Suncorp Group Limited
and subsidiaries

ABN 66 145 290 124

Consolidated interim financial report

for the half-year ended 31 December 2013

Contents **Page**

One Company
Many Brands

SUNCORP GROUP

Directors' report

The directors present their report together with the consolidated interim financial report of Suncorp Group Limited (the **Company**) and its subsidiaries for the half-year ended 31 December 2013 and the review report thereon.

Directors

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

Non-executive

Dr Zygmunt E Switkowski (Chairman)	Director since 2010
Ilana R Atlas	Director since 2011
William J Bartlett	Director since 2010
Michael A Cameron	Director since 2012
Audette E Exel	Director since 2012
Ewoud J Kulk	Director since 2010
Dr Douglas F McTaggart	Director since 2012
Geoffrey T Ricketts	Director since 2010

Executive

Patrick J R Snowball (Managing Director and Group CEO)	Director since 2010

Review of operations

Overview of the Suncorp Group

Suncorp Group Limited and its subsidiaries (the **Suncorp Group**) recorded a consolidated net profit after tax attributable to owners of the Company of $548 million for the half-year ended 31 December 2013. This is slightly below the profit for the half-year ended 31 December 2012, which was assisted by a benign natural hazards environment and favourable investment markets.

Financial position and capital structure

Net assets of the Suncorp Group increased to $13,992 million at 31 December 2013 from $13,983 million at 30 June 2013. The increase in net assets of $9 million arises from the profit for the half-year partially offset by the payment of the final and special dividends in respect of 30 June 2013.

The capital management strategy of the Suncorp Group is to optimise shareholder value by managing the level, mix and use of capital resources. The Suncorp Group has continued to strengthen its capital position with over $1.2 billion of total capital in excess of the Suncorp Group's operating targets after the 2014 interim dividends declared. Improvements to the Suncorp Group's capital position were driven by:

- execution of a Life quota share reinsurance arrangement that reduces the risk profile of the Life business and facilitated the return of $207 million of Common Equity Tier 1 (**CET1**) Capital to the Company
- deployment of $100 million of Tier 2 subordinated debt from the Company to the Life business with associated return of CET1 Capital
- redemption of $30 million of pre-Basel III Reset Preference Shares issued by Suncorp-Metway Limited.

At 31 December 2013, the General Insurance group's prescribed capital amount coverage was 1.96 times (June 2013: 1.96 times), the Bank's capital adequacy ratio was 13.1% (June 2013: 12.6%) and Suncorp Life's excess capital position was $113 million (June 2013: $300 million).

Suncorp-Metway Limited's Basel III APS 330 capital disclosures are made available at the regulatory disclosures section of suncorpgroup.com.au/investors.

Review of operations (continued)

Review of principal businesses

General Insurance profit after tax was $470 million (December 2012: $564 million).

The Insurance Trading Result (**ITR**) was $537 million (December 2012: $669 million), representing an ITR ratio of 13.9% (December 2012: 18.6%). The result was driven by strong premium earnings, continued focus on claims and expense management, offset by higher than expected natural hazard claims experience. There is a continued focus on improving operational efficiency through simplification projects, as well as enabling the Suncorp Group to manage margins in an increasingly competitive market.

Fire Services Levies (**FSL**) were removed from Victorian policies during the half-year. Excluding FSL, Gross written premium (**GWP**) increased 6.6% to $4,302 million. Inclusive of FSL, GWP increased 3.7% to $4,380 million. Personal lines GWP, excluding FSL, increased across both Home (up 8.9%) and Motor (up 4.8%), primarily driven by increases in average written premiums. Commercial lines GWP increased 6.2% to $1,008 million. Retention rates have remained strong as intermediaries and customers see value in the broad product offering. Compulsory Third Party (**CTP**) increased 8.1%, following further growth in both the Queensland and New South Wales markets, and the entry into the Australian Capital Territory CTP market.

General Insurance claims expense increased 12.0% to $3,283 million. Short-tail claims costs were impacted by a number of major weather events resulting in net natural hazard claims being $49 million above the Suncorp Group's allowance. Reserve releases of $56 million were primarily attributable to a benign wage inflation environment and proactive management of long-tail claims, offset by strengthening in the estimation of the February 2011 Christchurch earthquake claims costs.

Operating expense remained stable at $781 million (December 2012: $779 million). Investment income on insurance funds decreased 29.8% to $179 million attributable to narrowing credit spreads partially offset by the impact of sustained lower risk-free and credit spread yields. Investment income on shareholder funds decreased 10.6% to $152 million was supported by narrowing credit spreads and good equities performance.

Banking profit after tax was $105 million (December 2012: $4 million).

The 2014 financial year represents a period of transition for Suncorp Bank as it consolidates operations and unwinds legacy funding and cost positions relating to the former "non-core" corporate and property portfolio.

Banking loans, advances and other receivables increased to $49,074 million, representing a $1,075 million increase from 30 June 2013. System credit growth was subdued and well below long term historical averages. Lending growth in the Bank's retail and business lending portfolio of 6.8% was within target growth and acceptable risk parameters. Growth continues to be supported by a conservative funding strategy with 66% of lending assets funded by retail deposits. The residual corporate and property portfolio was $298 million at 31 December 2013, a reduction of $437 million, or 60%, from 30 June 2013.

Net interest income increased 1.7% to $492 million. The net interest margin against interest earning assets of 1.66% was impacted by margin compression on low cost deposits and invested capital due to the reduction of the cash rate in May and August 2013. Legacy funding relating to the former "non-core" corporate and property portfolio also impacted the result. This funding is due to mature over the course of 2014.

Operating expenses remained stable at $305 million (December 2012: $303 million). The Bank continues to invest in business capability. Good progress has been achieved in the delivery of the core banking platform replacement, Basel II advanced accreditation and network optimisation programs.

Impairment expense on Banking loans, advances and other receivables decreased by 76.8% to $45 million. The result benefited from reduction in provisions associated with the run-off of the corporate and property portfolio. Credit impairment losses were 35 basis points (**bps**) of credit risk weighted assets and 18 bps of gross loans and advances. Prolonged drought conditions across much of eastern Australia along with the ongoing impacts of previous flood events have affected credit performance for the agribusiness portfolio. Total provision for impairment at 31 December 2013 was $210 million, representing a 30% decrease from 30 June 2013.

Review of operations (continued)

Review of principal businesses (continued)

Suncorp Life profit after tax was $22 million (December 2012: $51 million). The result was significantly impacted by higher discount rates which resulted in an accounting loss after tax for market adjustments of $19 million (December 2012: $10 million).

The overall Life insurance industry continues to face a number of well publicised structural challenges, particularly in product design and evolving customer needs. Weaker economic conditions have resulted in adverse lapse and claims experience across the whole industry.

Life Risk profit after tax was $23 million, down 39.5% attributable to adverse lapse and claims experience. Lapse experience of negative $17 million continues to trend above assumptions and this has led to a further strengthening of lapse assumptions. Retail and group disability income claims were the main drivers of adverse claims experience of negative $10 million. Planned profit margin release of $35 million reflects the strengthening of lapse assumptions in the prior year and the increase in reinsurance coverage. Life further extended its reinsurance arrangements during the period (on both new and in-force business), reducing capital strain and allowing for more effective risk management through lower claims and lapse volatility.

Life Risk in-force annual premiums of $886 million have grown 10.8% compared to the prior half-year despite the continued impact of industry wide higher lapse rates.

Superannuation new business was up 41.2% to $185 million driven by good momentum in Everyday Super. Positive market movements and improved net flows increased funds under management to $7,708 million.

Operating expenses increased by 2.9% to $212 million, reflecting a strong focus on expense management, whilst investing for growth (in-housing our Direct business operations), as well as undertaking significant regulatory projects.

The embedded value (**EV**) is $2,006 million (June 2013: $2,569 million) reflecting the increased focus on improving capital efficiency and the return of capital to the Company, the impact of which has reduced EV by around $600 million. The Value of One Year's Sales (**VOYS**) of $35 million (June 2013: $43 million) reflects the increase in reinsurance coverage and strengthening of lapse assumptions.

Impact of legislation and other external requirements

There continues to be significant legislative and regulatory reform which impacts the Suncorp Group's operations in Australia and New Zealand.

AUSTRALIA

The Federal Government has announced a "root and branch" inquiry into Australia's financial system. The inquiry's terms of reference are intended to enable the inquiry to determine how Australia's financial system can be best positioned to meet Australia's evolving needs and support Australia's economic growth. The inquiry is scheduled to deliver its final report with recommendations to the Federal Government by November 2014.

The Federal Government has also announced a review of Australia's competition laws and policy by a review panel. The review panel will examine Australia's current competition laws (e.g. the *Australian Competition and Consumer Act 2010*) and the broader competition framework with the intention of increasing productivity in the markets, driving benefits to ease cost of living pressures and raising living standards for all Australians. The review panel is scheduled to report to the Federal Government in the next 12 months.

The Australian Prudential Regulation Authority (**APRA**) is in the process of finalising its proposals and draft prudential standards for the supervision of conglomerate groups (Level 3 framework), which includes the Suncorp Group. APRA intends that the Level 3 framework will take effect on 1 January 2015.

Reforms to Australia's privacy and credit reporting laws are scheduled to commence in March 2014.

The Australian Securities Exchange (**ASX**) Corporate Governance Council is proposing changes to the ASX Corporate Governance Council Principles and Recommendations that may increase disclosure requirements for listed companies if implemented. It is expected that the changes will start from 1 July 2014.

Review of operations (continued)

Impact of legislation and other external requirements (continued)

Some changes have been made to the Queensland *Workers' Compensation and Rehabilitation Act 2003* including limitations on the rights of workers to seek common law damages for a workplace injury.

The Federal Government continues to pursue the establishment of the national disability insurance scheme and a proposed national no fault catastrophic injury insurance scheme. The new scheme will provide insurance cover for all Australians in the event of significant disability except for disabilities which are proposed to be covered under the no fault national catastrophic injury insurance scheme.

The New South Wales Government has "put on hold" significant reforms it proposed to the New South Wales compulsory third party insurance scheme. The reforms were intended to: (a) create a no fault scheme for the provision of statutory benefits to anyone injured in a motor accident irrespective of fault and (b) remove the right to sue for common law damages where whole person impairment is 10% or less. The reforms were also expected to result in a review of the premium system.

The Victorian Competition and Efficiency Commission is reaching the concluding stages of its review of the Victorian *Wrongs Act 1958*. The Commission is expected to issue its report to the Victorian Government by 28 February 2014. The *Wrongs Act* governs claims for damages for personal injury or death in Victoria, other than transport accidents, work injuries and some other exceptions.

The prudential framework applicable to Australian banks in relation to the implementation of the Basel III capital reforms commenced progressively from 1 January 2013. The Basel III reforms incorporate higher capital requirements and include additional capital buffers. APRA has indicated it proposes to implement the Basel III liquidity reforms in respect of: (a) the liquidity coverage ratio to address an acute stress scenario from 1 January 2015 and (b) the net stable funding ratio to encourage longer term funding resilience from 1 January 2018.

The Basel Committee on Banking Supervision and APRA continue to consult on, refine and finalise various aspects of the Basel III reforms.

The Payment Systems Board of the Reserve Bank of Australia is working with industry on a set of strategic objectives which includes a fast real time payment system that would allow businesses and consumers to make payments with close to immediate funds availability to the recipient on a 24/7 basis and give customers the ability to make payments in a simple manner by addressing a payment to a mobile phone number or email address rather than having to use a six digit BSB and up to nine digit account number. The intention is to have most of the objectives implemented by the end of 2016.

The Stronger Super reforms continue to be implemented. These reforms will significantly impact superannuation in Australia with key proposals including the replacement of existing default funds by a new low cost, simple superannuation product called MySuper, and SuperStream reforms that are intended to streamline the 'back office' operations of superannuation funds.

The Federal Government has announced it intends to change some of the Future of Financial Advice reforms known as the FOFA reforms that were, or were in the process of being, implemented by the previous Federal Government. Proposed changes include removing general advice from the ban on conflicted remuneration, removing the opt in requirement, improvements to the best interests duty safe harbour and excluding life insurance through superannuation from the ban on conflicted remuneration other than automatic default cover.

NEW ZEALAND

The *Financial Markets Conduct Act* has been passed by the New Zealand Parliament. The main aim of this Act is to reform the regulation of financial market conduct 'to promote confident and informed participation in New Zealand's financial markets'. The Act represents significant new legislation and will replace the *New Zealand Securities Act 1978*, *Securities Markets Act 1988*, *Unit Trusts Act 1960* and will amend or replace a number of other Acts. It is expected to come into force in two phases. The first phase which includes the general fair dealing obligations and changes to employee share schemes will come into effect on 1 April 2014. The second phase which includes the new disclosure requirements, registers of managed investment schemes, offers of financial products and licensing obligations and requirements will come into effect on 1 December 2014.

Review of operations (continued)

Impact of legislation and other external requirements (continued)

The Consumer Law Reform Bill has been passed by the New Zealand Parliament, and contains a new prohibition on including or enforcing "unfair contract terms" in standard form consumer contracts. This aligns the Act more closely with the Australian "unfair contract terms" legislation. The commencement of the prohibition will be on 18 March 2015 to give New Zealand businesses time to review their contracts. For New Zealand insurers, the biggest impact is the introduction of a new prohibition (under the *Fair Trading Act*) on including or enforcing "unfair contract terms" in standard form consumer contracts. The Bill allows the Commerce Commission to seek a declaration from the Court that a term in a consumer contract is "unfair" and therefore unenforceable. The Bill includes some exceptions for insurance contracts on the basis they will be considered reasonably necessary to protect the legitimate interests of the insurer (e.g. limiting the liability of the insurer to indemnify the insured, specifying the requirements for disclosure by the insured and terms of premium payments). The prohibition on unfair contract terms will not apply to insurance contracts entered into before 18 March 2015 or to variations or renewals of those contracts.

All of these legislative and regulatory reforms and other proposals and inquiries in Australia and New Zealand will or could impact the Suncorp Group's respective operations in banking, general and life insurance and superannuation.

Events subsequent to reporting date

There has not arisen in the interval between 31 December 2013 and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Suncorp Group, the results of those operations, or the state of affairs of the Suncorp Group.

Dividends

A fully franked 2013 final dividend of $386 million (30 cents per share) and a fully franked 2013 special dividend of $257 million (20 cents per share) were paid on 1 October 2013. A fully franked 2014 interim dividend of $450 million (35 cents per share) has been declared by directors.

Further details of dividends provided for or paid are set out in note 5 to the consolidated interim financial statements.

Directors’ report (continued)

Lead auditor’s independence declaration

The lead auditor’s independence declaration is set out on page 7 and forms part of the directors’ report for the half-year ended 31 December 2013.

Rounding of amounts

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and the directors’ report have been rounded off to the nearest million dollars unless otherwise stated.

Signed in accordance with a resolution of the directors.

Dr Zygmunt E Switkowski
Chairman

Patrick J R Snowball
Managing Director and Group CEO

19 February 2014

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

To: the directors of Suncorp Group Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2013 there have been:

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

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Paul Reid
Partner

Brisbane
19 February 2014

Consolidated interim statement of comprehensive income

for the half-year ended 31 December 2013

CONSOLIDATED	Note	Dec 2013	Dec 2012
		$m	$m
Revenue			
Insurance premium income		**4,858**	4,499
Reinsurance and other recoveries income		**787**	725
Banking interest income		**1,513**	1,787
Investment revenue		**827**	967
Other income		**269**	266
Total revenue		**8,254**	8,244
Expenses			
General insurance claims expense		**(3,283)**	(2,930)
Life insurance claims expense and movement in policyowner liabilities		**(869)**	(617)
Outwards reinsurance premium expense		**(448)**	(585)
Interest expense		**(1,056)**	(1,324)
Fees and commissions expense		**(373)**	(364)
Operating expenses		**(1,348)**	(1,344)
Losses on Banking loans, advances and other receivables	8.1.2, 8.1.3	**(58)**	(215)
Total expenses		**(7,435)**	(7,379)
Profit before income tax		**819**	865
Income tax expense	10	**(268)**	(288)
Profit for the period		**551**	577
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in fair value of cash flow hedges		**32**	38
Net change in fair value of available-for-sale financial assets		**12**	(4)
Exchange differences on translation of foreign operations		**88**	12
Income tax expense		**(15)**	(15)
		117	31
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains on defined benefit plans		**-**	4
		-	4
Total other comprehensive income		**117**	35
Total comprehensive income for the period		**668**	612
Profit for the period attributable to:			
Owners of the Company		**548**	574
Non-controlling interests		**3**	3
Profit for the period		**551**	577
Total comprehensive income for the period attributable to:			
Owners of the Company		**665**	609
Non-controlling interests		**3**	3
Total comprehensive income for the period		**668**	612
		Cents	**Cents**
Earnings per share:			
Basic earnings per share		**42.88**	44.93
Diluted earnings per share		**42.49**	43.37

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

Consolidated interim statement of financial position

as at 31 December 2013

CONSOLIDATED	Note	Dec 2013	Jun 2013	Dec 2012
		$m	$m	$m
Assets				
Cash and cash equivalents		**1,064**	1,394	595
Receivables due from other banks		**790**	1,460	1,031
Trading securities		**2,129**	3,462	4,077
Derivatives		**425**	627	382
Investment securities		**26,588**	26,183	24,046
Banking loans, advances and other receivables		**49,074**	47,999	48,756
General insurance assets		**6,562**	7,158	6,862
Life assets		**584**	666	624
Property, plant and equipment		**228**	212	209
Deferred tax assets		**20**	87	69
Other assets		**476**	512	617
Goodwill and intangible assets		**6,138**	6,168	6,207
Total assets		**94,078**	95,928	93,475
Liabilities				
Payables due to other banks		**186**	213	46
Deposits and short-term borrowings		**44,192**	43,547	41,046
Derivatives		**554**	1,039	1,331
Payables and other liabilities		**1,635**	2,486	1,832
Current tax liabilities		**111**	2	102
General insurance liabilities		**14,330**	14,496	14,351
Life liabilities		**6,161**	5,869	5,678
Deferred tax liabilities		**39**	-	-
Securitisation liabilities	8.3	**4,245**	4,777	4,305
Debt issues	8.4	**6,412**	7,291	8,206
Subordinated notes	11.2	**1,671**	1,646	978
Preference shares	12	**550**	579	1,311
Total liabilities		**80,086**	81,945	79,186
Net assets		**13,992**	13,983	14,289
Equity				
Share capital	13	**12,675**	12,682	12,677
Reserves	14	**151**	40	(38)
Retained profits		**1,154**	1,245	1,636
Total equity attributable to owners of the Company		**13,980**	13,967	14,275
Non-controlling interests		**12**	16	14
Total equity		**13,992**	13,983	14,289

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

Consolidated interim statement of changes in equity

for the half-year ended 31 December 2013

CONSOLIDATED	Note	Equity attributable to owners of the Company					
		Share capital $m	Reserves $m	Retained profits $m	Total $m	Non-controlling interests $m	Total Equity $m
Balance as at 1 July 2013		**12,682**	**40**	**1,245**	**13,967**	**16**	**13,983**
Profit after tax for the period		**-**	**-**	**548**	**548**	**3**	**551**
Total other comprehensive income		**-**	**117**	**-**	**117**	**-**	**117**
Total comprehensive income		**-**	**117**	**548**	**665**	**3**	**668**
Transactions with owners, recorded directly in equity							
Dividends paid	5	**-**	**-**	**(640)**	**(640)**	**(7)**	**(647)**
Share-based payments		**(22)**	**-**	**(5)**	**(27)**	**-**	**(27)**
Treasury shares movements		**15**	**-**	**-**	**15**	**-**	**15**
Transfers		**-**	**(6)**	**6**	**-**	**-**	**-**
Balance as at 31 December 2013		**12,675**	**151**	**1,154**	**13,980**	**12**	**13,992**
Balance as at 1 July 2012		12,672	(55)	1,493	14,110	17	14,127
Profit after tax for the period		-	-	574	574	3	577
Total other comprehensive income		-	31	4	35	-	35
Total comprehensive income		-	31	578	609	3	612
Transactions with owners, recorded directly in equity							
Dividends paid	5	-	-	(449)	(449)	(6)	(455)
Share-based payments		(7)	-	-	(7)	-	(7)
Treasury shares movements		12	-	-	12	-	12
Transfers		-	(14)	14	-	-	-
Balance as at 31 December 2012		12,677	(38)	1,636	14,275	14	14,289

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

Consolidated interim statement of cash flows

for the half-year ended 31 December 2013

CONSOLIDATED	Dec 2013	Dec 2012
	$m	$m
Cash flows from operating activities		
Premiums received	**5,495**	4,653
Claims paid	**(4,411)**	(3,837)
Interest received	**1,976**	2,135
Interest paid	**(1,166)**	(1,324)
Reinsurance and other recoveries received	**1,118**	1,161
Outwards reinsurance premiums paid	**(600)**	(590)
Other operating income received	**314**	412
Dividends received	**33**	57
Operating expenses paid	**(1,948)**	(1,958)
Income tax paid	**(62)**	(144)
Net decrease (increase) in operating assets		
Trading securities	**1,325**	736
Banking loans, advances and other receivables	**(1,133)**	(1,662)
Net increase in operating liabilities		
Deposits and short-term borrowings	**645**	361
Net cash from operating activities	**1,586**	-
Cash flows from (used in) investing activities		
Proceeds from sale of investment securities	**7,945**	17,204
Payments for purchase of investment securities	**(8,054)**	(16,255)
Proceeds from other investing activities	**3**	33
Payments from other investing activities	**(85)**	(55)
Net cash (used in) from investing activities	**(191)**	927
Cash flows (used in) from financing activities		
Net (decrease) in borrowings	**(1,663)**	(1,877)
Dividends paid on ordinary shares	**(640)**	(449)
Proceeds from preference shares issue	**-**	560
Payment for preference share redemption	**(30)**	-
Payment on call of subordinated notes	**-**	(407)
Payments for other financing activities	**(35)**	(19)
Net cash (used in) financing activities	**(2,368)**	(2,192)
Net (decrease) in cash and cash equivalents	**(973)**	(1,265)
Cash and cash equivalents at the beginning of the period	**2,641**	2,846
Effect of exchange rate fluctuations on cash held	**-**	(1)
Cash and cash equivalents at end of the period	**1,668**	1,580
Cash and cash equivalents at end of the period comprises:		
Cash and cash equivalents	**1,064**	595
Receivables due from other banks	**790**	1,031
Payables due to other banks	**(186)**	(46)
	1,668	1,580

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

Notes to the consolidated interim financial statements

1. Reporting entity

Suncorp Group Limited (the **Company**) is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the half-year ended 31 December 2013 comprises the Company and its subsidiaries (the **Suncorp Group**).

The Suncorp Group is a for-profit entity and its consolidated financial report for the financial year ended 30 June 2013 is available upon request from the Company's registered office at Level 18, 36 Wickham Terrace, Brisbane, QLD 4000 or at suncorpgroup.com.au.

2. Basis of preparation

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The consolidated interim financial report does not include all of the information required for a full consolidated annual financial report, and should be read in conjunction with the consolidated financial report of the Suncorp Group for the financial year ended 30 June 2013 and any public announcements made by the Suncorp Group in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the Australian Securities Exchange (**ASX**) Listing Rules.

The consolidated interim financial report was approved by the Board of Directors on 19 February 2014.

The consolidated interim financial statements have been prepared on the historical cost basis unless the application of fair value or other measurements are required by relevant accounting standards. An exception exists regarding the measurement of defined benefit scheme surplus (deficit) which is described in note 35.1.19 to the Suncorp Group consolidated financial report for the financial year ended 30 June 2013.

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

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report have been rounded off to the nearest million dollars, unless otherwise stated.

3. Significant accounting policies

Except as described below, the accounting policies applied by the Suncorp Group in this consolidated interim financial report are the same as those applied by the Suncorp Group in its consolidated financial report for the financial year ended 30 June 2013. These changes described are also expected to be reflected in the Suncorp Group's consolidated financial statements as at and for the financial year ending 30 June 2014.

3.1 Changes in accounting policies

Since 1 July 2013, the Suncorp Group has adopted the amendments to AASB 134 *Interim Financial Reporting.* This standard is amended to introduce a number of new fair value disclosures on financial instruments required by AASB 13 *Fair Value Measurement* and AASB 7 *Financial Instruments: Disclosures*. These new disclosures have been included in note 15 to this consolidated interim financial report. As permitted by the transitional provisions of AASB 13, the Suncorp Group has not provided any comparative information on the disclosures required by this standard.

The following new and amended accounting standards have also been adopted by the Suncorp Group from 1 July 2013. Adoption of these standards has an immaterial effect on the financial position and financial performance of the Suncorp Group. Where applicable, disclosures contained in this consolidated interim financial report reflect the requirements of these accounting standards.

- AASB 10 *Consolidated Financial Statements*
- AASB 11 *Joint Arrangements*
- AASB 12 *Disclosure of Interests in Other Entities*
- AASB 13 *Fair Value Measurement*
- Amendments to AASB 119 *Employee Benefits*

3.2 Comparatives

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

In the consolidated financial report for the financial year ended 30 June 2013, the reporting of collateral received on derivative asset positions and collateral posted on derivative liability positions was changed to better reflect the nature of the assets and liabilities and to be consistent with industry practice. The table below illustrates the material changes to previously reported classifications on the consolidated interim statement of financial position as at 31 December 2012.

CONSOLIDATED	Dec 2012		
	Previously reported $m	Change $m	Currently reported $m
Assets			
Receivables due from other banks	124	907	1,031
Banking loans, advances and other receivables	49,663	(907)	48,756

The consolidated interim statement of cash flows for the half-year ended 31 December 2012 has also been restated with the net change in Banking loans, advances and other receivables increasing by $983 million, and the net change in Deposits and short-term borrowings increasing by $9 million. This reclassification resulted in no change to the consolidated interim statement of comprehensive income for the comparative half-year.

4. Use of estimates and judgements

The preparation of the consolidated interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the amounts reported in the financial statements. The estimates and associated accounting 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.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Suncorp Group's accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial report as at and for the financial year ended 30 June 2013.

The liability adequacy test (**LAT**) is used to assess the sufficiency of the unearned premium liability to cover all expected future cash flows relating to future claims against in-force insurance contracts. It is based on prospective information and is heavily dependent on assumptions and judgements. At 31 December 2013, the LAT resulted in a surplus for the Australian Commercial Insurance, Australian Personal Insurance and New Zealand General Insurance portfolios. At 31 December 2012, the LAT resulted in a surplus for all portfolios except for the Australian Commercial Insurance portfolio, which had a $24 million deficit. Consequently, a $24 million write-down of deferred acquisition costs was recognised in the half-year ended 31 December 2012.

5. Dividends

CONSOLIDATED	Dec 2013		Dec 2012	
	¢ per share	$m	¢ per share	$m
Dividends on ordinary shares				
2013 final dividend (Dec 2012: 2012 final dividend)	**30**	**384**	20	257
2013 special dividend (Dec 2012: 2012 special dividend)	**20**	**256**	15	192
Total dividends recognised in equity	**50**	**640**	35	449
Dividends declared since balance date and not recognised in the consolidated interim statement of financial position				
2014 interim dividend[1] (Dec 2012: 2013 interim dividend)	**35**	**447**	25	320

Note

1 The total 2014 interim dividend on ordinary shares declared but not recognised in the consolidated interim statement of financial position is estimated based on the total number of ordinary shares on issue net of treasury shares as at 31 December 2013. The actual dividend amount to be recognised in the consolidated financial statements for the financial year ending 30 June 2014 will be based on the actual number of ordinary shares on issue net of treasury shares on the record date.

6. Segment reporting

Operating segments are identified based on separate financial information which is regularly reviewed by the Group Chief Executive Officer and his immediate executive team, representing the Suncorp Group's Chief Operating Decision Maker (**CODM**), in assessing performance and determining the allocation of resources. The Suncorp Group's operating segments are determined based on their business activities.

Segment	Business area	Business activities
Personal Insurance (Personal)	General Insurance	Provision of personal insurance products to customers in Australia including home and contents insurance, motor insurance, boat insurance and travel insurance.
Commercial Insurance (Commercial)	General Insurance	Provision of commercial insurance products to customers in Australia including commercial motor insurance, commercial property insurance, marine insurance, industrial special risks insurance, public liability and professional indemnity insurance, workers' compensation insurance and compulsory third party insurance.
General Insurance – New Zealand (GI NZ)	General Insurance	Provision of general insurance products to customers in New Zealand including home and contents insurance, marine insurance, business insurance, rural insurance, construction and engineering insurance, travel insurance, public liability and professional indemnity, and directors' and officers' liability insurance.
Banking	Banking	Provision of personal and commercial banking, agribusiness, property and equipment finance, home, personal and small business loans, savings and transaction accounts and foreign exchange and treasury products and services in Australia.
Life	Life	Provision of life insurance products, superannuation administration services, financial planning and funds administration services in Australia and New Zealand.
Corporate	Corporate	Investment of the Suncorp Group's capital, Suncorp Group business strategy activities (including business combinations and divestments) and Suncorp Group shared services.

While profit or loss information is reviewed by the CODM at an operating segment level, assets and liabilities information are reviewed by the CODM at a business area level. Business areas are equivalent to operating segments except for the Personal Insurance, Commercial Insurance and General Insurance New Zealand operating segments which are aggregated as the General Insurance business area.

6. Segment reporting (continued)

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

- revenues and expenses occurring between segments are subject to contractual agreements between the legal entities comprising each segment.
- inter-segment transactions which are eliminated on consolidation are reported on a gross basis except for operating expenses incurred by one segment on behalf of another which are recharged on a cost-recovery basis that are presented on a net basis (post allocation basis).
- intra-group dividends are presented net of eliminations.
- consolidated gain or loss on sale of subsidiaries and joint ventures and any amortisation of business combination acquired intangible assets are allocated to the Corporate segment regardless of whether the related assets and liabilities are included in the Corporate segment assets and liabilities.
- depreciation and amortisation expense relating to the Corporate segment's property, plant and equipment and non-business combination acquired intangible assets are allocated to other segments based on their utilisation.
- goodwill is allocated to each operating segment on a consistent basis to goodwill impairment testing.

The above basis of segmentation and basis of measurement of segment results are the same as those applied by the Suncorp Group in its consolidated financial report for the financial year ended 30 June 2013.

6.1 Segment results

BUSINESS AREAS	GENERAL INSURANCE				BANKING	LIFE	CORPORATE	
Operating segments	**Personal**	**Commercial**	**GI NZ**	**Total**	**Banking**	**Life**	**Corporate**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Half-year ended 31 December 2013								
Revenue from external customers	**2,946**	**1,826**	**727**	**5,499**	**1,595**	**1,257**	**11**	**8,362**
Inter-segment revenue	**-**	**-**	**-**	**-**	**1**	**5**	**21**	**27**
Total segment revenue	**2,946**	**1,826**	**727**	**5,499**	**1,596**	**1,262**	**32**	**8,389**
Segment profit (loss) before income tax	**351**	**288**	**29**	**668**	**149**	**59**	**(58)**	**818**
Segment income tax (expense) benefit	**(105)**	**(85)**	**(8)**	**(198)**	**(44)**	**(37)**	**12**	**(267)**
Segment profit (loss) after income tax	**246**	**203**	**21**	**470**	**105**	**22**	**(46)**	**551**
Half-year ended 31 December 2012								
Revenue from external customers	2,849	1,828	571	5,248	1,880	1,175	18	8,321
Inter-segment revenue	-	-	-	-	6	4	-	10
Total segment revenue	2,849	1,828	571	5,248	1,886	1,179	18	8,331
Segment profit (loss) before income tax	461	295	46	802	13	96	(44)	867
Segment income tax (expense) benefit	(139)	(86)	(13)	(238)	(9)	(45)	4	(288)
Segment profit (loss) after income tax	322	209	33	564	4	51	(40)	579

6.2 Reconciliation of segment profit before tax

CONSOLIDATED	Dec 2013	Dec 2012
	$m	**$m**
Segment profit before income tax	**818**	867
Elimination of intra-group investments	**(3)**	(11)
Other consolidation eliminations	**4**	9
Consolidated profit before income tax	**819**	865

6.3 Results by business area

A summary of revenue and expenses by business area and a summary of assets and liabilities by business area are presented in notes 6.3.1 and 6.3.2. These disclosures are an extension to the operating segment results presented above and are prepared on the same basis as described in note 6. Inclusion of results by business area in addition to the operating segment information presented above is beneficial in understanding the nature and financial effects of the business activities of the Suncorp Group, which consists of a General Insurance group, a Banking group, a Life group and a Corporate group.

6.3.1 Summary of revenue and expenses by business area

CONSOLIDATED	Note	Half-year ended 31 December 2013				Half-year ended 31 December 2012			
		General Insurance $m	Banking $m	Life $m	Corporate $m	General Insurance $m	Banking $m	Life $m	Corporate $m
Revenue									
Insurance premium income		4,398	-	460	-	4,099	-	400	-
Reinsurance and other recoveries income		675	-	112	-	625	-	100	-
Banking interest income		-	1,515	-	-	-	1,787	-	-
Investment revenue		331	(19)	610	32	426	8	599	18
Other income		95	100	80	-	98	91	80	-
Total revenue		5,499	1,596	1,262	32	5,248	1,886	1,179	18
Expenses									
General insurance claims expense		(3,283)	-	-	-	(2,930)	-	-	-
Life insurance claims expense and movement in policyowner liabilities		-	-	(869)	-	-	-	(617)	-
Outwards reinsurance premium expense		(533)	-	85	-	(498)	-	(87)	-
Interest expense		(18)	(1,023)	(2)	(39)	(24)	(1,303)	-	(5)
Fees and commissions expense		(216)	(61)	(102)	-	(215)	(52)	(100)	(1)
Operating expenses		(781)	(305)	(212)	(51)	(779)	(303)	(206)	(56)
Losses on Banking loans, advances and other receivables[1]	8.1.2, 8.1.3	-	(58)	-	-	-	(215)	-	-
Outside beneficial interests in managed funds		-	-	(103)	-	-	-	(73)	-
Total expenses		(4,831)	(1,447)	(1,203)	(90)	(4,446)	(1,873)	(1,083)	(62)
Profit (loss) before income tax	6.1	668	149	59	(58)	802	13	96	(44)
Income tax (expense) benefit	6.1	(198)	(44)	(37)	12	(238)	(9)	(45)	4
Profit (loss) for the period	6.1	470	105	22	(46)	564	4	51	(40)

Note

1 Comprises impairment expense on Banking loans, advances and other receivables of $45 million (December 2012: $194 million) (note 8.1.2) and loss on sale of Banking loans and advances of $13 million (December 2012: $21 million) (note 8.1.3).

6.3.2 Summary of assets and liabilities by business area

CONSOLIDATED	Note	As at 31 December 2013				As at 30 June 2013			
		General Insurance $m	Banking $m	Life $m	Corporate $m	General Insurance $m	Banking $m	Life $m	Corporate $m
Assets									
Cash and cash equivalents		94	810	528	37	146	905	610	47
Receivables due from other banks		-	790	-	-	-	1,460	-	-
Trading securities		-	2,129	-	-	-	3,462	-	-
Derivatives		31	451	1	-	39	667	-	-
Investment securities		12,329	6,652	8,904	14,661	12,305	6,640	8,413	14,983
Banking loans, advances and other receivables		-	49,074	-	-	-	47,999	-	-
General Insurance assets		6,562	-	-	-	7,158	-	-	-
Life assets		-	-	584	-	-	-	666	-
Due from Group entities		-	290	-	865	-	251	-	703
Property, plant and equipment		34	-	4	190	34	-	4	174
Deferred tax assets		-	88	36	110	-	141	-	124
Other assets		188	213	28	56	176	272	24	46
Goodwill and intangible assets		5,125	262	628	123	5,145	262	640	122
Total assets		24,363	60,759	10,713	16,042	25,003	62,059	10,357	16,199
Liabilities									
Payables due to other banks		-	186	-	-	-	213	-	-
Deposits and short-term borrowings		-	44,597	-	-	-	43,861	-	-
Derivatives		91	494	26	-	116	984	18	-
Payables and other liabilities		684	403	133	368	1,333	640	105	401
Current tax liabilities		5	-	-	109	2	-	-	-
Due to Group entities		364	-	17	-	269	-	8	-
General Insurance liabilities		14,330	-	-	-	14,496	-	-	-
Life liabilities		-	-	6,161	-	-	-	5,869	-
Deferred tax liabilities		128	-	131	-	112	-	66	-
Managed funds units on issue		-	-	1,908	-	-	-	1,567	-
Securitisation liabilities	8.3	-	4,267	-	-	-	4,802	-	-
Debt issues	8.4	-	6,433	-	-	-	7,313	-	-
Subordinated notes	7, 8.5, 9, 11.1	743	840	100	758	720	840	-	756
Preference shares	12	-	-	-	550	-	30	-	549
Total liabilities		16,345	57,220	8,476	1,785	17,048	58,683	7,633	1,706
Net assets		8,018	3,539	2,237	14,257	7,955	3,376	2,724	14,493

7. General Insurance – Subordinated notes

GENERAL INSURANCE	Dec 2013	Dec 2012
	$m	$m
Balance at the beginning of the period	**720**	708
Foreign exchange translation and fair value movements	**23**	3
Balance at the end of the period	**743**	711

8. Banking – Specific disclosures

8.1 Banking – Provision for impairment on Banking loans, advances and other receivables

8.1.1 Reconciliation of provision for impairment on Banking loans, advances and other receivables

CONSOLIDATED	Dec 2013	Dec 2012
	$m	$m
Collective provision		
Balance at the beginning of the period	**102**	145
Credit against impairment losses	**(5)**	(4)
Balance at the end of the period	**97**	141
Specific provision		
Balance at the beginning of the period	**198**	392
Charge against impairment losses	**48**	196
Impaired assets written off	**(124)**	(191)
Unwind of discount	**(9)**	(65)
Balance at the end of the period	**113**	332
Total provisions	**210**	473

8.1.2 Impairment expense on Banking loans, advances and other receivables

CONSOLIDATED	Dec 2013	Dec 2012
	$m	$m
Decrease in collective provision for impairment	**(5)**	(4)
Increase in specific provision for impairment	**48**	196
Bad debts written off	**7**	10
Bad debts recovered	**(5)**	(8)
Total impairment expense	**45**	194

8.1.3 Loss on sale of Banking loans and advances

CONSOLIDATED	Dec 2013	Dec 2012
	$m	$m
Loss on sale of Banking loans and advances	**13**	21

8.2 Banking – Short-term offshore debt securities

BANKING	Dec 2013	Dec 2012
	$m	$m
Balance at the beginning of the period	**3,999**	3,715
Proceeds from issues	**3,575**	3,458
Repayments	**(4,057)**	(3,668)
Foreign exchange translation and fair value movements	**169**	(53)
Balance at the end of the period	**3,686**	3,452

Short-term offshore debt securities are disclosed within the consolidated interim statement of financial position category of 'Deposits and short-term borrowings'. They are translated to Australian dollars at spot currency rates, with gains and losses recognised in profit or loss as part of other income. These movements are largely offset by movements in derivative hedging positions relating to foreign currency foreign exchange contracts.

8.3 Banking – Securitisation liabilities

CONSOLIDATED	Dec 2013 $m	Dec 2012 $m
Banking		
Balance at the beginning of the period	**4,802**	3,839
Proceeds from issues	**-**	1,000
Transaction costs amortised (incurred)	**2**	(2)
Net proceeds	**2**	998
Repayments	**(573)**	(538)
Foreign exchange translation movements	**36**	27
Balance at the end of the period	**4,267**	4,326
Consolidated		
Adjustments for intra-group investments in Banking's securitisation liabilities		
Balance at the beginning of the period	**(25)**	(39)
Repayments	**3**	18
Balance at the end of the period	**(22)**	(21)
Total securitisation liabilities	**4,245**	4,305

Securitisation liabilities have associated securitised home loans which are secured by residential mortgages. Securitisation liabilities issued in a foreign currency are translated to Australian dollars at spot currency rates, with gains and losses recognised in profit or loss as part of other income. These movements are largely offset by movements in derivative hedging positions relating to cross currency swaps.

8.4 Banking – Debt issues

CONSOLIDATED	Dec 2013 $m	Dec 2012 $m
Banking		
Balance at the beginning of the period	**7,313**	9,598
Proceeds from issues	**401**	987
Transaction costs amortised (incurred)	**1**	(1)
Net proceeds	**402**	986
Repayments	**(1,368)**	(2,281)
Foreign exchange translation and fair value movements	**86**	(53)
Balance at the end of the period	**6,433**	8,250
Consolidated		
Adjustments for intra-group investments in Banking's debt issues		
Balance at the beginning of the period	**(22)**	(29)
Proceeds from issues	**-**	(15)
Repayments	**1**	-
Balance at the end of the period	**(21)**	(44)
Total debt issues	**6,412**	8,206

Foreign currency debt issues are translated to Australian dollars at spot currency rates, with gains and losses recognised in profit or loss as part of other income. These movements are largely offset by movements in derivative hedging positions relating to cross currency swaps.

8.5 Banking – Subordinated notes

BANKING	Dec 2013 $m	Dec 2012 $m
Balance at the beginning of the period	**840**	666
Repayment on call of subordinated notes	**-**	(407)
Foreign exchange translation and fair value movements	**-**	8
Balance at the end of the period	**840**	267

9. Life – Subordinated notes

LIFE	Dec 2013	Dec 2012
	$m	$m
Balance at the beginning of the period	**-**	-
Proceeds from issue	**100**	-
Balance at the end of the period	**100**	-

Suncorp Group and Corporate disclosures

10. Income tax expense

The Suncorp Group's consolidated effective tax rate for the half-year ended 31 December 2013 was 32.7% (for the financial year ended 30 June 2013: 35.2%; for the half-year ended 31 December 2012: 33.3%).

Income tax expense adjustments have primarily arisen from:

- The life insurance statutory funds adjustment resulting in a $20 million income tax expense (December 2012: $19 million income tax expense). Accounting standards require that the tax expense from an increase in net market values of policyowner assets be recognised as part of the Suncorp Group's income tax expense, whereas the net profit before tax of the Suncorp Group includes a partially offsetting transfer to policyowner liabilities. Consequently, the tax expense is disproportionate relative to the net profit before tax. The reverse, a tax credit, is required in periods where the market values of policyowner assets decrease.
- Non-deductible interest paid in respect of preference shares increased income tax expense by $4 million (December 2012: $7 million).

11. Subordinated notes

11.1 Corporate – Subordinated notes

CORPORATE	Dec 2013	Dec 2012
	$m	$m
Balance at the beginning of the period	**756**	-
Transaction costs amortised	**2**	-
Balance at the end of the period	**758**	-

11.2 Consolidated – Subordinated notes

CONSOLIDATED	Note	Dec 2013	Jun 2013	Dec 2012
		$m	$m	$m
General Insurance subordinated notes	7	**743**	720	711
Banking subordinated notes	8.5	**840**	840	267
Life subordinated notes	9	**100**	-	-
Corporate subordinated notes	11.1	**758**	756	-
		2,441	2,316	978
Corporate investment in Banking and Life subordinated notes		**(770)**	(670)	-
		1,671	1,646	978

Movements in consolidated subordinated notes:

CONSOLIDATED	Dec 2013	Dec 2012
	$m	$m
Balance at the beginning of the period	**1,646**	1,374
Repayment on call of subordinated notes	**-**	(407)
Foreign exchange translation and fair value movements	**23**	11
Transaction costs amortised	**2**	-
Balance at the end of the period	**1,671**	978

Subordinated notes issued in a foreign currency are translated to Australian dollars at spot currency rates, with gains and losses recognised in profit or loss. These movements are largely offset by movements in derivative hedging positions relating to cross currency swaps.

12. Preference shares

CONSOLIDATED	Dec 2013			Dec 2012		
	Banking	Corporate	Total	Banking	Corporate	Total
	$m	$m	$m	$m	$m	$m
Balance at the beginning of the period	**30**	**549**	**579**	762	-	762
Proceeds from issue	**-**	**-**	**-**	-	560	560
Repayments on redemption	**(30)**	**-**	**(30)**	-	-	-
Transaction costs incurred	**-**	**-**	**-**	-	(13)	(13)
Transaction costs amortised	**-**	**1**	**1**	2	-	2
Balance at the end of the period	**-**	**550**	**550**	764	547	1,311

A summary of the terms of the preference shares can be found in notes 7.10 and 21 to the Suncorp Group consolidated financial report for the financial year ended 30 June 2013.

Banking

Banking preference shares consisted of Reset Preference Shares (**SBKPA**) and Convertible Preference Shares (**SBKPB**). These were issued by Suncorp-Metway Limited.

All outstanding SBKPA were redeemed for cash on 16 September 2013.

All outstanding SBKPB were reinvested in the Company's subordinated notes under the Reinvestment Offer on 22 May 2013 or were redeemed for cash on the Mandatory Conversion Date on 14 June 2013.

Corporate

The Company issued 5,600,000 Convertible Preference Shares (**SUNPC**) at an issue price of $100 per share on 6 November 2012.

12.1 Preference share dividends recognised as interest expense

CONSOLIDATED	Dec 2013		Dec 2012	
	¢ per share	$m	¢ per share	$m
Reset Preference Shares (SBKPA)				
Period from March to September	**215**	**1**	212	1
Convertible Preference Shares (SBKPB)				
September quarter	**-**	**-**	119	9
December quarter	**-**	**-**	119	9
	-	**-**	238	18
Convertible Preference Shares (SUNPC)				
September quarter	**131**	**7**	-	-
December quarter	**126**	**7**	61	3
	257	**14**	61	3

13. Share capital

CONSOLIDATED	Issued capital $m	Share-based payments $m	Treasury shares $m	Total $m
Balance as at 1 July 2013	**12,717**	**70**	**(105)**	**12,682**
Share-based payments	**-**	**(22)**	**-**	**(22)**
Treasury shares movements	**-**	**-**	**15**	**15**
Balance as at 31 December 2013	**12,717**	**48**	**(90)**	**12,675**
Balance as at 1 July 2012	12,717	75	(120)	12,672
Share-based payments	-	(7)	-	(7)
Treasury shares movements	-	-	12	12
Balance as at 31 December 2012	12,717	68	(108)	12,677

13.1 Number of ordinary shares on issue

At 31 December 2013, 1,286,600,980 of ordinary shares were on issue. There have been no movements to this balance since 30 June 2013.

On 1 October 2013, 6,732,163 ordinary shares were allotted at the issue price of $12.71 per share under the Dividend Reinvestment Plan in respect of the 2013 final and special dividends. On 1 October 2012, 7,376,305 ordinary shares were allotted at the issue price of $9.17 per share under the Dividend Reinvestment Plan in respect of the 2012 final and special dividends. Shares for both allotments were acquired on market for delivery to shareholders and resulted in no issue of new shares.

14. Reserves

CONSOLIDATED	Equity reserve for credit losses $m	Hedging reserve $m	Assets available-for-sale reserve $m	Foreign currency translation reserve $m	Total $m
Balance as at 1 July 2013	**131**	**(65)**	**(4)**	**(22)**	**40**
Transfer to retained profits	**(6)**	**-**	**-**	**-**	**(6)**
Amount recognised in equity	**-**	**30**	**5**	**-**	**35**
Amount transferred from equity to profit or loss	**-**	**2**	**7**	**-**	**9**
Income tax	**-**	**(11)**	**(4)**	**-**	**(15)**
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**88**	**88**
Balance as at 31 December 2013	**125**	**(44)**	**4**	**66**	**151**
Balance as at 1 July 2012	147	(107)	(5)	(90)	(55)
Transfer from retained profits	(14)	-	-	-	(14)
Amount recognised in equity	-	23	8	-	31
Amount transferred from equity to profit or loss	-	15	(12)	-	3
Income tax	-	(16)	1	-	(15)
Exchange differences on translation of foreign operations	-	-	-	12	12
Balance as at 31 December 2012	133	(85)	(8)	(78)	(38)

15. Fair value of financial instruments

15.1 Comparison of fair value to carrying amounts

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

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

The basis for determining their fair values has not changed since 30 June 2013 and is described in note 26.1 to the Suncorp Group consolidated financial report for the financial year ended 30 June 2013.

The table below discloses a comparison of carrying value and fair value of financial assets and liabilities that are not recognised and measured at fair value, where their carrying value is not a reasonable approximation of fair value. Significant assumptions and estimates used in determining their fair values has not changed since 30 June 2013 and are described in note 26.1 to the Suncorp Group consolidated financial report for the financial year ended 30 June 2013.

CONSOLIDATED	Note	Dec 2013		Jun 2013	
		Carrying value $m	Fair value $m	Carrying value $m	Fair value $m
Financial assets					
Held-to-maturity investments		**4,080**	**4,124**	4,288	4,327
Banking loans, advances and other receivables		**49,074**	**49,132**	47,999	48,077
Financial liabilities					
Deposits and short-term borrowings[1]		**40,506**	**40,621**	39,548	39,621
Debt issues	8.4	**6,412**	**6,467**	7,291	7,469
Subordinated notes	11.2	**1,671**	**1,678**	1,646	1,672
Preference shares	12	**550**	**588**	579	607

Note

1 Excludes short-term offshore borrowings designated as financial liabilities at fair value through profit or loss.

15.2 Fair value hierarchy

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

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

15.2 Fair value hierarchy (continued)

CONSOLIDATED	Dec 2013			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets				
Trading securities	-	2,129	-	2,129
Investment securities[1]	5,101	17,405	2	22,508
Derivatives	1	398	26	425
	5,102	19,932	28	25,062
Financial liabilities				
Deposits and short-term borrowings[2]	-	3,686	-	3,686
Derivatives	-	496	58	554
	-	4,182	58	4,240

Notes

1 Only includes financial assets at fair value through profit or loss and available-for-sale financial assets.

2 Only includes short-term offshore borrowings designated as financial liabilities at fair value through profit or loss.

There have been no significant transfers between Level 1 and Level 2 during the half-year ended 31 December 2013. Level 3 investment securities consist of interest-bearing securities and holdings in unlisted unit trusts which have suspended daily redemptions. The valuation methodology used for these Level 3 investment securities is based on the discount rate determined by the relative trading value to face value for interest-bearing securities and the latest available redemption price published by the external manager for the unlisted unit trusts.

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

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

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

CONSOLIDATED	Dec 2013		
	Asset		Liability
	Investment securities $m	Derivatives $m	Derivatives $m
Balance at the beginning of the period	3	41	109
Total gains or losses included as investment revenue in profit or loss for the period[1]	-	(6)	(41)
Transfer out to Level 2	-	(11)	(16)
Purchases	-	2	6
Settlements	(1)	-	-
Balance at the end of the period	2	26	58

Note

1 All gains/losses included in the profit or loss relate to assets and liabilities held at the end of the period (i.e. unrealised).

16. Changes in the composition of the Suncorp Group

The Suncorp Group did not acquire nor dispose of any material subsidiaries, interests in joint arrangements, and associates during the current or prior interim reporting periods.

17. Related parties

Except as disclosed below, arrangements for related parties continue to be in place as disclosed in the consolidated financial report for the financial year ended 30 June 2013.

Changes in the composition of key management personnel

The following changes to Senior Executives (defined as the executives reporting to the Group CEO who are key management personnel) were made effective 9 December 2013:

- Former Group Chief Financial Officer, Mr John Nesbitt, was appointed as the Chief Executive Officer Suncorp Bank.
- Chief Executive Officer Suncorp Bank, Mr David Foster, providing transition and handover to Mr Nesbitt.
- Former Group Deputy Chief Financial Officer, Mr Steve Johnston, was appointed as the Group Chief Financial Officer.
- Mr Mark Reinke, Group Executive Marketing, was appointed as a Senior Executive.

Share-based payments

During the half-year, the following Long-term Incentives (**LTI**) grants were made to the Group CEO and executives as part of their remuneration package under the Suncorp Group Equity Incentive Plan (December 2012: Executive Performance Share Plan):

- 324,396 (December 2012: 446,752) performance rights were offered to the Group CEO as approved and resolved by shareholders at the 2013 Annual General Meeting on 24 October 2013 (December 2012: 2012 Annual General Meeting on 25 October 2012). The fair value per share at grant date was $7.13 (December 2012: $6.41).
- 1,010,448 (December 2012: 1,020,377) performance rights were offered to executives on 1 October 2013 (December 2012: 1 October 2012). The fair value per share at grant date was $7.30 (December 2012: $5.93).

A performance right entitles a participant to one fully paid ordinary share in the Company (or under limited circumstances, a cash payment in lieu of an allocation of ordinary shares) at no cost, and arises at a set future point in time, provided specific performance hurdles are met. If a performance right vests and shares are allocated, a payment equal to the dividends earned on those allocated shares during the performance period is paid (less applicable taxes that have been paid or are due to be paid by the plan trustee with respect to the dividends).

The performance rights have a performance period from 1 October 2013 to 30 September 2016 (December 2012: 1 October 2012 to 30 September 2015). The performance rights are subject to a service condition and a total shareholder return (**TSR**) hurdle which compares the TSR performance of the Company with the TSR performance of each of the entities in a comparator group (**TSR hurdle**). The comparator group comprises the top 50 listed industrial companies within the S&P/ASX 100 Index (after excluding property trust and mining companies) as at 1 October 2013 (December 2012: 1 October 2012).

The percentage of performance rights that vest will be determined by the Board, in its sole discretion, by reference to the percentile ranking achieved by the Company over the performance period compared to the other entities in the comparator group:

Relative TSR ranking of the Company	Performance rights that vest (%)
75th percentile or above	100%
Between 51st and 75th percentile	50% plus 2% for each percentile achieved above the 50th percentile
50th percentile	50%
Below 50th percentile	Nil

All performance rights that do not vest following the testing of the TSR hurdle will lapse immediately.

18. Contingent assets and liabilities

There have been no material changes in contingent assets or contingent liabilities since 30 June 2013.

19. Subsequent events

There has not arisen in the interval between 31 December 2013 and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Suncorp Group, the results of those operations, or the state of affairs of the Suncorp Group.

Directors' declaration

In the opinion of the directors of Suncorp Group Limited (the Company):

1. The consolidated interim financial statements and notes set out on pages 8 to 24, are in accordance with the *Corporations Act 2001*, including:
    a) giving a true and fair view of the Suncorp Group's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
    b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Dr Zygmunt E Switkowski	**Patrick J R Snowball**
Chairman	Managing Director

19 February 2014

Independent auditor's review report to the members of Suncorp Group Limited

We have reviewed the accompanying interim financial report of Suncorp Group Limited (the **Company**), which comprises the consolidated interim statement of financial position as at 31 December 2013, consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the half-year ended on that date, notes 1 to 19 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Suncorp Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the half year.

Directors' responsibility for the interim financial report

The directors of the Company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Suncorp Group's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Suncorp Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Suncorp Group Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Suncorp Group's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

Paul Reid
Partner

Brisbane
19 February 2014