Suncorp-Metway Limited
and subsidiaries

ABN 66 010 831 722

Directors' report & consolidated financial report

for the financial year ended
30 June 2016

SUNCORP-METWAY LIMITED AND SUBSIDIARIES
ABN 66 010 831 722

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

The directors present their report together with the financial report of the consolidated entity (or **Group**), being Suncorp-Metway Limited (the **Company**) and its subsidiaries for the financial year ended 30 June 2016 and the auditor's report thereon. Terms that are defined appear in bold the first time they are used.

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1. DIRECTORS' PROFILES

The names of the people who served as directors of the Company at any time during or since the end of the financial year are set out below. All non-executive directors are members of the Nomination Committee.

Dr Zygmunt E Switkowski AO

BSc (Hons), PhD, FAICD, FAA, FTSE
Non-executive Chairman, age 68

Dr Switkowski has been a director of the Company since September 2005, and Chairman since October 2011, and a director of Suncorp Group Limited (**SGL**) since December 2010. He is an ex officio member of the Audit, Remuneration and Risk Committees. He is Chairman of NBN Co Limited, a director of Healthscope Limited (since April 2016), Tabcorp Holdings Limited (since October 2006) and Oil Search Limited (since November 2010). He is the Chancellor of RMIT University. During his career, Dr Switkowski has held senior executive positions in the communications industry with Telstra Corporation and Optus Communications, and previously at Kodak Australasia. In June 2014, he received the Order of Australia for his contribution to the arts, sciences, tertiary education and the telecommunications and business community.

Michael A Cameron

FCPA, FCA, FAICD
Chief Executive Officer and Managing Director (**CEO & Managing Director**), age 56

Mr Cameron was appointed CEO & Managing Director of the Company and SGL in October 2015. He was a non-executive director from April 2012–September 2015. Mr Cameron has over 30 years' experience in finance and business. He was CEO and Managing Director of The GPT Group (2009–2015), Chief Financial Officer (**CFO**) at St George Bank from mid-2007 until the sale to Westpac Banking Corporation in 2008, and previously Group CFO and Group Executive at Commonwealth Bank of Australia's Retail Bank Division. He also spent 10 years with Lendlease in a number of senior positions including CFO for MLC Limited

William J Bartlett

FCA, FCPA, FCMA, CA (SA)
Non-executive director, age 67

Mr Bartlett has been a director of the Company since July 2003 and SGL since December 2010. He is a member of the Audit, Risk and Remuneration Committees. He is a director of Reinsurance Group of America Inc. (listed on NYSE) (since May 2004), RGA Reinsurance Company of Australia Limited, and both GWA International Limited and Abacus Property Group (since February 2007). He is Chairman of the Cerebral Palsy Foundation's Council of Governors. Mr Bartlett has over 35 years' experience in accounting. He was a partner of Ernst & Young in Australia for 23 years, retiring in mid-2003. Mr Bartlett has extensive experience in the actuarial, insurance and financial services sectors through membership of many industry and regulatory advisory bodies including the Life Insurance Actuarial Standards Board (1994–2007).

Audette E Exel AO

BA, LLB (Hons)
Non-executive director, age 53

Ms Exel has been a director of the Company and SGL since June 2012. She is a member of the Risk Committee. Ms Exel is the founder of the Adara Group and Chief Executive Officer of its Australian companies. She is Vice Chairman of Steamship Mutual, one of the world's largest protection and indemnity clubs for the shipping industry. Before establishing the Adara Group, she was MD of Bermuda Commercial Bank (1993–1996), Chairman of the Bermuda Stock Exchange (1995–1996) and served on the board of the Bermuda Monetary Authority (1999–2005). Ms Exel began her career as a lawyer specialising in international finance. In 2013, she was awarded an honorary Order of Australia for service to humanity (through the Adara Group) in Uganda and Nepal and in 2014 was recognised by Forbes as a 'Hero of Philanthropy'. In 2015, Ms Exel was inducted into the Australian Businesswomen's Hall of Fame, and was a recipient of a World Class New Zealander Award. In 2016, she was named Australia's 2016 'Leading Philanthropist' by Philanthropy Australia.

Sally Herman

BA, GAICD
Non-executive director, age 59

Ms Herman has been a director of the Company and SGL since October 2015. She is a member of the Audit Committee. Ms Herman is an experienced non-executive director in the financial services, retail, manufacturing and property sectors. Her directorships include Breville Group Limited (since March 2013), Premier Investments Limited (since December 2011), Investec Property Limited (since July 2013), and previously FSA Group Limited (2011–2014) and property advisory firm Urbis (2011–2016). Her executive career in Australia and the USA includes 16 years with the Westpac Group managing major business units in most of its operating divisions. Ms Herman is Chairman of an independent girls' school in Sydney and a director of Sydney Harbour Federation Trust. She also serves on the advisory boards of several community groups

Ewoud J Kulk

BEcon, FAICD
Non-executive director, age 70

Mr Kulk has been a director of the Company since March 2007 and SGL since December 2010. He is Chairman of AA Insurance Limited (NZ), Chairman of the Risk Committee and a member of the Remuneration Committee. Mr Kulk has over 25 years' experience in the insurance industry. He is a director of the Westmead Millennium Institute, a past member of the NSW Council of the Australian Institute of Company Directors and a past president of the Insurance Council of Australia. Mr Kulk was a director of Promina Group at the date of the merger with Suncorp in 2007. He was Group Director Asia Pacific for Royal & Sun Alliance Insurance Group (1998–2003) and Managing Director of Australian General Insurance Group (1994–1998).

Christine F McLoughlin

BA, LLB (Hons), FAICD
Non-executive director, age 53

Ms McLoughlin has been a director of the Company and SGL since February 2015. She is Chairman of the Remuneration Committee and a member of the Risk Committee. Ms McLoughlin began her career as a commercial lawyer. She has extensive business experience in Australia, the UK, New Zealand and South East Asia holding senior executive roles in the financial services and telecommunications sectors. Her current listed directorships include nib Holdings Ltd (since March 2011), Whitehaven Coal Limited (since May 2012) and Spark Infrastructure RE Limited (since October 2014). She is Chairman of Stadium Australia, a member of the Minter Ellison Advisory Council and a member of the Australian Securities and Investments Commission's Director Advisory Panel.

Dr Douglas F McTaggart

BEcon (Hons), MA, PhD, DUniv, FAICD, SF Fin
Non-executive director, age 63

Dr McTaggart has been a director of the Company and SGL since April 2012. He is Chairman of the Audit Committee and a member of the Remuneration Committee. Dr McTaggart has extensive experience in financial markets, having been Chief Executive of QIC Limited (1998–2012). Prior to QIC, he was Under Treasurer and Under Secretary of the Queensland Department of Treasury and had a distinguished academic career. He is currently Chairman of Spark Infrastructure RE Limited (since May 2016), the QIMR Berghofer Medical Research Institute Council and Suncentral Maroochydore Pty Ltd. He serves on the Queensland Council of the Australian Institute of Company Directors, the Australian National University Council and the Land Account Expert Advisory Panel to the Indigenous Land Corporation. He was a director of UGL Limited (2012–2015) and Telesso Technologies Limited (2007–2012). Dr McTaggart is a former chairman of corporate consultancy Galibier Partners and has served in various expert advisory roles to government and on several industry representative bodies.

Geoffrey T Ricketts CNZM

LLB (Hons), LLD (Honoris Causa), FInstD
Non-executive director, age 70

Mr Ricketts has been a director of the Company since March 2007 and SGL since December 2010. He is Chairman of Vero Insurance New Zealand Limited, and a member of the Audit Committee. He is also Chairman of Todd Corporation Limited (NZ) and Heartland New Zealand Limited (having been a director of Heartland since 2011). He is a director of Shopping Centres Australasia Property Group Trustee NZ Limited and the Centre for Independent Studies Limited. He has extensive experience in New Zealand and Australia, having been a commercial lawyer and a partner at Russell McVeagh Solicitors (NZ) for over 25 years. Mr Ricketts was a director of Promina Group at the date of the merger with Suncorp in 2007. He was formerly Chairman of Royal & Sun Alliance's New Zealand operations having been a non-executive director for over 10 years.

Patrick J R Snowball

MA, Hon. LL.D, age 66
Former Managing Director and Group CEO
Appointed 1 September 2009, resigned 30 September 2015

2. DIRECTORS' MEETINGS

Suncorp Group Limited, the Company's ultimate parent entity, is the listed holding company of the Suncorp Group of companies. SGL and its subsidiaries is referred to as the **Suncorp Group** or **Suncorp**. The directors of SGL are also directors of the Company.

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each director (or former director) of the Company during the financial year ended 30 June 2016 are set out in the table below.

	Board of Directors		Audit Committee		Risk Committee		Remuneration Committee		Nomination Committee	
	A	B	A	B	A	B	A	B	A	B
Dr Z E Switkowski AO	11	11	5	5	5	5	6	6	2	2
M A Cameron[1]	11	11	3	3	3	3	4	4	1	1
W J Bartlett	11	11	5	5	5	5	6	6	2	2
A E Exel AO	11	11	-	-	5	4	-	-	2	2
S Herman	8	8	2	2	-	-	-	-	1	1
E J Kulk	11	11	-	-	5	5	6	5	2	2
C F McLoughlin	11	11	-	-	5	5	6	6	2	2
Dr D F McTaggart	11	11	5	5	-	-	3	3	2	2
G T Ricketts CNZM	11	11	5	5	-	-	-	-	2	2
P J R Snowball[1]	3	3	2	1	2	2	2	1	-	-

A: Number of meetings held during the year while the director was a member of the Board or committee
B: Number of meetings attended by the director during the year while the director was a member of the Board or committee
1 The Managing Director attends Audit Committee, Risk Committee and Remuneration Committee meetings at the invitation of those committees. There are no management representatives appointed as members of any board committee.

3. DIRECTORS' INTERESTS

No director holds any interest in the Company at 30 June 2016.

However, the directors of the ultimate parent entity, SGL, hold interests in SGL. The relevant interest of each director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by SGL, as notified by the directors to the Australian Securities Exchange (**ASX**) in accordance with section 205G(1) of the Corporations Act 2001, at the date of this report, is as follows:

	Fully paid ordinary shares (SUN)	Convertible preference shares (SUNPE, SUNPC)
Dr Z E Switkowski AO	311,599	-
M A Cameron[1]	481,639	-
W J Bartlett	26,968	323 SUNPE
A E Exel AO	8,812	-
S Herman	16,500	-
E J Kulk	20,173	3,000 SUNPC
C F McLoughlin	20,000	-
Dr D F McTaggart	18,966	-
G T Ricketts CNZM	32,314	-

1 Includes 386,639 shares held by the trustee of the Suncorp Group Equity Incentive Plan Trust. Beneficial entitlement to these shares remains subject to satisfaction of specified performance hurdles.

4. COMPANY SECRETARY

Details of the Company Secretaries during the financial year to 30 June 2016 and as at the date of this report are set out below.

Ms Anna Lenahan BA (Hons), MA (Psych) (Hons), LLB (Hons) was appointed Chief Risk and Legal Officer in March 2016, and has been Company Secretary since joining Suncorp in March 2011 as Executive General Manager Group General Counsel and Company Secretary.

Mr Darren Solomon LLB was appointed Company Secretary in 2010. Mr Solomon commenced with the Group in 1989 as a senior lawyer in the Group's legal department before moving to the Company Secretariat team in 2006. Mr Solomon's Group role is Head of Company Secretariat.

Ms Kristy Huxtable FGIA, MAICD, MBA, Grad Dip (GIA), Grad Dip (HR) was appointed Company Secretary on 1 August 2016 and has been with the Company since January 2014 in the Company Secretariat team. Ms Huxtable has extensive corporate governance and secretarial experience within financial services.

The Company Secretaries are directly accountable to the Board, through the Board Chairman, for all governance matters that relate to the Board's proper functioning.

5. REMUNERATION REPORT

The Remuneration Report is set out on pages 15 to 40 and forms part of the Directors' Report for the financial year ended 30 June 2016.

6. PRINCIPAL ACTIVITIES

The Company is an Authorised Deposit-taking Institution (**ADI**). The principal activities of the Group during the course of the financial year were the provision of banking and related services to the retail, commercial, small and medium enterprises and agribusiness sectors in Australia. The Group conducts the Banking operations of the Suncorp Group.

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

6.1 COMPANY'S OBJECTIVES

The objectives of the Company are to deliver outcomes related to the Banking and Group wide overall objectives of the Suncorp Group.

Suncorp Group's revised business model takes the 'One Company, Many Brands' model a step further by integrating the businesses in Australia and New Zealand via a new operating structure with one view of the customer. This refreshed 'One Suncorp' business model, which will treat all customers as Suncorp Group customers, will deliver more value to customers and shareholders than operating as independent businesses.

The Suncorp Group has articulated its strategic vision and outlook to 2019. It is focused on building a business that creates value through an intense focus on increasing Connected Customers – that is customers who have more of their needs met through Suncorp.

One way in which the customer experience will be improved, is by integrating all offerings into a platform known as the 'marketplace'. The marketplace will deliver a unique combination of enhanced technology and solutions created by Suncorp and third parties, allowing customers to interact and move seamlessly through digital and physical channels, to find solutions that better meet their individual needs. Suncorp will benefit from improved retention of existing and established customers, providing the Suncorp Group continued future earnings growth.

Suncorp Group thus aspires to be an agile, resilient financial services company that:

- 'creates a better today' for all its stakeholders
- curates solutions from both Suncorp and third parties that better meet and anticipate customers' needs
- delivers sustainable shareholder returns through higher customer retention, sustaining margins and rebasing costs to drive earnings growth
- is a responsible and valuable contributor to society.

In addition to elevating the customer, the strategy also leverages the Suncorp Group's strategic assets of Cost, Capital and Culture:

- **Cost** – recalibrating costs by pooling resources and leveraging Suncorp's scale, buying power and supplier relationships
- **Capital** – leveraging the diversity and capital return of each of our businesses for the benefit of the Suncorp Group
- **Culture** – operating as 'One Suncorp' in Australia and New Zealand.

Suncorp Group's strategic priority is to build resilience and focus on the following three areas:

- **Maintain momentum and stability** – through continued execution of the strategy to deliver on market commitments
- **Elevate the customer** – by improving the focus on customer experience and building the customer marketplace
- **Recalibrate costs** – by realigning the cost base to create a leaner, more effective and competitive organisation to reflect the realities of the current low growth operating environment.

7. DIVIDENDS

A fully franked 2015 final dividend of $161 million (59 cents per share) was paid on 31 August 2015. A fully franked 2016 final dividend of $175 million (64 cents per share) has been declared by the directors. Further details of dividends on ordinary shares provided for or paid are set out in note 3 to the consolidated financial statements.

8. OPERATING AND FINANCIAL REVIEW

8.1 OVERVIEW OF THE GROUP

The Group delivered a strong net profit after tax of $383 million (2015: $354 million), up 8.2% compared with the prior corresponding period. The result was driven by continued home lending growth, stable net interest margins and ongoing improvement in credit quality. Home lending growth of 5.9% reflects the success of the Group's product offering whilst also maintaining conservative lending standards.

The Group has established a solid platform through a continued focus on high quality lending supported by a resilient balance sheet and a robust capital position. During the year the Group won the 2016 MFAA Non Major Lender Award and *Money* Magazine's 2016 Business Bank of the Year, while the Group's standalone credit profile from Standard and Poor's was upgraded from 'bbb+' to 'a-'.

The Group's new core banking platform, is now in place,and supports the Bank across lending, broker channel, customer, collateral and collections.

8.2 REVIEW OF PRINCIPAL BUSINESS

A focus on high quality profitable growth resulted in total loans and advances growing by 4.6%, with home loan growth of 5.9% broadly in line with system growth and management aspirations.

Net interest income increased 2.4% to $1,129 million (2015: $1,103 million). The net interest margin (**NIM**) increased during the financial year ending at 1.86%. Challenging market conditions prevailed through much of the year and are continuing as a result of reductions to the Reserve Bank of Australia's cash rate, competition, and emerging wholesale and retail funding cost pressures.

A cost-to income ratio of 53.7% was achieved after absorbing ongoing investment into key strategic initiatives.

Through maintaining a strong focus on credit quality and risk management, the Group benefited from a further reduction in gross impaired assets. Impairment losses of $16 million (2015: $58 million), or 0.03% of gross loans and advances, were historically low and significantly favourable to the Group through-the-cycle expected operating range of 0.10% to 0.20%.

The Group has taken a cautious approach to investment lending and large scale property development, and has limited exposure to inner city apartment markets. In agribusiness, conditions stabilised as relieving rains were received by many districts, which together with commodity prices and a lower exchange rate led to improved operating conditions. Banking continues to support its agribusiness customers and communities affected by drought.

Domestic and offshore long-term funding markets were successfully accessed during the period. Strong long-term issuer ratings of "A+/A1/A+" and a well-diversified wholesale funding position creates a genuine competitive advantage. Periods of heightened volatility highlight the benefit of access to a range of funding instruments in both domestic and offshore markets.

The CET1 ratio increased to 9.15% and remains above the target range of 8.5% - 9.0%. The total risk weighted capital ratio reduced to 13.47%.

The Group has continued on its transformational journey during the period and is responding to changes in the competitive landscape with continued investment in its core banking system, digital and channel capabilities, products, risk management, and people. The core banking platform, is now in place and supports the Group across lending, broker channel, customer, collateral and collections. The decommissioning of the Group's legacy collections and personal lending systems is complete, with the collateral system to follow in the first quarter of the 2017 financial year.

The detailed review process with the Australian Prudential Regulation Authority (**APRA**) regarding Basel II Advanced Accreditation is continuing. The Group is operating as an Advanced Bank, with strong risk management and advanced models in use across the business.

8.3 REVIEW OF FINANCIAL POSITION

Total assets increased by $1,905 million or 3.1% to $63,616 million compared with June 2015.

Cash and cash equivalents increased by $437 million due to the increased usage of reverse repo instruments for liquidity management purposes.

Receivables due from other banks decreased by $43 million due to a reduction in the exchange settlement requirements with the Reserve Bank of Australia.

Derivative assets increased by $24 million driven by volatility in the Australian dollar impacting the Banks holdings of cross-currency swaps.

Trading securities increased $113 million as the Bank increased its holdings of high-quality Government and Semi-Government instruments within the Trading portfolio.

Investment securities decreased $1,020 million as the Bank optimized its balance sheet liquidity position and made advantage of the natural run-off of available-for-sale and held-to-maturity assets.

Loans and advances increased $2,399 million primarily due to growth in home lending. Business lending was flat during the year reflecting a selective focus on higher quality customers.

Total liabilities increased by $1,881 million or 3.2% to $59,878 million compared with June 2015.

Deposits and short-term borrowings increased $990 million driven by strong volumes of retail transaction and term deposit accounts during the year.

Derivatives increased by $97 million has been a result of volatility in the Australian dollar impacting the Banks holdings of forward foreign exchange contracts and cross currency swaps.

Payables and other liabilities decreased $118 million which was largely due to a decline in accrued interest payable across retail and corporate deposits.

Securitisation liabilities reduced $1,107 million due to the continued amortisation of issued Bank securitisation trusts. No new securitisation trusts were established during the year.

Debt issues increased $1,984 million to replace the run-off of securitisation funding and to fund the growth of lending assets.

Total equity increased by $24 million or 0.6% to $3,738 million compared with June 2015.

Total equity increased $24 million mainly due to current year profit of $383m being in excess of dividends paid during the period.

8.4 REVIEW OF CAPITAL STRUCTURE

The capital management strategy of the 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 risk appetite.

The Group is subject to, and complies with, external capital requirements set and monitored by the Australian Prudential Regulation Authority (**APRA**). The Group has complied with external capital requirements which it is subject to during the current and prior financial years.

The Suncorp Group's Internal Capital Adequacy Assessment Process (**ICAAP**) provides the framework to ensure that the Group as a whole, and each regulated entity, is capitalised to meet both internal and external requirements. The ICAAP is reviewed regularly and, where appropriate, adjustments are made to reflect changes in the Group's capital requirements.

A range of instruments and methodologies are used to effectively manage capital including share issues, reinsurance, dividend policies and Tier 1 and Tier 2 instruments. Capital targets are structured according to risk appetite, the regulatory framework and APRA's Non Operating Holding Company (**NOHC)** conditions.

For regulatory purposes, capital is classified as follows:

- CET1 comprising accounting equity with adjustments for intangible assets and regulatory reserves
- Tier 1 Capital comprising CET1 plus Additional Tier 1 Capital such as hybrid securities with 'equity-like' qualities
- Tier 2 Capital comprising certain securities recognised as Tier 2 Capital, together with specific Bank reserves eligible as regulatory capital; and
- Total Capital is the sum of Tier 1 Capital and Tier 2 Capital.

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

The Group's CET1 target operating range is unchanged at 8.5% - 9.0% of Risk Weighted Assets. The Group's CET1 Ratio was 9.15% which was above its operating range.

9. SIGNIFICANT CHANGES IN THE GROUP'S STATE OF AFFAIRS

The Group has refined its strategy to drive growth and increase resilience to volatility. The key priorities in the execution of this strategy are to maintain stability and momentum, elevate the customer and recalibrate costs. This has been reflected through the organisational restructure which became effective from 1 July 2016.

10. EVENTS SUBSEQUENT TO REPORTING DATE

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 Group, the results of those operations, or the state of affairs of the Group in future financial years.

11. LIKELY DEVELOPMENTS

The Group is focused on sustainable profitable growth, through leveraging its significant investments in technology and capability, whilst simplifying the business through improved efficiencies and risk outcomes. Together with the strength of the balance sheet and funding flexibility, the Group is well placed to succeed in an industry facing challenging market conditions.

The strength of the Group and its organisational realignment centred on elevating the customer will enable the Group to broaden and deepen relationships and create more value for customers. This will complement the Group's existing focus on customer retention and a net promoter score that continues to outperform the major banks.

The core banking platform has delivered a simplified and resilient core banking infrastructure. It provides agility and decreased time-to-market for new products and offerings, including the delivery of innovative and digitised banking services. This ensures the Group is well positioned to participate in disruption and develop propositions that increase customer value. The delivery of the core banking platform lays the foundation to accelerate the Group's customer strategy. Building new digital services and accelerating investment in internet banking and mobile applications will enable the Group to rationalise and modernise its network of stores.

The Group's enhanced risk and capital management, aided by the Basel II Advanced Accreditation program, is improving risk selection and pricing for risk. The benefits of these capabilities continue to be realised through strategic management of the business and improved performance driving the sustainable return on CET1 towards 15%, the upper end of its target range.

The regulatory landscape continues to change through the introduction of the Net Stable Funding Ratio (NSFR) requirements. The Group is on track to be compliant with the requirements before their introduction in January 2018. The Bank is focused on increasing stable sources of funding towards lower Basel III runoff deposits and lengthening the duration of wholesale liabilities to reinforce the resilience of its funding profile.

12. KEY INTERNAL AND EXTERNAL RISKS

The risks that the Group manages include strategic, insurance, counterparty, market, asset and liability, liquidity, operational, and compliance-related risks. Specific detail on Suncorp's approach to Corporate Responsibility including the identification of non-financial risks and opportunities is contained in the Suncorp Group 2015/16 Annual Review available from suncorpgroup.com.au/investors/reports.

Policies, procedures, limits and other controls are in place at either the Suncorp Group or functional level to manage these risks and align to the Board's risk appetite.

The key business risks that may impact business strategies and financial prospects include:

- shifts in competitor dynamics and markets, including new sources of competition from non-traditional sources, associated technological advancement and disruptive business models. This is being mitigated by the Suncorp Group's strategic planning processes, innovation programs, investment in Ignite, continual market and competitor monitoring and leveraging the Suncorp Group's scale, brands and pricing capability to build a competitive advantage.
- loss, compromise or unavailability of Suncorp-wide data due to failure to maintain a secure technology environment. Suncorp's Technology, Data and Labs Function has oversight of key cyber-security threats, and is continually investing in the systems, processes and controls to manage this risk and respond to emerging threats. The importance of and accountability for security is reinforced to all staff through policy, procedures and education.
- the challenges in attracting and retaining the right capability to meet the ongoing requirements of Suncorp, within a global marketplace competing for talent. The People Experience agenda aims to build and sustain an effective

workforce by balancing Suncorp's needs, for today and tomorrow, with the changing expectations of a global workforce. Suncorp focuses its activities on having the right culture, work environments, capability, and leadership to deliver the business strategy.

- impacts of climate change, significant weather events and natural hazards that exceed expectations.
- risks relating to the delivery of strategic initiatives, including Suncorp's new operating model. Transformation initiatives are appropriately resourced, leveraging the Suncorp Group's agile way of working and have established change management programs.
- risks relating to the failure to meet government or regulatory expectations. The business has dedicated and well-established programs in place to lead the development and implementation of regulatory change. The Suncorp Group actively participates in industry-wide focus areas and is committed to ensuring a strong organisational culture, focused on doing the right thing for all key stakeholders. The Suncorp Group also engages with the government and regulators on a regular and proactive basis.
- ongoing economic instability and a continued low yield environment. Suncorp consistently monitors these risks by examining market conditions and adopts appropriate strategies to help protect the Suncorp Group.

More complete information on risk management and the overall Suncorp Group governance framework is in the Company's detailed Corporate Governance Statement available at suncorpgroup.com.au/about-us/governance.

13. IMPACT OF LEGISLATION AND OTHER EXTERNAL REQUIREMENTS

The Group operates across a number of heavily regulated industry sectors.

There continues to be significant domestic and global legislative and regulatory reforms and proposals, and government and regulator consultations, reviews and inquiries which may result in changes or proposals that could or may impact the Group and its operations now and in the future.

Some of the various matters that could or may impact the Group include:

- the Australian Consumer Law (**ACL**) review
- financial benchmark regulatory reform relating to the administration of significant benchmarks, submission to significant benchmarks, and offences applying to benchmark misconduct
- the Federal Parliamentary Joint Committee on Corporations and Financial Services inquiry into the impairment of customer loans
- the Federal Government's proposed approach to Fintech developments such as crowdfunding and blockchain
- Australian banks' response to implement comprehensive new measures to protect consumer interests, increase transparency and accountability under the Australian Bankers' Association 'six point plan'
- the Federal Government's proposal to amend the misuse of market power provisions of the ACL
- the Federal Government's proposals to lift the professional, ethical and education standards of the financial services industry; and
- the Federal Budget 2016/17 measures and announcements that impact, personal income tax company tax and other areas.

The results of the latest Federal election may impact on some of the matters referred to in this section, but at this stage it is too early to tell if there will be any impact and if so, the extent of that impact.

Financial System Inquiry

The Final Report (**Report**) of the Financial System Inquiry (**Inquiry**) was released on 7 December 2014. The Report made 44 recommendations including advising on the level of capital banks should hold and minimum standards of education for financial advisers. The Federal Government has accepted all but one of the recommendations. The Federal

Government is progressively implementing the recommendations it has agreed to and as such it is difficult at this stage to judge the full impact of the Report's recommendations on the Group and its operations.

Australian Prudential Regulation Authority Level 3 Framework

APRA released further clarification to the proposed framework for the supervision of Level 3 conglomerate groups (the **Level 3 framework**) in March 2016. The Level 3 framework will apply to the Group and imposes group-wide requirements in relation to governance, exposure management, risk management and capital adequacy. The new draft prudential standards for the Level 3 framework commence on 1 July 2017; however, in respect of the timetable for implementation of the Level 3 framework it is not expected the requirements will come into force until 2019.

The Group remains well placed to implement the proposed requirements.

Financial advice reforms

The Federal Government has finalised the future of financial advice (**FOFA**) reforms. It is anticipated that some of the FOFA reforms will lessen the impact of some of the regulatory requirements imposed on the Group.

There have also been numerous inquiries (both completed and ongoing) into, and reports on, the financial adviser industries including those by the Inquiry, various Federal Parliamentary Committees, and ASIC. The Federal Government has commenced consultation on its proposal to lift the professional, ethical and education standards in the financial services industry. It is likely that there will be changes to the distribution requirements and models for financial advisers as a result of the proposed changes.

Basel III Capital and Liquidity Reforms

APRA has continued to implement the prudential framework applicable to Australian banks under the Basel III capital and liquidity reforms established by the Basel Committee on Banking Supervision. Commencing from 1 January 2015, Suncorp Bank has been required to meet the liquidity coverage ratio (**LCR**) imposed under APS 210. The LCR is intended to ensure that banks hold sufficient liquid assets to meet a defined acute stress scenario. In October 2014, the BCBS released its final standard on the net stable funding ratio (**NSFR**) which is intended to encourage longer term funding resilience. APRA is currently consulting on the NSFR requirements in Australia and it is expected that APRA will require Suncorp Bank and some other Australian authorised deposit-taking institutions to meet the NSFR by 1 January 2018. Based on our understanding of the NSFR requirements we are well placed to comply by 1 January 2018.

The Basel III reforms impose higher regulatory capital requirements for Suncorp Bank than existed under previous regulatory regimes.

Over-the-counter Derivatives Reform

APRA is presently consulting on the establishment of margins for over-the-counter (**OTC**) derivatives that are not cleared by a central counterparty.

14. ENVIRONMENTAL REGULATION

The *National Greenhouse and Energy Reporting Act 2007* (**NGER**) provides a national framework for corporations to report greenhouse gas emissions and energy consumption and production. The Group has reported annual reductions in emissions under the NGER scheme since 2010/11.

The Group's operations are not currently subject to any other particular and significant environmental regulation under any law of the Commonwealth of Australia or any of its states or territories. The Group may however become subject to state environmental regulation when enforcing securities over land for the recovery of loans. The Group has not incurred any liability (including for rectification costs) under any environmental legislation.

15. INDEMNIFICATION AND INSURANCE OF OFFICERS

Under the Constitution of the ultimate parent entity, SGL, each person who is or has been a director or officer of the Company is indemnified. The indemnity relates to all liabilities 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 Company and its subsidiaries, 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 successfully 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.

SGL has also executed deeds of access, indemnity and insurance with directors and secretaries of the Company and its subsidiaries, and deeds of indemnity and insurance with directors of related bodies corporate and joint venture companies. Those deeds, which are subject to certain conditions and limitations, provide an indemnity to the full extent permitted by law for liabilities incurred by that person as an officer, including reasonable legal costs incurred in respect of certain legal proceedings and an entitlement to directors' and officers' liability insurance. The deeds containing access rights provide access to company books following the cessation of the officer's position with the relevant company.

During the financial year ended 30 June 2016, 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 and its subsidiaries. The directors have not included details of the nature of the liabilities covered or the amount of the total premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

16. CORPORATE GOVERNANCE STATEMENT IS ONLINE

During the 2015/16 financial year, the Suncorp Group complied with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd edition). The 2015/16 Corporate Governance Statement (and Appendix 4G) lodged with the ASX, and a range of documents referred to in it, are available on the Suncorp Group website at suncorpgroup.com.au/about-us/governance.

17. NON-AUDIT SERVICES

During the year, KPMG, the Company's auditor, performed certain services in addition to the audit and review of the financial statements.

The Board has considered the non-audit services provided during the financial year by the auditor and, having received the appropriate confirmations from the Audit Committee, is satisfied that the auditor's provision of those non-audit services is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor, and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid or due and payable to the auditor of the Company, KPMG, and its related practices for non-audit services provided during the financial year are set out below:

SERVICES OTHER THAN STATUTORY AUDIT

	2016 $000	2015 $000
Audit and review services		
APRA reporting	339	343
Australian financial services licences	21	11
Other regulatory compliance services	8	8
	368	362
Audit-related fees (non-regulatory)		
Other assurance services	1,435	2,097
Other services		
Tax compliance	12	12
	1,447	2,109
	1,815	2,471

18. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 41 and forms part of the Directors' Report for the financial year ended 30 June 2016.

19. ROUNDING OF AMOUNTS

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* dated 24 March 2016 and in accordance with that Class Order, amounts in the Directors' Report and the consolidated financial report have been rounded to the nearest one million dollars unless otherwise stated.

REMUNERATION REPORT

Dear Shareholder

The Board is pleased to present the Suncorp-Metway Limited Remuneration Report for the financial year ended 30 June 2016.

The Group is subject to the remuneration framework determined by the Suncorp Group, being Suncorp Group Limited (SGL) and its subsidiaries. The composition of the Board of the Company is consistent with that of SGL. Throughout this Report, for consistency, references are made to the Suncorp Group's remuneration arrangements rather than the Group's remuneration arrangements. References in this Report to CEO & Managing Director and Senior Executives are to the Suncorp Group CEO & Managing Director and Suncorp Group Senior Executives. References in this Report to the Board are references to the SGL Board.

The Remuneration Policy and practices foster a 'pay for performance' culture, linking executive remuneration to the achievement of the Group's strategic objectives. A significant portion of executives' remuneration is 'at-risk', with outcomes linked to the financial and non-financial performance achievements aimed at generating superior and sustainable returns for shareholders.

During 2016, we have introduced appropriate changes in the Senior Executive remuneration structure to enhance the alignment with our shareholders and ensure an appropriate competitive pay position. This will be continued into the 2017 financial year, where the Group will introduce an equity based deferral vehicle (restricted shares) for short-term incentives to enhance the strategic value of the program whilst facilitating retention and shareholder value alignment. The equity based deferral will apply to the short-term incentive award relating to the 2017 year for the CEO & Managing Director and Senior Executives. As we continue to evaluate the effectiveness of our reward structures, we are considering the merits of introducing an appropriate strategically aligned second performance hurdle in the long term incentive plan.

The Board is committed to a fair and responsible executive remuneration framework in this increasingly dynamic and competitive environment. Feedback from regulators, shareholders and our stakeholders is actively encouraged and used in the development of our remuneration practices to ensure we continue to provide the appropriate balance between performance and executive reward. The Board and the Remuneration Committee hope you find the information provided in the report informative.

DR ZIGGY SWITKOWSKI AO

Chairman of the Board

CHRISTINE MCLOUGHLIN

Chairman of the Remuneration Committee

4 August 2016

INTRODUCTION

This Remuneration Report explains how the Group's performance for the financial year ended 30 June 2016 (**2016**) has driven remuneration outcomes for the executives who are the Group's key management personnel (**KMP**). KMP are the people who have authority and responsibility for planning, directing and controlling the activities of the Group, as listed in the following table.

Name	Position	Changes during 2016
Non-executive directors		
Dr Zygmunt Switkowski AO	Chairman	
Mr William Bartlett	Director	
Ms Audette Exel AO	Director	
Ms Sally Herman	Director	Appointed 22 October 2015
Mr Ewoud Kulk	Director	
Ms Christine McLoughlin	Director	
Dr Douglas McTaggart	Director	
Mr Geoffrey Ricketts CNZM	Director	
Former non-executive director		
Mr Michael Cameron	Director	Retired 30 September 2015
Executive director		
Mr Michael Cameron	CEO and Managing Director	Appointed 1 October 2015
Former executive director		
Mr Patrick Snowball	Group CEO and Managing Director	Retired 30 September 2015
Senior Executives		
Mr Anthony Day	Chief Executive Officer Insurance	
Mr Gary Dransfield	Chief Executive Officer Customer Platforms	
Mr Clayton Herbert	Chief Transformation Officer	
Mr Steve Johnston	Chief Financial Officer	
Ms Anna Lenahan	Chief Risk and Legal Officer	
Mr John Nesbitt	Chief Executive Officer Banking & Wealth	
Mr Mark Reinke	Chief Customer Experience Officer	
Ms Amanda Revis	Chief People Experience Officer	
Mr Paul Smeaton	Chief Executive Officer New Zealand	Appointed 14 September 2015
Former Senior Executives		
Mr Mark Milliner	Chief Executive Officer Personal Insurance	Employment ceased 27 January 2016
Mr Matt Pancino	Chief Information Officer	Employment ceased 29 April 2016
Mr Geoff Summerhayes	Chief Executive Officer Suncorp Life	Employment ceased 2 January 2016

This Remuneration Report – which forms part of the Directors' Report – has four sections:

1. an overview of the Group's performance in 2016
2. the remuneration for the CEO and Managing Director (**CEO & Managing Director**) and Senior Executives (defined as the executives reporting to the CEO & Managing Director who are KMP)
3. the remuneration for the non-executive directors
4. information regarding loans and equity instrument movements in relation to KMP, their close family members, or entities they control or over which they have significant influence.

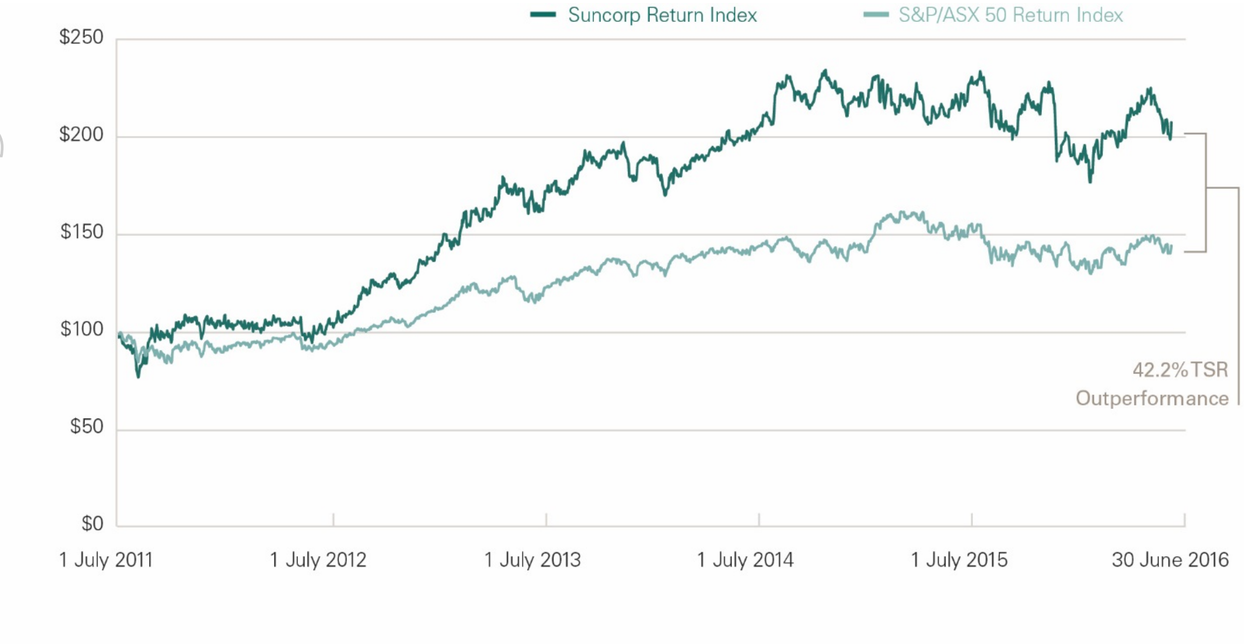
In accordance with Section 308(3C) of the *Corporations Act 2001*, the external auditors, KPMG, have audited sections 2, 3 and 4. For the purposes of this report, 'executive' means any of the CEO & Managing Director and the Senior Executives.

1. SUMMARY OF 2016 PERFORMANCE AND REMUNERATION

1.1 2016 PERFORMANCE SUMMARY

Focus	Description	Further information
Key financial outcomes	• SGL delivered Total Shareholder Returns (**TSR**) of negative 0.9% for the year ended 30 June 2016. Whilst this is short of our aspirations, and what we have delivered in recent periods, it compares to our peer group who delivered a total return of negative 6.5% for the year. • The SGL TSR for the five year period ending 30 June 2016 is 104%, more than double the ASX 200 Accumulation Index return of 43% for the comparable period. • Profit after tax from SGL's core businesses of General Insurance, Bank and Life is $1,159 million. SGL's reported net profit after tax, before non-controlling interests is $1,038 million. • Total declared dividends for 2016 will be 68 cents per share, consisting of a 30 cent per share interim dividend, and a 38 cent per share final dividend. • SGL Return on Equity for the year ended 30 June 2016 is 7.8%.	Section 2.5 and the Financial Statements
Appropriate risk management	An effective risk culture is vital in the determination of performance and remuneration outcomes. Suncorp ensures the alignment between remuneration and risk is managed through: • deferral of a significant portion of executives' short-term incentives (**STI**) • potential clawback of executives' deferred STI and unvested long-term incentives (**LTI**) • separate performance and remuneration review processes for risk and financial control personnel; and • a hedging prohibition on Suncorp securities (including any unvested performance rights).	Section 2.7
Safety and Wellbeing	The Group's Safety and Wellbeing plan continues to deliver benefits with lost time injuries down to 40 incidents, compared to an average of 56 for the prior five financial years.	Section 2.5
Customer satisfaction	Customer performance, as assessed through customer Net Promoter scores, has remained strong.	Section 2.5
Strengthening the alignment of executives' and directors' interests with those of shareholders	A minimum shareholding requirement for the CEO & Managing Director, Senior Executives and non-executive directors was introduced in 2014. All executives and directors who were in office when this requirement was introduced are on track to hold sufficient shares to meet the minimum holding requirement by October 2017.	Sections 2.7 and 3.1
Appropriate fixed remuneration for executives and fees for non-executive directors	To ensure continued market competitiveness the remuneration mix for Senior Executives was realigned in 2016. Non-executive directors' fees were also reviewed and realigned to the market.	Sections 2.3, 2.4 and 3.1

The graph below shows the value over time of a $100 investment made on 1 July 2011, with the SGL ordinary shares return index outperforming the S&P/ASX 50 total return (accumulation) index by 42.2% over the five years to 30 June 2016.



1.2 REMUNERATION SUMMARY

Remuneration component	Description	Changes in 2016	Further information
Fixed remuneration	Comprised of base salary and superannuation.	Fixed remuneration increased for all Senior Executives to balance the reduction in at-risk remuneration and better alignment to the market.	Section 2.4
Short-term incentives (**STI**)	Determined by a scorecard of financial and non-financial measures. A portion is deferred as cash for two years.	Target STI reduced from 125% of fixed remuneration to 100%.	Section 2.5
Long-term incentives (**LTI**)	Performance rights with a Total Shareholder Return (**TSR**) hurdle measured relative to a peer comparator group.	Target LTI remains at 100% of fixed remuneration.	Section 2.6

2. EXECUTIVE REMUNERATION

2.1 REMUNERATION GOVERNANCE FRAMEWORK

Remuneration Committee

The Remuneration Committee facilitates remuneration matters at Suncorp on behalf of the Board. The Committee, which operates under its own charter and reports to the Board, is chaired by Ms Christine McLoughlin who has extensive experience in both business and governance. The other members of the Remuneration Committee are all accomplished and experienced independent non-executive directors of Suncorp Group with backgrounds in business and accounting, their full biographies are set out in the Directors' Report.

REMUNERATION COMMITTEE MEMBERSHIP AS AT 30 JUNE 2016[1]

Chairman	Ms Christine McLoughlin
Members	Mr William Bartlett
	Mr Ewoud Kulk
	Dr Douglas McTaggart
Ex officio member	Dr Zygmunt Switkowski AO

While the Board has overall responsibility for the executive remuneration structure and outcomes, the Remuneration Committee:

- supports the Board to fulfil its responsibility to shareholders with regard to prudent remuneration management and compliance with the requirements of APRA's Prudential Standards
- considers strong remuneration governance as an ongoing, continual improvement activity
- closely monitors the remuneration framework to ensure it meets the key goal that sustainable, risk-adjusted, long-term performance forms the basis of reward outcomes, and employees' and shareholders' interests are aligned
- takes account of advice from the CEO & Managing Director, other members of management and, where relevant, independent external advisers; and
- oversees the preparation of this Remuneration Report.

The Remuneration Committee met six times during 2016 and fully discharged its responsibilities in accordance with the Remuneration Committee Charter.

The Charter, which the Board reviews regularly for appropriateness, was confirmed in June 2015 and is available at suncorpgroup.com.au/about-us/governance.

While the Remuneration Committee believes Suncorp Group's Remuneration Policy and strategy serves the Group's needs, it will proactively continue to ensure these evolve in response to emerging regulatory developments and capital requirements.

More information on the responsibilities of the Remuneration Committee can be found in the Suncorp Group's Corporate Governance Statement at suncorpgroup.com.au/about-us/governance.

Suncorp Group's remuneration governance framework, which meets the standards expected by the ASX *Corporate Governance Principles and Recommendations* (3rd edition), is summarised below.

1 Ms Christine McLoughlin was appointed Chairman of the Remuneration Committee effective 1 January 2016. Mr William Bartlett ceased to be Chairman of the Remuneration Committee effective 31 December 2015. Dr Douglas McTaggart was appointed as a member of the Remuneration Committee effective 1 January 2016.

Approve

THE BOARD

Reviews, applies judgment and as appropriate, approves the Committee's recommendations

Endorse

AUDIT & RISK COMMITTEES

Endorse recommendations to the Remuneration Committee on clawback of deferred remuneration for the CEO & Managing Director and Senior Executive level employees

THE REMUNERATION COMMITTEE

Reviews, applies judgment and, as appropriate, endorses the recommendations made by the CEO & Managing Director and submits for Board approval. In addition, the Committee makes recommendations to the Board on:

- Individual remuneration arrangements, scorecard measures and assessment for the CEO & Managing Director
- Non-executive director remuneration arrangements
- Senior Executive remuneration arrangements for appointments, terminations and clawback of remuneration
- Remuneration Policy and frameworks for all employees

Recommend

CEO & MANAGING DIRECTOR

Makes recommendations to the Remuneration Committee on:

- The Group's annual funding for STI and fixed remuneration increases
- Scorecard measures and assessment for direct reports
- Remuneration Policy and frameworks for all employees
- Clawback of deferred remuneration for all employees
- Individual remuneration arrangements for:
  - Senior Executives
  - Persons whose activities, in the Board's opinion, affect the financial soundness of the Group
  - Any other person specified by APRA; and
  - Any other person that the Board determines

EXTERNAL ADVISERS

Make recommendations to the Remuneration Committee on:

- Proposed changes to Remuneration Policy, structures and practices
- Legal and regulatory issues that impact on remuneration arrangements
- Benchmarking data and market practice
- Alternatives for STI and LTI plans

Contribute

REMUNERATION OVERSIGHT COMMITTEE

Makes recommendations to the CEO & Managing Director on clawback of deferred remuneration for employees below Senior Executive level

External remuneration advisers' services

Where appropriate, the Board and the Remuneration Committee consult external remuneration advisers. When such external advisers are selected, the Board considers potential conflicts of interest. Advisers' terms of engagement regulate their access to, and (where required) set out their independence from, members of Suncorp Group management.

The requirement for external advisers' services is assessed annually in the context of matters the Remuneration Committee needs to address. External advisers' advice and recommendations are used as a guide, but do not serve as a substitute for directors' thorough consideration of the relevant matters.

The following external advisers provided information and assistance to management and the Remuneration Committee on a range of matters, to inform the Remuneration Committee's recommendations and decision-making during 2016.

Services relating to remuneration matters	External advisers providing this service to Suncorp Group in 2016
TSR performance analysis for LTI awards	Mercer Consulting (Australia)
TSR validation for LTI awards	Ernst & Young

These advisers did not provide any remuneration recommendations and they were not 'remuneration consultants' to Suncorp Group as defined in the *Corporations Act 2001*.

2.2 EXECUTIVE REMUNERATION STRATEGY AND FRAMEWORK

The Suncorp Group Remuneration Policy provides a governance framework for the structure and operation of remuneration systems within the context of the Group's long-term financial soundness and risk management framework. The Board is committed to remunerating fairly and responsibly.

Remuneration strategy

The remuneration strategy, which is derived from linking the reward philosophy with business strategy and risk tolerance, ensures that the principles that determine remuneration are focused on driving the performance and behaviours consistent with achieving this objective. The following table demonstrates the link between the reward principles and the remuneration framework.

Objective

Offer rewards that are sufficiently competitive to motivate directors and executives to deliver superior and sustainable returns to shareholders and support alignment with Suncorp Group's strategic priorities

Reward principles

Align reward with sustainable performance

Deliver a competitive advantage

Align effective risk management with reward

Ensure gender pay equality

Balance stakeholder interests

Support Suncorp Group's culture and values (honesty, courage, fairness, respect, caring and trust)

Components of reward

FIXED REMUNERATION

Reflects individual's skills and experience, role scope and regulatory requirements

AT-RISK REMUNERATION

Enables the Board to recognise performance while flexibly maintaining cost base and responding effectively to market and regulatory circumstances. The awards are at risk subject to the achievement of robust performance requirements that also provide an incentive for the delivery of higher levels of performance within our risk appetite

Performance and risk alignment

- Reviewed annually as part of performance assessment
- Increases reflect change in role, individual performance and contribution to Suncorp Group taking into consideration market competitiveness

STI

- Incentivise the achievement of Suncorp Group, business unit and individual outcomes
- Deferral and clawback encourage a longer term focus
- The Board's determination of Suncorp Group's STI pool includes consideration of risk management through a variety of financial and non-financial measures

LTI

- Executives are rewarded for their contribution to the creation of long-term shareholder value by way of equity in the Group
- Outcome determined by achievement of Relative TSR which is an external, objective and relative performance measure
- Clawback enables the Board to exercise its judgment to reduce LTI if, in the Board's judgment, such an adjustment should occur
- Executives are prohibited from hedging equity instruments that are unvested or subject to restrictions

Remuneration positioning

The total remuneration opportunity for the CEO & Managing Director and Senior Executives is evaluated on an annual basis against relevant peer comparator groups including the S&P/ASX 100 Index, the S&P/ASX 50 Index, and bespoke comparator groups. The primary market is defined as the financial services companies in the ASX 100, excluding Real Estate Investment Trusts.

2.3 2016 EXECUTIVE REMUNERATION OUTCOMES

The following table is a voluntary disclosure summarising the actual remuneration the CEO & Managing Director and Senior Executives received or earned during 2016 and represents:

- fixed remuneration earned
- the value of incentives earned as a result of 2016 performance
- the value of any deferred STI that vested during the year; and
- the value of any LTI that vested during the year.

This information differs to the statutory remuneration disclosures presented in section 2.8.

	Remuneration earned in respect of 2016[1]			Past 'at-risk' remuneration paid in 2016[2]				Actual remuneration received or earned in 2016	Future 'at-risk' remuneration awarded in 2016[3]	
	Fixed	Other	2016 incentives	Deferred incentives (cash) vested in 2016	% Vesting	LTI (equity) vested in 2016[4]	% Vesting LTI		2016 Incentives (deferred as cash)	LTI (equity) granted in 2016
	$000	$000	$000	$000		$000		$000	$000	$000
Executive director										
M Cameron[5]	1,553	-	630	-	-	975	100	3,158	630	4,987
Former executive director										
P Snowball	667	1,476[6]	-	1,895	100	3,921	72	7,959	-	-
Senior Executives										
A Day	949	-	481	405	100	356	72	2,191	259	950
G Dransfield	883	-	437	326	100	261	72	1,907	235	942
C Herbert	774	-	383	309	100	284	72	1,750	206	775
S Johnston	949	-	469	118	100	204	72	1,740	253	950
A Lenahan[7]	689	-	-	167	100	128	72	984	-	650
J Nesbitt	1,024	-	507	473	100	427	72	2,431	273	1,025
M Reinke	699	-	346	162	100	128	72	1,335	186	700
A Revis	698	-	379	314	100	284	72	1,675	205	725
P Smeaton	589	-	288	-	-	71	72	948	154	700
Former Senior Executives										
M Milliner	561	-	-	424	100	383	72	1,368	-	-
M Pancino	679	-	-	147	100	94	72	920	-	-
G Summerhayes	471	773	91	360	100	341	72	2,036	49	-

1 'Remuneration earned in respect of 2016' comprises:
- fixed remuneration (actual fixed remuneration received, including salary sacrificed benefits and employer superannuation) but excludes accommodation allowances
- other one-off or transitory elements in relation to termination
- incentives which relate to 2016 that are not deferred. This represents 50% of the total 2016 STI for the CEO & Managing Director and 65% of the total 2016 STI for all Senior Executives.

2 'Past 'at-risk' remuneration paid in 2016' comprises LTI and deferred STI awarded in previous years that vested during 2016. 'Past 'at-risk' remuneration paid in 2016' for Mr Steve Johnston, Ms Anna Lenahan, Mr Mark Reinke, Mr Paul Smeaton and Mr Matt Pancino relates to the vesting of deferred STI and LTI which were awarded prior to their appointment as a Senior Executive.

3 'Future 'at-risk' remuneration awarded in 2016' is not guaranteed and comprises:
- the deferred portion of 2016 STI (excluding the value of any future interest payable on vesting), which is subject to potential clawback during the deferral period
- the face value of LTI performance rights granted during 2016 that may conditionally vest in future years.

4 'LTI (equity) vested in 2016' represents the total number of performance rights vested during 2016 multiplied by the closing share price at 30 September 2015.

5 For Mr Michael Cameron, 'LTI (equity) vested in 2016' and '% vesting LTI' represents Tranche 1 of the 2016 restricted share grant.

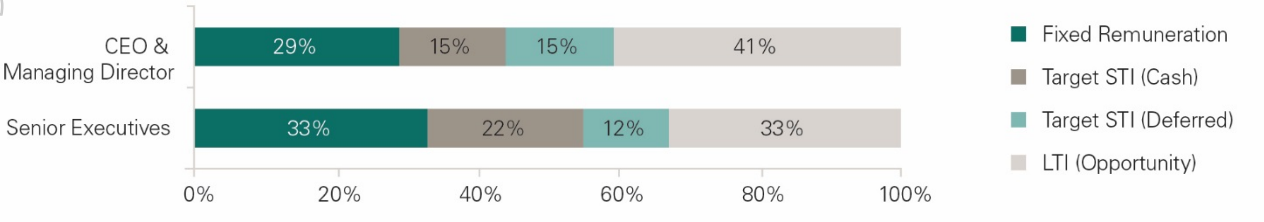
6 'Other' for Mr Patrick Snowball includes cessation and contractual repatriation elements for his contribution to the Group to 30 September 2015.

7 Ms Anna Lenahan is ineligible to receive an STI award in 2016 due to notice of resignation being provided.

Remuneration mix

The mix of fixed and 'at-risk' remuneration components for the executives disclosed in the Remuneration Report, as a percentage of total target annual remuneration for the 2016 financial year, is shown below. The CEO & Managing Director's remuneration mix is heavily focused on longer term performance and two thirds of total remuneration for Senior Executives is at risk.

CEO & MANAGING DIRECTOR AND SENIOR EXECUTIVES' 2016 REMUNERATION MIX



2.4 FIXED REMUNERATION

Management reviews fixed remuneration each year in line with the Remuneration Policy, the external market and other business and role-critical factors to ensure it remains competitive. The Remuneration Committee considers management's recommendations and endorses any increases to the Board for approval.

Changes to the remuneration mix effective 1 July 2015 resulted in an increase in fixed remuneration for Senior Executives which was balanced by a reduction in at-risk remuneration. Certain Senior Executives received additional fixed remuneration increases during 2016. The CEO & Managing Director's fixed remuneration is unchanged since his commencement in October 2015.

2.5 SHORT-TERM INCENTIVES (STI)

The annual STI program rewards executives for achieving Suncorp Group, specific business function and individual performance relative to stretch performance targets. The program has been designed to ensure executives create sustainable value for all stakeholders. The following table summarises the key features of the STI program:

Scorecard	A scorecard of financial and non-financial performance objectives forms the measure for STI awards.
Funding determination	When recommending the size of the STI pool to the Board, the Remuneration Committee considers Suncorp Group performance against key scorecard measures. Based on this recommendation, the Board determines the annual STI pool available for distribution to eligible employees by taking into account the quality of the Group outcome. Consideration is placed on factors such as long-term financial soundness, the current economic environment and compliance with the Suncorp Group Risk Appetite Statement.
Deferral	A material portion of executives' STI is deferred for two years and is subject to clawback; 50% for the CEO & Managing Director and 35% for Senior Executives. During the deferral period, the Board considers the long-term impacts of decisions made and actions taken during the performance year to which the deferred STI applies. In accordance with the risk governance framework, significant adverse outcomes may give grounds for the Board to apply its discretion to adjust the original deferred incentive allocation downwards, including to zero if necessary (a process referred to as 'clawback'). Interest accrues during the deferral period and is payable upon vesting. In the event of resignation, redundancy or retirement, the deferred incentive portion is retained and vests at the end of the original deferral period, subject to Board approval.

Underlying profit after tax	The Board considers underlying profit after tax to be an appropriate reflection of SGL's performance relative to its targets and an effective measure for STI as it is considered that individual executive performance is a key driver of underlying profit outcomes. In determining underlying profit after tax, a number of adjustments to net profit after tax are made because these are deemed to be outside normal operating activities and beyond executives' control, including but not limited to: • volatility within investment markets above or below expectations • prior year reserve strengthening or releases that are above or below expectations • natural hazards claims above or below expected allowances • profits or losses on material divestments; and • material non-cash transactions. Underlying profit after tax is not audited by the external auditors, KPMG. Underlying profit after tax has been determined on a consistent basis since the year ended 30 June 2012.

Performance assessment

The following table sets out the structure of the 2016 Group scorecard measures, their link to strategy and the 2016 Group Scorecard outcome used to determine the STI outcome for the CEO & Managing Director:

STRATEGIC DRIVER	MEASURES	2016 ACHIEVEMENTS
Group profit and financials 65% Disciplined financial choices Improve shareholder returns	Group NPAT (underlying) Return on Equity (headline)	The Group delivered an underlying profit after tax result of $1,256 million. The Board determined the result met expectations and was in line with the 2016 target. Headline Return on Equity for 2016 was 7.8%. The result was below the threshold level of performance and did not meet the performance expectations.
	The Board considers other factors including operational efficiency, alignment to strategic plans approved by the Board, and operation within the Board's expressed risk appetite.	
Risk 10% Sustained performance requires prudent risk taking and effective risk management	Manage risk within agreed parameters	The Board determined that the Group operated within the parameters of the Group Risk Appetite Statement and had advanced its level of 'Risk Maturity' assessed against the targets established under the Risk Maturity Model. In assessing the performance outcome, appropriate consideration was placed on the working claims issues identified in the year resulting in a reduced performance outcome.
People 5% Integrate safety and wellbeing into all that we do	Workplace health and safety performance	The Group's Safety and Wellbeing plan continues to deliver benefits with lost time injuries reduced to 40 incidents compared to 45 incidents in 2015 and an average of 56 for the prior five financial years. The resultant Lost Time Injury Frequency Rate was 1.8.
Customer/Stakeholders 10% Enhancing the value of 9 million customer connections and 13 valuable brands	Customer advocacy	The Board established robust targets for customer and partner satisfaction by measuring Net Promoter Scores (NPS) together with ambitious Customer priorities designed to deliver great customer experiences and incremental value. The Board determined that the results demonstrated strong customer loyalty to the Group's brands and ongoing satisfaction with the products and services provided together with clear delivery of the Customer priorities. In determining the outcome, performance was moderated by reference to mixed performance of NPS relative to prior years.
Strategic initiatives 10% Value creation through the implementation of strategic initiatives	Delivery of Key Strategic Initiatives	A number of key, transformational initiatives have been successfully delivered across the Group in support of 'Simplification' and 'Optimisation' objectives. Performance was predominantly in line with expectations and considered to position the Group well for future growth and the delivery of value to our Customers and stakeholders.

The Board and management:

- focus on high performance, carrying out business legally, ethically, and with integrity and respect
- promote the Suncorp Group values that set out the primary behavioural expectations that the Board believes form a foundation for successful performance. Adherence to these behavioural expectations can influence overall individual performance outcomes.

STI performance outcomes for the CEO & Managing Director and Senior Executives in 2016

The CEO & Managing Director assesses each Senior Executive's performance at the end of the financial year against business function scorecards, considering actual outcomes relative to the agreed targets. Based on this assessment, the CEO & Managing Director makes a recommendation to the Remuneration Committee on the amount of STI to award to each Senior Executive, for Board approval.

The Group outcome was applied to Senior Executives for 60% of STI, combined with the results for their prior individual business function and achievement of transformational objectives as part of the implementation of the new operating model (accounting for 40% of STI). The similarity in STI outcomes versus target between the Senior Executives reflects the significant weighting of the Group performance in scorecards. This is purposeful, as it is aligned to Suncorp Group's strategy and business model of *Create a better today*.

Actual STI outcomes for 2016 for the CEO & Managing Director and Senior Executives are represented in the table below.

	Actual STI Awarded[1]	Target STI[2]	STI award as % of target STI	Max STI[3]	STI award as % of maximum STI	% of maximum STI award forfeited	Amount deferred
	$000	$000		$000			$000
Executive director							
M Cameron	1,260	1,575	80%	2,363	53%	47%	630
Former executive director							
P Snowball	-	-	-	-	-	-	-
Senior Executives							
A Day	740	950	78%	1,425	52%	48%	259
G Dransfield	672	885	76%	1,327	51%	49%	235
C Herbert	589	775	76%	1,163	51%	49%	206
S Johnston	722	950	76%	1,425	51%	49%	253
A Lenahan[4]	-	-	-	-	-	-	-
J Nesbitt	780	1,025	76%	1,538	51%	49%	273
M Reinke	532	700	76%	1,050	51%	49%	186
A Revis	584	742	79%	1,113	53%	47%	205
P Smeaton	441	571	77%	857	51%	49%	154
Former Senior Executives							
M Milliner	-	-	-	-	-	-	-
M Pancino	-	-	-	-	-	-	-
G Summerhayes	140	226	62%	339	41%	59%	49

1 The value of STI awarded for 2016 represented is before any deferral.
2 Target STI is 100% of fixed remuneration for the CEO & Managing Director and all Senior Executives.
3 Maximum STI for the CEO & Managing Director and Senior Executives is 150% of fixed remuneration.
4 Ms Anna Lenahan is ineligible to receive an STI award in 2016 due to notice of resignation being provided.

2.6 LONG-TERM INCENTIVES (LTI)

SGL performance links to LTI

The table below provides an overall view of SGL's performance over the five financial years to 30 June 2016.

Year ended 30 June	Profit for the year[1] $m	Closing share price[2] $	Dividend per share cents
2016	1,045	12.18	68
2015	1,140	13.43	88
2014	737	13.54	105
2013	496	11.92	75
2012	728	8.09	55

LTI is offered to executives, as the behaviour and performance of these individuals have a direct impact on the Group's long-term performance. Its purpose is to focus executives on the Group's long-term business strategy to create and protect shareholder value over the longer term, thus aligning executives' interests more closely with the interests of shareholders.

LTI grants are awarded in the form of performance rights through:

- the Executive Performance Share Plan (**EPSP**) prior to October 2013
- the Suncorp Group Equity Incentive Plan (**EIP**) from October 2013.

LTI grants will only vest when certain TSR performance hurdles relative to a pre-determined group of peer companies (the **Peer Comparator Group**) are met.

The following table summarises the features of the Suncorp Group Equity Incentive Plan:

Performance rights	A performance right entitles a participant to one fully paid ordinary share in SGL (or under limited circumstances at the Board's discretion, a cash payment in lieu of an allocation of ordinary shares in SGL) at no cost. Performance rights vest at a set future point in time, provided specific performance hurdles are met.
Dividends	If performance rights vest and shares are allocated, a payment equal to the dividends earned on those shares during the performance period is paid (less applicable taxes paid or due to be paid by the trustee with respect to the dividends).
Allocation	The face value of LTI to be granted to participants is determined by the Board. The number of performance rights is equivalent to the value of the LTI divided by the five-day Volume Weighted Average Price of one ordinary share over the five days preceding the date of grant. When offers are made, the shares are bought on market to avoid any dilutionary impact on the share price that the issue of new ordinary shares might create. The shares are acquired by the Plan trustee and held in trust (along with associated dividends received) during the vesting period.

1 Note that the profit figure in the table is not the same as the underlying profit calculation used for STI purposes. Refer to section 2.5 for more information on underlying profit after tax used for STI purposes.
2 Closing share price at 30 June.

Performance hurdle

The performance of SGL's share price over the long term determines the extent to which LTI performance rights vest. This is measured by ranking SGL's TSR against the returns of the Peer Comparator Group. TSR (expressed as a percentage):

- is a method of calculating the return shareholders would earn if they held a notional number of shares over a defined period of time
- measures the change in SGL's share price, together with the value of dividends received during the period (assuming all dividends are re-invested into new shares) and capital returns
- will vary over time but the relative position reflects the overall performance relative to the Peer Comparator Group.

TSR performance is monitored by an independent external party on a quarterly basis, for all unvested grants. At final vesting, two independent external parties validate TSR performance.

The relative TSR performance measure is chosen because it:

- offers a relevant indicator of measuring changes in shareholder value by comparing SGL's return to shareholders against the returns of companies of a similar size and investment profile
- aligns shareholder returns with reward outcomes for executives over the long term
- minimises the impact of market cycles.

The Board has considered other measures to determine the performance of LTI and has concluded relative TSR is the most appropriate at this time. Measures for LTI are reviewed on a regular basis to ensure they remain appropriate. A second bespoke measure is under active consideration by both management and the Board. Further action will be taken once the new operating model has been embedded and subject to appropriate consultation with the CEO & Managing Director and relevant stakeholders.

Comparator group

The Peer Comparator Group for relative TSR performance assessment is the top 50 listed companies by market capitalisation in the S&P/ASX 100 (excluding Real Estate Investment Trusts and mining companies[1]), as determined at the commencement of each grant. If SGL in the Peer Comparator Group is acquired or delisted during the performance period, it is removed from the ASX list. There may, therefore, be fewer than 50 companies in the Peer Comparator Group for that period.

Vesting schedule

Executives will only derive value from the LTI if SGL's TSR performance is at, or greater than the median of the Peer Comparator Group.
Performance rights vest in accordance with the LTI vesting schedule represented in the table below, subject to clawback (see Section 2.7):

Relative TSR performance outcomes	Percentage of LTI award that will vest
Below the 50th percentile (below median performance)	0%
At the 50th percentile (median performance)	50%
Between the 50th and 75th percentiles	50% plus 2% for each full 1% increase in the SGL's ranking against the Peer Comparator Group
At or above the 75th percentile	100%

Performance period

The performance period is three years.

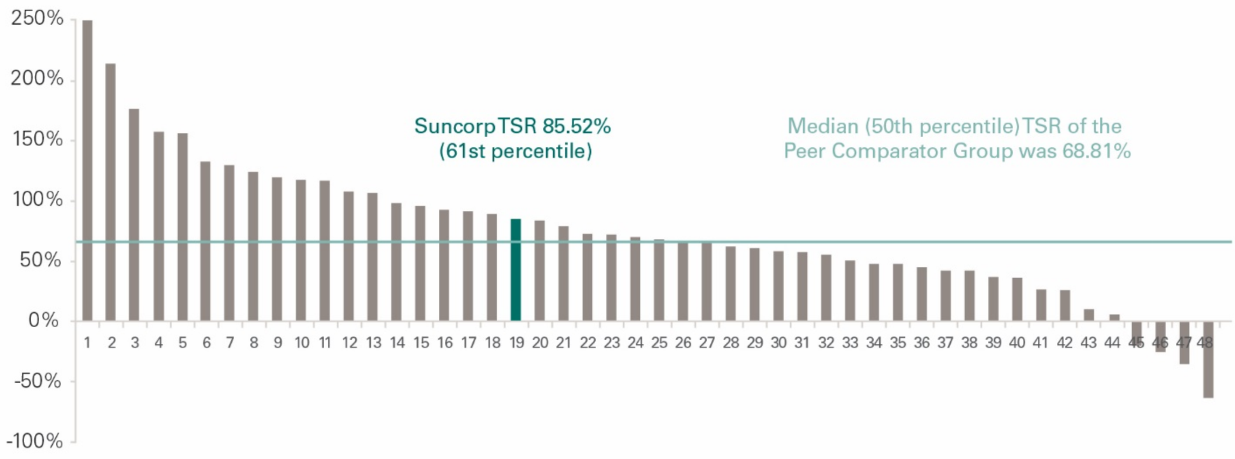
There is no retesting opportunity and any performance rights that do not vest at the end of the three-year performance period will lapse.

1 The Peer Comparator Group for relative TSR performance differs slightly from the comparator group used for remuneration positioning as detailed in section 2.

Senior Executives' 2012 grant

The LTI performance hurdle for the Senior Executives' October 2012 Grant, with a vesting date in 2016, achieved a successful vesting result at 72%.

PEER COMPARATOR GROUP TSR OUTCOMES, RANKED FROM HIGHEST TO LOWEST



Number and value of LTI performance rights granted, vested and forfeited

The movement of performance rights during 2016 and executives' current LTI grants as at 30 June 2016 are outlined in the following table[1,2].

	Performance rights granted			Fair value yet to vest		Market value				
	Number	Grant date	Financial year in which grant may first vest	Min[3] $	Max[4] $	At date of grant[5] $	As at 30 June 2016[6] $	Vested in year %	Forfeited in year %	Vested in year Number
Executive director[7]										
M Cameron	80,000	24 September 2015	30 June 2016	-	-	-	-	100%	-	80,000
	80,000	24 September 2015	30 June 2017	-	989,600	990,400	974,400	-	-	-
	80,000	24 September 2015	30 June 2018	-	988,000	990,400	974,400	-	-	-
	226,639	24 September 2015	30 June 2019	-	1,271,445	2,805,791	2,760,463	-	-	-
Former Executive director[8]										
P Snowball	446,752	25 October 2012	30 June 2016	-	-	-	-	72%	28%	321,661
	324,396	24 October 2013	30 June 2017	-	1,541,962	2,841,709	2,634,096	-	33%	-
	276,839	23 October 2014	30 June 2018	-	759,456	1,313,130	1,123,958	-	67%	-
Senior Executives										
A Day	40,507	1 October 2012	30 June 2016	-	-	-	-	72%	28%	29,165
	57,006	1 October 2013	30 June 2017	-	416,144	737,658	694,333	-	-	-
	56,561	1 October 2014	30 June 2018	-	463,235	800,904	688,913	-	-	-
	73,651	1 September 2015	30 June 2019	-	453,690	922,111	897,069	-	-	-
G Dransfield	29,705	1 October 2012	30 June 2016	-	-	-	-	72%	28%	21,387
	53,206	1 October 2013	30 June 2017	-	388,404	688,486	648,049	-	-	-
	49,604	1 October 2014	30 June 2018	-	406,257	702,393	604,177	-	-	-
	62,022	1 September 2015	30 June 2019	-	382,056	776,515	755,428	-	-	-
	10,976	23 March 2016	30 June 2019	-	67,612	130,285	133,688	-	-	-
C Herbert	32,405	1 October 2012	30 June 2016	-	-	-	-	72%	28%	23,331
	45,605	1 October 2013	30 June 2017	-	332,917	590,129	555,469	-	-	-
	47,723	1 October 2014	30 June 2018	-	390,851	675,758	581,266	-	-	-
	60,084	1 September 2015	30 June 2019	-	370,117	752,252	731,823	-	-	-
S Johnston	23,224	1 October 2012	30 June 2016	-	-	-	-	72%	28%	16,721
	16,341	1 October 2013	30 June 2017	-	119,289	211,453	199,033	-	-	-
	36,284	28 May 2014	30 June 2017	-	245,643	486,206	441,939	-	-	-
	53,026	1 October 2014	30 June 2018	-	434,283	750,848	645,857	-	-	-
	73,651	1 September 2015	30 June 2019	-	453,690	922,111	897,069	-	-	-
A Lenahan	14,582	1 October 2012	30 June 2016	-	-	-	-	72%	28%	10,499
	38,004	1 October 2013	30 June 2017	-	277,429	491,772	462,889	-	-	-
	35,431	1 October 2014	30 June 2018	-	290,180	501,703	431,550	-	-	-
	50,393	1 September 2015	30 June 2019	-	310,421	630,920	613,787	-	-	-
J Nesbitt	48,608	1 October 2012	30 June 2016	-	-	-	-	72%	28%	34,997
	68,407	1 October 2013	30 June 2017	-	499,371	885,187	833,197	-	-	-
	63,777	1 October 2014	30 June 2018	-	522,334	903,082	776,804	-	-	-
	79,466	1 September 2015	30 June 2019	-	489,511	994,914	967,896	-	-	-
M Reinke	14,582	1 October 2012	30 June 2016	-	-	-	-	72%	28%	10,499
	17,101	1 October 2013	30 June 2017	-	124,837	221,287	208,290	-	-	-
	25,635	28 May 2014	30 June 2017	-	173,549	343,509	312,234	-	-	-
	38,885	1 October 2014	30 June 2018	-	318,468	550,612	473,619	-	-	-
	54,269	1 September 2015	30 June 2019	-	334,297	679,448	660,996	-	-	-
A Revis	32,405	1 October 2012	30 June 2016	-	-	-	-	72%	28%	23,331
	45,605	1 October 2013	30 June 2017	-	332,917	590,129	555,469	-	-	-
	44,895	1 October 2014	30 June 2018	-	367,690	635,713	546,821	-	-	-
	56,208	1 September 2015	30 June 2019	-	346,241	703,724	684,613	-	-	-
P Smeaton	8,101	1 October 2012	30 June 2016	-	-	-	-	72%	28%	5,832
	5,700	1 October 2013	30 June 2017	-	41,610	73,758	69,426	-	-	-
	5,656	1 October 2014	30 June 2018	-	46,323	80,089	68,890	-	-	-
	54,269	1 September 2015	30 June 2019	-	334,297	679,448	660,996	-	-	-
Former Senior Executive[9]										
G Summerhayes	38,886	1 October 2012	30 June 2016	-	-	-	-	72%	28%	27,997
	54,726	1 October 2013	30 June 2017	-	300,256	532,235	500,976	-	25%	-
	53,026	1 October 2014	30 June 2018	-	181,638	314,040	270,128	-	58%	-

1 The expiry date for performance rights and the fair value per right can be found in note 10 to the SGL's financial statements.
2 Mr Matt Pancino ceased employment on 29 April 2016. Of the shares and performance rights held on leaving office 119,036 performance rights (100%) were forfeited. 7,698 performance rights (72%) granted in previous periods vested during the current year. Mr Mark Milliner ceased employment on 27 January 2016. Of the shares and performance rights held on leaving office 193,317 performance rights (100%) were forfeited. 31,381 performance rights (72%) granted in previous periods vested during the current year.
3 The minimum value of shares yet to vest is nil since the performance criteria or service condition may not be met and consequently the shares may not vest.
4 For equity-settled performance rights, the maximum value yet to vest is determined as the fair value at grant date, assuming all performance criteria are met.
5 Market value at date of grant is calculated as the number of shares granted multiplied by the closing share price as traded on the Australian Securities Exchange (**ASX**) on the date of grant. Where the date of grant falls on an ASX non-trading day, the closing share price of the preceding trading day is used.
6 Market value as at 30 June 2016 is calculated as the number of shares granted multiplied by the closing share price as traded on ASX on 30 June 2016.
7 Mr Michael Cameron was awarded restricted shares on commencement in recognition of incentives foregone with Mr Cameron's previous employer. 80,000 of which vested on 1 January 2016 and a further 80,000 will vest on 1 January 2017 and 1 January 2018, subject to service criteria being met.
8 Mr Patrick Snowball ceased employment on 30 September 2015. Of the shares and performance rights held on leaving office 292,692 performance rights (49%) were forfeited.
9 Mr Geoff Summerhayes ceased employment on 2 January 2016. Of the shares and performance rights held on leaving office 44,443 (41%) were forfeited.

2.7 REMUNERATION ALIGNS WITH RISK MANAGEMENT

A rigorous approach to effective risk management is embedded throughout the Group.

The Enterprise Risk Management Framework (**ERMF**) lays the foundation for all risk management processes across the Group. The ERMF helps ensure the integration of effective risk management across the organisation and incorporates Suncorp's policies (which include risk management policies and the Remuneration Policy).

The Board sets the Risk Appetite for the Group, and has ultimate responsibility for the effectiveness of the Group's risk management practices.

In addition, the Chairman of the Remuneration Committee is a member of the Risk Committee and similarly the Chairman of the Risk Committee is a member of the Remuneration Committee.

The Group's shared values and leader profiles make it clear to all employees the importance of embedding risk into decision-making processes, and risk management into the Group's operations. Business function leaders develop their business strategy and risk tolerance with an understanding of the Group's risk appetite and also what is happening in the market in which the Group operates. Financial returns delivered to the Group are commensurate with the risks the Group is willing to take in pursuit of the achievement of business objectives. Additionally, risk is embedded in the way performance is measured for all employees across Suncorp.

In determining 'at-risk' remuneration, the Board ensures risk management is considered through:

- a separately weighted risk measure in the Group scorecard where the performance of the Group, business function and individuals are assessed by the Risk Committee and measured with reference to how risk is managed
- individual adherence to risk management policies is assessed to ensure all executives and employees adhere to the ERMF, demonstrating performance that is aligned to expected ethical standards
- an assessment based on behavioural and cultural measures, which considers compliance with the Suncorp Group Risk Appetite Statement. This is a significant consideration of overall performance to deliver an organisation-wide focus on prudent management of the risks the Group faces
- the application of Remuneration Committee discretion to consider additional factors in the determination of performance outcomes.

In determining performance and remuneration outcomes, the Remuneration Committee considers all factors to demonstrate alignment with the Group's Risk Appetite and adherence to effective risk management practices to ensure the long-term financial soundness of outcomes is determined, before the Board makes its final determination of the overall STI pool.

Clawback

Deferred STI and unvested LTI are both subject to potential clawback based on the Board's judgment, as summarised below:

Purpose	Clawback enables the Board to adjust performance based remuneration (including deferred STI and unvested LTI) downwards (including to zero) to protect the Group's financial soundness and ability to respond to unforeseen significant issues.
Criteria[1]	The following criteria are considered when determining if clawback should be applied during the deferral period: Clawback will be applied if prior to the date of payment, it is determined that: • there was, during the performance year in respect of which the incentive was awarded, a failure to comply with Suncorp's risk management policies and practices • the employee was aware of the above mentioned failure, or should reasonably have been aware of that failure, when the incentive was awarded; and • the matters referred to above, if known at the time, would have resulted in materially different assumptions being applied when determining the incentive to be awarded to the employee.
Approval process	The Chief Risk and Legal Officer and Chief Financial Officer (**CFO**) produce a report on relevant matters to be considered for clawback and release of deferred incentives and unvested LTI awards for Senior Executives and the CEO & Managing Director. The Chairmen of the Remuneration, Risk and Audit Committees verify the report information and confirm that all relevant matters have been considered. Based on this report: • the CEO & Managing Director makes a recommendation to the Board via the Remuneration Committee, for approval of the release (and/or clawback where appropriate) of deferred incentives and unvested LTI awards for the Senior Executives; and • the Chairmen of the Remuneration, Risk and Audit Committees make a recommendation to the Board, for approval of the release (and/or clawback where appropriate) of deferred incentives and unvested LTI awards for the CEO & Managing Director.

Minimum shareholding requirement

To further align the CEO & Managing Director and Senior Executives' interests with those of shareholders, in the 2014 financial year the Board introduced a minimum shareholding requirement which requires Senior Executives to have a shareholding in the Company of a value that is equal to at least 100% of one year's pre-tax (gross) fixed remuneration.

Senior Executives who were in office at October 2013 are required to achieve the full amount by October 2017. The CEO & Managing Director or any Senior Executives appointed after October 2013 will have four years from the October following their appointment to achieve the 100% shareholding, with 50% to be achieved after two years.

The value of the shares for the purposes of this requirement is the market value of the underlying shares.

Unvested performance rights within the LTI plan for executives do not qualify toward meeting this requirement.

Based on their shareholding as at 30 June 2016, all Senior Executives are on track to hold sufficient shares to meet the October 2017 requirement. Detailed share ownership information for Senior Executives is shown in section 4.2.

Risk and financial control personnel

Separate performance and remuneration review processes govern remuneration decisions concerning employees working in the areas of risk and financial control.

In these roles, performance measures are set and assessment occurs independently of their business function, the Chief Risk and Legal Officer or CFO oversees the process as appropriate.

1 The criteria were reviewed, updated and approved by the Board in November 2014 (effective January 2015) to ensure consistent and appropriate application of clawback for all executives.

In addition, employees working in risk roles typically have a comparatively higher percentage of risk-based measures in their scorecard.

Hedging prohibition

The Suncorp Group Securities Trading Policy prohibits directors, employees and contractors from dealing in a financial product which operates to limit the economic risk of a holding in SGL's securities (i.e. hedging), including unvested LTI performance rights.

All KMP are reminded of this policy at least twice per year, usually in the month prior to the release of Suncorp Group's annual and half-yearly financial results.

While performance rights remain unvested, executives do not have an entitlement to the underlying shares held in the name of the trustee, nor may they access the underlying shares.

Any subsequent dealing in those shares is subject to the terms of the Securities Trading Policy. More detail can be found in the 2016 Corporate Governance Statement at suncorpgroup.com.au/about-us/governance.

2.8 EXECUTIVE REMUNERATION – STATUTORY DISCLOSURES

This section provides full details of total remuneration for executives for 2016 and 2015, as required under the *Corporations Act 2001*.

The following table includes LTI amounts during 2016 and 2015 which are 'share-based payment' amounts that reflect the amount required to be expensed in accordance with the Australian Accounting Standards (**AASBs**).

The fair value of equity-settled performance rights is determined at grant date and amortised over the vesting period. The fair value of cash-settled performance rights is remeasured at year end, with changes in fair value recognised as an expense. The values realised by executives in subsequent years may differ to the accounting expense reported below, depending on the extent to which the performance hurdles are met.

		Short-term benefits				Post-employment benefits	Long-term benefits					
		Salary and fees	Cash incentives	Non-monetary benefits[1]	Other[2]	Superannuation benefits	Deferred incentives[3]	Other[4]	Termination benefits[5]	Share-based payments[6]	Total remuneration	Performance related
		$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	%
Executive director												
M Cameron	2016	1,537	630	29	118	16	630	26	-	2,315	5,301	67.4
Former executive director												
P Snowball	2016	667	-	114	(111)	-	110	9	1,434	621	2,844	25.7
	2015	2,550	1,434	88	49	-	1,569	39	-	2,396	8,125	66.5
Senior Executives												
A Day	2016	930	481	14	16	19	284	34	-	439	2,217	54.3
	2015	783	581	13	31	19	342	13	-	355	2,137	59.8
G Dransfield	2016	864	437	46	8	19	256	21	-	393	2,044	53.1
	2015	684	496	108	35	19	290	-	-	304	1,936	56.3
C Herbert	2016	755	383	15	30	19	226	38	-	360	1,826	53.1
	2015	658	491	14	(12)	19	285	11	-	278	1,744	60.4
S Johnston	2016	930	469	1	27	19	269	39	-	427	2,181	53.4
	2015	760	567	-	(11)	19	317	13	-	309	1,974	60.5
A Lenahan[7]	2016	670	-	18	13	19	15	32	-	283	1,050	28.3
	2015	484	396	17	(8)	19	229	8	-	199	1,344	61.3
J Nesbitt	2016	1,005	507	6	189	19	301	27	-	501	2,555	51.2
	2015	885	655	8	192	19	386	14	-	416	2,575	56.6
M Reinke	2016	680	346	9	29	19	200	38	-	322	1,643	52.8
	2015	532	392	9	(6)	19	223	9	-	228	1,406	60.0
A Revis	2016	679	379	13	45	19	224	24	-	346	1,729	54.9
	2015	618	471	15	1	19	275	10	-	282	1,691	60.8
P Smeaton	2016	571	288	108	18	18	159	31	-	100	1,293	42.3
Former Senior Executives												
M Milliner	2016	547	-	17	46	14	25	44	-	(359)	334	-
	2015	808	583	27	(9)	19	344	13	-	376	2,161	60.3
M Pancino	2016	660	-	6	(4)	19	13	18	-	(128)	584	-
	2015	683	519	7	8	19	289	11	-	146	1,682	56.7
G Summerhayes	2016	457	91	8	22	14	71	16	773	159	1,611	20.0
	2015	768	555	22	(2)	19	324	13	-	338	2,037	59.7

1 Non-monetary benefits represents costs met by Suncorp Group for airfares and insurances. Non-monetary benefits costs for Mr Gary Dransfield include accommodation benefits and PAYE paid by the Suncorp Group in respect of 2015 and 2016.

2 Other short-term benefits represent annual leave accrued during the year and Mr John Nesbitt's accommodation allowance. The annual leave balance for Mr Geoff Summerhayes, Mr Mark Milliner, Mr Patrick Snowball and Mr Matt Pancino's were paid out on termination.

3 The amount of deferred incentives awarded to the CEO & Managing Director and Senior Executives are recognised in full as there are no performance or service conditions required.

4 Other long-term benefits represent long service leave accrued during the year. Mr Mark Milliner and Mr Geoff Summerhayes' long service leave balance was paid out on termination.

5 Termination benefits are paid in accordance with contractual commitments. For Mr Patrick Snowball this includes cessation and contractual repatriation elements for his contribution to the Group to 30 September 2015.

6 Equity-settled performance rights issued as LTI are expensed to the profit or loss based on their fair value at grant date over the period from grant date to vesting date. The assumptions underpinning these valuations are set out in note 10 to the SGL's financial statements.

7 Ms Anna Lenahan is ineligible to receive an STI award in 2016 due to notice of resignation being provided.

2.9 EMPLOYMENT AGREEMENTS – SUMMARY

The CEO & Managing Director and Senior Executives are employed by Suncorp Staff Pty Limited (**SSPL**), a wholly-owned subsidiary of SGL, under a standard employment agreement with no fixed term. The agreements may be terminated at any time provided the relevant notice period is given. In the event of misconduct, the Group may terminate the agreement immediately, without notice (or any payment in lieu).

A payment in lieu of notice may be made for all or part of any notice period, calculated based on an individual's fixed remuneration less superannuation contributions (subject to it not being prohibited by law from making such a payment). Payment on termination will include payment of accrued annual leave and, where appropriate, long service leave. Where a change of control of Suncorp Group Limited occurs, for the CEO & Managing Director deferred STI and a pro-rata award of current year STI may be awarded, and unvested LTI may vest pro-rata (subject to the satisfaction of applicable performance measures). For Senior Executives, the impact of a change of control on remuneration is at Board discretion. A summary is shown in the table below.

<table>
<tr><th></th><th>CEO & Managing Director,
Mr Michael Cameron</th><th>Senior Executives</th></tr>
<tr><td>Notice period/ termination payments</td><td>Employer-initiated termination
Incapacity: 9 months
Misconduct: none
All other cases: 12 months
Employee-initiated termination: 6 months</td><td>Employer-initiated termination
Incapacity: 3 months
Misconduct: none
All other cases: 12 months
Employee-initiated termination: 3 months</td></tr>
<tr><td>Treatment of STI on termination</td><td colspan="2">Employer-initiated and employee-initiated termination
Resignation or redundancy:
• any cash STI award may be received, subject to performance, at Board discretion
• any deferred STI award will generally vest after the termination date at the end of the original deferral period and will be subject to potential clawback at such time, unless the Board exercises its discretion otherwise.
Misconduct: No cash STI will be awarded and all unvested deferral is forfeited.
All other cases: Board discretion.</td></tr>
<tr><td>Treatment of LTI on termination</td><td colspan="2">Qualifying reason[1]
The Board has the discretion to determine that any unvested LTI performance rights will continue until the relevant vesting dates and remain subject to the performance measures, unless otherwise determined by the Board.
Non-qualifying reason
All unvested awards are forfeited.</td></tr>
<tr><td>Treatment of restricted shares on termination</td><td>Qualifying reason[1]
The Board has the discretion to determine that any unvested restricted shares will be pro-rated for the time worked in the vesting period and those reduced number of restricted shares will vest at the termination date, unless otherwise determined by the Board.
Non-qualifying reason
All unvested awards are forfeited.</td><td>Not applicable.</td></tr>
</table>

1 Qualifying reasons include death, total and permanent disablement, retirement, redundancy as a result of a Suncorp Group restructure, or any other reason determined by the Board.

3. NON-EXECUTIVE DIRECTOR ARRANGEMENTS

3.1 REMUNERATION STRUCTURE

Remuneration Policy

The remuneration arrangements for non-executive directors are designed to ensure Suncorp Group attracts and retains suitably qualified and experienced directors. Arrangements are based on a number of factors, including the requirements of the role, the size and complexity of Suncorp Group and market practices.

Fee structure

Non-executive directors receive fixed remuneration only, paid as directors' fees, and they do not participate in performance-based incentive plans.

Shareholders have approved a maximum aggregate total remuneration limit of $3,500,000 for all non-executive directors (including Superannuation Guarantee Contributions (**SGC**)).

Suncorp Group Limited pays compulsory SGC of 9.5% of the director's base fee on behalf of all eligible non-executive directors. If a non-executive director ceases to be eligible for SGC payments, the equivalent amount is paid in fees.

To support alignment with the market the Board approved changes to the non-executive directors' fees for the Board, Audit Committee and Risk Committee effective 1 July 2015. This was the first change in non-executive directors' fees since 1 July 2011.

The approved non-executive director fee structure for 2016 is set out in the table below.[1]

	2016 FEE P.A.[2] $000					
Committee	Board	Audit	Risk	Remuneration	Other[3]	Other[4]
Chairman fees (C)	600[5]	60	60	40	100	70
Member fees (✓)	220	30	30	20		
Dr Zygmunt Switkowski AO	C	Ex Officio[10]	Ex Officio[10]	Ex Officio[10]		
Mr William Bartlett[6]	✓	✓	✓	✓		
Ms Audette Exel AO	✓		✓			
Ms Sally Herman[7]	✓	✓				
Mr Ewoud Kulk	✓		C	✓		C
Ms Christine McLoughlin[8]	✓		✓	C		
Dr Douglas McTaggart[9]	✓	C		✓		
Mr Geoffrey Ricketts CNZM	✓	✓			C	

The Group's minimum shareholding requirement introduced in October 2013 (refer to section 2.7) requires non-executive directors in office at 31 October 2013 to hold a minimum number of ordinary shares in SGL with a value at least equal to 50% after two years and 100% after four years of one year's pre-tax (gross) base fees[11].

Any non-executive directors appointed after October 2013 will have four years from the October following their appointment to achieve the 100% shareholding, with a 50% shareholding to be achieved at two years.

All non-executive directors are currently on track to hold sufficient shares to meet the shareholding requirement. Detailed share ownership information for the non-executive directors is shown in section 4.2.

1 Mr Michael Cameron retired from the Board and Risk Committee effective 30 September 2015 due to his appointment as CEO & Managing Director effective 1 October 2015.
2 Fees exclude SGC.
3 An additional fee is payable to Mr Geoffrey Ricketts CNZM for the Chairmanship of Vero Insurance New Zealand Limited and other New Zealand insurance companies.
4 An additional fee is payable to Mr Ewoud Kulk for the Chairmanship of AA Insurance Limited.
5 Includes base fee.
6 Mr William Bartlett retired as Chairman of the Remuneration Committee effective 31 December 2015, but remains a member.
7 Ms Sally Herman was appointed to the Board effective 22 October 2015 and the Audit Committee effective 1 January 2016.
8 Ms Christine McLoughlin was appointed Chairman of the Remuneration Committee effective 1 January 2016.
9 Dr Douglas McTaggart was appointed to the Remuneration Committee effective 1 January 2016.
10 Dr Ziggy Switkowski AO does not receive fees for attending Audit, Risk and Remuneration Committee meetings as an ex officio member.
11 Board member fee or Board Chairman fee only (excluding SGC), does not include Committee membership fees or Committee Chairmanship fees.

3.2 NON-EXECUTIVE DIRECTORS' SHARE PLAN

The Non-Executive Directors' Share Plan, established in November 2001 following shareholder approval, facilitates the purchase SGL's shares by non-executive directors by nominating, on a voluntary basis, a percentage of their pre-tax remuneration to be used to purchase the Company's shares on-market at pre-determined dates. The purpose of the plan is to provide Suncorp Group equity exposure for non-executive directors.

The shares are fully vested and if acquired prior to 1 July 2009 can be held in the plan for up to ten years from the date of purchase or until retirement, whichever occurs first. Shares acquired after 1 July 2009 can be held for up to seven years.

3.3 NON-EXECUTIVE DIRECTORS' REMUNERATION DISCLOSURES

Details of non-executive directors' remuneration for 2016 and 2015 are set out in the table below. None of the remuneration paid to non-executive directors is performance-based.

	Year	Short-term benefits		Post-employment benefits	Total[1]
		Salary and fees	Non-monetary benefits[2]	Superannuation benefits	
		$000	$000	$000	$000
Non-executive directors in office as at 30 June 2016					
Dr Z Switkowski AO	2016	600	1	58	659
	2015	570	1	54	625
W Bartlett	2016	310	1	29	340
	2015	292	1	28	321
A Exel AO	2016	250	1	24	275
	2015	232	1	22	255
S Herman[3]	2016	164	-	16	180
E Kulk	2016	370	1	36	406
	2015	344	1	33	378
C McLoughlin	2016	280	1	28	309
	2015	95	-	9	104
Dr D McTaggart	2016	290	1	28	319
	2015	257	1	24	282
G Ricketts CNZM	2016	350	1	34	385
	2015	323	1	31	355
Former non-executive director					
M Cameron[4]	2016	57	-	5	62
	2015	223	1	21	245

1
2 The non-executive directors receive a non-monetary benefit in relation to a proportion of the directors' and officers' insurance policy premium pro-rated for time in office. The amounts for both the current and prior year are below $1,000 per individual.
3 Ms Sally Herman was appointed to the Board effective 22 October 2015.
4 Mr Michael Cameron retired from the Board on 30 September 2015. From 25 August 2012 onwards, Mr Cameron's fees (exclusive of superannuation) were paid directly to GPT Management Holdings Limited.

4. RELATED PARTY TRANSACTIONS

4.1 LOANS TO KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

Loans to KMP and their related parties are secured housing loans and asset lines provided in the ordinary course of the Banking business. All loans have normal commercial terms, which may include staff discounts at the same terms available to all employees of Suncorp Group. No amounts have been written down or recorded as provisions, as the balances are considered fully collectable.

Details regarding loans outstanding at the reporting date to KMP and their related parties, where the individual's aggregate loan balance exceeded $100,000 at any time during the reporting period, are as follows:

	2016			
	Balance 1 July 2015	Balance 30 June 2016	Interest charged during the year[1]	Highest balance
	$000	$000	$000	$000
Senior Executives				
S Johnston	-	1,200	-	1,200
A Lenahan	130	-	1	130
M Reinke	228	183	10	228
A Revis	3,960	4,125	188	4,240
P Smeaton	321	298	16	359

Details regarding the aggregate of loans made, guaranteed or secured by any entity in Suncorp Group to KMP and their related parties, and the number of individuals in each group, are as follows:

	2016		
	Key management personnel	Other related parties	Total
	$000	$000	$000
Opening balance	4,111	528	4,639
Closing balance	5,138	668	5,806
Interest charged	196	19	215
	Number	Number	Number
Number of individuals at 30 June	4	2	6

1 The loans may have offset facilities, in which case the interest charged is after the offset.

4.2 MOVEMENT IN SHARES HELD BY KEY MANAGEMENT PERSONNEL

The movement during the reporting period in the number of ordinary shares in SGL held directly, indirectly or beneficially, by each of the KMP, including their related parties, is as follows:

			1 July 2015 - 30 June 2016			Balance 30 June 2016
		Balance 1 July 2015[1]	Received as compensation[2]	Purchases (sales)	Other changes	
		Number	Number	Number	Number	Number
DIRECTORS						
Executive director						
M Cameron[3]	Ordinary shares	15,000	80,000	-	-	95,000
	Performance rights	-	386,639	-	-	386,639
Former executive director						
P Snowball[4]	Ordinary shares	705,965	-	(688,000)	(17,965)	-
	Performance rights	1,047,987	-	-	(1,047,987)	-
Non-executive directors						
Dr Z Switkowski AO	Ordinary shares	311,599	-	-	-	311,599
W Bartlett	Ordinary shares	26,968	-	-	-	26,968
A Exel AO	Ordinary shares	8,812	-	-	-	8,812
S Herman	Ordinary shares	-	-	16,500	-	16,500
E Kulk	Ordinary shares	20,173	-	-	-	20,173
C McLoughlin	Ordinary shares	15,000	-	5,000	-	20,000
Dr D McTaggart	Ordinary shares	17,799	-	1,167	-	18,966
G Ricketts CNZM	Ordinary shares	30,325	-	1,989	-	32,314
SENIOR EXECUTIVES						
A Day	Ordinary shares	111,803	-	3,902	-	115,705
	Performance rights	154,074	73,651	-	(40,507)	187,218
G Dransfield	Ordinary shares	50,383	-	24,387	-	74,770
	Performance rights	132,515	72,998	-	(29,705)	175,808
C Herbert	Ordinary shares	118,885	-	23,331	-	142,216
	Performance rights	125,733	60,084	-	(32,405)	153,412
S Johnston	Ordinary shares	56,158	-	16,721	-	72,879
	Performance rights	128,875	73,651	-	(23,224)	179,302
A Lenahan	Ordinary shares	42,665	-	10,499	-	53,164
	Performance rights	88,017	50,393	-	(14,582)	123,828
J Nesbitt	Ordinary shares	152,317	-	34,997	-	187,314
	Performance rights	180,792	79,466	-	(48,608)	211,650
M Reinke	Ordinary shares	41,610	-	10,499	-	52,109
	Performance rights	96,203	54,269	-	(14,582)	135,890
A Revis	Ordinary shares	27,427	-	23,359	-	50,786
	Performance rights	122,905	56,208	-	(32,405)	146,708
P Smeaton[5]	Ordinary shares	-	-	5,832	9,790	15,622
	Performance rights	-	54,269	-	11,356	65,625
FORMER SENIOR EXECUTIVES						
M Milliner[6]	Ordinary shares	177,553	-	(177,553)	-	-
	Performance rights	163,251	73,651	-	(236,902)	-
M Pancino[7]	Ordinary shares	33,577	-	41,275	(74,852)	-
	Performance rights	67,707	62,022	-	(129,729)	-
G Summerhayes[8]	Ordinary shares	44,496	-	(44,496)	-	-
	Performance rights	146,638	-	-	(146,638)	-

1 The number of performance rights disclosed for the CEO & Managing Director and Senior Executives represents performance rights held by the trustee of the LTI Plan and therefore beneficial entitlement to some of those shares remains subject to satisfaction of specified performance hurdles.

2 For the CEO & Managing Director and Senior Executives, compensation includes shares held under the LTI Plan. These shares are recorded in SGL's share register in the name of the LTI Plan trustee and vest only when performance hurdles are met.

3 'Balance 1 July 2015' for Mr Michael Cameron relates to his position as a non-executive director.

4 Mr Patrick Snowball ceased employment on 30 September 2015. Shares and performance rights held upon termination are shown in 'Other changes'. Of the shares and performance rights held on leaving office, 308,543 performance rights remained subject to performance hurdles.

5 Mr Paul Smeaton was appointed on 14 September 2015. Shares and performance rights held upon commencement are shown in 'Other changes'.

6 Mr Mark Milliner ceased employment on 28 January 2016. Performance rights held upon termination were forfeited and are shown in 'Other changes'.

7 Mr Matt Pancino ceased employment on 29 April 2016. Performance rights held upon termination were forfeited and are shown in 'Other changes'. Shares held upon termination are shown in 'Other changes'.

8 Mr Geoff Summerhayes ceased employment on 2 January 2016. Shares and performance rights held upon termination are shown in 'Other changes'. Of the shares and performance rights held on leaving office, 63,309 performance rights remained subject to performance hurdles.

Directors and executives of the Company and their related parties received normal distributions on these shares. Details of the directors' shareholdings in the Company at the date of signing this financial report are also disclosed in section 3 of the Directors' Report.

Movements in the number of convertible preference shares held directly, indirectly or beneficially by any of the KMP, including their related parties, are noted in the table below.

	2016		
	1 July 2015	**Purchases (sales)**	**30 June 2016**
	Number	**Number**	**Number**
SUNPC[1]			
DIRECTORS			
Non-executive directors			
E Kulk	3,000	-	3,000
Senior Executives			
C Herbert	400	-	400
A Lenahan	2,000	-	2,000
A Revis	1,500	-	1,500
SUNPE[2]			
DIRECTORS			
Non-executive directors			
W Bartlett	323	-	323
Senior Executives			
C Herbert	323	-	323

4.3 OTHER KEY MANAGEMENT PERSONNEL TRANSACTIONS

Financial instrument transactions

Financial instrument transactions (other than loans and shares disclosed within this report) between Suncorp Group and directors, Senior Executives and their related parties during the financial year were in the nature of normal personal banking, investment and deposit transactions. These transactions were on commercial terms and conditions no more favourable than those given to other employees and are deemed trivial or domestic in nature.

Transactions other than financial instrument transactions

No director or Senior Executive has entered into a material contract with the Company or Suncorp Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end. Other transactions with directors, Senior 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 personal investment, general insurance and life insurance policies.

This Remuneration Report is prepared in accordance with a resolution of the Board of directors.

DR ZIGGY SWITKOWSKI AO

Chairman of the Board

4 August 2016

MICHAEL CAMERON

CEO & Managing Director

1 SGL issued Suncorp Convertible Preference Shares (**SUNPC**) on 6 November 2012.

2 SGL issued Suncorp Convertible Preference Shares (**SUNPE**) on 8 May 2014.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF SUNCORP-METWAY LIMITED

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2016 there have been:

1. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
2. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Jillian Richards
Partner
Brisbane

4 August 2016

SUNCORP-METWAY LIMITED AND SUBSIDIARIES

ABN 66 010 831 722

CONSOLIDATED FINANCIAL REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016
CONSOLIDATED FINANCIAL REPORT INDEX

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

	Note	Consolidated		Company	
		2016	2015	2016	2015
		$m	$m	$m	$m
Interest income	5.1	2,644	2,843	2,621	2,812
Interest expense	5.1	(1,515)	(1,740)	(1,416)	(1,623)
Net interest income		1,129	1,103	1,205	1,189
Other operating income	5.2	88	107	435	461
Total net operating income		1,217	1,210	1,640	1,650
Operating expenses	6	(653)	(646)	(1,091)	(1,113)
Impairment loss on loans and advances	13.2	(16)	(58)	(16)	(49)
Profit before tax		548	506	533	488
Income tax expense	7.1	(165)	(152)	(156)	(142)
Profit for the financial year attributable to owners of the Company		383	354	377	346
Other comprehensive income					
Items that will be reclassified subsequently to profit or loss					
Net change in fair value of cash flow hedges	20	23	38	23	38
Net change in fair value of available-for-sale financial assets	20	(2)	(8)	(2)	(8)
Income tax expense	20	(6)	(10)	(6)	(10)
Total other comprehensive income		15	20	15	20
Total comprehensive income for the financial year attributable to owners of the Company		398	374	392	366

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

STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Note	Consolidated		Company	
		2016 $m	2015 $m	2016 $m	2015 $m
Assets					
Cash and cash equivalents	8	1,028	591	1,026	586
Receivables due from other banks	9	552	595	552	595
Derivatives	11	675	651	675	651
Trading and investment securities	10	6,722	7,629	6,725	7,649
Loans and advances	12	54,134	51,735	53,804	51,339
Due from related parties	28.2	295	226	678	763
Deferred tax assets	7.2	44	81	43	79
Other assets		166	203	130	166
Total assets		63,616	61,711	63,633	61,828
Liabilities					
Payables due to other banks		332	297	332	297
Deposits and short-term borrowings	14	45,421	44,431	45,503	44,604
Derivatives	11	498	401	498	384
Payables and other liabilities	15	346	400	339	395
Due to related parties	28.2	135	199	2,670	3,858
Securitisation liabilities	23.3	2,544	3,651	-	-
Debt issues	16	9,860	7,876	9,860	7,876
Subordinated notes	17	742	742	742	742
Total liabilities		59,878	57,997	59,944	58,156
Net assets		3,738	3,714	3,689	3,672
Equity					
Share capital	18	2,648	2,648	2,648	2,648
Capital notes	19	450	450	450	450
Reserves	20	(270)	(224)	102	148
Retained profits		910	840	489	426
Total equity attributable to owners of the Company		3,738	3,714	3,689	3,672

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 2016

Consolidated	Note	Share capital $m	Capital notes $m	Reserves $m	Retained profits $m	Total equity $m
Balance as at 1 July 2014		2,565	450	(239)	730	3,506
Profit for the financial year		-	-	-	354	354
Other comprehensive income		-	-	20	-	20
Total comprehensive income for the financial year		-	-	20	354	374
Transactions with owners, recorded directly in equity						
Shares issued	18	83	-	-	-	83
Dividends paid	3	-	-	-	(249)	(249)
Transfers		-	-	(5)	5	-
Balance as at 30 June 2015		2,648	450	(224)	840	3,714
Profit for the financial year		-	-	-	383	383
Other comprehensive income		-	-	15	-	15
Total comprehensive income for the financial year		-	-	15	383	398
Transactions with owners, recorded directly in equity						
Dividends paid	3	-	-	-	(366)	(366)
Transfers		-	-	(61)	61	-
Other movements		-	-	-	(8)	(8)
Balance as at 30 June 2016		2,648	450	(270)	910	3,738

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

Company	Note	Share capital $m	Capital notes $m	Reserves $m	Retained profits $m	Total equity $m
Balance as at 1 July 2014		2,565	450	133	324	3,472
Profit for the financial year		-	-	-	346	346
Other comprehensive income		-	-	20	-	20
Total comprehensive income for the financial year		-	-	20	346	366
Transactions with owners, recorded directly in equity						
Shares issued	18	83	-	-	-	83
Dividends paid	3	-	-	-	(249)	(249)
Transfers		-	-	(5)	5	-
Balance as at 30 June 2015		2,648	450	148	426	3,672
Profit for the financial year		-	-	-	377	377
Other comprehensive income		-	-	15	-	15
Total comprehensive income for the financial year		-	-	15	377	392
Transactions with owners, recorded directly in equity						
Dividends paid	3	-	-	-	(366)	(366)
Transfers		-	-	(61)	61	-
Other movements		-	-	-	(9)	(9)
Balance as at 30 June 2016		2,648	450	102	489	3,689

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 2016

	Note	Consolidated		Company	
		2016	2015	2016	2015
		$m	$m	$m	$m
Cash flows from operating activities					
Interest received		2,628	2,810	2,701	2,779
Interest paid		(1,559)	(1,793)	(1,459)	(1,678)
Other operating income received		234	250	581	602
Operating expenses paid		(736)	(902)	(2,382)	(1,424)
Income tax paid		(183)	(83)	(171)	(71)
Net (increase) decrease in operating assets					
Trading securities		(113)	209	(113)	209
Loans and advances		(2,398)	(1,971)	(2,464)	(1,982)
Net increase in operating liabilities					
Deposits and short-term borrowings		857	277	899	384
Net cash used in operating activities	22.1	(1,270)	(1,203)	(2,408)	(1,181)
Cash flows from investing activities					
Net proceeds from the sale and purchase of investment securities excluding trading securities		1,148	241	1,165	247
Net cash from investing activities		1,148	241	1,165	247
Cash flows from financing activities					
Net increase in borrowings		847	708	1,971	670
Dividends paid		(366)	(249)	(366)	(244)
Proceeds from issue of shares		-	83	-	83
Net cash from financing activities		481	542	1,605	509
Net decrease in cash and cash equivalents		359	(420)	362	(425)
Cash and cash equivalents at the beginning of the financial year		889	1,309	884	1,309
Cash and cash equivalents at end of the financial year	22.2	1,248	889	1,246	884

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 2016

1. REPORTING ENTITY

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

The consolidated financial statements for the financial year ended 30 June 2016 comprise the Company and its subsidiaries (the **Group**) and were authorised for issue by the Board of Directors on 4 August 2016.

The principal activities of the Group during the course of the year were the provision of banking and related services to the retail, corporate and commercial sectors in Australia. The Group conducts the Banking operations of the Suncorp Group.

The Company's parent entity is SBGH Limited, with Suncorp Group Limited (**SGL**) being the ultimate parent entity. Suncorp Group is defined to be Suncorp Group Limited and its subsidiaries.

The Company is an Authorised Deposit-taking Institution (**ADI**).

2. BASIS OF PREPARATION

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

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

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

The consolidated statement of financial position is prepared in a liquidity format. Amounts expected to be recovered or settled no more than twelve months after the reporting period, are classified as 'current' otherwise they are classified as 'non-current'.

Significant accounting policies applied in the preparation of these consolidated financial statements are set out in note 31 and where necessary, comparatives have been restated to conform to changes in presentation in the current year.

2.1. STATEMENT OF COMPLIANCE

The consolidated 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 consolidated financial statements comply with the International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board.

2.2. USE OF ESTIMATES AND JUDGMENTS

The preparation of consolidated 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 as follows:

- specific and collective provisions for impairment (refer note 31.11 and note 25.1)
- valuation of financial instruments and fair value hierarchy disclosures (refer note 23).

3. DIVIDENDS

Consolidated and Company	2016		2015	
	¢ per share/note	$m	¢ per share/note	$m
Dividends on ordinary shares				
2015 final dividend (2015 : 2014 final dividend)	59	161	21	56
2016 interim dividend (2015 : 2015 interim dividend)	68	184	63	170
Total dividends on ordinary shares	127	345	84	226
Dividends on capital notes				
September quarter	120	5	130	6
December quarter	119	5	127	6
March quarter	122	5	128	6
June quarter	123	6	123	5
Total dividends on capital notes	484	21	508	23
Dividends not recognised in the statements of financial position[1]				
Dividends determined since reporting date				
2016 final dividend (2015: 2015 final dividend) on ordinary shares of an amount up to:	64	175	59	161
	64	175	59	161

1 The total 2016 final dividends determined but not recognised in the consolidated statement of financial position are estimated based on the total number of ordinary shares on issue as at 30 June 2016. The actual amount recognised in the consolidated financial statements for the year ending 30 June 2017 will be based on the actual number of ordinary shares on issue shares on the record date.

4. SEGMENT REPORTING

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

As the Group operates in only one segment, all results of the Group, as presented in this consolidated financial report, relate to the Banking segment for the current and prior financial years.

On 16 February 2016, the Suncorp Group announced the implementation of a revised operating model and organisational structure for its Australian and New Zealand operations. Up until 30 June 2016, the accounting and financial performance continued to be reported on the basis of the existing structure. Reporting under the new operating model will commence from 1 July 2016.

4. SEGMENT REPORTING (CONTINUED)

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 in one geographical segment being Australia. Revenue from overseas customers are not material to the Group.

5. NET OPERATING INCOME

5.1. NET INTEREST INCOME

	Consolidated		Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Interest income				
Cash and cash equivalents	16	20	16	20
Receivables due from other banks	2	3	2	3
Trading securities	32	47	32	47
Investment securities	196	239	196	239
Loans and advances	2,398	2,534	2,375	2,503
	2,644	2,843	2,621	2,812
Interest expense				
Deposits and short-term borrowings:				
at amortised cost	(1,014)	(1,229)	(1,018)	(1,236)
designated at fair value through profit and loss	(17)	(12)	(17)	(12)
Derivatives	(77)	(83)	(77)	(83)
Securitisation liabilities	(105)	(126)	-	-
Debt issues	(266)	(252)	(268)	(254)
Subordinated notes	(36)	(38)	(36)	(38)
	(1,515)	(1,740)	(1,416)	(1,623)
Net interest income	1,129	1,103	1,205	1,189

5.2. OTHER OPERATING INCOME

	Consolidated		Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Other operating income				
Banking fee and commission income	196	200	196	198
Banking fee and commission expense	(129)	(131)	(129)	(131)
Net banking fee and commission expense	67	69	67	67
Dividend income	-	-	24	18
Net gains on:				
Trading securities	1	1	1	1
Financial liabilities designated at fair value through the profit and loss	(1)	-	(1)	-
Derivative and other financial instruments	4	9	4	9
Other fees and commissions	-	-	332	342
Other revenue[1]	17	28	8	24
	21	38	368	394
Total other operating income	88	107	435	461

[1] Other revenue for the financial year ended 30 June 2016 includes a one-off recovery of $nil (2015: $19 million) in settlement of a claim.

6. OPERATING EXPENSES

	Consolidated		Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Wages, salaries and other staff costs	367	367	367	367
Occupancy and equipment expenses	72	79	72	79
Information technology and communication	47	42	47	42
Depreciation	29	30	29	30
Other expenses	138	128	576	595
Total operating expenses	653	646	1,091	1,113

Operating expenses such as employee expenses and depreciation and amortisation are incurred directly by Suncorp Group's corporate service subsidiaries and recharged to the Group via an internal allocation methodology.

7. INCOME TAX

7.1. INCOME TAX EXPENSE

	Consolidated		Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Reconciliation of prima facie to actual income tax expense				
Profit before tax	548	506	533	488
Prima facie domestic corporation tax rate of 30% (2015: 30%)	165	152	160	146
Tax effect of amounts not deductible (assessable) in calculating taxable income:				
Tax attributable to trust income	-	-	3	1
Intercompany dividend elimination	-	-	(7)	(5)
Income tax expense on profit before tax	165	152	156	142
Effective tax rate	30.1%	30.0%	29.3%	29.1%
Income tax expense recognised in profit or loss consists of:				
Current tax expense				
Current year	153	144	146	134
Adjustment for prior financial years	(18)	-	(19)	-
	135	144	127	134
Deferred tax expense				
Origination and reversal of temporary differences	30	8	29	8
Total income tax expense	165	152	156	142

7. INCOME TAX (CONTINUED)

7.2. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following.

Consolidated	2016	2015	2016	2015	2016	2015
	Deferred tax assets		Deferred tax liabilities		Net	
	$m	$m	$m	$m	$m	$m
Other investments	-	15	(7)	-	(7)	15
Provisions	50	64	-	-	50	64
Other items	3	3	(2)	(1)	1	4
Deferred tax assets and liabilities	53	82	(9)	(1)	44	83
Set-off of tax	(9)	(1)	9	1	-	(2)
Net deferred tax assets	44	81	-	-	44	81

Company	2016	2015	2016	2015	2016	2015
	Deferred tax assets		Deferred tax liabilities		Net	
	$m	$m	$m	$m	$m	$m
Other investments	-	15	(8)	-	(8)	15
Provisions	48	61	-	-	48	61
Other items	3	3	-	-	3	3
Deferred tax assets and liabilities	51	79	(8)	-	43	79
Set-off of tax	(8)	-	8	-	-	-
Net deferred tax assets	43	79	-	-	43	79

Movement in deferred tax balances during the financial year.

Consolidated	2016	2015	2016	2015
	Deferred tax assets		Deferred tax liabilities	
	$m	$m	$m	$m
Balance at the beginning of the financial year	81	100	-	(2)
Reclassification	(15)	-	15	-
Movement recognised in profit or loss	(13)	(9)	(16)	2
Movement recognised in other comprehensive income	-	(10)	(8)	-
Balance at the end of the financial year	53	81	(9)	-

Company	2016	2015	2016	2015
	Deferred tax assets		Deferred tax liabilities	
	$m	$m	$m	$m
Balance at the beginning of the financial year	79	99	-	(2)
Reclassification	(16)	-	16	-
Movement recognised in profit or loss	(12)	(10)	(16)	2
Movement recognised in other comprehensive income	-	(10)	(8)	-
Balance at the end of the financial year	51	79	(8)	-

7.3. Tax consolidation

Suncorp Group Limited and its wholly-owned Australian entities have elected to form part of a tax-consolidated group. The accounting policy in relation to tax consolidation legislation and its application to the Group is set out in note 31.4.

8. CASH AND CASH EQUIVALENTS

	Consolidated		Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Cash at bank	112	122	110	117
Reverse repurchase agreements in less than three months	349	-	349	-
Other money market placements	567	469	567	469
Total cash and cash equivalents	1,028	591	1,026	586

9. RECEIVABLES DUE FROM OTHER BANKS

	Consolidated		Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Cash collateral[1]	212	101	212	101
Other receivables due from financial institutions	340	494	340	494
Total receivables due from other banks - current	552	595	552	595

[1] Cash pledged as collateral to support derivative liability positions in accordance with standard International Swaps and Derivatives Association (**ISDA**) agreements.

10. TRADING AND INVESTMENT SECURITIES

	Consolidated		Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Trading securities				
Interest-bearing securities: Bank bills, certificates of deposits and other negotiable securities – current	1,497	1,384	1,497	1,384
Investment securities				
Available-for-sale financial assets at fair value				
Interest-bearing securities	3,867	2,603	3,867	2,603
Held-to-maturity investments at cost				
Interest-bearing securities	1,358	3,642	1,358	3,642
Investments at cost				
Shares in subsidiaries	-	-	3	20
Total investment securities	5,225	6,245	5,228	6,265
Current	1,933	3,016	1,933	3,016
Non-current	4,789	4,613	4,792	4,633
Total trading and investment securities	6,722	7,629	6,725	7,649

11. DERIVATIVE FINANCIAL INSTRUMENTS

Consolidated	2016			2015		
	Notional	Fair value		Notional	Fair value	
	value $m	Asset $m	Liability $m	value $m	Asset $m	Liability $m
Interest rate-related contracts						
Forward rate agreements	-	-	-	200	-	-
Interest rate swaps	54,248	293	355	55,182	292	341
Interest rate futures	4,325	1	-	1,610	1	-
Interest rate options	78	1	1	68	-	-
	58,651	295	356	57,060	293	341
Exchange rate-related contracts						
Forward foreign exchange contracts	2,992	20	65	3,055	55	8
Cross currency swaps	3,421	360	77	3,304	303	52
Currency options	4	-	-	-	-	-
	6,417	380	142	6,359	358	60
Total derivative exposures	65,068	675	498	63,419	651	401

Company	2016			2015		
	Notional	Fair value		Notional	Fair value	
	value $m	Asset $m	Liability $m	value $m	Asset $m	Liability $m
Interest rate-related contracts						
Forward rate agreements	-	-	-	200	-	-
Interest rate swaps	54,248	293	355	55,182	292	341
Interest rate futures	4,325	1	-	1,610	1	-
Interest rate options	78	1	1	68	-	-
	58,651	295	356	57,060	293	341
Exchange rate-related contracts						
Forward foreign exchange contracts	2,992	20	65	3,055	55	8
Cross currency swaps	3,421	360	77	3,148	303	35
Currency options	4	-	-	-	-	-
	6,417	380	142	6,203	358	43
Total derivative exposures	65,068	675	498	63,263	651	384

Derivatives are used by the Group to manage interest rate and foreign exchange risk.

The use of derivatives to mitigate market risk, interest rate risk and currency risk includes the use of exchange traded bill and bond futures, OTC forward foreign exchange contracts and interest rate swaps and options.

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. Derivative restrictions are designed to either prevent gearing or to cover unrealised and potential losses on all derivatives to guard against potential liquidity short falls. Counterparty risk procedures are in place for OTC type derivatives.

As at 30 June 2016 there was no significant counterparty exposure to any one single entity, other than normal clearing house exposures associated with dealings through recognised exchanges.

11. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Hedging of fluctuations in interest rates

The Group seeks to minimise volatility in net interest income through use of interest rate derivatives, primarily vanilla interest rate swaps. The swaps are implemented to reduce the repricing mismatch between the lending and deposit products issued by the Group. The aggregate earnings exposure to interest rates is managed within the Board approved risk limits.

At reporting date, there are 23 (2015: 21) swaps designated as fair value hedges of fixed rate bonds held. All other interest rate swaps designated as hedges are cash flow hedges. The swaps designated as cash flow hedges are hedges of either variable rate mortgages or variable rate short-term debt.

The following table details the derivatives used in hedging of fluctuation in interest rates.

	Consolidated				Company			
	2016		2015		2016		2015	
	Fair value hedges $m	Cash flow hedges $m	Fair value hedges $m	Cash flow hedges $m	Fair value hedges $m	Cash flow hedges $m	Fair value hedges $m	Cash flow hedges $m
Hedging of fluctuations in interest rates								
Notional value of interest rate swaps designated as hedges	1,200	46,206	1,100	35,137	1,200	46,206	1,100	35,137
Fair value:								
net receivable interest rate swaps	-	217	1	173	-	217	1	173
net payable interest rate swaps	(101)	(179)	(90)	(155)	(101)	(179)	(90)	(155)
	(101)	38	(89)	18	(101)	38	(89)	18

Cash flows relating to the cash flow hedges are expected to impact the profit or loss in the following periods:

Consolidated and Company	0 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total expected cash flows $m
2016				
Forecast receivable cash flows	673	891	6	1,570
Forecast payable cash flows	(661)	(884)	(10)	(1,555)
	12	7	(4)	15
2015				
Forecast receivable cash flows	746	837	17	1,600
Forecast payable cash flows	(751)	(812)	(17)	(1,580)
	(5)	25	-	20

Hedging of fluctuations in foreign exchange rates

The Group hedges its exposure to fluctuations in foreign exchange rates through the use of derivatives in the foreign exchange market. The currencies giving rise to this risk are primarily US Dollars, Euro and Pounds Sterling.

The Group hedges its offshore debt issues using cross currency interest rate swaps and foreign exchange swaps. In respect of other financial assets and liabilities held in currencies other than AUD, the Group ensures that the net exposure is kept to an acceptable level through participation in the spot and forward markets.

11. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

All cross currency interest rate swaps entered into by the Group are designated as hedges using the split approach.

Under this approach the benchmark rate component of the swap is accounted for as a fair value hedge and the other component as a cash flow hedge.

The Group has elected to fair value its US Commercial Paper and Euro Commercial Paper portfolio through the profit or loss on the basis that it is economically hedged by forward foreign exchange contracts. Both the changes in the fair value of the forward contracts and the debt issue are recognised in profit or loss. The fair value of forward foreign exchange contracts used as economic hedges of monetary liabilities in foreign currencies where hedge accounting is not applied as at 30 June 2016 was $41 million (2015: $47 million).

Included within net profits on derivatives and other financial instruments for both the Company and Consolidated are gains on derivatives held in qualifying fair value hedging relationships of $18 million (2015: losses of $13 million) and losses representing changes in fair value of the hedged items attributable to the hedged risk of $19 million (2015: gains of $13 million).

The following table details the derivatives used in hedging of fluctuation in foreign exchange rates.

	Consolidated		Company	
	Split approach 2016 $m	Split approach 2015 $m	Split approach 2016 $m	Split approach 2015 $m
Hedging of fluctuations in foreign exchange rates				
Notional value of cross currency swaps designated as hedges	2,839	2,722	2,839	2,566
Fair value:				
net receivable cross currency swaps	299	280	299	280
net payable cross currency swaps	(17)	(40)	(17)	(23)
	282	240	282	257

12. LOANS AND ADVANCES

	Consolidated		Company	
	2016	2015	2016	2015
	$m	$m	$m	$m
Financial assets at amortised cost				
Housing loans	44,252	41,785	44,252	41,785
Consumer loans	312	380	312	380
Business loans	9,716	9,753	9,380	9,348
Other lending	18	25	18	25
Gross loans and advances	54,298	51,943	53,962	51,538
Provision for impairment	(164)	(208)	(158)	(199)
Total loans and advances	54,134	51,735	53,804	51,339
Current	12,194	11,563	12,152	11,523
Non-current	41,940	40,172	41,652	39,816
Total loans and advances	54,134	51,735	53,804	51,339

13. PROVISION FOR IMPAIRMENT ON LOANS AND ADVANCES

13.1. Reconciliation of provision for impairment on loans and advances

	Consolidated		Company	
	2016	2015	2016	2015
	$m	$m	$m	$m
Collective provision				
Balance at the beginning of the financial year	126	120	121	112
(Write-back) / charge against impairment losses	(18)	6	(17)	9
Balance at the end of the financial year	108	126	104	121
Specific provision				
Balance at the beginning of the financial year	82	106	78	106
New and Increased individual provisioning	54	74	50	63
Write-back of provisions no longer required	(22)	(28)	(19)	(27)
Impairment provision written off	(53)	(61)	(50)	(55)
Unwind of discount	(5)	(9)	(5)	(9)
Balance at the end of the financial year	56	82	54	78
Total provision for impairment	164	208	158	199

13.2. Impairment loss on loans and advances

	Consolidated		Company	
	2016	2015	2016	2015
	$m	$m	$m	$m
Increase (decrease) in collective provision for impairment	(18)	6	(17)	9
Increase in specific provision for impairment	32	46	31	36
Bad debts written off	14	12	14	11
Bad debts recovered	(12)	(6)	(12)	(7)
Total impairment loss	16	58	16	49

14. DEPOSITS AND SHORT-TERM BORROWINGS

	Consolidated		Company	
	2016	2015	2016	2015
	$m	$m	$m	$m
Financial liabilities at amortised cost				
Call deposits	17,671	16,482	17,753	16,655
Term deposits	18,471	17,592	18,471	17,592
Short-term securities issued	6,511	7,480	6,511	7,480
Offshore borrowings	87	101	87	101
Total financial liabilities at amortised cost	42,740	41,655	42,822	41,828
Financial liabilities designated at fair value through profit and loss				
Offshore borrowings	2,681	2,776	2,681	2,776
Total deposits and short-term borrowings (unsecured)	45,421	44,431	45,503	44,604
Current	44,492	43,413	44,574	43,586
Non-current	929	1,018	929	1,018
Total deposits and short-term borrowings (unsecured)	45,421	44,431	45,503	44,604

Deposits and short-term borrowings outstanding at 30 June 2016 of $300 million (2015: $856 million) have been obtained under repurchase agreements with the Reserve Bank of Australia.

Interest expense of $17 million (2015: $12 million) on financial liabilities designated at fair value through profit or loss was recognised in the financial year.

The contractual amount payable on financial liabilities designated at fair value through profit or loss at maturity is $2,681 million (2015: $2,776 million).

Consolidated net losses of $1 million (2015: $nil) on financial liabilities designated at fair value through profit or loss are recognised in profit or loss.

15. PAYABLES AND OTHER LIABILITIES

	Consolidated		Company	
	2016	2015	2016	2015
	$m	$m	$m	$m
Accrued interest payable	256	300	252	295
Trade creditors and accrued expenses	61	60	58	59
Other liabilities	29	40	29	41
Total payables and other liabilities - current	346	400	339	395

	Consolidated		Company	
	2016	2015	2016	2015
	$m	$m	$m	$m
Accrued interest payable	256	300	252	295
Trade creditors and accrued expenses	61	60	58	59
Other liabilities	29	40	29	41
Total payables and other liabilities - current	346	400	339	395

16. DEBT ISSUES

	Note	Consolidated 2016 $m	Consolidated 2015 $m	Company 2016 $m	Company 2015 $m
Financial liabilities at amortised cost					
Offshore borrowings		3,123	2,836	3,123	2,836
Domestic borrowings		3,588	2,392	3,588	2,392
Total unsecured borrowings		6,711	5,228	6,711	5,228
Domestic covered bonds issued	23.3	3,149	2,648	3,149	2,648
Total secured covered bonds		3,149	2,648	3,149	2,648
Total debt issues		9,860	7,876	9,860	7,876
Current		3,373	1,701	3,373	1,701
Non-current		6,487	6,175	6,487	6,175
Total debt issues		9,860	7,876	9,860	7,876

	Note	Consolidated 2016 $m	Consolidated 2015 $m	Company 2016 $m	Company 2015 $m
Financial liabilities at amortised cost					
Offshore borrowings		3,123	2,836	3,123	2,836
Domestic borrowings		3,588	2,392	3,588	2,392
Total unsecured borrowings		6,711	5,228	6,711	5,228
Domestic covered bonds issued	23.3	3,149	2,648	3,149	2,648
Total secured covered bonds		3,149	2,648	3,149	2,648
Total debt issues		9,860	7,876	9,860	7,876
Current		3,373	1,701	3,373	1,701
Non-current		6,487	6,175	6,487	6,175
Total debt issues		9,860	7,876	9,860	7,876

Covered bonds issued are guaranteed by the Covered Bond Guarantor and are secured over a covered pool which consists of $3,836 million (2015: $3,008 million) of loans and advances.

The Covered Bond Guarantor can take possession of the cover pool under certain Title Perfection Events, as detailed in clause 6.1 of the Mortgage Sale Deed. In the event of default by the Company, the covered bond holders have a claim against both the cover pool and the Company.

17. SUBORDINATED NOTES

Consolidated and Company	Due date	First call	2016 $m	2015 $m
Financial liabilities at amortised cost				
Floating rate notes[1]	November 2023	November 2018	670	670
Perpetual floating rate notes[2]			72	72
Total subordinated notes			742	742
Current			-	-
Non-current			742	742
Total subordinated notes			742	742

1. On 14 June 2013, the Company issued $670m with maturity date of 22 November 2023 mandatory cumulative convertible notes with coupon floating rate of BBSW90 +2.85% and callable features which will convert, upon non-viability, into the Company Common Equity Tier 1 or be permanently written down to the extent that APRA is satisfied with the conversion or write-off. The note is an eligible Tier 2 instruments both in the transitional and post-transitional Basel III rules.

2. On 10 December 1998, the Company issued $72m (originally $170m) perpetual cumulative non-convertible notes (SBKHB) with coupon floating rate of BBSW90 + 0.75% and callable features. The note is only an eligible Tier 2 instruments in the transitional Basel III rules.

Payments of principal and interest on the notes have priority over the Company's dividend payments only. In the event of the winding-up of the Company, the rights of the note holders will rank in preference only to the rights of its ordinary shareholders.

18. SHARE CAPITAL

	Consolidated		Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Ordinary capital				
Balance at the beginning of the financial year	2,648	2,565	2,648	2,565
Shares issued to parent entity	-	83	-	83
Total share capital	2,648	2,648	2,648	2,648

Company	2016 Number	2015 Number
Ordinary shares		
Balance at the beginning of the financial year	271,467,584	263,220,984
Shares issued to parent entity	-	8,246,600
Balance at the end of the financial year	271,467,584	271,467,584

The Company does not have authorised capital 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 winding-up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds on liquidation.

19. CAPITAL NOTES

The capital notes are perpetual, subordinated notes issued to the Group's ultimate parent entity, Suncorp Group Limited, on 17 December 2012. The number of capital notes on issue is 4,500,000 (2015: 4,500,000) at $100 per note. The notes are unsecured and pay periodic, non-cumulative dividends to the holder, based on a set formula (Bank Bill Swap Rate + Margin) x (1- Corporate Tax Rate). Such dividends are at the discretion of the directors.

20. RESERVES

	Consolidated		Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Equity reserve for credit losses				
Balance at the beginning of the financial year	146	151	146	151
Transfer (to) retained profits	(61)	(5)	(61)	(5)
Balance at the end of the financial year	85	146	85	146
Hedging reserve				
Balance at the beginning of the financial year	(4)	(30)	(4)	(30)
Amount recognised in equity	23	35	23	35
Amount transferred from equity to profit or loss	-	3	-	3
Income tax (expense)	(7)	(12)	(7)	(12)
Balance at the end of the financial year	12	(4)	12	(4)
Assets available-for-sale reserve				
Balance at the beginning of the financial year	6	12	6	12
Change in fair value recognised in equity	-	(4)	-	(4)
Change in fair value transferred from equity to profit or loss	(2)	(4)	(2)	(4)
Income tax benefit	1	2	1	2
Balance at the end of the financial year	5	6	5	6
Common control reserve				
Balance at the beginning of the financial year	(372)	(372)	-	-
Balance at the end of the financial year	(372)	(372)	-	-
Total reserves	(270)	(224)	102	148

20. RESERVES (CONTINUED)

Equity reserves for credit losses

The equity reserve for credit losses represents the difference between the Group's collective provisions for impairment and the estimate of credit losses across the credit cycle consistent with the requirements of APRA Prudential Standard APS 220 *Credit Quality*.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions.

Assets available-for-sale reserve

The assets available-for-sale reserve represents the cumulative net change in the fair value of available-for-sale assets until the asset is derecognised or impaired.

Common control reserve

The common control reserve represents the balance of the loss on disposal of subsidiaries following the Suncorp Group restructure on 7 January 2011.

21. CAPITAL MANAGEMENT

As the Company and Group are entities within the Suncorp Group, they follow the capital management strategy 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 risk appetite. The Suncorp Group's Internal Capital Adequacy Assessment Process (**ICAAP**) provides the framework to ensure that the Suncorp Group as a whole, and each regulated entity, is capitalised to meet internal and external requirements.

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 the Australian Prudential Regulation Authority's (**APRA**) standards for the supervision of conglomerates.

The Company is an Authorised Deposit-taking Institution (**ADI**) and the Company and its subsidiaries are subject to APRA prudential standards which include capital adequacy requirements.

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 hybrid securities with 'equity-like' qualities
- Tier 2 Capital comprising APRA reserve for credit losses and eligible hybrid capital
- 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.

The Group's capital base is expected to be adequate for its size, business mix, complexity and the risk profile of its business and therefore applies a risk-based approach to capital adequacy.

The Group uses the standardised framework for calculating risk weighted assets (**RWA**) in accordance with the relevant prudential standards.

The RWA for the Group is calculated by assessing the risks inherent in the business, which comprise:

- Credit risk - the risk that a borrower or counterparty will not meet its obligations in accordance with agreed terms, applies to both on-balance sheet and off-balance sheet exposures
- Market risk - the risk of unfavourable changes in interest rates, foreign exchange rates, equity prices, credit spreads, market volatilities and liquidity

21. CAPITAL MANAGEMENT (CONTINUED)

- Operational risk - the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

These risks are quantified and then aggregated to determine the RWA under the prudential standards.

This RWA is compared with the CET1, Tier 1 and Total eligible capital held in the Group to determine the capital adequacy ratios. The capital position and RWA as at the end of the financial year are included in note 21.1. The Group satisfied all externally imposed capital requirements which it is subject to during the current financial year and the prior financial year.

The Group's Basel III APS 330 capital disclosures are made available at the regulatory disclosures section www.suncorpgroup.com.au/investors.

21.1. CAPITAL ADEQUACY

The following table summarises the capital position at the end of the financial year.

Consolidated	2016	2015
	$m	$m
Tier 1 Capital		
Common Equity Tier 1 Capital		
Ordinary share capital	2,648	2,648
Retained profits	522	461
Accumulated other comprehensive income	5	6
	3,175	3,115
Regulatory adjustments to Common Equity Tier 1 Capital		
Goodwill and other intangibles arising on acquisition	(21)	(21)
Deferred tax assets	(50)	(79)
Investments in non-consolidated subsidiaries, capital support	(5)	(22)
Other adjustments to CET1	(219)	(198)
	(295)	(320)
Common Equity Tier 1 Capital	2,880	2,795
Additional Tier 1 Capital		
Eligible hybrid capital	450	450
Total Tier 1 Capital	3,330	3,245
Tier 2 Capital		
APRA general reserve for credit losses	167	245
Eligible hybrid capital	670	670
Ineligible hybrid capital (applicable to transitional relief under APS 160)	72	72
	909	987
Total Tier 2 Capital	909	987
Total Capital	4,239	4,232
Total assessed risk weighted assets	31,459	30,610
Risk weighted capital ratios	%	%
Common Equity Tier 1	9.15	9.13
Total Tier 1	10.58	10.60
Total Tier 2	2.89	3.23
Total risk weighted capital ratio	13.47	13.83

21.1. CAPITAL ADEQUACY (CONTINUED)

The following table summarises the RWA at the end of the financial year.

Consolidated	Carrying amount		Risk weighted balance	
	2016	2015	2016	2015
	$m	$m	$m	$m
On-balance sheet assets				
Cash items	430	596	12	10
Claims on Australian and foreign governments	2,572	2,442	-	-
Claims on central banks, international banking agencies, regional development banks, ADIs and overseas banks	2,807	3,289	597	674
Claims on securitisation exposures	937	1,047	187	209
Claims secured against eligible residential mortgages	42,239	38,965	15,962	15,035
Past due claims	549	538	487	473
Other assets and claims	9,295	9,204	9,199	9,086
Total banking assets	58,829	56,081	26,444	25,487

	Notional amount 2016	Credit equivalent 2016	Risk weighted balance 2016	Risk weighted balance 2015
	$m	$m	$m	$m
Off-balance sheet positions				
Guarantees entered into in the normal course of business	251	249	165	196
Commitments to provide loans and advances	8,201	2,261	1,220	1,229
Foreign exchange contracts	6,424	114	43	53
Interest rate contracts	58,651	94	40	48
Securitisation exposures	2,050	31	26	39
CVA capital charge	-	-	62	108
Total off-balance sheet positions	75,577	2,749	1,556	1,673

Market risk capital charge	108	172
Operational risk capital charge	3,351	3,278
Total off-balance sheet positions	1,556	1,673
Total on-balance sheet credit risk weighted assets	26,444	25,487
Total assessed risk weighted assets	31,459	30,610

22. NOTES TO THE STATEMENTS OF CASH FLOWS

22.1. RECONCILATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated		Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Profit for the financial year	383	354	377	346
Non-cash items				
Impairment losses on loans and advances	16	58	16	49
Change in fair value relating to investing and financing activities	(12)	(10)	(13)	(10)
Change in operating assets and liabilities				
Net movement in tax balances	31	7	30	8
Decrease in other assets	37	12	36	(38)
(Increase) decrease in trading securities	(113)	209	(113)	209
Increase in loans and advances	(2,415)	(2,092)	(2,396)	(2,288)
Increase in deposits and short-term borrowings	921	277	899	384
(Decrease) increase in payables and other liabilities	(118)	(18)	(1,244)	159
Net cash used in operating activities	(1,270)	(1,203)	(2,408)	(1,181)

22.2. RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

	Consolidated		Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Cash and cash equivalents at the end of the financial year in the statement of cash flows is represented by:				
Cash and cash equivalents	1,028	591	1,026	586
Receivables due from other banks	552	595	552	595
Payables due to other banks[1]	(332)	(297)	(332)	(297)
	1,248	889	1,246	884

1 Includes cash received as collateral to support derivative asset positions of $298 million (2015: $259 million) in accordance with standard International Swaps and Derivatives Association (ISDA) agreements.

22.3. FINANCIAL ARRANGEMENTS

Consolidated and Company	2016		2015	
	Program limit $m	Unused $m	Program limit $m	Unused $m
The Group had the following debt programs outstanding at end of the financial year:				
USD $5 billion Global Covered Bond Programme	6,735	3,585	6,502	3,854
USD $15 billion Euro Medium Term Notes Program and Euro Commercial Paper	20,205	19,543	19,506	18,915
USD $5 billion United States Commercial Paper Program	6,735	4,170	6,502	3,755
USD $15 billion U.S. Medium Term Notes Program	20,205	17,853	19,506	17,531
AUD Transferable Certificate of Deposit Program	5,000	1,400	5,000	2,600
	58,880	46,551	57,016	46,655

23. FINANCIAL INSTRUMENTS

23.1. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets and liabilities that are measured at fair value are categorised by a hierarchy which identifies the most significant input used in the valuation methodology as:

- **Level 1** - derived from quoted prices (unadjusted) in active markets for identical financial instruments
- **Level 2** - derived from other than quoted prices included within Level 1 that are observable for the financial instruments, either directly or indirectly
- **Level 3** - fair value measurement is not based on observable market data.

The following financial assets and liabilities are recognised and measured at fair value and therefore their carrying value equates to their fair value.

- trading securities
- certain investment securities designated as available-for-sale financial assets
- certain short-term offshore borrowings designated as financial liabilities at fair value through profit or loss
- derivatives.

23.1. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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 fair value hierarchy.

Consolidated	2016				2015			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets								
Trading securities	-	1,497	-	1,497	-	1,384	-	1,384
Available-for-sale financial assets[1]	-	3,867	-	3,867	-	2,603	-	2,603
Derivatives	1	674	-	675	1	650	-	651
	1	6,038	-	6,039	1	4,637	-	4,638
Financial liabilities								
Offshore borrowings designated at fair value through the profit or loss[2]	-	2,681	-	2,681	-	2,776	-	2,776
Derivatives	-	498	-	498	-	384	17	401
	-	3,179	-	3,179	-	3,160	17	3,177

Company	2016				2015			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets								
Trading securities	-	1,497	-	1,497	-	1,384	-	1,384
Available-for-sale financial assets[1]	-	3,867	-	3,867	-	2,603	-	2,603
Derivatives	1	674	-	675	1	650	-	651
	1	6,038	-	6,039	1	4,637	-	4,638
Financial liabilities								
Offshore borrowings designated at fair value through the profit or loss[2]	-	2,681	-	2,681	-	2,776	-	2,776
Derivatives	-	498	-	498	-	384	-	384
	-	3,179	-	3,179	-	3,160	-	3,160

1 Disclosed within the consolidated statement of financial position category of ‘Investment securities’.
2 Disclosed within the consolidated statement of financial position category of ‘Deposits and short-term borrowings’.

There have been no significant transfers between Level 1 and Level 2 during the 2016 and 2015 financial years. Transfers are deemed to have occurred at the end of the reporting period.

Level 3 derivatives relate to long-dated cross currency swap in relation to the Apollo securitisation trusts where a significant input is the amortisation profile of the mortgage portfolio. The valuation methodology for derivative financial instruments classified within Level 3 of the fair value hierarchy is based on market data using observable quoted rates for actively traded tenor points. Where interpolation is used to value an instrument for the correct time period observable inputs such as the Bank Bill Swap rate (**BBSW**), yield curve and swap curve rates are used.

The Group’s exposure to Level 3 financial instruments is restricted to an insignificant component of the portfolios to which they belong, such that any change in the assumptions used to value the instruments to a reasonably possible alternative do not have a material effect on the portfolio balance or the Group’s results.

23.1. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table discloses the movements in financial instruments classified as Level 3 in the fair value hierarchy:

Consolidated	2016		2015	
	Asset	Liability	Asset	Liability
	Derivatives asset $m	Derivatives liability $m	Derivatives asset $m	Derivatives liability $m
Balance at the beginning of the financial year	-	(17)	34	(70)
Total gains and losses included in profit or loss	-	-	-	20
Settlements			(34)	32
Transfer out to level 2[1]	-	17	-	1
Balance at the end of the financial year	-	-	-	(17)

Company	2016		2015	
	Asset	Liability	Asset	Liability
	Derivatives asset $m	Derivatives liability $m	Derivatives asset $m	Derivatives liability $m
Balance at the beginning of the financial year	-	-	34	(33)
Settlements			(34)	32
Transfer out to level 2[1]	-	-	-	1
Balance at the end of the financial year	-	-	-	-

1. In the financial year 2016, the hedged item being hedged was expected to be settled within a year. The valuation of the cross currency swap as at 30 June 2016 has reflected such expectation and therefore the valuation of this cross currency swap is no longer considered a level 3 but a level 2. The transfer to level 2 is deemed to have occurred on 30 June 2016.

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 recognised and measured at fair value, where their carrying value is not a reasonable approximation of fair value.

Consolidated	Note	2016					2015				
		Carrying value	Fair value				Carrying value	Fair value			
			Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
		$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Financial assets											
Held-to-maturity investments	10	1,358	-	1,374	-	1,374	3,642	-	3,665	-	3,665
Loans and advances	12	54,134	-	-	54,237	54,237	51,735	-	-	53,034	53,034
Financial liabilities											
Deposits and short-term borrowings at amortised cost	14	42,740	-	42,814	-	42,814	41,655	-	41,262	-	41,262
Securitised liabilities	23.3	2,544	-	2,540	-	2,540	3,651	-	3,689	-	3,689
Debt issues	16	9,860	-	9,913	-	9,913	7,876	-	7,968	-	7,968
Subordinated notes	17	742	-	732	-	732	742	-	756	-	756

23.1. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Company	Note	2016					2015				
		Carrying	Fair value				Carrying	Fair value			
		value	Level 1	Level 2	Level 3	Total	value	Level 1	Level 2	Level 3	Total
		$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Financial assets											
Held-to-maturity investments	10	1,358	-	1,374	-	1,374	3,642	-	3,665	-	3,665
Loans and advances	12	53,804	-	-	53,904	53,904	51,339	-	-	52,413	52,413
Financial liabilities											
Deposits and short-term borrowings at amortised cost	14	42,822	-	42,592	-	42,592	41,828	-	41,436	-	41,436
Debt issues	16	9,860	-	9,913	-	9,913	7,876	-	7,968	-	7,968
Subordinated notes	17	742	-	732	-	732	742	-	756	-	756

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

Financial assets

Fair value of held-to-maturity investments are determined based on quoted market price where available (would be classified into level 1 in the fair value hierarchy). Where quoted prices are not available, alternative valuation techniques are used (would be classified into level 2 in the fair value hierarchy). Valuation techniques employed include discounted cash flow analysis using expected future cash flows and a market-related discount rate.

The carrying value of loans and advances is net of specific and collective provisions for impairment. For variable rate loans, excluding impaired loans, the carrying amount is considered a reasonable estimate of fair value (would be classified into level 3 in the fair value hierarchy). The fair value for fixed rate loans is calculated by utilising discounted cash flow models to determine the net present value of the portfolio future principal and interest cash flows, based on the interest rate repricing of the loans (would be classified into level 3 in the fair value hierarchy). The discount rates applied were based on the rates offered by the Group on current products with similar maturity dates.

Financial liabilities

The carrying value of non-interest-bearing, call and variable rate deposits, and fixed rate deposits repricing within six months approximate their fair value (would be classified into level 2 in the fair value hierarchy). Discounted cash flow models are used to calculate the fair value of other term deposits based upon deposit type and related maturities (would be classified into level 2 in the fair value hierarchy).

The fair value of securitised liabilities, debt issues and subordinated notes are calculated based on the quoted market prices at reporting date (would be classified into level 1 in the fair value hierarchy) or, where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instrument (would be classified into level 2 in the fair value hierarchy).

23.2. MASTER NETTING OR SIMILAR ARRANGEMENTS

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

Derivative assets and liabilities

- Offsetting has been applied to the Group's derivatives (e.g. interest rate swaps and cross currency swaps) 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 Group derivatives are subject to International Swaps and Derivatives Association (**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 ISDA Credit Support Annex and other standard industry terms.

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 statements of financial position.

Consolidated

	Amounts subject to master netting or similar arrangements					Amounts not subject to master netting or similar arrangements	
			Related amounts not offset on the SoFP				
	Gross amounts $m	Offsetting applied $m	Financial instruments $m	Financial Collateral (Received)/Pledged $m	Net exposure $m	$m	Total $m
2016							
Financial assets							
Derivatives	570	-	(245)	(297)	28	105	675
Reverse repurchase agreement[1]	349	-	-	(349)	-	-	349
Total	919	-	(245)	(646)	28	105	1,024
Financial liabilities							
Derivatives	432	-	(245)	(69)	118	66	498
Repurchase agreement[2]	300	-	(300)	-	-	-	300
Total	732	-	(545)	(69)	118	66	798
2015							
Financial assets							
Derivatives	547	-	(257)	(251)	39	104	651
Reverse repurchase agreement[1]	-	-	-	-	-	-	-
Total	547	-	(257)	(251)	39	104	651
Financial liabilities							
Derivatives	377	-	(257)	(41)	79	24	401
Repurchase agreement[2]	856	-	(856)	-	-	-	-
Total	1,233	-	(1,113)	(41)	79	24	401

1 Reverse repurchase agreements are presented in the balance sheet within cash if duration is less than 90 days. If maturity is greater than 90 days they are presented in Loans and advances.
2 Repurchase agreements are presented in the balance sheet within Deposits and short-term borrowings.Details discussed in note 23.3.

The balances in the table may not equate to the corresponding line item presented on the face of the consolidated statement of financial position or in the supporting notes. The difference relates to financial assets and financial liabilities that are not subject to master netting arrangements and are therefore not in scope of offsetting disclosures.

23.2. MASTER NETTING OR SIMILAR ARRANGEMENTS (CONTINUED)

Company

	Amounts subject to master netting or similar arrangements					Amounts not subject to master netting or similar arrangements	
			Related amounts not offset on the SoFP				
	Gross amounts $m	Offsetting applied $m	Financial instruments $m	Financial Collateral (Received)/Pledged $m	Net exposure $m	$m	Total $m
2016							
Financial assets							
Derivatives	570	-	(245)	(297)	28	105	675
Reverse repurchase agreement[1]	349	-	-	(349)	-	-	349
Total	919	-	(245)	(646)	28	105	1,024
Financial liabilities							
Derivatives	432	-	(245)	(69)	118	66	498
Repurchase agreement[2]	300	-	(300)	-	-	-	300
Total	732	-	(545)	(69)	118	66	498
2015							
Financial assets							
Derivatives	547	-	(257)	(251)	39	104	651
Reverse repurchase agreement[1]							
Total	547	-	(257)	(251)	39	104	651
Financial liabilities							
Derivatives	377	-	(257)	(41)	79	7	384
Repurchase agreement[2]	856	-	(856)	-	-	-	-
Total	1,233	-	(1,113)	(41)	79	7	384

1 Reverse repurchase agreements are presented in the balance sheet within cash if duration is less than 90 days. If maturity is greater than 90 days they are presented in Loans and advances.
2 Repurchase agreements are presented in the balance sheet within Deposits and short-term borrowings.

The balances in the table may not equate to the corresponding line item presented on the face of the consolidated statement of financial position or in the supporting notes. The difference relates to financial assets and financial liabilities that are not subject to master netting arrangements and are therefore not in scope of offsetting disclosures.

23.3. TRANSFERS OF FINANCIAL ASSETS AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

Assets sold under repurchase agreements

The Group enters into repurchase agreements and conducts covered bond and securitisation programs. The Group is deemed to have retained substantially all of the risks and rewards associated with the financial assets transferred in these arrangements. As such, the transferred financial assets continue to be recognised in the consolidated statement of financial position.

Repurchase agreements

The Group enters into repurchase agreements involving the sale of interest-bearing securities in exchange for cash and simultaneously agreeing to buy back the interest-bearing securities at a pre-agreed price on a future date. In the consolidated statement of financial position, the interest-bearing securities transferred are included in ‘Trading securities’ and ‘Available-for-sale financial assets', and the obligation to repurchase is included in ‘Deposits and short-term borrowings’.

Reverse repurchase agreements

Collateral has been accepted in relation to reverse repurchase agreements. Fair value of collateral accepted as security for assets is $353 million (2015: $nil) against carrying amount of $349 million (2015: $nil) advancing through the reverse repurchase agreements. These transactions are governed by standard industry agreements.

23.3. TRANSFERS OF FINANCIAL ASSETS AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS (CONTINUED)

Securitisation programs

The Company conducts a loan securitisation program whereby housing mortgage loans are packaged and sold to the securitisation trusts known as the Apollo Trusts (**Trusts**). The Trusts fund their purchase of the loans by issuing floating-rate pass-through debt securities. The Group receives residual income from the special purpose trusts after all payments to security holders and costs of the program have been met. The Group does not stand behind the capital value or the performance of the securities or the assets of the Trusts, and it does not guarantee the payment of interest or the repayment of principal due on the securities. The loans subject to the securitisation program have been pledged as security for the securities issued by the Trusts, and as such, the Group cannot use these assets to settle the liabilities of the Group. The Group is not obliged to support any losses that may be suffered by investors and does not intend to provide such support. The carrying amount of these securitised assets is $2,712 million (2015: $3,800 million). In the consolidated statement of financial position, the loans transferred are included in 'Loans and advances' and the securitisation securities issued are included in 'Securitisation liabilities'.

Covered bonds

The Company also conducts a covered bond program whereby it issues covered bonds guaranteed by the Covered Bond Guarantor and are secured over a covered pool which consists of $3,836 million (2015: $3,008 million) of loans and advances. This cover pool of eligible loans and advances (**covered pool assets**) is sold by the Company to a special purpose trust, which guarantees the covered bonds. The Covered Bond Guarantor can take possession of the cover pool under certain Title Perfection Events, as detailed in clause 6.1 of the Mortgage Sale Deed. In the event of default by the Company the covered bond holders have claim against both the cover pool and the Company. The Company receives residual income of the special purpose trust after all payments due to covered bond holders have been met. In the statements of financial position, the covered pool assets transferred are included in 'Loans and advances' and the covered bonds issued are included in 'Debt issues'.

The following table sets out the carrying amount of the transferred financial assets and the associated liabilities at the reporting date:

Consolidated			
2016	**Repurchase agreements $m**	**Covered bonds $m**	**Securitisation $m**
Carrying amount of transferred assets	300	3,836	2,712
Carrying amount of associated liabilities	(300)	(3,149)	(2,544)
For those liabilities that have recourse only to the transferred assets:			
Fair value of transferred financial assets	300	n/a	2,713
Fair value of associated financial liabilities	(300)	n/a	(2,540)
Net position	-		173
2015			
Carrying amount of transferred assets	859	3,008	3,800
Carrying amount of associated liabilities	(856)	(2,648)	(3,651)
For those liabilities that have recourse only to the transferred assets:			
Fair value of transferred financial assets	859	n/a	3,818
Fair value of associated financial liabilities	(856)	n/a	(3,689)
Net position	3		129

23.3. TRANSFERS OF FINANCIAL ASSETS AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS (CONTINUED)

Company	Repurchase agreements $m	Covered bonds $m
2016		
Carrying amount of transferred assets	300	3,838
Carrying amount of associated liabilities	(300)	(3,149)
For those liabilities that have recourse only to the transferred assets:		
Fair value of transferred financial assets	300	n/a
Fair value of associated financial liabilities	(300)	n/a
Net position	-	
2015		
Carrying amount of transferred assets	859	3,008
Carrying amount of associated liabilities	(856)	(2,648)
For those liabilities that have recourse only to the transferred assets:		
Fair value of transferred financial assets	859	n/a
Fair value of associated financial liabilities	(856)	n/a
Net position	3	

Note: n/a = not applicable
1 Includes internal self-securitisation established for contingent liability purposes

24. 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 considered to be 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 Board. The ERMF comprises:

- the 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; and
- the risk management process.

24. RISK MANAGEMENT OBJECTIVES AND STRUCTURE (CONTINUED)

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 business areas (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	All risk functions (Suncorp Group and business units)	• Design, implement and manage the ongoing maintenance of Suncorp Group risk frameworks & related policies • Advise and partner with the business in design and execution of risk frameworks and practices • Develop, apply and execute business units, risk frameworks that are consistent with the Suncorp Group for the respective business areas • Facilitate the reporting of the appropriateness and quality of risk management.
Third – Independent assurance over internal controls and risk management practices	Internal auditors	• 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 Board has delegated authorities and limits to the Chief Executive Officer & Managing Director to manage the business. Management recommends to the Board, and the Board has approved, various frameworks, policies and limits relating to the key categories of risk faced by the Suncorp Group within the Chief Executive Officer & Managing Director's authorities and limits.

The Senior Leadership Team, comprising the Chief Executive Officer & Managing Director, Line of Business CEOs and all Senior Executives, provides executive oversight and direction-setting across the Suncorp Group, taking risk considerations into account. The Chief Risk and Legal 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. The RMS describe the strategy adopted by the Board and management for managing risk within these entities, including risk appetite, policies, procedures, management responsibilities and controls.

24. RISK MANAGEMENT OBJECTIVES AND STRUCTURE (CONTINUED)

The key risks addressed by the ERMF are defined below:

Key risks	Definition
Counterparty risk (Credit risk)	The risk to each party to a contract that a counterparty will not meet its financial obligations in accordance with agreed terms.
Liquidity risk	The risk that the Group will be unable to service its cash flow obligations today or in the future.
Market risk	The risk of unfavourable changes in foreign exchange rates, interest rates, equity prices, credit spreads, commodity prices, and market volatilities.
Asset and liability risk	The risk to earnings and capital from mismatches between assets and liabilities with varying maturity and repricing profiles and from mismatches in term.
Operational risks	The risk of financial 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 risks	The risk of legal or regulatory sanctions, financial loss, or loss to reputation which the Group may suffer as a result of its failure to comply with all applicable regulations, codes of conduct and good practice standards.
Strategic risks	The risk that the Group's business model or strategy is not viable due to adverse changes in the business environment.

The Group is exposed to mainly 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.
Credit spread risk	Credit spread is the difference in yield due to difference in credit quality. This is the risk of loss in current and future earnings and unfavourable movement in the value of investments from changes in the credit spread as determined by capital market sentiment affecting all issuers in the market and not necessarily due to factors specific to an individual issuer.

25. RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS

25.1. CREDIT RISK

(a) Credit risk exposures

Credit risk in the Group arises not only from traditional lending to customers, but also from inter-bank, treasury, international trade and capital market activities.

Credit risk is managed on a structured basis with approval decisions being taken within credit approval authorities delegated by the Board. The acceptance and management of credit risk is performed independently as is setting and maintaining of detailed credit policies and standards. The Bank Credit Risk Committee and the Bank Chief Risk Officer have responsibility for the independent management of credit functions to monitor trends impacting the credit quality of lending portfolios, develop and maintain risk grading and automated risk assessment systems and manage troublesome and impaired assets.

Credit risk involves a wide spectrum of customers ranging from individuals to large institutions and as such credit risk management is divided into two distinct categories: a statistically managed portfolio and risk-graded portfolio.

The statistically managed portfolio covers consumer business (personal loans and housing loans) and automated credit scoring is widely used to determine customer creditworthiness. Credit scoring is embedded within the Group's end-to-end automated workflow system that also enforces credit policies and certain business rules. These exposures are generally not reviewed individually unless arrears occur when all collections and recovery actions are managed by a centralised team.

25.1. CREDIT RISK (CONTINUED)

(a) Credit risk exposures (continued)

The risk-graded portfolio includes business and agribusiness exposures. Within this portfolio, exposures are individually assessed and an internal risk grade assigned depending on discrete analysis of each customer or group of related customers' risk profile. Exposures within this portfolio are generally subject to annual (or more frequent) review, including a reassessment of the assigned internal risk grade. In the event of default, collections and recovery activity is managed within a well-defined structure. This process involves initial follow-up by the client manager including regular performance monitoring, reporting and, if required, transfer to the Credit Recovery Unit.

A credit inspection process is in place to review the acceptance and management of credit risk in accordance with the approved risk management framework.

The Group manages its exposure to credit losses on derivative contracts by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. The International Swaps and Derivatives Association (**ISDA**) Master Agreement provides a contractual framework for derivatives dealing across a full range of over-the-counter products. This agreement contractually binds both parties to apply close out netting across all outstanding transactions covered by an agreement if either party defaults or other pre-agreed termination events occur.

The carrying amount of the relevant asset classes in the statements of financial position generally 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 11.

The following table details Group's exposure to credit risk from its financial assets and credit commitments as at the reporting date. It is prepared on the following basis:

- No adjustments are made for any collateral held or credit enhancements;
- Impaired loans are those for which Group has determined that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. In relation to loans for business purposes, all relevant circumstances surrounding the customer are considered before a loan is considered impaired; and
- An asset is considered past due when any payment under the contractual terms have been missed or received late. The amount included as past due is the entire contractual balance, not just the overdue portion.

25.1. CREDIT RISK (CONTINUED)

(a) Credit risk exposures (continued)

Consolidated

	Receivables due from other banks $m	Trading and Investment securities $m	Loans and advances $m	Credit commitments[1] $m	Derivatives[1] $m	Total risk $m	Individually provisioned impaired assets $m	Past due > 90 days but not impaired $m	Remaining assets[2] and not impaired $m
2016									
Agribusiness	-	-	3,952	187	-	4,139	105	11	4,023
Construction and development	-	-	528	125	-	653	8	2	643
Financial services	552	3,136	92	173	217	4,170	-	-	4,170
Hospitality	-	-	902	36	-	938	21	-	917
Manufacturing	-	-	278	20	-	298	1	-	297
Professional services	-	-	252	12	-	264	7	1	256
Property investment	-	-	1,953	93	-	2,046	14	3	2,029
Real estate -									
Mortgage	-	-	44,270	1,668	-	45,938	24	347	45,567
Personal	-	-	376	6	-	382	8	11	363
Government / public authorities	-	3,586	-	-	-	3,586	-	-	3,586
Other commercial and industrial	-	-	1,695	190	-	1,885	18	29	1,838
Total gross credit risk	552	6,722	54,298	2,510	217	64,299	206	404	63,689
Impairment provisions						(164)	(56)	(26)	(82)
						64,135	150	378	63,607
2015									
Agribusiness	-	-	3,983	173	-	4,156	111	21	4,024
Construction and development	-	-	489	155	-	644	15	-	629
Financial services	595	4,942	107	216	356	6,216	-	-	6,216
Hospitality	-	-	912	47	-	959	25	3	931
Manufacturing	-	-	319	20	-	339	14	3	322
Professional services	-	-	233	11	-	244	7	1	236
Property investment	-	-	1,997	80	-	2,077	3	6	2,068
Real estate -									
Mortgage	-	-	41,800	1,898	-	43,698	21	323	43,354
Personal	-	-	381	10	-	391	-	8	383
Government / public authorities	-	2,687	-	-	-	2,687	-	-	2,687
Other commercial and industrial	-	-	1,722	109	-	1,831	22	34	1,775
Total gross credit risk	595	7,629	51,943	2,719	356	63,242	218	399	62,625
Impairment provisions						(208)	(82)	(27)	(99)
						63,034	136	372	62,526

1 Credit commitments and Derivative instruments represent the credit equivalent amount of the Group's off-balance sheet exposures calculated in accordance with APRA Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk.
2 Not past due or past due ≤ 90 days.

25.1. CREDIT RISK (CONTINUED)

(a) Credit risk exposures (continued)

Company

	Receivables due from other banks $m	Trading and Investment securities $m	Loans and advances $m	Credit commitments[1] $m	Derivatives[1] $m	Total risk $m	Individually provisioned impaired assets $m	Past due > 90 days but not impaired $m	Remaining assets[2] and not impaired $m
2016									
Agribusiness	-	-	3,826	187	-	4,013	105	11	3,897
Construction and development	-	-	474	125	-	599	5	2	592
Financial services	552	3,139	90	195	208	4,184	-	-	4,184
Hospitality	-	-	896	36	-	932	20	-	912
Manufacturing	-	-	255	20	-	275	1	-	274
Professional services	-	-	222	12	-	234	4	1	229
Property investment	-	-	1,950	93	-	2,043	14	3	2,026
Mortgage	-	-	44,270	1,668	-	45,938	24	347	45,567
Personal	-	-	376	6	-	382	8	11	363
Government / public authorities	-	3,586	-	-	-	3,586	-	-	3,586
Other commercial and industrial	-	-	1,603	190	-	1,793	12	27	1,754
Total gross credit risk	552	6,725	53,962	2,532	208	63,979	193	402	63,384
Impairment provisions						(158)	(54)	(23)	(81)
						63,821	139	379	63,303
2015									
Agribusiness	-	-	3,983	173	-	4,156	109	21	4,026
Construction and development	-	-	489	155	-	644	13	-	631
Financial services	595	4,962	107	248	371	6,283	-	-	6,283
Hospitality	-	-	912	47	-	959	25	3	931
Manufacturing	-	-	319	20	-	339	12	3	324
Professional services	-	-	233	11	-	244	3	1	240
Property investment	-	-	1,997	80	-	2,077	3	6	2,068
Mortgage	-	-	41,801	1,898	-	43,699	21	323	43,355
Personal	-	-	381	10	-	391	-	8	383
Government / public authorities	-	2,687	-	-	-	2,687	-	-	2,687
Other commercial and industrial	-	-	1,316	109	-	1,425	19	33	1,373
Total gross credit risk	595	7,649	51,538	2,751	371	62,904	205	398	62,301
Impairment provisions						(199)	(78)	(23)	(98)
						62,705	127	375	62,203

1 Credit commitments and Derivative instruments represent the credit equivalent amount of the Group's off-balance sheet exposures calculated in accordance with APRA Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk.
2 Not past due or past due ≤ 90 days.

(b) Credit quality

Credit quality of loans and advances are classified as follows:

- Performing loans are loans that are not impaired and either not past due or past due less than or equal to 90 days;
- Non performing loans - not impaired are loans that are past due for greater than 90 days; and
- Non performing loans - impaired are individually impaired loans for which an individually assessed provision for impairment has been raised.

25.1. CREDIT RISK (CONTINUED)

(b) Credit quality (continued)

Restructured loans are facilities whereby the original contract terms have been modified due to the financial difficulties or hardship of the customer. Examples of restructuring may include:

- reduction in principal, interest or other payments due; and
- a restructured maturity date to extend the period of repayment.

The following table provides information regarding the credit quality of loans and advances including restructured loans.

	Consolidated		Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Performing loans				
Loans and advances	53,688	51,325	53,367	50,934
Loans and advances with restructured terms	-	1	-	1
Collective allowance for impairment	(82)	(99)	(81)	(98)
	53,606	51,227	53,286	50,837
Non performing loans - not impaired				
Non performing loans - not impaired	404	399	402	398
Collective allowance for impairment	(26)	(27)	(23)	(23)
	378	372	379	375
Non performing loans - impaired				
Gross impaired loans	206	218	193	205
Specific allowance for impairment	(56)	(82)	(54)	(78)
Net impaired assets	150	136	139	127
Total loans and advances	54,134	51,735	53,804	51,339

Ageing of past due but not impaired financial assets is used by the Group to measure and manage emerging credit risks. A summary of the ageing of past due but not impaired loans and advances and other receivables is noted below. The balances of financial assets other than loans and advances are all neither past due nor impaired.

Consolidated	Past due but not impaired					
	0-30 days $m	30-60 days $m	60-90 days $m	90-180 days $m	> 180 days $m	Total $m
2016						
Loans and advances						
Retail banking	854	215	116	181	177	1,543
Business banking	68	37	18	22	24	169
	922	252	134	203	201	1,712
2015						
Loans and advances						
Retail banking	858	220	113	183	148	1,522
Business banking	90	32	20	49	19	210
	948	252	133	232	167	1,732

25.1. CREDIT RISK (CONTINUED)

(b) Credit quality (continued)

Company	Past due but not impaired					
	0-30 days $m	30-60 days $m	60-90 days $m	90-180 days $m	> 180 days $m	Total $m
2016						
Loans and advances						
Retail banking	854	215	116	181	177	1,543
Business banking	68	35	17	20	24	164
	922	250	133	201	201	1,707
2015						
Loans and advances						
Retail banking	858	220	113	183	148	1,522
Business banking	90	31	20	49	18	208
	948	251	133	232	166	1,730

(c) Collateral management

Collateral is used to mitigate credit risk as the secondary source of repayment in case the counterparty cannot meet their contractual repayment commitments.

The Group evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Group upon extension of credit, is based on management's credit evaluation of the counterparty.

Lenders Mortgage Insurance (**LMI**) is obtained by the Bank in order to cover any shortfall in outstanding loan principal and accrued interest. LMI is generally obtained for residential mortgages with a Loan to Valuation Ratio in excess of 80%. The financial effect of these measures is that remaining credit risk on residential loans is minimal.The Group also holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. With more than 82% (2015: 81%) of the Group's lending consumer in nature and 99% (2015: 99%) of that secured by residential property the Group's exposures are ultimately linked to factors impacting employment and residential property values.

In the event of customer default, the Group can take possession of any security held as collateral against the outstanding claim. Any loan security may be held as mortgagee in possession while the Group seeks to realise its value through the sale of the property. Therefore the Group does not hold any real estate or other assets acquired through the repossession of collateral.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

An estimate of the fair value of collateral and other security enhancements held by the Group against 'Non-performing loans – Impaired' which have a specific provision raised against them is $146 million (2015: $143 million). It has not been practicable to determine the fair value of collateral held as security against 'Non-performing loans – not impaired' or 'Performing loans'.

Collateral and other credit enhancements held by the Group mitigates the maximum credit exposure to credit risk.

25.1. CREDIT RISK (CONTINUED)

(d) Concentration of credit risk

Concentration of credit risk is managed by client or counterparty and industry sector. Portfolios are actively monitored and frequently reviewed to identify, assess and guard against unacceptable risk concentrations.

Details of the aggregate number of the Group's corporate exposures (including direct and contingent exposures) which individually were greater than 5% of the Group's capital resources (Tier 1 and Tier 2 capital) are as follows:

Consolidated	2016 Number	2015 Number
25% and greater	1	2
20% to less than 25%	2	1
15% to less than 20%	2	2
10% to less than 15%	2	2
5% to less than 10%	2	1

A structure of industry concentration limits has been developed to monitor exposure levels within the risk-graded portfolio. These are tactical limits upon which business planning and developmental activity is based but also act as guidelines for portfolio concentration purposes.

(e) Provision for impairment – specific and collective provisions

The credit provisions raised (specific and collective) represent management's best estimate of the losses incurred in the loan portfolio at reporting date. The independent Credit Recovery Unit provides the Bank Credit Risk Committee with analysis of the carrying value of impaired loans and factors impacting recoverability. Impaired loans are reviewed by the Bank Credit Risk Committee to ensure judgments are appropriate and provisions for impairment are adequate.

A specific provision for impairment is recognised where there is objective evidence of impairment and full recovery of the principal is considered doubtful. All factors that have a bearing on the expected future cash flows are taken into account, including the business prospects for the customer, the realisable value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. These judgments can change as new information becomes available and work-out strategies evolve.

Group policy requires the level of impairment allowances on individual facilities that are above internal thresholds to be reviewed at least half yearly, and more regularly as circumstances require.

A collective provision is established for loan portfolios which are not specifically provisioned. Collective provisions are held for potential credit losses which have been incurred but not yet specifically identified, and can be in the performing or non performing portfolios. For business banking exposures, a ratings based approach is applied using estimates of probability of default and loss given default, at a customer level. For portfolio managed exposures, the portfolios are split into pools with homogenous risk profiles and pool estimates of probability of default and loss given default are used to calculate the collective provision.

A collective provision for impairment is established against loan portfolios when events have occurred that have historically resulted in loan losses, but for which at balance date individual loans have not yet become impaired requiring individual (specific) provisioning. The collective provision is determined by identifying groups of loans with similar credit risk characteristics and loss events, and estimating the adverse impact of these events on future cash flows on the loans and subsequent potential losses that could arise.

25.1. CREDIT RISK (CONTINUED)

(e) Provision for impairment – specific and collective provisions (continued)

The Group has determined its groups of loans with similar credit risk characteristics as follows:

- Retail loans, small business and non-credit risk rated business loans are grouped by product.
- Credit risk rated business loans are grouped by the industry types, being agribusiness, commercial, development finance and property investment.

The key loss event identified for retail, small business and non-credit risk rated business loans is borrower in monetary default. The key loss events for credit risk rated business loans substantially align with existing credit review and management procedures to identify loans where deterioration has occurred in the underlying credit quality but which are currently not individually provisioned.

The Group has developed models to estimate the adverse impact on future cash flows for each group of loans with similar credit risk characteristics. These models estimate impairment losses by applying probability of default and loss given default statistical factors derived from prior experience.

Each model determines an impairment loss based on the Group's historical experience, with adjustment made for current economic conditions as deemed necessary by the Bank Risk Committee. It is possible that the estimated impairment loss will differ from the actual losses to be incurred from the groups of identified impaired loans.

25.2. LIQUIDITY RISK

Executive management of liquidity risk is delegated to the Bank Asset and Liability Committee, which reviews risk measures and limits, endorses and monitors the overall funding and liquidity strategy. Operational management of liquidity risk is delegated to both the Balance Sheet and Cash Management sections of the Bank Treasury. Liquidity risk is independently monitored against approved policies on a daily basis by the Market Risk division.

Separate policies and processes are in place to mitigate liquidity and funding risk which are approved by the Board Risk Committee and subject to APRA review. These include:

- liquidity and funding policies as well as relevant risk limits;
- a framework that includes going concern, name crisis scenario, liquidity coverage ratio and net stable funding ratio analysis, minimum high quality liquid asset ratio, minimum liquid asset ratios, liquidity concentration limits and other supplementary management trigger limits; and
- sourcing of retail deposits and long-term debt to provide funding for the majority of the funding portfolio. Funding capacity is monitored and diversity in the funding portfolio is managed with consideration for product, tenor, geography and customer concentrations and market trends.

25.2. LIQUIDITY RISK (CONTINUED)

(a) Maturity analysis

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

The cash flows for subordinated notes have been included at their next call date. The total cash flows include both principal and associated future interest payments. Interest is calculated based on liabilities held at balance date, without taking account of future issuance. Floating rate interest is estimated using estimated forward rates at the balance date.

Derivatives (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the 0-3 months column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short-term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

The Group does not use this contractual maturity information as presented in the liquidity risk management of its liabilities. Additional factors as described above are considered when managing the maturity profiles of the business.

Consolidated	Carrying amount $m	At call $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total Cash flows $m
2016							
Deposits and short-term borrowings	45,421	17,879	15,104	11,746	1,375	-	46,104
Payables due to other banks	332	332	-	-	-	-	332
Payables and other liabilities	346	-	346	-	-	-	346
Derivative financial instruments (trading)	240	1	66	106	75	4	252
Payables to subsidiaries	135	-	135	-	-	-	135
Securitisation liabilities	2,544	-	194	604	1,667	359	2,824
Debt issues	9,860	-	603	3,070	7,005	-	10,678
Subordinated notes	742	-	17	20	780	-	817
	59,620	18,212	16,465	15,546	10,902	363	61,488
Derivative financial instruments (hedging relationship)							
Contractual amounts payable	1,293	2	136	278	1,004	23	1,443
Contractual amounts receivable	(1,035)	(1)	(112)	(197)	(843)	(14)	(1,167)
	258	1	24	81	161	9	276
Off-balance sheet positions							
Guarantees entered into in the normal course of business	-	251	-	-	-	-	251
Commitments to provide loans and advances	-	8,201	-	-	-	-	8,201
	-	8,452	-	-	-	-	8,452

25.2. LIQUIDITY RISK (CONTINUED)

(a) Maturity analysis (Continued)

Consolidated

	Carrying amount $m	At call $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total Cash flows $m
2015							
Deposits and short-term borrowings	44,431	16,716	16,085	11,088	1,230	-	45,119
Payables due to other banks	297	297	-	-	-	-	297
Payables and other liabilities	400	-	400	-	-	-	400
Derivative financial instruments (trading)	129	-	16	32	89	4	141
Payables to subsidiaries	199	-	199	-	-	-	199
Securitisation liabilities	3,651	-	273	1,039	2,097	761	4,170
Debt issues	7,876	-	254	1,589	6,528	-	8,371
Subordinated notes	742	-	9	12	787	-	808
	57,725	17,013	17,236	13,760	10,731	765	59,505
Derivative financial instruments (hedging relationship)							
Contractual amounts payable	1,846	-	242	473	1,381	46	2,142
Contractual amounts receivable	(1,574)	-	(198)	(365)	(1,205)	(40)	(1,808)
	272	-	44	108	176	6	334
Off-balance sheet positions							
Guarantees entered into in the normal course of business		283	-	-	-	-	283
Commitments to provide loans and advances		8,091	-	-	-	-	8,091
		8,374	-	-	-	-	8,374

Company

	Carrying amount $m	At call $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total Cash flows $m
2016							
Deposits and short-term borrowings	45,503	17,961	15,104	11,746	1,375	-	46,186
Payables due to other banks	332	332	-	-	-	-	332
Payables and other liabilities	339	-	339	-	-	-	339
Derivative financial instruments (trading)	240	1	66	106	75	4	252
Payables to subsidiarie and related parties[1]	2,670	-	320	604	1,667	359	2,950
Debt issues	9,860	-	603	3,070	7,005	-	10,678
Subordinated notes	742	-	17	20	780	-	817
	59,686	18,294	16,449	15,546	10,902	363	61,554
Derivative financial instruments (hedging relationship)							
Contractual amounts payable	1,293	2	136	278	1,004	23	1,443
Contractual amounts receivable	(1,035)	(1)	(112)	(197)	(843)	(14)	(1,167)
	258	1	24	81	161	9	276
Off-balance sheet positions							
Guarantees entered into in the normal course of business	-	251	-	-	-	-	251
Commitments to provide loans and advances	-	8,245	-	-	-	-	8,245
	-	8,496	-	-	-	-	8,496

1 Funds raised from securitisation through the Apollo trusts are on-lent to the Company through intercompany loan arrangements.

25.2. LIQUIDITY RISK (CONTINUED)

(a) Maturity analysis (Continued)

Company

	Carrying amount $m	At call $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total Cash flows $m
2015							
Deposits and short-term borrowings	44,604	16,889	16,085	11,088	1,230	-	45,292
Payables due to other banks	297	297	-	-	-	-	297
Payables and other liabilities	395	-	395	-	-	-	395
Derivative financial instruments (trading)	129	-	16	32	89	4	141
Payables to subsidiarie and related parties[1]	3,858	-	313	1,039	2,097	761	4,210
Debt issues	7,876	-	254	1,589	6,528	-	8,371
Subordinated notes	742	-	9	12	787	-	808
	57,901	17,186	17,072	13,760	10,731	765	59,514
Derivative financial instruments (hedging relationship)							
Contractual amounts payable	1,690	-	232	324	1,381	46	1,983
Contractual amounts receivable	(1,435)	-	(190)	(234)	(1,205)	(40)	(1,669)
	255	-	42	90	176	6	314
Off-balance sheet positions							
Guarantees entered into in the normal course of business	-	283	-	-	-	-	283
Commitments to provide loans and advances	-	8,155	-	-	-	-	8,155
	-	8,438	-	-	-	-	8,438

1 Funds raised from securitisation through the Apollo trusts are on-lent to the Company through intercompany loan arrangements.

25.2. LIQUIDITY RISK (CONTINUED)

(b) Composition of funding

Details of the composition of funding used by the Group to raise funds are as follows:

Consolidated	Note	Consolidated		Company	
		2016 $m	2015 $m	2016 $m	2015 $m
Customer funding					
Customer deposits					
At-call deposits		17,758	16,583	17,840	16,756
Term deposits		18,471	17,592	18,471	17,592
Total retail funding		36,229	34,175	36,311	34,348
Wholesale funding					
Domestic funding					
Short-term wholesale		6,511	7,480	6,511	7,480
Long-term wholesale		3,588	2,392	3,588	2,392
Covered bonds		3,149	2,648	3,149	2,648
Subordinated notes		742	742	742	742
Total domestic funding		13,990	13,262	13,990	13,262
Overseas funding [1]					
Short-term wholesale		2,681	2,776	2,681	2,776
Long-term wholesale		3,123	2,836	3,123	2,836
Total overseas funding		5,804	5,612	5,804	5,612
Total wholesale funding		19,794	18,874	19,794	18,874
Total funding (excluding securitisation)		56,023	53,049	56,105	53,222
Securitisation					
APS 120 qualifying [2]		2,345	3,344	-	-
APS 120 non-qualifying		199	307	-	-
Total securitisation		2,544	3,651	-	-
Total funding (including securitisation)		58,567	56,700	56,105	53,222
Comprised of the following items on the statement of financial position:					
Deposits and short-term borrowings	14	45,421	44,431	45,503	44,604
Securitisation	23.3	2,544	3,651	-	-
Debt issues	16	9,860	7,876	9,860	7,876
Subordinated notes	17	742	742	742	742
Total funding		58,567	56,700	56,105	53,222

1 Foreign currency borrowings are hedged back into Australian dollars.
2 Qualifies for capital release under APS120.

25.3. MARKET RISK

The Group is exposed to mainly two sources of market risk, being interest rate and foreign exchange risks. For the purposes of market risk management, these are further broken down into traded and non-traded market risks.

The Group uses value at risk (**VaR**) as one of the key measures of traded market risk and non-traded interest rate risk in the banking book (**IRRBB**). The VaR model is a statistical technique used to measure and quantify the market risk over a specific holding period at a given confidence level. The Group's standard VaR approach for both traded and non-traded risk is historical simulation which uses equally weighted market observation from at at least the last six years.

(a) Traded market rate risk

The Group trades a range of on-balance sheet interest, foreign exchange (**FX**) and derivative products. Income is earned from spreads achieved through market making and effective trading within the established risk management framework.

In addition to VaR, traded interest rate and foreign exchange risks are managed using a framework that includes stress testing, scenario analysis, sensitivity and stop losses. These measures are monitored and reported to the Bank & Wealth Chief Risk Officer and the Bank Asset and Liability Committee for management oversight.

VaR is modelled at a 99% confidence level over a 1 day holding period for trading book positions.

The VaR for Group's total interest rate and foreign exchange trading activities at end of the financial year are as follows:

Consolidated and Company	2016			2015		
Traded market risks	Interest rate risk $m	FX risk $m	Combined risk[1] $m	Interest rate risk $m	FX risk $m	Combined risk[1] $m
VaR at end of the financial year	0.65	0.16	0.63	0.21	0.22	0.29

[1]VaR for combined risk is the total trading interest rate and foreign exchange risks, taking into account correlations between different positions in both the interest rate and foreign exchange trading portfolios.

(b) Non-traded interest rate risk

Non-traded interest rate risk in the banking book (**IRRBB**) is defined as all on-balance sheet items and off-balance sheet items that create an interest rate risk exposure within the Group. The main objective of IRRBB management is to maximise and stabilise net interest income in the long term.

Interest rate risk arises from changes in interest rates that expose the Group to the risk of loss in terms of earnings and/or economic value. There are several sources of IRRBB arising from mismatches in the interest rate repricing dates of banking book items and include:

- Repricing risk: resulting from changes in the overall levels of interest rates;
- Yield curve risk: resulting from changes in the relative levels of interest rates at different tenors of the yield curve (that is a change in the slope or shape of the yield curve);
- Basis risk: resulting from differences between the actual and expected interest margins on banking book items; and
- Optionality risk: resulting from the existence of stand-alone or embedded options to the extent that the potential for losses is not included in the remeasurement of repricing, yield curve or basis risks.

(i) IRRBB – Net Interest Income Sensitivity (NIIS)

IRRBB exposures are generated by using underlying reconciled financial position data to generate cash flows using relevant interest rate curves, and a static balance sheet assumption. Contractual cash flows are generated except for products where expected behavioural cash flow modelling is more appropriate, and they are modelled with a profile and at a term that can be statistically supported.

As a measure of shorter term sensitivity, NIIS measures the sensitivity of the banking book earnings over the next 12 months to an instantaneous parallel and non-parallel shock to the yield curve. NIIS is measured using a 2% parallel and non-parallel shock to the yield curve to determine the potential adverse change in net interest income in the ensuing 12-month period.

25.3. MARKET RISK (CONTINUED)

(b) Non-traded interest rate risk (Continued)

The following table indicates the potential adverse change in NIIS on the consolidated statement of financial position. The results are prepared based on the IRRBB framework applicable to the respective financial year.

Consolidated and Company	2016	2015
	$m	$m
Exposure at the end of the financial year	(37)	(44)

(ii) Present Value Sensitivity (PVS)

As a measure of longer term sensitivity, PVS measures the sensitivity of the present value of the net interest income at risk of all known future cash flows in the banking book, to an instantaneous parallel and non-parallel shock to the yield curve. All exposures have their known future cash flows present valued from relevant interest rate curves.

The following table indicates the potential adverse change in PVS on the consolidated statement of financial position. The change in PVS is based on an adverse 2% parallel or non-parallel instantaneous shock to the yield curve.

The results are prepared based on the IRRBB framework applicable to the respective financial year.

Consolidated and Company	2016	2015
	$m	$m
Exposure at end of the financial year	(45)	(52)

(iii) Value at Risk (VaR)

VaR is modelled at a 99% confidence level over a 1-month holding period for IRRBB. The results are prepared based on the IRRBB framework applicable to the respective financial year.

Consolidated and Company	2016	2015
	$m	$m
Exposure at end of the financial year	(19)	(23)

(c) Non-traded foreign exchange risk

Non-traded foreign exchange risk can arise from having non-Australian dollar items in the banking book, thereby exposing current and future earnings to movements in foreign exchange rates. The objective of foreign currency exchange risk management is to minimise the impact on earnings of any such movements. The policy is to fully hedge any such exposure and accordingly minimise exposure to the risk. All offshore borrowing facilities arranged as part of the overall funding diversification process have been economically hedged in respect of their potential foreign exchange risk through the use of financial derivatives (refer note 11).

26. COMMITMENTS

26.1. CREDIT COMMITMENTS

In the ordinary course of business, various types of contracts are entered into relating to the financing needs of customers. Commitments to extend credit, letters of credit, guarantees, warranties and indemnities are classed as financial instruments and attract fees in line with market prices for similar arrangements and reflect the probability of default. They are not sold or traded. They are not recorded in the statements of financial position but are disclosed in the financial statements. The Group uses the same credit policies and assessment criteria in making these commitments and conditional obligations as it does for on-balance sheet instruments.

The following table shows the notional amounts of credit commitments together with their credit equivalent amounts determined in accordance with the capital adequacy guidelines set out by APRA:

26.1. CREDIT COMMITMENTS (CONTINUED)

	Consolidated		Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Notional amounts				
Guarantees entered into in the normal course of business	251	283	251	283
Commitments to provide loans and advances	8,201	8,091	8,245	8,155
	8,452	8,374	8,496	8,438
Credit equivalent amounts				
Guarantees entered into in the normal course of business	249	281	249	281
Commitments to provide loans and advances	2,261	2,438	2,283	2,470
	2,510	2,719	2,532	2,751

26.2. OPERATING LEASE EXPENDITURE COMMITMENTS

The Group leases property under operating leases expiring from 1-8 years. Leases generally provide the Group with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

	Consolidated		Company	
	2016 $m	2015 $m	2016 $m	2015 $m
Aggregate non-cancellable operating lease rental payable but not provided in the financial statements:				
Less than one year	15	31	15	31
Between one and five years	46	48	46	48
More than five years	25	40	25	40
	86	119	86	119

27. MATERIAL SUBSIDIARIES OF THE COMPANY

Subsidiaries	Class of shares	Country of incorporation	2016 Equity Holding %	2015 Equity Holding %
APOLLO Series Trusts (various) [1]	Units	Australia	**100**	100
Suncorp Covered Bond Trust	Units	Australia	**100**	100
SME Management Pty Limited	Ordinary	Australia	**100**	100
Suncorp Metway Advances Corporation Pty Ltd	Ordinary	Australia	**100**	100
Suncorp Property Development Equity Fund #2 Unit Trust	Units	Australia	**100**	100

[1] The Company conducts a loan securitisation program whereby housing mortgage loans are packaged and sold as securities to the wholly owned Apollo Trusts (Trusts). As at 30 June 2016, the Company held interests in nine Trusts (2015: ten).

28. KEY MANAGEMENT PERSONNEL (KMP) AND OTHER RELATED PARTIES DISCLOSURE

28.1. KMP DISCLOSURES

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

Total compensation for KMP are as follows:

Consolidated and Company	2016 $000	2015 $000
Short-term employee benefits	18,485	20,499
Long-term employee benefits	3,181	5,025
Post employment benefits	495	435
Share-based payment	5,779	5,628
Termination benefits	2,207	-
	30,147	31,587

The ultimate parent entity has determined the compensation of KMPs in accordance with their roles within the 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 be misleading. There is no link between KMP compensation and the performance of the Company. Therefore, as there is no reasonable basis for allocating a KMP compensation amount to the Company, the entire compensation of the KMPs has been disclosed above.

Loans to KMP and their related parties are secured housing loans and asset lines provided in the ordinary course of the Banking business. All loans have normal commercial terms, which may include staff discounts at the same terms available to all employees of Suncorp Group. The loans may have offset facilities, in which case the interest charged is after the offset. No amounts have been written down or recorded as provisions, as the balances are considered fully collectable.

Details regarding the aggregate of loans made, guaranteed or secured by any entity in Suncorp Group to KMP and their related parties are as follows.

Consolidated and Company	2016		2015	
	Key management personnel $000	Other related parties $000	Key management personnel $000	Other related parties $000
Closing balance	5,138	668	3,790	278
Interest charged	196	18	226	19

28.2. RELATED PARTY TRANSACTIONS WITH RELATED PARTIES

The Company has a related party relationship with its subsidiaries (refer note 27), parent entity and its other controlled subsidiaries and with its key management personnel (refer note 28.1).

A number of banking transactions occur between the Company and related parties within the Group. These transactions occur in the normal course of business and are on terms equivalent with those made on an arm's length basis. These include loans, deposits and foreign currency transactions, upon which some fees and commissions may be earned. Other transactions between these related parties consisted of advances made and repaid, dividends received and paid and interest received and paid. All these transactions were on a normal commercial basis except that some intercompany advances may be interest free.

	Consolidated		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
The aggregate amounts included in the determination of profit or loss and other comprehensive income before tax that resulted from transactions with related parties:				
Investment revenue including dividend income				
Subsidiaries	-	-	23,500	18,001
Other income				
Subsidiaries	-	-	317,077	336,004
Other related parties	1,500	1,500	1,500	1,500
Interest expense				
Subsidiaries	-	-	3,888	6,202
Other related parties	43,317	42,937	33,792	36,095
Other operating expenses				
Subsidiaries	-	-	528,907	608,730
Other related parties	539,090	509,160	539,090	509,168
Dividend paid				
Parent entity	345,000	225,810	345,000	225,810
Other related parties	21,696	22,925	21,696	22,925
Aggregate balances, amounts receivable from, and payable to, each class of related parties as at the end of the financial year:				
Investment and Trading Securities				
Subsidiaries			3,307	19,807
Due from related parties				
Subsidiaries			382,721	543,061
Other related parties	295,014	226,049	295,224	219,864
Derivatives Assets				
Other related parties	59,707	16,615	59,707	16,615
Due to related parties				
Subsidiaries			2,534,749	3,659,682
Other related parties	135,251	198,636	135,251	198,636
Deposit and short-term borrowings				
Subsidiaries	-	-	102	101
Other related parties	532,423	531,958	614,123	713,269
Debt Issue				
Other related parties	18,389	7,299	18,389	7,299
Subordinate Note				
Other related parties	670,000	670,000	670,000	670,000
Securitised liabilities				
Other related parties	8,436	11,873		

29. AUDITOR'S REMUNERATION

	Consolidated		Company	
	2016 $000	2015 $000	2016 $000	2015 $000
KPMG Australia				
Audit and review services				
Audit and review of financial reports	1,325	1,250	1,186	1,109
Other regulatory audits	368	362	368	362
	1,693	1,612	1,554	1,471
Other services				
In relation to other assurance, actuarial, taxation and other non-audit services	1,447	2,109	1,310	1,901
Total auditor's remuneration	3,140	3,721	2,864	3,372

Fees for services rendered by the Group's auditor are borne by a related entity within the Suncorp 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, 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, are 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.

Contingent liabilities for which no provisions are included in these financial statements are as follows:

- The Group has given guarantees and undertakings in the ordinary course of business in respect to credit facilities and rental obligations. Note 26 sets out the details of these guarantees.
- Certain subsidiaries act as trustee for various trusts. In this capacity, the subsidiaries are liable for the debts of the trusts and are entitled to be indemnified out of the trust assets for all liabilities incurred on behalf of the trusts.

31. SIGNIFICANT ACCOUNTING POLICIES

The Group's significant accounting policies set out below have been consistently applied by all Group entities to all periods 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.

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.

Non-controlling interests recognised as equity and managed funds units recognised as a liability arise when the Group does not hold 100% of the shares or units in a subsidiary. They represent the external equity or liability interests in non-wholly owned subsidiaries of the Group.

Structured entities (**SE**) are entities created to accomplish a narrow and well-defined objective such as the securitisation of particular assets or the execution of a specific borrowing or lending transaction. Critical judgments are applied in determining whether a SE is controlled and consolidated by the Group. A SE is consolidated if the Group is exposed to, or has rights to, variable returns from its involvement with the SE and has the ability to affect those returns through its power over the SE.

The main types of SE established by the Group are securitisation trusts and covered bond trusts. The securitisation trusts and the covered bond trusts are controlled by the Group and are consolidated in the consolidated financial statements.

31.2. FOREIGN CURRENCY

Foreign currency transactions

Transactions denominated in foreign currencies are translated into the functional currency of the operation using the spot exchange rates at the date of the transaction. Foreign currency monetary assets and liabilities at balance 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.

Where a foreign currency transaction is part of a hedge relationship, it is accounted for as above, subject to the hedge accounting rules set out in note 31.10.

31.3. REVENUE AND EXPENSE RECOGNITION

(a) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. This includes fees and commission income and expense (e.g. lending fees) that are integral to the effective interest rate on a financial asset or liability.

(b) Dividends and distribution income

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

(c) Other income

Non-yield related application and activation lending fee revenue is recognised when the loan is disbursed or the commitment to lend expires.

Service fees that represent the recoupment of the costs of providing services, for example maintaining and administering existing facilities, insurance portfolio fund management services income, and asset management services, are recognised on an accrual basis when the service is provided.

31.4. 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 where 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.

Tax consolidation

The Group is a wholly-owned entity in a tax-consolidated group, with Suncorp Group Limited as the head entity.

The Company and each of its wholly-owned subsidiaries recognise 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 recognises the entire tax-consolidated group's current tax liability. Any differences, per subsidiary, 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 subsidiary.

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 compensate the Suncorp Group Limited 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.

Taxation of financial arrangements

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

31.5. 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.

31.6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, cash at branches, cash on deposit, balances with the Reserve Bank of Australia, highly liquid short-term investments, money at short call, and securities held under reverse repurchase agreements with an original maturity of three months or less. Receivables due from and payables due to other banks are classified as cash equivalents for cash flow purposes. Bank overdrafts are shown within financial liabilities unless there is a right of offset.

Receivables due from and payables due to other banks include collateral posted or received on derivative positions, nostro balances and settlement account balances. They are carried at the gross value of the outstanding balance.

31.7. NON-DERIVATIVE FINANCIAL ASSETS

Upon initial recognition, financial assets of the Group are classified into one of the following categories:

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

Financial assets at fair value through profit or loss are classified as held for trading and are included in investment securities as trading securities.

They are initially recognised on trade date at fair value. Transaction costs are recognised in the 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 the profit or loss.

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. They are initially recognised on trade date at fair value plus any directly attributable transaction costs and subsequently are measured at amortised cost using the effective interest rate method at each reporting date.

(c) Loans and other receivables

Loans and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These include all forms of lending and direct finance provided to Banking customers including finance leases, premiums outstanding and other insurance receivables. They are initially recognised on the date they originated.

They are initially measured at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost less any impairment losses.

(d) Available-for-sale financial assets

Available-for-sale financial assets consist of debt and equity securities which are intended to be held for an indefinite period of time, but which may be sold in response to a need for liquidity or changes in interest rates or exchange rates. They are initially recognised on trade date at fair value plus any directly attributable transaction costs and are measured at fair value at each reporting date.

Fair value gains and losses, other than foreign exchange gains and losses on debt securities, are recognised in other comprehensive income until impaired or derecognised, whereupon the cumulative gains and losses previously recognised in other comprehensive income are transferred to profit or loss. Foreign exchange gains and losses on debt securities are recognised in profit or loss.

31.7. NON-DERIVATIVE FINANCIAL ASSETS (CONTINUED)

(e) 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.

(f) Repurchase agreements and reverse repurchase agreements

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset at a fixed price on a future date (repurchase agreement), the financial assets sold under such agreements continue to be recognised as a financial asset and the obligation to repurchase recognised as a liability.

Securities purchased under agreements to resell, where the Group does not acquire the risks and rewards of ownership, are recorded as receivables in cash or net loans and advances if the original maturity is greater than 90 days. The security is not included in the balance sheet. Interest income is accrued on the underlying loan amount.

31.8. INVESTMENT IN SUBSIDIARIES

Investment in subsidiaries are carried at cost.

31.9. 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.

All derivatives are initially recognised at fair value on trade date and transaction costs are recognised in profit or loss as incurred. Fair values are determined from quoted market prices where available, or else by using discounted cash flow models, broker and dealer price quotations or option pricing models as appropriate.

Derivatives are classified and accounted for as held for trading financial assets at fair value through profit or loss (note 31.7) unless they qualify as a hedging instrument in an effective hedge relationship under hedge accounting (note 31.10).

Embedded derivatives

Where a derivative is embedded in another financial instrument, the economic characteristics and risks of the derivative are not closely related to those of the host contract and the host contract is not carried at fair value, the embedded derivative is separated from the host contract and carried at fair value through profit or loss. Otherwise, the embedded derivative is accounted for on the same basis as the host contract.

31.10. HEDGE ACCOUNTING

The Group applies hedge accounting to offset the effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item.

(a) Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability of cash flows that:

- is attributable to a particular risk associated with a recognised asset or liability (such as future interest payments on variable rate debt) or a highly probable forecast transaction; and
- could affect profit or loss.

Changes in the fair value associated with the effective portion of a hedging instrument designated as a cash flow hedge are recognised in other comprehensive income and accumulated in the hedging reserve within equity as the lesser of the cumulative fair value gain or loss on the hedging instrument and the cumulative change in fair value on the hedged item from the inception of the hedge. Ineffective portions are immediately recognised in the profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised or, the hedge relationship is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction affects profit or loss. When a forecast transaction is no longer expected to occur, the amounts accumulated in equity are released to profit or loss immediately. In other cases the cumulative gain or loss previously recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

31.10. HEDGE ACCOUNTING (CONTINUED)

(b) Fair value hedges

A fair value hedge is a hedge of the exposure to changes in fair value of:

- a recognised asset or liability;
- an unrecognised firm commitment; or
- an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit and loss.

Where an effective hedge relationship is established, fair value gains or losses on the hedging instrument are recognised in profit or loss. The hedged item attributable to the hedged risk is carried at fair value with the gain or loss recognised in profit or loss.

When a hedging relationship no longer meets the criteria for hedge accounting, the hedged item is accounted for under the effective interest method from that point and any accumulated adjustment to the carrying value of the hedged item from when it was effective is released to profit or loss over the period to when the hedged item will mature.

31.11. 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.

Loans and advances

An impairment loss is recognised in respect of financial assets measured at amortised cost when the carrying amount of the asset exceeds the present value of estimated future cash flows discounted at the asset's original effective interest rate. When impairment losses are recognised, the carrying amount of the relevant asset or group of assets is reduced by the balance of the provision for impairment. If a subsequent event causes the amount of the impairment loss to decrease, the impairment loss is reversed through profit or loss.

The amount necessary to bring the impairment provisions to their assessed levels, after write-offs, is charged to profit or loss. All known bad debts are written off in the period in which they are identified. Where not previously provided for, they are written off directly to profit or loss.

The unwinding of the discount from initial recognition of impairment through to recovery of the written down amount is recognised through interest income.

Available-for-sale financial assets

An impairment loss is recognised in respect of available-for-sale financial assets where there is evidence of a decrease in fair value below cost. Cumulative losses are transferred from the available-for-sale reserve in equity to the profit or loss. When subsequent events cause the amount of the impairment loss to decrease, a reversal of the impairment is recognised in profit or loss for debt securities if the decrease can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, and in equity for equity securities and other debt security recoveries.

(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**)) – this 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.

31.11. IMPAIRMENT (CONTINUED)

(b) Non-financial assets (Continued)

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 CGU are allocated first to reduce the carrying amount of any goodwill allocated to CGU and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

31.12. NON-DERIVATIVE FINANCIAL LIABILITIES

Upon initial recognition, financial liabilities of the Group are classified into one of the categories listed below.

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

These liabilities are classified as either held for trading or those that are designated upon initial recognition. Liabilities are initially recognised on trade date at fair value with any directly attributable transaction costs recognised in profit or loss as incurred. Fair value is determined using the offer price where available. Movements in the fair value are recognised in the profit or loss. The Group designates certain short-term offshore borrowings at fair value through profit or loss when they are managed on a fair value basis.

(b) Financial liabilities at amortised cost

Financial liabilities 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. The Group's financial liabilities at amortised cost includes deposits and short-term borrowings, debt issues, and subordinated notes.

(c) Hybrid instruments

Hybrid instruments are those that have an embedded derivative that should be separated, and has both financial liability and equity characteristics.

The embedded derivative component is accounted for separately from the host contract and is recognised at fair value on initial recognition. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. The amount allocated to the equity component is the residual.

Issue costs are apportioned between the liability and equity components of the instruments on their relative carrying amounts at the date of issue.

(d) Derecognition of financial liabilities

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

31.13. LEASES

A distinction is made between finance leases (which effectively transfer substantially all the risks and benefits incidental to ownership of leased non-current assets from the lessor to the lessee) and operating leases (under which the lessor effectively retains substantially all such risks and benefits).

Payments made under operating leases are expensed on a straight-line basis over the term of the lease.

31.14. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities are not recognised but are disclosed in 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 but are disclosed in 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.

31.15. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following standards, amendments to standards and interpretations are relevant to current operations. They are available for early adoption but have not been applied by the Group in this financial report.

AASB 9 *Financial Instruments* was issued and introduces changes in the classification and measurement of financial assets and financial liabilities, impairment of financial assets and new rules for hedge accounting. This standard becomes mandatory for the Group's 30 June 2019 financial statements. The potential effects on adoption of the standard are currently being assessed.

AASB 15 *Revenue from Contracts with Customers* was issued and establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It will replace the existing revenue recognition standards including AASB 118 *Revenue*. This standard becomes mandatory for the Group's 30 June 2018 financial statements. The potential effects on adoption of the standard are currently being assessed.

AASB 16 *Leases* was issued and introduced changes to lessee accounting. It requires recognition of lease liabilities and assets other than short-term leases or leases of low-value assets on statement of financial position. This will replace the operating / finance lease distinction and accounting requirements prescribed in AASB 117 *Leases*. This standard will become mandatory for the Suncorp Group's 30 June 2020 financial statements. The potential effects on adoption of the standard are currently being assessed.

AASB 9 and AASB 16 are available for early adoption but have not been applied by the Suncorp Group in this financial report.

32. SUBSEQUENT EVENTS

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 Group, the results of those operations, or the state of affairs of the Group in future financial years.

DIRECTORS' DECLARATION

1. In the opinion of the directors of Suncorp-Metway Limited (the **Company**):
   a. the consolidated financial statements and notes, and the Remuneration Report in the Directors' Report set out on pages 15 to 40, 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 2016 and of their performance for the financial year ended on that date; and
      ii. complying with Australian Accounting Standards 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 have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Group Chief Executive Officer and Group Chief Financial Officer for the financial year ended 30 June 2016.
3. 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:

Dr Ziggy Switkowski AO
Chairman

Michael A Cameron
CEO and Managing Director

4 August 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SUNCORP-METWAY LIMITED

Report on the financial report

We have audited the accompanying financial report of Suncorp-Metway Limited (the Company), which comprises the consolidated statements of financial position as at 30 June 2016, and consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the year ended on that date, notes 1 to 32 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Company and the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2.1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001.*

KPMG

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SUNCORP-METWAY LIMITED (CONTINUED)

Auditor's opinion

In our opinion:

a. the financial report of the Suncorp-Metway Limited is 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 2016 and of their performance for the financial year ended on that date; and

   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*

b. the financial report also complies with International Financial Reporting Standards as disclosed in note 2.1.

Report on the remuneration report

We have audited in sections 2, 3 and 4 of the remuneration report included in pages 19 to 40 of the directors' report for the year ended 30 June 2016. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Suncorp-Metway Limited for the year ended 30 June 2016 complies with Section 300A of the *Corporations Act 2001*.

KPMG

Jillian Richards

Partner

Brisbane

4 August 2016