Suncorp Group Limited

brighter futures

Directors' Report and Financial Statements 2013/14

One Company
Many Brands

SUNCORP GROUP

Contents

Cover image: Charlie Sullivan, son of the late Scott Sullivan who was a former employee of Suncorp for more than 10 years and founder of the MND and Me Foundation. The MND and Me Foundation raises funds for families suffering from Motor Neurone Disease and for research for a cure.

Chairman's Report

Dear Shareholder

Suncorp Group's clear and consistent strategy has again delivered strong results in 2013/14. The ongoing transformation and strength of the Group are apparent.

Full year profit after tax increased to $730 million, each line of business contributed to the Group's growth and the balance sheet continued to strengthen while costs were well controlled and prudent re-investment was made. Combined with good risk and capital management and helped by a year of relatively benign natural hazards experience, Suncorp Group's performance has delivered very positive shareholder returns. Dividends have steadily increased since 2011 and over the course of the 2014 financial year, the share price increased almost 14%, outperforming the ASX 200.

Given the strong capital position of the Group, continued improvement in operational and financial performance and positive outlook, the Suncorp Group Limited Board has declared the payment of a final ordinary dividend of 40 cents per share. This is in addition to a special dividend of 30 cents per share. The total dividend payout for 2013/14 is $1.05 per share fully franked, an increase of 40%. This demonstrates the Board's commitment to returning capital to shareholders that is in excess of regulatory ratios and surplus to Group operating requirements. Following the payment of dividends, the Group's capital position remains strong.

A CLEAR STRATEGY DELIVERING RESULTS

The Board and executive team's commitment to the 'One Company. Many Brands' business model provides clarity of purpose and direction. The focus remains on Australia and New Zealand where we see many opportunities for our suite of products and services to deliver profitable growth. We are building a simple but modern, low-risk financial services Group through operational efficiencies and cost control, and timely investments in systems and product development, to deliver sustainable shareholder returns. This is being achieved through strongly-performing individual lines of business in General Insurance, Banking and Life insurance which are capitalising on the scale and expertise of the Group.

While the Group result was strong, it did reflect the issues in the life insurance industry which led to the write-down of $496 million in intangible assets. Accounting for this forward-looking view of the life insurance industry is a watershed for the Suncorp Group. It is the final piece in positioning each of the lines of business with a clear outlook, with balance sheets unencumbered by legacy or industry issues.

The Group's performance in 2013/14 continued the positive momentum of prior years but importantly the Board and executive team have acknowledged that the Group's full potential is yet to be realised. Pleasingly, legacy issues such as the non-core banking portfolio and Life business assumptions have been resolved and the business is in its strongest position in recent history, laying a good foundation for continued growth.

Last year, I pointed to further simplification to underpin the next phase of our transformation. This year we have completed or made significant progress on major programs of work including the new banking platform and IT systems rationalisation, real estate consolidation, finance reporting optimisation, procurement simplification and the critical Business Intelligence project. These projects streamline our processes, improve our ability to serve customers effectively and position our company for a strong and sustainable future.

CREATING VALUE

As an insurance company, we provide our policyholders with peace of mind and we help them through life's traumatic events. Our people and policies are there for our customers when they need us most. Equally, as a bank and life insurer, we offer a level of care, service, flexibility and innovation that you'd expect of businesses which are part of a top 15 Australian company. We strive to do this well so that our customers are satisfied, and our shareholders benefit. Recent years have demonstrated the success of this values-based approach.

The pursuit of this objective requires understanding and meeting the needs of all our stakeholders: our customers, our people, our business partners and the communities in which this company and its many brands operate. And, of course, our shareholders.

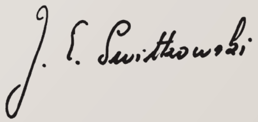
Under Patrick Snowball's leadership, our strategy has been tightly focussed. We describe ourselves as a financial services company with a powerhouse general insurer, a reinvigorated bank, and a life business with considerable opportunities ahead. Our priority is to excel in the execution of our strategy by continually improving risk-based decision frameworks and working our considerable assets harder. We strive to think as our policy and deposit holders do – and develop products and services which they value, which are priced sensibly and offered in a user friendly manner by competent and motivated staff. Successfully done, this should deliver superior shareholder returns through an appreciating share price, reliable dividends and capital returns.

The result in 2013/14 is another major milestone in the realisation of our strategy.

As a Board, we are very clear about our role in ensuring long-term value is created. Suncorp's businesses, in various forms, have been part of the fabric of Australian and New Zealand communities for more than 110 years. As custodians for a relatively short time, we aim to see the company move into its second century in stronger shape than ever.

The continued transformation and momentum of the Group in 2014 can be credited to the enormous efforts of the Suncorp teams across Australia and New Zealand, led ably by the Group CEO and his executive team. Their passion for the Suncorp Group and its brands remains a great source of competitive advantage and inspiration. I'd like to thank all of those who have contributed to the ongoing transformation of the Group, and in particular my Board colleagues for their wise counsel and collegiate approach.

I would also like to thank the customers and shareholders of the Suncorp Group for their loyal support. Our customers and shareholders provide the inspiration that drives the Group to innovate, create, grow and prosper.



Dr Ziggy Switkowski AO
Chairman
13 August 2014

Directors' Report

for the financial year ended 30 June 2014

The directors present their report together with the financial report of the **Suncorp Group** (or **Group**), being Suncorp Group Limited (the **Company**) and its subsidiaries for the financial year ended 30 June 2014 and the auditor's report thereon. Terms that are defined in this financial report appear in bold the first time they are used.

1. DIRECTORS' PROFILES

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

DR ZYGMUNT E SWITKOWSKI AO

BSc (Hons), PhD, FAICD, FTSE

Age 66

Non-executive Chairman

Ex officio member Audit, Risk and Remuneration Committees

Chairman since October 2011, director since December 2010 and director of Suncorp-Metway Limited since September 2005

Dr Switkowski is Chairman of NBN Co Limited, a director of Tabcorp Holdings Limited, Oil Search Limited and Chancellor of RMIT University. He is a fellow of both the Australian Academy of Technological Sciences and Engineering and the Australian Institute of Company Directors.

In June 2014, Dr Switkowski was made an officer of the Order of Australia for his work on the arts, sciences and tertiary education as well as his contribution to the telecommunications and business community.

Dr Switkowski is a former chairman of the Australian Nuclear Science and Technology Organisation and Opera Australia, a former director of Lynas Corporation Ltd, a former Chief Executive Officer of Telstra Corporation Limited and Optus Communications Ltd and a former Chairman and Managing Director of Kodak Australasia Pty Ltd.

LISTED COMPANY DIRECTORSHIPS HELD SINCE 1 JULY 2011

COMPANY NAME	APPOINTED	RESIGNED
Oil Search Limited	22.11.10	
Suncorp-Metway Limited	19.09.05	
Tabcorp Holdings Limited	02.10.06	
Lynas Corporation Ltd	01.02.11	20.08.13

PATRICK J R SNOWBALL

MA, Hon. LL.D

Age 64

Managing Director and Group Chief Executive Officer (**Group CEO**)

Managing Director since December 2010 and Managing Director of Suncorp-Metway Limited since joining the Group on 1 September 2009

Mr Snowball is an experienced financial services executive with extensive knowledge of the insurance industry, having overseen businesses in Australia, the United Kingdom, Ireland, Canada, India and Asia.

Under Mr Snowball's leadership, Suncorp has refocused its strategy and simplified its company structure and business operations to make the Group more efficient.

Prior to joining Suncorp, Mr Snowball was a member of the executive teams at both Norwich Union plc and Aviva plc, the world's fifth largest insurance group and the largest insurance provider in the United Kingdom that was created through the merger of Norwich Union and CGU plc. From 2005 to 2007, he was Group Executive Director, Aviva United Kingdom and responsible for general insurance, life risk and life risk investment businesses. Mr Snowball worked with the Towergate group of companies in both a deputy chairman and chairman's roles and served as a non-executive director of Jardine Lloyd Thompson plc.

He was a member of the Financial Services Authority (UK) Practitioner Panel, representing Life and General Insurance, from 2006 to 2008.

LISTED COMPANY DIRECTORSHIPS HELD SINCE 1 JULY 2011

COMPANY NAME	APPOINTED	RESIGNED
Suncorp-Metway Limited	01.09.09	

ILANA R ATLAS

BJuris (Hons), LLB (Hons), LLM

Age 59

Non-executive director

Chairman Remuneration Committee and Member Risk Committee

Director since January 2011

Ms Atlas is a director of Coca-Cola Amatil Limited, Westfield Corporation Limited, New South Wales Treasury Corporation, Jawun Pty Ltd, the Human Rights Law Centre and Oakridge Wines Pty Ltd. She is also Chairman of Bell Shakespeare.

Ms Atlas is an experienced financial services and legal executive and has most recently held senior management positions at Westpac Banking Corporation (**Westpac**) ranging from Group Secretary and General Counsel to her most recent position as Group Executive People. Prior to joining Westpac, Ms Atlas was a partner at Mallesons Stephen Jaques, practising as a corporate lawyer, holding a number of managerial roles in the firm including Managing Partner and Executive Partner, People and Information.

LISTED COMPANY DIRECTORSHIPS HELD SINCE 1 JULY 2011

COMPANY NAME	APPOINTED	RESIGNED
Coca-Cola Amatil Limited	24.02.11	
Suncorp-Metway Limited	01.01.11	
Westfield Corporation Limited	08.04.14	
Westfield Holdings Limited	25.05.11	30.06.14

WILLIAM J BARTLETT

FCA, CPA, FCMA, CA (SA)

Age 65
Non-executive director
Member Audit, Risk and Remuneration Committees

Director since December 2010 and director of Suncorp-Metway Limited since July 2003

Mr Bartlett is a director of Reinsurance Group of America Inc., RGA Reinsurance Company of Australia Limited, GWA International Limited and Abacus Property Group. He is also Chairman of the Council of Governors of the Cerebral Palsy Foundation.

Mr Bartlett has 35 years' experience in accounting and was a partner of Ernst & Young in Australia for 23 years, retiring on 30 June 2003. He also has extensive experience in the actuarial, insurance and financial services sectors through membership of many industry and regulatory advisory bodies including the Life Insurance Actuarial Standards Board (1994–2007).

LISTED COMPANY DIRECTORSHIPS HELD SINCE 1 JULY 2011

COMPANY NAME	APPOINTED	RESIGNED
Abacus Property Group	14.02.07	
GWA International Limited	21.02.07	
Reinsurance Group of America Inc. (NYSE)	26.05.04	
Suncorp-Metway Limited	01.07.03	

MICHAEL A CAMERON

FCPA, FCA, FAICD

Age 54

Non-executive director
Member Remuneration Committee
Director since April 2012

Mr Cameron has been Chief Executive Officer and Managing Director of The GPT Group since May 2009. He has over 30 years' experience in finance and business. Mr Cameron is a fellow of each of the Australian Institute of Chartered Accountants, CPA Australia and the Australian Institute of Company Directors.

His past experience includes roles at Barclays Bank and 10 years with Lend Lease where he held a number of senior positions including Group Chief Accountant and Chief Financial Officer for MLC Limited. Following the acquisition of MLC by the National Australia Bank (**NAB**), Mr Cameron was appointed Chief Financial Officer and then Chief Operating Officer of the NAB Wealth Management Division. He joined the Commonwealth Bank of Australia in 2002 and was appointed Group Chief Financial Officer in early 2003 and Group Executive of the Retail Bank Division in 2006. Mr Cameron was Chief Financial Officer at St. George Bank Limited from mid-2007 until the sale to Westpac Banking Corporation in December 2008.

LISTED COMPANY DIRECTORSHIPS HELD SINCE 1 JULY 2011

COMPANY NAME	APPOINTED	RESIGNED
GPT Management Holdings Limited (The GPT Group)	01.05.09	
Suncorp-Metway Limited	16.04.12	

AUDETTE E EXEL AO

BA, LLB (Hons)

Age 51
Non-executive director
Member Risk Committee
Director since June 2012

Ms Exel is a founder of the ISIS Group and Chief Executive Officer of its Australian company, ISIS (Asia Pacific) Pty Limited. She is also co-founder and Chair of The ISIS Foundation and is Vice Chairman of the Board of The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited.

Ms Exel has recently been awarded an honorary Order of Australia for her work with women and children living in extreme poverty in Nepal and Uganda through The ISIS Foundation.

Before establishing ISIS, Ms Exel was Managing Director of Bermuda Commercial Bank (1993–1996), Chairman of the Bermuda Stock Exchange (1995–1996) and was on the board of the Bermuda Monetary Authority, Bermuda's central financial services regulator (1999–2005) and was chair of its Investment Committee.

Prior to joining Bermuda Commercial Bank, Ms Exel practised as a lawyer specialising in international finance. She began her career with Allen, Allen and Hemsley in Sydney, Australia before joining the English firm of Linklaters & Paines in their Hong Kong office. She is called to the Bars of New South Wales (**NSW**), Australia; England and Wales; and Bermuda. Ms Exel won the Telstra 2012 Commonwealth Bank NSW Business Owner award and the Telstra 2012 NSW Business Woman of the Year award.

LISTED COMPANY DIRECTORSHIPS HELD SINCE 1 JULY 2011

COMPANY NAME	APPOINTED	RESIGNED
Suncorp-Metway Limited	27.06.12	

EWOUD J KULK

BEcon, FAICD

Age 68
Non-executive director
Chairman Risk Committee and Member Remuneration Committee

Director since December 2010 and director of Suncorp-Metway Limited since March 2007

Mr Kulk is Chairman of AA Insurance Limited (NZ), a director of the Westmead Millennium Institute, a past member of the NSW Council of the Australian Institute of Company Directors and a past president of the Insurance Council of Australia. He has over 25 years' experience in the insurance industry.

Mr Kulk was a director of Promina Group Limited at the date of merger with the Suncorp Group. He was Managing Director of the Australian General Insurance Group (1994–1998) and was Group Director Asia Pacific for Royal & Sun Alliance Insurance Group plc from March 1998 until his retirement in September 2003.

LISTED COMPANY DIRECTORSHIPS HELD SINCE 1 JULY 2011

COMPANY NAME	APPOINTED	RESIGNED
Suncorp-Metway Limited	20.03.07	

DR DOUGLAS F MCTAGGART

BEcon (Hons), MA, PhD, DUniv

Age 61
Non-executive director
Chairman Audit Committee

Director since April 2012

Dr McTaggart is currently a director of UGL Limited, and a member of the Queensland Council, Australian Institute of Company Directors and the Australian National University Council. In March 2012, he was appointed to the Queensland Government Independent Commission of Audit and Chairman of the Public Service Commission. He has also served in other advisory roles to government as well as holding positions on, including chairing, various industry representative bodies.

Dr McTaggart has broad experience in financial markets and funds management. He was Chief Executive of QIC Limited for 14 years until his retirement in June 2012. Prior to joining QIC, he was the Under Treasurer and Under Secretary of the Queensland Department of Treasury and had a distinguished academic career as Professor of Economics and Associate Dean at Bond University.

LISTED COMPANY DIRECTORSHIPS HELD SINCE 1 JULY 2011

COMPANY NAME	APPOINTED	RESIGNED
Suncorp-Metway Limited	16.04.12	
UGL Limited	04.09.12	
Telesso Technologies Limited	01.11.07	09.10.12

GEOFFREY T RICKETTS CNZM

LLB (Hons)

Age 68
Non-executive director
Member Audit Committee, Chairman of Vero Insurance New Zealand Limited

Director since December 2010 and director of Suncorp-Metway Limited since March 2007

Mr Ricketts is Chairman of Todd Corporation Limited (NZ), and a director of Shopping Centres Australasia Property Group Trustee NZ Limited, Heartland New Zealand Limited and Heartland Bank Limited (NZ). He is also a director of the Centre for Independent Studies Limited.

Mr Ricketts was a commercial lawyer, having been a partner at Russell McVeagh Solicitors (NZ) for over 25 years. He has extensive experience in New Zealand and Australia.

Mr Ricketts was a director of Promina Group Limited at the date of merger with the Suncorp Group. He was formerly Chairman of Royal & Sun Alliance's New Zealand (**R&SA NZ**) operations having been a non-executive director of R&SA NZ for over 10 years.

LISTED COMPANY DIRECTORSHIPS HELD SINCE 1 JULY 2011

COMPANY NAME	APPOINTED	RESIGNED
Heartland New Zealand Limited (NZX)	05.01.11	
Suncorp-Metway Limited	20.03.07	
Spotless Group Limited	08.07.96	16.08.12

2. DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each director of the Company during the financial year ended 30 June 2014 are set out in the table below.

	BOARD OF DIRECTORS		AUDIT COMMITTEE		RISK COMMITTEE		REMUNERATION COMMITTEE		NOMINATION COMMITTEE	
	A	B	A	B	A	B	A	B	A	B
Dr Z E Switkowski AO	12	12	4	4	5	5	5	5	1	1
P J R Snowball[1]	12	12	4	4	5	5	5	5	–	–
I R Atlas	12	12	–	–	5	5	5	5	1	1
W J Bartlett	12	12	4	4	5	5	5	5	1	1
M A Cameron	12	12	–	–	–	–	5	5	1	1
A E Exel AO	12	12	–	–	5	5	–	–	1	1
E J Kulk	12	12	–	–	5	5	5	4	1	1
Dr D F McTaggart	12	11	4	4	–	–	–	–	1	1
G T Ricketts CNZM	12	11	4	4	–	–	–	–	1	1

Notes

A number of meetings held during the year while the director was a member of the Board or committee

B number of meetings attended by the director during the year while the director was a member of the Board or committee

1 The Group CEO attends Audit Committee, Risk Committee and Remuneration Committee meetings at the invitation of those committees. There are no management representatives appointed as members of any Board committee.

3. DIRECTORS' INTERESTS

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

	FULLY PAID ORDINARY SHARES (SUN)	CONVERTIBLE PREFERENCE SHARES
Dr Z E Switkowski AO	281,599	–
P J R Snowball[1]	1,546,481	–
I R Atlas	19,155	–
W J Bartlett	26,968	323 SUNPE
M A Cameron	5,000	–
A E Exel AO	5,189	–
E J Kulk	20,173	3,000 SUNPC
Dr D F McTaggart	11,754	–
G T Ricketts CNZM	28,157	–

Note

1 Includes 1,071,148 shares held by the trustee of the Suncorp Group Employee Incentive Plan Trust and Suncorp Group Employee Share Plan Trust (formerly Suncorp Group Executive Performance Share Plan Trust). Beneficial entitlement to these shares remains subject to satisfaction of specified performance hurdles.

Directors' Report (continued)

4. COMPANY SECRETARY

Group Executive Group General Counsel and Company Secretary, Anna C Lenahan BA (Hons), MA (Psych) (Hons), LLB (Hons) was appointed to the position of Company Secretary in March 2011. Prior to this, Ms Lenahan was a corporate partner at law firm Allens Arthur Robinson.

Darren C Solomon LLB was appointed joint Company Secretary in August 2010, having acted as joint Company Secretary of Suncorp-Metway Limited since March 2010. Mr Solomon has more than 20 years' legal and company secretarial experience within banking and financial services.

5. REMUNERATION REPORT

The Remuneration Report is set out on pages 16 to 48 and forms part of the Directors' Report for the financial year ended 30 June 2014.

6. PRINCIPAL ACTIVITIES

The principal activities of the Suncorp Group during the course of the financial year were the provision of general insurance, banking, life insurance, superannuation products and related services to the retail, corporate and commercial sectors in Australia and New Zealand.

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

6.1 SUNCORP GROUP'S OBJECTIVES

The Suncorp Group continues to further capitalise on the 'One Company. Many Brands' business model across Australia and New Zealand. It aims to demonstrate that working under this business model delivers more value to stakeholders than operating as five independent businesses.

The strategy is for the five business units to excel in their respective markets and to create value through its strategic assets of Cost, Capital, Customer and Culture.

- Cost – lowering the unit cost of procurement by leveraging Suncorp Group's scale, buying power and supplier relationships
- Capital – demonstrating a diversification benefit through improved Risk-Based Capital (**RBC**) modelling
- Customer – enhancing the value of nine million customer connections by deepening their relationships with the Suncorp Group brands
- Culture – operating as 'One Company. Many Brands. One Team' and positioning Suncorp Group as 'the' place to work in Australia and New Zealand.

Suncorp Group's strategic priorities are to:

- Simplify – the Group will continue to simplify its businesses and extract value through efficiency and cost reduction (Simplification programs)
- Differentiate – invest benefits created by Simplification programs to deliver differentiated outcomes for customers and stakeholders.

7. DIVIDENDS

A fully franked 2014 interim ordinary dividend of $450 million (35 cents per share) was paid on 1 April 2014. A fully franked 2014 final ordinary dividend of $515 million (40 cents per share) and a fully franked 2014 special dividend of $386 million (30 cents per share) has been declared by the directors.

Further details of dividends on ordinary shares provided for or paid are set out in note 4 to the consolidated financial statements.

8. OPERATING AND FINANCIAL REVIEW

The principal activities and objectives of the Suncorp Group are outlined in section 6.

Information on the Suncorp Group's operating segments is included in note 5 to the consolidated financial statements.

8.1 OVERVIEW OF THE SUNCORP GROUP

The Suncorp Group has delivered a full year profit after tax of $730 million. This result includes a $496 million after tax write-down of Suncorp Life goodwill and intangible assets and adjustments to policy liabilities following a material revision of claims and lapse assumptions. Further discussion on the assumption changes is included in section 8.2 of this report under 'Life'.

Profit after tax from the business lines was $1,330 million. This is represented by the General Insurance business area profit after tax of $1,010 million, the Banking business area profit after tax of $228 million, and the Life business area profit after tax and before policy adjustments of $92 million. This strong business line result has been achieved by prioritising margins ahead of growth and delivering operational efficiencies.

The Suncorp Group has continued to focus on its balance sheet strength during the financial year with a number of initiatives, including increased life reinsurance arrangements, issuance of preference shares and subordinated debt and good progression on the RBC program of work. These initiatives further support the Group's commitment to maintain a de-risked balance sheet while delivering shareholders high yield and above system growth.

Suncorp shareholders continue to receive improved returns with a final ordinary dividend of 40 cents per share, up 10 cents. Total ordinary dividends for the 2014 financial year are 75 cents per share, an increase of 20 cents. A special dividend of 30 cents per share has been declared, an increase of 10 cents. Dividends for the full year total $1.05 per share.

8.1 OVERVIEW OF THE SUNCORP GROUP (CONTINUED)

The Group's financial performance demonstrates the success of its transformation strategy under the 'One Company. Many Brands' business model in a competitive environment. A continued focus on building a simple, low-risk financial services group through operational efficiencies and cost control is evident across all business lines.

Measured growth has been delivered across all business lines with:

- General Insurance gross written premium (**GWP**), excluding the impact of Fire Service Levies (**FSL**), up 5.1% to $8,725 million
- Suncorp Bank retail and business lending up 5.0% to $49,828 million; and
- Life Risk individual in-force premium up 8.5% to $852 million.

8.2 REVIEW OF PRINCIPAL BUSINESSES

General Insurance achieved an after tax profit of $1,010 million for the year to 30 June 2014 (2013: $883 million).

The Insurance Trading Result was $1,195 million (2013: $959 million), representing an Insurance Trading Ratio (**ITR**) of 15.5% (2013: 13.1%). The key drivers were premium growth, favourable natural hazard and investment experience and a continued focus on claims and expense management.

FSL were removed from Victorian policies during the financial year. Excluding FSL, GWP increased 5.1% to $8,725 million. Inclusive of FSL, GWP increased 3.3% to $8,870 million. Personal lines GWP, excluding FSL, increased across both Home (up 6.3%) and Motor (up 2.6%), primarily driven by increases in average written premiums.

Commercial lines GWP increased 6.8% to $2,329 million. Retention rates have remained strong as intermediaries and customers see value in the broad product offering. Compulsory Third Party (CTP) increased 7.4% following further growth in both the Queensland and New South Wales markets and the entry of Suncorp into the Australian Capital Territory CTP market.

Net incurred claims were $5,240 million (2013: $4,919 million), with a loss ratio of 67.8% (2013: 67.4%). Natural hazard claims were $538 million, $27 million below long run allowances. Reserve releases of $109 million were primarily attributable to a benign wage inflation environment and proactive management of long-tail claims, offset by strengthening in the estimation of the February 2011 Canterbury earthquake claims costs.

Total operating expenses remained relatively stable. Investment income on insurance funds was $487 million (2013: $334 million). Gains from narrowing credit spreads offset the impact of sustained lower risk-free and credit spread yields. Investment income on Shareholder Funds of $269 million (2013: $313 million) was supported by narrowing credit spreads and improved returns from equity investments.

Interest expense for the General Insurance business remained flat at $33 million.

Banking delivered net profit after tax of $228 million (2013: loss after tax of $343 million).

The 2014 financial year was one of transition for Banking. It consolidated operations and addressed legacy funding and cost positions related to the former 'Non-core' portfolio, laying the foundations for sustainable, profitable growth.

Banking continues to strengthen its risk management in line with the Basel II Advanced Accreditation agenda. Improving the credit quality and diversification of lending assets remains a key focus, supported by enhanced risk culture and improved underwriting standards.

Banking loans, advances and other receivables increased to $49,781 million, representing a $1,782 million increase from 2013. Growth across the retail and business lending portfolios of 5% is slightly below target. It reflects a considered approach to lending in an intensely competitive mortgage environment and challenging agribusiness trading conditions.

Asset growth is supported by a conservative funding strategy with 66% of lending assets funded by retail deposits. Transaction deposit growth of 24% over the year demonstrates the strength of the franchise. An 'A+/A1' credit rating and access to a broad range of wholesale funding markets complements the Bank's funding capability. The Common Equity Tier One (**CET1**) Capital ratio increased 94 basis points to 8.53%.

Net interest income was $1,011 million (2013: $986 million). Net interest margin for the year improved 8 basis points to 1.72% benefiting from maturity of legacy 'non-core' funding and moderation of term deposit pricing.

The cost to income ratio reduced 2% to 57.4%. Profit before losses on loans and advances increased 8.4% to $463 million, underpinned by revenue growth of 11.1%. Operating expenses have been held broadly flat year on year.

Banking continues to invest in its transformation program with good progress achieved in the delivery of Project Ignite and Basel II Advanced Accreditation initiatives. Further investment occurred in advertising and promotion as the Bank continues its focus on the Queensland market.

Impairment losses on Banking loans, advances and other receivables for the financial year were $124 million (2013: $375 million). Total provisions for Banking loans, advances and other receivables were $226 million (2013: $300 million). This reflects appropriate provisioning for heightened stress across the agribusiness segment resulting from ongoing drought conditions and a subdued rural property market. The result includes a prudent approach to provisioning given expectations of continued drought conditions into the 2015 financial year.

8. OPERATING AND FINANCIAL REVIEW (CONTINUED)

8.2 REVIEW OF PRINCIPAL BUSINESSES (CONTINUED)

The Bank exits this transitional year with a stronger balance sheet, a simplified business, and improved financial metrics, leaving it well positioned to deliver its strategic targets.

Life delivered a $92 million (2013: $60 million) profit after tax and before policy adjustments, which – after the policy adjustments of $176 million loss after tax (2013: $nil) – resulted in an $84 million loss after tax (2013: $60 million profit after tax).

The $92 million profit after tax and before policy adjustments comprises a $47 million (2013: $89 million) profit after tax from Life Risk, $37 million (2013: $31 million) profit after tax from Superannuation and $8 million profit after tax (2013: $60 million loss after tax) arising from market adjustments.

The decrease in Life Risk profit after tax was attributable to a $30 million reduction in planned profit margin release to $69 million for the 2014 financial year. This reflects the increase in reinsurance coverage and the impact of strengthening claims and lapse assumptions.

Market adjustments comprise balance sheet revaluations of policy liabilities and shareholder investment assets, which are expected to neutralise through the cycle. The impact from risk-free rate movements on the discounting of Life Risk policy liabilities is $9 million profit after tax (2013: $37 million loss after tax) for the financial year. Investment income experience resulted in a $3 million (2013: $21 million) loss after tax for the year. During the 2013 financial year, Suncorp Life experienced significant losses as yields on government bonds increased. During the 2014 financial year, there has been considerable volatility in yields with increases in the first half reversing during the second half of the financial year.

The Embedded Value (**EV**) is $1,759 million (2013: $2,569 million). The reduction in EV has been driven by the rebasing of disability, group and trauma claims assumptions, together with the adoption of 'forward-looking' lapse assumptions and return of capital.

Life has changed from the traditional industry practice of setting assumptions using 'historical averages' to a more forward-looking basis. The revised approach explicitly reflects the time Suncorp Life believes it will take to work through the industry structural challenges, which include product design, premium structures and independent financial adviser (**IFA**) remuneration. It recognises the potential for dislocation as the industry transitions and then recovers in the medium term. Consequently, this resulted in:

- policy adjustments for loss recognition on some products and other reserving adjustments to policy liabilities resulting in a $250 million loss before tax ($176 million loss after tax), and
- a write-down of associated intangible assets resulting in a $383 million loss before tax ($320 million loss after tax), which is included in the Corporate segment profit or loss. This comprises an impairment loss on goodwill and the customer contract intangible asset before tax of $156 million and $191 million respectively and an accelerated amortisation expense of $36 million from revision of the remaining useful lives of brands and distribution relationships intangible assets.

Life has four key lines of business – IFA, Direct Life, Superannuation and New Zealand. The impact of the assumption changes is largely in the IFA business, with only nominal adjustments across the other business lines, including New Zealand.

During the financial year, Life delivered a number of key priorities:

- capital efficiency initiatives with $535 million of capital released to the Company, representing over a quarter of the starting capital base of $2.1 billion (CET1 plus deferred acquisition costs)
- bringing the Direct Life business in-house, with all new policies now sold and serviced by Suncorp employees on Suncorp systems, rather than through an external partner
- improved sustainability in the advice channel through an increased proportion of IFA new business written electronically and on hybrid commission, and
- strong momentum in Suncorp Everyday Super (**EDS**), with approximately 80% of EDS customers holding a Suncorp Bank account.

Annual in-force premium increased by 8% to $911 million with strong growth in New Zealand. Individual new business volumes fell by 5%, with the Australian IFA channel sales down 10% on the previous year driven by constrained market growth and a prioritisation of value over volume.

Direct sales via General Insurance brands were up 4% over the financial year reflecting the emphasis of putting the customer at the forefront and providing the wider Suncorp Group customers with propositions aligned to their needs. This resulted in improved conversion rates in the Direct Life business.

EDS continues to gather momentum with funds under administration increasing to $150 million supported by strong new business flows.

8.3 REVIEW OF FINANCIAL POSITION

TOTAL ASSETS OF THE SUNCORP GROUP DECREASED BY $1,476 MILLION OR 1.5% TO $94,429 MILLION COMPARED WITH 30 JUNE 2013

Cash and cash equivalents decreased by $499 million predominantly due to the decrease in funds held in short-term call and notice accounts due to lower excess liquidity at 30 June 2014, largely as a result of the repayment of the residual funding following the resolution of the non-core Banking portfolio.

Receivables due from other banks decreased by $533 million driven by the settlement of the $769 million receivable (net of deposit) from Goldman Sachs for the non-core loan portfolio sale in June 2013, as well as a $261 million decrease in collateral pledged for Suncorp Group's derivative liability positions given the

8.3 REVIEW OF FINANCIAL POSITION (CONTINUED)

maturity of several large cross currency swaps used for hedging purposes. This was partially offset by a $500 million increase in funds held with the Reserve Bank of Australia through Open Repurchase Agreements.

Trading securities decreased by $1,869 million due to the use of proceeds from matured debt securities held in the Banking trading book to buy back or fund maturing long-term debt issues, rather than being reinvested. Additionally, there has been a strategic decision to reduce excess liquidity.

Derivative assets decreased by $326 million reflective of lower volumes in the hedging of offshore commercial paper and Government guarantee fees.

Investment securities increased by $732 million following favourable investment returns experienced during the financial year. This is partially offset by the effect of ordinary and special dividends payments during the financial year.

Banking loans, advances and other receivables increased by $1,782 million due to growth in the Home, Agribusiness and Commercial SME portfolios. This was partially offset by $604 million run off in the Corporate and Property portfolios during the financial year.

General Insurance assets decreased by $555 million mainly attributable to the progress made in settling reinsurance recoveries from New Zealand earthquake claims.

Life assets increased by $196 million mainly driven by an increase in gross policy liabilities ceded under reinsurance as a consequence of the Life quota share reinsurance arrangement entered during the financial year.

Goodwill and intangible assets decreased by $448 million predominantly due to the impairment on goodwill and intangible assets following Life's material revision of claims and lapse assumptions.

TOTAL LIABILITIES OF THE SUNCORP GROUP DECREASED BY $1,292 MILLION OR 1.6% TO $80,630 MILLION COMPARED WITH 30 JUNE 2013

Payables due to other banks decreased by $132 million predominantly due to lower cash collaterals held for derivatives, which is in line with a lower derivative asset position compared with the prior year.

Deposits and short-term borrowings increased by $32 million. Call and term deposits increased by over $1 billion, which is reflective of continued growth in household and business transaction and investment deposits. This is offset by a $1 billion decrease in short-term borrowings, which is replaced by longer term issuances.

Derivative liabilities decreased by $414 million mainly due to the maturity of several large cross currency swaps used in the hedging of long-term offshore debt issues, which were bought back or matured during the financial year.

Current tax liabilities increased by $377 million reflective of the $386 million increase in current tax expense for the financial year compared with the prior year. A contributing factor to a lower current tax expense in the prior year is the sale of the non-core loan portfolio.

General Insurance liabilities decreased by $323 million mainly driven by a $458 million net decrease in gross outstanding claims liability, which included the reserve releases of $109 million primarily attributable to a benign wage inflation environment and proactive management of long-tail claims.

Life liabilities increased by $575 million predominantly driven by loss recognition on some products and other reserving adjustments to policy liabilities following material revision of claims and lapse assumptions.

Securitisation liabilities decreased by $1,196 million due to the repayment of debt which is contractually linked to the run-off in existing securitised loans. There were no new issuances during the financial year.

Debt issues decreased by $460 million. During the financial year, two large foreign currency denominated borrowings totalling $1,667 million were repaid. These were partly replaced by new offshore funding, including the 144A funding programme established in March 2014 which raised USD750 million. The Bank also issued $1,300 million of floating rate notes to replace maturing domestic long-term debt of $1,416 million.

Subordinated notes decreased by $89 million mainly driven by the partial buy-back of $98 million of unsecured, perpetual subordinated notes during the financial year.

Preference shares increased by $364 million as a result of the $400 million convertible preference shares (**SUNPE**) issue and the redemption of $30 million reset preference shares (**SBKPA**) during the financial year.

TOTAL EQUITY DECREASED BY $184 MILLION OR 1.3% TO $13,799 MILLION COMPARED WITH 30 JUNE 2013

Reserves increased by $166 million mainly driven by a $98 million gain from foreign exchange translation of the Suncorp Group's New Zealand operations. The remaining increase was a result of favourable fair value gains on available-for-sale financial assets and a net change in fair value of cash flow hedges.

Retained profits decreased by $360 million due to total dividends paid (2013 final ordinary and special dividends and 2014 interim ordinary dividend) of $1,088 million exceeding the current year profit after tax of $730 million. The remaining movement is attributable to share-based payments, actuarial gains on defined benefit plans revaluations, and a transfer to general reserve for credit losses.

8.4 REVIEW OF CAPITAL STRUCTURE

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 Group's Internal Capital

8. OPERATING AND FINANCIAL REVIEW (CONTINUED)

8.4 REVIEW OF CAPITAL STRUCTURE (CONTINUED)

Adequacy Assessment Process (**ICAAP**) provides the framework to ensure that the Group as a whole, and each regulated entity, is capitalised to meet internal and external requirements. The Company – which is the Non-Operating Holding Company (**NOHC**) of the Suncorp Group – also holds capital in respect of the corporate service companies and a portion of the Group's target capital in respect of the General Insurance and Life Insurance businesses.

A range of instruments and methodologies are used to effectively manage capital including share issues, reinsurance, dividend policies and Tier 1 hybrid and Tier 2 subordinated note issues. Suncorp Group is subject to, and in compliance with, externally imposed capital requirements set and monitored by the Australian Prudential Regulation Authority (**APRA**) and the Reserve Bank of New Zealand. The ICAAP is reviewed regularly and, where appropriate, adjustments are made to reflect changes in the capital needs, and risk profile of, the Group. Capital targets are structured according to both the business line regulatory framework and to APRA's draft standards for the supervision of conglomerates.

For regulatory purposes, capital is classified as follows:

- 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, together with certain Bank reserves eligible as regulatory capital, 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.

Over the course of the year, the Group continued to execute its capital strategy and improve return on equity for shareholders by implementing the following initiatives:

- execution of a Life quota share reinsurance arrangement that reduces the risk profile of the Life business and has contributed to the return of $535 million of CET1 Capital from the Life business to the NOHC
- deployment of $100 million of Tier 2 subordinated debt from the NOHC to the Life business in August 2013
- deployment of $110 million of Tier 1 Convertible Preference Shares from the NOHC to the General Insurance business in February 2014. This is the balance of the $560 million Convertible Preference Shares (**SUNPC**) issuance from the NOHC in November 2012, of which $450 million was deployed to the Bank
- issuance of $400 million of Tier 1 Convertible Preference Shares (SUNPE) from the NOHC in May 2014 and deployment to the General Insurance business in June 2014
- completion of an off-market buy-back of $98 million Unsecured Perpetual Floating Rate Subordinated Notes (58% of the Notes outstanding) issued by the Bank, thus reducing Tier 2 Capital that is surplus to the Group's needs
- reviewing the optimal strategic asset allocations for various investment portfolios across the Group, resulting in reduced regulatory capital charges, in the Life and General Insurance businesses, of approximately $65 million
- declaring total ordinary dividends of 75 cents per share fully franked, up 20 cents (36%), representing a payout ratio of 73.6% of cash earnings, and
- declaring a special dividend of 30 cents per share fully franked.

RISK-BASED CAPITAL (RBC)

Across the Group, '2nd generation' RBC models were implemented in 2014, having been introduced in 2013. RBC has the potential to play an increasingly important role in the Group's ICAAP, and strengthen the link between risk, capital management and business planning. In particular, the models can:

- enable enhanced articulation of risk appetite, particularly in relation to capital sufficiency and earnings volatility
- be a key influence on the Group's long-term strategic and risk decisions, such as strategic asset allocation and setting optimal reinsurance programs
- influence future reviews of capital targets.

Importantly, from a consolidated Group perspective, preliminary outputs from RBC have confirmed there is a potential capital diversification benefit inherent in the conglomerate structure, given the different primary risks affecting each business unit. Discussions are ongoing with regulators and rating agencies regarding the appropriate approach to reflect this in capital management decisions.

APRA's Conglomerate (Level 3) Standards covering risk management, governance and capital requirements are expected to come into effect in 2015 (refer section 12). Suncorp Group has been operating under a NOHC structure since 2010, with associated NOHC conditions from APRA having much in common with the proposed Level 3 Standards. The Group is well placed to implement the requirements and does not expect material changes to capital targets as a result.

CAPITAL POSITION AT 30 JUNE 2014

The Group has recently reviewed its capital targets, effective 30 June 2014. This has resulted in:

- a 0.25% increase in the Bank's CET1 target operating range, to 8.0%–8.5% of risk-weighted assets, strengthening the target capital for the Bank; and
- a decrease of $19 million in the Life business target, resulting from revisions to strategic asset allocations and lower insurance risk via the quota share reinsurance arrangement.

8.4 REVIEW OF CAPITAL STRUCTURE (CONTINUED)

The CET1 Capital positions as at 30 June 2014 are:

- the General Insurance business CET1 Capital position was 1.66 times the Prescribed Capital Amount (**PCA**), above its target of 1.10 times PCA
- the statutory Banking Group's Capital Adequacy Ratio was 8.54%, slightly above its revised target operating range of 8.0%–8.5%
- Suncorp Life's excess CET1 Capital to target was $97 million
- the Suncorp Group's excess to CET1 Capital target was $831 million, after adjustment for the declared dividend. The excess total capital to target was $1,293 million.

8.5 SIGNIFICANT CHANGES IN SUNCORP GROUP'S STATE OF AFFAIRS

Suncorp Group's financial performance demonstrates the Group is now reaping the rewards of its transformation strategy under the 'One Company. Many Brands' business model. The convergence of technology, culture and innovation has underpinned the delivery of smart environments to better enable the workforce and is redefining how Suncorp Group interacts with customers, shareholders and the broader community. Suncorp Group has significantly de-risked the business through Simplification and continues to focus on building a simple, low-risk financial services group through operational efficiencies and cost control across all business lines.

The Simplification program of work is delivering greater flexibility, efficiency and agility across the organisation, its processes and tools. The program has been extended to the New Zealand business as part of its transformation program, leveraging the work already applied in the Australian businesses. Simplification initiatives will continue to deliver benefits and are expected to deliver $225 million in annualised cost savings in the 2015 financial year and $265 million in the 2016 financial year.

A Business Intelligence Centre of Expertise has been established as a significant enabler for unlocking customer value. The Suncorp Group is investing in business intelligence as a basis for differentiating the customer experience using the Suncorp Group's brands, its nine million customer base and breadth of customer information.

As part of the Business Technology Transformation strategy, Suncorp Group is moving its infrastructure requirements by using Cloud technology. This will enable the Group to reduce costs, reduce risk and increase agility in the way it works.

Suncorp General Insurance continues to benefit from the Simplification program, with all mass market brands now on a single underwriting platform. Suncorp General Insurance continues to innovate to improve both the customer experience and cost efficiency in the motor supply chain. Claims supply chain initiatives such as SMART – the Small Medium Accident Repair Technology shops, Q-Plus – the joint venture smash repair facility, and the recently established joint venture partnership for parts procurement, ACM Parts, will ensure Suncorp is well placed to respond to this increasingly competitive market. Simplification and claims benefits, as well as an improving risk profile, will continue to support strong margins.

Following the resolution of the Non-Core Bank portfolio, Suncorp Bank has entered a transition period as it consolidates operations, continues to de-risk the balance sheet and unwinds legacy funding and expense costs. This has reduced the risk for Suncorp Bank and the Suncorp Group, enabling a greater focus on the core business, particularly in Queensland. With the foundations now laid, Suncorp Bank is looking forward to a period of sustainable and profitable growth. Delivery of Project Ignite, the core banking systems replacement project, is proceeding with a staged implementation through to June 2016. The new platform will enable delivery of better, faster and more cost effective services to Suncorp Bank customers.

Suncorp Life has been comprehensively reorganised around the customer and the expense base has been adjusted to reflect the short-term industry outlook. Some key priorities delivered during the year include bringing the Direct Life business in-house, with all new policies now sold and serviced by Suncorp employees on Suncorp systems, rather than an external partner. Suncorp is also delivering on a number of key initiatives to address the industry's structural challenges, including customer engagement, and product changes. Suncorp Life is implementing a significant change program of customer centricity which focuses on providing quality service to customers and applying a customer focus to claims management.

9. EVENTS SUBSEQUENT TO REPORTING DATE

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

Directors' Report (continued)

10. LIKELY DEVELOPMENTS

The Suncorp Group will continue to focus on building the foundations for future differentiation through leveraging its strategic assets and building stronger points of difference in each of its business units.

Simplification will continue to provide the foundation for delivering the key market commitments of:

- Group growth of between 4% and 6% per annum through to the 2015 financial year
- 'meet or beat' an underlying insurance trading ratio of 12% through the cycle
- Group return on equity (**ROE**) of at least 10% in the 2015 financial year
- an ordinary dividend payout ratio of 60% to 80% of cash earnings, and
- continuing to return surplus capital to shareholders.

In May 2014, Suncorp revised its growth target for the 2015 financial year to between 4% and 6%. This decision reflects the reduced need to increase insurance premiums following a reduction in reinsurance costs, lower natural hazards and improved investment returns. Suncorp will continue to prioritise stable margins and will be supported by the ongoing benefit of the Group's Simplification program and supply chain initiatives.

The General Insurance business will focus on balancing both growth and margin objectives in an increasingly competitive environment while seeking to capitalise on any market disruption as a result of the consolidation of a key competitor.

Suncorp Bank will continue to target profitable lending growth in key segments. The Bank will invest heavily in business capability through its Project Ignite and Basel II Advanced Accreditation programs which will enhance the Bank's ability to meet the changing needs of customers within a robust risk management framework. In particular, Project Ignite will deliver material efficiency benefits through simplification and automation. The Bank will continue to target middle Australia by differentiating itself from competitors, offering 'big bank capability and the customer connection of a small bank'.

The life insurance industry will continue to undertake fundamental reform in the areas of product, pricing, commission structures and customer engagement. Suncorp Life is positioning itself to capitalise on a more sustainable industry framework and to accelerate as the cycle turns. Suncorp Life will focus on improving customer service by upgrading its claims systems and leveraging Suncorp Group's claims expertise in personal injury and workers compensation. Suncorp Life will also simplify product structures and promote value over volume.

Over the coming year there will be an increased focus on unlocking the value in the Group's customer base. Developing the Group's customer strategy will be an integral component of delivering sustainable profit growth for Suncorp Group. A sharper focus on customer needs and experience will support the next phase of Suncorp's journey towards Differentiation.

Work continues on RBC modelling to assist in fully understanding and articulating the diversification benefit of the Suncorp Group's conglomerate structure. The Group's risk function operates within a strong risk management framework that matured significantly during the financial year and will evolve further in the 2015 financial year as the focus on risk continues.

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

11. KEY INTERNAL AND EXTERNAL RISKS

The risks Suncorp Group manages include strategic, counterparty, market, asset and liability, liquidity, insurance, operational, and compliance-related risks. Specific detail on Suncorp's approach to Corporate Responsibility including the identification of non-financial risks and opportunities is contained in the Suncorp Group 2013/14 Annual Review available from **suncorpgroup.com.au/investors/reports.**

Policies, procedures, limits and other controls are in place at either the Suncorp Group or business unit level to manage these risks and align to the Board's risk appetite.

The key business risks that may impact business strategies and financial prospects include:

- shifts in competitor dynamics and markets, and associated technological advancement. This is being mitigated by the Group's innovation programs, continual market and competitor monitoring and leveraging the Group's scale, brands and pricing capability to build a competitive advantage.
- risks relating to the delivery of strategic initiatives, such as the core banking system replacement, the Business Intelligence program and the Basel II Advanced Accreditation program. These initiatives are well resourced, leverage the Group's agile way of working and have established change management programs.
- macroeconomic and industry factors which adversely affect lapse and claims experience in the life business. This is being mitigated through business planning and review processes, including the June 2014 review of claims and lapse assumptions.
- risks relating to the use of service providers, including risks associated with offshoring, country and political risks, and contingent workforce. Governance processes, as well as contract and service management processes, are in place to mitigate this risk.

11. KEY INTERNAL AND EXTERNAL RISKS (CONTINUED)

- regulatory change and supervision impacting the Group's financial position. The business has dedicated and well-established regulatory change programs in place to manage and facilitate any change, which includes regular engagement with regulators and credit ratings agencies.
- natural hazards that result in earnings volatility exceeding Board and market expectations. Natural hazard modelling and reinsurance, along with continued discussions with government regarding disaster mitigation, are the main mitigating actions.

A summary of the governance framework is included on pages 50 to 51. More complete information on key risk categories, risk management and the overall Suncorp Group governance framework is in the Company's detailed Corporate Governance Statement available on the website at **suncorpgroup.com.au/about-us/governance.**

12. IMPACT OF LEGISLATION AND OTHER EXTERNAL REQUIREMENTS

There continues to be significant legislative and regulatory reform and government inquiries which impact or may impact on the Suncorp Group's operations in Australia and New Zealand now and in the future.

AUSTRALIA AND NEW ZEALAND

The United States enacted the *Foreign Account Tax Compliance Act* (**FATCA**) in 2010. From 1 July 2014, FATCA imposes substantial reporting obligations on non-American financial institutions in relation to certain transactions and accounts relating to, or held by, American citizens. A significant penalty regime in the form of a 30% withholding levy on certain payments can apply to non-compliant financial institutions. Both the Australian and New Zealand Governments have entered into inter-governmental agreements regarding FATCA. It is anticipated the impact will be felt most strongly by Suncorp Bank and will increase compliance costs across the Suncorp Group.

AUSTRALIA

PRIVACY AND CREDIT REPORTING

Reforms to Australia's privacy and credit reporting laws came into effect in March 2014. All of the Australian entities within Suncorp Group have reviewed their processes to comply with the privacy reforms.

The reforms to credit reporting will allow credit providers, including Suncorp-Metway Limited, access to additional data about customer payment histories from credit reporting agencies. The amendments should allow for a more complete understanding of customer credit history and consequently more informed lending decisions.

FUTURE OF FINANCIAL ADVICE REFORMS

The Federal Government has introduced to Parliament the *Corporations Amendment (Streamlining of Future of Financial Advice) Bill 2014*. If enacted, the Bill will amend some of the changes brought about by the Future of Financial Advice reforms including, in certain circumstances, exempting general advice from the ban on conflicted remuneration, removing the 'opt in' requirements and making improvements to the best interests duty 'safe harbour' provisions. The Bill also broadens the exemptions to the ban on conflicted remuneration provisions in relation to life risk insurance where it is offered inside of superannuation. It is anticipated the Bill will lessen the impact of some of the regulatory burdens imposed on the Suncorp Group by the initial reforms.

On 30 June 2014, the Federal Government registered the *Corporations Amendment (Streamlining Future of Financial Advice) Regulation 2014* which gives effect, as an interim measure, to some of the changes proposed by the Bill. There currently is an unresolved Motion to Disallow before the Senate in respect of the Regulation.

FEDERAL GOVERNMENT FINANCIAL SYSTEM INQUIRY

The Federal Government's Financial System Inquiry is the financial services industry's biggest inquiry in the 18 years since the 'Wallis Inquiry' in 1996. This 'root and branch' inquiry into Australia's financial system will determine how the system might be best positioned to meet Australia's evolving needs and support economic growth. A final report is due in November 2014. Like the Wallis Inquiry, the recommendations of the current inquiry have the potential to influence and drive future regulation in the financial services sectors in which the Suncorp Group operates.

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY LEVEL 3 FRAMEWORK

APRA is finalising the drafting of its proposals and prudential standards for the supervision of Level 3 conglomerate groups such as Suncorp Group (the **Level 3 framework**). The Level 3 framework is intended to implement group-wide requirements in relation to governance, exposure management, risk management and capital adequacy. APRA intends for the Level 3 framework to take effect from 1 January 2015. The Suncorp Group is well placed to implement the requirements and does not expect material changes to capital targets as a result.

ANTI-MONEY LAUNDERING

The Australian Federal Government is currently reviewing the *Anti-Money Laundering and Counter Terrorism Financing Act 2006* (**AML-CTF Act**), and the associated rules and regulations. The review may not be completed until 2015. As the AML-CTF Act imposes obligations on certain companies in the Suncorp Group in

12. IMPACT OF LEGISLATION AND OTHER EXTERNAL REQUIREMENTS (CONTINUED)

relation to customer identification and verification, any resulting changes are likely to affect the regulatory burden imposed on the Suncorp Group. Separate to the review of the AML-CTF Act, in May 2014 the Australian Transaction Reports and Analysis Centre amended the rules, promulgated under the AML-CTF Act, to increase the regulatory requirements in relation to identifying customers, particularly beneficial owners. Those changes became effective 1 June 2014.

NATIONAL DISABILITY INSURANCE SCHEME (NDIS)

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

GENERAL INSURANCE CODE OF PRACTICE

The Insurance Council of Australia has released a revised General Insurance Code of Practice (the **Code**) which came into effect on 1 July 2014. The revised Code imposes 'stronger and more detailed obligations' on Code signatories in relation to hardship claims and will limit certain existing Code obligations (including the timing requirements for claims handling) to retail insurance. Participants to the revised Code, including AAI Limited, are required to be fully compliant by 1 July 2015.

BASEL III CAPITAL REFORMS

APRA continues to implement the prudential framework applicable to Australian banks in relation to the Basel III capital reforms. APRA has indicated it proposes to implement the Basel III liquidity reforms in respect of: (a) the liquidity coverage ratio to address an acute stress scenario from 1 January 2015 and (b) the net stable funding ratio to encourage longer term funding resilience from 1 January 2018. The Basel III reforms impose higher regulatory capital requirements for Suncorp Bank than existed under previous regulatory regimes.

OVER-THE-COUNTER DERIVATIVES

Australian regulators continue to consult with industry and monitor stakeholder responses to finalise proposed clearing requirements for certain over-the-counter (**OTC**) derivatives. The Australian Securities and Investments Commission has finalised its reporting requirements for certain OTC derivatives.

AUSTRALIAN PRUDENTIAL STANDARD (APS) 910 – FINANCIAL CLAIMS SCHEME

A revised APS 910 commenced on 1 July 2013 and sets out APRA's requirements for Australian authorised deposit-taking institutions to ensure they are operationally ready to meet payment, reporting and communication requirements should they be declared under the Financial Claims Scheme. Suncorp Bank is implementing the requirements in accordance with required timeframes.

STRONGER SUPER

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

NEW ZEALAND

CONSUMER LAW REFORM

The New Zealand Parliament has passed the *Consumer Law Reform Bill*, which contains a new prohibition on including or enforcing 'unfair contract terms' in standard form consumer contracts. The prohibition will begin on 18 March 2015. The Bill includes some exceptions for terms in insurance contracts.

The Bill also introduced potential changes which may affect the way in which New Zealand insurers prepare advertising and marketing materials.

FINANCIAL MARKETS CONDUCT ACT

The *Financial Markets Conduct Act* has been passed by the New Zealand Parliament. The main aim of the Act is to reform the regulation of financial market conduct 'to promote confident and informed participation in New Zealand's financial markets'. The changes will come into force in two phases. The first phase, which created general fair dealing obligations and made changes to employee share schemes, came into effect on 1 April 2014. The second phase, which includes new disclosure requirements, registers of managed investment schemes and offers of financial products and licensing obligations and requirements, will come into effect on 1 December 2014. Market participants will have up to 24 months from 1 December 2014 to comply with the new disclosure and governance requirements.

13. ENVIRONMENTAL REGULATION

The *National Greenhouse and Energy Act 2007* (**NGER**) provides a national framework for corporations to report greenhouse gas emissions and energy consumption and production. Suncorp Group has reported annual reductions in emissions under the NGER scheme since 2010/11.

The Suncorp Group's operations are not currently subject to any other particular and significant environmental regulation under any law of the Commonwealth of Australia or any of its states or territories. The Suncorp Group may however become subject to state environmental regulation when enforcing securities over land for the recovery of loans. The Suncorp Group has not incurred any liability (including for rectification costs) under any environmental legislation.

14. INDEMNIFICATION AND INSURANCE OF OFFICERS

Under the Company's Constitution, the Company indemnifies each person who is or has been a director or officer of the Company. The indemnity relates to all liabilities to another party (other than the Company or a related body corporate) that may arise in connection with the performance of their duties to the Company and its subsidiaries, except where the liability arises out of conduct involving a lack of good faith. The Constitution stipulates that the Company 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*.

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

During the financial year ended 30 June 2014, the Company 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 executive officer (as defined in the *Corporations Act 2001*) of the Company against certain liabilities arising in the course of their duties to the Company and its subsidiaries. The directors have not included details of the nature of the liabilities covered or the amount of the total premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

15. NON-AUDIT SERVICES

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

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

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor, and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

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

	2014
	$'000
Services other than statutory audit	
Audit-related fees (regulatory)	
APRA reporting	693
Australian financial services licences	114
Other regulatory compliance services	1,029
	1,836
Audit-related fees (non-regulatory)	
Other assurance services	1,868
Other services	
Tax compliance	10
	3,714

16. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 49 and forms part of the Directors' Report for the financial year ended 30 June 2014.

17. ROUNDING OFF

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

Directors' Report

2014 Remuneration Report

Dear Shareholder

The Board is pleased to present Suncorp Group's Remuneration Report for the financial year ended 30 June 2014.

The Board is committed to a fair and responsible executive remuneration framework. The Remuneration Policy and practices foster a 'pay for performance' culture, linking executive remuneration to the achievement of the Group's strategic objectives. A significant portion of executives' remuneration is 'at-risk', with outcomes linked to the financial and non-financial performance achievements which also generate satisfactory returns for shareholders.

The Board believes the remuneration framework continues to serve stakeholders well and therefore has not been changed during 2014. The Board actively seeks and encourages feedback from our regulators, shareholders and all of our stakeholders on the development of our remuneration practices.

In 2014, overall group performance was strong, with profits and shareholder returns both increasing from 2013. Suncorp Group continues to strengthen the position of its core businesses and has made good progress to ensure delivery of the benefits of the Simplification program.

During the year, the challenging headwinds and structural change in the Life industry have resulted in a $496 million after tax non-cash write-down of Suncorp Life goodwill and intangible assets and adjustments to policy liabilities. The Board took confidence from the leadership shown in understanding and responding to the structural challenges faced.

Overall, performance in 2014 demonstrated the ability of Suncorp, led by the executive team, to meet its market commitments and deliver sustainable returns to shareholders.

The remuneration framework supports the Group in engaging and retaining a high calibre executive team and is integral to the talent strategy. Accordingly, in 2014, the Board was delighted to oversee a program of internal talent mobility across Senior Executive and Executive General Manager positions, including the appointments of:

- Mr John Nesbitt as the Chief Executive Officer Suncorp Bank
- Mr Steve Johnston as the Group Chief Financial Officer
- Mr Mark Reinke as the Group Executive Marketing; and
- Mr Matt Pancino as the Chief Executive Officer Suncorp Business Services.

Looking ahead, Suncorp will continue to assess and refine the remuneration framework to promote sustainable performance, risk alignment and competitive pay positioning against the backdrop of a challenging business environment. The Board and the Remuneration Committee hope you find the information provided in the report useful.

Dr Ziggy Switkowski AO
Chairman

Ilana Atlas
Chair, Remuneration Committee

13 August 2014

REMUNERATION REPORT INDEX

INTRODUCTION

This Remuneration Report explains how Suncorp Group's performance for the 2014 financial year (**2014**) has driven remuneration outcomes for the executives who are Suncorp Group's key management personnel (**KMP**). KMP are the people who have authority and responsibility for planning, directing and controlling the activities of Suncorp Group, as listed in the following table:

NON-EXECUTIVE DIRECTORS	EXECUTIVE DIRECTOR		
Dr Zygmunt Switkowski AO (Chairman)	Mr Patrick Snowball	Group CEO	
	SENIOR EXECUTIVES		**CHANGES DURING 2014**
Ms Ilana Atlas	Mr Anthony Day	CEO Commercial Insurance	
Mr William Bartlett	Mr Gary Dransfield	CEO Vero New Zealand	
Mr Michael Cameron	Mr Clayton Herbert	Group Chief Risk Officer	
Ms Audette Exel AO	Ms Anna Lenahan	Group Executive Group General Counsel and Company Secretary	
Mr Ewoud Kulk			
Dr Douglas McTaggart	Mr Mark Milliner	CEO Personal Insurance	
Mr Geoffrey Ricketts CNZM	Mr John Nesbitt	CEO Suncorp Bank	Appointed 9 December 2013 (previously Group Chief Financial Officer)
	Ms Amanda Revis	Group Executive Human Resources	
	Mr Jeff Smith	CEO Suncorp Business Services	Resigned (employment due to cease 5 September 2014)
	Mr Geoff Summerhayes	CEO Suncorp Life	
	SENIOR EXECUTIVES APPOINTED DURING 2014		
	Mr Steve Johnston	Group Chief Financial Officer	Appointed 9 December 2013
	Mr Mark Reinke	Group Executive Marketing	Appointed 9 December 2013
	Mr Matt Pancino	CEO Suncorp Business Services	Appointed 16 June 2014
	FORMER SENIOR EXECUTIVES IN 2014		
	Mr David Foster	CEO Suncorp Bank	Employment ceased 28 February 2014

This Remuneration Report – which forms part of the Directors' Report – has four sections:

1. an overview of the remuneration framework and developments for 2014
2. the remuneration for the Group CEO and **Senior Executives** (defined as the executives reporting to the Group CEO who are KMP)
3. the remuneration for the non-executive directors
4. information regarding loans and equity instrument movements in relation to KMP, their close family members, or entities they control or over which they have significant influence, a new requirement for 2014.

In accordance with Section 308(3C) of the *Corporations Act 2001*, the external auditors, KPMG, have audited sections 2, 3 and 4.

For the purposes of this report, 'executive' means any of the Group CEO and the Senior Executives.

1. REMUNERATION OVERVIEW – UNAUDITED

Suncorp's Remuneration Policy is designed to align the interests of the Company's executives with those of its stakeholders by establishing a clear link between performance and remuneration. Primary objectives are to encourage the achievement of ambitious targets and the creation of long-term value using clear, balanced and challenging performance criteria.

Senior Executive remuneration includes a focus on the variable or performance-based reward which represents a significant portion of the total remuneration. This is designed to align Senior Executive remuneration more directly with the interests of all stakeholders, while encouraging performance on a Group, business unit and individual level over the short and long term.

SUMMARY OF 2014 PERFORMANCE AND REMUNERATION

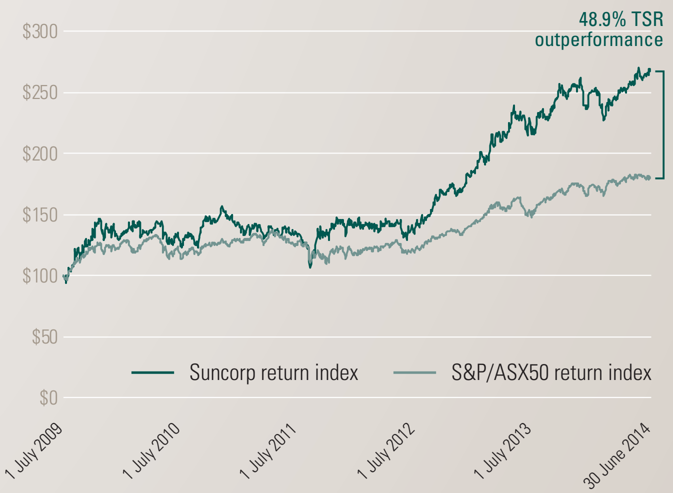
FOCUS	DESCRIPTION	FURTHER INFORMATION
Key financial highlights	• The share price has risen 13.6% in the last 12 months, compared with the benchmark S&P/ASX50 price index 12% rise. • Total Shareholder Return (**TSR**) measured over the last three to five years has outperformed the S&P/ASX50 Index and has been strong in relation to the Group's Long-Term Incentive (**LTI**) Peer Comparator Group. • Profit after tax from the Group's core businesses of General Insurance, Suncorp Bank and Suncorp Life is $1,330 million. The Group's reported net profit after tax before non-controlling interests increased 49% to $737 million. • Total dividends have increased 40% in 2014; shareholders received a 35¢-per-share interim dividend and for the full year dividend, shareholders will receive a 40¢-per-share ordinary dividend and a 30¢-per-share special dividend. • Group Return on Equity increased by 1.8% to 5.3% due to an increase in earnings.	Section 2.8 and the Financial Statements (within the Financial Report)
Strengthening the alignment of executives' and directors' interests with those of shareholders	Minimum shareholding requirement introduced for KMP by 31 October 2017 to hold Suncorp securities to the value of: • 100% of fixed remuneration for the Group CEO and Senior Executives; and • 100% of base fees for non-executive directors.	Section 2.4
Restraint in fixed remuneration for executives and fees for non-executive directors	Current levels of remuneration are considered appropriate: • Group CEO's fixed remuneration remains unchanged since September 2011 • Senior Executives' remuneration was reviewed against the competitive market, consistent with annual practice, resulting in an average fixed remuneration increase of 3.2% effective October 2013 • non-executive directors' fees remain unchanged.	Sections 2.3, 2.5 and 3.1

SUMMARY OF 2014 PERFORMANCE AND REMUNERATION (CONTINUED)

FOCUS	DESCRIPTION	FURTHER INFORMATION
2014 Short-Term Incentive (**STI**) reflects performance	Assessed against the balanced scorecard, the 2014 remuneration outcomes were influenced by: • relative to the Group's ambitious targets, strong profit performance of businesses in General Insurance, offset by weaker than expected outcomes from the Bank and the Life businesses • improvement in Return on Equity demonstrating progress toward the Group's 2015 market commitment of 10% • continued Simplification benefits providing additional cost benefits • effective risk management and adherence to risk appetite • a focus on capital management that resulted in a 40% increase in dividends to shareholders • positive results in people measures with outperformance in employee engagement • significant improvement in customer satisfaction metrics • substantive delivery in strategic initiatives across the Group, including: – Business Intelligence providing customer insights from a single data warehouse – Group's risk-based capital modelling; and – innovation in technology, particularly cloud-based initiatives. The Board considered STI awards for Senior Executives in the range of 85% to 97% of target appropriately recognised achievement against challenging performance objectives. The Group CEO outcome was 97% of target STI.	Section 2.8
Release of 2011 STI deferral	The Board considered the deferred 2011 STI for executives against clawback criteria and confirming that no circumstances warranted application of clawback, approved the release in full.	Section 2.4
Positive TSR performance led to LTI vesting	Strong TSR outperformance relative to the Peer Comparator Group over the performance periods resulted in LTI awards vesting for the 2008 and 2010 plans at 72% and 100% respectively. Tranche 2 of the Group CEO's 2009 Grant vested in full.	Section 2.8
Market alignment of Senior Executive target LTI	The Senior Executive 2014 target LTI increased as a percentage of fixed remuneration as a result of independent remuneration evaluation. The increase resulted in the remuneration mix for 2014 being weighted more towards long-term variable reward and further strengthening the alignment with shareholders' interests.	Section 2.3

The graph below shows the value over time of a $100 investment made on 1 July 2009, with Suncorp Group Limited[1] ordinary shares return index outperforming the S&P/ASX50 total return (accumulation) index by 48.9% over the five years to 30 June 2014.

Value of $100 investment made on 1 July 2009



Note

1 Suncorp Group Limited completed a restructure on 7 January 2011. TSR prior to 2011 relates to Suncorp-Metway Limited, the ultimate parent company prior to the restructure.

1.1 2014 EXECUTIVE REMUNERATION OUTCOMES

The following unaudited table is a voluntary disclosure summarising the actual remuneration the Group CEO and Senior Executives received during 2014 and represents: fixed remuneration received, the value of incentives received as a result of 2014 performance, and the value of any deferred STI and LTI that vested during the year.

The unaudited information presented below differs to the audited remuneration disclosures presented in section 2.9, which show accounting expensed amounts in accordance with Australian Accounting Standards (**AASBs**) and the *Corporations Act 2001*.

REMUNERATION OF EXECUTIVES IN 2014

		REMUNERATION PAID IN RESPECT OF 2014[1]			PAST 'AT-RISK' REMUNERATION PAID IN 2014[2]					ACTUAL REMUNERATION RECEIVED IN 2014	FUTURE 'AT-RISK' REMUNERATION AWARDED IN 2014[5]	
EXECUTIVES		FIXED	OTHER	2014 INCENTIVES	DEFERRED INCENTIVES (CASH) VESTED IN 2014	% VESTING	LTI (EQUITY) VESTED IN 2014[3]	% VESTING			2014 INCENTIVES (DEFERRED AS CASH)	LTI (EQUITY) GRANTED IN 2014
		$000	$000	$000	$000		$000	2008	2010[4]	$000	$000	$000
Executive director												
Patrick Snowball	Group CEO	2,550	-	1,545	1,106	100	3,921	-	100	9,122	1,545	4,000
Senior Executives												
Anthony Day	CEO Commercial Insurance	787	-	632	273	100	1,066	72	100	2,758	341	750
Gary Dransfield	CEO Vero New Zealand	702	-	537	74[6]	100	248[6]	-	100	1,561	289	700
Clayton Herbert	Group Chief Risk Officer	655	-	517	92[6]	100	408[6]	72	100	1,672	278	600
Anna Lenahan	Group Executive Group General Counsel and Company Secretary	501	-	395	25[6]	100	148[6]	-	100	1,069	212	500
Mark Milliner	CEO Personal Insurance	821	-	652	333	100	1,731	72	100	3,537	351	807
John Nesbitt	CEO Suncorp Bank	902	-	703	366	100	1,152	-	100	3,123	379	900
Amanda Revis	Group Executive Human Resources	622	-	490	232	100	770	-	100	2,114	264	600
Jeff Smith[7]	CEO Suncorp Business Services	782	-	668	368	100	1,777	72	100	3,595	359	780
Geoff Summerhayes	CEO Suncorp Life	743	-	532	273	100	1,481	72	100	3,029	287	720
Senior Executives appointed during 2014												
Steve Johnston[8]	Group Chief Financial Officer	378	-	291	-	-	-	-	-	669	156	378
Mark Reinke[8]	Group Executive Marketing	306	-	238	-	-	-	-	-	544	128	308
Matt Pancino[9]	CEO Suncorp Business Services	-	-	-	-	-	-	-	-	-	-	-
Former Senior Executives												
David Foster[10]	CEO Suncorp Bank	532	767	370	302	100	1,612	72	100	3,583	199	105

Notes

1 'Remuneration paid in respect of 2014' comprises:

- *fixed remuneration (actual fixed remuneration received, including salary sacrificed benefits and employer superannuation)*
- *other one-off or transitory elements in relation to termination*
- *incentives which relate to 2014 that are not deferred. This represents 50% of the total 2014 STI for the Group CEO and 65% of the total 2014 STI for Senior Executives.*

2 'Past 'at-risk' remuneration paid in 2014' comprises LTI and deferred STI awarded in previous years that vested during 2014.

3 'LTI (equity) vested in 2014' represents the total number of performance rights vested during 2014 multiplied by the closing share price at 30 September 2013.

4 For Mr Patrick Snowball, % vesting represents Tranche 2 of the 2009 Grant.

5 'Future 'at-risk' remuneration awarded in 2014' is not guaranteed and comprises:

- *the deferred portion of 2014 STI (excluding the value of any future interest payable on vesting), which is subject to potential clawback during the deferral period*
- *face value of LTI performance rights granted during 2014 that may conditionally vest in future years.*

6 'Past 'at-risk' remuneration paid in 2014' for Mr Gary Dransfield, Mr Clayton Herbert and Ms Anna Lenahan relate to the vesting of deferred STI and LTI which were awarded prior to their appointments as Senior Executives.

7 Following his resignation, Mr Jeff Smith will cease employment on 5 September 2014. 'LTI (equity) granted in 2014' represents the value of the grant made in October 2013 which will be forfeited following the termination of his employment (along with 100% forfeiture of all other unvested LTI).

8 Mr Steve Johnston was appointed Group Chief Financial Officer and Mr Mark Reinke was appointed Group Executive Marketing effective 9 December 2013. Amounts included are pro-rated for the proportion of the year they were Senior Executives. No deferred STI or LTI vested in 2014 while they were Senior Executives.

9 Mr Matt Pancino was appointed CEO Suncorp Business Services effective 16 June 2014. Remuneration details are provided in the statutory table in section 2.9, but excluded from the table above as it relates to two weeks of remuneration. Mr Pancino was not granted any LTI in 2014 while he was a Senior Executive. No STI was awarded to Mr Pancino for 2014 in relation to his role as a Senior Executive.

10 Mr David Foster ceased employment effective 28 February 2014. Other remuneration reflects termination amounts paid in line with contractual provisions (see section 2.10) and legislative restrictions. In line with Board approval and plan rules for Senior Executives, the number of performance rights awarded in October 2013 were pro-rated based on length of service within the performance period up to termination (reflected in 'LTI (equity) granted in 2014') and remain on-foot to the end of the original performance period. The residual number of performance rights were forfeited following termination.

2. EXECUTIVE REMUNERATION – AUDITED

2.1 REMUNERATION GOVERNANCE FRAMEWORK

Suncorp Group's remuneration governance framework meets the standards expected by the ASX Corporate Governance Council and a summary is set out below:

THE BOARD
Reviews, applies judgment and, as appropriate, approves the Remuneration Committee's recommendations

Remuneration Committee
Reviews, applies judgment and, as appropriate, endorses the recommendations made by the Group CEO and submits for Board approval.
In addition, the Remuneration Committee makes recommendations to the Board on:

- Individual remuneration arrangements, scorecard measures and assessment for the Group CEO
- Non-executive director remuneration arrangements
- Senior Executive remuneration arrangements for appointments, terminations and clawback of remuneration
- Remuneration policy and frameworks for all employees

Group CEO
Makes recommendations to the Remuneration Committee on:

- The Suncorp Group's STI pool
- The Suncorp Group's annual pool for fixed remuneration increases
- Scorecard measures and assessment for direct reports
- Individual remuneration arrangements for:
  - Senior Executives
  - persons whose activities, in the Board's opinion, affect the financial soundness of the Group
  - any other person specified by APRA; and
  - any other person that the Board determines.
- Remuneration Policy, structures and frameworks for all employees
- Deferred remuneration clawback for all employees

External advisers
Provide independent advice to the Remuneration Committee on:

- Proposed changes to Remuneration Policy, structures and practices
- Legal regulator issues that impact on remuneration arrangements
- Benchmarking data and market practice
- Alternatives for STI and LTI plans

Remuneration Oversight Committee
Makes recommendations to the Group CEO on:

- Remuneration clawback for employees below Senior Executive level

REMUNERATION COMMITTEE

The Remuneration Committee leads remuneration matters at Suncorp. The Committee, which operates under its own charter and reports to the Board, is chaired by Ms Ilana Atlas who is a highly experienced professional with over 20 years' legal, human resources and remuneration-related experience. The other members of the Remuneration Committee are all accomplished and experienced non-executive directors of Suncorp Group with backgrounds in business, accounting or law.

More information on Suncorp Group's remuneration governance can be found in the 2014 Corporate Governance Statement on the website at **suncorpgroup.com.au/about-us/governance**.

Remuneration Committee membership

CHAIRMAN:	MS ILANA ATLAS
Members:	Mr William Bartlett
	Mr Michael Cameron
	Mr Ewoud Kulk
Ex officio member:	Dr Zygmunt Switkowski AO

All members are independent non-executive directors whose full biographies are set out in the Directors' Report.

While the Board has overall responsibility for the executive remuneration structure and outcomes, the Remuneration Committee:

- supports the Board to fulfil its responsibility to shareholders with regard to prudent remuneration management and compliance with the requirements of APRA's prudential standards
- considers strong remuneration governance as an ongoing, continual improvement activity
- closely monitors the remuneration framework to ensure it meets the key goal that sustainable, risk-adjusted, long-term performance forms the basis of reward outcomes, and employees' and shareholders' interests are aligned

2.1 REMUNERATION GOVERNANCE FRAMEWORK (CONTINUED)

- takes account of advice from the Group CEO, other members of management and, where relevant, independent external advisers; and
- oversees the preparation of this Remuneration Report.

The Remuneration Committee met five times during 2014 and fully discharged its responsibilities in accordance with its charter.

The Remuneration Committee Charter, which the Board reviews at least annually for appropriateness, was confirmed in November 2013 and is available on the website at **suncorpgroup.com.au/about-us/governance**.

While the Remuneration Committee believes Suncorp Group's Remuneration Policy and strategy serves the Group's needs, it will continue to ensure these evolve in response to regulatory developments and emerging capital requirements.

External remuneration advisers' services

Where appropriate, the Board and the Remuneration Committee consult external remuneration advisers who report directly to the Remuneration Committee.

When such external advisers are selected, the Board considers potential conflicts of interest. Advisers' terms of engagement regulate their access to, and (where required) set out their independence from, members of Suncorp Group management.

The requirement for external advisers' services is assessed annually in the context of matters the Remuneration Committee needs to address. External advisers' advice and recommendations are used as a guide, but do not serve as a substitute for directors' thorough consideration of the relevant matters.

For 2014 the Remuneration Committee appointed PricewaterhouseCoopers (**PwC**) as the lead external remuneration adviser. However, PwC did not provide remuneration recommendations and was not a 'remuneration consultant' as defined in the *Corporations Act 2001*, during 2014.

The following external advisers provided information and assistance to management and the Remuneration Committee on a range of matters, to inform the Remuneration Committee's recommendations and decision-making during 2014. These advisers did not provide any remuneration recommendations and they were not 'remuneration consultants' to Suncorp Group as defined in the *Corporations Act 2001*.

SERVICES RELATING TO REMUNERATION MATTERS	EXTERNAL ADVISERS PROVIDING THIS SERVICE TO SUNCORP GROUP IN 2014
Benchmarking remuneration of the Group CEO and Senior Executives and fees for non-executive directors, against comparable roles in relevant comparator groups	Mercer Consulting (Australia) Godfrey Remuneration Group
TSR performance analysis for LTI awards	Mercer Consulting (Australia) Ernst & Young
Provision of information to determine the impact of New Zealand legislative tax changes	Ernst & Young
Attendance at and perspectives provided on matters discussed at Remuneration Committee meetings	PwC

2.2 EXECUTIVE REMUNERATION PHILOSOPHY, STRATEGY AND POLICY

The Suncorp Group Remuneration Policy provides a governance framework for the structure and operation of remuneration systems within the context of the Group's long-term financial soundness and risk management framework. The Board is committed to remunerating fairly and responsibly.

REMUNERATION STRATEGY

The reward philosophy and objective is to offer rewards that are sufficiently competitive to motivate directors and executives to deliver superior and sustainable returns to shareholders.

The reward strategy, derived from linking the reward philosophy with business strategy and risk tolerance, is that the principles that determine remuneration are focused on driving the performance and behaviours consistent with achieving this objective.

There are six reward principles which together aim to create and protect shareholder value:

1. align reward with sustainable performance
2. align effective risk management with reward
3. balance stakeholder interests
4. deliver a competitive advantage
5. ensure gender pay equality
6. support Suncorp Group's culture and **values** (honesty, courage, fairness, respect, caring and trust).

2.3. REMUNERATION FRAMEWORK

The Board considers that a significant portion of executives' remuneration should be 'at-risk' in order to strengthen the alignment of executive reward with the interests of shareholders. Within this framework, the Board considers it essential to have remuneration arrangements that are structured to reward executives for performance at both a Group level and also at a business unit level.

The 'at-risk' remuneration components (STI and LTI) must satisfy performance and risk-related requirements, and are subject to clawback under certain conditions.

Each year independent external benchmarking ensures the Group's fixed remuneration levels, STI and LTI targets and the total combined reward opportunity, align with the competitive market, taking into consideration the skills, expertise and experience of executives. The following table provides a summary of the remuneration components and their link to strategic priorities.

2. EXECUTIVE REMUNERATION – AUDITED (CONTINUED)

2.3. REMUNERATION FRAMEWORK (CONTINUED)

	COMPONENT	DELIVERY	PERFORMANCE AND RISK ALIGNMENT	STRATEGIC PRIORITY
FIXED REMUNERATION	**Fixed remuneration** Base remuneration (base salary, salary sacrificed benefits, and other benefits) plus superannuation	Base remuneration is paid in cash. Superannuation is paid at a rate of 9.25% of base remuneration or the maximum contribution base[1], whichever is the lesser.	• Reward commensurate with the size and complexity of the role, individual responsibilities, individual performance, experience and skills. Aligned to market. • Increases reflect individual performance and contribution to the Suncorp Group taking into consideration market competitiveness. • Superannuation contributions paid according to statutory requirements.	Attract and retain highly engaged and enabled talent.
'AT-RISK' REMUNERATION	**Short-term incentives (including deferral)**	**STI cash** For the Group CEO 50%, and for Senior Executives 65% of STI is typically paid in cash.[2] **STI deferral** For the Group CEO 50%, and for Senior Executives 35%, of STI is deferred as cash for two years and is subject to potential clawback at any time during the deferral period.	• Rewards executives for their contribution to the Suncorp Group and business unit outcome, and for their individual contribution. • Deferral and potential clawback encourage a longer term focus. • The Board's determination of the Suncorp Group's STI pool includes consideration of risk management through a variety of financial and non-financial measures. • The remuneration governance framework allows the Board to exercise its judgment to reduce STI and deferred STI, if, in the Board's judgment, such an adjustment should occur.	Motivate superior performance and link remuneration to annual business performance. Deferral encourages longer term focus, risk management and alignment with shareholders' interests.
'AT-RISK' REMUNERATION	**Long-term incentives**	Performance rights granted that vest subject to performance hurdles being met and potential clawback.[3]	• Rewards executives for their contribution to the creation of long-term shareholder value via exposure to equity in Suncorp Group Limited. • Focuses executives on achievement of TSR through the use of an external, objective, relative TSR measure to determine outcomes. • The remuneration governance framework allows the Board to exercise its judgment to reduce LTI if, in the Board's judgment, such an adjustment should occur. • Executives cannot hedge equity instruments that are unvested or subject to restrictions.	Motivate superior performance and link remuneration to long-term business performance. Align remuneration with shareholders' interests.

Notes

1 *Employer contributions of 9.25% of ordinary time earnings are paid up to the maximum contribution base, which for the financial year ending 30 June 2014 was $48,040 per quarter. There is an exemption from Superannuation Guarantee Contributions for the Group CEO.*

2 *STI is paid in cash, unless the individual nominates to have all or part of their award paid into superannuation or Suncorp Group Limited shares (subject to relevant limits).*

3 *Clawback of LTI is applicable from the October 2010 Grant onwards.*

2.3 REMUNERATION FRAMEWORK (CONTINUED)

REMUNERATION POSITIONING POLICY AND COMPARATOR GROUPS

The total remuneration opportunity for the Group CEO and Senior Executives is evaluated on an annual basis against relevant peer comparator groups including the S&P/ASX100 Index, the S&P/ASX50 Index, and bespoke comparator groups. The primary market is defined as the financial services companies in the ASX100, excluding Real Estate Investment Trusts.

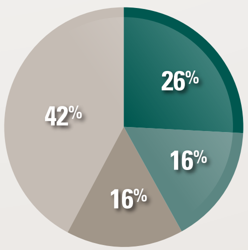
Fixed remuneration is broadly targeted at the market median for financial services companies.

The 'at-risk' component is intended to provide the opportunity for executives' total remuneration levels to reach the upper end of the market for delivering outstanding performance. This encourages executives to strive to deliver superior performance for shareholders.

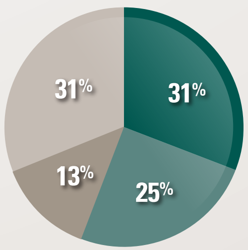
REMUNERATION MIX

The mix of fixed and 'at risk' components for the executives disclosed in the Remuneration Report, as a percentage of total target annual remuneration for the 2014 financial year, is shown below. The majority of total remuneration for Senior Executives is at risk (69%), with the Group CEO's remuneration mix more heavily focused on longer term performance.

GROUP CEO PAY MIX



SENIOR EXECUTIVES PAY MIX[1]



Fixed Pay | Target STI (cash) | Target STI (deferred) | LTI (face value)

1 Excluding Mr Jeff Smith, CEO Suncorp Business Services, who has a different target STI than other Senior Executives. Mr Smith's pay mix is 29.5% fixed pay, 27% target STI (cash), 14% target STI (deferred) and 29.5% LTI (face value).

2.4. REMUNERATION ALIGNS WITH RISK MANAGEMENT

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

- a separately weighted risk measure in the Group scorecard
- an assessment based on behavioural and cultural measures, which consider adherence to the risk management framework.

Compliance with the Suncorp Group Risk Appetite Statement is a significant consideration of overall performance to deliver an organisation-wide focus on prudent management of the risks the Group faces.

Risk management practices are governed by an integrated framework incorporating Suncorp Group policies (including the Remuneration Policy). The Group Chief Risk Officer (**Group CRO**) reviews the performance of each business unit and measures this with reference to how risk is managed. Individual adherence to risk management policies is also considered.

The Remuneration Committee's starting point when considering STI outcomes is the Group scorecard outcome, and it then considers additional factors, such as capital returns to shareholders and the long-term financial soundness of outcomes, before the Board makes its final determination of the overall STI pool.

Risk is embedded throughout the Group's remuneration framework. Specifically, the following risk arrangements apply to remuneration governance:

- **Deferral of STI**

  A material portion of executives' STI is deferred for two years and is subject to clawback; 50% for the Group CEO and 35% for Senior Executives. At the end of the deferral period, the deferred portion may be reduced or forfeited (a process referred to as 'clawback') in the event significant adverse outcomes are caused by executives' decisions, or actions taken, which the Board judges to be contrary to Suncorp Group interests.

  Interest accrues during the deferral period and is payable upon vesting.

  In the event of resignation, redundancy or retirement, the deferred incentive portion remains 'on foot' after the termination date until the end of the original deferral period.

  During the deferral period, the Board considers the long-term impacts of decisions made and actions taken during the performance year to which the deferred STI applies. In accordance with the risk governance framework, significant adverse outcomes may give grounds for the Board to apply its discretion to adjust the original deferred incentive allocation downwards, including to zero if necessary.

- **Clawback**

  Deferred STI and unvested LTI (from the October 2010 LTI Grant onwards) are both subject to potential clawback based on the Board's judgment.

  The Board may exercise its judgment in relation to STI or LTI outcomes:

  – **STI (including deferred STI):** at the end of the financial year when assessing performance against scorecard objectives to determine the STI pool and payments, or at the end of the two-year deferral period, when determining if there are any matters impacting the initial performance assessment

  – **LTI:** at any time prior to, or at, the final vesting date of the performance rights and will take account of factors such as any material misstatements of financial results or individual instances of non-compliance with Suncorp Group policies.

2. EXECUTIVE REMUNERATION – AUDITED (CONTINUED)

2.4. REMUNERATION ALIGNS WITH RISK MANAGEMENT (CONTINUED)

DEFERRED STI FOR THE GROUP CEO

The Board considers the following clawback provisions when determining if any clawback should apply to the Group CEO's deferred STI:

- whether there was any failure to comply with Suncorp Group risk management policies and practices during the performance year for which the STI was awarded, which has now become apparent
- whether the Group CEO was aware of that failure, or should reasonably have been aware of that failure, when the STI was awarded; and
- whether the matters – had they been known to the Board at the time – would have resulted in the Board applying different assumptions when determining the STI to be awarded.

The Group CRO and Group Chief Financial Officer (**Group CFO**) together produce the Risk Issues report, which details any relevant business matters in relation to these clawback provisions. The Chairmen of the Remuneration, Risk and Audit Committees discuss and verify the report which is used to determine the recommendation on the release or clawback of deferred STI for the Group CEO. The recommendation is submitted to the Board for approval.

DEFERRED STI FOR SENIOR EXECUTIVES

When determining if clawback should apply to deferred STI for Senior Executives, the Board considers the following in accordance with its policies and procedures:

- significant losses arising as a consequence of poor quality business that has, in the opinion of the Board, been demonstrated to have been generated:
  - in breach of duly adopted policies and procedures
  - as a result of the exercise of bad judgment (either at the time the business was written, or when a deterioration should have been recognised and provided for)
  - in an environment where policies, procedures or protocols were weak or inadequate, in each case having regard to the role and responsibility of the individual concerned
- financial misconduct (including embezzlement, fraud or theft)
- actions resulting in Suncorp Group or business unit financial misstatements
- significant legal, regulatory, and/or policy non-compliance

DEFERRED STI FOR SENIOR EXECUTIVES (CONTINUED)

- significant issues that impact the Group's standing with regulators to conduct business; and
- any individual act deemed to have been significantly harmful to the Group and/or its reputation, employees or customers (e.g. ethical misconduct).

In relation to exercising a decision whether to claw back deferred STI, the Group CEO and each of the Remuneration, Risk and Audit Committees make recommendations to the Board.

To support monitoring performance over the deferral period and the recommendations to be made:

- the Chairman of each of the Risk and Audit Committees summarises events during the deferral period and their impact on deferred incentives
- the Group CEO, based on the above information from the Chairmen of the Risk and Audit Committees, makes a recommendation to the Board regarding the impact on deferred incentives for Senior Executives.

The review process represents a rigorous, ongoing focus on adherence to Suncorp Group and business unit risk appetites and policies, intended to reinforce a culture of prudent risk management.

MINIMUM SHAREHOLDING REQUIREMENT INTRODUCED FROM 2014

To further align Senior Executives' and directors' interests with those of shareholders, in 2014 the Board introduced a minimum shareholding requirement which requires Senior Executives and directors to have a direct shareholding in the Company of a value that is equal to at least 100% of one year's pre-tax (gross) fixed remuneration or fees.

Senior Executives and directors who were in office at October 2013 are required to achieve 50% of the minimum holding by October 2015 and the full amount by October 2017.

Senior Executives and directors appointed after October 2013 will have four years from the October following their appointment to achieve the 100% shareholding, with 50% to be achieved after two years.

The value of the shares for the purposes of this requirement is the market value of the underlying shares.

Unvested performance rights to shares within the LTI plan for executives do not qualify.

Certain executives currently hold sufficient shares to meet these requirements.

RISK AND FINANCIAL CONTROL PERSONNEL

Separate performance and remuneration review processes govern remuneration decisions concerning employees working in the areas of risk and financial control.

In these roles, performance measures are set and assessment occurs independently of their business area, with oversight from the Group CRO or Group CFO as appropriate.

In addition, employees working in risk roles typically have a comparatively higher percentage of risk-based measures in their scorecard.

For 2014, 60% of the scorecard for the Group CRO was based on Group Risk measures.

2.5. FIXED REMUNERATION IS REVIEWED IN LINE WITH MARKET PRACTICE

The Remuneration Committee assesses management's recommendations based on market practice to ensure fixed remuneration is competitive. Fixed remuneration is reviewed each year in line with the Remuneration Policy, the external market and other business and role-critical factors.

Senior Executives' remuneration was reviewed against the competitive market prior to the start of 2014, resulting in an average fixed remuneration increase of 3.2% effective October 2013.

The Group CEO's fixed remuneration was unchanged.

2.6. STI TARGETS DESIGNED TO STRETCH

The annual STI program rewards executives for achieving Suncorp Group, specific business unit and individual performance relative to stretch performance targets, designed to ensure executives create sustainable value for all stakeholders.

STI AWARDS DEPEND ON SCORECARD RESULTS

Performance against a scorecard of financial and non-financial performance objectives establishes STI awards.

In assessing the actual STI outcome for each individual executive, the Board exercises its discretion up or down based on value judgments on the quality of earnings and other non-financial results.

STI FUNDING POOL

When recommending the size of the STI pool to the Board, the Remuneration Committee considers Suncorp Group performance against key financial and non-financial scorecard measures. Based on this recommendation, the Board determines the annual STI pool available for distribution to eligible employees by taking into account the quality of the Group outcome. Consideration is placed on factors such as long-term financial soundness and the current economic environment. In 2014, profits and shareholder returns both increased. The Group continued to simplify business processes and reduce costs, delivering benefits for both customers and shareholders.

Performance assessment

The following diagram sets out the structure of the 2014 Group scorecard measures and their link to strategy:

	MEASURE	WEIGHTING	LINK TO STRATEGY
PROFIT AND FINANCIALS 60%	Group profit after tax (underlying) Aligned to strategic plans approved by the Board consistent with the Board's expressed risk appetite Return on Equity (underlying)	60%	Disciplined financial choices Operational efficiency Improve shareholder returns
RISK 10%	Manage risk within agreed parameters in satisfaction of the Group Risk Appetite Statement	10%	Sustained performance requires prudent risk taking and effective risk management
PEOPLE 10%	Group engagement score Workplace health and safety outcome	10%	Maintain a high achieving and engaged team Integrate safety and wellbeing into all that we do
CUSTOMER / STAKEHOLDERS 10%	Customer satisfaction	10%	Enhancing the value of nine million customer connections and 13 valuable brands
STRATEGIC INITIATIVES 10%	Key transformation programs	10%	Value creation through the implementation of strategic initiatives

2. EXECUTIVE REMUNERATION – AUDITED (CONTINUED)

2.6. STI TARGETS DESIGNED TO STRETCH (CONTINUED)

The Board and management:

- encourage a strong commitment to a values-based culture
- focus on high performance, carrying out business legally, ethically, and with integrity and respect; and
- promote the Suncorp Group values.

The Suncorp Group values set out the primary behavioural expectations that the Board believes form a foundation for successful performance. Adherence to these behavioural expectations can influence overall individual performance outcomes.

The Group CEO assesses each Senior Executive's performance at the end of the financial year against business unit scorecards, considering actual outcomes relative to the agreed targets. Based on this assessment, the Group CEO makes a recommendation to the Remuneration Committee on the amount of STI to award to each Senior Executive, for Board approval.

UNDERLYING PROFIT AFTER TAX

The Board considers underlying profit after tax to be an appropriate reflection of the Company's performance relative to its targets and an effective measure for STI for the reason that individual executive performance is a key driver of underlying profit outcomes.

In determining underlying profit after tax, a number of adjustments to net profit after tax are made because these are deemed to be outside normal operating activities and beyond executives' control, including but not limited to:

- volatility within investment markets above or below expectations
- prior year reserve strengthening or releases that are above long-run expectations
- natural hazards claims above or below expected allowances
- profits or losses on material divestments; and
- material non-cash transactions.

Underlying profit after tax is not audited by the external auditors, KPMG. The 2014 underlying profit after tax has been determined on a consistent basis to that in the years ended 30 June 2013 and 30 June 2012.

2.7. LTI BASED ON PERFORMANCE HURDLES

LTI is offered to executives, as the behaviour and performance of these individuals have a direct impact on the Group's long-term performance. Its purpose is to focus executives on Suncorp Group's long-term business strategy to create and protect shareholder value over the longer term, thus aligning executives' interests more closely with shareholders.

LTI grants are awarded in the form of performance rights through:

- the Executive Performance Share Plan (**EPSP**) prior to October 2013
- the Suncorp Group Equity Incentive Plan – LTI (Performance Rights) from October 2013.

LTI grants will only vest when certain TSR performance hurdles relative to a pre-determined group of peer companies (the **Peer Comparator Group**) are met.

PERFORMANCE RIGHTS EXPLAINED

A performance right entitles a participant to one fully paid ordinary share in the Company (or under limited circumstances at the Board's discretion, a cash payment in lieu of an allocation of ordinary shares in the Company) at no cost.

Performance rights vest at a set future point in time, provided specific performance hurdles are met.

DIVIDENDS

If performance rights vest and shares are allocated, a payment equal to the dividends earned on those shares during the performance period is paid (less applicable taxes paid by the trustee with respect to the dividends).

THE ALLOCATION OF PERFORMANCE RIGHTS

The face value of LTI to be granted to participants is determined by the Board. The number of performance rights is equivalent to the value of the LTI divided by the five-day Volume Weighted Average Price of one ordinary share over the five days preceding the date of grant.

When offers are made, the shares are bought on market to avoid any dilutionary impact on the share price that the issue of new ordinary shares might create. The shares are acquired by the Plan trustee and held in trust (along with associated dividends received) during the vesting period.

LTI PERFORMANCE HURDLE – TSR

The performance of the Company's share price over the long term determines the extent to which LTI performance rights vest. This is measured by ranking the Company's TSR against the returns of the Peer Comparator Group.

TSR (expressed as a percentage):

- is a method of calculating the return shareholders would earn if they held a notional number of shares over a defined period of time
- measures the change in a company's share price, together with the value of dividends during the period (assuming all dividends are re-invested into new shares) and capital returns
- will vary over time but the relative position reflects the overall performance relative to the Peer Comparator Group.

The Peer Comparator Group for relative TSR performance assessment is the top 50 listed companies by market capitalisation in the S&P/ASX100 Index (excluding Real Estate Investment Trusts and mining companies).

2.7 LTI BASED ON PERFORMANCE HURDLES (CONTINUED)

The relative TSR performance measure is chosen because it:

- offers a relevant indicator of measuring changes in shareholder value by comparing the Company's return to shareholders against the returns of companies of a similar size and investment profile
- aligns shareholder returns with reward outcomes for executives over the long term
- minimises the impact of market cycles.

The Board has considered other measures to determine the allocation of LTI and has concluded relative TSR is the most appropriate. Measures for LTI are reviewed on a regular basis to ensure they remain appropriate.

TSR PERFORMANCE IS EXTERNALLY MONITORED

TSR performance is monitored by an independent external party on a quarterly basis, for all unvested grants. At final vesting, two independent external parties validate TSR performance.

VESTING SCHEDULE

Executives will only derive value from the LTI if the Company's TSR performance is greater than the median of the Peer Comparator Group.

Performance rights vest in accordance with the LTI vesting schedule represented in the table below:

RELATIVE TSR PERFORMANCE OUTCOME	PERCENTAGE OF LTI AWARD THAT WILL VEST
Below the 50th percentile (below median performance)	0%
At the 50th percentile (median performance)	50%
Between the 50th and 75th percentiles	50% plus 2% for each full 1% increase in the Company's ranking against the Peer Comparator Group
At or above the 75th percentile	100%

THREE-YEAR PERFORMANCE PERIOD

The performance period begins on the date the LTI award is made and extends for three years. For awards made prior to 30 June 2010, an additional two-year retesting period was available. However, for grants made after 1 July 2010 there is no retesting opportunity and any performance rights that do not vest at the end of the three-year performance period will lapse.

VESTING SCHEDULE AND PERFORMANCE PERIOD – GROUP CEO OCTOBER 2009 GRANT

The LTI award of 900,000 performance rights to the Group CEO on 1 October 2009 (the **Initial Grant**) did not follow the standard vesting schedule and performance period, since it represented Mr Snowball's maximum LTI entitlement for the 2010, 2011 and 2012 financial years.

The performance rights vest in three equal tranches, subject to the performance conditions outlined above, at 300,000 shares per tranche.

GROUP CEO OCTOBER 2009 GRANT	NUMBER OF PERFORMANCE RIGHTS GRANTED	INITIAL VESTING DATE	MAXIMUM VESTING DATE	MINIMUM PERFORMANCE PERIOD	MAXIMUM PERFORMANCE PERIOD
Tranche 1	300,000	30 September 2012	30 September 2014	3 years	5 years
Tranche 2	300,000	30 September 2013	30 September 2014	4 years	5 years
Tranche 3	300,000	-	30 September 2014	5 years	5 years

HEDGING PROHIBITION

The Suncorp Group Securities Trading Policy prohibits directors, employees and contractors from dealing in a financial product which operates to limit the economic risk of a holding in the Company's securities (i.e. hedging), including unvested LTI performance rights.

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

While performance rights remain unvested, executives do not have an entitlement to the underlying shares held in the name of the trustee nor may they access the underlying shares.

Any subsequent dealing in those shares is subject to the terms of the Securities Trading Policy. More detail can be found in the 2014 Corporate Governance Statement on the Group's website at **suncorpgroup.com.au/about-us/governance**.

2. EXECUTIVE REMUNERATION – AUDITED (CONTINUED)

2.8. EXECUTIVE REMUNERATION OUTCOMES FOR 2014

This section outlines how the 2014 incentive outcomes reflect performance outcomes and how these are measured against stretch targets.

- Group – the executive reward framework reflects the alignment to strategy by placing a significant weighting on the overall Suncorp Group performance outcome.
- Business unit – differentiation is achieved through the assessment of individual business unit performance.
- Behaviour – adherence to the Group's values and expected behaviours can also influence the executive's final performance outcome.

STI PERFORMANCE OUTCOMES FOR THE GROUP CEO IN 2014

The following table shows the 2014 Group Scorecard outcome used to determine the STI outcome for the Group CEO:

PERFORMANCE CATEGORY	MEASURE	2014 ACHIEVEMENTS
Group Profit & Financials	Group profit after tax (underlying) Return on Equity (underlying)	• The Group's profit after tax result represents strong growth year on year, and a particularly strong profit performance of businesses in general insurance. However Group scorecard outcomes for 2014 Profit and Financials were both slightly below the Group's challenging internal targets. • The Group's underlying profit after tax and underlying Return on Equity for 2014 were impacted by industry trends impacting Suncorp Life's lapse and claims experience, and drought conditions impacting the Bank's Agribusiness.
Risk	Compliance with Risk Appetite	• Complied with Group Risk Appetite Statement. • Enhancement of risk management with the implementation of the Risk Maturity Model within all operating business units. • Maintained sound capital, funding and liquidity positions. • Adherence to risk appetite across the Group and strong risk culture. • Reduction of the Group's risk profile through initiatives to enhance Operational Risk management, IT security and Privacy compliance and the delivery of key Simplification projects. • Revision of Suncorp Life reinsurance arrangement in 2014 resulting in reduced risk, profit volatility and capital requirements.
People	Group Engagement score (from the independent externally managed Hay Group survey) Workplace Health and Safety performance	• Increase in the engagement result by three points to 73, exceeding both the Australia & New Zealand Norm (66) and the Suncorp Group 2014 target. This equals the Global High Performing Norm. The response rate of 93.2% was the highest Hay Group has received globally in the last twelve months for an organisation the size of Suncorp. • Progress was made on the Health & Safety strategy across the Group, although the challenging 2014 target was not met. • Strong progress made on diversity initiatives, exceeding gender diversity targets for the Group.
Customer / Stakeholder	Achievement of target customer satisfaction	Strong results across all measures, with maintained or improved customer satisfaction scores from last year across all key brands: • all measures at or above target • one critical portfolio achieved an above target outcome and is now ahead of key competitors; and • one key brand achieved an all-time high performance, resulting in an outcome 50% above the target for 2014.
Strategic Initiatives	Delivery of Key Group Strategic Priorities	Key milestones achieved including advancement of the Legacy Simplification Programs. • Successful implementation in 2014 within Personal Insurance for the Suncorp, GIO and AAMI brands. • From a Commercial Insurance perspective, GIO and AAMI CTP were also delivered during the year, with Suncorp Qld CTP delivered in July 2014.

2.8. EXECUTIVE REMUNERATION OUTCOMES FOR 2014 (CONTINUED)

STI PERFORMANCE OUTCOMES FOR THE GROUP CEO IN 2014 (CONTINUED)

The actual STI outcome for 2014 for the Group CEO is represented in the table below:

	ACTUAL STI AWARDED[1]	TARGET STI[2]	STI AWARD AS % OF TARGET STI	MAX STI[3]	STI AWARD AS % OF MAXIMUM STI	% OF MAXIMUM STI AWARD FORFEITED	AMOUNT DEFERRED
	$'000	$'000		$'000			$'000
Executive director							
Patrick Snowball	3,090	3,188	97%	3,825	81%	19%	1,545

Notes

1 The value of STI awarded for 2014 represented is before any deferral.

2 Target STI is set at 125% of fixed remuneration.

3 Maximum STI is set at 150% of fixed remuneration.

STI PERFORMANCE OUTCOMES FOR SENIOR EXECUTIVES IN 2014

The Group outcome was applied to Senior Executives for 60% of STI, combined with the results for their individual business unit (accounting for 40% of STI).

The similarity in STI outcomes versus target between the Senior Executives reflects the significant weighting of the Group performance in scorecards. This is purposeful, as it is aligned to Suncorp Group's strategy of 'One Company. Many Brands.'.

Actual STI outcomes for 2014 for Senior Executives are represented in the table below:

	ACTUAL STI AWARDED[1]	TARGET STI[2]	STI AWARD AS % OF TARGET STI	MAX STI[3]	STI AWARD AS % OF MAXIMUM STI	% OF MAXIMUM STI AWARD FORFEITED	AMOUNT DEFERRED
	$'000	$'000		$'000			$'000
Senior Executives							
Anthony Day	973	1,000	97%	1,500	65%	35%	341
Gary Dransfield	826	877	94%	1,316	63%	37%	289
Clayton Herbert	795	844	94%	1,266	63%	37%	278
Steve Johnston[4]	447	475	94%	712	63%	37%	156
Anna Lenahan	607	626	97%	939	65%	35%	212
Mark Milliner	1,003	1,031	97%	1,547	65%	35%	351
John Nesbitt	1,082	1,128	96%	1,692	64%	36%	379
Matt Pancino[5]	-	-	-	-	-	-	-
Mark Reinke[4]	366	382	96%	574	64%	36%	128
Amanda Revis	754	794	95%	1,191	63%	37%	264
Jeff Smith	1,027	1,081	95%	1,466	70%	30%	359
Geoff Summerhayes	819	938	87%	1,407	58%	42%	287
Former Senior Executives							
David Foster[6]	569	666	85%	999	57%	43%	199

Notes

1 The value of STI awarded for 2014 represented is before any deferral.

2 Target STI is set at 125% of fixed remuneration for all Senior Executives excluding Mr Jeff Smith, CEO Suncorp Business Services, who has a target STI contractually set at 138.3%.

3 Maximum STI for all Senior Executives is set at 187.5% of fixed remuneration, including Mr Jeff Smith.

4 Mr Steve Johnston, Group CFO, and Mr Mark Reinke, Group Executive Marketing, were appointed KMP effective 9 December 2013. Details reflect their STI for the period they were KMP only.

5 Mr Matt Pancino, CEO Suncorp Business Services, was appointed a KMP effective 16 June 2014. No STI was awarded for 2014 in relation to his role as a KMP. STI awarded to Mr Pancino in relation to his role as Chief Information Officer, Business Technology in 2014 is not included in this table.

6 Mr David Foster ceased employment on 28 February 2014. Details reflect pro-rated STI for 2014 based on service during the performance year.

2. EXECUTIVE REMUNERATION – AUDITED (CONTINUED)

2.8. EXECUTIVE REMUNERATION OUTCOMES FOR 2014 (CONTINUED)

COMPANY PERFORMANCE AND LTI 2014 OUTCOMES

COMPANY PERFORMANCE

The table below provides an overall view of the Company's[1] performance over the five financial years to 30 June 2014:

YEAR ENDED 30 JUNE	PROFIT FOR THE YEAR[1]	CLOSING SHARE PRICE[2]	DIVIDEND P/SHARE
	$M	$	CENTS
2014	737	13.54	105
2013	496	11.92	75
2012	728	8.09	55
2011	457	8.14	35
2010	789	8.04	35

Notes

1 *Suncorp Group completed a restructure on 7 January 2011 (implementation of the Non-Operating Holding Company). Amounts prior to this restructure relate to Suncorp-Metway Limited, the ultimate parent company prior to the restructure. Note that the profit figure in the table is not the same as the underlying profit calculation used for STI purposes. Refer to section 2.6 for more information on underlying profit after tax used for STI purposes.*

2 *Closing share price at 30 June.*

LTI PERFORMANCE OUTCOMES

LTI vesting is based on relative TSR performance against the Peer Comparator Group, as determined at the commencement of each grant. (If a company in the Peer Comparator Group is acquired or delisted during the performance period, it is removed from the ASX list. Therefore there may be less than 50 companies in the ranking.)

2008 GRANT

The LTI performance hurdle for the October 2008 Grant, with a final vesting date in 2014, achieved a successful result with the grant vesting at 72%. Participants extended the performance period from the initial vesting date of 30 September 2011 for a further two years, during which twice-yearly retesting occurred. All participants accepted the vesting outcome at the final vesting point, which was the highest result of all testing points.

GROUP CEO'S 2009 GRANT

The LTI performance hurdle for Tranche 2 of the Group CEO's Initial Grant, with an initial vesting date in 2014, achieved a successful result with Tranche 2 vesting at 100%. While the Group CEO was eligible to extend the performance period for a further year when retesting would occur, Mr Snowball accepted the vesting outcome at the initial vesting date.

2010 GRANT

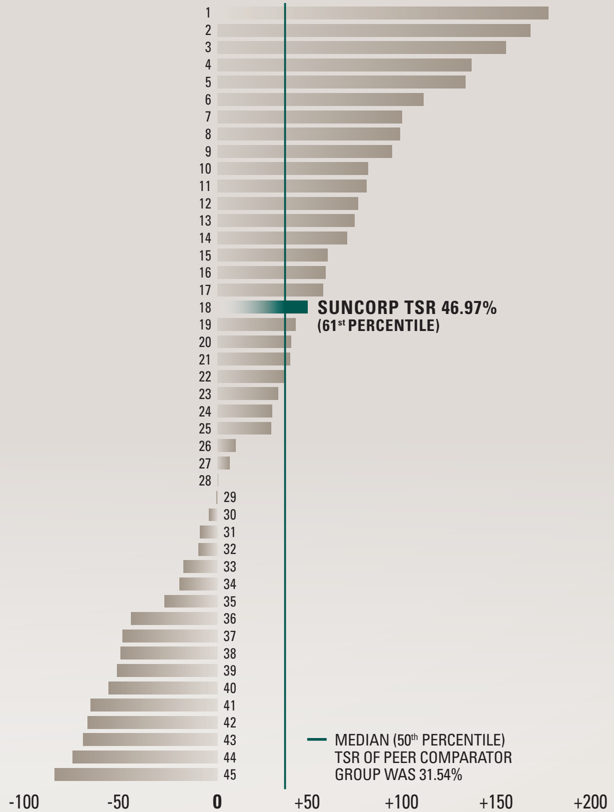
The LTI performance hurdle for the October 2010 Grant, with a final vesting date in 2014, achieved a successful vesting result at 100%. Participants were not eligible to extend the performance period.

2.8. EXECUTIVE REMUNERATION OUTCOMES FOR 2014 (CONTINUED)

OCTOBER 2008 EPSP GRANT

SUNCORP WAS 18TH BEST TSR PERFORMER (OUT OF 45) IN THE PEER COMPARATOR GROUP, SO THIS LTI GRANT VESTED

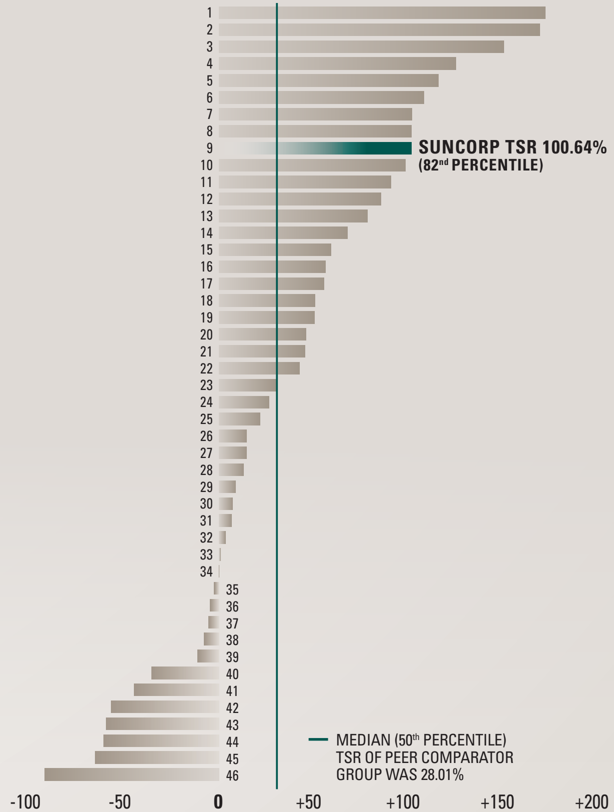
1 Peer Comparator Group TSR outcomes, ranking from highest to lowest



GCEO OCTOBER 2009 TRANCHE 2 EPSP GRANT

SUNCORP WAS 9TH BEST TSR PERFORMER (OUT OF 46) IN THE PEER COMPARATOR GROUP, SO THIS LTI GRANT VESTED

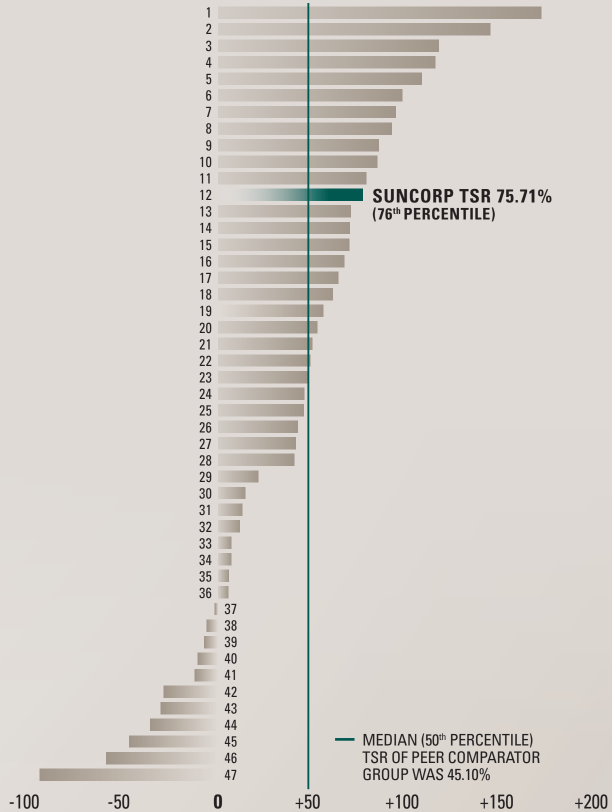
1 Peer Comparator Group TSR outcomes, ranking from highest to lowest



OCTOBER 2010 EPSP GRANT

SUNCORP WAS 12TH BEST TSR PERFORMER (OUT OF 47) IN THE PEER COMPARATOR GROUP, SO THIS LTI GRANT VESTED

1 Peer Comparator Group TSR outcomes, ranking from highest to lowest



2. EXECUTIVE REMUNERATION – AUDITED (CONTINUED)

2.8. EXECUTIVE REMUNERATION OUTCOMES FOR 2014 (CONTINUED)

The table below outlines the vesting outcome for awards tested in 2014:

				AWARDS TESTED IN 2014	
GRANT	START OF PERFORMANCE PERIOD	KMP PARTICIPANTS	PERFORMANCE PERIOD	SUNCORP GROUP RANKING TSR OUTCOME	VESTING OUTCOME
2008 Grant	1 October 2008	Anthony Day[1] David Foster Clayton Herbert[1] Steve Johnston[2] Mark Milliner Mark Reinke[2] Jeff Smith Geoff Summerhayes	Extended five-year period to 30 September 2013	61st percentile	72%
2009 Grant	1 October 2009	Patrick Snowball	Tranche 2 initial three-year period to 30 September 2013	82nd percentile	100%
2010 Grant	1 October 2010	Anthony Day Gary Dransfield[1] David Foster Clayton Herbert[1] Steve Johnston[2] Anna Lenahan[1] Mark Milliner John Nesbitt Matt Pancino[2] Mark Reinke[2] Amanda Revis Jeff Smith Geoff Summerhayes	Three-year period to 30 September 2013	76th percentile	100%

Notes

1 The participant was not a KMP at the time the grant was made, but was a KMP at the time the grant vested.

2 The participant was not a KMP at the time the grant was made, or at the time the grant vested.

2.8. EXECUTIVE REMUNERATION OUTCOMES FOR 2014 (CONTINUED)

NUMBER AND VALUE OF LTI PERFORMANCE RIGHTS GRANTED, VESTED AND FORFEITED

The movement of performance rights during 2014 and executives' current LTI grants as at 30 June 2014 are outlined in the table below:

	PERFORMANCE RIGHTS GRANTED			FAIR VALUE YET TO VEST		MARKET VALUE				VESTED IN YEAR
	NUMBER OF ORDINARY SHARES	GRANT DATE	FINANCIAL YEAR IN WHICH GRANT MAY FIRST VEST	MIN[1] $	MAX[2] $	AT DATE OF GRANT[3] $	AS AT 30 JUNE 2014[4] $	VESTED IN YEAR %	FORFEITED IN YEAR %	NUMBER OF ORDINARY SHARES
Executive director										
Patrick Snowball	300,000	1 October 2009	30 June 2014	-	-	-	-	100%	-	300,000
	300,000	1 October 2009	30 June 2015	-	2,025,000	2,646,000	4,062,000	-	-	-
	446,752	25 October 2012	30 June 2016	-	2,863,680	4,315,624	6,049,022	-	-	-
	324,396	24 October 2013	30 June 2017	-	2,312,943	4,262,563	4,392,322	-	-	-
Senior Executives										
Anthony Day	13,843	1 October 2008	30 June 2012[5]	-	-	-	-	72%	28%	9,966
	71,585	1 October 2010	30 June 2014	-	-	-	-	100%	-	71,585
	47,161	1 October 2011	30 June 2015	-	248,538	376,345	638,560	-	-	-
	40,507	1 October 2012	30 June 2016	-	240,207	372,664	548,465	-	-	-
	57,006	1 October 2013	30 June 2017	-	416,144	737,658	771,861	-	-	-
Gary Dransfield	18,942	1 October 2010	30 June 2014	-	-	-	-	100%	-	18,942
	31,441	1 October 2011	30 June 2015	-	165,694	250,899	425,711	-	-	-
	29,705	1 October 2012	30 June 2016	-	176,151	273,286	402,206	-	-	-
	53,206	1 October 2013	30 June 2017	-	388,404	688,486	720,409	-	-	-
David Foster	64,272	1 October 2008	30 June 2012[5]	-	-	-	-	72%	28%	46,275
	77,092	1 October 2010	30 June 2014	-	-	-	-	100%	-	77,092
	47,161	1 October 2011	30 June 2015[6]	-	199,965	302,793	513,762	-	20%	-
	41,587	1 October 2012	30 June 2016[6]	-	116,092	180,108	265,073	-	53%	-
	58,526	1 October 2013	30 June 2017[6]	-	58,524	103,740	108,550	-	86%	-

2. EXECUTIVE REMUNERATION – AUDITED (CONTINUED)

2.8. EXECUTIVE REMUNERATION OUTCOMES FOR 2014 (CONTINUED)

	PERFORMANCE RIGHTS GRANTED			FAIR VALUE YET TO VEST		MARKET VALUE				VESTED IN YEAR
	NUMBER OF ORDINARY SHARES	GRANT DATE	FINANCIAL YEAR IN WHICH GRANT MAY FIRST VEST	MIN[1] $	MAX[2] $	AT DATE OF GRANT[3] $	AS AT 30 JUNE 2014[4] $	VESTED IN YEAR %	FORFEITED IN YEAR %	NUMBER OF ORDINARY SHARES
Senior Executives (continued)										
Clayton Herbert	15,820	1 October 2008	30 June 2012[5]	-	-	-	-	72%	28%	11,390
	19,823	1 October 2010	30 June 2014	-	-	-	-	100%	-	19,823
	11,318	1 October 2011	30 June 2015	-	59,646	90,318	153,246	-	-	-
	32,405	1 October 2012	30 June 2016	-	192,162	298,126	438,764	-	-	-
	45,605	1 October 2013	30 June 2017	-	332,917	590,129	617,492	-	-	-
Steve Johnston	22,637	1 October 2011	30 June 2015	-	119,297	180,643	306,505	-	-	-
	23,224	1 October 2012	30 June 2016	-	137,718	213,661	314,453	-	-	-
	16,341	1 October 2013	30 June 2017	-	119,289	211,453	221,257	-	-	-
	36,284	28 May 2014	30 June 2017	-	245,643	486,206	491,285	-	-	-
Anna Lenahan	11,347	8 June 2011	30 June 2014	-	-	-	-	100%	-	11,347
	11,318	1 October 2011	30 June 2015	-	59,646	90,318	153,246	-	-	-
	14,582	1 October 2012	30 June 2016	-	86,471	134,154	197,440	-	-	-
	38,004	1 October 2013	30 June 2017	-	277,429	491,772	514,574	-	-	-
Mark Milliner	69,216	1 October 2008	30 June 2012[5]	-	-	-	-	72%	28%	49,835
	82,599	1 October 2010	30 June 2014	-	-	-	-	100%	-	82,599
	49,047	1 October 2011	30 June 2015	-	258,478	391,395	664,096	-	-	-
	43,585	1 October 2012	30 June 2016	-	258,459	400,982	590,141	-	-	-
	61,338	1 October 2013	30 June 2017	-	447,767	793,714	830,517	-	-	-
John Nesbitt	88,105	1 October 2010	30 June 2014	-	-	-	-	100%	-	88,105
	52,317	1 October 2011	30 June 2015	-	275,711	417,490	708,372	-	-	-
	48,608	1 October 2012	30 June 2016	-	288,245	447,194	658,152	-	-	-
	68,407	1 October 2013	30 June 2017	-	499,371	885,187	926,231	-	-	-
Matt Pancino	12,073	1 October 2011	30 June 2015	-	63,625	96,343	163,468	-	-	-
	10,693	1 October 2012	30 June 2016	-	63,409	98,376	144,783	-	-	-
	7,524	1 October 2013	30 June 2017	-	54,925	97,361	101,875	-	-	-

	PERFORMANCE RIGHTS GRANTED			FAIR VALUE YET TO VEST		MARKET VALUE				VESTED IN YEAR
	NUMBER OF ORDINARY SHARES	GRANT DATE	FINANCIAL YEAR IN WHICH GRANT MAY FIRST VEST	MIN[1] $	MAX[2] $	AT DATE OF GRANT[3] $	AS AT 30 JUNE 2014[4] $	VESTED IN YEAR %	FORFEITED IN YEAR %	NUMBER OF ORDINARY SHARES
Senior Executives (continued)										
Mark Reinke	9,055	1 October 2011	30 June 2015	-	47,720	72,259	122,605	-	-	-
	14,582	1 October 2012	30 June 2016	-	86,471	134,154	197,440	-	-	-
	17,101	1 October 2013	30 June 2017	-	124,837	221,287	231,548	-	-	-
	25,635	28 May 2014	30 June 2017	-	173,549	343,509	347,098	-	-	-
Amanda Revis	58,920	1 October 2010	30 June 2014	-	-	-	-	100%	-	58,920
	33,641	1 October 2011	30 June 2015	-	177,288	268,455	455,499	-	-	-
	32,405	1 October 2012	30 June 2016	-	192,162	298,126	438,764	-	-	-
	45,605	1 October 2013	30 June 2017	-	332,917	590,129	617,492	-	-	-
Jeff Smith	74,160	1 October 2008	30 June 2012[5]	-	-	-	-	72%	28%	53,395
	82,599	1 October 2010	30 June 2014	-	-	-	-	100%	-	82,599
	49,047	1 October 2011	30 June 2015	-	258,478	391,395	664,096	-	-	-
	42,127	1 October 2012	30 June 2016	-	249,813	387,568	570,400	-	-	-
	59,286	1 October 2013	30 June 2017	-	432,788	767,161	802,732	-	-	-
Geoff Summerhayes	61,800	1 October 2008	30 June 2012[5]	-	-	-	-	72%	28%	44,496
	68,832	1 October 2010	30 June 2014	-	-	-	-	100%	-	68,832
	43,262	1 October 2011	30 June 2015	-	227,991	345,231	585,767	-	-	-
	38,886	1 October 2012	30 June 2016	-	230,594	357,751	526,516	-	-	-
	54,726	1 October 2013	30 June 2017	-	399,500	708,154	740,990	-	-	-

Notes

1. *The minimum value of shares yet to vest is nil since the performance criteria or service condition may not be met and consequently the shares may not vest.*
2. *For equity-settled performance rights, the maximum value yet to vest is determined as the fair value at grant date, assuming all performance criteria are met.*
3. *Market value at date of grant is calculated as the number of shares granted multiplied by the closing share price as traded on the Australian Securities Exchange (ASX) on the date of grant. Where the date of grant falls on an ASX non-trading day, the closing share price of the preceding trading day is used.*
4. *Market value as at 30 June 2014 is calculated as the number of shares granted multiplied by the closing share price as traded on ASX on 30 June 2014.*
5. *Executives elected to extend the performance period by a further two years.*
6. *The original number of unvested performance rights awarded to Mr David Foster were pro-rated for time served in the three-year performance period up to termination. The pro-rated rights remain on foot until the end of the performance period. Residual rights were forfeited following termination.*

2. EXECUTIVE REMUNERATION – AUDITED (CONTINUED)

2.8. EXECUTIVE REMUNERATION OUTCOMES FOR 2014 (CONTINUED)

GROUP CEO PROPOSED 2015 LTI GRANT

It is proposed to make a new LTI grant to the Group CEO in October 2014 (which would be Mr Snowball's maximum LTI entitlement for the 2015 financial year).

The vesting date for this grant will be 30 September 2017. There will be no option to extend the performance period beyond this date.

On the advice of the Remuneration Committee, the Board has endorsed an award of performance rights with a face value of $4,000,000. This value takes into account the appropriate level of total remuneration, as assessed by reference to a number of factors, including the extent to which the total remuneration is market competitive. The performance rights will be granted following the 2014 Annual General Meeting if shareholders approve the proposal.

The actual number of shares linked to the performance rights to be granted will depend on the share price over the five trading days up to 1 September 2014. These performance rights will be subject to the performance hurdle, vesting schedule and potential clawback described earlier.

The Board will determine future LTI allocations annually, which will remain subject to shareholder approval.

2.9. EXECUTIVE REMUNERATION – STATUTORY DISCLOSURES

This section provides full details of total remuneration for executives for 2014 and 2013, as required under the *Corporations Act 2001*.

The following table includes LTI amounts during 2014 and 2013 which are 'share-based payment' amounts that reflect the amount required to be expensed in accordance with the AASBs.

The fair value of equity-settled performance rights is determined at grant date and amortised over the vesting period. The fair value of cash-settled performance rights is remeasured at year end, with changes in fair value recognised as an expense. The values realised in subsequent years may differ to the accounting expense reported opposite, depending on the extent to which the performance hurdles are met.

2.9. EXECUTIVE REMUNERATION – STATUTORY DISCLOSURES (CONTINUED)

EXECUTIVE REMUNERATION FOR THE YEARS ENDED 30 JUNE 2014 AND 30 JUNE 2013

	SHORT-TERM BENEFITS				POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS					
	SALARY AND FEES	CASH INCENTIVES	NON-MONETARY BENEFITS[1]	OTHER[2]	SUPERANNUATION BENEFITS	DEFERRED INCENTIVES[3]	OTHER[4]	TERMINATION BENEFITS[5]	SHARE-BASED PAYMENTS[6]	TOTAL REMUNERATION	PERFORMANCE RELATED
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	%
Executive Director											
Patrick Snowball											
2014	**2,550**	**1,545**	**38**	**-**	**-**	**1,692**	**-**	**-**	**2,061**	**7,886**	**67.2**
2013	2,550	**1,750**	67	(13)	-	1,879	-	-	1,771	8,004	67.5
Senior Executives											
Anthony Day											
2014	**769**	**632**	**6**	**(6)**	**18**	**369**	**17**	**-**	**299**	**2,104**	**61.8**
2013	734	696	6	(6)	16	399	65	-	286	2,196	62.9
Gary Dransfield											
2014	**684**	**537**	**74**	**(29)**	**18**	**308**	**-**	**-**	**219**	**1,811**	**58.1**
2013	608	559	5	26	16	313	-	-	143	1,670	60.8
Clayton Herbert											
2014	**637**	**517**	**7**	**15**	**18**	**292**	**28**	**-**	**176**	**1,689**	**58.3**
2013	584	530	6	17	16	293	39	-	136	1,621	59.2
Steve Johnston (appointed 9 December 2013)											
2014	**369**	**291**	**-**	**(3)**	**9**	**162**	**17**	**-**	**79**	**923**	**57.6**
Anna Lenahan (appointed 1 June 2013)											
2014	**483**	**395**	**7**	**2**	**18**	**221**	**-**	**-**	**123**	**1,248**	**59.2**
2013	37	37	1	4	1	20	-	-	6	106	59.4
Mark Milliner											
2014	**803**	**652**	**6**	**(27)**	**18**	**381**	**(28)**	**-**	**321**	**2,126**	**63.7**
2013	791	728	5	(20)	16	420	13	-	366	2,319	65.3

2. EXECUTIVE REMUNERATION – AUDITED (CONTINUED)

2.9. EXECUTIVE REMUNERATION – STATUTORY DISCLOSURES (CONTINUED)

EXECUTIVE REMUNERATION FOR THE YEARS ENDED 30 JUNE 2014 AND 30 JUNE 2013 (CONTINUED)

	SHORT-TERM BENEFITS				POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS					
	SALARY AND FEES	CASH INCENTIVES	NON-MONETARY BENEFITS[1]	OTHER[2]	SUPERANNUATION BENEFITS	DEFERRED INCENTIVES[3]	OTHER[4]	TERMINATION BENEFITS[5]	SHARE-BASED PAYMENTS[6]	TOTAL REMUNERATION	PERFORMANCE RELATED
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	%
Senior Executives (continued)											
John Nesbitt											
2014	960	703	15	-	18	412	-	-	352	2,460	59.6
2013	884	813	9	17	16	468	-	-	836	3,043	69.6
Matt Pancino (appointed 16 June 2014)[7]											
2014	26	-	-	2	-	-	-	-	3	30	8.4
Mark Reinke (appointed 9 December 2013)											
2014	297	238	2	(12)	9	133	5	-	55	726	58.6
Amanda Revis											
2014	604	490	6	-	18	286	-	-	232	1,637	61.6
2013	584	540	5	9	16	311	-	-	211	1,676	63.4
Jeff Smith											
2014	764	668	6	41	18	392	13	-	314	2,216	62.0
2013	764	767	6	6	16	444	13	-	369	2,385	66.2
Geoff Summerhayes											
2014	725	532	11	13	18	313	15	-	283	1,910	59.1
2013	704	618	10	14	16	356	60	-	294	2,072	61.2
Former Senior Executives											
David Foster (ceased employment 28 February 2014)											
2014	519	370	3	-	13	221	-	767	202	2,095	37.8
2013	754	910	3	-	16	516	12	-	348	2,559	69.3

2.10 EMPLOYMENT AGREEMENTS – SUMMARY

The Group CEO, Mr Patrick Snowball, and Senior Executives are employed by Suncorp Staff Pty Limited **(SSPL)**, a wholly-owned subsidiary of the Company. The key terms of the Group CEO's employment agreement (which were effective from 1 September 2011) are outlined on the following page. Senior Executives are employed under a standard employment agreement with no fixed term. The agreements may be terminated at any time provided that the relevant notice period is given. In the event of misconduct, the Group may terminate the agreement immediately, without notice (or any payment in lieu).

SSPL may make a payment in lieu of notice of all or part of any notice period, calculated based on an individual's fixed remuneration less superannuation contributions (subject to it not being prohibited by law from making such a payment). Payment on termination will include payment of accrued annual leave and, where appropriate, long service leave. Where a change of control of Suncorp Group Limited occurs, for the Group CEO deferred STI and a pro-rata award of current year STI may be awarded, and unvested LTI may vest pro-rata (subject to the satisfaction of applicable performance measures). For Senior Executives, the impact of a change of control on remuneration is at Board discretion.

Notes

1 *Non-monetary benefits represent costs met by Suncorp Group for airfares, insurances and relocation-related items.*

2 *Other short-term benefits represent annual leave accrued during the year.*

3 *The amount of deferred incentives awarded to the Group CEO and Senior Executives are recognised in full as there are no performance or service conditions required.*

4 *Other long-term benefits represent long service leave accrued during the year.*

5 *Termination benefits are paid in accordance with contractual commitments. See section 2.10.*

6 *Equity-settled performance rights issued as LTI are expensed to the profit or loss based on their fair value at grant date over the period from grant date to vesting date. The fair value is assessed using a Monte-Carlo model and reflects the fact that an individual's entitlement to the shares is dependent on relative TSR performance. The assumptions underpinning these valuations are set out in note 12 to the financial statements.*

7 *For Mr Matt Pancino, employer superannuation contributions for quarter four of 2014 reached the maximum prior to his appointment as a Senior Executive. Mr Pancino was not awarded any STI for 2014 in relation to his role as a Senior Executive.*

2. EXECUTIVE REMUNERATION – AUDITED (CONTINUED)

2.10 EMPLOYMENT AGREEMENTS – SUMMARY (CONTINUED)

A summary is shown in the table below:

EMPLOYEE AGREEMENT	AGREEMENT DURATION	NOTICE PERIOD/ TERMINATION PAYMENT	LONG-TERM INCENTIVE (LTI)	SHORT-TERM INCENTIVE (STI)	TREATMENT OF STI ON TERMINATION	TREATMENT OF LTI ON TERMINATION
Group CEO, Mr Patrick Snowball	Unlimited duration	**Employer-initiated termination** Incapacity: 9 months Poor performance: 3 months Misconduct: None In all other cases: 12 months' notice (or payment in lieu) **Employee-initiated termination:** 6 months	Proposed October 2014 award of performance rights equivalent to $4,000,000 maximum value, subject to performance against hurdle over a three-year vesting period.	• Target: 125% of fixed remuneration • Maximum: 150% of fixed remuneration • Deferral: 50% of total STI awarded Included in contractual terms is a specific clause in relation to clawback of deferred STI.	**Employer-initiated and employee-initiated termination** Board discretion: • cash STI may be received, subject to performance • deferred STI award will (generally) vest after the termination date at the end of the original deferral period and will be subject to potential clawback at such time, unless the Board exercises its discretion otherwise. For misconduct or poor performance, deferred STI award is forfeited.	For misconduct or poor performance, all unvested awards are forfeited. For other cases, the Board has the discretion to determine that: • the number of any unvested LTI performance rights under the 2012 Grant will be pro-rated based on the number of months the Group CEO worked in the performance period, as a proportion of the 36 months making up the performance period; and • the Initial Grant and the pro-rated number of rights under the 2012 Grant will continue until the relevant vesting dates, subject to the performance measures.
Senior Executives	Unlimited duration	**Employer-initiated termination** Redundancy[1]: 12 months (including pay in lieu of notice) Misconduct: none All other cases: 12 months **Employee-initiated termination:** 3 months	Maximum face value grant: 100% of annual fixed remuneration	• Target: 125% of fixed remuneration[2] • Maximum: 187.5% of fixed remuneration • Deferral: 35% of total STI awarded	Misconduct: No cash STI will be awarded and all unvested deferral is forfeited. Resignation or redundancy: • any cash STI award may be received, subject to performance, at Board discretion • any deferred STI award will generally vest after the termination date at the end of the original deferral period and will be subject to potential clawback at such time, unless the Board exercises its discretion otherwise. All other cases: Board discretion	**Qualifying reason[3]** The Board has the discretion to determine that any unvested LTI performance rights will continue until the relevant vesting dates and remain subject to the performance measures, except that any allocation made will be pro-rated to reflect the proportion of the performance period actually worked, unless otherwise determined by the Board. **Non-qualifying reason** All unvested awards are forfeited.

Notes

1 Exception: Mr Geoff Summerhayes, CEO Suncorp Life: greater of 12 months or total benefit under the redundancy policy (maximum 75 weeks including notice)

2 Exception: Mr Jeff Smith, CEO Suncorp Business Services: STI target contractually set at 138.3% of fixed remuneration

3 Qualifying reasons include death, total and permanent disablement, retirement, redundancy as a result of a Suncorp Group restructure, or any other reason as determined by the Board

3. NON-EXECUTIVE DIRECTOR ARRANGEMENTS – AUDITED

3.1 REMUNERATION STRUCTURE

REMUNERATION POLICY

The remuneration arrangements for non-executive directors are designed to ensure Suncorp Group attracts and retains suitably qualified and experienced directors. Arrangements are based on a number of factors, including requirements of the role, the size and complexity of Suncorp Group and market practices.

FEE STRUCTURE

Non-executive directors receive fixed remuneration only, paid as directors' fees, and they do not participate in performance-based incentive plans.

Shareholders have approved a maximum aggregate total remuneration limit of $3,500,000 for all non-executive directors (including Superannuation Guarantee Contributions (**SGC**)).

Suncorp Group Limited pays the SGC on behalf of all eligible non-executive directors. If a non-executive director ceases to be eligible for SGC payments, the equivalent amount is paid in fees.

Non-executive directors' fees have remained unchanged since 1 July 2011.

The approved non-executive director fee structure for 2014 and 2013 is set out in the table below.

	2013 AND 2014 FEE PER ANNUM (P.A.)[1] $'000					
COMMITTEE	BOARD	AUDIT	RISK	REMUNERATION	OTHER[2]	TOTAL ANNUAL FEE AT 30 JUNE 2014
CHAIRMAN FEES[3] (C)	570	50	50	40	50	
MEMBER FEES (✓)	207	25	25	20		
Dr Zygmunt Switkowski AO	C	Ex officio[4]	Ex officio[4]	Ex officio[4]		570
Ilana Atlas	✓		✓	C		272
William Bartlett[5]	✓	✓	✓	✓		277
Michael Cameron	✓			✓		227
Audette Exel AO	✓		✓			232
Ewoud Kulk	✓		C	✓	C	327
Dr Douglas McTaggart[6]	✓	C				257
Geoffrey Ricketts CNZM	✓	✓			C	282

Notes

1 Fees exclude SGC.

2 An additional fee of $50,000 p.a. is payable for the Chairmanship of AA Insurance Limited (Mr Kulk) and Vero Insurance New Zealand Limited Board and other New Zealand insurance companies (Mr Ricketts CNZM).

3 Includes base fee.

4 Dr Switkowski does not receive fees for attending Audit, Risk and Remuneration Committee meetings as an ex officio member.

5 Mr Bartlett ceased Chairmanship of the Audit Committee effective 20 February 2014, but remains a member of the committee.

6 Dr McTaggart was appointed Chairman of the Audit Committee effective 20 February 2014.

The Group's minimum shareholding requirement introduced in October 2013 (refer to section 2.4) requires non-executive directors to hold a minimum number of ordinary shares in the Company with a value at least equal to 100% of one year's pre-tax (gross) base fees by October 2017.

Several non-executive directors currently hold sufficient shares to meet the requirement. Detailed share ownership information for the non-executive directors is shown in section 4.

3.2 NON-EXECUTIVE DIRECTORS' SHARE PLAN

The Non-Executive Directors' Share Plan, established in November 2001 following shareholder approval, facilitates the purchase of shares by non-executive directors by nominating, on a voluntary basis, a percentage of their pre-tax remuneration to be used to purchase the Company's shares on-market at pre-determined dates. The purpose of the Plan is to provide Suncorp Group equity exposure for non-executive directors.

The shares are fully vested and if acquired prior to 1 July 2009 can be held in the plan for up to 10 years from the date of purchase or until retirement, whichever occurs first. Shares acquired after 1 July 2009 can be held for up to seven years.

3. NON-EXECUTIVE DIRECTOR ARRANGEMENTS – AUDITED (CONTINUED)

3.3 NON-EXECUTIVE DIRECTORS' REMUNERATION DISCLOSURES

Details of non-executive directors' remuneration for 2014 and 2013 are set out in the table below:

	SHORT-TERM BENEFITS		POST-EMPLOYMENT BENEFITS	
	SALARY AND FEES	NON-MONETARY BENEFITS[1]	SUPERANNUATION BENEFITS	TOTAL[2]
	$'000	$'000	$'000	$'000
NON-EXECUTIVE DIRECTORS IN OFFICE AS AT 30 JUNE 2014				
Dr Zygmunt Switkowski AO				
2014	**570**	**1**	**53**	**624**
2013	570	1	51	622
Ilana Atlas				
2014	**272**	**1**	**25**	**298**
2013	272	1	24	297
William Bartlett				
2014	**293**	**1**	**27**	**321**
2013	302	1	27	330
Michael Cameron[3]				
2014	**227**	**1**	**21**	**249**
2013	212	1	19	232
Audette Exel AO				
2014	**232**	**1**	**21**	**254**
2013	216	1	20	237
Ewoud Kulk				
2014	**327**	**1**	**30**	**358**
2013	327	1	29	357
Dr Douglas McTaggart				
2014	**241**	**1**	**21**	**263**
2013	232	1	21	254
Geoffrey Ricketts CNZM				
2014	**282**	**1**	**26**	**309**
2013	282	1	25	308

Notes

1. *The non-executive directors receive a non-monetary benefit in relation to a proportion of the directors' and officers' insurance policy premium pro-rated for time in office. The amounts for both the current and prior year are below $1,000 per individual.*
2. *None of the remuneration paid to non-executive directors is performance-based.*
3. *Since 25 August 2012, Mr Michael Cameron's fees (exclusive of superannuation) have been paid directly to GPT Management Holdings Limited.*

4. RELATED PARTY TRANSACTIONS – AUDITED

Related party transactions have been included in the Remuneration Report from this year in accordance with the requirements of the *Corporations Act 2001*. In prior years these transactions have been disclosed in the notes to the financial statements, in accordance with the AASBs.

4.1 LOANS TO KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

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

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

	2014				2013			
	BALANCE 1 JULY 2013	BALANCE 30 JUNE 2014	INTEREST CHARGED DURING THE YEAR	HIGHEST BALANCE DURING THE YEAR	BALANCE 1 JULY 2012	BALANCE 30 JUNE 2013	INTEREST CHARGED	HIGHEST BALANCE DURING THE YEAR
	$000	$000	$000	$000	$000	$000	$000	$000
Senior Executives								
A Lenahan	-	292	8	299	-	-	-	-
M Milliner	-	-	-	-	1,089	-	42	1,347
M Reinke	-	834	26	956	-	-	-	-
A Revis	1,132	4,250	115	5,389	1,475	1,132	69	1,485
J Smith	900	900	45	900	900	900	50	900
Former Senior Executives								
D Foster	-	-	7	286	-	-	-	-

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

	2014			2013		
	KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	TOTAL	KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	TOTAL
	$000	$000	$000	$000	$000	$000
Opening balance	2,032	-	2,032	3,464	-	3,464
Closing balance	5,302	974	6,276	2,032	-	2,032
Interest charged	185	17	202	161	-	161
	NUMBER	**NUMBER**	**NUMBER**	**NUMBER**	**NUMBER**	**NUMBER**
Number of individuals at 30 June	3	2	5	2	-	2

4.2 MOVEMENT IN SHARES HELD BY KEY MANAGEMENT PERSONNEL

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

4. RELATED PARTY TRANSACTIONS – AUDITED (CONTINUED)

4.2 MOVEMENT IN SHARES HELD BY KEY MANAGEMENT PERSONNEL (CONTINUED)

The movement during the reporting period in the number of ordinary shares in the Company held directly, indirectly or beneficially, by each of the KMP, including their related parties, is as follows:

	BALANCE 1 JULY 2013		1 JULY 2013–30 JUNE 2014			BALANCE 30 JUNE 2014	
	ORDINARY SHARES	PERFORMANCE RIGHTS[1]	RECEIVED AS COMPENSATION[2]	PURCHASES (SALES)	OTHER CHANGES	ORDINARY SHARES	PERFORMANCE RIGHTS[1]
	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER
Directors							
Executive director							
P Snowball	375,333	1,046,752	324,396	(200,000)	-	475,333	1,071,148
Non-executive directors							
Dr Z Switkowski AO	201,599	-	-	80,000	-	281,599	-
I Atlas	11,635	-	-	7,520	-	19,155	-
W Bartlett	26,968	-	-	-	-	26,968	-
M Cameron	5,000	-	-	-	-	5,000	-
A Exel AO	989	-	-	4,200	-	5,189	-
E Kulk	20,173	-	-	-	-	20,173	-
Dr D McTaggart	11,000	-	-	754	-	11,754	-
G Ricketts CNZM	26,349	-	-	1,808	-	28,157	-
Senior Executives							
A Day	16,828	173,096	57,006	29	(3,877)	98,408	144,674
G Dransfield	-	80,088	53,206	-	-	18,942	114,352
C Herbert	62,239	79,366	45,605	-	9,685	107,567	89,328
A Lenahan	14,000	37,247	38,004	6,000	-	31,347	63,904
M Milliner	78,671	244,447	61,338	(82,599)	(19,381)	128,506	153,970
J Nesbitt	313,016	189,030	68,407	(233,016)	-	168,105	169,332
A Revis	17,371	124,966	45,605	(58,895)	-	17,396	111,651
J Smith	201,913	247,933	59,286	-	(20,765)	337,907	150,460
G Summerhayes	-	212,780	54,726	(68,832)	(17,304)	44,496	136,874
Senior Executives appointed during 2014							
S Johnston[3]	-	-	36,284	-	95,723	33,521	98,486
M Pancino[4]	-	-	-	-	51,794	21,504	30,290
M Reinke[3]	-	-	25,635	-	86,174	45,436	66,373
Former Senior Executives							
D Foster[5]	25,542	230,112	58,526	(148,909)	(165,271)	-	-

Notes

1 *The number of performance rights disclosed for the Group CEO and Senior Executives represents performance rights held by the trustee of the LTI Plan and therefore beneficial entitlement to some of those shares remains subject to satisfaction of specified performance hurdles. The 1 October 2008 Grant vested at 72%, Tranche 2 of the Group CEO's October 2009 Grant vested at 100% and the 1 October 2010 Grant vested at 100% during the 2014 financial year.*

2 *For the Group CEO and Senior Executives, compensation includes shares held under the LTI Plan. These shares are recorded in the Company's share register in the name of the LTI Plan trustee and vest only when performance hurdles are met.*

3 *Appointed 9 December 2013. Shares and performance rights held upon appointment are shown in 'Other changes'.*

4 *Appointed 16 June 2014. Shares and performance rights held upon appointment are shown in 'Other changes'.*

5 *Terminated 28 February 2014. Shares and performance rights held upon termination are shown in 'Other changes'. Of the shares and performance rights held on leaving office, 65,538 performance rights remained subject to performance hurdles.*

4.2 MOVEMENT IN SHARES HELD BY KEY MANAGEMENT PERSONNEL (CONTINUED)

The movement during 2013 in the number of ordinary shares in the Company held directly, indirectly or beneficially, by each of the KMP, including their related parties, is as follows:

	BALANCE 1 JULY 2012		1 JULY 2012–30 JUNE 2013			BALANCE 30 JUNE 2013	
	ORDINARY SHARES	PERFORMANCE RIGHTS[1]	RECEIVED AS COMPENSATION[2]	PURCHASES (SALES)	OTHER CHANGES	ORDINARY SHARES	PERFORMANCE RIGHTS[1]
	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER
Directors							
Executive director							
P Snowball	87,333	900,000	446,752	-	(12,000)	375,333	1,046,752
Non-executive directors							
Dr Z Switkowski AO	201,599	-	-	-	-	201,599	-
I Atlas	6,370	-	-	5,265	-	11,635	-
W Bartlett	26,968	-	-	-	-	26,968	-
M Cameron	-	-	-	5,000	-	5,000	-
A Exel AO	-	-	-	989	-	989	-
E Kulk	20,173	-	-	-	-	20,173	-
Dr D McTaggart	-	-	-	11,000	-	11,000	-
G Ricketts CNZM	24,850	-	-	1,499	-	26,349	-
Senior Executives							
A Day	396	159,224	40,507	24	(10,227)	16,828	173,096
G Dransfield	-	70,519	29,705	(19,330)	(806)	-	80,088
D Foster	25,542	303,214	41,587	(78,671)	(36,018)	25,542	230,112
C Herbert[3]	-	-	32,405	-	109,200	62,239	79,366
A Lenahan[4]	-	-	14,582	-	36,665	14,000	37,247
M Milliner	79,569	318,070	43,585	(79,569)	(38,537)	78,671	244,447
J Nesbitt	-	453,438	48,608	-	-	313,016	189,030
A Revis	5,350	92,561	32,405	12,021	-	17,371	124,966
J Smith	117,131	331,386	42,127	492	(41,290)	201,913	247,933
G Summerhayes	-	247,063	38,886	(70,242)	(2,927)	-	212,780

Notes

1 *The number of performance rights disclosed for the Group CEO and Senior Executives represents performance rights held by the trustees of the LTI Plans and therefore beneficial entitlement to some of those shares remains subject to satisfaction of specified performance hurdles. The 1 October 2009 Grant vested at 96% and the 3 May 2010 Grant vested at 100% during the 2013 financial year.*

2 *For the Group CEO and Senior Executives, compensation includes shares held under the LTI plan. These shares are recorded in the Company's share register in the name of the trustee of the LTI plan and vest only when performance hurdles are met.*

3 *Appointed 1 July 2012. Shares and performance rights held upon appointment are shown in 'Other changes'.*

4 *Appointed 1 June 2013. Shares and performance rights held upon appointment are shown in 'Other changes'.*

4. RELATED PARTY TRANSACTIONS – AUDITED (CONTINUED)

4.2 MOVEMENT IN SHARES HELD BY KEY MANAGEMENT PERSONNEL (CONTINUED)

Movements in the number of convertible preference shares held directly, indirectly or beneficially by any of the KMP, including their related parties, are noted in the table below:

	2014			2013		
	BALANCE 1 JULY 2013	PURCHASES (SALES)	BALANCE 30 JUNE 2014	BALANCE 1 JULY 2012	PURCHASES (SALES)	BALANCE 30 JUNE 2013
	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER
SUNPC[1]						
Non-executive directors						
E Kulk	3,000	-	3,000	-	3,000	3,000
Senior Executives						
C Herbert	400	-	400	-	400	400
A Lenahan	2,000	-	2,000	-	2,000	2,000
A Revis	1,500	-	1,500	-	1,500	1,500
SBKPB[2]						
Senior Executives						
D Foster	-	-	-	90	(90)	-
SUNPE[3]						
Non-executive directors						
W Bartlett	-	323	323	-	-	-
Senior Executives						
C Herbert	-	323	323	-	-	-

Notes
1 The Company issued SUNPC on 6 November 2012.
2 The Company repurchased SBKPB from SBKPB holders on the mandatory conversion date of 14 June 2013.
3 The Company issued SUNPE on 8 May 2014.

4.3 OTHER KEY MANAGEMENT PERSONNEL TRANSACTIONS

FINANCIAL INSTRUMENT TRANSACTIONS

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

TRANSACTIONS OTHER THAN FINANCIAL INSTRUMENT TRANSACTIONS

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

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

J. E. Switkowski

Dr Zygmunt E Switkowski AO
Chairman

Patrick J R Snowball
Managing Director
and Group CEO

13 August 2014

Lead Auditor's
Independence Declaration

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001* TO THE DIRECTORS OF SUNCORP GROUP LIMITED

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2014 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

P.M. Reid

Paul Reid

Partner
Brisbane

13 August 2014

Corporate Governance

INTRODUCTION

The Suncorp Group Board of Directors (**Board**) believes high standards of corporate governance are essential for sustainable long-term performance and creating value for shareholders. The Board is committed to delivering a robust governance system and fosters a culture that values ethical behaviour and integrity.

Throughout the financial year ended 30 June 2014 and at the date of this Statement, the Board believes Suncorp Group has complied with the second edition of the ASX Corporate Governance Council's (**ASXCGC**) Principles and Recommendations. The Board has early adopted, and is compliant with, the third edition of the ASXCGC Principles and Recommendations, with effect from 1 August 2014.

CORPORATE GOVERNANCE FRAMEWORK

The Board is responsible for the Suncorp Group's governance framework which operates under policies, charters and practices. The Board's core activities are carried out in its scheduled meetings and the meetings of the four Board committees.

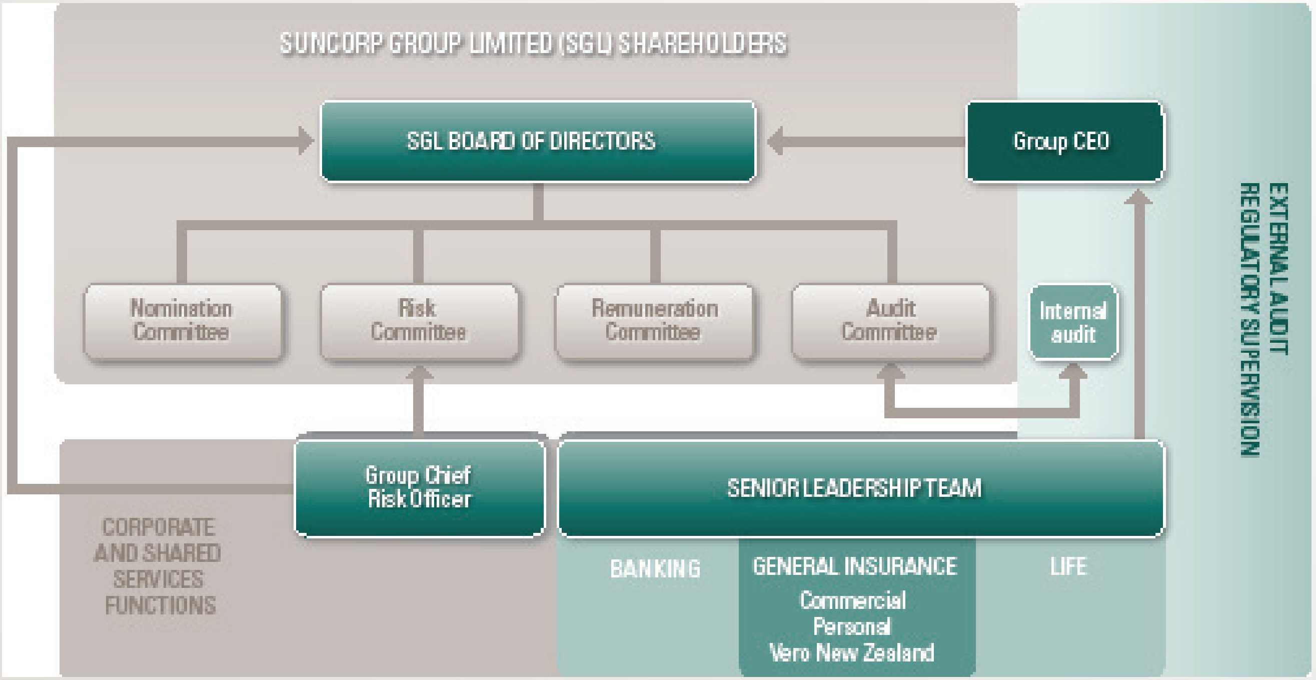
Suncorp Group's corporate governance framework guides how authority within Suncorp Group is exercised and plays a key role in supporting business operations and the management of risk. The key aspects of the Suncorp Group's corporate governance framework and practices for the 2013/14 financial year are outlined in the Corporate Governance Statement, available on the website at **suncorpgroup.com.au/about-us/governance**.

The Board keeps the governance system under regular review to ensure it reflects changes in law and keeps pace with best practice developments in corporate governance.

The Board represents and is accountable to shareholders for strong, sustainable financial performance and shareholder returns. Its key function is to direct Suncorp Group's affairs in a manner that creates and delivers long-term value by governing the Suncorp Group's businesses effectively to meet the interests of shareholders and other stakeholders.

The Board monitors financial performance and the performance of executive management in the delivery of the agreed objectives and targets. It determines the most appropriate corporate governance and remuneration practices for Suncorp Group, approving key corporate policies and charters, and strategy and business plans to achieve the Group's strategic objective of 'creating brighter futures' for stakeholders.

Suncorp Group's robust corporate governance framework also provides guidance for effective decision-making in all business areas through strategic and operational planning, the Enterprise Risk Management Framework, financial management and external reporting.



BOARD COMMITTEES

The Board has established four committees, each with its own charter:

- Audit Committee
- Risk Committee
- Nomination Committee
- Remuneration Committee.

The Board committees play a crucial part in the governance framework.

BOARD COMPOSITION

The current Board comprises eight non-executive directors including the Board Chairman, and the Group CEO who is an executive director. Information about the directors is set out on pages 2 to 4.

The Board considers its current members have an appropriate balance of skills, experience and independence to enable the Board to discharge its responsibilities and deliver the Company's strategy and corporate objectives.

INDEPENDENCE OF THE CHAIRMAN AND NON-EXECUTIVE DIRECTORS

The Board considers all of the current non-executive directors to be independent, including Dr Zygmunt Switkowski AO, who is the Board Chairman.

COMPANY SECRETARIES

The Company Secretaries are the Group Executive Group General Counsel and Company Secretary, Ms Anna Lenahan, and the Head of Company Secretariat, Mr Darren Solomon.

RISK MANAGEMENT

Acceptance of risk is an integral part of business at Suncorp Group. Risk exists in every aspect of Suncorp Group business and throughout its operating environment. Controllable risks originate from within the business, such as risk culture, behaviour, processes and systems. The less controllable risks are those that originate externally, such as economic, financial, regulatory and competitive risk.

Risk at Suncorp is assumed within a calculated and controlled framework that assigns clear lines of responsibility for risk, represented by three 'lines of defence'.

Risk is defined as any threat to the achievement of Suncorp Group's objectives and the Board recognises that an effective system of risk management plays a critical role in the setting and achievement of Suncorp Group's strategic objectives.

The Board places great importance on Suncorp Group's risk management function being a robust, independent function with responsibility for all material business risk acceptance decisions. Suncorp Group's risk function operates within a strong risk management framework that matured during 2013/14 and will evolve further in 2014/15 as the focus on risk continues. The strength of Suncorp's risk management framework and capability was formally recognised in 2013 when Standard & Poor's upgraded the enterprise risk management rating from 'adequate' to 'adequate with strong risk controls'. Suncorp Group continually assesses the risks it faces in order to take the appropriate action to manage them, within the Board's approved risk appetite.

'Risk appetite' is the nature and degree of risk the Board is willing to accept overall, and for each material risk type, in pursuit of the strategic objectives. The Board seeks to only take on those risks that fall within this stated risk appetite and to manage those risks to achieve an optimal overall return.

The Enterprise Risk Management Framework is designed to support this approach and to enhance the risk culture and employees' risk decision-making. The Enterprise Risk Management Framework lays the foundation for all risk management processes, embeds Board-approved Risk Management Policy and demonstrates the Board's and management's commitment to effective risk management as a key element of business success.

COMMUNICATION WITH SHAREHOLDERS

Suncorp Group uses a range of methods to communicate with shareholders, including written and electronic communications.

The investors section of the website provides access to live webcasts of key investor briefings (including the Annual General Meeting in October).

THE CORPORATE GOVERNANCE STATEMENT IS ONLINE.

More information about the Suncorp Group Board and management, corporate governance policies and practices, risk management and the Suncorp Group Enterprise Risk Management Framework, and corporate reporting is in the Corporate Governance Statement available on the website at suncorpgroup.com.au/about-us/governance.

Information on financial performance for 2013/14 and a description of the key risks which could adversely impact the Suncorp Group's financial performance or position, and matters of corporate responsibility, is discussed in the Directors' Report and in the 2013/14 Annual Review. All reports are available on the website at suncorpgroup.com.au/investors/reports.

Consolidated statement of comprehensive income

for the financial year ended 30 June 2014

CONSOLIDATED	NOTE	2014	2013
		$M	$M
Revenue			
Insurance premium income		9,707	9,134
Reinsurance and other recoveries income		1,577	1,538
Banking interest income		2,972	3,420
Investment revenue	9.1	1,569	1,523
Other income	9.2	545	571
Total revenue		16,370	16,186
Expenses			
General Insurance claims expense		(6,595)	(6,264)
Life insurance claims expense and movement in policyowner liabilities		(1,450)	(1,142)
Outwards reinsurance premium expense		(1,124)	(1,203)
Interest expense		(2,029)	(2,477)
Fees and commissions expense		(756)	(700)
Operating expenses	10	(2,757)	(2,732)
Losses on Banking loans, advances and other receivables	7.5.2, 7.5.3	(137)	(902)
Impairment loss on goodwill and intangible assets	18	(347)	-
Total expenses		(15,195)	(15,420)
Profit before income tax		1,175	766
Income tax expense	11.1	(438)	(270)
Profit for the financial year		737	496
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in fair value of cash flow hedges	23	47	61
Net change in fair value of available-for-sale financial assets	23	23	-
Exchange differences on translation of foreign operations	23	98	68
Income tax expense	11.3.2	(22)	(18)
		146	111
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains on defined benefit plans	13.2	31	20
Income tax expense	11.3.2	(9)	(6)
		22	14
Total other comprehensive income		168	125
Total comprehensive income for the financial year		905	621
Profit for the financial year attributable to:			
Owners of the Company		730	491
Non-controlling interests		7	5
Profit for the financial year		737	496
Total comprehensive income for the financial year attributable to:			
Owners of the Company		898	616
Non-controlling interests		7	5
Total comprehensive income for the financial year		905	621
		CENTS	CENTS
Earnings per share:			
Basic earnings per share	3	57.11	38.42
Diluted earnings per share	3	57.11	38.42

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

Consolidated statement of financial position

as at 30 June 2014

CONSOLIDATED	NOTE	2014	2013
		$M	$M
Assets			
Cash and cash equivalents		895	1,394
Receivables due from other banks		927	1,460
Trading securities	7.2	1,593	3,462
Derivatives	14	301	627
Investment securities	15.2	26,915	26,183
Banking loans, advances and other receivables	7.4	49,781	47,999
General Insurance assets	6.5	6,603	7,158
Life assets	8.5	862	666
Property, plant and equipment	16	205	212
Deferred tax assets	11.3.1	183	64
Other assets	17	444	512
Goodwill and intangible assets	18	5,720	6,168
Total assets		94,429	95,905
Liabilities			
Payables due to other banks		81	213
Deposits and short-term borrowings	7.6	43,579	43,547
Derivatives	14	625	1,039
Payables and other liabilities	19	2,331	2,478
Current tax liabilities	11.2	379	2
General Insurance liabilities	6.6	14,173	14,496
Life liabilities	8.6	6,374	5,799
Deferred tax liabilities	11.3.1	58	47
Managed funds units on issue		118	8
Securitisation liabilities	7.7	3,581	4,777
Debt issues	7.8	6,831	7,291
Subordinated notes	20.2	1,557	1,646
Preference shares	21.2	943	579
Total liabilities		80,630	81,922
Net assets		13,799	13,983
Equity			
Share capital	22	12,682	12,682
Reserves	23	206	40
Retained profits		885	1,245
Total equity attributable to owners of the Company		13,773	13,967
Non-controlling interests		26	16
Total equity		13,799	13,983

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

Consolidated statement of changes in equity
for the financial year ended 30 June 2014

CONSOLIDATED	NOTE	EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY				NON-CONTROLLING INTERESTS	TOTAL EQUITY
		SHARE CAPITAL	RESERVES	RETAINED PROFITS	TOTAL		
		$M	$M	$M	$M	$M	$M
Balance as at 1 July 2012		12,672	(55)	1,493	14,110	17	14,127
Profit for the financial year		-	-	491	491	5	496
Total other comprehensive income		-	111	14	125	-	125
Total comprehensive income		-	111	505	616	5	621
Transactions with owners, recorded directly in equity							
Dividends paid	4	-	-	(769)	(769)	(6)	(775)
Share-based payments	22	(5)	-	-	(5)	-	(5)
Treasury share movements	22	15	-	-	15	-	15
Transfers		-	(16)	16	-	-	-
Balance as at 30 June 2013		12,682	40	1,245	13,967	16	13,983
Profit for the financial year		-	-	730	730	7	737
Total other comprehensive income		-	146	22	168	-	168
Total comprehensive income		-	146	752	898	7	905
Transactions with owners, recorded directly in equity							
Dividends paid	4	-	-	(1,088)	(1,088)	(6)	(1,094)
Share-based payments	22	(20)	-	(4)	(24)	-	(24)
Treasury share movements	22	20	-	-	20	-	20
Increase in non-controlling interests without a change in control		-	-	-	-	9	9
Transfers		-	20	(20)	-	-	-
Balance as at 30 June 2014		12,682	206	885	13,773	26	13,799

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

Consolidated statement of cash flows

for the financial year ended 30 June 2014

CONSOLIDATED	NOTE	2014 $M	2013 $M
Cash flows from operating activities			
Premiums received		10,928	10,435
Claims paid		(9,038)	(8,985)
Interest received		3,858	4,153
Interest paid		(2,096)	(2,536)
Reinsurance and other recoveries received		2,406	2,260
Outwards reinsurance premiums paid		(1,244)	(1,427)
Other operating income received		531	849
Dividends received		76	110
Operating expenses paid		(3,512)	(3,286)
Income tax paid		(189)	(249)
Net decrease (increase) in operating assets			
Trading securities		1,854	1,340
Banking loans, advances and other receivables		(1,919)	(1,611)
Net increase in operating liabilities			
Deposits and short-term borrowings		32	2,862
Net cash from operating activities	25.1	1,687	3,915
Cash flows from (used in) investing activities			
Proceeds from sale of investment securities		18,730	21,470
Payments for purchase of investment securities		(18,724)	(22,144)
Proceeds from disposal of property, plant and equipment and software		17	14
Proceeds from other investing activities		110	98
Payments for other investing activities		(131)	(122)
Net cash from (used in) investing activities		2	(684)
Cash flows used in financing activities			
Net decrease in borrowings		(1,766)	(2,734)
Proceeds from subordinated notes issue		-	414
Payment on call of subordinated notes		(79)	(510)
Proceeds from preference share issue		400	560
Payments for preference share redemption		(30)	(379)
Proceeds from other financing activities		11	-
Payments for other financing activities		(41)	(18)
Dividends paid on ordinary shares to owners of the Company		(1,088)	(769)
Net cash used in financing activities		(2,593)	(3,436)
Net decrease in cash and cash equivalents		(904)	(205)
Cash and cash equivalents at the beginning of the financial year		2,641	2,846
Effect of exchange rate fluctuations on cash held		4	-
Cash and cash equivalents at the end of the financial year	25.2	1,741	2,641

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

Notes to the consolidated financial statements
for the financial year ended 30 June 2014

1. REPORTING ENTITY

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

The consolidated financial statements for the financial year ended 30 June 2014 comprise the Company and its subsidiaries (the **Suncorp Group** or the **Group**) and were authorised for issue by the Board of Directors on 13 August 2014.

2. BASIS OF PREPARATION

The Suncorp Group is a for-profit entity and its consolidated financial statements have been prepared on the historical cost basis unless the application of fair value measurements are required by the relevant accounting standards. An exception exists regarding the measurement of defined benefit superannuation scheme surplus (deficit), which is described in note 34.1.19.

Significant accounting policies applied in the preparation of these consolidated financial statements are set out in note 34.

The Group has adopted the following new standards and amendments to standards from 1 July 2013:

- AASB 119 *Employee Benefits (2011)*
- AASB 7 *Financial Instruments – Disclosures*
- AASB 13 *Fair Value Measurement*
- AASB 10 *Consolidated Financial Statements (2011)*
- AASB 11 *Joint Arrangements*
- AASB 12 *Disclosure of Interest in Other Entities.*

The new standards and amendments have not had a material impact on the Suncorp Group.

A) AASB 119 *EMPLOYEE BENEFITS (2011)*

From 1 July 2013, the Suncorp Group applied amendments to AASB 119 *Employee Benefits (2011).* The change in accounting policy resulted in a change to the basis for determining the income or expense related to the Suncorp Group's post-employment defined benefit plans and a reclassification of annual leave from 'short-term employee benefits' to 'other long-term employee benefits'. Additional disclosures, in line with the requirements of the amendment, have been included in note 13.

B) AASB 7 *FINANCIAL INSTRUMENTS – DISCLOSURES*

From 1 July 2013, the Suncorp Group applied amendments to AASB 7 *Financial Instruments – Disclosures* outlined in AASB 2012–2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities (June 2012).* As a result of these amendments, the Group has expanded its disclosures about the offsetting of financial assets and financial liabilities in note 26.3.

The Suncorp Group's risk management objectives and structure, including the management of exposures arising from financial instruments, are detailed in note 35.

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

As the Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998, all financial information presented in Australian dollars has been rounded to the nearest one million dollars unless otherwise stated.

Amounts expected to be recovered or settled no more than twelve months after the reporting period, are classified as 'current'. Amounts expected to be recovered or settled more than twelve months after the reporting period, are classified as 'non-current'.

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

2.1 STATEMENT OF COMPLIANCE

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

- General Insurance – liability adequacy test (refer note 6.6.1(b))
- General Insurance – outstanding claims liabilities, assets arising from reinsurance contracts and other recoveries (refer note 6.6.2(c))
- Banking – specific and collective provisions for impairment (refer note 34.1.16(a))
- Life – net policy liabilities (refer note 8.7.2)
- impairment of goodwill and other intangible assets (refer note 18.1)
- valuation of financial instruments and fair value hierarchy disclosures (refer note 26).

3. EARNINGS PER SHARE (EPS)

CONSOLIDATED	2014	2013
	$M	$M
Profit attributable to ordinary equity holders of the Company (basic and diluted)	730	491
	NO OF SHARES	NO OF SHARES
Weighted average number of ordinary shares (basic and diluted)	1,278,270,243	1,277,858,329

4. DIVIDENDS

CONSOLIDATED	2014		2013	
	¢ PER SHARE	$M	¢ PER SHARE	$M
Dividend payments on ordinary shares				
2013 final dividend (2013: 2012 final dividend)	30	384	20	257
2013 special dividend (2013: 2012 special dividend)	20	256	15	192
2014 interim dividend (2013: 2013 interim dividend)	35	448	25	320
Total dividends on ordinary shares paid to owners of the Company	85	1,088	60	769
Dividends not recognised in the consolidated statement of financial position[1]				
Dividends declared since balance date				
2014 final dividend (2013: 2013 final dividend)	40	511	30	384
2014 special dividend (2014: 2013 special dividend)	30	384	20	256
	70	895	50	640

	2014 $M	2013 $M
Dividend franking account[2]		
Amount of franking credit available for use in subsequent financial years excluding the effects of dividends declared since balance date	601	551

Notes

1 *The total 2014 final and special dividends declared but not recognised in the consolidated statement of financial position is estimated based on the total number of ordinary shares on issue net of treasury shares as at 30 June 2014. The actual amount recognised in the consolidated financial statements for the year ending 30 June 2015 will be based on the actual number of ordinary shares on issue net of treasury shares on the record date.*

2 *The impact on the dividend franking account for the final and special dividends declared are expected to reduce the franking account balance by $386 million (2013: $276 million). There are no other income tax consequences for dividends not recognised in the consolidated statement of financial position.*

5. SEGMENT REPORTING

Operating segments are identified based on separate financial information which is regularly reviewed by the Group CEO and his immediate executive team, representing the Suncorp Group's Chief Operating Decision Maker (**CODM**), in assessing performance and determining the allocation of resources. The Suncorp Group's operating segments are determined based on their business activities as described in note 5.1 below.

5.1 OPERATING SEGMENTS

The Suncorp Group comprises the following operating segments:

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

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

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

- Revenues and expenses occurring between segments are subject to contractual agreements between the legal entities comprising each segment.
- Inter-segment transactions, which are eliminated on consolidation, are reported on a gross basis. An exception exists for operating expenses incurred by one segment on behalf of another, which are recharged on a cost-recovery basis, and are presented on a net basis (post allocation basis).
- Intra-group dividends are presented net of eliminations.
- Consolidated gain or loss on sale of subsidiaries and joint ventures and any amortisation of material business combination acquired intangible assets are allocated to the Corporate segment, regardless of whether the related assets and liabilities are included in the Corporate segment assets and liabilities.
- Depreciation and amortisation expense relating to the Corporate segment's property, plant and equipment and non-business combination acquired intangible assets are allocated to other segments based on their utilisation.
- Goodwill is allocated to each operating segment on a consistent basis to goodwill impairment testing (note 18.1).
- The 2014 Life segment profit or loss includes the $250 million loss before tax ($176 million loss after tax) adjustments to policy liabilities (**policy adjustments**) following material revision of claims and lapse assumptions.
- The 2014 Corporate segment profit or loss includes the $383 million loss before tax ($320 million loss after tax) write-down of associated intangible assets. This comprises a $191 million impairment loss on the customer contracts intangible asset; $156 million impairment loss on goodwill; and $36 million amortisation expense on other intangible assets following a reassessment of the remaining useful lives.
- The policy adjustments and write-down of associated intangible assets are collectively referred to as the Life write-down. Further details can be found in notes 8.7.2 and 18.

5.1 OPERATING SEGMENTS (CONTINUED)

BUSINESS AREAS	GENERAL INSURANCE				BANKING	LIFE	CORPORATE	
OPERATING SEGMENTS	PERSONAL	COMMERCIAL	GI NZ	TOTAL	BANKING	LIFE	CORPORATE	TOTAL
	$M	$M	$M	$M	$M	$M	$M	$M
2014								
Revenue from external customers	5,757	3,811	1,533	11,101	3,173	2,217	25	16,516
Inter-segment revenue	-	-	-	-	3	9	42	54
Total segment revenue	5,757	3,811	1,533	11,101	3,176	2,226	67	16,570
Segment profit (loss) before income tax and Life write-down	758	566	110	1,434	326	162	(114)	1,808
Income tax (expense) benefit	(226)	(167)	(31)	(424)	(98)	(70)	17	(575)
Segment profit (loss) after income tax and before Life write-down	532	399	79	1,010	228	92	(97)	1,233
Life write-down loss before tax	-	-	-	-	-	(250)	(383)	(633)
Income tax benefit	-	-	-	-	-	74	63	137
Life write-down loss after tax	-	-	-	-	-	(176)	(320)	(496)
Segment profit (loss) before income tax	758	566	110	1,434	326	(88)	(497)	1,175
Segment income tax (expense) benefit	(226)	(167)	(31)	(424)	(98)	4	80	(438)
Segment profit (loss) after income tax	532	399	79	1,010	228	(84)	(417)	737
Other segment disclosures								
Interest revenue	234	253	38	525	2,975	367	60	3,927
Interest expense	(21)	(11)	(1)	(33)	(1,964)	(5)	(79)	(2,081)
Depreciation and amortisation expense	(28)	(32)	(9)	(69)	(38)	(1)	(137)	(245)
Losses on Banking loans, advances and other receivables[1]	-	-	-	-	(137)	-	-	(137)
Impairment loss on goodwill and intangible assets	-	-	-	-	-	-	(347)	(347)
Share of profits of associates and joint ventures	5	-	-	5	-	-	-	5
Business area assets				25,166	60,297	10,925	16,410	112,798
Business area liabilities				16,798	56,556	9,119	2,532	85,005

Note

1 Comprise impairment expense on Banking loans, advances and other receivables of $124 million (note 7.5.2) and loss on sale of Banking loans and advances of $13 million (note 7.5.3).

Notes to the consolidated financial statements

for the financial year ended 30 June 2014 (continued)

5. SEGMENT REPORTING (CONTINUED)

5.1 OPERATING SEGMENTS (CONTINUED)

BUSINESS AREAS	GENERAL INSURANCE				BANKING	LIFE	CORPORATE	
OPERATING SEGMENTS	PERSONAL	COMMERCIAL	GI NZ	TOTAL	BANKING	LIFE	CORPORATE	TOTAL
	$M	$M	$M	$M	$M	$M	$M	$M
2013								
Revenue from external customers	5,810	3,593	1,176	10,579	3,580	2,177	18	16,354
Inter-segment revenue	-	-	-	-	7	10	15	32
Total segment revenue	5,810	3,593	1,176	10,579	3,587	2,187	33	16,386
Segment profit (loss) before income tax	651	503	95	1,249	(475)	110	(115)	769
Segment income tax (expense) benefit	(196)	(149)	(21)	(366)	132	(50)	15	(269)
Segment profit (loss) after income tax	455	354	74	883	(343)	60	(100)	500
Other segment disclosures								
Interest revenue	153	351	29	533	3,421	200	30	4,184
Interest expense	(21)	(12)	-	(33)	(2,435)	(1)	(26)	(2,495)
Depreciation and amortisation expense	(34)	(30)	(2)	(66)	(39)	(3)	(111)	(219)
Losses on Banking loans, advances and other receivables[1]	-	-	-	-	(902)	-	-	(902)
Share of profits of associates and joint ventures	4	-	-	4	-	1	-	5
Business area assets				25,003	62,059	10,357	16,199	113,618
Business area liabilities				17,048	58,683	7,633	1,706	85,070

Note

1 Comprise impairment expense on Banking loans, advances and other receivables of $375 million (note 7.5.2) and loss on sale of Banking loans and advances of $527 million (note 7.5.3).

5.2 RECONCILIATION OF REPORTABLE SEGMENT REVENUES, PROFIT BEFORE INCOME TAX, ASSETS AND LIABILITIES

CONSOLIDATED	2014	2013	2014	2013
	REVENUE		PROFIT BEFORE INCOME TAX	
	$M	$M	$M	$M
Segment total	16,570	16,386	1,175	769
Elimination of intragroup investments	(185)	(188)	(7)	(25)
Other consolidation eliminations	(15)	(12)	7	22
Consolidated total	16,370	16,186	1,175	766
	ASSETS		LIABILITIES	
	$M	$M	$M	$M
Business area total	112,798	113,618	85,005	85,070
Elimination of investment in subsidiaries	(13,978)	(14,542)	-	-
Elimination of intragroup investments	(2,275)	(1,618)	(2,264)	(1,612)
Elimination of other intragroup balances	(1,973)	(1,270)	(1,970)	(1,256)
Other consolidation eliminations and reclassifications	(143)	(283)	(141)	(280)
Consolidated total	94,429	95,905	80,630	81,922

5.3 GEOGRAPHICAL SEGMENTS

While some business activities take place in New Zealand, the Suncorp Group operates predominantly in one geographical segment being Australia.

5.4 MAJOR CUSTOMERS

The Suncorp Group is not reliant on any external individual customer for 10% or more of the Suncorp Group's revenue.

5.5 RESULTS BY BUSINESS AREA

A summary of revenue and expenses by business area and a summary of assets and liabilities by business area are presented in notes 5.5.1 and 5.5.2. These disclosures are an extension to the operating segment information presented and are prepared on the same basis as described in note 5.1. Inclusion of results by business area in addition to the operating segment information presented is beneficial in understanding the nature and financial effects of the business activities of the Suncorp Group, which consists of a General Insurance group, a Banking group, a Life group and a Corporate group.

5. SEGMENT REPORTING (CONTINUED)

5.5 RESULTS BY BUSINESS AREA (CONTINUED)

5.5.1 SUMMARY OF REVENUE AND EXPENSES BY BUSINESS AREA

	NOTE	2014				2013			
		GENERAL INSURANCE	BANKING	LIFE	CORPORATE	GENERAL INSURANCE	BANKING	LIFE	CORPORATE
		$M	$M	$M	$M	$M	$M	$M	$M
Revenue									
Insurance premium income		8,786	-	921	-	8,324	-	810	-
Reinsurance and other recoveries income		1,355	-	222	-	1,345	-	193	-
Banking interest income		-	2,975	-	-	-	3,421	-	-
Investment revenue (losses)		756	4	927	67	647	(6)	1,036	33
Other income		204	197	156	-	263	172	148	-
Total revenue	5.1, 5.2	11,101	3,176	2,226	67	10,579	3,587	2,187	33
Expenses									
General Insurance claims expense		(6,595)	-	-	-	(6,264)	-	-	-
Life insurance claims expense and movement in policyowner liabilities		-	-	(1,200)	-	-	-	(1,142)	-
Outwards reinsurance premium expense		(1,060)	-	(64)	-	(1,026)	-	(177)	-
Interest expense		(33)	(1,964)	(5)	(79)	(33)	(2,435)	(1)	(26)
Fees and commissions expense		(443)	(125)	(197)	(1)	(413)	(106)	(192)	(1)
Operating expenses		(1,536)	(624)	(450)	(101)	(1,594)	(619)	(401)	(121)
Losses on Banking loans, advances and other receivables		-	(137)	-	-	-	(902)	-	-
Outside beneficial interests in managed funds		-	-	(148)	-	-	-	(164)	-
Total expenses		(9,667)	(2,850)	(2,064)	(181)	(9,330)	(4,062)	(2,077)	(148)
Profit (loss) before income tax and Life write-down		1,434	326	162	(114)	1,249	(475)	110	(115)
Income tax (expense) benefit		(424)	(98)	(70)	17	(366)	132	(50)	15
Profit (loss) after income tax and before Life write-down		1,010	228	92	(97)	883	(343)	60	(100)
Life write-down expenses									
Life insurance claims expense and movement in policyowner liabilities		-	-	(250)	-	-	-	-	-
Operating expenses		-	-	-	(36)	-	-	-	-
Impairment loss on goodwill and intangible assets		-	-	-	(347)	-	-	-	-
Life write-down loss before tax		-	-	(250)	(383)	-	-	-	-
Income tax benefit		-	-	74	63	-	-	-	-
Life write-down loss after tax		-	-	(176)	(320)	-	-	-	-
Profit (loss) before income tax	5.1, 5.2	1,434	326	(88)	(497)	1,249	(475)	110	(115)
Income tax (expense) benefit	5.1	(424)	(98)	4	80	(366)	132	(50)	15
Profit (loss) for the financial year	5.1	1,010	228	(84)	(417)	883	(343)	60	(100)

5.5 RESULTS BY BUSINESS AREA (CONTINUED)

5.5.2 SUMMARY OF ASSETS AND LIABILITIES BY BUSINESS AREA

	NOTE	2014				2013			
		GENERAL INSURANCE	BANKING	LIFE	CORPORATE	GENERAL INSURANCE	BANKING	LIFE	CORPORATE
		$M	$M	$M	$M	$M	$M	$M	$M
Assets									
Cash and cash equivalents		281	463	707	17	146	905	610	47
Receivables due from other banks		-	927	-	-	-	1,460	-	-
Trading securities	7.2	-	1,593	-	-	-	3,462	-	-
Derivatives	6.3, 7.3, 8.3	23	334	5	-	39	667	-	-
Investment securities	6.4, 7.2, 8.4, 15.1	12,963	6,500	9,040	14,665	12,305	6,640	8,413	14,983
Banking loans, advances and other receivables	7.4	-	49,781	-	-	-	47,999	-	-
General Insurance assets	6.5	6,603	-	-	-	7,158	-	-	-
Life assets	8.5	-	-	862	-	-	-	666	-
Due from Group entities		-	147	7	1,240	-	251	-	703
Property, plant and equipment		33	-	4	168	34	-	4	174
Deferred tax assets		-	98	22	128	-	141	-	124
Other assets		172	192	49	54	176	272	24	46
Goodwill and intangible assets		5,091	262	229	138	5,145	262	640	122
Total assets		25,166	60,297	10,925	16,410	25,003	62,059	10,357	16,199
Liabilities									
Payables due to other banks		-	81	-	-	-	213	-	-
Deposits and short-term borrowings	7.6	-	44,154	-	-	-	43,861	-	-
Derivatives	6.3, 7.3, 8.3	149	525	12	-	116	984	18	-
Payables and other liabilities		1,253	457	177	448	1,333	640	105	401
Current tax liabilities		23	-	1	370	2	-	-	-
Due to Group entities		392	160	56	13	269	-	8	-
General Insurance liabilities	6.6	14,173	-	-	-	14,496	-	-	-
Life liabilities	8.6	-	-	6,374	-	-	-	5,799	-
Deferred tax liabilities		81	-	42	-	112	-	136	-
Managed funds units on issue		-	-	2,357	-	-	-	1,567	-
Securitisation liabilities	7.7	-	3,598	-	-	-	4,802	-	-
Debt issues	7.8	-	6,839	-	-	-	7,313	-	-
Subordinated notes	6.7, 7.9, 8.8, 20.1	727	742	100	758	720	840	-	756
Preference shares	7.10, 21.1	-	-	-	943	-	30	-	549
Total liabilities		16,798	56,556	9,119	2,532	17,048	58,683	7,633	1,706
Net assets		8,368	3,741	1,806	13,878	7,955	3,376	2,724	14,493

Notes to the consolidated financial statements
for the financial year ended 30 June 2014 (continued)

6. GENERAL INSURANCE – SPECIFIC DISCLOSURES

6.1 GENERAL INSURANCE – CONTRIBUTION TO PROFIT

GENERAL INSURANCE	2014	2013
	$M	$M
Net earned premium		
Direct premium income	8,786	8,324
Outwards reinsurance premium expense	(1,060)	(1,026)
	7,726	7,298
Net incurred claims		
Claims expense	(6,595)	(6,264)
Reinsurance and other recoveries revenue	1,355	1,345
	(5,240)	(4,919)
Underwriting expenses		
Acquisition costs	(1,167)	(1,070)
Other underwriting expenses	(713)	(817)
	(1,880)	(1,887)
Reinsurance commission revenue	104	134
Underwriting result	710	626
Investment revenue – insurance funds		
Investment income on insurance funds	487	334
Investment expense on insurance funds	(2)	(1)
Insurance trading result	1,195	959
Investment income on shareholder funds	269	313
Investment expenses on shareholder funds	(22)	(25)
Fee for service and other income	100	129
Interest expense	(33)	(33)
Other expenses	(75)	(94)
	239	290
General Insurance business area profit before tax	1,434	1,249

6.2 GENERAL INSURANCE – NET INCURRED CLAIMS

GENERAL INSURANCE	2014			2013		
	CURRENT YEAR	PRIOR YEAR	TOTAL	CURRENT YEAR	PRIOR YEAR	TOTAL
	$M	$M	$M	$M	$M	$M
Direct business						
Gross claims incurred and related expenses						
Undiscounted	6,825	(324)	6,501	6,845	(392)	6,453
Discount and discount movement	(197)	291	94	(215)	26	(189)
Gross claims incurred discounted	6,628	(33)	6,595	6,630	(366)	6,264
Reinsurance and other recoveries						
Undiscounted	(1,221)	(92)	(1,313)	(1,376)	12	(1,364)
Discount and discount movement	31	(73)	(42)	34	(15)	19
Reinsurance and other recoveries discounted	(1,190)	(165)	(1,355)	(1,342)	(3)	(1,345)
Total direct business	5,438	(198)	5,240	5,288	(369)	4,919
Net incurred claims			5,240			4,919

The $198 million decrease in prior year net provisions is primarily due to the release of risk margins as claims were paid 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 6.6.2(e).

6.3 GENERAL INSURANCE – DERIVATIVES

GENERAL INSURANCE	2014			2013		
	NOTIONAL VALUE	FAIR VALUE		NOTIONAL VALUE	FAIR VALUE	
		ASSET	LIABILITY		ASSET	LIABILITY
	$M	$M	$M	$M	$M	$M
Exchange rate-related contracts						
Forward foreign exchange contracts	269	1	-	273	1	11
Cross currency swaps	291	-	50	291	-	63
	560	1	50	564	1	74
Interest rate-related contracts						
Interest rate swaps	1,553	21	71	2,311	36	39
Interest rate futures	2,997	-	27	1,015	-	-
Interest rate options	-	-	-	150	2	3
	4,550	21	98	3,476	38	42
Equity contracts						
Equity futures	99	1	1	-	-	-
Total derivative exposures – current	5,209	23	149	4,040	39	116

6. GENERAL INSURANCE – SPECIFIC DISCLOSURES (CONTINUED)

6.4 GENERAL INSURANCE – INVESTMENT SECURITIES

GENERAL INSURANCE	2014	2013
	$M	$M
Financial assets designated at fair value through profit or loss		
Interest-bearing securities		
Debentures and corporate bonds	5,823	6,033
Government and semi-government securities	4,731	4,555
Other interest-bearing securities	310	208
	10,864	10,796
Unit trusts	2,099	1,509
Total investment securities – current	12,963	12,305

6.5 GENERAL INSURANCE – ASSETS

CONSOLIDATED	2014	2013
	$M	$M
Financial assets at amortised cost		
Premiums outstanding	2,550	2,349
Reinsurance and other recoveries		
Expected undiscounted outstanding reinsurance and other recoveries	2,599	3,313
Discount to present value	(200)	(231)
Reinsurance and other recoveries	2,399	3,082
Other receivables	173	181
Investment receivables	26	7
Deferred insurance assets		
Deferred acquisition costs	612	580
Deferred reinsurance assets	774	841
Other deferred expenses	69	118
Total General Insurance assets	6,603	7,158
Current	5,263	5,318
Non-current	1,340	1,840
Total General Insurance assets	6,603	7,158

6.6 GENERAL INSURANCE – LIABILITIES

CONSOLIDATED	NOTE	2014	2013
		$M	$M
Unearned premium liabilities	6.6.1	4,659	4,524
Outstanding claims liabilities	6.6.2	9,514	9,972
Total General Insurance liabilities		14,173	14,496
Current		8,284	8,274
Non-current		5,889	6,222
Total General Insurance liabilities		14,173	14,496

6.6.1 UNEARNED PREMIUM LIABILITIES

(A) RECONCILIATION OF MOVEMENT

CONSOLIDATED	2014	2013
	$M	$M
Balance at the beginning of the financial year	4,524	4,226
Premiums written during the financial year	8,870	8,589
Premiums earned during the financial year	(8,786)	(8,324)
Foreign currency exchange movement	51	33
Balance at the end of the financial year	4,659	4,524

(B) LIABILITY ADEQUACY TEST

The liability adequacy test (**LAT**) is used to assess the sufficiency of the unearned premium liability to cover all expected future cash flows relating to future claims against in-force insurance contracts. The LAT is carried out on each portfolio of contracts subject to broadly similar risks and are managed together as a single portfolio, being Australian Personal Insurance, Australian Commercial Insurance and New Zealand General Insurance. The following table details the value of the expected future cash flows arising from in-force contracts:

CONSOLIDATED	2014	2013
	$M	$M
Central estimate of present value of expected future cash flows arising from future claims	3,318	3,230
Risk margin	71	68
Present value of expected future cash inflows arising from reinsurance recoveries on future claims	(166)	(171)
Expected present value of future cash flows for future claims including risk margin	3,223	3,127

	%	%
Risk margin	2.5%	2.3%
Probability of adequacy	57 – 64%	57 – 64%

6. GENERAL INSURANCE – SPECIFIC DISCLOSURES (CONTINUED)

6.6.1 UNEARNED PREMIUM LIABILITIES (CONTINUED)

(B) LIABILITY ADEQUACY TEST (CONTINUED)

Future claims costs are calculated at the present value of the expected cash flows relating to future claims and include a risk margin to reflect inherent uncertainty in the central estimate for each portfolio of contracts. The test is based on prospective information and consequently is heavily dependent on assumptions and judgments.

The probability of adequacy adopted for the LAT differs from the 90% probability of adequacy adopted in determining the outstanding claims liabilities (refer note 6.6.2(d)). 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 6.6.2(d).

As at 30 June 2014 and 30 June 2013, the LAT resulted in surpluses for all portfolios.

6.6.2 OUTSTANDING CLAIMS LIABILITIES

CONSOLIDATED	2014	2013
	$M	$M
Gross central estimate – undiscounted	9,030	9,568
Risk margin	1,225	1,205
Claims handling expenses	350	364
	10,605	11,137
Discount to present value	(1,091)	(1,165)
Gross outstanding claims liabilities – discounted	9,514	9,972
	%	%
Overall net risk margin applied	16.7	16.6
Probability of adequacy of the risk margin (approximately)	90	90

6.6.2 OUTSTANDING CLAIMS LIABILITIES (CONTINUED)

(A) RECONCILIATION OF MOVEMENT IN DISCOUNTED OUTSTANDING CLAIMS LIABILITIES

CONSOLIDATED	2014	2013
	$M	$M
Net outstanding claims liabilities at the beginning of the financial year	6,890	6,953
Prior periods		
Claims payments	(2,049)	(2,112)
Discount unwind	120	112
Margin release on prior periods	(259)	(277)
Incurred claims due to changes in assumptions and experience	(132)	(116)
Change in discount rate	73	(88)
Current period		
Incurred claims	5,438	5,288
Claims payments	(2,994)	(2,886)
Net foreign exchange difference	28	16
Net outstanding claims liabilities at the end of the financial year	7,115	6,890
Reinsurance and other recoveries on outstanding claims liabilities	2,399	3,082
Gross outstanding claims liabilities (discounted) at the end of the financial year	9,514	9,972

6. GENERAL INSURANCE – SPECIFIC DISCLOSURES (CONTINUED)

6.6.2 OUTSTANDING CLAIMS LIABILITIES (CONTINUED)

(B) CLAIMS DEVELOPMENT TABLE

The following table shows the development of the estimated undiscounted outstanding claims relative to the ultimate expected claims for the 10 most recent accident years.

CONSOLIDATED	ACCIDENT YEAR											2014
	PRIOR	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	TOTAL
	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Estimate of ultimate claims cost:												
At end of accident year		1,176	1,213	1,250	1,294	1,299	1,336	1,468	1,329	1,400	1,415	
One year later		1,067	1,123	1,183	1,155	1,285	1,234	1,389	1,319	1,369		
Two years later		941	1,042	1,077	1,119	1,176	1,150	1,358	1,248			
Three years later		901	966	1,046	1,074	1,156	1,123	1,383				
Four years later		850	912	997	1,015	1,145	1,116					
Five years later		822	881	970	1,002	1,109						
Six years later		816	889	948	999							
Seven years later		819	877	950								
Eight years later		805	865									
Nine years later		799										
Current estimate of cumulative claims cost		799	865	950	999	1,109	1,116	1,383	1,248	1,369	1,415	
Cumulative payments		(737)	(797)	(841)	(831)	(907)	(765)	(792)	(505)	(271)	(85)	
Outstanding claims liabilities – undiscounted	719	62	68	109	168	202	351	591	743	1,098	1,330	5,441
Discount to present value	(232)	(6)	(7)	(11)	(19)	(20)	(31)	(49)	(60)	(94)	(126)	(655)
Outstanding claims – long-tail	487	56	61	98	149	182	320	542	683	1,004	1,204	4,786
Outstanding claims – short-tail												1,034
Claims handling expense												279
Risk margin												1,016
Total net outstanding claims liabilities												7,115
Reinsurance and other recoveries on outstanding claims liabilities												2,399
Total gross outstanding claims liabilities												9,514

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.

6.6.2 OUTSTANDING CLAIMS LIABILITIES (CONTINUED)

(C) ESTIMATION OF OUTSTANDING CLAIMS LIABILITIES AND ASSETS ARISING FROM REINSURANCE CONTRACTS AND OTHER RECOVERIES

The Suncorp Group's estimation of its claims liabilities includes the expected future cost of claims notified to the Suncorp Group as at balance 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 impact of inflation on future expenditure is also taken into consideration. An additional risk margin is then applied to allow for the inherent uncertainty in the estimation process.

The Suncorp 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 are 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 computed 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.

(D) 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 Suncorp 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 Suncorp Group currently divides its General Insurance business into two classes: Personal and Commercial.

The use of multiple actuarial methods assists in providing a greater understanding of the trends inherent in the past 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.

ACTUARIAL ASSUMPTIONS

The following key assumptions have been made in determining the outstanding claims liabilities:

	2014				2013			
	PERSONAL		COMMERCIAL		PERSONAL		COMMERCIAL	
	AUST	NZ	AUST	NZ	AUST	NZ	AUST	NZ
Weighted average term to settlement (years)	**0.5**	**0.8**	**4.5**	**1.5**	0.5	1.2	4.7	2.4
Economic inflation rate	**4.0%**	**1.9%**	**4.0%**	**2.1%**	4.0%	2.0%	4.0%	2.2%
Superimposed inflation rate	**0.3%**	**0.0%**	**2.5%**	**1.6%**	0.4%	0.0%	2.5%	1.8%
Discount rate	**2.6%**	**3.1%**	**3.4%**	**4.0%**	2.7%	3.3%	3.6%	3.4%
Claims handling expense ratio	**7.0%**	**5.5%**	**4.4%**	**9.3%**	6.2%	6.2%	4.4%	6.3%
Risk margin	**9.5%**	**11.4%**	**18.3%**	**16.1%**	8.8%	13.4%	18.3%	21.8%

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 – Claims inflation is incorporated into the resulting projected payments to allow for both expected levels of economic inflation 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 past experience and future expectations.

Discount rate – Projected payments are discounted at a risk-free rate to allow for the time value of money. Discount rates are derived from market yields on Commonwealth Government securities in Australia and the 10-year government stock rate in New Zealand at the balance date.

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

Risk margin – A risk margin is added to allow for the uncertainty relating to the actuarial models and assumptions used, the quality of the underlying data used in the models, the general insurance environment and the impact of legislative reform.

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 Suncorp Group (2013: 90%).

6. GENERAL INSURANCE – SPECIFIC DISCLOSURES (CONTINUED)

6.6.2 OUTSTANDING CLAIMS LIABILITIES (CONTINUED)

(E) IMPACT OF CHANGES IN KEY VARIABLES

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

	MOVEMENT IN VARIABLE	2014 PROFIT (LOSS) BEFORE TAX $M	2013 PROFIT (LOSS) BEFORE TAX $M
Weighted average term to settlement (years)	+ 0.5 years	(99)	(90)
	– 0.5 years	98	90
Inflation rate	+1%	(223)	(219)
	–1%	205	201
Discount rate	+1%	207	202
	–1%	(229)	(224)
Claims handling expense ratio	+1%	(55)	(54)
	–1%	55	54
Risk margin	+1%	(58)	(57)
	–1%	58	57

6.7 GENERAL INSURANCE – SUBORDINATED NOTES

GENERAL INSURANCE	DUE DATE	FIRST CALL	2014 $M	2013 $M
Financial liabilities at amortised cost				
Fixed rate notes	September 2024	September 2014	131	135
	September 2025	September 2015	118	118
	October 2026	October 2016	105	106
	June 2027	June 2017	244	232
Floating rate notes	September 2024	September 2014	52	52
	September 2025	September 2015	77	77
Total subordinated notes (unsecured)			727	720
Current			183	-
Non-current			544	720
Total subordinated notes (unsecured)			727	720

These subordinated notes are issued by AAI Limited and Suncorp Insurance Funding 2007 Limited. Payments of principal and interest on the notes have priority over the issuing entity's dividend payments only. In the event of the winding-up of the issuing entity, the rights of the note holders will rank in preference only to the rights of its ordinary shareholders.

6.8 GENERAL INSURANCE – PRESCRIBED CAPITAL AMOUNT

All general insurance entities that conduct insurance business in Australia are authorised by the Australian Prudential Regulation Authority (**APRA**) and are subject to a risk-based approach for measuring and holding the required level of regulatory capital, referred to as the Prudential Capital Requirement (**PCR**). The PCR is the minimum level of capital APRA deems must be held to meet policyholder obligations and consists of the Prescribed Capital Amount (**PCA**) and any supervisory adjustment determined by APRA. Licensed general insurance entities within the Suncorp Group use APRA's standardised framework for calculating the PCA in accordance with the relevant Prudential Standards and hold regulatory capital in excess of their PCA.

6.8 GENERAL INSURANCE – PRESCRIBED CAPITAL AMOUNT (CONTINUED)

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 or failed internal processes, 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; and
- an aggregation benefit, which makes an explicit allowance for diversification between asset risk and the sum of insurance risk and insurance concentration risk charges.

The regulatory capital position of the General Insurance business area (as represented by the Level 2 insurance group as defined by APRA Prudential Standard GPS 001 *Definitions*) at the end of the financial year is set out in the table below.

In compliance with regulatory standards, licensed General Insurance entities within the Suncorp Group have met all the regulatory capital requirements throughout the financial year.

GENERAL INSURANCE	2014	2013
	$M	$M
Common Equity Tier 1 Capital		
Ordinary share capital	7,575	7,977
Reserves	13	(50)
Retained profits and non-controlling interests	266	22
Insurance liabilities in excess of liability valuation	710	650
Goodwill and other intangible assets	(5,035)	(5,074)
Other Tier 1 deductions	(5)	(11)
Common Equity Tier 1 Capital	3,524	3,514
Additional Tier 1 Capital	510	-
Tier 1 Capital	4,034	3,514
Tier 2 Capital		
Transitional subordinated notes[1]	572	643
Tier 2 Capital	572	643
Total Capital	4,606	4,157
Prescribed Capital Amount (PCA)	2,129	2,123
Common Equity Tier 1 coverage ratio	1.66	1.66
Capital coverage ratio	2.16	1.96

Note

1 Subordinated notes are disclosed net of any adjustments as determined by APRA Prudential Standards in relation to transitional arrangements for capital instruments.

Notes to the consolidated financial statements
for the financial year ended 30 June 2014 (continued)

7. BANKING – SPECIFIC DISCLOSURES

7.1 BANKING – CONTRIBUTION TO PROFIT

BANKING	2014	2013
	$M	$M
Net interest income		
Interest income	2,975	3,421
Interest expense	(1,964)	(2,435)
	1,011	986
Net banking fee and commission income		
Fee and commission income	192	183
Fee and commission expense	(125)	(106)
	67	77
Investment and other revenue		
Net profit (loss) on derivatives and other financial instruments	4	(6)
Other income (losses)	5	(11)
	9	(17)
Non-interest income	76	60
Total income from Banking activities	1,087	1,046
Operating expenses		
Operating expenses	(624)	(619)
Losses on loans and advances[1]	(137)	(902)
Banking business area profit (loss) before tax	326	(475)

Note

1 *Comprise impairment expense on Banking loans, advances and other receivables of $124 million (2013: $375 million) (note 7.5.2) and loss on sale of Banking loans and advances of $13 million (2013: $527 million) (note 7.5.3).*

7.2 BANKING – TRADING AND INVESTMENT SECURITIES

CONSOLIDATED	2014	2013
	$M	$M
Trading securities – current		
Financial assets at fair value through profit or loss		
Interest-bearing securities: Bank bills, certificates of deposits and other negotiable securities	1,593	3,462

Interest income of $62 million (2013: $128 million) and a net gain of $1 million (2013: $1 million) recognised in profit or loss on financial assets carried at fair value through profit or loss relate to those financial assets which are held for trading.

BANKING	2014	2013
	$M	$M
Investment securities		
Available-for-sale financial assets		
Interest-bearing securities	2,542	2,352
	2,542	2,352
Held-to-maturity investments		
Interest-bearing securities	3,958	4,288
Total investment securities	6,500	6,640
Current	226	-
Non-current	6,274	6,640
Total investment securities	6,500	6,640

Notes to the consolidated financial statements
for the financial year ended 30 June 2014 (continued)

7. BANKING – SPECIFIC DISCLOSURES (CONTINUED)

7.3 BANKING – DERIVATIVES

BANKING	2014			2013		
	NOTIONAL VALUE	FAIR VALUE		NOTIONAL VALUE	FAIR VALUE	
		ASSET	LIABILITY		ASSET	LIABILITY
	$M	$M	$M	$M	$M	$M
Exchange rate-related contracts						
Forward foreign exchange contracts	3,002	-	88	4,558	355	28
Cross currency swaps	2,797	78	126	3,659	63	636
Currency options	-	-	-	17	-	-
	5,799	78	214	8,234	418	664
Interest rate-related contracts						
Forward rate agreements	-	-	-	350	-	-
Interest rate swaps	54,372	255	311	38,756	245	317
Interest rate futures	910	1	-	2,376	2	1
Interest rate options	111	-	-	148	2	2
	55,393	256	311	41,630	249	320
Total derivative exposures – current	61,192	334	525	49,864	667	984

7.4 BANKING LOANS, ADVANCES AND OTHER RECEIVABLES

CONSOLIDATED	NOTE	2014	2013
		$M	$M
Financial assets at amortised cost			
Housing loans[1]		39,001	37,158
Consumer loans		431	463
Business loans		10,524	10,577
Other lending		51	101
		50,007	48,299
Provision for impairment	7.5.1	(226)	(300)
Total Banking loans, advances and other receivables		49,781	47,999
Current		11,464	12,851
Non-current		38,317	35,148
Total Banking loans, advances and other receivables		49,781	47,999

Note

1 Includes securitised housing loan balances of $3,756 million (2013: $5,044 million) which has an equivalent securitised liability.

7.4 BANKING LOANS, ADVANCES AND OTHER RECEIVABLES (CONTINUED)

(A) FINANCE LEASE RECEIVABLES

Included in business loans are the following finance lease receivables:

CONSOLIDATED	2014	2013
	$M	$M
Gross investment in finance lease receivables:		
Less than one year	182	174
Between one and five years	319	318
More than five years	-	1
	501	493
Unearned future income on finance leases	(54)	(57)
Net investment in finance lease receivables	447	436
Net investment in finance lease receivables:		
Less than one year	176	168
Between one and five years	271	267
More than five years	-	1
	447	436

7.5 BANKING – PROVISION FOR IMPAIRMENT ON BANKING LOANS, ADVANCES AND OTHER RECEIVABLES

7.5.1 RECONCILIATION OF PROVISION FOR IMPAIRMENT ON BANKING LOANS, ADVANCES AND OTHER RECEIVABLES

CONSOLIDATED	2014	2013
	$M	$M
Collective provision		
Balance at the beginning of the financial year	102	145
Charge (credit) against impairment losses	18	(43)
Balance at the end of the financial year	120	102
Specific provision		
Balance at the beginning of the financial year	198	392
Charge against impairment losses	104	399
Impaired assets written-off	(179)	(485)
Decrease in specific provision for impairment	(75)	(86)
Unwind of discount	(17)	(108)
Balance at the end of the financial year	106	198
Total provisions	226	300

7. BANKING – SPECIFIC DISCLOSURES (CONTINUED)

7.5 BANKING – PROVISION FOR IMPAIRMENT ON BANKING LOANS, ADVANCES AND OTHER RECEIVABLES (CONTINUED)

7.5.2 IMPAIRMENT EXPENSE ON BANKING LOANS, ADVANCES AND OTHER RECEIVABLES

CONSOLIDATED	2014	2013
	$M	$M
Increase (decrease) in collective provision for impairment	18	(43)
Increase in specific provision for impairment	104	399
Bad debts written-off	15	29
Bad debts recovered	(13)	(10)
Total impairment expense	124	375

7.5.3 LOSS ON SALE OF BANKING LOANS AND ADVANCES

CONSOLIDATED	2014	2013
	$M	$M
Loss on sale of Banking loans and advances[1]	13	527

Note

1 The expense for the financial year ended 30 June 2013 includes a $484 million loss before tax, net of provisions for impairment, on the sale of a $1.6 billion portfolio of Non-core Banking loans and advances for a consideration of $940 million announced on the ASX on 13 June 2013.

7.6 BANKING – DEPOSITS AND SHORT-TERM BORROWINGS

CONSOLIDATED	2014	2013
	$M	$M
Banking		
Financial liabilities at amortised cost		
Call deposits	14,033	11,669
Term deposits	19,337	20,390
Short-term securities issued	7,980	7,671
Offshore borrowings	93	132
Financial liabilities designated at fair value through profit or loss		
Offshore borrowings	2,711	3,999
	44,154	43,861
Consolidated		
General Insurance, Life and Corporate call deposits with Banking at amortised cost	(575)	(314)
Total deposits and short-term borrowings (unsecured) – current	43,579	43,547

7.6 BANKING – DEPOSITS AND SHORT-TERM BORROWINGS (CONTINUED)

Interest expense of $17 million (2013: $25 million) on financial liabilities designated at fair value through profit or loss was recognised in the financial year.

Fair value movement from changes in credit risk of financial liabilities designated at fair value through profit or loss of $nil (2013: $nil) was recognised for the financial year and cumulatively. The contractual amount payable at maturity of these liabilities is $2,711 million (2013: $3,999 million).

Consolidated net losses of $2 million (2013: $2 million) on financial liabilities designated at fair value through profit or loss are recognised in profit or loss.

7.7 BANKING – SECURITISATION LIABILITIES

CONSOLIDATED	2014	2013
	$M	$M
Financial liabilities at amortised cost		
Banking		
Notes issued	3,598	4,802
Consolidated		
General Insurance and Life investments in Banking's securitisation liabilities	(17)	(25)
Total securitisation liabilities (secured)	3,581	4,777
Current	1,050	1,321
Non-current	2,531	3,456
Total securitisation liabilities (secured)	3,581	4,777

The Suncorp Group conducts a loan securitisation program whereby housing mortgage loans are packaged and sold to the securitisation trusts known as the Apollo Trusts (**Trusts**). The Trusts fund their purchase of the loans by issuing floating-rate pass-through debt securities. These are represented as securitisation liabilities of the Suncorp Group.

The Suncorp Group does not stand behind the capital value or the performance of the securities or the assets of the Trusts, and it does not guarantee the payment of interest or the repayment of principal due on the securities. The loans subject to the securitisation program have been pledged as security for the securities issued by the Trusts, and as such, the Suncorp Group cannot use these assets to settle the liabilities of the Suncorp Group. The carrying amount of these assets is $3,756 million (2013: $5,044 million). The Suncorp Group is not obliged to support any losses that may be suffered by investors and does not intend to provide such support.

7. BANKING – SPECIFIC DISCLOSURES (CONTINUED)

7.8 BANKING – DEBT ISSUES

CONSOLIDATED	2014	2013
	$M	$M
Borrowings at amortised cost		
Banking		
Offshore borrowings	1,900	2,259
Domestic borrowings	2,742	2,858
Total unsecured debt issues	4,642	5,117
Domestic covered bonds	2,197	2,196
Total secured debt issues	2,197	2,196
	6,839	7,313
Consolidated		
General Insurance and Life investments in Banking's debt securities		
Domestic borrowings	(8)	(22)
Total debt issues	6,831	7,291
Current	1,829	3,152
Non-current	5,002	4,139
Total debt issues	6,831	7,291

Covered bonds issued are guaranteed by the Covered Bond Guarantor and are secured over a covered pool which consists of $2,705 million (2013: $2,716 million) of loans, advances and other receivables. The Covered Bond Guarantor can take possession of the cover pool under certain Title Perfection Events, as detailed in clause 6.1 of the Mortgage Sale Deed. In the event of default by Suncorp-Metway Limited (**SML**), the covered bond holders have claim over both the cover pool and SML.

7.9 BANKING – SUBORDINATED NOTES

BANKING	DUE DATE	FIRST CALL	2014 $M	2013 $M
Financial liabilities at amortised cost				
Floating rate notes (AUD)	November 2023	November 2018	670	670
Perpetual floating rate notes (AUD)			72	170
Total subordinated notes (unsecured) – non-current			742	840

Banking subordinated notes are issued by SML. Payments of principal and interest on the notes have priority over SML dividend payments only. In the event of the winding-up of SML, the rights of the note holders will rank in preference only to the rights of its preference and ordinary shareholders.

During the financial year ended 30 June 2014, SML completed an off-market buy-back and subsequent cancellation of 982,625 floating rate notes (**Notes**) of $98 million for a cash consideration of $79 million. The gain on buy-back is included as part of other income in the consolidated statement of comprehensive income. The remaining 715,383 Notes that were not tendered into the buy-back offer remain outstanding on their current terms.

7.10 BANKING – PREFERENCE SHARES

BANKING	2014		2013	
	NO. OF SHARES	$M	NO. OF SHARES	$M
Reset Preference Shares each fully paid	-	-	304,063	30
Total preference shares – current	-	-	304,063	30

Dividends paid during the financial year are as follows:

BANKING	2014			2013		
	¢ PER SHARE	$M	DATE PAID	¢ PER SHARE	$M	DATE PAID
Recognised as interest expense						
Reset Preference Shares						
Period from March to September	215	1	16 September 2013	212	1	14 September 2012
Period from September to March	-	-	Not applicable	209	1	14 March 2013
		1			2	

The Reset Preference Shares (**SBKPA**) were issued by SML. SBKPA were perpetual, paying fixed non-cumulative dividends with certain terms periodically reset. Holders had an option on each reset date to request the preference shares be exchanged. Once a holder's exchange request was received, SML had the option to elect to exchange for cash or SML ordinary shares of approximately equal value to the original issue price of the preference shares, or to have the preference shares acquired by a third party with the proceeds delivered to the holder.

APRA granted approval for the early redemption of the SBKPA for the total carrying value of the shares on 16 September 2013. The SBKPA were redeemed for cash consideration.

7. BANKING – SPECIFIC DISCLOSURES (CONTINUED)

7.11 BANKING – CAPITAL ADEQUACY

APRA's risk-based approach requires eligible capital held by banks to be divided by total risk-weighted assets, with the resultant ratio being used as a measure of a bank's capital adequacy.

Tier 1 Capital comprises the highest quality components of capital and can be split into Common Equity Tier 1 (**CET1**) Capital and Additional Tier 1 Capital. CET1 Capital is the strongest form of capital such as ordinary share capital, reserves and retained profits. Additional Tier 1 Capital comprises instruments such as perpetual non-cumulative preference shares and capital notes.

Tier 2 Capital includes other components that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an authorised deposit-taking institution (**ADI**), as a going concern, and its capacity to absorb losses. Tier 2 Capital comprises such capital components as fixed and perpetual hybrid instruments.

The amount of both Additional Tier 1 and Tier 2 capital instruments that may be included in regulatory capital is subject to APRA's transitional arrangements in accordance with Prudential Standards.

For capital adequacy purposes, the total regulatory capital base is defined as the sum of Tier 1 and Tier 2 Capital after all specified regulatory adjustments.

The measurement of risk-weighted exposures is based on:

- credit risk associated with on-balance sheet and off-balance sheet assets, and securitisation exposures
- market risk arising from trading activities; and
- operational risk associated with the banking activities.

For the calculation of minimum prudential capital requirements, the Bank has adopted APRA's Standardised Approach.

CAPITAL REFORMS

In December 2010, in response to the global financial crisis, the Basel Committee on Banking Supervision (**Basel Committee**) released a package of reforms (Basel III) to raise the level and quality of regulatory capital in the global banking system.

Included in this reform package were expanded disclosure requirements intended to improve the transparency of regulatory capital and to enhance market discipline. The reforms became effective from 1 January 2013.

The composition of capital disclosure measures are set out in the Basel Committee's *Composition of Capital Disclosure Requirements (June 2012)*, which includes a common disclosure template, capital reconciliation, a summary of the main features of regulatory capital instruments and other regulatory disclosures. The Bank has made these disclosures available at **suncorpgroup.com.au/investors/regulatory-disclosures**.

7.11 BANKING – CAPITAL ADEQUACY (CONTINUED)

BANKING	2014	2013
	$M	$M
Common Equity Tier 1 Capital		
Ordinary share capital	2,565	2,452
Reserves	12	(4)
Retained profits	356	170
Goodwill and other intangible assets	(177)	(148)
Net deferred tax assets	(85)	(113)
Other Tier 1 deductions	(26)	(25)
Common Equity Tier 1 Capital	2,645	2,332
Additional Tier 1 Capital		
Eligible hybrid capital	450	450
Transitional hybrid capital	-	30
Additional Tier 1 Capital	450	480
Tier 1 Capital	3,095	2,812
Tier 2 Capital		
General reserve for credit losses	237	195
Eligible subordinated notes	670	670
Transitional subordinated notes	72	170
Tier 2 Capital	979	1,035
Total Capital	4,074	3,847
Risk-Weighted Assets	30,997	30,722
Common Equity Tier 1 ratio	8.53%	7.59%
Total capital ratio	13.14%	12.52%

The above table is for Banking as a regulatory reporting group.

8. LIFE – SPECIFIC DISCLOSURES

8.1 LIFE – CONTRIBUTION TO PROFIT BEFORE POLICY ADJUSTMENTS

LIFE	2014	2013
	$M	$M
Income		
Premiums received or receivable	1,260	1,190
Premiums recognised as a change in gross policy liabilities	(339)	(380)
Premium income	921	810
Outwards reinsurance premium expense	(64)	(177)
	857	633
Investment income	927	1,036
Fees from trust and fiduciary activities	69	63
Other income	87	85
	1,940	1,817
Expenses		
Claims paid or payable	(1,333)	(1,478)
Claims recognised as a change in gross policy liabilities	752	964
Claims expense	(581)	(514)
Reinsurance recoveries revenue	222	193
	(359)	(321)
Policy acquisition expenses		
Commission	(102)	(104)
Other	(145)	(135)
Policy maintenance expenses		
Commission	(95)	(88)
Other	(208)	(166)
Investment management expenses	(53)	(40)
Other operating expenses	(44)	(60)
Increase in net insurance contract liabilities	(286)	(133)
Increase in net investment contract liabilities	(388)	(482)
Decrease (increase) in unvested policyowner benefits	55	(13)
Outside beneficial interests in managed funds	(148)	(164)
Interest expense	(5)	(1)
	(1,778)	(1,707)
Life business area profit before tax and policy adjustments	162	110

8.2 SOURCES OF LIFE BUSINESS OPERATING PROFIT

LIFE	2014				2013			
	LIFE INSURANCE CONTRACTS	INVESTMENT LINKED CONTRACTS	OTHER LIFE INVESTMENT CONTRACTS	TOTAL STATUTORY FUNDS	LIFE INSURANCE CONTRACTS	INVESTMENT LINKED CONTRACTS	OTHER LIFE INVESTMENT CONTRACTS	TOTAL STATUTORY FUNDS
	$M	$M	$M	$M	$M	$M	$M	$M
2014								
Shareholders' operating profit after tax in the statutory funds								
Represented by:								
Investment earnings on shareholders' retained profits and capital	70	1	1	72	36	-	1	37
Emergence of shareholders' planned profits	72	-	-	72	98	-	1	99
Experience loss	(70)	-	-	(70)	(78)	-	2	(76)
Losses reversed (capitalised)	(141)	-	-	(141)	6	-	-	6
Management services profit	-	2	-	2	-	8	-	8
	(69)	3	1	(65)	62	8	4	74
Cumulative losses carried forward at the end of the financial year	162	-	-	162	23	-	-	23
***Life Act* policyowners' operating profit after tax in the statutory funds**								
Represented by:								
Investment earnings on retained profits	25	-	-	25	34	-	-	34
Emergence of policyowner planned profits	62	-	-	62	43	-	-	43
Experience profit	4	-	-	4	6	-	-	6
Revaluation of capitalised losses	-	-	-	-	17	-	-	17
	91	-	-	91	100	-	-	100

A policyowner is one who holds a policy with the Life companies (refer definition in note 8.7.1). The shareholder represents the Life companies' interest in the statutory funds. A statutory fund is a fund of a life company that relates solely to the life insurance business of that life company as defined by the *Life Insurance Act 1995* (***Life Act***) and the *Insurance (Prudential Supervision) Act 2010* (***NZ Life Act***).

8. LIFE – SPECIFIC DISCLOSURES (CONTINUED)

8.3 LIFE – DERIVATIVES

LIFE	2014			2013		
	NOTIONAL VALUE	FAIR VALUE		NOTIONAL VALUE	FAIR VALUE	
		ASSET	LIABILITY		ASSET	LIABILITY
	$M	$M	$M	$M	$M	$M
Exchange rate-related contracts						
Forward foreign exchange contracts	302	1	1	263	-	8
Interest rate-related contracts						
Interest rate swaps	384	3	9	461	-	10
Interest rate futures	418	1	2	107	-	-
	802	4	11	568	-	10
Equity contracts						
Equity futures	71	-	-	14	-	-
Total derivative exposures – current	1,175	5	12	845	-	18

8.4 LIFE – INVESTMENT SECURITIES

LIFE	2014	2013
	$M	$M
Financial assets at fair value through profit or loss		
Interest-bearing securities		
Debentures and corporate bonds	**1,860**	2,028
Government and semi-government securities	**855**	540
Discounted securities	**2,181**	1,529
	4,896	4,097
Equity securities	**2,207**	2,462
Unit trusts	**1,937**	1,854
Total investment securities – current	**9,040**	8,413

8.5 LIFE ASSETS

CONSOLIDATED	2014	2013
	$M	$M
Financial assets at amortised cost		
Gross policy liabilities ceded under reinsurance	512	445
Premiums outstanding and reinsurance recoveries receivable	105	104
Other receivables	238	106
Deferred insurance assets		
Deferred insurance assets	7	11
Total Life assets	862	666
Current	510	224
Non-current	352	442
Total Life assets	862	666

8.6 LIFE LIABILITIES

CONSOLIDATED	NOTE	2014	2013
		$M	$M
Gross policy liabilities			
Investment contract policy liabilities		3,458	3,375
Insurance contract policy liabilities	8.7.3	2,323	1,825
	8.6.1	5,781	5,200
Unvested policyowner benefits	8.6.2	326	380
Outstanding claims liabilities		258	206
Unearned premium liabilities		9	13
Total Life liabilities		6,374	5,799
Current		988	835
Non-current		5,386	4,964
Total Life liabilities		6,374	5,799

8. LIFE – SPECIFIC DISCLOSURES (CONTINUED)

8.6 LIFE LIABILITIES (CONTINUED)

8.6.1 GROSS LIFE POLICY LIABILITIES

CONSOLIDATED	2014			2013		
	INVESTMENT CONTRACTS	INSURANCE CONTRACTS	TOTAL POLICY LIABILITIES	INVESTMENT CONTRACTS	INSURANCE CONTRACTS	TOTAL POLICY LIABILITIES
	$M	$M	$M	$M	$M	$M
Policy liabilities						
Policy liabilities at the beginning of the financial year	3,375	1,825	5,200	3,387	1,784	5,171
Movement in policy liabilities reflected in profit or loss	388	603	991	482	135	617
Contributions and premiums recognised in policy liabilities	250	89	339	275	105	380
Withdrawals and claims expense recognised in policy liabilities	(573)	(179)	(752)	(785)	(179)	(964)
Deferred tax movement recognised in policy liabilities	-	(10)	(10)	-	(17)	(17)
Foreign currency exchange movement	18	(5)	13	16	(3)	13
Policy liabilities at the end of the financial year	3,458	2,323	5,781	3,375	1,825	5,200

Liabilities ceded under insurance contracts are included in insurance contract policy liabilities with the corresponding asset disclosed in note 8.5.

8.6.2 UNVESTED POLICYOWNER BENEFITS

CONSOLIDATED	2014	2013
	$M	$M
Unvested policyowner benefits at the beginning of the financial year	380	366
(Decrease) increase in unvested policyowner benefits	(55)	13
Foreign currency exchange movement	1	1
Unvested policyowner benefits at the end of the financial year	326	380

8.7 LIFE – NET POLICY LIABILITIES

8.7.1 LIFE LIABILITY ESTIMATION PROCESS

The Suncorp Group conducts its life insurance business in Australia through Suncorp Life & Superannuation Limited (**SLSL**) and in New Zealand through Asteron Life Limited (New Zealand) (**ALLNZ**). They are collectively referred to as the Life companies.

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

Policy liabilities in New Zealand have been calculated in accordance with Professional Standard Number 3, *Determination of Life Insurance Policy Liabilities* issued by the New Zealand Society of Actuaries.

For insurance contracts, policy liabilities are determined to cover future expected claims, expenses and premiums, and ensure a release of profits as services are provided under the contracts. The profits release is controlled by a profit carrier. For investment contracts, the policy liability is the fair value of the underlying investments, and the deferred value of income and costs.

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

The policy liability and capital calculations are performed by actuarial personnel, using policy data, and are signed off by the Appointed Actuary, Mr Rob Desoisa (Fellow of the Institute of Actuaries of Australia) for Australia and signed off by the Appointed Actuary, Mr Daniel Wong (Fellow of the Institute of Actuaries of Australia and Fellow of New Zealand Society of Actuaries) for New Zealand.

8.7 LIFE – NET POLICY LIABILITIES

8.7.1 LIFE LIABILITY ESTIMATION PROCESS (CONTINUED)

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

BUSINESS TYPE	PROFIT CARRIER
Conventional participating	Supportable bonuses
Participating and non-participating investment account and allocated pension	Interest credits
Lump sum risk and accidental cash back	Expected premium payments
Disability income	Expected benefit/claims payments (SLSL) Expected premium payments (ALLNZ)
Other	Expected benefit/claims payments

8.7.2 ACTUARIAL ASSUMPTIONS, JUDGMENTS AND ESTIMATES USED IN CALCULATING POLICY LIABILITIES

Experience for SLSL and ALLNZ is examined in detail on at least an annual basis, with assumptions set having regard to the Life companies' experience, observed trends and future outlook.

For SLSL, as announced in the Suncorp Group market update in May 2014, key long-term actuarial assumptions were updated. The key principles used to arrive at the assumptions are as follows:

- an adoption of a more forward-looking approach in assumption settings, with greater weight to current experience and expected future trends
- the new approach explicitly reflects the time the SLSL Appointed Actuary believes it will take for the industry to work through the industry's structural challenges and expectation of shorter term shocks as the SLSL and industry dislocation and remediation activities take effect, and
- removal of the various cross subsidies between products that have arisen over a period of time.

As a result, the long-term key claims and lapse assumptions have been strengthened to reflect the current experience, and short-term key claims and lapse assumptions have been further strengthened via future trend overlays until the financial year 2020.

The following table sets out the key factors affecting the determination of the policy liabilities and the critical assumptions and judgments made, as well as significant changes since 2013.

ASSUMPTION	BASIS OF ASSUMPTION	SIGNIFICANT CHANGES SINCE 2013
Investment earnings – participating business	Assumed earning rates are determined having regard to the asset mix of the investment portfolio backing the benefits and the assumed earning rates for each asset type, as at the valuation date. The assumed earnings are based on ten-year Government bond yields, adjusted for an expected risk premium, tax and expenses. See rates in the following table.	None
Investment earnings – non-participating business	Assumed earnings are the risk-free rate determined from the Government bond yield curve. See rates in the following table.	None
Maintenance expenses	Per policy expense rates are based upon expected costs to service existing contracts adjusted for an allocation of overhead expenses, in the period following the reporting date. Expense rates vary by product line and class of business.	SLSL: the approach for allocating overheads between products has changed, now reflecting the latest allocation. ALLNZ: none
Maintenance expense inflation	The inflation rate assumed takes into account the difference between the long-term government bonds and indexed government bonds. The rate for Australia is 2.0% (2013: 2.0%) and New Zealand 2.5% (2013: 2.5%).	None
Benefit indexation	Where future benefits increase in line with inflation, the relevant country's assumed inflation rate is used.	None
Voluntary discontinuance	Rates are based upon recent internal investigations. Rates may vary by product, class of business, age and duration in force. Allowance is also made for cash withdrawals. See rates for each life company in the following table.	SLSL: significant increases for risk business having regard to recent experience, recent trend and future outlook (as mentioned above). ALLNZ: moderate increases for risk business having regard to recent experience.
Surrender values	Surrender values are determined by applying the surrender bases current at the reporting date.	None
Rates of taxation	The rates of taxation assumed are based on current income tax legislation applicable to the type of product.	None
Mortality – individual risk products	Rates are based upon recent internal investigations. Rates may vary by product, class of business, gender, age and duration in force. Rates are expressed as a multiple of standard mortality tables developed by the local actuarial bodies.	None

8. LIFE – SPECIFIC DISCLOSURES (CONTINUED)

8.7 LIFE – NET POLICY LIABILITIES (CONTINUED)

8.7.2 ACTUARIAL ASSUMPTIONS, JUDGMENTS AND ESTIMATES USED IN CALCULATING POLICY LIABILITIES (CONTINUED)

ASSUMPTION	BASIS OF ASSUMPTION	SIGNIFICANT CHANGES SINCE 2013
Mortality – annuitants	Rates are based upon recent internal investigations, and vary by age and gender. Mortality rates for annuitants have been determined using the standard table IM/IF80 with adjustments for assumed future age-related improvements. Tables IM/IF80 were developed by the Institute and Faculty of Actuaries based on UK annuitant lives experience from 1979 to 1982.	None
Morbidity – lump sum	Rates are based on recent internal investigations, and vary by age, gender, and risk rating factors. For Total and Permanent Disablement (**TPD**) policies, rates are expressed as a multiple of industry and population experience. For trauma policies, assumed incidence rates are based on Australian/New Zealand population statistics with adjustments to reflect experience and policy conditions.	SLSL: For trauma, significant increases having regard to recent experience, recent trend and future outlook (as mentioned earlier). For TPD, none. ALLNZ: none
Disability – income	Rates are based on internal investigations, and vary by age, gender and risk rating factors. Rates are determined using the IAD89–93 table developed by the Institute of Actuaries of Australia based on Australian industry experience from 1989 to 1993.	SLSL: significant increases to incidence having regard to recent experience, recent trend and future outlook (as mentioned earlier). Moderate decreases to termination rates having regard to recent experience. ALLNZ: moderate decreases to termination rates having regard to recent experience.
Group lump sum	Claim rates are set as a proportion of premiums net of commission, stamp duty and GST (where applicable).	SLSL: significant increases having regard to recent experience, recent trend and future outlook (as mentioned earlier). ALLNZ: none
Group disability income	Claim rates are set as a proportion of premiums net of commission, stamp duty and GST (where applicable). Claim termination rates are determined using IAD89–93 with adjustments to reflect Australian/New Zealand experience.	SLSL: significant increases having regard to recent experience, recent trend and future outlook (as mentioned earlier). ALLNZ: none
Future supportable bonuses and interest credits to participating policies	Future bonus rates and interest credits assumed are those supported by the value of assets supporting the participating policies and the assumed future experience, including allowance for the shareholder's right to participate in distributions. Distributions are split between policyowners and shareholders with the valuation allowing for shareholders to share in distributions at the maximum allowable rate of 20%.	None

8.7 LIFE – NET POLICY LIABILITIES (CONTINUED)

8.7.2 ACTUARIAL ASSUMPTIONS, JUDGMENTS AND ESTIMATES USED IN CALCULATING POLICY LIABILITIES (CONTINUED)

ASSUMPTION	SLSL		ALLNZ	
	2014	2013	2014	2013
	%	%	%	%
Investment earnings pre-tax for participating business	**4.5 - 5.2**	4.4 - 5.9	**5.3**	5.1
Investment earnings pre-tax for non-participating business	**2.5 - 4.0**	2.5 - 4.7	**3.6 - 5.0**	2.7 - 5.4
Voluntary discontinuance	**4 - 40**	3 - 40	**4 - 25**	4 - 22
Mortality – individual risk products adjustment	**59 - 121**	59 - 121	**65 - 110**	70 - 110
Mortality – annuitants	**60**	60	**66**	66
Future improvements in mortality – annuitants	**97.3**	97.3	**97.5**	97.5

8.7.3 INSURANCE CONTRACT POLICY LIABILITIES

CONSOLIDATED	2014		2013
	CURRENT BASIS[4]	PREVIOUS BASIS[5]	PREVIOUS BASIS[6]
	$M	$M	$M
Insurance contract policy liabilities			
Best estimate liability			
Value of future policy benefits[1]	4,994	4,865	5,218
Value of future expenses	1,962	2,149	2,183
Value of unrecouped acquisition expenses	(869)	(1,011)	(1,191)
Balance of future premiums	(5,496)	(5,863)	(6,260)
	591	140	(50)
Value of future profits			
Policyowner bonuses[2]	575	611	524
Shareholder profit margins	503	734	825
	1,078	1,345	1,349
Total value of declared bonuses[3]	142	142	81
Total net policy liabilities	1,811	1,627	1,380
Life insurance reinsurance ceded	512	321	445
Gross insurance contract liabilities	2,323	1,948	1,825
Policy liabilities subject to capital guarantee	1,451	1,451	1,308

Notes

1. *Future policy benefits include bonuses credited to policyowners in prior periods but exclude current period bonuses and future bonuses. Where business is valued by other than projection techniques, future policy benefits include the account balance.*
2. *Future bonuses exclude current period bonuses.*
3. *Current year declared bonuses valued in accordance with APRA Prudential Standard LPS 340* Valuation of Policy Liabilities *issued under Section 230A(1) of the* Life Act.
4. *Based on actuarial methods and assumptions relevant at the current reporting date, on current in-force business as at 30 June 2014.*
5. *Based on actuarial methods and assumptions relevant at the previous reporting date, on current in-force business as at 30 June 2014.*
6. *Based on actuarial methods and assumptions relevant at the previous reporting date, on current in-force business as at 30 June 2013.*

8. LIFE – SPECIFIC DISCLOSURES (CONTINUED)

8.7 LIFE – NET POLICY LIABILITIES (CONTINUED)

8.7.4 SENSITIVITY ANALYSIS

The Suncorp Group conducts sensitivity analyses to quantify the exposure to risk of changes in the key underlying variables that affect profits. The valuations included in the reported results and the Life companies' best estimate of future performance, are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and net assets of the Life companies and as such represents a risk.

VARIABLE	IMPACT OF MOVEMENT IN UNDERLYING VARIABLE
Maintenance expense	An increase in the level or inflationary growth of expenses over assumed levels would decrease profit and shareholder equity.
Mortality, TPD and trauma rates	For lump sum risk business other than lifetime annuities, greater mortality, TPD or trauma rates would lead to higher levels of claims occurring, increasing associated claims cost and therefore reducing profit and shareholder equity. For lifetime annuities, greater mortality rates would lead to a shorter duration of regular payments, and therefore increasing profit and shareholder equity.
Morbidity rates (disability income)	The cost of health-related claims depends on both the incidence of policyowners becoming disabled and the duration for which they remain disabled. Higher than expected incidence and longer durations would increase claim costs, reducing profit and shareholders' equity.
Discontinuance	An increase in discontinuance rates at earlier durations has a negative effect, reducing profit and shareholder equity, as it affects the ability to recover acquisition expenses and commissions.

For life insurance contracts which are accounted for under APRA Prudential Standard LPS 340, amounts recognised in the current period are unlikely to be sensitive to changes in variables even if those changes may have an impact on future profit margins, except in cases where the product is in loss recognition or goes into loss recognition.

The following table illustrates the impact in the current period of changes in key assumptions as at 30 June 2014. The change in liability and profit (loss) after tax are shown net and gross of reinsurance. There is no impact to equity reserves.

		CHANGE IN INSURANCE CONTRACT LIABILITY		PROFIT (LOSS) AFTER TAX	
		NET OF REINSURANCE	GROSS OF REINSURANCE	NET OF REINSURANCE	GROSS OF REINSURANCE
VARIABLE	CHANGE[1]	$M	$M	$M	$M
Maintenance expense	10% increase	20	20	(14)	(14)
Mortality and lump sum morbidity	10% increase	96	200	(67)	(140)
Morbidity – disability income	10% increase in incidence and decrease in recovery rates	119	324	(87)	(232)
Discontinuance rates	10% increase	107	38	(75)	(27)

Note

1 Sensitivity changes are relative to current best estimate assumptions.

8.7 LIFE – NET POLICY LIABILITIES (CONTINUED)

8.7.4 SENSITIVITY ANALYSIS (CONTINUED)

The following table illustrates the effects of changes in actuarial assumptions from 30 June 2013 to 30 June 2014. Part of the effect of the change in variables below may have been absorbed in to profit margins. This table does not show the impact of the new reinsurance treaty, which was effective at 1 July 2013. This change is treated as a restatement to the opening position, not an assumption change.

	FUTURE PROFIT	POLICY LIABILITIES
	INCREASE (DECREASE)	INCREASE (DECREASE)
ASSUMPTION CATEGORY	$M	$M
Discount rates (risk business)[1]	5	(3)
Discount rates (participating business)	(9)	-
Mortality and morbidity lump sum	(32)	43
Morbidity income	-	94
Lapse and surrender rates	(162)	95
Maintenance expenses	20	(44)
Other	(47)	-

Note

1 Effects for risk business is shown gross of tax.

8.8 LIFE – SUBORDINATED NOTES

LIFE			2014	2013
	DUE DATE	FIRST CALL	$M	$M
Financial liabilities at amortised cost				
Floating rate notes (AUD)	November 2023	November 2018	100	-
Total subordinated notes (unsecured) – non-current			100	-

8. LIFE – SPECIFIC DISCLOSURES (CONTINUED)

8.9 LIFE – PRESCRIBED CAPITAL AMOUNT

Life insurance companies are required to hold prudential reserves above their life insurance contract and investment contract liabilities as a buffer against adverse experience and poor investment returns.

All life insurance companies that conduct insurance business in Australia are authorised by APRA and are subject to Prescribed Capital Amounts (**PCA**) being the minimum level of capital APRA deems insurers must hold to meet policyowner obligations. Similar amounts in the form of minimum solvency capital are prescribed for New Zealand life insurance companies by the Reserve Bank of New Zealand. The Life companies in the Suncorp Group calculate the PCA using the standardised frameworks in accordance with the relevant Prudential Standards.

In addition to the regulatory capital requirements, the Life companies maintain a target surplus providing an additional capital buffer against adverse events. The Life companies use internal capital models to determine their target surplus, with the models reflecting the risks of the business, principally the risk of adverse asset movements relative to the liabilities and of worse than expected claims costs.

The Appointed Actuary for SLSL has confirmed that the available capital base of each life statutory fund have exceeded the respective regulatory capital requirements at all times during the financial year for the Suncorp Group's Australian Life company.

For New Zealand, solvency capital has been calculated in accordance with the *Solvency Standard for Life Insurance Business* issued by the Reserve Bank of New Zealand, as required under the *Insurance (Prudential Supervision) Act 2010*.

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

LIFE	2014		2013	
	SLSL	ALLNZ[1]	SLSL	ALLNZ[1]
	$M	$M	$M	$M
Common Equity Tier 1				
Ordinary share capital	664	202	664	203
Reserves	-	29	-	(5)
Retained profits and non-controlling interests	434	134	1,037	124
Goodwill and other intangible assets	-	-	-	(1)
Net deferred tax liabilities (assets)[2]	-	44	-	(24)
Policy liability adjustment[3]	(850)	(313)	(1,147)	(207)
Other Tier 1 deductions	-	(1)	-	-
Common Equity Tier 1 Capital	248	95	554	90
Tier 2 Capital				
Eligible subordinated notes	100	-	-	-
Tier 2 Capital	100	-	-	-
Total Capital	348	95	554	90
Prescribed Capital Amount (PCA)	199	64	196	53
PCA coverage ratio (times)	1.75	1.48	2.83	1.70

Notes

1 *Asteron Life Limited New Zealand's (ALLNZ) regulatory capital is as prescribed in the Life Solvency Standard, issued by the Reserve Bank of New Zealand, set out in a consistent format with the presentation for the Australian Life company.*

2 *Includes deferred tax liabilities relating to the policy liability adjustment for the New Zealand business.*

3 *Policy liability adjustments equate to the difference between adjusted policy liabilities and the sum of policy liabilities and policyowner retained profits. This mainly represents the implicit deferred acquisition costs for life risk business. The policy liability adjustment for the New Zealand business is shown gross of deferred tax liabilities.*

8.10 LIFE – MANAGED ASSETS AND TRUSTEE ACTIVITIES

Arrangements are in place to ensure activities relating to asset management and trusteeship and mortgage investments are managed separately from the Life operations of the Suncorp Group.

Companies within the Suncorp Group are used to manage assets of subsidiaries, superannuation schemes and unit trusts of the Suncorp Group as well as external clients. Companies within the Suncorp Group also undertake trustee activities. The funds under administration by trustee companies are listed in the table below:

TRUSTEE / FUND MANAGER	2014	2013
	$M	$M
Asteron Life Limited (New Zealand), Asteron Retirement Investment Limited & Asteron Trust Services Limited[1]	295	275
Suncorp Funds Pty Ltd[2]	359	256
Suncorp Portfolio Services Limited[3]	6,873	6,011

Notes

1 *Trustee and manager for a number of wholesale, superannuation and investment funds. The assets and liabilities of these trusts and funds are not consolidated in the financial statements as the Suncorp Group does not control these entities.*

2 *Trustee for various investment trusts.*

3 *Trustee for various internal and external superannuation funds.*

SUNCORP GROUP AND CORPORATE DISCLOSURES

9. REVENUE

9.1 INVESTMENT REVENUE

CONSOLIDATED	2014	2013
	$M	$M
Interest income	872	718
Trust distributions	84	57
Dividends	76	110
Changes in fair value of General Insurance financial assets	95	(57)
Changes in fair value of Life financial assets	418	633
Net gains on derivative and other financial instruments	24	50
Rental income from investment property	-	12
Total investment revenue	1,569	1,523

9.2 OTHER INCOME

CONSOLIDATED	2014	2013
	$M	$M
Fees and commissions	289	374
Fees from trust and fiduciary activities	169	189
Other revenue	87	8
Total other income	545	571

Notes to the consolidated financial statements
for the financial year ended 30 June 2014 (continued)

10. OPERATING EXPENSES

CONSOLIDATED	NOTE	2014	2013
		$M	$M
Staff expenses			
Wages, salaries, share-based payments and other staff costs[1]		1,583	1,573
Defined contribution superannuation expenses		103	97
		1,686	1,670
Occupancy and equipment expenses			
Operating lease rentals		163	156
Other		29	58
		192	214
Information technology and communication		336	294
Depreciation and amortisation			
Depreciation	16	77	80
Amortisation	18	168	139
		245	219
Other expenses			
Advertising and promotion expenses		214	217
Consultancy and legal expenses		74	97
Other		10	21
		298	335
Total operating expenses		2,757	2,732

Note

1 Includes $21,480 thousand (2013: $19,913 thousand) relating to equity-settled share-based payment transactions.

11. INCOME TAX

11.1 INCOME TAX EXPENSE

CONSOLIDATED	2014	2013
	$M	$M
Profit before tax	1,175	766
Income tax using the domestic corporation tax rate of 30% (2013: 30%)	353	230
Effect of tax rates in foreign jurisdictions	(3)	(4)
Increase in income tax expense due to:		
Non-assessable income	-	(3)
Non-deductible expenses	17	21
Imputation gross-up on dividends received	4	4
Statutory funds	25	21
Income tax offsets and credits	(15)	(14)
Life intangible assets write-down	51	-
Amortisation of acquired intangible assets	7	7
Other items	2	11
	441	273
Over-provision in prior financial years	(3)	(3)
Income tax expense on profit before tax	438	270
Income tax expense recognised in profit consists of:		
Current tax expense		
Current year	580	221
Adjustments for prior financial years	1	(26)
	581	195
Deferred tax expense		
Origination and reversal of temporary differences	(143)	75
Total income tax expense	438	270

11. INCOME TAX (CONTINUED)

11.1 INCOME TAX EXPENSE (CONTINUED)

INCOME TAX OF LIFE COMPANIES

Income tax expense includes an expense of $2 million (2013: $58 million) attributable to the Life companies' statutory funds.

AUSTRALIA

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

	2014	2013
	%	%
Applicable tax rates for classes of business		
Complying superannuation business[1]	15	15
Ordinary class of business	30	30
Shareholder funds	30	30

Note

1 Includes Virtual Pooled Superannuation Trust.

NEW ZEALAND

In New Zealand, a corporate tax rate of 28% (2013: 28%) applies for all classes of business.

11.2 CURRENT TAX LIABILITIES AND RECEIVABLES

CONSOLIDATED	2014	2013	2014	2013
	CURRENT TAX RECEIVABLE[1]		CURRENT TAX LIABILITY	
	$M	$M	$M	$M
Current tax receivable / liability relating to:				
Australian tax consolidated group	-	10	370	-
Entities outside of the Australian tax consolidated group:				
New Zealand subsidiaries	-	8	8	-
Other	-	-	1	2
Balance at the end of the financial year	-	18	379	2

Note

1 Current tax receivable is included in other assets in note 17.

11.3 DEFERRED TAX ASSETS AND LIABILITIES

11.3.1 RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

CONSOLIDATED	2014	2013	2014	2013	2014	2013
	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES		NET	
	$M	$M	$M	$M	$M	$M
Property, plant and equipment	31	27	-	-	31	27
Intangible assets	3	1	65	151	(62)	(150)
Investments	29	1	141	87	(112)	(86)
Employee benefits	65	72	-	-	65	72
Provisions	204	237	-	-	204	237
Life liabilities	72	-	80	70	(8)	(70)
Other items	84	68	77	81	7	(13)
Tax assets / liabilities	488	406	363	389	125	17
Set-off of tax	(305)	(342)	(305)	(342)	-	-
Net tax assets	183	64	58	47	125	17

Movement in deferred tax balances during the financial year:

CONSOLIDATED	2014	2013	2014	2013
	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES	
	$M	$M	$M	$M
Balance at the beginning of the financial year	406	473	389	345
Movement recognised in profit or loss	68	(50)	(75)	25
Movement recognised in equity	(21)	(27)	7	(5)
Movement recognised in Life policyowner liabilities	-	-	10	17
Reclassification	31	6	31	6
Foreign currency exchange movement	4	4	1	1
Balance at the end of the financial year	488	406	363	389

There are no unrecognised deferred tax assets and liabilities.

11. INCOME TAX (CONTINUED)

11.3 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

11.3.2 DEFERRED TAX RECOGNISED DIRECTLY IN EQUITY

CONSOLIDATED	2014	2013
	$M	$M
Other comprehensive income		
In respect of items that may be reclassified subsequently to profit and loss		
Relating to cash flow hedges	15	19
Relating to available-for-sale financial assets	7	(1)
	22	18
In respect of items that will not be reclassified subsequently to profit and loss		
Relating to actuarial gains on defined benefit plans	9	6
Transactions with owners, recorded directly in equity		
Share-based payments	(3)	(2)
	28	22

11.4 TAX CONSOLIDATION

The Company is the head company of a tax consolidated group comprising all the Australian wholly-owned entities within the Suncorp Group. In the opinion of the directors, this limits the joint and several liability of the wholly-owned subsidiaries in the case of default by the head company of the tax consolidated group. Under the tax funding agreement, the wholly-owned entities fully compensate the Company for any current tax payable assumed.

12. SHARE-BASED PAYMENTS

The Suncorp Group operates a number of employee equity plans.

The structure of the employee equity plans was redesigned and approved by the Board in August 2013. As a result of the redesign, the following changes were made:

- A new Umbrella Share Plan was established – the Suncorp Group Employee Incentive Plan (**SGEIP**) – which now includes the Long-Term Incentive (Performance Rights) (**LTI**). This new LTI replaces the former Executive Performance Share Plan (**EPSP**), however unvested EPSP awards remain unchanged; and
- The former EPSP was amended and renamed the Suncorp Group Employee Share Plan (**SGESP**). The amendments now enable restricted shares (for senior employees below executive level) and tax exempt shares (formerly awarded under the Exempt Employee Share Plan (**EESP**)) to be granted under this plan.

Shares required for the equity plans are acquired by a special purpose trustee and/or custodial companies in ordinary trading on the Australian Securities Exchange (**ASX**).

Features of the plans currently in operation are set out below:

EQUITY PLANS	SGEIP LTI (FROM OCTOBER 2013) AND THE FORMER EPSP (PRIOR TO OCTOBER 2013)	SGESP (RESTRICTED SHARES)	SGESP (TAX EXEMPT) AND THE FORMER EESP	DEFERRED EMPLOYEE SHARE PLAN (DESP)	NON-EXECUTIVE DIRECTORS SHARE PLAN (NEDSP)
Method of settlement	Equity-settled. Cash-settled in limited circumstances as elected by the Board.	Equity-settled	Equity-settled	Equity-settled	Equity-settled
Eligible plan participant	Executives	Employees in senior roles below executive level that satisfy the eligibility criteria.	Employees not eligible for LTI awards.	Employees can elect to participate.	Non-executive directors or their associates as approved by the Board can elect to participate.
Basis of share grant/issue	Value of shares granted (offered) is determined by the Board based on the executive's remuneration and individual performance.	Value of restricted shares granted (offered) is determined by the Board based on the executive'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.	Non-executive directors nominate a percentage of their pre-tax remuneration up to a maximum of $5,000 per annum to fund the acquisition of shares.
Vesting	Subject to satisfaction of performance criteria over the performance period.	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 or non-executive director's remuneration, the shares are fully vested at the date of acquisition.	
Performance criteria	Refer to note 12.1.1	None	None	None	None
Minimum holding period	None after shares are vested.	None after shares are vested.	Earlier of three years or upon cessation of employment.		None
Plan maximum limit	Shares can only be granted or issued under the plans if the number to be granted or issued will not exceed 5% of the Company's total shares on issue when aggregated with the number of shares granted or issued during the previous five years for all share plans operated by the Company.				
Dividend entitlements	Vested shares carry full entitlement to dividend from the grant date (less any taxes paid by the Plan Trustee in respect of such dividends).		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.	
Voting rights	Voting rights are held by the Plan Trustee until shares are vested.		Participating employees have the right to vote from when the shares are allocated to them in the Plan.	Participating employees and non-executive directors have the right to vote from when the shares are acquired and held in the Plan.	

12. SHARE-BASED PAYMENTS (CONTINUED)

12.1 LONG-TERM INCENTIVE PLAN (PERFORMANCE RIGHTS) AND EPSP (EXECUTIVE LTI PLANS)

12.1.1 PERFORMANCE CRITERIA FOR THE EXECUTIVE LTI PLANS

<table>
<tr><th>GRANT DATE</th><th>EPSP FROM 1 OCTOBER 2008 – 3 MAY 2010</th><th>EPSP FROM 1 OCTOBER 2010 AND LTI FROM 1 OCTOBER 2013</th></tr>
<tr><td>Performance criteria</td><td colspan="2">The criteria is based on total shareholder returns (TSR) achieved by the Company over a performance period relative to the TSR of a comparator group.</td></tr>
<tr><td>Comparator group</td><td>Top 50 Industrial companies in the S&P/ASX 100, excluding listed property trusts.</td><td>Top 50 Industrial companies in the S&P/ASX 100, excluding mining companies and listed property trusts.</td></tr>
<tr><td>Performance results and vesting rules</td><td colspan="2">Shares granted under this plan will vest and are allocated based on the Company's TSR performance results:
<table>
<tr><th>COMPANY PERFORMANCE (TSR PERCENTILE RANKING)</th><th>% OF SHARES AVAILABLE FOR VESTING</th></tr>
<tr><td>$< 50^{th}$ percentile</td><td>Nil</td></tr>
<tr><td>50^{th} percentile</td><td>50%</td></tr>
<tr><td>$> 50^{th}$ but $< 75^{th}$ percentile</td><td>An additional 2% of the shares will vest for each 1% increase (on a straight line basis) in the Company's TSR ranking above the 50th percentile</td></tr>
<tr><td>75^{th} percentile or above</td><td>100%</td></tr>
</table></td></tr>
<tr><td>Initial performance period</td><td colspan="2">The initial performance period commences on the grant date and ends on the initial vesting date which is generally three years after the grant date.</td></tr>
<tr><td>At initial vesting date</td><td>The executive has the right to elect to receive an allocation of shares, based on the performance result described above, or extend the performance period a further two years. If the executive elects to accept the year three performance result, any shares subject to that same offer that are not allocated are forfeited.</td><td>Shares are vested and allocated based on the performance result described above. Any shares offered that are not allocated are forfeited. No extension of performance period is permitted.</td></tr>
<tr><td>During the extended performance period (Period from the initial vesting date to the end of the extended performance period (generally at the end of year five))</td><td>Performance measurements are undertaken during the extended performance period on a six monthly basis. Executives electing to extend the performance period waive their right to make any further election in regard to acceptance of a performance result (and therefore cannot have shares allocated) until the end of year five. The executives' entitlement to an allocation of shares at the end of year five will be based on the highest performance measurement result recorded at any of the prescribed performance measurement points over the extended performance period. Shares not allocated at the end of the extended performance period are forfeited.</td><td>Not applicable.</td></tr>
</table>

12.1.2 SHARES GRANTED UNDER THE EXECUTIVE LTI PLANS

The fair value of services received in return for deferred ordinary shares granted is measured by reference to the fair value of the shares granted. The estimate of the fair value of the shares is measured based on a Monte Carlo simulation pricing model and reflects the fact that vesting of the shares is dependent on meeting performance criteria based on TSR. The vesting of the shares is also subject to non-market conditions but these are not taken into account in the grant date fair value measurement of the services received.

Inputs into the model include expected volatility which is based on the historic volatility of the Company's share price and a risk-free interest rate based on Commonwealth Government bonds.

Details of the deferred ordinary shares granted under the Executive LTI plans as long-term incentives and the inputs for measurement of grant date fair value are detailed on the right:

						2014	2013
		INPUTS FOR MEASUREMENT OF GRANT DATE FAIR VALUE					
GRANT DATE	FAIR VALUE AT GRANT DATE	SHARE PRICE	EXPECTED VOLATILITY	VESTING PERIOD	RISK-FREE INTEREST RATE	NUMBER OF SHARES UNVESTED	NUMBER OF SHARES UNVESTED
1 October 2008	$4.32	$9.61	31%	3 years	5.24%	-	1,377,215
1 October 2009	$6.56	$8.82	47%	4 years	5.17%	-	300,000
1 October 2009	$6.75	$8.82	47%	5 years	5.17%	300,000	300,000
1 October 2010	$5.31	$8.77	29%	3 years	4.87%	-	1,421,112
8 June 2011	$4.13	$8.09	22%	2.3 years	4.87%	-	95,403
1 October 2011	$5.27	$7.98	27%	3 years	3.62%	962,491	1,053,727
1 October 2012	$5.93	$9.20	26%	3 years	2.42%	923,583	1,018,277
25 October 2012	$6.41	$9.66	26%	3 years	2.66%	446,752	446,752
1 October 2013	$7.30	$12.94	23%	3 years	2.83%	925,458	-
24 October 2013	$7.13	$13.14	23%	3 years	2.92%	324,396	-
28 May 2014	$6.77	$13.40	23%	2.3 years	2.72%	83,756	-
						3,966,436	6,012,486

The movement in the number of shares granted under the Executive LTI plans is as follows:

	2014 NUMBER OF SHARES	2013 NUMBER OF SHARES
Outstanding at the beginning of the financial year	6,012,486	7,696,305
Granted during the financial year	1,418,600	1,501,412
Vested and allocated during the financial year	(2,872,638)	(1,937,178)
Forfeited during the financial year	(592,012)	(1,248,053)
Outstanding at the end of the financial year	3,966,436	6,012,486

12. SHARE-BASED PAYMENTS (CONTINUED)

12.2 SUNCORP GROUP EMPLOYEE SHARE PLAN (SGESP) (RESTRICTED SHARES)

The fair value of services received in return for ordinary shares granted is measured by reference to the fair value of the shares granted. The estimate of the fair value of the share-based payment is based on a discounted cash flow model and equal to the expected share price at vesting plus the nominal value of the dividends expected to be paid during the vesting period (with no allowance for reinvestment in additional shares), discounted from the vesting date to the grant date. Holders are also entitled to receive dividends accrued over the vesting period, and paid at vesting date.

Inputs into the model include an expected risk-free interest rate based on Commonwealth Government bonds and a dividend yield of 6.8% (2013: not applicable).

Details of the ordinary shares granted under the SGESP (restricted shares) and the inputs for measurement of grant date fair value are detailed on the right:

						2014	2013
		INPUTS FOR MEASUREMENT OF GRANT DATE FAIR VALUE					
GRANT DATE	FAIR VALUE AT GRANT DATE	SHARE PRICE	DIVIDEND YIELD	VESTING PERIOD	RISK-FREE INTEREST RATE	NUMBER OF SHARES UNVESTED	NUMBER OF SHARES UNVESTED
1 October 2013	$12.86	$12.94	6.8%	3 years	2.83%	134,535	-

The movement in the number of shares granted under the SGESP (restricted shares) is as follows:

	2014	2013
	NUMBER OF SHARES	NUMBER OF SHARES
Outstanding at the beginning of the financial year	-	-
Granted during the financial year	142,055	-
Vested and allocated during the financial year	(743)	-
Forfeited during the financial year	(6,777)	-
Outstanding at the end of the financial year	134,535	-

12.3 OTHER SHARE PLANS

For the DESP and NEDSP, shares are acquired and funded through the participating employee's and non-executive director's remuneration. This has a nil profit or loss impact for the Suncorp Group. Shares are acquired at various times during the financial year. The fair value of these shares is the market value of the shares on the date they were acquired. The total number of shares acquired through the DESP is 267,591 (2013: 198,502), with a fair value of $3,433 thousand (2013: $1,992 thousand). No shares were acquired through the NEDSP for the financial years ended 30 June 2013 and 30 June 2014.

The Board approved a grant to each eligible employee of ordinary shares of the Company to the value of $1,000 (2013: $1,000) under the SGESP (tax exempt) for the financial year. These shares will be acquired on-market for allocation to employees by the share plan in October 2014 (2013: October 2013).

13. DEFINED BENEFIT FUND OBLIGATIONS

Certain subsidiaries of the Company sponsor defined benefit superannuation funds for employees of the Suncorp Group. All defined benefit funds are now closed to new members, with new employees now being given membership of a defined contribution fund. The table opposite shows the net position recognised in relation to the defined benefit funds as at balance date.

The characteristics of the defined benefit funds and their associated risks are summarised as follows:

- Members of the defined benefit funds in Australia receive lump sum benefits on retirement, death, disablement and withdrawal. The Suncorp Defined Benefit Fund has a number of members eligible for part pension benefits and it also currently pays lifetime pensions to a number of pensioners.
- In New Zealand, members receive regular pension payments or deferred pension payments. The amount of pension payable upon retirement of active members is determined based on final pensionable salary and pensionable service.
- The *Superannuation Industry (Supervision)* legislation in Australia and the *Superannuation Schemes Act 1989* in New Zealand govern the superannuation industry and provide the framework within which superannuation funds operate.
- Each defined benefit fund has a trustee who is responsible for the governance of the scheme. The trustees have a legal obligation to act solely in the best interests of fund beneficiaries.
- These defined benefit funds expose the Suncorp Group to a number of risks including investment returns, salary growth, mortality and legislative changes.

CONSOLIDATED	2014		2013	
	NET DEFINED BENEFIT ASSET	NET DEFINED BENEFIT LIABILITY	NET DEFINED BENEFIT ASSET	NET DEFINED BENEFIT LIABILITY
	$M	$M	$M	$M
Defined benefit funds				
Australia				
Suncorp Defined Benefit Fund	-	-	-	8
New Zealand				
Vero and Asteron New Zealand Staff Pension Scheme	-	10	-	26
RIG Superannuation Fund	-	2	-	4
Commercial Union General Insurance Staff Pension Scheme	-	1	-	2
Guardian Assurance Superannuation Fund	1	-	-	-
Total deficit	1	13	-	40

13.1 FUNDING

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. The funding requirements are based on an actuarial valuation performed for each defined benefit superannuation fund at least once every three years. The actuarial valuations for funding purposes prepared under applicable actuarial standards are different to the actuarial valuations prepared in accordance with accounting standards. Assumptions used in actuarial valuations for funding purposes may also be different to those described in note 13.4.

Suncorp Group intends to contribute $4 million to the defined benefit funds in the financial year ending 30 June 2015 in line with the actuaries' latest recommendations.

13. DEFINED BENEFIT FUND OBLIGATIONS (CONTINUED)

13.2 MOVEMENT IN NET DEFINED BENEFIT LIABILITY

CONSOLIDATED	2014	2013	2014	2013	2014	2013
	DEFINED BENEFIT OBLIGATIONS		FAIR VALUE OF PLAN ASSETS		NET DEFINED BENEFIT LIABILITY (ASSET)	
	$M	$M	$M	$M	$M	$M
Balance at the beginning of the financial year	192	199	(152)	(140)	40	59
Included in profit or loss:						
Current service costs	5	4	-	-	5	4
Interest cost (income)	6	5	(6)	(8)	-	(3)
	11	9	(6)	(8)	5	1
Included in other comprehensive income:						
Remeasurement loss (gain) arising from:						
Demographic assumptions	5	5	-	-	5	5
Financial assumptions	(17)	(12)	-	-	(17)	(12)
Experience adjustment	(12)	1	-	-	(12)	1
Return on plan assets excluding interest income	-	-	(4)	(11)	(4)	(11)
Contributions tax	(7)	(3)	-	-	(7)	(3)
Effect of asset ceiling	4	-	-	-	4	-
Actuarial gain on defined benefit plans	(27)	(9)	(4)	(11)	(31)	(20)
Foreign currency exchange movement	10	9	(8)	(6)	2	3
	(17)	-	(12)	(17)	(29)	(17)
Other movements:						
Contributions by employer	-	-	(4)	(3)	(4)	(3)
Benefits paid	(14)	(16)	14	16	-	-
	(14)	(16)	10	13	(4)	(3)
Balance at the end of the financial year	172	192	(160)	(152)	12	40

There are unrecognised surpluses (**asset ceiling**) as a result of limitations in the accounting standards for the recognition of net defined benefit assets of $4 million (2013: $nil). The asset ceiling has been determined as the present value of any economic benefits available in the form of a reduction in future employer contributions and calculated as the value of the future service liabilities less employee contributions plus an allowance for administration costs over the expected term of the liabilities.

13.3 PLAN ASSETS

Plan assets comprise:

CONSOLIDATED	2014	2013
	$M	$M
Plan assets with quoted prices in active markets		
Investment funds (equities)	36	36
Investment funds (bonds)	34	33
Investment funds (other)	19	11
Cash and debt instruments	4	3
Plan assets with no quoted prices in active markets		
Investment funds (balanced)	67	69
	160	152

A review of the strategic plan asset allocation is undertaken regularly. The strategic asset allocation is implemented using investment mandates with fund managers which sets a target weighting across asset classes as well as benchmark return objectives.

13.4 DEFINED BENEFIT OBLIGATION

13.4.1 ACTUARIAL ASSUMPTIONS

CONSOLIDATED	2014	2013
	%	%
Discount rate at 30 June	4.2	3.9
Future salary increases	3.3	3.5
Pension increases	2.5	2.5
Number of year(s) offset to pensioner mortality based on New Zealand Life Tables 2010-12 and an age-related table of future mortality improvements (applicable to New Zealand defined benefit funds only)	1 year	1 year

The weighted average duration of the defined benefit obligation is 10 years (2013: 11 years).

13. DEFINED BENEFIT FUND OBLIGATIONS (CONTINUED)

13.4 DEFINED BENEFIT OBLIGATION (CONTINUED)

13.4.2 SENSITIVITY ANALYSIS

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

CONSOLIDATED	2014	
	INCREASE	DECREASE
	$M	$M
Discount rate movement (100bps)	(15)	18
Future salary increases (100bps)	6	(5)
Future pension increases (100bps)	2	(2)
No. of year(s) offset to pensioner mortality (increase by 1 year to 2 years offset, decrease by 1 year to no offset)	3	(3)

14. DERIVATIVES

CONSOLIDATED	2014			2013		
	NOTIONAL VALUE	FAIR VALUE		NOTIONAL VALUE	FAIR VALUE	
		ASSET	LIABILITY		ASSET	LIABILITY
	$M	$M	$M	$M	$M	$M
Exchange rate-related contracts						
Forward foreign exchange contracts	3,573	2	89	5,094	356	47
Cross currency swaps	2,506	28	126	3,368	-	636
Currency options	-	-	-	17	-	-
	6,079	30	215	8,479	356	683
Interest rate-related contracts						
Forward rate agreements	-	-	-	350	-	-
Interest rate swaps	55,851	268	380	41,070	265	350
Interest rate futures	4,325	2	29	3,498	2	1
Interest rate options	111	-	-	298	4	5
	60,287	270	409	45,216	271	356
Equity contracts						
Equity futures	170	1	1	14	-	-
Total derivative exposures – current	66,536	301	625	53,709	627	1,039

A description of how the Suncorp Group uses derivatives can be found in note 35.7.

15. INVESTMENT SECURITIES

15.1 CORPORATE – INVESTMENT SECURITIES

CORPORATE	2014	2013
	$M	$M
Financial assets at fair value through profit or loss		
Interest-bearing securities	461	317
Unit trusts	226	124
Investments at cost		
Shares in subsidiaries	13,978	14,542
Total investment securities	14,665	14,983
Current	687	441
Non-current	13,978	14,542
Total investment securities	14,665	14,983

15.2 CONSOLIDATED – INVESTMENT SECURITIES

CONSOLIDATED	2014	2013
	$M	$M
Financial assets at fair value through profit or loss		
Interest-bearing securities	16,196	15,163
Equity securities	2,198	2,451
Unit trusts	2,021	1,929
	20,415	19,543
Available-for-sale financial assets		
Interest-bearing securities	2,542	2,352
Held-to-maturity investments		
Interest-bearing securities	3,958	4,288
Total investment securities	26,915	26,183
Current	20,430	19,543
Non-current	6,485	6,640
Total investment securities	26,915	26,183

Notes to the consolidated financial statements

for the financial year ended 30 June 2014 (continued)

16. PROPERTY, PLANT AND EQUIPMENT

CONSOLIDATED	2014				2013			
	LAND & BUILDINGS	LEASEHOLD IMPROVEMENTS	PLANT & EQUIPMENT	TOTAL	LAND & BUILDINGS	LEASEHOLD IMPROVEMENTS	PLANT & EQUIPMENT	TOTAL
	$M	$M	$M	$M	$M	$M	$M	$M
Gross carrying amount	7	354	474	835	7	304	552	863
Less: accumulated depreciation and impairment losses	(5)	(242)	(383)	(630)	(5)	(212)	(434)	(651)
Balance at the end of the financial year	2	112	91	205	2	92	118	212
Movements								
Balance at the beginning of the financial year	2	92	118	212	3	100	113	216
Additions	-	3	78	81	-	9	74	83
Disposals/write-offs	-	-	(13)	(13)	-	(1)	(7)	(8)
Depreciation	-	(29)	(48)	(77)	(1)	(27)	(52)	(80)
Transfers between classes	-	45	(45)	-	-	11	(11)	-
Foreign currency exchange movement	-	1	1	2	-	-	1	1
Balance at the end of the financial year	2	112	91	205	2	92	118	212

17. OTHER ASSETS

CONSOLIDATED	NOTE	2014	2013
		$M	$M
Accrued income		224	238
Current tax receivable	11.2	-	18
Interests in joint ventures		59	59
Development property		38	36
Net defined benefit asset	13	1	-
Other assets		122	161
Total other assets		444	512
Current		346	417
Non-current		98	95
Total other assets		444	512

18. GOODWILL AND INTANGIBLE ASSETS

CONSOLIDATED	GOODWILL	BRANDS	CUSTOMER CONTRACTS & OTHER RELATIONSHIPS	OUTSTANDING CLAIMS LIABILITY INTANGIBLE	SOFTWARE	TOTAL
	$M	$M	$M	$M	$M	$M
2014						
Gross carrying amount	5,330	655	1,248	187	462	7,882
Less: accumulated amortisation and impairment losses	(424)	(201)	(1,068)	(150)	(319)	(2,162)
Balance at the end of the financial year	4,906	454	180	37	143	5,720
Movements in intangible assets						
Balance at the beginning of the financial year	5,043	492	462	44	127	6,168
Acquisitions	-	-	-	-	50	50
Disposal	-	-	-	-	(4)	(4)
Amortisation	-	(38)	(91)	(7)	(32)	(168)
Impairment loss	(156)	-	(191)	-	-	(347)
Foreign currency exchange movement	19	-	-	-	2	21
Balance at the end of the financial year	4,906	454	180	37	143	5,720
Maximum remaining useful life	Indefinite	43 years	13 years	13 years	10 years	
2013						
Gross carrying amount	5,310	655	1,248	187	417	7,817
Less: accumulated amortisation and impairment losses	(267)	(163)	(786)	(143)	(290)	(1,649)
Balance at the end of the financial year	5,043	492	462	44	127	6,168
Movements in intangible assets						
Balance at the beginning of the financial year	5,036	517	539	53	119	6,264
Acquisitions	-	-	-	-	38	38
Disposal	(6)	-	-	-	-	(6)
Amortisation	-	(25)	(77)	(9)	(28)	(139)
Foreign currency exchange movement	13	-	-	-	(2)	11
Balance at the end of the financial year	5,043	492	462	44	127	6,168
Maximum remaining useful life	Indefinite	44 years	14 years	14 years	7 years	

All intangible assets except goodwill have finite useful lives.

18. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

During the financial year ended 30 June 2014, the Suncorp Group reassessed the remaining useful lives of brands and distribution relationships intangible assets in the Life segment. Consequently a $36 million amortisation expense, included as part of operating expenses in the consolidated statement of comprehensive income, is recognised in the 2014 financial year for this change in accounting estimate.

Additionally, following a review of claims and lapse assumptions to take into account the current industry trends and more recent experience, an impairment loss of $191 million on the customer contracts intangible asset in the Life segment and an impairment loss on goodwill of $156 million allocated to the Life cash-generating unit (defined in note 18.1) were recognised in the 2014 financial year.

The amortisation expense resulting from the reassessment of the remaining useful life and the impairment loss on goodwill and intangible assets are included as part of the Corporate segment profit or loss in note 5.1.

18.1 IMPAIRMENT TEST FOR CASH-GENERATING UNITS CONTAINING GOODWILL

For the purpose of the annual impairment test, goodwill is allocated to significant cash-generating units (**CGUs**) which represent the Suncorp Group's operating segments. The carrying amount of each CGU is then compared to its recoverable amount. The accounting policy relating to impairment testing for CGUs containing goodwill is included in note 34.1.16(b).

CONSOLIDATED	2014	2013
	$M	$M
The following CGUs have significant carrying amounts of goodwill		
General Insurance		
Commercial Insurance	1,790	1,790
Personal Insurance	2,377	2,377
New Zealand	273	254
Life	212	368
Banking	254	254
	4,906	5,043

The recoverable amount of each CGU is based on its value in use. The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on both external and internal sources of data.

(A) VALUE IN USE FOR EACH GENERAL INSURANCE AND BANKING CGU

Value in use for each of the three General Insurance CGUs and the Banking CGU was determined by discounting the future cash flows generated from the continuing use of the units and was based on the following key assumptions, for which the values have been obtained on the basis of past experience:

- Post-tax cash flows projected from the financial forecasts prepared by management covering a five-year period from 1 July 2014 (2013: five-year period from 1 July 2013). Cash flows beyond the next five years (2013: five years) are extrapolated using a constant growth rate of 2.8% (2013: 2.8%), which does not exceed the long-term average growth rate for the industry.
- Post-tax discount rates ranging from 10.2% to 11.5% (2013: 9.3% to 10.6%), representing each General Insurance CGU's weighted average cost of capital and the Banking CGU's cost of equity. This is equivalent to 13.9% to 16.7% (2013: 12.6% to 15.3%) on a pre-tax basis.

18.1 IMPAIRMENT TEST FOR CASH-GENERATING UNITS CONTAINING GOODWILL (CONTINUED)

The following table summarises the key assumptions used in the value in use calculations. For each assumption by CGU, the trigger point denotes when the carrying value of the respective CGU would exceed its recoverable amount while holding all other variables, including the carrying value of the CGU, constant.

GENERAL INSURANCE AND BANK CGUS

	DISCOUNT RATE		TERMINAL GROWTH RATE		RETURN ON GI TECHNICAL RESERVES		RETURN ON GI SHAREHOLDER FUNDS		AVERAGE GROWTH IN NET EARNED PREMIUM	
	ASSUMED	TRIGGER POINT	ASSUMED	TRIGGER POINT	ASSUMED	TRIGGER POINT	ASSUMED	TRIGGER POINT	ASSUMED	TRIGGER POINT
	%	%	%	%	%	%	%	%	%	%
2014										
General Insurance										
Commercial Insurance	10.2	11.4	2.8	0.6	6.4	3.0	3.7	1.6	7.9	<0
Personal Insurance	10.2	17.0	2.8	<0	6.4	<0	3.7	<0	3.9	<0
New Zealand	11.5	22.4	2.8	<0	4.8	<0	4.9	<0	8.5	<0
Banking	10.7	12.7	2.8	<0	n/a	n/a	n/a	n/a	n/a	n/a
2013										
General Insurance										
Commercial Insurance	9.3	11.9	2.8	<0	3.3	<0	5.4	<0	6.7	<0
Personal Insurance	9.3	17.2	2.8	<0	3.3	<0	5.4	<0	4.7	<0
New Zealand	10.6	17.6	2.8	<0	4.4	<0	4.3	<0	7.6	<0
Banking	10.2	13.7	2.8	1.7	n/a	n/a	n/a	n/a	n/a	n/a

Notes

n/a denotes the assumption is not relevant to the CGU.

< 0 denotes trigger point is unlikely to be reached.

18. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

18.1 IMPAIRMENT TEST FOR CASH-GENERATING UNITS CONTAINING GOODWILL (CONTINUED)

(B) LIFE CGU

The recoverable amount of the Life CGU has been determined by reference to an appraisal value which comprises the traditional embedded value of the Life portfolios and other relevant businesses and adds a component for the value of future new business. The embedded value of the Life companies and the value of one year's new business were assessed as at 30 June 2014 using discounted cash flow techniques. The value of the businesses other than the Life companies within the Life CGU was also assessed as at 30 June 2014. Key assumptions in the value in use calculation include the risk-adjusted discount rates and the multiple of seven (2013: seven) applied to the value of one-year's sales.

The following table summarises the key economic assumptions used for valuing in-force business and the value of one-year's new business which are based on long-term best estimate assumptions.

LIFE CGU	2014		2013	
	AUSTRALIA	NEW ZEALAND	AUSTRALIA	NEW ZEALAND
	%	%	%	%
Investment return for underlying asset classes				
Risk-free rate (at 10 years)	3.6	5.0	3.9	4.2
Cash	3.7	5.0	3.9	4.6
Fixed interest	4.2	4.8	4.4	4.7
Australian equities (includes allowance for franking credits)	8.7	9.0	8.9	8.8
International equities	7.7	8.0	7.9	7.8
Property	6.2	7.0	6.4	6.8
Investment returns (net of tax)	3.3	3.5	3.5	3.4
Inflation				
Benefit indexation	2.0	2.5	2.5	2.5
Risk discount rate	7.6	8.5	7.9	8.2

The following key assumption changes would result in the carrying value of the Life CGU exceeding the recoverable amount (appraisal value) while holding all other variables, including the carrying value, constant:

- an increase in interest rates by 43 basis points (2013: 140 basis points) (impacts the discount rate and investment returns assumptions)
- an increase in the discontinuance rates assumptions by 117 basis points (2013: 330 basis points)
- an increase in renewal or acquisition expense assumption by 265 basis points (2013: 1,060 basis points); or
- an increase in claims expense assumptions by 98 basis points (2013: 340 basis points).

19. PAYABLES AND OTHER LIABILITIES

CONSOLIDATED	NOTE	2014	2013
		$M	$M
Accrued interest payable		365	436
Amounts due to reinsurers		662	732
Trade creditors and accrued expenses		792	813
Investment settlements		112	81
Net defined benefit liability	13	13	40
Employee benefits and related on-costs liabilities		354	360
Other liabilities		33	16
Total payables and other liabilities		2,331	2,478
Current		2,158	2,281
Non-current		173	197
Total payables and other liabilities		2,331	2,478

The following assumptions were adopted in measuring present values of long service leave employee benefits which are included under employee benefits and related on-costs liabilities above:

CONSOLIDATED	2014	2013
Weighted average rate of increases in annual employee benefits to settlement of the liabilities	3.0%	3.0%
Weighted average discount rate	2.99% – 3.13%	2.58% – 2.65%
Weighted average term to settlement of liabilities	3 – 5 years	3 – 5 years

20. SUBORDINATED NOTES

20.1 CORPORATE – SUBORDINATED NOTES

CORPORATE			2014	2013
	DUE DATE	FIRST CALL	$M	$M
Financial liabilities at amortised cost				
Floating rate notes	November 2023	November 2018	758	756
Total subordinated notes (unsecured) – non-current			758	756

On 22 May 2013, the Company issued 7,700,000 subordinated notes (**SUNPD**) at an issue price of $100 per note. SUNPD will mandatorily convert into a variable number of the Company's ordinary shares on or after 22 November 2023 (subject to satisfaction of the Mandatory Conversion Conditions), unless they are exchanged earlier. The Company may elect to exchange SUNPD following the occurrence of certain events, subject to APRA approval; or on the optional exchange date of 22 November 2018.

In a Non-Viability Trigger Event, SUNPD are converted or written off. A Non-Viability Trigger Event occurs where APRA determines that without the conversion or write-off, or without a public sector injection of capital or equivalent, the Company would become non-viable. In the event of the winding-up of the Company, the rights of the SUNPD holders will rank in priority to the rights of the ordinary and preference shareholders.

20. SUBORDINATED NOTES (CONTINUED)

20.2 CONSOLIDATED – SUBORDINATED NOTES (CONTINUED)

CONSOLIDATED	NOTE	2014	2013
		$M	$M
General Insurance subordinated notes	6.7	727	720
Banking subordinated notes	7.9	742	840
Life subordinated notes	8.8	100	-
Corporate subordinated notes	20.1	758	756
		2,327	2,316
Corporate investment in Banking and Life subordinated notes		(770)	(670)
		1,557	1,646

21. PREFERENCE SHARES

21.1 CORPORATE – PREFERENCE SHARES

CORPORATE	2014		2013	
	NO. OF SHARES	$M	NO. OF SHARES	$M
Convertible preference shares each fully paid				
SUNPC	5,600,000	551	5,600,000	549
SUNPE	4,000,000	392	-	-
Total preference shares – non-current	9,600,000	943	5,600,000	549

Dividends paid during the financial year are as follows:

CORPORATE	2014			2013		
	¢ PER SHARE	$M	DATE PAID	¢ PER SHARE	$M	DATE PAID
Recognised as interest expense						
SUNPC						
September quarter	131	8	17 September 2013	-	-	Not applicable
December quarter	126	7	17 December 2013	61	3	17 December 2012
March quarter	125	7	17 March 2014	134	8	18 March 2013
June quarter	129	7	17 June 2014	136	8	17 June 2013
	511	29		331	19	
SUNPE						
June quarter	47	2	17 June 2014	-	-	Not applicable
	47	2		-	-	
		31			19	

On 6 November 2012, the Company issued 5,600,000 Convertible Preference Shares (**SUNPC**) at an issue price of $100 per share. SUNPC are unsecured, fully paid, convertible preference shares. They will pay, subject to the terms outlined in the Prospectus and at the Company's discretion, floating rate, quarterly, non-cumulative, and preferred dividends which are expected to be fully franked. If the Company does not pay a dividend in full on a dividend payment date (or within three business days of that date), then the Distribution Restriction applies to the Company in respect of the Suncorp Group's dividends on ordinary shares.

SUNPC will mandatorily convert into a variable number of the Company's ordinary shares on or after 17 December 2019 (subject to satisfaction of the Mandatory Conversion Conditions), unless they are exchanged earlier. The Company may elect to exchange SUNPC following the occurrence of certain events, subject to APRA approval; or on the optional exchange date of 17 December 2017. In a Non-Viability Trigger Event, SUNPC are converted or written off. A Non-Viability Trigger Event occurs where APRA determines that without the conversion or write-off, or without a public sector injection of capital or equivalent, the Company would become non-viable. In the event of the winding-up of the Company, the rights of the SUNPC holders will rank in priority to the rights of the ordinary shareholders.

On 8 May 2014, the Company issued 4,000,000 Convertible Preference Shares (**SUNPE**) at an issue price of $100 per share. SUNPE are unsecured, fully paid, convertible preference shares. They will pay, subject to the terms outlined in the Prospectus and at the Company's discretion, floating rate, quarterly, non-cumulative, preferred dividends which are expected to be fully franked. If the Company does not pay a dividend in full on a dividend payment date (or within three business days of that date), then the Distribution Restriction applies to the Company in respect of the Suncorp Group's dividends on ordinary shares.

21.1 CORPORATE – PREFERENCE SHARES (CONTINUED)

SUNPE will mandatorily convert into ordinary shares of the Company on 17 June 2022 (subject to certain conditions being satisfied), unless they are exchanged earlier. The Company may elect to exchange SUNPE following the occurrence of certain events, subject to APRA approval; or on the optional exchange date of 17 June 2020. In a Non-Viability Trigger Event, SUNPE are converted or written off. In the event of the winding-up of the Company, the rights of the SUNPE holders will rank in priority to the rights of the ordinary shareholders.

21.2 CONSOLIDATED – PREFERENCE SHARES

CONSOLIDATED	NOTE	2014	2013
		$M	$M
Banking preference shares	7.10	-	30
Corporate preference shares	21.1	943	549
		943	579

22. SHARE CAPITAL

CONSOLIDATED	ISSUED CAPITAL	SHARE-BASED PAYMENTS	TREASURY SHARES	TOTAL SHARE CAPITAL
	$M	$M	$M	$M
Balance as at 30 June 2012	12,717	75	(120)	12,672
Share-based payments	-	(5)	-	(5)
Treasury share movements	-	-	15	15
Balance as at 30 June 2013	12,717	70	(105)	12,682
Share-based payments	-	(20)	-	(20)
Treasury share movements	-	-	20	20
Balance as at 30 June 2014	12,717	50	(85)	12,682

ORDINARY SHARES

The number of ordinary shares of the Company on issue is 1,286,600,980 (2013: 1,286,600,980).

Under the Dividend Reinvestment Plan, 4,924,754 ordinary shares were allotted on 1 April 2014 for the 2014 interim dividend; 6,732,163 ordinary shares were allotted on 1 October 2013 for the 2013 final and special dividends; 4,155,233 ordinary shares were allotted on 2 April 2013 for the 2013 interim dividend; and 7,376,305 ordinary shares were allotted on 1 October 2012 for the 2012 final and special dividends. Shares for these allotments were acquired on market for delivery to shareholders and resulted in no issue of new 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.

DIVIDEND REINVESTMENT PLAN

All eligible shareholders can elect to participate in the dividend reinvestment plan to reinvest all or part of their dividends, with no brokerage or transaction costs.

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.

23. RESERVES

CONSOLIDATED	NOTE	EQUITY RESERVE FOR CREDIT LOSSES $M	HEDGING RESERVE $M	ASSETS AVAILABLE-FOR-SALE RESERVE $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	TOTAL RESERVES $M
Balance as at 30 June 2012		147	(107)	(5)	(90)	(55)
Transfer to retained profits		(16)	-	-	-	(16)
Amount recognised in equity		-	36	10	-	46
Amount transferred from equity to profit or loss		-	25	(10)	-	15
Income tax	11.3.2	-	(19)	1	-	(18)
Exchange differences on translation of foreign operations		-	-	-	68	68
Balance as at 30 June 2013		131	(65)	(4)	(22)	40
Transfer from retained profits		20	-	-	-	20
Amount recognised in equity		-	42	27	-	69
Amount transferred from equity to profit or loss		-	5	(4)	-	1
Income tax	11.3.2	-	(15)	(7)	-	(22)
Exchange differences on translation of foreign operations		-	-	-	98	98
Balance as at 30 June 2014		151	(33)	12	76	206

EQUITY RESERVE FOR CREDIT LOSSES

APRA Prudential Standard APS 220 *Credit Quality* requires the Bank to report specific provisions and a general reserve for credit losses (**GRCL**) that, together, are adequate at all times to absorb credit losses. The GRCL, for APRA purposes, is comprised of the Bank's collective provision and the equity reserve for credit losses (**ERCL**). The ERCL represents the difference between the Bank's collective provisions for impairment and the estimate of credit losses across the credit cycle based on guidance provided by APRA.

HEDGING RESERVE

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

ASSETS AVAILABLE-FOR-SALE RESERVE

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

FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve consists of all foreign exchange differences arising from the translation of the financial statements of foreign operations that have a functional currency other than Australian dollars.

24. GROUP CAPITAL MANAGEMENT

The capital management strategy of the Suncorp Group is to optimise shareholder value by managing the level, mix and use of capital resources. The primary objective is to ensure there are sufficient capital resources to maintain and grow the business, in accordance with risk appetite. The Suncorp Group's Internal Capital Adequacy Assessment Process (**ICAAP**) provides the framework to ensure that the Suncorp Group as a whole, and each regulated entity, is independently capitalised to meet internal and external requirements. The Company is the non-operating holding company (**NOHC**) for the Suncorp Group which also holds capital in respect of the corporate service companies and a portion of the Suncorp Group's target capital in respect of the General Insurance and Life Insurance businesses.

A range of instruments and methodologies are used to effectively manage capital including share issues, reinsurance, dividend policies and Tier 1 hybrid and Tier 2 subordinated note issues. The Suncorp Group is subject to, and in compliance with, externally imposed capital requirements set and monitored by APRA and, for its New Zealand subsidiaries, the Reserve Bank of New Zealand.

The ICAAP is reviewed regularly and, where appropriate, adjustments are made to reflect changes in economic conditions and risk characteristics of the Suncorp Group's business activities. Capital targets are structured according to both the business line regulatory framework (which includes minimum Common Equity Tier 1 (**CET1**) and Tier 1 requirements) and to APRA's draft standards for the supervision of Conglomerates.

Within the Suncorp Group, regulatory capital is divided into CET1, Additional Tier 1 and Tier 2 Capital. CET1 Capital consists primarily of shareholders' equity adjusted for intangible assets and other regulatory reserves.

The target capital amounts for the General Insurance business are based on multiples of the various prescribed capital amount (**PCA**) components, with different multiples for CET1 Capital, Tier 1 Capital and Total Capital. For the Banking business, the capital targets are ratios representing CET1 Capital, Tier 1 Capital and Total Capital as a percentage of total risk-weighted assets. The Life business capital targets are an amalgamation of target capital for statutory funds of the Life companies and financial service licensing requirements for other entities in the Life business. Further details on the capital requirements applicable to General Insurance, Banking and Life can be found in notes 6.8, 7.11, and 8.9 respectively.

Capital requirements are measured at three levels of consolidation within the Suncorp Group. The licensed general insurer, authorised deposit-taking institution and life insurance company in Australia are each a Level 1 reporting entity. Certain banking entities which meet the APRA definition of extended licensed entities (**ELE**) are also reported as Level 1. The Level 2 General Insurance group consists of Suncorp Insurance Holdings Limited and its subsidiaries. The Level 2 Banking group consists of Suncorp-Metway Limited and its banking subsidiaries which include banking entities that are not ELE. The Level 3 Conglomerate consists of the Company and its subsidiaries.

Additional Tier 1 Capital is comprised primarily of hybrid instruments considered acceptable by APRA, less any prescribed adjustments. Tier 2 Capital is comprised primarily of hybrid and debt instruments considered acceptable by APRA, less any prescribed adjustments. Term subordinated notes are included in Tier 2 Capital and the value recognised as regulatory capital is reduced by 20% for each of their last five years to maturity. Since 1 January 2013, all Tier 2 Capital instruments that did not meet the Basel III or the Life and General Insurance Capital (**LAGIC**) standards were no longer fully eligible for inclusion as eligible capital. For those instruments not fully eligible, the value recognised as regulatory capital is reduced by 10% from the 1 January 2013 base amount each year until 2022.

Regulatory capital will differ from the statutory capital disclosed in the consolidated statement of financial position.

24. GROUP CAPITAL MANAGEMENT (CONTINUED)

The following table demonstrates the distribution of regulatory capital across the Suncorp Group.

	AS AT 30 JUNE 2014				
	GENERAL INSURANCE	BANKING	LIFE	CORPORATE AND CONSOLIDATION	GROUP
	$M	$M	$M	$M	$M
Common Equity Tier 1 Capital					
Ordinary share capital	-	-	-	12,717	12,717
Subsidiary share capital (eliminated upon consolidation)	7,575	3,787	1,970	(13,332)	-
Reserves	13	(975)	311	786	135
Retained profits and non-controlling interests	266	359	(475)	761	911
Insurance liabilities in excess of liability valuation	710	-	-	-	710
Goodwill and other intangible assets	(5,035)	(412)	(231)	(166)	(5,844)
Net deferred tax liabilities (asset)[1]	-	(85)	44	(127)	(168)
Policy liability adjustment[2]	-	-	(1,163)	-	(1,163)
Other deductions	(5)	(26)	(1)	(84)	(116)
Common Equity Tier 1 Capital	3,524	2,648	455	555	7,182
Additional Tier 1 Capital					
Eligible hybrid capital	510	450	-	-	960
Additional Tier 1 Capital	510	450	-	-	960
Tier 1 Capital	4,034	3,098	455	555	8,142
Tier 2 Capital					
General reserve for credit losses	-	237	-	-	237
Eligible subordinated notes	-	670	100	-	770
Transitional subordinated notes	572	72	-	-	644
Tier 2 Capital	572	979	100	-	1,651
Total Capital	4,606	4,077	555	555	9,793
Represented by:					
Capital in Australia regulated entities	4,007	4,074	375	-	8,456
Capital in New Zealand regulated entities	463	-	95	-	558
Capital in unregulated entities[3]	136	3	85	555	779
	4,606	4,077	555	555	9,793

Notes

1 Deferred tax assets in excess of deferred tax liabilities are deducted in arriving at CET1. Under the Reserve Bank of New Zealand's regulations, a net deferred tax liability is added back in determining CET1 Capital.

2 Policy liability adjustments equate to the difference between adjusted policy liabilities and the sum of policy liabilities and policyowner retained profits. This mainly represents the implicit deferred acquisition costs for the life risk business.

3 Capital in unregulated entities includes capital in authorised NOHCs such as the Company, consolidated adjustments within a business unit and other diversification adjustments.

24. GROUP CAPITAL MANAGEMENT (CONTINUED)

	AS AT 30 JUNE 2013				
	GENERAL INSURANCE	BANKING	LIFE	CORPORATE AND CONSOLIDATION	GROUP
	$M	$M	$M	$M	$M
Common Equity Tier 1 Capital					
Ordinary share capital	-	-	-	12,717	12,717
Subsidiary share capital (eliminated upon consolidation)	7,977	3,675	2,435	(14,087)	-
Reserves	(50)	(991)	274	807	40
Retained profits and non-controlling interests	22	173	14	1,052	1,261
Insurance liabilities in excess of liability valuation	650	-	-	-	650
Goodwill and other intangible assets	(5,074)	(384)	(593)	(147)	(6,198)
Net deferred tax asset	-	(113)	(24)	(123)	(260)
Policy liability adjustment[1]	-	-	(1,354)	-	(1,354)
Other deductions	(11)	-	-	(105)	(116)
Common Equity Tier 1 Capital	3,514	2,360	752	114	6,740
Additional Tier 1 Capital					
Eligible hybrid capital	-	450	-	110	560
Transitional hybrid capital	-	30	-	-	30
Additional Tier 1 Capital	-	480	-	110	590
Tier 1 Capital	3,514	2,840	752	224	7,330
Tier 2 Capital					
General reserve for credit losses	-	195	-	-	195
Eligible subordinated notes	-	670	-	-	670
Transitional subordinated notes	643	170	-	-	813
Tier 2 Capital	643	1,035	-	-	1,678
Total Capital	4,157	3,875	752	224	9,008
Represented by:					
Capital in Australia regulated entities	3,620	3,847	587	-	8,054
Capital in New Zealand regulated entities	464	-	90	-	554
Capital in unregulated entities[2]	73	28	75	224	400
	4,157	3,875	752	224	9,008

Notes

1 *Policy liability adjustments equate to the difference between adjusted policy liabilities and the sum of policy liabilities and policyowner retained profits. This mainly represents the implicit deferred acquisition costs for the life risk business.*

2 *Capital in unregulated entities includes capital in authorised NOHCs such as the Company, consolidated adjustments within a business unit and other*

diversification adjustments.

25. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

25.1 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

CONSOLIDATED	2014	2013
	$M	$M
Profit for the financial year	737	496
Non-cash items		
Losses on Banking loans, advances and other receivables	137	902
Impairment loss on goodwill and intangible assets	347	-
Depreciation and amortisation expense	245	219
Change in fair value relating to investing and financing activities	(530)	(600)
Other non-cash items	23	43
Change in assets and liabilities		
Net movement in tax balances	249	21
Decrease in trading securities	1,854	1,340
Increase in Banking loans, advances and other receivables	(1,919)	(1,611)
Decrease in General Insurance and Life assets	378	464
Decrease in other assets	50	121
Increase in deposits and short-term borrowings	32	2,862
Decrease in payables and other liabilities	(178)	(86)
Increase (decrease) in General Insurance and Life liabilities	262	(256)
Net cash from operating activities	1,687	3,915

25.2 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED	2014	2013
	$M	$M
Cash and cash equivalents at the end of the financial year in the consolidated statement of cash flows is represented by the following line items in the consolidated statement of financial position:		
Cash and cash equivalents	895	1,394
Receivables due from other banks[1]	927	1,460
Payables due to other banks	(81)	(213)
	1,741	2,641

Note

1 Includes $268 million (2013: $529 million) of collateral representing credit support to secure the Suncorp Group's derivative liability position, as part of the standard International Swaps and Derivatives Association agreement.

25.3 FINANCING ARRANGEMENTS

CONSOLIDATED	2014		2013	
	PROGRAM LIMIT	UNUSED	PROGRAM LIMIT	UNUSED
	$M	$M	$M	$M
The Suncorp Group had the following debt programs outstanding at the end of the financial year:				
USD $5 billion covered bond program	5,303	3,103	5,392	3,192
USD $15 billion program	15,908	15,252	16,175	12,496
USD $5 billion program	5,303	2,478	5,392	2,581
US144a medium term note program	15,908	14,657	16,175	16,175
AUD transferable certificate of deposit program	5,000	2,250	5,000	2,133
	47,422	37,740	48,134	36,577

26. FINANCIAL INSTRUMENTS

26.1 COMPARISON OF FAIR VALUE TO CARRYING AMOUNTS

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

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

The basis for determining their fair values is described in note 26.2.

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

CONSOLIDATED	NOTE	2014		2013	
		CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
		$M	$M	$M	$M
Financial assets					
Held-to-maturity investments	15.2	**3,958**	**3,995**	4,288	4,327
Banking loans, advances and other receivables	7.4	**49,781**	**50,142**	47,999	48,077
Financial liabilities					
Deposits and short-term borrowings[1]	7.6	**40,868**	**40,636**	39,548	39,621
Debt issues	7.8	**6,831**	**6,788**	7,291	7,469
Subordinated notes	20.2	**1,557**	**1,569**	1,646	1,672
Preference shares	21.2	**943**	**1,015**	579	607

Note

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

Significant assumptions and estimates used to determine the fair values:

FINANCIAL ASSETS

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

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

26.1 COMPARISON OF FAIR VALUE TO CARRYING AMOUNTS (CONTINUED)

FINANCIAL LIABILITIES

The carrying value of non-interest-bearing, call and variable rate deposits, and fixed rate deposits repricing within six months approximates their fair value. Discounted cash flow models are used to calculate the fair value of other term deposits based upon deposit type and related maturities.

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

26.2 FAIR VALUE HIERARCHY

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

- Level 1 – derived from quoted prices (unadjusted) in active markets for identical financial instruments
- 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.

CONSOLIDATED	2014				2013			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	$M	$M	$M	$M	$M	$M	$M	$M
Financial assets								
Trading securities	-	1,593	-	1,593	-	3,462	-	3,462
Investment securities[1]	4,708	18,249	-	22,957	5,822	16,070	3	21,895
Derivatives	3	264	34	301	2	584	41	627
	4,711	20,106	34	24,851	5,824	20,116	44	25,984
Financial liabilities								
Deposits and short-term borrowings[2]	-	2,711	-	2,711	-	3,999	-	3,999
Derivatives	28	501	96	625	1	929	109	1,039
	28	3,212	96	3,336	1	4,928	109	5,038

Notes

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

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

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.2 FAIR VALUE HIERARCHY (CONTINUED)

There have been no significant transfers between Level 1 and Level 2 during the 2014 and 2013 financial years.

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

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

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

CONSOLIDATED	2014			2013		
	ASSET		LIABILITY	ASSET		LIABILITY
	INVESTMENT SECURITIES	DERIVATIVES	DERIVATIVES	INVESTMENT SECURITIES	DERIVATIVES	DERIVATIVES
	$M	$M	$M	$M	$M	$M
Balance at the beginning of the financial year	3	41	109	27	96	222
Total gains or losses included in investment revenue in profit or loss for the financial year[1]	-	4	(17)	-	(10)	(167)
Change in fair value recognised in other comprehensive income	-	-	8	-	-	5
Transfer out to Level 2	(2)	(11)	(1)	(9)	-	-
Purchases	-	-	13	-	16	1
Sales	(1)	-	(16)	(15)	(61)	48
Balance at the end of the financial year	-	34	96	3	41	109

Note

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

26.3 MASTER NETTING OR SIMILAR ARRANGEMENTS

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

Derivative assets and liabilities

- Offsetting has been applied to Suncorp Group derivatives (e.g. interest rate swaps and cross currency swaps) in the consolidated statement of financial position where Suncorp Group has a legally enforceable right to set off and there is an intention to be settled on a net basis.
- Certain Suncorp Group derivatives are subject to the International Swaps and Derivatives Association (**ISDA**) Master Agreement and other similar master netting arrangements. These arrangements contractually bind the Suncorp 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 consolidated statement of financial position.
- The cash collateral pledged or received is subject to ISDA Credit Support Annex and other standard industry terms.

Amounts due from and to reinsurers

- Some reinsurance treaties of the Suncorp Group require netting arrangements whereby the receivable from and payable to reinsurers are settled on a net basis. As such, the Suncorp Group has applied offsetting in the consolidated statement of financial position.
- The collateral received are subject to terms and conditions of the respective reinsurance treaties and provide regulatory capital relief on our credit exposures to reinsurers.

CONSOLIDATED	GROSS AMOUNTS $M	OFFSETTING APPLIED $M	AS PRESENTED IN THE SOFP[1] $M	AMOUNTS NOT OFFSET IN THE SOFP: FINANCIAL INSTRUMENTS $M	AMOUNTS NOT OFFSET IN THE SOFP: CASH COLLATERAL $M	NET EXPOSURE $M
2014						
Financial assets						
Derivatives	7,141	(6,858)	283	(175)	(32)	76
Amounts due from reinsurers[2]	65	(41)	24	-	(1)	23
Total	7,206	(6,899)	307	(175)	(33)	99
Financial liabilities						
Derivatives	7,433	(6,858)	575	(175)	(357)	43
Amounts due to reinsurers[3]	85	(41)	44	-	-	44
Total	7,518	(6,899)	619	(175)	(357)	87
2013						
Financial assets						
Derivatives	8,081	(7,644)	437	(210)	(175)	52
Amounts due from reinsurers[2]	104	(90)	14	-	(1)	13
Total	8,185	(7,734)	451	(210)	(176)	65
Financial liabilities						
Derivatives	8,611	(7,644)	967	(210)	(536)	221
Amounts due to reinsurers[3]	112	(90)	22	-	-	22
Total	8,723	(7,734)	989	(210)	(536)	243

Notes

SOFP denotes consolidated statement of financial position.

1 Balances may not equate to the corresponding line item presented on the face of the consolidated statement of financial position or in the supporting notes. The difference relates to financial assets and financial liabilities that are not subject to master netting arrangements and is therefore not in scope of offsetting disclosures.

2 Included as part of 'other receivables' in note 6.5.

3 Included as part of 'amounts due to reinsurers' in note 19.

26. FINANCIAL INSTRUMENTS (CONTINUED)

26.4 TRANSFER OF FINANCIAL ASSETS

The Suncorp Group enters into repurchase agreements and conducts covered bond and securitisation programs. The Suncorp Group is deemed to have retained substantially all of the risks and rewards associated with the financial assets transferred in these arrangements. As such, the transferred financial assets continue to be recognised in the consolidated statement of financial position.

Repurchase agreements

The Suncorp 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 consolidated statement of financial position, the interest-bearing securities transferred are included in 'Trading securities' and 'Investment securities', and the obligation to repurchase is included in 'Deposits and short-term borrowings'.

Covered bonds

SML conducts a covered bond program whereby it issues covered bonds. A cover pool of eligible loans and advances (**covered pool assets**) is sold by SML to a special purpose trust, which guarantees the covered bonds. Covered bond holders have dual recourse to covered pool assets and SML. SML receives residual income of the special purpose trust after all payments due to covered bond holders have been met. In the consolidated statement of financial position, the covered pool assets transferred are included in 'Banking loans, advances and other receivables' and the covered bonds issued is included in 'Debt issues'.

Securitisation

SML conducts a loan securitisation program whereby eligible loans are packaged and sold as securities issued by special purpose trusts. SML receives residual income from the special purpose trusts after all payments to security holders and costs of the program have been met. In the consolidated statement of financial position, the loans transferred are included in 'Banking loans, advances and other receivables' and the securitisation securities issued are included in 'Securitisation liabilities'.

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

CONSOLIDATED	2014			2013		
	REPURCHASE AGREEMENTS $M	COVERED BONDS $M	SECURITI-SATION $M	REPURCHASE AGREEMENTS $M	COVERED BONDS $M	SECURITI-SATION $M
Carrying amount of transferred financial assets	838	2,705	3,756	280	2,716	5,044
Carrying amount of associated financial liabilities	827	2,197	3,581	280	2,196	4,777
For those liabilities that have recourse only to the transferred assets:						
Fair value of transferred financial assets	838	n/a	3,756	280	n/a	5,044
Fair value of associated financial liabilities	827	n/a	3,581	280	n/a	4,777
Net position	11		175	-		267

Note

n/a = not applicable.

27. PARENT ENTITY AND SUBSIDIARIES

27.1 ULTIMATE PARENT ENTITY

As the Suncorp Group has applied amendments to the *Corporations Act 2001* that remove the requirement to include parent entity financial statements and notes, financial details of the parent entity are included opposite.

COMPANY	2014	2013
	$M	$M
Results of the Company for the financial year:		
Revenue		
Dividend and interest income from subsidiaries	858	1,036
Other investment revenue	29	29
Other income	3	3
Total revenue	890	1,068
Expenses		
Impairment loss on investment in subsidiaries	(319)	-
Interest expense	(79)	(26)
Operating expenses	(4)	(5)
Total expenses	(402)	(31)
Profit before income tax	488	1,037
Income tax expense	(5)	(12)
Profit for the financial year	483	1,025
Total comprehensive income for the financial year	483	1,025

27. PARENT ENTITY AND SUBSIDIARIES (CONTINUED)

27.1 ULTIMATE PARENT ENTITY (CONTINUED)

COMPANY	2014	2013
	$M	$M
Financial position of the Company as at the end of the financial year:		
Current assets		
Cash and cash equivalents	2	18
Investment securities	687	441
Due from Group entities	432	275
Other assets	20	13
Total current assets	1,141	747
Non-current assets		
Investment in subsidiaries	14,056	14,629
Due from Group entities	770	670
Deferred tax assets	5	9
Other assets	67	90
Total non-current assets	14,898	15,398
Total assets	16,039	16,145
Current liabilities		
Payables and other liabilities	8	6
Current tax liabilities	370	-
Due to Group entities	13	256
Total current liabilities	391	262
Non-current liabilities		
Subordinated notes	758	756
Preference shares	943	549
Total non-current liabilities	1,701	1,305
Total liabilities	2,092	1,567
Net assets	13,947	14,578
Equity		
Share capital	12,766	12,786
Reserves	987	987
Retained profits	194	805
Total equity	13,947	14,578

CAPITAL AND EXPENDITURE COMMITMENTS

There are no parent entity capital and expenditure commitments for the acquisition of property, plant and equipment.

CONTINGENT LIABILITIES

The parent entity has provided a written undertaking to a wholly-owned subsidiary to provide financial support by way of injecting capital of up to $20 million (2013: $37 million) where necessary, subject to the financial condition of the subsidiary.

PARENT ENTITY GUARANTEES

There are no parent entity guarantees in relation to the debts of its subsidiaries.

27.2 MATERIAL SUBSIDIARIES OF SUNCORP GROUP LIMITED

CONSOLIDATED			2014	2013
	CLASS OF	COUNTRY OF	EQUITY HOLDING	
MATERIAL SUBSIDIARIES OF SUNCORP GROUP LIMITED INCLUDE[1,2]	SHARES	INCORPORATION	%	%
General Insurance				
Suncorp Insurance Holdings Limited	Ordinary	Australia	100	100
AAI Limited[3]	Ordinary	Australia	100	100
Australian Alliance Insurance Company Pty Limited[4]	Ordinary	Australia	100	100
Australian Associated Motor Insurers Pty Limited[4]	Ordinary	Australia	100	100
Suncorp Insurance Funding 2007 Limited	Ordinary	Australia	100	100
Suncorp Metway Insurance Pty Limited[4]	Ordinary	Australia	100	100
GIO General Pty Limited[4]	Ordinary	Australia	100	100
Suncorp Insurance Services Limited	Ordinary	Australia	100	100
Suncorp Insurance (General Overseas) Pty Ltd	Ordinary	Australia	100	100
Vero Insurance New Zealand Limited	Ordinary	New Zealand	100	100
Banking				
SBGH Limited	Ordinary	Australia	100	100
Suncorp-Metway Limited	Ordinary	Australia	100	100
APOLLO Series Trusts (various)[5]	Units	Australia	100	100
Suncorp Covered Bond Trust	Units	Australia	100	100
Suncorp Metway Advances Corporation Pty Ltd	Ordinary	Australia	100	100
SME Management Pty Limited	Ordinary	Australia	100	100
Life				
Suncorp Life Holdings Limited[6]	Ordinary	Australia	100	100
Guardian Financial Planning Pty Limited	Ordinary	Australia	100	100
Suncorp Insurance (Life Overseas) Pty Ltd	Ordinary	Australia	100	100
Asteron Life Limited	Ordinary	New Zealand	100	100
Suncorp Mortgage Company NZ Limited	Ordinary	New Zealand	100	100
Suncorp Custodian Services Pty Ltd	Ordinary	Australia	100	100
Suncorp Funds Pty Ltd	Ordinary	Australia	100	100
Suncorp Group Investment Trusts (various)[6]	Units	Australia	100	100
Suncorp Life & Superannuation Limited[6]	Ordinary	Australia	100	100
Suncorp Portfolio Services Limited	Ordinary	Australia	100	100
Corporate				
Suncorp Staff Pty Ltd	Ordinary	Australia	100	100
Suncorp Corporate Services Pty Ltd	Ordinary	Australia	100	100
Suncorp Group Employee Share Plan Trust[7, 8]	Units	Australia	100	100
Suncorp Group Employee Incentive Plan Trust[8]	Units	Australia	100	100

Notes

1. *The indentation of entities represents a summarised legal entity hierarchy of the Suncorp Group as at 30 June 2014.*
2. *Non-operating and immaterial operating subsidiaries are excluded from the above list.*
3. *Also registered as an overseas company in New Zealand.*
4. *Converted to a proprietary company during the financial year ended 30 June 2014.*
5. *These trusts are special purpose entities created as part of the Suncorp Group's loan securitisation program. As at 30 June 2014, the Suncorp Group held interests in 10 trusts (2013: 11). Refer to note 34.1.1 for the basis of consolidation.*
6. *The Suncorp Group has nine (2013: nine) wholly-owned unregistered managed investment schemes. They are consolidated by the Suncorp Group subsidiary, which has control of the managed investment scheme (when the controlling subsidiary is assessed as a separate entity). On consolidation, the non-controlling interest recognised by the controlling subsidiary is eliminated against other subsidiaries' holdings in the managed investment schemes.*
7. *Formerly known as Suncorp Group Limited Executive Performance Share Plan Trust.*
8. *These trusts are special purpose entities established to operate the Suncorp Group's employee share plans (refer note 12). These trusts are controlled by the Company.*

Notes to the consolidated financial statements
for the financial year ended 30 June 2014 (continued)

28. UNCONSOLIDATED STRUCTURED ENTITIES

The Suncorp Group conducts fiduciary activities as trustee or custodian for various investment funds and trusts, approved deposit funds, superannuation funds, and wholesale and retail unit trusts. These activities result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions.

The trusts are governed by the terms under which they were created, as set out in their trust deeds. Suncorp Group does not have any other interests in these entities. The assets and liabilities of these trusts are not the property of the Suncorp Group and are not included in the consolidated financial statements as the Suncorp Group does not control these entities.

Where subsidiaries, as single responsible entities or trustees, incur liabilities in respect of these activities, a right of indemnity exists against the assets of the applicable trusts. As these assets are sufficient to cover liabilities, and it is not probable that the subsidiaries will be required to settle them, the liabilities are not included in the consolidated financial statements.

Suncorp Group is deemed a sponsor of these entities through normal terms and conditions and by the association of its brand names. Compensation received by the Suncorp Group from sponsored entities for the year ended 30 June 2014 related to fees for the management and administration of superannuation funds of $69 million

29. CHANGES IN THE COMPOSITION OF THE SUNCORP GROUP

The Suncorp 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) DISCLOSURES

The Suncorp Group has applied the exemption under AASB 124 *Related Party Disclosures* which exempts listed companies from providing remuneration disclosures in relation to their KMP in the notes to the financial statements where this information is disclosed in the Directors' Report. Information regarding KMP remuneration, loans and equity instruments disclosures are included in the Remuneration Report section of the Directors' Report.

The KMP compensation included in 'Staff expenses' (refer note 10) is as follows:

CONSOLIDATED	2014	2013
	$000	$000
Short-term employee benefits	20,389	19,537
Long-term employee benefits	5,248	5,624
Post-employment benefits	416	365
Share-based payments	4,719	4,767
Termination benefits	767	-
	31,539	30,293

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

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

CONSOLIDATED	2014		2013	
	KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES
	$000	$000	$000	$000
Closing balance	5,302	974	2,032	-
Interest charged	185	17	161	-

31. OTHER RELATED PARTY DISCLOSURES

31.1 IDENTITY OF RELATED PARTIES

The Suncorp Group has a related party relationship with its associates and joint venture entities, joint venture operations, joint venture partners and its KMP.

31.2 RELATED PARTY TRANSACTIONS WITH ASSOCIATES, JOINT VENTURE ENTITIES AND OTHER RELATED PARTIES

Transactions between the Suncorp Group and associates and joint venture entities consisted of fees received and paid for information technology services, investment management services, overseas management services, property development finance facilities and reinsurance arrangements. All these transactions were on a normal commercial basis.

CONSOLIDATED	2014	2013
	$000	$000
The aggregate amounts included in the determination of profit before tax that resulted from transactions with related parties are:		
Other income received or due and receivable:		
Associates	205	3,021
Joint ventures	4,577	7,786
Other expenses paid or due and payable:		
Joint ventures	7,747	9,620
Aggregate amounts receivable from, and payable to, each class of related parties at balance date:		
Receivables:		
Associates	1,243	1,200
Joint ventures	79	54
Payables:		
Joint ventures	8	143

32. COMMITMENTS

32.1 CREDIT COMMITMENTS

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

32. COMMITMENTS (CONTINUED)

32.1 CREDIT COMMITMENTS (CONTINUED)

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

CONSOLIDATED	2014	2013
	$M	$M
Notional amounts		
Guarantees entered into in the normal course of business	141	162
Commitments to provide loans and advances	7,100	6,800
	7,241	6,962
Credit equivalent amounts		
Guarantees entered into in the normal course of business	139	152
Commitments to provide loans and advances	1,737	1,723
	1,876	1,875

32.2 OPERATING LEASE EXPENDITURE COMMITMENTS

CONSOLIDATED	2014	2013
	$M	$M
Aggregate non-cancellable operating lease rental payable but not provided in the financial statements:		
Less than one year	161	173
Between one and five years	309	373
More than five years	113	141
	583	687

The Suncorp Group leases property under operating leases expiring from 1-10 years. Leases generally provide the Suncorp 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 operating criteria.

32.3 CAPITAL AND EXPENDITURE COMMITMENTS

Expenditure for the acquisition of plant and equipment and other expenditure contracted for but not provided in the consolidated financial statements was $84 million (2013: $37 million).

33. CONTINGENT ASSETS AND LIABILITIES

33.1 CONTINGENT ASSETS

There are claims and possible claims made by the Suncorp Group against external parties, the aggregate amount of which cannot be readily quantified. Where considered appropriate, legal advice has been obtained. The Suncorp 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.

33.2 CONTINGENT LIABILITIES

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

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

- The Suncorp Group has given guarantees and undertakings in the ordinary course of business in respect to credit facilities and rental obligations. Note 32 sets out the details of these guarantees.
- Certain subsidiaries act as trustee for various trusts. In this capacity, the subsidiaries are liable for the debts of the trusts and are entitled to be indemnified out of the trust assets for all liabilities incurred on behalf of the trusts.
- In the ordinary course of business the Suncorp Group enters into various types of investment contracts that can give rise to contingent liabilities. It is not expected that any significant liability will arise from these types of transactions as any losses or gains are offset by corresponding gains or losses on the underlying exposures.
- Certain subsidiaries are potentially exposed to the Buyer of Last Resort (**BOLR**) clauses in certain advisor contracts. For the BOLR to be exercised, the following key conditions should be met by the advisor: (i) must retire from the industry, (ii) must have good compliance histories and reasonable systems and processes relative to business scale to get a full multiple, and (iii) must have tried to sell externally for a period of six months or more. The maximum potential commitments (all BOLR exercised at once) would be $46 million (2013: $46 million).

34. SIGNIFICANT ACCOUNTING POLICIES

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

The Suncorp Group's significant accounting policies are presented as follows:

- Note 34.1 describes the significant accounting policies applicable to all Suncorp Group entities (including Banking)
- Note 34.2 describes the significant accounting policies specifically applicable to General Insurance
- Note 34.3 describes the significant accounting policies specifically applicable to Life; and
- Note 34.4 details the new accounting standards and interpretation not yet adopted.

34.1 SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO ALL GROUP ENTITIES

The following significant accounting policies are applicable to all Suncorp Group entities.

34.1.1 BASIS OF CONSOLIDATION

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

(A) SUBSIDIARIES

Subsidiaries are entities controlled by the Suncorp Group which includes companies, managed funds and trusts. The Suncorp 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.

(B) SPECIAL PURPOSE ENTITIES

Special purpose entities (**SPEs**) are entities created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. Critical judgments are applied in determining whether an SPE is controlled and consolidated by the Suncorp Group. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Suncorp Group and the SPE's risks and rewards, the Suncorp Group concludes that it controls the SPE.

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

SECURITISATION TRUSTS

The Suncorp Group conducts a loan securitisation program whereby housing mortgage loans are packaged and sold to securitisation trusts known as the Apollo Trusts. The Suncorp Group is entitled to the residual income of the trusts after all payments due to investors and associated costs of the trusts have been met. Further details can be found in note 7.7.

COVERED BOND TRUSTS

The covered bond trusts beneficially owns the covered pool of assets that are secured against the covered bonds issued by SML. Further details can be found in note 7.8.

(C) STATUTORY INSURANCE FUNDS

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

(D) NON-CONTROLLING INTERESTS AND MANAGED FUNDS UNITS ON ISSUE

Non-controlling interests and managed funds units on issue are recognised when the Suncorp Group does not hold 100% of the shares or units in a subsidiary. They represent the external equity or liability interests in non-wholly owned subsidiaries of the Suncorp Group. Where shares or units issued are classified as equity in the subsidiary, non-controlling interests are recognised as equity. Where shares or units issued are classified as a liability in the subsidiary (e.g. investment trusts), managed funds units on issue are recognised as a liability.

(E) JOINT ARRANGEMENTS AND ASSOCIATES (EQUITY ACCOUNTED INVESTEES)

Associates are those entities in which the Suncorp Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Suncorp Group has joint control, whereby the Suncorp Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

These investments are accounted for using the equity method. Interests are initially recognised at cost and adjusted to recognise the Suncorp Group's share of the profit or loss after the date of acquisition. For investments in associates, if the Suncorp Group's share of losses exceeds its investment, the carrying amount is reduced to nil and recognition of further losses is discontinued.

Investments in equity-accounted investees are assessed for impairment each reporting date and are carried at the lower of the equity-accounted amount and recoverable amount.

34.1.1 BASIS OF CONSOLIDATION (CONTINUED)

(F) JOINTLY CONTROLLED ASSETS

Jointly controlled assets are those assets in which the Suncorp Group has joint control. The Suncorp Group's interests are accounted for by including the Suncorp Group's share of the jointly controlled assets (classified according to the nature of the assets rather than as an investment), liabilities and expenses incurred, and income from the sale or use of jointly controlled assets.

(G) JOINT OPERATIONS

Joint operations are those operations in which the Suncorp Group has joint control over the arrangement. They are brought to account by recognising the assets the Suncorp Group controls, the liabilities it incurs, the expenses it incurs and its share of the income that is earned by the joint venture operations.

34.1.2 BUSINESS COMBINATIONS

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

The cost of an acquisition is measured as the fair value of the assets transferred, liabilities incurred, and equity instruments issued by the Suncorp 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 Suncorp Group's consolidated financial statements.

34.1.3 FOREIGN CURRENCY

(A) FOREIGN CURRENCY TRANSACTIONS

Transactions denominated in foreign currencies are translated into the functional currency of the operation using the spot exchange rates at the date of the transaction. Foreign currency monetary assets and liabilities at balance date are translated into the functional currency using the spot exchange rates current on that date. The resulting differences on monetary items are recognised as exchange gains or losses in the financial year in which the exchange rates difference arises. Foreign currency non-monetary assets and liabilities that are measured in terms of historical cost are translated using the exchange rates at the date of the transaction. Foreign currency non-monetary assets and liabilities that are stated at fair value are translated using exchange rates at the dates the fair value was determined. Where a non-monetary asset is classified as an available-for-sale financial asset, the gain or loss is recognised in other comprehensive income.

Where a foreign currency transaction is part of a hedge relationship, it is accounted for as above, subject to the hedge accounting rules set out in note 34.1.12.

(B) FINANCIAL REPORTS OF FOREIGN OPERATIONS

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.

34.1.4 REVENUE AND EXPENSE RECOGNITION

(A) INTEREST INCOME AND EXPENSE

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

(B) DIVIDENDS AND DISTRIBUTION INCOME

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

(C) FAIR VALUE GAINS AND LOSSES

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

(D) FEES AND COMMISSIONS

Fees and commission income and expense (e.g. lending fees) that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Banking non-yield related application and activation lending fee revenue is recognised when the loan is disbursed or the commitment to lend expires.

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

34. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

34.1.5 SHARE-BASED PAYMENTS

The Suncorp Group operates several share-based payment transactions with its non-executive directors and employees which may be equity-settled or equity-settled with a cash settlement alternative (Company's choice).

For equity-settled transactions, the fair value is recognised as an expense on a straight line basis over the vesting period, with a corresponding increase in equity. The fair value is calculated as the fair value of each share granted multiplied by the number of shares expected to eventually vest. The fair value of each share granted is measured on grant date and does not change throughout the vesting period unless the terms and conditions of the grant are modified. The fair value of the share-based payments is based on the market price of the shares, dividend entitlements, and market vesting conditions (e.g. share price related performance criteria) upon which the shares were granted. Non-market vesting conditions (e.g. service conditions) are taken into account by adjusting the number of shares which will eventually vest and are not taken into account in the determination of the grant date fair value. On a cumulative basis, no expense is recognised for shares granted that do not vest due to a non-market vesting condition not being satisfied.

Cash-settled transactions are recognised as a liability at fair value. Until the liability is settled, the fair value of the liability is remeasured at each reporting date, and at the date of settlement, with the changes in fair value recognised in profit or loss for the period.

Equity-settled transactions with a cash settlement alternative (Company's choice) are accounted for as a cash-settled share-based payment transaction to the extent that the Company has a present obligation to settle in cash. Otherwise, the transaction is accounted for as an equity-settled arrangement.

34.1.6 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, using tax rates enacted or substantially enacted at the reporting date.

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 is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised. The tax effect of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

In determining the amount of current and deferred tax, the Suncorp Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Suncorp Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Suncorp Group to change its judgments regarding the adequacy of existing tax liabilities. Such changes to tax liabilities may impact tax expense in the financial period in which such a determination is made.

For presentation purposes, deferred tax assets and deferred tax liabilities have been offset if there is a legally enforceable right to offset current tax assets and liabilities and where they relate to income taxes levied by the same taxation authority on the same taxable entity or entities within the Suncorp Group.

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

TAX CONSOLIDATION

The Company is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries. Consequently, all members of the tax-consolidated group are taxed as a single entity.

The Company and each of its own wholly-owned subsidiaries 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 Company 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 Company as an equity contribution to or distribution from the subsidiary.

The Company in conjunction with members of the tax-consolidated group has entered into a tax sharing agreement and a tax funding agreement. The tax funding agreement requires wholly-owned subsidiaries to make contributions to the Company for current tax liabilities arising from external transactions. The contributions are calculated as if the subsidiary was a separate tax payer, reasonably adjusted for certain intragroup transactions. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities, at call.

34.1.6 INCOME TAX (CONTINUED)

TAXATION OF FINANCIAL ARRANGEMENTS (TOFA)

Compliance with the TOFA legislation is mandatory for the Company for the current year. The Company has accepted the default method of accruals or realisation and has not made any elections regarding transitional financial arrangements or other elective timing methods.

34.1.7 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, payables and the provision for outstanding claims are stated with the amount of GST included.

34.1.8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, cash at branches, cash on deposit, balances with the Reserve Bank of Australia, highly liquid short-term investments and money at short call. Receivables due from other banks are classified as cash equivalents for cash flow purposes. They are measured at face value or the gross value of the outstanding balance which is considered a reasonable approximation of fair value. Bank overdrafts are shown within financial liabilities unless there is a right of offset.

34.1.9 RECEIVABLES DUE FROM AND PAYABLES DUE TO OTHER BANKS

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

34.1.10 NON-DERIVATIVE FINANCIAL ASSETS

(A) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss are classified as either held for trading or are designated upon initial recognition. Financial assets are designated at fair value through profit or loss if the Suncorp Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Suncorp Group's documented risk management or investment strategy. They are initially recognised on the trade date at which the Suncorp Group becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Transaction costs are recognised in the profit or loss as incurred. The assets are measured at fair value each reporting date based on the quoted market price where available. Where quoted prices are not available, alternative valuation techniques are used. Movements in the fair value are taken immediately to the profit or loss. The Suncorp Group's financial assets at fair value through profit or loss include trading securities and investment securities.

(B) HELD-TO-MATURITY INVESTMENTS

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Suncorp Group has the positive intention and ability to hold to maturity. They are initially recognised on trade date at fair value plus any directly attributable transaction costs and are measured at amortised cost using the effective interest rate method at each reporting date. If the investments no longer qualify as held-to-maturity investments, any remaining held-to-maturity investments are reclassified as available-for-sale financial assets.

When reclassifying available-for-sale financial assets to held-to-maturity investments, the fair value carrying amount of the available-for-sale financial assets on the date of reclassification becomes the new amortised cost of the held-to-maturity investments. Any previous gain or loss on these investments recognised in other comprehensive income is amortised to profit or loss over the remaining life of the investments. Any difference between the new amortised cost and maturity amount is amortised over the remaining life of the investment using the effective interest method.

(C) LOANS AND OTHER RECEIVABLES

Loans and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These include all forms of lending and direct finance provided to Banking customers. They are initially recognised on the date that they originated. For Banking loans, this is when cash is advanced to customers. They are initially recognised at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, less any impairment losses.

(D) AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets consist of debt and equity securities which are intended to be held for an indefinite period of time, but which may be sold in response to a need for liquidity or changes in interest rates or exchange rates. They are initially recognised on trade date at fair value plus any directly attributable transaction costs and are measured at fair value at each reporting date. Fair value gains and losses, other than foreign exchange gains and losses on debt securities, are recognised directly in other comprehensive income until impaired or derecognised, whereupon the cumulative gains and losses previously recognised in other comprehensive income are transferred to profit or loss. Foreign exchange gains and losses on debt securities are recognised in profit or loss. The Suncorp Group's available-for-sale financial assets include investment securities.

34. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

34.1.10 NON-DERIVATIVE FINANCIAL ASSETS (CONTINUED)

(E) DERECOGNITION OF FINANCIAL ASSETS

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

(F) REPURCHASE AGREEMENTS

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

34.1.11 DERIVATIVE FINANCIAL INSTRUMENTS

The Suncorp Group holds derivative financial instruments to hedge the Suncorp Group's assets and liabilities or as part of the Suncorp 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. Fair values are determined from quoted market prices where available; where quoted market prices are not available, discounted cash flow models, broker and dealer price quotations or option pricing models are used as appropriate. Derivatives are classified and accounted for as held for trading financial assets at fair value through profit or loss (note 34.1.10 (a)) unless they qualify as a hedging instrument in an effective hedge relationship under hedge accounting (note 34.1.12).

EMBEDDED DERIVATIVES

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

34.1.12 HEDGE ACCOUNTING

The Suncorp 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. On entering into a hedging relationship, the Suncorp Group formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Suncorp Group will assess the hedging instrument’s effectiveness. On an ongoing basis, hedges are assessed for whether they are highly effective in achieving offsetting changes in fair values or cash flows of hedged items. A hedge is considered highly effective when the actual results of the hedge are within a range of 80–125%.

(A) CASH FLOW HEDGES

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

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

Changes in the fair value associated with the effective portion of a hedging instrument designated as a cash flow hedge are recognised in 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, and hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction affects profit or loss. When a forecast transaction is no longer expected to occur, the amounts accumulated in equity are released to profit or loss immediately. In other cases the cumulative gain or loss previously recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

(B) FAIR VALUE HEDGES

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

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

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

34.1.12 HEDGE ACCOUNTING (CONTINUED)

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.

34.1.13 ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

These are non-current assets and liabilities that are expected to be recovered primarily through sale rather than continuing use. Once classified, the assets and liabilities are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification and subsequent gains or losses on re-measurement are recognised in the profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

34.1.14 PROPERTY, PLANT AND EQUIPMENT

(A) RECOGNITION AND INITIAL MEASUREMENT

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition.

Property, plant and equipment are derecognised upon disposal or where no future economic benefits are expected from its use. The resulting gain or loss is recognised and calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds.

(B) DEPRECIATION

The depreciable value of the asset, which is the cost of an asset less any residual value, is depreciated over the asset's useful life. The straight-line method of depreciation is used with assets being depreciated from the date they become available for use.

Useful lives and depreciation methods are reviewed at each annual reporting period. Residual values, if significant, are reassessed annually. The depreciation rates used for the current and comparative periods are as follows:

CLASS	BUILDINGS	LEASEHOLD IMPROVEMENTS	PLANT AND EQUIPMENT
Depreciation rate	2.5%	10%-20%	10%-50%

34.1.15 INTANGIBLE ASSETS

(A) INITIAL RECOGNITION AND MEASUREMENT

Intangible assets are recognised at cost less any accumulated amortisation and any accumulated impairment losses. Where an intangible asset is acquired in a business combination, the cost of that asset is its fair value at acquisition date.

Goodwill is recognised at cost from business combinations as described in note 34.1.2 and is subsequently measured at cost less accumulated impairment loss. Goodwill on equity-accounted investments is included in the carrying value of the investment.

INTERNALLY GENERATED INTANGIBLE ASSETS

Internally generated intangible assets such as software are recorded at cost, which comprises all directly attributable costs necessary to purchase, create, produce, and prepare the asset to be capable of operating in the manner intended by management.

All other expenditure, including expenditure on software maintenance, research costs and brands is recognised as an expense as incurred.

(B) AMORTISATION

Amortisation is recognised in a manner that reflects the pattern in which the asset's future economic benefits are expected to be consumed over the estimated useful lives of finite intangible assets, from the date the assets are available for use. The amortisation method and useful lives are reviewed annually. The estimated useful lives of intangible assets are as follows:

CATEGORY	BRANDS	CUSTOMER CONTRACTS AND OTHER RELATIONSHIPS	OUTSTANDING CLAIMS LIABILITIES INTANGIBLE	SOFTWARE
Useful life	1-50 years	1-30 years	20 years	3-10 years

Intangible assets deemed to have an indefinite useful life are not amortised but are tested for impairment at least annually.

34. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

34.1.16 IMPAIRMENT

(A) FINANCIAL ASSETS

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

LOANS AND RECEIVABLES

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

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

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

In relation to the provision for impairment of Banking loans and advances, two categories of provisions are recognised: specific provisions and collective provisions. Specific impairment provisions are recognised for all loans where there is objective evidence that an individual loan is impaired. Specific impairment provisions are based on the carrying amount of the loan and the present value of expected future cash flows.

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

AVAILABLE-FOR-SALE FINANCIAL ASSETS

An impairment loss is recognised in respect of available-for-sale financial assets where there is evidence of a decrease in fair value below cost or where there is evidence of a loss event having an impact on the estimated future cash flows of an asset. Cumulative losses are transferred from the available-for-sale reserve in equity to the profit or loss. When subsequent events cause the amount of the impairment loss to decrease, a reversal of the impairment is recognised in profit or loss for debt securities and in equity for equity securities.

(B) NON-FINANCIAL ASSETS

Non-financial assets are assessed for indicators of impairment at each reporting date. Indicators include both internal and external factors. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (**CGUs**) – this may be an individual asset or a group of assets. For the purpose of assessing impairment of goodwill, goodwill is allocated to CGUs representing the Suncorp Group's investment in each of its business lines, which are its operating segments.

The recoverable amount of non-financial assets is the greater of their 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.

Impairment losses are recognised in profit or loss. After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Impairment losses, if any, recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

An impairment loss recognised for goodwill is not reversed. An impairment loss for an asset other than goodwill is reversed in subsequent periods if there are indications that the impairment loss previously recognised no longer exists or has decreased. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

34.1.17 NON-DERIVATIVE FINANCIAL LIABILITIES

(A) FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

34.1.17 NON-DERIVATIVE FINANCIAL LIABILITIES (CONTINUED)

(B) FINANCIAL LIABILITIES CARRIED AT AMORTISED COST

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

PREFERENCE SHARES

Preference shares are recognised as financial liabilities at amortised cost. The capital is initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. Dividends are charged as an interest expense as accrued.

SBKPA reset preference shares were exchangeable on specific dates at the option of the holder. Once an exchange request is received, the Suncorp Group could elect to exchange the SBKPA for cash or a variable number of SML ordinary shares, exhibiting characteristics of a financial liability.

SUNPC and SUNPE convertible preference shares are convertible to a variable number of the Company's ordinary shares on mandatory conversion dates, exhibiting characteristics of a financial liability.

Further details on preference shares can be found in notes 7.10 and 21.1.

COMPOUND INSTRUMENTS

The component parts of compound instruments issued by the Suncorp Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a financial liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

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

SUBORDINATED NOTES

Subordinated notes are initially recognised at fair value plus directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method. Interest payments and accruals in relation to subordinated notes are classified as a finance cost. Gains or losses on derecognition are recognised in the profit or loss.

(C) DERECOGNITION OF FINANCIAL LIABILITIES

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

34.1.18 LEASES

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

(A) FINANCE LEASES

Finance leases, where the Suncorp Group is the lessor, are recognised as loans, advances and other receivables on the commencement of the lease, and measured at the net investment in the lease, being the present value of the minimum lease payments receivable and any unguaranteed residual value, plus any initial direct costs.

The revenue attributable to finance leases is brought to account in profit or loss based on a constant periodic rate of return on the Suncorp Group's net investment in the finance lease.

(B) OPERATING LEASES

Payments made under operating leases are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased asset.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

SURPLUS LEASED PREMISES

A provision is recognised for surplus leased premises where it is determined that no material benefit will be obtained by the Suncorp Group from its occupancy. This arises where premises are leased under non-cancellable operating leases and the Suncorp Group either:

- currently does not occupy the premises and does not expect to occupy them in the future
- sublets the premises for lower rentals than it is presently obliged to pay under the original lease; or
- currently occupies the premises which have been assessed to be of no material benefit beyond a known future date.

The provision is calculated on the basis of net future cash outflows.

34. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

34.1.19 EMPLOYEE ENTITLEMENTS

(A) SUPERANNUATION

The Suncorp Group contributes to both defined contribution and defined benefit superannuation schemes. Contributions made to defined contribution plans are charged to the profit or loss as the obligation to pay is incurred. The defined contribution plans receive fixed contributions and the Suncorp Group's legal or constructive obligation is limited to these contributions.

A defined benefit liability is recognised in the consolidated statement of financial position as a net total of the present value of the defined benefit obligation at the balance date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

If the defined benefit liability resulted in a negative balance, a defined benefit asset is recognised as the lower of the negative defined benefit liability and the total of cumulative unrecognised net actuarial losses and past service costs and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are recognised directly in equity. Past service costs are recognised immediately in profit or loss.

(B) 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 their nominal amounts using pay rates expected to be effective when the liability is to be paid. 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.

(C) LONG SERVICE LEAVE AND ANNUAL LEAVE

The liability for long service leave and annual leave is not expected to be settled wholly before twelve months after the end of the annual reporting period. It is recognised 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 Commonwealth Government 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.

(D) TERMINATION BENEFITS

Termination benefits are recognised as an expense when the Suncorp Group can no longer withdraw the offer of those benefits and when the Suncorp Group recognises costs for a restructuring. Termination benefits for voluntary redundancies are recognised as an expense if the Suncorp Group can no longer withdraw the offer as an employee has accepted the offer or when a restriction on the Suncorp Group's ability to withdraw the offer takes effect.

34.1.20 SHARE CAPITAL

(A) REPURCHASE OF SHARE CAPITAL

When share capital is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from total equity.

(B) TREASURY SHARES

Ordinary shares of the Company that are acquired by subsidiaries including share-based remuneration trusts and controlled unit trusts are referred to as treasury shares. They are deducted from consolidated equity at the amount of the consideration paid. No gain or loss on treasury shares is recognised.

(C) TRANSACTION COSTS

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit. Transaction costs in excess of the proceeds of the equity instruments issued, or where no proceeds are raised, are recognised as an expense.

34.1.21 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

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

34.2 SIGNIFICANT ACCOUNTING POLICIES SPECIFICALLY APPLICABLE TO GENERAL INSURANCE

34.2.1 GENERAL INSURANCE REVENUE AND EXPENSE RECOGNITION

(A) PREMIUM REVENUE

Premium revenue comprises amounts charged to policyowners and includes applicable levies and charges such as fire 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 year's experience and information that has become available between the reporting date and the date of completing the consolidated financial statements.

(B) MANAGED FUNDS INCOME

The Suncorp 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 balance 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.

(C) CLAIMS EXPENSE

Claims expense represents payments for claims and the movement in outstanding claims liabilities. Claims represent the benefits paid or payable to the policyowner 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.

(D) OUTWARDS REINSURANCE EXPENSE

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.

34.2.2 FINANCIAL ASSETS BACKING GENERAL INSURANCE LIABILITIES

The Suncorp Group has designated financial assets held in portfolios that match the average duration of a corresponding insurance liability as assets backing General Insurance liabilities. These financial assets include investment securities and are designated as fair value through profit or loss as they are managed and their performance is 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.

34.2.3 FINANCIAL ASSETS NOT BACKING GENERAL INSURANCE LIABILITIES

Financial assets that do not back General Insurance liabilities include investment securities and receivables. Investment securities have been designated as fair value through profit or loss as they are managed and their performance evaluated on a fair value basis. Receivables are measured at amortised cost less accumulated impairment losses.

34.2.4 REINSURANCE AND OTHER RECOVERIES RECEIVABLES

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

34.2.5 PREMIUMS RECEIVABLE

Premiums receivable are measured at amortised cost less accumulated impairment losses. The provision is made for impairment based on objective evidence and having regard to past default experience. Given the short-term nature of most premium receivables, the recoverable amount approximates fair value.

34.2.6 DEFERRED INSURANCE ASSETS

(A) DEFERRED ACQUISITION COSTS (DAC)

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. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

34. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

34.2.6 DEFERRED INSURANCE ASSETS (CONTINUED)

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.

(B) DEFERRED REINSURANCE PREMIUMS

Reinsurance premiums are deferred and recognised as an asset where there are future economic benefits to be received from reinsurance premiums. The amortisation of deferred reinsurance premiums is in accordance with the pattern of reinsurance service received.

34.2.7 UNEARNED PREMIUM LIABILITY

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.

The LAT test is based on prospective information and so is heavily dependent on assumptions and judgments which are explained in note 6.6.2.

34.2.8 OUTSTANDING CLAIMS LIABILITIES

The liability is measured as the central estimate of the present value of expected future payments relating to claims incurred at the reporting date with an additional risk margin to allow for the inherent uncertainty of the central estimate. Standard actuarial methods are applied to determine the net central estimate of outstanding claims liabilities. The outstanding claims liability is heavily dependent on assumptions and judgments. The details of actuarial assumptions and the process for determining the risk margins are set out in note 6.6.2.

34.3 SIGNIFICANT ACCOUNTING POLICIES SPECIFICALLY APPLICABLE TO LIFE

Under the *Life Act*, the Australian Life business is conducted within one or more separate statutory funds, which are distinguished from each other and from the shareholder funds. The financial reports of the Australian life company prepared in accordance with AASB 1038 *Life Insurance Contracts* (and which is lodged with the relevant Australian regulators) show all major components of the financial statements disaggregated between the various life insurance statutory funds and its shareholder funds, as well as between investment-linked business and non-investment-linked business.

The assets of the Life business are allocated between the policyowners and shareholder funds with all assets, liabilities, revenues and expenses recognised in the financial statements, irrespective of whether they are policyowner or shareholder owned.

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

Participating policies are entitled to share in the profits that arise from participating business. This profit sharing is governed by the *Life Act* and the Life companies' constitutions. The participating policyowner profit sharing entitlement is treated as an expense in the profit or loss. Participating policyowners and shareholders in Asteron Life Limited (New Zealand) can only receive a distribution when the prudential reserving requirement is met.

34.3.1 LIFE REVENUE AND EXPENSE RECOGNITION

(A) PREMIUM REVENUE

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

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

(B) FEES AND OTHER REVENUE

Fee revenue is recognised as services are provided. The entry fee in relation to life investment contracts is deferred and recognised over the average expected life of the investment contract. The revenue that can be attributed to the origination service is recognised at inception.

(C) CLAIMS EXPENSE

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

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

34.3.1 LIFE REVENUE AND EXPENSE RECOGNITION (CONTINUED)

(D) OUTWARDS REINSURANCE EXPENSE

Premium ceded to reinsurers is recognised as outwards reinsurance premium expense in profit or loss from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk. A portion of outwards reinsurance premium is recognised as a deferred reinsurance asset at reporting date.

(E) BASIS OF EXPENSE APPORTIONMENT

Life insurance expenditure has been apportioned to the different classes of business in accordance with Division 2 of Part 6 of the *Life Act*. The expense apportionment basis is in line with the principles set out in APRA Prudential Standard LPS 340 *Valuation of Policy Liabilities* and New Zealand Society of Actuaries Professional Standard Number 3 *Determination of Life Insurance Policy Liabilities*.

Expenses excluding investment management fees, which are directly identifiable, have been apportioned between policy acquisition and policy maintenance on the basis of the objective when incurring each expense, and the outcome achieved. Where allocation is not feasible between the disclosure categories, expenses have been allocated as maintenance expenses.

Expenses directly attributable to an individual policy or product are allocated directly to the statutory fund within the class of business of that policy or product. All indirect expenses charged to profit or loss are equitably apportioned to each class of business.

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

34.3.2 FINANCIAL ASSETS BACKING LIFE INSURANCE AND LIFE INVESTMENT LIABILITIES

The Suncorp Group has determined that all financial assets within its statutory funds are assets backing policy liabilities. These financial assets include investment securities and are designated as fair value through profit or loss as they are measured on a basis that is consistent with the measurement of the liabilities.

34.3.3 GROSS POLICY LIABILITIES CEDED UNDER REINSURANCE

Policy claims recoverable from reinsurers are recognised by adjusting the initially recognised amount for credit risk as appropriate. Given the short-term nature of these receivables, the recoverable amount approximates fair value.

34.3.4 PREMIUM RECEIVABLE

Premium receivable is recognised as the amount due net of any provision for impairment. The provision is made for impairment based on objective evidence and having regard to past default experience. Given the short-term nature of most receivables, the recoverable amount approximates fair value.

34.3.5 FINANCIAL ASSETS NOT BACKING LIFE INSURANCE AND LIFE INVESTMENT LIABILITIES

Financial assets held within the shareholder funds do not back life insurance liabilities or life investment liabilities and include investment securities and receivables. Investment securities are designated as fair value through profit or loss as they are managed and their performance evaluated on a fair value basis for internal and external reporting in accordance with the investment strategy. Receivables are measured at amortised cost less accumulated impairment losses.

34.3.6 DEFERRED ACQUISITION COSTS

Life insurance contracts – DAC include the fixed and variable costs of acquiring new business and include commissions, certain advertising and underwriting costs. These costs are implicitly deferred through Margin on Services accounting. The amount deferred is subject to an overall limit such that the value of future profits at inception cannot be negative.

Life investment contracts – DAC include the variable costs of acquiring new business and include commission costs. They are amortised in accordance with the expected earning pattern of the associated revenue.

All other acquisition costs are expensed as incurred.

34.3.7 POLICY LIABILITIES

(A) LIFE INSURANCE CONTRACTS

Life insurance contract liabilities are calculated using the Margin on Services (**MoS**) methodology. Under MoS, the excess of premium received over expected claims and expenses is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyowner.

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

An accumulation method has been used for some risk business, where the liability is based on an unearned premium reserve, less an explicit allowance for DAC, and a reserve for incurred but not reported claims.

34. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

34.3.7 POLICY LIABILITIES (CONTINUED)

(A) LIFE INSURANCE CONTRACTS (CONTINUED)

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

The operating profit arising from discretionary participating contracts is allocated between shareholders and participating policyowners by applying the MoS principles in accordance with the *Life Act* and the New Zealand Society of Actuaries Professional Standard Number 3 *Determination of Life Insurance Policy Liabilities*.

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

(B) LIFE INVESTMENT CONTRACTS

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

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

(C) LIABILITY ADEQUACY TEST (LAT)

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

34.4 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following standards, amendments to standards and interpretations are relevant to current operations. They are available for early adoption but have not been applied by the Suncorp Group in this financial report:

- AASB 9 *Financial Instruments* was issued and introduces changes in the classification and measurement of financial assets and financial liabilities, and new rules for hedge accounting. This standard becomes mandatory for the Suncorp Group's 30 June 2018 financial statements. The potential effects on adoption of the standard are yet to be determined.
- AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* amendment to AASB 132 clarifies when an entity has a legally enforceable right to set-off financial assets and financial liabilities permitting entities to present balances net on the balance sheet. This amendment becomes mandatory for the Suncorp Group's 30 June 2015 financial statements. The potential effects on adoption of the amendments are yet to be determined.

35. GROUP RISK MANAGEMENT

35.1 GROUP RISK MANAGEMENT OBJECTIVES AND STRUCTURE

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

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

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

The Three Lines of Defence model of accountability involves:

LINE OF DEFENCE	RESPONSIBILITY OF	ACCOUNTABLE FOR
First – Manage risk and comply with Suncorp Group frameworks, policies and risk appetite	All business areas (and staff)	• Identifying and managing the risks inherent in their operations • Ensuring compliance with all legal and regulatory requirements and Suncorp Group policies • Promptly escalating 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	All risk functions (Suncorp Group and business units)	• Design, implement and manage the ongoing maintenance of Suncorp Group risk frameworks and related policies • Advise and partner with the business in design and execution of risk frameworks and practices; develop, apply and execute business units' risk frameworks that are consistent with Suncorp Group for the respective business areas • Facilitate the reporting of the appropriateness and quality of risk management.
Third – Independent assurance over internal controls and risk management practices	Internal and external auditors	• 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.

35. GROUP RISK MANAGEMENT (CONTINUED)

35.1 GROUP RISK MANAGEMENT OBJECTIVES AND STRUCTURE (CONTINUED)

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

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

The Suncorp Group has in place a number of Management Committees, each with its own charter, to execute specified responsibilities within the risk framework. Management asset and liability committees are in place to provide effective governance over aspects of the risk framework designed to optimise the long-term returns achieved by asset portfolios within the risk appetite or parameters established by the Board.

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

The key risks addressed by the ERMF are defined below:

KEY RISKS	DEFINITION
Counterparty risk (Credit risk)	The risk that a counterparty will not meet its obligations in accordance with agreed terms.
Liquidity risk	The risk that the Suncorp Group will be unable to service its cash flow obligations today or in the future.
Market risk	The risk of unfavourable changes in foreign exchange rates, interest rates, equity prices, credit spreads and commodity prices.
Asset and liability risk	The risk to earnings and capital from mismatches between assets and liabilities with varying maturity and repricing profiles and from mismatches in term.
Insurance risk	The risk of financial loss and the inability to meet liabilities due to inadequate or inappropriate insurance product design, pricing, underwriting, concentration risk, reserving, claims management and/or reinsurance management.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
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.
Strategic risk	The risk that our business model or strategy is not viable due to uncertainties in the future operating environment.

The Suncorp Group is exposed to mainly the following categories of market risks:

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 movements 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 movements 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.

35.1 GROUP RISK MANAGEMENT OBJECTIVES AND STRUCTURE (CONTINUED)

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

- note 35.2 Group insurance risk management
- notes 35.3 to 35.6 Risk management for financial instruments: credit, liquidity and market risks applied by each of the Suncorp Group's business areas
- note 35.7 Derivative financial instruments and hedging.

35.2 GROUP INSURANCE RISK MANAGEMENT

35.2.1 POLICIES AND PRACTICES FOR MITIGATING INSURANCE RISK

The risk management activities include a well-defined Risk Appetite Statement, prudent underwriting, product design and pricing, acceptance and management of risks, together with claims management and reserving.

The key controls in place to mitigate insurance risk include the following:

- an internal licensing regime within the General Insurance business which sets out delegated authorities and minimum standards for risk controls including monitoring and reporting
- pricing strategies aligned to the business strategy and within risk appetite, with clearly defined pricing mechanisms sourced from technical pricing models and actuarial overview
- the setting and adherence to underwriting guidelines that determine processes and procedures for the acceptance of risk
- the setting of formal claims acceptance limits, loss estimation and investigation processes, and the regular review and updating of claims experience data
- the reduction in insurance risk concentration through diversification, implementing reinsurance arrangements to preserve capital and manage earnings volatility from large individual claims or large volumes of claims originating from catastrophic natural disaster events
- the maintenance of appropriate actuarial reserves including regular review by the General Insurance Appointed Actuary of reserves to cover claims incurred but not yet reported, and for claims incurred but not enough reserved
- procedures to manage risk when introducing or changing a product
- the identification and consistent monitoring against budget projections derived from the actuarial projection models of external variables which impact claims cash flow such as mortality and morbidity experience, claims frequency, severity and policy persistency
- managing of risk exposures using various analysis and valuation techniques, including stochastic modelling, to calculate the capital required under adverse risk scenarios; and
- the monitoring of natural disasters such as floods, storms, earthquakes and other catastrophes. Exposures to such risks are assessed and monitored using externally developed industry standard catastrophe models. In addition, the Board receives Australian General Insurance and Life Insurance Financial Condition Reports from the Appointed Actuaries who also provide advice in relation to premium, issuing of new policies and reinsurance arrangements in accordance with APRA Prudential Standards. The Appointed Actuary for Asteron Life Limited (New Zealand) (**ALLNZ**) provides a Financial Condition Report and similar advice to the ALLNZ Board. The Vero Insurance New Zealand Limited (**VINZL**) Appointed Actuary provides similar advice to the VINZL Board in addition in respect of obligations imposed by the Reserve Bank of New Zealand.

Concentration of insurance risk is mitigated through diversification over classes of insurance business, industry segments, geographical segments (Australia and New Zealand), the use of reinsurer coverage and ensuring there is an appropriate mixture of individual and group insurance business split between mortality, morbidity and annuity benefit payments. Catastrophe insurance is also purchased to ensure that any accumulation of losses from a single catastrophic event is mitigated.

Exposure to risk of large claims for individual lives is managed through the use of surplus reinsurance arrangements whereby the Suncorp Group's maximum exposure to any individual life is capped. Concentrations of risk by product type are managed through monitoring of the Suncorp Group's in-force life insurance business and the mix of new business written each year.

A product pricing and re-rating process ensures that any cross subsidies between insurance rates for groups of policyowners of different sex and age are minimised such that profitability is not materially impacted by changes to the age and sex profile of the in-force business while complying with all regulatory obligations.

35.2.2 TERMS AND CONDITIONS OF INSURANCE BUSINESS

(A) GENERAL INSURANCE

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.

35. GROUP RISK MANAGEMENT (CONTINUED)

35.2.2 TERMS AND CONDITIONS OF INSURANCE BUSINESS (CONTINUED)

(B) LIFE BUSINESS

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

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

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

35.3 GENERAL INSURANCE RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS

35.3.1 CREDIT RISK

General Insurance is exposed to and manages the following key sources of credit risk.

KEY SOURCES OF CREDIT RISK	HOW THESE ARE 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. Certain derivatives have signed Credit Support Annexes addendums for their ISDA documentation to facilitate derivative transactions and manage credit risk.
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 consolidated 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 consolidated statement of financial position represents the current risk exposure, but not the maximum risk exposure. The notional value and fair value of derivatives are illustrated in note 6.3.

35. GROUP RISK MANAGEMENT (CONTINUED)

35.3 GENERAL INSURANCE RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS (CONTINUED)

35.3.1 CREDIT RISK (CONTINUED)

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

GENERAL INSURANCE

	CREDIT RATING						
	AAA	AA	A	BBB	NON-INVESTMENT GRADE	NOT RATED	TOTAL
	$M	$M	$M	$M	$M	$M	$M
2014							
Cash and cash equivalents	-	57	224	-	-	-	281
Investment securities	4,344	4,014	2,225	379	-	1,505	12,467
Derivatives[3]	1	11	11	-	-	-	23
General Insurance assets[1,2,3]	393	811	753	-	-	3,191	5,148
Other	37	28	27	6	-	-	98
	4,775	4,921	3,240	385	-	4,696	18,017
2013							
Cash and cash equivalents	-	50	96	-	-	-	146
Investment securities	4,632	3,875	2,085	287	-	869	11,748
Derivatives[3]	-	21	18	-	-	-	39
General Insurance assets[1,2,3]	422	1,171	1,010	32	-	2,984	5,619
Other	30	46	31	5	-	-	112
	5,084	5,163	3,240	324	-	3,853	17,664

Notes

1 Only includes components of General Insurance assets that are classified as financial assets.

2 The amount classified as 'not rated' is mainly related to premiums outstanding and other receivables which are not rated according to Standard & Poor's counterparty credit ratings. The table below presents the ageing profile of these balances.

3 Collateral arrangements exist for non-regulated reinsurers and certain derivative positions.

35.3 GENERAL INSURANCE RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS (CONTINUED)

35.3.1 CREDIT RISK (CONTINUED)

All General Insurance financial assets are neither past due nor impaired at balance date except for those disclosed as past due but not impaired or impaired 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.

GENERAL INSURANCE	NEITHER PAST DUE NOR IMPAIRED	PAST DUE BUT NOT IMPAIRED				IMPAIRED	TOTAL
		0-3 MTHS	3-6 MTHS	6-12 MTHS	> 12 MTHS		
	$M	$M	$M	$M	$M	$M	$M
2014							
Premiums outstanding	2,439	74	10	11	9	7	2,550
Other receivables	172	20	2	2	3	-	199
	2,611	94	12	13	12	7	2,749
2013							
Premiums outstanding	2,213	43	63	23	1	6	2,349
Other receivables	165	11	3	1	1	-	181
	2,378	54	66	24	2	6	2,530

Receivables neither past due nor impaired in the above table are not rated according to Standard & Poor's counterparty credit ratings. Collateral arrangements exist for non-regulated reinsurers and certain derivative positions.

35. GROUP RISK MANAGEMENT (CONTINUED)

35.3 GENERAL INSURANCE RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS (CONTINUED)

35.3.2 LIQUIDITY RISK

To ensure payments are made when they fall due, General Insurance 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 are applied to each General Insurance legal entity.

The following table summarises the maturity profile of General Insurance financial liabilities based on the remaining undiscounted contractual obligations. It also includes the maturity profile for outstanding general insurance claims liabilities based on the discounted estimated timing of net cash outflows.

GENERAL INSURANCE	CARRYING AMOUNT	1 YEAR OR LESS	1 TO 5 YEARS	OVER 5 YEARS	TOTAL CASH FLOWS
	$M	$M	$M	$M	$M
2014					
Payables and other liabilities[1]	1,136	1,136	-	-	1,136
Unearned premium liabilities	4,659	4,659	-	-	4,659
Net discounted outstanding claims liabilities	7,115	2,458	3,421	1,236	7,115
Subordinated notes	727	217	558	-	775
	13,637	8,470	3,979	1,236	13,685
Derivative financial instruments					
Derivative liabilities (net settled)	100	46	51	24	121
Amounts receivable (gross settled)	-	(11)	(246)	-	(257)
Amounts payable (gross settled)	49	10	314	-	324
	149	45	119	24	188
2013					
Payables and other liabilities[1]	1,193	1,153	40	-	1,193
Unearned premium liabilities	4,524	4,524	-	-	4,524
Net discounted outstanding claims liabilities	6,890	2,423	3,252	1,213	6,888
Subordinated notes	720	40	753	-	793
	13,327	8,140	4,045	1,213	13,398
Derivative financial instruments					
Derivative liabilities (net settled)	53	27	33	10	70
Amounts receivable (gross settled)	-	(13)	(237)	-	(250)
Amounts payable (gross settled)	63	12	331	-	343
	116	26	127	10	163

Note

1 Only includes components of payables and other liabilities that are classified as financial liabilities.

35.3 GENERAL INSURANCE RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS (CONTINUED)

35.3.3 MARKET RISK

(A) FOREIGN EXCHANGE RISK

General Insurance 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 USD forward exchange contracts. General Insurance is also exposed to foreign exchange risk through investments in foreign securities which is managed via the use of cross-currency swaps.

In respect of the Australian General Insurance business, the practice is that all policies are written in Australian dollars, unless separately authorised, with processes in place to comply with the Suncorp Group Foreign Exchange Policy. Likewise, in the New Zealand General Insurance business, most policies are written in New Zealand Dollars.

The New Zealand Canterbury earthquakes events are predominantly covered by the Suncorp Group reinsurance treaties. Any residual foreign exchange risk is sufficiently covered by the Net outstanding claims provision.

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

The movements in foreign exchange rates used in the sensitivity analysis for 2014 have been revised to reflect an updated assessment of the reasonable possible changes in foreign exchange rates over the next months, given renewed observations and experience in the investment markets during the financial year.

GENERAL INSURANCE	2014			2013		
	EXPOSURE AT 30 JUNE	CHANGE IN FX RATE	PROFIT (LOSS) AFTER TAX	EXPOSURE AT 30 JUNE	CHANGE IN FX RATE	PROFIT (LOSS) AFTER TAX
	$M	%	$M	$M	%	$M
EUR	25	+ 10	2	42	+ 15	4
		– 10	(2)		– 15	(5)
GBP	30	+ 10	2	23	+ 15	2
		– 10	(2)		– 15	(2)
JPY	24	+ 10	2	22	+ 15	2
		– 10	(2)		– 15	(2)
USD	133	+ 10	9	160	+ 10	11
		– 10	(10)		– 10	(12)
Other	57	+ 10	4	20	+ 15	2
		– 10	(4)		– 15	(2)

(B) 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 hold significant interest-bearing securities in support of corresponding outstanding claims liabilities and 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.

35. GROUP RISK MANAGEMENT (CONTINUED)

35.3 GENERAL INSURANCE RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS (CONTINUED)

35.3.3 MARKET RISK (CONTINUED)

(B) INTEREST RATE RISK (CONTINUED)

The sensitivity of profit and loss after tax to movements in interest rates in relation to interest-bearing financial assets held at the balance 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 balance date and there are concurrent movements in interest rates and parallel shifts in the yield curves. The movements in interest rate used in the sensitivity analysis for 2014 have been revised to reflect an updated assessment of the reasonable possible changes in interest rates over the next twelve months, given renewed observations and experience in the investment markets during the financial year.

GENERAL INSURANCE	2014			2013		
	EXPOSURE AT 30 JUNE	CHANGE IN INTEREST RATE	PROFIT (LOSS) AFTER TAX	EXPOSURE AT 30 JUNE	CHANGE IN INTEREST RATE	PROFIT (LOSS) AFTER TAX
	$M	BP	$M	$M	BP	$M
Interest-bearing investment securities (including derivative financial instruments)	10,787	+ 125	(186)	10,793	+ 125	(280)
		– 25	39		– 50	119
Other financial liabilities	610	+ 125	5	602	+ 125	5
		– 25	(2)		– 50	(2)

(C) EQUITY RISK

The General Insurance business has exposure 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 for price movements for exposures as at the balance date with all other variables remaining constant. There is no impact on equity reserves.

GENERAL INSURANCE	2014			2013		
	EXPOSURE AT 30 JUNE	CHANGE IN EQUITY PRICES	PROFIT (LOSS) AFTER TAX	EXPOSURE AT 30 JUNE	CHANGE IN EQUITY PRICES	PROFIT (LOSS) AFTER TAX
	$M	%	$M	$M	%	$M
Australian equities	246	+ 15	26	269	+ 15	28
		– 15	(26)		– 15	(28)
International equities	348	+ 15	36	371	+ 15	39
		– 15	(36)		– 15	(39)

35.3 GENERAL INSURANCE RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS (CONTINUED)

35.3.3 MARKET RISK (CONTINUED)

(D) CREDIT SPREAD RISK

General Insurance is exposed to credit spread risk through its investments in non-Commonwealth Government-issued bonds. 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 balance date. There is no impact on equity reserves.

The movements in credit spread used in the sensitivity analysis for 2014 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.

GENERAL INSURANCE	2014			2013		
	EXPOSURE AT 30 JUNE	CHANGE IN CREDIT SPREAD	PROFIT (LOSS) AFTER TAX	EXPOSURE AT 30 JUNE	CHANGE IN CREDIT SPREAD	PROFIT (LOSS) AFTER TAX
	$M	BP	$M	$M	BP	$M
Credit exposure (excluding semi-government)	6,349	+ 75	(96)	6,637	+ 75	(87)
		– 25	33		– 50	60
Credit exposure (semi-government)	2,348	+ 50	(41)	1,730	+ 50	(36)
		– 20	17		– 30	22

35. GROUP RISK MANAGEMENT (CONTINUED)

35.4 BANKING RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS

35.4.1 CREDIT RISK

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

Credit risk is managed on a structured basis with approval decisions being taken within credit approval authorities delegated by the Board. The acceptance and management of credit risk is performed independently as is the setting and maintaining of detailed credit policies and standards. The Bank Credit Risk Committee and the Bank Chief Risk Officer have responsibility for the independent management of credit functions to monitor trends impacting the credit quality of lending portfolios, develop and maintain risk grading and automated risk assessment systems and manage troublesome and impaired assets.

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

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

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

A credit inspection process is in place to review the acceptance and management of credit risk in accordance with the approved risk management framework.

The Bank manages its exposure to credit losses on derivative contracts by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. The International Swaps and Derivatives Association (**ISDA**) Master Agreement and Credit Support Annex provides a contractual framework for derivatives dealing across a full range of over-the-counter products. This agreement contractually binds both parties to apply close out netting across all outstanding transactions covered by an agreement if either party defaults or other pre-agreed termination events occur.

The carrying amount of the relevant asset classes in the consolidated statement of financial position represents the maximum amount of credit exposures as at the end of the financial year, except for derivatives. The fair value of derivatives recognised in the consolidated 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 7.3.

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

- No adjustments are made for any collateral held or credit enhancements
- Impaired loans are those for which the Bank has determined that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. In relation to loans for business purposes, all relevant circumstances surrounding the customer are considered before a loan is considered impaired; and
- An asset is considered past due when any payment under the strict contractual terms have been missed or received late. The amount included as past due is the entire contractual balance, not just the overdue portion.

35.4.1 CREDIT RISK (CONTINUED)

BANKING

	RECEIVABLES DUE FROM OTHER BANKS	TRADING SECURITIES	INVESTMENT SECURITIES	LOANS, ADVANCES AND OTHER RECEIVABLES	CREDIT COMMITMENTS[1]	DERIVATIVES[1]	TOTAL RISK	INDIVIDUALLY PROVISIONED IMPAIRED ASSETS	PAST DUE > 90 DAYS BUT NOT IMPAIRED	REMAINING ASSETS[2] AND IMPAIRED
	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
2014										
Agribusiness	-	-	-	4,269	172	-	4,441	197	8	4,236
Construction	-	-	-	606	142	-	748	36	4	708
Financial services	927	1,593	6,500	194	187	358	9,759	-	-	9,759
Hospitality	-	-	-	1,002	60	-	1,062	29	-	1,033
Manufacturing	-	-	-	364	24	-	388	11	15	362
Professional services	-	-	-	258	10	-	268	5	2	261
Property investment	-	-	-	1,995	81	-	2,076	12	14	2,050
Real estate - Mortgages	-	-	-	38,948	1,237	-	40,185	22	358	39,805
Personal	-	-	-	431	10	-	441	-	8	433
Government and public authorities	-	-	-	1	-	-	1	-	-	1
Other commercial and industrial	-	-	-	1,939	109	-	2,048	21	30	1,997
Total gross credit risk	927	1,593	6,500	50,007	2,032	358	61,417	333	439	60,645
Impairment provisions							(226)	(106)	(34)	(86)
							61,191	227	405	60,559
2013										
Agribusiness	-	-	-	3,919	184	-	4,103	129	24	3,950
Construction	-	-	-	790	116	-	906	155	33	718
Financial services	1,460	3,462	6,640	194	173	516	12,445	-	-	12,445
Hospitality	-	-	-	1,017	46	-	1,063	39	23	1,001
Manufacturing	-	-	-	393	29	-	422	13	2	407
Professional services	-	-	-	259	10	-	269	3	2	264
Property investment	-	-	-	2,205	77	-	2,282	44	18	2,220
Real estate - Mortgages	-	-	-	37,092	1,224	-	38,316	29	290	37,997
Personal	-	-	-	462	8	-	470	-	7	463
Government and public authorities	-	-	-	1	-	-	1	-	-	1
Other commercial and industrial	-	-	-	1,967	163	-	2,130	94	35	2,001
Total gross credit risk	1,460	3,462	6,640	48,299	2,030	516	62,407	506	434	61,467
Impairment provisions							(300)	(198)	(38)	(64)
							62,107	308	396	61,403

Notes

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

2 *Not past due or past due ≤ 90 days.*

35. GROUP RISK MANAGEMENT (CONTINUED)

35.4.1 CREDIT RISK (CONTINUED)

(A) CREDIT QUALITY

The following table provides information regarding the credit quality of the Bank's loans, advances and other receivables. Performing loans represent loans that are neither past due nor impaired. Non-performing loans represent loans that are past due and not past due but impaired.

	PAST DUE > 90 DAYS	NOT PAST DUE OR PAST DUE ≤ 90 DAYS
IMPAIRED	Non-performing loans	Non-performing loans
NOT IMPAIRED		Performing loans

BANKING	2014 $M	2013 $M
Performing loans		
Loans, advances and receivables	49,230	47,342
Loans, advances and receivables with renegotiated terms	5	17
Collective provision for impairment	(86)	(64)
	49,149	47,295
Non-performing loans – not impaired		
Non-performing loans – not impaired	439	434
Collective provision for impairment	(34)	(38)
	405	396
Non-performing loans – impaired		
Individually impaired loans	333	506
Specific provision for impairment	(106)	(198)
	227	308
Total Banking loans, advances and receivables	49,781	47,999

Ageing of past due but not impaired financial assets is used by Banking to measure and manage emerging credit risks. A summary of the ageing of past due but not impaired loans, advances and other receivables is in the table following. The balances of financial assets other than loans, advances and other receivables are all neither past due nor impaired.

35.4.1 CREDIT RISK (CONTINUED)

(A) CREDIT QUALITY (CONTINUED)

BANKING	PAST DUE BUT NOT IMPAIRED					
	0-30 DAYS	30-60 DAYS	60-90 DAYS	90-180 DAYS	> 180 DAYS	TOTAL
	$M	$M	$M	$M	$M	$M
2014						
Loans and advances						
Retail banking	948	229	142	205	161	1,685
Business banking	102	77	51	59	14	303
	1,050	306	193	264	175	1,988
2013						
Loans and advances						
Retail banking	987	278	128	170	127	1,690
Business banking	134	27	93	122	15	391
	1,121	305	221	292	142	2,081

(B) COLLATERAL MANAGEMENT

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

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

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. With more than 79% (2013: 77%) of the Bank's lending being consumer in nature and 96% (2013: 98%) of that lending secured by residential property, the Bank's exposures are ultimately linked to factors impacting employment and residential property values.

The greatest risk in credit quality is in commercial property markets and deterioration in this sector may lead to increased defaults and write-offs.

In the event of customer default, the Bank can take possession of any security held as collateral against the outstanding claim. Any loan security may be held as mortgagee in possession while the Bank seeks to realise its value through the sale of the property. Therefore, the Bank does not hold any real estate or other assets acquired through the repossession of collateral.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

Collateral and other credit enhancements held by the Bank mitigates the maximum exposure to credit risk as detailed by the concentration on credit risk in note 35.4.1(c).

35. GROUP RISK MANAGEMENT (CONTINUED)

35.4.1 CREDIT RISK (CONTINUED)

(C) CONCENTRATION OF CREDIT RISK

Concentration of credit risk is managed by client or counterparty and industry sector. Portfolios are actively monitored and frequently reviewed to identify, assess and guard against unacceptable risk concentrations.

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

BANKING	2014	2013
	NUMBER	NUMBER
25% and greater	2	5
20% to less than 25%	2	1
15% to less than 20%	-	-
10% to less than 15%	2	2
5% to less than 10%	3	5

A structure of industry concentration limits has been developed to monitor exposure levels within the risk-graded portfolio. These are tactical limits upon which business planning and developmental activity is based but also act as guidelines for portfolio concentration purposes.

35.4.2 LIQUIDITY RISK

The Bank's liquidity risk is managed using a framework that includes going concern, name crisis scenario, liquidity coverage ratio and net stable funding ratio analysis, minimum high quality liquid asset ratio, minimum liquid asset ratios, liquidity concentration limits and other supplementary management trigger limits.

Funding risk is the risk that the Bank is unable to refinance itself to fund its business operations and growth plans. The Bank's funding risk is managed through the sourcing of retail deposits and long-term funding to provide the majority of core asset portfolio. Funding capacity is monitored and diversity in the funding portfolio is managed with consideration for product, tenor, geography and customer concentrations and market trends.

The Risk Committee approves liquidity policies and reviews relevant risk limits. Liquidity and funding policies are also subject to APRA review. Executive management of liquidity risk is delegated to the Bank Asset and Liability Committee, which reviews risk measures and limits, endorses and monitors the overall Bank funding and liquidity strategy. Operational management of liquidity risk is delegated to both the Balance Sheet and Cash Management sections of the Bank Treasury. Liquidity risk is independently monitored against approved policies on a daily basis by the Market Risk division.

35.4.2 LIQUIDITY RISK (CONTINUED)

(A) CONCENTRATIONS OF DEPOSITS AND BORROWINGS

Details of the concentration of financial liabilities used by the Bank to raise funds are as follows:

BANKING	NOTE	2014 $M	2013 $M
Australian funding sources			
Retail deposits		32,799	31,421
Wholesale funding		8,551	8,339
Covered bonds		2,197	2,196
Australian domestic program		3,484	3,698
Securitisation		3,327	4,462
		50,358	50,116
Overseas wholesale funding sources			
Foreign exchange retail deposits		93	132
European commercial paper and medium-term note market		3,360	6,258
United States 144a medium-term note market		1,251	-
Securitisation		271	340
		4,975	6,730
		55,333	56,846
Comprised of the following:			
Deposits and short-term borrowings	7.6	44,154	43,861
Securitisation liabilities	7.7	3,598	4,802
Debt issues	7.8	6,839	7,313
Subordinated notes	7.9	742	840
Preference shares	7.10	-	30
		55,333	56,846

(B) MATURITY ANALYSIS

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

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

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

The Bank does not use this contractual maturity information as presented in the liquidity management of the balance sheet. Additional factors as described above are considered when managing the maturity profiles of the business.

35. GROUP RISK MANAGEMENT (CONTINUED)

35.4.2 LIQUIDITY RISK (CONTINUED)

(B) MATURITY ANALYSIS (CONTINUED)

BANKING

	CARRYING AMOUNT $M	AT CALL $M	0 TO 3 MONTHS $M	3 TO 12 MONTHS $M	1 TO 5 YEARS $M	OVER 5 YEARS $M	TOTAL CASH FLOWS $M
2014							
Deposits and short-term borrowings	44,154	14,146	18,022	11,408	1,397	-	44,973
Payables due to other banks	81	81	-	-	-	-	81
Payables and other liabilities	457	-	457	-	-	-	457
Derivative financial instruments (trading)	232	-	232	-	-	-	232
Securitisation liabilities	3,598	-	275	894	2,117	742	4,028
Debt issues	6,839	-	35	2,484	4,842	-	7,361
Subordinated notes	742	-	10	29	894	-	933
	56,103	14,227	19,031	14,815	9,250	742	58,065
Derivative financial instruments (hedging relationship)							
Contractual amounts payable	-	-	120	391	620	63	1,194
Contractual amounts receivable	-	-	(91)	(306)	(490)	(62)	(949)
	293	-	29	85	130	1	245
Off-balance sheet positions							
Guarantees entered into in the normal course of business	-	297	-	-	-	-	297
Commitments to provide loans and advances	-	7,100	-	-	-	-	7,100
	-	7,397	-	-	-	-	7,397
2013							
Deposits and short-term borrowings	43,861	11,542	21,463	10,547	1,098	-	44,650
Payables due to other banks	213	213	-	-	-	-	213
Payables and other liabilities	640	-	640	-	-	-	640
Derivative financial instruments (trading)	198	-	198	-	-	-	198
Securitisation liabilities	4,802	-	349	979	3,067	1,053	5,448
Debt issues	7,313	-	1,175	2,351	5,359	-	8,885
Subordinated notes	840	-	9	32	1,074	-	1,115
Preference shares	30	-	31	-	-	-	31
	57,897	11,755	23,865	13,909	10,598	1,053	61,180
Derivative financial instruments (hedging relationship)							
Contractual amounts payable		-	118	281	443	61	903
Contractual amounts receivable		-	(58)	(235)	(373)	(60)	(726)
	786	-	60	46	70	1	177
Off-balance sheet positions							
Guarantees entered into in the normal course of business	-	317	-	-	-	-	317
Commitments to provide loans and advances	-	6,800	-	-	-	-	6,800
	-	7,117	-	-	-	-	7,117

35.4.3 MARKET RISK

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

(A) TRADED MARKET RISK

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

Traded interest rate and foreign exchange risks are managed using a framework that includes value at risk (**VaR**), stress testing, scenario analysis, sensitivity and stop losses as no one risk metric provides a single sufficient overview of risk and as such VaR forms only a part of the risk framework. These measures are monitored and reported to the Bank Chief Risk Officer and the Bank Asset and Liability Committee for management oversight.

The VaR model is a statistical technique used to measure and quantify the market risk over a specific holding period at a given confidence level. The VaR is measured using the historical simulation approach which is based on the assumption that historical price movements are a good predictor of future price movements. The Bank measures VaR at a 99% confidence level which implies that for every 100 days, the loss should not exceed the VaR on 99 of those days. The model assumes a one day holding period for all positions.

The Traded Market Risk framework was enhanced in March 2014 as part of the transition to Basel II internal model accreditation. As a result, the methodology for measuring the VaR sensitivity has been amended.

For the financial year ended 30 June 2013 the VaR was calculated using Monte Carlo analysis based on market volatility witnessed over the last two years with a lambda weighting of 94% skewing the importance of recent observations and making them the main drivers of volatility. With the transition to Basel II, the VaR model is now based on a historical simulation methodology using equally weighted market observation from the last two years.

This methodology change has been the main driver behind the comparative increase in the VaR results year on year:

The VaR for the Bank's total interest rate and foreign exchange trading activities for the financial year are as follows:

BANKING	2014			2013		
	INTEREST RATE RISK	FX RISK	COMBINED RISK[1]	INTEREST RATE RISK	FX RISK	COMBINED RISK[1]
	$M	$M	$M	$M	$M	$M
Traded market risk						
VaR at end of the financial year	0.26	0.37	0.61	0.20	0.10	0.23
Maximum VaR during the financial year	0.73	0.90	1.00	0.58	0.66	0.80
Minimum VaR during the financial year	0.19	0.03	0.21	0.08	0.01	0.10
Average VaR during the financial year	0.34	0.34	0.58	0.21	0.23	0.31

Note

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

(B) NON-TRADED INTEREST RATE RISK

Non-traded interest rate risk in the banking book (**IRRBB**) is defined as all on-balance sheet items and off-balance sheet items that create an interest rate risk exposure within the Bank. It does not apply to market risk associated with trading book activities within the Bank (refer note 35.4.3(a)).

The main objective of IRRBB management is to maximise and stabilise net interest income in the long term.

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

- **Repricing risk**: the risk of loss of earnings and/or economic value as a result of changes in the overall levels of interest rates. This risk arises from mismatches in the interest rate repricing dates of banking book items.
- **Yield curve risk**: the risk of loss of earnings and/or economic value as a result of changes in the relative levels of interest rates at different tenors of the yield curve (that is a change in the slope or shape of the yield curve). This risk arises from mismatches in the interest rate repricing dates of banking book items.
- **Basis risk**: the risk of loss of earnings and/or economic value as a result of differences between the actual and expected interest margins on banking book items, where 'margin' means the difference between the customer interest rate on the items and the implied cost of funds for those items.
- **Optionality risk**: the risk of loss of earnings and/or economic value as a result of the existence of stand-alone or embedded options, to the extent that the potential for those losses is not included in the measurement of repricing, yield curve or basis risks.

35. GROUP RISK MANAGEMENT (CONTINUED)

35.4.3 MARKET RISK (CONTINUED)

(B) NON-TRADED INTEREST RATE RISK (CONTINUED)

IRRBB – NET INTEREST INCOME SENSITIVITY (NIIS)

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

As a measure of shorter term sensitivity, NIIS measures the sensitivity of the banking book earnings over the next 12 months to an instantaneous parallel and non-parallel shock to the yield curve.

NIIS is measured using a 2% parallel and non-parallel shock to the yield curve to determine the potential adverse change in net interest income in the ensuing 12 month period.

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

BANKING	2014	2013
	$M	$M
IRRBB NIIS (over 12 months) to an adverse 2% parallel or non-parallel instantaneous shock to the yield curve		
Exposure at end of the financial year	(27)	(36)
Average monthly exposure during the financial year	(27)	(47)
High month exposure during the financial year	(47)	(66)
Low month exposure during the financial year	(11)	(23)

PRESENT VALUE SENSITIVITY (PVS)

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

The following table indicates the potential adverse change in PVS of the Bank's statement of financial position. The change in PVS is based on an adverse 2% parallel or non-parallel instantaneous shock to the yield curve.

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

35.4.3 MARKET RISK (CONTINUED)

(B) NON-TRADED INTEREST RATE RISK (CONTINUED)

BANKING	2014	2013
	$M	$M
IRRBB PVS to an adverse 2% parallel or non-parallel instantaneous shock to the yield curve		
Exposure at end of the financial year	(69)	(20)
Average monthly exposure during the financial year	(56)	(49)
High month exposure during the financial year	(71)	(94)
Low month exposure during the financial year	(28)	(8)

VALUE AT RISK (VaR)

The Bank also periodically prepares a VaR analysis to value asset, liability and off-balance sheet positions under a range of possible interest rate scenarios. VaR measures the potential loss in market value implied by the static physical balance sheet that arises from changes in the current yield curve based upon historical observations for a 99% confidence level and one month holding period.

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

BANKING	2014	2013
	$M	$M
IRRBB – VaR – 1 month holding year, 99% confidence interval		
Exposure at end of the financial year	(21)	(14)
Average monthly exposure during the financial year	(18)	(10)
High month exposure during the financial year	(35)	(23)
Low month exposure during the financial year	(12)	(1)

(C) NON-TRADED FOREIGN EXCHANGE RISK

Non-traded foreign exchange risk can arise from having non-Australian dollar items in the banking book, thereby exposing current and future earnings to movements in foreign exchange rates. The objective of foreign currency exchange risk management is to minimise the impact on earnings of any such movements. The policy is to fully hedge any such exposure and accordingly minimise exposure to the risk. All offshore borrowing facilities arranged as part of the overall funding diversification process have been economically hedged in respect of their potential foreign exchange risk through the use of financial derivatives (refer note 35.7).

35. GROUP RISK MANAGEMENT (CONTINUED)

35.5 LIFE RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS

35.5.1 CREDIT RISK

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

KEY SOURCES OF CREDIT RISK	HOW ARE THESE MANAGED
Investments in financial instruments	Financial instruments are only transacted on recognised exchanges and over-the-counter contracts. The counterparties to over-the-counter contracts are limited to companies with primarily investment grade credit ratings from a recognised credit rating agency and are normally banks operating in Australia. Credit management (credit rating and credit limit controls), and counterparty diversification policies are in place to limit exposure to any one counterparty as a proportion of the investment portfolio. Certain derivatives have signed Credit Support Annexes addendums for their ISDA documentation to facilitate derivative transactions and manage credit risk.
Reinsurance recoveries	Credit risk with respect to reinsurance programs is minimised by placement of cover with a number of reinsurers with strong credit ratings.

The carrying amount of the relevant asset classes in the consolidated 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 consolidated 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 8.3.

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

LIFE	CREDIT RATING							
	AAA	AA	A	BBB	NON-INVESTMENT GRADE	OTHER NOT RATED	INVESTMENT LINKED BUSINESS[1]	TOTAL
	$M	$M	$M	$M	$M	$M	$M	$M
2014								
Cash and cash equivalents	-	152	478	-	-	-	77	707
Investment securities	1,129	1,315	399	32	-	5	479	3,359
Life assets	-	510	-	-	2	292	51	855
Derivatives	-	5	-	-	-	-	-	5
	1,129	1,982	877	32	2	297	607	4,926
2013								
Cash and cash equivalents	-	117	379	18	-	-	96	610
Investment securities	1,214	1,003	444	36	-	31	513	3,241
Life assets	-	442	-	-	2	186	25	655
	1,214	1,562	823	54	2	217	634	4,506

Note

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

35.5.1 CREDIT RISK (CONTINUED)

All Life financial assets are neither past due nor impaired at balance date except for those included 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 below. For investment-linked business, the liability to policyowners is linked to the performance and value of the assets that back those liabilities. Life has no direct exposure to any credit risk in those assets and the table below does not include any financial assets backing investment-linked business.

LIFE	NEITHER PAST DUE NOR IMPAIRED	PAST DUE BUT NOT IMPAIRED					
		0-3 MTHS	3-6 MTHS	6-12 MTHS	> 12 MTHS	IMPAIRED	TOTAL
	$M	$M	$M	$M	$M	$M	$M
2014							
Premiums outstanding	-	4	-	-	-	-	4
Reinsurance recoveries receivable	66	25	4	2	4	-	101
Other receivables	234	-	-	-	2	2	238
	300	29	4	2	6	2	343
2013							
Premiums outstanding	-	23	-	-	-	-	23
Reinsurance recoveries receivable	47	28	2	1	3	-	81
Other receivables	93	-	-	-	6	7	106
	140	51	2	1	9	7	210

Receivables neither past due nor impaired in the above table are not rated according to Standard & Poor's counterparty credit ratings. Life does not expect any counterparties to fail to meet their obligations given their credit ratings and therefore does not require collateral or other security to support credit risk exposures.

35.5.2 LIQUIDITY RISK

To ensure payments are made when they fall due, Life 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
- 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 claims payments as they fall due, based on actuarial assessments.

The following table summarises the maturity profile of Life financial liabilities based on the remaining undiscounted contractual obligations. It also includes the maturity profile for life insurance and life investment contract policy liabilities based on the discounted estimated timing of net cash outflows.

35. GROUP RISK MANAGEMENT (CONTINUED)

35.5 LIFE RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS (CONTINUED)

35.5.2 LIQUIDITY RISK (CONTINUED)

LIFE	CARRYING AMOUNT	1 YEAR OR LESS	1 TO 5 YEARS	OVER 5 YEARS	NO TERM	INVESTMENT LINKED[1]	TOTAL CASH FLOWS
	$M	$M	$M	$M	$M	$M	$M
2014							
Payables and other liabilities[2]	189	168	5	7	-	9	189
Outstanding claims liabilities	258	195	27	36	-	-	258
Net Life policy liabilities	5,269	113	557	1,247	-	3,432	5,349
Unvested policyowner benefits	326	-	-	-	326	-	326
Managed funds units on issue	2,357	2,357	-	-	-	-	2,357
Subordinated notes	100	6	22	124	-	-	152
	8,499	2,839	611	1,414	326	3,441	8,631
2013							
Payables and other liabilities[2]	117	99	2	11	-	6	118
Outstanding claims liabilities	206	141	-	-	65	-	206
Net Life policy liabilities	4,755	133	637	701	-	3,354	4,825
Unvested policyowner benefits	380	-	-	-	380	-	380
Managed funds units on issue	1,567	1,567	-	-	-	-	1,567
	7,025	1,940	639	712	445	3,360	7,096

Notes

1 *For investment-linked business, the liability to policyowners is linked to the performance and value of the assets that back those liabilities. Life has no direct exposure to liquidity risk in those liabilities.*

2 *Only includes components of payables and other liabilities that are classified as financial liabilities.*

35.5.3 MARKET RISK

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

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

(A) FOREIGN EXCHANGE RISK

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

The Life companies invest a portion of investment assets in global equities with foreign currency exposure managed by entering into forward foreign exchange and futures contracts. The Life companies also invest in several Suncorp Group trusts that enter into forward foreign exchange and futures contracts to provide capital appreciation.

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

The movements in foreign exchange used in the sensitivity analysis for 2014 have been revised to reflect an 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.

LIFE	2014			2013		
	EXPOSURE AT 30 JUNE	CHANGE IN FX RATE	PROFIT (LOSS) AFTER TAX	EXPOSURE AT 30 JUNE	CHANGE IN FX RATE	PROFIT (LOSS) AFTER TAX
	$M	%	$M	$M	%	$M
USD	145	+ 10	10	153	+ 10	14
		– 10	(11)		– 10	(8)
Other[1]	139	+ 10	10	95	+ 15	10
		– 10	(10)		– 15	(10)

Note

1 Includes EUR, GBP and JPY.

35. GROUP RISK MANAGEMENT (CONTINUED)

35.5 LIFE RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS (CONTINUED)

35.5.3 MARKET RISK (CONTINUED)

(B) INTEREST RATE RISK

For Life, interest rate risk exposure arises mainly from investment in interest-bearing securities. Interest rate risk arises in respect of financial assets (held in the shareholders' funds and the Life statutory funds) and liabilities. This is combined with an economic mismatch between the timing of payments to life insurance and life investment contract holders and the duration of the assets held in the statutory funds to back these liabilities. Where the liability to the investment contract holder is directly linked to the value of assets held to back that liability there is no residual interest rate exposure to the shareholder. Accordingly, investment-linked business is excluded from the analysis below.

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

The movements in interest rate used in the sensitivity analysis for 2014 have been revised to reflect updated assessment of the reasonable possible changes in interest rates over the next 12 months given renewed observations and experience in the investment markets during the financial year.

LIFE	2014			2013		
	EXPOSURE AT 30 JUNE	CHANGE IN INTEREST RATE	PROFIT (LOSS) AFTER TAX	EXPOSURE AT 30 JUNE	CHANGE IN INTEREST RATE	PROFIT (LOSS) AFTER TAX
	$M	BP	$M	$M	BP	$M
Interest-bearing investment securities (including derivative financial instruments)[1]	4,054	+ 125	(65)	3,663	+ 125	(76)
		– 25	16		– 50	33

Note

1 *Excludes interest-bearing investment securities held for investment-linked business as the shareholder has no direct interest rate risk exposure from these investment securities.*

(C) EQUITY RISK

Life has exposure to equity risk from equity investments in its investment portfolios. Equity risk is managed by incorporating a diverse holding of Australian and overseas equities (whether direct or through unitised trusts) and through the controlled use of derivative financial instruments.

The table opposite presents a sensitivity analysis showing the impact on profit or loss for listed equity price movements as at the balance date with all other variables remaining constant. The price risk in relation to unlisted securities is immaterial in terms of the possible impact on profit or loss and equity reserves and has not been included in the sensitivity analysis. The after tax impact on profit (loss) uses a corporate tax rate of 30%. The actual after tax impact for Life business may differ. There is no impact on equity reserves.

35.5.3 MARKET RISK (CONTINUED)

(C) EQUITY RISK (CONTINUED)

LIFE	2014			2013		
	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
Listed Australian equities and unit trusts	430	+ 15	45	994	+ 15	103
		– 15	(45)		– 15	(102)
Listed international equities and unit trusts	291	+ 15	28	552	+ 15	54
		– 15	(28)		– 15	(56)

(D) CREDIT SPREAD RISK

Life 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.

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

The movements in credit spread used in the sensitivity analysis for 2014 have been revised to reflect an updated assessment of the reasonable possible changes in credit spread over the next 12 months given renewed observations and experience in the investment markets during the financial year.

LIFE	2014			2013		
	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
Credit exposure (excluding semi-government)	1,419	+ 75	(26)	1,391	+ 75	(19)
		– 25	9		– 50	13
Credit exposure (semi-government)	504	+ 50	(15)	410	+ 50	(11)
		– 20	6		– 30	7

35. GROUP RISK MANAGEMENT (CONTINUED)

35.6 CORPORATE RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS

35.6.1 CREDIT RISK

Corporate is exposed to credit risk primarily through its investment in financial instruments. Credit management (credit rating and credit limit controls) and counterparty diversification policies are in place to limit exposure to any one counterparty as a proportion of the investment portfolio. No credit enhancements are held to mitigate Corporate's exposure to credit risk.

The carrying amount of the relevant asset classes in the consolidated statement of financial position represents the maximum amount of credit exposures.

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

CORPORATE	CREDIT RATING						
	AAA	AA	A	BBB	NON-INVESTMENT GRADE	NOT RATED	TOTAL
	$M	$M	$M	$M	$M	$M	$M
2014							
Cash and cash equivalents	-	1	16	-	-	-	17
Investment securities	66	134	253	8	-	226	687
Other assets[1]	-	1	11	-	-	-	12
	66	136	280	8	-	226	716
2013							
Cash and cash equivalents	-	-	37	10	-	-	47
Investment securities	46	107	161	4	-	123	441
Other assets[1]	-	1	7	-	-	-	8
	46	108	205	14	-	123	496

Note

1 Only includes components of other assets that are classified as financial assets.

All Corporate financial assets are neither past due nor impaired as at 30 June 2014 and 30 June 2013.

35.6.2 LIQUIDITY RISK

To ensure payments are made when they fall due, the Corporate investment portfolio mandates provide sufficient cash deposits to meet day-to-day obligations.

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

CORPORATE	CARRYING AMOUNT	1 YEAR OR LESS	1 TO 5 YEARS	OVER 5 YEARS	TOTAL CASH FLOWS
	$M	$M	$M	$M	$M
2014					
Payables and other liabilities[1]	**194**	**194**	**-**	**-**	**194**
Subordinated notes	**758**	**43**	**171**	**958**	**1,172**
Preference shares	**943**	**-**	**-**	**960**	**960**
	1,895	**237**	**171**	**1,918**	**2,326**
2013					
Payables and other liabilities[1]	141	120	21	-	141
Subordinated notes	756	44	174	1,006	1,224
Preference shares	549	-	-	560	560
	1,446	164	195	1,566	1,925

Note

1 Only includes components of payables and other liabilities that are classified as financial liabilities.

35.6.3 MARKET RISK

(A) INTEREST RATE RISK

For Corporate, interest rate risk exposure arises mainly from investment in interest-bearing securities. Interest rate risk is managed by maintaining a diversified portfolio to protect the value of the underlying assets in the portfolio from large movements.

The sensitivity of profit and loss after tax to movements in interest rates in relation to interest-bearing financial assets held at the balance date is shown in the following table. 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 balance date and that there are concurrent movements in interest rates and parallel shifts in the yield curves. There is no impact on equity reserves.

The movements in interest rates used in the sensitivity analysis for 2014 have been revised to reflect an updated assessment of the reasonable possible changes in interest rates over the next twelve months given renewed observations and experience in the investment markets during the financial year.

35. GROUP RISK MANAGEMENT (CONTINUED)

35.6.3 MARKET RISK (CONTINUED)

(A) INTEREST RATE RISK (CONTINUED)

CORPORATE	2014			2013		
	EXPOSURE AT 30 JUNE	CHANGE IN INTEREST RATE	PROFIT (LOSS) AFTER TAX	EXPOSURE AT 30 JUNE	CHANGE IN INTEREST RATE	PROFIT (LOSS) AFTER TAX
	$M	BP	$M	$M	BP	$M
Interest-bearing investment securities	687	+ 125	(9)	441	+ 125	(4)
		– 25	2		– 50	2
Subordinated notes	758	+ 125	(7)	756	+ 125	(1)
		– 25	1		– 50	-
Preference shares	943	+ 125	(8)	549	+ 125	(5)
		– 25	2		– 50	2

(B) CREDIT SPREAD RISK

Corporate is exposed to credit spread risk through its investments in interest-bearing securities. This risk is managed by incorporating a diversified investment portfolio, establishing maximum exposure limits for counterparties and minimum limits on credit ratings.

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

The movements in credit spread used in the sensitivity analysis for 2014 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.

CORPORATE	2014			2013		
	EXPOSURE AT 30 JUNE	CHANGE IN CREDIT SPREAD	PROFIT (LOSS) AFTER TAX	EXPOSURE AT 30 JUNE	CHANGE IN CREDIT SPREAD	PROFIT (LOSS) AFTER TAX
	$M	BP	$M	$M	BP	$M
Credit exposure (excluding semi-government)	620	+ 40	(3)	416	+ 50	(3)
		– 15	1		– 20	1

35.7 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The Suncorp Group operates in multiple currencies and is a significant borrower and investor in the global markets. Derivatives are used by each business area to mitigate interest rate, foreign exchange and equity price risks. Derivatives used include exchange rate-related contracts, interest rate-related contracts and equity contracts.

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. 'Leverage' here is defined as creating a portfolio which would have sensitivity to an underlying economic or financial variable which is greater than could be achieved using only physical securities.

The use of derivatives exposes the Suncorp Group to credit risk. Exposure limits have been established with respect to the various asset classes. Within each asset class, derivative exposure limits are identified in the investment mandates and limits have been established on daily transaction levels. For over-the-counter derivatives, authorised counterparties must have a minimum credit rating equivalent to a Standard & Poor's rating of 'A'.

The investment manager is responsible for monitoring these positions to ensure they do not exceed the authorities established in the investment mandate.

INVESTMENTS

To a limited extent, derivatives are used within the investment portfolios where it is more efficient to use derivatives rather than physical securities. The use of derivatives is consistent with the objectives of the overall investment strategies and is one of the means by which these strategies are implemented.

HEDGING OF FLUCTUATIONS IN INTEREST RATES

Banking seeks to minimise volatility in net interest income through use of interest rate derivatives, primarily vanilla interest rate swaps. The aggregate earnings exposure to interest rates is managed within Board approved risk limits. At balance date, Banking had 18 (2013: 16) swaps designated as fair value hedges of fixed rate bonds held. All other interest rate swaps designated as hedges are cash flow hedges. The swaps designated as cash flow hedges are hedges of either variable rate mortgages or variable rate short-term debt issues.

HEDGING OF FLUCTUATIONS IN FOREIGN CURRENCY RATES

Banking hedges its exposure to fluctuations in foreign exchange rates through the use of derivatives in the foreign exchange market. The currencies giving rise to this risk are primarily US Dollars, Euro and Pounds Sterling.

Banking hedges its offshore debt issues using cross currency interest rate swaps and foreign exchange swaps. In respect of other financial assets and liabilities held in currencies other than Australian Dollars, Banking ensures that the net exposure is kept to an acceptable level through participation in the spot and forward markets.

All cross currency interest rate swaps entered into by the Suncorp Group are designated as hedges using the split approach. Under this approach the benchmark rate component of the swap is accounted for as a fair value hedge and the margin component as a cash flow hedge.

Banking has elected to fair value its Euro Commercial Paper portfolio through the profit or loss on the basis that it is economically hedged by forward foreign exchange contracts. Both the changes in the fair value of the forward foreign exchange contracts and the debt issue are recognised. The fair value of forward foreign exchange contracts used as economic hedges of monetary liabilities in foreign currencies where hedge accounting is not applied as at 30 June 2014 was $88 million (2013: $327 million).

Banking also hedged against the foreign currency exposure which resulted from the government guarantee fee expense. The hedged item was the present value of the 1% (2013: 1%) fee paid by Banking over the life of those selected offshore issuances. These were hedged using foreign currency positions with foreign currency translation movements deferred to equity, and released to profit or loss as the fee expense is incurred. As at 30 June 2014, the unrealised loss deferred to equity was $nil million (2013: $4 million). During the financial year, Banking deferred to equity $nil million (2013: $nil), and released $4 million (2013: $10 million) of foreign currency loss previously deferred to equity to profit or loss.

General Insurance has forward foreign exchange contracts in relation to the overseas liabilities portfolio. Under the contracts, General Insurance agrees to exchange specified amounts of US Dollars at an agreed future date, at a specified exchange rate.

Consolidated losses of $15 million (2013: gains of $12 million) on derivatives held in qualifying fair value hedging relationships, and gains of $15 million (2013: losses of $6 million) representing changes in the fair value of the hedged items attributable to the hedged risk are recognised in profit or loss.

35. GROUP RISK MANAGEMENT (CONTINUED)

35.7 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING (CONTINUED)

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

CONSOLIDATED	2014		2013	
	FAIR VALUE HEDGES	CASH FLOW HEDGES	FAIR VALUE HEDGES	CASH FLOW HEDGES
	$M	$M	$M	$M
Hedging of fluctuations in interest rates				
Notional value of interest rate swaps designated as hedges	1,214	23,956	910	14,241
Fair value:				
net receive interest rate swaps	10	66	1	35
net pay interest rate swaps	(71)	(96)	(56)	(94)
	(61)	(30)	(55)	(59)

	2014	2013
	SPLIT APPROACH	SPLIT APPROACH
	$M	$M
Hedging of fluctuations in foreign exchange rates		
Notional value of cross currency swaps designated as hedges	2,506	3,368
Fair value:		
net receive cross currency swaps	28	-
net pay cross currency swaps	(126)	(636)
	(98)	(636)

35.7 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING (CONTINUED)

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

CONSOLIDATED	0 TO 12 MONTHS $M	1 TO 5 YEARS $M	OVER 5 YEARS $M	TOTAL EXPECTED CASH FLOWS $M
2014				
Forecast receivable cash flows	78	1,122	12	1,212
Forecast payable cash flows	(76)	(1,155)	(10)	(1,241)
	2	(33)	2	(29)
2013				
Forecast receivable cash flows	366	527	-	893
Forecast payable cash flows	(405)	(560)	-	(965)
	(39)	(33)	-	(72)

36. AUDITORS' REMUNERATION

	2014	2013	2014	2013
	KPMG AUSTRALIA		OVERSEAS KPMG FIRMS	
	$000	$000	$000	$000
Audit and review services				
Audit and review of financial reports	4,371	4,942	1,444	1,383
Other regulatory audits	1,184	1,635	12	21
	5,555	6,577	1,456	1,404
Other services				
In relation to other assurance, actuarial, taxation and other non-audit services	2,110	1,729	408	286
Total auditors' remuneration	7,665	8,306	1,864	1,690

37. SUBSEQUENT EVENTS

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

Directors' declaration

1. In the opinion of the directors of Suncorp Group Limited (the Company):
   (a) the financial statements and notes, and the Remuneration Report in the Directors' Report, set out on pages 16 to 48, are in accordance with the *Corporations Act 2001*, including:
      (i) giving a true and fair view of the Suncorp Group's financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and
      (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*
   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the Group Chief Executive Officer and the Group Chief Financial Officer for the financial year ended 30 June 2014.
3. 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 Zygmunt E Switkowski AO	**Patrick J R Snowball**
Chairman	Managing Director and Group CEO

13 August 2014

KPMG

Independent auditor's report

to the members of Suncorp Group Limited

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Suncorp Group Limited (the Company), which comprises the Consolidated statement of financial position as at 30 June 2014, Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the year ended on that date, notes 1 to 37 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Suncorp Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2.1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Suncorp Group comply with International Financial Reporting Standards.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Suncorp Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENCE

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

AUDITOR'S OPINION

In our opinion:

(a) the financial report of the Suncorp Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Suncorp Group's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.1.

REPORT ON THE REMUNERATION REPORT

We have audited sections 2, 3 and 4 of the Remuneration Report included on pages 22 to 48 of the Directors' Report for the year ended 30 June 2014 that are described as audited. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

AUDITOR'S OPINION

In our opinion, the information set out in the Remuneration Report of Suncorp Group Limited for the year ended 30 June 2014, that is described as audited, complies with section 300A of the *Corporations Act 2001*.

KPMG

KPMG

P.M. Reid

Paul Reid
Partner
Brisbane

13 August 2014

Financial calendar
and other shareholder information

LISTED SECURITIES

Suncorp securities listed on the ASX (and their codes) are:

SUNCORP GROUP LIMITED

- SUN (Ordinary Shares)
- SUNPC, SUNPE (Convertible Preference Shares)
- SUNPD (Subordinated Notes)

SUNCORP-METWAY LIMITED

- SBKHB (Floating Rate Capital Notes)

AUDITORS

KPMG, Level 16, Riparian Plaza, 71 Eagle Street,
Brisbane Qld 4000 Australia

ANNUAL GENERAL MEETING 2014

DATE: Thursday 23 October 2014

TIME: 2.30pm

VENUE: Sofitel Brisbane, Ballroom Le Grand (Level 2), 249 Turbot Street, Brisbane

FINANCIAL CALENDAR OF EVENTS AND KEY DIVIDEND DATES[1]

20 AUGUST 2014	Ex-dividend date for final ordinary and special dividends
22 AUGUST 2014	Record date for final ordinary and special dividends
1 OCTOBER 2014	Payment date for final ordinary and special dividends
23 OCTOBER 2014	Annual General Meeting
11 FEBRUARY 2015	Half year results announcement
18 FEBRUARY 2015	Ex-dividend date for interim ordinary dividend
20 FEBRUARY 2015	Record date for interim ordinary dividend
1 APRIL 2015	Payment date for interim ordinary dividend

Note

1 The financial calendar may be updated from time to time throughout the year. Please refer to the website **suncorpgroup.com.au** *for up-to-date details. Dates for dividends may be subject to change.*

CHANGING SHAREHOLDER DETAILS[2]

The Company's share registry is Link Market Services Limited (**Link**). Shareholders can go to either Link's website or the Suncorp Group website to:

- view details of their holdings
- change their details
- view notices of shareholder meetings, financial reports and other communications
- register an email address for dividend advices
- obtain and complete forms to have dividends paid directly to their bank, building society or credit union account.

SHARE REGISTRY CONTACT DETAILS

Link Market Services Limited

Ph 1300 882 012

+61 2 8767 1219 (outside Australia)

MAILING ADDRESS

PO Box A50 Sydney South NSW 1235 Australia

EMAIL

suncorp@linkmarketservices.com.au

ONLINE

linkmarketservices.com.au
suncorpgroup.com.au

Note

2 Shareholders will need their securityholder reference number or holder identification number to change their details.

Issuer-sponsored holders can change their address via Link's website (some conditions apply), or by notifying Link.

Shareholders who are sponsored by a broker (CHESS) should advise their broker of their change of address.

SHAREHOLDER SUMMARY AT 30 JUNE		2014	2013	2012	2011	2010
Ordinary share price at end of year	($)	**13.54**	11.92	8.09	8.14	8.04
Number of ordinary shares at end of period[3]	(million)	**1,287**	1,287	1,287	1,287	1,281
Market capitalisation	($ million)	**17,421**	15,336	10,409	10,473	10,302
Dividend per ordinary share[3], fully franked	(cents)	**105**	75	55	35	35
Interim		**35**	25	20	15	15
Final		**40**	30	20	20	20
Special		**30**	20	15		

3 Following a restructure in January 2011, Suncorp Group Limited replaced Suncorp-Metway Limited as the Suncorp Group's listed holding company.

DIVIDENDS

The Company encourages shareholders to have cash dividends credited directly to their bank/building society/credit union account. This is more cost-effective, convenient and secure.

DIVIDEND REINVESTMENT PLAN

Suncorp Group has a dividend reinvestment plan for shareholders to reinvest all or part of their dividends in the Company's shares, with no brokerage or transaction costs. Shareholders who have already elected to join this plan will automatically have their dividends paid to them in this form. Shareholders wishing to join the plan for future dividends should advise Link by 5pm one business day after the record date, or otherwise, by 5pm on one business day after the next dividend record date after determining the entitlements.

Shareholders may vary their participation or withdraw from the dividend reinvestment plan at any time. Further information is available on the Suncorp Group website or by contacting Link.

SECURITIES INFORMATION

The Company's securities listed on the ASX as at 7 July 2014 are:

CLASS OF SECURITY	ASX CODE	NUMBER
Ordinary shares	SUN	1,286,600,980
Convertible Preference Shares	SUNPC	5,600,000
Convertible Preference Shares	SUNPE	4,000,000
Subordinated Notes	SUNPD	7,700,000

VOTING RIGHTS

Fully paid ordinary shareholders are entitled to vote at any meeting of members of the Company and their voting rights are:

- on a show of hands – one vote per shareholder
- on a poll – one vote per fully paid ordinary share.

SHAREHOLDER ANALYSIS

SUBSTANTIAL SHAREHOLDERS

At 1 August 2014 there were no substantial shareholdings recorded in the register of substantial shareholdings.

TOP 20 SHAREHOLDERS (SUN) (AS AT 7 JULY 2014)

NAME	TOTAL UNITS	% ISSUED CAPITAL
J P Morgan Nominees Australia Limited	284,274,465	22.09
HSBC Custody Nominees (Australia) Limited	257,835,030	20.04
National Nominees Limited	126,999,161	9.87
Citicorp Nominees Pty Limited	80,818,347	6.28
BNP Paribas Nominees Pty Limited <DRP>	27,614,217	2.15
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	17,366,877	1.35
AMP Life Limited	14,023,303	1.09
HSBC Custody Nominees (Australia) Limited <Nt-Comnwlth Super Corp A/C>	11,303,559	0.88
Pacific Custodians Pty Limited <Employee Share Plan Tst A/C>	5,619,932	0.44
UBS Nominees Pty Ltd	4,759,705	0.37
ARGO Investments Limited	4,260,838	0.33
QIC Limited	4,008,953	0.31
Milton Corporation Limited	3,074,732	0.24
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	2,967,511	0.23
UBS Wealth Management Australia Nominees Pty Ltd	2,268,045	0.18
RBC Investor Services Australia Nominees Pty Limited <MBA A/C>	2,141,588	0.17
Questor Financial Services Limited <TPS RF A/C>	2,080,280	0.16
RBC Investor Services Australia Nominees Pty Limited <PI Pooled A/C>	1,905,969	0.15
RBC Investor Services Australia Nominees Pty Limited <BKCUST A/C>	1,881,529	0.15
Share Direct Nominees Pty Ltd <10015 A/c>	1,462,123	0.11

Financial calendar
and other shareholder information (continued)

DISTRIBUTION OF SHAREHOLDINGS (SUN)

RANGES	INVESTORS	SECURITIES	% ISSUED CAPITAL
1 to 1,000	95,055	47,093,893	3.66
1,001 to 5,000	68,267	148,761,613	11.56
5,001 to 10,000	10,176	71,803,573	5.58
10,001 to 100,000	5,704	117,949,669	9.17
100,001 and over	179	900,992,232	70.03
Total	**179,381**	**1,286,600,980**	**100**

The number of security investors holding less than a marketable parcel of 37 securities ($13.72 on 7 July 2014) is 3,374 and they hold 52,367 securities.

TOP 20 SHAREHOLDERS (SUNPC) (AS AT 7 JULY 2014)

NAME	TOTAL UNITS	% ISSUED CAPITAL
UBS Wealth Management Australia Nominees Pty Ltd	339,047	6.05
J P Morgan Nominees Australia Limited	194,630	3.48
Questor Financial Services Limited <TPS RF A/C>	106,447	1.90
National Nominees Limited	100,076	1.79
Navigator Australia Ltd <MLC Investment Sett A/C>	80,040	1.43
Eastcote Pty Ltd <Van Lieshout Family A/C>	80,000	1.43
Dimbulu Pty Ltd	60,000	1.07
Citicorp Nominees Pty Limited	54,552	0.97
HSBC Custody Nominees (Australia) Limited	52,060	0.93
Bond Street Custodians Limited <MPPMIM – V16636 A/C>	49,136	0.88
Wenthor Pty Ltd <The John Thorsen Family A/C>	48,610	0.87
NULIS Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	41,639	0.74
BNP Paribas Noms Pty Ltd <DRP>	35,000	0.63
Brenzil Pty Ltd <Peabody Family A/C>	25,000	0.45
Tandom Pty Ltd	25,000	0.45
RBC Investor Services Australia Nominees Pty Limited <PISELECT>	20,000	0.36
The Walter And Eliza Hall Institute Of Medical Research	20,000	0.36
Jaswel Pty Ltd <Jaswel Family A/C>	18,100	0.32
Australian Executor Trustees Limited <No 1 Account>	18,068	0.32
Netwealth Investments Limited <Wrap Services A/C>	16,744	0.30

DISTRIBUTION OF SHAREHOLDINGS (SUNPC)

RANGES	INVESTORS	SECURITIES	% ISSUED CAPITAL
1 to 1,000	8,355	2,576,537	46.01
1,001 to 5,000	570	1,241,558	22.17
5,001 to 10,000	40	307,305	5.49
10,001 to 100,000	23	734,400	13.11
100,001 and over	4	740,200	13.22
Total	**8,992**	**5,600,000**	**100**

The number of security investors holding less than a marketable parcel of 5 securities ($107.50 on 7 July 2014) is 1 and they hold 2 securities.

TOP 20 SHAREHOLDERS (SUNPE) (AS AT 7 JULY 2014)

NAME	TOTAL UNITS	% ISSUED CAPITAL
UBS Wealth Management Australia Nominees Pty Ltd	865,787	21.64
UCA Cash Management Fund Limited	160,559	4.01
National Nominees Limited	98,500	2.46
J P Morgan Nominees Australia Limited	73,635	1.84
Navigator Australia Limited <MLC Investment Sett A/C>	62,088	1.55
HSBC Custody Nominees (Australia) Limited	50,258	1.26
Willimbury Pty Ltd	50,000	1.25
GCF Investments Pty Ltd	39,500	0.99
Eastcote Pty Ltd <Van Lieshout Family A/C>	39,000	0.98
UBS Nominees Pty Ltd	35,395	0.88
Australian Executor Trustees Limited <No 1 Account>	26,699	0.67
FOPAR Nominees Pty Ltd	25,000	0.63
RBC Investor Services Australia Nominees Pty Limited <PISELECT>	23,000	0.58
Dr Andrew Alexander Chang	20,000	0.50
Jonwen Investments Pty Ltd	18,500	0.46
Daniel Pryor And Associates Pty Ltd <Pryor Family A/C>	15,000	0.38
Mrs Frances Claire Fox <Thomas J Beresford Will A/C>	15,000	0.38
Lord Mayor's Charitable Fund	14,029	0.35
NULIS Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	13,502	0.34
Elecnet (AUST) Pty Ltd <Elec Ind Severanc Schem A/C>	13,500	0.34

DISTRIBUTION OF SHAREHOLDINGS (SUNPE)

RANGES	INVESTORS	SECURITIES	% ISSUED CAPITAL
1 to 1,000	4,590	1,361,990	34.05
1,001 to 5,000	319	705,542	17.64
5,001 to 10,000	32	238,128	5.95
10,001 to 100,000	22	667,994	16.70
100,001 and over	2	1,026,346	25.66
Total	**4,965**	**4,000,000**	**100**

The number of security investors holding less than a marketable parcel of 5 securities ($104.40 on 7 July 2014) is 0 and they hold 0 securities.

Suncorp Group Limited
ABN 66 145 290 124

Registered office:
Level 28, 266 George Street
Brisbane, Qld 4000
Tel: 07 3362 1222

Investor relations app

Search 'Suncorp IR' or scan the code for Suncorp Group news, updates and share price movements.

Contact the share registry

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One Company Many Brands

SUNCORP GROUP

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