Suncorp Group

2012/13 Directors' Report and Financial Statements

One Company
Many Brands

SUNCORP GROUP

Contents

Cover image: Chris Alder, Customer Service Officer, RepairLink

Chris worked for GIO in New Zealand and was there when AA Insurance was first established as a joint venture between GIO Australia and the New Zealand Automobile Association in 1994. Nearly 20 years on, AA Insurance remains an important part of Suncorp's presence in New Zealand.

Chris moved to Australia in 2007 and joined the Personal Insurance RepairLink team in August 2008. RepairLink is Suncorp's national claims assessment network. It provides a single point of contact for claims across all home and motor insurance brands. Chris is at work from 6.30am every day to help Group customers get back on the road as soon as possible.

Chairman's Report

Dear Shareholder

It is with great pleasure I introduce the 2013 Suncorp Group Directors' Report and Financial Statements in a year which has clearly demonstrated the successful ongoing transformation of the Company. Built on a strong foundation of 'One Company. Many Brands', the Group delivered solid earnings from its core businesses, further strengthened the balance sheet and increased dividends to shareholders. The result is testament to the expertise and tremendous capacity for hard work which reside in teams right across the Suncorp Group, and to the quality of our managers and leaders.

The Board believes the Company is better placed to meet the challenges and opportunities of our markets in the years ahead than it has been since the Global Financial Crisis (GFC) took hold.

TRANSFORMATION AT WORK

This year marked the completion of the Building Blocks three-year strategic program which has delivered streamlined policy systems, simplified legal entity structures and consolidated and improved technology platforms. The result is a better customer experience, cost savings ahead of expectation, improved productivity and increasingly efficient deployment of capital.

These achievements demonstrate the unique 'One Company. Many Brands' business model at work. That is, performing end-to-end businesses in General Insurance, Banking and Life, which are capitalising on the expertise and scale capabilities of the Group.

The next phase of transformation, founded on simplification, will continue to drive improved performance and efficiency, delivering results for customers and shareholders.

A GOOD FINANCIAL RESULT

The Group's net profit after tax was $491 million. This headline result was negatively impacted by the completion of asset sales in the Non-core Bank and the costs associated with the extensive damage caused by Ex-Tropical Cyclone Oswald right along the east coast of Australia. The run-off of the non-core portfolio has been difficult and challenging but its resolution has de-risked the Bank, released capital in support of shareholder returns and made more transparent the true value of the Group.

The General Insurance profit after tax was $883 million. Gross written premium for the year increased 8% to $8.6 billion with strong contributions from all product lines. During the year, insurance premiums increased as a result of escalated reinsurance and claims costs. Insurance pricing must reflect risk to ensure a sustainable system. That's why risk mitigation is key to insurance affordability. To this end, Suncorp continues to campaign for flood mitigation. The Group's efforts are reaping results with government funding committed to a range of projects in high-risk regions.

In the Core Bank, net profit after tax was $289 million. The run-off of the non-core portfolio, which involved a substantial write down, resulted in a net loss after tax of $632 million for the full year. The resolution of the Non-core Bank was a major milestone in the Group's transformation. The ability to move decisively to resolve the portfolio at this time reflects the strength of the Group's balance sheet and confidence in our business outlook. With the resolution of the Non-core Bank, the path is clear for Suncorp Bank to continue its profitable growth trajectory off the back of interstate branch expansion, its strong intermediary proposition and its position as the genuine alternative to the major banks.

Suncorp Life recorded a net profit after tax of $60 million. Underlying profit was $120 million. This result was achieved despite significant structural challenges in the industry and flagging consumer confidence in the wake of protracted economic uncertainty. Suncorp Life continues to focus on leveraging Group assets for growth and improved return on shareholders' funds.

IMPROVED RETURNS FOR SHAREHOLDERS

Since the start of the three-year transformation program led by Group CEO Patrick Snowball, the Suncorp share price has increased more than 50% (albeit from a depressed level), outperforming the top 200 publicly-listed Australian companies index (ASX200) which has increased 11% over the same period.

As importantly, the Company has confirmed its goal to reach a return on equity in excess of its cost of capital within two years. Post-GFC, this is a significant and defining threshold for all Suncorp people.

Given the momentum of the Group and its businesses and the capital released from the sale of the non-core assets, the Board has confirmed the payment of a final ordinary dividend of 30 cents per share and a special dividend of 20 cents per share. This brings the total dividend payout for 2012/13 to 75 cents per share, fully franked.

The Suncorp Board remains committed to returning surplus capital to the Group and to our target dividend payout ratio of 60% to 80% of full year cash earnings.

I would like to thank my Board colleagues for their wise and valued contributions throughout the year, and our Group CEO Patrick Snowball and his executive team who have made such good progress in restoring Suncorp to a position of respect in the financial services industry.

The Group has successfully traversed four years of volatile economic conditions and an abnormal run of natural disasters while managing a significant program of transformation. The character of the Company, its people and partners was tested and found to have mettle and integrity. I'm proud of the progress made. We have every reason to be confident in the future of the Suncorp Group.

J. E. Switkowski

Dr Ziggy Switkowski
Chairman
21 August 2013

Directors' Report
for the financial year ended 30 June 2013

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 2013 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

The 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.

ILANA R ATLAS

BJuris (Hons) (WAust), LLB (Hons) (WAust), LLM (Syd)

Age 58
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 Holdings Limited and the Human Rights Law Centre. She is Chairman of Bell Shakespeare and Pro-Chancellor of the Australian National University.

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 2010

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

WILLIAM J BARTLETT

FCA, CPA, FCMA, CA (SA)

Age 64
Non-executive director
Chairman Audit Committee and
Member 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., 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 2010

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 53
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 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 in December 2008.

LISTED COMPANY DIRECTORSHIPS HELD SINCE 1 JULY 2010

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

AUDETTE E EXEL

BA, LLB (Hons)

Age 50
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.

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 2010

COMPANY NAME	APPOINTED	RESIGNED
Suncorp-Metway Limited	27.06.12	

EWOUD J KULK

BEcon, FAICD

Age 67
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 2010

COMPANY NAME	APPOINTED	RESIGNED
Suncorp-Metway Limited	20.03.07	

DR DOUGLAS F MCTAGGART

BEcon (Hons), MA, PhD, DUniv

Age 60
Non-executive director
Member Audit Committee

Director since April 2012. Dr McTaggart is currently Chairman of Galibier Partners Pty Ltd, a director of UGL Limited, and a member of the Queensland Council, Australian Institute of Company Directors. 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 2010

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

Directors' Report (continued)

GEOFFREY T RICKETTS

LLB (Hons)

Age 67

Non-executive director

Member Audit Committee

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, a lawyer and a consultant for Russell McVeagh Solicitors (NZ) and was a partner in that firm from 1973 until 2000.

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 2010

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

PATRICK J R SNOWBALL

MA, Hon. LL.D

Age 63

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 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 2010

COMPANY NAME	APPOINTED	RESIGNED
Suncorp-Metway Limited	01.09.09	

DR ZYGMUNT E SWITKOWSKI

BSc (Hons), PhD, FAICD, FTSE

Age 65

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 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.

Dr Switkowski is a former director of Lynas Corporation Ltd, a former chairman of the Australian Nuclear Science and Technology Organisation and Opera Australia, 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 2010

COMPANY NAME	APPOINTED	RESIGNED
Oil Search Limited	22.11.10	
Suncorp-Metway Limited	19.09.05	
Tabcorp Holdings Limited	02.10.06	
Healthscope Limited	19.01.06	12.10.10
Lynas Corporation Ltd	01.02.11	20.08.13

2. 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 the 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.

3. DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of the Company during the financial year ended 30 June 2013 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	14	14	6	6	5	5	5	5	2	2
P J R Snowball [1]	14	14	6	6	5	5	5	5	-	-
I R Atlas	14	13	-	-	5	5	5	5	2	2
W J Bartlett	14	14	6	6	5	5	5	5	2	2
M A Cameron	14	13	-	-	-	-	2	2	2	1
A E Exel	14	10	-	-	1	1	-	-	2	2
E J Kulk	14	13	-	-	5	5	5	5	2	2
Dr D F McTaggart	14	14	6	6	-	-	-	-	2	2
G T Ricketts	14	13	6	4	-	-	-	-	2	2

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.

4. REMUNERATION REPORT

The Remuneration Report is set out on page 14 and forms part of the Directors' Report for the financial year ended 30 June 2013.

5. PRINCIPAL ACTIVITIES

The principal activities of the Suncorp Group during the course of the year were the provision of general insurance, banking and life insurance and 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 year.

5.1 SUNCORP GROUP'S OBJECTIVES

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

The strategic objectives of the Suncorp Group are to:

- continue to simplify the business, building on the foundations laid by the Building Blocks program
- ensure each business unit creates differentiated value through building stand-alone competitive points of difference and strategies to compete in their respective markets
- create excess synergy value by operating as 'One Company'. This is delivered through investments in the Group's four 'strategic assets' – Capital, Cost, Customer and Culture.

6. OPERATING AND FINANCIAL REVIEW

The principal activities and objectives of the Suncorp Group are outlined in section 5 above.

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

6.1 OVERVIEW OF THE SUNCORP GROUP

The Suncorp Group has delivered a full year profit of $491 million. This result includes an after tax loss of $632 million for the Non-core Bank portfolio. The core business results have been achieved through strong top-line growth, maintained or growing margins and improved operational efficiencies.

The resolution of the Non-core Bank represents a significant milestone for the Group. The Non-core Bank portfolio was originally established in 2009 with $18 billion in corporate, development finance and property investment loans. The sale of the $1.6 billion portfolio of assets in June 2013 brought to a close the Non-core Bank and resulted in an aggregate return of approximately 90 cents in the dollar on the original $18 billion portfolio.

Directors' Report (continued)

6. OPERATING AND FINANCIAL REVIEW (CONTINUED)

6.1 OVERVIEW OF THE SUNCORP GROUP (CONTINUED)

Suncorp and its stakeholders can now focus on the true value of the Group, comprising the General Insurance, Bank and Life businesses. These businesses are delivering:

- measured growth within risk appetite and target markets
- improved or stable margins
- a strong focus on cost control.

Despite the impact of the Non-core Bank loss, shareholders have received improved returns in the form of total dividends of 75 cents per share, an increase of 36% over the prior year and an increase in Suncorp Group's share price of almost 50% over the 2013 financial year.

The financial performance of the Suncorp Group confirms the successful implementation of the Group's transformation and strategy under the 'One Company. Many Brands' business model. Growth has been delivered across the Group, with:

- General Insurance gross written premium (**GWP**) up 8.0% to $8,589 million
- Core Bank lending up 9.5% to $47.5 billion
- Life Risk Individual In-force Premium up 8.7% to $785 million.

Operational efficiencies and a focus on cost control ensure the Group's business lines are all delivering solid margins.

General Insurance profit after tax was $883 million. The key drivers were top-line growth, operational efficiencies and favourable investment movements.

GWP increased by 8.0% to $8,589 million with all product lines achieving strong growth. Personal Insurance lines are benefiting from the Building Blocks pricing initiatives, in particular the improved risk selection from the General Insurance Pricing Engine. In Home, GWP increased by 10.4%, offsetting increased reinsurance costs and natural hazard allowances. In Motor, GWP growth of 4.7% has been achieved through increased average premiums and net written units. In Commercial Insurance, GWP increased by 8.4% with growth across all major product lines as a result of improved pricing and retention. Premium increases in the statutory classes of Compulsory Third Party (**CTP**) and Workers' Compensation have been achieved to offset the impact of falling bond yields. The reported Insurance Trading Result (**ITR**) ratio increased to 13.1%, well above the Group's commitment to 'meet or beat' an underlying ITR of 12%.

Banking net loss after tax was $343 million.

The net loss includes a $484 million loss before tax, net of provisions for impairment, on the disposal of the $1.6 billion non-core loan portfolio.

The Suncorp Group's 'A+/A1' credit ratings provide access to diversity in wholesale funding and provides a competitive advantage over the other regional banks. Credit quality remains sound with core impairment losses trending within the operating range.

Suncorp Life profit after tax was $60 million.

The result was significantly impacted by increased discount rates which resulted in an accounting loss after tax for market adjustments of negative $60 million. The underlying profit after tax was $120 million, down on the prior year due to negative experience against lapse assumptions and reduced Superannuation profit. Reported life individual risk new business sales were $121 million, up 14.2%. Sales of life insurance through the Direct channel to the General Insurance customers have increased 16%, reinforcing the strategy of concentrating on growing this channel.

The Group's balance sheet strengthened during the year and the Group's surplus capital position has enabled the Board to declare a fully franked final ordinary dividend of 30 cents and a special dividend of 20 cents per share. Total dividend payments for the full year total 75 cents per share, up 36%.

The Group has now established appropriate gearing levels for the lines of business and replaced maturing capital during the last 12 months. During the year, the Group issued Basel III compliant Convertible Preference Shares for $560 million and the first Basel III-compliant subordinated debt for $770 million from an Australian financial institution.

After the dividend payments are made, the Group's capital position remains strong with $847 million of additional capital held above the business line and Group operating targets. The Group also has $275 million of franking credits available after the payment of the declared dividends.

6.2 REVIEW OF PRINCIPAL BUSINESSES

General Insurance achieved an after tax profit of $883 million for the year to 30 June 2013.

The Insurance Trading Result (**ITR**) was $959 million, representing an ITR ratio of 13.1%. The result was driven by top-line growth, operational efficiencies and favourable investment movements.

GWP increased 8% to $8,589 million. Personal lines experienced growth (Home 10.4% and Motor 4.7%), with pricing capability continuing to drive improved risk selection with combined units remaining stable. Commercial lines increased 8.4%, with growth across all major product lines as a result of improved pricing and retention. CTP increased 8.5% driven by unit growth, favourable retention across all brands and an average rate increase in both NSW and Queensland in response to the low yield environment.

Net incurred claims were $4,919 million, with the loss ratio reducing to 67.4% (2012: 79.3%). Current year loss ratios benefited from improved working claims frequency and an increase in discount rates. Natural hazard claims were $183 million lower than the prior year, with experience $75 million above long-run allowances. Reserve releases of $105 million were broadly in line with long-run expectations.

The total operating expense ratio increased marginally to 24% from 23.7%. This includes the accelerated investment in Simplification projects which will generate future expense benefits.

Investment income on insurance funds decreased to $333 million, largely reflecting the low yield environment. The impact of lower investment income on insurance funds is partially offset by discounting movements on the outstanding claims provisions.

Investment income on shareholder funds increased 41.9% to $288 million, driven by a return on equity assets of $127 million. The remaining direct property assets were disposed of during the year with the sale of the Health and Forestry House buildings.

Capital funding expense has decreased to $33 million from $66 million as a result of the run-off of the Group's legacy funding arrangements.

Banking net loss after tax was $343 million (2012: $26 million profit).

Following the Group's strategic review of the Non-core Bank, the resolution of the Non-core banking portfolio was announced to the market on 13 June 2013. Central to the resolution was the sale of $1.6 billion of corporate and property assets. The sale was settled on 31 July 2013 and the Group received $940 million. Consistent with expectations, the Group incurred a pre-tax loss of $484 million including costs associated with the portfolio sale. The Bank's core lending portfolio continues to focus on relationship-based lending and deposit gathering in personal, small to medium enterprises and agribusiness banking.

Total banking loans, advances and other receivables increased to $47,999 million due to the growth in the Core lending portfolio, partially offset by the Non-core portfolio sale and continued run-off in the Non-core portfolio during the year.

Home lending benefited from investments in channel and geographic expansion to deliver growth of 9.4%. Growth appetite is controlled, underpinned by credit quality and margin management. Interstate expansion has improved retail lending diversification outside of Queensland. The interstate portfolio has grown 50% over the past three years and now accounts for 43% of total retail lending.

The Bank's Commercial portfolio increased 9.2% to $5,531 million. The growth reflects an increased share in low risk areas of new business within the Health, Self-Managed Super Funds and Franchise lending sectors. The Agribusiness portfolio increased 11.8% to $4.3 billion, underpinning growth in market share across Queensland and NSW. New business was of desired credit quality and was sourced from a number of rural sectors, assisting in portfolio diversification. Growth was achieved by leveraging recent investment in capability and the Bank's long heritage and strength of brand in the Agribusiness sector. The portfolio is well-diversified across the sector with less than 30% concentration in Beef and Grain/ Mixed Farming respectively. Geographically, 35% of the portfolio is outside the Queensland market, with South Australia, NSW and Western Australia all growing their respective contributions.

Retail deposits are managed to support the Core Bank's lending growth, liquidity and revenue objectives. The retail deposit to core lending ratio is currently at 66.5%. It is expected that this ratio will be managed around these levels over the short to medium term. The Bank has achieved material benefits from investments in the retail distribution footprint and capability. Transaction account balances grew 22% in the year to 30 June 2013. Interstate expansion has enabled diversification of the Bank's retail funding base. Interstate transaction account balances grew 50% in the year to 30 June 2013.

Net interest income increased 6.3% as targeted lending growth volumes were met across the Retail, Commercial and Agribusiness portfolios.

Operating expenses were $619 million. The increase of 3.7% on the prior year reflects the one-off transaction costs associated with the Non-core portfolio sale. The Core Bank cost to income ratio remained steady at 53.0% compared with 52.8% in the 2012 financial year.

Impairment losses were down 7.4% at $375 million. Core Bank credit losses continue to trend within the normal operating range of 15 to 30 basis points of credit risk-weighted assets. Total provision for impairment at 30 June 2013 was $300 million, representing a decrease of 44% on the prior financial year.

Suncorp Life achieved an after tax profit of $60 million (2012: $251 million).

The Life Risk business was impacted by adverse experience particularly in disability claims and lapses. Life Risk new business sales were $129 million, an increase of 16%, with growth in both the Independent Financial Adviser Australia and Direct channels. Life risk in-force has increased by 9%, despite industry-wide higher lapse rates, reflecting ongoing new business momentum across all lines.

Funds under administration were $7,339 million, up 3.2%, with good early growth in Suncorp Life's new Suncorp EveryDay Super product. Overall expenses have been controlled with the 7% increase driven by investment in the Direct market and to support regulatory change. Capital management is a key focus area and Suncorp Life is well progressed with plans to reduce capital and benefit from lower capital requirements under the Life and General Insurance Capital (**LAGIC**) framework. CET1 decreased for the half despite double digit new business growth. As a result of higher, but more stable yields, negative market adjustments of $60 million were recognised on policy liabilities and investments (2012: $105 million gains). These balance sheet revaluation adjustments are timing related and are expected to neutralise over time.

6.3 FINANCIAL POSITION AND CAPITAL STRUCTURE

6.3.1 FINANCIAL POSITION

TOTAL ASSETS DECREASED BY $134 MILLION OR 0.1% COMPARED WITH 30 JUNE 2012

Cash and cash equivalents increased by $528 million predominantly due to the increase in Banking funds held in short-term call and notice accounts due to higher excess liquidity at 30 June 2013. This increase was partly driven by a capital injection of $263 million of Common Equity Tier 1 Capital by the Company into Suncorp Bank. The remaining increase in cash held is predominantly for Group liquidity purposes.

6. OPERATING AND FINANCIAL REVIEW (CONTINUED)

6.3.1 FINANCIAL POSITION (CONTINUED)

Receivables due from other banks decreased by $584 million driven by a $1.4 billion decrease in collateral pledged for the Group's derivative liability position, given the maturity of several large cross currency swaps used for hedging purposes. This was partially offset by $769 million receivable (net of deposit) from Goldman Sachs for the non-core loan portfolio sale.

Trading securities decreased by $1,325 million due to Banking using the proceeds from matured debt securities held in the Trading book to fund maturing long-term debt issues, rather than being reinvested. A strategic decrease of holdings in short-term liquid assets (classified as 'trading securities') in favour of comparatively higher yielding term debt (classified as 'investment securities') also contributed to the decrease.

Investment securities increased by $1,302 million partly due to increases in fair values of investments held given favourable investment returns recorded throughout the year. The Suncorp Bank's strategic decrease in holdings of short-term liquid assets (classified as 'trading securities') in favour of comparatively higher yielding term debt (classified as 'investment securities') also contributed to the increase.

Banking loans, advances and other receivables increased by $709 million due to the growth in the Core lending portfolio, particularly Home Lending growth. This was partially offset by continued run-off in the Non-core portfolio during the year and the Non-core portfolio sale in June 2013.

General Insurance assets decreased by $530 million predominantly driven by a decrease in reinsurance and other recoveries as a consequence of lower natural hazard claims.

TOTAL LIABILITIES INCREASED BY $10 MILLION OR 0.01% COMPARED WITH 30 JUNE 2012

Deposits and short-term borrowings increased by $2,862 million due to continued strategic growth in Banking in the retail call and term deposits which exceeded a decrease in lower margin wholesale term deposits.

Derivatives decreased by $1,367 million due to the maturity of several large cross currency swaps which were hedging long-term maturing offshore debt issues and subordinated notes.

General Insurance liabilities decreased by $339 million driven by a decrease in Outstanding claims liabilities of $637 million due to releases in risk margins as claims were paid, including ongoing settlement of Christchurch earthquake claims. The decrease was further driven by valuation releases arising from favourable claims experience across the NSW and Queensland CTP portfolios. This was offset by an increase in Unearned premium liabilities of $298 million due to increases in premiums.

Securitisation liabilities increased by $977 million due to the issuance of two new Apollo Trusts (Apollo Series 2012-1 and 2013-1 Trusts) established during the year, partially offset by the termination of Apollo Series 2005-1E Trust and run-off in existing securitised loans.

Debt issues decreased by $2,278 million due to the decrease in Banking offshore funding by $2,075 million during the year, following the maturity of two US dollar Government guaranteed borrowings as a result of the non-core portfolio run-off. Onshore funding decreased by $210 million due to the maturity of $1,040 million, and buy-back of a further $1,225 million in domestic long-term debt. This was offset by the issuance of $1,450 million of floating rate notes and $598 million in covered bonds during the year.

Subordinated notes increased by $272 million driven by the Group's issuance of $770 million subordinated notes in May 2013. This is offset by the maturity of two Suncorp-Metway Limited (**SML**) fixed rate notes (USD and GBP) with a 2012 carrying value of $104 million and $392 million respectively.

Preference shares decreased by $183 million due to the redemption of $765 million of SML convertible preference shares in June 2013, offset by the issue of $560 million of convertible preference shares in the Company in November 2012 combined with the debt issue costs incurred.

TOTAL EQUITY DECREASED BY $144 MILLION OR 1% COMPARED WITH 30 JUNE 2012

Share capital increased by $10 million due to share-based payment and treasury shares movement.

Reserves increased by $95 million due to movement in cash flow hedges and foreign currency gain on translation of New Zealand operations.

Retained profits decreased by $248 million due to total dividend paid (for final and special 2012 dividend and 2013 interim) of $769 million exceeding full year profit of $491 million. The remaining difference is attributable to net actuarial gains on defined benefit plan revaluations and a transfer to general reserve for credit loss.

6.3.2 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 at both Group and regulated entity levels. The main objectives are to ensure there are sufficient capital resources to maintain and grow the business and meet the operational requirements. The Group's capital policy ensures that each regulated entity is separately capitalised to meet internal and external requirements. The Non-Operating Holding Company (**NOHC**), Suncorp Group Limited, 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 and its insurance and banking entities are subject to, and are in compliance with, externally imposed capital requirements set and monitored by the Australian Regulation Prudential Authority (**APRA**), the prudential regulator of the Australian financial services industry. New Zealand subsidiaries are regulated by the Reserve Bank of New Zealand.

The capital policy is reviewed regularly and, where appropriate, adjustments are made to internal capital targets to reflect changes in economic conditions and risk characteristics of the Group's business activities. Given the changes introduced from LAGIC and Basel III, capital targets have been reviewed and are now structured according to both the business line regulatory framework (which now includes minimum Common Equity Tier 1 Capital (**CET1**) and Tier 1 requirements for General Insurance and Life) and to APRA's draft standards for the supervision of conglomerates.

For regulatory purposes, capital is classified as follows:

- CET1 comprises accounting equity plus adjustments for intangible assets and regulatory reserves
- Tier 1 Capital comprises CET1 plus Additional Tier 1 Capital such as certain hybrid securities with 'equity-like' qualities
- Tier 2 Capital comprises certain securities recognised as Tier 2 Capital
- the sum of Tier 1 Capital and Tier 2 Capital is called Total Capital.

The strongest and most loss absorbent form of capital is CET1, followed by Additional Tier 1 Capital and then by Tier 2 Capital.

At the start of the year, there were a number of aspects regarding capital that required finalisation, including:

- the ongoing impact of the Non-core Bank
- the re-financing of $1.3 billion of Tier 1 and Tier 2 capital instruments
- the finalisation of APRA's implementation of Basel III and LAGIC
- the impact of APRA's proposed supervision of conglomerates.

Over the course of the year, a number of capital initiatives and external market events have shaped the capital position of the Group. These included:

- redemption of $575 million of subordinated debt in October 2012
- issuance of $560 million of Basel III compliant, Tier 1 convertible preference shares (CPS2) in November 2012
- issuance of $770 million of Basel III compliant, Tier 2 subordinated debt in May 2013
- redemption of $735 million of convertible preference shares (CPS1) in June 2013
- resolution of the Non-core Bank
- APRA's implementation of Basel III and LAGIC
- payment of a fully franked interim dividend of 25 cents per share in April 2013
- declaring a fully franked final ordinary dividend of 30 cents per share representing a full year ordinary pay-out ratio of 122% of cash earnings (77% when adjusted for the Non-core Bank disposal)
- declaring a fully franked special dividend of 20 cents per share
- maintaining a zero discount on the Dividend Reinvestment Plan (DRP) and neutralising the dilution impact by purchasing the shares on-market.

The execution of the initiatives above has ensured that the Group's capital position remains strong. At 30 June 2013:

- the General Insurance Group Total capital position was 1.96 times the PCA
- the Bank's Capital Adequacy Ratio (CAR) was 12.61%
- Suncorp Life's excess capital position was $300 million.

In addition, reinsurance is a key part of the Group's capital strategy. Following the finalisation of the Group's 2013/14 reinsurance program, the Group does not expect any capital impact from APRA's change to the calculation of the Insurance Concentration Risk Charge.

In addition to the existing targets for total capital, the Group has fully embedded CET1 targets across its businesses. These targets underpin the Group's commitment to achieve a Return on Equity (**RoE**) of more than 10% for the 2015 financial year.

The CET1 targets are:

- General Insurance CET1 coverage ratio of 1.10 times PCA
- Banking CET1 ratio of 8%. The Bank is currently working towards an 8% CET1 ratio at September 2013 with the ongoing run-off of the Non-core Bank
- Life Insurance CET1 target being an amount equal to the sum of PCA plus a target surplus buffer.

6.4 IMPACT OF LEGISLATION AND OTHER EXTERNAL REQUIREMENTS

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

AUSTRALIA

In Australia, APRA has released the second tranche of proposals and draft prudential standards for the supervision of conglomerate groups (Level 3 framework), which includes the Suncorp Group. The proposals are expected to come into effect on 1 January 2014.

Legislation has been passed by Federal Parliament that will require large corporate entities to make Pay As You Go tax instalments monthly instead of quarterly.

The Federal Government has released the report of the Australian Law Reform Commission called *Access All Ages – Older Workers and Commonwealth Laws*. This report makes recommendations across superannuation, employment, insurance and compensation law which are intended to reduce age discrimination and increase mature age workforce participation. The Federal Government has indicated that it will further consider those recommendations.

6. OPERATING AND FINANCIAL REVIEW (CONTINUED)

6.4 IMPACT OF LEGISLATION AND OTHER EXTERNAL REQUIREMENTS (CONTINUED)

The Federal Government has announced that the Australian Law Reform Commission will be conducting an inquiry into how to reduce legal barriers for people with disabilities with the intention of ensuring Federal laws and legal frameworks are responsive to the needs of disabled persons and to advance, promote and respect the rights of disabled persons. The inquiry may make recommendations for changes in the areas of anti-discrimination, superannuation, financial services, privacy, employment and identification documents.

The laws relating to unclaimed moneys held by banks, insurance companies and superannuation funds were changed with the passing of the *Treasury Legislation Amendment (Unclaimed Money and Other Measures Bill) 2012* by Federal Parliament. Generally, the period of time before moneys become unclaimed and have to be paid to the Federal Government or another Government body has been reduced.

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

Further changes are proposed in relation to consumer credit lending under the *National Consumer Credit Protection Act 2009* including proposed new lender disclosure requirements and the possibility of further regulation in relation to investment lending.

Industry consultation by Australian regulators continues in order to finalise the clearing requirements for certain over-the-counter derivatives. The reporting requirements for certain over-the-counter derivatives have been recently finalised by the Australian Securities and Investments Commission.

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

The Federal Government has introduced proposed unfair contract terms legislation into Federal Parliament that will be applied to general insurance contracts and will come into force 12 months after the legislation receives Royal Assent.

The *Insurance Contracts Amendment Bill 2013* has been passed by Federal Parliament and makes some significant amendments to the *Insurance Contracts Act 1984* (**ICA**). The amendments will take effect progressively from the Bill's date of assent for a period of 12 to 30 months after the date of assent. The amendments made by the Bill include amendments in respect of the duty of utmost good faith, electronic communication (e.g. allowing notices under the ICA to be given electronically), the insureds' duty of disclosure and insurer's duty to inform insureds of their duty of disclosure.

Significant reforms are proposed to the NSW compulsory third party insurance scheme which will: (a) create a no fault scheme for the provision of statutory benefits to anyone injured in a motor accident irrespective of fault and (b) remove the right to sue for common law damages where whole person impairment is 10% or less. The reforms are also expected to result in a review of the premium system.

The Victorian Government has announced a review of the *Wrongs Act 1958* to be conducted by the Victorian Competition and Efficiency Commission. The Wrongs Act governs claims for damages for personal injury or death in Victoria, other than transport accidents, work injuries and some other exceptions.

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

The Future of Financial Advice reforms (**FOFA reforms**) continue to be implemented by the Federal Government. The financial planning industry is required to comply with the reforms from 1 July 2013. The key FOFA reforms include: (a) a prospective ban on upfront and trailing commissions and like payments for both individual life, and (b) group risk cover within superannuation from 1 July 2013 and the imposition of a statutory 'best interests' duty which will require financial advisers to act in the best interests of their clients and give priority to their clients' interests and take reasonable steps to discharge that duty.

The Federal Government continues to refine its proposed reforms to Australia's privacy and credit reporting laws, including the recent introduction of a Bill to require mandatory reporting for 'serious data breaches'. The privacy reforms are scheduled to commence in March 2014.

NEW ZEALAND

In New Zealand, the *Insurance (Prudential Supervision) Act 2010* is now in force, and requires all insurers to be licensed by the Reserve Bank of New Zealand (with a few limited exceptions). As from 7 September 2013 only fully licensed insurers may carry on insurance business in New Zealand.

The *Financial Markets Conduct Bill* is currently before the New Zealand Parliament. The main aim of this Bill is to reform the regulation of financial market conduct 'to promote confident and informed participation in New Zealand's financial markets'. The

Bill represents significant new legislation and will replace the *New Zealand Securities Act 1978, Securities Markets Act 1988, Unit Trusts Act 1960* and will amend or replace a number of other acts. It is expected to come into force in mid to late 2014.

The *Consumer Law Reform Bill*, currently before the New Zealand Parliament, proposes adding a new prohibition on including or enforcing 'unfair contract terms' in standard form consumer contracts. This aligns the Bill more closely with Australian legislation. The commencement of the prohibition is likely to be delayed for 15 months after the Bill receives Royal assent. In respect of insurance contracts, the Bill proposes that a term may be treated by a court as being reasonably necessary in order to protect the legitimate interests of the insurer (and therefore not be an unfair contract term) if the term reflects the underwriting risk accepted by the insurer.

The New Zealand Ministry of Business, Innovation and Employment has sought comments from the public and technical experts on proposals to improve the earthquake-prone buildings policy system. The proposals set out a consistent national approach for dealing with earthquake-prone buildings and would require all non-residential and multi-unit, multi-storey residential buildings to have a seismic capacity assessment done within five years, and owners of buildings identified as earthquake-prone to have up to 10 years to strengthen or demolish those buildings.

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

6.5 SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Suncorp Group continues to deliver on its simplification objectives and has committed to realising further benefits earlier than expected.

On 1 July 2013, Suncorp Group's five general insurance licences were consolidated following Federal Court approval in May 2013. AAI Limited is now the one authorised general insurer and underwriter for all Suncorp Group general insurance brands, reducing administration and financials costs and generating capital benefits.

The General Insurance Legacy System Project, which aims to simplify products, processes and policy applications, is on schedule with Suncorp Insurance moving onto the Protect platform in November last year. The Banking Platform Project is progressing with the Bank's new Customer Relationship Management system now live and delivering.

The Group's procurement system (iProcurement) has been transformed, with automated procure to pay processes and improved supplier contracts creating a platform for significant reduction in procurement costs.

A strategic review of the New Zealand business was finalised and a program of work developed that refocuses the business post the Canterbury earthquakes, and applies the Group's Building Block and Simplification initiatives to that business.

The LAGIC and Basel III regulatory standards, affecting Suncorp Group's capital and liquidity requirements, were implemented in January 2013 to provide a consistent approach to measuring capital across the General Insurance, Bank and Life businesses. The increased comparability of businesses has allowed adoption of consistent capital metrics across the Suncorp Group, facilitating the recent RoE market commitment.

Consistent Risk-Based Capital models were introduced within each business and used for the first time in 2013 to inform business plans across the Suncorp Group. This capability is expected to further evolve and facilitate improved understanding of risks across the General Insurance, Bank and Life businesses. This will also ultimately assist in the achievement of advanced accreditation for the Bank, and improve the Group's capability to model natural hazards and optimise pricing across the General Insurance product suite. A discussion of the Group's business strategies and prospects for future financial years is included in section 8.

6.6 ENVIRONMENTAL REGULATION

The *Building Energy Efficiency Disclosure Act 2010* requires the Suncorp Group to obtain a Building Energy Efficiency Certificate for any building where it plans to sell or sublease commercial office space above 2,000 square metres.

The *National Greenhouse and Energy Act 2007* (**NGER**) introduced a framework for corporations to report greenhouse gas emissions and energy consumption and production. The Company reported under the NGER scheme for the first time in 2010/11 and has since reduced its reported emissions year on year.

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.

7. DIVIDENDS

A fully franked 2013 interim dividend of $320 million (25 cents per share) was paid on 2 April 2013. A fully franked 2013 final ordinary dividend of $386 million (30 cents per share) and a fully franked 2013 special dividend of $257 million (20 cents per share) has been declared by the directors.

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

8. LIKELY DEVELOPMENTS

The transformation of the Suncorp Group is evidenced in the strength of its balance sheet, the reduced complexity of its operations and growth and performance of the core businesses. The resolution of the Non-core banking portfolio will ensure all stakeholders can now focus solely on the future operations of the Group.

8. LIKELY DEVELOPMENTS (CONTINUED)

Simplification initiatives will continue to deliver benefits ahead of plan, providing an additional $225 million in cost savings in the 2015 financial year and benefits of $265 million being realised in the 2016 financial year.

Simplification provides the foundation for delivering the key market commitments of:

- Group growth of 7% to 9% per annum over the next two years
- 'meet or beat' an underlying ITR of 12% through the cycle
- Group RoE of at least 10% in the 2015 financial year
- an ordinary dividend payout ratio of 60% to 80% of cash earnings
- continuing to return surplus capital.

These targets will help support the next stage in the evolution of Suncorp Group. This will deliver real value for shareholders by demonstrating what Suncorp can achieve by capitalising on the 'One Company. Many Brands' business model and its strategic assets, known as the 4Cs – Cost, Capital, Customer and Culture.

Across the Group, the 4Cs will drive benefits including:

- Cost – lowering the unit cost of procurement by leveraging the Group's scale, buying power and supplier relationships
- Capital – delivering a diversification benefit through improved risk-based capital modelling and ultimately a reduction in the quantum of capital held across the Group
- Customer – enhancing the value of nine million customer connections by deepening their relationships with the Group brands
- Culture – operating as 'One Company. Many Brands. One Team' and positioning Suncorp as THE place to work in Australia and New Zealand.

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.

9. KEY INTERNAL AND EXTERNAL RISKS

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

- economic instability or a continued 'low yield' environment, resulting in an overall decrease in profitability and growth. Current responses around investment and selective pricing strategies continue to be employed and remain appropriate.
- increased competition in the general insurance market. This is being mitigated by continual market and competitor monitoring and leveraging the Group's scale, brands and pricing capability to build a competitive advantage.
- risks relating to the use of service providers. Governance processes, as well as contract and service management processes, are in place to mitigate this risk.
- 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, and include regular engagement with regulators and 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 list of key risk categories inherent in the Suncorp Group's business are outlined in the Corporate Governance Statement.

10. EVENTS SUBSEQUENT TO REPORTING DATE

Apart from the One General Insurance Licence reported in section 6.5, 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.

11. 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 in accordance with section 205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

	FULLY PAID ORDINARY SHARES
Dr Z E Switkowski	201,599
I R Atlas	11,635
W J Bartlett	26,968
M A Cameron	5,000
A E Exel	989
E J Kulk	20,173
Dr D F McTaggart	11,000
G T Ricketts	26,349
P J R Snowball [1]	1,422,085

1 *Includes 1,046,752 shares held by the trustee of the Executive Performance Share Plan. Beneficial entitlement to these shares remains subject to satisfaction of specified performance hurdles.*

Mr Kulk also holds 3,000 of the Company's convertible preference shares.

12. 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 2013, 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.

13. NON-AUDIT SERVICES

During the year KPMG, the Company's auditor, performed certain services in addition to their statutory duties.

The Board has considered the non-audit services provided during the 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 year are set out below:

	2013	2012
	$000	$000
Services other than statutory audit		
Audit-related fees (regulatory)		
APRA reporting	987	1,008
Risk management	76	74
Australian Financial Services Licences	155	121
Other regulatory compliance services	776	782
	1,994	1,985
Audit-related fees (non-regulatory)		
Other assurance services	1,667	979
	1,667	979
Tax fees		
Tax compliance	10	9
	3,671	2,973

14. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 41 and forms part of the Directors' Report for the financial year ended 30 June 2013.

15. 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
2013 Remuneration Report

Dear Shareholder

The Board is pleased to present Suncorp Group's Remuneration Report for 2013. This Report contains remuneration policies, practices and results, and outlines the links between remuneration and results, both financial and non-financial.

Responsibility for Suncorp Group's remuneration strategy and governance rests with the Board, supported by the Board Remuneration Committee. During the year, the Board continued to refine remuneration practices and policies, reflecting the changing external market with regard to executive remuneration and shareholder expectations.

REMUNERATION STRATEGY

The Group's remuneration strategy is based on six principles:

- align rewards with sustainable performance
- align effective risk management with reward
- balance stakeholder interests
- deliver a competitive advantage
- ensure gender pay equality; and
- support the Suncorp Group values and culture.

More than 70% of the Group CEO's target remuneration is 'at risk' (more than 60% for Senior Executives) and explicitly linked to short-term and long-term performance, expected behaviours and prudent risk management.

PERFORMANCE AND REWARD

The 'at-risk' elements of executives' rewards – the short and long-term incentives – are linked to the Group's overall performance as well as to the achievement of their business unit's strategic goals.

The performance of executives during 2013 resulted in significant progress being made against Suncorp's strategic agenda, the highlights being:

- improved returns to shareholders in 2013: increased dividends and a strong share price performance (share price growth of 47.3% over the period 1 July 2012 to 30 June 2013: higher growth than 88% of the constituent companies in the S&P/ASX100 at 1 July 2012)
- Simplification benefits increased and brought forward: expected benefits of $225 million in the 2015 financial year and $265 million in the 2016 financial year
- resolution of the Non-core Bank portfolio: a significant milestone, allowing the Group to focus on core businesses
- profit from the Group's principal businesses of General Insurance, Core Bank and Suncorp Life increased by 19% to $1,232 million, from $1,033 million in 2012.

Reflecting the strong overall result, short-term incentives awarded to the Senior Executives are, on average, higher than last year.

The performance measure for long-term incentives is the Company's total shareholder return – being share price performance and dividend growth – relative to a peer group of listed companies within the S&P/ASX100 Index. Suncorp Group Limited was the 13th best performer in its comparator group for the 2009 Executive Performance Share Plan Grant, which led to a successful vesting result of 96% for executives.

More details on these specific outcomes are in sections 2.8 and 2.9 of the Remuneration Report.

With respect to the 'fixed' element of remuneration, the Board did not increase the fees for non-executive directors or the salary or incentive targets for the Group CEO or most Senior Executives.

For the 2014 financial year, the Board has approved a minimum shareholding requirement for non-executive directors (100% of base fees) and the Group CEO and Senior Executives (100% of fixed remuneration) to be achieved by October 2017. This is to further align the interests of Senior Executives and directors with those of shareholders.

The Board aims to achieve the right balance by incorporating the changing expectations of the remuneration environment while attracting and retaining high-calibre executives and directors to ensure Suncorp Group's ongoing success. The Board is confident Suncorp Group's remuneration policies and framework are appropriate in that context, are in line with governance requirements and continue to support the Group's financial and strategic goals.

As ever, the Board welcomes feedback as we strive to make the Remuneration Report simpler and easier to understand.

Dr Ziggy Switkowski
Chairman
21 August 2013

Ilana Atlas
Chair, Remuneration Committee

USING THIS REMUNERATION REPORT

REMUNERATION REPORT

This Remuneration Report forms part of the Directors' Report and sets out the remuneration details for Suncorp Group's key management personnel (**KMP**). KMP are the people who have authority and responsibility for planning, directing and controlling the activities of the Suncorp Group and they are listed in the tables in sections 2.9 and 3.3.

This Remuneration Report is structured in three sections:

- section 1 presents an overview of the remuneration framework and developments for the financial year ended 30 June 2013 (**2013**)
- section 2 presents the remuneration for the Group CEO and Senior Executives (defined as the executives reporting to the Group CEO who are KMP)
- section 3 presents the remuneration for the non-executive directors (who are also KMP).

KPMG have audited sections 2 and 3 in accordance with section 308(3C) of the *Corporations Act 2001*.

1. REMUNERATION OVERVIEW – UNAUDITED

Suncorp Group's approach to remuneration is based on providing competitive rewards that motivate appropriately qualified directors and executives to deliver superior and sustainable performance for shareholders. The Board of Suncorp Group Limited (the **Board**) is committed to fair and responsible remuneration and to communicating the remuneration arrangements in a simple, clear and transparent manner.

The reward structure for the Group CEO and Senior Executives comprises four components:

- fixed remuneration, inclusive of employer superannuation
- a short-term incentive (**STI**), paid in cash at the end of each performance year based on the achievement of specific performance criteria
- deferred STI, a portion of STI withheld for two years supporting effective risk management and Suncorp Group's long-term sustainability
- a long-term incentive (**LTI**), an award of performance rights to shares in the Company, subject to a three-year performance period based on a relative Total Shareholder Return (**TSR**) performance measure.

More than 60% of target remuneration for Senior Executives is 'at-risk' and explicitly linked to performance. At-risk STI remuneration is subject to an assessment of financial and non-financial performance measures against specific objectives at the Group, business unit and individual levels.

All deferred remuneration is subject to clawback, at the Board's discretion.

1.1 REMUNERATION IN 2013

A summary of remuneration outcomes in 2013 is shown in the table below.

EXECUTIVE SUMMARY	
Restraint in fees for non-executive directors and fixed remuneration for executives	• Non-executive directors did not receive a fee increase for the second successive year. • The Group CEO, most Senior Executives and most Executive General Managers across the Suncorp Group did not receive an increase to fixed remuneration.
Focus of executives on leading Simplification programs	• 'Strategic initiatives' were introduced to executives' scorecards, to focus executives on leading the Group's transformation. • Behavioural requirements are also considered in the evaluation of performance outcomes.
2013 STI reflects performance	• 2013 financial and non-financial performance was good in a demanding business environment, with overall performance exceeding our challenging performance targets. • Against this background, the short-term incentive payments for the Group CEO and Senior Executives were above their short-term incentive target amounts.
Positive share price performance and dividend return led to LTI vesting	• A 47.3% increase in the Company's share price for 2013 and a positive TSR relative to the Company's Peer Comparator Group resulted in the October 2009 Executive Performance Share Plan Grant vesting at 96%.
Release of Group CEO's STI deferral	• The deferred component of the Group CEO's 2010 STI was released in August 2012, following Board approval.
Remuneration Committee membership strengthened	• Mr Michael Cameron, an existing non-executive director on the Board with extensive executive management experience, joined the Remuneration Committee on 1 April 2013.
Effective management of talent	• Mr Clayton Herbert was appointed to the position of Group Chief Risk Officer (**Group CRO**) effective 1 July 2012. • Ms Anna Lenahan, Group Executive Group General Counsel and Company Secretary, was appointed a Senior Executive effective 1 June 2013.
Remuneration governance	• The Remuneration Policy was reviewed in 2013 in accordance with the governance framework outlined in section 2.1. The Board approved the Remuneration Policy with limited modification, and confirmed it remains appropriate and meets the needs of the Group.
Employees as shareholders	• Eligible Suncorp Group employees were awarded shares in the Company ($750 value granted in October 2012; $1,000 value to be granted October 2013). The Group CEO and Senior Executives are not eligible for this award of shares.

CHANGES FOR 2014

The Board approved the following changes for the 2014 financial year:

- a minimum shareholding requirement for the Group CEO and Senior Executives (100% of fixed remuneration) and non-executive directors (100% of base fees) to be achieved by October 2017.
- effective 1 July 2013, the legislated increase in Superannuation Guarantee Contributions (**SGC**) was applied consistently across the Group. Consequently, fixed remuneration levels for eligible employees[1], including Senior Executives and non-executive directors, increased effective 1 July 2013 to reflect the 0.25% increase in mandatory superannuation contributions.

INFLUENCES ON REMUNERATION IN 2013

During 2013 Suncorp Group executives have focused on the execution of business plans and the Group's strategy which is delivering:

- increased profits from core businesses
- top-line growth
- effective cost control
- a de-risked portfolio, following the resolution of the Non-core Bank
- a stronger balance sheet.

Returns to shareholders during 2013 have improved with a strong share price performance and increased dividends. Shareholders will have received an increased ordinary dividend of 55 cents per share (up 37.5%) and a special dividend of 20 cents per share. During the 2013 financial year, the Company's share price increased 47.3% from $8.09 to $11.92.

1 There is an exemption for SGC for the Group CEO, and his fixed remuneration was therefore unchanged on 1 July 2013.

Since the successful implementation in 2012 of the Building Blocks Program, the strategic focus in 2013 has been on further simplification which has delivered results ahead of plan. Simplification benefits were originally projected to be $200 million by the 2016 financial year. During the year, this forecast has materially improved. Simplification benefits are expected to be $225 million in the 2015 financial year and $265 million in the 2016 financial year.

A key achievement for the year was the resolution of the Non-core Bank portfolio. The final resolution of the portfolio is a significant milestone for the Group, allowing it to focus on core businesses and ensuring that investors can see the true value of the Suncorp Group. Consistent with prior years, losses from the Non-core Bank have been excluded from the calculation of 'underlying profit' in the Group scorecard for performance assessment.

Profit from the Group's principal businesses of General Insurance, Core Bank and Suncorp Life increased by 19% to $1,232 million from $1,033 million in 2012. The total Group's net profit after tax (**NPAT**) for the year of $496 million is lower than the 2012 NPAT of $728 million. The reduction in total Group NPAT was caused by the resolution of the Non-core Bank, resulting in an after tax loss of $632 million from this portfolio. The Remuneration Committee believes the $1,232 million profit from the Group's core businesses provides shareholders with an appropriate basis for determining the true value of the Suncorp Group and the 19% increase reflects the significant progress against our strategic agenda over the last year.

Suncorp Group's business transformation is delivering other stakeholder benefits leading to sustained improvement in performance. A more flexible work environment and leadership development programs for employees have led to a significant increase in employee engagement and enablement scores. More efficient claims management has played a key role in supporting both individual customers and communities in their time of need. More information on employee engagement and customer performance data is available in the Suncorp Group 2012/13 Shareholder Review and 2012/13 Corporate Responsibility Review.

1.2 2013 ACTUAL REMUNERATION OUTCOMES

FIXED REMUNERATION LEVELS – UNCHANGED IN 2013

During the annual review process at the start of the 2013 financial year, the Board reviewed independent remuneration benchmarking to ensure fixed remuneration remains appropriate when compared with peer comparator groups in the competitive market. Continued restraint in fixed remuneration levels was applied to ensure cost control and provide a focus on 'at-risk' remuneration.

Accordingly, the Group CEO and all but one of the Senior Executives received no increases to their fixed remuneration during the annual remuneration review in 2013. The exception was the CEO Vero New Zealand, Mr Gary Dransfield, whose fixed remuneration was increased on 1 January 2013 to better align with the relevant competitive market.

SHORT-TERM INCENTIVES 2013

STI rewards employees for strong performance outcomes and, together with an assessment against integrated risk management frameworks, ensures a focus on Suncorp Group's sustainable profitability. STI is subject to clawback under certain conditions.

Executives' individual scorecard measures are established at the beginning of each financial year. These are linked to the achievement of business strategy, financial goals, and risk, people and customer measures which are designed to provide a robust balance of financial and non-financial goals, reflecting individual contribution to the delivery of sustained business performance.

At the beginning of the financial year, the Remuneration Committee determines the performance metrics and their relative weightings to be included in the Group CEO and Senior Executive scorecards. The Remuneration Committee believes these measures will support performance in the current year, and contribute to the long-term sustainability of the Group.

The Group CEO's STI depends on the performance of the Suncorp Group as a whole.

Senior Executives have scorecard measures tied to the goals of both the Suncorp Group and their individual business unit. The alignment of Senior Executives' scorecards to Suncorp Group goals is intentional, ensuring executives are focused on the success of the 'One Company. Many Brands' strategy.

Scorecard measures are designed to provide stretching performance objectives (see section 2.6). At the end of the financial year, the Remuneration Committee and the Board rigorously and objectively assess each executive's achievement against their scorecard measures and apply judgment to determine individual STI awards.

Evaluation of performance includes non-financial, qualitative criteria including the ability to manage risk, service customers, drive change in the organisation, establish strong teams and develop leadership.

The 2013 performance result has been influenced by the progress the Group has made in delivering improved performance of core businesses and continued transformation to deliver cost control, effective capital management, dividend growth and a stronger balance sheet. Taking all performance factors into account, both financial and non-financial, 2013 performance has been determined by the Board as exceeding expectations delivering above target STI outcomes to executives.

See section 2.8 for an overview of performance results and STI outcomes.

DEFERRED STI OUTCOMES

2010

The Group CEO was the only person to have deferral applied to his 2010 STI award. The deferred portion of the 2010 STI was held for two years in cash and vested at the beginning of the 2013 financial year.

In July 2012, following consideration of the clawback provisions detailed in section 2.6, the Board approved the release of the Group CEO's deferred 2010 STI which was paid on 8 August 2012.

2011

Deferred 2011 STI for the Group CEO and Senior Executives was not earned or received in 2013 and will be addressed in the 2014 Remuneration Report.

Further details regarding deferral and clawback can be found in section 2.6.

LTI OUTCOMES IN 2013 REFLECT POSITIVE TSR

The Company achieved a positive TSR during 2013. As a result, executives were rewarded under the LTI plan. TSR over the performance period for the 2009 Executive Performance Share Plan (**EPSP**) Grant achieved the 73.3 percentile of the Peer Comparator Group. This translated to a vesting outcome of 96%.

The 3 May 2010 EPSP Grant to Mr John Nesbitt, Group Chief Financial Officer (Group CFO), was a one-off offer, made on his appointment to the Suncorp Group, to recognise forfeited LTI with his previous employer. TSR over the performance period for the 3 May 2010 Grant achieved the 86.0 percentile of the Peer Comparator Group, translating to a vesting outcome of 100%.

Mr Nesbitt did not participate in the 2009 Grant.

Section 2.8 has further details on 2013 LTI outcomes.

REMUNERATION OF THE GROUP CEO AND SENIOR EXECUTIVES IN 2013

The remuneration of the Group CEO and Senior Executives for 2013 is shown in the non-statutory table below. Further details of the terms and conditions of STI and LTI are set out in sections 2.6 and 2.7.

NON-STATUTORY TABLE – UNAUDITED

Australian Accounting Standards (**AASBs**) require the calculation of remuneration on an accruals basis, including the use of valuation models for long-term share-based incentives.

The AASBs require the amortisation of the accounting fair value of the LTI over the associated vesting period, based on assumptions that may or may not eventuate.

To provide shareholders with information on remuneration in 2013, the unaudited table below contains details of the remuneration the Group CEO and Senior Executives received in 2013. These figures represent the actual:

- fixed remuneration executives received in 2013
- value of incentives they received as a result of performance in 2013
- value of deferred incentives and LTIs that vested in 2013.

Deferred STI and LTI awards (future 'at-risk' remuneration) may crystallise after a two-year and three-year period respectively, subject to relevant performance and service conditions.

The audited remuneration disclosures in accordance with AASBs and the *Corporations Act 2001* are presented in section 2.9.

REMUNERATION OF THE GROUP CEO AND SENIOR EXECUTIVES IN 2013

		REMUNERATION EARNED IN 2013[1]		PAST 'AT-RISK' REMUNERATION RECEIVED IN 2013[4]					FUTURE 'AT-RISK' REMUNERATION AWARDED IN 2013[8]	
	EXECUTIVES	FIXED REMUNERATION[2]	2013 INCENTIVES[3]	DEFERRED INCENTIVES (CASH) VESTED IN 2013[5]	% VESTING	LTI (EQUITY) VESTED IN 2013[6]	% VESTING	ACTUAL REMUNERATION RECEIVED IN 2013[7]	2013 INCENTIVES (DEFERRED AS CASH)[9]	LTI (EQUITY) GRANTED IN 2013[10]
		$000	$000	$000		$000		$000	$000	$000
	EXECUTIVE DIRECTOR									
Group CEO	Patrick Snowball	2,550	1,750	1,083	100	2,661	96	8,044	1,750	4,000
	SENIOR EXECUTIVES									
CEO Commercial Insurance	Anthony Day	750	696	-	-	152	96	1,598	375	375
CEO Vero New Zealand	Gary Dransfield	624	559	-	-	179	96	1,362	301	275
CEO Suncorp Bank	David Foster	770	910	-	-	727	96	2,407	490	385
Group Chief Risk Officer	Clayton Herbert	600	530	-	-	415	96	1,545	285	300
CEO Personal Insurance	Mark Milliner	807	728	-	-	727	96	2,262	392	403
Group Chief Financial Officer	John Nesbitt[11]	900	813	-	-	4,041	100	5,754	438	450
Group Executive Human Resources	Amanda Revis	600	540	-	-	-	-	1,140	291	300
CEO Suncorp Business Services	Jeff Smith	780	767	-	-	779	96	2,326	413	390
CEO Suncorp Life	Geoff Summerhayes	720	618	-	-	649	96	1,987	333	360
	SENIOR EXECUTIVE APPOINTED DURING 2013									
Group Executive Group General Counsel and Company Secretary	Anna Lenahan[12]									

1 Remuneration earned in 2013 comprises:
- *fixed remuneration (actual fixed remuneration received, including salary sacrificed benefits and employer superannuation); and*
- *incentives which relate to the 2013 performance period that are not deferred.*

2 Fixed remuneration takes into account the fixed remuneration increase for Mr Gary Dransfield effective 1 January 2013.

3 Incentives for the 2013 year. For the Group CEO, this represents 50% of the total STI for 2013 and was paid in August 2013. For Senior Executives this represents 65% of the total STI for 2013 and is paid in September 2013.

4 Past 'at-risk' remuneration received comprises LTI and deferred STI awarded in previous years that vested during 2013.

5 The deferred 2010 STI for the Group CEO, which vested on 31 July 2012 and was paid on 8 August 2012, includes interest accrued during the deferral period. The deferred 2011 STI for the Group CEO and Senior Executives is not included in the table above as it was not earned or received in 2013.

6 LTI (equity) vested represents performance rights vested during 2013 multiplied by the closing share price at the date of vesting.

7 'Remuneration earned in 2013' plus 'Past 'at-risk' remuneration received in 2013'

8 Future 'at-risk' remuneration awarded in 2013 comprises the cash value of the deferred incentives, excluding the value of any future interest payable on vesting and the face value of the LTI awarded in 2013 that may conditionally vest in future years, and is not guaranteed.

9 2013 incentives (deferred as cash) represent the deferred portion of incentives awarded for 2013. For the Group CEO, this represents 50% of the total STI for 2013. For Senior Executives this represents 35% of the total STI for 2013. These awards are subject to potential clawback during the deferral period.

10 LTI (equity) represents the face value of performance rights granted under the Executive Performance Share Plan (EPSP) during 2013. The value for the Group CEO represents the $4 million approved by shareholders at the 2012 AGM. The Group CEO's proposed 2014 Grant (requiring shareholder approval) is not included. For further details of the LTI program, refer to section 2.7.

11 The Group Chief Financial Officer's 3 May 2010 Grant (which vested on 2 May 2013), was made on Mr Nesbitt's appointment to the Suncorp Group.

12 Ms Lenahan, Group Executive Group General Counsel and Company Secretary, was appointed a Senior Executive effective 1 June 2013. Remuneration details are provided in the statutory table in section 2.9, and excluded from the table above as it relates to one month of remuneration. Ms Lenahan was not granted any LTI while she held the Senior Executive position.

2. EXECUTIVE REMUNERATION – AUDITED

2.1 REMUNERATION GOVERNANCE

REMUNERATION COMMITTEE

While the Board has overall responsibility for executive remuneration structure and outcomes, the Remuneration Committee advises and makes recommendations to the Board on remuneration-related matters. The Remuneration Committee, which operates under its own Board-approved Charter:

- 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 employee and shareholders' interests are aligned
- takes account of advice from the Group CEO, other members of management and, where relevant, independent external advisers
- oversees the preparation of this Remuneration Report.

The Remuneration Committee consists of five independent non-executive directors (the Board Chairman is an ex-officio member), and is chaired by Ms Ilana Atlas, an independent non-executive director with extensive experience in human resource management and remuneration governance.

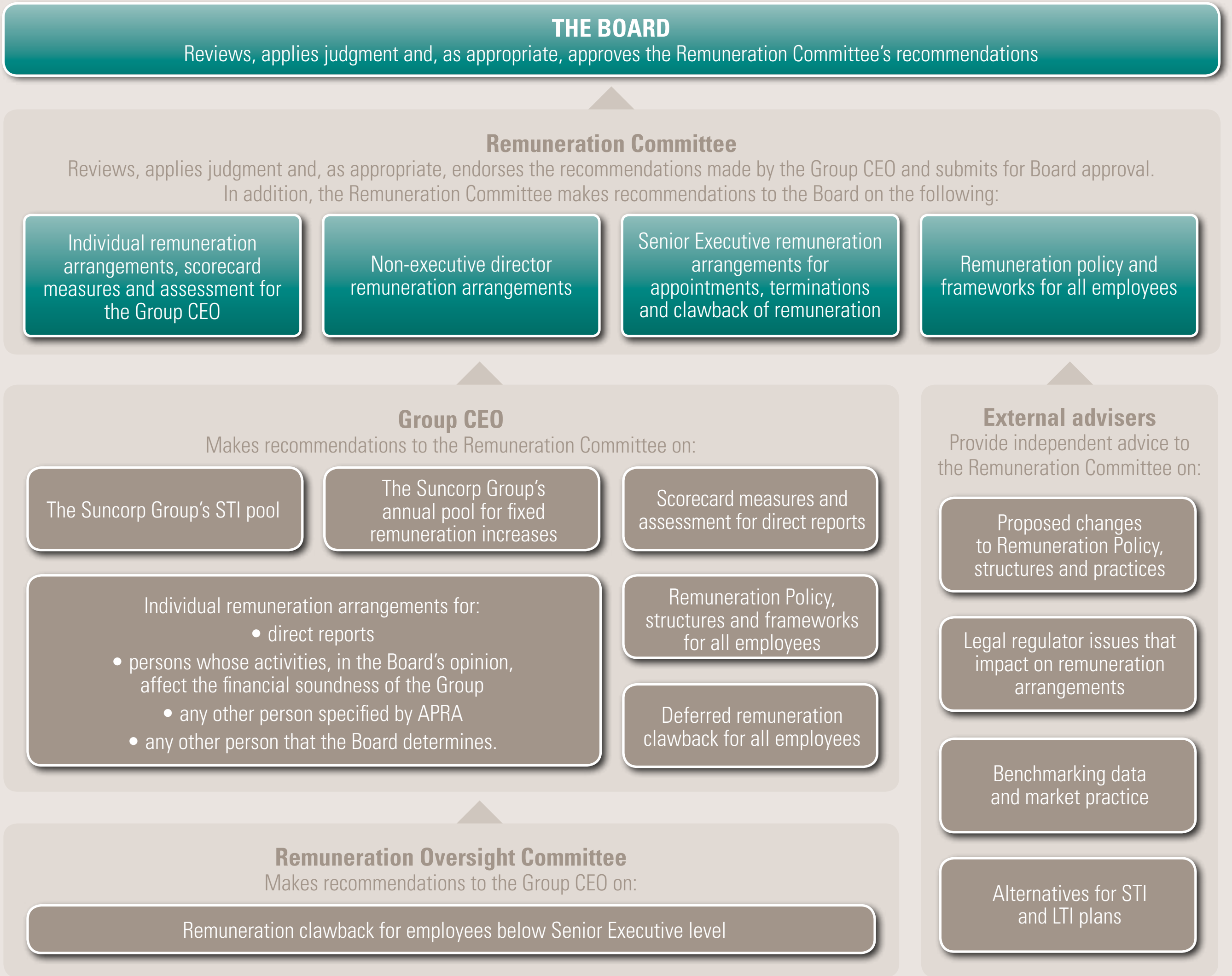
The Remuneration Committee met five times during 2013 and fully discharged its responsibilities in accordance with its Charter. The Remuneration Committee's Charter, which the Board reviews annually for appropriateness, was confirmed in June 2013. This Charter is available on the Company's website at **suncorpgroup.com.au**.

The Remuneration Committee believes Suncorp Group's remuneration strategy is fundamentally sound and serves the Group's needs. However, the Remuneration Committee will continue to review the Remuneration Policy to ensure it evolves in response to new regulations and emerging capital requirements.

More information on the Remuneration Committee is provided in the Corporate Governance Statement.

REMUNERATION GOVERNANCE FRAMEWORK

The following diagram represents Suncorp Group's remuneration governance framework.



The Remuneration Policy:

- covers all directors and employees in Australia and overseas, and provides a framework for the governance, structure and operation of Suncorp Group's remuneration systems
- details the accountabilities of the Board, the Remuneration Committee and management and the governance requirements for all levels of remuneration including for individuals performing risk and financial control roles, third party service contracts and non-corporate incentive plans.

The Remuneration Policy is reviewed annually and other remuneration governance arrangements are reviewed periodically, at least every two years.

USE OF EXTERNAL REMUNERATION ADVISERS

The Board and the Remuneration Committee consult external advisers in relation to remuneration matters where appropriate. Such external advisers report directly to the Remuneration Committee.

When external advisers are selected, the Board takes into account 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 the services of external advisers to the Remuneration Committee is assessed annually in the context of the issues the Remuneration Committee needs to address. The advice and recommendations of external advisers are used as a guide, but do not serve as a substitute for thorough consideration of the issues by each director.

The Remuneration Committee appointed PricewaterhouseCoopers (**PwC**) as the lead external adviser for remuneration matters for 2013. PwC receives instructions from, and reports to, the Remuneration Committee. As defined in the *Corporations Act 2001*, PwC did not provide remuneration recommendations and was not a 'remuneration consultant', during 2013.

The external advisers listed below 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. As defined in the *Corporations Act 2001*, these advisers did not provide any remuneration recommendations and they were not 'remuneration consultants', during 2013.

SERVICES RELATING TO REMUNERATION MATTERS	EXTERNAL ADVISERS PROVIDING THIS SERVICE TO SUNCORP GROUP IN 2013
Benchmarking pay of the Group CEO and Senior Executives and fees for non-executive directors, against comparable roles at a range of relevant comparator groups	Ernst & Young Mercer Consulting (Australia) Godfrey Remuneration Group
Total shareholder return performance analysis for LTI awards	Mercer Consulting (Australia) Ernst & Young
Provision of information to determine the impact of legislative changes for the Group CEO	Ernst & Young
Attendance at and perspectives provided on matters discussed at Remuneration Committee meetings, and provision of market practice on some LTI design features	PwC

2.2 EXECUTIVE REMUNERATION PHILOSOPHY, STRATEGY AND POLICY

REMUNERATION STRATEGY

The Board is committed to remunerating fairly and responsibly. Suncorp Group's reward philosophy, which remains unchanged from prior years, is to provide competitive rewards that motivate appropriately qualified directors and executives to deliver superior and sustainable performance for shareholders.

The reward strategy, derived from linking the reward philosophy with business strategy and risk tolerance, is based on six reward principles which together aim to create and protect shareholder value as follows:

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

The Remuneration Policy provides a governance framework for the structure and operation of remuneration systems within the context of the long-term financial soundness and risk management framework of the Suncorp Group.

2.3 REMUNERATION FRAMEWORK

The remuneration framework is designed to align executives' interests with those of shareholders by attracting, retaining and motivating high calibre executives to focus on short-term and long-term objectives while appropriately managing risk.

'At-risk' remuneration components must satisfy performance and risk-related requirements. Both are subject to clawback under certain conditions.

Independent external benchmarking is undertaken each year to ensure fixed remuneration, 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.

2. EXECUTIVE REMUNERATION – AUDITED (CONTINUED)

2.3 REMUNERATION FRAMEWORK (CONTINUED)

The table below provides a summary of each remuneration component and the link to strategic priorities.

	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% 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 the end of 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 (refer section 2.6).	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 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.

1 Employer contributions of 9% of ordinary time earnings are paid up to the maximum contribution base, which for the financial year ending 30 June 2013 was $45,750 per quarter.
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.

REMUNERATION POSITIONING POLICY AND COMPARATOR GROUPS

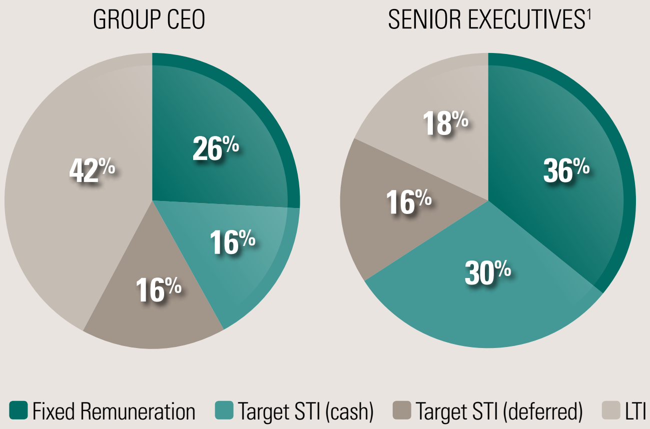
The total remuneration opportunity for executives is evaluated on an annual basis against relevant peer comparator groups including the S&P/ASX 100 Index, the S&P/ASX 50 Index and bespoke comparator groups.

Fixed remuneration is broadly targeted at the market median.

The 'at-risk' component provides the opportunity for total remuneration to reach the upper end of the market spectrum for outstanding performance. To encourage superior performance and achieve the total remuneration opportunity, the proportion of 'at-risk' remuneration is intentionally positioned towards the upper end of the market.

REMUNERATION MIX

The Suncorp Group's 2013 'at-target' remuneration mix for the Group CEO and Senior Executives is shown below. The majority of remuneration is 'at risk', with the Group CEO's remuneration mix more heavily focused on the longer term.



1 Excluding the Chief Executive Officer Suncorp Business Services, who has a different target STI than other Senior Executives. Refer to sections 2.6 and 2.10 for details.

2.4 ALIGNING REMUNERATION WITH RISK MANAGEMENT

Compliance with the Suncorp Group Risk Appetite Statement is a significant consideration of overall performance to deliver an organisation-wide focus on the 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 performance of each business unit is reviewed by the Group CRO and Group CFO and measured with reference to how risk is managed. Individual adherence to risk management policies is also considered.

In determining at-risk remuneration, the Board ensures that risk management is a specific performance goal.

Risk assessment is also included in the Group scorecard through:

- a separately weighted risk measure
- return on eligible capital (a proxy for risk-adjusted return on capital) embedded in the financial measures
- an assessment based on behavioural and cultural measures, which consider adherence to the risk management framework.

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

Risk is embedded throughout the remuneration framework (refer to section 2.3). Specifically, the following risk governance arrangements apply.

- **Deferral of STI**

  A material portion of executives' STI is deferred for two years. At the end of the deferral period, the deferred STI portion may be reduced or forfeited (referred to as 'clawback') in the event significant adverse outcomes are caused by decisions, or actions taken, judged by the Board to be contrary to Suncorp Group interests.

- **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 issues 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.

HEDGING OF UNVESTED AWARDS

Hedging of unvested equity awards is prohibited.

MINIMUM SHAREHOLDING POLICY INTRODUCED FROM 2014

To further align the interests of Senior Executives and directors with those of shareholders, the Board has introduced a Minimum Shareholding Policy. This requires Senior Executives and directors to have a direct shareholding in the Company of a value at least equal to 100% of one year's pre-tax (gross) fixed remuneration or fees. Commencing in October 2013, Senior Executives and directors are required to achieve 50% of the minimum holding by October 2015 and the full amount by October 2017. The value of the shares for the purposes of the policy is the market value of the underlying shares. Unvested shares within the LTI plan for executives do not qualify.

Certain executives currently hold sufficient shares to meet these requirements. Detailed share ownership information for KMP can be found in note 31 to the financial statements.

2. EXECUTIVE REMUNERATION – AUDITED (CONTINUED)

2.4 ALIGNING REMUNERATION WITH RISK MANAGEMENT (CONTINUED)

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 2013, 58% of the scorecard for the Group CRO was based on Group Risk measures.

2.5 FIXED REMUNERATION IS REVIEWED IN LINE WITH MARKET PRACTICE

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

2.6 SHORT-TERM INCENTIVES (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 scorecard outcome with regard to factors such as long-term financial soundness and the current economic environment.

PERFORMANCE ASSESSMENT

The following diagram sets out the structure of the 2013 STI program and examples of executives' scorecard measures.

	TARGET STI	MAX STI
Group CEO	125% of fixed remuneration	150% of fixed remuneration
Senior Executives	125%[1] of fixed remuneration	187.5% of fixed remuneration

1. Exception: The target STI for Mr Jeff Smith, Chief Executive Officer Suncorp Business Services, is contractually set at 138.3% of fixed remuneration.

PERFORMANCE OBJECTIVES AND WEIGHTINGS	SCORECARD CATEGORIES
Suncorp Group Group CEO: 100% Senior Executives: 60%	• Profit and financials: deliver targeted underlying profit after tax and improve shareholder returns • Risk management: manage risk levels within agreed parameters and maintain APRA's assessment of Suncorp Group's risk profile • Customer: improve external confidence in Suncorp Group and achieve target customer satisfaction • People: maintain high achievement, an engaged team and meet occupational health and safety targets • Strategic initiatives: delivery of key simplification initiatives
Business unit Senior Executives: 40%	• Profit and financials: deliver targeted underlying profit after tax and improve shareholder returns • Risk management: drive a positive risk culture and risk governance framework and manage risk levels within agreed parameters • Customer: achieve customer retention and advocacy; grow customer base • People: maintain a highly engaged team and meet occupational health and safety targets • Key business unit strategic deliverables: implementation of key strategic projects/initiatives to drive business improvements

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 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 for Board approval of the amount of STI to award to each Senior Executive.

Information regarding the category weightings for the Group and business unit scorecards are shown in section 2.8.

UNDERLYING PROFIT AFTER TAX

The Board considers underlying profit after tax to be an appropriate reflection of the Company's ongoing profitability 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 NPAT are made as they are deemed to be outside normal operating activities and beyond executives' control, including:

- investment market movements
- extraordinary reserve releases
- natural hazards claims above long-run expectations
- profits or losses on assets disposed.

Underlying profit after tax also excludes the loss of the Non-core Bank, which is assessed on a return of capital basis.

Underlying profit after tax is not audited by the external auditors. The 2013 underlying profit after tax has been determined on a consistent basis to 2012.

Note that NPAT is reflected in the table in section 2.8 for 'Profit', rather than underlying profit after tax.

PROPORTION OF STI DEFERRED AND SUBJECT TO CLAWBACK

A proportion of STI is deferred as cash for two years, and is subject to clawback. The deferred proportions are as follows:

- Group CEO 50%
- Senior Executives 35%.

Interest accrues during the deferral period and is payable on vesting. In the event of resignation, redundancy or retirement, the deferred incentive portion will remain '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.

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:

- if 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
- if the Group CEO was aware of that failure, or should reasonably have been aware of that failure, when the STI was awarded
- if the matters would, if known to the Board at the time, have resulted in different assumptions being applied by the Board when determining the STI to be awarded to the Group CEO.

DEFERRED STI FOR SENIOR EXECUTIVES

When determining if clawback should apply to deferred STI for Senior Executives, the Board considers the following:

- 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
- significant issues that impact the Group's standing with regulators to conduct business
- 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.

2. EXECUTIVE REMUNERATION – AUDITED (CONTINUED)

2.6 SHORT-TERM INCENTIVES (STI) – TARGETS DESIGNED TO STRETCH (CONTINUED)

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

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

The Remuneration Oversight Committee makes recommendations to the Group CEO regarding the impact on deferred incentives for employees, for submission to the Remuneration Committee and endorsement to the Board for approval. The Group Executive Human Resources, the Group CRO, the Group CFO and the Group Executive Group General Counsel and Company Secretary form this committee.

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.

2.7 LONG-TERM INCENTIVES (LTI) – BASED ON PERFORMANCE HURDLES

The purpose of LTI is to focus the Group CEO and Senior Executives on Suncorp Group's long-term business strategy and align their interests with shareholders by creating long-term shareholder value.

LTI is offered to the Group CEO and Senior Executives as these individuals have a direct impact on the Group's long-term performance.

LTI grants, awarded in the form of performance rights, are provided through the EPSP. 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.

THE ALLOCATION AND VESTING OF PERFORMANCE RIGHTS

The following diagram shows the process for allocation and vesting of LTI.

Eligibility of the individual to participate in the LTI plan is determined by the Board.

↓

The face value of LTI to be granted is determined by the Board.

↓

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

↓

Offers to participate in LTI are made to eligible participants in October.

↓

Shares are purchased by the EPSP trustee on market to avoid any dilutionary impact that issuing new ordinary shares would have on the share price.

↓

Shares are held in trust during the vesting period.

↓

After vesting, the shares remain held on trust by the EPSP trustee until the individual applies to the Board to remove the shares or until seven years have passed.

LTI PERFORMANCE HURDLE – TSR

LTI performance determines the extent to which performance rights vest and is measured by ranking the Company's TSR against 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 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 reinvested 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 (after excluding property trusts and mining companies). Following its annual review of the Remuneration Policy, the Remuneration Committee considers that the chosen comparator group remains appropriate.

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 similar size and investment profile
- aligns shareholder returns with reward outcomes for executives over the long term
- minimises the impact market cycles may have.

The Board has considered other measures to determine the allocation of LTI and has concluded relative TSR is the most appropriate.

TSR 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 as shown in section 2.1.

VESTING SCHEDULE

The extent to which performance rights will vest is subject to the Company's TSR performance, measured over the relevant period.

The Group CEO and Senior Executives will only derive value from the LTI component of their remuneration if the Company's TSR performance is greater than the median performance 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%

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 EPSP trustee with respect to the dividends).

LTI HAS A THREE-YEAR PERFORMANCE PERIOD

The performance period begins on the date the 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.

The LTI award the Group CEO received on 1 October 2009 of 900,000 performance rights (the **Initial Grant**) represented his 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.

The first tranche vested at 96% on 30 September 2012.

The potential vesting dates for the second and third tranches are 30 September 2013 and 30 September 2014.

PROPOSED 2014 LTI GRANT

It is proposed that a new LTI grant under the EPSP be made to the Group CEO in October 2013. This will be the Group CEO's maximum LTI entitlement for the 2014 financial year.

The potential vesting date for this grant is 30 September 2016. There will be no option to extend the performance period beyond this date.

The Board, on the advice of the Remuneration Committee, has endorsed an award of performance rights with a 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 2013 Annual General Meeting (if shareholder approval is provided). The actual number of shares linked to the performance rights to be granted to the Group CEO will depend on the share price over the five trading days up to 1 September 2013. These performance rights will be subject to the performance hurdle and vesting schedule described earlier.

Future LTI allocations will be determined by the Board annually, and will be subject to shareholder approval.

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 EPSP performance rights.

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

While performance rights remain unvested, the Group CEO and Senior Executives do not have an entitlement to the underlying shares held in the name of the EPSP trustee. During this time the underlying shares cannot be accessed by the individual.

Once performance rights have fully vested, the executive may apply to withdraw the underlying shares from the EPSP. Any subsequent dealing in those shares is subject to the terms of the Securities Trading Policy. More information is in the Corporate Governance Statement.

2.8 EXECUTIVE REMUNERATION OUTCOMES FOR 2013

This section outlines how the 2013 incentive outcomes reflect performance outcomes.

The reward framework reflects the alignment to strategy by placing a significant scorecard weighting on the overall Suncorp Group performance outcome. Differentiation is achieved through the assessment of business unit performance. Adherence to expected behaviours can influence the Group CEO and Senior Executives' final performance outcome.

SUNCORP GROUP PERFORMANCE AND STI 2013 OUTCOMES

In association with the principle of 'aligning sustainable performance with reward', stretch targets for the Group CEO and Senior Executives are based on the expectation of delivering continual improvements in relation to external and internal benchmark indicators. Performance outcomes are measured based on a challenging, robust assessment of achievements against stretch targets.

In 2013 Suncorp Group exceeded overall target performance. This is reflected in the value of STI awarded.

2. EXECUTIVE REMUNERATION – AUDITED (CONTINUED)

2.6 SHORT-TERM INCENTIVES (STI) – TARGETS DESIGNED TO STRETCH (CONTINUED)

STI PERFORMANCE OUTCOMES FOR THE GROUP CEO IN 2013

PERFORMANCE CATEGORY	MEASURE	2013 ACHIEVEMENTS
Group Profit and Financials – Underlying	Group NPAT (Underlying) Return on Eligible Capital (ROEC)	• Underlying NPAT increased in 2013 by $133 million. • Underlying ROEC has increased by 85 basis points from the 2012 result.
People	Group Engagement Workplace Health & Safety	• Suncorp Group Engagement result of 70 has risen significantly from the 2012 result (63). The response rate (91%) is the highest response rate for a large organisation within the Australia and New Zealand region. • The Lost Time Injury Frequency Rate improved 26% from 2012.
Risk	Compliance with Group Risk Appetite Statement	• Strategies executed during the year have reduced the risk profile of the Group. • Risk was a prominent consideration in decisions made during 2013. The Group operated within the risk appetite articulated by the Board in the Group Risk Appetite Statement. • The Risk Appetite Statement was refreshed and aligns with the Group's strategy and operations.
Customers/Stakeholders	Customer Satisfaction Investor Survey	• Customer satisfaction has continued to improve in our key portfolios in 2013. The critical AAMI Motor Insurance and Suncorp Bank (Personal) portfolios in particular have performed strongly. • Suncorp's result in the Investor Survey has improved since 2012.
Strategic Initiatives	Delivery of Key Group Simplification Outcomes	• During 2013 Simplification initiatives delivered a benefit of $77 million. The forecast for future financial years has also materially improved with the inclusion of Vero New Zealand in Simplification. Benefits are expected to be $225 million in 2015 and $265 million in 2016. • Key Simplification initiatives delivered include Operational Excellence, Transforming Finance and Procurement and Partnering. The General Insurance Licence consolidation, the Banking Platform Program and the Legacy Simplification Program are on track to deliver future planned benefits. The Simplification financial benefits were brought forward, exceeding expectations. • The $4.5 billion Non-core Bank portfolio was resolved in June 2013.

The actual STI outcome for 2013 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								
Group CEO	Patrick Snowball	3,500	3,188	110	3,825	92	8	1,750

1 The value of STI awarded for 2013 represented is before any deferral. The STI was awarded on 25 July 2013.

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 2013

The similarity in STI outcomes versus target between the Senior Executives reflects the significant weighting of the Group performance in scorecards, mirroring Suncorp Group's strategy of 'One Company. Many Brands.'

STI awards for Senior Executives are determined using Suncorp Group and business unit performance outcomes – 60% of the award relates to Suncorp Group performance and the remaining 40% relates to the individual business unit performance.

Actual STI outcomes for 2013 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								
CEO Commercial Insurance	Anthony Day	1,070	938	114	1,406	76	24	375
CEO Vero New Zealand	Gary Dransfield	860	781	110	1,172	73	27	301
CEO Suncorp Bank	David Foster	1,400	963	145	1,444	97	3	490
Group Chief Risk Officer	Clayton Herbert	815	750	109	1,125	72	28	285
Group Executive Group General Counsel and Company Secretary	Anna Lenahan[4]	57	52	109	78	72	28	20
CEO Personal Insurance	Mark Milliner	1,120	1,009	111	1,513	74	26	392
Group Chief Financial Officer	John Nesbitt	1,250	1,125	111	1,688	74	26	438
Group Executive Human Resources	Amanda Revis	830	750	111	1,125	74	26	291
CEO Suncorp Business Services	Jeff Smith	1,180	1,079	109	1,463	81	19	413
CEO Suncorp Life	Geoff Summerhayes	950	900	106	1,350	70	30	333

1 The value of STI awarded for 2013 represented is before any deferral. The STI was awarded on 25 July 2013.

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

3 Maximum STI for Senior Executives is set at 187.5% of fixed remuneration.

4 Ms Lenahan, Group Executive Group General Counsel and Company Secretary, was appointed a Senior Executive effective 1 June 2013. STI details reflect Ms Lenahan's remuneration as a KMP since 1 June 2013.

2. EXECUTIVE REMUNERATION – AUDITED (CONTINUED)

2.6 SHORT-TERM INCENTIVES (STI) – TARGETS DESIGNED TO STRETCH (CONTINUED)

COMPANY PERFORMANCE AND LTI 2013 OUTCOMES

COMPANY PERFORMANCE

The table below provides an overall view of the Company's[1] performance over the five financial years to 30 June 2013.

YEAR ENDED 30 JUNE	PROFIT FOR THE YEAR[1]	CLOSING SHARE PRICE[2]	DIVIDEND P/SHARE
	$M	$	CENTS
2013	496	11.92	75
2012	728	8.09	55
2011	457	8.14	35
2010	789	8.04	35
2009	353	6.70	40

1 *The Suncorp Group completed a restructure on 7 January 2011 (implementation of the NOHC). 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 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 – CURRENT YEAR OUTCOMES

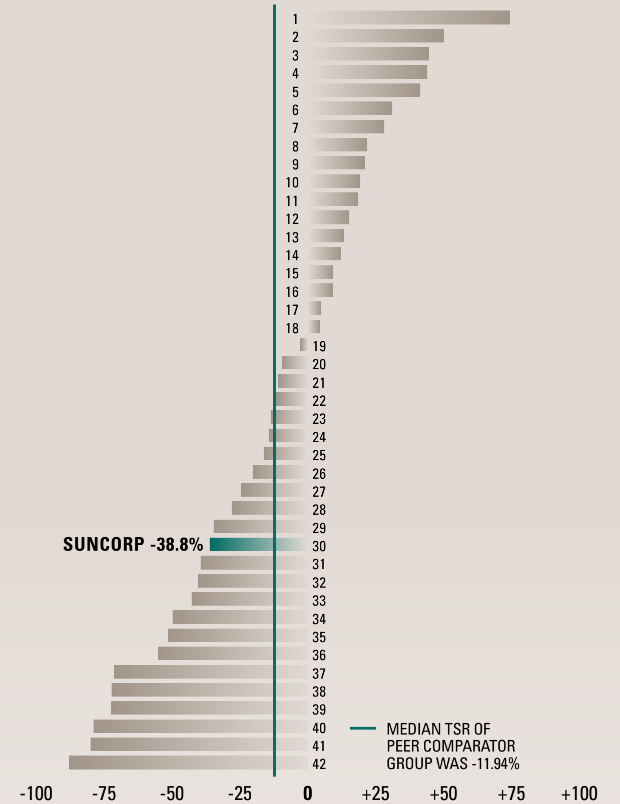
As outlined in section 2.7, the LTI vesting is based on relative TSR performance against the Peer Comparator Group, as determined at the commencement of each grant.

The performance hurdle for the October 2007 Grant, which reached its final vesting date on 30 September 2013, was not achieved and was therefore forfeited.

The LTI performance hurdle for the October 2009 grant, with an initial vesting date in 2013, achieved a successful result with the grant vesting at 96%. While participants of this grant were eligible to extend the performance period for a further two years during which twice-yearly retesting would occur, all participants accepted the vesting outcome at the initial vesting point.

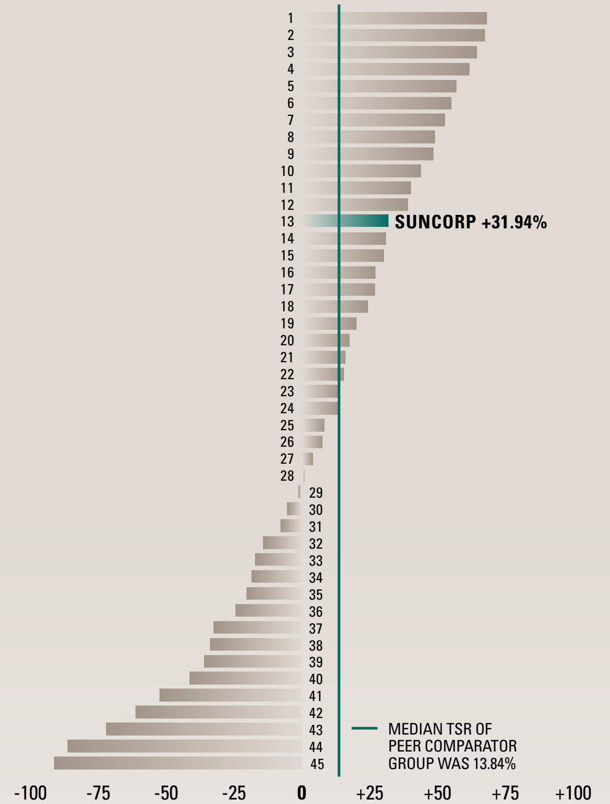
OCTOBER 2007 TSR EPSP GRANT

Peer Comparator Group TSR outcomes, ranking from highest to lowest



OCTOBER 2009 TSR EPSP GRANT

Peer Comparator Group TSR outcomes, ranking from highest to lowest



The LTI offer granted to Mr Nesbitt, Group CFO, on 3 May 2010 reached the initial end date on 2 May 2013, achieving 100% vesting, which Mr Nesbitt elected to accept. This offer was a one-off offer made on appointment to recognise forfeited LTI with Mr Nesbitt's former employer.

The table below outlines the vesting outcome for awards tested in 2013.

				AWARDS TESTED IN 2013	
FINANCIAL YEAR	START OF PERFORMANCE PERIOD	PARTICIPANTS	PERFORMANCE PERIOD	RANKING TSR OUTCOME	VESTING OUTCOME
2007 Grant	1 October 2007	Anthony Day David Foster Clayton Herbert Mark Milliner Jeff Smith	Extended five-year period to 30 September 2012	29th percentile	0% (forfeited)
2009 Grant	1 October 2009	Anthony Day Gary Dransfield David Foster Clayton Herbert Mark Milliner Jeff Smith Patrick Snowball[1] Geoff Summerhayes	Initial three-year period to 30 September 2012	73rd percentile	96%
2009 Grant	3 May 2010	John Nesbitt[2]	Initial three-year period to 2 May 2013	86th percentile	100%

1 Mr Snowball's 2009 Grant was made in three tranches. Tranche 1 had an initial three-year period to 30 September 2012. Tranches 2 and 3 were not due to vest in the 2013 financial year. See section 2.7 for further details.

2 Mr Nesbitt's 3 May 2010 Grant was a one-off offer made on appointment, to recognise forfeited LTI with his previous employer.

2. EXECUTIVE REMUNERATION – AUDITED (CONTINUED)

2.8 EXECUTIVE REMUNERATION OUTCOMES FOR 2013 (CONTINUED)

COMPANY PERFORMANCE AND LTI 2013 OUTCOMES (CONTINUED)

NUMBER AND VALUE OF PERFORMANCE RIGHTS GRANTED, VESTED AND FORFEITED UNDER THE EPSP

Information with respect to the movement of performance rights during 2013 and of current LTI grants held by the Group CEO and Senior Executives as at 30 June 2013 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 2013[4] $	VESTED IN YEAR %	FORFEITED IN YEAR %	NUMBER OF ORDINARY SHARES
Executive director										
Patrick Snowball	300,000	1 October 2009	30 June 2013	-	-	-	-	96%	4%	288,000
	300,000	1 October 2009	30 June 2014	-	1,968,000	2,646,000	3,576,000	-	-	-
	300,000	1 October 2009	30 June 2015	-	2,025,000	2,646,000	3,576,000	-	-	-
	446,752	25 October 2012	30 June 2016	-	2,863,680	4,315,624	5,325,284	-	-	-
Senior Executives										
Anthony Day	9,543	1 October 2007	30 June 2011[5]	-	-	-	-	-	100%	-
	13,843	1 October 2008	30 June 2012	-	59,802	133,031	165,009	-	-	-
	17,092	1 October 2009	30 June 2013	-	-	-	-	96%	4%	16,408
	71,585	1 October 2010	30 June 2014	-	380,116	627,800	853,293	-	-	-
	47,161	1 October 2011	30 June 2015	-	248,538	376,345	562,159	-	-	-
	40,507	1 October 2012	30 June 2016	-	240,207	372,664	482,843	-	-	-
Gary Dransfield	20,136	1 October 2009	30 June 2013	-	-	-	-	96%	4%	19,330
	18,942	1 October 2010	30 June 2014	-	100,582	166,121	225,789	-	-	-
	31,441	1 October 2011	30 June 2015	-	165,694	250,899	374,777	-	-	-
	29,705	1 October 2012	30 June 2016	-	176,151	273,286	354,084	-	-	-
David Foster	32,740	1 October 2007	30 June 2011[5]	-	-	-	-	-	100%	-
	64,272	1 October 2008	30 June 2012[5]	-	277,655	617,654	766,122	-	-	-
	81,949	1 October 2009	30 June 2013	-	-	-	-	96%	4%	78,671
	77,092	1 October 2010	30 June 2014	-	409,359	676,097	918,937	-	-	-
	47,161	1 October 2011	30 June 2015	-	248,538	376,345	562,159	-	-	-
	41,587	1 October 2012	30 June 2016	-	246,611	382,600	495,717	-	-	-

	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 2013[4] $	VESTED IN YEAR %	FORFEITED IN YEAR %	NUMBER OF ORDINARY SHARES
Clayton Herbert	11,081	1 October 2007	30 June 2011[5]	-	-	-	-	-	100%	-
	15,820	1 October 2008	30 June 2012[5]	-	68,342	152,030	188,574	-	-	-
	46,828	1 October 2009	30 June 2013	-	-	-	-	96%	4%	44,954
	19,823	1 October 2010	30 June 2014	-	105,260	173,848	236,290	-	-	-
	11,318	1 October 2011	30 June 2015	-	59,646	90,318	134,911	-	-	-
	32,405	1 October 2012	30 June 2016	-	192,162	298,126	386,268	-	-	-
Anna Lenahan	11,347	8 June 2011	30 June 2014	-	46,863	91,797	135,256	-	-	-
	11,318	1 October 2011	30 June 2015	-	59,646	90,318	134,911	-	-	-
	14,582	1 October 2012	30 June 2016	-	86,471	134,154	173,817	-	-	-
Mark Milliner	35,259	1 October 2007	30 June 2011[5]	-	-	-	-	-	100%	-
	69,216	1 October 2008	30 June 2012[5]	-	299,013	665,166	825,055	-	-	-
	81,949	1 October 2009	30 June 2013	-	-	-	-	96%	4%	78,671
	82,599	1 October 2010	30 June 2014	-	438,601	724,393	984,580	-	-	-
	49,047	1 October 2011	30 June 2015	-	258,478	391,395	584,640	-	-	-
	43,585	1 October 2012	30 June 2016	-	258,459	400,982	519,533	-	-	-
John Nesbitt	313,016	3 May 2010	30 June 2013	-	-	-	-	100%	-	313,016
	88,105	1 October 2010	30 June 2014	-	467,838	772,681	1,050,212	-	-	-
	52,317	1 October 2011	30 June 2015	-	275,711	417,490	623,619	-	-	-
	48,608	1 October 2012	30 June 2016	-	288,245	447,194	579,407	-	-	-

2. EXECUTIVE REMUNERATION – AUDITED (CONTINUED)

2.8 EXECUTIVE REMUNERATION OUTCOMES FOR 2013 (CONTINUED)

COMPANY PERFORMANCE AND LTI 2013 OUTCOMES (CONTINUED)

NUMBER AND VALUE OF PERFORMANCE RIGHTS GRANTED, VESTED AND FORFEITED UNDER THE EPSP (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 2013[4] $	VESTED IN YEAR %	FORFEITED IN YEAR %	NUMBER OF ORDINARY SHARES
Senior Executives										
Amanda Revis	58,920	1 October 2010	30 June 2014	-	312,865	516,728	702,326	-	-	-
	33,641	1 October 2011	30 June 2015	-	177,288	268,455	401,001	-	-	-
	32,405	1 October 2012	30 June 2016	-	192,162	298,126	386,268	-	-	-
Jeff Smith	37,777	1 October 2007	30 June 2011[5]	-	-	-	-	-	100%	-
	74,160	1 October 2008	30 June 2012[5]	-	320,371	712,678	883,987	-	-	-
	87,803	1 October 2009	30 June 2013	-	-	-	-	96%	4%	84,290
	82,599	1 October 2010	30 June 2014	-	438,601	724,393	984,580	-	-	-
	49,047	1 October 2011	30 June 2015	-	258,478	391,395	584,640	-	-	-
	42,127	1 October 2012	30 June 2016	-	249,813	387,568	502,154	-	-	-
Geoff Summerhayes	61,800	1 October 2008	30 June 2012[5]	-	266,976	593,898	736,656	-	-	-
	73,169	1 October 2009	30 June 2013	-	-	-	-	96%	4%	70,242
	68,832	1 October 2010	30 June 2014	-	365,498	603,657	820,477	-	-	-
	43,262	1 October 2011	30 June 2015	-	227,991	345,231	515,683	-	-	-
	38,886	1 October 2012	30 June 2016	-	230,594	357,751	463,521	-	-	-

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. For cash-settled performance rights, the maximum value of shares yet to vest is determined as the fair value at 30 June 2013, assuming all performance criteria are met.

*3 Market value at date of grant is calculated by 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 2013 is calculated by the number of shares granted multiplied by the closing share price as traded on ASX on 28 June 2013, being the last trading day prior to 30 June 2013.

5 Executives elected to extend the performance period by a further two years.

2.9 EXECUTIVE REMUNERATION – STATUTORY DISCLOSURES

This section provides full details of total remuneration for the Group CEO and Senior Executives for 2013 and 2012, as required under the *Corporations Act 2001*.

The following table includes LTI amounts during 2013 and 2012 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 below, depending on the extent to which the performance hurdles are met.

EXECUTIVE REMUNERATION FOR THE YEARS ENDED 30 JUNE 2013 AND 30 JUNE 2012

	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											
2013	**2,550**	**1,750**	**67**	**(13)**	**-**	**1,879**	**-**	**-**	**1,771**	**8,004**	**67.5**
2012	2,500	1,475	84	(13)	-	2,688	-	-	1,531	8,265	68.9
SENIOR EXECUTIVES											
Anthony Day											
2013	**734**	**696**	**6**	**(6)**	**16**	**399**	**65**	**-**	**286**	**2,196**	**62.9**
2012	737	549	5	20	16	307	-	-	258	1,892	58.9
Gary Dransfield											
2013	**608**	**559**	**5**	**26**	**16**	**313**	**-**	**-**	**143**	**1,670**	**60.8**
2012	520	390	5	11	16	213	-	-	118	1,273	56.6
David Foster											
2013	**754**	**910**	**3**	**-**	**16**	**516**	**12**	**-**	**348**	**2,559**	**69.3**
2012	752	553	3	(19)	16	310	15	-	491	2,121	63.8
Clayton Herbert (appointed 1 July 2012)											
2013	**584**	**530**	**6**	**17**	**16**	**293**	**39**	**-**	**136**	**1,621**	**59.2**

2. EXECUTIVE REMUNERATION – AUDITED (CONTINUED)

2.9 EXECUTIVE REMUNERATION – STATUTORY DISCLOSURES (CONTINUED)

EXECUTIVE REMUNERATION FOR THE YEARS ENDED 30 JUNE 2013 AND 30 JUNE 2012 (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	%
Anna Lenahan (appointed 1 June 2013)											
2013	**37**	**37**	**1**	**4**	**1**	**20**	**-**	**-**	**6**	**106**	**59.4**
Mark Milliner											
2013	**791**	**728**	**5**	**(20)**	**16**	**420**	**13**	**-**	**366**	**2,319**	**65.3**
2012	787	575	5	38	16	324	20	-	512	2,277	62.0
John Nesbitt											
2013	**884**	**813**	**9**	**17**	**16**	**468**	**-**	**-**	**836**	**3,043**	**69.6**
2012	869	637	8	(28)	16	358	-	-	845	2,705	68.0
Amanda Revis											
2013	**584**	**540**	**5**	**9**	**16**	**311**	**-**	**-**	**211**	**1,676**	**63.4**
2012	569	429	5	(20)	16	241	-	-	149	1,389	59.0
Jeff Smith											
2013	**764**	**767**	**6**	**6**	**16**	**444**	**13**	**-**	**369**	**2,385**	**66.2**
2012	768	624	6	25	16	352	71	-	533	2,395	63.0
Geoff Summerhayes											
2013	**704**	**618**	**10**	**14**	**16**	**356**	**60**	**-**	**294**	**2,072**	**61.2**
2012	698	527	9	(8)	16	295	-	-	356	1,893	62.2

1 Non-monetary benefits represents costs met by the Suncorp Group for airfares and insurances.

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. Refer to 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. For cash-settled performance rights, the fair value is remeasured at year end with changes in fair value recognised as an expense. 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.

2.10 SERVICE CONTRACTS – 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 contract (which are effective since 1 September 2011) are outlined below. Senior Executives are employed under a standard employment contract with no fixed term. The contracts may be terminated at any time provided that the notice period is given. In the event of misconduct, the Group may terminate the contract 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, deferred STI and a pro-rata award of current year STI may be awarded, and unvested LTI may vest pro-rata for the Group CEO (subject to the satisfaction of applicable performance measures). For Senior Executives, the impact of a change of control on remuneration is at Board discretion.

A summary is shown in the table below:

SERVICE AGREEMENT	CONTRACT 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 2013 award of performance rights equivalent to $4,000,000 maximum value, subject to performance against hurdle over a three-year vesting period. Refer section 2.7	• 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.	**Employer-initiated termination** 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. **Employee-initiated termination** Unvested awards will be forfeited if Mr Snowball terminates the agreement on six months' notice before 31 August 2014.

2. EXECUTIVE REMUNERATION – AUDITED (CONTINUED)

2.10 SERVICE CONTRACTS – SUMMARY (CONTINUED)

SERVICE AGREEMENT	CONTRACT DURATION	NOTICE PERIOD/ TERMINATION PAYMENT	LONG-TERM INCENTIVE (LTI)	SHORT-TERM INCENTIVE (STI)	TREATMENT OF STI ON TERMINATION	TREATMENT OF LTI ON TERMINATION
Senior Executives	Unlimited duration	**Employer-initiated termination** Redundancy[1]: 12 months (including notice) Misconduct: none All other cases: 12 months **Employee-initiated termination** 3 months	Maximum face value grant: 50% 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: Board has discretion to determine: • any cash STI award may be received, subject to performance • 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.

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

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 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 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 director fees have remained unchanged since 1 July 2011.

The approved non-executive director fee structure for 2012 and 2013 is set out in the table below.

	2012 AND 2013 FEE PER ANNUM (P.A.)[1] $'000					
COMMITTEE	BOARD	AUDIT	RISK	REMUNERATION	OTHER[2]	
CHAIRMAN FEES[3] (C)	570	50	50	40	50	
MEMBER FEES (✓)	207	25	25	20		TOTAL[4]
Dr Zygmunt Switkowski	C	Ex-officio[5]	Ex-officio[5]	Ex-officio[5]		570
Ilana Atlas	✓		✓	C		272
William Bartlett	✓	C	✓	✓		302
Michael Cameron	✓			✓		227
Audette Exel	✓		✓			232
Ewoud Kulk	✓		C	✓	C	327
Dr Douglas McTaggart	✓	✓				232
Geoffrey Ricketts	✓	✓			C	282

1 Fees exclude SGC

2 An additional fee of $50,000 p.a. is payable for the Chairmanship of the New Zealand companies and joint venture. Mr Kulk is the Chairman of AA Insurance Limited and Mr Ricketts is the Chairman of Vero Insurance New Zealand Limited.

3 Includes base fee

4 Total fees represent annual values based on membership at 30 June 2013.

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

Commencing October 2013, the Group's Minimum Shareholding Policy (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.

Several non-executive directors currently hold sufficient shares to meet the policy requirement. Detailed share ownership information for the non-executive directors is in note 31 to the financial statements.

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 2013 and 2012 are set out in the table below.

	SHORT-TERM BENEFITS		POST-EMPLOYMENT BENEFITS		
	SALARY AND FEES	NON-MONETARY BENEFITS[1]	SUPERANNUATION BENEFITS	RETIREMENT BENEFITS	TOTAL[2]
	$000	$000	$000	$000	$000
NON-EXECUTIVE DIRECTORS IN OFFICE AS AT 30 JUNE 2013					
Dr Zygmunt Switkowski (Chairman from 27 October 2011)					
2013	570	1	51	-	622
2012	500	1	16	-	517
Ilana Atlas					
2013	272	1	24	-	297
2012	266	1	24	-	291
William Bartlett					
2013	302	1	27	-	330
2012	275	1	25	-	301
Michael Cameron (appointed 16 April 2012)[3]					
2013	212	1	19	-	232
2012	44	-	4	-	48
Audette Exel (appointed 27 June 2012)					
2013	216	1	20	-	237
2012	2	-	-	-	2
Ewoud Kulk					
2013	327	1	29	-	357
2012	311	1	45	-	357
Dr Douglas McTaggart (appointed 16 April 2012)					
2013	232	1	21	-	254
2012	46	-	4	-	50
Geoffrey Ricketts					
2013	282	1	25	-	308
2012	274	1	25	-	300

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. Refer to section 3.1.

3 From 25 August 2012 onwards, Mr Michael Cameron's fees (exclusive of superannuation) have been paid directly to GPT Management Holdings Limited.

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

Dr Zygmunt E Switkowski
Chairman

Patrick J R Snowball
Managing Director
and Group CEO

21 August 2013

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 2013 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
21 August 2013

Corporate Governance Statement

This Statement outlines the principal corporate governance practices and policies the Board has established to ensure the interests of shareholders are protected, and the confidence of the investment market in the Company is maintained. These practices and policies were in place throughout the 2013 financial year (unless otherwise stated) and are current as at the date of this Statement, which is 21 August 2013.

In establishing the corporate governance framework, the Board has considered various governance standards, including the *Corporate Governance Principles and Recommendations (2nd edition with 2010 amendments)* as published by the Australian Securities Exchange (**ASX**) (**Recommendations**). The Recommendations articulate core principles and practices that the ASX Corporate Governance Council believes underlie good corporate governance and all listed companies are required to disclose the extent to which they depart from these Recommendations. The Suncorp Group's corporate governance policies, procedures and practices have been developed and implemented by the Board and management over many years and are consistent with the Recommendations.

During the financial year ended 30 June 2013 there were no departures from the Recommendations which should be disclosed to shareholders.

The Recommendations, and the relevant sections of this Statement which address each of the Recommendations, are summarised in the following table.

ASX PRINCIPLES AND RECOMMENDATIONS		RELEVANT SECTION(S)	COMPLY?
PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT			
1.1	Establish and disclose the functions reserved to the Board and those delegated to Senior Executives.	Parts 1.2 and 3.1	Yes
1.2	Disclose the process for evaluating the performance of Senior Executives.	Part 3.2	Yes
1.3	Provide the information indicated in the Guide to reporting on Principle 1.	Parts 1.2, 3.1 and 3.2	Yes
PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE			
2.1	A majority of the Board should be independent directors.	Part 1.5	Yes
2.2	The chairman should be an independent director.	Parts 1.3 and 1.5	Yes
2.3	The roles of chairman and Chief Executive Officer should not be exercised by the same individual.	Part 1.3	Yes
2.4	The Board should establish a Nomination Committee consisting of a minimum of three members, the majority being independent directors.	Part 2.3	Yes
2.5	Disclose the process for evaluating the performance of the Board, its committees and individual directors.	Parts 1.9 and 2.2	Yes
2.6	Provide the information indicated in the Guide to reporting on Principle 2.	Parts 1.3, 1.5, 1.8, 1.9, 2 and 2.2	Yes
PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING			
3.1	Establish a code of conduct to guide the Board and Senior Executives as to: 3.1.1 the practices necessary to maintain confidence in the Company's integrity 3.1.2 the practices necessary to take into account their legal obligations and the reasonable expectations of stakeholders 3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Part 5.3	Yes
3.2	Establish a policy concerning diversity and disclose the policy or a summary of the policy.	Part 5.4	Yes
3.3	Disclose the measurable objectives for achieving gender diversity set by the Board.	Part 5.4	Yes
3.4	Disclose the proportion of women employees in the whole organisation, women in Senior Executive positions and women on the Board.	Part 5.4	Yes
3.5	Provide the information indicated in the Guide to reporting on Principle 3.	Parts 5.3, 5.4	Yes
PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING			
4.1	The Board should establish an Audit Committee.	Part 2	Yes
4.2	Structure the Audit Committee so that it: • consists only of non-executive directors • consists of a majority of independent directors • is chaired by an independent chairman, who is not a chairman of the Board • has at least three members.	Part 2.3	Yes
4.3	The Audit Committee should have a formal charter.	Part 2.1	Yes
4.4	Provide the information indicated in the Guide to reporting on Principle 4.	Parts 2 and 4	Yes

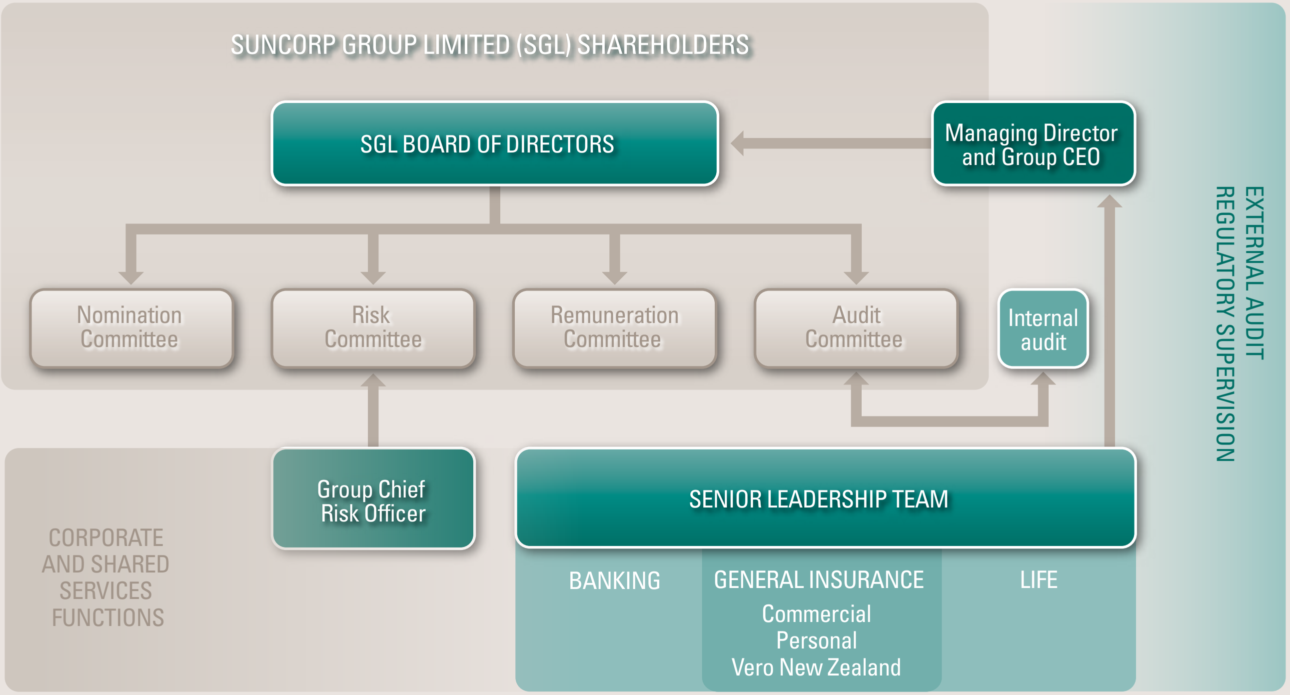
ASX PRINCIPLES AND RECOMMENDATIONS		RELEVANT SECTION(S)	COMPLY?
PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE			
5.1	Establish and disclose written policies and procedures designed to ensure accountability at a Senior Executive level for compliance with ASX disclosure requirements.	Part 5.5	Yes
5.2	Provide the information indicated in the Guide to reporting on Principle 5.	Part 5.5	Yes
PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS			
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	Part 5.5	Yes
6.2	Provide the information indicated in the Guide to reporting on Principle 6.	Part 5.5	Yes
PRINCIPLE 7 – RECOGNISE AND MANAGE RISK			
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Part 4	Yes
7.2	Require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to the Board on whether those risks are being managed effectively.	Parts 3.1, 4.1 to 4.6	Yes
7.3	Disclose whether the Board has received assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration provided under section 295A of the *Corporations Act 2001* is founded on a sound system of risk management and internal control that is operating effectively in all material respects in relation to financial reporting risks.	Part 4.8	Yes
7.4	Provide the information indicated in the Guide to reporting on Principle 7.	Part 4	Yes
PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY			
8.1	The Board should establish a Remuneration Committee.	Part 2	Yes
8.2	Structure the Remuneration Committee so that it: • consists of a majority of independent directors • is chaired by an independent chairman • has at least three members.	Parts 2, 2.3 and 5.1, and Directors' Report	Yes
8.3	Distinguish the structure of non-executive directors' remuneration from that of executive directors and Senior Executives.	Part 5.1 and Directors' Report	Yes
8.4	Provide the information indicated in the Guide to reporting on Principle 8.	Parts 2, 5.1 and Directors' Report	Yes

Further information is available on the Company's website at **suncorpgroup.com.au** under 'Governance'.

Corporate Governance Statement (continued)

SUNCORP GROUP GOVERNANCE FRAMEWORK

The governance framework of the Suncorp Group is shown below.



PART 1. BOARD OF DIRECTORS

1.1 ROLE OF THE BOARD

The Board is accountable to shareholders for the Suncorp Group's performance and has overall responsibility for the Group's operations.

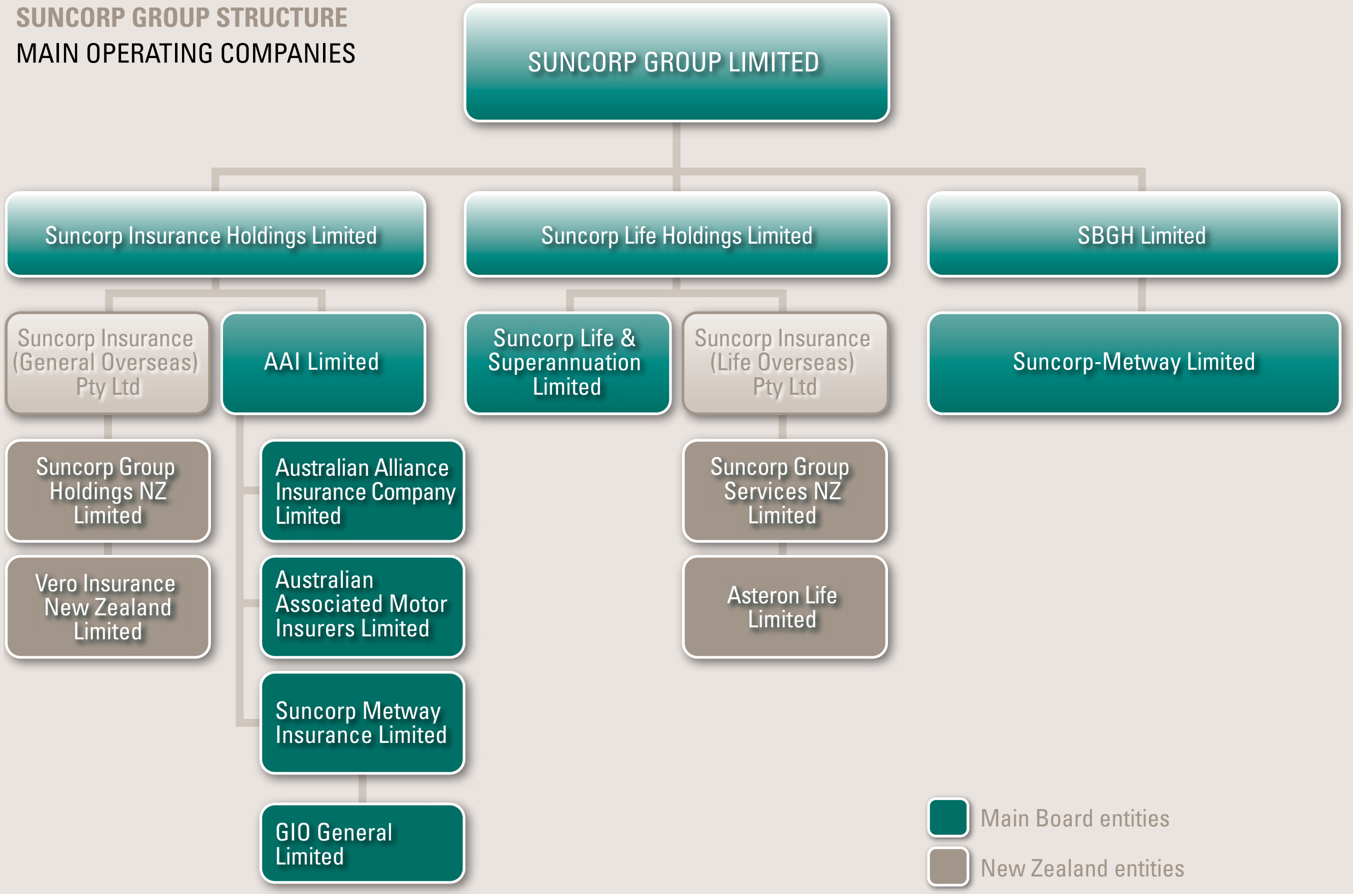
The Suncorp Group conducts a diverse and complex range of business including general insurance, banking and life insurance, which means an important feature of the Board's work is to monitor compliance with APRA's prudential and solvency requirements.

Therefore, directors of the Company also undertake roles as directors of AAI Limited, Australian Associated Motor Insurers Limited, Australian Alliance Insurance Company Limited, Suncorp Insurance Holdings Limited, Suncorp Metway Insurance Limited, Suncorp-Metway Limited, GIO General Limited and Suncorp Life & Superannuation Limited, which are all subject to APRA regulation. With effect from 1 July 2013, AAI Limited became the single general insurer for all Suncorp Group insurance brands.

The Suncorp Group's operations also extend to New Zealand and Mr Geoffrey Ricketts, a director of Suncorp Group Limited, was also a director and Chairman of the Group's major operating entities in New Zealand over the course of the year.

The legal structure of Suncorp Group's main operating subsidiaries is set out in the following chart.

SUNCORP GROUP STRUCTURE
MAIN OPERATING COMPANIES



Corporate Governance Statement (continued)

1.2 RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

The Board has adopted a Board Charter, which sets out the principles for the operation of the Board of Directors and provides a description of the functions and responsibilities of the Board and the functions delegated to management. A copy of the Board Charter is available on the Company's website under 'Governance'. The key responsibilities of the Board and those delegated to management are summarised below.

BOARD OF DIRECTORS SUMMARY OF PRINCIPAL RESPONSIBILITIES

Approve:

- the Risk Appetite Statement, strategic direction and related objectives for Suncorp Group
- annual budgets, dividend policy and dividend payments
- remuneration of Group CEO and Senior Leadership Team, including measures of performance, targets and succession plans for Group CEO
- major operating and capital expenditure and credit facilities in excess of the limits delegated to management
- appointment/removal of Group CEO, Company Secretary and Senior Executives
- and determine Group CEO's level of authority in respect of operating and capital expenditure and credit facilities and authorise Group CEO's further delegation of those authorities to management.

Review/approve:

- management proposals regarding acquisitions and divestitures of companies, businesses and functions
- Suncorp Group capital management policies and plans, having regard for the various liquidity and capital adequacy regulatory requirements applying to the Suncorp Group
- financial and regulatory reporting.

Monitor:

- Suncorp Group financial performance and executive management performance in implementation and achievement of strategic and business objectives
- processes whereby business risks are identified and approve systems and controls to manage those risks and monitor compliance.

SUMMARY OF FUNCTIONS THE BOARD HAS DELEGATED TO MANAGEMENT

- Develop corporate strategies and business plans in consultation with directors and implement the corporate strategies approved by the Board
- Make recommendations to the Board on significant strategic and business initiatives
- Develop an annual budget for the Board's consideration and conduct Suncorp Group's business activities within the approved budget limits
- Make recommendations to the Board or relevant Board committee on appointments to senior management roles
- Develop and maintain succession plans for senior management roles
- Develop and maintain risk management systems and frameworks as approved by the Board or Risk Committee
- Manage the business in accordance with regulatory and legislative requirements and within Suncorp Group's approved policy and procedures framework.

1.3 COMPOSITION OF THE BOARD

The Company's Constitution and Board Charter contain the following guidelines on Board composition:

- the Board shall comprise no more than 13 directors and no fewer than seven
- a majority of directors must be independent, non-executive directors
- the directors shall appoint, as Chairman of the Board, one of the non-executive directors deemed by the Board to be independent.

At the date of this Statement, the Board comprises eight non-executive, independent directors and one executive director, the Group CEO, Patrick Snowball. The names of the directors, including details of their qualifications and experience, are set out in the Directors' Report.

The composition of the Board is subject to review in a number of ways, as outlined below:

- The Company's Constitution provides that at every Annual General Meeting (**AGM**) one third of the directors, excluding the Group CEO, shall retire from office but may stand for re-election.

  Directors offering themselves for re-election are subject to a performance assessment, conducted by the Nomination Committee at the end of the financial year immediately preceding the director's retirement date. That assessment is based largely on the outcomes of the annual Board appraisal which includes assessments of individual director performance.

  Subject to the outcome of that assessment, the Board then confirms to shareholders whether it supports the re-election of each retiring director in a statement that accompanies the Notice of Meeting.

- Board composition is reviewed periodically by the Nomination Committee, either when a vacancy arises, if it is considered that the Board would benefit from the services of a new director given the Board's existing mix of skills, experience and diversity (including gender diversity), or as part of the ongoing process of Board succession planning.

  The Board considers it important to maintain an appropriate mix between long serving directors with established knowledge of the Suncorp Group's businesses and corporate history, and new directors who bring new perspectives to the role.

  The period of office held by each of the directors as at the date of this Statement is as follows:

DIRECTOR	SUNCORP GROUP TERM IN OFFICE
Dr Zygmunt Switkowski (Chairman)	7 years 11 months
Ms Ilana Atlas	2 years 7 months
Mr William Bartlett	10 years 2 months
Mr Michael Cameron	1 year 4 months
Ms Audette Exel	1 year 2 months
Mr Ewoud Kulk	6 years 5 months
Dr Douglas McTaggart	1 year 4 months
Mr Geoffrey Ricketts	6 years 5 months
Mr Patrick Snowball	3 years 11 months

- A Board appraisal is conducted annually which includes an assessment of future requirements in relation to Board composition and overall Board performance. The appraisal process for the Board is set out in greater detail later in section 1.9.

Once it has been determined by the Nomination Committee that a new director is to be appointed, a search is undertaken for suitable candidates, based on selection criteria determined by the Board and utilising the services of external consultants. Nominations are subsequently received and reviewed by the Board.

1.4 MEETINGS OF THE BOARD

The Board generally meets monthly to consider matters relevant to the Suncorp Group's operations and performance; however, additional meetings are also held as required. The Board also meets with Senior Executives at least twice a year to consider matters of strategic importance to the Suncorp Group.

Senior Executives are invited to attend meetings where matters relevant to their respective business unit are to be considered.

Immediately following each meeting of directors, the non-executive directors meet in the absence of the executive director and any other management representatives. The number of meetings of directors held over the course of the year and details of directors' attendance at those meetings are provided in the Directors' Report.

1.5 DIRECTOR INDEPENDENCE

As noted in 1.3 above, the Board must comprise a majority of non-executive directors who are independent. In line with the Recommendations, the Board will consider a director to be independent if he or she is not a member of management and is free of any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

When assessing whether a director has any relationships that could affect the director's independence, the Board considers a number of factors which are consistent with the Recommendations. The Board takes a qualitative approach to materiality and assesses independence on a case-by-case basis by reference to each director's particular circumstances rather than applying strict quantitative thresholds.

The following factors and relationships are considered by the Board in assessing whether a director is independent:

- being a substantial shareholder of the Company or of a company that has a substantial shareholding in the Company or being an officer of, or being otherwise associated with, either directly or indirectly, a substantial shareholder
- being employed in an executive capacity by the Suncorp Group within the last three years
- being a principal of a material professional adviser or a material consultant to the Group, within the last three years
- being, or being associated with, a material supplier or customer of the Suncorp Group
- being in a material contractual relationship with the Suncorp Group other than as a director of the Company
- having any other interest or relationship that could materially interfere with the director's ability to act in the best interests of the Company and independently of management.

Corporate Governance Statement (continued)

As at the date of this Statement, the Board considers all of the current non-executive directors to be independent. In reaching this view, the following matters were taken into consideration:

- Mr Geoffrey Ricketts was a director until 16 August 2012 of Spotless Group Limited, the parent entity of a company that provided catering services to the Group over the course of the year. The contractual arrangements between the Company and Spotless Services Australia Limited were in place prior to the date Mr Ricketts joined the Board. Mr Ricketts also acted as a consultant for Russell McVeagh, Solicitors (NZ), which provided legal services to the Suncorp Group throughout the year. The Board does not believe these relationships could affect Mr Ricketts' independence in relation to any matter other than in the selection of a service provider. However, the selection of a service provider, other than for the provision of audit services or for matters of a strategic nature, is the responsibility of management and such decisions are made in the ordinary course of business, without any reference to any directors or the Board.
- Mr Michael Cameron is the Chief Executive Officer and Managing Director of The GPT Group, an entity that owns a number of commercial properties leased by the Suncorp Group. All of the lease arrangements between the Company and The GPT Group, with the exception of the Group's lease of premises at 530 Collins Street, Melbourne, were in place prior to the date Mr Cameron joined the Board.

  The Board does not believe these relationships could affect Mr Cameron's independence in relation to any matter other than in the selection of a real estate facilities provider. However, the selection of real estate facilities providers is the responsibility of management and such decisions are made in the ordinary course of business, usually without any reference to any directors or the Board.

  The selection of leased premises at 530 Collins Street, Melbourne for the purpose of consolidation of the Suncorp Group's back office operations in that city was a strategic decision referred to the Board. Mr Cameron was excluded from the Board's processes associated with its deliberations and ultimate decision in regard to this issue in accordance with 1.6 below.

Accordingly, the Board has determined that, with respect to the above circumstances, none of the services or facilities provided were or are deemed material.

1.6 CONFLICTS OF INTEREST

Determinations regarding independence do not change a director's obligations in managing any conflict of interest that may arise between their duties as a director of the Company and their other interests and duties.

To ensure any actual or potential conflict of interest is appropriately managed, the following procedures have been adopted by the Board:

- directors are required to keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Suncorp Group
- where the Board believes a conflict exists, the director concerned is not to take part in any decision associated with the matter, including, as appropriate, not receiving the relevant Board papers, not being present at the meeting when the item is considered and not being informed of the decision taken.

1.7 INDUCTION AND EDUCATION

The Company has an induction process for new directors which includes meeting with the Group CEO, members of the Senior Leadership Team and other senior managers about the nature of the business, current issues and the corporate strategy. These meetings are held soon after a director's appointment to the Board.

Ongoing education for directors is provided through regular management presentations on certain key functions or business activities from across the Suncorp Group. The external auditors and industry experts also address the Board from time to time on matters relevant to the Suncorp Group business or its operating environment.

Most of the topics presented to the Board are determined in advance and form part of the annual meeting schedule.

Also, to ensure directors remain equally informed on all material matters impacting on the Suncorp Group's businesses, copies of the agendas and submissions for Board committee meetings are provided to all directors, and non-executive directors may attend meetings of any committee of which they are not a member.

1.8 ACCESS TO INFORMATION AND INDEPENDENT ADVICE

Directors have unrestricted access to Company records and receive regular financial and operational reports from senior management for consideration at meetings of directors. Also, each director has entered into a deed with the Company that provides for access to documents, in certain circumstances, following their retirement as a director.

In accordance with the terms of the Board Charter, the Board collectively, and each director individually, may take, at the Company's expense, such independent professional advice as is considered necessary to fulfil their relevant duties and responsibilities. A director seeking such advice must obtain the approval of the Chairman and such approval may not be unreasonably withheld. A copy of any advice received by a director is made available to all other members of the Board except where the circumstances make that inappropriate.

1.9 BOARD APPRAISAL

A performance appraisal of the Board is conducted annually. An independent consultant is engaged to facilitate the process, usually every third year, and the Chairman of the Board conducts the appraisal in the years where an independent consultant is not engaged.

However, the same methodology and processes (as summarised below) are followed for both internal and external reviews.

The appraisal includes completion of a questionnaire by, and/or interviews with each director and Senior Executive, the main objectives being to:

- assess the effectiveness of the Board as a whole in meeting the requirements of the Board Charter
- assess the performance and contributions of individual directors, including the Chairman, in assisting the Board to fulfil its role
- identify Board processes and structures that require improvement.

The questionnaire results (if applicable) and a summary of the views expressed during the interviews in relation to each of the above matters, or any other matters that directors believe are relevant, are provided to directors in a report prepared by the consultants or the Chairman. The Board as a whole discusses the report and any recommendations for change or improvement are agreed.

Progress against each of the recommendations is assessed in subsequent Board reviews. In the years when the questionnaire is completed by an independent consultant, the results may also be benchmarked against other companies.

Following the interview process, the Chairman may also meet with individual directors to discuss any issues that may have arisen during the interview stage in relation to that director's performance.

Since the last performance appraisal of the Board conducted by an external consultant in 2011 the Board composition has undergone significant change. Consequently, having regard to the number of changes to Board membership that have occurred progressively over the course of 2011 and 2012 and the associated review of the Board's existing mix of skills and experience undertaken by the Nomination Committee in selecting the new directors, including reference to external consultants, a Board performance review by an external consultant for the financial year ended 30 June 2013, was deemed not necessary. A comprehensive 2013 Board and committee performance review incorporating Senior Executive feedback was conducted by the Chairman in conjunction with the Company Secretary.

PART 2. BOARD COMMITTEES AND NEW ZEALAND SUBSIDIARIES

2.1 BOARD COMMITTEES

In order to provide adequate time for the Board to concentrate on strategy, planning and performance enhancement, the Board has delegated certain specific duties to its Board committees. To this end, four Board committees have been established to assist and support the Board in the conduct of its duties and obligations.

The committees form an important part of the Suncorp Group's overall governance structure and therefore non-executive directors may attend meetings of any committee. Each committee has its own Board-approved charter which defines the relevant committee's roles and responsibilities. Copies of the charters are available on the Company's website at **suncorpgroup.com.au** under 'Governance'.

The number of committee meetings held during the year and details of directors' attendance at those meetings are provided in the Directors' Report.

2.2 BOARD COMMITTEE APPRAISALS

The performance of the Audit, Risk and Remuneration committees are subject to an annual assessment of their effectiveness in meeting the requirements of their charters. The assessments are based on the results of questionnaires/checklists completed by each committee. The results are collated and a report submitted to the Board for consideration. On the basis of that assessment, committee membership and structure is confirmed or amended.

Assessments of the Audit, Risk and Remuneration Committees were conducted in accordance with the above process for the financial year ended 30 June 2013. The performance of the Nomination Committee is reviewed as part of the Board appraisal, on the basis that all non-executive directors are members of the Nomination Committee.

Corporate Governance Statement (continued)

2.3 COMPOSITION AND RESPONSIBILITIES OF BOARD COMMITTEES

The composition and responsibilities of the Board committees are set out in the following table.

SUNCORP GROUP LIMITED BOARD OF DIRECTORS

NOMINATION COMMITTEE

ALL NON-EXECUTIVE DIRECTORS

The Board Chairman is Chairman of the Committee.

RESPONSIBILITIES

The Nomination Committee is responsible for:

- reviewing Board composition
- recommending the appointment of directors
- approving appointments to Board committees
- planning Board succession
- approving the Board performance evaluation process.

AUDIT COMMITTEE

Mr W Bartlett (Chairman), Mr G Ricketts, Dr D McTaggart

(non-executive directors)

The Board Chairman is an ex officio member.

RESPONSIBILITIES

The primary role of the Audit Committee is to assist the Board in fulfilling its statutory and fiduciary responsibilities with respect to oversight of Suncorp Group's financial and operational control environment. Specific issues addressed by the Audit Committee throughout the year, in accordance with its charter, included:

- reviewing statutory reports and returns for lodgement with APRA
- reviewing half-year and annual financial statements and reports prior to consideration by the Board
- reviewing and assessing reports from management, the Appointed Actuary (general insurance) and the Appointed Actuary (life insurance), the Reviewing Actuary and the external auditors in relation to matters impacting on the half-year and annual financial statements
- audit planning – reviewing and approving audit plans as submitted by both internal and external auditors and agreeing areas of audit emphasis and audit approach
- reviewing the provision of non-audit services by the external auditor to assess whether there is any potential impact on the auditor's independence
- reviewing internal and external audit reports and where weaknesses in controls or procedures have been identified, assessing whether remedial action taken by management is adequate and appropriate.

At the date of this Statement, the qualifications of the members of the Audit Committee satisfy the requirements of the ASX guidelines. Details of those qualifications are provided in the Directors' Report. At all times throughout the reporting period, the members of the Audit Committee were all non-executive directors. However, the Group CEO, Group Chief Financial Officer (**Group CFO**), and the internal and external auditor are invited to meetings at the Audit Committee's discretion. The Audit Committee also holds discussions with the auditors in the absence of management on a regular basis.

RISK COMMITTEE

Mr E Kulk (Chairman), Ms I Atlas, Mr W Bartlett, Ms A Exel (from 1 April 2013)

(non-executive directors)

The Board Chairman is an ex officio member.

RESPONSIBILITIES

The role of the Risk Committee is to provide the Board with oversight across the Suncorp Group for all categories of risk, through the identification, assessment and management of risk and monitoring adherence to internal risk management policies and procedures. Specific issues addressed and activities undertaken by the Risk Committee throughout the year, in accordance with its charter, included:

- review and approve the Suncorp Group Risk Management Framework
- review and recommend the Suncorp Group's risk appetite
- review Line of Business risk reports and assess performance against risk appetite
- review and approve stress test scenarios
- oversight of the risk appetite, business planning and capital management development process
- review and approve Suncorp Group policy framework and policy suite
- review and approve risk management strategies and reinsurance management strategies as required by APRA.

The Group CEO, the Group CFO and the Group CRO are invited to meetings at the Risk Committee's discretion.

REMUNERATION COMMITTEE

Ms I Atlas (Chairman), Mr W Bartlett, Mr E Kulk, Mr M Cameron (from 1 April 2013)

(non-executive directors)

The Board Chairman is an ex officio member.

RESPONSIBILITIES

The Remuneration Committee is responsible for making recommendations to the Board on:

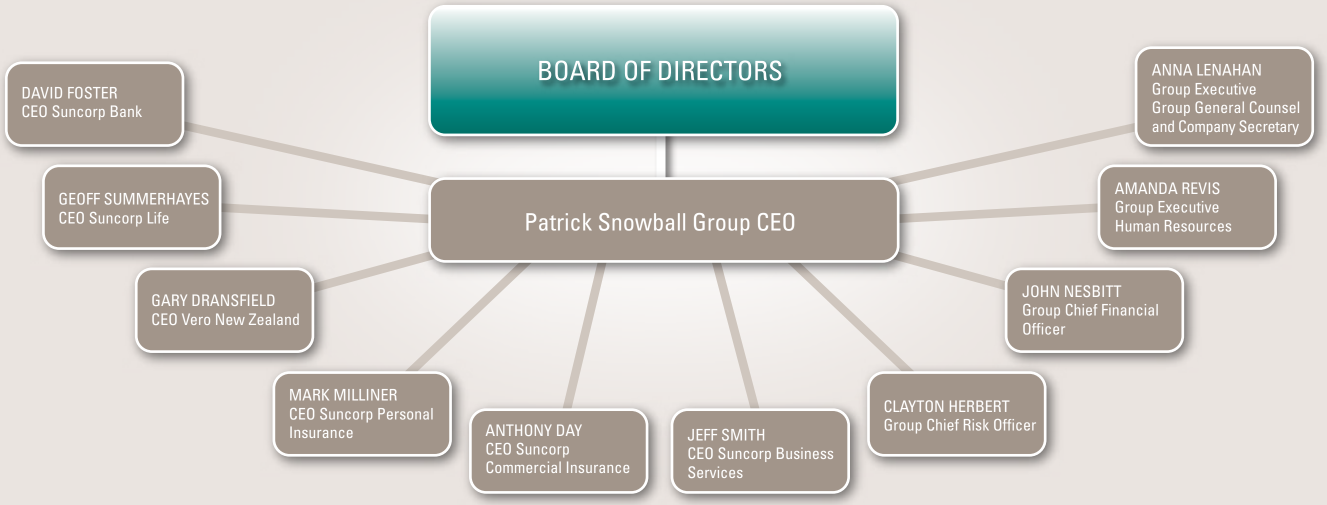
- the individual remuneration arrangements of the Group CEO, executives and person(s) or category of persons that may be specified by APRA
- the size of the annual bonus/incentive pools
- the remuneration of non-executive directors
- the remuneration structure of the categories of persons covered by the Company's remuneration policy.

2.4 NEW ZEALAND SUBSIDIARIES

The Suncorp Group's major operating entities in New Zealand include Vero Insurance New Zealand Limited (**Vero NZ**) and Asteron Life Limited (**Asteron Life**). Governance oversight of these companies is provided through the respective board of directors, which in the case of Vero NZ and Asteron Life, comprise independent non-executive directors, including Mr Geoffrey Ricketts, a director of the Company. Mr Ricketts is the Chairman of the board of each of these companies.

PART 3. SENIOR EXECUTIVES

The Board and the Group CEO are supported by the Senior Leadership Team.



3.1 FUNCTIONS DELEGATED TO MANAGEMENT

The Board has delegated the functions to management set out in 1.2 above.

3.2 SENIOR EXECUTIVE PERFORMANCE ASSESSMENT

A system of balanced scorecards is used to establish performance measures and to monitor the performance of Senior Executives (including the Group CEO, the Senior Leadership Team and their direct reports) against those measures.

The performance measures contained in the scorecards are a mixture of financial and non-financial indicators and risk-related measures that align with the Suncorp Group and business unit business plans approved by the Board, and reflect the individual executive's overall accountabilities and responsibilities.

The Suncorp Group's performance management system also requires leaders to balance the scorecard result with the manner in which the results were obtained, as the overall performance of each Senior Executive is assessed having regard to the corporate values and the general manner in which the Senior Executive is seen to be supporting the desired corporate culture.

At the end of the financial year, the Group CEO conducts an assessment of the performance of each Senior Leadership Team member, relative to the scorecard measures and peer group performance, in the context of industry and market conditions. Those assessments are submitted to the Remuneration Committee for review prior to submission to the Board as part of the remuneration review process.

The Group CEO's performance is subject to assessment by the Board at the end of the financial year. The Chairman then communicates the review outcomes as agreed by the Board to the Group CEO.

The Senior Executive performance assessments for the financial year ended 30 June 2013 were conducted in accordance with the arrangements described above.

3.3 SENIOR EXECUTIVE INDUCTION AND EDUCATION PROCESSES

When a new employee is appointed to a Senior Executive role within the Suncorp Group, they receive information and training on the Suncorp Group's key policies, practices and procedures as well as information relevant to the role they will be performing and the management and business structure within which they will be operating.

Corporate Governance Statement (continued)

Persons appointed to Senior Executive roles, whether they are new or existing employees, are expected to have the qualifications and industry experience necessary to perform properly the particular duties and responsibilities of their role and to maintain those qualifications and expertise while they remain in that role. This is also a requirement under the APRA Prudential Standards which apply to all of the Suncorp Group's major operating entities.

Under the APRA *Fit and Proper Prudential Standard*, the Group must maintain a Fitness and Propriety Policy, designed to assist in managing risks associated with the appointment of persons to roles that have a significant impact on the sound and prudent management of the Suncorp Group.

Under the Group's Fitness and Propriety Policy, all Senior Executives and directors are subject to a formal assessment process at the time of appointment and on an annual basis thereafter, to confirm they possess and have maintained the necessary skills, knowledge and expertise to undertake and fulfil the particular duties and responsibilities of the position they hold within the APRA-regulated entity.

The Suncorp Group supports Senior Executives and other employees in maintaining and enhancing their industry and business knowledge and expertise, and associated professional qualifications.

PART 4. RISK MANAGEMENT AND FINANCIAL CONTROL

4.1 RISK GOVERNANCE – RISK COMMITTEE AND RISK MANAGEMENT COMMITTEES

Risk within Suncorp Group is defined as any threat to the achievement of the Group's objectives. The Board and management recognise that effective risk management is critical to the achievement of these objectives.

The role of the Risk Committee is to oversee the adequacy and effectiveness of the risk management frameworks and processes within Suncorp Group. The Risk Committee has delegated authority from the Board to approve and oversee the processes used to identify, evaluate and manage risk. At its discretion, the Risk Committee may make recommendations to the Board, including recommendations on the Group's risk appetite.

The Risk Committee meets at least quarterly with management to assess current and emerging risks, identified through Suncorp Group's risk reporting process. Each business unit reports to the Risk Committee on the performance of its business against target dimensions, as contained in risk appetite statements. Updated stress testing scenario results are provided to the Risk Committee on a six-monthly schedule.

Risk Management Committees are an important part of the risk accountabilities model with a number of committees in place. These committees comprise executive representation from both Group and business units. The Risk Management Committees perform a valuable role in bringing together key subject matter experts to monitor and oversee elements of the risk framework.

4.2 ENTERPRISE RISK MANAGEMENT FRAMEWORK

The Enterprise Risk Management Framework (**ERMF**) embeds the Board-approved Risk Management Policy and demonstrates the Board and management's commitment to effective risk management as a key element of business success. At the highest level, the ERMF comprises:

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

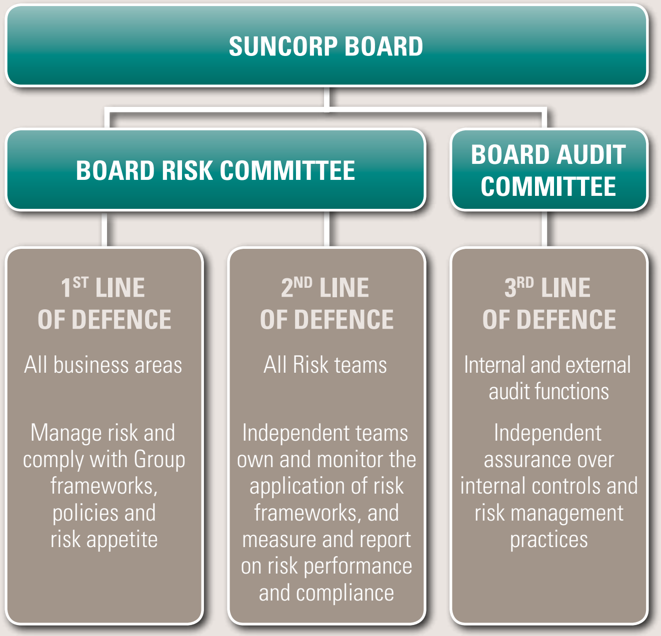
The Risk Committee approves the ERMF, which is reviewed and updated on an annual basis.

4.3 RISK MANAGEMENT ACCOUNTABILITIES

The accountabilities model in the ERMF clearly establishes the roles and responsibilities for managing risk.

4.3.1 Three Lines of Defence

Accountabilities for risk management are based upon the Three Lines of Defence model.



4.3.2 Specific accountabilities

The Board has delegated to the Group CEO authorities and limits for key risks facing the Group and the authority to commit and make operational and capital expenditures. The Group CEO has discretion to delegate these authorities and limits to management.

The Senior Leadership Team provides executive oversight and direction-setting across the Group, taking risk considerations into account. The Group CRO, a member of the Senior Leadership Team, is responsible for promoting and supporting risk considerations with the Senior Leadership Team. The Group CRO is charged with overall accountability for the Group's risk management framework and the overall risk management capability. The Group CRO reports to the Group CEO.

Management have a mandate and an obligation to manage risk in accordance with the Board-approved risk appetite statements and more broadly in accordance with Suncorp Group's risk policies.

Business unit Chief Risk Officers have formal lines of accountability to both their business unit CEO and the Group CRO which create greater ownership, understanding and awareness of risk.

Internal Audit provides independent testing and verification of the efficacy of corporate standards and compliance, validates the overall risk framework and provides assurance that the risk management process is functioning as designed. Internal Audit provides reports to both the Audit Committee and the Risk Committee.

4.4 RISK APPETITE

'Risk appetite' is the nature and level of risk the Board is willing to accept in the pursuit of strategic objectives. The Board recognises risk appetite as a key component in setting the strategic direction of the Company. It is also acknowledged that risk appetite is dynamic, evolves through time and responds to a number of different drivers. These drivers include: capital strength, underlying performance of the business, staff capability and capacity, culture, systems capability, competitor behaviour, and macro-economic forces.

Principles in the Suncorp Group Risk Appetite Statement set out Board preferences. Board and Risk Committee-approved policies, delegation, authorities and limits shape risk appetite within the business and collectively form a part of, and reflect, the Board's overall risk appetite. There are risk appetite statements at the business unit level that take the Group risk appetite down to more explicit or specific statements of appetite and quantify risk tolerances.

The Group and business unit risk appetite statements have been updated during the year, and approved by the Board in conjunction with business plans in May 2013.

4.5 CAPITAL MANAGEMENT

An Internal Capital Adequacy Assessment Process (**ICAAP**) is used to ensure adequate capital exists to meet the Group's current and future obligations to policyholders and deposit holders. ICAAP includes strategies for maintaining adequate capital over time, setting targets and triggers in the context of the Group and business unit risk profile. ICAAP reporting sets out current and projected capital levels relative to regulatory capital requirements and target capital levels, outcomes of stress testing and outcomes of actual versus planned capital management actions.

4.5.1 Stress testing

Stress testing is used by the Board and management as a risk assessment tool, to inform and support decision-making in respect of the risk appetite and to test the adequacy of the internal capital targets. The stress testing framework tests the resilience of the Group's capital buffer above the minimum regulatory capital requirements, using clearly defined Group and business unit-specific risk factors for a range of scenarios and over different timeframes.

Corporate Governance Statement (continued)

4.5.2 Risk-based capital

The quantity of risk drives the capital requirements of the Group as set out in the ICAAP. The Group is developing its risk-based capital approach to further enhance links between business plans, risk appetite statements, ICAAP and stress testing. This approach will allow the Group to quantify risk to optimise return, and understand diversification benefits to enhance decision-making.

4.6 RISK MANAGEMENT PROCESS

As part of the risk management framework, internal controls have been implemented across the Group to ensure appropriate risk identification, assessment, control, management, monitoring and reporting. These support the proactive management of risk, including the regular maintenance of risk profiles which support the Board's and management's oversight of risk.

4.6.1 Risk categorisation and policy-setting

The risks managed by Suncorp Group include strategic, counterparty, market, asset and liability, liquidity, insurance, operational, and compliance risk. Policies, procedures, limits and other controls are in place either at the Group or business unit level to manage these risks and align them with the Board's risk appetite, as depicted in the table opposite.

CATEGORY	DESCRIPTION	KEY POLICIES, CONTROLS & LIMITS	
STRATEGIC RISK	The risk of loss arising from uncertainty about the future operating environment, including reputation, industry, economic and regulatory environment, branding, crisis management, and partners and suppliers.	Business plans ICAAP	Risk appetite statements Risk management policy
FINANCIAL RISK	Counterparty risk – the risk to each party to a contract that the counterparty will not meet its financial obligations in accordance with agreed terms. Market risk – the risk of unfavourable changes in foreign exchange rates, interest rates, equity prices, credit spreads, commodity prices, and market volatilities. 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. Liquidity risk – the risk that the Group will be unable to service its cash flow obligations today or in the future. 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 /or reinsurance management.	Bank credit risk management Counterparty risk management Intra-group transactions and exposures Large exposure and concentration Investment Foreign exchange Bank traded market risk	Interest rate risk in the banking book Bank securitisation and covered bond Group liquidity management Bank liquidity and funding Insurance risk Life pricing advice Reinsurance programmes
OPERATIONAL RISK	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes legal risk, but excludes strategic and reputational risks.	Business continuity Delegation of authority Financial crimes Group security IT acceptable use Model integrity	Outsourcing and Procurement Project Management Product Approval Human resources
COMPLIANCE RISK	The risk of legal or regulatory sanctions, financial loss, or loss to reputation which the Group may suffer as a result of its failure to comply with all applicable regulations, codes of conduct and good practice standards.	Code of Conduct Compliance Conflicts of Interest Disclosure Fit and Proper	Privacy Sanctions Securities Trading Whistleblower

4.6.2 Risk profiling

The maintenance and updating of risk profiles is a key aspect of the risk management process. Risk profiles outline the number and type of risks and potential effects of risks. In developing risk profiles the risk assessment process takes account of the potential impact and likelihood of the risk. The risk rating scale i.e. level of risk, applies uniformly across Suncorp Group so there is a consistent measurement of risk. The business unit risk profiles form part of quarterly reporting to the Risk Committee.

4.6.3 Risk reviews

The Group CRO conducts quarterly risk reviews with each business unit, the Corporate Centre and Group shared services functions. These reviews provide the opportunity to discuss risk appetite (both performance and consideration), key risk issues, recent audit, compliance, or loss situations, new initiatives, and other risk matters relevant to the risk performance of the business unit.

4.6.4 Compliance

Suncorp Group conducts its business in compliance with all relevant laws, rules, regulations, industry standards and codes, internal policies and procedures, and having regard to accepted community and ethical standards.

The Group acts promptly to correct incidents of non-compliance no matter how identified, including determining whether a compliance failure is a breach that is reportable to a regulator.

Management complete a periodic due diligence attestation to confirm the status of compliance within their area of responsibility. The compliance status, including actual and potential breaches, is captured in a centralised incident and risk system to ensure necessary stakeholders are aware of material matters affecting Suncorp Group operations.

4.7 REGULATOR RELATIONSHIP MANAGEMENT

Policies and procedures have been developed to ensure open communications between Suncorp Group and regulators occur in a timely manner including the reference of all material correspondence between the Group and regulators to the Board or relevant Board committee.

4.7.1 APRA declarations

In accordance with APRA's Prudential Standards, regulated entities must submit a risk management declaration to APRA annually confirming the adequacy of the regulated entity's risk management systems.

The risk management declarations are based on reports considered and reviews conducted by the Risk Committee during the course of the year and on the representations provided to the Board and Group CEO by management in regard to the adequacy of Suncorp Group's risk management systems.

4.8 FINANCIAL REPORTING

The Board receives monthly reports from management on the financial performance of each business unit and the Group, including details of all key financial and business results reported against budget, with regular updates on yearly forecasts.

When the Board considers the statutory financial statements and reports for the Group in February and August each year, written certifications regarding the integrity of those financial statements and the Group's risk management and internal compliance and control systems are provided by the Group CEO, Group CFO and Group CRO. For the financial year ended 30 June 2013, the Group CEO, Group CFO and Group CRO have provided:

- a declaration regarding the integrity of the financial statements of the Suncorp Group; and
- assurance that the Suncorp Group's risk management and internal compliance and control systems are operating effectively in all material respects.

These certifications meet the requirements of section 295A of the *Corporations Act 2001*.

The certifications provided by the Group CEO, Group CFO and Group CRO are based on responses provided by management to a management certification questionnaire which is designed to provide an assurance to directors on matters that may impact the financial statements of Group companies.

PART 5. POLICIES

GOVERNANCE POLICIES OF GENERAL APPLICATION THROUGHOUT THE SUNCORP GROUP

5.1 REMUNERATION

The remuneration policies and structures in place for employees, management and directors over the reporting period, including full details of directors' and executives' benefits and interests, are explained in the Remuneration Report (part of the Directors' Report).

5.2 DEALINGS IN COMPANY SECURITIES

The Board has adopted a Securities Trading Policy that prohibits directors and 'prescribed persons' from trading in Suncorp securities at any time while in possession of price-sensitive information and for a 30-day period prior to:

- the release of the Company's half-year and annual results to the ASX
- the AGM
- any major announcements.

Directors and prescribed persons of the Suncorp Group or their Associates:

(a) must not engage in short-term trading of Suncorp securities

(b) must not use Suncorp securities as collateral in any financial transaction; including
 - entering into a margin lending arrangement in respect of Suncorp securities
 - transferring Suncorp securities into an existing margin loan account

 unless a waiver has been granted by the Chairman or Group CEO upon such terms and conditions as the person granting the waiver sees fit

(c) must not enter into a transaction that is designed to limit the economic risk of a holding in unvested Suncorp securities (i.e. a hedging transaction).

The following approvals must be obtained before a director or officer may trade in Suncorp securities:

- all directors (including the executive director) must advise the Chairman of the Board
- the Chairman must advise the Chairman of the Audit Committee
- prescribed persons must advise the Group CEO.

The granting of approval to trade in Suncorp securities is coordinated by the Company Secretary who is also responsible for reporting all transactions by directors and Senior Executives to the Board.

In accordance with the provisions of the *Corporations Act 2001* and the ASX Listing Rules, the Company advises the ASX of any transaction conducted by directors in the securities of the Company.

The Securities Trading Policy is made available to employees through the Company's internal compliance and governance intranet sites and a formal advice on the terms of that policy is issued to all prescribed persons at least twice a year, usually in the month prior to the release of the Company's annual and half-year financial results.

A copy of the Securities Trading Policy is available on the Company's website at **suncorpgroup.com.au** under 'Governance'.

5.3 CODE OF CONDUCT

A code of conduct has been adopted by the Suncorp Group and is available on the Company's website at **suncorpgroup.com.au** under 'Governance'.

The Suncorp Code of Conduct outlines the standards of behaviour expected of all directors, executives, management and employees and describes the values that underpin the way the Group conducts its business.

In addition to the Suncorp Code of Conduct, the Group's main business activities are also subject to a number of industry codes such as the *General Insurance Code of Practice* and the *Banking Code of Conduct*.

There are also a number of internal policies in place as part of a compliance framework to monitor and encourage adherence with the Suncorp Code of Conduct and industry codes. The key related policies are the:

- Conflicts of Interest Policy
- Whistleblower Policy
- Securities Trading Policy.

The Company monitors compliance with the Code and its various other policies using an internal due diligence system, as described earlier in this Statement under 'Risk management process'.

5.4 DIVERSITY

Diversity and inclusion at the Suncorp Group carry the highest level of commitment and support. The Group's policy on diversity is contained within its Equal Employment Opportunity and Diversity Policy, a summary of which is available on the Company's website at **suncorpgroup.com.au** under 'Governance'. Diversity policy and its strategic implementation is overseen by the Diversity Council, led by the Group CEO. The Diversity Council meets quarterly and the Board receives quarterly updates.

The Group is dedicated to improving gender equality and, in particular, increasing the percentage of women performing senior leadership roles. The objective of the Board-approved Diversity Strategy 2011/14 is to achieve:

- a workforce representative of the Group's macro-employment base, the customers with whom it interacts, and the communities within which it operates
- a measurable objective to attain gender diversity in leadership positions.

In late 2012, a comprehensive strategic review of diversity resulted in a revised three-year Diversity and Inclusion strategy which seeks to increase the capability of the workforce by attracting, enabling and retaining diverse talent.

Within the last 12 months, a number of initiatives have been pursued:

- Accelerate women in leadership – delivering a number of targeted leadership development programs to high-potential female talent to strengthen the pipeline of female talent into senior leadership roles
- Pay equity – regularly monitoring and reviewing gender pay equity to identify and address any imbalance
- Unconscious bias – delivering awareness programs to leaders to identify and counteract hidden biases which might hinder women's advancement to leadership
- Flexible work – piloting innovative, flexible working initiatives to help staff achieve a reasonable balance between work and home
- Talent acquisition – embedding internal diversity and inclusion expectations into external search and recruitment agency agreements (to ensure gender diverse talent pools are identified and shortlisted for senior leader roles).

The Group's measurable gender objective is to increase the representation of women in senior leadership roles to 33% by June 2014.

As at 30 June 2013, the proportion of women the Suncorp Group employed was:

Directors	22%
Senior Leaders	32%
All leaders	44%
Workforce	57%

Suncorp Group recognises the role an inclusive culture plays in realising the benefits associated with greater workforce diversity. In the 2013 Suncorp Employee Engagement (SEE) Census, 84% of respondents agreed their leader demonstrated behaviours that encourage and enable diversity at Suncorp and 81% agreed the Group understands and appreciates differences amongst employees.

While the Group's focus to date has been on gender balance, workplace flexibility and building cultural competence, a number of business unit-led initiatives have progressed across the Company. These include the attraction and retention of mature-aged workers and people with a disability.

The Suncorp Group 2012/13 Shareholder Review and Corporate Responsibility Review have further information on these initiatives and employee engagement.

5.5 ASX CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

Suncorp Group has a Board-approved Disclosure Policy and disclosure procedures that:

- regulate the release of information for public announcement
- ensure information is not disclosed on a selective basis.

The aim is to keep shareholders and the investment market fully informed of any major business events or risks likely to impact Suncorp Group's financial performance or strategy. Information is disseminated to the market primarily through timely announcements to the ASX in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules. Published information includes the release of annual and half year results and profit announcements, the Annual Report, presentations to investors and analysts, and any other investor briefings. All information is reviewed and approved prior to issue.

A Corporate Disclosure Officer is responsible for ensuring compliance with ASX continuous disclosure requirements, and for coordinating disclosure of information. The Corporate Disclosure Officer is the Deputy Group Chief Financial Officer or in this person's absence, the Group CFO or the Group Executive Group General Counsel and Company Secretary.

The Disclosure Policy applies to all employees of the Group, contractors, advisors and consultants. It is communicated internally and published on the Suncorp Group intranet and on the Governance section of the website at **suncorpgroup.com.au**.

5.5.1 Media Relations Policy

The Suncorp Group Media Relations Policy, which supplements the Disclosure Policy, outlines procedures for managing the disciplined release of information and responses to the media and other external parties. The key policy objectives are to portray Suncorp Group and its brands, products and services in a balanced way.

Employees may not make comment to the media or to other external parties on any aspect of the business unless they are authorised to comment. Media releases and participation in major public forums (e.g. presentations at significant conferences) must be approved in advance by the Group or the relevant line of business corporate affairs team.

5.5.2 Maintaining relationships with key stakeholders

Suncorp Group's Investor Relations team coordinates an active investor relations program to maintain dialogue with institutional investors, retail investors and sell-side analysts through meetings, presentations, and other ad hoc events. The program includes domestic and international investor roadshows, conferences and briefings. Any material information is released to the ASX prior to briefings with shareholders or analysts.

Online communication

Suncorp Group's latest ASX announcements are automatically published on the website, enabling access to the broader investment community. Interested parties can register to receive news updates. Suncorp Group seeks to continually improve its online and electronic communications and improve the functionality of the website.

Annual general meetings

Shareholder participation at the Company's AGM is encouraged. The AGM is usually held in October each year in Brisbane. A formal notice and AGM documents are sent to shareholders at least 28 days in advance – this material includes explanatory notes that clearly explain the nature of the AGM business and the resolutions to be put to shareholders.

The AGM begins with a business presentation, followed by a question and answer session led by the Chairman. Shareholders can then vote on the resolutions including director elections and the Remuneration Report, and put questions to the Chairman.

Shareholders who are unable to attend are encouraged to vote directly (online) in advance of the meeting or appoint a proxy. Clear written instructions are given with the AGM materials. The AGM voting result is lodged with the ASX as soon as practicable after the AGM and published on the website. The AGM webcast is also broadcast on the website for interested parties who are unable to attend.

Consolidated statement of comprehensive income

for the financial year ended 30 June 2013

CONSOLIDATED	NOTE	2013 $M	2012 $M
Revenue			
Insurance premium income		9,134	8,355
Reinsurance and other recoveries income		1,538	1,917
Banking interest income		3,420	4,025
Investment revenue	9.1	1,523	1,183
Other income	9.2	571	581
Total revenue		16,186	16,061
Expenses			
General Insurance claims expense		(6,264)	(7,122)
Life insurance claims expense and movement in policyowner liabilities		(1,142)	(314)
Outwards reinsurance premium expense		(1,203)	(946)
Interest expense		(2,477)	(3,146)
Fees and commissions expense		(700)	(535)
Operating expenses	10	(2,732)	(2,603)
Losses on Banking loans, advances and other receivables	7.5.2, 7.5.3	(902)	(432)
Total expenses		(15,420)	(15,098)
Profit before income tax		766	963
Income tax expense	11.1	(270)	(235)
Profit for the financial year		496	728
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in fair value of cash flow hedges	23	61	(66)
Net change in fair value of available-for-sale financial assets	23	-	(60)
Exchange differences on translation of foreign operations	23	68	10
Income tax (expense) benefit	11.3.2	(18)	38
		111	(78)
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains (losses) on defined benefit plans	13.3	20	(51)
Income tax (expense) benefit	11.3.2	(6)	15
		14	(36)
Total other comprehensive income		125	(114)
Total comprehensive income for the financial year		621	614
Profit for the financial year attributable to:			
Owners of the Company		491	724
Non-controlling interests		5	4
Profit for the financial year		496	728
Total comprehensive income for the financial year attributable to:			
Owners of the Company		616	610
Non-controlling interests		5	4
Total comprehensive income for the financial year		621	614
		CENTS	CENTS
Earnings per share:			
Basic earnings per share	3	38.42	56.68
Diluted earnings per share	3	38.42	55.74

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 2013

CONSOLIDATED	NOTE	2013 $M	2012 $M
Assets			
Cash and cash equivalents		1,394	866
Receivables due from other banks		1,460	2,044
Trading securities	7.2	3,462	4,787
Derivatives	14	627	393
Investment securities	15.2	26,183	24,881
Banking loans, advances and other receivables	7.4	47,999	47,290
General Insurance assets	6.5	7,158	7,688
Life assets	8.5	666	721
Property, plant and equipment	16	212	216
Deferred tax assets	11.3.1	87	181
Other assets	17	512	731
Goodwill and intangible assets	18	6,168	6,264
Total assets		95,928	96,062
Liabilities			
Deposits and short-term borrowings	7.6	43,547	40,685
Derivatives	14	1,039	2,406
Payables due to other banks		213	64
Payables and other liabilities	19	2,486	2,603
Current tax liabilities	11.2	2	51
General Insurance liabilities	6.6	14,496	14,835
Life liabilities	8.6	5,869	5,786
Securitisation liabilities	7.7	4,777	3,800
Debt issues	7.8	7,291	9,569
Subordinated notes	20.2	1,646	1,374
Preference shares	21.2	579	762
Total liabilities		81,945	81,935
Net assets		13,983	14,127
Equity			
Share capital	22	12,682	12,672
Reserves	23	40	(55)
Retained profits		1,245	1,493
Total equity attributable to owners of the Company		13,967	14,110
Non-controlling interests		16	17
Total equity		13,983	14,127

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 2013

CONSOLIDATED		EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY					
	NOTE	SHARE CAPITAL $M	RESERVES $M	RETAINED PROFITS $M	TOTAL $M	NON-CONTROLLING INTERESTS $M	TOTAL EQUITY $M
Balance as at 1 July 2011		12,662	33	1,306	14,001	17	14,018
Profit for the financial year		-	-	724	724	4	728
Total other comprehensive income		-	(78)	(36)	(114)	-	(114)
Total comprehensive income		-	(78)	688	610	4	614
Transactions with owners, recorded directly in equity							
Dividends paid	4	-	-	(511)	(511)	(4)	(515)
Share-based payments	22	11	-	-	11	-	11
Treasury share movements	22	(1)	-	-	(1)	-	(1)
Transfers		-	(10)	10	-	-	-
Balance as at 30 June 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

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 2013

CONSOLIDATED	NOTE	2013 $M	2012 $M
Cash flows from operating activities			
Premiums received		10,435	10,082
Claims paid		(8,985)	(9,883)
Interest received		4,153	4,810
Interest paid		(2,536)	(3,146)
Reinsurance and other recoveries received		2,260	2,994
Outwards reinsurance premiums paid		(1,427)	(1,024)
Other operating income received		849	637
Dividends received		110	98
Operating expenses paid		(3,286)	(3,147)
Income tax paid		(249)	(311)
Net decrease (increase) in operating assets			
Trading securities		1,340	216
Banking loans, advances and other receivables		(1,611)	(1,270)
Net increase in operating liabilities			
Deposits and short-term borrowings		2,862	1,830
Net cash from operating activities	25.1	3,915	1,886
Cash flows (used in) investing activities			
Proceeds from sale of investment securities		21,470	39,683
Payments for purchase of investment securities		(22,144)	(40,273)
Proceeds from disposal of property, plant and equipment and intangible software		14	103
Proceeds from other investing activities		98	-
Payments for other investing activities		(122)	(180)
Net cash (used in) investing activities		(684)	(667)
Cash flows (used in) financing activities			
Net (decrease) in borrowings		(2,734)	(1,330)
Proceeds from preference share issue		560	-
Payment on call of subordinated notes		(510)	(174)
Proceeds from subordinated note issue		414	-
Payments for preference share redemption		(379)	(72)
Payments for other financing activities		(18)	(14)
Dividends paid on ordinary shares to owners of the Company		(769)	(511)
Net cash (used in) financing activities		(3,436)	(2,101)
Net (decrease) in cash and cash equivalents		(205)	(882)
Cash and cash equivalents at the beginning of the financial year		2,846	3,727
Effect of exchange rate fluctuations on cash held		-	1
Cash and cash equivalents at the end of the financial year	25.2	2,641	2,846

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 2013

1. REPORTING ENTITY

Suncorp Group Limited (the **Company**) is a public company domiciled in Australia. Its registered office is at Level 18, 36 Wickham Terrace, Brisbane, Qld 4000.

The consolidated financial statements for the financial year ended 30 June 2013 comprise the Company and its subsidiaries (the **Suncorp Group** or the **Group**) and were authorised for issue by the Board of Directors on 21 August 2013.

On 2 May 2013, the Group received Federal Court approval to consolidate the business of its five authorised general insurers. AAI Limited (**AAI**) entered into four concurrent Schemes of Arrangement (under Division 3A of Part III of the *Insurance Act*) to transfer the insurance assets and liabilities of the following entities to AAI as at 1 July 2013:

- Suncorp Metway Insurance Limited
- GIO General Limited
- Australian Associated Motor Insurers Limited
- Australian Alliance Insurance Company Limited.

The consolidation process involved both the transfer of the Australian general insurance assets and liabilities to AAI as well as an internal restructure of the general insurance operations to reduce the number of business entities operating and regulated in Australia.

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 relevant accounting standards. An exception exists regarding the measurement of defined benefit superannuation scheme surplus (deficit) which is described in note 35.1.19.

Significant accounting policies applied in the preparation of these consolidated financial statements are set out in note 35.

From 1 July 2012, the Group applied amendments to AASB 101 *Presentation of Financial Statements* outlined in AASB 2011–9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income*. The change in accounting policy only relates to disclosures and has had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively and require the Suncorp Group to separately present those items of other comprehensive income that may be reclassified to profit and loss in the future from those that will never be reclassified to profit and loss. These changes are included in the statement of comprehensive income.

The Suncorp Group's risk management objectives and structure, including the management of exposures arising from financial instruments, are detailed in note 36.

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 12 months after the reporting period, are classified as 'current'. Amounts expected to be recovered or settled more than 12 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.

The reporting of collateral received on derivative asset positions and collateral posted on derivative liability positions has changed to better reflect the nature of the assets and liabilities and to be consistent with industry practice. The table below illustrates the material changes to previously reported classifications on the statements of financial position.

Cash flow statement comparatives have also been restated with the net change in Loans, advances and other receivables increasing by $374 million, and the net change in deposits and short-term borrowings decreasing by $20 million.

The notes to the consolidated financial statements have also been restated, where appropriate, to align with the revised classifications.

There is no change to the consolidated statement of comprehensive income.

CONSOLIDATED	2012		
	PREVIOUSLY REPORTED	CHANGE	CURRENTLY REPORTED
	$M	$M	$M
Assets			
Receivables due from other Banks	154	1,890	2,044
Banking Loans, advances and other receivables	49,180	(1,890)	47,290

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 35.1.16(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).

Notes to the consolidated financial statements

for the financial year ended 30 June 2013 (continued)

3. EARNINGS PER SHARE (EPS)

CONSOLIDATED	2013	2012
	$M	$M
Profit attributable to ordinary equity holders of the Company (basic)	491	724
Interest expense on convertible preference shares	-	41
Profit attributable to ordinary equity holders of the Company (diluted)	491	765

	NO OF SHARES	NO OF SHARES
Weighted average number of ordinary shares (basic)	1,277,858,329	1,277,409,855
Effect of conversion of convertible preference shares	-	94,021,565
Weighted average number of ordinary shares (diluted)	1,277,858,329	1,371,431,420

The EPS for the financial year ended 30 June 2013 are antidilutive.

4. DIVIDENDS

CONSOLIDATED	2013		2012	
	¢ PER SHARE	$M	¢ PER SHARE	$M
Dividend payments on ordinary shares				
2012 final dividend (2012: 2011 final dividend)	20	257	20	255
2012 special dividend	15	192	-	-
2013 interim dividend (2012: 2012 interim dividend)	25	320	20	256
Total dividends on ordinary shares paid to owners of the Company	60	769	40	511
Dividends not recognised in the consolidated statement of financial position [1]				
Dividends declared since balance date				
2013 final dividend (2012: 2012 final dividend) [2]	30	383	20	257
2013 special dividend (2013: 2012 special dividend) [2]	20	256	15	192
	50	639	35	449

	$M	$M
Dividend franking account		
Amount of franking credit available for use in subsequent financial years	551	752

Notes

1 The impact on the dividend franking account for the final and special dividends declared are expected to reduce the franking account balance by $276 million (2012: $193 million). There are no other income tax consequences for dividends not recognised in the statement of financial position.

2 The total 2013 final and special dividends declared but not recognised in the statement of financial position is estimated based on the total number of ordinary shares on issue net of treasury shares as at 30 June 2013. The actual amount recognised in the consolidated financial statements for the year ending 30 June 2014 will be based on the actual number of ordinary shares on issue net of treasury shares on the record date.

5. SEGMENT REPORTING

Operating segments are identified based on separate financial information which is regularly reviewed by the Group Chief Executive Officer and his immediate executive team, representing the Suncorp Group's Chief Operating Decision Maker (**CODM**), in assessing performance and determining the allocation of resources. The Suncorp Group's operating segments are determined based on their business activities 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, marine insurance, business insurance, rural insurance, construction and engineering insurance, travel insurance, public liability and professional indemnity, and directors' and officers' liability.
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 below are measured on a consistent basis to how they are reported to the CODM:

- Revenues and expenses occurring between segments are subject to contractual agreements between the legal entities comprising each segment.
- Inter-segment transactions which are eliminated on consolidation are reported on a gross basis except for operating expenses incurred by one segment on behalf of another which are recharged on a cost-recovery basis that are presented on a net basis (post allocation basis).
- Intra-group dividends are presented net of eliminations.
- Consolidated gain or loss on sale of subsidiaries and joint ventures and any amortisation of 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).

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
2012								
Revenue from external customers	5,348	3,415	1,678	10,441	4,229	1,356	69	16,095
Inter-segment revenue	-	-	-	-	26	7	7	40
Total segment revenue	5,348	3,415	1,678	10,441	4,255	1,363	76	16,135
Segment profit (loss) before income tax	206	421	43	670	39	323	(71)	961
Segment income tax (expense) benefit	(59)	(108)	(10)	(177)	(13)	(72)	27	(235)
Segment profit (loss) after income tax	147	313	33	493	26	251	(44)	726
Other segment disclosures								
Interest revenue	168	385	24	577	4,025	80	37	4,719
Interest expense	(43)	(23)	-	(66)	(3,097)	-	(7)	(3,170)
Depreciation and amortisation expense	(40)	(36)	(4)	(80)	(40)	(4)	(127)	(251)
Losses on Banking loans, advances and other receivables[1]	-	-	-	-	(432)	-	-	(432)
Share of profits of associates and joint ventures	7	-	-	7	-	-	-	7
Business area assets				25,019	62,429	10,445	14,828	112,721
Business area liabilities				17,271	59,453	7,723	596	85,043

Note

1 Comprise impairment expense on Banking loans, advances and other receivables of $375 million (2012: $405 million) (note 7.5.2) and loss on sale of Banking loans and advances of $527 million (2012: $27 million) (note 7.5.3).

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

CONSOLIDATED	2013	2012	2013	2012
	REVENUE		PROFIT BEFORE INCOME TAX	
	$M	$M	$M	$M
Segment total	**16,386**	16,135	**769**	961
Elimination of intragroup investments	**(188)**	(65)	**(25)**	(28)
Other consolidation eliminations	**(12)**	(9)	**22**	30
Consolidated total	**16,186**	16,061	**766**	963

	ASSETS		LIABILITIES	
	$M	$M	$M	$M
Business area total	**113,618**	112,721	**85,070**	85,043
Elimination of investment in subsidiaries	**(14,542)**	(13,527)	**-**	-
Elimination of intragroup investments	**(1,618)**	(1,699)	**(1,612)**	(1,691)
Elimination of other intragroup balances	**(1,270)**	(1,145)	**(1,256)**	(1,143)
Other consolidation eliminations and reclassifications	**(260)**	(288)	**(257)**	(274)
Consolidated total	**95,928**	96,062	**81,945**	81,935

5.3 GEOGRAPHICAL SEGMENTS

While some business activities take place in New Zealand, the Suncorp Group operates predominantly in one geographical segment being Australia. Revenue from external customers and non-current assets in New Zealand are not material to the Suncorp Group.

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 above 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 above is beneficial in understanding the nature and financial effects of the business activities of the Suncorp Group, which consists of a General Insurance group, a Banking group, a Life group and a Corporate group.

5. SEGMENT REPORTING (CONTINUED)

5.5.1 SUMMARY OF REVENUE AND EXPENSES BY BUSINESS AREA

		2013				2012			
		GENERAL INSURANCE	BANKING	LIFE	CORPORATE	GENERAL INSURANCE	BANKING	LIFE	CORPORATE
	NOTE	$M	$M	$M	$M	$M	$M	$M	$M
Revenue									
Insurance premium income		8,324	-	810	-	7,584	-	771	-
Reinsurance and other recoveries income		1,345	-	193	-	1,726	-	191	-
Banking interest income		-	3,421	-	-	-	4,025	-	-
Investment revenue (losses)		647	(6)	1,036	33	941	15	252	37
Other income		263	172	148	-	190	215	149	39
Total revenue	5.1, 5.2	10,579	3,587	2,187	33	10,441	4,255	1,363	76
Expenses									
General Insurance claims expense		(6,264)	-	-	-	(7,122)	-	-	-
Life insurance claims expense and movement in policyowner liabilities		-	-	(1,142)	-	-	-	(314)	-
Outwards reinsurance premium expense		(1,026)	-	(177)	-	(780)	-	(166)	-
Interest expense		(33)	(2,435)	(1)	(26)	(66)	(3,097)	-	(7)
Fees and commissions expense		(413)	(106)	(192)	(1)	(309)	(90)	(156)	(1)
Operating expenses		(1,594)	(619)	(401)	(121)	(1,494)	(597)	(365)	(139)
Losses on Banking loans, advances and other receivables		-	(902)	-	-	-	(432)	-	-
Outside beneficial interests in managed funds		-	-	(164)	-	-	-	(39)	-
Total expenses		(9,330)	(4,062)	(2,077)	(148)	(9,771)	(4,216)	(1,040)	(147)
Profit (loss) before income tax	5.1, 5.2	1,249	(475)	110	(115)	670	39	323	(71)
Income tax (expense) benefit	5.1	(366)	132	(50)	15	(177)	(13)	(72)	27
Profit (loss) for the financial year	5.1	883	(343)	60	(100)	493	26	251	(44)

5.5.2 SUMMARY OF ASSETS AND LIABILITIES BY BUSINESS AREA

		2013				2012			
		GENERAL INSURANCE	BANKING	LIFE	CORPORATE	GENERAL INSURANCE	BANKING	LIFE	CORPORATE
	NOTE	$M	$M	$M	$M	$M	$M	$M	$M
Assets									
Cash and cash equivalents		146	905	610	47	113	549	828	212
Receivables due from other banks		-	1,460	-	-	-	2,044	-	-
Trading securities	7.2	-	3,462	-	-	-	4,787	-	-
Derivatives	6.3, 7.3, 8.3	39	667	-	-	50	424	10	-
Investment securities	6.4, 7.2, 8.4, 15.1	12,305	6,640	8,413	14,983	11,477	6,308	8,191	14,132
Banking loans, advances and other receivables	7.4	-	47,999	-	-	-	47,320	-	-
General Insurance assets	6.5	7,158	-	-	-	7,688	-	-	-
Life assets	8.5	-	-	666	-	-	-	721	-
Due from Group entities		-	251	-	703	128	144	-	-
Property, plant and equipment		34	-	4	174	24	-	4	188
Deferred tax assets		-	141	-	124	-	241	-	120
Other assets		176	272	24	46	323	350	19	62
Goodwill and intangible assets		5,145	262	640	122	5,216	262	672	114
Total assets		25,003	62,059	10,357	16,199	25,019	62,429	10,445	14,828
Liabilities									
Deposits and short-term borrowings	7.6	-	43,861	-	-	-	41,521	-	-
Derivatives	6.3, 7.3, 8.3	116	984	18	-	124	2,369	4	-
Payables due to other banks		-	213	-	-	-	64	-	-
Payables and other liabilities		1,333	640	105	401	1,457	634	225	325
Current tax liabilities	11.2	2	-	-	-	-	-	-	51
Due to Group entities		269	-	8	-	-	-	52	220
General Insurance liabilities	6.6	14,496	-	-	-	14,835	-	-	-
Life liabilities	8.6	-	-	5,869	-	-	-	5,786	-
Deferred tax liabilities		112	-	66	-	132	-	48	-
Managed funds units on issue		-	-	1,567	-	15	-	1,608	-
Securitisation liabilities	7.7	-	4,802	-	-	-	3,839	-	-
Debt issues	7.8	-	7,313	-	-	-	9,598	-	-
Subordinated notes	6.7, 7.9, 20.1	720	840	-	756	708	666	-	-
Preference shares	7.10, 21.1	-	30	-	549	-	762	-	-
Total liabilities		17,048	58,683	7,633	1,706	17,271	59,453	7,723	596
Net assets		7,955	3,376	2,724	14,493	7,748	2,976	2,722	14,232

Notes to the consolidated financial statements
for the financial year ended 30 June 2013 (continued)

6. GENERAL INSURANCE – SPECIFIC DISCLOSURES

6.1 GENERAL INSURANCE – CONTRIBUTION TO PROFIT

GENERAL INSURANCE	2013	2012
	$M	$M
Net earned premium		
Direct premium income	8,324	7,584
Outwards reinsurance premium expense	(1,026)	(780)
	7,298	6,804
Net incurred claims		
Claims expense	(6,264)	(7,122)
Reinsurance and other recoveries revenue	1,345	1,726
	(4,919)	(5,396)
Underwriting expenses		
Acquisition costs	(1,070)	(931)
Liability adequacy test deficiency	-	(21)
Other underwriting expenses	(817)	(712)
	(1,887)	(1,664)
Reinsurance commission revenue	134	49
Underwriting result	626	(207)
Investment revenue – insurance funds		
Investment income on insurance funds	334	719
Investment expense on insurance funds	(1)	(1)
Insurance trading result	959	511
Investment income on shareholder funds	313	222
Investment expenses on shareholder funds	(25)	(19)
Fee for service and other income	129	141
Non-banking interest expense	(33)	(66)
Other expenses	(94)	(119)
	290	159
General Insurance business area profit before tax	1,249	670

6.2 GENERAL INSURANCE – NET INCURRED CLAIMS

GENERAL INSURANCE	2013			2012		
	CURRENT YEAR $M	PRIOR YEAR $M	TOTAL $M	CURRENT YEAR $M	PRIOR YEAR $M	TOTAL $M
Direct business						
Gross claims incurred and related expenses						
Undiscounted	6,845	(392)	6,453	6,660	(221)	6,439
Discount and discount movement	(215)	26	(189)	(178)	866	688
Gross claims incurred discounted	6,630	(366)	6,264	6,482	645	7,127
Reinsurance and other recoveries						
Undiscounted	(1,376)	12	(1,364)	(1,213)	(333)	(1,546)
Discount and discount movement	34	(15)	19	30	(215)	(185)
Reinsurance and other recoveries discounted	(1,342)	(3)	(1,345)	(1,183)	(548)	(1,731)
Total direct business	5,288	(369)	4,919	5,299	97	5,396
Net incurred claims			4,919			5,396

The $369 million decrease in prior year net provisions on the net incurred claims for 2013, 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	2013			2012		
	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	273	1	(11)	219	6	-
Cross currency swaps	291	-	(63)	291	-	(72)
	564	1	(74)	510	6	(72)
Interest rate-related contracts						
Interest rate swaps	2,311	36	(39)	2,013	44	(52)
Interest rate futures	1,015	-	-	785	-	-
Interest rate options	150	2	(3)	50	-	-
	3,476	38	(42)	2,848	44	(52)
Equity contracts						
Equity futures	-	-	-	58	-	-
Total derivative exposures – current	4,040	39	(116)	3,416	50	(124)

6. GENERAL INSURANCE – SPECIFIC DISCLOSURES (CONTINUED)

6.4 GENERAL INSURANCE – INVESTMENT SECURITIES

GENERAL INSURANCE	2013	2012
	$M	$M
Financial assets designated at fair value through profit or loss		
Interest-bearing securities		
Debentures and corporate bonds	6,033	6,026
Government and semi-government securities	4,555	3,699
Other interest-bearing securities	208	305
	10,796	10,030
Unit trusts	1,509	1,447
Total investment securities – current	12,305	11,477

6.5 GENERAL INSURANCE – ASSETS

CONSOLIDATED	2013	2012
	$M	$M
Financial assets designated at fair value through profit or loss		
Premiums outstanding	2,349	2,137
Reinsurance and other recoveries		
Expected undiscounted outstanding reinsurance and other recoveries	3,313	3,862
Discount to present value	(231)	(206)
Reinsurance and other recoveries	3,082	3,656
Other receivables	181	239
Financial assets at amortised cost		
Investment receivables	7	145
Deferred insurance assets		
Deferred acquisition costs	580	512
Deferred reinsurance assets	841	845
Other deferred expenses	118	154
Total General Insurance assets	7,158	7,688
Current	5,318	5,494
Non-current	1,840	2,194
Total General Insurance assets	7,158	7,688

6.6 GENERAL INSURANCE – LIABILITIES

CONSOLIDATED	NOTE	2013 $M	2012 $M
Unearned premium liabilities	6.6.1	4,524	4,226
Outstanding claims liabilities	6.6.2	9,972	10,609
Total General Insurance liabilities		14,496	14,835
Current		8,274	8,269
Non-current		6,222	6,566
Total General Insurance liabilities		14,496	14,835

6.6.1 UNEARNED PREMIUM LIABILITIES

(A) RECONCILIATION OF MOVEMENT

CONSOLIDATED	2013 $M	2012 $M
Balance at the beginning of the financial year	4,226	3,854
Premiums written during the financial year	8,589	7,955
Premiums earned during the financial year	(8,324)	(7,584)
Foreign currency exchange movement	33	1
Balance at the end of the financial year	4,524	4,226

(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	2013 $M	2012 $M
Central estimate of present value of expected future cash flows arising from future claims	3,230	3,156
Risk margin	68	66
Present value of expected future cash inflows arising from reinsurance recoveries on future claims	(171)	(165)
Expected present value of future cash flows for future claims including risk margin	3,127	3,057
	%	%
Risk margin	2.3%	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 includes 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 2013, the LAT resulted in surpluses for all portfolios. As at 30 June 2012, the LAT resulted in a deficit for the Australian Commercial Insurance portfolio and a surplus for the Australian Personal Insurance and New Zealand General Insurance portfolios. Consequently, a $21 million write-down of deferred acquisition costs was recognised in the financial year ended 30 June 2012.

The deficit for the respective portfolios was determined as follows:

CONSOLIDATED	2012
	CI [1]
	$M
Central estimate of present value of expected future cash flows arising from future claims	1,120
Risk margin	23
Present value of expected future cash inflows arising from reinsurance recoveries on future claims	(67)
	1,076
Unearned premium liability	1,366
Related intangible asset	(6)
Related deferred acquisition costs	(194)
Related reinsurance assets	(111)
	1,055
LAT deficiency	21

Note
1 Australian Commercial Insurance portfolio.

6.6.2 OUTSTANDING CLAIMS LIABILITIES

CONSOLIDATED	2013	2012
	$M	$M
Gross central estimate – undiscounted	9,568	10,003
Risk margin	1,040	1,204
Claims handling expenses	364	384
	10,972	11,591
Discount to present value	(1,000)	(982)
Gross outstanding claims liabilities – discounted	9,972	10,609
	%	%
Overall net risk margin applied	16.6	17.2
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	2013	2012
	$M	$M
Net outstanding claims liabilities at the beginning of the financial year	6,953	6,317
Prior periods		
Claims payments	(2,112)	(1,877)
Discount unwind	112	201
Margin release on prior periods	(277)	(255)
Incurred claims due to changes in assumptions and experience	(116)	(202)
Change in discount rate	(88)	345
Current period		
Incurred claims	5,288	5,309
Claims payments	(2,886)	(2,885)
Net foreign exchange difference	16	-
Net outstanding claims liabilities at the end of the financial year	6,890	6,953
Reinsurance and other recoveries on outstanding claims liabilities	3,082	3,656
Gross outstanding claims liabilities (discounted) at the end of the financial year	9,972	10,609

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											2013
	PRIOR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	TOTAL
	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Estimate of ultimate claims cost:												
At end of accident year		1,046	1,174	1,210	1,248	1,291	1,296	1,333	1,453	1,325	1,397	
One year later		1,061	1,065	1,120	1,181	1,152	1,283	1,233	1,372	1,315		
Two years later		925	939	1,040	1,075	1,116	1,174	1,148	1,338			
Three years later		835	900	964	1,044	1,072	1,154	1,121				
Four years later		765	849	911	995	1,012	1,143					
Five years later		725	821	879	967	1,000						
Six years later		728	814	887	946							
Seven years later		698	817	875								
Eight years later		692	803									
Nine years later		687										
Current estimate of cumulative claims cost		687	803	875	946	1,000	1,143	1,121	1,338	1,315	1,397	
Cumulative payments		(652)	(720)	(777)	(811)	(792)	(811)	(631)	(577)	(252)	(73)	
Outstanding claims liabilities – undiscounted	712	35	83	98	135	208	332	490	761	1,063	1,324	5,241
Discount to present value	(254)	(4)	(10)	(11)	(15)	(22)	(31)	(41)	(66)	(94)	(136)	(684)
Outstanding claims – long-tail	458	31	73	87	120	186	301	449	695	969	1,188	4,557
Outstanding claims – short-tail												1,087
Claims handling expense												264
Risk margin												982
Total net outstanding claims liabilities												6,890
Reinsurance and other recoveries on outstanding claims liabilities												3,082
Total gross outstanding claims liabilities												9,972

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.

(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:

	2013				2012			
	PERSONAL		COMMERCIAL		PERSONAL		COMMERCIAL	
	AUST	NZ	AUST	NZ	AUST	NZ	AUST	NZ
Weighted average term to settlement (years)	**0.5**	**1.2**	**4.7**	**2.4**	0.6	1.4	4.6	2.1
Economic inflation rate	**4.0%**	**2.0%**	**4.0%**	**2.2%**	4.0%	1.8%	4.0%	2.1%
Superimposed inflation rate	**0.4%**	**0.0%**	**2.5%**	**1.8%**	0.0%	0.0%	2.5%	1.9%
Discount rate	**2.7%**	**3.3%**	**3.6%**	**3.4%**	2.6%	3.0%	2.9%	2.8%
Claims handling expense ratio	**6.2%**	**6.2%**	**4.4%**	**6.3%**	6.0%	4.8%	4.3%	6.6%
Risk margin	**8.8%**	**13.4%**	**18.3%**	**21.8%**	9.0%	16.3%	18.8%	27.0%

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 (2012: 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 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. A change in each assumption will have no impact on equity reserves.

		2013	2012
		PROFIT (LOSS) BEFORE TAX	PROFIT (LOSS) BEFORE TAX
	MOVEMENT IN VARIABLE	$M	$M
Weighted average term to settlement (years)	+ 0.5 years	**(90)**	(106)
	– 0.5 years	**90**	106
Inflation rate	+1%	**(219)**	(217)
	–1%	**201**	206
Discount rate	+1%	**202**	204
	–1%	**(224)**	(227)
Claims handling expense ratio	+1%	**(54)**	(53)
	–1%	**54**	53
Risk margin	+1%	**(57)**	(56)
	–1%	**57**	56

6.7 GENERAL INSURANCE – SUBORDINATED NOTES

GENERAL INSURANCE			2013	2012
	DUE DATE	FIRST CALL	$M	$M
Financial liabilities at amortised cost				
Fixed rate notes	September 2024	September 2014	**135**	136
	September 2025	September 2015	**118**	118
	October 2026	October 2016	**106**	107
	June 2027	June 2017	**232**	218
Floating rate notes	September 2024	September 2014	**52**	52
	September 2025	September 2015	**77**	77
Total subordinated notes (unsecured) – non-current			**720**	708

The 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 Regulatory Authority (APRA) and are subject to prescribed capital amounts (**PCA**). This PCA was introduced as part of the Life and General Insurance Capital (LAGIC) review and replaced the former minimum capital requirements (**MCR**) regime. This LAGIC framework, which became effective on 1 January 2013, is intended to take account of the full range of risks to which a regulated institution is exposed.

The PCA is the minimum level of capital that the regulator deems must be held to meet policyholder obligations. Licensed General Insurance entities within the Suncorp Group use the 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)

LAGIC introduced changes to the composition of the capital base and the value of its various components. The PCA is calculated by assessing the risks inherent in the business, charges for which comprise:

- 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
- insurance concentration risk charge (previously catastrophe risk charge), which has been broadened to consider the impacts of multiple smaller single-year losses. The natural perils horizontal requirement of the insurance concentration risk capital charge will be implemented by APRA on 1 January 2014; and offset by
- an aggregation benefit, which makes an explicit allowance for diversification between asset risk and the sum of insurance risk and insurance concentration risks.

The cumulative impact of the LAGIC changes to the capital requirements of the General Insurance business area has been minimal.

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. The 2012 comparatives reflect the capital position of the General Insurance business area under the MCR prudential standards in force at 30 June 2012.

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	2013	2012
	$M	$M
Common Equity Tier 1 (CET1)		
Ordinary share capital	7,977	7,812
Reserves	(50)	(82)
Retained profits and non-controlling interests	22	(158)
Insurance liabilities in excess of liability valuation	929	787
Less: Tax effect of excess insurance liabilities	(279)	(236)
	8,599	8,123
Adjustments to Common Equity Tier 1		
Goodwill and other intangible assets	(5,074)	(5,217)
Other Tier 1 deductions	(11)	(1)
Total deductions from Common Equity Tier 1 Capital	(5,085)	(5,218)
Common Equity Tier 1 Capital	3,514	2,905
Tier 2		
Subordinated notes[1]	643	764
Tier 2 Capital	643	764
APRA capital base (2012: Total capital base)	4,157	3,669
Total Prescribed Capital Amount (PCA)	2,123	n/a
CET1 coverage ratio	1.66	n/a
Capital coverage ratio	1.96	n/a
Total minimum capital requirement (MCR)	n/a	2,277
MCR coverage ratio (times)	n/a	1.61

Note

1 Following the implementation of LAGIC on 1 January 2013, subordinated notes are disclosed net of any adjustments as determined by APRA standards in relation to transitional arrangements for capital instruments.

n/a = not applicable

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for the financial year ended 30 June 2013 (continued)

7. BANKING – SPECIFIC DISCLOSURES

7.1 BANKING – CONTRIBUTION TO PROFIT

BANKING	2013 $M	2012 $M
Net interest income		
Interest income	3,421	4,025
Interest expense	(2,435)	(3,097)
	986	928
Net banking fee and commission income		
Fee and commission income	183	186
Fee and commission expense	(106)	(90)
	77	96
Investment and other revenue		
Net (loss) profit on derivatives and other financial instruments	(6)	15
Other (losses) income	(11)	29
	(17)	44
Non-interest income	60	140
Total income from Banking activities	1,046	1,068
Operating expenses		
Operating expenses	(619)	(597)
Losses on loans and advances[1]	(902)	(432)
Banking business area (loss) profit before tax	(475)	39

Note

1 The balance 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 $940 million.

7.2 BANKING – TRADING AND INVESTMENT SECURITIES

CONSOLIDATED	2013	2012
	$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	3,462	4,787

Interest income of $128 million (2012: $196 million) and net gains of $1 million (2012: $nil) 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	2013	2012
	$M	$M
Investment securities		
Available-for-sale financial assets		
Interest-bearing securities	2,352	2,522
Unit trusts	-	14
	2,352	2,536
Held-to-maturity investments		
Interest-bearing securities	4,288	3,772
Total investment securities	6,640	6,308
Current	-	14
Non-current	6,640	6,294
Total investment securities	6,640	6,308

During the financial year ended 30 June 2012, $2,967 million of available-for-sale financial assets were reclassified to held-to-maturity investments as a result of a change in intention to hold these investments to maturity.

7. BANKING – SPECIFIC DISCLOSURES (CONTINUED)

7.3 BANKING – DERIVATIVES

BANKING	2013			2012		
	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	4,558	355	(28)	4,628	11	(81)
Cross currency swaps	3,659	63	(636)	6,979	72	(1,822)
Currency options	17	-	-	17	-	-
	8,234	418	(664)	11,624	83	(1,903)
Interest rate-related contracts						
Forward rate agreements	350	-	-	100	-	-
Interest rate swaps	38,756	245	(317)	61,583	337	(465)
Interest rate futures	2,376	2	(1)	2,811	4	(1)
Interest rate options	148	2	(2)	182	-	-
	41,630	249	(320)	64,676	341	(466)
Total derivative exposures – current	49,864	667	(984)	76,300	424	(2,369)

7.4 BANKING LOANS, ADVANCES AND OTHER RECEIVABLES

CONSOLIDATED	NOTE	2013 $M	2012 $M
Financial assets at amortised cost			
Banking			
Housing loans[1]		37,158	33,955
Consumer loans		463	482
Business loans		10,577	13,392
Other lending		101	28
		48,299	47,857
Provision for impairment	7.5.1	(300)	(537)
		47,999	47,320
Consolidated			
General Insurance and Life loans with Banking		-	(30)
Total Banking loans, advances and other receivables		47,999	47,290
Current		12,851	5,460
Non-current		35,148	41,830
Total Banking loans, advances and other receivables		47,999	47,290

Note

1 Includes securitised housing loan balances of $5,044 million (2012: $4,178 million) which has an equivalent securitised liability.

(A) FINANCE LEASE RECEIVABLES

Included in business loans are the following finance lease receivables:

CONSOLIDATED	2013 $M	2012 $M
Gross investment in finance lease receivables:		
Less than one year	174	203
Between one and five years	318	298
More than five years	1	-
	493	501
Unearned future income on finance leases	(57)	(60)
Net investment in finance lease receivables	436	441
Net investment in finance lease receivables		
Less than one year	168	195
Between one and five years	267	246
More than five years	1	-
	436	441

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	2013 $M	2012 $M
Collective provision		
Balance at the beginning of the financial year	145	177
Credit against impairment losses	(43)	(32)
Balance at the end of the financial year	102	145
Specific provision		
Balance at the beginning of the financial year	392	387
Charge against impairment losses	399	406
Impaired assets written off	(485)	(255)
Unwind of discount	(108)	(146)
Balance at the end of the financial year	198	392
Total provisions	300	537

7. BANKING – SPECIFIC DISCLOSURES (CONTINUED)

7.5.2 IMPAIRMENT EXPENSE ON BANKING LOANS, ADVANCES AND OTHER RECEIVABLES

CONSOLIDATED	2013	2012
	$M	$M
Decrease in collective provision for impairment	(43)	(32)
Increase in specific provision for impairment	399	406
Bad debts written off	29	39
Bad debts recovered	(10)	(8)
Total impairment expense	375	405

7.5.3 LOSS ON SALE OF BANKING LOANS AND ADVANCES

CONSOLIDATED	2013	2012
	$M	$M
Loss on sale of Banking loans and advances [1]	527	27

Note

1 The balance 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 $940 million.

7.6 BANKING – DEPOSITS AND SHORT-TERM BORROWINGS

CONSOLIDATED	2013	2012
	$M	$M
Banking		
Financial liabilities at amortised cost		
Call deposits	11,669	10,075
Term deposits	20,390	19,960
Short-term securities issued	7,671	7,466
Offshore borrowings	132	305
Financial liabilities designated at fair value through profit or loss		
Offshore borrowings	3,999	3,715
	43,861	41,521
Consolidated		
General Insurance, Life and Corporate call deposits with Banking at amortised cost	(314)	(836)
Total deposits and short-term borrowings (unsecured) – current	43,547	40,685

Interest expense of $25 million (2012: $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 (2012: $nil) was recognised for the financial year and cumulatively. The contractual amount payable at maturity of these liabilities is $3,999 million (2012: $3,714 million).

Consolidated net losses of $2 million (2012: $nil) on financial liabilities designated at fair value through profit or loss are recognised in profit or loss.

7.7 BANKING – SECURITISATION LIABILITIES

CONSOLIDATED	2013	2012
	$M	$M
Financial liabilities at amortised cost		
Banking		
Notes issued	4,802	3,839
Consolidated		
General Insurance and Life investments in Banking's securitisation liabilities	(25)	(39)
Total securitisation liabilities (secured)	4,777	3,800
Current	1,321	1,021
Non-current	3,456	2,779
Total securitisation liabilities (secured)	4,777	3,800

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. The Suncorp Group is not obliged to support any losses that may be suffered by the investors and does not intend to provide such support.

Notes to the consolidated financial statements
for the financial year ended 30 June 2013 (continued)

7. BANKING – SPECIFIC DISCLOSURES (CONTINUED)

7.8 BANKING – DEBT ISSUES

CONSOLIDATED	2013	2012
	$M	$M
Borrowings at amortised cost		
Banking		
Offshore borrowings	2,259	4,334
Domestic borrowings	2,858	3,666
Total unsecured debt issues	5,117	8,000
Domestic covered bonds	2,196	1,598
Total secured debt issues	2,196	1,598
	7,313	9,598
Consolidated		
General Insurance and Life investments in Banking's debt securities		
Domestic borrowings	(22)	(29)
Total debt issues	7,291	9,569
Current	3,152	3,072
Non-current	4,139	6,497
Total debt issues	7,291	9,569

Covered bonds issued are guaranteed by the Covered Bond Guarantor and are secured over a covered pool which consists of $2,716 million (2012: $2,139 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.

7.9 BANKING – SUBORDINATED NOTES

BANKING			2013	2012
	DUE DATE	FIRST CALL	$M	$M
Financial liabilities at amortised cost				
Fixed rate notes (USD)	June 2013	Not applicable	-	104
Fixed rate notes (GBP)	October 2017	October 2012	-	392
Floating rate notes (AUD)	November 2023	November 2018	670	-
Perpetual floating rate notes (AUD)			170	170
Total subordinated notes (unsecured)			840	666
Current			-	496
Non-current			840	170
Total subordinated notes (unsecured)			840	666

Banking subordinated notes are issued by Suncorp-Metway Limited (**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.

7.10 BANKING – PREFERENCE SHARES

BANKING	2013		2012	
	NO. OF SHARES	$M	NO. OF SHARES	$M
Convertible preference shares each fully paid	-	-	7,350,000	732
Reset preference shares each fully paid	304,063	30	304,063	30
Total preference shares	304,063	30	7,654,063	762
Current		30		732
Non-current		-		30
Total preference shares		30		762

Preference shares are issued by SML. Holders of preference shares are entitled to vote in limited circumstances in which case shareholders will have the same rights as to the manner of attendance and to voting as SML ordinary shareholders with one vote per preference share. The limited circumstances are set out in the Information Memorandum/Prospectus.

In the event of the winding-up of SML, preference shareholders rank above SML ordinary shareholders but after depositors, creditors and subordinated note holders and are entitled to the proceeds of liquidation only to the extent of the issue price of the shares.

(A) CONVERTIBLE PREFERENCE SHARES (**SBKPB**)

The SBKPB were fully paid preference shares issued by SML. During the financial year ended 30 June 2013, all SBKPB were reinvested in the Company's subordinated notes under the Reinvestment Offer or were redeemed for cash on the Mandatory Conversion Date.

(B) RESET PREFERENCE SHARES (**SBKPA**)

The SBKPA are perpetual, paying fixed non-cumulative dividends with certain terms periodically reset. Holders have an option on each reset date to request the preference shares be exchanged. Once a holder's exchange request is received, SML has 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.

On 12 June 2013, APRA granted approval for the early redemption of the SBKPA for the total carrying value of the shares. The early redemption of the SBKPA will occur, in line with Board approval, at the next scheduled dividend payment date of 16 September 2013. The SBKPA will be redeemed for a cash consideration.

7. BANKING – SPECIFIC DISCLOSURES (CONTINUED)

7.10 BANKING – PREFERENCE SHARES (CONTINUED)

Dividends paid during the financial year are as follows:

BANKING	2013			2012		
	¢ PER SHARE	$M	DATE PAID	¢ PER SHARE	$M	DATE PAID
Recognised as interest expense						
Reset preference shares						
Period from March to September	212	1	14 September 2012	255	3	14 September 2011
Period from September to March	209	1	14 March 2013	210	1	14 March 2012
		2			4	
Convertible preference shares						
September quarter	119	9	14 September 2012	145	11	14 September 2011
December quarter	119	9	14 December 2012	141	10	14 December 2011
March quarter	110	8	14 March 2013	134	10	14 March 2012
Pro-rata dividend[1]	83	3	22 May 2013	-	-	not applicable
June quarter	110	4	14 June 2013	136	10	14 June 2012
		33			41	

Note

1 Pro-rata dividend for the period 14 March 2013 to 21 May 2013 paid to SBKPB holders for SBKPB that were reinvested into the Company's subordinated notes.

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. Common Equity Tier 1 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.

7.11 BANKING – CAPITAL ADEQUACY (CONTINUED)

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 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.**

BANKING	2013
	$M
Common Equity Tier 1	
Ordinary share capital	2,452
Eligible reserves	(4)
Retained profits	170
	2,618
Adjustments to Common Equity Tier 1	
Goodwill and other intangibles arising on acquisition	(26)
Other intangible assets	(122)
Deferred tax asset	(113)
CET1 deductions for investments in subsidiaries, capital support	(25)
	(286)
Common Equity Tier 1 Capital	2,332
Additional Tier 1	
Eligible hybrid capital	450
Transitional hybrid capital	30
	480
Total Tier 1 Capital	2,812
Tier 2	
APRA general reserve for credit losses	195
Eligible subordinated notes	670
Transitional subordinated notes	170
Total Tier 2 Capital	1,035
APRA capital base	3,847
Total assessed risk	30,722
Common Equity Tier 1 Capital	2,332
Common Equity Tier 1 ratio	7.59%
Total capital ratio	12.52%

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

7. BANKING – SPECIFIC DISCLOSURES (CONTINUED)

7.11 BANKING – CAPITAL ADEQUACY (CONTINUED)

BANKING	2012
	$M
Tier 1	
Fundamental Tier 1	
Fundamental Tier 1	2,706
Residual Tier 1	765
Tier 1 deductions	(284)
Total Tier 1 Capital	3,187
Tier 2	
Upper Tier 2	391
Lower Tier 2	614
Tier 2 deductions for investments in subsidiaries, capital support	(13)
Total Tier 2 Capital	992
Total capital base	4,179
Total assessed risk	33,050
RISK-WEIGHTED CAPITAL RATIOS	%
Tier 1	9.6
Tier 2	3.0
Total risk-weighted capital ratio	12.6

The above tables are for Banking as a regulatory reporting group.

8. LIFE – SPECIFIC DISCLOSURES

8.1 LIFE – CONTRIBUTION TO PROFIT

LIFE	2013	2012
	$M	$M
Income		
Premiums received or receivable	1,190	1,643
Premiums recognised as a change in gross policy liabilities	(380)	(872)
Premium income	810	771
Outwards reinsurance premium expense	(177)	(166)
	633	605
Investment income	1,036	252
Fees from trust and fiduciary activities	63	60
Other income	85	89
	1,817	1,006
Expenses		
Claims paid or payable	(1,478)	(1,700)
Claims recognised as a change in gross policy liabilities	964	1,149
Claims expense	(514)	(551)
Reinsurance recoveries revenue	193	191
	(321)	(360)
Policy acquisition expenses		
commission	(104)	(83)
other	(135)	(122)
Policy maintenance expenses		
commission	(88)	(73)
other	(166)	(149)
Investment management expenses	(40)	(43)
Other operating expenses	(60)	(51)
(Increase) decrease in net insurance contract liabilities	(133)	280
(Increase) in net investment contract liabilities	(482)	(60)
(Increase) decrease in unvested policyowner benefits	(13)	17
Outside beneficial interests in managed funds	(164)	(39)
Non-banking interest expense	(1)	-
	(1,707)	(683)
Life business area profit before tax	110	323

8. LIFE – SPECIFIC DISCLOSURES (CONTINUED)

8.2 SOURCES OF LIFE BUSINESS OPERATING PROFIT

LIFE	2013				2012			
	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
2013								
Shareholders' operating profit after tax in the statutory funds								
Represented by:								
Investment earnings on shareholders' retained profits and capital	36	-	1	37	45	4	1	50
Emergence of shareholders' planned profits	98	-	1	99	76	-	-	76
Experience (loss) profit	(78)	-	2	(76)	44	-	-	44
Losses capitalised (reversed)	6	-	-	6	(4)	-	-	(4)
Management services profit	-	8	-	8	-	5	-	5
	62	8	4	74	161	9	1	171
Cumulative losses carried forward at the end of the financial year	23	-	-	23	38	-	-	38
***Life Act* policyowners' operating profit after tax in the statutory funds**								
Represented by:								
Investment earnings on retained profits	34	-	-	34	11	-	-	11
Emergence of policy owner planned profits	43	-	-	43	72	-	-	72
Experience profit (loss)	6	-	-	6	(3)	-	-	(3)
Revaluation of capitalised losses	17	-	-	17	(9)	-	-	(9)
	100	-	-	100	71	-	-	71

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***).

8.3 LIFE – DERIVATIVES

LIFE	2013			2012		
	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	263	-	(8)	279	7	-
Interest rate-related contracts						
Interest rate swaps	461	-	(10)	269	2	(4)
Interest rate futures	107	-	-	155	-	-
Interest rate options	-	-	-	7	-	-
	568	-	(10)	431	2	(4)
Equity contracts						
Equity futures	14	-	-	149	1	-
Total derivative exposures – current	845	-	(18)	859	10	(4)

8.4 LIFE – INVESTMENT SECURITIES

LIFE	2013	2012
	$M	$M
Financial assets at fair value through profit or loss		
Interest-bearing securities		
Debentures and corporate bonds	2,028	2,062
Government and semi-government securities	540	562
Discounted securities	1,529	1,709
	4,097	4,333
Equity securities	2,462	2,184
Unit trusts	1,854	1,652
Other	-	22
Total investment securities – current	8,413	8,191

Notes to the consolidated financial statements
for the financial year ended 30 June 2013 (continued)

8. LIFE – SPECIFIC DISCLOSURES (CONTINUED)

8.5 LIFE ASSETS

CONSOLIDATED	2013	2012
	$M	$M
Financial assets designated at fair value through profit or loss		
Gross policy liabilities ceded under reinsurance	445	443
Other receivables	104	87
Financial assets at amortised cost		
Other receivables	106	176
Deferred insurance assets		
Life deferred insurance assets	11	15
Total Life assets	666	721
Current	224	349
Non-current	442	372
Total Life assets	666	721

8.6 LIFE LIABILITIES

CONSOLIDATED		2013	2012
	NOTE	$M	$M
Gross policy liabilities			
Investment contract policy liabilities		3,375	3,387
Insurance contract policy liabilities	8.7.3	1,895	1,837
	8.6.1	5,270	5,224
Unvested policyowner benefits	8.6.2	380	366
Outstanding claims liabilities		206	186
Unearned premium liabilities		13	10
Total Life liabilities		5,869	5,786
Current		835	772
Non-current		5,034	5,014
Total Life liabilities		5,869	5,786

8.6.1 GROSS LIFE POLICY LIABILITIES

CONSOLIDATED	2013			2012		
	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	3,387	1,837	5,224	3,663	1,958	5,621
Movement in policy liabilities reflected in profit or loss	482	135	617	60	(177)	(117)
Contributions and premiums recognised in policy liabilities	275	105	380	369	503	872
Withdrawals and claims expense recognised in policy liabilities	(785)	(179)	(964)	(700)	(449)	(1,149)
Fee expense recognised as a change in policy liabilities	-	-	-	(8)	-	(8)
Foreign currency exchange movement	16	(3)	13	3	2	5
Policy liabilities at the end of the financial year	3,375	1,895	5,270	3,387	1,837	5,224

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	2013	2012
	$M	$M
Unvested policyowner benefits at the beginning of the financial year	366	383
Increase (decrease) in unvested policyowner benefits	13	(17)
Foreign currency exchange movement	1	-
Unvested policyowner benefits at the end of the financial year	380	366

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 Harvey Chamberlain (Fellow of the Institute of Actuaries of the UK and Accredited Member of the Institute of Actuaries of Australia) for Australia and signed off by the Appointed Actuary, Mr Daniel Wong (Master of Management, Fellow of the Institute of Actuaries of Australia and Fellow of New Zealand Society of Actuaries) for New Zealand.

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
Other	Expected benefit/claim 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 observed experience.

The following table sets out key factors affecting the determination of the policy liabilities and the critical assumptions and judgments made, as well as significant changes since 2012.

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

ASSUMPTION	BASIS OF ASSUMPTION	SIGNIFICANT CHANGES SINCE 2012
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 10-year Government bond yields, adjusted for an expected risk premium, tax and expenses. See rates in the following table.	SLSL: cash and bond rates changed from being based on adjusted swap rates to adjusted bond rates.
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.
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% (2012: 2.5%) and New Zealand 2.5% (2012: 2.5%).	SLSL: changed inflation from 2.5% to 2% so as to reflect economies of scale impact on overheads.
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. 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

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

ASSUMPTION	BASIS OF ASSUMPTION	SIGNIFICANT CHANGES SINCE 2012
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 of Actuaries 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.	ALLNZ: implemented moderate increases to trauma assumptions having regard to recent experience. SLSL: 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 which was developed by the Institute of Actuaries of Australia based on Australian industry experience from 1989 to 1993.	None
Group lump sum	Claim rates are set as a proportion of premiums net of commission, stamp duty and GST (where applicable).	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.	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

Notes to the consolidated financial statements
for the financial year ended 30 June 2013 (continued)

8. LIFE – SPECIFIC DISCLOSURES (CONTINUED)

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

ASSUMPTION	SLSL		ALLNZ	
	2013	2012	2013	2012
	%	%	%	%
Investment earnings pre-tax for participating business	**4.4 – 5.9**	4.3 – 5.3	**5.1**	5.0
Investment earnings pre-tax for non-participating business	**2.5 – 4.7**	2.3 – 4.4	**2.7 – 5.4**	2.5 – 4.9
Voluntary discontinuance	**3 – 40**	3 – 30	**4 – 22**	4 – 20
Mortality – individual risk products adjustment	**59 – 121**	59 – 170	**70 – 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	2013		2012
	CURRENT BASIS [3]	PREVIOUS BASIS [4]	PREVIOUS BASIS [5]
	$M	$M	$M
Insurance contract policy liabilities			
Best estimate liability			
Value of future policy benefits[1]	5,218	5,660	5,450
Value of future expenses	2,253	2,576	2,587
Value of unrecouped acquisition expenses	(1,191)	(1,191)	(1,145)
Balance of future premiums	(6,260)	(7,301)	(7,127)
	20	(256)	(235)
Value of future profits			
Policyowner bonuses[2]	524	327	366
Shareholder profit margins	825	1,210	1,181
	1,349	1,537	1,547
Total value of declared bonuses[3]	81	81	82
Total net policy liabilities	1,450	1,362	1,394
Life insurance reinsurance ceded	445	445	443
Gross insurance contract liabilities	1,895	1,807	1,837
Policy liabilities subject to capital guarantee	1,308	1,308	1,395

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 the APRA Prudential Standard LPS 340 Valuation of Policy Liabilities issued under Section 230A(1) of the Life Act. Based on actuarial methods and assumptions relevant at the current reporting date, on current in-force business as at 30 June 2013.*
4. *Based on actuarial methods and assumptions relevant at the previous reporting date, on current in-force business as at 30 June 2013.*
5. *Based on actuarial methods and assumptions relevant at the previous reporting date, on current in-force business as at 30 June 2012.*

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 2013. The change in liability and profit (loss) after tax are shown net and gross of reinsurance.

		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	1	1	(1)	(1)
Mortality and lump sum morbidity	+ 10% increase	(4)	85	3	(59)
Morbidity – disability income	+ 10% increase in incidence and decrease in recovery rates	60	126	(44)	(91)
Discontinuance rates	+ 10% increase	-	29	-	(20)

Note

1 Sensitivity changes are relative to current best estimate assumptions.

8. LIFE – SPECIFIC DISCLOSURES (CONTINUED)

8.7.4 SENSITIVITY ANALYSIS (CONTINUED)

The following table illustrates the effects of changes in actuarial assumptions from 30 June 2012 to 30 June 2013. Part of the effect of the change in variables below may have been absorbed in to profit margins.

	FUTURE PROFIT	POLICY LIABILITIES
	INCREASE (DECREASE)	INCREASE (DECREASE)
ASSUMPTION CATEGORY	$M	$M
Discount rates (risk business)[1]	-	53
Discount rates (participating business)	34	-
Mortality and morbidity	1	-
Morbidity income	(1)	-
Lapse and surrender rates	(343)	-
Maintenance expenses	(85)	3
Other	(20)	-

Note
1 Effects for risk business is shown gross of tax.

8.8 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.

New prudential standards for Australian Life and General Insurance companies (LAGIC) were introduced effective 1 January 2013. This LAGIC framework is intended to take account of the full range of risks to which a regulated institution is exposed, and introduces the prescribed capital amount (**PCA**) requirement. The PCA is the minimum level of capital that the regulator deems must be held to meet policyholder obligations. The regulatory capital base and prescribed capital amounts at 30 June 2013 have been calculated based on the new 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 its 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. Capital disclosures for 30 June 2012 are based on the prudential standards in place at that time. Prior to 1 January 2013, life companies were required to hold prudential reserves based on the greater of the requirements under solvency and capital adequacy standards.

The purpose of the solvency requirement was to ensure, as far as practicable, that at any time a life company was able to meet all existing liabilities as they became due. The capital adequacy requirement was a separate requirement (usually greater), taking into account also viability as an ongoing concern.

These were specified in the *Life Act*, LPS 2.04 *Solvency Standard* and LPS 3.04 *Capital Adequacy Standard*.

The Appointed Actuary for SLSL has confirmed that the available assets of each life statutory fund have exceeded the capital adequacy (for the Suncorp Group's Australian Life company) and the solvency reserve required at all times during the financial year. For detailed solvency information on a statutory fund basis, users of this financial report should refer to the financial statements prepared by the Life companies.

For New Zealand, this amount 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.

8.8 LIFE – PRESCRIBED CAPITAL AMOUNT (CONTINUED)

LIFE	2013	
	SLSL	ALLNZ [1]
	$M	$M
Common Equity Tier 1		
Ordinary share capital	664	203
Reserves and non-controlling interests	-	(5)
Retained profits and non-controlling interests	1,037	124
	1,701	322
Adjustments to Common Equity Tier 1		
Goodwill and other intangible assets	-	(1)
Net deferred tax assets	-	(24)
Policy liability adjustment[2]	(1,147)	(207)
Total deductions from Tier 1 Capital	(1,147)	(232)
Common Equity Tier 1 Capital	554	90
APRA capital base	554	90
Total Prescribed Capital Amount (PCA)	196	53
PCA coverage ratio (times)	2.83	1.70

LIFE	2012
	$M
Solvency requirement	7,450
Assets available for solvency reserve	946
Solvency reserve	5.8%
Coverage of solvency reserve (times)	2.5

Notes

1 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 LAGIC presentation for the Australian Life company.

*2 Policy liability adjustments equate to the difference between adjusted policy liabilities and the sum of policy liabilities and policy owner retained profits. This mainly represents the implicit Deferred Acquisition Costs (**DAC**) for life risk business.*

Notes to the consolidated financial statements

for the financial year ended 30 June 2013 (continued)

8. LIFE – SPECIFIC DISCLOSURES (CONTINUED)

8.9 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	2013	2012
	$M	$M
Asteron Life Limited (New Zealand), Asteron Retirement Investment Limited & Asteron Trust Services Limited[1]	275	245
Suncorp Portfolio Services Limited[2]	6,011	5,660

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 internal and external superannuation funds.

SUNCORP GROUP AND CORPORATE DISCLOSURES

9. REVENUE

9.1 INVESTMENT REVENUE

CONSOLIDATED	2013	2012
	$M	$M
Interest income	718	729
Trust distributions	57	352
Dividends	110	98
Changes in fair value of General Insurance financial assets	(57)	249
Changes in fair value of Life financial assets	633	(276)
Net gains on derivative and other financial instruments	50	16
Rental income from investment property	12	15
Total investment revenue	1,523	1,183

9.2 OTHER INCOME

CONSOLIDATED	2013 $M	2012 $M
Fees and commissions	374	307
Fees from trust and fiduciary activities	189	177
Gain on disposal of property, plant and equipment	-	69
Other revenue	8	28
Total other income	571	581

10. OPERATING EXPENSES

CONSOLIDATED	NOTE	2013 $M	2012 $M
Staff expenses			
Wages, salaries, share-based payments and other staff costs[1]		1,573	1,487
Defined contribution superannuation expenses		97	91
		1,670	1,578
Occupancy and equipment expenses			
Operating lease rentals		156	146
Other		58	49
		214	195
Information technology and communication		294	229
Depreciation and amortisation			
Depreciation	16	80	84
Amortisation	18	139	167
		219	251
Other expenses			
Advertising and promotion expenses		217	209
Consultancy and legal expenses		97	99
Other		21	42
		335	350
Total operating expenses		2,732	2,603

Note

1 Includes $19,913 thousand (2012: $22,657 thousand) relating to equity-settled share-based payment transactions.

Notes to the consolidated financial statements
for the financial year ended 30 June 2013 (continued)

11. INCOME TAX

11.1 INCOME TAX EXPENSE

CONSOLIDATED	2013	2012
	$M	$M
Profit before tax	766	963
Income tax using the domestic corporation tax rate of 30% (2012: 30%)	230	289
Effect of tax rates in foreign jurisdictions	(4)	(1)
Increase in income tax expense due to:		
Non-assessable income	(3)	(9)
Non-deductible expenses	21	17
Imputation gross-up on dividends received	4	2
Statutory funds	21	(10)
Income tax offsets and credits	(14)	(9)
Amortisation of acquired intangible assets	7	7
Other items	11	(20)
	273	266
Over provision in prior financial years	(3)	(31)
Income tax expense on profit before tax	270	235
Income tax expense recognised in profit consists of:		
Current tax expense		
Current year	221	243
Adjustments for prior financial years	(26)	(26)
	195	217
Deferred tax expense		
Origination and reversal of temporary differences	75	18
Total income tax expense	270	235

11.1 INCOME TAX EXPENSE (CONTINUED)

INCOME TAX OF LIFE COMPANIES

Income tax expense includes an expense of $58 million (2012: $80 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:

	2013	2012
	%	%
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% (2012: 28%) applies for all classes of business.

11.2 CURRENT TAX LIABILITIES

CONSOLIDATED	2013	2012	2013	2012
	CURRENT TAX RECEIVABLE [1]		CURRENT TAX LIABILITY	
	$M	$M	$M	$M
Current tax receivable (liability) relating to:				
Australian tax consolidated group	10	-	-	(50)
Entities outside of the Australian tax consolidated group:				
New Zealand subsidiaries	8	11	-	-
Other	-	-	(2)	(1)
Balance at the end of the financial year	18	11	(2)	(51)

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

Notes to the consolidated financial statements
for the financial year ended 30 June 2013 (continued)

11. INCOME TAX (CONTINUED)

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	2013	2012	2013	2012	2013	2012
	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES		NET	
	$M	$M	$M	$M	$M	$M
Property, plant and equipment	27	26	-	-	27	26
Intangible assets	1	1	(151)	(178)	(150)	(177)
Investments	1	5	(87)	(29)	(86)	(24)
Employee benefits	72	67	-	-	72	67
Provisions	237	292	-	-	237	292
Other items	68	82	(81)	(85)	(13)	(3)
Tax assets (liabilities)	406	473	(319)	(292)	87	181
Set-off of tax	(319)	(292)	319	292	-	-
Net tax assets	87	181	-	-	87	181

Movement in deferred tax balances during the financial year:

CONSOLIDATED	2013	2012	2013	2012
	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES	
	$M	$M	$M	$M
Balance at the beginning of the financial year	473	452	(292)	(304)
(Charged) credited to profit or loss	(50)	(26)	(25)	8
(Charged) credited to equity	(27)	42	5	11
Reclassification	6	5	(6)	(5)
(Disposal) of subsidiaries	-	-	-	(2)
Foreign currency exchange movement	4	-	(1)	-
Balance at the end of the financial year	406	473	(319)	(292)

There are no unrecognised deferred tax assets and liabilities.

11.3.2 DEFERRED TAX RECOGNISED DIRECTLY IN EQUITY

CONSOLIDATED	2013	2012
	$M	$M
Other comprehensive income		
In respect of items that may be reclassified subsequently to profit and loss		
Relating to cash flow hedges	19	(20)
Relating to available-for-sale financial assets	(1)	(18)
	18	(38)
In respect of items that will not be reclassified subsequently to profit and loss		
Relating to actuarial gains (losses) on defined benefit plans	6	(15)
Transactions with owners, recorded directly in equity		
Share-based payments	(2)	-
	22	(53)

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.

Notes to the consolidated financial statements
for the financial year ended 30 June 2013 (continued)

12. SHARE-BASED PAYMENTS

The Suncorp Group operates a number of employee share plans. Shares required for the share plans are acquired by a special purpose trustee and/or custodial companies in ordinary trading on the Australian Securities Exchange.

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

SHARE PLANS	EXECUTIVE PERFORMANCE SHARE PLAN (EPSP)	EXEMPT EMPLOYEE SHARE PLAN (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
Eligible plan participant	Executives	Employees not part of the EPSP.	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 level of 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.	Fully vested, not subject to forfeiture.	As the acquisition of shares is funded through the 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
Minimum holding period	None after shares are vested.	Earlier of three years or upon cessation of employment.	Earlier of one year 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.	

12.1 EXECUTIVE PERFORMANCE SHARE PLAN (EPSP)

12.1.1 EPSP PERFORMANCE CRITERIA

<table>
<tr><th>GRANT DATE</th><th>1 OCTOBER 2007 – 3 MAY 2010</th><th>FROM 1 OCTOBER 2010</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>< 50th percentile</td><td>Nil</td></tr>
<tr><td>50th percentile</td><td>50%</td></tr>
<tr><td>> 50th but < 75th 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>75th 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. SHARE-BASED PAYMENTS (CONTINUED)

12.1.2 SHARES GRANTED UNDER THE EPSP

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 EPSP as long-term incentives and the inputs for measurement of grant date fair value are detailed on the right:

						2013	2012
		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 2007	$14.60	$20.35	19%	5 years	6.44%	-	756,619
1 October 2008	$4.32	$9.61	31%	3 years	5.24%	1,377,215	1,495,123
1 October 2009	$6.34	$8.82	47%	3 years	5.17%	-	1,687,163
1 October 2009	$6.56	$8.82	47%	4 years	5.17%	300,000	300,000
1 October 2009	$6.75	$8.82	47%	5 years	5.17%	300,000	300,000
3 May 2010	$5.94	$9.11	34%	3 years	5.35%	-	313,016
1 October 2010	$5.31	$8.77	29%	3 years	4.87%	1,421,112	1,584,788
8 June 2011	$4.13	$8.09	22%	2.3 years	4.87%	95,403	95,403
1 October 2011	$5.27	$7.98	27%	3 years	3.62%	1,053,727	1,164,193
1 October 2012	$5.93	$9.20	26%	3 years	2.42%	1,018,277	-
25 October 2012	$6.41	$9.66	26%	3 years	2.66%	446,752	-
						6,012,486	7,696,305

The movement in the number of shares granted under the EPSP is as follows:

	2013 NUMBER OF SHARES	2012 NUMBER OF SHARES
Outstanding at the beginning of the financial year	7,696,305	7,273,263
Granted during the financial year	1,501,412	1,181,135
Vested and allocated during the financial year	(1,937,178)	(17,671)
Forfeited during the financial year	(1,248,053)	(740,422)
Outstanding at the end of the financial year	6,012,486	7,696,305

12.2 OTHER SHARE PLANS

For the DESP, shares are acquired and funded through the participating employee'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 198,502 (2012: 222,188), with a fair value of $1,992 thousand (2012: $1,748 thousand).

The Suncorp Group granted to each eligible employee ordinary shares of the Company to the value of $1,000 (2012: $750) under the EESP for the financial year. These shares are acquired on-market for allocation to employees by the share plan in October 2013 (2012: October 2012).

13. DEFINED BENEFIT FUND OBLIGATIONS

Certain subsidiaries of the Company sponsor defined benefit superannuation plans for employees of the Suncorp Group. Each superannuation fund provides benefits to members on retirement, death or disability. All defined benefit funds are now closed to new members, with new employees now being given membership of a defined contribution fund.

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. To achieve this objective, the actuaries use the Projected Unit Cost method to annually determine the present value of the defined benefit obligations.

The table opposite shows the net position recognised in relation to defined benefit funds as at balance date.

The Suncorp Group intends to contribute $4 million to the defined benefit funds in the financial year ending 30 June 2014 in line with the actuaries' latest recommendations.

CONSOLIDATED	2013			2012		
	SURPLUS	(DEFICIT)	NET SURPLUS (DEFICIT)	SURPLUS	(DEFICIT)	NET SURPLUS (DEFICIT)
	$M	$M	$M	$M	$M	$M
Defined benefit funds						
Australia						
Suncorp Defined Benefit Fund	-	(8)	(8)	-	(16)	(16)
AAMI Staff Superannuation Fund	-	-	-	-	-	-
New Zealand						
Vero and Asteron New Zealand Staff Pension Scheme	-	(26)	(26)	-	(32)	(32)
RIG Superannuation Fund	-	(4)	(4)	-	(5)	(5)
Commercial Union General Insurance Staff Pension Scheme	-	(2)	(2)	-	(2)	(2)
Guardian Assurance Superannuation Fund	-	-	-	-	(4)	(4)
Total deficit	-	(40)	(40)	-	(59)	(59)

13.1 PRINCIPAL ACTUARIAL ASSUMPTIONS AND EMPLOYER CONTRIBUTIONS

CONSOLIDATED	2013	2012	2013	2012
	AUSTRALIA		NEW ZEALAND	
	%	%	%	%
Employer contribution rate[1]	**16.7**	16.9	**0-20**	0-20
Discount rate at 30 June	**2.7**	3.0	**3.3**	2.5
Expected return on fund assets at 30 June[2]	**6.9**	6.9	**5.7**	5.7
Future salary increases	**3.5**	4.0	**3.5**	3.5

Notes

1 Not all funds are contributing for members as recommended in the Actuarial Review. The Actuarial Review is completed under the actuarial standards issued by the New Zealand Society of Actuaries Practice Standard PS2 and is different to the basis of valuation required under the Australian Accounting Standards.

2 The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class and allowing for the correlations of the investment returns between asset classes. The returns used for each asset class are net of investment tax and investment fees.

13. DEFINED BENEFIT FUND OBLIGATIONS (CONTINUED)

13.2 HISTORIC SUMMARY

CONSOLIDATED	2013	2012	2011	2010	2009
	$M	$M	$M	$M	$M
Present value of defined benefit obligations	(181)	(185)	(160)	(167)	(169)
Fair value of assets held by the funds	152	140	149	159	154
Deficit	(29)	(45)	(11)	(8)	(15)
Experience (losses) gains arising on fund liabilities	-	(2)	(2)	-	4
Experience gains (losses) arising on fund assets	11	(12)	-	11	(35)

13.3 CURRENT FINANCIAL SUMMARY

CONSOLIDATED	NOTE	2013 $M	2012 $M
Fair value of fund assets		152	140
Present value of defined benefit (**DB**) obligations – partly funded		(181)	(185)
Adjustment for contributions tax		(11)	(14)
Net liability recognised in the statement of financial position		(40)	(59)
Consisting of:			
Fund deficit recognised in Payables and other liabilities	19	(40)	(59)
		(40)	(59)

13.3 CURRENT FINANCIAL SUMMARY (CONTINUED)

CONSOLIDATED	2013	2012	2013	2012
	FAIR VALUE OF FUND ASSETS		PRESENT VALUE OF DB OBLIGATIONS	
	$M	$M	$M	$M
Reconciliation of movements				
Balance at the beginning of the financial year	140	149	(185)	(160)
Benefits paid	(16)	(18)	16	18
Contributions	3	10	-	-
Expected return on fund assets recognised in profit or loss	8	9	-	-
Current service and interest costs recognised in profit or loss	-	-	(9)	(11)
Actuarial gains (losses) recognised in other comprehensive income	11	(12)	5	(30)
Foreign currency exchange movement	6	2	(8)	(2)
Balance at the end of the financial year	152	140	(181)	(185)

CONSOLIDATED	2013	2012
	$M	$M
Expected return on fund assets, current service and interest costs are recognised in profit or loss and included in the statement of comprehensive income as:		
Other income	1	1
Operating expense	(2)	(3)
	(1)	(2)
Recognised in other comprehensive income		
Actuarial gains (losses)	16	(42)
Contributions tax	4	(9)
Actuarial gains (losses) on defined benefit plans	20	(51)
Cumulative actuarial losses recognised in other comprehensive income	42	62
Actual return on fund assets	19	(4)
	%	%
Major categories of funds assets as a percentage of total fund assets:		
Cash and Fixed Income	44	39
Equities	49	54
Property	2	2
Other	5	5

Notes to the consolidated financial statements
for the financial year ended 30 June 2013 (continued)

14. DERIVATIVES

CONSOLIDATED	2013			2012		
	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	5,094	356	(47)	5,126	24	(81)
Cross currency swaps	3,368	-	(636)	6,688	-	(1,822)
Currency options	17	-	-	17	-	-
	8,479	356	(683)	11,831	24	(1,903)
Interest rate-related contracts						
Forward rate agreements	350	-	-	100	-	-
Interest rate swaps	41,070	265	(350)	63,407	364	(502)
Interest rate futures	3,498	2	(1)	3,751	4	(1)
Interest rate options	298	4	(5)	239	-	-
	45,216	271	(356)	67,497	368	(503)
Equity contracts						
Equity futures	14	-	-	207	1	-
Total derivative exposures – current	53,709	627	(1,039)	79,535	393	(2,406)

A description of how the Suncorp Group uses derivatives can be found in note 36.7.

15. INVESTMENT SECURITIES

15.1 CORPORATE – INVESTMENT SECURITIES

CORPORATE	2013	2012
	$M	$M
Financial assets at fair value through profit or loss		
Interest-bearing securities	317	377
Unit trusts	124	228
Investments at cost		
Shares in subsidiaries	14,542	13,527
Total investment securities	14,983	14,132
Current	441	605
Non-current	14,542	13,527
Total investment securities	14,983	14,132

15.2 CONSOLIDATED – INVESTMENT SECURITIES

CONSOLIDATED	2013	2012
	$M	$M
Financial assets at fair value through profit or loss		
Interest-bearing securities	15,163	14,671
Equity securities	2,451	2,176
Unit trusts	1,929	1,718
Other	-	22
	19,543	18,587
Available-for-sale financial assets		
Interest-bearing securities	2,352	2,522
Held-to-maturity investments		
Interest-bearing securities	4,288	3,772
Total investment securities	26,183	24,881
Current	19,543	18,587
Non-current	6,640	6,294
Total investment securities	26,183	24,881

During the financial year ended 30 June 2012, $2,967 million of available-for-sale financial assets were reclassified to held-to-maturity investments as a result of change in intention to hold these investments to maturity.

16. PROPERTY, PLANT AND EQUIPMENT

CONSOLIDATED	2013				2012			
	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	304	552	863	7	291	528	826
Less: accumulated depreciation and impairment losses	(5)	(212)	(434)	(651)	(4)	(191)	(415)	(610)
Balance at the end of the financial year	2	92	118	212	3	100	113	216
Movements								
Balance at the beginning of the financial year	3	100	113	216	100	105	146	351
Additions	-	9	74	83	-	1	59	60
Disposals/write-offs	-	(1)	(7)	(8)	(96)	(5)	(9)	(110)
Depreciation	(1)	(27)	(52)	(80)	(1)	(26)	(57)	(84)
Transfers between classes	-	11	(11)	-	-	25	(25)	-
Foreign currency exchange movement	-	-	1	1	-	-	(1)	(1)
Balance at the end of the financial year	2	92	118	212	3	100	113	216

17. OTHER ASSETS

CONSOLIDATED		2013	2012
	NOTE	$M	$M
Accrued income		238	253
Current tax receivable	11.2	18	11
Investment property carried at fair value	17.1	-	127
Investments in associates and joint venture entities		59	61
Development property	17.3	36	36
Other assets		161	243
Total other assets		512	731
Current		417	507
Non-current		95	224
Total other assets		512	731

17.1 INVESTMENT PROPERTY

An investment property with fair value of $96 million at 30 June 2012 was sold on 31 May 2013 resulting in a $31 million before tax loss recognised in the statement of comprehensive income in the financial year ended 30 June 2013. An investment property with fair value of $31 million at 30 June 2012 was sold on 13 August 2012 at its fair value, resulting in no gain or loss on sale. Both investment properties were included in the General Insurance business area.

17.2 INVESTMENT IN ASSOCIATES AND JOINT VENTURE ENTITIES

CONSOLIDATED	2013	2012	2013	2012
	ASSOCIATES		JOINT VENTURE ENTITIES	
	$M	$M	$M	$M
Summary of financial information of equity accounted investees				
Total assets	1	2	114	99
Total liabilities	-	-	78	58
Revenues	-	-	164	139
Expenses	-	-	153	125
Share of net profit recognised	-	-	5	7

There are no material lease commitments, other commitments or contingent liabilities of the associates or joint venture entities.

17.3 INVESTMENT IN JOINT VENTURE OPERATIONS AND ASSETS

CONSOLIDATED		2013	2012
		OWNERSHIP INTEREST	
	PRINCIPAL ACTIVITY	%	%
Joint venture operations			
National Transport Insurance	Facilitation of insurance arrangements	50	50
Joint venture assets			
Spring Farm residential development	Property development	50	50

Share of joint venture assets included in the consolidated statement of financial position contains $36 million of Other assets – development property (2012: $36 million).

Suncorp Group's joint venture partner for the Spring Farm residential development has a drawdown facility and the development property is pledged as security. Suncorp Group is a guarantor for this drawdown facility and has a contingent liability limited to its interest in the joint venture asset (2012: $nil).

There are no material commitments related to the joint venture assets.

18. GOODWILL AND INTANGIBLE ASSETS

CONSOLIDATED	GOODWILL	BRANDS	CUSTOMER CONTRACTS & OTHER RELATIONSHIPS	OUTSTANDING CLAIMS LIABILITY INTANGIBLE	SOFTWARE	TOTAL
	$M	$M	$M	$M	$M	$M
2013						
Gross carrying amount	5,310	655	1,248	187	366	7,766
Less: accumulated amortisation and impairment losses	(267)	(163)	(786)	(143)	(239)	(1,598)
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	
2012						
Gross carrying amount	5,302	655	1,247	187	631	8,022
Less: accumulated amortisation and impairment losses	(266)	(138)	(708)	(134)	(512)	(1,758)
Balance at the end of the financial year	5,036	517	539	53	119	6,264
Movements in intangible assets						
Balance at the beginning of the financial year	5,006	539	614	65	86	6,310
Acquisitions	31	2	8	-	81	122
Amortisation	-	(24)	(83)	(12)	(48)	(167)
Foreign currency exchange movement	2	-	-	-	-	2
Impairment	(3)	-	-	-	-	(3)
Balance at the end of the financial year	5,036	517	539	53	119	6,264
Maximum remaining useful life	Indefinite	45 years	15 years	15 years	7 years	

All intangible assets except goodwill have finite useful lives.

18.1 IMPAIRMENT TESTS FOR CASH-GENERATING UNITS CONTAINING GOODWILL

For the purpose of the annual impairment test, goodwill is allocated to significant cash-generating units (**CGU**) which represent the Suncorp Group's operating segments. The carrying amount of goodwill allocated to each CGU is then compared to its recoverable amount. The accounting policy relating to impairment testing for CGU containing goodwill is included in note 35.1.16(B).

CONSOLIDATED	2013	2012
	$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	254	243
Life	368	372
Banking	254	254
	5,043	5,036

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 2013 (2012: five-year period from 1 July 2012). Cash flows beyond the next five years (2012: five years) are extrapolated using a constant growth rate of 2.8% (2012: 3.0%), which does not exceed the long-term average growth rate for the industry.
- Post-tax discount rates ranging from 9.3% to 10.6% (2012: 9.3% to 11.7%), representing each General Insurance CGU's weighted average cost of capital and the Banking CGU's cost of equity. This is equivalent to 12.6% to 15.3% (2012: 12.4% to 15.5%) on a pre-tax basis.

18. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

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

(A) VALUE IN USE FOR EACH GENERAL INSURANCE AND BANKING CGU (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
	%	%	%	%	%	%	%	%	%	%
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
2012										
General Insurance -										
Commercial Insurance	9.3	9.8	3.0	2.2	3.4	2.8	8.0	6.4	6.1	4.9
Personal Insurance	9.3	15.5	3.0	<0	3.4	<0	8.0	<0	3.2	<0
New Zealand	9.4	10.0	3.0	2.1	3.3	2.0	5.3	4.0	6.9	5.7
Banking	11.7	14.8	3.0	<0	n/a	n/a	n/a	n/a	n/a	n/a

n/a = assumption not relevant to this CGU or trigger point unlikely to be reached.

18.1 IMPAIRMENT TESTS 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 2013 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 2013. Key assumptions in the value in use calculation include the risk-adjusted discount rates and the multiple of seven (2012: 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	2013		2012	
	AUSTRALIA	NEW ZEALAND	AUSTRALIA	NEW ZEALAND
	%	%	%	%
Investment return for underlying asset classes				
Risk-free rate (at 10 years)	3.9	4.2	3.1	3.4
Cash	3.9	4.6	4.0	3.9
Fixed interest	4.4	4.7	4.1	4.0
Australian equities (includes allowance for franking credits)	8.9	8.8	8.2	8.0
International equities	7.9	7.8	7.2	7.0
Property	6.4	6.8	5.6	6.0
Investment returns (net of tax)	3.5	3.4	2.9	3.2
Inflation				
Benefit indexation	2.5	2.5	2.5	2.5
Risk discount rate	7.8	8.2	7.1	7.4

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 140 basis points (2012: 80 basis points) (impacts the discount rate and investment returns assumptions)
- an increase in the discontinuance rates assumptions by 330 basis points (2012: 560 basis points); or
- an increase in claims expense assumptions by 340 basis points (2012: 640 basis points).

19. PAYABLES AND OTHER LIABILITIES

CONSOLIDATED	NOTE	2013 $M	2012 $M
Accrued interest payable		436	500
Amounts due to reinsurers		732	857
Trade creditors and accrued expenses		813	613
Investment settlements		81	160
Excess of defined benefit obligations over plan assets	13	40	59
Employee benefits and related on-costs liabilities		360	316
Other liabilities		24	98
Total payables and other liabilities		2,486	2,603
Current		2,289	2,363
Non-current		197	240
Total payables and other liabilities		2,486	2,603

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	2013	2012
Weighted average rate of increases in annual employee benefits to settlement of the liabilities	3.0%	3.5%
Weighted average discount rate	2.58% – 2.65%	2.53% – 2.55%
Weighted average term to settlement of liabilities	3 – 5 years	2 – 4 years

20. SUBORDINATED NOTES

20.1 CORPORATE – SUBORDINATED NOTES

CORPORATE	DUE DATE	FIRST CALL	2013 $M	2012 $M
Financial liabilities at amortised cost				
Floating rate notes	November 2023	November 2018	756	-
Total subordinated notes (unsecured) – non-current			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 its ordinary and preference shareholders.

20.2 CONSOLIDATED – SUBORDINATED NOTES

CONSOLIDATED		2013	2012
	NOTE	$M	$M
General Insurance subordinated notes	6.7	720	708
Banking subordinated notes	7.9	840	666
Corporate subordinated notes	20.1	756	-
		2,316	1,374
Corporate investment in Banking subordinated notes		(670)	-
		1,646	1,374

21. PREFERENCE SHARES

21.1 CORPORATE – PREFERENCE SHARES

CORPORATE	2013		2012	
	NO. OF SHARES	$M	NO. OF SHARES	$M
Convertible preference shares each fully paid	5,600,000	549	-	-
Total preference shares – non-current	5,600,000	549	-	-

Dividends paid during the financial year are as follows:

CORPORATE	2013			2012		
	¢ PER SHARE	$M	DATE PAID	¢ PER SHARE	$M	DATE PAID
Recognised as interest expense						
Convertible preference shares						
December quarter	61	3	17 December 2012	-	-	not applicable
March quarter	134	8	18 March 2013	-	-	not applicable
June quarter	136	8	17 June 2013	-	-	not applicable
	331	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.

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 its ordinary shareholders.

21. PREFERENCE SHARES (CONTINUED)

21.2 CONSOLIDATED – PREFERENCE SHARES

CONSOLIDATED	NOTE	2013 $M	2012 $M
Banking preference shares	7.10	30	762
Corporate preference shares	21.1	549	-
		579	762

22. SHARE CAPITAL

CONSOLIDATED	ISSUED CAPITAL $M	SHARE-BASED PAYMENTS $M	TREASURY SHARES $M	TOTAL SHARE CAPITAL $M
Balance as at 30 June 2011	12,717	64	(119)	12,662
Share-based payments	-	11	-	11
Treasury share movements	-	-	(1)	(1)
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

ORDINARY SHARES

The number of ordinary shares of the Company on issue is 1,286,600,980 (2012: 1,286,600,980).

Under the Dividend Reinvestment Plan, 4,155,233 ordinary shares were allotted on 2 April 2013 for the 2013 interim dividend; 7,376,305 ordinary shares were allotted on 1 October 2012 for the 2012 final and special dividends; 5,287,890 ordinary shares were allotted on 2 April 2012 for the 2012 interim dividend; and 5,594,173 ordinary shares were allotted on 3 October 2011 for the 2011 final dividend. 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 2011		157	(61)	37	(100)	33
Transfer to retained profits		(10)	-	-	-	(10)
Amount recognised in equity		-	(61)	(53)	-	(114)
Amount transferred from equity to profit or loss		-	(5)	(7)	-	(12)
Income tax	11.3.2	-	20	18	-	38
Exchange differences on translation of foreign operations		-	-	-	10	10
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

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 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 main objectives are to ensure there are sufficient capital resources to maintain and grow the business and meet the operational requirements, retain sufficient capital to exceed externally imposed capital requirements, support the Suncorp Group's credit rating, and ensure the Suncorp Group's ability to continue as a going concern. The Suncorp Group uses a range of instruments and methodologies to effectively manage capital including share issues, dividend policy and hybrid capital.

The Suncorp Group's capital policy is to hold capital above the operating targets of the business units in Suncorp Group Limited, being the ultimate parent entity of the Suncorp Group. Capital policy is reviewed regularly and where appropriate, adjustments are made to internal capital targets to reflect changes in economic conditions and risk characteristics of the Suncorp Group's activities. The Suncorp Group's capital position is monitored on a continuous basis.

The Suncorp Group and its insurance and banking entities are subject to, and are in compliance with, externally imposed capital requirements set and monitored by APRA during the current and prior financial years.

APRA also requires regulated entities to maintain internal capital targets. The Suncorp Group maintains a policy which states that it is to hold regulatory capital levels in excess of APRA requirements. 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 Common Equity Tier 1 Capital, Tier 1 Capital and Total Capital.

For the Banking business the capital targets are ratios representing Common Equity Tier 1 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 8.8 respectively.

Capital requirements are measured at three levels of consolidation within the Suncorp Group. Each of the licensed general insurers, authorised deposit-taking institution and life insurance companies is 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 Suncorp Group Limited and its subsidiaries.

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

Additional Tier 1 Capital is comprised primarily of hybrid instruments considered acceptable by APRA, less any prescribed adjustments. From 1 January 2013, all Additional Tier 1 Capital instruments that do not meet the Basel III or Life and General Insurance Capital (LAGIC) standards are 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.

Tier 2 Capital is comprised primarily of hybrid and debt instruments considered acceptable by APRA, less any prescribed adjustments. In line with APRA's capital adequacy measurement rules, perpetual floating rate notes are included in Tier 2 Capital. 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. From 1 January 2013, all Tier 2 Capital instruments that do not meet the Basel III or LAGIC standards are 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.

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

	AS AT 30 JUNE 2013				
	GENERAL INSURANCE	BANKING	LIFE	CORPORATE AND CONSOLIDATION	GROUP
	$M	$M	$M	$M	$M
Common Equity Tier 1					
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
	8,599	2,857	2,723	489	14,668
Adjustments to Common Equity Tier 1					
Goodwill and brands	(5,067)	(262)	(593)	-	(5,922)
Other intangible assets	(7)	(122)	-	(147)	(276)
Deferred tax asset	-	(113)	(24)	(123)	(260)
Policy liability adjustment[1]	-	-	(1,354)	-	(1,354)
Other required deductions	(11)	-	-	(105)	(116)
	(5,085)	(497)	(1,971)	(375)	(7,928)
Common Equity Tier 1 Capital	3,514	2,360	752	114	6,740
Additional Tier 1					
Eligible hybrid capital	-	450	-	110	560
Transitional hybrid capital	-	30	-	-	30
Additional Tier 1 Capital	-	480	-	110	590
Tier 2					
APRA general reserve for credit losses	-	195	-	-	195
Eligible subordinated notes	-	670	-	-	670
Transitional subordinated notes	643	170	-	-	813
Total Tier 2 Capital	643	1,035	-	-	1,678
APRA capital base	4,157	3,875	752	224	9,008
Represented by:					
Capital in 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 DAC for the life risk business.*
2. *All unregulated entities are adequately capitalised. Capital in unregulated entities includes capital in authorised NOHCs such as SGL, consolidated adjustments within a business unit and other diversification adjustments.*

Notes to the consolidated financial statements
for the financial year ended 30 June 2013 (continued)

24. GROUP CAPITAL MANAGEMENT (CONTINUED)

	AS AT 30 JUNE 2012				
	GENERAL INSURANCE	BANKING [5]	LIFE	CORPORATE AND CONSOLIDATION	GROUP [6]
	$M	$M	$M	$M	$M
Tier 1					
Ordinary share capital	-	-	-	12,717	12,717
Subsidiary share capital[1]	7,812	3,412	2,299	(13,523)	-
Reserves and non-controlling interests	(66)	(987)	246	737	(70)
Retained profits[2]	(174)	518	140	580	1,064
Preference shares	-	765	-	-	765
Insurance liabilities in excess of liability valuation	551	-	-	-	551
Less:					
Goodwill and brands	(5,213)	(262)	(671)	-	(6,146)
Software assets	(4)	(3)	-	(114)	(121)
Other intangible assets	-	(75)	-	-	(75)
Deferred tax asset	-	(159)	-	61	(98)
Other required deductions[3]	(1)	(8)	-	10	1
Total Tier 1 Capital	2,905	3,201	2,014	468	8,588
Tier 2					
APRA general reserve for credit losses	-	221	-	-	221
Subordinated notes	764	784	-	-	1,548
Total Tier 2 Capital	764	1,005	-	-	1,769
Total capital base	3,669	4,206	2,014	468	10,357
Represented by:					
Capital in regulated entities	3,648	4,179	2,010	-	9,837
Capital in unregulated entities	21	27	4	468	520
	3,669	4,206	2,014	468	10,357
Target capital base[4]	3,301	4,131	1,952	181	9,565

Notes

1 *For domestic General Insurance and Banking, this represents the business line retained profits determined using the APRA calculation. New Zealand General Insurance retained profits are on a statutory basis. APRA requires accrual of expected dividends in the Bank and General Insurance current year profits. To allow for consistency across the Group, expected dividends are also included for Life.*

2 *Other required deductions includes funding costs for transactions of a capital nature.*

3 *Capital in unregulated entities includes capital in authorised non-operating holding companies.*

4 *APRA requires entities to have internal capital targets.*

5 *Amounts disclosed represent the business area, which does not align with the regulatory reporting group used in the Banking capital adequacy.*

6 *Represents the Suncorp Group position net of all consolidation eliminations.*

25. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

25.1 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

CONSOLIDATED	2013 $M	2012 $M
Profit for the financial year	496	728
Non-cash items		
Losses on Banking loans, advances and other receivable	902	432
Depreciation and amortisation expense	219	251
Change in fair value relating to investing and financing activities	(600)	(346)
Loss on disposals of property, plant and equipment	-	(69)
Other non-cash items	43	40
Change in assets and liabilities		
Net movement in tax balances	21	(76)
Decrease in trading securities	1,340	216
(Increase) in Banking loans, advances and other receivables	(1,611)	(1,321)
Decrease in General Insurance and Life assets	464	413
Decrease (increase) in other assets	121	(147)
Increase in deposits and short-term borrowings	2,862	1,830
(Decrease) increase in payables and other liabilities	(86)	328
(Decrease) in General Insurance and Life liabilities	(256)	(393)
Net cash from operating activities	3,915	1,886

25.2 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED	2013 $M	2012 $M
Cash and cash equivalents at the end of the financial year in the statement of cash flows is represented by the following statement of financial position captions:		
Cash and cash equivalents	1,394	866
Receivables due from other banks[1]	1,460	2,044
Payables due to other banks	(213)	(64)
	2,641	2,846

Note

1 Includes $529 million (2012: $1,890 million) of collateral representing credit support to secure Suncorp Group's derivative liability position, as part of the standard International Swaps and Derivatives Association agreement.

Notes to the consolidated financial statements
for the financial year ended 30 June 2013 (continued)

25. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

25.3 FINANCING ARRANGEMENTS

CONSOLIDATED	2013		2012	
	PROGRAM LIMIT	UNUSED	PROGRAM LIMIT	UNUSED
	$M	$M	$M	$M
The Suncorp Group had the following debt programs outstanding at end of the financial year:				
USD $5 billion covered bond program	5,392	3,192	4,914	3,314
USD $15 billion program	16,175	12,496	14,743	9,245
USD $5 billion program	5,392	2,581	4,914	2,509
US144a medium term note program	16,175	16,175	14,743	12,618
AUD transferable certificate of deposit program	5,000	2,133	5,000	1,180
	48,134	36,577	44,314	28,866

26. FAIR VALUES OF 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 General Insurance assets and Life assets that are financial assets designated at fair value through profit or loss
- certain short-term offshore borrowings designated as financial liabilities at fair value through profit or loss
- derivatives.

The basis for determining their fair values is described in note 26.2.

The following table discloses the fair value of financial assets and liabilities that are not recognised and measured at fair value, together with the carrying amounts shown in the consolidated financial statements.

26.1 COMPARISON OF FAIR VALUE TO CARRYING AMOUNTS (CONTINUED)

CONSOLIDATED		2013		2012	
		CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
	NOTE	$M	$M	$M	$M
Financial assets					
Cash and cash equivalents		1,394	1,394	866	866
Receivables due from other banks		1,460	1,460	2,044	2,044
Held-to-maturity investments	15.2	4,288	4,327	3,772	3,757
Banking loans, advances and other receivables	7.4	47,999	48,077	47,290	47,511
General Insurance assets [1]	6.5	7	7	145	145
Life assets [1]	8.5	106	106	176	176
Financial liabilities					
Deposits and short-term borrowings [2]	7.6	39,548	39,621	36,970	36,801
Payables due to other banks		213	213	64	64
Payables and other liabilities [3]	19	2,086	2,086	2,227	2,227
Securitisation liabilities	7.7	4,777	4,777	3,800	3,800
Debt issues	7.8	7,291	7,469	9,569	9,614
Subordinated notes	20.2	1,646	1,672	1,374	1,395
Preference shares	21.2	579	607	762	750

Notes

1 Only includes General Insurance assets and Life assets that are classified as financial assets at amortised cost.

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

3 Only includes components of payables and other liabilities that are classified as financial liabilities.

Significant assumptions and estimates used to determine the fair values:

FINANCIAL ASSETS

As cash and cash equivalents and receivables due from other banks are short-term in nature or are receivable on demand, their carrying value approximates their fair value.

Fair value of held-to-maturity 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.

For all other financial assets, the carrying value (amortised cost) is considered to be a reasonable estimate of fair value.

26. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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. As the payables due to other banks are short-term in nature, their carrying value approximates fair value.

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.

For all other financial liabilities which are short-term in nature, the carrying value (amortised cost) is considered to be a reasonable estimate of fair value. For longer term liabilities, fair values have been estimated using the rates currently offered by Banking for similar liabilities with similar remaining maturities.

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	2013				2012			
	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	-	3,462	-	3,462	-	4,787	-	4,787
Investment securities[1]	5,822	16,070	3	21,895	4,343	16,739	27	21,109
Derivatives	2	584	41	627	5	292	96	393
	5,824	20,116	44	25,984	4,348	21,818	123	26,289
Financial liabilities								
Deposits and short-term borrowings[2]	-	(3,999)	-	(3,999)	-	(3,715)	-	(3,715)
Derivatives	(1)	(929)	(109)	(1,039)	(1)	(2,183)	(222)	(2,406)
	(1)	(4,928)	(109)	(5,038)	(1)	(5,898)	(222)	(6,121)

Notes

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

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

There have been no significant transfers between Level 1 and Level 2 during the 2013 and 2012 financial years. Level 3 investment securities consist of interest-bearing securities and holdings in unlisted unit trusts which have suspended daily redemptions. The valuation methodology used for these Level 3 investment securities is based on the discount rate determined by the relative trading value to face value for interest-bearing securities and the latest available redemption price published by the external manager for the unlisted unit trusts.

Level 3 derivatives relate to long-dated interest rate swaps and cross currency swaps in relation to the Apollo securitisation trusts where a significant input is the amortisation profile of the mortgage portfolio. The valuation methodology for derivative financial instruments classified within Level 3 of the fair value hierarchy is based on market data using observable quoted rights 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.

26.2 FAIR VALUE HIERARCHY (CONTINUED)

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	2013			2012		
	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	27	96	222	38	35	164
Total gains or losses included in profit or loss for the financial year[1]:						
Investment revenue	-	(10)	(167)	(3)	62	58
Change in fair value recognised in other comprehensive income	-	-	5	(3)	-	4
Transfer out to Level 2	(9)	-	-	(1)	-	-
Purchases	-	16	1	20	-	-
Sales	(15)	(61)	48	(24)	(1)	(4)
Balance at the end of the financial year	3	41	109	27	96	222

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).

27. TRANSFERS OF FINANCIAL ASSETS

The Suncorp Group has entered 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 accordance with the agreements, the Suncorp Group retains the rights to cash flows and credit risk associated with the transferred interest-bearing securities. As substantially all the risks and rewards of these interest-bearing securities remain with the Suncorp Group, they continue to be recognised as a financial asset and the obligation to repurchase recognised as a financial liability.

The following table sets out the carrying amount of the transferred interest-bearing securities and the associated liability at the balance date:

CONSOLIDATED	2013	2012
	$M	$M
Carrying amount of transferred interest-bearing securities:		
Trading securities	280	-
Carrying amount of associated financial liability:		
Deposits and short-term borrowings	(280)	-
For those liabilities that have recourse only to the transferred assets:		
Fair value of transferred interest-bearing securities	280	-
Fair value of associated deposit and short-term borrowings	(280)	-
Net position	-	-

28. PARENT ENTITY AND SUBSIDIARIES

28.1 ULTIMATE PARENT ENTITY

As the Suncorp Group has applied amendments to the *Corporations Act 2001* that remove the requirement for the Suncorp Group to include parent entity financial statements, financial details of the parent entity are included below.

COMPANY	2013	2012
	$M	$M
Results of the Company		
Profit for the financial year	1,025	724
Total comprehensive income for the financial year	1,025	724
Financial position of the Company at the end of the financial year		
Current assets	747	1,186
Total assets	16,145	14,913
Current liabilities	262	582
Total liabilities	1,567	582
Net assets	14,578	14,331
Total equity of the Company entity consists of:		
Share capital	12,786	12,792
Common control reserve	987	987
Retained earnings	805	552
Total equity	14,578	14,331

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 $37 million (2012: $34 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.

Notes to the consolidated financial statements
for the financial year ended 30 June 2013 (continued)

28. PARENT ENTITY AND SUBSIDIARIES (CONTINUED)

28.2 MATERIAL SUBSIDIARIES OF SUNCORP GROUP LIMITED

CONSOLIDATED			2013	2012
			EQUITY HOLDING	
MATERIAL SUBSIDIARIES OF SUNCORP GROUP LIMITED INCLUDE [1,2]	CLASS OF SHARES	COUNTRY OF INCORPORATION	%	%
General Insurance				
Suncorp Insurance Holdings Limited	Ordinary	Australia	100	100
Suncorp Insurance Services Limited[3]	Ordinary	Australia	100	100
Suncorp Insurance (General Overseas) Pty Ltd[7]	Ordinary	Australia	100	100
Vero Insurance New Zealand Limited	Ordinary	New Zealand	100	100
AAI Limited[3,4]	Ordinary	Australia	100	100
Australian Alliance Insurance Company Limited	Ordinary	Australia	100	100
Australian Associated Motor Insurers Limited	Ordinary	Australia	100	100
Suncorp Insurance Funding 2007 Limited	Ordinary	Australia	100	100
Suncorp Metway Insurance Limited	Ordinary	Australia	100	100
GIO General Limited	Ordinary	Australia	100	100
Terri Scheer Insurance Pty Ltd	Ordinary	Australia	100	100
Banking				
SBGH Limited	Ordinary	Australia	100	100
Suncorp-Metway Limited	Ordinary	Australia	100	100
APOLLO Series Trusts (various)[6]	Units	Australia	100	100
Suncorp Covered Bond Trust	Units	Australia	100	-
Suncorp Metway Advances Corporation Pty Ltd	Ordinary	Australia	100	100
SME Management Pty Limited	Ordinary	Australia	100	100
Life				
Suncorp Life Holdings Limited[5]	Ordinary	Australia	100	100
Asteron Life Limited	Ordinary	Australia	100	100
Guardian Financial Planning Pty Limited	Ordinary	Australia	100	100
Suncorp Insurance (Life Overseas) Pty Ltd[8]	Ordinary	Australia	100	100
Asteron Life Limited	Ordinary	New Zealand	100	100
Suncorp Mortgage Company NZ Limited	Ordinary	New Zealand	100	100
SIS Super Pty Ltd	Ordinary	Australia	100	100
Suncorp Custodian Services Pty Ltd	Ordinary	Australia	100	100
Suncorp Funds Pty Ltd	Ordinary	Australia	100	100
Suncorp Group Investment Trusts (various)[5]	Units	Australia	100	100
Suncorp Life & Superannuation Limited[5]	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 Limited Executive Performance Share Plan Trust	Units	Australia	100	100

Notes

1 The indentation of entities represents a summarised legal entity hierarchy of the Suncorp Group as at 30 June 2013.

2 Non-operating and immaterial operating subsidiaries are excluded from the above list.

3 Also registered as an overseas company in New Zealand.

4 Formerly known as Vero Insurance Limited.

5 The Suncorp Group has nine (2012: 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.

6 These trusts are special purpose entities created as part of the Suncorp Group's loan securitisation program. As at 30 June 2013, the Suncorp Group held interests in 11 trusts (2012: 10). Refer to note 35.1.1 for the basis of consolidation.

7 Formerly known as Suncorp Group Holdings Pty Limited.

8 Formerly known as Prominvest Pty Limited.

29. FIDUCIARY ACTIVITIES

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. These assets are not the property of the Suncorp Group and are not included in the consolidated financial statements.

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.

30. CHANGES IN THE COMPOSITION OF THE SUNCORP GROUP

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

31. 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 and some equity instruments disclosure is included in the Remuneration Report section of the Directors' Report.

31.1 KMP COMPENSATION

The KMP compensation included in 'Staff expenses' (refer note 10) are as follows:

CONSOLIDATED	2013	2012
	$000	$000
Short-term employee benefits	19,537	17,484
Long-term employee benefits	5,624	5,553
Post-employment benefits	365	318
Share-based payments	4,767	5,199
Termination benefits	-	241
	30,293	28,795

31.2 LOANS TO KMP AND THEIR RELATED PARTIES

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

31. KEY MANAGEMENT PERSONNEL (KMP) DISCLOSURES (CONTINUED)

31.2 LOANS TO KMP AND THEIR RELATED PARTIES (CONTINUED)

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:

CONSOLIDATED	2013				2012			
	BALANCE 1 JULY 2012	BALANCE 30 JUNE 2013	INTEREST CHARGED DURING THE YEAR	HIGHEST BALANCE DURING THE YEAR	BALANCE 1 JULY 2011	BALANCE 30 JUNE 2012	INTEREST CHARGED DURING THE YEAR	HIGHEST BALANCE DURING THE YEAR
	$000	$000	$000	$000	$000	$000	$000	$000
Senior Executives								
M Milliner	1,089	-	42	1,347	1,355	1,089	75	1,399
A Revis	1,475	1,132	69	1,485	-	1,475	59	3,755
J Smith	900	900	50	900	900	900	54	900
R Stribling[1]	-	-	-	-	-	3,008	8	3,008

Note

1 Mr Stribling left office on 30 June 2012. The loan balance of Mr Stribling is not included in the opening balance of loans at 1 July 2012.

No new loan facilities made to KMP and their related parties during the year (2012: $6,950 thousand).

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

CONSOLIDATED	2013		2012	
	KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES
	$000	$000	$000	$000
Opening balance[1]	3,464	-	2,255	-
Closing balance	2,032	-	6,472	-
Interest charged	161	-	196	-
	NUMBER	NUMBER	NUMBER	NUMBER
Number of individuals at 30 June	2	-	4	-

Note

1 Mr Stribling left office on 30 June 2012. The loan balance of Mr Stribling is not included in the opening balance of loans at 1 July 2012.

31.3 MOVEMENT IN SHARES

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 set out in the Directors' Report.

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 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	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	-	-	-	989	-	989	-
E Kulk	20,173	-	-	-	-	20,173	-
Dr D McTaggart	-	-	-	11,000	-	11,000	-
G Ricketts	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 executive director and Senior Executives represents performance rights held by the trustee of the EPSP 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 executive director and Senior Executives, compensation includes shares held under the EPSP. These shares are recorded in the Company's share register in the name of the EPSP trustee 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'.*

Notes to the consolidated financial statements
for the financial year ended 30 June 2013 (continued)

31. KEY MANAGEMENT PERSONNEL (KMP) DISCLOSURES (CONTINUED)

31.3 MOVEMENT IN SHARES (CONTINUED)

	BALANCE 1 JULY 2011		1 JULY 2011 – 30 JUNE 2012			BALANCE 30 JUNE 2012	
	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	66,123	900,000	-	21,210	-	87,333	900,000
Non-executive directors							
Dr Z Switkowski	201,599	-	-	-	-	201,599	-
I Atlas	-	-	-	6,370	-	6,370	-
W Bartlett	26,968	-	-	-	-	26,968	-
M Cameron[3]	-	-	-	-	-	-	-
P Dwyer[4]	20,000	-	-	-	(20,000)	-	-
A Exel[5]	-	-	-	-	-	-	-
S Grimshaw[6]	24,314	-	-	-	(24,314)	-	-
E Kulk	20,173	-	-	-	-	20,173	-
Dr D McTaggart[3]	-	-	-	(3,922)	3,922	-	-
G Ricketts	23,654	-	-	1,196	-	24,850	-
J Story[7]	138,803	-	-	-	(138,803)	-	-
Senior Executives							
A Day	377	112,063	47,161	19	-	396	159,224
G Dransfield	-	39,078	31,441	-	-	-	70,519
D Foster	25,542	279,936	47,161	-	(23,883)	25,542	303,214
M Milliner	68,026	302,060	49,047	11,543	(33,037)	79,569	318,070
J Nesbitt	-	401,121	52,317	-	-	-	453,438
A Revis	5,093	58,920	33,641	257	-	5,350	92,561
J Smith	116,513	282,339	49,047	618	-	117,131	331,386
R Stribling[8]	10,000	66,079	37,729	-	-	10,000	103,808
G Summerhayes	-	203,801	43,262	-	-	-	247,063

Notes

1. *The number of performance rights disclosed for the executive director and Senior Executives represents performance rights held by the trustee of the EPSP and therefore beneficial entitlement to some of those shares remains subject to satisfaction of specified performance hurdles.*
2. *For the executive director and Senior Executives, compensation includes shares held under the EPSP. These shares are recorded in the Company's share register in the name of the EPSP trustee and vest only when performance hurdles are met. No shares vested during the 2012 financial year.*
3. *Appointed 16 April 2012.*
4. *Left office on 28 February 2012. Shares held upon retirement are shown in 'Other changes'.*
5. *Appointed 27 June 2012.*
6. *Left office on 23 August 2011. Shares held upon retirement are shown in 'Other changes'.*
7. *Left office on 27 October 2011. Shares held upon retirement are shown in 'Other changes'.*
8. *Left office on 30 June 2012. Shares held on leaving office are not included in 1 July 2012 opening balance.*

31.3 MOVEMENT IN SHARES (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:

	2013			2012		
	BALANCE 1 JULY 2012	PURCHASES (SALES)	BALANCE 30 JUNE 2013	BALANCE 1 JULY 2011	PURCHASES (SALES)	BALANCE 30 JUNE 2012
	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER
SUNPC[1]						
Directors						
Non-executive directors						
E Kulk	-	3,000	3,000	-	-	-
Senior Executives						
C Herbert	-	400	400	-	-	-
A Lenahan	-	2,000	2,000	-	-	-
A Revis	-	1,500	1,500	-	-	-
SBKPB[2]						
Senior Executives						
D Foster	90	(90)	-	90	-	90

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.

31.4 OTHER KMP TRANSACTIONS

FINANCIAL INSTRUMENT TRANSACTIONS

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

TRANSACTIONS OTHER THAN FINANCIAL INSTRUMENT TRANSACTIONS

No director has entered into a material contract with the Company or the 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, 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.

32. OTHER RELATED PARTY DISCLOSURES

32.1 IDENTITY OF RELATED PARTIES

The Suncorp Group has a related party relationship with its associates and joint venture entities, joint venture operations and joint venture partners (see note 17) and its KMP (see note 31).

32.2 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	2013	2012
	$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	3,021	19
Joint ventures	7,786	8,310
Other expenses paid or due and payable		
Joint ventures	9,620	5,246
Aggregate amounts receivable from, and payable to, each class of related parties at balance date:		
Receivables:		
Associates	1,200	2
Joint ventures	54	5,438
Payables:		
Joint ventures	143	71

33. 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 statement of financial position but are disclosed in the 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.

33.1 CREDIT COMMITMENTS

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	2013	2012
	$M	$M
Notional amounts		
Guarantees entered into in the normal course of business	162	161
Commitments to provide loans and advances	6,800	6,122
	6,962	6,283
Credit equivalent amounts		
Guarantees entered into in the normal course of business	152	152
Commitments to provide loans and advances	1,723	1,366
	1,875	1,518

33.2 OPERATING LEASE EXPENDITURE COMMITMENTS

CONSOLIDATED	2013	2012
	$M	$M
Aggregate non-cancellable operating lease rental payable but not provided in the financial statements:		
Less than one year	173	175
Between one and five years	373	414
More than five years	141	72
	687	661

The Suncorp Group leases property under operating leases expiring from 1-11 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. Some of the leased properties are sub-let by the Suncorp Group. Total future minimum rental receivable under non-cancellable sub-leases not provided for in the consolidated financial statements was $2 million (2012: $6 million).

33. COMMITMENTS (CONTINUED)

33.3 OPERATING LEASE REVENUE COMMITMENTS

CONSOLIDATED	2013	2012
	$M	$M
Minimum lease payments receivable under non-cancellable operating leases relating to investment properties:		
Less than one year	-	7
Between one and five years	-	20
More than five years	-	1
	-	28

33.4 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 $37 million (2012: $71 million).

34. CONTINGENT ASSETS AND LIABILITIES

34.1 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.

34.2 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 33 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 (2012: $45 million).

35. 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 35.1 describes the significant accounting policies applicable to all Suncorp Group entities (including Banking)
- Note 35.2 describes the significant accounting policies specifically applicable to General Insurance
- Note 35.3 describes the significant accounting policies specifically applicable to Life; and
- Note 35.4 details the new accounting standards and interpretation not yet adopted.

35.1 SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO ALL GROUP ENTITIES

The following significant accounting policies are applicable to all Suncorp Group entities.

35.1.1 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. Subsidiaries are consolidated from the date when control commences until the date when control ceases. Control is the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

(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 the covered bond trusts. The securitisation trusts and the covered bond trusts are controlled by the Suncorp Group and they 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 program after all payments due to investors and associated costs of the program 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 Suncorp-Metway Limited. Further details can be found in note 7.8.

(C) STATUTORY INSURANCE FUNDS

The Suncorp Group's General Insurance entities are 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 subsidiaries do not have control nor the capacity to control the statutory funds. Therefore, the statutory funds are not consolidated into the Suncorp Group's 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) ASSOCIATES AND JOINT VENTURE ENTITIES (EQUITY ACCOUNTED INVESTEES)

Associates are those entities in which the Suncorp Group has significant influence, but not control, over the financial and operating policies. Joint venture entities are those entities over which the Suncorp Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

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.

(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 VENTURE OPERATIONS

Joint venture operations are those operations in which the Suncorp Group has joint control. They are brought to account by recognising the assets the Suncorp Group controls, the liabilities that it incurs, the expenses it incurs and its share of income that is earned by the joint venture operations.

35. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

35.1.2 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.

35.1.3 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 rates of exchange 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 35.1.12.

(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.

35.1.4 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.

35.1.5 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 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 expected number of shares 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 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.

35.1.6 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 that 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.

*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.

35.1.7 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.

35.1.8 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.

35. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

35.1.9 RECEIVABLES DUE FROM AND PAYABLES DUE TO OTHER BANKS

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

35.1.10 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 as such 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 would be 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.

(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.

35.1.11 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 35.1.10 (A)) unless they qualify as a hedging instrument in an effective hedge relationship under hedge accounting (note 35.1.12).

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.

35.1.12 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, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction affects profit or loss. When a forecast transaction is no longer expected to occur, the amounts accumulated in equity are released to profit or loss immediately. In other cases the cumulative gain or loss previously recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

(B) FAIR VALUE HEDGES

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

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

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

When a 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.

35.1.13 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.

35.1.14 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.

35. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

35.1.14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(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% to 20%	10% to 50%

35.1.15 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 35.1.2 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	3–7 years

Intangible assets deemed to have an indefinite useful life are not amortised but are tested for impairment at least annually.

35.1.16 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.

35.1.17 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 as at fair value through profit or loss when they are managed on a fair value basis.

(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 are exchangeable on specific dates at the option of the holder. Once an exchange request is received, the Suncorp Group can elect to exchange the SBKPA for cash or a variable number of SML ordinary shares, exhibiting characteristics of a financial liability.

SUNPC 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 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.

35. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

35.1.17 NON-DERIVATIVE FINANCIAL LIABILITIES (CONTINUED)

(C) DERECOGNITION OF FINANCIAL LIABILITIES

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

35.1.18 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
- 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.

35.1.19 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 employee benefits are those due to be paid within 12 months of providing service and 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 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

A liability for long service leave 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 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 is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Suncorp Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

35.1.20 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.

35.1.21 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities are not recognised but are disclosed in the financial report, 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 financial report 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.

35.2 SIGNIFICANT ACCOUNTING POLICIES SPECIFICALLY APPLICABLE TO GENERAL INSURANCE

35.2.1 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 financial report.

(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.

35.2.2 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 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. These financial assets include investment securities, premiums outstanding and reinsurance and other recoveries.

All investment securities held to back general insurance liabilities and held for trading are highly liquid securities. Despite some of these securities having maturity dates beyond the next 12 months, as they are highly liquid in nature and are actively traded, they have been classified as current.

Receivables are valued at fair value which is approximated by taking the initially recognised amount and reducing it for credit risk and time value of money as appropriate. Short duration receivables with no stated interest rate are normally measured at the original invoice amount which approximates fair value.

35. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

35.2.3 FINANCIAL ASSETS NOT BACKING GENERAL INSURANCE LIABILITIES (CONTINUED)

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.

35.2.4 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 liability for outstanding claims.

35.2.5 DEFERRED INSURANCE ASSETS

(A) DEFERRED ACQUISITION COSTS (DAC)

Acquisition costs are deferred and recognised as assets 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.

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.

35.2.6 UNEARNED PREMIUM LIABILITY

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

The carrying value of the unearned premium liability is assessed at each reporting date by carrying out a liability adequacy test (**LAT**). This test assesses whether the net unearned premium liability 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 would be 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.

35.2.7 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. 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.

35.3 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 businesses.

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' constitution. 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.

35.3.1 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 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.

(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 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.

35.3.2 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 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. These financial assets include investment securities and receivables.

35.3.3 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.

35.3.4 DEFERRED ACQUISITION COSTS

Life insurance contracts – deferred acquisition costs 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 Service 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 – deferred acquisition costs 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.

35.3.5 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.

35. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

35.3.5 POLICY LIABILITIES (CONTINUED)

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

An accumulation method has been used for some risk business, where the liability is based on an unearned premium reserve, less an explicit allowance for deferred acquisition costs, and a reserve for incurred but not reported claims.

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 company' 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

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

35.4 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 10 *Consolidated Financial Statements*, when it becomes mandatory for the Suncorp Group's 30 June 2014 financial statements, will supersede AASB 127 *Consolidated and Separate Financial Statements* and Interpretation 112 *Consolidation – Special Purpose Entities*. It introduces a new single control model to assess whether to consolidate an investee. Adoption of this standard will have an immaterial effect to the Suncorp Group.
- AASB 11 *Joint Arrangements* provides guidance on the treatment of joint arrangements on the basis of the rights and obligations attaching to the underlying assets and liabilities. This standard becomes mandatory for the Suncorp Group's 30 June 2014 financial statements. Adoption of this standard will have an immaterial effect to the Suncorp Group.
- AASB 12 *Disclosure of Interests in Other Entities* provides a single standard for all disclosure requirements about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. This standard becomes mandatory for the Suncorp Group's 30 June 2014 financial statements. The potential effects on adoption of the standard is yet to be determined.
- AASB 13 *Fair Value Measurement* provides a definition of the term 'fair value' and introduces additional disclosure requirements. This is applicable for all assets and liabilities measured at fair value, including non-financial assets and liabilities. This standard becomes mandatory for the Suncorp Group's 30 June 2014 financial statements. Adoption of this standard will have an immaterial effect to the Suncorp Group.
- AASB 119 *Employee Benefits* is amended for changes in accounting and disclosures on defined benefit superannuation plans; definitions of short-term and other long-term employee benefits affecting the measurement of the obligations; and the timing for recognition of termination benefits. The amendments become mandatory for the Suncorp Group's 30 June 2014 financial statements with specific transitional requirements. Adoption of this standard will have an immaterial effect to the Suncorp Group.

- AASB 9 *Financial Instruments* was issued and introduces changes in the classification and measurement of financial assets and financial liabilities. This standard becomes mandatory for the Suncorp Group's 30 June 2016 financial statements. The potential effects on adoption of the standard is yet to be determined.
- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities* (June 2012) amends AASB 7 to increase the disclosures about offset positions, including the gross position and the nature of the arrangements. This amendment becomes mandatory for the Suncorp Group's 30 June 2014 financial statements. The potential effects on adoption of the amendments 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.

36. GROUP RISK MANAGEMENT

36.1 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 Risk Committee. 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	Board Audit Committee, 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.

The Board has delegated authorities and limits to the Group Chief Executive Officer (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 Group 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 in 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.

36. GROUP RISK MANAGEMENT (CONTINUED)

36.1 GROUP RISK MANAGEMENT OBJECTIVES AND STRUCTURE (CONTINUED)

APRA-regulated entities prepare Risk Management Strategies (**RMS**) approved by the Risk Committee and submit 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 of loss arising from uncertainty about the future operating environment, including reputation, industry, economic and regulatory environment, branding, crisis management, and partners and suppliers.

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 movement in the value of investment in equity instruments from adverse movements in equity prices.
Credit spread risk	Credit spread is the difference in yield due to difference in credit quality. This is the risk of loss of current and future earnings and unfavourable movement in the value of investments from changes in the credit spread as determined by capital market sentiment or factors affecting all issuers in the market and not necessarily due to factors specific to an individual issuer.

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

- note 36.2 Group insurance risk management
- notes 36.3 to 36.6 Risk management for financial instruments: credit, liquidity and market risks applied by each of the Suncorp Group's business areas
- note 36.7 Derivative financial instruments and hedging.

36.2 GROUP INSURANCE RISK MANAGEMENT

36.2.1 POLICIES AND PRACTICES FOR MITIGATING INSURANCE RISK

The risk management activities include licensing, 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
- pricing strategies aligned to the business strategy, with clearly defined pricing mechanisms sources from technical pricing models and actuarial overview
- the setting and adherence to underwriting guidelines that determine processes and procedures for 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

36.2.1 POLICIES AND PRACTICES FOR MITIGATING INSURANCE RISK (CONTINUED)

- the reduction in the concentration of insurance risk through diversification, entering into reinsurance and ceding arrangements to preserve capital and manage earnings volatility from large individual or catastrophic claims
- the maintenance of appropriate actuarial reserves including 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 monitored using externally developed 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 one area is protected.

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.

36.2.2 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.

36. GROUP RISK MANAGEMENT (CONTINUED)

36.2.2 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 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 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.

36.3 GENERAL INSURANCE RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS

36.3.1 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. Late payments will result in the cancellation of the insurance contract with the policyowner, as provided by law, eliminating both the credit risk and insurance risk for the unpaid balance. Where business is written through intermediaries, limited credit is provided under the terms and conditions of the agreement with the respective intermediary, with debtor control ensuring constant attention is paid to minimise overdue debts.
Investments in financial instruments	Investments in financial instruments in the investment portfolios are held in accordance with the investment mandates. Credit limits have been established within these guidelines to ensure counterparties have appropriate credit ratings. An investment framework is in place that sets and monitors investment strategies and arrangements.
Reinsurance recoveries	Reinsurance arrangements are monitored and managed internally and by specialised reinsurance brokers operating in the international reinsurance market. Concentration of credit risk is mitigated by placement of cover with a number of reinsurers with Standard and Poor's (or equivalent) credit ratings of A– or better, with participation limits and minimum security requirements imposed.

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.

36. GROUP RISK MANAGEMENT (CONTINUED)

36.3.1 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
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
2012							
Cash and cash equivalents	-	53	49	11	-	-	113
Investment securities	4,040	4,071	1,766	153	-	908	10,938
Derivatives [3]	-	22	28	-	-	-	50
General Insurance assets [1,2,3]	549	1,346	1,500	1	1	2,780	6,177
Other	26	55	33	2	-	-	116
	4,615	5,547	3,376	167	1	3,688	17,394

Notes

1 *Only includes components of General Insurance assets that are classified as financial assets.*

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

3 *Collateral arrangements exist for non-regulated reinsurers and certain derivative positions.*

36.3.1 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 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
2013							
Premiums outstanding	2,213	43	63	23	1	6	2,349
Other receivables designated at fair value through profit or loss	165	11	3	1	1	-	181
	2,378	54	66	24	2	6	2,530
2012							
Premiums outstanding	2,038	28	49	10	4	8	2,137
Other receivables designated at fair value through profit or loss	209	28	-	1	1	-	239
	2,247	56	49	11	5	8	2,376

Receivables neither past due nor impaired in the above table are not rated according to the Standard & Poor's counterparty credit ratings. Collateral arrangements exist for non-regulated reinsurers and certain derivative positions.

36. GROUP RISK MANAGEMENT (CONTINUED)

36.3.2 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; and
- mandated liquidity limits 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. Comparatives have been restated to conform to changes in presentation in the current year.

GENERAL INSURANCE	CARRYING AMOUNT	1 YEAR OR LESS	1 TO 5 YEARS	OVER 5 YEARS	TOTAL CASH FLOWS
	$M	$M	$M	$M	$M
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
2012					
Payables and other liabilities [1]	1,308	1,257	36	1	1,294
Unearned premium liabilities	4,226	4,212	14	-	4,226
Net discounted outstanding claims liabilities	6,953	2,431	3,243	1,279	6,953
Subordinated notes	708	40	776	-	816
	13,195	7,940	4,069	1,280	13,289
Derivative financial instruments					
Derivative liabilities (net settled)	52	9	38	19	66
Amounts receivable (gross settled)	-	(12)	(233)	-	(245)
Amounts payable (gross settled)	72	12	342	-	354
	124	9	147	19	175

Note

1 Only includes components of payables and other liabilities that are classified as financial liabilities.

36.3.3 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. 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.

In respect of 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 practise, 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.

The movements in foreign exchange rates used in the sensitivity analysis for 2013 have been revised to reflect an updated assessment of the reasonable possible changes in foreign exchange rates over the next 12 months, given renewed observations and experience in the investment markets during the financial year.

GENERAL INSURANCE	2013			2012		
	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	42	+ 15	4	38	+ 15	4
		– 15	(5)		– 15	(5)
GBP	23	+ 15	2	22	+ 15	2
		– 15	(2)		– 15	(3)
JPY	22	+ 15	2	25	+ 15	2
		– 15	(2)		– 15	(3)
USD	160	+ 10	11	116	+ 15	10
		– 10	(12)		– 15	(15)
Other	20	+ 15	2	-	+ 15	-
		– 15	(2)		– 15	-

(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.

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 2013 have been revised to reflect an 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.

GENERAL INSURANCE	2013			2012		
	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)	10,793	+ 125	(280)	10,988	+ 150	(293)
		– 50	119		– 100	196
Other financial liabilities	(602)	+ 125	5	(620)	+ 150	(6)
		– 50	(2)		– 100	3

36. GROUP RISK MANAGEMENT (CONTINUED)

36.3.3 MARKET RISK (CONTINUED)

(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.

The movements in equities used in the sensitivity analysis for 2013 have been revised to reflect an 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.

GENERAL INSURANCE	2013			2012		
	EXPOSURE AT 30 JUNE	CHANGE IN PRICES	PROFIT (LOSS) AFTER TAX	EXPOSURE AT 30 JUNE	CHANGE IN PRICES	PROFIT (LOSS) AFTER TAX
	$M	%	$M	$M	%	$M
Australian equities	269	+ 15	28	233	+ 20	33
		– 15	(28)		– 20	(33)
International equities	371	+ 15	39	306	+ 20	43
		– 15	(39)		– 20	(43)

(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 2013 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.

GENERAL INSURANCE	2013			2012		
	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)	6,637	+ 75	(87)	5,318	+ 100	(96)
		– 50	60		– 75	72
Credit exposure (semi-government)	1,730	+ 50	(36)	1,419	+ 40	(25)
		– 30	22		– 40	25

36.4 BANKING RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS

36.4.1 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 page 168 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 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.

Notes to the consolidated financial statements
for the financial year ended 30 June 2013 (continued)

36. GROUP RISK MANAGEMENT (CONTINUED)

36.4.1 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 NOT IMPAIRED
	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
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 ***Capital Adequacy: Standardised Approach to Credit Risk*** *APRA Prudential Standard APS 112.*

2 Not past due or past due ≤ 90 days.

36.4.1 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 NOT IMPAIRED
	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
2012										
Agribusiness	-	-	-	3,644	124	-	3,768	202	24	3,542
Construction	-	-	-	2,345	77	-	2,422	1,264	26	1,132
Financial services	2,044	4,787	6,308	400	35	512	14,086	-	-	14,086
Hospitality	-	-	-	1,093	35	-	1,128	117	4	1,007
Manufacturing	-	-	-	453	25	-	478	14	-	464
Professional services	-	-	-	286	10	-	296	4	4	288
Property investment	-	-	-	3,129	62	-	3,191	369	6	2,816
Real estate - Mortgages	-	-	-	34,029	1,053	-	35,082	26	233	34,823
Personal	-	-	-	393	7	-	400	-	4	396
Government and public authorities	-	-	-	1	-	-	1	-	-	1
Other commercial and industrial	-	-	-	2,084	90	-	2,174	94	19	2,061
Total gross credit risk	2,044	4,787	6,308	47,857	1,518	512	63,026	2,090	320	60,616
Impairment provisions							(537)	(392)	(39)	(106)
							62,489	1,698	281	60,510

Notes

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

2 Not past due or past due ≤ 90 days.

(A) CREDIT QUALITY

The following table provides information regarding the credit quality of the Bank's loans, advances and 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	Non-performing loans	Performing loans

36. GROUP RISK MANAGEMENT (CONTINUED)

36.4.1 CREDIT RISK (CONTINUED)

BANKING	2013 $M	2012 $M
Performing loans		
Loans, advances and receivables	47,342	45,431
Loans, advances and receivables with renegotiated terms	17	16
Collective provision for impairment	(64)	(106)
	47,295	45,341
Non-performing loans – not impaired		
Non-performing loans – not impaired	434	320
Collective provision for impairment	(38)	(39)
	396	281
Non-performing loans – impaired		
Individually impaired loans	506	2,090
Specific provision for impairment	(198)	(392)
	308	1,698
Total Banking loans, advances and receivables	47,999	47,320

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 noted below. The balances of financial assets other than loans, advances and other receivables are all neither past due nor impaired.

BANKING	PAST DUE BUT NOT IMPAIRED					
	0-30 DAYS $M	30-60 DAYS $M	60-90 DAYS $M	90-180 DAYS $M	> 180 DAYS $M	TOTAL $M
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
2012						
Loans and advances						
Retail banking	877	256	114	103	134	1,484
Business banking	138	25	222	74	9	468
	1,015	281	336	177	143	1,952

(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 Suncorp Group 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 77% (2012: 71%) of the Bank's lending being consumer in nature and 98% (2012: 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 36.4.1(C).

(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	2013 NUMBER	2012 NUMBER
25% and greater	5	4
20% to less than 25%	1	1
15% to less than 20%	-	-
10% to less than 15%	2	-
5% to less than 10%	5	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.

36.4.2 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 ratios, 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 for the Non-core portfolio is managed in line with the management run-off profile expectations to ensure a suitable commensurate run-off profile. Funding capacity is monitored and diversity in the funding portfolio is managed with consideration for product, tenor, geography and customer concentrations.

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 the Balance Sheet Management section of the Bank Treasury. Liquidity risk is independently monitored against approved policies on a daily basis by the Market Risk division and reported to the Bank Chief Risk Officer.

(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	2013 $M	2012 $M
Australian funding sources			
Retail deposits		31,421	29,565
Wholesale funding		8,339	8,698
Covered bonds		2,196	1,598
Australian domestic program		3,698	3,836
Securitisation		4,462	3,386
		50,116	47,083
Overseas wholesale funding sources			
Foreign exchange retail deposits		132	305
European commercial paper and medium-term note market		6,258	5,924
Subordinated note program		-	496
United States 144a medium-term note market		-	2,125
Securitisation		340	453
		6,730	9,303
		56,846	56,386
Comprised of the following:			
Deposits and short-term borrowings	7.6	43,861	41,521
Securitisation liabilities	7.7	4,802	3,839
Debt issues	7.8	7,313	9,598
Subordinated notes	7.9	840	666
Preference shares	7.10	30	762
		56,846	56,386

36. GROUP RISK MANAGEMENT (CONTINUED)

36.4.2 LIQUIDITY RISK (CONTINUED)

(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.

BANKING	CARRYING AMOUNT	AT CALL	0 TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	TOTAL CASH FLOWS
	$M	$M	$M	$M	$M	$M	$M
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

36.4.2 LIQUIDITY RISK (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
2012							
Deposits and short-term borrowings	41,521	10,028	23,075	8,038	973	1	42,115
Payables due to other banks	64	64	-	-	-	-	64
Payables and other liabilities	634	-	634	-	-	-	634
Derivative financial instruments (trading)	356	-	356	-	-	-	356
Securitisation liabilities	3,839	-	284	925	2,425	757	4,391
Debt issues	9,598	-	1,518	1,938	6,922	-	10,378
Subordinated notes	666	-	2	512	216	-	730
Preference shares	762	-	9	767	36	-	812
	57,440	10,092	25,878	12,180	10,572	758	59,480
Derivative financial instruments (hedging relationship)							
Contractual amounts payable		-	198	387	698	-	1,283
Contractual amounts receivable		-	(79)	(322)	(559)	-	(960)
	2,013	-	119	65	139	-	323
Off-balance sheet positions							
Guarantees entered into in the normal course of business	-	161	-	-	-	-	161
Commitments to provide loans and advances	-	6,122	-	-	-	-	6,122
	-	6,283	-	-	-	-	6,283

36.4.3 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**) limits, stress testing, scenario analysis, sensitivity limits and stop loss limits. No one risk metric provides a single sufficient overview of risk and as such VaR forms only a part of the risk framework. Supplementary risk measures, such as stress tests, sensitivity analyses and scenario analyses are undertaken to ensure a more complete overview of traded market risk for risk management. These measures are monitored and reported to the Bank Chief Risk Officer and Bank Asset and Liability Committee for management oversight.

VaR is a statistical estimate of potential loss using historically observed market volatility and correlations between different markets. The VaR model, based on a Monte Carlo simulation methodology, takes into account correlations between different positions and the potential for movements to offset one another within the individual portfolios. This method involves multiple revaluations of the trading books using the most recent two years of historical pricing shifts. 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.

36. GROUP RISK MANAGEMENT (CONTINUED)

36.4.3 MARKET RISK (CONTINUED)

The VaR for the Bank's exposure to traded interest rate and foreign exchange risks for the financial year are as follows:

BANKING	2013			2012		
	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	0.20	0.10	0.23	1.02	0.20	1.03
Maximum VaR during the financial year	0.58	0.66	0.80	1.34	0.94	1.32
Minimum VaR during the financial year	0.08	0.01	0.10	0.12	0.04	0.20
Average VaR during the financial year	0.21	0.23	0.31	0.36	0.42	0.58

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 36.4.3(A)).

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 includes:

- **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; and
- **Optionality risk:** the risk of loss of earnings and/or economic value as the 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.

The main objective of IRRBB management is to maximise and stabilise net interest income in the long term. The IRRBB framework was substantially enhanced in January 2012 as part of the transition towards Basel II internal model accreditation. As a result, the methodology for measuring non-traded interest rate sensitivity has been amended. The sensitivity analyses presented below are prepared based on the IRRBB framework applicable to the respective financial periods:

- For the full year ended 30 June 2013 and for the six months ended 30 June 2012 – Risk appetite is defined in terms of risk that can be taken inclusive of the capital benchmark at a transfer priced level. The risk management framework also incorporated behavioural modelling where contractual modelling was not appropriate, optionality risk and basis risk; and
- For the six months ended 31 December 2011 – Risk appetite was set at a Bank level (cash flows inclusive of customer margins), excluding the capital benchmark, and based on contractual pricing information irrespective of the behavioural profile of a position.

36.4.3 MARKET 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.

- For the year ended 30 June 2013 and for the six months ended 30 June 2012 – 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; and
- For the six months ended 31 December 2011 – the sensitivity analysis was prepared using a 1% parallel shock to the yield curve.

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

BANKING	2013	2012	
		SIX MONTHS ENDED	
		30 JUNE 12	31 DEC 11
	$M	$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 period	**(36)**	(21)	(69)
Average monthly exposure during the financial period	**(47)**	(23)	(53)
High month exposure during the financial period	**(66)**	(38)	(69)
Low month exposure during the financial period	**(23)**	(10)	(29)

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.

For the six months ended 31 December 2011, the sensitivity analysis was prepared using a 1% adverse shock. This assumption is revised as part of the transition to Basel II internal model accreditation.

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

BANKING	2013	2012	
		SIX MONTHS ENDED	
		30 JUNE 12	31 DEC 11
	$M	$M	$M
IRRBB PVS to an adverse 2% parallel or non-parallel instantaneous shock to the yield curve			
Exposure at end of the financial period	**(20)**	(51)	(14)
Average monthly exposure during the financial period	**(49)**	(47)	(13)
High month exposure during the financial period	**(94)**	(57)	(14)
Low month exposure during the financial period	**(8)**	(29)	(12)

36. GROUP RISK MANAGEMENT (CONTINUED)

36.4.3 MARKET RISK (CONTINUED)

PRESENT VALUE SENSITIVITY INCLUDING OFF-BALANCE SHEET POSITIONS

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 provides information on the potential adverse change that could occur to the present value of the banking book under a range of possible interest rate scenarios. The interest rate scenarios are derived from historical analysis of interest rates using a one month holding period, and the most adverse of either a three month or two year history set, at a 97.5% confidence level. A static balance sheet assumption is used.

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

BANKING	2013	2012	
		SIX MONTHS ENDED	
		30 JUNE 12	31 DEC 11
	$M	$M	$M
IRRBB - VaR - 1 month holding period, 97.5% confidence interval			
Exposure at end of the financial period	(14)	(17)	(3)
Average monthly exposure during the financial period	(10)	(15)	(5)
High month exposure during the financial period	(23)	(19)	(11)
Low month exposure during the financial period	(1)	(10)	(3)

(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 36.7).

36.5 LIFE RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS

36.5.1 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.
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.

36.5.1 CREDIT RISK (CONTINUED)

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
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
2012								
Cash and cash equivalents	-	177	210	9	-	-	432	828
Investment securities	1,250	1,071	358	62	6	25	499	3,271
Life assets	-	435	-	-	2	218	51	706
Derivatives	-	10	-	-	-	-	-	10
	1,250	1,693	568	71	8	243	982	4,815

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.

36. GROUP RISK MANAGEMENT (CONTINUED)

36.5.1 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		PAST DUE BUT NOT IMPAIRED					
	NEITHER PAST DUE NOR IMPAIRED	0-3 MTHS	3-6 MTHS	6-12 MTHS	> 12 MTHS	IMPAIRED	TOTAL
	$M	$M	$M	$M	$M	$M	$M
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
2012							
Premiums outstanding	-	14	-	-	-	-	14
Reinsurance recoveries receivable	56	11	1	1	2	-	71
Other receivables	152	5	3	-	-	16	176
	208	30	4	1	2	16	261

Receivables neither past due nor impaired in the above table are not rated according to the 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.

36.5.2 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 table on the right 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.

36.5.2 LIQUIDITY RISK (CONTINUED)

LIFE	CARRYING AMOUNT $M	1 YEAR OR LESS $M	1 TO 5 YEARS $M	OVER 5 YEARS $M	NO TERM $M	INVESTMENT LINKED [1] $M	TOTAL CASH FLOWS $M
2013							
Payables and other liabilities [2]	117	99	2	11	-	6	118
Outstanding claims liabilities	206	141	-	-	65	-	206
Net Life policy liabilities	4,825	133	637	701	-	3,354	4,825
Unvested policyowner benefits	380	-	-	-	380	-	380
Managed funds units on issue	1,567	1,567	-	-	-	-	1,567
	7,095	1,940	639	712	445	3,360	7,096
2012							
Payables and other liabilities [2]	216	207	-	4	4	1	216
Outstanding claims liabilities	186	129	-	-	57	-	186
Net Life policy liabilities	4,781	128	593	690	-	3,370	4,781
Unvested policyowner benefits	366	-	-	-	366	-	366
Managed funds units on issue	1,608	1,608	-	-	-	-	1,608
	7,157	2,072	593	694	427	3,371	7,157

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.*

36.5.3 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 revenue 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.

36. GROUP RISK MANAGEMENT (CONTINUED)

36.5.3 MARKET RISK (CONTINUED)

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 2013 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	2013			2012		
	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	153	+ 10	14	141	+ 15	13
		– 10	(8)		– 15	(17)
Other [1]	95	+ 15	10	86	+ 15	8
		– 15	(10)		– 15	(11)

Note

1 Includes EUR, GBP and JPY.

(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 over liabilities. This is combined with an economic mismatch between the timing of payments to life insurance and life investment contract holders and the duration of the assets held in the statutory funds to back these liabilities. 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 (see next page).

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 opposite. 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.

36.5.3 MARKET RISK (CONTINUED)

The movements in interest rate used in the sensitivity analysis for 2013 have been revised to reflect updated assessment of the reasonably possible changes in interest rate over the next 12 months given renewed observations and experience in the investment markets during the financial year. There is no impact on equity reserves.

LIFE	2013			2012		
	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]	2,818	+ 125	(65)	2,786	+ 150	(60)
		– 50	28		– 100	40

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 below 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. After tax impact on profit (loss) uses a corporate tax rate of 30%. Actual after tax impact for Life business may differ. There is no impact on equity reserves.

The movements in equity prices used in the sensitivity analysis for 2013 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.

36. GROUP RISK MANAGEMENT (CONTINUED)

36.5.3 MARKET RISK (CONTINUED)

LIFE	2013			2012		
	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
Listed Australian equities and unit trusts	994	+ 15	103	890	+ 20	124
		– 15	(102)		– 20	(124)
Listed international equities and unit trusts	552	+ 15	54	551	+ 20	78
		– 15	(56)		– 20	(78)

(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 2013 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. Comparatives have been restated to conform to changes in presentation in the current year.

LIFE	2013			2012		
	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)	1,391	+ 75	(19)	1,211	+ 100	(17)
		– 50	13		– 75	13
Credit exposure (semi-government)	410	+ 50	(11)	340	+ 40	(8)
		– 30	7		– 40	8

36.6 CORPORATE RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS

36.6.1 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 collateral or other 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.

36.6.1 CREDIT RISK (CONTINUED)

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
2013							
Cash and cash equivalents	-	-	37	10	-	-	47
Investment securities	46	107	161	4	-	123	441
Other assets	-	1	7	-	-	-	8
	46	108	205	14	-	123	496
2012							
Cash and cash equivalents	-	-	202	10	-	-	212
Investment securities	86	109	148	34	-	228	605
Other assets	-	2	2	-	-	-	4
	86	111	352	44	-	228	821

All Corporate financial assets are neither past due nor impaired as at 30 June 2013 (2012: nil).

36. GROUP RISK MANAGEMENT (CONTINUED)

36.6.2 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 $M	1 YEAR OR LESS $M	1 TO 5 YEARS $M	OVER 5 YEARS $M	TOTAL CASH FLOWS $M
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
2012					
Payables and other liabilities [1]	110	89	21	-	110

Note

1 Only includes components of payables and other liabilities that are classified as financial liabilities.

36.6.3 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 table on the next page. 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 2013 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.

36.6.3 MARKET RISK (CONTINUED)

CORPORATE	2013			2012		
	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	441	+ 125	(4)	605	+ 150	(2)
		– 50	2		– 100	2
Subordinated notes	756	+ 125	(1)	-	+ 150	-
		– 50	-		– 100	
Preference shares	549	+ 125	(5)	-	+ 150	-
		– 50	2		– 100	

(B) CREDIT SPREAD RISK

Corporate 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 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 2013 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.

CORPORATE	2013			2012		
	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)	416	+ 50	(3)	320	+ 100	(3)
		– 20	1		– 75	2

36. GROUP RISK MANAGEMENT (CONTINUED)

36.7 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 swaps are managed over a three-year period which is approximately the average loan life.

At balance date, Banking had no (2012: one) swaps designated as a fair value hedge of a fixed rate note issue and 16 (2012: 13) 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.

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 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 2013 was $327 million (2012: $70 million).

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 United States Dollars at an agreed future date, at a specified exchange rate.

36.7 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	2013		2012	
	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	910	14,241	1,179	11,276
Fair value:				
net receive interest rate swaps	1	35	24	24
net pay interest rate swaps	(56)	(94)	(58)	(133)
	(55)	(59)	(34)	(109)

	2013 SPLIT APPROACH	2012 SPLIT APPROACH
	$M	$M
Hedging of fluctuations in foreign exchange rates		
Notional value of cross currency swaps designated as hedges	3,368	6,688
Fair value:		
net pay cross currency swaps	(636)	(1,822)

Banking also hedges against the foreign currency exposure which results from the Commonwealth government guarantee expense. The underlying exposure is calculated as the present value of the 1% (2012:1%) fee charged to Banking for those selected offshore liabilities, over the term of the liabilities. The hedge is a cash flow hedge 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 2013 the unrealised loss from foreign currency fluctuation deferred to equity was $4 million (2012: $14 million) for government guarantee fee hedges. During the current financial year, Banking deferred to equity $nil million, and released $10 million of foreign currency loss previously deferred to equity to profit or loss (2012: deferred to equity $2 million and released $21 million of foreign currency loss previously deferred to equity to profit or loss).

Notes to the consolidated financial statements

for the financial year ended 30 June 2013 (continued)

36. GROUP RISK MANAGEMENT (CONTINUED)

36.7 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	1 TO 5 YEARS	OVER 5 YEARS	TOTAL EXPECTED CASH FLOWS
	$M	$M	$M	$M
2013				
Forecast receivable cash flows	366	527	-	893
Forecast payable cash flows	(405)	(560)	-	(965)
	(39)	(33)	-	(72)
2012				
Forecast receivable cash flows	282	329	-	611
Forecast payable cash flows	(339)	(378)	-	(717)
	(57)	(49)	-	(106)

Consolidated losses of $6 million (2012: losses of $74 million) on derivatives held in qualifying fair value hedging relationships, and gains of $6 million (2012: gains of $74 million) representing changes in the fair value of the hedged items attributable to the hedged risk are recognised in profit or loss.

37. AUDITORS' REMUNERATION

	2013	2012	2013	2012	2013	2012
	KPMG AUSTRALIA		OVERSEAS KPMG FIRMS		OTHER AUDITORS	
	$000	$000	$000	$000	$000	$000
Audit and review services						
Audit and review of financial reports	4,942	5,467	1,383	1,457	-	29
Other regulatory audits	1,635	1,621	21	13	-	-
	6,577	7,088	1,404	1,470	-	29
Other services						
In relation to other assurance, actuarial, taxation and other non-audit services	1,729	1,266	286	73	-	-
Total auditors' remuneration	8,306	8,354	1,690	1,543	-	29

38. 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 15 to 40, 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 2013 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 Group Chief Financial Officer for the financial year ended 30 June 2013.

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
Chairman

Patrick J R Snowball
Managing Director and Group CEO

21 August 2013

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 2013, and 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 38 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 2013 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 and 3 of the Remuneration Report included on pages 20 to 40 of the Directors' Report for the year ended 30 June 2013 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 2013, that is described as audited, complies with section 300A of the *Corporations Act 2001*.

KPMG

KPMG

P.M. Reid

Paul Reid
Partner
Brisbane
21 August 2013

Financial calendar
and other shareholder information

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ABN 66 145 290 124

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LISTED SECURITIES
Suncorp securities listed on the ASX (and their codes) are:

SUNCORP GROUP LIMITED
- Ordinary Shares (SUN)
- Convertible Preference Shares (SUNPC)
- Subordinated Notes (SUNPD)

SUNCORP-METWAY LIMITED
- Floating Rate Capital Notes (SBKHB)
- Reset Preference Shares (SBKPA)[1]

AUDITORS
KPMG, Level 16, Riparian Plaza, 71 Eagle Street,
Brisbane Qld 4000 Australia

ANNUAL GENERAL MEETING
DATE: Thursday 24 October 2013
TIME: 2.30pm
VENUE: Ballroom Le Grand, Sofitel Hotel, 249 Turbot Street, Brisbane

FINANCIAL CALENDAR OF EVENTS AND KEY DIVIDEND DATES[2]

26 AUGUST 2013	Ex-dividend date for final ordinary and special dividends
30 AUGUST 2013	Record date for final ordinary and special dividends
1 OCTOBER 2013	Payment date for final ordinary and special dividends
24 OCTOBER 2013	Annual General Meeting
19 FEBRUARY 2014	Half year results announcement
24 FEBRUARY 2014	Ex-dividend date for interim ordinary dividend
28 FEBRUARY 2014	Record date for interim ordinary dividend
1 APRIL 2014	Payment date for interim ordinary dividend
13 AUGUST 2014	Full year results announcement

CHANGING SHAREHOLDER DETAILS[3]
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.

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

1 Suncorp-Metway Limited Reset Preference Shares will be exchanged for cash on 16 September 2013.

2 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.

3. 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.

Financial calendar

and other shareholder information (continued)

30 JUNE		2013	2012	2011	2010	2009
SHAREHOLDER SUMMARY						
Ordinary share price at end of year	($)	11.92	8.09	8.14	8.04	6.70
Number of ordinary shares at end of period[4]	(million)	1,287	1,287	1,287	1,281	1,257
Market capitalisation	($ million)	15,336	10,409	10,473	10,302	8,424
Dividend per ordinary share[4], fully franked	(cents)	**75**	**55**	**35**	**35**	**40**
Interim		25	20	15	15	20
Final		30	20	20	20	20
Special		20	15			

4. 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 the record date of each dividend payment.

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 14 August 2013 are:

CLASS OF SECURITY	ASX CODE	NUMBER
Ordinary shares	SUN	1,286,600,980
Convertible Preference Shares	SUNPC	5,600,000
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 AT 14 AUGUST 2013

SUBSTANTIAL SHAREHOLDERS

At 14 August 2013 there were no substantial shareholdings recorded in the register of substantial shareholdings.

TOP 20 SHAREHOLDERS (SUN)

NAME	TOTAL UNITS	% ISSUED CAPITAL
HSBC Custody Nominees (Australia) Limited	277,195,143	21.54
JP Morgan Nominees Australia Limited	246,302,839	19.14
National Nominees Limited	137,724,241	10.70
Citicorp Nominees Pty Limited	75,444,685	5.86
JP Morgan Nominees Australia Limited <Cash Income A/C>	29,990,621	2.33
BNP Paribas Noms Pty Ltd <DRP>	29,382,615	2.28
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	28,276,050	2.20
AMP Life Limited	16,113,230	1.25
HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	10,999,402	0.85
CPU Share Plans Pty Limited <EPSP Share Plan A/C>	7,454,326	0.58
QIC Limited	5,334,320	0.41
Argo Investments Limited	3,510,894	0.27
UBS Wealth Management Australia Nominees Pty Ltd	3,296,927	0.26
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	3,215,571	0.25
Milton Corporation Limited	2,992,882	0.23
UBS Nominees Pty Ltd	2,893,068	0.22
Aust Executor Trustees SA Ltd <Tea Custodians Limited>	2,040,175	0.16
RBC Investor Services Australia Nominees Pty Limited <MBA A/C>	1,865,589	0.15
CPU Share Plans Pty Limited <Exempt Employee Plan A/C>	1,637,337	0.13
CPU Share Plans Pty Limited <Def Employee Share Plan A/C>	1,578,021	0.12

DISTRIBUTION OF SHAREHOLDINGS (SUN)

RANGES	INVESTORS	SECURITIES	% ISSUED CAPITAL
1 to 1,000	92,962	46,022,546	3.58
1,001 to 5,000	63,423	136,400,848	10.60
5,001 to 10,000	9,268	65,234,169	5.07
10,001 to 100,000	5,280	109,363,665	8.50
100,001 and over	175	929,579,752	72.25
Total	**171,108**	**1,286,600,980**	**100.00**

The number of security investors holding less than a marketable parcel of 41 securities ($12.46 on 14 August 2013) is 3,433 and they hold 57,693 securities.

TOP 20 SHAREHOLDERS (SUNPC)

NAME	TOTAL UNITS	% ISSUED CAPITAL
UBS Wealth Management Australia Nominees Pty Ltd	371,295	6.63
JP Morgan Nominees Australia Limited	212,432	3.79
Questor Financial Services Limited <TPS RF A/C>	99,936	1.78
Eastcote Pty Ltd <Van Lieshout Family A/C>	80,000	1.43
Citicorp Nominees Pty Limited	74,014	1.32
Dimbulu Pty Ltd	60,000	1.07
Wenthor Pty Ltd <The John Thorsen Family A/C>	58,610	1.05
Navigator Australia Ltd <MLC Investment Sett A/C>	48,689	0.87
National Nominees Limited	46,291	0.83
Bond Street Custodians Limited <MPPMIM - V16636 A/C>	43,520	0.78
HSBC Custody Nominees (Australia) Limited	40,363	0.72
BNP Paribas Noms Pty Ltd <DRP>	35,000	0.63
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	30,659	0.55
The Walter And Eliza Hall Institute of Medical Research	30,000	0.54
Pershing Australia Nominees Pty Ltd <Implemented Portfolios A/C>	29,627	0.53
Brenzil Pty Ltd <Peabody Family A/C>	25,000	0.45
Tandom Pty Ltd	25,000	0.45
Australian Executor Trustees Limited <No 1 Account>	20,908	0.37
RBC Investor Services Australia Nominees Pty Limited <Piselect>	20,000	0.36
Adco Construction (Vic) Pty Ltd	19,000	0.34

DISTRIBUTION OF SHAREHOLDINGS (SUNPC)

RANGES	INVESTORS	SECURITIES	% ISSUED CAPITAL
1 to 1,000	8,306	2,531,426	45.20
1,001 to 5,000	559	1,240,036	22.14
5,001 to 10,000	40	328,362	5.86
10,001 to 100,000	27	916,449	16.36
100,001 and over	2	583,727	10.42
Total	**8,934**	**5,600,000**	**100.00**

The number of security investors holding less than a marketable parcel of 5 securities ($105.14 on 14 August 2013) is 1 and they hold 2 securities.

STAY UP TO DATE ONLINE

Suncorp Group Limited's 2012/13 Directors' Report and Financial Statements is part of Suncorp Group's 2012/13 annual reporting suite. The 2012/13 annual reporting suite comprises the:

- 2012/13 Shareholder Review
- 2012/13 Corporate Responsibility Review
- 2012/13 Directors' Report and Financial Statements.

To give feedback on any of these reports, please contact investor.relations@suncorp.com.au.

The Suncorp Group corporate website is **suncorpgroup.com.au**. Key sections include Investors, Media, Responsibility and Careers. The banking and insurance website is **suncorp.com.au**.

To change an election regarding how you receive your shareholder reports, or to receive communications electronically, please contact Link at **linkmarketservices.com.au**.

The Suncorp Group 2012/13 Directors' Report and Financial Statements forms part of the Suncorp Group 2012/13 annual reporting suite

See other publications at suncorpgroup.com.au or get a copy by calling 1300 882 012

Contact details

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One Company Many Brands

SUNCORP GROUP

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