AAI Limited and Subsidiaries
ABN 48 005 297 807

Consolidated Financial Report

For the financial year ended 30 June 2020

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Directors' Report

The directors present their report together with the financial report of AAI Limited (the **Company**) and of the Group, being the Company and its subsidiaries, for the financial year ended 30 June 2020 and the auditor's report thereon. Terms that are defined appear in bold the first time they are used.

1. Directors

The directors of the Company at any time during or since the end of the financial year are:

Non-executive

Christine F McLoughlin (Chairman)	Director since 2015, Chairman since 2018
Audette E Exel AO	Director since 2012
Sylvia Falzon	Director since 2018
Elmer Funke Genaamd Kupper	Appointed 1 January 2020
Ian L Hammond	Director since 2018
Sally Herman	Director since 2015
Simon C J Machell	Director since 2017
Dr Douglas F McTaggart	Director since 2012
Lindsay J Tanner	Director since 2018

Executive

Steve Johnston	Appointed 9 September 2019
(Group Chief Executive Officer & Managing Director)	(Acting Group Chief Executive Officer since 26 May 2019)

2. Principal activities

The Group's principal activities during the financial year were the underwriting of general insurance and managing statutory insurance funds for external clients. The Group distributes products directly and through intermediated channels, including market leading brands AAMI, GIO, Suncorp and Vero, as well as niche brands Apia, Bingle, CIL, Resilium (discontinued and transitioned into Vero), Shannons, and Terri Scheer.

There were no significant changes in the nature of the activities of the Group during the financial year.

3. Dividends

During the financial year, the Company paid dividends on ordinary shares totalling $512 million (2019: $503 million) and on capital notes totalling $15 million (2019: $20 million).

Since the end of the financial year, the directors have determined a dividend on ordinary shares in respect of the 2020 financial year of an amount up to $40 million, payable on or around 20 September 2020.

Further details on dividends are set out in note 3 to the financial statements.

4. Review of operations

Consolidated profit for the financial year ended 30 June 2020 was $376 million (2019: $565 million).

The consolidated insurance trading result was $502 million for the year to 30 June 2020 (2019: $721 million). This provided an insurance trading ratio for the current year of 6.9% (2019: 9.9%).

Net premium revenue decreased by 0.38% for the financial year to $7,264 million (2019: $7,292 million) due to increases in reinsurance premium expense as a result of the new ASL Treaty and additional Cat DropDown costs. This was mostly offset by increased premium revenue, driven by premium rate increases in the commercial, home and motor portfolios.

Net incurred claims decreased 0.37% to $5,438 million (2019: $5,458 million), driven by the impact of discount rate movements, reduced Motor claims frequency due to COVID-19 restrictions, and lower natural hazard costs. This was partially offset by lower prior period releases and the unfavourable impact of lower yields on new claims.

Reserve releases were $105 million, down $217 million on the prior comparison period. Personal Injury long tail releases were 2.3%, above the Group's long-term target of 1.5% of Net Earned Premium. This was partially offset by strains from the Commercial long tail portfolios, Home Liability and Consumer claims remediation costs, which were largely one-off in nature.

Underwriting expenses increased by 0.72% for the financial year to $1,673 million (2019: $1,661 million), reflecting higher regulatory, marketing, cost of inflation on salaries, investment in technology costs and COVID-19 related operating costs.

Investment income on insurance funds decreased by 44.4% to $247 million (2019: $444 million), driven largely by unfavourable movements in credit spreads and equities compared to the previous period.

5. Significant changes in the state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Group that occurred during the financial year.

6. Events subsequent to reporting period

On 1 September 2020, the Company has issued $250 million of fully paid, unsecured, cumulative subordinated notes (**Tier 2 notes**) to its immediate parent company. The Tier 2 notes will be classified as non-current financial liability in the Company's financial statements. In the event of a non-viability trigger event, the Tier 2 notes will be converted into a variable number of the Company's ordinary shares.

Other than the above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

7. Likely developments

The operating environment remains highly uncertain as a result of the COVID-19 pandemic and the associated economic impacts.

The Group's base case economic assumptions allow for a sharp deterioration in forecast macroeconomic conditions such as unemployment and a sustained period of low yields on invested assets. The economy is assumed to begin recovery from 2021. With claims experience (excluding landlord insurance claims) expected to return to normalised levels as restrictions ease.

Economic assumptions will be reviewed on an ongoing basis to take into account any major changes to the outlook including, for example, the impact of Victoria's recently imposed mobility restrictions. The Group will retain a conservative bias in its assumption setting and stress testing in order to ensure key funding, liquidity and balance sheet metrics remain adequate for a range of scenarios. The Group remains well capitalised, with significant excess capital continuing to be held at the Suncorp Group level. While the Board remains committed to its long-standing dividend policy, future distributions will be informed by the outlook for the economy, the results of stress testing and the operational needs of the business.

Other than as disclosed elsewhere in this report, at the date of signing, the directors make no further comment on any likely developments in the Group's operations in future financial years or the expected results of these operations.

8. Environmental regulation

The Group seeks to conduct business in a way that protects and sustains the environment. It continues to reduce its environmental impact and be transparent about its environmental performance.

Climate change presents strategic and financial risks and opportunities for the Group. The Group is committed to reducing its carbon emissions and preparing for the physical impacts of climate change and the transition to a net-zero carbon emissions economy by 2050.

The Group is responding to climate-related risks and opportunities through the implementation of Suncorp Group Limited's (**SGL**) Climate Change Action Plan, which incorporates the Environmental Performance Plan.

This year, under this plan SGL have developed a Renewable Energy Strategy, which includes a commitment to use 100 per cent renewable electricity by 2025. SGL continues to modernise ways of working and integrate sustainability principles to deliver workspaces that are healthy, flexible and minimise the impact on the environment.

Further detail on SGL's activities and initiatives is available in the Sustainable Growth section of the 2019–20 Responsible Business Report.

9. Indemnification and insurance of officers

Indemnification

Under rule 39 of the Constitution for SGL, the Company's ultimate parent entity, SGL indemnifies each person who is or has been a director, secretary or officer of the Company (each an officer for the purposes of this section). The indemnity relates to liabilities to the fullest extent permitted by law to another party (other than the Company or a related body corporate) that may arise in connection with the performance of their duties to the Group, except where the liability arises out of conduct involving a lack of good faith. The Constitution stipulates that SGL will meet the full amount of such liabilities, including costs and expenses incurred in defending civil or criminal proceedings or in connection with an application, in relation to such proceedings, in which relief is granted under the *Corporations Act 2001*.

Insurance premiums

During the financial year ended 30 June 2020, SGL paid insurance premiums in respect of a Directors' and Officers' Liability insurance contract. The contract insures each person who is or has been a director or officer (as defined in the *Corporations Act 2001*) of the Company against certain liabilities arising in the course of their duties to the Company. The directors have not included details of the nature of the liabilities covered or the amount of premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

10. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 5 and forms part of the directors' report for the financial year ended 30 June 2020.

11. Rounding of amounts

The Company is of a kind referred to in *Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* dated 24 March 2016 and, in accordance with that legislative instrument, amounts in the directors' report and financial report have been rounded to the nearest one million dollars, unless otherwise stated.

This report is made in accordance with a resolution of the directors.

CHRISTINE MCLOUGHLIN

Chairman of the Board

24 September 2020

STEVE JOHNSTON

Group Chief Executive Officer and Managing Director

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of AAI Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of AAI Limited for the financial year ended 30 June 2020 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Brendan Twining
Partner

Sydney
24 September 2020

Statements of comprehensive income

For the financial year ended 30 June 2020

		Consolidated		Company	
	Note	2020 $M	2019 $M	2020 $M	2019 $M
Insurance premium income		8,266	8,255	8,266	8,255
Outwards reinsurance premium expense	13	(1,002)	(963)	(1,002)	(963)
Net premium revenue		**7,264**	**7,292**	**7,264**	**7,292**
Claims expense		(6,924)	(7,069)	(6,924)	(7,069)
Reinsurance and other recoveries income	12	1,486	1,611	1,486	1,611
Net incurred claims	6	(5,438)	(5,458)	(5,438)	(5,458)
Acquisition costs	14	(1,111)	(1,110)	(1,111)	(1,110)
Other underwriting expenses	7	(562)	(551)	(562)	(551)
Underwriting expenses		(1,673)	(1,661)	(1,673)	(1,661)
Other insurance income		102	104	102	104
Underwriting result		255	277	255	277
Investment income on insurance funds	5.1	247	444	247	444
Insurance trading result		502	721	502	721
Investment income on shareholder funds	5.1	81	134	91	134
Investment expense on shareholder funds		(18)	(18)	(18)	(18)
Other income	5.2	132	138	116	128
Other expenses	8	(163)	(176)	(157)	(173)
Profit before income tax		534	799	534	792
Income tax expense	9.1	(158)	(234)	(157)	(233)
Profit for the financial year attributable to owners of the Company		376	565	377	559
Total comprehensive income for the financial year attributable to owners of the Company		376	565	377	559

The statements of comprehensive income are to be read in conjunction with the accompanying notes.

Statements of financial position

As at 30 June 2020

		Consolidated		Company	
	Note	2020 $M	2019 $M	2020 $M	2019 $M
Assets					
Cash and cash equivalents		363	266	348	249
Derivatives	10	125	63	125	63
Investment securities	11	12,266	12,100	12,290	12,124
Premiums outstanding	27.3	2,274	2,240	2,274	2,240
Reinsurance and other recoveries	12	2,137	2,117	2,137	2,117
Due from related parties		148	207	148	205
Deferred reinsurance assets	13	789	755	789	755
Deferred acquisition costs	14	600	590	600	590
Deferred tax assets	9.2	18	-	10	-
Goodwill and other intangible assets		38	42	38	42
Other assets	15	793	795	778	780
Total assets		19,551	19,175	19,537	19,165
Liabilities					
Derivatives	10	37	48	37	48
Amounts due to reinsurers		649	632	649	632
Payables and other liabilities	16	746	534	716	503
Unearned premium liabilities	18.1	4,424	4,350	4,424	4,350
Outstanding claims liabilities	19	9,882	9,710	9,882	9,710
Due to related parties		443	345	469	368
Deferred tax liabilities	9.2	-	13	-	21
Subordinated notes	20	554	552	554	552
Total liabilities		16,735	16,184	16,731	16,184
Net assets		2,816	2,991	2,806	2,981
Equity					
Share capital	21	955	954	953	953
Capital notes	22	485	510	485	510
Retained profits		1,376	1,527	1,368	1,518
Total equity attributable to owners of the Company		2,816	2,991	2,806	2,981

The statements of financial position are to be read in conjunction with the accompanying notes.

Statements of changes in equity

For the financial year ended 30 June 2020

Consolidated	Note	Share capital $M	Capital notes $M	Retained profits $M	Total equity $M
Balance as at 1 July 2018		958	510	1,480	2,948
Profit for the financial year		-	-	565	565
Total comprehensive income for the financial year		-	-	565	565
Transactions with owners, recorded directly in equity					
Dividends paid	3	-	-	(523)	(523)
Share-based payments	21	(4)	-	5	1
Balance as at 30 June 2019		954	510	1,527	2,991
Profit for the financial year		-	-	376	376
Total comprehensive income for the financial year		-	-	376	376
Transactions with owners, recorded directly in equity					
Dividends paid	3	-	-	(527)	(527)
Share-based payments	21	1	-	-	1
Capital Notes buy back	22	-	(25)	-	(25)
Balance as at 30 June 2020		955	485	1,376	2,816

Company	Note	Share capital $M	Capital notes $M	Retained profits $M	Total equity $M
Balance as at 1 July 2018		953	510	1,482	2,945
Profit for the financial year		-	-	559	559
Total comprehensive income for the financial year		-	-	559	559
Transactions with owners, recorded directly in equity					
Dividends paid	3	-	-	(523)	(523)
Balance as at 30 June 2019		953	510	1,518	2,981
Profit for the financial year		-	-	377	377
Total comprehensive income for the financial year		-	-	377	377
Transactions with owners, recorded directly in equity					
Dividends paid	3	-	-	(527)	(527)
Capital notes buy back	22	-	(25)	-	(25)
Balance as at 30 June 2020		953	485	1,368	2,806

The statements of changes in equity are to be read in conjunction with the accompanying notes.

Statements of cash flows

For the financial year ended 30 June 2020

	Note	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Cash flows from operating activities					
Premiums received		9,851	9,660	9,851	9,660
Claims paid		(7,427)	(6,883)	(7,427)	(6,883)
Interest received		313	360	313	360
Interest paid		(23)	(29)	(23)	(29)
Reinsurance and other recoveries received		1,613	1,103	1,613	1,103
Outwards reinsurance premiums paid		(1,121)	(1,043)	(1,121)	(1,043)
Acquisition costs paid		(1,222)	(1,221)	(1,222)	(1,221)
Fees and other operating income received		270	297	260	292
Fees and operating expenses paid		(1,229)	(1,760)	(1,218)	(1,773)
Reimbursement to related parties for income tax		(148)	(202)	(149)	(193)
Net cash from operating activities	24	877	282	877	273
Cash flows from investing activities					
Proceeds from the sale or maturity of investment		22,114	24,365	22,114	24,365
Payments for purchase of investment securities		(22,382)	(24,141)	(22,381)	(24,141)
Net cash (used in) from investing activities		(268)	224	(267)	224
Cash flows from financing activities					
Payments for other financing activities		(25)	-	(25)	-
Receipts from related parties		40	11	40	11
Dividends paid		(527)	(523)	(527)	(523)
Net cash used in financing activities		(512)	(512)	(512)	(512)
Net increase (decrease) in cash and cash equivalents		97	(6)	99	(15)
Cash and cash equivalents at the beginning of the financial year		266	272	249	264
Cash and cash equivalents at the end of the financial year		363	266	348	249

The statements of cash flows are to be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements

For the financial year ended 30 June 2020

1. Reporting entity

AAI Limited (the **Company**) is a public company domiciled in Australia. Its registered office is at Level 28, 266 George Street, Brisbane, QLD, 4000.

The financial statements for the financial year ended 30 June 2020 comprise the Company and its subsidiaries (the **Group**) and were authorised for issue by the Board on 24 September 2020.

The Group's principal activities during the financial year were the underwriting of general insurance and managing statutory insurance funds for external clients.

The Company's immediate parent entity is Suncorp Insurance Holdings Limited and its ultimate parent entity is Suncorp Group Limited (**SGL**). SGL and its subsidiaries are referred to as the Suncorp Group.

2. Basis of preparation

The Company and the Group are for-profit entities and their financial statements have been prepared on a historical cost basis, unless the application of fair value measurements is required by the relevant accounting standards.

The financial statements are presented in Australian dollars, which is the Company and the Group's functional and presentation currency.

As the Company is of a kind referred to in *Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* dated 24 March 2016, all financial information presented has been rounded to the nearest one million dollars unless otherwise stated.

The statements of financial position are prepared in a liquidity format. In the notes, amounts expected to be recovered or settled no more than 12 months after the reporting period are classified as 'current', otherwise they are classified as 'non-current'.

Significant accounting policies applied in the preparation of the financial statements are set out in note 31.

Where necessary, comparatives have been restated to conform to changes in presentation in the current year.

2.1 Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board (**AASB**) and the *Corporations Act 2001*. The financial statements comply with International Financial Reporting Standards (**IFRS**) and Interpretations issued by the International Accounting Standards Board.

2.2 Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts reported in the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Estimates and underlying assumptions are reviewed on an ongoing basis. Where revisions are made to accounting estimates, any financial impact is recognised in the period in which the estimate is revised.

Significant estimates, judgments and assumptions are discussed in the following notes:

— liability adequacy test relating to general insurance contracts (refer note 18.2);

— outstanding claims liabilities and assets arising from reinsurance contracts (refer notes 19.3, 19.4 and 19.5);

— fair value of financial instruments (refer note 25.1);

— managed funds income (refer note 31.4e).

COVID-19 impact on the use of estimates and assumptions

On 11 March 2020, the World Health Organization declared COVID-19 a global pandemic. While COVID-19 is a health crisis, it has caused socioeconomic disruption on a global scale. The Group has considered the impact of COVID-19 when preparing the financial statements and related note disclosures. While the effects of COVID-19 do not change the significant estimates, judgments and assumptions in the preparation of financial statements, it has resulted in increased estimation uncertainty and application of further judgment within those identified areas.

COVID-19 financial reporting considerations in the preparation of the financial statements

Given the increased economic uncertainties from COVID-19, the Group has enhanced its financial reporting procedures and governance practices surrounding the preparation of the financial statements. In addition to standard financial year end reporting practices, the Group has:

– Developed a detailed program of work to understand and analyse how COVID-19 may impact key disclosures in the consolidated financial statements;

– Implemented a risk register and held regular status meetings with Suncorp employees to monitor, track and report business and financial reporting matters relating to COVID-19;

– Critically assessed estimates, judgments and assumptions used in the preparation of the consolidated financial statements, including updating the Group's outlook on economic conditions arising from COVID-19;

– Reviewed external publications and market communications to identify other potential COVID-19 impacts in the preparation of the consolidated financial statements;

– Considered emerging market practice and trends along with regulatory pronouncements to assess the completeness of assessed COVID-19 impacts in the preparation of the consolidated financial statements;

– Determined the impact COVID-19 has had on the reported amounts and disclosures in the consolidated financial statements and updated these disclosures accordingly;

– Increased scrutiny and review by management, Board and board committees; and

– Assessed the carrying value of the Group's assets and liabilities at reporting date. Where there is a significant use of estimates and judgments in determining the carrying value of the Group's assets and liabilities, the procedures in determining the carrying value of these assets and liabilities are summarised below.

Liability adequacy test relating to general insurance contracts

The COVID-19 pandemic did not result in any significant changes to the assumptions used in the LAT relating to general insurance contracts. At reporting date, the carrying value of net unearned premium liabilities (less capitalised deferred acquisition costs) is sufficient to cover future claims costs for the Group's in-force general insurance contracts (refer to note 18.2).

General insurance outstanding claims liabilities and assets arising from reinsurance contracts

The Group has considered the impact from COVID-19 in its assumptions for measuring outstanding claims liabilities and assets arising from reinsurance contracts. In determining the adequacy of outstanding claims liabilities at the reporting date, the Group has reviewed the discount rates and assumptions in calculating the outstanding claims liabilities including policyholder behaviours relating to business interruption, motor vehicle, and landlord rental claims during and post COVID-19 and how experience to date from the COVID-19 outbreak varies from existing assumptions about pandemic risks and how those risks are managed. Landlord rental insurance has increased uncertainty around loss of rent claims, as there may be delays in reporting of claims as a result of the prohibiting of evictions in Australia until September 2020. A number of business interruption claims were also made with Suncorp and industry peers. Suncorp's position, along with our industry peers, is that pandemics are an uninsurable risk for business interruption insurance. It is clear that there was no intention in policy wordings issued to cover pandemics for business interruption losses. Notwithstanding this, given the uncertainty being faced, additional claims provisions and risk margins have been recognised of $85 million, including for uncertainties relating to landlord insurance and business interruption. There were no other significant adjustments to the outstanding claims liability approach or assumptions due to COVID-19 as at the reporting date (refer to note 19.2, 19.3, 19.4, 19.5).

Valuation of financial instruments

A significant portion of the Group's trading and investment securities are invested in high-quality liquid assets which are valued using inputs from observable market data as shown in the Group fair value hierarchy disclosure (note 25.1). The Group has taken steps to ensure that the valuation of its trading and investment securities reflects market participants' assumptions based on information available at measurement date and has reviewed its level classification for investment securities. Given the recent market volatility from COVID-19, the Group has reviewed the valuation inputs and techniques used in determining the carrying value of its derivative assets and liabilities at reporting date. This included reviewing counterparty credit risk to determine any appropriate fair value adjustments. At reporting date, the Group's derivative assets and liabilities have been measured at fair value and are based on observable market inputs as set out in the fair value hierarchy disclosure in note 25.1.

Events subsequent to the reporting period

Subsequent to reporting date, there have been further COVID-19 developments in Australia, with the implementation of further lockdown in Victoria, broader interstate border controls and updates to Government support packages. In accordance with AASB 110 Events after the Reporting Period, the Group has considered the impact of these developments on its estimates and judgments. The Group has not identified any subsequent events that would require the financial statements or other disclosures to be adjusted, nor has the Group identified any material non-adjusting subsequent events requiring additional disclosure to the financial statements (refer to note 32). The Group will continue to review underlying current assumptions and forward looking economic assumptions, as required.

3. Dividends

Consolidated and Company	2020 Cents per share / note	2020 $M	2019 Cents per share / note	2019 $M
Dividend payments on ordinary shares				
2019 final dividend (2019: 2018 final dividend)	299	512	217	372
2020 interim dividend (2019: 2019 interim dividend)	-	-	77	131
Total dividends on ordinary shares paid to owners of the Company	299	512	294	503
Dividend payments on capital notes				
SUNPG Capital notes - issued on 11 February 2014				
September quarter	87	1	112	1
December quarter	82	1	115	1
March quarter	79	1	116	1
June quarter	74	1	96	1
	322	4	439	4
SUNPE Capital notes - issued on 27 June 2014				
September quarter	83	3	95	4
December quarter	77	3	93	4
March quarter	-	-	95	4
June quarter	-	-	91	4
	160	6	374	16
SUNPH Capital notes - issued on 17 December 2019				
March quarter	68	3	-	-
June quarter	63	2	-	-
	131	5	-	-
Total dividends on capital notes	613	15	813	20
Total dividends		527		523
Dividends not recognised in the statement of financial position				
Dividends declared since balance date				
2020 final dividend (2019: 2019 final dividend)	23	40	299	512
	-	-	299	512

4. Segment reporting

Operating segments are identified based on separate financial information which is regularly reviewed by the CEO & Managing Director and his immediate executive team, representing the Suncorp Group's Chief Operating Decision Maker (**CODM**), in assessing performance and determining the allocation of resources.

The Group operates in only one segment, which is part of the Insurance segment of Suncorp Group.

As the Group operates in only one segment, the consolidated results of the Group are also its segment results for the current and prior periods.

All revenue of the Group is from external customers. The Group is not reliant on any external individual customer for 10 per cent or more of the Group's revenue.

The Group operates predominantly in one geographical segment which is Australia. Revenue from overseas customers is not material to the Group.

5. Revenue

5.1 Investment Income

	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Interest income on:				
Financial assets at fair value through profit or loss	310	353	310	353
Financial assets not at fair value through profit or loss	3	7	3	7
Dividend income from subsidiaries	-	-	10	-
Net gains (losses) on financial assets and liabilities at fair value through profit or loss	(28)	158	(28)	158
Trust distribution income	43	60	43	60
Total investment income	328	578	338	578
Investment income on insurance funds	247	444	247	444
Investment income on shareholder funds	81	134	91	134
Total investment income	328	578	338	578

5.2 Other income

	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Managed funds income	95	106	95	106
Share of profit on equity accounted investees	7	5	-	-
Other	30	27	21	22
Total other income	132	138	116	128

6. Net incurred claims

Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the risks borne in all previous financial years.

	2020			2019		
Consolidated and Company	Current year $M	Prior year $M	Total $M	Current year $M	Prior year $M	Total $M
Direct business						
Gross claims incurred and related expenses						
Undiscounted	7,597	(867)	6,730	7,662	(962)	6,700
Discount and discount movement	(26)	205	179	(71)	430	359
Gross claims incurred discounted	7,571	(662)	6,909	7,591	(532)	7,059
Reinsurance and other recoveries						
Undiscounted	(1,893)	443	(1,450)	(1,861)	299	(1,562)
Discount and discount movement	5	(38)	(33)	18	(66)	(48)
Reinsurance and other recoveries	(1,888)	405	(1,483)	(1,843)	233	(1,610)
Net incurred claims - direct business	5,683	(257)	5,426	5,748	(299)	5,449
Inwards reinsurance						
Gross claims incurred and related expenses						
Undiscounted	13	1	14	8	1	9
Discount and discount movement	-	1	1	-	1	1
Gross claims incurred discounted	13	2	15	8	2	10
Reinsurance and other recoveries						
Undiscounted	(4)	1	(3)	(1)	-	(1)
Reinsurance and other recoveries	(4)	1	(3)	(1)	-	(1)
Net incurred claims - inwards reinsurance	9	3	12	7	2	9
Total net incurred claims	5,692	(254)	5,438	5,755	(297)	5,458

The sensitivity of net profit to changes in claims assumptions, experience and risk margins is set out in note 19.5.

7. Other underwriting expenses

	Consolidated		Company	
	2020 $M	2019 $M	2020 $M	2019 $M
Staff Expenses				
Wages, salaries, share-based payments and other staff costs	243	227	243	227
Total staff expenses	243	227	243	227
Occupancy Expenses				
Other occupancy expenses	21	19	21	19
Total occupancy expenses	21	19	21	19
Other Expenses				
Technology and communications	31	24	31	24
Levies and other charges	147	165	147	165
Advertising and promotion expenses	39	37	38	37
Other	81	79	82	79
Total other expenses	298	305	298	305
Total other underwriting expenses	562	551	562	551

8. Other expenses

	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Managed funds expense	90	95	89	95
Interest expense relating to financial liabilities not at fair value through profit or loss	23	29	23	29
Other	50	52	45	49
Total other expenses	163	176	157	173

9. Income tax

9.1 Income tax expense

	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Reconciliation of prima facie to actual income tax expense				
Prima facie domestic corporation tax rate of 30% (2019: 30%)	161	239	160	237
Tax effect of amounts not deductible (assessable) in calculating taxable income:				
Dividend adjustments	3	4	(2)	1
Other tax exempt revenues	(2)	(3)	-	(2)
Income tax offsets and credits	(4)	(6)	(1)	(3)
Total income tax expense on pre-tax profit	158	234	157	233
Income tax expense recognised in profit consists of:				
Current tax expense				
Current tax movement	180	164	167	161
Current year rebates and credits	(4)	(6)	(1)	(3)
Adjustments for prior financial years	13	1	22	1
Total current tax expense	189	159	188	159
Deferred tax benefit				
Origination and reversal of temporary differences	(19)	76	(23)	75
Adjustments for prior financial years	(12)	(1)	(8)	(1)
Total deferred tax expense (benefit)	(31)	75	(31)	74
Total income tax expense	158	234	157	233

9.2 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2020	2019	2020	2019	2020	2019
	Deferred tax assets		Deferred tax liabilities		Net	
Consolidated	$M	$M	$M	$M	$M	$M
Investment securities	-	-	98	116	(98)	(116)
Intangible assets	-	-	6	9	(6)	(9)
Outstanding claims liability	96	90	-	-	96	90
Employee benefits	12	13	-	-	12	13
Other items	13	9	(1)	-	14	9
Deferred tax assets and liabilities	121	112	103	125	18	(13)
Set-off of tax	(103)	(112)	(103)	(112)	-	-
Net deferred tax (liabilities) assets	18	-	-	13	18	(13)

	2020	2019	2020	2019	2020	2019
	Deferred tax assets		Deferred tax liabilities		Net	
Company	$M	$M	$M	$M	$M	$M
Investment securities	-	-	97	96	(97)	(96)
Intangible assets	-	-	7	9	(7)	(9)
Outstanding claims liability	96	90	-	-	96	90
Employee benefits	5	5	-	-	5	5
Other items	12	9	(1)	20	13	(11)
Deferred tax assets and liabilities	113	104	103	125	10	(21)
Set-off of tax	(103)	(104)	(103)	(104)	-	-
Net deferred tax (liabilities) assets	10	-	-	21	10	(21)

Movement in deferred tax balances during the financial year:

	2020	2019	2020	2019
	Deferred tax assets		Deferred tax liabilities	
Consolidated	$M	$M	$M	$M
Balance at the beginning of the financial year	112	128	125	66
Movement recognised in profit or loss	9	(16)	(22)	59
Balance at the end of the financial year	121	112	103	125

	2020	2019	2020	2019
	Deferred tax assets		Deferred tax liabilities	
Company	$M	$M	$M	$M
Balance at the beginning of the financial year	104	119	125	66
Movement recognised in profit or loss	9	(15)	(22)	59
Balance at the end of the financial year	113	104	103	125

10. Derivative financial instruments

	2020			2019		
	Notional	Fair value		Notional	Fair value	
Consolidated and Company	value $M	Asset $M	Liability $M	value $M	Asset $M	Liability $M
Interest rate-related contracts						
Interest rate swaps	4,227	74	26	5,440	50	19
Swaption	473	2	1	354	1	-
Interest rate futures	1,381	1	5	4,095	6	8
	6,081	77	32	9,889	57	27
Exchange rate-related contracts						
Forward foreign exchange contracts	1,487	47	4	1,541	4	10
Cross currency swaps	22	-	-	22	-	-
	1,509	47	4	1,563	4	10
Equity contracts						
Credit default swaps	118	1	1	618	2	11
Total derivative exposures	7,708	125	37	12,070	63	48

Derivatives are used in investments. To prevent derivatives being used as a source of gearing, all derivatives have to be wholly or partly cash covered depending on the type of risk undertaken. The investment mandates specifically prohibit the use of derivatives for leveraged trading.

11. Investment securities

	Consolidated		Company	
	2020 $M	2019 $M	2020 $M	2019 $M
Investment securities				
Financial assets designated at fair value through profit or loss				
Interest-bearing securities	10,910	10,916	10,910	10,916
Unit trusts	1,356	1,184	1,356	1,184
Investment at cost				
Shares in subsidiaries	-	-	24	24
Total investment securities	12,266	12,100	12,290	12,124
Current	12,266	12,100	12,266	12,100
Non-current	-	-	24	24
Total investment securities	12,266	12,100	12,290	12,124

12. Reinsurance and other recoveries

	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Expected future reinsurance and other recoveries receivable undiscounted	2,159	2,173	2,159	2,173
Discount to present value	(22)	(56)	(22)	(56)
Total reinsurance and other recoveries	2,137	2,117	2,137	2,117
Current	1,149	1,024	1,149	1,024
Non-current	988	1,093	988	1,093
Total reinsurance and other recoveries	2,137	2,117	2,137	2,117
Reconciliation of movements in reinsurance and other recoveries				
Balance at the beginning of the financial year	2,117	1,509	2,117	1,509
Reinsurance and other recoveries income	1,486	1,611	1,486	1,611
Reinsurance and other recoveries received	(1,466)	(1,003)	(1,466)	(1,003)
Balance at the end of the financial year	2,137	2,117	2,137	2,117

13. Deferred reinsurance assets

	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Deferred reinsurance assets - current	789	755	789	755
Reconciliation of movements in deferred reinsurance assets				
Balance at the beginning of the financial year	755	695	755	695
Reinsurance premiums paid during the financial year	1,036	1,023	1,036	1,023
Reinsurance premium expense	(1,002)	(963)	(1,002)	(963)
Balance at the end of the financial year	789	755	789	755

14. Deferred acquisition costs

	Consolidated		Company	
	2020 $M	2019 $M	2020 $M	2019 $M
Current	599	587	599	587
Non-current	1	3	1	3
Total deferred acquisition costs	600	590	600	590
Reconciliation of movements in deferred acquisition costs				
Balance at the beginning of the financial year	590	585	590	585
Acquisition costs deferred	1,121	1,115	1,121	1,115
Acquisition costs charged to profit or loss	(1,111)	(1,110)	(1,111)	(1,110)
Balance at the end of the financial year	600	590	600	590

15. Other assets

	Consolidated		Company	
	2020 $M	2019 $M	2020 $M	2019 $M
Accrued interest	58	68	58	67
Trade and other receivables	52	37	52	37
Investment in equity accounted investments	22	21	7	7
Net defined benefit assets	1	1	1	1
Investment receivable	175	237	175	237
Amounts due from reinsurers	185	161	185	161
Recoveries on claims paid	165	168	165	168
Other deferred expenses	71	66	71	66
Prepayments	3	4	3	4
Other	61	32	61	32
Total other assets	793	795	778	780
Current	771	774	771	773
Non-current	22	21	7	7
Total other assets	793	795	778	780

15.1 Interest in joint arrangements

Information relating to joint arrangements is set out below.

Name of entity	Principal Activity	Ownership interest		Consolidated Carrying amount		Company Carrying amount	
		2020 %	2019 %	2020 $M	2019 $M	2020 $M	2019 $M
Joint Ventures							
NTI Limited[1]	Management services	50	50	7	7	7	7
RACT Insurance Pty Ltd[2]	Insurance	50	50	15	14	-	-
Total investment in equity accounted investments				22	21	7	7
Joint operations							
National Transport Insurance	Facilitation of insurance arrangements	50	50				

1. Registered office of NTI Ltd is Level 29, 400 George Street, Brisbane, QLD, 4000.

2. Investment held by GIO Insurance Investment Holdings (A) Pty Limited. Registered office of RACT Insurance Pty Ltd is 'RACT' House Level 1, 179-191 Murray Street, Hobart, TAS, 7000.

16. Payables and other liabilities

	Consolidated		Company	
	2020 $M	2019 $M	2020 $M	2019 $M
Trade creditors and accrued expenses	171	144	165	141
Unearned income	99	76	99	73
Investments payable	411	246	411	246
Provisions	25	25	24	25
Employee benefits and on-cost liabilities	40	43	17	18
Total payables and other liabilities	746	534	716	503
Current	735	509	716	489
Non-current	11	25	-	14
Total payables and other liabilities	746	534	716	503

17. Share-based payments

The employee benefits expense in the consolidated statement of comprehensive income includes $345,901 (2019: $1,021,424) relating to equity-settled share-based payment transactions. The respective expense for the Company is $136,758 (2019: $379,802).

The Company is a wholly owned subsidiary of SGL. Eligible employees of the Company have the right to participate in the Suncorp Group Limited share plans. Shares offered in these share plans are granted by SGL over its own shares to employees of SGL subsidiaries.

SGL operates a number of employee equity plans. Shares required for the equity plans are acquired by a special purpose trustee and/or custodial companies in ordinary trading on the Australian Securities Exchange (ASX). Shares can only be granted or issued under the plans if the number to be granted or issued will not exceed 5% of SGL's total shares on issue when aggregated with the number of shares granted or issued during the previous five years for all share plans operated by SGL.

Equity-settled share plans

SGL operates equity-settled share plans that are not subject to performance conditions. Key features are set out below:

Equity plans	Share rights plan (formerly restricted shares)	Suncorp employee share plan (tax exempt)	Suncorp equity participation plan
Eligible plan participant	Employees in senior roles below executive level that satisfy the eligibility criteria, and executives as endorsed by the SGL Board.	Employees not eligible for Long Term Incentive (LTI) awards.	Employees can elect to participate.
Basis of share grant / issue	Value of share rights granted is determined by the SGL Board based on the employee's remuneration and individual performance.	Market value of shares up to $1,000 per employee per year may be granted by the SGL Board based on the Suncorp Group's overall performance.	Employees to fund the acquisition of shares to be held under this Plan from their pre-tax remuneration up to a maximum value of $5,000.
Vesting	Subject to remaining in employment with the Suncorp Group until the vesting date and not having given notice of intention to resign.	Fully vested, not subject to forfeiture.	As the acquisition of shares is funded through the employee's remuneration, the shares are fully vested at the date of acquisition.
Dividend entitlements	Full entitlement to dividend equivalents paid on vesting equal to the notional net dividends earned on vested shares over the deferral period.	Full entitlement to dividend from when the shares are acquired and held in the Plan.	Full entitlement to dividend from when the shares are acquired and held in the Plan.
Fair value	Discounted cash flow model incorporating the expected share price at vesting date and expected dividend entitlements, discounted from the vesting date to the grant date.	Market value of the shares on the date they were acquired.	Market value of the shares on the date they were acquired.

The expense included in the profit or loss in relation to restricted shares for the financial year ended 30 June 2020 for the Company and the Group was $42,644 (2019: $42,424).

The SGL Board has not approved a grant to each eligible employee of ordinary shares in SGL under the Suncorp Employee Share Plan (tax exempt) for the financial year (2019: $500).

Shares issued during the financial year under the Suncorp Equity Participation Plan that were funded by employee salary sacrifice have a $Nil impact on profit or loss (2019: $Nil).

18. Unearned premium liabilities

18.1 Reconciliation of movement

	Consolidated		Company	
	2020 $M	2019 $M	2020 $M	2019 $M
Balance at the beginning of the financial year	4,350	4,345	4,350	4,345
Premiums written during the financial year	8,340	8,260	8,340	8,260
Premiums earned during the financial year	(8,266)	(8,255)	(8,266)	(8,255)
Balance at the end of the financial year	4,424	4,350	4,424	4,350
Current	4,420	4,340	4,420	4,340
Non-current	4	10	4	10
Total unearned premium liabilities	4,424	4,350	4,424	4,350

18.2 Liability adequacy test relating to general insurance contracts

	Consolidated		Company	
	2020 $M	2019 $M	2020 $M	2019 $M
Central estimate of present value of expected future cash flows arising from future claims	3,710	3,450	3,710	3,450
Risk margin	76	70	76	70
Present value of expected future cash inflows arising from reinsurance recoveries on future claims	(259)	(205)	(259)	(205)
Expected present value of future cash flows for future claims including risk margin	3,527	3,315	3,527	3,315
	%	%	%	%
Risk margin	2.4%	2.3%	2.4%	2.3%
Probability of adequacy	57 – 64%	57 – 64%	57 – 64%	57 – 64%

The probability of adequacy adopted for the general insurance liability adequacy test (**LAT**) differs from the 90 per cent probability of adequacy adopted in determining the outstanding claims liabilities (refer to note 19.4). The reason for this difference is that the former is in effect an impairment test used only to test the sufficiency of net premium liabilities whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liabilities.

The process used to determine the risk margin is discussed in note 19.4.

As at 30 June 2020 and 30 June 2019, the LAT resulted in a surplus for the general insurance portfolio.

19. Outstanding claims liabilities

	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Gross central estimate – undiscounted	8,624	8,674	8,624	8,674
Risk margin	1,140	1,113	1,140	1,113
Claims handling expenses	328	313	328	313
	10,092	10,100	10,092	10,100
Discount to present value	(210)	(390)	(210)	(390)
Total gross outstanding claims liabilities – discounted	9,882	9,710	9,882	9,710
Current	4,098	3,882	4,098	3,882
Non-current	5,784	5,828	5,784	5,828
Total gross outstanding claims liabilities – discounted	9,882	9,710	9,882	9,710

19.1 Reconciliation of movement in discounted outstanding claims liabilities

	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Net outstanding claims liabilities at the beginning of the financial year	7,593	7,389	7,593	7,389
Prior periods				
Claims payments	(2,161)	(2,097)	(2,161)	(2,097)
Discount unwind	51	97	51	97
Margin release on prior periods	(268)	(260)	(268)	(260)
Incurred claims due to changes in assumptions and experience	(134)	(372)	(134)	(372)
Change in discount rate	98	238	98	238
Current period				
Incurred claims	5,692	5,755	5,692	5,755
Claims payments	(3,126)	(3,157)	(3,126)	(3,157)
Net outstanding claims liabilities relating to general insurance contracts at the end of the financial year	7,745	7,593	7,745	7,593
Reinsurance and other recoveries on outstanding claims liabilities				
Expected discounted outstanding reinsurance and other recoveries	2,137	2,117	2,137	2,117
Gross outstanding claims liabilities (discounted) on general insurance contracts at the end of the financial year	9,882	9,710	9,882	9,710

The following table summarises the maturity profile of net discounted outstanding claims liabilities based on the estimated timing of discounted cash outflows.

	Carrying amount $M	1 year or less $M	1 to 5 years $M	Over 5 years $M	Total cash flows $M
Consolidated					
2020	7,745	2,949	3,556	1,240	7,745
2019	7,593	2,858	3,407	1,328	7,593
Company					
2020	7,745	2,949	3,556	1,240	7,745
2019	7,593	2,858	3,407	1,328	7,593

19.2 Claims development table

The following table shows the development of the estimated undiscounted outstanding claims liabilities relative to the ultimate expected claims for the ten most recent accident years.

Consolidated and Company	Accident Year											
	Prior $M	2011 $M	2012 $M	2013 $M	2014 $M	2015 $M	2016 $M	2017 $M	2018 $M	2019 $M	2020 $M	Total $M
Estimate of ultimate claims cost:												
At end of accident year		1,307	1,287	1,374	1,389	1,405	1,447	1,559	1,490	1,399	1,353	
One year later		1,202	1,276	1,344	1,383	1,346	1,406	1,475	1,435	1,318		
Two years later		1,142	1,208	1,227	1,281	1,250	1,348	1,386	1,418			
Three years later		1,123	1,127	1,129	1,216	1,167	1,328	1,375				
Four years later		1,053	1,074	1,094	1,181	1,152	1,316					
Five years later		984	1,045	1,058	1,146	1,132						
Six years later		955	1,028	1,030	1,141							
Seven years later		943	1,019	1,030								
Eight years later		940	1,013									
Nine years later		935										
Current estimate of cumulative claims cost		935	1,013	1,030	1,141	1,132	1,316	1,375	1,418	1,318	1,353	
Cumulative payments		(879)	(970)	(939)	(983)	(956)	(942)	(806)	(570)	(319)	(116)	
Outstanding claims liabilities – undiscounted	649	56	43	91	158	176	374	569	848	999	1,237	5,200
Discount to present value	(70)	(1)	(1)	(2)	(3)	(3)	(8)	(9)	(9)	(11)	(16)	(133)
Outstanding claims – long-tail	580	55	42	89	154	173	366	560	839	988	1,221	5,067
Outstanding claims – short-tail												1,261
Claims handling expense												321
Risk margin												1,096
Total net outstanding claims liabilities relating to general insurance contracts												7,745
Reinsurance and other recoveries on outstanding claims liabilities relating to general insurance contracts												2,137
Total gross outstanding claims liabilities relating to general insurance contracts												9,882

The claims development table discloses amounts net of reinsurance and third party recoveries to give the most meaningful insight into the impact on profit or loss. Short-tail claims are disclosed separately as they are generally subject to less uncertainty since they are normally reported soon after the incident and are generally settled within 12 months following the reported incident.

19.3 Outstanding claims liabilities and assets arising from reinsurance contracts

The Group's estimation of its claims liabilities includes the expected future cost of claims notified to the Group as at reporting date as well as claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER). Projected payments are discounted to present value and an estimate of direct expenses expected to be incurred in settling these claims is determined.

The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures, with estimates and judgments continually being evaluated and updated based on historical experience and other factors. However, given the uncertainty in the estimation process, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims IBNR and claims IBNER is generally subject to a greater degree of uncertainty with claims often not being adequately reported until many years after the events giving rise to the claims have happened. For this reason, long-tail classes of business will typically display greater variations between initial estimates and final outcomes.

Estimation of assets arising from reinsurance and other recoveries are also calculated using the above methods. The recoverability of these assets is assessed on a periodic basis, taking into consideration factors such as counterparty and credit risk.

19.4 Actuarial assumptions and methods

The estimation of the outstanding claims liabilities is based on multiple actuarial techniques that analyse experience, trends and other relevant factors utilising the Group's specific data, relevant industry data and general economic data. Methods undertaken to determine claims liabilities will vary according to the class of business.

The use of multiple actuarial methods assists in providing a greater understanding of the trends inherent in the historical data. The projections obtained from various methods also assist in setting the range of possible outcomes. The most appropriate method or a blend of methods is selected, taking into account the characteristics of the class of business and the extent of the development of each past accident period.

The following key assumptions have been made in determining the outstanding claims liabilities on general insurance contract liabilities.

Consolidated and Company	2020	2019
Weighted average term to settlement (years)	3.3	3.6
Weighted average economic inflation rate	3.4%	3.7%
Superimposed inflation rate	2.1%	2.1%
Discount rate	0.8%	1.3%
Claims handling expense ratio	5.2%	4.9%
Risk margin	16.9%	16.3%

Weighted average term to settlement – The weighted average term to settlement is calculated separately by class of business and is based on historic settlement patterns.

Economic and superimposed inflation – Economic inflation is based on economic indicators such as the consumer price index and/or increases in average weekly earnings. Superimposed inflation reflects the tendency for some costs, such as court awards, to increase at levels in excess of economic inflation. Inflation assumptions are set at a class of business level and reflect experience and future expectations.

Discount rate – Discount rates are derived from market yields on Commonwealth Government securities in Australia.

Claims handling expense ratio – Claims handling expense ratio is calculated with reference to past experience of claims handling costs as a percentage of past payments.

Risk margin – The overall risk margin is determined after analysing the relative uncertainty of the outstanding claims estimate for each class of business and the diversification between classes and geographical locations.

The assumptions regarding uncertainty for each class of business are applied to the net central estimates, and the results are aggregated, allowing for diversification, in order to arrive at an overall position which is intended to have an approximate probability of sufficiency of 90 per cent across the Group (2019: 90 per cent).

19.5 Impact of changes in key variables

The Group conducts sensitivity analyses to quantify the exposure to the risk of changes in the key underlying actuarial assumptions.

A sensitivity analysis is conducted on each variable while holding all other variables constant.

The table below describes how a change in each assumption will affect the profit before tax. There is no impact to equity reserves.

		Consolidated		Company	
		2020	2019	2020	2019
	Movement in variable	Profit (loss) $M	Profit (loss) $M	Profit (loss) $M	Profit (loss) $M
Weighted average term to settlement (years)	+ 0.5 years	(172)	(158)	(172)	(158)
	- 0.5 years	168	154	168	154
Inflation rate	+100bps	(236)	(241)	(236)	(241)
	-100bps	217	221	217	221
Discount rate	+100bps	226	228	226	228
	-100bps	(251)	(254)	(251)	(254)
Claims handling expense ratio	+100bps	(62)	(61)	(62)	(61)
	-100bps	62	61	62	61
Risk margin	+100bps	(65)	(64)	(65)	(64)
	-100bps	65	64	65	64

20. Subordinated notes

The following table shows subordinated notes at amortised cost and categorised by type, class and instrument under Australian Prudential Regulation Authority (**APRA**) and Life and General Insurance Capital (**LAGIC**) reporting standards. These instruments have been issued by the Company.

	Consolidated		Company	
	2020 $M	2019 $M	2020 $M	2019 $M
Tier 2 subordinated notes				
LAGIC fully compliant subordinated notes				
$AUD 330 million AAIL Subordinated Notes	329	328	329	328
$AUD 225 million AAIL Subordinated Notes	225	224	225	224
Total LAGIC fully compliant subordinated notes	554	552	554	552
Total subordinated notes	554	552	554	552
Non-current	554	552	554	552
Total subordinated notes	554	552	554	552

LAGIC fully compliant subordinated notes

	Margin above 90 day BBSW	Maturity date	Holder conversion date	Optional redemption date	Issue date	2020 Number on issue	2019 Number on issue
$AUD 330 million AAIL Subordinated Notes	320 bps	Oct 2042	Oct 2024	Oct 2022	Oct 2016	33,000	33,000
$AUD 225 million AAIL Subordinated Notes	330 bps	Nov 2040	Nov 2022	Nov 2020	Nov 2015	22,500	22,500

No Subordinated Notes have been converted as at 30 June 2020 and 30 June 2019.

The Subordinated Notes pay quarterly, cumulative deferrable interest payments at a floating rate equal to the sum of the three-month bank bill swap rate and the margin.

The issuer has the option to redeem the instrument on the optional redemption date and for certain tax and regulatory events (in each case subject to APRA's prior written approval). Holders of the subordinated notes have the option to convert, into the Ultimate Parent Company's ordinary shares, on each interest payment date following the holder conversion date, assuming certain conditions are satisfied. Conversion will be based on a Volume Weighted Average Price (**VWAP**) of the Ultimate Parent Company's ordinary shares over a certain period prior to the relevant date for conversion, less a discount of 1%. This is subject to a minimum conversion price, equal to 50% of the VWAP over a 20-day period prior to the issue date.

If APRA determines that a non-viability event has occurred in relation to the issuing entity and, where relevant, its parent, all (or in some circumstances, some) of the subordinated notes will be immediately converted into the Ultimate Parent Company's ordinary shares (or, if conversion cannot by effected for any reason within five business days, written off). Conversion will be based on a VWAP of the Ultimate Parent Company's ordinary shares over a certain period prior to the relevant date for conversion, less a discount of 1%. This is subject to a minimum conversion price, equal to 20% of the VWAP over a 20-day period prior to the issue date. The rights of the holder rank in preference to the rights of the issuer's ordinary shareholders, and capital notes holders and rank equally against all other subordinated note holders of the Issuer.

21. Share capital

Consolidated	Number of ordinary shares	Issued capital $M	Share-based payments $M	Total share capital $M
Balance as at 30 June 2018	171,213,341	949	9	958
Share-based payments	-	-	(4)	(4)
Balance as at 30 June 2019	171,213,341	949	5	954
Share-based payments	-	-	1	1
Balance as at 30 June 2020	171,213,341	949	6	955
Company				
Balance as at 30 June 2018	171,213,341	949	4	953
Balance as at 30 June 2019	171,213,341	949	4	953
Share-based payments	-	-	-	-
Balance as at 30 June 2020	171,213,341	949	4	953

Ordinary shares

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of the winding-up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds on liquidation.

Share-based payments

Share-based payments represent the cumulative expense and other adjustments recognised in share capital relating to equity-settled share-based payment transactions.

22. Capital notes

The following table shows capital notes at amortised cost and categorised by type, class and instrument under APRA and LAGIC reporting standards. These instruments have been issued by the Company.

		2020		2019	
Consolidated and Company	Margin above 90 day BBSW	No of notes	$M	No of notes	$M
Issued on 11 February 2014	365 bps	1,100,000	110	1,100,000	110
Issued on 27 June 2014	300 bps	4,000,000	400	4,000,000	400
Buy Back on 17 Dec 2019	340 bps	(250,000)	(25)	-	-
Balance at the end of the financial year		4,850,000	485	5,100,000	510

The Capital notes are eligible Additional Tier 1 capital instruments under LAGIC. They are fully paid, perpetual, subordinated, unsecured securities and issued to the immediate parent entity, Suncorp Insurance Holdings Limited.

Capital notes pay a distribution that are floating rate, discretionary, non-cumulative, and scheduled to be paid quarterly, at the Company's discretion. They are calculated based on the sum of the three-month bank bill rate and the margin, adjusted for the corporate tax rate applicable to the Ultimate Parent Company.

If APRA determines that a non-viability event has occurred in relation to the Company, all (or in some circumstances, some) of the instruments will be written off.

In the event of the winding-up of the Company, the rights of the holders will rank equally, and in priority to the rights of the ordinary shareholders only.

23. Capital management

The Group is part of the Suncorp Group. The capital management strategy of the Suncorp Group is to optimise shareholder value by managing the level, mix and use of capital resources. The primary objective is to ensure there are sufficient capital resources to maintain and grow the business, in accordance with the Suncorp Group's risk appetite. The Suncorp Group's Internal Capital Adequacy Assessment Process (**ICAAP**) provides the framework to ensure that the Suncorp Group and each regulated entity, is capitalised to meet internal and external requirements. The Suncorp Group is subject to, and in compliance with, externally imposed capital requirements set and monitored by APRA.

The ICAAP is reviewed regularly and, where appropriate, adjustments are made to reflect changes in the capital needs and risk profile of the Suncorp Group. Capital targets are structured according to both the business line regulatory framework and to APRA's standards for the supervision of conglomerates.

All APRA authorised general insurance entities that conduct insurance business in Australia are subject to a risk-based approach for measuring and holding the required regulatory level of capital, referred to as the Prudential Capital Requirement (**PCR**). The PCR is the minimum level of capital that APRA deems must be held to meet policyowner obligations and consists of the Prescribed Capital Amount (**PCA**) and any supervisory adjustment determined by APRA. The Company uses APRA's standardised method for calculating the PCA in accordance with the relevant Prudential Standards and holds regulatory capital in excess of the PCA.

The PCA is calculated by assessing the risks inherent in the business, charges for which comprise:

- Insurance risk charge to reflect the risks inherent in claims and premium liabilities;
- Insurance concentration risk charge to ensure capital is set aside for the risk of loss resulting from a single large event or a series of smaller events;
- Operational risk charge to ensure capital is set aside for the risk of loss resulting from inadequate processes or failed internal control, people and systems;
- Asset risk charge to better reflect the risk of adverse movements in the value of on-balance sheet and off-balance sheet exposures by including a variety of asset stress scenarios as well as some default charges;
- An asset concentration risk charge to reflect an overconcentration to counterparties, if any; offset by
- An aggregation benefit, which makes an explicit allowance for diversification between asset risk charges and the sum of insurance risk and insurance concentration risk charges.

These risk charges are quantified to determine the prescribed capital required under the prudential standards. This requirement is compared with the regulatory capital held in the Company.

For regulatory purposes, capital is classified as follows:

- Common Equity Tier 1 (**CET1**) Capital comprising accounting equity with adjustments for intangible assets and regulatory reserves;
- Tier 1 Capital comprising CET1 Capital plus Additional Tier 1 Capital such as certain hybrid securities with 'equity-like' qualities;
- Tier 2 Capital comprising certain securities recognised as Tier 2 Capital, such as subordinated notes; and
- Total Capital, being the sum of Tier 1 Capital and Tier 2 Capital.

CET1 Capital has the greatest capacity to absorb potential losses, followed by Additional Tier 1 Capital and then Tier 2 Capital.

For capital adequacy purposes, a general insurer is required to hold CET 1 capital in excess of 60% of PCA, Tier 1 capital in excess of 80% of PCA and total capital in excess of PCR to ensure solvency. For this purpose, a general insurer's capital base is expected to be adequate for its size, business mix, complexity and the risk profile of its business.

The Company satisfied all regulatory capital requirements during both the current and the prior financial years.

The following table summarises the capital position and PCA at the end of the financial year. The Company is not the parent entity for the consolidated general insurance group and, as a result, does not prepare consolidated capital information for the Group.

	Company	
	2020 $M	2019 $M
Common Equity Tier 1 Capital		
Issued capital	949	949
Retained profits	1,368	1,518
Technical provision in excess of liability valuation (net of tax)	313	434
Goodwill and other intangible assets	(32)	(34)
Other Tier 1 deductions	(31)	(15)
Common Equity Tier 1 Capital	2,567	2,852
Additional Tier 1 Capital	485	510
Tier 2 Capital	555	555
Total Capital	3,607	3,917
Prescribed Capital Amount		
Insurance risk charge	1,472	1,423
Insurance concentration risk charge	250	250
Asset risk charge	805	779
Operational risk charge	295	286
Aggregation benefit	(485)	(470)
Total prescribed capital amount	2,337	2,268
Capital coverage ratio	1.54	1.73

24. Reconciliation of cash flows from operating activities

	Consolidated		Company	
	2020 $M	2019 $M	2020 $M	2019 $M
Profit for the financial year	376	565	377	559
Non-cash items				
Increase (decrease) in fair value of investment securities	28	(158)	28	(158)
Share of net profit from joint venture entities	(7)	(5)	-	-
Dividends received from subsidiaries	-	-	(10)	-
Other non-cash items	8	6	7	5
Change in operating assets and liabilities				
(Increase) in premiums outstanding	(34)	(85)	(34)	(85)
(Increase) in reinsurance and other recoveries	(20)	(608)	(20)	(608)
(Increase) in deferred reinsurance assets	(34)	(60)	(34)	(60)
Increase in deferred acquisition costs	(10)	(5)	(10)	(5)
Decrease (increase) in other assets	(45)	(182)	(36)	(184)
(Increase) decrease in deferred tax assets	(18)	62	(10)	53
Increase (decrease) in payables and other liabilities	259	(47)	259	(44)
Increase in amounts due to reinsurers	17	75	17	75
Increase (decrease) in due to related parties	117	(111)	118	(113)
Increase in outstanding claims liabilities	172	812	172	812
Increase in unearned premium liabilities	74	5	74	5
(Decrease) increase in deferred tax liabilities	(13)	13	(21)	21
Decrease in net assets due to investing and financing activities	7	5	-	-
Net cash from operating activities	877	282	877	273

25. Financial instruments

25.1 Fair value of financial instruments

Fair values are categorised by a three-level hierarchy which identifies the inputs to valuation techniques used to measure fair value:

– Level 1: derived from quoted prices (unadjusted) in active markets for identical financial instruments that the Group can access at the measurement date.

– Level 2: derived from other than quoted prices included within level 1 that are observable for the financial instruments, either directly or indirectly. The valuation techniques include the use of discounted cash flow analysis, option pricing models and other market accepted valuation models.

– Level 3: fair value is determined using valuation techniques which include significant inputs that are unobservable. The valuation techniques include the use of discounted cash flow models for loans and advances. The fair value of investments in infrastructure assets (held via unlisted trusts) are determined based on the Group's share of the net asset value of the unlisted trusts, as advised by the external investment manager. The fair value of other unlisted equity securities is determined as the cost of the investment adjusted for known increments or decrements as this is considered to be the most reliable measure of fair value.

Financial assets and liabilities measured at fair value

The following table presents the financial assets and liabilities that are measured at fair value categorised by hierarchy.

	2020 Level 1 $M	2020 Level 2 $M	2020 Level 3 $M	2020 Total $M	2019 Level 1 $M	2019 Level 2 $M	2019 Level 3 $M	2019 Total $M
Consolidated								
Financial assets								
Investment securities	2,654	9,321	291	12,266	2,436	9,435	229	12,100
Derivatives	1	124	-	125	6	57	-	63
	2,655	9,445	291	12,391	2,442	9,492	229	12,163
Financial liabilities								
Derivatives	-	5	32	37	8	40	-	48
	-	5	32	37	8	40	-	48
Company								
Financial assets								
Investment securities	2,654	9,321	291	12,266	2,436	9,435	229	12,100
Derivatives	1	124	-	125	6	57	-	63
	2,655	9,445	291	12,391	2,442	9,492	229	12,163
Financial liabilities								
Derivatives	-	5	32	37	8	40	-	48
	-	5	32	37	8	40	-	48

There have been no significant transfers between Level 1 and Level 2 during the 2020 and 2019 financial years.

Level 3 financial assets consist of investments in property and infrastructure assets of $291 million (2019: $229 million).

The fair value of investments in property and infrastructure assets (held via unlisted trusts) classified at Level 3 is determined by the Group's share of the reported net asset value of the unlisted trusts, as advised by the external investment manager. The infrastructure assets held in the unlisted trusts are independently valued in accordance with AASB 13 *Fair value measurement*. During the financial year, no additional units were purchased (2019: $12 million) and units were redeemed for $41 million (2019: $2 million). Fair value gains of $5 million (2019: loss $17 million) were recognised through profit or loss. At 30 June 2020, property related assets of $98 million have been reclassified from level 2 to level 3.

Financial assets and liabilities not measured at fair value

The table below discloses a comparison of carrying value and fair value of financial assets and liabilities that are not measured at fair value after initial recognition, where their carrying value is not a reasonable approximation of fair value.

	2020 Carrying value $M	2020 Fair value Level 1 $M	2020 Fair value Level 2 $M	2020 Fair value Level 3 $M	2020 Fair value Total $M	2019 Carrying value $M	2019 Fair value Level 1 $M	2019 Fair value Level 2 $M	2019 Fair value Level 3 $M	2019 Fair value Total $M
Consolidated										
Financial liabilities										
Subordinated notes	554	-	564	-	564	552	-	579	-	579
Company										
Financial liabilities										
Subordinated notes	554	-	564	-	564	552	-	579	-	579

Significant assumptions and estimates used to determine the fair values are described below.

Financial liabilities

The fair value of subordinated notes is calculated based on either the quoted market prices at reporting date or, where quoted market prices are not available, a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instrument.

25.2 Master netting or similar arrangements

The Group has in place the following master netting or similar arrangements at reporting date.

Derivative assets and liabilities

- Offsetting has been applied to derivatives in the statements of financial position where the Group has a legally enforceable right to set-off and there is an intention to settle on a net basis.
- Certain derivatives are subject to the ISDA Master Agreement and other similar master netting arrangements. These arrangements contractually bind the Group and the counterparty to apply close out netting across all outstanding transactions only if either party defaults or other pre-agreed termination events occur. As such, they do not meet the criteria for offsetting in the statements of financial position.
- The cash collateral pledged or received is subject to the ISDA Credit Support Annex and other standard industry terms.

Amounts due from and to reinsurers

- Some reinsurance treaties of the Group include netting arrangements whereby the receivables from and payables to reinsurers are settled on a net basis. As such, the Group has applied offsetting in the consolidated statement of financial position.
- Collateral received is subject to terms and conditions of the respective reinsurance treaties and provides regulatory capital relief on the Group's credit exposures to reinsurers.

Outstanding investment settlements

- Offsetting has been applied to investment receivables and investment payables where the Group has a legally enforceable right to set-off and netting of payments or receipts apply. In the statements of financial position, investment receivables is included in 'Other assets' and the investment payables is included in 'Payables and other liabilities'.

The following table sets out the effect of netting arrangements of financial assets and financial liabilities that are offset in the statements of financial position (SoFP), or are subject to enforceable master netting arrangements, irrespective of whether they are offset in the SoFP.

	Amounts subject to master netting or similar arrangements						
			Related amounts not offset on the SoFP				
Consolidated and Company	Gross amounts $M	Offsetting applied $M	Financial instruments $M	Financial collateral received/ pledged $M	Net exposure $M	Amounts not subject to master netting or similar arrangements $M	Total $M
2020							
Financial assets							
Derivatives	124	-	(31)	(50)	43	1	125
Amounts due from reinsurers[1]	90	(77)	14	(11)	16	172	185
Investment receivables[1]	175	-	-	-	175	-	175
Total	389	(77)	(17)	(61)	234	173	485
Financial liabilities							
Derivatives	37	-	(31)	-	6	-	37
Amounts due to reinsurers	92	(77)	15	-	30	634	649
Investments payable[2]	411	-	-	-	411	-	411
Total	540	(77)	(16)	-	447	634	1,097
2019							
Financial assets							
Derivatives	63	-	(38)	(16)	9	-	63
Amounts due from reinsurers[1]	115	(70)	-	(7)	38	116	161
Investment receivables[1]	237	-	-	-	237	-	237
Total	415	(70)	(38)	(23)	284	116	461
Financial liabilities							
Derivatives	48	-	(38)	-	10	-	48
Amounts due to reinsurers	98	(70)	-	-	28	604	632
Investments payable[2]	246	-	-	-	246	-	246
Total	392	(70)	(38)	-	284	604	926

1 Included as part of 'Other assets' in the SoFP.

2 Included as part of 'Payables and other liabilities' in the SoFP,

26. Risk management objectives and structure

As the Company and its subsidiaries are entities within the Suncorp Group, the Group follows the Suncorp Group risk management objectives and structure as described below.

The Suncorp Group Limited Board (**SGL Board**) and management recognise that effective risk management is critical to the achievement of the Suncorp Group's objectives. The Board Risk Committee (**Risk Committee**) has delegated authority from the SGL Board to carry out the oversight of the adequacy and effectiveness of the risk management frameworks and processes within the Suncorp Group.

An Enterprise Risk Management Framework (**ERMF**) is in place for the Suncorp Group. It is subject to an annual review, updated for material changes as they occur and is approved by the SGL Board. The ERMF comprises:

- Suncorp Group's risk appetite framework and its link to strategic business and capital plans
- accountabilities and governance arrangements for the management of risk within the Three Lines of Defence model
- the risk management process.

The Three Lines of Defence model of accountability involves:

Line of defence	Responsibility of	Accountable for
First - Manage risk and comply with Suncorp Group frameworks, policies and risk appetite	All functions (and staff)	– Identify and manage the risks inherent in their operations. – Ensure compliance with all legal and regulatory requirements and Suncorp Group policies. – Promptly escalate any significant actual and emerging risks for management attention.
Second – Independent functions own and monitor the application of risk frameworks, and measure and report on risk performance and compliance	Chief Risk Officer, Function Chief Risk Officers	– Design, implement and manage the ongoing maintenance of Suncorp Group risk frameworks and related policies. – Advise and partner with the business in the design and execution of risk frameworks and practices. – Develop, apply and execute functions' risk frameworks that are consistent with the Suncorp Group for the respective functions. – Facilitate the reporting of the appropriateness and quality of risk management.
Third – Independent assurance over internal controls and risk management practices	Internal audit	– Decides the level and extent of independent testing required to verify the efficacy of internal controls. – Validates the overall risk framework. – Provides assurance that the risk management practices are functioning as intended.

The SGL Board has delegated authorities and limits to the Group CEO & Managing Director to manage the business. Management recommends to the SGL Board, and the SGL Board has approved, various frameworks, policies and limits relating to the key categories of risk faced by the Suncorp Group within the Group CEO & Managing Director's authorities and limits.

The Senior Leadership Team, comprising the Group CEO & Managing Director, Function CEOs and all Senior Executives, provides executive oversight and direction-setting across the Suncorp Group, taking risk considerations into account. The Chief Risk Officer, a member of the Senior Leadership Team, is charged with the overall accountability for both the ERMF and risk management capability.

The Company also has an Asset and Liability Committee (ALCO). The ALCO has responsibility for establishing, managing and enforcing an effective asset and liability risk framework which optimises the long-term returns achieved by the asset portfolios within any risk appetite or parameters established by the relevant Board.

APRA-regulated entities prepare risk management strategies (RMS) approved by the Risk Committee and submit these to APRA annually. The RMS describe the strategy adopted by the SGL Board and management for managing risk within these entities, including risk appetite, policies, procedures, management responsibilities and controls.

The material risks addressed by the ERMF are defined below.

Key risks	Definition
Strategic risk	Suncorp recognises and defines two types of strategic-level risk: Strategic risk – risks to the viability of Suncorp's business model resulting from adverse changes in the external business environment, with respect to the economy, political landscape, regulation, technology, climate change, customer and social expectations and competitors. Climate change is addressed through Suncorp's risk management framework. Assessment and management of climate change related risks is addressed through a program of five streams of work which are outlined in Suncorp's Climate Change Action Plan and meet guidance issued by the Task Force on Climate-related Financial Disclosures (TCFD). Strategic execution risk – the risk of failing to achieve strategic business objectives or execution of the business strategy.
Financial risk	Financial risks include credit and counterparty, market, asset and liability and liquidity risks. Credit and counterparty is the risk that the other party in an agreement will default/will not meet its contractual obligations in accordance with agreed terms. Market risk is the risk of unfavourable changes in foreign exchange rates, interest rates, equity prices, credit spreads, commodity prices, and market volatilities. Asset and liability risk is the risk to earnings and capital from mismatches between assets and liabilities with varying maturity and repricing profiles and from mismatches in term. Liquidity risk is the risk that the Suncorp Group will be unable to service its cash flow obligations today or in the future.
Insurance risk	The risk that for any class of risk insured, the present value of actual claims payable, will exceed the present value of actual premium revenues generated (net of reinsurance).
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes legal risk but excludes strategic and reputational risks.
Compliance risk	The risk of legal or regulatory sanctions, financial loss, or loss to reputation which the Suncorp Group may suffer as a result of its failure to comply with all applicable regulations, codes of conduct and good practice standards.

The Group is exposed to the following categories of market risk.

Categories of market risk	Definition
Foreign exchange (FX) risk	The risk of an asset or liability's value changing unfavourably due to changes in currency exchange rates.
Interest rate risk	The risk of loss of current and future earnings and unfavourable movements in the value of interest-bearing assets and liabilities from changes in interest rates.
Equity risk	The risk of loss of current and future earnings and unfavourable movement in the value of investment in equity instruments from adverse movements in equity prices.
Credit spread risk	Credit spread is the difference in yield due to difference in credit quality. This is the risk of loss of current and future earnings and unfavourable movement in the value of investments from changes in the credit spread as determined by capital market sentiment or factors affecting all issuers in the market and not necessarily due to factors specific to an individual issuer.

Further discussions on the application of the Suncorp Group's risk management practices are presented in the following sections:

– note 27 insurance risk management
– notes 27.3 to 27.5 risk management for financial instruments: credit, liquidity and market risks
– note 10 derivative financial instruments.

27. Insurance risk management

27.1 Managing Insurance Risk

Insurance risk is inherent in the operations of the Insurance business and relates to insurance product design, pricing, underwriting, exposure concentration, reserving, claims management and reinsurance management. Ultimately Insurance risk is the risk of loss due to claims on insurance policies varying from expectation.

Insurance risk is managed through risk appetite statements, operation of the ERMF and supporting risk standards where adopted, with oversight from relevant ALCOs and the insurance risk committee.

The Board receives the Australian General Insurance Financial Condition Report from the Appointed Actuary which reports on a number of areas including the management of insurance risk within the entities.

27.2 Terms and conditions of insurance contracts

The majority of direct insurance contracts written are entered into on a standard form basis. Insurance contracts are generally entered into on an annual basis and at the time of entering into a contract all terms and conditions are negotiable or, in the case of renewals, renegotiable. Non-standard and long-term policies may only be written if expressly approved by a relevant delegated authority. There are no special terms and conditions in any non-standard contracts that would have a material impact on the consolidated financial statements. There are no embedded derivatives that are separately recognised from a host insurance contract.

27.3 Credit risk

The Group is exposed to and manages the following key sources of credit risk.

Key sources of credit risk	How are these managed
Premiums outstanding	Credit risk is managed by maintaining debtor control procedures including the monitoring of aged amounts to minimise overdue debts. Credit limits are set and enforced to limit credit exposures from business written through general insurance intermediaries. Where permissible by law, payment default will result in the termination of the insurance contract with the policyowner, eliminating both the credit risk and insurance risk for the unpaid balance. Collateral is not sought on these balances.
Investments in interest-bearing securities and derivatives	Interest-bearing securities are held in accordance with the investment mandates. Credit limits have been established within these guidelines to ensure counterparties have appropriate credit ratings. An investment framework is in place that sets and monitors investment strategies and arrangements.
Reinsurance and other recoveries	Credit risk with respect to reinsurance programs is minimised by placement of cover with a number of reinsurers with AA or higher credit ratings. Eligible recoveries under reinsurance arrangements are monitored and managed internally and by specialised reinsurance brokers operating in the international reinsurance market. Collateral arrangements exist for non-regulated reinsurers. In certain cases, the Group requires letters of credit or other collateral arrangements to be provided to guarantee the recoverability of the amount involved. The Group holds $141 million (2019: $121 million) in collateral to support reinsurance recoveries on outstanding claims.

The carrying amount of the relevant asset classes in the statement of financial position represents the maximum amount of credit exposures as at the end of the financial year, except for derivatives. The fair value of derivatives recognised in the statement of financial position represents the current risk exposure, but not the maximum risk exposure. The notional value and fair value of derivatives are illustrated in note 10.

The following table provides information regarding credit risk exposure of financial assets, classified according to Standard & Poor's counterparty credit ratings. AAA is the highest possible rating. Assets rated below BBB are classified as non-investment grade.

	Credit Rating						
Consolidated	AAA $M	AA $M	A $M	BBB $M	Non-investment grade $M	Not rated $M	Total $M
2020							
Cash and cash equivalents	3	250	110	-	-	-	363
Premiums outstanding	-	-	-	-	-	2,274	2,274
Receivables	229	99	208	25	-	170	731
Derivatives	-	63	58	4	-	-	125
Interest-bearing investment securities	4,687	1,369	2,283	2,556	15	-	10,910
Reinsurance and other recoveries receivable	489	915	350	-	-	383	2,137
	5,408	2,696	3,009	2,585	15	2,827	16,540
2019							
Cash and cash equivalents	-	197	69	-	-	-	266
Premiums outstanding	-	-	-	-	-	2,240	2,240
Receivables	227	156	273	22	-	170	848
Derivatives	-	28	31	4	-	-	63
Interest-bearing investment securities	3,826	2,502	2,376	2,203	9	-	10,916
Reinsurance and other recoveries receivable	481	842	339	-	-	455	2,117
	4,534	3,725	3,088	2,229	9	2,865	16,450

	Credit Rating						
Company	AAA $M	AA $M	A $M	BBB $M	Non-investment grade $M	Not rated $M	Total $M
2020							
Cash and cash equivalents	3	248	97	-	-	-	348
Premiums outstanding	-	-	-	-	-	2,274	2,274
Receivables	229	99	183	25	-	170	706
Derivatives	-	63	58	4	-	-	125
Interest-bearing investment securities	4,687	1,369	2,283	2,556	15	-	10,910
Reinsurance and other recoveries receivable	489	915	350	-	-	383	2,137
	5,408	2,694	2,971	2,585	15	2,827	16,500
2019							
Cash and cash equivalents	-	197	52	-	-	-	249
Premiums outstanding	-	-	-	-	-	2,240	2,240
Receivables	227	156	271	22	-	170	846
Derivatives	-	28	31	4	-	-	63
Interest-bearing investment securities	3,826	2,502	2,376	2,203	9	-	10,916
Reinsurance and other recoveries receivable	481	842	339	-	-	455	2,117
	4,534	3,725	3,069	2,229	9	2,865	16,431

Notes

– Receivables neither past due nor impaired in the below table are not rated according to Standard & Poor's counterparty credit ratings.

– Collateral arrangements exist for non-regulated reinsurers and certain derivative positions.

All financial assets are neither past due nor impaired at reporting date except for those disclosed in the following table. An amount is considered past due when a contractual payment falls overdue by one or more days. When an amount is classified as past due, the entire balance is disclosed in the past due analysis presented.

		Past due but not impaired				
	Neither past due nor impaired $M	0-3 mths $M	3-6 mths $M	> 6 mths $M	Impaired $M	Total $M
Consolidated						
2020						
Premiums outstanding	2,189	24	9	44	8	2,274
Receivables	616	114	1	-	-	731
	2,805	138	10	44	8	3,005
2019						
Premiums outstanding	2,151	34	3	42	10	2,240
Receivables	741	105	1	1	-	848
	2,892	139	4	43	10	3,088
Company						
2020						
Premiums outstanding	2,189	24	9	44	8	2,274
Receivables	591	114	1	-	-	706
	2,780	138	10	44	8	2,980
2019						
Premiums outstanding	2,151	34	3	42	10	2,240
Receivables	739	105	1	1	-	846
	2,890	139	4	43	10	3,086

27.4 Liquidity risk

To ensure payments are made when they fall due, the Group has the following key facilities and arrangements in place to mitigate liquidity risks:

- Investment portfolio mandates provide sufficient cash deposits to meet day-to-day obligations.
- Investment funds set aside within the portfolio can be realised to meet significant claims payment obligations.
- In the event of a major catastrophe, cash access is available under the terms of reinsurance arrangements.
- Mandated liquidity limits.
- Regularity of premiums received provides substantial liquidity to meet claims payments and associated expenses as they arise.
- Flexibility in investment strategies implemented for investment management to provide sufficient liquidity to meet claim payments as they fall due, based on actuarial assumptions.

The following table summarises the maturity profile of the Group financial liabilities based on the remaining undiscounted contractual obligations.

	Carrying amount $M	1 year or less $M	1 to 5 years $M	Over 5 years $M	Total cash flows $M
Consolidated					
2020					
Payables and other liabilities	1,149	1,143	6	-	1,149
Amounts due to reinsurers	649	649	-	-	649
Subordinated notes	554	240	347	-	587
	2,352	2,032	353	-	2,385
Derivative financial instruments					
Derivative liabilities (net settled)	37	14	18	7	39
	37	14	18	7	39
2019					
Payables and other liabilities	836	830	6	-	836
Amounts due to reinsurers	632	632	-	-	632
Subordinated notes	552	25	594	-	619
	2,020	1,487	600	-	2,087
Derivative financial instruments					
Derivative liabilities (net settled)	48	19	27	5	51
	48	19	27	5	51

	Carrying amount $M	1 year or less $M	1 to 5 years $M	Over 5 years $M	Total cash flows $M
Company					
2020					
Payables and other liabilities	1,168	1,162	6	-	1,168
Amounts due to reinsurers	649	649	-	-	649
Subordinated notes	554	240	347	-	587
	2,371	2,051	353	-	2,404
Derivative financial instruments					
Derivative liabilities (net settled)	37	14	18	7	39
	37	14	18	7	39
2019					
Payables and other liabilities	853	847	6	-	853
Amounts due to reinsurers	632	632	-	-	632
Subordinated notes	552	25	594	-	619
	2,037	1,504	600	-	2,104
Derivative financial instruments					
Derivative liabilities (net settled)	48	19	27	5	51
	48	19	27	5	51

27.5 Market risk

27.5.1 Foreign exchange risk

The Group is exposed to foreign exchange risk through its outstanding claims liability from previously written offshore reinsurance business.

The practice is that all insurance policies are written in Australian dollars, unless separately authorised, with processes in place to comply with the Suncorp Group Foreign Exchange Policy.

The Group is also exposed to foreign exchange risk through investments in foreign securities, which is managed via the use of cross-currency swaps.

A sensitivity analysis showing the impact on profit or loss for changes in foreign exchange rates for exposure as at the reporting date with all other variables including interest rates remaining constant is shown in the tables below. There is no impact on equity reserves.

The movements in foreign exchange rates used in the sensitivity analysis for 2020 have been revised to reflect updated assessment of the reasonable possible changes in foreign exchange rates over the next 12 months, given renewed observations and experience in the investment markets during the financial year.

	2020			2019		
	Exposure at 30 June $M	Change in FX rate %	Profit (loss) after tax $M	Exposure at 30 June $M	Change in FX rate %	Profit (loss) after tax $M
Consolidated						
USD	468	+15	49	584	+12	50
		-10	(33)		-12	(49)
Euro	370	+5	13	344	+12	28
		-5	(13)		-12	(29)
GBP	44	+5	2	33	+12	3
		-5	(2)		-12	(3)
JPY	11	+5	-	14	+12	1
		-5	-		-12	(1)
Other	21	+5	1	20	+12	2
		-5	(1)		-12	(2)
Company						
USD	468	+15	49	584	+10	50
		-10	(33)		-10	(49)
Euro	370	+5	13	344	+12	28
		-5	(13)		-12	(29)
GBP	44	+5	2	33	+12	3
		-5	(2)		-12	(3)
JPY	11	+5	-	14	+12	1
		-5	-		-12	(1)
Other	21	+5	1	20	+12	2
		-5	(1)		-12	(2)

27.5.2 Interest rate risk

Interest rate risk exposure arises mainly from investment in interest-bearing securities and from ongoing valuation of insurance liabilities.

The investment portfolios, which hold significant interest-bearing securities in support of corresponding outstanding claims liabilities, are invested in a manner consistent with the expected duration of claims payments. Interest rate risk is also managed by maintaining a diversified portfolio of investment securities and the controlled use of interest rate derivative instruments.

The sensitivity of profit and loss after tax to movements in interest rates in relation to interest-bearing financial assets held at the reporting date is shown in the table below. There is no impact on equity reserves. It is assumed that all residual exposures for the shareholder after tax are included in the sensitivity analysis, that the percentage point change occurs at the reporting date and that there are concurrent movements in interest rates and parallel shifts in the yield curves.

The movements in interest rates used in the sensitivity analysis for 2020 have been revised to reflect updated assessment of the reasonable possible changes in interest rates over the next 12 months, given renewed observations and experience in the investment markets during the financial year.

	2020			2019		
	Exposure at 30 June $M	Change in interest rate bp	Profit (loss) after tax $M	Exposure at 30 June $M	Change in interest rate bp	Profit (loss) after tax $M
Consolidated						
Interest-bearing investment securities (including derivative financial instruments)	10,955	+15	(34)	10,937	+75	(159)
		-15	34		-50	111
Subordinated notes	555	+100	-	555	+75	3
		-50	(4)		-50	(2)
Company						
Interest-bearing investment securities (including derivative financial instruments)	10,955	+15	(34)	10,937	+75	(159)
		-15	34		-50	111
Subordinated notes	555	+100	-	555	+75	3
		-50	(4)		-50	(2)

The effect of interest rate movements on the Group's provision for outstanding claims liabilities is included in note 19.5.

27.5.3 Equity risk

The Group is exposed to equity risk through its investments in international and domestic equity trusts. The table below presents a sensitivity analysis showing the impact on profit or loss after tax for price movements for exposures as at the reporting date, with all other variables remaining constant. There is no impact on equity reserves.

The movements in equity prices used in the sensitivity analysis for 2020 have been revised to reflect updated assessment of the reasonable possible changes in equity prices over the next 12 months, given renewed observations and experience in the investment markets during the financial year.

	2020			2019		
	Exposure at 30 June $M	Change in equity prices %	Profit (loss) after tax $M	Exposure at 30 June $M	Change in equity prices %	Profit (loss) after tax $M
Consolidated						
Listed Australian equities and unit trusts	1,356	+15	142	518	+15	54
		-10	(95)		-15	(54)
Listed international equities and unit trusts	-	+15	-	356	+15	37
		-10	-		-15	(37)
Company						
Listed Australian equities and unit trusts	1,356	+15	142	518	+15	54
		-10	(95)		-15	(54)
Listed international equities and unit trusts	-	+15	-	356	+15	37
		-10	-		-15	(37)

27.5.4 Credit spread risk

The Group is exposed to credit spread risk through its investments in non-Australian Government-issued bonds (and other interest-bearing securities). This risk is mitigated by incorporating a diversified investment portfolio, establishing maximum exposure limits for counterparties and minimum limits on credit ratings, and managing to a credit risk diversity score limit.

The table below presents a sensitivity analysis on how credit spread movements could affect profit or loss for the exposure as at the reporting date. There is no impact on equity reserves.

The movements in credit spread used in the sensitivity analysis for 2020 have remained unchanged based on an updated assessment of the reasonable possible changes in credit spread over the next 12 months, taking into account observations and experience in the investment markets during the financial year.

	2020			2019		
	Exposure at 30 June $M	Change in credit spread bp	Profit (loss) after tax $M	Exposure at 30 June $M	Change in credit spread bp	Profit (loss) after tax $M
Consolidated						
Credit exposure (excluding semi-government)	7,557	+40	(50)	7,385	+80	(95)
		-10	13		-20	24
Credit exposure (semi-government)	661	+20	(4)	761	+40	(8)
		-20	4		-15	3
Company						
Credit exposure (excluding semi-government)	7,557	+40	(50)	7,385	+80	(95)
		-10	13		-20	24
Credit exposure (semi-government)	661	+20	(4)	761	+40	(8)
		-20	4		-15	3

28. Key management personnel (KMP) and related party disclosures

28.1 KMP disclosures

As a wholly-owned subsidiary of Suncorp Group Limited, KMP disclosures are consistent with those disclosed by Suncorp Group Limited.

Total compensation for KMP are as follows:

Consolidated and Company	2020 $000	2019 $000
Short-term employee benefits	11,091	14,318
Long-term employee benefits	193	105
Post-employment benefits	475	456
Share-based payments	4,960	8,292
Termination benefits	1,693	1,668
	18,412	24,839

The ultimate parent entity has determined the compensation of KMP in accordance with their roles within the entire Suncorp Group. Employee service contracts do not include any compensation, including bonuses, specifically related to the role of KMP of the Company and to allocate a figure may in fact be misleading. There is no link between KMP compensation and the financial results of the Company. Therefore, as there is no reasonable basis for allocating a KMP compensation amount to the Company, the entire compensation of the KMP has been disclosed above.

Transactions with directors, executives and their related parties are conducted on arm's length terms and conditions, and are deemed trivial or domestic in nature. These transactions are in the nature of general insurance policies.

No director, executive or their related parties has entered into a material contract with the Company during the reporting period, and there were no material contracts involving directors, executives or their related parties existing at the end of the financial year.

28.2 Related party transactions

Transactions between the Company and its subsidiaries, parent entity and ultimate parent entity consisted of dividends received and paid, and interest received and paid.

Transactions between the Group and other related entities consist of interest received on deposits and investment securities held, finance costs, fees received and paid for information technology services, investment management and custodian services, overseas management services, finance facilities and reinsurance arrangements. The Group’s primary banking facilities are held with Suncorp-Metway Limited, a subsidiary of the ultimate parent entity.

The Company also provided intercompany loan facilities to other related parties within the Suncorp Group. As at 30 June 2020, $35,000,000 of the facilities remained unutilised (30 June 2019: $36,004,000).

All the transactions described above were on commercial terms, except that some advances may be interest free.

	Consolidated 2020 $000	Consolidated 2019 $000	Company 2020 $000	Company 2019 $000
The aggregate amounts included in the determination of profit before tax that resulted from transactions with related parties:				
Insurance premium income				
Other related parties	13,231	13,610	13,231	13,610
Investment income				
Subsidiaries	-	-	9,000	-
Joint ventures	5,210	7,489	-	-
Parent entity	981	1,341	981	1,341
Other related parties	443	2,001	443	2,001
Other income				
Subsidiaries	-	-	147	1,076
Other related parties	224	1,320	224	1,320
Claims expense paid				
Other related parties	239,737	474,890	239,737	474,890
Acquisition costs				
Other related parties	-	56,550	-	56,550
Interest expense				
Operating expenses attributions				
Subsidiaries	-	202	-	202
Other related parties	1,592,977	1,495,830	1,588,736	1,493,669
Aggregate amounts receivable from and payable to, each class of related parties as at the end of the financial year:				
Investment securities				
Other related parties	1,147,479	770,992	1,147,479	770,992
Premiums outstanding				
Other related parties	11,203	13,923	11,203	13,923
Receivables[1]				
Subsidiaries	-	-	335	719
Parent entity	32,500	32,500	32,500	32,500
Other related parties	115,571	174,671	115,555	171,526
Payables and other liabilities[1]				
Subsidiaries	-	-	23,211	22,546
Parent entity	87,224	1,953	86,617	2,564
Other related parties	356,366	343,186	358,693	343,196
Unearned Premium Liability				
Other related parties	9,801	11,829	9,801	11,829
Outstanding Claims Liability				
Other related parties	7,462	392	7,462	392

1 There have been intercompany settlements during the financial year. Refer to the statements of cash flows.

29. Auditor’s remuneration

	Consolidated		Company	
	2020 $000	2019 $000	2020 $000	2019 $000
KPMG Australia				
Audit and review services				
Audit and review of financial reports	1,497	1,576	1,439	1,515
	1,497	1,576	1,439	1,515
Assurance services				
Regulatory assurance services	321	322	290	289
Other assurance services	328	345	328	345
	649	667	618	634
Other services				
In relation to taxation and other services	-	70	-	70
Total Auditors' remuneration	2,146	2,313	2,057	2,219

Fees for services rendered by the Company’s auditor are borne by a related entity within the Group.

30. Contingent assets and liabilities

30.1 Contingent assets

There are claims and possible claims made by the Group against external parties, the aggregate amount of which cannot be readily quantified. Where considered appropriate, legal advice has been obtained. The Group does not consider the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, is likely to have a material effect on its operations or financial position. The directors are of the opinion that receivables are not required in respect of these matters, as it is not virtually certain that future economic benefits will eventuate or the amount is not capable of reliable measurement.

30.2 Contingent liabilities

There are outstanding court proceedings, regulator enquiries, potential fines, claims and possible claims against the Group, the aggregate amount of which cannot be readily quantified. Where considered appropriate, legal advice has been obtained. The Group does not consider the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, is likely to have a material effect on its operations or financial position. The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Royal Commission

The report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) was released on 1 February 2019 and sets out 76 policy recommendations to strengthen protections for consumers, small business and rural and regional communities and generally brought greater focus on culture and compliance matters. The Group will work through any matters that flow from the Royal Commission.

Customer complaints

The Australian Financial Complaints Authority (AFCA) has the power to award compensation up to certain thresholds on complaints raised by customers. The Group is working through the individual cases that have been raised to AFCA. An assessment of the likely cost to the Suncorp Group of these reviews and actions has been made on a case by case basis but cannot always be reliably estimated. To the extent that the potential impact can be reliably estimated, the amount has been provisioned.

31. Significant accounting policies

The Group's significant accounting policies set out below have been consistently applied by all entities in the Group to all financial years presented in these consolidated financial statements.

31.1 Basis of consolidation

The Group's consolidated financial statements are the financial statements of the Company and all its subsidiaries, presented as those of a single economic entity. Intra-group transactions and balances are eliminated on consolidation.

(a) Subsidiaries

Subsidiaries are entities controlled by the Group which includes companies, managed funds and trusts. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date when control commences until the date on which control ceases.

31.2 Managed funds

The Company is licensed to maintain statutory insurance funds for external clients. The application of the statutory funds by the Company is restricted to the collection of premiums and the payment of claims, related expenses and other payments authorised under the relevant Acts. The Company is not liable for any deficiency in the funds, or entitled to any surplus. For these reasons, the directors are of the opinion that the Company does not have control over, nor have the capacity to control, the statutory funds. The statutory funds are of a separate and distinct nature. Therefore, the statutory funds are not consolidated into the Group's consolidated financial statements.

31.3 Foreign currency

(a) Foreign currency transactions

Transactions denominated in foreign currencies are translated into the functional currency of the Group using the spot exchange rates at the date of the transaction. Foreign currency monetary assets and liabilities at reporting date are translated into the functional currency using the spot exchange rates current on that date. The resulting differences on monetary items are recognised as exchange gains or losses in the financial year in which the exchange rates difference arises. Foreign currency non-monetary assets and liabilities that are measured in terms of historical cost are translated using the exchange rates at the date of the transaction.

Foreign currency non-monetary assets and liabilities that are stated at fair value are translated using exchange rates at the dates the fair value was determined. Where a non-monetary asset is classified as an available-for-sale financial asset, the gain or loss is recognised in other comprehensive income.

31.4 Revenue and expense recognition

(a) Premium revenue

Premium revenue comprises amounts charged to policyowners and includes applicable levies and charges such as emergency service levies but excludes stamp duty and taxes collected on behalf of third parties such as goods and services tax (GST). Premiums are recognised as revenue in accordance with the pattern of the underlying risk exposure from the date of attachment over the period of the insurance policy, which is usually one year.

Premiums on unclosed business are brought to account by reference to the prior years' experience and information that has become available between the reporting date and the date of completing the consolidated financial statements.

(b) Claims expense

Claims expense represents payments for claims and the movement in outstanding claims liabilities. Claims represent the benefits paid or payable to the policyowners on the occurrence of an event giving rise to a loss or accident according to the terms of the policy. Claims expenses are recognised in profit or loss as losses are incurred, which is usually the point in time when the event giving rise to the claim occurs.

(c) Outward reinsurance premium expense

Premiums ceded to reinsurers are recognised as an expense from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk.

Reinsurance premiums are deferred and recognised as an asset where there are future economic benefits to be received from reinsurance premiums.

(d) Investment revenue

Interest income is recognised in profit or loss using the effective interest method.

Dividends and distribution income are recognised when the right to receive income is established.

(e) Managed funds income

The Group manages statutory insurance funds for external clients and earns income from the provision of claims processing services (base fee) as well as an incentive fee based on performance results. Income for the base fee is recognised as the service is provided and for the incentive fee, as the income is earned.

Fees receivables are based on management's best estimate of the likely fee at reporting date. There is a significant amount of judgment involved in the estimation process of the fees receivable which may not be finalised for a number of years.

The base fee is specified in the contract and based on active claims. The performance fee is based on performance components stated in the contract.

(f) Fees and other income

Fees and other income are recognised in profit or loss on an accruals basis as the services are rendered.

(g) Levies and charges

Levies and charges imposed on the Group by various authorities are expensed to profit or loss on a basis consistent with the recognition of premium revenue. These include Emergency Service Levies, Medical Care and Injury Services Levy, NSW Insurance Protection Tax and Workers' Compensation levies. The portion of levies and charges payable at reporting date relating to unearned premium is recorded as other deferred insurance assets. A liability is recognised for levies and charges payable at the reporting date.

(h) Finance costs

Finance costs include interest expense on financial liabilities (borrowing costs) and transactions costs relating to borrowings. Finance costs are expensed as incurred and are recognised net of any associated hedge transactions.

Finance costs on subordinated notes includes interest expense, fair value movements on derivative instruments relating to subordinated notes, amortisation of discounts relating to subordinated notes and amortisation of ancillary costs incurred in connection with arrangement of subordinated notes.

31.5 Income tax

Income tax expense comprises current and deferred tax and is recognised in the profit or loss except to the extent it relates to items recognised in equity or in other comprehensive income.

Current tax consists of the expected tax payable on the taxable income for the year, after any adjustments in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised when it is probable that future taxable profits will be available against which the temporary differences can be utilised. Provisions for taxation require the Group to take into account the impact of uncertain tax positions. For such uncertainties, the Group relies on estimates and assumptions about future events.

(a) Tax consolidation

The Group is a wholly-owned entity in a tax-consolidated group, with SGL as the head entity. As a consequence, all members of the tax-consolidated group are taxed as a single entity.

The Group recognises the current and deferred tax amounts applicable to the transactions undertaken by it, reasonably adjusted for certain intra-group transactions, as if it continued to be a separate tax payer. The head entity also recognises the entire tax-consolidated group's current tax liability. Any differences between the current tax liability and any tax funding arrangement amounts (see below) are recognised by the head entity as an equity contribution to, or distribution from, the Group.

The members of the tax-consolidated group have entered into a tax sharing agreement and a tax funding agreement. Under the tax funding agreement, the Group fully compensates SGL for any current tax payable assumed. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities, at call.

The Group is jointly and severally liable for the income tax obligations of that group in the event that the head entity of the group defaults in its payment obligations to the Australian Taxation Office. The tax sharing agreement has effect to limit this joint and several liability to an amount relative to the Group's contribution to the group's tax liability. The head entity has not been in default of its payment obligations and the directors are of the opinion that the probability of default is remote.

(b) Taxation of financial arrangements

The Group has accepted the default method of accruals or realisation and has not made any elections regarding transitional financial arrangements or other elective timing methods.

31.6 Goods and services tax (GST)

Revenues, expenses and assets are recognised net of GST, except where the amount of GST incurred is not recoverable. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or the amount of expense.

Receivables and payables are stated with the amount of GST included.

31.7 Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash on deposit, highly liquid short-term investments and money at short call. They are carried at the gross value of the outstanding balance.

31.8 Non-derivative financial assets

(a) Financial assets at fair value through profit or loss

The Group determines whether each financial asset's contractual cash flows are solely principal payments and interest (**SPPI**) and how the financial asset is managed.

Financial assets where contractual cash flows are not SPPI will be classified at fair value through profit and loss (**FVTPL**). Assets that are SPPI, but managed on a fair value basis, will also be classified at FVTPL. Where financial assets other than FVTPL back liabilities at fair value through profit or loss, this would create an accounting mismatch and the financial assets can be designated at FVTPL to remove this mismatch.

Financial assets at FVTPL are initially recognised on trade date at fair value. Transaction costs are recognised in profit or loss as incurred. Subsequently, the assets are measured at fair value on each reporting date and any gains or losses are taken immediately to profit or loss.

(b) Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised on the date that they originated at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, less any impairment losses.

(c) Derecognition of financial assets

Financial assets are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and the Group has transferred substantially all risk and rewards of ownership.

31.9 Assets backing general insurance liabilities

The assets of the Group are assessed under AASB 1023 General Insurance Contracts to be assets that are held to back general insurance liabilities (referred to as insurance funds) and assets that represent shareholder funds.

The Group has designated financial assets held in portfolios intended to match the average duration of a corresponding insurance liability as assets backing general insurance liabilities. These financial assets include investment securities and are designated at fair value through profit or loss as they are managed and their performance evaluated on a fair value basis for internal and external reporting in accordance with the investment strategy.

All investment securities held to back general insurance liabilities are highly liquid securities. Despite some of these securities having maturity dates beyond the next twelve months, as they are highly liquid in nature and are actively traded, they have been classified as current.

31.10 Derivative financial instruments

The Group holds derivative financial instruments to hedge the Group's assets and liabilities or as part of the Group's trading and investment activities. Derivatives include exchange rate related contracts, interest rate related contracts and equity contracts.

All derivatives are initially recognised at fair value on trade date and transaction costs are recognised in profit or loss as incurred. Derivatives are classified and accounted for as held for trading financial assets at fair value through profit or loss.

31.11 Reinsurance and other recoveries receivable

Reinsurance and other recoveries are measured as the present value of the expected future receipts, calculated on the same basis as outstanding claims liabilities.

31.12 Deferred acquisition costs

Acquisition costs are deferred and recognised as an asset where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in profit or loss in subsequent reporting periods.

Deferred acquisition costs (DAC) are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate.

DAC are recognised as assets to the extent that the related unearned premiums exceed the sum of the DAC and the present value of both future expected claims and settlement costs, including an appropriate risk margin.

Where there is a shortfall, the DAC asset is written down and if insufficient, an unexpired risk liability is recognised.

31.13 Impairment

(a) Financial assets

Financial assets, other than those measured at fair value through profit and loss, are assessed each reporting date to determine whether there is any objective evidence of impairment. If impairment has occurred, the carrying amount of the asset is written down to its estimated recoverable amount.

(b) Non-financial assets

Non-financial assets are assessed for indicators of impairment at each reporting date. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss (if any).

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating unit (CGU)) which may be an individual asset or a group of assets. The recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairment losses are recognised in profit or loss if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses, if any, recognised in respect of the CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

An impairment loss recognised for goodwill is not reversed.

31.14 Financial liabilities

(a) Financial liabilities at amortised cost

Financial liabilities carried at amortised cost are initially measured at fair value plus any directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method. This includes payables and subordinated notes.

(b) Derecognition of financial liabilities

Non-derivative liabilities are derecognised when the contractual obligations are discharged, cancelled or expired.

31.15 Employee entitlements

(a) Short-term employee benefits

Liabilities for short-term employee benefits are those expected to be settled wholly before 12 months after the end of the reporting period in which the employees render the related services. They are measured at the amounts expected to be paid when the liabilities are settled. Related on-costs such as superannuation, workers' compensation and payroll tax are also included in the liability.

A liability is recognised for short-term bonus plans when there is a constructive obligation to pay this amount and the amount can be reliably estimated.

(b) Long service leave and annual leave

The liabilities for long service leave and annual leave are those not expected to be settled wholly before 12 months after the end of the reporting period. They are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using Australian corporate bond rates with terms to maturity that match, as closely as possible, the estimated future cash outflows. Related on-costs such as superannuation, workers' compensation and payroll tax are also included in the liability.

31.16 Unearned premium liabilities

Premium revenue received and receivable but not earned is recognised as unearned premium liabilities.

The carrying value of unearned premium liabilities is assessed at each reporting date by carrying out a liability adequacy test (**LAT**). This test assesses whether the net unearned premium liabilities less any DAC is sufficient to cover future claims costs for in-force insurance contracts. Future claims costs are calculated as the present value of the expected cash flows relating to future claims, and include a risk margin to reflect the inherent uncertainty in the central estimate. The assessment is carried out on a portfolio of contracts basis. If a LAT deficiency occurs, it is recognised in the profit or loss with a corresponding write-down of the related DAC asset. Any remaining balance is recognised as an unexpired risk liability on the statement of financial position.

31.17 Outstanding claims liabilities

The outstanding claims liability is measured as the central estimate of the present value of expected future payments relating to claims incurred at the reporting date with an additional risk margin to allow for the inherent uncertainty of the central estimate.

Standard actuarial methods are applied to determine the net central estimate of outstanding claims liabilities. The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not reported, claims incurred but not enough reported and the direct and indirect costs of settling those claims.

31.18 Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the statement of financial position but are disclosed in the notes to the financial statements, unless the possibility of settlement is remote, in which case no disclosure is made. If settlement becomes probable and the amount can be reliably estimated, a provision is recognised.

Contingent assets are not recognised in the statement of financial position but are disclosed in the notes to the financial statements when inflows are probable. If inflows become virtually certain, an asset is recognised.

The amount disclosed as a contingent liability or contingent asset is the best estimate of the settlement or inflow.

31.19 New accounting standards and amendments not yet adopted

In March 2020, the AASB issued an amending standard AASB 2020-2 *Amendments to Australian Accounting Standards — Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* that removes the ability of the Group to prepare special purpose financial statements and AASB 1060 *General Purpose Financial Statements — Simplified Disclosures for profit and Not-for- profit Tier 2 Entities* (**AASB 1060**) that replaces the reduced disclosure requirements framework. As a result the Group, based on the current size and operations, would be required to prepare general purpose financial statements — Tier 2, and apply the disclosures as set out in AASB 1060. As the Group already applies all the recognition and measurement requirements of all Australian Accounting Standards, there will be no impact on the amounts recognised in the financial statements. Both standards are effective for the financial year beginning 1 July 2021.

As at the date of this financial report, there are several new or revised accounting standards published by the AASB that will be mandatory in future financial years. The new or revised accounting standards that are expected to have a material impact on the Suncorp Group's financial statements are set out below. The Suncorp Group has not early adopted these accounting standards.

AASB 9 *Financial Instruments*

AASB 9 was issued in December 2014. It addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce an expected credit loss impairment model and general hedge accounting requirements.

The Group is predominantly connected with insurance and meets the requirements in AASB 2016-6 *Amendments to Australian Accounting Standards - Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*. It is applying the temporary exemption to continue AASB 139 *Financial Instruments: Recognition and Measurement* (AASB 139) rather than AASB 9 until initial application of AASB 17 *Insurance Contracts* (AASB 17).

Governance

The Group formed part of the Suncorp Group project set up to implement the requirements of AASB 9 for all of the Suncorp Group's entities. It was governed through a steering committee involving divisional CFOs, CROs and Heads of Finance and was delivered by working groups with stakeholders from risk management, finance, data and transformation and the business units.

Expected Transitional Impact

The following impacts are expected from the implementation of AASB 9:

- Investment Securities are designated at fair value through profit or loss (**FVTPL**) under AASB 139. Based on the way the assets are managed as at 30 June 2020, they are expected to be mandatorily classified at FVTPL under AASB 9.
- The implementation of an expected credit loss impairment model will not have a material impact for the Group, given most of its financial assets are measured at FVTPL or are considered a low credit risk.
- Under AASB 9, the Suncorp Group determines whether each financial asset's contractual cash flows are solely principal payments and interest (SPPI) and how the financial asset is managed. Financial assets where contractual cash flows are not SPPI will be classified at FVTPL. Assets that are SPPI, but managed on a fair value basis will also be classified at FVTPL. There will be no material impact for the Group as Investment Securities are designated at FVTPL under AASB 139.

The above assessment is based on balances as at 30 June 2020 and will be revisited prior to when the Group adopts AASB 9 and AASB 17.

AASB 17 *Insurance Contracts*

AASB 17 is a new accounting standard for all types of insurance contracts and replaces AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts. AASB 17 was issued in July 2017 and it incorporates International Financial Reporting Standard 17 (**IFRS 17**) Insurance Contracts including relevant amendments made up to and including May 2019 by the International Accounting Standards Board (**IASB**). Amendments to IFRS 17 was approved by the IASB in June 2020 to address implementation issues identified and the effective date of IFRS 17 was revised to be applicable for reporting periods beginning on or after 1 January 2023.

These amendments have been adopted in AASB 2020-5 Amendments to Australian Accounting Standards – Insurance Contracts, and the new standard is mandatory for the Group's financial statements for periods starting from 1 July 2023.

AASB 17 introduces new measurement models and significant changes to the presentation and disclosure of insurance contracts. Under the general model, a group of insurance contracts are measured based on the fulfilment cashflows (present value of estimated future cash flows with a provision for risk) and the contractual service margin (the unearned profit that will be recognised over the coverage period). AASB 17 also permits the use of a simplified model in certain circumstances, which is similar to the current measurement model for general insurance contracts.

The Suncorp Group has established a project team to assess and implement the requirements of AASB 17 and is currently performing a detailed impact assessment of the standard. Due to the complexity of the standard requirements, the recent changes to the standard and evolving global interpretation of the requirements, the impact of standard on the Suncorp Group is still being determined.

AASB 9 and AASB 17 are available for early adoption but have not been applied by the Company and the Group in this financial report.

32. Subsequent events

On 1 September 2020, the Company has issued $250 million of fully paid, unsecured, cumulative subordinated notes (Tier 2 notes) to its immediate parent company. The Tier 2 notes will be classified as non-current financial liability in the Company's financial statements. In the event of a non-viability trigger event, the Tier 2 notes will be converted into a variable number of the Company's ordinary shares.

Other than the above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years. For the impact of COVID-19 on the Group's estimates and judgments, please refer to note 2.2.

Directors' Declaration

1. The directors of AAI Limited (the **Company**) declare that in their opinion:
   a. the consolidated financial statements and notes set out on pages 6 to 56, are in accordance with the *Corporations Act 2001*, including:
      i. giving a true and fair view of the Company's and the Group's financial position as at 30 June 2020 and of their performance for the financial year ended on that date; and
      ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*
   b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors draw attention to note 2.1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Christine McLoughlin

CHRISTINE MCLOUGHLIN
Chairman of the Board
24 September 2020

STEVE JOHNSTON
Group Chief Executive Officer and Managing Director

KPMG

Independent Auditor's Report

To the shareholder of AAI Limited

Opinions

We have audited the consolidated Financial Report of AAI Limited (the Group Financial Report). We have also audited the Financial Report of AAI Limited (the Company Financial Report).

In our opinion, each of the accompanying Group Financial Report and Company Financial Report of AAI Limited are in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's and Company's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The respective ***Financial Reports*** of the Group and the Company comprise:

- *Statements of financial position* as at 30 June 2020
- *Statements of comprehensive income, Statements of changes in equity, and Statements of cash flows* for the year then ended
- Notes including a summary of significant accounting policies
- *Directors' Declaration.*

The ***Group*** consists of AAI Limited (the Company) and the entities it controlled at the year end or from time to time during the financial year.

Basis for opinions

We conducted our audits in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audits of the Financial Reports* section of our report.

We are independent of the Group and Company in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audits of the Financial Reports in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in AAI Limited's annual reporting which is provided in addition to the Financial Reports and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinions on the Financial Reports do not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Directors' Report and our related assurance opinion.

In connection with our audits of the Financial Reports, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Reports or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

- preparing Financial Reports that give a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of Financial Reports that give a true and fair view and are free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audits of the Financial Reports

Our objective is:

- to obtain reasonable assurance about whether each of the Financial Reports as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinions.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audits of the Financial Reports is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our Auditor's Report.

KPMG.

KPMG

Brendan Twining

Partner

Sydney

24 September 2020