PUBLIC VERSION

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STATEMENT IN SUPPORT OF APPLICATION FOR MERGER AUTHORISATION

SBGH LIMITED

Target Company

Statement of	**Steven Johnston**
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Occupation	Group Chief Executive Officer and Managing Director, Suncorp Group
Date:	25 November 2022

This document is subject to claims for confidentiality and is to be treated as wholly confidential.

The lodgment of this document will be followed by the lodgment of a public version.

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A. INTRODUCTION

1. I am the Chief Executive Officer and Managing Director of Suncorp Group Limited (**Suncorp** or the **Group**) and a member of Suncorp's Executive Leadership Team (**ELT**).

2. This statement has been prepared in support of the application by Australia and New Zealand Banking Group Limited (**ANZ**) for authorisation of its proposed acquisition of 100% of the issued share capital in SBGH Limited (**Suncorp Bank**) from Suncorp, either directly or via a related body corporate of ANZ, in accordance with a share sale and purchase agreement between ANZ and Suncorp executed on 18 July 2022 (the **Proposed Transaction**).

3. Exhibited to me at the time of signing this statement is a bundle of confidential documents marked SJ-1 and a bundle of non-confidential documents marked SJ-2.

4. The matters set out in this statement are based on my knowledge of the Group's operations, my review of Suncorp Group's business records, my involvement with the Group's business, and my understanding of public policy as it applies in Queensland and across Australia.

B. ROLE AND EXPERIENCE

Role at Suncorp Group and reporting structure

5. I joined the Group in 2006 and was permanently appointed to the role of Chief Executive Officer and Managing Director in September 2019. Prior to my appointment as Chief Executive Officer in September 2019, I was acting Chief Executive Officer, appointed to that role in May 2019. I sit on the Suncorp Group Limited Board and Suncorp-Metway Limited Board as an Executive Director.

6. As Chief Executive Officer and Managing Director, I report to the Group Board. I lead the ELT and I have overall responsibility for managing Suncorp and making decisions in connection with all aspects of Suncorp's business activities and operations. The other members of the ELT, who all report to me are:

   (a) Michelle Bain, Acting Group General Counsel;

   (b) Adam Bennett, Chief Information Officer;

   (c) Lisa Harrison, Chief Executive Officer Insurance Product & Portfolio;

   (d) Jimmy Higgins, Chief Executive Officer Suncorp New Zealand;

   (e) Bridget Messer, Group Chief Risk Officer.

   (f) Jeremy Robson, Group Chief Financial Officer;

   (g) Paul Smeaton, Chief Operating Officer Insurance;

   (h) Belinda Speirs, Group Executive Completion & Transition;

   (i) Fiona Thompson, Group Executive People, Culture & Advocacy; and

   (j) Clive van Horen, Chief Executive Officer Suncorp Bank.

7. I am also a Director of the Insurance Council of Australia.

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Prior experience and qualifications

8. Prior to being appointed Suncorp's Chief Executive Officer and Managing Director (including the period when I acted in that role), I held the following roles within Suncorp:

   (a) Group Chief Financial Officer from December 2013 to September 2019, where I was responsible for management and oversight of Suncorp's Corporate Development function, managing Suncorp's investment portfolio, and had responsibility for Suncorp's Performance Management, Capital Management and statutory reporting;

   (b) Deputy Chief Financial Officer from December 2011 to December 2013; and

   (c) Executive General Manager Investor Relations and Corporate Affairs from January 2006 to December 2011.

9. Prior to joining Suncorp I held the following roles:

   (a) from 1998 to 2006, I undertook various roles at Telstra Corporation including National General Manager of State and Regional Public Affairs and Corporate and Government Affairs. During this time, I managed Telstra's relationship with the Federal Government (its majority shareholder) and State and Territory Governments; and

   (b) from 1996 to 1998, Principal Policy Advisor to the Premier of Queensland at the Department of the Premier and Cabinet, Queensland.

10. I hold a Bachelor of Business Management and a Bachelor of Business Public Administration from the Queensland University of Technology.

C. SUNCORP'S INSURANCE AND BANKING BUSINESS

11. Suncorp is a financial services conglomerate. It is unique to the Australian market insofar as, over its history, it has included wealth management, superannuation, life and general insurance businesses within its conglomerate structure. Indeed, such conglomerate structures, i.e. those including insurance and banking manufacturing, are rare in a global context.

12. Suncorp operates its insurance and banking interests in Australia and New Zealand through the following three lines of business:

   (a) **Insurance Australia (AAI):** Operated through a wholly owned subsidiary of Suncorp, AAI Limited (ABN 48 005 297 807). AAI designs, manufactures and supplies general insurance products and services, including home and motor insurance, and distributes life insurance products (through a strategic alliance with TAL Australia) to customers in Australia. Suncorp Insurance operates under the following national brands:

      (i) Suncorp, AAMI, Apia, GIO, Shannons, Vero and Essentials by AAI (general insurance including home and motor insurance):

      (ii) Bingle and CIL Insurance (motor insurance only); and

      (iii) Terri Scheer (landlord and building insurance only).

   (b) **Suncorp Bank:** Designs, manufactures and delivers banking services to personal, small and medium enterprise (**SME**), commercial and agribusiness customers in Australia. Banking products and services provided include transaction accounts, savings accounts, home loans, credit cards (through a whitelabel arrangement with National Australia Bank (**NAB**)), term deposits, business bank deposit accounts including foreign currency deposit accounts, business credit products and loans,

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business banking payments and merchant services. Suncorp Bank also offers treasury products and services, and funds administration services.

(c) **Suncorp New Zealand** (**SNZ**): Designs, manufactures and supplies general insurance and life insurance products. These products include home and contents insurance, motor insurance, commercial property insurance, public liability and professional indemnity insurance, life insurance, trauma insurance, total and permanent disablement insurance and income protection insurance. SNZ operates under the Vero (general insurance) and Asteron Life brands.

13. Each business line is responsible for product design and manufacturing, claims and credit management and the delivery of customer facing products. These lines of business are supported by Group corporate functions of Finance & Advice, Legal & Secretariat, Technology & Transformation, People Culture & Advocacy and Risk. Our priority remains aligned to bringing to life Suncorp's stated purpose of "Building futures and Protecting what matters".

14. Neither AAI or SNZ (Suncorp's Insurance operations in both Australia and New Zealand) will form part of the Proposed Transaction. A copy of Suncorp's ASX Announcement released at the time of announcing the Proposed Transaction is at **Tab 1 of Non-confidential Exhibit SJ-2**.

D. SUMMARY OF SUNCORP'S PROPOSED TRANSACTION RATIONALE

15. I have been directly involved, at a Board level and as part of the Group's ELT, in the Group's decision to divest the Bank to ANZ.

16. As a public market participant, Suncorp Group relies on the support of investors to attract capital and fund its business activities. This means investors require the Group to deliver returns appropriate for the risks associated with investing in the business. In order for Suncorp's businesses to deliver the necessary risk adjusted return on capital and thereby continue to attract investors, Suncorp's businesses must continually invest in new products, price points, distribution systems and technology that meet customer demands, regulatory requirements and protect against cyber risk. Suncorp's current conglomerate structure means that capital resources must be prioritised between Suncorp Bank and Suncorp's insurance businesses.

17. The Group's decision to divest Suncorp Bank to ANZ addresses this and other issues and positions both its insurance business and Suncorp Bank for ongoing growth and success as separate, monoline businesses. The current conglomerate structure is not optimal in seeking to achieve this growth and success given the medium to long term macro trends facing both industries. These are explained in detail in this statement.

18. In summary the rationale for divesting Suncorp Bank is as follows:

(a) **Simplification** - Consistent with the Group's journey of simplification, the Proposed Transaction will result in a further simplification of Suncorp's business. The Group's simplified singular focus on its insurance business will generate operational efficiencies, enabling the Group to continue to develop competitive and compelling insurance product offerings to its customers.

(b) **Market outlook** - Banking and insurance markets will face challenges in the coming period. Wholesale funding costs are expected to increase as a result of rising interest rates, climate change and geopolitical risks that are increasingly dislocating capital markets creating volatility and scarcity of both capital and funding sources.

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(c) **Investment requirements** - The Proposed Transaction will allow the Group to refocus the Group's capital investment which can be deployed towards investments in maintenance, renewal of technology, continual compliance with regulatory requirements, underwriting capabilities and other improvements to its insurance business and customer propositions without the competing demands for investment in Suncorp Bank while Suncorp Bank will benefit from the capital investment that ANZ can deliver.

19. I deal with each of these matters in more detail below.

Simplification

First identification of the need for streamlining - Impact of the GFC on Suncorp Bank's product mix and customer segments

20. Suncorp Bank has pursued a strategy of simplification since the Global Financial Crisis (**GFC**). At the time of the GFC, I held the position of Executive General Manager Investor Relations and Corporate Affairs and was intimately involved in the Group's response and decision-making during that time. The GFC caused significant funding and liquidity issues for the Group (including, in particular, Suncorp Bank) and caused the Group to review and refresh its capital management and risk management frameworks. There was a dedicated program of work developed for Suncorp Bank aimed at de-risking and reshaping its product portfolios to ensure that it had a sustainable funding base attractive to depositors as well as wholesale funding markets and equity investors such that it could meet any future funding challenges like those experienced during the GFC. I was directly involved in the management of those issues for the Group and the development of the strategy for Suncorp Bank. Whilst not contemplated at that time, the Proposed Transaction is driven by the need to continue to reshape Suncorp Bank and ensure its model delivers what customers are seeking and is sustainable.

21. Prior to the GFC, Suncorp Bank had been profitably expanding its business lending portfolio, into property and development business loans that included complex lending arrangements in what were more volatile business lending segments without a commensurate expansion of its deposit holdings. This expansion was funded through the wholesale markets and securitisation of Suncorp Bank's residential mortgage book. However, the GFC resulted in an effective shutdown of the securitisation market and severely constrained availability of wholesale funding. This, coupled with Suncorp Bank's relatively low proportion of deposit funding, meant that Suncorp Bank's portfolio, as it was then structured, became very difficult to fund [redacted]

22. The Group therefore took steps to reshape Suncorp Bank's portfolio, which at the time of the GFC was approximately 55% retail product focussed and 45% business banking focussed. These steps included:

(a) a program of work to de-risk and reshape Suncorp Bank's portfolios by separating its business lines into core and non-core and to run-off its non-core businesses, reduce exposure to higher credit risk segments and to pro-actively manage credit quality of customers with the aim of improving Suncorp Bank's attractiveness to institutional investors. Suncorp Bank identified its core customer segments as personal customers, small businesses, agribusiness, SME and some segments of development finance and property finance. Non-core business were identified as corporate banking, corporate property and lease finance;

(b) improving its deposit to lending ratio, lengthening the tenor of its funding instruments and reducing refinancing risk of the non-core portfolio;

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(c) strengthening its capital position; and

(d) strengthening its core businesses and improving processes with the aim of achieving sustained profitability.

23. As a result of these steps, Suncorp Bank exited the non-core portfolios by ceasing to lend to new customers in corporate banking, corporate property and lease financing and worked with customers in those segments to reduce its exposures in these portfolios.

24. Suncorp Bank also ceased manufacturing credit cards following the GFC. Suncorp Bank currently has a whitelabel arrangement with NAB (previously Citigroup) under which NAB manufactures a credit card with Suncorp Bank's branding that Suncorp Bank distributes to Suncorp Bank customers.

25. Suncorp sold its debtor finance credit business to Scottish Pacific Group Limited (**Scottish Pacific**) in 2016. Suncorp Bank also has a whitelabel arrangement with Scottish Pacific through which trade finance credit facilities and services are provided by Scottish Pacific to Suncorp Bank's business customers.

26. In addition, the Group announced in its half year results to 31 December 2021, presented in February 2021, that Suncorp Bank will no longer offer personal loans, enabling greater focus on home lending. At **Tab 2 of Non-confidential Exhibit SJ-2** is a copy of the Group's HY21 Results Announcement.

27. As a result of that program of work, Suncorp Bank now has a much more simplified portfolio mix of products and customers which are comprised of approximately [redacted] retail portfolio and [redacted] business portfolio. This deliberate positioning of Suncorp Bank's product and portfolio mix was designed to ensure that Suncorp Bank can continue to attract capital and in times of hardship, like those experienced in the GFC, Suncorp Bank can more quickly and efficiently seek to de-risk the bank and effectively manage its need for funding by moderating its home lending channel (both direct and through brokers). While this effectively manages risk in the Bank, it does so at the expense of the product mix and customer segments that Suncorp Bank is willing to operate in. This means that there are banking products and services that Suncorp Bank no longer offers effectively creating "gaps" in Suncorp Bank's product offering. The Proposed Transaction provides the basis for Suncorp Bank to sustainably provide attractive customer offerings.

Suncorp Group's simplification of business lines

28. The Proposed Transaction continues the Group's journey of simplification which, since 2019 has resulted in the divestment of the following businesses by the Group:

(a) in 2019, the Group completed the divestment of its Australian Life Insurance business Suncorp Life & Superannuation Limited to TAL (28 February 2019) and the divestment of its smash repair businesses Capital S.M.A.R.T and ACM Parts to AMA (31 October 2019).

(b) in 2021, the Group completed the divestment of its 50% share of the RACT Insurance joint venture to Royal Automobile Club of Tasmania (1 December 2021); and

(c) in 2022, the Group completed the divestment of its Australian Wealth (Superannuation) Business, Suncorp Portfolio Services Limited, to LGIAsuper (1 April 2022).

These divestments are described in the public announcements made by the Group which are included at **Tabs 3 to 6 of Non-confidential Exhibit SJ-2**.

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Banking and insurance markets will face challenges in the coming period

Banking outlook

29. Australian Banks have benefited from a favourable funding, liquidity and credit environment over recent years. Even so, the Australian banking sector has experienced declining levels of profitability, as measured by return on equity, since the mid-2000s, with the exception of a rebound in the aftermath of the GFC and also most recently during the COVID-19 pandemic when fiscal and monetary stimulus actions were put in place by the federal and state governments and the Reserve Bank.

30. There has been a range of structural changes that have contributed to this trend, including:

    (a) Declining net interest margins (**NIM**) over the longer term from competitive pressures across both retail and business lending from major and non-major banks and non-bank lenders.

    (b) Increasing distribution via broker channels which has resulted in increasing intermediation between the lender and the customer.

    (c) Increasing capital requirements from the Australian Prudential Regulation Authority (**APRA**) and post Royal Commission reforms to regulatory oversight from the Australian Securities and Investments Commission (**ASIC**) for banks which has seen market participants exit sub-scale, non-core operations (including non-banking and offshore businesses) and increasingly devote capital toward domestic mortgage lending.

31. The regional banks have also generated lower returns than the major banks throughout this period. In addition to the structural changes that have impacted the broad sector, regional banks have encountered a number of additional factors that differentiate them from their major bank counterparts:

    (a) Regional banks experience higher wholesale funding costs due to the relative differences in credit ratings from their major bank counterparts.

    (b) Regional banks do not benefit from APRA advanced accreditation on risk weights, which provides a relative disadvantage for capital efficiency and return on equity, especially for lower risk mortgage lending.

32. As Australian banks continue to seek growth despite these tailwinds, market conditions are increasingly competitive and NIMs have come under pressure. These challenges were presented to the Board in the February 2022 Board insights pre-reading paper which is at **Tab 1 of Confidential Exhibit SJ-1.** Given the more challenging outlook for banking in Australia, significant attention and investment is required to successfully respond to these challenges. These challenges include:

    (a) Wholesale funding costs are expected to increase as a result of rising interest rates, the unwinding of pandemic-induced liquidity support such as the Term Funding Facility (**TFF**), which gave banks access to cost of funds at a fixed 10 basis points until 30 June 2024, and the return of banks, particularly major banks, to their higher levels of historical fundraising levels thereby increasing the level of competing issuance across the board.

    (b) Pressure on margins, which are expected to continue. Funding costs and liquidity are expected to be impacted by the unwinding of pandemic-induced support including an historically low RBA cash rate and a reduction in liquidity from repayment of the Term Funding Facility. Another driver is competitive pricing pressure, likely to be exacerbated by low credit growth in the near future, the strength of mortgage brokers and ongoing consumer pressure. Work commissioned by the Suncorp Board and presented at the April 2022 Board Insights session shows that bank and non-bank lenders have experienced continued margin compression in an increasingly competitive environment. That work suggests competition between banks and non-bank lenders for mortgage refinancing will continue to erode margins in an environment where pricing will be a significant element of that competition and more important to refinancing customers than time-to-approval. NIM will also be impacted by mortgage broker commissions that are estimated to increase significantly across the industry from $2.9 billion in FY20 to $4.1 billion in FY22. The April 2022 SGL Board Insights Paper is at **Tab 2 of Confidential Exhibit SJ-1**.

(c) Competitive pressures will increase as banks are focused on the same customer segments and profit pools in the domestic home lending and business banking segments, including by investing digitally and using data and artificial intelligence to create compelling customer propositions. Beyond the "traditional" banks, competition is also stepping up from technology businesses and platform-based businesses. These non-traditional financial service providers which include non-ADI digital payment services, digital wallets and buy now, pay later (**BNPL**) services compete aggressively in specific but profitable banking products and services in Australia. These non-traditional financial service providers benefit from different and often lower regulatory or prudential requirements. They can be well financed and are able to disrupt, innovate and compete without the high cost legacy systems and networks and product suites of more traditional banks like Suncorp Bank.

(d) Customer expectations are rising driven by their experience of non-traditional financial service providers and experiences outside of banking. This, in turn, will require increasing investment in digital and technology for banks to continue to meet customer expectations. [redacted] Suncorp Bank's [redacted] technology platforms which, while robust and retrofitted for today's business needs, will require significant modernisation over the next decade to be future-fit or market leading. Suncorp Bank's FY23-25 Business Plan is at **Tab 3 of Confidential Exhibit SJ-1** and an extract of the minutes of the Suncorp-Metway Limited Board approving the plan and an extract of the minutes of the Suncorp Group Board noting the plan in May 2022 are at **Tabs 4 to 5 of Confidential Exhibit SJ-1**.

(e) Increased digitisation is driving a material increase in data capture and storage. This, in turn, increases the potential for cyber and money laundering crimes and, as a consequence, materially increases the required level of investment in cybercrime and anti-money laundering (**AML**) monitoring and detection across both Suncorp's banking and insurance businesses, in addition to the ongoing general focus on regulatory uplift for both businesses.

(f) Consumer credit growth will likely be modest. Given the high current baseline of debt-to-income levels, and the probability that regulators will use prudential levers to slow credit growth if it materially exceeds income growth, bank growth is likely to be restrained.

33. I consider that these pressures are likely to continue given the unwinding of Government implemented COVID-related monetary and fiscal policy support and rising inflationary expectations.

Insurance challenges

34. There are a number of challenges impacting insurance businesses in Australia. There has been a step-up in regulatory oversight and spending required post the Financial Services Royal

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Commission materially increasing the regulatory burden on Suncorp's insurance business. General insurance businesses are facing increased pressures in relation to natural hazard costs and global reinsurance markets are undergoing a period of volatility putting pressure on reinsurance costs. I expand on the local and global challenges for Suncorp's insurance businesses below.

35. Insurance businesses in Australia are facing challenges as a consequence of Australia moving into its third La Nina season and the expectation of further extreme weather related events. The consequences of climate change and the increased frequency of natural disasters are intersecting with Australia's unfit built environment and creating material underwriting challenges for insurers and banks, with insurers the most materially exposed in the short-medium term. In Australia, the risk is perceived by reinsurers as particularly acute given recent bush fires and flooding events. The ACCC has recognised in its Northern Australia Insurance Inquiry – Final Report dated November 2020 (**ACCC Insurance Report**) the frequency and severity of catastrophe claims and the higher associated allocation of reinsurance costs.

36. Reinsurance pricing in recent years has also been impacted by record-breaking natural hazard events both in Australia and internationally. Major natural catastrophes which have occurred from 2020 and 2022 are set out in the table below.

Major natural catastrophes 2020-2022			
Major natural catastrophes	**2020**	**2021**	**2022**
Australia	Bushfires	East Coast Floods	East Coast Floods
	Covid-19	Texas snowstorm	
International	California Wildfires	European floods	Hurricane Ian
	Multiple hurricanes	Hurricane Ida	

This has resulted in a reduction in sources of capital for reinsurers, increasing premiums on the reinsurance Suncorp buys, increasing retention of risk on the insurance Suncorp is unable to buy resulting in a higher Natural Hazard Allocation (**NHA**) over time, and overall, a shift in the burden of loss from reinsurers to primary insurers.

37. Increases in Suncorp's Reinsurance premiums and Natural Hazards Allowance over the period FY21 to FY23 are set out in the table below.

Catastrophe Premium and NHA (AUD$m)	FY21	FY22	FY23
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]

38. Suncorp has maintained its Insurance Concentration Risk Charge (**ICRC**) at $250 million which is the starting point of its primary catastrophe reinsurance cover. [redacted] The current state of the reinsurance market is described in the Asset & Liability Committee Submission papers dated July 2020, July 2021 and July 2022, which are at **Tabs 6, 7 and 8 of Confidential Exhibit SJ-1**.

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39. Global reinsurance markets are undergoing a period of dislocation and volatility in relation to pricing and capacity. Insurance capital requirements are likely to increase as global reinsurance markets reassess risk caused by several global and domestic factors such as the increased frequency and severity of natural hazards. Primary insurers, such as Suncorp, are therefore potentially required to retain more risk, particularly catastrophe risk.

40. [redacted] Insurance affordability, particularly in areas of the country which are more exposed to natural disasters such as flooding will become an increasingly important issue for our customers and society more broadly, thereby amplifying the need for investment in innovation and product re-design to achieve sustainable customer outcomes. Relative to the status quo of the Suncorp conglomerate structure, a Board and ELT that has a singular focus on a simpler insurance business model is better placed to invest in and manage the underwriting challenges while increasing costs can be addressed through further operational efficiencies and balancing customer affordability constraints.

Suncorp Group will be in a position to re-focus capital investment decisions on its insurance business

41. By divesting Suncorp Bank, the Group will be in a position to solely focus on and invest in growth opportunities to develop its insurance businesses.

42. Divesting Suncorp Bank enables greater capacity for the Group Board and Management to focus on, and invest in, a standalone pureplay insurance business. Post completion of the Proposed Transaction, there will be a singular focus on delivering the insurance business plan and the key business initiatives as outlined in the recent FY22 results presentation, which is at **Tab 7 of Non-confidential Exhibit SJ-2**.

43. While the Group is well progressed in its three-year plan to drive growth and efficiencies in its core businesses, there is an ongoing need to continually invest to improve its technology systems through simplification, digitisation and automation that will lead to increased investment in building better quality products and services for its insurance customers. For example, the fast paced emergence of digital adoption post-COVID as the preferred channel for customer interaction, particularly in insurance, will drive increased competition and through the cycle investment than was previously contemplated.

44. Currently, combined with Suncorp Bank, capital allocations to fund growth and invest in the business must be prioritised between the Group's insurance businesses and Suncorp Bank. [redacted]

45. [redacted]

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[redacted]

46. Divesting Suncorp Bank will allow the Group [redacted] its program of digitisation and automation including its program to deliver a modernised technology platform, including new pricing engines and modern, cloud-based policy administration and claims systems. This [redacted] will allow Suncorp to simplify, digitise and automate its processes and leverage data from sales and underwriting activities which will result in improvements to Suncorp's product suite, sales and distribution, customer service and interface and improve claims processes. In turn, this will allow Suncorp to better meet the needs of its insurance customers by developing more competitive product offerings, delivering more responsive customer engagement and improving claims processing times.

Conglomerate synergies

47. The Group has only been able to achieve limited operational and customer synergies from its conglomerate bancassurance model despite our efforts to realise synergies through multiple strategy implementations. Regulatory stances have impacted the ability to achieve **[Public wording] synergies have largely been precluded by APRA's assessment of capital targets for each of the businesses. I deal with each of these in turn below.**

48. [redacted]

49. [redacted]

50. [redacted]

51. [redacted]

52. Regulatory imposts have been synchronised post the Financial Services Royal Commission amplifying the regulatory burden on both banking and insurance enterprises by a material step-up in regulatory oversight and spending. [redacted]

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[redacted]

53. [redacted] regulatory requirements for banking and insurance businesses are specific to those business lines. While both regulatory regimes may have similar objectives (e.g. protecting customers), they require the Group to take different actions at both a product specific level and an organisational level and are so complex that it is not possible to achieve compliance through an integrated system. In fact, the different regulatory requirements and regulatory burdens for the insurance and banking businesses mean that you have to develop separate systems or take the highest level of compliance across the businesses, which is more costly and complex than meeting the regulatory requirements and regulatory burdens for a monoline business.

E. REASONS FOR DIVESTING TO ANZ

54. [redacted] **[Public wording] The Group has considered** a comparison of "organic" and "inorganic" hypothetical alternative ownership structures for the Suncorp Bank. Copies of those analyses are at **Tabs 1 to 2, 9 to 10 and 15 to 20 of Confidential Exhibit SJ-1**.

55. [redacted] The consistent conclusion [redacted] was that:

(a) A merger of Suncorp Bank with a bank of similar size carried significant execution and integration risks.

(b) A cash sale of Suncorp Bank (as opposed to a merger of Suncorp Bank with another bank) presented as the superior value accretive option relative to a risk adjusted organic plan. This is because a cash sale provides value "upfront" to the Group's shareholders without the execution risks attached to a merger with another bank. Any value attached to a merger proposal would be subject to both businesses extracting and realising this value.

(c) A sale or merger of Suncorp Bank with another party would also require amendments to the *Metway Merger Act 1996* (Qld), and as a result would require a counterparty that could make a strong ongoing commitment to Queensland.

Execution and integration risks identified

56. The work that the Group has done included a detailed consideration of the impact of alternate potential transactions, principally the Group spinning off Suncorp Bank and then merging Suncorp Bank with another bank (this scenario is referred to as a "spin/merge" scenario in the Group's internal papers). This was specifically considered in the context of Bendigo and Adelaide Bank (**BEN**) which was selected as the relevant benchmark for such a scenario, although similar considerations apply to spin/merge scenarios with other regional banks. This assessment identified several factors that give rise to execution and integration complexity with a transaction of this type that make such a combination challenged, including:

(a) credit rating implications and associated funding risks;

(b) the extent to which relevant synergies, including cost synergies, can be realised;

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(c) branch consolidation, resourcing rationalisation and their consequential impact to customers, employees and the Queensland economy;

(d) technology integration risks and implications for customer service delivery;

(e) diverging risk appetites; and

(f) risks to brand and reputation.

Credit rating and funding risks

57. The Group's position in relation to a regional consolidation merger transaction continues to be challenged, and this is primarily driven by the prudential and credit ratings risks that would result.

58. The most significant of these is the funding risk that arises should Suncorp Bank demerge from the Group and/or demerge and combine with another regional bank such as BEN or Bank of Queensland. Suncorp Bank relies on a mix of funding including funding from long-term and short-term wholesale debt raised from wholesale investors. The funding risk arises because wholesale investors rely on ratings agencies to provide an assessment of the credit worthiness of the securities in which they invest. The higher the credit rating the more readily Suncorp Bank will attract wholesale investors and wholesale investments at lower interest rates. The lower the credit rating, the more difficult it is for Suncorp Bank to attract wholesale investors and the higher is the interest rate that Suncorp Bank would be required to offer to secure those investments.

59. On Monday 27 June 2022 the Group made an announcement to the ASX that the Group was reviewing its strategic alternatives for Suncorp Bank. A copy of that ASX announcement is at **Tab 8 of Non-confidential Exhibit SJ-2**. Following that media speculation, Ratings Agency Standard and Poor's (S&P) downgraded Suncorp Bank from AA- / A1+ to A+/A1 (negative outlook) on the grounds that they had formed the view that whilst Suncorp Bank remained "Strategically Important" it was no longer "Core". S&P further announced the negative outlook reflects a one-in-three possibility of further downgrade which would be likely to occur if the Group decided to proceed with divestment of Suncorp Bank. The announcement from S&P was followed by further media speculation that Suncorp intended to merge Suncorp Bank with BEN. The S&P announcements are at **Tabs 21 and 22 of Confidential Exhibit SJ-1**.

60. [redacted]

61. Both BEN and Bank of Queensland currently have a credit rating of BBB+ from Ratings Agency Standard and Poor's. Both these companies rely more heavily on funding from customer deposits. At a BBB+ credit rating, I believe Suncorp Bank's access to wholesale deposits and ability to source funding from global markets would be significantly diminished and would negatively impact Suncorp Bank's competitiveness.

Synergies

62. A regional merger would only make commercial sense if significant cost synergies could be extracted. [redacted]

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[redacted] using BEN as an example, such a merger would necessarily involve material job losses, bank branch closures and a reduction in the number and types of products and services offered to customers given BEN's relative complexity compared to Suncorp Bank (including much higher numbers of people, distribution assets, brands, product lines and core technology platforms). The April 2022 SGL Board Insight Paper detailing this analysis is at **Tab 2 of Confidential Exhibit SJ-1.**

63. This needs to be contrasted with the current Proposed Transaction in which ANZ has committed for at least three years from completion to no changes to the total number of Suncorp Bank Queensland branches and that the acquisition of Suncorp Bank will not result in any net job losses in Queensland for Suncorp Bank.

Branding

64. A regional merger would need to combine and rationalise branding appropriate for its customer base. There are complexities and challenges in the short-to-medium term (including licensing arrangements and brand positioning) in developing branding that would resonate with consumers and position a merged entity for success. [redacted] BEN currently operates 10 different brands across its retail, business and wealth banking services. Any disruption to existing branding could lead to customer disruption and churn across both customer bases, negatively impacting upon the ability of the merged entity to successfully compete.

Branch consolidation

65. In any regional merger, the respective branch networks would need to be reviewed and likely rationalised. [redacted] there are challenges and complexity in this rationalisation process, noting that closure of branches would be inconsistent with the community-focus of BEN. Indicative analysis on the branch network of the Group and BEN (conducted in March 2022), estimated 55 branch closures across the combined network from duplication and rationalisation, the majority coming from Queensland.

Technology integration risks

66. Technology integration would raise challenges for a regional merger. As per BEN's FY22 results presentation at **Tab 9 of Non-confidential Exhibit SJ-2,** BEN currently operates seven core banking platforms compared with Suncorp Bank's two core platforms. I consider that significant time and investment would be required to target a single core technology platform across any merged bank given the complexity of the existing platforms. This presents significant integration challenges and costs, [redacted]

67. [redacted]

68. [redacted]

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[redacted]

69. As described above, the Group and Suncorp Bank have been on a journey of simplification which has included an overall simplification and de-risking of Suncorp Bank's product portfolio and customer mix following the GFC as well as the divestment of seven businesses since February 2019, including our wealth (superannuation) business (sold to LGIAsuper). BEN currently operates several businesses and product offerings including a wealth division (including trustee services, managed investment funds, superannuation, margin lending and financial advice) the Homesafe joint venture, a significant margin lending portfolio (which Suncorp Bank has exited) and investments in a regional telecommunications company. A merged entity that includes these businesses / product offerings would be inconsistent with Suncorp's journey of simplification and Suncorp Bank's risk appetite and would be inconsistent with the significant program of work that Suncorp Bank has deliberately undertaken to "de-risk" and "future proof" its banking business. It is unclear whether BEN would agree to divest these businesses, and if they did, any divestment process would add additional challenges and complexity to any integration. The Group believes that Suncorp Bank should continue its simplification program and focus on core customer offerings to be successful. This is consistent with an overall trend in retail banking in Australia. I believe that over time the merged entity would have to dispose of these other businesses and product offerings which would further distract management and slow down the full integration of the two banking businesses.

F. COUNTERFACTUAL

70. If it were not for the Proposed Transaction, the Group would continue to support Suncorp Bank and make the targeted investments to enable the bank to continue to pursue its five strategic priorities as described in the Suncorp Bank Business Plan, refer to the document at **Tab 3 in Confidential Exhibit SJ-1**. While Suncorp Bank has recently been achieving growth in home loans, this is just one product within Suncorp Bank's banking portfolio and the extent to which this growth will be sustained is not clear. Suncorp Bank has not achieved sustained growth across its banking portfolio for an extended period.

71. The Group has previously examined what Suncorp Bank would need to do to be within the banking top quartile in terms of shareholder return and customer outcomes and competitiveness. [redacted]

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72. [redacted]

73. [redacted]

74. Suncorp Bank has achieved a return to portfolio growth in home lending by improving customer and broker experiences and automation. However, Suncorp Bank has achieved only modest gains in home lending and nationally where its home lending share is approximately 2.4%.

75. The Group recognises that to deliver sustained growth, significant investment in transformational technology is required. [redacted]

76. [redacted]

77. [redacted]

G. [redacted]

[redacted]

78. [redacted]

79. [redacted]

80. [redacted]

Restriction of publication claimed

[redacted]

81. [redacted]

82. [redacted] the landscape for retail and business banking has changed considerably: fintechs and non-bank lenders are increasingly expanding in niche but profitable banking segments; agribusiness customers increasingly demand more sophisticated products and services; SME customers and retail banking customers demand more automation and seek out self-service options which requires significant investment in transformational technology and customer needs and preferences for banking products and services have also changed. For the reasons outlined in **section E** above and summarised in paragraph 85 below, I consider that a merger with BEN is not an attractive option for the Group.

Recent interactions with BEN

83. On 28 June 2022, BEN sent a letter to the Group's Chair, Christine McLoughlin, expressing interest in exploring a combination of BEN and the Group's banking business. In my view, the letter was preliminary and high level in nature reflecting an expression of interest, absent any detailed financial and operational proposal. At the time, the Group was subject to an exclusivity arrangement with ANZ, and the Group therefore was not in a position to engage with BEN on the substance of its expression of interest. Copies of the letter from BEN dated 28 June 2022 and the Group's response dated 20 July 2022 are at **Tabs 28 to 29 of Confidential Exhibit SJ-1.**

84. On 9 August 2022, BEN sent a further letter to the Group reiterating BEN's interest in a merger with Suncorp Bank and noting that the Proposed Transaction is conditional upon several matters. In my view, this proposal was similarly lacking in detail and was preliminary in nature. Copies of the letter from BEN dated 9 August 2022 and the Group's response dated 12 August 2022 are at **Tabs 30 to 31 of Confidential Exhibit SJ-1**.

85. In my view, BEN's letters dated 28 June 2022 and 9 August 2022 lacked detail and in any event were unattractive both from a timing perspective, given the exclusivity arrangements between the Group and ANZ, but also the deal challenges based on the work that the Group has done since 2019. Specifically:

(a) a merger with BEN would require a significant level of synergies necessary to make any proposed merger viable. In my view and based on the work presented to the Group Board, as described in paragraph 62 above, this would necessarily involve material job losses and bank branch closures to the detriment of Suncorp Bank's and BEN's staff and customers;

(b) for the reasons outlined in section E above and summarised in paragraph 69 above, the risk profile and the risk appetite of BEN when compared with Suncorp Bank is significantly higher. Suncorp Bank has worked over more than 10 years since the GFC to simplify its product offering and re-calibrate its product portfolio and customer base to best protect the Suncorp Bank and its customers in the event of a future credit crunch similar to that experienced during the GFC. In contrast, over the last 5 years, BEN's risk appetite has increased, e.g. the acquisition of a significant margin lending portfolio from ANZ. It now holds a materially higher risk portfolio of products than Suncorp Bank which includes trustee services, managed investment funds, superannuation, a significant margin lending portfolio, financial advice, a quasi-reverse mortgage business and investments in a regional telecommunications company. This is incompatible with Suncorp's simplified product portfolio and low risk appetite that Suncorp Bank has achieved as a result of its significant program of simplification works. As such, in addition to the synergies that would need to be realised, there would need to be a reduction in the number and types of products and services offered to customers in any transaction with BEN. This would present significant disadvantages to BEN's customers;

(c) there would be technology integration risks as outlined in paragraphs 66 to 68 above; and

(d) there would be credit rating and funding risks as outlined in paragraphs 57 to 61 above.

H. PUBLIC BENEFITS ARISING FROM PROPOSED TRANSACTION

86. In summary I consider that the following public benefits will arise as a result of the Proposed Transaction:

(a) The sale will simplify the Group as an organisation and allow for greater focus on Suncorp's insurance business, products and services at a time when the value of insurance to customers and the community has never been greater.

(b) By divesting Suncorp Bank, the Group will benefit from improved access to sources of funding.

(c) By combining with a larger banking group, Suncorp Bank will benefit from better access to capital and funding markets, as well as technology investment, meaning that Suncorp Bank customers will benefit from access to a wider range of products and services and will allow Suncorp Bank to fill the gaps in its banking offering.

(d) For Suncorp Bank's staff, career opportunities will be enhanced through the combination with ANZ.

I deal with each of these in turn below.

The Proposed Transaction will simplify the Group's business creating a pureplay insurance focus

87. A successful and resilient private insurance industry is important to and underpins a resilient and successful Australian economy. Without it, the tax payer becomes the insurer of last resort. In order for Suncorp's insurance businesses to contribute to a resilient and successful Australian economy and to deliver the necessary risk adjusted return on capital and thereby continue to attract investors, it must continually invest in new product design, price points, distribution systems and technology that meet customer demands and regulatory requirements, and protect against cyber risk. This requires significant investment, and Suncorp's current conglomerate structure means that scarce capital resources must be prioritised between Suncorp Bank and Suncorp's insurance businesses.

88. A monoline and pureplay insurance focus will enable the Group Board and ELT to respond with greater focus and agility to the key dynamics and challenges impacting the insurance industry (resilience, digitisation, greater regulatory oversight). As customers increasingly use digital forms of engagement, it is important that Suncorp can provide product offerings that meet those requirements and also that Suncorp can improve its claim processing through increased digitisation.

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89. The Group has finite capital resources and currently, it needs to allocate those finite capital resources and make capital investment decisions for two capital intensive businesses, the insurance business and Suncorp Bank. Banking is, by its nature, a capital consumptive business, with its growth drawing on a significant capital requirement, with little prospect of regulatory relief for regionals and second tier banks. The Group therefore has to make decisions and trade-offs in order to ensure that its capital decisions allow Suncorp's businesses to meet the relevant differing regulatory requirements for the Bank and for the insurance businesses and position the Group overall for future growth. [redacted]

90. Post-transaction, as a monoline insurer the focus can be on developing digital systems and processes that meet the product and regulatory needs of insurance products without the competing needs arising from Suncorp Bank.

91. In addition, increasing costs of claims and reinsurance costs being experienced across the insurance industry and highlighted in recent flooding and bush fire events may result in affordability challenges for Australian consumers. With a singular focus on insurance, Suncorp will be better positioned, to advocate for government policy more focussed on risk mitigation strategies to deal with the impact of major weather events, particularly if they become more frequent. Given the challenges facing the insurance industry that are outlined in paragraphs 34 to 40 above, with a singular focus on insurance, the Group will also be better positioned to continue to offer some of Australia's and New Zealand's leading and most trusted insurance brands including AAMI, GIO, Shannons, Apia and Vero, and Suncorp Insurance, which will continue to offer the same customer service focus. Following the Proposed Transaction and in accordance with Suncorp's commitment, Suncorp will establish a Disaster Response Centre of Excellence in Brisbane, utilising the latest technology to monitor, prepare for and respond to extreme weather and natural disasters.

92. As a pureplay insurer the Group will be able to realise operational efficiencies and will be better placed to weather the volatility in reinsurance markets. Divesting Suncorp Bank will also drive improvements to and streamlining of the Group's operating model [redacted]

Suncorp Bank customers will benefit from ANZ's superior access to capital funding markets as well as its wider range of products and better technology platforms

93. The Proposed Transaction was assessed against a range of alternatives, including retaining the bank and delivering its organic plan as outlined in the papers at **Tabs 1 to 2, 9 to 10, 15 to 20 and 32 of Confidential Exhibit SJ-1**. By combining with a larger banking group, Suncorp Bank will be better positioned given the current economic environment for the future.

94. As described in paragraphs 20 to 28 above, over time and deliberately as a result of the GFC, Suncorp Bank's product offerings have been simplified and its business banking portfolio has been deliberately reduced in favour of a retail banking portfolio. Even within the retail banking portfolio, Suncorp Bank has a limited focus on home lending and deposits having exited the manufacture of credit cards and the provision of personal lending products over time.

95. Suncorp Bank's business banking portfolio has contracted significantly since the GFC for the reasons outlined in paragraphs 20 to 28. Suncorp Bank does not have the overall lending capacity or the risk appetite to offer the more complex business banking products and services that some business banking customers require. For example, Suncorp Bank does not offer hedging solutions or complex foreign exchange services. The Proposed Transaction should,

over time, effectively fill the gaps in Suncorp's banking offering and provide benefits to the Group's customers that exceed those available if the organic plan were pursued.

96. Additionally, while Suncorp Bank continues to focus on its ability to compete in the agribusiness product line, [redacted] Suncorp Bank has observed increasing consolidation in the agricultural sector, [redacted] Suncorp Bank does not provide as broad a product offering as its competitors [redacted] For example, Suncorp Bank does not offer foreign exchange services, equipment and trade finance and complex cashflow management tools. As Suncorp Bank does not provide these services, customers who want to acquire those services need a second bank to provide them. That creates a risk for Suncorp Bank of losing those customers to that other bank and increases the complexity the customer faces. [redacted]

97. Over time, Suncorp Bank's customers should benefit from ANZ's more diverse product suite, increased quality of service through its significant branch network and digital capabilities as well as its capacity to invest in technology.

98. Under ANZ ownership, Suncorp Bank would have better access to capital funding at rates that Suncorp Bank cannot achieve either on its own or in combination with the Group.

99. Customers will see benefits including ANZ's superior access to capital funding markets as well as its wider range of products and better technology platforms. The economics of technology investment generally benefit from scale and I believe that being part of a large organisation such as ANZ will allow for more efficient investment in Suncorp Bank, including access to product and technology initiatives already being undertaken by ANZ, to the benefit of customers. This includes the benefits arising from ANZ's in-house cyber security operations that differ from Suncorp Bank distributed workforce model.

100. For Suncorp Bank's staff, career opportunities will be enhanced. Suncorp Bank's staff, including those with deep experience and banking skillsets, will benefit from the advantages of working for a major bank – including career progression opportunities, resources, training and job security.

By divesting Suncorp Bank, the Group will benefit from improved access to sources of funding

101. Given our group conglomerate structure, the market equity value of the Group is a blended average of the value of its component parts being AAI, SNZ and Suncorp Bank.

102. From an outside-in perspective financial services conglomerates have been challenging for investors to assess versus the option of investing in monoline activities. The absence of material conglomerate synergies forces like for like comparisons between industry competitors. For example, an investor seeking exposure to the regional banking market needs to equally consider the risks associated with insurance markets and cycles alongside assessing the performance and outlook for Suncorp Bank versus its regional competitors. The same applies in reverse for an investor seeking insurance exposure. [redacted]

103. [redacted]

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[redacted]

104. [redacted]

105. Investors can create their own Insurance and banking equity exposure on the ASX through buying their desired combination of a “pure play” insurer and a “pure play” bank. If an investor was to recreate the insurance and banking exposure that the Group provides through buying the Group’s peers, they can adjust this mix as their outlook changes, however, the Group provides a set mix. Further, with limited customer synergies, a “pure play” insurer and “pure play” bank, should benefit from simplified systems and processes leading to more efficient investment.

106. Sale of Suncorp Bank could achieve a rebalancing and rerating with the consequential enhancement of value for shareholders, as well as the capacity to attract capital to support the Suncorp general insurance operations at a higher valuation. A well-capitalised business that has strong shareholder support will ultimately be less distracted by market speculation uncertainty / shareholder concerns about value realisation corporate activity leading to greater Board and ELT focus and ultimately better outcomes for customers.

There will be no customer synergies lost as a result of the Proposed Transaction

107. [redacted]
Therefore, no customer synergies are lost from divestment of Suncorp Bank from the Group.

Signature of witness

[redacted]

Steven Johnston