Australia's largest general insurer (following the acquisitions of GIO and AMP's general insurance business in 2001 and Promina in 2007) as well as the 5th largest bank in terms of footings. SUN currently provides services to 9m insurance and banking customers through 237 retail and business banking outlets and other intermediary channels.

Investment strategy

SUN represents exceptional value in terms of: (1) a quality Bank with rising market shares and NIM; (2) underlying General Insurance margin of at least 12% from process/efficiency gains that should lift core Group ROE above 10%; (3) enhanced reputation since the 2011 QLD floods in terms of processing claims; and (4) ongoing strategic appeal as a three-way breakup play – General Insurance, Bank and Life Insurance.

Valuation

The price target is closely aligned to the composite valuation as follows:

1. DCF value of $15.73 per share (comprising 10% hurdle rate, 10.0% Tier 1 requirement for the Bank and 3% terminal growth rate; 40% weight) including surplus capital;
2. Dividend yield (sustainable) of $13.82 per share (required risk-adjusted dividend yield 5.5%, 20% weight);
3. Price / book valuation (given a sustainable/normalised ROE of 10%+ consistent with that of a pure General Insurance company) of $11.05 per share (20% weight); and
4. Sum-of-Parts valuation of $13.82 per share (20% weight).

Table 5 – Composite valuation

Composite Valuation	Value ($m)	Per share	Weighting	Composite value per share
DCF (plus XS capital)	20,239	$15.73	40%	$6.29
Dividend yield (sustainable)	17,778	$13.82	20%	$2.76
ROE (sustainable)	14,214	$11.05	20%	$2.21
Sum-of-Parts	17,781	$13.82	20%	$2.76
Total				**$14.03**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 6 – SOTP valuation (conservative)

SOP	2017e NPAT	Pros. PE (times)	Value ($m)	Per share
Core Bank	373	12.5	5,056	$3.93
Non-core Bank	0	nm	0	$0.00
General Insurance	838	12.5	10,478	$8.14
Life	153	9.0	1,373	$1.07
Adjustments & NOHC surplus capital	0	nm	874	$0.68
Total	**1,364**	**13.0**	**17,781**	**$13.82**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

SWOT analysis

Strengths

1. Cross-sell expertise (averaging around four products per customer vs. 2-2.5 for the major banks);
2. General insurance scale and iconic brands; and
3. Loyal following and scale (footings and distribution) in QLD and NSW.

Weaknesses

1. General Insurance risk diversification issue – exposure to a single geography (although partially mitigated by 30% QLD quota share); and
2. Sub-scale in banking and life insurance segments.

Opportunities

1. $170m pre-tax Optimisation (largely revenue-based) benefits by 2018, sourced from claims transformation, ongoing SMART rollout, Super Simplification, Business Intelligence and Technology and Procurement, and with ~60% of the benefits arising from Personal Insurance;
2. Unlocking value through company breakup as per investment strategy (see previous pages) including price re-rating with removal of conglomerate discount; and
3. Leveraged to eventual economic rebound in QLD (with post flood rebuilding) and NSW.

Threats

1. Macroeconomic factors such as higher unemployment and slowing credit growth (although the risk is dissipating given the resilience of the local economy);
2. Changes in regulatory environment, especially the potential capping of funds management and advice fees that would crimp wealth management earnings growth; and
3. Increased competition specifically from the major banks (retail and wholesale banking and life insurance), disruptors and offshore general insurers.

Suncorp Group
as at 14 December 2015

Recommendation	Buy
Price	$11.77
Target (12 months)	$14.00

Table 7 – Financial summary

Suncorp Group		**Share Price (A$)**	**11.77**
As at	14-Dec-15	**Market Cap (A$M)**	**15,143**

PROFIT AND LOSS

Y/e June 30 ($m)	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Banking					
Net interest income	1,011	1,103	1,116	1,175	1,242
Other income	76	107	114	122	130
Total banking income	1,087	1,210	1,230	1,297	1,372
Operating expenses	-624	-646	-635	-659	-690
Impairment expenses	-137	-58	-60	-104	-123
One-off items	0	0	0	0	0
Contribution before tax	**326**	**506**	**535**	**533**	**559**
General Insurance					
Gross written premium (GWP)	8,870	8,872	8,930	9,079	9,279
Less: Gross unearned premium	-84	3	3	3	3
Less: Outwards reinsurance expense	-1,060	-1,010	-995	-1,012	-1,036
Net earned premium (NEP)	7,726	7,865	7,938	8,070	8,247
Claims expense	-6,595	-7,581	-7,135	-7,045	-7,126
Reinsurance and other recoveries	1,355	1,994	1,514	1,469	1,501
Net incurred claims	-5,240	-5,587	-5,621	-5,577	-5,625
Acquisition expenses	-1,063	-1,127	-1,110	-1,090	-1,115
Other underwriting expenses	-713	-656	-627	-637	-651
Underwriting result	710	495	581	767	855
Investment income - insurance funds	485	399	242	248	253
Insurance trading result (ITR)	1,195	894	824	1,015	1,107
Managed schemes net contribution	20	23	23	23	23
JV and other income	5	6	4	4	4
Investment income - s'holders' funds	246	163	178	180	184
Capital funding	-32	-26	-24	-24	-24
Contribution before tax	**1,434**	**1,060**	**1,005**	**1,197**	**1,294**
Life contribution before tax	**131**	**179**	**204**	**218**	**232**
Other					
- LJ Hooker	0	0	0	0	0
- Consolidation & other adjustments	0	0	0	0	0
Profit before tax & PMN items	**1,891**	**1,745**	**1,744**	**1,949**	**2,085**
Intangible adjustments	-620	-91	-99	-91	-49
DAC adjustment	0	0	0	0	0
Integration costs	0	0	0	0	0
Income tax	-541	-521	-493	-557	-611
Minority interests	0	0	0	0	0
NPAT (statutory basis)	**730**	**1,133**	**1,151**	**1,300**	**1,425**
Non cash adjustments/non-core items	574	58	69	64	34
NPAT (cash basis)	**1,304**	**1,191**	**1,221**	**1,364**	**1,460**

CASHFLOW

Y/e June 30 ($m)	**2014**	**2015**	**2016e**	**2017e**	**2018e**
NPAT (cash basis)	1,304	1,191	1,221	1,364	1,460
Increase in loans	-1,782	-1,929	-3,594	-3,542	-3,749
Increase in other assets	2,343	1,078	-66	-177	-2,927
Capital expenditure	7	14	-6	-6	-6
Investing cashflow	**568**	**-838**	**-3,665**	**-3,725**	**-6,683**
Increase in interest bearing liabilities	-1,727	2,160	8,420	3,053	5,851
Increase in insurance liabilities	182	83	-4,873	335	438
Equity raised	0	2	0	0	0
Other	-826	-2,277	-1,102	-1,028	-1,066
Financing cashflow	**-2,371**	**-32**	**2,444**	**2,361**	**5,223**
Net change in cash	-499	321	0	0	0
Cash at end of period	**895**	**1,216**	**1,216**	**1,216**	**1,216**

BALANCE SHEET

Y/e June 30 ($m)	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Cash and liquid assets	895	1,216	1,216	1,216	1,216
Divisional gross loans	50,007	51,918	55,526	59,083	62,847
Provisions	-226	-208	-222	-237	-252
Core Bank interest earning assets	9,354	8,875	8,875	8,875	8,875
Non-core Bank interest earning assets	0	0	0	0	0
Intangibles	5,720	5,783	5,684	5,593	5,544
PP&E	205	191	197	203	209
Insurance assets	7,465	6,856	6,922	7,098	10,025
Other assets	21,010	21,020	21,020	21,020	21,020
Total assets	**94,429**	**95,651**	**99,217**	**102,851**	**109,485**
Interest bearing liabilities	57,373	59,533	67,953	71,006	76,857
Insurance liabilities	20,547	20,630	15,757	16,092	16,530
Other liabilities	2,710	1,970	1,970	1,970	1,970
Total liabilities	**80,630**	**82,133**	**85,680**	**89,068**	**95,358**
Ordinary share capital	12,682	12,684	12,684	12,684	12,684
Other equity instruments	0	0	0	0	0
Reserves	206	167	167	167	167
Retained profits	885	632	651	896	1,241
Minority interests	26	35	35	35	35
Total shareholders' equity	**13,799**	**13,518**	**13,537**	**13,782**	**14,127**
Total sh. equity & liabs.	**94,429**	**95,651**	**99,217**	**102,851**	**109,485**
WANOS - statutory (m)	**1,278**	**1,279**	**1,279**	**1,279**	**1,279**
WANOS - cash (m)	**1,278**	**1,279**	**1,279**	**1,279**	**1,279**

VALUATION DATA

Y/e June 30	**2014**	**2015**	**2016e**	**2017e**	**2018e**
NPAT (cash basis) ($m)	1,304	1,191	1,221	1,364	1,460
EPS (statutory basis) (cps)	57	89	90	102	111
- Growth	48%	55%	2%	13%	10%
EPS (cash basis) (cps)	102	93	95	107	114
- Growth	126%	-9%	2%	12%	7%
P / E ratio (times)	11.5	12.6	12.3	11.0	10.3
P / Book ratio (times)	1.1	1.1	1.1	1.1	1.1
P / NTA ratio (times)	1.9	2.0	1.9	1.8	1.8
Net DPS (cps)	105	88	81	83	80
Yield	8.9%	7.5%	6.9%	7.1%	6.8%
Franking	100%	100%	100%	100%	100%
Payout (cash) (target 60-80%)	103%	94%	85%	78%	70%
Effective tax rate	30%	31%	30%	30%	30%

CAPITAL ADEQUACY

Y/e June 30	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Risk weighted assets ($m)	30,997	30,610	32,737	34,834	37,054
Average risk weight	62%	59%	59%	59%	59%
Tier 1 ratio	**10.0%**	**10.6%**	**11.1%**	**11.5%**	**11.8%**
Core Tier 1 ratio (Bank)	**8.5%**	**9.1%**	**9.7%**	**10.2%**	**10.6%**
Total capital ratio (Bank)	13.2%	13.8%	14.1%	14.3%	14.5%
Equity ratio	14.6%	14.1%	13.6%	13.4%	12.9%
General insurance PCA (x)	**2.16**	**1.86**	**1.92**	**1.98**	**2.03**

PROFITABILITY RATIOS

Y/e June 30	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Return on assets	1.4%	1.3%	1.2%	1.3%	1.3%
Return on equity	**9.4%**	**8.9%**	**9.1%**	**10.0%**	**10.4%**
Leverage (times)	7	7	7	7	8
Net interest margin	**1.72%**	**1.84%**	**1.85%**	**1.84%**	**1.84%**
Cost / income ratio	57%	53%	52%	51%	50%
Cost / average assets	1.06%	1.08%	1.05%	1.03%	1.02%
Growth in contribution before tax	120%	-8%	0%	12%	7%
ITR margin	**15.5%**	**11.4%**	**10.4%**	**12.6%**	**13.4%**
Combined ratio	91%	94%	93%	91%	90%
Loss ratio	68%	71%	71%	69%	68%
GWP growth	3.3%	0.0%	0.7%	1.7%	2.2%

ASSET QUALITY

Y/e June 30	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Impairment expense / GLA	0.27%	0.11%	0.11%	0.18%	0.20%
Impairment expense / RWA	0.44%	0.19%	0.18%	0.30%	0.33%
Total provisions ($m)	**377**	**354**	**368**	**383**	**398**
Total provisions / RWA	1.22%	1.16%	1.13%	1.10%	1.07%
Indiv ass prov / gross imp assets	32%	38%	38%	38%	38%
Total provisions + GRCL / RWA	**1.22%**	**1.16%**	**1.13%**	**1.10%**	**1.07%**

DIVISIONAL

Y/e June 30 ($m)	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Core Banking					
Net interest income	1,011	1,103	1,116	1,175	1,242
Other income	76	107	114	122	130
Total banking income	**1,087**	**1,210**	**1,230**	**1,297**	**1,372**
Operating expenses	-624	-646	-635	-659	-690
Impairment expenses	-137	-58	-60	-104	-123
Contribution before tax	**326**	**506**	**535**	**533**	**559**
Home loans	39,001	41,785	44,380	46,907	49,570
Other loans	11,006	10,133	11,146	12,176	13,277
Interest bearing liabilities	55,333	56,700	60,669	64,916	69,460
Risk weighted assets (RWA)	30,997	30,610	32,737	34,834	37,054
- Average risk weight	62%	59%	59%	59%	59%
Collective provisions	120	126	135	143	153
- As % of RWA	0.39%	0.41%	0.41%	0.41%	0.41%
Gross impaired assets	333	218	233	248	264
- As % of gross loans	0.7%	0.4%	0.4%	0.4%	0.4%
GRCL	151	146	146	146	146
Individually assessed provisions	106	82	88	93	99
- As % of gross impaired assets	32%	38%	38%	38%	38%
Non-core Banking					
Net interest income	0	0	0	0	0
Other income	0	0	0	0	0
Total banking income	**0**	**0**	**0**	**0**	**0**
Operating expenses	0	0	0	0	0
Impairment expenses	0	0	0	0	0
Contribution before tax	**0**	**0**	**0**	**0**	**0**
Loans	0	0	0	0	0
Other interest earning assets	0	0	0	0	0
Interest bearing liabilities	0	0	0	0	0
Risk weighted assets (RWA)	0	0	0	0	0
- Average risk weight	0%	0%	0%	0%	0%
Collective provisions	0	0	0	0	0
- As % of RWA	0.00%	0.00%	0.00%	0.00%	0.00%
Gross impaired assets	0	0	0	0	0
- As % of gross loans	0.0%	0.0%	0.0%	0.0%	0.0%
GRCL	0	0	0	0	0
Individually assessed provisions	0	0	0	0	0
- As % of gross impaired assets	0%	0%	0%	0%	0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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