SUNCORP LIFE & SUPERANNUATION LIMITED

ABN 87 073 979 530

Financial report
For the financial year ended 30 June 2018

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DIRECTORS' REPORT

The directors present their report together with the financial report for Suncorp Life & Superannuation Limited (the **Company**) for the year ended 30 June 2018 and the auditor's report thereon. Terms that are defined appear in bold the first time they are used.

1. Directors

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

Non-executive

Dr Zygmunt E Switkowski AO (Chairman)	Director since 2005, Chairman since 2011
Audette E Exel AO	Director since 2012
Sally Herman	Director since 2015
Simon C J Machell	Director since 2017
Christine F McLoughlin	Director since 2015
Dr Douglas F McTaggart	Director since 2012
Lindsay J Tanner	Appointed 1 January 2018
William J Bartlett	Director since 2003, retired 21 September 2017
Ewoud J Kulk	Director since 2007, retired 21 September 2017

Executive

Michael A Cameron (CEO and Managing Director)	Director since 2012 (Non-executive director from 2012 to 30 September 2015)

2. Principal activities

The principal activities of the Company are the provision of life insurance, superannuation and investment products and related services to the retail, corporate and commercial sectors in Australia.

3. Dividends

During the financial year, the Company paid dividends on ordinary shares totalling $75.0 million (2017: $65.0 million) and on the capital notes a dividend of $0.7 million (2017: nil).

Since the end of the financial year, no dividends on ordinary shares have been determined by the directors.

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

4. Review of operations

Profit after income tax for the financial year was $99.5 million (2017: $64.1 million).

Life insurance premium income increased by $16.3 million to $821.0 million (2017: $804.7 million) for the financial year. The in-force premium increased by 1.2% driven by growth in both the Retail and Direct portfolios, partially offset by the run-off of the closed Group Risk portfolio. The Retail growth comprised of in force repricing, in force age-based and CPI increases, new business sales, all partially offset by lapses.

Claims expense decreased by $38.1 million to $481.1 million (2017: $519.2 million), due to lower claim volumes in Retail lump sum products and reduced risk exposure. This was partially offset by an increase in group risk claims volume and size over the period. The Life Optimisation Program resulted in improved claims experience compared to prior year.

Claims reinsurance recoveries also reduced. This reflects the lower gross claims expense, as well as a shift in mix of claims toward products with lower reinsurance.

Actuarial best estimate assumptions were updated, reflecting revised expectations of lapses, income protection claims, reinsurance costs and future maintenance unit costs. In force repricing was also allowed for. The aggregate impact of these changes is an increase in policy liabilities of $19.4 million.

During the financial year, the company has reduced exposure to the Suncorp Group Trusts, favouring directly held investments. There has also been a reduction in investment securities, with increased outflows used to fund the operational requirements of the company.

The Company paid dividends of $75.0 million (2017: 65.0 million) to shareholders which was funded from profit after income tax. The company also paid a dividend of $0.7 million to the holders of the capital notes.

The financial strength of the Company is reflected by the coverage of the Prudential Capital Requirement, as prescribed by the Australian Prudential Regulatory Authority. The prescribed capital amount coverage ratio for the statutory funds was 2.4 times (2017: 2.3 times).

5. Significant changes in the state of affairs

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

6. Events subsequent to reporting date

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

7. Likely developments

On 9 August 2018, the Suncorp Group (Suncorp Group Limited and its subsidiaries) announced it had entered into a non-binding Heads of Agreement to sell 100% of the shares in Suncorp Life & Superannuation Limited to TAL Dai-ichi Life Australia Pty Limited (TAL). The legally binding Share Sale Deed between both parties is due to be executed by 31 August 2018. The transaction is expected to be completed by the end of 2018, subject to regulatory approvals and conditions.

There has been no substantial change in business operations. Other than the matters noted above, no substantial changes are expected in the coming financial year.

8. Environmental regulation

The operations of the Company are not subject to any particular or significant environmental regulation under any law of the Commonwealth of Australia or any of its states or territories.

The Company has not incurred any liability (including for rectification costs) under any environmental legislation.

9. Indemnification and insurance of officers

Indemnification

Under the Constitution of the ultimate parent entity, Suncorp Group Limited, each person who is or has been a director or officer of the Company is indemnified. The indemnity relates to all liabilities to another party (other than the Company or a related body corporate) that may arise in connection with the performance of their duties to the Company, except where the liability arises out of conduct involving a lack of good faith. The Constitution stipulates that Suncorp Group Limited will meet the full amount of such liabilities, including costs and expenses incurred in successfully defending civil or criminal proceedings or in connection with an application, in relation to such proceedings, in which relief is granted under the *Corporations Act 2001*.

Insurance premiums

During the financial year ended 30 June 2018, Suncorp Group Limited paid insurance premiums in respect of a Directors' and Officers' Liability insurance contract. The contract insures each person who is or has been a director or officer (as defined in the *Corporations Act 2001*) of the Company against certain liabilities arising in the course of their duties to the Company. The directors have not included details of the nature of the liabilities covered or the amount of premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

10. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 4 and forms part of the directors' report for the financial year ended 30 June 2018.

11. Rounding of amounts

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

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

Dr Ziggy Switkowski AO

Chairman of the Board

Michael Cameron

CEO and Managing Director

23 August 2018

DIRECTORS' DECLARATION

1. The directors of Suncorp Life & Superannuation Limited (the **Company**) declare that in their opinion:
   a. the financial statements and notes, set out on pages 5 to 49, are in accordance with the *Corporations Act 2001*, including:
      i. giving a true and fair view of the Company's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
      ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*
   b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors 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:

Dr Ziggy Switkowski AO	**Michael Cameron**
Chairman of the Board	CEO and Managing Director

23 August 2018

KPMG

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

To the Directors of Suncorp Life & Superannuation Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Suncorp Life & Superannuation Limited for the financial year ended 30 June 2018 there have been:

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

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

KPMG

David Kells
Partner

Sydney
23 August 2018

STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 30 June 2018

	Note	2018 $M	2017 $M
Revenue			
Insurance premium income		821.0	804.7
Reinsurance recoveries income		253.5	303.5
Interest income on:			
financial assets at fair value through profit or loss		81.4	85.3
financial assets not at fair value through profit or loss		2.3	4.2
Net gains on financial assets and liabilities at fair value through profit or loss		75.6	54.5
Dividend and trust distribution income		21.8	21.5
Fees and other income		0.8	21.7
Total revenue		1,256.4	1,295.4
Expenses			
Claims expense		(481.1)	(519.2)
Movement in life insurance contract policy liabilities		(22.0)	(48.5)
Movement in life investment contract liabilities	9.1	(21.4)	(14.1)
Movement in unvested policyowner benefits liabilities	9.1	11.6	15.3
Interest expense on financial liabilities not at fair value through profit or loss		(4.6)	(4.9)
Outwards reinsurance premium expense		(288.7)	(258.1)
Policy acquisition expenses		(152.5)	(167.4)
Policy maintenance expenses		(125.6)	(174.5)
Investment management expenses		(7.4)	(10.9)
Total expenses		(1,091.7)	(1,182.3)
Profit before income tax		164.7	113.1
Income tax expense	4.1	(65.2)	(49.0)
Profit for the financial year attributable to the owners of the Company		99.5	64.1
Total comprehensive income for the financial year attributable to the owners of the Company		99.5	64.1

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

STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	2018 $M	2017 $M
Assets			
Cash and cash equivalents	15.2	295.2	321.4
Derivatives	6	4.5	7.2
Investment securities	5	3,603.4	3,815.3
Receivables	7	150.0	89.6
Reinsurance recoveries		113.9	165.9
Gross policy liabilities ceded under reinsurance	9.1	514.0	572.6
Deferred tax assets	4.2	-	20.0
Total assets		4,681.0	4,992.0
Liabilities			
Derivatives	6	13.6	4.1
Amounts due to reinsurers		50.1	60.0
Payables and other liabilities	8	377.2	582.5
Life insurance contract liabilities	9.1	2,228.4	2,383.1
Life investment contract liabilities	9.1	291.4	293.7
Unvested policy owner benefit liabilities	9.1	211.8	223.4
Subordinated notes	11	100.0	100.0
Deferred tax liabilities	4.2	4.5	-
Total liabilities		3,277.0	3,646.8
Net assets		1,404.0	1,345.2
Equity			
Share capital	12	729.9	729.9
Capital notes	13	35.0	-
Retained profits		639.1	615.3
Total equity		1,404.0	1,345.2

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

STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June 2018

	Note	2018 $M	2017 $M
Share capital			
Balance at the beginning of the financial year		729.9	729.9
Balance at the end of the financial year	12	729.9	729.9
Capital notes			
Balance at the beginning of the financial year		-	-
Capital Notes issued		35.0	-
Balance at the end of the financial year	13	35.0	-
Retained profits			
Balance at the beginning of the financial year		615.3	616.2
Profit for the financial year		99.5	64.1
Total comprehensive income for the financial year		99.5	64.1
Dividends paid	3	(75.7)	(65.0)
Balance at the end of the financial year		639.1	615.3
Total equity at the end of the financial year		1,404.0	1,345.2

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

STATEMENT OF CASH FLOWS

For the financial year ended 30 June 2018

	Note	2018 $M	2017 $M
Cash flows from operating activities			
Premiums received		888.0	911.5
Claims payments and withdrawals under policies paid		(732.8)	(747.5)
Interest received		83.7	87.1
Interest paid		(4.6)	(4.9)
Reinsurance recoveries received		305.5	268.6
Outwards reinsurance premiums paid		(298.6)	(215.4)
Fees and other operating income received		2.0	22.0
Dividends and trust distributions received		21.8	22.1
Operating expenses paid		(296.4)	(403.2)
Reimbursement to related parties for income tax payments		(45.8)	(10.1)
Net cash used in operating activities	15.1	(77.2)	(69.8)
Cash flows from investing activities			
Proceeds from the sale or maturity of investment securities		1,633.5	2,847.0
Payments for acquisition of investment securities		(1,541.8)	(2,872.5)
Net cash from (used in) investing activities		91.7	(25.5)
Cash flows from financing activities			
Proceeds from issue of capital notes	13	35.0	-
Dividends paid	3	(75.7)	(65.0)
Net cash used in financing activities		(40.7)	(65.0)
Net decrease in cash and cash equivalents		(26.2)	(160.3)
Cash and cash equivalents at the beginning of the financial year		321.4	481.7
Cash and cash equivalents at the end of the financial year	15.2	295.2	321.4

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2018

1. Reporting entity

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

The financial statements were authorised for issue by the Board on 23 August 2018.

The principal activities of the Company are the provision of life insurance, superannuation and investment products and related services to the retail, corporate and commercial sectors in Australia.

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

2. Basis of preparation

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

The financial report is presented in Australian dollars which is the Company's functional and presentation currency.

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

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

Significant accounting policies applied in the preparation of the financial statements are set out in note 24.

There have been no significant changes to accounting policies during the financial year. None of the new accounting standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2017 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

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 of the Company comply with International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board.

2.2 Use of estimates and judgments

The preparation of 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:

— life insurance contract liabilities (refer to note 9.2 and 9.3)

— valuation of financial instruments (refer to note 17).

3. Dividends

	2018 Cents per share	2018 $M	2017 Cents per share	2017 $M
Dividend payments on ordinary shares				
2017 final dividend (2017: 2016 final dividend)	-	-	18	25.0
2018 interim dividend (2017: 2017 interim dividend)	55	75.0	29	40.0
Total dividends on ordinary shares paid to owners of the Company	55	75.0	47	65.0
Dividend payments on capital notes				
Issued on 24 November 2017				
March quarter	119	0.4	-	-
June quarter	98	0.3	-	-
Total dividends on capital notes	217	0.7	-	-
Dividends not recognised in the statement of financial position				
Dividends determined since reporting date				
2018 final dividend	-	-	-	-

4. Income tax

4.1 Income tax expense

	2018 $M	2017 $M
Reconciliation of prima facie to actual income tax expense		
Profit before income tax	164.7	113.1
Prima facie domestic corporation tax rate of 30% (2017: 30%)	49.4	33.9
Effect of income taxed at non-corporate tax rate	0.6	0.8
Tax effect of amounts not deductible (assessable) in calculating taxable income:		
Non-deductible expenses	18.9	20.8
Dividend adjustments	0.5	0.9
Tax exempt revenues	(0.8)	(0.8)
Current year rebates and credits	(2.9)	(4.8)
Prior year under/(over) provision	0.7	(0.9)
Other	(1.2)	(0.9)
Total income tax expense on pre-tax profit	65.2	49.0
Effective tax rate	39.6%	43.3%
Income tax expense recognised in profit consists of:		
Current tax expense		
Current tax movement	41.7	41.5
Current year rebates and credits	(2.9)	(4.8)
Adjustments for prior financial years	1.9	0.2
Total current tax expense	40.7	36.9
Deferred tax expense		
Origination and reversal of temporary differences	25.7	13.2
Adjustments for prior financial years	(1.2)	(1.1)
Total deferred tax expense	24.5	12.1
Total income tax expense	65.2	49.0

Included in income tax expense is $64.8 million (2017: $48.4 million) attributable to the Company's statutory funds.

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

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

Basis of income tax apportionment

A notional income tax expense is calculated for each product as if the product was invested within a standalone statutory fund. The difference between the notional and actual tax expense is apportioned to products having regard to their contribution to the difference.

4.2 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following.

	2018	2017	2018	2017	2018	2017
	Deferred tax assets		Deferred tax liabilities		Net	
	$M	$M	$M	$M	$M	$M
Investment securities	-	-	22.4	16.6	(22.4)	(16.6)
Gross policy liabilities	12.8	30.1	-	-	12.8	30.1
Other items	6.0	7.4	0.9	0.9	5.1	6.5
Deferred tax assets and liabilities	18.8	37.5	23.3	17.5	(4.5)	20.0
Set-off of tax	(18.8)	(17.5)	(18.8)	(17.5)	-	-
Net deferred tax liabilities	-	20.0	4.5	-	(4.5)	20.0

5. Investment securities

	2018 $M	2017 $M
Financial assets designated at fair value through profit or loss		
Unit trusts:		
Interest-bearing securities	2,101.8	2,368.8
Equity securities	553.8	564.1
Property	92.8	94.3
Other	5.6	7.3
	2,754.0	3,034.5
Interest-bearing securities	728.3	656.1
Equity securities	121.1	124.7
Total investment securities - current	3,603.4	3,815.3

6. Derivatives

	2018			2017		
	Notional value	Fair value		Notional value	Fair value	
	$M	Asset $M	Liability $M	$M	Asset $M	Liability $M
Interest rate-related contracts						
Interest rate swaps	1,800.2	1.3	1.7	2,665.8	0.1	0.1
Interest rate futures	4,690.2	1.7	3.2	430.4	3.6	0.7
Interest rate options	0.3	-	-	0.1	-	-
Swaption	26.5	-	-	11.0	-	-
	6,517.2	3.0	4.9	3,107.3	3.7	0.8
Exchange rate-related contracts						
Forward foreign exchange contracts	353.7	0.9	8.2	411.2	3.0	2.6
Cross currency swaps	0.1	-	-	1.6	0.1	-
	353.8	0.9	8.2	412.8	3.1	2.6
Equity contracts						
Equity futures	6.7	0.1	-	6.4	-	0.1
Listed property trust futures	0.6	-	-	0.5	-	-
	7.3	0.1	-	6.9	-	0.1
Credit contracts						
Credit default swaps	77.5	0.5	0.5	48.4	0.4	0.6
Total derivative exposures	6,955.8	4.5	13.6	3,575.4	7.2	4.1

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

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

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

As at 30 June 2018 there was no significant counterparty exposure to any one single entity, other than normal clearing house exposures associated with dealings through recognised exchanges.

7. Receivables

	2018 $M	2017 $M
Investments receivable	93.4	31.4
Policyowners loans	16.2	17.4
Premiums receivable	23.7	16.3
Due from related parties	2.4	9.0
Other receivables	14.3	15.5
Total receivables - current	150.0	89.6

8. Payables and other liabilities

	2018 $M	2017 $M
Investments payable	141.0	287.0
Policy claims in process of settlement	159.0	195.4
Sundry creditors and accrued expenses	45.6	51.3
Premiums in advance	6.1	5.2
Due to related parties	23.4	40.8
Other payables	2.1	2.8
Total payables and other liabilities - current	377.2	582.5

9. Life policy liabilities

9.1 Net policy liabilities

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

	Liabilities				Assets	Net
	Insurance contracts $M	Unvested policy-owner benefits $M	Invest-ment contracts $M	Gross policy liabilities $M	Gross policy liabilities ceded under RI $M	Net policy liabilities $M
Balance as at 30 June 2016	2,317.2	238.7	304.6	2,860.5	447.0	2,413.5
Movement recognised in profit or loss	174.1	-	14.1	188.2	125.6	62.6
Contributions and premiums recognised in policy liabilities	108.7	-	3.5	112.2	-	112.2
Withdrawals and claims expense recognised in policy liabilities	(216.9)	-	(28.5)	(245.4)	-	(245.4)
Movement in unvested policyowner benefits	-	(15.3)	-	(15.3)	-	(15.3)
Balance as at 30 June 2017	2,383.1	223.4	293.7	2,900.2	572.6	2,327.6
Movement recognised in profit or loss	(36.6)	-	21.4	(15.2)	(58.6)	43.4
Contributions and premiums recognised in policy liabilities	70.4	-	3.1	73.5	-	73.5
Withdrawals and claims expense recognised in policy liabilities	(188.5)	-	(26.8)	(215.3)	-	(215.3)
Movement in unvested policyowner benefits	-	(11.6)	-	(11.6)	-	(11.6)
Balance as at 30 June 2018	2,228.4	211.8	291.4	2,731.6	514.0	2,217.6

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

	Carrying amount $M	1 year or less $M	1 to 5 years $M	Over 5 years $M	No term $M	Investment linked $M	Total cash flows $M
2018							
Life insurance contract liabilities (net of reinsurance)	1,714.4	67.9	272.6	1,373.9	-	-	1,714.4
Life investment contract liabilities	291.4	2.4	6.0	10.7	-	272.3	291.4
Unvested policyowner benefits liabilities	211.8	-	-	-	211.8	-	211.8
Total	2,217.6	70.3	278.6	1,384.6	211.8	272.3	2,217.6
2017							
Life insurance contract liabilities (net of reinsurance)	1,810.5	82.6	359.6	1,368.3	-	-	1,810.5
Life investment contract liabilities	293.7	2.4	5.9	10.7	-	274.7	293.7
Unvested policyowner benefits liabilities	223.4	-	-	-	223.4	-	223.4
Total	2,327.6	85.0	365.5	1,379.0	223.4	274.7	2,327.6

9.2 Life policy liability estimation process

Policy liabilities in Australia have been calculated in accordance with APRA Prudential Standard LPS 340 *Valuation of Policy Liabilities* issued under section 230A(1) of the *Life Insurance Act 1995* (***Life Act***).

The policy liability calculations are performed by actuarial personnel, using policy data, and are approved by the Appointed Actuary, Mr Joshua Corrigan (Fellow of the Actuaries Institute of Australia).

Life insurance contract policy liabilities are determined using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles and standards, including Professional Standard 200 of the Actuaries Institute. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written.

Life insurance contract policy liabilities are determined to cover future expected claims, expenses and premiums, and ensure a release of profits as services are provided under the contracts. The profits release is controlled by a profit carrier.

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

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

9.3 Actuarial assumptions, judgements and estimates used in calculating life insurance contract liabilities

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

— Investment earnings and discount rates: based on 10-year Australian Government bond yields. Adjustments made as necessary for participating contracts.

— Voluntary discontinuance: rates are based upon recent internal investigations. Allowance is also made for cash withdrawals.

— Mortality: individual risk products: rates are based upon recent internal investigations. Retail rates are expressed as a multiple of FSC2004-08 industry incidence tables. Direct rates are expressed as a multiple of population incidence based on a variety of appropriate industry tables.

— Mortality: annuitants: Mortality rates for annuitants have been determined using the standard table IM/IF80 with adjustments for assumed future improvements. IM/IF80 was developed by the Institute and Faculty of Actuaries based on UK annuitant lives experience from 1979 to 1982.

— Morbidity – Lump Sum: rates are based on recent internal investigations. Retail rates are expressed as a multiple of FSC2004-08 industry incidence tables. Direct rates are expressed as a multiple of population incidence based on a variety of appropriate industry tables.

— Morbidity – Income Protection: rates are based on recent internal investigations. Rates incorporate FSC industry tables (FSC 2007-2011) calibrated for the Company's experience and outlook.

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

	2018 %	2017 %
Investment earnings pre-tax for participating business	3.5 - 4.2	3.6 - 4.2
Risk free pre-tax discount rates for non-participating business	1.9 - 2.9	1.6 - 2.9
Annual lapse rate (voluntary discontinuance)	0.8 - 48	4 - 40
Mortality - individual risk products retail adjustment	67 - 182	67 - 182
Mortality - individual risk products other adjustment	50 - 121	50 - 121
Mortality - annuitants adjustment	60	60
Future improvements in mortality - annuitants adjustment	97	97
Group claims ratio	76 - 97	76 - 97
Income protection claims incidence adjustment[1]	67 - 245	65 - 278
Income protection claims termination adjustment[1]	63 - 107	75 - 100

1. The retail disability income business rates are based on FSC ADI tables 2007-2011 and direct rates are based off the IAD tables.

9.4 Life insurance contract policy liabilities

	Note	Current Basis[5] 2018 $M	Previous Basis[6] 2018 $M	Prior year[7] 2017 $M
Best estimate liability				
Value of future policy benefits[1]		4,702.2	4,660.7	4,697.8
Value of future expenses[2]		1,984.5	1,891.3	1,790.2
Value of unrecouped acquisition expenses		(1,122.0)	(1,084.1)	(1,063.6)
Balance of future premiums		(4,573.0)	(4,454.9)	(4,368.7)
		991.7	1,013.0	1,055.7
Value of future profits				
Policyowner bonuses[3]		420.3	469.8	427.9
Shareholder profit margins		232.3	261.3	254.7
		652.6	731.1	682.6
Total value of declared bonuses[4]		70.1	70.1	72.2
Total net insurance policy liabilities		1,714.4	1,814.2	1,810.5
Gross policy liabilities ceded under reinsurance	9.1	514.0	531.5	572.6
Gross insurance contract liabilities	9.1	2,228.4	2,345.7	2,383.1
Policy liabilities subject to capital guarantee		1,552.8	1,559.8	1,590.8

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

2. The value of future expenses includes maintenance, claim handling and commission expenses.

3. Future bonuses exclude current period bonuses.

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

5. Using the actuarial methods and assumptions relevant at the current reporting date on current in-force business.

6. Using the actuarial methods and assumptions relevant at the previous reporting date (Dec 2017 for risk), but on current in-force business.

7. Prior year actuarial methods and assumptions applied on the prior year in-force business.

9.5 Sensitivity analysis on life insurance contract liabilities

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

		Change in life insurance contract liabilities		Profit (loss) after tax	
Variable	Change[1]	Net of RI $M	Gross of RI $M	Net of RI $M	Gross of RI $M
2018					
Maintenance expense	10% increase	6.2	4.0	(4.4)	(2.8)
Mortality and lump sum morbidity	10% increase	81.3	260.2	(56.9)	(182.2)
Morbidity – disability income	10% increase in incidence and decrease in recovery rates	100.6	325.8	(70.4)	(228.1)
Discontinuance rates	10% increase	94.7	109.1	(66.3)	(76.4)
2017					
Maintenance expense	10% increase	11.3	11.9	(7.9)	(8.3)
Mortality and lump sum morbidity	10% increase	66.5	286.7	(46.6)	(200.7)
Morbidity – disability income	10% increase in incidence and decrease in recovery rates	86.4	285.3	(60.5)	(199.7)
Discontinuance rates	10% increase	83.5	132.0	(58.4)	(92.4)

1. Sensitivity changes are relative to current best estimate assumptions.

The following table illustrates the effects of changes in actuarial assumptions (ignoring reallocation of provisions to policy liabilities and modelling changes) from 30 June 2017 to 30 June 2018.

Assumption category[1]	Future profit margins (shareholder) increase/(decrease) $M	Policy liabilities increase/(decrease) $M
Discount and earning rate (risk business)	0.6	1.0
Discount and earning rate (participating business)	(1.0)	-
Lapse and surrender rates	(26.0)	25.7
Mortality and morbidity lump sum	-	(10.8)
Morbidity income	(4.6)	25.6
Maintenance expense	42.5	(22.1)
Total	11.5	19.4

1. Numbers shown are gross of tax.

10. Other life insurance and investment contract disclosures

10.1 Summary of shareholders interests

A policyowner is one who holds a policy with the Company. The shareholder represents the Company's interest in the statutory funds. A statutory fund is a fund of a life company that relates solely to the life insurance business of that life company as defined by the *Life Act*.

	2018	2017	2018	2017	2018	2017
	Statutory funds		Shareholder fund		Total	
	$M	$M	$M	$M	$M	$M
Shareholders retained profits (accumulated losses) at the beginning of the financial year	751.3	688.4	(136.0)	(72.2)	615.3	616.2
Operating profit after tax	98.6	62.9	0.9	1.2	99.5	64.1
Dividends paid (note 3)	-	-	(75.7)	(65.0)	(75.7)	(65.0)
Shareholders retained profits (accumulated losses) at the end of the financial year	849.9	751.3	(210.8)	(136.0)	639.1	615.3
Share capital (note 12)	-	-	729.9	729.9	729.9	729.9
Capital note (note 13)	-	-	35.0	-	35.0	-
Capital transfers to statutory funds	550.8	590.9	(550.8)	(590.9)	-	-
Total shareholders equity (note 16.4)	1,400.7	1,342.2	3.3	3.0	1,404.0	1,345.2

Components of shareholders interests in statutory funds:		
Shareholders retained profits - participating business	104.2	89.0
Shareholders retained profits - non-participating business	745.7	662.3
Shareholders capital	550.8	590.9
	1,400.7	1,342.2

Shareholders access to the retained profits and shareholders capital in the statutory funds is restricted to the extent that these monies are required to meet prescribed minimum and target surplus requirements.

10.2 Allocation of operating profit

The general principles adopted in the allocation of operating profit to participating policyowners and the shareholder, which are in accordance with the *Life Act*, are as follows:

Participating business

All profits, including net investment returns on policyowners' retained profits and shareholder participating retained profits, are allocated 80 percent to policyowners and 20 percent to the shareholder.

Non-participating business

All profits, including net investment returns on shareholder capital and shareholder non-participating retained profits, are allocated to the shareholder.

10.3 Details of operating profits

	2018	2017	2018	2017	2018	2017
	Policyowners' interest		Shareholders interest		Total statutory funds	
	$M	$M	$M	$M	$M	$M
Operating profit after tax	-	-	98.6	62.9	98.6	62.9
Bonuses provided for or paid in the current period:						
Decrease in policy owner retained profits	(11.6)	(15.3)	-	-	(11.6)	(15.3)
Bonus declared and paid	70.1	72.2	-	-	70.1	72.2
***Life Act* operating profit after tax**	58.5	56.9	98.6	62.9	157.1	119.8
Sources of the operating profit:						
From non-investment linked business:						
Participating business	58.5	56.9	14.6	14.2	73.1	71.1
Non-participating business	-	-	82.1	41.4	82.1	41.4
From investment linked business:						
Non-participating business	-	-	1.9	7.3	1.9	7.3
	58.5	56.9	98.6	62.9	157.1	119.8

10.4 Distribution of retained profits

The general principles adopted in the distribution of retained profits to participating policyowners and the shareholder in accordance with the requirements in Section 62 of the *Life Act* are as follows:

— Shareholders retained profits in a statutory fund may be transferred to the shareholder fund subject to the statutory fund's capital requirements being maintained and the shareholders retained profits from participating business being at least 25 percent of policyowners' retained profits.

— Distributions of profits to participating policyowners are made in the form relevant to the type of policy. Conventional business profits are distributed by way of reversionary and terminal bonuses and investment account business profits are distributed by way of crediting interest to policyowners. These distributions are also made in accordance with the board endorsed principles of the inherited estate.

— Bonuses and interest credit for individual product lines are determined by the Company on the principle of the equitable treatment of participating policyowners.

10.5 Details of retained profits

	2018	2017	2018	2017	2018	2017
	Policyowners' interest		Shareholders interest		Total statutory funds	
	$M	$M	$M	$M	$M	$M
Retained profits at the beginning of the financial year	-	-	751.3	688.4	751.3	688.4
Liability for unvested policyowner benefits (note 9.1)	223.4	238.7	-	-	223.4	238.7
***Life Act* retained profits at the beginning of the financial year**	223.4	238.7	751.3	688.4	974.7	927.1
Life Act operating profit after income tax (note 10.3)	58.5	56.9	98.6	62.9	157.1	119.8
Provision for bonuses to participating policyowners	(70.1)	(72.2)	-	-	(70.1)	(72.2)
***Life Act* retained profits at the end of the financial year**	211.8	223.4	849.9	751.3	1,061.7	974.7
Policyowner retained profits at the end of the financial year (note 9.1)	(211.8)	(223.4)	-	-	(211.8)	(223.4)
Retained profits at the end of the financial year	-	-	849.9	751.3	849.9	751.3
Components of *Life Act* retained profits at the end of the financial year						
Policyowners' interests (note 9.1)	211.8	223.4	-	-	211.8	223.4
Shareholders interests in participating business	-	-	104.2	89.0	104.2	89.0
Shareholders interests in non-participating business	-	-	745.7	662.3	745.7	662.3
	211.8	223.4	849.9	751.3	1,061.7	974.7

10.6 Statement of sources of operating profit

	2018			2017		
	Life insurance contracts $M	**Other contracts $M**	**Total statutory funds $M**	**Life insurance contracts $M**	**Other contracts $M**	**Total statutory funds $M**
***Life Act* shareholders operating profit after tax in the statutory funds**[1]						
Represented by:						
Investment earnings on shareholders retained profits and capital	23.7	0.1	23.8	2.4	0.3	2.7
Emergence of shareholders planned profits	29.8	-	29.8	23.6	-	23.6
Experience profit	15.5	-	15.5	12.6	-	12.6
Losses reversed (capitalised)[2]	27.7	-	27.7	17.0	-	17.0
Management services profit	-	1.8	1.8	-	7.0	7.0
	96.7	1.9	98.6	55.6	7.3	62.9
***Life Act* policyowners operating profit after tax in the statutory funds**						
Represented by:						
Investment earnings on retained profits	11.8	-	11.8	11.7	-	11.7
Emergence of policyowner planned profits	49.2	-	49.2	39.5	-	39.5
Experience profit (loss)	(2.5)	-	(2.5)	0.2	-	0.2
Losses reversed (capitalised)[2]	-	-	-	5.5	-	5.5
	58.5	-	58.5	56.9	-	56.9

1. *Life Act* shareholders operating profit after tax includes profit after tax from shareholders fund of $0.9 million (2017: $1.2 million).

2. Total cumulative capitalised losses carried forward at 30 June 2018 were $52.9 million (30 June 2017: $110.8 million).

11. Subordinated notes

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

	2018 $M	2017 $M
Tier 2 capital: LAGIC fully compliant subordinated notes		
$AUD 100.0 million subordinated notes	100.0	100.0
Total Tier 2 capital: LAGIC fully compliant subordinated notes	100.0	100.0
Total subordinated notes - non-current	100.0	100.0

LAGIC fully compliant subordinated notes

	Margin above 90 day BBSW	Maturity date	Holder conversion date	Optional redemption date	Issue date	2018 Number on issue	2017 Number on issue
Subordinated notes	285 bps	22 Nov 2023	n/a	22 Nov 2018	22 Aug 2013	1,000,000	1,000,000

The subordinated notes are issued to ultimate parent entity, Suncorp Group Limited. The subordinated notes pay quarterly, cumulative non-deferrable interest payments at a floating rate equal to the sum of the three-month bank bill swap rate and the margin.

The issuer has the option to redeem the instrument on the optional redemption date and for certain tax and regulatory events (in each case subject to APRA's prior written approval). Holders of the subordinated notes cannot require the Company to redeem all or some of the subordinated notes before the maturity date.

If APRA determines that a non-viability event has occurred in relation to the Company, all (or in some circumstances, some) of the subordinated notes will be immediately converted into the Company's ordinary shares (or, if conversion cannot by effected for any reason within five business days, written off).

The rights of the holder will rank in preference to the rights of its ordinary shareholders, and capital notes holders and will rank equally against all other subordinated note holders.

12. Share capital

	2018		2017	
	No. of shares	$M	No. of shares	$M
Balance at the beginning of the financial year	135,902,393	729.9	135,902,393	729.9
Balance at the end of the financial year	135,902,393	729.9	135,902,393	729.9

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.

13. Capital notes

		2018		2017	
	Margin above 90 day BBSW	No. of notes	$M	No. of notes	$M
Issued on 24 November 2017	365 bps	350,000	35.0	-	-
Balance at the end of the financial year		350,000	35.0	-	-

The capital notes are eligible Additional Tier 1 instruments both in transitional and post-transitional LAGIC rules. They are fully paid perpetual, subordinated, unsecured notes and issued to the immediate parent entity, Suncorp Life Holdings Limited.

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

If APRA determines that a non-viability event has occurred in relation the company, all (or in some circumstances, some) of the instruments will be converted into the Company's ordinary shares or written off.

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

14. Capital management

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

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

The Company is required to hold prudential reserves over and above its life insurance contract and investment contract liabilities, as a buffer against adverse experience and poor investment returns.

All APRA authorised life insurance companies are subject to Prescribed Capital Amounts (**PCA**). The PCA is the minimum level of capital that the regulator deems must be held to meet policyowner obligations. The Company calculates the PCA using the standardised frameworks in accordance with the relevant APRA Prudential Standards.

In addition to the regulatory capital requirements, the Company maintains a target surplus providing additional capital buffer against adverse events. The Company uses internal capital models to determine its target surplus, with the models reflecting the various key risks of the business. These mainly include the risk of adverse asset movements relative to the liabilities and of worse than expected claims costs.

The PCA requirements and coverage ratio of the Company are as follows:

2018	Statutory Fund No.1 $M	Statutory Fund No.2 $M	Total statutory funds $M	Shareholder Fund $M	Total $M
Capital base					
Net assets as per the *Life Act*	1,395.7	5.1	1,400.8	3.2	1,404.0
Total regulatory adjustments to net assets	(1,080.1)	-	(1,080.1)	-	(1,080.1)
Tier 2 capital	100.0	-	100.0	-	100.0
Total capital base	415.6	5.1	420.7	3.2	423.9
Prescribed capital amounts					
Insurance risk capital charge	-	-	-	-	-
Asset risk charge	76.7	0.2	76.9	-	76.9
Operational risk charge	30.6	0.7	31.3	-	31.3
Aggregation benefit	-	-	-	-	-
Combined stress scenario adjustment	67.2	-	67.2	-	67.2
Total PCA	174.5	0.9	175.4	-	175.4
PCA coverage ratios (times)	2.4	6.0	2.4	108.3	2.4
2017					
Capital base					
Net assets as per the *Life Act*	1,328.9	13.3	1,342.2	3.0	1,345.2
Total regulatory adjustments to net assets	(1,048.4)	-	(1,048.4)	-	(1,048.4)
Tier 2 capital	100.0	-	100.0	-	100.0
Total capital base	380.5	13.3	393.8	3.0	396.8
Prescribed capital amounts					
Insurance risk capital charge	4.5	-	4.5	-	4.5
Asset risk charge	78.0	0.6	78.6	0.1	78.7
Operational risk charge	30.3	0.7	31.0	-	31.0
Aggregation benefit	(3.5)	-	(3.5)	-	(3.5)
Combined stress scenario adjustment	57.1	-	57.1	-	57.1
Total PCA	166.4	1.3	167.7	0.1	167.8
PCA coverage ratios (times)	2.3	10.2	2.3	43.0	2.4

Sensitivity tests are performed on a quarterly basis to ascertain the ability of the Company to withstand various adverse asset shock scenarios.

15. Notes to the statement of cash flows

15.1 Reconciliation of cash flows from operating activities

	2018 $M	2017 $M
Profit for the financial year	99.5	64.1
Non-cash items		
Change in fair value relating to investing and financing activities	(75.6)	(54.5)
Change in operating assets and liabilities		
Net movement in tax assets and liabilities	24.5	12.1
Decrease (increase) in receivables	1.6	(8.7)
Decrease (increase) in reinsurance recoveries	52.0	(34.9)
Decrease in payables and other liabilities	(59.3)	(4.7)
(Decrease) increase in amounts due to reinsurers	(9.9)	42.7
Decrease in net policy liabilities	(98.4)	(70.6)
Decrease in unvested policyowner benefits liabilities	(11.6)	(15.3)
Net cash used in operating activities	(77.2)	(69.8)

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

	2018 $M	2017 $M
Cash at bank	127.5	79.6
Cash held indirectly through unit trusts	141.4	189.4
Other money market placements	26.3	52.4
Total cash and cash equivalents	295.2	321.4

16. Statutory fund segment information

16.1 Restriction on assets

Investments held in the life insurance statutory funds can only be used within the restrictions imposed under the *Life Act* and the constitution of the Company. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund, or as distributions.

Profit distributions to the shareholder and policyowners are restricted by the *Life Act*. Profit distributions from participating assets can be made subject to the limit on the shareholders share of participating profits, including historic participating retained profits. Profit distributions from non-participating assets can be made provided the Company covers its minimum prescribed capital requirements, and, where the distribution exceeds current year retained profits, approval is required from APRA. In addition to the *Life Act* requirements, profit distributions are subject to the Target Surplus Policy and Appointed Actuary advice.

16.2 Segment information

The economic entity operates principally in the life insurance industry in Australia.

16.3 Statutory funds information

Details of the separate statutory funds established to account for the different types of life insurance business written by the Company are as follows:

Types of policies written	Major products	
No. 1 Statutory Fund		
Fully or partially capital guaranteed, ordinary and superannuation business	Individual:	Whole of Life, Endowment, Term Life, Investment Account, Trauma, Disability
	Group:	Group Life
	Annuities:	Immediate, Deferred
No. 2 Statutory Fund		
Investment-linked ordinary and superannuation business	Individual:	Investment-linked products
	Group:	Investment-linked products
	Annuities:	Investment-linked: Deferred

All policies written and major products are offered within Australia only.

16.4 Abbreviated financial statements at fund level for the year ended 30 June 2018

2018	Statutory Fund No.1 $M	Statutory Fund No.2 $M	Total statutory funds $M	Shareholder Fund $M	Total $M
Income statement					
Insurance premium income	821.0	-	821.0	-	821.0
Reinsurance recoveries income	253.5	-	253.5	-	253.5
Investment revenue	95.2	9.9	105.1	0.4	105.5
Investment gains	57.4	18.2	75.6	-	75.6
Fees and other income	(0.7)	0.5	(0.2)	1.0	0.8
Total revenue	1,226.4	28.6	1,255.0	1.4	1,256.4
Claims expense	(481.1)	-	(481.1)	-	(481.1)
Movement in life insurance contract policy liabilities	(22.0)	-	(22.0)	-	(22.0)
Movement in life investment contract policy liabilities	(1.6)	(19.8)	(21.4)	-	(21.4)
Movement in unvested policyowner benefits liabilities	11.6	-	11.6	-	11.6
Outwards reinsurance premium expense	(288.7)	-	(288.7)	-	(288.7)
Operating expenses and taxes paid	(282.4)	(3.0)	(285.4)	(0.1)	(285.5)
Interest expense	(4.6)	-	(4.6)	-	(4.6)
Total expenses	(1,068.8)	(22.8)	(1,091.6)	(0.1)	(1,091.7)
Profit before tax	157.6	5.8	163.4	1.3	164.7
Income tax expense	(61.0)	(3.8)	(64.8)	(0.4)	(65.2)
Profit after tax	96.6	2.0	98.6	0.9	99.5
Statement of financial position					
Cash and cash equivalents	261.5	33.2	294.7	0.5	295.2
Investment securities and derivative assets	3,348.5	256.4	3,604.9	3.0	3,607.9
Gross policy liabilities ceded under reinsurance	514.0	-	514.0	-	514.0
Other assets	259.3	4.5	263.8	0.1	263.9
Total assets	4,383.3	294.1	4,677.4	3.6	4,681.0
Gross policy liabilities	2,247.5	272.3	2,519.8	-	2,519.8
Unvested policyowner benefit liabilities	211.8	-	211.8	-	211.8
Subordinated notes	100.0	-	100.0	-	100.0
Other liabilities	428.4	16.7	445.1	0.3	445.4
Total liabilities	2,987.7	289.0	3,276.7	0.3	3,277.0
Net assets	1,395.6	5.1	1,400.7	3.3	1,404.0
Share capital	-	-	-	729.9	729.9
Capital Notes	-	-	-	35.0	35.0
Capital transfers	556.8	(6.0)	550.8	(550.8)	-
Retained profits (accumulated losses)	838.8	11.1	849.9	(210.8)	639.1
Total equity	1,395.6	5.1	1,400.7	3.3	1,404.0

16.5 Abbreviated financial statements at fund level for the year ended 30 June 2017

2017	Statutory Fund No.1 $M	Statutory Fund No.2 $M	Total statutory funds $M	Shareholder Fund $M	Total $M
Income statement					
Insurance premium income	804.7	-	804.7	-	804.7
Reinsurance recoveries income	303.5	-	303.5	-	303.5
Investment revenue	96.9	9.6	106.5	0.3	106.8
Investment gains	40.7	13.8	54.5	-	54.5
Fees and other income	1.7	22.5	24.2	1.7	25.9
Total revenue	1,247.5	45.9	1,293.4	2.0	1,295.4
Claims expense	(519.2)	-	(519.2)	-	(519.2)
Movement in life insurance contract policy liabilities	(48.5)	-	(48.5)	-	(48.5)
Movement in life investment contract policy liabilities	(1.2)	(12.9)	(14.1)	-	(14.1)
Movement in unvested policyowner benefits liabilities	15.3	-	15.3	-	15.3
Outwards reinsurance premium expense	(258.1)	-	(258.1)	-	(258.1)
Operating expenses and taxes paid	(330.7)	(21.9)	(352.6)	(0.2)	(352.8)
Interest expense	(4.9)	-	(4.9)	-	(4.9)
Total expenses	(1,147.3)	(34.8)	(1,182.1)	(0.2)	(1,182.3)
Profit before tax	100.2	11.1	111.3	1.8	113.1
Income tax expense (benefit)	(44.6)	(3.8)	(48.4)	(0.6)	(49.0)
Profit after tax	55.6	7.3	62.9	1.2	64.1
Statement of financial position					
Cash and cash equivalents	256.2	64.3	320.5	0.9	321.4
Investment securities and derivative assets	3,556.7	259.8	3,816.5	6.0	3,822.5
Gross policy liabilities ceded under reinsurance	572.6	-	572.6	-	572.6
Other assets	268.6	5.6	274.2	1.3	275.5
Total assets	4,654.1	329.7	4,983.8	8.2	4,992.0
Gross policy liabilities	2,402.0	274.8	2,676.8	-	2,676.8
Unvested policyowner benefit liabilities	223.4	-	223.4	-	223.4
Subordinated notes	100.0	-	100.0	-	100.0
Other liabilities	599.8	41.6	641.4	5.2	646.6
Total liabilities	3,325.2	316.4	3,641.6	5.2	3,646.8
Net assets	1,328.9	13.3	1,342.2	3.0	1,345.2
Share capital	-	-	-	729.9	729.9
Capital transfers	586.8	4.1	590.9	(590.9)	-
Retained profits (accumulated losses)	742.1	9.2	751.3	(136.0)	615.3
Total equity	1,328.9	13.3	1,342.2	3.0	1,345.2

17. Financial instruments

17.1 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 Company can access at the measurement date.

— Level 2: derived from other than quoted prices included within Level 1 that are observable for the financial instruments, either directly or indirectly.

— Level 3: fair value measurement is not based on observable market data.

Financial assets and liabilities measured at fair value

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

	2018				2017			
	Level 1 $M	Level 2 $M	Level 3 $M	Total $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Financial assets								
Investment securities	1,121.0	2,276.9	205.5	3,603.4	1,077.6	2,565.8	171.9	3,815.3
Derivatives	2.7	1.8	-	4.5	4.0	3.2	-	7.2
	1,123.7	2,278.7	205.5	3,607.9	1,081.6	2,569.0	171.9	3,822.5
Financial liabilities								
Life investment contract liabilities	-	291.4	-	291.4	-	293.7	-	293.7
Derivatives	3.7	9.9	-	13.6	1.4	2.7	-	4.1
	3.7	301.3	-	305.0	1.4	296.4	-	297.8

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

There have been no significant transfers between Level 1 and Level 2 during the 2018 and 2017 financial years. Transfers are deemed to have occurred at the end of the financial year.

Level 3 financial assets consist of investments in infrastructure assets (held via unlisted trusts) of $205.5 million (2017: $171.9 million).

The fair value of investments in infrastructure assets (held via unlisted trusts) classified at Level 3 is determined by the Group's share of the reported net asset value of the unlisted trusts, as advised by the external investment manager. The infrastructure assets held in the unlisted trusts are independently valued in accordance with AASB 13 *Fair value measurement.* During the financial year, additional units were purchased for $15.2 million (2017: $6.0 million) and a $18.4 million (2017: $0.3 million) fair value gain was recognised through profit or loss. No sales were made in the current or prior financial years.

Financial assets and liabilities not measured at fair value

Subordinated notes are carried at amortised cost of $100.0 million (2017: $100.0 million). The fair value is $101.0 million (2017: $103.2 million) and is based on a quoted price of a comparable security (Level 2).

For all other financial assets and liabilities not recognised and measured at fair value, carrying value is a reasonable approximation of fair value.

17.2 Master netting or similar arrangements

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

Outstanding investment settlements

- Offsetting has been applied to investment receivable and investment settlements where the Company has a legally enforceable right to set-off and netting of payments or receipts apply. In the statement of financial position, Investments receivable is included in 'Receivables' and the Investments payable is included in 'Payables and other liabilities'.

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

	Amounts subject to master netting or similar arrangements						
			Related amounts not offset on the SoFP				
	Gross amounts $M	Offsetting applied $M	Financial instruments $M	Financial collateral received/ pledged $M	Net exposure $M	Amounts not subject to master netting or similar arrangements $M	Total $M
2018							
Financial assets							
Derivatives	4.5	-	(2.4)	-	2.1	-	4.5
Investments receivable[1]	213.9	(120.5)	-	-	93.4	-	93.4
Total	218.4	(120.5)	(2.4)	-	95.5	-	97.9
Financial liabilities							
Derivatives	10.7	-	(2.4)	(2.9)	5.4	2.9	13.6
Investments payable[2]	261.5	(120.5)	-	-	141.0	-	141.0
Total	272.2	(120.5)	(2.4)	(2.9)	146.4	2.9	154.6
2017							
Financial assets							
Derivatives	6.0	-	(1.8)	-	4.2	1.2	7.2
Investments receivable[1]	155.6	(124.2)	-	-	31.4	-	31.4
Total	161.6	(124.2)	(1.8)	-	35.6	1.2	38.6
Financial liabilities							
Derivatives	3.4	-	(1.8)	(0.4)	1.2	0.7	4.1
Investments payable[2]	411.2	(124.2)	-	-	287.0	-	287.0
Total	414.6	(124.2)	(1.8)	(0.4)	288.2	0.7	291.1

1. Included as part of 'Receivables' in the statement of financial position.

2. Included as part of 'Payables and other liabilities' in the statement of financial position.

18. Risk management objectives and structure

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

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

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

— the Suncorp Group's risk appetite framework and its link to strategic business and capital plans

— accountabilities and governance arrangements for the management of risk within the Three Lines of Defence model

— the risk management process.

The Three Lines of Defence model of accountability involves:

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

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

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

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

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

The material risks addressed by the ERMF are defined below.

Key risks	Definition
Strategic risk	Strategic risk is the most fundamental of business risks. At its most basic, it is the risk associated with Suncorp Group's operating model and how it seeks to position itself strategically. Strategic risk threatens the viability of the operating model and our strategic position and emerges from external changes and the execution of Suncorp Group's strategy.
Financial risk	Financial risks include credit and counterparty, market, asset and liability and liquidity risks. Credit and counterparty is the risk that the other party in an agreement will default/will not meet its contractual obligations in accordance with agreed terms. Market risk is the risk of unfavourable changes in foreign exchange rates, interest rates, equity prices, credit spreads, commodity prices, and market volatilities. Asset and liability risk is the risk to earnings and capital from mismatches between assets and liabilities with varying maturity and repricing profiles and from mismatches in term. Liquidity risk is the risk that the Suncorp Group will be unable to service its cash flow obligations today or in the future.
Insurance risk	The risk that for any class of risk insured, the present value of actual claims payable, will exceed the present value of actual premium revenues generated (net of reinsurance).
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes legal risk but excludes strategic and reputational risks.
Compliance risk	The risk of legal or regulatory sanctions, financial loss, or loss to reputation which the Suncorp Group may suffer as a result of its failure to comply with all applicable regulations, codes of conduct and good practice standards.

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

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

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

- note 19 insurance risk management
- notes 19.3 to 19.5 risk management for financial instruments: credit, liquidity and market risks
- note 6 derivatives.

19. Insurance risk management

19.1 Managing insurance risk

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

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

The Board receives the Financial Condition Report from the Appointed Actuary which reports on a number of areas including the management of insurance risk within the entity. The actuary also provides advice in relation to pricing, issuing of new policies and reinsurance arrangements in accordance with APRA Prudential Standards.

19.2 Terms and conditions of insurance contracts

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

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

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

19.3 Credit risk

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

Key sources of credit risk	How are these managed
Investments in financial instruments	Investments in financial instruments in the investment portfolios are held in accordance with the investment mandates. Credit limits have been established within these guidelines to ensure counterparties have appropriate credit ratings. An investment framework is in place that sets and monitors investment strategies and arrangements.
Reinsurance recoveries receivables	Credit risk with respect to reinsurance programs is minimised by placement of cover with a number of reinsurers with strong credit ratings. Eligible recoveries under reinsurance arrangements are monitored and managed internally.

The carrying amount of the relevant asset classes in the statement of financial position represents the maximum amount of credit exposures as at the end of the financial year, except for derivatives. The fair value of derivatives recognised in the statement of financial position represents the current risk exposure, but not the maximum risk exposure. The notional value and fair value of derivatives are illustrated in note 6.

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

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

	Credit Rating							
	AAA $M	AA $M	A $M	BBB $M	Non-investment grade $M	Not rated $M	Investment linked business $M	Total $M
2018								
Cash and cash equivalents	-	141.6	120.9	-	-	-	32.7	295.2
Derivatives	-	1.7	2.7	-	-	-	0.1	4.5
Interest-bearing investment securities	1,223.9	930.3	329.5	170.4	5.7	74.3	96.0	2,830.1
Receivables	77.7	5.2	2.4	1.2	-	60.2	3.3	150.0
Reinsurance recoveries	-	113.9	-	-	-	-	-	113.9
	1,301.6	1,192.7	455.5	171.6	5.7	134.5	132.1	3,393.7
2017								
Cash and cash equivalents	-	204.4	76.8	-	-	-	40.2	321.4
Derivatives	-	5.6	0.8	0.2	-	-	0.6	7.2
Interest-bearing investment securities	1,256.2	1,077.7	359.3	172.4	18.1	41.4	99.8	3,024.9
Receivables	6.5	8.4	2.7	3.5	-	65.2	3.3	89.6
Reinsurance recoveries	-	165.9	-	-	-	-	-	165.9
	1,262.7	1,462.0	439.6	176.1	18.1	106.6	143.9	3,609.0

The following table provides information regarding the carrying value of financial assets that have been impaired and the aging of those that are past due but not impaired at the reporting date. An amount is considered to be past due when a contractual payment falls overdue by one or more days. When an amount is classified as past due, the entire balance is disclosed in the past due analysis.

	Neither past due nor impaired $M	Past due but not impaired 0-3 mths $M	3-6 mths $M	6-12 mths $M	> 12 mths $M	Impaired $M	Total $M
2018							
Premiums receivable	-	23.7	-	-	-	-	23.7
Reinsurance recoveries	91.8	15.2	3.0	1.3	2.6	-	113.9
	91.8	38.9	3.0	1.3	2.6	-	137.6
2017							
Premiums receivable	-	16.3	-	-	-	-	16.3
Reinsurance recoveries	123.1	34.6	3.2	1.6	3.4	-	165.9
	123.1	50.9	3.2	1.6	3.4	-	182.2

19.4 Liquidity risk

The key objective of the Company's liquidity and funding management is to ensure that it has sufficient available liquidity to meet the Company's current and future obligations under both normal and stressed liquidity environments, and does not introduce an unacceptable level of funding risk. The following key facilities and arrangements are in place to mitigate liquidity risks:

- investment portfolio mandates provide sufficient cash deposits to meet day-to-day obligations.
- regularity of premiums received provides substantial liquidity to meet claim payments and associated expenses as they arise; and
- flexibility in investment strategies implemented for investment management to provide sufficient liquidity to meet claim payments as they fall due, based on actuarial assumptions.

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

The contractual maturity information is not necessarily used in the liquidity management of the balance sheet. Additional factors as described above are considered when managing the maturity profiles of the business.

	Carrying amount $M	1 year or less $M	1 to 5 years $M	Over 5 years $M	Investment linked $M	Total cash flows $M
2018						
Derivatives liabilities (net settled)	13.6	13.1	1.3	0.3	0.5	15.2
Amounts due to reinsurers	50.1	50.1	-	-	-	50.1
Payables and other liabilities	218.2	218.2	-	-	-	218.2
Policy claims in process of settlement	159.0	159.0	-	-	-	159.0
Subordinated notes[1]	100.0	101.9	-	-	-	101.9
Total	540.9	542.3	1.3	0.3	0.5	544.4
2017						
Derivatives liabilities (net settled)	4.1	1.8	-	0.1	1.4	3.3
Amounts due to reinsurers	60.0	60.0	-	-	-	60.0
Payables and other liabilities	387.1	387.1	-	-	-	387.1
Policy claims in process of settlement	195.4	195.4	-	-	-	195.4
Subordinated notes[1]	100.0	4.6	100.7	-	-	105.3
Total	746.6	648.9	100.7	0.1	1.4	751.1

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

19.5 Market risk

Market risk arises from mismatches between asset returns and guaranteed liability returns, adverse movements in market prices affecting fee income on investment-linked policies and from returns obtained from the investment of shareholders capital held in the Company.

The management of market risk is most critical for products which involve the investment of significant amounts of money to meet future liabilities and where the returns on those assets either accrue to the shareholder or are not necessarily able to be passed on to policyowners in a timely manner. This includes, for example, assets backing disability income reserves for open claims and participating business. For some non-participating insurance products, such as unit-linked products, market risks are passed on to the policyowners, although as noted, the shareholders fee revenue may be adversely affected by market falls.

(a) Foreign exchange risk

The statutory funds of the Company invest in overseas assets. In the investment-linked funds any investment returns, whether positive or negative, are passed on to the policyowners. Various guarantees are provided by the non-investment-linked statutory funds, principally in relation to capital and declared interest. The relevant statutory funds maintain reserves in accordance with APRA Prudential Standards to meet the risk associated with diminution of value associated with foreign exchange risk.

The Company invests a portion of investment assets either directly or indirectly in global equities with foreign currency exposure managed by entering into forward foreign exchange and futures contracts.

The table below discloses the exposure of the forward foreign exchange contracts as at 30 June 2018.

A sensitivity analysis showing the impact on profit or loss for changes in foreign exchange rates for exposures as at the reporting date with all other variables including foreign exchange rates and policy liabilities remaining constant are shown in the table below. There is no impact on equity reserves. Part of the profit or loss impact of the asset movement would be absorbed by the movement of policy liabilities.

Investment-linked business is excluded from the analysis as there is no residual foreign exchange rate exposure to the shareholder. The movements in foreign exchange rates used in the sensitivity analysis for 2018 reflect the assessment of the reasonable possible changes in foreign exchange rates over the next twelve months given renewed observations and experience in the investment markets during the financial year.

	2018			2017		
	Exposure at 30 June $M	Change in FX rate %	Profit (loss) after tax[1] $M	Exposure at 30 June $M	Change in FX rate %	Profit (loss) after tax[1] $M
USD	155.1	+10	9.9	176.2	+10	11.7
		-10	(12.1)		-10	(12.8)
Other	114.7	+12	8.7	121.6	+12	8.6
		-12	(10.9)		-12	(12.3)

1. After tax impact on profit (loss) using the corporate tax rate of 30%. The after tax impact on shareholder profit for assets backing participating business will vary. Within the profit (loss) after tax numbers, no allowance has been made for subsequent consideration on bonus declarations for participating business based on the investment performance of the underlying assets.

(b) Interest rate risk

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

Interest rate risk arises in respect of financial assets held in the shareholders fund and the life statutory funds over liabilities. This is combined with an economic mismatch between the timing of payments to life insurance and life investment contract holders and the duration of the assets held in the statutory funds to back these liabilities.

The sensitivity of profit or loss after tax to movements in interest rates in relation to interest-bearing securities held at the reporting date is shown in the table below. There is no impact on equity reserves. It is assumed that all residual exposures for the shareholder after tax are included in the sensitivity analysis, that the percentage point change occurs at the reporting date and there are concurrent movements in interest rates and parallel shifts in the yield curves. The value of the policy liabilities is assumed to be unchanged. Part of the profit or loss impact of the asset movement would be absorbed by the movement of policy liabilities.

Where the liability to the investment contract holder is directly linked to the value of assets held to back that liability there is no residual interest rate exposure to the shareholder. Accordingly, investment-linked business is excluded from the analysis below.

The movements in interest rates used in the sensitivity analysis for 2018 have been reviewed to reflect an updated assessment of the reasonable possible changes in interest rates over the next twelve months, given renewed observations and experience in the investment markets during the financial year

	2018			2017		
	Exposure at 30 June $M	**Change in interest rate bp**	**Profit (loss) after tax[1] $M**	**Exposure at 30 June $M**	**Change in interest rate bp**	**Profit (loss) after tax[1] $M**
Interest-bearing investment securities	2,734.1	+100	(65.6)	2,925.1	+100	(58.3)
		-50	35.3		-50	31.6
Subordinated notes	100.0	+100	(0.7)	100.0	+100	(0.7)
		-50	0.4		-50	0.4
Policyowner loans	16.2	+100	0.1	17.4	+100	0.1
		-50	(0.1)		-50	(0.1)

1. After tax impact on profit (loss) using the corporate tax rate of 30%. The after tax impact on shareholder profit for assets backing participating business will vary. Within the profit (loss) after tax numbers, no allowance has been made for subsequent consideration on bonus declarations for participating business based on the investment performance of the underlying assets.

(c) Equity risk

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

The table below presents a sensitivity analysis showing the impact on profit or loss for price movements for exposures as at the reporting date with all other variables, including policy liabilities, remaining constant. There is no impact on equity reserves. Part of the profit or loss impact of the asset movement would be absorbed by the movement of policy liabilities.

Investment-linked business is excluded from the analysis as there is no residual equity price exposure to the shareholder. The movements in equity prices used in the sensitivity analysis for 2018 have been reviewed to reflect an updated assessment of the reasonable possible changes in equity prices over the next twelve months, given renewed observations and experience in the investment markets during the financial year.

	2018			2017		
	Exposure at 30 June $M	Change in equity prices %	Profit (loss) after tax[1] $M	Exposure at 30 June $M	Change in equity prices %	Profit (loss) after tax[1] $M
Australian equities and unit trusts	373.0	+10	26.1	359.5	+10	25.2
		-20	(52.2)		-20	(50.3)
International equities and unit trusts	113.7	+10	8.0	139.9	+10	9.8
		-20	(15.9)		-20	(19.6)

1. After tax impact on profit (loss) using the corporate tax rate of 30%. The after tax impact on shareholder profit for assets backing participating business will vary. Within the profit (loss) after tax numbers, no allowance has been made for subsequent consideration on bonus declarations for participating business based on the investment performance of the underlying assets.

(d) Credit spread risk

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

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

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

	2018			2017		
	Exposure at 30 June $M	Change in credit spread %	Profit (loss) after tax[1] $M	Exposure at 30 June $M	Change in credit spread %	Profit (loss) after tax[1] $M
Credit exposure (excluding semi-government)	1,224.1	+80	(15.4)	1,501.3	+70	(15.7)
		-20	3.9		-30	6.9
Credit exposure (semi-government)	126.2	+40	(1.9)	173.4	+40	(2.9)
		-15	0.7		-15	1.2

1. After tax impact on profit (loss) using the corporate tax rate of 30%. The after tax impact on shareholder profit for assets backing participating business will vary. Within the profit (loss) after tax numbers, no allowance has been made for subsequent consideration on bonus declarations for participating business based on the investment performance of the underlying assets.

20. Subsidiaries

The Company has a controlling interest in the following investment trusts and they are accounted for as financial assets designated at fair value through profit or loss (refer to notes 17 and 24.6).

	2018 Holding %	2017 Holding %
Suncorp Group Global Convertible Bonds Trust	100	100
Suncorp Group Australian Cash Enhanced Trust	83	97

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

21.1 KMP disclosures

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

Total compensation for KMP are as follows:

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

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

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

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

21.2. Related party transactions with subsidiaries and other related parties

During the financial year, Suncorp Portfolio Services Limited (**SPSL**), a related party of the Company, acted as licensed trustee in relation to various superannuation policies issued by the Company. The activities of SPSL are managed separately from the operations of the Company.

The intermediate parent entity is Suncorp Life Holdings Limited and the ultimate parent entity in the wholly-owned group is Suncorp Group Limited. The Company has related party relationships with its ultimate parent entity and its subsidiaries (note 20), its KMP (note 21.1) and other entities within the Suncorp Group (which consists of Suncorp Group Limited and its subsidiaries).

Transactions between the Company and other related parties in the Suncorp Group consist of interest received on deposits and investment securities held, dividends received and paid, finance costs, fees received and paid for administrative, information technology and property and portfolio management services, and finance facilities. The Company's primary banking facilities are held with Suncorp-Metway Limited, a subsidiary of the ultimate parent entity. All these transactions were on a normal commercial basis.

	2018 $'000	2017 $'000
The aggregate amounts included in the determination of profit or loss before tax that resulted from transactions with related parties are:		
Investment revenue:		
Subsidiaries	37,548	57,887
Other related parties	77,266	66,172
	114,814	124,059
Fees and other income:		
Other related parties	1,050	1,151
Operating expenses:		
Other related parties	143,999	190,487
Interest expense:		
Other related parties	4,587	4,941
Aggregate amounts receivable from, and payable to, each class of related parties at reporting date:		
Cash and cash equivalents:		
Subsidiaries	35,281	60,680
Other related parties	231,558	203,355
	266,839	264,035
Investment securities:		
Subsidiaries	1,273,260	1,306,519
Other related parties	1,080,172	1,117,666
	2,353,432	2,424,185
Receivables:		
Other related parties	2,427	8,967
Payables and other liabilities:		
Other related parties	23,423	40,774
Subordinated notes:		
Other related parties	100,000	100,000

22. Auditor's remuneration

	2018 $'000	2017 $'000
KPMG Australia		
Audit of the financial report	371	471
Other regulatory audits	103	89
Other assurance services	-	225
Total auditor's remuneration	474	785

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

23. Contingent assets and liabilities

23.1 Contingent assets

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

23.2 Contingent liabilities

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

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

- In the ordinary course of business, the Company 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.
- The Company is a member of a tax-consolidated group, and is jointly and severally liable for the income tax obligations of that group in the event that the head entity of the group defaults in its payment obligations to the Australian Tax Office. The tax sharing agreements have effect to limit these joint and several liabilities to an amount relative to its contribution to group profit. The head entity has not been in default of its payment obligations and the directors are of the opinion that the probability of default is remote.

24. Significant accounting policies

The significant accounting policies set out below have been consistently applied to all periods presented in these financial statements.

Under the *Life Act*, life insurance business is conducted within one or more separate statutory funds, which are distinguished from each other and from the shareholder fund. The financial report of the Company is prepared in accordance with AASB 1038 *Life Insurance Contracts* and shows all major components of the financial statements disaggregated between the various life insurance statutory funds and the shareholder fund, as well as between investment-linked business and those relating to non-investment-linked business. The assets of the Company are allocated between the policyowners and shareholder funds with all assets, liabilities, revenues and expenses recognised in the financial statements, irrespective of whether they are policyowner or shareholder owned.

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

24.1 Foreign currency

Transactions denominated in foreign currencies are translated into the functional currency 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 in profit or loss 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.

24.2 Revenue and expense recognition

(a) Premium revenue

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

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

(b) Reinsurance recoveries

Policy claims recoverable from reinsurers are recognised as revenue at the time they come into effect in accordance with the reinsurance treaties.

For proportional reinsurance cover, recoveries are recognised when the direct claims to the policyowners are recognised. For non-proportional reinsurance, recoveries are recognised when the total claims under the treaty have reached the level where the reinsurance takes effect. Once the limit is reached then reinsurance recoveries are recognised when the direct claims to the policyowners are recognised.

(c) Claims expense

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

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

(d) Outwards reinsurance premium expense

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

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

(e) Fair value gains and losses

Fair value gains and losses from financial assets and liabilities at fair value through profit or loss are recognised as they occur.

(f) Dividends and distribution income

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

(g) Fees and other income

Fees and other income is recognised as services are provided.

(h) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method.

(i) Basis of expense apportionment

Life insurance expenditure has been apportioned to the different classes of business in accordance with Division 2 of Part 6 of the *Life Act*. The expense apportionment basis is in line with the principles set out in APRA Prudential Standard LPS 340 *Valuation of Policy Liabilities*.

Expenses excluding investment management fees, which are directly identifiable, have been apportioned between policy acquisition and policy maintenance on the basis of the objective when incurring expense and the outcome achieved. Where apportionment is not feasible between the disclosure categories, expenses have been apportioned as maintenance expenses. Expenses which are directly attributable to an individual policy or product are apportioned directly to the statutory fund within which the class of business to which that policy or product belongs. All indirect expenses charged to profit or loss accounts are equitably apportioned to each class of business.

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

24.3 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 Company to take into account the impact of uncertain tax positions. For such uncertainties, the Company relies on estimates and assumptions about future events.

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

Tax consolidation

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

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

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 Company fully compensates SGL for any current tax payable assumed. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities, at call.

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.

24.4 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.

24.5 Cash and cash equivalents

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

24.6 Non-derivative financial assets

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

Financial assets at fair value through profit or loss are classified as either held for trading or are designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy.

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

The Company's financial assets at fair value through profit or loss within its statutory funds include investment securities.

(b) Loans and other receivables

Loans and other receivables are financial assets with fixed and determinable payments that are not quoted in an active market. They are initially recognised on the date they are originated.

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

(c) Derecognition of financial assets

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

24.7 Derivatives

The Company holds derivatives to hedge the Company's assets and liabilities or as part of the Company's investment activities.

All derivatives are initially recognised at fair value on trade date. Transaction costs are recognised in profit or loss as incurred. Derivatives are classified and accounted for as held for trading financial assets at fair value through profit and loss (note 24.6(a)).

24.8 Receivables

Policy claims recoverable from reinsurers are recognised as revenue at the time they come into effect in accordance with the reinsurance treaties.

24.9 Assets backing life insurance and life investment liabilities

The assets of the Company are assessed under AASB 1038 *Life Insurance Contracts* to be assets that are held to back life insurance policy liabilities and assets that represent shareholder funds.

The Company has determined that all financial assets held within its statutory funds are assets backing policy liabilities. These financial assets include investment securities that are designated as fair value through profit or loss as they are managed and their performance evaluated on a fair value basis for internal and external reporting in accordance with the investment strategy.

24.10 Deferred acquisition costs

Deferred acquisition costs for life insurance contracts represent the fixed and variable costs of acquiring new business and include commissions, certain advertising and underwriting costs. These costs are implicitly deferred through Margin on Service (**MoS**) accounting and recognised in the statement of financial position as a reduction in life insurance contract liabilities. The amount deferred is subject to an overall limit such that the value of future profits at inception cannot be negative.

Deferred acquisition costs for life investment contracts include the variable costs of acquiring new business and include commission costs. The deferred amounts are amortised in accordance with expected earning pattern of associated revenue.

All other acquisition costs are expensed as incurred.

24.11 Impairment

(a) Financial assets

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

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

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

24.12 Financial liabilities

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

These liabilities are classified as either held for trading or those that are designated upon initial recognition. Liabilities are initially recognised on trade date at fair value with any directly attributable transaction costs recognised in profit or loss as incurred. Fair value is determined using the offer price where available. Movements in the fair value are recognised in the profit or loss.

(b) Financial liabilities carried at amortised cost

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

(c) Derecognition of financial liabilities

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

24.13 Policy liabilities

Life insurance contracts

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

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

An accumulation method has been used for some risk business, where the liability is based on an unearned premium reserve, less an explicit allowance for deferred acquisition costs, and a reserve for incurred but not reported claims. Where used, the accumulation basis is considered to be a reasonable approximation of liabilities had they been determined on a projection basis.

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

The operating profit arising from discretionary participating contracts is allocated between shareholder and participating policyowners by applying the MoS principles in accordance with the *Life Act*.

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

Life investment contracts

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

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

Liability adequacy test

The adequacy of the insurance liabilities is evaluated each year. The insurance contract test considers current estimates of all contractual and related cash flows. If it is determined, using best estimate assumptions, that a shortfall exists, the shortfall is immediately recognised in the profit or loss.

24.14 Contingent liabilities and contingent assets

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

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

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

24.15 New accounting standards and interpretations not yet adopted

AASB 9 *Financial Instruments*

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

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

Governance

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

Expected Transitional Impact

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

- Investment Securities are designated at fair value through profit or loss (FVTPL) under AASB 139. Based on the way the assets are managed as at 30 June 2018, they are expected to be mandatorily classified at FVTPL under AASB 9.
- The implementation of an expected credit loss impairment model will not have a material impact for the Company, given most of its financial assets are measured at FVTPL or are considered a low credit risk.

The above assessment is based on balances as at 30 June 2018 and will be revisited prior to when the Company adopts AASB 9 and AASB 17 from 1 July 2021.

AASB 15 *Revenue from Contracts with Customer*

AASB 15 was issued in December 2014 and replaces AASB 118 *Revenue*, AASB 111 *Construction Contracts*, and related interpretations. AASB 15 provides a single comprehensive model for revenue recognition based on the satisfaction of performance obligations and requires additional disclosures about revenue. This standard will become mandatory for the Company's 30 June 2019 financial statements.

Based on its assessment, the Company does not expect the application of AASB 15 to have a significant impact on its financial statements.

The Company plans to adopt AASB 15 using the cumulative effect method, with the effect of initially applying this Standard recognised as an adjustment to the opening balance of the equity on the date of initial recognition.

AASB 17 *Insurance Contracts*

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

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

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

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

25. Subsequent events

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

DIRECTORS' DECLARATION

1. The directors of Suncorp Life & Superannuation Limited (the **Company**) declare that in their opinion:
   a. the financial statements and notes, set out on pages 5 to 49, are in accordance with the *Corporations Act 2001*, including:
      i. giving a true and fair view of the Company's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
      ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*
   b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors 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:

Dr Ziggy Switkowski AO	**Michael Cameron**
Chairman of the Board	CEO and Managing Director

23 August 2018

KPMG

Independent Auditor's Report

To the shareholder of Suncorp Life & Superannuation Limited,

Opinion

We have audited the ***Financial Report*** of Suncorp Life & Superannuation Limited (the Company).

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

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

The ***Financial Report*** comprises:

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

Basis for opinion

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

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

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

Other Information

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

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

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

KPMG

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our Auditor's Report.

KPMG

David Kells
Partner

Sydney
23 August 2018