AAI LIMITED AND SUBSIDIARIES

ABN 48 005 297 807

Consolidated financial report
For the financial year ended 30 June 2017

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DIRECTORS' REPORT

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

1. Directors

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

Non-executive

Dr Zygmunt E Switkowski AO (Chairman)	Director since 2007, Chairman since 2011
William J Bartlett	Director since 2007
Audette E Exel AO	Director since 2012
Sally Herman	Director since 2015
Ewoud J Kulk	Director since 2003
Simon C J Machell	Appointed 7 April 2017
Christine F McLoughlin	Director since 2015
Dr Douglas F McTaggart	Director since 2012
Geoffrey T Ricketts CNZM	Director since 2003, resigned 22 September 2016

Executive

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

2. Principal activities

The principal activities of the Group during the course of the financial year were the underwriting of general insurance and managing statutory insurance funds for external clients. The Group distributes products directly and through intermediated channels, including market leading brands AAMI, GIO, Suncorp and Vero, as well as niche brands Apia, Bingle, CIL, MTAI, Resilium, Shannons and Terri Scheer.

There were no significant changes in the nature of the activities of the Group during the financial year.

3. Dividends

During the financial year, the Company paid dividends on ordinary shares totalling $283 million (2016: $494 million) and on capital notes totalling $20 million (2016: $20 million).

Since the end of the financial year, the directors have determined a dividend on ordinary shares in respect of the 2017 financial year of an amount up to $301 million, payable on or around 31 August 2017.

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

4. Review of operations

Consolidated profit for the financial year ended 30 June 2017 was $662 million (2016: $469 million).

The consolidated insurance trading result was $881 million for the year to 30 June 2017 (2016: $617 million). This provided an insurance trading ratio for the current year of 12.5% (2016: 9.0%).

Net premium revenue increased by 2.6% for the financial year to $7,072 million (2016: $6,893 million) following the successful entry into the Compulsory Third Party (CTP) market in South Australia, strong growth in New South Wales CTP and premium increases in Home and Motor products.

Net incurred claims decreased by $150 million to $4,951 million (2016: $5,101 million), primarily due to lower natural hazards and the impact of changes in the yield curve on outstanding claims.

Underwriting expenses were $1,568 million (2016: $1,514 million), increasing 3.6%, predominately due to continued growth of the portfolio.

Investment income on insurance funds was $205 million (2016: $235 million), impacted by bond yields which drove market valuation losses in the fixed-income portfolio. These were partially offset by the relative outperformance of inflation-linked bonds and narrowing of credit spreads. Investment income on shareholder funds of $127 million (2016: $110 million) benefited from the narrowing of credit spreads and improved returns from equities, slightly offset by market valuation impacts from rising bond yields.

5. Significant changes in the state of affairs

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

6. Events subsequent to reporting date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Group, 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.

7. Likely developments

Other than as disclosed elsewhere in this report, at the date of signing, the directors make no further comment on any likely developments in the Group's operations in future financial years or the expected results of these operations.

8. Environmental regulation

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

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

9. Indemnification and insurance of officers

Indemnification

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

Insurance premiums

During the financial year ended 30 June 2017, Suncorp Group Limited paid insurance premiums in respect of a Directors' and Officers' Liability insurance contract. The contract insures each person who is or has been a director or officer (as defined in the *Corporations Act 2001*) of the Company against certain liabilities arising in the course of their duties to the Company. The directors have not included details of the nature of the liabilities covered or the amount of premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

10. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 4 and forms part of the directors' report for the financial year ended 30 June 2017.

11. Rounding of amounts

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

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

Dr Ziggy Switkowski AO	**Michael Cameron**
Chairman	CEO & Managing Director

24 August 2017

KPMG

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

To the Directors of AAI Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of AAI Limited for the financial year ended 30 June 2017 there have been:

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

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

KPMG

David Kells
Partner

Sydney
24 August 2017

STATEMENTS OF COMPREHENSIVE INCOME

For the financial year ended 30 June 2017

	Note	Consolidated 2017 $M	Consolidated 2016 $M	Company 2017 $M	Company 2016 $M
Insurance premium income		8,044	7,697	8,044	7,697
Outwards reinsurance premium expense	13	(972)	(804)	(972)	(804)
Net premium revenue		7,072	6,893	7,072	6,893
Claims expense		(6,525)	(5,894)	(6,525)	(5,894)
Reinsurance and other recoveries income	12	1,574	793	1,574	793
Net incurred claims	6	(4,951)	(5,101)	(4,951)	(5,101)
Acquisition costs	14	(1,017)	(1,005)	(1,017)	(1,005)
Other underwriting expenses	7	(551)	(509)	(551)	(509)
Underwriting expenses		(1,568)	(1,514)	(1,568)	(1,514)
Other insurance income		123	104	123	104
Underwriting result		676	382	676	382
Investment income on insurance funds	5.1	205	235	205	235
Insurance trading result		881	617	881	617
Investment income on shareholder funds	5.1	127	110	161	125
Investment expense on shareholder funds		(21)	(17)	(21)	(17)
Other income	5.2	111	100	104	96
Other expenses	8	(159)	(152)	(157)	(157)
Profit before income tax		939	658	968	664
Income tax expense	9.1	(277)	(189)	(276)	(188)
Profit for the financial year attributable to owners of the Company		662	469	692	476
Other comprehensive income					
Items that will be reclassified subsequently to profit or loss					
Net change in fair value of cash flow hedges		2	3	2	3
Exchange difference on translation of foreign operations		-	(1)	-	-
Income tax expense		(1)	(1)	(1)	(1)
		1	1	1	2
Items that will not be reclassified subsequently to profit or loss					
Actuarial gains on defined benefit plans		1	-	1	-
		1	-	1	-
Total other comprehensive income		2	1	2	2
Total comprehensive income for the financial year attributable to owners of the Company		664	470	694	478

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

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2017

		Consolidated		Company	
		2017	2016	2017	2016
	Note	$M	$M	$M	$M
Assets					
Cash and cash equivalents		498	334	491	318
Derivatives	11	36	28	36	28
Investment securities	10	11,436	11,692	11,483	11,725
Premiums outstanding	27.3	2,145	2,096	2,145	2,096
Reinsurance and other recoveries	12	1,989	1,256	1,989	1,256
Due from related parties		289	344	270	338
Deferred reinsurance assets	13	702	695	702	695
Deferred acquisition costs	14	584	558	584	558
Deferred tax assets	9.2	71	55	62	45
Goodwill and other intangible assets		53	41	53	41
Other assets	15	627	588	607	569
Total assets		18,430	17,687	18,422	17,669
Liabilities					
Derivatives	11	19	177	19	177
Amounts due to reinsurers		596	568	596	568
Payables and other liabilities	16	551	572	517	545
Unearned premium liabilities	18.1	4,320	4,239	4,320	4,239
Outstanding claims liabilities	19	9,202	8,632	9,202	8,632
Due to related parties		361	480	401	763
Subordinated notes	20	552	552	552	321
Total liabilities		15,601	15,220	15,607	15,245
Net assets		2,829	2,467	2,815	2,424
Equity					
Share capital	21	956	955	952	952
Capital notes	22	510	510	510	510
Reserves		-	(1)	-	(1)
Retained profits		1,363	1,003	1,353	963
Total equity attributable to owners of the Company		2,829	2,467	2,815	2,424

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 2017

Consolidated	Note	Share capital $M	Capital notes $M	Reserves $M	Retained profits $M	Total equity $M
Balance as at 1 July 2015		953	510	(2)	1,048	2,509
Profit for the financial year		-	-	-	469	469
Total other comprehensive income for the financial year		-	-	1	-	1
Total comprehensive income for the financial year		-	-	1	469	470
Transactions with owners, recorded directly in equity						
Dividends paid	3	-	-	-	(514)	(514)
Share-based payments		2	-	-	-	2
Balance as at 30 June 2016		955	510	(1)	1,003	2,467
Profit for the financial year		-	-	-	662	662
Total other comprehensive income for the financial year		-	-	1	1	2
Total comprehensive income for the financial year		-	-	1	663	664
Transactions with owners, recorded directly in equity						
Dividends paid	3	-	-	-	(303)	(303)
Share-based payments		1	-	-	-	1
Balance as at 30 June 2017		956	510	-	1,363	2,829

Company	Note	Share capital $M	Capital notes $M	Reserves $M	Retained profits $M	Total equity $M
Balance as at 1 July 2015		951	510	(3)	1,019	2,477
Profit for the financial year		-	-	-	476	476
Total other comprehensive income for the financial year		-	-	2	-	2
Total comprehensive income for the financial year		-	-	2	476	478
Transactions with owners, recorded directly in equity						
Dividends paid	3	-	-	-	(514)	(514)
Share-based payments		1	-	-	-	1
Other movements		-	-	-	(18)	(18)
Balance as at 30 June 2016		952	510	(1)	963	2,424
Profit for the financial year		-	-	-	692	692
Total other comprehensive income for the financial year		-	-	1	1	2
Total comprehensive income for the financial year		-	-	1	693	694
Transactions with owners, recorded directly in equity						
Dividends paid	3	-	-	-	(303)	(303)
Balance as at 30 June 2017		952	510	-	1,353	2,815

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 2017

	Note	Consolidated 2017 $M	Consolidated 2016 $M	Company 2017 $M	Company 2016 $M
Cash flows from operating activities					
Premiums received		9,527	9,216	9,527	9,215
Claims paid		(6,582)	(6,643)	(6,582)	(6,640)
Interest received		403	417	401	417
Interest paid		(43)	(23)	(43)	(23)
Reinsurance and other recoveries received		956	1,292	956	1,365
Outwards reinsurance premiums paid		(1,046)	(886)	(1,046)	(879)
Acquisition costs paid		(1,119)	(1,134)	(1,119)	(1,151)
Fees and other operating income received		278	262	275	258
Fees and operating expenses paid		(1,519)	(1,186)	(1,499)	(1,200)
Reimbursement to related parties for income tax payments		(248)	(325)	(248)	(327)
Net cash from operating activities	24	607	990	622	1,035
Cash flows from investing activities					
Proceeds from the sale or maturity of investment securities		21,416	16,344	21,402	16,317
Payments for purchase of investment securities		(21,294)	(16,737)	(21,294)	(16,737)
Payment for acquisition of assets		(18)	(21)	(18)	(21)
Net cash from (used in) investing activities		104	(414)	90	(441)
Cash flows from financing activities					
Proceeds from issue of subordinated notes		330	225	330	225
Payment on call of subordinated notes		(389)	(199)	(98)	(199)
Proceeds from other financing activities		-	26	-	26
Payments for other financing activities		(93)	-	(153)	-
Receipts from related parties		60	136	60	136
Payments to related parties		(152)	(56)	(375)	(56)
Dividends paid		(303)	(514)	(303)	(514)
Net cash used in financing activities		(547)	(382)	(539)	(382)
Net increase in cash and cash equivalents		164	194	173	212
Cash and cash equivalents at the beginning of the financial year		334	140	318	106
Cash and cash equivalents at the end of the financial year		498	334	491	318

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 30 June 2017

1. Reporting entity

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

The financial statements for the financial year ended 30 June 2017 comprise the Company and its subsidiaries (the **Group**) and were authorised for issue by the Board on 24 August 2017.

The principal activities of the Group during the course of the year were the underwriting of general insurance and managing statutory insurance funds for external clients.

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

2. Basis of preparation

The Company 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 the relevant accounting standards.

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

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

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

Significant accounting policies applied in the preparation of the financial statements are set out in note 33.

There have been no significant changes to accounting policies during the financial year. None of the new accounting standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2016 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

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

2.1 Statement of compliance

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

— Derivative financial instruments (refer note 11)

— Liability adequacy test (refer note 18.2)

— Outstanding claims liabilities and assets arising from reinsurance contracts (refer notes 19.3 and 19.4)

— Financial instruments (refer note 25.1)

— Managed funds income (refer note 33.4)

3. Dividends

Consolidated and Company	2017 Cents per share / note	2017 $M	2016 Cents per share / note	2016 $M
Dividend payments on ordinary shares				
2016 final dividend (2016: 2015 final dividend)	54	93	191	328
2017 interim dividend (2016: 2016 interim dividend)	111	190	97	166
Total dividends on ordinary shares paid to owners of the Company	165	283	288	494
Dividend payments on capital notes				
Capital notes - issued on 11 February 2014				
September quarter	120	1	120	1
December quarter	111	1	119	1
March quarter	109	1	122	1
June quarter	116	1	123	1
	456	4	484	4
Capital notes - issued on 27 June 2014				
September quarter	97	4	98	4
December quarter	90	4	97	4
March quarter	88	4	100	4
June quarter	94	4	101	4
	369	16	396	16
Total dividends on capital notes	825	20	880	20
Total dividends		303		514
Dividends not recognised in the statement of financial position				
Dividends determined since balance date				
2017 final dividend (2016: 2016 final dividend)	176	301	54	93
	176	301	54	93

4. Segment reporting

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

On 1 July 2016, the Suncorp Group implemented a revised operating model and organisational structure for its Australian and New Zealand operations. This has resulted in changes to the basis upon which the business is managed and accordingly the operating segments and basis of segmentation. The Group operates in only one segment, which is part of the Insurance segment of Suncorp Group. The former operating segments were Personal Insurance and Commercial Insurance.

As the Group operates in only one segment, 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 being Australia. Up to April 2017, the Group conducted some business activities in New Zealand. Revenue, profit or loss, assets and liabilities of the New Zealand operations are not significant to the Group's financial performance and financial position. There are no significant assets located in foreign countries.

5. Revenue

5.1 Investment Income

	Consolidated		Company	
	2017	2016	2017	2016
	$M	$M	$M	$M
Interest income on:				
Financial assets at fair value through profit or loss	391	393	391	393
Financial assets not at fair value through profit or loss	12	12	10	9
Dividend income from subsidiaries	-	-	36	18
Net losses on financial assets and liabilities at fair value through profit or loss	(122)	(119)	(122)	(119)
Trust distribution income	51	59	51	59
Total investment income	332	345	366	360
Investment income on insurance funds	205	235	205	235
Investment income on shareholder funds	127	110	161	125
Total investment income	332	345	366	360

5.2 Other income

	Consolidated		Company	
	2017	2016	2017	2016
	$M	$M	$M	$M
Managed funds income	99	95	99	95
Share of profit on equity accounted investees	6	3	-	1
Other	6	2	5	-
Total other income	111	100	104	96

6. Net incurred claims

Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the risks borne in all previous financial years.

Consolidated and Company	2017 Current year $M	2017 Prior year $M	2017 Total $M	2016 Current year $M	2016 Prior year $M	2016 Total $M
Direct business						
Gross claims incurred and related expenses						
Undiscounted	7,521	(943)	6,578	6,621	(890)	5,731
Discount and discount movement	(165)	68	(97)	(126)	291	165
Gross claims incurred discounted	7,356	(875)	6,481	6,495	(599)	5,896
Reinsurance and other recoveries						
Undiscounted	(1,860)	264	(1,596)	(984)	227	(757)
Discount and discount movement	44	(12)	32	20	(54)	(34)
Reinsurance and other recoveries	(1,816)	252	(1,564)	(964)	173	(791)
Net incurred claims - direct business	5,540	(623)	4,917	5,531	(426)	5,105
Inwards reinsurance						
Gross claims incurred and related expenses						
Undiscounted	45	(1)	44	6	(11)	(5)
Discount and discount movement	-	-	-	-	3	3
Gross claims incurred discounted	45	(1)	44	6	(8)	(2)
Reinsurance and other recoveries						
Undiscounted	(11)	1	(10)	-	(2)	(2)
Reinsurance and other recoveries	(11)	1	(10)	-	(2)	(2)
Net incurred claims - inwards reinsurance	34	-	34	6	(10)	(4)
Total net incurred claims	5,574	(623)	4,951	5,537	(436)	5,101

The $623 million decrease in prior year net provisions is primarily due to yield curve movement and valuation releases arising from favourable claims experience. The sensitivity of net profit to changes in claims assumptions, experience and risk margins is set out in note 19.5.

7. Other underwriting expenses

	Consolidated 2017 $M	Consolidated 2016 $M	Company 2017 $M	Company 2016 $M
Staff Expenses				
Wages, salaries, share-based payments and other staff costs	213	214	213	214
Total staff expenses	213	214	213	214
Occupancy Expenses				
Operating lease rentals	1	2	1	2
Other occupancy expenses	22	19	22	19
Total occupancy expenses	23	21	23	21
Other Expenses				
Technology and communications	22	27	22	27
Levies and other charges	172	152	172	152
Advertising and promotion expenses	33	34	33	34
Other	88	61	88	61
Total other expenses	315	274	315	274
Total other underwriting expenses	551	509	551	509

8. Other expenses

	Consolidated		Company	
	2017	2016	2017	2016
	$M	$M	$M	$M
Managed funds expense	96	78	96	78
Interest expense relating to financial liabilities not at fair value through profit or loss	43	37	43	37
Other	20	37	18	42
Total other expenses	159	152	157	157

9. Income tax

9.1 Income tax expense

	Consolidated		Company	
	2017	2016	2017	2016
	$M	$M	$M	$M
Reconciliation of prima facie to actual income tax expense:				
Profit before tax	939	658	968	664
Prima facie domestic corporation tax rate of 30% (2016: 30%)	282	197	290	199
Tax effect of amounts not deductible (assessable) in calculating taxable income:				
Non-deductible expenses	3	-	1	2
Dividend adjustments	3	3	(10)	(4)
Other tax exempt revenues	(5)	(1)	(1)	-
Income tax offsets and credits	(5)	(5)	(3)	(4)
Prior year under (over) provision	(1)	1	(1)	1
Other	-	(6)	-	(6)
Total income tax expense on pre-tax profit	277	189	276	188
Effective tax rate	29.5%	28.7%	28.5%	28.3%
Income tax expense recognised in profit consists of:				
Current tax expense				
Current tax movement	297	261	295	259
Current year rebates and credits	(5)	(5)	(3)	(3)
Adjustments for prior financial years	2	(8)	2	(8)
Total current tax expense	294	248	294	248
Deferred tax benefit				
Origination and reversal of temporary differences	(14)	(68)	(14)	(69)
Adjustments for prior financial years	(3)	9	(4)	9
Total deferred tax benefit	(17)	(59)	(18)	(60)
Total income tax expense	277	189	276	188

9.2 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following.

Consolidated	2017 Deferred tax assets $M	2016 $M	2017 Deferred tax liabilities $M	2016 $M	2017 Net $M	2016 $M
Investment securities	-	-	35	55	(35)	(55)
Intangible assets	-	-	1	6	(1)	(6)
Outstanding claims liability	80	81	-	-	80	81
Employee benefits	16	19	-	-	16	19
Other items	16	16	5	-	11	16
Deferred tax assets and liabilities	112	116	41	61	71	55
Set-off of tax	(41)	(61)	(41)	(61)	-	-
Net deferred tax assets	71	55	-	-	71	55

Company	2017 Deferred tax assets $M	2016 $M	2017 Deferred tax liabilities $M	2016 $M	2017 Net $M	2016 $M
Investment securities	-	-	35	54	(35)	(54)
Intangible assets	-	-	1	6	(1)	(6)
Outstanding claims liability	80	81	-	-	80	81
Employee benefits	7	10	-	-	7	10
Other items	16	14	5	-	11	14
Deferred tax assets and liabilities	103	105	41	60	62	45
Set-off of tax	(41)	(60)	(41)	(60)	-	-
Net deferred tax assets	62	45	-	-	62	45

Movement in deferred tax balances during the financial year:

Consolidated	2017 Deferred tax assets $M	2016 $M	2017 Deferred tax liabilities $M	2016 $M
Balance at the beginning of the financial year	116	107	61	112
Movement recognised in profit or loss	(4)	9	(21)	(50)
Movement recognised in other comprehensive income	-	-	1	1
Transfer of assets/liabilities to Group Companies	-	-	-	(2)
Balance at the end of the financial year	112	116	41	61

Company	2017 Deferred tax assets $M	2016 $M	2017 Deferred tax liabilities $M	2016 $M
Balance at the beginning of the financial year	105	96	60	110
Movement recognised in profit or loss	(2)	9	(20)	(51)
Movement recognised in other comprehensive income	-	-	1	1
Balance at the end of the financial year	103	105	41	60

10. Investment securities

	Consolidated 2017 $M	Consolidated 2016 $M	Company 2017 $M	Company 2016 $M
Investment securities				
Financial assets designated at fair value through profit or loss				
Interest-bearing securities	10,203	10,264	10,203	10,264
Equity securities	148	-	148	-
Unit trusts	1,085	1,428	1,085	1,428
Investment at cost				
Shares in subsidiaries	-	-	47	33
Total investment securities	11,436	11,692	11,483	11,725
Current	11,436	11,692	11,436	11,692
Non-current	-	-	47	33
Total investment securities	11,436	11,692	11,483	11,725

11. Derivative financial instruments

	2017			2016		
	Notional	Fair value		Notional	Fair value	
Consolidated and Company	value $M	Asset $M	Liability $M	value $M	Asset $M	Liability $M
Interest rate-related contracts						
Interest rate swaps	1,498	1	3	1,872	20	84
Swaption	-	-	-	230	1	-
Interest rate futures	2,755	7	6	2,150	3	8
Interest rate options	10	-	-	-	-	-
	4,263	8	9	4,252	24	92
Exchange rate-related contracts						
Forward foreign exchange contracts	1,044	22	4	388	3	8
Cross currency swaps	-	-	-	338	-	76
	1,044	22	4	726	3	84
Equity contracts						
Equity futures	56	1	-	-	-	-
Credit contracts						
Credit default swaps	523	5	6	133	1	1
Total derivative exposures	5,886	36	19	5,111	28	177

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

Hedging of fluctuations in interest and foreign exchange rates

Interest rate swaps designated as hedges are classified as either cash flow hedges or fair value hedges and are measured at fair value in the statements of financial position.

During 2017, the Group redeemed subordinated notes which were subject to hedge accounting. Accordingly, as at reporting date, the Group has no derivatives used for hedge accounting purposes. At 30 June 2016, certain interest rate swaps were designated as hedges and classified as fair value hedges of fixed rate subordinated notes. All other interest rate derivatives are accounted for as fair value through profit or loss.

In addition, certain cross currency interest rate swaps entered into by the Group were designated as hedges of foreign currency denominated subordinated notes using the split approach. Under this approach, the benchmark rate component of the swap is accounted for as a fair value hedge and the other component as a cash flow hedge. This hedge was unwound on redemption during 2017.

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

	2017		2016	
Consolidated and Company	Fair value hedges $M	Cash flow hedges $M	Fair value hedges $M	Cash flow hedges $M
Hedging of fluctuations in interest rates				
Notional value of interest rate swaps designated as hedges	-	-	98	-
Fair value:				
net receivable on interest rate swaps	-	-	2	-
	-	-	2	-

Consolidated and Company	Split approach $M	Split approach $M
Hedging of fluctuations in foreign exchange rates		
Notional value of cross currency swaps designated as hedges	-	291
Fair value:		
net payable on cross currency swaps	-	(61)
	-	(61)

12. Reinsurance and other recoveries

	Consolidated		**Company**	
	2017 $M	2016 $M	2017 $M	2016 $M
Expected future reinsurance and other recoveries receivable undiscounted	2,096	1,331	2,096	1,331
Discount to present value	(107)	(75)	(107)	(75)
Total reinsurance and other recoveries	1,989	1,256	1,989	1,256
Current	950	454	950	454
Non-current	1,039	802	1,039	802
Total reinsurance and other recoveries	1,989	1,256	1,989	1,256
Reconciliation of movements in reinsurance and other recoveries				
Balance at the beginning of the financial year	1,256	1,556	1,256	1,556
Reinsurance and other recoveries income	1,574	793	1,574	793
Reinsurance and other recoveries received	(841)	(1,093)	(841)	(1,093)
Balance at the end of the financial year	1,989	1,256	1,989	1,256

13. Deferred reinsurance assets

	Consolidated		Company	
	2017 $M	2016 $M	2017 $M	2016 $M
Deferred reinsurance assets - current	702	695	702	695
Reconciliation of movements in deferred reinsurance assets				
Balance at the beginning of the financial year	695	620	695	620
Reinsurance premiums paid during the year	979	879	979	879
Reinsurance premium expense	(972)	(804)	(972)	(804)
Balance at the end of the financial year	702	695	702	695

14. Deferred acquisition costs

	Consolidated		Company	
	2017 $M	2016 $M	2017 $M	2016 $M
Deferred acquisition costs				
Current	572	543	572	543
Non-current	12	15	12	15
Total deferred acquisition costs	584	558	584	558
Reconciliation of movements in deferred acquisition costs				
Balance at the beginning of the financial year	558	552	558	527
Acquisition costs deferred	1,043	1,011	1,043	1,036
Acquisition costs charged to profit or loss	(1,017)	(1,005)	(1,017)	(1,005)
Balance at the end of the financial year	584	558	584	558

15. Other assets

	Consolidated		Company	
	2017 $M	2016 $M	2017 $M	2016 $M
Accrued interest	67	55	67	55
Investment in equity accounted investments	26	24	7	7
Net defined benefit assets	1	-	1	-
Investment receivable	182	106	182	106
Amounts due from reinsurers	78	94	78	94
Recoveries on claims paid	179	203	179	203
Other deferred expenses	63	82	63	82
Prepayments	3	10	3	10
Other	28	14	27	12
Total other assets	627	588	607	569
Current	601	564	600	562
Non-current	26	24	7	7
Total other assets	627	588	607	569

15.1 Interest in joint arrangements

Information relating to joint arrangements is set out below.

Name of entity	Principal Activity	Ownership interest		Consolidated Carrying amount		Company Carrying amount	
		2017 %	2016 %	2017 $M	2016 $M	2017 $M	2016 $M
Joint Ventures							
NTI Limited[1]	Management services	50	50	7	7	7	7
RACT Insurance Pty Ltd[2,3]	Insurance	50	50	19	17	-	-
Total investment in equity accounted investments				26	24	7	7
Joint operations							
National Transport Insurance	Facilitation of insurance arrangements	50	50				

1. Registered office of NTI Ltd is Level 29, 400 George Street, Brisbane, QLD, 4000.
2. Investment held by GIO Insurance Investment Holdings (A) Pty Limited.
3. Registered office of RACT Insurance Pty Ltd is 'RACT' House Level 1, 179-191 Murray Street, Hobart, TAS, 7000.

16. Payables and other liabilities

	Consolidated		Company	
	2017 $M	2016 $M	2017 $M	2016 $M
Trade creditors and accrued expenses	226	185	222	193
Unearned income	65	73	65	72
Investments payable	205	-	205	-
Net defined benefit liabilities	-	1	-	1
Employee benefits and on-cost liabilities[1]	55	69	25	35
Repurchase agreements	-	244	-	244
Total payables and other liabilities	551	572	517	545
Current	528	546	504	530
Non-current	23	26	13	15
Total payables and other liabilities	551	572	517	545

1. Following the announcement on 16 February 2016 that the Suncorp Group was committed to a plan to implement a new operating model for its Australian and New Zealand operations, the Group recognised a provision of $7 million for expected restructuring costs, including termination costs, consulting fees and employee termination benefits. The balance of the restructure provision as at 30 June 2017 was nil.

17. Share-based payments

The Company is a wholly owned subsidiary of SGL. Eligible employees of the Company have the right to participate in the Suncorp Group Limited share plans. Shares offered in these share plans are granted by SGL over its own shares to employees of SGL subsidiaries.

Equity-settled share plans

SGL operates equity-settled share plans that are not subject to performance conditions. Key features are set out below:

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

The expense included in the profit or loss in relation to restricted shares for the financial year ended 30 June 2017 for the Company and the Group was $78,865 (2016: $60,544).

Shares issued during the financial year under the Suncorp Equity Participation Plan that were funded by employee salary sacrifice have a nil impact on the Company's Statement of comprehensive income.

The SGL Board approved a grant to each eligible employee ordinary shares of SGL to the value of $750 (2016: $750) under the Suncorp Employee Share Plan (tax exempt) for the financial year. These shares will be acquired on-market for allocation to employees by the share plan in October 2017 (2016: October 2016).

An equity based deferral plan has been introduced to the CEO and Managing Director and the Senior Executives short-term remuneration structure. This will apply to the short-term incentive award relating to the 2017 year. The fair value of the deferred equity instruments amount is included in the consolidated statement of comprehensive income of a related entity within the Suncorp Group.

18. Unearned premium liabilities

18.1 Reconciliation of movement

	Consolidated		Company	
	2017 $M	2016 $M	2017 $M	2016 $M
Unearned premium liabilities at the beginning of the financial year				
Balance at the beginning of the financial year	4,239	4,124	4,239	4,056
Premiums written during the financial year	8,125	7,812	8,125	7,880
Premiums earned during the financial year	(8,044)	(7,697)	(8,044)	(7,697)
Balance at the end of the financial year	4,320	4,239	4,320	4,239
Current	4,286	4,198	4,286	4,198
Non-current	34	41	34	41
Total unearned premium liabilities	4,320	4,239	4,320	4,239

18.2 Liability adequacy test relating to general insurance contracts

	Consolidated		Company	
	2017 $M	2016 $M	2017 $M	2016 $M
Central estimate of present value of expected future cash flows arising from future claims	3,461	3,327	3,461	3,327
Risk margin	71	70	71	70
Present value of expected future cash inflows arising from reinsurance recoveries on future claims	(237)	(161)	(237)	(161)
Expected present value of future cash flows for future claims including risk margin	3,295	3,236	3,295	3,236
	%	%	%	%
Risk margin	2.4	2.4	2.4	2.4
Probability of adequacy	57 – 64	57 – 64	57 – 64	57 – 64

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

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

As at 30 June 2017 and 30 June 2016, the LAT resulted in a surplus.

19. Outstanding claims liabilities

	Consolidated		Company	
	2017	2016	2017	2016
	$M	$M	$M	$M
Gross central estimate – undiscounted	8,536	7,853	8,536	7,853
Risk margin	1,143	1,157	1,143	1,157
Claims handling expenses	292	294	292	294
	9,971	9,304	9,971	9,304
Discount to present value	(769)	(672)	(769)	(672)
Total gross outstanding claims liabilities – discounted	9,202	8,632	9,202	8,632
Current	3,641	3,211	3,641	3,211
Non-current	5,561	5,421	5,561	5,421
Total gross outstanding claims liabilities – discounted	9,202	8,632	9,202	8,632

19.1 Reconciliation of movement in discounted outstanding claims liabilities

	Consolidated		Company	
	2017	2016	2017	2016
	$M	$M	$M	$M
Net outstanding claims liabilities at the beginning of the financial year	7,376	7,194	7,376	7,192
Prior periods				
Claims payments	(2,244)	(2,234)	(2,244)	(2,234)
Discount unwind	79	93	79	93
Margin release on prior periods	(285)	(287)	(285)	(287)
Incurred claims due to changes in assumptions and experience	(340)	(420)	(340)	(420)
Change in discount rate	(77)	178	(77)	178
Current period				
Incurred claims	5,573	5,537	5,573	5,537
Claims payments	(2,869)	(2,685)	(2,869)	(2,685)
Acquired from business combinations during the financial year	-	-	-	2
Net outstanding claims liabilities relating to general insurance contracts at the end of the financial year	7,213	7,376	7,213	7,376
Reinsurance and other recoveries on outstanding claims liabilities				
Expected discounted outstanding reinsurance and other recoveries	1,989	1,256	1,989	1,256
Gross outstanding claims liabilities (discounted) on general insurance contracts at the end of the financial year	9,202	8,632	9,202	8,632

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

	Carrying amount $M	1 year or less $M	1 to 5 years $M	Over 5 years $M	Total cash flows $M
Consolidated					
2017	7,213	2,691	3,246	1,276	7,213
2016	7,376	2,757	3,212	1,407	7,376
Company					
2017	7,213	2,691	3,246	1,276	7,213
2016	7,376	2,757	3,212	1,407	7,376

19.2 Claims development table

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

Consolidated and Company	Accident Year											
	Prior $M	2008 $M	2009 $M	2010 $M	2011 $M	2012 $M	2013 $M	2014 $M	2015 $M	2016 $M	2017 $M	Total $M
Estimate of ultimate claims cost:												
At end of accident year		1,268	1,272	1,313	1,307	1,287	1,374	1,389	1,405	1,447	1,559	
One year later		1,128	1,260	1,216	1,202	1,276	1,344	1,383	1,346	1,406		
Two years later		1,092	1,153	1,131	1,142	1,208	1,227	1,281	1,250			
Three years later		1,049	1,133	1,103	1,123	1,127	1,129	1,216				
Four years later		989	1,122	1,096	1,053	1,074	1,094					
Five years later		976	1,086	1,017	984	1,045						
Six years later		972	1,052	989	955							
Seven years later		917	1,038	979								
Eight years later		930	1,030									
Nine years later		915										
Current estimate of cumulative claims cost		915	1,030	979	955	1,045	1,094	1,216	1,250	1,406	1,559	
Cumulative payments		(872)	(978)	(892)	(843)	(888)	(838)	(734)	(565)	(293)	(82)	
Outstanding claims liabilities – undiscounted	734	43	52	87	112	157	256	482	685	1,113	1,477	5,198
Discount to present value	(201)	(3)	(3)	(6)	(8)	(11)	(19)	(32)	(39)	(66)	(95)	(483)
Outstanding claims – long-tail	533	40	49	81	104	146	237	450	646	1,047	1,382	4,715
Outstanding claims – short-tail												1,226
Claims handling expense												266
Risk margin												1,006
Total net outstanding claims liabilities relating to general insurance contracts												7,213
Reinsurance and other recoveries on outstanding claims liabilities relating to general insurance contracts												1,989
Total gross outstanding claims liabilities relating to general insurance contracts												9,202

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

19.3 Outstanding claims liabilities and assets arising from reinsurance contracts

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

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

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

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

19.4 Actuarial assumptions and methods

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

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

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

Consolidated and Company	2017	2016
Weighted average term to settlement (years)	4.0	4.3
Weighted average economic inflation rate	3.9%	3.9%
Superimposed inflation rate	2.1%	2.4%
Discount rate	2.5%	2.1%
Claims handling expense ratio	4.6%	4.6%
Risk margin	16.7%	16.8%

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

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

Discount rate – Discount rates are derived from market yields on Commonwealth Government securities in Australia.

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

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

The assumptions regarding uncertainty for each class of business are applied to the net central estimates, and the results are aggregated, allowing for diversification, in order to arrive at an overall position which is intended to have an approximate probability of sufficiency of 90% across the Group (2016: 90%).

19.5 Impact of changes in key variables

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

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

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

		Consolidated		Company	
		2017	2016	2017	2016
	Movement in variable	Profit (loss) $M	Profit (loss) $M	Profit (loss) $M	Profit (loss) $M
Weighted average term to settlement (years)	+ 0.5 years	(117)	(141)	(117)	(141)
	- 0.5 years	115	138	115	138
Inflation rate	+1%	(231)	(258)	(231)	(258)
	-1%	212	233	212	233
Discount rate	+1%	217	238	217	238
	-1%	(242)	(269)	(242)	(269)
Claims handling expense ratio	+1%	(58)	(59)	(58)	(59)
	-1%	58	59	58	59
Risk margin	+1%	(60)	(61)	(60)	(61)
	-1%	60	61	60	61

20. Subordinated notes

The following table shows subordinated notes at amortised cost and categorised by type, class and instrument under Australian Prudential Regulation Authority (**APRA**) and Life and General Insurance Capital (**LAGIC**) reporting standards. These instruments have been issued by AAI Limited (**AAIL**), and Suncorp Insurance Funding 2007 Limited (**SIF07**).

	Consolidated		Company	
	2017 $M	2016 $M	2017 $M	2016 $M
Tier 2 subordinated notes				
LAGIC fully compliant subordinated notes				
$AUD 330 million AAIL Subordinated Notes	328	-	328	-
$AUD 225 million AAIL Subordinated Notes	224	222	224	222
Total LAGIC fully compliant subordinated notes	552	222	552	222
LAGIC transitional subordinated notes				
£GBP 121 million SIF07 Subordinated Notes	-	231	-	-
$AUD 98 million AAIL Subordinated Notes	-	99	-	99
Total LAGIC transitional subordinated notes	-	330	-	99
Total subordinated notes	552	552	552	321
Current	-	99	-	99
Non-current	552	453	552	222
Total subordinated notes	552	552	552	321

LAGIC fully compliant subordinated notes[1]

	Margin above 90 day BBSW	Maturity date	Holder conversion date	Optional redemption date	Issue date	2017 Number on issue	2016 Number on issue
$AUD 330 million AAIL Subordinated Notes	320 bps	6 Oct 2042	6 Oct 2024	6 Oct 2022	6 Oct 2016	33,000	-
$AUD 225 million AAIL Subordinated Notes	330 bps	18 Nov 2040	18 Nov 2022	18 Nov 2020	18 Nov 2015	22,500	22,500

1 No subordinated notes have been converted as at 30 June 2017 and 30 June 2016.

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). Holders of AAIL Subordinated Notes have the option to convert, into the Company’s ordinary shares, on each interest payment date following the holder conversion date, assuming certain conditions are satisfied. Conversion will be based on a VWAP of the Company’s ordinary shares over a certain period prior to the relevant date for conversion, less a discount of 1%. This is subject to a minimum conversion price, equal to 50% of the VWAP over a 20-day period prior to the issue date.

If APRA determines that a non-viability event has occurred in relation to the issuing entity and their 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 by effected for any reason within five business days, written off). Conversion will be based on a VWAP of the Company’s ordinary shares over a certain period prior to the relevant date for conversion, less a discount of 1%. This is subject to a minimum conversion price, equal to 20% of the VWAP over a 20-day period prior to the issue date.

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

LAGIC transitional subordinated notes

	Semi-annual coupon rate	Margin above 90 day BBSW	Optional redemption date	Issue date	2017 Number on issue	2016 Number on issue
£GBP 121 million SIF07 Subordinated Notes[1]	6.25%	n/a	13 Jun 2017	13 Jun 2007	-	121,218
$AUD 98 million AAIL Subordinated Notes	6.75%	n/a	6 Oct 2016	6 Oct 2006	-	9,814

1 Foreign currency borrowings are hedged back into Australian Dollars.

On 13 June 2017, SIF07 £GBP 121 million Subordinated Notes were redeemed in full, for cash.

On 6 October 2016, AAIL $AUD 98 million Subordinated Notes were redeemed in full, for cash.

21. Share capital

Consolidated	Number of ordinary shares	Issued capital $M	Share-based payments $M	Total share capital $M
Balance as at 30 June 2015	171,213,341	949	4	953
Share-based payments	-	-	2	2
Balance as at 30 June 2016	171,213,341	949	6	955
Share-based payments	-	-	1	1
Balance as at 30 Jun 2017	171,213,341	949	7	956
Company				
Balance as at 30 June 2015	171,213,341	949	2	951
Share-based payments	-	-	1	1
Balance as at 30 June 2016	171,213,341	949	3	952
Balance as at 30 Jun 2017	171,213,341	949	3	952

Ordinary shares

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

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

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

Share-based payments

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

22. Capital notes

	2017		2016	
Consolidated and Company	No of notes	$M	No of notes	$M
Issued on 11 February 2014	1,100,000	110	1,100,000	110
Issued on 27 June 2014	4,000,000	400	4,000,000	400
Balance at the end of the financial year	5,100,000	510	5,100,000	510

The Capital notes are perpetual notes issued to the immediate parent entity, Suncorp Insurance Holdings Limited. The notes are unsecured and pay periodic, non-cumulative dividends to the holder, based on a set formula (Bank Bill Swap Rate + Margin) x (1 - Corporate Tax Rate). Dividend payments are at the discretion of the directors.

23. Capital management

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

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

All APRA authorised general insurance entities that conduct insurance business in Australia are subject to a risk-based approach for measuring and holding the required regulatory level of capital, referred to as the Prudential Capital Requirement (**PCR**). The PCR is the minimum level of capital that APRA deems must be held to meet policyowner obligations and consists of the Prescribed Capital Amount (**PCA**) and any supervisory adjustment determined by APRA. The company uses APRA's standardised method for calculating the PCA in accordance with the relevant Prudential Standards and holds regulatory capital in excess of the PCA.

The PCA is calculated by assessing the risks inherent in the business, charges for which comprise:

— insurance risk charge to reflect the risks inherent in claims and premium liabilities

— insurance concentration risk charge to ensure capital is set aside for the risk of loss resulting from a single large event or a series of smaller events

— operational risk charge to ensure capital is set aside for the risk of loss resulting from inadequate processes or failed internal control, people and systems

— asset risk charge to better reflect the risk of adverse movements in the value of on-balance sheet and off-balance sheet exposures by including a variety of asset stress scenarios as well as some default charges

— an asset concentration risk charge to reflect an overconcentration to counterparties, if any;

offset by

— an aggregation benefit, which makes an explicit allowance for diversification between asset risk charges and the sum of insurance risk and insurance concentration risk charges.

These risk charges are quantified to determine the prescribed capital required under the prudential standards. This requirement is compared with the regulatory capital held in the Company.

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 certain hybrid securities with 'equity-like' qualities

— Tier 2 Capital comprising certain securities recognised as Tier 2 Capital, such as subordinated notes; and

— 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 Additional Tier 1 Capital and then Tier 2 Capital.

For capital adequacy purposes, a general insurer is required to hold CET 1 capital in excess of 60% of PCA, Tier 1 capital in excess of 80% of PCA and total capital in excess of PCR to ensure solvency. For this purpose, a general insurer's capital base is expected to be adequate for its size, business mix, complexity and the risk profile of its business.

The Company satisfied all regulatory capital requirements during both the current and the prior financial years.

The following table summarises the capital position and PCA at the end of the financial year. The Company is not the parent entity for the consolidated general insurance group and, as a result, does not prepare consolidated capital information for the Group.

	Company	
	2017 $M	2016 $M
Common Equity Tier 1 Capital		
Issued capital	949	949
Reserves	-	(1)
Retained profits	1,353	963
Technical provision in excess of liability valuation (net of tax)	421	430
Goodwill and other intangible assets	(49)	(38)
Other Tier 1 deductions	(76)	(56)
Common Equity Tier 1 Capital	2,598	2,247
Additional Tier 1 Capital	510	510
Tier 2 Capital	555	553
Total Capital	3,663	3,310
Prescribed Capital Amount		
Insurance risk charge	1,386	1,387
Insurance concentration risk charge	250	250
Asset risk charge	703	668
Operational risk charge	276	278
Aggregation benefit	(433)	(417)
Total prescribed capital amount	2,182	2,166
Capital coverage ratio	1.68	1.53

24. Reconciliation of cash flows from operating activities

	Consolidated		Company	
	2017 $M	2016 $M	2017 $M	2016 $M
Profit for the financial year	662	469	692	476
Non-cash items				
Movement in fair value of investment securities	122	119	122	119
Share of net profit from joint venture entities	(6)	(3)	-	(1)
Dividends received from subsidiaries	-	-	(36)	(18)
Other non-cash items	7	5	6	9
Change in operating assets and liabilities				
Increase in premiums outstanding	(49)	(40)	(49)	(41)
(Increase) decrease in reinsurance and other recoveries	(733)	300	(733)	300
Increase in deferred reinsurance assets	(7)	(75)	(7)	(75)
Increase in deferred acquisition costs	(26)	(6)	(26)	(31)
Decrease in other assets	(39)	(28)	(2)	(51)
Decrease in deferred tax assets	(16)	(55)	(17)	(45)
(Increase) decrease in payables and other liabilities	(21)	158	(28)	148
Increase in amounts due to reinsurers	28	73	28	73
Increase in due to related parties	28	96	21	116
Increase (decrease) in outstanding claims liabilities	570	(119)	570	(116)
Increase in unearned premium liabilities	81	115	81	183
Decrease in deferred tax liabilities	-	(6)	-	(14)
Movement in net assets due to investing and financing activities	6	(13)	-	3
Net cash from operating activities	607	990	622	1,035

25. Financial instruments

25.1 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.

	2017				2016			
	Level 1 $M	Level 2 $M	Level 3 $M	Total $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Consolidated								
Financial assets								
Investment securities	2,873	8,563	-	11,436	1,815	9,877	-	11,692
Derivatives	7	29	-	36	4	24	-	28
	2,880	8,592	-	11,472	1,819	9,901	-	11,720
Financial liabilities								
Derivatives	6	13	-	19	8	169	-	177
	6	13	-	19	8	169	-	177
Company								
Financial assets								
Investment securities	2,873	8,563	-	11,436	1,815	9,877	-	11,692
Derivatives	7	29	-	36	4	24	-	28
	2,880	8,592	-	11,472	1,819	9,901	-	11,720
Financial liabilities								
Derivatives	6	13	-	19	8	169	-	177
	6	13	-	19	8	169	-	177

There have been no significant transfers between Level 1 and Level 2 during the 2017 and 2016 financial years. Transfers are deemed to have occurred at the end of the reporting period.

Financial assets and liabilities not measured at fair value

The table below 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.

	2017					2016				
	Carrying value $M	Fair value Level 1 $M	Level 2 $M	Level 3 $M	Total $M	Carrying value $M	Fair value Level 1 $M	Level 2 $M	Level 2 $M	Total $M
Consolidated										
Financial liabilities										
Subordinated notes	552	-	584	-	584	552	-	551	-	551
Company										
Financial liabilities										
Subordinated notes	552	-	584	-	584	321	-	325	-	325

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

Financial liabilities

The fair value of subordinated notes is 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.

25.2 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.

Amounts due from and to reinsurers

— Some reinsurance treaties of the Group include netting arrangements whereby the receivables from and payables to reinsurers are settled on a net basis. As such, the Group has applied offsetting in the consolidated statement of financial position.

— Collateral received is subject to terms and conditions of the respective reinsurance treaties and provides regulatory capital relief on the Group’s credit exposures to reinsurers.

Repurchase agreements

— The Group enters into repurchase agreements involving the sale of interest-bearing securities in exchange for cash and simultaneously agreeing to buy back the interest-bearing securities at a pre-agreed price on a future date. In the statements of financial position, the interest-bearing securities transferred are included in ‘Investment securities’ and the obligation to repurchase is included in ‘Payables and other liabilities’.

Outstanding investment settlements

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

The following table sets out the effect of netting arrangements of financial assets and financial liabilities that are offset in the 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 and 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
2017							
Financial assets							
Derivatives	35	-	(12)	(1)	22	1	36
Amounts due from reinsurers[1]	102	(72)	-	-	30	48	78
Investment receivables[1]	330	(148)	-	-	182	-	182
Total	467	(220)	(12)	(1)	234	49	296
Financial liabilities							
Derivatives	19	-	(12)	(1)	6	-	19
Amounts due to reinsurers	87	(72)	-	-	15	581	596
Investments payable[2]	353	(148)	-	-	205	-	205
Total	459	(220)	(12)	(1)	226	581	820
2016							
Financial assets							
Derivatives	26	-	(18)	(3)	5	2	28
Amounts due from reinsurers[1]	140	(90)	-	(21)	29	44	94
Total	166	(90)	(18)	(24)	34	46	122
Financial liabilities							
Derivatives	115	-	(18)	(87)	10	62	177
Amounts due to reinsurers	133	(90)	-	-	43	525	568
Repurchase agreements[2]	244	-	(244)	-	-	-	244
Total	492	(90)	(262)	(87)	53	587	989

1 Included as part of 'Other assets' in the statements of financial position

2 Included as part of 'Payables and other liabilities' in the statements of financial position,

26. Risk management objectives and structure

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

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

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

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

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

— the risk management process.

The Three Lines of Defence model of accountability involves:

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

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

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

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

The material risks addressed by the ERMF are defined below.

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

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

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

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

— note 27 insurance risk management

— notes 27.3 to 27.5 risk management for financial instruments: credit, liquidity and market risks

— note 11 derivative financial instruments.

27. Insurance risk management

27.1 Policies and practices for mitigating insurance risk

Risk appetite statements are in place and controls are implemented to manage the following components of insurance risk:

— pricing, including pricing strategies, technical pricing and pricing adequacy reviews

— roles and responsibilities for pricing, the development and approval of new products and changes to existing products

— processes that identify and respond to changes in the internal and external environment impacting insurance products

— underwriting, including processes to consider aggregate exposures from a portfolio perspective to determine the actual exposure to particular risks or an event, monitoring of significant accumulation and concentration of risk, and guidelines around the utilisation of reinsurance in pricing and underwriting

— delegated authorities for the acceptance, assessment and settlement of claims including operational and ex-gratia authority limits

— procedures relating to the notification, assessment, evaluation, settlement and closure of claims, and processes to detect and reduce loss associated with claims risk; and

— reserving practices and procedures at individual claim and portfolio level.

The Board receives the Financial Condition Report from the Appointed Actuary who also provides advice in relation to premium, issuing of new policies and reinsurance arrangements in accordance with APRA Prudential Standards.

Concentration of insurance risk is mitigated through diversification over classes of insurance business, industry segments, the use of reinsurer coverage and ensuring there is an appropriate mix of business. Catastrophe and facultative reinsurance contracts are purchased to ensure that any accumulation of losses from a single event is mitigated.

27.2 Terms and conditions of insurance contracts

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

27.3 Credit risk

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

Key sources of credit risk	How are these managed
Premiums receivable	For direct business, outstanding premiums on policies arise on those which are generally paid on a monthly instalment basis. Payment default will result in the termination of the insurance contract with the policyowner, as provided by law, eliminating both the credit risk and insurance risk for the unpaid balance. Where business is written through intermediaries, limited credit is provided under the terms and conditions of the agreement with the respective intermediary, with debtor control ensuring constant attention is paid to minimise overdue debts.
Investments in financial instruments	Investments in financial instruments in the investment portfolios are held in accordance with the investment mandates. Credit limits have been established within these guidelines to ensure counterparties have appropriate credit ratings. An investment framework is in place that sets and monitors investment strategies and arrangements.
Reinsurance recoveries	Eligible recoveries under reinsurance arrangements are monitored and managed internally and by specialised reinsurance brokers operating in the international reinsurance market. Where applicable reinsurers are not APRA-authorised reinsurers, collateralised security of outstanding liabilities is obtained in line with treaty stipulations.

The carrying amount of the relevant asset classes in the statement of financial position represents the maximum amount of credit exposures as at the end of the financial year, except for derivatives. The fair value of derivatives recognised in the statement of financial position represents the current risk exposure, but not the maximum risk exposure. The notional value and fair value of derivatives are illustrated in note 11.

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

	Credit Rating						
Consolidated	**AAA** $M	**AA** $M	**A** $M	**BBB** $M	**Non-investment grade** $M	**Not rated** $M	**Total** $M
2017							
Cash and cash equivalents	2	428	68	-	-	-	498
Premiums outstanding	-	-	-	-	-	2,145	2,145
Receivables	136	124	387	12	-	330	989
Derivatives	-	22	13	1	-	-	36
Interest-bearing investment securities	4,382	1,934	2,691	1,167	29	-	10,203
Reinsurance and other recoveries receivable	439	778	282	-	-	490	1,989
	4,959	3,286	3,441	1,180	29	2,965	15,860
2016							
Cash and cash equivalents	-	280	54	-	-	-	334
Premiums outstanding	-	-	-	-	-	2,096	2,096
Receivables	24	161	413	8	-	210	816
Derivatives	-	21	7	-	-	-	28
Interest-bearing investment securities	3,585	2,857	3,102	715	5	-	10,264
Reinsurance and other recoveries receivable	398	281	136	-	-	441	1,256
	4,007	3,600	3,712	723	5	2,747	14,794

	Credit Rating						
Company	**AAA** $M	**AA** $M	**A** $M	**BBB** $M	**Non-investment grade** $M	**Not rated** $M	**Total** $M
2017							
Cash and cash equivalents	2	428	61	-	-	-	491
Premiums outstanding	-	-	-	-	-	2,145	2,145
Receivables	136	124	400	12	-	330	1,002
Derivatives	-	22	13	1	-	-	36
Interest-bearing investment securities	4,382	1,934	2,691	1,167	29	-	10,203
Reinsurance and other recoveries receivable	439	778	282	-	-	490	1,989
	4,959	3,286	3,447	1,180	29	2,965	15,866
2016							
Cash and cash equivalents	-	279	39	-	-	-	318
Premiums outstanding	-	-	-	-	-	2,096	2,096
Receivables	24	161	409	8	-	208	810
Derivatives	-	21	7	-	-	-	28
Interest-bearing investment securities	3,585	2,857	3,102	715	5	-	10,264
Reinsurance and other recoveries receivable	398	281	136	-	-	441	1,256
	4,007	3,599	3,693	723	5	2,745	14,772

Notes

— Receivables neither past due nor impaired in the below table are not rated according to Standard & Poor's counterparty credit ratings.

— Collateral arrangements exist for non-regulated reinsurers and certain derivative positions. Refer to note 25.2 Master netting or similar arrangements for further information.

All financial assets are neither past due nor impaired at reporting date except for those disclosed in the following table. An amount is considered past due when a contractual payment falls overdue by one or more days. When an amount is classified as past due, the entire balance is disclosed in the past due analysis presented.

		Past due but not impaired				
	Neither past due nor impaired $M	**0-3 mths** $M	**3-6 mths** $M	**> 6 mths** $M	**Impaired** $M	**Total** $M
Consolidated						
2017						
Premiums outstanding	1,978	100	9	52	6	2,145
Receivables	646	42	4	3	-	695
	2,624	142	13	55	6	2,840
2016						
Premiums outstanding	2,056	12	7	15	6	2,096
Receivables	725	32	4	-	-	761
	2,781	44	11	15	6	2,857
Company						
2017						
Premiums outstanding	1,978	100	9	52	6	2,145
Receivables	659	42	4	3	-	708
	2,637	142	13	55	6	2,853
2016						
Premiums outstanding	2,056	12	7	15	6	2,096
Receivables	718	32	4	-	-	754
	2,774	44	11	15	6	2,850

27.4 Liquidity risk

To ensure payments are made when they fall due, the Group has the following key facilities and arrangements in place to mitigate liquidity risks:

— investment portfolio mandates provide sufficient cash deposits to meet day-to-day obligations;

— investment funds set aside within the portfolio can be realised to meet significant claims payment obligations;

— in the event of a major catastrophe, cash access is available under the terms of reinsurance arrangements;

— mandated liquidity limits;

— regularity of premiums received provides substantial liquidity to meet claims payments and associated expenses as they arise; and

— flexibility in investment strategies implemented for investment management to provide sufficient liquidity to meet claim payments as they fall due, based on actuarial assumptions.

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

	Carrying amount $M	1 year or less $M	1 to 5 years $M	Over 5 years $M	Total cash flows $M
Consolidated					
2017					
Payables and other liabilities	1,508	1,506	2	-	1,508
Unearned premium liabilities	4,320	4,286	34	-	4,320
Subordinated notes	552	28	331	340	699
	6,380	5,820	367	340	6,527
Derivative financial instruments					
Derivative liabilities (net settled)	19	10	2	1	13
	19	10	2	1	13
2016					
Payables and other liabilities	1,549	1,546	3	-	1,549
Unearned premium liabilities	4,239	4,198	41	-	4,239
Subordinated notes	552	127	308	301	736
	6,340	5,871	352	301	6,524
Derivative financial instruments					
Derivative liabilities (net settled)	116	31	52	40	123
Amounts receivable (gross settled)	(232)	(233)	-	-	(233)
Amounts payable (gross settled)	293	299	-	-	299
	177	97	52	40	189

	Carrying amount $M	1 year or less $M	1 to 5 years $M	Over 5 years $M	Total cash flows $M
Company					
2017					
Payables and other liabilities	1,514	1,512	2	-	1,514
Unearned premium liabilities	4,320	4,286	34	-	4,320
Subordinated notes	552	28	331	340	699
	6,386	5,826	367	340	6,533
Derivative financial instruments					
Derivative liabilities (net settled)	19	10	2	1	13
	19	10	2	1	13
2016					
Payables and other liabilities	1,839	1,850	3	-	1,853
Unearned premium liabilities	4,239	4,198	41	-	4,239
Subordinated notes	321	114	253	-	367
	6,399	6,162	297	-	6,459
Derivative financial instruments					
Derivative liabilities (net settled)	116	31	52	40	123
Amounts receivable (gross settled)	(232)	(233)	-	-	(233)
Amounts payable (gross settled)	293	299	-	-	299
	177	97	52	40	189

27.5 Market risk

27.5.1 Foreign exchange risk

The Group is exposed to foreign exchange risk through its outstanding claims liability from previously written offshore reinsurance business, predominantly denominated in United States dollars (USD). This exposure is managed using a USD forward exchange contract.

The practice is that all insurance policies are written in Australian dollars, unless separately authorised, with processes in place to comply with the Suncorp Group Foreign Exchange Policy.

The Group is also exposed to foreign exchange risk through investments in foreign securities, which is managed via the use of cross-currency swaps.

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

The movements in the foreign exchange used in the sensitivity analysis for 2017 have been revised to reflect updated assessment of the reasonable possible changes in foreign exchange rates over the next twelve months, given renewed observations and experience in the investment markets during the financial year.

	2017			2016		
	Exposure at 30 June $M	**Change in FX rate** %	**Profit (loss) after tax** $M	**Exposure at 30 June** $M	**Change in FX rate** %	**Profit (loss) after tax** $M
Consolidated						
USD	609	+10	42	126	+12	10
		-10	(43)		-12	(11)
Euro	185	+12	15	34	+15	3
		-12	(16)		-15	(3)
GBP	36	+12	3	11	+15	1
		-12	(3)		-15	(1)
JPY	14	+12	1	13	+15	1
		-12	(1)		-15	(1)
Other	15	+12	1	12	+15	2
		-12	(1)		-15	(2)
Company						
USD	609	+10	42	126	+12	10
		-10	(43)		-12	(11)
Euro	185	+12	15	34	+15	3
		-12	(16)		-15	(3)
GBP	36	+12	3	11	+15	1
		-12	(3)		-15	(1)
JPY	14	+12	1	13	+15	1
		-12	(1)		-15	(1)
Other	15	+12	1	12	+15	2
		-12	(1)		-15	(2)

27.5.2 Interest rate risk

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

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

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

	2017			2016		
	Exposure at 30 June $M	**Change in interest rate** bp	**Profit (loss) after tax** $M	**Exposure at 30 June** $M	**Change in interest rate** bp	**Profit (loss) after tax** $M
Consolidated						
Interest-bearing investment securities (including derivative financial instruments)	10,202	+100	(168)	10,115	+100	(175)
		-50	88		-50	91
Subordinated notes	555	+100	4	225	+100	2
		-50	(2)		-50	(1)
Company						
Interest-bearing investment securities (including derivative financial instruments)	10,202	+100	(168)	10,115	+100	(175)
		-50	88		-50	91
Subordinated notes	555	+100	4	225	+100	2
		-50	(2)		-50	(1)

The effect of interest rate movements on the Group's provision for outstanding claims liabilities is included in note 19.5.

27.5.3 Equity risk

The Group is exposed to equity risk through its investments in international and domestic equity trusts. The table below presents a sensitivity analysis showing the impact on profit or loss after tax for price movements for exposures as at the reporting date, with all other variables remaining constant. There is no impact on equity reserves.

The movements in equity prices used in the sensitivity analysis for 2017 have been revised to reflect an updated assessment of the reasonable possible changes in equity prices over the next twelve months, given renewed observations and experience in the investment markets during the financial year.

	2017			2016		
	Exposure at 30 June $M	Change in equity prices %	Profit (loss) after tax $M	Exposure at 30 June $M	Change in equity prices %	Profit (loss) after tax $M
Consolidated						
Australian equities	417	+10	29	378	+15	40
		-20	(58)		-15	(40)
International equities	180	+10	13	159	+15	17
		-20	(25)		-15	(17)
Company						
Australian equities	417	+10	29	378	+15	40
		-20	(58)		-15	(40)
International equities	180	+10	13	159	+15	17
		-20	(25)		-15	(17)

27.5.4 Credit spread risk

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

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

The movements in credit spread used in the sensitivity analysis for 2017 have been revised to reflect an updated assessment of the reasonable possible changes in credit spread over the next twelve months, given renewed observations and experience in the investment markets during the financial year.

	2017			2016		
	Exposure at 30 June $M	Change in credit spread bp	Profit (loss) after tax $M	Exposure at 30 June $M	Change in credit spread bp	Profit (loss) after tax $M
Consolidated						
Credit exposure (excluding semi-government)	6,653	+70	(84)	6,970	+50	(69)
		-30	37		-40	57
Credit exposure (semi-government)	548	+40	(8)	1,057	+40	(22)
		-15	3		-20	12
Company						
Credit exposure (excluding semi-government)	6,653	+70	(84)	6,970	+50	(69)
		-30	37		-40	57
Credit exposure (semi-government)	548	+40	(8)	1,057	+40	(22)
		-15	3		-20	12

28. Operating lease expenditure commitments

The Group leases property under operating leases expiring from 1 to 5 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	
	2017 $M	2016 $M	2017 $M	2016 $M
Aggregate non-cancellable operating lease rentals payable but not provided in the financial statements:				
Less than one year	1	3	-	-
Between one and five years	-	1	-	-
Commitments not recognised in the financial statements	1	4	-	-

29. Parent entity and subsidiaries

Material subsidiaries of the Company	Class of shares	Country of incorporation	2017 Equity holding %	2016 Equity holding %
Australian Associated Motor Insurers Pty Limited	Ordinary	Australia	100	100
Suncorp Insurance Funding 2007 Limited	Ordinary	Australia	100	100

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

30. Key management personnel (**KMP**) and related party disclosures

30.1 KMP disclosures

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

Total compensation for KMP are as follows:

Consolidated and Company	2017 $000	2016 $000
Short-term employee benefits	19,465	18,484
Long-term employee benefits	624	3,181
Post-employment benefits	504	495
Share-based payments	8,010	5,779
Termination benefits	1,724	2,207
	30,327	30,146

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.

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

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

30.2 Related party transactions

Transactions between the Company and its subsidiaries, parent entity and ultimate parent entity consisted of dividends received and paid, and interest received and paid.

Transactions between the Group and other related entities consist of interest received on deposits and investment securities held, finance costs, fees received and paid for information technology services, investment management and custodian services, overseas management services, finance facilities and reinsurance arrangements. The Group's primary banking facilities are held with Suncorp-Metway Limited, a subsidiary of the ultimate parent entity.

The Company also provided intercompany loan facilities to other related parties within the Suncorp Group. As at 30 June 2017, $31,004,000 of the facilities remained unutilised (30 Jun 2016: $30,000,000).

All the transactions described above were on commercial terms, except that some advances may be interest free.

	Consolidated		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
The aggregate amounts included in the determination of profit before tax that resulted from transactions with related parties:				
Insurance premium income				
Other related parties	12,026	-	12,026	-
Investment income				
Subsidiaries	-	-	36,000	17,800
Joint ventures	3,762	4,004	-	-
Other related parties	1,738	2,974	1,738	430
Other insurance income				
Other related parties	13,251	-	13,251	-
Other income				
Other related parties	847	628	847	628
Claims expense paid				
Joint ventures	1,354	2,286	1,354	2,286
Other related parties	28,630	-	28,630	-
Acquisition costs				
Other related parties	13,230	8,983	13,230	8,983
Interest expense				
Subsidiaries	-	-	12,355	15,627
Other related parties	592	859	592	859
Operating expenses attributions				
Other related parties	1,342,978	1,225,430	1,341,786	1,224,788
Aggregate amounts receivable from and payable to, each class of related parties as at the end of the financial year:				
Derivatives liability				
Other related parties	-	59,700	-	59,700
Investment securities				
Other related parties	922,920	1,271,180	922,920	1,271,180
Premiums outstanding				
Other related parties	12,773	9,885	12,773	9,885
Receivables[1]				
Subsidiaries	-	-	1,017	33,517
Parent entity	10	60,159	10	60,159
Other related parties	288,689	283,389	268,681	245,010
Payables and other liabilities[1]				
Subsidiaries	-	-	12,464	283,678
Parent entity	324	135,469	324	135,469
Other related parties	360,814	334,155	388,121	332,672

1 There have been intercompany settlements during the financial year. Refer to the statements of cash flows.

31. Auditor's remuneration

	Consolidated		Company	
	2017 $000	2016 $000	2017 $000	2016 $000
KPMG Australia				
Audit and review services				
Audit and review of financial reports	1,614	1,738	1,526	1,647
Other regulatory audits	322	337	289	300
	1,936	2,075	1,815	1,947
Other services				
In relation to other assurance, actuarial, taxation and other non-audit services	379	405	379	405
Total auditors' remuneration	2,315	2,480	2,194	2,352

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

32. Contingent assets and liabilities

32.1 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.

32.2 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.

33. Significant accounting policies

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

33.1 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.

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.

Business combinations

The acquisition method of accounting is used to account for business combinations by the Group.

The cost of an acquisition is measured as the fair value of the assets transferred, liabilities incurred, and equity instruments issued by the Group at the acquisition date. Acquisition-related costs are expensed in the period in which they are incurred. Where equity instruments are issued in an acquisition, their fair value is the published market price at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

The acquiree's identifiable assets acquired, liabilities assumed, contingent liabilities, and any non-controlling interests are measured at their fair values at the acquisition date. If the consideration transferred and any non-controlling interest in the acquiree is greater than the fair value of the net amounts of the identifiable assets acquired and liabilities assumed, the excess is recorded as goodwill; otherwise, the difference is recognised immediately in profit or loss after a reassessment of the identification and measurement of the net assets acquired.

Business combination of entities under common control

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

33.2 Managed funds

The Company is licensed to maintain statutory insurance funds for external clients. The application of the statutory funds by the Company is restricted to the collection of premiums and the payment of claims, related expenses and other payments authorised under the relevant Acts. The Company is not liable for any deficiency in the funds, or entitled to any surplus. For these reasons, the directors are of the opinion that the Company does not have control over, nor have the capacity to control, the statutory funds. The statutory funds are of a separate and distinct nature. Therefore, the statutory funds are not consolidated into the Group's consolidated financial statements.

33.3 Foreign currency

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

Foreign currency non-monetary assets and liabilities that are stated at fair value are translated using exchange rates at the dates the fair value was determined. 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 33.11.

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

33.4 Revenue and expense recognition

Premium revenue

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

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

Claims expenses

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

Outwards reinsurance expenses

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

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

Investment revenue

Interest income is recognised in profit or loss using the effective interest method.

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

Managed funds income

The Group manages statutory insurance funds for external clients and earns income from the provision of services such as premium collection and claims processing (base fee) as well as an incentive fee based on performance results. Income for the base fee is recognised as the service is provided and for the incentive fee, as the income is earned.

Fees receivables are based on management's best estimate of the likely fee at reporting date. There is a significant amount of judgment involved in the estimation process of the fees receivable which may not be finalised for a number of years.

The statutory authorities allocate the base fee to each authorised agent based on factors such as market share and service capability. The performance fee is allocated to each authorised agent based on performance components set by each statutory authority.

Fees and other income

Fees and other income are recognised in profit or loss on an accruals basis as the services are rendered.

Levies and charges

Levies and charges imposed on the Group by various authorities are expensed to profit or loss on a basis consistent with the recognition of premium revenue. These include Emergency Service Levies, Medical Care and Injury Services Levy, NSW Insurance Protection Tax and Workers' Compensation levies. The portion of levies and charges payable at reporting date relating to unearned premium is recorded as other deferred insurance assets. A liability is recognised for levies and charges payable at the reporting date.

Finance costs

Finance costs include interest expense on financial liabilities (borrowing costs) and transactions costs relating to borrowings. Finance costs are expensed as incurred and are recognised net of any associated hedge transactions.

Finance costs on subordinated notes includes interest expense, fair value movements on derivative instruments relating to subordinated notes, amortisation of discounts relating to subordinated notes and amortisation of ancillary costs incurred in connection with arrangement of subordinated notes.

33.5 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.

Tax consolidation

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

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

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

Taxation of financial arrangements

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

33.6 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.

33.7 Cash and cash equivalents

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

33.8 Non-derivative financial assets

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are classified as either held for trading or are designated as such upon initial recognition as a result of the following:

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

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.

Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised on the date that they originated at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, less any impairment losses.

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.

33.9 Assets backing general insurance liabilities

The assets of the Group are assessed under AASB 1023 General Insurance Contracts to be assets that are held to back general insurance liabilities (referred to as insurance funds) and assets that represent shareholder funds.

The Group has designated financial assets held in portfolios intended to match the average duration of a corresponding insurance liability as assets backing general insurance liabilities. These financial assets include investment securities and are designated at fair value through profit or loss as they are managed and their performance evaluated on a fair value basis for internal and external reporting in accordance with the investment strategy.

All investment securities held to back general insurance liabilities are highly liquid securities. Despite some of these securities having maturity dates beyond the next twelve months, as they are highly liquid in nature and are actively traded, they have been classified as current.

33.10 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. Derivatives include exchange rate related contracts, interest rate related contracts and equity contracts.

All derivatives are initially recognised at fair value on trade date and transaction costs are recognised in profit or loss as incurred. Derivatives are classified and accounted for as held for trading financial assets at fair value through profit or loss (note 33.8) unless they qualify as a hedging instrument in an effective hedge relationship under hedge accounting (note 33.11).

33.11 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. As at 30 June 2017, no hedge accounting was applied with all previous hedges having been closed out during the year.

Cash flow hedges

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

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

Fair value hedges

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

When a hedge 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.

33.12 Reinsurance and other recoveries receivable

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

33.13 Deferred acquisition costs

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

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

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

33.14 Impairment

Financial assets, other than those measured at fair value through profit and loss, are assessed at 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.

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.

33.15 Financial liabilities

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

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

33.16 Employee entitlements

Short-term employee benefits

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

A liability is recognised for short-term bonus plans when there is a constructive obligation to pay this amount and the amount can be reliably estimated.

Long service leave and annual leave

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

33.17 Unearned premium liabilities

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

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

33.18 Outstanding claims liabilities

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date and includes an additional risk margin to allow for the inherent uncertainty in the central estimate.

Standard actuarial methods are applied to all classes of business to assess the net central estimate of outstanding claims liabilities. The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not reported, claims incurred but not enough reported and the direct and indirect costs of settling those claims.

33.19 Contingent liabilities and contingent assets

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

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

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

33.20 New accounting standards and interpretations not yet adopted

AASB 9 *Financial Instruments* was issued in December 2014 and addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce an expected credit loss impairment model and general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks. This standard becomes mandatory for the Group's 30 June 2019 financial statements. The Group is in the process of assessing the impact of AASB 9 including any temporary exemption from AASB 9 available to the Group. It is not yet able to reasonably estimate the impact on its financial statements. It is available for early adoption but has not been applied by the Group in this financial report.

AASB 15 *Revenue from Contracts with Customers* 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* and related interpretations. This standard becomes mandatory for the Company's 30 June 2019 financial statements. We are in the process of assessing the impact of adoption of the standard. It is available for early adoption but has not been applied by the Company in this financial report.

AASB 16 *Leases* was issued and introduced changes to lessee accounting. It requires recognition of lease liabilities and assets other than short-term leases or leases of low-value assets on statement of financial position. This will replace the operating/finance lease distinction and accounting requirements prescribed in AASB 117 *Leases*. This standard will become mandatory for the Company's 30 June 2020 financial statements. The potential effects on adoption of the standard are currently being assessed.

AASB 17 *Insurance Contracts* was issued in July 2017 and under the AASB 17 model, insurance contract liabilities will be calculated as the present value of future insurance cash flows with a provision for risk. It replaces AASB 4 *Insurance Contracts,* AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. This standard will become mandatory for the Company's 30 June 2022 financial statements. The potential effects on adoption of the standard are currently being assessed.

34. 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 Group, 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.

DIRECTORS' DECLARATION

1. In the opinion of the directors of AAI Limited (the **Company**):
   a. the consolidated financial statements and notes set out on pages 5 to 53, 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 2017 and of their performance for the financial year ended on that date; and
      ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
   b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors draw attention to note 2.1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors.

Dr Ziggy Switkowski AO	**Michael Cameron**
Chairman	CEO & Managing Director

24 August 2017

KPMG

Independent Auditor's Report

To the shareholder of AAI Limited,

Opinion

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

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

- giving a true and fair view of the Company's and the Group's financial position as at 30 June 2017 and of their financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Statements of financial position as at 30 June 2017;
- 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 the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

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

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

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

Other Information

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

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

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

KPMG

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar7.pdf. This description forms part of our Auditor's Report.

KPMG

David Kells
Partner

Sydney
24 August 2017