Suncorp-Metway Limited and subsidiaries

ABN 66 010 831 722

Directors' Report & Consolidated Financial Report

for the financial year ended 30 June 2018

SUNCORP-METWAY LIMITED AND SUBSIDIARIES ABN 66 010 831 722

DIRECTORS' 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 of the consolidated entity (or **Group**), being Suncorp-Metway Limited (the **Company**) and its subsidiaries, for the financial year ended 30 June 2018 (**2017–18**) and the auditor's report thereon. Suncorp Group Limited (**SGL**), the Company's ultimate parent entity, is the listed holding company of the Suncorp Group of companies. SGL and its subsidiaries is referred to as the **Suncorp Group** or **Suncorp**. Terms that are defined appear in bold the first time they are used.

1. Directors' profiles

The names of the people who served as directors of the Company at any time during or since the end of the 2017–18 financial year are set out below. All non-executive directors are members of the Nomination Committee.

Dr Zygmunt E Switkowski AO

BSc (Hons), PhD, FAICD, FAA, FTSE
Non-executive Chairman

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

Michael A Cameron

FCPA, FCA, FAICD
CEO & Managing Director

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

Audette E Exel AO

BA, LLB (Hons)
Non-executive director

Ms Exel has been a director of the Group since June 2012 and is a member of the Risk Committee. She brings to Suncorp deep business experience in banking, insurance and reinsurance, investment management and corporate advice. Ms Exel was Managing Director of Bermuda Commercial Bank (1993–1996), Chairman of the Bermuda Stock Exchange (1995–1996) and served on the board of the Bermuda Monetary Authority (1999–2005). She began her career as a lawyer specialising in international finance. Ms Exel founded the Adara Group, a pioneering organisation which exists to support people living in poverty, and is Chief Executive Officer of Adara Advisors Pty Ltd and Adara Partners (Australia) Pty Ltd, and Chair of Adara Development. She is the recipient of numerous awards. In 2013 she was awarded an honorary Order of Australia for service to humanity.

Sally A Herman

BA, GAICD
Non-executive director

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

Simon C J Machell

BA (Hons), FCA
Non-executive director

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

Christine F McLoughlin

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

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

Dr Douglas F McTaggart

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

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

Lindsay J Tanner

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

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

Former non-executive directors

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

2. Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each director (or former director) of the Company during 2017–18 are set out in the table below.

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

A Number of meetings held during the year while the director was a member of the Board or Committee
B Number of meetings attended by the director during the year while the director was a member of the Board or Committee
[1] Since the conclusion of the reporting period, the Remuneration Committee became the People and Remuneration Committee with an expanded remit.
[2] The CEO & Managing Director attends the Audit Committee, Risk Committee, and People and Remuneration Committee meetings at the invitation of those committees. There are no management representatives appointed as members of any Board Committee.

3. Directors' interests

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

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

1 Includes 817,230 restricted shares held by the trustee of the Suncorp Group Equity Incentive Plan Trust. Beneficial entitlement to these shares remains subject to satisfaction of specified performance hurdles.

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

4. Company Secretary

Details of the Company Secretaries during 2017–18 and as at the date of this report are set out below:

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

Ms Kristy Huxtable FGIA, MAICD, MBA, Grad Dip Corp Gov, Grad Dip HR was appointed Company Secretary on 1 August 2016 and has been with the Company Secretariat team since January 2014. Ms Huxtable has extensive corporate governance experience in financial services.

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

5. Remuneration Report

The Suncorp Group Remuneration Report is set out on pages 17 to 41 and forms part of the Directors' Report for 2017–18.

6. Principal activities

The Company is an Authorised Deposit-taking Institution (**ADI**). The principal activities of the Group during the course of the financial year were the provision of banking and related services to the retail, commercial, small and medium enterprises and agribusiness sectors in Australia. The Group conducts the Banking operations of the Suncorp Group. There were no significant changes in the nature of the Group's activities during 2017–18.

6.1 Company's objectives

The objectives of the Company are to deliver outcomes related to the Banking and Group-wide overall objectives of the Suncorp Group.

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

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

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

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

7. Dividends

A 2017 final dividend of $181 million (67 cents per share) and a 2018 interim dividend of $117 million (43 cents per share) was paid during the financial year. A 2018 final dividend of $76 million (28 cents per share) has been determined by the directors.

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

8. Operating and financial review

8.1 Overview of the Group

The Group delivered profit after tax of $346 million (2016-17: $394 million) driven by a 4.4% increase in net interest income which was delivered by above system lending growth, offset by upfront investment in the business and lower non-interest income.

8.2 Review of principal business

At call deposits growth of 7.1% resulted from new product offerings, enhanced digital functionality, and simplified processes. Home lending growth of 6.2%, was driven by the increased focus on process optimisation and customer retention. Business lending growth of 7.0% was driven by targeted commercial growth, primarily in small business and property investment.

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

The consumer lending portfolio contracted primarily due to the divestment of the margin lending portfolio.

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

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

8.3 Review of financial position

Total assets increased by $2,684 million or 4.2% to $66,105 million compared with June 2017.

Cash and cash equivalents decreased by $397 million to $506 million reflecting strong lending growth.

Investment securities decreased by $502 million to $4,058 million reflecting maturities of floating rate notes and amortisation of residential mortgage backed securities.

Loans and advances increased by $3,401 million to $58,598 million driven by a 6.2% increase in home lending and a 7.0% increase in business lending.

Total liabilities increased by $2,939 million or 5.0% to $62,236 million compared with June 2017.

Deposits and short-term borrowings increased by $616 million to $46,043 million driven by above system 7.1% increase in at-call deposits over the financial year from investment in new product offerings, enhanced digital capabilities and functionality including the introduction of digital wallets. This was partially offset by an 11.0% reduction in short-term wholesale securities. The Group continued to rebalance the customer deposit portfolio to reduce reliance on relatively more expensive term deposits.

Securitised liabilities increased by $1,760 million to $4,848 million due to the establishment of Apollo Series 2017-2 Trust in September 2017 and Apollo Series 2018-1 Trust in April 2018, partially offset by repayments made on the underlying securitised mortgages within the Apollo trusts and the termination of the Apollo Series 2018-2P Trust during July 2017 and Apollo Series 2008-3 Trust during February 2018.

Debt issues increased by $638 million to $9,854 million due to a $1,092 million increase in senior unsecured floating rate notes on issue, partially offset by a $454 million reduction in covered bonds on issue.

Total equity decreased by $255 million or 6.2% to $3,869 million compared with June 2017.

Capital notes decreased by $275 million due to the buy back of capital notes of $450 million issued to SGL in 2012, partly funded by the issuance of an additional $175 million in capital notes to SGL.

8.4 Review of capital structure

Suncorp Group's capital management strategy is to optimise shareholder value by managing the level, mix and use of capital resources. The primary objective is to ensure there are sufficient capital resources to maintain and grow the business, in accordance with risk appetite.

The Group is subject to, and complies with, external capital requirements set and monitored by the Australian Prudential Regulation Authority (**APRA**). The Group has complied with external capital requirements which it is subject to during the current and prior financial years.

The Group's Internal Capital Adequacy Assessment Process (**ICAAP**) provides the framework to ensure that the Group as a whole and each regulated entity, is capitalised to meet both internal and external requirements. The ICAAP is reviewed regularly and, where appropriate, adjustments are made to reflect changes in the Group's capital requirements.

A range of instruments and methodologies are used to effectively manage capital including share issues, dividend policies and Tier 1 and Tier 2 instruments. Capital targets are structured according to risk appetite, business lines regulatory frameworks and APRA's Non-Operating Holding Company conditions.

For regulatory purposes, capital is classified as follows:

- CET1 comprising accounting equity with adjustments for intangible assets and regulatory reserves
- Tier 1 Capital comprising CET1 plus Additional Tier 1 Capital such as hybrid securities with 'equity-like' qualities
- Tier 2 Capital comprising certain securities recognised as Tier 2 Capital, together with specific Bank reserves eligible as regulatory capital
- Total Capital is the sum of Tier 1 Capital and Tier 2 Capital.

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

The Group's CET1 ratio was 9.07% (2017–18: 9.23%), above its target operating range of 8.5% - 9.0% of Risk Weighted Assets.

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

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

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

10. Events subsequent to reporting date

There has not arisen in the interval between the end of the 2017–18 financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

11. Likely developments

The Group continues to target the following operating metrics:

— sustainable lending and deposit growth above system
— a cost to income ratio of around 50%, subject to regulatory costs in the short-term
— NIM at the low end of a 1.80% to 1.90% range
— a stable and diverse funding profile with a NSFR comfortably above 105%
— a return on CET1 capital of 12.5% to 15.0%.

Above system growth in transactional banking will remain a priority as the Group leverages the investments made in digital and payment capabilities. Home lending growth is expected to moderate over 2018–19 due to a slowing market and increased regulatory reform. Home lending may be impacted by an increasing trend of accelerated customer repayments given the Group's higher proportion of principal and interest lending. Notwithstanding these factors, the Group continues to target above system growth in home lending.

The Group will seek to optimise its lending mix through targeted, above system growth across commercial, small business and agribusiness lending. Heightened pricing competition and adverse BBSW movements are expected to place higher than previously anticipated pressure on margin in the short term. The stable, diverse and flexible funding options available to the Group are expected to somewhat mitigate likely NIM headwinds.

The Group will continue to maintain responsible lending practices through disciplined credit selection in line with prudent risk management practices. Impairment losses are expected to remain at or below the bottom of the through-the-cycle operating range of 10 to 20 bps.

Discussions continue with APRA on the Group's adoption of Basel II Advanced Accreditation. The Basel III reforms and APRA's roll-out of unquestionably strong benchmarks, communicated to the market from mid-2017, require further consideration as they are expected to reduce the gap between standardised and advanced bank capital requirements. Expected impacts cannot be confirmed before APRA releases the draft standards, which are expected in early 2019.

The Group remains committed to reducing the cost-to-income ratio through the delivery of significant operational efficiencies from the investment in BIP, notwithstanding the expected increase in regulatory compliance. Regulatory costs are expected to increase through 2018–19.

12. Key internal and external risks

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

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

- **Shifts in customer expectations, technology and competitors.** Competition is heightened as the industry races to embrace technology and disrupt traditional business models. Suncorp's customer strategy and the BIP positions the Group well against these risks as it focuses on making it easier, faster and more convenient for customers (including through physical and digital channels). Suncorp is also simplifying, automating and digitising processes as part of its strategic priority 'Elevate the Customer' which will enable the Group to leverage customer insights, create greater personalisation and deliver better customer experiences. Suncorp actively monitors strategic risks and responds through various initiatives, incorporating these into the strategy and business planning process.
- **Risks relating to the prioritisation and execution of strategic initiatives.** To achieve its vision of being the destination for moments that matter, Suncorp Bank must effectively prioritise investment and deliver key initiatives. As the internal and external environment shifts, a level of agility will be required around these investment decisions. Program management capability, tools and governance driven by the Program Excellence Function mitigate this risk.
- **Risks relating to the failure to meet government or regulatory expectations**. The business has programs in place to ensure the implementation of regulatory change, with the 2019 financial year project portfolio heavily weighted to regulatory change imperatives. The 'Enterprise Compliance Strategy' has increased Suncorp's capability to satisfy regulatory expectations by enhancing awareness and standardising the management of compliance obligations across the Group.
- **Maintaining an engaged workforce** (including partners and intermediaries), with appropriate culture, conduct and capability to execute the strategy. 'Inspire Our People' is one of Suncorp's three strategic priorities and is driving various initiatives to connect people with our purpose, deliver the Suncorp experience and build the workforce and workspace of the future.
- **Loss, compromise or unavailability of data, systems and business operations**. Suncorp's Technology, Data and Labs Function actively monitors internal systems and cyber security threats, and is continually investing in systems, processes and controls to maintain a secure and resilient technology environment. The importance of and accountability for security is reinforced to all employees through policy, procedures and education. Contingency planning and testing is performed in case of disruption to critical systems and business processes.
- **Economic instability and a continued low-yield environment.** Financial performance is significantly affected by changes in investment markets and economic conditions both globally and in Australia. Suncorp consistently monitors these risks by examining market conditions and adopts appropriate financial management strategies to help protect the business.
- **Physical impacts of climate change, significant weather events and natural hazards that exceed expectations**. Suncorp's Climate Change Action Plan has been released (refer to section 14.2) which forms the basis for maturing the assessment, management and disclosure of climate change risks and opportunities. Suncorp reduces financial volatility through the effective management of capital and provisioning.
- **Suncorp's ability to maintain its external reputation and confidence of customers, investors and regulators.** Meeting expectations of our stakeholders by doing the right thing, improving customer experience, delivering operational excellence and leveraging the strength of Suncorp's core business will contribute to mitigating this risk. Suncorp's ongoing focus on customers, conduct and culture will help maintain confidence, in an environment of deteriorating trust in financial services.

- **Suncorp's ability to deliver on its strategy and achieve financial targets.** To remain a sustainable business that customers can count on in the moments that matter, Suncorp needs to maintain momentum and continue to drive growth across the business. Disciplined portfolio management, operational excellence and investment in core systems contribute to Suncorp's strategic priority 'Drive Momentum and Growth'. Suncorp Group actively manages its liquidity and funding positions and ensures appropriate contingency arrangements are maintained.
- **Credit Risk – a systemic change in the property market or business environment, resulting in a heightened level of loan defaults.** Suncorp performs ongoing monitoring of the external environment and its lending portfolio. Credit Policy is applied to ensure responsible lending to customers. Stress testing, capital management and underwriting strategies help protect against systemic changes in the external environment.

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

13. Impact of legislation and other external requirements

The Group operates within a highly regulated industry.

There continue to be significant and numerous domestic and global legislative and regulatory reforms and proposals, as well as numerous government and regulator consultations, reviews and inquiries which may result in changes or proposals that could or may impact the Group now and in the future.

Some of the matters that could or may impact the Group and its entities include the following:

- the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry and the potential findings and recommendations of the Commission
- the introduction of the Bank Executive Accountability Regime legislation, which will impose additional duties and behavioural expectations on ADIs and their executives and give APRA stronger enforcement powers to impose substantial penalties if those duties are breached
- the Australian Bankers' Association (**ABA**) 'six-point initiatives/plan' intended to implement comprehensive new measures to protect consumer interests and increase transparency and accountability in the banking industry
- the ABA's Better Banking program initiatives of which the ABA's six-point initiatives/plan forms part
- the continued implementation of the various Basel III reforms by APRA including the introduction of the Net Stable Funding Ratio and the introduction by APRA of measures to strengthen lending standards for ADIs
- the implementation of Open Banking in Australia which will give ADI customers a right to direct that the information they already share with their ADI be safely shared with others they trust
- the Federal Government's commitment to the implementation of a national Consumer Data Right, allowing consumers to control their data including who can have it and who can use it
- the establishment of mandatory data breach notification obligations and the Office of the Australian Information Commissioner's focus on implementing an effective data breach response
- the focus of APRA to implement a cross-industry framework for the management of information security
- the passage of Federal legislation intended to strengthen the crisis management powers of APRA in relation to banks, insurers and registrable superannuation entities

– the Australian Securities & Investments Commission (**ASIC**) and Australian Small Business and Family Enterprise Ombudsman inquiry into small business loans, including the ABA endorsement of the recommendations made by that inquiry
– the Report on affordable capital for small and medium enterprises growth led by the Australian Small Business and Family Enterprise Ombudsman
– the establishment of a new dispute resolution framework for financial disputes which includes a 'one stop shop' for the determination of customer disputes in the financial services sector – the Australian Financial Complaints Authority
– the introduction into Federal Parliament of the Banking System Reform (Separation of Banks) Bill 2018 which proposes to separate retail commercial banking activities from wholesale and investment banking activities
– the ABA's commission of the Retail Banking Remuneration Review (product sales commission and payments) and publication of the report on the review (the Sedgwick Report)
– the Common Reporting Standard and Foreign Account Tax Compliance Act regime concerning Australia's obligation in the automatic exchange of financial account information with foreign jurisdictions
– the Federal Treasury annual consultation on proposed financial industry supervisory levies that will apply for the 2017–18 financial year
– the introduction of legislation into the Federal Parliament by the Federal Government to enhance whistleblower protections and the inquiry into whistleblower protections led by the Australian Government Parliamentary Joint Committee on Corporations and Financial Services
– the introduction of the mandatory comprehensive credit reporting regime for ADIs
– the introduction of a toolkit published by the Financial Stability Board to strengthen governance frameworks to mitigate misconduct risk
– the review by ASIC of the significant breach self-reporting requirements for financial services licensees
– the passing of legislation giving ASIC the power to designate significant financial benchmarks and make rules regarding the administration of those designated financial benchmarks
– the introduction into Federal Parliament by the Federal Government of a bill which will increase the current legislative ownership cap for ADIs
– APRA's consultation on proposed changes to the large exposures prudential framework, which is likely to come into effect from 1 January 2019
– the introduction of new measures by APRA to reinforce sound residential mortgage lending practices
– the imposition by APRA of new capital and maximum requirements in respect of residential mortgage lending
– the Federal Government's proposed new Design and Distribution obligations which in broad terms will require identification of target markets for financial products, having regard to the features of products and consumers in those markets, selection of appropriate distribution channels and periodic review of arrangements to ensure they continue to be appropriate
– the Productivity Commission inquiry into increasing competition in the Australian financial system
– the Australian Consumer Law (**ACL**) review and various reforms and proposed reforms to the ACL
– the passage of legislation through Federal Parliament to amend the misuse of market power provisions of the Competition and Consumer Act 2010

- the passing of legislation by Federal Parliament to reform competition laws and simplify the provisions on cartel conduct and better target anti-competitive conduct
- the Federal Government's proposed amendments to the National Consumer Credit Protection Act 2009 (**Credit Act**) to enhance the consumer protection framework for small amount credit contracts and consumer leases
- the passing of amendments to the Credit Act by Federal Parliament to ensure greater consumer protection with respect to the issuance and limit increases of personal credit cards.
- ASIC's consultation on proposed credit card lending assessments
- the review into the financial hardship arrangements and how they interact with the consumer credit reporting framework led by the Attorney-General's Department
- the ongoing Federal Senate inquiry into Australia's banking, insurance and financial services sectors
- the Federal Government's steps to lift the professional, ethical and education standards in the financial services industry
- the Federal Government's focus on improving consumer outcomes and competition in the home loan market
- the Federal Government's continued focus on developing legislation to address fintech developments such as crowdfunding
- the new crowd-sourced funding regime in Australia
- the Australian Attorney-General's Department and the Australian Transaction Reports and Analysis Centre's consultation on anti-money laundering and counter-terrorism financing laws.

Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

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

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

Open Banking System

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

Basel III capital and liquidity reforms

APRA has continued to implement the prudential framework applicable to Australian banks under the Basel III capital and liquidity reforms established by the Basel Committee on Banking Supervision (**BCBS**).

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

14. Environmental and Corporate Responsibility reporting

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

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

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

14.1 Environmental Performance Plan

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

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

14.2 Climate Change Action Plan approved

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

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

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

14.3 Improving climate risk disclosures

In 2017–18 Suncorp expanded the boundaries of its Scope 1 and Scope 2 greenhouse gas emissions reporting to include New Zealand operations and Suncorp Insurance Ventures.

Suncorp Group also:

- publicly discloses information on its climate-related risks and opportunities to CDP, an independent, international not-for-profit organisation focused on transparency and environmental sustainability
- is committed to meeting the recommendations of the TCFD, and

– is making progress on the integration of a climate risk and opportunity assessment into risk management and governance processes.

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

14.4 Responsible Investment Policy launched

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

– details Suncorp's approach to the long-term sustainability of investment returns and management of the environmental, social and governance (**ESG**) risks and opportunities in its investment portfolios

– ensures ESG considerations are factored into investment manager selection and the evaluation of investment risks and opportunities.

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

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

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

15. Indemnification and insurance of officers and directors

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

SGL has also executed deeds of access, indemnity and insurance with directors and secretaries of the Company and its subsidiaries, and deeds of indemnity and insurance with directors of related bodies corporate and joint venture companies. Those deeds, which are subject to certain conditions and limitations, provide an indemnity to the full extent permitted by law for liabilities incurred by that person as an officer, including reasonable legal costs incurred in respect of certain legal proceedings and an entitlement to directors' and officers' liability insurance. The deeds containing access rights provide access to company records following the cessation of the officer's position with the relevant company.

During 2017–18 SGL paid insurance premiums in respect of a directors' and officers' liability insurance contract. The contract insures each person who is or has been a director or officer (as defined in section 9 of the *Corporations Act*) of the Company against certain liabilities arising in the course of their duties to the Company and its subsidiaries. The directors have not included details of the nature of the liabilities covered or the amount of the total premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

16. Suncorp's Corporate Governance Statement 2017–18

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

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

17. Non-audit services

During the year, KPMG, the Company's auditor, performed certain services in addition to the audit and review of the financial statements.

The Board has considered the non-audit services provided during the financial year by the auditor and, having received the appropriate confirmations from the Audit Committee, is satisfied that the auditor's provision of those non-audit services is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

– All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure that they do not impact the integrity and objectivity of the auditor.

– The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid or due and payable to the auditor of the Company, KPMG, and its related practices for non-audit services provided during the financial year are set out below.

SERVICES OTHER THAN STATUTORY AUDIT

	2018	2017
Audit-related fees (regulatory)		
APRA reporting	565	359
Australian financial services licences	13	21
Other regulatory compliance services	18	18
	596	398
Audit-related fees (non-regulatory)		
Other assurance services	496	722
Other services		
Tax compliance	12	12
	508	734
	1,104	**1,132**

18. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 42 and forms part of the Directors' Report for 2017–18.

19. Rounding of amounts

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

REMUNERATION REPORT

Dear Shareholder

The Board is pleased to present the Suncorp-Metway Limited Remuneration Report for the financial year ended 30 June 2018 (**2017–18**).

Suncorp-Metway Limited and its subsidiaries are subject to the remuneration framework determined by the Suncorp Group, being Suncorp Group Limited (**SGL**) and its subsidiaries (defined as either the **Suncorp Group** or **Suncorp**). The composition of the Board of the Company is consistent with that of SGL. Throughout this Report, for consistency, references are made to the Suncorp Group's remuneration arrangements rather than the Group's remunerations arrangements. References in the Report to the CEO & Managing Director, Senior Executives and the Board are to the Suncorp Group CEO & Managing Director, Suncorp Group Senior Executives and Suncorp Group Board.

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

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

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

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

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

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

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

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

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

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

DR ZIGGY SWITKOWSKI AO

Chairman of the Board

9 August 2018

CHRISTINE MCLOUGHLIN

Chairman of the People and Remuneration Committee

Remuneration Report for 2017–18

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

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

1. 2017–18 Executive remuneration snapshot

1.1 Executive remuneration arrangements

OBJECTIVE

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

REWARD PRINCIPLES

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

Fixed remuneration

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

See section 2.2 for further detail.

Short-term incentives (STI)

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

See section 2.3 and 3.4 for further detail.

Long-term incentives (LTI)

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

See section 2.4 and 3.4 for further detail.

REMUNERATION POSITIONING

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

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

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

1.2 Executive remuneration outcomes

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

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

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

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

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

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

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

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

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

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

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

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

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

11 Mr Day ceased employment on 27 October 2017.

12 Ms Olgers ceased employment on 28 October 2017.

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

1.3 Executive remuneration outlook for 2018–19

Changes to long-term incentive awards

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

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

2. Overview of 2017–18 remuneration framework

2.1 Executive remuneration strategy and framework

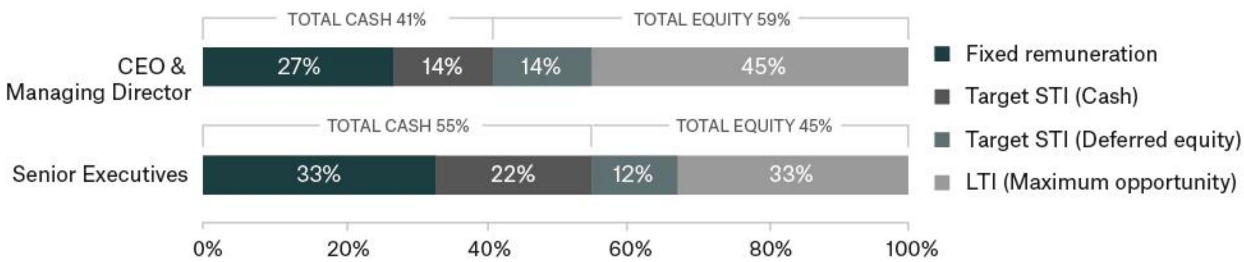
The Suncorp Group Remuneration Policy provides a governance framework for the structure and operation of remuneration plans within the context of the Suncorp Group's strategy, long-term financial soundness and risk management framework. The Board is committed to a fair, transparent and responsible remuneration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

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

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

Remuneration mix

The CEO & Managing Director's remuneration mix is heavily focused on longer term performance and two-thirds of total remuneration for Senior Executives is 'at-risk'.



2.2 Fixed remuneration

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

2.3 Short-term incentives

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

2017–18 Suncorp Group Scorecard measures, weightings and performance outcomes

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

1 The Board also considers other factors including the operational efficiency and the alignment to strategic plans approved by the Board consistent with the Board's expressed risk appetite.

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

Rationale for scorecard measures

Scorecard Category	Scorecard measure	Rationale
Profit and Financials	Adjusted NPAT	The Board considers Adjusted NPAT to be an appropriate reflection of the Suncorp Group's performance relative to its targets. The measure provides relevant information used internally to evaluate the performance of functions, and to analyse trends in revenue and cash-based expenses, based upon controllable items. It is the basis for operational objectives and is used to allocate resources. As a measure of management performance, it is an effective measure for STI. Adjusted NPAT provides stakeholders with a clear understanding of the Suncorp Group's results. It excludes the effects of a limited range of actions and special items that do not reflect the ordinary earnings of the business. Over time, Adjusted NPAT allows the evaluation of Suncorp's period-over-period operating performance. The Board considers this measure to be useful to shareholders in evaluating the underlying operating performance of the business. Net adjustments over 2017–18 were $36 million (post-tax) and consisted of investment income, prior year releases, and natural hazards. Adjusted NPAT has been determined on a consistent basis since 2011–12.
	Cash ROE	Cash ROE was chosen because it is a measure of the Suncorp Group's profitability and how efficiently Suncorp utilises investments to generate income. Cash ROE considers all controllable and uncontrollable items.
Customer	Marketplace deliverables	Marketplace deliverables is a digitally enabled strategy designed to achieve better customer outcomes. Measures include: – single digital customer experience (the marketplace app) – brand refresh and roll-out in stores and other real estate – integrated offers for customers – third party partnerships such as nib, Petsure and Challenger – reward and recognition programs – digital technologies that enable better customer interactions.
	Customer measures	– *Customer net flows:* To reflect the impact of integrated offers in key segments, renewal pricing across personal and commercial insurance and increased expansion of key products outside of Queensland. – *Percentage of customers retained*: As significant customer inflows can mask the impact of customers lost, customer retention is also measured. – *Number of connected customers*: To reflect Suncorp's strategy to broaden and deepen its relationships with customers by meeting more customer needs. – *Net promoter score*: To recognise the ongoing implementation of Suncorp's customer strategy. – *Customer complaints:* To reflect the Suncorp Group's focus on reducing volume and efficient resolution of customer complaints, to ensure customer feedback is addressed quickly and proactively, and that Suncorp resolves customer complaints internally.
Risk	Achievement of Suncorp Group Risk Maturity Model measures	This provides an objective measurement tool that consistently and transparently assesses and tracks the quality of risk management capability and risk-based performance at a Company level through an aggregated measure of risk maturity.
	Demonstration of risk management practices	The demonstration of risk management practices in the areas of performance, culture, core practices and compliance supports an assessment of the effectiveness of risk management practices and risk culture at Suncorp and how these align with the Board's stated risk appetite.
People	Organisational culture	The organisational culture dashboard provides a means of qualitatively and quantitatively assessing the three cultural dimensions of Performance, Risk and

Scorecard Category	Scorecard measure	Rationale
		Customer, providing an indication of alignment of the dimensions and resulting behavioural outcomes. Assessing the health of Suncorp's culture focuses on the alignment of these cultural dimensions, and the impact this has on Suncorp's ability to achieve the key strategic priorities to Elevate the Customer, Drive Momentum and Growth, and Inspire our People.

Executive STI performance outcomes in 2017–18

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

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

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

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

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

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

5 Mr Day ceased employment on 27 October 2017.

6 Ms Olgers ceased employment on 28 October 2017.

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

2.4 Long-term incentives

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

Vesting Schedule

Relative TSR performance outcomes	Percentage of LTI award that will vest
Below the 50th percentile	0%
At the 50th percentile (median performance)	50%
Between the 50th and 75th percentiles	Pro-rata vesting occurs between the 50th and 75th percentiles
At or above the 75th percentile	100%

Performance and deferral period	For 2017–18, the performance and deferral period for LTI awards is three years. There is no retesting opportunity and any performance rights that do not vest at the end of the three-year performance period will lapse. For 2018–19, the performance period will remain at three years; however, the deferral period will be extended to four years as a result of the Board early adopting the remuneration deferral requirements under the BEAR. See section 1.3 for further information.
Malus	All performance rights are subject to the potential application of malus. See section 3.4 for further information.
Termination provisions	See section 4 for information on the treatment of LTI awards on termination.

2.5 Performance summary: 2014–2018

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

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

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

2 Closing share price at 30 June each year.

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

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

2.6 Minimum shareholding requirement

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

Executives are required to meet the minimum shareholding requirement four years from the October following their appointment, with 50% to be achieved after two years. The value of the shares for the purposes of this requirement is the market value of the underlying shares.

Based on their shareholding as at 30 June 2018, all executives are on track to meet the shareholding requirement. Detailed share ownership information for executives is shown in section 6.4.

3. Remuneration governance and risk

3.1 Remuneration governance framework

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

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

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

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

Board

PEOPLE AND REMUNERATION COMMITTEE

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

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

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

RISK COMMITTEE

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

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

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

EXTERNAL ADVISERS

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

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

MANAGEMENT

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

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

3.2 Remuneration alignment with risk management

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

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

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

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

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

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

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

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

In determining performance and remuneration outcomes, the People and Remuneration Committee considers all relevant factors to demonstrate alignment with the Suncorp Group's risk appetite and adherence to effective risk management practices to ensure that long-term financial soundness of outcomes is determined, before the Board makes its final determination of the overall STI pool.

Risk is considered in the remuneration structure for executives

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

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

3.3 Hedging prohibition

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

All KMP are reminded of this policy at least twice per year, usually in the month prior to the release of Suncorp Group's annual and half-yearly financial results.

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

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

3.4 Malus

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

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

4. Employment agreements – summary

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

Where a change of control of the Company occurs, deferred STI and a pro-rata award of current year STI may be awarded to the CEO & Managing Director, and unvested LTI may vest on a pro-rata basis (subject to the satisfaction of applicable performance measures). For Senior Executives, the impact of a change of control on remuneration is at Board discretion. A summary is outlined below.

	CEO & Managing Director	**Senior Executives**
Notice period/ termination payments	**Employer-initiated termination** Incapacity: 9 months Misconduct: none All other cases: 12 months **Employee-initiated termination:** 6 months	**Employer-initiated termination** Incapacity: 3 months Misconduct: none All other cases: 12 months **Employee-initiated termination**: 3 months
Treatment of STI cash on termination	**Employer-initiated and employee-initiated termination** Resignation or redundancy: A cash STI award may be received, subject to performance, at Board discretion. Misconduct: No cash STI will be awarded. All other cases: Board discretion.	
Treatment of STI deferral on termination	**Employer-initiated and employee-initiated termination** ***Post 1 July 2016 (Equity-based deferral)*** Resignation: Any unvested deferred incentive is forfeited. Redundancy: Any deferred incentive will generally vest at the end of the original deferral period and will remain subject to the potential application of malus. Misconduct: All unvested deferred incentives are forfeited. All other cases: Board discretion. ***Pre 1 July 2016 (Cash-based deferral)*** Resignation or redundancy: Any deferred incentive will generally vest at the end of the original deferral period and will be subject to the potential application of malus, unless the Board exercises its discretion otherwise. Misconduct: All unvested deferred incentives are forfeited. All other cases: Board discretion.	
Treatment of LTI on termination	**Unvested equity** ***Qualifying reason[1]*** The Board has the discretion to determine that any unvested LTI performance rights will continue until the relevant vesting dates and remain subject to the performance measures and the potential application of malus, unless otherwise determined by the Board. ***Non-qualifying reason*** All unvested awards are forfeited. **Vested rights** Any vested rights will continue beyond cessation of employment and convert into shares in the normal course, subject to the potential application of malus.	
Treatment of restricted shares on termination	***Qualifying reason[1]*** The Board has the discretion to determine that any unvested restricted shares will be pro-rated for the time worked in the vesting period and those reduced number of restricted shares will vest at the termination date subject to the potential application of malus, unless otherwise determined by the Board. ***Non-qualifying reason*** All unvested awards are forfeited.	

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

5. Non-executive director remuneration arrangements

5.1 Remuneration structure

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

5.2 Remuneration levels for non-executive directors

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

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

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

2 Includes Board Member base fee.

3 Positions held are as at 30 June 2018.

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

6. KMP statutory remuneration disclosures

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

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

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

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

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

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

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

6.2 Executive remuneration during 2017–18 and 2016–17

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

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

6.3 Movement in equity plans for Executives

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

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

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

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

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

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

4 Market value at date of grant is calculated based on the number of shares granted multiplied by the closing share price as traded on ASX on the date of grant. Where the date of grant falls on an ASX non-trading day, the closing share price of the preceding trading day is used.

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

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

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

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

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

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

6.4 Related party transactions

Loans to KMP and their related parties

Loans to KMP and their related parties are secured housing loans and asset lines provided in the ordinary course of the banking business. All loans have normal commercial terms, which may include employee discounts on the same terms available to all employees of the Suncorp Group. No amounts have been written down or recorded as provisions as the balances are considered fully collectable.

Details regarding loans outstanding at the reporting date to KMP and their related parties, where the individual's aggregate loan balance exceeded $100,000 at any time during the reporting period, are outlined below.

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

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

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

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

Movement in securities held by KMP

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

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

1 The number of unvested securities disclosed for the Executive director and Senior Executives refers to the performance rights granted under the LTI Plan, restricted shares granted under the RSP and share rights granted as part of the STI award. Accordingly, beneficial entitlement of those unvested securities remains subject to satisfaction of specified service conditions and performance measures (as applicable).
2 For the Executive director and Senior Executives, remuneration includes performance rights granted under the LTI plan and share rights granted as part of the STI award which only vest subject to the satisfaction of specified service conditions and performance measures (as applicable).
3 'Other changes' in unvested securities for the Executive director and Senior Executives relates to equity awards that vested or were forfeited during 2017–18.
4 'Other changes' for Mr Bartlett and Mr Kulk represent securities held upon termination.
5 The Company issued Suncorp Convertible Preference Shares (SUNPE) on 8 May 2014.
6 The Company issued Suncorp Convertible Preference Shares (SUNPC) on 6 November 2012.
7 Ordinary shares for Mr Carter were not included in the 2017 annual report. This has been corrected for 2018.
8 'Other changes' in ordinary shares for Mr Dransfield relate to participation in the Dividend Reinvestment Plan.

9 'Other changes' in ordinary shares for Ms Revis relate to participation in the Dividend Reinvestment Plan. SUNPF Capital notes held by Ms Revis were inadvertently included as ordinary shares in the 2017 annual report. This has been corrected for 2018.

10 'Other changes' in ordinary shares for Ms Thompson relates to participation in the Equity Participation Plan.

11 Mr Day ceased employment on 27 October 2017. Ordinary shares and unvested securities held upon termination are shown in 'Other changes'. Of the unvested securities held on leaving office, 86,304 performance rights remain subject to performance measures.

12 Ms Olgers ceased employment on 28 October 2017. Ordinary shares and unvested securities held upon termination are shown in 'Other changes'. Of the unvested securities held on leaving office, 19,105 performance rights remain subject to performance measures.

13 Mr Reinke ceased responsibility as a KMP on 13 October 2017 and ceased employment on 1 June 2018. Ordinary shares and unvested securities held upon termination are shown in 'Other changes'. Of the unvested securities held on leaving office, 96,781 performance rights remain subject to performance measures.

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

Other KMP transactions

Financial instrument transactions

Financial instrument transactions (other than loans and shares disclosed within this report) between the Suncorp Group and executives and their related parties during the financial year were in the nature of normal personal banking, investment and deposit transactions. These transactions were on commercial terms and conditions no more favourable than those given to other Suncorp Group employees and are deemed trivial or domestic in nature.

Transactions other than financial instrument transactions

No director or Senior Executive has entered into a material contract with the Company or Suncorp Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end. Other transactions with executives and their related parties are conducted on arm's length terms and conditions, and are deemed trivial or domestic in nature. These transactions are in the nature of personal investment, general insurance and life insurance policies.

This Remuneration Report is prepared in accordance with a resolution of the Board of directors.

DR ZIGGY SWITKOWSKI AO
Chairman of the Board
9 August 2018

MICHAEL CAMERON
CEO & Managing Director

KPMG

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

To the Directors of Suncorp-Metway Limited

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

KPMG

JBRichards

Jillian Richards
Partner

Brisbane
9 August 2018

SUNCORP-METWAY LIMITED AND SUBSIDIARIES

ABN 66 010 831 722

Consolidated financial report
For the financial year ended 30 June 2018

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STATEMENTS OF COMPREHENSIVE INCOME

For the financial year ended 30 June 2018

		Consolidated		Company	
		2018	2017	2018	2017
	Note	$M	$M	$M	$M
Interest income	5.1	2,528	2,481	2,514	2,463
Interest expense	5.1	(1,347)	(1,350)	(1,234)	(1,277)
Net interest income	5.1	1,181	1,131	1,280	1,186
Other operating income	5.2	60	76	378	436
Total net operating income		1,241	1,207	1,658	1,622
Operating expenses	6	(720)	(638)	(1,147)	(1,058)
Impairment loss on loans and advances	13.2	(27)	(7)	(24)	(9)
Profit before income tax		494	562	487	555
Income tax expense	7.1	(148)	(168)	(142)	(160)
Profit for the financial year attributable to owners of the Company		346	394	345	395
Other comprehensive income					
Items that will be reclassified subsequently to profit or loss					
Net change in fair value of cash flow hedges	20	16	(61)	16	(61)
Net change in fair value of available-for-sale financial assets	20	(12)	13	(12)	13
Income tax (expense) benefit	20	(1)	14	(1)	14
Total other comprehensive income (loss)		3	(34)	3	(34)
Total comprehensive income for the financial year attributable to owners of the Company		349	360	348	361

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

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2018

		Consolidated		Company	
		2018	2017	2018	2017
	Note	$M	$M	$M	$M
Assets					
Cash and cash equivalents	8	506	903	504	900
Receivables due from other banks	9	474	567	474	567
Trading securities	10	1,639	1,520	1,639	1,520
Derivatives	11	224	138	224	138
Investment securities	10	4,058	4,560	4,059	4,562
Loans and advances	12	58,598	55,197	58,377	54,926
Due from related parties	28.2	362	316	1,222	588
Deferred tax assets	7.2	45	51	45	50
Other assets		199	169	167	136
Total assets		66,105	63,421	66,711	63,387
Liabilities					
Payables due to other banks		148	50	148	50
Deposits and short-term borrowings	14	46,043	45,427	46,707	45,445
Derivatives	11	158	354	158	354
Payables and other liabilities	15	423	357	414	352
Due to related parties	28.2	20	63	4,868	3,152
Securitised liabilities	23.3	4,848	3,088	-	-
Debt issues	16	9,854	9,216	9,854	9,216
Subordinated notes	17	742	742	742	742
Total liabilities		62,236	59,297	62,891	59,311
Net assets		3,869	4,124	3,820	4,076
Equity					
Share capital	18	2,648	2,648	2,648	2,648
Capital notes	19	550	825	550	825
Reserves	20	(298)	(307)	74	65
Retained profits		969	958	548	538
Total equity attributable to owners of the Company		3,869	4,124	3,820	4,076

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

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 30 June 2018

Consolidated	Note	Share capital $M	Capital notes $M	Reserves $M	Retained profits $M	Total equity $M
Balance as at 1 July 2016		2,648	450	(270)	910	3,738
Profit for the financial year		-	-	-	394	394
Total other comprehensive loss for the financial year		-	-	(34)	-	(34)
Total comprehensive (loss) income for the financial year		-	-	(34)	394	360
Transactions with owners, recorded directly in equity						
Dividends paid	3	-	-	-	(349)	(349)
Transfers	20	-	-	(3)	3	-
Capital notes issued	19	-	375	-	-	375
Balance as at 30 June 2017		2,648	825	(307)	958	4,124
Profit for the financial year		-	-	-	346	346
Total other comprehensive income for the financial year		-	-	3	-	3
Total comprehensive income for the financial year		-	-	3	346	349
Transactions with owners, recorded directly in equity						
Dividends paid	3	-	-	-	(329)	(329)
Transfers	20	-	-	6	(6)	-
Capital notes issued	19	-	175	-	-	175
Capital notes buy back	19	-	(450)	-	-	(450)
Balance as at 30 June 2018		2,648	550	(298)	969	3,869

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

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 30 June 2018

Company	Note	Share capital $M	Capital notes $M	Reserves $M	Retained profits $M	Total equity $M
Balance as at 1 July 2016		2,648	450	102	489	3,689
Profit for the financial year		-	-	-	395	395
Total other comprehensive loss for the financial year		-	-	(34)	-	(34)
Total comprehensive (loss) income for the financial year		-	-	(34)	395	361
Transactions with owners, recorded directly in equity						
Dividends paid	3	-	-	-	(349)	(349)
Transfers	20	-	-	(3)	3	-
Capital notes issued	19	-	375	-	-	375
Balance as at 30 June 2017		2,648	825	65	538	4,076
Profit for the financial year		-	-	-	345	345
Total other comprehensive income for the financial year		-	-	3	-	3
Total comprehensive income for the financial year		-	-	3	345	348
Transactions with owners, recorded directly in equity						
Dividends paid	3	-	-	-	(329)	(329)
Transfers	20	-	-	6	(6)	-
Capital notes issued	19	-	175	-	-	175
Capital notes buy back	19	-	(450)	-	-	(450)
Balance as at 30 June 2018		2,648	550	74	548	3,820

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

STATEMENTS OF CASH FLOWS

For the financial year ended 30 June 2018

	Note	Consolidated 2018 $M	Consolidated 2017 $M	Company 2018 $M	Company 2017 $M
Cash flows from operating activities					
Interest received		2,524	2,484	2,508	2,468
Interest paid		(1,341)	(1,363)	(1,231)	(1,290)
Fees and other operating income received		184	222	491	559
Dividends and trust distributions received		-	-	12	20
Fees and operating expenses paid		(824)	(770)	(1,250)	(1,191)
Reimbursement to related parties for income tax payments		(148)	(224)	(141)	(209)
Net increase in operating assets					
Trading securities		(119)	(23)	(119)	(23)
Loans and advances		(3,426)	(1,072)	(3,473)	(1,133)
Net increase (decrease) increase in operating liabilities					
Net movement in amounts due (from) to related parties		(85)	(30)	1,086	628
Deposits and short-term borrowings		585	6	1,231	(58)
Net cash used in operating activities	22.1	(2,650)	(770)	(886)	(229)
Cash flows from investing activities					
Proceeds from the sale or maturity of investment securities		2,486	2,159	2,486	2,159
Payments for acquisition of investment securities		(2,158)	(1,288)	(2,158)	(1,287)
Net cash from investing activities		328	871	328	872
Cash flows from financing activities					
Proceeds from debt issues and securitised liabilities	22.3	5,297	4,123	2,547	2,873
Repayment of debt issues and securitised liabilities	22.3	(2,959)	(4,078)	(1,972)	(3,371)
Proceeds from issue of capital notes	19	-	375	-	375
Payments for the buy back and issue of capital notes	19	(275)	-	(275)	-
Dividends paid	3	(329)	(349)	(329)	(349)
Net cash from (used in) financing activities		1,734	71	(29)	(472)
Net (decrease) increase in cash and cash equivalents		(588)	172	(587)	171
Cash and cash equivalents at the beginning of the financial year		1,420	1,248	1,417	1,246
Cash and cash equivalents at the end of the financial year	22.2	832	1,420	830	1,417

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2018

1. Reporting entity

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

The consolidated financial statements for the financial year ended 30 June 2018 comprise the Company and its subsidiaries (the **Group**) and were authorised for issue by the Board of Directors on 9 August 2018.

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

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

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

2. Basis of preparation

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

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

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

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

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

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

2.1 Statement of compliance

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

— specific and collective provisions for impairment (refer to note 31.11 and note 25.1)

— valuation of financial instruments (refer to note 23).

3. Dividends

	2018		2017	
Consolidated and Company	**Cents per share / note**	**$M**	**Cents per share / note**	**$M**
Dividend payments on ordinary shares				
2017 final dividend (2017: 2016 final dividend)	67	181	64	175
2018 interim dividend (2017: 2017 interim dividend)	43	117	57	154
Total dividends on ordinary shares		298		329
Dividend payments on capital notes				
Issued on 5 May 2017				
September quarter	152	6	-	-
December quarter	102	4	-	-
March quarter	103	4	-	-
June quarter	106	4	-	-
Issued on 18 December 2017				
March quarter	57	1	-	-
June quarter	98	2	-	-
Issued on 17 December 2012				
September quarter	111	5	120	5
December quarter	111	5	111	5
March quarter	-	-	109	5
June quarter	-	-	116	5
Total dividends on capital notes		31		20
Total dividends		329		349
Dividends not recognised in the statements of financial position[1]				
Dividends determined since balance date				
2018 final dividend (2017: 2017 final dividend)	28	76	67	181
		76		181

1 The total 2018 final dividends determined but not recognised in the statements of financial position are estimated based on the total number of ordinary shares on issue as at 30 June 2018. The actual amount recognised in the financial statements for the year ending 30 June 2019 will be based on the actual number of ordinary shares on issue on the record date.

4. Segment reporting

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

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

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

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

The basis of segmentation and basis of measurement of segment results are the same as those applied by the Group in its consolidated financial report for the financial year ended 30 June 2017.

5. Net operating income

5.1 Net interest income

	Consolidated		Company	
	2018 $M	2017 $M	2018 $M	2017 $M
Interest income				
Cash and cash equivalents	6	8	6	8
Receivables due from other banks	3	3	3	3
Trading securities	27	28	27	28
Investment securities	143	166	143	166
Loans and advances	2,349	2,276	2,335	2,258
Total interest income	2,528	2,481	2,514	2,463
Interest expense				
Deposits and short-term borrowings:				
at amortised cost	(822)	(887)	(826)	(890)
designated at fair value through profit and loss	(39)	(32)	(39)	(32)
Derivatives	(50)	(42)	(50)	(42)
Securitised liabilities	(119)	(78)	-	-
Debt issues	(284)	(278)	(286)	(280)
Subordinated notes	(33)	(33)	(33)	(33)
Total interest expense	(1,347)	(1,350)	(1,234)	(1,277)
Net interest income	1,181	1,131	1,280	1,186

5.2 Other operating income

	Consolidated		Company	
	2018 $M	2017 $M	2018 $M	2017 $M
Banking fee and commission income	182	196	182	196
Banking fee and commission expense	(140)	(132)	(140)	(132)
Net banking fee and commission income	42	64	42	64
Net gains on:				
Trading securities	5	3	5	3
Financial liabilities designated at fair value through profit and loss	-	1	-	1
Derivative and other financial instruments	5	3	5	3
Securitisation and covered bond income	-	-	276	311
Other fees and commissions	-	-	31	29
Dividend income	-	-	12	20
Other revenue	8	5	7	5
	18	12	336	372
Total other operating income	60	76	378	436

6. Operating expenses

	Consolidated 2018 $M	Consolidated 2017 $M	Company 2018 $M	Company 2017 $M
Wages, salaries and other staff costs	365	362	365	362
Occupancy and equipment expenses	69	64	69	64
Information technology and communication	60	41	60	41
Depreciation and amortisation	58	33	58	33
Securitisation and covered bond expenses	-	-	427	421
Other expenses	168	138	168	137
Total operating expenses[1]	720	638	1,147	1,058

1 Includes expenses incurred in 2018 relating to the accelerated Marketplace strategy (Group: $41 million; Company: $41 million).

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

7. Income tax

7.1 Income tax expense

	Consolidated 2018 $M	Consolidated 2017 $M	Company 2018 $M	Company 2017 $M
Reconciliation of prima facie to actual income tax expense:				
Profit before income tax	494	562	487	555
Prima facie domestic corporation tax rate of 30% (2017: 30%)	148	169	146	167
Tax effect of amounts not assessable in calculating taxable income:				
Intercompany dividend elimination	-	-	(4)	(6)
Prior year over provision	-	(1)	-	(1)
Total income tax expense on pre-tax profit	148	168	142	160
Effective tax rate	30.0%	29.9%	29.2%	28.8%
Income tax expense recognised in profit consists of:				
Current tax expense				
Current tax movement	144	162	137	154
Adjustments for prior financial years	(1)	(1)	-	(1)
Total current tax expense	143	161	137	153
Deferred tax expense				
Origination and reversal of temporary differences	5	7	5	7
Total deferred tax expense	5	7	5	7
Total income tax expense	148	168	142	160

7.2 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	
Consolidated	$M	$M	$M	$M	$M	$M
Trading securities and investment securities	5	6	-	-	5	6
Provision for impairment on loans and advances	40	44	-	-	40	44
Other items	-	3	-	2	-	1
Deferred tax assets and liabilities	45	53	-	2	45	51
Set-off of tax	-	(2)	-	(2)	-	-
Net deferred tax assets	45	51	-	-	45	51

	2018	2017	2018	2017	2018	2017
	Deferred tax assets		Deferred tax liabilities		Net	
Company	$M	$M	$M	$M	$M	$M
Trading securities and investment securities	5	6	-	-	5	6
Provision for impairment on loans and advances	40	41	-	-	40	41
Other items	-	3	-	-	-	3
Deferred tax assets and liabilities	45	50	-	-	45	50
Net deferred tax assets	45	50	-	-	45	50

Movement in deferred tax balances during the financial year:

	2018	2017	2018	2017
	Deferred tax assets		Deferred tax liabilities	
Consolidated	$M	$M	$M	$M
Balance at the beginning of the financial year	53	53	2	9
Movement recognised in profit or loss	(6)	(6)	(1)	1
Movement recognised in other comprehensive income	-	-	1	(14)
Reclassifications	(2)	6	(2)	6
Balance at the end of the financial year	45	53	-	2

	2018	2017	2018	2017
	Deferred tax assets		Deferred tax liabilities	
Company	$M	$M	$M	$M
Balance at the beginning of the financial year	50	51	-	8
Movement recognised in profit or loss	(5)	(6)	-	1
Movement recognised in other comprehensive income	-	-	1	(14)
Reclassifications	-	5	(1)	5
Balance at the end of the financial year	45	50	-	-

7.3 Tax consolidation

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

8. Cash and cash equivalents

	Consolidated		Company	
	2018 $M	2017 $M	2018 $M	2017 $M
Cash at bank	57	114	55	111
Reverse repurchase agreements maturing in less than three months	251	639	251	639
Other money market placements	198	150	198	150
Total cash and cash equivalents	506	903	504	900

9. Receivables due from other banks

	Consolidated		Company	
	2018 $M	2017 $M	2018 $M	2017 $M
Cash collateral[1]	40	192	40	192
Other receivables due from financial institutions	434	375	434	375
Total receivables due from other banks - current	474	567	474	567

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

10. Trading and investment securities

	Consolidated		Company	
	2018 $M	2017 $M	2018 $M	2017 $M
Trading securities				
Interest-bearing securities: Bank bills, certificates of deposits and other negotiable securities – current	1,639	1,520	1,639	1,520
Investment securities				
Available-for-sale financial assets at fair value				
Interest-bearing securities	3,544	3,677	3,544	3,677
Held-to-maturity investments				
Interest-bearing securities	514	883	514	883
Investment at cost				
Shares in subsidiaries	-	-	1	2
Total investment securities	4,058	4,560	4,059	4,562
Current	96	842	96	842
Non-current	3,962	3,718	3,963	3,720
Total investment securities	4,058	4,560	4,059	4,562

11. Derivative financial instruments

	2018			2017		
	Notional value	Fair value		Notional value	Fair value	
Consolidated	$M	Asset $M	Liability $M	$M	Asset $M	Liability $M
Interest rate-related contracts						
Interest rate swaps	45,881	94	134	49,647	133	219
Interest rate futures	2,646	2	-	1,422	1	-
Forward rate agreements	450	-	-	-	-	-
Interest rate options	138	-	-	79	-	-
Swaptions	17	-	-	6	-	-
	49,132	96	134	51,154	134	219
Exchange rate-related contracts						
Forward foreign exchange contracts	2,165	73	2	2,945	4	51
Cross currency swaps	3,035	54	21	2,744	-	84
Currency options	186	1	1	2	-	-
	5,386	128	24	5,691	4	135
Total derivative exposures	54,518	224	158	56,845	138	354

	2018			2017		
	Notional value	Fair value		Notional value	Fair value	
Company	$M	Asset $M	Liability $M	$M	Asset $M	Liability $M
Interest rate-related contracts						
Interest rate swaps	45,881	94	134	49,647	133	219
Interest rate futures	2,646	2	-	1,422	1	-
Forward rate agreements	450	-	-	-	-	-
Interest rate options	138	-	-	79	-	-
Swaptions	17	-	-	6	-	-
	49,132	96	134	51,154	134	219
Exchange rate-related contracts						
Forward foreign exchange contracts	2,165	73	2	2,945	4	51
Cross currency swaps	3,035	54	21	2,744	-	84
Currency options	186	1	1	2	-	-
	5,386	128	24	5,691	4	135
Total derivative exposures	54,518	224	158	56,845	138	354

Derivatives are used by the Group to manage interest rate and foreign exchange risk. The use of derivatives to mitigate market risk, interest rate risk and currency risk includes the use of exchange traded bill and bond futures, Over-the-counter (**OTC**) forward foreign exchange contracts and interest rate swaps and options.

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

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

Hedging of fluctuations in interest rates

The Group seeks to minimise volatility in net interest income through the use of interest rate derivatives, primarily vanilla interest rate swaps. The aggregate earnings exposure to interest rates is managed within Board-approved risk limits. At reporting date, there are 20 (2017: 24) swaps designated as fair value hedges of fixed rate bonds held. All other interest rate swaps designated as hedges are cash flow hedges. The swaps designated as cash flow hedges are hedges of either variable rate mortgages, variable rate short-term debt issues or deposits.

During the financial year, the Group deferred to equity gains of $10 million (2017: losses of $57 million), and released losses of $nil million (2017: $3 million) previously deferred to equity to profit or loss on derivatives held in qualifying cash flow hedging relationships.

Hedging of fluctuations in foreign exchange rates

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

The Group has elected to recognise its US Commercial Paper portfolio at fair value through the profit or loss on the basis that it is economically hedged by forward foreign exchange contracts. Both the changes in the fair value of the forward foreign exchange contracts and the debt are recognised in profit or loss. The fair value of forward foreign exchange contracts used as economic hedges of monetary liabilities in foreign currencies where hedge accounting is not applied as at 30 June 2018 is $72 million asset (2017: liability $48 million).

Impact of hedge accounting

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

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

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

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

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

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

	Expected cash flows			
Consolidated and Company	0 to 12 months $M	1 to 5 years $M	Over 5 years $M	Total $M
2018				
Forecast receivable cash flows	777	1,271	50	2,098
Forecast payable cash flows	(769)	(1,267)	(64)	(2,100)
	8	4	(14)	(2)
2017				
Forecast receivable cash flows	715	1,389	52	2,156
Forecast payable cash flows	(712)	(1,392)	(72)	(2,176)
	3	(3)	(20)	(20)

12. Loans and advances

		Consolidated		Company	
	Note	2018 $M	2017 $M	2018 $M	2017 $M
Financial assets at amortised cost					
Housing loans		47,604	44,844	47,604	44,844
Consumer loans		175	254	175	254
Business loans		10,937	10,226	10,714	9,952
Other lending		12	13	12	13
Gross loans and advances		58,728	55,337	58,505	55,063
Provision for impairment	13	(130)	(140)	(128)	(137)
Net loans and advances		58,598	55,197	58,377	54,926
Current		10,831	10,172	10,801	10,132
Non-current		47,767	45,025	47,576	44,794
Total loans and advances		58,598	55,197	58,377	54,926

13. Provision for impairment on loans and advances

13.1 Reconciliation of provision for impairment on loans and advances

	Consolidated		Company	
	2018 $M	2017 $M	2018 $M	2017 $M
Collective provision				
Balance at the beginning of the financial year	96	108	95	104
Write-back against impairment losses	(5)	(12)	(5)	(9)
Balance at the end of the financial year	91	96	90	95
Specific provision				
Balance at the beginning of the financial year	44	56	42	54
New and increased individual provisioning	37	34	33	32
Write-back of provisions no longer required	(15)	(25)	(14)	(24)
Impaired provision written off	(23)	(16)	(19)	(15)
Unwind of discount	(4)	(5)	(4)	(5)
Balance at the end of the financial year	39	44	38	42
Total provision for impairment on loans and advances	130	140	128	137

13.2 Impairment loss on loans and advances

	Consolidated		Company	
	2018 $M	2017 $M	2018 $M	2017 $M
Decrease in collective provision for impairment	(5)	(12)	(5)	(9)
Increase in specific provision for impairment	22	9	19	8
Bad debts written off	13	13	13	13
Bad debts recovered	(3)	(3)	(3)	(3)
Total impairment loss on loans and advances	27	7	24	9

14. Deposits and short-term borrowings

	Consolidated		Company	
	2018 $M	2017 $M	2018 $M	2017 $M
Financial liabilities at amortised cost				
Call deposits	20,289	18,945	20,953	18,963
Term deposits	18,272	17,895	18,272	17,895
Short-term securities issued	5,442	6,118	5,442	6,118
Total deposits and short-term borrowings at amortised cost	44,003	42,958	44,667	42,976
Financial liabilities designated at fair value through profit or loss				
Offshore commercial paper	2,040	2,469	2,040	2,469
Total deposits and short-term borrowings	46,043	45,427	46,707	45,445
Current	45,801	44,641	46,465	44,659
Non-current	242	786	242	786
Total deposits and short-term borrowings	46,043	45,427	46,707	45,445

Deposits and short-term borrowings outstanding at 30 June 2018 of $301 million (2017: $306 million) have been obtained under repurchase agreements with the Reserve Bank of Australia and disclosed within the above category of ‘Short-term securities issued’.

The contractual amount payable on financial liabilities designated at fair value through profit or loss at maturity is $2,065 million (2017: $2,485 million).

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

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

15. Payables and other liabilities

	Consolidated		Company	
	2018 $M	2017 $M	2018 $M	2017 $M
Accrued interest payable	249	243	242	239
Trade creditors and accrued expenses	147	66	159	65
Other liabilities	27	48	13	48
Total payables and other liabilities - current	423	357	414	352

16. Debt issues

		Consolidated		Company	
	Note	2018 $M	2017 $M	2018 $M	2017 $M
Financial liabilities at amortised cost					
Offshore borrowings		2,954	2,663	2,954	2,663
Domestic borrowings		4,863	4,062	4,863	4,062
Total unsecured debt issues		7,817	6,725	7,817	6,725
Covered bonds	23.3	2,037	2,491	2,037	2,491
Total secured debt issues		2,037	2,491	2,037	2,491
		9,854	9,216	9,854	9,216
Current		2,835	1,972	2,835	1,972
Non-current		7,019	7,244	7,019	7,244
Total debt issues		9,854	9,216	9,854	9,216

Covered bonds issued are guaranteed by the Covered Bond Guarantor and are secured over a covered pool which consists of $1,534 million (2017: $2,926 million) of loans and advances.

The Covered Bond Guarantor can take possession of the cover pool under certain Title Perfection Events, as detailed in clause 6.1 of the Mortgage Sale Deed. In the event of default by the Company, the covered bond holders have a claim against both the cover pool and the Company.

17. Subordinated notes

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

Consolidated and Company	2018 $M	2017 $M
Tier 2 Subordinated notes		
Basel III fully compliant subordinated notes		
$AUD 670 million Floating Rate Notes	670	670
Total Basel III fully compliant subordinated notes	670	670
Basel III fully transitional subordinated notes		
$AUD 72 million Floating Rate Notes[1]	72	72
Total Basel III transitional subordinated notes	72	72
Total Tier 2 Subordinated Notes[2]	742	742
Current	-	-
Non-current	742	742
Total subordinated notes	742	742

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

2 Total liability in relation to interest payment accrued for the Group to make payments under the subordinated notes as at the end of the financial year is $4 million (2017: $4 million). It is disclosed within the statements of financial position category of 'Payables and other liabilities'.

	Margin above 90 day BBSW	Maturity Date	Optional redemption date	Issue date	2018 Number on issue	2017 Number on issue
$AUD 670 million Floating Rate Notes	285 bps	22 Nov 2023	22 Nov 2018	14 Jun 2013	6,700,000	6,700,000
$AUD 72 million Floating Rate Notes	75 bps	n/a	n/a	17 Dec 1998	715,383	715,383

Basel III fully compliant subordinated notes

The subordinated notes pay quarterly, cumulative deferrable interest payments at a floating rate equal to the sum of the 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).

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

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

Basel III transitional subordinated notes

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

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

18. Share capital

	2018		2017	
Consolidated and Company	**No of shares**	**$M**	**No of shares**	**$M**
Balance at the beginning of the financial year	271,467,584	2,648	271,467,584	2,648
Balance at the end of the financial year	271,467,584	2,648	271,467,584	2,648

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

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

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

19. Capital notes

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

Consolidated and Company	2018 No of notes	2018 $M	2017 No of notes	2017 $M
Issued on 5 May 2017	3,750,000	375	3,750,000	375
Issued on 18 December 2017	1,750,000	175	-	-
Issued on 17 December 2012	-	-	4,500,000	450
Balance at the end of the financial year	5,500,000	550	8,250,000	825

Additional Tier 1 Capital

	Margin above 90 day BBSW	Optional call/ exchange date	Issue date	2018 Number on issue	2017 Number on issue
Issued on 5 May 2017	410 bps	17 Jun 2022	5 May 2017	3,750,000	3,750,000
Issued on 18 December 2017	365 bps	17 Jun 2024	18 Dec 2017	1,750,000	-
Issued on 17 December 2012	465 bps	17 Dec 2017	17 Dec 2012	-	4,500,000

The $450 million of capital notes issued on 17 December 2012 were bought back through a $175 million capital notes issuance, and a $275 million cash settlement on 18 December 2017.

They are fully paid, perpetual, subordinated, unsecured securities and issued to the ultimate parent entity, Suncorp Group Limited.

Capital notes pay a distribution that are floating rate, discretionary, non-cumulative, and scheduled to be paid quarterly, at the Company's Discretion. They are calculated based on the sum of the 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 to 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.

20. Reserves

Consolidated	Equity reserve for credit losses $M	Hedging reserve $M	Assets available-for-sale reserve $M	Common control reserve $M	Total reserves $M
Balance as at 30 June 2016	85	12	5	(372)	(270)
Transfer to retained profits	(3)	-	-	-	(3)
Amount recognised in equity	-	(58)	13	-	(45)
Amount transferred from equity to profit or loss	-	(3)	-	-	(3)
Income tax benefit (expense)	-	18	(4)	-	14
Balance as at 30 June 2017	82	(31)	14	(372)	(307)
Transfer to retained profits	6	-	-	-	6
Amount recognised in equity	-	16	(14)	-	2
Amount transferred from equity to profit or loss	-	-	2	-	2
Income tax (expense) benefit	-	(5)	4	-	(1)
Balance as at 30 June 2018	88	(20)	6	(372)	(298)

Company	Equity reserve for credit losses $M	Hedging reserve $M	Assets available-for-sale reserve $M	Common control reserve $M	Total reserves $M
Balance as at 30 June 2016	85	12	5	-	102
Transfer to retained profits	(3)	-	-	-	(3)
Amount recognised in equity	-	(58)	13	-	(45)
Amount transferred from equity to profit or loss	-	(3)	-	-	(3)
Income tax benefit (expense)	-	18	(4)	-	14
Balance as at 30 June 2017	82	(31)	14	-	65
Transfer to retained profits	6	-	-	-	6
Amount recognised in equity	-	16	(14)	-	2
Amount transferred from equity to profit or loss	-	-	2	-	2
Income tax (expense) benefit	-	(5)	4	-	(1)
Balance as at 30 June 2018	88	(20)	6	-	74

Equity reserve for credit losses

The equity reserve for credit losses represents the difference between the Group's collective provisions for impairment and the estimate of credit losses across the credit cycle, consistent with the requirements of APRA Prudential Standard APS 220 *Credit Quality*.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions.

Assets available-for-sale reserve

The assets available-for-sale reserve represents the cumulative net change in the fair value of available-for-sale financial assets until the asset is derecognised or impaired.

Common control reserve

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

21. Group capital management

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

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

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

For regulatory purposes, capital is classified as follows:

- Common Equity Tier 1 (**CET1**) Capital comprising accounting equity with adjustments for intangible assets and regulatory reserves.
- Tier 1 Capital comprising CET1 Capital plus Additional Tier 1 Capital such as hybrid securities with 'equity-like' qualities.
- Tier 2 Capital comprising APRA reserve for credit losses and eligible hybrid capital.
- Total Capital, being the sum of Tier 1 Capital and Tier 2 Capital.

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

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

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

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

- Credit risk - the risk that a borrower or counterparty will not meet its obligations in accordance with agreed terms, applies to both on-balance sheet and off-balance sheet exposures.
- Market risk - the risk of unfavourable changes in interest rates, foreign exchange rates, equity prices, credit spreads, market volatilities and liquidity.
- Operational risk - the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

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

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

21.1 Capital adequacy

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

	2018 $M	2017 $M
Tier 1 Capital		
Common Equity Tier 1 Capital		
Ordinary share capital	2,648	2,648
Retained profits	580	570
Accumulated other comprehensive income	(14)	(16)
	3,214	3,202
Regulatory adjustments to Common Equity Tier 1 Capital		
Goodwill and other intangibles arising on acquisition	(21)	(21)
Cash-flow hedge reserve	20	30
Deferred tax assets	(37)	(38)
Investments in non-consolidated subsidiaries, capital support	(3)	(1)
Other adjustments to CET1	(238)	(225)
	(279)	(255)
Common Equity Tier 1 Capital	2,935	2,947
Additional Tier 1 Capital		
Eligible hybrid capital	550	825
Total Tier 1 Capital	3,485	3,772
Tier 2 Capital		
APRA general reserve for credit losses	158	155
Eligible hybrid capital	670	670
Ineligible hybrid capital[1]	72	72
Total Tier 2 Capital	900	897
Total Capital	4,385	4,669
Total assessed risk weighted assets	32,563	32,107
Risk weighted capital ratios	%	%
Common Equity Tier 1	9.01	9.18
Total Tier 1	10.70	11.75
Total Tier 2	2.76	2.79
Total risk weighted capital ratio	13.46	14.54

1 Applicable to transitional relief under APRA Prudential Standard APS 160 *Capital Adequacy: Basel III Transitional Arrangements*.

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

	Carrying amount 2018 $M	Carrying amount 2017 $M	Risk weighted balance 2018 $M	Risk weighted balance 2017 $M
On-balance sheet assets				
Cash items	479	469	8	8
Claims on Australian and foreign governments	2,365	2,913	-	-
Claims on central banks, international banking agencies, regional developments banks, ADIs and overseas banks	933	1,351	233	362
Claims on securitisation exposures	1,242	1,294	246	259
Claims secured against eligible residential mortgages	43,343	42,333	16,039	15,875
Past due claims	623	556	511	488
Other retail assets	268	389	259	322
Corporate	9,571	8,947	9,559	8,935
Other assets and claims	379	294	379	294
Total banking assets	59,203	58,546	27,234	26,543

	Notional amount 2018 $M	Credit equivalent 2018 $M	Risk weighted balance 2018 $M	Risk weighted balance 2017 $M
Off-balance sheet positions				
Guarantees	271	270	184	175
Commitments to provide loans and advances	8,619	2,305	1,363	1,735
Foreign exchange contracts	5,386	113	31	12
Interest rate contracts	49,132	89	26	28
Securitisation exposures	4,660	181	36	53
CVA capital charge	-	-	128	75
Total off-balance sheet positions	68,068	2,958	1,768	2,078
Market risk capital charge			88	62
Operational risk capital charge			3,473	3,424
Total off-balance sheet positions			1,768	2,078
Total on-balance sheet credit risk weighted assets			27,234	26,543
Total assessed risk			32,563	32,107

22. Notes to the statements of cash flows

22.1 Reconciliation of cash flows from operating activities

	Consolidated		Company	
	2018 $M	2017 $M	2018 $M	2017 $M
Profit for the financial year	346	394	345	395
Non-cash items				
Impairment loss on loans and advances	27	7	24	9
Change in fair value relating to investing and financing activities	(10)	(7)	(10)	(7)
Other non-cash items	(36)	3	(33)	2
Change in operating assets and liabilities				
Net movement in tax assets and liabilities	1	(56)	1	(49)
Increase in trading securities	(119)	(23)	(119)	(23)
Increase in loans and advances	(3,426)	(1,072)	(3,473)	(1,133)
(Increase) decrease in due from related parties	(46)	(21)	(633)	90
Increase in other assets	(30)	(3)	(31)	(6)
Increase (decrease) in deposits and short-term borrowings	616	6	1,262	(58)
Increase in payables and other liabilities	66	11	62	13
(Decrease) increase in due to related parties	(39)	(9)	1,719	538
Net cash used in operating activities	(2,650)	(770)	(886)	(229)

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

	Consolidated		Company	
	2018 $M	2017 $M	2018 $M	2017 $M
Cash and cash equivalents at the end of the financial year in the statements of cash flows is represented by the following line items in the statements of financial position:				
Cash and cash equivalents	506	903	504	900
Receivables due from other banks	474	567	474	567
Payables due to other banks[1]	(148)	(50)	(148)	(50)
	832	1,420	830	1,417

1 Includes cash received as collateral to support derivative asset positions of $103 million (2017: $16 million) in accordance with standard ISDA agreement.

22.3 Changes in liabilities arising from financing activities

	Consolidated			Company		
Consolidated	**Securitisation liabilities $M**	**Debt issues $M**	**Subordinated notes $M**	**Securitisation liabilities $M**	**Debt issues $M**	**Subordinated notes $M**
Balance as at 1 July 2017	3,088	9,216	742	-	9,216	742
Cash flows						
Proceeds	2,750	2,547	-	-	2,547	-
Repayments	(987)	(1,972)	-	-	(1,972)	-
Transaction costs	(3)	-	-	-	-	-
Non-cash changes	-	63	-	-	63	-
Balance as at 30 June 2018	4,848	9,854	742	-	9,854	742

22.4 Financial arrangements

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

23. Financial instruments

23.1 Fair value of financial instruments

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

— Level 1: derived from quoted prices (unadjusted) in active markets for identical financial instruments that the Group can access at the measurement date.

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

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

Financial assets and liabilities measured at fair value

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

	2018				2017			
Consolidated	**Level 1 $M**	**Level 2 $M**	**Level 3 $M**	**Total $M**	**Level 1 $M**	**Level 2 $M**	**Level 3 $M**	**Total $M**
Financial assets								
Trading securities	-	1,639	-	1,639	-	1,520	-	1,520
Available-for-sale financial assets[1]	-	3,544	-	3,544	-	3,677	-	3,677
Derivatives	2	222	-	224	1	137	-	138
	2	5,405	-	5,407	1	5,334	-	5,335
Financial liabilities								
Short-term offshore borrowings designated as financial liabilities at fair value through profit or loss[2]	-	2,040	-	2,040	-	2,469	-	2,469
Derivatives	-	158	-	158	-	354	-	354
	-	2,198	-	2,198	-	2,823	-	2,823

	2018				2017			
Company	**Level 1 $M**	**Level 2 $M**	**Level 3 $M**	**Total $M**	**Level 1 $M**	**Level 2 $M**	**Level 3 $M**	**Total $M**
Financial assets								
Trading securities	-	1,639	-	1,639	-	1,520	-	1,520
Available-for-sale financial assets[1]	-	3,544	-	3,544	-	3,677	-	3,677
Derivatives	2	222	-	224	1	137	-	138
	2	5,405	-	5,407	1	5,334	-	5,335
Financial liabilities								
Short-term offshore borrowings designated as financial liabilities at fair value through profit or loss[2]	-	2,040	-	2,040	-	2,469	-	2,469
Derivatives	-	158	-	158	-	354	-	354
	-	2,198	-	2,198	-	2,823	-	2,823

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

2 Disclosed within the statements of financial position category of ‘Deposits and short-term borrowings’.

There have been no transfers between Level 1 and Level 2 and no transfers into or out of Level 3 during the 2018 and 2017 financial years. Transfers are deemed to have occurred at the end of the financial year.

Financial assets and liabilities not measured at fair value

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

Consolidated	Note	Carrying value $M	Fair value Level 1 $M	Level 2 $M	Level 3 $M	Total $M
2018						
Financial assets						
Held-to-maturity investments	10	514	-	524	-	524
Loans and advances	12	58,598	-	-	58,609	58,609
Financial liabilities						
Deposits and short-term borrowings at amortised cost	14	44,003	-	44,005	-	44,005
Securitised liabilities	23.3	4,848	-	4,877	-	4,877
Debt issues	16	9,854	-	9,919	-	9,919
Subordinated notes	17	742	-	733	-	733
2017						
Financial assets						
Held-to-maturity investments	10	883	-	897	-	897
Loans and advances	12	55,197	-	-	55,240	55,240
Financial liabilities						
Deposits and short-term borrowings at amortised cost	14	42,958	-	43,030	-	43,030
Securitised liabilities	23.3	3,088	-	3,092	-	3,092
Debt issues	16	9,216	-	9,252	-	9,252
Subordinated notes	17	742	-	726	-	726

Company	Note	Carrying value $M	Fair value Level 1 $M	Level 2 $M	Level 3 $M	Total $M
2018						
Financial assets						
Held-to-maturity investments	10	514	-	524	-	524
Loans and advances	12	58,377	-	-	58,389	58,389
Financial liabilities						
Deposits and short-term borrowings at amortised cost	14	44,667	-	44,669	-	44,669
Debt issues	16	9,854	-	9,919	-	9,919
Subordinated notes	17	742	-	733	-	733
2017						
Financial assets						
Held-to-maturity investments	10	883	-	897	-	897
Loans and advances	12	54,926	-	-	54,964	54,964
Financial liabilities						
Deposits and short-term borrowings at amortised cost	14	42,976	-	43,033	-	43,033
Debt issues	16	9,216	-	9,252	-	9,252
Subordinated notes	17	742	-	726	-	726

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

Financial assets

Fair value of held-to-maturity investment securities are determined based on the quoted market price where available. Where quoted prices are not available, alternative valuation techniques are used. Valuation techniques used include discounted cash flow analysis using expected future cash flows and a market-related discount rate.

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

Financial liabilities

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

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

23.2 Master netting or similar arrangements

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

Derivative assets and liabilities

— Offsetting has been applied to derivatives in the statements of financial position where the Group has a legally enforceable right to set-off and there is an intention to settle on a net basis.

— Certain derivatives are subject to the ISDA Master Agreement and other similar master netting arrangements. These arrangements contractually bind the Group and the counterparty to apply close out netting across all outstanding transactions only if either party defaults or other pre-agreed termination events occur. As such, they do not meet the criteria for offsetting in the statements of financial position.

— The cash collateral pledged or received is subject to the ISDA Credit Support Annex and other standard industry terms.

Repurchase agreements and reverse repurchase agreements

— Offsetting has been applied to repurchase agreements in the consolidated statement of financial position where the Group has a legally enforceable right to set-off and netting of payments or receipts apply or in some agreements netting only apply if both the Group and the respective counterparties agree.

— Provision is made for netting of payments/receipts of all amounts in the same currency payable by each party to the other and close-out netting on termination.

— Repurchase transactions are governed by the Global Master Repurchase Agreement (**GMRA**) published by the International Capital Markets Association (**ICMA**) and the Securities Industry and Financial Markets Association (**SIFMA**).

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

	Amounts subject to master netting or similar arrangements						
			Related amounts not offset on the SoFP				
Consolidated	**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	215	-	(107)	(67)	41	9	224
Reverse repurchase agreements [1]	251	-	-	(251)	-	-	251
Total	466	-	(107)	(318)	41	9	475
Financial liabilities							
Derivatives	154	-	(106)	(39)	9	4	158
Repurchase agreements [2]	301	-	(301)	-	-	-	301
Total	455	-	(407)	(39)	9	4	459
2017							
Financial assets							
Derivatives	124	-	(109)	(10)	5	14	138
Reverse repurchase agreements [1]	639	-	-	(632)	7	-	639
Total	763	-	(109)	(642)	12	14	777
Financial liabilities							
Derivatives	301	-	(109)	(148)	44	53	354
Repurchase agreements [2]	306	-	(306)	-	-	-	306
Total	607	-	(415)	(148)	44	53	660

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

2 Repurchase agreements are included as part of ‘Deposits and short-term borrowings’ in the statements of financial position.

	Amounts subject to master netting or similar arrangements						
			Related amounts not offset on the SoFP				
Company	Gross amounts $M	Offsetting applied $M	Financial instruments $M	Financial collateral received/ pledged $M	Net exposure $M	Amounts not subject to master netting or similar arrangements $M	Total $M
2018							
Financial assets							
Derivatives	215	-	(107)	(67)	41	9	224
Reverse repurchase agreements [1]	251	-	-	(251)	-	-	251
Total	466	-	(107)	(318)	41	9	475
Financial liabilities							
Derivatives	154	-	(106)	(39)	9	4	158
Repurchase agreements[2]	301	-	(301)	-	-	-	301
Total	455	-	(407)	(39)	9	4	459
2017							
Financial assets							
Derivatives	124	-	(109)	(10)	5	14	138
Reverse repurchase agreements [1]	639	-	-	(632)	7	-	639
Total	763	-	(109)	(642)	12	14	777
Financial liabilities							
Derivatives	301	-	(109)	(148)	44	53	354
Repurchase agreements[2]	306	-	(306)	-	-	-	306
Total	607	-	(415)	(148)	44	53	660

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

2 Repurchase agreements are included as part of 'Deposits and short-term borrowings' in the statements of financial position.

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

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

Repurchase agreements

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

Reverse repurchase agreements

Collateral has been accepted in relation to reverse repurchase agreements. The fair value of collateral accepted as security for assets is $252 million (2017: $632 million) against carrying amount of $251 million (2017: $639 million). These transactions are governed by standard industry agreements.

Covered bonds

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

Securitisation programs

The Company conducts a loan securitisation program whereby housing mortgage loans are packaged and sold to special purpose securitisation trusts known as the Apollo Trusts (**Trusts**). The Trusts fund their purchase of the loans by issuing floating-rate pass-through debt securities. The Group receives residual income from the Trusts after all payments to security holders and costs of the program have been met. The Group does not stand behind the capital value or the performance of the securities or the assets of the Trusts, and it does not guarantee the payment of interest or the repayment of principal due on the securities. The loans subject to the securitisation program have been pledged as security for the securities issued by the Trusts, and as such, the Group cannot use these assets to settle the liabilities of the Group. The Group is not obliged to support any losses that may be suffered by investors and does not intend to provide such support. In the consolidated statement of financial position, the loans transferred are included in 'Loans and advances' and the securitisation securities issued are included in 'Securitised liabilities'.

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

	2018			2017		
Consolidated	**Repurchase agreements $M**	**Covered bonds[1] $M**	**Securitisation liabilities $M**	**Repurchase agreements $M**	**Covered bonds $M**	**Securitisation liabilities $M**
Carrying amount of transferred financial assets	301	1,534	4,910	306	2,926	3,195
Carrying amount of associated financial liabilities	301	2,037	4,848	306	2,491	3,088
For those liabilities that have recourse only to the transferred assets:						
Fair value of transferred financial assets	n/a	n/a	4,911	n/a	n/a	3,198
Fair value of associated financial liabilities	n/a	n/a	4,877	n/a	n/a	3,092
Net position			34			106

Note: n/a = not applicable

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

	2018			2017		
Company	**Repurchase agreements $M**	**Covered bonds[1] $M**	**Securitisation liabilities $M**	**Repurchase agreements $M**	**Covered bonds $M**	**Securitisation liabilities $M**
Carrying amount of transferred financial assets	301	1,534	-	306	2,926	-
Carrying amount of associated financial liabilities	301	2,037	-	306	2,491	-
For those liabilities that have recourse only to the transferred assets:						
Fair value of transferred financial assets	n/a	n/a	-	n/a	n/a	-
Fair value of associated financial liabilities	n/a	n/a	-	n/a	n/a	-
Net position			-			-

Note: n/a = not applicable

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

24. Risk management objectives and structure

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

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

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

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

The Three Lines of Defence model of accountability involves:

Line of defence	Responsibility of	Accountable for
First - Manage risk and comply with Suncorp Group frameworks, policies and risk appetite	All Functions (and staff)	– 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 Function in the design and execution of risk frameworks and practices. – Develop, apply and execute Functions' risk frameworks that are consistent with Suncorp Group for the respective functions. – Facilitate the reporting of the appropriateness and quality of risk management.
Third – Independent assurance over internal controls and risk management practices	Internal Audit	– Decide the level and extent of independent testing required to verify the efficacy of internal controls. – Validate the overall risk framework. – Provide assurance that the risk management practices are functioning as intended.

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

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

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

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

The key risks addressed by the ERMF are defined below.

Key risks	Definition
Strategic risk	Strategic risk is the most fundamental of business risks. At its most basic, it is the risk associated with Group's operating model and how it seeks to position itself strategically. Strategic risk threatens the viability of the operating model and our strategic position and emerges from external changes and the execution of Group's strategy.
Financial risk	Financial risks include credit and counterparty, market, asset and liability and liquidity risks. Credit and counterparty risk is the risk that the other party in an agreement will default/will not meet its contractual obligations in accordance with agreed terms. Market risk is the risk of unfavourable changes in foreign exchange rates, interest rates, equity prices, credit spreads, commodity prices, and market volatilities. Asset and liability risk is the risk to earnings and capital from mismatches between assets and liabilities with varying maturity and repricing profiles and from mismatches in term. Liquidity risk is the risk that the Group will be unable to service its cash flow obligations today or in the future.
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 Group may suffer as a result of its failure to comply with all applicable regulations, codes of conduct and good practice standards.

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

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

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

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

— note 11 derivative financial instruments.

25. Risk management for financial instruments

25.1 Credit risk

(a) Credit risk exposures

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

Credit risk is managed on a structured basis with approval decisions being taken within credit approval authorities delegated by the Board. The setting and maintenance of detailed credit policies and standards is undertaken by an independent function. The Chief Risk Officer, Banking & Wealth, has responsibility for the independent management of credit functions, to monitor trends impacting the credit quality of lending portfolios, and the management of troublesome and impaired assets.

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

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

The risk-graded portfolio includes commercial, agribusiness, property investment and development finance exposures. Within these portfolios, exposures are individually assessed and an internal risk grade is assigned depending on the discrete analysis of each customer or group of related customers' risk profile. Exposures within this portfolio are subject to annual (or more frequent) review, including a reassessment of the assigned internal risk grade. In the event of default, collections and recovery activity is managed within a well-defined structure. This process involves initial follow-up by the relationship manager including regular performance monitoring, reporting and if required, transfer to the Business Customer Support team.

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

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

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

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

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

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

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

Consolidated	Receivables due from other banks $M	Trading securities $M	Investment securities $M	Loans and advances $M	Credit commitments[1] $M	Derivatives[1] $M	Total risk $M
2018							
Agribusiness	-	-	-	4,014	197	-	4,211
Construction	-	-	-	732	251	-	983
Financial services	474	-	1,933	92	172	202	2,873
Hospitality	-	-	-	986	96	-	1,082
Manufacturing	-	-	-	234	24	-	258
Professional services	-	-	-	278	17	-	295
Property investment	-	-	-	2,448	121	-	2,569
Real estate - Mortgages	-	-	-	47,611	1,484	-	49,095
Personal	-	-	-	182	5	-	187
Government and public authorities	-	1,639	2,125	-	-	-	3,764
Other commercial and industrial	-	-	-	2,151	208	-	2,359
Total gross credit risk	474	1,639	4,058	58,728	2,575	202	67,676
Impairment provisions	-	-	-	(130)	-	-	(130)
Total credit risk	474	1,639	4,058	58,598	2,575	202	67,546
2017							
Agribusiness	-	-	-	3,966	283	-	4,249
Construction	-	-	-	578	252	-	830
Financial services	567	-	2,300	99	207	138	3,311
Hospitality	-	-	-	948	64	-	1,012
Manufacturing	-	-	-	274	24	-	298
Professional services	-	-	-	274	21	-	295
Property investment	-	-	-	2,080	146	-	2,226
Real estate - Mortgages	-	-	-	44,841	2,161	-	47,002
Personal	-	-	-	259	4	-	263
Government and public authorities	-	1,520	2,260	-	-	-	3,780
Other commercial and industrial	-	-	-	2,018	183	-	2,201
Total gross credit risk	567	1,520	4,560	55,337	3,345	138	65,467
Impairment provisions	-	-	-	(140)	-	-	(140)
Total credit risk	567	1,520	4,560	55,197	3,345	138	65,327

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

Company	Receivables due from other banks $M	Trading securities $M	Investment securities $M	Loans and advances $M	Credit commitments[1] $M	Derivatives[1] $M	Total risk $M
2018							
Agribusiness	-	-	-	3,898	197	-	4,095
Construction	-	-	-	710	251	-	961
Financial services	474	-	1,934	90	254	301	3,053
Hospitality	-	-	-	982	96	-	1,078
Manufacturing	-	-	-	220	24	-	244
Professional services	-	-	-	267	17	-	284
Property investment	-	-	-	2,447	121	-	2,568
Real estate - Mortgages	-	-	-	47,611	1,484	-	49,095
Personal	-	-	-	182	5	-	187
Government and public authorities	-	1,639	2,125	-	-	-	3,764
Other commercial and industrial	-	-	-	2,098	208	-	2,306
Total gross credit risk	474	1,639	4,059	58,505	2,657	301	67,635
Impairment provisions	-	-	-	(128)	-	-	(128)
Total credit risk	474	1,639	4,059	58,377	2,657	301	67,507
2017							
Agribusiness	-	-	-	3,843	283	-	4,126
Construction	-	-	-	548	252	-	800
Financial services	567	-	2,302	97	235	138	3,339
Hospitality	-	-	-	943	64	-	1,007
Manufacturing	-	-	-	255	24	-	279
Professional services	-	-	-	256	21	-	277
Property investment	-	-	-	2,078	146	-	2,224
Real estate - Mortgages	-	-	-	44,841	2,161	-	47,002
Personal	-	-	-	259	4	-	263
Government and public authorities	-	1,520	2,260	-	-	-	3,780
Other commercial and industrial	-	-	-	1,943	183	-	2,126
Total gross credit risk	567	1,520	4,562	55,063	3,373	138	65,223
Impairment provisions	-	-	-	(137)	-	-	(137)
Total credit risk	567	1,520	4,562	54,926	3,373	138	65,086

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

Consolidated	2018				2017			
	Individually provisioned impaired assets $M	Past due >90 days but not impaired $M	Remaining assets[1] and not impaired $M	Total risk $M	Individually provisioned impaired assets	Past due >90 days but not impaired	Remaining assets[1] and not impaired	Total risk $M
Agribusiness	48	25	4,138	4,211	71	8	4,170	4,249
Construction	1	1	981	983	3	-	827	830
Financial services	-	-	2,873	2,873	-	-	3,311	3,311
Hospitality	26	1	1,055	1,082	40	-	972	1,012
Manufacturing	2	2	254	258	2	-	296	298
Professional services	1	2	292	295	7	1	287	295
Property investment	8	3	2,558	2,569	5	2	2,219	2,226
Real estate - Mortgages	38	480	48,577	49,095	34	379	46,589	47,002
Personal	-	5	182	187	-	7	256	263
Government and public authorities	-	-	3,764	3,764	-	-	3,780	3,780
Other commercial and industrial	20	22	2,317	2,359	11	29	2,161	2,201
Total gross credit risk	144	541	66,991	67,676	173	426	64,868	65,467
Impairment provisions	(39)	(21)	(70)	(130)	(44)	(23)	(73)	(140)
Total credit risk	105	520	66,921	67,546	129	403	64,795	65,327

1 Not past due or past due ≤ 90 days.

Company	2018				2017			
	Individually provisioned impaired assets $M	**Past due >90 days but not impaired $M**	**Remaining assets[1] and not impaired $M**	**Total risk $M**	**Individually provisioned impaired assets**	**Past due >90 days but not impaired**	**Remaining assets[1] and not impaired**	**Total risk $M**
Agribusiness	48	25	4,022	4,095	71	8	4,047	4,126
Construction	1	1	959	961	2	-	798	800
Financial services	-	-	3,053	3,053	-	-	3,339	3,339
Hospitality	26	1	1,051	1,078	40	-	967	1,007
Manufacturing	2	2	240	244	2	-	277	279
Professional services	1	2	281	284	4	1	272	277
Property investment	8	3	2,557	2,568	5	2	2,217	2,224
Real estate - Mortgages	38	480	48,577	49,095	34	379	46,589	47,002
Personal	-	5	182	187	-	7	256	263
Government and public authorities	-	-	3,764	3,764	-	-	3,780	3,780
Other commercial and industrial	19	22	2,265	2,306	6	29	2,091	2,126
Total gross credit risk	143	541	66,951	67,635	164	426	64,633	65,223
Impairment provisions	(38)	(21)	(69)	(128)	(42)	(23)	(72)	(137)
Total credit risk	105	520	66,882	67,507	122	403	64,561	65,086

1 Not past due or past due ≤ 90 days.

(b) Credit quality

Credit quality of loans and advances are classified as follows:

— Performing loans are loans that are not impaired and not past due by more than 90 days.

— Non-performing loans – ‘not impaired’ are loans that are past due for greater than 90 days but the Group considers that principal and interest plus any associated costs will be recovered in full.

— Non-performing loans – ‘impaired’ are loans for which an individually-assessed provision for impairment has been raised.

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

— reduction in principal, interest or other payments due or

— an extended maturity date for repayment.

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

	Consolidated		Company	
	2018 $M	2017 $M	2018 $M	2017 $M
Performing loans				
Loans and advances	58,041	54,737	57,819	54,472
Loans and advances with restructured terms	2	1	2	1
Collective provision for impairment	(70)	(73)	(69)	(72)
	57,973	54,665	57,752	54,401
Non-performing loans – not impaired				
Non-performing loans – not impaired	541	426	541	426
Collective provision for impairment	(21)	(23)	(21)	(23)
	520	403	520	403
Non-performing loans – impaired				
Gross impaired loans	144	173	143	164
Specific provision for impairment	(39)	(44)	(38)	(42)
	105	129	105	122
Total loans and advances	58,598	55,197	58,377	54,926

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

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

— Strong: PD aligns to Standard & Poor’s rating AAA to BB.

— Satisfactory: PD aligns to Standard & Poor’s rating BB- to B.

— Weak: PD aligns to Standard & Poor’s rating B- to C.

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

Company	Strong $M	Satisfactory $M	Weak $M	Total $M
2018				
Loans and advances				
Retail banking	45,491	1,251	526	47,268
Business banking	6,946	3,350	257	10,553
	52,437	4,601	783	57,821
2017				
Loans and advances				
Retail banking	43,273	778	640	44,691
Business banking	6,398	3,197	187	9,782
	49,671	3,975	827	54,473

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

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

	Past due but not impaired					
Company	**1-29 days $M**	**30-59 days $M**	**60-89 days $M**	**90-179 days $M**	**>= 180 days $M**	**Total $M**
2018						
Loans and advances						
Retail banking	857	210	154	275	210	1,706
Business banking	64	22	12	24	32	154
	921	232	166	299	242	1,860
2017						
Loans and advances						
Retail banking	736	247	164	216	170	1,533
Business banking	63	9	23	30	10	135
	799	256	187	246	180	1,668

(c) Collateral management

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

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

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

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

In the event of customer default, the Group can take possession of security held as collateral against the outstanding claim. Any loan security for residential mortgages is held as mortgagee in possession while the Group seeks to realise its value through the sale of the property. Therefore, the Group does not hold any real estate or other assets acquired through the repossession of collateral. It is the Group's practice to demonstrate high standards of conduct when taking recovery action, and to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. Collateral and other credit enhancements held by the Group mitigates the maximum exposure to credit risk.

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

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

(d) Concentration of credit risk

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

	Consolidated		Company	
Geographic breakdown	**2018 $M**	**2017 $M**	**2018 $M**	**2017 $M**
Queensland	31,005	29,288	30,852	29,092
New South Wales	15,624	14,469	15,566	14,404
Victoria	6,079	5,684	6,071	5,675
Western Australia	3,587	3,683	3,586	3,682
South Australia and other	2,433	2,213	2,430	2,210
Gross loans and advances	58,728	55,337	58,505	55,063

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

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

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

(e) Provision for impairment – specific and collective provisions

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

A specific provision for impairment is recognised where there is objective evidence of impairment and full recovery of principal and interest is considered doubtful. The present value of the expected future cash flows is compared to the carrying amounts of the loan. All factors that have a bearing on the expected future cash flows are considered, including the business prospects for the customer, the realisable value of collateral, Suncorp Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. These judgments can change as new information becomes available and work-out strategies evolve.

The Group's policy requires the level of impairment allowances on individual facilities that are above internal thresholds to be reviewed at least quarterly, and more regularly as circumstances require.

A collective provision is established for loan portfolios which are not specifically provisioned. Collective provisions are held for potential credit losses which have been incurred but not yet specifically identified, and can be in the performing or non-performing portfolios. For business banking exposures, a ratings-based approach is applied using estimates of probability of default and loss given default, at a customer level. For portfolio managed exposures, the portfolios are split into pools with homogenous risk profiles and pool estimates of probability of default and loss given default are used to calculate the collective provision.

Loans with similar credit risk characteristics are grouped as follows:

— Retail loans, small business and non-credit risk-rated business loans are grouped by product.

— Credit risk-rated business loans are grouped by the industry types, being agribusiness, commercial, development finance and property investment.

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

Each model determines an impairment loss based on the Suncorp Group's historical experience, and an evaluation of current economic conditions, with adjustments made for additional systemic factors. It is possible that the estimated impairment loss will differ from the actual losses to be incurred from the groups of identified impaired loans.

25.2 Liquidity risk

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

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

— a liquidity and funding risk appetite statement as well as relevant risk limits

— a framework that includes control practices, early warning indicators and appropriate management notification structures, including but not limited to: deposit concentration, liquidity coverage ratio, net stable funding ratio and liquidity concentration metrics limits

— sourcing of retail deposits and long-term debt to provide funding for the majority of the funding portfolio. Funding capacity is monitored and diversity in the funding portfolio is managed with consideration given to product, tenor, geography and customer concentrations; and

— a contingency funding plan that outlines strategies to address liquidity shortfalls in emergency situations.

(a) Maturity analysis

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

The cash flows for subordinated notes have been included at their next call date. The total cash flows include both principal and associated future interest payments. Interest is calculated based on liabilities held at balance date, without taking account of future issuance. Floating rate interest is estimated using estimated forward rates at the balance date.

Derivatives (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the 0-3 months column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short-term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

Consolidated **2018**	Carrying amount $M	At call $M	0 to 3 months $M	3 to 12 months $M	1 to 5 years $M	Over 5 years $M	Total cash flows $M
Payables due to other banks	148	148	-	-	-	-	148
Deposits and short-term borrowings	46,043	20,289	13,985	12,072	255	-	46,601
Derivative financial instruments (trading)	27	-	3	7	16	1	27
Payables and other liabilities	423	-	423	-	-	-	423
Due to related parties	20	-	20	-	-	-	20
Securitised liabilities	4,848	-	368	974	3,005	1,008	5,355
Debt issues	9,854	-	370	2,739	6,871	697	10,677
Subordinated notes[1]	742	-	9	679	9	72	769
	62,105	20,437	15,178	16,471	10,156	1,778	64,020
Derivatives							
Contractual amounts receivable (gross settled)	(1,733)	-	(102)	(285)	(1,400)	(61)	(1,848)
Contractual amounts payable (gross and net settled)	1,864	-	115	317	1,471	70	1,973
	131	-	13	32	71	9	125
Off-balance sheet positions							
Guarantees entered into in the normal course of business	-	271	-	-	-	-	271
Commitments to provide loans and advances	-	8,619	-	-	-	-	8,619
	-	8,890	-	-	-	-	8,890
2017							
Payables due to other banks	50	50	-	-	-	-	50
Deposits and short-term borrowings	45,427	18,775	13,348	12,863	1,033	-	46,019
Derivative financial instruments (trading)	92	-	4	49	38	3	94
Payables and other liabilities	357	-	357	-	-	-	357
Due to related parties	63	-	63	-	-	-	63
Securitised liabilities	3,088	-	263	602	2,026	509	3,400
Debt issues	9,216	-	242	1,957	7,282	546	10,027
Subordinated notes[1]	742	-	9	24	695	72	800
	59,035	18,825	14,286	15,495	11,074	1,130	60,810
Derivatives							
Contractual amounts receivable (gross settled)	(3,898)	-	(103)	(742)	(3,180)	(42)	(4,067)
Contractual amounts payable (gross and net settled)	4,160	-	141	845	3,337	61	4,384
	262	-	38	103	157	19	317
Off-balance sheet positions							
Guarantees entered into in the normal course of business	-	271	-	-	-	-	271
Commitments to provide loans and advances	-	9,356	-	-	-	-	9,356
	-	9,627	-	-	-	-	9,627

1 Cash flows for subordinated notes have been included at their next call date. The total cash flows include both principal and associated future interest payments. Interest is calculated based on liabilities held at reporting date, without taking account of future issuance. Floating rate interest is estimated using estimated forward rates at the reporting date.

Company **2018**	Carrying amount $M	At call $M	0 to 3 months $M	3 to 12 months $M	1 to 5 years $M	Over 5 years $M	Total cash flows $M
Payables due to other banks	148	148	-	-	-	-	148
Deposits and short-term borrowings	46,707	20,953	13,985	12,072	255	-	47,265
Derivative financial instruments (trading)	27	-	3	7	16	1	27
Payables and other liabilities	414	-	414	-	-	-	414
Due to related parties[2]	4,868	-	348	974	3,005	1,008	5,335
Debt issues	9,854	-	370	2,739	6,871	697	10,677
Subordinated notes[1]	742	-	9	679	9	72	769
	62,760	21,101	15,129	16,471	10,156	1,778	64,635
Derivatives							
Contractual amounts receivable (gross settled)	(1,733)	-	(102)	(285)	(1,400)	(61)	(1,848)
Contractual amounts payable (gross and net settled)	1,864	-	115	317	1,471	70	1,973
	131	-	13	32	71	9	125
Off-balance sheet positions							
Guarantees entered into in the normal course of business	-	271	-	-	-	-	271
Commitments to provide loans and advances	-	8,701	-	-	-	-	8,701
	-	8,972			-	-	8,972
2017							
Payables due to other banks	50	50	-	-	-	-	50
Deposits and short-term borrowings	45,445	18,792	13,348	12,863	1,033	-	46,036
Derivative financial instruments (trading)	92	-	4	49	38	3	94
Payables and other liabilities	352	-	352	-	-	-	352
Due to related parties[2]	3,152	-	327	602	2,026	509	3,464
Debt issues	9,216	-	242	1,957	7,282	546	10,027
Subordinated notes[1]	742	-	9	24	695	72	800
	59,049	18,842	14,282	15,495	11,074	1,130	60,823
Derivatives							
Contractual amounts receivable (gross settled)	(3,898)	-	(103)	(742)	(3,180)	(42)	(4,067)
Contractual amounts payable (gross and net settled)	4,160	-	141	845	3,337	61	4,384
	262	-	38	103	157	19	317
Off-balance sheet positions							
Guarantees entered into in the normal course of business	-	271	-	-	-	-	271
Commitments to provide loans and advances	-	9,411	-	-	-	-	9,411
	-	9,682			-	-	9,682

1 Cash flows for subordinated notes have been included at their next call date. The total cash flows include both principal and associated future interest payments. Interest is calculated based on liabilities held at reporting date, without taking account of future issuance. Floating rate interest is estimated using estimated forward rates at the reporting date.

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

(b) Composition of funding

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

		Consolidated		Company	
		2018	2017	2018	2017
	Note	$M	$M	$M	$M
Customer funding					
Customer deposits					
At-call deposits		20,289	18,945	20,953	18,963
Term deposits		18,272	17,895	18,272	17,895
Total retail funding		38,561	36,840	39,225	36,858
Wholesale funding					
Domestic funding					
Short-term wholesale		5,442	6,118	5,442	6,118
Long-term wholesale		4,863	4,062	4,863	4,062
Covered bonds		2,037	2,491	2,037	2,491
Subordinated notes		742	742	742	742
Total domestic funding		13,084	13,413	13,084	13,413
Overseas funding[1]					
Short-term wholesale		2,040	2,469	2,040	2,469
Long-term wholesale		2,954	2,663	2,954	2,663
Total overseas funding		4,994	5,132	4,994	5,132
Total wholesale funding		18,078	18,545	18,078	18,545
Total funding (excluding securitisation)		56,639	55,385	57,303	55,403
Securitisation					
APS 120 qualifying[2]		4,809	3,050	-	-
APS 120 non-qualifying		39	38	-	-
Total securitisation		4,848	3,088	-	-
Total funding (including securitisation)		61,487	58,473	57,303	55,403
Comprised of the following items on the statement of financial position					
Deposits and short-term borrowings	14	46,043	45,427	46,707	45,445
Securitised liabilities	23.3	4,848	3,088	-	-
Debt issues	16	9,854	9,216	9,854	9,216
Subordinated notes	17	742	742	742	742
Total funding		61,487	58,473	57,303	55,403

1 Foreign currency borrowings are hedged back into Australian dollars.

2 Qualifies for capital release under APRA Prudential Standard APS 120 *Securitisation.*

25.3 Market risk

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

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

(a) Traded market risk

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

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

VaR is modelled at a 99% confidence level over a 1-day holding period for trading book positions.

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

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

1 Does not include the Balance Sheet Management Tactical portfolio VaR of $0.01 million (2017: $0.15 million).

2 VaR for combined risk is the total trading risk and foreign exchange risks, taking into account correlations between different positions in both the interest rate and foreign exchange trading portfolios.

(b) Non-traded interest rate risk

Non-traded IRRBB is defined as all on-balance sheet items and off-balance sheet items that create an interest rate risk exposure within the Group. The main objective of IRRBB management is to maximise and stabilise net interest income in the long term.

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

— repricing risk: resulting from changes in the overall levels of interest rates and the effect this has on the banking book with respect to mismatches in repricing dates

— yield curve risk: resulting from changes in the relative levels of interest rates at different tenors of the yield curve (that is a change in the slope or shape of the yield curve)

— basis risk: resulting from differences between the actual and expected interest margins on banking book items

— optionality risk: resulting from the existence of stand-alone or embedded options to the extent that the potential for losses is not included in the measurement of repricing, yield curve or basis risks.

(i) IRRBB – Net interest income sensitivity (NIIS)

IRRBB exposures are generated by using underlying reconciled financial position data to generate cash flows using relevant interest rate curves, and a static balance sheet assumption. Contractual cash flows are generated except for products where expected behavioural cash flow modelling is more appropriate, and they are modelled with a profile and at a term that can be statistically supported.

As a measure of shorter-term sensitivity, NIIS measures the sensitivity of the banking book earnings over the next 12 months to instantaneous parallel and non-parallel shocks to the yield curve. NIIS is measured using a 2% parallel and non-parallel shock to the yield curve to determine the potential adverse change in net interest income in the ensuing 12-month period.

The following table indicates the potential impact to NIIS from an adverse 2% parallel movement in interest rates on the consolidated statement of financial position. The results are prepared based on the IRRBB framework applicable to the respective financial year.

Consolidated and Company	2018 $M	2017 $M
Exposure at the end of the financial year	(31)	(36)

(ii) Present value sensitivity

As a measure of longer-term sensitivity, present value sensitivity (**PVS**) measures the sensitivity of the present value of all known future cash flows in the banking book, to instantaneous parallel and non-parallel shocks to the yield curve. All exposures have their known future cash flows present valued from relevant interest rate curves.

The following table indicates the potential impact to economic value from an adverse 2% parallel movement in interest rates on the consolidated statement of financial position.

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

Consolidated and Company	2018 $M	2017 $M
Exposure at the end of the financial year	(4)	(67)

(iii) Value at Risk (VaR)

VaR is modelled at a 99% confidence level over a 1-month holding period for IRRBB. The results are prepared based on the IRRBB framework applicable to the respective financial year.

Consolidated and Company	2018 $M	2017 $M
Exposure at the end of the financial year	(18)	(22)

(c) Non-traded foreign exchange risk

Non-traded foreign exchange risk can arise from having non-Australian dollar items in the banking portfolio, thereby exposing current and future earnings to movements in foreign exchange rates. The objective of foreign currency exchange risk management is to minimise the impact on earnings of any such movements. The Group policy is to fully hedge any such exposure and accordingly minimise exposure to the risk. All offshore borrowing facilities arranged as part of the overall funding diversification process have been economically hedged in respect of their potential foreign exchange risk through the use of financial derivatives (refer to note 11).

26. Commitments

26.1 Credit commitments

In the ordinary course of business, various types of contracts are entered into relating to the financing needs of customers. Commitments to extend credit, letters of credit, guarantees, warranties and indemnities are classed as financial instruments and attract fees in line with market prices for similar arrangements and reflect the probability of default. They are not sold or traded and are not recorded in the statements of financial position. The Group uses the same credit policies and assessment criteria in making these commitments and conditional obligations as it does for on-balance sheet instruments. These commitments would be classified as loans and advances in the statements of financial position on the occurrence of the contingent event.

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

	Consolidated		Company	
	2018 $M	2017 $M	2018 $M	2017 $M
Notional amounts				
Guarantees entered into in the normal course of business	271	271	271	271
Commitments to provide loans and advances	8,619	9,356	8,701	9,411
	8,890	9,627	8,972	9,682
Credit equivalent amounts				
Guarantees entered into in the normal course of business	270	259	270	259
Commitments to provide loans and advances	2,305	3,086	2,387	3,114
	2,575	3,345	2,657	3,373

26.2 Operating lease expenditure commitments

The Group leases property under operating leases expiring from 1 to 6 years. Leases generally provide the Group with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or other operating criteria.

	Consolidated		Company	
	2018 $M	2017 $M	2018 $M	2017 $M
Aggregate non-cancellable operating lease rentals payable but not provided in the financial statements:				
Less than one year	8	8	8	8
Between one and five years	37	35	37	35
More than five years	6	16	6	16
	51	59	51	59

Total operating lease rental expense recognised in the statements of comprehensive income as part of ‘Operating expenses’ for the Group was $9 million and for the Company was $9 million (2017: Group: $29 million; Company: $29 million).

27. Composition of the Company

27.1 Material subsidiaries of the Company

Subsidiaries	Class of shares	Country of incorporation	2018 Equity holding %	2017 Equity holding %
APOLLO Series Trusts (various)[1]	Units	Australia	100	100
Suncorp Covered Bond Trust	Units	Australia	100	100
SME Management Pty Limited	Ordinary	Australia	100	100
Suncorp Metway Advances Corporation Pty Ltd	Ordinary	Australia	100	100

1 The Company conducts a loan securitisation program whereby housing mortgage loans are packaged and sold as securities to the wholly owned Apollo Series Trusts. As at 30 June 2018, the Company held interest in ten Trusts (2017: ten)

27.2 Consolidated structured entities

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

Liquidity facility

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

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

Redraw facility

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

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

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

28.1 KMP disclosures

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

Total compensation for KMP are as follows:

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

Loans to KMP and their related parties are secured housing loans and asset lines provided in the ordinary course of business. All loans have normal commercial terms, which may include staff discounts at the same terms available to all employees of the Suncorp Group. The loans may have offset facilities, in which case the interest charged is after the offset. No amounts have been written down or recorded as provisions, as the balances are considered fully collectable.

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

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

28.2 Other related party transactions

	Consolidated 2018 $000	Consolidated 2017 $000	Company 2018 $000	Company 2017 $000
The aggregate amounts included in the determination of profit before tax that resulted from transactions with related parties are:				
Other operating income				
Subsidiaries	-	-	318,697	360,484
Other related parties	2,500	2,500	2,500	2,500
Interest expense				
Subsidiaries	-	-	3,620	2,424
Other related parties	34,866	36,535	34,866	31,067
Operating expenses[1]				
Subsidiaries	-	-	426,937	420,626
Other related parties	651,046	543,808	651,046	543,808
Dividends paid				
Parent entity	297,800	329,000	297,800	329,000
Other related parties	30,712	20,516	30,712	20,516
Aggregate amounts receivable from, and payable to, each class of related parties as at the end of the financial year				
Investment securities				
Subsidiaries	-	-	866	2,307
Due from related parties				
Subsidiaries	-	-	859,907	271,645
Other related parties	361,614	315,924	361,615	316,076
Deposits and short-term borrowings				
Subsidiaries	-	-	664,319	18,428
Other related parties	492,958	332,156	492,958	332,156
Due to related parties				
Subsidiaries	-	-	4,853,362	3,098,321
Other related parties	19,878	62,889	14,210	53,475
Subordinated notes				
Other related parties	670,000	670,000	670,000	670,000

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

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

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

29. Auditor's remuneration

	Consolidated		Company	
	2018 $000	2017 $000	2018 $000	2017 $000
KPMG Australia				
Audit and review services				
Audit and review of financial reports	1,149	1,345	1,015	1,205
Other regulatory audits	585	398	585	398
	1,734	1,743	1,600	1,603
Other services				
In relation to other assurance, actuarial, taxation and other non-audit services	519	734	388	637
Total auditor's remuneration	2,253	2,477	1,988	2,240

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

30. Contingent assets and liabilities

30.1 Contingent assets

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

30.2 Contingent liabilities

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

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

— The Group has given guarantees and undertakings in the ordinary course of business in respect to credit facilities and rental obligations. Note 26 sets out the details of these guarantees.

— Certain subsidiaries act as trustee for various trusts. In this capacity, the subsidiaries are liable for the debts of the trusts and are entitled to be indemnified out of the trust assets for all liabilities incurred on behalf of the trusts.

31. Significant accounting policies

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

31.1 Basis of consolidation

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

(a) Subsidiaries

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

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

Structured entities (**SE**) are entities created to accomplish a narrow and well-defined objective such as the securitisation of particular assets or the execution of a specific borrowing or lending transaction. Critical judgments are applied in determining whether a SE is controlled and consolidated by the Group. A SE is consolidated if the Group is exposed to, or has rights to, variable returns from its involvement with the SE and has the ability to affect those returns through its power over the SE.

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

31.2 Foreign currency

(a) Foreign currency transactions

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

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

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

31.3 Revenue and expense recognition

(a) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. This includes fees and commission income and expense (e.g. lending fees) that are integral to the effective interest rate on a financial asset or liability.

(b) Dividends and distribution income

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

(c) Other income

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

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

31.4 Income tax

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

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

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

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

(a) Tax consolidation

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

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

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

(b) Taxation of financial arrangements

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

31.5 Goods and services tax (GST)

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

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

31.6 Cash and cash equivalents

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

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

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

31.7 Non-derivative financial assets

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

Financial assets at fair value through profit or loss are classified as held for trading and are included in investment securities as trading securities. They are initially recognised on trade date at fair value. Transaction costs are recognised in the profit or loss as incurred. Subsequently, the assets are measured at fair value on each reporting date and any gains or losses are taken immediately to the profit or loss.

(b) Held-to-maturity investments

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

(c) Loans and other receivables

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

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

(d) Available-for-sale financial assets

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

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

(e) Derecognition of financial assets

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

(f) Repurchase agreements and reverse repurchase agreements

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

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

31.8 Investments in subsidiaries

Investments in subsidiaries are carried at cost.

31.9 Derivative financial instruments

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

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

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

Embedded derivatives

Where a derivative is embedded in another financial instrument, the economic characteristics and risks of the derivative are not closely related to those of the host contract and the host contract is not carried at fair value, the embedded derivative is separated from the host contract and carried at fair value through profit or loss. Otherwise, the embedded derivative is accounted for on the same basis as the host contract.

31.10 Hedge accounting

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

(a) Cash flow hedges

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

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

— could affect profit or loss.

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

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

(b) Fair value hedges

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

— a recognised asset or liability;

— an unrecognised firm commitment; or

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

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

When a hedging relationship no longer meets the criteria for hedge accounting, the hedged item is accounted for under the effective interest method from that point and any accumulated adjustment to the carrying value of the hedged item from when it was effective is released to profit or loss over the period to when the hedged item will mature.

31.11 Impairment

(a) Financial assets

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

Loans and receivables

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

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

The unwinding of the discount from initial recognition of impairment through to recovery of the written down amount is recognised through interest income.

Available-for-sale financial assets

An impairment loss is recognised in respect of available-for-sale financial assets where there is objective evidence of impairment as a result of one or more events which have an impact on the estimated future cash flows. Cumulative losses are transferred from the available-for-sale reserve in equity to the profit or loss. When subsequent events cause the amount of the impairment loss to decrease, a reversal of the impairment is recognised in profit or loss for debt securities if the decrease can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, and in equity for equity securities and other debt security recoveries.

(b) Non-financial assets

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

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

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

31.12 Non-derivative financial liabilities

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

These liabilities are classified as either held for trading or those that are designated upon initial recognition. Liabilities are initially recognised on trade date at fair value with any directly attributable transaction costs recognised in profit or loss as incurred. Fair value is determined using the offer price where available. Movements in the fair value are recognised in the profit or loss. The Group designates certain short-term offshore borrowings at fair value through profit or loss when they are managed on a fair value basis.

(b) Financial liabilities at amortised cost

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

(c) Hybrid instruments

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

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

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

(d) Derecognition of financial liabilities

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

31.13 Leases

A distinction is made between finance leases (which effectively transfer substantially all the risks and benefits incidental to ownership of leased non-current assets from the lessor to the lessee) and operating leases (under which the lessor effectively retains substantially all such risks and benefits).

Payments made under operating leases are expensed on a straight-line basis over the term of the lease.

31.14 Contingent liabilities and contingent assets

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

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

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

31.15 New accounting standards and interpretation not yet adopted

AASB 9 *Financial Instruments*

AASB 9 was issued in December 2014. It addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce a forward-looking expected credit loss impairment model, and general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks. This standard became mandatory for the Group for the annual reporting period from 1 July 2018.

Governance

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

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

Classification and measurement

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

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

— Amortised cost if future cash flows of the financial asset are solely principal payments and interest (**SPPI**) and its business model is predominantly held-to-collect.

— FVOCI if future cash flows of the financial asset that is a debt instrument are SPPI and its business model is held-to-collect and for sale.

— An investment in equity instrument (excluding investment in subsidiary) where its business model is not held for trading can irrevocably elect at initial recognition to be classified as FVOCI rather than FVTPL. Note that there is no change to classification and measurement of the investment in the subsidiary by the Company and will continue to be at cost.

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

Impairment

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

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

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

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

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

Hedge accounting

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

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

Transitional impact

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

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

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

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

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

AASB 15 *Revenue from Contracts with Customers*

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

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

AASB 16 *Leases*

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

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

The Group is currently assessing the impact of AASB 16 and so far, the most significant impact identified is the recognition of new assets and liabilities in the statements of financial position relating to real estate leases. As at 30 June 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to $51 million, on an undiscounted basis as set out in note 26.2.

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

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

32. Subsequent events

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

DIRECTORS' DECLARATION

1. The directors of Suncorp-Metway Limited (the **Company**) declare that in their opinion:
   a. the financial statements and notes, and the Remuneration Report in the Directors' Report set out on pages 17 to 41, are in accordance with the *Corporations Act 2001*, including:
      i. giving a true and fair view of the Company's and the Group's financial position as at 30 June 2018 and of their performance for the financial year ended on that date; and
      ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*
   b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2018.
3. The directors draw attention to note 2.1 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

J. P. Switkowski

Dr Ziggy Switkowski AO
Chairman of the Board

Michael Cameron
CEO and Managing Director

9 August 2018

KPMG

Independent Auditor's Report

To the shareholder of Suncorp-Metway Limited

Report on the audits of the Financial Reports

Opinions

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

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

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

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

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

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

Basis for opinions

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

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

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

Key Audit Matters

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

- Specific and collective impairment provisions for loans and advances, and implementation disclosures for expected credit losses; and
- Financial instruments at fair value.

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

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

Specific and collective impairment provisions for loans and advances - Group ($130m) and Company ($128m), and implementation disclosures for expected credit losses

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

The key audit matter	How the matter was addressed in our audits
Impairment provisions are considered to be a key audit matter owing to the significance of loans and advances, the high degree of complexity and judgement applied by the Group in determining the provisions and the judgement required by us in challenging these estimates. Specific impairment provisions are based on the Group's judgement in estimating when an impairment event has occurred and the present value of expected future cash flows, which are inherently uncertain. This is particularly challenging in relation to business and agribusiness loans as the forecast cash flows are dependent on future and uncertain events, for example, the timing and proceeds from the future sale of collateral or a refinance of the loans to another financial institution. Collective impairment provisions are determined either on a ratings-based approach at the exposure level for business and agribusiness loans, or segmenting the portfolio into pools with homogenous risk profiles for retail loans. Based on the assigned rating or pool, an estimate of the likelihood of default and the potential loss given default will be applied to the exposure at default to determine the collective provision. This estimation is challenging due to the use of complex models based on the Group's historical loss experience to predict probability of default and loss given default estimates. Significant judgement is applied in determining the nature and level of model overlays, which are used where the underlying models may not represent emerging risks or trends in the respective loan portfolios.	Our audit procedures included: • testing key controls over arrears calculations, customer loan ratings, annual loan reviews, credit risk reviews and credit risk model validations. **Specific provisions** • performing credit assessments for a sample of business and agribusiness loans managed by the Group's Business Customer Support team assessed as higher risk or impaired, and a sample of other loans identified through our data analytic procedures, focusing on larger exposures assessed by the Group as having deteriorating credit risk factors, or in areas of emerging risk (assessed against external market conditions, for example, drought). We challenged the Group's risk grading of the loan and performed our own assessment of recoverability. Our credit assessments included inspection of the latest loan strategy papers, correspondence with the borrower, provision estimates prepared by credit risk officers and consideration of the resolution period estimated for the impaired loan. We challenged assumptions and recovery strategies based on our experience and industry knowledge. We assessed collateral values with reference to valuations performed by the Group's panel of approved valuers. We also re-performed key impairment calculations. • for residential mortgages, we tested a sample of non-performing loans not underwritten by lenders mortgage insurance with a higher risk of impairment, for example, higher loan-to-value ratios, larger exposures and security located in property markets experiencing downturn. We challenged assumptions made in respect of

AASB 9 *Financial Instruments* has been implemented from 1 July 2018. This is a new and complex accounting standard which requires considerable judgement and interpretation in its implementation to measure the expected credit losses on loans and advances.	expected recoveries, primarily from the collateral held and realisation strategy adopted. **Collective provisions** • testing key inputs used in the collective impairment provision calculation for significant asset classes. This included the customer loan rating for business and agribusiness loans, arrears profile for retail loans and reconciliation of loan balances to source systems. • working with our credit risk specialists to test the collective provision models for compliance with the Group's model governance policies and the requirements of accounting standards. We evaluated model validations performed over the collective provision calculations for the business, agribusiness and mortgage loan portfolios. • independently assessing judgements in the application of overlays for management bias by applying sensitivities to assumptions underlying the overlays, and evaluating current economic, climatic and portfolio-specific conditions linked to the overlays, such as agribusiness loans impacted by recent drought conditions. **Expected credit losses (implementation disclosures)** • testing the controls over the selection and approval of key accounting policy determinations, for example, definition of significant increase in credit risk. This included our assessment of technical accounting papers prepared by the Group. • testing the controls over model governance, development and validation. We used our credit risk specialists to assess model methodology and assumptions for a sample of models to determine compliance with AASB 9. • testing key data reconciliation controls from source systems into credit risk models. • independently assessing the disclosure of the impact of adopting AASB 9 as it pertains to expected credit losses.

Financial instruments at fair value (Assets $5,407m and Liabilities $2,198m) – Group and Company

Refer to Note 23.1, 25.2, 25.3, 31.7, 31.9, 31.12 and 31.15 to the Group Financial Report and Company Financial Report

The key audit matter	How the matter was addressed in our audit
The Group and Company enters into various financial instruments which are required to be carried at fair value. This is considered a key audit matter as a result of the significant amount of financial instruments at fair value in the financial statements used for the management of financial risks such as liquidity risk, market risk and asset and liability risk. Furthermore, the valuation of these instruments involves the exercise of judgement in the selection of methodologies and inputs. These decisions are critical to the valuation adopted for each financial instrument type. As such, senior audit team effort and specialist involvement was required.	Our audit procedures included: • understanding and testing the Group and Company's processes and key controls for the identification, measurement and management of valuation risk. • with the involvement of our specialists, we assessed the fair value of a sample of financial instruments. This included: – re-performing a valuation and comparing this to the Group and Company's valuation; and – challenging the Group and Company's methodologies, assumptions and inputs adopted in the valuation such as yield curve constructions and credit value adjustments by comparing to industry practice and external market data for interest and foreign exchange rates.

Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

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

Auditor's responsibilities for the audits of the Financial Reports

Our objective is:

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

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

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

A further description of our responsibilities for the audits of the Financial Reports is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Suncorp-Metway Limited for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited sections 2 to 6 of the Remuneration Report included in pages 17 to 41 of the Directors' report for the year ended 30 June 2018.

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

KPMG

KPMG

JBRichards

Jillian Richards

Partner

Brisbane

9 August 2018