

**Suncorp-Metway Limited and
subsidiaries**

ABN 66 010 831 722

**Directors' report &
consolidated financial
report**

**for the financial year ended 30
June 2017**

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SUNCORP-METWAY LIMITED AND SUBSIDIARIES

ABN 66 010 831 722

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

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 2017 (**2016-17**) 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 2016-17 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 69

Dr Switkowski has been a director of the Group since September 2005, and Chairman since October 2011. He is an ex officio member of the Audit, Remuneration and Risk Committees. He is Chairman of NBN Co Limited, and a director of Healthscope Limited (since April 2016) and Tabcorp Holdings Limited (since October 2016). 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

FCCA, FCA, FAICD
CEO & Managing
Director, age 57

Mr Cameron was appointed Chief Executive Officer and Managing Director (**CEO & Managing Director**) in October 2015. He was a non-executive director from April 2012 to September 2015. He was previously 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, Group Chief Financial Officer of Commonwealth Bank of Australia, then Group Executive of their Retail Bank Division. He also spent 10 years with Lendlease in a number of senior positions, including CFO at MLC Limited. Mr Cameron is a director of the Great Barrier Reef Foundation, and Chairman of the Financial Sector Advisory Council.

Photo Pending

William J Bartlett

FCCA, FCA, FAICD,
FCMA, CA (SA)
Non-executive director,
age 68

Mr Bartlett has been a director of the Group since July 2003. 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).

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Audette E Exel AO

BA, LLB (Hons)
Non-executive director,
age 54

Ms Exel has been a director of the Group 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. Before establishing the Adara Group, she was Managing Director 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 60

Ms Herman has been a director of the Group 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 71

Mr Kulk has been a director of the Group since March 2007. 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).

Photo Pending

Simon C J Machell

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

Mr Machell has been a director of the Group since April 2017. Mr Machell has over 30 years' experience in the insurance industry throughout Europe and Asia. He currently serves as a non-executive director of Tesco Personal Finance plc (UK), Tesco Personal Finance Group Limited (UK) (trading as Tesco Bank), and is Chairman of Tesco Underwriting Limited (UK). Mr Machell is also a non-executive director and Chairman of the Risk Committee for Prudential Corporation Asia Limited (Hong Kong) and a non-executive director of Pacific Life Re Limited (UK). Mr Machell was with Aviva and its predecessor companies for over 20 years and had roles including CEO of Norwich Union General Insurance in the UK (2007 to 2013) and CEO of all Aviva's businesses in Asia and eastern Europe.



Christine F McLoughlin

BA, LLB (Hons),
FAICD
Non-executive director,
age 54

Ms McLoughlin has been a director of the Group 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 Limited (since March 2011), Whitehaven Coal Limited (since May 2012), Spark Infrastructure RE Limited (since October 2014) and McGrath Foundation (since September 2016). She is Chairman of Venues New South Wales 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 64

Dr McTaggart has been a director 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 Australian National University Council and the Economic Development Advisory Panel (NSW). Dr McTaggart was a director of UGL Limited from 2012-2015 and he has served in various expert advisory roles to government and on several industry representative bodies.

Geoffrey T Ricketts CNZM

LLB (Hons), LL.D
(Honoris Causa),
FInstD
Former Non-executive
director

Mr Ricketts retired at the AGM on 22 September 2016. He was a director of the Group from March 2007, having been a director of Promina Group at the date of the merger with Suncorp in that year.

2. Directors' meetings

Suncorp Group Limited (**SGL**), 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 number of meetings attended by each director (or former director) of the Company during 2016-17 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	13	13	5	5	5	5	4	4	5	5
M A Cameron ¹	13	13	5	5	5	5	4	4	-	-
W J Bartlett	13	11	5	5	5	3	4	4	5	4
A E Exel AO	13	13	-	-	5	4	-	-	5	5
S Herman	13	13	5	5	-	-	-	-	5	5
E J Kulk	13	13	-	-	5	5	4	4	5	5
S C J Machell	3	3	-	-	-	-	-	-	1	1
C F McLoughlin	13	13	-	-	5	5	4	4	5	5
Dr D F McTaggart	13	13	5	5	-	-	4	4	5	5
G T Ricketts CNZM	3	3	2	2	-	-	-	-	-	-

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 CEO & 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 2017. However, the directors 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	716,656	-
W J Bartlett	26,968	323 SUNPE
A E Exel AO	14,612	-
S Herman	16,500	-
E J Kulk	20,173	3,000 SUNPC
S C J Machell	25,000	-
C F McLoughlin	20,000	-
Dr D F McTaggart	20,011	-
G T Ricketts CNZM	34,094	-

¹ Includes 541,656 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.

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4. Company Secretary

Details of the Company Secretaries during the financial year to 30 June 2017 and as at the date of this report are set out below.

Mr Darren Solomon *LLB* was appointed Company Secretary in 2010. Mr Solomon commenced with Suncorp in 1989 as a senior lawyer in the legal department before moving to the Company Secretariat team in 2006.

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 Secretariat team since January 2014. Ms Huxtable has extensive corporate governance and secretarial experience within financial services.

Ms Anna Lenahan was Company Secretary during the financial year until her resignation from this role on 5 August 2016.

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 16 to 45 and forms part of the Directors' Report for the financial year ended 30 June 2017.

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 purpose is to create a better today for our customers, communities, shareholders, and our people. We want to help people live the life they want now and plan for the life they want tomorrow.

During the financial year, the Suncorp strategy evolved to more explicitly acknowledge how central the customer is to what we do. This reflects Suncorp's aspiration to be an agile, resilient financial services company that delivers sustainable shareholder returns and is a responsible and valuable contributor to society. The Group's vision is to be the 'destination for the moments that matter'. We aim to have a deeper understanding of our customers' needs and support them through important journeys in their lives, with personalised experiences and integrated offers.

We continue to live our purpose and achieve our vision by working as 'One Suncorp' and collaborating across the business to deliver on our vision.

To achieve the vision, we will focus on four strategic priorities:

Elevate the customer: We will use insights to understand and meet customer needs, embed a customer-centric culture and deliver a great customer experience. We strive to deliver a seamless customer experience that is consistently great, and brilliant in the moments that matter.

Create the Marketplace: The Suncorp Marketplace will create a connected network of brands, partners, solutions and channels to meet our customers' financial wellbeing needs. We will provide our customers with a suite of personalised solutions that meet their needs at key moments in their lives.

Maintain momentum and grow: We will build and protect our reputation for excellence in manufacturing financial services solutions for customers in Australia and New Zealand. This will be achieved through an increased focus on targeted revenue growth opportunities, operational excellence including simplification and digitisation, and disciplined portfolio management.

Inspire our people: Achieving the strategy will require a diverse, inclusive and highly engaged workforce. This will be achieved through a focus on improving engagement and the core work experience, so that our people have the capability, technology and workspaces they need to be their best.

7. Dividends

A 2016 final dividend of \$175 million (64 cents per share) and a 2017 interim dividend of \$154 million (57 cents per share) was paid during the financial year. A 2017 final dividend of \$181 million (67 cents per share) has been determined 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 profit after tax of \$394 million (2015-16: \$383 million) impacted by additional investment in the Core Banking platform, crucial to support the Group strategy. The result reflects sustainable lending and funding practices, while successfully adapting to changing economic and regulatory dynamics

8.2 Review of principal business

Lending growth of 1.9% reflected improved momentum in the second half of the financial year. This was a result of the Group's early response to macro-prudential and responsible lending measures after refraining from participating in intense pricing competition during the first half of the financial year. Retail lending growth of 1.2% was driven by the introduction of new competitive offers, improved retention rates and improved loan approval processes. Business lending growth of 5.2% was driven by new business volumes from target industries.

Net interest income is \$1,131 million (2015-16: \$1,129 million). The full year net interest margin of 1.83% was at the top end of the target range, and above the target range for the second half of the financial year, following product repricing at the midpoint of the financial year.

The Group's cost-to-income ratio of 52.9% was impacted by lower lending growth, low interest rates and low economic growth, along with further investment in the Suncorp strategy to position the business for growth. Operating expenses were flat at \$638 million (2015-16: \$653 million), including additional expenditure to complete the migration of loans and lending origination to the Core Banking platform.

In line with the industry, the Group has made changes to its hardship framework to align with regulatory standards. As expected, the Group is now reporting higher arrears as a result of this revised treatment, as well as the temporary impacts of Cyclone Debbie.

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8.3 Review of financial position

Total assets decreased by \$195 million or 0.3% to \$63,421 million compared with June 2016.

Cash and cash equivalents decreased by \$125 million reflecting the strong lending growth experienced towards the end of the financial year, although the amount held continues to support prudential requirements.

Derivatives assets decreased by \$537 million mainly due to the impact of the mark-to-market of cross currency swaps.

Investment securities decreased \$665 million mainly due to a reduction of physical liquid assets required as collateral for the Committed Liquidity Facility.

Loans and advances increased \$1,063 million primarily due to growth in business and home lending. Several initiatives were implemented within the home lending portfolio to improve customer experience and increase efficiency. These include a review of the existing loan approval process, utilising risk-based verification for select activities and increasing customer-led opportunities.

Total liabilities decreased by \$581 million or 1.0% to \$59,297 million compared with June 2016.

Payables due to other banks decreased \$282 million driven by treasury collateral received from financial institutions.

Deposits and short-term borrowings increased \$6 million as the Group continues to manage its deposit-to-loan ratio within the target operating range.

Derivatives liabilities decreased by \$144 million largely due to mark-to-market of interest rate swaps.

Securitisation liabilities increased \$544 million due to the establishment of a new securitisation trust. This was partially offset by repayments which are contractually linked to the run-off in the underlying securitised mortgages.

Debt issues decreased \$644 million largely due to \$3,371 million of debt matured exceeded \$2,900 million debt issuances during the financial year.

Total equity increased by \$386 million or 10.3% to \$4,124 million compared with June 2016.

Capital notes increased \$375 million from Capital Notes issued to SGL.

8.4 Review of capital structure

The Group's capital management strategy 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 applicable regulatory framework and APRA's Non-Operating Holding Company conditions.

For regulatory purposes, capital is classified as follows:

- Common Equity Tier 1 (**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 APRA reserve for credit losses and eligible hybrid capital.
- 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 ratio was 9.18% (2016: 9.15%), above its target operating range of 8.5% - 9.0% of Risk Weighted Assets.

9. Significant changes in Group's state of affairs

On 1 July 2016, the Suncorp Group implemented a revised operating model and organisational structure. The operating model comprises the functions: Insurance, Banking and Wealth, New Zealand, Customer Experience, Customer Platforms, Finance and Advice, People Experience, and Technology, Data and Labs.

The Suncorp Group has articulated its strategic vision and outlook to 2020 and continues to focus on building a business that creates value for customers. Suncorp's key priorities are to elevate the customer, create the Marketplace, maintain momentum and grow, and inspire our people. There is an increased focus on building partnerships with third parties to extend the range of solutions for Suncorp's customers and to drive growth for the business.

There have been no significant changes in the state of affairs of the Group during the financial year, other than as disclosed in this Directors' Report and Financial Statements.

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 committed to driving sustainable profitable growth. The group remains focused on growing savings and transaction banking solutions through improved digital capability and integrated customer offers. The additional investment in the Marketplace will also support national expansion of the Group's brand.

The current regulatory and political activity in the banking industry provides an opportunity for the Group. The Group has a strong balance sheet, unchanged A+/A1/A+ issuer credit ratings and is not directly impacted by the recently introduced bank levy. This provides a comparative funding advantage to peers which allows the Group to maintain a sustainable and diversified funding base.

The Group is seeing a range of benefits from operating as an advanced bank including improved granularity of information enabling better risk selection, better analysis of risk/return and improved credit

quality and provisioning experience. Advanced modelling techniques also allow greater understanding of provisioning and capital requirements in stressed environments, enabling increased confidence in the strength of its capital and liquidity targets.

The Core Banking Platform implemented last financial year has taken longer than expected to fully embed and adapt for use in the Australian market. The Group will soon complete the final migration phase for remaining retail loans at which point it will pause the migration of deposits and transaction banking products, pending further system enhancements from the vendor. The Group recognises transaction banking as one of the most important services it provides to customers and will focus on accelerating payment technology and digital banking capabilities to deliver increased value to customers as society continues to progress towards cashless transactions.

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 2016-17 Annual Review available from suncorpgroup.com.au/investors/reports.

Policies, procedures, limits and other controls are in place at either the Suncorp 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 the following:

- Risks relating to the execution of strategic initiatives. To achieve the vision of being the 'destination for moments that matter' and delivering of the 'Marketplace' will require investment and resources. As the internal and external environment shifts, a level of agility will be required around these investment decisions. The introduction of the Chief Program Excellence Office is an important mechanism in managing this risk.
- Risks relating to the failure to meet government or regulatory expectations. The business has programs in place to lead the development and implementation of regulatory change. As the regulatory and competitive landscape evolves Suncorp will consider taking a pro-active role in engaging with and policy makers and to influence regulatory change.
- Shifts in competitor and market dynamics, including new sources of competition from non-traditional sources, associated technological advancement and disruptive business models. Delivering on the Marketplace will be an important enabler in responding to the changing customer dynamics. The Marketplace seeks to shift away from individual commoditised products to a single destination where customers can meet their financial wellbeing needs.
- 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.
- Human behaviours at work and towards work are changing. The Inspire Our People strategic priority elevates the importance that our people and partners have on the delivery of our strategy. A key component of this priority is the development of the workforce and workspace of the future. This initiative seeks to promote an agile workforce that leverages technology, operates without boundaries and is better able to meet the needs of our customer and the business.
- 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 business.

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

13. Impact of legislation and other external requirements

The Group operates in a highly regulated industry sector.

There continues to be significant and numerous domestic and global legislative and regulatory reforms and proposals, as well as numerous 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 following:

- The passing of legislation to enable class actions in Queensland.
- The increasing attention from regulators on climate change risks and associated disclosure of those risks.
- The Australian Consumer Law (**ACL**) review.
- The Australian Bankers' Association (**ABA**) 'six point initiatives/plan' intended to implement comprehensive new measures to protect consumer interests and increase transparency and accountability in the banking industry.
- The ABA's Better Banking program initiatives of which the ABA's 'six point initiatives/ plan' forms part.
- The Australian Securities and Investments Commission (**ASIC**) and Australian Small Business and Family Enterprise Ombudsman Inquiry into small business loans, including the ABA endorsement of the recommendations made by the Inquiry.
- The ABA's commission of the Retail Banking Remuneration Review (product sales commission and payments) and publication of the report on the review (the Sedgwick Report).
- APRA's consultation on proposed changes to the large exposures prudential framework.
- The publication of the Final Report of Independent Review of the Code of Banking Practice (the Khoury Review) and the ABA's support of the majority of the Khoury Review's recommendations.
- The introduction of new measures by APRA to reinforce sound residential mortgage lending practices.
- The imposition by APRA of new capital and maximum requirements in respect of residential mortgage lending.
- The Federal Government's focus on improving consumer outcomes and competition in the home loan market.
- The ongoing Federal House of Representatives Standing Committee on Economics Review of the Four Major Banks.
- The ongoing Federal Senate Inquiries into Australia's banking, insurance and financial services sectors.
- The Federal Treasury consultation on proposed financial industry supervisory levels that will apply for the 2017-18 financial year.
- The Inquiry into whistle blower protections led by the Federal Parliamentary Joint Committee on Corporations and Financial Services.
- The proposed Productivity Commission Inquiry into competition in the Australian financial system.

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- The Federal Government's consultation on a proposed new dispute resolution framework for financial disputes which includes a 'one stop shop' for the determination of customer disputes in the financial services sector – the Australian Financial Complaints Authority.
- ASIC's review of the significant breach self-reporting requirements for financial services licensees.
- The Federal Attorney-General's Department consultation on anti-money laundering and counter-terrorism financing laws (including the potential regulation of digital currency under those laws).
- The passage by Queensland Parliament of legislation which sets out a resolution process for farm business debt matters between mortgagees and farmers.
- The Federal Government's continued focus on developing legislation to address fintech developments such as crowdfunding.
- The Federal Government's introduction of a Bill to amend the misuse of market power provisions of the ACL.
- The passage by Federal Parliament of legislation:
 - introducing mandatory data breach notification provisions
 - to ensure that card system participants can comply with the new interchange fees standard determined by the Reserve Bank of Australia (**RBA**)
 - to mandate professional standards for financial advisers
- The Federal Budget 2017–18 announcements including:
 - the proposed levy on major banks
 - a residential mortgage pricing inquiry by the Australian Competition and Consumer Commission (**ACCC**)
 - the introduction of the Bank Executive Accountability Regime (**BEAR**) legislation, which will impose additional duties and behavioural expectations on banks and their executives and impose substantial penalties if those duties are breached, or the expectations are not met.
 - funding to ACCC to undertake inquiries into financial system competition issues
 - the introduction of the Australian Financial Complaints Authority
 - changes that impact personal income tax, company tax, superannuation and other areas.

There continue to be various proposals and changes from global regulatory advisory and standard-setting bodies such as the International Association of Insurance Supervisors, the Basel Committee on Banking Supervision (**BCBS**), the International Organisation of Securities Commissions (**IOSCO**) and the Financial Stability Board (**FSB**) which if adopted, or followed, by domestic regulators may increase operational and capital costs or requirements.

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 except one of the recommendations.

The Federal Government and Australian regulators are progressively implementing the recommendations of the Inquiry that have been adopted or agreed to and as such it is difficult at this stage to judge the full impact of the Report's recommendations on the Suncorp Group and its operations.

APRA has released its assessment on the additional capital required for the Australian banking sector to have capital ratios that are considered 'unquestionably strong' and outlines APRA's conclusions with respect to the quantum and timing of capital increases that will be required for Australian authorised deposit-taking institutions (**ADIs**) to achieve unquestionably strong capital ratios.

For ADIs that use the internal ratings-based approach to credit risk, APRA has concluded that it is necessary to raise minimum capital requirements by around 150 basis points from current levels to achieve capital ratios that would be consistent with the goal of 'unquestionably strong'.

In the case of the four major Australian banks, APRA expects that the increased capital requirements will translate into the need for an increase in CET1 capital ratios, on average, of around 100 basis points above their December 2016 levels. In broad terms, that equates to a benchmark CET1 capital ratio, under the current capital adequacy framework, of at least 10.5 per cent.

For ADIs that use the standardised approach to credit risk, APRA has concluded that it is necessary to raise minimum capital requirements by approximately 50 basis points from current levels to achieve capital ratios that would be consistent with the goal of 'unquestionably strong'.

All ADIs are expected to meet the new benchmarks by 1 January 2020. Suncorp Bank currently uses the standardised approach to credit risk.

Australian Prudential Regulation Authority Level 3 Framework

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

The Group remains well placed to implement the proposed requirements.

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 BCBS.

In respect of the Basel III reform proposals, the BCBS has advised that it is delaying its review of some of the elements of Basel III reform proposals. The Basel III reforms impose, or will impose, various (and in some cases higher) regulatory capital and liquidity requirements for Suncorp Bank than existed under previous regulatory regimes.

14. Environmental regulation

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

The operational portfolio of the Group is managed in compliance with all relevant local and national laws and regulations in relation to environmental performance, management and reporting.

15. Indemnification and insurance of officers

Under the Constitution of the ultimate parent entity, 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 records following the cessation of the officer's position with the relevant company.

During the 2016-17 financial year, 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 section 9 of 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 2016-17 financial year, Suncorp Group complied with the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (3rd edition). The 2016-17 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.
- 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

	2017	2016
	\$000	\$000
Audit-related fees (regulatory)		
APRA reporting	359	339
Australian financial services licences	21	21
Other regulatory compliance services	18	8
	398	368
Audit-related fees (non-regulatory)		
Other assurance services	722	1,435
Other services		
Tax compliance	12	12
	734	1,447
	1,132	1,815

18. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 46 and forms part of the Directors' Report for the financial year ended 30 June 2017.

19. Rounding of amounts

The Company is of a kind referred to in *Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* dated 24 March 2016 and in accordance with that legislative Instrument, amounts in the Directors' Report and the consolidated financial statements 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 2017 (**2016-17**).

Suncorp-Metway Limited and its subsidiaries are subject to the remuneration framework determined by the Suncorp Group, being Suncorp Group Limited (**SGL**) and its subsidiaries (defined as either the **Suncorp Group** or **Suncorp**). 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 remunerations arrangements. References in this Report to the CEO & Managing Director, Senior Executives and the Board are to the Suncorp Group CEO & Managing Director, Suncorp Group Senior Executives and Suncorp Group Board.

The Remuneration Policy and practices support the achievement of the Suncorp Group's strategic objectives. Our remuneration framework provides a balanced approach to accommodate the volatility of our operating markets, inherent risks and changing regulatory requirements. Despite challenging business conditions in 2016-17, our performance has once again delivered value to shareholders, customers and the communities in which we operate. The momentum in delivery of our strategic priorities has increased with the development of our customer Marketplace.

In the 2015-16 Remuneration Report, we announced the introduction of an equity-based deferral vehicle for short-term incentives applicable for the CEO & Managing Director and Senior Executives and outlined the review of our long-term incentive (**LTI**) plan.

During 2016-17, the Remuneration Committee spent considerable time, including a series of workshops, to consider our remuneration structure. The review acknowledged that our business is long-term in nature, requiring skilled leadership to execute our strategic priorities. We noted the business environment is increasingly volatile requiring increased enterprise agility. Importantly, we confirmed the primary objective of our reward structure is to appropriately motivate and recognise the delivery of sustainable returns for shareholders over the longer term.

We recognise the current framework continues to serve Suncorp well, but have identified alternative remuneration models for consideration that we intend to evaluate over the course of the financial year ended 30 June 2018 (**2017-18**). This evaluation is to ensure that the outcomes under the plans being considered are aligned with our key objectives and performance expectations prior to introduction in the financial year ended 30 June 2019 (**2018-19**). This will include consultation with shareholders and their representatives. A change to the remuneration framework will be implemented only where our evaluation demonstrates that the alignment of interests with stakeholders is improved. The proposed remuneration framework will be considered subject to the final terms of the Banking Executive Accountability Regime, as provided in the 2017 Australian Budget. With these prospective developments, the Board has determined that no changes to the remuneration framework will be implemented before 1 July 2018.

The Board is committed to a fair, transparent and responsible executive remuneration framework in this increasingly dynamic and competitive environment. Feedback from our stakeholders, including regulators and shareholders, is actively encouraged and used in the development of our remuneration practices. In response to feedback received, this report provides a more detailed overview of the performance outcomes achieved in 2016-17. We trust that you, the shareholder, will find the information provided in this report informative and that it will assist you in assessing the relationship between performance and executive reward outcomes.

DR ZIGGY SWITKOWSKI AO

Chairman of the Board

3 August 2017

CHRISTINE MCLOUGHLIN

Chairman of the Remuneration Committee

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Introduction

This Remuneration Report explains how the Suncorp Group's performance for the 2016-17 financial year has driven remuneration outcomes for the executives who are the Suncorp Group's key management personnel (KMP). KMP are the people who have authority and responsibility for planning, directing and controlling the activities of the Suncorp Group, as listed in the following table.

Name	Position	Changes during 2016-17
Non-executive directors		
Dr Zygmunt Switkowski AO	Chairman	
William Bartlett	Director	
Audette Exel AO	Director	
Sally Herman	Director	
Ewoud Kulk	Director	
Christine McLoughlin	Director	
Dr Douglas McTaggart	Director	
Simon Machell	Director	Appointed 7 April 2017
Former non-executive director		
Geoffrey Ricketts CNZM ¹	Director	Ceased directorship 22 September 2016
Executive director		
Michael Cameron	CEO & Managing Director	
Senior Executives		
David Carter	Chief Executive Officer Banking & Wealth	Appointed 26 September 2016 (Internal promotion)
Anthony Day	Chief Executive Officer Insurance	
Gary Dransfield	Chief Executive Officer Customer Platforms	
Sarah Harland	Chief Information Officer	Appointed 1 September 2016
Steve Johnston	Chief Financial Officer	
Pip Marlow	Chief Executive Officer Strategic Innovation	Appointed 13 March 2017
Kate Olgers	Chief Legal Officer	Appointed 17 October 2016
Mark Reinke	Chief Customer Experience Officer	
Amanda Revis	Chief People Experience Officer	
Paul Smeaton	Chief Executive Officer Suncorp New Zealand	
Fiona Thompson	Chief Risk Officer	Acting Chief Risk & Legal Officer effective 4 August 2016. Appointed Chief Risk Officer on 17 October 2016 (Internal promotion)
Former Senior Executives		
Clayton Herbert	Chief Transformation Officer	Ceased employment 20 January 2017
Anna Lenahan	Chief Risk and Legal Officer	Ceased employment 15 September 2016
John Nesbitt	Chief Executive Officer Banking & Wealth	Ceased employment 30 September 2016

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

- 1) An overview of the Suncorp Group's performance in 2016-17.
- 2) The remuneration for the CEO & Managing Director and Senior Executives (the executives reporting to the CEO & Managing Director who are KMP).
- 3) The remuneration for 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.

¹ Mr Geoffrey Ricketts ceased directorship on the Suncorp Group Board but remains the Chairman of Vero Insurance Limited New Zealand and other New Zealand insurance companies.

In accordance with section 308(3C) of the *Corporations Act 2001* (Cth) (**Corporations Act**), the external auditor, KPMG, has audited sections 2, 3 and 4 of this Remuneration Report, unless otherwise stated. For the purposes of this report, 'executive' means the CEO & Managing Director and any of the Senior Executives.

1. Summary of 2016-17 performance and remuneration

1.1 2016-17 performance summary

Focus	Description	Further information
Key financial outcomes	<ul style="list-style-type: none"> – Suncorp delivered total shareholder returns (TSR) of 28.3% (net dividends reinvested) for the year ended 30 June 2017. Comparatively, our peer group delivered a total return of 20.0 % for the year. – Suncorp's TSR for the five-year period ending 30 June 2017 is 151.5%, more than double the ASX 200 Accumulation Index¹ return of 74.8% for the comparable period. – Net profit after tax (NPAT) from the Suncorp Group's business functions of Insurance, Banking & Wealth and New Zealand is \$1,205 million. The Suncorp Group's reported NPAT, before non-controlling interests is \$1,075 million. – Total declared dividends for 2016-17 will be 73 cents per share, consisting of a 33 cent per share interim dividend, and a 40 cents per share final dividend. – Return on equity (ROE) for 2016-17 is 7.9%. – Gross written premium increased by 4.7% to \$9,456 million. – The reported ITR was \$965 million, representing a reported ITR ratio of 11.8%. – Bad debts as a percentage of total lending assets has reduced to 0.01% for 2016-17 from 0.03% for last financial year. 	Section 2.5 and the Financial Statements
Assessment of effective risk management practices	<p>Understanding the effectiveness of our risk management practices and risk culture is vital and informs the assessment of performance. This is a key link in ensuring remuneration outcomes are balanced over the short and longer-term period. Our remuneration framework ensures the comprehensive recognition and consideration of risk through:</p> <ul style="list-style-type: none"> – the effective measurement of risk maturity – a detailed review of risk management practices undertaken by the Board Risk Committee (including reviewing in the context of regulatory guidelines on risk culture) – a reassessment of reward outcomes where a failure of risk management policy or practice is determined – 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 – a hedging prohibition on Suncorp securities (including any unvested performance rights) 	Section 2.7

¹ Excluding Real Estate Investment Trusts

Focus	Description	Further information
People	<ul style="list-style-type: none"> – The Suncorp Group’s Safety and Wellbeing plan continues to deliver benefits with a further reduction in the Suncorp Group’s Lost Time Injury Frequency Rate to 1.6 for 2016-17. The result is a 32% improvement on the average result for the previous five financial years. – The overall engagement score of 62%¹ remains above the Australian and global average and strengthens our commitment to improving our people’s experience during their time at Suncorp. – Development of an integrated organisational culture measurement of which risk is a core dimension that contributes to Suncorp’s overall culture and helps shape the behaviours of our workforce. 	Section 2.5
Customer	<ul style="list-style-type: none"> – Suncorp Group’s ability to leverage the diversity of solutions available across our brands, as well as through strategic partnerships, has strengthened our ability to deliver value across multiple customer needs. Suncorp’s commitment to providing value to customers is supported by a return to positive growth in Connected Customers. (Connected Customers are customers with two or more needs met across home, self, mobility and money categories) in the latter part of the 2016-17 financial year. – During 2016-17, the Suncorp Group saw improvements in retention rates and strong customer inflows, resulting in a material increase to the Group’s total customers, with net customer flows in excess of 147,000 in 2016-17. – Other key highlights include implementing our new operating model, progressing our Elevate the Customer program, opening two concept stores, launching our new branding and improving processes and technology. 	Section 2.5

The graph below shows the value over time of a \$100 investment made on 1 July 2012, with the Suncorp Group Limited ordinary shares, total shareholder return (net dividends reinvested) outperforming the S&P/ASX 50 total return (accumulation) index by 44.9% over the five years to 30 June 2017.



1 Due to a change in provider (and accordingly methodology), year-on-year results are not comparable.

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1.2 2016-17 remuneration summary

The CEO & Managing Director has continued to strengthen the executive team in order to align with the new operating model and deliver the new Marketplace strategy. Several key executives were appointed during the year, both from internal promotion and external recruitment. To support the new structure of the executive team, including their revised accountabilities, the Remuneration Committee evaluated the fixed and total remuneration appropriate for each role.

Remuneration component	Description	2017 Snapshot	Further information
Fixed remuneration for executives and non-executive directors	Comprised of base salary and superannuation for executives and fees and superannuation for non-executive directors.	Fixed remuneration changed for specified Senior Executives to reflect the additional requirements of the role under the new operating model and better align to the market. A detailed review of non-executive director fees was concluded, resulting in a modest increase for the Remuneration Committee.	Section 2.4
Short-term incentives (STI)	Determined by a balanced scorecard of financial and non-financial measures. A material portion is deferred as equity for two years.	Target STI remains at 100% of fixed remuneration with the maximum opportunity being 150% of fixed remuneration. Based on the Board's assessment of performance against the Suncorp Group's balanced scorecard, the achievement against target STI for Senior Executives is 94%. The outcome as assessed against maximum STI is 62%.	Section 2.5
Long-term incentives (LTI)	Performance rights with a TSR hurdle measured relative to a peer comparator group.	For Senior Executives, the LTI award remains 100% of fixed remuneration. The 2013 LTI grant lapsed on 30 September 2016 as the performance hurdle was not met.	Section 2.6
Strengthening the alignment of Senior 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 Senior 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

Review of remuneration structure

The current remuneration structure comprised of fixed remuneration, an annual STI, deferred STI and the grant of LTI, has been in place for several years. During 2016-17, the Remuneration Committee has undertaken a comprehensive review of Suncorp's remuneration structure. The review was initiated in recognition of the evolution of the Suncorp Group, the operating structure, strategic priorities and the markets in which Suncorp operates. The talent requirements of Suncorp are increasingly diverse and drawn from broader markets than financial services requiring the Remuneration Committee to examine global practices across a range of industries.

The Remuneration Committee considered a number of alternative structures that may be better aligned with Suncorp Group's strategic objectives, including the introduction of a second measure to the current LTI plan, extending the performance period of the current LTI plan and alternative incentive models.

The Remuneration Committee confirmed that the objective remains to generate superior and sustainable returns for shareholders over the longer term and the most effective mechanism for ensuring executive reward outcomes are consistent with optimal shareholder return is to increase executive share ownership and to ensure performance scorecard measures are aligned to business strategy.

While no change is being made to the 2017-18 remuneration structure, Suncorp proposes to consult with shareholders and their representatives, regulators, and with other internal and external stakeholders over the coming months and will determine the most appropriate way forward

Details of any new structure will be included in next year's Remuneration Report for introduction from 1 July 2018.

2. Executive remuneration

2.1 Remuneration governance framework

Remuneration Committee

The Remuneration 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 experienced independent non-executive directors of Suncorp Group and include the Chairman of the Audit Committee and the Chairman of the Risk Committee. Biographies of the Remuneration Committee members are provided in the Directors' Report.

REMUNERATION COMMITTEE MEMBERSHIP AS AT 30 JUNE 2017

Chairman	Christine McLoughlin
Members	William Bartlett 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 improvement activity
- closely monitors the remuneration framework to ensure that it meets the key objective 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
- oversees the preparation of this Remuneration Report.

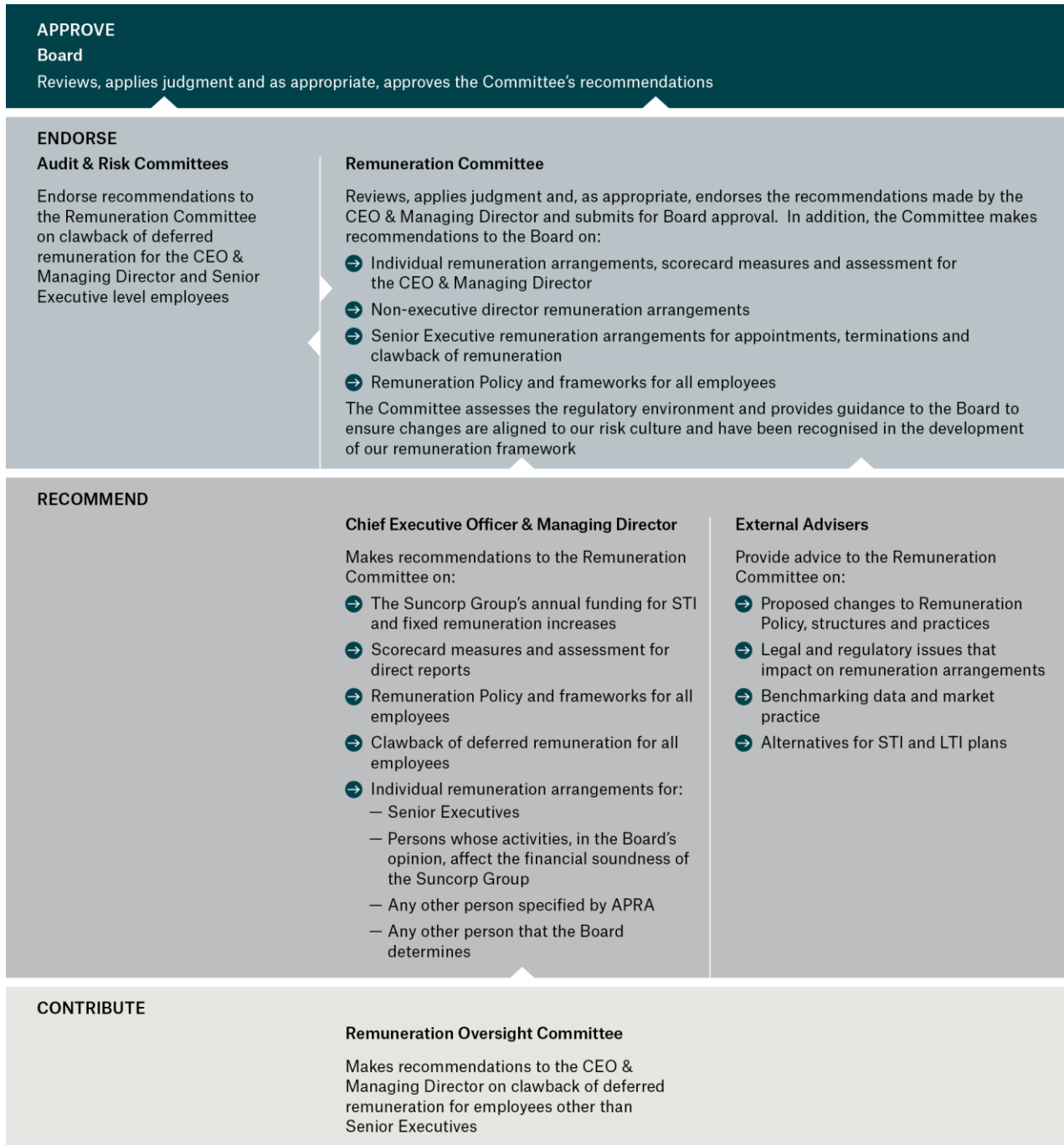
The Remuneration Committee met four times and attended two workshops during 2016-17 and fully discharged its responsibilities in accordance with the Remuneration Committee Charter.

The Remuneration Committee Charter, which the Board reviews regularly, was reviewed and confirmed in July 2017. The Remuneration Committee Charter is available at suncorpgroup.com.au/about-us/governance.

Through both formal meetings and workshops, the Remuneration Committee reviewed the Suncorp Group’s Remuneration Policy to ensure that it provides shareholders with an effective mechanism to motivate and reward performance consistent with our strategy.

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

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



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The emerging regulatory environment

The Remuneration Committee evaluated the developments in domestic and international regulations, including conduct risk. The key themes are enhancing accountability, improving transparency and balancing the interests of customers, shareholders and the regulators. While extensive, the regulatory changes are aligned to our risk culture and have been recognised in the development of our remuneration framework.

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 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 2016-17.

Services relating to remuneration matters	External advisers providing this service to Suncorp Group in 2016-17
TSR performance analysis for LTI awards	Mercer Consulting (Australia)
TSR validation for LTI awards	Ernst & Young
Reward Strategy and Structure	Ernst & Young

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

The Board and the Remuneration Committee did not engage any 'remuneration consultants' in 2016-17.

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 Suncorp Group's long-term financial soundness and risk management framework. The Board is committed to remunerating fairly, transparently 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 appropriate performance and behaviours. The following table demonstrates the link between the reward principles and the remuneration framework.

OBJECTIVE

Offer rewards that are sufficiently competitive to motivate 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's Our Compass behaviours (Think Big, Show You Care, Kick Goals, Be Your Best)

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**Fixed Remuneration**

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

Short-term incentives

- ➔ Incentivise the achievement of Suncorp Group, business function and individual outcomes
- ➔ Deferral and clawback encourage a longer-term focus
- ➔ Effective 2016-17, 50% (CEO & Managing Director) and 35% (Senior Executives) of STI is deferred into equity for two years with 50% vesting on the first anniversary and 50% vesting on the second anniversary
- ➔ Cash based deferral remains on foot in relation to STI awarded for 2015-16 and 2014-15 performance years
- ➔ The Board's determination of Suncorp Group's STI pool includes consideration of risk management through a variety of financial and non-financial measures

Long-term incentives

- ➔ Executives are rewarded for their contribution to the creation of long-term shareholder value by way of equity in the Suncorp Group
- ➔ Outcome determined by achievement of Relative TSR which is an external, objective and relative 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 roles in our comparator group, defined as the financial services companies in the ASX 100, excluding Real Estate Investment Trusts.

2.3 2016-17 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 the 2016-17 financial year and represents:

- fixed remuneration earned
- the value of incentives earned as a result of 2016-17 performance
- the value of any deferred STI that vested during the year
- the value of any LTI that vested during the year.

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

	Remuneration earned in respect of 2016-17 ¹			Past 'at-risk' remuneration paid in 2016-17 ²				Actual remuneration received or earned in 2016-17 \$000	Future 'at-risk' remuneration awarded in 2016-17 ³	
	Fixed \$000	Other \$000	2016-17 incentives \$000	Deferred STI (cash) vested in 2016-17 \$000	LTI/RSP (equity) vested in		2016-17 STI (deferred equity) \$000		LTI/RSP (equity) granted in 2016-17 \$000	
					% Vesting	% Vesting				
Executive director										
M Cameron	2,100	-	983	-	-	1,082	100	4,165	1,040	3,000 ⁴
Senior Executives										
D Carter	563	-	348	77	100	-	-	988	198	664
A Day	1,097	-	699	366	100	-	-	2,162	399	950
G Dransfield	1,017	-	639	311	100	-	-	1,967	364	925
S Harland	535	-	328	-	-	-	-	863	187	900 ⁵
S Johnston	987	-	608	212	100	-	-	1,807	347	950
P Marlow	264	-	165	-	-	-	-	429	94	2,100 ⁶
K Olgers	391	-	257	-	-	-	-	648	146	574
M Reinke	755	-	471	200	100	-	-	1,426	269	700
A Revis	792	-	487	284	100	-	-	1,563	277	775
P Smeaton	833	81	487	83	100	-	-	1,484	277	784
F Thompson	531	-	331	-	-	16	100	878	189	535
Former Senior Executives										
C Herbert	451	775	-	299	100	-	-	1,525	-	775
A Lenahan	186	-	-	229	100	-	-	415	-	-
J Nesbitt	285	949	-	407	100	-	-	1,641	-	-

1 'Remuneration earned in respect of 2016-17' comprises:

- fixed remuneration (actual fixed remuneration received, including salary-sacrificed benefits and employer superannuation)
- other one-off or transitory elements in relation to termination or relocation allowance. For Mr Paul Smeaton, as part of contractual entitlements, the residual amount of his relocation and repatriation allowance (\$81,000) was paid out during 2016-17. Mr Clayton Herbert and Mr John Nesbitt received termination benefits in line with contractual entitlements.
- The non-deferred cash component of STI which relates to 2016-17 performance. This represents 50% of the total 2016-17 STI for the CEO & Managing Director and 65% of the total 2016-17 STI for all Senior Executives.

2 'Past 'at-risk' remuneration paid in 2016-17' comprises:

- deferred cash STI awarded in previous years that vested during 2016-17. For Mr David Carter and Mr Paul Smeaton, this relates to vesting of deferred STI awarded prior to their appointment as a Senior Executive.
- 'LTI/RSP (equity) vested in 2016-17' represents the value of performance rights (under the LTI plan), restricted shares (under the Restricted Share Plan for non-KMP role) or sign on awards that vested during 2016-17. The 2013 LTI grant, did not vest on 30 September 2016 as the performance hurdle was not met. 'Equity vested in 2016-17' for Mr Michael Cameron represents tranche 2 of the restricted shares, which vested 1 January 2017, awarded on commencement at Suncorp in recognition of incentives foregone with Mr Michael Cameron's previous employer. 'Equity vested in 2016-17' for Ms Fiona Thompson represents restricted shares awarded in 2013-14 relating to a non-executive role.

3 'Future 'at-risk' remuneration awarded in 2016-17' is not guaranteed and comprises:

- the deferred equity portion of 2016-17 STI, which is subject to potential clawback and risk of forfeiture during the deferral period. The total number of rights to be granted in August 2017 is based on the deferred STI amount (plus actual dividends paid in 2016-17 performance year) divided by the June 2016 volume-weighted average price (VWAP) (\$12.19).
- the face value of LTI performance rights and RSP shares granted during 2016-17 that may conditionally vest in future years.

4 The corresponding fair value is \$1.58 million, represented by the total number of performance rights granted during 2016-17 multiplied by the fair value at grant date (assuming all performance criteria are met).

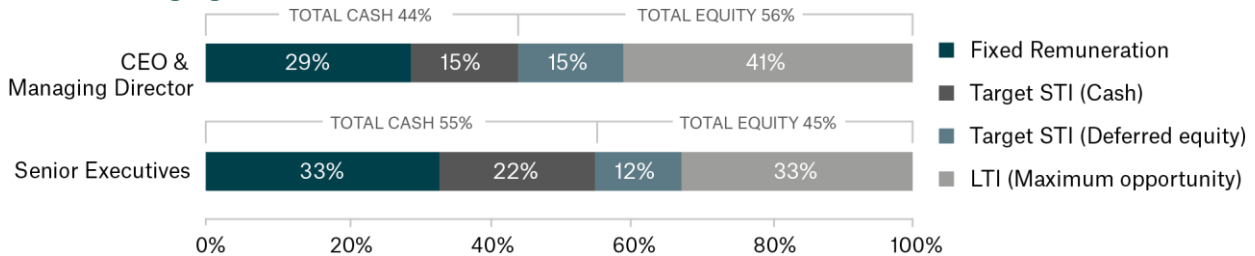
5 Ms Sarah Harland was awarded LTI performance rights on 1 September 2016. In addition, upon commencement of employment, an award under the restricted share plan was granted in recognition of incentives foregone with previous employer. Subject to service criteria under the Suncorp Group's Equity Plan Rules, vesting will occur in 2017-18. Refer to the movement in equity plans table in section 2.6.

6 Ms Pip Marlow was awarded restricted shares under the restricted share plan upon commencement of employment, in recognition of incentives foregone with previous employer. Subject to service criteria under the Suncorp Group's Equity Plan Rules, vesting will occur over three years from 1 July 2017. Refer to the movement in equity plans table in section 2.6.

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 2016-17 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’ 2016-17 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 talent-critical factors to ensure fixed remuneration remains competitive. The Remuneration Committee considers management’s recommendations and endorses any increases to the Board for approval.

A small number of Senior Executives received fixed remuneration increases during 2016-17 to reflect the additional requirements of their role under the new operating model and to better align to the market.

The CEO & Managing Director’s fixed remuneration is unchanged since commencement in October 2015.

2.5 Short-term incentives

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

Balanced scorecard	A balanced scorecard of financial and non-financial performance objectives measures performance for STI awards.
Funding determination	Based upon the assessment of performance, the Remuneration Committee recommends the quantum of the STI pool to the Board for approval.
Deferral	<p>Equity-based deferral from 2016-17</p> <p>50% of the CEO & Managing Director’s STI and 35% of Senior Executives’ STI are deferred into equity for two years with 50% vesting on the 1st anniversary and 50% on the 2nd anniversary.</p> <p>During the deferral period, the Board considers the long-term impacts of decisions made and actions taken that gave rise to the deferred STI award. 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’).</p> <p>A dividend equivalent payment will be paid on vesting, equivalent to the notional net dividends earned during the incentive deferral period. The actual dividends paid over the performance period is taken into account in determining the final quantity of rights to be issued.</p> <p>In the event of termination of employment by Suncorp for cause or resignation, the deferred incentive, together with any dividend equivalents, will lapse.</p>

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To focus Senior Executives on total shareholder returns, the allocation of equity is determined based upon the one month volume-weighted average price (**VWAP**) in June 2016, augmented for dividends paid in the financial year.

Previous awards: cash deferral

Prior to 2016-17, a 'cash-based' deferral was applied and remains operative in respect of deferred STI awarded for 2015-16 and 2014-15 performance. 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.

Adjusted net profit after tax (NPAT)

The Board considers Adjusted NPAT to be an appropriate reflection of the Suncorp Group's performance relative to its targets. The measure provides relevant information used internally to evaluate performance of functions, and to analyse trends in revenue and cash-based expenses, based upon controllable items. It is the basis for operational objectives and used to allocate resources. As a measure of management performance, it is an effective measure for STI.

Adjusted NPAT provides stakeholders with a clear understanding of the Suncorp Group's results. It excludes the effects of a limited range of actions and special items that do not reflect the ordinary earnings of the business. Over time, Adjusted NPAT allows the evaluation of Suncorp's period-over-period operating performance. The Board considers this measure to be useful to shareholders in evaluating the underlying operating performance of the business.

Adjusted NPAT has been determined on a consistent basis since the year ended 30 June 2012.

In determining adjusted NPAT, the following adjustments are made:

- Investment market impact being the variance to budget (after tax) above or below expected returns.
- Life and Wealth market adjustment (variance to budget).
- Natural hazards – variance to budget (after tax) being 'claims above or below expected allowances'.
- Prior year releases – variance to budget (after tax) representing the strengthening or releases that are above or below expectations.
- By exception, the Board also considers material one-time items arising from profits or losses on material divestment or material non-cash transactions. These items represent actions that are in the long-term interest of Suncorp.

Performance assessment

When establishing appropriate performance measures and evaluating outcomes, the Board and management:

- focus on high performance, striving for operational excellence, whilst carrying out business legally, ethically and with integrity
- critically assess risk management effectiveness in accordance with our Enterprise Risk Management Framework (**ERMF**) and risk appetite
- promote the Suncorp Group behaviours known as Our Compass, that establish 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.

The following table sets out the structure of the 2016-17 Suncorp Group scorecard measures, their link to strategy and the Suncorp Group scorecard outcome used to determine the STI outcome for the CEO & Managing Director:

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STRATEGIC DRIVER	MEASURES	LINK TO STRATEGY	2016-17 ACHIEVEMENTS
SUNCORP GROUP PROFIT AND FINANCIALS 60%			
Disciplined Financial choices Improve shareholder returns	Adjusted NPAT 40%	Delivering yield and above system growth by leveraging the Suncorp Group's strategic assets (Customer, Capital, Cost and Culture)	The Suncorp Group delivered a NPAT result of \$1,196 million adjusted for non-controllable items. The Board determined that the result met expectations and was in line with the 2016-17 target.
	Cash Return on Equity 20%		Cash return on equity for 2016-17 was 8.4%. The outcome was a positive increase on 2015-16, however, the result was below target.
The Board considers other factors including the operational efficiency and the alignment to strategic plans approved by the Board consistent with the Board's expressed risk appetite			
RISK 10%			
Sustained performance requires prudent risk taking and effective risk management	Risk Maturity Measure 5%	Ensuring we continue to do the right thing by all our stakeholders	Suncorp's effectiveness in driving a positive risk culture has resulted in an above target result for Risk Maturity. The efficacy of our Risk Maturity Model and related outcomes have been independently reviewed and validated.
	Demonstration of Risk Management Practices 5%		The Board acknowledges that the Suncorp Group has operated well within the parameters of the Suncorp Group Risk Appetite Statement. In assessing the performance outcome, the Board reinforces that the effectiveness of risk management practices remains vital to performance assessment at all levels.
PEOPLE 10%			
Maintain a high achieving and engaged team Integrate safety and wellbeing into all that we do	Develop Organisational Culture Measure 5%	Creating the must have experience for all people who work with Suncorp	In recognition of the significant role culture plays in delivering sustained and superior performance the Board endorsed the development of an integrated culture measure, with both qualitative and quantitative elements. The measure has been designed to support the Board in assessing the culture in 2017-18.
	Workplace Safety and Wellbeing Performance 5%		The Suncorp Group's Safety and Wellbeing Strategy continues to deliver benefits with a further reduction in Suncorp's Lost Time Injury Frequency Rate to 1.6 for 2016-17. The result is 32% lower than the average result for the previous five financial years.
CUSTOMER 20%			
Enhancing the value of 9 million customer connections and 13 valuable brands	Connected Customer Growth 10%	Ensuring we broaden and deepen customer relationships through meeting their needs consistently across the Suncorp Group	In 2016-17, a number of initiatives were launched to deliver more value for our customers across multiple needs. The initiatives include launching new products, making it easier for customers to access existing solutions and launching new digital solutions. This resulted in a return to positive Connected Customer growth in the latter part of 2016-17, although a below target performance overall.
	Delivering Positive Net Customer Flows 10%		The improvement in retention rates and strong customer inflows across the Suncorp Group's key brands in 2016-17 resulted in a material increase to the Suncorp Group's total customers, with net customer flows of +147,000 in 2016-17. This outcome exceeded target.

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STI performance outcomes for the CEO & Managing Director and Senior Executives in 2016-17

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 for Board approval on the amount of STI to be awarded to each Senior Executive.

The Board approved the CEO & Managing Director's recommendation that STI outcomes for 2016-17 should be consistent for all Senior Executives. It was determined that this outcome most appropriately recognised the contribution of all Senior Executives within the One Suncorp operating model that delivered results to our shareholders in 2016-17.

Actual STI outcomes for 2016-17 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 ⁴
	\$000	\$000		\$000			\$000
Executive Director							
M Cameron	1,966	2,100	94%	3,150	62%	38%	983
Senior Executives⁵							
D Carter	535	571	94%	857	62%	38%	187
A Day	1,076	1,150	94%	1,725	62%	38%	377
G Dransfield	983	1,050	94%	1,575	62%	38%	344
S Harland	505	540	94%	809	62%	38%	177
S Johnston	936	1,000	94%	1,500	62%	38%	328
P Marlow	254	271	94%	407	62%	38%	89
K Olgers	395	422	94%	634	62%	38%	138
M Reinke	725	775	94%	1,163	62%	38%	254
A Revis	749	800	94%	1,200	62%	38%	262
P Smeaton	749	800	94%	1,200	62%	38%	262
F Thompson	509	544	94%	816	62%	38%	178

1 The value of STI awarded for 2016-17 represented is before any deferral.

2 Target STI is 100% of fixed remuneration for the CEO & Managing Director and all Senior Executives. A pro-rata amount is presented for executives who were not KMP for the full financial year.

3 Maximum STI for the CEO & Managing Director and Senior Executives is 150% of fixed remuneration. A pro-rata amount is presented for executives who were not KMP for the full financial year.

4 50% of the Group CEO & Managing Directors STI outcome and 35% of Senior Executives STI outcome is deferred into equity for two years with 50% vesting on the first anniversary and 50% vesting on the second anniversary. The value shown does not include actual dividends paid in the 2016-17 performance year. Refer to the table in section 2.3 for the total amount deferred including total dividends paid in the 2016-17 performance year.

5 Mr Clayton Herbert, Ms Anna Lenahan and Mr John Nesbitt are ineligible to receive an STI award in 2016-17 due to cessation of employment.

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2.6 Long-term incentives

Suncorp Group Limited performance links to LTI

The table below provides an overall view of SGL's performance over the five financial years to 30 June 2017.

Year ended 30 June	Profit for the year ¹ \$M	Closing share price ² \$	Dividend per share cents
2017	1,085	14.82	73
2016	1,045	12.18	68
2015	1,140	13.43	88
2014	737	13.54	105
2013	496	11.92	75

LTI is offered to Senior Executives, as their conduct and performance have a direct impact on the Suncorp Group's long-term performance. Its purpose is to focus Senior Executives on the Suncorp Group's long-term business strategy to create and protect shareholder value over the longer term, therefore aligning Senior Executives' interests more closely with the interests of shareholders.

Since October 2013, LTI grants are awarded in the form of performance rights through the Suncorp Group Equity Incentive Plan.

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 (VWAP) 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 Suncorp Group Equity Incentive Plan trustee and held in trust (along with associated dividends received) during the vesting period.
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): <ul style="list-style-type: none"> – 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.

¹ Note that the profit figure in the table is not the same as the adjusted profit calculation used for STI purposes. Refer to section 2.5 for more information on adjusted profit after tax used for STI purposes.

² Closing share price at 30 June.

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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.

Peer 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 companies¹), as determined at the commencement of each grant. If a company 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 Senior 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):

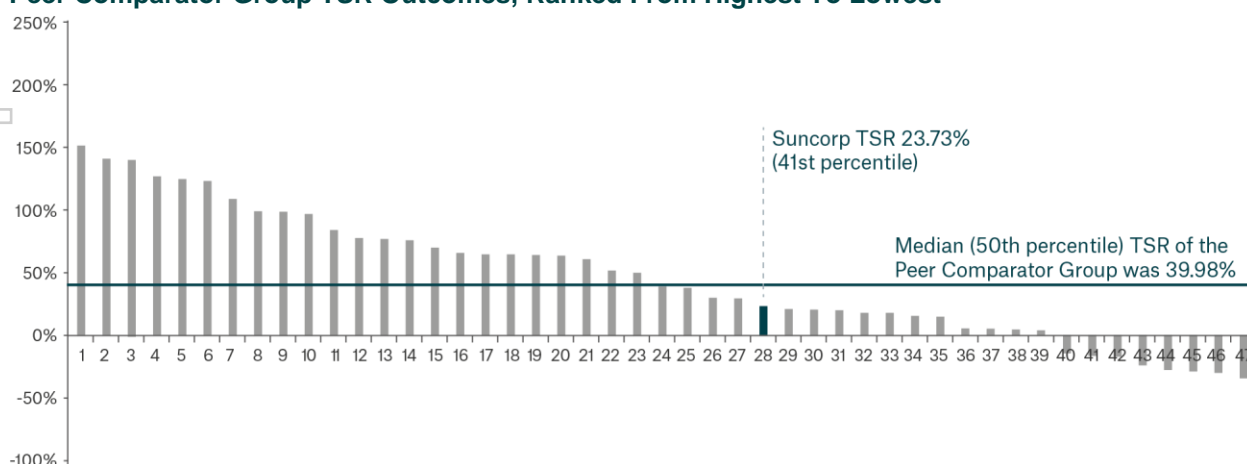
Relative TSR performance outcomes	Percentage of LTI award that will vest
Below the 50th percentile (below median performance)	0%
At the 50th percentile (median performance)	50%
Between the 50th and 75th percentiles	50% plus 2% for each full 1% increase in SGL’s ranking against the Peer Comparator Group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

Executives’ 2013 grant

The LTI performance hurdle for the executives’ October 2013 Grant, with a vesting date of 30 September 2016, was not met as the relative TSR performance outcome (23.73%) was below the median of the Peer Comparator Group, and subsequently all 2013 LTI awards did not vest.

Peer Comparator Group TSR Outcomes, Ranked From Highest To Lowest



¹ The Peer Comparator Group for relative TSR performance differs slightly from the comparator group used for remuneration positioning as detailed in section 2.2.

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Movement in equity plans

The movement of performance rights and restricted shares during 2016-17 and executives' current LTI grants as at 30 June 2017 are outlined in the following table^{1,2}.

	Performance rights/restricted shares granted			Fair value yet to vest		Market value				
	Number	Grant date	Financial year in which grant may vest	Min ³	Max ⁴	At date of grant ⁵	As at 30 June 2017 ⁶	Vested in year	Forfeited in year	Vested in year
				\$	\$	\$	\$	%	%	Number
Executive director										
M Cameron ⁷	80,000	24 September 2015	30 June 2017	-	-	-	-	100%	-	80,000
	80,000	24 September 2015	30 June 2018	-	988,000	990,400	1,185,600	-	-	-
	226,639	24 September 2015	30 June 2019	-	1,271,445	2,805,791	3,358,790	-	-	-
	235,017	1 September 2016	30 June 2020	-	1,579,314	2,998,817	3,482,952	-	-	-
Senior Executives										
D Carter ⁸	5,867	1 October 2013	30 June 2017	-	-	-	-	-	100%	-
	5,769	1 October 2014	30 June 2018	-	47,248	81,689	85,497	-	-	-
	6,977	1 September 2015	30 June 2019	-	42,978	87,352	103,399	-	-	-
	2,520	1 September 2016	30 June 2018	-	32,117	32,151	37,346	-	-	-
	2,520	1 September 2016	30 June 2019	-	32,117	32,151	37,346	-	-	-
	2,519	1 September 2016	30 June 2020	-	32,117	32,142	37,332	-	-	-
	42,830	29 June 2017	30 June 2020	-	287,818	645,020	634,741	-	-	-
A Day	57,006	1 October 2013	30 June 2017	-	-	-	-	-	100%	-
	56,561	1 October 2014	30 June 2018	-	463,235	800,904	838,234	-	-	-
	73,651	1 September 2015	30 June 2019	-	453,690	922,111	1,091,508	-	-	-
	74,422	1 September 2016	30 June 2020	-	500,116	949,625	1,102,934	-	-	-
G Dransfield	53,206	1 October 2013	30 June 2017	-	-	-	-	-	100%	-
	49,604	1 October 2014	30 June 2018	-	406,257	702,393	735,131	-	-	-
	62,022	1 September 2015	30 June 2019	-	382,056	776,515	919,166	-	-	-
	10,976	23 March 2016	30 June 2019	-	67,612	130,285	162,664	-	-	-
	72,463	1 September 2016	30 June 2020	-	486,951	924,628	1,073,902	-	-	-
S Harland ⁹	50,920	1 September 2016	30 June 2020	-	342,182	649,739	754,634	-	-	-
	19,584	1 September 2016	30 June 2018	-	249,892	249,892	290,235	-	-	-
S Johnston	16,341	1 October 2013	30 June 2017	-	-	-	-	-	100%	-
	36,284	28 May 2014	30 June 2017	-	-	-	-	-	100%	-
	53,026	1 October 2014	30 June 2018	-	434,283	750,848	785,845	-	-	-
	73,651	1 September 2015	30 June 2019	-	453,690	922,111	1,091,508	-	-	-
	74,422	1 September 2016	30 June 2020	-	500,116	949,625	1,102,934	-	-	-
	52,330	31 March 2017	30 June 2018	-	693,373	691,279	775,531	-	-	-
	52,329	31 March 2017	30 June 2019	-	693,359	691,279	775,516	-	-	-

1 The expiry date for performance rights and the fair value per right can be found in note 10 to the Suncorp Group Limited financial statements.

2 Ms Anna Lenahan ceased employment on 15 September 2016. Of the shares and performance rights held on leaving office 123,828 performance rights (100%) were forfeited.

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 2017 is calculated as the number of shares granted multiplied by the closing share price as traded on ASX on 30 June 2017.

7 Mr Michael Cameron was awarded restricted shares on commencement in recognition of incentives foregone with Mr Michael Cameron's previous employer. 80,000 vested on 1 January 2016, 80,000 vested on 1 January 2017 and a further 80,000 will vest on 1 January 2018, subject to service criteria being met.

8 Mr David Carter was awarded 7,559 restricted shares prior to commencing as a Senior Executive (this relates to Mr David Carter's previous Executive General Manager role). Vesting annually over three years from 1 September 2016, subject to service criteria and the Suncorp Group's Equity Plan Rules.

9 Ms Sarah Harland was awarded 19,584 restricted shares under the restricted share plan upon commencement of employment in recognition of incentives foregone with previous employer. Vesting will occur in the 2017-18 financial year and will be subject to service criteria under the Suncorp Group's Equity Plan Rules.

	Performance rights/restricted shares granted			Fair value yet to vest		Market value		Vested in year	Forfeited in year	Vested in year
	Number	Grant date	Financial year in which grant may vest	Min ³	Max ⁴	At date of grant ⁵	As at 30 June 2017 ⁶			
				\$	\$	\$	\$			
P Marlow ¹	52,329	31 March 2017	30 June 2020	-	693,359	691,279	775,516	-	-	-
K Olgers	43,318	29 March 2017	30 June 2020	-	291,097	573,964	641,973	-	-	-
M Reinke	17,101	1 October 2013	30 June 2017	-	-	-	-	-	100%	-
	25,635	28 May 2014	30 June 2017	-	-	-	-	-	100%	-
	38,885	1 October 2014	30 June 2018	-	318,468	550,612	576,276	-	-	-
	54,269	1 September 2015	30 June 2019	-	334,297	679,448	804,267	-	-	-
	54,837	1 September 2016	30 June 2020	-	368,505	699,720	812,684	-	-	-
A Revis	45,605	1 October 2013	30 June 2017	-	-	-	-	-	100%	-
	44,895	1 October 2014	30 June 2018	-	367,690	635,713	665,344	-	-	-
	56,208	1 September 2015	30 June 2019	-	346,241	703,724	833,003	-	-	-
	60,712	1 September 2016	30 June 2020	-	407,985	774,685	899,752	-	-	-
P Smeaton	5,700	1 October 2013	30 June 2017	-	-	-	-	-	100%	-
	5,656	1 October 2014	30 June 2018	-	46,323	80,089	83,822	-	-	-
	54,269	1 September 2015	30 June 2019	-	334,297	679,448	804,267	-	-	-
	61,406	1 September 2016	30 June 2020	-	412,648	783,541	910,037	-	-	-
F Thompson ²	1,325	1 June 2014	30 June 2017	-	-	-	-	100%	-	1,325
	1,166	1 October 2014	30 June 2018	-	16,394	16,511	17,280	-	-	-
	3,277	1 May 2015	30 June 2018	-	26,839	46,402	48,565	-	-	-
	5,426	1 September 2015	30 June 2019	-	33,424	67,934	80,413	-	-	-
	1,906	1 September 2016	30 June 2018	-	24,295	24,321	28,247	-	-	-
	1,906	1 September 2016	30 June 2019	-	24,295	24,321	28,247	-	-	-
	1,906	1 September 2016	30 June 2020	-	24,295	24,321	28,247	-	-	-
	34,862	29 June 2017	30 June 2020	-	234,273	525,022	516,655	-	-	-
Former Senior Executives										
C Herbert	45,605	1 October 2013	30 June 2017	-	-	-	-	-	100%	-
	47,723	1 October 2014	30 June 2018	-	300,901	520,238	544,487	-	23%	-
	60,084	1 September 2015	30 June 2019	-	171,704	348,982	413,093	-	54%	-
	60,712	1 September 2016	30 June 2020	-	52,907	100,459	116,678	-	87%	-
J Nesbitt	68,407	1 October 2013	30 June 2017	-	-	-	-	-	100%	-
	63,777	1 October 2014	30 June 2018	-	348,697	602,876	630,976	-	33%	-
	79,466	1 September 2015	30 June 2019	-	177,026	359,800	425,897	-	64%	-

2.7 Remuneration aligns with risk management

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

The ERMF lays the foundation for all risk management processes across the Suncorp 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 Suncorp Group and has ultimate responsibility for the effectiveness of the Suncorp 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.

¹ Ms Pip Marlow was awarded 156,988 restricted shares under the restricted share plan upon commencement of employment in recognition of incentives foregone with previous employer. Vesting will occur annually over three years from 1 July 2017, subject to service criteria under the Suncorp Group's Equity Plan Rules.

² Ms Fiona Thompson was awarded 5,718 restricted shares prior to commencing as a Senior Executive (this relates to Ms Fiona Thompson's previous Executive General Manager role). Vesting annually over three years from 1 September 2016, subject to service criteria and the Suncorp Group's Equity Plan Rules.

Business function leaders develop their business strategy and risk tolerance with an understanding of the Suncorp Group's risk appetite and also what is happening in the market in which the Suncorp Group operates. Financial returns delivered to the Suncorp Group are commensurate with the risks the Suncorp 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 the following:

- Separately weighted risk measures in the Suncorp Group scorecard and adherence to the agreed risk appetite by the Suncorp Group, business function and individuals as assessed by the Risk Committee.
- Individual adherence to risk management policies is assessed to ensure that the CEO & Managing Director, Senior Executives and other 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 Suncorp Group faces.
- The Suncorp Group scorecard is subject to the Board's application of a judgment overlay, with risk management considered as a key component of the overall performance outcome.

In determining performance and remuneration outcomes, the Remuneration Committee considers all factors to demonstrate alignment with the Suncorp Group's risk appetite and adherence to effective risk management practices to ensure that 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 Suncorp Group's financial soundness and ability to respond to unforeseen significant issues.
Criteria¹	<p>Clawback will be applied if prior to the date of release, it is determined that:</p> <ul style="list-style-type: none"> – 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 abovementioned failure, or should reasonably have been aware of that failure, when the incentive was awarded – 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 <p>In exercising its discretion, the Board will consider whether the awards are appropriate, given later individual or business performance and other reasonable considerations. Individual and business performance considerations include, but are not limited to, significant adverse outcomes that reflect on the original assessment of performance and incentive decisions and allocations that are determined to have been made based on materially inaccurate information.</p>

¹ The criteria was reviewed, updated and approved by the Board in November 2014 (effective January 2015) to ensure consistent and appropriate application of clawback for all executives. The final criterion was approved by the Board in July 2016, effective thereafter.

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Approval process

The Chief Risk Officer (**CRO**) 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 the CEO & Managing Director and Senior Executives. 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
- 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 2013-14 financial year the Board introduced a minimum shareholding requirement which requires executives to have a shareholding in SGL of a value that is equal to at least 100% of one year's pre-tax (gross) fixed remuneration.

Executives who were in office at October 2013 are required to achieve the full amount by October 2017. Any executive 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.

Based on their shareholding as at 30 June 2017, all executives who were in office as at October 2013 are on track to hold sufficient shares to meet the October 2017 requirement. Detailed share ownership information for 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 CRO or CFO oversees the process as appropriate.

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 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, Senior 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 2017 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 the CEO & Managing Director and Senior Executives for 2016-17 and 2015-16, as required under the Corporations Act.

The following table includes STI and LTI amounts during 2016-17 and 2015-16 which are 'share-based payment' amounts that reflect the amount required to be expensed in accordance with Australian Accounting Standards.

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 the CEO & Managing Director and Senior 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		Share-based payments			Total remuneration	Performance related	
		Salary and fees	Cash incentives	Non-monetary benefits ¹	Other ²	Superannuation benefits	Deferred incentives ³	Other ⁴	Termination benefits ⁵	Deferred STI ⁶			Equity Granted ⁷
		\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000			\$000
Executive director													
M Cameron	2017	2,080	983	38	160	20	16	35	-	527	1,657	5,516	57.7
	2016	1,537	630	29	118	16	630	26	-	-	2,315	5,301	67.4
Senior Executives													
D Carter	2017	548	348	3	34	15	5	56	-	100	152	1,261	48.0
A Day	2017	1,077	699	14	(26)	20	19	47	-	202	479	2,531	55.3
	2016	930	481	14	16	19	284	34	-	-	439	2,217	54.3
G Dransfield	2017	997	639	13	45	20	17	84	-	184	458	2,457	52.8
	2016	864	437	46	8	19	256	21	-	-	393	2,044	53.1
S Harland	2017	515	328	32	25	20	-	9	-	95	303	1,327	54.7
S Johnston	2017	967	608	1	5	20	18	25	-	176	471	2,291	55.6
	2016	930	469	1	27	19	269	39	-	-	427	2,181	53.4
P Marlow	2017	254	165	-	3	10	-	4	-	48	1,271	1,755	84.6
K Olgers	2017	371	257	4	20	20	-	7	-	74	81	834	49.4
M Reinke	2017	735	471	13	25	20	13	27	-	136	349	1,789	54.2
	2016	680	346	9	29	19	200	38	-	-	322	1,643	52.8
A Revis	2017	772	487	15	28	20	15	15	-	141	379	1,872	54.6
	2016	679	379	13	45	19	224	24	-	-	346	1,729	54.9
P Smeaton	2017	808	487	8	110	25	7	30	-	141	245	1,861	47.3
	2016	571	288	108	18	18	159	31	-	-	100	1,293	42.3
F Thompson	2017	515	331	5	16	16	2	86	-	96	129	1,196	46.6
Former Senior Executives													
C Herbert	2017	436	-	9	(13)	15	16	34	775	-	222	1,494	15.9
	2016	755	383	15	30	19	226	38	-	-	360	1,826	53.1
A Lenahan	2017	169	-	4	(16)	17	9	3	-	-	(232)	(46)	-
	2016	670	-	18	13	19	15	32	-	-	283	1,050	28.3
J Nesbitt	2017	275	-	2	48	10	21	4	949	-	127	1,436	10.3
	2016	1,005	507	6	189	19	301	27	-	-	501	2,555	51.2

1 Non-monetary benefits represents costs met by the Suncorp Group for airfares and insurances.

2 Other short-term benefits represent:

- Annual leave accrued during the year
- Mr John Nesbitt's accommodation allowance
- Mr Paul Smeaton's relocation costs and the residual amount of Mr Paul Smeaton's relocation and repatriation allowance (\$81,000)
- The annual leave balance for Mr Clayton Herbert, Ms Anna Lenahan and Mr John Nesbitt were paid out on termination.

3 The amount of deferred incentives awarded to the CEO & Managing Director and Senior Executives in 2017 relates only to the interest accrued in 2016-17 from the 2015-16 and 2014-15 cash-based deferral. The deferred equity portion of the 2016-17 STI is shown in 'Share-based payments – Deferred STI'.

4 Other long-term benefits represent long service leave accrued during the year. The long service leave balance for Mr Clayton Herbert was paid out on termination.

5 Termination benefits are paid in accordance with contractual commitments.

6 STI deferred into equity-settled rights is expensed to the profit and loss based on their fair value at 30 June 2017 over the accounting vesting period which commences 1 July 2016.

7 Equity granted represents grants under the LTI Plan and Restricted Share Plan (RSP). Awards 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 Suncorp Group Limited financial statements.

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 Suncorp 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 SGL occurs, deferred STI and a pro-rata award of current year STI may be awarded for the CEO & Managing Director, 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.

	CEO & Managing Director, Michael Cameron	Senior Executives
Notice period/ termination payments	Employer-initiated termination Incapacity: 9 months Misconduct: none All other cases: 12 months Employee-initiated termination: 6 months	Employer-initiated termination Incapacity: 3 months Misconduct: none All other cases: 12 months Employee-initiated termination: 3 months
Treatment of STI cash on termination	Employer-initiated and employee-initiated termination Resignation or redundancy: Any cash STI award may be received, subject to performance, at Board discretion. Misconduct: No cash STI will be awarded. All other cases: Board discretion.	
Treatment of STI deferral on termination	Employer-initiated and employee-initiated termination Post 1 July 2016 (Equity Based Deferral) Resignation: Any unvested deferral is forfeited. Redundancy: Any deferred equity award will generally vest at the end of the original deferral period and will remain subject to clawback. Misconduct: All unvested deferral is forfeited. All other cases: Board discretion. Pre 1 July 2016 (Cash Based Deferral)¹ Resignation or redundancy: Any deferred STI award will generally vest 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: All unvested deferral is forfeited. All other cases: Board discretion.	
Treatment of LTI on termination	Qualifying reason² 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.	
Treatment of restricted shares on termination	Qualifying reason² 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.	

¹ 'Grandfathered' for cash deferrals pertaining to 2014-15 and 2015-16 performance years.

² 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 non-executive 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**)).

SGL pays compulsory SGC of 9.5% of the director's fee on behalf of all eligible non-executive directors. The SGL's general practice is to cap Superannuation Guarantee contributions at 9.5% of the Maximum Contribution Base. Non-executive directors are offered the choice to receive 9.5% of their fees as superannuation contributions or to receive superannuation at the capped amount of 9.5% of the Maximum Contribution Base with the balance in fees. This does not change the total director remuneration paid by the Suncorp Group. If a non-executive director ceases to be eligible for SGC payments, the equivalent amount is paid in fees.

Regular reviews of fees

The Board periodically reviews the level of fees paid to non-executive directors. A review was undertaken for the 2016-17 financial year. It was determined that the Chairman and non-executive directors' fees remained appropriate. With the exception of the Remuneration Committee fees, the Board also considered that Committee fees remained appropriate.

In increasing the Remuneration Committee fee level, the Board concluded that the complexity, regulatory requirements, stakeholder engagement and general obligations of the Committee had increased. The Board also considered the fee level relative to other Committees and external comparators. Effective 1 July 2016, the Remuneration Committee fees were increased by \$10,000 and \$5,000 for the Chairman and members respectively.

The Board has determined that no changes to non-executive fees will be implemented for 2017-18.

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Non-executive director fees and other benefits

The fees shown in the table below took effect from 1 July 2016 of the relevant financial year. For completeness, the table provides the level of fee (SGC excluded), together with the value of associated SGC that informs the total fee¹.

		2016-17 FEES p.a. \$000				
Committee		Board	Audit	Risk	Remuneration	Other ²
Chairman fees (C)	Ex-Superannuation	600 ³	60	60	50	70
	Associated SGC	57	6	6	5	7
	Total Fee	657	66	66	55	77
Member fees (✓)	Ex-Superannuation	220	30	30	25	-
	Associated SGC	21	3	3	2	-
	Total Fee	241	33	33	27	-
Dr Zygmunt Switkowski AO	C	ex officio ⁴	ex officio ⁴	ex officio ⁴		
William Bartlett	✓	✓	✓	✓		
Audette Exel AO	✓			✓		
Sally Herman	✓	✓				
Ewoud Kulk	✓			C	✓	C
Christine McLoughlin	✓			✓	C	
Dr Douglas McTaggart	✓	C			✓	
Simon Machell	✓					

The Suncorp Group's minimum shareholding requirement introduced in October 2013 (refer to section 4.2) 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 fees⁵.

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.

Based on their shareholding as at 30 June 2017, all non-executive directors' who were in office as at October 2013 are on track to hold sufficient shares to meet the October 2017 requirement. Detailed share ownership information for the non-executive directors is shown in section 4.2.

3.2 Non-Executive Directors' Share Plan

The Non-Executive Directors' Share Plan, established in November 2001 following shareholder approval, facilitates the purchase of shares by non-executive directors by nominating, on a voluntary basis, a percentage of their pre-tax remuneration to be used to purchase SGL'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 10 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.

¹ Mr Geoffrey Ricketts CNZM ceased directorship from the Board effective 22 September 2016, however remains Chairman of Vero Insurance New Zealand Limited and other New Zealand insurance companies.

² An additional fee is payable to Mr Ewoud Kulk for the Chairmanship of AA Insurance Limited, a joint venture in New Zealand.

³ Includes Board Member base fee.

⁴ Dr Ziggy Switkowski AO does not receive fees for attending Audit, Risk and Remuneration Committee meetings as an ex officio member.

⁵ Board member fee or Board Chairman fee only (excluding SGC), does not include Committee membership fees or Committee Chairmanship fees.

3.3 Non-executive directors' remuneration disclosures

Details of non-executive directors' remuneration for 2016-17 and 2015-16 are set out in the table below.

	Year	Short-term benefits		Post-employment benefits		Total
		Salary and fees	Non-monetary benefits ¹	Superannuation - Statutory	Superannuation - Other ²	
Non-executive directors in office as at 30 June 2017						
Dr Z Switkowski AO	2017	600	1	20	38	659
	2016	600	1	19	39	659
W Bartlett	2017	305	1	20	9	335
	2016	310	1	19	10	340
A Exel AO	2017	250	1	20	4	275
	2016	250	1	19	5	275
S Herman	2017	250	1	20	4	275
	2016	164	-	14	2	180
E Kulk	2017	375	1	20	16	412
	2016	370	1	19	17	406
C McLoughlin	2017	300	1	20	9	330
	2016	280	1	19	9	309
Dr D McTaggart	2017	305	1	20	10	336
	2016	290	1	19	9	319
S Machell ³	2017	47	-	1	-	49
Former non-executive director						
G Ricketts CNZM ⁴	2017	86	-	5	4	95
	2016	350	1	19	15	385

1 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.

2 Superannuation in excess of the MCB is delivered in the form of additional superannuation contributions or the director may elect to take as fees.

3 Mr Simon Machell was appointed as a non-executive director on the 7 April 2017.

4 Mr Geoffrey Ricketts CNZM retired from the Board effective 22 September 2016, however remains Chairman of Vero Insurance New Zealand Limited and other New Zealand insurance companies and continues to receive subsidiary director fees. The disclosed fee does not include subsidiary director fees Mr Ricketts continues to receive after retiring from the Board.

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 employee discounts at the same terms available to all employees of the 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:

	2016-17			
	Balance	Balance	Interest charged	Highest balance
	1 July 2016	30 June 2017	during the year ¹	
\$000	\$000	\$000	\$000	
Senior Executives				
D Carter	-	955	47	1,413
A Day	-	1,540	8	1,540
S Johnston	1,200	1,200	-	1,200
M Reinke	183	163	8	183
A Revis	4,125	4,601	172	4,611
P Smeaton	298	680	13	900

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

	2016-17		
	Key management	Other related	Total
	personnel	parties	
	\$000	\$000	\$000
Opening balance	5,138	668	5,806
Closing balance	8,090	1,050	9,140
Interest charged	230	18	248
	Number	Number	Number
Number of individuals at 30 June 2017	6	2	8

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

		1 July 2016 – 30 June 2017				
		Balance 1 July 2016 ¹	Received as compensation ²	Purchases (sales)	Other changes ³	Balance 30 June 2017
		Number	Number	Number	Number	Number
DIRECTORS						
Executive director						
M Cameron	Ordinary	95,000	80,000	-	-	175,000
	Performance rights	386,639	235,017	-	(80,000)	541,656
Non-executive directors						
Dr Z Switkowski AO	Ordinary	311,599	-	-	-	311,599
W Bartlett	Ordinary	26,968	-	-	-	26,968
A Exel AO	Ordinary	8,812	-	5,800	-	14,612
S Herman	Ordinary	16,500	-	-	-	16,500
E Kulk	Ordinary	20,173	-	-	-	20,173
C McLoughlin	Ordinary	20,000	-	-	-	20,000
Dr D McTaggart	Ordinary	18,966	-	1,045	-	20,011
S Machell	Ordinary	-	-	-	25,000	25,000
Former non-executive director						
G Ricketts CNZM	Ordinary	32,314	-	1,780	(34,094)	-
SENIOR EXECUTIVES						
D Carter	Ordinary	-	-	-	-	-
	Performance rights	-	50,389	-	12,746	63,135
A Day	Ordinary	115,705	-	28	-	115,733
	Performance rights	187,218	74,422	-	(57,006)	204,634
G Dransfield	Ordinary	74,770	-	165	-	74,935
	Performance rights	175,808	72,463	-	(53,206)	195,065
S Harland	Ordinary	-	-	-	-	-
	Performance rights	-	70,504	-	-	70,504
S Johnston	Ordinary	72,879	-	-	-	72,879
	Performance rights	179,302	74,422	-	(52,625)	201,099
P Marlow	Ordinary	-	-	-	-	-
	Performance rights	-	156,988	-	-	156,988
K Olgers	Ordinary	-	-	-	-	-
	Performance rights	-	43,318	-	-	43,318
M Reinke	Ordinary	52,109	-	-	-	52,109
	Performance rights	135,890	54,837	-	(42,736)	147,991
A Revis	Ordinary	50,786	-	1,987	-	52,773
	Performance rights	146,708	60,712	-	(45,605)	161,815
P Smeaton	Ordinary	15,622	-	15,500	-	31,122
	Performance rights	65,625	61,406	-	(5,700)	121,331
F Thompson	Ordinary	-	1,325	-	742	2,067
	Performance rights	-	40,580	-	9,869	50,449
FORMER SENIOR EXECUTIVES						
C Herbert ⁴	Ordinary	142,216	-	-	(142,216)	-
	Performance rights	153,412	60,712	-	(214,124)	-
A Lenahan ⁵	Ordinary	53,164	-	(53,164)	-	-
	Performance rights	123,828	-	-	(123,828)	-
J Nesbitt ⁶	Ordinary	187,314	-	42,314	(229,628)	-
	Performance rights	211,650	-	-	(211,650)	-

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 and restricted shares awarded on commencement. 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 'Other Changes' for Mr Geoffrey Ricketts and Mr Simon Machell represent shares held upon termination and commencement respectively. For Mr David Carter and Ms Fiona Thompson, this represents shares and performance rights held upon appointment as KMP. Ms Sarah Harland, Ms Pip Marlow and Ms Kate Olgers held no shares or performance rights upon commencement.

4 Mr Clayton Herbert ceased employment on 20 January 2017. Shares and performance rights held upon termination are shown in 'Other changes'. Of the shares and performance rights held on leaving office, 72,487 performance rights remained subject to performance hurdles.

5 Ms Anna Lenahan ceased employment on 15 September 2016. Shares held upon termination are shown in 'Other changes'. Performance rights held upon termination were forfeited and are shown in 'Other changes.'

6 Mr John Nesbitt ceased employment on 30 September 2016. Shares and performance rights held upon termination are shown in 'Other changes'. Of the shares and performance rights held on leaving office, 71,314 performance rights remained subject to performance hurdles.

Directors and executives of SGL and their related parties received normal distributions on these shares. Details of the directors' shareholdings in SGL 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.

	2016-17			Balance 30 June 2017 Number
	1 July 2016 Number	Purchases (sales) Number	Other Changes ¹ Number	
SUNPC²				
DIRECTORS				
Non-executive directors				
E Kulk	3,000	-	-	3,000
Senior Executives				
A Revis	1,500	(1,500)	-	-
Former Senior Executives				
C Herbert	400	-	(400)	-
A Lenahan	2,000	-	(2,000)	-
SUNPE³				
DIRECTORS				
Non-executive directors				
W Bartlett	323	-	-	323
Former Senior Executives				
C Herbert	323	-	(323)	-

¹ 'Other Changes' for Mr Clayton Herbert and Ms Anna Lenahan represent preference shares held upon termination.

² SGL issued Suncorp Convertible Preference Shares (**SUNPC**) on 6 November 2012.

³ SGL issued Suncorp Convertible Preference Shares (**SUNPE**) on 8 May 2014.

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4.3 Other key management personnel transactions

Financial instrument transactions

Financial instrument transactions (other than loans and shares disclosed within this report) between the Suncorp Group and 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 Suncorp Group 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 SGL 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 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

3 August 2017

MICHAEL CAMERON

CEO & Managing Director

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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 of Suncorp-Metway Limited for the financial year ended 30 June 2017 there have been:

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

KPMG

Jillian Richards

Partner

Brisbane

3 August 2017

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SUNCORP-METWAY LIMITED AND SUBSIDIARIES

ABN 66 010 831 722

CONSOLIDATED FINANCIAL REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

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STATEMENTS OF COMPREHENSIVE INCOME

For the financial year ended 30 June 2017

	Note	Consolidated		Company	
		2017 \$M	2016 \$M	2017 \$M	2016 \$M
Interest income	5.1	2,481	2,644	2,463	2,621
Interest expense	5.1	(1,350)	(1,515)	(1,277)	(1,416)
Net interest income	5.1	1,131	1,129	1,186	1,205
Other operating income	5.2	76	88	436	435
Total net operating income		1,207	1,217	1,622	1,640
Operating expenses	6	(638)	(653)	(1,058)	(1,091)
Impairment loss on loans and advances	13.2	(7)	(16)	(9)	(16)
Profit before income tax		562	548	555	533
Income tax expense	7.1	(168)	(165)	(160)	(156)
Profit for the financial year attributable to owners of the Company		394	383	395	377
Other comprehensive income					
<i>Items that will be reclassified subsequently to profit or loss</i>					
Net change in fair value of cash flow hedges	20	(61)	23	(61)	23
Net change in fair value of available-for-sale financial assets	20	13	(2)	13	(2)
Income tax expense	20	14	(6)	14	(6)
Total other comprehensive income		(34)	15	(34)	15
Total comprehensive income for the financial year attributable to owners of the Company		360	398	361	392

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

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STATEMENTS OF FINANCIAL POSITION

As at 30 June 2017

	Note	Consolidated		Company	
		2017 \$M	2016 \$M	2017 \$M	2016 \$M
Assets					
Cash and cash equivalents	8	903	1,028	900	1,026
Receivables	9	567	552	567	552
Trading securities	10	1,520	1,497	1,520	1,497
Derivatives	11	138	675	138	675
Investment securities	10	4,560	5,225	4,562	5,228
Loans and advances	12	55,197	54,134	54,926	53,804
Due from related parties	28.2	316	295	588	678
Deferred tax assets	7.2	51	44	50	43
Other assets		169	166	136	130
Total assets		63,421	63,616	63,387	63,633
Liabilities					
Payables due to other banks		50	332	50	332
Deposits and short-term borrowings	14	45,427	45,421	45,445	45,503
Derivatives	11	354	498	354	498
Payables and other liabilities	15	357	346	352	339
Due to related parties	28.2	63	135	3,152	2,670
Securitised liabilities	23.3	3,088	2,544	-	-
Debt issues	16	9,216	9,860	9,216	9,860
Subordinated notes	17	742	742	742	742
Total liabilities		59,297	59,878	59,311	59,944
Net assets		4,124	3,738	4,076	3,689
Equity					
Share capital	18	2,648	2,648	2,648	2,648
Capital notes	19	825	450	825	450
Reserves	20	(307)	(270)	65	102
Retained profits		958	910	538	489
Total equity attributable to owners of the Company		4,124	3,738	4,076	3,689

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 2017

Consolidated	Note	Share capital \$M	Capital notes \$M	Reserves \$M	Retained profits \$M	Total equity \$M
Balance as at 1 July 2015		2,648	450	(224)	840	3,714
Profit for the financial year		-	-	-	383	383
Total other comprehensive income for the financial year		-	-	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
Profit for the financial year		-	-	-	394	394
Total other comprehensive income for the financial year		-	-	(34)	-	(34)
Total comprehensive income for the financial year		-	-	(34)	394	360
Transactions with owners, recorded directly in equity						
Dividends paid	3	-	-	-	(349)	(349)
Transfers		-	-	(3)	3	-
Capital notes issued	19	-	375	-	-	375
Balance as at 30 June 2017		2,648	825	(307)	958	4,124

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

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STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 30 June 2017

Company	Note	Share capital \$M	Capital notes \$M	Reserves \$M	Retained profits \$M	Total equity \$M
Balance as at 1 July 2015		2,648	450	148	426	3,672
Profit for the financial year		-	-	-	377	377
Total other comprehensive income for the financial year		-	-	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
Profit for the financial year		-	-	-	395	395
Total other comprehensive income for the financial year		-	-	(34)	-	(34)
Total comprehensive income for the financial year		-	-	(34)	395	361
Transactions with owners, recorded directly in equity						
Dividends paid	3	-	-	-	(349)	(349)
Transfers		-	-	(3)	3	-
Capital notes issued	19	-	375	-	-	375
Balance as at 30 June 2017		2,648	825	65	538	4,076

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

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STATEMENTS OF CASH FLOWS

For the financial year ended 30 June 2017

	Note	Consolidated		Company	
		2017 \$M	2016 \$M	2017 \$M	2016 \$M
Cash flows from operating activities					
Interest received		2,484	2,628	2,468	2,701
Interest paid		(1,363)	(1,559)	(1,290)	(1,459)
Fees and other operating income received		222	234	559	557
Dividends and trust distributions received		-	-	20	24
Fees and operating expenses paid		(770)	(736)	(1,191)	(2,382)
Reimbursement to related parties for income tax payments		(224)	(183)	(209)	(171)
<i>Net increase in operating assets</i>					
Trading securities		(23)	(113)	(23)	(113)
Loans and advances		(1,072)	(2,398)	(1,133)	(2,464)
<i>Net (decrease) increase in operating liabilities</i>					
Deposits and short-term borrowings		(24)	857	570	899
Net cash used in operating activities	22.1	(770)	(1,270)	(229)	(2,408)
Cash flows from investing activities					
Proceeds from the sale or maturity of investment securities		2,159	2,680	2,159	2,680
Payments for purchase of investment securities		(1,288)	(1,532)	(1,287)	(1,515)
Net cash from investing activities		871	1,148	872	1,165
Cash flows from financing activities					
Proceeds from debt issues and securitised liabilities		4,123	3,668	2,873	3,664
Repayment of debt issues and securitised liabilities		(4,078)	(2,821)	(3,371)	(1,693)
Proceeds from issue of capital notes		375	-	375	-
Dividends paid		(349)	(366)	(349)	(366)
Net cash from financing activities		71	481	(472)	1,605
Net increase in cash and cash equivalents		172	359	171	362
Cash and cash equivalents at the beginning of the financial year		1,248	889	1,246	884
Cash and cash equivalents at the end of the financial year	22.2	1,420	1,248	1,417	1,246

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 2017

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 2017 comprise the Company and its subsidiaries (the **Group**) and were authorised for issue by the Board of Directors on 3 August 2017.

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 immediate parent entity is SBGH Limited and its ultimate parent entity is Suncorp Group Limited (**SGL**). SGL and its subsidiaries are referred to as the Suncorp Group.

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 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. In the notes, amounts expected to be recovered or settled no more than 12 months after the reporting period are classified as 'current', otherwise they are classified as 'non-current'.

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

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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 in the following notes:

- specific and collective provisions for impairment (refer to note 31.11 and note 25.1)
- valuation of financial instruments (refer to note 23).

3. Dividends

	2017		2016	
	Cents per share / note	\$M	Cents per share / note	\$M
Consolidated and Company				
Dividend payments on ordinary shares				
2016 final dividend (2016: 2015 final dividend)	64	175	59	161
2017 interim dividend (2016: 2016 interim dividend)	57	154	68	184
Total dividends on ordinary shares	121	329	127	345
Dividend payments on capital notes				
September quarter	120	5	120	5
December quarter	111	5	119	5
March quarter	109	5	122	5
June quarter	116	5	123	6
Total dividends on capital notes	456	20	484	21
Total dividends	577	349	611	366
Dividends not recognised in the statements of financial position¹				
<i>Dividends determined since balance date</i>				
2017 final dividend (2016: 2016 final dividend)	67	181	64	175
	67	181	64	175

¹The total 2017 final dividends determined but not recognised in the consolidated statements of financial position are estimated based on the total number of ordinary shares on issue as at 30 June 2017. The actual amount recognised in the consolidated financial statements for the year ending 30 June 2018 will be based on the actual number of ordinary shares on issue 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 Suncorp Group's Chief Operating Decision Maker (**CODM**), in assessing performance and determining the allocation of resources.

There has been no change to the Group's segments as a result of Suncorp Group's transition to the new operating model effective 1 July 2016.

The basis of segmentation and basis of measurement of segment results are the same as those applied by the Group in its consolidated financial report for the financial year ended 30 June 2016.

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

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

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

5. Net operating income

5.1 Net interest income

	Consolidated		Company	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M
Interest income				
Cash and cash equivalents	8	16	8	16
Receivables due from other banks	3	2	3	2
Trading securities	28	32	28	32
Investment securities	166	196	166	196
Loans and advances	2,276	2,398	2,258	2,375
Total interest income	2,481	2,644	2,463	2,621
Interest expense				
Deposits and short-term borrowings:				
at amortised cost	(887)	(1,014)	(890)	(1,018)
designated at fair value through profit and loss	(32)	(17)	(32)	(17)
Derivatives	(42)	(77)	(42)	(77)
Securitised liabilities	(78)	(105)	-	-
Debt issues	(278)	(266)	(280)	(268)
Subordinated notes	(33)	(36)	(33)	(36)
Total interest expense	(1,350)	(1,515)	(1,277)	(1,416)
Net interest income	1,131	1,129	1,186	1,205

5.2 Other operating income

	Consolidated		Company	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M
Other operating income				
Banking fee and commission income	196	196	196	196
Banking fee and commission expense	(132)	(129)	(132)	(129)
Net banking fee and commission income	64	67	64	67
Dividend income	-	-	20	24
Net gains (losses) on:				
Trading securities	3	1	3	1
Financial liabilities designated at fair value through profit and loss	1	(1)	1	(1)
Derivative and other financial instruments	3	4	3	4
Other fees and commissions	-	-	340	332
Other revenue	5	17	5	8
	12	21	372	368
Other operating income	76	88	436	435

6. Operating expenses

	Consolidated		Company	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M
Wages, salaries and other staff costs	362	367	362	367
Occupancy and equipment expenses	64	72	64	72
Information technology and communication	41	47	41	47
Depreciation and amortisation	33	29	33	29
Other expenses	138	138	558	576
Total operating expenses	638	653	1,058	1,091

Operating expenses such as employee expenses, 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	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M
Reconciliation of prima facie to actual income tax expense:				
Profit before tax	562	548	555	533
Prima facie domestic corporation tax rate of 30% (2016: 30%)	169	165	167	160
Tax effect of amounts not deductible (assessable) in calculating taxable income:				
Trust income	-	-	-	3
Intercompany dividend elimination	-	-	(6)	(7)
Prior year over provision	(1)	-	(1)	-
Total income tax expense on pre-tax profit	168	165	160	156
Effective tax rate	29.9%	30.1%	28.8%	29.3%
Income tax expense recognised in profit consists of:				
Current tax expense				
Current tax movement	162	153	154	146
Adjustments for prior financial years	(1)	(18)	(1)	(19)
Total current tax expense	161	135	153	127
Deferred tax expense				
Origination and reversal of temporary differences	7	30	7	29
Total deferred tax expense	7	30	7	29
Total income tax expense	168	165	160	156

7.2 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following.

	2017 Deferred tax assets \$M	2016 \$M	2017 Deferred tax liabilities \$M	2016 \$M	2017 Net \$M	2016 \$M
Consolidated						
Trading and investment securities	6	-	-	7	6	(7)
Provision for impairment on loans and advances	44	50	-	-	44	50
Other items	3	3	2	2	1	1
Deferred tax assets and liabilities	53	53	2	9	51	44
Set-off of tax	(2)	(9)	(2)	(9)	-	-
Net deferred tax assets	51	44	-	-	51	44

	2017 Deferred tax assets \$M	2016 \$M	2017 Deferred tax liabilities \$M	2016 \$M	2017 Net \$M	2016 \$M
Company						
Trading and investment securities	6	-	-	8	6	(8)
Provision for impairment on loans and advances	41	48	-	-	41	48
Other items	3	3	-	-	3	3
Deferred tax assets and liabilities	50	51	-	8	50	43
Set-off of tax	-	(8)	-	(8)	-	-
Net deferred tax assets	50	43	-	-	50	43

Movement in deferred tax balances during the financial year.

	2017 Deferred tax assets \$M	2016 \$M	2017 Deferred tax liabilities \$M	2016 \$M
Consolidated				
Balance at the beginning of the financial year	53	81	9	-
Movement recognised in profit or loss	(6)	(13)	1	16
Movement recognised in other comprehensive income	-	-	(14)	8
Reclassifications	6	(15)	6	(15)
Balance at the end of the financial year	53	53	2	9

	2017 Deferred tax assets \$M	2016 \$M	2017 Deferred tax liabilities \$M	2016 \$M
Company				
Balance at the beginning of the financial year	51	79	8	-
Movement recognised in profit or loss	(6)	(12)	1	16
Movement recognised in other comprehensive income	-	-	(14)	8
Reclassifications	5	(16)	5	(16)
Balance at the end of the financial year	50	51	-	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	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M
Cash at bank	114	112	111	110
Reverse repurchase agreements maturing in less than three months	639	349	639	349
Other money market placements	150	567	150	567
Total cash and cash equivalents	903	1,028	900	1,026

9. Receivables due from other banks

	Consolidated		Company	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M
Cash collateral ¹	192	212	192	212
Other receivables due from financial institutions	375	340	375	340
Total receivables due from other banks - current	567	552	567	552

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	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M
Trading securities				
Interest-bearing securities:				
Bank bills, certificates of deposits and other negotiable securities – current	1,520	1,497	1,520	1,497
Investment securities				
<i>Available-for-sale financial assets at fair value</i>				
Interest-bearing securities	3,677	3,867	3,677	3,867
<i>Held-to-maturity investments</i>				
Interest-bearing securities	883	1,358	883	1,358
<i>Investment at cost</i>				
Shares in subsidiaries	-	-	2	3
Total investment securities	4,560	5,225	4,562	5,228
Current	842	436	842	436
Non-current	3,718	4,789	3,720	4,792
Total investment securities	4,560	5,225	4,562	5,228

11. Derivative financial instruments

Consolidated	2017			2016		
	Notional value	Fair value		Notional value	Fair value	
		Asset	Liability		Asset	Liability
	\$M	\$M	\$M	\$M	\$M	\$M
<i>Interest rate-related contracts</i>						
Interest rate swaps	49,647	133	219	54,248	293	355
Swaption	6	-	-	-	-	-
Interest rate futures	1,422	1	-	4,325	1	-
Interest rate options	79	-	-	78	1	1
	51,154	134	219	58,651	295	356
<i>Exchange rate-related contracts</i>						
Forward foreign exchange contracts	2,945	4	51	2,992	20	65
Cross currency swaps	2,744	-	84	3,421	360	77
Currency options	2	-	-	4	-	-
	5,691	4	135	6,417	380	142
Total derivative exposures	56,845	138	354	65,068	675	498
Company						
	2017			2016		
	Notional value	Fair value		Notional value	Fair value	
		Asset	Liability		Asset	Liability
	\$M	\$M	\$M	\$M	\$M	\$M
<i>Interest rate-related contracts</i>						
Interest rate swaps	49,647	133	219	54,248	293	355
Swaption	6	-	-	-	-	-
Interest rate futures	1,422	1	-	4,325	1	-
Interest rate options	79	-	-	78	1	1
	51,154	134	219	58,651	295	356
<i>Exchange rate-related contracts</i>						
Forward foreign exchange contracts	2,945	4	51	2,992	20	65
Cross currency swaps	2,744	-	84	3,421	360	77
Currency options	2	-	-	4	-	-
	5,691	4	135	6,417	380	142
Total derivative exposures	56,845	138	354	65,068	675	498

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, Over-the-counter (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 shortfalls. Counterparty risk procedures are in place for OTC type derivatives.

As at 30 June 2017 there was no significant counterparty exposure to any one single entity, other than normal clearing house exposures associated with dealings through recognised exchanges.

Hedging of fluctuations in interest rates

The Group seeks to minimise volatility in net interest income through the use of interest rate derivatives, primarily vanilla interest rate swaps. The aggregate earnings exposure to interest rates is managed within the Board-approved risk limits. At reporting date, there are 24 (2016: 23) 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 issues.

Hedging of fluctuations in foreign exchange rates

The Group ensures that the net exposures are kept to an acceptable level through participation in the spot and forward markets. 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 components as a cash flow hedge.

The Group has elected to recognise its US Commercial Paper portfolio at fair value 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 foreign exchange contracts and the debt 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 2017 is \$48 million (2016: \$41 million).

During the financial year, the Group deferred to equity \$1 million (2016: \$nil million), and released \$nil million (2016: \$nil million) of foreign currency loss previously deferred to equity to profit or loss on derivatives held in qualifying cash flow hedging relationships.

Consolidated losses of \$78 million (2016: losses \$77 million) on derivatives held in qualifying fair value hedging relationships, and gains of \$78 million (2016: gains \$77 million) representing changes in the fair value of the hedged items attributable to the hedged risk are recognised in profit or loss for both the Company and Group.

The following table details the derivatives used in the hedging of fluctuations in interest rates and foreign exchange rates.

	Consolidated				Company			
	2017		2016		2017		2016	
	Fair value hedges	Cash flow hedges	Fair value hedges	Cash flow hedges	Fair value hedges	Cash flow hedges	Fair value hedges	Cash flow hedges
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Hedging of fluctuations in interest rates								
Notional value of interest rate swaps designated as hedges	1,250	41,422	1,200	46,206	1,250	41,422	1,200	46,206
Fair value:								
net receivable on interest rate swaps	-	95	-	217	-	95	-	217
net payable on interest rate swaps	(66)	(112)	(101)	(179)	(66)	(112)	(101)	(179)
	(66)	(17)	(101)	38	(66)	(17)	(101)	38

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	Consolidated		Company	
	2017	2016	2017	2016
	Split approach	Split approach	Split approach	Split approach
	\$M	\$M	\$M	\$M
Hedging of fluctuations in foreign exchange rates				
Notional value of cross currency swaps designated as hedges	2,744	2,839	2,744	2,839
Fair value:				
net receivable on cross currency swaps	-	299	-	299
net payable on cross currency swaps	(84)	(17)	(84)	(17)
	(84)	282	(84)	282

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

	Expected cash flows			
	0 to 12 months	1 to 5 years	Over 5 years	Total
	\$M	\$M	\$M	\$M
Consolidated and Company				
2017				
Forecast receivable cash flows	715	1,389	52	2,156
Forecast payable cash flows	(712)	(1,392)	(72)	(2,176)
	3	(3)	(20)	(20)
2016				
Forecast receivable cash flows	673	891	6	1,570
Forecast payable cash flows	(661)	(884)	(10)	(1,555)
	12	7	(4)	15

12. Loans and advances

	Note	Consolidated		Company	
		2017	2016	2017	2016
		\$M	\$M	\$M	\$M
<i>Financial assets at amortised cost</i>					
Housing loans		44,844	44,252	44,844	44,252
Consumer loans		254	312	254	312
Business loans		10,226	9,716	9,952	9,380
Other lending		13	18	13	18
Gross loans and advances		55,337	54,298	55,063	53,962
Provision for impairment	13	(140)	(164)	(137)	(158)
Total loans and advances		55,197	54,134	54,926	53,804
Current		10,172	12,194	10,132	12,152
Non-current		45,025	41,940	44,794	41,652
Total loans and advances		55,197	54,134	54,926	53,804

13. Provision for impairment on loans and advances

13.1 Reconciliation of provision for impairment on loans and advances

	Consolidated		Company	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M
Collective provision				
Balance at the beginning of the financial year	108	126	104	121
Write-back against impairment losses	(12)	(18)	(9)	(17)
Balance at the end of the financial year	96	108	95	104
Specific provision				
Balance at the beginning of the financial year	56	82	54	78
New and increased individual provisioning	34	54	32	50
Write-back of provisions no longer required	(25)	(22)	(24)	(19)
Impaired provision written off	(16)	(53)	(15)	(50)
Unwind of discount	(5)	(5)	(5)	(5)
Balance at the end of the financial year	44	56	42	54
Total provisions for impairment	140	164	137	158

13.2 Impairment loss on loan and advances

	Consolidated		Company	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M
(Decrease) increase in collective provision for impairment	(12)	(18)	(9)	(17)
Increase in specific provision for impairment	9	32	8	31
Bad debts written off	13	14	13	14
Bad debts recovered	(3)	(12)	(3)	(12)
Total impairment loss on loans and advances	7	16	9	16

14. Deposits and short-term borrowings

	Consolidated		Company	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M
<i>Financial liabilities at amortised cost</i>				
Call deposits	18,945	17,758	18,963	17,840
Term deposits	17,895	18,471	17,895	18,471
Short-term securities issued	6,118	6,511	6,118	6,511
Total deposits and short-term borrowings at amortised cost	42,958	42,740	42,976	42,822
<i>Financial liabilities designated at fair value through profit or loss</i>				
Offshore borrowings	2,469	2,681	2,469	2,681
Total deposits and short-term borrowings	45,427	45,421	45,445	45,503
Current	44,641	44,492	44,659	44,574
Non-current	786	929	786	929
Total deposits and short-term borrowings	45,427	45,421	45,445	45,503

Deposits and short-term borrowings outstanding at 30 June 2017 of \$306 million (2016: \$300 million) have been obtained under repurchase agreements with the Reserve Bank of Australia and disclosed within the above category of 'Short-term securities issued'.

The contractual amount payable on financial liabilities designated at fair value through profit or loss at maturity is \$2,485 million (2016: \$2,690 million).

15. Payables and other liabilities

	Consolidated		Company	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M
Accrued interest payable	243	256	239	252
Trade creditors and accrued expenses	66	61	65	58
Other liabilities	48	29	48	29
Total payables and other liabilities - current	357	346	352	339

16. Debt issues

	Note	Consolidated		Company	
		2017 \$M	2016 \$M	2017 \$M	2016 \$M
<i>Financial liabilities at amortised cost</i>					
Offshore borrowings		2,663	3,123	2,663	3,123
Domestic borrowings		4,062	3,588	4,062	3,588
Total unsecured debt issues		6,725	6,711	6,725	6,711
Domestic covered bonds	23.3	2,491	3,149	2,491	3,149
Total secured debt issues		2,491	3,149	2,491	3,149
		9,216	9,860	9,216	9,860
Current		1,972	3,373	1,972	3,373
Non-current		7,244	6,487	7,244	6,487
Total debt issues		9,216	9,860	9,216	9,860

Covered bonds issued are guaranteed by the Covered Bond Guarantor and are secured over a covered pool which consists of \$2,926 million (2016: \$3,836 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

The following table shows subordinated notes at amortised cost and categorised by type, class and instrument under Australian Prudential Regulatory Authority (**APRA**) and Bank Basel III reporting standards. These instruments have been issued by Suncorp-Metway Limited (**SML**).

Consolidated and Company		2017 \$M	2016 \$M		
Tier 2 Subordinated notes					
Basel III transitional subordinated notes					
\$AUD 670 million SML Floating Rate Notes		670	670		
\$AUD 72 million SML Floating Rate Notes		72	72		
Total subordinated notes		742	742		
Current		-	-		
Non-current		742	742		
Total subordinated notes		742	742		
Basel III transitional subordinated notes					
	Margin above 90 day BBSW	Optional redemption date	Issue date	2017 Number on issue	2016 Number on issue
\$AUD 670 million SML Floating Rate	285 bps	22 Nov 2018	14 Jun 2013	6,700,000	6,700,000
\$AUD 72 million SML Floating Rate Notes	75 bps	n/a	17 Dec 1998	715,383	715,383

On 14 June 2013, the Company issued mandatory cumulative convertible notes with a floating rate coupon with callable features and a maturity date of 22 November 2023. The notes are eligible Tier 2 instruments both in the transitional and post-transitional Basel III rules.

On 17 December 1998, the Company issued perpetual cumulative non-convertible notes with a floating rate coupon with callable features.

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 priority to the rights of its ordinary shareholders.

18. Share capital

Consolidated and Company	2017		2016	
	No of shares	\$M	No of shares	\$M
Balance at the beginning of the financial year	271,467,584	2,648	271,467,584	2,648
Balance at the end of the financial year	271,467,584	2,648	271,467,584	2,648

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

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

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

19. Capital notes

Consolidated and Company	2017		2016	
	No of notes	\$M	No of notes	\$M
Issued on 17 December 2012	4,500,000	450	4,500,000	450
Issued on 5 May 2017	3,750,000	375	-	-
Balance at the end of the financial year	8,250,000	825	4,500,000	450

The capital notes are perpetual, subordinated notes issued to the Group's ultimate parent entity, Suncorp Group Limited, on 17 December 2012 and 5 May 2017. 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.

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20. Reserves

Consolidated	Equity	Hedging	Assets	Common	Total
	reserve for		available-		
	credit	reserve	for-sale	reserve	reserves
	losses		reserve		
	\$M	\$M	\$M	\$M	\$M
Balance as at 30 June 2015	146	(4)	6	(372)	(224)
Transfer to retained profits	(61)	-	-	-	(61)
Amount recognised in equity	-	23	-	-	23
Amount transferred from equity to profit or loss	-	-	(2)	-	(2)
Income tax benefit (expense)	-	(7)	1	-	(6)
Balance as at 30 June 2016	85	12	5	(372)	(270)
Transfer to retained profits	(3)	-	-	-	(3)
Amount recognised in equity	-	(58)	13	-	(45)
Amount transferred from equity to profit or loss	-	(3)	-	-	(3)
Income tax benefit (expense)	-	18	(4)	-	14
Balance as at 30 June 2017	82	(31)	14	(372)	(307)

Company	Equity	Hedging	Assets	Common	Total
	reserve for		available-		
	credit	reserve	for-sale	reserve	reserves
	losses		reserve		
	\$M	\$M	\$M	\$M	\$M
Balance as at 30 June 2015	146	(4)	6	-	148
Transfer to retained profits	(61)	-	-	-	(61)
Amount recognised in equity	-	23	-	-	23
Amount transferred from equity to profit or loss	-	-	(2)	-	(2)
Income tax benefit (expense)	-	(7)	1	-	(6)
Balance as at 30 June 2016	85	12	5	-	102
Transfer to retained profits	(3)	-	-	-	(3)
Amount recognised in equity	-	(58)	13	-	(45)
Amount transferred from equity to profit or loss	-	(3)	-	-	(3)
Income tax benefit (expense)	-	18	(4)	-	14
Balance as at 30 June 2017	82	(31)	14	-	65

Equity reserve 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 financial 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. Group 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 that there are sufficient capital resources to maintain and grow the business, in accordance with the Suncorp Group's risk appetite. The Suncorp Group's Internal Capital Adequacy Assessment Process (**ICAAP**) provides the framework to ensure that the Suncorp Group 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 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 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.
- 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 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	2017 \$M	2016 \$M
Tier 1 Capital		
Common Equity Tier 1 Capital		
Ordinary share capital	2,648	2,648
Retained profits	570	522
Accumulated other comprehensive income	(16)	17
	3,202	3,187
Regulatory adjustments to Common Equity Tier 1 Capital		
Goodwill and other intangibles arising on acquisition	(21)	(21)
Cash-flow hedge reserve	30	(12)
Deferred tax assets	(38)	(50)
Investments in non-consolidated subsidiaries, capital support	(1)	(5)
Other adjustments to CET1	(225)	(219)
	(255)	(307)
Common Equity Tier 1 Capital	2,947	2,880
Additional Tier 1 Capital		
Eligible hybrid capital	825	450
Total Tier 1 Capital	3,772	3,330
Tier 2 Capital		
APRA general reserve for credit losses	155	167
Eligible hybrid capital	670	670
Ineligible hybrid capital (applicable to transitional relief under APS 160)	72	72
	897	909
Total Tier 2 Capital	897	909
Total Capital	4,669	4,239
Total assessed risk weighted assets	32,107	31,459
Risk weighted capital ratios	%	%
Common Equity Tier 1	9.18	9.15
Total Tier 1	11.75	10.58
Total Tier 2	2.79	2.89
Total risk weighted capital ratio	14.54	13.47

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

Consolidated	Carrying amount		Risk weighted balance	
	2017	2016	2017	2016
	\$M	\$M	\$M	\$M
On-balance sheet assets				
Cash items	469	430	8	12
Claims on Australian and foreign governments	2,913	2,572	-	-
Claims on central banks, international banking agencies, regional developments banks, ADIs and overseas banks	1,351	2,807	362	597
Claims on securitisation exposures	1,294	937	259	187
Claims secured against eligible residential mortgages	42,333	42,239	15,875	15,962
Past due claims	556	549	488	487
Other retail assets	389	558	322	474
Corporate	8,947	8,443	8,935	8,432
Other assets and claims	294	294	294	293
Total banking assets	58,546	58,829	26,543	26,444
	Notional amount	Credit equivalent	Risk weighted balance	
	2017	2017	2017	2016
	\$M	\$M	\$M	\$M
Off-balance sheet positions				
Guarantees entered into the normal course of business	271	259	175	165
Commitments to provide loans and advances	9,356	3,086	1,735	1,220
Foreign exchange contracts	5,706	52	12	43
Interest rate contracts	51,154	86	28	40
Securitisation exposures	3,018	79	53	26
CVA capital charge	-	-	75	62
Total off-balance sheet positions	69,505	3,562	2,078	1,556
Market risk capital charge			62	108
Operational risk capital charge			3,424	3,351
Total off-balance sheet positions			2,078	1,556
Total on-balance sheet credit risk weighted assets			26,543	26,444
Total assessed risk weighted assets			32,107	31,459

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22. Notes to the statements of cash flows

22.1 Reconciliation of cash flows from operating activities

	Consolidated		Company	
	2017	2016	2017	2016
	\$M	\$M	\$M	\$M
Profit for the financial year	394	383	395	377
Non-cash items				
Impairment loss on loans and advances	7	16	9	16
Change in fair value relating to investing and financing activities	(7)	(4)	(7)	(4)
Other non-cash items	3	(8)	2	(9)
Change in operating assets and liabilities				
Net movement in tax assets and liabilities	(56)	31	(49)	30
Increase in trading securities	(23)	(113)	(23)	(113)
Increase in loans and advances	(1,072)	(2,415)	(1,133)	(2,396)
(Increase) decrease in other assets	(24)	37	(6)	36
Increase in deposits and short-term borrowings	6	921	32	899
Increase (decrease) in payables and other liabilities	2	(118)	551	(1,244)
Net cash used in operating activities	(770)	(1,270)	(229)	(2,408)

22.2 Reconciliation of cash and cash equivalents to the statement of cash flows

	Consolidated		Company	
	2017	2016	2017	2016
	\$M	\$M	\$M	\$M
<i>Cash and cash equivalents at the end of the financial year in the consolidated statement of cash flows is represented by the following line items in the consolidated statement of financial position:</i>				
Cash and cash equivalents	903	1,028	900	1,026
Receivables due from other banks	567	552	567	552
Payables due to other banks ¹	(50)	(332)	(50)	(332)
	1,420	1,248	1,417	1,246

¹ Includes cash received as collateral to support derivative asset positions of \$16 million (2016: \$298 million) in accordance with standard ISDA agreement.

22.3 Financial arrangements

	2017		2016	
	Program limit	Unused	Program limit	Unused
	\$M	\$M	\$M	\$M
Consolidated and Company				
The Group had the following debt programs available at the end of the financial year:				
\$USD 5 billion Global Covered Bond Programme	6,500	4,000	6,735	3,585
\$USD 15 billion Euro Medium Term Notes Program and Euro Commercial Paper	19,501	18,985	20,205	19,543
\$USD 5 billion United States Commercial Paper Program	6,500	3,963	6,735	4,170
\$USD 15 billion U.S. Medium Term Notes Program	19,501	17,273	20,205	17,853
AUD Transferable Certificate of Deposit Program	5,000	925	5,000	1,400
	57,002	45,146	58,880	46,551

23. Financial instruments

23.1 Fair value of financial instruments

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

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

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	2017				2016			
	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	-	1,520	-	1,520	-	1,497	-	1,497
Fair value through profit or loss and available-for-sale financial assets ¹	-	3,677	-	3,677	-	3,867	-	3,867
Derivatives	1	137	-	138	1	674	-	675
	1	5,334	-	5,335	1	6,038	-	6,039
Financial liabilities								
Short-term offshore borrowings designated as financial liabilities at fair value through profit or loss ²	-	2,469	-	2,469	-	2,681	-	2,681
Derivatives	-	354	-	354	-	498	-	498
	-	2,823	-	2,823	-	3,179	-	3,179
Company								
	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	-	1,520	-	1,520	-	1,497	-	1,497
Fair value through profit or loss and available-for-sale financial assets ¹	-	3,677	-	3,677	-	3,867	-	3,867
Derivatives	1	137	-	138	1	674	-	675
	1	5,334	-	5,335	1	6,038	-	6,039
Financial liabilities								
Short-term offshore borrowings designated as financial liabilities at fair value through profit or loss ²	-	2,469	-	2,469	-	2,681	-	2,681
Derivatives	-	354	-	354	-	498	-	498
	-	2,823	-	2,823	-	3,179	-	3,179

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'.

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There have been no significant transfers between Level 1 and Level 2 and no transfers into or out of Level 3 during the 2017 and 2016 financial years. Transfers are deemed to have occurred at the end of the financial year.

Financial assets and liabilities not measured at fair value

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

Consolidated	Note	Carrying value \$M	Fair value			Total \$M
			Level 1 \$M	Level 2 \$M	Level 3 \$M	
2017						
Financial assets						
Held-to-maturity investments	10	883	-	897	-	897
Loans and advances	12	55,197	-	-	55,240	55,240
Financial liabilities						
Deposits and short-term borrowings at amortised cost	14	42,958	-	43,030	-	43,030
Securitised liabilities	23.3	3,088	-	3,092	-	3,092
Debt issues	16	9,216	-	9,252	-	9,252
Subordinated notes	17	742	-	726	-	726
2016						
Financial assets						
Held-to-maturity investments	10	1,358	-	1,374	-	1,374
Loans and advances	12	54,134	-	-	54,237	54,237
Financial liabilities						
Deposits and short-term borrowings at amortised cost	14	42,740	-	42,814	-	42,814
Securitised liabilities	23.3	2,544	-	2,540	-	2,540
Debt issues	16	9,860	-	9,913	-	9,913
Subordinated notes	17	742	-	732	-	732
Company						
Company	Note	Carrying value \$M	Fair value			Total \$M
			Level 1 \$M	Level 2 \$M	Level 3 \$M	
2017						
Financial assets						
Held-to-maturity investments	10	883	-	897	-	897
Loans and advances	12	54,926	-	-	54,964	54,964
Financial liabilities						
Deposits and short-term borrowings at amortised cost	14	42,976	-	43,033	-	43,033
Debt issues	16	9,216	-	9,252	-	9,252
Subordinated notes	17	742	-	726	-	726
2016						
Financial assets						
Held-to-maturity investments	10	1,358	-	1,374	-	1,374
Loans and advances	12	53,804	-	-	53,904	53,904
Financial liabilities						
Deposits and short-term borrowings at amortised cost	14	42,822	-	42,592	-	42,592
Debt issues	16	9,860	-	9,913	-	9,913
Subordinated notes	17	742	-	732	-	732

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

Financial assets

Fair value of held-to-maturity investment securities are determined based on the quoted market price where available. Where quoted prices are not available, alternative valuation techniques are used. Valuation techniques used 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. 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. The discount rates applied are based on the rates offered by the Group on current products with similar maturity dates.

Financial liabilities

The carrying value for non-interest-bearing, call and variable rate deposits, and fixed rate deposits repricing within six months of origination included in deposits and short-term borrowings is considered a reasonable estimate of their fair value. Discounted cash flow models are used to calculate the fair value of other term deposits included in deposits and short-term borrowings based upon deposit type and related maturities.

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

23.2 Master netting or similar arrangements

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

Derivative assets and liabilities

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

Repurchase agreements and reverse repurchase agreements

- Offsetting has been applied to repurchase agreements in the consolidated statement of financial position where the Group has a legally enforceable right to set-off and netting of payments or receipts apply or in some agreements netting only apply if both the Group and the respective counterparties agree.
- Provision is made for netting of payments/receipts of all amounts in the same currency payable by each party to the other and close-out netting on termination.
- Repurchase transactions are governed by the Global Master Repurchase Agreement (**GMRA**) published by the International Capital Markets Association (**ICMA**) and the Securities Industry and Financial Markets Association (**SIFMA**).

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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, or are subject to enforceable master netting arrangements, irrespective of whether they are offset in the statements of financial position.

	Amounts subject to master netting or similar arrangements				Net exposure \$M	Amounts not subject to master netting or similar arrangements \$M	Total \$M
	Gross amounts \$M	Offsetting applied \$M	Financial instruments \$M	Related amounts not offset on the SoFP Financial collateral received/pledged \$M			
Consolidated							
2017							
Financial assets							
Derivatives	124	-	(109)	(10)	5	14	138
Reverse repurchase agreements ¹	639	-	-	(632)	7	-	639
Total	763	-	(109)	(642)	12	14	777
Financial liabilities							
Derivatives	301	-	(109)	(148)	44	53	354
Repurchase agreements ²	306	-	(306)	-	-	-	306
Total	607	-	(415)	(148)	44	53	660
2016							
Financial assets							
Derivatives	570	-	(245)	(297)	28	105	675
Reverse repurchase agreements ¹	349	-	-	(349)	-	-	349
Total	919	-	(245)	(646)	28	105	1,024
Financial liabilities							
Derivatives	432	-	(245)	(69)	118	66	498
Repurchase agreements ²	300	-	(300)	-	-	-	300
Total	732	-	(545)	(69)	118	66	798

¹ Reverse repurchase agreements of duration less than 90 days and are included as part of 'Cash and cash equivalents' in the consolidated statement of financial position. If maturity is greater than 90 days they are included in 'Loans and advances'. Details discussed in note 23.3.

² Repurchase agreements are presented in the balance sheet within Deposits and short-term borrowings.

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Company	Amounts subject to master netting or similar arrangements						Total \$M
	Gross amounts \$M	Offsetting applied \$M	Financial instruments \$M	Related amounts not offset on the SoFP	Financial collateral received/ pledged \$M	Net exposure \$M	
2017							
Financial assets							
Derivatives	124	-	(109)	(10)	5	14	138
Reverse repurchase agreements ¹	639	-	-	(632)	7	-	639
Total	763	-	(109)	(642)	12	14	777
Financial liabilities							
Derivatives	301	-	(109)	(148)	44	53	354
Repurchase agreements ²	306	-	(306)	-	-	-	306
Total	607	-	(415)	(148)	44	53	660
2016							
Financial assets							
Derivatives	570	-	(245)	(297)	28	105	675
Reverse repurchase agreements ¹	349	-	-	(349)	-	-	349
Total	919	-	(245)	(646)	28	105	1,024
Financial liabilities							
Derivatives	432	-	(245)	(69)	118	66	498
Repurchase agreements ²	300	-	(300)	-	-	-	300
Total	732	-	(545)	(69)	118	66	798

1 Reverse repurchase agreements of duration less than 90 days and are included as part of 'Cash and cash equivalents' in the consolidated statement of financial position. If maturity is greater than 90 days they are included in 'Loans and advances'. Details discussed in note 23.3.

2 Repurchase agreements are presented in the balance sheet within Deposits and short-term borrowings.

23.3 Transfers of financial assets and collateral accepted as security for assets

Transferred financial assets continue to be recognised in the consolidated statement of financial position if the Group is deemed to have retained substantially all the risks and rewards associated with the financial assets transferred. This arises when the Group enters into repurchase agreements and conducts covered bond and securitisation programs.

Repurchase agreements

The Group enters into repurchase agreements involving the sale of interest-bearing securities and simultaneously agree to buy them back 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 'Investment securities'. The obligation to repurchase is included in 'Deposits and short-term borrowings' or 'Payables and other liabilities'.

Reverse repurchase agreements

Collateral has been accepted in relation to reverse repurchase agreements. The fair value of collateral accepted as security for assets is \$632 million (2016: \$353 million) against carrying amount of \$639 million (2016: \$349 million). These transactions are governed by standard industry agreements.

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Covered bonds

The Company conducts a covered bond program whereby it issues covered bonds guaranteed by the Covered Bond Guarantor that are secured over a covered pool which consists 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 assets under certain events. In the event of default by the Company, the covered bond holders have claim against both the cover pool assets and the Company. The Company receives the residual income of the special purpose trust after all payments due to covered bond holders have been met. In the consolidated statement of financial position, the covered pool assets transferred are included in 'Loans and advances' and the covered bonds issued are included in 'Debt issues'.

Securitisation programs

The Company conducts a loan securitisation program whereby housing mortgage loans are packaged and sold to special purpose 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 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. In the consolidated statement of financial position, the loans transferred are included in 'Loans and advances' and the securitisation securities issued are included in 'Securitised liabilities'.

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

Consolidated	2017			2016		
	Repurchase agreements \$M	Covered bonds \$M	Securiti- sation \$M	Repurchase agreements \$M	Covered bonds \$M	Securiti- sation \$M
Carrying amount of transferred financial assets	306	2,926	3,195	300	3,836	2,712
Carrying amount of associated financial liabilities	306	2,491	3,088	300	3,149	2,544
<i>For those liabilities that have recourse only to the transferred assets:</i>						
Fair value of transferred financial assets	n/a	n/a	3,198	n/a	n/a	2,713
Fair value of associated financial liabilities	n/a	n/a	3,092	n/a	n/a	2,540
Net position			106			173

Note: n/a = not applicable

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Company	2017		2016	
	Repurchase agreements	Covered bonds	Repurchase agreements	Covered bonds
	\$M	\$M	\$M	\$M
Carrying amount of transferred financial assets	306	2,926	300	3,838
Carrying amount of associated financial liabilities	306	2,491	300	3,149
<i>For those liabilities that have recourse only to the transferred assets:</i>				
Fair value of transferred financial assets	n/a	n/a	n/a	n/a
Fair value of associated financial liabilities	n/a	n/a	n/a	n/a
Net position				

Note: n/a = not applicable

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**) recognise that effective risk management is critical to the achievement of the Suncorp Group's objectives. The Board Risk Committee (**Risk Committee**) has delegated authority from the SGL Board to oversee 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.

The Three Lines of Defence model of accountability involves:

Line of defence	Responsibility of	Accountable for
First - Manage risk and comply with Suncorp Group frameworks, policies and risk appetite	All Functions (and staff)	<ul style="list-style-type: none"> – Identify and manage the risks inherent in their operations. – Ensure compliance with all legal and regulatory requirements and Suncorp Group policies. – Promptly escalate any significant actual and emerging risks for management attention.
Second – Independent Functions own and monitor the application of risk frameworks, and measure and report on risk performance and compliance	Chief Risk Officer, Function Chief Risk Officers	<ul style="list-style-type: none"> – Design, implement and manage the ongoing maintenance of Suncorp Group risk frameworks and related policies. – Advise and partner with the Function in the design and execution of risk frameworks and practices. – Develop, apply and execute Functions' risk frameworks that are consistent with Suncorp Group for the respective functions.

Third – Independent assurance over internal controls and risk management practices	Internal audits	– Facilitate the reporting of the appropriateness and quality of risk management.
		– Decide the level and extent of independent testing required to verify the efficacy of internal controls.
		– Validate the overall risk framework.
		– Provide assurance that the risk management practices are functioning as intended.

The Board has delegated authorities and limits to the CEO & 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 CEO & Managing Director's authorities and limits.

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

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

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

The key risks addressed by the ERMF are defined below.

Key risks	Definition
Strategic risk	Strategic risk is the most fundamental of business risks. At its most basic, it is the risk associated with Group's operating model and how it seeks to position itself strategically. Strategic risk threatens the viability of the operating model and our strategic position and emerges from external changes and the execution of Group's strategy.
Financial risk	<p>Financial risks include credit and counterparty, market, asset and liability and liquidity risks.</p> <p>Credit and counterparty risk is the risk that the other party in an agreement will default/will not meet its contractual obligations in accordance with agreed terms.</p> <p>Market risk is the risk of unfavourable changes in foreign exchange rates, interest rates, equity prices, credit spreads, commodity prices, and market volatilities.</p> <p>Asset and liability risk is the risk to earnings and capital from mismatches between assets and liabilities with varying maturity and repricing profiles and from mismatches in term.</p> <p>Liquidity risk is the risk that the Group will be unable to service its cash flow obligations today or in the future.</p>
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes legal risk but excludes strategic and reputational risks.

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

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

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

- note 25 risk management for financial instruments: credit, liquidity and market risks; and
- note 11 derivative financial instruments.

25. Risk management for financial instruments

25.1 Credit risk

(a) Credit risk exposures

The Group is exposed to credit risk from traditional lending to customers and receivables 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 setting and maintenance of detailed credit policies and standards is undertaken by an independent function. The Chief Risk Officer, Banking & Wealth, has responsibility for the independent management of credit functions, to monitor trends impacting the credit quality of lending portfolios, and the management of 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 a risk-graded portfolio.

The statistically managed portfolio covers consumer business (personal loans, housing loans and small business 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.

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The risk-graded portfolio includes commercial, agribusiness, property investment and development finance exposures. Within these portfolio, exposures are individually assessed and an internal risk grade is assigned depending on the 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 relationship manager including regular performance monitoring, reporting and if required, transfer to the Business Customer Support or Business Loan Recovery teams.

A Portfolio Quality Review team is in place to review the acceptance and management of credit risk in accordance with the approved risk management framework.

The Group manages its exposures to potential credit losses on OTC derivative contracts by entering into netting arrangements with its derivative counterparties. The ISDA Master Agreement and Credit Support Annex provides a contractual framework for derivatives dealing across a full range of OTC 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 consolidated statement of financial position represents the maximum amount of credit exposures as at reporting date, except for derivatives and off-balance sheet commitments.

The fair value of derivatives recognised in the statements of financial position represent the current risk exposure, but not the maximum risk exposure. The notional value and fair value of derivatives are illustrated in note 11.

The table below details the 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 the 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, the Group fully considers the customer's capacity to repay and security valuation position before a loan is considered impaired.
- An asset is considered past due when any payment under the contractual terms is overdue by 90 days or more. The amount included as past due is the entire contractual balance, not just the overdue portion.

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Consolidated	Receivables due from other banks \$M	Trading securities \$M	Investment securities \$M	Loans and advances \$M	Credit commitments ¹ \$M	Derivatives ¹ \$M	Total risk \$M
2017							
Agribusiness	-	-	-	3,966	283	-	4,249
Construction	-	-	-	578	252	-	830
Financial services	567	-	2,300	99	207	138	3,311
Hospitality	-	-	-	948	64	-	1,012
Manufacturing	-	-	-	274	24	-	298
Professional services	-	-	-	274	21	-	295
Property investment	-	-	-	2,080	146	-	2,226
Real estate - Mortgages	-	-	-	44,841	2,161	-	47,002
Personal	-	-	-	259	4	-	263
Government and public authorities	-	1,520	2,260	-	-	-	3,780
Other commercial and industrial	-	-	-	2,018	183	-	2,201
Total gross credit risk	567	1,520	4,560	55,337	3,345	138	65,467
Impairment provisions							(140)
Total credit risk							65,327
2016							
Agribusiness	-	-	-	3,952	187	-	4,139
Construction	-	-	-	528	125	-	653
Financial services	552	199	2,937	92	173	217	4,170
Hospitality	-	-	-	902	36	-	938
Manufacturing	-	-	-	278	20	-	298
Professional services	-	-	-	252	12	-	264
Property investment	-	-	-	1,953	93	-	2,046
Real estate - Mortgages	-	-	-	44,270	1,668	-	45,938
Personal	-	-	-	376	6	-	382
Government and public authorities	-	1,298	2,288	-	-	-	3,586
Other commercial and industrial	-	-	-	1,695	190	-	1,885
Total gross credit risk	552	1,497	5,225	54,298	2,510	217	64,299
Impairment provisions							(164)
Total credit risk							64,135

1 Credit commitments and derivative instruments represent the credit equivalent amount of Group's off-balance sheet exposures calculated in accordance with APRA Prudential Standard APS 112 *Capital Adequacy: Standardised Approach to Credit Risk*.

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Company	Receivables due from other banks \$M	Trading securities \$M	Investment securities \$M	Loans and advances \$M	Credit commitments ¹ \$M	Derivatives ¹ \$M	Total risk \$M
2017							
Agribusiness	-	-	-	3,843	283	-	4,126
Construction	-	-	-	548	252	-	800
Financial services	567	-	2,302	97	235	138	3,339
Hospitality	-	-	-	943	64	-	1,007
Manufacturing	-	-	-	255	24	-	279
Professional services	-	-	-	256	21	-	277
Property investment	-	-	-	2,078	146	-	2,224
Real estate - Mortgages	-	-	-	44,841	2,161	-	47,002
Personal	-	-	-	259	4	-	263
Government and public authorities	-	1,520	2,260	-	-	-	3,780
Other commercial and industrial	-	-	-	1,943	183	-	2,126
Total gross credit risk	567	1,520	4,562	55,063	3,373	138	65,223
Impairment provisions							(137)
Total credit risk							65,086
2016							
Agribusiness	-	-	-	3,826	187	-	4,013
Construction	-	-	-	474	125	-	599
Financial services	552	199	2,940	90	195	208	4,184
Hospitality	-	-	-	896	36	-	932
Manufacturing	-	-	-	255	20	-	275
Professional services	-	-	-	222	12	-	234
Property investment	-	-	-	1,950	93	-	2,043
Real estate - Mortgages	-	-	-	44,270	1,668	-	45,938
Personal	-	-	-	376	6	-	382
Government and public authorities	-	1,298	2,288	-	-	-	3,586
Other commercial and industrial	-	-	-	1,603	190	-	1,793
Total gross credit risk	552	1,497	5,228	53,962	2,532	208	63,979
Impairment provisions							(158)
Total credit risk							63,821

1 Credit commitments and derivative instruments represent the credit equivalent amount of Company's off-balance sheet exposures calculated in accordance with APRA Prudential Standard APS 112 *Capital Adequacy: Standardised Approach to Credit Risk*.

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Consolidated	2017				2016			
	Individually provisioned impaired assets \$M	Past due > 90 days but not impaired \$M	Remaining assets ¹ and not impaired \$M	Total risk \$M	Individually provisioned impaired assets	Past due > 90 days but not impaired	Remaining assets ¹ and not impaired	Total risk \$M
2017								
Agribusiness	71	8	4,170	4,249	105	11	4,023	4,139
Construction	3	-	827	830	8	2	643	653
Financial services	-	-	3,311	3,311	-	-	4,170	4,170
Hospitality	40	-	972	1,012	21	-	917	938
Manufacturing	2	-	296	298	1	-	297	298
Professional services	7	1	287	295	7	1	256	264
Property investment	5	2	2,219	2,226	14	3	2,029	2,046
Real estate - Mortgages	34	379	46,589	47,002	24	347	45,567	45,938
Personal	-	7	256	263	8	11	363	382
Government and public authorities	-	-	3,780	3,780	-	-	3,586	3,586
Other commercial and industrial	11	29	2,161	2,201	18	29	1,838	1,885
Total gross credit risk	173	426	64,868	65,467	206	404	63,689	64,299
Impairment provisions	(44)	(23)	(73)	(140)	(56)	(26)	(82)	(164)
Total credit risk	129	403	64,795	65,327	150	378	63,607	64,135

¹ Not past due or past due ≤ 90 days.

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Company	2017				2016			
	Individually provisioned impaired assets \$M	Past due > 90 days but not impaired \$M	Remaining assets ¹ and not impaired \$M	Total risk \$M	Individually provisioned impaired assets \$M	Past due > 90 days but not impaired \$M	Remaining assets ¹ and not impaired \$M	Total risk \$M
2017								
Agribusiness	71	8	4,047	4,126	105	11	3,897	4,013
Construction	2	-	798	800	5	2	592	599
Financial services	-	-	3,339	3,339	-	-	4,184	4,184
Hospitality	40	-	967	1,007	20	-	912	932
Manufacturing	2	-	277	279	1	-	274	275
Professional services	4	1	272	277	4	1	229	234
Property investment	5	2	2,217	2,224	14	3	2,026	2,043
Real estate - Mortgages	34	379	46,589	47,002	24	347	45,567	45,938
Personal	-	7	256	263	8	11	363	382
Government and public authorities	-	-	3,780	3,780	-	-	3,586	3,586
Other commercial and industrial	6	29	2,091	2,126	12	27	1,754	1,793
Total gross credit risk	164	426	64,633	65,223	193	402	63,384	63,979
Impairment provisions	(42)	(23)	(72)	(137)	(54)	(23)	(81)	(158)
Total credit risk	122	403	64,561	65,086	139	379	63,303	63,821

¹ 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 neither 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 but the Group considers that principal and interest plus any associated costs will be recovered in full.
- Non-performing loans – ‘impaired’ are loans for which an individually-assessed provision for impairment has been raised.

Restructured loans are facilities whereby the original contractual terms have been modified in a manner that would not be commercially available to other customers in good standing due to the financial difficulties or hardship of the customer. Examples of restructuring include:

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

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

	Consolidated		Company	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M
<i>Performing loans</i>				
Loans and advances	54,737	53,688	54,472	53,367
Loans and advances with restructured terms	1	-	1	-
Collective provision for impairment	(73)	(82)	(72)	(81)
	54,665	53,606	54,401	53,286
<i>Non-performing loans – not impaired</i>				
Non-performing loans – not impaired	426	404	426	402
Collective provision for impairment	(23)	(26)	(23)	(23)
	403	378	403	379
<i>Non-performing loans – impaired</i>				
Gross impaired loans	173	206	164	193
Specific provision for impairment	(44)	(56)	(42)	(54)
	129	150	122	139
Total loans and advances	55,197	54,134	54,926	53,804

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 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					Total \$M
	0-30 days \$M	30-60 days \$M	60-90 days \$M	90-180 days \$M	> 180 days \$M	
	2017					
<i>Loans and advances</i>						
Retail banking	736	247	164	216	170	1,533
Business banking	63	9	24	30	10	136
	799	256	188	246	180	1,669
2016						
<i>Loans and advances</i>						
Retail banking	854	215	116	181	177	1,543
Business banking	68	37	18	22	24	169
	922	252	134	203	201	1,712
Company	Past due but not impaired					Total \$M
	0-30 days \$M	30-60 days \$M	60-90 days \$M	90-180 days \$M	> 180 days \$M	
2017						
<i>Loans and advances</i>						
Retail banking	736	247	164	216	170	1,533
Business banking	63	9	23	30	10	135
	799	256	187	246	180	1,668
2016						
<i>Loans and advances</i>						
Retail banking	854	215	116	181	177	1,543
Business banking	68	35	17	20	24	164
	922	250	133	201	201	1,707

(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.

More than 81% (2016: 82%) of the Group's lending is consumer in nature and 99% (2016: 99%) of that lending is secured by residential property. Residential Lenders Mortgage Insurance (**LMI**) is obtained by the Group to cover any shortfall in outstanding loan principal and accrued interest. LMI is obtained for residential mortgages with a Loan to Valuation Ratio of more than 80%. The financial effect of these measures is that remaining credit risk on residential loans is significantly reduced.

For the business banking portfolio, the Group will take collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees.

In the event of customer default, the Group can take possession of 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 practice to demonstrate high standards of conduct when taking recovery action, and to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. Collateral and other credit enhancements held by the Group mitigates the maximum exposure to credit risk.

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 \$132 million (2016: \$146 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.

(d) Concentration of credit risk

Concentration of credit risk is managed by client or counterparty, industry sector and geography. Portfolios are actively monitored and frequently reviewed to identify, assess and protect 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	2017 Number	2016 Number
25% and greater	1	1
20% to less than 25%	-	2
15% to less than 20%	2	2
10% to less than 15%	-	2
5% to less than 10%	4	2

A concentration risk management framework is in place to monitor exposure levels set at levels which are considered acceptable in line with the Group's lending appetite.

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(e) Provision for impairment – specific and collective provisions

The credit provisions raised (specific and collective) represent management's best estimate of the losses likely to be incurred in the loan portfolio at reporting date. The Credit Recovery teams provide the Chief Risk Officer, Banking & Wealth and the Bank Credit Risk Committee with analysis of the carrying value of impaired loans and factors impacting recoverability.

A specific provision for impairment is recognised where there is objective evidence of impairment and full recovery of principal and interest is considered doubtful. The present value of the expected future cash flows is compared to the carrying amounts of the loan. All factors that have a bearing on the expected future cash flows are considered, including the business prospects for the customer, the realisable value of collateral, the Suncorp 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's policy requires the level of impairment allowances on individual facilities that are above internal thresholds to be reviewed at least quarterly, 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.

Loans with similar credit risk characteristics are grouped 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 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 Suncorp Group's historical experience, and an evaluation of current economic conditions, with adjustments made for additional systemic factors. It is possible that the estimated impairment loss will differ from the actual losses to be incurred from the groups of identified impaired loans.

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25.2 Liquidity risk

Executive management of liquidity and funding risk is delegated to the Bank Asset and Liability Committee which reviews risk measures and limits, endorses and monitors funding and liquidity strategy and ensures stress tests, the contingency funding plan and holdings of high-quality assets are effective and appropriate. Operational management of liquidity risk is delegated to both the Balance Sheet and Cash Management teams within Bank Treasury. Liquidity risk is independently monitored against approved policies on a daily basis by the Treasury Control. Market and Financial Risk Analytics provide second line of defence oversight of liquidity and funding management activities.

The Group has separate documents and processes to mitigate liquidity and funding risk which are approved by the Risk Committee and subject to APRA review. These include:

- a liquidity and funding risk appetite statement as well as relevant risk limits
- a framework that includes control practices, early warning indicators and appropriate management notification structures, including but not limited to: deposit concentration, liquidity coverage ratio, net stable funding ratio and liquidity concentration metrics limits
- 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 given to product, tenor, geography and customer concentrations; and
- a contingency funding plan that outlines strategies to address liquidity shortfalls in emergency situations.

(a) Maturity analysis

The following tables summarise the maturity profile of the 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 2017	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
Deposits and short-term borrowings	45,427	18,775	13,348	12,863	1,033	-	46,019
Payables due to other banks	50	50	-	-	-	-	50
Payables and other liabilities	357	-	357	-	-	-	357
Derivative financial instruments (trading)	92	-	4	49	38	3	94
Due to related parties ¹	63	-	63	-	-	-	63
Securitised liabilities	3,088	-	263	602	2,026	509	3,400
Debt issues	9,216	-	242	1,957	7,282	546	10,027
Subordinated notes	742	-	9	24	767	-	800
	59,035	18,825	14,286	15,495	11,146	1,058	60,810
<i>Derivatives</i>							
Contractual amounts receivable (gross settled)	(3,898)	-	(103)	(742)	(3,180)	(42)	(4,067)
Contractual amounts payable (gross and net settled)	4,160	-	141	845	3,337	61	4,384
	262	-	38	103	157	19	317
<i>Off-balance sheet positions</i>							
Guarantees entered into in the normal course of business	-	271	-	-	-	-	271
Commitments to provide loans and advances	-	9,356	-	-	-	-	9,356
	-	9,627	-	-	-	-	9,627
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
Due to related parties	135	-	135	-	-	-	135
Securitised 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
<i>Derivatives</i>							
Contractual amounts receivable (gross settled)	(1,035)	(1)	(112)	(197)	(843)	(14)	(1,167)
Contractual amounts payable (gross and net settled)	1,293	2	136	278	1,004	23	1,443
	258	1	24	81	161	9	276
<i>Off-balance sheet positions</i>							
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

Company	Carrying amount	At call	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total cash flows
2017	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Deposits and short-term borrowings	45,445	18,792	13,348	12,863	1,033	-	46,036
Payables due to other banks	50	50	-	-	-	-	50
Payables and other liabilities	352	-	352	-	-	-	352
Derivative financial instruments (trading)	92	-	4	49	38	3	94
Due to related parties ¹	3,152	-	327	602	2,026	509	3,464
Debt issues	9,216	-	242	1,957	7,282	546	10,027
Subordinated notes	742	-	9	24	767	-	800
	59,049	18,842	14,282	15,495	11,146	1,058	60,823
<i>Derivatives</i>							
Contractual amounts receivable (gross settled)	(3,898)	-	(103)	(742)	(3,180)	(42)	(4,067)
Contractual amounts payable (gross and net settled)	4,160	-	141	845	3,337	61	4,384
	262	-	38	103	157	19	317
<i>Off-balance sheet positions</i>							
Guarantees entered into in the normal course of business	-	271	-	-	-	-	271
Commitments to provide loans and advances	-	9,411	-	-	-	-	9,411
	-	9,682	-	-	-	-	9,682
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
Due to 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
<i>Derivatives</i>							
Contractual amounts receivable (gross settled)	(1,035)	(1)	(112)	(197)	(843)	(14)	(1,167)
Contractual amounts payable (gross and net settled)	1,293	2	136	278	1,004	23	1,443
	258	1	24	81	161	9	276
<i>Off-balance sheet positions</i>							
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 agreements.

(b) Composition of funding

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

	Note	Consolidated		Company	
		2017 \$M	2016 \$M	2017 \$M	2016 \$M
Customer funding					
<i>Customer deposits</i>					
At-call deposits		18,945	17,758	18,963	17,840
Term deposits		17,895	18,471	17,895	18,471
Total retail funding		36,840	36,229	36,858	36,311
Wholesale funding					
<i>Domestic funding</i>					
Short-term wholesale		6,118	6,511	6,118	6,511
Long-term wholesale		4,062	3,588	4,062	3,588
Covered bonds		2,491	3,149	2,491	3,149
Subordinated notes		742	742	742	742
<i>Total domestic funding</i>		13,413	13,990	13,413	13,990
<i>Overseas funding¹</i>					
Short-term wholesale		2,469	2,681	2,469	2,681
Long-term wholesale		2,663	3,123	2,663	3,123
<i>Total overseas funding</i>		5,132	5,804	5,132	5,804
Total wholesale funding		18,545	19,794	18,545	19,794
Total funding (excluding securitisation)		55,385	56,023	55,403	56,105
Securitisation					
APS 120 qualifying ²		3,050	2,345	-	-
APS 120 non-qualifying		38	199	-	-
<i>Total securitisation</i>		3,088	2,544	-	-
Total funding (including securitisation)		58,473	58,567	55,403	56,105
Comprised of the following items on the statement of financial position					
Deposits and short-term borrowings	14	45,427	45,421	45,445	45,503
Securitised liabilities	23.3	3,088	2,544	-	-
Debt issues	16	9,216	9,860	9,216	9,860
Subordinated notes	17	742	742	742	742
Total funding		58,473	58,567	55,403	56,105

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 traded and non-traded risk is based on a historical simulation which uses equally weighted market observation from the last two years and eight years respectively. Historical VaR simulation assumes that the distribution of past price returns will reflect future returns.

(a) Traded market risk

The Group trades a range of on-balance sheet interest, foreign exchange 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 Banking & 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 the Group's total interest rate and foreign exchange trading activities at the end of the financial year are as follows.

Consolidated and Company	2017			2016		
	Interest rate risk ¹ \$M	FX risk \$M	Combined risk ² \$M	Interest rate risk \$M	FX risk \$M	Combined risk ² \$M
VaR at the end of the financial year	0.06	0.01	0.15	0.65	0.16	0.63

1 Does not include the Balance Sheet Management Tactical portfolio VaR (\$0.15 million)

2 VaR for combined risk is the total trading risk 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 and they include:

- repricing risk: resulting from changes in the overall levels of interest rates and from different terms
- 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.

The following table indicates the potential adverse change in NIIS from a 2% parallel movement 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	2017 \$M	2016 \$M
Exposure at the end of the financial year	(36)	(37)

(ii) Present value sensitivity

As a measure of longer-term sensitivity, present value 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 instantaneous shock to the yield curve.

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

Consolidated and Company	2017 \$M	2016 \$M
Exposure at the end of the financial year	(67)	(45)

(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	2017 \$M	2016 \$M
Exposure at the end of the financial year	(22)	(19)

(c) Non-traded foreign exchange risk

Non-traded foreign exchange risk can arise from having non-Australian dollar items in the banking portfolio, 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 to 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 and are not recorded in the consolidated statement of financial position. 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.

Detailed below are the notional amounts of credit commitments together with their credit equivalent amounts determined in accordance with the capital adequacy guidelines set out by APRA.

	Consolidated		Company	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M
Notional amounts				
Guarantees entered into in the normal course of business	271	251	271	251
Commitments to provide loans and advances	9,356	8,201	9,411	8,245
	9,627	8,452	9,682	8,496
Credit equivalent amounts				
Guarantees entered into in the normal course of business	259	249	259	249
Commitments to provide loans and advances	3,086	2,261	3,114	2,283
	3,345	2,510	3,373	2,532

26.2 Operating lease expenditure commitments

The Group leases property under operating leases expiring from 1 - 7 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 other operating criteria.

	Consolidated		Company	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M
Aggregate non-cancellable operating lease rentals payable but not provided in the financial statements:				
Less than one year	8	15	8	15
Between one and five years	35	46	35	46
More than five years	16	25	16	25
	59	86	59	86

27. Material subsidiaries of the Company

Subsidiaries	Class of shares	Country of incorporation	2017 2016 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 2017, the Company held interest in ten Trusts (2016: nine)

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

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	2017 \$000	2016 \$000
Short-term employee benefits	19,465	18,485
Long-term employee benefits	624	3,181
Post-employment benefits	504	495
Share-based payments	8,010	5,779
Termination benefits	1,724	2,207
	30,327	30,147

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

Loans to KMP and their related parties are secured housing loans and asset lines provided in the ordinary course of business. All loans have normal commercial terms, which may include staff discounts at the same terms available to all employees of the 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 the Suncorp Group to KMP and their related parties are as follows.

	2017		2016	
	Key management personnel \$000	Other related parties \$000	Key management personnel \$000	Other related parties \$000
Closing balance	8,090	1,050	5,138	668
Interest charged	230	18	196	18

28.2 Related party transactions with associates, joint venture entities and other related parties

28.2 Other related party transactions

The Company has a related party relationship with its subsidiaries (refer to note 27), parent entity and its other controlled subsidiaries and with its key management personnel (refer to 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	
	2017	2016	2017	2016
	\$000	\$000	\$000	\$000
The aggregate amounts included in the determination of profit before tax that resulted from transactions with related parties are:				
Investment revenue including dividend income				
Subsidiaries	-	-	19,500	23,500
Other income				
Subsidiaries	-	-	340,397	317,077
Other related parties	1,500	1,500	1,500	1,500
Interest expense				
Subsidiaries	-	-	2,424	3,888
Other related parties	36,535	43,317	31,067	33,792
Other operating expenses				
Subsidiaries	-	-	532,946	528,907
Other related parties	543,808	539,090	543,808	539,090
Dividend paid				
Parent entity	329,000	345,000	329,000	345,000
Other related parties	20,516	21,696	20,516	21,696
Aggregate amounts receivable from, and payable to, each class of related parties as at the end of the financial year				
Investment and trading securities				
Subsidiaries	-	-	2,307	3,307
Due from related parties				
Subsidiaries	-	-	271,645	382,721
Other related parties	315,924	295,014	316,076	295,224
Derivative assets				
Other related parties	-	59,707	-	59,707
Due to related parties				
Subsidiaries	-	-	3,098,321	2,534,749
Other related parties	62,889	135,251	53,475	135,251
Deposits and short-term borrowings				
Subsidiaries	-	-	102	102
Other related parties	332,156	532,423	332,156	614,123
Debt issue				
Other related parties	-	18,389	-	18,389
Subordinated notes				
Other related parties	670,000	670,000	670,000	670,000
Securitised liabilities				
Other related parties	-	8,436	-	-

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29. Auditor's remuneration

	Consolidated		Company	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000
KPMG Australia				
Audit and review services				
Audit and review of financial reports	1,345	1,325	1,205	1,186
Other regulatory audits	398	368	398	368
	1,743	1,693	1,603	1,554
Other services				
In relation to other assurance, actuarial, taxation and other non-audit services	734	1,447	637	1,310
Total auditors' remuneration	2,477	3,140	2,240	2,864

Fees for services rendered by the Company'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, is likely to have a material effect on its operations or financial position. The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

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.

(a) Subsidiaries

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

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

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

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

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.

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

(a) Tax consolidation

The Group is a wholly-owned entity in a tax-consolidated group, with 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.

(b) 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

(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. 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.

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(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 and cash equivalents or loans and advances if the original maturity is greater than 90 days. The security is not included in the statement of financial position. Interest income is accrued on the underlying cash and cash equivalents or loan amount.

31.8 Investments in subsidiaries

Investments 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.

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

(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 receivables

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 objective evidence of impairment as a result of one or more events which have an impact on the estimated future cash flows. 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**)) which may be an individual asset or a group of assets. The recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

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

31.12 Non-derivative financial liabilities

(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 consolidated 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 consolidated 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

AASB 9 *Financial Instruments* was issued in December 2014 and addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce an expected credit loss impairment model and general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks. This standard becomes mandatory for the Group's 30 June 2019 financial statements. The Group is in the process of assessing the impact of AASB 9 and is not yet able to reasonably estimate the impact on its financial statements.

AASB 15 *Revenue from Contracts with Customers* was issued in December 2014 and provides a single comprehensive model for revenue recognition based on the satisfaction of performance obligations and additional disclosures about revenue. It replaces AASB 118 *Revenue and related interpretations*. This standard will become mandatory for the Group's 30 June 2019 financial statements. While it is expected that a significant portion of the Group's revenue will be outside the scope of AASB 15, the Group is in the process of assessing the impact of AASB 15 and is not yet able to reasonably estimate the impact on its financial statements.

AASB 16 *Leases* was issued in February 2016 and introduced changes to lessee accounting. It requires a lessee to recognise a right-of-use asset representing its rights to use the underlying lease asset and a lease liability representing its obligations to make lease payments 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 Group's 30 June 2020 financial statements. The potential effects on adoption of the standard are currently being assessed.

AASB 9, AASB 15 and AASB16 are available for early adoption but have not been applied by the Group in this financial report.

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

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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 16 to 45, 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 2017 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 Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2017.
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 Cameron

CEO & Managing Director

3 August 2017

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Independent Auditor's Report

To the shareholders of Suncorp-Metway Limited

Report on the audits of the Financial Reports

Opinions

We have audited the consolidated **Financial Report** of Suncorp-Metway Limited (the Group Financial Report). We have also audited the Financial Report of Suncorp-Metway Limited (the Company Financial Report).

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

- giving a true and fair view of the **Group's** and of the **Company's** financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

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

- Statements of financial position as at 30 June 2017;
- Statements of comprehensive income, Statements of changes in equity, and Statements of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- The Directors' Declaration.

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

Basis for opinions

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

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

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

Key Audit Matters

The **Key Audit Matters** we identified for the Group and Company are:

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our respective audits of the Financial Reports of the current period. These matters

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- Specific and collective impairment provisions for loans and advances; and
- Financial instruments at fair value.

were addressed in the context of our audits of each of the Financial Reports as a whole, and in forming our opinions thereon, and we do not provide a separate opinion on these matters.

Specific and collective impairment provisions for loans and advances (\$140m) Group and (\$137m) Company

Refer to Note 12, 25.1 and 31.11(a)

Key audit matter	How the matter was addressed in our audits
<p>Impairment provisions are considered to be a key audit matter owing to the significance of loans and advances, the high degree of complexity and judgement applied by the Group and Company in determining the provisions and the judgement required by us in challenging these estimates.</p> <p>Specific impairment provisions are based on the Group and Company's judgement in estimating when an impairment event has occurred and the present value of expected future cash flows, which are inherently uncertain. This is particularly challenging in relation to business and agribusiness loans as the forecast cash flows include estimated timing and proceeds from the future sale of assets securing the debt.</p> <p>Collective impairment provisions are determined either on a ratings based approach at a customer level for business and agribusiness loans, or segmenting the portfolio into pools with homogenous risk profiles for retail loans. Based on the assigned rating or pool, an estimate of the likelihood of default and the potential loss given default will be applied to determine the collective provision. This estimation is challenging due to the use of complex models to predict probability of default and loss given default estimates and the application of judgement to the determination of provision overlays.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • testing key controls over arrears calculations, customer loan ratings, annual loan reviews, reconciliation of loan balances and arrears to source systems and credit risk reviews and credit risk model validations. • performing credit assessments for a sample of business and agribusiness loans with deteriorating credit risk factors or that have a specific impairment provision. Our credit assessments included inspection of the latest loan strategy papers, evidence of correspondence with the borrower, provision estimates prepared by credit risk officers and consideration of the resolution period estimated for the impaired loan. We challenged assumptions and recovery strategies based on our experience and industry knowledge. We assessed collateral values with reference to valuations performed by the Group and Company's panel of approved valuers. We also re-performed key impairment calculations. • testing key inputs used in the collective impairment provision calculation for significant asset classes. This included the customer loan rating for business and agribusiness loans, arrears profile for retail loans and reconciliation of loan balances to source systems. • working with our credit risk specialists to test the collective provision models for compliance with the Group and Company's model governance policies and the requirements of accounting standards. We re-performed the collective provision calculations for the business, agribusiness and mortgage loan portfolios. • independently assessing the Group and Company's judgement in the application of overlays for bias by applying sensitivities to assumptions underlying the overlays, and evaluating current economic, climatic and portfolio-specific conditions linked to the overlays, such as agribusiness loans impacted by drought conditions or commodity prices.

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Financial instruments at fair value (Assets \$5,335 and Liabilities \$2,823m) – Group and Company

Refer to Note 23.1, 25.2, 25.3, 31.7, 31.9 and 31.12

Key audit matter	How the matter was addressed in our audit
<p>The Group and Company enters into various financial instruments which are required to be carried at fair value.</p> <p>This is a key audit matter due to:</p> <ul style="list-style-type: none"> the application of valuation techniques which often involves the exercise of judgment in the selection of methodologies and inputs. These decisions are critical to the valuation adopted for each financial instrument type; and the significant amount of financial instruments at fair value in the financial statements used for the management of financial risks such as liquidity risk, market risk and asset and liability risk. <p>As such, senior audit team effort and specialist involvement was required.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> understanding and testing the Group and Company's processes and key controls for the identification, measurement and management of valuation risk. involving our specialists we assessed the fair value of a sample of financial instruments. This included: <ul style="list-style-type: none"> re-performing a valuation and comparing this to the Group and Company's valuation; and challenging the Group and Company's methodologies, assumptions and inputs adopted in the valuation such as yield curve constructions and credit value adjustments by comparing to industry practice and external market data for interest and foreign exchange rates.

Other Information

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

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

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

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

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Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

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

Auditor's responsibilities for the audits of the Financial Reports

Our objective is:

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

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

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

A further description of our responsibilities for the audits of the Financial Reports is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Suncorp-Metway Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

KPMG

Directors' responsibilities

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 responsibilities

We have audited the Remuneration Report included in pages 22 to 45 of the Directors' report for the year ended 30 June 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

Jillian Richards

Partner

Brisbane

3 August 2017