Directors' Report and Financial Statements 2017-18

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Create a better today

SUNCORP

Suncorp Group Limited
ABN 66 145 290 124

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Highlights

Our Financial Performance

Net profit after tax

$1,059m

Dividends paid to ordinary shareholders[1]

81 cents per share

Cash return on average shareholders' equity

8.0%

Our Customers, People and Society

Women in leadership

51%

Consumer net promoter score[2]

+7.3

Investment in local communities

$10.1m

Our Environment[3]

Reduction in greenhouse gas emissions[4]

7% ↓

Reduction in air travel

12% ↓

Reduction in fuel used in company vehicles

6% ↓

1. Includes special dividend of eight cents per share. 2. Source: DBM Consumer Atlas, 12-month rolling as at June 2018. 3. Australian core operations.
4. Based on Scope 1 and Scope 2 emissions.

CHAIRMAN'S REPORT

"IT HAS BEEN A PLEASURE AND A PRIVILEGE TO HAVE SERVED AS CHAIRMAN OF THE SUNCORP BOARD FOR THE PAST SEVEN YEARS. I LOOK FORWARD TO SEEING SUNCORP CONTINUE TO PROSPER AS A FELLOW SHAREHOLDER."

DR ZIGGY SWITKOWSKI AO
Chairman
9 August 2018

Dear Shareholder

Since joining the Board 13 years ago, it is clear every sector of society and the economy has experienced extraordinary change. The pace and impact of technology and the seismic shift in customer expectations are reshaping industries, companies and how we interact with each other.

We know this will continue, often in bewildering ways given the complex ecosystem in which we operate. Intense public and political scrutiny is also driving regulatory and industry reform. However, alert companies will seize the opportunity to be proactive and advance the way they work, interact with communities and importantly, deliver valuable solutions to customers.

Delivering for customers

While Suncorp has a proud history in being there for our customers, whether it's supporting communities to rebuild after natural disasters or helping people buy their first home, we know we can always improve. Even with the anticipated changes that will flow from the Royal Commission, our people are committed to keeping pace with growing community expectations and doing the right thing.

Over the past financial year, we have made significant investments in technology platforms, as well as in digital and data capabilities. This is making it easier for our customers while providing greater choice, transparency and recognising their loyalty.

With the Suncorp marketplace now integrated across the organisation and the new Suncorp App now live, customers have greater flexibility to choose how and when they access our brands, products and services, either through our App, online, or in person through contact centres, stores and our network of intermediaries.

It has been a big year of achievements and we have laid strong foundations for the future.

Delivering for shareholders

Beyond a year of intense activity which saw the reshaping of our organisation and improvements in customer experience, Suncorp people also delivered major pieces of infrastructure and technology. This produced strong financial returns with a net profit after tax of $1,059 million after making important forward-looking investments.

The Board has declared a final ordinary dividend of 40 cents per share and a special dividend of eight cents per share, bringing the total dividend for 2017–18 to 81 cents per share, fully franked. This outcome has delivered a cash return on average shareholders' equity of eight per cent for the financial year.

Importantly, momentum has been steadily growing across our businesses such that, given a largely benign economic environment, expectations are for a good 2018–19 operating year.

Our corporate responsibility

Responsible investment has become increasingly relevant over the time I have been on the Board, and Suncorp has responded with a range of initiatives, most notably the introduction of our Responsible Investment Policy and Climate Change Action Plan this financial year.

Addressing climate change not only makes good environmental sense but our Action Plan also supports the business to protect and enhance shareholder value under various climate scenarios. We have also continued to reduce our environmental footprint, with greenhouse gas emissions down seven per cent over the year.

This year Suncorp has also refreshed our Financial Inclusion Action Plan, which reflects our commitment to providing responsible financial services and meeting the needs of our most vulnerable customers. We also launched our Reconciliation Action Plan which reflects our commitment to supporting the social and economic prosperity of Aboriginal and Torres Strait Islander peoples.

Bringing new skills and experience

Following my retirement at the Annual General Meeting which will be held in September, I will be succeeded by Christine McLoughlin, subject to shareholder approval of her re-election. Christine, who has served on the Suncorp Board since February 2015, has a depth of experience from an executive career in financial services and board positions with other listed companies. Having worked with Christine since she joined the Board, I am confident, with the support of her Board colleagues, she will guide Suncorp to the next level of performance. I wish Christine well for her tenure.

Governance and Board renewal has been a continued focus, with two new appointments during the year. Lindsay Tanner joined the Board in January and Sylvia Falzon will join in September. Both add to the skill sets of our existing directors, bringing highly relevant experience and deep insights into the changes that are shaping our industry.

Farewell and thank you

It has been a pleasure and a privilege to have served as Chairman of the Suncorp Board for the past seven years. I look forward to the Group continuing to generate attractive returns for its shareholders and growing in the esteem of its peers and the communities we serve. Suncorp today is a different organisation to the one I joined as a director in 2005. It has grown and evolved to become a customer-centric financial services organisation with operations across Australia and New Zealand.

There are several achievements of which I am particularly proud and which reflect the effective functioning of the Board and Executive in pressured situations. These include shepherding the organisation through the Global Financial Crisis in 2008 and thereafter; the simplification and transformation of the business in 2010; our response to the natural disasters of the summer of 2010–2011; consolidating the Group’s five general insurance licences under one issuer in 2013; and the delivery of consistent shareholder returns with strong dividends.

Beyond all of this, what I’m most proud of is how Suncorp and its people continue to be there for our customers in the moments that matter, whether that’s floods, cyclones, storms and bushfires across Australia, or earthquakes in New Zealand.

I would like to thank my fellow and former Board members for their support over the years, as well as the two chief executives who have helped define my tenure – Michael Cameron and Patrick Snowball. Ultimately Suncorp is a high-quality institution and resilient business that has thrived in the face of considerable industry change, disruption and innovation. I leave the Company in good health, with confidence in the strategy and management’s ability to successfully execute that strategy.

Finally, I am grateful to you, our loyal Suncorp customers, our people and our shareholders for your ongoing support. I look forward to seeing Suncorp continue to prosper as a fellow shareholder.

DIRECTORS' REPORT

The directors present their report together with the financial report of the Suncorp Group (the **Suncorp Group, Suncorp** or the **Group**), being Suncorp Group Limited (the **Company**) and its subsidiaries, for the financial year ended 30 June 2018 (**2017–18**) and the auditor's report thereon. Terms that are defined appear in bold the first time they are used.

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 2017–18 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

Dr Switkowski has been a director of the Group since September 2005, and Chairman since October 2011. He is Chairman of the Nomination Committee and an ex-officio member of the Audit, People and Remuneration, and Risk Committees. He is Chairman of NBN Co Limited, a non-executive director of listed companies Tabcorp Holdings Limited (since October 2006) and Healthscope Limited (since April 2016), and Chancellor of RMIT University. He brings to Suncorp expertise in governance and public policy, as well as broad corporate experience and technology insights. During his extensive career Dr Switkowski held several senior executive positions in the communications industry as CEO of both Telstra Corporation and Optus Communications, and previously Kodak Australasia. He was previously a director of Oil Search Limited (November 2010–December 2016). Dr Switkowski was made an Officer of the Order of Australia in 2014 for his contribution to the arts, sciences, tertiary education and the telecommunications and business community. He will retire from the Board at the conclusion of the Annual General Meeting on 20 September 2018.

Michael A Cameron

FCPA, FCA, FAICD
CEO & Managing Director

Mr Cameron was appointed CEO & Managing Director of Suncorp Group in October 2015, and prior to this he had been a non-executive director on the Suncorp Group Board since April 2012. He has deep local and international experience across financial services and property. Mr Cameron was previously CEO & Managing Director of The GPT Group, one of Australia's largest Real Estate Investment Trusts. He has held the roles of Group Chief Financial Officer of the Commonwealth Bank of Australia and Group Executive of their Retail Bank Division. He was also Chief Financial Officer at St George Bank. Prior to these roles, Mr Cameron held a number of senior executive positions within Lendlease. He is a director of the Great Barrier Reef Foundation, and has held the position of Chairman of the Federal Government's Financial Sector Advisory Council.

Audette E Exel AO

BA, LLB (Hons)
Non-executive director

Ms Exel has been a director of the Group since June 2012 and is a member of the Risk Committee. She brings to Suncorp deep business experience in banking, insurance and reinsurance, investment management and corporate advice.
Ms Exel 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). She began her career as a lawyer specialising in international finance. Ms Exel founded the Adara Group, a pioneering organisation which exists to support people living in poverty, and is Chief Executive Officer of Adara Advisors Pty Ltd and Adara Partners (Australia) Pty Ltd, and Chair of Adara Development. She is the recipient of numerous awards. In 2013 she was awarded an honorary Order of Australia for service to humanity.

Sally A Herman

BA, GAICD
Non-executive director

Ms Herman has been a director of the Group since October 2015. She is Chairman of the Risk Committee, and a member of the People and Remuneration, and Audit Committees. She brings to Suncorp strong expertise in running retail banking and insurance products, setting strategy for financial services businesses and working with regulators and customers. Ms Herman has deep executive experience running customer-facing financial services businesses in the US and Australia. She has held board positions (including on subsidiary boards) of financial services organisations for over 20 years, with responsibilities including governance, regulation and compliance. Her current ASX-listed company directorships include Breville Group Limited (since March 2013), Premier Investments Limited (since December 2011), and Evans Dixon Limited (since May 2018).

Simon C J Machell

BA (Hons), FCA
Non-executive director

Mr Machell has been a director of the Group since April 2017 and is a member of the Audit Committee, and the People and Remuneration Committee. He is a non-executive director of Tesco Bank and Chairman of Tesco Underwriting in the UK, a non-executive director of Prudential Corporation Asia, and a senior independent director of Pacific Life Re. Mr Machell brings to Suncorp contemporary insights from an international perspective on industry trends in insurance, and insights into the risks and opportunities associated with emerging technologies and new business models. He was CEO of Norwich Union General Insurance in the UK from 2005–2007, and CEO of Aviva's businesses in Asia and Eastern Europe from 2007–2013. He was Chairman of the UK Motor Insurers Bureau from 2001–2007.

Christine F McLoughlin

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

Ms McLoughlin has been a director of the Group since February 2015 and has been nominated to succeed Dr Switkowski as Chairman at the conclusion of the Annual General Meeting in September 2018. She is currently Chairman of the People and Remuneration Committee and a member of the Risk Committee. Ms McLoughlin brings to Suncorp her experience having been a company director with expertise across a range of sectors including financial services, insurance, mining, infrastructure, telecommunications and health. Ms McLoughlin's current directorships include listed company nib holdings limited (since March 2011). She is Chairman of Venues NSW. Ms McLoughlin is a member of the Australian Securities & Investments Commission's Non-Executive Director Advisory Panel, a fellow of the Australian Institute of Company Directors, a member of Chief Executive Women and is also involved in not-for-profit organisations. Her former directorships include Whitehaven Coal Limited (May 2012–February 2018) and Spark Infrastructure RE Limited (October 2014–October 2017). She was also inaugural Chairman of the Australian Payments Council. Prior to her non-executive career, Ms McLoughlin spent her executive career predominantly in the financial services and telecommunications sectors.

Dr Douglas F McTaggart

BEcon (Hons), MA, PhD, DUniv, FAICD, SFFin
Non-executive director

Dr McTaggart has been a director of the Group since April 2012. He is Chairman of the Audit Committee and a member of the People and Remuneration Committee. He brings to Suncorp great insight around government engagement, the economic landscape, organisational efficiency and financial management. Dr McTaggart has an extensive background in financial markets and has deep academic and commercial experience as a former CEO of QIC, Under Treasurer of the Queensland Department of Treasury, and a director of UGL Limited (September 2012–August 2015). He is currently Chairman of Spark Infrastructure RE Limited having been a director since December 2015, QIMR Berghofer Medical Research Institute Council and SunCentral Maroochydore Pty Ltd. He serves on the Australian National University Council and the Expert Advisory Panel, Indigenous Home Ownership Capital Funding.

Lindsay J Tanner

BA (Hons), LLB (Hons), MA (Melb)
Non-executive director

Mr Tanner has been a director of the Group since January 2018 and is a member of the Risk Committee. He is Chairman of Essendon Football Club, and a non-executive director of Virgin Australia International Holdings, and listed company Covata Limited (since January 2017). He brings to Suncorp an acute appreciation of the technological, regulatory and political changes shaping the financial services industry. Mr Tanner has worked at the highest levels of government and business for over 35 years. He is a recognised authority on corporate governance and, as Minister for Finance and Deregulation from 2007–2010, he played a significant role in regulatory reform in the financial services sector. Mr Tanner has been a Special Adviser for financial advisory firm Lazard (Australia) for the past eight years. He was also a non-executive director of Lifebroker, the life insurance broking company, from 2011–2013.

Former non-executive directors

Messrs William J Bartlett and Ewoud J Kulk were directors of the Group since July 2003 and March 2007 respectively. Both Mr Bartlett and Mr Kulk retired at the Annual General Meeting on 21 September 2017.

2. Directors' meetings

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 2017–18 are set out in the table below.

	Board of Directors		Audit Committee		Risk Committee		People and Remuneration[2] Committee		Nomination Committee	
	A	B	A	B	A	B	A	B	A	B
Dr Z E Switkowski AO	11	11	5	4	5	5	5	4	5	5
M A Cameron[1]	11	11	5	5	5	5	5	5	-	-
W J Bartlett	3	3	2	2	2	2	1	0	-	-
A E Exel AO	11	11	-	-	5	4	-	-	5	5
S A Herman	11	11	5	5	3	3	4	4	5	5
E J Kulk	3	2	-	-	2	2	1	1	-	-
S C J Machell	11	10	3	3	-	-	-	-	5	4
C F McLoughlin	11	11	-	-	5	5	5	5	5	4
Dr D F McTaggart	11	11	5	5	-	-	5	5	5	5
L J Tanner	5	5	-	-	2	2	-	-	4	4

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 the Audit Committee, Risk Committee, and People and Remuneration Committee meetings at the invitation of those committees. There are no management representatives appointed as members of any Board Committee.

2 Since the conclusion of the reporting period, the Remuneration Committee became the People and Remuneration Committee with an expanded remit.

3. Directors' interests

The relevant interest of each director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by the Company, as notified by the directors to the Australian Securities Exchange (**ASX**) in accordance with section 205G(1) of the *Corporations Act 2001* (Cth) (**Corporations Act**), as at 30 June 2018, is as follows.

	Fully paid ordinary shares
Dr Z E Switkowski AO	311,599
M A Cameron[1]	1,072,230
A E Exel AO	17,253
S A Herman	20,000
S C J Machell	30,000
C F McLoughlin	26,000
Dr D F McTaggart	26,408
L J Tanner	2,200

1 Includes 817,230 restricted 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.

Based on their shareholding as at 30 June 2018, all non-executive directors are on track to meet the minimum shareholding requirement as outlined in section 5.1 of the Remuneration Report.

4. Company Secretary

Details of the Company Secretaries during 2017–18 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 Corp Gov, 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 experience in financial services.

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

5. Remuneration Report

The Remuneration Report is set out on pages 25 to 48 and forms part of the Directors' Report for 2017–18.

6. Principal activities

The principal activities of the Suncorp Group during the course of 2017–18 were the provision of insurance, banking and wealth products and services to the retail, corporate and commercial sectors in Australia and New Zealand.

There were no significant changes in the nature of Suncorp Group's activities during 2017–18.

6.1 Suncorp Group's objectives

Suncorp's purpose to create a better today extends to its customers, shareholders, communities and people. Suncorp helps families, individuals and businesses connect with the products, services, tools and experiences that enable them to enjoy the life they have today, and plan for the life they want tomorrow.

Suncorp's vision to become the destination for the moments that matter builds on its heritage of being there for customers and communities when they need it most.

To achieve this vision, Suncorp is focused on three strategic priorities:

- **Elevate the Customer** – striving to deliver more personalised customer experiences, providing greater choice and more seamless access to products and services across stores, contact centres and digital platforms.
- **Inspire our People** – focusing on building the workforce and workspace necessary to deliver Suncorp's strategy, which includes providing the skills, technology and way of working needed now, as well as into the future.
- **Drive Momentum and Growth** – building and protecting Suncorp's reputation for excellence in financial services in Australia and New Zealand. Focusing on meeting regulatory commitments, investing in core systems, improving operational excellence through the Business Improvement Program (**BIP**) and engaging in disciplined portfolio management.

7. Dividends

A fully franked 2017 final dividend of $517 million (40 cents per share) was paid on 20 September 2017.

A fully franked 2018 interim ordinary dividend of $428 million (33 cents per share) was paid on 5 April 2018. A fully franked 2018 final ordinary dividend of $519 million (40 cents per share) and a fully franked 2018 special dividend of $104 million (eight cents per share) have been determined by the directors.

Further details of dividends on ordinary shares provided for or paid are set out in note 4 to the consolidated financial statements.

8. Operating and financial review

8.1 Overview of Suncorp Group

For the 2017–18 financial year, Suncorp Group delivered a net profit after tax (**NPAT**) of $1,059 million (2016–17: $1,075 million).

The Group's 2017–18 result is driven by solid top-line growth across the three operating functions. Included in the result is the $146 million before tax upfront accelerated strategic investment in the marketplace. There was a material improvement in the New Zealand result, driven by strong top-line growth and good expense control; and a significant improvement in the Life business, following the introduction of a business optimisation program.

Insurance achieved a NPAT of $739 million for 2017–18 (2016–17: $723 million), an increase of 2.2% from the previous financial year. This profit was driven by lower natural hazards costs and the realisation of claims benefits from the BIP initiatives.

The Australian general insurance business contributed a NPAT of $681 million (2016–17: $689 million), down 1.2% from the previous financial year.

The Australian general insurance gross written premium (**GWP**) increased by 0.3% to $8,137 million (2016–17: $8,111 million).

Home and Motor insurance achieved GWP of 4.7% with average written premium increases of 3.8% and unit growth of 0.9%. This increase was driven by pricing of units remaining stable and improved retention for Home GWP, as well as strong retention and new business growth for Motor GWP.

Commercial Insurance GWP increased by 0.8%. Compulsory Third Party (**CTP**) GWP decreased by 17.1% from the previous financial year which was primarily driven by the New South Wales (**NSW**) scheme reform.

Reserve releases of $319 million (2016–17: $301 million) remain above the Group's long-run expectation of 1.5% of Group net earned premium (**NEP**).

Net incurred claims increased by 2.7% on the prior year. Excluding discount rate movements, net incurred claims improved by 0.1%. The improvement was driven by favourable underlying claims performance and higher prior year releases, partially offset by higher claims handling expenses.

Operating expenses increased by 4.4% primarily due to higher commissions driven by growth, increased investment in marketing, the development of associated technology infrastructure, and regulatory compliance.

The Australian life insurance business NPAT of $58 million (2016–17: $34 million) increased 70.6% from the previous financial year, reflecting higher than planned profit margins, repricing benefits and favourable experience due to the Life optimisation program of work.

Banking and Wealth achieved a NPAT of $389 million in 2017–18 (2016–17: $400 million), down 2.8% on the previous financial year. This was driven by a 4.4% increase in net interest income, which was delivered by above-system lending growth offset by upfront investment in the business, and lower non-interest income.

At-call deposits growth of 6.3% resulted from new product offerings, enhanced digital functionality, and simplified processes. Home lending growth of 6.2% was driven by the increased focus on process optimisation and customer retention. Business lending growth of 7.0% was driven by targeted commercial growth, primarily in small business and property investment.

The upfront investment in process efficiencies and digital capabilities through the BIP and an increase in regulatory costs resulted in an increase in operating expenses of 6.8%. The upfront investment in the BIP is expected to deliver benefits in the 2018–19 financial year.

The net interest margin (**NIM**) was broadly flat, with a favourable shift in the funding mix and selected portfolio repricing, offset by the elevated bank bill swap rate (**BBSW**) and increased price competition during 2017–18.

Impairment losses at 5 basis points (**bps**) of gross loans and advances remain below the long-term operating range of 10 to 20 bps.

Wealth NPAT increased to $14 million (2016–17: $4 million) due to increased investment income and reduced project costs following the completion of the Super Simplification Program.

New Zealand achieved a NPAT of $135 million (2016–17: $82 million), an improvement of 64.6% from the previous financial year.

The New Zealand general insurance business delivered a NPAT of $99 million (2016–17: $45 million), with premium increases, unit growth, claims management and expense control driving the strong performance compared with the prior year which was impacted by the Kaikoura earthquake.

GWP increased by 5.7% to $1,422 million (2016–17: $1,345 million), driven by premium increases across all portfolios and supported by unit growth across the direct and corporate partner channels.

Net incurred claims were $682 million (2016–17: $693 million). This was driven by a high number of substantial weather events offset by improvements in working claims. The impact of the Kaikoura earthquake in the prior year also contributed to the relatively low increase in 2017–18.

Operating expenses including commissions increased by 1.6%. Acquisition and commission costs increased in line with GWP growth. The underwriting expense ratio decreased as disciplined cost management contributed to positive earnings growth.

The New Zealand life insurance business delivered a NPAT of $36 million (2016–17: $37 million), down 2.7% which was impacted by volatility in claims and lapse experience.

8.2 Review of financial position

Total assets increased by $2,224 million or 2.3% to $99,333 million compared with 30 June 2017.

Cash and cash equivalents decreased by $675 million driven by increased lending and partially offset by increased debt funding.

Receivables due from other banks decreased by $93 million driven by a decrease in cash collateral held with other institutions in relation to derivatives.

Derivative assets increased by $68 million mainly due to the impact of the mark-to-market of exchange-related contracts.

Investment securities increased by $379 million due to additional investments in discount and fixed income securities, offset by a decrease in held-to-maturity assets.

Loans and advances increased by $3,401 million primarily due to growth in business and home lending. The result is underpinned by improvements in the customer experience, including reduced turnaround times in both the direct and broker channels, and increased focus on customer retention.

Reinsurance and other recoveries decreased by $976 million due to ongoing settlement for natural hazard claims from prior years, and the release of the Kaikoura ultimate reserves.

Other assets increased by $122 million mainly attributed to investment settlements.

Total liabilities increased by $2,041 million or 2.4% to $85,360 million compared with 30 June 2017.

Payables due to other banks increased by $98 million driven by an increase in cash collateral received from financial institutions in relation to derivative trading activity.

Deposits and short-term borrowings increased by $445 million due to an increase in retail call deposits, partially offset by a reduction in short-term wholesale securities.

Derivative liabilities decreased by $169 million due to the mark-to-market of cross currency and interest rate swaps.

Outstanding claims liabilities decreased by $776 million due to a reduction in the gross case estimate for natural hazards and a reduction in the actuarial provision from the Kaikoura earthquake and general earthquake settlements.

Managed funds units on issue increased by $374 million which reflects interests in consolidated investment trusts by non-consolidated superannuation funds.

Securitised liabilities increased by $1,760 million due to the establishment of Apollo Series 2017–2 Trust and Apollo Series 2018–1, which resulted in increased securitised liabilities. This is partially offset by repayments made on the underlying securitised mortgages within the Apollo trusts.

Debt issues increased by $638 million due to an increase in senior unsecured floating rate notes on issue; this was offset by a reduction in covered bonds on issue.

Total equity increased by $183 million or 1.3% to $13,973 million compared with 30 June 2017.

Share capital increased by $97 million mainly driven by the $77 million issuance of new ordinary shares for the Dividend Reinvestment Plan for the 2017 final and 2018 interim dividends.

Reserves decreased by $26 million mainly due to the foreign exchange translation loss from the New Zealand Dollar (**NZD**) to Australian Dollar (**AUD**) conversion of the New Zealand operations upon consolidation, which occurred due to the strengthening of the AUD against the NZD.

Retained profits increased by $110 million mainly due to profit attributable to owners of the Company exceeding dividends paid for the financial year.

8.3 Review of capital structure

Suncorp 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**) and the Reserve Bank of New Zealand **(RBNZ**).

The 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, business lines regulatory frameworks 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 certain securities recognised as Tier 2 Capital, together with specific Bank reserves eligible as regulatory 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 aims to pay annual dividends based on a target payout ratio of 60% to 80% of cash earnings. For 2017–18, the Board committed to increase the dividend payout ratio above the top end of the usual range to offset the impact on cash earnings of the additional investment to deliver key components of the marketplace program.

The Group's profit result and strong balance sheet position for the full year has led to a fully franked final ordinary dividend of 40 cents per share. This brings the ordinary dividends for 2017–18 to 73 cents per share, in line with the prior year. The full year ordinary dividends equate to a payout ratio of 85.8% of cash earnings.

The Group's strong balance sheet position has allowed for a fully franked special dividend of eight cents per share. This brings the total full year dividends to 81 cents per share, up 11.0% on the prior year, equating to a payout ratio of 95.2% of cash earnings.

The Group intends to acquire existing shares under the Dividend Reinvestment Plan for the final dividend.

Capital position at 30 June 2018

In terms of the CET1 positions across the Group (pre-dividend):

– the General Insurance businesses' CET1 position was 1.37 times the prescribed capital amount (**PCA**), above its target operating range of 1.0–1.2 times PCA
– the Bank's CET1 ratio was 9.07%, above its target operating range of 8.5%–9.0%
– the Life businesses' excess CET1 to target was $152 million
– an additional $169 million of excess CET1 was held at the Company and Corporate Services level.

The Group maintains a strong capital position with all businesses holding CET1 in excess of targets. The Group's excess to CET1 target is $448 million after adjusting for the final dividend.

Suncorp-Metway Limited's Basel III APS 330 Public Disclosures are made available at suncorpgroup.com.au/investors/reports.

9. Significant changes in Suncorp Group's state of affairs

There have been no significant changes in the state of affairs of the Group during 2017–18, other than as disclosed in this Directors' Report and Financial Statements.

10. Events subsequent to reporting date

On 9 August 2018, the Suncorp Group announced it had entered into a non-binding Heads of Agreement to sell 100% of the shares in Suncorp Life & Superannuation Limited to TAL Dai-ichi Life Australia Pty Limited (**TAL**) for total consideration of approximately $725 million. The legally binding Share Sale Deed between both parties is due to be executed by 31 August 2018. The total consideration is an estimate and may be adjusted for certain movements between signing and completion. As part of the proposed transaction, Suncorp will enter into a 20-year strategic alliance agreement with TAL for the provision of life insurance products through Suncorp's direct channels to customers in Australia. Under the terms of the agreement, Suncorp will continue to earn income on the distribution of life insurance products.

The transaction is expected to be completed by the end of 2018, subject to regulatory approvals and conditions.

An indicative net loss after tax on sale of $880 million is anticipated as a result of the transaction. The final loss on sale will be determined at completion and will be impacted by the business performance, transaction and separation costs, and final taxation impacts.

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

11. Likely developments

Suncorp Group's key target for 2018–19 is cash return on equity of 10% driven by:

- Group top-line growth of 3% to 5%
- an expense base of $2.7 billion as smarter procurement and streamlining the Group, in addition to other BIP benefits, more than offset underlying inflation and growth-related investment
- an underlying insurance trading ratio (ITR) of at least 12%, supported by the BIP, in particular the benefits of claims supply chain redesign, and the earned impact of repricing and unit growth throughout 2017–18
- a banking cost to income ratio of approximately 50% and NIM of 1.80% to 1.90%, supported by BIP initiatives including channel optimisation, and targeted growth initiatives within risk appetite.

2018–19 targets are subject to natural hazards at or below allowance movements in investment markets and regulatory reform.

Reserve releases are expected to be above 1.5% of NEP, provided the benign inflationary environment continues.

Suncorp will seek to maintain a dividend payout ratio of 60% to 80% of cash earnings and remains committed to returning surplus capital to shareholders.

The Group's natural hazards allowance for 2018–19 will be increased from $692 million to $720 million in line with the forecast increase in exposure values.

The Group's investment returns are expected to be impacted by firming inflation, which is likely to weigh on bond returns; however, inflation-linked bonds will perform well in this environment. Current high equity valuations are expected to result in lower equity returns.

The annualised run-rate of gross BIP benefits moving into 2018–19 is above initial expectations at $187 million. The BIP is expected to exceed the original net benefit target of $195 million for 2018–19. Program investment will again be weighted to the first half, with benefits skewed to the second half of the financial year.

The project investment budget for 2018–19 will return to historical levels of around $200 million, which is incorporated in the Group's operating expense guidance. Projects in 2018–19 will be weighted towards regulatory projects and system enhancements.

12. Key internal and external risks

The risks Suncorp manages include strategic, strategic execution, insurance, credit, counterparty, market, asset and liability, liquidity, operational, and compliance and regulatory-related risks. Policies, procedures, limits and other controls are in place at either the Group or functional level to manage these risks and align to the Board's risk appetite.

Key strategic risks that may impact our business strategies or financial prospects include the following:

- **Shifts in customer expectations, technology and competitors.** Competition is heightened as the industry races to embrace technology and disrupt traditional business models. Suncorp's customer strategy and the BIP positions the Group well against these risks as it focuses on making it easier, faster and more convenient for customers (including through physical and digital channels). Suncorp is also simplifying, automating and digitising processes as part of its strategic priority 'Elevate the Customer' which will enable the Group to leverage customer insights, create greater personalisation and deliver better customer experiences. Suncorp actively monitors strategic risks and responds through various initiatives, incorporating these into the strategy and business planning process.
- **Risks relating to the prioritisation and execution of strategic initiatives.** To achieve its vision of being the destination for moments that matter, Suncorp must effectively prioritise investment and deliver key initiatives. As the internal and external environment shifts, a level of agility will be required around these investment decisions. Program management capability, tools and governance driven by the Program Excellence Function mitigate this risk.
- **Risks relating to the failure to meet government or regulatory expectations**. The business has programs in place to ensure the implementation of regulatory change, with the 2019 financial year project portfolio heavily weighted to regulatory change imperatives. The 'Enterprise Compliance Strategy' has increased Suncorp's capability to satisfy regulatory expectations by enhancing awareness and standardising the management of compliance obligations across the Group.
- **Maintaining an engaged workforce (including partners and intermediaries), with appropriate culture, conduct and capability to execute the strategy**. 'Inspire our People' is one of Suncorp's three strategic priorities and is driving various initiatives to connect people with our purpose, deliver the Suncorp experience and build the workforce and workspace of the future.
- **Loss, compromise or unavailability of data, systems and business operations**. Suncorp's Technology, Data and Labs Function actively monitors internal systems and cyber security threats, and is continually investing in systems, processes and controls to maintain a secure and resilient technology environment. The importance of and accountability for security is reinforced to all staff through policy, procedures and education. Contingency planning and testing is performed in case of disruption to critical systems and business processes.

- **Economic instability and a continued low-yield environment.** Financial performance is significantly affected by changes in investment markets and economic conditions both globally and in Australia and New Zealand. Suncorp consistently monitors these risks by examining market conditions and adopts appropriate financial management strategies to help protect the business.
- **Physical impacts of climate change, significant weather events and natural hazards that exceed expectations**. Suncorp's Climate Change Action Plan has been released (refer to section 14.2), which forms the basis for maturing the assessment, management and disclosure of climate change risks and opportunities. Suncorp reduces financial volatility through the effective management of capital and reinsurance.
- **Suncorp's ability to maintain its external reputation and confidence of customers, investors and regulators.** Meeting the expectations of our stakeholders by doing the right thing, improving customer experience, delivering operational excellence and leveraging the strength of Suncorp's core business will contribute to mitigating this risk. Suncorp's ongoing focus on customers, conduct and culture will help maintain confidence in an environment of deteriorating trust in financial services.
- **Suncorp's ability to deliver on its strategy and achieve financial targets.** To remain a sustainable business that customers can count on in the moments that matter, Suncorp needs to maintain momentum and continue to drive growth across the business. Disciplined portfolio management, operational excellence and investment in core systems contribute to Suncorp's strategic priority 'Drive Momentum and Growth'. Suncorp Group actively manages its liquidity and funding positions and ensures appropriate contingency arrangements are maintained.

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

13. Impact of legislation and other external requirements

The Suncorp Group operates across a number of highly regulated industry sectors.

There continue 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 Suncorp Group and its operations in Australia and New Zealand now and in the future.

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

Suncorp Group

- the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry and the potential findings and recommendations of the Commission
- the Australian Government's steps to lift the professional, ethical and education standards in the financial services industry
- the increasing attention from global and domestic regulators and standard-setting bodies on climate change risks and associated disclosure of those risks
- APRA's focus to implement a cross-industry framework for the management of information security
- the Australian Government's commitment to the implementation of a national Consumer Data Right, allowing consumers to control their data including who can have it and who can use it
- the establishment of mandatory data breach notification obligations and the Office of the Australian Information Commissioner's focus on implementing an effective data breach response

- the Australian Consumer Law (**ACL**) review and various reforms and proposed reforms to the ACL
- the passage of legislation through Federal Parliament to amend the misuse of market power provisions of the *Competition and Consumer Act 2010*
- the Productivity Commission inquiry into increasing competition in the Australian financial system
- the passing of legislation by Federal Parliament to reform competition laws and simplify the provisions on cartel conduct and better target anticompetitive conduct
- the Federal Government's proposed new Design and Distribution obligations which in broad terms will require identification of target markets for financial products, having regard to the features of products and consumers in those markets, selection of appropriate distribution channels and periodic review of arrangements to ensure they continue to be appropriate
- the ongoing Federal Senate inquiry into Australia's banking, insurance and financial services sectors
- the Common Reporting Standard and Foreign Account Tax Compliance Act regime concerning Australia's obligation in the automatic exchange of financial account information with foreign jurisdictions
- the Federal Treasury annual consultation on proposed financial industry supervisory levies
- the introduction of legislation into the Federal Parliament by the Australian Government to enhance whistleblower protections and the inquiry into whistleblower protections led by the Australian Government Parliamentary Joint Committee on Corporations and Financial Services
- the Insurance in Superannuation Working Group's focus on developing a Code of Practice for insurance in superannuation to address claims handling processes
- the Productivity Commission inquiry to assess the efficiency and competitiveness of Australia's superannuation system
- the review of APRA's superannuation prudential framework
- the ongoing focus on enhancing board governance and risk management in the superannuation industry led by APRA
- the passage of federal legislation intended to strengthen the crisis management powers of APRA in relation to banks, insurers and registrable superannuation entities
- the review by the Australian Securities & Investments Commission (**ASIC**) of the significant breach self-reporting requirements for financial services licensees
- the passing of legislation giving ASIC the power to designate significant financial benchmarks and make rules regarding the administration of those designated financial benchmarks
- the Australian Attorney-General's Department and the Australian Transaction Reports and Analysis Centre's consultation on anti-money laundering and counter-terrorism financing laws
- the passage by the New South Wales and Queensland Parliaments of farm debt mediation legislation which sets out new resolution processes and requirements for farm business debt matters, including recovery action between mortgagees and farmers.

Insurance

- the recommendations set out in the Final Report on the Insurance Council of Australia's review of the General Insurance Code of Practice
- the introduction of the Financial Services Council's Life Insurance Code of Practice, which came into effect from 1 July 2017
- the Final Report on the review of the Queensland CTP motor accident insurance scheme and the subsequent implementation of the recommendations in the Final Report by the Queensland Motor Accident Insurance Commission
- the passing of legislation to update and reform the New South Wales CTP motor accident insurance scheme and the New South Wales Government review of CTP insurers' profits
- the new Motor Accident Guidelines published by the New South Wales State Insurance Regulatory Authority (SIRA)
- the potential reform to the New South Wales Workers Compensation dispute resolution system
- the Australian Law Reform Commission inquiry into class action proceedings and third-party litigation funding
- the Queensland Government's focus on disaster management systems
- the New South Wales Parliament's passage of legislation to impose a fire and emergency services levy on landowners instead of insurance companies, and the subsequent deferral of the start of that legislation by the New South Wales Government, and an inquiry into the fire and emergency services levy by a New South Wales Parliamentary Committee
- the development of guidelines and legislative support for the trial and use of automated vehicles by the National Transport Commission in conjunction with the transport ministers for the Federal Government and each State and Territory of Australia
- the introduction of legislation in New South Wales and Victoria to approve the trial of automated vehicles
- the Australian Government's intention to extend the unfair contract terms legislation to insurance contracts
- APRA's and ASIC's ongoing review and work in respect of life insurance claims handling and proposed data collection of key claims measures
- the proposed establishment by the Australian Government of a statutory compensation scheme of last resort following a review of external dispute resolution and complaints arrangements in the financial system
- the inquiry into the life insurance industry by the Australian Government Parliamentary Joint Committee on Corporations and Financial Services (**Committee**) and the Committee's Report which makes various recommendations, a number of which will have a significant impact on the life insurance industry, if adopted or implemented by the Australian Government.

Banking and Wealth

- the introduction of the Bank Executive Accountability Regime legislation, which will impose additional duties and behavioural expectations on Authorised Deposit-taking Institutions (**ADI**s) and their executives and give APRA stronger enforcement powers to impose substantial penalties if those duties are breached
- 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 introduction of the mandatory comprehensive credit reporting regime for ADIs
- the continued implementation of the various Basel III reforms by APRA including the introduction of the Net Stable Funding Ratio and the introduction by APRA of measures to strengthen lending standards for ADIs
- the implementation of Open Banking in Australia which will give ADI customers a right to direct that the information they already share with their ADI be safely shared with others they trust
- the ASIC and Australian Small Business and Family Enterprise Ombudsman inquiry into small business loans, including the ABA endorsement of the recommendations made by that inquiry
- the review into the financial hardship arrangements and how they interact with the consumer credit reporting framework led by the Attorney-General's Department
- the establishment of a 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
- the introduction into Federal Parliament of the Banking System Reform (Separation of Banks) Bill 2018 which proposes to separate retail commercial banking activities from wholesale and investment banking activities
- 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)
- the introduction into Federal Parliament by the Australian Government of a bill which will increase the current legislative ownership cap for ADIs, general insurers, life insurers and their holding companies
- APRA's consultation on proposed changes to the large exposures prudential framework, which is likely to come into effect from 1 January 2019
- 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 Report on affordable capital for small and medium enterprises growth led by the Australian Small Business and Family Enterprise Ombudsman
- the Federal Government's proposed amendments to the *National Consumer Credit Protection Act 2009* (**Credit Act**) to enhance the consumer protection framework for small amount credit contracts and consumer leases
- the passing of amendments to the Credit Act by Federal Parliament to ensure greater consumer protection with respect to the issuance and limit increases of personal credit cards
- ASIC's consultation on proposed credit card lending assessments

- the Federal Government's focus on improving consumer outcomes and competition in the home loan market
- the Federal Government's continued focus on developing legislation to address fintech developments such as crowdfunding
- the new crowd-sourced funding regime in Australia
- the Federal Budget 2018–19 announcements including:
  - an increase in the financial institutions' supervisory levies
  - additional funding from the Federal Government to help North Queensland residents continue to be able to compare home insurance policies and indicative premiums
  - changes that impact personal income tax, company tax, superannuation and other areas assuming the legislation to implement the changes is passed by Federal Parliament.

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 and the Financial Stability Board which if adopted, or followed by domestic regulators, may increase operational and capital costs or requirements.

13.1 Australia

The Royal Commission was established on 14 December 2017. The focus of the Royal Commission's hearings has been the actions of financial service entities, inquiring into whether any conduct of financial services entities might have amounted to misconduct and whether any conduct, practices, behaviour or business activities of financial services entities fall below community standards and expectations.

Suncorp Group has provided submissions to, and has been called before various rounds of the Royal Commission. The Commissioner is due to provide an interim report no later than 30 September 2018, and will provide a final report by 1 February 2019. While it is anticipated that it is likely that the Royal Commission will make recommendations that may have an impact on the broader financial services industry, it remains too early to predict what legislative or regulatory changes will flow from the Royal Commission and the detailed impact that they may have on the Suncorp Group as well as Suncorp's individual businesses, reputation and financial performance. In addition, inquiries such as the Royal Commission can result in additional costs and can adversely affect investor confidence.

Suncorp Group continues to monitor any developments and remains committed to supporting the Commission.

Open Banking System

The Federal Government is committed to the introduction of an open banking regime in Australia that will give customers a right to direct the information they already share with their banks to others by providing their consent. The Federal Government released the final Report of the Review into Open Banking in Australia on 9 February 2018 and has agreed to the recommendations of the Review, both for the framework of the overarching Consumer Data Right and for the application of the right to Open Banking. The Open Banking regime is likely to be implemented and will apply to Suncorp from July 2019 onwards.

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 Suncorp 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. The capital component of the Level 3 framework is yet to be implemented and the timetable for implementation is currently uncertain.

The Suncorp 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 the 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-Metway Limited than existed under previous regulatory regimes.

Inquiry into Australia's General Insurance Industry

The Senate Economics References Committee has led an inquiry into Australia's General Insurance Industry. The Senate provided its Final Report on 10 August 2017 which set out 14 recommendations to the Australian Government on a range of issues, including the transparency of pricing, disclosure and competition in the general insurance industry.

The Australian Government has announced its response and has accepted the majority of the proposals.

Northern Australia Insurance Premiums Taskforce

The Northern Australia Insurance Premiums Taskforce was asked by the Australian Government if the government could 'provide support to a reinsurance pool or a mutual insurer that provides cyclone-specific cover' and other policy options to reduce insurance premiums in Northern Australia. The Taskforce provided its Final Report to the Australian Government in November 2015, which was released to the public in March 2016. The Final Report addresses the feasibility of a mutual cyclone insurer and a cyclone reinsurance pool and recommends mitigation as the way forward. The Australian Government has accepted the findings of the Taskforce and is proceeding with a set of important reforms to place downward pressure on insurance premiums through increased accountability and transparency within the industry, as well as proposals to increase consumer understanding of insurance.

AAI Limited (a Suncorp subsidiary) is a significant insurer in Northern Queensland.

New South Wales Government reforms to the New South Wales CTP Scheme

The New South Wales Parliament passed legislation to reform the State's CTP motor accident insurance scheme (**Scheme**). Under the Scheme, no-fault statutory benefits will be payable by insurers for motor accidents with preservation of common law rights to damages for seriously injured persons.

Queensland Government Review of Queensland CTP Scheme

The Queensland Government released the Final Report (**Report**) on the 2016 Review of Queensland's CTP Insurance Scheme (**Scheme**). The Report to the Motor Accident Insurance Commission (**MAIC**) sets out 19 recommendations to maintain or improve the Scheme. All 19 recommendations and MAIC's proposed responses have been approved by the Queensland Treasurer and noted by the Queensland Government. The MAIC has initiated a program of work to deliver on the recommendations.

The recommendations in the Report included that the MAIC further investigate limited risk-rating to identify potential opportunities for improving price competition and affordability and that as a matter of priority, the MAIC take action to address the issue of high insurer profits in the Scheme.

Australian Government life insurance industry remuneration reforms

The Australian Government has progressed with the reform of life insurance industry remuneration practices, with the Australian Parliament passing legislation to enact these reforms. The *Corporations Amendment (Life Insurance Remuneration Arrangements) Act 2017* commenced on 1 January 2018.

13.2 New Zealand (NZ)

Conduct risk developments

In May 2018, the RBNZ and the Financial Markets Authority commenced a culture and conduct thematic review of NZ-registered banks and life insurers.

Insurance Contracts Law Reform

Reform terms of reference and an issues paper have been released relating to the review of NZ's insurance contracts law. Key issues to be considered in the review include disclosure obligations, insurer remedies for non-disclosure, regulation of insurer conduct related to claims management, product suitability, (non-advice) sales and unfair contract terms.

Financial Services Legislation Bill

The Financial Services Legislation Amendment Bill is currently in a process of consultation. It proposes a number of changes to how financial advice is provided in NZ, including requiring all financial advisers to operate under a licence, introducing a Code of Conduct containing minimum standards in relation to competence, ethical behaviour and client care and introducing disclosure obligations. A clear view of the future compliance requirements is expected by late 2018.

Earthquake Commission (EQC) regulatory developments

An EQC Amendment Bill before Parliament proposes to change key aspects of EQC statutory insurance, removing contents cover and increasing property cover, and extending the time period for consumers to file, EQ claims from three months to two years.

14. Environmental and Corporate Responsibility reporting

Suncorp believes in conducting business responsibly in a way that protects and sustains the environment for current and future generations. The Group therefore endeavours to:

- manage its impacts to ensure the sustainable growth of both the business and the communities in which it operates, and
- manage its operational portfolio in compliance with relevant laws and regulations in relation to environmental performance, management and reporting.

The Group has a responsibility to continue to reduce its environmental impact, and be transparent about its environmental performance.

14.1 Environmental Performance Plan

In 2018 Suncorp Group published an Environmental Performance Plan (**EPP**) that aims to proactively reduce the environmental footprint of its business operations, foster innovation and partnerships, engage and educate its people, and track and openly disclose its environmental performance.

The EPP outlines specific actions and timeframes for 2018–19 and will be refreshed annually; the EPP is available at suncorpgroup.com.au/responsibility/reports.

14.2 Climate Change Action Plan approved

The Board-approved Suncorp Group Climate Change Action Plan (**CCAP**) was published in April 2018. The CCAP:

- forms the basis for maturing Suncorp's assessment, management, and disclosure of climate change risks and opportunities using the framework published by the Financial Stability Board Task Force on Climate-related Financial Disclosures (**TCFD**), and
- supports the implementation of Suncorp's Responsible Investment Policy, which includes commitments to increase climate-related investment and apply a shadow carbon price to manage risk.

The CCAP is available at suncorpgroup.com.au/responsibility/reports.

14.3 Improving climate risk disclosures

In 2017–18 Suncorp expanded the boundaries of its Scope 1 and Scope 2 greenhouse gas emissions reporting to include its NZ operations and its subsidiary Suncorp Insurance Ventures. The Group also:

- publicly discloses information on its climate-related risks and opportunities to CDP, an independent, international not-for-profit organisation focused on transparency and environmental sustainability
- is committed to meeting the recommendations of the TCFD, and
- is making progress on the integration of a climate risk and opportunity assessment into risk management and governance processes.

Suncorp Group reports greenhouse gas emissions and energy consumption in Australia under the *National Greenhouse Emissions Reporting Act 2007* (Cth) annually.

14.4 Responsible Investment Policy launched

Suncorp Group's Board-approved Responsible Investment Policy was launched in August 2017. This policy:

- details Suncorp's approach to the long-term sustainability of investment returns and management of the environmental, social and governance (**ESG**) risks and opportunities in its investment portfolios
- ensures ESG considerations are factored into investment manager selection and the evaluation of investment risks and opportunities.

During 2017–18 Suncorp Group's investment mandates with external investment managers were amended to exclude tobacco, land mines, cluster munitions, and biological and chemical weapons; these were divested from Suncorp portfolios. Additionally, a shadow carbon price was introduced to manage the risk of stranded assets as the Group responds to a transition to a net-zero carbon emissions economy.

Suncorp's Responsible Investment Policy is available at suncorpgroup.com.au/responsibility/reports.

Details of how Suncorp Group's material ESG topics are managed, and other corporate responsibility activities, can be found in the 2017–18 Annual Review available at suncorpgroup.com.au/investors/reports.

15. Indemnification and insurance of officers and directors

Under the Company's Constitution, the Company indemnifies each person who is or has been a director or officer of the Company. 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 the Company 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.

The Company has also executed deeds of access, indemnity and insurance with directors and company secretaries 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 2017–18 the Company 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) 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. Suncorp's Corporate Governance Statement 2017–18

The Board believes high standards of corporate governance are essential for achieving business objectives, sustaining long-term share price performance and creating value for shareholders. The Board understands the important role it plays in stewarding Suncorp's social licence to operate, corporate culture and corporate governance. The Board is committed to maintaining a corporate governance framework and corporate culture that value ethical behaviour and integrity. The Board is responsible for the corporate governance framework which operates under Board-approved policies, charters and practices. The Board Committees help the Board fulfil its governance role.

During 2017–18 Suncorp Group complied with the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (3rd edition). The 2017–18 Corporate Governance Statement (and Appendix 4G) lodged with the ASX, and a range of documents referred to in it, are available at suncorpgroup.com.au/about/corporate-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 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 that 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

	2018 $000	2017 $000
Audit-related fees (regulatory)		
APRA reporting	1,114	766
Australian financial services licences	137	148
Other regulatory compliance services	370	327
	1,621	1,241
Audit-related fees (non-regulatory)		
Other assurance services	1,467	1,639
	1,467	1,639
Other services		
Tax compliance	12	12
Other non-audit related services	2,206[1]	273
	2,218	285
	5,306	**3,165**

1 Relates to accounting advisory services and provision of technology resources to assist in access and security management of application systems.

18. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 49 and forms part of the Directors' Report for 2017–18.

19. Rounding of amounts

The Company is of a kind referred to in *Australian Securities & 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 Group's Remuneration Report for the financial year ended 30 June 2018 (**2017–18**).

In undertaking our remuneration review, the Board has given additional attention to strengthening the remuneration framework and ensuring that it reinforces executive accountability, responsible business practices, a constructive company culture and effective risk management. In doing so, the Board has taken into consideration broad stakeholder feedback and insights from recent public inquiries and reviews into the operation of various parts of the Australian financial services sector.

The Board has adopted the remuneration deferral requirements of the Banking Executive Accountability Regime (**BEAR**)[1] for the CEO & Managing Director and the Senior Executives[2] earlier than required by the legislation. The long-term incentive deferral period will be extended to four years for grants made in 2018–19 and beyond, reflecting the BEAR requirements. In addition, the accountability mapping and supporting statements for Suncorp's Australian operations under the BEAR will be completed and ready for application from 1 July 2019. This process will identify all accountable persons, define their core responsibilities and set out the reasonable steps that accountable persons will take to ensure the effective execution of their accountabilities.

The People and Remuneration Committee[3] also evaluated a number of alternative remuneration structures over the year, including introducing a second measure to the long-term incentive plan to operate alongside relative total shareholder return. Given the increasing complexity of current external factors potentially impacting on remuneration, the Board has decided to defer any changes to the remuneration structure in 2018–19, with the intention of aligning with any future regulatory recommendations. For the coming year also, there will be no change to the CEO & Managing Director's remuneration, or to Board fees for non-executive directors.

Furthermore, to address industry concerns around conduct risk, more than 75% of Suncorp's front-line employees in Australia have been transitioned onto incentive plans that reward performance against a balanced scorecard of measures, with the scorecard having a greater focus on the customer experience. All front-line employees in Australia will be on such plans from 1 January 2019.

During 2017–18, a streamlined executive team was announced to fast track the delivery of the Company's strategy and drive an ongoing improvement in customer experience. The CEO & Managing Director and Senior Executives are jointly accountable to achieve the strategy and deliver the business plan and have agreed Group-wide targets as approved by the Board. The CEO & Managing Director assesses the contribution of each Senior Executive towards the achievement of the business plan, in addition to assessing the contribution each has made towards strengthening Suncorp's culture and effective management of risk.

Suncorp Group's remuneration framework supports the achievement of the Company's strategic objectives and is fair, transparent and responsible, as expected by our shareholders and the wider community. Feedback from our stakeholders, including the wider community, regulators and shareholders, is actively encouraged and used in the development of our remuneration practices. In response to feedback received, this report provides further information on the level of achievement against short-term incentive measures in 2017–18.

We trust that you will find the information provided in this report informative and that it demonstrates the strong alignment that Suncorp's executive remuneration practices have with performance outcomes, community expectations and shareholder returns.

J. E. Switkowski	Christine McLoughlin
DR ZIGGY SWITKOWSKI AO	**CHRISTINE MCLOUGHLIN**
Chairman of the Board	Chairman of the People and Remuneration Committee

9 August 2018

1 As introduced by APRA. The BEAR will apply to Suncorp from 1 July 2019.

2 Being those people described as Senior Executives in this Remuneration Report.

3 As noted in the Directors' Report, since the conclusion of the reporting period, the Remuneration Committee became the People and Remuneration Committee with an expanded remit. This committee is referred to as the 'People and Remuneration Committee' throughout this report.

Remuneration Report for 2017–18

This Remuneration Report explains Suncorp Group's remuneration structure for key management personnel (**KMP**) and articulates the strong alignment between Suncorp's strategy, performance objectives and executive remuneration outcomes. KMP are the people who have authority and responsibility for planning, directing and controlling the activities of the Suncorp Group and includes the non-executive directors. The KMP are outlined in the remuneration tables in this report. For the purposes of this report, 'executive' means the CEO & Managing Director and Senior Executives.

Suncorp's external auditor, KPMG, has audited sections 2–6 of this report against the disclosure requirements of the Corporations Act.

1. 2017–18 Executive remuneration snapshot

1.1 Executive remuneration arrangements

OBJECTIVE

To provide competitive rewards that motivate executives to deliver superior and sustainable returns to shareholders and that support alignment with Suncorp Group's purpose, vision and strategy.

REWARD PRINCIPLES

Align reward with sustainable performance	Align effective risk management with reward	Balance stakeholder interests
Build a competitive advantage	Ensure gender pay equality	Support Suncorp's Our Compass behaviours (Think Big, Show You Care, Kick Goals, Be Your Best)

Fixed remuneration

- Consists of base salary, salary-sacrificed benefits and superannuation.
- Reflects the role scope and individual's skills and experience and is set in the context of market remuneration levels.

See section 2.2 for further detail.

Short-term incentives (STI)

- Rewards the achievement of Group, function and individual outcomes over a 12-month period.
- Group Scorecard based on Profit and Financials, Customer, Risk and People measures.
- 50% of the CEO & Managing Director's STI, and 35% of the Senior Executives' STI, is deferred into share rights, with 50% vesting on the first anniversary and 50% vesting on the second anniversary of the date of grant.
- The deferred portion of the STI is subject to potential malus[1].

See section 2.3 and 3.4 for further detail.

Long-term incentives (LTI)

- Rewards the creation of long-term shareholder value.
- Performance rights are granted which vest subject to the achievement of service-based and performance-based conditions over a three-year period[2].
- The performance measure is relative total shareholder return (**TSR**) against the top 50 listed companies by market capitalisation in the S&P/ASX 100 (excluding real estate investment trusts and mining companies).
- The LTI award is subject to potential malus[1].

See section 2.4 and 3.4 for further detail.

REMUNERATION POSITIONING

Total target remuneration for the CEO & Managing Director and Senior Executives is evaluated on an annual basis against relevant roles in Suncorp's comparator group, defined as the financial services companies in the S&P/ASX 100, excluding real estate investment trusts.

1 The term 'malus' was introduced to replace 'clawback' to reflect alignment with market practice. Malus refers to the potential reduction of unvested deferred incentives (down to zero) to protect the Group's financial soundness and to provide the ability to respond to unforeseen significant issues.

2 The LTI deferral period has been extended to four years for the 2018-19 grant. See section 1.3 for further detail.

1.2 Executive remuneration outcomes

<table>
<tr><th>Remuneration component</th><th>2017–18 Summary</th></tr>
<tr><td>Fixed remuneration</td><td>CEO & Managing Director: There was no change to fixed remuneration.
Senior Executives: To take into account expanded accountabilities under a new streamlined executive team and to ensure market competitiveness, fixed remuneration levels were reviewed:
– Ms Marlow received an 11% increase upon appointment to the new role of Chief Executive Officer Customer Marketplace. This is an expanded role that combined the previous functions of Customer Platforms, Customer Experience and Strategic Innovation. The increase was determined in light of expanded accountabilities and internal and external benchmarks.
– The Chief Executive Officer Banking & Wealth, Chief Executive Officer New Zealand, Chief Risk Officer, and Chief Information Officer received a fixed remuneration increase, while the Chief Executive Officer Insurance, Chief Financial Officer, Chief People Experience Officer, and Chief Program Excellence Officer had no change to their fixed remuneration. The average fixed remuneration increase across these executives was 3.2%.</td></tr>
<tr><td>STI</td><td>Performance outcomes: STI outcomes were determined in the context of outcomes against ambitious targets in the Group Scorecard as well as broader financial performance:
– Suncorp Group’s reported net profit after tax (NPAT) before non-controlling interests was $1,072 million. Adjusted NPAT which is used for STI purposes was $1,095 million. See section 2.3 for further information on Adjusted NPAT.
– Cash return on equity (ROE) was 8.0%.
– The total ordinary dividend declared for 2017–18 is 73 cents per share, consisting of a 33 cent per share fully franked interim dividend and a 40 cent per share fully franked final dividend.
– Group Common Equity Tier 1 (CET1) was $448 million in excess of targets. As a result, the Board declared a fully franked special dividend of eight cents per share.
See section 2.3 for outcomes against the Customer, Risk and People measures in the Group Scorecard.
STI outcomes: Considering the performance outcomes outlined above and in section 2.3, the CEO & Managing Director’s actual STI outcome as recommended by the People and Remuneration Committee and approved by the Board was 87% of target. For current Senior Executives, the STI outcome ranged between 86% and 92% of target. Including both current and former Senior Executives, the STI outcome ranged between 75% and 92% of target. STI outcomes for Senior Executives were recommended by the CEO & Managing Director, endorsed by the People and Remuneration Committee and approved by the Board.</td></tr>
<tr><td>LTI</td><td>Performance outcomes: The 2014 LTI grant was tested against the relative TSR performance condition on 30 September 2017. Suncorp’s TSR was below the median of the peer group of companies.
LTI outcomes: There was nil vesting against the 2014 LTI grant, and all performance rights relating to this grant were forfeited.</td></tr>
</table>

Remuneration paid, or vested, for the Executives over 2017–18

	Remuneration earned in respect of 2017–18[1]			Past 'at-risk' remuneration vested in 2017–18		Actual remuneration received or earned in 2017–18[4]	Future 'at-risk' remuneration awarded in 2017–18[5]	
	Fixed	Other	2017–18 incentives	Deferred STI (cash)[2]	LTI / RSP (equity)[3]		2017–18 STI (deferred equity)	LTI / RSP (equity) granted in 2017–18
	$000	$000	$000	$000	$000	$000	$000	$000
Executive director								
Michael Cameron[6] *CEO & Managing Director*	2,100	-	914	-	1,222	4,236	943	3,500
Senior Executives								
David Carter *CEO Banking & Wealth*	786	-	450	83	35	1,354	250	750
Gary Dransfield[7] *CEO Insurance*	1,050	-	584	285	-	1,919	324	1,050
Sarah Harland *Chief Information Officer*	686	-	414	-	270	1,370	230	650
Lisa Harrison[8] *Chief Program Excellence Officer*	597	-	357	64	291	1,309	198	600
Steve Johnston[9] *Chief Financial Officer*	1,000	-	575	325	-	1,900	320	1,000
Pip Marlow[10] *CEO Customer Marketplace*	970	-	556	-	776	2,302	309	900
Amanda Revis *Chief People Experience Officer*	800	-	473	270	-	1,543	263	800
Paul Smeaton *CEO New Zealand*	828	-	474	70	-	1,372	263	800
Fiona Thompson *Chief Risk Officer*	636	-	372	18	44	1,070	207	600
Former Senior Executives								
Anthony Day[11] *CEO Insurance*	401	989	183	333	-	1,906	102	1,150
Kate Olgers[12] *Chief Legal Officer*	211	599	101	-	-	911	56	600
Mark Reinke[13] *Chief Customer Experience Officer*	240	775	117	225	-	1,357	64	775

1 This reflects fixed remuneration (including base salary, salary sacrificed benefits and superannuation), any termination payments and the cash component of STI which relates to 2017–18 performance. Mr Day, Ms Olgers and Mr Reinke received termination benefits in line with contractual entitlements. The cash component of STI represents 50% of the total 2017–18 STI for the CEO & Managing Director and 65% of the total 2017–18 STI for Senior Executives.

2 This reflects deferred cash STI awarded in previous years that vested during 2017–18. For Mr Carter, Mr Smeaton and Ms Thompson, a portion relates to vesting of deferred STI awarded prior to their appointment as a Senior Executive. For Ms Harrison, this fully relates to vesting of deferred STI awarded prior to her appointment as a Senior Executive.

3 This represents awards made under the LTI or restricted share plan (**RSP**) (including awards made on commencement at Suncorp in recognition of incentives forgone with the executive's previous employer) that were granted in prior years and that vested in 2017–18. The 2014 LTI grant did not vest on 30 September 2017 as the relative TSR performance measure was not met. Mr Cameron and Ms Harland received the final tranche of their restricted shares granted on commencement at Suncorp, and Ms Marlow received tranche 1 of 3 of her restricted shares awarded on commencement at Suncorp. Mr Carter, Ms Harrison and Ms Thompson's restricted shares that vested during the year relate to awards granted prior to becoming a Senior Executive.

4 This refers to the total of remuneration earned in respect of 2017–18 and past 'at-risk' remuneration that vested in 2017–18.

5 This includes the deferred equity portion of the 2017–18 STI and LTI grants made in 2017–18. All of these grants are subject to the potential application of malus and the risk of forfeiture over the deferral period. To align the executives with the shareholder experience over the performance period, the total number of rights to be granted in August 2018 as part of the STI is based on the deferred STI amount (plus actual dividends paid in the 2017–18 performance year) divided by the June 2017 volume weighted average price of $14.48. For former Senior Executives, the LTI granted in 2017–18 was pro-rated on termination to reflect the time worked in the performance period.

6 The corresponding fair value of Mr Cameron's 2017–18 LTI grant is $1.55 million, calculated as the total number of performance rights granted during 2017–18 multiplied by the fair value at grant date (assuming the performance measure is met).

7 Mr Dransfield was appointed to the role of Chief Executive Officer Insurance on 13 October 2017. He was a KMP from 1 July 2017, having previously held the role of Chief Executive Officer Customer Platforms.

8 Ms Harrison was appointed to the role of Chief Program Excellence Officer on 1 July 2017.

9 Mr Johnston assumed responsibility for Legal and Company Secretariat on 13 October 2017.

10 Ms Marlow was appointed to the role of Chief Executive Officer Customer Marketplace on 13 October 2017. She was a KMP from 1 July 2017, having previously held the role of Chief Executive Officer Strategic Innovation.

11 Mr Day ceased employment on 27 October 2017.

12 Ms Olgers ceased employment on 28 October 2017.

13 Mr Reinke ceased responsibility as a KMP on 13 October 2017 and ceased employment on 1 June 2018. His fixed remuneration and 2017–18 incentive reflects remuneration as a KMP to 13 October 2017.

1.3 Executive remuneration outlook for 2018–19

Changes to long-term incentive awards

While LTI awards will continue to be granted as performance rights and will be subject to performance over a three-year period, the deferral period has been extended from three to four years as a result of the Board's early adoption of the remuneration deferral requirements under the BEAR.

Any performance rights that vest based on the performance measures at the end of Year 3 will become vested rights and be subject to an additional one-year deferral period. Any vested rights will be converted into shares at the end of Year 4. In line with existing arrangements, to more closely align the experience of the executive to shareholders, a payment equal to the dividends earned on any allocated shares at the end of the four-year period will be paid. Malus criteria apply throughout the three-year performance period and the additional one-year deferral period. See section 3.4 for information on the malus criteria.

2. Overview of 2017–18 remuneration framework

2.1 Executive remuneration strategy and framework

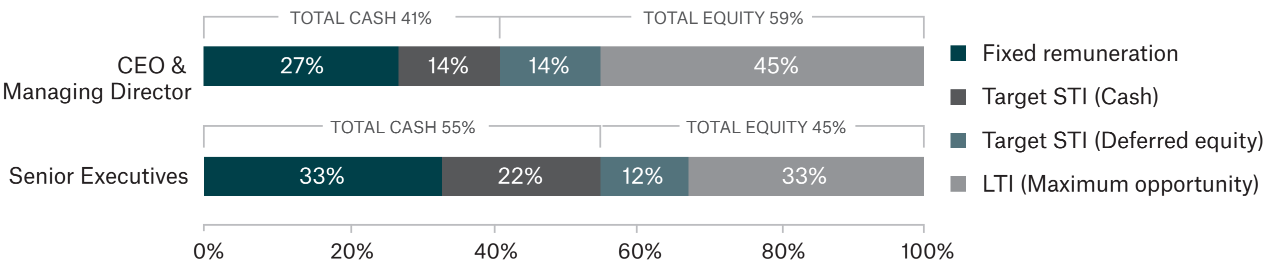
The Suncorp Group Remuneration Policy provides a governance framework for the structure and operation of remuneration plans within the context of the Suncorp Group's strategy, long-term financial soundness and risk management framework. The Board is committed to a fair, transparent and responsible remuneration framework as expected by our shareholders, customers, employees and wider community.

The remuneration strategy, which is aligned to the business strategy and risk tolerance, ensures that the principles that determine remuneration are focused on delivering performance while demonstrating appropriate behaviours.

Remuneration levels, including STI outcomes, for the CEO & Managing Director are recommended by the People and Remuneration Committee and approved by the Board. For the Senior Executives, remuneration levels, including STI outcomes, are recommended by the CEO & Managing Director, endorsed by the People and Remuneration Committee, and approved by the Board.

Remuneration mix

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'.



2.2 Fixed remuneration

Fixed remuneration reflects the role scope and the individual's skills and experience. It is reviewed each year in line with the Remuneration Policy, individual performance and contribution to Suncorp Group, taking into consideration market competitiveness and other business and talent-critical factors. The peer group used for benchmarking purposes consists of financial services companies in the S&P/ASX 100, excluding real estate investment trusts.

2.3 Short-term incentives

Plan	STI awards are made under the Corporate Incentive Plan.
Plan rationale	The plan incentivises the achievement of key performance measures over a 12-month period that create sustainable value for all stakeholders.
STI opportunity	The CEO & Managing Director and the Senior Executives have an STI opportunity of 100% of fixed remuneration if they achieve the targets outlined in their scorecards. If these targets are exceeded, the maximum STI opportunity is 150% of fixed remuneration.
Group Scorecard and funding	The Group Scorecard consists of Profit and Financials (60%), Customer (20%), Risk (10%), and People (10%) measures. Performance against the Group Scorecard, as recommended by the People and Remuneration Committee and approved by the Board, determines the size of the STI pool. As part of its evaluation against the Group Scorecard, the Board critically assesses risk management effectiveness in accordance with the Enterprise Risk Management Framework and risk appetite. Further detail on the Group Scorecard measures, and performance against these measures, is outlined later in this section.
Performance assessment	The CEO & Managing Director is primarily assessed against the Group Scorecard. Each Senior Executive is assessed on their individual and their function's contribution towards the achievement of the Group Scorecard. STI outcomes for the CEO & Managing Director and Senior Executives are also influenced by the Board's consideration of other factors including customer outcomes, risk management and individual factors such as adherence to the Suncorp behaviours set out in 'Our Compass'. These are the behavioural expectations that the Board believes form a foundation for successful and sustainable performance.
Performance period	The performance period is for the 12 months ended 30 June 2018.
Delivery mechanism	For the CEO & Managing Director, 50% of the STI is delivered as cash and 50% as share rights. For the Senior Executives, 65% of the STI is delivered as cash and 35% as share rights. To focus executives on total shareholder returns from the start of the performance period, the allocation of share rights is determined based on the volume weighted average price (**VWAP**) one-month prior to the start of the performance period. The allocation of share rights also reflects the value of dividends paid over the performance period. The share rights vest 50% on the first anniversary and 50% on the second anniversary of the date of grant. ***Legacy awards: Cash deferral*** Prior to 2016–17, a 'cash-based' deferral applied and remains operative in respect of deferred STI awarded for 2015–16 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.
Malus	The deferred rights and cash deferral are subject to the potential application of malus. See section 3.4 for further information.
Termination of employment	See section 4 for the treatment of STI on termination.

2017–18 Group Scorecard measures, weightings and performance outcomes

STRATEGIC DRIVER	MEASURES	WEIGHTING	BELOW THE THRESHOLD	THRESHOLD TO TARGET	TARGET[2]	TARGET TO MAXIMUM	MAXIMUM	2017-18 ACHIEVEMENT
PROFIT AND FINANCIALS[1] 60%								
Deliver targeted Profit after Tax	Adjusted NPAT	40%			✓			The Group delivered a NPAT result of $1,095 million adjusted for non-controllable items.
Improve shareholder returns	Cash ROE	20%		✓				Cash ROE for the year was 8.0%. This result reflects strong underlying performance impacted by global volatility in investment income.
CUSTOMER 20%								
Create value for customers	Marketplace deliverables	10%		✓				The accelerated Marketplace Program delivered to expectations in 2017–18. Performance reflects the impact of prioritisation decisions made during the year.
	Customer measures	10%	✓					Efforts have focused on removing pain points from the customer experience, whilst concurrently providing products and solutions that create value in the moments that matter. Efforts to uplift the customer experience are being well received, resulting in improved customer advocacy, however overall performance against Customer measures was below threshold.
RISK 10%								
Manage risk within agreed parameters	Achievement of Group Risk Maturity Model measures	10%		✓				Performance against the Group Risk Maturity Model measures reflected the strength of Suncorp's risk management practices, and provide confidence in Suncorp's risk culture.
	Demonstration of risk management practices							The Board assessed that Suncorp continues to manage operational, financial and insurance risk categories well, with any breaches being closely monitored.
PEOPLE 10%								
Maintain an organisational culture that aligns performance, risk and customer outcomes	Organisational culture	10%			✓			The Board evaluated Suncorp's organisational culture based on a wide range of relevant metrics across Performance, Risk and Customer dimensions. Based on this evaluation, the Board assessed that there was appropriate focus on each cultural dimension and determined that Suncorp's culture is sound.
OVERALL PERFORMANCE OUTCOME				✓				

1 The Board also 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.

2 Target reflects performance between 99% and 101% of target.

Rationale for scorecard measures

Scorecard Category	Scorecard measure	Rationale
Profit and Financials	Adjusted 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 the 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 is 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 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. Net adjustments over 2017–18 were $36 million (post-tax) and consisted of investment income, prior year releases, and natural hazards. Adjusted NPAT has been determined on a consistent basis since 2011–12.
	Cash ROE	Cash ROE was chosen because it is a measure of the Group's profitability and how efficiently Suncorp utilises investments to generate income. Cash ROE considers all controllable and uncontrollable items.
Customer	Marketplace deliverables	Marketplace deliverables is a digitally enabled strategy designed to achieve better customer outcomes. Measures include: – single digital customer experience (the marketplace app) – brand refresh and roll-out in stores and other real estate – integrated offers for customers – third party partnerships such as nib, Petsure and Challenger – reward and recognition programs – digital technologies that enable better customer interactions.
	Customer measures	– *Customer net flows:* To reflect the impact of integrated offers in key segments, renewal pricing across personal and commercial insurance and increased expansion of key products outside of Queensland. – *Percentage of customers retained*: As significant customer inflows can mask the impact of customers lost, customer retention is also measured. – *Number of connected customers*: To reflect Suncorp's strategy to broaden and deepen its relationships with customers by meeting more customer needs. – *Net promoter score*: To recognise the ongoing implementation of Suncorp's customer strategy. – *Customer complaints:* To reflect the Suncorp Group's focus on reducing volume and efficient resolution of customer complaints, to ensure customer feedback is addressed quickly and proactively, and that Suncorp resolves customer complaints internally.
Risk	Achievement of Group Risk Maturity Model measures	This provides an objective measurement tool that consistently and transparently assesses and tracks the quality of risk management capability and risk-based performance at a Company level through an aggregated measure of risk maturity.
	Demonstration of risk management practices	The demonstration of risk management practices in the areas of performance, culture, core practices and compliance supports an assessment of the effectiveness of risk management practices and risk culture at Suncorp and how these align with the Board's stated risk appetite.

Scorecard Category	Scorecard measure	Rationale
People	Organisational culture	The organisational culture dashboard provides a means of qualitatively and quantitatively assessing the three cultural dimensions of Performance, Risk and Customer, providing an indication of alignment of the dimensions and resulting behavioural outcomes. Assessing the health of Suncorp's culture focuses on the alignment of these cultural dimensions, and the impact this has on Suncorp's ability to achieve the key strategic priorities to Elevate the Customer, Drive Momentum and Growth, and Inspire our People.

Executive STI performance outcomes in 2017–18

Actual STI outcomes for 2017–18 for the executives are outlined below.

	Actual STI Awarded[1]	Target STI[2]	STI award as % of target STI	Maximum STI[3]	STI award as % of maximum STI	% of maximum STI award forfeited	Amount Deferred[4]
	$000	$000		$000			$000
Executive director							
M Cameron	1,827	2,100	87%	3,150	58%	42%	913
Senior Executives							
D Carter	692	800	87%	1,200	58%	42%	242
G Dransfield	898	1,050	86%	1,575	57%	43%	314
S Harland	637	700	91%	1,050	61%	39%	223
L Harrison	549	600	92%	900	61%	39%	192
S Johnston	885	1,000	89%	1,500	59%	41%	310
P Marlow	855	1,000	86%	1,500	57%	43%	299
A Revis	728	800	91%	1,200	61%	39%	255
P Smeaton	729	833	88%	1,250	58%	42%	255
F Thompson	572	650	88%	975	59%	41%	200
Former Senior Executives							
A Day[5]	281	375	75%	562	50%	50%	98
K Olgers[6]	156	196	80%	293	53%	47%	55
M Reinke[7]	179	223	80%	334	54%	46%	62

1 This is the total STI before any deferral. For Mr Reinke, the actual STI has been pro-rated to reflect the time he served as a KMP in the performance period.

2 Target STI is 100% of fixed remuneration for the CEO & Managing Director and Senior Executives. For former Senior Executives, the target STI has been pro-rated to reflect the time they served as a KMP in the performance period.

3 Maximum STI for the CEO & Managing Director and Senior Executives is 150% of fixed remuneration.

4 50% of the CEO & Managing Director's STI outcome and 35% of Senior Executives' STI outcome is deferred into share rights for two years with 50% vesting on the first anniversary and 50% vesting on the second anniversary of the date of grant. The value shown does not include actual dividends paid in the 2017–18 performance year. See the table in section 1.2 for the total amount deferred including total dividends paid in the 2017–18 performance year.

5 Mr Day ceased employment on 27 October 2017.

6 Ms Olgers ceased employment on 28 October 2017.

7 Mr Reinke ceased responsibility as a KMP on 13 October 2017.

2.4 Long-term incentives

Plan	The LTI plan operates under the Suncorp Group Equity Incentive Plan. For the purposes of this report, this is referred to as the LTI plan.
Plan rationale	The LTI plan focuses executives on creating long-term shareholder value.
LTI opportunity	The LTI opportunity for the CEO & Managing Director is $3.5 million. For the Senior Executives, it is 100% of fixed remuneration.
LTI instrument	Performance rights are granted. A performance right entitles the executive to one fully paid ordinary share in the Company (or under limited circumstances at the Board's discretion, a cash payment in lieu of an allocation of ordinary shares in the Company) at no cost. Performance rights vest at a set future point, provided service conditions and performance measures are achieved. To more closely align the experience of the executive to shareholders, if performance rights vest and shares are allocated, a payment equal to the dividends earned on those shares during the three-year performance period is paid. For the 2018–19 grant, in line with existing arrangements, a dividend equivalent payment will now be made at the end of the four-year deferral period on any vested rights that convert to shares. See section 1.3 for further information.
Allocation	The LTI opportunity is divided by the VWAP of the ordinary share over the five days preceding the date of grant. No discount is applied for the probability of achieving the performance measures.
Performance measure	The performance measure for LTI awards granted during 2017–18 is relative TSR against a peer group of companies (**Peer Group**). This measure was chosen because it offers a relevant indicator of measuring changes in shareholder value by comparing the Company's return to shareholders against the returns of companies of a similar size and investment profile. It also aligns shareholder returns with reward outcomes for executives over the long term and minimises the impact of market cycles. Executives will only derive value from the LTI awards if the Company's TSR performance is at, or greater than, the 50th percentile (median) of the Peer Group.
Peer Group	The Peer Group is the top 50 listed companies by market capitalisation in the S&P/ASX 100 (excluding real estate investment trusts and mining companies), as determined at the commencement of each grant. If a company in the Peer Group is suspended or delisted from the ASX during the performance period, it may be removed from the Peer Group (there may, therefore, be fewer than 50 companies in the Peer Group for that period).
Vesting Schedule	**Relative TSR performance outcomes** — **Percentage of LTI award that will vest** Below the 50th percentile — 0% At the 50th percentile (median performance) — 50% Between the 50th and 75th percentiles — Pro-rata vesting occurs between the 50th and 75th percentiles At or above the 75th percentile — 100%
Performance and deferral period	For 2017–18, the performance and deferral period for LTI awards 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. For 2018–19, the performance period will remain at three years; however, the deferral period will be extended to four years as a result of the Board early adopting the remuneration deferral requirements under the BEAR. See section 1.3 for further information.
Malus	All performance rights are subject to the potential application of malus. See section 3.4 for further information.
Termination provisions	See section 4 for information on the treatment of LTI awards on termination.

2.5 Performance summary: 2014–2018

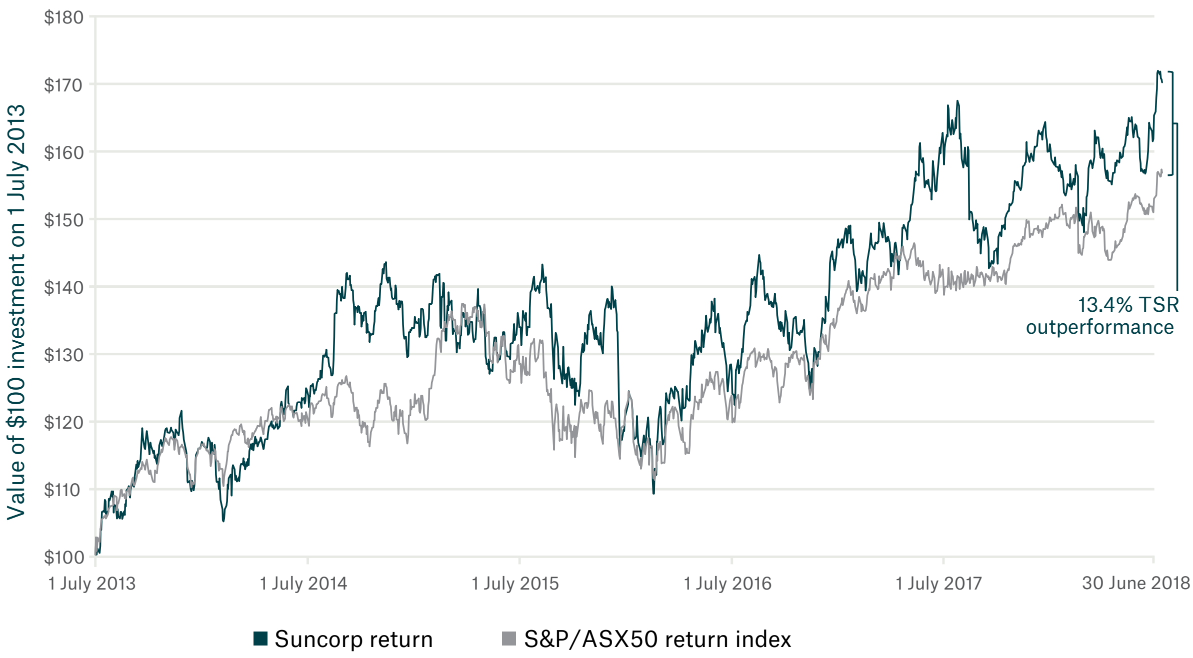
Company performance summary over the five financial years to 30 June 2018

Year ended 30 June	NPAT $M[1]	Closing share price[2] $	Dividend per share cents
2018	1,072	14.59	81
2017	1,085	14.82	73
2016	1,045	12.18	68
2015	1,140	13.43	88
2014	737	13.54	105

1 Note that the profit figure above is reported NPAT. Adjusted NPAT is the profitability figure used in the STI plan. See section 2.3 for information on Adjusted NPAT.

2 Closing share price at 30 June each year.

Suncorp has outperformed the S&P/ASX 50 Accumulation Index by 13.4% over the five years to 30 June 2018.



The relative TSR performance measure for the executives' October 2014 grant, with a vesting date of 30 September 2017, was not met. Consequently, all 2014 LTI awards lapsed.

2.6 Minimum shareholding requirement

To further align executives' interests with those of shareholders, executives are required to have a minimum shareholding in the Company equivalent to at least 100% of one year's pre-tax (gross) fixed remuneration.

Executives are required to meet the minimum shareholding requirement four years from the October following their appointment, 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 2018, all executives are on track to meet the shareholding requirement. Detailed share ownership information for executives is shown in section 6.4.

3. Remuneration governance and risk

3.1 Remuneration governance framework

During the reporting period, the Board endorsed a review of all Board Committee Charters, including committee structure and composition. As part of this review, and since the conclusion of the reporting period, the Remuneration Committee became the People and Remuneration Committee with an expanded remit.

Further to Ms McLoughlin's upcoming appointment as Board Chairman, succession planning has been considered by the Board and accordingly Mr Simon Machell has been appointed as Chairman of the People and Remuneration Committee following the close of the 2018 AGM.

The People and Remuneration Committee recommends the Group's people and remuneration framework and practices to the Board for approval. It assists the Board in fulfilling its responsibilities by ensuring that frameworks are in place that enable the Suncorp Group to attract, motivate and retain talent and support the achievement of the Company's strategic objectives. The remuneration framework is structured to be fair, transparent and responsible, as expected by our shareholders, customers, employees and the wider community.

The People and Remuneration Committee receives input from the Risk Committee, Audit Committee, external advisors and management as illustrated below.

Board

PEOPLE AND REMUNERATION COMMITTEE

The People and Remuneration Committee members are below. They are all independent directors. The People and Remuneration Committee members as at 9 August 2018 are:

Chairman	Christine McLoughlin
Members	Sally Herman Simon Machell Dr Douglas McTaggart
Ex-Officio Member	Dr Ziggy Switkowski AO

The People and Remuneration Committee's responsibilities are outlined in its charter available at suncorpgroup.com.au/about/corporate-governance. The People and Remuneration Committee met five times during 2017–18. The biographies of the People and Remuneration Committee members are outlined in the Directors' Report.

RISK COMMITTEE

Advises the People and Remuneration Committee on risk matters that may impact remuneration outcomes. This includes providing input into the Group Scorecard goal setting and performance assessment process.

CHAIRMEN OF RISK COMMITTEE, PEOPLE AND REMUNERATION COMMITTEE, AND AUDIT COMMITTEE

Recommend to the People and Remuneration Committee the release, reduction or lapse of deferred incentives for the CEO & Managing Director.

EXTERNAL ADVISERS

Provide independent advice, as needed, to the People and Remuneration Committee.

During 2017–18, Mercer Consulting (Australia) provided advice on TSR performance analysis and Ernst & Young provided advice on TSR validation for LTI awards, and reward strategy and structure. No remuneration recommendations were made by a remuneration consultant during 2017–18.

MANAGEMENT

Advises the People and Remuneration Committee based on specialist expertise and business knowledge.

The Chief Risk Officer, with input from the Remuneration Oversight Committee that also consists of the Chief Financial Officer and Chief People Experience Officer, prepares a report that is provided to the People and Remuneration Committee in considering the release, reduction or lapse of deferred incentives for all executives and employees.

3.2 Remuneration alignment with risk management

Suncorp is committed to effective risk management throughout the Suncorp Group.

The Enterprise Risk Management Framework (**ERMF**) lays the foundation for all Suncorp's risk management processes. The ERMF seeks to ensure the integration of effective risk management across the organisation and incorporates Suncorp's policies (which include risk management policies and the Remuneration Policy). All employees are educated on the importance of managing risk and the link between risk management and the outcomes for our customers, employees and shareholders.

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

In addition, there are common members between the People and Remuneration, Risk, and Audit Committees.

Suncorp develops its strategy and business plan in consideration of the Group's risk appetite and also with regard to the broader external environment.

Risk is an important element of the remuneration and performance framework for all employees across Suncorp

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

- separately weighted risk measures in the Group scorecard
- individual adherence to risk management policies. The application of appropriate risk management practices is assessed to ensure that the CEO & Managing Director, Senior Executives and other employees adhere to the ERMF and the Suncorp Group Risk Appetite Statement and have demonstrated prudent management of the risks that the Group faces
- an assessment based on behavioural and cultural measures to ensure performance is aligned to expected ethical standards
- the Board's application of a judgment overlay on the Group Scorecard outcome, with risk management considered as a key component of the overall performance outcome, and
- the hedging prohibition (described below).

In determining performance and remuneration outcomes, the People and Remuneration Committee considers all relevant factors to demonstrate alignment with the 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.

Risk is considered in the remuneration structure for executives

In addition to the above, risk is further embedded into the remuneration structure for executives through ensuring remuneration outcomes are balanced over the short and long term by:

- deferral of a significant portion of executives' short-term incentives, and
- requiring executives to meet the minimum shareholding requirement as outlined in section 2.6.

3.3 Hedging prohibition

The Suncorp Group Securities Trading Policy regulates dealing by directors, employees and contractors in Suncorp securities and prohibits hedging transactions to limit the economic risk of a holding in the Company's securities 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.

Any subsequent dealing in those shares is subject to the terms of the Securities Trading Policy.

Further detail can be found in the 2017–18 Corporate Governance Statement at suncorpgroup.com.au/about/corporate-governance.

3.4 Malus

Deferred incentives (including STI deferred awards, LTI unvested awards, and LTI vested awards subject to further deferral) are subject to the potential application of malus based on the Board's judgment, as outlined below. The term 'malus' was introduced to replace 'clawback' to reflect alignment with market practice. Malus provisions enable deferred incentives to be either forfeited or reduced at the Board's discretion.

Purpose	Malus enables the Board to adjust deferred incentives downwards (including to zero) to protect the Group's financial soundness and to provide the ability to respond to unforeseen significant issues.
Criteria	Circumstances that the Board may consider in applying malus include: – the participant's employment is terminated for misconduct – the participant acted or failed to act in a manner which contributed to significantly adversely impacting customers, shareholders and/or the reputation of the Suncorp Group – there was a failure to comply with Suncorp's risk management policies and practices, including undertaking appropriate risk assessments that would have, or would reasonably be expected to have, identified the issues – the employee was aware of the above-mentioned risk management failure, or should reasonably have been aware of that failure – to protect the financial soundness of the Suncorp Group – to respond to significant unexpected or unintended consequences that were not foreseen by the People and Remuneration Committee, and – any other reasonable considerations that emerged prior to, or during, the deferral period.
Approval process	The Chief Risk Officer produces a report on the relevant matters to be considered for malus and the release of deferred incentives for the CEO & Managing Director, Senior Executives and other employees (as applicable). The Chairmen of the People and Remuneration, Risk, and Audit Committees verify the report information and confirm that all relevant matters have been considered. Based on this report: – the Chairmen of the People and Remuneration, Risk, and Audit Committees make a recommendation to the Board for approval of the release (and/or the application of malus where appropriate) of deferred incentives for the CEO & Managing Director, and – the CEO & Managing Director makes a recommendation to the Board, via the People and Remuneration Committee, for approval of the release (and/or the application of malus where appropriate) of deferred incentives for the Senior Executives and other employees (as applicable).

4. Employment agreements – summary

The CEO & Managing Director and Senior Executives are employed by Suncorp Staff Pty Limited, a wholly-owned subsidiary of the Company, under a standard employment agreement with no fixed term.

Where a change of control of the Company occurs, deferred STI and a pro-rata award of current year STI may be awarded to the CEO & Managing Director, and unvested LTI may vest on a pro-rata basis (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 outlined below.

	CEO & Managing Director	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: A 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 deferred incentive is forfeited. Redundancy: Any deferred incentive will generally vest at the end of the original deferral period and will remain subject to the potential application of malus. Misconduct: All unvested deferred incentives are forfeited. All other cases: Board discretion. ***Pre 1 July 2016 (Cash-based deferral)*** Resignation or redundancy: Any deferred incentive will generally vest at the end of the original deferral period and will be subject to the potential application of malus, unless the Board exercises its discretion otherwise. Misconduct: All unvested deferred incentives are forfeited. All other cases: Board discretion.	
Treatment of LTI on termination	**Unvested equity** ***Qualifying reason*[1]** The Board has the discretion to determine that any unvested LTI performance rights will continue until the relevant vesting dates and remain subject to the performance measures and the potential application of malus, unless otherwise determined by the Board. ***Non-qualifying reason*** All unvested awards are forfeited. **Vested rights** Any vested rights will continue beyond cessation of employment and convert into shares in the normal course, subject to the potential application of malus.	
Treatment of restricted shares on termination	***Qualifying reason*[1]** The Board has the discretion to determine that any unvested restricted shares will be pro-rated for the time worked in the vesting period and those reduced number of restricted shares will vest at the termination date subject to the potential application of malus, unless otherwise determined by the Board. ***Non-qualifying reason*** All unvested awards are forfeited.	

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

5. Non-executive director remuneration arrangements

5.1 Remuneration structure

Remuneration component	Description
Fee philosophy	The fee arrangements for non-executive directors are designed to ensure the Suncorp Group attracts and retains suitably qualified and experienced non-executive directors. Fees are based on a number of factors, including the requirements of the role, the size and complexity of the Suncorp Group, and market practice.
Fee structure	Non-executive directors receive fixed remuneration only, paid as director fees, and do not participate in any performance-based incentive plans. The Chairman receives a fee for chairing the Board and is not paid any additional fees for attending Nomination, Audit, Risk, and People and Remuneration Committee meetings as an ex-officio member. Other non-executive directors receive a base fee and additional fees for each additional Committee chairmanship and membership, excluding the Nomination Committee where no additional fee is paid.
Superannuation	Suncorp Group Limited pays compulsory superannuation guarantee contributions (**SGC**) of 9.5% of the director's fee on behalf of all eligible non-executive directors. The Company's general practice is to cap SGC at 9.5% of the Maximum Contribution Base (**MCB**). Superannuation in excess of the MCB is delivered in the form of voluntary additional superannuation contributions or the non-executive director may elect to take this amount as fees. If a non-executive director ceases to be eligible for SGC payments, the equivalent amount is paid in fees.
Aggregate annual fee pool	Non-executive director aggregate fees are within the shareholder-approved maximum aggregate total remuneration limit of $3,500,000 including SGC.
Minimum shareholding requirement	Non-executive directors have four years from the October following their appointment to achieve the minimum shareholding requirement, equivalent to 100% of one year's pre-tax (gross) base fees. A 50% shareholding is required to be achieved after two years. Base fees refer to the Board Chairman fee or Board Member fee only excluding SGC. Based on their shareholding as at 30 June 2018, all non-executive directors are on track to meet this requirement. Detailed share ownership information for the non-executive directors is shown in section 6.4.

5.2 Remuneration levels for non-executive directors

While the Board periodically reviews the level of fees paid to non-executive directors, there were no changes to fees in the year of 2017–18.

Committee[1]		**Board**	**Audit**	**Risk**	**People and Remuneration**
		$000	**$000**	**$000**	**$000**
Chairman fees (C)	Ex-Superannuation	600[2]	60	60	50
	Associated SGC	57	6	6	5
	Total Fee	**657**	**66**	**66**	**55**
Member fees (✓)	Ex-Superannuation	220	30	30	25
	Associated SGC	21	3	3	2
	Total Fee	**241**	**33**	**33**	**27**
Non-executive directors[3]					
Dr Ziggy Switkowski AO		C	Ex-officio	Ex-officio	Ex-officio
Audette Exel AO		✓		✓	
Sally Herman		✓	✓	C	✓
Simon Machell[4]		✓	✓		
Christine McLoughlin		✓		✓	C
Dr Douglas McTaggart		✓	C		✓
Lindsay Tanner		✓		✓	

1 No fee is payable for chairmanship or membership of the Nomination Committee.

2 Includes Board Member base fee.

3 Positions held are as at 30 June 2018.

4 Mr Machell joined the People and Remuneration Committee on 1 July 2018.

6. KMP statutory remuneration disclosures

6.1 Non-executive director remuneration during 2017–18 and 2016–17

	Year	Short-term benefits		Post-employment benefits		Total
		Salary and fees	Non-monetary benefits	Superannuation - Statutory	Superannuation – Other[1]	
		$000	$000	$000	$000	$000
Non-executive directors						
Dr Ziggy Switkowski AO *Chairman*	2018	600	-	20	37	657
	2017	600	1	20	38	659
Audette Exel AO *Director*	2018	250	-	20	4	274
	2017	250	1	20	4	275
Sally Herman[2] *Director*	2018	314	-	20	10	344
	2017	250	1	20	4	275
Simon Machell[3] *Director*	2018	243	-	20	3	266
	2017	47	-	5	-	52
Christine McLoughlin *Director*	2018	300	-	20	9	329
	2017	300	1	20	9	330
Dr Douglas McTaggart *Director*	2018	305	-	20	9	334
	2017	305	1	20	10	336
Lindsay Tanner[4] *Director*	2018	120	-	10	1	131
Former non-executive directors						
William Bartlett[5] *Director*	2018	75	-	7	-	82
	2017	305	1	20	9	335
Ewoud Kulk[5] *Director*	2018	175	-	13	4	192
	2017	375	1	20	16	412

1 Superannuation in excess of the quarterly MCB is delivered in the form of voluntary additional superannuation contributions or the director may elect to take this amount as fees.

2 Ms Herman was appointed Chairman of the Risk Committee and a member of the People and Remuneration Committee on 22 September 2017.

3 Mr Machell was appointed as a member of the Audit Committee on 22 September 2017.

4 Mr Tanner was appointed to the Board and as a member of the Risk Committee on 1 January 2018.

5 Mr Bartlett and Mr Kulk retired from the Board on 21 September 2017.

6.2 Executive remuneration during 2017–18 and 2016–17

		Short-term benefits				Post-employment benefits	Long-term benefits						
		Salary	Cash incentives	Non-monetary benefits[1]	Other[2]	Superannuation benefits	Deferred incentives[3]	Other[4]	Termination benefits[5]	Share-based payments: Deferred STI[6]	Share-based payments: Equity Granted[7]	Total remuneration	Performance related
		$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	%
Executive director													
M Cameron	2018	2,080	914	28	8	20	19	35	-	793	1,593	5,490	61%
CEO & Managing Director	2017	2,080	983	38	160	20	16	35	-	527	1,657	5,516	58%
Senior Executives													
D Carter	2018	766	450	4	-	20	4	22	-	190	239	1,695	52%
CEO Banking & Wealth	2017	548	348	3	34	15	5	56	-	100	152	1,261	48%
G Dransfield	2018	1,030	584	13	12	20	9	17	-	275	481	2,441	55%
CEO Insurance	2017	997	639	13	45	20	17	84	-	184	458	2,457	53%
S Harland	2018	666	414	-	(1)	20	-	12	-	168	235	1,514	54%
Chief Information Officer	2017	515	328	32	25	20	-	9	-	95	303	1,327	55%
L Harrison[8] *Chief Program Excellence Officer*	2018	577	357	4	25	20	2	38	-	120	104	1,247	47%
S Johnston	2018	980	575	-	41	20	10	16	-	266	477	2,385	56%
Chief Financial Officer	2017	967	608	1	5	20	18	25	-	176	471	2,291	56%
P Marlow	2018	950	556	-	4	20	-	17	-	164	683	2,394	59%
CEO Customer Marketplace	2017	254	165	-	3	10	-	4	-	48	1,271	1,755	85%
A Revis	2018	780	473	14	(9)	20	8	13	-	216	381	1,896	57%
Chief People Experience Officer	2017	772	487	15	28	20	15	15	-	141	379	1,872	55%
P Smeaton	2018	804	474	-	(8)	24	6	-	-	222	351	1,873	56%
CEO New Zealand	2017	808	487	8	110	25	7	30	-	141	245	1,861	47%
F Thompson	2018	616	372	7	2	20	2	28	-	161	192	1,400	52%
Chief Risk Officer	2017	515	331	5	16	16	2	86	-	96	129	1,196	47%
Former Senior Executives													
A Day[9]	2018	391	183	8	5	10	10	6	989	346	168	2,116	33%
CEO Insurance	2017	1,077	699	14	(26)	20	19	47	-	202	479	2,531	55%
K Olgers[10]	2018	201	101	2	-	10	-	(7)	599	146	45	1,097	27%
Chief Legal Officer	2017	371	257	4	20	20	-	7	-	74	81	834	49%
M Reinke[11]	2018	232	117	4	(52)	8	7	4	775	229	328	1,652	41%
Chief Customer Experience Officer	2017	735	471	13	25	20	13	27	-	136	349	1,789	54%

1 Non-monetary benefits include costs met by the Suncorp Group for airfares and rebates on insurance premiums.
2 Other short-term benefits refer to annual leave accruals. The annual leave balance for Mr Day, Ms Olgers and Mr Reinke was paid out on termination.
3 The amount of deferred incentives awarded to the CEO & Managing Director and Senior Executives in 2017–18 relates only to the interest accrued in 2017–18 from the 2015–16 and 2014–15 cash-based deferral. The deferred equity portion of the 2017–18 STI is outlined in 'Share-based payments – Deferred STI'.
4 Other long-term benefits refer to long service leave accruals. The long service leave balance for Mr Day and Mr Reinke 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 & loss from the start of the performance period to the end of the deferral period. For former Senior Executives, the disclosed amount for 2017–2018 reflects the total fair value fully amortised. For current executives, total fair value is amortised from the start of the performance period to the end of the deferral period.
7 Equity granted refers to grants under the LTI Plan and RSP. Awards are expensed to the profit & loss based on the 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 financial statements.
8 Ms Harrison was appointed to the role of Chief Program Excellence Officer on 1 July 2017.
9 Mr Day ceased employment on 27 October 2017.
10 Ms Olgers ceased employment on 28 October 2017.
11 Mr Reinke ceased responsibility as a KMP from 13 October 2017 and ceased employment on 1 June 2018.

6.3 Movement in equity plans for Executives

The movement of performance rights, share rights and restricted shares during 2017–18 is outlined below[1].

	Performance rights/share rights/restricted shares granted			Fair value yet to vest					
	Number	Grant date	Financial year in which grant may vest	Min[2] $	Max[3] $	Market value at date of grant[4] $	Vested in year %	Forfeited in year %	Vested in year Number
Executive director									
M Cameron[5]	80,000	24 September 2015	30 June 2018	-	-	-	100%	-	80,000
	226,639	24 September 2015	30 June 2019	-	1,271,445	2,805,791	-	-	-
	42,662	15 August 2017	30 June 2019	-	578,497	578,497	-	-	-
	235,017	22 September 2016	30 June 2020	-	1,579,314	2,998,817	-	-	-
	42,661	15 August 2017	30 June 2020	-	578,483	578,483	-	-	-
	270,251	14 September 2017	30 June 2021	-	1,551,241	3,407,865	-	-	-
Senior Executives									
D Carter[6]	5,769	1 October 2014	30 June 2018	-	-	-	-	100%	-
	2,519	1 September 2016	30 June 2018	-	-	-	100%	-	2,519
	6,977	1 September 2015	30 June 2019	-	42,978	87,352	-	-	-
	2,520	1 September 2016	30 June 2019	-	32,126	32,151	-	-	-
	8,125	15 August 2017	30 June 2019	-	110,175	110,175	-	-	-
	775	15 August 2017	30 June 2019	-	10,509	10,509	-	-	-
	2,520	1 September 2016	30 June 2020	-	32,075	32,155	-	-	-
	42,830	29 June 2017	30 June 2020	-	287,818	645,020	-	-	-
	8,124	15 August 2017	30 June 2020	-	110,161	110,161	-	-	-
	775	15 August 2017	30 June 2020	-	10,509	10,509	-	-	-
	774	15 August 2017	30 June 2021	-	10,495	10,495	-	-	-
	57,911	1 September 2017	30 June 2021	-	332,409	756,318	-	-	-
G Dransfield	49,604	1 October 2014	30 June 2018	-	-	-	-	100%	-
	62,022	1 September 2015	30 June 2019	-	382,056	776,515	-	-	-
	10,976	1 March 2016	30 June 2019	-	67,612	130,285	-	-	-
	14,935	15 August 2017	30 June 2019	-	202,519	202,519	-	-	-
	72,463	1 September 2016	30 June 2020	-	486,951	924,628	-	-	-
	14,934	15 August 2017	30 June 2020	-	202,505	202,505	-	-	-
	81,075	1 September 2017	30 June 2021	-	465,371	1,058,840	-	-	-
S Harland[7]	19,584	1 September 2016	30 June 2018	-	-	-	100%	-	19,584
	7,672	15 August 2017	30 June 2019	-	104,032	104,032	-	-	-
	50,920	1 September 2016	30 June 2020	-	342,182	649,739	-	-	-
	7,672	15 August 2017	30 June 2020	-	104,032	104,032	-	-	-
	50,189	1 September 2017	30 June 2021	-	288,085	655,468	-	-	-
L Harrison[8]	5,656	1 October 2014	30 June 2018	-	-	-	-	100%	-
	2,245	1 September 2016	30 June 2018	-	-	-	100%	-	2,245
	18,018	1 September 2016	30 June 2018	-	-	-	100%	-	18,018
	6,216	1 September 2015	30 June 2019	-	38,291	77,824	-	-	-
	2,246	1 September 2016	30 June 2019	-	28,632	28,659	-	-	-
	3,073	15 August 2017	30 June 2019	-	41,670	41,670	-	-	-
	2,246	1 September 2016	30 June 2020	-	28,587	28,659	-	-	-
	3,073	15 August 2017	30 June 2020	-	41,670	41,670	-	-	-
	3,073	15 August 2017	30 June 2021	-	41,670	41,670	-	-	-
	46,328	1 September 2017	30 June 2021	-	265,923	605,044	-	-	-
S Johnston	53,026	1 October 2014	30 June 2018	-	-	-	-	100%	-
	73,651	1 September 2015	30 June 2019	-	453,690	922,111	-	-	-
	14,221	15 August 2017	30 June 2019	-	192,837	192,837	-	-	-
	74,422	1 September 2016	30 June 2020	-	500,116	949,625	-	-	-
	14,220	15 August 2017	30 June 2020	-	192,823	192,823	-	-	-
	77,214	1 September 2017	30 June 2021	-	443,208	1,008,415	-	-	-
P Marlow[9]	52,330	31 March 2017	30 June 2018	-	-	-	100%	-	52,330
	52,329	31 March 2017	30 June 2019	-	693,359	691,279	-	-	-
	3,859	15 August 2017	30 June 2019	-	52,328	52,328	-	-	-
	52,329	31 March 2017	30 June 2020	-	693,359	691,279	-	-	-
	3,859	15 August 2017	30 June 2020	-	52,328	52,328	-	-	-
	69,493	1 September 2017	30 June 2021	-	398,890	907,579	-	-	-

	Performance rights/share rights/restricted shares granted			Fair value yet to vest					
	Number	Grant date	Financial year in which grant may vest	Min[2] $	Max[3] $	Market value at date of grant[4] $	Vested in year %	Forfeited in year %	Vested in year Number
A Revis	44,895	1 October 2014	30 June 2018	-	-	-	-	100%	-
	56,208	1 September 2015	30 June 2019	-	346,241	703,724	-	-	-
	11,380	15 August 2017	30 June 2019	-	154,313	154,313	-	-	-
	60,712	1 September 2016	30 June 2020	-	407,985	774,685	-	-	-
	11,379	15 August 2017	30 June 2020	-	154,299	154,299	-	-	-
	61,771	1 September 2017	30 June 2021	-	354,566	806,729	-	-	-
P Smeaton	5,656	1 October 2014	30 June 2018	-	-	-	-	100%	-
	54,269	1 September 2015	30 June 2019	-	334,297	679,448	-	-	-
	11,967	15 August 2017	30 June 2019	-	162,273	162,273	-	-	-
	61,406	1 September 2016	30 June 2020	-	412,648	783,541	-	-	-
	11,966	15 August 2017	30 June 2020	-	162,259	162,259	-	-	-
	61,771	1 September 2017	30 June 2021	-	354,566	806,729	-	-	-
F Thompson[10]	1,166	1 October 2014	30 June 2018	-	-	-	100%	-	1,166
	3,277	1 May 2015	30 June 2018	-	-	-	-	100%	-
	1,906	1 September 2016	30 June 2018	-	-	-	100%	-	1,906
	5,426	1 September 2015	30 June 2019	-	33,424	67,934	-	-	-
	1,906	1 September 2016	30 June 2019	-	24,295	24,321	-	-	-
	204	15 August 2017	30 June 2019	-	2,766	2,766	-	-	-
	7,741	15 August 2017	30 June 2019	-	104,968	104,968	-	-	-
	1,906	1 September 2016	30 June 2020	-	24,295	24,321	-	-	-
	34,862	29 June 2017	30 June 2020	-	234,273	525,022	-	-	-
	7,740	15 August 2017	30 June 2020	-	104,954	104,954	-	-	-
	204	15 August 2017	30 June 2020	-	2,766	2,766	-	-	-
	204	15 August 2017	30 June 2021	-	2,766	2,766	-	-	-
	46,328	1 September 2017	30 June 2021	-	265,923	605,044	-	-	-
Former Senior Executives									
A Day	56,561	1 October 2014	30 June 2018	-	-	-	-	100%	-
	73,651	1 September 2015	30 June 2019	-	326,486	663,573	-	28%	-
	16,348	15 August 2017	30 June 2019	-	221,679	221,679	-	-	-
	74,422	1 September 2016	30 June 2020	-	192,736	365,970	-	61%	-
	16,347	15 August 2017	30 June 2020	-	221,665	221,665	-	-	-
	88,796	1 September 2017	30 June 2021	-	26,530	60,363	-	95%	-
K Olgers	6,001	15 August 2017	30 June 2019	-	81,374	81,374	-	-	-
	43,318	29 March 2017	30 June 2020	-	112,184	221,196	-	61%	-
	6,001	15 August 2017	30 June 2020	-	81,374	81,374	-	-	-
	46,328	1 September 2017	30 June 2021	-	13,839	31,488	-	95%	-
M Reinke	38,885	1 October 2014	30 June 2018	-	-	-	-	100%	-
	54,269	1 September 2015	30 June 2019	-	306,817	623,596	-	8%	-
	11,015	15 August 2017	30 June 2019	-	149,363	149,363	-	-	-
	54,837	1 September 2016	30 June 2020	-	215,040	408,320	-	42%	-
	11,014	15 August 2017	30 June 2020	-	149,350	149,350	-	-	-
	59,841	1 September 2017	30 June 2021	-	85,945	195,547	-	75%	-

1 The expiry date for performance rights and the fair value per right can be found in note 10.1 to the financial statements.

2 The minimum value of shares yet to vest is nil, since the service condition or performance measure may not be met and consequently the shares may not vest.

3 For equity-settled performance rights, the maximum value yet to vest is determined as the fair value at grant date, assuming all performance measures are met.

4 Market value at date of grant is calculated based on the number of shares granted multiplied by the closing share price as traded on 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.

5 Mr Cameron was awarded 240,000 restricted shares upon commencement of employment in recognition of incentives forgone with his previous employer. These shares vested equally over three years from 1 January 2016, subject to service conditions and the Suncorp Group Equity Plan Rules.

6 Mr Carter was awarded 7,559 restricted shares prior to commencing as a Senior Executive relating to his previous Executive General Manager role. These shares vest equally over three years from 31 August 2017, subject to service conditions and the Suncorp Group Equity Plan Rules.

7 Ms Harland was awarded 19,584 restricted shares upon commencement of employment in recognition of incentives forgone with her previous employer. These shares vested on 1 September 2017.

8 Ms Harrison was awarded 24,755 restricted shares prior to commencing as a Senior Executive relating to her previous Executive General Manager role. 20,263 shares vested in 2017–18. 2,245 shares vested on 31 August 2017 and 18,018 shares vested on 26 March 2018. The balance of 4,492 shares will vest equally on 31 August 2018 and 31 August 2019, subject to meeting the service conditions and the Suncorp Group Equity Plan Rules.

9 Ms Marlow was awarded 156,988 restricted shares upon commencement of employment in recognition of incentives forgone with her previous employer. These shares vest equally over three years from 1 July 2017, subject to service conditions and the Suncorp Group Equity Plan Rules

10 Ms Thompson was awarded 6,884 restricted shares prior to commencing as a Senior Executive relating to previous roles. 3,072 shares vested in 2017–18. 1,906 shares vested on 31 August 2017 and 1,166 shares vested on 30 September 2017. The balance of 3,812 shares vest equally on 31 August 2018 and 31 August 2019, subject to service conditions and the Suncorp Group Equity Plan Rules.

6.4 Related party transactions

Loans to KMP 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 on 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 outlined below.

	2017–18			
	Balance 1 July 2017	**Balance 30 June 2018**	**Interest charged during the year[1]**	**Highest balance**
	$000	**$000**	**$000**	**$000**
Senior Executives				
D Carter	955	783	40	1,242
S Johnston	1,200	1,200	-	1,200
A Revis	4,601	4,595	155	4,620
P Smeaton	680	403	18	681
Former Senior Executives				
A Day	1,541	-	27	1,543
M Reinke	163	-	4	163

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

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 outlined below.

	2017–18		
	KMP	**Other related parties**	**Total**
	$000	**$000**	**$000**
Opening balance	8,090	1,050	9,140
Closing balance	5,931	1,050	6,981
Interest charged	228	16	244
	Number	**Number**	**Number**
Number of individuals at 30 June 2018	4	1	5

Movement in securities held by KMP

The movement during the reporting period in the number of securities in the Company held directly, indirectly or beneficially by each of the KMP, including their related parties, is outlined below.

			1 July 2017 – 30 June 2018			
		Balance 1 July 2017	Received as remuneration[2]	Purchases (sales)	Other changes[3]	Balance 30 June 2018
		Number	Number	Number	Number	Number
DIRECTORS						
Executive director[1]						
M Cameron	Ordinary shares	175,000	80,000	-	-	255,000
	Unvested securities	541,656	355,574	-	(80,000)	817,230
Non-executive directors						
Dr Z Switkowski AO	Ordinary shares	311,599	-	-	-	311,599
A Exel AO	Ordinary shares	14,612	-	2,641	-	17,253
S Herman	Ordinary shares	16,500	-	3,500	-	20,000
S Machell	Ordinary shares	25,000	-	5,000	-	30,000
C McLoughlin	Ordinary shares	20,000	-	6,000	-	26,000
Dr D McTaggart	Ordinary shares	20,011	-	6,397	-	26,408
L Tanner	Ordinary shares	-	-	2,200	-	2,200
Former non-executive director						
W Bartlett[4]	Ordinary shares	26,968	-	-	(26,968)	-
	SUNPE Convertible Preference Shares[5]	323	-	-	(323)	-
E Kulk[4]	Ordinary shares	20,173	-	(12,000)	(8,173)	-
	SUNPC Convertible Preference Shares[6]	3,000	-	-	(3,000)	-
Senior Executives[1]						
D Carter[7]	Ordinary shares	34,719	4,520	-	-	39,239
	Unvested securities	63,135	76,484	-	(8,288)	131,331
G Dransfield[8]	Ordinary shares	74,935	456	-	177	75,568
	Unvested securities	195,065	110,944	-	(49,604)	256,405
S Harland	Ordinary shares	-	19,584	-	-	19,584
	Unvested securities	70,504	65,533	-	(19,584)	116,453
L Harrison	Ordinary shares	7,986	20,263	-	-	28,249
	Unvested securities	36,627	55,547	-	(25,919)	66,255
S Johnston	Ordinary shares	72,879	-	-	-	72,879
	Unvested securities	201,099	105,655	-	(53,026)	253,728
P Marlow	Ordinary shares	-	52,330	-	-	52,330
	Unvested securities	156,988	77,211	-	(52,330)	181,869
A Revis[9]	Ordinary shares	50,811	-	(13,976)	27	36,862
	SUNPF Capital Notes	1,962	-	-	-	1,962
	Unvested securities	161,815	84,530	-	(44,895)	201,450
P Smeaton	Ordinary shares	31,122	-	-	-	31,122
	Unvested securities	121,331	85,704	-	(5,656)	201,379
F Thompson[10]	Ordinary shares	2,067	3,072	-	366	5,505
	Unvested securities	50,449	62,421	-	(6,349)	106,521
Former Senior Executives						
A Day[11]	Ordinary shares	115,733	-	(105,190)	(10,543)	-
	Unvested securities	204,634	121,491	-	(326,125)	-
K Olgers[12]	Ordinary shares	-	-	-	-	-
	Unvested securities	43,318	58,330	-	(101,648)	-
M Reinke[13]	Ordinary shares	52,109	-	-	(52,109)	-
	Unvested securities	147,991	81,870	-	(229,861)	-

1 The number of unvested securities disclosed for the Executive director and Senior Executives refers to the performance rights granted under the LTI Plan, restricted shares granted under the RSP and share rights granted as part of the STI award. Accordingly, beneficial entitlement of those unvested securities remains subject to satisfaction of specified service conditions and performance measures (as applicable).

2 For the Executive director and Senior Executives, remuneration includes performance rights granted under the LTI plan and share rights granted as part of the STI award which only vest subject to the satisfaction of specified service conditions and performance measures (as applicable).
3 'Other changes' in unvested securities for the Executive director and Senior Executives relates to equity awards that vested or were forfeited during 2017–18.
4 'Other changes' for Mr Bartlett and Mr Kulk represent securities held upon termination.
5 The Company issued Suncorp Convertible Preference Shares (SUNPE) on 8 May 2014.
6 The Company issued Suncorp Convertible Preference Shares (SUNPC) on 6 November 2012.
7 Ordinary shares for Mr Carter were not included in the 2017 annual report. This has been corrected for 2018.
8 'Other changes' in ordinary shares for Mr Dransfield relate to participation in the Dividend Reinvestment Plan.
9 'Other changes' in ordinary shares for Ms Revis relate to participation in the Dividend Reinvestment Plan. SUNPF Capital notes held by Ms Revis were inadvertently included as ordinary shares in the 2017 annual report. This has been corrected for 2018.
10 'Other changes' in ordinary shares for Ms Thompson relates to participation in the Equity Participation Plan.
11 Mr Day ceased employment on 27 October 2017. Ordinary shares and unvested securities held upon termination are shown in 'Other changes'. Of the unvested securities held on leaving office, 86,304 performance rights remain subject to performance measures.
12 Ms Olgers ceased employment on 28 October 2017. Ordinary shares and unvested securities held upon termination are shown in 'Other changes'. Of the unvested securities held on leaving office, 19,105 performance rights remain subject to performance measures.
13 Mr Reinke ceased responsibility as a KMP on 13 October 2017 and ceased employment on 1 June 2018. Ordinary shares and unvested securities held upon termination are shown in 'Other changes'. Of the unvested securities held on leaving office, 96,781 performance rights remain subject to performance measures.

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

Other KMP 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 Company or Suncorp Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end. Other transactions with 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
9 August 2018

MICHAEL CAMERON
CEO & Managing Director

LEAD AUDITOR’S INDEPENDENCE DECLARATION

KPMG

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

To the Directors of Suncorp Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Suncorp Group Limited for the financial year ended 30 June 2018 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

Chris Hall
Partner

Sydney
9 August 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 30 June 2018

	Note	2018 $M	2017 $M
Revenue			
Insurance premium income		10,502	10,344
Reinsurance and other recoveries income		1,072	3,280
Interest income on			
financial assets not at fair value through profit or loss		2,505	2,464
financial assets at fair value through profit or loss		542	591
Net gains on financial assets and liabilities at fair value through profit or loss		230	91
Dividend and trust distribution income		56	74
Fees and other income		545	551
Total revenue		15,452	17,395
Expenses			
Claims expense and movement in policyowner liabilities		(7,164)	(9,228)
Outwards reinsurance premium expense		(1,427)	(1,445)
Underwriting and policy maintenance expenses		(2,376)	(2,387)
Interest expense on			
financial liabilities not at fair value through profit or loss		(1,344)	(1,369)
financial liabilities at fair value through profit or loss		(88)	(73)
Impairment loss on loans and advances	15.2	(27)	(7)
Amortisation and depreciation expense		(175)	(168)
Fees, overheads and other expenses		(1,149)	(933)
Outside beneficial interests in managed funds		(125)	(177)
Total expenses		(13,875)	(15,787)
Profit before income tax		1,577	1,608
Income tax expense	11.1	(505)	(523)
Profit for the financial year		1,072	1,085
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Net change in fair value of cash flow hedges	24	16	(60)
Net change in fair value of available-for-sale financial assets	24	(12)	13
Net change in net investment hedge of foreign operations	24	1	-
Exchange differences on translation of foreign operations	24	(36)	(1)
Income tax (expense) benefit	24	(1)	14
		(32)	(34)
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains on defined benefit plans		2	8
Income tax expense		(1)	(3)
		1	5
Total other comprehensive income		(31)	(29)
Total comprehensive income for the financial year		1,041	1,056
Profit for the financial year attributable to:			
Owners of the Company		1,059	1,075
Non-controlling interests		13	10
Profit for the financial year		1,072	1,085
Total comprehensive income for the financial year attributable to:			
Owners of the Company		1,028	1,046
Non-controlling interests		13	10
Total comprehensive income for the financial year		1,041	1,056
Earnings per share		Cents	Cents
Basic earnings per share	3	82.17	83.84
Diluted earnings per share	3	80.54	82.55

The consolidated statement of comprehensive income is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	2018 $M	2017 $M
Assets			
Cash and cash equivalents	26.2	1,165	1,840
Receivables due from other banks	26.2	474	567
Trading securities	12	1,639	1,520
Derivatives	13	256	188
Investment securities	12	22,706	22,327
Loans and advances	14	58,598	55,197
Premiums outstanding	30.2(a)	2,668	2,620
Reinsurance and other recoveries	30.2(b)	2,377	3,353
Deferred reinsurance assets		834	837
Deferred acquisition costs		706	704
Gross policy liabilities ceded under reinsurance	20	528	585
Property, plant and equipment		211	200
Deferred tax assets	11.3	203	226
Goodwill and other intangible assets	16	5,722	5,821
Other assets		1,246	1,124
Total assets		99,333	97,109
Liabilities			
Payables due to other banks	26.2	148	50
Deposits and short-term borrowings	17	45,550	45,105
Derivatives	13	207	376
Amounts due to reinsurers		747	799
Payables and other liabilities		2,062	1,999
Current tax liabilities	11.2	68	106
Unearned premium liabilities	18.1	5,036	4,965
Outstanding claims liabilities	19	10,176	10,952
Gross policy liabilities	20	2,721	2,917
Deferred tax liabilities	11.3	129	121
Managed funds units on issue		1,285	911
Securitisation liabilities	27.3	4,848	3,088
Debt issues	21	9,854	9,216
Loan capital	22	2,529	2,714
Total liabilities		85,360	83,319
Net assets		13,973	13,790
Equity			
Share capital	23	12,863	12,766
Reserves	24	135	161
Retained profits		965	855
Total equity attributable to owners of the Company		13,963	13,782
Non-controlling interests		10	8
Total equity		13,973	13,790

The consolidated statement of financial position is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June 2018

	Note	Equity attributable to owners of the Company					
		Share capital $M	Reserves $M	Retained profits $M	Total $M	Non-controlling interests $M	Total equity $M
Balance as at 1 July 2016		12,679	198	684	13,561	9	13,570
Profit for the financial year		-	-	1,075	1,075	10	1,085
Total other comprehensive income for the financial year		-	(34)	5	(29)	-	(29)
Total comprehensive income for the financial year		-	(34)	1,080	1,046	10	1,056
Transactions with owners, recorded directly in equity							
Dividends paid	4	-	-	(911)	(911)	(10)	(921)
Shares issued	23	80	-	-	80	-	80
Share-based payments	23	11	-	-	11	-	11
Treasury share movements	23	(4)	-	-	(4)	-	(4)
Movement in non-controlling interests without a change in control		-	-	(1)	(1)	(1)	(2)
Transfers	24	-	(3)	3	-	-	-
Balance as at 30 June 2017		12,766	161	855	13,782	8	13,790
Profit for the financial year		-	-	1,059	1,059	13	1,072
Total other comprehensive income for the financial year		-	(32)	1	(31)	-	(31)
Total comprehensive income for the financial year		-	(32)	1,060	1,028	13	1,041
Transactions with owners, recorded directly in equity							
Dividends paid	4	-	-	(942)	(942)	(11)	(953)
Shares issued	23	77	-	-	77	-	77
Share-based payments	23	10	-	-	10	-	10
Treasury share movements	23	10	-	-	10	-	10
Movement in non-controlling interests without a change in control		-	-	(2)	(2)	-	(2)
Transfers	24	-	6	(6)	-	-	-
Balance as at 30 June 2018		12,863	135	965	13,963	10	13,973

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 30 June 2018

	Note	2018 $M	2017 $M
Cash flows from operating activities			
Premiums received		11,627	11,466
Claims paid		(8,825)	(9,186)
Interest received		3,040	3,056
Interest paid		(1,421)	(1,441)
Reinsurance and other recoveries received		2,134	2,213
Outwards reinsurance premiums paid		(1,568)	(1,495)
Fees and other operating income received		491	589
Dividends and trust distributions received		56	74
Fees and operating expenses paid		(3,785)	(3,715)
Income tax paid		(497)	(487)
Net increase in operating assets			
Trading securities		(119)	(23)
Loans and advances		(3,426)	(1,072)
Net increase in operating liabilities			
Deposits and short-term borrowings		414	216
Net cash (used in) from operating activities	26.1	(1,879)	195
Cash flows from investing activities			
Proceeds from the sale or maturity of investment securities		31,587	29,178
Payments for acquisition of investment securities		(32,108)	(28,598)
Proceeds from other investing activities		392	690
Payments for other investing activities		(111)	(864)
Net cash (used in) from investing activities		(240)	406
Cash flows from financing activities			
Proceeds from debt issues and securitisation liabilities	26.3	5,297	4,123
Repayment of debt issues and securitisation liabilities	26.3	(2,959)	(3,830)
Proceeds from issue of loan capital	26.3	60	705
Payment on call of loan capital	26.3	(245)	(389)
Proceeds from other financing activities		-	4
Payments for other financing activities		(31)	(44)
Dividends paid		(865)	(831)
Net cash from (used in) financing activities		1,257	(262)
Net (decrease) increase in cash and cash equivalents		(862)	339
Cash and cash equivalents at the beginning of the financial year		2,357	2,018
Effect of exchange rate fluctuations on cash held		(4)	-
Cash and cash equivalents at the end of the financial year	26.2	1,491	2,357

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 30 June 2018

1. Reporting entity

Suncorp Group 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 2018 comprise the Company and its subsidiaries (the **Suncorp Group, Suncorp** or the **Group**) and were authorised for issue by the Board on 9 August 2018.

The Group's principal activities during the financial year were the provision of insurance and banking and wealth products and services in Australia and New Zealand.

2. Basis of preparation

The Suncorp Group is a for-profit entity and its consolidated financial statements have been prepared on the historical cost basis, unless the application of fair value measurements is required by the relevant accounting standards.

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

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

The 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 36.

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

2.1 Statement of compliance

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

2.2 Use of estimates and judgments

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

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

- liability adequacy test relating to general insurance contracts (refer to note 18.2)
- general insurance outstanding claims liabilities and assets arising from reinsurance contracts (refer to note 19.3, 19.4 and 19.5)
- specific and collective provisions for impairment (refer to note 30.1(e))
- life insurance contract liabilities (refer to note 20.1, 20.2 and 20.4)
- impairment of goodwill and other intangible assets (refer to note 16.1)
- valuation of financial instruments (refer to note 27.1).

3. Earnings per share (EPS)

	2018 $M	2017 $M
Profit attributable to ordinary equity holders of the Company (basic)	1,059	1,075
Interest expense on convertible preference shares	25	40
Interest expense on convertible capital notes	25	2
Profit attributable to ordinary equity holders of the Company (diluted)	1,109	1,117

	No of shares	No of shares
Weighted average number of ordinary shares (basic)	1,288,766,728	1,282,167,879
Effect of conversion of convertible preference shares	45,659,555	66,852,101
Effect of conversion of convertible capital notes	42,613,794	4,078,093
Weighted average number of ordinary shares (diluted)	1,377,040,077	1,353,098,073

4. Dividends

	2018		2017	
	Cents per share	**$M**	**Cents per share**	**$M**
Dividend payments on ordinary shares				
2017 final dividend (2017: 2016 final dividend)	40	517	38	489
2018 interim dividend (2017: 2017 interim dividend)	33	428	33	426
Dividends paid on treasury shares		(3)		(4)
Total dividends on ordinary shares paid to owners of the Company	73	942	71	911
Dividends not recognised in the consolidated statement of financial position[1]				
Dividends determined since reporting date				
2018 final dividend (2017: 2017 final dividend)	40	519	40	517
2018 special dividend	8	104	-	-
	48	623	40	517
Dividend franking account[2]				
Amount of franking credit available for use in subsequent financial years excluding the effects of dividends determined since reporting date		385		456

1 The 2018 final and special dividends determined but not recognised in the consolidated statement of financial position are estimated based on the total number of ordinary shares on issue without taking into account treasury shares as at 30 June 2018. The actual amount recognised in the consolidated financial statements for the year ending 30 June 2019 will be based on the actual number of ordinary shares on issue net of treasury shares on the record date.

2 The final and special dividends determined are expected to reduce the dividend franking accounting balance by $272 million (2017: $221 million).

5. Segment reporting

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

5.1 Operating segments

The Suncorp Group comprises the following operating segments.

Reportable segments	Segment information
Insurance	– Design, manufacture and delivery of general and life insurance products and services to customers in Australia. – Key products include home and contents, motor, marine, travel, commercial property, industrial special risk, public liability and professional indemnity, workers' compensation, compulsory third party, loan protection, equity and cash benefit, life, trauma, total and permanent disablement and income protection.
Banking & Wealth	– Design, manufacture and delivery of banking, financial planning, and superannuation and fund administration services to customers in Australia. – Key products include agribusiness, property and equipment finance, home, personal and small business loans, savings and transaction accounts, foreign exchange, treasury products and services, superannuation, funds administration services and financial planning.
Suncorp New Zealand	– Design, manufacture and delivery of general and life insurance products to customers in New Zealand. – Key products include home and contents, motor, commercial property, public liability and professional indemnity, life, trauma, total and permanent disablement and income protection.
Corporate	– Investment of the Suncorp Group's capital, Suncorp Group business strategy activities (including business combinations and divestments) and Suncorp Group shared services.

Only profit or loss information is reviewed by the CODM at an operating segment level.

Segment results presented below are measured on a consistent basis to how they are reported to the CODM:

– Revenues and expenses occurring between segments are subject to contractual agreements between the legal entities comprising each segment.

– Inter-segment transactions, which are eliminated on consolidation, are reported on a gross basis. An exception exists for operating expenses incurred by one segment on behalf of another, which are recharged on a cost-recovery basis, and are presented on a net basis (post allocation basis).

– Intra-group dividends are presented net of eliminations.

– Consolidated gain or loss on sale of subsidiaries and joint ventures and any amortisation of material business combination acquired intangible assets are allocated to the Corporate segment.

– Amortisation and depreciation expenses relating to the Corporate segment's property, plant, equipment and non-business combination acquired intangible assets and marketplace acceleration expenses are allocated to other segments based on their utilisation.

	Insurance $M	Banking & Wealth $M	Suncorp New Zealand $M	Corporate $M	Total $M
2018					
External revenue	10,675	2,964	1,667	19	15,325
Inter-segment revenue	12	2	1	35	50
Total segment revenue	10,687	2,966	1,668	54	15,375
Segment profit (loss) before income tax	1,057	573	190	(243)	1,577
Segment income tax (expense) benefit	(318)	(184)	(55)	52	(505)
Segment profit (loss) after income tax	739	389	135	(191)	1,072
Other segment disclosures					
Interest revenue	383	2,585	40	47	3,055
Interest expense	(34)	(1,346)	-	(92)	(1,472)
Amortisation and depreciation expense	(52)	(61)	(14)	(48)	(175)
Impairment loss on loans and advances	-	(27)	-	-	(27)
Goodwill	4,309	285	281	-	4,875

	Insurance $M	Banking & Wealth $M	Suncorp New Zealand $M	Corporate $M	Total $M
2017					
External revenue	11,698	2,946	2,669	18	17,331
Inter-segment revenue	11	-	28	36	75
Total segment revenue	11,709	2,946	2,697	54	17,406
Segment profit (loss) before income tax	1,025	588	118	(123)	1,608
Segment income tax (expense) benefit	(302)	(188)	(36)	3	(523)
Segment profit (loss) after income tax	723	400	82	(120)	1,085
Other segment disclosures					
Interest revenue	421	2,545	44	48	3,058
Interest expense	(47)	(1,350)	-	(85)	(1,482)
Amortisation and depreciation expense	(46)	(33)	(9)	(80)	(168)
Impairment loss on loans and advances	-	(7)	-	-	(7)
Goodwill	4,309	285	287	-	4,881

5.2 Reconciliation of reportable segment revenues and profit before income tax

	2018	2017	2018	2017
	Revenue		Profit before income tax	
	$M	$M	$M	$M
Segment total	15,375	17,406	1,577	1,608
Consolidation adjustments relating to intra-group investment	97	146	(3)	(3)
Other consolidation eliminations	(20)	(157)	3	3
Consolidated total	15,452	17,395	1,577	1,608

5.3 Geographic segments

Suncorp Group operates predominantly in one geographical segment, which is Australia. Other business activities take place in New Zealand, which is represented by the Suncorp New Zealand operating segment.

5.4 Major customers

The Suncorp Group is not reliant on any external individual customer for 10% or more of the Suncorp Group's revenue.

6. Underwriting result from general insurance contracts

	Note	2018 $M	2017 $M
Net earned premium			
Direct premium income		9,462	9,326
Outwards reinsurance premium expense		(1,103)	(1,155)
		8,359	8,171
Net incurred claims			
Claims expense		(6,528)	(8,572)
Reinsurance and other recoveries revenue		789	2,956
	7	(5,739)	(5,616)
Underwriting expenses			
Acquisition costs		(1,367)	(1,279)
Other underwriting expenses		(628)	(663)
		(1,995)	(1,942)
Reinsurance commission and other revenue		117	134
Underwriting result from general insurance contracts		742	747

7. Net incurred claims from general insurance contracts

	2018			2017		
	Current year $M	Prior year $M	Total $M	Current year $M	Prior year $M	Total $M
Gross claims incurred and related expenses						
Undiscounted	7,569	(1,099)	6,470	9,510	(804)	8,706
Discount movement	(153)	211	58	(208)	74	(134)
Gross claims incurred discounted	7,416	(888)	6,528	9,302	(730)	8,572
Reinsurance and other recoveries						
Undiscounted	(1,184)	436	(748)	(3,149)	118	(3,031)
Discount movement	30	(71)	(41)	82	(7)	75
Reinsurance and other recoveries	(1,154)	365	(789)	(3,067)	111	(2,956)
Net incurred claims	6,262	(523)	5,739	6,235	(619)	5,616

The $523 million decrease in prior year net provisions is primarily due to yield curve movements and valuation releases arising from favourable claim experience. The sensitivity of net profit to changes in claims assumptions, experience and risk margins is set out in note 19.5.

8. Sources of operating profit from life insurance and other contracts

	2018			2017		
	Life insurance contracts $M	Other contracts $M	Total statutory funds $M	Life insurance contracts $M	Other contracts $M	Total statutory funds $M
Shareholder's operating profit after tax in the statutory funds						
Represented by:						
Investment earnings on shareholder's retained profits and capital	31	-	31	5	-	5
Emergence of shareholder's planned profits	60	1	61	53	1	54
Experience profit	15	-	15	16	-	16
Losses reversed (capitalised)	28	-	28	17	-	17
Management services profit	-	1	1	-	7	7
	134	2	136	91	8	99
Policyowners' operating profit after tax in the statutory funds						
Represented by:						
Investment earnings on retained profits	14	-	14	12	-	12
Emergence of policyowners' planned profits	49	-	49	40	-	40
Experience (loss) profit	(4)	-	(4)	1	-	1
Losses reversed (capitalised)	-	-	-	8	-	8
	59	-	59	61	-	61

Total cumulative capitalised losses carried forward at 30 June 2018 was $56 million (30 June 2017: $114 million).

The Suncorp Group conducts its life insurance business in Australia through Suncorp Life & Superannuation Limited (**SLSL**) and in New Zealand through Asteron Life Limited (**ALLNZ**). They are collectively referred to as the Life companies.

A policyowner is one who holds a policy with the Life companies. The shareholder represents the Life companies' interest in the statutory funds. A statutory fund is a fund of a life company that relates solely to the life insurance business of that life company as defined by the *Life Insurance Act 1995* (**Life Act**) or the *Insurance (Prudential Supervision) Act 2010* (**NZ Life Act**).

9. Employee benefits

The following employee expenses have been included in the consolidated statement of comprehensive income under the line items: 'Claims expense and movement in policyowner liabilities', 'Underwriting and policy maintenance expenses', and 'Fees, overheads and other expenses'.

	2018 $M	2017 $M
Wages, salaries, share-based payments and other staff costs[1]	1,838	1,704
Defined contribution superannuation expenses	112	104
Total employee expenses	1,950	1,808

1 Includes $24,348,000 (2017: $26,175,000) relating to equity-settled share-based payment transactions.

10. Share-based payments

Eligible employees of the Suncorp Group have the right to participate in the Group's share plans. Shares offered in these share plans are granted by the Company over its own shares to employees of the Company's subsidiaries.

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

10.1 Long-term incentives (performance rights)

Long-term incentives (**LTI**) are performance rights granted to eligible executives. These are equity-settled and in limited circumstances cash-settled at the Board's discretion. The Board determines the value of shares granted (offered) based on the executive's remuneration and individual performance. Vested shares carry full entitlement to dividends from the grant date (less any taxes paid/payable by the Plan Trustee in respect of such dividends).

Vesting of LTI is subject to service conditions and a performance hurdle being met during the performance period. The performance hurdle is based on the Company's total shareholder returns (**TSR**) against the TSR of a peer comparator group, which is the top 50 listed companies by market capitalisation in the S&P/ASX 100 (excluding mining companies and Real Estate Investment Trusts) as determined at the commencement of each grant. If a company in the peer comparator group is suspended or delisted from the ASX during the performance period, it may be removed from the peer comparator group. There may, therefore, be fewer than 50 companies in the peer comparator group for that period. No LTI will vest unless the Company achieves a relative TSR of 50th percentile (median) or above. Any performance rights not vested at the end of the performance period are forfeited. Further details on TSR and the vesting schedule and other terms and conditions can be found in section 2.4 of the Remuneration Report.

The fair value of services received in return for LTI granted is measured by reference to the fair value of the shares granted. The estimate of the fair value of the shares is measured based on a Monte Carlo simulation pricing model and reflects the fact that vesting of the shares is dependent on meeting performance criteria based on TSR. The vesting of the shares is also subject to non-market conditions but these are not taken into account in the grant date fair value measurement of the services received.

Inputs into the model include expected volatility which is based on the historic volatility of the Company's share price, dividend yield and a risk-free interest rate based on Australian Government bonds. The inputs for measurement of grant date fair value and the number of unvested performance rights at the financial year end are as follows.

		Inputs for measurement of fair value at grant date				2018	2017
Grant date	Fair value at grant date	Share price	Expected volatility	Vesting period	Risk-free interest rate	Number of shares unvested	Number of shares unvested
1 October 2014	$8.19	$14.16	20%	3 years	2.71%	-	644,396
23 October 2014	$8.23	$14.23	20%	3 years	2.56%	-	92,279
1 September 2015	$6.16	$12.52	18%	3 years	1.76%	697,291	745,179
24 September 2015	$5.61	$12.38	18%	3 years	1.86%	226,639	226,639
23 March 2016	$6.16	$11.87	18%	3 years	1.76%	25,971	25,971
1 September 2016	$6.72	$12.76	20%	3 years	1.43%	419,990	492,987
22 September 2016	$6.72	$12.76	20%	3 years	1.43%	235,017	235,017
29 March 2017	$6.72	$13.25	20%	2.4 years	1.43%	16,694	43,318
29 June 2017	$6.72	$15.06	20%	2.2 years	1.43%	77,692	77,692
1 September 2017	$5.74	$13.06	20%	3 Years	1.98%	603,378	-
21 September 2017	$5.74	$13.06	20%	3 Years	1.98%	270,251	-
						2,572,923	2,583,478

The number of performance rights granted during the financial year was 1,053,282 (2017: 901,853).

10.2 Other equity-settled share plans

The Suncorp Group operates other equity-settled share plans that are not subject to performance conditions. Key features are set out below.

Equity plans	Restricted shares	Suncorp employee share plan (tax exempt)	Suncorp equity participation plan	Suncorp equity-based deferral plan
Eligible plan participant	Employees in senior roles below executive level that satisfy the eligibility criteria, and executives as endorsed by the Board	Employees not eligible for LTI awards	Employees can elect to participate	CEO, Senior Leadership Team (**SLT**) and Executive General Manager (**EGM**) level roles
Basis of share grant/issue	Value of restricted shares granted (offered) is determined by the Board based on the employee's remuneration and individual performance	Market value of shares up to $1,000 per employee per year may be granted by the Board based on the Suncorp Group's overall performance	Employees to fund the acquisition of shares to be held under this Plan from their pre-tax remuneration up to a maximum value of $5,000 per year	Total amount of the Short-Term Incentive (**STI**) is in the form of rights to shares approved by the Board based on Group and individual performance determined and prior to the ex-dividend date
Vesting	Subject to remaining in employment with the Suncorp Group until the vesting date and not having given notice of intention to resign	Fully vested, not subject to forfeiture	As the acquisition of shares is funded through the employee's remuneration, the shares are fully vested at the date of acquisition	CEO and SLT: 2-year vesting period, 50% vesting on the 1st anniversary and the remaining 50% on the 2nd anniversary EGMs: 3-year vesting period with 1/3 of the deferred incentive vesting on the 1st, 2nd and 3rd anniversary
Dividend entitlements	Full entitlement to dividend equivalents paid on vesting equal to the notional net dividends earned on vested shares over the deferral period	Full entitlement to dividend from when the shares are acquired and held in the Plan	Full entitlement to dividend from when the shares are acquired and held in the Plan	Full entitlement to dividend equivalents paid on vesting equal to the notional net dividends earned on vested shares over the deferral period
Fair value	Discounted cash flow model incorporating the expected share price at vesting date and expected dividend entitlements, discounted from the vesting date to the grant date	Market value of the shares on the date they were acquired	Market value of the shares on the date they were acquired	Discounted cash flow model incorporating the expected share price at vesting date and expected dividend entitlements, discounted from the vesting date to the grant date

259,106 restricted shares (2017: 949,520 shares) at fair value of $13.02 per share (2017: $12.82 per share) were granted during the financial year. A dividend yield of 5.5% (2017: 5.5%) is used in the calculation of the fair value per share.

The total number of shares acquired through the Suncorp Equity Participation Plan was 195,812 (2017: 202,486), with a fair value of $2,670,000 (2017: $2,660,000).

The Board approved a grant to each eligible employee of ordinary shares of the Company to the value of $750 (2017: $750) under the Suncorp Employee Share Plan (tax exempt) for the financial year. These shares will be acquired on-market for allocation to employees by the share plan in October 2018 (2017: October 2017).

Under the equity based deferral plan, share rights are offered to eligible employees in August following completion of the performance period. Total number of equity-settled rights offered under the 2017 equity based deferral plan during the year was 657,583 shares (2017: nil), at a total fair value of $8,577,000 (2017: nil). The fair value of the deferral plan is expensed from the start of the performance period to the end of the deferral period. Total expense of $6,857,000 (2017: $3,411,000) relating to the equity based deferral plan is included in 'Fees, overheads and other expenses' in the consolidated statement of comprehensive income.

11. Income tax

11.1 Income tax expense

	2018 $M	2017 $M
Reconciliation of prima facie to actual income tax expense		
Profit before income tax	1,577	1,608
Prima facie domestic corporate tax rate of 30% (2017: 30%)	473	482
Effect of tax rates in foreign jurisdictions	(4)	(2)
Effect of income taxed at non-corporate tax rate – Life companies	2	2
Tax effect of amounts not deductible (assessable) in calculating taxable income:		
Non-deductible expenses	24	27
Non-deductible expenses – Life companies	28	26
Amortisation of intangible assets	6	6
Dividend adjustments	18	21
Tax exempt revenues	(13)	(7)
Current year rebates and credits	(25)	(29)
Prior year over provision	(7)	(3)
Other	3	-
Total income tax expense on pre-tax profit	505	523
Effective tax rate	32.0%	32.5%
Income tax expense recognised in profit consists of:		
Current tax expense		
Current tax movement	487	556
Current year rebates and credits	(25)	(29)
Adjustments for prior financial years	6	(4)
Total current tax expense	468	523
Deferred tax expense		
Origination and reversal of temporary differences	50	(1)
Adjustments for prior financial years	(13)	1
Total deferred tax expense	37	-
Total income tax expense	505	523

Income tax of Life companies

Included in income tax expense is $72 million (2017: $55 million) attributable to the Life companies' statutory funds.

Australia

In Australia, the income tax expense is partly determined on a product basis and partly determined on a profit basis. The income tax expense has been determined after aggregating various classes of business, each with different tax rates. The statutory rates of taxation applicable to the taxable income of significant classes of business are as follows.

	2018 %	2017 %
Applicable tax rates for classes of business		
Annuity and pension business (Segregated Exempt Assets)	Exempt	Exempt
Complying superannuation business (includes Virtual Pooled Superannuation Trust)	15	15
Ordinary class of business	30	30
Shareholder funds	30	30

New Zealand

In New Zealand, a corporate tax rate of 28% (2017: 28%) applies for all classes of business.

11.2 Current tax liabilities and receivables

	2018 $M	2017 $M
Net current tax liability at the beginning of the financial year	97	65
Income tax paid net of refunds	(497)	(487)
Current year tax on operating profit	462	527
Adjustment for prior financial years	6	(4)
Government rebates	-	(4)
Net current tax liability at the end of the financial year	68	97
Balance at the end of the financial year relating to:		
Current tax receivables[1]	-	(9)
Current tax liabilities	68	106
	68	97

1 Current tax receivables are included in 'Other assets' in the consolidated statement of financial position.

11.3 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following.

	2018	2017	2018	2017	2018	2017
	Deferred tax assets		Deferred tax liabilities		Net	
	$M	$M	$M	$M	$M	$M
Trading securities and investment securities	-	-	76	47	(76)	(47)
Property, plant and equipment	11	14	-	-	11	14
Intangible assets	-	-	26	32	(26)	(32)
Provision for impairment on loans and advances	51	59	-	-	51	59
Outstanding claim liabilities	87	80	-	-	87	80
Employee benefits	104	105	-	-	104	105
Gross policy liabilities	13	30	110	106	(97)	(76)
Other items	73	61	53	59	20	2
Deferred tax assets and liabilities	339	349	265	244	74	105
Set-off of tax	(136)	(123)	(136)	(123)	-	-
Net deferred tax assets	203	226	129	121	74	105

Movement in deferred tax balances during the financial year:

	2018	2017	2018	2017
	Deferred tax assets		Deferred tax liabilities	
	$M	$M	$M	$M
Balance at the beginning of the financial year	349	376	244	281
Movement recognised in profit or loss	(13)	(26)	24	(26)
Movement recognised in other comprehensive income	(1)	(3)	1	(14)
Movement recognised in transactions with owners directly in equity	4	(1)	-	-
Reclassifications	-	3	-	3
Foreign currency exchange movement	-	-	(4)	-
Balance at the end of the financial year	339	349	265	244

12. Trading and investment securities

	2018 $M	2017 $M
Trading securities		
Interest-bearing securities:		
Bank bills, certificates of deposits and other negotiable securities – current	1,639	1,520
Investment securities		
Financial assets designated at fair value through profit or loss		
Interest-bearing securities	15,976	15,311
Equity securities	1,317	1,252
Unit trusts	1,355	1,204
	18,648	17,767
*Available-for-sale (**AFS**) financial assets*		
Interest-bearing securities	3,544	3,677
*Held-to-maturity (**HTM**) investments*		
Interest-bearing securities	514	883
Total investment securities	22,706	22,327
Current	18,195	18,073
Non-current	4,511	4,254
Total investment securities	22,706	22,327

13. Derivative financial instruments

	2018			2017		
	Notional value $M	Fair value Asset $M	Fair value Liability $M	Notional value $M	Fair value Asset $M	Fair value Liability $M
Interest rate-related contracts						
Interest rate swaps	50,485	107	141	54,093	141	220
Swaption	257	-	-	21	-	-
Interest rate futures	21,753	13	14	4,649	12	7
Forward rate agreements	450	-	-	-	-	-
Interest rate options	174	-	-	130	-	-
	73,119	120	155	58,893	153	227
Exchange rate-related contracts						
Forward foreign exchange contracts	3,656	79	29	4,412	29	58
Cross currency swaps	3,035	54	21	2,746	-	84
Currency options	186	1	1	2	-	-
	6,877	134	51	7,160	29	142
Equity contracts						
Equity futures	139	-	-	71	1	-
Credit contracts						
Credit default swaps	132	2	1	571	5	7
Total derivative exposures	80,267	256	207	66,695	188	376

Derivatives are used in investments as well as a means of hedging against fluctuations in interest rate and foreign exchange rates. To prevent derivatives being used as a source of gearing, all derivatives have to be wholly or partly cash-covered, depending on the type of risk undertaken. The investment mandates specifically prohibit the use of derivatives for leveraged trading.

Investments

Derivatives are used within the investment portfolios where it is more efficient to use derivatives rather than physical securities. The use of derivatives is consistent with the objectives of the overall investment strategies and is one of the means by which these strategies are implemented.

Hedging of fluctuations in interest rates

The Suncorp 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 Board-approved risk limits. At reporting date, there are 20 (2017: 24) 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, variable rate short-term debt issues or deposits.

During the financial year, the Group deferred to equity gains of $10 million (2017: losses of $56 million), and released losses of $nil million (2017: $3 million) previously deferred to equity to profit or loss on derivatives held in qualifying cash flow hedging relationships.

Hedging of fluctuations in foreign exchange rates

The Suncorp 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 Suncorp Group are designated as hedges using the split approach. Under this approach the benchmark rate and foreign exchange risk of notional components of the swap are 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 2018 is $72 million asset (2017: liability $48 million).

During the financial year, the Group deferred to equity gains of $6 million (2017: losses of $1 million), and released foreign currency losses of $nil million (2017: $nil million) previously deferred to equity to profit or loss on derivatives held in qualifying cash flow hedging relationships.

Consolidated losses of $37 million (2017: $78 million) on derivatives held in qualifying fair value hedging relationships, and gains of $36 million (2017: $78 million) representing changes in the fair value of the hedged items attributable to the hedged risk are recognised in profit or loss.

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

	2018		2017	
	Fair value hedges $M	**Cash flow hedges $M**	**Fair value hedges $M**	**Cash flow hedges $M**
Hedging of fluctuations in interest rates				
Notional value of interest rate swaps designated as hedges	921	41,175	1,250	41,422
Fair value:				
net receivable on interest rate swaps	-	70	-	95
net payable on interest rate swaps	(39)	(71)	(66)	(112)
	(39)	(1)	(66)	(17)

	2018	2017
	Split approach $M	**Split approach $M**
Hedging of fluctuations in foreign exchange rates		
Notional value of cross currency swaps designated as hedges	2,925	2,744
Fair value:		
net receivable on cross currency swaps	54	-
net payable on cross currency swaps	(20)	(84)
	34	(84)

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 $M	**1 to 5 years $M**	**Over 5 years $M**	**Total $M**
2018				
Forecast receivable cash flows	777	1,271	50	2,098
Forecast payable cash flows	(769)	(1,267)	(64)	(2,100)
	8	4	(14)	(2)
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)

Hedges of net investments in foreign operations

In the financial year ended 30 June 2018, the Group entered into a floating-for-floating plus margin cross currency interest rate swap (**CCIRS**) with an external counterparty. The CCIRS is designated as part of the Group's net investment in foreign operations.

The hedged risk is the exposure to currency translation due to changing of the NZD against the AUD exchange rate that will result in the volatility in the carrying amount of certain amount of Suncorp Group's net investment in the New Zealand subsidiary. The details of the hedging instrument are as follows.

2018	Notional value $M	Fair value of asset $M	Fair value of liability $M
CCIRS designated as foreign exchange hedge of net investment in foreign operations	55	-	-

The ineffectiveness portion as of 30 June 2018 recognised in the profit or loss is $nil million.

14. Loans and advances

	Note	2018 $M	2017 $M
Financial assets at amortised cost			
Housing loans		47,604	44,844
Consumer loans		175	254
Business loans		10,937	10,226
Other lending		12	13
Gross loans and advances		58,728	55,337
Provision for impairment	15	(130)	(140)
Net loans and advances		58,598	55,197
Current		10,831	10,172
Non-current		47,767	45,025
Net loans and advances		58,598	55,197

15. Provision for impairment on loans and advances

15.1 Reconciliation of provision for impairment on loans and advances

	2018 $M	2017 $M
Collective provision		
Balance at the beginning of the financial year	96	108
Write-back against impairment losses	(5)	(12)
Balance at the end of the financial year	91	96
Specific provision		
Balance at the beginning of the financial year	44	56
New and increased individual provisioning	37	34
Write-back of provisions no longer required	(15)	(25)
Impaired provision written off	(23)	(16)
Unwind of discount	(4)	(5)
Balance at the end of the financial year	39	44
Total provision for impairment on loans and advances	130	140

15.2 Impairment loss on loan and advances

	2018 $M	2017 $M
Decrease in collective provision for impairment	(5)	(12)
Increase in specific provision for impairment	22	9
Bad debts written off	13	13
Bad debts recovered	(3)	(3)
Total impairment loss on loans and advances	27	7

16. Goodwill and other intangible assets

	Goodwill $M	Brands $M	Customer contracts & other relationships $M	Outstanding claims liabilities intangible $M	Software $M	Internally generated software in development $M	Total $M
2017							
Gross carrying amount	5,298	655	1,278	187	712	84	8,214
Accumulated amortisation and impairment losses	(417)	(264)	(1,169)	(162)	(381)	-	(2,393)
Balance at the end of the financial year	4,881	391	109	25	331	84	5,821
Movements in intangible assets							
Balance at the beginning of the financial year	4,936	411	128	28	80	295	5,878
Acquisitions	3	-	18	-	-	77	98
Disposal	(58)	-	(2)	-	(3)	-	(63)
Amortisation	-	(20)	(35)	(3)	(34)	-	(92)
Transfers	-	-	-	-	288	(288)	-
Balance at the end of the financial year	4,881	391	109	25	331	84	5,821
Maximum remaining useful life	Indefinite	40 years	10 years	10 years	10 years	n/a	
2018							
Gross carrying amount	5,292	655	1,278	187	807	21	8,240
Accumulated amortisation and impairment losses	(417)	(285)	(1,199)	(165)	(452)	-	(2,518)
Balance at the end of the financial year	4,875	370	79	22	355	21	5,722
Movements in intangible assets							
Balance at the beginning of the financial year	4,881	391	109	25	331	84	5,821
Acquisitions	-	-	-	-	5	27	32
Amortisation	-	(21)	(30)	(3)	(71)	-	(125)
Transfers	-	-	-	-	90	(90)	-
Foreign currency exchange movement	(6)	-	-	-	-	-	(6)
Balance at the end of the financial year	4,875	370	79	22	355	21	5,722
Maximum remaining useful life	Indefinite	39 years	9 years	9 years	9 years	n/a	

Note: n/a = not applicable

16.1 Impairment test for cash-generating units containing goodwill

For the purpose of the annual impairment test, goodwill is allocated to groups of cash-generating units (**CGUs**) which represent the Suncorp Group's operating segments (refer to note 5.1). The carrying amount of each CGU is then compared to its recoverable amount. The accounting policy relating to impairment testing for CGUs containing goodwill is included in note 36.12(b).

The value of goodwill allocated to each of the Banking & Wealth and Suncorp New Zealand operating segments is not significant in comparison to Suncorp Group's total carrying amount of goodwill. The value of goodwill allocated to each group of CGUs is disclosed in note 5.1.

The recoverable amount for the Insurance operating segment is its value in use and is determined by the sum of the present value of future cash flows expected from the general insurance CGUs plus the life insurance CGU appraisal value.

Value in use for the general insurance CGUs

The recoverable amount of each general insurance CGU is its value in use and is determined by discounting the future cash flows generated from the continuing use of the units and are based on the three-year business plans approved by the Board, projected for years four and five based on key assumptions reviewed by management to cover a five-year period. A terminal growth rate of 2.5% (2017: 2.8%) is used to extrapolate cash flows beyond the five-year projections which does not exceed the long-term average growth rate for the industry.

The key assumptions for general insurance CGUs include gross earned premium growth, projected insurance loss ratios, operating expense growth, and expected operational and regulatory capital levels. The cash flow projections and values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on both external and internal sources of data.

For the general insurance CGUs within the Insurance operating segment, the weighted average cost of capital is used as the post-tax discount rate. The discount rates reflect an equity beta and a market risk premium sourced from observable market inputs.

Discount rates	2018		2017	
	Post-tax %	Pre-tax equivalent %	Post-tax %	Pre-tax equivalent %
Insurance	7.9	10.1	8.2	10.4

Value in use for the life insurance CGU

The recoverable amount of the life insurance CGU is its value in use and has been determined by reference to an appraisal value which comprises the traditional embedded value of the Life companies and other relevant businesses and adds a component for the value of future new business. The embedded value of the Life companies and the value of one-year's new business were assessed using discounted cash flow techniques.

The life insurance appraisal value incorporates a risk-adjusted discount rate of 6.6% (2017: 6.8%) and the multiple of two (2017: seven) which has been applied to the value of one-year's sales, discontinuance rates, claims rates and expenses.

17. Deposits and short-term borrowings

	2018 $M	2017 $M
Financial liabilities at amortised cost		
Call deposits	19,796	18,623
Term deposits	18,272	17,895
Short-term securities issued	5,442	6,118
Total deposits and short-term borrowings at amortised cost	43,510	42,636
Financial liabilities designated at fair value through profit or loss		
Offshore commercial paper	2,040	2,469
Total deposits and short-term borrowings	45,550	45,105
Current	45,308	44,319
Non-current	242	786
Total deposits and short-term borrowings	45,550	45,105

Deposits and short-term borrowings outstanding at 30 June 2018 of $301 million (2017: $306 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 $2,065 million (2017: $2,485 million).

Interest expense of $39 million (2017: $32 million) on deposits and short-term borrowings designated at fair value through profit or loss was recognised in the financial year.

Consolidated net gains of $nil million (2017: $1 million) on financial liabilities designated at fair value through profit or loss are recognised in profit or loss.

18. Unearned premium liabilities

18.1 Reconciliation of movement

	2018 $M	2017 $M
Unearned premium liabilities relating to general insurance contracts		
Balance at the beginning of the financial year	4,959	4,864
Premiums written during the financial year	9,558	9,456
Premiums earned during the financial year	(9,462)	(9,326)
Disposal of business during the financial year	(2)	(34)
Foreign currency exchange movement	(24)	(1)
Balance at the end of the financial year	5,029	4,959
Unearned premium liabilities relating to life insurance contracts	7	6
Total unearned premium liabilities	5,036	4,965
Current	5,014	4,931
Non-current	22	34
Total unearned premium liabilities	5,036	4,965

18.2 Liability adequacy test relating to general insurance contracts

	2018 $M	2017 $M
Central estimate of present value of expected future cash flows arising from future claims	3,830	3,888
Risk margin	83	85
Present value of expected future cash inflows arising from reinsurance recoveries on future claims	(209)	(237)
Expected present value of future cash flows arising from future claims including risk margin	3,704	3,736

	%	%
Risk margin	2.8	2.8
Probability of adequacy	57 – 64%	57 – 64%

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

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

As at 30 June 2018 and 30 June 2017, the LAT resulted in surpluses for all general insurance portfolios.

19. Outstanding claims liabilities

	2018 $M	2017 $M
General insurance contracts		
Gross central estimate – undiscounted	9,141	9,897
Risk margin	1,163	1,194
Claims handling expenses	349	362
	10,653	11,453
Discount to present value	(770)	(829)
Gross outstanding claims liabilities relating to general insurance contracts – discounted	9,883	10,624
Gross outstanding claims liabilities relating to life insurance contracts – discounted	293	328
Total gross outstanding claims liabilities – discounted	10,176	10,952

	%	%
General insurance contracts		
Overall net risk margin applied	15.6	15.9
Probability of adequacy of the risk margin (approximately)	90	90

19.1 Reconciliation of movement in discounted outstanding claims liabilities on general insurance contracts

	2018 $M	2017 $M
Net outstanding claims liabilities relating to general insurance contracts at the beginning of the financial year	7,489	7,711
Prior periods		
Claims payments	(2,219)	(2,415)
Discount unwind	84	82
Margin release on prior periods	(270)	(297)
Incurred claims due to changes in assumptions and experience	(378)	(420)
Change in discount rate	41	(77)
Current period		
Incurred claims	6,262	6,235
Claims payments	(3,326)	(3,331)
Foreign currency exchange movement	(9)	1
Net outstanding claims liabilities relating to general insurance contracts at the end of the financial year	7,674	7,489
Reinsurance and other recoveries on outstanding claims liabilities		
Expected undiscounted outstanding reinsurance and other recoveries	2,330	3,299
Discount to present value	(121)	(164)
	2,209	3,135
Gross outstanding claims liabilities (discounted) on general insurance contracts at the end of the financial year	9,883	10,624

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

	Carrying amount $M	1 year or less $M	1 to 5 years $M	Over 5 years $M	Total cash flows $M
2018	7,674	3,047	3,347	1,280	7,674
2017	7,489	2,890	3,319	1,280	7,489

19.2 General insurance contracts claims development table

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

	Accident Year											
	Prior $M	2009 $M	2010 $M	2011 $M	2012 $M	2013 $M	2014 $M	2015 $M	2016 $M	2017 $M	2018 $M	Total $M
Estimate of ultimate claims cost:												
At end of accident year		1,299	1,335	1,466	1,328	1,399	1,415	1,433	1,476	1,588	1,518	
One year later		1,285	1,233	1,387	1,318	1,369	1,410	1,376	1,434	1,503		
Two years later		1,175	1,149	1,356	1,248	1,254	1,308	1,279	1,376			
Three years later		1,156	1,123	1,380	1,165	1,155	1,241	1,196				
Four years later		1,145	1,116	1,315	1,152	1,119	1,206					
Five years later		1,109	1,037	1,241	1,085	1,085						
Six years later		1,076	1,008	1,213	1,068							
Seven years later		1,062	998	1,206								
Eight years later		1,054	999									
Nine years later		1,049										
Current estimate of cumulative claims cost		1,049	999	1,206	1,068	1,085	1,206	1,196	1,376	1,503	1,518	
Cumulative payments		(1,010)	(933)	(1,107)	(960)	(912)	(880)	(778)	(566)	(318)	(110)	
Outstanding claims liabilities – undiscounted	707	39	66	99	108	173	326	418	810	1,185	1,408	5,339
Discount to present value	(178)	(3)	(4)	(7)	(8)	(14)	(26)	(25)	(46)	(70)	(92)	(473)
Outstanding claims – long-tail	529	36	62	92	100	159	300	393	764	1,115	1,316	4,866
Outstanding claims – short-tail												1,452
Claims handling expense												323
Risk margin												1,033
Total net outstanding claims liabilities relating to general insurance contracts												7,674
Reinsurance and other recoveries on outstanding claims liabilities relating to general insurance contracts												2,209
Total gross outstanding claims liabilities relating to general insurance contracts												9,883

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

19.3 General insurance outstanding claims liabilities and assets arising from reinsurance contracts

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

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

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

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

19.4 Actuarial assumptions and methods relating to general insurance contracts

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

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

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

	2018		2017	
	Aust	**NZ**	**Aust**	**NZ**
Weighted average term to settlement (years)	3.8	0.9	4.0	0.9
Weighted average economic inflation rate	3.9%	2.3%	3.9%	2.2%
Superimposed inflation rate	2.1%	1.5%	2.1%	1.5%
Discount rate	2.5%	2.0%	2.5%	2.2%
Claims handling expense ratio	4.9%	10.6%	4.6%	10.6%
Risk margin	16.3%	17.5%	16.7%	20.8%

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

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

Discount rate – Discount rates are derived from market yields on Commonwealth Government securities in Australia and the 10-year government stock rate in New Zealand at the reporting date.

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

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

The assumptions regarding uncertainty for each class of business are applied to the net central estimates, and the results are aggregated, allowing for diversification, in order to arrive at an overall position which is intended to have an approximate probability of sufficiency of 90% across the Suncorp Group (2017: 90%).

19.5 Impact of changes in key variables relating to general insurance contracts

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

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

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

		2018	2017
	Movement in variable	**Profit (loss) $M**	**Profit (loss) $M**
Weighted average term to settlement (years)	+0.5 years	(122)	(115)
	-0.5 years	120	113
Inflation rate	+100 bps	(230)	(228)
	-100 bps	212	209
Discount rate	+100 bps	218	214
	-100 bps	(242)	(239)
Claims handling expense ratio	+100 bps	(62)	(55)
	-100 bps	62	55
Risk margin	+100 bps	(65)	(57)
	-100 bps	65	57

20. Life insurance and investment contract liabilities

The following table shows the movements in net life insurance and investment contract liabilities.

	Liability				Asset	Net
	Insurance contracts $M	Unvested policy-owner benefits $M	Invest-ment contracts $M	Gross policy liabilities $M	Gross policy liabilities ceded under reinsurance $M	Net policy liabilities $M
Balance as at 30 June 2016	2,135	261	516	2,912	461	2,451
Movement recognised in profit or loss	158	-	25	183	124	59
Contributions and premiums recognised in policy liabilities	109	-	11	120	-	120
Withdrawals and claims expense recognised in policy liabilities	(219)	-	(56)	(275)	-	(275)
Movement in unvested policyowner benefits	-	(13)	-	(13)	-	(13)
Foreign currency exchange movement	(8)	-	(2)	(10)	-	(10)
Balance as at 30 June 2017	2,175	248	494	2,917	585	2,332
Movement recognised in profit or loss	(37)	-	40	3	(57)	60
Contributions and premiums recognised in policy liabilities	70	-	8	78	-	78
Withdrawals and claims expense recognised in policy liabilities	(189)	-	(70)	(259)	-	(259)
Movement in unvested policyowner benefits	-	(11)	-	(11)	-	(11)
Foreign currency exchange movement	1	(1)	(7)	(7)	-	(7)
Balance as at 30 June 2018	2,020	236	465	2,721	528	2,193

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

	Carrying amount $M	1 year or less $M	1 to 5 years $M	Over 5 years $M	No term $M	Investment linked $M	Total cash flows $M
2018	2,193	40	207	1,264	236	446	2,193
2017	2,332	62	304	1,242	248	476	2,332

20.1 Life policy liability estimation process

Policy liabilities in Australia have been calculated in accordance with the Australian Prudential Regulation Authority's (**APRA**) Prudential Standard LPS 340 *Valuation of Policy Liabilities* issued under section 230A(1) of the Life Act.

Policy liabilities in New Zealand have been calculated in accordance with Professional Standard Number 20 *Determination of Life Insurance Policy Liabilities* issued by the New Zealand Society of Actuaries.

The policy liability calculations are performed by actuarial personnel, using policy data, and are approved by the Appointed Actuary, Mr Joshua Corrigan (Fellow of the Institute of Actuaries of Australia) for Australia and approved by the Appointed Actuary, Ms Kate Dron (Fellow of the Institute and Faculty of Actuaries and Fellow of the New Zealand Society of Actuaries) for New Zealand.

The profit carriers for the major business types of life insurance contracts are as follows.

Business type	Profit carrier
Conventional participating	Supportable bonuses
Participating and non-participating investment account and allocated pension	Interest credits
Lump sum risk and accident cash back	Expected premium payments
Disability income	Expected benefit/claims payments (SLSL) Expected premium payments (ALLNZ)
Other	Expected benefit/claim payments

20.2 Actuarial assumptions, judgments and estimates used in calculating life insurance contract liabilities

Experience for SLSL and ALLNZ is examined in detail on at least an annual basis, with assumptions set having regard to the Life companies' experience, observed trends and future outlook. The key factors affecting the determination of the policy liabilities and the critical assumptions and judgments made are set out below:

- Investment earnings and discount rates: based on 10-year Australian and New Zealand Government bond yields. Adjustments made as necessary for participating contracts.
- Voluntary discontinuance: rates are based upon recent internal investigations. Allowance is made for cash withdrawals.
- Mortality – individual risk products: rates are based on recent internal investigations. SLSL retail rates are expressed as a multiple of FSC 2004–2008 industry incidence tables, and direct rates are a multiple of the ALT 2004–2006 population life table. ALLNZ rates are expressed as a multiple of IA 95–97 industry incidence tables.
- Mortality – annuitants: mortality rates have been determined using the standard table IM/IF80 with adjustments for assumed future improvements. IM/IF80 was developed by the Institute and Faculty of Actuaries based on UK annuitant lives experience from 1979 to 1982.
- Morbidity: rates are based on recent internal investigations. SLSL retail rates are expressed as a multiple of FSC 2004–2008 industry incidence tables. SLSL direct and ALLNZ rates are expressed as a multiple of population incidence rates with adjustments to reflect experience and policy conditions.
- Income protection claims: for ALLNZ and SLSL retail and direct business, disability income incidence and termination rate assumptions are based on the ADI 2007–2011 tables.

The following table shows the ranges of the adjustments to the base industry tables, ranges of investment earnings and actual annual lapse rates for 2018 and 2017.

	SLSL		ALLNZ	
	2018 %	2017 %	2018 %	2017 %
Investment earnings pre-tax for participating business	3.5 - 4.2	3.6 - 4.2	3.5	3.7
Risk-free pre-tax discount rates for non-participating business	1.9 - 2.9	1.6 - 2.9	1.8 - 3.8	1.9 - 4.1
Annual lapse rate (voluntary discontinuance)	0.8 - 48	4 - 40	1 - 26	1 - 26
Mortality – individual risk products retail adjustment	67 - 182	67 - 182	60 - 125	60 - 120
Mortality – individual risk products other adjustment	50 - 121	50 - 121	n/a	n/a
Mortality – annuitants adjustment	60	60	73	73
Future improvements in mortality – annuitants adjustment	97	97	98	98
Group claims ratio	76 - 97	76 - 97	85	85
Income protection claims incidence adjustment	67 - 245	65 - 278	89 - 309	89 - 309
Income protection claims termination adjustment	63 - 107	75 - 100	71 - 115	71 - 115

20.3 Life insurance contract policy liabilities

	Note	2018 $M	2017 $M
Best estimate liability			
Value of future policy benefits[1]		5,921	5,945
Value of future expenses		2,628	2,429
Value of unrecouped acquisition expenses		(1,122)	(1,065)
Balance of future premiums		(6,979)	(6,831)
		448	478
Value of future profits			
Policyowner bonuses[2]		423	434
Shareholder profit margins		551	605
		974	1,039
Total value of declared bonuses[3]		70	73
Total net life insurance policy liabilities		1,492	1,590
Gross policy liabilities ceded under reinsurance	20	528	585
Gross life insurance contract liabilities	20	2,020	2,175
Policy liabilities subject to capital guarantee		1,562	1,582

1 Future policy benefits include bonuses credited to policyowners in prior periods but exclude current period bonuses and future bonuses. Where business is valued by other than projection techniques, future policy benefits include the account balance.

2 Future bonuses exclude current period bonuses.

3 Declared bonuses are valued in accordance with APRA Prudential Standard LPS 340 *Valuation of Policy Liabilities* issued under section 230A(1) of the Life Act.

20.4 Sensitivity analysis on life insurance contract liabilities

The following table illustrates the impact in the current period of changes in key assumptions as at 30 June 2018 with all other variables remaining constant. The change in liability and profit (loss) after tax are shown net and gross of reinsurance (**RI**). There is no impact to equity reserves.

		Change in life insurance contract liability		Profit (loss) after tax	
Variable	**Change**[1]	**Net of RI $M**	**Gross of RI $M**	**Net of RI $M**	**Gross of RI $M**
2018					
Maintenance expense	10% increase	6	4	(5)	(4)
Mortality and lump sum morbidity	10% increase	80	259	(57)	(182)
Morbidity – disability income	10% increase in incidence and decrease in recovery rates	108	333	(80)	(240)
Discontinuance rates	10% increase	95	109	(66)	(76)
2017					
Maintenance expense	10% increase	10	12	(7)	(8)
Mortality and lump sum morbidity	10% increase	62	286	(44)	(201)
Morbidity – disability income	10% increase in incidence and decrease in recovery rates	93	295	(69)	(213)
Discontinuance rates	10% increase	82	132	(57)	(92)

1 Sensitivity changes are relative to current best estimate assumptions.

21. Debt issues

	Note	**2018 $M**	**2017 $M**
Financial liabilities at amortised cost			
Offshore borrowings		2,954	2,663
Domestic borrowings		4,863	4,062
Total unsecured debt issues		7,817	6,725
Covered bonds	27.3	2,037	2,491
Total secured debt issues		2,037	2,491
		9,854	9,216
Current		2,835	1,972
Non-current		7,019	7,244
Total debt issues		9,854	9,216

22. Loan capital

The following table shows loan capital at amortised cost and categorised by capital type, class and instrument under APRA's Life and General Insurance Capital (**LAGIC**) and Bank Basel III reporting standards. These instruments have been issued by SGL, AAI Limited (**AAIL**) and Suncorp-Metway Limited (**SML**).

	2018 $M	2017 $M
Additional Tier 1 loan capital		
$AUD 560 million SGL CPS2	-	559
$AUD 400 million SGL CPS3	397	396
$AUD 375 million SGL Capital Notes 1	369	368
$AUD 375 million SGL Capital Notes 2	369	-
Total Additional Tier 1 loan capital	1,135	1,323
Tier 2 loan capital		
LAGIC/Basel III fully compliant subordinated notes		
$AUD 770 million SGL Subordinated Notes	770	767
$AUD 330 million AAIL Subordinated Notes	328	328
$AUD 225 million AAIL Subordinated Notes	224	224
Total LAGIC/Basel III fully compliant subordinated notes	1,322	1,319
LAGIC/Basel III transitional subordinated notes		
$AUD 72 million SML Floating Rate Notes[1]	72	72
Total LAGIC/Basel III transitional subordinated notes	72	72
Total Tier 2 capital	1,394	1,391
Total loan capital[2]	2,529	2,714
Current	-	-
Non-current	2,529	2,714
Total loan capital	2,529	2,714

1 Tier 2 instruments subject to the transitional arrangements outlined in APRA's prudential standard APS 111 Attachment L.

2 Total liability in relation to interest payment accrued for Suncorp Group to make payments under the subordinated notes as at the end of the financial year is $5 million (2017: $6 million). It is disclosed within the consolidated statement of financial position category of 'Payables and other liabilities'.

Additional Tier 1 Capital

	Margin above 90 day BBSW	Potential scheduled mandatory conversion date	Optional call/ exchange date	Issue date	2018 Number on issue	2017 Number on issue
SGL CPS2	465 bps	17 Dec 2019	17 Dec 2017	6 Nov 2012	-	5,600,000
SGL CPS3	340 bps	17 Jun 2022	17 Jun 2020	8 May 2014	4,000,000	4,000,000
SGL Capital Notes 1	410 bps	17 Jun 2024	17 Jun 2022	5 May 2017	3,750,000	3,750,000
SGL Capital Notes 2	365 bps	17 Jun 2026	17 Jun 2024	24 Nov 2017	3,750,000	-

The convertible preference shares and capital notes are eligible Additional Tier 1 instruments both in the transitional and post-transitional Basel III and LAGIC rules. They are fully paid, perpetual, subordinated, unsecured securities.

Convertible preference shares pay a dividend, while capital notes pay a distribution. Payments are floating rate, discretionary, non-cumulative, and scheduled to be paid quarterly, at the Company's discretion and are expected to be fully franked. They are calculated based on the sum of the three-month bank bill rate and the margin, adjusted for the corporate tax rate. If the Company does not make a payment in full, on a payment date (or within three business days of that date), then the dividend restriction applies to the Company in respect of the Suncorp Group's dividends on ordinary shares and ordinary share buy-backs.

Suncorp has the option to convert, redeem or resell the instruments on the call date, or following a regulatory or tax event or potential acquisition event, subject to APRA's prior written approval and certain conditions being fulfilled. If APRA determines that a non-viability event has occurred in relation to the Company, all (or in some circumstances, some) of the instruments will be immediately converted into the Company's ordinary shares (or, if conversion cannot be effected for any reason within five business days, immediately and irrevocably terminated). Conversion will be based on a volume weighted average price (**VWAP**) of the Company's ordinary shares over a certain period prior to the relevant date for conversion, less a discount of 1%. This is subject to a maximum conversion number, equal to 20% of the VWAP over a 20-day period prior to the issue date.

If still outstanding on the mandatory conversion date, the instruments will mandatorily convert into a variable number of the Company's ordinary shares (subject to certain conditions being satisfied). Conversion will be based on a VWAP of the Company's ordinary shares over a certain period prior to the relevant date for conversion, less a discount of 1%. This is subject to a maximum conversion number, equal to 50% of the VWAP over a 20-day period prior to the issue date.

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

LAGIC / Basel III fully compliant subordinated notes[1]

	Margin above 90 day BBSW	Maturity date	Holder conversion date	Optional redemption date	Issue date	2018 Number on issue	2017 Number on issue
SGL Subordinated Notes	285 bps	22 Nov 2023	n/a	22 Nov 2018	22 May 2013	7,700,000	7,700,000
$AUD 330 million AAIL Subordinated Notes	320 bps	6 Oct 2042	6 Oct 2024	6 Oct 2022	6 Oct 2016	33,000	33,000
$AUD 225 million AAIL Subordinated Notes	330 bps	18 Nov 2040	18 Nov 2022	18 Nov 2020	18 Nov 2015	22,500	22,500

1 No subordinated notes have been converted as at 30 June 2018 and 30 June 2017.

The SGL subordinated notes pay quarterly, cumulative non-deferrable interest payments at a floating rate equal to the sum of the three-month bank bill swap rate (**BBSW**) and the margin. The AAIL subordinated notes pay quarterly cumulative deferrable interest payments at a floating rate equal to the sum of BBSW and the margin.

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

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

LAGIC / Basel III transitional subordinated notes

	Semi-annual coupon rate	Margin above 90 day BBSW	Optional redemption date	Issue date	2018 Number on issue	2017 Number on issue
SML Floating Rate Notes	n/a	75 bps	n/a	17 Dec 1998	715,383	715,383

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

The rights of the holders rank in preference to the rights of the Issuer's capital note holders and ordinary shareholders and rank equally against all other subordinated note holders of the Issuer.

23. Share capital

	Number of ordinary shares	Issued capital $M	Share-based payments $M	Treasury shares $M	Total share capital $M
Balance as at 30 June 2016	1,286,600,980	12,717	63	(101)	12,679
Shares issued	6,098,908	80	-	-	80
Share-based payments	-	-	11	-	11
Treasury share movements	-	-	-	(4)	(4)
Balance as at 30 June 2017	1,292,699,888	12,797	74	(105)	12,766
Shares issued[1]	5,804,065	77	-	-	77
Share-based payments	-	-	10	-	10
Treasury share movements	-	-	-	10	10
Balance as at 30 June 2018	1,298,503,953	12,874	84	(95)	12,863

1 Includes 5 ordinary shares at the issue price of $13.95 per share to fund the redemption of CPS2 by Suncorp Group Limited. The remainder of the shares were issued under the Dividend Reinvestment Plan.

Ordinary shares

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

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

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

Dividend Reinvestment Plan

All eligible shareholders can elect to participate in the Dividend Reinvestment Plan to reinvest all or part of their dividends, with no brokerage or transaction costs.

Under the Dividend Reinvestment Plan, 2,483,575 ordinary shares were issued and allotted on 5 April 2018 for the 2018 interim dividend; 3,320,485 ordinary shares were issued and allotted on 20 September 2017 for the 2017 final dividend; 2,502,558 ordinary shares were issued and allotted on 3 April 2017 for the 2017 interim dividend; 3,596,350 ordinary shares were issued and allotted on 21 September 2016 for the 2016 final dividend.

Share-based payments

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

24. Reserves

	Equity reserve for credit losses $M	Hedging reserve $M	Assets available-for-sale reserve $M	Foreign currency translation reserve $M	Total reserves $M
Balance as at 30 June 2016	85	11	5	97	198
Transfer to retained profits	(3)	-	-	-	(3)
Amount recognised in equity	-	(57)	13	-	(44)
Amount transferred from equity to profit or loss	-	(3)	-	-	(3)
Income tax benefit (expense)	-	18	(4)	-	14
Exchange differences on translation of foreign operations	-	-	-	(1)	(1)
Balance as at 30 June 2017	82	(31)	14	96	161
Transfer from retained profits	6	-	-	-	6
Amount recognised in equity	-	16	(14)	1	3
Amount transferred from equity to profit or loss	-	-	2	-	2
Income tax (expense) benefit	-	(5)	4	-	(1)
Exchange differences on translation of foreign operations	-	-	-	(36)	(36)
Balance as at 30 June 2018	88	(20)	6	61	135

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.

Foreign currency translation reserve

The foreign currency translation reserve consists of all foreign exchange differences arising from the translation of the financial statements of foreign operations that have a functional currency other than Australian dollars, net of the effective portion of the cumulative net change in the clean fair value of hedging instruments used to hedge these operations.

25. Group capital management

The Suncorp 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 that there are sufficient capital resources to maintain and grow the business, in accordance with the Group's risk appetite. The Suncorp Group's Internal Capital Adequacy Assessment Process (**ICAAP**) provides the framework to ensure that the Suncorp Group and each regulated entity is capitalised to meet internal and external requirements. The Suncorp Group is subject to, and in compliance with, externally imposed capital requirements set and monitored by APRA and the Reserve Bank of New Zealand.

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 risk appetite, the regulatory framework and APRA's non-operating holding company (**NOHC**) conditions. Details relating to classification of capital for regulatory purposes and the capital positions of key regulated entities at the reporting date are provided in section 8.3 of the Directors' Report.

The Suncorp Group has been operating under a NOHC structure since 2011, with associated NOHC Conditions from APRA.

The NOHC Conditions include the following:

– The Suncorp Group is required to meet, at all times, the Level 3 Prudential Capital Requirement for Eligible Capital (and the Eligible Capital must satisfy certain requirements around the proportion of 'high quality' capital such as share capital and retained earnings).

– Reductions in Suncorp Group's capital base require APRA's written approval (for example, planned payment of dividends that exceed the prior 12 months' earnings).

– The NOHC activities of the Company, the Bank NOHC, and Life NOHC are limited and defined in scope.

– Compliance with certain APRA Prudential Standards.

– The Company must ensure that where Suncorp Group raises capital or funds externally and these are transferred within the Suncorp Group, the nature and quality of the capital or funds is not upgraded to a higher category of capital than the external capital or funds.

The Suncorp Group has established comprehensive policies and procedures to ensure compliance with the NOHC conditions.

The following table summarises the capital position as at the reporting date.

	2018 $M	2017 $M
Common Equity Tier 1 Capital	6,881	6,625
Additional Tier 1 Capital	1,150	1,335
Tier 1 Capital	8,031	7,960
Tier 2 Capital	1,554	1,552
Total Capital	9,585	9,512
Excess to Common Equity Tier 1 Capital Target (ex dividend)	448	377
Excess Total Capital to target (ex dividend)	1,010	1,156

26. Notes to the consolidated statement of cash flows

26.1 Reconciliation of cash flows from operating activities

	2018 $M	2017 $M
Profit for the financial year	1,072	1,085
Non-cash items		
Impairment loss on loans and advances	27	7
Amortisation and depreciation expense	175	168
Change in fair value relating to investing and financing activities	(197)	54
Other non-cash items	130	80
Change in operating assets and liabilities		
Net movement in insurance assets and liabilities	25	(286)
Net movement in tax assets and liabilities	3	32
Increase in trading securities	(119)	(23)
Increase in loans and advances	(3,426)	(1,072)
Increase in other assets	(175)	(22)
Increase in deposits and short-term borrowings	414	216
Increase (decrease) in payables and other liabilities	192	(44)
Net cash used in operating activities	(1,879)	195

26.2 Reconciliation of cash and cash equivalents to the consolidated statement of cash flows

	2018 $M	2017 $M
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:		
Cash and cash equivalents	1,165	1,840
Receivables due from other banks[1]	474	567
Payables due to other banks	(148)	(50)
	1,491	2,357

1 Includes $40 million (2017: $192 million) of collateral representing credit support to secure the Suncorp Group's derivative liability position, as part of the standard International Swaps and Derivatives Association (**ISDA**) agreement.

26.3 Changes in liabilities arising from financing activities

	Securitisation liabilities $M	Debt issues $M	Loan capital $M
Balance as at 1 July 2017	3,088	9,216	2,714
Cash flows			
Proceeds	2,750	2,547	60
Repayments	(987)	(1,972)	(245)
Transaction costs	(3)	-	(7)
Non-cash changes	-	63	7
Balance as at 30 June 2018	4,848	9,854	2,529

On 24 November 2017, the Company issued $375 million of Capital Notes 2 (ASX code: SUNPG) for $100 per note. They are fully paid, perpetual, subordinated and unsecured securities. $315 million of convertible preference shares (CPS2) (ASX code: SUNPC) were exchanged and reinvested in Capital Notes 2 as part of the Reinvestment Offer; the cash proceeds from the issue was $60 million.
On 18 December 2017, the Company redeemed all remaining CPS2 for $245 million.

CPS2 and Capital Notes are disclosed within the consolidated statement of financial position category of 'loan capital'.

26.4 Financing arrangements

	2018		2017	
	Program limit $M	Unused $M	Program limit $M	Unused $M
The Suncorp Group had the following debt programs available at the end of the financial year:				
$USD 5 billion Global Covered Bond Programme	6,765	4,715	6,500	4,000
$USD 15 billion Euro Medium Term Notes Program and Euro Commercial Paper	20,295	20,295	19,501	18,985
$USD 5 billion United States Commercial Paper Program	6,765	4,771	6,500	3,963
$USD 15 billion U.S. Medium Term Notes Program	20,295	17,517	19,501	17,273
AUD Transferable Certificate of Deposit Program	10,000	4,923	5,000	925
	64,120	52,221	57,002	45,146

27. Financial instruments

27.1 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 Suncorp 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.

	2018				2017			
	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	-	1,639	-	1,639	-	1,520	-	1,520
Fair value through profit or loss[1,2]	5,080	13,116	452	18,648	4,881	12,541	345	17,767
Available-for-sale financial assets[1]	-	3,544	-	3,544	-	3,677	-	3,677
Derivatives	14	242	-	256	11	177	-	188
	5,094	18,541	452	24,087	4,892	17,915	345	23,152
Financial liabilities								
Short-term offshore borrowings designated as financial liabilities at fair value through profit or loss[3]	-	2,040	-	2,040	-	2,469	-	2,469
Derivatives	14	193	-	207	7	369	-	376
Managed funds units on issue	-	1,285	-	1,285	-	911	-	911
	14	3,518	-	3,532	7	3,749	-	3,756

1 Disclosed within the consolidated statement of financial position category of ‘Investment securities’.

2 Investments in infrastructure assets (held via unlisted trusts) are reclassified from Level 2 to Level 3 and the comparatives have been restated for consistency.

3 Disclosed within the consolidated statement of financial position category of ‘Deposits and short-term borrowings’.

There have been no significant transfers between Level 1 and Level 2 during the 2018 and 2017 financial years.

Level 3 financial assets consist of investment in unlisted equity securities of $11 million (2017: $11 million) and investments in infrastructure assets (held via unlisted trusts) of $441 million (2017: $334 million).

There have been no remeasurements through profit or loss during the current and prior financial years in relation to the investment in unlisted equity securities classified at Level 3.

The fair value of investments in infrastructure assets (held via unlisted trusts) classified at Level 3 is determined by the Group’s share of the reported net asset value of the unlisted trusts, as advised by the external investment manager. The infrastructure assets held in the unlisted trusts are independently valued in accordance with AASB 13 *Fair value measurement*. During the financial year, additional units were purchased for $66 million (2017: $12 million) and $41 million (2017: $nil million) fair value gain was recognised through profit or loss. No sales were made in the current or prior financial years.

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.

			Fair value			
	Note	Carrying value $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
2018						
Financial assets						
Held-to-maturity investments	12	514	-	524	-	524
Loans and advances	14	58,598	-	-	58,609	58,609
		59,112	-	524	58,609	59,133
Financial liabilities						
Deposits and short-term borrowings at amortised cost	17	43,510	-	43,512	-	43,512
Securitised liabilities	27.3	4,848	-	4,877	-	4,877
Debt issues	21	9,854	-	9,919	-	9,919
Loan capital	22	2,529	1,940	642	-	2,582
		60,741	1,940	58,950	-	60,890
2017						
Financial assets						
Held-to-maturity investments	12	883	-	897	-	897
Loans and advances	14	55,197	-	-	55,240	55,240
		56,080	-	897	55,240	56,137
Financial liabilities						
Deposits and short-term borrowings at amortised cost	17	42,636	-	42,698	-	42,698
Securitised liabilities	27.3	3,088	-	3,092	-	3,092
Debt issues	21	9,216	-	9,252	-	9,252
Loan capital	22	2,714	2,159	638	-	2,797
		57,654	2,159	55,680	-	57,839

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 Suncorp 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 securitisation liabilities, debt issues and loan capital 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.

27.2 Master netting or similar arrangements

The Suncorp 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 consolidated statement of financial position where the Suncorp 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 Suncorp 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 consolidated statement of financial position.
- The cash collateral pledged or received is subject to the ISDA Credit Support Annex and other standard industry terms.

Amounts due from and to reinsurers

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

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**).

Outstanding investment settlements

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

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

	Amounts subject to master netting or similar arrangements						
			Related amounts not offset on the SoFP				
	Gross amounts $M	Offsetting applied $M	Financial instruments $M	Financial collateral received/ pledged $M	Net exposure $M	Amounts not subject to master netting or similar arrangements $M	Total $M
2018							
Financial assets							
Derivatives	248	-	(128)	(73)	47	8	256
Amounts due from reinsurers[1]	140	(121)	-	(12)	7	112	131
Reverse repurchase agreements [2]	251	-	-	(251)	-	-	251
Investment receivables[1]	495	(302)	-	-	193	-	193
Total	1,134	(423)	(128)	(336)	247	120	831
Financial liabilities							
Derivatives	201	-	(127)	(52)	22	6	207
Amounts due to reinsurers	154	(121)	-	-	33	714	747
Repurchase agreements	301	-	(301)	-	-	-	301
Investment payables[3]	700	(302)	-	-	398	-	398
Total	1,356	(423)	(428)	(52)	453	720	1,653
2017							
Financial assets							
Derivatives	177	-	(124)	(17)	36	11	188
Amounts due from reinsurers[1]	102	(72)	-	(7)	23	86	116
Reverse repurchase agreements[2]	639	-	-	(632)	7	-	639
Investment receivables[1]	523	(272)	-	-	251	-	251
Total	1,441	(344)	(124)	(656)	317	97	1,194
Financial liabilities							
Derivatives	326	-	(124)	(150)	52	50	376
Amounts due to reinsurers	87	(72)	-	-	15	784	799
Repurchase agreements	570	-	(570)	-	-	-	570
Investment payables[3]	512	(272)	-	-	240	-	240
Total	1,495	(344)	(694)	(150)	307	834	1,985

1 Included as part of ‘Other assets’ in the consolidated statement of financial position.

2 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 27.3.

3 Included as part of ‘Payables and other liabilities’ in the consolidated statement of financial position.

27.3 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 Suncorp Group enters into repurchase agreements and conducts covered bond and securitisation programs.

Repurchase agreements

The Suncorp Group enters into repurchase agreements involving the sale of interest-bearing securities and equity securities and simultaneously agrees to buy them back at a pre-agreed price on a future date. In the consolidated statement of financial position, the interest-bearing securities or equities 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 $252 million (2017: $632 million) against a carrying amount of $251 million (2017: $639 million). These transactions are governed by standard industry agreements.

Covered bonds

SML conducts a covered bond program whereby it issues covered bonds guaranteed by the Covered Bond Guarantor that are secured over covered pool assets consisting of loans and advances and cash at call. Eligible loans and advances are sold by SML to a special purpose trust, Suncorp Covered Bond Trust, which guarantees the covered bonds. The Covered Bond Guarantor can take possession of the cover pool under certain events. In the event of default by SML, the covered bond holders have claim against both the cover pool assets and SML. SML receives the residual income of the Suncorp Covered Bond Trust after all payments due to covered bond holders have been met. In the consolidated statement of financial position, the eligible loans and advances transferred are included in 'Loans and advances' and the covered bonds issued are included in 'Debt issues'.

Securitisation programs

SML 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 Suncorp Group receives residual income from the Trusts after all payments to security holders and costs of the program have been met. The Suncorp Group does not guarantee 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 Suncorp Group cannot use these assets to settle the liabilities of the Suncorp Group. The Suncorp Group is not obliged to support any losses that may be incurred 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 'Securitisation liabilities'.

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

	2018			2017		
	Repurchase agreements	Covered bonds[1]	Securitisation liabilities	Repurchase agreements	Covered bonds[1]	Securitisation liabilities
	$M	$M	$M	$M	$M	$M
Carrying amount of transferred financial assets	603	1,534	4,910	838	2,926	3,195
Carrying amount of associated financial liabilities	301	2,037	4,848	570	2,491	3,088
For those liabilities that have recourse only to the transferred assets:						
Fair value of transferred financial assets	n/a	n/a	4,911	n/a	n/a	3,198
Fair value of associated financial liabilities	n/a	n/a	4,877	n/a	n/a	3,092
Net position			34			106

1 At reporting date, the Suncorp Covered Bond Trust holds $644 million (2017: $1 million) in an at call deposit account with SML, which has been eliminated on consolidation and forms part of the covered pool assets.

28. Risk management objectives and structure

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

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

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

The Three Lines of Defence model of accountability is outlined in the table below.

Line of defence	Responsibility of	Accountable for
First – Manage risk and comply with Suncorp frameworks, policies and risk appetite	All Functions (and staff)	– Identify and manage the risks inherent in their operations. – Ensure compliance with all legal and regulatory requirements and Suncorp policies. – Promptly escalate any significant actual and emerging risks for management attention.
Second – Independent Functions own and monitor the application of risk frameworks, and measure and report on risk performance and compliance	Chief Risk Officer, Function Chief Risk Officers	– Design, implement and manage the ongoing maintenance of Suncorp 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 policies for the respective Functions. – Facilitate the reporting of the appropriateness and quality of risk management.
Third – Independent assurance over internal controls and risk management practices	Internal Audit	– 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 Suncorp 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 Suncorp, 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.

Suncorp has in place management committees, each with its own charter, to execute specific responsibilities within the risk framework. Management asset and liability committees provide effective governance over aspects of the risk framework designed to optimise the long-term returns achieved by asset portfolios within the risk appetite or parameters established by the 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 material 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 Suncorp'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 Suncorp's strategy.
Financial risk	Financial risks include credit and counterparty, market, asset and liability and liquidity risks. 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. Market risk is the risk of unfavourable changes in foreign exchange rates, interest rates, equity prices, credit spreads, commodity prices, and market volatilities. Asset and liability risk is the risk to earnings and capital from mismatches between assets and liabilities with varying maturity and repricing profiles and from mismatches in term. Liquidity risk is the risk that Suncorp will be unable to service its cash flow obligations today or in the future.
Insurance risk	The risk that for any class of risk insured, the present value of actual claims payable, will exceed the present value of actual premium revenues generated (net of reinsurance).
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes legal risk but excludes strategic and reputational risks.
Compliance risk	The risk of legal or regulatory sanctions, financial loss, or loss to reputation which Suncorp may suffer as a result of its failure to comply with all applicable regulations, codes of conduct and good practice standards.

Suncorp is exposed to the following categories of market risk:

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

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

- note 29 insurance risk management
- note 30 risk management for financial instruments: credit, liquidity and market risks
- note 13 derivative financial instruments.

29. Insurance risk management

29.1 Managing insurance risk

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

Insurance risk is managed through the risk appetite statements, and operation of the ERMF as discussed above, including an Insurance risk standard and Reinsurance Management strategy.

The Board receives Australian General Insurance and Life Insurance Financial Condition Reports from the Appointed Actuaries which report on a number of areas including the management of insurance risk within the entities. For Life insurance the actuary also provides advice in relation to pricing, issuing of new policies and reinsurance arrangements in accordance with APRA Prudential Standards. The boards for the New Zealand General Insurer and Life company receive equivalent reports and advice in respect of obligations imposed by the Reserve Bank of New Zealand.

29.2 Terms and conditions of insurance contracts

(a) General insurance contracts

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

(b) Life insurance and investment contracts

The nature and terms of the insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend.

The following table provides an overview of the key variables upon which the timing and uncertainty of future cash flows of the various life insurance and investment contracts issued by the Suncorp Group depend.

Type of contract	Details of contract workings	Nature of compensation for claims	Key variables affecting the timing and uncertainty of future cash flows
Long-term, non-participating insurance contracts with fixed and guaranteed terms (Term Life and Disability)	Guaranteed benefits paid on death, ill health or maturity which are fixed and are not at the discretion of the issuer	Benefits, defined by the insurance contract, are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	Mortality, morbidity, lapses, expenses and market earning rates on the assets backing the liabilities
Conventional life insurance contracts with discretionary participating benefits (Endowment and Whole of Life)	These policies combine life insurance and savings. The policyowner pays a regular premium and receives the specified sum assured plus any accruing bonuses on death or maturity. The sum insured is specified at inception and guaranteed. Reversionary bonuses are added annually, which once added (vested) are guaranteed. A further terminal bonus may be added on surrender, death or maturity.	Operating profit arising from these contracts is allocated 80:20 between the policyowners and shareholders in accordance with the Life Act. The amount allocated to policyowners is held as an unvested policy liability until it is distributed to specific policyowners as bonuses.	Mortality, surrenders, expenses and market earning rates on the assets backing the liabilities
Investment account contracts with discretionary participating features	The gross value of premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance. Interest is credited regularly.	The payment of the account balance is guaranteed. Operating profit arising from these contracts is allocated between policyowners and shareholders in accordance with the Life Act. The amount allocated to policyowners is held as an unvested policy liability until it is distributed to specific policyowners as interest credits.	Surrenders, expenses and market earning rates on the assets backing the liabilities

30. Risk management for financial instruments

30.1 Credit risk for Bank-related financial instruments

Suncorp Group conducts its banking business through SML and its subsidiaries, they are collectively referred as the Bank. Due to the nature of the Bank's business, credit risk exposure arising from the Bank's financial assets is managed separately to other business areas of the Suncorp Group.

(a) Credit risk exposures

The Bank 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 Bank'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.

The risk-graded portfolio includes commercial, agribusiness, property investment and development finance exposures. Within these portfolios, 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 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 team.

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 Bank manages its exposures to potential credit losses on over-the-counter (**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 consolidated statement 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 13.

The table below details the Bank'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 Bank 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. The Bank 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.

Bank	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
2018							
Agribusiness	-	-	-	4,014	197	-	4,211
Construction	-	-	-	732	251	-	983
Financial services	474	-	1,933	92	172	202	2,873
Hospitality	-	-	-	986	96	-	1,082
Manufacturing	-	-	-	234	24	-	258
Professional services	-	-	-	278	17	-	295
Property investment	-	-	-	2,448	121	-	2,569
Real estate – Mortgages	-	-	-	47,611	1,484	-	49,095
Personal	-	-	-	182	5	-	187
Government and public authorities	-	1,639	2,125	-	-	-	3,764
Other commercial and industrial	-	-	-	2,151	208	-	2,359
Total gross credit risk	474	1,639	4,058	58,728	2,575	202	67,676
Impairment provisions				(130)			(130)
Total credit risk	474	1,639	4,058	58,598	2,575	202	67,546

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

Bank	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)			(140)
Total credit risk	567	1,520	4,560	55,197	3,345	138	65,327

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

Bank	2018				2017			
	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
Agribusiness	48	25	4,138	4,211	71	8	4,170	4,249
Construction	1	1	981	983	3	-	827	830
Financial services	-	-	2,873	2,873	-	-	3,311	3,311
Hospitality	26	1	1,055	1,082	40	-	972	1,012
Manufacturing	2	2	254	258	2	-	296	298
Professional services	1	2	292	295	7	1	287	295
Property investment	8	3	2,558	2,569	5	2	2,219	2,226
Real estate – Mortgages	38	480	48,577	49,095	34	379	46,589	47,002
Personal	-	5	182	187	-	7	256	263
Government and public authorities	-	-	3,764	3,764	-	-	3,780	3,780
Other commercial and industrial	20	22	2,317	2,359	11	29	2,161	2,201
Total gross credit risk	144	541	66,991	67,676	173	426	64,868	65,467
Impairment provisions	(39)	(21)	(70)	(130)	(44)	(23)	(73)	(140)
Total credit risk	105	520	66,921	67,546	129	403	64,795	65,327

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 not past due by more than 90 days.
- Non-performing loans – ‘not impaired’ are loans that are past due for greater than 90 days but the Bank 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 or
- an extended maturity date for repayment.

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

Bank	2018 $M	2017 $M
Performing loans		
Loans and advances	58,041	54,737
Loans and advances with restructured terms	2	1
Collective provision for impairment	(70)	(73)
	57,973	54,665
Non-performing loans – not impaired		
Non-performing loans – not impaired	541	426
Collective provision for impairment	(21)	(23)
	520	403
Non-performing loans – impaired		
Gross impaired loans	144	173
Specific provision for impairment	(39)	(44)
	105	129
Total loans and advances	58,598	55,197

Financial assets that are performing loans can be assessed by reference to the Bank's internal credit rating scale and have been segmented into Strong, Satisfactory and Weak categories. Credit quality is internally assessed using the Bank's credit rating system to determine each customer's probability of default (**PD**) and the associated internal risk rating grade. The rating grades can be aligned to the Standard & Poor's ratings categories to enable wider comparisons. Internal credit rating assessments reflect arrears status, are tailored to the Bank's significant customer segments and are undertaken in accordance with Credit Policy and Lending Guidelines.

The analysis below represents the current credit quality of performing loans and is based on the following:

- Strong: PD aligns to Standard & Poor's rating AAA to BB.
- Satisfactory: PD aligns to Standard & Poor's rating BB- to B.
- Weak: PD aligns to Standard & Poor's rating B- to C.

Bank	Strong $M	Satisfactory $M	Weak $M	Total $M
2018				
Loans and advances				
Retail banking	45,491	1,251	526	47,268
Business banking	7,040	3,474	261	10,775
	52,531	4,725	787	58,043
2017				
Loans and advances				
Retail banking	43,273	778	640	44,691
Business banking	6,580	3,273	194	10,047
	49,853	4,051	834	54,738

Ageing of past due but not impaired financial assets is used by the Bank 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.

Bank	**Past due but not impaired**					
	1-29 days $M	**30-59 days $M**	**60-89 days $M**	**90-179 days $M**	**>= 180 days $M**	**Total $M**
2018						
Loans and advances						
Retail banking	857	210	154	275	210	1,706
Business banking	64	23	12	24	32	155
	921	233	166	299	242	1,861
2017						
Loans and advances						
Retail banking	736	247	164	216	170	1,533
Business banking	63	9	24	30	10	136
	799	256	188	246	180	1,669

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

More than 81.5% (2017: 81.7%) of the Bank's lending is consumer in nature and 99.6% (2017: 99.4%) of that lending is secured by residential property. Residential Lenders Mortgage Insurance (**LMI**) is required for residential mortgages with a Loan to Value ratio of more than 80% to cover any shortfall in outstanding loan principal and accrued interest. The financial effect of these measures is that remaining credit risk on residential loans is significantly reduced.

For the business banking portfolio, the Bank 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 Bank can take possession of security held as collateral against the outstanding claim. Any loan security for residential mortgages is held as mortgagee in possession while the Bank seeks to realise its value through the sale of the property. Therefore, the Bank does not hold any real estate or other assets acquired through the repossession of collateral. It is the Bank'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 Bank mitigates the maximum exposure to credit risk.

For impaired assets, considerable care is taken to assess the underlying collateral value taking into account the likely method of recovery such as whether the client sells or through a formal insolvency appointment, the time involved and likely costs associated with the strategy.

Collateral and other credit enhancements held by the Bank 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. The following table details the credit risk by geographical concentration on gross loans and advances.

Geographic breakdown	2018 $M	2017 $M
Queensland	31,005	29,288
New South Wales	15,624	14,469
Victoria	6,079	5,684
Western Australia	3,587	3,683
South Australia and other	2,433	2,213
Gross loans and advances	58,728	55,337

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

Bank	2018 Number	2017 Number
25% and greater	1	1
20% to less than 25%	1	-
15% to less than 20%	1	2
10% to less than 15%	1	-
5% to less than 10%	3	4

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

(e) Provision for impairment – specific and collective provisions

The credit provisions raised (specific and collective) represent management's best estimate of the losses incurred in the loan portfolio at reporting date. The independent Business Customer Support and Collections 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, 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.

The Suncorp 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 Suncorp 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.

30.2 Credit risk for non-bank-related financial instruments

Exposure to credit risk from other functions of non-bank-related financial instruments arises primarily from:

- premiums outstanding
- reinsurance recoveries and receivables
- investments in interest-bearing securities and derivatives.

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.

(a) Premiums outstanding

Credit risk is managed by maintaining debtor control procedures including the monitoring of aged amounts to minimise overdue debts. Credit limits are set and enforced to limit credit exposures from business written through general insurance intermediaries. Where permissible by law, payment default will result in the termination of the insurance contract with the policyowner, eliminating both the credit risk and insurance risk for the unpaid balance. Collateral is not sought on these balances.

The ageing analysis is as follows.

	2018 $M	2017 $M
Neither past due nor impaired	2,503	2,416
Past due 0-3 months	102	136
Past due >3 months	55	62
Impaired	8	6
	2,668	2,620

(b) Reinsurance and other recoveries

Credit risk with respect to reinsurance programs is minimised by placement of cover with a number of reinsurers with AA or higher credit ratings. Eligible recoveries under reinsurance arrangements are monitored and managed internally and by specialised reinsurance brokers operating in the international reinsurance market.

Collateral arrangements exist for non-regulated reinsurers. In certain cases, the Group requires letters of credit or other collateral arrangements to be provided to guarantee the recoverability of the amount involved. The Group holds $151 million (2017: $145 million) in collateral to support reinsurance recoveries on outstanding claims.

The following table provides information regarding credit risk exposure of reinsurance and other recoveries, classified according to Standard & Poor's counterparty credit ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as non-investment grade.

	2018 $M	2017 $M
AAA	421	440
AA	905	1,699
A	491	724
Not rated	560	490
Total	2,377	3,353

The ageing analysis is as follows.

	2018 $M	2017 $M
Neither past due nor impaired	2,350	3,302
Past due 0-3 months	20	42
Past due >3 months	7	9
	2,377	3,353

(c) Investments in interest-bearing securities and derivatives

Interest-bearing securities are held in accordance with the investment mandates. Credit limits have been established within these guidelines to ensure counterparties have appropriate credit ratings. An investment framework is in place that sets and monitors investment strategies and arrangements.

Certain derivatives issuers have signed ISDA Credit Support Annex documentation to facilitate derivative transactions and manage credit risk (refer to note 27.2).

For investment-linked business, the liability to policyowners is linked to the performance and value of the assets that back those liabilities. The Suncorp Group has no direct exposure to any credit risk in those assets.

The following table provides information regarding credit risk exposure, classified according to Standard & Poor's counterparty credit ratings and those related to investment-linked business. These assets are neither past due nor impaired.

	2018	2017	2018	2017
	Interest-bearing investment securities		Derivative asset	
	$M	$M	$M	$M
AAA	5,883	5,885	-	-
AA	4,965	4,451	12	40
A	3,002	3,419	20	13
BBB	2,013	1,453	-	1
Non-investment grade	22	49	-	-
Not rated	78	42	-	-
Investment-linked business	13	12	-	1
Total	15,976	15,311	32	55

30.3 Liquidity risk

The key objective of the Group's liquidity and funding management is to ensure that it has sufficient available liquidity to meet the current and future obligations under both normal and stressed liquidity environments, and does not introduce an unacceptable level of funding risk.

The following key facilities and arrangements are in place to mitigate non-bank-related liquidity risks:

- Investment portfolio mandates provide sufficient cash deposits to meet day-to-day obligations.
- Investment funds set aside within the investment portfolios can be realised to meet significant claims payment obligations.
- In the event of a major catastrophe, cash access is available under the terms of reinsurance arrangements.
- Mandated liquidity limits.
- Regularity of premiums received provides substantial liquidity to meet claims payments and associated expenses as they arise.

For Bank activities, 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 team. Market and Financial Risk Analytics provide Second Line of Defence oversight of liquidity and funding management activities.

In conjunction with Group policies, the Bank 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
- 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 Bank's financial liabilities based on the remaining undiscounted contractual obligations. For liquidity risk management purposes, the Bank's daily liquidity reporting is largely aligned to contractual maturity except where prescribed differently by APRA or where other methods are considered more appropriate. In addition to contractual maturity, the Group uses other metrics including the liquidity coverage ratio and the net stable funding ratio to manage its liquidity risk.

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.

	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
2018							
Payables due to other banks	148	148	-	-	-	-	148
Deposits and short-term borrowings	45,550	19,796	13,985	12,072	255	-	46,108
2017							
Payables due to other banks	50	50	-	-	-	-	50
Deposits and short-term borrowings	45,105	18,453	13,348	12,863	1,033	-	45,697

The maturity profile for the Group's remaining financial liabilities are set out in the table below.

	Carrying amount $M	At call $M	1 year or less $M	1 to 5 years $M	Over 5 years $M	Total cash flows $M
2018						
Payables and other liabilities	1,710	-	1,663	47	-	1,710
Amounts due to reinsurers	747	-	747	-	-	747
Managed funds units on issue	1,285	1,285	-	-	-	1,285
Securitisation liabilities	4,848	-	1,342	3,005	1,008	5,355
Debt issues	9,854	-	3,109	6,871	697	10,677
Loan capital[1]	2,529	-	862	1,545	461	2,868
	20,973	1,285	7,723	11,468	2,166	22,642
Derivatives						
Contractual amounts receivable (gross settled)		-	(377)	(1,385)	(60)	(1,822)
Contractual amounts payable (gross and net settled)		-	477	1,476	72	2,025
	207	-	100	91	12	203
Off-balance sheet positions						
Guarantees entered into in the normal course of business	-	115	-	-	-	115
Commitments to provide loans and advances	-	8,619	-	-	-	8,619
	-	8,734	-	-	-	8,734
2017						
Payables and other liabilities	1,637	-	1,637	-	-	1,637
Amounts due to reinsurers	799	-	799	-	-	799
Managed funds units on issue	911	911	-	-	-	911
Securitisation liabilities	3,088	-	865	2,026	509	3,400
Debt issues	9,216	-	2,199	7,282	546	10,027
Loan capital[1]	2,714	-	122	2,563	412	3,097
	18,365	911	5,622	11,871	1,467	19,871
Derivatives						
Contractual amounts receivable (gross settled)		-	(845)	(3,180)	(42)	(4,067)
Contractual amounts payable (gross and net settled)		-	1,050	3,377	65	4,492
	376	-	205	197	23	425
Off-balance sheet positions						
Guarantees entered into in the normal course of business	-	115	-	-	-	115
Commitments to provide loans and advances	-	9,356	-	-	-	9,356
	-	9,471	-	-	-	9,471

1 The cash flows for loan capital have been included at the earlier of optional call / exchange / redemption date and the mandatory conversion / maturity / next call date of each instrument. Cash flows include both principal and associated future interest estimated using estimated forward rates at the reporting date. Interest payments for a number of securities are discretionary and/or may be deferred (refer note 22). For the purposes of the maturity analysis, it is assumed discretionary interest payments are payable and no deferral to occur. In the case of perpetual SML Floating Rate Notes that are callable at the issuer's discretion, principal repayment in 'over 5 years' and interest payments of up to 5 years are assumed for the maturity analysis. Assumptions made may not reflect actual amount and timing of cash flows, which are subject to each security's terms and conditions.

(b) Concentration of deposits and borrowings for bank-related financial instruments

Details of the concentrations of financial liabilities used in the Bank's activities to raise funds are as follows.

Bank	2018 $M	2017 $M
Australian funding sources		
Retail deposits	38,482	36,668
Wholesale funding	5,442	6,118
Covered bond programme	2,037	2,491
Australian domestic program	5,605	4,804
Securitisation	4,848	3,088
	56,414	53,169
Overseas funding sources		
FX retail deposits	79	172
United States Commercial Paper and European Medium-Term Note market	2,216	2,904
United States 144a Medium-Term Note market	2,778	2,228
	5,073	5,304
Total funding	61,487	58,473
Comprised of the following items on the statement of financial position:		
Deposits and short-term borrowings	46,043	45,427
Securitisation liabilities	4,848	3,088
Debt issues	9,854	9,216
Subordinated notes[1]	742	742
Total funding	61,487	58,473

1 Disclosed within the consolidated statement of financial position category of 'Loan capital'.

30.4 Market risk for bank-related financial instruments

Due to the nature of the Bank's business, market risk exposure is managed separately to other business areas of the Suncorp Group.

The Bank 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 Bank 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 Bank'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 Bank 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 Bank's total interest rate and foreign exchange trading activities at the end of the financial year are as follows.

Bank	2018			2017		
	Interest rate risk[1] $M	FX risk $M	Combined risk[2] $M	Interest rate risk[1] $M	FX risk $M	Combined risk[2] $M
VaR at the end of the financial year	0.11	0.10	0.16	0.06	0.01	0.15

1 Does not include the Balance Sheet Management Tactical portfolio VaR of $0.01 million (2017: $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 IRRBB is defined as all on-balance sheet items and off-balance sheet items that create an interest rate risk exposure within the Bank. 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 Bank 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 the effect this has on the banking book with respect to mismatches in repricing dates

– 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

– 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 measurement 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 instantaneous parallel and non-parallel shocks 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 impact to NIIS from an adverse 2% parallel movement in interest rates on the Bank's financial position. The results are prepared based on the IRRBB framework applicable to the respective financial year.

Bank	2018 $M	2017 $M
Exposure at the end of the financial year	(31)	(36)

(ii) Present value sensitivity

As a measure of longer-term sensitivity, present value sensitivity (**PVS**) measures the sensitivity of the present value of all known future cash flows in the banking book, to instantaneous parallel and non-parallel shocks 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 impact to economic value from an adverse 2% parallel movement in interest rates on the Bank's financial position.

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

Bank	2018 $M	2017 $M
Exposure at the end of the financial year	(4)	(67)

(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.

Bank	2018 $M	2017 $M
Exposure at the end of the financial year	(18)	(22)

(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 Bank 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 13).

30.5 Market risk for non-bank-related financial instruments

(a) Foreign exchange risk

The Suncorp Group's non-bank business foreign exchange risk exposure mainly arises from investments in overseas assets, including foreign issued interest-bearing securities and global equities. The exposure is managed via the use of cross currency swaps, forward foreign exchange and futures contracts.

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

The movements in foreign exchange rates used in the sensitivity analysis for 2018 have remained unchanged based on an updated assessment of the reasonable possible changes in foreign exchange rates over the next 12 months, taking into account observations and experience in the investment markets during the financial year.

	2018			2017		
	Exposure at 30 June $M	**Change in FX rate %**	**Profit (loss) after tax $M**	**Exposure at 30 June $M**	**Change in FX rate %**	**Profit (loss) after tax $M**
USD	791	+10	54	874	+10	59
		-10	(57)		-10	(62)
Other	440	+12	34	425	+12	31
		-12	(38)		-12	(38)

(b) Interest rate risk

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

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

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

Investment-linked business is excluded from the analysis as there is no residual interest rate exposure to the shareholder. The movements in interest rates used in the sensitivity analysis for 2018 have remained unchanged based on an updated assessment of the reasonable possible changes in interest rates over the next 12 months, taking into account observations and experience in the investment markets during the financial year.

	2018			2017		
	Exposure at 30 June $M	**Change in interest rate bps**	**Profit (loss) after tax $M**	**Exposure at 30 June $M**	**Change in interest rate bps**	**Profit (loss) after tax $M**
Interest-bearing investment securities (including derivative financial instruments)	16,246	+100	(300)	15,650	+100	(244)
		-50	156		-50	130
Loan capital	2,475	+100	(16)	2,660	+100	(19)
		-50	8		-50	6

(c) Equity risk

The Suncorp Group has exposure to equity risk through its investments in international and domestic equity trusts. Equity risk is managed by incorporating a diverse holding of Australian and overseas equities (whether direct or through unitised trusts) and through the controlled use of derivative financial instruments.

The table below presents a sensitivity analysis showing the impact on profit or loss for price movements for exposures as at the reporting date with all other variables remaining constant. There is no impact on equity reserves.

The movements in equity prices used in the sensitivity analysis for 2018 have remained unchanged based on an updated assessment of the reasonable possible changes in equity prices over the next 12 months, taking into account observations and experience in the investment markets during the financial year.

	2018			2017		
	Exposure at 30 June $M	Change in equity prices %	Profit (loss) after tax $M	Exposure at 30 June $M	Change in equity prices %	Profit (loss) after tax $M
Listed Australian equities and unit trusts	783	+10	56	691	+10	48
		-20	(109)		-20	(97)
Listed international equities and unit trusts	179	+10	13	874	+10	62
		-20	(26)		-20	(123)

(d) Credit spread risk

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

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

The movements in credit spread used in the sensitivity analysis for 2018 have been revised to reflect an updated assessment of the reasonable possible changes in credit spread over the next 12 months, given renewed observations and experience in the investment markets during the financial year.

	2018			2017		
	Exposure at 30 June $M	Change in credit spread bps	Profit (loss) after tax $M	Exposure at 30 June $M	Change in credit spread bps	Profit (loss) after tax $M
Credit exposure (excluding semi-government)	9,863	+80	(126)	9,263	+70	(110)
		-20	32		-30	50
Credit exposure (semi-government)	957	+40	(12)	1,200	+40	(13)
		-15	4		-15	5

31. Commitments

31.1 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 Suncorp 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.

	2018 $M	2017 $M
Notional amounts		
Guarantees entered into in the normal course of business	115	115
Commitments to provide loans and advances	8,619	9,356
	8,734	9,471
Credit equivalent amounts		
Guarantees entered into in the normal course of business	114	103
Commitments to provide loans and advances	2,305	3,086
	2,419	3,189

31.2 Operating lease expenditure commitments

The Suncorp Group leases property under operating leases expiring from 1 to 12 years. Leases generally provide the Suncorp 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.

	2018 $M	2017 $M
Aggregate non-cancellable operating lease rentals payable but not provided in the financial statements:		
Less than one year	139	120
Between one and five years	387	372
More than five years	202	227
	728	719

Total operating lease rental expense recognised in the consolidated statement of comprehensive income as part of 'Fees, overheads and other expenses' was $133 million (2017: $110 million).

31.3 Capital and expenditure commitments

Expenditure for the acquisition of property, plant and equipment and other expenditure contracted for but not provided in the consolidated financial statements was $8 million (2017: $6 million).

32. Parent entity and composition of the Suncorp Group

32.1 Ultimate parent entity

Company	2018 $M	2017 $M
Results of the Company for the financial year:		
Revenue		
Dividend and interest income from subsidiaries	974	888
Interest and trust distribution income on financial assets at fair value through profit or loss	17	15
Other income	4	4
Total revenue	995	907
Expenses		
Interest expense on financial liabilities at amortised cost	(92)	(85)
Operating expenses	(4)	(5)
Total expenses	(96)	(90)
Profit before income tax	899	817
Income tax expense	(9)	(5)
Profit for the financial year	890	812
Total comprehensive income for the financial year	890	812

Company	2018 $M	2017 $M
Financial position of the Company as at the end of the financial year:		
Current assets		
Cash and cash equivalents	6	18
Financial assets designated at fair value through profit or loss	552	516
Due from subsidiaries	107	152
Other assets	4	5
Total current assets	669	691
Non-current assets		
Investment in subsidiaries	14,096	14,288
Due from subsidiaries	770	770
Deferred tax assets	7	8
Other assets	81	81
Total non-current assets	14,954	15,147
Total assets	15,623	15,838
Current liabilities		
Payables and other liabilities	9	21
Current tax liabilities	54	103
Due to subsidiaries	19	21
Total current liabilities	82	145
Non-current liabilities		
Loan capital	1,905	2,090
Total non-current liabilities	1,905	2,090
Total liabilities	1,987	2,235
Net assets	13,636	13,603
Equity		
Share capital	12,957	12,869
Retained profits	679	734
Total equity	13,636	13,603

Capital and expenditure commitments

There are no capital and expenditure commitments contracted for but not provided in the statement of financial position of the Company.

Contingent liabilities

There are no parent entity contingent liabilities.

Parent entity guarantees

There are no parent entity guarantees in relation to the debts of its subsidiaries.

32.2 Material subsidiaries of Suncorp Group Limited

			2018	2017
	Class of	Country of	Equity holding	
Material subsidiaries of Suncorp Group Limited	**shares**	**incorporation**	**%**	**%**
Suncorp Insurance Holdings Limited	Ordinary	Australia	100	100
AAI Limited[1]	Ordinary	Australia	100	100
Suncorp Insurance Services Limited	Ordinary	Australia	100	100
Suncorp Insurance (General Overseas) Pty Ltd	Ordinary	Australia	100	100
Vero Insurance New Zealand Limited	Ordinary	New Zealand	100	100
SBGH Limited	Ordinary	Australia	100	100
Suncorp-Metway Limited	Ordinary	Australia	100	100
APOLLO Series Trusts (various)[2]	Units	Australia	100	100
Suncorp Covered Bond Trust	Units	Australia	100	100
Suncorp Metway Advances Corporation Pty Ltd	Ordinary	Australia	100	100
SME Management Pty Limited	Ordinary	Australia	100	100
Suncorp Life Holdings Limited[3]	Ordinary	Australia	100	100
Suncorp Insurance (Life Overseas) Pty Ltd	Ordinary	Australia	100	100
Asteron Life Limited	Ordinary	New Zealand	100	100
Suncorp Group Investment Trusts (various)[3]	Units	Australia	100	100
Suncorp Life & Superannuation Limited[3]	Ordinary	Australia	100	100
Suncorp Portfolio Services Limited	Ordinary	Australia	100	100
Suncorp Staff Pty Ltd	Ordinary	Australia	100	100
Suncorp Corporate Services Pty Ltd	Ordinary	Australia	100	100
Suncorp Group Employee Share Plan Trust[4]	Units	Australia	100	100
Suncorp Group Employee Incentive Plan Trust[4]	Units	Australia	100	100

1 Also registered as an overseas company in New Zealand.

2 These trusts are structured entities created as part of the Suncorp Group's loan securitisation program. As at 30 June 2018, the Suncorp Group held interests in 10 trusts (2017: 10). Refer to note 36.1 for the basis of consolidation.

3 The Suncorp Group has seven (2017: seven) unregistered managed investment schemes. They are consolidated by the Suncorp Group's subsidiary which has control of the managed investment scheme (when the controlling subsidiary is assessed as a separate entity). On consolidation, the non-controlling interest recognised by the controlling subsidiary is eliminated against other subsidiaries' holdings in the managed investment schemes.

4 These trusts are structured entities established to operate the Suncorp Group's employee share plans (refer to note 10). These trusts are controlled by the Company.

The Suncorp Group did not acquire or dispose of any material subsidiaries, associates or joint venture entities during the current or prior financial year.

32.3 Unconsolidated structured entities

The Suncorp Group conducts fiduciary activities as trustee or custodian for various investment funds and trusts, approved deposit funds, superannuation funds, and wholesale and retail unit trusts.

The trusts are governed by the terms under which they were created, as set out in their trust deeds. Suncorp Group is deemed a sponsor of these entities through normal terms and conditions and by the association of its brand names. Compensation received by the Suncorp Group from sponsored entities for the financial year ended 30 June 2018 related to fees from trust fiduciary activities of $82 million (2017: $59 million).

The Suncorp Group does not have any other interests in these entities. Arrangements are in place to ensure activities relating to asset management and trusteeship and mortgage investments are managed separately from the operations of the Suncorp Group. The assets and liabilities of these trusts are not the property of the Suncorp Group and are not included in the consolidated financial statements as the Suncorp Group does not control these entities.

The funds under administration by trustee companies are listed in the table below.

Trustee/Fund Manager	2018 $M	2017 $M
Asteron Life Limited (New Zealand), Asteron Retirement Investment Limited & Asteron Trust Services Limited[1]	318	332
Suncorp Funds Pty Ltd[2]	1,160	1,364
Suncorp Portfolio Services Limited[3]	7,018	6,895

1 Trustee and manager for a number of wholesale, superannuation and investment funds. The assets and liabilities of these trusts and funds are not consolidated in the financial statements as the Suncorp Group does not control these entities.

2 Trustee for various investment unit trusts.

3 Trustee for various internal and external superannuation funds.

32.4 Consolidated structured entities

Suncorp Group has the following contractual arrangements which require it to provide support to its consolidated structured entities, Apollo Series Trusts (the **Trusts**).

Liquidity facility

SML provides a liquidity facility to the Trustee of the Trusts. There are two instances when the liquidity facility can be drawn: a) if on a Determination Date, the investor revenues received by the Trusts are insufficient to meet its total expenses; and b) in the event that SML does not meet its designated credit rating. The maximum amount which can be drawn is $150 million (2017: $136 million).

The amount drawn as of 30 June 2018 is $nil million (2017: $nil million).

Redraw facility

SML provides a redraw facility to the Trustee of the Trusts. The redraw facility can be drawn if on a Determination Date, the Principal Collections to reimburse the seller for any redraws funded during the monthly period are insufficient. The maximum amount which can be drawn is $57 million (2017: $49 million).

The amount drawn as of 30 June 2018 is $nil million (2017: $nil million).

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

33.1 KMP disclosures

Information regarding KMP remuneration, loans and equity instruments disclosures are included in the Remuneration Report section of the Directors' Report.

KMP compensation is included in 'Employee benefits expense' (refer to note 9). Its categorisation is as follows.

	2018 $000	2017 $000
Short-term employee benefits	18,208	19,465
Long-term employee benefits	278	624
Post-employment benefits	389	504
Share-based payments	8,571	8,010
Termination benefits	2,363	1,724
	29,809	30,327

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.

	2018		2017	
	Key management personnel $000	Other related parties $000	Key management personnel $000	Other related parties $000
Closing balance	5,931	1,050	8,090	1,050
Interest charged	228	16	230	18

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

	2018 $000	2017 $000
The aggregate amounts included in the determination of profit before tax that resulted from transactions with related parties are:		
Other income received or due and receivable:		
Joint ventures	27,402	13,665
Other expenses paid or due and payable:		
Joint ventures	6,716	7,903
Aggregate amounts receivable from, and payable to, each class of related parties at reporting date:		
Receivables:		
Joint ventures	23	69

Transactions between the Suncorp Group and associates and joint venture entities consisted of fees received and paid for information technology services, investment management services, overseas management services, property development finance facilities and reinsurance arrangements. All these transactions were on a normal commercial basis.

34. Auditors' remuneration

	2018	2017	2018	2017
	KPMG Australia		Overseas KPMG firms	
	$000	$000	$000	$000
Audit and review services				
Audit and review of financial reports	4,732	5,089	1,465	1,541
Other regulatory audits	1,318	977	303	264
	6,050	6,066	1,768	1,805
Other services				
In relation to other assurance, actuarial, taxation and other non-audit services	3,634	1,774	51	150
Total auditors' remuneration	9,684	7,840	1,819	1,955

35. Contingent assets and liabilities

35.1 Contingent assets

There are claims and possible claims made by the Suncorp Group against external parties, the aggregate amount of which cannot be readily quantified. Where considered appropriate, legal advice has been obtained. The Suncorp 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.

35.2 Contingent liabilities

There are outstanding court proceedings, potential fines, claims and possible claims against the Suncorp Group, the aggregate amount of which cannot be readily quantified. Where considered appropriate, legal advice has been obtained. The Suncorp 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 Suncorp Group has given guarantees and undertakings in the ordinary course of business in respect to credit facilities and rental obligations. Note 31 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.

– In the ordinary course of business, the Suncorp Group enters into various types of investment contracts that can give rise to contingent liabilities. It is not expected that any significant liability will arise from these types of transactions as any losses or gains are offset by corresponding gains or losses on the underlying exposures.

36. Significant accounting policies

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

36.1 Basis of consolidation

The Suncorp 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 Suncorp Group which includes companies, managed funds and trusts. The Suncorp 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 Suncorp 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 Suncorp Group.

Structured entities (**SE**) are entities created to accomplish a specific 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 Suncorp Group. A SE is consolidated if the Suncorp 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 Suncorp Group are securitisation trusts and covered bond trusts. The securitisation trusts and the covered bond trusts are controlled by the Suncorp Group and are consolidated in the consolidated financial statements.

(b) Business combination of entities under common control

In a business combination arising from transfers of interests in entities that are under the control of the ultimate parent entity, the assets and liabilities are acquired at the carrying amounts recognised previously in the Suncorp Group's consolidated financial statements.

36.2 Foreign currency

(a) Foreign currency transactions

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

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

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 36.8.

(b) Foreign operations

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated at rates approximating the foreign exchange rates applicable at the dates of the transactions. Foreign exchange differences arising on translation are recognised in other comprehensive income and presented in the foreign currency translation reserve.

36.3 Revenue and expense recognition

(a) Premium revenue

General insurance contracts

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

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

Life insurance and investment contracts

Premium recorded as revenue relates to risk-bearing life insurance contracts. The components of premium that relate to life investment contracts are in the nature of deposits and are recognised as a movement in policy liabilities.

Life insurance premiums with no due date are recognised as revenue on a cash received basis. Premiums with a regular due date are recognised on an accruals basis.

(b) Claims expenses and movements in policy liabilities

General insurance contracts

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

Life insurance and investment contracts

Insurance claims are recognised in profit or loss when the liability to the policyowner under the policy contract has been established or upon notification of the insured event, depending on the type of claim.

The component of a life insurance contract claim that relates to the bearing of risks is treated as a claim expense. Other life insurance claims and all life investment contract amounts paid to policyowners are in the nature of withdrawals and are recognised as a decrease in policy liabilities.

The change in policy liabilities is recognised in profit or loss and incorporated in claims expenses and movements in policy liabilities.

(c) Outward reinsurance premium expense

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

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

(d) 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.

(e) Dividends and distribution income

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

(f) Other income

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

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

36.4 Income tax

Income tax expense comprises current and deferred tax and is recognised in the profit or loss except to the extent that 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 Suncorp Group to take into account the impact of uncertain tax positions. For such uncertainties, the Suncorp Group relies on estimates and assumptions about future events.

AASB 1038 *Life Insurance Contracts* requires shareholder and policyowner tax to be included in income tax expense in the profit or loss. The majority of life insurance tax is allocated to policy liabilities and does not affect profit attributable to owners of the Company.

Tax consolidation

The Company is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries. Consequently, all members of the tax-consolidated group are taxed as a single entity.

The members 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 Company also recognises the entire tax-consolidated group's current tax liability. Any differences between the current tax liability and any tax funding arrangement amounts (see below) are recognised by the Company 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 wholly-owned entities fully compensate the Company for any current tax payable assumed. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities, at call.

Taxation of financial arrangements

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

36.5 Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash at branches, cash on deposit, balances with the RBA, 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.

36.6 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 either held for trading or are designated as such upon initial recognition as a result of either of the following:

- If the Suncorp Group manages such investments, evaluates the performance and makes purchase and sale decisions based on their fair value in accordance with the Suncorp Group's documented risk management or investment strategy.
- It eliminates or significantly reduces a measurement or recognition inconsistency.

Financial assets at fair value through profit or loss 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.

The Suncorp Group's financial assets at fair value through profit or loss include trading securities and investment securities (including those investment securities backing general insurance, life insurance and life investment policy liabilities).

The Suncorp Group has designated financial assets held in portfolios that match the average duration of a corresponding insurance liability, as assets backing general insurance liabilities.

(b) Held-to-maturity investments

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

(c) Loans and other receivables

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

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

(d) Available-for-sale financial assets

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

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

(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 Suncorp Group has transferred substantially all risk and rewards of ownership.

(f) Repurchase agreements and reverse repurchase agreements

When the Suncorp 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 and advances.

36.7 Derivative financial instruments

The Suncorp Group holds derivative financial instruments to hedge the Suncorp Group's assets and liabilities or as part of the Suncorp 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 (note 36.6) unless they qualify as a hedging instrument in an effective hedge relationship under hedge accounting (note 36.8).

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.

36.8 Hedge accounting

The Suncorp 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

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

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.

(c) Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, is accounted for similarly to cash flow hedges. Where an effective hedge relationship is established, the effective portion of the cumulative net change in the clean fair value of hedging instruments is recognised in the foreign currency translation reserve; while the ineffective portion is recognised in profit or loss.

Upon disposal or partial disposal of the foreign operation, the effective portion recognised in the foreign currency translation reserve shall be reclassified from equity to profit or loss as part of the gain or loss on disposal.

36.9 Reinsurance and other recoveries receivable

General insurance contracts

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

Life insurance contracts

Policy claims recoverable from reinsurers recognise the amount for credit risk as appropriate. Given the short-term nature of these receivables, the recoverable amount approximates fair value.

36.10 Deferred acquisition costs

General insurance contracts

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

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

DAC are recognised as assets to the extent that the related unearned premiums exceed the sum of the DAC and the present value of both future expected claims and settlement costs, including an appropriate risk margin. Where there is a shortfall, the DAC asset is written down and if insufficient, an unexpired risk liability is recognised.

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

Life insurance and investment contracts

DAC related to life insurance contracts represent the fixed and variable costs of acquiring new business and include commissions, certain advertising and underwriting costs. DAC related to life insurance contracts are implicitly deferred through Margin on Services (**MoS**) methodology (note 36.16(b)). The deferred amounts are recognised in the consolidated statement of financial position as a reduction in life insurance policy liabilities. The amount deferred is subject to an overall limit such that the value of future profits at inception cannot be negative.

DAC related to life investment contracts include the variable costs of acquiring new business and include commission costs. The deferred amounts are recognised as an asset and are amortised in accordance with the expected earning pattern of the associated revenue. All other acquisition costs are expensed as incurred.

36.11 Intangible assets

(a) Initial recognition and measurement

Intangible assets are recognised at cost less any accumulated amortisation and any accumulated impairment losses. Where an intangible asset is acquired in a business combination, the cost of that asset is its fair value at acquisition date.

Goodwill is recognised at cost from business combinations and is subsequently measured at cost less accumulated impairment loss.

Internally generated intangible assets

Internally generated intangible assets such as software are recognised at cost, which comprises all directly attributable costs necessary to purchase, create, produce, and prepare the asset to be capable of operating in the manner intended by management.

All other expenditure, including expenditure on software maintenance, research costs and brands is recognised as an expense as incurred.

(b) Amortisation

Intangible assets with finite lives are amortised over the estimated useful lives from the date the asset is available for use. Amortisation is charged to profit or loss in a manner that reflects the pattern in which the asset’s future economic benefits are expected to be consumed using straight-line or diminishing balance methods. All intangible assets except goodwill have finite useful lives. The maximum remaining useful lives as outlined in note 16 are reviewed annually.

Intangible assets deemed to have an indefinite useful life are not amortised but are tested for impairment at least annually.

36.12 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.

(b) Non-financial assets

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

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

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

An impairment loss recognised for goodwill is not reversed.

36.13 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 Suncorp 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 Suncorp Group's financial liabilities at amortised cost includes deposits and short-term borrowings, debt issues, subordinated notes and preference shares.

(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.

36.14 Employee entitlements

(a) Short-term employee benefits

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

(b) Long service leave and annual leave

The liabilities for long service leave and annual leave are those not expected to be settled wholly before 12 months after the end of the reporting period. They are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using Australian corporate bond rates with terms to maturity that match, as closely as possible, the estimated future cash outflows. Related on-costs such as superannuation, workers' compensation and payroll tax are also included in the liability.

(c) Share-based payments

The fair value of share-based payments is recognised as an expense on a straight line basis over the vesting period, with a corresponding increase in equity. The fair value is calculated on grant date as the fair value of each share granted multiplied by the number of shares expected to eventually vest. The fair value of the share-based payments is based on the market price of the shares, dividend entitlements, and market vesting conditions (e.g. share price-related performance criteria) upon which the shares were granted. Non-market vesting conditions (e.g. service conditions) are taken into account by adjusting the number of shares which will eventually vest and are not taken into account in the determination of the grant date fair value. On a cumulative basis, no expense is recognised for shares granted that do not vest due to a non-market vesting condition not being satisfied.

(d) Termination benefits

Termination benefits are recognised as an expense when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructure. Termination benefits for voluntary redundancies are recognised as an expense if the Group can no longer withdraw the offer as an employee has accepted the offer or when a restriction on the Group’s ability to withdraw the offer takes effect.

36.15 Unearned premium liabilities

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

36.16 Insurance liabilities

(a) General insurance contracts

The outstanding claims liability is measured as the central estimate of the present value of expected future payments relating to claims incurred at the reporting date with an additional risk margin to allow for the inherent uncertainty of the central estimate. Standard actuarial methods are applied to determine the net central estimate of outstanding claims liabilities. The details of actuarial assumptions and the process for determining the risk margins are set out in note 19.4.

(b) Life insurance contracts

Life insurance contract liabilities are calculated using the MoS methodology. Under MoS, the excess of premium received over expected claims and expenses is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyowner. The profit release is controlled by a profit carrier.

The projection method is generally used to determine life insurance contract liabilities. The net present value of projected cash flows is calculated using best estimate assumptions about the future. When the benefits under the life insurance contract are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate of those assets. Otherwise, a risk-free discount rate is used.

An accumulation method has been used for some risk business, where the liability is based on an unearned premium reserve, less an explicit allowance for DAC, and a reserve for incurred but not reported claims.

Participating policies are entitled to share in the profits that arise from participating business. This profit-sharing is governed by the Life Act and the Life companies' constitutions. The participating policyowner profit-sharing entitlement is treated as an expense in the profit or loss.

The operating profit arising from discretionary participating contracts is allocated between shareholders and participating policyowners by applying the MoS principles in accordance with the Life Act and the New Zealand Society of Actuaries Professional Standard Number 20 *Valuation of Life Insurance Liabilities*.

Profit allocated to participating policyowners is recognised as an increase in policy liabilities. Both the element of this profit that has not yet been allocated to specific policyowners (i.e. unvested) and that which has been allocated to specific policyowners by way of bonus distributions (i.e. vested) are included within life insurance contract liabilities.

(c) Life investment contracts

A life investment contract involves both the origination of a financial instrument and the provision of investment management services. Policy liabilities are measured at the fair value of the financial instrument component of the contract (designated as fair value through profit or loss), plus the liability in respect of the management services element. The management services element, including the associated acquisition costs, is recognised as revenue as services are performed.

For investment-linked products, the life investment contract liability is directly linked to the performance and value of the assets that back them and is determined as the fair value of those assets after tax. For fixed income products, the liability is determined as the net present value of expected cash flows, subject to a minimum of the current surrender value.

36.17 Other significant accounting policies specifically applicable to life insurance contracts

Under the Life Act, the business activities of the Australian Life company are conducted within one or more separate statutory funds, which are distinguished from each other and from the shareholder funds. The financial report of the Australian Life company, which is lodged with the relevant Australian regulators, is prepared in accordance with AASB 1038 *Life Insurance Contracts*. It shows all major components of the financial statements disaggregated between the various life insurance statutory funds and its shareholder funds, as well as between investment-linked business and non-investment-linked business.

The assets of Life companies are allocated between the policyowners and shareholder funds with all assets, liabilities, revenues and expenses recognised in the financial statements, irrespective of whether they are policyowner or shareholder owned.

The shareholder's entitlement to monies held in the statutory funds is subject to the distribution and transfer restrictions and other requirements of the Life Act and the relevant Life company's constitution. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund, or as distributions.

Basis of expense apportionment

Life insurance expenditure has been apportioned to the different classes of business in accordance with Division 2 of Part 6 of the Life Act. The expense apportionment basis is in line with the principles set out in APRA Prudential Standard LPS 340 *Valuation of Policy Liabilities* and the New Zealand Society of Actuaries Professional Standard Number 20 *Determination of Life Insurance Policy Liabilities*.

Expenses excluding investment management fees, which are directly identifiable, have been apportioned between policy acquisition and policy maintenance on the basis of the objective when incurring each expense, and the outcome achieved. Where allocation is not feasible between the disclosure categories, expenses have been allocated as maintenance expenses.

Expenses directly attributable to an individual policy or product are allocated directly to the statutory fund within the class of business of that policy or product. All indirect expenses charged to profit or loss are equitably apportioned to each class of business.

Statistics such as policy counts, annual premiums, funds under management and claims payments are used to apportion the expenses to individual life insurance and life investment products.

36.18 Treasury shares

Treasury shares are deducted from consolidated equity at the amount of the consideration paid. No gain or loss on treasury shares is recognised.

36.19 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.

36.20 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.

36.21 New accounting standards and interpretation not yet adopted

AASB 9 *Financial Instruments*

AASB 9 was issued in December 2014. It addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce a forward-looking 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 became mandatory for the Group for the annual reporting period from 1 July 2018.

Governance

Suncorp Group has set up a project team to implement the requirements of AASB 9. It is governed through a steering committee involving Function Chief Financial Officers, Chief Risk Officers and Heads of Finance, and was delivered by working groups with stakeholders from risk management, finance, data and transformation, and the business units.

To assess the impact of the new requirements the project team analysed existing processes, internal controls and financial instruments across the Group. A detailed implementation plan was developed, which included the implementation and testing of changes to IT infrastructure, the development of new credit provisioning models, the update of month end and operational procedures including internal controls, training and education sessions for staff and senior management as well as the update of accounting policies.

Classification and measurement

AASB 9 introduced new classification requirements for financial assets and liabilities. Financial assets are classified as amortised cost, fair value through other comprehensive income (**FVOCI**), or fair value through profit and loss (**FVTPL**). Financial liabilities are generally classified at amortised cost unless they are held for trading or meet defined criteria to be classified as FVTPL.

Financial assets are classified as FVTPL unless one of the following applies:

- Amortised cost if future cash flows of the financial asset are solely principal payments and interest (**SPPI**) and its business model is predominantly held-to-collect.
- FVOCI if future cash flows of the financial asset that is a debt instrument are SPPI and its business model is held-to-collect and for sale.
- An investment in equity instrument (excluding investment in subsidiary) where its business model is not held for trading can irrevocably elect at initial recognition to be classified as FVOCI rather than FVTPL. Note that there is no change to classification and measurement of the investment in the subsidiary by the Company and will continue to be at cost.

Where applying the above results in a classification other than FVTPL and an accounting mismatch is created, AASB 9 allows financial assets to be designated as FVTPL to reduce this mismatch.

Impairment

AASB 9 introduces the concept of forward-looking 'expected credit losses' (**ECL**) into the provision models which replaces the incurred loss model under the existing standard AASB 139. Provisions will be raised earlier and therefore this will lead to an increase in provisions compared to the incurred loss models. Loans and advances are assigned to one of three stages and could be reassigned based on changes in asset quality as shown in the following table. ECL will provide for lifetime expected credit losses for loans and advances that show a significant increase in credit risk (**SICR**) since origination.

Description	Stage 1 Performing and newly originated	Stage 2 Underperforming assets (SICR)	Stage 3 Non-performing (impaired assets)
Provision based on	12 months ECL	Lifetime ECL	Lifetime ECL
Effective interest rate	Effective interest on gross carrying amount	Effective interest on gross carrying amount	Effective interest on net carrying amount (net of provision)
Change in provision	Increase in provision reflecting introduction of forward looking macroeconomic view	Significant increase in provision to reflect lifetime losses, as well as introduction of forward looking macroeconomic view	Generally consistent with provision under AASB 139

ECL will be calculated as the Probability of default (**PD**) x Loss given default (**LGD**) x Exposure at default (**EAD**). The models that the Bank has developed for the Basel Advanced accreditation for regulatory capital have assisted in meeting the requirements of AASB 9. These models have been calibrated to reflect PD and LGD estimates which incorporate unbiased forward-looking views of macroeconomic conditions.

A SICR event would reassign an exposure from Stage 1 to Stage 2 and therefore significantly change the provision from 12 months ECL to lifetime ECL (i.e. all losses that are expected to occur over the life of the loan). For retail loans, an increase in arrears would result in a deterioration in the loan's master rating scale (**MRS**) level, which is directly related to PD. Accordingly, a SICR event for retail loans occurs if a loan deteriorates on the MRS by a defined number of notches since origination. Loans with a higher MRS at origination (higher risk) will require fewer notch movements to trigger a SICR event than loans with a lower MRS at origination (lower risk). To ensure a consistent approach whereby the required increase in PD to generate a SICR event is the same across all asset classes, the same MRS notching will apply to business loans. From the perspective of arrears, 30 days past due is always considered Stage 2. Exposures for which the MRS subsequently improves to below the SICR threshold will move back to Stage 1.

The inclusion of a forward-looking component that anticipates changes in the economic environment will tend to increase volatility in provisions. However, earlier recognition of potential losses should also reduce the likelihood of larger deferred increases in provisions in a downturn environment. Where applicable, management adjustments, as approved by the Banking & Wealth Chief Risk Officer and Chief Financial Officer, may be raised where expected risks have not been considered in provision models.

Hedge accounting

The new hedge accounting model under AASB 9 expands the scope of hedged items and permits hedge accounting to be applied more broadly, aligning it better to how the entity's risk management manages different types of risks. It removes the 80-125% rule for hedge effectiveness and does not permit hedge de-designation.

The International Accounting Standards Board is currently working on a project on dynamic risk management, which will heavily impact hedge accounting for macro hedges. AASB 9 currently provides an option to continue to apply AASB 139 hedge accounting rules until this project is finalised. Suncorp Group has elected to continue to apply AASB 139 for hedge accounting until there is clarity around the additional changes.

Transitional impact

AASB 9 is applied retrospectively and the option not to restate prior period financial statements is elected. Changes in recognition and measurement resulting from the adoption of AASB 9 will be recognised in 1 July 2018 opening retained profits and other appropriate equity reserves. It will not impact profit or loss. Net assets are expected to decrease by approximately $7 million.

The main driver for the increase in loan provisions is changing from an incurred loss to an expected credit loss model, which is expected to increase provisions by approximately $20 million and an increase in the deferred tax asset applicable to the loan provisions by approximately $6 million. Assets in Stage 2 which are showing a SICR will be the largest contributor to the increase in provision, due to use of lifetime expected credit loss and the forward-looking component inherent in the models.

Under AASB 9, available for sale and held-to-maturity categories will no longer exist. $4,058 million in these categories will be classified as FVOCI under the new standard. The reclassification will result in an increase in FVOCI investments of $10 million remeasuring from assets previously held at amortised cost and a corresponding increase in deferred tax liability of $3 million.

As at 30 June 2018, the Company invested $770 million in internal notes classified as 'Due from subsidiaries' at amortised cost as discussed in note 32.1. This will be reclassified to FVTPL and the impact on retained earnings is not considered material. There is no impact to the Suncorp Group as the effect will be eliminated on consolidation.

The above shows all expected material movements, but does not constitute a complete list of adjustments.

AASB 9 also requires extensive additional disclosures about hedge accounting, credit risk and ECLs. The Group has included this as part of the overall gap analysis and the project team is implementing the changes to processes and systems to capture the additional data requirements. Transitional disclosures will be included in the Group's 31 December 2018 half-year report and 30 June 2019 annual financial report.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 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*, AASB 111 *Construction Contracts*, and related interpretations. This standard will become mandatory for the Group's 30 June 2019 financial statements.

Its adoption has an immaterial impact on the Group's financial statements and is not expected to have an impact on opening balances including retained profits for the financial year ending 30 June 2019.

AASB 16 *Leases*

AASB 16 was issued in February 2016 and will replace AASB 117 *Leases and related Interpretations*. AASB 16 introduces a single on-balance sheet lease accounting model for lessees which will remove the operating/finance lease distinction for lessees under AASB 117. Lessor accounting remains similar to the current standard and lessors will continue to classify leases as finance and operating.

Under AASB 16, the Group will recognise a right-of-use asset representing its right to use the underlying asset, except for short-term leases and leases of low-value items which are exempted under the new Standard, and a lease liability representing its obligation to make lease payments. Consequently, the Group will recognise depreciation of the right of use assets and interest on lease liabilities over the lease term in the Statements of Comprehensive Income.

The Group is currently assessing the impact of AASB 16 and so far, the most significant impact identified is the recognition of new assets and liabilities in the Statement of Financial Position relating to real estate leases and motor vehicle leases. As at 30 June 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to $728 million on an undiscounted basis as set out in note 31.2.

The Group plans to adopt AASB 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting the new Standard will be recognised as an adjustment to the opening balance of retained earnings in 1 July 2019, with no restatement of comparative information.

AASB 17 *Insurance Contracts*

AASB 17 was issued in July 2017 and will replace AASB 4 *Insurance Contracts,* AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 17 will materially change the recognition and measurement of insurance contracts and the corresponding presentation and disclosures in the Suncorp Group's financial statements.

Under AASB 17, on initial recognition, a group of insurance contracts are measured based on the fulfilment cashflows (present value of estimated future cash flows with a provision for risk) and the contract service margin ("CSM", the unearned profit that will be recognised over the cover period). Subsequent to initial recognition, the liability for the group of insurance contracts comprises the liability for the remaining coverage (fulfilment cash flows and CSM) and the liability for incurred claims (fulfilment cash flows for claims and expenses already incurred but not yet paid).

This new standard will become mandatory for the Suncorp Group's 30 June 2022 financial statements. The potential effects on adoption of the standard are currently being assessed.

AASB 9, AASB 15, AASB 16 and AASB 17 are available for early adoption but have not been applied by the Suncorp Group in this financial report.

37. Subsequent events

On 9 August 2018, the Suncorp Group announced it had entered into a non-binding Heads of Agreement to sell 100% of the shares in Suncorp Life & Superannuation Limited to TAL Dai-ichi Life Australia Pty Limited (**TAL**) for total consideration of approximately $725 million. The legally binding Share Sale Deed between both parties is due to be executed by 31 August 2018. The total consideration is an estimate and may be adjusted for certain movements between signing and completion. As part of the proposed transaction, Suncorp will enter into a 20-year strategic alliance agreement with TAL for the provision of life insurance products through Suncorp's direct channels to customers in Australia. Under the terms of the agreement, Suncorp will continue to earn income on the distribution of life insurance products.

The transaction is expected to be completed by the end of 2018, subject to regulatory approvals and conditions.

An indicative net loss after tax on sale of $880 million is anticipated as a result of the transaction. The final loss on sale will be determined at completion and will be impacted by the business performance, transaction and separation costs, and final taxation impacts.

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

DIRECTORS' DECLARATION

1. The directors of Suncorp Group Limited (the **Company**) declare that in their opinion:
   a. the consolidated financial statements and notes, and the Remuneration Report in the Directors' Report, set out on pages 25 to 48, are in accordance with the *Corporations Act 2001* (Cth*)* (**Corporations Act**), including:
      i. giving a true and fair view of the Suncorp Group's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
      ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001
   b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by section 295A of the Corporations Act from the Chief Executive Officer and the Chief Financial Officer for the financial year ended 30 June 2018.
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 of the Board

9 August 2018

MICHAEL CAMERON

CEO & Managing Director

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SUNCORP GROUP LIMITED

KPMG

Independent Auditor's Report

To the shareholders of Suncorp Group Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Suncorp Group Limited (the **Company**).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises the:

- Consolidated statement of financial position as at 30 June 2018;
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

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

Basis for opinion

We conducted our audit 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 opinion.

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

We are independent of the Group 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 audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- measurement of outstanding claims liabilities and related assets arising from reinsurance contracts and other recoveries;
- specific and collective impairment provisions for loans and advances, and implementation disclosures for expected credit losses;
- valuation of life insurance contract liabilities and gross policy liabilities ceded under reinsurance; and
- valuation of goodwill.

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Outstanding claims liabilities and related assets arising from reinsurance contracts and other recoveries (AUD 7,674 million)

Refer to Note 19, Note 36.9 and Note 36.16(a) to the Financial Report

The key audit matter	How the matter was addressed in our audit
The estimation of outstanding claims liabilities and related assets, including reinsurance assets, is a key audit matter and involves significant judgement given the high degree of uncertainty inherent in estimating the expected future payments for claims incurred. Judgement arises over the estimation of payments for claims incurred at the reporting date but that have not yet been reported to the Group as it may take many years to notify a claim and the ultimate cost may be influenced by factors unknown at 30 June 2018 or outside of the control of the Group. As the auditor, challenging this estimation process requires deep understanding of the industry and specialist actuarial knowledge. Judgement is also required when considering the application of historical experience of claims development to determine current estimates, including the greater variability between the original estimation and the ultimate settlement of claims where there is a long time delay between the claim being incurred and the ultimate settlement. This includes judgement over key assumptions such as average claim size, future wage and superimposed inflation and risk margins applied. Examples include claims relating to Compulsory Third Party (CTP)	We involved our actuarial specialists and performed audit procedures, which included: • testing controls over claims payments and case estimates, as well as the key actuarial controls, including IT general and application controls, data reconciliations and the Group's oversight of outstanding claims liability valuations. • testing a sample of claims case estimates and claims payments to check the accuracy of the claims information. • challenging the Group's actuarial methods and key assumptions for significant classes of business such as CTP and Workers' Compensation, as well as separate consideration of claims relating to catastrophe events such as the Kaikoura and Canterbury earthquakes. We assessed the selection of methods and key assumptions to consider evidence of management bias. We challenged the actuarial methods and key assumptions by performing an assessment of the: – accuracy of previous estimates; – consistency across the Group's operations; and – comparability to the broader insurance industry and with previous periods.

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Outstanding claims liabilities and related assets arising from reinsurance contracts and other recoveries (AUD 7,674 million) (continued)	
and Workers' Compensation and catastrophe events such as the Kaikoura and Canterbury earthquakes. Valuation of reinsurance assets arising from reinsurance contracts involves a high degree of judgement due to the implicit dependence on the estimate of gross outstanding claims and the complexity of significant contracts (such as coverage for natural hazards and catastrophes).	• performing our own independent re-estimation of claims liabilities using industry accepted actuarial methods to compare and challenge the Group's outstanding claims liability valuations for a sample of classes of business. • assessing the Group's estimation of risk margins with a view to identifying management bias. We evaluated the Group's actuarial methodologies for consistency with those used in the industry and with prior periods. We also compared the risk margins methods to the framework recommended by the Risk Margin Task Force from the Institute of Actuaries of Australia in the paper titled "*A Framework for Assessing Risk Margins*" (November 2008). • testing a sample of reinsurance contracts to compare the recoveries recognised in the financial statements with the terms of those contracts, and extending our procedures in respect of gross outstanding claims to the related reinsurance asset.

Specific and collective impairment provisions for loans and advances (AUD 130 million) and implementation disclosures for expected credit losses	
Refer to Note 15, Note 30.1, Note 36.12(a) and Note 36.21 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
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 in determining the provisions and the judgement required by us in challenging these estimates. Specific impairment provisions are based on the Group'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 are dependent on future and uncertain events, for example, the timing and proceeds from the future sale of collateral or a refinance of the loans to another financial institution.	Our audit procedures included: • testing key controls over arrears calculations, customer loan ratings, annual loan reviews, credit risk reviews and credit risk model validations. **Specific provisions** • performing credit assessments for a sample of business and agribusiness loans managed by the Group's Business Customer Support team assessed as higher risk or impaired, and a sample of other loans identified through our data analytic procedures, focusing on larger exposures assessed by the Group as having deteriorating credit risk factors, or in areas of emerging risk (assessed against external market conditions, for example, drought). We challenged the Group's risk grading of the loan and performed our own assessment of recoverability.

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Specific and collective impairment provisions for loans and advances (AUD 130 million) and implementation disclosures for expected credit losses (continued)	
Collective impairment provisions are determined either on a ratings-based approach at the exposure 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 the exposure to determine the collective provision. This estimation is challenging due to the use of complex models based on the Group's historical loss experience to predict probability of default and loss given default estimates. Significant judgement is applied in determining the nature and level of model overlays, which are used where the underlying models may not represent emerging risks or trends in the respective loan portfolios. AASB 9 *Financial Instruments* has been implemented from 1 July 2018. This is a new and complex accounting standard which requires considerable judgement and interpretation in its implementation to measure the expected credit losses on loans and advances.	Our credit assessments included inspection of the latest loan strategy papers, 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's panel of approved valuers. We also re-performed key impairment calculations. • for residential mortgages, we tested a sample of non-performing loans not underwritten by lenders mortgage insurance with a higher risk of impairment, for example, higher loan-to-value ratios, larger exposures and security located in property markets experiencing downturn. We challenged assumptions made in respect of expected recoveries, primarily from the collateral held and realisation strategy adopted. **Collective provisions** • 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's model governance policies and the requirements of accounting standards. We evaluated model validations performed over the collective provision calculations for the business, agribusiness and mortgage loan portfolios. • independently assessing judgements in the application of overlays for management 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 recent drought conditions.

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<table>
<tr><th colspan="2">Specific and collective impairment provisions for loans and advances (AUD 130 million) and implementation disclosures for expected credit losses (continued)</th></tr>
<tr><td></td><td>Expected credit losses (implementation disclosures)
• testing the controls over the selection and approval of key accounting policy determinations, for example, definition of significant increase in credit risk. This included our assessment of technical accounting papers prepared by the Group.
• testing the controls over model governance, development and validation. We used our credit risk specialists to assess model methodology and assumptions for a sample of significant models to determine compliance with AASB 9.
• testing key data reconciliation controls from source systems into credit risk models.
• independently assessing the disclosure of the impact of adopting AASB 9 as it pertains to expected credit losses.</td></tr>
</table>

<table>
<tr><th colspan="2">Life insurance contract liabilities (AUD 2,020 million) and gross policy liabilities ceded under reinsurance (AUD 528 million)</th></tr>
<tr><td colspan="2">Refer to Note 20 and Note 36.16(b) to the Financial Report</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Life insurance contract liabilities is a key audit matter because of the judgement required to challenge the assessment of estimates determined by projecting expected cash flows long into the future.

Specific audit and actuarial expertise is required to evaluate complex and judgemental actuarial methodologies and assumptions. The assumptions include the likelihood of policyholders discontinuing their policies, the incidence of policyholder sickness or death, the expected costs associated with future claims handling and policy maintenance and developments such as changes in legal practice and new medical treatments. These assumptions are used in conjunction with policyholder details to project the expected future cash flows related to the liabilities over the expected life of the in-force policies.</td><td>Our procedures included:
• evaluating the key controls in the life insurance contract liabilities measurement process. This included controls over the integrity of the base data used in the estimation process. The base data is projected over the expected life of the policy which may be a period of many years.
• using our actuarial specialists to challenge the appropriateness of the actuarial methods and assumptions used by the Group. We considered the impact on assumptions arising from the strategic review of the Australian operations. We assessed the selection of methods and assumptions with a view to identifying management bias. In response to the elevated claims incidence, the Group's repricing and amendments to reinsurance arrangements, we focused on the income protection class of business.</td></tr>
</table>

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Life insurance contract liabilities (AUD 2,020 million) and gross policy liabilities ceded under reinsurance (AUD 528 million) (continued)	
During the year, the Group, and the broader life insurance industry, continued to experience elevated claims incidence for income protection business. In response, the Group has repriced this business and also made amendments to the reinsurance arrangements in place, impacting the estimation of the life insurance contract liabilities. The Group also continued its strategic review of the Australian Life business, which included a focus on improving claims outcomes and reducing costs.	We compared assumptions and expected experience to: – actual historical experience; – observable market data, including industry averages and experience for certain classes of business and assumptions; and – actuarial and accounting standard requirements. • challenging the analysis of profit from life insurance contracts by comparing movements with our understanding of the business and our expectations derived from industry experience.

Goodwill (AUD 4,875 million)

Refer to Note 16, Note 36.12(b) and Note 37 to the Financial Report.

The key audit matter	How the matter was addressed in our audit
The Group's annual testing of goodwill for impairment is a key audit matter owing to the high level of judgement required by us in assessing the assumptions the Group applied in their valuation models. The most significant assumptions incorporated in the Group's assessment of impairment of the Group's goodwill include forecast cash flows, discount rates applied, and the assumptions underlying forecast growth. In particular, the net interest income and lending assets growth for the Banking CGU and the forecast Insurance Trading Result for the Insurance and New Zealand CGUs, and the terminal growth rate assumptions. On 9 August 2018, the Group announced it had entered into a Heads of Agreement to dispose of the Australian life insurance business (SLSL) with details of the proposed transaction disclosed as a subsequent event with no impacts on the financial position, performance or cash flows for the year ended 30 June 2018.	Our procedures included: • assessing the Group's determination of the CGUs based on our understanding of the operations of the Group's business. We also analysed how operating results are aggregated and are monitored and reported internally. • using our valuation specialists, we challenged the Group's key forecast cash flows, including discount rates, growth assumptions and terminal growth rates. This included comparing the Group's assumptions to external data, such as published economic growth projections and interest rates, as well as our own assessments in relation to key inputs such as discount rates. • comparing the cash flow forecasts to Board approved business plans. We also compared previous forecasts to actual results to assess the performance of the business and the historical accuracy of forecasting. • performing a sensitivity analysis on key assumptions such as discount rates, forecast growth rates and terminal growth rates to identify those CGUs at higher risk of impairment, to inform our further procedures to identify management bias.

Goodwill (AUD 4,875 million) (continued)	
	• assessing the treatment of the Heads of Agreement as a subsequent event in accordance with the requirements of the relevant accounting standards, including any impact on the recoverable value of the Group's CGUs. This involved consideration of the Heads of Agreement, board papers and minutes dealing with the sale. The disclosed transaction details were agreed to supporting documents.

Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

The directors are responsible for:

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

KPMG

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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 audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Suncorp Group Limited for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

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 Sections 2 to 6 of the Remuneration Report included in pages 29 to 48 of the Directors' report for the year ended 30 June 2018.

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

KPMG

Chris Hall
Partner

David Kells
Partner

Sydney
9 August 2018

SHAREHOLDER INFORMATION

Suncorp Group Limited is a publicly listed company limited by shares and incorporated in Australia. Suncorp Group Limited shares are listed on the Australian Securities Exchange (**ASX**). The securities of Suncorp Group Limited, and its subsidiary Suncorp-Metway Limited, listed on the ASX as at 30 June 2018 (and their respective codes) are as follows.

1. Listed securities

Suncorp Group Limited[1]		**Suncorp-Metway Limited**	
Security code	**Number of securities**	**Security code**	**Number of securities**
SUN	1,298,503,953 ordinary shares	SBKHB	715,383 floating rate capital notes
SUNPD	7,700,000 subordinated notes		
SUNPE	4,000,000 convertible preference shares		
SUNPF	3,750,000 capital notes		
SUNPG[2]	3,750,000 capital notes		

1 Suncorp exchanged all outstanding convertible preference shares (SUNPC) at the Optional Exchange Date on 18 December 2017. SUNPC ceased trading on 11 December 2017.

2 Suncorp issued 3.75 million capital notes (SUNPG) on 24 November 2017.

2. Dividend Reinvestment Plan

The Company's Dividend Reinvestment Plan (**DRP**) allows eligible shareholders to reinvest all or part of their dividends in the Company's shares, with no brokerage or transaction costs.

Shareholders wishing to join the DRP for future dividends should advise Link Market Services (see section 6 for details) by no later than 5pm on the business day following the record date for each dividend payment.

Shareholders may vary their participation or withdraw from the DRP at any time. Further information is available on the Suncorp Group website or by contacting Link Market Services.

If shareholders do not elect to participate in the DRP, the Company encourages shareholders to have dividends credited directly to their bank/building society/credit union account. This is more cost effective, convenient and secure.

3. Voting rights

Fully paid ordinary shareholders are entitled to vote at any meeting of members of the Company and their voting rights on a poll are one vote per fully paid ordinary share.

Convertible preference shareholders (SUNPE) have no voting rights at general meetings of holders of ordinary shares, except in certain limited circumstances.

Subordinated note and capital note holders (SUNPD, SUNPF, SUNPG and SBKHB) have no voting rights at general meetings of holders of ordinary shares.

4. Substantial shareholders

A person has a 'substantial holding' of a company's shares within the meaning of the Corporations Act if the total votes attached to their voting shares (in which they or their associates have relevant interests) is 5% or more of any class of voting shares. As at 30 June 2018 the following substantial shareholdings were recorded in the Company's register of substantial shareholdings.

Substantial shareholder	Number of ordinary shares	% issued capital
Fidelity Worldwide Investment (FIL)	84,701,018	6.52
BlackRock Inc	67,582,770	5.20

5. Shareholder analysis

The tables below, showing the top 20 shareholders in each class of security, include shareholders that may hold shares for the benefit of third parties. This information is current as at 30 June 2018.

TOP 20 HOLDERS OF ORDINARY SHARES (SUN)

Name	Number of securities	% issued capital
HSBC Custody Nominees (Australia) Limited	353,010,333	27.19
J P Morgan Nominees Australia Limited	247,397,668	19.05
Citicorp Nominees Pty Limited	88,479,933	6.81
National Nominees Limited	60,285,904	4.64
Citicorp Nominees Pty Limited	21,553,854	1.66
BNP Paribas Nominees Pty Ltd	20,989,299	1.62
BNP Paribas Noms Pty Ltd	16,825,691	1.30
HSBC Custody Nominees (Australia) Limited	11,767,893	0.91
Pacific Custodians Pty Limited	5,383,956	0.41
Argo Investments Limited	5,027,906	0.39
AMP Life Limited	4,306,581	0.33
Pacific Custodians Pty Limited	4,190,367	0.32
National Nominees Limited	3,411,657	0.26
Milton Corporation Limited	3,314,232	0.26
UBS Nominees Pty Ltd	3,231,418	0.25
Australian Foundation Investment Company Limited	2,477,000	0.19
Navigator Australia Ltd	2,170,506	0.17
Australian Foundation Investment Company Limited	1,912,991	0.15
UBS Nominees Pty Ltd	1,865,000	0.14
IOOF Investment Management Limited	1,779,048	0.14

DISTRIBUTION/ANALYSIS BY RANGE OF HOLDINGS OF ORDINARY SHARES (SUN)

Range	Investors	Number of securities	% issued capital
1 to 1,000	87,537	42,776,056	3.29
1,001 to 5,000	69,661	154,341,741	11.89
5,001 to 10,000	10,602	74,798,566	5.76
10,001 to 100,000	5,829	119,406,132	9.20
100,001 and over	172	907,181,458	69.86

The number of investors holding less than a marketable parcel of 35 securities (less than $500 based on a market price of $14.59 on 30 June 2018) is 3,654 and they hold a total of 53,788 securities.

TOP 20 HOLDERS OF CONVERTIBLE PREFERENCE SHARES (SUNPE)

Name	Number of securities	% issued capital
HSBC Custody Nominees (Australia) Limited	358,106	8.95
J P Morgan Nominees Australia Limited	90,872	2.27
National Nominees Limited	78,369	1.96
Australian Executor Trustees Limited	69,965	1.75
Navigator Australia Ltd	56,417	1.41
Willimbury Pty Ltd	50,000	1.25
Navigator Australia Ltd	46,545	1.16
BNP Paribas Nominees Pty Ltd	45,025	1.13
BNP Paribas Noms Pty Ltd	40,861	1.02
Citicorp Nominees Pty Limited	39,098	0.98
Eastcote Pty Ltd	39,000	0.98
Federation University Australia	30,051	0.75
Mutual Trust Pty Ltd	26,244	0.66
FOPAR Nominees Pty Ltd	25,000	0.63
HSBC Custody Nominees (Australia) Limited	21,198	0.53
Seymour Group Pty Ltd	19,594	0.49
GCF Investments Pty Ltd	19,500	0.49
Nulis Nominees (Australia) Limited	18,265	0.46
Churches of Christ Life Care Inc	18,027	0.45
G C F Investments Pty Ltd	16,509	0.41

DISTRIBUTION/ANALYSIS BY RANGE OF HOLDINGS OF CONVERTIBLE PREFERENCE SHARES (SUNPE)

Range	Investors	Number of securities	% issued capital
1 to 1,000	5,417	1,583,357	39.58
1,001 to 5,000	468	970,326	24.26
5,001 to 10,000	34	237,989	5.95
10,001 to 100,000	27	850,222	21.26
100,001 and over	1	358,106	8.95

The number of investors holding less than a marketable parcel of five securities (less than $500 based on a market price of $101.50 on 30 June 2018) is three and they hold a total of nine securities.

6. Share registry contact details

Link Market Services Limited
PO Box A50
Sydney South, NSW 1235
Australia

suncorp@linkmarketservices.com.au
linkmarketservices.com.au

1300 882 012 (inside Australia) or
+61 2 8767 1219 (outside Australia)

7. Changing shareholder details[1]

Shareholders can go to the Link Market Services Investor Centre website to:

- update their personal details
- view details of their securities holding(s)
- view notices of shareholder meetings, financial reports and other communications
- register an email address for dividend advices
- obtain and complete forms to have dividends paid directly to their bank, building society or credit union account.

8. Electronic shareholder communications

The 2017–18 Directors' Report and Financial Statements forms part of the Suncorp Group's 2017–18 Annual Reporting Suite. Shareholders can elect to receive the following communications electronically:

- Annual Review and/or Directors' Report and Financial Statements
- Notice of Meeting and online voting
- dividend statements when paid by direct credit or via the DRP.

Shareholders are also encouraged to have dividend payments credited directly into their bank/building society/credit union account. This is more cost effective, convenient and secure.

1 Shareholders will need their securityholder reference number (SRN) or holder identification number (HIN) to update their details. Issuer-sponsored holders can change their address via the Link Market Services website (some conditions apply) or by notifying Link Market Services. Shareholders who are sponsored by a broker (CHESS) should advise their broker of their change of address.

FINANCIAL CALENDAR AND KEY DIVIDEND DATES

15 AUGUST 2018	Ex-dividend date for final dividend
16 AUGUST 2018	Record date for final dividend
19 SEPTEMBER 2018	Payment date for final dividend
20 SEPTEMBER 2018	Annual General Meeting, 2.30pm, Sofitel Brisbane Central, 249 Turbot Street, Brisbane
14 FEBRUARY 2019	Half-year results announcement
20 FEBRUARY 2019	Ex-dividend date for interim ordinary dividend
21 FEBRUARY 2019	Record date for interim ordinary dividend
2 APRIL 2019	Payment date for interim ordinary dividend

The financial calendar may be updated from time to time throughout the year. Please refer to suncorpgroup.com.au for up-to-date details. Dates for dividends may be subject to change.

5-YEAR SUMMARY STATISTICS

30 June		2018	2017	2016	2015	2014
Ordinary share price at end of year	($)	**14.59**	14.82	12.18	13.43	13.54
Number ordinary shares issued at end of period	(million)	**1,299**	1,293	1,287	1,287	1,287
Market capitalisation	($million)	**18,945**	19,158	15,671	17,279	17,421
Dividend per ordinary share, fully franked	(cents)	**81**	73	68	88	105
- Interim		**33**	33	30	38	35
- Final		**40**	40	38	38	40
- Special		**8**	-	-	12	30

AUDITORS

KPMG
Level 16, Riparian Plaza
71 Eagle Street
Brisbane, Qld Australia 4000

This 2017–18 Directors' Report and Financial Statements forms part of the Suncorp Group's 2017–18 Annual Report suite. Shareholders can elect to receive the following communications electronically: Annual Review and/or Directors' Report and Financial Statements; Notice of Meetings and online voting; and dividend statements when paid by direct credit or via the Dividend Reinvestment Plan.

To see more, go online
suncorpgroup.com.au

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Registered office

Suncorp Group Limited
Level 28, 266 George Street
Brisbane, Qld Australia 4000
+61 7 3135 2901

Shareholder enquiries

suncorp@linkmarketservices.com.au
1300 882 012 (inside Australia)
+61 2 8767 1219 (outside Australia)

Investors

investor.relations@suncorp.com.au

Corporate Responsibility

responsible@suncorp.com.au

General product enquiries

13 11 55

Connect

suncorpgroup.com.au
@SuncorpGroup

SUNCORP

RECYCLED CONTENT EMS ENVIRONMENTAL MANAGEMENT SYSTEMS FOREST MANAGEMENT