SUNCORP

Suncorp-Metway Limited and subsidiaries

ABN 66 010 831 722

Annual Report

for the financial year ended 30 June 2020

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Directors' Report

The directors present their report together with the financial report of the consolidated entity (or **Group**), being Suncorp-Metway Limited (the **Company**) and its subsidiaries, for the financial year ended 30 June 2020 (**2019–20**) and the auditor's report thereon.

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

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 2019–20 financial year are set out below. All non-executive directors are members of the Nomination Committee.

Christine McLoughlin

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

Ms McLoughlin has been a director of the Group since February 2015 and Chairman since September 2018. She is Chairman of the Nomination Committee and an ex-officio member of the Audit, Customer, People and Remuneration, and Risk Committees. Ms McLoughlin is a highly respected company director, with an executive career spanning 25 years with domestic and international experience in financial services and telecommunications. She brings a wealth of experience to Suncorp, having served on the boards of ASX 50 companies in the financial services, resources, health insurance and infrastructure sectors for the past 12 years. Her other directorships and commitments include director of nib holdings limited (since March 2011), director of the McGrath Foundation and Chancellor-elect of the University of Wollongong. Ms McLoughlin is also the Australian private sector representative to the G20 EMPOWER Council and co-founder and director of the Minerva Network, a not-for-profit organisation focused on supporting the professional careers of elite female athletes and connecting communities through sports participation. Her previous directorships of listed companies include Whitehaven Coal (May 2012-February 2018) and Spark Infrastructure RE Limited (October 2014-October 2017).

Steve Johnston

BBus (Mgt) BBus (PA)
Group Chief Executive Officer and Managing Director

Mr Johnston was appointed Group Chief Executive Officer (**Group CEO**) of Suncorp and a director of the Group on 9 September 2019. Mr Johnston joined Suncorp in 2006 and has held various executive positions, most recently as Acting Group CEO. Prior to this, he was the Group Chief Financial Officer (**CFO**) with responsibility for financial reporting and management, legal and company secretariat, taxation, investor relations, corporate affairs and sustainability. Mr Johnston's previous roles include Deputy CFO and Executive General Manager Investor Relations and Corporate Affairs, where he played a key role in the strategic and financial management of the Group including Suncorp's response to the global financial crisis. Prior to joining Suncorp, Mr Johnston held senior positions at Telstra and the Queensland Government.

Audette 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 Customer and Risk Committees. She brings to Suncorp deep business experience in banking, insurance and reinsurance, investment management and corporate advice, and a strong legal background. Ms Exel gained a deep understanding of business, governance and compliance from her former roles as Managing Director of BSX-listed Bermuda Commercial Bank (1993–1996), Chairman of the Bermuda Stock Exchange (1995–1996) and as a regulator on the board of the Bermuda Monetary Authority (1999–2005). She began her career as a lawyer specialising in international finance. Ms Exel is the founder and Chair of the Adara Group, a pioneering organisation which exists to support people living in poverty, and is the Chief Executive Officer of its corporate advice businesses. She is the recipient of numerous awards, including an honorary Order of Australia for service to humanity.

Sylvia Falzon

MIR (Hons), BBus, FAICD, SFFin
Non-executive director

Ms Falzon has been a director of the Group since September 2018 and is a member of the People and Remuneration and Risk Committees. She brings to Suncorp valuable experience in the areas of business development, marketing and brand management, customer service, risk and compliance, together with remuneration and people strategies. Ms Falzon has held senior positions within the financial services sector having worked for major life insurance and asset management organisations over a 30-year career. Through her executive career and now as a non-executive director, she has gained valuable insights working in large consumer-facing and highly regulated businesses within the financial services, healthcare, retail and aged care sectors. Ms Falzon is a non-executive director of listed companies Regis Healthcare (since September 2014) and Premier Investments (since March 2018). Ms Falzon is also Chairman of the Governing Board of Cabrini Health Limited, a diversified not-for-profit, health and technology service provider. She was previously a non-executive director of Perpetual Limited (November 2012-October 2019). Ms Falzon held senior executive roles with Aviva Investors Australia (a wholly owned subsidiary of global insurer Aviva plc), Alpha Investment Management, and major life insurer National Mutual/AXA.

Elmer Funke Kupper

BBA, MBA
Non-executive director

Mr Funke Kupper has been a director of the Group since January 2020. He is a member of the Audit Committee. Mr Funke Kupper is a respected business leader and company director. He has significant financial services experience and has served as Chief Executive Officer of two public companies. Mr Funke Kupper brings experience in navigating demanding regulatory environments, and in transforming business models through the adoption of technology and digital services. He has worked closely with state and federal governments, regulators, customers and shareholders. Mr Funke Kupper was previously Managing Director and CEO of the Australian Securities Exchange (ASX Limited), and a director of the Business Council of Australia. Prior to that he was Managing Director and CEO of Tabcorp. He held senior executive positions at ANZ Bank over more than 10 years, and was a member of its Management Board. He started his career as a management consultant with McKinsey & Company. Mr Funke Kupper is currently a non-executive director of MYOB Group Co Pty Ltd, the Australian holding company of the MYOB Group.

Ian Hammond

BA (Hons), FCA, FCPA, FAICD
Non-executive director

Mr Hammond has been a director of the Group since October 2018. He is Chairman of the Audit Committee, and a member of the Risk Committee. He brings to Suncorp extensive knowledge of the financial services industry, and expertise in financial reporting and risk management. He has deep experience across the insurance, banking, wealth management and property sectors, and a keen interest in digital and technology trends. Mr Hammond is Chairman of Venues NSW, and a non-executive director of listed company Perpetual Limited (since March, 2015) where his board roles include Chairman of the Audit, Risk and Compliance Committee. He also serves on the boards of several not-for-profits including Mission Australia and Chris O'Brien Lifehouse. Previously Mr Hammond was a non-executive director of Citigroup Pty Limited. Mr Hammond spent more than 35 years at PwC, including 26 years as a partner. He was lead partner for several of Australia's major financial institutions and was previously a member of the Australian Accounting Standards Board and the International Accounting Standards Board.

Sally 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 Customer Committee. She brings to Suncorp strong expertise in running retail banking and insurance products, setting strategy for financial services businesses, and working with customers, shareholders, regulators and government. Ms Herman has deep executive experience running customer-facing financial services businesses in Australia and the United States of America. She has held board positions (including on subsidiary boards) of financial services organisations for over 20 years, with a focus on governance, regulation and compliance. Her current listed company directorships include Breville Group Limited (since March 2013), Premier Investments Limited (since December 2011), and Evans Dixon Limited (since May 2018). She is also a director of Investec Property Limited, responsible entity of listed trust Investec Australia Property Fund (since July 2013). At Westpac, Ms Herman oversaw stakeholder engagement including customers, shareholders, government and regulators. She also ran the product function of retail and business banking, including general insurance as well as internet banking, in various roles at Westpac

Simon Machell

BA (Hons), FCA
Non-executive director

Mr Machell has been a director of the Group since April 2017. He is Chairman of the People and Remuneration Committee and a member of the Audit Committee. He is a non-executive director of Prudential Assurance Company Singapore, the senior independent director of Pacific Life Re Limited and chairs Pacific Life Re's Australian entity board. As a non-executive director of Tesco Bank and Chairman of Tesco Underwriting in the UK, he has considerable insight into changing customer expectations and engaging customers through digital channels. Mr Machell brings to Suncorp an international perspective on current industry trends in insurance, and insights into the risks and opportunities associated with emerging technologies and new business models. He has deep operational and strategic knowledge of the insurance industry and has planned and delivered significant change programs. In his executive career, Mr Machell spent over 20 years with Norwich Union/Aviva running the finance, service centre and claims functions before becoming CEO of its UK general insurance business in 2005. Subsequently, he ran its portfolio of international businesses across Asia and Eastern Europe before embarking on a plural career in 2013.

Dr Douglas 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 a member of the Audit and People and Remuneration Committees. He also chairs AA Insurance Limited (a Suncorp joint venture with the New Zealand Automobile Association) and is a director of Suncorp's New Zealand licensed entities. He brings to Suncorp great insight around regulator and 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. He is well-versed in operating in a rapidly changing regulatory environment and engaging effectively with regulators and government stakeholders. Dr McTaggart is a former CEO of QIC Ltd, Under Treasurer of the Queensland Department of Treasury, and a director of UGL Limited. He is currently Chairman of listed company Spark Infrastructure RE Limited (and a director since December 2015), SunCentral Maroochydore Pty Ltd and Indigenous Business Australia Asset Management Pty Ltd. He also serves on the Australian National University Council.

Lindsay Tanner

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

Mr Tanner has been a director of the Group since January 2018. He is Chairman of the Customer Committee, a member of the Risk Committee, and Chairman of Group subsidiary Suncorp Insurance Ventures Pty Ltd. He is Chairman of Essendon Football Club and Chairman of Pacific Infrastructure Partners Pty Ltd. 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, including as Minister for Finance and Deregulation from 2007 to 2010, where he played a significant role in regulatory reform in the financial services sector. He also served as Minister for the Future Fund during the Global Financial Crisis. Mr Tanner is a recognised authority on corporate governance and has been a Special Adviser for financial advisory firm Lazard (Australia) for the past ten years, where he has had extensive involvement in the financial sector and with mergers and acquisitions. He was also a non-executive director of listed company Covata Limited (January 2017–January 2019) and Lifebroker, the life insurance broking company. Mr Tanner began his professional career as a lawyer representing consumers in disputed personal injury and motor insurance claims.

2. Directors' meetings

The table below sets out the number of directors' meetings[1] held during 2019–20 (including meetings of the five Board Committees) and the number of meetings attended by each director of the Company.

	Suncorp Board of Directors		Audit Committee		Risk Committee		People and Remuneration Committee		Customer Committee		Nomination Committee	
	A	B	A	B	A	B	A	B	A	B	A	B
C McLoughlin (Chairman)	20	20	6	6	7	7	6	6	3	3	2	2
S Johnston[2]	20	20	6	6	7	7	6	6	3	3	2	2
A Exel AO	20	20	-	-	7	7	-	-	3	3	2	2
S Falzon	20	20	-	-	4	4	6	6	1	1	2	2
E Funke Kupper	13	13	3	3	-	-	-	-	-	-	-	-
I Hammond	20	19	6	6	4	4	-	-	1	1	2	2
S Herman	20	20	3	3	7	7	3	3	3	3	2	2
S Machell	20	20	6	6	-	-	6	6	1	1	2	2
Dr D McTaggart	20	18	6	5	-	-	6	4	1	1	2	1
L Tanner	20	20	-	-	7	7	-	-	3	3	2	2

A Number of meetings held during the year while the director was a member of the Board or Committee.
B Number of meetings attended by the director during the year while the director was a member of the Board or Committee.
1 The Board also held a number of additional workshops and insight sessions.
2 Between 1 July 2019 and 8 September 2019 inclusive Mr Johnston attended Board and Committee meetings in his capacity as Acting Group CEO (not as a Director of the Company).

3. Directors' interests as at 30 June 2020

The relevant interest of each current director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by Suncorp Group Limited, 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 2020, is as follows.

Director	Number of fully paid ordinary shares
C McLoughlin	48,550
S Johnston	131,273
A Exel AO	18,712
S Falzon	16,768
E Funke Kupper	35,000
I Hammond	39,740
S Herman	29,131
S Machell	50,000
Dr D McTaggart	40,641
L Tanner	18,668

In addition, Ms Christine McLoughlin holds 700 capital notes in SUNPH.

Based on their shareholdings as at 30 June 2020, as outlined in the Remuneration Report, all non-executive directors, excluding one, have either met, or are on track to meet, the minimum shareholding requirement.

For 2019–20, given the impact of COVID-19 on the Suncorp share price, the Board exercised its discretion and did not require non-executive directors to purchase shares to meet the minimum shareholding requirement.

4. Company Secretary

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

Mr Darren Solomon was appointed Company Secretary in March 2010, having joined Suncorp in 1989 as a senior lawyer in the legal department before moving to Company Secretariat in 2006.

5. Remuneration Report

The Suncorp Group Remuneration Report is set out on pages 16 to 40 and forms part of the 2019–20 Directors' Report.

6. Principal activities

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

The Group conducts the Banking operations of the Suncorp Group. There were no significant changes in the nature of the Group's activities during 2019–20.

7. Dividends

A 2019 final dividend of $164.3 million (58 cents per share) and a 2020 interim dividend of $158 million (46 cents per share) were paid during the financial year.

On 29 July 2020, the Australian Prudential Regulation Authority (**APRA**) issued updated capital management guidance for banks and insurers in relation to the payment of dividends. This guidance acknowledges the additional challenges faced by banks as a result of the economic uncertainty and disruption caused by the ongoing COVID-19 global pandemic, including the material volume of loan repayment deferrals, and has therefore set an expectation that dividend payout ratios will be maintained at or below 50 per cent for the 2020 calendar year. In line with this guidance the directors have determined that a 2020 final dividend will not be paid.

Further details of dividends on ordinary shares paid are set out in note 3 to the consolidated financial statements.

8. Operating and Financial Review

8.1 Performance and Operational Review

The Group delivered a profit after tax of $243 million (2018–19: $355 million).

The result was driven by increased impairment losses on financial assets of $172 million or 29 basis points (**bps**) of gross loans and advances, which was predominately due to an increase in collective provision as a result of the impacts from the COVID-19 pandemic.

Supporting customers through the pandemic has been one of our priorities for the Group. As at 30 June 2020, approximately 14,400 customer lending accounts were under temporary loan repayment deferral arrangements across both the retail and business lending portfolios. In early June, the Group commenced three-month check-ins with impacted home loan customers and by 31 July 2020, approximately 51 per cent of accounts receiving temporary deferral arrangements were returning to normal repayments.

The Retail lending portfolio contracted 2.8 per cent, reflecting intense competition for new and existing business, reduced system growth and an extended period of elevated loan processing turnaround times in the 2019 calendar year. The Group continued to deliver a targeted program of work in Retail lending, resulting in turn-around times improving in the fourth quarter of the 2019-20 financial year. The business lending portfolio grew 0.4 per cent over the year, with growth in Agribusiness offset by a small contraction in the Commercial portfolio.

The Group's net interest margin (**NIM**) increased 4 bps over the year to 1.94 per cent, driven by favourable shifts in the funding mix from strong, above-system growth in at-call deposits and a subsequent reduction in term deposits and significantly lower market benchmark rates.

The at-call deposits portfolio achieved above-system growth of 27.5 per cent enabling the Group to reduce more expensive term deposits and wholesale funding.

The deliberate contraction in term deposits is a direct response to the strong at-call deposits growth, availability of the Reserve Bank of Australia's (**RBA**) Term Funding Facility and reduced funding requirements in-line with the net contraction in lending.

Operating expenses increased, primarily due to a change in intra-company expense allocations, an increase in regulatory expenses, technology costs and advertising spend. The result was partially offset by net benefits from the Business Improvement Program (**BIP**).

8.2 Financial Position Summary

Total assets decreased by $709 million or 1.1 per cent to $65,945 million compared with 30 June 2019.

Cash and cash equivalents decreased by $427 million to $211 million largely reflecting a decrease in reverse repurchase agreements using government securities received as collateral.

Trading securities have increased by $233 million largely driven by higher purchases of new securities than maturities and sales.

Investment securities increased by $860 million to $4,814 million driven by a $1,127 million increase in government securities, offset by a $166 million decrease in residential mortgage-backed securities and a $101 million reduction in non-government floating rate notes.

Loans and advances decreased by $1,431 million to $57,723 million due to a 2.8 per cent contraction in retail lending, partially offset by a 0.4 per cent growth in business lending.

Total liabilities decreased by $740 million or 1.2 per cent to $61,872 million compared with 30 June 2019.

Deposits and short-term borrowings decreased by $27 million to $46,524 million driven by a decrease in the term deposit portfolio of 31.1 per cent to $11,263 million reflecting continued optimisation of the customer deposit portfolio which included growth in at call deposits of 27.5% to $28,684 million.

Securitisation liabilities decreased by $886 million to $2,945 million. driven by repayments on the underlying securitised mortgages and the termination of two underlying Apollo Series trusts.

Long-term borrowings increased by $249 million to $10,607 million due to the new Reserve Bank of Australia (**RBA**) term funding facility in response to COVID-19 and higher domestic senior unsecured debt issues, offset by a reduction in overseas senior debt issues and reduced covered bonds.

Total equity increased by $31 million or 0.8 per cent to $4,074 million compared with 30 June 2019.

Share capital increased by $106 million due to the issuance of an additional $106 million in ordinary shares to SBGH Limited.

8.3 Capital Position Summary

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 APRA.

The Suncorp Group's Internal Capital Adequacy Assessment Process (**ICAAP**) provides the framework to ensure that the Group as a whole and each regulated entity, is capitalised to meet both internal and external requirements. The ICAAP is reviewed at least annually 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's CET1 ratio was 9.32 per cent (2018–19: 9.25 per cent), within its target operating range of 9.0-9.5 per cent.

The Group's Basel III APS 330 Public Disclosures are available at suncorpgroup.com.au/investors/reports.

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

There have been no significant changes in the state of affairs of the Group during 2019–20, other than as disclosed in this Annual Report.

10. Events subsequent to reporting period

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

11. Likely developments

The Group will continue to deliver a targeted program of work to support Retail lending, including improving processes to reduce turnaround times and embedding the recently implemented broker segmentation model. The Group will continue to simplify its portfolio of products, optimise its distribution channels and accelerate digital and everyday banking by leveraging the 'Open Banking' framework.

12. Key strategic risks

The effective identification and management of strategic risk is integral to Suncorp's strategy and the decision-making process for all business initiatives. Strategic risks threaten the viability of Suncorp's business model as a result of changes in the external business environment, the economy, political landscape, regulation, technology and community expectations.

The following strategic risks have been identified and are being managed through Suncorp's risk management processes:

Physical impacts of climate change, significant weather events and natural hazards that exceed expectations

Climate change remains a priority for Suncorp and our approach to climate change risks and opportunities is managed through the Group's Climate Change Action Plan. More detail is available in section 14 of this Directors' Report.

Systemic shifts in the macro-economic environment

Suncorp monitors the risk of systemic shifts in the global environment, such as a prolonged subdued macro-economy or global financial crisis-type event that restricts access to capital. COVID-19 has significantly affected investment markets and the economic environment globally, including in Australia. The Group aims to maintain appropriate balance sheet strength given the uncertain outlook ahead.

Risks relating to extreme cyber or critical infrastructure events

Suncorp monitors risks related to incidents affecting Suncorp, its customers, partners or industry which may result in damage or cause panic, with major economic implications. Suncorp actively monitors internal systems and cyber security threats, and is continually investing in systems, processes and controls to maintain a secure and resilient environment. Contingency planning and testing is performed in case of disruption to critical systems and business processes.

Risks relating to the failure to meet government or regulatory expectations

In order to mitigate this risk, Suncorp prioritises appropriate investment to address regulatory requirements. This enables us to develop a strong business that exists to build futures and protect what matters.

Shifts in customer expectations, technology, mobility, data and competitors

Suncorp monitors risks related to: customers' changed behaviour and new expectations; competitors introducing new business models that better meet customer needs; participants in the new 'data economy' using data more effectively than Suncorp; and changes in car ownership and manufacture impacting Suncorp's revenue from traditional product lines. Suncorp's strategy previously anticipated significant customer preference to digital channels, however recognised that this was one of many channels our customers wished to engage in. The COVID-19 pandemic has accelerated customer movement to digital, as well as brought about new ways of working that can be used to drive technology transformation in the medium and longer term, along with delivering quick win opportunities. Suncorp has refreshed its digital strategy to accelerate sales and service capability across the Group with a focus on delivering customer digital experiences that are smart, simple and trusted while delivering business growth and operational efficiency.

Risks relating to the engagement of our workforce (including partners) behind our purpose

Suncorp monitors risks related to workforce management, ensuring that Suncorp is able to source and retain the talent required to execute the strategy. Suncorp's strategy will introduce new models of work and look for ways to further engage our people, making Suncorp a preferred place to work. Suncorp is applying learnings from COVID-19 which has accelerated a move towards more flexible ways of working.

In addition to monitoring the identified strategic risks as described above, Suncorp continues to monitor emerging risks and their potential to impact the Group.

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

13. Impacts of legislation and other external requirements

The Group operates within a highly regulated industry. There have been, and continue to be, significant 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 that may impact the Group.

There are also various proposals and changes from global regulatory advisory and standard-setting bodies such as the Basel Committee on Banking Supervision and the International Organisation of Securities Commissions which if adopted, or followed by domestic regulators, may increase operational and capital costs or requirements.

The Group is committed to embracing these regulatory changes and is well placed to respond through the additional regulatory investment in 2020–21. The Group is taking active steps to implement the changes with a number of improvements already in place. The Group is engaging with regulators, the Government and industry bodies to provide feedback and guide the policy direction. Matters which may impact the Group are set out below.

MATTERS WHICH MAY IMPACT THE GROUP

- **The ongoing implementation of the recommendations from the Royal Commission's Final Report into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission),** which includes various bodies undertaking implementation activities, such as the Federal Government asking the House of Representatives Standing Committee on Economics to inquire into progress made by relevant financial institutions in implementing the recommendations of the Royal Commission
- **The passing of the *Financial Sector Reform (Hayne Royal Commission Response—Protecting Consumers (2019 Measures)) Act 2019***, thereby amending the law relating to unfair contract terms, mortgage brokers and mortgage intermediaries
- **The Federal Government releasing a draft of the *Financial Sector Reform (Hayne Royal Commission Response—Protecting Consumers (2020 Measures)) Bill 2020***, which will prohibit the hawking of superannuation and insurance products to retail clients, in line with Recommendations 3.4 and 4.1 of the Hayne Royal Commission
- **The Australian Securities and Investment Commission (ASIC) and the Australian Competition and Consumer Commission (ACCC) approving the Australian Banking Association's (ABA) new Banking Code of Practice** thereby providing additional **protection for small businesses and farmers** and a greater focus on customers in remote areas and those with limited English
- **The Federal Government** consulting on extending the Banking Executive Accountability Regime (**BEAR**) to all APRA regulated entities

- **ASIC releasing Regulatory Guide 272 on its product intervention power** enabling ASIC to temporarily intervene, banning financial products when there is a potential perceived risk of significant consumer detriment
- **ASIC releasing draft guidance on financial product Design and Distribution Obligations (DDO)** requiring financial product firms to develop products that meet consumer needs in their intended target market
- **The passing of the Treasury Laws Amendment (Consumer Data Right) Act 2019** granting individuals and businesses the right to efficiently and conveniently access and transfer their personal data in relation to them between businesses of their election, improving competition and consumer options
- **APRA issued a letter on 7 April 2020 to all authorised deposit-taking institutions (ADIs) and insurers to provide guidance on capital management during COVID-19, stating** that APRA expects ADIs and insurers to limit discretionary capital distributions in the months ahead, to ensure they instead use buffers and maintain capacity to continue to lend and underwrite insurance. This includes prudent reductions in dividends, taking into account the uncertain outlook for the operating environment and the need to preserve capacity to prioritise these critical activities
  On 29 July 2020, APRA issued updated guidance to ADIs and insurers. APRA expects ADIs to continue to take a measured approach to capital distributions and retain at least half of their earnings, and actively use dividend reinvestment plans (**DRPs**) and/or other capital management initiatives to at least partially offset the diminution in capital from distributions. APRA also expects insurers to continue to take a measured approach to dividends and moderate dividend payout ratios, including using DRPs and/or other capital management initiatives to at least partially offset the diminution in capital from distributions
- **APRA announcing that it intends to develop a Prudential Practice Guide** focusing on climate-related financial risks
- **ASIC issuing updated guidance on climate change related disclosure and risk generally**. The updates are contained in RG 228 (Prospectus disclosure) and RG 247 (General disclosure), summarised as follows):
  - Lists the types of climate change risk developed by the Task force on Climate related Financial Disclosures that may require prospective disclosure; and
  - Identifies climate change as a systemic risk that could impact an entity's financial prospects for future years, requiring disclosure in the operating and financial review
- **APRA publishing an information paper on its plans to increase its efforts to lift governance, culture, remuneration and accountability standards** across all APRA-regulated industries
- **The Federal Government responding to the ACCC's interim report on the Home Loan Price Inquiry regarding Australia's big four banks.** The Federal Government has stated (not all inclusive):
  - In relation to standard variable interest rates (**SVR**) offered by the major banks, the ACCC found an overall lack of price transparency, particularly for new loans, making it difficult for customers to compare home loans
  - The ACCC found the SVR is not an accurate indicator of the actual prices paid by major bank customers, with the overwhelming majority (around 90 per cent) receiving an average 128 bps (1.28 per cent) discount off the SVR
  - These findings underline the importance of greater transparency and competition in the sector
- **APRA's update to its guidance** (*Prudential Practice Guide APG 223 Residential Mortgage Lending*) on the serviceability assessments that ADIs perform on residential mortgage loan applications including: removing the quantitative guidance on the level of the serviceability floor rate; increasing the expected level of the serviceability buffer from at least 2 per cent (most ADIs currently use 2.25 per cent) to 2.5 per cent; and removing the expectation that a prudent ADI would use a buffer comfortably above the proposed 2.5 per cent
- **ASIC updating its responsible lending conduct guidance to improve the lending practice** in the Australian financial services sector, which includes considering the role of expense benchmarks in the process of verifying a consumer's financial situation
- **ASIC consulting on draft guidance on mortgage brokers 'best interests' duty**. As of 1 July 2020, mortgage brokers are required by legislation to act in the best interests of consumers and to prioritise consumers' interests when providing credit assistance
- **Various bodies have implemented measures** to help Australians deal with the economic impact of COVID-19, including:
  - **The Federal government suspending responsible lending obligations** for small business lending for six months
  - **APRA adjusting its expectations** regarding ADI bank capital ratios, to ensure banks are well positioned to continue to provide credit to the economy
  - **The Reserve Bank of Australia** establishing a term lending facility to offer three-year funding to ADIs
  - **The ACCC granting interim authorisations** to allow the ABA and banks to work together to implement relief packages for individuals and businesses impacted by COVID-19
  - **Federal Treasury releasing the SME Guaranteed Lending Scheme,** which provides eligible lenders with a government guarantee for loans on approved terms
- **The Federal Government passing the National Consumer Credit Protection Amendment (Coronavirus Economic Response Package) Regulations 2020** which provides, in specified circumstances, a temporary exemption to Australian credit licensees from responsible lending obligations

14. Environmental and Corporate Responsibility reporting

Suncorp seeks to conduct business in a way that protects and sustains the environment. We continue to reduce our environmental impact and be transparent about our environmental performance.

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

Suncorp is responding to climate-related risks and opportunities through the implementation of our Climate Change Action Plan, which incorporates our Environmental Performance Plan. The Environmental Performance Plan was refreshed in 2019 and is a three-year plan that sets out our transformation priorities in continuing our journey to becoming a low-emissions and resource-efficient organisation. This year, under this plan we have developed a Renewable Energy Strategy which includes our commitment to use 100 per cent renewable electricity by 2025. Suncorp continues to modernise ways of working and integrate sustainability principles to deliver workspaces that are healthy, flexible and minimise the impact on the environment.

Implementation of Suncorp's Environmental Performance Plan has resulted in a 7.2 per cent reduction in Scope 1 and Scope 2 greenhouse gas emissions over the past year and we remain on track to reach our target of a 51 per cent absolute reduction in Scope 1 and Scope 2 greenhouse gas emissions by 2030.[1]

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

1 From 2017–18 baseline for Suncorp corporate operations in Australia and New Zealand; prepared using science-based target methodologies.

15. Corporate Governance Statement

The Board believes high standards of corporate governance are essential for achieving Suncorp's business objectives, which are aimed at creating value and sustainable outcomes for Suncorp shareholders, customers and the communities in which Suncorp operates. The Board is committed to maintaining a corporate governance framework and culture that are underpinned by integrity and ethical behaviour. The Board is responsible for the corporate governance framework which operates under Board-approved charters, policies and related procedures. The Board Committees assist the Board in fulfilling its governance role.

During 2019–20 Suncorp's governance practices were consistent with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd edition). The 2019–20 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.

16. 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 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.

The amounts paid or due and payable to KPMG and its related practices for non-audit services provided during the 2019–20 financial year (and the 2018–19 financial year) are set out on page 14.

SERVICES OTHER THAN STATUTORY AUDIT

	2020	2019
	$000	$000
Audit-related fees (regulatory)		
APRA reporting	523	371
Australian financial services licences	12	13
Other regulatory compliance services	162	7
	697	391
Audit-related fees (non-regulatory)		
Tax compliance	-	-
Other assurance services	474	457
	474	457
	1,171	848

17. Indemnification and insurance of officers and directors

Under rule 39 of the Constitution for SGL, SGL indemnifies each person who is or has been a director, secretary or officer of the Company (each an officer for the purposes of this section). The indemnity relates to liabilities to the fullest extent permitted by law to another party (other than the Company or a related body corporate) that may arise in connection with the performance of their duties to the Company and its subsidiaries, except where the liability arises out of conduct involving a lack of good faith.

The Constitution stipulates that SGL will meet the full amount of such liabilities, including costs and expenses incurred in 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.

SGL has also executed deeds of access, indemnity and insurance with each officer of the Company's subsidiaries, and deeds of indemnity and insurance with the officers 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 2019–20 SGL paid insurance premiums in respect of a directors' and officers' liability insurance contract. The contract insures each person who is or has been an officer 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 by 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.

18. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 15 and forms part of the 2019–20 Directors' Report.

19. Rounding of amounts

The Company is of a kind referred to in the *ASIC 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.

KPMG

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

To the Directors of Suncorp-Metway Limited

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

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

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

KPMG

Scott Guse
Partner

Brisbane
21 August 2020

Remuneration Report for 2019–20

This report explains Suncorp Group's remuneration structure for key management personnel (**KMP**) and demonstrates the strong alignment that Suncorp's executive remuneration practices have with performance outcomes, shareholder returns, the experience of our employees and customers, and community expectations. 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 names of the KMP are outlined in the remuneration tables in this report.

For the purposes of this report, 'executive' means the Group Chief Executive Officer and Managing Director (**Group CEO**) and Senior Executives who are KMP. Suncorp's external auditor, KPMG, has audited sections 2–8 of this report against the disclosure requirements of the *Corporations Act 2001* (Cth).

1. Executive remuneration and performance snapshot

1.1 2019–20 executive remuneration strategy and structure

OBJECTIVES
To provide competitive rewards that attract, retain and motivate talented employees to achieve our strategic objectives by providing valued outcomes for our shareholders and customers.

PRINCIPLES

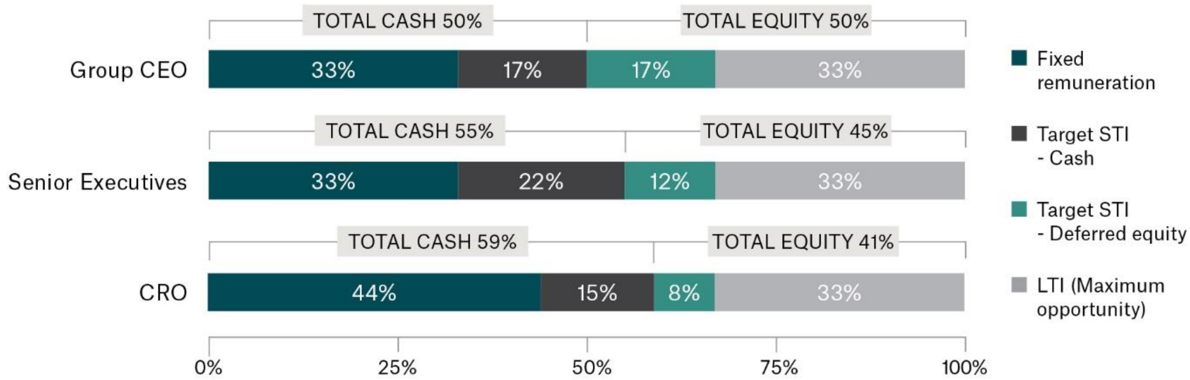
Reward simply and fairly	Align to our strategy	Support our people to always do the right thing	Drive ownership and accountability	Embrace risk management

	Fixed remuneration	Short-term incentives (STI)	Long-term incentives (LTI)
PURPOSE	• Reflects the role scope and individual's skills and experience and is set in the context of market remuneration levels.	• Rewards the achievement of Group, function and individual outcomes over a 12-month period.	• Rewards the creation of long-term shareholder value.
2019–20 STRUCTURE	• Consists of base salary, superannuation and any salary-sacrificed benefits.	• Ordinarily, 50% of the Group CEO's STI is delivered as cash, with the balance in deferred equity, and 65% of the STI for Senior Executives is delivered as cash with the balance in deferred equity. • Executive STI outcomes awarded for 2019–20 will be delivered entirely as deferred equity. • The portion that would have ordinarily been delivered as cash will be delivered as share rights, deferred over a one-year period. • The portion that would have ordinarily been delivered as deferred equity will be delivered in the normal course, with 50% of the share rights deferred over a one-year period and 50% deferred over a two-year period. • Share rights are subject to malus and clawback criteria.	• Delivered as performance rights. • Vests subject to the achievement of service and performance conditions over a three-year period. • If any performance rights vest, they become vested rights at the end of Year 3 and convert into shares at the end of Year 4. • Performance rights are subject to malus and clawback criteria.
2019–20 APPROACH FOR PERFORMANCE AND REWARD ASSESSMENT	• Reviewed annually for internal relativity and appropriate market alignment to a peer group consisting of financial services companies in the S&P/ASX 100 (excluding real estate investment trusts).	• Performance assessment is against the Group Scorecard, Function Scorecard (for Senior Executives), as well as other relevant factors as considered by the Board (including a behavioural overlay). • In determining STI outcomes, the Board also exercised its discretion and took into account a number of other factors related to performance over the year. • An STI gateway and modifier linked to the Code of Conduct applies which can reduce STI outcomes (down to nil). See section 2 for the Group Scorecard, the basis upon which the Board exercised its discretion, and further detail.	• There are two, equally weighted, performance measures: • 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 resources companies); and • Cash Return on Equity (**Cash ROE**). See section 3 for further detail.

• Total target remuneration for the executives is reviewed on an annual basis for internal relativity and appropriate market alignment to relevant roles in the peer comparator group, being financial services companies in the S&P/ASX 100 (excluding real estate investment trusts).

1.2 2019–20 executive remuneration mix

The standard executive remuneration mix is outlined below. The Chief Risk Officer's (**CRO**) remuneration was restructured effective 30 September 2019 to place greater emphasis on fixed remuneration to reduce any actual or perceived conflicts of interest arising from variable remuneration tied to Suncorp Group's performance.



Board discretion and STI outcomes

To deepen the alignment with the shareholder experience during these challenging times, the Board determined to deliver the 2019–20 STI to executives entirely in deferred equity. The portion that would have ordinarily been delivered in cash (being 50 per cent for the Group CEO and 65 per cent for the Senior Executives) will be delivered in equity, deferred over a one-year period. The portion that would have ordinarily been delivered in equity (being 50 per cent for the Group CEO and 35 per cent for the Senior Executives) will continue to be delivered in the normal course, with 50 per cent deferred over a one-year period and 50 per cent deferred over a two-year period.

Accordingly, the remuneration mix changed for 2019–20 such that 33 per cent of the remuneration package for the Group CEO and Senior Executives (excluding the CRO) continued to be delivered in cash, with 67 per cent deferred over a 1–4 year period (including the deferred STI and the LTI). For the CRO, 44 per cent of the remuneration package continued to be delivered in cash, with 56 per cent deferred over a 1–4 year period. See section 2 for further detail on the 2019–20 delivery of STI outcomes.

The remuneration mix and structure for all executives is compliant with the Banking Executive Accountability Regime (**BEAR**) as the lesser of 20 per cent of total remuneration, or 40 per cent of variable remuneration, is deferred for four years.

1.3 2019–20 executive performance and remuneration outcomes

Fixed remuneration

- There was no change in Group CEO remuneration since appointment.
- Fixed remuneration increases only occurred in the context of appointment to a new role, or change in remuneration structure.
- See section 1.4 for appointment arrangements during 2019–20.
- The CRO's fixed remuneration increased to $870,000 and was accompanied by a reduction in the target STI from 100% to 50% of target, and a reduction in the LTI from 100% to 75% of target.

Short-term incentives (STI)

- For 2019–20, STI outcomes were based on the Group Scorecard as well as other factors considered by the Board as outlined in section 2.
- A summary against the Financial, Customer, Risk, and People and Culture measures in the Group Scorecard is below.

Category	Performance measure	Outcome
Financial	Adjusted NPAT	Below threshold
	Cash ROE	
	System Growth Multiple	
Customer	Net Promoter Score	Between target and stretch
	Voice of the Customer	
	Digital Users	
Risk	Group Risk Maturity Measure	Between threshold and target
	Risk Management Practice Measures	
People and Culture	Employee Engagement	Stretch
	Sustained high performer retention	

- **Group CEO:** Actual STI outcome was 45% of target.
- **Senior Executives:** Actual STI outcomes ranged between 30% and 50% of target.
- See section 2 for further detail.

Long-term incentives (LTI)

- The 2016 LTI grant was tested against the relative TSR performance condition on 31 August 2019.
- Suncorp's TSR was at the 41st percentile of the peer group of companies.
- As Suncorp's TSR was below the median (50th percentile) of the peer group, the 2016 LTI awards lapsed and the executives received no value from this award.

1.4 Appointment arrangements during 2019-20

The Board structures the remuneration packages upon appointment having regard to the nature of the role, the experience and skills of the executive, internal relativities, market data, and stakeholder expectations.

Executive[1]	Arrangements
Steve Johnston, commenced as Group CEO on 9 September 2019	– $1.8 million fixed remuneration – Target STI of 100% of fixed remuneration. For 2019–20, this was pro-rated to reflect time served as Group CEO and formerly as Acting CEO. – Target LTI opportunity of 100% fixed remuneration related to Group CEO role. – A one-off equity grant of 21,978 share rights equating to $300,000 at the time of award, vested on 26 May 2020. This was granted to Mr Johnston in recognition of his acceptance of the role of Acting CEO and for retention purposes. – Mr Johnston was a KMP over the entire 2019–20 financial year, having previously held the role of Acting CEO.
Jeremy Robson, commenced as Group Chief Financial Officer (Group CFO) on 13 December 2019	– $760,000 fixed remuneration – Target STI of 100% of fixed remuneration. For 2019–20, the target STI was pro-rated to reflect time served as Group CFO and formerly as Acting CFO. – Target LTI opportunity of 100% fixed remuneration. The 2019–20 award was pro-rated from the commencement date in role. – Mr Robson was a KMP over the entire 2019–20 financial year, having previously held the role of Acting CFO.
Lisa Harrison, commenced as Chief Customer and Digital Officer on 7 August 2019	– $675,000 fixed remuneration – Target STI of 100% of fixed remuneration. For 2019–20, this was pro-rated to reflect time served as Chief Customer and Digital Officer and formerly as Chief Program Excellence Officer. – Target LTI opportunity of 100% fixed remuneration. The 2019–20 award was based on fixed remuneration as at 30 June 2019. – Ms Harrison was a KMP over the entire 2019–20 financial year, having previously held the role of Chief Program Excellence Officer.

1 Lee Hatton was appointed during 2019–20 as CEO Banking & Wealth. She commenced employment on 17 February 2020 and exited on 31 May 2020. Ms Hatton's remuneration arrangements are outlined in sections 1.7 and 8.2 of this report.

1.5 Changes for 2019-20

During 2019-20, Suncorp:

- increased the weighting of non-financial measures in the Group Scorecard to better reflect the interests of all its stakeholders. There is now an equal split between financial and non-financial measures, with Financial measures weighted at 50 per cent, Customer measures weighted at 20 per cent, and Risk, and People and Culture measures weighted at 15 per cent each.
- refreshed our remuneration objective and principles with a key focus on motivating employees to provide valued outcomes for our shareholders and customers and supporting our people to always do the right thing.
- introduced Cash ROE as an LTI performance measure. This measure operates alongside relative TSR and each measure has a 50 per cent weighting.
- strengthened individual consequence management by introducing an STI behavioural gateway and modifier that is linked to Suncorp's Code of Conduct. This applies to all executives and employees and can lead to an employee's STI being reduced (down to nil) if they do not adhere to the Code of Conduct.
- restructured the CRO's remuneration package to place greater emphasis on fixed remuneration to reduce any actual or perceived conflicts of interest arising from variable remuneration tied to the Suncorp Group's performance.
- implemented and operationalised the BEAR remuneration requirements for Suncorp-Metway Limited, noting that the executives have had a BEAR-compliant remuneration package since 1 July 2018.

1.6 Changes for 2020–21

The Board considered various remuneration structures for 2020–21 having regard to Suncorp's strategy, the shareholder and executive experience, and the impacts of the COVID–19 pandemic. The Board ultimately decided to maintain the same remuneration structure for 2020–21 with continuing use of discretion in determining STI outcomes.

The only material change was to the way that the Cash ROE performance targets are set and assessed in the LTI plan. For the 2019–2020 offer, these were set based on a weighted average approach over 2020, 2021 and 2022. To simplify the methodology in the 2020–21 offer, these will be set based on a straight average approach over 2021, 2022 and 2023.

The Board will continue to review the remuneration framework in light of the major economic restructuring that is still playing out and once the Financial Accountability Regime and APRA's Remuneration Prudential Standard CPS 511 are finalised to ensure that the framework remains aligned with regulatory requirements and supports Suncorp's strategic and cultural objectives, including the attraction, motivation and retention of key talent.

1.7 Remuneration paid, or vested, for the executives over 2019–20

	Remuneration earned in respect of 2019–20			Past 'at-risk' remuneration vested in 2019–20		Actual remuneration earned or vested in 2019–20[6]	Future 'at-risk' remuneration relating to 2019–20	
	Fixed[1]	Other[2]	2019–20 incentives[3]	Deferred STI (equity)[4]	LTI / RSP/ SRP (equity)[5]		2019–20 STI Deferred Equity[7]	LTI in 2019–20[8]
	$000	$000	$000	$000	$000	$000	$000	$000
Senior Executives								
Steve Johnston[9] *Group CEO & Managing Director*	1,694	-	-	402	221	**2,317**	786	1,800
Gary Dransfield[10] *CEO Insurance*	1,050	-	-	416	-	**1,466**	396	1,050
Lisa Harrison[11] *Chief Customer and Digital Officer*	666	-	-	157	39	**862**	258	600
Amanda Revis *Chief People Experience Officer*	850	-	-	326	-	**1,176**	320	850
Jeremy Robson[12] *Group Chief Financial Officer*	698	-	68	97	42	**906**	218	646
Paul Smeaton[13] *CEO New Zealand*	905	-	-	335	-	**1,240**	437	847
Fiona Thompson *Chief Risk Officer*	811	-	-	240	33	**1,084**	194	653
Former Senior Executives								
David Carter[14] *CEO Banking & Wealth*	520	-	-	279	44	**843**	-	-
Sarah Harland[15] *Chief Information Officer*	579	716	-	248	-	**1,543**	170	185
Lee Hatton[16] *CEO Banking & Wealth*	240	-	-	-	-	**240**	-	-
Pip Marlow[17] *CEO Customer Marketplace*	118	976	-	229	893	**2,216**	-	-

1 This reflects fixed remuneration, including base salary, superannuation and any salary sacrificed benefits.
2 This includes the payment on cessation of employment in accordance with contractual commitments for former Senior Executives. For Ms Harland, it represents payment in lieu of notice, and for Ms Marlow it represents payment in lieu of notice and redundancy entitlements.
3 This includes the cash component of STI. Given the Board's decision to deliver the entire amount of the 2019–20 STI in deferred equity, the only cash STI award related to Mr Robson's performance as Acting CFO.
4 This reflects the deferred STI awarded for 2016–17 (tranche 2) and 2017–18 (tranche 1) that vested during 2019–20. The vesting of the 2016–17 deferred STI for Mr Carter, Ms Harrison, Mr Robson, and Ms Thompson relates (in full or in part) to previous Executive General Manager (EGM) roles. The vesting of the 2017–18 deferred STI for Mr Robson relates in full to his previous EGM role.
5 This represents vesting of past awards made under the LTI, Restricted Share Plan (RSP) or Share Rights Plan (SRP) (including awards made on commencement of employment at Suncorp in recognition of incentives forgone with the executive's previous employer) that were granted in prior years and that vested in 2019–20. The 2016 LTI grant did not vest on 31 August 2019 as the relative TSR performance measure was not met. Mr Johnston's share rights awarded upon commencement as Acting CEO in recognition of his acceptance of the role and for retention purposes vested on 26 May 2020. Ms Marlow received tranche 3 of her restricted shares on 1 January 2020 that were awarded on commencement at Suncorp in recognition of benefits forgone from her prior employer. Mr Carter, Ms Harrison, Mr Robson and Ms Thompson's restricted shares that vested during the year relate to awards granted prior to becoming a Senior Executive. Dividend equivalent payments were made on all vested RSP and SRP awards.
6 This refers to the total of remuneration earned in respect of 2019–20 and past 'at-risk' remuneration that vested in 2019–20.
7 This includes both the component of the 2019–20 STI which would have ordinarily been delivered as cash and that will be delivered as share rights (deferred over a one-year period) and the component of the 2019–20 STI that is ordinarily delivered as share rights (deferred over a 1–2 year period). For Mr Robson, it also includes the 40 per cent of his STI relating to his performance as Acting CFO that was deferred for four years to ensure BEAR compliance. Malus and clawback criteria apply to all 2019–20 deferred STI awards.
8 This includes the 2019–20 LTI grant which is subject to the achievement of performance conditions. Malus and clawback criteria apply. The value of Ms Harland's LTI award at grant was $750,000 at face value. This was pro-rated to $185,000 upon cessation of employment.
9 Mr Johnston was appointed Group CEO during the reporting period and his remuneration was varied effective 9 September 2019. He held the role of Acting CEO from 26 May 2019 to 8 September 2019 and served as a KMP for the entire financial year.
10 Mr Dransfield ceased to be a KMP and ceased employment on 17 July 2020 due to his role becoming redundant. Arrangements on cessation of employment will be disclosed in the 2020–21 Remuneration Report.
11 Ms Harrison was appointed Chief Customer and Digital Officer during the reporting period and her remuneration was varied effective 7 August 2019. She served as a KMP for the entire financial year having previously held the role of Chief Program Excellence Officer.
12 Mr Robson was appointed Group CFO during the reporting period and his remuneration was varied effective 13 December 2019. He served as a KMP for the entire financial year having previously held the role of Acting CFO.
13 Mr Smeaton's remuneration has been converted to Australian dollars based on the average 2019–20 daily exchange rate. Mr Smeaton's fixed remuneration also includes an annual leave loading (based on the average last 52 weeks of earnings including bonus) in accordance with New Zealand Holiday Pay legislation.
14 Mr Carter ceased to be a KMP on 26 January 2020 and ceased employment on 29 January 2020 due to resignation. Mr Carter's unvested equity was forfeited on cessation of employment and is therefore not included in the above table. Mr Carter was not eligible to participate in the 2019–20 STI and no termination payment was made.
15 Ms Harland ceased to be a KMP and ceased employment on 27 March 2020 due to mutual separation. She was eligible to participate in the 2019–20 STI on a pro-rata basis, subject to performance. All unvested deferred STI awards remained on-foot and will vest in the normal course, subject to malus and clawback criteria. LTI awards were pro-rated based on time served in the performance period and vest subject to the achievement of performance conditions in the normal course. Malus and clawback criteria apply.
16 Ms Hatton was appointed CEO Banking & Wealth on 17 February 2020. She ceased to be a KMP and ceased employment on 31 May 2020 due to resignation. Ms Hatton's unvested equity was forfeited on cessation of employment and is therefore not included in the above table. Ms Hatton was not eligible to participate in the 2019–20 STI and no termination payment was made.
17 Ms Marlow ceased to be a KMP on 7 August 2019 and ceased employment on 30 August 2019 due to her role becoming redundant. Remuneration disclosures above reflect the time that she served as a KMP only. Ms Marlow was not eligible to participate in the 2019–20 STI. All unvested deferred STI awards remained on-foot and will vest in the normal course, subject to malus and clawback criteria. LTI awards were pro-rated based on time served in the performance period and vest subject to the achievement of performance conditions in the normal course. Malus and clawback criteria apply.

1.8 Remuneration and performance arrangements for customer-facing employees

Since 2017, Suncorp has made significant changes to the performance and remuneration framework of customer-facing employees to ensure these are not creating any conflicts of interest. Around 1,000 customer-facing employees have transitioned from bespoke incentive plans which were more sales-oriented and formulaic, to the Group-wide Corporate Incentive Plan which is based on a breadth of measures (as explained in section 2).

From 1 July 2020, the maximum STI opportunity for all employees was reduced from 250 per cent to 150 per cent of target. Furthermore, all remaining leader boards or reporting practices that could be construed as such have ceased operation during 2019–20 and leader education sessions were conducted to reinforce the balanced approach to performance and reward.

Performance outcomes are weighted 80 per cent towards scorecard measures (the "what") and 20 per cent on behaviours (the "how"). Scorecard measures include Financial, Customer, Risk, and People and Culture goals. A summary of the scorecard for customer-facing employees is below:

Scorecard category and weighting	Performance measures for customer-facing employees
Financials (30%–40%)	– Financial measures have a maximum weighting of 30% in Banking and Direct Distribution. – Financial measures include lending growth, lending disbursements, deposit growth and connecting customers across product quadrants in Banking; and customer value targets and connected customers in Direct Distribution. – Financial measures in Claims are weighted at 40% with measures varying depending on area (motor, property, specialty, or personal injury) and may include cost of claims, estimate accuracy, assessments per day and number of referrals.
Customer (20%–50%)	– Customer measures are weighted between 30% and 50% in Banking and Direct Distribution. – The primary measure across these areas is leader-assessed with an overall assessment impacted by customer satisfaction, customer complaints resolution, various call metrics, and presenting quality options that are in the customer's best interests. – Customer measures in Claims are weighted between 20% and 30%, with measures varying depending on area. Generally, these include customer satisfaction or net promoter score (**NPS**) and complaints and resolution.
Risk (10%–20%)	– Risk measures are weighted at 20% in Banking, 10%–15% in Direct Distribution and 15%–20% in Claims. – The primary measure is advancing Suncorp's risk culture in Banking, Effective Risk Management in Direct Distribution, with varying measures for Claims depending on the area. The common risk measures across all customer-facing roles relate to adhering to compliance requirements, process and delegated authority, licensing, legislative and regulatory obligations, quality assurance and completion of compliance training.
People and Culture (10%–20%)	– Primary measures include development, engagement, and safety and wellbeing.

Suncorp is compliant with the Sedgwick Remuneration Review Recommendations from 1 July 2020, excluding Recommendation 18 relating to mortgage broker remuneration given the Government's policy reform in this area.

2. Short-term incentive

The table below outlines the key terms and conditions of the STI plan for 2019–20.

Plan	Corporate Incentive Plan
Plan rationale	To incentivise the achievement of key performance measures over a 12-month period that create sustainable value for all stakeholders.

STI opportunity

Executives	Target STI	Maximum STI
Group CEO and Senior Executives (excluding the CRO)	100% of fixed remuneration	150% of target STI can be achieved in exceptional circumstances.
CRO	50% of fixed remuneration	

Group Scorecard

Performance category	2019–20 weighting
Financial	50%
Customer	20%
Risk	15%
People and Culture	15%

Performance against the Group Scorecard, as endorsed by the People and Remuneration Committee and approved by the Board, heavily influences the size of the STI pool.

Further detail on the Group Scorecard measures, and performance against these measures, is outlined later in this section.

Gateway and modifier	A STI gateway and modifier linked to the Code of Conduct applies. Where there has not been adherence to the Code of Conduct, the STI may be reduced (down to nil).
Performance assessment	The Group CEO and Senior Executives are assessed against the Group Scorecard, Function Scorecard (for Senior Executives) and other relevant factors as considered by the Board. See "Board discretion and STI outcomes" later in this section for further detail.
Performance period	The 12 months ended 30 June 2020.

Delivery mechanism

To deepen the alignment with the shareholder experience during these challenging times, the Board determined that the entire STI award for 2019–20 for executives will be delivered in deferred equity. There will be no cash component.

		Share Rights	
Executive	Cash	Deferred over one year	Deferred over two years
Group CEO	-	75%	25%
Senior Executives[1]	-	82.5%	17.5%

Ordinarily, 50% of the Group CEO's STI award, and 65% of the Senior Executives' STI awards, would be delivered in cash. For 2019–20, this portion will be delivered as share rights, deferred over a one-year period. The allocation of these rights is determined based on the volume weighted-average price (VWAP) over June 2020, being the final month of the performance period.

Ordinarily, 50% of the Group CEO's STI award, and 35% of the Senior Executives' STI awards, would be delivered as share rights, deferred equally over a 1–2 year period. This portion of the STI will continue to be delivered in the normal course. To focus executives on total shareholder returns from the start of the performance period, the allocation of these share rights is based on the VWAP one month prior to the start of the performance period (June 2019). The allocation of share rights also reflects the value of dividends paid over the performance period.

Malus and clawback	All share rights are subject to malus and clawback criteria. See section 5.2 for further information.
Termination of employment	See section 6 for the treatment of STI on termination.

1 For 2019–20, to ensure compliance with the BEAR, 40 per cent of the actual STI for Mr Robson relating to his performance as Acting CFO will be deferred for four years to ensure BEAR compliance. The balance of the STI relating to his acting role will be paid in cash.

2019–20 Group Scorecard measures, rationale and weighting

The table below outlines the Group Scorecard measures and weightings for 2019–20, along with the rationale as to why each scorecard measure was chosen.

Scorecard category	Scorecard measure	Weighting	Rationale
Financial	Adjusted Net Profit After Tax (**NPAT**)	30%	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 Suncorp 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. Adjusted NPAT has been determined on a consistent basis since 2011–12.
	Cash ROE	10%	Cash ROE is a measure of Suncorp's overall return to shareholders. It focuses executives on delivering returns and top-line growth by leveraging the Group's strategic assets. Cash ROE considers all controllable and uncontrollable items.
	System Growth Multiple	10%	System Growth Multiple measures Suncorp's growth versus system for Insurance, Banking and New Zealand and provides a performance outcome relative to the market. Insurance is measured by Suncorp's Consumer insurance unit growth compared to market growth. Banking is measured by Suncorp's Home Lending growth and at-call deposit growth compared to market, and New Zealand is measured by Suncorp's Consumer Insurance Gross Written Premium (**GWP**) growth compared to market. The outcomes are weighted to reflect historical profit contribution to the Group.
Customer	Net Promoter Score (**NPS**)	20%	NPS – Consumer and Business. This measure gauges customers' willingness to recommend Suncorp to others. NPS is reliably measured for consumer and business customer groups through external surveys and allows a comparison of competitor performance.
	Service quality – Voice of Customer (**VoC**)		Consistently meeting customer expectations of service in all interactions at key touch points is the key driver of service quality. Suncorp's VoC program measures "expectations met" across our key channels and key interactions.
	Choice – Digital Users (**Digital Users**)		Measuring the number of Digital Users tracks progress in expanding the capability and reach of Suncorp's digital channels. The measure represents unique visitors that have logged into authenticated digital assets.
Risk	Group Risk Maturity Measure	15%	The Group Risk Maturity Model provides an objective measurement that consistently and transparently assesses and tracks the quality of risk management and risk-based performance at a Group level through an aggregated measure of risk maturity which is independently audited.
	Risk Management and Compliance Measures		This is an assessment made by the Board based on a dashboard of risk metrics including material regulatory matters, material breaches of the Suncorp Group Risk Appetite Statement tolerances and thresholds, indicators of a risk-aware culture across the Group, and management of conduct risk. It also incorporates external advisor and Board Risk Committee feedback. The metrics provide insights to the Board on the Group's risk culture, compliance practices, incident management and the control environment.
People and Culture	Engagement	15%	This measure provides clarity on the quality of the employee experience and supports optimised workforce performance. High levels of employee engagement mean that Suncorp is better positioned to deliver valued outcomes to customers and deliver Suncorp's strategy. It captures the percentage of favourable responses to the 'Engagement' Dimension in the Engagement at Suncorp survey, independently administered by Aon.
	Sustained High Performer Retention		Sustained High Performer Retention ensures a continued focus on talent development, appropriate management of turnover and delivery of Suncorp's strategy. The measure focuses on reducing employee-initiated turnover of employees who have received a high-performing rating for two consecutive years.

2019–20 Group Scorecard performance outcomes

STRATEGIC DRIVER	MEASURES	ACTUAL PERFORMANCE OUTCOME: Below Threshold	Threshold to Target	Target	Target to Stretch	Stretch	2019–20 ACHIEVEMENT
FINANCIAL							
Deliver targeted Profit after Tax	Adjusted NPAT	✓					The Group delivered an Adjusted NPAT result of $830 million which was below threshold. Key drivers are the Core Banking Platform write off, the provision in relation to the pay and leave entitlements review and COVID-19 impacts. Net adjustments over 2019–20 were $83 million (post-tax) due to plan variances on investment income, natural hazards, prior year reserve releases and an adjustment for the gain on the sale of Capital S.M.A.R.T and ACM Parts.
Improve shareholder returns	Cash ROE	✓					Cash ROE for the year was 5.9 per cent which was below threshold. In addition to the above drivers, Cash ROE was impacted by lower reserve releases and investment income.
	System Growth Multiple	✓					System Growth Multiple was 0.36 which was below threshold.
CUSTOMER							
Create value for customers	NPS – Consumer[1]			✓			Consumer NPS is approximately at target, having improved through the year, particularly in mass and niche insurance brands.
	NPS – Business					✓	Business NPS is above the stretch level of performance reflecting a focus on service to brokers and the strengthening of AAMI Direct Insurance.
	VoC				✓		Overall service quality exceeded target, with Insurance performing consistently and Bank continuing to strengthen despite the challenges of the COVID-19 environment.
	Digital Users[1]			✓			Digital users are at target with growth driven by online claims, increases in bank customer registrations and usage of the Suncorp App. The Suncorp Portal also experienced strong user growth in June 2020.
RISK							
Manage risk within agreed parameters	Group Risk Maturity Measure		✓				Performance against the Group Risk Maturity Model was slightly above target reflecting the strength of Suncorp's risk management practices.
	Risk Management and Compliance Practices						The Group continues to manage "Severe" level risks well as evidenced by the prompt and effective response to COVID-19 and the general effectiveness of our control environment. The result was slightly below target, reflecting opportunities to further enhance our core risk and compliance practices and our control environment, as well as reducing the number of manual processes.
PEOPLE AND CULTURE							
Drive a positive culture and engaged workforce	Engagement					✓	The engagement score from the April 2020 Employee Engagement survey was 67 per cent which is above the stretch level of performance of 64 per cent, representing a 7-point uplift from April 2019. The 2020 result is 2 points below the Australian New Zealand Top Quartile (69 per cent).
	Sustained High Performer Retention					✓	Sustained High Performer Retention was 95 per cent which is equivalent to the stretch level of performance.
OVERALL PERFORMANCE OUTCOME			✓				The Group Scorecard outcome was 59 per cent of target. Ordinarily the STI pool is aligned to the Group Scorecard outcome, unless there are any other material factors for the Board to consider. In 2019-20, the Board exercised its discretion and adopted a tiered approach for STI outcomes for the Group CEO, Senior Executives, EGMs and other employees. See over the page for detail.

1 NPS – Consumer and Digital Users were within +/-4% of Target.

Board discretion and STI outcomes

The Board exercised its discretion in determining the 2019–20 STI outcomes and adopted a tiered approach for the Group CEO, Senior Executives, EGMs and other employees. Outside of the Group Scorecard, other positive factors considered by the Board included the management of the unprecedented intensity of natural hazards and the COVID–19 pandemic, the proactive response to the impact of the changing economic environment on our customers, and the successful sale of Capital S.M.A.R.T and ACM Parts, and Suncorp's strong capital position post this sale.

Counter-balancing the positive factors, the Board was also mindful of the shareholder experience, the write-down of the core banking platform, and the unexpected need for provisions relating to the pay and leave entitlements review.

Taking into account the Group Scorecard outcome and overlaying Board discretion, the 2019–20 STI outcome for the Group CEO was 45 per cent of target and the 2019–20 STI outcomes for the Senior Executives ranged between 30 per cent and 50 per cent of target. The average STI outcome for the executives was 40 per cent of target. Individual STI outcomes are outlined on the following page.

The STI pool for EGMs was set at 45 per cent of target, and the STI pool for all other employees was set at 59 per cent of target, aligned to the Group Scorecard outcome. The tiered approach to the STI pools for 2019–20 predominantly reflected the stronger line of sight and accountability of the Group CEO, Senior Executives and EGMs over the 2019–20 financial results and shareholder experience.

Individual STI performance outcomes

Actual STI outcomes for 2019–20 for the executives are outlined below.

	STI award						STI delivery		
	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	% of STI delivered as Cash[4]	% of STI delivered as Deferred Equity[5]	Total Amount Deferred[6]
	$000	$000		$000					$000
Executive director									
S Johnston[7]	767	1,704	45%	2,557	30%	70%	-	100%	767
Senior Executives									
G Dransfield	389	1,050	37%	1,575	25%	75%	-	100%	389
L Harrison	254	667	38%	1,001	25%	75%	-	100%	254
A Revis	315	850	37%	1,275	25%	75%	-	100%	315
J Robson[8]	281	701	40%	1,052	27%	73%	24%	76%	212
P Smeaton	430	859	50%	1,289	33%	67%	-	100%	430
F Thompson	190	488	39%	733	26%	74%	-	100%	190
Former Senior Executives[9]									
S Harland[10]	167	555	30%	833	20%	80%	-	100%	167

1 This is the total actual STI awarded. Where applicable, the actual STI has been pro-rated to reflect the time served as a KMP in 2019–20.
2 Target STI is 100 per cent of fixed remuneration for the Group CEO and Senior Executives, excluding the CRO. The CRO's target STI is 50 per cent of fixed remuneration effective 30 September 2020 and has been pro-rated to reflect her new and prior arrangements. Where applicable, the target STI has been pro-rated to reflect the time served as a KMP in 2019–20.
3 Maximum STI is 150 per cent of the target STI opportunity.
4 This includes the cash component of STI. Given the Board's decision to deliver the entire amount of the 2019–20 STI in deferred equity, the only cash STI award related to Mr Robson's performance as Acting CFO.
5 This includes the portion of the 2019–20 STI that would have ordinarily been delivered as cash that will be delivered as share rights (deferred over a one-year period) as well as the portion of the 2019–20 STI that would have ordinarily been delivered as share rights (deferred over a 1–2 year period) that will continue to be delivered in the normal course. For Mr Robson, it also includes the 40 per cent of his 2019–20 STI that related to his performance as Acting CFO that was deferred for four years to ensure compliance with the BEAR. BEAR compliance for the other executives is achieved through the LTI plan.
6 For 2019–20, Total Amount Deferred is the same as the Actual STI Awarded for all executives excluding Mr Robson. See footnote 4.
7 Mr Johnston was appointed Group CEO during the reporting period and his remuneration was varied effective 9 September 2019. He held the role of Acting CEO from 26 May 2019 to 8 September 2019 and was a KMP over the full financial year.
8 Mr Robson was appointed Group CFO during the reporting period and his remuneration was varied effective 13 December 2019. He held the role of Acting CFO for the balance of 2019–20 and was a KMP over the full financial year.
9 Mr Carter, Ms Hatton and Ms Marlow did not participate in the 2019–20 STI plan due to cessation of employment.
10 Ms Harland ceased employment on 27 March 2020 and was eligible to participate in the 2019–20 STI plan on a pro-rated basis, subject to performance.

3. Long-term incentive

The table below outlines the key terms and conditions of the LTI plan for 2019–20.

Plan	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	Executives	LTI opportunity
	Group CEO and Senior Executives (excluding the CRO)	100% of fixed remuneration
	CRO	75% of fixed remuneration
LTI instrument	Performance rights. These vest after three years provided service conditions and performance conditions are achieved. For awards made from 2018–19 onwards, if performance rights vest, they will convert into vested rights and these rights are required to be held by the executive for a further one-year period. At the end of year four, the vested rights convert to shares. To more closely align the experience of the executive to shareholders, a dividend equivalent payment is made at the end of the four-year deferral period on any vested rights that convert to shares. Dividend equivalent payments are made at the end of the three-year period in relation to LTI awards granted prior to 2018–19 that are still on-foot based on any performance rights that convert to shares.	
Allocation	The LTI opportunity is divided by the VWAP of the ordinary shares over the five days preceding the date of grant. No discount is applied for the probability of achieving the performance measures.	
Performance measure	There are two performance measures, being relative TSR and Cash ROE. Each performance measure is weighted at 50%. **Relative TSR** is assessed against a peer group of the top 50 listed companies by market capitalisation in the S&P/ASX 100 (excluding real estate investment trusts and resources companies), as determined at the commencement of each grant (**Peer Group**). This measure was chosen because it offers a relevant indicator of changes in shareholder value by comparing the Suncorp Group'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. **Cash ROE** was used as a performance measure as it is a measure of Suncorp's overall return to shareholders and it focuses executives on delivering returns and top-line growth by leveraging the Group's strategic assets. Cash ROE outcomes will be assessed based on a weighted average approach over the 3-year period (20% on 2020 Cash ROE, 30% on 2021 Cash ROE and 50% on 2022 Cash ROE). To simplify the methodology and in response to investor and proxy advisor feedback, Cash ROE for the 2020–21 LTI grant will be assessed based on a straight average approach over the 3-year period from 2021–2023. For awards made prior to 2018–19 that are still on-foot, performance is assessed against relative TSR only.	
Vesting schedule	**Relative TSR vesting schedule**	
	Relative TSR performance outcomes	Percentage of LTI award that will vest
	Below the 50th percentile	0%
	At the 50th percentile (median)	50%
	Between the 50th and 75th percentiles	Pro-rata vesting between the 50th and 75th percentiles
	At or above the 75th percentile	100%
	Cash ROE vesting schedule Given commercial sensitivities, the Cash ROE targets and vesting schedule relating to the 2019–20 LTI offer will be retrospectively disclosed in the 2021–22 remuneration report.	
Performance and deferral period	Performance period	3 years
	Deferral period	4 years
	For all LTI awards that were granted prior to 2018–19 and are still on-foot, the performance and deferral period is three years.	
Malus and clawback	All performance rights are subject to malus and clawback criteria. See section 5.2 for further information.	
Termination provisions	See section 6 for information on the treatment of LTI awards on termination.	

Performance summary: 2016–2020

Suncorp Group's performance summary over the five financial years to 30 June 2020

Year ended 30 June	Group NPAT $M[1]	Closing share price $	Dividend per share cents
2020	913[2]	9.23[3]	36
2019	175[4]	13.47[5]	78
2018	1,059	14.59	81
2017	1,075	14.82	73
2016	1,038	12.18	68

1 This figure refers to Group NPAT. Adjusted NPAT is the profitability figure used in the STI plan. See section 2 for information on Adjusted NPAT.
2 Group NPAT from 2020 was impacted by the $285 million profit arising from the sale of Capital S.M.A.R.T and ACM Parts businesses.
3 The 2020 closing share price was impacted by the general market downturn as a result of the COVID–19 pandemic.
4 Group NPAT for 2019 was impacted by the $910 million loss arising from the sale of the Australian Life Business. Cash earnings were $1,115 million.
5 This is the closing share price at 28 June 2019.

Suncorp's TSR over the five financial years to 30 June 2020 was -9.0 per cent. This compares to S&P / ASX 200 financial services companies (excluding real estate investment trusts) of -5.2 per cent.

4. Minimum shareholding requirement (MSR)

To further align executive interests with those of shareholders, executives are required to have a shareholding in the Suncorp Group's equivalent to at least 100 per cent of one year's pre-tax (gross) fixed remuneration. From 2019–20, given the change in remuneration structure for the CRO role, the MSR for this role reduced to 75 per cent of one year's pre-tax (gross) fixed remuneration.

Executives are required to meet the MSR four years from the October following their appointment, with 50 per cent to be achieved after two years. The value of the shares for the purposes of this requirement is the five-day VWAP up to 30 June in the relevant year. The Board has discretion to alter the VWAP in any particular year in light of any business decisions or external factors materially impacting the share price.

For 2019–20, given the impact of COVID–19 on the Suncorp share price, the Board exercised its discretion and did not require executives to purchase additional shares to meet the MSR.

Based on their shareholding as at 30 June 2020, all executives, excluding one, have either met their MSR or are on track to meet this within the required timeframes.

Detailed share ownership information for executives and directors is shown in section 8.4.

5. Remuneration governance, risk, conduct, and consequences

5.1 Remuneration governance framework

The People and Remuneration Committee endorses the Group's people and remuneration frameworks 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 Group to attract, motivate and retain talent and support the achievement of Suncorp's strategic and cultural objectives.

In 2019–20, remuneration outcomes for the Group CEO were recommended by the Chairman of the Board, endorsed by the People and Remuneration Committee, and approved by the Board. For Senior Executives, these were recommended by the Group CEO, endorsed by the People and Remuneration Committee, and approved by the Board.

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 as at 30 June 2020 are:

Chairman	Simon Machell
Members	Sylvia Falzon (Member of the Risk Committee)
	Dr Douglas McTaggart (Member of the Audit Committee)
Ex-officio member	Christine McLoughlin

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 held six meetings and two workshops during 2019–20. The biographies of the People and Remuneration Committee Chairman and members are outlined in the Directors' Report.

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

Form a recommendation on the release, reduction, lapse or clawback of deferred incentives for the Group CEO. This recommendation is made having regard to a report that is prepared by the Chief People Experience Officer as Chairman of the Remuneration Oversight Committee (**ROC**), with input from the other ROC members being the Group CFO and CRO.

EXTERNAL ADVISERS

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

No remuneration recommendations were made by a remuneration consultant during 2019–20.

MANAGEMENT

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

The Group CEO makes a recommendation to the People and Remuneration Committee on the release, reduction, lapse or clawback of deferred incentives for the Senior Executives.

Remuneration Oversight Committee

The ROC is a management committee that is responsible for the identification and review of significant issues that may require the application of malus, clawback or current-year STI reduction for executives and employees.

The Chief Risk Office identifies issues for consideration and discussion by the ROC on a quarterly basis. Material matters including risk incidents, breaches and significant improvement audit outcomes are reported to the Chairmen of the People and Remuneration Committee, Risk Committee and Audit Committee, and subsequently to the People and Remuneration Committee and Board, for consideration of consequences.

5.2 Remuneration alignment with risk and conduct management

Suncorp is committed to effective risk management throughout the Group, with risk management considering both financial and non-financial risks.

The Non-Financial Risk Committee, made up of the Group CEO, Senior Executives and the Group General Counsel, supports the identification, assessment, monitoring, and mitigation of non-financial risks. This governance structure ensures that relevant non-financial risks, including conduct risks, are considered.

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 Group and incorporates Suncorp's policies (which include risk management policies and the Remuneration Policy). 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 Board, People and Remuneration, Risk, and Audit Committees.

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

In addition to ensuring the remuneration framework is aligned to prudent risk management, the Board also places significant importance on ensuring the framework incentivises desired conduct and behaviours. This is seen through the new behavioural STI gateway and modifier introduced in 2019–20 (see further details below).

Risk and conduct are incorporated into the remuneration framework as outlined below:

REMUNERATION FRAMEWORK

	ELEMENT	DESCRIPTION
FOR ALL EMPLOYEES AND EXECUTIVES	Meaningful weighting of non-financial measures in the Group Scorecard, including a separately weighted risk measure in the Group Scorecard	The structure of the Group Scorecard consists of a number of measures across the categories of Financial, Customer, Risk, and People and Culture, with financial measures and non-financial measures equally weighted at 50% each. The risk measures in the Group Scorecard are outlined in section 2. The intent of the risk measures is to encourage positive risk behaviours and adherence to the Suncorp Group Risk Appetite Statement.
	STI outcomes are based on both the "what" and the "how"	For executives, the Board considers behaviours as part of its judgement overlay in determining STI outcomes. For other employees, individual scorecards are weighted 80% towards performance measures and 20% towards desired behaviours, with the intent of ensuring that performance outcomes are achieved in the appropriate way.
	The behavioural STI gateway and modifier linked to the Code of Conduct	The behavioural STI gateway and modifier introduced from 2019–20 is based on an individual's compliance with the Code of Conduct. This can lead to an employee or executive's STI being reduced (down to nil) if they do not adhere to the Code of Conduct.
	The Board's application of a judgement overlay on the Group Scorecard outcome, with risk management considered as a key component of the overall performance outcome	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 and individual STI awards for the executives.
	Incorporation of malus and clawback criteria into deferred incentive awards	Deferred incentives (including STI deferred awards and vested and unvested LTI awards) are subject to malus and clawback criteria based on the Board's judgment. Malus and clawback criteria enable the Board, in its absolute discretion and subject to compliance with the law, to determine that a participant's deferred incentives will be fully or partially lapsed (malus) during the deferral period or any shares or cash payment made will be fully or partially forfeited, lapsed and / or repaid (clawback). In exercising its discretion, the Board will consider whether this is desirable to protect the Group's financial soundness or to respond to unforeseen circumstances.

REMUNERATION FRAMEWORK

	ELEMENT	DESCRIPTION
FOR ALL EMPLOYEES AND EXECUTIVES	The hedging prohibition	Suncorp Group's 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 2019–20 Corporate Governance Statement at suncorpgroup.com.au/about/corporate-governance.
FOR EXECUTIVES ONLY	Deferral of a significant portion of STI awards Requiring executives to meet the minimum shareholding requirement (**MSR**)	These requirements are in place to encourage executives to adopt a longer-term mindset in making decisions and to align the executive and shareholder experience. To deepen the alignment with the shareholder experience during these challenging times, the entire 2019-2020 STI award will be delivered as deferred equity. See sections 2 and 3 for information on the STI deferral and LTI deferral arrangements, and section 4 for information on the MSR.

5.3 Decision to defer the vesting and release of deferred incentives

Prior to the vesting and release of deferred incentives, the People and Remuneration Committee and the Board consider whether the vesting and release of these incentives is appropriate in light of any material matters including risk incidents, breaches, and significant improvement audit outcomes identified by the Remuneration Oversight Committee.

Given the pay and leave entitlement review is not yet complete, the People and Remuneration Committee and Board determined that it was not appropriate to approve the vesting and release of the deferred incentives for the Group CEO, former CEO & Managing Director, and current and former Senior Executives and EGMs at this time. Instead, the decision to vest and release the deferred incentives will be deferred until such time that the Board has all relevant information to make an informed decision.

5.4 Consequences for misconduct

In 2019–2020, Suncorp's Consequence Management Framework was introduced to strengthen the link between conduct and individual performance and reward outcomes. Suncorp employees were educated on the revised framework as part of the 2020 Goal Setting process and leader education sessions were conducted to highlight how our behaviours can build trust and confidence and allow us to deliver valued experiences for our people and our customers.

In 2019–20, there were 239 Code of Conduct breaches identified that resulted in formal consequences. This included:

- 69 employees leaving Suncorp
- 28 employees receiving nil variable rewards; and
- the remaining 142 employees receiving a minimum 20 per cent reduction in variable rewards.

6. Employment Agreements and Incentive Plan Rules

The Group CEO and Senior Executives are employed by Suncorp Staff Pty Limited, a wholly-owned subsidiary of Suncorp Group Limited, under standard employment agreements with no fixed term.

A summary of the employment agreements for the Group CEO and Senior Executives, including key terms outlined in relevant Incentive Plan Rules, is outlined below.

	Group CEO	Senior Executives
Notice period	**Termination with notice:** 9 months **Resignation:** 6 months Suncorp can also immediately terminate the executive's employment in the case of serious misconduct. In this case, the executive would be entitled to fixed remuneration up to their termination date and their statutory entitlements.	**Termination with notice:** 9–12 months **Resignation:** 3 months
Treatment of STI cash on termination	**Resignation or immediate dismissal:** No cash STI will be awarded. **Redundancy:** A cash STI award may be received, subject to performance, at Board discretion. **All other cases**: Board discretion	
Treatment of STI deferral on termination	**Resignation**: Any unvested deferred incentive is forfeited, excluding the share rights that were allocated to the executives in lieu of the cash portion of the 2019–20 STI. Immediate dismissal: All unvested deferred incentives are forfeited. **Redundancy**: Any deferred incentive will generally remain on-foot and vest at the end of the deferral period and will remain subject to malus and clawback criteria. All other cases: Board discretion	
Treatment of LTI on termination	**Unvested equity:** The Board has discretion to determine that any unvested LTI performance rights will continue until the relevant vesting dates and remain subject to the performance measures and malus and clawback criteria. All unvested equity will be forfeited on immediate dismissal. **Vested rights:** Any vested rights will continue beyond cessation of employment and convert into shares in the normal course, subject to malus and clawback criteria.	
Treatment of restricted shares and share rights on termination[1]	The Board has discretion to determine that any unvested restricted shares or share rights will be pro-rated for the time served in the vesting period and those reduced number of restricted shares or share rights will vest at the termination date subject to malus and clawback criteria, unless otherwise determined by the Board. All unvested equity will be forfeited on immediate dismissal.	
Change of control	Impact of a change of control on remuneration is at Board discretion.	

1 These equity awards were granted to some of the executives prior to becoming a KMP.

7. Non-executive director remuneration arrangements

7.1 Remuneration structure

Remuneration component	Description
Fee philosophy	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 chairing the Nomination Committee meetings or attending the Audit, Risk, People and Remuneration, and Customer 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	The Suncorp Group pays compulsory superannuation guarantee contributions (**SGC**) of 9.5% of the director's fee on behalf of all eligible non-executive directors, unless a non-executive director is receiving SGC from more than one employer and has elected to opt out of receiving the contributions. The Suncorp Group'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 (**MSR**)	Non-executive directors have four years from the October following their appointment to achieve the MSR, 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. For 2019–20, given the impact of COVID-19 on the Suncorp share price, the Board exercised its discretion and did not require non-executive directors to purchase additional shares to meet the MSR. Based on their shareholding as at 30 June 2020, all non-executive directors, excluding one, have either met, or are on track to meet, the MSR within the required timeframes. Detailed share ownership information for the non-executive directors is shown in section 8.4.

7.2 Non-executive director fees

Outlined below are the non-executive director fees for 2019–20. During 2019–20 the chairman and member fees were increased for the People and Remuneration Committee to align with the Audit and Risk Committees, and fees were introduced for the Customer Committee. There will be no fee increases in 2020–21.

		Board	Committee[1]			
		$000	Audit $000	Risk $000	People and Remuneration $000	Customer $000
Chairman fees	Fee	600	60	60	60	30
	Associated SGC	57	6	6	6	3
	Total Fee	**657**	**66**	**66**	**66**	**33**
Member fees	Fee	220	30	30	30	15
	Associated SGC	21	3	3	3	1
	Total Fee	**241**	**33**	**33**	**33**	**16**

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

8. KMP statutory remuneration disclosures

8.1 Non-executive director remuneration during 2019–20 and 2018–19

	Year	Short-term benefits		Post-employment benefits		Total
		Salary and fees $000	Non-monetary benefits[1] $000	Superannuation - Statutory $000	Superannuation – Other[2] $000	
Christine McLoughlin	2020	600	-	21	36	657
Chairman	2019	526	-	21	29	576
Audette Exel AO	2020	257	-	21	3	281
Director	2019	250	-	21	3	274
Sylvia Falzon	2020	264	-	21	4	289
Director	2019	198	-	16	3	217
Elmer Funke Kupper[3] *Director*	2020	118	-	11	-	129
Ian Hammond[4]	2020	280	-	21	6	307
Director	2019	183	-	15	2	200
Sally Herman	2020	319	-	21	9	349
Director	2019	335	-	21	11	367
Simon Machell	2020	310	-	21	8	339
Director	2019	293	6	21	7	327
Dr Douglas McTaggart[5]	2020	404	-	21	17	442
Director	2019	387	-	21	16	424
Lindsay Tanner[6]	2020	284	-	21	6	311
Director	2019	265	-	21	5	291

1 Non-monetary benefits refer to costs met by the Suncorp Group for spouse airfares.
2 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.
3 Mr Funke Kupper was appointed to the Board on 1 January 2020.
4 Mr Hammond was appointed Chairman of the Audit Committee on 13 December 2019.
5 Dr McTaggart is also a member of Suncorp's New Zealand subsidiary boards. Dr McTaggart retired as Chairman of the Audit Committee on 13 December 2019. He remains a member of the Audit Committee.
6 Mr Tanner is also Chairman of Suncorp Insurance Ventures Pty Ltd and was appointed Chairman of the Customer Committee on 1 January 2020.

8.2 Executive remuneration during 2019–20 and 2018–19

	Year	Short-term benefits				Post-employment benefits	Long-term benefits		Termination benefits[5]	Share-based payments		Total remuneration	Performance related
		Salary	Cash incentives	Non-monetary benefits[1]	Other[2]	Super-annuation benefits	Deferred incentives[3]	Other[4]		Deferred STI[6]	LTI[7]		
		$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	%
Executive director													
S Johnston[8]	2020	1,673	-	1	155	21	-	141	-	414	914	**3,319**	40%
Group CEO & Managing Director	2019	1,003	254	-	67	21	1	83	-	262	525	**2,216**	47%
Senior Executives													
G Dransfield[9]	2020	1,029	-	18	(7)	21	-	16	-	276	576	**1,929**	44%
CEO Insurance	2019	1,029	228	15	52	21	1	16	-	261	511	**2,134**	47%
L Harrison[10]	2020	645	-	6	(4)	21	-	28	-	189	315	**1,200**	42%
Chief Customer & Digital Officer	2019	579	169	5	6	21	-	9	-	148	199	**1,136**	45%
A Revis	2020	829	-	18	20	21	-	13	-	230	450	**1,581**	43%
Chief People Experience Officer	2019	816	218	17	(34)	21	1	20	-	216	401	**1,676**	50%
J Robson[11]	2020	677	68	14	(1)	21	-	26	-	158	101	**1,064**	31%
Group Chief Financial Officer	2019	70	19	-	1	-	-	-	-	75	1	**166**	57%
P Smeaton	2020	879	-	9	18	26	-	(66)	-	288	456	**1,610**	46%
CEO New Zealand	2019	879	277	10	1	25	1	-	-	232	408	**1,833**	50%
F Thompson	2020	790	-	9	34	21	-	97	-	164	347	**1,462**	35%
Chief Risk Officer	2019	629	198	8	(21)	21	-	10	-	171	283	**1,299**	50%
Former Senior Executives													
D Carter[12]	2020	504	-	4	(17)	16	-	7	-	(370)	(313)	**(169)**	0%
CEO Banking & Wealth	2019	816	182	6	27	21	1	24	-	193	350	**1,620**	45%
S Harland[13]	2020	558	-	-	2	21	-	(35)	716	278	288	**1,828**	31%
Chief Information Officer	2019	716	221	1	4	21	-	13	-	185	322	**1,483**	49%
L Hatton[14] *CEO Banking & Wealth*	2020	229	-	1	15	11	-	3	-	-	-	**259**	0%
P Marlow[15]	2020	113	-	1	(36)	5	-	(38)	976	145	53	**1,219**	16%
CEO Customer Marketplace	2019	979	215	4	20	21	-	16	-	200	523	**1,978**	47%

1 Non-monetary benefits include costs met by the Suncorp Group for spouse airfares, car parking, and rebates on insurance premiums.
2 Other short-term benefits refer to annual leave accruals.
3 The amount of deferred incentives awarded relate to the legacy STI cash-based deferral plan. The 2018–19 amount for the Group CEO and Senior Executives relates only to the interest accrued from the 2015–16 cash-based deferral. The deferred equity portion of the 2019–20 STI is outlined in 'Share-based payments – Deferred STI'.
4 Other long-term benefits refer to long service leave accruals.
5 This includes the payment on cessation of employment that was paid to Ms Harland and Ms Marlow. For Ms Harland, it represents payment in lieu of notice and for Ms Marlow it represents payment in lieu of notice and redundancy entitlements.
6 The entire portion of the 2019–20 STI was delivered as share rights, deferred over a 1–2 year period. Accordingly, Share-based payments – Deferred STI also includes the portion of the 2019–20 STI that would have ordinarily been delivered as cash. Deferred STI is expensed to the profit & loss statement from the start of the performance period to the end of the deferral period.
7 LTI refers to grants under the LTI, RSP and/or SRP. Awards are expensed to the profit & loss statement 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 of the Suncorp Group financial statements.
8 Mr Johnston was appointed Group CEO during the reporting period and his remuneration was varied effective 9 September 2019. He held the role of Acting CEO for the balance of 2019–20 and served as a KMP for the entire financial year.
9 Mr Dransfield ceased to be a KMP and ceased employment on 17 July 2020 due to his role becoming redundant. Arrangements on cessation of employment will be disclosed in the 2020–21 Remuneration Report.
10 Ms Harrison was appointed Chief Customer and Digital Officer during the reporting period and her remuneration was varied effective 7 August 2019. She served as a KMP for the entire financial year having previously held the role of Chief Program Excellence Officer.
11 Mr Robson was appointed Group CFO during the reporting period and his remuneration was varied effective 13 December 2019. He served as a KMP for the entire 2019–20 financial year having previously held the role of Acting CFO. In 2018–19, Mr Robson was appointed Acting CFO effective 26 May 2019. From 1 July 2018 to 25 May 2019, he held the non-KMP role of Deputy CFO.
12 Mr Carter ceased to be a KMP on 26 January 2020 and ceased employment on 29 January 2020 due to resignation. Mr Carter's unvested equity was forfeited on cessation of employment. He was not eligible to participate in the 2019–20 STI and no termination payment was made.
13 Ms Harland ceased to be a KMP and ceased employment on 27 March 2020 due to mutual separation. She was eligible to participate in the 2019–20 STI on a pro-rata basis, subject to performance. All unvested deferred STI awards remained on-foot and will vest in the normal course, subject to malus and clawback criteria. LTI awards were pro-rated based on time served in the performance period and vest subject to the achievement of performance conditions in the normal course. Malus and clawback criteria apply.
14 Ms Hatton was appointed CEO Banking & Wealth on 17 February 2020. She ceased to be a KMP and ceased employment on 31 May 2020 due to resignation. Ms Hatton's unvested equity was forfeited on cessation of employment. She was not eligible to participate in the 2019–20 STI and no termination payment was made.
15 Ms Marlow ceased to be a KMP on 7 August 2019 and ceased employment on 30 August 2019 due to her role becoming redundant. Remuneration disclosures above have been pro-rated and reflect the time that she served as a KMP only. Ms Marlow was not eligible to participate in the 2019–20 STI. All unvested deferred STI awards remain on-foot and will vest in the normal course, subject to malus and clawback criteria. LTI awards were pro-rated based on time served in the performance period and vest subject to the achievement of performance conditions in the normal course. Malus and clawback criteria apply.

8.3 Movement in awards under employee equity plans

The movement of awards under employee equity plans during 2019–20 is outlined below.

	Employee equity awards granted[1]			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									
S Johnston	74,422	1 September 2016	30 June 2020	-	-	-	-	100%	-
	14,220	15 August 2017	30 June 2020	-	-	-	100%	-	14,220
	11,237	10 August 2018	30 June 2020	-	-	-	100%	-	11,237
	21,978[5]	30 June 2019	30 June 2020	-	-	-	100%	-	21,978
	77,214	1 September 2017	30 June 2021	-	443,208	1,008,415	-	-	-
	11,236	10 August 2018	30 June 2021	-	175,169	175,619	-	-	-
	5,073	9 August 2019	30 June 2021	-	67,319	72,098	-	-	-
	64,824	1 September 2018	30 June 2022	-	575,637	1,004,124	-	-	-
	5,073	9 August 2019	30 June 2022	-	67,319	72,098	-	-	-
	133,441[6]	26 September 2019	30 June 2023	-	994,135	1,860,755	-	-	-
Senior Executives									
G Dransfield	72,463	1 September 2016	30 June 2020	-	-	-	-	100%	-
	14,934	15 August 2017	30 June 2020	-	-	-	100%	-	14,934
	11,402	10 August 2018	30 June 2020	-	-	-	100%	-	11,402
	81,075	1 September 2017	30 June 2021	-	465,371	1,058,840	-	-	-
	11,401	10 August 2018	30 June 2021	-	177,742	178,198	-	-	-
	4,553	9 August 2019	30 June 2021	-	60,418	64,708	-	-	-
	68,066	1 September 2018	30 June 2022	-	604,426	1,054,342	-	-	-
	4,553	9 August 2019	30 June 2022	-	60,418	64,708	-	-	-
	77,840	1 July 2019	30 June 2023	-	576,016	1,078,216	-	-	-
L Harrison	2,246[7]	1 September 2016	30 June 2020	-	-	-	100%	-	2,246
	3,073	15 August 2017	30 June 2020	-	-	-	100%	-	3,073
	6,971	10 August 2018	30 June 2020	-	-	-	100%	-	6,971
	3,073	15 August 2017	30 June 2021	-	41,670	41,670	-	-	-
	46,328	1 September 2017	30 June 2021	-	265,923	605,044	-	-	-
	6,970	10 August 2018	30 June 2021	-	108,662	108,941	-	-	-
	3,382	9 August 2019	30 June 2021	-	44,879	48,066	-	-	-
	38,894	1 September 2018	30 June 2022	-	345,379	602,468	-	-	-
	3,382	9 August 2019	30 June 2022	-	44,879	48,066	-	-	-
	44,480	1 July 2019	30 June 2023	-	329,152	616,124	-	-	-
A Revis	60,712	1 September 2016	30 June 2020	-	-	-	-	100%	-
	11,379	15 August 2017	30 June 2020	-	-	-	100%	-	11,379
	9,243	10 August 2018	30 June 2020	-	-	-	100%	-	9,243
	61,771	1 September 2017	30 June 2021	-	354,566	806,729	-	-	-
	9,243	10 August 2018	30 June 2021	-	144,098	144,468	-	-	-
	4,358	9 August 2019	30 June 2021	-	57,831	61,937	-	-	-
	51,859	1 September 2018	30 June 2022	-	460,508	803,296	-	-	-
	4,357	9 August 2019	30 June 2022	-	57,817	61,923	-	-	-
	63,013	1 July 2019	30 June 2023	-	466,296	872,837	-	-	-
J Robson	2,413[8]	1 September 2016	30 June 2020	-	-	-	100%	-	2,413
	3,438	15 August 2017	30 June 2020	-	-	-	100%	-	3,438
	2,722	10 August 2018	30 June 2020	-	-	-	100%	-	2,722
	3,437	15 August 2017	30 June 2021	-	46,606	46,606	-	-	-
	2,720	10 August 2018	30 June 2021	-	42,405	42,514	-	-	-
	2,082	9 August 2019	30 June 2021	-	27,628	29,590	-	-	-
	2,720	10 August 2018	30 June 2022	-	42,296	42,514	-	-	-
	2,081	9 August 2019	30 June 2022	-	27,615	29,576	-	-	-
	2,081	9 August 2019	30 June 2023	-	27,615	29,576	-	-	-
	49,362	12 December 2019	30 June 2023	-	296,962	646,642	-	-	-
P Smeaton	61,406	1 September 2016	30 June 2020	-	-	-	-	100%	-
	11,966	15 August 2017	30 June 2020	-	-	-	100%	-	11,966
	9,259	10 August 2018	30 June 2020	-	-	-	100%	-	9,259
	61,771	1 September 2017	30 June 2021	-	354,566	806,729	-	-	-
	9,259	10 August 2018	30 June 2021	-	144,348	144,718	-	-	-
	5,536	9 August 2019	30 June 2021	-	73,463	78,679	-	-	-
	54,028	1 September 2018	30 June 2022	-	479,769	836,894	-	-	-
	5,536	9 August 2019	30 June 2022	-	73,463	78,679	-	-	-
	62,813	1 July 2019	30 June 2023	-	464,816	870,067	-	-	-
F Thompson	1,906[9]	1 September 2016	30 June 2020	-	-	-	100%	-	1,906
	34,862	29 June 2017	30 June 2020	-	-	-	-	100%	-
	7,740	15 August 2017	30 June 2020	-	-	-	100%	-	7,740
	204	15 August 2017	30 June 2020	-	-	-	100%	-	204
	7,263	10 August 2018	30 June 2020	-	-	-	100%	-	7,263
	204	15 August 2017	30 June 2021	-	2,766	2,766	-	-	-
	46,328	1 September 2017	30 June 2021	-	265,923	605,044	-	-	-
	7,262	10 August 2018	30 June 2021	-	113,215	113,505	-	-	-
	3,968	9 August 2019	30 June 2021	-	52,655	56,394	-	-	-
	42,136	1 September 2018	30 June 2022	-	374,168	652,687	-	-	-
	3,967	9 August 2019	30 June 2022	-	52,642	56,380	-	-	-
	48,409	1 July 2019	30 June 2023	-	358,227	670,547	-	-	-

	Employee equity awards granted[1]			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
Former Senior Executives									
D Carter[10]	2,520	1 September 2016	30 June 2020	-	-	-	100%	-	2,520
	42,830	29 June 2017	30 June 2020	-	-	-	-	100%	-
	8,124	15 August 2017	30 June 2020	-	-	-	100%	-	8,124
	775	15 August 2017	30 June 2020	-	-	-	100%	-	775
	8,786	10 August 2018	30 June 2020	-	-	-	100%	-	8,786
	774	15 August 2017	30 June 2021	-	-	-	-	100%	-
	57,911	1 September 2017	30 June 2021	-	-	-	-	100%	-
	8,786	10 August 2018	30 June 2021	-	-	-	-	100%	-
	3,642	9 August 2019	30 June 2021	-	-	-	-	100%	-
	51,859	1 September 2018	30 June 2022	-	-	-	-	100%	-
	3,642	9 August 2019	30 June 2022	-	-	-	-	100%	-
	63,013	1 July 2019	30 June 2023	-	-	-	-	100%	-
S Harland[11]	50,920	1 September 2016	30 June 2020	-	-	-	-	100%	-
	7,672	15 August 2017	30 June 2020	-	-	-	100%	-	7,672
	8,088	10 August 2018	30 June 2020	-	-	-	100%	-	8,088
	50,189	1 September 2017	30 June 2021	-	246,814	561,567	-	14%	-
	8,087	10 August 2018	30 June 2021	-	126,076	126,400	-	-	-
	4,423	9 August 2019	30 June 2021	-	58,693	62,861	-	-	-
	45,377	1 September 2018	30 June 2022	-	211,024	368,104	-	48%	-
	4,423	9 August 2019	30 June 2022	-	58,693	62,861	-	-	-
	55,600	1 July 2019	30 June 2023	-	101,728	190,419	-	75%	-
L Hatton[12]	21,580	17 February 2020	30 June 2021	-	-	-	-	100%	-
	10,790	17 February 2020	30 June 2022	-	-	-	-	100%	-
	55,566	17 February 2020	30 June 2023	-	-	-	-	100%	-
P Marlow[13]	52,329	31 March 2017	30 June 2020	-	-	-	100%	-	52,329
	3,859	15 August 2017	30 June 2020	-	-	-	100%	-	3,859
	10,856	10 August 2018	30 June 2020	-	-	-	100%	-	10,856
	69,493	1 September 2017	30 June 2021	-	265,561	604,221	-	33%	-
	10,855	10 August 2018	30 June 2021	-	169,229	169,664	-	-	-
	4,293	9 August 2019	30 June 2021	-	56,968	61,013	-	-	-
	64,824	1 September 2018	30 June 2022	-	191,346	333,779	-	67%	-
	4,292	9 August 2019	30 June 2022	-	56,955	60,999	-	-	-

1 Employee equity awards include performance rights, share rights and restricted shares. The expiry date for performance rights and the fair value per right can be found in note 10.1 of the Suncorp Group financial statements.
2 The minimum value yet to vest is nil, since the service condition or performance measure (as applicable) may not be met and consequently the shares may not vest.
3 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 securities 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 Johnston was awarded 21,978 share rights in June 2019 in recognition of his acceptance of the Acting CEO role and for retention purposes. This award vested on 26 May 2020 as the vesting conditions were met.
6 Mr Johnston was awarded 133,441 performance rights under the LTI plan in September 2019 following shareholder approval at the 2019 Annual General Meeting.
7 Ms Harrison was awarded 24,755 restricted shares prior to commencing as a Senior Executive relating to her previous EGM role. The balance of 2,246 shares vested on 31 August 2019 as the vesting conditions were met.
8 Mr Robson was awarded 7,238 restricted shares relating to his previous EGM role. The balance of 2,413 shares vested on 31 August 2019 as the vesting conditions were met.
9 Ms Thompson was awarded 5,718 restricted shares prior to commencing as a Senior Executive relating to her previous EGM role. The balance of 1,906 shares vested on 31 August 2019 as the vesting conditions were met.
10 Mr Carter was awarded 7,559 restricted shares prior to commencing as a Senior Executive relating to his previous EGM role. The balance of 2,520 shares vested on 31 August 2019 as the vesting conditions were met. All unvested awards were forfeited upon cessation of employment.
11 Ms Harland's LTI awards were pro-rated for time served in the performance period upon cessation of employment on 27 March 2020. They remain on-foot and may vest in the normal course subject to the original vesting conditions, the Suncorp Group Equity Incentive Plan Rules and malus and clawback criteria.
12 Ms Hatton's unvested equity awards were forfeited on cessation of employment.
13 Ms Marlow was awarded a grant of restricted shares upon commencement of employment in recognition of incentives forgone with her previous employer. The final balance of 52,329 shares vested on 30 August 2019 as the vesting conditions were met. Ms Marlow's LTI awards were pro-rated for time served in the performance period upon cessation of employment. They remain on-foot and may vest in the normal course, subject to the original vesting conditions, the Suncorp Group Equity Incentive Plan Rules and malus and clawback criteria.

8.4 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.

2019–20	Balance 1 July 2019 $000	Balance 30 June 2020 $000	Interest charged during the year[1] $000	Highest balance $000
Executive director				
S Johnston	1,200	1,200	-	1,200
Senior Executives				
A Revis	4,340	800	75	4,352
P Smeaton	1,903	436	21	1,922
Former Senior Executives				
D Carter	482	-	9	482

1 The loans may have offset facilities, in which case the interest charged is after the offset. No interest was charged on Mr Johnston's loan as it was fully 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.

2019–20	KMP $000	Other related parties $000	Total $000
Opening balance	5,227	2,698	7,925
Closing balance	1,214	1,222	2,436
Interest charged	79	26	105
	Number	Number	Number
Number of individuals at 30 June 2020	3	2	5

Movement in securities held by KMP

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

1 July 2019 – 30 June 2020		Balance 1 July 2019 Number	Received as remuneration[1] Number	Purchases (sales) Number	Other changes[2] Number	Balance 30 June 2020 Number
Non-executive directors						
C McLoughlin	Ordinary shares	50,000	-	-	(1,450)	48,550
	SUNPH Capital Notes	-	-	700		700
A Exel AO	Ordinary shares	18,242	-	-	470	18,712
S Falzon	Ordinary shares	7,600		8,972	196	16,768
Elmer Funke Kupper	Ordinary shares	-	-	35,000	-	35,000
I Hammond	Ordinary shares	19,118	-	20,525	97	39,740
S Herman	Ordinary shares	26,000	-	3,571	(440)	29,131
S Machell	Ordinary shares	35,000	-	15,000	-	50,000
Dr D McTaggart	Ordinary shares	27,922	-	12,719	-	40,641
L Tanner	Ordinary shares	6,100	-	12,568	-	18,668
Executive director[3]						
S Johnston	Ordinary shares	87,100	47,435	-	(3,262)	131,273
	Unvested securities	275,131	143,587	-	(121,857)	296,861
Senior Executives[3]						
G Dransfield	Ordinary shares	93,454	26,336	-	(370)	119,420
	Unvested securities	259,341	86,946	-	(98,799)	247,488
L Harrison	Ordinary shares	33,568	12,290	-	(1,319)	44,539
	Unvested securities	107,555	51,244	-	(12,290)	146,509
A Revis	Ordinary shares	48,271	20,622	(1,054)	(914)	66,925
	SUNPE Capital Notes	1,962	-	(56)	-	1,906
	Unvested securities	204,207	71,728	-	(81,334)	194,601
J Robson	Ordinary shares	8,263	8,573	-	(488)	16,348
	Unvested securities	17,450	55,606	-	(8,573)	64,483
P Smeaton	Ordinary shares	43,089	21,225	-	(1,864)	62,450
	Unvested securities	207,689	73,885	-	(82,631)	198,943
F Thompson	Ordinary shares	15,356	17,113	-	(931)	31,538
	Unvested securities	147,905	56,344	-	(51,975)	152,274
Former Senior Executives[3]						
D Carter[4]	Ordinary shares	53,481	20,205	(40,000)	(33,686)	-
	Unvested securities	182,365	70,297	-	(252,662)	-
S Harland[5]	Ordinary shares	27,256	15,760	-	(43,016)	-
	Unvested securities	170,333	64,446	-	(234,779)	-
L Hatton[4]	Ordinary shares	-	-	-	-	-
	Unvested securities	-	87,936	-	(87,936)	-
P Marlow[6]	Ordinary shares	108,518	67,044	-	(175,562)	-
	Unvested securities	212,216	8,585	-	(220,801)	-

1 For the Senior Executives, and former Senior Executives, remuneration may include performance rights granted under the LTI plan, restricted shares granted under the RSP, and share rights granted as part of the Deferred STI award or SRP which vest subject to the satisfaction of specified service conditions and performance measures (as applicable).
2 'Other changes' in ordinary shares relate to dividend plan allotments as part of the Dividend Reinvestment Plan (DRP) and share consolidation and capital return from the sale of the Australian Life business during 2019–20. 'Other changes' in unvested securities relate to equity awards that vested or were forfeited during 2019–20 and equity held on cessation of employment for those that ceased as KMP during 2019–20.
3 The number of unvested securities disclosed for the Executive Director and current and former 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 or SRP (as applicable). Accordingly, beneficial entitlement of those unvested securities remains subject to satisfaction of specified service conditions and performance measures (as applicable).
4 'Other Changes' in unvested securities for Mr Carter and Ms Hatton represent securities forfeited upon cessation of employment.
5 'Other Changes' in unvested securities for Ms Harland include 97,443 unvested securities held upon cessation of employment of which 80,510 are subject to performance measures.
6 'Other Changes' in unvested securities for Ms Marlow include 87,253 unvested securities held upon cessation of employment of which 67,813 are subject to performance measures.

Directors and executives of the Suncorp Group and their related parties received normal distributions on these securities. Details of the directors' interests in the Suncorp Group 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 arm's length 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 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 that are no more favourable than those given to other Suncorp Group employees and are deemed trivial or domestic in nature. These transactions are in the nature of personal investment, general insurance and life insurance policies.

Signed in accordance with a resolution of the Board of Directors.

Christine McLoughlin

CHRISTINE MCLOUGHLIN

Chairman of the Board

STEVE JOHNSTON

Group Chief Executive Officer and Managing Director

21 August 2020

Suncorp-Metway Limited and subsidiaries
ABN 66 010 831 722

Consolidated financial report

For the financial year ended 30 June 2020

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Statements of comprehensive income

For the financial year ended 30 June 2020

		Consolidated		Company	
	Note	2020 $M	2019 $M	2020 $M	2019 $M
Interest income	5.1	2,113	2,547	2,104	2,535
Interest expense	5.1	(922)	(1,384)	(853)	(1,255)
Net interest income	5.1	1,191	1,163	1,251	1,280
Other operating income	5.2	47	54	414	368
Total net operating income		1,238	1,217	1,665	1,648
Operating expenses	6	(719)	(696)	(1,162)	(1,126)
Impairment loss on financial assets	13.2	(172)	(13)	(167)	(12)
Profit before income tax		347	508	336	510
Income tax expense	7.1	(104)	(153)	(96)	(150)
Profit for the financial year attributable to owners of the Company		243	355	240	360
Other comprehensive income					
Items that will be reclassified subsequently to profit or loss					
Net change in fair value of cash flow hedges	20	43	20	43	20
Net change in fair value of investment securities	20	(9)	3	(9)	3
Income tax expense	20	(10)	(7)	(10)	(7)
Total other comprehensive income		24	16	24	16
Total comprehensive income for the financial year attributable to owners of the Company		267	371	264	376

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

Statements of financial position

As at 30 June 2020

	Note	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Assets					
Cash and cash equivalents	8	211	638	210	638
Receivables due from other banks	9	567	499	567	499
Trading securities	10	1,460	1,227	1,460	1,227
Derivatives	11	691	593	691	593
Investment securities	10	4,814	3,954	4,814	3,954
Loans and advances	12	57,723	59,154	57,563	58,973
Due from related parties	28.2	230	357	12,565	7,211
Deferred tax assets	7.2	78	42	74	40
Other assets		172	191	150	169
Total assets		65,946	66,655	78,094	73,304
Liabilities					
Payables due to other banks		293	353	293	353
Deposits and short-term borrowings	14	46,524	46,551	46,544	46,571
Derivatives	11	534	409	534	409
Payables and other liabilities	15	217	419	287	427
Due to related parties	28.2	80	14	15,128	10,508
Provisions		-	5	-	5
Securitisation liabilities	23.3	2,945	3,831	-	-
Long-term borrowings	16	10,607	10,358	10,607	10,358
Subordinated notes	17	672	672	672	672
Total liabilities		61,872	62,612	74,065	69,303
Net assets		4,074	4,043	4,029	4,001
Equity					
Share capital	18	2,754	2,648	2,754	2,648
Capital notes	19	585	585	585	585
Reserves	20	(258)	(259)	114	113
Retained profits		993	1,069	576	655
Total equity attributable to owners of the Company		4,074	4,043	4,029	4,001

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

Statements of changes in equity

For the financial year ended 30 June 2020

Consolidated	Note	Share capital $M	Capital notes $M	Reserves $M	Retained profits $M	Total equity $M
Balance as at 1 July 2018		2,648	550	(282)	946	3,862
Profit for the financial year		-	-	-	355	355
Total other comprehensive income for the financial year		-	-	16	-	16
Total comprehensive income for the financial year		-	-	16	355	371
Transactions with owners, recorded directly in equity						
Dividends paid	3	-	-	-	(225)	(225)
Transfers	20	-	-	7	(7)	-
Capital notes issued	19	-	35	-	-	35
Balance as at 30 June 2019		2,648	585	(259)	1,069	4,043
Profit for the financial year		-	-	-	243	243
Total other comprehensive income for the financial year		-	-	24	-	24
Total comprehensive income for the financial year		-	-	24	243	267
Transactions with owners, recorded directly in equity						
Shares issued	18	106	-	-	-	106
Dividends paid	3	-	-	-	(342)	(342)
Transfers	20	-	-	(23)	23	-
Balance as at 30 June 2020		2,754	585	(258)	993	4,074

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

Statements of changes in equity

For the financial year ended 30 June 2020

Company	Note	Share capital $M	Capital notes $M	Reserves $M	Retained profits $M	Total equity $M
Balance as at 1 July 2018		2,648	550	90	527	3,815
Profit for the financial year		-	-	-	360	360
Total other comprehensive income for the financial year		-	-	16	-	16
Total comprehensive income for the financial year		-	-	16	360	376
Transactions with owners, recorded directly in equity						
Dividends paid	3	-	-	-	(225)	(225)
Transfers	20	-	-	7	(7)	-
Capital notes issued	19	-	35	-	-	35
Balance as at 30 June 2019		2,648	585	113	655	4,001
Profit for the financial year		-	-	-	240	240
Total other comprehensive income for the financial year		-	-	24	-	24
Total comprehensive income for the financial year		-	-	24	240	264
Transactions with owners, recorded directly in equity						
Shares issued	18	106	-	-	-	106
Dividends paid	3	-	-	-	(342)	(342)
Transfers	20	-	-	(23)	23	-
Balance as at 30 June 2020		2,754	585	114	576	4,029

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

Statements of cash flows

For the financial year ended 30 June 2020

	Note	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Cash flows from operating activities					
Interest received		2,166	2,565	2,157	2,552
Interest paid		(1,029)	(1,404)	(956)	(1,273)
Fees and other operating income received		198	219	550	514
Dividends and trust distributions received		-	-	15	10
Fees and operating expenses paid		(1,013)	(833)	(1,386)	(1,251)
Reimbursement to related parties for income tax payments		(73)	(172)	(68)	(165)
Net movement in operating assets					
Trading securities		(232)	412	(232)	412
Loans and advances		1,229	(616)	1,213	(443)
Net movement in operating liabilities					
Net movement in amounts due to (from) related parties		145	33	(792)	(542)
Deposits and short-term borrowings		(53)	368	(53)	(260)
Net cash from operating activities	22.1	1,338	572	448	(446)
Cash flows from investing activities					
Proceeds from the sale or maturity of investment securities		1,729	1,564	1,729	1,564
Payments for acquisition of investment securities		(2,274)	(1,138)	(2,274)	(1,138)
Net cash (used in) from investing activities		(545)	426	(545)	426
Cash flows from financing activities					
Proceeds from long-term borrowings and securitisation liabilities	22.3	3,050	3,117	3,050	3,117
Repayment of long-term borrowings and securitisation liabilities	22.3	(3,906)	(3,903)	(3,017)	(2,883)
Payments for the buy back and issue of subordinated notes	22.3	-	(70)	-	(70)
Proceeds from issue of ordinary shares	18	106	-	106	-
Proceeds from issue of capital notes	19	-	35	-	35
Dividends paid	3	(342)	(225)	(342)	(225)
Net cash (used in) financing activities		(1,092)	(1,046)	(203)	(26)
Net decrease in cash and cash equivalents		(299)	(48)	(300)	(46)
Cash and cash equivalents at the beginning of the financial year		784	832	784	830
Cash and cash equivalents at the end of the financial year	22.2	485	784	484	784

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

Notes to the financial statements

For the financial year ended 30 June 2020

1. Reporting entity

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

The consolidated financial statements for the financial year ended 30 June 2020 comprise the Company and its subsidiaries (the **Group**) and were authorised for issue by the Board of Directors on 21 August 2020.

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

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

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

2. Basis of preparation

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

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

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

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

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

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

2.1 Statement of compliance

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

2.2 Use of estimates and judgments

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

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

- provisions for impairment on financial assets (refer to note 13.3 and note 25.1)
- valuation of financial instruments carried at fair value (refer to note 23)
- contingent liabilities (refer to note 30)

COVID-19 impact on the use of estimates and assumptions

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

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

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

- Developed a detailed program of work to understand and analyse how COVID-19 may impact key disclosures in the financial statements;
- Implemented a risk register and held regular status meetings with Suncorp employees to monitor, track and report business and financial reporting matters relating to COVID-19;
- Critically assessed estimates, judgments and assumptions used in the preparation of the financial statements, including updating the Group's outlook on economic conditions arising from COVID-19;
- Reviewed external publications and market communications to identify other potential COVID-19 impacts in the preparation of the financial statements;
- Considered emerging market practice and trends along with regulatory pronouncements to assess the completeness of assessed COVID-19 impacts in the preparation of the consolidated financial statements;
- Determined the impact COVID-19 has had on the reported amounts and disclosures in the financial statements and updated these disclosures accordingly;
- Increased scrutiny and review by management, Board, and board committees; and
- Assessed the carrying value of the Group's assets and liabilities at reporting date. Where there is a significant use of estimates and judgments in determining the carrying value of the Group's assets and liabilities, the procedures in determining the carrying value of these assets and liabilities are summarised below.

Valuation of financial instruments and hedge accounting

A significant portion of the Group's trading and investment securities are invested in high-quality liquid assets which are valued using inputs from observable market data as shown in the Group fair value hierarchy disclosure (note 23.1). The Group has taken steps to ensure that the valuation of its trading and investment securities reflects market participants' assumptions based on information available at measurement date and has reviewed its level classification for investment securities.

Given the recent market volatility from COVID-19, the Group has reviewed the valuation inputs and techniques used in determining the carrying value of its derivative assets and liabilities at reporting date. This included reviewing counterparty credit risk to determine any appropriate fair value adjustments. At reporting date, the Group's derivative assets and liabilities have been measured at fair value and are based on observable market inputs as set out in the fair value hierarchy disclosure in note 23.1.

An impact assessment has been completed to evaluate whether forecast transactions designated as hedged items in cash flow hedges continue to be highly probable and whether any changes in the contractual terms and credit risk of a hedged financial instrument resulting from COVID-19 affected the financial instrument's eligibility for hedge accounting. At reporting date, as a result of this assessment and the Group's ongoing hedge capacity testing it was determined that designated forecast cash flows remain highly probable and eligible for hedge accounting (refer to note 11).

Provision for impairment on financial assets

The COVID-19 pandemic, together with measures implemented to contain the virus, has had a profound impact on the Australian and global economy, driving heightened levels of market uncertainty and a significant deterioration, or expected deterioration, in macroeconomic conditions, notably unemployment, gross domestic product and property prices. This, in turn, has resulted in a significant impact on the provision for impairment on financial assets, as forecast macroeconomic conditions are a key factor in determining the expected credit loss (**ECL**) for loans and advances. Further details on the ECL model methodology, estimates and assumptions are outlined in note 13.3.

Financial risk management

The Group has adopted prudent practices to manage liquidity risk and to ensure an adequate level of liquidity is maintained to meet obligations as they fall due across a wide range of operating circumstances. The Group was well placed heading into the market dislocation following the COVID-19 pandemic and has continued to maintain funding and liquidity metrics comfortably above regulatory minimums. Given the uncertain outlook, the Group has taken proactive steps to further strengthen the balance sheet. These actions included raising funding from the Group's customer deposit and wholesale funding sources and benefiting from the support programs implemented by the Federal Government, the Reserve Bank of Australia (**RBA**) and the Australian Prudential Regulation Authority (**APRA**) to help stabilise the financial system.

On 19 March 2020, the RBA announced the Term Funding Facility (**TFF**) to support lending to Australian businesses as part of a package of measures to support the Australian economy. Under the TFF, Authorised Deposit-taking Institutions (**ADIs**) can access three-year funding through repurchase agreements at a fixed interest rate of 25 basis points. Based on the terms of the facility, the Group has an initial allowance of $1,741 million, which can be drawn down until 30 September 2020. An additional allowance is based on the growth in lending provided by the ADI to both large businesses and small and medium-sized enterprises (**SMEs**) and can be drawn down until 31 March 2021.

The actions taken by the Group during the financial year include:

- Increased the self-securitised residential mortgage-backed securities to increase the amount of RBA repurchase eligible collateral;
- Accessed a portion of the RBA TFF (refer to note 16 and note 23.3);
- Participated in the increase to committed liquidity facility allocations for the 2020 calendar year;
- Issued a $750 million 5-year covered bond; and
- Continued strong momentum in customer deposits.

The Group continues to monitor markets closely and take appropriate action when and if required.

For further details, please refer to note 23.3 and note 25.3.

Events subsequent to the reporting period

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

3. Dividends

		2020		2019	
Consolidated and Company	Note	Cents per share[1]	$M	Cents per share[1]	$M
Dividend payments on ordinary shares					
2019 final dividend (2019: 2018 final dividend)		58	164	28	76
2020 interim dividend (2019: 2019 interim dividend)		56	158	46	126
Total dividends on ordinary shares			322		202
Total dividends on capital notes	19		20		23
Total dividends			342		225
Dividends not recognised in the statements of financial position					
Dividends determined since reporting date					
2020 final dividend[2] (2019: 2019 final dividend[3])		-	-	61	164
			-		164

1 Cents per share is rounded to the nearest cent.

2 In line with the updated capital management and dividend guidance issued by APRA on 29 July 2020, the directors have determined that a 2020 final dividend will not be paid.

3 The cents per share for the 2019 final dividend determined but not recognised in the statements of financial position was estimated based on the total number of ordinary shares on issue as at 30 June 2019. The cents per share disclosed as paid during the year ended 30 June 2020 was based on the actual number of ordinary shares on issue on the record date.

4. Segment reporting

Operating segments are identified based on separate financial information which is regularly reviewed by the Group Chief Executive Officer and 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.

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

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

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

The basis of segmentation and basis of measurement of segment results are the same as those applied by the Group in its consolidated financial report for the financial year ended 30 June 2019.

5. Net operating income

5.1 Net interest income

	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Interest income				
Cash and cash equivalents	2	5	2	5
Receivables due from other banks	1	1	1	1
Trading securities	11	29	11	29
Investment securities	99	127	99	127
Loans and advances	2,000	2,385	1,991	2,373
Total interest income	2,113	2,547	2,104	2,535
Interest expense				
Deposits and short-term borrowings:				
at amortised cost	(548)	(833)	(551)	(839)
designated at fair value through profit or loss	(29)	(48)	(29)	(48)
Derivatives[1]	3	(27)	3	(27)
Securitisation liabilities	(72)	(135)	-	-
Long-term borrowings	(257)	(312)	(257)	(312)
Subordinated notes	(19)	(29)	(19)	(29)
Total interest expense	(922)	(1,384)	(853)	(1,255)
Net interest income	1,191	1,163	1,251	1,280

1 Represents the net interest income/expense from derivative instruments which are utilised to hedge interest rate risk in accordance with the Group's risk management practices.

5.2 Other operating income

	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Banking fee and commission income	174	176	174	176
Banking fee and commission expense	(149)	(141)	(149)	(141)
Net banking fee and commission income	25	35	25	35
Net gains or losses on:				
Trading securities at FVTPL[1]	1	2	1	2
Derivative financial instruments at FVTPL	(1)	12	(1)	12
Financial liabilities at FVTPL	1	(1)	1	(1)
Amount recycled into profit or loss on derecognition of investment securities at FVOCI[2]	12	-	12	-
Securitisation and covered bond income	-	-	319	264
Other fees and commissions	-	-	31	32
Dividend income	-	-	15	10
Other revenue	9	6	11	14
	22	19	389	333
Total other operating income	47	54	414	368

1 Fair value through profit or loss (FVTPL).

2 Fair value through other comprehensive income (FVOCI).

6. Operating expenses

	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Wages, salaries and other staff costs	364	354	364	354
Occupancy and equipment expenses	60	60	60	60
Information technology and communication	78	67	78	67
Depreciation and amortisation	66	64	66	64
Securitisation and covered bond expenses	-	-	443	431
Other expenses	151	151	151	150
Total operating expenses	719	696	1,162	1,126

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

7. Income tax

7.1 Income tax expense

	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Reconciliation of prima facie to actual income tax expense:				
Profit before income tax	347	508	336	510
Prima facie domestic corporate tax rate of 30% (2019: 30%)	104	153	101	153
Tax effect of:				
Intercompany dividend elimination	-	-	(5)	(3)
Total income tax expense on pre-tax profit	104	153	96	150
Effective tax rate	30.0%	30.2%	28.6%	29.4%
Income tax expense recognised in profit consists of:				
Current tax expense (benefit)				
Current tax movement	152	152	142	149
Adjustments for prior financial years	(1)	1	(1)	1
Total current tax expense	151	153	141	150
Deferred tax expense (benefit)				
Origination and reversal of temporary differences	(47)	1	(45)	1
Adjustments for prior financial years	-	(1)	-	(1)
Total deferred tax expense	(47)	-	(45)	-
Total income tax expense	104	153	96	150

7.2 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Consolidated	Deferred tax assets 2020 $M	Deferred tax assets 2019 $M	Deferred tax liabilities 2020 $M	Deferred tax liabilities 2019 $M	Net 2020 $M	Net 2019 $M
Trading securities and investment securities	-	-	15	5	(15)	(5)
Provision for impairment on financial assets	92	44	-	-	92	44
Other items	1	3	-	-	1	3
Deferred tax assets and liabilities	93	47	15	5	78	42
Set-off of tax	(15)	(5)	(15)	(5)	-	-
Net deferred tax assets	78	42	-	-	78	42

Company	2020 Deferred tax assets $M	2019 $M	2020 Deferred tax liabilities $M	2019 $M	2020 Net $M	2019 $M
Trading securities and investment securities	-	-	15	5	(15)	(5)
Provision for impairment on financial assets	88	42	-	-	88	42
Other items	1	3	-	-	1	3
Deferred tax assets and liabilities	89	45	15	5	74	40
Set-off of tax	(15)	(5)	(15)	(5)	-	-
Net deferred tax assets	74	40	-	-	74	40

Movement in deferred tax balances during the financial year:

Consolidated	2020 Deferred tax assets $M	2019 $M	2020 Deferred tax liabilities $M	2019 $M
Balance at the beginning of the financial year	42	45	-	-
Movement recognised in profit or loss	47	-	-	-
Movement recognised in other comprehensive income	-	-	10	7
Transfer of assets/liabilities to Group Companies	(1)	-	-	-
Reclassifications[1]	(10)	(3)	(10)	(7)
Balance at the end of the financial year	78	42	-	-

Company	2020 Deferred tax assets $M	2019 $M	2020 Deferred tax liabilities $M	2019 $M
Balance at the beginning of the financial year	40	45	-	-
Movement recognised in profit or loss	45	-	-	-
Movement recognised in other comprehensive income	-	-	10	7
Transfer of assets/ liabilities to Group Companies	(1)	-	-	-
Reclassifications[1]	(10)	(5)	(10)	(7)
Balance at the end of the financial year	74	40	-	-

1 Reclassifications for the 2019 financial year include the deferred tax impact of the AASB 9 transitional adjustments.

7.3 Tax consolidation

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

8. Cash and cash equivalents

	Consolidated 2020 $M	2019 $M	Company 2020 $M	2019 $M
Cash at bank	67	57	66	57
Reverse repurchase agreements maturing in less than three months	50	492	50	492
Other money market placements	94	89	94	89
Total cash and cash equivalents	211	638	210	638

9. Receivables due from other banks

	Consolidated		Company	
	2020 $M	2019 $M	2020 $M	2019 $M
Cash collateral[1]	147	98	147	98
Other receivables due from financial institutions	420	401	420	401
Total receivables due from other banks - current	567	499	567	499

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

10. Trading and investment securities

	Consolidated		Company	
	2020 $M	2019 $M	2020 $M	2019 $M
Trading securities				
Financial assets at FVTPL				
Interest-bearing securities:				
Bank bills, certificates of deposit and other negotiable securities	1,460	1,227	1,460	1,227
Investment securities				
Financial assets at FVOCI				
Interest-bearing securities:				
Government bonds, RMBS and investment graded bank bonds	4,814	3,954	4,814	3,954
Current	691	87	691	87
Non-current	4,123	3,867	4,123	3,867
Total investment securities	4,814	3,954	4,814	3,954

11. Derivative financial instruments

	2020		2019	
Consolidated and Company	Asset $M	Liability $M	Asset $M	Liability $M
Interest rate				
Non-hedge accounting	46	43	45	41
Hedge accounting	375	444	288	362
	421	487	333	403
Interest rate and foreign exchange				
Non-hedge accounting	1	1	2	2
Hedge accounting	262	-	227	-
	263	1	229	2
Foreign exchange				
Non-hedge accounting	7	46	31	4
	7	46	31	4
Total derivative exposures				
Non-hedge accounting	54	90	78	47
Hedge accounting	637	444	515	362
	691	534	593	409

Derivatives are used by the Group to manage interest rate and foreign exchange risk. Non-hedge accounting derivatives are those derivatives which are either not designated in a qualifying hedge accounting relationship, or acquired or incurred principally for the purpose of selling or repurchasing in the near term, or held as part of a portfolio that is managed together for short-term profit or position taking. Hedge accounting derivatives are those derivatives that are designated in a qualifying hedge accounting relationship. Refer to note 31 for the Group's accounting policy for derivatives and hedge accounting.

Derivatives used primarily include over-the-counter (**OTC**) interest rate swaps, cross currency swaps, forward foreign exchange contracts, options, and exchange traded interest rate futures.

To prevent derivatives being used as a source of gearing, all derivatives have to be wholly or partly cash covered depending on the type of risk undertaken. Derivative restrictions are designed to either prevent gearing or to cover unrealised and potential losses on all derivatives to guard against potential liquidity shortfalls. Counterparty risk procedures are in place for OTC type derivatives.

As at 30 June 2020 there was no significant counterparty exposure to any one single entity, other than normal clearing house exposures associated with dealings through recognised exchanges (2019: none).

The Group uses forward foreign exchange contracts to economically hedge its exposure to foreign exchange risk arising from its US dollar commercial paper portfolio (within 'Deposits and short-term borrowings', refer to note 14). These forward contracts are not designated in a hedge accounting relationship.

The maturity profile of hedge accounted derivatives is summarised at Note 25.2.

11.1 Derivative financial instruments – hedge accounting

Type of hedge	Fair value hedge	Cash flow hedge
Objective	To hedge changes in fair value of financial assets and liabilities arising from interest rate risk.	To hedge variability in cash flows from recognised financial assets and liabilities arising from interest rate and foreign currency risk.
Hedged risk	Interest rate risk	Interest rate risk Foreign exchange risk
Hedging instruments	Pay fixed / receive variable interest rate swaps Receive fixed / pay variable interest rate swaps Receive fixed foreign currency / pay variable local currency cross currency swaps	Receive fixed / pay variable interest rate swaps Pay fixed / receive variable interest rate swaps Receive fixed foreign currency / pay variable local currency cross currency swaps
Hedged item	Fixed interest financial assets and liabilities	Variable interest financial assets and liabilities
Economic relationship test	Matched terms	Regression analysis
Hedge effectiveness testing	Cumulative dollar offset Hedge ratio 1:1	Cumulative dollar offset Hedge ratio 1:1
Potential sources of ineffectiveness	Mainly mismatches in terms of the hedged item and the hedging instrument	Mainly mismatches in terms of the hedged item and the hedging instrument as well as prepayment risk

Hedging of fluctuations in interest rates

The Group seeks to minimise volatility in net interest income through the use of interest rate derivatives, primarily vanilla interest rate swaps. The aggregate earnings exposure to interest rates is managed within Board-approved risk limits. At reporting date, there are 26 (2019: 25) interest rate swaps designated in fair value hedges to hedge the Group's exposure to changes in the fair value of fixed rate investment securities caused by movements in interest rates. All other interest rate swaps designated as hedges are cash flow hedges. Interest rate swaps designated in cash flow hedges hedge the Group's exposure to variability of cash flows on variable rate financial assets and liabilities caused by movements in interest rates.

Hedging of fluctuations in foreign exchange rates

The Group ensures that the net exposures are kept to an acceptable level through participation in the foreign exchange markets. Cross currency interest rate swaps are designated in hedge relationships using the split approach. Under this approach the benchmark interest rate risk and foreign exchange risk on principal components of the swap are accounted for as a fair value hedge and the other components as a cash flow hedge.

The following table shows the maturity profile for hedging instruments by notional amount, reported based on their contractual maturity.

	2020				2019			
	Notional				Notional			
Consolidated and Company	0 to 12 months $M	1 to 5 years $M	Over 5 years $M	Total $M	0 to 12 months $M	1 to 5 years $M	Over 5 years $M	Total $M
Interest rate risk								
Fair value hedge	400	160	551	1,111	-	620	446	1,066
Cash flow hedge	9,536	26,002	625	36,163	13,396	25,149	625	39,170
Interest rate and foreign exchange risk								
Fair value and cash flow hedge	948	1,458	-	2,406	1,082	2,231	-	3,313

The table below shows the average executed price or rate of the hedging instrument for interest rate exposures:

Consolidated and Company	2020	2019
Interest rate swaps:		
AUD average fixed interest rate		
Hedging investment securities	3.31%	3.61%
Hedging loans and advances	1.64%	2.20%
Hedging deposits and short-term borrowings	1.63%	2.07%
Cross currency swaps:		
Average AUD/USD exchange rate	0.7405	0.7480
Average fixed interest rate USD	2.78%	2.68%

The following table shows amounts related to designated hedging instruments, including the fair value changes for the period used as the basis for calculating hedge ineffectiveness.

Consolidated and Company	Carrying amount assets $M	Carrying amount liabilities $M	Gains (losses) on hedging instruments $M	Gains (losses) attributable to hedged risk $M	Hedge ineffectiveness in profit or (loss)[1] $M
2020					
Interest rate risk					
Fair value hedge - interest rate swaps	-	96	(4)	5	1
Cash flow hedge - interest rate swaps	375	348	42	(44)	-
Interest rate and foreign exchange risk					
Fair value and cash flow hedge - cross currency swaps	262	-	29	(29)	-
Total	637	444	67	(68)	1
2019					
Interest rate risk					
Fair value hedge - interest rate swaps	-	92	(52)	52	-
Cash flow hedge - interest rate swaps	288	270	29	(28)	-
Interest rate and foreign exchange risk					
Fair value and cash flow hedge - cross currency swaps	227	-	190	(190)	-
Total	515	362	167	(166)	-

1. Hedge ineffectiveness is recognised as part of 'Other operating income' in the statements of comprehensive income (SoCI).

The following table shows amounts relating to designated hedged items:

				Amounts reclassified from reserves to profit or (loss)[3] as:	
Consolidated and Company	Carrying amount $M	Accumulated fair value hedge adjustments[1] $M	Accumulated balances in reserves[2] $M	Hedged cash flows will no longer occur $M	Hedged item has affected profit or (loss) $M
2020					
Interest rate risk					
Fair value hedge					
Investment securities	1,216	-	n/a	n/a	n/a
Cash flow hedge					
Loans and advances	23,849	n/a	652	-	-
Deposits and short-term borrowings	24,844	n/a	(616)	-	-
Interest rate and foreign exchange risk					
Fair value and cash flow hedge					
Long-term borrowings	2,486	82	(2)	-	-
2019					
Interest rate risk					
Fair value hedge					
Investment securities	1,069	-	n/a	n/a	n/a
Cash flow hedge					
Loans and advances	25,475	n/a	558	-	-
Deposits and short-term borrowings	28,716	n/a	(565)	-	-
Interest rate and foreign exchange risk					
Fair value and cash flow hedge					
Long-term borrowings	3,538	12	(2)	-	-

1. The accumulated amount of fair value hedge adjustments remaining on the statements of financial position for hedged items that have ceased to be adjusted for hedging gains and losses is $nil (2019: $nil).

2. Balances presented in the table are gross of tax. There is $nil (2019: $nil) remaining in the hedging reserve from hedging relationships for which hedge accounting is no longer applied.

3. Amounts reclassified from reserves to profit or loss are included as part of 'Other operating income' in the SoCI.

12. Loans and advances

	Note	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Retail loans					
Housing loans		40,403	40,922	40,403	40,922
Securitised housing loans and covered bonds[1]		6,071	6,889	6,071	6,889
Consumer loans		155	149	155	149
		46,629	47,960	46,629	47,960
Business loans					
Commercial (SME)		7,295	7,315	7,207	7,221
Agribusiness		4,081	4,018	3,999	3,925
		11,376	11,333	11,206	11,146
Other lending		19	3	19	3
Gross loans and advances		58,024	59,296	57,854	59,109
Provision for impairment	13	(301)	(142)	(291)	(136)
Net loans and advances		57,723	59,154	57,563	58,973
Current		10,036	11,127	10,019	11,099
Non-current		47,687	48,027	47,544	47,874
Net loans and advances		57,723	59,154	57,563	58,973

1 Excludes internally held notes for repurchase with central banks. Refer to note 23.3 for further details.

13. Provision for impairment on financial assets

13.1 Reconciliation of provision for impairment on financial assets

The tables below show the reconciliation of expected credit losses (**ECL**), specific provision (**SP**) and gross carrying amount for loans and advances (**GLA**) for the financial year ended 30 June 2020. Please refer to note 31.11 for the definition of each stage.

	Collective provision									
	Stage 1		Stage 2		Stage 3		Stage 3 SP		Total	
Consolidated	GLA $M	ECL $M	GLA $M	ECL $M	GLA $M	ECL $M	GLA $M	SP $M	GLA $M	Provision $M
As at 1 July 2018	56,130	44	1,907	38	568	29	123	39	58,728	150
Transfers:										
Transfer to stage 1	728	8	(644)	(6)	(84)	(2)	-	-	-	-
Transfer to stage 2	(1,110)	(2)	1,225	6	(115)	(4)	-	-	-	-
Transfer to stage 3	(221)	-	(218)	(4)	400	1	39	3	-	-
New loans and advances originated	8,471	10	-	-	-	-	-	-	8,471	10
Increase in ECL/SP	-	10	-	20	-	19	-	13	-	62
Loans and advances derecognised	(7,367)	(28)	(365)	(17)	(131)	(11)	(40)	(12)	(7,903)	(68)
SP written-off	-	-	-	-	-	-	-	(8)	-	(8)
Unwind of discount	-	-	-	-	-	-	-	(4)	-	(4)
As at 1 July 2019	56,631	42	1,905	37	638	32	122	31	59,296	142
Transfers:										
Transfer to stage 1	982	16	(854)	(12)	(128)	(4)	-	-	-	-
Transfer to stage 2	(1,484)	(4)	1,558	6	(74)	(2)	-	-	-	-
Transfer to stage 3	(273)	-	(264)	(7)	491	5	46	2	-	-
New loans and advances originated	8,743	27	-	-	-	-	-	-	8,743	27
Increase in ECL/SP	-	71	-	61	-	36	-	28	-	196
Loans and advances derecognised	(9,523)	(28)	(322)	(11)	(134)	(10)	(36)	(5)	(10,015)	(54)
SP written-off	-	-	-	-	-	-	-	(7)	-	(7)
Unwind of discount	-	-	-	-	-	-	-	(3)	-	(3)
As at 30 June 2020	55,076	124	2,023	74	793	57	132	46	58,024	301
Provision for impairment on:										
Loans and advances	(107)		(72)		(57)		(46)		(282)	
Commitments & guarantees	(17)		(2)		-		-		(19)	
Net carrying amount as at 30 June 2020	54,952		1,949		736		86		57,723	

Company	Collective provision Stage 1 GLA $M	Stage 1 ECL $M	Stage 2 GLA $M	Stage 2 ECL $M	Stage 3 GLA $M	Stage 3 ECL $M	Stage 3 SP GLA $M	Stage 3 SP SP $M	Total GLA $M	Total Provision $M
As at 1 July 2018	55,919	41	1,896	37	568	29	122	38	58,505	145
Transfers:										
Transfer to stage 1	727	8	(643)	(6)	(84)	(2)	-	-	-	-
Transfer to stage 2	(1,102)	(2)	1,217	6	(115)	(4)	-	-	-	-
Transfer to stage 3	(219)	-	(217)	(4)	397	1	39	3	-	-
New loans and advances originated	8,409	9	-	-	-	-	-	-	8,409	9
Increase in ECL/SP	-	10	-	18	-	18	-	13	-	59
Loans and advances derecognised	(7,278)	(27)	(358)	(16)	(130)	(11)	(39)	(11)	(7,805)	(65)
SP written-off	-	-	-	-	-	-	-	(8)	-	(8)
Unwind of discount	-	-	-	-	-	-	-	(4)	-	(4)
As at 1 July 2019	56,456	39	1,895	35	636	31	122	31	59,109	136
Transfers:										
Transfer to stage 1	979	15	(851)	(11)	(128)	(4)	-	-	-	-
Transfer to stage 2	(1,470)	(4)	1,544	6	(74)	(2)	-	-	-	-
Transfer to stage 3	(271)	-	(264)	(7)	489	5	46	2	-	-
New loans and advances originated	8,669	27	-	-	-	-	-	-	8,669	27
Increase in ECL/SP	-	67	-	59	-	35	-	28	-	189
Loans and advances derecognised	(9,442)	(27)	(314)	(10)	(132)	(9)	(36)	(5)	(9,924)	(51)
SP written-off	-	-	-	-	-	-	-	(7)	-	(7)
Unwind of discount	-	-	-	-	-	-	-	(3)	-	(3)
As at 30 June 2020	54,921	117	2,010	72	791	56	132	46	57,854	291
Provision for impairment on:										
Loans and advances	(100)		(70)		(56)		(46)		(272)	
Commitments & guarantees	(17)		(2)		-		-		(19)	
Net carrying amount as at 30 June 2020	54,804		1,938		735		86		57,563	

13.2 Impairment loss on financial assets

	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Increase (decrease) in collective provision for impairment[1]	145	-	140	(1)
Increase in specific provision for impairment	25	5	25	5
Bad debts written off[2]	3	9	3	9
Bad debts recovered	(1)	(1)	(1)	(1)
Total impairment loss on financial assets	172	13	167	12

1 Impairment losses above includes $1m of expected credit losses on Investment securities which are measured at FVOCI (2019: $nil million).

2 The principal amount outstanding on loans and advances that were written off and are still subject to enforcement activity at the end of the reporting period is $1 million (2019: $2 million).

13.3 Expected credit loss model methodology, estimates and assumptions

(a) Impact of COVID-19 on the provision for impairment on loans and advances

In response to COVID-19 and the Group's expectations of economic impacts, the key conditions and assumptions utilised in the Group's calculation of ECL have been revised. The economic scenarios and forward-looking macroeconomic assumptions underpinning the collective provision calculation are outlined at note 13.3(b). At reporting date, the expected impacts of COVID-19 have been captured via the modelled outcome as well as a separate economic overlay reflecting the considerable uncertainty remaining in the modelled outcome given the unprecedented impacts of COVID-19. Notwithstanding that credit model inputs and assumptions, including forward-looking macroeconomic assumptions, were revised in response to the COVID-19 pandemic, the fundamental credit model mechanics and methodology underpinning the Group's calculation of ECL have remained consistent with prior periods.

The Group is focused on supporting customers who are experiencing financial difficulties as a result of the COVID-19 global pandemic and has offered a range of industry-wide financial assistance measures including temporary loan repayment deferrals (principal and interest). In accordance with regulatory and industry guidance, temporary loan deferrals have been offered to business lending on a 6 month basis, and on a 3 month basis to retail lending, with an option to extend for a further 3 months post a customer check-in to reassess the customer's circumstances.

As per industry guidance, a payment deferral request does not automatically result in a significant increase in credit risk (**SICR**) which transitions an exposure from stage 1 (12-month ECL) to stage 2 (lifetime ECL). For June 2020 the SICR assessment for individually rated business lending reflects the loan's master rating scale (**MRS**) at the time of the deferral. For all exposures (individually or portfolio rated) an assessment is made of the proportion of each portfolio expected to be SICR given the state of the economy and, to the extent this proportion exceeds the observed proportion, which is SICR, an extra provision is established to ensure this proportion receives a lifetime ECL. This approach ensures the volume of exposures in stage 2 reflects a forward-looking view of the economy and not just what is observable in customer data (such as arrears) at the reporting date.

As per regulatory guidance, exposures which are granted COVID-19 temporary financial assistance are not to be treated as being in arrears during the deferral period and not to be considered as Restructured under Prudential Standard APS220 Credit Quality (refer to note 25.1(b) for further details). Accordingly, the Group's adopted accounting treatment is to pause counting days past due, until such time as the deferral period ends. Therefore, a SICR will not be triggered due to COVID-19 related deferrals, noting that in the ordinary course arrears are the primary driver of SICR for retail lending. Refer to note 31.11(a) for further information in relation to the Group's accounting policy for determining a SICR event.

At reporting date, the gross carrying value of loans and advances that are subject to a COVID-19 financial assistance package total $4,828 million, comprised of retail lending ($3,763 million) and business lending ($1,065 million). Refer to note 31.7(f) for the Group's accounting policy with respect to determining a loan modification.

(b) Sensitivity analysis

The impacts of COVID-19 have resulted in significant estimation uncertainty in relation to the measurement of the Group's ECL for loans and advances. The impacts of COVID-19 on consumers and businesses as well as the government stimulus packages deployed are unprecedented, accordingly significant adjustments to the ECL could occur in future periods as the full effects of COVID-19 are better understood.

Reported ECL

The ECL at reporting date of $255 million incorporates a base case (i.e. best estimate scenario) which reflects a sharp deterioration in forecast macroeconomic conditions driven by the significant restrictions and lockdowns that have been imposed since March 2020, followed by a fairly protracted recovery, beginning in 2021 ('reverse J' shaped recovery). Key macroeconomic indicators incorporated in the best estimate are outlined in the table below.

The Group calculates the ECL by considering a distribution of economic outcomes around the best estimate underlying scenario, with the best estimate reflecting the Group's view of the most likely economic scenario. As the negative impact of an economic downturn on credit losses tends to be greater than the positive impact of an economic upturn, if the Group determines collective provision only on the ECL under the best estimate forecast, or based on a limited number of discrete scenarios, it might maintain a level of collective provision that does not appropriately reflect the range of potential outcomes, including more severe downside events. To address this AASB 9 *Financial Instruments* (**AASB 9**) requires the ECL to be the probability weighted ECL outcome calculated for a range of possible outcomes.

In determining the Reported ECL a distribution of outcomes around the best estimate economic scenario is adopted for both probability of default (**PD**) and loss given default (**LGD**), taking into consideration observed variability in economic outcomes and collateral values. For example, the Group's Reported ECL calculation reflects the following outcomes modelled around the best estimate scenario:

- For PD, a 10 per cent probability that mortgage defaults over the next year are consistent with an increase in unemployment to 13.5 per cent, compared with the best estimate of an increase to 10.0 per cent; and
- For LGD, a 10 per cent probability that Queensland metro house prices fall in excess of 25 per cent over the next year, in comparison to the best estimate which reflects an 8.3 per cent fall. Similarly, the ECL calculation reflects a 10 per cent probability that commercial property prices fall in excess of 33 per cent over the next year, in comparison to the best estimate which reflects a 14.2 per cent fall.

Downside sensitivity ECL

The ECL calculation relies on multiple variables and is inherently non-linear and portfolio-dependent, signifying no single analysis can fully demonstrate the sensitivity of the ECL to fluctuations in macroeconomic variables. To provide an indication of the sensitivity of the ECL to key macroeconomic variables, the Group has also determined what the ECL would be if the best estimate was replaced with more adverse economic indicators, akin to an 'L shaped' economic recovery (i.e. a slow rate of recovery with historically high levels of unemployment for a prolonged period and sustained negative GDP change), compared to the current 'reverse J' shaped recovery inherent in the Reported ECL.

The Downside sensitivity ECL was modelled with the key macroeconomic indicators outlined in the table below. These macroeconomic indicators replace the best estimate values in the Reported ECL and the Downside sensitivity ECL maintains a full distribution of outcomes around the downside scenario. To highlight the impact of the modelled outcome to changes in key economic indicators, no changes were made to overlays, including those related to outlook uncertainty. Under these revised downside assumptions, the ECL is $309 million, an increase of $54 million compared to the Reported ECL. Although not explicitly quantified, the economic conditions for this L shaped economic scenario will be implicitly captured within the distribution of outcomes for the Reported ECL. Accordingly, the Downside sensitivity ECL is not separately weighted and incorporated into the Reported ECL.

Key macroeconomic information that has been utilised in the base case, and the downside sensitivity is summarised below:

Consolidated and Company	Reported ECL %		Downside sensitivity ECL %	
	June 20	June 21	June 20	June 21
GDP growth - annual change	(7.3)	6.8	(7.9)	(0.5)
	June 21	June 22	June 21	June 22
Property prices - residential - annual change	(8.3)	4.6	(11.0)	1.0
Property prices - commercial - annual change	(14.2)	3.5	(17.0)	0.0
	Dec 20	June 21	Dec 20	June 21
Unemployment rate	10.0	9.0	11.0	11.5

The periods presented above reflect the peak/trough for the respective key macroeconomic information.

14. Deposits and short-term borrowings

	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Financial liabilities at amortised cost				
Call deposits	28,684	22,502	28,704	22,522
Term deposits	11,263	16,401	11,263	16,401
Short-term securities issued	5,079	5,376	5,079	5,376
Total deposits and short-term borrowings at amortised cost	45,026	44,279	45,046	44,299
Financial liabilities designated at fair value through profit or loss				
Offshore commercial paper	1,498	2,272	1,498	2,272
Total deposits and short-term borrowings	46,524	46,551	46,544	46,571
Current	46,383	46,320	46,403	46,340
Non-current	141	231	141	231
Total deposits and short-term borrowings[1]	46,524	46,551	46,544	46,571

1 Original maturity of short-term borrowings are less than 12 months.

Deposits and short-term borrowings outstanding at 30 June 2020 of $817 million (2019: $302 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 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. However, the portion of the change in the fair value of the debt attributable to changes in the Group's own credit risk is recognised in other comprehensive income, with no recycling to profit or loss, unless such treatment would create or enlarge an accounting mismatch in profit or loss. The fair value of forward foreign exchange contracts used as economic hedges of monetary liabilities in foreign currencies as at 30 June 2020 is a $41 million liability (2019: $27 million asset).

The contractual amount payable on financial liabilities designated at fair value through profit or loss at maturity is $1,499 million (2019: $2,286 million).

Interest expense of $29 million (2019: $48 million) on deposits and short-term borrowings designated at FVTPL was recognised during the financial year.

Consolidated net gains of $1 million (2019: $1 million net loss) on financial liabilities designated at FVTPL are recognised in profit or loss.

15. Payables and other liabilities

	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Accrued interest payable	122	229	121	224
Trade creditors and accrued expenses	65	177	136	190
Other liabilities	30	13	30	13
Total payables and other liabilities - current	217	419	287	427

16. Long-term borrowings

	Note	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Financial liabilities at amortised cost					
Offshore borrowings		2,486	3,538	2,486	3,538
Domestic borrowings		4,432	4,032	4,432	4,032
Total unsecured long-term borrowings		6,918	7,570	6,918	7,570
Covered bonds	23.3	2,589	2,788	2,589	2,788
Term funding facility	23.3	1,100	-	1,100	-
Total secured long-term borrowings		3,689	2,788	3,689	2,788
Total long-term borrowings		10,607	10,358	10,607	10,358
Current		3,418	2,920	3,418	2,920
Non-current		7,189	7,438	7,189	7,438
Total long-term borrowings[1]		10,607	10,358	10,607	10,358

1 Original maturity of long-term borrowings are 12 months or greater.

17. Subordinated notes

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

Consolidated and Company	2020 $M	2019 $M
Tier 2 Subordinated notes		
Basel III fully compliant subordinated notes		
$AUD 600 million Floating Rate Notes	600	600
Total Basel III fully compliant subordinated notes	600	600
Basel III transitional subordinated notes		
$AUD 72 million Floating Rate Notes[1]	72	72
Total Basel III transitional subordinated notes	72	72
Total Tier 2 Subordinated Notes[2]	672	672
Current	-	-
Non-current	672	672
Total subordinated notes	672	672

1 Tier 2 instruments subject to the transitional arrangements outlined in APRA Prudential Standard APS 111 *Capital Adequacy* Attachment L.

2 Total liability in relation to interest payment accrued for the Group to make payments under the subordinated notes as at the end of the financial year is $1 million (2019: $2 million). It is disclosed within the statements of financial position category of 'Payables and other liabilities'.

Consolidated and Company	Margin above 90 day BBSW	Maturity Date	Optional redemption date	Issue date	2020 Number on issue	2019 Number on issue
$AUD 600 million Floating Rate Notes	215 bps	5 Dec 2028	5 Dec 2023	22 Nov 2018	60,000	60,000
$AUD 72 million Floating Rate Notes	75 bps	n/a	n/a	17 Dec 1998	715,383	715,383

Basel III fully compliant subordinated notes

The subordinated notes pay quarterly, cumulative deferrable interest payments at a floating rate equal to the sum of the 90 day bank bill swap rate (BBSW) and the margin.

The issuer has the option to redeem the instruments on the optional redemption date and for certain tax and regulatory events (in each case subject to APRA's prior written approval).

If APRA determines that a non-viability event has occurred in relation to the Company 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).

The rights of the holder rank in preference to the rights of the Company's shareholders, and capital notes holders and rank equally against all other subordinated note holders.

Basel III transitional subordinated notes

On 17 December 1998, the Company 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 Company's capital note holders and ordinary shareholders and rank equally against all other subordinated note holders of the Company.

18. Share capital

Consolidated and Company	2020 No of shares	2020 $M	2019 No of shares	2019 $M
Balance at the beginning of the financial year	271,467,584	2,648	271,467,584	2,648
Share issues	10,680,000	106	-	-
Balance at the end of the financial year	282,147,584	2,754	271,467,584	2,648

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

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

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

On 20 August 2019, 10,680,000 new ordinary shares were issued at an issue price of $10 per share to the parent entity, SBGH Limited. As at 30 June 2020, the number of ordinary shares on issue was 282,147,584 (30 June 2019: 271,467,584).

19. Capital notes

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

		2020		2019	
Consolidated and Company	Margin above 90 day BBSW	Number on issue	$M	Number on issue	$M
Issued on 5 May 2017	410 bps	3,750,000	375	3,750,000	375
Issued on 18 December 2017	365 bps	1,750,000	175	1,750,000	175
Issued on 27 May 2019	365 bps	350,000	35	350,000	35
Balance at the end of the financial year		5,850,000	585	5,850,000	585

	2020 Cents per note[1]	2020 $000	2019 Cents per note[1]	2019 $000
Dividend payments on capital notes				
Issued on 5 May 2017				
September quarter	95	3,573	108	4,032
December quarter	90	3,362	105	3,942
March quarter	87	3,273	107	4,005
June quarter	82	3,090	104	3,884
Issued on 18 December 2017				
September quarter	87	1,528	100	1,744
December quarter	82	1,431	97	1,702
March quarter	79	1,390	99	1,732
June quarter	74	1,303	96	1,675
Issued on 27 May 2019				
September quarter	87	306	-	-
December quarter	82	286	-	-
March quarter	79	278	-	-
June quarter	74	261	21	72
Total dividend payments on capital notes		20,081		22,788

1 Cents per note is rounded to the nearest cent.

Capital notes are eligible Additional Tier 1 capital instruments under Basel III. They are fully paid, perpetual, subordinated, unsecured securities and issued to the ultimate parent entity, Suncorp Group Limited.

Capital notes pay a distribution that are floating rate, discretionary, non-cumulative, and scheduled to be paid quarterly, at the Company's discretion. They are calculated based on the sum of the 90 day BBSW and the margin, adjusted for the corporate tax rate applicable to the ultimate parent entity.

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

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

20. Reserves

Consolidated	Equity reserve for credit losses $M	Hedging reserve $M	FVOCI reserve $M	Common control reserve $M	Total reserves $M
Balance as at 1 July 2018	97	(20)	13	(372)	(282)
Transfer (to) from retained profits	7	-	-	-	7
Net change in fair value of financial instrument	-	20	3	-	23
Income tax (expense) benefit	-	(6)	(1)	-	(7)
Balance as at 30 June 2019	104	(6)	15	(372)	(259)
Transfer to retained profits	(23)	-	-	-	(23)
Net change in fair value of financial instrument	-	43	(9)	-	34
Income tax (expense) benefit	-	(13)	3	-	(10)
Balance as at 30 June 2020	81	24	9	(372)	(258)

Company	Equity reserve for credit losses $M	Hedging reserve $M	FVOCI reserve $M	Common control reserve $M	Total reserves $M
Balance as at 1 July 2018	97	(20)	13	-	90
Transfer (to) from retained profits	7	-	-	-	7
Net change in fair value of financial instrument	-	20	3	-	23
Income tax (expense) benefit	-	(6)	(1)	-	(7)
Balance as at 30 June 2019	104	(6)	15	-	113
Transfer (to) from retained profits	(23)	-	-	-	(23)
Net change in fair value of financial instrument	-	43	(9)	-	34
Income tax (expense) benefit	-	(13)	3	-	(10)
Balance as at 30 June 2020	81	24	9	-	114

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.

Fair value through other comprehensive income reserve

The fair value through other comprehensive income (**FVOCI**) reserve represents the cumulative net change in the fair value of financial assets classified as FVOCI until the asset is derecognised or impaired.

Common control reserve

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

21. Group capital management

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

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

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

For regulatory purposes, capital is classified as follows:

– Common Equity Tier 1 (**CET1**) Capital comprising accounting equity with adjustments for intangible assets and regulatory reserves.

– Tier 1 Capital comprising CET1 Capital plus Additional Tier 1 Capital such as hybrid securities with 'equity-like' qualities.

– Tier 2 Capital comprising APRA reserve for credit losses and hybrid capital.

– Total Capital, being the sum of Tier 1 Capital and Tier 2 Capital.

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

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

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

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

– Credit risk - the risk that a borrower or counterparty will not meet its obligations in accordance with agreed terms, applies to both on-balance sheet and off-balance sheet exposures.

– Market risk - the risk, to the trading book, of unfavourable changes in interest rates, foreign exchange rates, equity prices, credit spreads, market volatilities and liquidity.

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

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

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

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

21.1 Capital adequacy

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

	2020 $M	2019 $M
Tier 1 Capital		
Common Equity Tier 1 Capital		
Ordinary share capital	2,754	2,648
Retained profits	615	690
Accumulated other comprehensive income	33	8
	3,402	3,346
Regulatory adjustments to Common Equity Tier 1 Capital		
Goodwill	(21)	(21)
Cash-flow hedge reserve	(24)	6
Deferred tax assets	(87)	(39)
Capitalised expenses	(184)	(214)
Other regulatory adjustments	(1)	(1)
	(317)	(269)
Common Equity Tier 1 Capital	3,085	3,077
Additional Tier 1 Capital		
Eligible hybrid capital	585	585
Total Tier 1 Capital	3,670	3,662
Tier 2 Capital		
APRA general reserve for credit losses	226	146
Eligible hybrid capital	600	600
Ineligible hybrid capital[1]	38	57
Total Tier 2 Capital	864	803
Total Capital	4,534	4,465
Total assessed risk weighted assets	33,107	33,253
Risk weighted capital ratios	%	%
Common Equity Tier 1	9.32	9.25
Total Tier 1	11.09	11.01
Total Tier 2	2.61	2.42
Total risk weighted capital ratio	13.70	13.43

1 Tier 2 instruments subject to the transitional arrangements outlined in APRA Prudential Standard APS 111 Capital Adequacy Attachment L.

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

	Carrying amount 2020 $M	Carrying amount 2019 $M	Risk weighted balance 2020 $M	Risk weighted balance 2019 $M
On-balance sheet assets				
Cash items	507	405	18	2
Claims on Australian and foreign governments	3,043	2,357	-	-
Claims on central banks, international banking agencies, regional developments banks, ADIs and overseas banks	928	966	360	297
Claims on securitisation exposures	1,049	1,213	209	242
Claims secured against eligible residential mortgages	44,068	44,512	16,123	16,356
Past due claims	719	639	638	528
Other retail assets	402	229	398	222
Corporate	9,666	9,945	9,663	9,935
Other assets and claims	281	386	280	386
Total banking assets	60,663	60,652	27,689	27,968

	Notional amount 2020 $M	Credit equivalent 2020 $M	Risk weighted balance 2020 $M	Risk weighted balance 2019 $M
Off-balance sheet positions				
Guarantees	331	330	324	191
Commitments to provide loans and advances	8,777	1,818	1,166	1,259
Foreign exchange contracts	4,344	102	45	24
Interest rate contracts	48,352	97	55	47
Securitisation exposures	2,995	147	29	30
CVA capital charge	-	-	134	114
Total off-balance sheet positions	64,799	2,494	1,753	1,665
Market risk capital charge			93	90
Operational risk capital charge			3,572	3,530
Total off-balance sheet positions			1,753	1,665
Total on-balance sheet credit risk weighted assets			27,689	27,968
Total assessed risk			33,107	33,253

22. Notes to the statements of cash flows

22.1 Reconciliation of cash flows from operating activities

	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Profit for the financial year	243	355	240	360
Non-cash items				
Impairment loss on financial assets	172	13	167	12
Change in fair value relating to investing and financing activities	(17)	(13)	(17)	(13)
Foreign exchange movement on short-term borrowings	(26)	(124)	(26)	(124)
Other non-cash items	32	28	29	27
Change in operating assets and liabilities				
Net movement in tax assets and liabilities	31	(18)	28	(15)
(Increase) decrease in trading securities	(232)	412	(232)	412
Decrease (increase) in loans and advances	1,229	(616)	1,213	(443)
Net movement in balances with related parties	116	18	(806)	(546)
Decrease in other assets	19	8	19	2
Increase (decrease) in deposits and short-term borrowings	(27)	508	(27)	(136)
(Decrease) increase in payables and other liabilities	(202)	1	(140)	18
Net cash from (used in) operating activities	1,338	572	448	(446)

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

	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Cash and cash equivalents at the end of the financial year in the statements of cash flows is represented by the following line items in the statements of financial position:				
Cash and cash equivalents	211	638	210	638
Receivables due from other banks[1]	567	499	567	499
Payables due to other banks[2]	(293)	(353)	(293)	(353)
	485	784	484	784

1 Includes $147 million (2019: $97 million) of collateral representing credit support to secure the Group's derivative liability position, as part of the standard ISDA agreement.

2 Includes $260 million (2019: $293 million) of collateral representing credit support to secure the Group's derivative asset position, as part of the standard ISDA agreement.

22.3 Changes in liabilities arising from financing activities

	Consolidated			Company	
	Securitisation liabilities $M	Long-term borrowings $M	Subordinated notes $M	Long-term borrowings $M	Subordinated notes $M
Balance as at 1 July 2018	4,848	9,854	742	9,854	742
Cash flows					
Proceeds	-	3,117	-	3,117	-
Repayments[1]	(1,020)	(2,883)	(70)	(2,883)	(70)
Transaction costs	-	(5)	-	(5)	-
Non-cash changes					
Fair value changes	-	86	-	86	-
Foreign exchange movement	-	181	-	181	-
Other movements	3	8	-	8	-
Balance as at 30 June 2019	3,831	10,358	672	10,358	672
Cash flows					
Proceeds	-	3,050	-	3,050	-
Repayments	(889)	(3,017)	-	(3,017)	-
Transaction costs	-	(4)	-	(4)	-
Non-cash changes					
Fair value changes	-	70	-	70	-
Foreign exchange movement	-	145	-	145	-
Other movements	3	5	-	5	-
Balance as at 30 June 2020	2,945	10,607	672	10,607	672

1 On 22 November 2018, the Company redeemed $670 million of Tier 2 subordinated notes. On the same day, the Company issued $600 million of subordinated notes for $10,000 per note. The redemption and issue of the subordinated notes were net settled resulting in a cash outflow of $70 million.

22.4 Financial arrangements

	2020		2019	
Consolidated and Company	Program limit $M	Undrawn $M	Program limit $M	Undrawn $M
The Group had the following debt programs available at the end of the financial year:				
USD 5 billion Global Covered Bond Programme	7,292	4,692	7,130	4,340
USD 15 billion Euro Medium Term Notes Program and Euro Commercial Paper	21,875	21,875	21,389	21,389
USD 5 billion United States Commercial Paper Program	7,292	5,793	7,130	4,844
USD 15 billion U.S. Medium Term Notes Program	21,875	19,469	21,389	17,860
AUD Transferable Certificate of Deposit Program	10,000	5,558	10,000	5,957
AUD Negotiable Certificates of Deposit Program	10,000	5,804	10,000	5,080
	78,334	63,191	77,038	59,470

23. Financial instruments

23.1 Fair value of financial instruments

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

- Level 1: derived from quoted prices (unadjusted) in active markets for identical financial instruments that the Group can access at the measurement date.
- Level 2: derived from other than quoted prices included within level 1 that are observable for the financial instruments, either directly or indirectly. The valuation techniques include the use of discounted cash flow analysis, option pricing models and other market accepted valuation models.
- Level 3: fair value measurement is not based on observable market data. The valuation techniques include the use of discounted cash flow models.

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.

	2020				2019			
Consolidated	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	435	1,025	-	1,460	-	1,227	-	1,227
Investment securities	-	4,814	-	4,814	-	3,954	-	3,954
Derivatives	1	690	-	691	1	592	-	593
	436	6,529	-	6,965	1	5,773	-	5,774
Financial liabilities								
Offshore commercial paper[1]	-	1,498	-	1,498	-	2,272	-	2,272
Derivatives	1	533	-	534	1	408	-	409
	1	2,031	-	2,032	1	2,680	-	2,681

	2020				2019			
Company	Level 1 $M	Level 2 $M	Level 3 $M	Total $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Financial assets								
Trading securities	435	1,025	-	1,460	-	1,227	-	1,227
Investment securities	-	4,814	-	4,814	-	3,954	-	3,954
Derivatives	1	690	-	691	1	592	-	593
	436	6,529	-	6,965	1	5,773	-	5,774
Financial liabilities								
Offshore commercial paper[1]	-	1,498	-	1,498	-	2,272	-	2,272
Derivatives	1	533	-	534	1	408	-	409
	1	2,031	-	2,032	1	2,680	-	2,681

1 Designated as financial liabilities at fair value through profit or loss. Disclosed within the statements of financial position category of 'Deposits and short-term borrowings'.

There have been no transfers between level 1 and level 2 and no transfers into or out of level 3 during the 2020 and 2019 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.

Consolidated	Note	Carrying value $M	Fair value Level 1 $M	Level 2 $M	Level 3 $M	Total $M
2020						
Financial assets						
Loans and advances	12	57,723	-	-	57,909	57,909
Financial liabilities						
Deposits and short-term borrowings at amortised cost	14	45,026	-	45,095	-	45,095
Securitisation liabilities	23.3	2,945	-	2,924	-	2,924
Long-term borrowings	16	10,607	-	10,757	-	10,757
Subordinated notes	17	672	-	650	-	650
2019						
Financial assets						
Loans and advances	12	59,154	-	-	59,325	59,325
Financial liabilities						
Deposits and short-term borrowings at amortised cost	14	44,279	-	44,355	-	44,355
Securitisation liabilities	23.3	3,831	-	3,840	-	3,840
Long-term borrowings	16	10,358	-	10,499	-	10,499
Subordinated notes	17	672	-	664	-	664

Company	Note	Carrying value $M	Fair value Level 1 $M	Level 2 $M	Level 3 $M	Total $M
2020						
Financial assets						
Loans and advances	12	57,563	-	-	57,747	57,747
Financial liabilities						
Deposits and short-term borrowings at amortised cost	14	45,046	-	45,115	-	45,115
Long-term borrowings	16	10,607	-	10,757	-	10,757
Subordinated notes	17	672	-	650	-	650
2019						
Financial assets						
Loans and advances	12	58,973	-	-	59,141	59,141
Financial liabilities						
Deposits and short-term borrowings at amortised cost	14	44,299	-	44,375	-	44,375
Long-term borrowings	16	10,358	-	10,499	-	10,499
Subordinated notes	17	672	-	664	-	664

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

Financial assets

The carrying value of loans and advances is net of provisions for expected credit losses. For variable rate loans, excluding impaired loans, the carrying amount is considered a reasonable estimate of fair value. The fair value for fixed rate loans is calculated by utilising discounted cash flow models to determine the net present value of the portfolio future principal and interest cash flows, based on the interest rate repricing of the loans. The discount rates applied are based on the rates offered by the Group on current products with similar maturity dates.

Financial liabilities

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

The fair value of securitisation liabilities, long-term borrowings and subordinated notes 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 an observable yield curve appropriate to the remaining maturity of the instrument.

23.2 Master netting or similar arrangements

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

Derivative assets and liabilities

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

Repurchase agreements and reverse repurchase agreements

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

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

Consolidated	Amounts subject to master netting or similar arrangements					Amounts not subject to master netting or similar arrangements	Total
			Related amounts not offset on the SoFP				
	Gross amounts $M	Offsetting applied $M	Financial instruments $M	Financial collateral received/ pledged $M	Net exposure $M	$M	$M
2020							
Financial assets							
Derivatives	660	-	(389)	(259)	12	31	691
Reverse repurchase agreements[1]	50	-	-	(50)	-	-	50
Total	710	-	(389)	(309)	12	31	741
Financial liabilities							
Derivatives	533	-	(389)	(142)	2	1	534
Repurchase agreements[2]	1,917	-	(1,917)	-	-	-	1,917
Total	2,450	-	(2,306)	(142)	2	1	2,451
2019							
Financial assets							
Derivatives	563	-	(308)	(254)	1	30	593
Reverse repurchase agreements[1]	492	-	-	(492)	-	-	492
Total	1,055	-	(308)	(746)	1	30	1,085
Financial liabilities							
Derivatives	407	-	(308)	(95)	4	2	409
Repurchase agreements[2]	302	-	(302)	-	-	-	302
Total	709	-	(610)	(95)	4	2	711

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

2 Repurchase agreements entered into under the Term Funding Facility are presented as part of 'Long-term borrowings' in the statements of financial position. All other repurchase agreements are presented as part of 'Deposits and short-term borrowings' in the statements of financial position.

	Amounts subject to master netting or similar arrangements						
			Related amounts not offset on the SoFP				
Company	Gross amounts $M	Offsetting applied $M	Financial instruments $M	Financial collateral received/ pledged $M	Net exposure $M	Amounts not subject to master netting or similar arrangements $M	Total $M
2020							
Financial assets							
Derivatives	660	-	(389)	(259)	12	31	691
Reverse repurchase agreements[1]	50	-	-	(50)	-	-	50
Total	710	-	(389)	(309)	12	31	741
Financial liabilities							
Derivatives	533	-	(389)	(142)	2	1	534
Repurchase agreements[2]	1,917	-	(1,917)	-	-	-	1,917
Total	2,450	-	(2,306)	(142)	2	1	2,451
2019							
Financial assets							
Derivatives	563	-	(308)	(254)	1	30	593
Reverse repurchase agreements[1]	492	-	-	(492)	-	-	492
Total	1,055	-	(308)	(746)	1	30	1,085
Financial liabilities							
Derivatives	407	-	(308)	(95)	4	2	409
Repurchase agreements[2]	302	-	(302)	-	-	-	302
Total	709	-	(610)	(95)	4	2	711

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

2 Repurchase agreements entered into under the Term Funding Facility are presented as part of 'Long-term borrowings' in the statements of financial position. All other repurchase agreements are presented as part of ‘Deposits and short-term borrowings’ in the statements of financial position.

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

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

Repurchase agreements

The Group enters into repurchase agreements involving the sale of interest-bearing securities and simultaneously agrees to buy them back at a pre-agreed price on a future date. In the statements of financial position, the interest-bearing securities transferred are included in 'Trading securities' and 'Investment securities'. The obligation to repurchase is included in 'Deposits and short-term borrowings'.

Reverse repurchase agreements

Collateral has been accepted in relation to reverse repurchase agreements. These transactions are governed by standard industry agreements. Refer to note 8 for the carrying amount, and note 23.2 for the fair value of collateral accepted.

Covered bonds

The Company conducts a covered bond program whereby it issues covered bonds guaranteed by the Covered Bond Guarantor that are secured over a covered pool of assets consisting of $3,184 million (2019: $2,970 million) of mortgages and cash at call. Eligible mortgages are sold by the Company to a special purpose trust, the 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 the Company, the covered bond holders have claim against both the cover pool assets and the Company. The Company receives the residual income of the Suncorp Covered Bond Trust after all costs of the program have been met. In the statement of financial position, the eligible mortgages transferred are included in 'Loans and advances' and the covered bonds issued are included in 'Long-term borrowings'.

Term Funding Facility

The Group obtains funding through the facility by entering into repurchase agreements with the RBA. At 30 June 2020 the Group has drawn down $1,100 million of the facility, with $641 million remaining undrawn. Interest is charged at a fixed rate of 25 basis points on the drawn down portion of the facility. The difference between a market rate for an instrument with similar terms and conditions at inception and the 25 basis points is recognised as a government grant. The government grant is presented as part of the TFF liability (refer to note 16) and has a value of $18 million at 30 June 2020. The net interest charge is presented within interest expense (refer to note 5.1). The repurchase agreements entered into under the TFF require the Group to pledge eligible collateral. This includes self-securitised residential mortgage-backed securities (RMBS). As at 30 June 2020 $1,435 million of RMBS were pledged as collateral. In the statement of financial position, the eligible collateral transferred is included in 'Loans and advances'.

Securitisation programs

The Company conducts a mortgage securitisation program whereby residential mortgages are packaged and sold to special purpose securitisation trusts known as the Apollo Series Trusts (the **Trusts**). The Trusts fund their purchase of the mortgages by issuing floating-rate pass-through debt securities. The Group receives residual income from the Trusts after all payments to security holders and costs of the program have been met. The Group does not 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 mortgages subject to the securitisation program have been pledged as security for the securities issued by the Trusts, and as such, the Group cannot use these assets to settle the liabilities of the Group. The Group is not obliged to support any losses that may be incurred by investors and does not intend to provide such support. In the consolidated statement of financial position, the mortgages 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 liabilities at the reporting date.

Consolidated	2020 Repurchase agreements $M	2020 Covered bonds $M	2020 Securitisation liabilities[1] $M	2019 Repurchase agreements $M	2019 Covered bonds $M	2019 Securitisation liabilities $M
Carrying amount of transferred financial assets	2,252	3,184	2,887	302	3,021	3,923
Carrying amount of associated financial liabilities	1,917	2,589	2,945	302	2,788	3,831
For those liabilities that have recourse only to the transferred assets:						
Fair value of transferred financial assets	n/a	n/a	2,893	n/a	n/a	3,928
Fair value of associated financial liabilities	n/a	n/a	2,924	n/a	n/a	3,840
Net position			(31)			88

Note: n/a = not applicable

1 Securitisation liabilities of the Group comprise RMBS notes issued by the Apollo Trusts and are held by external investors, refer to note 23.3. The carrying amount of transferred assets are included as part of 'Loans and advances' in the SoFP.

Company	2020 Repurchase agreements $M	2020 Covered bonds $M	2020 Securitisation liabilities[1] $M	2019 Repurchase agreements $M	2019 Covered bonds $M	2019 Securitisation liabilities $M
Carrying amount of transferred financial assets	2,252	3,184	14,595	302	3,021	10,253
Carrying amount of associated financial liabilities	1,917	2,589	15,045	302	2,788	10,489
For those liabilities that have recourse only to the transferred assets:						
Fair value of transferred financial assets	n/a	n/a	14,635	n/a	n/a	10,270
Fair value of associated financial liabilities	n/a	n/a	14,693	n/a	n/a	9,930
Net position			(58)			340

Note: n/a = not applicable

1 Securitisation liabilities of the Company comprise borrowings from the Apollo Trusts, including those which issue only internally held notes for repurchase with central banks. The carrying amount of the internal transferred assets of $11,711 million (2019: $6,330 million) and external transferred assets of $2,889 million (2019: $3,923 million) are included as part of 'Loans and advances' in the SoFP. The carrying amount of associated liabilities is included as part of 'Due to related parties' in the SoFP.

24. Risk management

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

The Board recognises that a strong risk culture, good governance and effective risk management are essential to achieving Suncorp's strategy and business plan and maintaining Suncorp's social licence to operate. Suncorp has systems, policies, processes and people in place to identify, measure, analyse, monitor, report and control or mitigate internal and external sources of material risk. The material risks addressed by Suncorp's Enterprise Risk Management Framework (**ERMF**) are defined below.

Material risks	Definition
Strategic risk	Suncorp recognises and defines two types of strategic-level risk: Strategic Risk – risks to the viability of Suncorp's business model resulting from adverse changes in the external business environment, with respect to the economy, political landscape, regulation, technology, customer and social expectations and competitors. Strategic Execution Risk – the risk of failing to achieve strategic business objectives or execution of the business strategy.
Financial risk	Financial risks include Credit, Counterparty and Contagion risk, Market/Investment risk, Liquidity risk and Asset and Liability Management (**ALM**) risk. Credit risk is the risk of default of an obligor to fully meet their commitments in a timely manner. 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. Contagion risk is the risk that problems impacting one entity within Suncorp may compromise the financial position of other entities within Suncorp. Market/Investment risk is the risk of unfavourable changes in foreign exchange rates, interest rates, equity prices, credit spreads, commodity prices, and market volatilities. Liquidity risk is the risk that Suncorp will be unable to service its cash flow obligations today or in the future. ALM risk is the risk of adverse movements in the relative value of assets and liabilities due to changes in market factors (e.g. Interest Rates, Inflation, Foreign Exchange), the variation in repricing profiles or from the different characteristics of the assets and liabilities.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes compliance and legal risk.

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

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

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

– note 25 risk management for financial instruments: credit, liquidity and market risks; and

– note 11 derivative financial instruments.

25. Risk management for financial instruments

25.1 Credit risk

(a) Credit risk exposures

The Group is exposed to credit risk from traditional lending to customers and receivables from inter-bank, treasury, international trade and capital market activities.

Credit risk is managed on a structured basis with approval decisions being taken within credit approval authorities delegated by the Board. The setting and maintenance of detailed credit policies and standards is undertaken within an independent function under the responsibility of the Chief Risk Officer, Banking & Wealth. The Chief Executive Officer, Banking & Wealth is accountable for exercising delegated credit authority for credit decisions and delivering delegated credit authorities for the completion of first line of defence credit activities, in accordance with Board delegated authorities and credit policies and standards. The management of troublesome and impaired assets is the responsibility of the Business Customers Support team within the Chief Risk Office, with the Chief Executive Officer, Banking & Wealth having accountability for these activities.

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

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

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 review or more frequent, if deemed necessary, 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 Group manages its exposures to potential credit losses on OTC derivative contracts by entering into netting arrangements with its derivative counterparties. The ISDA Master Agreement and Credit Support Annex provides a contractual framework for derivatives dealing across a full range of OTC products. This agreement contractually binds both parties to apply close out netting across all outstanding transactions covered by an agreement if either party defaults or other pre-agreed termination events occur. The carrying amount of the relevant asset classes in the consolidated statement of financial position represents the maximum amount of credit exposures as at reporting date, except for derivatives and off-balance sheet commitments.

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

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

— No adjustments are made for any collateral held or credit enhancements.

— Impaired loans are those for which the Group has determined that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. The Group fully considers the customer's capacity to repay and security valuation position before a loan is considered impaired.

— An asset is considered past due when any payment under the contractual terms is overdue by 90 days or more. The amount included as past due is the entire contractual balance, not just the overdue portion.

Consolidated	Receivables due from other banks $M	Trading securities $M	Investment securities $M	Loans and advances $M	Credit commitments[1] $M	Derivatives[1] $M	Total risk $M
2020							
Agribusiness	-	-	-	4,081	255	-	4,336
Construction	-	-	-	789	221	-	1,010
Financial services	567	-	1,720	90	239	199	2,815
Hospitality	-	-	-	913	56	-	969
Manufacturing	-	-	-	279	20	-	299
Professional services	-	-	-	328	18	-	346
Property investment	-	-	-	2,944	163	-	3,107
Real estate - Mortgages	-	-	-	46,474	993	-	47,467
Personal	-	-	-	155	-	-	155
Government and public authorities	-	1,460	3,094	-	-	-	4,554
Other commercial and industrial	-	-	-	1,971	183	-	2,154
Gross credit risk	567	1,460	4,814	58,024	2,148	199	67,212
Impairment provisions	-	-	-	(301)	-	-	(301)
Total credit risk	567	1,460	4,814	57,723	2,148	199	66,911
2019							
Agribusiness	-	-	-	4,022	191	-	4,213
Construction	-	-	-	888	207	-	1,095
Financial services	499	-	1,987	87	342	209	3,124
Hospitality	-	-	-	972	66	-	1,038
Manufacturing	-	-	-	261	27	-	288
Professional services	-	-	-	310	18	-	328
Property investment	-	-	-	2,774	130	-	2,904
Real estate - Mortgages	-	-	-	47,793	1,254	-	49,047
Personal	-	-	-	154	4	-	158
Government and public authorities	-	1,227	1,967	-	-	-	3,194
Other commercial and industrial	-	-	-	2,035	187	-	2,222
Gross credit risk	499	1,227	3,954	59,296	2,426	209	67,611
Impairment provisions	-	-	-	(142)	-	-	(142)
Total credit risk	499	1,227	3,954	59,154	2,426	209	67,469

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

Company	Receivables due from other banks $M	Trading securities $M	Investment securities $M	Loans and advances $M	Credit commitments[1] $M	Derivatives[1] $M	Total risk $M
2020							
Agribusiness	-	-	-	3,999	255	-	4,254
Construction	-	-	-	767	221	-	988
Financial services	567	-	1,720	89	291	294	2,961
Hospitality	-	-	-	910	56	-	966
Manufacturing	-	-	-	266	20	-	286
Professional services	-	-	-	321	18	-	339
Property investment	-	-	-	2,943	163	-	3,106
Real estate - Mortgages	-	-	-	46,474	993	-	47,467
Personal	-	-	-	156	-	-	156
Government and public authorities	-	1,460	3,094	-	-	-	4,554
Other commercial and industrial	-	-	-	1,929	183	-	2,112
Gross credit risk	567	1,460	4,814	57,854	2,200	294	67,189
Impairment provisions	-	-	-	(291)	-	-	(291)
Total credit risk	567	1,460	4,814	57,563	2,200	294	66,898
2019							
Agribusiness	-	-	-	3,925	191	-	4,116
Construction	-	-	-	871	207	-	1,078
Financial services	499	-	1,987	86	409	294	3,275
Hospitality	-	-	-	969	66	-	1,035
Manufacturing	-	-	-	247	27	-	274
Professional services	-	-	-	302	18	-	320
Property investment	-	-	-	2,773	130	-	2,903
Real estate - Mortgages	-	-	-	47,793	1,254	-	49,047
Personal	-	-	-	154	4	-	158
Government and public authorities	-	1,227	1,967	-	-	-	3,194
Other commercial and industrial	-	-	-	1,989	187	-	2,176
Gross credit risk	499	1,227	3,954	59,109	2,493	294	67,576
Impairment provisions	-	-	-	(136)	-	-	(136)
Total credit risk	499	1,227	3,954	58,973	2,493	294	67,440

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

	2020				2019			
Consolidated	Impaired assets $M	Past due > 90 days but not impaired $M	Remaining assets[1] and not impaired $M	Total risk $M	Impaired assets $M	Past due > 90 days but not impaired $M	Remaining assets[1] and not impaired $M	Total risk $M
Agribusiness	38	49	4,249	4,336	32	36	4,145	4,213
Construction	3	4	1,003	1,010	6	2	1,087	1,095
Financial services	-	-	2,815	2,815	-	-	3,125	3,125
Hospitality	29	14	926	969	26	-	1,012	1,038
Manufacturing	3	6	290	299	4	1	283	288
Professional services	1	4	341	346	1	4	325	330
Property investment	16	7	3,084	3,107	2	2	2,900	2,904
Real estate - Mortgages	60	489	46,918	47,467	56	490	48,500	49,046
Personal	-	4	151	155	-	3	155	158
Government and public authorities	-	-	4,554	4,554	-	-	3,194	3,194
Other commercial and industrial	20	17	2,117	2,154	19	13	2,188	2,220
Gross credit risk	170	594	66,448	67,212	146	551	66,914	67,611
Impairment provisions	(60)	(38)	(203)	(301)	(40)	(21)	(81)	(142)
Total credit risk	110	556	66,245	66,911	106	530	66,833	67,469

1 Not past due or past due ≤ 90 days.

	2020				2019			
Company	Impaired assets $M	Past due > 90 days but not impaired $M	Remaining assets[1] and not impaired $M	Total risk $M	Impaired assets $M	Past due > 90 days but not impaired $M	Remaining assets[1] and not impaired $M	Total risk $M
Agribusiness	37	48	4,169	4,254	32	36	4,048	4,116
Construction	3	4	981	988	6	2	1,070	1,078
Financial services	-	-	2,961	2,961	-	-	3,276	3,276
Hospitality	29	14	923	966	26	-	1,009	1,035
Manufacturing	3	6	277	286	4	-	270	274
Professional services	1	4	334	339	1	2	319	322
Property investment	16	7	3,083	3,106	2	2	2,899	2,903
Real estate - Mortgages	60	489	46,918	47,467	56	491	48,500	49,047
Personal	-	4	152	156	-	3	155	158
Government and public authorities	-	-	4,554	4,554	-	-	3,194	3,194
Other commercial and industrial	20	17	2,075	2,112	18	13	2,143	2,174
Total gross credit risk	169	593	66,427	67,189	145	549	66,883	67,577
Impairment provisions	(60)	(36)	(195)	(291)	(40)	(21)	(75)	(136)
Total credit risk	109	557	66,232	66,898	105	528	66,808	67,441

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 Group considers that principal and interest plus any associated costs will be recovered in full.
- Non-performing loans – 'impaired' are loans for which an individually-assessed provision for impairment has been raised.

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

- reduction in principal, interest or other payments due or
- an extended maturity date for repayment.

Refer to note 13.3(a) for further information relating to the Group's treatment of loans and advances that are subject to a COVID-19 financial assistance package.

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

	Consolidated		Company	
	2020 $M	2019 $M	2020 $M	2019 $M
Performing loans				
Loans and advances	57,234	58,594	57,066	58,410
Provision for impairment	(203)	(81)	(195)	(75)
	57,031	58,513	56,871	58,335
Non-performing loans – not impaired				
Non-performing loans – not impaired	594	551	593	549
Loans and advances with restructured terms	26	5	26	5
Provision for impairment	(38)	(21)	(36)	(21)
	582	535	583	533
Non-performing loans – impaired				
Gross impaired loans	170	146	169	145
Provision for impairment	(60)	(40)	(60)	(40)
	110	106	109	105
Total loans and advances	57,723	59,154	57,563	58,973

Financial assets that are performing loans can be assessed by reference to the Group's internal credit rating scale and have been segmented into Strong, Satisfactory and Weak categories. Credit quality is internally assessed using the Group'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 Group's significant customer segments and are undertaken in accordance with Credit Policy and Lending Guidelines.

The analysis below represents the current credit quality of loans and advances 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.

Consolidated	Stage 1 - 12-month ECL $M	Stage 2 - Lifetime ECL $M	Stage 3 - Lifetime Collective ECL $M	Stage 3 - Specific Provision $M	Total $M
2020					
Statistically managed portfolio					
Credit grade - Strong	44,996	-	-	-	44,996
Credit grade - Satisfactory	2,360	448	-	-	2,808
Credit grade - Weak	-	450	548	-	998
Credit grade - Impaired	-	-	36	32	68
Risk-graded portfolio					
Credit grade - Strong	3,715	-	-	-	3,715
Credit grade - Satisfactory	4,005	694	-	-	4,699
Credit grade - Weak	-	431	207	-	638
Credit grade - Impaired	-	-	2	100	102
Gross carrying amount	55,076	2,023	793	132	58,024
Provision for impairment	(124)	(74)	(57)	(46)	(301)
Net carrying amount	54,952	1,949	736	86	57,723
2019					
Statistically managed portfolio					
Credit grade - Strong	47,285	-	-	-	47,285
Credit grade - Satisfactory	938	664	-	-	1,602
Credit grade - Weak	-	632	513	-	1,145
Credit grade - Impaired	-	-	24	32	56
Risk-graded portfolio					
Credit grade - Strong	3,977	-	-	-	3,977
Credit grade - Satisfactory	4,431	312	-	-	4,743
Credit grade - Weak	-	297	101	-	398
Credit grade - Impaired	-	-	-	90	90
Gross carrying amount	56,631	1,905	638	122	59,296
Provision for impairment	(42)	(37)	(32)	(31)	(142)
Net carrying amount	56,589	1,868	606	91	59,154

Company	Stage 1 - 12-month ECL $M	Stage 2 - Lifetime ECL $M	Stage 3 - Lifetime Collective ECL $M	Stage 3 - Specific Provision $M	Total $M
2020					
Statistically-managed portfolio					
Credit grade - Strong	44,956	-	-	-	44,956
Credit grade - Satisfactory	2,358	448	-	-	2,806
Credit grade - Weak	-	450	547	-	997
Credit grade - Impaired	-	-	37	32	69
Risk-graded portfolio					
Credit grade - Strong	3,653	-	-	-	3,653
Credit grade - Satisfactory	3,954	687	-	-	4,641
Credit grade - Weak	-	425	207	-	632
Credit grade - Impaired	-	-	-	100	100
Gross carrying amount	54,921	2,010	791	132	57,854
Provision for impairment	(117)	(72)	(56)	(46)	(291)
Net carrying amount	54,804	1,938	735	86	57,563
2019					
Statistically-managed portfolio					
Credit grade - Strong	47,230	-	-	-	47,230
Credit grade - Satisfactory	931	665	-	-	1,596
Credit grade - Weak	-	632	515	-	1,147
Credit grade - Impaired	-	-	23	32	55
Risk-graded portfolio					
Credit grade - Strong	3,908	-	-	-	3,908
Credit grade - Satisfactory	4,387	308	-	-	4,695
Credit grade - Weak	-	290	98	-	388
Credit grade - Impaired	-	-	-	90	90
Gross carrying amount	56,456	1,895	636	122	59,109
Provision for impairment	(39)	(35)	(31)	(31)	(136)
Net carrying amount	56,417	1,860	605	91	58,973

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

	Past due but not impaired					
Consolidated	1-29 days $M	30-59 days $M	60-89 days $M	90-179 days $M	≥ 180 days $M	Total $M
2020						
Loans and advances						
Retail banking	416	125	101	183	310	1,135
Business banking	42	115	45	51	50	303
	458	240	146	234	360	1,438
2019						
Loans and advances						
Retail banking	774	215	163	234	259	1,645
Business banking	23	27	30	28	30	138
	797	242	193	262	289	1,783

	Past due but not impaired					
Company	1-29 days $M	30-59 days $M	60-89 days $M	90-179 days $M	≥ 180 days $M	Total $M
2020						
Loans and advances						
Retail banking	416	125	101	183	310	1,135
Business banking	42	115	45	51	49	302
	458	240	146	234	359	1,437
2019						
Loans and advances						
Retail banking	774	215	163	234	259	1,645
Business banking	23	26	29	27	29	134
	797	241	192	261	288	1,779

(c) Collateral management

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

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

More than 80.4 per cent (2019: 80.9 per cent) of the Group's lending is classified as consumer and 99.7 per cent (2019: 99.7 per cent) of that lending is secured by residential property. Residential Lenders Mortgage Insurance is generally required for residential mortgages with a Loan-to-Value ratio at origination of more than 80 per cent 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 Group will hold 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 ongoing customer default and/or post appropriate customer hardship support and negotiations, the Group may enact possession of security held as collateral against the outstanding claim. Any loan security for residential mortgages is held as mortgagee in possession while the Group seeks to realise its value through the sale of the property. Therefore, the Group does not hold any real estate or other assets acquired through the repossession of collateral. It is the Group's practice to demonstrate high standards of conduct when taking recovery action, and to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. Collateral and other credit enhancements held by the Group mitigates the maximum exposure to credit risk.

The following table shows an estimate of the fair value of collateral held against impaired assets. Collateral is initially valued at the loan establishment date and is reassessed when a loan is deemed to be impaired. Collateral is thereafter revalued annually for impaired assets. The collateral value presented in the table below is the lower of the outstanding loan balance and the collateral held net of estimated recovery costs.

	Consolidated		Company	
	2020 $M	2019 $M	2020 $M	2019 $M
Non-performing loans – impaired				
Gross impaired loans	170	146	169	145
Provision for impairment	(60)	(40)	(60)	(40)
Net impaired loans	**110**	**106**	**109**	**105**
Collateral held against impaired loans	139	121	139	121

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. The impact of COVID-19 social distancing requirements on valuations, selling periods and recovery or work out strategies has been considered in collective provisioning estimates.

As a result of the COVID-19 pandemic, it is forecasted that residential property valuations will be adversely impacted, furthermore the ability to perform physical on-site valuations is impacted due to restrictions implemented to contain the virus. Following regulatory guidance, the Group may therefore elect to not revalue a property provided there are no changes to loan facilities and no material deterioration in the credit risk of the customer.

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

(d) Concentration of credit risk

Concentration of credit risk is managed by client or counterparty, industry sector and geography. Portfolios are actively monitored and frequently reviewed to identify, assess and protect against unacceptable risk concentrations. The following table details the credit risk by geographical concentration on gross loans and advances.

	Consolidated		Company	
	2020	2019	2020	2019
Geographic breakdown	$M	$M	$M	$M
Queensland	30,021	31,600	29,890	31,474
New South Wales	16,040	15,858	16,008	15,812
Victoria	6,039	5,920	6,034	5,914
Western Australia	3,489	3,524	3,489	3,523
South Australia and other	2,435	2,394	2,433	2,386
Gross loans and advances	58,024	59,296	57,854	59,109

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

Consolidated and Company	2020 Number	2019 Number
25% and greater	1	-
20% to less than 25%	-	1
15% to less than 20%	2	1
10% to less than 15%	-	2
5% to less than 10%	4	-

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

(e) Provision for impairment – specific and collective provisions

The credit provisions raised (specific and collective) represent management's best estimate of the expected credit losses 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 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 expected credit losses, 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.

Collective provisioning levels are constantly evaluated and assessed, and as such have been updated to take into account COVID-19 health directives and the subsequent negative economic impact. The timing and pace of the recovery is uncertain, and the underlying assumptions of the collective provisions will be updated accordingly, as additional information becomes available.

Loans with similar credit risk characteristics are grouped as follows:

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

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

Each model determines an impairment loss based on the Group's historical experience, and an evaluation of current and forecast 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.

Suncorp Group has implemented a Model Integrity Framework which outlines the mandatory governance requirements to manage its models. The Model Owner is accountable for ensuring that models are effectively managed, including the model's specification, development and maintenance, ensuring that the model fulfils its objectives and managing the impacts from any model risk incident.

The Model Technical Committees and Model Risk Committee manage the performance of models, provide model risk oversight and challenge the performance of models throughout their lifecycle by ensuring that:

- The model is appropriately implemented and performs as intended;
- The underlying assumptions/methodology are appropriate and fit-for-purpose;
- The integrity of the data feeding into the models is credible and where necessary action is taken to remediate any issues in a timely manner; and
- There is confidence that the model development activity has been subject to robust and independent challenge.

25.2 Liquidity risk

Executive management of liquidity and funding risk is delegated to the Bank Asset and Liability Committee (**ALCO**) 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 the Balance Sheet Management team within Bank Treasury. Liquidity risk is independently monitored against approved policies on a daily basis by the Group's Treasury Risk and Control team. Market and Financial Risk Analytics provide second line of defence oversight of liquidity and funding management activities.

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

– a liquidity and funding risk appetite statement as well as relevant risk limits
– a framework that includes control practices, early warning indicators and appropriate management notification structures, including but not limited to: deposit concentration, liquidity coverage ratio, net stable funding ratio and liquidity concentration metrics limits
– sourcing of retail deposits and long-term debt to provide funding for the majority of the funding portfolio. Funding capacity is monitored and diversity in the funding portfolio is managed with consideration given to product, tenor, geography and customer concentrations; and
– a contingency funding plan that outlines strategies to address liquidity shortfalls in stressed situations.

(a) Maturity analysis

The following tables summarise the maturity profile of the Group's financial liabilities based on the remaining undiscounted contractual obligations. For liquidity risk management purposes, the Group's daily liquidity reporting is largely aligned to contractual maturity except where prescribed differently by APRA or where other methods are considered more appropriate. The Group supplements contractual maturity with 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 the reporting date, without taking account of future issuance. Floating rate interest is estimated using estimated forward rates at the reporting date.

Derivatives designated in a hedging relationship are included according to their contractual maturity.

Contractual maturities for non-hedge accounted derivative liabilities are not included within the following tables as they are frequently settled and managed within the short term (refer to Note 11).

Consolidated	Carrying amount $M	At call $M	0 to 3 months $M	3 to 12 months $M	1 to 5 years $M	Over 5 years $M	Total cash flows $M
2020							
Payables due to other banks	293	293	-	-	-	-	293
Deposits and short-term borrowings	46,524	28,586	10,487	7,489	150	-	46,712
Payables and other liabilities	217	-	217	-	-	-	217
Due to related parties	80	-	80	-	-	-	80
Securitisation liabilities	2,945	-	207	664	1,697	497	3,065
Long-term borrowings	10,607	-	385	3,188	6,835	656	11,064
Subordinated notes[1]	672	-	4	10	639	72	725
	61,338	28,879	11,380	11,351	9,321	1,225	62,156
Derivatives							
Contractual amounts receivable (gross settled)	(138)	-	(11)	(26)	(82)	(20)	(139)
Contractual amounts payable (gross and net settled)	582	-	53	188	306	37	584
	444	-	42	162	224	17	445
Off-balance sheet positions							
Guarantees entered into in the normal course of business	-	331	-	-	-	-	331
Commitments to provide loans and advances	-	8,777	-	-	-	-	8,777
	-	9,108	-	-	-	-	9,108
2019							
Payables due to other banks	353	353	-	-	-	-	353
Deposits and short-term borrowings	46,551	22,489	12,034	12,195	251	-	46,969
Payables and other liabilities	419	-	419	-	-	-	419
Due to related parties	14	-	14	-	-	-	14
Securitisation liabilities	3,831	-	277	820	2,329	656	4,082
Long-term borrowings	10,358	-	689	2,478	7,222	676	11,065
Subordinated notes[1]	672	-	6	15	673	72	766
	62,198	22,842	13,439	15,508	10,475	1,404	63,668
Derivatives							
Contractual amounts receivable (gross settled)	(550)	-	(83)	(166)	(285)	(24)	(558)
Contractual amounts payable (gross and net settled)	912	-	99	285	504	38	926
	362	-	16	119	219	14	368
Off-balance sheet positions							
Guarantees entered into in the normal course of business	-	276	-	-	-	-	276
Commitments to provide loans and advances	-	8,576	-	-	-	-	8,576
	-	8,852	-	-	-	-	8,852

1 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 reporting date, without taking account of future issuance. Floating rate interest is estimated using estimated forward rates at the reporting date.

Company	Carrying amount $M	At call $M	0 to 3 months $M	3 to 12 months $M	1 to 5 years $M	Over 5 years $M	Total cash flows $M
2020							
Payables due to other banks	293	293	-	-	-	-	293
Deposits and short-term borrowings	46,544	28,606	10,487	7,489	150	-	46,732
Payables and other liabilities	287	-	287	-	-	-	287
Due to related parties[1]	15,128	-	3,028	-	-	12,100	15,128
Long-term borrowings	10,607	-	385	3,188	6,835	656	11,064
Subordinated notes[2]	672	-	4	10	639	72	725
	73,531	28,899	14,191	10,687	7,624	12,828	74,229
Derivatives							
Contractual amounts receivable (gross settled)	(138)	-	(11)	(26)	(82)	(20)	(139)
Contractual amounts payable (gross and net settled)	582	-	53	188	306	37	584
	444	-	42	162	224	17	445
Off-balance sheet positions							
Guarantees entered into in the normal course of business	-	331	-	-	-	-	331
Commitments to provide loans and advances	-	8,829	-	-	-	-	8,829
	-	9,160			-	-	9,160
2019							
Payables due to other banks	353	353	-	-	-	-	353
Deposits and short-term borrowings	46,571	22,509	12,034	12,195	251	-	46,989
Payables and other liabilities	427	-	427	-	-	-	427
Due to related parties[1]	10,508	-	3,850	-	-	6,658	10,508
Long-term borrowings	10,358	-	689	2,478	7,222	676	11,065
Subordinated notes[2]	672	-	6	15	673	72	766
	68,889	22,862	17,006	14,688	8,146	7,406	70,108
Derivatives							
Contractual amounts receivable (gross settled)	(550)	-	(83)	(166)	(285)	(24)	(558)
Contractual amounts payable (gross and net settled)	912	-	99	285	504	38	926
	362	-	16	119	219	14	368
Off-balance sheet positions							
Guarantees entered into in the normal course of business	-	276	-	-	-	-	276
Commitments to provide loans and advances	-	8,643	-	-	-	-	8,643
	-	8,919			-	-	8,919

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

2 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 reporting date, without taking account of future issuance. Floating rate interest is estimated using estimated forward rates at the reporting date.

(b) Composition of funding

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

	Note	Consolidated 2020 $M	Consolidated 2019 $M	Company 2020 $M	Company 2019 $M
Customer funding					
Customer deposits					
At-call deposits		28,684	22,502	28,704	22,522
Term deposits		11,263	16,401	11,263	16,401
Total retail funding		39,947	38,903	39,967	38,923
Wholesale funding					
Domestic funding					
Short-term wholesale		5,079	5,376	5,079	5,376
Long-term wholesale		5,532	4,032	5,532	4,032
Covered bonds		2,589	2,788	2,589	2,788
Subordinated notes		672	672	672	672
Total domestic funding		13,872	12,868	13,872	12,868
Overseas funding[1]					
Short-term wholesale[2]		1,498	2,272	1,498	2,272
Long-term wholesale[3]		2,486	3,538	2,486	3,538
Total overseas funding		3,984	5,810	3,984	5,810
Total wholesale funding		17,856	18,678	17,856	18,678
Total funding (excluding securitisation)		57,803	57,581	57,823	57,601
Securitisation					
APS 120 qualifying[4]		2,945	3,825	-	-
APS 120 non-qualifying		-	6	-	-
Total securitisation		2,945	3,831	-	-
Total funding (including securitisation)		60,748	61,412	57,823	57,601
Comprised of the following items on the statement of financial position					
Deposits and short-term borrowings	14	46,524	46,551	46,544	46,571
Securitisation liabilities	23.3	2,945	3,831	-	-
Long-term borrowings	16	10,607	10,358	10,607	10,358
Subordinated notes	17	672	672	672	672
Total funding		60,748	61,412	57,823	57,601

1 Foreign currency borrowings are hedged back into Australian dollars.

2 Original maturity of less than 12 months.

3 Original maturity of 12 months or greater.

4 Qualifies for capital relief under APRA Prudential Standard APS 120 *Securitisation*.

25.3 Market risk

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

The Group uses value at risk (**VaR**) as one of the key measures of traded market risk and non-traded interest rate risk in the banking book (**IRRBB**). The VaR model is a statistical technique used to measure and quantify the market risk over a specific holding period at a given confidence level. The Group's standard VaR approach for traded and non-traded risk is based on a historical simulation which uses equally weighted market observation from the last two years and eight years respectively. Historical VaR simulation assumes that the distribution of past price returns will reflect future returns.

(a) Traded market risk

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

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

VaR is modelled at a 99 per cent confidence level over a one-day holding period for trading book positions.

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

	2020			2019		
Consolidated and Company	Interest rate risk $M	FX risk $M	Combined risk[1] $M	Interest rate risk $M	FX risk $M	Combined risk[1] $M
VaR at the end of the financial year	0.15	0.01	0.16	0.11	0.14	0.17
Average VaR for the financial year	0.15	0.14	0.23	0.09	0.18	0.21

1 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 in the banking portfolio that create an interest rate risk exposure within the Group. The main objective of IRRBB management is to maximise and stabilise net interest income in the long term.

Interest rate risk arises from changes in interest rates that expose the Group to the risk of loss in terms of earnings and/or economic value. There are several sources of IRRBB and they include:

- repricing risk: resulting from changes in the overall levels of interest rates and 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.
- embedded value risk: resulting from differences in transactions book value compared to market-to-market fair value due to past interest rate movements.
- spread risk: arises due to the imperfect movement of interest rates for different yield curves within an economy.

(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 two per cent downwards 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 two per cent parallel movement in interest rates on the consolidated statement of financial position. The results are prepared based on the IRRBB framework applicable to the respective financial year.

Consolidated and Company	2020 $M	2019 $M
Exposure at the end of the financial year	(20)	(23)
Average exposure during the financial year	(23)	(15)

(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 two per cent downwards parallel movement in interest rates on the consolidated statement of financial position.

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

Consolidated and Company	2020 $M	2019 $M
Exposure at the end of the financial year	(48)	(63)
Average exposure during the financial year	(41)	(47)

(iii) Value at Risk

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

Consolidated and Company	2020 $M	2019 $M
Exposure at the end of the financial year	(20)	(24)
Average exposure during the financial year	(19)	(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 Group policy is to fully hedge any such exposure and accordingly minimise exposure to the risk. All offshore borrowing facilities arranged as part of the overall funding diversification process have been economically hedged in respect of their potential foreign exchange risk through the use of financial derivatives (refer to note 11).

26. Commitments

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 statements of financial position. The Group uses the same credit policies and assessment criteria in making these commitments and conditional obligations as it does for on-balance sheet instruments. These commitments would be classified as loans and advances in the statements of financial position on the occurrence of the contingent event.

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

	Consolidated		Company	
	2020 $M	2019 $M	2020 $M	2019 $M
Notional amounts				
Guarantees entered into in the normal course of business	331	276	331	276
Commitments to provide loans and advances	8,777	8,576	8,829	8,643
	9,108	8,852	9,160	8,919
Credit equivalent amounts				
Guarantees entered into in the normal course of business	330	276	330	276
Commitments to provide loans and advances	1,818	2,150	1,870	2,217
	2,148	2,426	2,200	2,493

27. Composition of the Company

27.1 Material subsidiaries of the Company

Subsidiaries	Class of shares	Country of incorporation	2020 Equity holding %	2019 Equity holding %
APOLLO Series Trusts (various)[1]	Units	Australia	100	100
Suncorp Covered Bond Trust	Units	Australia	100	100
SME Management Pty Limited	Ordinary	Australia	100	100
Suncorp Metway Advances Corporation Pty Ltd	Ordinary	Australia	100	100

1 The Company conducts a loan securitisation program whereby housing mortgage loans are packaged and sold as securities to the wholly owned Apollo Series Trusts. As at 30 June 2020, the Company held interest in eight Trusts (2019: ten)

27.2 Consolidated structured entities

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

Liquidity facility

The Group 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 the Company does not meet its designated credit rating. The maximum amount which can be drawn is $217 million (2019: $146 million).

The amount drawn as of 30 June 2020 is $nil (2019: $nil).

Redraw facility

The Group 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 $77 million (2019: $55 million).

The amount drawn as of 30 June 2020 is $nil (2019: $nil).

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

28.1 KMP disclosures

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

Total compensation for KMP are as follows:

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

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

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 specific 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.

	2020		2019	
	Key management personnel $'000	Other related parties $'000	Key management personnel $'000	Other related parties $'000
Closing balance	1,214	1,222	5,227	2,698
Interest charged	79	26	173	13

28.2 Other related party transactions

	Consolidated 2020 $'000	Consolidated 2019 $'000	Company 2020 $'000	Company 2019 $'000
The aggregate amounts included in the determination of profit before tax that resulted from transactions with related parties are:				
Other operating income				
Subsidiaries	-	-	367,526	315,554
Other related parties	1,932	1,977	1,932	1,977
Interest expense				
Subsidiaries	-	-	884	4,023
Other related parties	19,843	29,296	19,843	29,296
Operating expenses[1]				
Subsidiaries	-	-	441,958	431,379
Other related parties	678,309	613,132	678,309	613,132
Dividends paid				
Parent entity	322,300	202,000	322,300	202,000
Other related parties	20,081	22,788	20,081	22,788
Aggregate amounts receivable from, and payable to, each class of related parties as at the end of the financial year				
Investment securities				
Subsidiaries	-	-	25	25
Due from related parties				
Subsidiaries	-	-	12,334,973	6,854,089
Other related parties	230,499	357,195	230,499	357,195
Deposits and short-term borrowings				
Subsidiaries	-	-	19,636	19,880
Other related parties	363,788	361,379	363,788	361,379
Due to related parties				
Subsidiaries	-	-	15,047,839	10,494,301
Other related parties	80,478	13,507	80,478	13,507
Subordinated notes				
Other related parties	600,000	600,000	600,000	600,000

1 As set out in note 6, operating expenses such as employee expenses, depreciation and amortisation are incurred directly by Suncorp Group's corporate service subsidiaries and recharged to the Group via an internal allocation methodology.

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

A number of banking transactions occur between the Company and related parties within the SGL Group. These include loans, deposits and foreign currency transactions, upon which fees, commissions and interest may be earned. These transactions occur in the normal course of business and are on terms equivalent with those made on an arm's length basis, except that some short term intercompany advances may be interest free.

Related party loans and advances are disclosed within the statement of financial position caption 'Due from related parties'. All amounts are expected to be fully recoverable. The key terms of the material financing arrangements as at 30 June 2020 are presented in the table below:

Consolidated and Company	Facility $M	Carrying amount $M	Interest rate %	Maturity
Long-term fixed facility[1]	112	112	BBSW 90 + 2.15%	30 Jun 2027
Revolving facility	120	115	BBSW 90 + 2.15%	30 Sep 2021
Total loans and advances to other related parties	232	227		

1 The terms of the Long-term fixed facility require the borrower to make fixed repayments in accordance with the amortisation schedule. Repaid amounts cannot be redrawn by the borrower.

29. Auditor's remuneration

	Consolidated 2020 $'000	Consolidated 2019 $'000	Company 2020 $'000	Company 2019 $'000
KPMG Australia				
Audit and review services				
Audit and review of financial reports	1,149	1,312	1,022	1,178
	1,149	1,312	1,022	1,178
Assurance services				
Regulatory assurance services	697	391	697	391
Other assurance services	474	457	345	372
	1,171	848	1,042	763
Total Auditors' remuneration	2,320	2,160	2,064	1,941

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

30. Contingent assets and liabilities

30.1 Contingent assets

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

30.2 Contingent liabilities

There are contingent liabilities facing the Group in respect of the matters below. The Group is of the opinion that the outcome and total costs arising from these matters remain uncertain at this time and as such the matters have not been provided for.

Regulatory and internal reviews

Reviews and enquiries from regulators may result in investigation costs, administrative costs, legal costs and compensation and / or remediation payments (including interest) or fines. In addition, the Group conducts internal reviews of its regulatory compliance which have resulted in disclosures to the regulators and may result in similar costs. To the extent these costs can be reliably estimated and the outflow becomes probable, then those costs would be reflected as part of the Group's provisions.

During the year, a number of regulators including ASIC, APRA, Australian Competition and Consumer Commission (**ACCC**), Australian Transaction Reports and Analysis Centre (**AUSTRAC**) and the Australian Taxation Office (**ATO**) conducted reviews and made enquiries with the Group. There were a number of non-compliance instances identified and disclosed by the Group to ASIC, APRA and AUSTRAC, some of which required resubmissions of prudential returns and notification of a breach related to the Company's prior treatment of non-commercial loan variations. In July 2020, the Company notified AUSTRAC that it had not reported a limited type of incoming cross-border transactions received through a card scheme platform which it considers should have been reported as International Funds Transfer Instructions. The Company is undertaking a number of remediation activities to address this. These transactions were included in the Company's transaction monitoring program.

It remains uncertain what other regulatory or internal reviews or notifications of non-compliance may arise or may be required.

An assessment of the likely cost to the Group of these reviews and actions has been made on a case by case basis but cannot always be reliably estimated. To the extent that the potential impact can be reliably estimated and the outflow becomes probable, then the amount would be provisioned.

Customer complaints

The Australian Financial Complaints Authority (**AFCA**) has the power to award compensation up to certain thresholds on complaints raised by customers. The Group is working through the individual cases that have been raised to AFCA.

An assessment of the likely cost to the Group of these matters has been made on a case by case basis but cannot always be reliably estimated. To the extent that the potential impact can be reliably estimated and the outflow becomes probable, then the amount would be provisioned.

Royal Commission

The 2019 report of the Royal Commission set out 76 policy recommendations to strengthen protections for consumers, small business and rural and regional communities. A comprehensive program of work is currently underway to implement the reforms that have resulted from the recommendations and to enhance our focus on culture and compliance matters. The Government's program in response to the recommendations of the Royal Commission continues to evolve. The Group continues to monitor and respond to any additional legislation and regulatory activity that may arise as a result of this program. The Group is accordingly of the opinion that at this time the outcome and total costs which may arise from regulatory reform remain uncertain.

Litigation

There are outstanding court proceedings, claims and possible claims against the Group, the aggregate amount of which cannot be readily quantified. Where considered appropriate, privileged legal advice has been obtained. The Group does not consider the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, likely to have a material effect on its operations or financial position.

An assessment of the likely cost to the Group of these matters has been made on a case by case basis but cannot always be reliably estimated. To the extent that the potential impact can be reliably estimated and the outflow becomes probable, then the amount would be provisioned.

Customer remediation

In response to both regulatory and internal reviews, the Group is currently undertaking a number of programs of work to resolve prior issues that have the potential to impact customers. An assessment of the Group's likely loss has been considered on a case by case basis. To the extent that the potential impact can be reliably estimated and the outflow becomes probable, then the amount would be provisioned.

Contingent liabilities may exist in respect of actual or potential claims, compensation payments and / or remediation payments (including interest) identified as part of existing programs of work or as part of future programs responding to regulatory or internal reviews. The outcomes and total costs associated with these reviews and possible exposures remain uncertain.

Tax

The Group is subject to regular reviews by the ATO and other revenue authorities of its taxation treatment which may result in additional tax liability or tax refund. The Group engages with these authorities and provides responses as requested. To the extent reasonably possible, the Group has recognised its tax payable as a current tax liability. There are no current disputes with the ATO.

Other

A non-material subsidiary of the Company acts as the trustee for a trust. In this capacity, the subsidiary is liable for the debts of the trust but is entitled to be indemnified out of the trust assets for all liabilities incurred on behalf of the trust.

The Company issued a letter of financial support to the directors of Suncorp Metway Advances Corporation Pty Ltd (SMAC), a wholly owned subsidiary of the Company. The letter confirmed that necessary financial support up to an amount equal to the net current liabilities of SMAC at 30 June 2020 will be provided in the event SMAC is unable to meet its financial obligations as and when they fall due.

No provision has been recognised in the Company's statement of financial positions for the amount of the financial support provided as the likelihood of SMAC being unable to meet its financial obligations is determined as not being probable.

In the ordinary course of business, the 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.

31. Significant accounting policies

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

31.1 Basis of consolidation

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

(a) Subsidiaries

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

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

Structured entities (SE) are entities created to accomplish a 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 Group. A SE is consolidated if the Group is exposed to, or has rights to, variable returns from its involvement with the SE and has the ability to affect those returns through its power over the SE.

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

31.2 Foreign currency

(a) Foreign currency transactions

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

Foreign currency non-monetary assets and liabilities that are stated at fair value are translated using exchange rates at the dates the fair value was determined.

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

31.3 Revenue and expense recognition

(a) Interest income and expense

Interest income and expense on financial assets or liabilities at amortised cost 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.

Interest income and expense on financial assets or liabilities at fair value are recognised in profit or loss when earned or incurred.

(b) Dividends and distribution income

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

(c) Other income

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

Service fees that represent the recoupment of the costs of providing services, for example maintaining and administering existing facilities, are recognised when the performance obligation is satisfied. Fees can be recognised over time (i.e. annual fees) or at a point in time, when a promised service is performed (i.e. late payment fees).

31.4 Income tax

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

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

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

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

(a) Tax consolidation

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

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

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

(b) Taxation of financial arrangements

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

31.5 Goods and services tax (GST)

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

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

31.6 Cash and cash equivalents

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

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

Receivables due from other banks include cash collateral receivable from banks and payables due to other banks include overnight funds. Receivables due from and payables due to other banks are an integral part of the Company's cash management and therefore are classified as cash equivalents for cash flow purposes.

31.7 Non-derivative financial assets

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

(a) Fair value through profit or loss

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

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

(b) Amortised cost

For assets where cash flows are SPPI and the business model is held-to-collect these cash flows, the classification is at amortised cost. This category includes loans and advances.

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

(c) Fair value through other comprehensive income

Debt instruments that are SPPI and are held-to-collect-and-to-sell (regular, but not frequent sales) will be recorded as fair value through other comprehensive income (**FVOCI**). These will be measured at fair value with subsequent changes going through other comprehensive income (**OCI**). On derecognition, the accumulated OCI will be recycled into profit or loss. This category includes investment securities.

(d) Derecognition of financial assets

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

(e) Repurchase agreements and reverse repurchase agreements

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

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

(f) Modification of financial assets

Financial assets, such as loans and advances, are considered to be modified when the original terms and conditions have been renegotiated without resulting in derecognition. Upon modification of the financial asset, a gain or loss is recognised in Interest income to the extent that the gross carrying amount of the original financial asset differs to the modified cash flows discounted at the original effective interest rate.

31.8 Investments in subsidiaries

Investments in subsidiaries are carried at cost.

31.9 Derivative financial instruments

The Group holds derivative financial instruments to hedge the Group's assets and liabilities or as part of the Group's trading and investment activities.

All derivatives are initially recognised at fair value on trade date and transaction costs are recognised in profit or loss as incurred.

Derivatives are classified and measured at fair value through profit or loss (refer to note 31.7) unless they qualify as a hedging instrument in an effective hedge relationship under hedge accounting (refer to note 31.10).

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host. 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 and loss. Otherwise, the embedded derivative is accounted for on the same basis as the host contract.

When a hybrid contract contains a host that is a financial asset, the entire hybrid contract is assessed for classification. If the hybrid contract contains a host that is a financial liability or a contract that is not a financial asset, the hybrid contract is assessed to determine whether the embedded derivative is required to be separated. Separation of the embedded derivative from the host contract is not permitted when the hybrid contract is measured at fair value through profit or loss; the embedded derivative meets the definition of a standalone derivative; or the embedded derivative is closely related to the host contract.

31.10 Hedge accounting

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

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. The Group has elected to continue to apply AASB 139 for hedge accounting until there is clarity around the additional changes.

(a) Cash flow hedges

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

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

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

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

(b) Fair value hedges

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

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

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

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 hedged item is accounted for under the effective interest method from that point and any accumulated adjustment to the carrying value of the hedged item from when it was effective is released to profit or loss over the period to when the hedged item will mature.

31.11 Impairment

(a) Financial assets

Loans and receivables

Expected credit losses (**ECL**) will be recorded for all financial assets measured at amortised cost or FVOCI. ECL is calculated as the probability of default (**PD**) x loss given default (**LGD**) x exposure at default. The credit models are calibrated to reflect PD and LGD estimates based on historical observed experience, as well as reflecting the influence of unbiased forward-looking views of macroeconomic conditions, through macroeconomic variables that influence credit losses, for example unemployment rates and changes in house prices.

The economic forecasts underpinning the PD and LGD estimates are reviewed on at least a 6-monthly basis, taking into account expert judgment, and are approved by the Bank’s Asset and Liability Committee.

Management has included adjustments to the modelled provisions to capture emerging risks that have not been captured in the ECL model.

Financial assets that are subject to credit risk are assigned to one of three stages and could be reassigned based on changes in asset quality:

- Stage 1 are performing and/or newly originated assets. Provisions for loans in stage 1 are established to provide for ECL for a period of 12 months;
- Stage 2 assets have experienced a significant increase in credit risk (**SICR**) since origination. Provisions for loans in stage 2 are established to provide for ECL for the remaining term of the asset (**lifetime ECL**); and
- Stage 3 are 'past due but not impaired' and impaired assets. Provisions for loans in stage 3 are established to provide for the lifetime ECL.

Portfolio managed assets in stage 3 (mainly retail lending), will have a collective provision determined by the ECL model, although some loans are individually covered by a specific provision. The majority of relationship managed assets in stage 3 (mainly business lending) will require a specific provision unless it is determined that a collective provision provides a more appropriate estimate. A specific provision is calculated based on estimated future cash flows discounted to their present value.

A SICR event occurs if a loan deteriorates since origination on the master rating scale (**MRS**) by a defined number of notches. Loans with a higher MRS at origination (higher risk) require fewer notch movements to trigger a SICR event than loans with a lower MRS at origination (lower risk). 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. Loans restructured on commercial terms with a significant modification of their terms and conditions are considered a re-origination and will be moved into stage 1. The incorporation of forward-looking information within the ECL includes a mechanism to allocate a proportion of portfolio exposure to Stage 2, based on the macroeconomic outlook and is designed to capture SICR events that are not yet reflected in observed data at the exposure level.

A write off is made when all practical recovery efforts have concluded and all or part of a financial asset is deemed unrecoverable or forgiven. Write-offs reduce the principal amount of a claim and are charged against previously established ECLs.

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

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

31.12 Non-derivative financial liabilities

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

These liabilities are designated at fair value through profit and loss on 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 impact of changes in 'own credit risk' for financial liabilities designated at FVTPL will be separated and recorded in OCI instead of profit or loss. The Group designates certain short-term offshore borrowings at fair value through profit or loss when they are managed on a fair value basis.

(b) Financial liabilities at amortised cost

Financial liabilities at amortised cost are initially measured at fair value plus any directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method. The Group's financial liabilities at amortised cost includes deposits and short-term borrowings, long-term borrowings and subordinated notes.

(c) Hybrid instruments

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

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

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

(d) Derecognition of financial liabilities

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

31.13 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.

32. Subsequent events

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

Directors' Declaration

1. The directors of Suncorp-Metway Limited (the **Company**) declare that in their opinion:
   a. the financial statements and notes, and the Remuneration Report in the Directors' Report set out on pages 16 to 111, are in accordance with the *Corporations Act 2001*, including:
      i. giving a true and fair view of the Company's and the Group's financial position as at 30 June 2020 and of their performance for the financial year ended on that date; and
      ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*
   b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Group Chief Executive Officer and Managing Director and Group Chief Financial Officer for the financial year ended 30 June 2020.
3. The directors draw attention to note 2.1 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Christine McLoughlin

CHRISTINE MCLOUGHLIN

Chairman of the Board

21 August 2020

STEVE JOHNSTON

Group Chief Executive Officer and Managing Director

KPMG

Independent Auditor's Report

To the shareholders of Suncorp-Metway Limited

Report on the audits of the Financial Reports

Opinions

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

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

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

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

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

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

Basis for opinions

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

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

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

Key Audit Matters

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

- Expected credit loss provisions for loans and advances held at amortised cost;
- Financial instruments at fair value; and
- IT systems and controls.

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

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

KPMG

Expected credit loss provisions for loans and advances held at amortised cost - Group ($301m) and Company ($291m)

Refer to Note 12, 13.1, 25.1, 31.11(a) and 31.15 to the Group Financial Report and Company Financial Report

The key audit matter

Expected credit loss (ECL) provisions for loans and advances held at amortised cost are a key audit matter due to the significance of loans and advances balances to the financial statements and the inherent complexity of the Group's ECL models. AASB 9 Financial Instruments (AASB 9) requires significant judgement and estimates to incorporate forward-looking information to reflect future economic scenarios, including the potential economic impact of the COVID-19 pandemic and other assumptions such as defining a significant increase in credit risk (SICR). These features resulted in significant audit effort to address the risks around loan recoverability and the determination of related ECLs.

AASB 9 requires the Group to measure ECLs on a forward-looking basis reflecting a range of future economic conditions, including key forward-looking assumptions such as forecast Real-Gross Domestic Product (GDP), residential house price index and unemployment levels. The Group calculates the ECL utilising a distribution model which estimates economic outcomes around a base case underlying scenario. Given the COVID-19 pandemic and associated economic uncertainty, significant judgement was exercised by the Group in developing the macro-economic variables used in the base case economic scenario due to the wide range of potential economic outcomes and impacts from COVID-19 which may impact future credit losses. Post-model adjustments to the ECL results are also made by the Group to address known ECL model limitations or emerging trends in the loan portfolios. We exercise significant judgement in challenging the economic scenarios used and the judgemental overlays the Group applied to the ECL results.

The Group has exercised judgement in defining indicators of what represents a SICR as these criteria determine if a forward-looking 12 month or lifetime allowance is recorded. This estimation is inherently 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.

How the matter was addressed in our audits

Our procedures for the ECL provisions for loans and advances held at amortised cost and disclosures included:

Testing key controls relating to:

- reconciliation of relevant data used in the ECL model and specific provisioning assessments to source systems;
- the onboarding of new lending facilities, including quality assurance over key loan information (such as borrower type and security details) used in the measurement of ECL allowances;
- for retail loans, testing controls over the systems which record lending arrears;
- the Group's monitoring mechanisms to identify loans experiencing signs of stress, including a SICR or default event;
- the Group's ECL model governance and validation processes; and
- the Group's assessment and approval of the ECL estimate, application of forward looking macroeconomic assumptions and post-model adjustments.

In addition to controls testing, our procedures included:

- assessing the appropriateness of the Group's provisioning methodology against the requirements of the accounting standards and industry practice;
- testing the completeness and accuracy of a sample of critical data elements used within ECL models, such as checking year end balances, and repayment history and risk ratings to source systems;
- working with our credit risk specialists, we assessed the critical data elements used to calculate the ECL estimate in key models;
- working with our credit risk specialists, we assessed the ECL models' compliance with the Group's model governance policies and the requirements of *Australian Accounting Standards* and industry practice;

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Expected credit loss provisions for loans and advances held at amortised cost - Group ($301m) and Company ($291m) (cont.)	
For credit-impaired loans, it is policy to identify specific ECLs based on the Group's judgement. This focuses on estimating when an impairment event has occurred and the present value of expected future cash flows, which have high estimation uncertainty. We focused on the high degree of estimation uncertainty related to the 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.	• working with our credit risk specialists to re-perform the ECL calculation for a sample of ECL models using the Group's provisioning methodology and relevant data used within the ECL models, which incorporated consideration of the impacts of COVID-19. We compared our results to the amount recorded by the Group; • working with our KPMG Economic specialists, we challenged the Group's forward-looking macroeconomic assumptions and base case scenario incorporated into the ECLs. We compared the Group's forecast GDP, residential house price index and unemployment rates to relevant publicly available macro-economic information. Particular focus was placed on checking these key assumptions reflected the impacts of COVID-19; • assessing the post-model adjustments applied by the Group to the ECL estimates. We considered the basis for the adjustments and compared the loan portfolios' underlying performance and characteristics to current market conditions, emerging risks and trends, using our knowledge of the industry and public views of commentators; • performing credit assessments of a sample of loans controlled by the Group's specialist workout and recovery team assessed as of higher risk or impaired. We challenged the Group's risk grading of the loan, assessment of loan recoverability, valuation of security, including assessing whether these estimates had incorporated the impact of COVID-19. Exercising our judgement, our procedures included using our understanding of relevant industries and the macroeconomic environment and comparing data and assumptions used by the Group in recoverability assessments to the Group's externally sourced evidence for valuations of collateral held. • assessing the appropriateness of the Group's disclosures against the requirements of the Accounting Standards.

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Financial instruments at fair value (Assets $6,965m and Liabilities $2,032m) – Group and Company

Refer to Note 23.1, 25.2, 31.7, 31.9, 31.10 and 31.12 to the Group Financial Report and Company Financial Report

The key audit matter

The Group and Company enters into various financial instruments used for the management of financial risks such as valuation, liquidity and market risks. Financial instruments comprise of investment securities, trading securities, derivative assets and liabilities, and certain debt securities such as offshore commercial paper measured at fair value.

Valuation of financial instruments carried at fair value is a key audit matter due to the significance of financial instruments to the Group and Company's financial position.

The Group and Company use a selection of methodologies and inputs (such as broker-quoted prices, interest rates, foreign exchange rates) in the valuation of these financial instruments. COVID-19 has impacted on the volatility of certain inputs by the Group and Company. These methodologies and inputs impact the valuation adopted for each financial instrument type.

Senior audit team effort and specialist involvement were required to assess these.

How the matter was addressed in our audit

Our procedures included:

- assessing the appropriateness of the valuation methodologies applied by the Group and Company against the requirements of the accounting standards and industry practice.
- understanding the Group and Company's processes and testing key controls for the identification, measurement and management of valuation, liquidity and market risks.
- with the involvement of our specialists, we assessed the fair value of a sample of:
  - Investment, trading securities and debt securities such as offshore commercial paper designated as measured at fair value through profit or loss: Re-performing the valuation by comparing the observable inputs, including broker-quoted prices, to externally sourced market data providers.
  - Derivative assets and liabilities: Using independent models to recalculate the valuation where the fair value was determined by the Group and Company using observable inputs. This included comparing a sample of observable inputs used in the Group and Company's derivative valuations to externally sourced market data, such as interest rates and foreign exchange rates.
- assessing the disclosures against the requirements of the Accounting Standards.

IT systems and controls – Group and Company

Refer to the basis of preparation in Note 2 to the Group Financial Report and Company Financial Report

The key audit matter	How the matter was addressed in our audit
The Group and Company's business utilises a number of interdependent Information Technology IT systems to process and record a high volume of transactions. Controls for access and changes to IT systems are critical to the recording of financial information and the preparation of financial reports which provide a true and fair view of the Group and Company financial position and performance. The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter and our audit approach could significantly differ depending on the effective operation of the Group and Company's IT controls. KPMG IT specialists were used throughout the engagement as a core part of our audit team.	Working with our IT specialists, we tested the control environment for key IT applications (systems) used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems. Our procedures included: • Evaluating and testing the design and operating effectiveness of certain governance controls for the operational integrity of core systems relevant to financial reporting; • Testing controls for the access rights given to employees by checking them to approved records, and inspecting the reports regarding the granting and removal of access rights. We also tested controls related to monitoring of access rights; • Testing the operating effectiveness of automated controls key to our audit testing in relation to system calculations, the generation of reports, and operation of system enforced access controls. • Where we noted design or operating effectiveness matters relating to IT system or application controls relevant to our audit, we performed alternative audit procedures. We also identified and tested mitigating controls in order to respond to the impact on our overall audit approach.

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Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

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

Auditor's responsibilities for the audits of the Financial Reports

Our objective is:

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

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

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

A further description of our responsibilities for the audits of the Financial Reports is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_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-Metway Limited for the year ended 30 June 2020, complies with *Section 300A* of the *Corporations Act 2001*.

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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 8 of the Remuneration Report included in pages 22 to 40 of the Directors' report for the year ended 30 June 2020.

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

Scott Guse

Partner

Brisbane

21 August 2020